Integrated Annual Report 2015

gasNatural fenosa

Done and said

Done and said

First ‘do’ then ‘say’, that is our way

At Gas Natural Fenosa we look to focus on what really matters, on what always drives us forward: the facts. We strive to ensure that our commitments are embodied in specific facts that benefit our customers and society in general.

We believe that what is important is not what is said or promised, but rather what is done and demonstrated. That’s why our communication is based on sharing those facts with our public. To this end we have built an easily accessible microsite that showcases the facts that provide value and which benefit our audiences.

So, with this report, we invite you to discover our facts. At the start of each chapter we highlight a relevant fact for which the company is responsible. And, using a QR code, you can enter the microsite where you will find further information about each fact.

Scan this QR code with your mobile device or visit our microsite.
www.informesanuales.gasnaturalfenosa.com

2015
Integrated Annual Report

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2015 Integrated Annual Report

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Customer Experience

We are in a constant state of transformation with the aim of anticipating, meeting and even exceeding our customers' needs.

We are progressing towards becoming an organisation that places the customer at the centre of all of our decisions, and to do this, we have begun the journey towards a structure based on the principles that reflect the spirit of "Customer Experience".

We are committed to providing an excellent customer experience, as we are key players in the sector.

Done and said

2015 Integrated
Annual Report

Basic figures

For detailed information on this project, scan this QR code with your mobile device or visit the 2015 Annual Report website.

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Main milestones 2015

January to March

- Gas Natural Fenosa won the 9th Edition of the Catalonia Flexible Company Awards, which distinguishes enterprises that employ the best flexibility and work-life balance policies and which are key tools for competitiveness.
- Gas Natural Fenosa is Industry Leader and Gold Class according to RobecoSam Sustainability Yearbook 2015.
- Gas Natural Fenosa concluded the issue of bonds for an amount of 500 million euros.
- Gas Natural Fenosa signed an agreement with Kuwait Investment Authority (KIA) for a share capital increase of 550 million dollars in Global Power Generation (GPG), fully subscribed by KIA in October.

April to June

- Gas Natural Fenosa closed an issue of perpetual subordinated debentures worth 500 million euros.
- Gas Natural Fenosa made a cash purchase offer for the preferred shares issued by Unión Fenosa Preferentes S.A.U. in 2005.
- Gas Natural Fenosa reached an agreement to sell its 44.94% stake in Barras Eléctricas Galaico Asturianas (Begasa) for 97.2 million euros.

July to September

- For the fourth consecutive year, the Dow Jones Sustainability Index (DJSI) recognised Gas Natural Fenosa as the world leader from among the utilities sector (water, gas and electricity) in 2015.
- Gas Natural Fenosa was chosen as best gas and electricity supply company at the 2014 ISSCE Awards, which are given to the company that is best valued by its customers.
- Gas Natural Fenosa reached an agreement to acquire almost 250,000 piped propane supply points from Repsol Butano S.A. by Gas Natural Distribución.

October to December

- Carlos Güell Award for corporate sponsorship and patronage, promoted by the Círculo de Economía Foundation, in the Science in Action category through the Cinergía initiative.
- Gas Natural Fenosa acquired 100% of the renewable energy company Gecalsa for 260 million euros.
- The European Investments Bank (EIB) granted a loan to Gas Natural Fenosa for an amount of up to 900 million euros, targeted at funding part of the gas distribution investments in Spain for the 2015-2018 period.
- Gas Natural Fenosa disclosed the restructuring of its businesses in Chile, which entails a consideration of its LPG business as a discontinued activity.

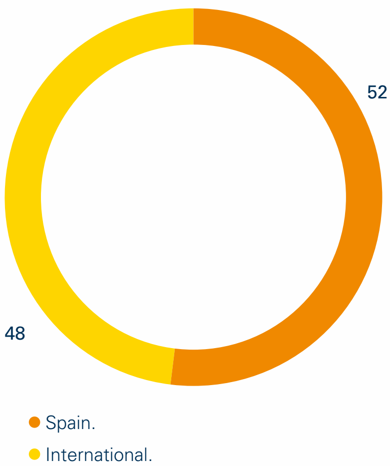
Financial performance (million euros)

	2015	2014	2013
Net turnover	26,015	24,697	24,322
Ebitda[1]	5,264	4,845	4,849
Attributable net profit	1,502	1,462	1,445
Total investments	2,082	4,342	1,597
Net financial debt	15,648	16,942	14,252

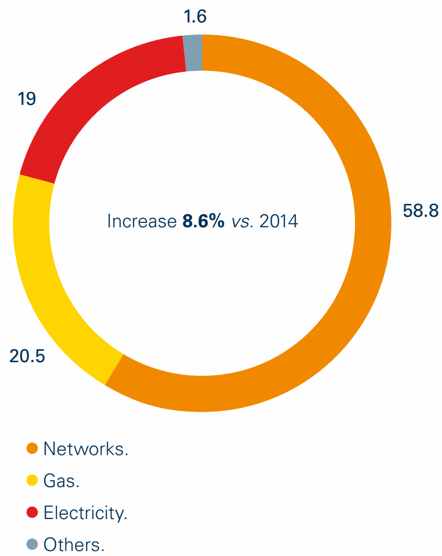
[1] Ebitda: Operating profit+Amortisation and depreciation+Operating provisions-Other results.

Excellent figures for 2015 despite a complicated setting, and with a solid contribution from the regulated activity

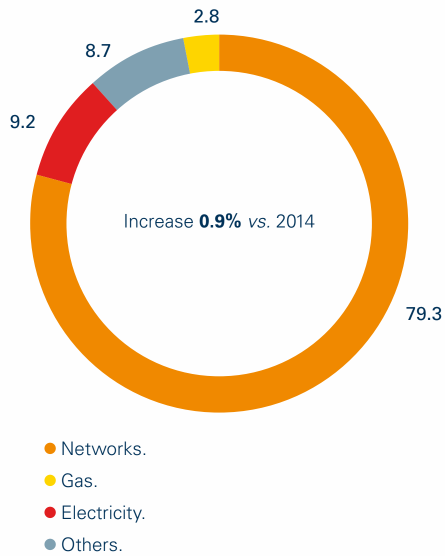
Ebitda by geographical area (%)



Ebitda by business (%)



Investments by business (%)



Note on comparative information 2013 and 2014:

2013: On 1 January 2014 Gas Natural Fenosa applied the IFRS 11 “Joint Arrangements” reformulating the figures for 2013 for the sake of comparison.
2014: In December 2015, the liquefied petroleum gas (LPG) business in Chile was rated as a discontinued operation. As a consequence of application of the IFRS 5, the figures of the consolidated statement of income for 2014 have been restated.

Financial discipline with a solid business profile

[1] The estimated pro-forma ratio for 2014, considering that the takeover of CGE had been performed with effects from 1 January 2014 would amount to 3.2x.
[2] Net financial debt/(Net financial debt + Net worth).

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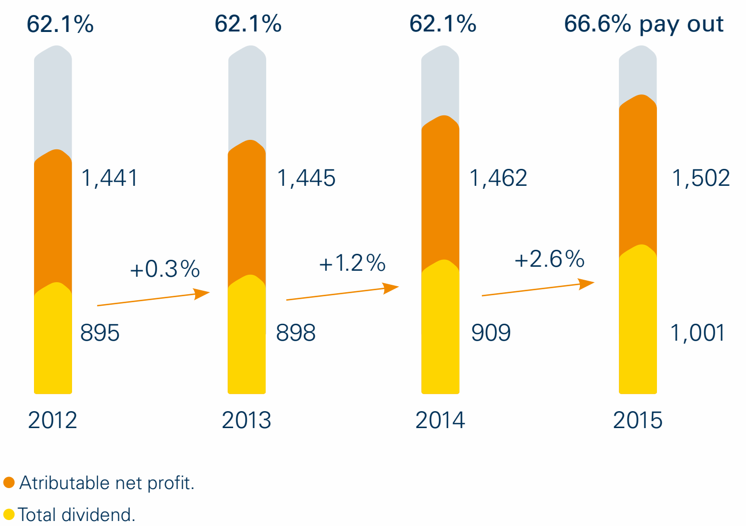
Stock market information and shareholder remuneration

	2015	2014	2013
Average number of shares (thousand)	1,000,689	1,000,689	1,000,689
Closing price (euros)	18.82	20.81	18.69
Stock market capitalisation at 31/12 (millions of euros)	18,828	20,824	18,708
Earnings per share (euros)	1.57	1.46	1.44
Pay out (%)	66.6	62.1	62.1
Total dividend[1] (millions of euros)	1,001	909	898
Dividend per share	1.93	0.91	0.90

[1] Considering total amount equivalent for dividends. In 2015, it includes a final dividend of 593 million euros pending approval by the General Shareholders' Meeting.

Committed to sustainable remuneration and creating value for shareholders

Evolution of dividends (millions of euros)



Return for the shareholder over the period

	31/12/15 (€)	31/12/12 (€)	Return.
Share price	18,815	13,580	+38.6
Dividend[1,2]		2.699	+19.9
Total			**+58.4**

[1] Dividend paid during the period (2013-2015).
[2] 2.699 euros/13.58 euros.

Cumulative return of 58.4% over the last three years

Business operating performance

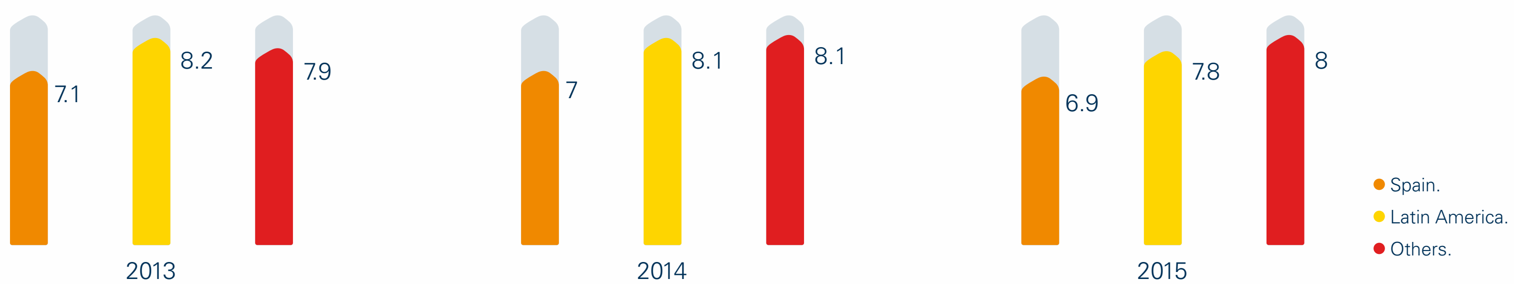
Distribution	2015	2014	2013
Gas distribution (GWh)	473,831	427,462	422,352
Electricity distribution (GWh)	68,732	52,809	51,247
Gas supply points (thousands)	13,172	12,816	11,948
Electricity supply points (thousands)	10,622	10,415	7,439
Gas distribution network (km)	138,217	133,741	123,689
Length of electricity distribution and transportation lines (km)	302,705	228,808	231,978

Gas	2015	2014	2013
Gas supply in Spain (GWh)	185,851	190,069	210,506
Gas supply in other countries (GWh)	130,417	120,560	97,504
Total gas supply (GWh)	**316,268**	**310,629**	**308,010**

Electricity	2015	2014	2013
Installed capacity in Spain (MW)	12,769	12,122	12,088
International installed capacity (MW)	2,702	2,663	2,429
Total installed capacity (MW)	**15,471**	**14,785**	**14,517**
Net production in Spain (GWh)	31,568	30,542	32,897
International net production (GWh)	17,980	17,740	18,183
Total net production (GWh)	**49,548**	**48,282**	**51,080**

Operations focused on service excellence and continuous improvement

Customer satisfaction (Scale of 1 to 10)



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Environmental and social performance

Environment	2015	2014	2013
Emission factor (t CO_2/GWh)	445	406	399
Generation of hazardous waste (t)	8,079	7,171	8,212

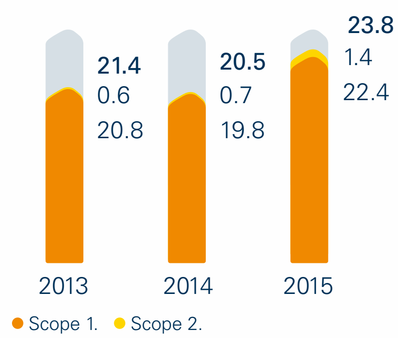
Interest in people	2015	2014	2013
No. of employees	19,939	21,961	14,415
Men/Women (%)	73/27	73/27	72/28

Health and safety	2015	2014	2013
No. of accidents with sick leave	125	118	152
Frequency rate (%)	3.08	3.93	5.07

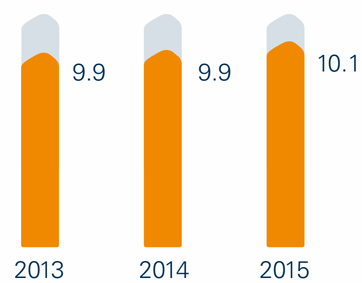
Commitment to society and integrity	2015	2014	2013
Distributed economic value (million euros)	24,336	23,463	22,708
Correspondence received by the Code of Ethics Committee (no.)	135	89	79

Committed to the environment and reducing emissions

GHG* emissions (millions of tonnes CO_2e)



Methane** emissions in gas distribution (t CO_2e/km grid)

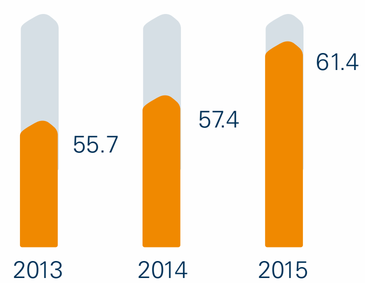


*GHG: greenhouse gases, measured as CO_2e.

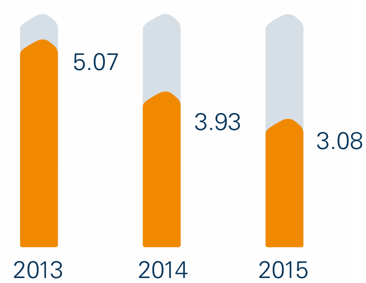
**Methane is a GHG and is therefore measured in CO_2e.

Committed to training and safety

Training hours per employee



Frequency rate of accidents (%)



Letter from the Chairman

Dear shareholders,

I am delighted to place at your disposal a new integrated report from Gas Natural Fenosa, which provides an insight into our company’s performance in the economic, social, environmental and corporate governance spheres for 2015.

We posted a net profit of 1.502 billion euros in 2015, up 2.7% on 2014, and Ebitda of 5.264 billion euros, accounting for an 8.6% increase in year-on-year terms[1]. These data show that we are successfully meeting the milestones of the 2013-2015 Strategic Plan against what has been a volatile background for energy markets, and this is an achievement which we should feel proud of.

Although the company has had to manoeuvre against a complex economic and energy scenario, shaped by the slump in commodities prices, particularly in Brent, and also by the devaluation in certain emerging countries’ currencies, our growth has been fuelled by the strength in regulated businesses and our expanding activity in Latin America, particularly in Chile. Consequently, the proportion of international activities grew in 2015, and now accounts for 48% of Ebitda in Gas Natural Fenosa, while Spain represents the other 52%.

The strict financial austerity which we have adopted in recent years, coupled with the solid nature of our business activities, has given our group sufficient strength to bring our debt ratio to 45.8% at the close of the year and to maintain an efficient credit structure.

2015 has also been the year in which we have updated our Corporate Responsibility Policy in order to cater for the recommendations of the new code regarding Good Corporate Governance of Listed Companies published by the National Securities Market Commission. The modification broadens the responsibilities of the company’s Board of Directors in supervision and control. Updating the policy entails meeting new demands and facing new challenges. For example, extending our responsible culture to suppliers and collaborating companies, and including sustainability criteria in managing the supply chain.

Our compliance with our Corporate Responsibility Policy has allowed us to remain among the leading positions of the main and most important sustainability indices for many years. For example, the Dow Jones Sustainability Index, where we are global leaders in the utilities sector; the FTSE4Good, where we have been included in the sustainability index continuously for the last 14 years; and the EuronextVigeo, in which we are included in the three different indices: World 120, Europe 120 and Eurozone 120.

Throughout 2015, we have gone to great lengths to adapt our internal standards both to the modification of the Corporate Enterprises Act and also to the recommendations for Good Corporate Governance. This adaptation took the form of adopting and executing the pertinent resolutions to amend the Articles of Association, the Organisation and Operation Regulations of the Board of Directors and of its Committees, and the Regulations of the General Meeting of Shareholders of Gas Natural SDG, S.A. Policies were also adopted on matters such as the appointment of Directors or relations with shareholders, investors and proxy advisers.

We also work with our sights firmly set on the future of our company, without overlooking the current economic and energy scenario. Our new Strategic Plan will set out the company's challenges for coming years. Considering the current volatility on energy and financial markets, plenty of important challenges appear to be in store for us. One of our primary objectives is to continue to focus on the business lines already established in the previous strategic plan.

We will develop organic growth in networks, with significant potential to increase points of supply in Spain and countries in Latin America, such as Mexico and Chile. We shall also work towards monetising the new volumes which we will have obtained through the contract signed with Cheniere and the higher capacity of our methane tanker fleet. We will also give special priority to our international generation business. We already command an important position in Latin America, with 2.5 GW capacity through our company Global Power Generation (GPG).

We have more than 23 million customers around the world and our Strategic Plan is designed to put them at the fore. The technological changes sweeping through the sector and the various international liberalisation processes will open the door to new opportunities and allow products and services to be developed, which we shall push forward in coming years.

In Gas Natural Fenosa, we believe in doing things first and then talking about them. "Done and said". That is our philosophy, and that is idea we want people to have of our company. Our track record shows that we deliver on all the commitments we have acquired with our shareholders, customers and with society at large. Companies like Gas Natural Fenosa, which operate in the international area, need to have more robust values such as anticipation, excellent customer service, and ongoing commitment to results. Our company's is underpinned by the talent and the attitude of our people, and I would like to take this opportunity to thank them for their professionalism, efforts and dedication during the 2015 year.

On behalf of the Board of Directors, I once again thank you for your trust in Gas Natural Fenosa and I invite you to delve into this integrated report, which will permit you to peruse the different areas where we have created value for our company.

Salvador Gabarró Serra
Chairman of the Board of Directors

[1] Having restated the financial statements for the agreement reached for the Chilean Gasco division. This transaction has an impact of 112 million euros in consolidated Ebitda in 2015 and of 8 million euros in 2014.

First Export programme

Through this initiative we provide training, consulting, support and guidance for SMEs looking to take on the challenge of opening up to foreign markets.

The Gas Natural Fenosa Foundation's First Export programme guides SMEs through their first steps in exporting to any part of the world. To this end, we offer a complete training, consulting and personalised tutoring plan.

Done and said

2015 Integrated
Annual Report

About the Integrated Annual Report

For detailed information on this project, scan this QR code with your mobile device or visit the 2015 Annual Report website.

www.informesanuales.gasnaturalfenosa.com

About the Integrated Annual Report

This Integrated Annual Report has been drawn up in accordance with the <IR> reporting framework published by the International Integrated Reporting Council (IIRC). For non-financial areas, the group has taken into account the Sustainability Reporting Guidelines of the Global Reporting Initiative (GRI), version 4.

The objective of the integrated report is to offer a complete overview of financial and non-financial aspects which govern the group's performance, in order to improve understanding of its business model and value creation, of the strategy and risks to which it is exposed.

A working committee has been established for the drawing up of the Integrated Annual Report to ensure that the framework principles (strategic approach, future orientation, connectivity, relation with stakeholders, materiality, concision, reliability, integrity, consistency and comparability) are correctly applied and to guarantee that they are aligned with other types of information published by the company.

In the committee's work sessions, we assessed the materiality of the relevant aspects identified and prioritised the most significant contents to be incorporated into the 2015 Integrated Annual Report, following the framework introduced through the <IR>, as shown below.

Determining contents according to the materiality approach of the <IR> framework of the IIRC

Identification of relevant aspects.	Based on an internal and external analysis, we have defined a list of aspects that could appreciably affect the capability of Gas Natural Fenosa to create value in the short, medium and long term. We have therefore considered: **Stakeholder's expectations:** main aspects defined by the GRI G4, taking the materiality study compiled by Gas Natural Fenosa as the basis. **Investor's expectations:** feedback from investors and ESG[1] analysts received during the different roadshows held in 2015. **Analysis of good practices:** based on a selection of companies with a good reputation for progress made in the integrated report.
Evaluation of materiality of identified aspects.	Allocation to the aspects identified of the degree of importance they represent for Gas Natural Fenosa with regard to their possible positive or negative impact on the company's capability to generate value. According to the degree of importance, the aspects which are going to be considered as part of the contents of the Integrated Annual Report are obtained.
Prioritisation of contents.	Once the contents of the report are determined, they are prioritised based on their magnitude in order for the report to be focused on contents which are most relevant.

[1] Environmental, Social and Governance.

Scope

This report contains the consolidated financial and non-financial data of Gas Natural Fenosa, referring to all the activities carried during 2015 as a global gas and electricity operator, although they show peculiarities in some chapters.

In the field of human resources, the reported information refers to the countries in which Gas Natural Fenosa operates and where it has established companies with hired staff assigned to them and where the company performs centralised management of its human resources policies.

The information included on the environment refers solely to those companies or activities in which the participation is equal to or greater than 50%, that have the capacity to influence environmental management or which have a significant capacity to impact environmental data, considering the global data.

The complete list of companies making up Gas Natural Fenosa at 31 December 2015 appears in Annex I of the Consolidated Annual Accounts, "Companies of Gas Natural Fenosa".

On 1 January 2014, Gas Natural Fenosa retroactively applied IFRS 11 "Joint Arrangements". As a result, joint businesses (those in which participants hold rights only in respect of the net assets of the investees) are consolidated by the equity method instead of the proportional integration method.

Because of the application of this standard, the figures expressed in this report for the 2013 year were re-expressed and adapted to the new consolidation method. Consequently, the reported figures do not consider the data referring to the companies which are consolidated by the equity method.

In December 2015, the liquefied petroleum gas business in Chile was rated as a discontinued operation. As a consequence of applying IFRS 5, the figures of the Consolidated Profit and Lost Account for 2014 and the corresponding data have been restated.

When the calculation methodology has been changed for a specific indicator, this is clearly indicated in the chart and/or table.

Other reports

Readers also have access to other reports, which are all available at www.gasnaturalfenosa.com
Each of them contains additional information of use in order to have a full understanding of the company's actions:

Public reporting

Integrated Report

Drawn up according to the framework <IR> of the International Integrated Reporting Council (IIRC).

Annual Reports

Financial Report	Corporate Responsibility Report	Corporate Governance Report	Audit Committee Report	Report on remuneration of members of the Board of Directors
Drawn up according to IFRS and audited externally. FR	Drawn up according to the Global Reporting Initiative (GRI) guide and verified externally. CRR	Drawn up in accordance with the National Securities Market Commission (CNMV). CGR	Drawn up according to the standards set out in the Audit and Control Committee. ACR	Drawn up according to Article 541 of the Securities Market Act. RRBD

Other reports

Biodiversity Report

Carbon Footprint Report

Quarterly Results

Facilitate reading of report

This icon indicates internal references of the document.

This icon indicates other specific reports where related information of interest can be found.

Each of these reports is identified in accordance with the icons shown.

Reporting on the corporate website

The company. | Activities. | Shareholders and Investors. | Reputation and Corporate Responsibility. | Our people.

Feedback

We would like to know your opinion and suggestions to ensure that the information we give concerns the matters really important to you. Write to us at reporting.
reporting.integrado@gasnatural.com.

Rapid assistance

We promise to arrive within three hours in the event of a customer emergency, 24 hours a day, 365 days a year.

We are supported by experience. We became pioneers when we offered this type of service for the first time in 1995. The objective is to manage household energy needs in an integrated way.

Done and said

2015 Integrated Annual Report

Business model and value creation

Value creation and sustainable management. Page 22

A business model present all over the world. Page 26

A competitive and integrated business model. Page 29

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Value creation and sustainable management

Gas Natural Fenosa is a leading multinational group in the energy sector and a pioneer in gas and electricity integration. The company focuses its efforts on finding out and satisfying the needs of its customers, providing them with the leading products and services. Its primary goal is to provide society with energy in order to increase its development and well-being, building on the cornerstones of innovation, energy efficiency and sustainability.

Gas Natural Fenosa commands essential capital in order to develop its business model, which is based on responsible and sustainable management of all the resources it uses.

The commitment to long-term value creation and sustainable management is set out in the Corporate Responsibility Policy, which establishes the common framework of action targeted at the company's socially responsible conduct.

Our mission is to cater to the needs of…

	With an overview of…
Our customers	Being a leading energy and services group, with constant growth, and offering environmentally friendly products and services.
Our shareholders	Offering a growing and sustainable return.
Our employees	Providing employees with professional and personal opportunities.
Society	Acting with a global citizenship commitment.

Based on our values…

- Customer orientation.
- Commitment to results.
- Sustainability.
- Interest in people.
- Social responsibility.
- Integrity.

For the purpose of following best international practices and responding to the recommendations of the Good Governance Code of Listed Companies, in 2015 the Corporate Responsibility Policy was updated, and said modification was approved by the Board of Directors in December 2015.

The main purpose of this policy is to introduce the operating principles and the company's commitments to its stakeholders, in harmony with the company's corporate strategy, as well as setting out the responsibilities and specific monitoring instruments to guarantee compliance with these.

This policy takes the form of eight undertakings with its stakeholders which are used as a framework for action: commitment to results; service excellence; customer orientation; responsible management of the environment; interest in people; health and safety; responsible supply chain; commitment to society; and integrity and transparency. These transversal commitments are present in all of the company's business processes, based on economic, social and environmental wealth.

Corporate responsibility, as a way of managing the impacts of the company's activities, allows the group to create global value and also to formalise its commitment towards society and turn it into a competitive advantage and a critical element in ensuring the company's sustainability.

Throughout the value chain, the business model used by Gas Natural Fenosa stands out for being a leading model in the gas sector, for being a benchmark in the electricity sector, providing a broad range of value-added services and guaranteeing a regular supply of gas and electricity which is essential to offer a quality service and in order to fulfil the company's social purpose.

The business model used by Gas Natural Fenosa is underpinned by a risk management model which seeks to ensure the predictability of the company's performance in all important areas for its stakeholders, a corporate governance system based on the most advanced global practices and a commitment towards a clear, realistic and sustainable strategy based on the strength of the business model.

A sustainable management of all resources...

Our resources

Financial
Investments: €2,082 Mn.
Financing: €15,648 Mn net financial debt.
Assets: €18,512 Mn net worth.

Natural
Procurement contracts: ~30 bcm.
Consumption of fuels and energy materials.

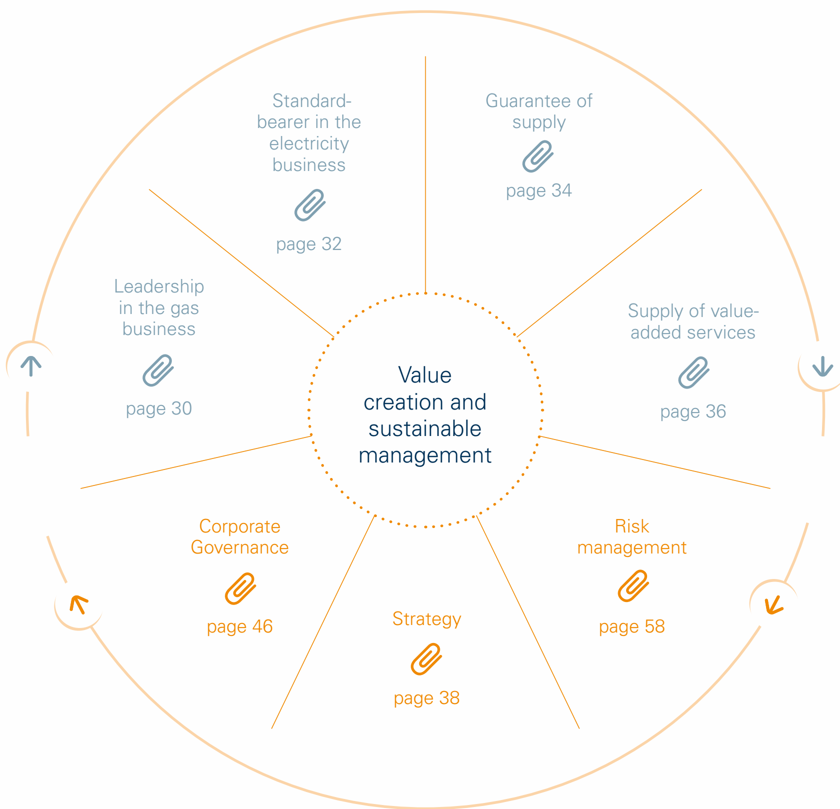
Industrial
Generation capacity: 15.5 GW.
Gas distribution infrastructures.
Electricity distribution infrastructures.
Eight methane tankers, two gas pipelines and liquefaction and regasification plants.

Human
Employees: 19,939.
Talent management.
Corporate University and training.
Health and safety.
Code of Ethics.

Intellectual
Development and improvement of products and services. Experience and operational excellence.
Efficiency in processes and ongoing improvement.
Technological innovation and investment in R&D&I.

Social
Social investment: €10 Mn.
Relations and dialogue with stakeholders.

What differentiates us throughout the value chain?



How do we manage our business?

Under a common framework: our corporate responsibility commitments

Evolution of the results of 2015
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Commitment to results
Solidity and financial discipline.
Shareholder remuneration
Growth capacity.
Page 66.

Service excellence
Continuous improvement in products and services.
Simple and efficient operations.
Innovation.
Page 77.

Responsible management of the environment
Sustainable development.
Responsible and efficient use of energy.
Mitigation and adaptation of climate change. Page 82.

Interest in people
Talent management.
Professional development.
Diversity and equal opportunities.
Page 87.

Health and safety
Zero tolerance for accidents.
Leadership and health and safety culture.
Page 91.

Our results

Financial
Ebitda: €5,264 Mn.
Borrowing: 45.8%.
Pay out: 66.6%.

Natural
Direct GHG[1] emissions: 22.4 MtCO_2.
CO_2 emissions/generation: 445 tCO_2/GWh.

Industrial
Net production: 49,548 GWh.
Gas distribution: 473,831 GWh.
Electricity distribution: 68,732 GWh.
Gas supply: 316,268 GWh.

Human
Voluntary rotation: 3.5%.
Workforce trained: 95.1%.
Accident frequency index: 3.08%.
Communications to Code of Ethics: 135.

Intellectual
Excellence and quality service.
Customer satisfaction.
Extending Gas Natural Fenosa's operational principles throughout the value chain.

Social
Distributed economic value: €24,336 Mn.
Presence in over 30 countries.
Respect for human rights.
International awards.

[1] Greenhouse gases.

Chain of responsible supply
Extension of the company's principles.
Page 96.

Social commitment
Economic and social development.
Community investment programmes.
Relationship with communities.
Page 100.

Integrity
Code of Ethics.
Human rights.
Transparency.
Page 104.

CCR

For further information on the group's corporate responsibility commitments, refer to the 2015 Corporate Responsibility Report.

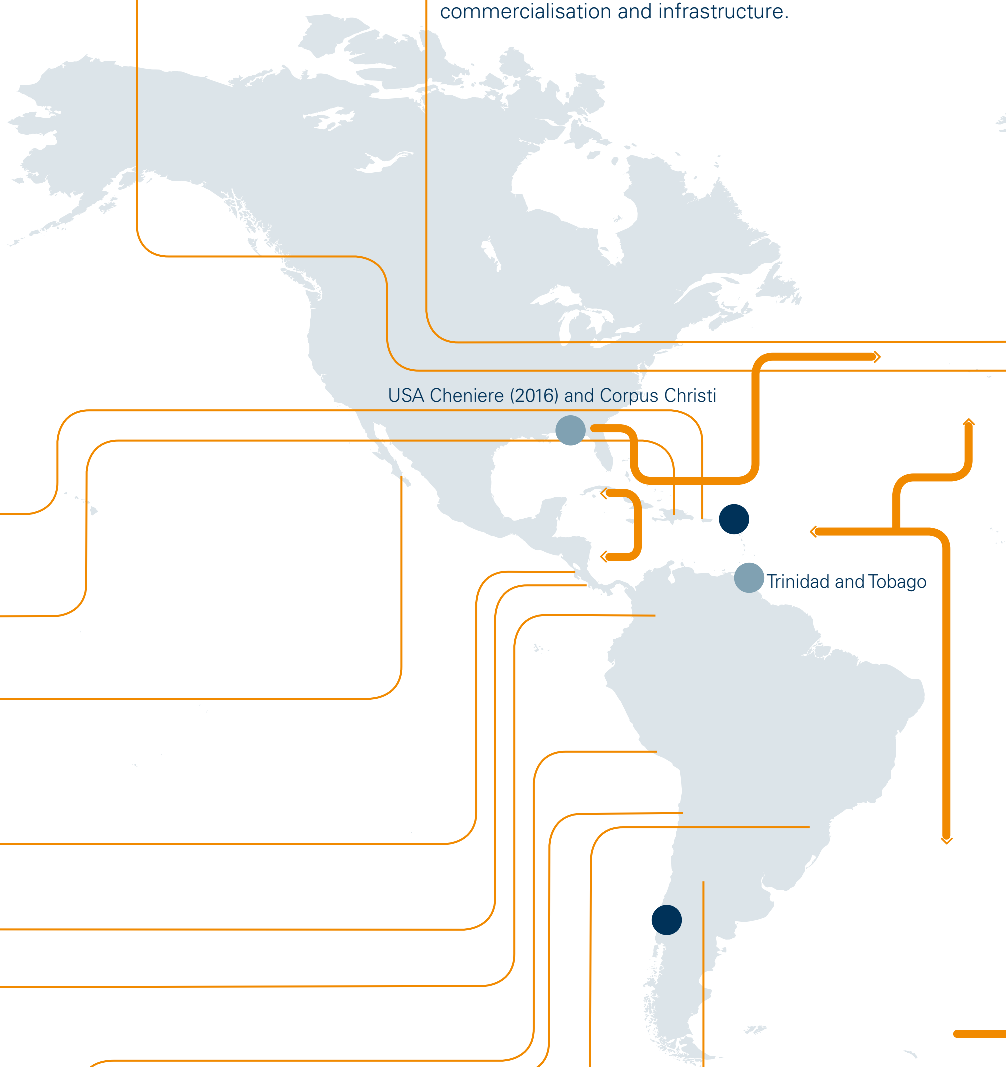
A business model present all over the world

Gas Natural Fenosa operates in over 30 countries with more than 23 million customers, and more than 50% of its employees work outside Spain. Its international presence puts it in an ideal position to be able to capitalise on the growth of new regions which are in the process of economic growth, making it one of the world's most important operators.

- Gas flow.
- Liquefaction plant.
- Regasification plant.
- Leased regasification plant.
- Long-term gas contracts.
- Maghreb-Europe gas pipeline (Empl).
- Medgaz gas pipeline.

Portugal
NG/LNG commercialisation and commercialisation of electricity.

Spain
Exploration, transportation, distribution and commercialisation of gas and electricity. Generation (combined cycles, nuclear, hydraulic, coal, co-generation, mini-hydraulic and wind). NG/LNG regasification, upstream, commercialisation and infrastructure.



Puerto Rico
NG/LNG infrastructure (regasification plant) and generation.

Dominican Republic
Generation (198 MW, fuel).

Mexico
Gas distribution (ten states including Mexico City and 1.5 Mn customers) and generation (2,035 MW, combined cycles and 234 MW, wind).

Costa Rica
Generation (101 MW, hydraulic).

Panama
Electricity distribution (Panamá Central, West, Inland, Chiriquí and 0.6 million customers) and generation (22 MW, hydraulic).

Colombia
Gas distribution (Bogota, Soacha and 2.7 million customers), electricity distribution (Atlantic Coast, 2.5 million customers).

Peru
Gas distribution. Start gasification (Arequipa and south-west area).

Chile
Gas distribution (18 provinces and 0.6 million customers), electricity distribution and transportation (13 provinces and 2.7 million customers) NG/LNG infrastructures (LNG Quintero plant).

Brazil
Gas distribution (Rio de Janeiro state, São Paulo South and 1 million customers). NG/LNG commercialisation.
.

Argentina
Gas distribution (30 municipalities in the north and west of the province of Buenos Aires, 1.6 million customers) and electricity distribution (0.2 million customers).
NG/LNG commercialisation.

FR

For further information on the group's corporate structure by business activities, see Annex 1 of the 2015 Consolidated Annual Accounts.

United Kingdom
NG/LNG commercialisation.

France
NG/LNG commercialisation. Montoir regasification.

Belgium
NG/LNG commercialisation.

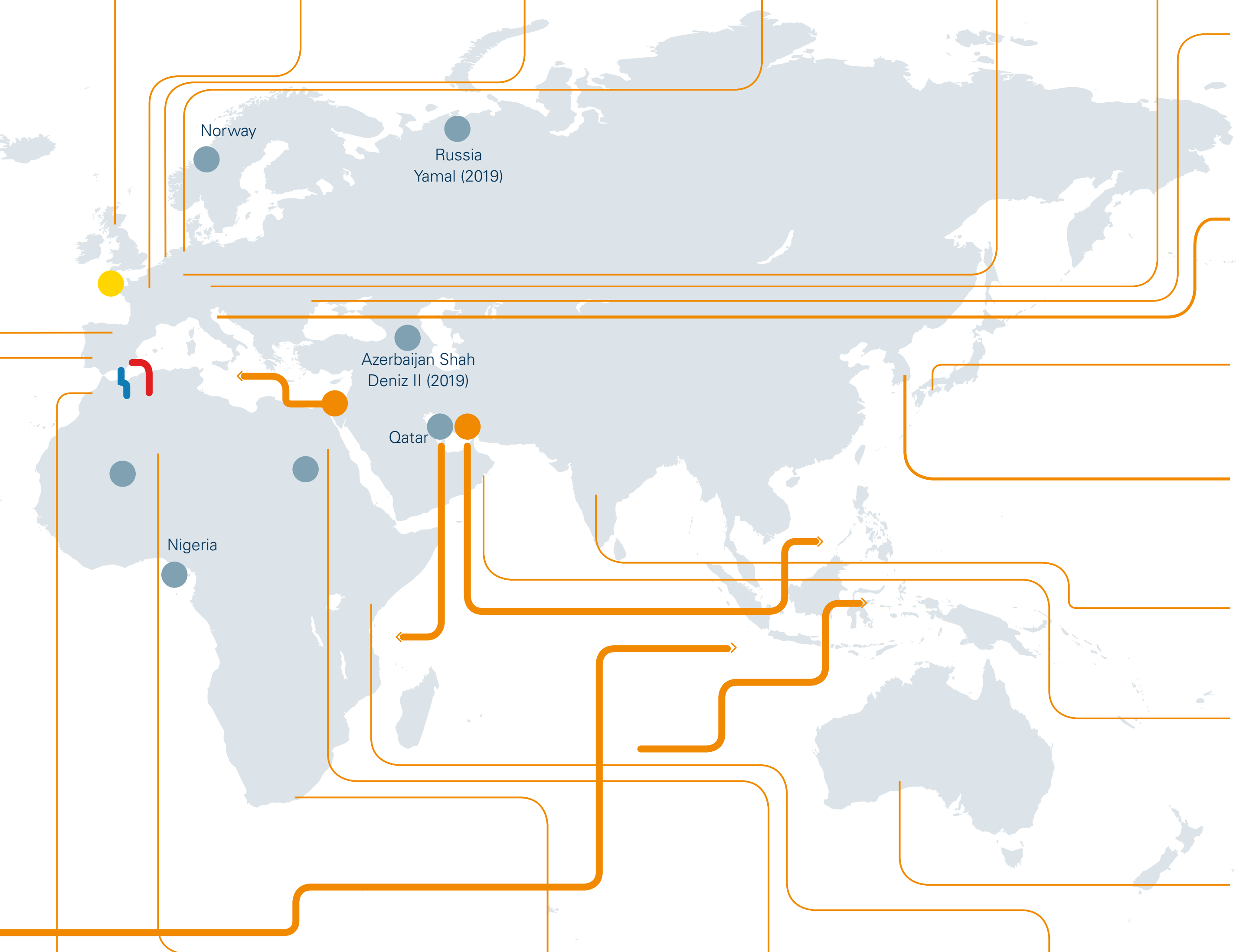
Netherlands
NG/LNG commercialisation.

Luxembourg
NG/LNG commercialisation.

Germany
NG/LNG commercialisation.

Moldova
Electricity distribution (south and centre of Moldova, including Chisinau, 0,9 million customers).

Italy
NG/LNG distribution and commercialisation (central and southern Italy, 0.5 million customers).



Japan
NG/LNG commercialisation.

Korea
NG/LNG commercialisation.

India
NG/LNG commercialisation.

Oman
NG/LNG supply and infrastructure (Qalhat liquefaction plant).

Australia
Wind generation projects.

Morocco
NG/LNG infrastructure and Maghreb-Europe gas pipeline.

Algeria
NG/LNG supply and infrastructure and Medgaz gas pipline.

South Africa
Coal exploration.

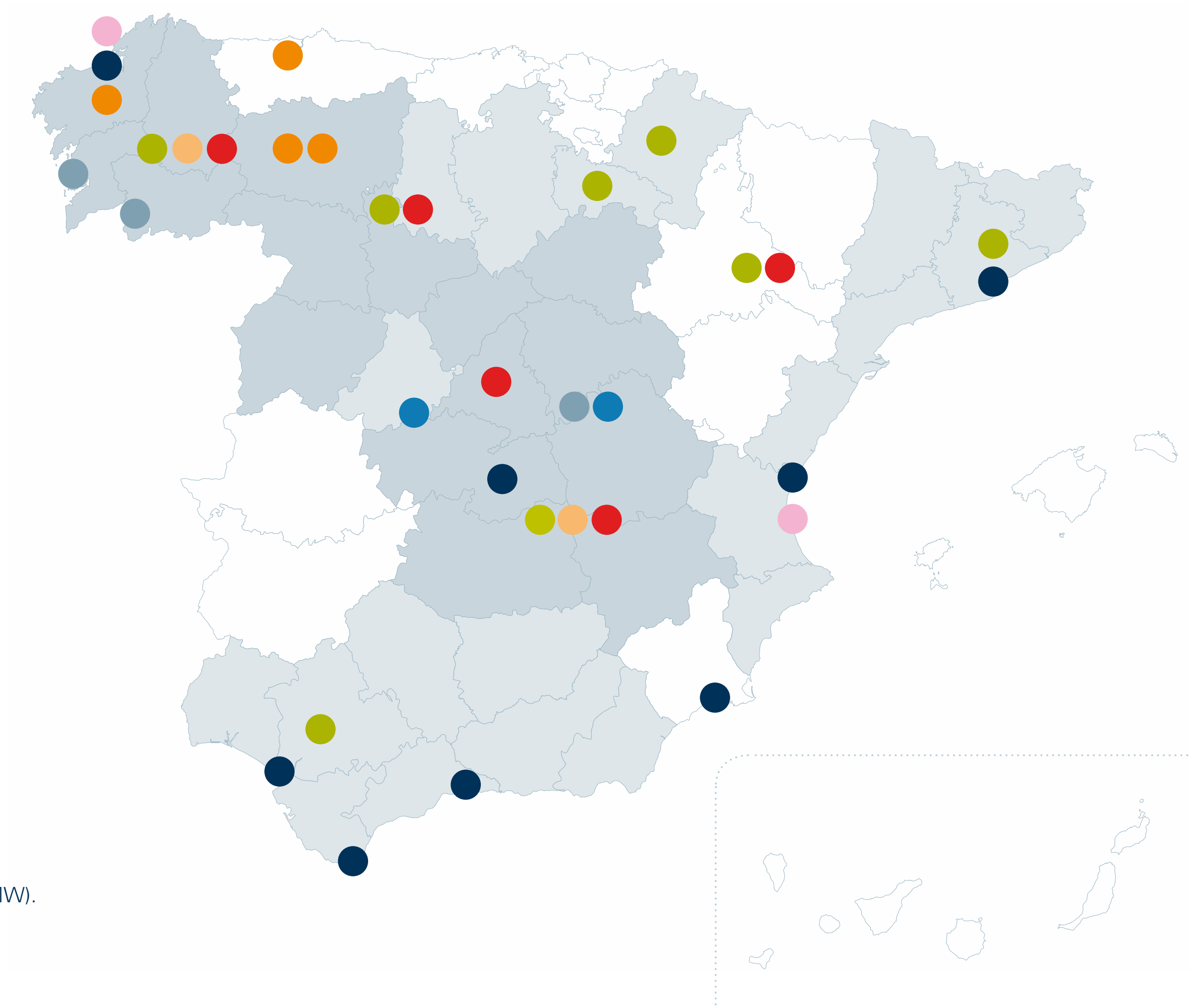
Egypt
NG/LNG supply and infrastructure (Damietta liquefaction plant).

Kenya
Generation (112 MW, fuel).

NB: LPG commercialisation and distribution business in Chile and Colombia has not been included since they were rated as discontinued operations on 31/12/2015.

Gas Natural Fenosa in Spain

- Exploration, transportation, distribution and commercialisation of gas and electricity.
- Generation (combined cycles, hydraulic, nuclear, coal, wind, mini-hydraulic and co-generation).
- NG/LNG regasification, upstream, commercialisation and infrastructure.



- Wind (977 MW).
- Mini-hydraulic (110 MW).
- Co-generation (58 MW).
- Combined cycle (7,001 MW).
- Hydraulic (1.954 MW).
- Nuclear (604 MW).
- Coal (2,065 MW).
- Regasification plant.
- Gas distribution (5.3 million customers).
- Electricity distribution (3.7 million customers).

A competitive and integrated business model

Gas Natural Fenosa is an integrated energy group, with a balanced business mix, which supplies gas and electricity to over 23 million customers. Its core businesses are the complete gas life cycle, and the generation, distribution and commercialisation of electricity. It also carries out other lines of business, such as energy services, which encourage diversification of activities and revenue, anticipating market trends in order to deal with the specific needs of customers and be able to offer them a comprehensive service that does not focus solely on the sale of energy.

The business model used by Gas Natural Fenosa is carried out through a broad range of companies largely in Spain, the rest of Europe, Latin America and Africa, and is underpinned by the following major business activities:

	19% ebitda: Spain and Global Power Generation.	**21% ebitda:** Infrastructures, supply and commercialisation, and Unión Fenosa Gas.
Liberalised businesses.	**Electricity**	**Gas**
Regulated businesses.	**Electricity distribution**	**Gas distribution**
	19% ebitda: Spain, Moldova and Latin America.	**40% ebitda:** Spain, Italy and Latin America.

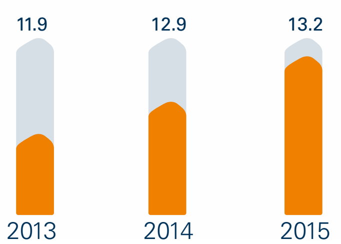
NB: 1% other activities.

Leadership in the gas business

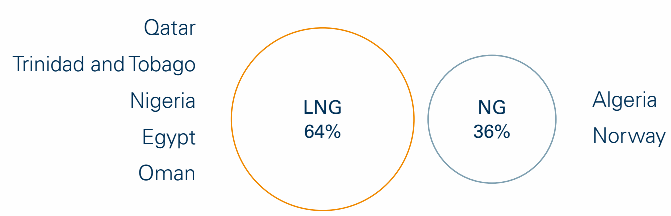
Its presence throughout the gas value chain gives Gas Natural Fenosa a competitive advantage, making it a leading company in this sector

	Gas distribution business **Distribution**	Gas business **Supply**
	• 13.2 million supply points. • 138,219 km of network.	• ~30 bcm[1] supply portfolio.
Our positioning	**Spain and rest of Europe** **Leading company in Spain:** distributing to more than 1,000 municipalities in nine autonomous regions and 5.3 million customers. **Solid presence in Italy:** distribution in 223 municipalities with 0.5 million customers. **Leading distribution company in Latin America,** where it distributes to over 7.4 million customers. Presence in Argentina, Brazil, Colombia, Chile, Mexico and Peru, and in seven of the ten largest countries in Latin America.	Business model based on diversification and flexibility, which has turned Gas Natural Fenosa into a global operator with a major international profile. Gas Natural Fenosa has procurement contracts with suppliers all over the world in both gaseous state (NG) and liquefied natural gas (LNG).
Our strength	Gas Natural Fenosa has a leading position in the markets in which it operates, allowing it to take advantage of opportunities for organic growth, by winning new customers in municipalities with gas, and expanding networks to areas without gas.	A portfolio of contracts for diversified supply, with contractual terms that mitigate the exposure to the commodities risk and highly flexible, allowing the company to capture markets with high value-added.
Market environment	In those countries in which Gas Natural Fenosa operates there are stable regulatory and tariff frameworks that are characterised through the absence of risks affecting the price of commodities, transport, local inflation and the legal framework that could affect the forecast cash flows. In Spain, Royal Decree-Law 8/2014 came into force on 5 July 2014, setting out the financial stability principle and providing predictability and greater stability to the gas distribution business.	There is a lot of uncertainty concerning the evolution of commodity prices, with a recovery forecast in the mid term. The position of Gas Natural Fenosa based on a long-term supply portfolio (20-25 years), comprising NG (36%) and LNG (64%), with flexibility and a diversified indexing, reduces the risk of exposure and allows the company to compete in international markets. Long-term contracts include price reviews that enable these to be adapted to market circumstances. In addition, Gas Natural Fenosa applies commodities price hedging policies targeted at minimising the impacts of this risk. See the chapter on Risks. Page 58.
In the future	• Extensive possibilities for growth are expected. • High potential for growth in Spain (new population hubs and transformation of LPG customers). • Development of new concessions: Spain (Menorca), Mexico (Sinaloa and North West) and Peru (Arequipa). • Acceleration of the gasification process in Chile.	New contracts from 2017 and subsequent years: Cheniere I Sabine Pass (early quantities in 2016) and Cheniere II Corpus Christi (2020), Yamal (2018-19) and Shah Deniz (2019-21). These contracts increase the flexibility of the Gas Natural Fenosa portfolio, allowing us to be competitive in world markets.

Changes in gas supply points (millions)



Gas source and mix



[1] Billon cubic metres.

Infrastructures

- Eight methane tankers.
- Two Maghreb-Europe (Empl) and Medgaz gas pipelines.

Transportation

Liquefied natural gas: eight methane tankers (1 Mm^3)

Natural gas: management of the main gas pipeline supplying the Iberian Peninsula (Maghreb-Europe -Empl) and 14.9% stake in Medgaz.

Liquefaction and regasification

Participation in four regasification plantseight (Reganosa, Saggas, Ecoeléctrica and Quintero) and two liquefaction plants (Damietta and Qalhat).

Storage

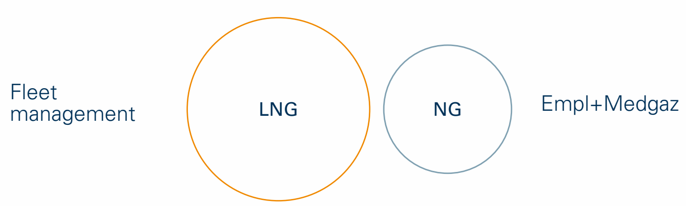
Own storage capacity of 0.5 bcm and leased capacity of 1 bcm.

Gas Natural Fenosa has a single and integrated gas infrastructure which provides the business with high level of stability, making operations more flexible and allowing gas to be transported towards the best business opportunities.

Its storage capacity enables a steady supply to be ensured, avoiding the impact of seasonal changes or demand peaks.

Together with the supply portfolio, the fleet of methane tankers constitutes the base for growth of the gas business. We envisage the incorporation of five new methane tankers in 2018 which will enable the fleet to be enlarged by almost one million cubic metres.

Transport infrastructure



Gas commercialisation

- 316 TWh of gas supplied.

Unique access to markets: over 13 million customers and sales in over 11 countries.

Leading LNG global operator with flexibility of exploiting attractive markets.

46% market share in Spain.

Competitive supply to combined-cycle plants (CCP).

Gas Natural Fenosa has diversified customers, and operates in gas commercialisation, both in Spain and across the world.

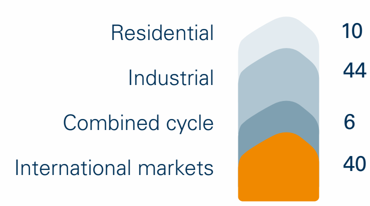
Its positioning in international markets allows it to obtain additional margins through adequate trading activity.

Gas Natural Fenosa is leader in the dual fuel energy offer and provides a broad range of value added services.

FR For further information about the regulatory framework, please refer to NB 2 of the 2015 Consolidated Annual Accounts.

We expect the new volumes available from 2016 to have a positive impact on the commercialisation margin.

Supply to customers (%)



Standard-bearer in the electricity business

Electricity distribution business
Distribution

- 10.6 million supply points.
- 302,705 km of network.

Our positioning

Spain and rest of Europe	Latin America
Third-ranking operator in the Spanish market, where it distributes electricity to 3.7 million customers. **Leader** in Moldova, with 0.9 million customers.	Presence in Panama, Colombia, Argentina and Chile (6 million customers), where it is considered as the leading operator.

Our strength

Gas Natural Fenosa is one of the most efficient operators in terms of operation and maintenance costs in the electricity distribution business.

Market environment

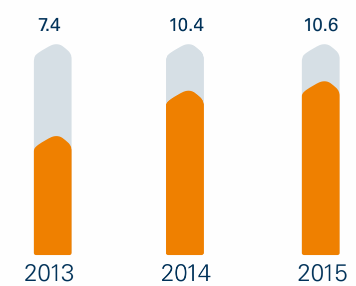
Gas natural Fenosa operates in countries where there are stable regulatory and tariff frameworks that define the procedures and formalities required for the periodic review of tariffs and margins of distribution. The tariffs are reviewed every four or five years.

In Spain, the remunerative framework is set out in Royal Decree-Law 9/2013 of 12 July, which establishes a remuneration rate of assets (equivalent to the financial cost for a risk-free activity) plus a specific spread.

In the future

Although demand for electricity is not expected to register significant growth in Europe, Gas Natural Fenosa is confident that there will be further opportunities to grow in electricity distribution worldwide.

Changes in electricity supply points (millions)



Its management capacity and experience in electricity, coupled with its unique position offering integration in the gas business make the company a standard-bearer in this sector

Electricity business
Generation

- 15.5 GW of generation capacity.

Spain

12.8 GW capacity with an important presence in five technologies: 7 GW CCC, 2 GW hydraulic, 2.1 GW coal, 1.1 GW renewable and 0.6 GW nuclear.

Gas Natural Fenosa has a 18.9% market share in the non-renewable generation regime and 2.1% in renewable regime.

International (Global Power Generation)

2.7 GW capacity: 2.1 GW CCP (Mexico), 0.3 GW fuel (Dominican Republic and Kenya), 0.1 GW hydroelectric (Costa Rica and Panama), 0.2 GW renewable (Mexico).

The company has far-reaching knowledge in all generation technologies and provides an infrastructure which is able to adjust to the needs of each energy model and the real situation in each particular country. Its competitive and flexible gas supply allows the company to obtain higher margins against its competitors in managing its combined-cycle plants.

Gas Natural Fenosa controls and operates the most efficient set of combined-cycle plants in Spain, in ideal locations.

In Spain, activities are carried out within a regulatory framework established through Law 24/2013 of the Electricity Sector, which guarantees financial stability of the system.

On an international scale, the group has highly regulated and totally contracted business (energy purchase-sale agreements).

We are aware of the need for a new generation capacity on the international stage, where we are looking to reinforce the generation business through Global Power Generation.

Electricity commercialisation

- 35.2 TWh commercialised.

Leading in large consumption and residential segments with a total market share of 14.4% in Spain.

One of the most important trading agents on the Spanish market.

Dual fuel energy offer and broad range of value added services.

Gas Natural Fenosa provides twin coverage for electricity generation: a competitive gas supply and an attractive commercialisation business.

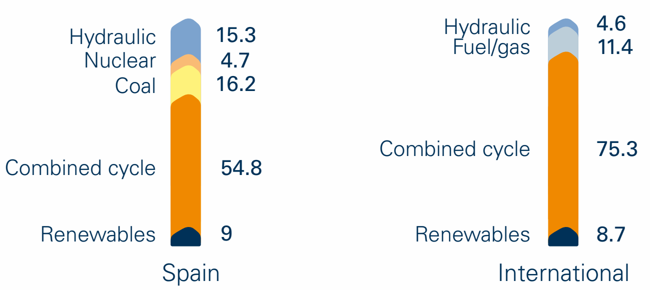
Its leading position in the combined commercialisation of natural gas and electricity allows it to offer important advantages such as a lower service costs, an integrated service to the customer and lower acquisition costs, without overlooking the higher customer loyalty which it achieves.

FR

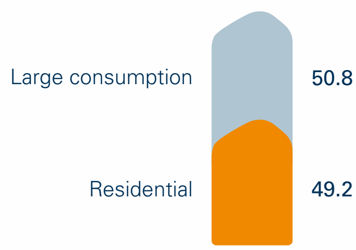
For further information about the regulatory framework, please refer to NB 2 of the 2015 Consolidated Annual Accounts.

Gas Natural Fenosa is confident about growth in its energy services market and is committed to creating value-added for the customer.

Power generation capacity (%)



Supply to customers (%)



Guarantee of supply

The Gas Natural Fenosa model

Guaranteeing a regular gas and electricity supply to Gas Natural Fenosa customers is essential for providing a quality service and for fulfilling the company's social responsibility.

In the field of gas procurement, the Gas Natural Fenosa business model is based on having a balanced gas portfolio, with approximately 40% of supplies in the form of natural gas and 60% in liquefied natural gas. Natural gas provides a high level of flexibility in terms of volume, and LNG offers great flexibility from the standpoint of the destination where the gas is to be positioned.

Supply is diversified in different sources with a number of different producer countries, which include, *inter alia*, Algeria, Norway, Nigeria, Trinidad and Tobago, Qatar, and a number of suppliers.

This diversification means that if any incident should arise in any of these countries, the group is able to guarantee that there would only be a relative impact on its procurement mix.

Gas Natural Fenosa's relations with suppliers are built around stable, long-term contracts, aimed at ensuring a regular supply.

The spot market is only used on one-off occasions, and basically to take advantage of market opportunities.

In order to maintain this supply portfolio, Gas Natural Fenosa continuously negotiates with its main suppliers, and regularly enters into new supply agreements, such as those recently signed with Azerbaijan, USA and Russia.

Gas Natural Fenosa also has agreements in place for the use of underground storage facilities in most countries in which it operates, to cope with short-term changes in demand or in supply issues. In Spain, Gas Natural Fenosa takes an active role in developing underground storage plants, and operates the Marismas storage facility.

As far as electricity production is concerned, Gas Natural Fenosa has its own capacity within the different technologies used in the Spanish system, enabling it to keep a flexible generation mix in order to cope with changes in raw materials prices -basically gas and coal- and non-manageable energy sources (water and wind).

Because of the great flexibility provided by the gas and coal procurement portfolio, the gas combined-cycle plants, and, to a lesser degree, thermal coal-fired plants, can be used as backup for non-manageable renewable energies, so providing security in the supply to the national grid.

Lastly, the extensive gas and electricity distribution network and its excellent operation and maintenance, allows the company to achieve high reliability levels, having a direct impact on the service quality offered to customers.

In the Gas Natural Fenosa business model, it is essential to offer a regular supply of gas and electricity to its customers. Guaranteed supply is based on three pillars:

- Diversified, balanced and flexible gas procurement portfolio, with stable and long-term contracts.
- Flexible electrical generation mix which can be used as backup and provides security to the national system.
- Reliability of both the gas and electricity distribution grids.

Natural gas and energy safety

The availability, the guarantee of supply and the price of energy represents one of the major challenges of the European Union and has a decisive effect on its competitiveness and quality of life.

In Europe, the guarantee of supply needs to be reinforced in three ways: interconnections, LNG integration and development of storage.

In this context, Spain needs to take advantage of its strategic situation, its energy infrastructures and its capability to import LNG, to make these available to Europe, in order to achieve a fluid, transparent and interconnected European domestic market.

According to the International Energy Agency, demand for natural gas will increase globally over the next few years, in particular in Asia and emerging countries, significantly increasing the importance of LNG.

The reason for this is that, firstly, it is a source of energy that provides flexibility and reliability of supply and, secondly, it is the most versatile fossil fuel, suitable for use in generation (where it acts as support to renewable energies), in transport, industry and for domestic use, and it is the fuel that produces fewest emissions.

Fostering these initiatives will help to increase diversification and to reduce dependency on supply sources, and to reduce the price of natural gas in the European Union, in turn enabling us to make progress in respecting the environment in a balanced way.

Guaranteed supply is based on the following pillars: our gas supply portfolio, the electrical generation mix and the reliability of the distribution grid

Supply of value-added services

Full, effective and efficient commercial supply

Gas Natural Fenosa's commercial offer is targeted at homes, businesses and large customers. The products offered are not restricted solely to the supply of gas and electricity, but encompass other aspects.

The development of new products is based on the needs detected through the mechanisms enabled by the company. The commercial supply seeks efficacy and efficiency: efficacy, to satisfy customers' demand; and efficiency, to achieve the maximum competitiveness.

In 2015, our attention and effort focused on making customers the central pillar for improvement and service proposals. We have therefore considered their opinions, both for current products already consolidated as well as innovative new products, which improves trust and positioning in the energy market.

All this is compatible with the range of different customers that the company caters to on a daily basis, establishing a criterion of service quality in every activity that it undertakes.

Products and services adapted to customers' requirements and priorities

The Gas Natural Fenosa's commercial strategy pays special attention on satisfaction of current customers, for the purpose of increasing their loyalty, as well as optimisation of the commercial supply, to increase the portfolio of potential customers, in all segments, both wholesale and retail.

The loyalty schemes are targeted at contributing towards the customer's welfare, while also enabling the company to generate security and trust in management. The expectations generated by the customer need to be answered through increased customer service, innovation and any necessity that can offer value-added to the catalogue in all of its energy and product variants.

Gas Natural Fenosa therefore employs specific tools and plans to find out the customer's requirements and priorities, in order to adapt the products and services to their expectations.

Operational efficiency in customer relations

Efficiency of actions in which there is contact with the customer leads to benefits for both the company and the customer. For the company, the commercial costs of capture are reduced, along with the costs of the different processes; while for the customer, the resolution times of any enquiries or complaints are reduced and the process speeded up.

Products and services adapted to customers' requirements

Home	Business	Large customers
Natural gas and electricity.	Natural gas and electricity.	Products: gas, electricity and LNG.
Services.	Services.	Efficiency and sustainability.
Equipment.	Equipment.	Value-added service.
Saving and energy efficiency.	Saving and energy efficiency.	Customised management.
	Energy solutions.	

One example of efficient practices is the use of mobile devices at Servigas. This expedites operations in real time and enables the customer support system in commercialisation to be communicated directly on receipt of the customer's request and, in turn, speeds up the response. The databases are therefore permanently updated and the response is quicker.

Furthermore, the use of mobile devices means we can deal with the service demands of customers in the shortest possible time, by being able to notify the field technician through the operations attention platform, thus considerably minimising waiting times. Moreover, the technician has online information of the spare parts required to repair the fault as quickly as possible or enable him to prepare a quotation on the overall value of the repair.

Innovative products

With the aim of increasing its commercial offering as much as possible and maintaining customer loyalty, Gas Natural Fenosa offers value added products and services on top of the gas and electricity supply. These services allow customers to manage their domestic and business needs in a comprehensive way, helping them to be efficient in their energy usage.

The products and services catalogue is ever more extensive, allowing us to gain the loyalty of current customers and the inclusion of new ones.

Gas Natural Fenosa's new products and services for residential customers include the Manitas service, which sends customers a professional to carry out home improvements, total freedom to switch between flat rates, improvements in the financing model and its conditions, and improvements in the equipment model.

As for the SME market, innovations include energy management services (EMS), energy saving services and services aimed at specific groups of clients such as Servielectric Big Customer, the app for property administrators and consultancy, and the Energy Class Plus service.

New channels of communication

There is a growing demand from customers for a higher level of information and dialogue with the company. Gas Natural Fenosa has therefore adapted communication with customers through the use of new technologies, which encourages ongoing contact.

New products and services of Gas Natural Fenosa

Residential

- Manitas electrical service.
- Manitas household service.
- Change from Flat Rate.
- Excellence and Economy rates.
- New financing model.
- Equipment.

SMEs

- Capacitor batteries.
- Servielectric Big Customer.
- Energy saving service.
- Smart Energy Management (SEM).
- SMEs Flat Rate.
- Energy Class Plus Service.

Use of new technologies

- Online channel.
- Social networks.
- Displaying bills on mobile devices.
- Mobile private area.
- Website for procurement.
- Paying without a bill.
- Electronic confirmation of procurement.

CRR
For further information, please refer to the 2015 Corporate Responsibility Report.

Financing

We make life easier for our customers with easy and accessible financing for heating and air conditioning installation in their homes or small or medium-sized businesses.

With the financing plan, our customers can pay in manageable instalments.

Because what we care about is their comfort and well-being, and this is something that cannot be put off.

Done and said

2015 Integrated
Annual Report

Strategy

Strategic bases. Page. 40

2013-2015 Strategic Plan. Page. 42

For detailed information on this project, scan this QR code with your mobile device or visit the 2015 Annual Report website.

www.informesanuales.gasnaturalfenosa.com

Strategic bases

The strategic planning cycle

With a view to achieving the targets set, Gas Natural Fenosa defines targets and strategic guidelines which are regularly updated, and which are adapted to the current and future situation taking into account the special features of the company's different business activities.

The strategic planning cycle is defined as a recurrent process that starts with a Strategic Reflection, is set out in the Business Plans of each Business and Corporate Unit, and forms part of the group's Integrated Business Plan.

The coordination of the processes of strategic planning, annual budgeting and ongoing monitoring facilitates speedy and efficient decision-taking.

The strategic planning cycle

Reflection Strategy

- Formalisation of the group's vision with a medium-term horizon.
- Top-down approach.

Monitoring and Reporting

- Single information source for management of the group and the Business Units and Corporate Functions.
- Strategic management of information to support decision-taking.

Business Plans

- Formalisation of the targets of the Business and Corporate Units.
- Bottom-up approach.

Integrated Business Plan

- Formalisation of the group's targets by integrating the Business Plans.

Budget

- Operating Budget.
- Investment Budget.

2013-2015 Strategic Plan

In November 2013, Gas Natural Fenosa presented the update of the 2013-2015 Strategic Plan with a 2017 oversight (2013-2015 Strategic Plan), setting out the group's strategic priorities for the 2013-2015 period and the bases for growth after 2015.

Strategic priorities

The strategic priorities established by the group were:

1. Execution of the "Efficiency Plan".

   A new cost efficiency plan was established with the aim of saving 300 million euros in 2015.

2. Managing each business line in accordance with market conditions

   The aims of each business line were established for 2015 on the basis of the market environment and the regulatory situation.

3. Managing the business portfolio in accordance with the strategic fit.

   Following the divestiture effort made in the past and a reasonable leverage situation there was consequently no need to make divestments on financial grounds. However, we intended to continually reassess the business portfolio and its strategic fit.

Financial priorities

The strategic priorities for the 2013-2015 period were based on a financial policy that is compatible with the growth and dividend objectives:

- Strategic guidelines defined in the context of financial discipline.
- Flexibility to increase investments for future growth if it is necessary.
- Dividend in cash undertaking.

2016-2018 Strategic Plan with a 2020 overview

The company is currently working on the 2016-2018 Strategic Plan, with a 2020 oversight (2016-2020 Strategic Plan) that will spell out the strategic approaches of Gas Natural Fenosa.

However, we can highlight the following advances made with regard to the three lines of growth identified in the current strategic plan (distribution networks, electricity generation and gas commercialisation), which will enable Gas Natural Fenosa to continue growing in the future:

- Distribution networks: in gas networks, entry into the distribution business in the Arequipa region of Peru; new concessions awarded in Mexico; and Spain, the purchase of Gas Directo; gasification of new municipalities on the mainland and acquisitions from Repsol of piped propane supply points for connection to the natural gas distribution network. Furthermore, in gas and electricity networks we can highlight the recent acquisition of the CGE group in Chile.
- Electricity generation: The incorporation of 520 MW to overall capacity with the introduction of the Bií Hioxo windfarm in Mexico; the Torito power station in Costa Rica, and the acquisition of Gecalsa, which adds 230 MW in renewable energies. We should also mention the creation of GPG as an international operation and growth platform, which will be reinforced through the recent incorporation of KIA into its shareholding structure.
- Gas commercialisation: New gas supply contracts, for an approximate total of 11 bcm. We will also double capacity of the methane tanker fleet. As regards the volume of sales, in 2016 we expect an increase of around 7%, basically through the first Cheniere contract with regard to expected volume for 2015, which represents overall estimated volume of 335 TWh.

Gas Natural Fenosa is therefore expected to continue its path of organic growth in 2016 and subsequent years.

2013-2015 Strategic Plan

Financial targets achieved

Compliance with the strategic targets for 2015 (figures in millions of euros) is detailed below:

	2015 targets	Closing figures 2015
Ebitda 2015	> 5,000	5,264[1]
Net profit	~ 1,500	1,502
Net debt/ Ebitda 2015	~ 3.0x	3.0x
Dividend (payout)	~ 62%	66.6%

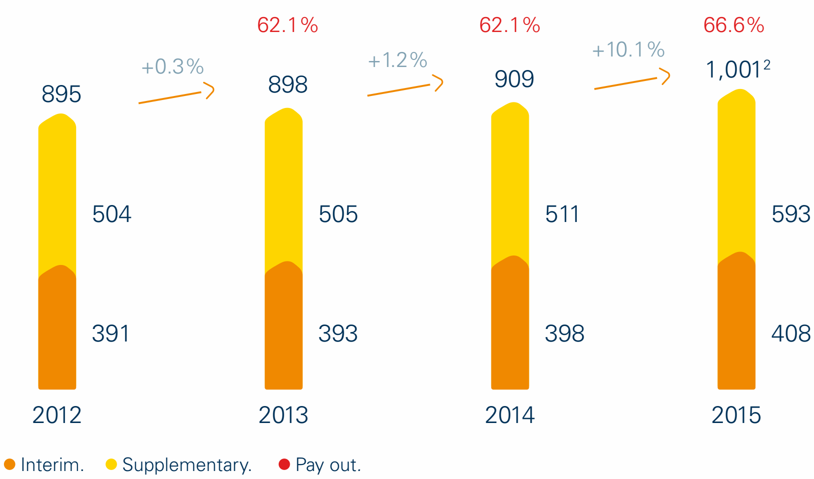
[1] The Ebitda without the impact of the restatement through the LPG discontinued business in Chile totals 5,376 million euros.

Once again, Gas Natural Fenosa has complied with its undertaking to achieve the financial targets it set itself, this time with regard to the 2013-2015 Strategic Plan.

Shareholder remuneration

Below we detail the evolution of the dividend during the years of the plan:

Total dividend (millions of euros)[1]



[1] To be paid on the year's results.
[2] Pending approval by the General Shareholders' Meeting.

- The 2015 dividend represents a payout of 66.6% and a return of 5.3% with regard to the share price at the close of 31 December 2015.
    - Interim dividend of 0.4078 euros per share, paid in cash on 8 January 2016.
    - Supplementary dividend of 0.5922 euros per share, to be paid in cash on 1 July 2016.
- Shareholder remuneration remains in line with the provisions set out in the 2013-2015 Strategic Plan throughout its validity.

Considering the period of the Strategic Plan, we can see that the company has provided shareholders with an overall return of 58.4%.

The shareholder's return is the result of adding two components:

- Firstly, the 38.6% through the share price increase over the period between 31 December 2012 and 31 December 2015.
- And, secondly, a dividend return of 19.9%, which is the result of dividing the sum of 2.699 euros per share received in 2013, 2014 and 2015 by the figure of 13.58 euros corresponding to the closing share price at 31 December 2012.

This return of 58.4% for the period would correspond to a cumulative annual return of 16.6%.

Return for the shareholder over the period

	31/12/15 (€)	31/12/12 (€)	Return
Share price	18,815	13,580	+38.5
Dividend[1 and 2]	2.699		+19.9
Total			**+58.4**

[1] Dividend received during the period (2013-2015).
[2] 2,699 euros/13,58 euros.

2015 dividend of 1 euro per share (+10.1%), payable in cash

Implementation of our strategy

As regards progress in the three lines of growth identified in the current Strategic Plan, which will enable us to continue growing in the future, we can highlight:

- Distribution network business: there has been an increase in the number of service points of approximately 3.7 million, with an additional potential portfolio of around 1 million by 2020. These gas figures are the consequence of entry into the distribution business in the Arequipa region of Peru; obtaining new concessions in Mexico; and Spain, the purchase of Gas Directo; the gasification of new municipalities; and the recent purchases of LPG distribution networks from Repsol. In addition, we can highlight the growth that the acquisition of the CGE group in Chile in November 2004 has had on both gas and electricity networks.
- Electricity generation: the generation capacity has increased by 520 MW with the introduction of the Bií Hioxo windfarm in Mexico; the Torito power station in Costa Rica, and the acquisition of Gecalsa. We should also mention the creation of Global Power Generation (GPG) as an international operation and growth platform, which will be reinforced through the recent incorporation of KIA into its shareholding structure with a 25% stake.
- Wholesale gas commercialisation: we have signed agreements to add approximately 11 bcm to the gas supply portfolio from two projects in the United States (Cheniere-Sabine Pass and Corpus Christi); from the Yamal LNG project in Russia; and from the Shah Deniz II project in Azerbaijan. Furthermore, we will double the capacity of the methane tanker fleet by incorporating five vessels to the current fleet. This will account for joint additional capacity of almost one million cubic metres.

Progress in our three lines of growth

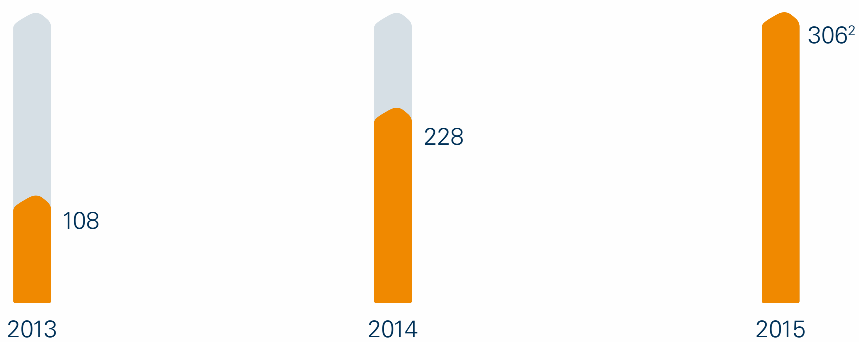
Networks	Generation	Gas
Gas distribution in Peru (Arequipa). New concessions for gas distribution in Mexico (Sinaloa, Northwest). Acquisition of the CGE group in Chile. Gas distribution in Spain (Gas Directo, new municipalities, Repsol LPG customers).	Bií Hioxo (Mexico). Torito (Costa Rica). GPG; agreement with KIA. Gecalsa.	Cheniere. Shah Deniz II. Yamal LNG. Corpus Christi.
~3,7 million new supply points. **~1 million of additional potential in 2020.**	520 MW.	**11 bcm, doubling the capacity of the LNG fleet** (five new methane tankers contracted, +0.9 Mm^3).

Implementation of the 2013-2015 efficiencies plan

Lastly, with regard to compliance with the efficiency plan established as part of the 2013-15 Strategic Plan targets, this has been executed in a more than satisfactory way, given that the cumulative savings figure for the period totals 306 million euros, above the target set of 300 million euros.

The key initiatives taken in the 2013-2015 period focused on reducing discretional and service costs, streamlining commercial and operational costs and optimising costs in corporate areas.

Saving in Ebitda costs[1] (millions of euros)



[1] Restated under IFRS 11.
[2] 78 million euros reached in 2015.

Key initiatives in 2013-2015

- Reduction of discretional services and costs.
- Streamlining of commercial and operational costs.
- Optimisation of costs in corporate areas.

306 million euros achieved in 2015, above the target set in the 2013-2015 Strategic Plan

Dialogue programme

We bring the company's Board
of Directors closer to employees.

The Dialogue programme, through its various types of events, has two objectives: to bring the company's Board of Directors and its employees closer together while improving the transversality of communication and knowledge between areas of the company.

Dialogue with employees actively contributes to the achievement of the company's strategic goals and fosters corporate culture and values, as well as a feeling of belonging and motivation.

Done and said

2015 Integrated
Annual Report

Corporate Governance

Corporate Governance Model. Page. 48

General Meeting of Shareholders. Page. 50

Board of Directors. Page. 50

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For detailed information on this project, scan this QR code with your mobile device or visit the 2015 Annual Report website.

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Corporate Governance Model

Governance at Gas Natural Fenosa is based on the principles of efficacy and transparency established in accordance with the main existing recommendations and standards, and for this purpose, the company is committed to advanced corporate governance practices.

Gas Natural Fenosa develops its corporate governance standards, and keep them updated, with the aim of implementing recommendations and the best governance practices.

Gas Natural Fenosa has continued to reinforce its commitment towards transparency and good practices, with the participation of the General Meeting of Shareholders, 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. 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. 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.

To adapt to the amendments introduced by this law and the new Recommendations of the Code of Good Governance of Listed Companies of February 2015, during the 2015 financial year the company conducted the following actions:

1. In February 2015, the Board of Directors approved the amendment of the Board Regulations, which was reported to the Ordinary General Meeting of Shareholders in May 2015. The main changes are:

- Differentiate between matters that cannot be delegated, those that usually cannot be delegated, which may be adopted by the Executive Committee or the CEO on grounds of justified urgency and subsequently ratified by the Board of Directors, and matters for indiscriminate approval.
- Explain the regime for adopting company decisions.
- Specify that it is the responsibility of the Appointments and Remuneration Committee to propose the appointment of Independent Directors and the issue of the corresponding report in other cases.
- Set out those cases in which a Director cannot be appointed as Independent.
- Implement the duty to loyalty and nondisclosure, setting out new requirements concerning the use of information and corporate assets, noncompetition and the development of businesses.

2. In May 2015, the Ordinary General Meeting of Shareholders approved the amendment to the Articles of Association and the Regulations of the General Meeting of the company, by introducing the following main changes.

Articles of Association:

- Specifying that the general structure for adopting resolutions shall be a simple majority.
- Decreasing the percentage required to request an announcement of a Meeting or to add items to the agenda from 5% to 3% of the share capital.
- Removing the need for a co-opted Director to hold the status of shareholder.
- New specifications concerning the remuneration and attributions of the Board of Directors.
- Requirements for the appointment of the Chairman of the Board of Directors when he/she holds executive status.
- Rules concerning the make up and terms of reference of the Board Committees.

Regulations of the General Meeting:

- Setting out the powers of the General Meeting.
- Decreasing the percentage required to request an announcement of a Meeting or to add items to the agenda from 5% to 3% of the share capital.
- Defining the information to be made available from the date of calling the meeting and setting out the right to receive information.
- Defining the procedure for voting on proposals for resolutions and the take-up of resolutions.

Further details on the amendments in these texts can be found in the reports compiled by the Board of Directors and made available to shareholders at the Ordinary General Meeting held on 14 May 2015. These reports are available on the company's website, in the Shareholders and Investors section, subsection Annual General Meeting 2015.

3. At the Board Sessions held in November and December 2015, resolutions were adopted for the purpose of adapting the company's internal rules to the new Recommendations of the Code of Good Governance of Listed Companies of February 2015. Thus, the communication with shareholders, investors and proxies policy has been approved, along with the selection of Directors policy and the new corporate responsibility policy. New functions have also been assigned to the Audit Committee and the Appointments and Remunerations Committee.

The set of governance rules is made up of the following

- Articles of Association.
  Updated in 2015
- Regulations of the General Meeting of Shareholders.
  Updated in 2015
- Regulations of the Board of Directors and of its committees.
  Updated in 2015
- Internal Code of Conduct in areas related to Securities Markets.
- Code of Ethics.
  Updated in 2015
- Corporate Responsibility Policy.
  Updated in 2015
- Human Rights Policy.
- Anticorruption Policy.
  Updated in 2015

More information on governance standards is available at www.gasnaturalfenosa.com

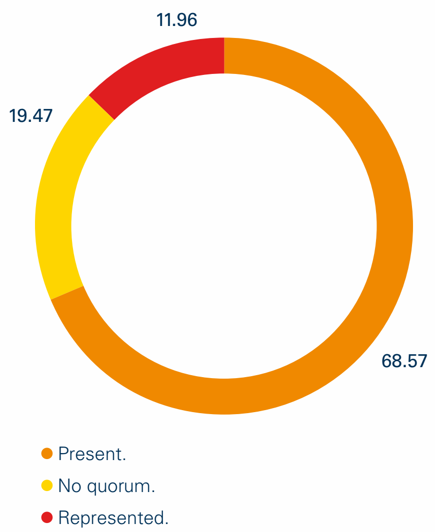
CGR

For further information about the practices of the Board of Directors, please refer to the 2015 Annual Corporate Governance Report.

General Meeting of Shareholders

Shareholders who as individuals or in the form of groups with others, and who own at least 100 shares, will be entitled to attend the Shareholders' Meetings, provided they register five days before it is held.

Quorum for attending the Shareholders' Meeting (%)



2015 quorum: **80.53.**

Board of Directors

Summary of the duties and powers of the Board of Directors and its Committees

Board of Directors

This is the body which represents the company, and, with the exception of the decisions reserved for the Shareholders' Meeting, it is the highest decision-making body in Gas Natural Fenosa. In particular, it has the following powers:

- Determining strategic focuses and economic targets.
- Overseeing and verifying that members of the top-tier management comply with the strategy and targets.
- Ensuring the future viability of the company and its competitiveness.
- Approving the codes of conduct.

Executive Committee: delegated body of the Board of Directors.

Audit Committee: oversees the systems and effectiveness of internal control and of the risk management systems of the company; the drawing up of financial information and the internal audit services.

Appointments and Remuneration Committee: proposes the remuneration criteria for Board members and the general management remuneration policy. It also reviews the structure and composition of the Board, supervises the recruitment process of new members and establishes the guidelines for the appointment of executives.

The Board of Directors performed in 2015 as expected, exercising its powers in full and without any interference, fully respecting both current legality as well as the organisation and performance of the regulations.

In the exercise of its powers, in 2015 the Board of Directors debated, analysed, acknowledged and adopted resolutions concerning, *inter alia,* the following matters:

- Proposal for allocation of the 2014 profits and remuneration to the shareholder.
- 2015 budget.
- Annual Financial Report for 2014.
- Compilation of the Annual Accounts and Management Report (individual and consolidated), for the 2014 financial year.
- 2014 Annual Corporate Governance Report.
- Report on remuneration to Directors.
- Report on the regular assessment of the Board of Directors and its committees in 2014.
- Appointment of the accounts auditors (individual and consolidated).
- Corporate Responsibility Report.
- Modification of the regulations on organisation and performance of the Board of Directors of Gas Natural SDG, S.A. and of its Committees.
- Status reports on sundry issues.
- Announcement of the General Meeting of Shareholders: Text of the announcement, the resolutions proposed by the Board and the supplementary documentation.
- Remuneration to Directors policy.
- Intermediate management declaration: first quarter 2015 and third quarter 2015.
- Appointment of posts in the different administrative bodies.
- Half Yearly Financial Report comprising the Condensed Interim Consolidated Financial Statements, the Consolidated Management Report and selected financial reporting.
- 2016-2018 Strategic Plan, with a 2020 oversight, strategic reflection and top-down targets.
- 2015 Code of Good Governance of Listed Companies. Adaptation.
- 2016 budget: bases and scenario.

In 2015, the Board of Directors began the creation process of the 2016-2018 Strategic Plan with a 2020 overview with the approval of strategic reflection and top-down targets

Composition of the Board of Directors and its committees (at 31 December 2015)

Board of Directors		Executive Committee	Audit Committee	Appointments and Remuneration Committee	Type of Director
Chairman	**Mr Salvador Gabarró Serra**	Chairman			Executive Director
Deputy Chairman	**Mr Antonio Brufau Niubó**			Board Member	Proprietary Director
Chief Executive Officer	**Mr Rafael Villaseca Marco**	Chief Executive Officer			Executive Director
Board Member	**Mr Ramón Adell Ramón**	Board Member	Chairman		Independent Director
Board Member	**Mr Enrique Alcántara-García Irazoqui**	Board Member			Proprietary Director
Board Member	**Mr Xabier Añoveros Trías de Bes**				Independent Director
Board Member	**Mr Francisco Belil Creixell**		Board Member		Independent Director
Board Member	**Mr Demetrio Carceller Arce**	Board Member			Proprietary Director
Board Member	**Mr Isidro Fainé Casas**				Proprietary Director
Board Member	**Mrs Benita María Ferrero-Waldner**				Independent Director
Board Member	**Mrs Cristina Garmendia Mendizábal**			Board Member	Independent Director
Board Member	**Mr Emiliano López Achurra**	Board Member			Independent Director
Board Member	**Mr Miguel Martínez San Martín**	Board Member			Proprietary Director
Board Member	**Mr Heribert Padrol Munté**				Proprietary Director
Board Member	**Mr Juan Rosell Lastortras**	Board Member			Proprietary Director
Board Member	**Mr Luis Suárez de Lezo Mantilla**		Board Member		Proprietary Director
Board Member	**Mr Miguel Valls Maseda**			Chairman	Independent Director
Non-Director Secretary	**Mr Manuel García Cobaleda**	Secretary	Secretary	Secretary	

During 2015 Mr Santiago Cobo Cobo, Mr Nemesio Fernández-Cuesta Luca De Tena, Mr Felipe González Márquez, Mr Juan María Nin Génova and Mr Carlos Losada Marrodán stepped down as Directors, while Mr Ramón Adell Ramón (Independent Director), Mr Xabier Añoveros Trias De Bes (Independent Director), Mr Demetrio Carceller Arce (Proprietary Director), Mr Heribert Padrol Munté (Proprietary Director), Mr Miguel Valls Maseda (Independent Director) and Mr Rafael Villaseca Marco (Executive Director) were re-elected.

Furthermore, the following new appointments took place:

- **Mr Francisco Belil Creixell** (independent director).
- **Mr Isidro Fainé Casas** (proprietary director).
- **Mrs Benita María Ferrero-Waldner** (independent director).
- **Mrs Cristina Garmendia Mendizábal** (independent director).
- **Mr Miguel Martínez San Martín** (proprietary director).

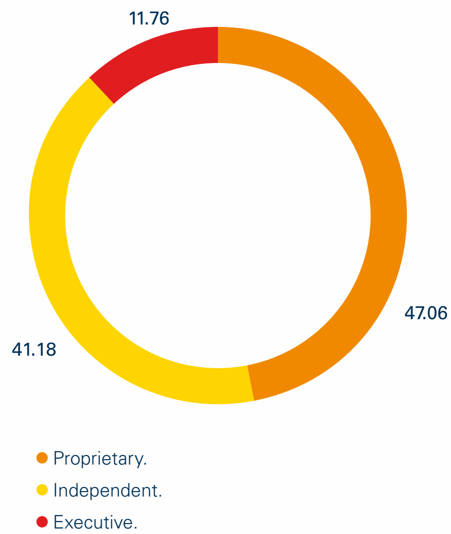
The personal and professional qualities of the Directors appointed or re-elected are set out in the documents made available to shareholders at the Ordinary General Meeting held on 14 May 2015, the titles of which are: "Identity, curriculum and Director category of the person whose ratification, appointment or re-election as Director is submitted for approval by the General Meeting" and "Reports from the Appointments and Remuneration Committee and of the Board of Directors with regard to the ratification, appointment or re-election of Directors submitted for approval by the General Meeting".

These reports are available on the company's website, in the Shareholders and Investors section, subsection General Meeting of Shareholders 2015.

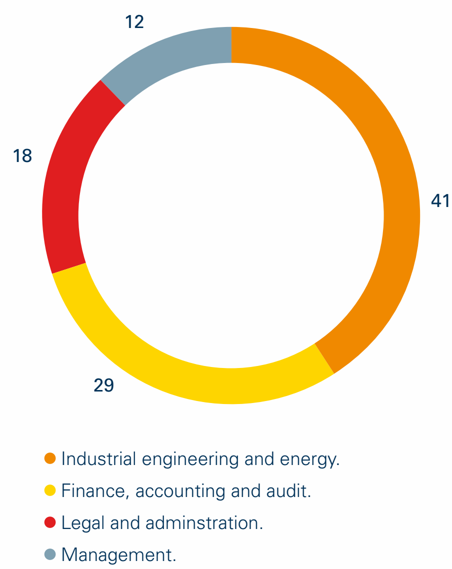
The Chairman attended all the meetings of the Board of Directors

Profile of the Board of Directors (%)

Type of Director



Powers



Activities and performance of the Board of Directors

Number of meetings of the Board of Directors and of its committees

	Board of Directors	Executive	Audit Committee	Appointments and Remuneration Committee
2015	12	5	9	4
2014	12	3	7	6

Management Committee

The Management Committee 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 escalating the proposals for actions that may affect the securing of the company's strategy to the highest authorities Furthermore, 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.

The Management Committee is made up as follows[1]:

Mr Rafael Villaseca Marco
Chief Executive Officer

Mr Carlos J. Álvarez Fernández
Chief Financial Officer

Mr Sergio Aranda Moreno
Managing Director of Latin America

Mr Antonio Basolas Tena
Managing Director of Strategy & Development

Mr José Mª Egea Krauel
Managing Director of Energy Planning

Mr Manuel Fernández Álvarez
Managing Director of Wholesale Energy Business

Mrs Rosa María Sanz García
Managing Director of People and Resources

Mr Manuel García Cobaleda
Managing Director of Legal Services and Secretary of the Board

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

Mr Daniel López Jordà
Managing Director of Retail Energy Business

Mr Antoni Peris Mingot
General Manager of Regulated Business

[1] During 2015, Mr José Javier Fernández Martínez was part of the Management Committee as Managing Director of Global Power Generation.

Remuneration policy

Board of Directors

The Annual Report on remuneration of Directors was presented as a separate consultative matter on the agenda, at the General Shareholders' Meeting held in 2015.

Remuneration to Board Members, for their membership of the Board and the committees, is exclusively made up of fixed allocations which are determined in accordance with positions assigned.

The Board of Directors, once it received a favourable report by the Appointments and Remuneration Committee decided to maintain the same remuneration to Board Members for their membership of the Board and the Executive Committee which have been applicable since 2007, for the 2015 year, without any changes. The remuneration as member of the Appointments and Remuneration Committee and as member of the Audit Committee were updated.

Remuneration for membership of the Board of Directors and its committees (euros/per year)

Chairman of the Board of Directors	550,000
Director	126,500
Chairman of the Executive Committee	550,000
Member of the Executive Committee	126,500
Member of the Appointments and Remuneration Committee	25,000
Member of the Audit Committee	40,000

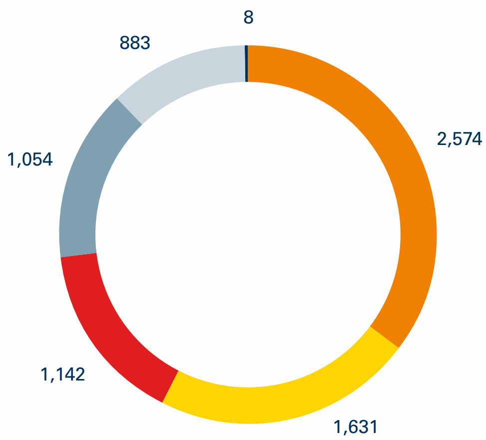
The remuneration policy for the Chief Executive Officer, for his executive duties, is based on the following aspects:

Item	Target	Criteria
Fixed remuneration.	Remuneration at the level of responsibility of these duties.	The group ensures that the remuneration is competitive with regard to that applied by its peers.
Annual variable remuneration.	Linking remuneration with the company's short-term results.	It is calculated taking into account the yearly targets: economic (Ebitda, net income, operational working capital/turnover), efficiency (synergies obtained), business growth (net increase in gas supply points and LNG sales abroad) and quality, safety and occupational hazards (accident rate and customer satisfaction).
Pluri-annual variable remuneration.	Strengthening the commitment towards reaching the targets set out in the Strategic Plans.	It is calculated applying the degree to which economic targets for optimisation and financial discipline are achieved (Ebitda, net debt/Ebitda, stock market capitalisation and enterprise value/ Ebitda), each with a weighting of 25%. The 2014-2016, 2015-2017 and 2016-2018 remuneration programmes are in force.
Other items.	Guaranteeing the company's assistance and general services.	Healthcare and life insurance policies. Energy bonus.

On top of the remuneration there are also contributions to the pensions scheme and to the collective savings insurance.

On 26 February 2016, the Board of Directors agreed, at the behest the Appointments and Remuneration Committee, to approve that the fixed remuneration which will be received by the Chief Executive Officer in 2016 as fixed remuneration for executive duties other than collegiate supervision and decision-taking, will amount to 1,212 thousand euros.

Total remuneration of the Board of Directors earned in 2015 by type of remuneration (thousands of euros)



- For sitting on the Board.
- For sitting on the Board committees.
- Fixed remuneration.
- Short-term variable remuneration.
- Pluri-annual variable remuneration.
- Other items.

Total: **7,292** thousand euros.

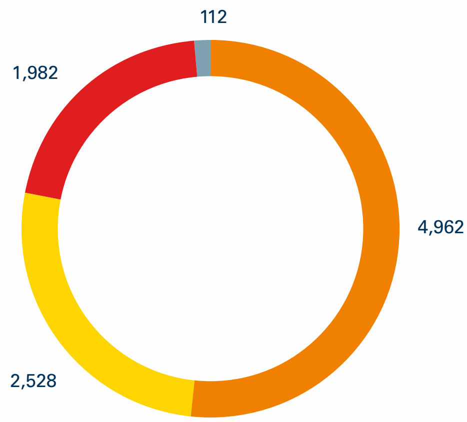
Management Committee

The remuneration of the members of the Management Committee is decided by the Board of Directors at the behest of the Appointments and Remuneration Committee.

The remuneration model has the same components as those indicated above as far as the Chief Executive Officer's executive duties are concerned.

The assessment of the degree of compliance with targets was approved by the Board of Directors on 29 January 2016.

Remuneration of the Management Committee and of the Director of Internal Auditing[1] earned in 2015 by remuneration type (thousands of euros)



- Fixed remuneration.
- Short-term variable remuneration.
- Pluri-annual variable remuneration.
- Other items.

Total: **9.584** thousand euros.

[1] Pursuant to Circular 5/2013 of the National Securities Market Commission (CNMV), remuneration of senior management must include the executives who report directly to the chief executive of the company and also to the Director of Internal Auditing.

Gas Natural Fenosa believes that its remuneration model establishes incentives to ensure the sustainable creation of short-, mid- and long-term value

IGC

For further information about the remuneration policy, please refer to the 2015 Annual Report on the remuneration of the members of the Board of Directors as well as the 2015 Annual Corporate Governance Report.

Flat Rate

Our customers can pay the same amount for energy each month.

At Gas Natural Fenosa, we offer one of the first flat-rate electricity and natural gas quotas on the market.

We help households to control their energy costs, with the peace of mind that comes from paying the same amount each month. 200,000 customers are already enjoying their flat rates.

Done and said

2015 Integrated Annual Report

Risks and opportunities

A model that anticipates the developing situation. Page 60

Main risks. Page 61

Main opportunities. Page 63

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A model that anticipates the developing situation

The risk management model of Gas Natural Fenosa seeks to ensure predictability of the company's performance in all relevant aspects for its stakeholders. This means establishing risk tolerance by setting limits for the most relevant risk categories. By doing this, the company can anticipate the consequences of certain risks materialising, and is perceived in the market as a solid and stable company, with all of the benefits that brings.

Gas Natural Fenosa continually analyses its global risk profile through identification, characterisation and measurement of the most important risks given their potential impact on the company's financial statements. This allows the company to determine the maximum accepted level of risk exposure, as well as the admissible limit for risk management. These limits are allocated for each risk category as well as in global terms, thus representing the global objective risk profile.

Each business unit has specific information on the main types of risks that could affect it. The system seeks to provide these units with decision-taking process, which in turn has a positive impact on the company, as it improves its profitability, behavioural predictability and efficiency.

Fundamentally, it covers three risk categories:

- **Market risk,** understood as the uncertainty related to commodity prices, exchange rates and interest rates, which can have an impact on the company's balance sheets, supply costs or financing capability in the capitals markets. The measurement has a twofold focus: short term, focused on the income statement, and long term focused on the company's value, including the capacity to generate resources on assets and the stability thereof, the variability of the financial structure demanded and the volatility of the discount factors applicable.
- **Credit risk,** understood as the financial solvency risk of the company's commercial portfolio. It also includes the short-term measurement of the returns obtained in the placement of surpluses in finance companies, geared towards selecting more efficient portfolios.
- **Operational risk,** understood as the possible occurrence of financial losses caused through failures in processes, internal systems or other factors. Allows the risk to be objectified, which is critical for the company to measure and properly manage exposure, and of vital importance for the reinsurance market's perception in relation to operating efficiency in Gas Natural Fenosa.

IGC

For further information on the risk management model, please see the 2015 Annual Corporate Governance Report.

Main risks

Type of risk		Description	Management	Metric	Trend	
Market risks						
Raw material price	**Gas**	Volatility in international markets which determine gas prices.	Physical and financial hedges.	Stochastic process.	↑	Decouplings between long-term contracts and prices in hubs.
	Electricity	Volatility in electricity markets in Spain and Portugal.	Physical and financial hedges. Optimisation of generation park.	Stochastic process.	↑	Penetration of renewable energies with zero marginal cost and intermittent production.
Exchange rates		Volatility in international currency markets.	Geographical and macroeconomic diversification through inflation rates. Hedges through financing in local currency and derivatives.	Stochastic process.	↑	Uncertainty about growth prospects in Latin America.
Interest rates		Volatility in financing rates.	Financial hedges. Diversification in financing sources.	Stochastic process.	↓	Increase in financial strength, in a context of ready deleveraging.
Credit risk						
Credit		Potential increase in default, dependent on recovery in Spain.	Customer solvency analysis to define specific contractual conditions. Collection process. Systematisation of calculation of economic capital.	Stochastic process.	← →	Slow recovery is expected in Spain, as the situation normalises from a macroeconomic standpoint.

Type of risk		Description	Management	Metric		Trend
Operating risks						
Regulatory		Exposure to revision of criteria and levels of return recognised for regulated activities.	Heightened intensity of communication with regulatory bodies. Adjusting efficiencies and investments to recognised rates.	Scenarios.	←→	Different business units with different maturity levels.
Volume	**of gas**	Gap between gas offer and demand.	Optimisation of contracts and assets at global level.	Stochastic process.	←→	Sluggish demand in Spain.
	of electricity	Reduction in available thermal gap.	Optimisation of commercialisation-generation gap.	Stochastic process.	↑	Stagnant demand in Spain, tensing the thermal gap in view of the increased participation of renewable energies.
Operational: insurable risks		Accidents, damages or non-availabilities in assets of Gas Natural Fenosa.	Ongoing improvement plans. Optimisation of total cost of risk.	Stochastic process.	↓	Development of specific supervision units.
Operational: image and reputation		Deterioration in perception of Gas Natural Fenosa by different stakeholders.	Identification and tracking of potential reputation events. Transparency in communication.	Scenarios.	←→	Stabilisation of RepTrak index scores.
Operational: environment		Damages to the natural and/or social environment. Evolution of environmental regulation.	Emergency plans in installations with risk of environmental accidents. Specific insurance policies. Complete environmental management.	Scenarios.	↓	Implementation of an Integrated Management System, certified and audited by Aenor.

Type of risk	Description	Management	Metric	Trend
Operating risks				
Operational: climate change	Evolution of environmental factors as a consequence of climate change. Regulation geared towards fighting it.	Participation in Clean Development Mechanisms. Frequent communication with regulatory bodies	Scenarios/ Stochastic.	↑ Uncertainty regarding the policies to be carried out focused on promoting energy efficiency.
Operational: geopolitical exposure	Presence of own assets or supply contracts in areas with political instability.	Diversification between countries and geographic areas. Specific insurance policies (expropriation, CBI).	Scenarios/ Stochastic.	←→ Stagnation in situation in Middle East/Northern Africa.

Metrics employed:

- **Stochastic process:** generation of evolution trends for the main figures, the risk taken being the maximum deviation against the scenario of reference in accordance with a predetermined level of confidence. The aforesaid figures are typically Ebitda, profits after tax, cash flow or value.
- **Scenarios:** impact analysis with regard to the scenario of reference of a limited number of possible incidents.

Main opportunities

Gas Natural Fenosa's main opportunities are:

- Generation mix: the generation pool of Gas Natural Fenosa, dominated by combined-cycle plants (CCP), has the necessary flexibility to be able to adapt to different market situations, creating a valuable asset for taking advantage of opportunities related to volatility in prices and volumes demanded in gas and electricity markets.
- Evolution of the CO_2 markets: the different mechanisms proposed by the European Commission geared towards increasing the cost of the emission rights have the object of discouraging the use of less environmentally-friendly technologies so as to offset the effect of climate change. In this situation, the pool of combined-cycle plants of Gas Natural Fenosa would be more competitive vis-à-vis coal, while opportunities might also arise in the emissions market.
- NG/LNG procurement portfolio: the management of gas pipelines, participation in plants and the fleet of methane tankers enables the group to cover the needs of its different business activities in a flexible and diversified way, optimising for the different energy scenarios. Gas Natural Fenosa's fleet of methane tankers makes it one of the largest LNG operators worldwide and a standard-bearer in the Atlantic and Mediterranean basins.
- Balanced structural position in businesses and geographical areas, many of them with stable flows, independently of commodity prices, allowing the group to capture expected growths in energy demand and to fully harness new business opportunities in new markets.

Remuneration to the shareholder

Our purpose is to continuously create value for our shareholders, and we are committed to providing objective and transparent information on the evolution of the company.

Gas Natural Fenosa usually pays two dividends per year: one interim dividend charged against the results of the previous year, and one supplementary dividend.

The proposal for distribution of 2015 profits is up 10.1% from the previous year.

Done and said

2015 Integrated Annual Report

Results for the year

Commitment to results. Page 66

Service excellence. Page 77

Responsible management of the environment. Page 82

Interest in people. Page 87

Health and safety. Page 91

Responsible supply chain. Page 96

Social commitment. Page 100

Integrity. Page 104

For detailed information on this project, scan this QR code with your mobile device or visit the 2015 Annual Report website.

www.informesanuales.gasnaturalfenosa.com

Commitment to results

What resources are relevant for this undertaking?

- Financial.
- Natural.
- Industrial.
- Human.
- Intellectual.
- Social.

How do we measure our performance?

- Ebitda.
- Net profit.
- Investments.
- Borrowing.
- Pay out.

What does it mean for Gas Natural Fenosa?

In the complicated setting that prevails in the energy markets, Gas Natural Fenosa maintains a strategy based on integrating the gas and electricity businesses to make use of the synergies of both, in a business portfolio in which there is a balance between regulated and non-regulated activities. The strength of this model can once again be seen in the fact that we have managed to comply with the targets established in the 2013-2015 Strategic Plan.

What is our commitment?

- To maintain a strong and sound business model in order to achieve growth and dividend targets, and to present a compelling picture for shareholders and investors.
- To continue with the sound trajectory of sustained compliance with the targets set.

What are our main milestones in 2015?

- Acquisition of 100% of the company Gecal Renovables, S.A. (Gecalsa), completed in October 2015 for an amount of 104 million euros. Gecalsa operates 10 windfarms and a photovoltaic plant in Spain which jointly account for net installed capacity of 222 MW.
- Acquisitions in 2015 of additional percentages related to the purchase of CGE.
- On 30 September 2015, an agreement was signed with Repsol Butano for the purchase of piped propane assets (LPG). By virtue of this agreement, Gas Natural Distribución will acquire some 250,000 supply points located in the catchment area of its current distribution zones, for an overall amount of approximately 450 million euros, as the mandatory administrative authorisations are obtained, enabling them to be connected to the natural gas distribution network.
- Agreement with Kuwait Investment Authority (KIA) through which KIA subscribes a share capital increase of 550 million dollars (493 million euros) enabling it to take a 25% stake in Global Power Generation S.A. (GPG), the parent company of the subgroup that integrates the international generation assets of Gas Natural Fenosa.
- New financing operations, such as the loan from the European Investments Bank (EIB) in November 2015 for an amount of up to 900 million euros, targeted at funding part of the gas distribution investments in Spain for the 2015-2018 period.

Analysis of the 2015 economic results

Consolidate and maintain the company's sustainable performance

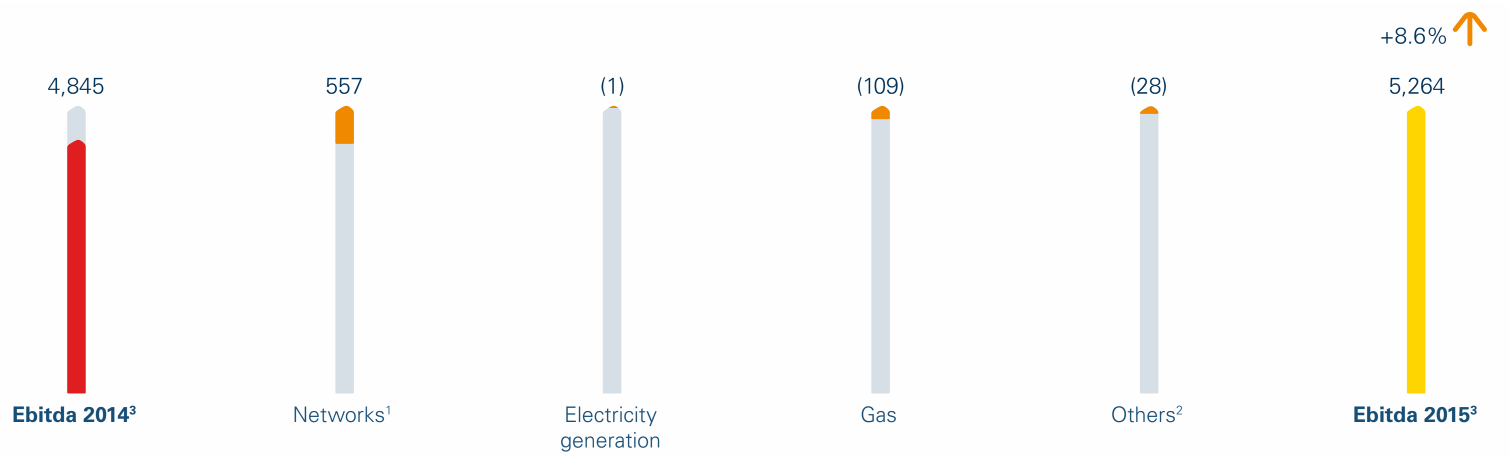
Results (millions of euros)

	2015	2014[1]	2013
Net turnover	26,015	24,697	24,322
Ebitda	5,264	4,845	4,849
Operating profit	3,261	3,185	3,022
Attributable net profit	1,502	1,462	1,445

[1] The figures of the consolidated statement of income for 2014 have been restated by reclassifying to discontinued operations the liquefied petroleum gas business (LGP) in Chile in application of IFRS 5.

Net profit for 2015 was 1,502 million euros, up 2.7%, reaching the target set in the 2013-2015 Strategic Plan.

The following chart shows the evolution of Ebitda by business line (in millions of euros):



[1] 471 million euros corresponds to CGE.
[2] This includes -32 million euros from the telecommunications business in 2014, mining and others.
[3] Discontinued activities: LPG Chile 112 million euros in 2015 and 8 million euros in 2014. Not taking into account the foregoing, Ebitda grew +10.8%

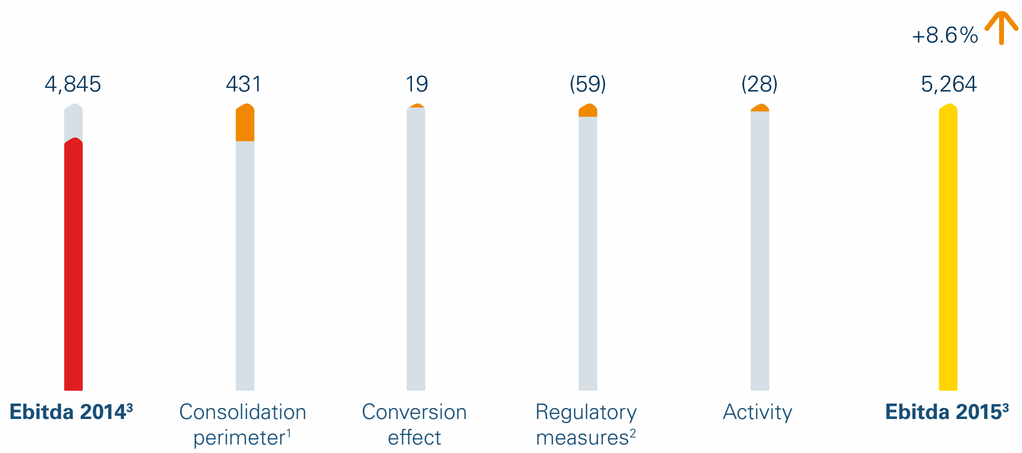
Regulated activities bring great growth (+3.4% excluding CGE)

Consolidated Ebitda for 2015 was up 419 million euros to 5,264 million euros, with an 8.6% increase versus 2014. If 2015 (112 million euros) and 2014 (8 million euros) had not been restated, the Ebitda would have grown by 10.8%.

The Chilean company Compañía General de Electricidad (CGE) joined the consolidation perimeter of Gas Natural Fenosa on 30 November 2014. Consequently, in the previous year with which it is compared, it only had a contribution in December 2014 versus the full 12 months of this year, and contributed 499 million euros to the consolidated Ebitda in 2015 (28 million euros in 2014). On the other hand, it offset the differential impact with regard to the previous year of the regulatory measures set out in Royal Decree-Law 8/2014, which affects the regulated gas activities in Spain with effect from 5 July 2014, totalling 59 million euros and there was also the contribution of the telecommunications business, with 32 million euros, which was divested in June 2014.

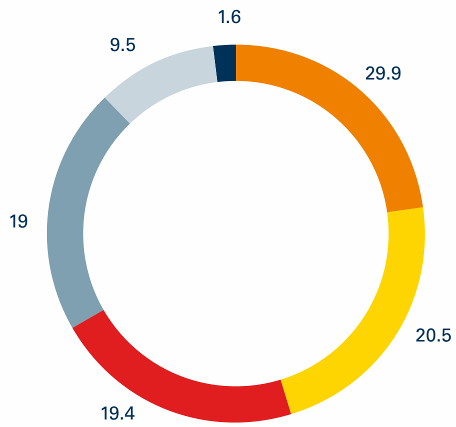
Furthermore, in the conversion of foreign currencies to euros, there was a positive impact on the Ebitda in 2015 of 19 million euros versus 2014. This was mainly caused by the appreciation of the dollar against the euro, which mitigates the effect of depreciation of other currencies, fundamentally the Colombian peso and the Brazilian real.

Ebitda, by main impacts (millions of euros)



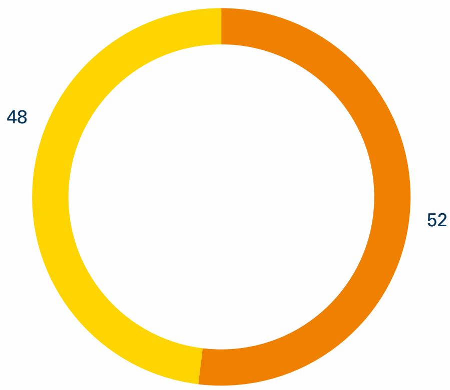
[1] This includes 456 million euros from CGE, -32 million euros from Telecomunicaciones and 7 million euros from Gecalsa.
[2] New gas distribution regulation in Spain.
[3] Discontinued activities: LPG Chile 112 million euros in 2015 and 8 million euros in 2014. Not taking into account the foregoing, Ebitda grew +10.8%

Ebitda by activity (%)



- Gas distribution.
- Gas.
- Electricity distribution.
- Electricity.
- CGE.
- Others.

Ebitda by geographical area (%)



- Spain.
- International.

The regulated gas activity accounts for 29.9% of the consolidated total and this is followed by the gas activity with 20.5%, the electricity distribution activity with 19.4% and electricity generation with 19%. The recent acquisition of CGE contributes 9.5%.

Ebitda from international activities of Gas Natural Fenosa rose by 16.9% through the incorporation of CGE and accounted for 48% of the consolidated total, compared with 44.7% in the previous year. In addition, Ebitda from operations in Spain was down 2%, and accounted for a lower relative proportion of 52% in the total consolidated amount versus 55.3% the previous year.

FR For further information on the performance of the group's different business activities, refer to the 2015 Consolidated Management Report.

CGE is showing potential for sustainable growth thanks to a stable and favourable regulatory climate, as well as solid fundamentals in the energy sector

Acquisition in Chile

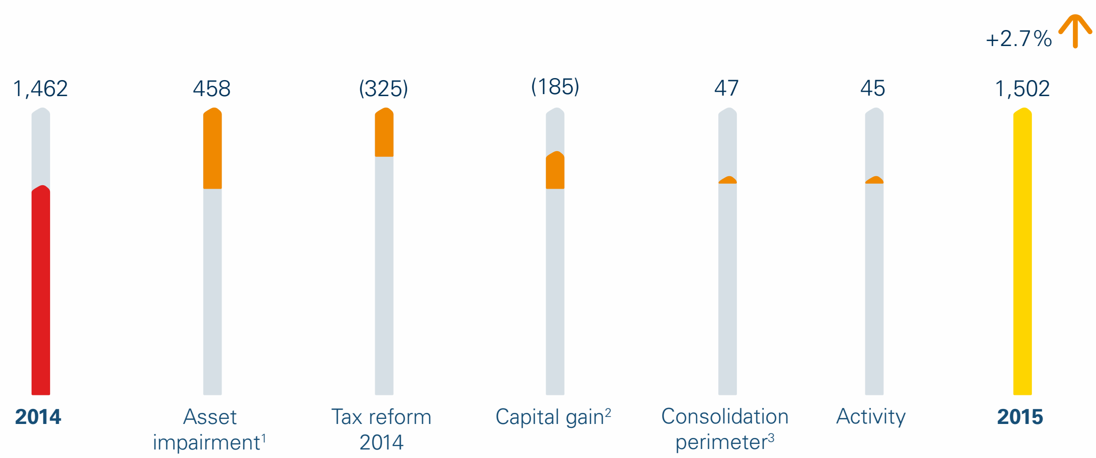
Ebitda CGE (in euros) 2015/2014 →	+5.6%
CGE net profit (in euros) 2015/2014 →	+66.7%
Coverage Equity CGE *vs.* t/c →	Range between 35-45% at different maturities (4 to 6 years).

> Despite the positive extraordinary results in 2014, CGE is contributing significantly to the results of Gas Natural Fenosa.

- With a substantial increase in net profit (+ 66.7%), almost double than in 2014.
- Displaying a relevant equity hedge against exchange rate fluctuations.

> Contribution of 63 million euros to consolidated net profit: value-added acquisition.

The following chart shows the evolution of net profit by main impact (in millions of euros):



[1] Corresponds to impairments recorded in 2014: -25 million euros in Nueva Generadora del Sur (NGS) and -433 million euros in Unión Fenosa Gas.
[2] This includes -190 million euros from the sale of Telecomunicaciones and +5 million euros from the sale of Begasa.
[3] This includes the net effect form acquisition of CGE (63 million euros) and devestiture of Telecomunicaciones (-15 million euros) and Begasa (-1 million euros).

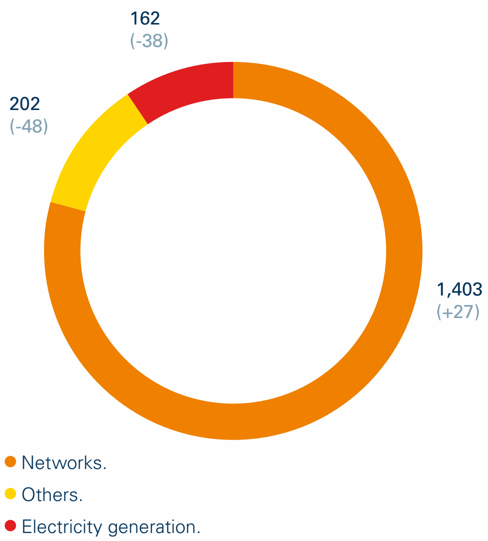
Solid net profit despite an unfavourable climate

Investments (millions of euros)

	2015	2014	2013
Tangible and intangible investments	1,767	1,752	1,455
Financial investments	315	2,590	142
Total investments	2,082	4,342	1,597

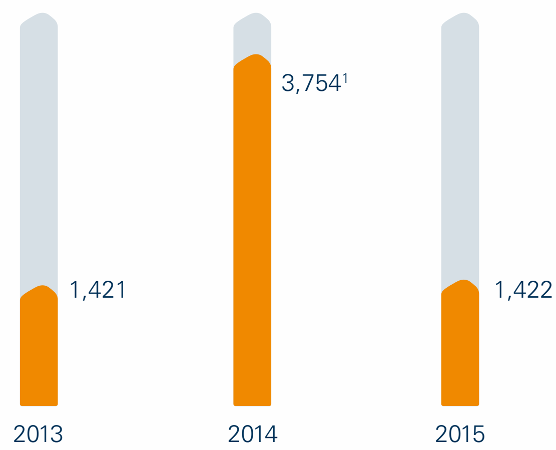
22015 investments[1] by business (millions of euros)

(variation vs. 2014) (%)



[1] Tangible and intangible investments.

Evolution of net investments (millions of euros)



[1] Includes the acquisition of CGE (2,519 million euros).

In the evolution of investments the following points are worthy of note:

- Proactive investment management: divestment of non-strategic assets (Telecommunications: 510 million euros, Begasa: 97 million euros) and entry of strategic partners (GPG: 550 million dollars).
- Acquisition of an additional 8.3% of Metrogas; restructuring of the gas business in Chile (GLP).

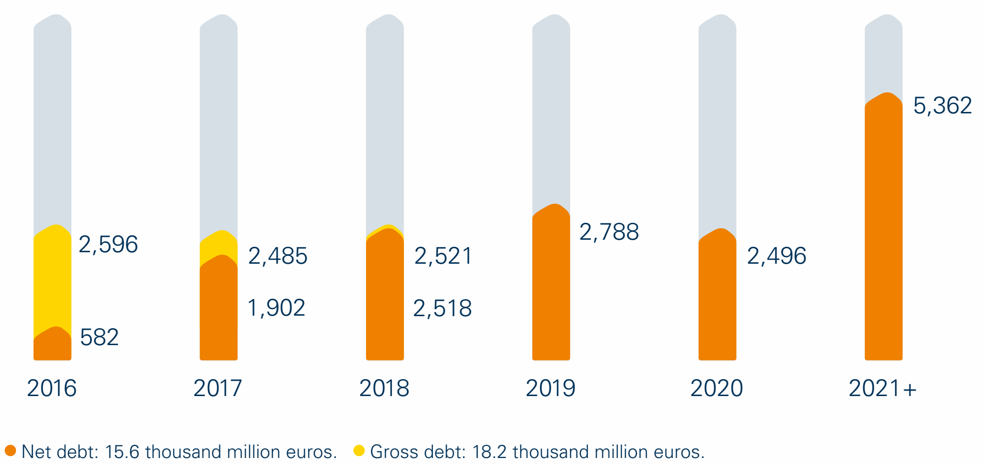
Financial debt (millions of euros)

	2015	2014	2013
Net financial debt	15,648	16,942	14,252
Net financial debt/Ebitda	3.0x	3.5x[2]	2.9x
Ebitda/financial results	5.9x	6.1x	6.0x
Debt[1] (%)	45.8	48.5	48.8

[1] Net financial debt/(Net financial debt + Net worth).
[2] The estimated pro-forma ratio for 2014, considering that the takeover of CGE had been performed with effects from 1 January 2014 would amount to 3.2x.

At 31 December 2015, net financial debt totalled 15,648 million euros, equivalent to a debt ratio of 45.8%.

Maturity of the debt at 31 December 2015 (millions of euros)

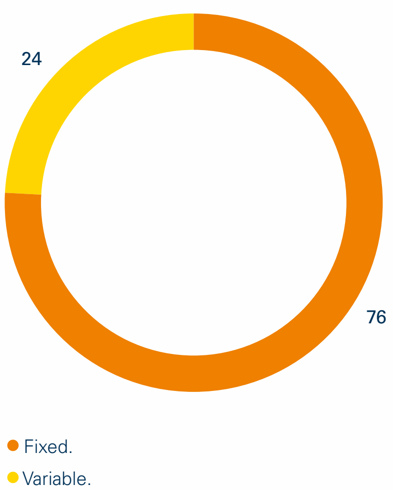


The above chart shows the net debt repayment schedules of Gas Natural Fenosa at 31 December 2015.

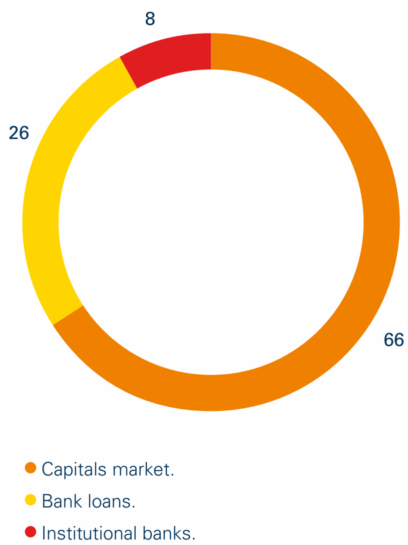
84.1% of the adjusted net financial debt became payable after 2018; the average life of the adjusted net debt was slightly above 5 years.

The following charts show an efficient structure of the net debt:

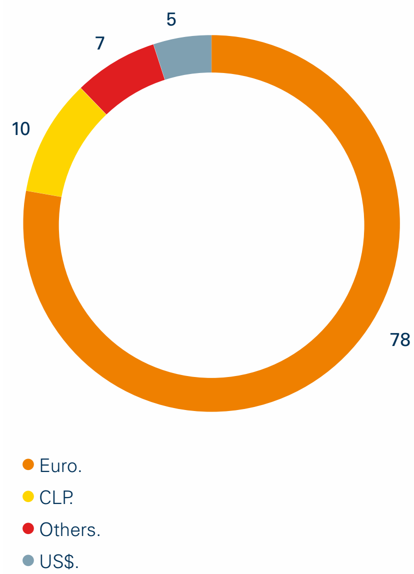
Most obtained fixed-rate debt to levels highly competitive (%)



Diversified funding sources (%)



Conservative policy towards exposure to the exchange rate (%)



Considering the impact of financial hedges contracted, 76% of the net consolidated debt was at a fixed interest rate and the remaining 24% was at a floating rate. 3.7% of the net financial debt matures in the short term and the remaining 96.3% matures in the long term.

At 31 December 2015, cash and other cash equivalents together with available bank financing totalled 10,601 million euros, which gave a level of liquidity that covers maturities of more than 24 months.

The group also has a capacity of 5,790 million euros to issue unused debt.

Short -and long-term credit rating of Gas Natural Fenosa

	Long term	Short term
Fitch	BBB+	F2
Moddy´s	Baa2	P-2
Standard & Poor’s	BBB	A-2

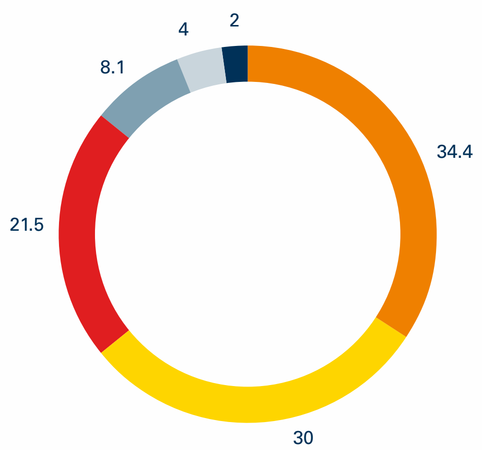
Stock market information and shareholder remuneration

As regards the company's stock market performance, the Gas Natural Fenosa shares closed 2015 at a price of 18.815 euros and stock market capitalisation of 18,828 million euros, which represents a 9.6% decrease versus the previous year end, in a climate in which the Ibex 35, fell 7.2%.

	2015	2014	2013
No. of shareholders (thousands)	73	73	77
Average number of shares	1,000,689,341	1,000,689,341	1,000,689,341
Closing price (euros)	18.82	20.81	18.69
Stock market capitalisation at 31/12 (millions of euros)	18,828	20,824	18,708
Earnings per share (euros)	1.57	1.46	1.44
Pay out (%)	66.6	62.1	62.1
Total dividend[1] (millions of euros)	1,001	909	898
Dividend per share	1.00	0.91	0.90
Price-earnings ratio (PER)	12.5x	14.2x	12.9x

[1] Considering total amount equivalent for dividends. In 2015, it includes a final dividend of 593 million euros pending approval by the General Shareholders' Meeting.

Shareholders and investor of Gas Natural Fenosa (% at 31 december 2015)



- "la Caixa" Group.
- Repsol Group.
- International institutional investors.
- Minority shareholders.
- Sonatrach.
- Spanish institucional investors.

Commitment and ongoing relationship with shareholders

In the application of net profit for the 2014 year approved by the General Shareholders Meeting on 14 May 2015, 909 million euros in cash were used for dividends, reaching a pay-out of 62.1% and a dividend yield of higher than 4.4% using the reference of the share price at 31 December 2014 of 20.81 euros per share.

Consequently, taking into account the number of shares in circulation, a total gross dividend of 0.91 euros per share was paid out, the first payment of which was made on 8 January 2015, as an interim dividend of 0.397 euros per share, and a final dividend of 0.511 euros per share was paid on 1 July 2015, entailing a payment of 512 million euros in cash.

The proposal for distribution of profits from 2015, which the Board of Directors will put before the Ordinary General Meeting of Shareholders for approval, involves targeting 1,001 million euros at dividends, up 10.1% on the previous year, in line with the increase of net profit, and maintaining the pay-out at 66.6%. Payment of the supplementary dividend of 0.5922 euros per share will be a cash pay-out.

Communication channel indicators

The company also continued its communication programme with analysts and investors, in order to strengthen and provide more transparent economic-financial information to enable them to monitor Gas Natural Fenosa's business project.

	2015	2014	2013
Meetings with shareholders and analists	432	397	491

Presence in socially responsible indices and external recognitions and awards

	2015	2014	2013
Changes in rating Gas Natural Fenosa on the DJSI	89	86	88

For the last ten years, Gas Natural Fenosa has had a constant presence on the Dow Jones Sustainability Index (DJSI). In 2015, the company was acknowledged as leader of the Utilities supersector (gas, electricity and water) and, for the fourth consecutive year, continued as leader of the Gas Utilities sector, achieving high scores in areas such as Code of Conduct, Climate Change, Corporate Citizenship, Defence of Competition Policy, Labour Practices and Human Rights. And for the tenth year running it was included on the European counterpart, the DJSI Europe.

Gas Natural Fenosa has also maintained its presence, for the fourteenth year running, in the FTSE4Good index, where it has been included from the outset, in 2001.

In 2015, Gas Natural Fenosa maintained its presence on new sustainability indices such as the Ethibel Sustainability Index Excellence Europe, STOXX ESG Leaders Indices and Euronext Vigeo, of which the company forms part of the World 120, Europe 120 and Eurozone 120 variants, ranking it as one of the 120 leading sustainability companies of America, the Asia-Pacific and Europe.

It also forms part of the MSCI Global Climate Index, which includes leading companies which strive to mitigatemid and long term factors to fight climate change in the mid -and long- term.

Gas Natural Fenosa, supersector leader on the Dow Jones Sustainability Index

In the 2016 Sustainability Yearbook of RobecoSAM, Gas Natural Fenosa was rated as Industry Leader of the Utilities sector (gas, electricity and water), a distinction that recognises it to be the company with the highest score and, therefore, the company best prepared to take advantage of opportunities and manage risks arising from economic development. It was also awarded Gold Class category within the Gas Utilities sector.

In addition, in 2016 Gas Natural Fenosa was named Industry Mover of the Gas Utilities sector, up from 86 points in 2014 to 89 points in 2015. This is the first year in which RobecoSAM has nominated, within the 15% of companies with a highest score in each sector, the Industry Mover. This qualification highlights the company that has achieved the best proportional improvements in sustainability performance over the previous year.

Service excellence

What resources are relevant for this undertaking?

- Financial.
- Natural.
- Industrial.
- Human.
- Intellectual.
- Social.

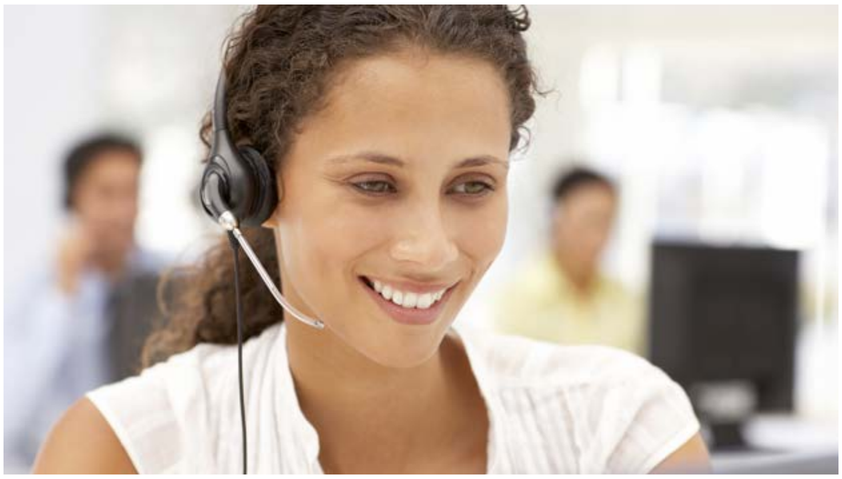
How do we measure our performance?

- Overall satisfaction with service quality.
- Installed capacity equivalent interrupt time (ICEIT).
- Satisfaction index for continuity in gas supply.
- R&D investment.

What does it mean for Gas Natural Fenosa?

Gas Natural Fenosa seeks to set itself apart by developing products and services adapted to its customers' needs, thereby being committed to innovation whilst complementing traditional products.

To provide an excellent service and offer an effective response, the company has introduced a proactive focus to improve the service quality and operational efficiency of its processes.



What is our commitment?

- To work towards ongoing improvement of safety, reliability and competitiveness of all products and services, offering the highest possible level of quality in accordance with the best available techniques.
- To promote active and two-way communication that enables the expectations and opinions of customers to be known and to facilitate procedures through simple and efficient operations.
- To diversify and extend the commercial range of products and services with high value-added, through the application of technological innovation.

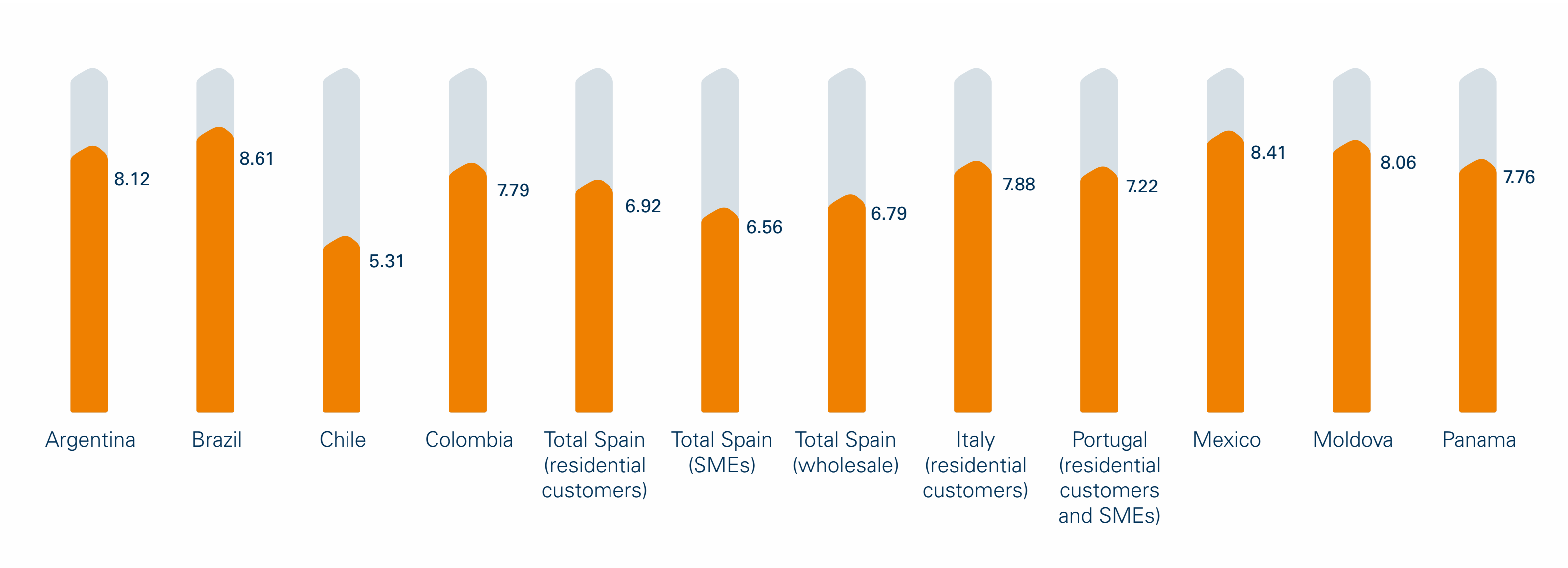
What are our main milestones in 2015?

- Consolidating the Customer Experience project with a global reach to achieve customer satisfaction as an inescapable and feasible objective through a process to improve the customer's experience as part of the corporate culture.
- Developing a new customer service model in Brazil, Chile, Colombia, Spain, Mexico, Panama and Portugal, based on a single organisational, training, and technological model, supported by a single service supplier.
- Developing the Teseo project for the purpose of removing access barriers to customers with any kind of disability or special needs and improving their experience.

Analysis of the 2015 Results

Working on the continuous improvement of safety, reliability and competitiveness of all products and services

Overall satisfaction with service quality



In 2015, Gas Natural Fenosa was leader in satisfaction in the Spanish retail segment for yet another year, with a global satisfaction index (on a scale of 0-10) of 6.92 in residential and of 6.56 in SMEs, with a positive gap compared with the average for its competitors, which stood at 6.13 and 5.95 respectively. In the wholesale segment, the global satisfaction index stood at 6.79, while the average for its rivals was 6.44.

In 2015, the Customer Experience Management (CEM) tool was consolidated as a key component to measure the customer's experience. Following the customer's interaction with the company, this tool is used to send a short questionnaire to find out their level of satisfaction and recommendation, and they are asked to grade their experience.

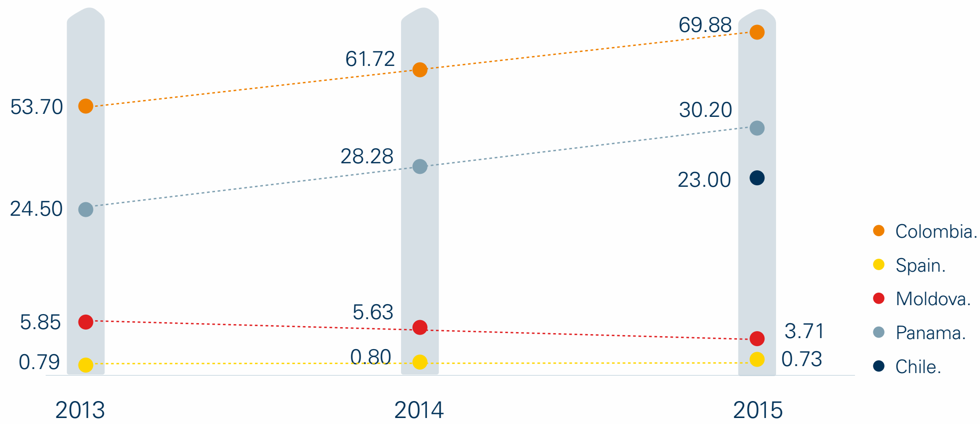
This tool enables immediate corrective action, through the management of alerts that activate whenever the minimum satisfaction and recommendation thresholds required to maintain the level of quality that the company imposes with its customer relations are not reached.

The measurement represents the basis on which the Customer Experience project is founded, as it enables us to monitor contact times with customers and develop action plans to improve their experience.

It is essential that customers' emotional experience be as satisfactory as possible. The aim is to have the customer as the focal point of the company's business. Gas Natural Fenosa wishes to accompany customers during their lifetime, offering them an experience and contributing value-added by providing personalised advice.

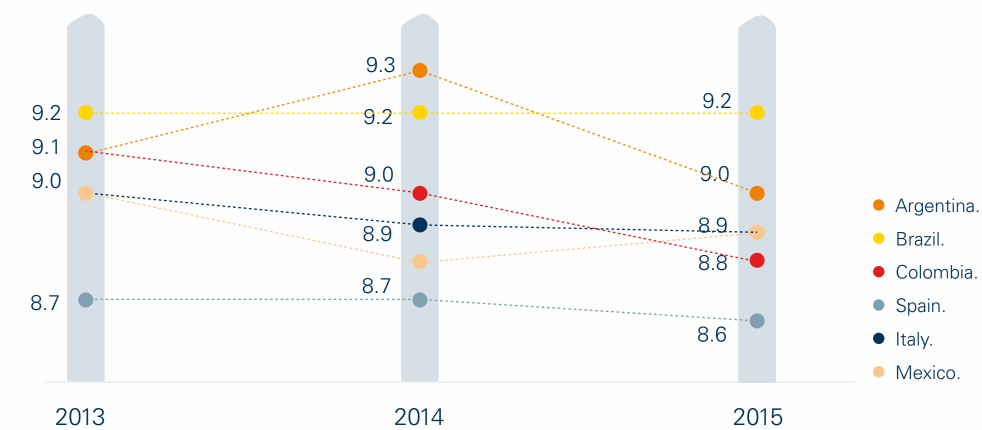
As well as performing ongoing monitoring of perceived quality, the company endeavours to improve the indicators it uses in management of the service provided. Among other indicators used in the supply of electricity and gas, the ICEIT and the satisfaction index for continuity in gas supply show the quality in the service provided.

Installed capacity equivalent interrupt time (ICEIT) (hours)*



*Data referring to electricity distribution business.

Satisfaction index for continuity in gas supply (/10)*



*Data referring to gas distribution business.

Promoting active and two-way communication

There is a growing demand from customers for a higher level of information and dialogue with the company. Gas Natural Fenosa has therefore adapted communication with customers through the use of new technologies, which encourages ongoing contact.

In 2015, the online sales of Gas Natural Fenosa in Spain experienced huge growth, with a total of 34,000 sales of services and supplies. By the same token, tests were carried out to check the scope of the online procurement channel and we obtained some very good results that accounted for a 200% increase in procurement through this channel. In 2015, more than 15 million customers visited the website and received online information about Gas Natural Fenosa's products and services.

As regards customer service, a total of 4.3 million customers have used the company's online platform.

Furthermore, in 2015 the company developed a new app for the Customers' Area which operates with iOS and Android and includes different functionalities that enable the customer to manage their account in an easy and simple way from any mobile device.

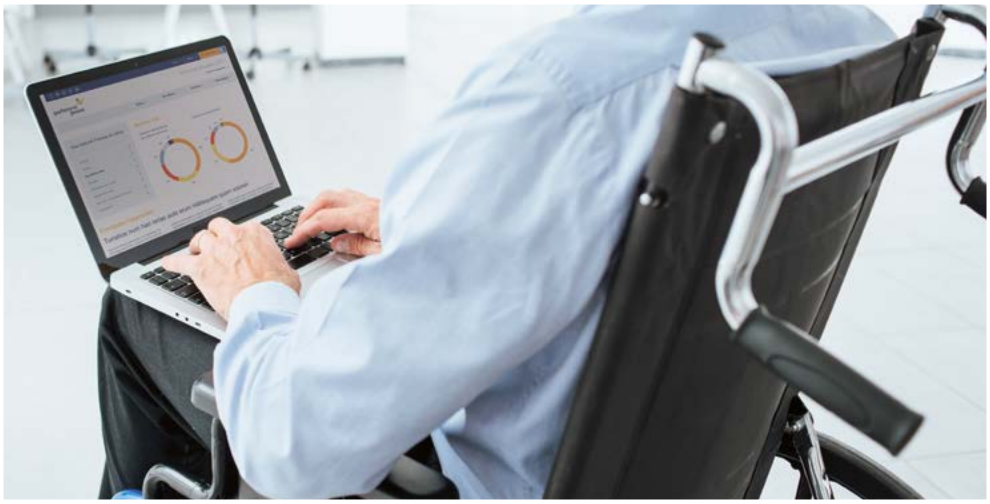
These advances have led to a two-point increase of online versus off-line use in servicing, up to 17%.

As regards communication through social networks, in 2015 we reached 27,000 users and the community managers dealt with over 9,500 interactions.

Together with the use of new technologies, Gas Natural Fenosa is aware that the bill continues to be the main channel of communication with its customers. That is why the bill includes information of interest to the customer, helping to explain its content and regulatory changes.

In 2015, Gas Natural Fenosa developed a more personal and customised model, helping customers to feel more satisfied with the customer service provided by the company.

The new model responds to those needs that customers have informed us of. It is flexible, simple, close at hand, expert and decisive in improving their experience with Gas Natural Fenosa. It is based on a single organisational, training and technological model supported by a single service supplier, which has been introduced in Brazil, Chile, Colombia, Spain, Mexico, Panama and Portugal. At the end of each telephone call, customers are asked to give their level of satisfaction and whether or not they would recommend the company, and the company follows up those cases where they would not recommend the company.



In 2015, the company introduced the Teseo project for the purpose of removing access barriers to customers with any kind of disability or special needs and improving their experience.

As part of its commitment to the privacy and security of data of employees and customers, Gas Natural Fenosa has introduced an information security policy that guarantees proper processing of this data throughout their life cycle, from collection and processing through to removal or safeguarding this data once the relationship has terminated.

Also in this area, in 2015 the company introduced a specific process for management of complaints from customers with regard to privacy, in order to analyse and investigate the reasons for these and come up with customised solutions. A total of 776 complaints concerning customer privacy were analysed, investigated and resolved. We also observed an improvement due to a reduced number of requests for information from the Data Protection Agency.

CRR

For more information on commitment with customers, see the "Service Excellence" section of the 2015 Corporate Responsibility Report.

Diversify and extend the commercial range of products and services with high value-added, through the application of technological innovation

Innovation is one of the engines of development of Gas Natural Fenosa. Consequently, a major part of the company's resources and efforts focus on R&D&I activities, seeking to optimise resources, to develop new technologies and to keep up-to-date with technological advances in the sectors in which it operates.

(millions of euros)	2015	2014	2013
Total investment	15.7	13.7	12.5

The company is committed to the following core technological lines: transmission and distribution of electricity, storage of energy, renewable energies, energy efficiency and services, advanced generation technologies, advanced gas network solutions, sustainable mobility and renewable gas.

In the field of electricity transmission and distribution, the main activities in 2015 focused on the automation of operation and maintenance of electricity infrastructures.

CCR

For more information on innovation, see the "Sustainable Innovation" section of the 2015 Corporate Responsibility Report.

In the case of energy storage, activities are geared at an even higher level of quality and reliability of supply, in introducing joint solutions with customers and also permitting better and easier integration of renewable energies into the electricity network. In this regard, in 2015 the ion-lithium technology demo project for services of the medium voltage distribution grid was of particular relevance.

In the field of renewable energies, the main targets of the company include the development of new technologies to increase the percentage of renewable energy of its portfolio. The company is therefore working on innovation projects to demonstrate the technical-economic feasibility when it comes to introducing these kinds of technologies. Another area where the company is concentrating its efforts is the optimisation of the group's facilities, to increase the level of efficiency and safety of the company's energy installations, and in particular with regard to the windfarms.

As regards energy efficiency and services, we are working at two levels: firstly, on improving processes to increase energy efficiency in all links of our value chain, and secondly, with customers, to provide them with all the information and services possible to help reduce their energy consumption.

In the field of advanced generation solutions, we are working on projects targeted at increasing the performance of assets, reducing the environmental impact due to emissions, improving flexibility of operations and decreasing water consumption. Through advanced solutions of the gas network, we are seeking to achieve greater automation of its operation and achieving better interaction with the customer.

As regards sustainable mobility, the company has mainly focused on the development of projects for sea and land transportation using gas as fuel. During 2015, it continued with the GARneT project (Gas as an Alternative for Road Transport), to demonstrate the advantages of using liquefied natural gas (LNG) as a clean fuel for long distance heavy goods vehicles. Furthermore, in the field of maritime sustainable mobility, Gas Natural Fenosa is continuing to develop the Abel Matutes project for the introduction of the first natural gas engine on the passenger ferry of the same name for port operations, and the Core LNG Hive project, targeted at the supply of LNG for maritime and port transport in the main Spanish and Portuguese ports of the Atlantic and Mediterranean central corridors of the Trans-European Transport Network.

With regard to renewable gas, we are working on projects targeted at producing renewable methane from different sources, with a special short-term focus on waste and biomass to be injected into the natural gas network, or for use as fuel for the transport sector.

Responsible management of the environment

What resources are relevant for this undertaking?

- Financial.
- Natural.
- Industrial.
- Social.

How do we measure our performance?

- Activity with ISO 14001 environmental certification.
- Total atmospheric emissions.
- Direct GHG emissions.
- Emission factor.
- Prevented emissions.
- Capacity and production free of emissions.

What does it mean for Gas Natural Fenosa?

In carrying out its business activities, Gas Natural Fenosa pays special attention to protecting the environment and to the efficient use of the natural resources it needs to satisfy demand for power. In this regard, it goes beyond regulatory compliance, and also involves suppliers and other stakeholders.

What is our commitment?

- To prevent pollution: through optimisation of environmental management, minimisation of environmental risks and active participation of employees.
- To minimise environmental impact: reduce emissions in combustion processes, the pollutant load from spills and waste generation.
- To mitigate climate change: to be a standard-bearer in management of climate change and an example in compliance with legal obligations.
- To protect biodiversity: minimise adverse effects on ecosystems and foster the conservation of biodiversity.
- To promote the efficient and responsible use of water: introducing activities targeted at greater awareness of this resource and improving water management.

What are our main milestones in 2015?

- Rolling out the first stage of the water management strategy.
- Introducing biodiversity management tools.
- We obtained a score of 99 A- in the CDP investors questionnaire, which acknowledges the extremely high level of reporting and transparency of the company in issues of climate information and actions to reduce CO_2 emissions in its activities.

Analysis of the 2015 results

Preventing pollution

The environmental management model used by Gas Natural Fenosa is based on the UNE-EN ISO 14001 international standard, and is an essential part of the company's Integrated Management System (IMS) of quality, environment, health and safety.

In 2015, the company retained all environmental certifications. Furthermore, the gas distribution process in Argentina was certified and the certified engineering scope was extended to Brazil, Colombia, Mexico and Panama.

(% activity)	2015	2014	2013
Activity with ISO 14001 environmental certification	88.3	100	99.4

In 2015, 88.3% of Ebitda generated through activities that have an impact at Gas Natural Fenosa were covered by the environmental management model set out in the ISO 14001 standard. Although the entry of CGE into the company has decreased this percentage, in 2015 we have been working to establish the bases, methodologies and tools to enable this company to adapt its current certificates to the Integrated Management System of Gas Natural Fenosa during 2016.

Environmental planning is included in the Quality, Environment, Security and Health Plan. This plan consists of strategies and actions which define the working guidelines for each period. In 2015, a total of 197 environmental targets were defined targeted at achieving environmental sustainability, and we managed to comply with 88.48% of the plan.

In the case of facilities with considerable environmental risk, the assessment is made using the UNE 150008 standard as a benchmark. Self-protection plans and their corresponding procedures identify and lay down the responses to potential accident and emergency situations, in order to prevent and reduce their environmental impact.

Environmental training is a basic tool for preventing and reducing environmental impacts and improving environmental operational control in our activities. In 2015, a total of 37,582 training hours were given to 8,647 employees.

Minimising the environmental impact

In 2015, we registered an increase in the absolute emissions of SO_2, NO_x and total suspended particles (TSP) into the atmosphere, as well as direct emission of greenhouse gases due to increased operations of the coal-fired power stations. The operation of these power stations is a consequence of reduced renewable generation in Spain as the optimum environmental conditions are not in place for the performance of these.

Total atmospheric emissions (thousands of tonnes)	2015	2014	2013
SO_2	24.7	22.3	17.5
NO_x	37.3	31.0	30.3
Particles	2.1	1.6	1.8

In 2015, the company retained all environmental certifications. Furthermore, the gas distribution process in Argentina was certified and the certified engineering scope was extended to Brazil, Colombia, Mexico and Panama

With regard to waste, in 2015 generation of the most significant non-hazardous waste increased 3.6% versus 2014. We should point out the increase of ash and slag, and the reduction in the generation of soil and rubble through a decrease in the gas distribution grid expansion activity, coupled with improved efficiency of these expansion works through a reduction of the excavation works perimeter. The decrease in the generation of sludges from coal washing at the Kangra mine in South Africa has also contributed.

The generation of the most significant hazardous waste increased in 2015 by 12.6% versus 2014. This was due to an increase in the solid waste contaminated with hydrocarbons and soils contaminated with hydrocarbons and oils, mostly coming from the electricity distribution activity.

As far as water consumption is copncerned, in 2015 there was a 13.5% increase in the water volume, mainly due to increased activity at the coal-fired power stations, where specific consumption was 683.36 m^3/GWh.

Mitigating climate change

Gas Natural Fenosa's strategy for climate change is based upon:

- Giving added value to carbon management.
- Identifying options and solutions to cope with the obligation to comply with restrictions on greenhouse gases at the lowest cost.
- Minimising risks arising from future restrictions in the emission of greenhouse gases pursuant to legislative and political developments.
- Developing business opportunities created due to the need to mitigate global warming.

This strategy revolves around four main points: improving eco-efficiency, carbon management, R&D&I and raising society's awareness.

	2015	2014	2013
Direct emissions of GHG ($MtCO_2e$)	22.4	19.8	20.8
Emission factor (tCO_2/GWh)	445	406	399
Emissions prevented ($MtCO_2e$/year)	15.4	14.5	15.0
Emissions prevented by CDM[1] projects ($MtCO_2e$/year)	1.4	1.0	0.9
Emissions through leaks in networks (tCO_2e/km grid)	10.1	9.9	9.9
Installed capacity free of emissions (%)	21.8	20.7	19.9
Net production free of emissions (%)	12.0	14.0	13.6

[1] Emission reductions have been calculated using methodologies and tools of United Nations for Clean Development Mechanisms (CDM).

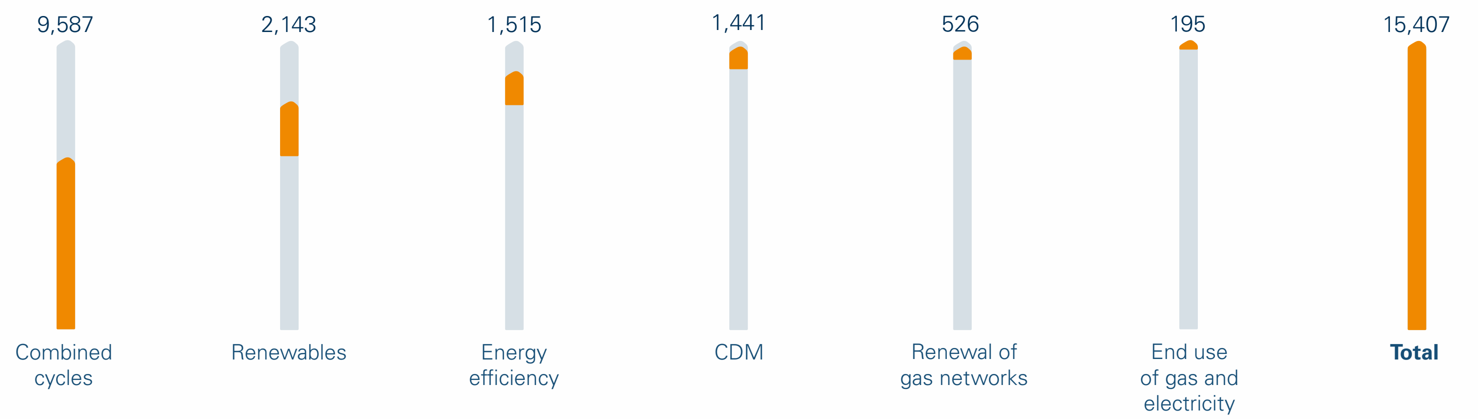
As far as fossil fuel management is concerned, gas combined cycles are the most efficient technology for producing electricity based on fossil fuels and with lower associated CO_2 emissions, making it one of the best solutions for reducing greenhouse gases. During 2015, Gas Natural Fenosa prevented the emission of 9.6 $MtCO_2$ due to the low emission factor of combined-cycle plants compared to the thermal mix of electricity systems in Spain and Mexico.

Turning to management of renewable resources, during the 2014-2015 period we can highlight the start of commercial operations of the Bií Hioxo windfarm (234 MW) in Mexico; the Torito hydraulic power station (50 MW) in Costa Rica; the incorporation of Gecalsa windfarms in Spain (239 MW); and "La Dehesa" solar photovoltaic facility (1 MW). The company prevented the emission of 2.1 $MtCO_2$ through electricity generation using renewable technologies.

In energy saving and efficiency, the emphasis remains on actions in the company's own plants and the final use of energy in the customer's facilities, through which it has managed to avoid the emission of 2.2 $MtCO_2$.

In Clean Development Mechanisms (CDM), within the framework of the Kyoto Protocol flexibility mechanisms, Gas Natural Fenosa managed to save 1.44 $MtCO_2$ through all its CDM projects in 2015.

Initiatives for reducing GHG emissions (ktCO_2).



Risks and opportunities associated with climate change in Gas Natural Fenosa are included in the company's Corporate Risk Map. The measurement of risks and opportunities allows them to be integrated within the corporate strategy and for targets to be set with the aim of keeping risks to a minimum and maximising opportunities.

Climate action is a new global trend that is generating major movements within the business world. This trend, coupled with the new initiatives promoted at the highest institutional level, is being widely accepted by companies. In this regard, Gas Natural Fenosa takes part in:

- Business Leadership Criteria on Carbon Pricing.
- Caring for Climate.
- Statement on fiduciary duty and climate change disclosure.
- Corporate commitment to climate change.
- Science-based targets.

For further information on the climate change mitigation commitment, please see the "2015 Carbon Footprint Report".

Protecting biodiversity

The company's commitment towards biodiversity is instrumented through the 2013-2016 Biodiversity Action Plan (PAB), which encompasses the different initiatives carried out by the company to ensure adequate environmental protection, particularly in areas where impacts may be greater.

Accordingly, working tools and methods are developed to spread greater information and awareness about the natural spaces in which the facilities are located, as a preliminary task before the conservation measures deemed to be most appropriate in each case are actually designed and implemented. The company also takes into consideration the opinion of stakeholders who seek to conserve biodiversity in places where activities and projects are developed.

It performs many and varied actions to preserve biodiversity, some of them in response to the requirements laid down by the environmental authorities and others of a voluntary nature.

- Environmental studies: particularly in the field of electrical generation plants, in order to analyse the ecological status of the terrestrial and aquatic medium of thermal and hydraulic plants.
- Natural environment initiatives, geared towards conserving species and natural spaces, either on a voluntary basis or in response to requirements laid down by environmental authorities deriving from the execution of projects, of operation of installations, or the cessation of their activity. Such actions are usually carried out close to the company's facilities.
- Education and awareness-raising actions: the aim is to raise environmental awareness of company employees, as well as other external stakeholders, in particular customers and consumers, and also schoolchildren.
- Agreements and alliances with third parties: a number of different collaboration agreements are established with third parties, particularly with nature or environmental conservation associations and also with public administrations, and which are aimed at providing the necessary technical knowledge to be able to ensure the efficiency of the actions performed.

These actions can be consulted in detail through the initiatives map published on www.sostenibilidadybiodiversidad.gasnaturalfenosa.com

Promoting efficient and responsible water usage

Gas Natural Fenosa has developed and set up measures geared to broaden knowledge of water and to improve the way it is managed in its facilities. The company has therefore developed a 2014-2016 Action Plan through which to deploy different actions targeted at four focal points:

- Efficient and global water management.
- Complete management of risk associated with water.
- Raising awareness internally and externally about efficient water management.
- Cooperating with leading water bodies.

In 2015 we introduced actions resulting from the 2014-2016 Water Action Plan, and managed to identify the company's key water performance indicators. Furthermore, we introduced a benchmark, both internal and external, of good water practices, allowing us to identify improvements to be introduced into the company's activities.

Moreover, we managed to identify suppliers that have a major repercussion on the water resource, in order to carry out actions targeted at decreasing the possible environmental impact on the aquatic environment. Lastly, we introduced a qualitative risk analysis to identify which water-related risk factors could have the biggest effect on the company.

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For further details on the responsible management of the environment, please see the 2015 Corporate Responsibility Report.

Interest in people

What resources are relevant for this undertaking?

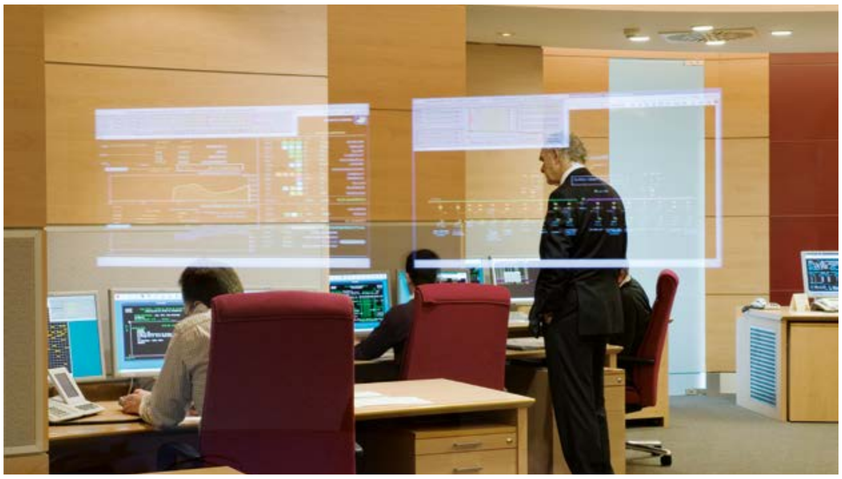
- Financial.
- Human.
- Intellectual.
- Social.

How do we measure our performance?

- Voluntary rotation index.
- Staff trained.
- Hours and investment in training.
- People with disabilities integration index.
- Gender mix.

What does it mean for Gas Natural Fenosa?

Interest in people is one of the inspiring principles of Gas Natural Fenosa and one on which its human resources strategy is constructed, a strategy in which we make constant progress every year. In 2015, the company continued the roll-out and showcasing of value to the employee, for the purpose of attracting external talent and driving internal recognition.



What is our commitment?

- To identify, attract and retain the best professional talent, guaranteeing the principles of fair treatment and non-discrimination on whatsoever grounds.
- To foster the professional development of persons through the talent management model.
- To promote a motivational work environment that encourages diversity and equality and which ensures the introduction of mechanisms that facilitate the balance between professional and personal life.

What are our main milestones in 2015?

- Development of the survey on working environment and commitment.
- Development of the Savia programme with the aim of improving the commitment, motivation and professional progress of leaders, increasing security in operations and optimising operational costs.
- Launch of the first phase of the Conocerte programme, the purpose of which is to invigorate the internal mobility of professionals, generating professional career opportunities within the company.
- Introduction of the Integral Diversity Plan with a focus on the levers of gender, age and disability.

Analysis of the 2015 results

At the close of 2015, the company enjoyed the direct involvement of 20,641 persons, of which 45.9% performed their activity in Europe, 49.5% in America and the remaining 4.6% in other continents.

28% of the workforce was made up by women and 72% by men, and had an average age of 43.2 years, with an average seniority of 13.6 years.

Identify, attract and retain the best professional talent

	2015	2014	2013
Voluntary rotation index (%)[1]	3.5	3.3	2.3

[1]Voluntary layoffs/average staff.

Gas Natural Fenosa's commitment to individual development and the evolution of its employees' professional careers is reflected in the company's Talent Management Model, which helps define the learning of every professional in a controlled and consistent manner to ensure that their development is in line with corporate requirements.

In 2015, the talent identification process was technically validated with the design of a set of indicators in order to improve its management. The assessment and segmentation of talent takes into consideration aspects such as a person's objective conduct, results obtained, competence, learning and interest in making progress. Furthermore, in accordance with each person's profile and potential, the model incorporates variables such as mobility or the assignment to relevant projects.

In the Talent Management Model, a single leadership model was defined for all employees, made up of skills (observable, usual conduct that contributes to success in a function or task) focused on achieving a sound business balance and growth.

In 2015, we can highlight the review and finalisation of the individual plans that the 146 Directors of Gas Natural Fenosa formalised two years ago, and the performance of a new multisource assessment of the Leadership Model skills, which is being carried out with 260 executives, as a method of reflection to compile new action plans in which to define actions for improvement, supported by the resources made available by the Corporate University.

At Gas Natural Fenosa, Talent Management helps to define the learning of the company's professionals in a controlled and consistent manner in order to ensure that their development is aligned with company goals

Fostering the professional development of persons through the talent management model

	2015	2014	2013
Staff trained (%)	95.1	97.1	97.1
Training hours per employee (h)	61.4	57.4	55.7
Investment in training per person (euros)	774.5	874.2	764.5
Degree of satisfaction with training (/10)	8.9	8.9	9.0

In 2015, a total of 832,144 training hours were given (42.9% online) with 165,987 participants from 14 countries. A total of 164 in-house experts provided 34.5% of the training hours.

The training model of the Corporate University responds to training needs both with regard to skills as well as technical expertise, and this is performed through the Leadership Institute and the Technical Institute. Furthermore, the contents are structured through training itineraries. These itineraries enable us to benefit from training synergies and to cover development needs in an organised, complete and sustainable way. During 2015 there was a review of the itineraries of the 2013-2015 plan, reorganising these and internationalising some of them.

Promoting a motivational working environment that encourages diversity and equality

(%)	2015	2014	2013
People with disabilities integration index. Spain.	2.4	2.3	2.1
Gender mix	72/28	73/27	71/29
Women in management posts	25.1	24.0	25.3

Ethical behaviour, the promotion of respect, respect for people, occupational safety and prevention form part of the Gas Natural Fenosa's commitment to its employees. These principles are reflected in the company's daily management through the Code of Ethics, the Gender Equality Policy or the Protocol for Prevention of Mobbing, Sexual Harassment and Sexual Discrimination and, additionally in Spain, the first Collective Bargaining Agreement and the Equality Plan.

In 2015, progress was made in the development of equality and diversity actions for employees, with the design of a multi-year Integral Diversity Plan with actions targeted at reducing differences through gender, disability or age.

Gas Natural Fenosa promotes an appropriate life/work balance through a significant number of flexible employment measures, services and benefits adapted to employees' needs. This allows our professionals to organise their different life options in accordance with their development plans and with the company's interests.

In 2015 we carried out the third survey on the Work Environment and Commitment, targeted at all employees in all countries where the company operates.

The aim is to find out the level of satisfaction and commitment of the workforce overall and in each of the countries, areas and businesses of Gas Natural Fenosa, in order to introduce global and/or local action plans to improve those aspects that reveal the worst result and which have the biggest impact on employee's commitment.

Participation was up 3% on 2013, at 84%. The results reveal that this initiative is warmly welcomed by employees.

Corporate social responsibility is consolidated as a strength, consistent over time and with a very uniform assessment throughout the company.

The aim of internal communication is to actively contribute towards achieving the objectives set out in the company's strategic plan, in close collaboration with the group's businesses and divisions, and to create feelings of belonging and motivation.

During 2015, awareness-raising campaigns were carried out in order to communicate the company's key projects. The company also forged ahead with organising activities and initiatives to promote participation and contribute innovative ideas.

In 2015, 74 direct communication actions were carried out as part of the Dialogue programme, featuring participation from almost 5,000 persons.

CCR

For more information on commitment with employees, see the "Interest in People" section of the Corporate Responsibility Report.

Health and safety

What resources are relevant for this undertaking?

- Financial.
- Industrial.
- Human.
- Intellectual.
- Social.

How do we measure our performance?

- Accidents requiring medical leave.
- Days lost.
- Mortalities.
- Frequency, severity and incident rate.
- Absenteeism rate.

What does it mean for Gas Natural Fenosa?

As part of the strategy, health and safety represent a key element and a priority issue that occupies the daily agenda of Gas Natural Fenosa, as well as an aspect that is inwardly digested in all segments of a company that cannot conceive of any other way of thinking about or performing its work.

The principles of the company's business culture are based on the motto "nothing is more important than health and safety".

The challenges of Gas Natural Fenosa are geared towards the implementation of global strategies for health and safety as a means to improve working conditions.

What is our commitment?

- To maintain a solid culture of health and safety through the development and implementation of the Commitment to Health and Safety Plan.
- To develop the four fronts for action used to shape cultural transformation.

What are our main milestones in 2015?

- Consolidating the overall management tool of the company, which unifies all prevention efforts.
- Establishing regular top down safety meetings targeting all levels of the company and creation of safety and health committees in all departments.
- Accident reduction plan in electrical regulated businesses.
- Implementing the healthy company model progressively at an international level.

Analysis of the 2015 Results

Maintaining a solid culture of health and safety

The Health and Safety Commitment Plan launched in 2012 is based on developing four drivers: leadership, employees, partner companies and installations and processes, which are the levers which will shape the cultural transformation of Gas Natural Fenosa and allow its commitment towards health and safety to be extended and to have greater cover.

The plan has achieved a qualitative change in the company's safety culture through a new focus based on safe individual conduct and the identification and anticipation of hazard situations by workers. Progress continued in 2015 with activities geared towards training, information, and raising awareness about health and safety at all levels and throughout the company.

This progress enables Gas Natural Fenosa to consolidate its leadership in issues of health and safety, and allow the company to extend this cultural change to the remaining fields of action.

Consequently, in 2016 the company will continue to work along the same line as it has done for the past three years, strengthening the belief that all accidents are avoidable and that day-to-day actions support this.

Four fronts for action shape and consolidate cultural transformation

The Health and Safety Commitment Plan is based on developing four drivers: leadership, employees, partner companies and installations and processes, which are the levers which will shape the cultural transformation of Gas Natural Fenosa and allow its commitment towards health and safety to be extended and to have greater cover.

1. Leadership

Gas Natural Fenosa has focused on the visible commitment of the entire organisation, aware that health and safety is key for its business leadership.

Leadership is considered as the driver of cultural change in the company. This means efforts have to be made at all organisational levels, and is promoted by the management, with a visible, solid and

01 Nothing is more important than health and safety

02 All accidents are avoidable

03 Safety is a responsibility of the management

04 Safety is a responsibility of the individual

05 All jobs should be planned and carried out with safety in mind firm commitment in taking all business decisions, with safety paramount at all times.

As a sign of the visible commitment, spearheaded from senior management and which permeates throughout all levels of the organisation, particular relevance was given to the health and safety indicators as part of the performance assessment.

We should also point out the introduction of the Health and Safety Management Committees, forums for presentation, discussion and decisions on proposals, and coordination, introduction plans, monitoring and supervision of health and safety activities in the company's different departments.

The dissemination of the message to partner companies through a range of actions, such as workshops on leadership and raising awareness, revealed themselves to be an excellent way of externalising these concepts with efficiency and quality. This training is spearheaded by personnel with responsibility at the company.

2. Health and safety culture among employees

In 2015, Gas Natural Fenosa continued to introduce new tools and to consolidate those that already existed, through training sessions and different preventive and communication actions for the entire group, specific for some groups and partner companies.

It also continued to identify uniform criteria in all countries, as well as the design, publication and introduction of high standards of health and safety.

In addition to uniform standards, the identification, risk assessment and planning of preventive activity are the base for efficient management of health and safety in the workplace.

The company uses a general procedure that applies to the entire group and which establishes the guidelines and principles to be followed for the identification, assessment and control of occupational risks.

In addition to these risk assessments, Gas Natural Fenosa has other specific management mechanisms to ensure that these are effective in reducing the number of accidents to the minimum, such as preventive safety observations, documented inspections and zero tolerance, among others.

Furthermore, throughout 2015 several specific plans were introduced that were relevant in the achievements obtained in health and safety issues, as well as continuation of the specific communication plan, the road safety plan or the emergency safety plan at electricity netwoks.

Initiatives were also carried out in 2015 specifically focused on increasing the participation of employees which, together with specific training, helps to maintain the health and safety commitment.

The company gave 220,833 training hours in health and safety for 67,491 people as part of 3,409 training sessions in 2015. The average number of training hours per employee was 15.46.

Management of accidents and incidents is a key aspect in removing or reducing situations of risk and, as a consequence, the accident rate. In this regard, in 2015 there were 1,556 incidents reported; in other words, events that have not caused personal injuries or environmental damages but which under other circumstances could have led to personal injuries or environmental damages.

Occupational health forms part of Gas Natural Fenosa's commitment to offering its employees a healthy working environment and well-being. In 2015, we continued to develop prevention campaigns and health promotion in order to sensitise and mobilise workers to generate a culture of prevention of disease, promote healthy lifestyles and control risk factors to significantly reduce the incidence of various diseases. Furthermore, on the international stage we considerably increased secondary prevention campaigns.

3. Involvement of collaborating companies

At Gas Natural Fenosa, the safety of its collaborators and the prevention of accidents affecting their workers is as important as that of its own workers. That is why the Health and Safety Commitment Plan has been extended to all suppliers, from the very outset.

A range of initiatives were introduced throughout the network of collaborating companies, such as leadership workshops to explain the scope of the project and the need to eradicate unsafe behaviour, asking collaborating companies to commit to obtaining the safety targets of Gas Natural Fenosa.

These workshops will continue in 2016, along with new actions to raise awareness, to redouble efforts and to pay special attention so that all of them, without exception, comply with the regulations and have the information and tools necessary to perform safe work.

In 2015, additional backup activities were carried out with contractors in the area of hazard prevention, including the following:

Accident indicators

	2015	2014	2013
Accidents requiring sick leave (no.)[1]	125	118	152
Days lost[2]	3,674	3,035	4,184
Mortalities (no.)[3]	1	1	0
Frequency rate (no. accidents with leave/10^6)[4]	3.08	3.93	5.07
Severity rate (no. of working days lost / 10^3 hours worked)[5]	0.09	0.10	0.14
Incident rate (no. of working days lost/10^3 hours worked)[6]	6.33	8.32	10.56
Absenteeism rate (%)[7]	2.02	1.86	1.70

[1] Accidents requiring medical leave: number of accidents in the workplace leading the employee to take medical leave.
[2] Days lost: days not worked due to medical leave caused by accidents at work. Calculated from the day following the day the sick leave is received and considering calendar days.
[3] Mortalities: number of workers who have died due to accidents at work.
[4] Frequency rate: number of accidents with medical leave occurring during the working day for every million hours worked.
[5] Severity rate: number of days lost as a result of accidents at work for every 1,000 hours worked.
[6] Incidence rate: number of accidents in the workplace for every 1,000 employees.
[7] Absenteeism: absence of employees from their jobs.

- 4,190 activities relating to the coordination of preventive activities with contractors, most of which were coordination meetings.
- 571 meetings with health and safety coordinators in construction sites.
- 43,922 work supervision inspections by contract companies.

Gas Natural Fenosa considers health and safety to be a major key in the contractual relationship with its collaborating companies. From the time they are selected, partner companies' commitment to health and safety are taken into account. When a contract is awarded, health and safety are issues which can lead some partner companies to be excluded and others to be preferred.

The Health and Safety Commitment Plan is based on developing four drivers: leadership, employees, collaborating companies and installations and processes, which are the levers which will shape the cultural transformation of Gas Natural Fenosa and allow its commitment towards health and safety to be extended and to have greater cover.

4. Safety in installations and processes

The main objectives of the risk management for industrial facilities are the detection and minimisation of hazards affecting activities, products and services that may have a significant effect on the company's facilities or its environment, causing economic, environmental and social damages.

This management is based on a number of tools such as having a risks map for the facilities, carrying out safety audits, investigating incidents and accidents, developing training based on the lessons learnt and dissemination and support activities.

Lastly, it is important to note that we also extend our commitment to health and safety to our customers through advice campaigns on the safe use of gas and electricity.

CRR

For more information, see the "Health and Safety" section of the 2015 Corporate Responsibility Report.

Responsible supply chain

What resources are relevant for this undertaking?

- Financial.
- Natural.
- Industrial.
- Human.
- Intellectual.
- Social.

How do we measure our performance?

- Total purchase volume awarded.
- Evaluated suppliers.
- Hours of training and personnel trained by Gas Natural Fenosa that work for collaborating companies.

What does it mean for Gas Natural Fenosa?

Suppliers and collaborating companies are key players in optimum performance of the value chain of Gas Natural Fenosa, and the company therefore promotes long-term relations based on trust that are stable, sound and of mutual benefit, under the principles of risk efficiency and management.

What is our commitment?

- To extend the culture and operational principles of Gas Natural Fenosa to its supply chain.
- To transfer knowledge to improve service quality levels.
- To foster practices that encourage traceability and fair trade of raw materials.

What are our main milestones in 2015?

- Developing a methodology to prepare the purchase family tree, considering the country variable and risk management.
- Evolution of the official approval process, incorporating the documentary assessment.
- Incorporating environmental, social and governance criteria into the assessment and selection of suppliers process.

Analysis of the 2015 results

Extending the culture and operating principles of Gas Natural Fenosa to its supply chain

In the performance of its activity, Gas Natural Fenosa set up trade relations with a total of 7,370 suppliers in 2015.

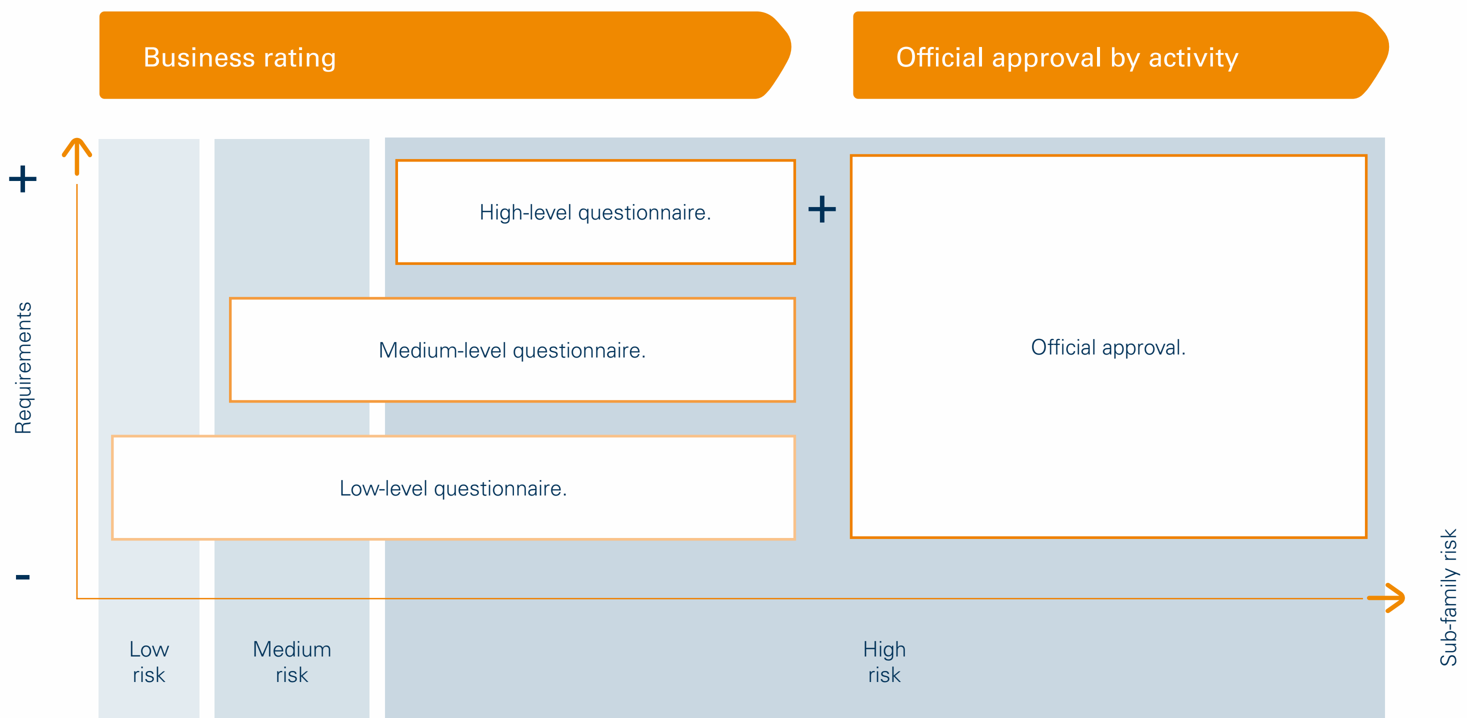
The model is fundamentally based on maintaining a long-term relationship with suppliers and awarding the supply to the offer that is most beneficial for the company; not only from an economic point of view, but also taking into consideration the performance of suppliers (which includes things like safety, quality, resource management, etc.) and how these, as a whole, allow savings to be made with regard to the overall cost of the purchase.

Gas Natural Fenosa has a large group of suppliers, making it necessary to standardise selection processes to minimise procurement risks and ensure guaranteed supply. Accordingly, the company has established a General External Procurement Regulation which sets out the general principles for procurement of works, goods and services, guaranteeing a uniform, efficient and quality procurement processes model.

Supplier assessment at Gas Natural Fenosa encompasses the supplier qualification process and the approval process. Both processes are set out in the risk map by subfamily.

(millions of euros)	2015	2014	2013
Total procurement volume awarded[1]	3,009	2,956	2,930

[1] Does not include procurement of raw materials.



In 2015, Gas Natural Fenosa assessed a total of 6,997 suppliers based on environmental, social and labour practice criteria, during the supplier authorisation and/or recruitment process. None of them were excluded from the process through failure to comply with these criteria.

As regards the supplier qualification process, a new supplier qualification model was developed in 2015 and began to be introduced in Spain. It is expected to be extended to remaining countries in 2016.

The new model assesses four risk factors that shape the risk map: health and safety, quality, environmental, social, governance (ESG) and operational risk.

The ESG risk comprises the environmental, social and governance risk, with the following aspects measured:

- Environmental risks: the impact on the atmosphere, biodiversity, waters, soil, countryside, waste and consumption of resources.
- Social risks: aspects such as the well-being of communities, human rights, workers' rights, data protection, safety and quality of products and health and prevention of occupational risks.
- Governance risks: aspects of fraud, corruption, competition, terrorism, professional ethics and regulatory compliance.

Furthermore, the company carries out a systematised verification of compliance with the legal requirements and basic structure of potential suppliers which makes up a business qualification that all suppliers must pass before they can commence commercial relations with Gas Natural Fenosa.

The risk levels of the map are allocated in accordance with the most restrictive risk factor of the four, awarding a single level of risk (high, medium or low) to each of the purchase subfamilies.

The qualification is applied to self-assessment questionnaires that delve into more depth in accordance with the risk level. These questionnaires are filled in on the RePro platform (supplier classification system). For high risk cases, it is necessary to provide documentary and audit evidence. In 2016 the corporate responsibility audit will be introduced for those high-risk suppliers, with priority given to those with the largest invoices.

The high and medium level qualification process includes obtaining a grade that enables suitable suppliers to be assessed in accordance with objective and measurable criteria, for use in the different stages of the bid.

Transferring knowledge to improve service quality levels

Gas Natural Fenosa performs actions targeted at the development of suppliers based on the information collected in the supplier tree, the approval information and the results of measuring ESG performance.

Training the different parts of the value chain is essential in offering quality products and services to the company's customers. Thanks to training, suppliers improve their operational efficiency and can cut costs and professionalise its management.

The Extended University helps to establish common planning and management model, to offer training to partner companies and to other agents which form part of the value chain.

Since 2012, the Extended University has been rolled out in Argentina, Brazil, Colombia, Spain, Italy, Mexico and Moldova, and in 2015, it was extended to Chile and Panama. Throughout 2015, the Extended University provided around 247,000 training hours to over 40,000 people who took part belonging to partner companies. In total, online training has increased by 23% in terms of hours, versus 4.9% in 2014 (in the case of Spain, this figure reaches 50%).

The Atenea Channel was also launched in 2015, a platform where video clips are available to pass on knowledge in issues of regulations, safety, accident prevention and in-situ operations, and these can be consulted from any device. There were more than 3,600 visits at the close of 2015.

Among other things, this channel provides better access to training; increased and improved communication and collaboration between the business and its collaborators; more effective alignment with the company's strategy, and a reduction in the cost of training collaborators.

Fostering practices that encourage traceability and fair trade of raw materials

During 2015, Gas Natural Fenosa continued its involvement in the Bettercoal international initiative, an initiative made up of major European energy companies (Dong Energy, EDF, Enel, E.On, Fortnum, Engie, RWE, Drax and Vattenfall, among others) and which strives to attain the ongoing improvement of corporate responsibility in the coal supply chain. Gas Natural Fenosa now sits on the Board of this initiative.

The initiative, launched in 2012, seeks to include social, environmental and ethical practices into the coal supply chain, with the aim of producing changes that benefit employees, communities, businesses and the environment.

One of the first advances of Bettercoal was to develop a new code of practices based on already existing mining standards, which recognises the current best practices in the sector. The Bettercoal Code sets out the ethical, social and environmental principles on which members of the initiative will base their coal supply chain.

These principles will be the basis for performing in-situ assessments conducted by outsourced consultants. The findings of these assessments will be shared among members of Bettercoal.

Furthermore, in 2015 and as part of the commitments that Gas Natural Fenosa has as a member of Bettercoal, Kangra Coal (held 70%) performed the self-assessment of its Savmore mine in South Africa and published the findings on the database that the initiative places at the disposal of its members.

Likewise, last year the company acquired 1,675,000 tonnes of coal (57% of the total acquired) under a formal agreement with suppliers, to cater to the requirements defined in the Bettercoal Code.

CRR

For further details on the management of the supply chain, please see the 2015 Corporate Responsibility Report.

Social commitment

What resources are relevant for this undertaking?

- Financial.
- Natural.
- Industrial.
- Human.
- Intellectual.
- Social.

How do we measure our performance?

- Financial value distributed.
- Economic contribution to community investment programmes.
- Hours targeted at volunteer work.
- Corporate volunteer and environmental activities.

What does it mean for Gas Natural Fenosa?

Gas Natural Fenosa is firmly committed to positive integration in the society of the countries where it carries out its activities, assessing the social impact of its activity, and respecting the culture, rules and setting.

The company reaches this objective through collaboration with NGOs, the local community and other social players in all countries.

What is our commitment?

- To contribute towards the economic and social development of the countries in which it operates and provide access to energy.
- Social action: to consolidate the bond between the main lines of social action and Gas Natural Fenosa's strategy.
- To encourage community relations through social impact projects.
- Patronage and sponsorship: to support to projects and initiatives that create value for society, with a particular focus on culture, social causes and the environment.
- Corporate volunteers: to involve employees in a fairer and more sustainable society from a social and environmental standpoint.

What are our main milestones in 2015?

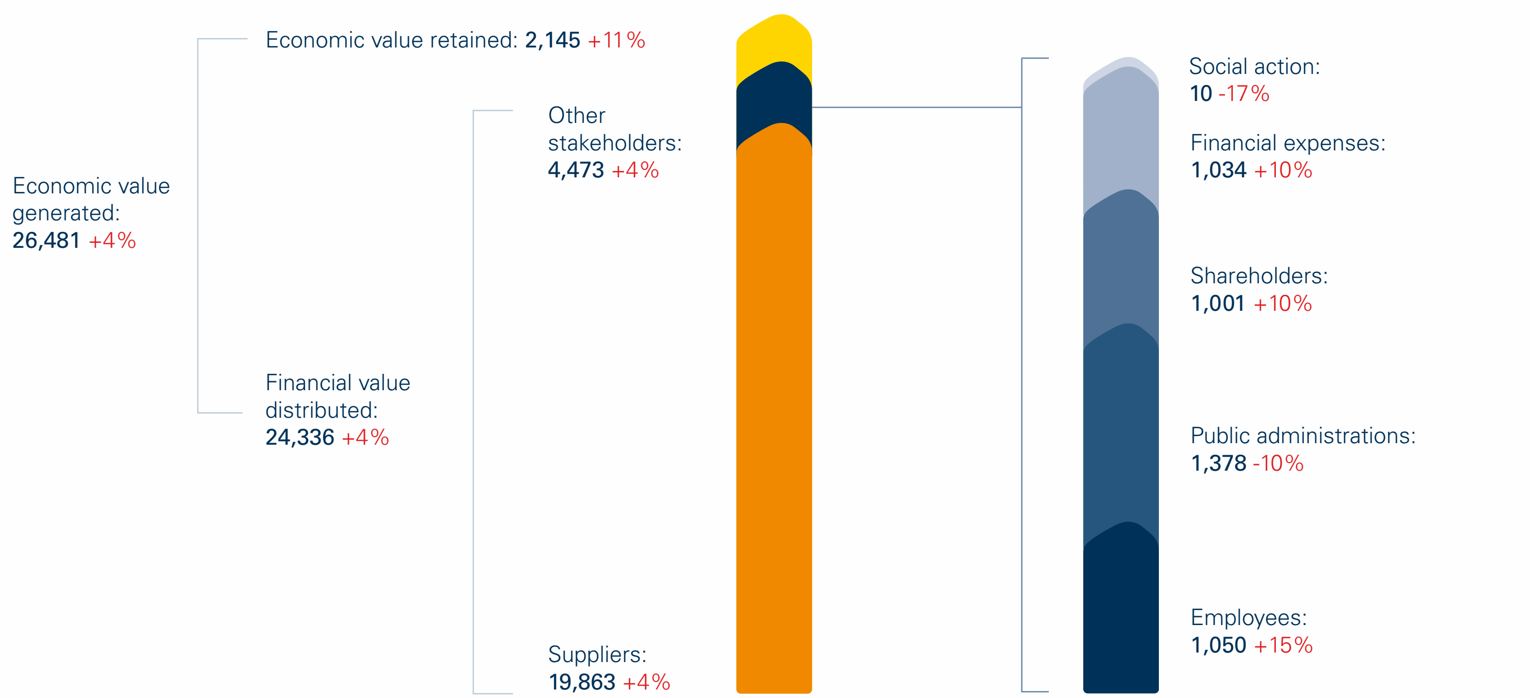
- Continuing to implement action plans deriving from the social impact assessments developed by the company.
- Continuing with energy access projects for low-income city areas.
- Extending the Cinergía initiative and bringing it closer to the brand values and all stakeholders, working on a social strategy focused to encourage the participation of young talent in the project.
- Passing the corporate volunteers standard.

Analysis of the 2015 results

Contributing towards the economic and social development of the countries in which it operates and providing access to energy

(No.)	2015	2014	2013
Financial value distributed	24,336	23,463	22,708

Financial value distributed. Breakdown by stakeholders (millions of euros)



Change against 2014

(millions of euros)	2015	2014	2013
Economic contributions	10	12	14

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.

Gas Natural Fenosa performs its activity in areas where the energy supply does not reach the entire population. The company considers it a priority to reach the people that live in these areas. 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 Argentina, the All-inclusive Gasification model continues to be rolled out to allow districts with scant resources access to the gas network. In 2015, the natural gas grid reached 50 properties through the construction of 1,350 m of new network. In global terms, since its inception more than 25,000 people (a figure that accounts for over half the population) have benefited from this programme and have achieved access to cleaner energy thus increasing the value of properties, thanks to the overall construction of 127,332 m of gas network.

In Colombia, the company continued to develop a range of social initiatives with the residents of non-standardised districts of the Caribbean zone to facilitate their access to safe electricity supply. Among other activities, the personalised management of these customers was kept in place, offering them mechanisms to split the payment of their bills, and we continued to develop programmes targeted at improving customer service.

In Chile, in the sphere of CGE, to help remote villages access basic services, we signed four agreements that will allow energy to be introduced to rural sectors of the Magallanes region.

Lastly, in Spain, in 2015 Gas Natural Fenosa signed agreements with different regional and local authorities to protect vulnerable customers and prevent cutting off customers that the municipal social services have reported as vulnerable. In these cases, the company provides operational solutions for payment of its bills through the mechanisms that the authorities use in cases of social emergency.

Social action

Gas Natural Fenosa believes that its community investment programmes have to focus on the geographical areas where it has a presence and must develop 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 in 2011. Under the motto "Energy to Grow", it implements three kinds of projects:

- Value for Suppliers programme: these are technical and business training projects for suppliers, self-employed workers and micro-companies involved with the gas and electricity sector, so that they can become integrated into the value chain. The programme is implemented in Argentina, Brazil, Colombia, Panama and Mexico.
- Responsible Use programme: raising awareness of customers and society, providing knowledge about energy in general; safety and efficient use, of both gas and electricity, and caring for the environment.
- Programmes for employee families: set of three programmes for children of company employees in Latin America.

Relationship with communities

Gas Natural Fenosa, under its Policy on Human Rights, makes a firm commitment to the respect of local communities. To achieve this commitment, the social impact that company activities may have on affected communities and contributing to improving the living conditions of these communities are key aspects.

Gas Natural Fenosa has a method based on the Measuring Impact methodology of the World Business Council for Sustainable Development (WBCSD) and the aim is to define initiatives and programmes for the effective management of social impacts associated with the company's business.

Patronage and sponsorship

To help develop society through the promotion of culture, art, science or other disciplines, Gas Natural Fenosa provides occasional financial support to specific sponsorship projects and donations.

Gas Natural Fenosa also maintained its commitment to collaborate with the world of film, music and theatre, by providing support to festivals, musical events and concerts.

By supporting the world of film, through sponsorship of the main festivals and cinemas, Gas Natural Fenosa collaborates with one of the industries most affected by the crisis, particularly in the case of festivals, which in recent years have suffered important cutbacks in the public aid they used to receive.

In this regard, in 2015 we launched the second edition of Cinergía, to bring energy saving closer through the cinema and to encourage talent in the Spanish film industry. Also, to promote young talent, we launched a script competition among film and audio-visual communication students to produce a short film which forms part of this second edition.

Corporate volunteers

Gas Natural Fenosa is firmly committed to encouraging corporate volunteer work within the company as part of a global focus. To this end, the company approved the General Corporate Volunteer Standard to make these kinds of actions uniform at any company of Gas Natural Fenosa.

In 2015 alone, there were more than 4,540 hours dedicated to volunteer work promoted by the company, and around 50 social and environmental volunteer activities have been carried out with the assistance of over 900 participants.

For further information about the Foundation, please see www.fundaciongasnaturalfenosa.org

CRR For further details on Social Commitment, please see the 2015 Corporate Responsibility Report.

Integrity

What resources are relevant for this undertaking?

- Financial.
- Human.
- Intellectual.
- Social.

How do we measure our performance?

- Correspondence received by the Code of Ethics Committee.
- Number of persons trained in the human rights policy.
- Fiscal contribution.

What does it mean for Gas Natural Fenosa?

Since the outset, the growth achieved by Gas Natural Fenosa has been based on ethical and honest principles.

These principles are the cornerstones of the company's Mission and Vision statement.

What is our commitment?

- To guarantee compliance with the Code of Ethics on every level and both internally and externally.
- To materialise and guarantee compliance with the Human Rights Policy.
- To act with fiscal responsibility in managing its businesses and to complying with its fiscal obligations.

What are our main milestones in 2015?

- Training and informative actions on the Code of Ethics, Anticorruption Policy and Crime Prevention Model targeted at the company's employees.
- Approving the Code of Ethics Committee regulations.
- Activities for extending the Code of Ethics to suppliers in Spain and abroad.

Analysis of the 2015 results

Guaranteeing compliance with the Code of Ethics on every level, both internally and externally

(No.)	2015	2014	2013
Correspondence received by the Code of Ethics Committee	135	89	79

The Code of Ethics, drawn up and approved by the Board of Directors, is Gas Natural Fenosa’s basic instrument for integral, responsible and transparent action.

Since 2005, when it was adopted, the code has been renewed regularly to adapt it to the new situations that affect the company. The code sets out the undertakings entered into by the company in the fields of good governance, corporate responsibility and questions of ethics and regulatory compliance.

Gas Natural Fenosa also has an Anticorruption Policy, as an extension of chapter 4.7. “Corruption and Bribery” of the Code of Ethics, which establishes the principles which must be used to guide the conduct of all employees and administrators of the companies of the group with regard to the prevention, detection, investigation and correction of any corrupt practice within the organisation.

Gas Natural Fenosa also has a Code of Ethics and Anticorruption Policy Management Model managed by the Department, whose targets are to ensure the knowledge, application and fulfilment of the code.

This Management Model includes the following: the Code of Ethics, the Code of Ethics Committee and the guarantee systems; and mechanisms to guarantee dissemination and compliance with the Code of Ethics. These mechanisms are: the complaints channel, through which employees and suppliers can make consultations or notify of breaches in the code, in good faith, confidentially and without repercussions; the annual statement procedure and the training course on aspects included in the code, which are compulsory for all employees.

The Code of Ethics Committee is responsible for ensuring that the code is disclosed and complied through the supervision and control of safeguarding systems. The company has set up local committees in Argentina, Brazil, Chile, Colombia, Italy, Mexico, Moldova and Panama.

Our growth has been based on the principles of ethics and honesty, fundamental pillars of the declaration of the company’s Mission and Values

Since 2011, Gas Natural Fenosa has had a Human Rights Policy approved by the Management Committee, which was drawn up following a consultation period with third sector organisations specialised in this field. With this policy, the company can offset and adequately manage the main risks that affect human rights detected in the company.

The policy is particularly applicable in locations in which local legislation does not provide a sufficient level of protection for human rights. In these cases, Gas Natural Fenosa undertakes to guarantee a level of protection equivalent to the other areas in which it carries on its business.

Fiscal and fiscal risk management policies

The fiscal policies of Gas Natural Fenosa are aligned with the Corporate Responsibility Policy of Gas Natural Fenosa, which sets out one of the commitments and operating principles as that of "acting responsibly in management of businesses and complying with fiscal obligations in all jurisdictions where the company operates, undertaking the commitment to transparency and collaboration with the corresponding tax authorities."

Materialising and guaranteeing compliance with the Human Rights Policy

(Nº)	2015	2014	2013
Persons trained in the Human Rights Policy	13,883	12,568	11,360

Human Rights Policy Principles

1	Avoiding any practices which are discriminatory or which might compromise people's dignity.
2	Eradicating the use of child labour.
3	Helping to ensure freedom of association and collective negotiation.
4	Protecting people's health.
5	Offering dignified employment.
6	Commitment towards people linked to suppliers, contractors and partner companies.
7	Supporting and publicly promoting respect for human rights.
8	Respecting for indigenous communities and traditional ways of life.
9	Protecting facilities and people on the basis of respect for human rights.
10	Helping to fight corruption.

Thus, since 2010 Gas Natural Fenosa has subscribed to the Code of Good Tax Practices drawn up by the Large Companies Forum together with the Spanish tax authorities. The aim of this initiative, which is promoted by the Spanish Government, is to promote transparency, good faith and cooperation with the National Tax Authority in corporate fiscal practice and in the legal security in the application and interpretation of tax laws.

In this regard, the company has expressly undertaken to:

- Avoid opaque structures for tax purposes.
- Collaborate with the Tax Authorities.
- Regularly report to the Board of Directors on the fiscal policies applied.
- Apply fiscal criteria in accordance with administrative doctrine and case law.

In order to assure that the tax practices of Gas Natural Fenosa are based on these principles, the group uses a General Good Tax Practices Procedure.

Gas Natural Fenosa also has a risk map in place in which fiscal risks and controversial questions concerning the interpretation or application of the fiscal legal framework are specifically identified. Information about the most important fiscal actions is set out in the "Fiscal Status" section of Note 21 of the Consolidated Annual Accounts.

The Board of Directors is informed of the fiscal consequences of important or particular operations when such consequences are relevant. The Board of Directors should be informed of the creation or acquisition of holdings in companies which are registered in countries or territories which are considered to be tax havens, through the Audit Committee.

Pursuant to Spanish laws which determine which countries are considered to be tax havens (Royal Decree 1080/1991 of 5 July and Royal Decree 116/2003 of 31 January), Gas Natural Fenosa has four shareholdings in companies incorporated in those territories:

- The holdings of 95.0% in Buenergía Gas & Power, Ltd. of 47.5% in Ecoeléctrica Holding, Ltd. and of 47.5% in Ecoeléctrica Limited, are all registered in the Cayman Islands. They are companies which directly or indirectly own a single industrial shareholding which carries out the electrical generation activity by gas combined-cycle plant in Puerto Rico (Ecoeléctrica, L.P.), which pay tax on their income in this country and which do not offer any kind of tax advantage for Gas Natural Fenosa.
- The 31.1% stake in Gasoducto del Pacífico (Cayman), Ltd. domiciled in the Cayman Islands. This is a company which do not engage in business activities and which was included in the group as a result of the acquisition of the CGE group, and as such do not offer any type of tax advantage to Gas Natural Fenosa.

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More detailed information on this issue can be found in section 3.3 of the Management Report.

Fiscal contribution

Gas Natural Fenosa is acutely aware of its responsibility towards the economic development of the countries in which it operates. The taxes it pays represent a significant part of the economic contribution in those countries in which it operates. Accordingly, it pays special attention to complying with its tax obligations in accordance with laws applicable in each territory.

Paying taxes is a question of significant economic importance and implies a high level of commitment towards compliance with formal obligations and cooperation with the tax authorities.

The total fiscal contribution of Gas Natural Fenosa in 2015 amounted to 3,636 million euros (3,741 million euros in 2014). The following table shows the breakdown of the tax actually paid by Gas Natural Fenosa by countries, broken down according to those which are an effective expense for the group (referred to as own taxes) and those which are retained or passed on to the final taxpayer (called third-party taxes).

(millions of euros)	2015	2014	2013
Spain	**2,627**	**2,759**	**2,746**
First-party taxes[1]	896	940	896
Third-party taxes[2]	1,731	1,819	1,850
Latin America	**726**	**663**	**556**
First-party taxes[1]	418	480	296
Third-party taxes[2]	308	183	260
Others	**283**	**319**	**248**
First-party taxes[1]	64	106	93
Third-party taxes[2]	219	213	155
Total	**3,636**	**3,741**	**3,550**

[1] Basically includes payments for corporate income tax, environmental taxes, local taxes and social security paid by the company.
[2] Basically includes Value Added Tax, special taxes, employee withholdings and social security paid by the employee.

Breakdown of taxes actually paid in the year 2015 by categories and countries

	First-party taxes			Third-party taxes				
Country	Profit tax[1]	Others[2]	Total	VAT	Taxes on hydrocarbons	Others[3]	Total	Total
Spain	347	549	**896**	1,169	362	200	**1,731**	**2,627**
Argentina	4	40	**44**	13	–	16	**29**	**73**
Brazil	51	44	**95**	56	–	18	**74**	**169**
Colombia	69	78	**147**	9	–	22	**31**	**178**
Chile	48	16	**64**	99	–	22	**121**	**185**
Mexico	33	4	**37**	32	–	12	**44**	**81**
Panama	8	11	**19**	-	–	4	**4**	**23**
Rest of Latin America	11	1	**12**	3	–	2	**5**	**17**
Italy	14	5	**19**	30	34	5	**69**	**88**
Others	10	35	**45**	112	32	6	**150**	**195**
Total	**595**	**783**	**1,378**	**1,523**	**428**	**307**	**2,258**	**3,636**

[1] Corporate income tax actually paid during the year. Does not include accrued amounts. Information regarding the reconciliation between the registered Corporate Income Tax and that which would arise from applying the nominal rate of the tax applicable in the country of the parent company (Spain) on the pre-tax result is indicated in Note 21 "Fiscal Status" of Consolidated Annual Accounts.
[2] Includes energy taxes which in Spain totalled 262 million euros in 2015 (257 million euros in 2014), local taxes, social security payable by the company and other specific taxes of each country.
[3] Basically includes withholdings on employees and Social Security for the employee's contribution.

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For more information, see the "Integrity" section on the 2015 Corporate Responsibility Report.

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For more information, see the "Fiscal Status" section of Note 21 of the Consolidated Annual Accounts.

Cuartel V

We care about development in the countries where we are present.

Through the Cuartel V project, we provide access to the gas network for low-income neighbourhoods, in collaboration with the Pro-Vivienda Social Foundation (FPVS).

The gas network has been extended to include more than 10 neighbourhoods in the Partido de Moreno district in Buenos Aires, and will continue to be expanded in coming years. The benefits they receive with respect to other customers are the distribution of bills by people who live in the neighbourhoods themselves and different treatment in the event of monies owed.

Done and said

Audit report, consolidated annual accounts and consolidated director's report of Gas Natural Fenosa

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For detailed information on this project, scan this QR code with your mobile device or visit the 2015 Annual Report microsite.

www.informesanuales.gasnaturalfenosa.com

Gas Natural SDG, S.A., and its subsidiaries

Audit Report independent,
Consolidated Annual Accounts at 31 December 2015 and
Director´s Report for 2015

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

INDEPENDENT AUDITOR´S REPORT ON CONSOLIDATED ANNUAL ACCOUNTS

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

Report on the Consolidated Annual Accounts

We have audited the accompanying consolidated annual accounts of Gas Natural SDG, S.A. and its subsidiaries, which comprise the consolidated balance sheet as at December 31, 2015, and the consolidated income statement, consolidated statement of comprehensive income, statement of changes in consolidated net equity, consolidated cash flow statement and related notes for the year then ended.

Directors' Responsibility for the Consolidated Annual Accounts

The parent company´s Directors are responsible for the preparation of these consolidated annual accounts, so that they present fairly the consolidated equity, financial position and financial performance of Gas Natural SDG, S.A. and its subsidiaries, in accordance with International Financial Reporting Standards, as adopted by the European Union, and other provisions of the financial reporting framework applicable to the Group in Spain and for such internal control as Directors determine is necessary to enable the preparation of consolidated annual accounts that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated annual accounts based on our audit. We conducted our audit in accordance with legislation governing the audit practice in Spain. This legislation requires that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated annual accounts are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated annual accounts. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated annual accounts, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the parent company´s Directors´ preparation of the consolidated annual accounts in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the presentation of the consolidated annual accounts taken as a whole.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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Opinion

In our opinion, the accompanying consolidated annual accounts present fairly, in all material respects, the consolidated equity and financial position of Gas Natural SDG, S.A. and its subsidiaries as at December 31, 2015, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards, as adopted by the European Union, and other provisions of the financial reporting framework applicable in Spain.

Report on Other Legal and Regulatory Requirements

The accompanying consolidated Directors' Report for 2015 contains the explanations which the parent company´s Directors consider appropriate regarding Gas Natural SDG, S.A. and its subsidiaries´ situation, the development of their 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 Directors' Report is in agreement with that of the consolidated annual accounts for 2015. Our work as auditors is limited to checking the Directors' Report in accordance with the scope mentioned in this paragraph and does not include a review of information other than that obtained from Gas Natural SDG, S.A. and its subsidiaries´ accounting records.

PricewaterhouseCoopers Auditores, S.L.

Iñaki Goiriena Basualdu

February 5, 2016

Consolidated Balance Sheet

(million euros)

	31/12/15	31/12/14
Assets		
Intangible assets *(Note 5)*	10,525	10,783
Goodwill	4,962	4,959
Other intangible assets	5,563	5,824
Property, plant and equipment *(Note 6)*	23,693	24,267
Investments recorded using the equity method *(Note 7)*	1,730	2,034
Non-current financial assets *(Note 8)*	1,387	1,289
Deferred income tax assets *(Note 21)*	1,070	1,134
Non-current assets	**38,405**	**39,507**
Non-current assets held for sale *(Note 9)*	955	–
Inventories *(Note 10)*	826	1,077
Trade and other receivables *(Note 11)*	5,191	5,701
Trade receivables	4,521	4,892
Other receivables	472	513
Current income tax assets	198	296
Other current financial assets *(Note 8)*	365	471
Cash and cash equivalents *(Note 12)*	2,390	3,572
Current assets	**9,727**	**10,821**
Total assets	**48,132**	**50,328**
Net equity and liabilities		
Share capital	1,001	1,001
Share premium	3,808	3,808
Reserves	9,077	8,466
Net income for the year attributed to the Equity holders of the Company	1,502	1,462
Interim dividend	(408)	(397)
Adjustments for changes in value	(613)	(199)
Available-for-sale financial assets	4	–
Hedging operations	(119)	1
Cumulative translation adjustments	(498)	(200)
Net equity attributable to the Equity holders of the Company	**14,367**	**14,141**
Non-controlling interests	**4,151**	**3,879**
Net equity (Note 13)	**18,518**	**18,020**
Deferred income *(Note 14)*	853	832
Non-current provisions *(Note 15)*	1,488	1,560
Non-current financial liabilities *(Note 16)*	15,653	17,740
Borrowings	15,599	17,660
Other financial liabilities	54	80
Deferred income tax liability *(Note 21)*	2,543	2,798
Other non-current liabilities *(Note 18)*	944	955
Non-current liabilities	**21,481**	**23,885**
Liabilities related to non-current assets held for sale *(Note 9)*	585	–
Current provisions *(Note 15)*	193	128
Current financial liabilities *(Note 16)*	2,595	2,804
Borrowings	2,446	2,609
Other financial liabilities	149	195
Trade and other payables *(Note 19)*	4,008	4,641
Trade payables	3,096	3,825
Other payables	777	756
Current income tax liabilities	135	60
Other current liabilities *(Note 20)*	752	850
Current liabilities	**8,133**	**8,423**
Total net equity and liabilities	**48,132**	**50,328**

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

Consolidated Income Statement

(million euros)

	2015	2014[1]
Sales *(Note 22)*	26,015	24,697
Procurements *(Note 23)*	(17,997)	(17,332)
Other operating income *(Note 24)*	257	250
Personnel cost *(Note 25)*	(973)	(828)
Other operating expenses *(Note 26)*	(2,360)	(2,289)
Depreciation, amortisation and impairment expenses *(Notes 5 and 6)*	(1,750)	(1,616)
Release of fixed assets grants to income and others *(Note 14)*	64	45
Other results *(Note 27)*	5	258
Operating income	**3,261**	**3,185**
Financial income	140	137
Finance expense	(1,032)	(920)
Variations in fair value of financial instruments	(1)	(2)
Net exchange gains/losses	(1)	(14)
Net financial income *(Note 28)*	**(894)**	**(799)**
Profit/(loss) of entities recorded by equity method *(Note 7)*	(4)	(474)
Income before taxes	**2,363**	**1,912**
Income tax expense *(Note 21)*	(573)	(256)
Net income for the year from continuing operations	**1,790**	**1,656**
Net income for the year from discontinued operations, net of taxes *(Note 9)*	34	2
Consolidated net income for the year	**1,824**	**1,658**
Attributable to:		
Equity holders of the Company:	1,502	1,462
From continuing operations	1,491	1,461
From discontinued operations	11	1
Non-controlling interests *(Note 13)*	322	196
Basic and diluted earnings per share in Euros from continuing operations attributable to the equity holders of the parent Company (Note 13)	1.56	1.46
Basic and diluted earnings per share in Euros attributable to the equity holders of the parent Company (Note 13)	1.57	1.46

[1] The 2014 consolidated income statement has been restated, reclassifying the liquefied petroleum gas (LPG) business to discontinued operations in accordance with IFRS 5 (Notes 3.3 and 9).

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

Consolidated Statement of Comprehensive Income

(million euros)	2015	2014
Consolidated net income for the year	**1,824**	**1,658**
Other comprehensive income recognised directly in net equity	**(410)**	**159**
Items that will not be transferred to profit/(loss):		
Actuarial gains and losses and other adjustments *(Note 15)*	7	(10)
Tax effect *(Note 21)*	(2)	3
Items that will subsequently be transferred to profit/(loss)		
Valuation of available-for-sale financial assets	5	–
Tax effect valuation of available-for-sale financial assets *(Note 21)*	(1)	–
Cash flow hedges	(120)	(4)
Tax effect cash flow hedges *(Note 21)*	28	(5)
Currency translation differences	(358)	128
Equity-consolidated companies	31	47
Cash flow hedges	(8)	1
Tax effect cash flow hedges *(Note 21)*	1	–
Currency translation differences	38	46
Releases to income statement	**(26)**	**6**
Valuation of available-for-sale financial assets	–	–
Cash flow hedges	(46)	5
Tax effect cash flow hedges *(Note 21)*	12	–
Currency translation differences	–	(1)
Equity-consolidated companies	8	2
Cash flow hedges	10	2
Tax effect cash flow hedges	(2)	–
Currency translation differences	–	–
Other comprehensive income for the year	**(436)**	**165**
Total comprehensive income for the year	**1,388**	**1,823**
Attributable to		
Equity holders of the Company	1,093	1,600
Non-controlling interests	295	223

Notes 1 to 37 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 changes in value	Subtotal	Non-controlling interests	**Net equity**
Balance at 01/01/14	**1,001**	**11,346**	**1,445**	**(348)**	**13,444**	**1,523**	**14,967**
Total comprehensive income for the year	-	(11)	1,462	149	**1,600**	223	**1,823**
Dividends distribution *(Note 13)*	-	544	(1,445)	-	**(901)**	(234)	**(1,135)**
Business combinations *(Note 30)*	-	-	-	-	-	1,385	**1,385**
Other variations *(Note 13)*	-	(2)	-	-	**(2)**	982	**980**
Balance at 31/12/14	**1,001**	**11,877**	**1,462**	**(199)**	**14,141**	**3,879**	**18,020**
Total comprehensive income for the year	-	5	1,502	(414)	**1,093**	295	**1,388**
Dividends distribution *(Note 13)*	-	542	(1,462)	-	**(920)**	(188)	**(1,108)**
Business combinations *(Note 30)*	-	-	-	-	-	5	**5**
Other variations *(Note 13)*	-	53	-	-	**53**	160	**213**
Balance at 31/12/15	**1,001**	**12,477**	**1,502**	**(613)**	**14,367**	**4,151**	**18,518**

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

Consolidated Cash Flow Statement

(million euros)

	2015	2014
Income before tax	2,363	1,912
Adjustments to net income:	2,599	2,526
Depreciation, amortisation and impairment expenses *(Note 5, 6 and 9)*	1,791	1,619
Other adjustments to net income *(Note 29)*	808	907
Changes in working capital *(Note 29)*	(75)	(229)
Other cash flow generated from operations *(Note 29)*	(1,387)	(1,401)
Interest paid	(898)	(784)
Interest collected	24	43
Dividends collected	82	55
Income tax paid	(595)	(715)
Cash flow generated from operating activities[1]	**3,500**	**2,808**
Cash flows into investing activities	(2,065)	(4,208)
Group companies, associates and business units *(Note 30)*	(99)	(2,428)
Property, plant and equipment and intangible assets	(1,894)	(1,353)
Other financial assets	(72)	(427)
Proceeds from divestitures:	436	1,076
Group companies, associates and business units *(Note 27)*	97	506
Property, plant and equipment and intangible assets	1	16
Other financial assets	338	554
Other cash flows from investing activities:	69	66
Other proceeds/(payments) from/(of) investing activities *(Note 14)*	69	66
Cash flow received from investing activities[1]	**(1,560)**	**(3,066)**
Receipts/(payments) for equity instruments	270	993
Issue *(Note 13)*	986	993
Acquisition *(Note 13)*	(716)	–
Cash flows from financing activities:	(2,100)	(105)
Issue *(Note 16)*	5,943	5,672
Repayment and amortisation *(Note 16)*	(8,043)	(5,777)
Dividends paid and remuneration of other equity instruments *(Note 13)*	(1,070)	(1,125)
Other cash flows from financing activities	(123)	(85)
Cash flow received from financing activities[1]	**(3,023)**	**(322)**
Effect of exchange rates on cash and cash equivalents	(99)	(20)
Variation in cash and cash equivalents	**(1,182)**	**(600)**
Cash and cash equivalents at beginning of the year *(Note 12)*	3,572	4,172
Cash and cash equivalents at year end *(Note 12)*	2,390	3,572

[1] Includes cash flows from continuing and discontinued operations (Note 9).

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

Notes to the consolidated annual accounts of Gas Natural Fenosa for 2015

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 supply, liquefaction, re-gasification, transport, storage, distribution and commercialisation of natural gas, as well as the generation, transport, distribution and commercialisation of electricity.

The acquisition of the Chilean group Compañía General de Electricidad, S.A. (CGE) in 2014 (Notes 3.4.1 and 30) represents a significant step forward in Gas Natural Fenosa's international expansion.

Gas Natural Fenosa operates mainly in Spain and also outside of Spain, especially in Latin America, in the rest of Europe and Africa.

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

Appendix I lists the investee companies of Gas Natural Fenosa.

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.

Note 2. Regulatory framework

2.1. Regulation of the natural gas industry in Spain

Main characteristics of the natural gas industry in Spain

The Spanish gas sector is regulated by Law 34/1998, October 7, on the hydrocarbons sector, as amended by Law 12/2007, July 2, Royal Decree-law 13/2012 and Law 18/2015, May 21, as well as Law 18/2014, and by its enabling regulations, the most relevant being Royal Decree 1434/2002, December 27, Royal Decree 949/2001, August 3 and Royal Decree 984/2015, 30 October.

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

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

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

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

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

- Under 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 right 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, storage, re-gasification and natural gas distribution; and 2) non-regulated activities: production, supply and commercialisation of natural gas.

2.1.1. Regulated activities

Regulated activities are characterised by:

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

- Remuneration established by legislation: The general directives that set the remuneration for these activities are governed by Law 18/24 and 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.

- Submission to specific obligation of third party access to the network and unbundling: 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 948/2015, October 30, regulates access by third parties to the network, which is managed by a single telematic platform, as well as the rights and obligations of each person involved in the system, changing the procurement regime capacity established in 2001 by Royal Decree 949/2001. The owners of the transport and distribution pipelines have the right to receive tolls and levies in consideration for this access, which are revised annually under ministerial order.

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

2.1.1.1. Transport

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

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

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

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

- Storage: facilities consist basically of underground tanks, which are necessary to ensure a constant supply of natural gas unaffected by seasonal changes and other demand peaks. These facilities also serve to fulfil the obligation established by Royal Decree 1766/2007 (28 December) to maintain minimum security reserves. Prevailing legislation allows unregulated underground storage facilities with third-party access, negotiated and previously authorised by the Spanish Government, although there are currently no such facilities.

  On October 4, 2014, Royal Decree-Law 13/2014, October 3, was published, on urgent measures relating to the gas system and ownership of nuclear plants. With respect to the gas sector, this Royal Decree-Law is intended to resolve the technical situation affecting the Castor natural gas storage facility and to resolve the waiver of the concession submitted by the holder (Escal UGS, S.L.). Specifically, the facility was put into hibernation and the concession to operate the storage facility was terminated. Facility administration and maintenance was assigned to Enagás, S.A., the related costs being remunerated by the gas system. Finally, the amount of Euros 1,351 million was recognised to be payable to Escal UGS, S.L., based on the value of the investment. This sum will be paid by Enagás, S.A. in exchange for a debt claim against the gas system over the coming 30 years that may be assigned to third parties.

2.1.1.2. Distribution

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

The distribution business is based on a system of administrative authorisations that carry no exclusive use rights. A zone distributor has preference to obtain authorisations for adjoining zones.

A distributor's activity is restricted to the expansion and management of distribution networks; it cannot market power because specifically authorised supply companies are entrusted with last-resort supplies, as mentioned in point 2.1.2.2.

Law 18/2014 (17 October) established certain principles and regulations designed mainly to guarantee the gas system's economic and financial sustainability:

- The principle of the gas system's economic and financial sustainability is established, whereby any regulation relating to the sector that entails an increase in costs for the gas system or a reduction in revenue must also bring an equivalent reduction in other cost items or an equivalent increase in revenue to ensure a balance in the system.

- The principle of economic and financial sustainability means that the revenue generated from the use of the facilities must meet all system costs. Gas system revenue will be employed solely to remunerate the regulated activities performed to supply gas.

- Annual mismatches between system costs and revenue are limited and may not exceed 10% of revenue payable for the period; the sum of the annual mismatch and recognised outstanding yearly payments may not exceed 15%. If this sum is exceeded, tolls will be automatically revised. The portion of the mismatch which, without exceeding the limits, is not offset by the rise in tolls and charges, will be financed by the parties subject to the settlement system, in proportion to the remuneration applicable to them; they will be entitled to collect mismatch contributions over the following five years and an interest rate will be applied on market terms.

- The remuneration methodologies regulated in the natural gas sector will take into consideration the costs necessary for the activity to be performed by an efficient, well-managed company under the principle whereby the activity must be performed at the lowest possible cost to the system.

- Six-year regulatory periods have been established for the remuneration of regulated activities, allowing for possible adjustments every three years to the system's remuneration parameters (including unit reference values for customers and sales, operating and maintenance costs, etc.) in the event of significant changes to revenue and cost items. The first regulatory period will end on 31 December 2020.

- The remuneration system for transmission, regasification and storage facilities is based on consistent principles: use of the asset's net value as a basis for calculating investment remuneration, inclusion of variable remuneration based on gas transported, regasified or stored by asset type, and elimination of all automatic review procedures for values and parameters based on price indices.

- With respect to new secondary transmission facilities, remuneration is included in the remuneration methodology for distribution facilities, linking remuneration to growth in customers and to new demand generated.

- Having regard to distribution facilities, remuneration is maintained for each distribution company and all its facilities based on the number of customers connected and the volume of gas supplied. Automatic reviews are eliminated, and the parametric remuneration formula is stablished to distinguish, in the remuneration category for supplies at pressures equal to or below 4 bars, between consumers with an annual consumption of less than 50 MWh and consumers with a higher consumption, so as to guarantee the adequacy of system revenue at all consumption levels, taking into account toll revenue in each case.

- In order to incentivise network expansion to non-gasified zones and bring remuneration into line with actual costs incurred by companies, different unit values are used depending on whether or not customers and consumption are in recently-gasified municipalities.

- As regards the gas system's accumulated deficit at 31 December 2014, it is being recognised. This deficit will be financed by facility owners over a 15-year period; annual payments will be included as a system cost and an interest rate will be recognised on similar terms to market rates.

- The departure relating to remuneration for natural gas under the Algeria contract, supplied through the Maghreb pipeline, and assigned to the tariff market, as a result of the Award issued by the Paris International Court of Arbitration on 9 August 2010, has been recognised in as a system cost. The amount of Euros 164 million will be paid as from 2015 over five years, applying a market interest rate.

Order IET/2445/2014, December 19, established the remuneration for regulated gas sector activities for 2015.

Order IET/2736/2015, December 17, established the remuneration for regulated gas sector activities for 2016. Additionally, this Order updated the tolls and levies for third-party access to gas facilities.

2.1.2. Unregulated activities

2.1.2.1. Supplies

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) no business person or group can contribute as a whole natural gas for consumption in Spain that is greater than 70% of national consumption, excluding self-consumption.

2.1.2.2. Commercialization

Pursuant to 12/2007 Law and its enabling regulations, natural gas is supplied exclusively by supply companies, the former tariff supply operations previously performed by distribution companies having been eliminated. The Law recognises that consumers connected at less than 4 bars who do not exceed a certain consumption threshold (50 MWh/year) are entitled to be supplied at a maximum price referred to as the social tariff or last-resort tariff (TUR).

The TUR calculation includes raw material costs, access tolls, supply costs and supply security costs.

The Ministry of Industry, Energy and Tourism issued Order ITC/1506/2010 (8 June), whereby the last-resort tariff for natural gas will be established in a ruling from the Directorate General for Energy Policy and Mines. The fixed and variable terms of the tariffs will be reviewed when there is a modification 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%.

As regards energy efficiency, Royal Decree-Law 18/2014, stipulates the following:

- The national energy efficiency obligations system is created, whereby gas and electricity supply companies, oil product wholesalers and liquefied petroleum gas wholesalers will be allocated an annual energy-saving quota (saving obligations). Aggregate saving obligations will be equal to the target allocated to Spain in Directive 2012/27/EU.

- The National Energy Efficiency Fund allow the implementation of economic and financial support mechanisms, technical assistance, training and information, or other measures to enhance energy efficiency in different sectors, which are necessary to achieve the Energy Efficiency Directive's objectives.

- The financial equivalence of the saving obligations will be determined based on the average cost of the support mechanisms, incentives and measures required to mobilise the investments necessary to fulfil the annual saving target, through actions by the National Fund, based on the findings of the technical analysis by the Institute for Energy Diversification and Saving.

- The Government is also authorised to establish and develop a final energy savings accreditation system, by issuing Energy Saving Certificates (ESC). Once launched, this will allow companies to progressively fulfil their saving obligations by directly promoting energy efficiency enhancement actions that fulfil the necessary guarantees.

An annual ministerial order stipulates each liable party's obligations to make contributions to the National Energy Efficiency Fund. Order IET/289/2015 established obligations in 2015.

On 22 May, Law 8/2015, 21 May 21, was published, amending Law 34/1998, October 7, on the Hydrocarbons Sector and regulating certain tax and non-tax measures relating to hydrocarbons exploration, investigation and exploitation. This law creates an organised wholesale market and designates the organised gas market operator; the aim is to integrate, into the organised gas market, activities carried on throughout the Iberian Peninsula, in both Spain and Portugal.

On 31 October 2015, Royal Decree 984/2015, October 30, was published, regulating the organised gas market and third-party access to natural gas system facilities; on 9 December 2015, the Ruling of 4 December 2015 from the Secretary of State for Energy was published, approving market rules, the standard-form contract and the organised gas market rulings. The organised gas market became operational in December 2015, managed by MIBGAS.

In 2015 the social tariff (TUR) decreased each quarter due to the fall in commodity costs:

- On 30 December 2014, the DGPEM Ruling of 26 December 2014 was published, entailing an average 3.3% cut in the TUR applicable as from 1 January 2015.

- On 31 March 2015, the DGPEM Ruling of 27 March 2015 was published, entailing an average 2.4% cut in the TUR applicable as from 1 April 2015.

- On 1 July 2015, the DGPEM Ruling of 26 June 2015 was published, entailing an average 3% cut in the TUR applicable as from 1 July 2015.

- On 30 September 2015, the DGPEM Ruling of 25 September 2015 was published, entailing an average 1.1% cut in the TUR applicable as from 1 October 2015.

- On 30 December 2015, the DGPEM Ruling of 23 December 2015 was published, entailing an average 3.4% cut in the TUR applicable as from 1 January 2016.

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

In Brazil, the Sao Paulo state regulator is expected to approve new tariffs during 2016.

In Colombia, the new distribution and supply tariffs are due to be published in the first semester of 2016.

In Mexico, new tariffs are expected to be approved for all zones during 2016, when the current tariff review is completed.

In Argentina, as a result of the 2001 economic crisis, there was a freezing and pesofication of rates, partly offset by upward adjustments to compensation for the price increase due to inflation. At the end of 2012, Argentina's Administration approved the inclusion in the tariff, for all customers, of a new fixed charge to be used (FOCEGAS), through a trust arrangement, for new investments in networks and for the operation and maintenance of existing networks. This additional fixed charge was maintained in 2013, 2014 and 2015 and is expected to remain applicable in 2016. In 2016 new tariffs are expected to be published and applicable in 2016; a comprehensive tariff review process is expected to begin and to become effective in 2017.

In Chile, natural gas distribution regulations are limited to technical aspects. Tariffs are freely established by the distributor, which is also the supply company. The Law provides for the possibility of establishing mandatory tariffs for low-consumption customers should the Competition Court demonstrate that there is a monopoly situation. This has not been the case to date. Work is under way on a bill of law that will amend the gas services law. The bill, currently under review by the Senate, will maintain the spirit of the current law while resolving regulatory grey areas.

2.3. Regulation of the natural gas industry in Italy

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

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

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

By Delibera number 573 of December 2013, the Italian Regulator has published the rates for the period 2014-2019. There are no fundamental changes in the methodology.

2.4. Regulation of the Electricity sector in Spain

Main characteristics of the electricity sector in Spain

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

The Ministry of Industry, Energy and Tourism is the body responsible for regulating the gas and electricity sectors, while the CNMC is the regulatory authority that is entrusted with the task of maintaining and ensuring effective competition and transparent functioning of Spanish energy sectors. The relevant Ministries of the Regional Governments have competencies in legislative, enforcement and legislation. The Nuclear Safety Council exercised specific competencies over the facilities using this technology.

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

Generally, the electricity sector has the following main features:

- It is an industry in which regulated and de-regulated activities coexist. The regulated activities consist of transport and electricity distribution (as well as system and market operation). The non-regulated activities comprise generation and retailing of electricity.

Following the directives of EU legislation (Directives 2009/72/CE), all Spanish consumers can freely choose their electricity provider. A system of regulated tariff applies to consumers with contracted capacity of less than 10 kW. This regulated tariff has been referred to as the Small Consumer Voluntary Price (PVPC), and it also exists the last-resort tariff (TUR) having become the regulated price applicable to consumers classed as vulnerable and to consumers that do not meet requirements to apply the PVPC but are temporarily without a supply company in the free market. The social tariff (TUR) for vulnerable consumers is funded by the social bond, financed by companies engaged in electricity generation, distribution and supply activities.

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

- The Iberian Electricity Market (MIBEL) has operated effectively between Spain and Portugal since 1 July 2007, the electricity systems of both countries having been integrated (although integration is still not perfect).

- During the period 2000-2013 the electricity system was not self-sufficient, generating an annual deficit that has been financed by the conventional electricity companies, among them Gas Natural Fenosa.

- With the aim of eliminating the sector deficit, a number of provisions introduced in recent years have brought in important measures and adjustments to electricity sector activities to correct departures caused by mismatches between costs and revenue, culminating in the regulatory package known as the July 2013 electricity reform and the approval in December 2013 of Electricity Sector Law 24/2014, which established the basic principle of the sector’s economic and financial sustainability.

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

- With respect to the principle of the system's economic and financial sustainability:

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

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

    - Small consumer voluntary prices (PVPC) are regulated and will be applicable throughout Spain. In line with the prices previously referred to as last-resort tariffs, these prices are defined as the maximum prices that the reference supply companies may collect from consumers that avail themselves of the prices. The last-resort tariff (TUR) has become the regulated price applicable to consumers classed as vulnerable and to consumers that do not meet requirements to apply the voluntary price for small consumers but are temporarily without a supply company in the free market.

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

- For 2013, a revenue deficit in electricity system settlements is recognised in a maximum amount of Euros 3.6 Billion, which will give rise to debt claims consisting of the right to receive a part of the monthly billings for 15 successive years as from 1 January 2014, until the debts are settled.

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

> Electricity generation:

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

- Hydraulic resources necessary for electricity generation are regulated, as is the daily market supply system, one special provision being that all production units must offer to supply electricity to the market, including those operating under the former special regime.

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

> System's economic and technical management:

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

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

> Electricity transmission:

- A specific requirement is provided whereby remuneration for new facilities must be included in the planning phase.

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

> Electricity distribution:

- A definition of distribution facilities is provided.

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

> Regime for inspections, infringements and penalties:

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

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

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.

2.4.1. Regulated activities

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

- Need for prior government authorisation: The undertaking of regulated activities requires prior regulated administrative authorisation. In order to obtain this authorisation, the applicant must basically demonstrate its legal, technical and economic capacity to exercise this activity. The abovementioned authorisation grants a legal monopoly in a given territory, which does not imply an exclusive right of use because of the third-party network access obligation.

- Remuneration established by legislation: Royal Decree 1047/2013, December 27, and Royal Decree 1048/2013, December 27, brought in remuneration methods applicable to the transmission and distribution activities, so as to ensure adequate remuneration and network development. Nonetheless, these methodologies will not be applicable until the Ministerial Orders stipulating unit values for investment, operation and maintenance costs have been published. The remuneration to be received is updated annually by ministerial order. The remuneration recognises the investment, operating and maintenance costs of distribution facilities and includes efficiency factors based on network loss reduction, fraud detection and service quality. The financial yield on assets is equal to the yield on government bonds plus a spread of 200 basis points.

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

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

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

2.4.1.1. Transport

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

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

The current remuneration framework is determined by Electricity Sector Law 24/2013 and Royal Decree 1047/2013 (27 December), providing the new methodology for calculating electricity transmission remuneration.

2.4.1.2. Distribution

The distribution of electricity includes all activities that bring electricity from the high tension grid to the final consumer.

The current remuneration framework is determined by Electricity Sector Law 24/2013 and Royal Decree 1048/2013 (27 December), providing the methodology for calculating electricity distribution remuneration.

On 18 December 2015, Order IET/2735/2015 (17 December) was published, stipulating electricity access tolls for 2016 and approving certain standard facilities and remuneration parameters for facilities generating electricity from renewable sources, cogeneration and waste.

2.4.2. Unregulated activities

2.4.2.1. Electricity generation

The new Electricity Sector Law 24/2013 (26 December) stipulates that electricity production must be carried on under a free competition regime, in the organised market, including both conventional generation and renewable energy facilities, which must market electricity on the same terms as the conventional plants; the main advantages maintained by renewable energy facilities are a specific remuneration scheme and dispatching priority, on equal economic terms.

The remuneration of the generation activity is based on electricity market prices of electric production. 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 physical agreements, and forward contracts.

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 September 27 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.

In 2013, Law 15/2012, of December 27 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.

- A new royalty is applied to public domain assets for the use or exploitation of continental waters for hydroelectric power generation, amounting to 22% of the economic value of hydro-electricity generated; related enabling regulations are included in Royal Decree 198/2015, which develops Article 112.ii) of the revised Water Act and regulates the royalty for the use of continental waters to produce electricity in interregional hydrographic basins.

Revenues from these taxes come to cover the regulated costs in the electricity system.

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

On November 1, Order IET/2013/2013 was published, regulating the competitive allocation mechanism for the interruptibility demand management service. It establishes an auction procedure for the allocation of this service, which will be managed by the System Operator and supervised by the CNMC. Subsequently, this Order was amended by Order IET/346/2014.

The specific remuneration regime for generation using renewable energies, co-generation and waste was established by Royal Decree 413/2014 of June 6, the main aspects being:

- Facilities will be classed as standard types (based on technology, capacity, age, etc.), each facility obtaining specific remuneration in accordance with the parameters applicable to each standard type facility.

- During their regulated useful life, facilities will receive the market price and specific remuneration. The specific remuneration will be sufficient for each standard type facility to obtain an adequate return. This return, before tax, will be similar to the average yield in the secondary market on 10-year government bonds, applying an adequate spread (300 basis points for existing facilities).

- Market prices will generally be applied to future facilities. In exceptional cases, where there is an obligation to fulfil objectives or other exceptional circumstances, a competitive mechanism will be established.

On 20 June 2014, Order IET/1045/2014, June 16, was published, approving remuneration parameters for facilities, rates applicable to certain facilities generating electricity from renewable sources, cogeneration and waste.

On 16 March 2015, the Constitutional Court judgement of 16 February 2015 was published, annulling certain articles of Extremadura Assembly Law 7/1997 (29 May) on tax measures applicable to power production and transmission affecting the environment, as they covered the same tax areas as the local tax on economic activities and did not have an environmental purpose.

On 11 July 2015, Royal Decree-Law 9/2015 was published, including three measures relating to the electricity sector: reduction in unit prices paid by consumers to fund capacity payments; amendment of the Electricity Sector Law to allow reductions in tolls, charges and other costs to be applied to self-consumption of less than 10 kW; and other exceptional social measures favouring coal businesses in non-competitive mining.

On 1 August 2015, Royal Decree 738/2015 was published, regulating electricity production and the dispatching procedure in non-peninsular electricity systems.

On 22 September 2015, Law 34/2015 (21 September) was published, partially amending General Tax Act 58/2003, Final Provision Seven of which envisages the creation of a state tax on the provision of emergency response services by the Civil Guard inside nuclear power plants or other nuclear facilities.

On 10 October 2015, Royal Decree 900/2015 (9 October) was published, regulating administrative, technical and economic conditions for self-consumption and production with self-consumption electricity supplies.

2.4.2.2. Commercialisation of electricity

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

As mentioned above, as from 1 July 2009 consumers purchasing more than 10 Kw must be supplied by a free market retailer, while those consuming power equal to or lower than 10 Kw have the option to continue buying electricity under the regulated price (last-resort tariff). As from the new Law 24/2013, this regulated tariff is referred to as the Small Consumer Voluntary Price (PVPC), the last-resort tariff (TUR) being the regulated price applicable to consumers classed as vulnerable and to consumers that do not meet requirements to apply the PVPC but are temporarily without a supply company in the free market.

The criteria for establishing the last-resort supply tariff have been regulated by means of successive provisions of law. Legislation stipulates that the PVPC must include all supply costs on an additive basis, including power generation costs, access tolls and supply costs.

On 29 March 2014, Royal Decree 216/2014, March 28, was published, providing the methodology for calculating small consumer voluntary prices (PVPC) and the related legal regime for contracting. It determines the structure of small consumer voluntary prices, which will apply to low-voltage consumers with a contracted capacity of up to 10 kW. The Royal Decree also stipulates the procedure for calculating the cost of power generation, which will include the small consumer voluntary price.

The cost of power generation will be calculated based on the daily market hourly price during the billing period. Billing will be performed by the reference supply company based on actual readings and taking into consideration consumption profiles, except for supplies using metering equipment capable of telemetering and telemanagement, effectively integrated into the relevant systems, in which billing will be effected using hourly consumption values.

Alternatively, a consumer may contract a fixed power price for one year with the reference supply company.

2.5. Regulation of the international electricity sector

2.5.1. Generation

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

In Costa Rica, Kenya and Puerto Rico, the Group's generation operations are subject to the regime for Power Purchase Agreement (PPA) with the sector's domestic companies, Costa Rica Electricity Institute (ICE), Kenya Power and Lighting Company (KPLC) and Puerto Rico Electric Power Authority (PREPA), respectively; all three public corporations vertically integrated and exclusively responsible for transport, distribution and commercialisation.

In Mexico, the PPA regime also covers generation, electricity being sold to the Federal Electricity Commission (CFE). Additionally, the Bii Hioxo wind farm became operational during 2014, selling the power generated under bilateral contracts to final customers.

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

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

2.5.2. Distribution

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

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

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

The electricity distribution tariff revision is under way in Colombia and new tariffs are expected to be approved towards the end of 2016.

The electricity distribution and transport activity in Chile is regulated based on a known and stable framework, subject to the General Law on Electricity Services (Decree-Law No. 4-2006 from the Ministry of Economy, Public Works and Tourism). The law provides a regulatory framework including objective pricing criteria so that electricity sector resources are allocated in an economically efficient manner. Tariffs are updated annually to reflect fluctuations in cost indices and are revised every four years.

The electricity distribution tariff revision also began in Chile at the start of 2016. The new tariffs could come into force by the end of 2016.

Note 3. Basis of presentation and accounting policies

3.1. Basis of presentation

The Consolidated annual accounts of Gas Natural Fenosa for 2014 were adopted by the General Meeting of Shareholders of 14 May 2015.

The Consolidated annual accounts for 2015, which were formulated by the Gas Natural SDG, S.A. Board of Directors on 29 January 2016, will be submitted, along with those of the investee companies, to the approval of the respective General Meetings. It is expected that they will be adopted without modification.

The Consolidated annual accounts of Gas Natural Fenosa for 2015 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 2015, 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 2015 the following changes in the standards were applied:

- IFRIC 21, “Levies”;
- Annual improvements to IFRS, Cycle 2011-2013;

The application of the above standards and amendments did not have a significant impact on the consolidated annual accounts.

Additionally, in 2015 the European Union adopted the following standards, interpretations and amendments which come into force for periods commencing on or after 1 January 2016, which have not been adopted early:

- Annual improvements to IFRS, Cycle 2010-2012;
- IAS 19 (Amendment), “Defined benefit plans: employee contributions".
- IFRS 11 (Amendment), “Accounting for acquisitions of interests in joint operations”;
- IAS 16 and IAS 38 (Amendment), “Clarification of acceptable methods of depreciation and amortisation”;
- Annual improvements to IFRS, Cycle 2012-2014;
- IAS 1 (Amendment), “Disclosure initiative”;
- IAS 27 (Amendment), “Equity method in separate financial statements”.

Additionally, the following standards and amendments in effect for financial years commencing on or after 1 January 2016 have yet to be adopted by the European Union:

- IFRS 14, “Regulatory deferral accounts”;
- IFRS 10, IFRS 12 and IAS 28 (Amendment), “Investment entities: exception to consolidation”.

Following the analysis of these new accounting standards and interpretations applicable in financial years commencing on or after 1 January 2016, Gas Natural Fenosa does not expect their application to have significant effects on the consolidated annual accounts.

Finally, the IASB has issued the following standards and amendments that will come into force on 1 January 2017, 2018 or 2019 and are pending adoption by the European Union:

- IFRS 15, “Revenue from contracts with customers”;
- IFRS 19 "Financial instruments";
- IFRS 16, “Leases”;
- IAS 12 (Amendment), “Recognition of deferred tax assets for unrealised losses”.

Gas Natural Fenosa is assessing the impact of the application of these standards on the Consolidated Annual Accounts.

3.3. Comparability

As detailed in Note 9, on 18 December 2015 Gas Natural Fenosa, that owns a controlling interest through CGE of 56.62% in the Chilean company Gasco, S.A., entered into an agreement with a group of shareholders with an interest of 21.9% in Gasco, S.A., named "Familia Perez Curz", to split that company into two companies. One of the companies will be devoted to the natural gas business, which will remain under the control of Gas Natural Fenosa, and the other to the liquefied petroleum gas business, which will be transferred to the Perez Cruz Family.

Since Gas Natural Fenosa is committed to selling those assets that are clearly identified, the process is under way and the operation is expected to be completed in 2016, the sale is considered to be highly probable and therefore on 31 December 2015 the net assets of this business have been classified as non-current assets and liabilities held for sale under IFRS 5 "Non-current Assets Held for Sale and Discontinued Operations".

Additionally, the transaction has been considered to involve a discontinued operation as there is a component classified as held for sale which represents a separate major line of business.

As a result of the application of IFRS 5, the profit and loss account on discontinued operations is presented in the income statement in a separate line. The previous year's comparative information is presented in the same way.

Set out below are the details of the impacts deriving from the restatement of the consolidated income statement for 2014:

Consolidated income statement for 2014

(million euros)

	2014	Application IFRS 5[1]	2014 restated
Sales	24,742	(45)	24,697
Procurements	(17,368)	36	(17,332)
Other operating income	255	(5)	250
Personnel cost	(832)	4	(828)
Other operating expenses	(2,291)	2	(2,289)
Depreciation, amortisation and impairment expenses	(1,619)	3	(1,616)
Release of fixed assets grants to income and others	45	–	45
Other results	258	–	258
Operating income	**3,190**	**(5)**	**3,185**
Net financial income	**(801)**	**2**	**(799)**
Profit/(loss) of entities recorded by equity method	(474)	–	(474)
Income before taxes	**1,915**	**(3)**	**1,912**
Income tax expense	(257)	1	(256)
Net income for the year from continuing operations	**1,658**	**(2)**	**1,656**
Profit/(loss) for year from discontinued operations net of taxes	–	2	2
Consolidated net income for the year	**1,658**	–	**1,658**
Attributable to:			
Equity holders of the Company	1,462	–	1,462
Non-controlling interests	196	–	196
	1,658	–	1,658
Basic and diluted earnings per share in Euros from continuing activities attributable to the equity holders of the parent Company	**1.46**	–	**1.46**
Basic and diluted earnings per share in Euros attributable to the equity holders of the parent Company	**1.46**	––	**1.46**

[1] Relates to the period 1 December 2014 (acquisition date of CGE) to 31 December 2014.

3.4. Accounting policies

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

3.4.1. Consolidation

a) Subsidiaries

Subsidiaries are companies controlled by Gas Natural Fenosa. Gas Natural Fenosa controls an entity when, as a result of its involvement, it is exposed or entitled to variable returns and has the capacity to influence those returns through the power exercised in the entity.

Subsidiaries are fully consolidated as from the date on which control is transferred to Gas Natural Fenosa and are excluded from consolidation on the date on which this control ceases.

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).

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 non-controlling interest.

For each business combination, Gas Natural Fenosa may opt to recognise any non-controlling interest in the target company at fair value or at the proportional part of the target’s net identifiable assets pertaining to the non-controlling interest.

Acquisition costs are expensed in the year when they are incurred.

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.

The measurement period for business combinations begins on the acquisition date and ends when Gas Natural Fenosa concludes that it cannot obtain further information on the events and circumstances that existed at the acquisition date. This period may not in any case exceed one year as from the acquisition date. During the measurement period, the business combination is deemed to be provisional and adjustments to the provisional amount will be recognised, if applicable, as if the business combination had been fully recognised on the acquisition date.

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.

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 “Non-controlling interests” in the Consolidated Balance Sheet and “Net income attributable to non-controlling interests” in the Consolidated Income Statement.

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

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

b) Joint Arrangements

Joint arrangements 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.

A joint arrangement is classed as a joint operation if the parties hold rights to its assets and have obligations in respect of its liabilities or as a joint venture if the venturers hold rights only to the investee's net assets.

Interests in joint operations are accounted for by proportionate consolidation method and interests in joint arrangements are recorded under the equity method.

Under the equity consolidation method, interests in joint arrangements are initially recognised at cost and are later adjusted to recognise Gas Natural Fenosa's share of post-acquisition profits and losses and movements in other comprehensive income.

At each reporting date, Gas Natural Fenosa determines whether there is objective evidence of the impairment of its investment in a joint venture. If impairment is identified, Gas Natural Fenosa calculates the amount of the impairment loss as the difference between the joint venture's recoverable amount and carrying amount, recognising it in the item "Profit/(loss) from equity-consolidated companies" in the consolidated income statement.

The assets and liabilities assigned to joint operations are recorded on the Consolidated Balance Sheet in accordance with their nature and proportionally to Gas Natural Fenosa shareholding percentage. The income and expenses from joint operations are reflected in the Consolidated Income Statement in accordance with their nature and proportionally to Gas Natural Fenosa shareholding percentage.

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.

Investments in associates are accounted under the equity method.

d) Consolidation scope

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

Appendix II lists the main consolidation scope changes in 2015 and 2014, the most relevant being:

2015

In 2015, the main consolidation scope changes relate to the sale of a 44.9% interest in the electricity distribution company Barras Eléctricas Galaico Asturianas, S.A. in June 2015 (Note 27) and the acquisition of the 100% of the shares in the renewable energy company Gecal Renovables, S.A. in October 2015 (Note 30).

Although the transfer did not entail a loss of control and the subsidiary is still fully consolidated, the interest held by Global Power Generation S.A., the company that holds Gas Natural Fenosa's international generation assets, decreased from 100% to 75% (Note 13).

2014

In 2014, the main consolidation scope changes relate to the disposal in June 2014 of the company Gas Natural Fenosa Telecomunicaciones, S.A. (Note 27) and the acquisition in November 2014 of a 96.72% stake in the Chilean group Compañía General de Electricidad, S.A. (CGE), which engages mainly in the distribution and transmission of electricity, natural gas and liquefied petroleum gas (Note 30).

3.4.2. 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 currency translation 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, 2015 and 2014 have been:

	31 December 2015		31 December 2014	
	Closing Rate	Average Accumulated Rate	Closing Rate	Average Accumulated Rate
US Dollar (USD)	1.09	1.11	1.21	1.33
Argentinean Peso (ARS)	14.09	10.21	10.32	10.71
Brazilian Real (BRL)	4.25	3.70	3.22	3.12
Colombian Peso (COP)	3,429	3,046	2,905	2,651
Chilean peso (CLP)	770.08	726.09	738.35	756.80
Mexican Peso (MXN)	18.88	17.61	17.89	17.65
Panamanian Balboa (PAB)	1.09	1.11	1.21	1.33
Moldovan Lei (MDL)	21.40	20.85	18.95	18.61

3.4.3. 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 arrangements or associates acquired, at the date of acquisition. Goodwill on acquisitions of subsidiaries or joint arrangements 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 and it is tested annually to analyse possible impairment losses. It is recognised in the consolidated balance sheet at cost value less cumulative impairment losses.

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 and transport of electricity in Spain and Chile, and the concessions for the gas distribution in Chile acquired, all of them, basically 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 3.4.5.

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 re-gasification plant in Peñuelas (Puerto Rico), which are amortised on a straight-line basis until the end of their term (2025).

- The licence costs for wind farms, mainly acquired as part of a business combination, which will be amortized on a straight-line basis over their useful lives.

- 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 and transport and the concessions for gas distribution.

3.4.4. Property, plant and equipment

Property, plant and equipment are carried at cost less accumulated depreciation and any impairment provision.

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 was 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 3.4.16).

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

b) Depreciation

Assets are depreciated 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
Gas tankers	25-30
Technical installations (pipeline network and transport)	20-40
Technical installations (hydro-electric plants)	14-65
Technical installations (thermal energy plants)	25-40
Technical installations (combined cycle gas turbine: CCGT)	25
Technical installations (nuclear energy plants)	40
Technical installations (wind farms)	25
Technical installations (electricity transmission lines)	30-40
Technical installations (electricity distribution network)	18-40
Computer equipment	4
Vehicles	6
Other	3-20

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

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

Gas Natural Fenosa depreciates its nuclear energy plants over a useful life of 40 years which corresponds to the theoretical useful life of its main components. Operating licences for these plants usually have 10-year terms, it not being possible to request their renewal until near to the end of each licence. Nonetheless, in view of the optimal performance of these facilities and related maintenance programmes, the permits are expected to be renewed at least until a 40-year useful life is reached.

In the third quarter of 2015, Gas Natural Fenosa completed technical studies on the estimation of the useful life of wind parks. The technical studies were conducted by internal engineers based on experience gained in operating assets in use for approximately 20 years that maintain the same availability levels, on the wind farm's excellent state of repair due to maintenance plans applied and on information supplied by the equipment manufacturers and the practices of the sector's main operators, which consider a 25-year useful life.

Consequently, as from 1 October 2015, Gas Natural Fenosa has prospectively adjusted the useful life of its wind farms from the estimated 20 years to 25 years. The effect of this estimated useful life change on the item “Depreciation, amortisation and impairment losses” in the 2015 consolidated income statement is a reduction of Euros 6 million in the depreciation charge. This change is expected to result in a reduction of approximately Euros 24 million in the annual depreciation charge in 2016.

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 3.4.5).

c) Exploration operations and production of gas

Operating costs, excluding drilling costs, are recognised in the income statement as they arise, using the successful-efforts method. If, as a result of test drilling, proven reserves are found that justify commercial development, costs are transferred to investments in zones with reserves; otherwise, drilling costs initially capitalised are charged to the income statement.

Costs of investments in zones with reserves, costs of development for extraction, treatment and storage, and the estimated present value of abandonment costs are capitalised and depreciated over the estimated commercial life of the gas field, based on the relationship between annual production and proven reserves at the start 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.

3.4.5 Impairment losses of assets

Assets are tested for possible impairment provided that an event or change in circumstances indicates that their carrying amount might not be recoverable. Additionally, goodwill and intangible assets not in use or with indefinite useful lives are tested at least annually for impairment.

When the recoverable amount is lower than the asset's carrying amount, an impairment loss is recognised in the consolidated income statement for the difference between both. Recoverable amount is calculated as the higher of fair value less costs to sell and value in use, using the future cash flow discounting method. Gas Natural Fenosa considers value in use as the recoverable amount, calculated as described below.

For the purposes of assessing impairment, assets are grouped at the lowest level for which separate cash inflows can be identified. Both assets and goodwill are assigned to these cash generating units (CGUs).

CGUs are defined using the following criteria:

- Gas distribution:

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

  - Gas distribution in Latin America. A CGU is understood to exist for each country in which there are operations (Argentina, Brazil, Colombia, Mexico and Peru) since the businesses are subject to different regulatory frameworks.

  - Gas distribution Other. This relates to the gas distribution assets in Italy, which are managed separately.

- Electricity distribution:

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

  - Electricity distribution in Latin America. A CGU is understood to exist for each country in which there are operations (Colombia and Panama) since the businesses are subject to different regulatory frameworks.

  - Electricity distribution Other. This relates to electricity distribution assets in Moldavia.

- Gas. This includes the gas infrastructure, supply and marketing CGUs and the interest in Unión Fenosa Gas, which is tested for impairment separately.

- Electricity:

  - Electricity Spain. The power generation park in Spain of controlled entities is managed jointly and is centralised based on conditions of demand, where all power plants using different technologies play a major, complementary and necessary role in light of different market situations, providing the electricity required by customers at any given time. This model focuses, inter alia, on the existence of a single representative and settlement agent vis-á-vis the market, that operates through a single supply room, the entire generation and marketing business being under the same management. Therefore, a single CGU is understood to exist for the generation (including the different conventional and renewable generation technologies) and marketing of electricity in Spain, since they are managed and controlled globally on a centralised basis.

    In October 2015 the group of generation from de Campo de Gibraltar combined cycle plant is incorporated, attributed to Gas Natural Fenosa because of Nueva Generadora del Sur's escision. (Note 30).

  - Global Power Generation (GPG). A CGU is understood to exist in each country in which there are operations since the businesses are subject to different regulatory frameworks and are managed independently. GPG's power generation park is located in Latin America (Costa Rica, Mexico, Panama, Dominican Republic and Puerto Rico, the latter being consolidated using the equity method) and Other (Kenya and Australia).

  - CGE: This refers to Compañía General de Electricidad, consolidated since 30 November 2014 (Note 30), which is managed separately from other business in Latin America. This includes the electricity distribution and transport, natural gas distribution and liquefied petroleum gas (LPG) CGUs.

  - Other. This includes CGUs connected with the coal mines in South Africa and optical fibre CGUs (until 30 June 2014).

For those CGUs, requiring testing for impairment, cash flows have been based on the Strategic Plan approved by Gas Natural Fenosa, extrapolated for up to five years, on the basis of regulations and expectations regarding the development of the market based on available industry forecasts and historical experience of the performance of prices and output.

Cash flows subsequent to the projected period are extrapolated, taking into account the growth rates estimated by each CGU. These rates in no circumstances exceed the medium to long-term growth rates for the business and country in which the CGUs operate and which in no event are less than the growth rates for the period covered by the strategic plan. In order to estimate future cash flows in the calculation of residual values, all maintenance investments have been taken into account, and where appropriate, the investments for renewal needed to maintain CGU production capacity.

The nominal growth rates used for each CGU or group of CGUs are as follows:

	Growth 2015 (%)	Growth 2014 (%)
Gas distribution Rest of Europe.	1.0	1.0
Gas distribution Latin America	1.0	1.0
Electricity distribution Spain	0.6	0.6
Electricity distribution Rest of Europe	1.8	1.8
Electricity distribution Latin America	1.2-3.0	1.2-3.0
Unión Fenosa Gas	1.4	1.4
Electricity Spain	1.8	1.8
GPG	1.0-4.9	1.0-4.9
CGE	2.8	–

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

	Rates 2015 (%)	Rates 2014 (%)
Gas distribution Rest of Europe	6.3	7.3
Gas distribution Latin America	15.0-16.0	17.0-18.0
Electricity distribution Spain	5.6	6.2
Electricity distribution Rest of Europe	14.9	14.4
Electricity distribution Latin America	8.8-15.5	9.1-15.5
Unión Fenosa Gas	11.0	11.7
Electricity Spain	6.8	6.5
GPG	6.4-11.1	7.0-11.8
CGE	10.5-10.7	–

The parameters taken into account to determine the above discount rates are as follows:

- Risk-free bond: 10-year bond on the CGU's reference market.
- Market risk premium: Estimate based on equities in each country at 10 years.
- Unlevered beta: According to sector average in each case.
- Local currency interest rate swap: 10-year swap.
- Debt to equity ratio: Sector average.

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

- Gas and electricity distribution Latin America and Other
    - Rate performance. Valuation of rates in each country, based on existing regulatory conditions and rate reviews, taking into account the experience gained from previous rate reviews in each country.
    - Energy cost. Estimated on the basis of predictive modelling based on an understanding of energy markets in each country.
    - Operation and maintenance cost. Estimated on the basis of the historical cost of the network managed.
    - Investments. Taking into account the necessary investments to maintain the regular use of the network and quality of supply.
- Electricity distribution in Spain.
    - Regulated remuneration. Amount and increase in remuneration approved by the regulator, taking into account the regulatory impacts of Royal Decree-Law 9/2013 and Law 24/2013 (Note 2.4.2.1) and Royal Decree 1048/2013 (Note 2.4.1.2).
    - Operation and maintenance cost. Estimated on the basis of the historical costs of the network managed.
    - Investments. Taking into account the necessary investments to maintain the regular use of the network.
- Unión Fenosa Gas:
    - Gas supply cost. According to the prices of the long-term contracts entered into by Unión Fenosa Gas.
    - Gas volumes to be obtained from each supply source.
    - Selling price of natural gas. Valued using predictive modelling based on the forecast performance of price curves and experience in the markets where Union Fenosa Gas operates.
- Electricity Spain:
    - Electricity generated. The evolution of demand has been estimated by consensus with several international organisations. Market share has been estimated based on the market share of Gas Natural Fenosa in each technology and the expected performance of the share of each technology in the market as a whole. The regulatory impacts of Royal Decree-Law 2/2013, Royal Decree-Law 9/2013, Law 24/2013 and Royal Decree 413/2014 have been taken into account (Note 2.4 and 2.4.2.1).

- Electricity price. Market electricity prices used have been calculated using models cross-checking expected demand against supply forecasts, taking into account the forecast performance of the generation park in Spain, based on sector forecasts.

- Fuel costs. Estimated based on the long-term supply contracts entered into by Gas Natural Fenosa and the forecast performance of price curves and experience on the markets where it operates.

- Operation and maintenance costs. Estimated based on the historical cost of the park managed.

- Impact of taxes established by Law 15/2012 (Note 2.4.2.1).

> Global Power Generation (GPG):

- International electricity generation is managed under energy sale-purchase contracts through stable business models and which are not subject to fluctuation risks on the basis of market variables.

> CGE:

- The performance of revenues from electricity and natural gas distribution, regulated activities, has been assessed based on rates and the maximum prices that are expected to be approved by the regulator. Liquefied petroleum gas distribution is carried out in accordance with the contracts for the purchase - sale of gas through a stable business model.

As a result of the above process, in 2014 the recoverable values of the CGUs' assets, calculated using the methodology described, were, except for the interests in Union Fenosa Gas and Nueva Generadora del Sur, S.A., higher than the carrying amounts recognised in these consolidated annual accounts. Impairment was therefore recognised on such interests (Note 7).

In 2015 the impairment tests performed did not reveal the need to recognise additional impairment or reverse impairment recognised in the previous year.

Gas Natural Fenosa has carried out a sensitivity analysis of the unfavourable variations which, drawing on historical experience, may reasonably impact on the aforementioned sensitive parameters on which the recoverable amounts of CGUs have been determined. Specifically, the most significant sensitivity analyses performed were as follows:

	Increase	Decrease
Discount rate	50 base points	–
Electricity generated (%)	–	5
Electricity price (%)	–	5
Fuel and gas supply costs (%)	5	–
Rate/ remuneration performance (%)	–	5
Operation and maintenance cost (%)	5	–
Investments (%)	5	–

These sensitivity analyses performed for each basic assumption independently would not alter the conclusions obtained as regards the recoverable amount being higher than CGUs’ carrying amount except in the case of Unión Fenosa Gas whose fair value is similar to its carrying amount.

3.4.6. 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 asset, except those maturing after twelve months as from the balance sheet date those are classified as non-current assets.

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

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

b) Held-to-maturity financial assets

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

c) Fair value financial assets through profit or loss

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

d) Available-for-sale financial assets

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

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

The fair values of listed investments are based on listed prices (Level 1). In the case of shareholdings in unlisted companies, fair value is determined using valuation techniques that include the use of recent transactions between willing and knowledgeable parties, references to other instruments that are substantially the same and the analysis of discounted future cash flows (Levels 2 and 3). If none of these techniques can be used to determine fair value, investments are carried at cost less any impairment loss.

Fair value measurements recognised in these consolidated annual accounts are classified using a fair value hierarchy that reflects the relevance of the variables employed to perform the measurement. This ranking has three levels:

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

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

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

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

Gas Natural Fenosa has entered into account receivables assignment agreements in 2015 and 2014 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.

3.4.7. 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 (Level 1).

- 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 (Level 2 and 3).

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

Derivatives embedded in other financial instruments or in other host contracts are recorded separately as derivatives only when their financial characteristics and inherent risks are not strictly related to the instruments in which they are embedded and the whole item is not being carried at fair value through consolidated profit or loss.

For accounting purposes, the operations are classified as follows:

1. Derivatives qualifying for hedge accounting

a) Fair value hedge

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

b) Cash flow hedge

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

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

c) Hedges of net foreign investments

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

2. Derivatives that do not qualify for hedge accounting

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

3. Energy purchase and sale agreements

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

3.4.8 Non-current assets held for sale and discontinued activities

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

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

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

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

3.4.9. Inventories

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

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

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

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

3.4.10. Share capital

Share capital is made up of ordinary shares.

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

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

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

3.4.11. 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.

3.4.12. Borrowings and equity instruments

Borrowings and equity instruments issued by Gas Natural Fenosa are classified based on the nature of the issue.

Gas Natural Fenosa treats all contracts that represent a residual share in net assets as equity instruments.

Equity instrument issuance costs are presented as a deduction in equity.

3.4.13. Preference shares and subordinated perpetual debentures

The issues of preference shares and subordinated perpetual debentures 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.

- 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 "Non-controlling interest".

3.4.14. 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.

3.4.15. Provisions for employee obligations

a) Post-employment pension and similar obligations

- Defined contribution plans

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

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

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

- Defined benefit plans

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

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

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

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

b) Other post-employment benefit obligations

Some of Gas Natural Fenosa's companies provide post-employment benefits to their employers. 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, directly in equity, to "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 is registered under the heading "Personnel cost" in the Consolidated Income Statement.

3.4.16. 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 order to cover the obligation concerning the delivery of CO_2 emission allowances for emissions made during the year, the shortfall, measured at acquisition cost for the allowance purchased and fair value for allowances pending acquisition, is recorded in provisions.

3.4.17. Leases

1) Finance leases

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

Gas Natural Fenosa acts as a lessee under a number of finance lease agreements. These leases are recognised at lease inception at the lower of the asset's fair value and the present value of lease payments, including the purchase option, if applicable. Each lease payment is allocated between the debt reduction and finance charge so as to achieve a constant rate of interest on the debt pending payment. The payment obligation arising from the lease, net of the finance charge, is recognised in liabilities in the consolidated balance sheet. The interest component of the finance charge is taken to the consolidated income statement over the term of the lease so as to produce a constant periodic rate of interest on the debt pending payment for each period. Property, plant and equipment acquired under finance leases is depreciated over the asset's useful life.

2) Operating leases

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

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

3.4.18. Income tax

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

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

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

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

Should tax rates change, deferred tax assets and liabilities are reestimated. These amounts are charged or credited to the consolidated income statement or to the item "Other comprehensive income for the year" in the consolidated statement of comprehensive income, depending on the account to which the original amount was charged or credited.

3.4.19. Revenue and expenses recognition and settlement for regulated activities

a) General

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

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

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

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

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

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

The remuneration of the regulated gas distribution activity is fixed for each distribution company for all its facilities according to the clients connected to them and the volume of gas supplied.

The remuneration of the regulated gas transport is fixed in respect of availability and continuity of supply of the companies owning transmission assets.

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.

At the formulation date of these consolidated annual accounts, the definitive settlements for 2013 and 2014 have not been published, but they are not expected to give rise to significant differences with respect to the estimates made.

Royal Decree-Law 8/2014, July 4, (Note 2.1.1.2) stipulates, among other measures, the recognition of the gas system's cumulative deficit at 31 December 2014, which will be determined in the definitive settlement for 2014. Companies subject to the settlement system, including Gas Natural Fenosa, will be entitled to recover this deficit over a 15-year period through annual amounts that will be included in system costs, and a market interest rate will be applied. Additionally, temporary mismatches between gas system revenues and costs will be funded by the companies subject to the settlement system, including Gas Natural Fenosa, giving rise to a right to recover the relevant amount over the following five years, including interest at a market rate. Consequently, the financing for the gas system revenue deficit is recognised as a financial asset since, on the basis of this regulation, Gas Natural Fenosa is entitled to a reimbursement and there are no future contingent factors.

Revenue includes the amount of both last-resort sales and free market sales, since the last-resort supplier and the free-market supplier are deemed to be a principal agent and not a commission agent for the supply made.

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.

c) Revenue from electricity business and settlement for regulated activities

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

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

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

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

At the date of formulation of these Consolidated annual accounts the final payments for the period 2012-2014 have not been published, although it is not expected that the final payments will generate significant differences in relation to the estimates made.

In 2006 to 2013, given that the income collected by the companies in the Spanish electricity industry have not been sufficient to remunerate the different regulated activities and costs of the system, the companies themselves, including Gas Natural SDG. S.A., were forced to finance this income deficit, until its definitive funding through the electricity system securitisation fund. Following successive auctions and assignments of the outstanding debt claims, on 15 December 2014 the electricity system deficit securitisation process was completed.

Following the publication of Electricity Sector Law 24/2013, December 26 (Note 2.4), temporary mismatches between electricity system revenues and costs are funded by the companies subject to the settlement system, including Gas Natural Fenosa, generating the right to recover the relevant amount over the following five years, including interest at a market rate. Consequently, the financing for the electricity system revenue deficit is recognised as a financial asset since, on the basis of this regulation, Gas Natural Fenosa is entitled to a reimbursement and there are no future contingent factors.

Revenue includes the amount of electricity sales in both the PVPC market and the free market, since the last-resort supplier and the free-market supplier are deemed to be a principal agent and not a commission agent for the supply made. Consequently, power purchases and sales are recognised for the total amount. Nonetheless, power purchases and sales from the pool made by the Group's generation and supply companies in the same time band are eliminated during the consolidation process.

d) Other income and expenses

Gas Natural Fenosa has power generation capacity assignment contracts with the Federal Electricity Commission for its combined-cycle plants in Mexico (CFE), for a 25-year term as from the start date of commercial operations. These contracts stipulate a pre-established collection schedule for the assignment of power supply capacity. As Gas Natural Fenosa has the capacity to operate and manage the plants, sells the power at market prices and retains the rewards and risks of operations, taking relevant decisions that will affect future cash flows, these contracts represent provisions of services and are thus recognised on a percentage-of-completion basis.

Revenues from contracts for the provision of service are recognised on a percentage-of-completion basis, i.e. when revenues may be reliably estimated, they are recorded based on the progress of contract execution at the year end, calculated in proportion to costs incurred to date in relation to estimated costs necessary to execute 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 expenses are recognized using the effective interest method.

Dividend income is recognised when the right to collect the dividend is established.

3.4.20. 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.

3.4.21. Significant accounting estimates and judgments

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

a) Intangible assets and property, plant and equipment (Notes 3.4.3 and 3.4.4)

The useful lives of intangible assets and property, plant and equipment are determined using estimates of the level of use of the assets and of expected technological advancement. Assumptions regarding level of use, technological framework and future development imply a significant degree of judgement, since the timing and nature of future events are difficult to foresee.

b) Impairment of non-financial assets (Note 3.4.5)

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

c) Derivatives or other financial instruments (Note 3.4.7)

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 3.4.15)

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 3.4.16)

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 3.4.18)

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 3.4.19)

Revenues from energy sales are 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 and gas 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 electricity and gas regulated 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 in costs, which operating results are reviewed regularly by the Gas Natural SDG, S.A. Board of Directors 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.

On 1 October 2014, Gas Natural Fenosa created the company Global Power Generation, S.A.U. to promote its international generation business and group together Gas Natural Fenosa's assets and power generation businesses outside Europe. Accordingly, internal management information is reorganised, creating the Global Power Generation business and presenting the other Latin American businesses in their business segment.

a) Segment Information

The operating segments of Gas Natural Fenosa are:

- Gas distribution. This segment encompasses the regulated gas distribution business in Spain, Italy and Latin America.

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

  The gas distribution in Italy consists of the regulated activities of distribution and commercialisation of gas.

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

- Electricity distribution. This segment encompasses the regulated electricity distribution business in Spain, Moldova and Latin America.

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

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

The electricity distribution business in Latin America consists of the regulated electricity distribution activity and sales to customers at regulated prices in Colombia and Panama.

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

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

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

  Unión Fenosa Gas' business (50%-owned by Gas Natural Fenosa and 50% by another shareholder, consolidated using the equity method) includes the Damietta (Egypt) liquefaction activities, sea transport, the Sagunto regasification activities and gas supply and commercialisation activities.

- Electricity. It includes the electricity generation and commercialisation in Spain and the Global Power Generation activities.

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

  The Global Power Generation business mainly includes the Group's international generation activities in Latin America (Mexico, Costa Rica, Dominican Republic, Panama and Puerto Rico, the latter being consolidated using the equity method, through EcoEléctrica, L.P.) and Rest (Kenya and Australia).

- CGE. It includes the electricity distribution and transport, natural gas distribution and liquefied petroleum gas (LPG) distribution as from 30 November 2014.

- Other: It includes the exploitation of the coal field belonging to Kangra Coal (Proprietary), Ltd in South Africa, the activities related to optic fibre (to 30 June 2014) and the other non-energy business.

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

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

Segmental financial information – Income Statement

2015	Gas distribution				Electricity distribution				Gas				Electricity			CGE	Otros	Eliminations	Total
	Spain	Italy	Latin America	Total	Spain	Moldavia	Latin America	Total	Infrastructures	Supply & Comm.	UF GAS	Total	Spain	Global Power Generation	Total				
Sales consolidated	1,056	92	3,389	4,537	792	260	2,232	3,284	21	9,468	-	9,489	4,695	779	5,474	2,979	252	-	26,015
Sales intersegments	135	-	-	135	46	-	-	46	296	1,292	-	1,588	1,084	27	1,111	-	237	-	3,117
Sales segment	1,191	92	3,389	4,672	838	260	2,232	3,330	317	10,760	-	11,077	5,779	806	6,585	2,979	489	(3,117)	26,015
Segment supplies	(16)	(1)	(2,397)	(2,414)	(1)	(205)	(1,609)	(1,815)	(6)	(9,676)	-	(9,682)	(4,338)	(420)	(4,758)	(2,132)	(177)	2,981	(17,997)
Net personnel expenses	(68)	(12)	(96)	(176)	(83)	(6)	(50)	(139)	(5)	(68)	-	(73)	(138)	(39)	(177)	(176)	(232)	-	(973)
Other operating income/ expenses	(235)	(13)	(259)	(507)	(147)	(11)	(195)	(353)	(13)	(228)	-	(241)	(562)	(86)	(648)	(172)	4	136	(1,781)
Ebitda	872	66	637	1,575	607	38	378	1,023	293	788	-	1,081	741	261	1,002	499	84	-	5,264
Other income	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	5	-	5
Depreciation, amortization and impairment expenses	(289)	(24)	(107)	(420)	(217)	(6)	(65)	(288)	(95)	(24)	-	(119)	(523)	(134)	(657)	(157)	(109)	-	(1,750)
Debtors provisions and others	(4)	-	(20)	(24)	(2)	-	(135)	(137)	-	(59)	-	(59)	(38)	-	(38)	-	-	-	(258)
Operating income	579	42	510	1,131	388	32	178	598	198	705	-	903	180	127	307	342	(20)	-	3,261
Net financial income	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(894)
Equity-method result	-	-	1	1	2	-	-	2	-	-	(81)	(81)	4	40	44	24	6	-	(4)
Income before taxes	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	2,363
Income tax expense	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(573)
Profit/(loss) for the year from continuing operations	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	1,790
Profit/(loss) for the year from discontinued operations	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	34
Net income for the period	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	1,824

2014[1]	Gas distribution				Electricity distribution				Gas				Electricity			CGE	Otros	Eliminations	Total
	Spain	Italy	Latin America	Total	Spain	Moldavia	Latin America	Total	Infrastructures	Supply & Comm.	UF GAS	Total	Spain	Global Power Generation	Total				
Sales consolidated	1,057	88	3,451	4,596	778	235	2,194	3,207	71	10,735	-	10,806	4,695	927	5,622	227	239	-	24,697
Sales intersegments	143	-	-	143	46	-	-	46	243	1,072	-	1,315	1,127	19	1,146	-	389	-	3,039
Sales segment	1,200	88	3,451	4,739	824	235	2,194	3,253	314	11,807	-	12,121	5,822	946	6,768	227	628	(3,039)	24,697
Segment supplies	(20)	-	(2,513)	(2,533)	(2)	(182)	(1,622)	(1,806)	(8)	(10,617)	-	(10,625)	(4,229)	(619)	(4,848)	(161)	(271)	2,912	(17,332)
Net personnel expenses	(71)	(11)	(86)	(168)	(93)	(6)	(52)	(151)	(4)	(62)	-	(66)	(145)	(31)	(176)	(17)	(250)	-	(828)
Other operating income/ expenses	(238)	(11)	(247)	(496)	(144)	(10)	(172)	(326)	(14)	(226)	-	(240)	(666)	(75)	(741)	(21)	5	127	(1,692)
Ebitda	871	66	605	1,542	585	37	348	970	288	902	-	1,190	782	221	1,003	28	112	-	4,845
Other income	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	258	-	258
Depreciation, amortization and impairment expenses	(292)	(27)	(104)	(423)	(215)	(6)	(62)	(283)	(90)	(22)	-	(112)	(553)	(104)	(657)	(13)	(128)	-	(1,616)
Debtors provisions and others	(7)	-	(16)	(23)	-	-	(160)	(160)	-	(83)	-	(83)	(31)	-	(31)	-	(5)	-	(302)
Operating income	572	39	485	1,096	370	31	126	527	198	797	-	995	198	117	315	15	237	-	3,185
Net financial income	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(799)
Equity-method result	-	-	1	1	3	-	-	3	-	-	(492)	(492)	(27)	38	11	1	2	-	(474)
Income before taxes	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	1,912
Income tax expense	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(256)
Profit/(loss) for the year from continuing operations	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	1,656
Profit/(loss) for the year from discontinued operations	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	2
Net income for the period	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	1,658

[1]The 2014 consolidated income statement has been restated, reclassifying the liquefied petroleum gas (LPG) business to discontinued operations in accordance with IFRS 5 (Notes 3.3 and 9).

Segmental financial information – Assets, liabilities and investments

2015	Gas distribution				Electricity distribution				Gas				Electricity			CGE	Other	Elimina-tions	Total
	Spain	Italy	Latin America	Total	Spain	Moldavia	Latin America	Total	Infra-struct.	Supply & Comm.	UF GAS	Total	Spain	Global Power Generation	Total				
Operating assets (a)	3,697	518	2,227	**6,442**	5,178	208	1,994	**7,380**	1,033	2,283	-	**3,316**	9,192	1,983	**11,175**	**6,045**	**1,238**	**(723)**	**34,873**
Investments under equity method	-	-	10	**10**	6	-	-	**6**	-	-	1,209	**1,209**	90	309	**399**	**73**	**33**	**-**	**1,730**
Operating liabilities (a)	(764)	(40)	(575)	**(1,379)**	(994)	(42)	(792)	**(1,828)**	(17)	(1,350)	-	**(1,367)**	(1,055)	(102)	**(1,157)**	**(420)**	**(966)**	**746**	**(6,371)**
Investment in intangible assets (b)	27	24	149	**200**	29	-	5	**34**	-	4	-	**4**	1	1	**2**	**14**	**112**	**-**	**366**
Invest. in property, plant & equipment (c)	408	1	126	**535**	220	9	139	**368**	12	34	-	**46**	103	57	**160**	**251**	**41**	**-**	**1,401**
Business combinations *(Note 30)*	5	-	-	**5**	-	-	-	**-**	-	-	-	**-**	304	-	**304**	**-**	**-**	**-**	**309**

2014	Gas distribution				Electricity distribution				Gas				Electricity			CGE	Other	Elimina-tions	Total
	Spain	Italy	Latin America	Total	Spain	Moldavia	Latin America	Total	Infra-struct.	Supply & Comm.	UF GAS	Total	Spain	Global Power Generation	Total				
Operating assets (a)	3,569	512	2,466	**6,547**	5,149	163	2,092	**7,404**	1,067	2,752	-	**3,819**	9,076	1,941	**11,017**	**7,120**	**1,238**	**(735)**	**36,410**
Investments under equity method	-	-	10	**10**	98	-	-	**98**	-	-	1,295	**1,295**	248	286	**534**	**75**	**22**	**-**	**2,034**
Operating liabilities (a)	(919)	(29)	(675)	**(1,623)**	(1,005)	(27)	(808)	**(1,840)**	(62)	(1,686)	-	**(1,748)**	(887)	(158)	**(1,045)**	**(593)**	**(1,121)**	**760**	**(7,210)**
Investment in intangible assets (b)	19	24	246	**289**	22	-	4	**26**	4	2	-	**6**	1	-	**1**	**4**	**111**	**-**	**437**
Invest. in property, plant & equipment (c)	316	1	102	**419**	196	15	119	**330**	188	34	-	**222**	94	166	**260**	**35**	**49**	**-**	**1,315**
Business combinations *(Note 29)*	-	-	-	**-**	-	-	-	**-**	-	-	-	**-**	-	-	-	**2,519**	**-**	**-**	**2,519**

(a) There follows a breakdown of the reconciliation of “Operating assets” and “Operating liabilities” with consolidated “Total assets” and “Total liabilities”:

	2015	2014
Operating assets	**34,873**	**36,410**
Goodwill	4,962	4,959
Investments carried under the equity method	1,730	2,034
Non-current financial assets	1,387	1,289
Deferred tax assets	1,070	1,134
Non-current assets held for sale *(Note 9)*	955	-
Derivative financial instruments *(Note 11)*	5	24
Public administrations *(Note 11)*	197	139
Current tax assets	198	296
Other current financial assets	365	471
Cash and cash equivalents	2,390	3,572
Total assets	**48,132**	**50,328**

	2015	2014
Operating liabilities	**(6,371)**	**(7,210)**
Equity	(18,518)	(18,020)
Non-current financial liabilities	(15,653)	(17,740)
Finance lease liability *(Notes 18 and 20)*	(646)	(631)
Deferred tax liabilities	(2,543)	(2,798)
Liabilities related to non-current assets held for sale *(Note 9)*	(585)	-
Current financial liabilities	(2,595)	(2,804)
Derivative financial instruments *(Notes 18, 19 and 20)*	(188)	(47)
Dividend payable *(Note 20)*	(421)	(419)
Public administrations *(Note 19)*	(477)	(599)
Current tax liabilities	(135)	(60)
Total liabilities	**(48,132)**	**(50,328)**

(b) Includes the investment in "Intangible assets" (Note 5), broken down by operating segment, except for the investment for emission allowances amounting to Euro100 million in 2015 (Euro 47 million in 2014).

(c) Includes the investment in "Property, plant and equipment" (Note 6), broken down by operating segment.

b) Reporting by geographic area

Gas Natural Fenosa's net revenue by country of destination is analysed below:

	2015	2014
Spain	11,731	12,828
Rest of Europe	2,668	2,231
Latin America	10,271	8,059
Others	1,345	1,579
Total	**26,015**	**24,697**

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 31/12/15	At 31/12/14
Spain	21,863	22,318
Rest of Europe	1,069	1,120
Latin America	12,564	13,866
Others	1,107	1,140
Total	**36,603**	**38,444**

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

	At 31/12/15	At 31/12/14
Spain	967	1.003
Rest of Europe	36	44
Latin America	739	679
Others	25	26
Total	**1,767**	**1,752**

Note 5. Intangible assets

The movement in 2015 and 2014 in intangible assets is as follows:

	Concession and other rights to use	Computer software	Other intangible assets	Subtotal	Goodwill	**Total**
Cost, gross	3,701	786	1,143	5,630	4,495	**10,125**
Accumulated Amortisation and impairment expenses	(1,345)	(509)	(303)	(2,157)	-	**(2,157)**
Net carrying value at 01/01/14	**2,356**	**277**	**840**	**3,473**	**4,495**	**7,968**
Investment *(Note 4)*	270	149	65	484	-	**484**
Divestitures[1]	(1)	-	(144)	(145)	(20)	**(165)**
Amortisation and impairment charge	(108)	(99)	(68)	(275)	-	**(275)**
Currency translation differences	33	-	1	34	71	**105**
Business combinations *(Note 30)*	2,013	25	242	2,280	413	**2,693**
Reclassifications and others	(8)	(7)	(12)	(27)	-	**(27)**
Net carrying value at 31/12/14	**4,555**	**345**	**924**	**5,824**	**4,959**	**10,783**
Cost, gross	6,066	946	1,309	8,321	4,959	**13,280**
Accumulated Amortisation and impairment expenses	(1,511)	(601)	(385)	(2,497)	-	**(2,497)**
Net carrying value at 01/01/15	**4,555**	**345**	**924**	**5,824**	**4,959**	**10,783**
Investment *(Note 4)*	157	196	113	466	-	**466**
Divestitures[2]	(1)	-	(47)	(48)	-	**(48)**
Assets and liabilities held for sale *(Note 9)*	(47)	-	(51)	(98)	(49)	**(147)**
Amortisation and impairment charge	(127)	(123)	(58)	(308)	-	**(308)**
Currency translation differences	(348)	(5)	(11)	(364)	38	**(326)**
Business combinations *(Note 30)*	2	-	87	89	14	**103**
Reclassifications and others	(19)	-	21	2	-	**2**
Net carrying value at 31/12/15	**4,172**	**413**	**978**	**5,563**	**4,962**	**10,525**
Cost, gross	5,725	1,131	1,423	8,279	4,962	**13,241**
Accumulated Amortisation and impairment expenses	(1,553)	(718)	(445)	(2,716)	-	**(2,716)**
Net carrying value at 31/12/15	**4,172**	**413**	**978**	**5,563**	**4,962**	**10,525**

[1] Mainly includes the sale of Gas Natural Fenosa Telecomunicaciones, S.A. (Note 27) and the transfer of CO_2 emission rights as a result of the previous year's emissions.
[2] Mainly includes the transfer of CO_2 emission rights as a result of the previous year's emissions.

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

In 2014, item "Amortisation and impairment charge", in "Other intangible assets", included the amount of Euros 14 million relating to the full impairment of various assets.

"Concessions and other rights to use" includes principally:

- The value of the concessions that are considered intangible assets in accordance with IFRIC 12 "Service Concession Agreements" (Note 30), amounting to Euros 1,351 million (Euros 1,579 million in 2014).
- The Maghreb-Europe pipeline concession (Note 30) amounting to Euros 238 million at 31 December 2015 (Euros 246 million at 31 December 2014).
- The electricity distribution concessions in Spain that have an indefinite useful life amounting to Euros 684 million (Euros 684 million at 31 December 2014).
- The Chilean power distribution and electric transport concessions amounting to Euros 1,040 million (Euros 1,085 million at 31 December 2014) and gas distribution concessions in the amount of Euros 835 million (Euros 943 million at 31 December 2014), all having indefinite useful lives (Note 30).

The heading "Other intangible assets" mainly includes:

- Licences to operate wind farms totalling Euros 182 million at 31 December 2015 (Euros 112 million at 31 December 2014).
- The exclusive regasification rights in Peñuelas regasification plant (Puerto Rico) totalling Euros 25 million at 31 December 2015 (Euros 31 million at 31 December 2014).
- The CO_2 emission allowances acquired for Euros 104 million (Euros 44 million at 31 December 2014).
- Other intangible assets acquired as a result of the CGE business combination in the amount of Euros 193 million at 31 December 2015 (Euros 251 million at 31 December 2014) and the Unión Fenosa business combination in the amount of Euros 420 million at 31 December 2015 (Euros 449 million at 31 December 2014), which basically include gas supply contracts and other contractual rights.

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

	31 December 2015					
	Gas distribution	Electricity distribution	Electricity	CGE	Other	**Total**
Spain	-	1,070	2,708	-	-	**3,778**
Latin America	43	137	463	354	-	**997**
Other	143	11	18	-	15	**187**
	186	**1,218**	**3,189**	**354**	**15**	**4,962**

	31 December 2014					
	Gas distribution	Electricity distribution	Electricity	CGE	Other	**Total**
Spain	-	1,070	2,694	-	-	**3,764**
Latin America	50	123	415	420	-	**1,008**
Other	143	13	16	-	15	**187**
	193	**1,206**	**3,125**	**420**	**15**	**4,959**

The impairment tests have been carried out at 31 December 2015 and 2014. On the basis of the goodwill and intangible assets with an undefined useful impairment analysis it was concluded that impairment will not probably arise in the future (Note 3.4.5).

The intangible assets include, at 31 December 2015, fully amortised assets still in use totalling Euros 452 million (Euros 358 million at 31 December 2014).

Note 6. Property, plant and equipment

The movements in the accounts in 2015 and 2014 under property, plant and equipment and their respective accumulated depreciation and provisions have been as follows:

	Land and buildings	Gas installations	Electricity generation plants	Plant for electricity transmission and distribution	Gas tankers	Other Property. plant and equipment	Property. plant and equipment under construction	**Total**
Cost. gross	664	8,264	11,389	6,506	516	1,189	811	**29,339**
Accumulated Depreciation and impairment expenses	(134)	(4,443)	(2,715)	(1,052)	(159)	(473)	-	**(8,976)**
Net carrying value at 01/01/14	**530**	**3,821**	**8,674**	**5,454**	**357**	**716**	**811**	**20,363**
Investment *(Note 4)*	26	412	38	234	177	23	405	**1,315**
Divestitures[1]	(7)	(3)	(8)	(13)	-	(205)	(42)	**(278)**
Depreciation and impairment charge	(21)	(387)	(564)	(260)	(27)	(85)	-	**(1,344)**
Currency translation differences	-	(7)	144	(49)	-	46	23	**157**
Business combinations *(Note 30)*	288	1,588	49	1,669	-	104	335	**4,033**
Reclassifications and others	5	76	354	183	-	52	(649)	**21**
Net carrying value at 31/12/14	**821**	**5,500**	**8,687**	**7,218**	**507**	**651**	**883**	**24,267**
Cost. Gross	965	10,353	11,924	8,479	693	1,067	883	**34,364**
Depreciation Amortisation and impairment expenses	(144)	(4,853)	(3,237)	(1,261)	(186)	(416)	-	**(10,097)**
Net carrying value at 01/01/15	**821**	**5,500**	**8,687**	**7,218**	**507**	**651**	**883**	**24,267**
Investment *(Note 4)*	30	530	41	286	-	55	459	**1,401**
Divestitures	(10)	(6)	(1)	(4)	-	(5)	(8)	**(34)**
Assets and liabilities held for sale *(Note 9)*	(124)	(502)	-	-	-	(21)	(24)	**(671)**
Depreciation and impairment charge	(25)	(414)	(593)	(336)	(30)	(85)	-	**(1,483)**
Currency translation differences	(15)	(68)	120	(215)	-	(7)	(14)	**(199)**
Business combinations *(Note 30)*	1	27	349	-	-	6	4	**387**
Reclassifications and others	5	11	114	196	-	108	(409)	**25**
Net carrying value at 31/12/15	**683**	**5,078**	**8,717**	**7,145**	**477**	**702**	**891**	**23,693**
Cost. Gross	817	10,194	12,484	8,670	693	1,140	891	**34,889**
Depreciation Amortisation and impairment expenses	(134)	(5,116)	(3,767)	(1,525)	(216)	(438)	-	**(11,196)**
Net carrying value at 31/12/15	**683**	**5,078**	**8,717**	**7,145**	**477**	**702**	**891**	**23,693**

[1] Mainly includes the divestment due to the sale of Gas Natural Fenosa Telecomunicaciones, S.A. (Notes 3.4.1 and 27).

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

In March 2014, a new gas tanker was acquired under a finance lease for Euros 177 million. Additionally, Gas Natural Fenosa has entered into contracts to acquire four newly built gas tankers during the period 2016-2017, on a time-charter basis (Note 34).

In October 2014, the Bii Hioxo wind farm (Mexico) became operational, with an installed capacity of 234 MW.

In 2014, the item "Depreciation and impairment charge", in "Other fixed assets", includes the amount of Euros 8 million relating to the full impairment of various assets.

The financial expenses capitalised in 2015 in fixed assets projects during their construction total Euros 14 million (Euros 23 million in 2014). The financial expenses capitalised in 2015 account for 1.6% of total financial costs on net borrowings (2.6% in 2014). The average capitalisation rate for 2015 and 2014 was 3.3% and 4.1%, respectively.

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

The item "Gas tankers" includes the present value at the acquisition date of committed payments to charter four gas tankers under finance leases (Note 18). In 2014, the agreement was completed, forming part of the sale of the Repsol Group's liquefied natural gas business, that signed Gas Natural Fenosa and Shell to acquire the exclusive use of each of the two tankers that had been jointly contracted by Gas Natural Fenosa and the Repsol Group.

At 31 December 2015, the item "Other fixed assets" includes the carrying amount of investments in areas with reserves, totalling Euros 338 million (Euros 350 million at 31 December 2014), basically relating to the investments in the coalfield of the company Kangra Coal (Proprietary), Ltd. in South Africa and exploration and development costs of Euros 26 million (Euros 32 million at 31 December 2014).

Set out below is a breakdown of fixed assets in course of construction by business area:

	31/12/2015	31/12/2014
Gas distribution	144	172
Electricity distribution	388	290
Electricity	334	351
Other	25	70
Total	**891**	**883**

At 31 December 2015, Gas Natural Fenosa had no significant real estate investments.

At 31 December 2015, property, plant and equipment include fully-depreciated assets still in use totalling Euros 1,854 million (Euros 1,722 million at 31 December 2014).

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

At 31 December 2015, Gas Natural Fenosa records investment commitments totalling Euros 861 million relating basically to the construction of four gas tankers (Note 34) and the development of the gas and electricity distribution network.

Note 7. Investments in companies

Associates and jointly-controlled entities

Set out below is a breakdown of equity-consolidated investments:

	At 31/12/15	At 31/12/14
Associates	45	45
Jointly-controlled entities	1,685	1,989
Total	**1,730**	**2,034**

Appendix I lists all the associates and jointly-controlled entities in which Gas Natural Fenosa holds an interest, stating their activity and the percentage of the shareholding and equity interest.

The most significant shareholdings are Unión Fenosa Gas and EcoEléctrica L.P. (Note 4).

Movements during 2015 and 2014 in equity-consolidated investments, including a breakdown of the most significant shareholdings, are as follows:

	Unión Fenosa Gas	EcoEléctrica, L.P.	Other jointly-controlled entities	Total jointly-controlled entities	Associates	Total
Value of shareholding at 01/01/14	**1,799**	**226**	**332**	**2,357**	**36**	**2,393**
Investment	-	-	25	25	-	**25**
Shares of profits/(losses)	(492)	38	(22)	(476)	2	**(474)**
Business combinations *(Note 30)*	-	-	70	70	5	**75**
Dividends received	(24)	(16)	(1)	(41)	-	**(41)**
Currency translation differences	11	35	-	46	-	**46**
Other comprehensive income	1	3	(1)	3	-	**3**
Reclassifications and other	-	-	5	5	2	**7**
Value of shareholding at 31/12/14	**1,295**	**286**	**408**	**1,989**	**45**	**2,034**
Investment	-	-	61	61	-	**61**
Divestment[1]	-	-	(92)	(92)	-	**(92)**
Shares of profits/(losses)	(81)	40	32	(9)	5	**(4)**
Business combinations *(Note 30)*	-	-	6	6	-	**6**
Dividends received	(13)	(52)	(36)	(101)	-	**(101)**
Currency translation differences	11	32	(5)	38	-	**38**
Other comprehensive income	(1)	2	-	1	-	**1**
Reclassifications and other[2]	(2)	1	(207)	(208)	(5)	**(213)**
Value of shareholding at 31/12/15	**1,209**	**309**	**167**	**1,685**	**45**	**1,730**

[1] In July 2015, Gas Natural Fenosa sold its 44.9% stake in the electricity distribution company Barras Eléctricas Galaico Asturianas, S.A., entailing a divestment of Euros 92 million in companies carried under the equity method (Note 27).

[2] Includes the transfer of held-for-sale assets totalling Euros 5 million (Note 9) and the write-off of the spin off shares from Nueva Generadora del Sur, S.A. (Note 30).

In 2014, "Shares of profits/(losses)" includes Euros 510 million relating to the impairment loss on the interests in Unión Fenosa Gas (Euros 485 million) and Nueva Generadora del Sur, S.A. (Euros 25 million).

With respect to Unión Fenosa Gas, due to a substantial breach in 2014 by the Egyptian supplier of the agreements reached to resume gas deliveries to the Damietta (Egypt) liquefaction plant, the need arose to update the impairment analysis for the entire investment in the subsidiary, applying the calculation method explained in Note 3.4.5. The impairment analysis was performed using the following assumptions:

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

The impairment analysis conducted in 2014 identified the need to recognise an impairment loss of Euros 485 million on the shareholding in Unión Fenosa Gas.

In 2015, the update of the Unión Fenosa Gas impairment analysis did not affect the assumptions used in the prior-year analysis, except for the pre-tax discount rate (11.0%). The results posted by Unión Fenosa Gas in 2015 are similar to the amounts included in the projections used in the 2014 impairment analysis; as there have been no new events, there has been no need to recognise additional impairment or to reverse the impairment loss recognised in the previous year.

Additionally, related to Nueva Generadora del Sur, S.A, as a result of a judgement from the Andalusia High Court ordering the dismantling of the power evacuation line, the plant's activities were temporarily suspended while actions were taken to identify an alternative route. Consequently, the impairment analysis had to be updated for the entire investment, applying the calculation criteria detailed in Note 3.4.5. The impairment testing was performed using the following assumptions:

- A delay in the date on which the plant's activities are resumed;
- A pre-tax discount rate of 6.5%.
- A subsequent business growth rate of 1.8%.

The impairment analysis conducted in 2014 identified the need to recognise an impairment loss of Euros 25 million on the shareholding in Nueva Generadora del Sur, S.A.

In 2015, steps taken to relocate the evacuation line continued as planned, so that the assumptions on which the impairment analysis of Nueva Generadora del Sur, S.A. were based have not changed significantly. As indicated in Note 30, Nueva Generadora del Sur, S.A. has completed the spin-off of a generation unit to each of its shareholders. Gas Natural Fenosa has included the unit received in the Electricity Spain CGU at fair value.

There follows a breakdown of assets, liabilities, revenue and results of Gas Natural Fenosa's main interests in jointly-controlled entities (by shareholding percentage):

	At 31/12/2015		At 31/12/2014	
	Unión Fenosa Gas	EcoEléctrica, L.P.	Unión Fenosa Gas	EcoEléctrica, L.P.
Non-current assets	1,772	313	1,836	286
Current assets	316	76	351	109
Cash and cash equivalents	123	3	140	45
Non-current liabilities	(700)	(54)	(731)	(72)
Non-current financial liabilities	(204)	(50)	(211)	(69)
Current liabilities	(179)	(26)	(161)	(37)
Current financial liabilities	(31)	(11)	(31)	(22)
Net assets	**1,209**	**309**	**1,295**	**286**
Net borrowings[1]	112	58	102	46

[1] Net borrowings: Non-current financial liabilities+Current financial liabilities-Cash and cash equivalents.

	2015		2014	
	Unión Fenosa Gas	EcoEléctrica, L.P.	Unión Fenosa Gas	EcoEléctrica, L.P.
Operating income	**(99)**	**46**	**(92)**	**43**
Sales	676	152	909	158
Operating expenses	(635)	(84)	(821)	(91)
Depreciation and amortisation charge	(140)	(22)	(180)	(24)
Share of profits	**(81)**	**40**	**(492)**	**38**
Profit/(loss) for the year from continuing operations	(81)	40	(7)	38
Impairment of shareholding	-	-	(485)	-

There are no contingent liabilities affecting interests in jointly-controlled entities. Contractual commitments relating to interests in jointly-controlled entities are commitments to purchase gas of Unión Fenosa Gas and EcoEléctrica L.P. in the amount of Euros 5,223 million at 31 December 2015 (Euros 8,808 million at 31 December 2014), commitments to sell gas of Unión Fenosa Gas in the amount of Eros 2,643 million (Euros 5,585 million at 31 December 2014), commitments to provide power generation capacity assignment services of EcoEléctrica L.P. in the amount of Euros 265 million (Euros 273 million at 31 December 2014) and gas tanker operating lease payment commitments of Unión Fenosa Gas in the amount of Euros 148 million at 31 December 2015 (Euros 143 million at 31 December 2014).

Certain investment projects related to interests in jointly-controlled entities have been financed by means of specific structures (project finance) which include pledges on the shares in the project companies. The outstanding balance of this type of financing at 31 December 2015 stands at Euros 361 million (Euros 369 million at 31 December 2014).

Joint operations

Gas Natural Fenosa participates in different joint ventures that meet the conditions indicated in Note 3.4.1.b and which are described in Appendix I, section 3. The relevant shareholdings in joint ventures at 31 December 2015 and 2014 are as follows:

(%)	2015	2014
Comunidad de Bienes Central Nuclear de Almaraz	11.3	11.3
Comunidad de Bienes Central Nuclear de Trillo	34.5	34.5
Comunidad de Bienes Central Térmica de Aceca	50.0	50.0
Comunidad de Bienes Central Térmica de Anllares	66.7	66.7

The contribution from the joint operations to Gas Natural Fenosa's assets, liabilities, revenue and results is analysed below:

	At 31/12/2015	At 31/12/2014
Non-current assets	**596**	**611**
Current assets	**185**	**67**
Cash and cash equivalents	1	-
Non-current liabilities	**(76)**	**(63)**
Non-current financial liabilities	-	-
Current liabilities	**(89)**	**(81)**
Current financial liabilities	(11)	(11)
Net assets	**616**	**534**
Net borrowings[1]	10	11

[1] Net borrowings: Non-current financial liabilities+Current financial liabilities-Cash and cash equivalents.

	2015	2014
Operating income	**49**	**(19)**
Income	254	189
Expenses	(146)	(154)
Depreciation and amortisation	(59)	(54)
Share of profit/(loss)	**41**	**(13)**
Profit/(loss) for the year from continuing operations	41	(13)

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 2015 and 2014, classified according to their nature and account, is as follows:

At 31 december 2015	Available for sale	Loans and other receivables	Investments held to maturity	Hedge derivatives	Fair value through profit and loss	Total
Equity instruments	141	-	-	-	-	**141**
Derivatives *(Note 17)*	-	-	-	208	-	**208**
Other financial assets	-	1,035	3	-	-	**1,038**
Non-current financial assets	141	1,035	3	208	-	**1,387**
Derivatives *(Note 17)*	-	-	-	2	-	**2**
Other financial assets	-	362	1	-	-	**363**
Current financial assets	-	362	1	2	-	**365**
Total	**141**	**1,397**	**4**	**210**	**-**	**1,752**

At 31 december 2014	Available for sale	Loans and other receivables	Investments held to maturity	Hedge derivatives	Fair value through profit and loss	Total
Equity instruments	145	-	-	-	-	**145**
Derivatives *(Note 17)*	-	-	-	30	-	**30**
Other financial assets	-	1,112	2	-	-	**1,114**
Non-current financial assets	145	1,112	2	30	-	**1,289**
Derivatives *(Note 17)*	-	-	-	-	-	**-**
Other financial assets	-	470	1	-	-	**471**
Current financial assets	-	470	1	-	-	**471**
Total	**145**	**1,582**	**3**	**30**	**-**	**1,760**

Financial assets recognised at fair value at 31 December 2015 and at 31 December 2014 are classified as follows:

Financial assets	31 december 2015				31 december 2014			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Available for sale	-	-	141	**141**	-	-	145	**145**
Hedging derivatives	-	210	-	**210**	-	30	-	**30**
Fair value through profit or loss	-	-	-	**-**	-	-	-	**-**
Total	**-**	**210**	**141**	**351**	**-**	**30**	**145**	**175**

Available-for-sale financial assets

The movement of Available for sale financial assets in 2015 and 2014, according with the method applied for calculating their fair value is as follows:

	2015				2014			
	Level 1	Level 2	Level 3	**Total**	Level 1	Level 2	Level 3	**Total**
At January 1	-	-	145	145	-	-	149	149
Increases	-	-	-	**-**	-	-	-	**-**
Translation adjustments	-	-	(7)	**(7)**	-	-	(1)	**(1)**
Transfers and others	-	-	3	**3**	-	-	(3)	**(3)**
At December 31	-	-	141	**141**	-	-	145	**145**

The most significant item relates to a 14.9% interest in the Medgaz, S.A., the company that operates the submarine gas pipeline between Algeria and Spain, in the amount of Euros 87 million (Euros 90 million at 31 December 2014).

Loans and other receivables

The breakdown at 31 December 2015 and 2014 is as follows:

	At 31/12/15	At 31/12/14
Commercial loans	129	133
Gas system income deficit financing	199	177
Deposits and guarantees deposits	121	139
Debtors for levelling of capacity income	88	35
Other loans	498	628
Loans and other receivables non-current	1,035	1,112
Commercial loans	65	56
Electricity system income deficit financing	68	183
Gas system income deficit financing	102	139
Dividend receivable	14	13
Other loans	113	79
Loans and other receivables current	362	470
Total	**1,397**	**1,582**

The breakdown by maturities at December 2015 and 2014 is as follows:

Maturities	At 31/12/15	At 31/12/14
No later than 1 year	362	470
Between 1 year and 5 years	284	456
Later than 5 years	751	656
Total	**1,397**	**1,582**

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

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

The item "Electricity system income deficit financing" relates to temporary mismatches between electricity system income and costs for the years commencing as from 2014, funded by Gas Natural Fenosa pursuant to Law 24/2013, December 26 (Note 2.4), generating a recovery right over the following five years and interest at a market rate. The amount of this financing has been entirely recognised as a short-term item on the understanding that it is a temporary mismatch that will be recovered through system settlements within one year.

The item "Gas system revenue deficit financing" relates to temporary mismatches between gas system revenues and costs accumulated in 2014, funded by Gas Natural Fenosa pursuant to Royal Decree-Law 8/2014, July 4 (Note 2.1.1.2), generating a recovery right, over the following 15 years, to the amount that is deemed to be the definitive 2014 deficit, and in the following five years for the remainder of the financing, recognising a market interest rate. The amount of this financing has been recognised in long term and short term items based on the estimated recovery period through system settlements.

The item "Deposits and guarantees deposits" basically include amounts deposited with the competent Public Administrations, under applicable legislation, in respect of guarantees and deposits received from customers when contracts are concluded to secure the supply of electricity and natural gas (Note 18).

The item "Capacity income debtors" relates to revenue yet to be billed in respect of the levelling of the term of generation capacity assignment contracts with the Mexican Federal Electricity Commission (Note 3.4.19.d).

"Other loans" includes, basically:

- A loan of Euros 197 million (Euros 217 million at 31 December 2014) for financing ContourGlobal La Rioja. S.L. for the sale of the Arrúbal combined cycle plant (La Rioja), which took place on 28 July 2011. The loan, which is secured by the shares of this company and by other assets, bears annual interest at a market rate and matures in 2021.

- the value of concessions that are deemed to be credits, pursuant to IFRIC 12 "Service concession arrangements" (Note 3.4.3.b and Note 31), in the amount of Euros 284 million (Euros 240 million at 31 December 2014), of which Euros 28 million is classified in current assets (Euros 21 million in 2014). These credits are classified in the item "Loans and receivables" as they represent an unconditional right to receive cash in fixed or determinable amounts.

- in 2014, the amount receivable resulting from the departure related to remuneration for the natural gas destined to the tariff market under the Algeria contract, supplied through the Maghreb pipeline, as a result of the arbitral award issued by the Paris International Arbitration Court on 9 August 2010, based on Article 15 of Royal Decree-Law 6/2000, in the amount of Euros 132 million in "Other non-current financial assets" and Euros 33 million in "Other current financial assets". On 24 July 2015, the total amount of the outstanding debt claim was assigned without recourse to a bank, transferring all associated rights and risks, resulting in a zero balance at 31 December 2015.

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 disposal groups of assets held for sale and discontinued operations

On 18 December 2015 Gas Natural Fenosa, that owns a controlling interest through CGE of 56.62% in the Chilean company Gasco, S.A., entered into an agreement with a group of shareholders with an interest of 21.9% in Gasco S.A., named "Familia Perez Cruz", to split that company into two companies. One company will be devoted to the natural gas business (Gasco GN) which will remain under the control of Gas Natural Fenosa and the other to the liquefied petroleum gas business (Gasco GLP) and which will be transferred to the Perez Cruz Family.

Under the agreement concluded, the following assets and liabilities are assigned to the LPG business:

- LPG supply, logistics, distribution and marketing activities, mainly through Gasco GLP, S.A. and Gasmar, S.A. and Autogasco, S.A. in Chile and Inversiones GLP, S.A.S. E.S.P. in Colombia.
- The Gasco Magallens business unit.
- Certain jointly-used assets and assets not directly or indirectly related to the LPG or natural gas business.
- Bond issued by Gasco, S.A. The meeting of bondholders held on 28 January 2016 approved to liberate Gasco GN from solidarity payment.

Following completion of the split, each party will launch a public share offering in order to increase its interest up to a maximum of 100% in its company in order to carry out its own independent project. Both parties have committed to include their interests in the public offering. According to the agreement, the value assigned to each share of Gasco, S.A. amounts to 2,100 Chilean peso while each share in Gasco GN will have a value of 3,200 Chilean peso. These prices will be adjusted, inter alia, for the effect of the dividends paid and for events taking place as from 31 December 2015. The process is expected to be completed in 2016 subject to the obtainment of the relevant process authorisations and approvals. The divestment in the LPG business is not expected to have significant impacts on the consolidated profits of Gas Natural Fenosa.

Since Gas Natural Fenosa is committed to selling those assets that are clearly identified, the process is under way and the transaction is expected to be completed in 2016, the sale is considered to be highly probable and therefore on 31 December 2015 the accounting balances of these assets and liabilities have been transferred to "Non-current Assets Held for Sale" and "Liabilities related to Non-current Assets Held for Sale" and under IFRS 5 "Non-current Assets Held for Sale and Discontinued Operations".

In addition, it has been considered a discontinued operation since it is a component classified as held for sale which represents a significant line of business, separate from the rest. Therefore, all income and expenses pertaining to the LPG business are presented under "Profit / loss for the year from discontinued operations, net of taxes".

At 31 December 2015, the detail by nature of assets classified as held for sale and the associated liabilities is as follows:

	2015
Intangible assets	147
Property, plant and equipment	671
Non-current financial assets	9
Deferred income tax assets	14
Non-current assets	**841**
Inventories	49
Trade and other receivables	42
Cash and cash equivalents	23
Current assets	**114**
Total assets	**955**
Non-current provisions	12
Non-current financial liabilities	285
Deferred income tax liabilities	134
Other non-current liabilities	38
Non-current liabilities	**469**
Current financial liabilities	53
Trade and other payables	57
Other current liabilities	6
Current liabilities	**116**
Total liabilities	**585**

Total comprehensive income on this activity in the years ended 31 December 2015 and 2014 breaks down as follows:

	2015	2014[1]
Consolidated net income for the year	34	2
Income and expenses recognised directly in net equity:	(16)	6
Currency translation differences	(16)	6
Cash-flow hedges	-	-
Total comprehensive income for the year	**18**	**8**

[1] Relates to the period 1 December 2014 (acquisition date of CGE) to 31 December 2014.

The breakdown by nature of "Profit/(loss) for the year from discontinued operations net of taxes" on the consolidated income statement and cash flows reflected in the cash flow statement relating to the LPG business in Chile at 31 December 2015 and 2014 is as follows:

	2015	2014[1]
Sales	547	45
Procurements	(329)	(36)
Other operating income	4	5
Personnel cost	(45)	(4)
Other operating expenses	(66)	(2)
Depreciation, amortisation and impairment expenses	(41)	(3)
Operating income	**70**	**5**
Financial income	4	-
Financial expenses	(28)	(2)
Net financial income	**(24)**	**(2)**
Profit/(loss) on equity method companies	1	-
Profit/(loss) before taxes	**47**	**3**
Income expense	(13)	(1)
Net income for the year from discontinued operations	**34**	**2**
Attributable to:		
Equity holders of the Parent company	11	1
Non-controlling interests	23	1

[1] Relates to the period 1 December 2014 (acquisition date of CGE) to 31 December 2014.

The cash flows from discontinued operations included in the consolidated cash flow statements are:

	2015	2014[1]
Cash flow generated from operating activities	75	8
Cash flow received from investing activities	(35)	(3)
Cash flow received from financing activities	(46)	(1)

[1] Relates to the period 1 December 2014 (acquisition date of CGE) to 31 December 2014.

Transactions between the companies making up the discontinued LPG business with other group companies are not significant (Euros 7 million). Therefore, intragroup cash flows with the discontinued business are not significant.

Note 10. Inventories

The breakdown of Inventories is as follows:

	At 31/12/15	At 31/12/14
Natural gas and liquefied gas	522	701
Coal and fuel oil	130	169
Nuclear fuel	63	64
Raw materials and other inventories	111	143
Total	**826**	**1,077**

Gas inventories 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 31/12/15	At 31/12/14
Trade receivables	5,248	5,682
Receivables with related companies *(Note 32)*	163	150
Provision for depreciation of receivables	(890)	(940)
Trade receivables	**4,521**	**4,892**
Public Administrations	197	139
Prepayments	83	87
Derivative financial instruments *(Note 17)*	5	24
Sundry receivables	187	263
Other receivables	**472**	**513**
Current income tax assets	**198**	**296**
Total	**5,191**	**5,701**

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

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

The movement in the impairment of receivables is as follows:

	2015	2014
At january 1	**(940)**	**(844)**
Net charge for the year *(Note 26)*	(258)	(302)
Write offs	254	178
Translation adjustments and others	54	28
At december 31	**(890)**	**(940)**

Note 12. Cash and cash equivalents

Cash and cash equivalents comprise the following:

	At 31/12/15	At 31/12/14
Cash at bank and in hand	1,467	2,376
Short term investments (Spain and rest of Europe)	751	916
Short term investments (International)	172	280
Total	**2,390**	**3,572**

The short term investments in cash equivalents mature in less than three months and bear an average effective interest rate 0.5% at 31 December 2015 (0.8% at 31 December 2014).

Note 13. Equity

The main elements of Equity are broke down as follows:

Share capital and share premium

The variations in 2015 and 2014 in the number of shares and share capital and share premium accounts have been as follows:

	Number of shares	Share capital	Share premium	**Total**
At 31 december 2013	**1,000,689,341**	**1,001**	**3,808**	**4,809**
Variation	-	-	-	-
At 31 december 2014	**1,000,689,341**	**1,001**	**3,808**	**4,809**
Variation	-	-	-	-
At 31 december 2015	**1,000,689,341**	**1,001**	**3,808**	**4,809**

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

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

In 2015, 2,899,180 treasury shares were acquired for Euros 58 million and totally sold for Euros 60 million. In 2014, 1,128,504 treasury shares were acquired for Euros 23 million, of which 174,998 shares amounting to Euros 3 million were delivered to the Group's employees as part of their 2014 remuneration in accordance with the Shares Acquisition Plan 2012-2013-2014 (Note 3.4.15.d), and all the rest were totally sold in the amount of Euros 20 million. At the 2015 and 2014 year end, Gas Natural Fenosa does not have any treasury shares.

The most representative holdings in the share capital of Gas Natural SDG, S.A. at 31 December 2015, in accordance with the public information available or the communication issued by the Company itself, are as follows:

	Interest in share capital (%)
"la Caixa" group	34.4
Repsol group	30.0
Sonatrach	4.0

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

The share price at the end of 2015 of Gas Natural SDG, S.A. is Euros 18.82 (Euros 20.81 at 31 December 2014).

Reserves

"Reserves" includes the following reserves:

	2015	2014
Legal reserve	200	200
Statutory reserve	100	100
Revaluation reserve under RD 7/96	225	225
Goodwill reserve	946	893
Voluntary reserves	6,579	6,458
Other reserves	1,027	590
Total	**9,077**	**8,466**

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 all 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 accounting books.

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 31/12/15	At 31/12/14
Net income attributable to equity holders of the Company[1]	1,571	1,462
Weighted average number of ordinary shares in issue (million)	1,001,689,341	1,001,689,341
Earnings per share from continuing activities (in Euros):		
Basic	1.56	1.46
Diluted	1.56	1.46
Earnings per share from discontinued activities (in Euros):		
Basic	0.01	-
Diluted	0,01	-

[1]Pursuant to IAS 33, profit attributable to the parent company's equity holders at 31 December 2015 was adjusted for the excess carrying amount of the preferred shares over the amount paid to buy them back, net of the tax effect (see "Non-controlling interests" section of this note).

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

Dividends

The breakdown of the payments of dividends made in 2015 and 2014 is as follows:

	31/12/15			31/12/14		
	% of par value	Euros per share	Amount	% of par value	Euros per share	Amount
Ordinary shares	91	0.908	909	90	0.897	897
Remaining shares (no vote. redeemable. etc.)	-	-	-	–	–	–
Total dividends paid	**91**	**0.908**	**909**	**90**	**0.897**	**897**
a) Dividends charged to income statement	91	0.908	909	90	0.897	897
b) Dividends charged to reserves or share premium	–	–	–	–	–	–
c) Dividends in kind	–	–	–	–	–	–

Additionally, dividends paid to non-controlling shareholders in 2015 amounted to Euros 161 million (Euros 228 million in 2014). See "Non-controlling interest" section of this note.

Year 2015

Includes the payment of an interim dividend of Euros 0.397 per share out of 2014 profits, for a total amount of Euros 397 million, agreed on 28 November 2014 and paid out on 8 January 2015.

Additionally, the proposal for the distribution of 2014 profits approved by the Annual General Meeting held on 14 May 2015 included the payment of a supplementary dividend of Euros 0.511 per share, for a total amount of Euros 512 million, paid on 1 July 2015.

On 30 October 2015, the Board of Directors of Gas Natural SDG, S.A. resolved to pay an interim dividend of Euros 0.408 per share out of 2015 results, for a total of Euros 408 million, payable as from 8 January 2016.

The Parent company had sufficient liquidity to pay out the interim dividend at the approval date, pursuant to the Spanish Companies Act 2010. The Parent company's provisional liquidity statement drawn up by the Directors at 30 October 2015 is as follows:

Net income	665
Reserves to be allocated	(41)
Maximum amount available for distribution	**624**
Forecast of interim dividend payment	**408**
Treasury liquidity	1,552
Debt issue and undrawn credit facilities	6,839
Total liquidity	**8.391**

On 29 January 2016, the Board of Directors approved the following proposal for the distribution of Gas Natural SDG, S.A.'s net profit for 2015, for submission to the Annual General Meeting:

Available for distribution	
Profit/(loss)	1,103
Distribution	
To Voluntary reserve	170
To Dividend	933

This proposal for the distribution of profits prepared by the Board for approval by the Annual General Meeting includes the payment of a supplementary dividend of Euros 0.525 per share, entailing a total of Euros 525 million, on 1 July 2016.

The proposal for the distribution of 2015 profits does not include an appropriation to the goodwill reserve stipulated by Article 273 of the Spanish Companies Act since the reserve is fully provisioned.

Year 2014

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

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

Adjustments for changes in value

The item "Currency translation differences" includes the exchange differences described in Note 3.4.2 as a result of the euro's fluctuation against the main currencies of Gas Natural Fenosa's foreign companies.

	Non-controlling interests
Balance at 01/01/2014	**1,523**
Total comprehensive income for the year	223
Distribution of dividends	(234)
Business combinations *(note 30)*	1,385
Issue of perpetual subordinated debentures	993
Other changes	(11)
Balance at 31/12/2014	**3,879**
Total comprehensive income for the year	295
Distribution of dividends	(188)
Issue of perpetual subordinated debentures	493
Repurchase of preference shares	(640)
Capital increase in Global Power Generation	496
Payments return on other equity instruments	(41)
Other changes	(143)
Balance at 31/12/2015	**4,151**

The most significant movements for 2015 relate to:

- Issue of perpetual subordinated debentures

On 21 April 2015 Gas Natural Fenosa Finance, B.V. closed an issue of perpetual subordinated debentures secured by Gas Natural SDG, S.A. amounting to Euros 500 million. The issue rate was set at 98.65% of nominal value, resulting in a net issue of Euros 493 million. The debentures accrued interest is defined as a reference interest rate plus a mark-up. The reference interest rate is the swap rate at 9 years (initially equivalent to 0.421%) which may be reviewed every 9 years. The initial mark-up is 3.079% and this will be maintained for the first 10 years, rising to 3.329% in the period 2025 to 2044 and 4.079% thereafter. The effective interest rate is therefore 3.375%.

Interest accrued on these debentures is not payable but rather cumulative. Nonetheless, Gas Natural Fenosa should pay it if dividends are paid out or the decision to exercise the early cancellation option is taken.

Although no contractual maturity has been established for these debentures, Gas Natural Fenosa Finance, B.V. have the option to redeem them early in certain circumstances envisaged in the terms and conditions on 24 April 2024 and subsequently, on every interest payment date.

After analysing the terms and conditions of this issue, and in accordance with IAS 31, Gas Natural Fenosa has accounted for the cash received by crediting “Non-controlling interests” included in equity on the consolidated balance sheet at 31 December 2015 on the understanding that the issue does not meet the conditions to be considered as a financial liability, because Gas Natural Fenosa Finance B.V. does not have the contractual commitment to hand over cash or another financial asset and also it does not have an obligation to exchange financial assets or liabilities, being at the discretion of Gas Natural Fenosa Finance, B.V the fully circumstances.

- Repurchase of preference shares

In 2005 Union Fenosa Preferentes, S.A. carried out a preference share issue for a nominal amount of Euros 750 million, which was recognised under Non-controlling interests. The main characteristics are:

a) 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%.

b) 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.

c) 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.

d) 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.

e) Voting rights: none.

In May 2015 Gas Natural Fenosa offered to buy back in cash the preference shares issued by Union Fenosa Preferentes S.A.U. in 2005 at 85% of their nominal value. After the acceptance period, the aggregate nominal amount with respect to which the pertinent acceptance was issued totalled Euros 640 million (85.3% of the issue), which represented a cash amount of Euros 544 million. The rest has remained outstanding.

The excess of the carrying amount of the preference shares over the amount paid to buy them back totalled Euros 69 million and was recognised as an equity transaction, entailing an increase in "Reserves" under “Other movements" in the consolidated Statement of changes in equity.

- Capital increase in Global Power Generation

  In March 2015 Gas Natural Fenosa and Kuwait Investment Authority (KIA) entered into an agreement through which KIA committed to increasing capital by $550 million (Euros 493 million) to become a 25% shareholder of Global Power Generation S.A. (GPG), the parent of the subgroup holding that included the international generation assets of Gas Natural Fenosa. Following the obtainment of the pertinent authorisations, this operation was completed in October 2015. In accordance with the terms and conditions of the agreement reached, Gas Natural Fenosa retains control of GPG. Therefore, from an accounting viewpoint, it is an equity transaction, entailing an increase in "Non-controlling interests" amounting to Euros 496 million, relating to the carrying amount of the interest transferred, and a decrease in "Reserves" amounting to Euros 3 million.

- Other changes

  In 2015 Gas Natural Fenosa Chile, SpA acquired an additional interest of 0.65% in Compañía General de Electricidad, S.A. (CGE) for Euros 18 million, its controlling interest amounting to 97.37%. As this is an acquisition of non-controlling interests, it has been recognised as an equity transaction, entailing a decrease in "Non-controlling interests" of Euros 16 million and a decrease in "Reserves" of Euros 2 million.

  In June 2015 Gasco, S.A. (a subsidiary of Gas Natural Fenosa) acquired an additional interest of 12.75% in Gasmar, S.A. (a subsidiary of Gas Natural Fenosa) for Euros 34 million, its controlling interest amounting to 63.8%. As this is an acquisition of non-controlling interests, it has been recognised as an equity transaction, entailing a decrease in "Non-controlling interests" of Euros 31 million and a decrease in "Reserves" of Euros 2 million.

  In October Gas Natural Fenosa Chile, SpA acquired an additional interest of 8.33% in Metrogas, S.A. (a subsidiary of Gas Natural Fenosa) for Euros 116 million, its controlling interest amounting to 60.17%. As this is an acquisition of non-controlling interests, it has been recognised as an equity transaction, entailing a decrease in "Non-controlling interests" of Euros 110 million and a decrease in "Reserves" of Euros 6 million.

  It also includes the acquisition of other additional investments in subsidiaries of Euros 4 million.

The most significant movements in 2014 are described below:

- CGE business combination (Note 30).

- Subordinated perpetual debentures.

  On 18 November 2014, Gas Natural Fenosa Finance, B.V. completed an issue of subordinated perpetual debentures secured by Gas Natural SDG, S.A. in the amount of Euros 1,000 million. The issue price was set at 99.49% of the par value, entailing a net issue of Euros 993 million. The debentures bear an interest defined as a reference interest rate plus a spread. The reference interest rate will be the 8-year swap rate (initially equivalent to 0.77%), reviewable every eight years. The initial spread is 3.35% and will be maintained for the first 10 years, followed by 3.60% from 2024 to 2042 and subsequently 4.35%. The initial interest rate is therefore 4.12%.

  Interest accrued on these debentures will not be payable but will accumulate, although Gas Natural Fenosa must make payment in the event that dividends are paid out or the decision is taken to exercise the early redemption option.

  Although these debentures have no contractual maturity date, Gas Natural Fenosa Finance, B.V. has the option of redeeming them early on 18 November 2022 and, subsequently, on each interest payment date.

After analysing the issue conditions, Gas Natural Fenosa has credited the cash received to the item "Non-controlling interests" in equity on the consolidated balance sheet at 31 December 2014, in accordance with IAS 32, on the basis that the issue does not qualify as a financial liability, since Gas Natural Fenosa Finance, B.V. does not have a contractual commitment to make payment in cash or in other financial assets, or the obligation to exchange financial assets or liabilities, being the circumstances that oblige Gas Natural Fenosa Finance, BV to do so entirely at its own discretion.

Interest accrued since the debenture issue in the amount of Euros 5 million have been recognised in "Non-controlling interests" in the consolidated income statement for the year ended 31 December 2014.

- Other changes.

In June 2014, the sale of Gas Natural Fenosa Telecomunicaciones, S.A. was completed (Notes 3.4.1 and 27). Gas Natural Fenosa held minority interests through that company, entailing the disposal of associated non-controlling interest valued at Euros 3 million.

In July 2014, Gas Natural Fenosa acquired 20% of Iberafrica Power, Ltd from Kenya Power and Lighting Company, Ltd for Euros 3 million reaching an 89.59% shareholding. As it was a non-controlling interest, it was recognised as an equity transaction, entailing a reduction of Euros 4 million in the item "Non-controlling interests".

Set out below is a breakdown of the most significant non-controlling interests:

	2015			2014		
Company	Attributed equity	Consolidated profit/(loss) for the year	Dividends received and other remunerations	Attributed equity	Consolidated profit/(loss) for the year	Dividends received and other remunerations
Metrogas, S.A.	860	44	25	996	1	-
Companhia Distribuidora de Gás do Río de Janeiro, S.A.	150	38	20	167	47	84
Global Power Generation, S.A.[1]	140	-	-	-	-	-
Gasco GLP, S.A.	98	11	22	102	-	-
Fuerza y Energía de Tuxpan[1]	106	2	-	-	-	-
Electrificadora del Caribe, S.A. ESP	89	7	-	73	4	-
Empresa de Distribución Eléctrica Metro Oeste, S.A.	85	13	22	94	20	-
Ecoelectrica L.P.[1]	77	1	-	-	-	-
Kangra Coal (Proprietary), Ltd	75	(6)	-	81	1	1
Europe Maghreb Pipeline, Ltd.	62	55	52	50	43	39
Gasmar, S.A.	57	14	13	67	-	-
Gas Natural Mexico, S.A. de CV	55	8	-	51	5	-
Gas Natural, S.A. ESP	45	31	4	22	34	64
Ceg Río, S.A.	35	10	7	39	14	28
Other companies	582	38	20	389	15	11
Subtotal	**2,516**	**266**	**185**	**2,131**	**184**	**227**
Preferred shares	110	3	3	750	7	7
Subordinated perpetual debentures	1,502	53	41	998	5	-
Other equity instruments	**1,612**	**56**	**44**	**1,748**	**12**	**7**
Total	**4,128**	**322**	**229**	**3,879**	**196**	**234**

[1] Included in 2015 due to the effect of the GPG capital increase paid up by KIA, as described in this note.

Dividends paid to non-controlling interests in 2015 amounted to Euros 161 million (Euros 228 million in 2014).

Set out below are financial highlights for the most significant non-controlling shareholdings (amounts at 100%):

	31 december 2015			31 december 2014		
Company	Total assets	Non-current liabilities	Current liabilities	Total assets	Non-current liabilities	Current liabilities
Metrogas, S.A.	2,190	(764)	(63)	2,331	(787)	(75)
Companhia Distribuidora de Gás do Río de Janeiro, S.A.	703	(172)	(188)	878	(261)	(229)
Global Power Generation , S.A.	583	(1)	(2)	13	(587)	(2)
Gasco GLP, S.A.	409	(125)	(66)	415	(116)	(72)
Fuerza y Energía de Tuxpan	1,070	(161)	(16)	953	(138)	(21)
Electrificadora del Caribe, S.A. ESP	1,538	(480)	(454)	1,797	(636)	(541)
Empresa de Distribución Eléctrica Metro Oeste, S.A.	731	(152)	(258)	755	(196)	(244)
Ecoelectrica L.P.	389	(54)	(26)	397	(72)	(39)
Kangra Coal (Proprietary), Ltd	433	(114)	(6)	452	(107)	(10)
Europe Maghreb Pipeline, Ltd.	276	(1)	(4)	268	(31)	(12)
Gasmar, S.A.	163	(46)	(30)	159	(41)	(23)
Gas Natural Mexico, S.A. de CV	721	(241)	(55)	755	(153)	(206)
Gas Natural, S.A. ESP	379	(92)	(99)	349	(107)	(106)
Ceg Río, S.A.	253	(51)	(110)	317	(57)	(155)

Appendix I contains a breakdown of Gas Natural Fenosa's investee companies, stating their activity and the percentage of the shareholding and equity interest.

The analysis performed to determine that Gas Natural Fenosa exercises control over the consolidated entities identified no cases requiring a complex judgement, since Gas Natural Fenosa is entitled to variable returns from its involvement in the investee and has the capacity to influence those returns through its power in the investee, based on Gas Natural Fenosa's representatives on the Board of Directors and its participation in significant decisions. Additionally, in general terms, there are no significant restrictions, such as protective rights, on Gas Natural Fenosa's capacity to access or utilise assets, or to settle liabilities.

Note 14. Deferred income

The breakdown and the movements under this heading in 2015 and 2014 have been as follows:

	Grants	Revenues from pipeline networks and branch lines	Income from extension of pipelines charged to third parties	Other revenues	Total
At 01/01/14	169	532	103	115	**919**
Financing received	13	46	7	1	**67**
Release to income	(16)	(17)	(11)	(1)	**(45)**
Divestments[1]	-	-	-	(114)	**(114)**
Translation adjustments	3	-	-	2	**5**
Transfers and others	(13)	6	-	7	**-**
At 31/12/14	156	567	99	10	**832**
Financing received	16	50	3	-	**69**
Release to income	(19)	(29)	(15)	(1)	**(64)**
Translation adjustments	3	-	(1)	(2)	**-**
Transfers and others	12	-	4	-	**16**
At 31/12/15	168	588	90	7	**853**

[1] It mainly includes the divestment due to the sale of Gas Natural Fenosa Telecomunicaciones, S.A. (Notes 3.4.1 and 27).

Note 15. Provisions

The breakdown of provisions at 31 December 2015 and 2014 is as follows:

	At 31/12/15	At 31/12/14
Provisions for employee obligations	659	740
Other provisions	829	820
Non-current provisions	1,488	1,560
Current provisions	193	128
Total	**1,681**	**1,688**

Provisions for employee obligations

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

	2015			2014		
	Pensions and other similar obligations	Other obligations to personnel	**Total**	Pensions and other similar obligations	Other obligations to personnel	**Total**
At January 1	731	9	**740**	688	7	**695**
Contributions charged to profits	42	9	**51**	41	9	**50**
Payments during the year	(60)	–	**(60)**	(56)	–	**(56)**
Currency translation differences	(43)	–	**(43)**	(22)	–	**(22)**
Changes recognised directly in equity	(7)	–	**(7)**	10	–	**10**
Business combination *(Note 30)*	–	–	**–**	72	–	**72**
Transfers and other applications	(13)	(9)	**(22)**	(2)	(7)	**(9)**
At December 31	650	9	**659**	731	9	**740**

Pensions and other similar obligations

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

Breakdown by country	At 31/12/15	At 31/12/14	At 01/01/14
Spain (1)	362	374	364
Colombia (2)	196	238	269
Brazil (3)	25	36	42
Chile (4)	48	67	-
Rest	19	16	13
Total	**650**	**731**	**688**

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 2015 and 31 December 2014, 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 2015 and 2014 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 2015 and at 31 December 2014, 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.

4) Pension plans and Other post-employment benefits in Chile

At 31 December 2015 and 2014, as a result of the acquisition of the CGE Group (Note 30), Gas Natural Fenosa has the following benefits in force for certain employees in Chile:

- Termination benefits for employees due to retirement, dismissal or death, calculated based on length of service.

- Pension supplements for employees hired prior to 1992 in some electricity distribution companies.

- Length-of-service awards payable at 5, 10, 15, 20, 25 and 30 years of service.

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:

	2015				2014			
	Spain	Colombia	Brazil	Chile	Spain	Colombia	Brazil	Chile
Current value of the obligations								
At January 1	1,240	238	138	67	1,174	269	140	-
Current service cost	6	-	-	4	5	-	-	-
Interest cost	24	17	13	2	36	19	15	-
Changes recognised directly in equity	(19)	2	(11)	(1)	105	(2)	(10)	-
Benefits paid	(78)	(25)	(11)	(11)	(80)	(26)	(10)	(3)
Currency translation differences	-	(36)	(33)	(1)	-	(22)	-	-
Business combinations *(Note 30)*	-	-	-	-	-	-	-	72
Transfers and other	-	-	-	(12)	-	-	3	(2)
At December 31	1,173	196	96	48	1,240	238	138	67
Fair value of plan assets								
At January 1	866	-	102	-	810	-	98	-
Expected yield	16	-	10	-	24	-	12	-
Contributions	1	-	6	-	2	-	6	-
Changes recognised directly in equity	(11)	-	(11)	-	91	-	(7)	-
Benefits paid	(61)	-	(11)	-	(61)	-	(10)	-
Cumulative translation adjustments	-	-	(25)	-	-	-	-	-
Transfers and other	-	-	-	-	-	-	3	-
At December 31	811	-	71	-	866	-	102	-
Provisions for post-employment pension obligations	362	196	25	48	374	238	36	67

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

	2015				2014			
	Spain	Colombia	Brazil	Chile	Spain	Colombia	Brazil	Chile
Current service cost	6	-	-	4	5	-	-	-
Past service cost	-	-	-	-				
Interest cost	24	17	13	2	36	19	15	-
Expected return on plan assets	(16)	-	(10)	-	(24)	-	(12)	-
Total income statement charge	**14**	**17**	**3**	6	**17**	**19**	**3**	-

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

	2015				2014			
	Spain	Colombia	Brazil	Chile	Spain	Colombia	Brazil	Chile
Between 1 to 5 years	8	-	-	13	13	-	-	20
Between 5 to 10 years	31	196	25	12	28	238	-	16
Later than 10 years	323	-	-	23	333	-	36	31
Provisions for pensions and similar obligations	**362**	**196**	**25**	**48**	**374**	**238**	**36**	**67**

The weighted average term of defined benefit commitments is as follows:

Years	Spain	Colombia	Brazil	Chile
Weighted average term of pension commitments	11.49	7.41	8.90	10.50

Movements in the liability recognised in the Consolidated Balance Sheet are as follows:

	2015				2014			
	Spain	Colombia	Brazil	Chile	Spain	Colombia	Brazil	Chile
At January 1	374	238	36	67	364	269	42	-
Charge against the income statement	14	17	3	6	17	19	3	-
Contributions paid	(18)	(25)	(6)	(11)	(21)	(26)	(6)	(3)
Changes recognised directly in equity	(8)	2	-	(1)	14	(2)	(3)	-
Transfers	-	-	-	-	-	-	-	(2)
Currency translation differences	-	(36)	(8)	(1)	-	(22)	-	1
Business Combinations	-	-	-	-	-	-	-	71
Discontinued operations	-	-	-	(12)	-	-	-	-
At December 31	**362**	**196**	**25**	**48**	**374**	**238**	**36**	**67**

Cumulative actuarial gains and losses recognised directly in equity are negative in the amount of Euros 188 million in 2015 (Spain: negative in the amount of Euros 49 million, Colombia: negative in the amount of Euros 100 million, Brazil: negative in the amount of Euros 33 million, Chile: negative in the amount of Euros 5 million and Other: negative in the amount of Euros 1 million). In 2014, the cumulative negative amount totalled Euros 195 million (Spain: negative in the amount of Euros 57 million, Colombia: negative in the amount of Euros 98 million, Brazil: negative in the amount of Euros 33 million, Chile: negative in the amount of Euros 6 million and Other: negative in the amount of Euros 1 million).

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

	2015				2014			
	Spain	Colombia	Brazil	Chile	Spain	Colombia	Brazil	Chile
Financial assumptions	6	(7)	(6)	-	33	1	(4)	-
Demographic assumptions	-	-	-	-	-	-	-	-
Experience	(13)	9	4	(1)	(20)	(3)	(3)	-
Limits on assets	(1)	-	2	-	1	-	4	-
At 31 December	**(8)**	**2**	**-**	**(1)**	**14**	**(2)**	**(3)**	-

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

	2015				2014			
% over total	Spain	Colombia	Brazil	Chile	Spain	Colombia	Brazil	Chile
Shares	-	-	13	-	-	-	14	-
Bonds	100	-	77	-	100	-	77	-
Real estate and other assets	-	-	10	-	-	-	9	-

Real yields on the plan-related assets in 2015, relating basically to Spain and Brazil, have been Euros 26 million (Euros 36 million in 2014).

The main annual actuarial assumptions used were as follows:

	At 31/12/15				At 31/12/14			
%	Spain	Colombia	Brazil	Chile	Spain	Colombia	Brazil	Chile
Discount rate[1]	0.2 a 2.6	8.7	13.3	1.7	0.4 a 2.5	8.0	11.7	1.7
Expected return on plan assets[1]	0.2 a 2.6	-	13.3	-	0.4 a 2.5	-	11.7	-
Future salary increases[1]	2.0	4.5	7.7	1.9	2.0	4.0	7.7	1.9
Future pension increases[1]	2.0	3.5	5.5	NA	2.0	3.0	5.5	N/A
Inflation rate[1]	2.0	3.5	5.5	NA	2.0	3.0	5.5	N/A
Mortality table	PERMF 2000	RV08	AT-2000	RV-2009	PERMF 2000	RV08	AT-83	RV-2009
Life expectancy:								
Men								
Retired in the current year	22.5	18.45	20.45	19.58	22.4	18.5	18.1	19.6
Retired in 20 years	42.5	36.69	37.94	20.47	42.4	36.7	35.1	20.5
Women								
Retired in the current year	27.0	22.18	23.02	29.07	26.9	22.2	21.5	29.1
Retired in 20 years	48.4	40.39	41.44	29.75	48.4	40.4	39.7	29.8

[1] Anual.

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

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

Benefits payable and estimated contributions to be made for 2016 in million euros are as follows:

	Benefits				Contributions			
	Spain	Colombia	Brazil	Chile	Spain	Colombia	Brazil	Chile
Post-employment	64	-	7	-	15	18	1	3
Post-employment medical	-	-	-	-	3	3	2	-
Long term	-	-	-	-	-	-	-	-
At 31 December	**64**	**-**	**7**	**-**	**18**	**21**	**3**	3

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	111	(143)	14
Fair value of plan-related assets	-	(77)	-
Provision for pensions	111	(66)	14
Cost of service for the year	2	(2)	-
Interest paid	6	10	3
Expected yield on plan-related assets	-	(6)	-

Other obligations with personnel

Gas Natural Fenosa operates a variable multi-annual remuneration system aimed at strengthening the commitment of the management to achieving the economic objectives of the Group directly related to those established in the current Strategic Plans, approved by the Board of Directors and communicated to the financial markets and the achievement of which, along with their permanence in the Group, grants the right to receive a variable remuneration in cash in the first quarter of the year after its termination.

At 31 December 2015 a provision has been booked corresponding the remuneration, 2013-2015, 2014-2016 and 2015-2018 amounting to Euros 18 million (Euros 18 million at 31 December 2014), of which Euros 9 million are classified as non-current in 2015 (Euros 9 million 2014).

Other current and non-current provisions

Movements in current and non-current provisions are as follows:

	Non-current provisions				
	Due to facility closure costs	Other provisions	**Total**	Current provisions	**Total**
At 01/01/14	373	399	772	134	906
Appropriations/reversals charged to income statement:					
Appropriations due to financial update	12	7	**19**	-	**19**
Appropriations charged to other results	-	29	**29**	41	**70**
Reversals	-	(14)	**(14)**	-	**(14)**
Appropriations/reversals charged to fixed assets:	19	-	**19**	-	**19**
Payments	(2)	(17)	**(19)**	(52)	**(71)**
Business combinations *(Note 30)*	-	17	**17**	-	**17**
Currency translation differences	1	-	**1**	5	**6**
Transfers and other	-	(4)	**(4)**	-	**(4)**
At 31/12/14	403	417	820	128	948
Appropriations/reversals charged to income statement					
Appropriations due to financial update	10	4	**14**	-	**14**
Appropriations charged to other results	-	34	**34**	103	**137**
Reversals	-	(22)	**(22)**	-	**(22)**
Appropriations/reversals charged to fixed assets	18	-	**18**	-	**18**
Payments	(2)	(37)	**(39)**	(43)	**(82)**
Business combinations *(Note 30)*	2	5	**7**	-	**7**
Currency translation differences	(3)	(8)	**(11)**	5	**(6)**
Transfers and other	-	8	**8**	-	**8**
At 31/12/15	428	401	829	193	1,022

The item "provisions due to facility closure costs" includes provisions for obligations arising from decommissioning, restoration and other costs related basically to electricity generation facilities.

The item "Other provisions" mainly includes provisions posted to cover obligations derived principally from tax claims (Note 21), lawsuits and arbitration, insurance and other liabilities. Note 34 "Commitments and contingent liabilities" includes further information on contingent liabilities.

The item "Current provisions" relates mainly to CO2 emissions estimated for the year in the amount of Euros 103 million at 31 December 2015 (Euros 41 million in 2014) (Note 26).

No provision for onerous contracts was deemed necessary at 31 December 2015 or 2014.

The estimated payment periods for the obligations provisioned in this item are Euros 331 million in between one and five years, Euros 102 million in between five and 10 years, and Euros 396 million after more than 10 years.

Note 16. Borrowings

The breakdown of borrowings at 31 December 2015 and 2014 is as follows:

	At 31/12/15	At 31/12/14
Issuing of debentures and other negotiable obligations	10,632	11,478
Loans from financial institutions	4,802	6,125
Derivative financial instruments	165	57
Other financial liabilities	54	80
Non-current borrowings	**15,653**	**17,740**
Issuing of debentures and other negotiable obligations	1,691	1,772
Loans from financial institutions	741	800
Derivative financial instruments	14	37
Other financial liabilities	149	195
Current borrowings	**2,595**	**2,804**
Total	**18,248**	**20,544**

Financial liabilities recognised at fair value at 31 December 2015 and at 31 December 2014 are classified as follows:

	31 december 2015				31 december 2014			
Financial liabilities	Level 1	Level 2	Level 3	**Total**	Level 1	Level 2	Level 3	**Total**
Fair value through profit or loss	-	-	-	**-**	-	-	-	**-**
Hedging derivatives	-	179	-	**179**	-	94	-	**94**
Total	**-**	**179**	**-**	**179**	**-**	**94**	**-**	**94**

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

	Carrying amount		Fair value	
	At 31/12/15	At 31/12/14	At 31/12/15	At 31/12/14
Issuing of debentures and other negotiable obligations	10,632	11,478	11,961	13,195
Loans from financial institutions and others	4,856	6,205	4,882	6,226

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 2015 and 31 December 2014 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:

	2015	2014
At January 1	**20,544**	**18,442**
Business combinations *(Note 30)*	165	2,116
Increase in borrowings	5,943	5,672
Decrease in borrowings	(8,043)	(5,777)
Currency translation differences	(285)	85
Assets and liabilities held for sale *(Note 9)*	(338)	–
Transfers and others	262	6
At December 31	**18,248**	**20,544**

The following tables describe consolidated gross borrowings by instrument at 31 December 2015 and 31 December 2014 and their maturity profile, taking into account the impact of the derivative hedges.

	2016	2017	2018	2019	2020	2021 and after	**Total**
At 31 December 2015:							
Issue of bonds and other negotiable securities							
Fixed	1,296	1,405	1,567	1,235	1,660	4,588	**11,751**
Floating	390	29	26	58	–	69	**572**
Institutional Banks and other financial companies							
Fixed	167	234	190	177	177	255	**1,200**
Floating	53	68	79	53	50	88	**391**
Commercial Banks and other financial liabilities							
Fixed	172	168	78	491	30	10	**949**
Floating	517	582	581	774	579	352	**3,385**
Total Fixed	**1,635**	**1,807**	**1,835**	**1,903**	**1,867**	**4,853**	**13,900**
Total Floating	**960**	**679**	**686**	**885**	**629**	**509**	**4,348**
Total	**2,595**	**2,486**	**2,521**	**2,788**	**2,496**	**5,362**	**18,248**

	2015	2016	2017	2018	2019	2020 and after	Total
At 31 December 2014:							
Issue of bonds and other negotiable securities							
Fixed	1,091	1,031	1,436	1,567	1,238	6,103	**12,466**
Floating	681	–	34	–	69	–	**784**
Institutional Banks and other financial companies							
Fixed	139	231	228	189	179	432	**1,398**
Floating	57	55	69	90	50	137	**458**
Commercial Banks and other financial liabilities							
Fixed	351	155	374	503	263	2	**1,648**
Floating	485	872	786	564	669	414	**3,790**
Total Fixed	**1,581**	**1,417**	**2,038**	**2,259**	**1,680**	**6,537**	**15,512**
Total Floating	**1,223**	**927**	**889**	**654**	**788**	**551**	**5,032**
Total	**2,804**	**2,344**	**2,927**	**2,913**	**2,468**	**7,088**	**20,544**

Had the impact of the derivatives on borrowings excluded, the financial debt at fixed rate would amount Euros 11,104 million at 31 December 2015 (Euros 12,813 million at 31 December 2014) and floating, Euros 6,965 million at 31 December 2015 (Euros 7,637 million in 2014).

The following table describes consolidated gross financial debt denominated by currency at 31 December 2015 and 31 December 2014 and its maturity profile, taking into account the impact of the derivative hedges:

	2016	2017	2018	2019	2020	2021 and after	Total
At 31 December 2015							
Euro Debt	1,940	1,879	1,800	2,123	2,218	4,593	**14,553**
Foreign Currency Debt							
US Dollar	229	86	20	486	1	6	**828**
Chilean peso	161	183	412	16	256	696	**1,724**
Mexican peso	4	–	157	66	–	67	**294**
Brazilian real	104	107	84	–	–	–	**295**
Colombian peso	143	225	47	97	21	–	**533**
Argentinian peso	10	6	1	–	–	–	**17**
Other	4	–	–	–	–	–	**4**
Total	**2,595**	**2,486**	**2,521**	**2,788**	**2,496**	**5,362**	**18,248**

	2015	2016	2017	2018	2019	2020 and after	Total
At 31 December 2014							
Euro Debt	1,908	1,589	1,730	2,571	2,153	5,925	**15,876**
Foreign Currency Debt							
US Dollar	246	78	342	21	179	9	**875**
Chilean peso	274	445	395	159	55	1,152	**2,480**
Mexican peso	144	–	57	81	–	–	**282**
Brazilian real	49	105	128	16	–	–	**298**
Colombian peso	174	123	274	65	81	2	**719**
Argentinian peso	9	4	1	–	–	–	**14**
Other	–	–	–	–	–	–	–
Total	**2,804**	**2,344**	**2,927**	**2,913**	**2,468**	**7,088**	**20,544**

Borrowings in euros have borne an effective average interest rate of 3.81% at 31 December 2015 (4.01% at 31 December 2014) while borrowings in foreign currency have borne an effective average interest rate of 7.91% in 2015 (6.31% at 31 December 2014) including derivative instruments assigned to each transaction.

At 31 December 2015, Gas Natural Fenosa has credit facilities totalling Euros 8,003 million (Euros 8,014 million at 31 December 2014), of which Euros 7,558 million has not been drawn down (Euros 7,379 million at 31 December 2014).

Bank borrowings totalling Euros 1,505 million (Euros 2,241 million at 31 December 2014) are subject to the fulfilment of certain financial ratios.

At the formulation 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 2015, the outstanding balance of this type of financing totals Euros 19 million (Euros 26 million at 31 December 2014).

The most relevant financing instruments are described below:

Issue of bonds and other negotiable securities

In 2015 and 2014 the evolution of the issues of debt securities has been as follows:

	At 01/01/2015	Issues	Buy-backs or redemptions	Business combinations	Adjustments, exch. rates & other	At 31/12/2015
Issued in a member state of the European Union which required the filing of a prospectus	**11,246**	2,859	(3,263)	–	15	**10,857**
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	**2,004**	194	(583)	–	(149)	**1,466**
Total	**13,250**	**3,053**	**(3,846)**	**–**	**(134)**	**12,323**

	At 01/01/2014	Issues	Buy-backs or redemptions	Business combinations	Adjustments, exch. rates & other	At 31/12/2014
Issued in a member state of the European Union which required the filing of a prospectus	**12,156**	2,822	(3,714)	–	(18)	**11,246**
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	**735**	41	(41)	1,260	9	**2,004**
Total	**12,891**	**2,863**	**(3,755)**	**1,260**	**(9)**	**13,250**

ECP Program

On 23 March 2010 a Euro Commercial Paper program (ECP) was contracted totalling Euros 1,000 million, the issuer being the subsidiary Gas Natural Fenosa Finance BV (former Unión Fenosa Finance BV). During 2015, further issues were completed under that Programme for a total amount of Euros 2,359 million (Euros 2,122 million at December 2014). At 31 December 2015, the amount of Euros 300 million had been drawn down on the Programme (Euros 554 million at December 2014) and the sum of Euros 700 million was available (Euros 446 million at December 2014).

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 Euros 2.000 million could be issued. Following a number of extensions, the latest in November 2013, the Programme limit is Euros 14,000 million (Euros 14,000 million at 31 December 2014). At 31 December 2015, principal drawn down totalled Euros 10,605 million (Euros 10,755 million at 31 December 2014) and the amount of Euros 3,395 million was available. The breakdown of the nominal issue balance is as follows:

Issue	Nominal	Maturity	Coupon (%)
July 2009	500	2019	6.375
November 2009	1,000	2016	4.375
November 2009	750	2021	5.125
January 2010	850	2020	4.500
January 2010	700	2018	4.125
February 2011	600	2017	5.625
May 2011	500	2019	5.375
February 2012	750	2018	5.000
September 2012	800	2020	6.000
October 2012	500	2017	4.125
January 2013	600	2023	3.875
January 2013[1]	204	2019	2.125
April 2013	750	2022	3.875
April 2013	300	2017	2.310
July 2013[2]	101	2023	3.974
October 2013	500	2021	3.500
March 2014	500	2024	2.875
May 2014	200	2023	2.625
January 2015	500	2025	1.375
Total	**10,605**		

[1] CHF 250 million as nominal value.
[2] NOK 800 million as nominal value

Preference shares

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

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

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

Negotiable bonds and Certificates Programme

In May 2010, in Panama, the subsidiary Empresa de Distribución Eléctrica Metro-Oeste, S.A. launched a programme to issue up to USD 50 million (Euros 46 million) in Negotiable Commercial Paper (VCNs). The amount of Euros 46 million had been issued at 31 December 2015, maturing in 2016, issued during 2015 (Euros 41 million at December 2014).

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 Mexican Pesos 10 billion (Euros 530 million), secured by Gas Natural SDG, S.A. Under this Programme, on 20 May 2011 debt was issued for periods of four and seven years and a total amount of Mexican Pesos 4 billion Mexican pesos (Euros 212 million) and on 14 July 2015 a debt issue was completed for periods of three and ten years and an aggregate amount of Mexican Pesos 2.8 billion (Euros 148 million). At 31 December 2015 the amount of Euros 225 million had been utilised (Euros 222 million at 31 December 2014), relating to the three-, seven- and ten-year tranches referred to above (Mexican Pesos 1,460 million). The balance available under this programme at 31 December 2015 was Mexican Pesos 5,740 million (Euros 305 million).

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 146 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 30 million) and Columbian Pesos 200,000 million (Euros 58 million) with maturity at 5 and 7 years, respectively. The balance available at 31 December 2015 under this program is Columbian Pesos 200,000 million (Euros 58 million).

Following the CGE Group acquisition, capital market debt under a Chilean programme was consolidated. At 31 December 2015, a balance of CLP 562,183 million (Euros 730 million) had been utilised and CLP 1,025,947 (Euros 1,332 million) was drawable.

Bank loans

European bank loans (commercial / institutional banks)

At 31 December 2015, bank borrowings include bank loans of Euros 1,662 million (Euros 2,550 million at 31 December 2014) and credit lines drawn in the amount of Euros 237 million (Euros 217 million at 31 December 2014). On 16 February 2015, a tranche of the Club Deal loan obtained in 2013 was repaid in advance in the amount of Euros 750 million and a credit line tranche of that loan was refinanced in the amount of Euros 1,500 million to obtain a new credit line of Euros 1,750 million (not utilised at 31 December 2015). Additionally, borrowings from the Official Credit Institute (ICO) total Euros 192 million, maturing in 2018 at maximum (Euros 249 million at 31 December 2014).

The European Investment Bank (EIB) has granted financing to Gas Natural Fenosa in the amount of Euros 1,358 million (Euros 1,538 million at 31 December 2014).

In October 2015, the European Investment Bank (EIB) approved a loan of up to Euros 900 million, the first tranche of which (Euros 600 million) was obtained in December but has not been utilised yet. This loan is intended to partially finance gas distribution investments in Spain during the periods 2015-2018.

Loans from Latin American banks (commercial / institutional banks)

At 31 December 2015 borrowings from various Latin American banks totalled Euros 2,069 million (Euros 2,444 million at 31 December 2014). The geographic breakdown of these loans is as follows:

Country	2015	2014
Chile	1,002	1,223
Colombia	445	559
Brazil	295	298
Panama	222	268
Mexico	80	71
Other	25	25
	2,069	**2,444**

Of the total bank borrowings in Latin America at 31 December 2015, 99% relates to commercial banks and the remaining 1% to institutional banks.

Bank loans in other countries (commercial/institutional banks)

At 31 December 2015, borrowings from credit institutions in other countries stand at Euros 25 million (Euros 21 million at 31 December 2014), relating basically to Moldavia and Kenya.

Other financial liabilities

At 31 December 2015, the item "Other financial liabilities" basically includes the 10-year finance lease entered into in 2007 with financial institutions for the power islands at the Sagunto combined cycle plant. At 31 December 2014, the item also included the 10-year finance lease entered into in 2005 with financial institutions for the power islands at the Palos de la Frontera combined cycle plant (Note 6).

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

	At 31/12/15			At 31/12/14		
	Nominal	Discount	Present value	Nominal	Discount	Present value
No later than 1 year	37	(3)	**34**	82	(5)	**77**
Between 1 and 5 years	51	(2)	**49**	88	(8)	**80**
Total	**88**	**(5)**	**83**	**170**	**(13)**	**157**

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 employs financial swaps to manage exposure to interest rate fluctuations, swapping floating rates for fixed rates.

The debt structure at 31 December 2015 and 2014 (Note 16), after taking into account the hedges structured through derivatives, is as follows:

	At 31/12/15	At 31/12/14
Fixed interest rate	13,900	15,512
Floating interest rate	4,348	5,032
Total	**18,248**	**20,544**

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

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
2015	+50	(22)	27
	-50	22	(27)
2014	+50	(25)	43
	-50	25	(43)

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 gas and other 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:

	%	Effect on profit before tax	Effect on equity before tax
2015	+5	–	24
	-5	–	(23)
2014	+5	–	22
	-5	–	(19)

Additionally, net assets of foreign companies that have a non-euro functional currency are subject to foreign exchange risk when their financial statements are translated to euros during the consolidation process. Exposure to risk countries where there is more than one exchange rate is immaterial. At 31 December 2015, Gas Natural Fenosa's equity denominated in Argentinian pesos totals Euros 39 million, representing a pre-tax impact on equity of Euros 2 million at 5% sensitivity.

Commodities price risk

A large portion of Gas Natural Fenosa's operating expenses are linked to gas purchased to supply customers or generate electricity 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 CO2 emission rights fluctuation risk and electricity prices variations.

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

The risk involved in the electricity ad CO2 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
2015	+10	–	67
	-10	–	(67)
2014	+10	–	18
	-10	–	(18)

	Increase / decrease in the electricity sale price	Effect on profit before tax	Effect on equity before tax
2015	+10%	1	1
	-10%	(1)	(1)
2014	+10%	(17)	16
	-10%	17	(16)

As regards exposure to low commodity prices, Gas Natural Fenosa has no relevant investments in upstream businesses or commodities production, so that fluctuations in commodity prices have no significant impact on asset values.

Business segment sensitivity to the prices of oil, gas, coal and electricity is explained below:

- Gas and electricity distribution It is a regulated activity with revenue and profit margins are linked to distribution infrastructure management services rendered, irrespective of the prices of the commodities distributed. In any event, a fall in the price of gas could increase consumption, having a favourable impact on revenue and thus contributing to the stability of Gas Natural Fenosa's results.

- Gas and electricity. Profit margins on gas and electricity commercialisation activities are directly affected by commodity prices. In this regard, Gas Natural Fenosa has a risk policy that stipulates the tolerance range of the company, based on applicable risk limits, among other aspects. Measures employed to keep the risk within the stipulated limits include active supply management, balanced acquisitions and sales formulae, and specific hedging so as to maximise the risk-profit binomial.

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 credits 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 2015, Gas Natural Fenosa had received guarantees totalling Euros 51 million to cover the risk of large industrial customers (Euros 46 million at 31 December 2014). In 2015, bank guarantees amounting to Euros 1 million were enforced (Euros 1 million at 31 December 2014).

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 2015 and 2014 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 2015 and 2014 is as follows:

	At 31/12/15	At 31/12/14
Less than 90 days	450	467
90 – 180 days	142	120
More than 180	7	7
Total	**599**	**594**

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.

Available cash resources at 31 December 2015 are analysed below:

Liquidity source	Availability 2015
Undrawn credit facilities *(Note 16)*	7,558
Undrawn loans	653
Cash and cash equivalents *(Note 12)*	2,390
Total	**10,601**

There is also additional capacity to issue debt in the capital markets unused for Euros 5,790 million, as explained previously (Note 16).

The breakdown of the maturities of the financial liabilities at 31 December 2015 and 2014 is as follows:

	2016	2017	2018	2019	2020	2021 and after	**Total**
At 31 December 2015							
Trade and other payables	(4,008)	–	–	–	–	–	**(4,008)**
Loans and other financial payables	(3,165)	(3,247)	(3,220)	(3,420)	(3,017)	(6,210)	**(22,279)**
Financial derivatives	(1)	(16)	(1)	73	–	(15)	**40**
Other liabilities	(65)	(60)	(59)	(125)	(51)	(366)	**(726)**
Total[1]	**(7,239)**	**(3,323)**	**(3,280)**	**(3,472)**	**(3,068)**	**(6,591)**	**(26,973)**

	2015	2016	2017	2018	2019	2020 and after	**Total**
At 31 December 2014							
Trade and other payables	(4,641)	–	–	–	–	–	**(4,641)**
Loans and other financial payables	(3,131)	(2,962)	(3,494)	(3,411)	(2,876)	(7,975)	**(23,849)**
Financial derivatives	(90)	(47)	(40)	(34)	130	18	**(63)**
Other liabilities	(60)	(126)	(54)	(50)	(47)	(368)	**(705)**
Total[1]	**(7,922)**	**(3,135)**	**(3,588)**	**(3,495)**	**(2,793)**	**(8,325)**	**(29,258)**

[1] The amounts are undiscounted contractual cash flows and, accordingly, differ from the amounts included in 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%.

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

	2015	2014
Moody's	Baa2	Baa2
Standard & Poor's	BBB	BBB
Fitch	BBB+	BBB+

Its leverage rating is as follows:

	2015	2014
Net borrowings	**15,648**	**16,942**
Non-current borrowings *(Note 16)*	15,653	17,740
Current borrowings *(Note 16)*	2,595	2,804
Cash and cash equivalents *(Note 12)*	(2,390)	(3,572)
Derivatives *(Note 17)*	(210)	(30)
Net equity	**18,518**	**18,020**
Equity holders of the Company *(Note 13)*	14,367	14,141
Non-controlling interests *(Note 13)*	4,151	3,879
Leverage (Net borrowings/(Net borrowings + Net equity) (%)	**45.8**	**48.5**

Derivative financial instruments

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

	At 31/12/15		At 31/12/14	
	Assets	Liabilities	Assets	Liabilities
Derivatives qualifying for hedge accounting	**208**	**167**	**30**	**60**
Cash flow hedges				
Interest rate	25	41	4	50
Commodity prices	–	2	–	3
Fair value hedge				
Interest rate and exchange rate	183	124	26	7
Other financial instruments	–	–	–	–
Derivative financial instruments-non current	**208**	**167**	**30**	**60**
Derivatives qualifying for hedge accounting	**5**	**190**	**22**	**54**
Cash flow hedges				
Interest rate	–	1	–	3
Exchange rate	1	1	8	–
Commodity prices	1	174	14	15
Fair value hedge				
Interest rate and exchange rate	–	–	–	1
Exchange rate	3	14	–	35
Other financial instruments	**2**	**10**	**2**	**27**
Commodity prices	2	9	2	27
Interest rate	–	1	–	–
Derivative financial instruments-current	**7**	**200**	**24**	**81**
Total	**215**	**367**	**54**	**141**

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

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

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

	2015		2014	
	Operating income	Financial income	Operating income	Financial income
Cash flow hedges	61	(15)	14	(12)
Fair value hedges	(18)	(36)	(7)	(12)
Other financial instruments	(2)	15	5	(28)
Total	**41**	**(36)**	**12**	**(52)**

The breakdown of the derivative financial instruments at 31 December 2015 and 2014, their fair value and the breakdown by maturity of their notional values are as follows:

		31/12/15 Notional amount						
	Fair value	2016	2017	2018	2019	2020	after	Total
Interest rate hedges								
Cash flow hedges								
Financial swaps (EUR)	(13)	255	684	–	–	–	–	**939**
Financial swaps (USD)	(5)	3	216	251	–	–	–	**470**
Financial swaps (MXN)	–	–	53	–	–	–	–	**53**
Financial swaps (CHF)	24	–	–	–	204	–	–	**204**
Financial swaps (NOK)	(24)	–	–	–	–	–	101	**101**
Financial swaps (COP)	1	23	120	–	–	–	–	**143**
Foreign exchange hedges								
Cash flow hedges								
Foreign exchange insurance (USD)	–	482	–	–	–	–	–	**482**
Foreign exchange insurance (GBP)	–	1	–	–	–	–	–	**1**
Fair value hedges:								
Financial swaps (CLP)	60	–	–	–	722	–	160	**882**
Financial swaps (MXN)	(1)	–	–	222	–	–	–	**222**
Foreign exchange insurance (BRL)	–	13	–	–	–	–	–	**13**
Foreign exchange insurance (USD)	(11)	833	–	–	–	–	–	**833**
Foreign exchange insurance (DHN)	–	6	–	–	–	–	–	**6**
Commodities hedges								
Cash flow hedges								
Commodities price derivatives (EUR)	(20)	219	40	–	–	–	–	**259**
Commodities price derivatives (USD)	(155)	215	228	120	123	–	–	**686**
Other								
Commodities price derivatives (EUR)	(7)	103	27	–	–	–	–	**130**
Commodities price derivatives (USD)	(1)	1	–	–	–	–	–	**1**
Total	**(152)**	**2,154**	**1,368**	**593**	**1,049**	**–**	**261**	**5,425**

	Fair value	31/12/14 Notional amount 2015	2016	2017	2018	2019	after	**Total**
Interest rate hedges								
Cash flow hedges								
Financial swaps (EUR)	(18)	555	705	434	–	–	–	**1,694**
Financial swaps (USD)	(5)	205	3	194	–	–	–	**402**
Financial swaps (MXN)	(1)	75	–	–	–	–	–	**75**
Financial swaps (CHF)	(5)	–	–	–	–	204	–	**204**
Financial swaps (NOK)	(16)	–	–	–	–	–	101	**101**
Financial swaps (COP)	(3)	28	28	143	–	–	–	**199**
Financial swaps (CLP)	(1)	6	4	4	4	4	2	**24**
Foreign exchange hedges								
Cash flow hedges								
Foreign exchange insurance (USD)	8	427	–	–	–	–	–	**427**
Fair value hedges								
Financial swaps (CLP)	19	–	–	–	–	722	160	**882**
Financial swaps (MXN)	(1)	80	–	–	–	–	–	**80**
Foreign exchange insurance (BRL)	–	25	–	–	–	–	–	**25**
Foreign exchange insurance (USD)	(35)	818	–	–	–	–	–	**818**
Foreign exchange insurance (DHN)	–	7	–	–	–	–	–	**7**
Commodities hedges								
Cash flow hedges								
Commodities price derivatives (EUR)	(18)	231	41	–	–	–	–	**272**
Commodities price derivatives (USD)	14	32	–	–	–	–	–	**32**
Other								
Commodities price derivatives (EUR)	(25)	247	21	–	–	–	–	**268**
Commodities price derivatives (USD)	–	1	–	–	–	–	–	**1**
Total	**(87)**	**2,737**	**802**	**775**	**4**	**930**	**263**	**5,511**

Note 18. Other non-current liabilities

The breakdown of this heading at 31 December 2015 and 2014 is as follows:

	A 31/12/15	A 31/12/14
Finance lease liabilities (1)	582	571
Deposits and guarantees deposits (2)	215	248
Derivative financial instruments *(Note 17)*	2	3
Other liabilities (3)	145	133
Total	**944**	**955**

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

The main finance lease liabilities recognised in this item at 31 December are as follows:

- 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 2007 and 2009 two 138,000 m3 tankers were acquired, together with Repsol, under 25-year time-charter agreements, extendable for consecutive 5-year periods. In 2014, Gas Natural Fenosa and Shell entered into an agreement, as part of the sale of the Repsol Group's liquefied natural gas business, to obtain exclusive use of each of the two tankers, Gas Natural Fenosa using the tanker acquired in 2009 under a time charter expiring in 2029 and extendable for consecutive five-year periods.
- In March 2014, Gas Natural Fenosa acquired a 173,000 m3 tanker to carry liquefied natural gas under an 18-year finance lease expiring in 2032.

Minimum lease payments are as follows:

	At 31/12/15			At 31/12/14		
	Nominal	Discount	Present value	Nominal	Discount	Present value
Less than 1 year	68	(4)	**64**	64	(4)	**60**
Between 1 and 5 years	271	(51)	**220**	255	(49)	**206**
More than 5 years	640	(278)	**362**	663	(298)	**365**
Total	**979**	**(333)**	**646**	**982**	**(351)**	**631**

The effective average interest rate on the liabilities for finance lease agreements at 31 December 2015 is 6.5% (6.5% at 31 December 2014).

(2) Deposits and guarantees deposits

The item “deposits and guarantees deposits” basically includes amounts received from customers under contracts for the supply of electricity and natural gas, deposited with the competent Public Administrations (Note 8) as stipulated by law, and amounts received from customers to secure supplies of liquefied natural gas.

(3) Other liabilities

This includes the purchase commitment (without a premium) made to Sinca Inbursa, S.A. de C.V. (Inbursa) on 22 September 2008 covering 14.125% of Gas Natural México, S.A. de C.V. and 14% of Sistemas de Administración, S.A. de C.V. The maturity date of this commitment is during May 2016 or during May 2019 (if it had not been done in the first date), when Ibursa will be able to offer all shares held at that time to Gas Natural Fenosa, which will be obligated to purchase them. The acquisition price will be the market value of each share, based on the investees' results. As a result of the commitment, this sale is recognized as a deferred payment and the repurchase commitment percentage is still allocated to the Parent company. The liability recognised in this item at 31 December 2015 totals Euros 72 million, representing the present value of the amount repayable (Euros 69 million at 31 December 2014).

Note 19. Trade and other payables

The breakdown at 31 December 2015 and 2014 is as follows:

	At 31/12/15	At 31/12/14
Trade payables	3,049	3,739
Trade payables with related parties *(Note 32)*	43	63
Amounts due to associates	4	23
Trade payables	**3,096**	**3,825**
Public Administration	477	599
Derivative financial instruments *(see Note 17)*	183	24
Amounts due to employees	95	113
Other creditors	22	20
Other payables	**777**	**756**
Current tax liabilities	135	60
Total	**4,008**	**4,641**

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

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

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 July 5, which laid down measures against slow payers, is as follows:

	2015		2014	
	Amount	%	Amount	%
Payments made during year within legal maximum period	14,641	100.0	13,408	100.0
Other payments made during year	6	–	6	–
Total payments during year	**14,647**	**100.0**	**13,414**	**100.0**
Weighted average period of payments outside legal period (days)	15		14	
Deferrals exceeding legal maximum period at year end	–		–	

Gas Natural Fenosa's average supplier payment period is 29 days (27 days in 2014).

Note 20. Other current liabilities

The breakdown at 31 December 2015 and 2014 is as follows:

	At 31/12/15	At 31/12/14
Dividend payable	421	419
Expenses accrued pending payment	233	312
Finance lease liabilities *(Note 18)*	64	60
Derivative financial instruments *(Note 17)*	3	20
Other liabilities	31	39
Total	**752**	**850**

Note 21. Tax situation

Gas Natural SDG, S.A. is the parent of Tax Consolidated Group 59/93, which includes all the companies resident in Spain that are at least 75% directly or indirectly owned by the parent company and that fulfil certain requirements, entailing the overall calculation of the group's taxable income, deductions and tax credits. The Tax Consolidated Group for 2015 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.

Set out below is the reconciliation between "Income tax" recognised and the amount that would be obtained by applying the nominal tax rate in force in the parent company's country (Spain) to "Profit/(loss) before taxes" for 2015 and 2014:

	2015	%	2014[1]	%
Income before tax	**2,363**		**1,912**	
Statutory tax	**662**	**28.0**	**574**	**30,0**
Effect of net results under equity method	1	–	142	7,4
Application of tax rates of foreign entities	(45)	(1.9)	(40)	(2.1)
Tax credits	(39)	(1.7)	(72)	(3.8)
Remeasurement of deferred taxes	–	–	(345)	(18.0)
Other items	(6)	(0.2)	(3)	(0.1)
Income tax	**573**	**24.2**	**256**	**13.4**
Breakdown of current/deferred expense				
Current income tax	662		732	
Deferred income tax	(89)		(476)	
Income tax	**573**		**256**	

[1] The 2014 consolidated income statement has been restated, reclassifying the liquefied petroleum gas (LPG) business in Chile to discontinued operations (Notes 3.3 and 9).

Despite the fall in the theoretical tax rate from 30% (2014) to 28% (2015), the effective rate for 2015 rose with respect to 2014 basically because in 2014 the restatement of deferred taxes due to the tax reform in Spain and the application of the deduction for the reinvestment of extraordinary profits to the capital gain on the sale of Gas Natural Fenosa Telecomunicaciones were treated as non-recurring decreases in the theoretical tax rate.

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

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

- an expense reduction of Euros 325 million in the item "Income tax expense" in the consolidated income statement.
- a charge to the item "Other comprehensive income for the period" in the consolidated statement of comprehensive income recognised directly in equity in the amount of Euros 8 million, due to the remeasurement of items previously charged or credited to equity accounts.
- a decrease of Euros 40 million (Euros 8 million with a balancing entry in equity) in the item "Deferred tax assets" and of Euros 357 million in "Deferred tax liabilities", in the consolidated balance sheet.

In Colombia, on 23 December 2014, tax reform Law 1739 was approved, increasing the income tax rate for 2015, 2016, 2017 and 2018, together with income tax on equality (CREE).

As a result of this general tax rate increase, deferred tax assets and liabilities have been remeasured based on their estimated reversal period, recognising the following impacts in 2014:

- an expense reduction of Euros 20 million in the item "Income tax expense" in the consolidated income statement.
- a credit to the item "Other comprehensive income for the period" in the consolidated statement of comprehensive income recognised directly in equity in the amount of Euros 2 million, due to the remeasurement of items previously charged or credited to equity accounts.
- an increase of Euros 22 million in the item "Deferred tax assets", in the consolidated balance sheet.

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

Income qualifying for the tax credit for reinvestment of extraordinary profits provided by Article 42 of the revised Corporate Income Tax Act introduced under Royal Decree-Law 4/2004 of March 5 (TRLIS) and the resulting investments made in previous periods are explained in the annual accounts for the relevant years. Set out below is a breakdown of the past six years:

Year of sale	Amount generated from sale	Amount reinvested
2010	873	873
2011	856	856
2012	39	39
2013	1	1
2014	395	395
Total	**2,164**	**2,164**

The reinvestment has been made in fixed assets related to economic activities carried out by the parent company 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:

	A 31/12/15			A 31/12/14		
	Gross	Tax effect	Net	Gross	Tax effect	Net
Measurement of available-for-sale financial assets	5	(1)	4	–	–	–
Cash flow hedges	(164)	39	(125)	4	(5)	(1)
Cumulative translation adjustments	(320)	–	(320)	173	–	173
Actuarial gains and loss and other adjustments *(Note 15)*	7	(2)	5	(10)	3	(7)
Total	**(472)**	**36**	**(436)**	**167**	**(2)**	**165**

Set out below is an analysis of and movements in deferred taxes:

Deferred tax assets	Provisions for employee benefit obligations	Provision of depreciation of receivables and other provisions	Tax- loss carry-forwards	Depreciation differences	Financial instruments valuation	Other	**Total**
At 01/01/14	215	254	29	333	59	136	**1.026**
Charged/(credited) to income statement[1]	(20)	(16)	7	81	(1)	(37)	**14**
Business combinations *(Note 30)*	12	22	63	5	–	33	**135**
Charged to equity	2	–	–	–	(4)	–	**(2)**
Currency translation differences	(3)	(10)	7	(2)	(12)	1	**(19)**
Transfers and other	(2)	(14)	–	(1)	1	(4)	**(20)**
At 31/12/14	204	236	106	416	43	129	**1.134**
Charged/(credited) to income statement[1]	(11)	42	(7)	(79)	38	16	**(1)**
Business combinations *(Note 30)*	–	–	6	1	–	2	**9**
Charged to equity	(2)	–	–	–	1	–	**(1)**
Currency translation differences	(10)	(28)	(2)	(8)	(12)	(2)	**(62)**
Assets and liabilities held for sale *(Note 9)*	(1)	(1)	(10)	(2)	–	–	**(14)**
Transfers and other	(1)	9	–	–	(3)	–	**5**
At 31/12/15	179	258	93	328	67	145	**1,070**

[1] The increase in "Depreciation differences" in 2014 basically related to the application of the temporary 30% limit on the deduction of depreciation charges stipulated in Law 16/2012. It also included the effect of the remeasurement of deferred tax assets due to the tax reforms referred to above. In 2015, this item includes the reversal of the application of the temporary limit on the deduction of depreciation charges since this measure is no longer applicable.

[2] At 31 December 2014, most of the tax credits relate to tax losses from a number of CGE Group companies. These tax credits were basically generated by applying an accelerated depreciation tax incentive. The recovery of the tax credits is reasonably assured since there is no expiration date and they relate to companies that have historically posted recurring profits.

Deferred tax liabilities	Depreciation differences	Reinvestment capital gains	Fair value business combination[2]	Financial instruments valuation	Other	**Total**
At 01/01/14	**498**	**259**	**1,107**	**–**	**136**	**2,000**
Charged/(credited) to income statement[1]	(112)	(49)	(225)	1	(77)	**(462)**
Business combinations *(Note 30)*	650	–	529	3	34	**1,216**
Movements related to equity adjustments	–	–	–	2	(2)	**–**
Currency translation differences	8	–	38	–	–	**46**
Transfers and other	(1)	–	(1)	–	–	**(2)**
At 31/12/14	**1,043**	**210**	**1,448**	**6**	**91**	**2,798**
Charged/(credited) to income statement	(2)	(1)	(66)	(5)	(16)	**(90)**
Business combinations *(Note 30)*	1	–	15	–	–	**16**
Movements related to equity adjustments	(1)	–	–	(2)	–	**(3)**
Currency translation differences	(39)	1	(9)	–	3	**(44)**
Assets and liabilities held for sale *(Note 9)*	(111)	–	(20)	–	(3)	**(134)**
Transfers and other	2	(1)	–	(1)	–	**–**
At 31/12/15	**893**	**209**	**1,368**	**(2)**	**75**	**2,543**

[1] At 31 December 2014, it included the effect of the remeasurement of deferred tax liabilities due to the tax reforms referred to above.
[2] The item "Business combinations" includes the tax effect of the portion of the merger difference resulting from the absorption of Unión Fenosa, S.A. by Gas Natural SDG, S.A. in 2009, allocated to net assets acquired, which is not expected to have tax effects. It also includes the tax effect of the allocation of the acquisition price of CGE by Gas Natural Fenosa (Note 30) and of various prior acquisitions completed by CGE.

At 31 December 2015 the tax credits that have not been recorded totalled Euros 27 million (Euros 23 million at 31 December 2014).

In October 2015, the tax inspection of Gas Natural SDG, S.A. and Gas Natural Distribución Latinoamérica, S.A. (formerly Gas Natural Internacional SDG, S.A.) for corporate income tax (2009 and 2010) and value added tax (2010) came to an end, no relevant matters having been identified and without any significant impacts on the consolidated income statement.

Gas Natural SDG, S.A.'s tax group is open to inspection for 2011 and subsequent periods and the taxes to which it is subject.

In general, the other Gas Natural Fenosa companies are open to inspection for the following periods:

Country	Period
Argentina	2009-2015
Brazil	2010-2015
Colombia	2013-2015
Chile	2012-2015
Italy	2011-2015
Mexico	2010-2015
Panama	2009-2015

As a result, among other things, of the different interpretations to which current tax legislation lends itself, additional liabilities could arise as a result of an inspection. In any case, Gas Natural Fenosa considers that any such liabilities will not have a significant effect on these annual accounts.

Gas Natural Fenosa has recorded provisions for obligations deriving from a number of tax claims. At 31 December 2015, the main tax litigation affecting the Group relates to the tax credit for export activities. As a result of the inspection proceedings on tax periods 2003 to 2008, the Inspectorate has questioned the admissibility of the tax credit for export activities applied by Gas Natural SDG, S.A.; the tax assessments have been contested and appeals have been lodged at the Tax and Treasury Court and the National Court. At 31 December 2015, the assessments, including interest, amounted to Euros 93 million are fully provisioned (Note 15).

Note 22. Sales

The breakdown of this account for 2015 and 2014 is as follows:

	2015	2014[1]
Sales of gas and connections to distribution networks	13,904	14,664
Sales of electricity and access to distribution networks	10,575	8,671
Rental of facilities, maintenance and other services	1,445	1,266
Other sales	91	96
Total	**26,015**	**24,697**

[1] The 2014 consolidated income statement has been restated, reclassifying the liquefied petroleum gas (LPG) business in Chile to discontinued operations (Notes 3.3 and 9).

Note 23. Procurements

The breakdown of this account for 2015 and 2014 is as follows:

	2015	2014[1]
Energy purchases	15,075	14,876
Access to transmission networks	2,176	2,033
Other purchases and Stock variation	746	423
Total	**17,997**	**17,332**

[1] The 2014 consolidated income statement has been restated, reclassifying the liquefied petroleum gas (LPG) business in Chile to discontinued operations (Notes 3.3 and 9).

Note 24. Other operating income

The breakdown of this account for 2015 and 2014 is as follows:

	2015	2014[1]
Other management income	252	247
Operating grants	5	3
Total	**257**	**250**

[1] The 2014 consolidated income statement has been restated, reclassifying the liquefied petroleum gas (LPG) business in Chile to discontinued operations (Notes 3.3 and 9).

The item "Other management income" includes income from services relating to the construction or improvement of concession infrastructures under IFRIC 12 in the amount of Euros 143 million (Euros 136 million in 2014); whose fair value is estimated by reference to the expenses incurred (Note 26), with no margin.

Note 25. Personnel costs

The breakdown of this heading for 2015 and 2014 is as follows:

	2015	2014[1]
Wages and salaries	820	691
Social security costs	134	126
Defined contribution plans	41	36
Defined benefit plans *(Note 15)*	10	5
Own work capitalised	(113)	(86)
Others	81	56
Total	**973**	**828**

[1] The 2014 consolidated income statement has been restated, reclassifying the liquefied petroleum gas (LPG) business in Chile to discontinued operations (Notes 3.3 and 9).

The average number of employees of Gas Natural Fenosa in 2015 was 21,542 and 14,766 in 2014.

Under Law 3/2007 of March 22, 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 2015 and 2014 broken down by category and gender is as follows:

	2015		2014	
	Male	Female	Male	Female
Executives	1,087	360	1,128	350
Middle management	2,402	648	3,081	751
Specialized technicians	3,611	1,702	3,673	1,964
Workers	7,386	2,743	8,192	2,822
Total	**14,486**	**5,453**	**16,074**	**5,887**

	2015	2014
Spain	7,560	7,446
Rest of Europe	1,210	1,196
Latin American	10,213	12,382
Others	956	937
Total	**19,939**	**21,961**

The calculation of the number of Gas Natural Fenosa employees at year-end 2015 does not include the 1,843 employees of the LPG business companies in Chile reclassified to discontinued operations.

As a result of the application of IFRS 11 "Joint arrangements" (Note 3.3) on 1 January 2014, the calculation of the average number of employees in the current period and in the comparative figures for the previous year did not take into account the average number of employees of equity-consolidated companies, which amounts to 1,104 persons (554 persons at 31 December 2014). It also did not consider the number of employees of those companies at the year end, amounting to 1,151 persons at 31 December 2015 (1,051 persons at 31 December 2014).

Note 26. Other operating expenses

The breakdown of this heading for 2015 and 2014 is as follows:

	2015	2014[1]
Taxes	484	481
Operation and maintenance	361	339
Commercial services and advertising	353	337
Bad debt provision *(Note 11)*	258	302
Professional services and insurance	193	177
Construction or improvements services (IFRIC 12) *(Note 24)*	143	136
Supplies	121	95
Services to customers	70	66
Leases	61	54
Other	316	302
Total	**2,360**	**2,289**

[1] The 2014 consolidated income statement has been restated, reclassifying the liquefied petroleum gas (LPG) business in Chile to discontinued operations (Notes 3.3 and 9).

Royal Decree-Law 9/2013 (July 2013) stipulated that the social bond costs would be borne by the parent companies of integrated production, distribution and supply groups (Note 2.4); the obligation came into force in 2014, following the approval of allocation percentages for the amounts to be financed, entailing an impact of Euros 29 million in the item "Other" (Euros 25 million in 2014).

Note 27. Other results

In 2015, this item relates to the pre-tax gain of Euros 5 million from the sale of the 44.9% stake in the company Barras Eléctricas Galaico Asturianas, S.A. to the Viesgo Group for Euros 97 million (Note 7).

In 2014, this relates basically to the pre-tax gain of Euros 252 million from the sale of Gas Natural Fenosa Telecomunicaciones, S.A. and the assignment of the loans granted to that company to the investment capital firm Cinven in the amount of Euros 510 million.

Note 28. Net financial income

The breakdown of this account for 2015 and 2014 is as follows:

	2015	2014[1]
Dividends	12	12
Interest income	57	66
Others	71	59
Total financial income	**140**	**137**
Financial expense from borrowings	(845)	(771)
Interest expenses of pension plans and other post-employment benefits	(30)	(35)
Other financial expenses	(157)	(114)
Total financial expenses	**(1,032)**	**(920)**
Variations in the fair value of derivate financial instruments *(Note 17)*	(1)	(2)
Net exchange gains/losses	(1)	(14)
Net financial income	**(894)**	**(799)**

[1] The 2014 consolidated income statement has been restated, reclassifying the liquefied petroleum gas (LPG) business in Chile to discontinued operations (Notes 3.3 and 9).

Note 29. Cash generated from operating activities

The breakdown of cash generated from operations in 2015 and 2014 is as follows:

	2015	2014
Net income before tax	2,363	1,912
Adjustments to net income:	2,599	2, 526
Depreciation, amortisation and impairment expenses *(Note 5, 6 and 9)*	1,791	1,619
Other adjustments to net income:	808	907
Net financial income *(Note 9 and 28)*	918	801
Profit of entities recorded by equity method *(Note 7 and 9)*	3	474
Release of fixed assets grants to income *(Note 14)*	(64)	(45)
Other results *(Note 27)*	(5)	(258)
Net variation in Provisions	(91)	(68)
Pre-tax profit/(loss) from discontinued activities *(Note 9)*	47	3
Changes in working capital (excluding the effects on the consolidation scope and cumulative translation adjustments)	(75)	(229)
Inventories	251	(189)
Trade and other accounts receivable	228	(102)
Trade and other accounts payable	(554)	62
Other cash flows from operating activities	(1,387)	(1,401)
Interest paid	(898)	(784)
Interest collected	24	43
Dividends collected	82	55
Income tax payments	(595)	(715)
Cash flows generated from operating activities	**3,500**	**2,808**

Note 30. Business combinations

Year 2015

Gecal Renovables, S.A.

In June 2015 Gas Natural Fenosa entered into an agreement to acquire 100% of Gecal Renovables, S.A. (Gecalsa). The transaction was completed on 13 October 2015 although for accounting purposes, the business combination date was considered to be 30 September 2015 on the understanding that the difference between both dates was insignificant. The total cost of the business combination amounts to Euros 104 million. Goodwill has been calculated at Euros 14 million as the difference between the acquisition cost and interest in the fair value of the identifiable assets and liabilities existing at the transaction date.

The net assets acquired at 30 September 2015 and goodwill break down as follows:

Acquisition cost	104
Fair value of the net assets acquired	90
Goodwill *(Note 5)*	**14**

	Fair value	Carrying amount
Intangible assets *(Note 5)*	89	2
Property, plant and equipment *(Note 6)*	160	160
Investments carried under the equity method *(note 7)*	6	2
Non-current financial assets	2	2
Deferred tax assets *(Note 21)*	9	9
Other current assets	13	13
Cash and cash equivalents	12	12
Total assets	**291**	**200**
Non-controlling interests *(Note 13)*	5	–
Non-current financial liabilities *(Note 16)*	56	56
No-current provisions *(Note 15)*	3	3
Other non-current liabilities	2	2
Deferred tax liabilities *(Note 21)*	16	2
Current financial liabilities *(Note 16)*	109	109
Other current liabilities	10	10
Total liabilities	**201**	**182**
Net assets acquired	**90**	**18**
Fair value of the net assets acquired	**90**	
Acquisition price	104	
Cash and cash equivalents in subsidiary acquired	12	
Net acquisition cost	**92**	

The consolidated net profit for the period contributed since the acquisition date amounts to Euros 1 million. If the acquisition had taken place on 1 January 2015, consolidated revenue and Ebitda for the period would have increased by Euros 28 million and Euros 19 million respectively, and the impact on consolidated profit attributable to the parent company's shareholders would not have been significant.

Gecalsa operates 10 wind farms and a photovoltaic plant in Spain, which together have a net installed capacity of 222 MW.

During the process for the assignment of the purchase price, assets were identified subject to restatement on the basis of the balance sheet of Gecalsa at 30 September 2015. The measurement of Gecalsa's net assets was basically performed using the following methodology:

- The business was measured following the revenue approach and in particular, through the discounted cash flow method, based on Level 3 inputs as the data were not observable on the market.
- The main parameters used in the measurement were a discount rate of 10.3% and a growth rate of 0%.
- The most sensitive assumptions included in the projections and which are based on sector forecasts and the analysis of historical information, relate to the evolution of electricity price, and the operation and maintenance costs.

As a result of the assignment process, an intangible asset restatement has been recognised with respect to the value of the necessary authorisations to operate the wind farms while deferred tax liabilities have been recognised on the restatements with no tax effect. In December 2015 the merger by absorption of Gecal Renovables, S.A and several subsidiaries by Gas Natural Fenosa Renovables S.L.U was initiated.

Gas Directo, S.A.

In July 2015 Gas Natural Fenosa acquired from Union Fenosa Gas, S.A. and Cepsa, S.A, their respective interests of 60% and 40% in the gas distribution company, Gas Directo, S.A., amounting to Euros 5 million. This operation did not trigger any goodwill. Before the operation Gas Natural Fenosa owned an indirect interest of 30% through its interest in Union Fenosa Gas, S.A. Therefore, the operation has been treated as a business combination in stages, although the restatement for the different between the carrying amount of the interest and its fair value has not been significant.

If the operation had taken place on 1 January 2015, the impact of the operation on revenue and consolidated profit would not have been significant.

Genroque, S.L.

In October 2015 Nueva Generadora del Sur, S.A., a company 50% owned jointly with another shareholder, that operates the 800 MW combined cycle plant in Gibraltar, spun off each of its two groups of 400 MW generators, along with the corresponding material and human resources in favour of two companies Genroque, S.L. and Puente Mayorga Generación, S.L., wholly owned respectively by Gas Natural Fenosa and the other shareholder, following the sale-purchase of 50 remaining. Therefore, for accounting purposes, the operation has been considered a swap. Given that the net amount of the interest in Nueva Generadora del Sur, S.A. amounting to Euros 200 million was carried at fair value and that this agrees with the fair value of the business acquired (Genroque, S.L.), the operation has generated no profit or goodwill. On 30 December 2015 the Extraordinary General Shareholders' Meeting of Gas Natural Fenosa Generación, S.L.U. approved the merger by absorption of Genroque, S.L.U, in order to fully integrate the group attributed in the generation park of Gas Natural Fenosa.

If the operation had taken place on 1 January 2015, the impact of the operation on consolidated revenue and profit would not have been significant.

All the business combinations described in this Note have been recognised provisionally, as it has not completed the 12-month period from the acquisition date, established under IFRS 3.

During 2015, payments on investments in companies, net of cash and equivalents acquired amounted to Euros 99 million, mainly due to Gecalsa and Gas Directo, S.A. acquisitions.

The final assignment of CGE's acquisition price to the fair value of its assets, liabilities and contingent liabilities was completed in 2015. This assignment coincides with that used in the preparation of the consolidated annual accounts for 2014.

Year 2014

Compañía General de Electricidad, S.A.

On 11 October 2014, Gas Natural Fenosa announced a takeover bid for up to 100% of shares issued and outstanding of Compañía General de Electricidad, S.A. (CGE), at 4,700 Chilean pesos per shares. On 14 November 2014, Gas Natural Fenosa announced the positive outcome of the takeover bid and the acquisition, to that date, of 96.50% of CGE's capital, which was subsequently increased by 0.22% at the same price. As a result of this process, Gas Natural Fenosa took effective control of CGE's Board of Directors on 20 November 2014, although the date for accounting purposes is 30 November 2014, since the difference is deemed to be insignificant.

The total cost of the business combination is Euros 2,519 million, relating to the acquisition of 96.72% of Compañía General de Electricidad, S.A.'s share capital. Goodwill of Euros 413 million has been calculated in the amount of the difference between the acquisition cost and the share of the fair value of identifiable assets and liabilities at the transaction date.

Set out below is a breakdown of net assets acquired at 30 November 2014 and goodwill:

Acquisition cost	2,519
Fair value of net assets	2,106
Goodwill *(Note 5)*	**413**

	Fair value	Carrying amount
Goodwill	–	367
Other intangible assets *(Note 5)*	2,280	373
Property, plant and equipment *(Note 6)*	4,033	4,033
Investments carried under the equity method *(Note 7)*	75	75
Non-current financial assets	47	47
Deferred tax assets *(Note 21)*	135	135
Other current assets	801	801
Cash and cash equivalents	91	91
Total assets	**7,462**	**5,922**
Non-controlling interests *(Note 13)*	1,314	738
Non-current financial liabilities *(Note 16)*	1,887	1,784
Non-current provisions *(Note 15)*	89	89
Other non-current liabilities	5	5
Deferred tax liabilities *(Note 21)*	1,216	725
Current financial liabilities *(Note 16)*	229	229
Other current liabilities	545	559
Total liabilities	**5,285**	**4,129**
Net assets acquired	**2,177**	**1,793**
Non-controlling interests *(Note 13)*	**(71)**	
Fair value of net assets acquired	**2,106**	
Purchase consideration	2,519	
Cash and cash equivalents in subsidiary acquired	91	
Net acquisition cost	**2,428**	

Consolidated net results for the period, contributed as from the acquisition date, amount to Euros 6 million. Had the acquisition been completed on 1 January 2014, consolidated sales, ebitda and results for the period attributable to the Parent company's shareholders would have increased by Euros 3,131 million, Euros 506 million and Euros 62 million, respectively.

During the purchase consideration allocation process, the assets able to be restated have been identified in CGE's consolidated balance sheet at 30 November 2014. On 29 January 2015, KPMG Auditores Consultores Ltda issued a report entitled "Allocation of the price paid for the acquisition of Compañía General de Electricidad, S.A.", in connection with this business combination. CGE's net assets have basically been measured using the following methodology:

- The businesses have been measured on a revenue basis, using the discounted cash flows method in particular, based on Level-3 input data, as these data are not observable in the market.

- The main parameters employed in the measurement are as follows:

	Pre-tax discount rate (%)	Growth rate (%)
Electricity distribution and transport	11.2	3.0
Natural gas and LPG distribution	12.2	3.0

- The most sensitive assumptions included in the projections, which are based on industry forecasts and on the analysis of CGE's historical data, are tariff evolution, the cost of power and of gas supplies, operation and maintenance costs, and investments. In general, projections for the businesses acquired are reasonably estimable based on the regulatory framework defined.

The above-mentioned report contains no scope limitations on the conclusions drawn.

As a result of the purchase consideration allocation process, as regards the carrying amount of Compañía General de Electricidad, S.A. (CGE) at the acquisition date, the main remeasurements of assets and liabilities identified at fair value are as follows:

- Intangible assets relating to the electricity distribution and transport concessions and the gas distribution concessions in Chile in the amount of Euros 1,679 million, in addition to the amount stated for this item in the carrying amount (Euros 334 million). These concessions have an indefinite useful life, since concessions to establish, operate and exploit public trasport and distribution service facilities in Chile do not expire (Note 5).

- Intangible assets relating to gas supply contracts and other contractual rights in the amount of Euros 228 million, subject to systematic amortisation over the useful life (Note 5).

- Financial liabilities consisting of the difference between the estimated market value of the financial debt and its carrying amount (Euros 103 million).

- Deferred tax liabilities related to the remeasurements performed, which do not have any tax effect, in the amount of Euros 491 million; the effect net of non-controlling interests has been recognised with a balancing item in "Goodwill".

No remeasurement of property, plant and equipment has been identified with respect to the carrying amount, since the CGE Group carries property, plant and equipment at fair value based on periodic appraisals of the new replacement value. Remeasurement adjustments included in the carrying amount total Euros 1,499 million.

Non-controlling interests have been measured based on the proportionate share of current ownership instruments with respect to the target's identified net assets.

At the acquisition date, no contingent liabilities have been identified and therefore no provisions have been recognised in addition to the amounts included in the carrying amount. Additionally, CGE recorded bad debt provisions for trade receivables based on age, so no additional bad debt provision was necessary.

Provisional goodwill resulting from this business combinations attributable to the high profitability of the business acquired (Chile's main company in the distribution and transport of electricity and natural gas, with considerable operations in the liquefied petroleum gas sector) and to the benefits and synergies that are expected to arise from integration into Gas Natural Fenosa's gas and power distribution platform, which is the leading platform throughout Latin America.

Note 31. Service concession arrangements

Gas Natural Fenosa manages a number of concessions containing provisions for the construction, operation and maintenance of facilities, as well as connection and power supply obligations during the concession period, in accordance with applicable regulations (Note 2). There follow details of the concession period and the period remaining to the expiration of concessions that are not indefinite:

Company	Activity	Country	Concession period	Initial remaining period
Gas Natural BAN, S.A.	Gas distribution	Argentina	35 (extendable 10)	12
Energía San Juan S.A.	Electricity distribution (CGE)	Argentina	60	41
Companhia Distribuidora de Gás do Río de Janeiro, S.A, Ceg Rio, S.A. and Gas Natural Sao Paulo Sul, S.A.	Gas distribution	Brazil	30 (extendable 20/30)	12-15
Gas Natural, S.A. ESP, Gas Natural del Oriente S.A. ESP, Gas Natural Cundiboyacense S.A. ESP and Gas Natural del Cesar S.A. ESP.	Gas distribution	Colombia	15-50 (extendable 20)	32
Unión Fenosa Generadora La Joya, S.A. and Unión Fenosa Generadora Torito, S.A.	Electricity generation	Costa Rica	20	7-15
Gas Natural Fenosa Generación S.L.U., S.A. and Gas Natural Fenosa Renovables, S.L.	Hydraulic power generation	Spain	14-65	7-48
Gas Natural Distribuzione SpA, Cetraro Distribuzione Gas, S.R.L, Favellato Reti Gas, S.R.L and Cilento Reti Gas, S.R.L	Gas distribution	Italy	11-30	23
Gas Natural México S.A. de C.V. and Comercializadora Metrogas S.A. de C.V.	Gas distribution	Mexico	30 (extendable 15)	12-23
Europe Maghreb Pipeline Ltd	Gas transportation	Morocco	25 (extendable)	6
Red Unión Fenosa, S.A.	Electricity distribution	Moldavia	25 (extendable)	10
Empresa Distribuidora de Electricidad Metro Oeste, S.A. and Empresa Distribuidora de Electricidad Chiriqui, S.A.	Electricity distribution	Panama	15	13
Gas Natural Perú, S.A.	Gas distribution	Peru	20-year extendable	19

As indicated in Note 3.4.3.b, Gas Natural Fenosa applies IFRIC 12 "Service concession arrangements", the intangible asset model being applicable basically to the gas distribution activities in Argentina, Brazil and Italy, and to the electricity distribution activity in Argentina, while the financial asset model applies to the electricity generation business in Costa Rica.

The hydraulic power plant concessions in Spain (Note 3.4.4.b) fall out with the scope of IFRIC 12, due among other reasons to the fact that power selling prices are set in the market. The other international concessions fall out with the scope of IFRIC 12 because the grantor does not control a significant residual interest in the infrastructure at the concession end date and simultaneously determines the service price. Concession assets are still recognised in "Property, plant and equipment".

At year-end 2014, Companhia Distribuidora de Gás do Río de Janeiro, S.A (CEG) and the State of Río de Janeiro agreed to amend the concession whereby CEG is awarded the right to distribute natural gas in the form of compressed natural gas in a number of municipalities.

Note 32. Related-party disclosures

Related parties are as follows:

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

  On the basis of this definition, the significant shareholders of Gas Natural Fenosa are Criteria Caixaholding, S.A.U., and consequently, "la Caixa" group and Repsol group.

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

- Transactions between Group companies form part of ordinary activities and are effected at arm's length. Group company balances include the amount that reflects Gas Natural Fenosa's share of the balances and transactions with companies recorded under equity method.

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

	2015			2014		
	Significant shareholders		Group companies	Significant shareholders		Group companies
Expense and Income (thousand euros)	"la Caixa" Group	Repsol Group		"la Caixa" Group	Repsol Group	
Financial expenses	3,532	–	336	2,094	–	422
Leases	–	–	2	–	–	2
Services received	14,009	5,148	32,229	14,013	1,808	25,708
Goods purchased	–	292,762	391,294	–	375,262	417,166
Other expenses[1]	28,705	–	–	23,151	–	–
Total expenses	**46,246**	**297,910**	**423,861**	**39,258**	**377,070**	**443,298**
Financial income	2,040	–	984	17,298	265	1,749
Leases	–	–	–	–	–	–
Services provided	561	374	24,619	764	383	22,758
Goods sold (finished or in progress)	–	878,022	62,196	–	1,118,714	174,176
Other income	–	–	2,007	–	–	1,759
Total income	**2,601**	**878,396**	**89,806**	**18,062**	**1,119,362**	**200,442**

Other transactions (thousand euros)	2015 Significant shareholders "la Caixa" Group	2015 Significant shareholders Repsol Group	2015 Group companies	2014 Significant shareholders "la Caixa" Group	2014 Significant shareholders Repsol Group	2014 Group companies
Acquisition of property, plant and equipment, intangible assets or other assets (2)	–	74,209	–	–	–	–
Financing agreements: loans and capital contributions (lender) (3)	779,317	–	12,533	1,687,842	7,828	46,851
Sale of property, plant and equipment, intangibles or other assets (4)	458,355	–	–	753,838	–	–
Financing agreements: loans and capital contributions (borrower) (5)	205,384	–	–	200,000	–	–
Collateral and bank guarantees received	201,667	–	–	156,250	–	–
Dividends and other profits distributed	311,716	273,873	–	309,445	269,295	–
Other transactions (6)	1,053,762	–	–	765,982	–	–

Trade debtors and creditors (thousand euros)	2015 Significant shareholders "la Caixa" Group	2015 Significant shareholders Repsol Group	2015 Group companies	2014 Significant shareholders "la Caixa" Group	2014 Significant shareholders Repsol Group	2014 Group companies
Trade and other receivables	–	138,049	24,585	–	126,300	23,442
Trade and other payables	–	11,916	31,519	–	22,400	40,739

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

(2) Basically includes the acquisition of piped propane supply points. On 30 September 2015, an agreement was concluded with Repsol Butano to purchase piped propane assets, whereby Gas Natural Distribución will acquire approximately 250,000 supply points located in the area of influence of its existing distribution zones for a total of approximately Euros 450 million, when the mandatory administrative authorisations are obtained so that they can be connected to the natural gas distribution network.

(3) Includes treasury and financial investments.

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

(5) At 31 December 2015, credit lines contracted with "la Caixa" Group amounted to Euros 569,000 thousand (Euros 562,421 thousand at 31 December 2014), no amounts having been utilised."La Caixa" Group also has shares of other loans totalling Euros 205,384 thousand. At 31 December 2014, its shares in other loans amounted to Euros 200,000 thousand.

(6) At 31 December 2015, the item "Other transactions" with"la Caixa" Group includes the amount of Euros 771,746 thousand in respect of foreign exchange hedges (Euros 577,717 thousand at 31 December 2014) and Euros 282,016 thousand in respect of interest rate hedges (Euros 188,265 thousand at 31 December 2014).

Note 33. Disclosures regarding members of the Board of Directors and the Executive personnel

Remuneration of the members of the Board of Directors

In accordance with the By-laws and the General Meeting resolution of 14 May 2015, the Company may earmark a maximum of Euros 5 million for Board directors' remuneration each year.

The amount accrued to the members the Board of Directors of Gas Natural SDG, S.A. as members of the Board of Directors, Executive Committee (EC), Audit and Control Committee (A&CC) and Appointments and Remuneration Committee (A&RC) totalled Euros 4,205 thousand (Euros 4,085 thousand in 2014), 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	–	–	25,000	151,500
Mr. Rafael Villaseca Marco	CEO	126,500	126,500	–	–	253,000
Mr. Ramón Adell Ramón	Director	126,500	80,500	40,000	–	247,000
Mr. Enrique Alcántara-García Irazoqui	Director	126,500	126,500	–	–	253,000
Mr. Xabier Añoveros Trías de Bes	Director	126,500	–	–	–	126,500
Mr. Francisco Belil Creixell[1]	Director	80,500	–	25,455	–	105,955
Mr. Demetrio Carceller Arce	Director	126,500	126,500	–	–	253,000
Mr. Santiago Cobo Cobo[2]	Director	46,000	–	–	9,091	55,091
Mr. Isidro Fainé Casas[1]	Director	80,500	–	–	–	80,500
Mr. Nemesio Fernández-Cuesta Luca de Tena[2]	Director	46,000	46,000	–	–	92,000
Mrs. Benita María Ferrero-Waldner[1]	Director	80,500	–	–	–	80,500
Mrs. Cristina Garmendia Mendizábal[1]	Director	80,500	–	–	15,909	96,409
Mr. Felipe González Márquez[2]	Director	46,000	–	–	–	46,000
Mr. Emiliano López Achurra	Director	126,500	126,500	–	–	253,000
Mr. Carlos Losada Marrodán[2]	Director	46,000	46,000	14,545	–	106,545
Mr. Miguel Martínez San Martín[1]	Director	80,500	80,500	–	–	161,000
Mr. Juan María Nin Génova[2]	Director	46,000	46,000	–	–	92,000
Mr. Heribert Padrol Munté	Director	126,500	–	–	–	126,500
Mr. Juan Rosell Lastortras	Director	126,500	80,500	–	–	207,000
Mr. Luis Suárez de Lezo Mantilla	Director	126,500	–	40,000		166,500
Mr. Miguel Valls Maseda	Director	126,500	–	–	25,000	151,500
		2,574,000	**1,435,500**	**120,000**	**75,000**	**4,204,500**

[1] As from 14 May 2015.
[2] To 14 May 2015.

In 2015, as in 2014, no amounts were received for other items.

In 2015, the Chief Executive Officer received Euros 85 thousand (Euros 10 thousand in 2014) as a Board member of the investee company CGE. These amounts are deducted from the CEO's annual variable remuneration.

The amounts accrued to the Chief Executive Officer for executive functions in respect of fixed remuneration, annual variable remuneration, multi-year variable remuneration and other items totalled Euros 1,142 thousand, Euros 1,054 thousand, Euros 883 thousand and Euros 8 thousand, respectively, in 2015 (Euros 1,063 thousand, Euros 1,141 thousand, Euros 902 thousand and Euros 5 thousand, respectively, in 2014).

Contributions to pension plans and group insurance policies, together with life insurance premiums paid, totalled Euros 315 thousand in 2015 (Euros 308 thousand in 2014). Funds accumulated due to these contributions amount to Euros 2,930 thousand at 31 December 2015 (Euros 2,636 thousand at 31 December 2014).

The members of the Board of Directors of the Company have not received remuneration from profit sharing, bonuses or indemnities, and have not been given loans or advances. Neither have they received shares or share options during the year, nor have they exercised options or have options to be exercised.

The members of the Board of Directors are covered with the same liability policy that insures all managers and directors of Gas Natural Fenosa.

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

The Directors have the obligation to avoid conflicts of interest as established by Regulation of the Board of Gas Natural SDG, SA and Articles 228 and 229 of the Capital Companies Law. Additionally, these articles require that conflicts of interest incurred by the board shall be reported in the annual accounts.

The Directors of Gas Natural SDG, SA have not reported any conflict of interest that has to be informed.

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 or Audit Committee, the Directors representing the related party involved have abstained.

During the years 2015 and 2014, the members of the Board have not carried out related transactions outside the ordinary course or transactions that are not conducted under normal market conditions with the company or Group companies.

Remuneration of Executive personnel

For the sole purposes of the information contained in this section, "executives" refers to the members of the Management Committee, excluding the CEO, whose remuneration has been included in the previous section, and the Internal Audit Director.

Amounts accrued to executives in respect of fixed remuneration, annual variable remuneration, multi-year variable remuneration and other items totalled Euros 4,962 thousand, Euros 2,528 thousand, Euros 1,982 thousand and Euros 112 thousand, respectively, in 2015 (Euros 4,459 thousand, Euros 2,776 thousand, Euros 2,083 thousand and Euros 121 thousand, respectively, in 2014).

The share acquisition plan mentioned in Note 3.4.15 d) ended in 2014. Therefore, no amounts were received in Company shares in 2015 (Euros 120 thousand in 2014).

Contributions to pension plans and group insurance policies, together with life insurance premiums paid, amounted to Euros 2,428 Thousand in 2015 (Euros 2,176 Thousand in 2014). Funds accumulated due to these contributions amount to Euros 24,955 Thousand at 31 December 2015 (Euros 22,818 thousand at 31 December 2014).

The executives have received no remuneration in respect of profit sharing or bonuses and no loans have been granted to them. No advances were granted to management personnel at 31 December 2015 (Euros 100 Thousand 31 December 2014). No indemnities were received during 2015 or 2014.

The contracts of the executives contain a clause that stipulates a minimum indemnity of two years pay in certain cases of termination of contract and an indemnity equivalent to one year's fixed remuneration for the post-employment no-competition clause for a period of two years.

Note 34. Commitments and contingent liabilities

Guarantees

At 31 December 2015 Gas Natural Fenosa has given guarantees to third parties for activities totalling Euros 1,368 million (Euros 1,574 million at 31 December 2014).

On the other hand, financial guarantees have also been given totalling Euros 348 million (Euros 369 million at 31 December 2014), of which Euros 138 million relate to the guarantee for compliance with the obligations on the loan received by investee companies (Euros 241 million at 31 December 2014).

Gas Natural Fenosa estimates that the liabilities not foreseen at 31 December 2015, if any, that could arise from guarantees furnished, would not be significant.

Contractual commitments

The following tables present the contractual commitments for purchases and sales at 31 December 2015:

	At 31 December 2015						
Purchase	**Total**	2016	2017	2018	2019	2020	and after
Operating leases (1)	**975**	69	56	60	56	53	681
Energy purchases (2)	**84,163**	6,851	6,814	7,063	7,010	7,468	48,957
Nuclear fuel purchases	**42**	24	18	–	–	–	–
Energy transmission (3)	**2,031**	282	237	234	236	223	819
Investment (4)	**861**	439	421	1	–	–	–
Total contractual obligations	**88,072**	**7,665**	**7,546**	**7,358**	**7,302**	**7,744**	**50,457**

	At 31 December 2014						
Sale	**Total**	2016	2017	2018	2019	2020	and after
Provision of capacity assignment services (5)	**4,293**	308	276	257	274	323	2,855
Energy sales (6)	**21,634**	3,339	3,074	2,896	1,498	1,494	9,333
Total contractual obligations	**25,927**	**3,647**	**3,350**	**3,153**	**1,772**	**1,817**	**12,188**

1) Basically reflects operating costs associated with charter contracts for gas tankers under finance leases, including the four operational tankers (Note 18) and operating costs associated with four gas transport tankers under construction (Note 6), which will be recorded as financial leases and are expected to become operational in 2016 and 2017. It also includes 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 3.4.7.3). 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 2015.

This also includes long-term commitments to buy electricity, calculated based on prices at 31 December 2015.

3) Reflects the long-term commitments (20 to 25 years) for gas transport and electricity transmission calculated on the basis of prices at 31 December 2015.

4) It basically reflects investment commitments to develop the distribution network and other gas infrastructures, to develop the electricity grid and to build four methane tankers during the period 2016-2017 (Note 6).

5) It reflects service provision commitments under power generation capacity assignment contracts in Mexico (Note 3.4.19). The commitments made in these contracts have been calculated based on prices at 31 December 2015.

6) It basically reflects long-term commitments to sell natural gas under gas sale contracts, containing take-or-pay clauses, negotiated and held for "own use" (Note 3.4.7.3). The commitments have been calculated based on natural gas prices at 31 December 2015.

Contingent liabilities

At the preparation date of these consolidated annual accounts, the main contingent liabilities relate to the following litigation:

Claims for PIS and COFINS taxes in Brazil

In September 2005, the Río de Janeiro Tax Administration rendered ineffective the recognition that it had previously issued, in April 2003, for the offset of receivables in respect of PIS and COFINS sales taxes paid by the Group company Companhia Distribuidora de Gás do Rio de Janeiro - CEG. The administrative court confirmed that ruling in March 2007 and the company filed an appeal at a contentious-administrative court (Justicia Federal do Rio de Janeiro). Subsequently, notification of a public civil action against CEG relating to the same events was received on 26 January 2009. The total amount of tax payable in dispute, updated at 31 December 2014, was BRL 386 million. In November 2015, the above-mentioned first-instance court issued a judgement partially allowing CEG's appeal and reducing the total amount to BRL 260 million (Euros 61 million). Gas Natural Fenosa has appealed the judgement, taking the view, together with the company's legal advisors, that there is no basis even for the reduced amount, so that no liabilities are expected to arise that could have a relevant impact on Gas Natural Fenosa's results.

Claim against Edemet - Edechi (Panama)

In April 2012, notification was received of a second-instance judgement rendering void the first-instance judgement that ordered the Group companies Empresa Distribuidora de Electricidad Metro Oeste S.A. and Empresa Distribuidora de Electricidad Chiriquí S.A. to pay damages to the claimant in the amount that was to be determined by experts, subject to a maximum of USD 84 million. Both the claimant and the defendants (Edemet and Edechi) appealed that judgement. The alleged damages relate to a tender for the en bloc purchase of electricity called by the Public Services Authority and awarded to the claimant, which was not finally capable of fulfilling the contract due to the failure to furnish the guarantees required by the bidding specifications. In March 2015, the Supreme Court resolved the appeal, ordering Edemet and Edechi to pay USD 21 million (Euros 19 million). Edemet and Edechi have appealed the judgement, which they consider to be groundless, so that no liabilities are expected to arise that could have a relevant impact on Gas Natural Fenosa's results.

Note 35. Auditors’ fees

The fees accrued in thousand Euros by the different companies trading under the PwC brand are as follows:

	Thousand Euros	
	2015	2014
Audit services	3,854	3,696
Verification services and related to audit	877	671
Other services	22	332
Total fees	**4,753**	**4,699**

Additionally, other audit firms have rendered the following services to Group companies:

	Thousand Euros	
	2015	2014
Audit services	1,686	301
Verification services and related to audit	32	1
Other services	96	106
Total fees	**1,814**	**408**

Note 36. Environment

Main environmental actions

Gas Natural Fenosa’s main activities related to the company's environmental strategy so as to assure compliance with environmental legislation, reduce environmental impacts, mitigate climate change, preserve biodiversity, optimise consumption of natural resources such as water, prevent pollution and promote continuous improvement, going beyond the stipulations of applicable laws.

Measures continued to make energy development compatible with environmental protection. General activities included the promotion of continuous improvement by updating and extending environmental management, involving our suppliers and encouraging our customers to use energy responsibly.

This is achieved through environmental management based on the ISO 14001 model, the correct functioning of which is verified periodically, providing the tools required to assure environmental management. In 2015, certification was obtained for the environmental management system applied to gas distribution in Argentina. Along similar lines, the process commenced to adapt environmental management of the Chilean activities to ensure consistency with the rest of the company. For this reason, the certified industrial Ebitda percentage fell in 2015 and will continue to decrease in the coming years.

Gas Natural Fenosa's positioning in relation to climate change is based on its contribution to climate change mitigation by using low-carbon and renewable energies, promoting energy saving and efficiency, applying new technologies and capturing carbon in the Group's projects. In 2015 direct CO2 emissions rose considerable in relation to 2014. This is explained basically by an increase in coal thermal generation in Spain. In the interests of system and market stability, Spain’s thermal generation filled the gap left by the reduction in renewable production in a year in which there was less precipitation and wind. This caused a substantial rise in specific emissions per unit of electricity generated with respect to 2014, although it was partly absorbed by the increase in renewable generation worldwide.

There was an absolute rise in emissions of other substances due to the dominance of thermal generation in Spain. Coal-generation-related waste production grew by an equivalent amount.

In 2015, Gas Natural Fenosa undertook numerous actions to promote the conservation of biodiversity, some in response to requirements implemented by environmental authorities and others voluntarily. During this period, the initial steps have been taken to implement biodiversity action plans and highly significant progress has been made in the creation of tools to support the company's biodiversity strategy.

Gas Natural Fenosa is aware of the essential role played by water in the production process; as part of its ongoing commitment to the environment and to the efficient management of natural resources, in 2015 its water strategy was consolidated by determining management indicators and lines of action to optimise water use in the most significant production processes.

All these environmental activities undertaken in 2015 amounted to Euros 95 million (Euros 98 million in 2015), of which Euros 24 million related to environmental investments and Euros 71 million relate to environmental management expenditure. The main investments made were designed to reduce atmospheric gas emissions from gas distribution networks and electricity generation plants, as well as to improve water treatment and purification system and to conserve the ecological conditions of the receiving medium.

Any contingencies, indemnities and other environmental risks that could be incurred by Gas Natural Fenosa are adequately covered by third-party liability insurance.

Emissions

In 2015, 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 13.6 million tonnes of CO_2 (11.1 million tonnes of CO_2 in 2014).

Gas Natural Fenosa manages its CO_2 emission rights coverage portfolio in an integrated manner, acquiring the necessary emission rights and credits through active participation in both the secondary market and in primary projects and carbon funds, in which an investment of approximately Euros 2 million has been committed.

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

Note 37. Events after the balance sheet date

In January 2016, Gas Natural Fenosa has agreed to redeem all preference shares issued by Unión Fenosa Financial Services USA, LLC in May 2003 (Note 16) and which are still outstanding, which balance amounts to a nominal value of Euros 69 million. Redemption will be carried out in cash and at nominal value. This amount will be increased by the accrued dividend not paid from the last dividend payment date to the redemption date. Redemption, which does not require the authorisation of the relevant shareholders, will take place on 22 February, on which date the issue will be cancelled and derecognised in the corresponding records.

Appendix I. Group companies of Gas Natural Fenosa

1. Subsidiaries

				Total % interest	
Company	Country	Activity	Consolidation method[1]	% controlling interest[2]	% equity interest
Gas Natural BAN, S.A.	Argentina	Gas distribution	F.C.	70.0	70.0
Ceg Río, S.A.	Brazil	Gas distribution	F.C.	59.6	59.6
Companhia Distribuidora de Gás do Río de Janeiro, S.A.	Brazil	Gas distribution	F.C.	54.2	54.2
Gas Natural Sao Paulo Sul, S.A.	Brazil	Gas distribution	F.C.	100.0	100.0
Gas Natural Cundiboyacense, S.A. ESP	Colombia	Gas distribution	F.C.	77.5	45.7
Gas Natural del Cesar, S.A. ESP	Colombia	Gas distribution	F.C.	62.2	21.7
Gas Natural del Oriente, S.A. ESP	Colombia	Gas distribution	F.C.	54,5	32,2
Gas Natural, S.A. ESP	Colombia	Gas distribution	F.C.	59.1	59.1
Gas Directo, S.A.U.	Spain	Gas distribution	F.C.	100.0	100.0
Gas Galicia SDG, S.A.	Spain	Gas distribution	F.C.	61.6	61.6
Gas Natural Andalucía, S.A.	Spain	Gas distribution	F.C.	100.0	100.0
Gas Natural Castilla-La Mancha, S.A.	Spain	Gas distribution	F.C.	95.0	95.0
Gas Natural Castilla y León, S.A.	Spain	Gas distribution	F.C.	90.1	90.1
Gas Natural Cegas, S.A.	Spain	Gas distribution	F.C.	99.7	99.7
Gas Natural Distribución SDG, S.A.	Spain	Gas distribution	F.C.	100.0	100.0
Gas Natural Fenosa Aragón SDG, S.A.	Spain	Gas distribution	F.C.	100.0	100.0
Gas Natural Fenosa Balears, S.A.	Spain	Gas distribution	F.C.	100.0	100.0
Gas Natural Infraestructuras Distribución de Gas, SDG, S.A.	Spain	Gas distribution	F.C.	100.0	100.0
Gas Natural Madrid SDG, S.A.	Spain	Gas distribution	F.C.	100.0	100.0
Gas Natural Rioja, S.A.	Spain	Gas distribution	F.C.	87.5	87.5

Company	Country	Activity	Consolidation method[1]	Total % interest % controlling interest[2]	% equity interest
Gas Natural Transporte SDG, S.L.	Spain	Gas distribution	F.C.	100.0	100.0
Gas Navarra, S.A.	Spain	Gas distribution	F.C.	100.0	100.0
Albidona Distribuzione Gas, SR	Italy	Gas distribution	F.C.	100.0	100.0
Favellato Reti, S.R.L.	Italy	Gas distribution	F.C.	100.0	100.0
Gas Natural Distribuzione Italia, S.P.A.	Italy	Gas distribution	F.C.	100.0	100.0
Comercializadora Metrogas, S.A. de CV	Mexico	Gas distribution	F.C.	100.0	85.0
Gas Natural México, S.A. de CV[3]	Mexico	Gas distribution	F.C.	85. 0	85.0
Gas Natural Fenosa Perú, S.A.	Peru	Gas distribution	F.C.	100.0	100.0
Electrificadora del Caribe S.A, E.S.P.	Colombia	Electricity distribution	F.C.	85.4	85.4
Unión Fenosa Distribución, S.A.	Spain	Electricity distribution	F.C.	100.0	100.0
Gas Natural Fenosa Furnizare Energie, S.R.L.	Moldova	Electricity distribution	F.C.	100.0	100.0
Red Unión Fenosa, S.A.	Moldova	Electricity distribution	F.C.	100.0	100.0
Empresa de Distribución Electrica Chiriqui, S.A.	Panama	Electricity distribution	F.C.	51.0	51.0
Empresa de Distribución Electrica Metro Oeste, S.A.	Panama	Electricity distribution	F.C.	51.0	51.0
Gas Natural Almacenamientos Andalucía, S.A.	Spain	Gas infrastructures	F.C.	100.0	100.0
Gas Natural Exploración, S.L.	Spain	Gas infrastructures	F.C.	100.0	100.0
Palencia 3 Investigación Desarrollo y Explotación, S.L.	Spain	Gas infrastructures	F.C.	63.9	63.9
Petroleum Oil & Gas España, S.A.	Spain	Gas infrastructures	F.C.	100.0	100.0
Gas Natural Rigassificazione Italia, S.P.A.	Italy	Gas infrastructures	F.C.	100.0	100.0
Metragaz, S.A.	Morocco	Gas infrastructures	F.C.	76.7	76.7
Europe Maghreb Pipeline, Ltd.	United Kingdom	Gas infrastructures	F.C.	77.2	77.2

Company	Country	Activity	Consolidation method[1]	Total % interest: % controlling interest[2]	Total % interest: % equity interest
Natural Energy, S.A.	Argentina	Gas supply and commercialisation	F.C.	100.0	100.0
Gas Natural Serviços, S.A.	Brazil	Gas supply and commercialisation	F.C.	100.0	100.0
Serviconfort Colombia, S.A.S.	Colombia	Gas supply and commercialisation	F.C.	100.0	100.0
Gas Natural Aprovisionamientos SDG, S.A.	Spain	Gas supply and commercialisation	F.C.	100.0	100.0
Gas Natural Fenosa LNG, S.L.	Spain	Gas supply and commercialisation	F.C.	100.0	100.0
Sagane, S.A.	Spain	Gas supply and commercialisation	F.C.	100.0	100.0
Gas Natural Europe, S.A.S.	France	Gas supply and commercialisation	F.C.	100.0	100.0
Cetraro Distribuzione Gas, S.R.L.	Italy	Gas supply and commercialisation	F.C.	100.0	100.0
Gas Natural Vendita Italia, S.P.A.	Italy	Gas supply and commercialisation	F.C.	100.0	100.0
Gas Natural Puerto Rico, Inc	Puerto Rico	Gas supply and commercialisation	F.C.	100.0	100.0
Energía Empresarial de la Costa, S.A., E.S.P.	Colombia	Electricity commercialisation	F.C.	100.0	85.4
Energía Social de la Costa S.A. E.S.P.	Colombia	Electricity commercialisation	F.C.	100.0	85.4
Gas Natural Comercializadora, S.A.	Spain	Gas and electricity commercialisation	F.C.	100.0	100.0
Gas Natural S.U.R. SDG, S.A.	Spain	Gas and electricity commercialisation	F.C.	100.0	100.0
Gas Natural Servicios SDG, S.A.	Spain	Gas and electricity commercialisation	F.C.	100.0	100.0
Mataró Energía Sostenible, S.A.	Spain	Gas and electricity commercialisation	F.C.	51.1	51.1
Berrybank Development Pty, Ltd	Australia	Electricity generation	F.C.	100.0	72.3
Crookwell Development Pty, Ltd	Australia	Electricity generation	F.C.	100.0	72.3
Ryan Corner Development Pty, Ltd	Australia	Electricity generation	F.C.	100.0	72.3
Iberéolica Cabo Leones II, S.A.	Chile	Electricity generation	F.C.	51.0	38.3
Hidroeléctrica Rio San Juan S.A.S. ESP	Colombia	Electricity generation	F.C.	100.0	75.0

Company	Country	Activity	Consolidation method[1]	Total % interest	
				% controlling interest[2]	% equity interest
Almar Ccs, S.A.	Costa Rica	Electricity generation	F.C.	100.0	75.0
P.H. La Perla, S.A.	Costa Rica	Electricity generation	F.C.	100.0	100.0
Unión Fenosa Generadora La Joya, S.A.	Costa Rica	Electricity generation	F.C.	65.0	48.8
Unión Fenosa Generadora Torito, S.A.	Costa Rica	Electricity generation	F.C.	65.0	48.8
Ampliación de Nerea, S.L.U.	Spain	Electricity generation	F.C.	100.0	100.0
Banteay Srei, S.L.U.	Spain	Electricity generation	F.C.	100.0	100.0
Boreas Eólica 2, S.A.	Spain	Electricity generation	F.C.	89.6	89.6
Corporación Eólica de Zaragoza, S.L	Spain	Electricity generation	F.C.	68.0	68.0
Energías Ambientales de Somozas, S.A.	Spain	Electricity generation	F.C.	97.0	97.0
Energías Especiales Alcoholeras, S.A., En Liquidación	Spain	Electricity generation	F.C.	82.3	82.3
Energías Especiales de Extremadura, S.L.	Spain	Electricity generation	F.C.	99.0	99.0
Eólica La Vega I, S.L.U.	Spain	Electricity generation	F.C.	100.0	100.0
Eólica La Vega II, S.L.U.	Spain	Electricity generation	F.C.	100.0	100.0
Estela Eólica, S.L.U.	Spain	Electricity generation	F.C.	100.0	100.0
Explotaciones Eólicas Sierra de Utrera, S.L.	Spain	Electricity generation	F.C.	75.0	75.0
Fenosa Wind, S.L.U.	Spain	Electricity generation	F.C.	100.0	100.0
Fenosa, S.L.U.	Spain	Electricity generation	F.C.	100.0	100.0
Gas Natural Fenosa Generación Nuclear, S.L.U.	Spain	Electricity generation	F.C.	100.0	100.0
Gas Natural Fenosa Generación, S.L.U.	Spain	Electricity generation	F.C.	100.0	100.0
Gas Natural Fenosa Renovables Ruralia, S.L.U.	Spain	Electricity generation	F.C.	51.0	51.0
Gas Natural Fenosa Renovables, S.L.U.	Spain	Electricity generation	F.C.	100.0	100.0

				Total % interest	
Company	Country	Activity	Consolidation method[1]	% controlling interest[2]	% equity interest
Gas Natural Wind 4, S.L.U.	Spain	Electricity generation	F.C.	100.0	100.0
Gas Natural Wind 6, S.L.	Spain	Electricity generation	F.C.	60.0	60.0
Gecal Renovables, S.A.	Spain	Electricity generation	F.C.	100.0	100.0
Genroque, S.L.U.	Spain	Electricity generation	F.C.	100.0	100.0
Global Power Generation, S.A.	Spain	Electricity generation	F.C.	75.0	75.0
J.G.C. Cogeneración Daimiel, S.L.	Spain	Electricity generation	F.C.	97.6	97.6
Lanzagorta comunicaciones, S.L.	Spain	Electricity generation	F.C.	100.0	100.0
P.E. Cova da serpe, S.L.U.	Spain	Electricity generation	F.C.	100.0	100.0
P.E. El Hierro, S.L.	Spain	Electricity generation	F.C.	95.0	95.0
P.E. La Rabia, S.L.U.	Spain	Electricity generation	F.C.	100.0	100.0
P.E. Las Claras, S.L.U.	Spain	Electricity generation	F.C.	100.0	100.0
P.E. Los Pedreros, S.L.	Spain	Electricity generation	F.C.	100.0	100.0
P.E. Montamarta, S.L.	Spain	Electricity generation	F.C.	95.0	95.0
P.E. Nerea, S.L.	Spain	Electricity generation	F.C.	95.0	95.0
P.E. Peñarroldana, S.L.	Spain	Electricity generation	F.C.	95.0	95.0
Sociedad de Tratamiento Hornillos, S.L., en liquidación	Spain	Electricity generation	F.C.	94.4	94.4
Sociedad de Tratamiento La Andaya, S.L., en liquidación	Spain	Electricity generation	F.C.	60.0	60.0
Societat Eòlica de l´Enderrocada, S.A.	Spain	Electricity generation	F.C.	80.0	80.0
Tratamiento Cinca Medio, S.L. en liquidación	Spain	Electricity generation	F.C.	80.0	80.0
Tratamiento Integral de Almazán, S.L., en liquidación	Spain	Electricity generation	F.C.	90.0	90.0
Iberáfrica Power Ltd.	Kenia	Electricity generation	F.C.	100.0	75.0

Company	Country	Activity	Consolidation method[1]	Total % interest: % controlling interest[2]	Total % interest: % equity interest
Fuerza y Energía Bii Hioxo, S.A. de C.V.	Mexico	Electricity generation	F.C.	100.0	75.0
Fuerza y Energía de Hermosillo, S.A. de C.V.	Mexico	Electricity generation	F.C.	100.0	75.0
Fuerza y Energía de Naco Nogales, S.A. de C.V.	Mexico	Electricity generation	F.C.	100.0	75.0
Fuerza y Energía de Norte Durango, S.A de C.V	Mexico	Electricity generation	F.C.	100.0	75.0
Fuerza y Energía de Tuxpan, S.A. de C.V.	Mexico	Electricity generation	F.C.	100.0	75.0
Energía y Servicios de Panamá, S.A.	Panama	Electricity generation	F.C.	51.0	38.3
Generadora Palamara La Vega, S.A.	Dominican Republic	Electricity generation	F.C.	100.0	75.0
Lignitos de Meirama, S.A.	Spain	Mining	F.C.	100.0	100.0
Kangra Coal (Proprietary), Ltd.	South Africa	Mining	F.C.	70.0	70.0
Welgedacht Exploration Company, Ltd	South Africa	Mining	F.C.	100.0	70.0
Gas Natural Informática, S.A.	Spain	IT services	F.C.	100.0	100.0
United Saudi Spanish Power and Gas Services, LLC	Saudi Arabia	Engineering services	F.C.	100.0	78.8
Gas Natural Fenosa Engineering Brasil , S.A.	Brazil	Engineering services	F.C.	100.0	100.0
Gas Natural Fenosa Engineering, S.A.S.	Colombia	Engineering services	F.C.	100.0	100.0
Gas Natural Fenosa Ingeniería y Desarrollo de Gen., S.A.S.	Colombia	Engineering services	F.C.	100.0	75.0
Gas Natural Fenosa Ingeniería y Desarrollo de Gen., S.A. Costa Rica	Costa Rica	Engineering services	F.C.	100.0	75.0
Operación y Mantenimiento Energy Costa Rica, S.A.	Costa Rica	Engineering services	F.C.	100.0	75.0
Soluziona Technical Services, Llc. En Liquidación	Egypt	Engineering services	F.C.	100.0	100.0
Gas Natural Fenosa Engineering, S.L.	Spain	Engineering services	F.C.	100.0	100.0
Gas Natural Fenosa Ingeniería y Desarrollo de Gen., S.L.	Spain	Engineering services	F.C.	100.0	75.0
Operación y Mantenimiento Energy, S.A.	Spain	Engineering services	F.C.	100.0	75.0

Company	Country	Activity	Consolidation method[1]	Total % interest	
				% controlling interest[2]	% equity interest
Gas Natural Fenosa Ingeniería y Desarrollo de Gen., S.A. GUATEMALA	Guatemala	Engineering services	F.C.	100.0	75.0
Spanish Israeli Operation and Maintenance Company, Ltd.	Israel	Engineering services	F.C.	100.0	100.0
Gas Natural Fenosa Ingenieria México, S.A. de C.V.	Mexico	Engineering services	F.C.	100.0	100.0
Gas Natural Fenosa Ingenieria y Desarrollo de Gen. México, S.A. de C.V.	Mexico	Engineering services	F.C.	100.0	75.0
Operación y Mantenimiento Energy Mexico, S.A. de C.V.	Mexico	Engineering services	F.C.	100.0	75.0
Operación y Mantenimiento La Caridad, S.A. de C.V.	Mexico	Engineering services	F.C.	100.0	75.0
Unión Fenosa Operación México S.A. de C.V.	Mexico	Engineering services	F.C.	100.0	75.0
Gas Natural Fenosa Engineering Panamá, S.A.	Panama	Engineering services	F.C.	100.0	100.0
Gas Natural Fenosa Technology INC	Puerto Rico	Engineering services	F.C.	100.0	75.0
Operations & Maintenance Energy Uganda Ltd	Uganda	Engineering services	F.C.	100.0	75.0
Natural Re, S.A.	Luxembourg	Insurance	F.C.	100.0	100.0
Gas Natural Capital Markets, S.A.	Spain	Financial services	F.C.	100.0	100.0
Unión Fenosa Financiación, S.A.	Spain	Financial services	F.C.	100.0	100.0
Unión Fenosa Preferentes, S.A.U.	Spain	Financial services	F.C.	100.0	100.0
Unión Fenosa Financial Services USA, Llc.	U.S.A	Financial services	F.C.	100.0	100.0
Gas Natural Fenosa Finance B.V.	Holland	Financial services	F.C.	100.0	100.0
Clover Financial and Treasury Services, Ltd.	Ireland	Financial services	F.C.	100.0	100.0
Natural Servicios, S.A.	Argentina	Services	F.C.	100.0	100.0
Gas Natural do Brasil, S.A.	Brazil	Services	F.C.	100.0	100.0
Gas Natural Servicios Económicos, S.A.S.	Colombia	Services	F.C.	100.0	100.0
Gas Natural Servicios Integrales, S.A.S.	Colombia	Services	F.C.	100.0	100.0

Company	Country	Activity	Consolidation method[1]	Total % interest	
				% controlling interest[2]	% equity interest
Gas Natural Servicios, S.A.S.	Colombia	Services	F.C.	100.0	59.0
Arte Contemporáneo y Energía, A.I.E.	Spain	Services	F.C.	100.0	100.0
Compañía Española de Industrias Electroquímicas, S.A.	Spain	Services	F.C.	98.5	98.5
General de Edificios y Solares, S.L.	Spain	Services	F.C.	100.0	100.0
Gas Natural Italia S.P.A.	Italy	Services	F.C.	100.0	100.0
Administración y Servicios ECAP, S.A. de C.V.	Mexico	Services	F.C.	100.0	100.0
Administradora de Servicios de Energía México, S.A. de CV	Mexico	Services	F.C.	100.0	85.0
Energía y Confort Administración de Personal, S.A. de C.V.	Mexico	Services	F.C.	100.0	85.3
Gas Natural Servicios, S.A. de C.V.	Mexico	Services	F.C.	100.0	85.0
Sistemas de Administración y Servicios, S.A. de C.V.[3]	Mexico	Services	F.C.	85.0	85.0
Gas Naatural Fenosa Servicios Panamá, S.A.	Panama	Services	F.C.	100.0	100.0
Inversiones Hermill, S.A.	Dominican Republic	Services	F.C.	100.0	100.0
Gas Natural SDG Argentina, S.A.	Argentina	Holding company	F.C.	100.0	100.0
Invergás, S.A.	Argentina	Holding company	F.C.	100.0	100.0
Union Fenosa Wind Australia Pty, Ltd.	Australia	Holding company	F.C.	96.5	72.3
Gas Natural Fenosa Chile, SpA	Chile	Holding company	F.C.	100.0	100.0
Global Power Generation Chile, S.p.A.	Chile	Holding company	F.C.	100.0	75.0
Gas Natural Distribución Latinoamerica, S.A.	Spain	Holding company	F.C.	100.0	100.0
Gas Natural Fenosa Electricidad Colombia, S.L.	Spain	Holding company	F.C.	100.0	100.0
Gas Natural Fenosa Internacional, S.A.	Spain	Holding company	F.C.	100.0	100.0
Holding Negocios Regulados Gas Natural, S.A.	Spain	Holding company	F.C.	100.0	100.0

Company	Country	Activity	Consolidation method[1]	Total % interest: % controlling interest[2]	Total % interest: % equity interest
La Energía, S.A.	Spain	Holding company	F.C.	100.0	100.0
La Propagadora del Gas Latam, S.L.U.	Spain	Holding company	F.C.	100.0	100.0
La Propagadora del Gas, S.A.	Spain	Holding company	F.C.	100.0	100.0
Unión Fenosa Minería, S.A.	Spain	Holding company	F.C.	100.0	100.0
Gas Natural Fenosa Minería, B.V.	Holland	Holding company	F.C.	100.0	100.0
GPG México Wind, B.V.	Holland	Holding company	F.C.	100.0	75.0
GPG México, B.V.	Holland	Holding company	F.C.	100.0	75.0
Buenergía Gas & Power, Ltd.	Cayman Islands	Holding company	F.C.	95.0	71.3
First Independent Power, Ltd.	Kenya	Holding company	F.C.	100.0	75.0
Unión Fenosa México, S.A. de C.V.	Mexico	Holding company	F.C.	100,0	75,0
Distribuidora Eléctrica de Caribe, S.A.	Panama	Holding company	F.C.	100.0	100.0
Generación Eléctrica del Caribe , S.A.	Panama	Holding company	F.C.	100.0	75.0
Unión Fenosa South Africa Coal (Proprietary), Ltd	South Africa	Holding company	F.C.	100.0	100.0
CGE Group:					
Compañía General de Electricidad, S.A.	Chile	Holding company	F.C.	97.4	97.4
Gas Sur S.A.	Chile	Gas distribution	F.C.	100.0	55.1
Metrogas S.A.	Chile	Gas distribution	F.C.	60.2	36.9
Agua Negra S.A.	Argentina	Electricity distribution	F.C.	100.0	97.4
Energía San Juan S.A.	Argentina	Electricity distribution	F.C.	99.9	97.3
International Financial Investments S.A.	Argentina	Electricity distribution	F.C.	100.0	97.4
Los Andes Huarpes S.A.	Argentina	Electricity distribution	F.C.	98.0	95.4

Company	Country	Activity	Consolidation method[1]	Total % interest: % controlling interest[2]	Total % interest: % equity interest
CGE Argentina S.A.	Chile	Electricity distribution	F.C.	100.0	97.4
CGE Distribución S.A.	Chile	Electricity distribution	F.C.	99.3	96.7
CGE Magallanes S.A.	Chile	Electricity distribution	F.C.	99.9	97.3
Compañía Nacional de Fuerza Eléctrica S.A.	Chile	Electricity distribution	F.C.	99.3	96.7
Emel Norte S.A.	Chile	Electricity distribution	F.C.	98.2	95.6
Emelat Inversiones S.A.	Chile	Electricity distribution	F.C.	98.4	94.1
Empresa de Transmisión Eléctrica Transemel S.A.	Chile	Electricity distribution	F.C.	100.0	86.7
Empresa Eléctrica Atacama S.A.	Chile	Electricity distribution	F.C.	98.4	95.2
Empresa Eléctrica de Antofagasta S.A.	Chile	Electricity distribution	F.C.	92.7	86.4
Empresa Eléctrica de Arica S.A.	Chile	Electricity distribution	F.C.	94.2	87.0
Empresa Eléctrica de Iquique S.A.	Chile	Electricity distribution	F.C.	88.6	84.3
Empresa Eléctrica de Magallanes S.A.	Chile	Electricity distribution	F.C.	55.2	53.7
Transnet S.A.	Chile	Electricity distribution	F.C.	99.6	97.0
Autogasco S.A.	Chile	Liquefied petroleum gas	F.C.	100.0	55.1
Gasco GLP S.A.	Chile	Liquefied petroleum gas	F.C.	100.0	55.1
Gasco S.A.	Chile	Liquefied petroleum gas	F.C.	56.6	55.1
Gasoducto del Pacífico (Argentina) S.A.	Argentina	Gas infrastructures	F.C.	56.7	31.3
Gasoducto del Pacífico S.A.	Chile	Gas infrastructures	F.C.	60.0	33.1
Gasoducto del Pacífico (Cayman) Ltd.	Cayman Islands	Gas infrastructures	F.C.	56.7	31.3
Gasmar S.A.	Chile	Liquefied petroleum gas	F.C.	63.8	35.2
Inversiones GLP S.A.S. E.S.P.	Colombia	Liquefied petroleum gas	F.C.	70.0	38.6

				Total % interest	
Company	Country	Activity	Consolidation method[1]	% controlling interest[2]	% equity interest
JGB Inversiones S.A.S. E.S.P.	Colombia	Liquefied petroleum gas	F.C.	100.0	38.6
Unigas Colombia S.A. E.S.P.	Colombia	Liquefied petroleum gas	F.C.	70.0	27.0
Automotive Gas Systems S.A.	Chile	Services	F.C.	100.0	55.1
Centrogas S.A.	Chile	Services	F.C.	100.0	36.9
Comercial & Logística General S.A.	Chile	Services	F.C.	100.0	97.4
Empresa Chilena de Gas Natural S.A.	Chile	Services	F.C.	100.0	36.9
Energy Sur S.A.	Chile	Services	F.C.	55.0	53.6
Enerplus S.A.	Chile	Services	F.C.	100.0	97.4
Financiamiento Doméstico S.A.	Chile	Services	F.C.	99.9	36.9
Hormigones del Norte S.A.	Chile	Services	F.C.	100.0	97.4
Inversiones San Sebastian S.A.	Chile	Services	F.C.	100.0	53.7
Inversiones y Gestión S.A.	Chile	Services	F.C.	100.0	97.4
Novanet S.A.	Chile	Services	F.C.	100.0	97.4
Sociedad de Computación Binaria S.A.	Chile	Services	F.C.	100.0	97.4
Tecnet S.A.	Chile	Services	F.C.	100.0	97.4
Transformadores Tusan S.A.	Chile	Services	F.C.	100.0	97.4
Transportes e Inversiones Magallanes S.A.	Chile	Services	F.C.	85.0	46.9
TV Red S.A.	Chile	Services	F.C.	90.0	48.3
Gasco Argentina S.A.	Argentina	Holding company	F.C.	100.0	55.1
Gasco International S.A.	Chile	Holding company	F.C.	100.0	55.1
Inversiones Atlántico S.A.	Chile	Holding company	F.C.	100.0	55.1

				Total % interest	
Company	Country	Activity	Consolidation method[1]	% controlling interest[2]	% equity interest
Inversiones Invergas S.A.	Chile	Holding company	F.C.	100.0	55.1
Innergy Holdings S.A.	Chile	Gas infrastructures	F.C.	60.0	33.1
Innergy Soluciones Energéticas S.A.	Chile	Gas infrastructures	F.C.	100.0	33.1
Innergy Transportes S.A.	Chile	Gas infrastructures	F.C.	100.0	33.1

[1] Consolidation method: F.C = full consolidation; P.C. = proportionate consolidation and E.M = equity method.
[2] Parent company's interest in the subsidiary.
[3] The shareholding percentage relating to legally owned shares and to the share buy-back commitment at the percentages stated in Note 18, which are also allocated to the Parent company.

Appendix I. Group companies of Gas Natural Fenosa

2. Joint ventures

Company	Country	Activity	Consolidation method[1]	Total % interest: % controlling interest[2]	Total % interest: % equity interest
Grupo UF Gas:					
Unión Fenosa Gas, S.A.	Spain	Gas supply and commercialisation	E.M.	50.0	50.0
Segas Services, S.A.E.	Egypt	Gas infrastructures	E.M.	100.0	40.7
Spanish Egyptian Gas Company S.A.E.	Egypt	Gas infrastructures	E.M.	80.0	40.0
Nueva Electricidad del Gas, S.A.U.	Spain	Gas infrastructures	E.M.	100.0	50.0
Planta de Regasificación de Sagunto, S.A.	Spain	Gas infrastructures	E.M.	50.0	21.3
Regasificadora del Noroeste, S.A.	Spain	Gas infrastructures	E.M.	21.0	11.6
Unión Fenosa Gas Exploración y Producción, S.A.U.	Spain	Gas infrastructures	E.M.	100.0	50.0
Qalhat LNG S.A.O.C.	Oman	Gas infrastructures	E.M.	7.4	3.7
Unión Fenosa Gas Comercializadora, S.A.	Spain	Gas supply and commercialisation	E.M.	100.0	50.0
Infraestructuras de Gas, S.A.	Spain	Holding company	E.M.	85.0	42.5
Gasifica, S.A.	Spain	Holding company	E.M.	100.0	55.0
Unión Fenosa Gas Infraestructures B.V.	Holland	Holding company	E.M.	100.0	50.0
Gas Natural Vehicular del Norte Asociación en Participación	Mexico	Gas distribution	E.M.	51.3	43.6
Eléctrica Conquense, S.A.	Spain	Electricity distribution	E.M.	46.4	46.4
Eléctrica Conquense de Distribución, S.A.	Spain	Electricity distribution	E.M.	100.0	46.4
CH4 Energía S.A. de C.V.	Mexico	Gas supply and commercialisation	E.M.	50.0	42.5
ENER RENOVA, S.A.	Chile	Electricity generation	E.M.	40.0	40.0
Alas Capital & Gas Natural S.A.	Spain	Electricity generation	E.M.	40.0	40.0
Castrios, S.A.	Spain	Electricity generation	E.M.	33.3	33.3

Company	Country	Activity	Consolidation method[1]	Total % interest: % controlling interest[2]	Total % interest: % equity interest
Cogeneración del Noroeste, S.L.	Spain	Electricity generation	E.M.	40.0	40.0
Desarrollo de Energías Renovables de la Rioja, S.A.	Spain	Electricity generation	E.M.	36.3	36.3
Desarrollo de Energías Renovables de Navarra, S.A.	Spain	Electricity generation	E.M.	50.0	50.0
ENER Renova España, S.L.	Spain	Electricity generation	E.M.	40.0	40.0
Energías Eólicas de Fuerteventura, S.L.	Spain	Electricity generation	E.M.	50.0	50.0
Molinos de la Rioja, S.A.	Spain	Electricity generation	E.M.	33.3	33.3
Molinos del Cidacos, S.A.	Spain	Electricity generation	E.M.	50,0	50,0
Montouto 2000, S.A.	Spain	Electricity generation	E.M.	49.0	49.0
Nueva Generadora del Sur, S.A.	Spain	Electricity generation	E.M.	50.0	50.0
P.E. Cinseiro, S.L.	Spain	Electricity generation	E.M.	50.0	50.0
Sociedad Gestora de Parques Eólicos Andalucía, S.A.	Spain	Electricity generation	E.M.	21.0	21.0
Toledo PV, A.E.I.E	Spain	Electricity generation	E.M.	33.3	33.3
Línea de Trasmisión Cabo Leones, S.A.	Chile	Electricity generation	E.M.	50.0	19.1
EcoEléctrica Holding, Ltd.	Cayman Islands	Holding company	E.M.	50.0	35.6
EcoEléctrica, L.P.	Puerto Rico	Electricity generation	E.M.	100.0	35.6
EcoEléctrica Limited	Cayman Islands	Holding company	E.M.	100.0	35.6
Ghesa Ingeniería y Tecnología, S.A.	Spain	Engineering services	E.M.	41.2	41.2
Grupo CGE:					
Gascart S.A.	Argentina	Gas distribution	E.M.	50.0	27.6
Gasnor S.A.	Argentina	Gas distribution	E.M.	97.4	17.6
Gasmarket S.A.	Argentina	Gas distribution	E.M.	50.0	27.6

Company	Country	Activity	Consolidation method[1]	Total % interest: % controlling interest[2]	Total % interest: % equity interest
Norelec S.A.	Argentina	Electricity distribution	E.M.	50.0	48.7
Compañía Eléctrica de Inversiones S.A.	Argentina	Electricity distribution	E.M.	90.0	48.7
Empresa de Distribución Eléctrica de Tucumán S.A.	Argentina	Electricity distribution	E.M.	80.5	48.7
Empresa Jujeña de Energía S.A.	Argentina	Electricity distribution	E.M.	90.0	53.8
Empresa Jujeña de Sistemas Energéticos Dispersos S.A.	Argentina	Electricity distribution	E.M.	90.0	43.8
Gasoductos GasAndes, S.A. (Argentina)	Argentina	Gas infrastructures	E.M.	47.0	17.4
Andes Operaciones y Servicios S.A.	Chile	Gas infrastructures	E.M.	50.0	18.5
Gas Natural Producción, S.A.	Chile	Gas infrastructures	E.M.	36.2	19.9
Gasoductos GasAndes, S.A. (Chile)	Chile	Gas infrastructures	E.M.	47.0	17.4
GNL Chile S.A.	Chile	Gas infrastructures	E.M.	33.3	12.3
GNL Quintero S.A.	Chile	Gas infrastructures	E.M.	20.0	7.4
Hualpén Gas S.A.	Chile	Liquefied petroleum gas	E.M.	50.0	17.6
Inmobiliaria Parque Nuevo S.A.	Chile	Services	E.M.	50.0	48.7

[1] Consolidation method: F.C = full consolidation; P.C. = proportionate consolidation and E.M = equity method.
[2] Parent company's interest in the subsidiary.

3. Jointly-controlled assets and operations

				Total % interest	
Company	Country	Activity	Consolidation method[1]	% controlling interestl[2]	% equity interest
Cilento Reti Gas, S.R.L.	Italy	Gas distribution	P.C.	60.0	60.0
Bezana/Beguenzo	Spain	Gas infrastructures	P.C.	50.0	50.0
Boquerón	Spain	Gas infrastructures	P.C.	4.5	4.5
Casablanca	Spain	Gas infrastructures	P.C.	9.5	9.5
Chipirón	Spain	Gas infrastructures	P.C.	2.0	2.0
Gas Natural West África, S.L.	Spain	Gas infrastructures	P.C.	40.0	40.0
Montanazo	Spain	Gas infrastructures	P.C.	17.7	17,7
Rodaballo	Spain	Gas infrastructures	P.C.	4.0	4.0
Tánger Larrache	Morocco	Gas infrastructures	P.C.	24.0	24.0
Centrales Nucleares Almaraz-Trillo, A.I.E	Spain	Electricity generation	P.C.	19.1	19.1
Central Térmica de Anllares, A.I.E.	Spain	Electricity generation	P.C.	66.7	66.7
Comunidad de bienes Central Nuclear de Almaraz (Grupo I y II)	Spain	Electricity generation	P.C.	11.3	11.3
Comunidad de bienes Central Nuclear de Trillo (Grupo I)	Spain	Electricity generation	P.C.	34.5	34.5
Comunidad de bienes Central Térmica de Aceca	Spain	Electricity generation	P.C.	50.0	50.0
Comunidad de bienes Central Térmica de Anllares	Spain	Electricity generation	P.C.	66.7	66.7
Eólica Tramuntana 21, S.L.	Spain	Electricity generation	P.C.	60.0	60.0
Eólica Tramuntana 22, S.L.	Spain	Electricity generation	P.C.	60.0	60.0
Eólica Tramuntana 23, S.L.	Spain	Electricity generation	P.C.	60.0	60.0
Eólica Tramuntana 71, S.L.	Spain	Electricity generation	P.C.	60.0	60.0
Eólica Tramuntana 72, S.L.	Spain	Electricity generation	P.C.	60.0	60.0
Eólica Tramuntana 73, S.L.	Spain	Electricity generation	P.C.	60.0	60.0
Eólica Tramuntana, S.L.	Spain	Electricity generation	P.C.	60.0	60.0
UTE ESE Clece-Gas Natural	Spain	Services	P.C.	50.0	50.0

[1] Consolidation method: F.C. = full consolidation; P.C. = proportionate consolidation and E.M. = equity method.

4. Associates

Company	Country	Activity	Consolidation method[1]	Total % interest: % controlling interest[2]	Total % interest: % equity interest
Enervent, S.A.	Spain	Electricity generation	E.M.	26.0	26.0
Sistemas Energéticos La Muela, S.A.	Spain	Electricity generation	E.M.	20.0	20.0
Sistemas Energéticos Mas Garullo, S.A.	Spain	Electricity generation	E.M.	18.0	18.0
Sociedade Galega do Medio Ambiente, S.A.	Spain	Electricity generation	E.M.	49.0	49.0
Bluemobility System, S.L. En Liquidación	Spain	Services	E.M.	20.0	20.0
Kromschroeder, S.A.	Spain	Services	E.M.	44.5	44.5
Torre Marenostrum, S.L.	Spain	Services	E.M.	45.0	45.0
CER's Commercial Corp	Panama	Services	E.M.	25.0	18.8
CGE Group:					
Energas S.A. E.S.P.	Colombia	Liquefied petroleum gas	E.M.	28.2	10.9
Montagas S.A. E.S.P.	Colombia	Liquefied petroleum gas	E.M.	33,3	12.9
Campanario Generación S.A.	Chile	Services	E.M.	20.0	11.0

[1] Consolidation method: F.C. = full consolidation; P.C. = proportionate consolidation and E.M. = equity method.
[2] Parent company's interest in the subsidiary.

Appendix II. Variations in consolidation scope

The main changes in the consolidation scope in 2015 have been as follows:

Registered name of the entity	Operation category	Effective date of operation	Voting rights acquired/ eliminated (%)	Voting rights after operation (%)	Consolidation method after operation
Oficina de cambios de suministrador, S.A.	Liquidation	2 January	20.0	-	-
Gas Natural Fenosa Furnizare Energie, S.R.L.	Incorporation	31 January	100.0	100.0	Full
Compañía General de Electricidad, S.A.- CGE	Acquisition	31 January	0.2	96.9	Full
	Acquisition	28 February	0.4	97.3	Full
	Acquisition	31 March	0.1	97.4	Full
Mataró Energía Sostenible, S.A.	Acquisition	24 March	51.1	51.1	Full
Palencia 3 Investigación y Desarrollo y Exp. S.L.	Acquisition	9 April	24.9	63.93	Full
Genroque, S.L.	Incorporation	10 April	50.0	50.0	Equity
Puente Mayorga Generación, S.L.	Incorporation	10 April	50.0	50.0	Equity
First Independent Power, Ltd.	Acquisition	14 April	10.4	100.0	Full
Iberáfrica Power Ltd.	Acquisition	14 April	10.4	100.0	Full
Gas Natural Aragón SDG, S.A.	Incorporation	18 June	100.0	100.0	Full
Gas Natural Infraestructuras Distribución Gas SDG, S.A.	Incorporation	18 June	100.0	100.0	Full
Gasmar, S.A.	Acquisition	25 June	12.8	63.8	Full
Gas Directo, S.A.	Acquisition	10 July	70.0	100.0	Full
Barras Eléctricas Galaico Asturianas, S.A.	Sale	28 July	44.9	-	Equity
Banteay Srei, S.L.	Acquisition	16 September	100.0	100.0	Full
Lanzagorta Comunicaciones, S.L.	Acquisition	16 September	100.0	100.0	Full
Union Fenosa Wind Australia Pty, Ltd.	Acquisition	2 September	0.4	96.5	Full
Berrybank development Pty, Ltd	Acquisition	2 September	0.4	96.5	Full

Registered name of the entity	Operation category	Effective date of operation	Voting rights acquired/ eliminated (%)	Voting rights after operation (%)	Consolidation method after operation
Crookwell development Pty, Ltd	Acquisition	2 September	0.4	96.5	Full
Ryan Corner development Pty, Ltd	Acquisition	2 September	0.4	96.5	Full
Global Power Generation, S.A.	Capital increase	5 October	25.0	75.0	Full
Metrogas	Acquisition	10 October	8.3	60.2	Full
Gecal Renovables, S.A.	Acquisition	13 October	100.0	100.0	Full
Estela Eólica, S.L.U.	Acquisition	13 October	100.0	100.0	Full
P.E. Nerea, S.L.	Acquisition	13 October	85.5	85.5	Full
P.E. Los Pedreros, S.L.	Acquisition	13 October	100.0	100.0	Full
P.E. Peñarroldana, S.L.	Acquisition	13 October	95.0	95.0	Full
P.E. El Hierro, S.L.	Acquisition	13 October	95.0	95.0	Full
P.E. Montamarta, S.L.	Acquisition	13 October	95.0	95.0	Full
P.E. La Rabia, S.L.U.	Acquisition	13 October	100.0	100.0	Full
P.E. Cova da serpe, S.L.U.	Acquisition	13 October	100.0	100.0	Full
Eólica La Vega I, S.L.U.	Acquisition	13 October	100.0	100.0	Full
Eólica La Vega II, S.L.U.	Acquisition	13 October	100.0	100.0	Full
Ampliación de Nerea, S.L.U.	Acquisition	13 October	100.0	100.0	Full
P.E. Las Claras, S.L.U.	Acquisition	13 October	100.0	100.0	Full
Arañuelo Solar, S.L.	Acquisition	13 October	60.0	60.0	Full
P.E. Cinseiro, S.L.	Acquisition	13 October	50.0	50.0	Equity
Sociedad Gestora de Parques Eólicos Andalucía, S.A.	Acquisition	13 October	21.0	21.0	Equity
Ener Renova España, S.L.	Acquisition	13 October	40.0	40.0	Equity

Registered name of the entity	Operation category	Effective date of operation	Voting rights acquired/ eliminated (%)	Voting rights after operation (%)	Consolidation method after operation
Ener Renova , S.A.	Acquisition	13 October	40.0	40.0	Equity
Puente Mayorga, S.L.	Sale	28 October	50.0	-	-
Genroque, S.L.	Acquisition	28 October	50.0	100.0	Full
Palawan Sulu Sea Gas, INC	Liquidation	30 November	50.0	-	-
Parque Eólico Sierra del Merengue S.L en Liq.	Liquidation	30 November	50.0	-	-
Gas Natural Balears, S.A.	Incorporation	30 November	100.0	100.0	Full
Global Power Generation Chile, S.p.A.	Incorporation	4 December	100.0	100.00	Full
Ibereólica Cabo Leones II S.A.	Acquisition	15 December	51.0	51.00	Full
Línea de Trasmisión Cabo Leones, S.A.	Acquisition	15 December	50.0	50.00	Equity
P.E. Nerea, S.L.	Acquisition	17 December	9.5	95.00	Full
3G Holdings Limited	Liquidation	30 December	10.0	-	-
Gasco Gran Cayman Ltd. (Sociedad Chilena)	Liquidation	31 December	55.1	-	-
Arañuelo Solar, S.L.	Liquidation	31 December	60.0	60.0	-

The main changes in the consolidation scope in 2014 have been as follows:

Registered name of the entity	Operation category	Effective date of operation	Voting rights acquired /eliminated (%)	Voting rights after operation (%)	Consolidation method after operation
Kromschroeder, S.A.	Capital reduction	21 January	2.0	44.5	Equity
Generación Electrica del Caribe, S.A.	Incorporation	31 January	100.0	100.0	Full
Barras Eléctricas Generación, S.L.	Disposal	14 April	44.9	-	-
Unión Fenosa Internacional B.V.	Liquidation	8 de May	100.0	-	-
Energía del Río San Juan Corp.	Liquidation	12 May	100.0	-	-
Spanish Israeli operation and maintenance Company, Ltd.	Incorporation	25 May	100.0	100.0	Full
Gas Natural Fenosa Ingeniería y Desarrollo de Generación, SLU	Incorporation	3 June	100.0	100.0	Full
Alliance, S.A.	Disposal	30 June	49.9	-	-
Capital Telecom Honduras, S.A.	Disposal	30 June	100.0	-	-
Gas Natural Fenosa Telecomunicaciones Colombia, S.A.	Disposal	30 June	88.2	-	-
Gas Natural Fenosa Telecomunicaciones Costa Rica, S.A.	Disposal	30 June	66.7	-	-
Gas Natural Fenosa Telecomunicaciones El Salvador, S.A. de C.V.	Disposal	30 June	100.0	-	-
Gas Natural Fenosa Telecomunicaciones Guatemala, S.A.	Disposal	30 June	100.0	-	-
Gas Natural Fenosa Telecomunicaciones Nicaragua, S.A.	Disposal	30 June	100.0	-	-
Gas Natural Fenosa Telecomunicaciones Panamá, S.A.	Disposal	30 June	90.2	-	-
Gas Natural Fenosa Telecomunicaciones, S.A.	Disposal	30 June	100.0	-	-
P.H. La Perla, S.A.	Incorporation	4 July	100.0	100.0	Full
Gas Natural Fenosa Ingeniería y Desarrollo de Generación, SAS	Incorporation	31 July	100.0	100.0	Full
Caribe Capital B.V.	Liquidation	30 September	100.0	-	-
Operación y Mantenimiento Energy Madagascar, S.A.R.L.U.	Liquidation	30 September	100.0	-	-

Registered name of the entity	Operation category	Effective date of operation	Voting rights acquired /eliminated (%)	Voting rights after operation (%)	Consolidation method after operation
Socoinve, C.A	Liquidation	7 October	100.0	-	-
GN Fenosa Chile, SpA	Incorporation	10 October	100.0	100.0	Full
Gas Natural Fenosa Servicios Panamá S.A.	Incorporation	13 October	100.0	100.0	Full
Union Fenosa Wind Australia Pty, Ltd.	Acquisition	28 October	0.5	96.1	Full
Berrybank development Pty, Ltd	Acquisition	28 October	0.5	96.1	Full
Crookwell development Pty, Ltd	Acquisition	28 October	0.5	96.1	Full
Ryan Corner development Pty, Ltd	Acquisition	28 October	0.5	96.1	Full
Iberáfrica Power Ltd.	Acquisition	11 July	17.9	89.6	Full
Hispanogalaica de Extracciones, S.L.	Liquidation	14 November	100.0	-	-
Compañía General de Electricidad, S.A.-CGE	Acquisition	14 November	96.7	96.7	Full

Appendix III. Gas Natural tax group Companies

The Gas Natural Tax group is as follows:

Gas Natural SDG, S.A.	Gas Natural Informática, S.A.
Boreas Eólica 2, S.A.	Gas Natural Infraestructuras Distribución Gas SDG, S.A.
Compañía Española de Industrias Electroquímicas, S.A.	Gas Natural Madrid SDG, S.A.
Energías Ambientales de Somozas, S.A.	Gas Natural Rioja, S.A.
Energías Especiales Alcoholeras, S.A.	Gas Natural S.U.R. SDG, S.A.
Energías Especiales de Extremadura, S.L.	Gas Natural Servicios SDG, S.A.
Europe Mahgreb Pipeline Limited	Gas Natural Transporte SDG, S.L.
Explotaciones Eólicas Sierra de Utrera, S.L.	Gas Natural Wind 4, S.L.U.
Fenosa Wind, S.L.	Gas Navarra, S.A.
Fenosa, S.L.U.	General de Edificios y Solares, S.L.
Gas Natural Almacenamientos Andalucía, S.A.	Global Power Generation, S.A.
Gas Natural Andalucía, S.A.	Holding Negocios Regulados Gas Natural, S.A.
Gas Natural Aprovisionamientos SDG, S.A.	JGC Cogeneración Daimiel, S.L.
Gas Natural Aragón, S.A.	La Energía, S.A.
Gas Natural Balears, S.A.	La Propagadora del Gas, S.A.
Gas Natural Capital Markets, S.A.	La Propagadora del Gas Latam, S.L.U.
Gas Natural Castilla-La Mancha, S.A.	Lignitos de Meirama, S.A.
Gas Natural Castilla y León, S.A.	Operación y Mantenimiento Energy, S.A.
Gas Natural Cegas, S.A.	Petroleum, Oil&Gas España, S.A.
Gas Natural Comercializadora, S.A.	Sagane, S.A.

Gas Natural Distribución Latinoamérica, S.A.	Sociedad de Tratamiento Hornillos, S.L.
Gas Natural Distribución SDG, S.A.	Societat Eòlica de l'Enderrocada, S.A.
Gas Natural Exploración, S.L.	Tratamiento Cinca Medio, S.L.
Gas Natural Fenosa Electricidad Colombia, S.L.	Tratamiento de Almazán, S.L.
Gas Natural Fenosa Engineering, S.L.	Unión Fenosa Distribución, S.A.
Gas Natural Fenosa Generación, S.L.U.	Unión Fenosa Financiación, S.A.
Gas Natural Fenosa Generación Nuclear, S.L.	Gas Natural Fenosa Internacional, S.A.
Gas Natural Fenosa Renovables, S.L.U.	Unión Fenosa Minería, S.A.
Gas Natural Fenosa Ingeniería y Desarrollo de Generación, S.L.U.	Unión Fenosa Preferentes, S.A.U.
Gas Natural Fenosa LNG, S.L.	Hispanogalaica de Extracciones, S.L.

Corporate University

We are involved in the training and professional development of our employees.

Gas Natural Fenosa's commitment to its employees' training and talent management is not just talk. In 2015, over 832,000 training hours were given to more than 165,000 participants from 14 countries.

Established in the year 2000, the Corporate University has become a meeting space, a space for discussion and training to promote innovation and excellence among the professionals of Gas Natural Fenosa, with the objective of building the future, transmitting culture and creating value. It is a strategic lever of transformation that serves the business.

Done and said

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Consolidated Directors' report

1. Company's situation

1.1. 1.1. Business model

Gas Natural Fenosa's business model is characterised by responsible and sustainable management of all resources. Our commitment to sustainability and value creation over time is reflected specifically in our corporate responsibility policy, approved by the Board of Directors and implemented across all the Company's business processes; it comprises seven corporate responsibility commitments to stakeholders, which guide our activities: commitment to results, customer orientation, environmental protection, concern for people, health and safety, commitment to society and integrity.

Gas Natural Fenosa is an integrated energy company that supplies gas and electricity to over 23 million customers. Its main purpose is to supply energy to society so as to maximise development and welfare, using innovation, energy efficiency and sustainability as the fundamental pillars of the business model. It is the energy sector leader and a pioneer in the integration of gas and electricity. The business focuses on the full gas life cycle and on electricity generation, distribution and retailing. There are other business lines, such as energy services, that favour diversification of activities and revenues, anticipating new market trends, meeting specific customer needs and providing an integrated service not focused only on energy selling.

Gas Natural Fenosa's business model is developed through a large number of companies, basically in Spain, the rest of Europe, Latin America and Africa; there are five major business areas:

Gas distribution Europe (Spain, rest of Europe and Latin America)

Gas Natural Fenosa has a leading position in the markets in which it operates, allowing organic growth opportunities to be leveraged both by winning new customers in municipalities to which gas is supplied and by expanding networks into zones without a gas supply. It is the leader in Spain and has a solid presence in Italy. It is also the leader in Latin America, with a presence in Mexico, Colombia, Brazil, Argentina and Peru.

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

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

Gas (Infrastructures, Supplier and Commercialisation, and Unión Fenosa Gas)

Gas Natural Fenosa has a unique, integrated gas infrastructure that provides considerable business stability, operational flexibility and the capacity to transport gas towards the best business opportunities.

For Gas Natural Fenosa, our suppliers play a critical role in the optimal functioning of the value chain; accordingly, long-term contracts are concluded, a commitment to society is assumed and environmental impacts are minimised so as to guarantee supply.

Gas Natural Fenosa responds with value added services to customers' demands for speed, guarantees, quality and energy efficiency.

Electricity (Spain and International)

Gas Natural Fenosa has broad knowledge of all generation technologies and an infrastructure that can be tailored to the needs of any energy model and each country's circumstances. A competitive, flexible gas supply allows the Company to achieve better margins than its competitors when managing combined cycle plants.

Our leading position in the combined retailing of natural gas and electricity brings major advantages, such as a lower service cost, integrated customer service and lower acquisition costs, without forgetting greater proximity to customers.

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

Compañía General de Electricidad (CGE)

Gas Natural Fenosa, through the Chilean group CGE, acquired in November 2014, is the leading operator in electricity distribution and transmission, and in natural gas and LPG distribution, in Chile. In December 2015 the liquefied petroleum gas activity in Chile was classified as a discontinued operation (Note 9 to the consolidated accounts).

Our operations throughout the gas value chain provide Gas Natural Fenosa with a competitive advantage and a leading position in the sector. Our electricity management capacity and experience, combined with a unique integrated position in the gas and electricity markets, make the company a benchmark in this sector. International presence guarantees a privileged position to achieve growth in new regions that are in the process of economic development, making the Company one of the world's leading operators.

Appendix I to the Consolidated Annual Accounts contains a list of Gas Natural Fenosa's investees.

1.2. Corporate governance

Gas Natural Fenosa develops and continuously updates its corporate governance rules, which are formed by:

- Company By-laws.
- General Shareholders' Meeting Regulations.
- Board of Administration and Board Committee Regulations.
- Internal Code of Conduct with regard to the Stock Markets.
- Code of Ethics.
- Corporate Responsibility Policy.

Gas Natural Fenosa has continued to enhance its commitment to transparency and good practices, involving the General Shareholders' Meeting, Board of Directors and Board committees: Executive Committee, Appointments and Remuneration Committee, and Audit Committee. The Management Committee also plays a relevant role. In 2015, Gas Natural Fenosa adapted its corporate governance rules to the requirements of Law 31/2014, 3 December, which amended the Spanish Companies Act 2010 to improve corporate governance and the new the recommendations of the corporate governance code for listed companies of February 2015.

The 2015 Annual Corporate Governance Report contains a more detailed description.

The Board of Directors represents the Company and is Gas Natural Fenosa's ultimate decision-taking body, barring decisions reserved for the General Meeting. In particular, the Board is responsible for the following matters:

- Determining strategic orientation and economic objectives.
- Supervising and verifying that the top executives observe the strategies and objectives.
- Assuring the company's future viability and competitiveness.
- Approving codes of conduct.

The Executive Committee is the Board committee responsible for continuous monitoring of Company management.

The Appointments and Remuneration Committee proposes Board direct remuneration criteria and general management remuneration policies. It also reviews the Board's structure and composition, supervising the inclusion of new members and establishing guidelines for the appointment of directors.

The Audit Committee supervises systems and the effectiveness of internal controls and of risk management systems, preparation of financial information and internal audit services.

The Management Committee coordinates business and corporate areas. Its main functions include studying and proposing Objectives, the Strategic Plan and the Annual Budget, as well as assessing, for the main Governing Bodies, action proposals that could affect the fulfilment of the Company's Strategic Plan. All the Management Committee members participate in the preparation of the Corporate Risk Map through work meetings in which they express opinions on the main uncertainties and potential impacts on the businesses.

2. Business evolution and results

As mentioned in Note 3.3 to the consolidated annual accounts, the assets and liabilities of the liquefied petroleum gas business in Chile have been reclassified to assets held for sale and the activity has been classified as a discontinued operation. In accordance with IFRS 5 “Assets held for sale and discontinued operations” the income statement for said business is presented on a single line in the consolidated income statement and the consolidated income statement for 2014 has been restated for comparative purposes.

2.1. Main milestones in 2015

Net profit in 2015 amounted to Euros 1,502 million, a 2.7% increase, and achieved the target set in the strategic plan 2013-2015.

Consolidated ebitda amounted to Euros 5,264 million, having risen 8.6% on 2014.

Chilean company Compañía General de Electricidad (CGE), which was consolidated by Gas Natural Fenosa as from 30 November 2014, contributed Euros 499 million in consolidated ebitda in 2015 (Euros 28 million in 2014), offsetting both the Euros 59 million impact on ebitda, with respect to last year, of regulatory measures under Royal Decree Law 8/2014, which affected regulated gas activities in Spain, effective since 5 July 2014, and the Euros 32mn contribution from the telecommunications business, which was divested in June 2014

On 18 December 2015, Gas Natural Fenosa, which, through CGE, owns a 56.62% controlling stake in Chilean company Gasco, signed an agreement with the Pérez Cruz family to demerge Gasco into two companies, one focused on the natural gas business, to remain under the control of Gas Natural Fenosa, and the other focused on the liquefied petroleum gas business, of which Pérez Cruz would acquire control. Once the split has been completed, each of the parties will make a tender offer to acquire control or increase its stake in its company to 100% in order to pursue their respective businesses independently. Both parties undertake to accept the tender offer made by the other.

As of 31 December 2015, the indebtedness ratio was 45.8%, compared with 48.5% a year earlier, and the net financial debt/ebitda ratio was 3.0, fulfilling the goal of the strategic plan 2013-2015.

The Board of Directors will propose to the Ordinary Shareholders' Meeting that it allocate Euros 933 million out of 2015 income to dividends, i.e. 2.7% more than the previous year, in line with the increase in net profit, maintaining a payout of 62.1%. The supplementary dividend of Euros 0.525 per share will be paid in cash.

2.2. Main aggregates

Financial main aggregates

	2015	2014	%
Net sales	26,015	24,697	5.3
Ebitda[1 and 2]	5,264	4,845	8.6
Operating income	3,261	3,185	2.4
Net income attributable to equity holders of the Company	1,502	1,462	2.7
Cash flows from operating activities	3,500	2, 808	24.6
Investments	2,082	4,342	(52.0)
Net equity	18,518	18,020	2.8
Attributed net equity	14,367	14,141	1.6
Net borrowings (at 31/12)	15,648	16,942	(7.6)

[1] Ebitda = Operating income + Depreciation, Amortisation and Impairment + Operating provisions - Other results.

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

Main financial ratios

	2015	2014
Leverage[1]	45.8	48.5
Ebitda/Net financial income	5.9x	6.1x
Net borrowings/ Ebitda[2]	3.0x	3.5x
Liquidity ratio[3]	1.2x	1.3x
Solvency ratio[4]	1.0x	1.1x
Return on equity[5]	10.5	10.3
Return on assets[6]	3.1	2.9

[1] Net borrowings/(Net borrowings+Net Equity).

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

[3] Current assets/Current liabilities.

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

[5] ROE: Net income attributable/Attributed net equity.

[6] ROA: Net income attributable/Total assets.

Main stock market ratios and shareholder remuneration

	2015	2014
Average number of shares (thousand)	1,000,689	1,000,689
Share price at 31/12 (euro)	18.82	20.81
Stock market capitalisation (million euro)	18,828	20,824
Earnings per share (euro)	1.57	1.46
Attributable equity per share (euro)	14.36	14.13
Price-earnings ratio (PER)	12.5x	14.2x
EV/ Ebitda[1 and 2]	6.5x	7.8x
Pay-out (%)	62.1	62.1
Total dividend[3] (million euro)	933	909
Dividend per share	0.93	0.91

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

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

[3] Considering the equivalent total amount distributed as dividends. In 2015, this includes a supplementary dividend of Euros 525 million pending approval by the General Meeting.

Main physical aggregates

	2015	2014	%
Gas distribution			
Sales-TPA[1]			
Europe	181,212	175,223	3.4
Latin America	248,536	249,067	(0.2)
Gas distribution connections points (thousand) (at 31/12):			
Europe	5,724	5,683	0.7
Latin America	6,886	6,593	4.4
Electricity distribution:			
Sales-TPA[1]			
Europe	34,676	34,262	1.2
Latin America	18,200	17,150	6.1
Electricity distribution connections points (thousand) (at 31/12):			
Europe	4,550	4,529	0.5
Latin America	3,144	3,032	3.7
ICEIT[2] (minutes)	44	48	(8.3)

[1] Third-party network access (energy distributed).

[2] Installed capacity equivalent interruption time in Spain.

Principales magnitudes físicas (continuación)

	2015	2014	%
Gas			
Gas supply (MW):	316,268	310,629	1.8
Spain	185,851	190,069	(2.2)
Rest	130,417	120,560	8.2
Gas transportation-EMPL (MW)	112,861	120,558	(6.4)
Electricity:			
Electricity generated (MW):	49,548	48,282	2.6
Spain:	31,568	30,542	3.4
Hydroelectric	2,457	4,275	(42.5)
Nuclear	4,544	4,425	2.7
Coal	7,973	5,622	41.8
Combined Cycles	14,494	14,143	2.5
Renewables and Cogeneration	2,100	2,077	1.1
Global Power Generation:	17,980	17,740	1.4
Hydroelectric	481	233	106.4
Combined Cycles	15,519	15,898	(2.4)
Oil – gas	1,130	1,356	(16.6)
Wind	850	253	236.0
Electricity Generation capacity (MW):	15,471	14,785	4.6
Spain:	12,769	12,122	5.3
Hydroelectric	1,954	1,948	0.3
Nuclear	604	604	–
Coal	2,065	2,065	–
Combined Cycles	7,001	6,603	6.0
Renewables and Cogeneration	1,145	902	26.9
Global Power Generation:	2,702	2,663	1.5
Hydroelectric	123	73	68.5
Combined Cycles	2,035	2,035	–
Oil – gas	310	321	(3.4)
Wind	234	234	–
Electricity Sales (GWh)	35,241	34,718	1.5
CGE[1]			
Gas distribution:			
Gas business sales (GWh)	44,083	3,172	–
Gas distribution supply points (thousand) (at 31/12)	562	540	4.1
Electricity distribution:			
Electricity sales (GWh)	15,856	1,397	–
Electricity distribution supply points (thousand) (at 31/12)	2,928	2,854	2.6
Electricity transported (GWh)	14,497	2,938	–

[1]Data for CGE from 2014 relate to figures from the date of inclusion in the Group in November 2014. Does not include physical quantities relating to the discontinued operations (Notes 3.3 and 9 to the consolidated accounts).

2.3. Analysis of consolidated results

On 18 December 2015, Gas Natural Fenosa, which, through CGE, owns a 56.62% controlling stake in Chilean company Gasco, signed an agreement with the Pérez Cruz family to demerge Gasco into two companies, one focused on the natural gas business, to remain under the control of Gas Natural Fenosa, and the other focused on the liquefied petroleum gas business, of which Pérez Cruz would acquire control. Once the split has been completed, each of the parties will make a tender offer to acquire control or increase its stake in its company to 100% in order to pursue their respective businesses independently. Both parties undertake to accept the tender offer made by the other.

Since, as a result of the aforementioned transaction, it is very likely that Gas Natural Fenosa will divest the liquefied petroleum gas business in Chile, as of 31 December 2015, the net assets of that business were classified as non-current assets and liabilities held for sale by application of IFRS 5 "Non-current Assets Held for Sale and Discontinued Operations".

Additionally, the operation has been classified as discontinued since it is a component classified as held for sale that represents a separate major line of business. As a result of the application of IFRS 5, the profit from discontinued operations is presented in the income statement as a separate line-item, as is the comparative information in the restated income statement for the previous year, there being no impact on net profit.

Net sales

	2015	%s/total	2014	%s/total	% 2015/2014
Gas distribution	4,672	18.0	4,739	19.2	(1.4)
Spain	1,191	4.6	1,200	4.9	(0.8)
Italy	92	0.4	88	0.4	4.5
Latin America	3,389	13.0	3,451	13.9	(1.8)
Electricity distribution	3,330	12.8	3,253	13.2	2.4
Spain	838	3.2	824	3.3	1.7
Moldova	260	1.0	235	1.0	10.6
Latin America	2,232	8.6	2,194	8.9	1.7
Gas	11,077	42.6	12,121	49.1	(8.6)
Infrastructures	317	1.2	314	1.3	1.0
Supply and Commercialisation	10,760	41.4	11,807	47.8	(8.9)
Electricity	6,585	25.3	6,768	27.4	(2.7)
Spain	5,779	22.2	5,822	23.6	(0.7)
Global Power Generation	806	3.1	946	3.8	(14.8)
CGE	2,979	11.5	227	0.9	–
Other activities	489	1.9	628	2.5	(22.1)
Consolidation adjustments	(3,117)	(12.1)	(3,039)	(12.3)	2.6
Total	**26,015**	**100.0**	**24,697**	**100.0**	**5.3**

Revenue to 31 December 2015 totals Euros 26,015 million, having risen 5.3% on the previous year, due mainly to the inclusion of Compañía General de Electricidad as from 30 November 2014.

Ebitda

	2015	% of total	2014	% of total	% 2015/2014
Gas distribution	1,575	29.9	1,542	31.8	2.1
Spain	872	16.5	871	17.9	0.1
Italy	66	1.3	66	1.4	–
Latin America	637	12.1	605	12.5	5.3
Electricity distribution	1,023	19.4	970	20.0	5.5
Spain	607	11.5	585	12.0	3.8
Moldova	38	0.7	37	0.8	2.7
Latin America	378	7.2	348	7.2	8.6
Gas	1,081	20.5	1,190	24.6	(9.2)
Infrastructures	293	5.6	288	5.9	1.7
Supply and Commercialisation	788	14.9	902	18.7	(12.6)
Electricity	1,002	19.0	1,003	20.7	(0.1)
Spain	741	14.0	782	16.1	(5.2)
Global Power Generation	261	5.0	221	4.6	18.1
CGE	499	9.5	28	0.6	–
Other activities	84	1.7	112	2.3	(25.0)
Total	**5,264**	**100.0**	**4,845**	**100.0**	**8.6**

Consolidated ebitda in 2015 amounted to Euros 5,264 million, an increase of Euros 419 million (8.6%) with respect to 2014. If the financial statements had not been restated for 2015 (Euros 112 million) and 2014 (Euros 8 million), ebitda would have increased by 10.8%.

Compañía General de Electricidad (CGE), in Chile, which was consolidated by Gas Natural Fenosa as from 30 November 2014 and, therefore, contributed only for December 2014, whereas it contributed for the full year in 2015, provided Euros 499 million in consolidated ebitda in 2015 (Euros 28 million in 2014), offsetting the Euros 59 million impact on EBITDA, with respect to last year, of regulatory measures under Royal Decree Law 8/2014, which affected regulated gas activities, effective since 5 July 2014, and the Euros 32 million contribution from the telecommunications business, divested in June 2014.

The impact on EBITDA in 2015 of foreign currency performance against the euro was an increase of Euros 41 million with respect to 2014, due mainly to appreciation of the dollar against the euro, which offset the depreciation of other currencies, mainly the Colombian peso and the Brazilian real.

The regulated gas represents 29.9% of the consolidated total and is followed by the gas activity representing 20.5%, electricity distribution with 19.4% and electricity generation with 19.0%. The recent acquisition of CGE has contributed 9.5%.

Ebitda from Gas Natural Fenosa's international activities increased by 16.9% and accounted for 48.0% of the consolidated total as compared with 44.7% in the previous year. Conversely, EBITDA from operations in Spain fell 2.0% and its relative importance in the consolidated total fell to 52.0% against 55.3% in the previous year.

Net operating income

	2015	% of total	2014	% of total	% 2015/2014
Gas distribution	1,131	34.7	1,096	34.4	3.2
Spain	579	17.8	572	18.0	1.2
Italy	42	1.3	39	1.2	7.7
Latin America	510	15.6	485	15.2	5.2
Electricity distribution	598	18.3	527	16.5	13.5
Spain	388	11.8	370	11.6	4.9
Moldova	32	1.0	31	1.0	3.2
Latin America	178	5.5	126	3.9	41.3
Gas	911	27.9	995	31.2	(8.4)
Infrastructures	198	6.1	198	6.2	–
Supply and Commercialisation	713	21.8	797	25.0	(10.5)
Electricity	299	9.2	315	9.9	(5.1)
Spain	172	5.3	198	6.2	(13.1)
Global Power Generation	127	3.9	117	3.7	8.5
CGE	342	10.5	15	0.5	–
Other activities	(20)	(0.6)	237	7.5	–
Total	**3,261**	**100.0**	**3,185**	**100.0**	**2.4**

Depreciation and amortisation charges and impairment losses in 2015 increased by 8.3% year-on-year to Euros 1,750 million. Provisions for bad debts amounting to Euros 258 million, down 14.6% compared with 2014 (Euros 302 million), despite a sharp reduction in gains on asset divestments in 2015 (Euros 5 million, vs. Euros 258 million in 2014), resulted in operating income amounting to Euros 3,261 million, a 2.4% increase year-on-year.

Net financial income

Net financial income for 2015 totalled Euros 894 million (Euros 799 million in 2014), higher than the same period last year due to the incorporation in the perimeter of CGE since late 2014, although the debt and cost without such incorporation would have decreased.

Profit of entities recorded by the equity method

Income from equity-accounted affiliates was negative Euros 4 million in 2015, compared with negative Euros 474 million in 2014 (which was due to impairment of the stakes in Union Fenosa Gas and Nueva Generadora del Sur).

Output by Ecoeléctrica's CCGT in Puerto Rico was 19.9% lower than in 2014 since its scheduled shutdown lasted longer and had a larger scope than in 2014, and because the major overhaul of unit 2, planned for 2016, was brought forward due to damage caused by tropical storm Erika. Its contribution to the consolidated group increased slightly with respect to last year because of the currency effect.

Gas supplied in Spain by Unión Fenosa Gas amounted to 33,389 GWh in 2015, compared with 38,705 GWh in 2014. Additionally, a total of 21,782 GWh of energy was traded in international markets, compared with 23,992 GWh in 2014.

Corporate income tax

On 27 November 2014, Law 27/2014, on Corporate Income Tax was approved, reducing the general tax rate in Spain from 30% to 28% for 2015 and to 25% from 2016 onwards.

Despite the reduction in the tax rate, the effective tax rate in 2015 was 24.2%, compared with 13.4% in 2014, as a result of the fact that the 2014 figures included a non-recurring reduction of the theoretical tax due as a result of revaluation of deferred taxes under the tax reform in Spain, and of the tax credit for reinvestment of the extraordinary gains on the sale of Gas Natural Fenosa Telecomunicaciones.

Non-controlling interests

The main items in this account are the non-controlling interests in CGE, EMPL, GPG, gas distribution companies in Brazil, Colombia and Mexico, electricity distribution companies in Panama and Colombia, and accrued interest on perpetual subordinated bonds.

Income attributed to non-controlling interests amounted to Euros 322 million in 2015, compared with Euros 196 million in 2014. That increase is due mainly to consolidating CGE (Euros 81 million) and to booking interest accrued on perpetual subordinated bonds (Euros 53 million).

2.4. Analysis of the consolidated balance sheet

Investments

A breakdown of investments by nature is as follows:

	2015	2014	%
Investments in property, plant and equipment and intangible assets	1,767	1,752	0.9
Financial investments	315	2,590	(87.8)
Total investments	**2,082**	**4,342**	**(52.0)**

Investments in property, plant & equipment and intangible assets amounted to Euros 1,767 million in 2015, an increase of 0.9% year-on-year. This change includes the addition under finance lease of the Ribera del Duero LNG carrier ship (170,000 m3 capacity) for Euros 177 million, and the consolidation of the investments of CGE in 2015, at an investment of Euros 265 million. Adjusting for those amounts, investment in tangible and intangible assets decrease by 4.6%.

Financial assets added in 2015 correspond mainly to the additional acquisition of 8.3% of the subsidiary Metrogas, S.A. (Chile) for Euros 116 million, Gecalsa for Euros 104 million, an additional 12.75% of subsidiary Gasmar S.A. (Chile) for Euros 34 million, plus Euros 27 million spent in Costa Rica to build the 50 MW Torito hydroelectric plant, booked in accordance with the service concession model established by IFRIC 12, and the acquisition of an additional 0.65% stake in Compañía General de Electricidad, S.A. (CGE) for Euros 18 million.

Financial assets added in 2014 were basically the acquisition of 96.7% of CGE for Euros 2,519 million. They also include Euros 58 million of capital expenditure in Costa Rica to build the 50 MW Torito hydroelectric plant, recognised in accordance with the service concession model established under IFRIC 12.

The breakdown of investment in property, plant and equipment and intangible assets, by line of business, is as follows:

	2015	2014	%
Gas distribution	735	708	3.8
Spain	435	335	29.9
Italy	25	25	–
Latin America	275	348	(21.0)
Electricity distribution	402	356	12.9
Spain	249	218	14.2
Moldova	9	15	(40.0)
Latin America	144	123	17.1
Gas	50	228	(78.1)
Infrastructures	12	192	(93.8)
Supply and Commercialisation	38	36	5.6
Electricity	162	261	(37.9)
Spain	104	95	9.5
Global Power Generation	58	166	(65.1)
CGE	265	39	–
Other activities	153	160	(4.4)
Total	**1,767**	**1,752**	**0.9**

Capital expenditure was concentrated in the gas distribution business, where it increased by 3.8% and accounted for 41.6% of the consolidated total, including notable growth in Spain. Investment in electricity distribution increased by 12.9% and accounted for 22.8% of the total. Capital expenditure by CGE represented another 15.0% of the total.

Capital expenditure declined by 2.7% in Spain (an increase 18.4%, excluding the investment in the LNG carrier in 2014). Capital expenditure outside Spain increased by 5.5% due to the integration of CGE (otherwise, the figure would have decreased by 29.4%).

Net equity

At 31 December 2015, Gas Natural Fenosa's shareholders' equity totalled Euros 18,518 million. Of that figure, Euros 14,367 million is attributable to Gas Natural Fenosa, i.e. an increase of 1.6% with respect to 31 December 2014.

At 31 December 2015, there were 1,000,689,341 ordinary shares represented by book entries, with a par value of one euro per share. All issued shares are fully paid up and carry equal voting and dividend rights.

At 31 December 2015, according to available public information or notifications received by the Company, the most relevant shareholdings in Gas Natural SDG, S.A. are as follows:

	% shareholding
"la Caixa" Group	34.4
Repsol Group	30.0
Sonatrach	4.0

On 21 April 2015 Gas Natural Fenosa concluded the issuance of perpetual subordinated bonds amounting to Euros 500 million, redeemable at the issuer's choice in certain cases provided for in the terms and conditions, on 24 April 2014 and thereafter on each interest payment date, with an annual coupon of 3.375% and an issue price of the new bonds of 98.65% of their face value.

After analysing the terms and conditions of this issue, and in accordance with IAS 32, Gas Natural Fenosa has accounted for the cash received by crediting "Non-controlling interests" included in equity on the consolidated balance sheet at 31 December 2015 on the understanding that the issue does not meet the conditions to be considered as a financial liability, because Gas Natural Fenosa does not have the contractual commitment to hand over cash or another financial asset and also it does not have an obligation to exchange financial assets or liabilities, being at the discretion of Gas Natural Fenosa Finance the fully circumstances.

Additionally, on 4 May 2015 Gas Natural Fenosa offered to buy back in cash the preference shares issued by Union Fenosa Preferentes S.A.U. in 2005 at 85% of their nominal value. After the acceptance period, the aggregate nominal amount with respect to which the pertinent acceptance was issued totalled Euros 640 million (85.3% of the issue), which represented a cash amount of Euros 544 million. The rest has remained outstanding.

See Note 13 of the Consolidated Annual Accounts for further details.

Year 2015

The proposal for the distribution of 2015 profits that will be submitted by the Board of Directors to the Ordinary Shareholders' Meeting for approval is to allocate Euros 933 million to dividends. This proposal entails a 62.1% pay-out and a dividend yield of over 5.0%, based on the share price of 18.82 euros per share at 31 December 2015.

On 8 January 2016 an interim dividend of Euros 0.4078 per share had already been paid in cash out of 2015 earnings. In line with the proposal, a supplementary dividend of Euros 0.5250 per share will also be paid in cash.

Year 2014

The allocation of 2014 income approved by the Ordinary Shareholders' Meeting on 14 May 2015 entails the payment of a dividend amounting to Euros 909 million. That represents a payout of 62.1% and a dividend yield of more than 4.4% based on the share price at 31 December 2014 (Euros 20.81).

Consequently, given the number of outstanding shares (1,000,689,341), the total dividend amounted to Euros 0.908 gross per share. The company paid an interim dividend of Euros 0.397 per share on 8 January 2015, and a supplementary dividend of Euros 0.511 per share on 1 July 2015, both in cash.

Net borrowings

Evolution of net borrowings (million euros)

	2015	2014	%
Net borrowings	15,648	16,942	(7.6)

At 31 December 2015, net interest-bearing debt amounted to Euros 15,648 million and leverage was 45.8%.

Net debt has been restated due to discontinuation of the GLP business in Chile, with an impact of Euros 315 million as of 31 December 2015.

The net debt/EBITDA ratio was 3.0 and EBITDA/cost of net interest-bearing debt was 6.4 at 31 December 2015, evidencing that the company's credit fundamentals continued to improve during the year.

Net debt maturities (million euros)

	2016	2017	2018	2019	Post 2020
Net debt maturities	582	1,902	2,518	2,788	7,858

The above table shows Gas Natural Fenosa's net debt maturities at 31 December 2015.

A total of 84.1% of net interest-bearing debt matures in or after 2018. The average term of the debt is slightly more than 5 years.

Considering the impact of financial hedges, a total of 76.6% of the net interest-bearing debt is at fixed interest rates and the other 23.4% is at floating rates. Of the net interest-bearing debt, 3.7% is short term and 96.3% is long term.

Additionally, at 31 December 2015 the company had Euros 5,790 million available in the form of shelf registrations for financial instruments, including Euros 3,395 million in the Euro Medium Term Notes (EMTN) programme; Euros 700 million in the Euro Commercial Paper (ECP) programme; and a combined Euros 1,695 million in the stock market certificates programmes on the Mexico Stock Exchange, the commercial paper programme on the Panama Exchange, the straight bonds programme in Colombia and the bond lines in Chile.

The total amount issued under the EMTN programme is Euros 10,605 million at 31 December 2015.

In line with its finance policy in connection with diversification in terms of both geographies and instruments, Gas Natural Fenosa made a number of transactions in the capital markets. On 13 January 2015, through its EMTN programme, Gas Natural Fenosa completed a bond issue in the euromarket amounting to Euros 500 million, maturing in January 2025, with an annual coupon of 1.375%.

To that same end, on 14 July 2015, subsidiary Gas Natural México issued two bonds for a total of MXN 2,800 million under the stock market certificates programme on the Mexico Stock Exchange. The 3-year tranche, amounting to MXN 1,500 million, was placed at a floating rate (the Mexican interbank rate—TIIE—plus a spread of 44 basis points), while the 10-year tranche, amounting to MXN 1,300 million, pays an annual coupon of 7.67%. This issue was rated AAA by Fitch Ratings and AA+ by Standard & Poor's (S&P).

In the fourth quarter of 2015, Gas Natural Fenosa continued to manage bank liquidity and reduce spreads to take advantage of the current favourable situation in the financial markets.

Also, in October 2015, the Board of Directors of the European Investment Bank (EIB) approved a loan of up to Euros 900 million, the first tranche of which, amounting to Euros 600 million, was arranged in December 2015. The loan is intended to partly finance investments in gas distribution assets in Spain in 2015-2018.

In 2016, it was decided to redeem all of the preference shares issued in May 2003, whose outstanding amount is Euros 69 million, currently generating an interest rate amounting to 3,849%. They will be redeemed at par for cash on 22 February 2016.

The breakdown of the net interest-bearing debt by currency at 31 December 2015, in absolute and relative terms, is as follows:

(million euros)	31/12/2015	%
EUR	12,197	77.9
CLP	1,645	10.5
US$	793	5.1
COP	439	2.8
MXN	287	1.8
BRL	267	1.8
Others	20	0.1
Total net borrowings	**15,648**	**100.0**

Note 3.4.2 to the Consolidated Annual Accounts contains details of the euro exchange rates with respect to the main currencies used by Gas Natural Fenosa companies.

The credit ratings of Gas Natural Fenosa's short-term and long-term debt are as follows:

Agency	Long term	Short term
Fitch	BBB+	F2
Moody's	Baa2	P-2
Standard & Poor's	BBB	A-2

Liquidity and capital funds

Despite the generalised macroeconomic and financial difficulties, Gas Natural Fenosa has a solid financial and liquidity position. Available cash resources at 31 December 2015 are as follows:

Liquidity source	Availability 2015
Committed credit lines	7,084
Uncommitted credit lines	474
Undrawn loans	653
Cash and cash equivalents	2,390
Total	**10,601**

In addition, unused capacity to issue debt is available amounting to Euros 5,790 million, as detailed above.

At 31 December 2015, cash and cash equivalents plus drawable bank financing amounted to Euros 10,601 million, which covers maturities for over 24 months.

Set out below is a breakdown of working capital at 31 December:

(million euros)	2015	2014
Current operating assets[1]	5,819	6,482
Current operating liabilities[2]	(4,204)	(5,012)
	1,615	**1,470**

[1] Includes Inventories, Trade receivables for sales and provision of services, and Other receivables.
[2] Includes Trade payables, Other payables and Other current liabilities, excluding the dividend payable.

The average payment period for Gas Natural Fenosa suppliers is 29 days.

Analysis of contractual obligations and off-balance-sheet transactions

Note 34 to the consolidated annual accounts provides a breakdown of Gas Natural Fenosa's contractual obligations, off-balance-sheet transactions and contingent liabilities.

2.5. Analysis of results by activity

Gas distribution

2.5.1 Gas distribution Spain

This area includes gas distribution, third-party access (TPA) as well as the distribution activities in Spain that are charged for outside the regulated remuneration (meter rentals, customer connections, etc.).

Results

	2015	2014	%
Net sales	1,191	1,200	(0.8)
Procurements	(16)	(20)	(20.0)
Personnel costs	(68)	(71)	(4.2)
Other expenses/income	(235)	(238)	(1.3)
Ebitda	**872**	**871**	**0.1**
Depreciation, amortisation and impairment expenses	(289)	(292)	(1.0)
Change in operating provisions	(4)	(7)	(42.9)
Operating income	**579**	**572**	**1.2**

Royal Decree Law 8/2014, of 4 July, included a series of adjustments in remuneration for regulated gas activities, effective as from 5 July 2014, the goal being to resolve the sector's incipient tariff deficit.

The adjustments also include the establishment of a stable regulatory framework, until 2020, which includes a remuneration mechanism for gas distribution that will match the remuneration to system revenues and, therefore, maintain the incentive to grow the distribution network and acquire new customers.

That modification in remuneration fully impacted earnings in 2015, whereas it affected only six months of 2014. The differential impact is an estimated Euros 59 million. Nevertheless, EBITDA was in line with the previous year (+0.1%).

Net sales in the gas distribution business totalled Euros 1,191 million, i.e. Euros 9 million less than in 2014 due to the above-mentioned regulatory adjustments.

Market context

The gas transported in the Spanish market in 2015 amounted to 305,435 GWh (290,991 GWh in 2014).

Main aggregates

The main aggregates in gas distribution in Spain were as follows:

	2015	2014	%
Sales-TPA (GWh)	177,391	171,816	3.2
Distribution network (Km)	51,016	48,931	4.3
Increase in connection points (thousand)	40	54	(25.9)
Connection points (thousand) (at 31/12)	5,266	5,226	0.8

Regulated gas sales increased by 3.2% (+5,575 GWh). There were no significant changes in demand for gas supply at pressures under 4 bar (-1.6%, -671 GWh), since weather conditions were adverse in both years. Demand in the industrial market at pressures under 60 bar was also flat year-on-year (-0.1%, -109 GWh), while demand from power generators doubled (+106%, +5,049 GWh) due to higher consumption by CCGT plants.

The distribution network expanded by 2,085 km in 2015, connecting 41 new municipalities to reach a total of 1,188 municipalities with access to natural gas and a total of 5,266,651 distribution points (+0.8%).

On 5 March 2015, Gas Natural Fenosa was awarded, by public tender, a contract by the Balearic Islands Government to begin supplying gas on the island of Menorca, with an expected execution period of four years.

On 30 September 2015, Gas Natural Distribución signed an agreement to acquire piped gas assets from Repsol Butano; the company will purchase approximately 250,000 supply connection points in its current distribution territories, enabling them to be connected to the natural gas distribution grid. These assets will accelerate growth and expansion in the group's regulated natural gas business in the coming years.

2.5.2 Gas distribution Italy

This area refers to regulated gas distribution in Italy.

Results

	2015	2014	%
Net sales	92	88	4.5
Procurementes	(1)	–	–
Personnel costs, net	(12)	(11)	9.1
Other expenses/income	(13)	(11)	18.2
Ebitda	**66**	**66**	–
Depreciation, amortisation and impairment expenses	(24)	(27)	(11.1)
Change in operating provisions	–	–	–
Operating income	**42**	**39**	**7,7**

Ebitda amounted to Euros 66 million in 2015, in line with 2014.

Main aggregates

	2015	2014	%
Sales-TPA (GWh)	3,821	3,407	12.2
Distribution network (Km)	7,167	7,100	0.9
Connection points (thousand) (at 31/12)	458	457	0.2

A total of 3,821 GWh of gas were distributed, i.e. 12.2% more than in 2014 due to more favourable weather.

The distribution grid expanded by 67 km in the last 12 months, to 7,167 km at 31 December 2015.

Gas Natural Fenosa has 457,614 gas distribution connection points in Italy, a slight increase with respect to 2014.

2.5.3 Gas distribution Latin America

This division involves regulated gas distribution in Argentina, Brazil, Colombia, Mexico and Peru.

Results

	2015	2014	%
Net sales	3,389	3,451	(1.8)
Procurementes	(2,397)	(2,513)	(4.6)
Personnel costs	(96)	(86)	11.6
Other expenses/income	(259)	(247)	4.9
Ebitda	**637**	**605**	**5.3**
Depreciation, amortisation and impairment expenses	(107)	(104)	2.9
Change in operating provisions	(20)	(16)	25.0
Operating income	**510**	**485**	**5.2**

Revenues declined by 1.8% to Euros 3,389 million, on a 0.2% reduction in sales volume year-on-year.

Ebitda amounted to Euros 637 million, an increase of 5.3% with respect to 2014, and was positively impacted by currency appreciation in Argentina (+8.9%) and Mexico (+1.3%), offsetting depreciation in Colombia (-11.2%) and Brazil (-13.6%). Excluding the effect of currency fluctuations, ebitda would have increased by 14.6%.

Brazil contributed 41.3% of ebitda. The reduction in ebitda with respect to 2014 was due mainly to the currency effect. Adjusting for that effect, ebitda in this business increased by +1.2%, affected by the sharp economic deceleration in Brazil (GDP is estimated to have declined by 3.7% in 2015), resulting in lower sales in the industrial (-7.0%) and commercial markets (-0.8%).

Mexico accounted for 25.6% of total ebitda in this business. The improvement with respect to 2014 is due to the higher energy margin (25.3%) and higher sales in all markets.

Colombia accounted for 26.2% of ebitda and increased sales volume by 9.4%, due primarily to growth in the industrial market.

Main aggregates

The main physical aggregates in gas distribution in Latin America were as follows:

	2015	2014	%
Gas activity sales (GWh)	248,536	249,067	(0.2)
Gas tariff sales	159,574	158,695	0.6
TPA	88,962	90,372	(1.6)
Distribution network (Km)	73,186	70,890	3.2
Increase in connection points (thousand)	293	272	7.7
Connection points (thousand) (at 31/12)	6,886	6,593	4.4

The key physical aggregates by country in 2015 are as follows:

	Argentina	Brazil	Colombia	Mexico	**Total**
Gas activity sales (GWh)	68,699	103,408	26,832	49,597	**248,536**
Increase (decrease) vs.2014 (%)	(4.5)	(2.2)	9.4	5.7	**(0.2)**
Distribution network	24,656	7,147	21,469	19,914	**73,186**
Increase vs. 31/12/2014 (km)	269	366	770	891	**2,296**
Connection points (thousand) (at 31/12)	1,612	986	2,744	1,544	**6,886**
Increase v. 31/12/2014 (thousand)	26	48	109	110	**293**

At 31 December 2015, there were a total of 6,886,337 gas distribution connections. The pace of growth year-on-year remains high: 293,022 connection points were added in the last twelve months (+4.4%), including notably 109,633 in Mexico and 108,836 in Colombia.

Sales in the gas activity in Latin America, which include both gas sales and TPA (third-party access) services, totalled 248,536 GWh, in line with 2014.

The gas distribution grid expanded by 2,296 km (+3.2%) in the last 12 months, to 73,186 km at the end of December 2015. This sizeable expansion is attributable most notably to Mexico, which added 891 km, and Colombia, which added 770 km.

Highlights of this area in 2015:

- In June 2015 Argentina's Energy Secretariat issued Resolution no. 263/2015, which establishes "Transitional Economic Assistance" for gas distributors, the goal being to maintain the chain of payments connected with operation and maintenance until the process concludes with a comprehensive tariff review. The amount established as assistance for Gas Natural Fenosa in 2015 is 515 million Argentinean pesos. The resolution and the supplementary notes from Enargas establish that the assistance will be received in ten monthly installments, while also establishing a number of requirements and limitations to be fulfilled by the company. This revenue resulted in higher income than in the previous year. In parallel, the company continued to contain expenditure in a complex economic situation with high inflation (around 30% per year).

- In Brazil, residential-commercial customer numbers increased by 24.6% in 2015, mainly by adding buildings to the network. Sales for power generation and TPA sales were slightly lower (-1.2%) than in 2014. Rainfall continued to be scant and reservoir levels remained low. Reservoir stocks in December 2015 stood at 29.8%, i.e. 31.6 percentage points below the historical average (61.7% on average over 8 years) in the southeast/west-central region, which holds 70% of the country's water reserves.

- In Colombia, gas and TPA sales expanded by 9.4% year-on-year, due mainly to growth in industrial consumption (+16.3%), particularly higher sales in the secondary market. Net residential-commercial customer numbers increased by 108,824 in the period, i.e. 7.1% less than in 2014, due partly to the delay in the delivery of new homes by construction companies.

- In Mexico, the acceleration plan continues, focusing primarily on Mexico City and the Bajíos area. The net increase in customer numbers attained a notable 27.9% in 2015, while new installations increased by 13.7%, due mainly to signing apartment blocks in the Bajíos area and in Mexico City and new buildings in Monterrey and Mexico City, as well as to containment of customer churn. As for gas sales, there was an increase of 7.3% in sales to the industrial sector and 2.5% to the residential/commercial market, 36.5% in natural gas sales for vehicle use, and 6.0% in TPA due to the larger volumes shipped to Mexico City.

- In Peru, the company continues development work with a view to initiating commercial operations in 2016.

As a result of the concession awarded in July 2013, Gas Natural Fenosa will supply energy to an area in south-west Peru that is not yet connected to the gas grid and expects to supply natural gas to over 80,000 households.

Electricity distribution

2.5.4 Electricity distribution 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

	2015	2014	%
Net sales	838	824	1.7
Procurementes	(1)	(2)	(50.0)
Personnel costs	(83)	(93)	(10.8)
Other expenses/income	(147)	(144)	2.1
Ebitda	**607**	**585**	**3.8**
Depreciation, amortisation and impairment expenses	(217)	(215)	0.9
Change in operating provisions	(2)	–	–
Operating income	**388**	**370**	**4.9**

Order IET/2444/2014, of 19 December, established the remuneration for electricity transmission, distribution and customer management for the electricity distribution company owned by Gas Natural Fenosa and the other industry players. That remuneration reflects the amendments made by the Electricity Sector Law (Law 24/2013, of 26 December).

Ebitda in 2015 amounted to Euros 607 million, a 3.8% increase on 2014. Net sales amounted to Euros 838 million, i.e. a 1.7% increase. The reduction in personnel expenses is due to efficiency measures implemented in 2014, which had a positive impact in 2015.

Main aggregates

	2015	2014	%
Electricity sales (GWh): TPA	31,992	31,641	1.1
Connection points (thousand) (at 31/12)	3,683	3,673	0.3
ICEIT (minutes)	44	48	(8.3)
Network loss ratio (%)	8.6	8.7	(1.1)

Electricity supplied increased by 1.1%, i.e. by less than the increase in demand in the Spanish distribution network as a whole, which amounted to 244,950 GWh in 2015, i.e. a 1.9% increase, according to Red Eléctrica de España (REE).

A total of 9,857 distribution connections were added in the year, accelerating in the second half, which accounted for 72% of this growth.

The ICEIT (installed capacity equivalent interrupt time) was lower than in 2014 due to favourable weather with no major incidents.

2.5.5 Electricity distribution Moldova

The business in Moldova includes 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

	2015	2014	%
Net sales	260	235	10.6
Procurementes	(205)	(182)	12.6
Personnel costs	(6)	(6)	–
Other expenses/income	(11)	(10)	10.0
Ebitda	**38**	**37**	**2.7**
Depreciation, amortisation and impairment expenses	(6)	(6)	–
Change in operating provisions	–	–	–
Operating income	**32**	**31**	**3.2**

Net revenues reflect the pass-through effect of procurement costs together with recognition of past capital expenditure and operation and maintenance performed in accordance with the country's current regulations.

Ebitda was impacted by the euro's strength against the local currency (Leu-MDL) in 2015 (20.85 MDL/€ in 2015, vs. 18.61 MDL/€ in 2014).

Ebitda rose by 15.9% in local currency terms due to higher tariff revenues driven by the positive impact of the MDL/USD exchange rate on asset remuneration, lower grid losses and the application of the cost of extending asset useful lives.

Main aggregates

	2015	2014	%
Electricity sales (GWh) – tariff sales	2,684	2,621	2.4
Connection points (thousand) (at 31/12)	867	856	1.3
Network loss ratio (%)	8,2	9,4	(12.8)

Gas Natural Fenosa continues to implement its plan to improve operations in Moldova, focusing on processes linked to energy control in the distribution networks, operating processes associated with the customer management cycle, and optimisation of facility O&M; the plan is achieving its objectives and providing an ongoing improvement in basic operating indicators:

- Electricity supplied increased by 2.4% due to the positive effect of loss reduction campaigns and to a slight increase in consumption.
- The number of supply connections totalled 867,218, i.e. up 1.3% with respect to 2014 yearend, primarily as a result of growth in the real estate sector.

2.5.6 Electricity distribution Latin America

This division involves regulated electricity distribution in Colombia and Panama.

Results

	2015	2014	%
Net sales	2,232	2,194	1.7
Procurementes	(1,609)	(1,622)	(0.8)
Personnel costs, net	(50)	(52)	(3.8)
Other expenses/income	(195)	(172)	13.4
Ebitda	**378**	**348**	**8.6**
Depreciation, amortisation and impairment expenses	(65)	(62)	4.8
Change in operating provisions	(135)	(160)	(15.6)
Operating income	**178**	**126**	**41.3**

Ebitda from electricity distribution in Latin America totalled Euros 378 million, an 8.6% increase compared with 2014.

Excluding the effect of currency fluctuations, ebitda would have increased by 12%.

The distribution business in Colombia contributed Euros 258 million to ebitda, i.e. a 20% increase excluding the currency effect. Ebitda reflects an Euros 11 million increase in taxes due to the Wealth Tax resulting from the tax reform approved in December 2014. Excluding the effect of this tax, the change would have been 25%, mainly as a result of growth in revenues because of the higher retail supply charge since May 2015 and also higher demand.

Despite growth in business volume in Colombia, ebitda was impacted by the significant increase in energy costs, mainly since September 2015 as a result of weather conditions.

Distribution companies in Panama contributed Euros 120 million to ebitda in 2015, a 13% increase year-on-year.

The reduction in bad-debt provisions was due mainly to the effect of the Colombian peso exchange rate. At constant exchange rates, provisions rose in line with revenues.

Main aggregates

	2015	2014	%
Electricity activity sales (GWh):	18,200	17,150	6.1
Tariff electricity sales	17,115	16,102	6.3
TPA	1,085	1,048	3.5
Connection points (thousand) (at 31/12)	3,144	3,032	3,7

Electricity sales amounted to 18,200 GWh, up 6.1% due to growth in demand in Colombia and Panama.

Demand continues to perform positively, with customer numbers increasing in both countries, by 3.7% overall.

The key physical aggregates by country in 2015 are as follows:

	Colombia	Panama	**Total**
Electricity activity sales	13,356	4,844	**18,200**
Increase v. 2014 (%)	5,5	7,8	**6,1**
Connection points (thousand)	2,566	578	**3,144**
Increase v. 31/12/2014 (thousand)	86	26	**112**

The increase in sales and connection points reflects the sustained growth in the electricity distribution businesses in Latin America.

Gas

2.5.7 Infrastructures

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

	2015	2014	%
Net sales	317	314	1.0
Procurementes	(6)	(8)	(25.0)
Personnel costs	(5)	(4)	25.0
Other expenses/income	(13)	(14)	(7.1)
Ebitda	**293**	**288**	**1.7**
Depreciation, amortisation and impairment expenses	(95)	(90)	5.6
Change in operating provisions	–	–	–
Operating income	**198**	**198**	**–**

Net sales in the infrastructure business totalled Euros 317 million in 2015, a 1.0% increase.

Ebitda amounted to Euros 293 million in 2015, i.e. 1.7% more than in 2014 despite the lower volume transported by the Magreb-Europe pipeline in 2015, but favoured by appreciation by the USD.

Main aggregates

The main aggregates in international gas transportation are as follows:

	2015	2014	%
Gas transport-EMPL (GWh):	112,861	120,558	(6.4)
Portugal-Morocco	36,971	34,671	6.6
Spain-Morocco (Gas Natural Fenosa)	75,890	85,887	(11.6)

The gas transportation activity conducted in Morocco through companies EMPL and Metragaz represented a total volume of 112,861 GWh, 6.4% less than in 2014. Of that figure, 75,890 GWh were shipped for Gas Natural Fenosa through Sagane and 36,971 GWh for Portugal and Morocco.

In 2013, Gas Natural Fenosa acquired a 14.9% stake in Medgaz, S.A. Medgaz operates the Algeria- Europe subsea gas pipeline connecting Beni Saf with the Almería coast (capacity: 8 bcm/year). The corresponding capacity is associated with a new supply contract amounting to 0.8 bcm/year. A total of 7,900 GWh were shipped via the Medgaz pipeline for Gas Natural Fenosa in 2015.

The company continues 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) in Spain. In January 2013, the Secretary of State for the Environment granted Environmental Impact Assessments (EIA) for the Saladillo, Eastern Marismas and Aznalcázar projects; the company had previously obtained an EIA for the Western Marismas project. The Andalusia Regional Government subsequently suspended processing of the Combined Environmental Authorisation for the Eastern Marismas and Aznalcázar projects. Gas Natural Fenosa appealed the decision. In May 2015, the Andalusia Regional Government issued a preliminary decision to grant a Combined Environmental Authorisation for Aznalcázar and to deny it for the Eastern Marismas project; Gas Natural Fenosa has entered pleadings. Since April 2012, the Western Marismas area has been partly operational as an underground gas store.

2.5.8 Supply and Commercialisation

This area includes wholesale gas procurement and supply both in the Spanish liberalised market and in other countries, retail supply of gas and other related products and services in the liberalised market in Spain and Italy, and supply of gas at the last-resort tariff (TUR) in Spain.

Results

	2015	2014	%
Net sales	10,760	11,807	(8.9)
Procurementes	(9,676)	(10,617)	(8.9)
Personnel costs	(68)	(62)	9.7
Other expenses/income	(228)	(226)	0.9
Ebitda	**788**	**902**	**(12.6)**
Depreciation, amortisation and impairment expenses	(24)	(22)	9.1
Change in operating provisions	(59)	(83)	(28.9)
Operating income	**705**	**797**	**(11.5)**

Net sales amounted to Euros 10,760 million, an 8.9% decrease with respect to 2014. Ebitda amounted to Euros 788 million, a 12.6% decrease, which is moderate in comparison with the decline in energy prices during the year. Flexibility in the management of the global contract portfolio, which has adapted to the current price environment, should allow a gradual stabilisation of the narrowing of business margins.

Market context

Spanish gas market demand reached 313,880 GWh in 2015 (300,134 GWh in 2014), of which 50,003 GWh relate to the residential market (48,246 GWh in 2014), 202,979 GWh to the industrial market and third-party supplies (200,110 GWh in 2014) and 60,898 GWh to the electricity market (51,570 GWh in 2014).

Evolution of the main gas market price indices is set out below (average cumulative figures):

	2015	2014	%
Brent (USD/bbl)	52.5	99.1	(47.0)
Henry Hub (USD/MMBtu)	2.8	4.3	(34.9)
NBP (USD/MMBtu)	6.5	8.2	(20.7)
TTF (€/MWh)	20.3	21.8	(6.9)

Main aggregates

The main aggregates in the wholesale gas procurement and supply activity are as follows:

	2015	2014	%
Gas supply (GWh):	**316,268**	**310,629**	**1.8**
Spain:	185,851	190,069	(2.2)
Gas Natural Fenosa supply	144,568	140,837	2.6
Residential	27,658	25,853	7.0
Industrial	96,831	98,074	(1.3)
Electricity	20,079	16,910	18.7
Supplies to third parties	41,283	49,232	(16.1)
International:	130,417	120,560	8.2
Europe commercialisation	51,677	43,334	19.25
Europe retail	3,110	2,773	12.2
Other foreign	75,630	74,453	1.6
Energy services contracts (thousand) (at 31/12)	**2,859**	**2,747**	**4.1**
Contracts per customer (at 31/12)	**1.52**	**1.52**	**–**
Share of gas contracts market in Spain	**56.8%**	**57.8%**	**(1.7)**

Wholesale supply by Gas Natural Fenosa totalled 285,500 GWh, a 1.2% increase, basically due to supply of natural gas in other countries (8.1%).

In a situation of weak demand, the volume of gas supplied by Gas Natural Fenosa to end customers in Spain increased by 2.6% in 2015 overall, basically as a result of higher consumption by CCGT plants. Lower procurement for third parties resulted in a 2.2% decrease in supply in Spain.

Gas supply outside Spain amounted to 127,307 GWh, an 8.1% increase.

According to the latest wholesale market oversight report from the CNMC, dated 17 December 2015, Gas Natural Fenosa is the company with the largest market share in Spain: 44%.

Gas Natural Fenosa is still Portugal's second-largest operator, with a 15% market share; it is the largest foreign operator there. Its activities are focused in the industrial market, where it has a share of over 17%.

During the year, the Iberian organised gas market came into being via the company MIBGAS; Gas Natural Comercializadora was one of the few companies to qualify as a market player in 2015.

Gas Natural Europe (the French subsidiary for supply in Europe) currently has a contracted portfolio of 29.5 TWh per year in France with customers in a range of sectors, from industrial companies (chemicals, paper mills, etc.) to local governments and the public sector.

The French subsidiary strengthened its position in Belgium, Luxembourg, the Netherlands and Germany, where it already has a contracted portfolio of 20.6 TWh per year.

Gas Natural Vendita had a portfolio under contract in the Italian wholesale market amounting to 6.9 TWh/year at the end of December 2015.

The company continues to diversify into international markets, having sold gas in the Americas and Asia. This strengthens our presence in the main international LNG markets, providing us with a medium-term position in countries with growth potential and new markets.

Gas Natural Fenosa aims to meet the energy needs of its retail clients by providing quality products and services. As a result of this commitment, it has 12.3 million active gas, electricity and maintenance service contracts, of which 550,000 are in Italy.

The company, a pioneer in the combined supply of gas and electricity, serves more than 1.5 million homes, most of which (80%) have also contracted maintenance service, which offers an excellent, quick and effective response.

With a strong focus on continued growth in the retail business, the company sells products and services throughout Spain, having obtained 1,700,000 new contracts in 2015.

The company began marketing tariffs decoupled from the last resort tariff in the residential segment in October 2015.

The portfolio of gas and electricity maintenance services for SMEs continues to expand, having attained 17,000 contracts.

Gas Natural Fenosa remains committed to innovation to meet the expectations of its clients as efficiently as possible, including new functionalities in all digital channels, such as the ability to buy services and receive customer care online; its online platform receives 6 million queries per year.

The broad, diversified offering of services for residential clients and SMEs has enabled the company to increase the number of active contracts to 2.7 million, managed through the group's own operating platform with 136 associated firms connected via an online system, which has enabled it to maximise service quality and customer satisfaction. As a result of this performance, the number of energy and services contracts in the retail segment increased by 1% in like-for-like terms with respect to 31 December 2014.

Gas Natural Fenosa continues to develop its own network of natural gas service stations that are open to the public; at the end of 2015, it had a total of 47 service stations (both compressed and liquefied natural gas). A total of 29 stations are open to the public and 18 are private. In 2015, sales of natural gas by public service stations increased by 77%, while sales by private stations rose by 11%.

Gas Natural Fenosa is Europe's leading supplier of natural gas for use by heavy vehicles, and it has filling stations on the main transport routes in the Iberian Peninsula.

The integrated energy services solutions business continues to expand. A survey conducted by DBK identified Gas Natural Servicios as market leader in energy services to business.

Electricity

2.5.9 Electricity Spain

The electricity business in Spain includes electricity generation in Spain, electricity wholesaling and retailing in Spain's deregulated market, and electricity supply at the "voluntary price for small consumers" (PVPC).

Results

	2015	2014	%
Net sales	5,779	5,822	(0.7)
Procurementes	(4,338)	(4,229)	2.6
Personnel costs, net	(138)	(145)	(4.8)
Other expenses/income	(562)	(666)	(15.6)
Ebitda	**741**	**782**	**(5.2)**
Depreciation, amortisation and impairment expenses	(523)	(553)	(5.4)
Change in operating provisions	(38)	(31)	22.6
Operating income	**180**	**198**	**(9.1)**

Net sales in the electricity business in Spain amounted to Euros 5,779 million, 0.7% less than in 2014, while EBITDA amounted to Euros 741 million, a 5.2% decrease year-on-year, basically as a result of different pool price performance between the two years.

Market context

In the domestic area, mainland electricity demand reached 247,983 GWh (243,544 GWh in 2014), entailing a rise of 1.8% which, if adjusted for the labour-related and temperature effect, i.e. net demand, has increased by 1.6%.

The physical balance of cumulative international power flows in 2015 is +0.2 TWh with respect to gas exportation, compared with 3.4 TWh in 2014.

Pumping consumption amounted to 4.6 TWh in 2015, 14.3% down on the previous year.

Net domestic generation has fallen by 0.2% during the year.

Concerning coverage, cumulative figures for wind generation decreased by 12.8%, and covers 37.6% of demand, six points less than in 2014.

Wind generation has declined throughout the year by 5.8 % lower than 2014, and in terms of coverage 1.6 points less.

For other renewable energy generation, there has been a cumulative annual increase in all technologies except for hydro-power (-22.0%). Solar thermal technology has increased by 3.4% and renewable thermal generation by 3.9%.

Conventional hydroelectric output declined by 28.6% in 2015 as a whole. In terms of hydroelectric energy capability, 2015 was a very dry year, with an exceedance probability of 92% when compared with the historical average; i.e. statistically, 92 out of every 100 years would be wetter than 2015.

Non-renewable generation has risen by 9.6% with considerable increases in coal and cycles. The thermal gap therefore increased by 21.8%, covering 30.8% of demand, five points more than in 2014.

Nuclear output was practically flat in 2015 (-0.1%).

Coal generation has grown by 23.5%, with coverage of 20.5%, 3.6% higher than the cumulative figure for 2014. During the year, the utilisation of the old supply guarantee units was 48% compared with a 60.7% utilisation of other coal.

Combined cycles increased output by 18.5% with a demand coverage of 10.4%, 1.5% above the cumulative figure for 2014.

The rest of non-renewable thermic output, basically cogeneration, increased by 4.1%.

Movements in the main electricity and related market price indices (in addition to the indices mentioned in point 2.5.8.) are set out below (cumulative average figures):

	2015	2014	%
Weighted average daily market price (€/MWh)	51.8	42.0	23.3
Coal API 2 CIF (USD/t)	56.8	75.4	(24.7)
CO_2 EUA (€/ton)	7.7	6.0	28.3

Main aggregates

The main aggregates in Gas Natural Fenosa's electricity business in Spain were as follows:

	2015	2014	%
Installed capacity (MW)	**12,769**	**12,122**	**5.3**
Hydroelectric	1,954	1,948	0.3
Nuclear	604	604	–
Coal	2,065	2,065	–
Combined cycles	7,001	6,603	6.0
Renewables	1,145	902	26.9
Wind	977	738	32.4
Mini-hydroelectric	110	107	2.8
Cogeneration and other	58	57	1.8
Electricity generated (GWh)	**31,568**	**30,542**	**3.4**
Hydroelectric	2,457	4,275	(42.5)
Nuclear	4,544	4,425	2.7
Coal	7,973	5,622	41.8
Combined cycles	14,494	14,143	2.5
Renewables	2,100	2,077	1.1
Wind	1,601	1,556	2.9
Mini-hydroelectric	448	434	3.2
Cogeneration and other	51	87	(41.4)
Non-renewable generation availability factor (%)	90,4	94,0	(3.8)
Electricity sales (GWh)	**35,241**	**34,718**	**1.5**
Liberalised market	29,720	28,617	3.9
PVPC/Regulated	5,521	6,101	(9.5)
Market share non-renewable generation	18.9%	18.7%	1.1
Market share renewable generation	2.1%	2.1%	–
Share of commercialisation market	14.4%	14.5%	(0.7)

The mainland electricity output of Gas Natural Fenosa increased by 3.4%, 3.5% taking into account only traditional generation.

The year 2015 commenced as an average water year (61% exceedance probability) but turned dry in the second quarter and very dry in the third, with the result that it was a very dry year overall, with an exceedance probability of 97% (i.e. 97 out of every 100 years would be wetter than 2015).

Reservoirs in the Gas Natural Fenosa watersheds were at 24.2% of capacity, compared with 35.8% at the end of 2014.

Nuclear production has increased by 2.7%, although these figures are affected by changes in the timing of scheduled shut-downs.

Coal production was 41.8% higher than in 2014, although the figure for 2014 was based on different criteria since it was subject to the Royal Decree on Supply Guaranteed in force until 31 December 2014.

Power generation with combined cycle increased by 2.5%.

Consolidated CO_2 emissions from Gas Natural Fenosa's coal thermal and combined cycle plants subject to regulations governing the greenhouse gas emission trade regime totalled 13.6 million tonnes of CO_2 (+2.5 million tonnes compared with the end of the previous year due mainly to the increased operation of coal thermal plants).

Gas Natural Fenosa applies a comprehensive approach to its portfolio of CO_2 emission rights for the post-Kyoto (2013-2020) period, acquiring the necessary emission rights and credits through active participation in the secondary market.

Gas Natural Fenosa's market share of conventional power generation in 2015 was 18.8%, i.e. 0.2 points more than in 2014.

Electricity supply sales increased to 35,241 GWh, with growth of 1.5%. The electricity supply portfolio is in line with Gas Natural Fenosa's strategy of maximising margins, optimising market share and hedging against price variations in the electricity market.

GNF Renovables

At 31 December 2015, Gas Natural Fenosa Renovables (GNF Renovables) had a consolidable total operational capacity of 1,145 MW, of which 977 MW are wind, 110 MW are small hydroelectric and 58 MW are cogeneration and photovoltaic. The increase in capacity with respect to 2014 year-end is due to the inclusion of the Gecal group, which contributed 225.4 MW of wind capacity and 0.5 MW of photovoltaic capacity.

On 22 June 2015, Gas Natural Fenosa reached an agreement to acquire 100% of renewable energy company Gecal Renovables, (Gecalsa) for an enterprise value of Euros 260 million. Through the parent company and subsidiaries, Gecalsa operates 10 wind farms and a photovoltaic plant in Spain with a combined installed capacity of 221.7 MW net (237.5 MW gross). Once the necessary administrative authorisations had been obtained, the deal was completed and the company took control of Gecalsa in October 2015.

Gecalsa was one of Spain's leading independent wind power producers, with a presence in Galicia, Castilla-La Mancha, Castilla & León and Andalucía; in addition to operational wind farms, it has a pipeline of wind projects under development.

By technology, and omitting the effect of the acquisition of the Gecalsa group, lower winds in 2015 would have given rise to a 2.9% decrease in wind output with respect to 2014 (1,511 GWh in 2015, 1,556 GWh in 2014). Concerning small hydro technology, output increased in 2015 by 15 GWh (448 in 2015 and 433 in 2014) and production from cogeneration technology at the only two plants in operation (Gómez Ulla and JGC Daimiel) was 36 GWh lower (51 GWh in 2015 and 87 GWh in 2014).

2.5.10 Global Power Generation

On 1 October 2014, Gas Natural Fenosa created the company Global Power Generation (GPG) to develop its international power generation business. The new company encompasses Gas Natural Fenosa's power generation assets and businesses outside Europe, and it was created in line with the objectives set out in the company's current strategic plan, which includes international growth through the development of power generation projects, especially in Latin America and Asia.

GPG encompasses all of the Group's international power generation assets and holdings in Mexico, Puerto Rico, the Dominican Republic, Panama, Costa Rica, Kenya and Australia (wind projects), and the assets operated for third parties via O&M Energy.

On 30 March 2015, Gas Natural Fenosa and Kuwait Investment Authority (KIA) signed an agreement for a $550 million capital increase at Global Power Generation (GPG), to be subscribed entirely by KIA. Following the capital increase, KIA owns 25% of GPG while Gas Natural Fenosa retains control of this company.

Once the corresponding authorisations had been obtained, the deal was completed on 5 October 2015 and represents a partnership with a sound investor to accelerate plans to expand in power generation internationally; there are plans to build an additional 5 GW of generation capacity in the medium term in international markets, mainly in Latin America and Asia.

Results

	2015	2014	%
Net sales	806	946	(14.8)
Procurementes	(420)	(619)	(32.1)
Personnel costs, net	(39)	(31)	25.8
Other expenses/income	(86)	(75)	14.7
Ebitda	**261**	**221**	**18.1**
Depreciation, amortisation and impairment expenses	(134)	(104)	28.8
Change in operating provisions	–	–	–
Operating income	**127**	**117**	**8.5**

Global Power Generation's ebitda in 2015 amounted to Euros 261 million, up 18.1% compared with 2014, due mainly to the currency effect and to the entry into commercial operation of the Bii Hioxo (Mexico) plant in October 2014 and the Torito (Costa Rica) plant in May 2015.

In Mexico, ebitda increased by 24.3%, mainly due to operating the Bii Hioxo wind farm (operational since October 2014), which provided Euros 20 million in ebitda, and to the favourable USD/EUR exchange rate in 2015, which offset the lower income from power generation caused by changes in the maintenance schedule, the effect of the contract benchmark indices, and lower gas prices.

As for the other countries, ebitda in the Dominican Republic increased by 28.2% (6.9% excluding the currency effect) because of higher output in 2015, coupled with better conditions of supply and demand in the market as a result of less hydroelectric output and fluctuations in fuel prices, which led to sales in the spot market (instead of purchases, as was the case in 2014).

Ebitda in Panama increased by 51.1% (30.9% without the currency effect) due to lower fuel costs attributable to lower operation of thermal units to meet contractual capacity commitments.

Ebitda in Costa Rica increased by 39.0% (19.7% excluding the currency effect) as a result of the entry into operation of Torito in May 2015.

In Kenya, ebitda increased by 37.6%.The increase is mainly due to lower maintenance costs, caused by lower utilisation of the plants following the entry into operation of facilities with more efficient technology.

Main aggregates

The main aggregates are as follows:

	2015	2014	%
Installed capacity (MW)	**2,702**	**2,663**	**1.5**
Mexico (CCGT)	2,035	2,035	–
México (wind)	234	234	–
Costa Rica (hydroelectric)	101	51	98.0
Panama (hydroelectric)	22	22	–
Panama (oil)	–	11	–
Dominican Republic (oil)	198	198	–
Kenya (oil)	112	112	–
Capacity under construction	**–**	**50**	**–**
Electricity generated (GWh)	**17,980**	**17,740**	**1.4**
Mexico	15,519	15,898	(2.4)
México (wind)	850	253	–
Costa Rica (hydroelectric)	408	159	–
Panama (hydroelectric)	73	74	(1.4)
Panama (oil)	–	28	–
Dominican Republic (oil)	1,012	920	10.0
Kenya (oil)	118	408	(71.1)
Availability factor (%)			
Mexico (CCGT)	91.2	95.9	(4.9)
Costa Rica (hydroelectric)	93.6	91.0	2.9
Panama (hydroelectric and oil)	96.4	92.3	4.4
Dominican Republic (oil)	92.6	90.2	2.7
Kenya (oil)	94.1	88.1	6.8

Output in Mexico increased year-on-year due to wind output from Bii Hioxo, which came into commercial operation on 1 October 2014, and higher sales of surplus output by Naco and Durango. These effects were offset by lower output by Tuxpan caused by the major overhaul of the third group and the lower output by Naco because its major overhaul took place between February and March 2015. Major overhauls this year resulted in lower availability than in 2014.

Hydroelectric production in Costa Rica was favoured by greater dispatching by the ICE (Costa Rican Institute of Electricity) due to increased rainfall with respect to last year and the entry of Torito into commercial operation.

Lower output in Panama is attributable to lower thermal production as a result of lower dispatching and to the Capira and Chitré plants dropping out of the system in January and May 2015, respectively. Hydroelectric output was in line with 2014. Higher availability with respect to 2015 was due to the greater maintenance work on thermal plants in 2014 as a result of increased operation.

Output in the Dominican Republic increased by 10.0% with respect to 2014 due to lower hydroelectric output there and to fluctuations in fuel prices, which modified the conditions of supply and demand, improving our facilities' position in the merit order.

Diesel-fired output in Kenya declined by 71.1% with respect to 2014, to 118 GWh. That decline was due to lower dispatching as a result of the entry into service of facilities with more efficient technology and also to greater dispatching of hydroelectric plants during the rainy season.

CGE

2.5.11 CGE

Compañía General de Electricidad, S.A. (CGE) is the parent company of one of Chile's largest energy groups. Almost all of its activity revolves around electricity and gas in Chile (from Arica to Puerto Williams), Argentina (five provinces) and Colombia (26 of the 32 liquefied gas distribution districts).

In the electricity market, the company is responsible for the distribution of 40% of all electricity in Chile, serving 43% of users, with over 2.9 million customers. It is also the leading high-tension grid operator, with a market share of 35% and over 3,495 kilometers of power lines.

The company also holds a direct stake in Gasco, which owns 100% of one of the top three LPG distributors, with a 27% market share, 51.8% of Metrogas, the country's main natural gas distributor, and stakes in other distributors, with 561,587 connection points. Metrogas has a sound position in the liquefied natural gas business through a stake in the Quintero natural gas regasification terminal.

Gas Natural Fenosa and the majority shareholders of Chilean company Compañía General de Electricidad, S.A. (CGE) signed an agreement in October 2014 whereby Gas Natural Fenosa undertook to make a takeover bid for 100% of CGE and the sellers undertook irrevocably to sell their shares as part of that bid.

The bid for 100% of CGE's shares, paid for in cash at a price of 4,700 Chilean pesos per share, concluded successfully on 14 November 2014.

As a result, Gas Natural Fenosa Chile, a wholly-owned subsidiary of Gas Natural Fenosa, is now the majority shareholder of Chile's largest electricity and gas distribution company, with a 96.72% stake, and has fully consolidated it since 30 November 2014. An additional 0.65% stake was acquired in 2015.

Following the integration of CGE into Gas Natural Fenosa, the company reinforced its strategic vectors: customer service, operating efficiency, safety and sustained growth.

To address these challenges, new areas were created within the business structure, at both corporate level and within the Electricity Business Units, readapting their functions.

These modifications are not only necessary for the development of new strategic lines, but they will also provide the organisation with an approach which rewards teamwork, agile performance and efficiency.

The Board of Directors of Compañía General de Electricidad, S.A. (CGE) resolved unanimously on 4 March to appoint Antonio Gallart as General Manager, effective 1 April 2015. Prior to that he was general manager of Resources at Gas Natural Fenosa.

On 7 October 2015, Gas Natural Fenosa Chile signed a contract to acquire the 8.33% stake in Metrogas owned by Trigas, S.A. This transaction strengthens the group's control over that company.

Additionally, on 18 December 2015, Gas Natural Fenosa Chile signed an agreement with the Pérez Cruz family (which owns 21.9% of CGE) to demerge Gasco, S.A. into two companies: Gasco GN (focused on natural gas) and Gasco, SA (focused on liquefied petroleum gas – LPG). Under the agreement, once the restructuring has been completed, each party will launch a tender offer for 100% of one of the two companies created in the process. With this transaction, Gas Natural Fenosa will focus its efforts on the natural gas distribution business.

Results

	2015	2014*	%
Net sales	2,979	227	–
Procurementes	(2,132)	(161)	–
Personnel costs	(176)	(17)	–
Other expenses/income	(172)	(21)	–
Ebitda	**499**	**28**	–
Depreciation, amortisation and impairment expenses	(157)	(13)	–
Change in operating provisions	–	–	–
Operating income	**342**	**15**	–

*Contribution to profits since joining the Group on 30 November 2014. As mentioned in Notes 3.3 and 9 to the consolidated accounts, CGE's LPG business has been classified as held for sale and meets the conditions of a discontinued operation. Therefore, the income statement for 2014 has been restated by applying IFRS 5, reclassifying all the items figuring on the income statement into a single line for profit/(loss) from discontinued operations.

Following this company's acquisition, it has been fully consolidated by Gas Natural Fenosa since 30 November 2014, having contributed Euros 499 million to consolidated ebitda in the period.

Additionally, as a result of the agreement signed with the Pérez Cruz family on 18 December 2015, the foregoing table shows the figures for the consolidated group excluding the LPG distribution business, which has been reclassified under discontinued operations.

Main aggregates

The main aggregates are as follows:

	2015	2014*	%
Gas distribution:			
Gas activity sales (GWh)	44,083	3,172	–
Gas distribution connection points (thousand) (at 31/12)	562	540	4.1
Gas distribution network (Km)	6,850	6,820	0.4
Electricity distribution:			
Electricity sales (GWh)	15,856	1,397	–
Electricity distribution connection points (thousand) (at 31/12)	2,928	2,854	2.6
Chile	2,712	2,644	2.6
Argentina	216	210	2.9
Electricity transmission network (Km)	14,497	2,938	–
Electricity transmission network (Km)	3,495	3,495	–

*Contribution to profits since joining the Group on 30 November 2014. Does not include physical quantities relating to the discontinued operations (Notes 3.3 and 9 to the consolidated accounts).

3. Sustainability

3.1 Environment

Main aggregates

	2015	2014	% Var.
Emission-free installed capacity (%)	21.8	20.7	5.3
Emission-free net production (%)	12.0	14.0	(14.3)
GHG emissions[1] (t CO_2 eq.)	22.4	19.8	13.1
GHG emissions/electricity generation (t CO_2 eq./GWh)	445	406	9.6
Methane emissions in gas distribution (t CO_2 eq./km network)	10.1	9.9	2.0
Environmentally certified activities (% of ebitda environmentally certified)[2]	88.3	100.0	(11.7)

[1] Greenhouse gases. Scope 1 Direct emissions as per The Greenhouse Gas Protocol. A Corporate accounting and reporting standard.
[2] Environmentally certified ebitda as a % of the Group's total EBITDA is approximately 78,6%.

The environmental principles of Gas Natural Fenosa are aimed at ensuring compliance with environmental legislation, reducing environmental impact, mitigating climate change, optimize the consumption of naturals resources such as water, preserving biodiversity in the environment, preventing pollution and fostering continuous improvement, going beyond legislation.

In 2015, despite progress in the certification of new environmental management systems according to ISO 14001 and internal requirements, there has been a decrease in the percentage of certified ebitda as a result of the incorporation of new activities in Chile where work is under way to adapt them to international benchmarks and internal requirements for environmental management.

With respect to climate change, progress has continued on various projects aimed at determining our carbon footprint and identifying of risks and opportunities arising from climate change. Regarding emission values, there has been an increase in direct CO_2 emissions compared with 2014 due to higher production from thermal coal generation in Spain and the contribution of distribution activities in Chile. For reasons of system and market stability, Spanish thermal generation filled the gap left by lower renewable energy output due to lower winds and rainfall during the year. This has led to a substantial increase in the specific emission per energy unit generated with respect to 2014, but has been partially mitigated by the increase in renewable energy generation on an international scale.

In 2015 Gas Natural Fenosa has carried out numerous and varied activities in favour of conserving biodiversity, many of which have gone beyond the requirements set by the environmental authorities and others of a voluntary character.

Recognizing the central role that water plays in the production process, as part of our ongoing commitment towards the environment and the efficient management of natural resources, in 2015 Gas Natural Fenosa consolidated its water strategy by determining management indicators and courses of action related to the optimisation of water resources in its most significant production processes.

Note 36 to the annual accounts contains other relevant information on the main environmental and sustainability activities, emissions and environmental investments.

3.2 People

Main aggregates

Employment indicators	2015	2014	% Var.
Number of employees at 31/12	19,939	21,961	(9.2)
Voluntary turnover rate (%)	3.5	3.3	6.1
Integration rate (disabled persons)[1]	2.4	2.3	4.3
Employee training hours	61.4	57.4	7.0
Absenteeism	2.0	1.86	7.5
Days' work lost	3,674	3,035	21.1
Number of accidents causing sick leave	125	118	5.9

[1] Spain.

Human and social development

Gas Natural Fenosa provides stable and quality employment (96% of posts are indefinite) and a solid, structured and appealing professional career.

During 2015 the implementation of the Human and Social Development project continued, the main objective of which is to promote a quality work environment based on respect, diversity and personal and professional development. Through this project, a number of programmes have been promoted and coordinated on the basis of two essential pillars: equality of opportunities and training as a level to raise internal awareness on disability.

Gas Natural Fenosa has a unique global model for external selection and internal mobility in all the geographies in which it operates, thereby guaranteeing a unique employer image and best practices in identifying, attracting and retaining the professional talent necessary to carry on our businesses.

Gas Natural Fenosa continues to offer all employees the opportunity to participate in the internal mobility programme. Through this programme employees can apply for any vacant position in any location, irrespective of where the employee's work place is located. This is one of the main pillars of increasing the dynamism of the professional development of the company's employees. In 2015 the "Conocerte" scheme was launched with the aim of ascertaining employees' geographical and functional mobility expectations and helping them to improve their professional development by means of a global survey on the professional interests of all employees.

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

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

In 2015, progress has been made on the implementation of equality and diversity actions for employees, with the design of a Comprehensive Diversity Plan focused on gender, age and disability.

Concerning disability, the Capacitas and Aflora programmes aimed at normalising the professional integration of disabled employees should be noted. Since we began implementing these two projects, a total of 105 persons with special needs have enjoyed aid relating to employment. Gas Natural Fenosa renewed the Bequal Plus Seal in recognition of our inclusion policy as a pioneer in disability commitment within the energy industry.

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

Training and talent management

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

To work consistently and transversally, in 2015 the process of identifying talent has been strengthened, validated technically by designing a set of indicators to improve management. The talent assessment and segmentation process measures aspects such as target behaviour, the results obtained, skills, learning and interest in progressing. It also incorporates specific opportunities such as mobility or assigning projects or training for professionals based on their profile and potential.

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

Corporate University has a network of alliances with academic institutions both in Spain and in the rest of the world. There is also an Advisory Council made up of Polytechnic Universities of Barcelona and Madrid, the Monterrey Institute of Technology, IESE, ESADE and the Boston Consulting Group. Together with the internal units of Gas Natural Fenosa, they ensure a permanent link between the company's strategy and the programmes that are implemented.

Gas Natural Fenosa has established itself as a leader in health and safety following the implementation of an ambitious plan aiming at achieving a profound cultural change, which began in 2012, called the "Health and Safety Commitment Plan". The Corporate University has contributed to this process through the "Health and Safety Commitment" Programme training scheme, involving all the company's employees.

Remuneration

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

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

For those not covered salaries are defined individually, in line with the Company's remuneration policy.

Variable remuneration under Gas Natural Fenosa's remuneration policy is designed to promote employee commitment and motivate performance, in line with the long-term interests of the Company and its shareholders.

Annual variable remuneration rewards the achievement of individual targets depending on the post occupied, related to economic-financial, efficiency and growth variables, as well as on quality and security issues, directly related to the fulfilment of the objectives proposed in the Management Objective Plan.

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

- Management: based on management by objectives and performance appraisal. Applies to management personnel not covered by the Collective Agreement.

- Commercial: based on the fulfilment of commercial objectives. Aimed at employees fulfilling commercial functions within the group.

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

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

During the 2015 Flexible Remuneration campaign, requests received were 12% up on 2014. This percentage reflects the success of this remuneration system.

In 2015, in keeping with the objective set in 2014, the Flexible Remuneration System has been extended to Company personnel. This means that employees covered by the Collective Agreement in Spain, who were previously excluded, can now access the products offered through the System.

Personnel structure

Note 25 to the Consolidated Annual Accounts provides a breakdown of personnel by category, gender and geographic area at 31 December.

3.3 Taxation

Tax policies and tax risk management

Fiscal policies of Gas Natural Fenosa are aligned with the Corporate Responsibility Policy of Gas Natural Fenosa which establishes as one of the commitments and principles of action to "act responsibly in managing business and comply with tax obligations in all the jurisdictions in which the company operates, assuming the commitment to transparency and collaboration with the relevant tax authorities."

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

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

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

In addition, Gas Natural Fenosa has a risk map specifically identifying tax risks and controversies concerning the interpretation and application of the tax legislation framework. Information on the main tax-related actions is disclosed in Note 21 (Tax Situation) to the consolidated annual accounts.

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

On the basis of Spanish legislation concerning countries regarded as tax havens (Royal Decree 1080/1991, 5 July, and Royal Decree 116/2003, 31 January), Gas Natural Fenosa has four shareholdings in companies incorporated in such territories:

- Holdings of 95.0% in Buenergía Gas & Power, Ltd, 47.5% in Ecoeléctrica Holding, Ltd and 47.5% in Ecoeléctrica Limited, all of which are domiciled in the Cayman Islands. These are companies that directly or indirectly hold interests in a single industrial concern that carries out gas combined cycle electrical generation in Puerto Rico (Ecoeléctrica, L.P.), whose income is taxed in this country and which does not provide Gas Natural Fenosa with any tax benefits.

- Holdings of 31.1% in Gasoducto del Pacífico (Cayman), Ltd. addressed in Caiman Islands. It is a Company without activity incorporated in the group as a consequence of the acquisition of the CGE group and does not provide any tax advantage for Gas Natural Fenosa.

Intragroup transactions with these entities relate to dividends received, as follows:

Receiving subsidiary	Distributing subsidiary	Amount (thousand Euros)
Global Power Generation, S.A.	Buenergía Gas & Power, Ltd.	39,037
Buenergía Gas & Power, Ltd.	Ecoeléctrica Holding, Ltd	51,886
Ecoeléctrica Holding, Ltd.	Ecoeléctrica, L.P. y Ecoeléctrica, Ltd.	51,886
Ecoeléctrica, Ltd.	Ecoeléctrica, L.P.	519

Tax contribution

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

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

The total tax contribution of Gas Natural Fenosa amounted to Euros 3,636 million in 2015 (Euros 3,741 million in 2014). The following table shows the disclosure of the efective taxes paid by Gas Natural Fenosa by countries segmented between those that represent actual expenditure for the group (called group taxes) and those that are withheld or passed on to the end taxpayer (called third-party taxes):

	Group taxes						Third-party taxes									
Country	Corporate income tax[1]		Others[2]		**Total**		IVA		Tax on hydrocarbons		Others[3]		**Total**		**Total**	
	2015	2014	2015	2014	**2015**	**2014**	2015	2014	2015	2014	2015	2014	**2015**	**2014**	**2015**	**2014**
Spain	347	402	549	538	**896**	**940**	1,169	1,257	362	356	200	206	**1,731**	**1,819**	**2,627**	**2,759**
Argentina	4	7	40	30	**44**	**37**	13	9	–	1	16	15	**29**	**25**	**73**	**62**
Brazil	51	86	44	66	**95**	**152**	56	67	–	–	18	3	**74**	**70**	**169**	**222**
Colombia	69	84	78	96	**147**	**180**	9	9	–	–	22	26	**31**	**35**	**178**	**215**
Chile[4]	48	5	16	–	**64**	**5**	99	4	–	–	22	2	**121**	**6**	**185**	**11**
Mexico	33	51	4	3	**37**	**54**	32	30	–	–	12	9	**44**	**39**	**81**	**93**
Panama	8	32	11	7	**19**	**39**	–	–	–	–	4	3	**4**	**3**	**23**	**42**
Rest LatAm	11	12	1	1	**12**	**13**	3	2	–	–	2	3	**5**	**5**	**17**	**18**
Italia	14	26	5	5	**19**	**31**	30	37	34	28	5	5	**69**	**70**	**88**	**101**
Rest	10	10	35	65	**45**	**75**	112	120	32	17	6	6	**150**	**143**	**195**	**218**
Total	**595**	**715**	**783**	**811**	**1,378**	**1,526**	**1,523**	**1,535**	**428**	**402**	**307**	**278**	**2,258**	**2,215**	**3,636**	**3,741**

[1] Corresponds to corporate income tax actually paid during the year. Does not include accrued amounts. Information on the reconciliation between the corporate income tax recorded and the amount that would result from applying the nominal income tax rate currently prevailing in the country of the parent company (Spain) to pre-tax profits is detailed in Note 21 (Tax Situation) to the consolidated annual accounts.
[2] Includes energy taxes which in Spain amounted to Euros 262 million in 2015 (Euros 257 million in 2014), local taxes, employer's Social Security contributions and other taxes specific to each country.
[3] Basically includes employee income tax withholdings and employees' Social Security contribution.
[4] Relates to December 2014 as a result of the business combination performed at 30 November 2014.

4. Main risks and uncertainties

4.1. Operating risks

4.1.1. Regulatory risk

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

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

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

Regulatory risk management is founded on smooth communication between Gas Natural Fenosa and regulators. Additionally, in the course of its regulated activities, Gas Natural Fenosa ensures that its costs and investments are aligned with the rates of return recognised for each business.

4.1.2. Gas and electricity volume risk

Most purchases of natural gas and liquefied natural gas (LNG) are made under long-term contracts containing clauses whereby Gas Natural Fenosa is obligated to purchase certain annual volumes of gas (known as take-or-pay clauses). Under such contracts, even if Gas Natural Fenosa does not need to acquire the committed volume of gas at a given time, it is contractually obligated to pay for the minimum volume committed in the take-or-pay clauses.

The contracts stipulates gas volumes in line with Gas Natural Fenosa's estimated needs. However, actual needs may be below the volumes estimated when the contracts are concluded. In the event of significant departures from the estimates, Gas Natural Fenosa will be obligated to purchase a large volume of gas than is actually needed or, failing this, to pay for the minimum volume of gas committed, irrespective of whether or not it acquires the volume that exceeds its needs; this could have a significant adverse effect on Gas Natural Fenosa's operating costs.

In the electricity business, Gas Natural Fenosa's results are exposed to the contracting of electricity generation volumes, which is conditional on the evolution of demand for electricity. Additionally, in view of the major role played by combined-cycle technology in Gas Natural Fenosa's generation plants, volumes generated could be reduced by the increasing relative significance of generation using renewable energies.

A decrease in volumes generated would increase uncertainty as regards the achievement of generation/retailing objectives.

Gas Natural Fenosa's management of contracts and assets is in a globally integrated manner to optimise energy balance sheets, allowing the correction of any departures in the most profitable manner possible.

4.1.3. Operational risk

a) Insurable risks

Gas Natural Fenosa's activities are exposed to a variety of operational risks such as faults in the distribution network, in electricity generation facilities and in methane tankers, explosions, polluting emissions, toxic spillage, fire, adverse weather conditions, contractual breaches, sabotage or accidents affecting the gas distribution network or electricity generation assets, and other damage and force majeure circumstances that could cause bodily injuries and/or material damage, affecting or destroying Gas Natural Fenosa's facilities or property. Events such as these, or similar events, are unforeseeable and may interrupt the supply of gas and generation of electricity. In such situations, although coverage is provided by risk insurance policies, such as policies covering potential loss of profit and material damage, Gas Natural Fenosa's financial situation and results could be affected to the extent that any losses caused are not insured, coverage is insufficient, or economic losses are generated due to coverage limits or an increase in the excess, as well as potential increases in premiums paid to insurers.

Gas Natural Fenosa could also be subject to third-party liability claims for bodily injury and/or other damage caused in the ordinary course of business. Such claims could result in the payment of indemnities under legislation applicable in the countries in which Gas Natural Fenosa operates, which could have a material adverse impact on the business, prospects, financial situation and results if the third-party liability insurance policies contracted do not cover the amount of the indemnities.

Gas Natural Fenosa prepares continuous improvement plans to reduce the frequency and severity of potential incidents. Specific asset supervision units have been created to intensify preventive and predictive maintenance, among other measures. Additionally, our approach to insurance coverage is based on optimising the Total Cost of Risks.

b) Image and reputation

Gas Natural Fenosa is exposed to opinions and perceptions of a variety of stakeholders. Such perceptions may be adversely impacted by events caused by the Company or by third parties over which the Company has little or no control, impacting our own reputation or the reputation of the industry as a whole. Should this impacts arise, they could cause medium-term financial damage as a result of an increase in demands from regulators, financing costs or commercial efforts to win customers.

Gas Natural Fenosa is engaged actively in identifying and monitoring potential reputational events and the stakeholders affected. Transparency also forms part of our communication policy.

c) Environment

Gas Natural Fenosa's activities are subject to extensive legislation on environmental protection.

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

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

In order to mitigate this risk, Gas Natural Fenosa has adopted an integrated environmental management system and has emergency plans for facilities where accidents could cause environmental impacts. Specific insurance policies have also been taken out to cover this type of risks.

d) Climate change

Demand for electricity and natural gas is related to climate change. A significant part of gas consumption during the winter months depends on electricity generation and its use in heating systems, while summer consumption depends basically on electricity generation for use in air-conditioning systems. Gas Natural Fenosa's revenue and results from natural gas distribution and retailing activities could be adversely affected in the event that the autumn months become warmer or winters become milder. Demand for electricity could also fall if summers become milder, due to a decline in demand for air-conditioning. Additionally, hydroelectric generation plant occupancy depends on rainfall levels in the plant locations and could be affected by droughts.

European policies and measures to combat climate change could affect Gas Natural Fenosa's results in the event that the Company's generation mix competitiveness is altered.

Gas Natural Fenosa forms part of a number of work groups at the European level, allowing early adaptation of strategies to new regulations. Gas Natural Fenosa also forms part of clean development projects designed to reduce CO_2 emissions.

e) Geopolitical exposure

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

- Latin America

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

  - Considerable influence of local governments on the economy;

  - Significant fluctuation in the economic growth rate;

  - High inflation;

  - Devaluation, depreciation or overvaluation of local currencies;

  - Controls or restrictions on the repatriation of earnings;

  - Fluctuating interest rates;

  - Changes in financial, economic and fiscal policies;

  - Unexpected changes to regulatory frameworks;

  - Social tensions and

  - Political and macroeconomic instability.

- Middle East and Maghreb

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

Gas Natural Fenosa has a diversified portfolio both in the countries in which it carries on energy distribution activities (Latin America, Europe) and the countries from which gas is supplied (Latin America, Africa, Middle East, Europe). Diversification minimises the risk of expropriation and supply interruption due to the knock-on effect of political instability in neighbouring countries. Specific insurance policies have also been taken out for these risks. Specific insurance policies have also been taken out for these risks.

4.2. Financial risks

Financial risks (interest rate, exchange rate, commodities prices, credit risk, liquidity risk) are explained in Note 16 to the Consolidated Annual Accounts.

4.3. Main opportunities

Gas Natural Fenosa's main opportunities are as follows:

- Generation mix: Gas Natural Fenosa's generation plants, consisting mainly of combined-cycle facilities, has the necessary flexibility to adapt to different market circumstances; it is thus a valuable asset to leverage opportunities related to price and demand volume volatility in the gas and electricity markets.

- CO_2 market evolution: The mechanisms proposed by the European Commission to increase the cost of emission rights are intended to discourage the use of the more polluting technologies so as to counteract Climate Change. In this context, Gas Natural Fenosa's plants would be more competitive than coal plants and opportunities could also arise in the emissions market.

- NG/LNG supply portfolio: Management of gas pipelines, investment in plants and the fleet of methane tankers allows the Group to meet its business needs in a flexible, diversified manner, optimising our approach to each energy scenarios. Specifically, our fleet of methane tankers makes Gas Natural Fenosa on of the world's leading LNG operators and a benchmark in the Atlantic and Mediterranean basin.

- Balanced structural position in business and geographical areas, many with stable flows, irrespective of commodities prices, which enable the expected growth in energy demand as from 2015 to be fully taken advantage of and new business opportunities in new markets to be maximised.

5. Group’s foreseeable evolution

5.1. Strategic priorities

In order to achieve our objectives, Gas Natural Fenosa defines medium-term strategies that are updated periodically to adapt to current and future circumstances, taking into consideration the peculiarities of each of the Company's business lines.

In November 2013, Gas Natural Fenosa presented its updated Strategic Plan 2013-2017, establishing the Group's strategic priorities for the period 2013-2015 and the foundations for growth post 2015. Gas Natural Fenosa is currently working on the Strategic Plan 2016-2020.

5.2. Financial priorities

The strategic priorities for the period 2013-2015 are based on a financial policy consistent with growth and dividend targets:

- Strategic lines defined in the context of financial discipline.

- Flexibility to increase investments for future growth if necessary.

- Cash dividend commitment.

Compliance with strategic goals for 2015 (data in thousand euros) are listed below:

	2015 targets	Figures end -2015
Ebitda 2015	> 5,000	5,264
Net profit	~ 1,500	1,502
Dividend (Pay-out)	~ 62%	62.1%
Net debt/ebitda 2015	~ 3.0x	3.0x

Gas Natural Fenosa has once again fulfilled its commitment to strategic objectives, this time in relation to the Strategic Plan 2013-2015.

5.3. Group's prospects

The new Strategic Plan 2016-2022 will define the strategic focuses of Gas Natural Fenosa.

However, the following progress made on the three lines of growth identified in the current Strategic Plan (distribution networks, power generation and gas sales) should be highlighted, which will enable Gas Natural Fenosa to continue growing in the future:

- Distribution networks: in gas networks, the entry into the distribution business in the Arequipa region in Peru, the new concessions granted in Mexico and, in Spain, the acquisition of Gas Directo, the supply to new municipalities in mainland Spain and the acquisition of supply points from Repsol for piped propane for connection to the natural gas distribution network. Additionally in, gas and electricity networks, the recent acquisition of the CGE group in Chile.

- Electricity generation: the incorporation of 520 MW to overall volume following the start-up of the Bii Hioxo wind farm in Mexico, the Torito plant in Costa Rica and the acquisition of Gecalsa which brings 230MW in renewable energy. The creation of GPG as an operations and international growth platform should also be mentioned, which will be reinforced by the recent inclusion of KIA among its shareholders.

- Gas sales: new gas supply contracts totalling approximately 11 bcm relating to the two projects in Cheniere (Sabine Pass and Corpus Christi), the Yamal LNG project in Russia and the Shah Deniz II project in Azerbaijan. The capacity of the methane tanker fleet will also be doubled by adding five gas tankers to the fleet which, by virtue of their larger size, will contribute an additional combined capacity of almost one million cubic metres. In terms of sales volume, in 2016 an increase of around 7% is expected basically due to the effect of the first Cheniere contract with respect to the expected volume for 2015, representing an estimated total volume of 335 TWh.

Gas Natural Fenosa is therefore expected to continue along the path to organic growth in 2016 and beyond.

6. R&D&i activities

Innovation is one of the drivers of Gas Natural Fenosa's development; considerable resources and efforts are therefore devoted to R&D&i activities, seeking to optimise resources, develop new technologies and keep abreast of technological advances in the sectors in which we operate.

Investment in technological innovation activities is analysed below:

	2015	2014	2013	% Var
Total investment (million euro)	**15.7**	**13.7**	**12.5**	**14.6**

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

- Electricity transmission and distribution: the main activities in 2015 continued to centre in the automation of the operation and maintenance of electrical infrastructure. In this area we should note the importance of smart networks which are primarily designed to optimise the distribution network, paying special attention to improving the reliability, safety and quality of the electrical system. Initiatives are also being encouraged to optimise the functionalities provided by intelligent networks and remote management, as well as improving the quality of electricity supply and cutting down incidents. Projects focused on the development of new technologies have also continued to progress.

- Energy storage: activities are oriented towards an even greater increase in the quality and reliability of supply, to develop joint solutions with customers and also to allow greater and easier integration into the grid of electricity from renewable sources. Activities developed in this line for 2015 include the project for a demonstration of lithium-ion technology for services to the medium-voltage distribution network. As for small-scale storage solutions for domestic end customers, a pilot scheme is being implemented for commercial solutions with respect to batteries for energy management and self-consumption support.

- Renewable energies: The Company's main objectives include the development of new technologies to increase the percentage of renewable energy in its portfolio. It is therefore working on the implementation of innovative projects to evidence technical and economic viability when implementing these technologies. Efforts are also being focused on the optimisation of the group's facilities to increase the level of efficiency and safety at the company's energy park, particularly in the wind energy area.

- Efficiency and energy services: Work is under way on two levels; on the one hand, to improve processes to increase energy efficiency in every link in our value chain and on the other, focusing on customers, providing them with all the information and services possible to help them reduce their energy consumption.

- Advanced generation technologies: we are working on projects aimed at improving the return on assets, to reduce the environmental impact due to emissions, to improve the flexibility of operations and reduce water consumption. Among the initiatives in this area we should highlight the HiperCap project (High Performance Capture) which aims to develop new and improved technologies for capturing carbon dioxide (CO_2) in post-combustion, some of which can be implemented industrially in the short term with a better energy performance than current technologies. Work also continues in this line on the Menos H_20 project aimed at reducing water consumption in combined cycle plants and optimising the resources used in their treatment.

- Advanced gas network solutions: the aim is to provide greater automation in the operation of these networks and achieve greater customer interaction. The main actions carried out in this line are aimed at optimising the distribution system using new materials and systems to make it viable to supply gas to a greater number of customers.

- Sustainable mobility: has focused primarily on the development of projects for sea and land transport using gas as a fuel. During 2015, the GARneT (Gas an Alternative for Road Transport) and LNG Bluecorridors projects have continued to demonstrate the advantages of using liquefied natural gas as a clean fuel for long-distance heavy road vehicles. With regard to sustainable maritime mobility, Gas Natural Fenosa is developing initiatives such as the Abel Matutes project for the installation of an auxiliary natural gas engine in the passenger ferry of the same name for port service and the Core LNG Hive project focused on the supply of LNG for port and maritime transport in the main Spanish and Portuguese ports, within the context of the central Atlantic and Mediterranean corridors of the Trans-European Transport Network.

- Renewable gas: projects are under way aimed at producing renewable origin methane from difference sources with particular emphasis in the short term on waste and biomass, for injection into the natural gas network or for use as fuel in the transport industry.

7. Annual Corporate Governance Report

Attached hereto as an Appendix to this Director's Report, and forming part of the same, is the Annual Corporate Governance Report for 2015, as required under article 526 of the Spanish Companies Act.

8. Treasury shares

The General Meeting held on 20 April 2010 resolved to provide the Board of Directors with specific authorisation, including the power to delegate, to acquire fully-paid Company shares, for valuable consideration, within a period not exceeding five years, up to a maximum of 10% of share capital or the maximum figure permitted under regulations in force at the acquisition date; the total par value of treasury shares may not exceed 10% of issued share capital, or any other percentage that may be legally stipulated.

By virtue of this authorisation, in 2015 2,899,180 treasury shares were acquired amounting to Euros 58 million and were disposed of in full for Euros 60 million. During 2014, 1,128,504 treasury shares were acquired for Euros 23 million, of which 174,998 treasury shares, totalling Euros 3 million were handed over to the Group's employees as part of their 2014 remuneration under the Share Acquisition Plan 2012-2013-2014 (Note 3.3.15.d); the remainder were sold for Euros 20 million. At year-end 2015 and 2014, Gas Natural Fenosa held no treasury shares.

9. Events after the reporting date

Events after the reporting date are described in Note 37 to the Consolidated Annual Accounts.

A. Capital Structure

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

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

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

No

Type	Number of shares	Face value	Number of voting rights	Different rights

A.2 Provide details of the direct and indirect owners of significant stakes in your company at year end, excluding Directors:

Name or company name of shareholder	Number of direct voting rights	Indirect voting rights		% of total voting rights
		Direct holder of the stake	Number of voting rights	
Société Nationale pour la Recherche, la Production, le Transport, la Transformation et la Commercialisation	40,092,780	–	0	4.01
Repsol, S.A.	300,216,871	–	0	30.00
Fundación Bancaria Caixa d'Estalvis i Pensions de Barcelona ("la Caixa")	0	Caixabank, S.A.	208	0.00
		Vidacaixa S.A. de Seguros y Reaseguros	1,438	0.00
		Criteria Caixa, S.A.U.	344,609,780	34.44

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	Indirect voting rights		% of total voting rights
		Direct holder of the stake	Number of voting rights	
Mr Salvador Gabarró Serra	3,262			0.00
Mr Antonio Brufau Niubó	81,139			0.01
Mr Rafael Villaseca Marco	13,055			0.00
Mr Ramón Adell Ramón	5,000			0.00
Mr Enrique Alcántara-García Irazoqui	8,339			0.00
Mr Xabier Añoveros Trías de Bes	350			0.00
Mr Francisco Belil Creixell	7,128			0.00
Mr Demetrio Carceller Arce	2,826	Inversión Las Parras de Castellote, S.L.	15,000	0.00
Mr Isidro Fainé Casas	0			0.00
Mrs Benita María Ferrero-Waldner	0			0.00
Mrs Cristina Garmendia Mendizábal	0			0.00
Mr Emiliano López Achurra	1,098			0.00
Mr Miguel Martínez San Martín	0			0.00
Mr Heribert Padrol Munté	1,148			0.00
Mr Juan Rosell Lastortras	0	Mr Juan Rosell Codinachs	2,000	0.00
Mr Luis Suárez de Lezo Mantilla	18,156			0.00
Mr Miguel Valls Maseda	7,000			0.00
% total voting rights in possession of the Board of Directors				**0.01**

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

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

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

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

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

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

Yes

Percentage of share capital affected: 64.44%

Parties to parallel shareholders agreements	% of share capital affected	Brief outline of agreement
Repsol, S.A. Fundacion Bancaria Caixa d'Estalvis i Pensions de Barcelona ("la Caixa")	30.00 34.44	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. 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.

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

Yes

Percentage of share capital affected: 64.44%

Parties to concerted action	% of share capital affected	Brief outline of concerted action
Repsol, S.A. Fundacion Bancaria Caixa d'Estalvis i Pensions de Barcelona ("la Caixa")	30.00 34.44	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.

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

No modifications have been made.

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 5 of the Securities Market Act. Respond, where applicable:

Yes

Name or company name
Fundacion Bancaria Caixa d'Estalvis i Pensions de Barcelona ("la Caixa")
Repsol, S.A.

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

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

At year end:

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

*Through:

Explain the significant changes occurring during the year pursuant to Royal Decree 1362/2007:

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

The General Meeting of Shareholders held on 14 May 2015, in item 14 of the agenda, authorised the Board of Directors to agree the acquisition of the company shares in exchange for valuable consideration and to do so within a deadline of five years, under the following conditions:

Fourteen.- 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., under the terms agreed by the General Meeting and with the legally established restrictions, thus cancelling the authorisation agreed by the Ordinary General Meeting of 20 April 2010.

Fourteen 1.- With regard to the part not used, to cancel the authorisation granted to the Board of Directors by the General Meeting held on 20 April 2010 to acquire company shares by onerous title.

Fourteen 2.- To authorise the Board of Directors to acquire within 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 empowered to delegate this authorisation to the Executive Committee or to the person or persons it deems pertinent. This authorisation is understood to apply to the acquisition of the company's shares by owned companies.

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

Ten.- Authorisation for the Board of Directors, with substitution powers on the Executive Committee, in accordance with the provisions laid down in Article 297.1 b) of the Corporate Enterprises Act, so that, within the maximum term of five (5) years, if it considers it appropriate, it can increase the share capital, to the maximum quantity corresponding to 50% of the share capital of the company at the time of authorisation, with the possibility of incomplete subscription, duly issuing ordinary, privileged and redeemable shares, with or without the right to vote, with or without a premium, on one or more occasions and to the amount it considers appropriate, including the right to remove, where appropriate, the pre-emptive subscription right, rewriting the articles of the Articles of Association and rendering null and void the authorisation agreed by the Ordinary General Meeting of 20 April 2010.

Ten

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

2) The Board of Directors is expressly empowered to fully or partially exclude the preferential subscription right with regard to all or any of the issuances agreed in accordance with the provisions of this authorisation.

3) As a consequence of the foregoing agreement, to amend the Transitory Article of the Articles of Association, which will henceforth be drafted as follows:

"Transitory Article - Delegation to the Board of Directors.

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

A.9 bis Estimated floating capital:

	%
Estimated floating capital	31.54

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

Yes

Description of the restrictions

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

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

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

No

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

No

B. General Meeting

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

No

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

No

Describe how the system differs from that of the LSC.

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

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

The shareholders constituted in a duly convened General Meeting, shall decide by majority vote on the matters which fall to the terms of reference of the meeting. In this event, a resolution shall be understood as adopted when it obtains more votes in favour than against with regard to the share capital either present or represented.

All shareholders, including dissidents and those that have not taken part in the meeting, are subject to the resolutions of the General Meeting.

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

The modification of the Articles of Association must be agreed by the General Meeting and requires the concurrence of the following requisites:

1) The Board of Directors or, where appropriate, the shareholders that make the proposal, must compile a written report with justification for the amendment.

2) The call to meeting must clearly express the proposed points of change, as well as the right all shareholders have to examine, at the registered office, the full text of the proposed modification and a report on this. They also have the right to ask for handover or free-of-charge sending of said documents.

3) The agreement must be adopted by the General Meeting in accordance with the provisions set out in these Articles of Association.

4) Under all circumstances, the agreement must be set out in a public deed, which will be registered with the Mercantile Register and published in the Register's Official Gazette.

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

	Attendance data				
			% remote voting		
Date of General Meeting	% physical presence	% represented	Electronic voting	Others	% Total
11/04/2014	68.65	12.67	0	0	81.32
14/05/2015	68.57	11.96	0	0	80.53

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

Yes

Number of shares required to attend the General Meeting	100

B.6 Repealed section.

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

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

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

C. Structure of the Management of the Company

C.1 Board of Directors

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

Maximum number of Directors	20
Minimum number of Directors	10

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

Name or company name of Director	Repre-sentative	Category of the Director	Position on Board	Date first appointment	Date last appointment	Election procedure
Mr Salvador Gabarró Serra	–	Executive	Chairman	23/06/2003	16/04/2013	Resolution of the General Meeting of Shareholders
Mr Antonio Brufau Niubó	–	Proprietary	Deputy Chairman	16/06/1989	11/04/2014	Resolution of the General Meeting of Shareholders
Mr Rafael Villaseca Marco	–	Executive	Chief Executive Officer	28/01/2005	14/05/2015	Resolution of the General Meeting of Shareholders
Mr Ramón Adell Ramón	–	Independent	Director	18/06/2010	14/05/2015	Resolution of the General Meeting of Shareholders
Mr Enrique Alcántara-García Irazoqui	–	Proprietary	Director	27/06/1991	11/04/2014	Resolution of the General Meeting of Shareholders
Mr Xabier Añoveros Trías de Bes	–	Independent	Director	20/04/2012	14/05/2015	Resolution of the General Meeting of Shareholders
Mr Francisco Belil Creixell	–	Independent	Director	14/05/2015	14/05/2015	Resolution of the General Meeting of Shareholders
Mr Demetrio Carceller Arce	–	Proprietary	Director	29/06/2007	14/05/2015	Resolution of the General Meeting of Shareholders
Mr Isidro Fainé Casas	–	Proprietary	Director	18/05/2015	18/05/2015	Resolution of the General Meeting of Shareholders
Mrs Benita María Ferrero-Waldner	–	Independent	Director	14/05/2015	14/05/2015	Resolution of the General Meeting of Shareholders
Mrs Cristina Garmendia Mendizábal	–	Independent	Director	14/05/2015	14/05/2015	Resolution of the General Meeting of Shareholders
Mr Emiliano López Achurra	–	Independent	Director	23/06/2003	16/04/2013	Resolution of the General Meeting of Shareholders
Mr Miguel Martínez San Martín	–	Proprietary	Director	14/05/2015	14/05/2015	Resolution of the General Meeting of Shareholders
Mr Heribert Padrol Munté	–	Proprietary	Director	20/04/2012	14/05/2015	Resolution of the General Meeting of Shareholders
Mr Juan Rosell Lastortras	–	Proprietary	Director	26/06/2009	16/04/2013	Resolution of the General Meeting of Shareholders
Mr Luis Suárez de Lezo	–	Proprietary	Director	26/02/2010	11/04/2014	Resolution of the General Meeting of Shareholders
Mr Miguel Valls Maseda	–	Independent	Director	28/01/2005	14/05/2015	Resolution of the General Meeting of Shareholders
Total number of directors						**17**

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

Name or company name of Director	Category member of the Board at the time of replacement	Replacement date
Mr Santiago Cobo Cobo	Independent	14/05/2015
Mr Nemesio Fernández-Cuesta Luca de Tena	Proprietary	14/05/2015
Mr Felipe González Márquez	Independent	14/05/2015
Mr Carlos Losada Marrodán	Independent	14/05/2015
Mr Juan María Nin Génova	Proprietary	14/05/2015

C.1.3 Complete the following tables regarding the members of the Board of Directors and their different status:

Executive Directors

Name or company name of Director	Position in the company's management structure	
Mr Salvador Gabarró Serra	Chairman	
Mr Rafael Villaseca Marco	Chief Executive Officer	
Total number of Executive Directors		**2**
% of the entire Board		**11.76**

External Proprietary Directors

Name or company name of Director	Name or title of significant shareholder he/she represents or who proposed appointment	
Mr Antonio Brufau Niubó	Repsol, S.A.	
Mr Enrique Alcántara-García Irazoqui	Criteria Caixa, S.A.U.	
Mr Demetrio Carceller Arce	Repsol, S.A.	
Mr Isidro Fainé Casas	Criteria Caixa, S.A.U.	
Mr Miguel Martínez San Martín	Repsol, S.A.	
Mr Heribert Padrol Munté	Criteria Caixa, S.A.U.	
Mr Juan Rosell Lastortras	Criteria Caixa, S.A.U.	
Mr Luis Suarez de Lezo Mantilla	Repsol, S.A.	
Total number of Proprietary Directors		**8**
% of the entire Board		**47.06**

External Independent Directors

Name or company name of Director	Profile
Mr Ramón Adell Ramón	Professor of Financial Economics and Accounting at the University of Barcelona
Mr Xabier Añoveros Trías de Bes	Doctorate in Law
Mr Francisco Belil Creixell	BS Engineering Degree
Mrs Benita María Ferrero-Waldner	Doctorate in Law
Mrs Cristina Garmendia Mendizabal	Doctorate in Biology
Mr Emiliano López Achurra	Lawyer
Mr Miguel Valls Maseda	Business Studies Graduate
Total number of Independent Directors	**7**
% total of the Board	**41.18**

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

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

Name or company name of Director	Description of the relationship	Reasoned statement
Mr Miguel Valls Maseda	Director at VidaCaixa S.A. de Seguros y Reaseguros	Vidacaixa has had business dealings as a service supplier of Gas Natural SDG, S.A. and its group companies for an amount of 23,151,347.64 euros in 2014. The consolidated amount of purchases and expenditure of the Gas Natural Fenosa Group for the same financial year is around 21.413 billion euros. This means that from the Gas Natural SDG, S.A. standpoint, there is no compliance with the regulatory established significance. As regards Vidacaixa, in 2013 it had revenue through insurance premiums in excess of 5 billion euros, and therefore also failed to reach the threshold of significance from the Vidacaixa standpoint. Mr Miguel Valls Maseda, therefore satisfies the appropriate personal and professional conditions, and there are no objective circumstances that prevent this qualification - he is not an Executive Director, he does not have a significant shareholding, he does not represent any significant shareholder, and he is not affected by any situations that prevent his qualification as Independent.

Other External Directors

Other External Directors shall be identified and the reasons given why they cannot be considered as Proprietary or Independent Directors, and their bonds, whether with the company, its executives or shareholders:

Indicate the changes, if any, in the type of Director during the period:

Name or company name of Director	Date of change	Former status	Present status
Mr Salvador Gabarró Serra	27/03/2015	Proprietary	Executive

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

	Number of female Directors				% over the total of Directors from each category			
	Financial year t	Financial year t-1	Financial year t-2	Financial year t-3	Financial year t	Financial year t-1	Financial year t-2	Financial year t-3
Executive	0	0	0	0	0	0	0	0
Proprietary	0	0	0	0	0	0	0	0
Independent	2	0	0	0	11.76	0	0	0
Other external	0	0	0	0	0	0	0	0
Total	**2**	**0**	**0**	**0**	**11.76**	**0**	**0**	**0**

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

Explanation of the measures
The Appointments and Remuneration Committee shall ensure that for covering new vacancies, selection processes shall be guaranteed that are not subject to implicit bias that prevents the selection of female Directors, including, under the same conditions and among potential candidates, women who meet the professional profile being sought.

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

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

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

Explanation of the reasons
50% of the new Directors incorporated at the General Meeting of Shareholders of 14 May 2015 were women. This percentage rose to 67% in the case of new incorporations of Independent Directors. The decision level of the Appointments and Remuneration Committee with regard to Proprietary Directors is logically lower.

C.1.6 bis Explain the conclusions drawn by the Appointments Committee with regard to verification of compliance with the screening of Directors policy. And more specifically, how this policy is fostering the objective whereby the number of female Directors by 2020 will represent at least 30% of all members of the Board of Directors.

The Appointments and Remunerations Committee has verified the Director screening policy and has concluded that this is in line with the corporate needs and the good corporate governance recommendations. The company has gone from having no female Directors in 2015 to having two female Directors. As specified, this represents half of the new incorporations over the year.

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

Of the three significant shareholders the company currently has, only two of these have Proprietary Directors.

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

By virtue of the parallel shareholder agreements in force, Fundación Bancaria Caixa d'Estalvis i Pensions de Barcelona ("la Caixa") will propose the party to hold the position as Chairman of the Board, and Repsol, S.A. will propose the Chief Executive Officer. The Directors of Repsol, S.A. and Fundación Bancaria Caixa d'Estalvis i Pensions de Barcelona ("la Caixa") will vote in favour of the members proposed by each of them for the aforementioned posts. (See sections A.6 and C.1.3.).

C.1.8 Explain, if appropriate, the reasons why Proprietary Directors have been appointed at the request of shareholders whose shareholding is less than 3% of the share capital:

Name or company name of shareholder	Explanation

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

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

C.1.10 Indicate, where applicable, the powers delegated to the Chief Executive Officer(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.

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

Name or company name of Director	Company name of group company	Position	Does he/she have executive duties?
Mr Rafael Villaseca Marco	Compañía General de Electricidad, S.A.	Chairman	No

C.1.12 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 Antonio Brufau Niubó	Repsol, S.A.	Chairman
Mr Luis Suárez de Lezo	Repsol, S.A.	Voting Secretary
Mr Salvador Gabarró Serra	Caixabank, S.A.	Director
Mr Juan Rosell Lastortras	Caixabank, S.A.	Director
Mr Isidro Fainé Casas	Caixabank, S.A.	Chairman
Mr Isidro Fainé Casas	Telefónica, S.A.	Deputy Chairman
Mr Isidro Fainé Casas	Repsol, S.A.	First Deputy Chairman
Mr Isidro Fainé Casas	Banco BPI	Director
Mr Isidro Fainé Casas	The Bank of East Asia	Director
Mr Isidro Fainé Casas	Suez Environnement Company	Director
Mr Demetrio Carceller Arce	Ebro Foods, S.A.	Deputy Chairman
Mr Demetrio Carceller Arce	Sacyr, S.A.	Deputy Chairman
Mrs Cristina Garmendia Mendizábal	Compañía de Distribución Integral Logista Holdings, S.A.	Director
Mrs Cristina Garmendia Mendizábal	Corporación Financiera Alba, S.A.	Director
Mrs Cristina Garmendia Mendizábal	Sygnis AG	Chairwoman
Mrs Benita María Ferrero-Waldner	Munich Reinsurance Co	Director

C.1.13 Indicate and, where applicable, explain whether or not the Board Regulations lay down any rules on the number of Boards on which its Directors can sit:

No

Explanation of the rules

C.1.14 Repealed section.

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

Remuneration of the Board of Directors (thousands of euros)	7,292
Amount of rights accumulated by current Directors in issues of pensions (thousands of euros)	2,930
Amount of rights accumulated by former Directors in issues of pensions (thousands of euros)	0

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

Name or company name	Position/s
Mr Carlos Javier Álvarez Fernández	Chief Financial Officer
Mr Sergio Aranda Moreno	Managing Director of Latin America
Mr Carlos Ayuso Salinas	Director of Internal Auditing, Compliance and Control
Mr Antonio Basolas Tena	Managing Director of Strategy and Development
Mr José María Egea Krauel	Managing Director of Energy Planning
Mr Manuel Fernández Álvarez	Managing Director of Wholesale Energy Business
Mr José Javier Fernández Martínez	Managing Director of Global Power Generation
Mr Manuel García Cobaleda	Managing Director of Legal Services and Secretary of the Board
Mr Jordi Garcia Tabernero	Managing Director of Communications and the Chairman´s Office
Mr Daniel López Jordà	Managing Director of Retail Energy Business
Mr Antoni Peris Mingot	General Manager of Regulated Business
Mrs Rosa Mª Sanz García	Managing Director of People and Resources
Total remuneration of senior management (in thousands of euros)	**9,584**

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

Name or company name of Director	Company name of significant shareholder	Position
Mr Antonio Brufau Niubó	Repsol, S.A.	Chairman
Mr Luis Suárez de Lezo Mantilla	Repsol, S.A.	Voting Secretary
Mr Salvador Gabarró Serra	Caixabank, S.A.	Director
Mr Salvador Gabarró Serra	Criteria Caixa, S.A.U.	Third Deputy Chairman
Mr Isidro Fainé Casas	Repsol, S.A.	First Deputy Chairman
Mr Isidro Fainé Casas	Criteria Caixa, S.A.U.	Chairman
Mr Isidro Fainé Casas	Caixabank, S.A.	Chairman
Mr Juan Rosell Lastortras	Caixabank, S.A.	Director
Mr Miguel Valls Maseda	Vidacaixa, S.A. de Seguros y Reaseguros	Director
Mr Emiliano López Achurra	Petroleos Del Norte, S.A. (Petronor)	Chairman

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

Name or company name of associated Director	Name or company name of significant linked shareholder	Description of relationship
Mr Isidro Fainé Casas	Fundacion Bancaria Caixa d'Estalvis i Pensions de Barcelona ("la Caixa")	Chairman of the Fundación Bancaria "la Caixa"
Mr Luis Suarez de Lezo Mantilla	Repsol, S.A.	Secretary
Mr Miguel Martínez San Martín	Repsol, S.A.	CFO and Corporate Development

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

Yes

Description of modifications

The following articles have been modified:

Article 3. Quantitative and qualitative composition.

Article 2. Interpretation and modification.

Article 4. Functions and powers of the Board of Directors.

Article 5. Powers reserved expressly for the Board of Directors.

Article 7. Specific functions concerning the Financial Statements and the Management Report.

Article 9. Meetings of the Board of Directors.

Article 10. Development of the sessions.

Article 11. Appointment of Directors.

Article 12.- Appointment of Independent Directors.

Article 13. Term of the position and co-option.

Article 14. Re-election of Directors.

Article 15. Stepping down of Directors.

Article 16. Duties of the Directors: general rules.

Article 17. Director's duty to nondisclosure.

Article 18. Noncompetition obligation.

Article 19. Use of information and corporate assets.

Article 20. Business opportunities.

Article 22. Director remuneration.

Article 24. The Deputy Chairman.

Article 26. The Secretary of the Board of Directors. Duties and appointment.

Article 29. Committees of the Board of Directors.

Article 30. The Executive Committee.

Article 31. The Appointments and Remuneration Committee.

Article 32. The Audit Committee.

Article 35. Relations with the markets.

The agreed changes were for the purpose of adapting the Articles of the Regulations to the content of Law 31/2014 of 3 December, amending the Corporate Enterprises Act to improve corporate governance. Further details on the changes carried out can be found in the report compiled by the Board of Directors and which was made available to shareholders at the Ordinary General Meeting held on 14 May 2015.

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

Procedures for the appointment, re-election, assessment and removal of Directors are set out in Articles 41 and 42 of the Articles of Association and in Articles 4, 11 to 15 and 31 of the Board of Directors' Regulations.

1. Appointment:

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

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

There is no need to be a shareholder in order to be appointed a Director.

Those persons affected by any of the situations which, pursuant to current legislation, prevent such characterisation cannot be proposed, designated or qualified as Independent Directors.

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/proposal from the Appointments and Remuneration Committee.

The proposals for the appointment of Directors submitted by the Board of Directors to the General Meeting and the appointment decisions taken by virtue of the co-option powers legally attributed to this body must be preceded by a proposal from the Appointments and Remunerations Committee in the case of Independent Directors or a report in the case of the remaining Directors. When the Board does not follow the recommendations of said committee, it will have to explain the reasons and record said reasons in the minutes.

2. Re-election:

Directors may exercise their post for a maximum term of three years, and may be re-elected. Directors designated through co-option shall exercise their position under the terms set out in current legislation.

The Appointments and Remuneration Committee, entrusted with evaluating the quality of the work and the dedication of the Directors proposed during the preceding mandate, must give a proposal in the case of Independent Directors and give mandatory information with regard to the remaining Directors on the proposals for the re-election of Directors which, in each case, the Board of Directors chooses to submit to the General Meeting of Shareholders.

Under no circumstances shall the Independent Directors remain in their post as such for a period of more than 12 years.

3. Assessment:

Pursuant to article 4.5 of the Board Regulations, the Board shall regularly assess its own performance, as well as that of its committees.

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.

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 Executive Directors cease to perform executive duties.

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.

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

C.1.20 Explain to what extent the annual assessment of the Board has led to major changes in its internal organisation and on the procedures applicable to its activities:

Description of modifications
The self-assessment of the Board of Directors has not led to any major changes in the internal organisation or with regard to the procedures applicable to its activities. In its report, the Board concludes that in 2015 it has operated with expected normality, exercising its powers in fall with regard to legislation and the regulations governing organisation and performance of the Board Regulations.

C.1.20 bis Describe the evaluation process and the areas assessed by the Board of Directors with the assistance of an outsourced consultant, with regard to the diversity of its composition and powers, the performance and composition of its committees, the performance of the Chairman of the Board of Directors and the CEO of the company, and the performance and contribution of each Director.

C.1.20 ter Give a breakdown, where appropriate, of any business relations that the consultant or any group company has with the company or any group company.

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

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.

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 Executive Directors cease to perform executive duties.

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.

C.1.22 Repealed section.

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

No

Where appropriate, describe the differences.

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

No

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

No

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

No

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

No

C.1.28 Indicate whether or not the Articles of Association or the Board Regulations set out specific rules for delegation of the vote to the Board of Directors, the method of doing this and, more specifically, the maximum number of delegations that a Director can have, as well as whether or not a limitation has been set with regard to the categories in which it is possible to delegate beyond the restrictions imposed through legislation. Where appropriate, give a brief description of these rules.

According to paragraph two of Article 47 of the Articles of Association: "The directors who are unable to attend shall be entitled to confer their representation to another director, there being no limit on the number of representations that each Director can have. The representation shall have to be granted by means of any written document. Under all circumstances, Non-executive Directors may only be represented by another Non-executive Director."

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

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

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

If the Chairman is the CEO, specify the number of meetings held without the attendance or representation of any Executive Director and under the chairmanship of the lead Independent Director.

Number of meetings	0

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

Number of meetings of the Executive Committee	5
Number of meetings of the Audit Committee	9
Number of meetings of the Appointments and Remuneration Committee	4

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

Number of meetings with the attendance of all Directors	6
% of attendances over the total number of votes during the year	95.59

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

Yes

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

Name	Position
Mr Carlos Javier Álvarez Fernández	Chief Financial Officer

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

Article 7 of the Regulations of the Board of Directors states the following:

"1. Once it has received the reports issued by the Economic-Financial Department and by the Audit 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".

Prior to presentation to the Audit Committee and subsequently to the Board of Directors, the company's Financial Statements are certified by the Chief Financial Officer.

By virtue of the provisions set out under Article 51 bis of the Articles of Association, the Audit Committee is responsible, *inter alia,* for informing the General Meeting of Shareholders on issues with regard to those matters for which the committee holds terms of reference and, more specifically, on the results of the audit, explaining how this has contributed to the integrity of the financial reporting and the function that the committee has performed in that process. It is also responsible for supervising the process of compiling and presenting the mandatory financial information and submitted recommendations or proposals to the governing body, targeted at safeguarding its integrity.

The company's Board of Directors has also commissioned the Audit Committee with ensuring that the Board of Directors submits the financial statements to the General Meeting of Shareholders without any limitations or qualifications in the Audit Report. Furthermore, in exceptional cases where there are qualifications, both the Chairman of the committee as well as the auditors shall explain the content and scope of these limitations to the shareholders.

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

No

If the Secretary does not hold the status of Director, fill in the following table:

Name or company name of the Secretary	Representative
Mr Manuel García Cobaleda	

C.1.34 Repealed section.

C.1.35 Indicate, where applicable, the specific mechanisms established by the company to safeguard the independence of the external auditors, financial analysts, investment banks and ratings agencies.

The legal functions that correspond to the Audit Committee include the function of establishing the appropriate relationships with the external auditor to receive information on those issues that could jeopardise their independence, to be scrutinised by the committee, and any others related to the accounts auditing procedure. Furthermore, its functions include the authorisation of services other than those that are banned, under the terms set out in Article 5, section 4, and 6.2.b) of Regulation (EU) 537/2014 of 16 April, and the provisions set out in section 3, chapter IV, heading I, Law 22/2015 of 20 July, on Accounts Auditing, concerning the structure of independence, as well as those other communications set out in accounts auditing legislation and audit standards. Under all circumstances, every year the committee must receive the declaration of the auditor's independence with regard to the entity or entities directly or indirectly related to the company, as well as detailed and individualised information on any additional services rendered and the corresponding fees received by the external auditor or by the persons or entities related to this party, pursuant to the provisions set down in accounts auditing regulations.

Every year, before issuing the Audit Report, the Audit Committee is asked to provide an accounts auditing report that gives an opinion on the independence of the accounts auditors or audit firm. In all cases, this report must contain a reasoned assessment of the provision of each and every one of the additional services referred to above, considered on an individual basis and as a whole, separate from the legal auditing and with regard to the structure of independence or with regard to accounts auditing regulations.

Furthermore, the Board of Directors has commissioned the Audit Committee, *inter alia,* with the following duties: to ensure that the remuneration of the external auditor does not compromise its quality or independence, and to make sure that the company and the external auditor respect the standards in force concerning services other than audit services, the limits governing the business concentration of the auditor and, in general, other standards governing the independence of auditors.

Article 6.4 of the Board Regulations sets out that "The Board of Directors shall 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.

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

No

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

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

Yes

	Company	Group	Total
Amount of tasks other than auditing activities (thousands of euros)	0	22	22
Amount of tasks other than auditing/Total amount billed by the audit company (in %)	0	0.5	0.5

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

No

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

	Company	Group
Number of years without interruption	25	25
Number of years audited by the current audit firm/Number of years the company has been audited (in %)	100	100

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

Yes

Details of the procedure

Article 21 of the Regulations of the Board of Directors states: "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. 2. In accordance with internal regulations, Directors are entitled to propose to the Board 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. 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. The Board of Directors may veto the approval of the proposal referred to in section 2 of this Article on the grounds of its non-necessity for the performance of the duties commissioned, either because of the amount -disproportionate with regard to the importance of the problem and of the company's assets and revenue- or because of the possibility of this technical assistance being appropriately given by experts and specialists of the company itself."

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

Yes

Details of the procedure

Article 9, points 2 and 3, of the Board Regulations establishes:

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 Chairman shall be authorised to establish the agenda, except in the event of the compulsory convening set out in paragraph 1 above, in which case the agenda of the convened meeting shall include the matters set by the Directors who request it. The Board meeting shall be quorate, without being previously convened, if all the Directors are present or represented and unanimously accept that the Board meeting be held. The sessions of the Board of Directors shall usually take place at the registered address, but they may also be held at any other venue determined by the Chairman and specified in the call to meeting. The Board session may also be held in several rooms simultaneously, providing that audio-visual or telephone means guarantee the interactivity or intercommunication between these rooms in real time and, therefore, the unity of the act. In this event, the system of connection shall be referred to in the call to meeting along with, where applicable, the venues where the technical means required to attend and take part in the meaning are available. The agreement shall be considered as adopted at the site where the Chairmanship is located.

   Together with the call to meeting, it is standard practice to send members of the Board of Directors all the information that may be useful for learning the items on the agenda for the Board meeting.

   Moreover, during the meeting and subsequent to the same, Directors may request any information or clarification they deem appropriate with regard to the items dealt with at the session.

C.1.42 Indicate and, where applicable, give details of whether or not the company has laid down rules that oblige the Directors to report and, if necessary, resign in cases that damage the company's credit and reputation:

Yes

Explain the rules

Pursuant to article 16.3, c) of the Board Regulations, the Director is subject to the duty to loyalty under the terms set out in current legislation. More specifically, the Director shall notify the company of any kind of judicial or administrative claim or event of any kind in which he/she is involved and which, because of its importance, could seriously impact the company's reputation. The Board shall examine the matter and adopt the appropriate measures in the company's interest and with the required urgency.

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 Executive Directors cease to perform executive duties.

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.

C.1.43 Indicate whether or not any member of the Board of Directors has informed the company that he/she has been prosecuted or hearings against him/her have been opened for any of the offences laid down in Article 213 of the Corporate Enterprises Act:

Yes

Director's name	Criminal case	Observations
Mr Demetrio Carceller Arce	214/2009	

Indicate whether or not the Board of Directors has analysed the case. If the answer is affirmative, give a reasoned explanation of the decision taken as to whether or not the Director remains in his/her post or, where appropriate, list the actions taken by the Board of Directors up to the date of this report or those scheduled to be taken.

Yes

Decision taken/action taken	Reasoned explanation
The Board of Directors examined the acts attributed to Mr Carceller by means of a brief sent by the aforesaid Director and decided not to take any action.	The Board took into account the presumption of innocence which should be applied to any person facing charges and the fact that the alleged facts are limited to Mr Carceller's family affairs.

C.1.44 Detail the major agreements entered into by the company and which remain in force, are modified or conclude in the event of a change of control of the company based on the takeover, and the effects of these agreements.

The Industrial Action Agreement between Repsol, S.A. and Gas Natural SDG, S.A., reported as a relevant fact through the National Securities Market Commission on 29 April 2005, considered any change to the controlling structure of either party as grounds for termination, as at 31 December 2015.

An important part of the investee companies with shareholders outside the group contain change of control clauses whereby the other shareholder is entitled to choose to acquire the shareholdings in the event of change of control of the holding company of Gas Natural Fenosa.

Furthermore, the majority of the outstanding debt, which includes a change of control clause, whether through acquisition of more than 50% of the voting shares or through obtaining the right to appoint the majority of Board Members of Gas Natural SDG, S.A., is subject to additional conditions such as the major reduction of the credit rating caused by the change of control; material damage to the creditor; an adverse material change affecting solvency or the capacity to fulfil the contract. These clauses entail the repayment of the debt, although they usually have a longer period than that granted in the event of early termination. Some clauses provide for the arrangement of guarantees as an alternative to repayment.

More specifically, the bonds issued, with an approximate value of 12 billion euros (standard practice in the Euromarket), would be susceptible to early maturity providing that the change of control causes a fall of three full notches in at least two of the three ratings it had or all of the ratings fall below investment grade, and providing the Ratings Agency explains that the reduction of the credit rating is caused by the change of control.

There are also loans for an approximate amount of 3 billion euros, which could be the object of early repayment in the event of a change of control. Part of that amount refers to the refinancing taken out to acquire Unión Fenosa. All loans have special repayment periods that are longer than those in the cases of early repayment.

Most of the change of control clauses are dependent upon damages being caused for creditors or there being important falls in rating. In most of them, the change of control is excluded if any of the current shareholders owns important shareholdings in the company jointly with a third party. Some contracts include the arrangement of guarantees as an alternative to repayment.

C.1.45 Provide an aggregate list or give a detailed indication of the agreements between the company and its positions of administration and management or employees and which provide for compensation payments, guarantee or protection clauses, when these people resign or are dismissed unfairly, or whether the contractual relationship comes to a conclusion as a consequence of a takeover or other kind of operation.

Number of beneficiaries	24
Beneficiary type	Description of agreement
Management Committee and other executives	The CEO's contract establishes compensation for an amount of three years' total pay for certain cases of extinction of the contractual relationship: at the decision of the company, except for very serious cases of misconduct which cause serious damages to the interests of the company or by a decision made by the CEO, provided the termination of the business relationship is caused by a series of circumstances which are classified and agreed by contract (serious corporate breach, depletion or substantial reduction of functions, substantial modification of contractual conditions or relevant change in the entity's shareholders). As a post-contractual non-competition agreement, compensation is also established amounting to a full year of total remuneration. The post-contractual non-competition agreement has a duration of one year. The contracts signed with members of the Management Committee contain a clause that establishes minimum compensation of two years' pay in certain cases of extinguishing the relationship, unless the extinction is caused by a unilateral decision of the Director that does not fall within the grounds for termination set out under Articles 40, 41 or 50 of the Workers' Statute or in cases in which the dismissal is declared admissible, in which case there shall be no right to any compensation whatsoever. Furthermore, the contracts signed with members of the Management Committee and the Director of Internal Auditing contain a clause that establishes compensation equivalent to one year's fixed remuneration for post-contractual noncompetition for a period of two years. In addition, there are compensation agreements with a further 17 Directors, equivalent to one year's fixed remuneration for post-contractual noncompetition for a two-year period. Furthermore, 13 of these Directors have compensation agreements that entitle them to receive minimum compensation of one year's pay in certain cases of extinction of the relationship, unless the extinction is caused by a unilateral decision of the Director that does not fall within the grounds for termination set out under Articles 40, 41 or 50 of the Workers' Statute or in cases in which the dismissal is declared admissible, in which case there shall be no right to any compensation whatsoever.

Indicate if these contracts must be notified and/or approved by the bodies of the company or its group:

	Board of Directors	General Meeting
Body that authorises the clauses	Yes	No

Is the General Meeting informed of the clauses?	Yes

C.2 Committees of the Board of Directors.

C.2.1 Detail all the committees of the Board of Directors, their members and the proportion of Executive, Proprietary, Independent and other external Directors that sit on these committees:

Executive Committee

Nombre	Position	Type
Mr Salvador Gabarró Serra	Chairman	Executive Director
Mr Rafael Villaseca Marco	Board Member	Executive Director
Mr Ramón Adell Ramón	Board Member	Independent Director
Mr Enrique Alcántara-García Irazoqui	Board Member	Proprietary Director
Mr Demetrio Carceller Arce	Board Member	Proprietary Director
Mr Emiliano López Achurra	Board Member	Independent Director
Mr Miguel Martínez San Martín	Board Member	Proprietary Director
Mr Juan Rosell Lastortras	Board Member	Proprietary Director

% of Executive Directors	25
% of Proprietary Directors	50
% of Independent Directors	25
% of other external Directors	–

Explain the functions attributed to this committee; describe the procedures and rules of organisation and performance of the same; and summarise its most important actions over the year.

a) Functions of the Executive Committee:

The Executive Committee has the following functions:

Matters that ordinarily could not be delegated, but which may be adopted by the Executive Committee or by the CEO(s), on duly justified grounds of emergency and which must be ratified at the first Board of Directors held following the adoption of the decision:

a) The approval of the strategic business plan, management objectives and annual budgets, the annual financing plan, the investments and financing policy, the corporate social responsibility policy and the dividends policy.

b) The determination of the risk management and control policy, including tax risks, and supervision of the internal reporting and control systems.

c) The determination of the corporate governance policy of the company and of the group of which it is the controlling company; its organisation and performance and, more specifically, the approval and modification of its own regulations.

d) Approval of the financial reporting which, due to its status as a listed company, it has to publish on a regular basis.

e) Definition of the structure of the group of companies of which is the company is the parent.

f) The approval of all kinds of investments or operations which, due to the amount or special characteristics, are of a strategic or special tax risk nature, unless approval falls to the General Meeting.

g) The approval of the creation or acquisition of shares in entities with special purposes or domiciled in countries or territories that are considered tax havens, as well as whatsoever other similar transactions or operations which, owing to its complexity, could undermine the transparency of the company and its group.

h) The approval, following a report from the Audit Committee, of the operations that the company or companies of its group carry out with Directors, under the terms set out in current legislation, or with shareholders that own, either individually or together with others, a significant share, including shareholders represented on the company's Board of Directors or the Board of other companies that form part of the same group or with related parties.

i) The determination of the company's tax strategy.

Matters in which the agreements may be adopted, indiscriminately, by the Board of Directors or by the Executive Committee:

a) The definition of the general structure of delegations and empowerments.

b) The incorporation of new companies or entities or changes to the shareholding in existing companies.

c) The approval of merger, absorption, spin-off, concentration and dissolution transactions with or without liquidation, in which any of the group companies are interested.

d) The disposal of capital shares in companies or other fixed assets by any of the group companies.

e) The approval of investment projects to be carried out by any group company.

f) The approval of programmes for the issue and renewal of serial commercial papers, debentures or similar securities by any of the group companies.

g) The approval of financial transactions to be carried out by any group company that are not included in the Annual Financial Plan.

h) The awarding of guarantees by companies belonging to the group to guarantee the obligations of entities that do not belong to said group or which, belonging to the said group, have external shareholders.

i) The transfer of rights over the trade name and trademarks, as well as patents, technology and any other type of industrial property belonging to any group company.

j) The approval 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 said company holds the post of administrator in another company. Approval of contribution to patronage activities.

k) The signing of commercial, industrial or financial agreements of relevant or strategic importance for the group and which represent a modification, change or review of the current Strategic Plan or Annual Budget.

As regards the matters considered under letters b), c), d), e), g), h) and i), approval from the Board of Directors or the Executive Committee shall be required in those agreements which, because of their nature or amount, are of particular relevance for the group. Transactions involving amounts of more than 15 million euros shall be understood as relevant, except in letters h) and i), where the figure stands at 5 million euros and letter j), with a relevance threshold of 200,000 euros.

Unless a different regime is approved on adopting the corresponding agreement, it shall be considered that an investment or transaction does not require additional approval when the execution of this leads to a deviation, if this is no greater than 10% or 15 million euros over the amount authorised by the Board or, where appropriate, by the Executive Committee.

Whenever compulsory, resolutions of the Board of Directors and the Executive Committee shall be adopted following a report from the competent committee.

b) Organisation and performance procedures and rules:

The Executive Committee shall comprise the Chairman of the Board of Directors and a maximum of another seven Directors, belonging to the groups envisaged in Article 3 of these regulations and in the same proportion as exists on 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.

The Chairman of the Board of Directors shall act as Chairman of the Executive Committee and the Secretary of the Board of Directors shall undertake the secretariat and may be assisted by the Assistant Secretary.

The Executive Committee shall be understood to be quorate when more than half of its members attend the meeting in person or through a 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 permanent delegation of powers by the Board of Directors in favour of the Executive Committee shall encompass all powers of the Board, except those which legally or statutorily cannot be delegated or those that cannot be delegated by virtue of the provisions set out in these regulations.

The Executive Committee, convened by its Chairman, shall hold meetings whenever its Chairman considers it necessary or upon request of one third of its members. The Secretary will take the minutes of the agreements adopted in the meeting and these will be outlined in the following plenary meeting of the Board of Directors.

For cases in which, in the opinion 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 by 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. This is without prejudice to the provisions set out in article 5 of these regulations.

The provisions set out in these regulations for the operation of the Board of Directors shall be applicable to the Executive Committee to the full extent possible.

c) Most important actions during 2015:

In the exercise of its powers during the year, the committee has analysed, reported and/or adopted agreements with regard, *inter alia*, the following matters:

- The quality and efficiency of its performance.
- Several investment proposals.
- Financial transactions.
- Status reports.

Indicate whether the makeup of the Delegated or Executive Committee reflects the participation on the Board by the various Directors depending on their category:

Yes

Audit committee

Name	Position	Type
Mr Ramón Adell Ramón	Chairman	Independent Director
Mr Francisco Belil Creixell	Board Member	Independent Director
Mr Luis Suárez de Lezo Mantilla	Board Member	Proprietary Director

% of Proprietary Directors	33
% of Independent Directors	67
% of other external Directors	–

Explain the functions attributed to this committee; describe the procedures and rules of organisation and performance of the same; and summarise its most important actions over the year.

a) Functions of the Audit Committee:

The committee has the powers set out in law and those that are assigned by the Board of Directors, either in general or for a specific purpose.

The Board of Directors has assigned it with the following functions:

- Drawing up the report on the auditor's independence.
- Drawing up the report on performance of the Audit Committee.
- Drawing up the report on related-party transactions.
- Drawing up the report on corporate social responsibility policy.
- Ensuring that the Board of Directors seeks to present the accounts to the General Meeting of Shareholders without reservation or exception in the audit 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 said reservations or exceptions.
- In relation to the control and reporting systems:

  a) Supervising the preparation and completeness of the financial information concerning the company and, if appropriate, the group, checking due compliance with the governing regulations, the proper delimitation of the consolidation criteria and the correct application of accounting criteria.

  b) Ensuring independence of the unit that assumes the internal audit function; approving the work plans and guidelines, making sure that its activities are mainly focused on relevant risks for the company; receiving periodic information on its activities; and verifying that senior management take into consideration the conclusions and recommendations of its reports. Making proposals to the Chairman of the Board of Directors with regard to the selection, appointment, re-election and removal from office of the party responsible for the internal audit service, and proposing the budget for that service. The final decision lies with the Chairman of the Board of Directors.

  c) 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 relation to the external auditor:

  a) In the case of the resignation of the external auditor, examining the circumstances leading to the said resignation.

  b) Ensuring that the remuneration of the external auditor does not compromise its quality or its independence.

  c) The company should report the change of auditor to the National Securities Market Commission (CNMV) as a relevant event and accompany said report with the declaration on the existence of disagreements with the departing auditor and, where applicable, the corresponding content.

  d) Ensuring that the external auditor holds an annual meeting with the full Board of Directors to report on the work carried out and the evolution of the accounting situation and of the company's risks.

  e) Ensuring that the company and the external auditor observe current standards on the provision of services other than auditing services, the limits to the auditor's business concentration and, in general, the other standards established to guarantee the independence of auditors.

- Calling any of the company's employees or managers, and also have them appear without the presence of any other executive.

- Analysing and reporting to the Board of Directors with regard to the economic conditions and the accounting impact and, more particularly, where appropriate, on the exchange ratio, with regard to structural and corporate modification operations which, because of their nature or amount, are of particular relevance. Transactions shall be considered to have such relevance when the net value exceeds 25% of the assets shown on the last approved balance sheet of the company.

- With regard to supervision of compliance with the corporate governance rules, the codes of conduct and the corporate social responsibility policy.

  a) The supervision of compliance with the internal codes of conduct and the corporate governance rules of the company.

  b) The supervision of the communication strategy and relations with shareholders and investors, including the small and medium shareholders.

  c) Regular assessment of the appropriateness of the company's corporate government system, to ensure that it complies with its mission of fostering social interest and takes into consideration, as appropriate, the legitimate interests of remaining stakeholders.

  d) The review of the company's corporate responsibility policy, ensuring this is focused on the creation of value.

  e)The monitoring of the corporate social responsibility strategy and practices, and assessment of its level of compliance.

  f) The supervision and assessment of relationship processes with the different stakeholders.

  g) The assessment of everything concerning non-financial risks of the company -including operational, technological, legal, social, environmental, political and reputational risks.

  h) The coordination of the system for reporting on non-financial information and diversity, pursuant to the applicable regulations and the international benchmark standards.

b) Organisation and performance procedures and rules

The Audit Committee shall comprise a minimum of three and a maximum of five Directors appointed by the Board of Directors from among the Non-executive 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 two of the committee members shall be Independent Directors, and the Board of Directors shall elect one of these to be Chairman of the committee, and this person shall not have the casting vote. 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 or proposals or when deemed appropriate 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 meeting shall be called with prior notice of at least two days before the meeting date, except in certain defined circumstances. The meetings shall normally take place at the registered office. The committee may invite to its meetings any executive or employee it deems appropriate.

c) Most important actions during 2015:

In the exercise of its powers during the year, the committee has reported and/or adopted proposals with regard to, *inter alia,* the following matters:

- The quality and efficiency of its performance.
- External auditing of the individual and consolidated annual accounts.
- Financial reporting.
- Appointment of auditors.
- Tax situation.
- Auditor's independence.
- Related-party transactions.

Identify the Director of the Audit Committee that has been designated, taking into account his knowledge and experience in accounting, audit or both matters, and report on the number of years that the Chairman of this committee has held the post.

Name of the Director with experience	Mr Ramón Adell Ramón
Number of years the Chairman has held the post	1

Appointments and remuneration committee

Nombre	**Cargo**	**Categoría**
Mr Miguel Valls Maseda	Chairman	Independent Director
Mr Antonio Brufau Niubó	Board Member	Proprietary Director
Mrs Cristina Garmendia Mendizábal	Board Member	Independent Director

% of Proprietary Directors	33
% of Independent Directors	67
% of other external Directors	–

Explain the functions attributed to this committee; describe the procedures and rules of organisation and performance of the same; and summarise its most important actions over the year.

a) Functions of the Appointments and Remuneration Committee:

The committee has the powers set out in law and those that are assigned by the Board of Directors, either in general or for a specific purpose.

The Board of Directors has assigned it with the following functions:

- Drawing up the report on performance of the Appointments and Remuneration Committee.
- Verifying the policy for selecting Directors and reporting this in the Annual Corporate Governance Report.
- Through delegation to be conferred by the Chairman of the Board, organising and coordinating the regular assessment of the Board and that of the company's CEO.
- Drawing up the report on the performance of the Board of Directors.
- Proposing to the Board of Directors the basic conditions for the contracts of senior executives.
- Ensuring observance of the remuneration policy laid down by the company.
- Performing a regular review of the remuneration policy applied to Directors and senior executives, including the share option system and the application of this, as well as ensuring that their individual remuneration is proportionate to that paid to other Directors and senior executives of the company.
- Ensuring that any possible conflicts of interest do not jeopardise the independence of the external advice received by the committee.
- Verifying the information on remuneration of directors and senior executives contained in the different corporate documents, including the annual report on remuneration to Directors.

b) Organisation and performance procedures and rules:

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 Non-executive Directors, bearing in mind their experience and aptitude. 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 two of the Appointments and Remuneration Committee members shall be Independent Directors, and the Board of Directors shall elect one of these to be Chairman of the Committee, and this person shall not have the casting vote. The Secretary of the committee shall be the same as the Secretary of the Board of Directors.

The committee, convened by its Chairman, shall meet as often as required to issue the reports or proposals for which it is responsible or which its Chairman deems appropriate, or on request from two of its members. They shall be called by the Chairman with prior notice of at least two days before the meeting date, except in certain defined circumstances. The meetings shall normally take place at the registered office. The committee may invite to its meetings any executive or employee it deems appropriate.

c) Most important actions during 2015:

In the exercise of its powers during the year, the committee has reported and/or adopted proposals with regard to, *inter alia,* the following matters:

- The annual report on remuneration to Directors.
- The level of compliance with group targets.
- Employees' remuneration.
- Remuneration to Directors policy.
- The quality and efficiency of its performance.
- Related-party transactions.
- Re-election, ratification or appointment of Directors.
- Appointment of CEOs.

C.2.2 Complete the following table with information on the number of female Directors that have made up the committees of the Board of Directors over the last four years:

	Number of female Directors			
	Financial year t Number (%)	Financial year t-1 Number (%)	Financial year t-2 Number (%)	Financial year t-3 Number (%)
Executive Committee	0	0	0	0
Audit Committee	0	0	0	0
Appointments and Remuneration Committee	33	0	0	0

C.2.3 Repealed section.

C.2.4 Repealed section.

C.2.5 Indicate, where applicable, the existence of committee regulations, the location at which they are available for consultation and the modifications that have been made during the financial year. Also indicate whether any annual report on each committee's activities has been voluntarily drafted.

The Board Committees are regulated in the Articles of Association and in the Board Regulations of Gas Natural SDG, S.A. and of its Committees.

Both documents are published on the company's website (www.gasnaturalfenosa.com) >Shareholders and Investors >Corporate Governance >Corporate Governance Regulations.

During 2015, the following articles related to these committees were modified: Articles of Association (Article 51: Composition of the Executive Committee, Article 51 bis: Audit Committee and Article 51 ter: Appointments and Remuneration Committee) Board Regulations (Article 5 Powers reserved expressly to the Board of Directors, Article 29. Committees of the Board of Directors, Article 30. The Executive Committee, Article 31. The Appointments and Remuneration Committee, and Article 32. The Audit Committee).

The Executive Committee, the Audit Committee and the Appointments and Remuneration Committee have all drawn up a report on the quality and efficacy of their performance over the previous year.

C.2.6 Repealed section.

D. Related-Party Transactions and Intra-Group Transactions

D.1 Explain, where appropriate, the procedure for approval of transactions with related parties and intragroup parties.

Procedure for approval of related-party transactions

In accordance with Article 5.II of the Board Regulations, among the powers of the Board that cannot be delegated but which may be adopted by the Executive Committee or by the CEO(s) on duly justified grounds of urgency and which must be ratified at the first Board of Directors held after the adoption of the decision, is the approval, following a report from the Audit Committee, of transactions that the company or group companies carry out with Directors, under the terms set out in current legislation or with shareholders that own, either individually or together with others, a significant shareholding. This includes shareholders that are represented on the Board of Directors of the company or of other companies that form part of the same group or with related parties.

For its part, Article 6.5 of the Board Regulations stated that the Board of Directors shall include, in the Annual Report and the Annual Corporate Governance Report, information on the transactions completed with significant shareholders (overall volume of transactions and the nature of the most significant), so that other shareholders may be informed of their scope and importance.

At its session held on 30 September 2011, the Board of Directors, following a favourable report from the Appointments and Remuneration Committee, agreed to give across-the-board authorisation to related-party transactions concerning purchase of the polyethylene network of Repsol Butano, S.A. carried out under normal market conditions. Said authorisation is exercised by the Managing Director of Retail Energy Business.

On 25 May 2012, following a favourable report from the Appointments and Remuneration Committee, the Board of Directors granted across-the-board authorisation for the ordinary transactions carried out under market conditions with Caixabank, S.A. or with any entity belonging to "la Caixa" Group concerning: the opening of current bank accounts, temporary financial investments generated through cash surplus from current operations, management of bills presented for payment, different payments concerning habitual operations (payroll, taxes, Social Security, suppliers and others of a similar nature), issue of VISA and the like, sale and purchase of currency in cash or futures with payment in advance and collection of approved foreign currency invoices, confirmation of documentary letters of credit, procurement of interest rate derivatives, as well as ISDA and CMOF (Framework Contracts for Financial Transactions) contracts, and any others of a similar nature that cover all or any of the foregoing operations. Said authorisation is exercised by the Chief Financial Officer.

D.2 Detail those transactions that are significant because of their amount or which are materially relevant, performed between the company or group entities and the company's significant shareholders:

Name or company name of significant shareholder	Name or company name of the company or entity of the group	Nature of the relationship	Type of operation	Amount (thousands of euros)
Criteria Caixa, S.A.U.	Gas Natural SDG, S.A.	Commercial	Charged interest	3,488
Criteria Caixa, S.A.U.	Gas Natural SDG, S.A.	Commercial	Interests earned but not paid	44
Criteria Caixa, S.A.U.	Gas Natural SDG, S.A.	Commercial	Contributions to pension plans and life insurance	28,705
Criteria Caixa, S.A.U.	Gas Natural SDG, S.A.	Commercial	Reception of services	14,009
Criteria Caixa, S.A.U.	Gas Natural SDG, S.A.	Commercial	Paid interest	1,947
Criteria Caixa, S.A.U.	Gas Natural SDG, S.A.	Commercial	Interests earned but not collected	93
Criteria Caixa, S.A.U.	Gas Natural SDG, S.A.	Commercial	Provision of services	561
Criteria Caixa, S.A.U.	Gas Natural SDG, S.A.	Commercial	Financing agreements: others	779,317
Criteria Caixa, S.A.U.	Gas Natural SDG, S.A.	Commercial	Sales of intangible fixed assets	458,355
Criteria Caixa, S.A.U.	Gas Natural SDG, S.A.	Commercial	Financing agreements: loans	205,384
Criteria Caixa, S.A.U.	Gas Natural SDG, S.A.	Commercial	Guarantees	201,667
Criteria Caixa, S.A.U.	Gas Natural SDG, S.A.	Commercial	Management contracts	1,053,762
Criteria Caixa, S.A.U.	Gas Natural SDG, S.A.	Commercial	Dividends and other distributed earnings	311,716
Repsol, S.A.	Gas Natural SDG, S.A.	Commercial	Reception of services	5,148
Repsol, S.A.	Gas Natural SDG, S.A.	Commercial	Procurement of manufactured goods or not	292,762
Repsol, S.A.	Gas Natural SDG, S.A.	Commercial	Provision of services	374
Repsol, S.A.	Gas Natural SDG, S.A.	Commercial	Sales of goods (whether or not finished)	878,022
Repsol, S.A.	Gas Natural SDG, S.A.	Commercial	Purchases of tangible fixed assets	74,209
Repsol, S.A.	Gas Natural SDG, S.A.	Commercial	Dividends and other distributed earnings	273,873

D.3 Detail those transactions that are significant because of their amount or which are materially relevant, performed between the company or group entities and the company's administrators or executives:

Name or company name of the administrators or executives	Name or company name of the related party	Relationship	Nature of the operation	Amount (thousands of euros)

D.4 Report on the significant transactions carried out by the company with other companies belonging to the same group, provided that they are not eliminated in the process of drafting the Consolidated Financial Statements and are not part of the company's usual trading in terms of its purpose and conditions:

Under all circumstances, report any intra-group transaction performed with entities established in countries or territories considered to be a tax haven:

Company name of the group entity	Brief description of the operation	Amount (thousands of euros)
Global Power Generation, S.A.	Dividends received from Buenergía Gas & Power, Ltd.	39,037
Buenergía Gas & Power, Ltd.	Dividends received from EcoEléctrica Holding, Ltd.	51,886
Ecoeléctrica Holding, Ltd.	Dividends received from Ecoeléctrica, L.P. and Ecoeléctrica Limited and paid to Buenergía Gas & Power, Ltd.	51,886
Ecoeléctrica, Ltd.	Dividends received from Ecoeléctrica, L.P. and paid to Ecoeléctrica Holding, Ltd.	519

D.5 Indicate the amount of the transactions performed with other related parties.

0 (in thousands of euros)

D.6 Detail the mechanisms established to detect, determine and resolve possible conflicts of interest between the company and/or its group, and its Directors, executives or significant shareholders.

1. Directors:

Pursuant to the Board Regulations:

The Director is subject to the duty of loyalty under the terms set out in current legislation, and in particular:

- The Director must refrain from taking part in the deliberation and voting on agreements and decisions in which either he or a related party have a direct or indirect conflict of interest. The foregoing obligation to refrain does not include agreements or decisions that affect the Director in his status as administrator, such as his designation or revocation for positions on the governing body or other similar types.
- The Director must also adopt the measures required so as not to incur situations in which their interests, whether for themselves or on behalf of third parties, could come into conflict with the corporate interests and their duties with the company.
- 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 significant holding, following the procedure and other processes that are established for investment in Gas Natural SDG, S.A. and investee companies.
- The Director must notify the company of any significant changes in their professional situation that could affect the character or category in which they have been classified.
- The Director shall inform the company of any kind of legal or administrative claim or any claim of any nature in which they are involved which, due to its significance, could have a serious bearing on the reputation of the company. The Board shall examine the matter and adopt the appropriate measures in the company's interest and with the required urgency.

The Board of Directors shall endeavour, at all times, to prevent Proprietary Directors from using their position to obtain asset benefits without adequate compensation, to the advantage of the shareholder that put them forward for the position.

The Directors shall refrain from performing activities on their own behalf or on behalf of other parties that could represent competition, whether current or potential, with the company or which otherwise places them in a permanent conflict of interest with the company. More specifically, 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.

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 refrain 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:

The Board of Directors is responsible for the approval, following a report from the corresponding committee, of the operations that the company or companies of its group carry out with Directors, under the terms set out in current legislation, or with shareholders that own, either individually or together with others, a significant share. This includes shareholders represented on the company's Board of Directors or the Board of other companies that form part of the same group or with related parties.

D.7 Is there more than one listed company in the group in Spain?

No

E. Risk Control and Management System

E.1 Explaining the scope of the company's Risk Management System, including tax risks.

The Risk Management System works as an integral and ongoing system, consolidating the management by business or activity unit or area, geographical zones and support areas (i.e. human resources, marketing or management control) at corporate level, quantifying the impact of the main risk factors and guaranteeing uniformity in the criteria used to measure these risks.

The aim is to anticipate potential deviations with regard to global targets and to ensure that the taking of decisions considers an appropriate and known balance between risk and profitability, both from the viewpoint of marginal contribution to the global portfolio as well as from an individual viewpoint of each one of the businesses.

The aim of risk management at Gas Natural Fenosa is to ensure predictability and sustainability in the company's operational and financial performance.

E.2 Identify the company bodies responsible for preparing and executing the Risk Management System, including the tax risk.

Audit and Control Committee

This is the supreme body in charge of the efficacy of internal control and of the company's risk management systems. It checks that these systems identify the different kinds of risks and the measures introduced to mitigate said risks and to tackle them in the event that effective damages materialise.

Risk Committee

This is responsible for determining and reviewing the objective Risk Profile of the company. It guarantees alignment of this profile with the strategic position of the same and oversees the interests of its stakeholders. It also guarantees that the entire organisation understands and accepts its responsibility in identifying, assessing and managing the most significant risks.

Risk Department

This division reports to the Economic-Financial Department, which enables it to have a corporate overview required for the performance of its duties, without prejudice to having specific units for the management of Wholesale and Retail Businesses Risks, in close contact with the business units that bear the highest exposure to the risk because of their profile and turnover.

The work of the company's Risk Department focuses on objectifying exposure to uncertainties and internalising risk exposure levels in decision-taking processes of senior management, as an instrument to efficiently select returns. It is in charge of coordinating the different agents involved in risk management. 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.

The Risk Department oversees maintenance of the global risk profile, as well as measurement and recurrent control of the risk.

Businesses

These are the parties responsible for risk management and spheres of action. It identifies trends and positions that could entail risk and reports these to the Risk Department, applying the management criteria and guidelines given by this department.

One of the key concepts to risk management is the concept of risk profile, understood as the level of exposure to the uncertainty resulting from the joint effect of the various categories of risk classified by Gas Natural Fenosa.

Other corporate areas

These are responsible for monitoring and managing certain risks, due to their specific nature and the peculiarities of the management mechanisms. Of particular note here is the Environment and Quality Assurance Unit, responsible for the environmental risk and climate change, and the Reputation and Sustainability Unit, which is responsible for the reputational risk. These operate in coordination with the Risk Department.

E.3 Specify the main risks, including tax risks, that could prevent business objectives from being reached.

	Description	Management
Market risk		
Gas price	Volatility in international markets which determine gas prices.	Physical and financial hedges.
Electricity price	Volatility in electricity markets in Spain and Portugal.	Physical and financial hedges. Optimisation of generation park
Gas volume	Gap between gas offer and demand.	Optimisation of contracts and invoices. Trading.
Electricity volume	Reduction in available thermal gap.	Optimisation of commercialisation-generation gap.
Regulation	Exposure to revision of criteria and levels of return recognised for regulated activities.	Heightened intensity of communication with regulatory bodies. Adjusting efficiencies and investments to recognised rates.
Exchange rates	Volatility in international currency markets.	Geographical and macroeconomic diversification through inflation rates. Hedges through financing in local currency and derivatives.
Interest rates and a credit spread	Volatility in financing rates.	Financial hedges. Diversification in financing sources.
Credit risk		
Credit	Potential increase in default, dependent on recovery in Spain.	Analysis of customer solvency. To define specific contractual conditions. Collection process. Systematisation of calculation of economic capital.
Operational risk		
Operational: image and reputation	Deterioration in perception of Gas Natural Fenosa by different stakeholders.	Identification and tracking of potential reputation events. Transparency in communication.
Operational: insurable	Accidents, damages or non-availabilities in assets of Gas Natural Fenosa.	Ongoing improvement plans. Optimisation of total cost of risk.
Operational: environment	Damages to the natural and/or social environment. Evolution of environmental regulation.	Emergency plans in installations with risk of environmental accidents. Specific insurance policies. Complete environmental management.
Operational: climate change	Evolution of environmental factors as a consequence of climate change. Regulation geared towards fighting it.	Participation in Clean Development Mechanisms. Frequent communication with regulatory bodies.

E.4 Specify whether the entity has a level of risk tolerance, including tax risk.

The company has levels of risk tolerance established at corporate level for the main kinds of risks.

The risk assessment process lies in identifying the risks, generally by those businesses that are subject to risk exposure. This identification takes place at the time the risk exposure originates. However, an in-depth review is carried out every year by the Risk Department to ensure proper identification of all risk exposures, whether current or future.

It is the Risk Department’s responsibility to assess the risks identified, based on:

a) Risk position: definition and characteristics.

b) Impact variables.

c) Qualitative and quantitative severity of the risk occurring.

d) Probability of risk occurring.

e) Defined mitigation controls and mechanisms, and their effectiveness.

Lastly, it will propose a tolerance level for the types identified, which will be approved by the Risk Committee.

E.5 Specify which risks, including tax risks, have materialised over the financial year.

The main risk that has materialised over the year is related to tensions in the prices of natural gas as a consequence of the uncertainty surrounding the worldwide energy balance. In addition, in the second half of the year there was also the depreciation of Latin America currencies as a result of uncertainty concerning the medium-term growth potential of emerging economies.

However, the risk control mechanisms have enabled us to keep the impact within the company’s tolerance range, defined through the risk limits in force.

E.6 Explain the response and supervision plans for the entity's main risks, including the tax risks.

The risks susceptible to affecting the performance of Gas Natural Fenosa are set out in the company’s Risk Map. Said map is the main means of communication to the Audit and Control Committee in its duties to supervise the entity’s risks.

On a more operational level, the Risk Department and other specific areas (Regulation, Environment, Production) perform periodic measurements of the evolution of main risks, duly giving the opportune instructions in the event of observing levels of exposure or trends in risk evolution that could exceed the established tolerance.

F. Internal Control System and Management of Risks with Regard to the Financial Information Reporting Process (SCIIF)

Describe the mechanisms that make up your entity's internal control system and management of risks with regard to the financial information reporting process (SCIIF).

F.1 The entity's control environment

Report on, duly detailing their main characteristics, at least:

F1.1 Which bodies and/or functions are in charge of: (i) the existence and upkeep of an appropriate and effective SCIIF; (ii) its introduction; and (iii) its supervision.

Gas Natural Fenosa has defined its Internal Control System on Financial Reporting (hereinafter SCIIF) in the "Internal Control System on Financial Reporting (SCIIF) General Standard of Gas Natural Fenosa".

As part of the SCIIF, Gas Natural Fenosa has defined, in the foregoing General Standard, the responsibilities model of the same. This model revolves around the following five areas of responsibility:

- Board of Directors: the Board is responsible for the existence of an appropriate and efficient SCIIF, the supervision of which falls to the Audit Committee.

  Article 5, section II of the Board Regulations of Gas Natural SDG, S.A. and of its Committees sets out that determination of the risk management and control policy, including tax risks, and supervision of the internal reporting and control systems is, *inter alia*, a matter that cannot usually be delegated by the Board of Directors.

- Audit Committee: among other tasks, this committee is responsible for supervision of the SCIIF. Article 32, section 2 of the Board Regulations sets out that the committee has the powers specified under Law, as well as those that are commissioned by the Board of Directors, either of a general or specific nature. Thus, Article 529 quaterdecies of the Corporate Enterprises Act states in section 4.b) that the Audit Committee shall be responsible for supervising the efficacy of the company's internal control, internal audit and the risk management system, including tax risk, as well as discussing with the accounts auditor any significant weaknesses detected in the internal control system during the audit. More specifically and with regard to the reporting and control systems, the Audit Committee is responsible for supervising the process of preparation and the integrity of the financial reporting concerning the company and, where appropriate, the group, reviewing compliance with the regulatory requirements, the proper delimitation of the consolidation perimeter and the proper application of accounting criteria. For the performance of some of these duties, the Audit Committee has the Internal Auditing, Compliance and Control Unit.

- Financial-Economic Department: this department is responsible for the design, introduction and operation of the SCIIF. It has the Internal Financial Control Unit to assist in the performance of this duty.

- Internal Auditing, Compliance and Control Unit. In general, it is responsible for assisting the Audit Committee in the ongoing review and improvement of the effectiveness of the Internal Control System in all areas of Gas Natural Fenosa, providing a systematic and rigorous approach for the monitoring and improvement of processes and for the assessment of operational risks and controls associated to these, including those corresponding to the SCIIF and to the Crime Prevention Model.

- Business units and corporate units involved in the financial reporting process. These are responsible for carrying out the processes and maintaining daily operations to ensure that the control activities introduced are performed.

F1.2 Whether or not the following elements exist, particularly with regard to the procedure for financial reporting:

Departments and/or mechanisms responsible for: (i) the design and review of the organisational structure; (ii) the clear definition of the lines of responsibility and authority, with an appropriate distribution of tasks and duties; and (iii) that there are sufficient procedures for proper dissemination at the entity.

The design and review of the organisational structure of top-tier management, as well as definition of the lines of responsibility, are carried out by the Board of Directors, through the CEO and the Appointments and Remuneration Committee.

To ensure proper management of the group's economic-financial reporting, the Economic-Financial Department has developed, as part of the SCIIF, a technical instruction comprising an interrelations map (information flows) for the financial reporting process. This map documents communications between the Economic-Financial Department, the different parties in charge of the processes and those in charge that are either the source or destination of the financial reporting. The map is called "Interrelations Map of Financial Reporting of Gas Natural Fenosa".

In this regard, there are six main areas that Gas Natural Fenosa has taken into consideration in compiling the interrelations map showing the financial reporting processes:

(i) the information required to prepare the financial reporting;

(ii) the parties in charge that are either the source or destination of the financial reporting and

(iii) the distribution of tasks among the different organizational units

(iv) the scope of this distribution to all group companies

(v) the frequency of information transfer.

(vi) the reporting systems that intervene in the process of compilation and issue of financial reporting;

Thus, using the Interrelations Map of Gas Natural Fenosa, the processes that have an impact on the preparation of financial reporting are clearly defined, both vis-à-vis the operational processes that have a relevant impact on financial reporting, as well as those processes associated to the administrative and accounting area, and those mangers involved in the same.

Code of Conduct, approval body, level of dissemination and instruction, principles and values included (indicating whether or not there are specific mentions to the register of operations and the preparation of financial reporting), the body in charge of analysing breaches and proposing corrective actions and fines.

The undertakings of senior management of Gas Natural Fenosa include focusing their efforts on ensuring that operations are carried out within an environment of professional and ethical practices, not only through the introduction of mechanisms targeted at preventing and detecting fraud committed by employees, or inappropriate practices that could lead to sanctions, fines or which could damage the image of Gas Natural Fenosa, but also reinforcing the importance of ethical values and integrity among its professionals.

In this regard, Gas Natural Fenosa has a Code of Conduct (hereinafter Code of Ethics), which was approved by the Board of Directors on 31 March 2005. This code is mandatory for all employees of Gas Natural SDG, S.A. and for all investee companies in which Gas Natural Fenosa holds management control. The updates and modifications to the Code of Ethics are carried out by the Board of Directors of Gas Natural SDG, S.A.

Since it was approved, it has been amended four times, on the last occasion in 27 June 2014, with the object of updating it and including new commitments acquired by Gas Natural Fenosa in relation to the coming into force of the reform of the Penal Code (Organic Law 5/2010), the implementation of a Crime Prevention Model in the group, the issue of the Anticorruption Policy of Gas Natural Fenosa and in order to adapt it to the best Corporate Responsibility practices.

The Code of Ethic sets out the general ethical principles for Gas Natural Fenosa as a whole, setting out the values to be pursued in practice throughout the organisation, and which includes: (i) purpose (ii) scope of application (involving all members of Gas Natural Fenosa); (iii) governing criteria vis-à-vis conduct at Gas Natural Fenosa (declaration of the group's style of governance); (iv) conduct guidelines (declaration of key values of Gas Natural Fenosa; (v) acceptance and compliance of the code; (vi) Code of Ethics Committee and (vii) enforceability.

The Code of Ethics considers professional responsibility and integrity to be the general governing criteria of conduct at Gas Natural Fenosa. More specifically, it sets out a series of action guidelines to a greater or lesser extent related to the reliability of the financial reporting and to compliance with applicable regulations, viz:

- Respect for law, human rights and ethical values (Section 4.1): "Gas Natural Fenosa undertakes the commitment of acting at all times in accordance with applicable laws, with the internal Regulatory System established with internationally accepted ethical practices, with total respect towards human rights and public liberties …"

- Processing of information and knowledge (Section 4.11):

  "All employees that enter any kind of information into the group's IT systems must ensure that this information is rigorous and reliable.

  In particular, all of the group's economic transactions should be clearly and precisely set out in the corresponding registries, via the pertinent accounts, and all the transactions performed and with the income and incurred expenses.

  Employees of Gas Natural Fenosa shall refrain from any practice that contravenes the undertaking to clearly and accurately reflect all financial transactions in the group's accounts".

  Gas Natural Fenosa has also established an Anticorruption Policy, which was approved by the Steering Committee in a meeting held on 3 March, 2014, and amended at the session of 24 November 2015, which is compulsory for all employees of all the companies which make up Gas Natural Fenosa group with majority shareholding and those in which it has responsibility in its operation and/or management. The policy is understood to be an extension of chapter 4.7. "Corruption and Bribery" of the Code of Ethics of the group and which has the object of establishing the principles which must be used to guide the conduct of all employees and administrators of the companies of Gas Natural Fenosa with regard to the prevention, detection, investigation and correction of any corrupt practice within the organisation.

In addition, Gas Natural Fenosa has an Internal Code of Conduct in issues concerning the Securities Market, which is also approved by the company's Board of Directors.

In July 2005, Gas Natural Fenosa set up the Code of Ethics Committee with the same principle of promoting its dissemination and application throughout the group, and to provide a channel of communication to all employees in order to receive inquiries and notifications of breach of the Code of Ethics and Anticorruption Policy.

To enable the Code of Ethics Committee to carry out its duties in an objective and independent manner, it is chaired by the Internal Auditing, Compliance and Control Unit, and is made up of representatives from the different areas involved in monitoring the compliance with the Code of Ethics and Anticorruption Policy.

The committee regularly reports to senior management and reports every quarter to the Audit Committee. The nature of the committee is to provide reports and recommendations, proposing corrective actions to those units in charge of providing solutions to problems through practical application of the Code of Ethics and Anticorruption Policy, and simultaneously acting as a bridge between these units and employees.

The penalising system, in those cases where this is necessary, is established by the Human Resources Unit.

By the same token, the Code of Ethics Committee may propose updates to the code content, and has done so on several occasions. These updates are first approved by the Audit Committee before being ratified by the Board of Directors.

Local Code of Ethics Committees have also been set up to promote the dissemination and application of the code in some of the countries in which Gas Natural Fenosa is present, more specifically in Argentina, Brazil, Chile, Mexico, Colombia, Panama, Italy and Moldova.

To favour not only the exercise of said responsibility but also knowledge and dissemination of the Code of Ethics, this code is available in nine languages:

- From outside: corporate website of Gas Natural Fenosa.

- Internally, on the group's Naturalnet platform.

In addition, online training courses through the Corporate University of Gas Natural Fenosa have been developed, which are mandatory for all employees of Gas Natural Fenosa.

Through the Code of Ethics Committee, Gas Natural Fenosa periodically carries out campaigns for the Code of Ethics Compliance Declaration and Anticorruption Policy, to disclose the guidelines governing the conduct expected from all employees, to circulate the mechanisms that exist to make inquiries and notifications, as well as to periodically formalise the undertaking of group employees vis-à-vis ethics and integrity.

Gas Natural Fenosa, to encourage the knowledge of the Code of Ethics among its suppliers and collaborating companies sets out a clause in the General Terms and Conditions of Contracting in which it promotes practices which are in keeping with the guidelines for conduct included in the Code of Ethics of Gas Natural Fenosa, and informs them of where they can find the Code of Ethics of the group, along with information in the queries channel and notifications on aspects related to the Code of Ethics.

Reporting channel, which enables communication to be sent to the Audit Committee concerning any irregularities of a financial and accounting nature, along with any possible breaches of the Code of Conduct and irregular activity within the organisation, where appropriate stating whether or not this is of a confidential nature.

Professional ethics at Gas Natural Fenosa focuses on professional responsibility and integrity, with integrity understood as ethical and honest action performed in good faith; and professional responsibility as proactive and efficient action targeted at excellence, quality and willingness to serve.

As set out in Article 32.2 of the Regulations of the Board and of its Committees, "the Audit Committee has the powers set out in Law and those that are commissioned by the Board of Directors, either of a general or specific nature". Among these powers, the Audit Committee is responsible for "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 Committee.

As a mechanism to obtain greater internal control of compliance with the principles included in the Code of Ethics, in July 2005 the Code of Ethics Committee of Gas Natural Fenosa was set up. One of its main functions is to facilitate and supervise a channel of communication to all employees, to receive inquiries and notifications concerning breaches of the code, and thus facilitate the resolution of conflicts related to application of the Code of Ethics and the Anticorruption Policy. A further duty is to send reports to the Governing Bodies of Gas Natural Fenosa on the dissemination of and compliance with the Code of Ethics and the Anticorruption Policy, as well as the activities of the committee itself.

The foregoing channel of communication is an open channel of communication (e-mail, fax, normal mail and internal mail) between the Code of Ethics Committee and all employees of Gas Natural Fenosa to deal with the issues concerning the code. This channel enables all group employees, suppliers and collaborating companies to obtain or provide information on any issue concerning the Code of Ethics and the Anticorruption Policy. Conduct contrary to the code can also be reported in good faith and in confidence to the Code of Ethics Committee. All of this is outside of the hierarchy governing habitual operations performed by employees.

All communications between the Code of Ethics Committee and Gas Natural Fenosa employees are confidential, pursuant to the restrictions set forth in Organic Law 15/1999 of 13 December, governing the Protection of Personal Data. To this end, the Chairman of the Code of Ethics Committee (Director of Internal Auditing, Compliance and Control) is the sole member, at the initial stage, authorised to be aware of all the information from all the enquiries and notifications received from the group through the consultation and notification procedure. Notifications concerning fraud, auditing or faults in accounting processes or internal control are likewise sent directly to the Audit Committee.

These consultations and notifications are processed and resolved by the Code of Ethics Committee.

The 2015 Corporate Responsibility Report from Gas Natural Fenosa provides more detailed information on the Code of Ethics, the Anticorruption Policy, the activity of the Code of Ethics Committee and the use of the communication channel.

Training programmes and periodic retraining for personnel involved in the preparation and review of financial reporting, as well as the assessment of the SCIIF, which at least cover the accounting, audit, internal control and risk management standards.

The need to have a sufficient and, above all, updated qualification of those professionals involved in the preparation and review of financial reporting, as well as in the assessment of the SCIIF, make it essential to implement an appropriate training plan, by which those persons in charge of each area have the knowledge required to perform the different functions included in the process of preparing and reviewing financial reporting.

To this end, Gas Natural Fenosa has a Corporate University responsible for managing the knowledge and development of persons in all areas of the company. The Corporate University has had its ISO 9001-2008 renewed in 2014, and has had its CLIP certification since 2003, having been renewed for the last time in 2013 for a five-year period. This certificate recognises the quality of learning and development processes of people of corporate education organisations.

The aims of the Corporate University include: to ensure management of knowledge at a multinational and multicultural organisation; to accompany the business in the key plans of the group; to position the organisation as a training benchmark in the energy sector; to ensure that employees acquire the technical knowledge and skills required to achieve the strategic objectives set and to transmit and share the experience and best practices that exist at the company.

The new training model of Gas Natural Fenosa has been introduced since 2013. This is based on training itineraries, which involves a major evolution in the skills model, given that it aligns training with business objectives to the greatest extent possible. Currently, 100% of Gas Natural Fenosa professionals have a learning itinerary, at least in part. The itineraries comprise three blocks: knowledge of context, which forms part of the itineraries and provides functional knowledge of the setting in which the company operates; functional expertise, assigned by the businesses to a position or to a profile; and skills, associated to the 24 skills set out in the Leadership Model of Gas Natural Fenosa. The Leadership Model has been deployed since 2012 by the different levels of the organisation.

In 2014, the Savia programme was launched, a training programme designed to strengthen the current role of the leaders, who should be the agents for change in the global implementation of the new processes associated with strategic challenges. The first stage of this programme finalised midway through 2015 with different acts of accreditation and the participation of 115 persons from the Economic-Financial department. The second stage, known as Savia 2.0, then commenced, and in 2015 the focus was on Management of Change and Customer Experience. 143 persons from the different units of the Economic-Financial Area (Administration and Tax, Management Control, Finances, Investor Relations and Risks) and from nine countries spent more than 2,000 hours on training in this second edition.

Another of the relevant programmes for Gas Natural Fenosa is the Commitment to Health and Safety, which began in 2014 and continued in 2015. This programme is designed to promote a qualitative cultural change in order to achieve a significant improvement in this field. In 2015, 259 people from the Economic-Financial Area took part different training activities organised by the Corporate University within this programme, so amounting to a total of 930 hours dedicated to safety training.

In September this year, as part of the "Customer Experience Project", the Advocacy Programme, Ambassadors for Change, began. As part of the new culture of placing the customer as the focal point of operations, 270 corporate culture and brand ambassadors of Gas Natural Fenosa were elected, of which 18 belong to the Economic-Financial Area. The ambassadors are tasked with transmitting our values both at work as well as in their private life, and becoming real agents for change, encouraging the customer to be seen from an holistic standpoint.

Elsewhere, the specific knowledge for the Economic-Financial Area covers several objectives, including, making uniform the economic-financial processes developed in any area of the organisation; updating the criteria governing accounting, tax, finance, risk management, management control, international regulations and technical knowledge of the tax area; as well as providing sufficient knowledge on the assessment of companies, financial derivatives and analysis of financial statements.

In total, in 2015 more than 320 professionals from the Economic-Financial Area spent almost 3,300 hours being trained on specific content. Prominent among these were: finance for laymen, management control, tax update and review, taxation, e-billing and prevention of money-laundering.

F.2 Assessment of financial reporting risks

Provide information, at least, on the following:

F.2.1 What the main characteristics in the risk identification process are, including error or fraud, with regard to:

> **If the process exists and it is documented.**

The approach used by Gas Natural Fenosa to carry out the financial reporting risk identification and analysis process is set out in three interrelated matrices:

- A matrix for defining the scope of the financial reporting.
- A matrix of risks associated with the financial reporting.
- A matrix of financial reporting control activities.

The matrix for defining the scope of the financial reporting has the object of identifying the accounts and breakdowns which have an associated significant risk, whose potential impact on financial reporting is material and therefore requires special attention. In this regard, a series of quantitative variables (account balance and variation) and qualitative variables (complexity of transactions; changes and complexity in standards; need to use estimates or forecasts; application of judgement and qualitative importance of the information) have been taken into account in the process of identifying accounts and significant breakdowns. The methodology for preparing the scope matrix has been outlined in a technical instruction entitled "Matrix for Defining Scope of Financial Reporting of Gas Natural Fenosa".

For each one of the accounts/significant breakdowns, the critical processes and sub processes associated with the accounts/significant breakdowns have been defined, and the risks which might give rise to errors in financial reporting have been identified, covering the objectives for the control of existence and occurrence; integrity; valuation; presentation, breakdown and comparability; and rights and obligations, in the "Risks Matrix of Financial Reporting of Gas Natural Fenosa".

Furthermore, the Risks Matrix has identified the risks associated to achieving the financial reporting targets, taking into account the effects of other risk typologies (i.e. operational, technological, financial, reputational, etc.) that form part of the Corporate Risks Map of Gas Natural Fenosa.

Lastly, control activities in terms of both general and processes, which consist of the policies and procedures included in all stages of the financial reporting process and which can assure its reliability, are set out in the "Matrix of Activities of Control for Financial Reporting in Gas Natural Fenosa".

The Scope Definition Matrix, and the Risks Matrix, the Control Activities Matrix, are updated every year.

If the process covers all the financial reporting objectives (existence and occurrence; integrity; assessment; presentation, breakdown and comparability; and rights and obligations), if it is updated and how frequently.

In 2013, Gas Natural Fenosa, being aware of the importance of having a tool to ensure adequate control of SCIIF management, implemented the SAP GRC Process Control, for the comprehensive management of documentation, assessment and oversight of internal control in Gas Natural Fenosa processes. This implementation, which was performed within the framework of the programme for improving the efficiency of Gas Natural Fenosa, was initially carried out in all Spanish companies with majority shareholdings in which the company is held responsible for its operation and/or management. In 2014, the SAP GRC Process Control tool was introduced in Colombia and at the LATAM Economic-Financial Shared Services Centre. In 2015, this introduction has continued in new countries, such as Mexico and France, and we expect to gradually introduce it into the remaining countries where Gas Natural Fenosa is present. In the roll-out of SAP GRC Process Control, at national level and also internationally, the company was supported by the users responsible for the key controls of SCIIF and the Internal Auditing, Compliance and Control Unit.

We should point out that, during 2015, the scope of the SCIIF corporate model has spread to those countries where the group is new, such as Chile, as a consequence of the acquisition in November 2014 of the Chilean group Compañía General de Electricidad, S.A. (CGE), and to those countries where we already have existing businesses that have undergone significant development and growth, such as France. These incorporations strengthen and secure the Internal Control at Gas Natural Fenosa.

The SCIIF model of Gas Natural Fenosa is integrated in SAP GRC Process Control, except for the scope definition matrix. This application identifies the General Environment Controls and the General Computer Controls, the critical processes, their associated risks and the control activities used to mitigate them, set out in the aforementioned risks matrices and controls. The units responsible for carrying out the control activities are also identified and integrated in the processes structure.

The benefits provided by the implementation of SAP GRC Process Control include the following:

- It centralises all the SCIIF documentation and management of Gas Natural Fenosa in a uniform way.
- It integrates the internal control of financial reporting in business and corporate processes, allowing each responsible organisational unit to regularly assess its controls, providing the necessary evidence and, every year, execute the SCIIF internal certification process.
- It uses workflows and forms for managing control activities, the documentation of evidence of the execution thereof and for the action plans.
- It allows documentary access to evidence of controls in respect of processes and viewing of the result of the assessment in a user-friendly and immediate way.
- It is a support tool for the SCIIF supervision process by Internal Auditing.
- It allows both external and internal information required for reporting on the SCIIF to be obtained and supported.

After SAP GRC Process Control was started up in April 2013, the control evaluation requests were performed in subsequent years according to the established schedules, whereby the units involved in SCIIF were asked to provide evidence of the controls performed, in accordance with the frequency stipulated in each case. If applicable, this assessment allows weaknesses, and the actions plans necessary, to be identified and completed.

Whether there is a process to identify the consolidation perimeter, taking into account, *inter alia,* the possible existence of complex corporate structures, holding companies or special vehicle companies.

Part of the critical processes identified includes the process for identifying the consolidation perimeter of Gas Natural Fenosa and it has been described in a technical instruction called "Consolidated Closing Cycle of Gas Natural Fenosa".

If the process takes other types of risks into account (operational, technological, financial, legal, reputation, environmental, etc.) insofar as they affect the financial statements.

Within the risk identification process defined by Gas Natural Fenosa in its SCIIF, problems relating to fraud have been considered to be a very important element. In this regard, the fraud risk control policy of Gas Natural Fenosa is supported by three basic pillars:

- Fraud prevention.
- Fraud detection.
- Investigation and management of fraud situations.

Preventive anti-fraud controls have been defined, and are classified into two categories. Those called active controls, which are considered to be barriers for restricting or preventing access to valuable assets by persons who might attempt to commit fraud. On the other hand, passive controls attempt to stop fraud from being carried out through measures which are deterrents.

Which governing body of the company supervises the process.

The Audit Committee is responsible for supervising the efficacy of the SCIIF. In order to carry out this function, the Audit Committee uses the Internal Auditing, Compliance and Control Unit and external audit (see section F.5).

F.3 Control activities

Report on, duly detailing their main characteristics, at least:

F.3.1 Procedures for the review and authorisation of financial reporting, and the description of SCIIF, to be published on the securities markets, indicating their supervisors, and the documentation which describes the flow of activities and controls (including those relating to risk of fraud) of the different types of transactions which can have a material impact on the financial statements, including the closing of accounts procedure and the specific review of relevant judgements, estimates, valuations and projection.

Gas Natural Fenosa conducts regular reviews of the financial information prepared and of the description in the SCIIF according to the different levels of responsibility, guaranteeing the quality of this description.

As a first level of review, the persons responsible for the closing of accounts of each company of Gas Natural Fenosa review the financial reporting drawn up to ensure it is reliable.

Furthermore, the financial reporting of Gas Natural Fenosa is regularly reviewed by the head of the Economic-Financial Department, identifying possible deviations. In this regard, the Economic-Financial Department reports on the financial reporting regulated to the Audit Committee, safeguarding the transparency and accuracy of the information and mentioning the internal control systems and the accounting criteria applicable. It also provides information on the main accounting, procedures, judgements, estimates, assessments and processes used in drawing up the economic-financial information and the financial statements, regarding the main risks and contingencies and their cover by means of provisions, and regarding the Risk Management and Control Policies and Systems in Gas Natural Fenosa.

Ultimately, the Chief Financial Officer certifies the reasonability of the individual and consolidated financial statements presented to the Board of Directors for them to be approved.

Furthermore, as indicated in the "Internal Control System on Financial Reporting (SCIIF) General Standard" of Gas Natural Fenosa, control activities defined by the group in its SCIIF comply with the basic objective of ensuring that the financial reporting of Gas Natural Fenosa represents the true and fair image of the group.

The control activities defined in the SCIIF include both general controls and controls in critical points.

While they do not allow a sufficient degree of control to be achieved over the group's processes, general controls are mechanisms that enable a series of key targets to be obtained for the achievement of an effective SCIIF; in other words, they describe the policies and guidelines designed to protect Gas Natural Fenosa's SCIIF in its entirety.

In addition, all the critical processes identified have been documented by means of the control activities matrix and by the pertinent descriptive technical descriptions of the processes. These critical processes, their associated risks and the control activities which mitigate them, as well as the descriptive documentation of the aforesaid processes, are identified in the SCIIF management tool, SAP GRC Process Control. In this regard, Gas Natural Fenosa has identified all the processes necessary to draw up the financial information, using relevant judgements, estimates, valuations and forecasts, all of them being considered to be critical. The Audit Committee is regularly informed of the main hypotheses used to estimate the financial reporting which depends on relevant judgements, valuations and projections.

The following information has been included in the documentation included in SAP GRC of the critical processes and control activities:

- Process description.
- Process information flow chart.
- Map of systems which interact in the process.
- Description of financial reporting risks associated with the different processes and control objectives.
- Definition of control activities to mitigate risks identified and their attributes.
- Descriptions of persons responsible for processes and control activities.

The following classifications of control activities have also been identified in the definition of control activities, in accordance with the five following criteria:

- Scope: depending on the scope of the control activities, they can be divided into:
  - General control activities.
  - Processes control activities.
- Implementation: control activities have been classified into implemented and non-implemented.
- Level of automation: depending on the level of automation of the control activities, they can be divided into automatic and manual.
- Nature of the activity: depending on the nature of the control activities, they can be divided into preventive or detective.
- Frequency: based on the recurrence of the activity over time, for example: yearly, weekly, monthly, daily, etc.

Lastly, the SCIIF of Gas Natural Fenosa includes the definition of the annual internal certification model of the controls identified in the critical processes which have to be performed by the business and corporate units involved in the process of drawing up financial information. The Internal Financial Control Unit is responsible for launching and monitoring this certification process. In order to carry out this internal certification process, the units taking part use the functionalities integrated in the SAP GRC Process Control application for managing the SCIIF of Gas Natural Fenosa (see section F.2.1).

The Internal Auditing, Compliance and Control Unit is responsible for reviewing and assessing the conclusions regarding the compliance and effectiveness of the annual internal certification process of the units which are responsible for carrying out the controls, to identify the weaknesses and action plans.

F.3.2. Internal control policies and procedures on information systems *(inter alia,* on access security, control of changes, operation thereof, operating continuity and separation of functions) which support the relevant processes of the company in drawing up and publishing financial information.

For the critical processes associated with the drawing up and publication of the financial reporting of Gas Natural Fenosa which have been defined in the SCIIF of the group, the control activities which operate in information systems have been defined, both for those used directly in preparing their financial information and for those which are relevant in the process or control of the transactions included in it.

At general level, within the reporting systems map of Gas Natural Fenosa, a series of policies have been defined and implemented to guarantee the following aspects:

- Security of access to both data and applications.
- Control of changes in applications.
- Correct operation of applications.
- Availability of data and continuity of applications.
- Adequate separation of functions.

a) Secure access:

A series of measures have been defined at different levels to guarantee confidentiality and to prevent unauthorised access to data and/or applications. Most internal users are managed and authenticated in a centralised way in the OIM (Oracle Identity Manager) Directories, which ensure they remain confidential.

The company has two main data processing centres (Madrid and Barcelona) to facilitate availability of information systems in the event of any contingency. Only authorised staff is able to access those rooms, all accesses are registered, and they are subsequently inspected to check for any possible anomalies.

Communications with these systems include systems such as Firewall, IDS and anti virus to internally reinforce control against threats.

Work is also being done on drawing up and updating the BRS (Business Recovery Systems) of the main information systems.

Lastly, at application, operating system and database level, the user-password combination is used as preventive control. At data level, profiles have been defined to limit access thereto but a functions separation matrix to ensure that the functions are incompatible has not been developed.

b) Control of changes:

A change management methodology has been developed and implemented based on best practices, setting out the precautions and validations which are necessary to limit risk in that process.

Some of the main aspects it includes are as follows:

- Approval by the Technical, Changes and Business Committees.
- Carrying out tests in the different environments before passing to production.
- Specific environments for the development and tests tasks.
- Reversal procedures.
- Separation of functions in most of the environments between development and production teams.
- Monitoring and control in any phase of development.
- User manuals and training courses.
- Regular maintenance of changes documentation.

c) Operation:

To guarantee that operations are carried out correctly, monitoring is conducted at four levels:

- All interfaces between systems are monitored to ensure they are correctly executed.
- At perimeter level, there are different availability indicators to prevent interruptions in communications.
- Automatic validations on the data entered so that they are in line with expectations based on their nature, rank, etc.
- Of the infrastructures which support applications.

There is also an internal Help Desk service which final users can contact, and they also have a management tools at their disposal to report any kind of discrepancy.

d) Availability and continuity:

Most systems have a high level of local availability, as the servers have duplicated located in the same DPC. The high availability of information systems allows them to remain available should any incidents arise.

A backup copy of data is made regularly, and temporarily kept in a temporary secure location based on the legal requirements established for each system. The data are copied and stored in different locations, so preventing any loss of information. In order to restore these data there is a specific procedure, although tests are not carried out regularly.

e) Separation of functions:

Access to the Information Systems is defined based on roles and profiles which define the functionalities to which a user must have access. These profiles are used to limit user access to Reporting Systems.

f) Regulatory compliance: Personal Data Protection Act (PDPA)

Gas Natural Fenosa complies adequately with the Personal Data Protection Act in order to safeguard and protect the personal data of its employees and customers based on the provisions of Organic Law 15/1999 of 13 December.

The file owners assures compliance with laws in Gas Natural Fenosa:

- Registering all personal data files before the Spanish Data Protection Agency (AEPD).
- Ensuring that the data are appropriate and accurate, and are treated in a way which is proportional for the purpose for which they were collected.
- Guaranteeing confidentiality and security requirements.
- Informing the data owners that the data is collected and obtains their consent for it to be processes.
- Guaranteeing that ARCO rights (access, rectification, cancellation and opposition) are exercised.
- Ensuring that laws are complied with, in its relations with third parties which lend services with access to personal data, drafting contracts to state that the data manager shall handle the data according to the instructions given by the data owner, that it shall not apply or use them for any other purpose other than that indicated in the aforesaid contract, nor shall it convey them, not even for their maintenance, to other persons (the same security measures as for the file owner are applied).
- Complying with the laws of the sector applying to Gas Natural Fenosa.

Pursuant to Article 9 of the PDPA, which addresses security measures and technology, Gas Natural Fenosa adopts the technical measures designed to safeguard the security of personal data and to prevent them from being altered, lost, or being processes or accessed in an unauthorised way to guarantee the confidentiality, integrity and availability of the data.

Pursuant to Article 96 of the PDPA, Gas Natural Fenosa performs twice-yearly audits on its Information Systems in order to comply with the regulations and all data protection procedures and instructions.

F.3.3 Internal control policies and procedures for supervising the management of activities subcontracted to third parties, and those assessment, calculation or valuation questions entrusted to independent experts, which could have a material impact on the financial statements.

Gas Natural Fenosa has developed a series of policies and procedures used to supervise the management of activities subcontracted to third parties, all of which are approved by the levels established in the group, which include an "General External Procurement Standard", a "General Supplier Quality Standard" and the procedures which implement them, and the "Counterparty Due Diligence Procedure (reputation and corruption risks)".

In this context, in the "General External Procurement Standard", Gas Natural Fenosa sets out the general principles which have to be applied to all awarding or procurement of works, goods and services carried out by the group, guaranteeing a uniform, efficient and quality model for managing the procurement process in Gas Natural Fenosa.

This standard also generally establishes the responsibilities of the different units in the procurement process, including the Procurement Area, which is responsible for promoting long-term relationships of trust with suppliers, establishing objective and impartial mechanisms for the assessment, selection and ensuring that the principles set out in the Code of Ethics of Gas Natural Fenosa, the Human Rights Policy and the Health and Safety Policy, are complied with at all times. It also indicates that it is compulsory to carry out an initial assessment of all potential suppliers before they take part in a procurement process, and in which legal, financial, solvency, quality, safety, environment and corporate responsibility matters, *inter alia,* will be assessed, as well as the regular assessment thereof. In certain processes, they need to be certified/approved to ensure the quality of the goods and services which are acquired, in collaboration with business units.

With this objective, Gas Natural Fenosa has carried out, in the “General Supplier Quality Standard” and in the procedure which implements it, the basic principles which are applicable to the group's supplier assessment and approval/certification process, including the setting up of procedures and controls to guarantee compliance with the requirements set out in the specifications by potential suppliers and companies awarded contracts, and also suppliers of services or supplies of materials included in the certification needs defined by criticality or amount needs also have to be certified.

Performance is also measured through satisfaction surveys on suppliers considered to be significant in view of their amount or importance, and in cases in which it is necessary, pertinent corrective measures shall be established in any stage of the process.

In this context, the Procurement Area, in keeping with the criteria of Gas Natural Fenosa, defines or agrees on the indicators for the control of the assessment and certification process before suppliers and products are procured, and monitoring the maintenance of the procurement requirements, to guarantee the quality levels of the products and services acquired. For suppliers which carry out activities or which supply products which need to be certified, three main types of certification have been defined (A, B or C). For the first category (A), the supplier has to comply with the requirements demanded by Gas Natural Fenosa for the activity to be carried out and be in the possession, for them, of an ISO 9001 in force and issued by an authorised certification agency. In category B, the supplier complies with the requirements set out by Gas Natural Fenosa for the activity to be carried out but it does not have a certified quality management system. The question of whether one or another certification is required will be determined depending on the quantitative or qualitative importance in relation to the service rendered.

The third of the categories (C) is provisional, and refers to cases of suppliers with non-conformities in the certification process but which have presented a Corrective Action Plan which has been accepted by Gas Natural Fenosa. Within the granted term, which is never longer than one year, and once the drafting and roll-out of that plan has been confirmed, suppliers shall obtain the required category.

The main areas which affect the critical processes of the financial information which Gas Natural Fenosa has subcontracted to third parties are as follows:

- Certain processes of the Systems Area.
- Reading and measuring processes.
- Certain Customer Service processes.
- Logistics operator.
- Payroll and staff management process.
- Works management and maintenance of the distribution business.
- Certain services to customers of the retail business.

Also, the Business Units carry out the supervision and quality control of its suppliers to determine if they offer the levels of quality required to the works. If not, they send the proposals for the withdrawal of certification/authorisation to suppliers/products/persons as a result of deficiencies in the performance of services or products.

Gas Natural Fenosa uses experts in works which are used for support to valuations, judgements or accounting calculations, only when they are registered in the corresponding Professional Colleges, or have an equivalent certification, show their independence and are companies which the market considers to be prestigious.

Gas Natural Fenosa has also defined the “Counterparty Due Diligence Procedure” which, in general terms, is designed to cover the main legal and reputation risks involved in business relations with third parties, and, in particular, covering misconduct associated with the risk of corruption.

The Internal Auditing, Compliance and Control Unit of Gas Natural Fenosa audits the processes and correct application of Procurement and Supplier Quality Standards and Due Diligence of the Counterparty and if breaches are detected then the pertinent corrective actions are taken.

F.4 Information and communication

Report on, duly detailing their main characteristics, at least:

F.4.1 A specific function responsible for defining accounting policies (area or department of accounting policies), keeping them up to date, and resolving doubts or conflicts arising from their interpretation, keeping fluid communications with the persons responsible for operations in the organisation, as well as a manual of accounting policies which is up to date and communicated with the units through which the entity operates.

One of the responsibilities, *inter alia,* of the Economic-Financial Department, via the Accounting Planning and Financial Internal Control Unit, is to keep the accounting policies applicable to the group up to date. In this regard, it is responsible for updating the "Gas Natural Fenosa Accounting Plan", which includes the group's accounting criteria and accounts plan, and an analysis of the accounting changes which might have an impact on the financial reporting of Gas Natural Fenosa.

The updating of the "Gas Natural Fenosa Accounting Plan" is performed yearly, and the last update was carried out in December 2015. Both the accounting criteria on the basis of changes in the IFRS-EU standards applicable and the group's accounting structure are reviewed in the updates, ensuring the traceability between the Individual Account Plans of the group's subsidiaries and the Accounting Plan of Gas Natural Fenosa, which is used as a basis for preparing the different reporting of the financial information to be supplied to external bodies and of the Management Control information.

Once the Accounting Plan is updated, it is disseminated to all the personnel of the organisation via the Gas Natural Fenosa intranet. Furthermore, after the updated Accounting Plan is published on the intranet, an online alert is sent to users who access the intranet, thus informing all the staff of the update.

The Accounting Planning and Financial Internal Control Unit is responsible for analysing the IFRS-EU regulations that might have a significant impact on financial statements and for reporting to the Gas Natural Fenosa management affected by any such regulatory changes. It is also entrusted with the task of resolving questions regarding the account entry of specific transactions that may be considered by those responsible for Gas Natural Fenosa financial reporting.

F.4.2 Mechanisms for the capture and preparation of financial information with uniform formats, applied and used by all units of the company or the group, used to support the main financial statements and the notes, as well as the information set out in detail on the SCIIF.

The complete economic-financial management model of Gas Natural Fenosa guarantees that the administrative and accounting processes are uniform by means of the centralisation of the accounting and economic administration in Economic-Financial Shared Services Centres (CSCs) and the use of SAP as a support system in all the companies which form part of the group. The other companies which do not use SAP are obliged to follow the criteria established by the group to ensure that such processes are uniform.

The most important features of the aforesaid model are as follows:

- it is unique for all countries and businesses;
- it includes the legal, fiscal, mercantile and regulatory requirements of the countries;
- it includes internal control requirements;
- it is used as a base for obtaining information furnished to senior management and to official bodies;
- it is supported by a certain organisational model and unique economic and financial reporting processes and systems for all countries and businesses.

The IFRS-EU financial statements of each country are obtained directly through the local account-group account assignment and the registration of IFRS-EU adjustments in the SAP application.

As part of the group SCIIF, the interrelations map of the process of drawing up financial information of Gas Natural Fenosa has been defined. The aforesaid map defines a number of things, including the reporting systems which take part in the process of drawing up and issue of financial information both from the standpoint of individual closing of accounts and the closing of the consolidated accounts.

Accordingly, in the processes of drawing up the financial reporting and its breakdowns of Gas Natural Fenosa, the SAP BPC application is used, which is a SAP application for managing the consolidation process.

The information is uploaded in the two systems automatically and directly, once the month is closed.

These two applications help in managing the consolidation process and Management Control in tasks such as:

- Standardisation of information.
- Validation of information.

The economic information - both the financial information and the management information - is drawn up in centralised form in the Integrated Reporting Centre, which ensures that the reporting of Gas Natural Fenosa is integrated, homogeneous, consistent and streamlined.

Gas Natural Fenosa also has local accounts plans to comply with accounting, fiscal, mercantile and regulatory requirements established by the different laws of the countries in which it operates. Those local accounting plans are conflated into a group accounting plan, which is unified and homogeneous for the purposes of consolidation and reporting of financial information.

F.5 Supervision of system operation

Report on, duly detailing their main characteristics, at least:

F.5.1 The supervisory activities of the SCIIF carried out by the Audit Committee and whether the company has an internal audit function which includes the responsibility of supporting the committee in its task of supervising the internal control system, including the SCIIF. Information will also be provided on the scope of the assessment of SCIIF carried out during the year and on the procedure through which the party responsible for carrying out the assessment notifies its results, if the company has an action plan with details of the possible corrective measures, and if its impact on financial information has been taken into account.

The Audit Committee has the powers set out in law and those that are assigned by the Board of Directors, either in general or for a specific purpose. These powers include the following:

- Supervising the preparation process, presentation 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.
- Supervising the efficacy of the company's internal control, internal auditing and risk management systems, including tax risks, as well as discussing with the accounts auditor any significant weaknesses of the internal control system detected during the audit.
- Reporting to the General Meeting of Shareholders on issues that arise with regard to those matters which the committee is responsible.

- Forwarding proposals for selection, appointment, re-election and replacement of the external auditor to the Board of Directors, as well as the conditions for their procurement. Moreover, to frequently get information from the auditor on the audit plan and the performance of this, and to ensure the auditor's independence in the performance of its duties.

- Liaising with external auditors to receive information on any questions 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 the committee must receive the declaration of the auditor's independence with regard to the entity or entities directly or indirectly related to the company, as well as information on any additional services rendered and the corresponding fees received by the external auditor or by the persons or entities related to this party, pursuant to the provisions set down in accounts auditing regulations.

- Every year, before issuing the Audit Report, to provide a report that gives an opinion on the independence of the accounts auditors. In all cases, this report must contain an assessment of the provision of each of the additional services referred to above, considered on an individual basis and as a whole, separate from the legal auditing and with regard to the structure of independence or with regard to accounts auditing regulations.

- Ensuring independence of the unit that assumes the internal audit function; approving the work plans and guidelines, making sure that its activities are mainly focused on relevant risks for the company; receiving periodic information on its activities; and verifying that senior management take into consideration the conclusions and recommendations of its reports. Making proposals to the Chairman of the Board of Directors with regard to the selection, appointment, re-election and removal from office of the party responsible for the internal audit service, and proposing the budget for that service. The final decision lies with the Chairman of the Board of Directors.

In order to be able to comply with its responsibilities, the Audit Committee avails itself of the information and documentation provided by the Internal Auditing, Compliance and Control, and Economic-Financial Units.

The Internal Auditing, Compliance and Control function was established in Gas Natural Fenosa as a means of independent and objective assessment and for this reason the Internal Audit, Compliance and Control Area reports to the Audit Committee and to the Chairman and Chief Executive Officer of Gas Natural SDG, S.A.

It has the task of guaranteeing the continuous review and improvement of the group's internal control system, as well as safeguarding compliance with external and internal norms and the Control Models established in order to safeguard the efficacy and efficiency of operations, and to mitigate the main risks in each one of the fields in which the group operates, particularly operating risks, and corruption, fraud and legal risks. It is also held responsible for managing the Crime Prevention Model and the Code of Ethics Model of Gas Natural Fenosa, as well as reporting on internal audit activity to the Audit Committee.

In the performance of its activity, Internal Auditing methodically reviews the internal control system of the group's processes in all areas, as well as an assessment of the controls and the operational risks associated to these procedures (including those established in the SCIIF and the Crime Prevention Model), through definition and introduction of the "Annual Internal Audit Plan", to improve efficacy and efficiency of these. It also provides support to the divisions in achieving their objectives.

The overall aim is to safeguard the efficacy and efficiency of operations and mitigate the main risks in each sphere of Gas Natural Fenosa, in particular the operational, corruption, fraud and legal risks.

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

In accordance with the Strategic Audit Plan, the Internal Control System of Gas Natural Fenosa is fully supervised by the Internal Auditing for five years.

The methodology for the assessment of operational risks is in accordance with best corporate governance practices, based on the conceptual framework of the COSO Report (Committee of Sponsoring Organisations of the Treadway Commission) and on the basis of the types of risks defined in the company's Corporate Risk Map.

The operational risks associated with the processes are prioritised by assessing their incidence, relative importance and degree of control. Depending on the findings, the company designs an action plan with corrective measures that enables mitigation of residual risks identified with a potential impact above the tolerable or accepted risk established.

Internal Auditing is supported by the implementation of a SAP environment corporate application which it uses to manage and document internal audit projects in accordance with the defined methodology.

More specifically and with regard to the Internal Control System on Financial Reporting (SCIIF), Internal Auditing is in charge of:

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

With regard to the Crime Prevention Model, the Internal Auditing, Compliance and Control Area is in charge of its annual supervision to make reasonably sure that the model is efficient and effective at preventing, identifying or mitigating the occurrence of legislation-typified crimes.

The main processes revised by the Internal Audit Area in 2015 were those concerning:

> Business processes:

- Gas distribution: reading and calculation of consumption, capture and putting into service, network construction, managing gas distribution storage facilities.
- Electricity distribution: managing electricity distribution storage facilities, operations, high, medium and low voltage development, management of irregularities and fraud.
- Generation: operation and maintenance of generation assets, development and launch of new projects, storage management.
- Retail commercialisation: management of energy customers and products, capture and procurement of energy and products.
- Wholesale commercialisation and global accounts: sales to industrial customers.
- Supplies and transportation: purchases of gas, purchases of LNG.
- Exploration and production: exploration/production.
- Energy management: sales of electricity.

- Strategy and support processes:
  - Customer service: payment, billing, arrears management and customer service.
  - Physical resources management: purchases within and outside of the perimeter, general services, due diligence of the counterparty.
  - Internal control management: monitoring corrective actions, SCIIF.
  - Management of information systems: economic-administrative management of integral services, information security.
  - Human resources management: human resources administration and services.
  - Management of communication and ER: sponsorship, corporate responsibility.
  - Management of financial and economic resources: treasury stock.
  - Review of the group's regulatory system.
  - Code of Ethics.
  - Updating of Operational Risk Map.
  - Analysis of progress in the introduction of Delta and Zeus.
  - Assessment review and attainment of the Efficiency Plan.
  - Italy judicial administration.
  - Crime Prevention Model.

46.4% of the review processes correspond to Spain and the remaining 53.6% to the international sphere.

Controls on the above processes relating to the Financial Information, were reviewed in accordance with the work methodology described above.

F.5.2 If the company has a discussion procedure through which the accounts auditor (as established in the NTA), the internal audit function and other experts can inform the company senior management and the Audit Committee or administrators of significant weaknesses in internal control identified during the annual accounts review processes or others which might have been entrusted to them. The company shall also state whether it has an action plan to try to correct or mitigate the weaknesses observed.

As established in Article 6.4 of the Regulation of the Board and of its Committees:

"The Board of Directors will hold direct relations with the members of the company's top-tier management and the auditors. The objective, professional and continuous nature of this relationship shall respect the independence of the auditors to the utmost".

In Article 9 of this regulation, it is stipulated that:

> "The Board shall meet once every two months and, on the Chairman's initiative, as many times as he/she considers it appropriate for the smooth running of the company. The Ordinary Board sessions shall deal with general matters related to group operation, economic results, the balance sheet, cash flow status and its comparison with the approved budget, matters mentioned in Article 5, where applicable, and, in any case, the points included on the agenda prepared in accordance with the provisions of these regulations. These regular meetings shall also be occasion for the Board to receive specific information regarding achievements and the most significant operational problems, and foreseeable situations that may be critical for company affairs and the actions that management may propose in order to deal with them, as the case may be...".

In this regard, the members of the Board of Directors, in order to obtain the information necessary for them to carry out their duties, shall be aided by the Executive Committee, which is specifically empowered with the continuous monitoring of the top-tier management of the group, and also the Audit Committee, whose duties include the knowledge and supervision of the process for drawing up regulated financial information, and the efficacy of the internal control system.

The continued monitoring of the top-tier company management at is a specific responsibility of the Executive Committee, as is any other of its functions pursuant to the Articles of Association and Regulations of the Board of Directors and of its Committees, or assigned to it by the Board of Directors itself.

In accordance with the Articles of Association and Regulations of the Board of Directors and of its Committees, the Audit Committee shall comprise a minimum of three and a maximum of five Directors appointed by the Board of Directors from among the Non-executive 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 two of the committee members will be an Independent Director. At 31 December 2015, the committee was made up of three Directors, one Proprietary and two Independents; and one of the latter, in turn, was the Chairman.

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

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

The sphere of activity of the Audit Committee extends to:

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

The Internal Auditing, Compliance and Control Unit regularly reports to the Audit Committee on the actions taken to ensure that Gas Natural Fenosa complies with all the policies, standards and controls of the processes established by the top-tier management of the group.

They also present:

- The Annual Internal Audit Plan for the committee’s approval.
- The degree of execution of the Internal Audit Plan and the main conclusions and recommendations included in the Internal Audit Reports.
- The assessment of the efficacy of the Control System and assessment of operational and Internal Control risks of Gas Natural Fenosa (including those referring to SCIIF and to the Crime Prevention Model), including the corresponding Action Plans to improve the level of internal control.
- The level of implementation by the audited units of the corrective measures appearing in the Auditor’s Reports, in particular those proposed by the Audit Committee.

Likewise, the Economic-Financial Department reports on the financial reporting regulated to the Audit Committee, safeguarding the transparency and accuracy of the information and mentioning the internal control systems and the accounting criteria applicable. It also provides information on the main accounting procedures, opinions, estimates, assessments and processes used in drawing up the economic-financial information and the financial statements; the main risks and contingencies and the hedging of these through provisions; the Management Policies and Systems and Risk Control at Gas Natural Fenosa, and the relevant matters associated with the drawing up and definition and conclusions of the Corporate Risk Map of Gas Natural Fenosa.

Lastly, the external auditor informs the Audit Committee of any significant weaknesses in internal control detected during the audit. The external auditors also report on the main conclusions they have reached in the review of internal control, regarding the risks assessment and action plans.

F.6 Other relevant information

As indicated in section F.3.1. above, as part of the model for the assessment of the Internal Control System on Financial Reporting of Gas Natural Fenosa, it has been decided to carry out an annual internal certification process whereby, through SAP GRC Process Control, the Business and Corporate Units which are involved in the process of drawing up financial reporting guarantee that the identified controls are applied within their processes and that they are valid and sufficient. They also inform the Internal Financial Control Unit of weaknesses and/or shortcomings detected and of changes arising in their processes so as to assess if they need to develop new controls or modify existing ones.

During the 2015 year, Gas Natural Fenosa carried out the annual internal certification process, whereby changes were identified in a limited number of processes. Importantly, those changes did not necessitate a modification of the control activities previously identified, so that the risks associated with the preparation and reporting of financial reporting were considered to be covered in the critical processes affected. The main items of this process were as follows:

	Spain	International	Total
Business or Corporate Units	138	221	**359**
Processes identified	54	190	**244**
Controls certified	887	2,167	**3,054**

Action plans were also identified due to weaknesses in evidence of controls, which amounted to 56, five of which were in Spain. In 2015, 73% of the action plans identified in 2014 were resolved, and new plans arose during 2015. In any case, the sub-processes affected by these action plans do not significantly affect the quality of financial reporting.

F.7 Report by the external auditor

Reports on:

F.7.1 If the SCIIF information submitted to the markets has been reviewed by the external auditor, in which case the company will have to include the corresponding report as an annex. Otherwise, it will have to explain why.

Gas Natural Fenosa has deemed it pertinent to ask the external auditor to issue a report referring to the information on the Internal Control System on Financial Reporting (SCIIF).

G. Degree of Compliance with Corporate Governance Recommendations

Indicate the company's degree of compliance with the recommendations given in the Good Governance Code of Listed Companies.

If any recommendations are not followed or are followed partially, it will be necessary to include a detailed explanation of the reasons why so that the shareholders, investors and the market in general, have sufficient information to be able to assess the company's actions. General explanations will not be acceptable.

1. The Articles of Association of listed companies should not limit the maximum number of votes that can be issued by the same shareholder or contain other restrictions that prevent the company from being taken over through the purchase of its shares on the market.

   Complies

2. When the parent company and the subsidiary are listed, they must both publicly define the following in detail:

   a) The respective areas of activity and possible business relationships between them, as well as those of the listed subsidiary with the remaining group companies;

   b) The mechanisms in place to solve possible conflicts of interest that may occur.

   Not applicable

3. During the annual General Meeting, the Chairman of the Board should verbally inform shareholders in sufficient detail of the most relevant aspects of the company's corporate governance, supplementing the written information circulated in the Annual Corporate Governance Report. In particular:

   a) Changes taking place since the previous annual General Meeting;

   b) The specific reason for the company not following a given Good Governance Code recommendation, and any alternative procedures followed in its stead.

   Complies

4. The company should draw up and implement a policy of communication and contacts with shareholders, institutional investors and proxy advisers that complies in full with market abuse regulations and accords equitable treatment to shareholders in the same position.

   This policy should be disclosed on the company's website, complete with details of how it has been put into practice and the identities of the relevant interlocutors or those charged with its implementation.

   Complies

5. The Board of Directors should not make a proposal to the General Meeting for the delegation of powers to issue shares or convertible securities without pre-emptive subscription rights for an amount exceeding 20% of capital at the time of such delegation.

   When the Board approves the issuance of shares or convertible securities without pre-emptive subscription rights, the company should immediately post a report on its website explaining the exclusion as envisaged in company legislation.

   Complies partially

The last authorisation for a share capital increase given by the Board was agreed at the General Meeting on 20 April 2012 for a five-year period and up to the maximum amount of half of the share capital at the time of the authorisation.

This authorisation included the power to remove the pre-emptive subscription right, with issuance of the corresponding report which was placed at the disposal of shareholders.

6. Listed companies drawing up the following reports on a voluntary or compulsory basis should publish them on their website well in advance of the annual General Meeting, even if their distribution is not obligatory:

   a) Report on auditor independence.

   b) Reviews of the operation of the Audit Committee and the Appointments and Remuneration Committee.

   c) Audit Committee report on related-party transactions.

   d) Report on corporate social responsibility policy.

   Complies

7. The company should broadcast its general meetings live on its corporate website.

   Complies

8. The Audit Committee should strive to ensure that the Board of Directors can present the company's accounts to the General Meeting without limitations or qualifications in the Auditor's Report. In the exceptional case that qualifications exist, both the Chairman of the Audit Committee and the auditors should give a clear account to shareholders of their scope and content of said reservations or exceptions.

   Complies

9. The company should disclose its conditions and procedures for admitting share ownership, the right to attend general meetings and the exercise or delegation of voting rights, and display them permanently on its website.

   Such conditions and procedure should encourage shareholders to attend and exercise their rights and be applied in a non-discriminatory manner.

   Complies

10. When an accredited shareholder exercises the right to supplement the agenda or submit new proposals prior to the General Meeting, the company should:

    a) Immediately circulate the supplementary items and new proposals.

    b) Disclose the model of attendance card or proxy appointment or remote voting form duly modified so that new agenda items and alternative proposals can be voted on in the same terms as those submitted by the Board of Directors.

    c) Put all these items or alternative proposals to the vote applying the same voting rules as for those submitted by the Board of Directors, with particular regard to put assumptions or deductions about the direction of votes.

    d) After the General Meeting, disclose the breakdown of votes on such supplementary items or alternative proposals.

    Not applicable

11. In the event that a company plans to pay for attendance at the General Meeting, it should first establish a general, long-term policy in this respect.

Not applicable

12. The Board of Directors should perform its duties with unity of purpose and independent judgement, according the same treatment to all shareholders in the same position. It should be guided at all times by the company's best interest, understood as the creation of a profitable business that promotes its sustainable success over time, while maximising its economic value.

In pursuing the corporate interest, it should not only abide by laws and regulations, and conduct itself according to principles of good faith, ethics and respect for commonly accepted customs and good practices, but also strive to reconcile its own interests with the legitimate interests of its employees, suppliers, customers and other stakeholders, as well as with the impact of its activity on the broader community and the natural environment.

Complies

13. The Board of Directors should have an optimal size to promote its efficient functioning and maximise participation. The recommended range is accordingly between five and 15 members.

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. This number is two more than Recommendation 13 of the Good Governance Code, although the company understands that the current size of the Board is appropriate to enable a company with a high level of significant shareholders to be able to find an appropriate balance between Proprietary and Independent Directors. Furthermore, there is also a sufficient number of the latter to take part on the different committees where their presence is required. This number in no way limits or restricts efficient and participative performance of this governing body.

14. The Board of Directors should approve a Director selection policy that:

a) Is concrete and verifiable.

b) Ensures that appointment or re-election proposals are based on a prior analysis of the Board's needs.

c) Favours a diversity of knowledge, experience and gender.

The results of the prior analysis of the Board needs to be written up in the appointment committee's explanatory report, to be published when the General Meeting is convened to ratify the appointment and re-election of each Director.

The Director selection policy should pursue the goal of having at least 30% of total Board places occupied by women Directors before the year 2020.

The Appointments Committee should run an annual check on compliance with the Director selection policy and set out its findings in the Annual Corporate Governance Report.

Complies partially

The Director selection policy seeks to ensure that the selection procedures have no implicit bias that could imply any discrimination whatsoever. Although the target of having one third of women Board Members by 2020 has not been made explicit, at the last General Meeting of Shareholders 50% of new Directors were women (66.7% if we consider only the new Independent Directors).

15. The External Proprietary and Independent Directors should represent a broad majority of the Board of Directors 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.

Complies

16. The percentage of Proprietary Directors out of all Non-executive Directors should be no greater than the proportion between the ownership stake of the shareholders they represent and the remainder of the company's capital.

This criterion can be relaxed:

a) In large cap companies where few or no equity stakes attain the legal threshold for significant shareholdings.

b) In companies with a plurality of shareholders represented on the Board but not otherwise related.

Complies

17. The number of Independent Directors should represent at least half of the total number of Directors.

However, when the company does not have a large market capitalisation, or when a large cap company has shareholders individually or concertedly controlling over 30% of capital, Independent Directors should occupy at least one third of Board places.

Complies

18. 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) Directorships held in other companies, listed or otherwise, and other paid activities they engage in, of whatsoever nature.

c) An indication of the classification of Director to which they belong, specifying, in the event of Proprietary Directors, the shareholder they represent or with whom they are linked.

d) Date of the first appointment as Director of the company, as well as subsequent appointments.

e) Company shares and stock options of which they are the holder.

Complies

19. Following verification by the Appointments Committee, the Annual Corporate Governance Report should disclose the reasons for the appointment of Proprietary Directors at the urging of shareholders controlling less than 3% of capital; and explain any rejection of a formal request for a Board place from shareholders whose equity stake is equal to or greater than that of others applying successfully for a proprietary directorship.

Not applicable

20. Proprietary Directors should resign when the shareholders they represent dispose of their ownership interest in its entirety. If such shareholders reduce their stakes, thereby losing some of their entitlement to Proprietary Directors, the latter's number should be reduced accordingly.

    Not applicable

21. The Board of Directors should not propose the removal of any Independent Director before the fulfilment of the statutory term for which he/she has been appointed, except when there is just cause, understood as such by the Board of Directors after a report issued by the Appointments Committee. In particular, just cause will be presumed when Directors take up new posts or responsibilities that prevent them allocating sufficient time to the work of a Board Member, or are in breach of their fiduciary duties or come under one of the disqualifying grounds for classification as independent pursuant to applicable legislation.

    The removal of Independent Directors may also be proposed when a takeover bid, merger or similar corporate transaction alters the company's capital structure, provided the changes in Board membership ensue from the proportionality criterion set out in Recommendation 16.

    Complies

22. 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 Directors of the criminal cases in which they appear as an accused party, as well as their subsequent procedural events.

    The moment a Director is indicted or tried for any of the offences stated in company legislation, the Board of Directors should open an investigation and, in light of the particular circumstances, decide whether or not he/she should be called on to resign. The Board of Directors should give a reasoned account of all the events in the Annual Corporate Governance Report.

    Complies

23. 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 of Directors.

    When the Board of Directors 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

24. 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 of Directors. 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.

    Not applicable

25. The Appointments Committee should ensure that Non-executive Directors have sufficient time available to discharge their responsibilities effectively.

The Board regulations should lay down the maximum number of company Boards on which Directors can form part.

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.

26. The Board should meet as regularly as necessary to carry out its functions effectively, and at least eight times a year, following the schedule of dates and issues laid down at the beginning of the year, where each Director may propose other items for the agenda not considered initially.

Complies partially

In accordance with Article 9 of the Board Regulations, 1/3 of the Directors may propose other items of the agenda for the Board meeting.

27. The non-attendance of the Directors should be reduced to essential cases and quantified in the Annual Corporate Governance Report. In the event of an absence, Directors should delegate their powers of representation with the appropriate instructions.

Complies

28. 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 of Directors, it should be recorded in the minutes of the meeting at the request of the person expressing the said concern.

Complies

29. The company should provide suitable channels for directors to obtain the advice they need to carry out their duties, extending if necessary to external assistance at the company's expense.

Complies

30. Regardless of the knowledge Directors must possess to carry out their duties, they should also be offered refresher programmes when circumstances so advise.

Complies

31. The agendas of Board meetings should clearly indicate on which points Directors must arrive at a decision, so they can study the matter beforehand or gather together the material they need.

For reasons of urgency, the Chairman may wish to present decisions or resolutions for Board approval that were not on the meeting agenda. In such exceptional circumstances, their inclusion will require the express prior consent, duly minuted, of the majority of Directors present.

Complies

32. Directors should be regularly informed of movements in share ownership and of the views of major shareholders, investors and rating agencies on the company and its group.

Complies

33. The Chairman, as the person charged with the efficient functioning of the Board of Directors, in addition to the functions assigned by law and the company's Articles of Association, should prepare and submit to the Board a schedule of meeting dates and agendas; organise and coordinate regular evaluations of the Board and, where appropriate, the company's chief executive; exercise leadership of the Board and be accountable for its proper functioning; ensure that sufficient time is given to the discussion of strategic issues, and approve and review refresher courses for each director, when circumstances so advise.

Complies

34. When a lead Independent Director has been appointed, the Articles of Association or Board regulation shall grant him/her the following powers over and above those conferred by law: chair the Board of Directors in the absence of the Chairman or Vice-chairmen; give voice to the concerns of Non-executive Directors; maintain contacts with investors and shareholders to hear their views and develop a balanced understanding of their concerns, especially those to do with the company's corporate governance; and coordinate the Chairman's succession plan.

Complies partially

The lead Independent Director has the powers that legally correspond.

35. The Board Secretary should strive to ensure that the Board's actions and decisions are informed by the government recommendations of the Good Governance Code of relevance to the company.

Complies

36. The Board in full should conduct an annual evaluation, adopting where necessary an action plan to correct weaknesses detected in:

a) The quality and efficiency of the Board of Directors' operations.

b) The performance and membership of its committees.

c) The diversity of Board membership and competences.

e) The performance of the Chairman of the Board of Directors and the company's chief executive.

f) The performance and contribution of individual Directors, with particular attention to the chairmen of Board committees.

The evaluation of Board committees should start from the reports they send the Board of Directors, while that of the Board itself should start from the report of the Appointments Committee.

Every three years, the Board of Directors should engage an external facilitator to aid in the evaluation process. This facilitator's independence should be verified by the Appointments Committee.

Any business dealings that the facilitator or members of its corporate group maintain with the company or members of its corporate group should be detailed in the Annual Corporate Governance Report.

The process followed and areas evaluated should be detailed in the Annual Corporate Governance Report.

Complies

37. When an Executive Committee exist, its membership mix by Director class should resemble that of the Board. The Secretary of the Board should also act as Secretary to the Executive Committee.

Complies

38. The Board should always be aware of the matters dealt with and the decisions adopted by the Executive Committee and all the members of the Board should receive a copy of the minutes of the sessions of the Executive Committee.

Complies partially

At each Board session, the items dealt with on the Executive Committee, on the Audit Committee and on the Appointments and Remuneration Committee are reported. The minutes of the committees are made available to Directors but are not sent on the grounds of confidentiality.

39. 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, and the majority of these members should be Independent Directors.

Complies

40. Listed companies should have a unit in charge of the internal audit function, under the supervision of the Audit Committee, to monitor the effectiveness of reporting and control systems. This unit should report functionally to the Board's Non-executive Chairman or the Chairman of the Audit Committee.

Complies partially

The Audit Department answers to the Executive Chairman.

41. The person responsible for the unit that assumes 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

42. The Audit Committee should have the following functions over and above those legally assigned:

1. In relation to the internal control and reporting systems:

a) Supervising the preparation and completeness of the financial information concerning the company and, if appropriate, the group, checking due compliance with the governing regulations, the proper delimitation of the consolidation criteria and the correct application of accounting criteria.

b) Ensuring independence of the unit that assumes the internal audit function; proposing the selection, appointment, re-election and removal of the head of the internal audit service: proposing the service's budget; approving the work plans and guidelines, making sure that its activities are mainly focused on relevant risks for the company; receiving periodic information on its activities; and to verifying that senior management take into consideration the conclusions and recommendations of its reports.

c) 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) In the case of the resignation of the external auditor, it should examine the circumstances leading to the said resignation.

b) Ensure that the remuneration of the external auditor does not compromise its quality or its independence.

c) Supervise the company notifies the change of auditor to the CNMV as a relevant event and attach a declaration on the possible existence of disagreements with the outgoing auditor and, if there are any disagreements, the content thereof.

d) Ensure that the external auditor holds an annual meeting with the full Board of Directors to report on the work carried out and the evolution of the accounting situation and of the company’s risks.

e) Ensure that the company and the external auditor observe current standards on the provision of services other than auditing services, the limits to the auditor’s business concentration and, in general, the other standards established to guarantee the independence of auditors.

Complies

43. The Audit Committee should be able to call any of the company’s employees or managers, and also have them appear without the presence of any other executive.

Complies

44. The Audit Committee should be informed of any fundamental changes or corporate transactions the company is planning, so the committee can analyse the operation and report to the Board beforehand on its economic conditions and accounting impact and, when applicable, the exchange ratio proposed.

Complies

45. The risk control and management policies should identify at least:

a) The different types of financial and non-financial risks the company is exposed to (including operational, technological, financial, legal, social, environmental, political and reputational risks), with the inclusion under financial or economic risks of contingent liabilities and other off-balance-sheet risks.

b) The determination of the risk level the company sees as acceptable.

c) The mechanisms to mitigate the impact of the risks identified, in the event that they materialise.

d) Internal control and information systems which shall be used to control and manage the foregoing risks, including the contingent liabilities or off-balance sheet risks.

Complies

46. Companies should establish a risk control and management function in the charge of one of the company's internal departments or units and under the direct supervision of the Audit Committee or some other dedicated Board committee. This function should be expressly charged with the following responsibilities:

    a) Ensure that risk control and management systems are functioning correctly and, specifically, that major risks the company is exposed to are correctly identified, managed and quantified.

    b) Participate actively in the preparation of risk strategies and in key decisions about their management.

    c) Ensure that risk control management systems are mitigating risks effectively within the frame of the policy drawn up by the Board of Directors.

    Complies

47. Appointees to the Appointments and Remuneration Committee - or of the Appointments Committee and Remuneration Committee, if separately constituted -should have the right balance of knowledge, skills and experience for the functions they are called on to discharge. The majority of their members should be Independent Directors.

    Complies

48. Large cap companies should operate separately constituted appointments and remuneration committees.

    Explain

The company has a single Appointments and Remunerations Committee on the understanding that it is neither necessary nor efficient to separate their duties.

49. The Appointments Committee should consult the company's Chairman and chief executive, especially with regard to business concerning the Executive Directors.

    And any Director should be able to request the Appointments Committee to consider potential candidates they deem ideal to cover vacancies.

    Complies

50. The Remuneration Committee should operate independently and have the following functions in addition to those assigned by law:

    a) Propose to the Board of Directors the basic conditions for the contracts of senior management.

    b) Ensure observance of the remuneration policy laid down by the company.

    c) Perform a regular review of the remuneration policy applied to Directors and senior management, including the share option system and the application of this, as well as ensuring that their individual remuneration is proportionate to that paid to other Directors and senior managers of the company.

    d) Ensure that any possible conflicts of interest do not jeopardise the independence of the external advice received by the committee.

    e) Verify the information on remuneration of Directors and senior managers contained in the different corporate documents, including the annual report on remuneration to Directors.

    Complies

51. 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

52. The terms of reference of supervision and control committee should be set out in the Board regulations and aligned with those governing legally mandatory Board committees as specified in the preceding set of recommendations. They should include at least the following terms:

a) Committees should be formed exclusively by Non-executive Directors, with a majority of Independents.

b) Their Chairmen should be Independent Directors.

c) The Board should appoint the members of these committees, bearing in mind the know-how, skills and experience of the Directors and the missions of each committee; it should deliberate on its proposals and report; and it should report on its activities and respond for the work carried out during the first plenary session of the Board after its meetings.

d) Outsourced consultancy should be used whenever deemed necessary for the performance of their duties.

e) Meeting proceedings should be minuted and a copy made available to all Board Members.

Not applicable

53. The task of supervising compliance with corporate governance rules, internal codes of conduct and corporate social responsibility policy should be assigned to one Board committee or split between several, which could be the Audit Committee, the Appointments Committee, the Corporate Social Responsibility Committee, where one exists, or a dedicated committee established ad hoc by the Board under its powers of self-organisation, with at least the following functions:

a) The supervision of compliance with the internal codes of conduct and the corporate governance rules of the company.

b) The supervision of the communication strategy and relations with shareholders and investors, including the small and medium shareholders.

c) Regular assessment of the appropriateness of the company's corporate government system, to ensure that it complies with its mission of fostering social interest and takes into consideration, as appropriate, the legitimate interests of remaining stakeholders.

d) The review of the company's corporate responsibility policy, ensuring this is focused on the creation of value.

e) The monitoring of the corporate social responsibility strategy and practices, and assessment of its level of compliance.

f) The supervision and assessment of relationship processes with the different stakeholders.

g) The assessment of everything concerning non-financial risks of the company -including operational, technological, legal, social, environmental, political and reputational risks.

h) The coordination of the system for reporting on non-financial information and diversity, pursuant to the applicable regulations and the international benchmark standards.

Complies

54. The corporate social responsibility policy should state the principles or commitments the company will voluntarily adhere to in its dealings with stakeholders, specifying at least:

a) The goals of its corporate social responsibility policy and support instruments to be deployed.

b) The corporate strategy with regard to sustainability, the environment and social issues.

c) Specific practices in issues relative to: shareholders, employees, customers, suppliers, social welfare issues, the environment, diversity, fiscal responsibility, respect for human rights and the prevention of illegal conduct.

d) The methods or systems for monitoring the results of the practices referred to above, and identifying and managing related risks.

e) The mechanisms for supervising non-financial risk, ethics and business conduct.

f) Channels for stakeholder communication, participation and dialogue.

g) Responsible communication practices that prevent the manipulation of information and protect the company's honour and integrity.

Complies

55. The company should report on corporate social responsibility developments in its Management Report or in a separate document, using an internationally accepted methodology.

Complies

56. The remuneration of Board Members should suffice to attract and retain the right people and to sufficiently compensate them for the dedication, abilities and responsibilities that the post demands, but should not be so high as to compromise the independent judgement of Non-executive Directors.

Complies

57. Variable remuneration linked to the company and the Director's performance, the award of shares, options or any other right to acquire shares or be remunerated on the basis of share-price movements and membership of long-term savings schemes such as pension plans should be confined to Executive Directors.

The company may consider the share-based remuneration of Non-executive Directors provided they retain such shares until the end of their mandate. This condition, however, will not apply to shares that the Director must dispose of to defray costs related to their acquisition.

Complies

58. In the case of variable remuneration, the remuneration policies should incorporate limits and the necessary technical precautionary measures to ensure that the said remuneration is related to the professional devotion of the beneficiaries and do not result simply from the general evolution of the markets or the company's activity sector or other similar circumstances.

In particular, variable remuneration items should meet the following conditions:

a) Be subject to predetermined and measurable performance criteria that factor the risk assumed to obtain a given outcome.

b) Promote the long-term sustainability of the company and include non-financial criteria that are relevant for the company's long-term value, such as compliance with its internal rules and procedures and its risk control and management policies.

c) Be focused on achieving a balance between the delivery of short-, medium- and long-term objectives, such that performance-related pay rewards ongoing achievement, maintained over sufficient time to appreciate its contribution to long-term value creation. This will ensure that performance measurement is not based solely on one-off, occasional or extraordinary events.

Complies

59. A major part of variable remuneration components should be deferred for a long enough period to ensure that predetermined performance criteria have effectively been met.

Complies

60. 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.

Explain

The variable remuneration of the CEO is not linked to company earnings should bear in mind any qualifications stated in the External Auditor's Report that reduce the amount. This is not a situation that has occurred at the company in the past.

61. A major part of Executive Directors' variable remuneration should be linked to the award of shares or financial instruments whose value is linked to the share price.

Explain

The variable remuneration of the CEO is not linked to the award of shares or financial instruments whose value is linked to the share price.

62. Following the award of shares, share options or other rights on shares derived from the remuneration system, Directors should not be allowed to transfer a number of shares equivalent to twice their annual fixed remuneration, or to exercise share options or other rights on shares for at least three years following their reward.

This condition, however, will not apply to shares that the Director must dispose of to defray costs related to their acquisition.

Not applicable

63. Contractual arrangements should include provisions that permit the company to reclaim variable components of remuneration when payment was out of step with the Director's actual performance or based on data subsequently found to be mis-stated.

Explain

The contract signed with the CEO is from February 2005 and makes no such allowance.

64. Termination payment should not exceed a fixed amount equivalent to two years of the Director's total annual remuneration and should not be paid until the company confirms that he/she has met the predetermined performance criteria.

Explain

The contract signed with the CEO is from February 2005 and provides for certain cases in which the financial compensation received by the CEO through termination of his contract would be equivalent to three annual payments plus a fourth year for noncompetition.

H. Other Information of Interest

1. If there is any relevant aspect in corporate governance in the company or in the group companies which has not been included in the rest of the sections of this report, but which it were necessary to include to show more complete and reasoned information on the governance structure and practices in the company or its group, briefly indicate them here.

2. In this section, you may include any information or clarification with regard to the previous sections of this report to the extent that they are relevant and non-repetitive.

   More specifically, indicate whether your company is subject to any corporate governance legislation other than Spanish law, and if so, include any information that is mandatory and different from that requested herein.

3. The company will also be able to indicate if it has voluntarily subscribed to other codes of ethical principles or good practices, at international or sector level, or in any other field. In that case, indicate the code in question and the date it was subscribed to. In particular, it shall state whether or not the Code of Good Tax Practices, of 20 July 2010, has been adhered to.

At its meeting on 17 September 2010, the Board of Directors agreed that Gas Natural Fenosa would adhere to the Code of Good Tax Practices. In accordance with the provisions laid down in the Code of Good Tax Practices, it is expressly placed on record that Gas Natural Fenosa has effectively complied with the content of this code and, more specifically, at the meeting held on 29 January 2016, the Board of Directors of Gas Natural Fenosa was notified about the tax policies adhered to by the group in 2015.

Note to C.1.12. Clarification of the position

Mrs Cristina Garmendia Mendizábal is Chairwoman of the Supervisory Board of Synigs AG.

Mrs Benita María Ferrero-Waldner is member of the Supervisory Board of Munich Reinsurance CO.

Note to C.1.45

The CEO’s contract has been approved by the company’s Board of Directors.

Note to D.4

All transactions carried out by companies or group companies with other entities belonging to the same group form part of the company's normal business activities in terms of their object and conditions. Details of transactions not eliminated in the drafting of consolidated financial statements appear in note 32 of the Consolidated Annual Accounts.

Pursuant to Spanish laws which determine which countries are considered to be tax havens (Royal Decree 1080/1991 of 5 July and Royal Decree 116/2003 of 31 January), Gas Natural Fenosa has the following shareholdings in companies incorporated in those territories:

- The holdings of 95% in Buenergía Gas & Power, Ltd, of 47.5% in Ecoeléctrica Holding, Ltd and of 47.5% in Ecoeléctrica Limited, are all registered in the Cayman Islands. They are companies which directly or indirectly own a single industrial shareholding which carries out the electrical generation activity by gas combined cycle plant in Puerto Rico (Ecoeléctrica, L.P.), which pay tax on their income in this country and which do not offer any kind of tax advantage for Gas Natural Fenosa.

- The 31.05% stake in Gasoducto del Pacífico (Cayman), Ltd, domiciled in the Cayman Island. This is a company which do not engage in business activities and which was included in the group as a result of the acquisition of the CGE group, and as such do not offer any type of tax advantage to Gas Natural Fenosa.

This Annual Corporate Governance Report has been adopted by the Board of Directors of the company in its session held on 29 January 2016.

Indicate whether or not there have been Directors who voted against or abstained from voting on the adoption of this report.

No

Payment Protection Service

We show solidarity with our customers during hard times by postponing the payment of their bills.

We strive to satisfy our customers' needs, and it is this vocation that has given rise to the Payment Protection Service through which, for a small monthly fee, we guarantee payment of electricity, gas and service bills up to a maximum of 1,200 euros in the event of unforeseen circumstances. So that our customers can take care of what matters.

Done and said

2015 Integrated Annual Report

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For detailed information on this project, scan this QR code with your mobile device or visit the 2015 Annual Report microsite.

www.informesanuales.gasnaturalfenosa.com

Operating Statistics

	2015	2014[2]	2013[1]	2012	2011
Gas distribution (GWh)	**429,748**	**424,290**	**422,352**	**409,775**	**395,840**
Spain (Sales-TPA)	177,391	171,816	191,189	195,769	201,231
Regulated gas sales	–	–	–	–	–
TPA	177,391	171,816	191,189	195,769	201,231
Latin America (Sales-TPA)	248,536	249,067	227,377	210,359	191,031
Regulated gas sales	159,574	158,695	144,323	131,408	114,559
TPA	88,962	90,372	83,054	78,951	76,472
Italy (Sales-TPA)	3,821	3,407	3,786	3,647	3,578
Regulated gas sales	0	0	0	2,754	2,730
TPA	0	0	0	893	848
Gas supply (GWh)	**316,268**	**310,628**	**308,010**	**328,058**	**308,635**
Spain[3]	185,851	190,068	210,506	238,450	236,903
Retail commercialisation in Italy	3,110	2,773	2,992	2,844	
International	127,307	117,787	94,512	86,764	71,732
UF Gas (GWh)[4]					
Commercialisation	–	–	–	55,683	56,937
Trading	–	–	–	28,200	26,503
Gas transportation/EMPL (GWh)	112,861	120,558	122,804	116,347	111,855
Gas distribution network (km)	**131,370**	**126,921**	**123,689**	**120,760**	**116,438**
Spain	51,016	48,931	47,678	46,541	43,871
Latin America	73,186	70,890	69,053	67,334	65,831
Italy	7,167	7,100	6,985	6,885	6,736
Increase in gas distribution points (thousands)	**334**	**328**	**284**	**292**	**316**
Spain	40	54	47	75	81
Latin America	293	272	231	208	217
Italy	1	2	6	9	18
Gas distribution points (thousands) as at 31/12	**12,610**	**12,276**	**11,948**	**11,663**	**11,372**
Spain	5,266	5,226	5,172	5,124	5,050
Latin America	6,886	6,593	6,321	6,090	5,882
Italy	458	457	455	449	440
Contracts per customer in Spain as at 31/12	**1.5**	**1.5**	**1.5**	**1.4**	**1.4**
Employees as at 31/12[5]	**20,641**	**22,652**	**15,062**	**17,270**	**17,769**
Electricity generated (GWh)	**49,548**	**48,282**	**51,080**	**56,248**	**56,616**
Spain	31,568	30,542	32,897	37,144	38,081
International	17,980	17,740	18,183	19,104	18,535
Electricity distribution (GWh)	**52,876**	**51,412**	**51,247**	**54,362**	**54,067**
Europe	34,676	34,262	34,804	36,288	36,361
International	18,200	17,150	16,443	18,074	17,706
Electricity distribution supply points (thousands) at 31/12	**7,694**	**7,561**	**7,439**	**8,309**	**8,133**
Europe	4,550	4,529	4,514	4,608	4,568
International	3,144	3,032	2,925	3,701	3,565

[1] Restated under IFRS 11.
[2] Does not include swap transactions.
[3] Includes wholesale and retail.
[4] Figures at 100%.
[5] Includes 7,791 employees of CGE.

Operating Statistics (continuation)

	2015	2014[2]	2013[1]	2012	2011
CGE Group[6]					
Gas distribution[7]					
Gas activity sales (GWh)	44,083	39,512	–	–	–
Regulated gas sales	14,805	12,924	–	–	–
TPA	29,278	26,588	–	–	–
Distribution network (km)	6,850	6,820	–	–	–
Increase in gas supply points (thousands)	21	20	–	–	–
Gas supply points (thousands)	562	540	–	–	–
Electricity distribution					
Electricity activity sales (GWh)	15,856	15,566	–	–	–
Regulated electricity sales	15,016	14,739	–	–	–
TPA	840	827	–	–	–
Electricity supply points (thousands)	2,928	2,854	–	–	–
Transmission					
Transported energy (GWh)	14,497	15,902	–	–	–
Transportation networks (km)	3,495	3,495	–	–	–

[6] Included in the consolidation perimeter of Gas Natural Fenosa under the global integration method, at 30 November 2014. At December 2015 an agreement was reached to sell Gasco S.A., and the liquefied petroleum gas business is now considered a discontinued operation.
[7] Excludes figures for Gasco Magallanes as this is a discontinued operation.

Financial Statistics

Balance Sheet Figures (in millions of euros)

Assets	2015	2014	2013[1]	2012[1]	2011
Gross tangible and intangible fixed assets	43,168	42,838	34,969	34,877	37,147
Consolidation goodwill	4,962	4,959	4,495	4,568	5,876
Provisions and accumulated depreciation	(13,912)	(12,747)	(11,133)	(9,992)	(9,199)
Net tangible and intangible fixed assets	**34,218**	**35,050**	**28,331**	**29,453**	**33,824**
Financial investments	**3,117**	**3,323**	**3,811**	**3,475**	**1,123**
Net equity attributed to the parent company	**14,367**	**14,141**	**13,444**	**13,261**	**12,792**
Non-controlling interests	**4,151**	**3,879**	**1,523**	**1,579**	**1,649**
Deferred income	**853**	**832**	**919**	**868**	**803**
Non-current financial liabilities	**15,653**	**17,740**	**15,091**	**17,530**	**17,539**
Current financial liabilities	**2,595**	**2,804**	**3,351**	**2,291**	**2,853**

[1] On 1 January 2014 Gas Natural Fenosa applied the IFRS 11 "Joint Arrangements", reformulating the consolidated balance sheets at 1 January 2013 and 31 December 2012 for the intents and purposes of comparison.

Profit and Loss Account Figures (in millions of euros)

	2015	2014[2]	2013[1]	2012	2011
Net turnover	26,015	24,697	24,322	24,904	21,076
Other operating income and allocation of subsidies	326	553	252	284	298
Operating income	**26,341**	**25,250**	**24,574**	**25,188**	**21,374**
Gross operating profit	**5,264**	**4,845**	**4,849**	**5,080**	**4,645**
Net operating profit	**3,261**	**3,185**	**3,022**	**3,067**	**2,947**
Financial expenses and income, fair value variations in financial instruments and net exchange differences	(894)	(799)	(803)	(874)	(934)
Results from disposal of financial instruments	–	–	–	–	2
Financial profit/loss	**(894)**	**(799)**	**(803)**	**(874)**	**(932)**
Profit before tax	**2,363**	**1,912**	**2,157**	**2,203**	**2,022**
Consolidated profit for the financial year	**1,824**	**1,658**	**1,658**	**1,657**	**1,526**
Consolidated profit for the financial year attributed to the parent company	**1,502**	**1,462**	**1,445**	**1,441**	**1,325**

[1] On 1 January 2014 Gas Natural Fenosa applied the IFRS 11 "Joint Arrangements", reformulating the Consolidated Profit and Loss Account at 31 December 2013 for the intents and purposes of comparison.

[2] The consolidated statement of income for 2014 has been re-expressed, reclassifying the liquefied petroleum gas (LPG) business in Chile as a discontinued operation in application of IFRS 5.

Cash Flow Statement Figures (in millions of euros)

	2015	2014	2013[1]	2012	2011
Cash flow statements of operations	**3,500**	**2,808**	**3,305**	**3,437**	**2,137**
Payments for investments in tangible and intangible fixed assets	**1,894**	**1,353**	**1,381**	**1,441**	**1,456**
Payments for other investments	**171**	**2,855**	**1,067**	**697**	**1,294**
Collection for divestitures	**436**	**1,076**	**1,280**	**933**	**2,521**
Payments for dividends and remuneration from other equity instruments	**1,070**	**1,125**	**1,057**	**566**	**445**
Collection/(payment) for financial liabilities	**(3,023)**	**(322)**	**(2,352)**	**(1,020)**	**(166)**

[1] On 1 January 2014 Gas Natural Fenosa applied the IFRS 11 "Joint Arrangements", reformulating the Consolidated Cash Flow Statement Figures at 31 December 2013 for the intents and purposes of comparison.

Stock Market Statistics

	2015	2014	2013	2012	2011
Number of shares traded (millions)	795	713	795	576	844
Funds traded (millions of euros)	16,075	15,044	12,161	6,726	10,827
Final share price (euros)	18.82	20.81	18.69	13.58	13.27
Final adjusted share price (euros)[1]	18.82	20.81	18.69	13.58	13.14
Maximum (euros)	22.90	24.44	18.80	13.97	15.00
Maximum adjusted (euros)[1]	22.90	24.44	18.80	13.97	14.86
Minimum (euros)	16.76	17.83	13.22	8.36	10.20
Minimum adjusted (euros)[1]	16.76	17.83	13.22	8.36	9.77
Book value per share (euros)	18.51	18.01	14.96[4]	14.93[2]	15.15[2]
Ebitda per share (euros)	5.26[6]	4.84[6]	4.85[4]	5.10[2]	4.87[2]
Net profit per share (euros)	1.57[5]	1.46	1.44	1.45[2]	1.39[2]
Capitalisation-book value ratio	1.0	1.2	1.2	0.9	0.9
Enterprise value-Ebitda ratio	6.5	7.8	6.8[4]	5.8	6.6
Capitalisation-profit ratio	12.5	14.2	12.9	9.4	9.9
Dividend-stock market capitalisation ratio (%)	5.0	4.4	4.8	6.6	6.3
Dividend-profit ratio (%)	62.1	62.1	62.1	62.1	62,1[3]
Share capital (number of shares as at 31/12)	1,000,689,341	1,000,689,341	1,000,689,341	1,000,689,341	991,672,139
Average number of shares	1,000,689,341	1,000,689,341	1,000,689,341	996,402,474	953,425,915
Stock market capitalisation (millions of euros)	18,828	20,824	18,708	13,589	13,155
Dividend (millions of euros)	933	909	898	895	823[3]

[1] Considering adjustments arising from the capital increase with preferential subscription rights carried out in June 2012.
[2] Considering the average number of shares for the year.
[3] Considering total amount equivalent for dividends.
[4] Restated under IFRS 11.
[5] Profit (loss) at 31 December 2015 adjusted in accordance with IAS 33 for the excess of the book amount of the preferential shares over the amount paid in their buyback, net of the tax effect.
[6] The 2015 and 2014 income statements are re-expressed through the discontinuance of the LPG business in Chile, without any effect on the net result.

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