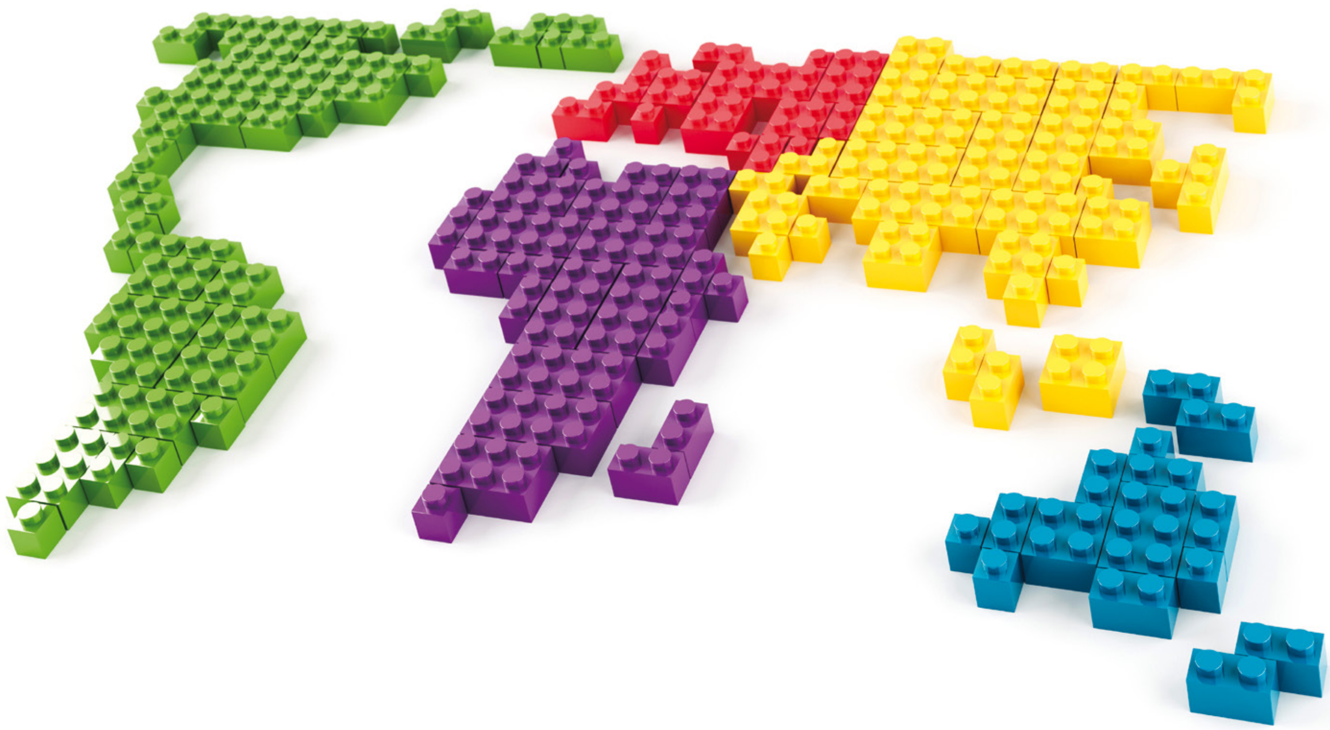
integrated annual report

2013



gasNatural fenosa

Contents

04 **Basic Figures.**

10 **Letter from the Chairman.**

12 **About the Integrated Annual Report.**

14 **Business model and value creation.**

- 16 Mission and Vision.
- 18 A business model present all over the world.
- 21 A competitive and integrated business model.
- 30 Gas Natural Fenosa's Commitments.

32 **Strategy.**

- 34 Market environment.
- 38 Strategic priorities.
- 40 Financial priorities.
- 40 Future views.

42 **Corporate Governance.**

- 44 Corporate Governance model.
- 44 General Meeting of Shareholders.
- 46 Board of Directors.
- 49 Management Committee.
- 50 Remuneration policy.

52 **Risk and opportunities.**

- 54 A model that anticipates evolution of the scene.
- 55 Future views.
- 57 Main opportunities.

58 **Profit for the financial year.**

- 60 Commitment to results.
- 69 Customer orientation.
- 73 Environment.
- 78 Interest in people.
- 81 Health and safety.
- 84 Commitment to society.
- 88 Integrity.

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

- 92 Audit Report.
- 93 Consolidated Balance Sheet.
- 94 Consolidated Income Statement.
- 95 Consolidated Statement of Comprehensive Incomel.
- 96 Statement of Changes in Consolidated net Equity.
- 97 Consolidated Cash Flow Statement.
- 98 Consolidated Annual Accounts.

222 **Consolidated Director's Report.**

- 224 Company's situation.
- 226 Business evolution and results.
- 263 Sustainability.
- 266 Main risks and uncertainties.
- 271 Group's foreseeable evolution.
- 274 R&D&i activities.
- 275 Annual Corporate Governance Report.
- 275 Treasury shares.
- 275 Events after the reporting date.

360 **2009-2013 consolidated data.**

- 362 Operating statistics.
- 363 Financial statistics.
- 364 Stock market statistics.

integrated annual report 2013

Basic figures

integrated annual report

2013

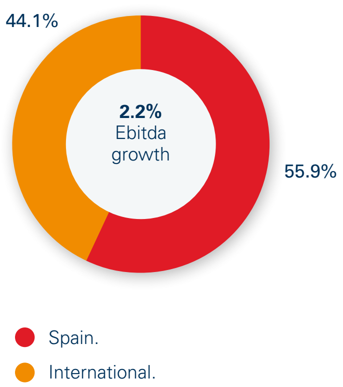
Financial performance (million euros)

	2013	2012	2011
Net turnover	24,969	24,904	21,076
Ebitda[1]	5,085	5,080	4,645
Attributable net profit	1,445	1,441	1,325
Total investments	1,636	1,386	1,514
Net financial debt	14,641	15,995	17,294

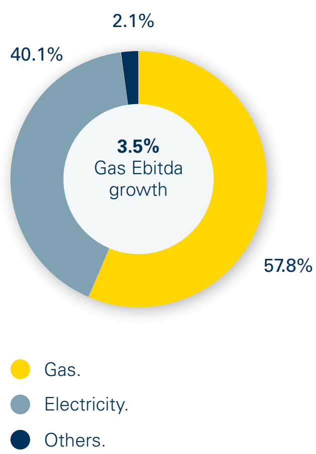
[1]Ebitda: Operating profit+amortization+operational provisions-other results.

Greater proportion of international activities, greater contribution from gas activities and diversified business profile

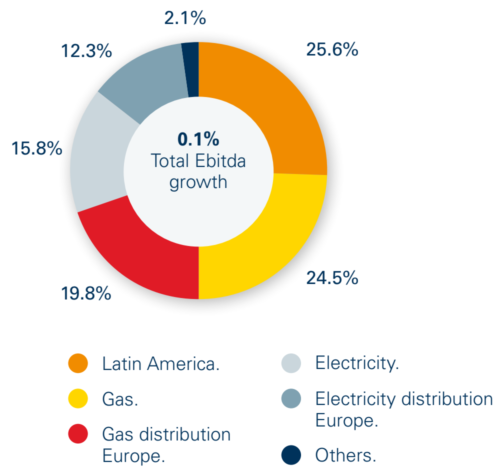
Ebitda by geographical area



Ebitda by activity 2013



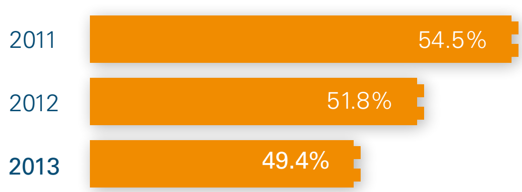
Ebitda by business 2013



Solid financial structure

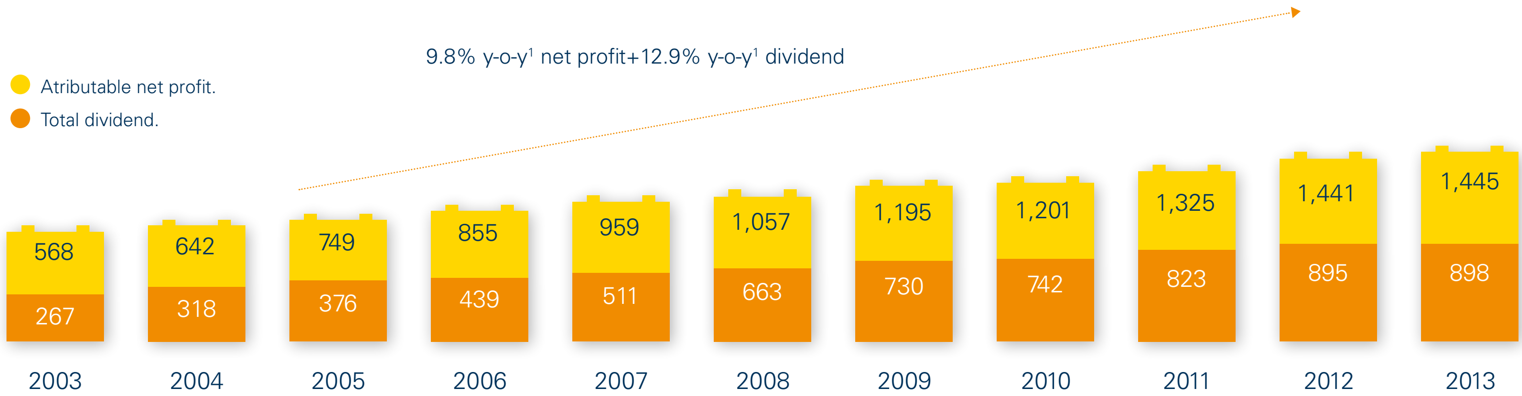
Net Debt/Ebitda

Borrowing[1]



[1] Net financial debt (Net financial debt + Equity).

Solid performance in net profit and total dividend over the last decade, even in difficult market conditions (millions of euros)



[1] Year-on-year growth.

Stock Market Information and shareholder remuneration

	2013	2012	2011
Average number of shares (thousand)	1,000,689	996,402	953,429
Closing price (euros)	18.69	13.58	13.27
Stock market capitalisation at 31/12 (millions of euros)	18,708	13,589	13,155
Profit per share (euros)	1.44	1.45	1.39
Pay out (%)	62.1	62.1	62.1
Total dividend[1] (million euros)	898	895	823
Dividend per share	0.90	0.89	0.83

[1] Considering total amount equivalent for dividends. In 2013, it includes a final dividend of 505 million euros pending approval by the General Shareholders' Meeting.

Operating performance of activity

Distribution	2013	2012	2011
Gas distribution (GWh)	424,808	409,774	395,840
Electricity distribution (GWh)	51,750	54,362	54,067
Gas supply points (in thousands)	11,948	11,663	11,372
Electricity supply points (in thousands)	7,543	8,309	8,133
Gas distribution network (km)	123,690	120,760	116,438
Length of electricity distribution lines (km)	241,040	247,977	244,818

Gas	2013	2012	2011
Gas supply (GWh)	**326,923**	**328,058**	**308,635**
Spain (GWh)	229,419	238,450	236,902
Rest (GWh)	97,504	89,608	71,733
Unión Fenosa Gas (GWh)[1]	**34,473**	**41,942**	**41,720**

[1] Items at 50% (shareholding percentage).

Electricity	2013	2012	2011
Installed Capacity in Spain (MW)	12,728	12,827	12,760
International installed Capacity (MW)	2,692	2,692	2,683
Total installed capacity (MW)	**15,420**	**15,519**	**15,443**
Net production in Spain (GWh)	33,785	37,144	38,081
International net production (GWh)	19,971	19,104	18,535
Total net production (GWh)	**53,756**	**56,248**	**56,616**

Environmental and social performance

Environment	2013	2012[1]	2011
Methane emissions in gas distribution (t CO_2 e/km network)	9.9	11.5	11.8
CO_2 avoided emissions (Mt CO_2 eq)	15.0	15.8	>17
Generation of hazardous waste (t)	8,212	5,126	7,333

Interest in people	2013	2012	2011
No. of employees[1]	16,323	17,270	17,769
Training hours per employee	55.7	52.7	52.2

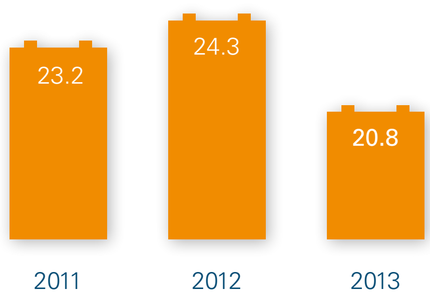
Health and safety	2013	2012	2011
No. of accidents with sick leave	152	157	174
Absenteeism rate (%)	1.70	2.14	2.94

Commitment to Society and integrity	2013	2012	2011
Distributed economic value (million euros)	23,156	23,134	19,631
Correspondence received by the Code of Ethics Committee (No.)	79	47	40

[1] Whereas the joint management companies 100%.

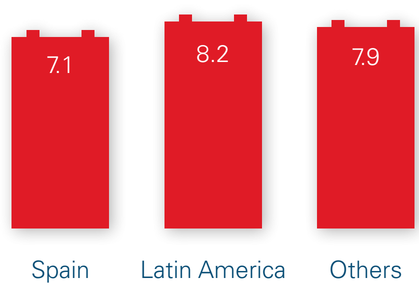
Greenhouse gas emissions

(million tonnes CO_2 eq)

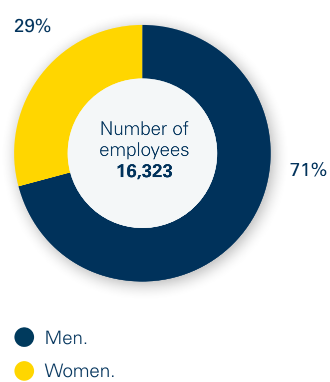


Customer satisfaction

(Scale of 1 to 10)



Gender



Letter from the Chairman

Dear shareholders,

I am pleased to present Gas Natural Fenosa's first Integrated Report, which once again includes our best practices for you to review the company's performance regarding economic, social, environmental and corporate governance fields. With a different content structure, this document aims to be clearer, offering an overview from all angles of action combining quantitative and qualitative indicators.

Thanks to them, the company's good results for 2013 can be appreciated. These reaffirm the strength of our business model to create value, despite the difficult and demanding environment, both on a macroeconomic level as well as on an energy and regulatory level.

The regional balance of activities, as well as regulated and deregulated business, enabled us to maintain Ebitda at 5.085 billion Euros and enjoy a net profit of 1.445 billion Euros, 0.3% higher than for 2012. These figures support our commitment to international activity which, with a strict financial policy and efficiency plans put in place five years ago, have offset the significant drop in the Spanish electricity business affected by the continued decline in demand and recently approved sector reforms.

Latin America and international gas sales were once again the company's driving force, maintaining its usual level of activity with important milestones such as our entry into the Peruvian gas distribution market; renewing our electricity concession in Panama; the signing of the first contract to supply gas to Korea; and the first supply agreements with Russia and Azerbaijan.

From a financial point of view, I would like to highlight the strict discipline we have applied that has allowed us to maintain a comfortable level of debt maturity, with about 80% from 2017 onwards; have an efficient structure of net debt; and have sufficient guaranteed liquidity to cover all financial needs for over 24 months.

After having met the goals the company set for 2012, Gas Natural Fenosa has reviewed its lines of strategy for 2013-2015 with a view to 2017 in order to adapt them to the current macroeconomic and energy contexts. We are in a very good position to capture not only organic growth where we already distribute gas and electricity, mainly in Latin America, but also to take advantage of new business opportunities.

Goals for the coming years include strengthening our leading position in the global LNG business and to develop power generation in emerging markets. And in Spain, there are still opportunities for growth within the gas market, whose development holds many possibilities.

These strategic guidelines, together with realistic goals, provide the core concept for anticipating a significant improvement in growth from 2015 onwards. They will also allow us to maintain our commitment to our shareholders through a pay out of around 62% as well as a strong cash dividend policy, consistent with growth objectives and foreseeable deleveraging.

This, together with our corporate responsibility commitments, create the pillars for defining ambitious plans of action to meet your -our shareholders'- expectations, as well as those of all our other stakeholders.

The main sustainability indices, led by the Dow Jones Sustainability Index, the FTSE4Good and the Carbon Disclosure Project, or rankings such as Fortune, continue to recognise the leading market position held by a company that fulfils its commitments and maintains a solid foundation to continue growing in the future.

On behalf of the Board of Directors, I thank you once again for putting your trust in Gas Natural Fenosa, and I invite you to examine this new integrated report model in which you can appreciate our company's various areas of value creation.

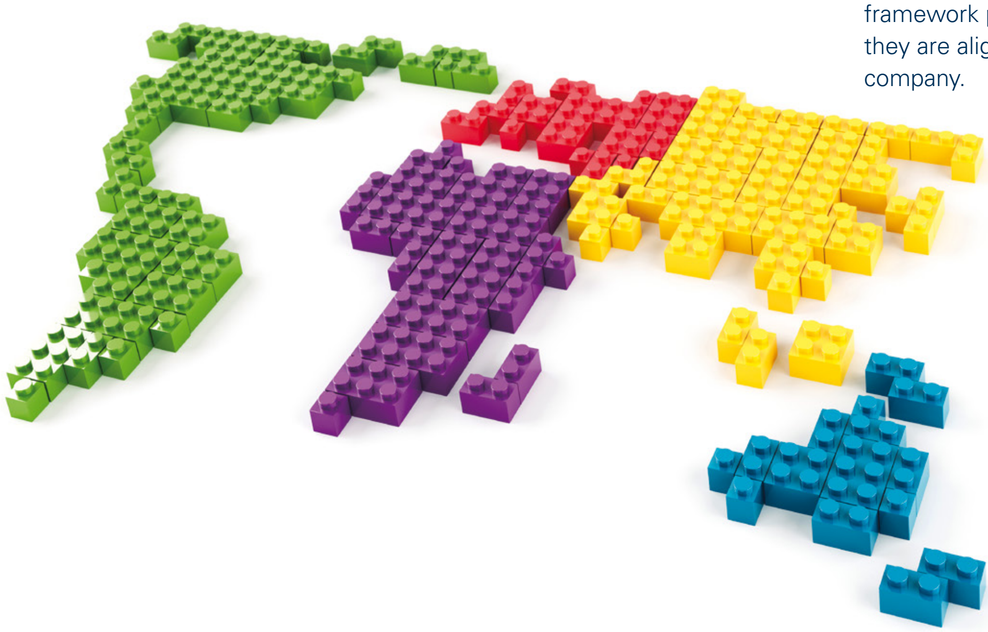
Salvador Gabarró Serra
Chairman of the Board
of Directors

About the Integrated Annual Report

This is the first time Gas Natural Fenosa has published an Integrated Annual Report. The main purpose of this report is to offer a more comprehensive view of the organisation, showing the integration of financial and non-financial aspects governing the company's business performance. This year, particular attention has been paid to the update of the 2013-2015 and vision 2017 Strategic Plan which has been approved during the year, providing more information about Gas Natural Fenosa's business model and its capacity to create value over time.

This report has been drawn up taking into account the framework <IR> of the International Integrated Reporting Council (IIRC). For non-financial areas, the group has taken into account the Guide for drawing up the Sustainability Report of the Global Reporting Initiative (GRI), version 4.

In this first year that the Integrated Annual Report has been drawn up, a working committee has been established to ensure that the framework principles are correctly applied and to guarantee that they are aligned with other types of information published by the company.



The analysis of the material aspects has been based on:

Guidelines and Contents of the <IR> Framework of the CIIRC

Analysis of Stakeholders' expectations

Selection of main aspects defined by GRI G4, analysing the information on prescribers considered to be relevant.

Analysis of investors' expectations

Prioritisation of aspects according to feedback from investors and ESG analysts[1] received during the different roadshows held in 2013.

Analysis of Good Practices

Analysis of good practices by companies recognised for their progress in the field of Integrated Reports.

[1] Environmental, Social and Governance.

Readers of the Report also have access to other annual 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.

This Report contains the consolidated financial and non-financial data of Gas Natural Fenosa, referring to all the activities carried out by Gas Natural Fenosa during 2013 as a global gas and electricity operator, though certain sections contain individual (non-consolidated) items. The complete list of companies making up Gas Natural Fenosa at 31 December 2013 appears in Annex I of the Consolidated Annual Accounts, entitled "Companies of Gas Natural Fenosa".

Facilitate reading of report

This icons shows you where you can find more information about the Company performance on the website of Gas Natural Fenosa.

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

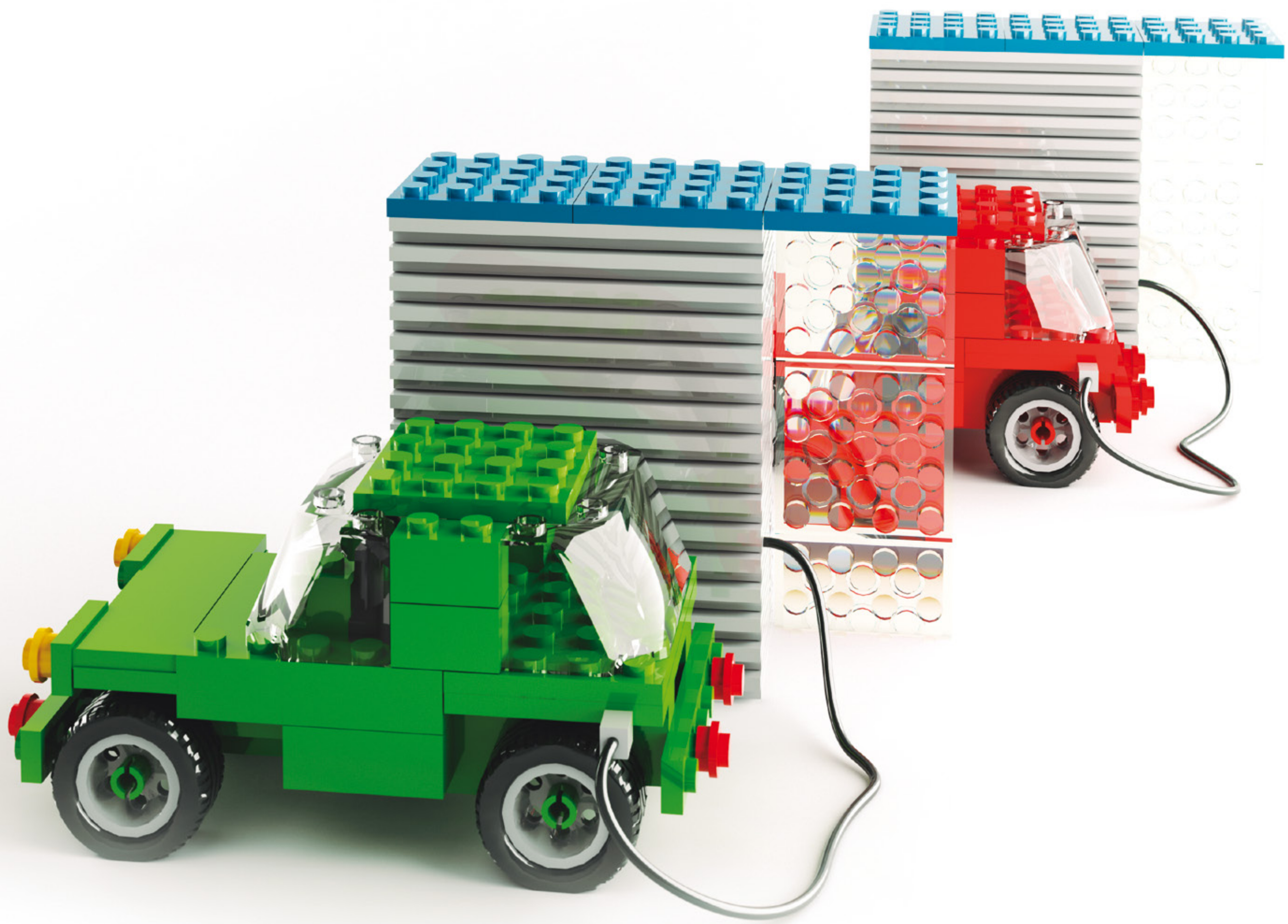
Feedback

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.integrado@gasnatural.com

Business models and value creation

16 Mission and Vision.
18 A business model present all over the world.
21 A competitive and integrated business model.
30 Gas Natural Fenosa’s Commitments.

integrated annual report 2013



Mission and Vision

For 170 years, Gas Natural Fenosa has worked towards improving day by day so as to be able to offer services to society through the use of the most advanced technologies available. The company’s century-long experience, tied to its competitive positioning, makes Gas Natural Fenosa a company that is ready to successfully tackle the challenges of a globalised market.

The Mission of the Gas Natural Fenosa is to satisfy society’s energy requirements, providing its customers with environmentally-friendly quality services and products, offering its shareholders a growing and sustainable return, and its employees the chance of developing their professional skills.

With this Vision in mind, 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.

Gas Natural Fenosa: “Energy that thinks”

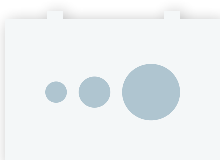
What is special about Gas Natural Fenosa's business model is that it carries out responsible and sustainable management of all the resources it uses. This commitment towards sustainability and creating value over the course of time, is materialised in the corporate responsibility policy, which is approved by the Board of Directors. This policy is present throughout the company's business process and takes the form of seven corporate responsibility commitments towards its stakeholders and which determine the way it acts: commitment to results, customer orientation, environmental protection, interest in people, health and safety, commitment towards society and integrity.

Gas Natural Fenosa Vision

The Vision of Gas Natural Fenosa is based on the following pillars:

Being a leading energy and services group, with constant growth, and with a multinational presence.

Providing an excellent service quality to its clients.



Providing sustained return to shareholders.

Providing employees with professional and personal opportunities.

Making a positive contribution to society.

Acting with a global citizenship commitment.

Gas Natural Fenosa: "Energy that thinks"

Corporate Responsibility Commitments

Results | Customers | Environment | People | Health and Safety | Society | Integrity

Sustainable management of all resources

Financial
- Investments.
- Financing.
- Net worth.

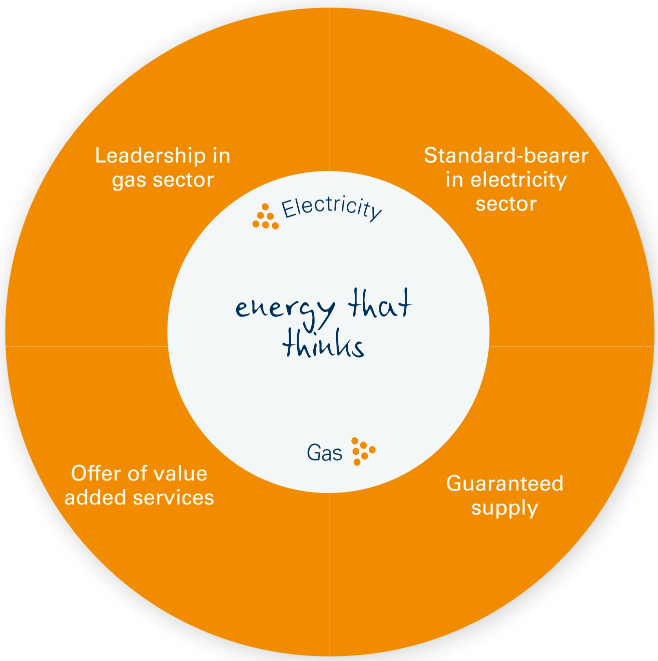
Natural
- Energy usag.
- Other resources.

Industrial
- Infrastructures.

Human
- Employees.
- Talent management.
- Health and safety.

Intellectual
- Technological innovation.

Social
- Social investment.
- Relations with stakeholders.



Corporate Governance

Risk Management

Value creation

Commitment with results and impacts on activity

Financial
- Ebitda.
- Pay out.
- Borrowing.

Operating staff
- Number of customers.
- Presence in countries.
- Energy supply.
- Kms of network.

Sustainability
- Emissions.
- International acknowledgements.
- Contribution to society.

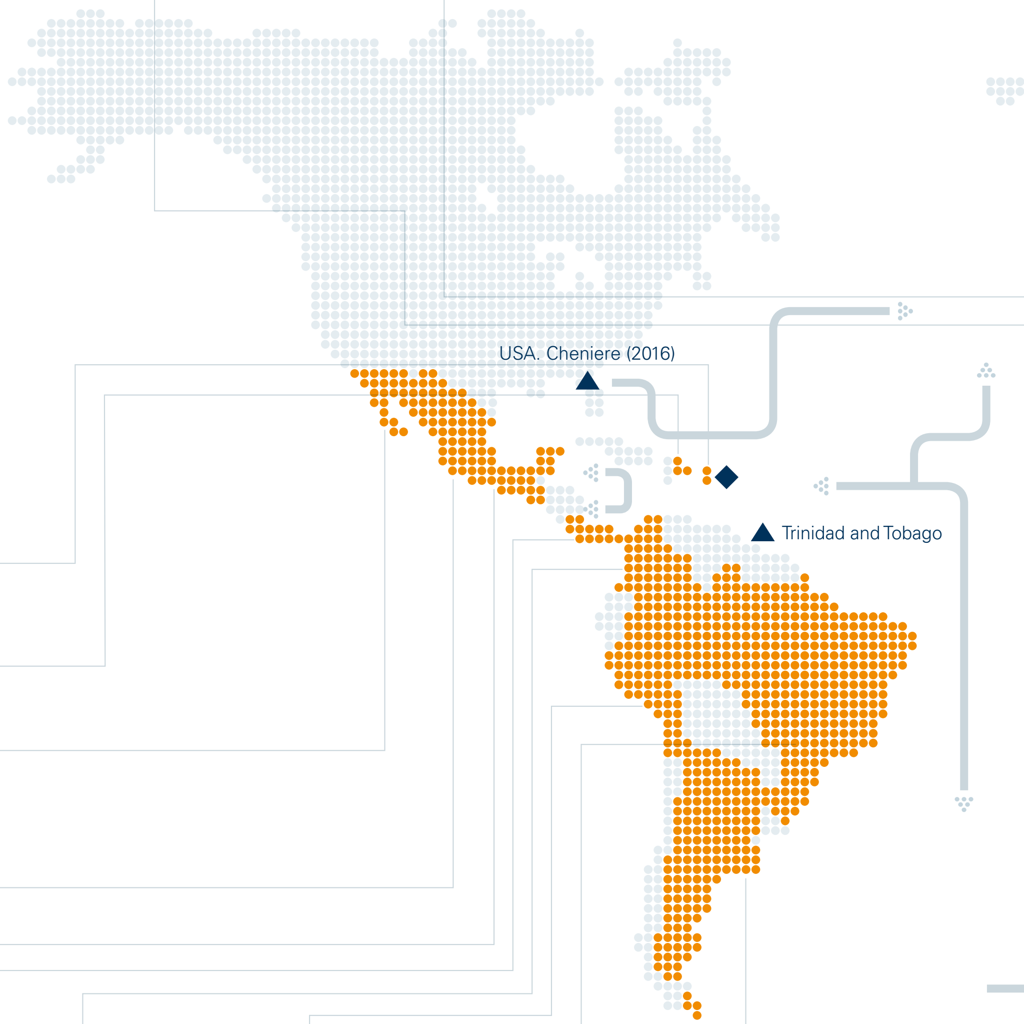
A business model present all over the world

Gas Natural Fenosa operates in over 25 countries with 20 million customers, and almost 50% of its employees work in other geographical areas 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.
- Europa-North Africa gas pipeline (Empl).
- Medgaz gas pipeline.

Portugal
NG/LNG commercialisation and Electricity commercialisation.

Spain
Exploration, transportation,distribution and commercialisation of gas and electricity. Generation (combined cycles, thermal, nuclear, hydroelectric, co-generation and wind). Regasification, upstream, commercialisation and NG/LNG infrastructure.



Puerto Rico
NG/LNG infrastructure (regasification plant) and generation (263 MW, combined cycles).

Dominican Republic
Generation (198 MW).

Mexico
Gas distribution (8 states in Mexico including Mexico City and 1.3 millions of clients) and generation (2 GW, combined cycles).

Guatemala
Telecommunications.

Costa Rica
Generation (51 MW, hydroelectric).

Panama
Electricity distribution (Panama Centre, West, Interior, Chiriquí and 0.5 millions of clients), generation (33 MW, hydroelectric power plants and fuel-oil).

Colombia
Gas distribution (Bogota, Soacha and 2.5 millions of clients), electricity distribution (Atlantic Coast, 2.4 millions of clients).

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

Brazil
Gas distribution (State of Rio de Janeiro, São Paulo South and 0.9 millions of clients). NG/LNG commercialisation.

Argentina
Gas distribution (30 municipalities in the north and west of the province of Buenos Aires, 1.6 millions of clients). NG/LNG commercialisation.

For further information on the group's corporate structure by business activities, refer to the Annex I of the 2013 Consolidated Annual Accounts.

United Kingdom
NG/LNG commercialisation.

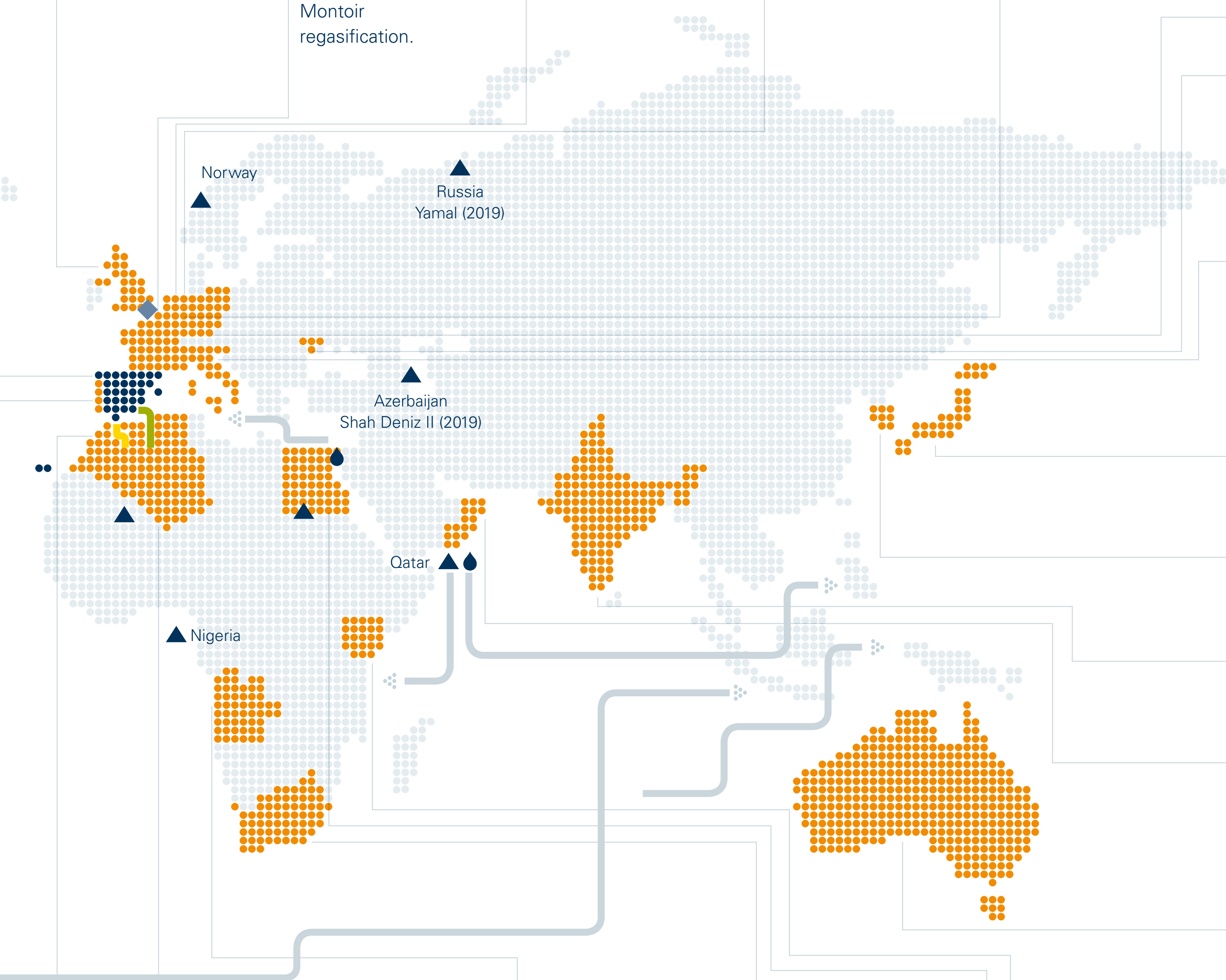
France
NG/LNG commercialisation.
Montoir regasification.

Belgium
NG/LNG commercialisation.

Netherlands
NG/LNG commercialisation.

Luxembourg
NG/LNG commercialisation.

Germany
NG/LNG commercialisation.



Moldova
Electricity distribution (south and centre of Moldova, includes capital Chisináu, 0.8 millions of clients).

Italy
Gas distribution and commercialisation (central and southern Italy, 0.5 millions of clients), infrastructure projects (regasification plants).

Japan
NG/LNG commercialisation.

Korea
NG/LNG commercialisation.

India
NG/LNG commercialisation.

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

Australia
Wind generation projects.

Morocco
NG/LNG infrastructure, gas pipeline North Africa-Europe.

Algeria
NG/LNG procurement and infrastructure.

Angola
NG/LNG infrastructure (integrated gas project).

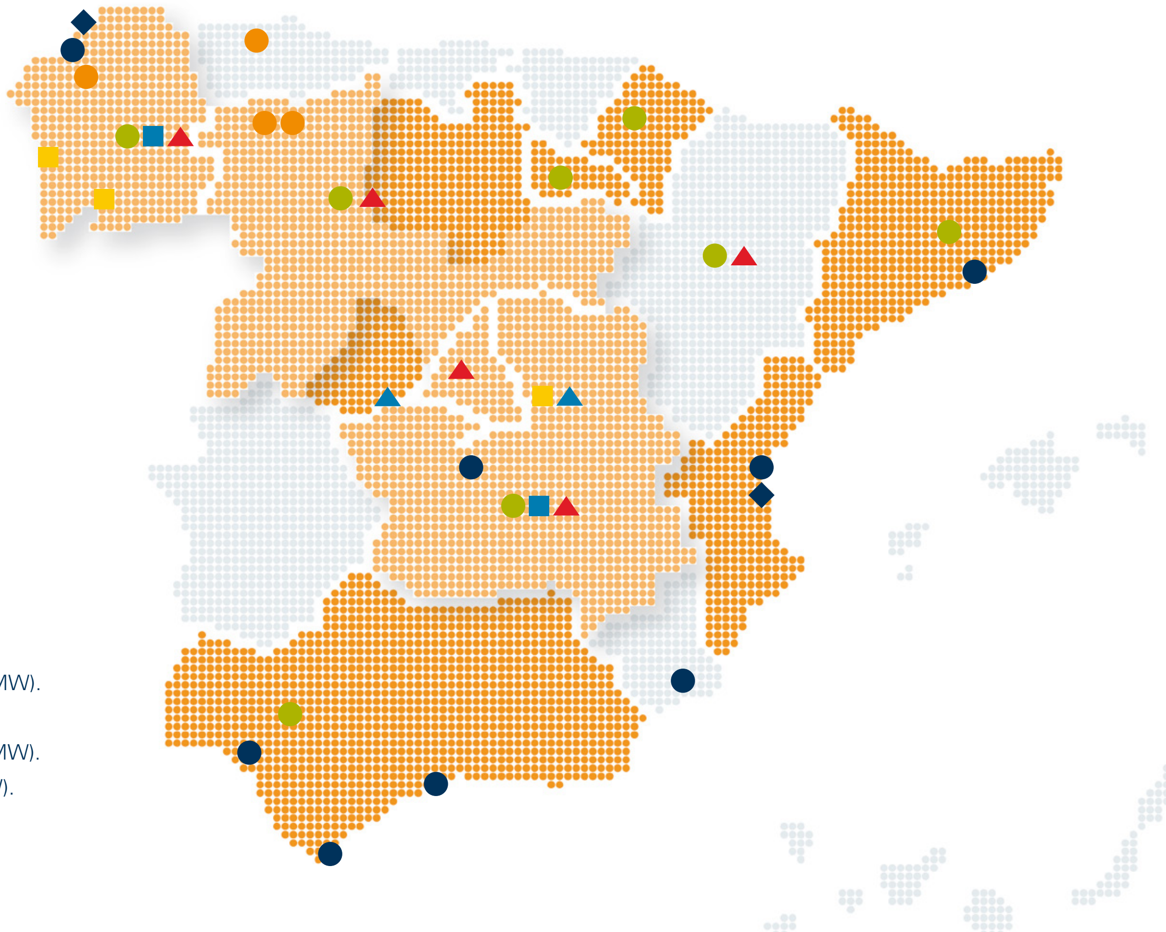
South Africa
Coal procurement.

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

Kenya
Generation (112 MW Fuel-oil).

Gas Natural Fenosa in Spain

- Exploration, transportation,distribution and commercialisation of gas and electricity.
- Generation (combined cycles, thermal, nuclear, hydroelectric, co-generation and wind).
- Regasification, upstream, commercialisation and NG/LNG infrastructure.



- Wind (969 MW).
- Micro-hydroelectric (69 MW).
- Co-generation (76 MW).
- Combined cycle (6,998 MW).
- Hydroelectric (1,907 MW).
- Nuclear (604 MW).
- Coal (2,048 MW).
- Regasification plan.

- Gas distribution (5.1 millions of customers).
- Electricity distribution (3.8 millions of customers).

A competitive and integrated business model

Gas Natural Fenosa is an integrated energy company which supplies gas and electricity to 20 million customers. Its main goal is to supply society with energy so it can maximise its development and well-being, turning innovation, energy efficiency and sustainability into cornerstones of the business model. It is the leader in the energy sector and a pioneer in gas and electricity integration. 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:

- Europe gas distribution (Spain and rest).
- Gas (infrastructures, procurement and commercialisation and Unión Fenosa Gas).
- Europe electricity distribution (Spain and rest).
- Electricity (Spain and rest).
- Latin America (gas distribution, electricity distribution and electricity).

Leadership in the gas business

- 11.9 million supply points.
- 123,690 km of network.

Distribution

Gas distribution business Europe and Latin America

Europe

- The company is a leader in Spain, where it distributes natural gas to over 1,000 Municipalities in nine Autonomous Communities and has over 5.1 million customers.
- It has a solid presence in Italy, distributing to 225 municipalities and 0.5 million customers.

Latin America

- Its core markets are Mexico, Colombia, Brazil and Argentina.
- It operates in six of the ten most important cities in Latin America.
- It is the leading distribution company in Latin America, where it distributes to over 6.3 million of customers.

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.

- 30 bcm[1].

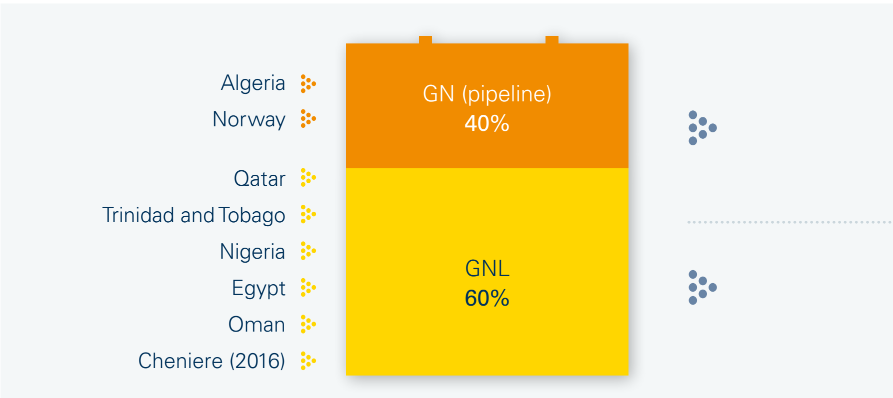
Procurement

Gas business

- Acquisition of natural gas all over the world in both gaseous state (NG) and liquefied natural gas (LNG).
- 30 bcm supply portfolio:
  - Flexibility regarding destinations.
  - Diversified sources.
  - Competitive prices.
- Relations with suppliers use long term stable contracts, ensuring regular supply.

For Gas Natural Fenosa, suppliers play a key role in ensuring that the value chain works perfectly. The company establishes long term contracts, assumes the commitment towards the society in which it operates and minimises its environmental impact, while guaranteeing supply.

[1] Billon cubic metres.
[2] Figures at 50%.



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

- Nine methane carrier vessels.
- North Africa-Europe gas two pipelines (Empl) and Medgaz.

- 327 TWh of gas supplied.
- 34 TWh supplied by Unión Fenosa Gas[2].

Infrastructures

Transportation

- LNG: nine methane ships (1,110,000 m³)
- Natural gas: management of the main gas pipeline supplying the Iberian Peninsula North Africa-Europe (Empl) and 14.9% stake in Medgaz.

Liquefaction and regasification

- Participation in three regasification plants (Reganosa, Saggas, Ecoeléctrica) and two liquefaction plants (Damietta and Oman).

Storage

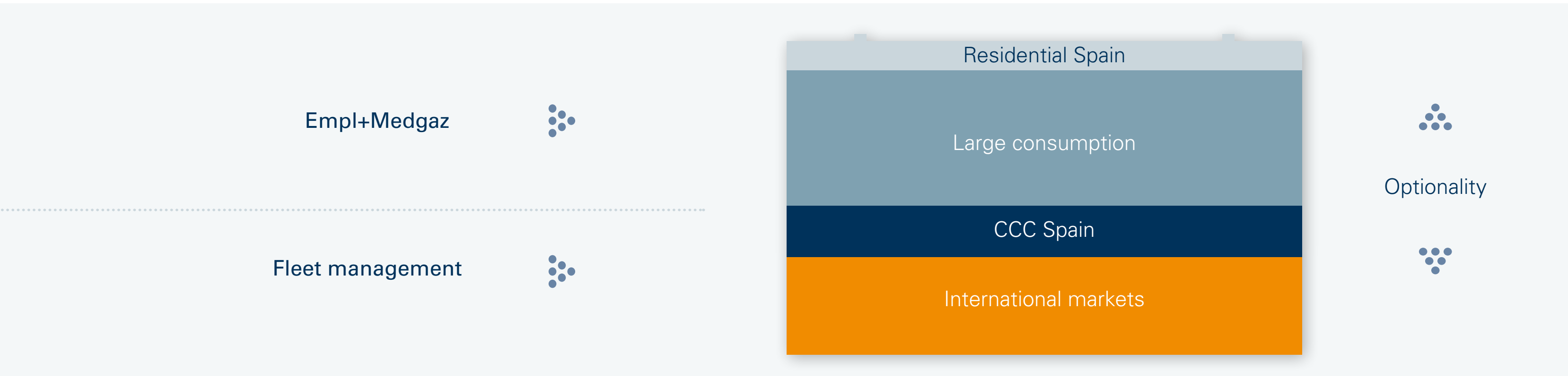
- Own storage capacity of 0.5 bcm, or leased capacity of 1.1 bcm. It enables a steady supply and avoids the impact of seasonal changes or demand peaks.

Single integrated gas infrastructure providing the business with high level of stability, making operations more flexible and allowing gas to be transported towards the best business opportunities.

Commercialisation

- It acts as a gas commercialiser both in Spain (residential market, large consumption and electricity) with a market share of 44.6%, and in the international market.
- Leadership in the dual fuel energy offer and broad range of value added services.
- Competitive supply to combined cycle plants (CCP).
- Leading LNG operator in the Atlantic basin with the option of exploiting attractive markets such as Asia.
- Unique access to markets: over 11 million customers and sales in over ten countries.
- Its positioning in international markets allows it to obtain additional margins through adequate trading activity.

Gas Natural Fenosa's value added services are able to meet the demands for speed, guarantee, quality and, above all, efficiency required by customers.



Standard-bearer in the electricity business

- 7.5 million supply points.
- 241,040 km of network.

Distribution

Electricity distribution business: Europe and Latin America

Europe

- Gas Natural Fenosa is the third-ranking operator in the Spanish market, where it distributes electricity to 3.8 million customers.
- The company is the leader in Moldavia, with 0.8 million customers.
- It is one of the most efficient operators in terms of operating and maintenance costs.

Latin America

- Gas Natural Fenosa operates in Panama and Colombia (2.9 million customers), where it is considered as the leading operator.

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

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

Electricity business

Generation

- 15.4 GW of generation capacity.

Spain:

- 12.7 GW capacity with an important presence in five technologies: 7.0 GW CCP, 1.9 GW hydroelectric, 2.1 GW coal, 1.1 GW special system, 0.6 GW nuclear energy.
- Gas Natural Fenosa has a 20.6% market share in the ordinary generation regime and 2.7% under the special regime.
- Gas Natural Fenosa controls and operates the most efficient set of combined cycle plants in Spain, in ideal locations.

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International

- 2.7 GW capacity: 2.3 GW CCP (Mexico and Puerto Rico), 0.3 GW fuel (Dominican Republic, Panama and Kenya), 0.1 GW hydroelectric (Costa Rica and Panama).
- Highly regulated and totally contracted business (energy purchase-sale agreements).
- Gas Natural Fenosa has a balanced, highly competitive and environmentally-friendly mix of technologies.

The company has far-reaching knowledge in all generation technologies and provides an energy implementation 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.

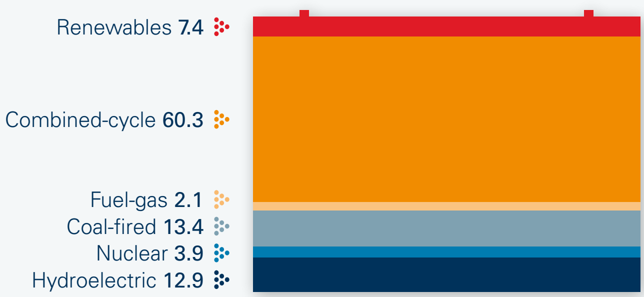
Commercialisation

- 33 TWh commercialised.

- It acts as a leading electricity commercialiser in the large consumption and residential segments with a total market share of 13.6% in Spain.
- It provides twin coverage for electricity generation: a competitive gas supply and an attractive commercialisation business.
- Dual fuel energy offer and broad range of value added services.
- One of the most important trading agents on the Spanish market.

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.

Electrical generation capacity (%)



Guarantee of supply

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 function.

Gas Natural Fenosa also manages a balanced gas procurement portfolio, with approximately 40% of supplies in the form of natural gas (NG), supplies which are highly flexible from the standpoint of volume, and another 60% of supplies in the form of liquefied natural gas (LNG). These supplies offer the company a great deal of flexibility in terms of the destination where the gas is to be positioned.

From the standpoint of gas sources, Gas Natural Fenosa has procurement contracts with a large number of countries, including Algeria, Norway, Nigeria, Trinidad and Tobago, Qatar, so that if any incident were to arise in any of them, it has a limited effect on the group's procurement mix.

Gas Natural Fenosa's relations with suppliers are built around stable, long-term contracts. This assures the company of a regular supply, so it only has to access the spot market on specific occasions and basically to take advantage of market opportunities.

In order to maintain a balanced supply mix, Gas Natural Fenosa continuously negotiates with its main suppliers, and regularly enters into new supply agreements, such as those recently signed with the US, Russia and Azerbaijan.

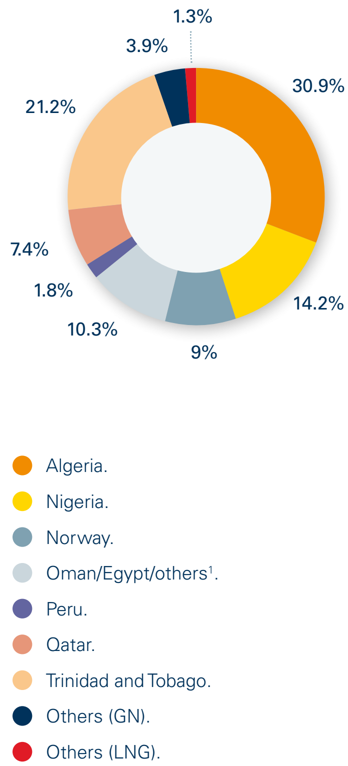
Furthermore, in order to cope with short term changes in demand or supply issues, Gas Natural Fenosa has contracts for the use of underground storage space in most of the countries where it operates. In Spain, Gas Natural Fenosa takes an active role in developing underground storage plants, and operates the Marismas underground 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 production mix in order to cope with changes in raw materials prices - basically gas and coal - and the quantity of 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.

Diversification in sources of supply



[1] Gas deriving from Unión Fenosa Gas.

Supply of value-added services

Knowledge of customers' needs

The company uses tools which enable it to listen to its customers' needs and to structure its commercial supply. This takes the form of a broad variety of segmented products and services for each customer depending on their particular requirements.

The products offered by Gas Natural Fenosa are not restricted solely to the supply of gas and electricity, but encompass other aspects of the home, business, and large clients. Therefore, it has domestic tariffs, tariffs for small and medium-sized companies, comprehensive services for sustainable transport, and other associated energy efficiency services, energy management and assessment services and/or sale, leasing or financing of energy equipment.

Innovative products and services

The offer of basic products includes dual (combined) gas and electricity supplies, so there can be an ideal tariff structure according to the volume of needs. This year, Gas Natural Fenosa has also increased the range of value added services for maintenance of the gas and electricity installation.

Since late 2013, customers have been able to contract gas and electricity jointly in the form of a flat rate. These tariffs can also be combined with all home maintenance options. Since October 2013, customers have also been able to ask Gas Natural Fenosa to assess the energy rating of their home and to obtain the pertinent certificate.

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 development and promotion of these new products forms part of the company's new positioning, called "Energy that thinks". The aim is to add a new concept to the company's already known positioning based on well-being, this time based on respect for the environment, energy efficiency and the development of innovative energy services and solutions.

<table>
<tr><th>Homes</th><th>Business</th><th>Major customers</th></tr>
<tr><td colspan="2">Natural gas and electricity</td><td>Products: gas, electricity, LGN</td></tr>
<tr><td colspan="2">Services</td><td>Efficiency and sustainability</td></tr>
<tr><td colspan="2">Equipment</td><td>Value-added service</td></tr>
<tr><td colspan="2">Energy saving and efficiency</td><td>Personalised management</td></tr>
<tr><td></td><td>Energy solutions</td><td></td></tr>
</table>

In 2013, Gas Natural Fenosa set a record of over two million contracts in maintenance and assistance services of Spanish homes. This figure is tantamount to an increase of over 10% in portfolio. The company has also developed a new service, Servigas Complet, adding cover for parts up to a maximum of 300 euros/year. This is a service which was solicited by our customers.

Gas Natural Fenosa is developing new products which include:

- Sales and maintenance of equipment.
- Development of mobility products based on vehicular natural gas, such as the installation of liquefied natural gas (LNG) and compressed natural gas (CNG) stations.
- Development of energy efficiency products and services allowing customers to design an energy consumption strategy that optimises their pattern of consumption.

Communication and transparency with customers

Gas Natural Fenosa is constantly adapting the channels for communication and management of contracts with customers. It has promoted a new retail market website for its residential and SME customers where they have an innovative "Private Area".

Another important point is that since September 2013, the website has offered a module for completely contracting a product online. It has also continued with the classic Clik to Call method whereby customers can make a telephone call to contract a product, 24 hours a day, and 7 days a week.

Another important development in the use of communication and contracting channels is that the Servigas and Servielectric emergency telephone services provide the full range of services to offer, and customers can receive offers and make orders of products or carry out modifications of contracts even when the customer has not previously contracted those services.

In 2013, the company also set up two social network channels in Twitter and in Facebook, where customers can communicate with Gas Natural Fenosa and receive a response, and also make email or telephone queries. In 2014, the project will be extended and spaces will be opened in Twitter and Facebook for the retail business. Here customers will have a new way of learning about products and interacting with the company.

Gas Natural Fenosa's Commitments

One of the most important parts of Gas Natural Fenosa's business strategy is its commitment towards corporate responsibility, as it enables the company to generate long-term value by creating trust for its stakeholders and in achieving strategic targets. The Corporate Responsibility Policy was approved by the Board of Directors in 2008 and updated in 2013, in line with the targets of the Strategic Plan.

Corporate responsibility commitments cut apply right across the board and affect the full breadth of Gas Natural Fenosa's business model, based on generating economic, social and environmental wealth. Corporate responsibility is a means of managing the impact that the company's activity has on the societies and countries where it operates. As such, it allows Gas Natural Fenosa to formalise its commitment towards society and turn it into a competitive advantage and a critical element in ensuring the company's sustainability.

For further information on the group's corporate responsibility commitments, refer to the 2013 Corporate Responsibility Report.

How does Gas Natural Fenosa create value?

Results
Financial discipline and shareholder remuneration set the foundations to achieve higher growth from 2015 on.

Society
Creating value through its activity is a factor which sets Gas Natural Fenosa apart from its competitors; and the company also promotes education, training, cultural wealth and works to include underprivileged social groups wherever it operates.

Health and Safety
The creation of a health and safety environment is a visible commitment and the responsibility of all those who make up Gas Natural Fenosa. The senior management spearheads this commitment.

Environment
Gas Natural Fenosa contributes to sustainable development, going beyond legal requirements, and also involving suppliers and stakeholders.

Integrity
Ethics and honesty are cornerstones for the mission, vision and values, and of the strategic plans and of the company in general.

People/talent
Talent management is one of the group's strategic priorities as a key tool for achieving its business targets. It therefore provides its employees with training and opportunities, a motivating working environment and one which is conducive to personal and professional balance.

Customers
Gas Natural Fenosa works throughout the value chain to constantly improve its products and services, offering additional value added on top of gas and electricity supply.

Strategy

34 Market environment.

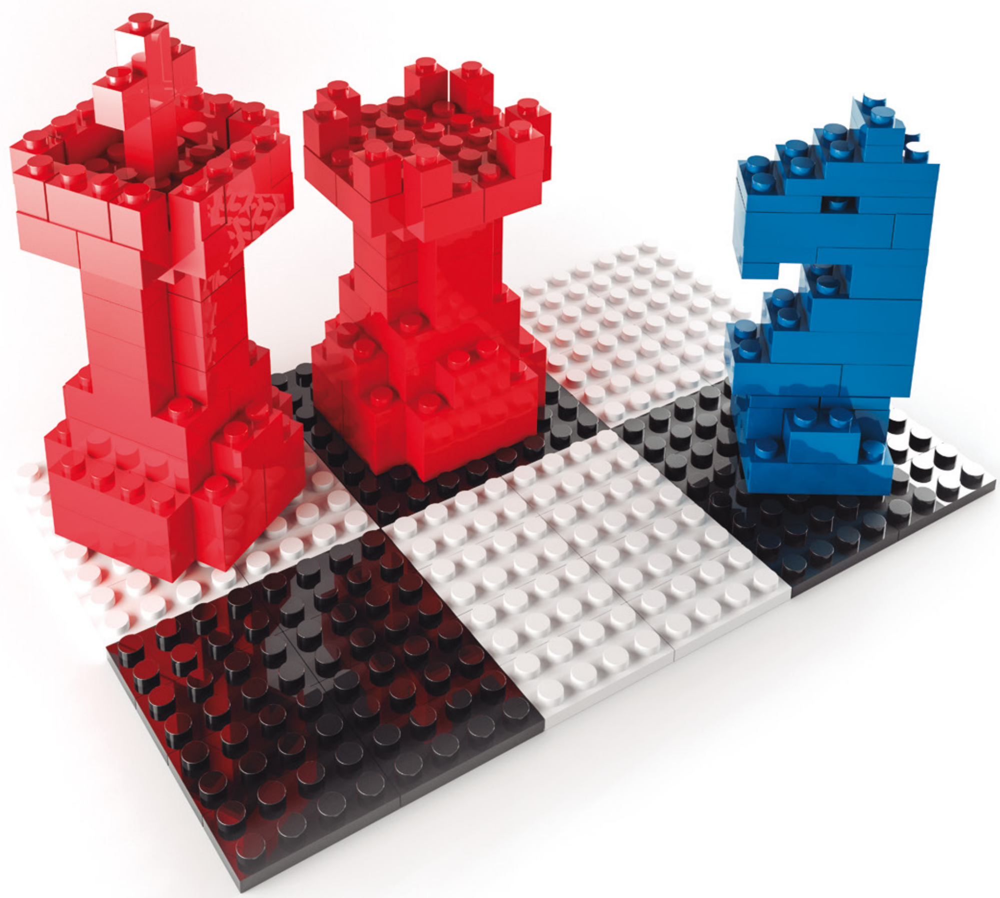
38 Strategic priorities.

40 Financial priorities.

40 Future views.

integrated annual report

2013



Market environment

Improvement in the macroeconomic situation in Spain

Thanks to brighter outlook for growth and progress in reforms, the Spanish economy is showing signs of improvement and GDP is expected to recover and move into positive figures during 2014.

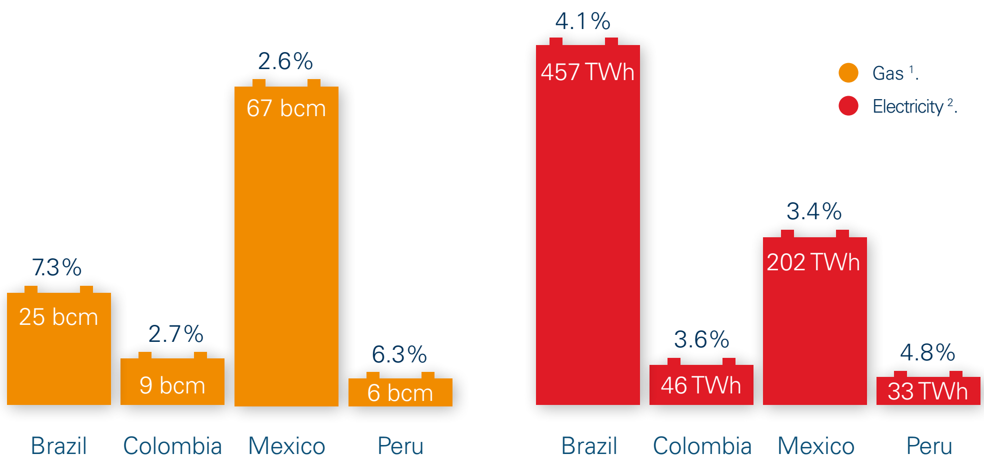
Although demand for electricity is not expected to increase significantly in future years, there are opportunities to grow in the gas distribution market, given that Spain is still an immature market in terms of gasification.

Outlook for continued growth in Latin America

Data provided by the Economist Intelligence Unit and Business Monitor International suggest an outlook of stable and continuous growth in GDP.

There will increased gas and electricity demand in Latin American countries, which will provide the company with important business opportunities.

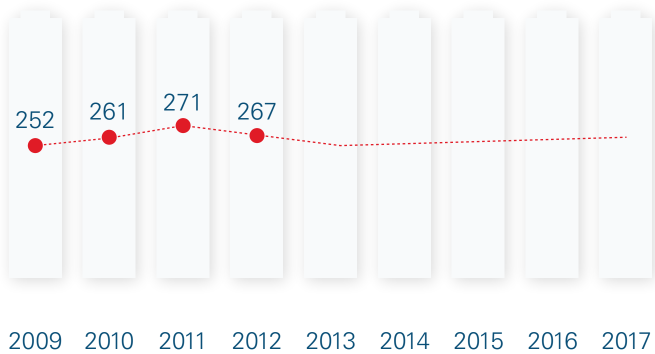
Outlook for growth in electricity demand in Latin America



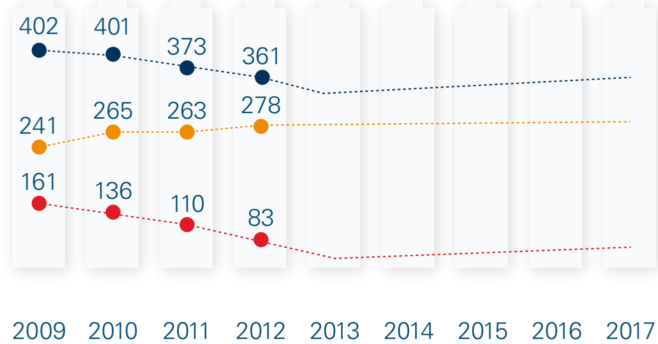
[1] Source: CERA 2011-2017. [2] Source: CERA 2011-2020.

Performance of energy demand in Spain

Demand power in Spain (TWh)



Demand for gas in Spain (TWh)



Electricity generation. Conventional. Total.

Source: consensus by several sources including IMF, Spanish Government and Gas Natural Fenosa estimates.

Attractive evolution in global gas market

The global gas market is expected to show sustained growth over the next few years, with strong potential growth in Asian markets, while maintaining the increases already seen in the Latin American and Middle Eastern markets (which will grow around 3% per annum). Gas Natural Fenosa expects more moderate growth in the more mature markets.

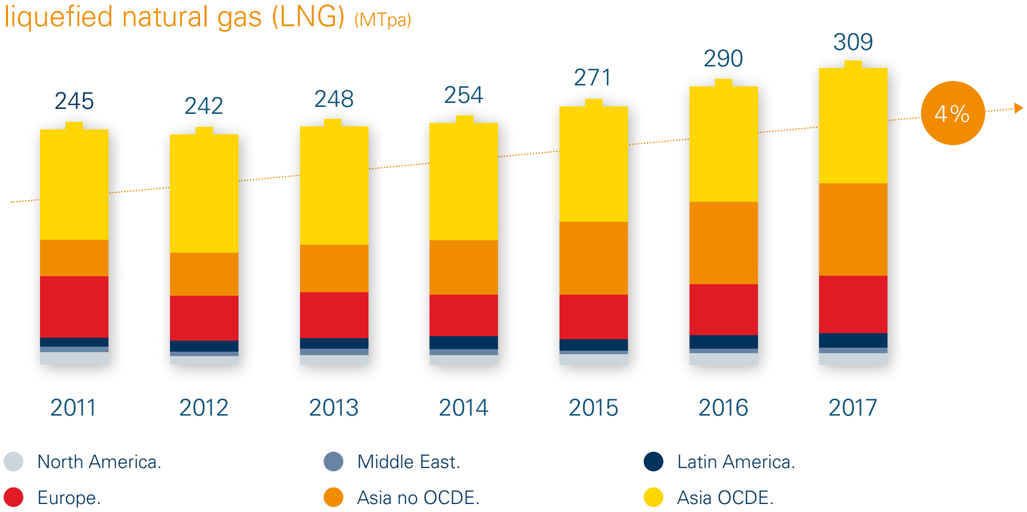
Gas Natural Fenosa expects there to be a very positive demand for Liquefied Natural Gas (LNG) in coming years, with expected annual growth of 4%, mainly due to the competitiveness and flexibility of gas. Asia, which currently accounts for 70% of LNG demand worldwide, is expected to report higher growth of around 6.9% a year. Mexico, Chile, Brazil and Argentina will continue to be interested in important LNG requirements.

As far as international prices are concerned, a decoupling is apparent between the international prices of North American, European and Asian markets. In the mid term, Gas Natural Fenosa expects some degree of convergence between Europe and Asia, but for there still to be difference in price against the North American market. This trend will create opportunities for the company in the LNG business.

Need for significant investments in generation in emerging markets

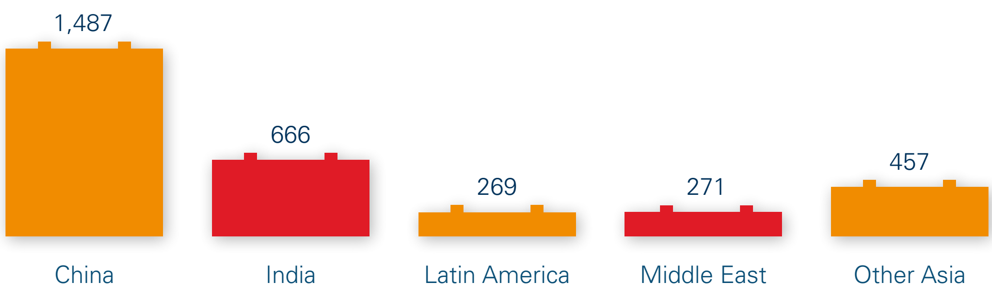
Importantly, emerging markets will need important investments in the generation market, as the countries continue to develop and electricity demand therefore increases. It is estimated that over 3,000 GW of new capacity will have to be built due to the growth in demand. In particular, World Energy Outlook data point to important demand for generation capacity in Asia, the Middle East and Latin America. By way of an example, 70% of the increase in installed capacity which will be necessary over the next 20 years, will be primarily in Asia.

Outlook for worldwide growth in demand for liquefied natural gas (LNG) (MTpa)



Source: IHS CERA, Wood Mackenzie GNL Service.

New generation capacity (GW) by region[1] in 2012-2035



Source: Growth 2010-2035. World Energy Outlook 2012 (Global Energy Trends).

[1] It includes all types of generation technologies.

Regulatory situation in Spain

Electricity sector

During the 2012-2013 period, a number of different measures have been published with the aim of addressing the tariff deficit problem. The measures include the following:

- Legislative Decree Law 13/2012, of 30 March, adopting measures to correct deviations due to gaps between costs and revenues of the electricity sector.
- Law 15/2012, of 27 December, on fiscal measures for energy sustainability.
- Legislative Decree Law 9/2013, of 12 July, adopting urgent measures to guarantee the financial stability of the electrical system.
- Law 24/2013 of the Electricity Sector, of 26 December.

Our company's view of the reform is as follows:

Positive impact	Negative impact
• These measures are intended to resolve the tariff deficit, which is a chronic and serious problem of the sector and the Spanish economy, by establishing automatic adjustment mechanisms from January 2014 on. • No new costs can be entered if they do not include their equivalent amount in income. Compliance with this measure will have to halt any further possible deviations, which, if they occurred, will be financed by all the companies which receive regulated income, and not as the case has been until now. • The established measures provide new regulated business schemes which will have reasonable returns. • A regulatory framework will be implemented to be able to manage self-consumption.	• Electricity companies will have to bear most of the adjustment in the tariff deficit. • Tariffs will continue to be regulated, so that there will not be a significant progress in liberalisation of the sector. • Payments for capacity of combined cycle plants have been reduced, while the need for the backup service to these units is increased in order to guarantee the sustainability of the Spanish electricity system. • Electricity companies once again bear the cost of financing the social allowance. • There are still uncertain measures in the reform, which have to be defined (market reform, hibernation, etc). • Financing of a deficit of 3,600 million euros in 2013 charged to the five electricity companies. • Consideration of reasonable return lower than WACC[1].

[1] Weighted Average Cost of Capital.

For further information on the regulatory framework, refer to “Note 2” of the 2013 Consolidated Annual Accounts 2013.

In 2014, the gross estimated impacts of the aforesaid regulatory measures approved in the 2012-2013 period on the Ebitda of Gas Natural Fenosa amount to 600 million euros.

Gas sector

The main aspects of gas distribution which distinguishes it from electrical distribution are as follows:

- Gas distribution is not yet a universal service and there is still considerable gasification potential.

- Gas distribution activity has risks in remuneration: exposure of the remuneration model to market risk reduces the return of the historical asset base.

- The increase in investment in gas distribution helps to reduce the problem of the tariff deficit.

- The evolution of costs in the gas sector and in demand during the 2006-2013 period shows that basic infrastructure costs (as against distribution) have grown much higher than demand. On the other hand, income per gas distribution supply point have remained steady in nominal terms, having fallen by 21% in real terms.

Regulatory situation in Latin America

The regulatory regimes of the countries in which Gas Natural Fenosa operates are typically stable and lack risks in commodity prices, transport, local inflation and legal framework, enabling recurrent and foreseeable cash flows to be obtained.

Strategic priorities

2010-2014 Strategic Plan

The strategic guidelines of Gas Natural Fenosa during the 2010-2014 period have been based on:

- Strengthening the balance sheet.
- Optimisation to achieve synergies.
- Securing growth while maintaining financial solidity.

Updating of 2013-2015 Strategic Plan

In November 2013, the group presented the update of the 2013-2015 Strategic Plan with vision 2017 setting out the group's strategic priorities for the 2013-2015 period and the bases for growth after 2015. These strategic priorities are as follows:

- Execution of the Efficiency Plan.
- Managing each business line in accordance with market conditions.
- Managing the business portfolio in accordance with its strategic fit.

Gas Natural Fenosa reached the targets set in the plan for the 2010-2012 period (figures in millions of euros)

	Results at 31/12/2012	Targets 2012
Ebitda 2012	5,080	>5,000
Net profit	1,441	~1,500
Net debt	15,995	~15,000-16,000
Net Debt/Ebitda	3.1x	~3x

More information on the 2010-2014 Strategic Plan and the 2013-2015 with vision 2017 update is available at www.gasnaturalfenosa.com

1. Execution of the Efficiency Plan

The main purpose of this strategic pillar is to increase efficiency in all areas of operational management and asset management. With this target, Gas Natural Fenosa will be able to save 300 million euros in 2015, through implementing 90 projects which basically affect operation and maintenance, commercialisation and corporation areas.

2. Managing each business line in accordance with market conditions

Taking into account the market environment, Gas Natural Fenosa has analysed the strategic priorities of each one of the businesses, and has also updated Ebitda growth targets and the investments policy to be followed by the company until 2015.

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

Over the last few years, Gas Natural Fenosa has made important efforts in divestments. Over 5,000 million euros has been divested over the last five years since the purchase of Unión Fenosa. Its current leverage puts Gas Natural Fenosa in a comfortable position and no type of divestment will be necessary for financial reasons. However, until 2015 the group is likely to continue analysing the strategic fit of the company's business portfolio.

Strategic priorities of the business lines

Gas distribution Europe

- Capturing potential organic growth.
- Continue managing regulatory aspects.

Electricity distribution Europe

- Reducing the regulatory impact with the efficiency plan.
- Managing the investment plan in accordance with return.

Gas

- Increasing the international market share.
- Taking advantage of the LNG platform to capture growth opportunities.
- Continue capturing dual-fuel opportunities, energy services and energy efficiency.
- Managing efficiency of commercial process.

Electricity

- Reducing the regulatory impact with the efficiency plan.
- Managing cover of electrical generation and commercialisation.

Latin America

- Exploiting the potential for organic growth.
- Managing forthcoming regulatory reviews.
- Developing new opportunities in gas and electricity distribution.
- Developing services and energy efficiency.

Key priorities

Financial priorities

The Strategic Plan establishes a financial policy which is compatible with growth and dividend targets:

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

Gas Natural Fenosa has defined new targets for 2015

(millions of euros)

	2015 targets with IFRS 11 criterion[1]	2015 targets without IFRS 11 criterion[1]
Ebitda 2015	>5,000	>5,200
Net profit	~1,500	~1,500
Dividend (pay out)	~62%	~62%
Investment 2013-2015	~5,100	~5,200
Net debt	~12,500	~13,000
Net debt Ebitda 2015	~2.5x	~2.5x

[1] From 1 January 2014 onwards, IFRS 11 will be compulsory. Joint ventures will have to be accounted using the equity method, as proportional consolidation will not be allowed. Impacts arise largely from the change in the consolidation method of Unión Fenosa Gas, Ecoeléctrica (combined cycle plant in Puerto Rico) and Nueva Generadora del Sur (combined cycle plant in Spain).

Future views

From 2015 onwards, Gas Natural Fenosa plans to move into new markets, putting its investment focus and growth strategy in the following businesses in the international arena:

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

In keeping with this strategy, Gas Natural Fenosa has several projects under way which will be developed from 2015 on, providing it with additional and flexible growth in volume from that year on.

Gas Natural Fenosa has set a target of obtaining Ebitda of approximately 5,700 million euros[1] in 2017 and a net profit of approximately 1,900 million euros, which would be tantamount to annual growth of 7% and of 13%, respectively, for the 2015-2017 period and would provide additional investment capacity of 7,000 million euros by 2017 so as to keep the net debt/Ebitda ratio at 3.0x.

Furthermore, Gas Natural Fenosa expects to make an average investment of 9,200 million euros over the 2013-2017 period, corresponding roughly to an average investment of 2,000 million euros for 2016 and 2017. Due to the upturn in growth estimated from 2015 on, Gas Natural Fenosa expects to have a debt of approximately 10,600 million euros, tantamount to a net debt/Ebitda ratio of 1.8x.

Lastly, for the 2017 year the company expects to keep pay out at levels of 62%, in line with the trend in recent years.

[1] €6,000 million without IFRS NIIF 11 criterion.

Gas distribution

Tender call for gas distribution in southern Peru

Gas Natural Fenosa has been awarded the contract to distribute natural gas in 4 cities in south-west Peru for a period of 20 years, and which can be extended. With this contract, it expects to be able to distribute and sell gas to over 60,000 homes.

2013

Gas

"Cheniere Project"

20-year contract, with possible 12-year extension in which Gas Natural Fenosa will buy 4.5 million cubic metres per year.

Contract of 4 ships with capacity of 170,000 m^3 to handle gas transportation for this project.

2016

"Volumes of Shah Deniz II Project"

25-year project, with the aim of transporting gas from Shah Deniz II (Azerbaijan) to Italy.

2019

"Volumes of Yamal LNG Project"

23-year contract to acquire 3.2 bcm of LNG in Yamal (Russia) for use in Europe and other markets according to requirements.

2019

Generation

Bií Hioxo (Mexico)

234 MW wind generation project, which will improve Gas Natural Fenosa's position in the Generation market.

2014

Torito (Costa Rica)

50 MW hydroelectric generation project, consolidating Gas Natural Fenosa as the leading private generator in Costa Rica.

2016

The strength of the business model will allow to meet marked, clear and specific objectives

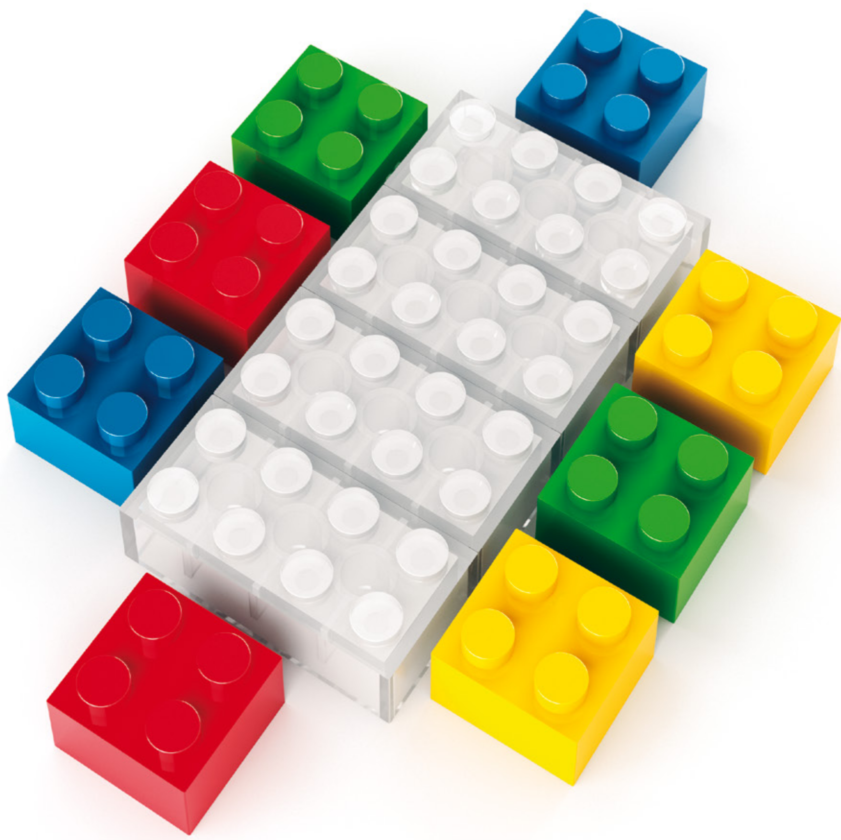
- In recent years, Gas Natural Fenosa has demonstrated the strength of its business model, which will allow it to comply with the 2013-2015 Strategic Plan with vision 2017.
- Business outlook is clear and realistic for the 2013-2015 period, with viable financial targets. Gas Natural Fenosa's profile will change, with more weight being given to the gas business and Latin America.
- Gas Natural Fenosa will also focus on mitigating the regulatory impact of the energy system in Spain through efficiency measures and via better international positioning.
- Lastly, Gas Natural Fenosa will continue with a resolute financial interiorised and shareholder remuneration plan, paving the way for growth from 2015 on.

Corporate Governance

44 Corporate Governance model.
44 General Meeting of Shareholders.
46 Board of Directors.
49 Management Committee.
50 Remuneration policy.

integrated
annual
report

2013



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. This set of regulations is made up of the following:

- Articles of Association.
- Shareholders' Meeting Regulations.
- Board of Directors and Board of Directors' Committee Regulations.
- Internal Code of Conduct in areas related to Securities Markets.
- Code of Ethics.
- Corporate Responsibility Policy.
- Human Rights Policy.

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

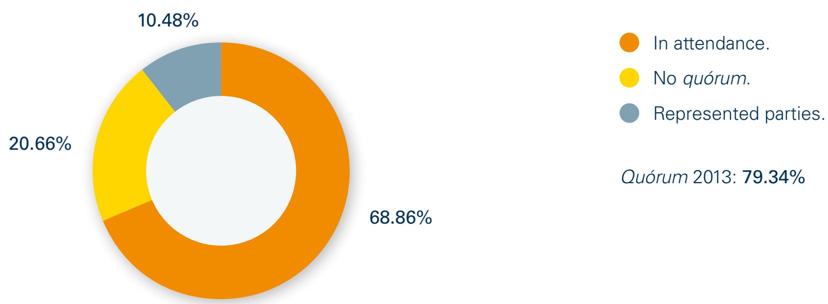
More information on Governance standards is available at www.gasnaturalfenosa.com

Further information is available about the practices of the Board of Directors in the 2013 Annual Corporate Governance Report.

General Meeting of Shareholders

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

Quórum assistance General Shareholders Meeting




junta
general
d'accionistes
2013
Salvador Gabarró

Board of Directors

In 2013, the Board has approved the update of the group's strategic plan for the 2013-2015 period, which was published in November 2013

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 powers reserved for the General Shareholders' Meeting, it is the highest decision-making body of 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 responsible for continuously monitoring the company management.

Audit and Control 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

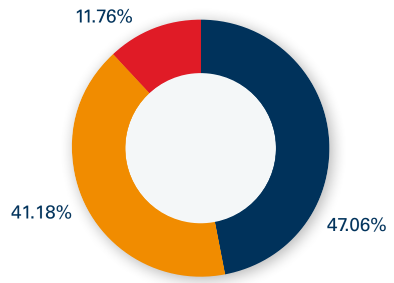
Proposes the remuneration criteria for Board members and the general Management remuneration policy. It also reviews the structure and composition of the Board, supervises the recruitment process of new members and establishes the guidelines for appointment of executives.

Composition of the Board of Directors and Committees (at 31 December 2013)

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

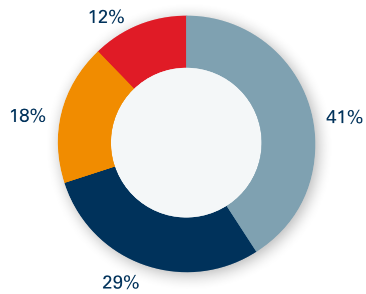
Profile of the Board of Directors

Type of Director



- Proprietary member.
- Independent.
- Executive.

Powers



- Industrial and Energy Engineering.
- Finance, Accounting and Auditing.
- Legal and Administration.
- Management.

Activities and performance of the Board of Directors

Number of meetings of the Board of Directors and Board of Directors' Committee

	Board of Directors	Executive committee	Audit Committee	Appointments and Remuneration Committee
2013	12	4	5	9
2012	12	8	5	8

No Board meetings have taken place which have not been attended by the Chairman

Management Committee

The Management Committee coordinates the business and corporate areas. Its principal 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 strategic plan to the highest authorities. 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 constituted in the following manner:

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 and Development

Mr. José Mª 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 Power Generation

Mr. Antonio Gallart Gabás
Chief Corporate Officer

Mr. Manuel García Cobaleda
General Counsel

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
Managing Director of Regulated Business

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 Meeting held in 2013.

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 has received a favourable report by the Appointments and Remuneration Committee has decided to maintain the same remuneration to Board members for their membership of the Board and the commissions which have been applicable since 2007, for the 2013 year, without any changes.

Remuneration to Board members, for their membership of the Board and the Committees (euros/year)

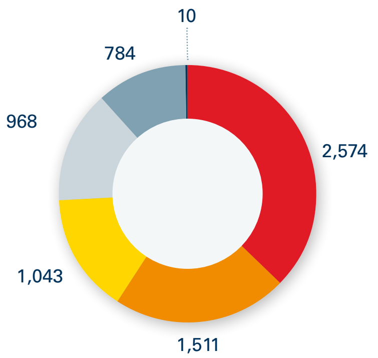
Chairman of the Board of Directors	550,000
Director	126,500
Chairman of the Executive Committee	550,000
Member of the Executive Committee	126,500
Member of the Appointments and Remuneration Committee	12,650
Member of the Audit and Control Committee	12,650

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 economic-financial variables (Ebitda, net result, operating working capital/turnover, operating efficiency, increase in gas supply points and LNG sales), and quality and health questions (accident rate).
Pluri-annual variable remuneration	Strengthening the commitment towards reaching the targets set out in the Strategic Plans.	At year end, the 2011-2013, 2012-2014 and 2013-2015 remuneration programs are in force. It is calculated applying the degree to which economic targets for optimisation and financial discipline are achieved (Ebitda, net debt/Ebitda, market cap and enterprise value/Ebitda).
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.

Total remuneration of the Board of Directors earned in 2013 by type of remuneration (thousands of euros)



Total: 6,890 thousand euros, corresponding to 0.5% of the attributed profit of the parent company.

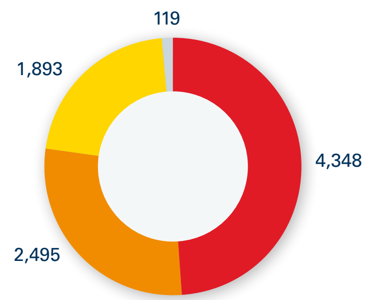
- For sitting on the Board.
- For sitting on the Board Committees.
- Fixed remuneration.
- Short-term variable remuneration.
- Multi-year variable remuneration.
- Other items.

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.

Total remuneration of the Management Committee and the Internal Auditor[1] earned in 2013 by type of remuneration (thousands of euros)



Total: **8,855**

- Fixed remuneration.
- Annual variable remuneration.
- Multi-year variable remuneration.
- Other items.

[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 first executive of the company and also to the internal auditor.

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

You can find more information about the remuneration policy in the Corporate Governance Annual Report.

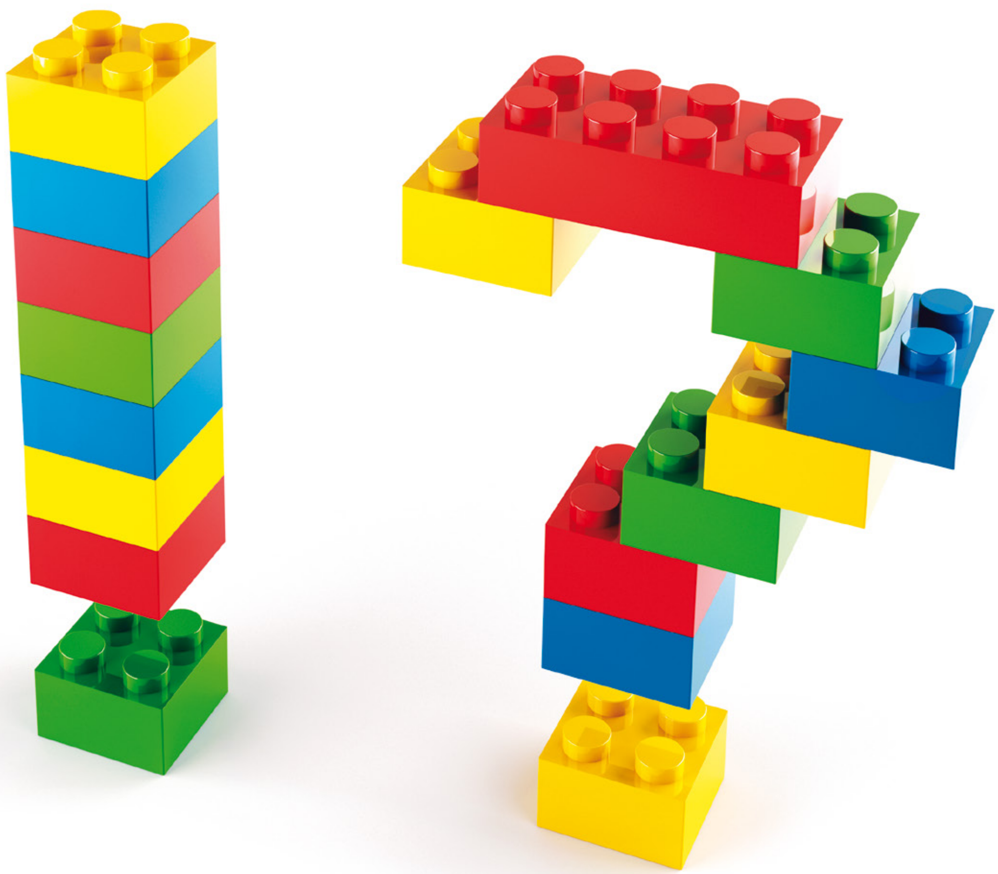
Risks and opportunities

54 A model that anticipates evolution of the scene.

55 Main risks.

57 Main opportunities.

integrated annual report 2013



A model that anticipates evolution of the scene

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 financial entities, geared towards selecting more efficient portfolios.

- **Operating 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.

More in-depth information is available about the risks management model in the Annual Corporate Governance Report.

Main risks

Type of risk		Description	Management	Metric	Trend
Market Risks					
Price raw materials	Gas	Volatility in international markets which determine gas prices.	Physical and financial covers.	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.	Continued growth in Latin America.
Interest rate		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.	Taking part in Clean Development Mechanisms. Frequent communication with regulatory bodies.	Scenarios/ stochastic process.	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 process.	Stagnation in situation in Middle East/Northern Africa.

Metrics employed:
Stochastic process: generation of evolution trends for the most relevant items, the risk taken being the maximum deviation against the scenario of reference in accordance with a predetermined level of confidence. The aforesaid items are typically Ebitda, post-tax profit, 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 cycles plants (CCP), has the necessary flexibility to be able to adapt to different market situations, creating a valuable assets for taking advantage of opportunities related to volatility in prices and volumes demanded in gas and electricity markets.

- Evolution of 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 (polluting) 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 vessels 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 ships makes it one of the largest LNG operators worldwide and a standard-bearer in the Atlantic and Mediterranean basin.

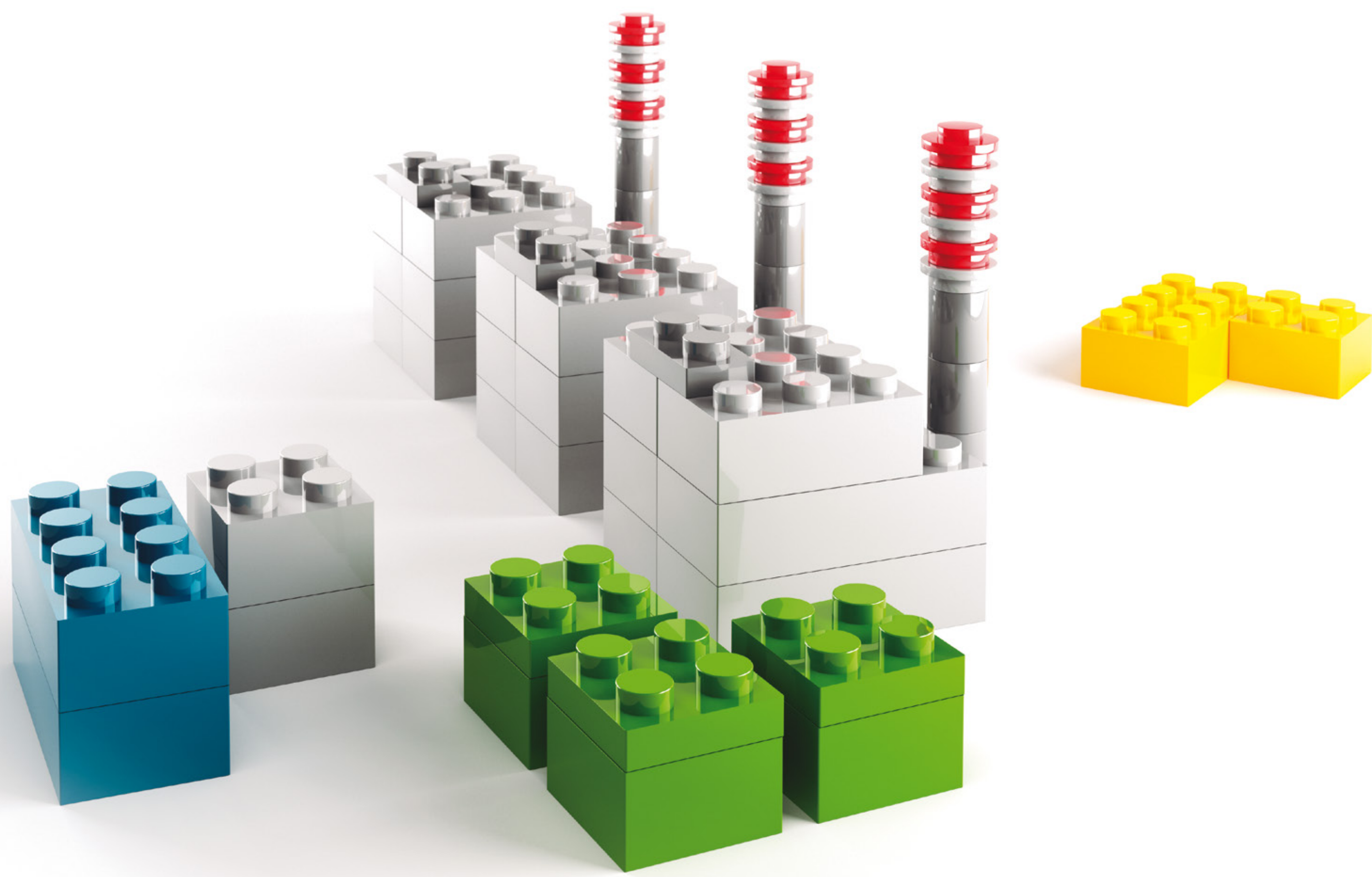
- Expected growth in energy demand from 2015 on and opportunities for new businesses in emerging markets.

Profit for the financial year

60 Commitment to results.
69 Customer orientation.
73 Environment.
78 Interest in people.
81 Health and safety.
84 Commitment to society.
88 Integrity.

integrated
annual
report

2013



Commitment to results

Our challenge

Energy markets are experiencing an ongoing process of integration, globalisation and increased competition. In this context, Gas Natural Fenosa maintains its objective of continuing its business strategy, based on integrating the gas and electricity businesses into a single company with the capacity to compete efficiently and using synergies from both business models. The strength of the business model will allow it to comply with the Strategic Plan, with clear and realistic business outlook for the 2013-2015 period, with capacity to reduce the regulatory impact through the efficiency plan.

The commitment of Gas Natural Fenosa is based on the following pillars:

- Maintaining a solid, stable business model that is attractive for shareholders and investors.
- Consolidating and maintaining the company's sustainable performance, complying with the update of the 2013-2015 Strategic Plan and its financial priorities.

Main milestones 2013

- Continuing with the debt restructuring program and agreement on the early repayment of the Club Deal Loan for 3,000 million euros formalised in March 2010, by arranging a new financing facility of 1,500 million euros maturing in five years, together with a new loan under the Club Deal mode amounting to 750 million euros and due after five years.
- On 25 July 2013, Gas Natural Fenosa was awarded the tender called by the Peruvian government to extend the natural gas service to four countries in south-west Peru. By moving into Peru, the company is consolidating and extending its presence in Latin America.
- In July 2013, Gas Natural Fenosa signed two agreements for the sale of natural gas to Repsol. The first for 2bcm a year for the 2015-2018 period, and the latter for the sale of 1 bcm a year for 20 years, which is estimated to begin in 2017.
- Gas Natural Fenosa will continue to operate its two electrical distribution companies (Edemet and Edechi) in Panama during the next 15 years after the contract was awarded the contracts by the Autoridad Nacional de los Servicios Públicos (ASEP) of Panama on 14 August 2013.
- Increased presence by Gas Natural Fenosa in the Asian market through signing a natural gas supply contract on September 2013, to the South Korean energy company Kogas for the next two years.
- In January 2013, the company acquired a 10% stake in Medgaz from Sonatrach, and in July 2013 an additional stake of 4.9% from Gaz de France International, S.A.S. This acquisition from Sonatrach comes about as a result of the strategic agreement arranged with Sonatrach to acquire a stake in the Medgaz gas pipeline and to have access to a new 0.8 bcm gas contract.

Analysis of 2013 economic results

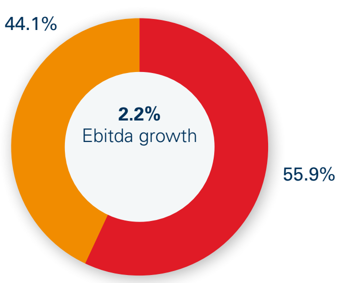
Consolidate and maintain the company’s sustainable performance

Results (millions of euros)

	2013	2012	2011
Net turnover	24,969	24,904	21,076
Ebitda	5,085	5,080	4,645
Operating profit	2,963	3,067	2,947
Attributable net profit	1,445	1,441	1,325

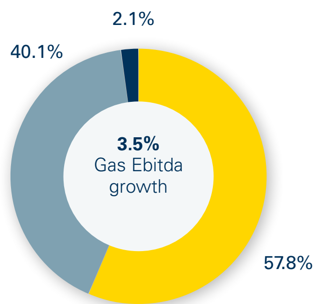
Net profit for the January-December 2013 period increased by 0.3% against the same period of the previous year and amounts to 1,445 million euros, underpinned by the strong and diverse business model with a growing contribution from the international presence and the solvency of the ongoing reduction in a tougher regulatory context.

Ebitda by geographical area 2013



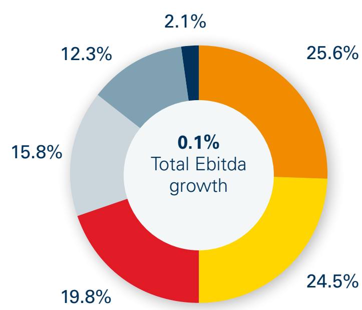
- Spain.
- International.

Ebitda by activity 2013



- Gas.
- Electricity.
- Others.

Ebitda by business 2013



- Latin America.
- Gas.
- Gas distribution Europe.
- Electricity.
- Electricity distribution Europe.
- Others.

58% of Ebitda from international activities stems from Latin America.

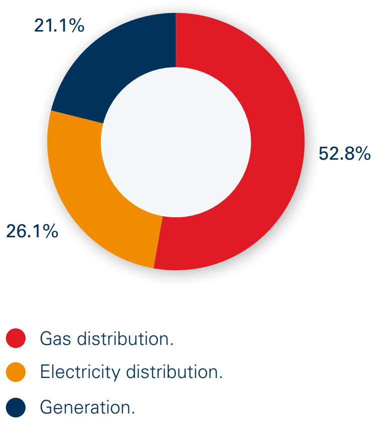
For further information on the performance of the group's different business activities, refer to the 2013 Consolidated Management Report.

Consolidated Ebitda for the period amounts to 5,085 million euros, up 0.1% against the previous year, supported by diversification and a growing contribution from the international field, and also in the balance provided by the Gas Natural Fenosa business profile, thereby offsetting the fall in contribution from the businesses in Spain - both due to the increase in fiscal pressure of Law 15/2012 in the electrical generation activity in Spain, as well as the impacts of Legislative Decree Law 9/2013 in electrical generation activities in Spain and in electrical distribution in Spain.

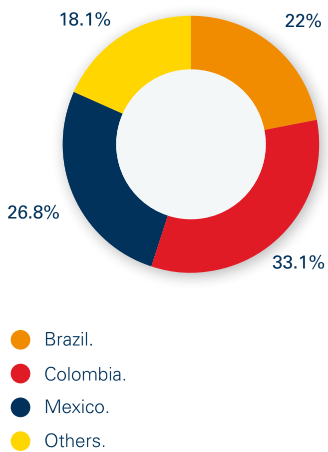
Ebitda from international activities of Gas Natural Fenosa rose by 2.2% and accounts for 44.1% of the consolidated total, compared with 43.2% in the previous year. On the other hand, Ebitda from operations in Spain fell by 1.6% basically due to the decline in the activity of distribution of electricity (-4.1%) and the activity of electricity (- 12.7%) because of the strong impact that have resulted in the regulatory measures contained in the law 15/2012 and Royal Decree-Law 9/2013 and that they have risen to 455 million euros in the year 2013.

Presence in Latin America with balanced contribution by businesses and geographical areas

Ebitda by activity



Ebitda by country



Investments (millions of euros)

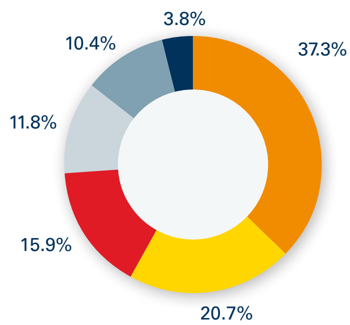
	2013	2012	2011
Total investments[1]	1,636	1,386	1,514

[1] Total investment=Tangible and intangible investments+Financial investment .

Details of tangible and intangible investments

Geographic breakdown

Investments by activity



Broken down by geographical scope, investments in Spain fell 4.0%, although this remained the major recipient of investment, with 55.7% of consolidated investments in 2013 (63.9% the previous year), whilst international investments accounted for the remaining 44.3%, with growth of 35% with regard to the previous year.

In Latin America, Mexico is the main investment focus due to beginning the construction of a 234 MW wind farm, with total investment of 161 million euros this year.

Financial debt

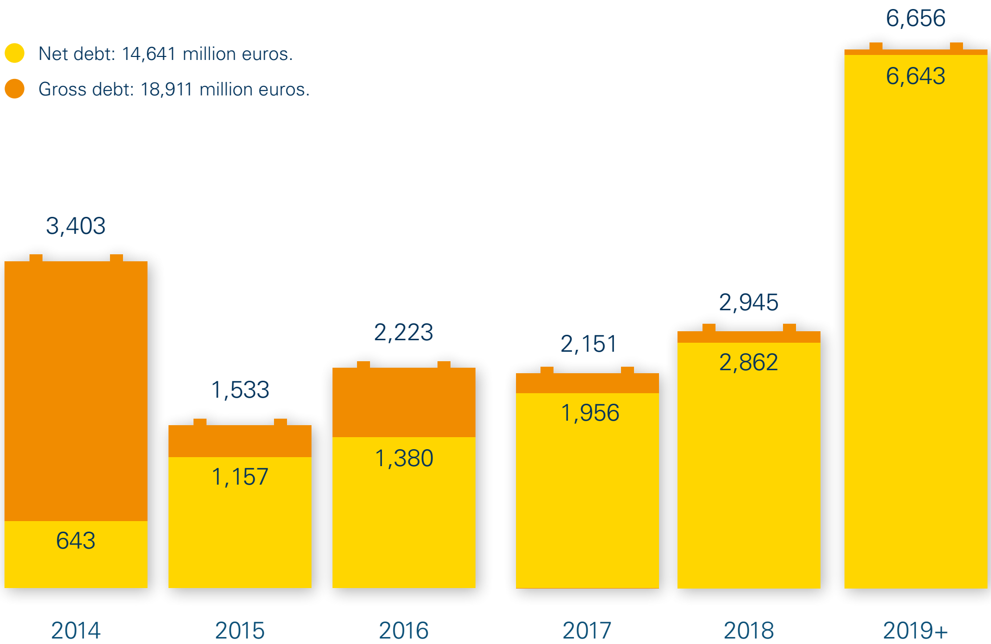
At 31 December 2013, net financial debt totalled 14,641 million euros, equivalent to a debt ratio of 49.4%. Without including the financing of the tariff deficit, net financial debt would amount to 14,156 million euros and the debt ratio would be 48.5%.

The net debt/Ebitda and Ebitda/Cost of net financial debt ratios were 2.9x at 31 December 2013 (2.8x if we consider the net debt with the deduction of the rate deficit) and 6.1x, respectively.

Since the Electricity Deficit Amortisation Fund (FADE) made its first official bond issue backed by rights assigned to the electricity sector on 11 January 2011, 25,301 million euros have been issued through issues and rights issues, 9,662 million euros of which have been issued this year. Gas Natural Fenosa has received the corresponding part for a total amount of 2,873 million euros, 1,079 million euros of which were received during the 2013 year.

(million euros)	2013	2012	2011
Net financial debt	14,641	15,995	17,294
Net financial debt/Ebitda	2.9x	3.1x	3.7x
Ebitda/financial result	6.1x	5.8x	5.0x
Debt[1] (%)	49.4	51.8	54.5

[1] Net financial debt/(Net financial debt+Equity).



The above chart shows the net and gross debt repayment schedules of Gas Natural Fenosa at 31 December 2013.

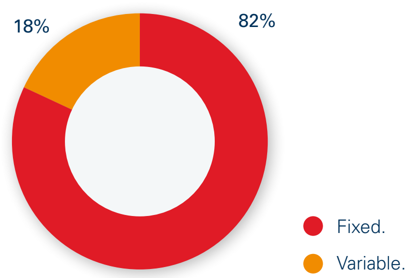
87.7% of the maturities of net financial debt have a maturity equal to or later than 2016. Net debt has an approximate average length of five years.

Considering the impact of financial hedges contracted, 82.2% of the net consolidated debt was at a fixed interest rate and the remaining 17.8% was at a floating rate.

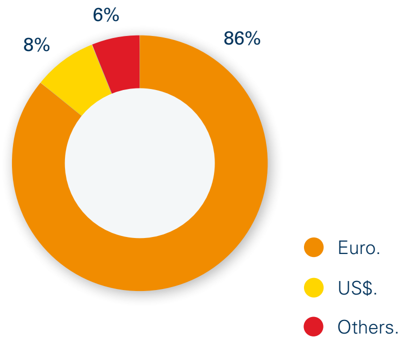
4.4% of the net financial debt matures in the short term and the remaining 95.6% matures in the long term.

At 31 December 2013, cash and other cash equivalents together with available bank financing totalled 11,613 million euros, which gave a level of liquidity that covers maturities of more than 24 months.

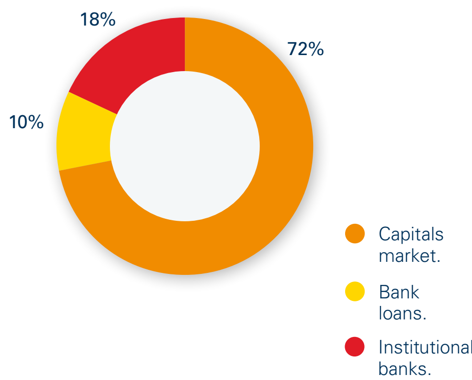
Significant level of debt at fixed rate obtained at very competitive levels



Exposure to exchange rate consistent with business risk



Diversified financing sources



Short and long-term credit rating of Gas Natural Fenosa

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

Stock Market Information and shareholder remuneration

After three years of market falls, the Spanish stock market reported profits in 2013, and was in fact the second most profitable in Europe. This performance was mainly due to the increase in confidence which has attracted foreign investors, the fall in risk premium, good share prices and outlook for economic recovery.

The Ibex 35, the leading Spanish stock market index, saw out the year at 9,916.7 points, up 21.4% against the end of the 2012 year. The index marked a yearly record at 10,063.9 points and a low of 7,508.4 points, on 21 October 2013 and 24 June 2013, respectively.

	2013	2012	2011
Number of shareholders (thousands)	77	84	84
Average number of shares (thousand)	1,000,689	996,402	953,429
Closing price (euros)	18.69	13.58	13.27
Stock market capitalisation at 31/12 (millions of euros)	18,708	13,589	13,155
Earnings per share (euros)	1.44	1.45	1.39
Pay out (%)	62.1	62.1	62.1
Total dividend[1] (million euros)	898	895	823
Dividend per share	0.90	0.89	0.83
Price-earnings ratio (PER)	12.9x	9.4x	9.9x

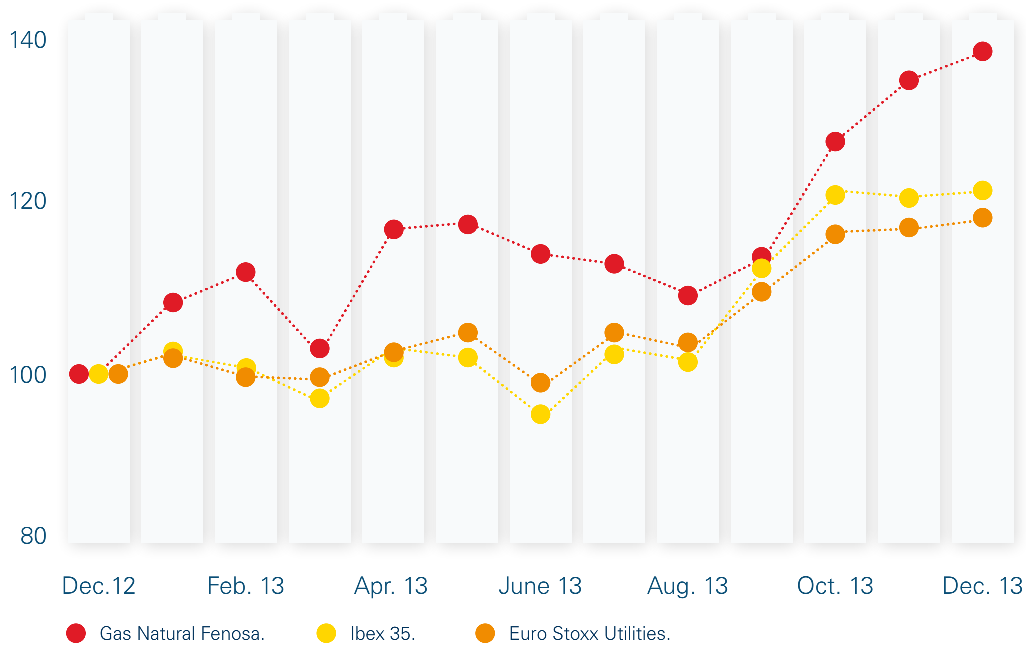
[1] Considering total amount equivalent for dividends. In 2013, it includes a final dividend of 505 million euros pending approval by the General Shareholders' Meeting.

In a context of generalised share losses, at year end, shares of Gas Natural Fenosa stood at 18.69 euros, up 37.7% against the close of the previous year. The annual high was recorded on 31 December when the share price was 18.79 euros and the annual low was 13.22 euros on 15 January.

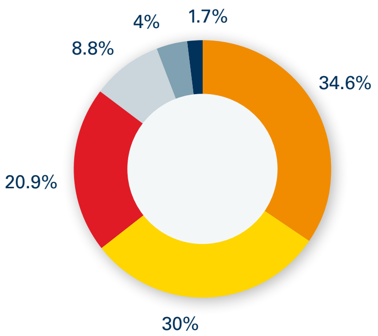
The volume of shares traded over 2013 was 795 million shares, up 26.7% on the previous year. Of the total number of shares traded, 99.2% corresponded to the continuous market, although 41.7% of this percentage was contracted through what are known as block transactions. The remaining 0.8% was traded through special transactions. The daily average of shares traded stood at 3.1 million.

The effective volume traded amounted to 12,254 million euros, down 69.8% on the previous year. The daily average of shares traded stood at 48 million euros.

At 31 December 2013, the stock market capitalisation of Gas Natural Fenosa stood at 18,708 million euros, that placed the company as the ninth company of the Ibex 35, with a weighting of 1.74% in the Ibex 35.

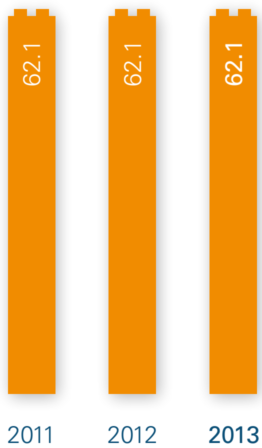


Shareholders and investors of Gas Natural Fenosa (% at 31 December 2013)



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

Pay out ratios (%)



Commitment and ongoing relationship with shareholders

In the application of net profit for the 2012 year approved by the General Shareholders Meeting on 16 April 2013, 895 million euros in cash were used for dividends, reaching a pay out of 62.1% and a dividend yield of higher than 6.6% using the reference of the share price at 31 December 2012 of 13.58 euros per share.

Consequently, taking into account the number of shares in circulation a total gross dividend of 0.90 euros per share was paid out, the first payment of which was made on 8 January 2013, as an interim dividend of 0.391 euros per share, and a final dividend of 0.503 euros per share was paid on 1 July, entailing a payment of 503 million euros in cash.

Indicators of communication channels

The company also continued with the program of communication with analysts and investors, strengthening, with the greatest transparency, financial information that allows them to track the business project of Gas Natural Fenosa.

	2013	2012	2011
Meetings with shareholders and investors	482	479	383
Meetings with analysts	9	19	25

Presence in socially responsible indices and external recognitions and awards

For the ninth successive year, Gas Natural Fenosa has once again been part of the Dow Jones Sustainability Index (DJSI). Also, for the second year in a row, the company has been a leader in the gas utilities sector, and has formed part of the European variation of this index, the DJSI Europe, for the eighth consecutive year.

	2013	2012	2011
Evolution of Gas Natural Fenosa's classification on the DJSI	88	86	85

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

On the environmental front, the company has been ranked first in the Global 500 Climate Change Report (CDP) report for the second year in a row, and has obtained the highest score in the global classification this year. The company obtained a score of 100 for transparency and the maximum score (A) for performance.

Gas Natural Fenosa received awards for its economic, social, environmental and governance results

Gas Natural Fenosa is the second most admired energy company in the world, and the first in Spain, according to the 2013 World´s Most Admired Companies ranking, prepared every year by Fortune, the US magazine. The Spanish multinational achieved a score of 6.67, moving up eight places compared with its position in 2012, and ahead of other multinationals.

In November 2013, Gas Natural Fenosa was awarded the 2013 Latin American Corporate Responsibility Prize of the Foro Ecuménico Social for its social responsibility practices in the region.

Customer orientation

Our challenge

The company is faced with major challenges, such as reducing margins, increasing competition and the need to develop new products and services. The company seeks to distinguish itself through the development of products and services adapted to its customers' needs, thereby being committed to innovation whilst complementing traditional products.

The commitment of Gas Natural Fenosa is based on the following pillars:

- Offering customers an excellent service.
- Fulfilling customers' needs through permanent innovation in services.
- Increasing customer satisfaction through efficiency in processes and permanent improvement in quality.
- Extending the operational principles of Gas Natural Fenosa to its value chain.

Milestones 2013

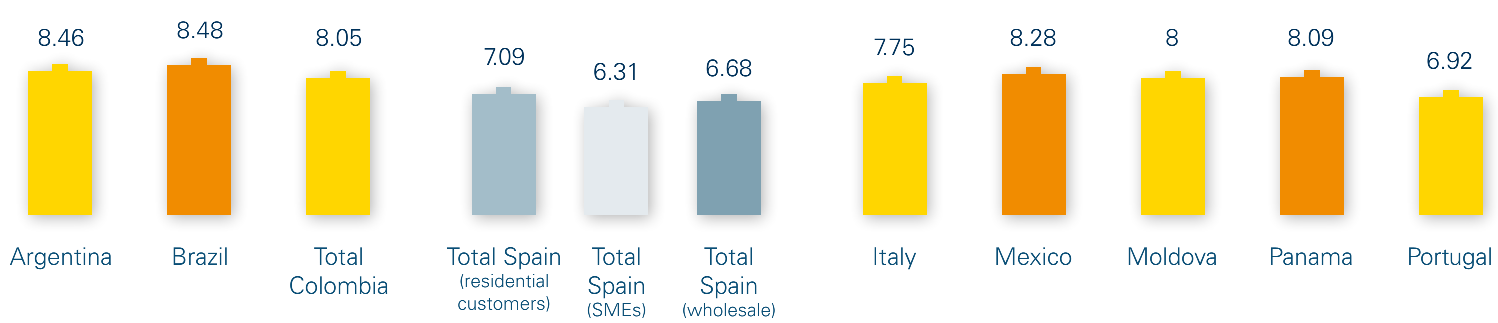
- Transformation of internal management processes, with more customer focus, through specific actions to explore different customers and profiles in greater depth.
- Continuous and instant measurement of customer satisfaction, providing the most important services, so enabling corrective action to be taken if it is necessary.
- The company has continued to analyse the inclusion of corporate responsibility criteria in supplier assessment and selection processes.
- Reduction in Interrupt Time (TIEPI) compared with 2012 of 18.4% in Colombia and 17.5% in Panama.

Analysis of 2013 Results

Offering customers an excellent service

Gas Natural Fenosa has been leader in satisfaction in the Spanish retail segment for yet another year, with a global satisfaction index (on a scale of 0-10) of 7.09 in residential and of 6.31 in SMEs, with a positive gap compared with the average for its competitors, which stood at 6.43 and 5.83 respectively. In the wholesale segment, the global satisfaction index stood at 6.68, while the average for its rivals was 6.53.

Overall satisfaction with service quality



Fulfilling customers' needs through the permanent innovation of services and products

The technological innovation of Gas Natural Fenosa is guided by its Technology Plan. In addition to innovation projects, it carries out technological transfer, technological surveillance and promotion of innovative culture activities.

Technological innovation projects are built around four areas: energy at consumption point, electrical generation, management of primary sources and technologies which are interconnected with the three first areas.

Particularly important in the innovation projects area in the consumption points are the sustainable mobility lines and advanced solutions in electricity grids.

In the area of sustainable mobility, Gas Natural Fenosa is working on projects to establish natural gas and electricity as a real alternative for short, mid and long distance transportation. We may highlight the Blue Corridor LNG European project, which was launched in 2013 and which is intended to establish liquefied natural gas as a real alternative for long distance transportation. In this sphere, the company continued its activity in the Gas as an Alternative for Road Transport (GARnet) European project, focused on the development and deployment of an alternative and profitable LNG supply for heavy good transport vehicles across trans-European networks. In the field of electrical mobility, the company completed the Domocell project, geared towards creating an electrical vehicle recharge system for garages of neighbours associations.

One of the most noteworthy activities carried out in the field of advanced electricity grid solutions, was its progress in smart network development, where work has continued on three fronts: innovation, demonstration and real implementation projects.

Energos is the most representative innovation project and is primary goal is to research the basic elements which can enable there to be be a smart network able to manage all multi-directional flows in real time.

One of the most important demonstration projects is Price, spearheaded by Gas Natural Fenosa and made up of a consortium of 19

(million euros)	2013	2012	2011
Total investment	12.5	11.3	19.8

For more information on innovation, see the “Sustainable innovation” section of the Corporate Responsibility Report.

companies and universities. The project is being conducted in the region of Henares (Madrid, Spain) and involves a population of 500,000 inhabitants, more than 200,000 supply points and over 1,600 electrical substations.

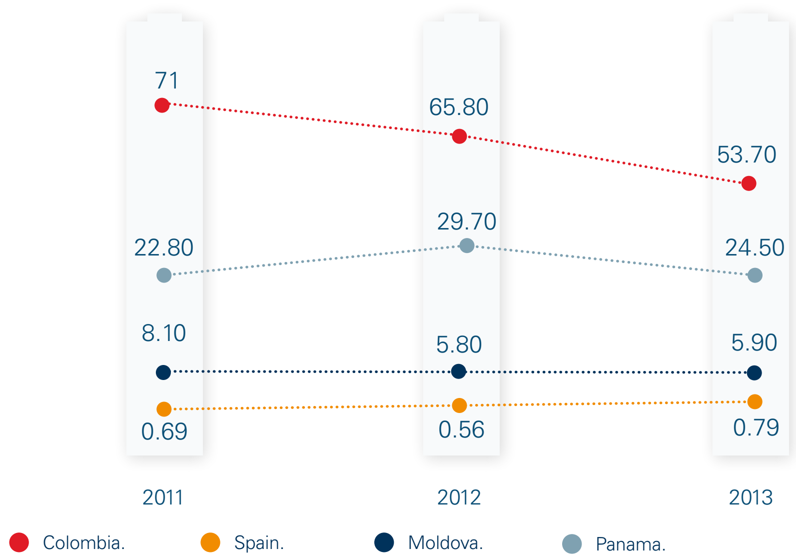
The internal project of reference for implementation is Itaca. By the end of 2013, this project had replaced 800,000 electricity meters with new smart meters and 4,765 electrical substations had been automated. Through these initiatives, the company is shifting 650,000 residential customers to remote billing.

In the field of electrical generation, we may highlight projects focused on developing variable technology for hydroelectric power plants, and taking part in the Capwa project, concerning new systems for capturing water generated through combustion in power stations. The company has also taken part in a number of pilot research projects in the field of marine wind energy, development of energy fuels using micro-algae and treatment of CO_2.

Increasing customer satisfaction through efficiency in processes and permanent improvement in quality

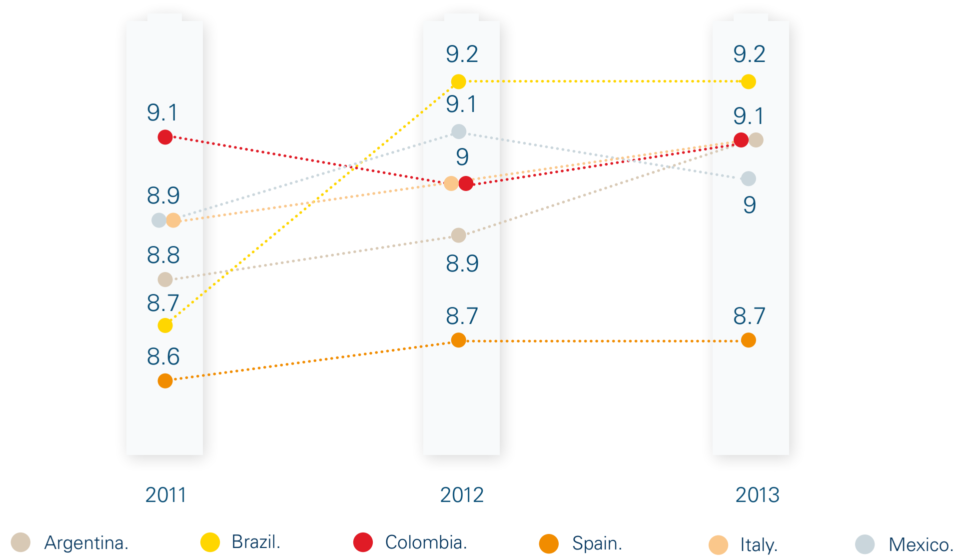
The company performs ongoing monitoring of perceived quality and endeavours to improve the indicators it uses in management of the service provided. The ICEIT, which is one of the indicators used in the supply of electricity, indicates quality in the service provided.

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



* Data referring to electricity distribution business.

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



* Data referring to electricity distribution business.

Extending the operating principles of Gas Natural Fenosa to its value chain

The key target of management with suppliers is competitiveness, through efficiency and reduction of recurrent expenses, aspects which are in keeping with the company's strategic priorities and for customers to be safe in the knowledge that ethical and responsibility principles with which products and services are generated are extended to the supply chain.

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. It has also established a process to detect risks in its supply chain. Accordingly, it performs systematic checks to ensure that legal requirements are complied with and asks all its potential suppliers to fill in a questionnaire which analyses legal, economic-financial, solvency, experience, business structure, reference matters, and quality, safety, environmental and corporate responsibility criteria.

During 2013, Gas Natural Fenosa became a member of the Bettercoal international initiative, an initiative made up of major European energy companies and which strives to attain the ongoing improvement of corporate responsibility in the coal supply chain.

Bettercoal has a code of practices based on already existing mining standards, and which recognises the best practices currently in use in the sector, and which sets out the ethical, social and environmental principles on which the members of the initiative shall align their coal supply chain.

(millions of euros)	2013	2012	2011
Total procurement volume awarded[1]	2,930	2,785	2,603

[1]Does not include procurement of raw materials.

For more information about our commitment to clients, see the chapter "Orientation to customer" of the Corporate Responsibility Report

Environment

Our challenge

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 legal requirements, and also involves suppliers and other stakeholders.

Environmental initiatives are set out in the following challenges:

- Prevention of pollution: through optimisation of environmental management, minimisation of environmental risks and active participation of employees.
- Minimising environmental impact: reducing emissions in combustion processes, the pollutant load from spills and waste generation.
- Mitigating climate change: being a standard-bearer in management of climate change and an example in compliance with legal obligations.
- Protecting biodiversity: minimising adverse effects on ecosystems and fostering the conservation of biodiversity.

Main milestones 2013

- Leader in the world ranking in the CDP Global 500 report which assesses the companies' performance and transparency with regard to their policies and management to cope with climate change.
- Materialisation of the Biodiversity Action Plan and signing of the Biodiversity Pact promoted by the Ministry of Agriculture, Food and the Environment of Spain.
- Extension of the environmental management model certified in accordance with ISO 14001 of upstream activities, works to restore the Limeisa mine (A Coruña, Spain) and commercialisation activities in Colombia and Panama.

Analysis of 2013 Results

Preventing pollution

The environmental management model used by Gas Natural Fenosa is based on the UNE-EN ISO 14001 and on the European Eco-management and Audit Scheme (EMAS) regulation, which are developed in the field of the company's Integrated Management System.

	2013	2012	2011
Activity with UNE-EN ISO 14001 environmental certification (% Ebitda with environmental certification)[1]	99.4	99.4	78.6

[1] The % of environmental certification on the total group Ebitda is approximately 80%.

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. During 2013, 163 environmental targets were developed within the area of the integrated management system.

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 are used to identify and establish 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. During the 2013 year, around 6,000 employees have been trained, almost 60% more than in 2012, and the number of training hours has also risen by 36% to over 27,000 hours.

Minimising the environmental impact

Key indicators of Gas Natural Fenosa's environmental management are linked to the operating conditions of its major combustion facilities, particularly in Spain - given that an important part of installed power is located here. During 2013, there was a significant reduction in the operation of these kinds of facilities due to the fall in demand and the increase in hydroelectric and wind energy.

The main indicators of absolute and relative atmospheric emissions were reduced: SO_2, NO_x and particles.

As far as waste is concerned, in 2013 the generation of non-hazardous waste fell 37.5% against 2012, taking into account the most significant types of waste, while the generation of the most significant hazardous waste increased by approximately 60%. This increase is due to cleaning operations due to maintenance of water treatment facilities, and the review of the criterion applied in previous years, when oil and fuel sludge sold for energy recycling were not considered to be waste. 3,155 tons of the 3,285 tons managed in 2013 have been recycled.

There was a fall of 15% in the consumed volume of water management.

With regard to the consumption of energy resources and materials, in 2013 there was a fall in the consumption of natural gas and coal and also the consumption of oil derivatives in the company fleet due to the renewal of more efficient vehicles.

Mitigating climate change

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

- Giving added value to coal 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 in light of legislative and political developments.
- Developing business opportunities created due to the need to mitigate global warming.

This strategy is based around four main pillars: improving eco-efficiency, coal management, R&D&i and raising society's awareness.

Total atmospheric emissions (thousands of tonnes)

	2013	2012	2011
SO_2	17.52	23.53	17.83
NO_x	30.32	40.92	40.51
Particles	1.83	1.96	1.52

	2013	2012	2011
Emission-free installed capacity (%)	19.9	19.4	19.2
Net production free of emissions (%)	13.6	7.8	9.3
Greenhouse gas emissions[1] (million t CO_2 eq)	20.8	24.3	23.2
Emissions of GHG/electricity generation (t CO_2 eq/GWh)	399	454	371
Emissions prevented[2] (Mt CO_2)	15.0	15.8	>17
Methane emissions in gas distribution (t CO_2 eq/km network)	9.9	11.5	11.8
Generation of hazardous waste (t)	8,212	5,126	7,333

[1] Greenhouse gases. Corresponding to the scope 1 direct emissions according to "The Greenhouse Gas Protocol. A corporate accounting and reporting standard".
[2] Emission reductions have been calculated using methodologies and tools of United Nations for Clean Development Mechanisms.

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 2013, Gas Natural Fenosa prevented the emission of 10.4 Mt CO_2 due to the low emission factor of combined cycle plants compared to the thermal mix of electricity systems in Spain and Mexico.

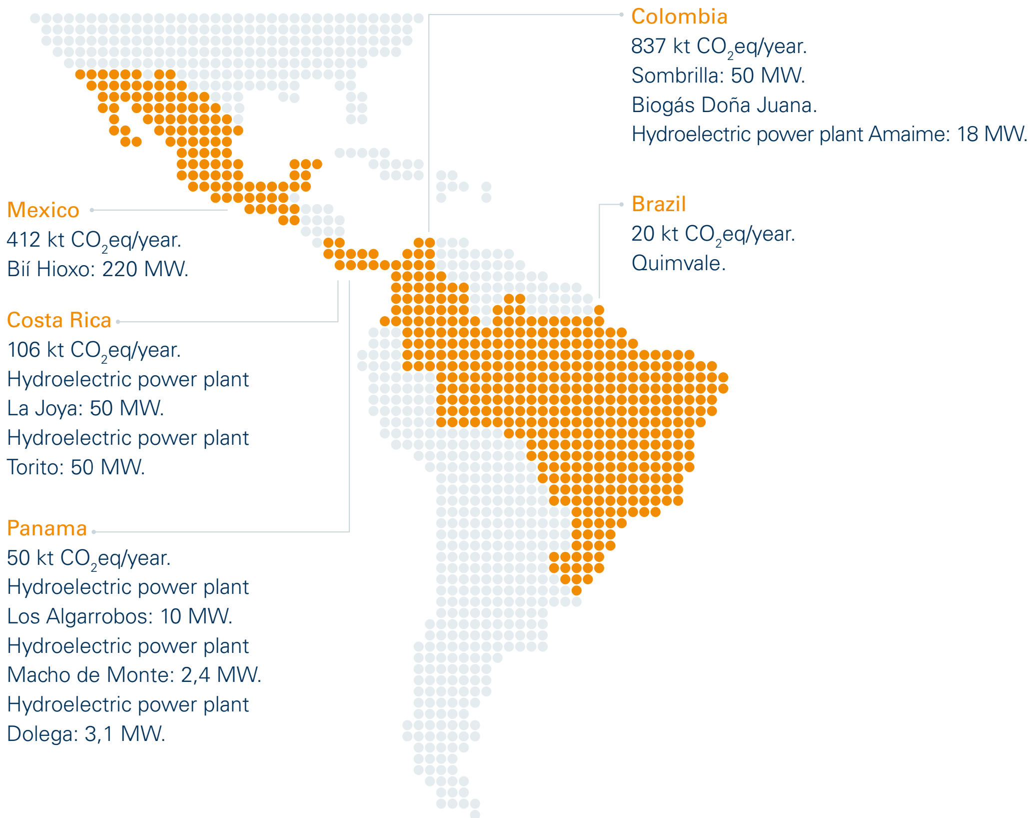
In 2013, Gas Natural Fenosa continued with its firm commitment towards the use of mature renewable technologies, which, coupled with the weather conditions in Spain, made it possible to prevent the emission of 1.6 Mt CO_2 thanks to the production of new developments in renewable energies such as mini-hydro and wind energy in the Spanish electricity system.

Turning to energy saving and efficiency, it is important to note that in accordance with the improvements made and the new calculation methodology, methane emissions by Gas Natural Fenosa in gas transportation and distribution fell to 1.2 Mt CO_2 eq., approximately 17% less than in 2012. The renewal of materials in 2013 prevented emissions of 0.5 Mt CO_2.

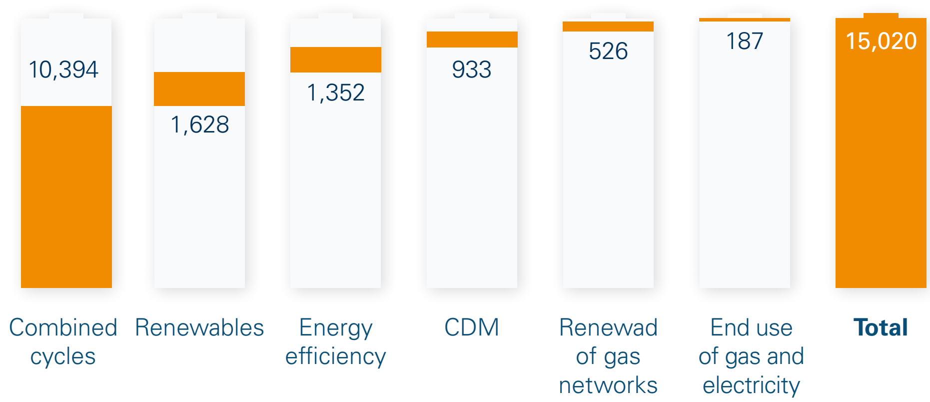
Efficiency Solutions in clients of Gas Natural Fenosa Servicios directed towards the tertiary sector, public administrations and industry, have played an important role in cutting CO_2 emissions in Spain, through changes in boilers and in vehicular natural gas. These actions led to the prevention of 0.2 Mt CO_2 of emissions.

As far as Flexibility Mechanisms are concerned, in 2013, Gas Natural Fenosa has registered a new Clean Development Mechanism (CDM) at the Executive Board of the United Nations for Climate Change. The mechanism in question was the Torito Hydroelectric Plant in Torito, Costa Rica. It is estimated that 77,400 t CO_2 eq/year of greenhouse gases can be reduced through this CDM project, and 1.6 million t CO_2 eq in prevented emissions are calculated to be prevented during the credit period, which is 21 years at the most.

Registered projects



Initiatives for reducing GHG emissions. Emissions prevented (Kt CO_2 eq). Year 2013



In 2013, Gas Natural Fenosa was ranked first in the Global 500 Climate Change Report (CDP), and obtained the highest score in the global classification for that year. The company obtained a score of 100 for transparency and the maximum score (A) for performance.

Protecting biodiversity

In 2013, the company launched the 2013-2016 Biodiversity Action Plan, with the aim of reviewing the current strategy in this field and identifying new opportunities for action in environmental protection.

Gas Natural Fenosa performs voluntary studies regarding the effects electrical generation plants can have on surrounding terrestrial ecosystems, in order to analyse the influence atmospheric emissions have on the condition of forest masses and their evolution over the course of time. The analyses cover the main indicators which have an effect on ecosystems, air quality, soil condition and state of vegetation.

The studies carried out in 2013 confirmed the situation of normality observed in recent years, and concluded that the studied facilities had an acceptable impact on their environment.

In 2013, several Environmental Impact Assessments (EIA) were carried out concerning new electrical generation projects and projects required in the development of new infrastructures for gas and electricity transportation and distribution. Particularly noteworthy were the EIA of the Velle II hydroelectric plant (Galicia, Spain) and that in San Juan (Colombia).

Exhaustive environmental vigilance plans (EVP) are carried out during the construction and operation of facilities, and these periodically monitor the state of the environment.

For more information about our commitment to the environment, see chapter 'Environment' of the Corporate Responsibility Report.

Interest in people

Our challenge

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

The commitment of Gas Natural Fenosa is based on the following pillars:

- Attracting and retaining the best professional talent, offering an attractive and rewarding professional career.
- Offering training that is appropriate to the needs of each employee and each of the businesses.
- Having employees with a high sense of motivation and who fell a sense of pride at belonging to the company, guaranteeing equal opportunities and promoting and respecting diversity.

Milestones 2013

- Expansion of the Extended University for suppliers in Brazil, Colombia and Spain.
- Communication plan and implementation of the Talent Management Model.
- First company to obtain the global Family Responsible Company certificate.
- Signing of the I Collective Agreement for Gas Natural Fenosa employees in Spain for the 2012-2015 period.
- Launching of the second Working Climate and Commitment Survey, with a participation of 81%, 5% more than in the last edition.

Analysis of 2013 Results

At the close of the 2013 financial year, Gas Natural Fenosa provided employment to 16,323 people in 22 different countries. This figure is 5.5% lower than in 2012 (17,270) and is due to the improvement measures in processes and the business divestment in Nicaragua.

The distribution by gender shows that 29.4% are women and 70.6% are men. The geographical distribution shows that 63.8% of people carry out their activity in Europe, 29.3% in America and the rest, 7%, in other continents.

The average age of the staff is 43; the average seniority in the group is around 15.8 years.

Attracting and retaining the best professional talent

Since 2013, professional learning and development have been integrated under the same division. Knowledge management, people development and attraction, talent identification and development form part of the same process. This integrated process is a step forward in the company's skills model as training activity is aligned as much as possible with business targets.

Gas Natural Fenosa's commitment to individual development and evolution in its employees' professional careers is materialised though the company's Talent Management Model.

Talent management is based on a single Leadership model for all employees, consisting of skills geared towards achieving solid and balanced business growth. The model is made up of 24 skills, integrated in three areas which, in turn, include five dimensions. These 24 skills correspond to the professional development of all members of staff as they are required at various professional levels.

	2013	2012	2011
Voluntary rotation index (%)*	2.3	2.1	2.3

*Voluntary layoffs/average staff.

	2013	2012	2011
Staff trained (%)	97.1	94.3	94.4
Training hours per employee	55.7	52.7	52.2
Investment in training per person (euros)	764.5	605.1	569.2
Degree of satisfaction with training (/10)	9.0	8.7	8.5

Offering training that is appropriate to the needs of each employee and each of the businesses

During 2013, throughout the Corporate University, there were over 750,000 training hours attended by a total of 92,117 students. This year training itineraries have been implemented to cover a group's training needs in a way which is more organised, complete, stable and sustainable over the course of time. Each itinerary is made up of three blocks: contextual knowledge, functional knowledge and skills.

The Corporate University also renewed its Corporate Learning Improvement Process (CLIP) certificate. This certificate is awarded by the European Foundation for Management Development, and recognises the quality of learning and development processes of people of corporate education organisations.

In 2013, the group continued to implement the Extended University in Brazil, Colombia and Spain. This is a pioneering project which was created in Mexico in 2012, and which is intended to introduce significant improvements in the process of interaction with customers and suppliers, through skills, transfer of best practices and increase in communication and integration. The Extended University's activities have an immediate impact on business indicators.

(%)	2013	2012	2011
Handicapped people integration index. Spain	2.1	1.6	1.3
Gender mix (men/women)	71/29	70/30	71/29
Women in management posts	25.3	24.2	22.5

Having employees with a high level of motivation and sense of belonging

Respect for people and equality are a fundamental part of the commitment made by Gas Natural Fenosa with its employees and they are assumed in the Code of Ethics, as well as in important texts such as the I Collective Agreement, the Equality Plan in Spain and the recently-approved Protocol for the Prevention of Mobbing, Sexual Harassment and Sexual Discrimination.

During 2013, Gas Natural Fenosa became the first company to obtain the EFR global certificate proving it to be a family-responsible company through the implementation of uniform human resources policies in the countries where it has staff.

In terms of diversity, it is important to note the success of the "Committed to Capacity" campaign and the "Capacitas Project", through which eleven handicapped workers have been recruited in Gas Natural Fenosa in Spain in 2013. Another important achievement was that Gas Natural Fenosa was recognised as one of the seven Spanish companies with the degree of Excellence in Diversity in Spain.

In 2013 Gas Natural Fenosa, organised another climate and commitment survey, for which there was a good internal assessment based on the sense of pride at belonging at the company and the commitment towards the company. All the subjects addressed in the survey obtained a better result than in the one carried out the previous year, with a particularly high score in sustainable development, which obtained a score of 86 out of 100 as the most highly valued aspect by employees.

For more information about our commitment to employees, see the section "Interest by the people" of the Corporate Responsibility Report.

Health and safety

Our challenge

The creation of a healthy and safe environment is the responsibility of all those who make up Gas Natural Fenosa. This commitment is led by senior management and assumed proactively by the entire organisation and its suppliers.

The commitment of Gas Natural Fenosa is based on the following pillars:

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

Main milestones 2013

- Approval by the Board of Directors of the new commitment towards Health and Safety of the Corporate Responsibility Policy, to bring it in line with the five principles underpinning the Commitment to Health and Safety Plan.
- Creation and launch of the ten design and implementation networks which have been prepared in the field of the Commitment to Health and Safety Plan to define strategies, measure progress and ensure that the defined goals are achieved.
- Development of emergency plans and tools with the aim of standardising criteria and actions in the field of safety in the different geographical areas.
- Carrying out the “Your health always in the agenda” campaign which has the aim of raising employees' and their families' awareness about how important it is to look after health and prevention.

Analysis of 2013 Results

Reaching a solid culture of health and safety

The vision of Gas Natural Fenosa is to be able to transform and mature the safety culture of our company, so that everyone working in Gas Natural Fenosa's activities (own staff and companies which collaborate with us) can be reminded that safety is a top priority and that there should be zero tolerance towards any unsafe actions.

The Total Safety Commitment implies turning prevention into a key factor for business leadership, by bringing about a visible change in people's behaviour and developing shared responsibility in health and safety.

For that purpose, the company is developing the Commitment to Health and Safety Plan, which is based on five principles:

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

Four drivers for change in Gas Natural Fenosa

The Commitment to Health and Safety 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.

1. Leadership

For effective safety management, commitment needs to be integrated at all levels of the organisation. Accordingly, the Management of Gas Natural Fenosa plays a crucial role in constructing and developing this safety commitment, marking the level required, standardising the implementation of the new culture and taking responsibility for the success of this Plan.

Training in Leadership in Safety is one of the keys to achieving success in the Commitment to Health and Safety Plan at all levels of the organisation. It is performed in a cascade to boost individual commitment, and in 2013, this program has been taught to executives, intermediate management staff, and employees with leadership capacity on own staff or that of companies which collaborate with us. So far 3,983 executives and intermediate managers from across the entire group have taken part.

2. Health and safety culture amongst employees

In 2013, Gas Natural Fenosa launched a new health and safety regulation, which establishes the need to prepare standards in this field, in order to define minimum and uniform criteria which have to be complied with in global processes and activities.

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. In this context we may highlight the implementation of "Safety contacts", which consists of putting aside a few minutes of work meetings to talking about a chart or photograph of an action which is considered to be unsafe, so as to raise awareness about risks.

Certification according to health and safety standards is a fundamental part of the process for the consistency and standardisation of working conditions at Gas Natural Fenosa. During 2013, the company has successfully carried out 20 auditing processes in accordance with OHSAS 18001. Particularly noteworthy were the first-time certification of one of the company's businesses, six renewal audits and thirteen certification monitoring audits.

Training and raising awareness are key areas for achieving the proposed targets. In 2013, Gas Natural Fenosa has gone to great lengths to standardise management methods and dynamics for health and safety training. In total, the company gave 196,592 training hours in health and safety for 32,206 people as part of 2,464 training

Accident indicators

	2013	2012	2011
Accidents requiring sick leave1 (nº)[1]	152	157	174
Days lost[2]	4,184	3,547	4,853
Mortalities (nº)[3]	0	2	1
Frequency rate (No. accidents with leave /10^6)[4]	5.07	4.96	5.43
Severity rate (No. of working days lost / 10^3 hours worked)[5]	0.14	0.11	0.15
Incident rate (No. of working days lost / 10^3 hours worked)[6]	10.56	10.25	11.25
Absenteeism rate (%)[7]	1.70	2.14	2.94

[1] Accidents requiring medical leave: number of accidents in the workplace leading the employee to take sick leave.
[2] Days lost: days not worked due to sick 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 died due to accidents at work.
[4] Index of frequency: number of accidents with sick leave occurring during the working day for every million hours worked.
[5] Severity rate: number of days lost as a result of occupational accidents for every 1000 hours worked.
[6] Rate of incidence: number of occupational accidents for every 1,000 employees.
[7] Absenteeism rate: absence of employees from their jobs.

actions. The average number of training hours in health and safety per employee amounted to 14.46 hours.

Through the “Healthcare Management Plan”, the company defines the strategic guidelines and establishes the general framework for action of Gas Natural Fenosa in the field of healthcare, ergonomics and psychology/sociology at national and international level.

3. Involvement of collaborating companies

Since its inception, the new Commitment to Health and Safety Plan of Gas Natural Fenosa has been firmly committed to carrying out a qualitative change in the company's safety culture, under a global vision which is also extended to the value chain.

In this context, the Commitment to Health and Safety Plan has been presented to the most important companies which collaborate with Gas Natural Fenosa over a series of meetings held in the company's head offices, with the participation of the Chief Executive Officer of Gas Natural Fenosa.

During 2013, several tools have been implemented to guarantee that collaborating companies comply with safety standards. Particularly noteworthy are the preventive safety observations, documented inspections or coordination meetings.

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's 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.

For more information, see the chapter “Safety and health” of the Corporate Responsibility Report.

Commitment to society

Our challenge

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 every company in which we operate.

The commitment of Gas Natural Fenosa is based on the following pillars:

- Contributing towards the economic and social development of the countries in which it operates.
- Social action: consolidate the bond between the main lines of social action and Gas Natural Fenosa's strategy.
- Social impact: dialogue with local communities and helping their development.

Main milestones 2013

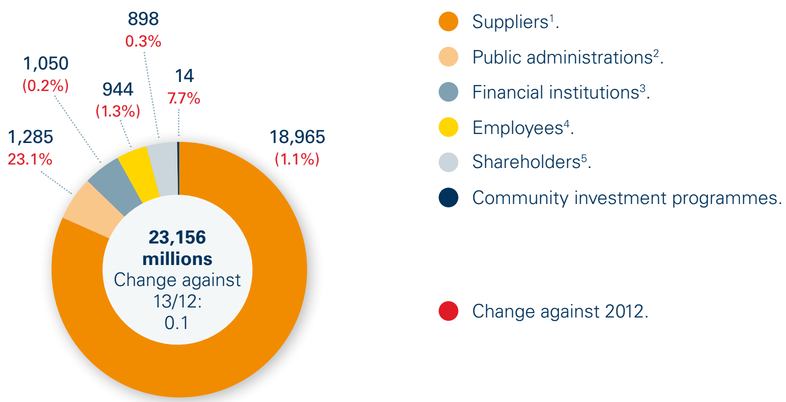
- Development of new social impact assessments in the communities of the projects which the company is currently carrying out.
- Approval, dissemination and implementation of the General Sponsorship and Patronage Regulation to contribute towards improving transparency and internal control.
- Stepping up the number of initiatives relating to the cultural sector, particularly the film-making industry.
- Continuing with energy access projects for low-income city areas.

Analysis of 2013 Results

Contributing towards the economic and social development of the countries in which it operates (millions of euros)

	2013	2012	2011
Financial value distributed	23,156	23,134	19,631

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



[1] Payment to suppliers for procurement and other operating expenses, without including tax.
[2] Only includes payment of own taxes.
[3] Financial load.
[4] Personnel expenses without deducting works carried out for own assets.
[5] Dividends.

Gas Natural Fenosa activity contributes to the generation of riquezay welfare where the company is present favouring different groupsof interest, evaluating the social impact of our activity and respecting the culture, rules and the environment.

Fiscal contribution

Gas Natural Fenosa is committed towards acting with fiscal responsibility in managing its businesses. Thus, since 2010 Gas Natural Fenosa has subscribed to the "Code of Good Fiscal 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.

Indeed, the company has expressly undertaken to avoid any opaque structures with tax purposes and to regularly inform the Board of Directors about fiscal policies applied. 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.

The total fiscal contribution of Gas Natural Fenosa amounted to 3,550 million euros in the 2013 year. The following table displays the total tax paid by Gas Natural Fenosa:

Pursuant to the Spanish laws determining countries which are considered to be tax havens (Royal Decree 1080/1991, of 5 July and Royal Decree 116/2003, of 31 January), Gas Natural Fenosa only has three shareholdings in companies incorporated in such territories, specifically the shareholdings of 95% in Buenergía Gas & Power, Ltd, of 47.5% in EcoEléctrica Holding, Ltd and of 47.5% in Ecoeléctrica Limited, all registered in the Cayman Isles. They are companies which existed prior to the investment made by Gas Natural Fenosa, and 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.

(millions of euros)	2013	2012	2011
Spain	2,746	1,904	1,746
First-party taxes[1]	896	418	419
Third-party taxes[2]	1,850	1,486	1,327
Latin America	556	583	612
First-party taxes[1]	296	304	319
Third-party taxes[2]	260	279	293
Other	248	201	89
First-party taxes[1]	93	100	73
Third-party taxes[2]	155	101	16
Total	**3,550**	**2,688**	**2,447**

[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.

(millions of euros)	2013	2012	2011
Economic contributions	14	13	14

Social action

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

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

- Access to energy, aimed at providing and facilitating access to this basic service by those populations with limited resources, in areas where the company performs its activity.
- Relationship with communities, to ensure fluid dialogue and to be aware of the social impact the company's business has.
- Social action, developed through the Latin America Integrated Operational Centre (COIL) through the strong presence the company has in this area. Three model social action programmes have been defined. The idea is for them to be aligned with the company's business as well as catering to the different stakeholders with which the company has relations. Programmes carried out through COIL address the technical and corporate training of suppliers, with the object of integrating them in the company's value chain. A second type of programme is geared towards raising awareness and education to make a safe and responsible use of energy between children and adults. Lastly, the "Training for leadership programme" is intended for employees' children and families and helps them in their training and in finding a job.
- Sponsorship, patronage and donations, through which the company supports projects and initiatives that generate value for society and, in turn, strengthen the company's social commitment. These values are based on support for culture, social causes and the environment. The adoption of these values is channelled through the different sponsorship and activity initiatives, both of the Gas Natural Fenosa Foundation and the Gas Natural Fenosa Contemporary Art Museum.

For further information about the foundation see www.fundaciongasnaturalfenosa.org

Integrity

Our challenge

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.

The commitment of Gas Natural Fenosa is based on the following pillars:

- Guaranteeing compliance with the Code of Ethics on every level and both internally and externally.
- Materialising and guaranteeing compliance with the Human Rights Policy.

Main milestones 2013

- Carrying out activities to extend the Ethical Code to suppliers in Spain and in the international field and to monitor their implementation in relations with suppliers.
- Definition of the Prevention Model for breaches of laws in terms of corruption, safety in the workplace and the environment in Argentina, Brazil, Colombia, Mexico and Panama.
- Verification of the degree of implementation and compliance of undertakings set out in the Human Rights Policy in the framework of inspection of processes and standards performed by the Internal Audit area.

Analysis of 2013 Results

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

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.

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

This Management Model has the following components: the Code of Ethics per se, the Code of Ethics Committee and the guarantee systems; 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.

	2013	2012	2011
Correspondence received by the Code of Ethics Committee	79	47	40

	2013	2012	2011
Number of persons trained in the Human Rights Policy	11,360	9,681	9,048

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

To materialise and guarantee compliance with the Human Rights Policy

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.

The implementation of this policy has been verified by PwC and is included in the regular internal auditing processes of Gas Natural Fenosa.

The Human Rights Policy sets out ten undertakings:

1. Avoid any practices which are discriminatory or which might compromise people's dignity.
2. Eradicate the use of child labour.
3. Help to ensure freedom of association and collective negotiation.
4. To protect people's health.
5. To offer dignified employment.
6. Commitment towards people linked to suppliers, contractors and collaborating companies.
7. To support and publicly promote respect for human rights.
8. Respect 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.

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

92 Audit Report.

93 Consolidated Balance Sheet.

94 Consolidated Income Statement.

95 Consolidated Statement of Comprehensive Income.

96 Statement of Changes in Consolidated net Equity.

97 Consolidated Cash Flow Statement.

98 Consolidated Director’s Report.

integrated
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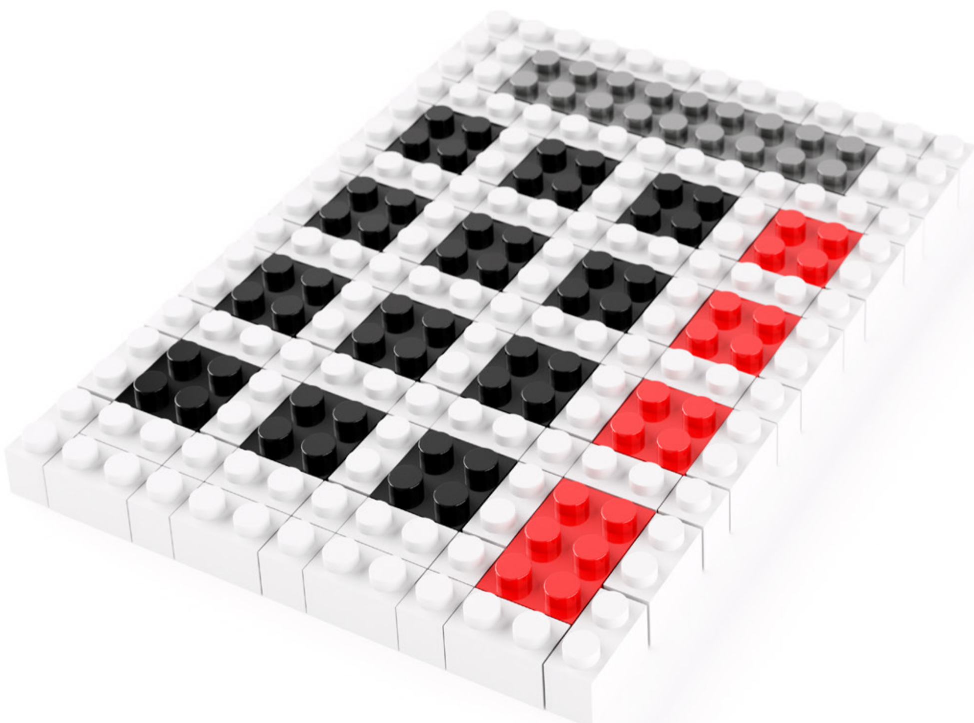

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This version of our report is a free translation of the original, which was prepared in Spanish. All possible care has been taken to ensure that the translation is an accurate representation of the original. However, in all matters of interpretation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

AUDITOR´S REPORT ON THE CONSOLIDATED ANNUAL ACCOUNTS

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

We have audited the consolidated annual accounts of Gas Natural SDG, S.A. (the "Company") and its subsidiaries (the "Group"), consisting of the consolidated balance sheet at 31 December 2013, the consolidated income statement, the consolidated statement of comprehensive income, the statement of changes in consolidated net equity, the consolidated cash flow statement and related notes to the consolidated annual accounts for the year then ended. As explained in note 3.1, Directors of the Company are responsible for the preparation of these consolidated annual accounts, in accordance with the International Financial Reporting Standards as endorsed by the European Union, and other provisions of the financial reporting framework applicable to the Group. Our responsibility is to express an opinion on the consolidated annual accounts taken as a whole, based on the work performed in accordance with the legislation governing the audit practice in Spain, which requires the examination, on a test basis, of evidence supporting the consolidated annual accounts and an evaluation of whether their overall presentation, the accounting principles and criteria applied and the estimates made are in accordance with the applicable financial reporting framework.

In our opinion, the accompanying consolidated annual accounts for 2013 present fairly, in all material respects, the consolidated financial position of Gas Natural SDG, S.A. and its subsidiaries at 31 December 2013, and the consolidated results of its operations and the consolidated cash flows for the year then ended in accordance with the International Financial Reporting Standards as endorsed by the European Union, and other provisions of the applicable financial reporting framework.

The accompanying consolidated Directors' Report for 2013 contains the explanations which the Gas Natural SDG, S.A.'s Directors consider appropriate regarding the Group's situation, the development of its business and other matters and does not form an integral part of the consolidated annual accounts. We have verified that the accounting information contained in the consolidated Directors' Report is in agreement with that of the consolidated annual accounts for 2013. Our work as auditors is limited to checking the consolidated Directors' Report in accordance with the scope mentioned in this paragraph and does not include a review of information other than that obtained from the accounting records of Gas Natural SDG, S.A. and its subsidiaries.

PricewaterhouseCoopers Auditores, S.L.

Iñaki Goiriena Basualdu
Partner

12 February 2014

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Consolidated Balance Sheet

(million euros)

	31/12/13	31/12/12
Assets		
Intangible assets *(Note 5)*	10,245	10,764
Goodwill	5,756	5,837
Other intangible assets	4,489	4,927
Property, plant and equipment *(Note 6)*	21,411	22,308
Investments recorded using the equity method *(Note 7)*	96	100
Non-current financial assets *(Note 8)*	1,457	983
Deferred income tax assets *(Note 20)*	1,051	1,036
Non-current assets	**34,260**	**35,191**
Inventories *(Note 9)*	864	897
Trade and other receivables *(Note 10)*	5,316	5,106
Trade receivables	4,643	4,557
Other receivables	527	453
Current income tax assets	146	96
Other current financial assets *(Note 8)*	253	1,259
Cash and cash equivalents *(Note 11)*	4,252	4,434
Current assets	**10,685**	**11,696**
Total Assets	**44,945**	**46,887**
Net equity and liabilities		
Share capital	1,001	1,001
Share premium	3,808	3,808
Reserves	7,931	7,402
Net income for the year attributed to the Equity holders of the Company	1,445	1,441
Interim dividend	(393)	(391)
Adjustments for changes in value	(348)	-
Hedging operations	1	(19)
Cumulative translation adjustments	(349)	19
Net equity attributable to the Equity holders of the Company	**13,444**	**13,261**
Minority interests	**1,566**	**1,618**
Net equity *(Note 12)*	**15,010**	**14,879**
Deferred income *(Note 13)*	932	878
Non-current provisions *(Note 14)*	1,564	1,665
Non-current financial liabilities *(Note 15)*	15,508	18,046
Borrowings	15,344	17,815
Other financial liabilities	164	231
Deferred income tax liability *(Note 20)*	2,562	2,688
Other non-current liabilities *(Note 17)*	842	834
Non-current liabilities	**21,408**	**24,111**
Current provisions *(Note 14)*	134	144
Current financial liabilities *(Note 15)*	3,403	2,386
Borrowings	3,206	2,243
Other financial liabilities	197	143
Trade and other payables *(Note 18)*	4,230	4,560
Trade payables	3,485	3,936
Other payables	709	526
Current income tax liabilities	36	98
Other current liabilities *(Note 19)*	760	807
Current liabilities	**8,527**	**7,897**
Total net equity and liabilities	**44,945**	**46,887**

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

Consolidated Income Statement

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

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

Consolidated Statement of Comprehensive Income

(million euros)

	2013	2012
Consolidated net income for the year	**1,664**	**1,657**
Other comprehensive income recognised directly in net equity	(473)	(224)
Items that will not be transferred to profit/(loss):		
Actuarial gains and losses and other adjustments	3	(87)
Tax effect	(1)	25
Items that will subsequently be transferred to profit/(loss):		
Valuation of available-for-sale financial assets	-	-
Cash flow hedges	(21)	(25)
Cumulate translation adjustment	(460)	(153)
Tax effect	6	16
Releases to income statement	38	8
Valuation of available-for-sale financial assets	-	-
Cash flow hedges	48	9
Cumulate translation adjustment	2	1
Tax effect	(12)	(2)
Other comprehensive income for the year	**(435)**	**(216)**
Total comprehensive income for the year	**1,229**	**1,441**
Attributable to:		
Equity holders of the Company	1,094	1,260
Minority interests	135	181

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 change in value	Subtotal	Minority interests	Net Equity
Balance at 01/01/12	**992**	**10,348**	**1,325**	**127**	**12,792**	**1,649**	**14,441**
Total comprehensive income for the year	-	(54)	1,441	(127)	**1,260**	181	**1,441**
Dividends distribution	-	934	(1,325)	-	**(391)**	(204)	**(595)**
Acquisition of free allocation rights *(Note12)*	-	(379)	-	-	**(379)**	-	**(379)**
Capital increase *(Note 12)*	9	(9)	-	-	**-**	-	**-**
Other variations	-	(21)	-	-	**(21)**	(8)	**(29)**
Balance at 31/12/12	**1,001**	**10,819**	**1,441**	**-**	**13,261**	**1,618**	**14,879**
Total comprehensive income for the year	-	(3)	1,445	(348)	**1,094**	135	**1,229**
Dividends distribution	-	544	(1,441)	-	**(897)**	(192)	**(1,089)**
Acquisition of free allocation rights	-	-	-	-	**-**	-	**-**
Capital increase	-	-	-	-	**-**	-	**-**
Other variations	-	(14)	-	-	**(14)**	5	**(9)**
Balance at 31/12/13	**1,001**	**11,346**	**1,445**	**(348)**	**13,444**	**1,566**	**15,010**

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

Consolidated Cash Flow Statement

(million euros)

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

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

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

Note 1. General information

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

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

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

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

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

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

Note 2. Regulatory framework

2.1. Regulation of the natural gas industry in Spain

Main characteristics of the natural gas industry in Spain

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

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

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

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

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

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

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

Regulation of natural gas activities in Spain

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

2.1.1. Regulated activities

Regulated activities are characterised by:

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

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

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

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

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

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

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

2.1.1.1. Transport

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

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

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

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

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

2.1.1.2. Distribution

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

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

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

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

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

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

2.1.2. Unregulated activities

2.1.2.1. Supplies (import of natural gas)

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

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

2.1.2.2. Commercialisation

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

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

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

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

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

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

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

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

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

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

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

2.2. Regulation of the natural gas industry in Latin America

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

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

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

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

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

2.3. Regulation of the natural gas industry in Italy

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

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

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

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

2.4. Regulation of the Electricity sector in Spain

Main characteristics of the electricity sector in Spain

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

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

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

Generally, the electricity sector has the following main features:

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

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

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

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

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

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.

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

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

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

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

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

2.4.1.1. Transport

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

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

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

2.4.1.2. Distribution

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

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

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

2.4.2. Unregulated activities

2.4.2.1. Electricity generation

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

The principal aspects of these dispositions are:

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

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

- Regarding the costs of generation under the ordinary regime of the peninsular and extra-peninsular electricity systems, it establishes that the revisions of the norms of the remuneration model of the production plants in those systems that develop the content of the Royal Decree Law 13/2012, of 30 March, will be applicable from 1 January 2012. For this purpose, some of the modifications of the remuneration model related to the elimination of expenses of a recurring nature, and to the revision of the financial interest rate on the remuneration, were advanced.
- It was established, for the Autonomous Regions that charge, directly or indirectly, the activities or installations destined to electricity supply, with their own taxes or surcharges on state taxes, are obliged to impose the territorial supplement on the access tolls and final prices, and that this should be paid by the consumers located in the territorial area of the respective Autonomous Regions.
- It was established that the remuneration for transport activities under the concept of investments will be made for those assets in service not yet amortised, applying the net value of these as the base for their financial retribution.
- For the amounts of the income deficit pending in the settlements of the regulated activities of the electricity sector generated in 2006, it was established that the interest rate to be applied is the average of the daily Euribor rate at three month of November of the previous year plus 65 basis points. The difference against the cession price to the Fund would be considered as a cost chargeable to the system.
- The present norm authorises the Ministry of Industry, Energy and Tourism to apply criteria of gradualness to access tolls.

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

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

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

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

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

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

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

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

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

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

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

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

- Remuneration for electricity transport and distribution:

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

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

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

- Special regime:

  - A new economic regime is established for renewable energy, cogeneration and waste power plants based on remuneration for the sale of electricity generated, valued at market prices.

  - Provision is made for additional remuneration, if necessary, to recover investment and operating costs, based on standard parameters for each technology, until a reasonable return is obtained; for existing facilities, this will be the yield on 10-year Government Debentures plus 300 basis points.

  - Special incentives may be established for island and extra-peninsular generation.

  - This new economic regime will be reviewed every six years.

- Tariff deficit:

  - The total limit imposed on Government guarantees is increased to cover the additional Euros 4,000 million deficit for 2012.

- Financing of the additional cost of electricity generation in island and extra-peninsular territories:

  - limited to 50% of the additional cost in 2013, to be financed through the 2014 National Budget.

- Investment incentive:

  - As from 14 July 2013, the amount of the incentive for investment in long-term generation capacity is reduced from 26,000 euros/MW/year to 10,000 euros/MW/year.

  - It will be collected over twice the number of years remaining to cover the current 10-year collection period.

- Social Bond:

  - The cost of the social bond will be borne by the parent companies of groups engaged simultaneously in generation, distribution and commercialisation activities.

  - The allocation percentage will be calculated annually in proportion to the sum of the distributors' and retailers' supply points and customers.

  - Until the Ministerial Order stipulating these percentages is approved (not before 15 September 2013), the cost of the social bond will be charged to the system.

  - The parameters for granting the social bond will be reviewed as from 1 July 2014.

- Access tolls:

  - The Government is authorised to review tolls quarterly.

  - A review was expected within one month, entailing a 6.5% rise; in this regard, on 15 July 2013 the Ministry of Industry, Energy and Tourism sent to the National Energy Commission the proposed Order for the preparation of the mandatory report.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

• Electricity generation:

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

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

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

• System's economic and technical management:

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

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

• Electricity transport activity:

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

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

- Electricity distribution:

  - A definition of distribution facilities is provided.

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

- Regime for inspections, infringements and penalties:

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

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

2.4.2.2. Commercialisation of electricity

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

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

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

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

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

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

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

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

2.5. Regulation of the international electricity sector

2.5.1. Generation

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

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

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

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

2.5.2. Distribution

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

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

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

Note 3.   Basis of presentation and accounting policies

3.1 Basis of presentation

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

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

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

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

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

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

3.2 New IFRS-EU standards and IFRIC interpretation

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

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

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

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

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

- IFRS 10, "Consolidated financial statements";
- IFRS 12, "Disclosure of interests in other entities";
- IAS 27 (Amendment), "Separate financial statements";
- IAS 28 (Amendment), "Investments in associates and joint ventures";
- IAS 32, "Financial instruments: Presentation – Offsetting financial assets and financial liabilities";
- IAS 36 (Amendment), "Impairment of assets";

- IAS 39 (Amendment), “Financial Instruments: Recognition and measurement”; Novation of derivatives and continuation of hedge accounting.

- IFRS 10, IFRS 11 and IAS 27 (Amendments), “Investment entities”.

- “Transition guide”, Amendments to IFRS 10, IFRS 11 and IFRS 12.

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

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

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

	31/12/13	31/12/13 a/IFRS 11	Variation
Non-current assets	34,260	33,168	(1,092)
Current assets	10,685	10,343	(342)
Total Assets	**44,945**	**43,511**	**(1,434)**
Net equity	15,010	14,967	(43)
Non-current liabilities	21,408	20,187	(1,221)
Current liabilities	8,527	8,357	(170)
Total Net equity and liabilities	**44,945**	**43,511**	**(1,434)**

	2013	2013 a/IFRS 11	Variation
Sales	24,969	24,478	(491)
Operating expenses	(20,099)	(19,844)	255
Depreciation, amortisation and impairment expenses	(1,907)	(1,612)	295
Operating income	**2,963**	**3,022**	**59**
Net financial income	(838)	(803)	35
Profit of entities recorded by equity method	7	(62)	(69)
Income before taxes	**2,132**	**2,157**	**25**
Income tax expense	(468)	(499)	(31)
Minority interests	(219)	(213)	6
Attributable profit	**1,445**	**1,445**	**-**

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

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

3.3 Accounting policies

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

3.3.1 Consolidation

a) Subsidiaries

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

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

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

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

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

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

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

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

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

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

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

b) Joint Ventures

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

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

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

c) Associates

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

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

d) Consolidation scope

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

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

2013

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

2012

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

3.3.2 Foreign currency translation

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

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

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

- Assets and liabilities for each Balance sheet presented are translated at the closing rate at the date of that balance sheet;
- Income and expenses for each Income statement are translated at monthly average exchange rates, unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rate on the dates of the transactions.
- All the exchange differences are recognised in the Consolidated Statement of Comprehensive Income, and the cumulate amount under the caption Cumulative translation Adjustments in Net equity.

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

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

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

3.3.3 Intangible assets

a) Goodwill

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

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

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

The impairment losses on goodwill cannot be reversed.

b) Concessions and the like

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

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

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

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

c) Computer software applications

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

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

d) Research costs

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

e) Other intangible assets

Other intangible assets mainly include the following:

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

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

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

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

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

3.3.4 Property, plant and equipment

a) Cost

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

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

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

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

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

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

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

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

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

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

b) Amortisation

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

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

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

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

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

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

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

c) Exploration operations and production of gas

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

- Explorations costs

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

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

- Investments in areas with reserves

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

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

3.3.5 Impairment of non-financial assets

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

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

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

These units have been defined using the following criteria:

- Gas distribution Europe:

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

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

- Electricity distribution Europe:

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

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

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

- Electricity:

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

  - Electricity Others. Relates to electricity business in Kenya.

- Latin America.

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

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

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

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

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

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

The following are the nominal growth rates employed:

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

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

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

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

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

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

- Distribution of electricity Spain:

  - Regulated remuneration. The amount and growth of the remuneration approved by the regulator, considering the impacts of RDL 2/2013, RDL 9/2013, Law 24/2013 (Note 2.4.2.1) and RD 1048/2013 (Note 2.4.1.2).

  - Operational and maintenance costs. Estimates using historical costs of the network managed.

  - Investments. Taking into consideration the investments necessary to maintain regular use of the network.

- Gas and electricity distribution in Latin America and Rest

  - Evolution of the tariffs. Assessment of tariffs in each country, based on the terms of the tenders and tariff reviews.

  - Cost of energy and fuel. Estimated based on predictive models developed on the basis of knowledge of each country's energy models.

- Electricity Spain:

  - Electricity generated. Market demand evolution has been estimated based on the consensus expressed by several international bodies. The share has been estimated based on Gas Natural Fenosa's market share in each technology and on the expected evolution of each technology's share of the total market. It has been considered the impacts of RDL 2/2013, RDL 9/2013 and Law 24/2013 (Note 2.4.2.1).

  - Electricity price. Market electricity prices used have been calculated using models that cross expected demand with supply forecasts, taking into account the foreseeable evolution of generation capacity in Spain, based on sector forecasts.

  - Cost of fuel, operation and maintenance and CO_2 emission rights. Estimated based on long-term contracts and the expected evolution of supply curves of prices and market experience.

  - Operation and maintenance costs. Estimated from historical costs of managed park.

  - The effect of new taxes established by Law 15/2012 (Note 2.4.2.1).

- Electricity Latin America and Rest:

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

- Unión Fenosa Gas:

  - Cost of gas supplies. In accordance with prices stipulated in long-term contracts.

  - Market price of natural gas. Valued using the predictive models applied by Gas Natural Fenosa based on price curves and market experience.

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

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

3.3.6 Financial assets and liabilities

Financial investments

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

a) Loans and other receivables

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

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

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

b) Held-to-maturity financial assets

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

c) Fair value financial assets through profit or loss

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

d) Available-for-sale financial assets

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

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

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

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

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

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

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

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

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

Cash and cash equivalents

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

Borrowings

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

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

Trade and other payables

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

3.3.7. Derivatives and other financial instruments

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

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

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

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

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

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

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

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

For accounting purposes, the operations are classified as follows:

1. Derivatives qualifying for hedge accounting

a) Fair value hedge

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

b) Cash flow hedge

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

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

c) Hedges of net foreign investments

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

2. Derivatives that do not qualify for hedge accounting

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

3. Energy purchase and sale agreements

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

3.3.8. Non-current assets held for sale and discontinued activities

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

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

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

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

3.3.9. Inventories

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

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

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

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

3.3.10 Share capital

Share capital is made up of ordinary shares.

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

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

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

3.3.11 Earnings per share

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

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

3.3.12 Preference shares

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

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

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

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

3.3.13 Deferred income

This caption mainly includes:

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

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

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

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

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

3.3.14 Provisions for employee obligations

a) Post-employment pension and similar obligations

- Defined contribution plans

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

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

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

- Defined benefit plans

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

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

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

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

b) Other post-employment benefit obligations

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

c) Termination benefits

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

d) Shares Acquisition Plan

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

3.3.15 Provisions

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

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

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

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

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

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

3.3.16 Leases

1) Finance leases

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

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

2) Operating leases

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

- Lessee accounting

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

- Lessor accounting

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

- At the end of the lease period the lessor (Gas Natural Fenosa) continues to retain ownership of the asset.
- The lessee has no right to claim an extension of the lease term.
- The lessee does not have a purchase option.
- The risk of the operation is borne by the lessor.
- The fixed capacity charge can reach nil in the periods in which the availability of the Plant is below the guaranteed level. If non-compliance continues, the contract can be cancelled.
- The current value of the capacity charges is lower than the cost of construction of the Plant.
- The lessor has the right to sell energy from the part of the installed capacity that exceeds the level guaranteed under contract to third parties.

3.3.17 Income tax

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

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

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

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

3.3.18 Revenue and expenses recognition and settlement for regulated activities

a) General

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

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

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

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

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

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

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

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

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

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

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

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

c) Revenue from electricity business and settlement for regulated activities

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

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

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

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

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

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

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

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

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

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

d) Other income and expenses

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

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

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

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

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

3.3.19 Cash Flow Statements

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

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

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

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

3.3.20 Significant accounting estimates and judgments

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

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

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

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

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

c) Derivatives or other financial instruments (Note 3.3.7)

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

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

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

d) Provisions for employee benefits (Note 3.3.14)

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

e) Provisions (Note 3.3.15)

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

f) Income tax (Note 3.3.17)

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

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

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

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

Note 4. Segment financial information

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

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

a) Segment Information

The operating segments of Gas Natural Fenosa are:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Segmental financial information – Income Statement

	Gas Distribution Europe			Electricity Distribution Europe			Gas				Electricity			Latin America						
2013	Spain	Rest	Total	Spain	Rest	Total	Infras truc-ture	Supp. and Comm.	UF GAS	Total	Spain	Rest	Total	Gas Distribu tion	Electricity distribution	Elec-tricity	Total	Rest	Elimi-na-tions	Total
Sales consolidated	1,144	312	1,456	802	242	1,044	123	10,053	616	10,792	4,776	102	4,878	3,260	2,121	953	6,334	465	-	24,969
Sales intersegments	139	2	141	43	-	43	190	1,517	415	2,122	1,151	-	1,151	-	-	8	8	190	-	3,655
Sales segment	1,283	314	1,597	845	242	1,087	313	11,570	1,031	12,914	5,927	102	6,029	3,260	2,121	961	6,342	655	(3,655)	24,969
Segment supplies	(26)	(176)	(202)	-	(188)	(188)	(32)	(10,485)	(891)	(11,408)	(4,222)	(76)	(4,298)	(2,235)	(1,559)	(612)	(4,406)	(381)	3,655	(17228)
Net personnel expenses	(75)	(16)	(91)	(104)	(7)	(111)	(4)	(49)	(11)	(64)	(158)	(2)	(160)	(96)	(57)	(16)	(169)	(266)	-	(861)
Other operating income/expenses	(265)	(30)	(295)	(153)	(12)	(165)	(19)	(173)	(6)	(198)	(758)	(12)	(770)	(243)	(165)	(58)	(466)	99	-	(1,795)
Ebitda	917	92	1,009	588	35	623	258	863	123	1,244	789	12	801	686	340	275	1,301	107	-	5,085
Other income	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	11	-	11
Depreciation, amortization and impairment expenses	(288)	(27)	(315)	(220)	(6)	(226)	(98)	(18)	(239)	(355)	(594)	(5)	(599)	(109)	(65)	(113)	(287)	(125)	-	(1,907)
Debtors provisions and others	(8)	(5)	(13)	(6)	-	(6)	-	(59)	-	(59)	(37)	-	(37)	(20)	(93)	-	(113)	2	-	(226)
Operating income	621	60	681	362	29	391	160	786	(116)	830	158	7	165	557	182	162	901	(5)	-	2,963
Net financial income	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(838)
Equity-method result	-	-	-	-	-	-	-	-	6	6	-	-	-	-	-	-	-	1	-	7
Income before taxes	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	2,132
Income tax expense	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(468)
Net income for the period	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	1,664

	Gas Distribution Europe			Electricity Distribution Europe			Gas				Electricity			Latin America						
2012	Spain	Rest	Total	Spain	Rest	Total	Infras truc-ture	Supp. and Comm.	UF GAS	Total	Spain	Rest	Total	Gas Distribu tion	Electricity distribution	Elec-tricity	Total	Rest	Elimi-na-tions	Total
Sales consolidated	1,135	285	1,420	804	250	1,054	111	9,841	638	10,590	4,952	128	5,080	2,979	2,512	852	6,343	417	-	24,904
Sales intersegments	131	12	143	48	-	48	195	1,379	509	2,083	1,242	-	1,242	3	1	7	11	196	-	3,723
Sales segment	1,266	297	1,563	852	250	1,102	306	11,220	1,147	12,673	6,194	128	6,322	2,982	2,513	859	6,354	613	(3,723)	24,904
Segment supplies	(24)	(170)	(194)	-	(194)	(194)	(56)	(10,245)	(859)	(11,160)	(4,624)	(100)	(4,724)	(1,993)	(1,891)	(515)	(4,399)	(361)	3,723	(17309)
Net personnel expenses	(77)	(15)	(92)	(99)	(8)	(107)	(6)	(50)	(12)	(68)	(152)	(2)	(154)	(98)	(66)	(15)	(179)	(271)	-	(871)
Other operating income/expenses	(265)	(29)	(294)	(140)	(13)	(153)	(19)	(189)	(20)	(228)	(514)	(11)	(525)	(251)	(190)	(68)	(509)	65	-	(1,644)
Ebitda	900	83	983	613	35	648	225	736	256	1,217	904	15	919	640	366	261	1,267	46	-	5,080
Other income	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	20	-	20
Depreciation, amortization and impairment expenses	(289)	(25)	(314)	(228)	(6)	(234)	(64)	(15)	(155)	(234)	(594)	(5)	(599)	(116)	(70)	(111)	(297)	(120)	-	(1,798)
Debtors provisions and others	-	(5)	(5)	1	-	1	-	(60)	-	(60)	(41)	-	(41)	(15)	(116)	-	(131)	1	-	(235)
Operating income	611	53	664	386	29	415	161	661	101	923	269	10	279	509	180	150	839	(53)	-	3,067
Net financial income	-	-	-	-	-	-	-	-	-	-	-		-	-	-	-	-	-	-	(874)
Equity-method result	-	-	-	-	-	-	-	-	9	9	-		-	-	-	-	-	1	-	10
Income before taxes	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	2,203
Income tax expense	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(546)
Net income for the period	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	1,657

Segmental financial information – Assets, liabilities and investments

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

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

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

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

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

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

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

b) Reporting by geographic area

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

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

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

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

	At 31/12/13	At 31/12/12
Spain	25,981	26,878
Rest of Europe	1,175	854
Latin America	6,262	6,737
Others	1,096	991
Total	**34,514**	**35,460**

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

	At 31/12/13	At 31/12/12
Spain	865	864
Rest of Europe	45	58
Latin America	559	404
Others	25	31
Total	**1,494**	**1,357**

Note 5. Intangible assets

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

	Concession and other rights to use	Computer software	Other intangible assets	Subtotal	Goodwill	Total
Cost, gross	3,865	590	2,814	7,269	5,876	13,145
Accumulated Amortisation	(1,270)	(378)	(417)	(2,065)	-	(2,065)
Net carrying value at 01/01/12	**2,595**	**212**	**2,397**	**5,204**	**5,876**	**11,080**
Investment *(Note 4)*	128	105	31	264	-	264
Divestitures	-	-	(22)	(22)	(1)	(23)
Amortisation and impairment charge	(115)	(81)	(171)	(367)	-	(367)
Translation adjustment	(133)	1	(19)	(151)	(38)	(189)
Business combination *(Note 29)*	-	-	1	1	-	1
Reclassifications and others	69	(11)	(60)	(2)	-	(2)
Net carrying value at 31/12/12	**2,544**	**226**	**2,157**	**4,927**	**5,837**	**10,764**
Cost, gross	3,906	659	2,736	7,301	5,837	13,138
Accumulated Amortisation and impairment expenses	(1,362)	(433)	(579)	(2,374)	-	(2,374)
Net carrying value at 01/01/13	**2,544**	**226**	**2,157**	**4,927**	**5,837**	**10,764**
Investment *(Note 4)*	129	140	50	319	-	319
Divestitures[1]	-	(1)	(65)	(66)	(22)	(88)
Amortisation and impairment charge	(119)	(85)	(273)	(477)	-	(477)
Translation adjustment	(210)	(1)	(3)	(214)	(59)	(273)
Reclassifications and others	12	-	(12)	-	-	-
Net carrying value at 31/12/13	**2,356**	**279**	**1,854**	**4,489**	**5,756**	**10,245**
Cost, gross	3,701	795	2,704	7,200	5,756	12,956
Accumulated Amortisation and impairment expenses	(1,345)	(516)	(850)	(2,711)	-	(2,711)
Net carrying value at 31/12/13	**2,356**	**279**	**1,854**	**4,489**	**5,756**	**10,245**

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

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

"Concessions and other rights to use" includes principally:

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

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

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

The heading "Other intangible assets" mainly includes:

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

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

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

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

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

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

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

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

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

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

Note 6. Property, plant and equipment

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

	Land and buildings	Gas installations	Electricity generation plants	Plant for electricity transmission and distribution	Gas transport tankers	Other Property, plant and equipment	Property, plant and equipment under construction	Total
Cost, gross	688	8,198	11,721	6,259	662	1,315	1,035	**29,878**
Accumulated amortisation	(120)	(3,897)	(1,808)	(694)	(136)	(479)	-	**(7,134)**
Net carrying value at 01/01/12	**568**	**4,301**	**9,913**	**5,565**	**526**	**836**	**1,035**	**22,744**
Investment *(Note 4)*	24	312	60	237	-	56	404	**1,093**
Divestitures	(5)	(15)	(9)	(2)	-	(2)	(29)	**(62)**
Amortisation and impairment charge	(24)	(365)	(645)	(287)	(25)	(85)	-	**(1,431)**
Translation adjustment	2	24	(26)	35	-	(10)	4	**29**
Business combination *(Note 29)*	-	-	15	-	-	-	-	**15**
Reclassifications and others	1	63	237	128	-	60	(569)	**(80)**
Net carrying value at 31/12/12	**566**	**4,320**	**9,545**	**5,676**	**501**	**855**	**845**	**22,308**
Cost, gross	694	8,582	12,020	6,602	662	1,377	845	**30,782**
Accumulated Amortisation and impairment expenses	(128)	(4,262)	(2,475)	(926)	(161)	(522)	-	**(8,474)**
Net carrying value at 01/01/13	**566**	**4,320**	**9,545**	**5,676**	**501**	**855**	**845**	**22,308**
Investment *(Note 4)*	30	311	67	213	-	44	510	**1,175**
Divestitures[1]	(10)	(8)	(39)	(82)	-	(4)	(86)	**(229)**
Amortisation and impairment charge	(20)	(367)	(659)	(279)	(25)	(80)	-	**(1,430)**
Translation adjustment	(13)	(58)	(58)	(162)	-	(35)	(31)	**(357)**
Reclassifications and others	6	30	148	155	-	5	(400)	**(56)**
Net carrying value at 31/12/13	**559**	**4,228**	**9,004**	**5,521**	**476**	**785**	**838**	**21,411**
Cost, gross	701	8,797	12,044	6,592	662	1,326	838	**30,960**
Accumulated Amortisation and impairment expenses	(142)	(4,569)	(3,040)	(1,071)	(186)	(541)	-	**(9,549)**
Net carrying value at 31/12/13	**559**	**4,228**	**9,004**	**5,521**	**476**	**785**	**838**	**21,411**

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

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

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

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

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

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

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

- Recurring development of the gas distribution network amounting to 61 million Euros and that of electricity amounting to 169 million Euros.

- Electricity generation stations in Latin America amounting to 250 million Euros.

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

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

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

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

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

Note 7. Investments recorded using the equity method

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

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

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

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

	Country	Assets	Liabilities	Income	Net income	Shareholding (%)
2013						
Bluemobility Systems, S.L.	Spain	-	-	-	-	20.0
Enervent, S.A.	Spain	3	1	1	-	26.0
Kromschroeder, S.A.	Spain	7	3	5	-	42.5
Sistemas Energéticos La Muela, S.A.	Spain	2	-	1	1	20.0
Sistemas Energéticos Mas Garullo, S.A.[1]	Spain	1	-	1	-	18,0
Sociedade Galega do Medio Ambiente,S.A.	Spain	112	93	45	(1)	49.0
Subgrupo Unión Fenosa Gas[1/2]	Spain /Oman	106	47	33	6	3.7-11.6
CER's Commercial Corp	Panama	1	-	-	-	25.0
Torre Marenostrum, S.L.	Spain	29	21	2	1	45.0
2012						
Bluemobility Systems, S.L.	Spain	1	-	-	-	20.0
Enervent, S.A.	Spain	3	1	2	-	26.0
Kromschroeder, S.A.	Spain	7	3	6	-	42.5
Sistemas Energéticos La Muela, S.A.	Spain	2	-	1	-	20.0
Sistemas Energéticos Mas Garullo, S.A.[1]	Spain	2	-	1	-	18.0
Sociedade Galega do Medio Ambiente,S.A.	Spain	111	93	45	-	49.0
Subgrupo Unión Fenosa Gas[1/2]	Spain /Oman	123	60	50	9	3.7-11.6
Torre Marenostrum, S.L.	Spain	30	22	3	1	45.0

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

Note 8. Financial assets

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

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

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

Available-for-sale financial assets

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

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

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

Loans and other receivables

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

	At 31/12/13	At 31/12/12
Commercial loans	110	137
Tariff deficit	452	-
Deposits and guarantee deposits	155	150
Debtors for levelling of capacity income	21	22
Other loans	565	599
Loans and other receivables non-current	1,303	908
Commercial loans	92	92
Tariff deficit	33	1,065
Dividend receivable	-	2
Other loans	111	90
Loans and other receivables current	236	1,249
Total	**1,539**	**2,157**

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

Maturities	At 31/12/13	At 31/12/12
No later than 1 year	236	1,249
Between 1 year and 5 years	345	414
Later than 5 years	958	494
Total	**1,539**	**2,157**

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

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

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

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

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

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

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

"Other loans" includes, basically:

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

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

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

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

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

Hedging derivatives

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

Note 16 shows the details of the derivative financial instruments.

Note 9. Inventories

The breakdown of Inventories is as follows:

	At 31/12/13	At 31/12/12
Natural gas and liquefied gas	538	527
Coal and fuel oil	191	241
Nuclear fuel	66	57
Raw materials and other inventories	69	72
Total	**864**	**897**

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

Note 10. Trade and other receivables

The breakdown of this account is as follows:

	At 31/12/13	At 31/12/12
Trade receivables	5,378	5,262
Receivables with related companies (Note 32)	110	122
Provision for depreciation of receivables	(845)	(827)
Trade receivables for goods and services	4,643	4,557
Public Administrations	185	146
Prepayments	57	64
Derivative financial instruments *(Note 16)*	6	28
Sundry receivables	279	215
Other receivables	527	453
Current income tax assets	146	96
Total	**5,316**	**5,106**

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

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

The movement in the impairment of receivables is as follows:

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

Note 11. Cash and cash equivalents

Cash and cash equivalents comprise the following:

	At 31/12/13	At 31/12/12
Cash at bank and in hand	1,651	1,538
Short term investments (Spain and rest of Europe)	2,407	2,687
Short term investments (International)	194	209
Total	**4,252**	**4,434**

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

Note 12. Equity

The main elements of Equity break down as follows:

Share capital and share premium

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

	Number of shares	Share capital	Share premium	Total
At 31 December 2011	991,672,139	922	3,808	4,800
Variation				
Capital increase in swap	9,017,202	9	-	9
At 31 December 2012	1,000,689,341	1,001	3,808	4,809
Variation				
At 31 December 2013	1,000,689,341	1,001	3,808	4,809

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

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

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

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

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

	Interest in share capital (%)
"la Caixa" group	34.6
Repsol group	30.0
Sonatrach	4.0

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

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

Reserves

"Reserves" includes the following reserves:

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

Legal reserve

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

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

Statutory reserve

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

Revaluation reserve

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

Goodwill reserve

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

Earnings per share

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

	At 31/12/13	At 31/12/12
Net income attributable to equity holders of the Company	1,445	1,441
Weighted average number of ordinary shares in issue (million)	1,001	996
Earnings per share from continuing activities (in Euros):		
Basic	1.44	1.45
Diluted	1.44	1.45
Earnings per share from discontinued activities (in Euros):		
Basic	-	-
Diluted	-	-

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

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

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

Dividends

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

	31/12/13			31/12/12		
	% of par value	Euros per share	Amount	% of par value	Euros per share	Amount
Ordinary shares	89	0.89	895	36	0.36	360
Remaining shares (no vote, redeemable, etc.)	-	-	-	-	-	-
Total dividends paid	**89**	**0.89**	**895**	**36**	**0.36**	**360**
a) Dividends charged to income statement	89	0.89	895	36	0.36	360
b) Dividends charged to reserves or share premium	-	-	-	-	-	-
c) Dividends in kind	-	-	-	-	-	-

2013

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

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

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

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

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

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

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

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

2012

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

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

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

Adjustment for changes in value

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

Minority Interest

2013

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

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

2012

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

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

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

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

- Dividend payment: will be paid by calendar quarters in arrears, depending on the existence of distributable profit of Gas Natural Fenosa, considering as such the lesser of the net profit declared by the Gas Natural Fenosa and the net profit of Gas Natural SDG, S.A. as guarantor.

- Term: perpetual, with the option for the issuer of reducing all or part of the shareholdings after 30 June 2015. Reduction will be made at nominal value.

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

- Voting rights: none.

Note 13. Deferred income

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

	Grants	Revenues from pipeline networks and branch lines	Income from extension of pipelines charged to third parties	Other revenues	Total
At 01/01/12	196	406	116	85	803
Financing received	24	76	6	21	127
Release to income	(14)	(11)	(9)	-	(34)
Translation adjustments	(1)	-	-	(2)	(3)
Transfers and others	(20)	1	(2)	6	(15)
At 31/12/12	185	472	111	110	878
Financing received	20	75	4	17	116
Release to income	(11)	(17)	(11)	(1)	(40)
Translation adjustments	(2)	-	(1)	(9)	(12)
Transfers and others	(10)	2	-	(2)	(10)
At 31/12/13	182	532	103	115	932

Note 14. Provisions

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

	At 31/12/13	At 31/12/12
Provisions for employee obligations	699	789
Other provisions	865	876
Non-current provisions	1,564	1,665
Current provisions	134	144
Total	**1,698**	**1,809**

Provisions for employee obligations

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

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

[1]2012 includes a reclassification of Euros 7 million from "Other provisions" and a transfer of Euros 8 million to "Other current liabilities".

Pensions and other similar obligations

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

Breakdown by country	At 31/12/13	At 31/12/12	At 01/01/12
Spain (1)	364	380	355
Colombia (2)	269	330	284
Brazil (3)	42	65	61
Rest	17	7	9
Total	**692**	**782**	**709**

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

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

- Pensioners (retired workers, the disabled, widows and orphans).

- Defined benefit supplement obligations with retired personnel of the legacy Unión Fenosa Group who retired before November 2002 and a residual part of current personnel.

- Coverage of retirement and death for certain employees.

- Gas subsidy for current and retired personnel.

- Electricity for current and retired personnel.

- Liabilities with employees that took early retirement until they reach official retirement age and early retirement plans.

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

- Health care and other benefits.

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

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

- Pension liabilities for retired personnel.

- Post-retirement electricity for current and retired personnel.

- Healthcare and other post-retirement aid.

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

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

- Defined post-employment benefits plan, covering retirement, death on the job and disability pensions and overall amounts.

- Post-employment healthcare plan.

- Other defined post-employment benefit plans that guarantee temporary pensions, life-time pensions and overall amounts depending on seniority.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

The main annual actuarial assumptions used were as follows:

% over total	At 31/12/13			At 31/12/12		
	Spain	Colombia	Brazil	Spain	Colombia	Brazil
Discount rate[1] (%)	0.7 a 3.6	8.0	11.4	1.0 a 4.2	6.5	9.8
Expected return on plan assets[1] (%)	0.7 a 3.6	-	11.4	1.0 a 4.2	-	9.8
Future salary increases[1] (%)	2.5	2.5	7.7	3.0	2.5	7.7
Future pension increases[1] (%)	2.5	2.5	5.5	2.5	2.5	5.5
Inflation rate[1] (%)	2.5	2.5	5.5	2.5	2.5	5.5
Mortality table	PERMF 2000	RV08	AT-83	PERMF 2000	RV08	AT-83
Men life expectancy						
Retired in 2013	22.3	18.45	18.13	22.3	18.45	18.13
Retired in 2033	42.2	36.69	21.48	42.2	36.69	21.48
Women life expectancy						
Retired in 2013	26.8	22.18	35.07	26.8	22.18	35.07
Retired in 2033	48.3	40.39	39.7	48.3	40.39	39.7

[1] Per annum.

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

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

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

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

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

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

Other obligations with the personnel

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

Other current and non-current provisions

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

	2013			2012		
	Non-current provisions	Current provisions	Total	Non-current provisions	Current provisions	Total
At 1 January	876	144	**1,020**	1.003	133	**1,136**
Charged to/reversed in the income statement						
Allowances[1]	64	52	**116**	71	59	**130**
Reversals	(14)	-	**(14)**	(15)	-	**(15)**
Payments[2]	(19)	(70)	**(89)**	(12)	(200)	**(212)**
Cumulative translation adjustments	(17)	(2)	**(19)**	(1)	(2)	**(3)**
Transfers and others[3]	(25)	10	**(15)**	(170)	154	**(16)**
At 31 December	865	134	**999**	876	144	**1,020**

[1] Includes Euros 23 million and Euros 28 million corresponding the financial updating of provisions 2013 and 2012, respectively. The current provisions include the contribution to the provision for excess CO2 above the rights assigned (Note 25).
[2] During the year 2012, the amount of Euros 185 million was settled corresponding to the sentence of the Supreme Court which rejected appeals against tax claims that questioned the validity of the deduction for export activities applied in 1998-2002 and for which provisions had been made in full.
[3] Figures for 2013 include a decrease of Euros 18 million in the item "Non-current provisions" relating to the Nicaraguan distribution companies sold (Note 3.3.1 and 26).

This heading includes, mainly:

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

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

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

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

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

Note 15. Borrowings

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

	At 31/12/13	At 31/12/12
Issuing of debentures and other negotiable obligations	10,360	10,470
Loans from financial institutions	4,931	7,261
Derivative financial instruments	52	84
Other financial liabilities	165	231
Non-current borrowings	**15,508**	**18,046**
Issuing of debentures and other negotiable obligations	2,531	453
Loans from financial institutions	668	1,789
Derivative financial instruments	7	1
Other financial liabilities	197	143
Current borrowings	**3,403**	**2,386**
Total	**18,911**	**20,432**

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

	Carrying amount		Fair value	
	At 31/12/13	At 31/12/12	At 31/12/13	At 31/12/12
Issuing of debentures and other negotiable obligations	10,360	10,470	11,433	11,245
Loans from financial institutions and others	5,096	7,492	5,128	7,567

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

The movement in borrowings is as follows:

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

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

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

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

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

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

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

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

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

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

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

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

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

The most relevant financing instruments are described below:

Issue of bonds and other negotiable securities

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

	At 01/01/13	Issues	Buy backs or reimbursements	Exchange rate adjustments and others	At 31/12/13
Issued in a member state of the European Union which required the filing of a prospectus	**9,937**	3,754	(1,535)	-	**12,156**
Issued in a member state of the European Union which did not required the filing of a prospectus	-	-	-	-	-
Issued outside a member state of the European Union	**986**	333	(556)	(28)	**735**
Total	**10,923**	**4,087**	**(2,091)**	**(28)**	**12,891**

	At 01/01/12	Issues	Buy backs or reimbursements	Exchange rate adjustments and others	At 31/12/12
Issued in a member state of the European Union which required the filing of a prospectus	**8,507**	3,936	(2,550)	44	**9,937**
Issued in a member state of the European Union which did not required the filing of a prospectus	-	-	-	-	-
Issued outside a member state of the European Union	**845**	144	(23)	20	**986**
Total	**9,352**	**4,080**	**(2,573)**	**64**	**10,923**

ECP Program

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

Promissory Notes Program

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

EMTN Program

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

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

[1] CHF 250 million as nominal value.
[2] NOK 800 million as nominal value.

Preference shares

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

- Dividend: variable, non-accumulative, until 20 May 2013, will be Euribor at three months plus a spread of 0.25% capped at 7% and a minimum of 4.25%; as from that date, Euribor at three months plus a spread of 4%.
- Term: perpetual, with the option for the issuer of reducing in advance all or part of the shareholding after 20 May 2013. Reduction will be made at par value.
- Remuneration: the dividend payment will be preferential and not accumulative and depends on whether distributable consolidation profit is reported or the payment of a dividend to its ordinary shareholders.

Voting rights: none.

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

Negotiable bonds and Certificates Programme

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

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

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

Bank loans

European bank loans (commercial / institutional banks)

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

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

Loans from Latin American banks (commercial / institutional banks)

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

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

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

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

Wind farm operators (commercial banks)

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

Unión Fenosa Gas (commercial / institutional banks)

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

Bank loans – other countries (commercial banks)

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

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

Other financial liabilities

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

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

	At 31/12/13			At 31/12/12		
	Nominal	Discount	Present value	Nominal	Discount	Present value
No later than 1 year	75	(5)	**70**	83	(3)	**80**
Between 1 and 5 years	173	(18)	**155**	245	(31)	**214**
Total	**248**	**(23)**	**225**	**328**	**(34)**	**294**

Note 16. Risk management and derivative financial instruments

Risk management

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

- Guaranteeing that the most relevant risks are correctly identified, evaluated and managed.
- Segregation at the operating level of the risk management functions.
- Assuring that the level of its risk exposure for Gas Natural Fenosa in its business is in line with the objective risk profile and achievement of its annual, strategic objectives.
- Ensuring the appropriate determination and review of the risk profile by the Risk Committee, proposing global limits by risk category, and assigning them to the Business Units.

Interest rate risk

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

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

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

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

	At 31/12/13	At 31/12/12
Fixed interest rate	14,925	13,645
Floating interest rate	3,986	6,787
Total	**18,911**	**20,432**

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

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

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

Exchange rate risk

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

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

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

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

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

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

Commodities price risk

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

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

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

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

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

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

Credit risk

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

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

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

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

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

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

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

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

	At 31/12/13	At 31/12/12
Less than 90 days	431	494
90-180 days	141	162
More than 180	5	15
Total	**577**	**671**

The impaired financial assets are broken down in Note 10.

Liquidity risk

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

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

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

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

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

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

Capital management

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

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

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

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

Its leverage rating is as follows:

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

Derivative financial instruments

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

	At 31/12/13		At 31/12/12	
	Assets	Liabilities	Assets	Liabilities
Derivatives qualifying for hedge accounting	2	52	-	82
Cash flow hedges				
Interest rate	2	52	-	82
Fair value hedge	-		-	
Exchange rate	-	-	-	-
Other financial instruments	-	-	-	2
Interest rate and exchange rate	-	-	-	2
Derivative financial instruments–non current	2	52	-	84
Derivatives qualifying for hedge accounting	10	19	26	14
Cash flow hedges				
Interest rate	-	7	-	-
Exchange rate	-	7	1	9
Commodity prices	1	5	10	4
Fair value hedge				
Exchange rate	9	-	15	1
Other financial instruments	13	1	12	2
Commodity prices	13	1	12	2
Interest rate	-	-	-	-
Derivative financial instruments – current	23	20	38	16
Total	**25**	**72**	**38**	**100**

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

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

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

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

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

	Fair Value	31/12/13 Notional Value (million Euros)						
		2014	2015	2016	2017	2018	Beyond	Total
Interest rate swap contracts								
Cash flow hedges								
Financial swaps (EUR)	(14)	459	559	257	686	2	22	1,985
Financial swaps (USD)	(28)	27	28	29	200	14	55	353
Financial swaps (MXN)	(1)	67	74	-	-	-	-	141
Financial swaps (CHF)	(6)	-	-	-	-	-	204	204
Financial swaps (NOK)	(8)	-	-	-	-	-	101	101
Collars (EUR)	-	3	2	-	-	-	-	5
Exchange rate hedge								
Cash flow hedge								
Exchange fluctuation insurance (USD)	(7)	405	3	-	-	-	-	408
Fair value hedge								
Foreign exchange fluctuation insurance (BRL)	-	25	-	-	-	-	-	25
Foreign exchange fluctuation insurance (USD)	9	728	-	-	-	-	-	728
Foreign exchange fluctuation insurance (DHN)	–	6	–	–	–	–	–	6
Commodity hedge								
Cash flow hedge								
Commodity price derivatives (EUR)	-	101	1	-	-	-	-	102
Commodity price derivatives (USD)	(3)	216	-	-	-	-	-	216
Commodity price derivatives (ZAR)	(1)	36	-	-	-	-	-	36
Others								
Financial swaps (JPY)	-	-	-	-	-	-	-	-
Commodity price derivatives (EUR)	12	183	162	6	-	-	-	351
Commodity price derivatives (USD)	-	22	8	30	-	-	-	60
Commodity price derivatives (GBP)	-	-	-	-	-	-	-	-
Total	**(47)**	**2,278**	**837**	**322**	**886**	**16**	**382**	**4,721**

	Fair Value	31/12/12 Notional Value (million Euros)						
		2013	2014	2015	2016	2017	Beyond	Total
Interest rate swap contracts								
Cash flow hedges								
Financial swaps (EUR)	(37)	55	651	254	202	135	23	1,320
Financial swaps (USD)	(45)	28	29	28	30	76	72	263
Financial swaps (MXN)	-	15	70	78	-	-	-	163
Collars (EUR)	-	2	3	2	-	-	-	7
Exchange rate hedge								
Cash flow hedge								
Exchange fluctuation insurance (USD)	(8)	491	3	3	-	-	-	497
Fair value hedge								
Foreign exchange fluctuation insurance (BRL)	-	17	-	-	-	-	-	17
Foreign exchange fluctuation insurance (USD)	14	568	-	-	-	-	-	568
Foreign exchange fluctuation insurance (DHN)	-	6	-	-	-	-	-	6
Commodity hedge								
Cash flow hedge								
Commodity price derivatives (EUR)	4	332	1	-	-	-	-	333
Commodity price derivatives (USD)	2	36	-	-	-	-	-	36
Others								
Financial swaps (JPY)	(2)	-	-	-	-	-	220	220
Commodity price derivatives (EUR)	10	89	24	11	-	-	-	124
Commodity price derivatives (USD)	-	2	-	-	-	-	-	2
Commodity price derivatives (GBP)	-	1	-	-	-	-	-	1
Total	**(62)**	**1,642**	**781**	**376**	**232**	**211**	**315**	**3,557**

Note 17. Other non-current liabilities

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

	At 31/12/13	At 31/12/12
Finance lease liabilities (1)	529	551
Payables for levelling of capacity income (2)	12	37
Deposits and guarantee deposits *(Note 8)*	202	202
Finance lease liabilities (3)	99	44
Total	**842**	**834**

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

1) Finance lease liabilities

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

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

In December 2007 a 138,000 m^3 gas tanker was acquired through a 25-year time-charter lease maturing 2032, extendible for consecutive periods of 5 years, and which represents a joint investment of Euros 162 million relating to the current value of the payments to which Repsol (50%) and Gas Natural Fenosa (50%) are committed.

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

Minimum lease payments are as follows:

	At 31/12/13			At 31/12/12		
	Valor nominal	Discount	Present value	Valor nominal	Discount	Present value
Less than 1 year	55	(1)	**54**	56	(2)	**54**
Between 1 and 5 years	222	(45)	**177**	223	(41)	**182**
More than 5 years	688	(336)	**352**	746	(377)	**369**
Total	**965**	**(382)**	**583**	**1,025**	**(420)**	**605**

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

2) Payables for levelling of capacity income

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

3) Other liabilities

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

Note 18. Trade and other payables

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

	At 31/12/13	At 31/12/12
Trade payables	3,390	3,838
Trade payables with related parties *(Note 32)*	54	52
Amounts due to associates	41	46
Trade payables	**3,485**	**3,936**
Public Administration	613	417
Derivative financial instruments *(Note 16)*	13	15
Amounts due to employees	83	94
Other payables	**709**	**526**
Current tax liabilities	36	98
Total	**4,230**	**4,560**

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

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

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

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

Note 19. Other current liabilities

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

	At 31/12/13	At 31/12/12
Dividend payable	415	411
Expenses accrued pending payment	237	151
Finance lease liabilities *(Note 17)*	54	54
Other liabilities (1)	54	191
Total	**760**	**807**

1) Other liabilities

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

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

Note 20. Tax situation

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

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

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

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

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

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

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

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

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

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

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

	At 31/12/13			At 31/12/12		
	Gross	Tax effect	Net	Gross	Tax effect	Net
Measurement of available-for-sale financial assets	-	-	-	-	-	-
Cash flow hedges	27	(6)	21	(16)	5	(11)
Cumulative translation adjustments	(458)	-	(458)	(152)	9	(143)
Actuarial gains and loss and other adjustments	3	(1)	2	(87)	25	(62)
Total	**(428)**	**(7)**	**(435)**	**(255)**	**39**	**(216)**

The breakdown and movement of deferred taxes is as follows:

Deferred tax assets	Provisions for employee benefit obligations	Other provisions	Tax losses carried forward	Amortization differences	Financial instruments valuation	Other	Total
At 1/1/12	216	242	167	114	50	186	**975**
Charged/(credited) to income statement	1	8	(218)	(4)	(1)	(15)	(229)
Business combinations	-	-	-	-	-	-	-
Charged to equity	25	-	-	-	2	-	27
Cumulative translation adjustments	2	6	-	-	8	1	17
Others[1]	(9)	20	232	(1)	-	4	246
At 31/12/12	235	276	181	109	59	176	**1,036**
Charged/(credited) to income statement[2]	(9)	(1)	(199)	233	(1)	(20)	3
Business combinations	-	-	-	(1)	-	-	(1)
Charged to equity	(1)	-	-	-	(7)	-	(8)
Cumulative translation adjustments	(10)	(21)	2	(7)	13	(5)	(28)
Others	-	6	51	-	(1)	(7)	49
At 31/12/13	215	260	35	334	63	144	**1,051**

[1] "Transfers and others" includes an increase in "Tax Credits" arising from unrestricted amortisation as a result of the contents of Royal Decree 13/2010.
[2] The increase in "depreciation differences" basically includes the application of the time limitation of 30% depreciation deduction under the provisions of Law 16/2012 and the revaluation mentioned in this Note.

Deferred tax liabilities	Amortization differences	Reinvestment capital gains	Fair value business combination[2]	Financial instruments valuation	Other	Total
At 01/01/12	325	281	1,793	8	235	2,642
Charged/(credited) to income statement	(15)	(22)	(96)	-	3	(130)
Business combinations	-	-	-	-	-	-
Charged to equity	-	-	-	(4)	-	(4)
Cumulative translation adjustments	(1)	-	(16)	-	4	(13)
Others[1]	226	-	(29)	-	(4)	193
At 31/12/12	535	259	1,652	4	238	2,688
Charged/(credited) to income statement	1	-	(79)	-	(1)	(79)
Business combinations	-	-	-	-	-	-
Charged to equity	-	-	-	(1)	-	(1)
Cumulative translation adjustments	(23)	-	(9)	1	-	(31)
Others	25	-	(25)	(1)	(14)	(15)
At 31/12/13	538	259	1,539	3	223	2,562

[1] Includes an increase in "Amortisation differences" from the application of unrestricted amortisation in line with the content of Royal Decree 13/2010.
[2] The heading "Fair value of business combinations" under the heading "Deferred taxes liabilities" includes basically the tax effect of the difference upon the merger as a result of the absorption of Unión Fenosa, S.A. by Gas Natural SDG, S.A. that occurred in 2009 assigned to net assets acquired which is estimated not to have tax effects, as well as the tax deduction of the part of the merger not assigned to net assets acquired.

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

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

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

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

Note 21. Sales

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

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

Note 22. Procurements

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

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

Note 23. Other operating income

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

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

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

Note 24. Personnel costs

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

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

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

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

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

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

Note 25. Other operating expenses

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

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

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

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

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

Note 26. Other results

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

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

Note 27. Net financial income

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

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

Note 28. Cash generated from operating activities

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

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

Note 29. Business combinations

2013

There were no significant business combinations in 2013.

2012

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

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

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

Note 30. Joint Ventures

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

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

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

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

	At 31/12/13	At 31/12/12
Non-current assets	3,285	3,525
Current assets	736	600
Assets	**4,021**	**4,125**
Non-current liabilities	1,403	989
Current liabilities	483	398
Liabilities	**1,886**	**1,387**
Net assets	**2,135**	**2,738**

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

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

Note 31. Service Concession Agreements

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

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

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

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

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

Note 32. Related-parties disclosures

Related parties are as follows:

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

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

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

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

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

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

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

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

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

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

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

4) Includes treasury and financial investments.

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

6) At 31 December 2013 the credit facilities extended by the "la Caixa" Group totalled Euros 562,421 thousand (Euros 474,317 thousand at 31 December 2012), of which Euros 0 had been drawn down (Euros 16,292 thousand at 31 December 2012). Additionally, the "la Caixa" Group has stakes in other loans totalling Euros 6,186 thousand. At 31 December 2012, the "la Caixa" Group had stakes in syndicated loans of Euros 300,000 thousand and other loans totalling Euros 196,504 thousand.

7) At 31 December 2013 "Other operations" with the "la Caixa" Group include Euros 620,833 thousand for exchange rate hedges (Euros 459,183 thousand at 31 December 2012) and Euros 222,187 thousand for interest rate hedges (Euros 144,277 thousand at 31 December 2012).

Note 33. Disclosures regarding members of the Board of Directors and the Executive personnel

Remuneration of the members of the Board of Directors

In accordance with the provisions of the Articles of Association, the Company can allocate each year an amount of 4% of liquid profits to remuneration of the members of the Board of Directors, which can only be drawn once the legal reserve and any other obligatory reserves have been covered, and if the shareholders have recognised a dividend of at least 4% of its nominal value.

The amount accrued by the members the Board of Directors of Gas Natural SDG, S.A., for belonging to the Board of Directors, Executive Committee (EC), Audit and Control Committee (A&CC) and Appointments and Remuneration Committee (A&RC), totalled Euros 4,085 thousand (Euros 4,062 thousand in 2012), broken down as follows in Euros:

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

Additionally, a total of Euros 5 thousand was received in 2013 for other items (Euros 4 thousand in 2012).

In the year 2013, as in the year 2012, no additional amounts were received corresponding to the Board of other participated companies.

The amounts accrued by the Chief Executive Officer for the executive functions under the concept of fixed remuneration, annual variable remuneration, multi-annual variable remuneration and other concepts amounted to Euros 1,043 thousand, Euros 968 thousand, Euros 784 thousand and Euros 5 thousand, respectively, in 2013 (Euros 1,043 thousand, Euros 975 thousand, Euros 761 thousand and Euros 5 thousand in the year 2012).

Contributions to pension plans and group insurance policies, together with life insurance premiums paid, totalled Euros 314 thousand in 2013 (Euros 313 thousand in 2012). Funds accumulated due to these contributions amount to Euros 2,335 thousand at 31 December 2013 (Euros 2,031 thousand at 31 December 2012).

The members of the Board of Directors of the Company have not received remuneration from profit sharing, bonuses or indemnities, and have not been given loans or advances. Neither have they received shares or share options during the year, nor have they exercised options or have options to be exercised.

The contract of the Chief Executive Officer contains a clause that stipulates an indemnity that trebles his annual compensation in certain cases of termination of contract and an indemnity equivalent to one year’s pay for the one-year post-employment non-compete clause.

Transactions with Directors

In accordance with the content of article 229 of the Capital Companies Law, we disclose below the holdings and offices of the Directors in the share capital of companies with the same, analogous or complementary activity as that which constitutes the corporate purposes of Gas Natural Fenosa.

Administrators and position in other Companies with similar or complementary Activity		Number of shares and percentage in: Gas Natural Fenosa		Enagás	
Mr. Salvador Gabarró Serra Vice-President 1° of "la Caixa" Board Member of Caixabank, S.A.	Chairman	3,262	(0.000)	14,371	(0.006)
Mr. Antonio Brufau Niubó President of Repsol, S.A.	Vice-Chairman	81,139 1,086	(0.008) (0.000)[1]	-	-
Mr. Rafael Villaseca Marco	CEO	13,055	(0.001)	-	-
Mr. Enrique Alcántara-García Irazoqui	Director	8,339	(0.001)	-	-
Mr. Xabier Añoveros Trías de Bes	Director	350	(0.000)	-	-
Mr. Juan María Nin Génova Director General of "la Caixa" Vice-President and Chief Executive of Caixabank, S.A. Vice-President of Criteria Caixaholding, S.A.U. Caixaholding, S.A.U. Board Member of Repsol, S.A. Board Member of Grupo financiero INBURSA	Director	156	(0.000)	-	-
Mr. Juan Rosell Lastortras Board Member of Caixabank, S.A.	Director	2,000	(0.000)[1]	-	-
Mr. Demetrio Carceller Arce President of Disa Corporación Petrolífera, S.A.	Director	2,826 31,150	(0.000) (0.003)[1]	-	-
Mr. Luis Suárez de Lezo Mantilla Secretary Board Member of Repsol , S.A. Member of the Environmental and Energy Committee of the International Chamber of Commerce (ICC)	Director	18,156 998	(0.002) (0.001)[1]	-	-
Mr. Ramón Adell Ramón	Director	5,000	(0.000)	-	-
Mr. Santiago Cobo Cobo	Director	684	(0.000)	-	-
Mr. Felipe González Márquez	Director	1,902	(0.000)	-	-
Mr. Emiliano López Achurra Board Member of Petróleos del Norte, S.A.	Director	1,098	(0.000)	-	-
Mr. Carlos Losada Marrodá Board Member of Innoenergy	Director	2,020 8,025	(0.000) (0.001)[1]	-	-
Mr. Miguel Valls Maseda	Director	7,000	(0.001)	-	-
Mr. Nemesio Fernandez-Cuesta Luca de Tena Director General of Business of Repsol, S.A. Management Committee Member and Operations Committee Member of Repsol, S.A. President of Repsol Exploración, S.A. President of Repsol Sinopec Brasil, S.A. President of Repsol Petroleo, S.A. President of Repsol Comercial de Productos Petroliferos, S.A.	Director	1	(0,000)	-	-
Mr. Heribert Padrol Munté	Director	-	-	-	-

[1] The number of shares held by linked persons.

Number of shares and percentage in:							
Repsol		Endesa		Red Eléctrica		Iberdrola	
-	-	-	-	10,502	(0.008)	90,687	(0.001)
306,604 1,820	(0.022) (0.000)[1]	-	-	-	-	-	-
713	(0.000)	-	-	-	-	-	-
-	-	-	-	-	-	9,444	(0.000)
-	-	-	-	-	-	-	-
266 1,657	(0.000) (0.000)[1]	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
24,093 405	(0.002) (0.000)[1]	-	-	-	-	383	(0.000)[1]
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
656	(0.000)	59	(0.000)	-	-	1,175 97	(0.000) (0.000)[1]
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
58.661	(0.003)	-	-	-	-	-	-
-	-	-	-	-	-	-	-

In the operations with related parties (significant shareholders) that have been submitted for approval by the Board, subject to a favourable report of the Appointments and Remuneration Committee, the Directors representing the related party involved have abstained from voting.

During the years 2013 and 2012, the members of the Board have not carried out related transactions outside the ordinary course or transactions that are not conducted under normal market conditions with the company or Group companies.

Remuneration of the Executive personnel

For the sole purposes of the information contained in this section, "executives" refers to the members of the Management Committee, excluding the CEO, whose remuneration has been included in the previous section, and the Internal Audit Director.

The amounts accrued by the members of the Management Committee, excluding those by the Chief Executive Officer detailed previously, in respect of fixed remuneration, annual variable remuneration, multi-annual variable remuneration and other items, totalled Euros 4,348 thousand, Euros 2,495 thousand, Euros 1,893 thousand and Euros 119 thousand, respectively in 2013 (Euros 4,344 thousand, Euros 2,953 thousand, Euros 1,857 thousand and Euros 119 thousand in 2012).

The amount of fixed remuneration in 2013 includes Euros 132 million received in shares of the Company (Euros 132 million in 2012), in agreement with the Share Purchase plan referred to in Note 3.3.14 d).

Contributions to pension plans and group insurance policies, together with life insurance premiums paid, amounted to Euros 5,352 thousand in 2013 (Euros 2,119 thousand in 2012), the difference with respect to the previous year relating basically to the assumption of a contractual modification that, without affecting to the global economic conditions, modifies certain terms and compensates them with pension commitments. Funds accumulated due to these contributions amount to Euros 20,608 thousand at 31 December 2013 (Euros 15,150 thousand at 31 December 2012).

The executives have received no remuneration in respect of profit sharing or bonuses and no loans have been granted to them. Advances granted to executives at 31 December 2013 total Euros 100 thousand (no advances had been granted at 31 December 2012).

During 2012, severance indemnities and other items paid amounted to Euros 1,613 thousand.

The contracts of the executives contain a clause that stipulates a minimum indemnity of two years pay in certain cases of termination of contract and an indemnity equivalent to one year's fixed remuneration for the post-employment no-competition clause for a period of two years.

Note 34. Commitments and contingent liabilities

Guarantees

At 31 December 2013 Gas Natural Fenosa has given guarantees to third parties for activities totalling Euros 1,630 million (Euros 1,448 million at 31 December 2012).

On the other hand, financial guarantees have also been given totalling Euros 517 million (Euros 650 million at 31 December 2012), of which Euros 270 million relate to the guarantee for compliance with the obligations on the loan received by investee companies (Euros 264 million at 31 December 2012).

Gas Natural Fenosa estimates that the liabilities not foreseen at 31 December 2013, if any, that could given arise from the guarantees given, would not be significant.

Contractual commitments

The following tables present the contractual commitments for purchases and sales at 31 December 2013

	At 31 December 2013						
Purchase	**Total**	**2014**	**2015**	**2016**	**2017**	**2018**	**And beyond**
Commitments for operating leases (1)	1,077	100	40	37	49	54	797
Commitments for purchases of natural gas (2)	105,588	10,132	9,220	9,238	9,537	8,461	59,000
Commitments for purchases of nuclear fuel	43	20	23	-	-	-	-
Commitments for transport of natural gas (3)	3,170	216	220	219	221	239	2,055
Commitments for investments (4)	1,141	416	12	356	357	-	-
Total contractual obligations	**111,019**	**10,884**	**9,515**	**9,850**	**10,164**	**8,754**	**61,852**

	At 31 December 2013						
Sales	**Total**	**2014**	**2015**	**2016**	**2017**	**2018**	**And beyond**
Commitments for assignment of combined cycle capacity (5)	4,029	221	210	275	250	236	2,837
Commitments for sales of natural gas (6)	30,055	5,959	4,400	2,651	2,797	2,623	11,625
Total contractual obligations	**34,084**	**6,180**	**4,610**	**2,926**	**3,047**	**2,859**	**14,462**

1) Basically reflects the payments foreseen for the operating lease of the five liquefied natural gas transport tankers which terminate in 2014 and the operating costs related to the tanker fleet contracts under finance leases indicated in Note 17, as well as operating costs associated with four gas transport tankers under construction and an existing one, which will be recorded as financial leases and whose start-up is forseen in the years 2014, 2016 and 2017. Also included is the rent of the "Torre del Gas" building owned by Torre Marenostrum, S.L., for which Gas Natural Fenosa has an operating lease without a purchase option for a period of ten years as from March 2006, extendible at market value for successive periods of three years, which is discretionary for Gas Natural Fenosa and obligatory for Torre Marenostrum, S.L.

2) Basically reflects the long-term commitments for natural gas purchases under gas supply contracts with take or pay clauses negotiated and held for "own use" (Note 3.3.7.3). Normally, these contracts are for 20-25 years, a minimum amount of gas to be purchased and revision mechanisms for prices indexed to international natural gas prices and regulated prices of natural gas in the countries of origin. The commitments according to these contracts have been calculated on the basis of natural gas prices at 31 December 2013.

This also includes long-term commitments to buy electricity (Note 9), calculated based on prices at 31 December 2013.

3) Reflects the long-term commitments (20 to 25 years) for gas transport calculated on the basis of prices at 31 December 2013.

4) Basically reflects payment commitments for the development of the distribution network and other gas infrastructures, construction of five methane tankers during the period 2014-2017 and construction of a wind farm in Mexico (Note 6).

5) Reflects the commitments as per the long-term contracts (25 years) of assignment of electricity generation capacity in Mexico and Puerto Rico without a purchase option, classified as operating leases (Note 3.3.16). The commitments under these contracts have been calculated on the basis of prices at 31 December 2013.

6) Reflects the long-term commitment to sell natural gas under gas sale contracts with *take or pay* clauses negotiated and maintained for "own use" (Note 3.3.7.3). Calculated on the basis of natural gas prices at 31 December 2013.

Litigation and arbitration

At the date of formulation of these Consolidated annual accounts the main litigation or arbitration to which Gas Natural Fenosa is a party are as follows:

Tax claims in Spain

As a result of the different tax audits on the fiscal years from 2003 to 2008, the Inspectors have questioned the applicability of the export deduction used by Gas Natural Fenosa, having signed assessments in disagreement and being currently appealed through the Economic-Administrative Court and the National Audience. The total amount, including interest, at 31 December 2013 involved in these assessments totals Euros 89 million, which is fully provided for.

Tax claims in Argentina

The Argentine tax authorities made several tax claims totalling ARS 264 million including accrued interest (Euros 29 million) for the tax treatment of capital gains in the period from 1993 to 2001, arising from the transfer of distribution networks by third parties to Gas Natural BAN, S.A. All the claims have been opposed and it was estimated that a final judgment favourable to the company would be handed down. Thus, the National Appellate Court finally ruled in 2007, for the period 1993-1997, voiding the Judgement of the Federal Public Administration Treasury *(Administración Federal de Ingresos Públicos - AFIP)*, which had claimed the tax alleged due, and confirming the voiding of the fines. The decision of the Appellate Court has been appealed to the Supreme Court.

Tax claims in Brazil

In September 2005 the Administrative Court of Río de Janeiro voided the claim that had been filed previously in April 2003 against offsetting the tax credits for the contributions on sales of PIS and COFINS paid by Companhia Distribuidora de Gás do Rio de Janeiro-CEG. The administrative court confirmed this judgement in March 2007, and, accordingly, the company filed an appeal before the contentious-administrative court, (Justicia Federal do Rio de Janeiro), an appeal which is now being heard. Subsequently, on 26 January 2009 notice was given of a public civil suit against CEG for the same events. Gas Natural Fenosa and the legal advisors of the company believe that the actions mentioned above are baseless, and, accordingly, it is not likely that losses will arise from this litigation. The amount of the tax payable in question, actualised at 31 December 2013, totals BR 371 million (Euros 115 million).

Claim against Edemet - Edechi (Panama)

In April 2012 was received not-guilty sentence of second application which leaves ineffective another of first application, which had condemned the group companies Empresa Distribuidora de Electricidad Metro Oeste S.A. and Empresa Distribuidora de Electricidad Chiriquí S.A. to indemnify the plaintiff with an amount to be determined by the experts with a maximum of Dollars 84 million (Euros 61 million). Both the plaintiff and the defendants (Edemet y Edechi) have appealed against this sentence. The alleged damages are derived from a tender for the purchase of a block of energy that was called by the Public Services Authority and was awarded to the plaintiff who finally was incapable of complying with the contract by not presenting the guarantee conditioned in the specifications.

Qatar gas supply contract

After a period of negotiations, Gas Natural Fenosa initiated the arbitration procedures to determine the price of gas supplied by the company Qatar Liquefied Gas Company Limited under its long-term contracts, requesting a price reduction. Later, the supplier lodged a counterclaim, requesting a price increase. The arbitration is in its initial stage.

Gas Natural Fenosa believes that the provisions recorded in these Consolidated annual accounts adequately cover the risks described in this Note, and, accordingly, it is not expected that liabilities will arise in addition to the ones recorded.

Note 35. Auditors' fees

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

(Thousand Euros)	2013	2012
Auditing and related services	4,298	3,977
Other services	24	815
Total fees	**4,322**	**4,792**

Additionally, other audit firms have rendered the following services to Group companies:

(Thousand Euros)	2013	2012
Auditing and related services	132	138
Other services	5	2
Total fees	**137**	**140**

Note 36. Environment

Main environmental actions

The main actions of Gas Natural Fenosa in 2013 were framed within the corporate environmental values. These actions have been aimed basically for ensuring compliance with legislation, enhancing a strict environmental control of activities and facilities. Responsible measures were also taken to meet the energy needs of customers.

Regarding Climate Change, Gas Natural Fenosa has continued to make progress in reduction mechanisms and carbon footprint analysis. During the year 2013, and in order to identify and minimize indirect emissions, the first assessment of the carbon management of major suppliers was carried out. Likewise, the actions were intensified to maximize the benefits of the products in terms of CO_2.

All of these measures were developed within the framework of an Integrated Management System that Gas Natural Fenosa has certified under the Standard ISO 14,001 to guarantee correct environmental performance. This standard provides the necessary elements to ensure better environmental management: risk analysis, operational control, relations with stakeholders, legal constraints and volunteers, etc. In 2013 the upstream activitieswere included in this management model along with the retailing activities in Colombia and Panama. Thus 99.4% of ebitda generated in 2013 for environmentally relevant activities is certified according to this standard (all ordinary generation, almost all renewable generation, 94% extension of distribution network electric distribution activities and transportation of gas in Spain, Italy, Morocco, Egypt, Mexico, Colombia and Brazil, much of the trading activity, engineering services and the most representative buildings).

During 2013, Gas Natural Fenosa´s management in the area of environmental sustainability and climate change was recognised by the prestigious Dow Jones Sustainability Index (DJSI) and Carbon Disclosure Project (CDP), reaching the top of the sector companies involved in both classifications.

Gas Natural Fenosa implemented its Biodiversity Action Plan in 2013. Particularly worthy of note is the Group's adherence to the Biodiversity Pact promoted by Spain's Ministry of Agriculture, Food and Environment, reaffirming its commitment to the preservation of biodiversity.

All these environmental actions carried out in 2013 totalled Euros 80 million, of which Euros 36 million related to investments and the rest, Euros 44 million, to expenses incurred in environmental management. Additionally, Gas Natural Fenosa has made environmental investments to prevent pollution, protect the atmosphere, manage water resources and waste and soil quality and prepare environmental impact studies and environmental oversight plans.

Possible contingencies, indemnities and other environment-related risk in which Gas Natural Fenosa could incur are adequately covered by subscribed civil liability insurance policies.

Emissions

In 2013, consolidated CO_2 emissions from Gas Natural Fenosa' coal thermal and combined cycle plants subject to regulations governing the greenhouse gas emission trade regime totalled 11.5 million tonnes of CO_2 (15.5 million tonnes of CO_2 in 2012).

Gas Natural Fenosa manages its CO_2 emission rights coverage portfolio in an integrated manner for the period 2008-2012 and post Kyoto, acquiring the necessary emission rights and credits through active participation in both the secondary market and in primary projects and carbon funds, in which an investment of approximately Euros 7 million has been committed.

Gas Natural Fenosa has also registered nine projects of clean development mechanisms (hereinafter MDL) with the United Nations and two credit periods have been renewed in two projects. Additionally, the Group has other MDL projects for validation in different phase, based on generation using renewable sources, implementation of cogeneration systems, and reduction of emissions in gas network and replacement of fuels by other less carbon-intensive alternatives.

Note 37. Subsequent events

During January 2014, the argentinean peso has depreciated by 22% against the euro. The risk arising from investments in Argentina of Gas Natural Fenosa is not significant, since a variation of the Argentinean peso against the euro by 22% only represents a variation in net attributable equity of Euros 8 million.

Appendix I. Group companies of Gas Natural Fenosa

1. Subsidiary companies

Company	Country	Activity
Albidona Distribuzione Gas, S.R.L.	Italy	Gas distribution
Ceg Río, S.A.	Brazil	Gas distribution
Comercializadora Metrogas, S.A. de CV	Mexico	Gas distribution
Companhia Distribuidora de Gás do Río de Janeiro, S.A.	Brazil	Gas distribution
Favellato Reti, S.R.L.	Italy	Gas distribution
Gas Galicia SDG, S.A.	Spain	Gas distribution
Gas Natural Andalucía, S.A.	Spain	Gas distribution
Gas Natural BAN, S.A.	Argentina	Gas distribution
Gas Natural Castilla-La Mancha, S.A.	Spain	Gas distribution
Gas Natural Castilla y León, S.A.	Spain	Gas distribution
Gas Natural Cegas, S.A.	Spain	Gas distribution
Gas Natural Cundiboyacense, S.A. ESP	Colombia	Gas distribution
Gas Natural del Cesar, S.A. ESP	Colombia	Gas distribution
Gas Natural del Oriente, S.A. ESP	Colombia	Gas distribution
Gas Natural Distribución SDG, S.A.	Spain	Gas distribution
Gas Natural Distribuzione Italia, S.P.A.	Italy	Gas distribution
Gas Natural Fenosa Perú, S.A.	Peru	Gas distribution
Gas Natural Madrid SDG, S.A.	Spain	Gas distribution
Gas Natural México, S.A. de CV[1]	Mexico	Gas distribution
Gas Natural Rioja, S.A.	Spain	Gas distribution
Gas Natural Sao Paulo Sul, S.A.	Brazil	Gas distribution
Gas Natural Transporte SDG, S.L.	Spain	Gas distribution
Gas Natural, S.A. ESP	Colombia	Gas distribution
Gas Navarra, S.A.	Spain	Gas distribution
Holding Negocios Regulados Gas Natural, S.A.	Spain	Gas distribution
Electrificadora del Caribe S.A, E.S.P.	Colombia	Electricity distribution
Empresa de Distribución Electrica Chiriqui, S.A.	Panama	Electricity distribution
Empresa de Distribución Electrica Metro Oeste, S.A.	Panama	Electricity distribution
Red Unión Fenosa, S.A.	Moldova	Electricity distribution
Unión Fenosa Distribución, S.A.	Spain	Electricity distribution
Gas Natural Almacenamientos Andalucía, S.A.	Spain	Gas infraestructure

Consolidation Method	% of Shareholding Total	Net Equity Capital	Reserves	Profit 2013	Interim dividend
F.C.	100.0	-	-	-	-
F.C.	59.6	41	90	49	(74)
F.C.	85.0	128	(46)	16	-
F.C.	54.2	212	228	122	(189)
F.C.	100.0	1	9	-	-
F.C.	61.6	33	11	7	-
F.C.	100.0	12	41	20	(15)
F.C.	70.0	215	(151)	5	(13)
F.C.	95.0	27	21	13	(9)
F.C.	90.1	6	79	38	(22)
F.C.	99.7	25	68	38	(25)
F.C.	45.8	1	13	7	-
F.C.	21.7	3	5	1	-
F.C.	32.2	9	19	7	(9)
F.C.	100.0	64	618	278	(151)
F.C.	100.0	33	218	21	-
F.C.	100.0	4	-	-	-
F.C.	100.0	16	174	89	(50)
F.C.	85.0	471	(111)	35	-
F.C.	87.5	3	9	6	(4)
F.C.	100.0	346	(161)	21	(1)
F.C.	100.0	15	46	16	(10)
F.C.	59.1	11	116	103	-
F.C.	100.0	4	23	13	(9)
F.C.	100.0	300	1,681	-	-
F.C.	85.4	964	(211)	27	-
F.C.	51.0	18	7	14	-
F.C.	51.0	71	19	36	-
F.C.	100.0	7	135	25	-
F.C.	100.0	833	1,337	236	(160)
F.C.	100.0	-	3	(3)	-

Company	Country	Activity
Gas Natural Exploración, S.L.	Spain	Gas infraestructure
Petroleum Oil & Gas España, S.A.	Spain	Gas infraestructure
Gas Natural Rigassificazione Italia, S.P.A.	Italy	Gas infraestructure
Europe Maghreb Pipeline, Ltd.	United Kingdom	Gas infraestructure
Metragaz, S.A.	Marocco	Gas infraestructure
Gas Natural Aprovisionamientos SDG, S.A.	Spain	Gas supply and gas commercialisation
Sagane, S.A.	Spain	Gas supply and gas commercialisation
Cetraro Distribuzione Gas, S.R.L.	Italy	Gas supply and gas commercialisation
Gas Natural Europe, S.A.S.	France	Gas supply and gas commercialisation
Gas Natural Vendita Italia, S.P.A.	Italy	Gas supply and gas commercialisation
Natural Energy, S.A.	Argentina	Gas supply and gas commercialisation
Gas Natural Serviços, S.A.	Brazil	Gas supply and gas commercialisation
Serviconfort Colombia, S.A.S.	Colombia	Gas supply and gas commercialisation
Gas Natural Puerto Rico, Inc	Puerto Rico	Gas supply and gas commercialisation
Energía Empresarial de la Costa, S.A., E.S.P.	Colombia	Electricity commercialisation
Energía Social de la Costa S.A. E.S.P.	Colombia	Electricity commercialisation
Gas Natural Comercializadora, S.A.	Spain	Gas and electricity commercialisation
La Energía, S.A.	Spain	Gas and electricity commercialisation
Gas Natural S.U.R. SDG, S.A.	Spain	Gas and electricity commercialisation
Gas Natural Servicios SDG, S.A.	Spain	Gas and electricity commercialisation
Berrybank Development Pty, Ltd	Australia	Electricity generation
Crookwell Development Pty, Ltd	Australia	Electricity generation
Ryan Corner Development Pty, Ltd	Australia	Electricity generation
Boreas Eólica 2, S.A.	Spain	Electricity generation
Corporación Eólica de Zaragoza, S.L	Spain	Electricity generation
Energía del Rio San Juan Corp.	Panama	Electricity generation
Energía y Servicios de Panamá, S.A.	Panama	Electricity generation
Energías Ambientales de Somozas, S.A.	Spain	Electricity generation
Energías Especiales Alcoholeras, S.A.	Spain	Electricity generation
Energías Especiales de Extremadura, S.L.	Spain	Electricity generation
Explotaciones Eólicas Sierra de Utrera, S.L.	Spain	Electricity generation

Consolidation Method	% of Shareholding Total	Net Equity: Capital	Net Equity: Reserves	Net Equity: Profit 2013	Net Equity: Interim dividend
F.C.	100.0	9	(2)	(11)	-
F.C.	100.0	4	42	(3)	-
F.C.	100.0	17	(3)	(1)	-
F.C.	77.2	-	165	184	(87)
F.C.	76.7	3	1	1	-
F.C.	100.0	1	16	283	(200)
F.C.	100.0	95	18	153	(40)
F.C.	100.0	-	-	-	-
F.C.	100.0	3	6	4	-
F.C.	100.0	2	20	11	-
F.C.	100.0	-	1	3	-
F.C.	100.0	6	-	(1)	-
F.C.	100.0	-	1	1	-
F.C.	100.0	5	(3)	-	-
F.C.	85.4	-	(8)	-	-
F.C.	85.4	8	(7)	(1)	-
F.C.	100.0	3	100	219	(70)
F.C.	100.0	11	6	-	-
F.C.	100.0	2	4	(5)	-
F.C.	100.0	3	52	63	(40)
F.C.	95.63	2	-	-	-
F.C.	95.63	7	--	-	-
F.C.	95.63	9	(1)	-	-
F.C.	89.6	3	8	1	-
F.C.	68.0	1	1	1	-
F.C.	100.0	3	-	-	-
F.C.	51.0	9	-	2	-
F.C.	97.0	1	-	2	-
F.C.	82.3	-	(1)	-	-
F.C.	99.0	9	(4)	-	-
F.C.	75.0	3	2	2	-

Company	Country	Activity
Fenosa Wind, S.L.	Spain	Electricity generation
Fenosa, S.L.U.	Spain	Electricity generation
Fuerza y Energía BII Hioxo, S.A. de C.V.	Mexico	Electricity generation
Fuerza y Energía de Hermosillo, S.A. de C.V.	Mexico	Electricity generation
Fuerza y Energía de Naco Nogales, S.A. de C.V.	Mexico	Electricity generation
Fuerza y Energía de Norte Durango, S.A de C.V	Mexico	Electricity generation
Fuerza y Energía de Tuxpan, S.A. de C.V.	Mexico	Electricity generation
Gas Natural Electricidad SDG, S.A.	Spain	Electricity generation
Gas Natural Fenosa Renovables Andalucía, S.L.U.	Spain	Electricity generation
Gas Natural Fenosa Renovables Ruralia, S.L.U.	Spain	Electricity generation
Gas Natural Fenosa Renovables, S.L.U.	Spain	Electricity generation
Gas Natural Wind 4, S.L.U.	Spain	Electricity generation
Gas Natural Wind 6, S.L.	Spain	Electricity generation
Generadora Palamara La Vega, S.A.	Dominican Rep.	Electricity generation
Hidroeléctrica Rio San Juan SAS ESP	Colombia	Electricity generation
Iberáfrica Power Ltd.	Kenya	Electricity generation
JGC Cogeneración Daimiel, S.L.	Spain	Electricity generation
Sociedad de Tratamiento Hornillos, S.L.	Spain	Electricity generation
Sociedad de Tratamiento La Andaya, S.L.	Spain	Electricity generation
Societat Eòlica de l´Enderrocada, S.A.	Spain	Electricity generation
Tratamiento Cinca Medio, S.L.	Spain	Electricity generation
Tratamiento Integral de Almazán, S.L.	Spain	Electricity generation
Unión Fenosa Generadora La Joya, S.A.	Costa Rica	Electricity generation
Unión Fenosa Generadora Torito, S.A.	Costa Rica	Electricity generation
Gas Natural Fenosa Generación, S.L.U.	Spain	Electricity generation
Kangra Coal (Proprietary), Ltd.	South Africa	Mining
Lignitos de Meirama, S.A.	Spain	Mining
Welgedacht Exploration Company Ltd	South Africa	Mining
Capital Telecom Honduras, S.A.	Honduras	Telecommunications
Gas Natural Fenosa Telecomunicaciones Colombia, S.A.	Colombia	Telecommunications
Gas Natural Fenosa Telecomunicaciones Costa Rica, S.A.	Costa Rica	Telecommunications

Consolidation Method	% of Shareholding Total	Net Equity Capital	Reserves	Profit 2013	Interim dividend
F.C.	100.0	19	5	1	-
F.C.	100.0	19	-	-	-
F.C.	100.0	46	(14)	-	-
F.C.	100.0	49	2	(2)	-
F.C.	100.0	155	(34)	5	-
F.C.	100.0	54	11	9	-
F.C.	100.0	156	22	15	-
F.C.	100.0	10	845	37	(39)
F.C.	100.0	-	-	-	-
F.C.	51.0	-	-	-	-
F.C.	100.0	90	203	(8)	-
F.C.	100.0	-	-	-	-
F.C.	60.0	-	-	-	-
F.C.	100.0	4	73	14	-
F.C.	100.0	-	-	-	-
F.C.	71.7	16	-	(1)	-
F.C.	97.6	1	-	-	-
F.C.	94.4	1	2	-	-
F.C.	60.0	1	2	-	-
F.C.	80.0	6	3	1	(1)
F.C.	80.0	2	2	1	-
F.C.	90.0	3	3	1	-
F.C.	65.0	25	(3)	5	-
F.C.	65.0	33	(2)	-	-
F.C.	100.0	-	-	-	-
F.C.	70.0	-	155	18	(69)
F.C.	100.0	23	18	2	-
F.C.	100.0	1	-	-	-
F.C.	100.0	-	-	-	-
F.C.	88.2	1	1	6	-
F.C.	66.7	-	-	1	-

Company	Country	Activity
Gas Natural Fenosa Telecomunicaciones El Salvador, S.A. de C.V.	El Salvador	Telecommunications
Gas Natural Fenosa Telecomunicaciones Guatemala, S.A.	Guatemala	Telecommunications
Gas Natural Fenosa Telecomunicaciones Nicaragua, S.A.	Nicaragua	Telecommunications
Gas Natural Fenosa Telecomunicaciones Panamá, S.A.	Panama	Telecommunications
Gas Natural Fenosa Telecomunicaciones, S.A.	Spain	Telecommunications
Gas Natural Informática, S.A.	Spain	IT services
Gas Natural Fenosa Engineering, S.L.U.	Spain	Engineering services
Gas Natural Fenosa Engineering Brasil, S.A.	Brazil	Engineering services
Gas Natural Fenosa Engineering, S.A.S.	Colombia	Engineering services
Gas Natural Fenosa Engineering, S.A.	Costa Rica	Engineering services
Gas Natural Fenosa Engineering, S.A.	Guatemala	Engineering services
Gas Natural Fenosa Engineering, S.A.	Panama	Engineering services
Gas Natural Fenosa Engineering México, S.A. de C.V.	Mexico	Engineering services
Gas Natural Fenosa Tecnology INC	Puerto Rico	Engineering services
Operación y Mantenimiento Energy Costa Rica, S.A.	Costa Rica	Engineering services
Operación y Mantenimiento Energy Madagascar, S.A.R.L.U.	Madagascar	Engineering services
Operación y Mantenimiento Mexico, S.A. de C.V.	Mexico	Engineering services
Operación y Mantenimiento La Caridad, S.A. de C.V.	Mexico	Engineering services
Operación y Mantenimiento Energy, S.A.	Spain	Engineering services
Operations & Maintenance Energy Uganda Ltd	Uganda	Engineering services
Socoinve, C.A	Venezuela	Engineering services
Soluziona Technical Services, Llc.	Egypt	Engineering services
Unión Fenosa Operación México S.A. de C.V.	Mexico	Engineering services
United Saudi Spanish Power and Gas Services, LLC	Saudi Arabia	Engineering services
Clover Financial and Treasury Services, Ltd.	Ireland	Financial services
Gas Natural Capital Markets, S.A.	Spain	Financial services
Gas Natural Fenosa Finance B.V.	Netherlands	Financial services
Unión Fenosa Financiación, S.A.	Spain	Financial services
Unión Fenosa Financial Services USA, Llc.	United States	Financial services
Unión Fenosa Preferentes, S.A.	Spain	Financial services
Natural Re, S.A.	Luxembourg	Insurance

Consolidation Method	% of Shareholding Total	Net Equity Capital	Reserves	Profit 2013	Interim dividend
F.C.	100.0	-	-	-	-
F.C.	100.0	-	4	4	-
F.C.	100.0	-	1	-	-
F.C.	90.2	2	3	6	-
F.C.	100.0	21	42	29	-
F.C.	100.0	20	7	6	-
F.C.	100.0	1	33	(2)	-
F.C.	100.0	-	-	-	-
F.C.	100.0	-	-	-	-
F.C.	100.0	-	-	-	-
F.C.	100.0	-	1	-	-
F.C.	100.0	-	1	-	-
F.C.	100.0	8	(5)	(1)	-
F.C.	100.0	-	1	-	-
F.C.	100.0	-	-	-	-
F.C.	100.0	-	-	-	-
F.C.	100.0	32	(85)	1	-
F.C.	100.0	-	-	-	-
F.C.	100.0	-	3	1	-
F.C.	100.0	-	-	-	-
F.C.	100.0	-	-	-	-
F.C.	100.0	-	-	-	-
F.C.	100.0	-	-	1	-
F.C.	100.0	-	-	-	-
F.C.	100.0	-	528	24	(109)
F.C.	100.0	-	-	10	(9)
F.C.	100.0	-	(2)	1	-
F.C.	100.0	1	2	-	-
F.C.	100.0	-	-	37	(37)
F.C.	100.0	-	744	11	(7)
F.C.	100.0	4	41	6	-

Company	Country	Activity
Administración y Servicios ECAP, S.A. de C.V.	Mexico	Services
Administradora de Servicios de Energía México, S.A. de CV	Mexico	Services
Almar Ccs, S.A.	Costa Rica	Services
Arte Contemporáneo y Energía, A.I.E.	Spain	Services
Compañía Española de Industrias Electroquímicas, S.A.	Spain	Services
Energía y Confort Administración de Personal, S.A. de C.V.	Mexico	Services
Gas Natural do Brasil, S.A.	Brazil	Services
Gas Natural Italia S.P.A.	Italy	Services
Gas Natural Servicios, S.A.S.	Colombia	Services
Gas Natural Servicios Económicos, S.A.S.	Colombia	Services
Gas Natural Servicios Integrales, S.A.S.	Colombia	Services
Gas Natural Servicios, S.A. de C.V.	Mexico	Services
General de Edificios y Solares, S.L.	Spain	Services
Hispanogalaica de Extracciones, S.L.	Spain	Services
Inversiones Hermill, S.A.	Dominican Rep.	Services
Natural Servicios, S.A.	Argentina	Services
Repsol-Gas Natural LNG, S.L.	Spain	Services
Sistemas de Administración y Servicios, S.A. de C.V. (1)	Mexico	Services
Unión Fenosa Generación México, S.A. de C.V.	Mexico	Holding company
Unión Fenosa Minería, S.A.	Spain	Holding company
Aplicaciones y Desarrollos Profesionales Nuevo Milenio, S.L.	Spain	Holding company
Buenergía Gas & Power, Ltd.	Cayman Islands	Holding company
Caribe Capital B.V.	Netherlands	Holding company
Distribuidora Eléctrica de Caribe, S.A.	Panams	Holding company
First Independent Power, Ltd.	Kenya	Holding company
Gas Natural Internacional SDG, S.A.	Spain	Holding company
Gas Natural SDG Argentina, S.A.	Argentina	Holding company
Invergás, S.A.	Argentina	Holding company
La Propagadora del Gas, S.A.	Spain	Holding company
La Propagadora del Gas Latam, S.L.	Spain	Holding company
Pacific Power Holdings N° 2 B.V.	Netherlands	Holding company

Consolidation Method	% of Shareholding Total	Net Equity Capital	Reserves	Profit 2013	Interim dividend
F.C.	100.0	-	-	1	-
F.C.	85.0	-	-	-	-
F.C.	100.0	-	-	-	-
F.C.	100.0	-	-	-	-
F.C.	98.5	3	11	1	-
F.C.	85.3	-	1	2	-
F.C.	100.0	3	(3)	-	-
F.C.	100.0	-	1	1	-
F.C.	59.0	-	5	4	-
F.C.	100.0	-	-	-	-
F.C.	100.0	1	-	-	-
F.C.	85.0	6	1	3	-
F.C.	100.0	34	33	2	-
F.C.	100.0	-	-	-	-
F.C.	100.0	1	(1)	-	-
F.C.	100.0	2	(1)	-	-
F.C.	100.0	2	-	-	-
F.C.	85.0	-	-	-	
F.C.	100.0	2	-	(1)	-
F.C.	100.0	11	169	16	(15)
F.C.	100.0	68	584	-	-
F.C.	95.0	-	35	27	-
F.C.	100.0	-	251	-	3
F.C.	100.0	110	(10)	22	(13)
F.C.	89.6	-	13	-	-
F.C.	100.0	573	392	119	-
F.C.	100.0	104	(23)	-	-
F.C.	100.0	61	48	-	-
F.C.	100.0	10	(1)	6	-
F.C.	100.0	-	7	(3)	-
F.C.	100.0	48	-	-	-

Company	Country	Activity
Unión Fenosa Internacional, S.A.	Spain	Holding company
Unión Fenosa International B.V.	Netherlands	Holding company
Unión Fenosa México B.V.	Netherlands	Holding company
Unión Fenosa México, S.A. de C.V.	Mexico	Holding company
Unión Fenosa Minería B.V.	Netherlands	Holding company
Unión Fenosa South Africa Coal (Proprietary), LTD	South Africa	Holding company
Union Fenosa Wind Australia Pty, Ltd.	Australia	Holding company

[1] The percentage of the shareholding corresponds to the legally held shares. Additionally, there is a share re-purchase commitment for the percentages indicated in Note 20, which are also assigned to the parent Company.

Consolidation Method	% of Shareholding Total	Net Equity Capital	Reserves	Profit 2013	Interim dividend
F.C.	100.0	151	112	43	(41)
F.C.	100.0	5	(1)	-	-
F.C.	100.0	128	263	45	(1)
F.C.	100.0	475	(187)	-	-
F.C.	100.0	-	136	15	(7)
F.C.	100.0	-	73	15	(21)
F.C.	95.63	27	(1)	(1)	-

2. Joint ventures

Company	Country	Activity
Gas Directo, S.A.	Spain	Gas distribution
Gasifica, S.A.	Spain	Gas distribution
Infraestructuras de Gas, S.A.	Spain	Gas distribution
Cilento Reti Gas, S.R.L.	Italy	Gas distribution
Gas Natural Vehicular del Norte Asociación en Participación	Mexico	Gas distribution
Barras Eléctricas Galaico Asturianas, S.A.	Spain	Electricity distribution
Eléctrica Conquense de Distribución, S.A.	Spain	Electricity distribution
Gas Natural West África, S.L.	Spain	Gas infraestructure
Palencia 3 Investigación Desarrollo y Explotación, S.L.	Spain	Gas infraestructure
Nueva Electricidad del Gas, S.A.U.	Spain	Gas infraestructure
Palawan Sulu Sea Gas, Inc.	Philipines	Gas infraestructure
Planta de Regasificación de Sagunto, S.A.	Spain	Gas infraestructure
Segas Services, S.A.E.	Egypt	Gas infraestructure
Spanish Egiptian Gas Company S.A.E.	Egypt	Gas infraestructure
Unión Fenosa Gas Exploración y Producción, S.A.	Spain	Gas infraestructure
CH4 Energía S.A. de C.V.	Mexico	Gas supply and Gas commercialisation
Unión Fenosa Gas Comercializadora, S.A.	Spain	Gas supply and Gas commercialisation
Unión Fenosa Gas, S.A.	Spain	Gas supply and Gas commercialisation
Alas Capital & Gas Natural S.A.	Spain	Electricity generation
Barras Eléctricas Generación, S.L.	Spain	Electricity generation
Castrios, S.A.	Spain	Electricity generation
Centrales Nucleares Almaraz-Trillo, A.I.E	Spain	Electricity generation
Cogeneración del Noroeste, S.L.	Spain	Electricity generation
Desarrollo de Energías Renovables de la Rioja, S.A.	Spain	Electricity generation
Desarrollo de Energías Renovables de Navarra, S.A.	Spain	Electricity generation
EcoEléctrica, L.P.	Puerto Rico	Electricity generation
Energías Eólicas de Fuerteventura, S.L.	Spain	Electricity generation
Eólica Tramuntana 12, S.L.	Spain	Electricity generation
Eólica Tramuntana 13, S.L.	Spain	Electricity generation
Eólica Tramuntana 14, S.L.	Spain	Electricity generation
Eólica Tramuntana 15, S.L.	Spain	Electricity generation

Consolidation Method	% of Shareholding Total	Net Equity: Capital	Reserves	Profit 2013	Interim dividend
P.C.	30.0	7	(2)	-	-
P.C.	55.0	10	1	1	-
P.C.	42.5	-	3	24	(23)
P.C.	60.0	4	(1)	-	-
P.C.	43.6	1	-	-	-
P.C.	44.9	16	137	6	-
P.C.	46.4	1	3	1	-
P.C.	40.0	-	-	-	-
P.C.	39.0	-	-	-	-
P.C.	50.0	-	(3)	-	-
P.C.	50.0	6	(6)	-	-
P.C.	21.3	2	6	24	(21)
P.C.	40.7	1	-	-	-
P.C.	40.0	336	(25)	32	-
P.C.	50.0	44	(2)	(3)	-
P.C.	42.5	1	11	3	-
P.C.	50.0	2	64	1	-
P.C.	50.0	33	596	75	-
P.C.	40.0	1	-	-	-
P.C.	44.9	1	2	-	-
P.C.	33.3	2	3	1	-
P.C.	19.3	-	-	-	-
P.C.	40.0	5	6	2	-
P.C.	36.3	17	3	5	-
P.C.	50.0	10	29	10	-
P.C.	47.5	63	71	85	-
P.C.	50.0	1	-	-	-
P.C.	60.0	-	-	-	-
P.C.	60.0	-	-	-	-
P.C.	60.0	-	-	-	-
P.C.	60.0	-	-	-	-

Company	Country	Activity
Eólica Tramuntana 16, S.L.	Spain	Electricity generation
Eólica Tramuntana 21, S.L.	Spain	Electricity generation
Eólica Tramuntana 22, S.L.	Spain	Electricity generation
Eólica Tramuntana 23, S.L.	Spain	Electricity generation
Eólica Tramuntana 24, S.L.	Spain	Electricity generation
Eólica Tramuntana 71, S.L.	Spain	Electricity generation
Eólica Tramuntana 72, S.L.	Spain	Electricity generation
Eólica Tramuntana 73, S.L.	Spain	Electricity generation
Eólica Tramuntana, S.L.	Spain	Electricity generation
Molinos de la Rioja, S.A.	Spain	Electricity generation
Molinos del Cidacos, S.A.	Spain	Electricity generation
Montouto 2000, S.A.	Spain	Electricity generation
Nueva Generadora del Sur, S.A.	Spain	Electricity generation
Parque Eólico Sierra del Merengue, S.L.	Spain	Electricity generation
Toledo PV, A.E.I.E	Spain	Electricity generation
Alliance, S.A.	Nicaragua	Telecommunications
Ghesa Ingeniería y Tecnología, S.A.	Spain	Engineering services
Eléctrica Conquense, S.A.	Spain	Services
UTE ESE Clece-Gas Natural	Spain	Services
Unión Fenosa Gas Infraestructures B.V.	Netherlands	Holding company
EcoEléctrica Holding, Ltd.	Cayman Islands	Holding company
EcoEléctrica Limited	Cayman Islands	Holding company

		Net Equity			
Consolidation Method	% of Shareholding Total	Capital	Reserves	Profit 2013	Interim dividend
P.C.	60.0	-	-	-	-
P.C.	60.0	-	-	-	-
P.C.	60.0	-	-	-	-
P.C.	60.0	-	-	-	-
P.C.	60.0	-	-	-	-
P.C.	60.0	1	-	-	-
P.C.	60.0	-	-	-	-
P.C.	60.0	-	-	-	-
P.C.	60.0	1	-	(1)	-
P.C.	33.3	3	2	3	-
P.C.	50.0	10	8	8	-
P.C.	49.0	6	4	3	-
P.C.	50.0	96	27	(106)	-
P.C.	50.0	-	-	-	-
P.C.	33.3	-	1	-	-
P.C.	49.9	-	1	-	-
P.C.	41.2	4	18	3	-
P.C.	46.4	3	3	1	-
P.C.	50.0	-	-	-	-
P.C.	50.0	6	(6)	-	-
P.C.	47.5	63	-	-	-
P.C.	47.5	1	-	-	-

3. Jointly controlled assets and operations

Company	Country	Activity	% Shareholding Total
Boquerón	Spain	Gas infraestructure	4.5
Casablanca	Spain	Gas infraestructure	9.5
Chipirón	Spain	Gas infraestructure	2.0
Montanazo	Spain	Gas infraestructure	17.1
Morcín–1	Spain	Gas infraestructure	20.0
Villaviciosa	Spain	Gas infraestructure	70.0
Bezana/Beguenzo	Spain	Gas infraestructure	50.0
Granda	Spain	Gas infraestructure	50.0
Rodaballo	Spain	Gas infraestructure	4.0
Sestao Knutsen	Spain	Gas infraestructure	50.0
Ibérica Knutsen	Spain	Gas infraestructure	50.0
Tánger Larrache	Marocco	Gas infraestructure	40.0
Comunidad de bienes Central Nuclear de Trillo (Grupo I)	Spain	Electricity generation	34.5
Comunidad de bienes Central Nuclear de Almaraz (Grupo I y II)	Spain	Electricity generation	11.3
Comunidad de bienes Central Térmica de Anllares	Spain	Electricity generation	66.7
Comunidad de bienes Central Térmica de Aceca	Spain	Electricity generation	50.0

4. Associates

					Net Equity			
Company	Country	Activity	Consolidation Method	% Shareholding Total	Capital	Reserves	Profit 2013	Interim dividend
Qalhat LNG S.A.O.C.	Oman	Gas Infraestructure	E.M.	3.7	55	15	168	(3)
Regasificadora del Noroeste, S.A.	Spain	Gas Infraestructure	E.M.	11.6	47	25	11	-
Enervent, S.A.	Spain	Electricity generation	E.M.	26.0	2	5	1	-
Sistemas Energéticos La Muela, S.A.	Spain	Electricity generation	E.M.	20.0	3	2	3	-
Sistemas Energéticos Mas Garullo, S.A.	Spain	Electricity generation	E.M.	18.0	2	2	2	-
Sociedad Gallega do Medio Ambiente, S.A.	Spain	Electricity generation	E.M.	49.0	32	8	(1)	-
Kromschroeder, S.A.	Spain	Services	E.M.	42.5	1	10	-	-
CER's Commercial Corp	Panama	Services	E.M.	25.0	-	-	-	-
3G Holdings Limited	United Kingdom	Services	E.M.	10.0	-	-	-	-
Torre Marenostrum, S.L.	Spain	Services	E.M.	45.0	5	10	1	-
Bluemobility System, S.L.	Spain	Services	E.M.	20.0	-	-	-	-
Oficina de cambios de suministrador, S.A.	Spain	Services	E.M.	20.0	-	-	-	-

Appendix II. Variations in consolidation scope

The main changes in the consolidation scope in 2013 have been as follows:

Registered name of the entity	Operation category	Effective date of the operation	% of voting rights acquired / eliminated	% of voting rights after the operation	Consolidation method after the operation
Distribuidora de Electricidad del Norte, S.A.	Disposal	11 February	83.7	-	-
Distribuidora de Electricidad del Sur, S.A.	Disposal	11 February	83.7	-	-
Operación & Mantenimiento La Caridad, S.A. de C.V.	Incorporation	4 March	100.0	100.0	Global
Gas Natural Servicios Económicos, S.A.S.	Incorporation	20 March	100.0	100.0	Global
Holding Negocios Regulados Gas Natural, S.A.	Incorporation	17 April	100.0	100.0	Global
Gas Natural Madrid SDG, S.A.	Incorporation	17 April	100.0	100.0	Global
Berrybank development Pty, Ltd	Acquisition	30 April	0.6	95.4	Global
Crookwell development Pty, Ltd	Acquisition	30 April	0.6	95.4	Global
Ryan Corner development Pty, Ltd	Acquisition	30 April	0.6	95.4	Global
Union Fenosa Wind Australia Pty, Ltd.	Acquisition	30 April	0.6	95.4	Global
CER's Commercial Corp	Acquisition	12 June	25.0	25.0	Proportional
Energía del Rio San Juan Corp	Acquisition	12 June	100.0	100.0	Global
Hidroeléctrica Rio San Juan, S.A.S. ESP	Acquisition	12 June	100.0	100.0	Global
Gas Navarra, S.A.	Acquisition	21 June	10.0	100.0	Global
Unión Fenosa Comercial, S.L.	Liquidation	1 June	100.0	-	-
Eufer-Enegía Especiais de Portugal Unipessoal, Lda	Disposal	1 July	100.0	-	-
Zemer Energía, S.A., de C.V.	Disposal	5 July	50.0	-	-
Gas Natural Comercial SDG, S.L.	Liquidation	18 July	100.0	-	-
Gas Natural Fenosa Perú, S.A	Incorporation	7 August	100.0	100.0	Global
Union Fenosa Wind Australia Pty, Ltd.	Acquisition	12 November	0.2	95.6	Global
Berrybank development Pty, Ltd	Acquisition	12 November	0.2	95.6	Global
Crookwell development Pty, Ltd	Acquisition	12 November	0.2	95.6	Global
Ryan Corner development Pty, Ltd	Acquisition	12 November	0.2	95.6	Global
Molinos del Linares, S.A.	Liquidation	13 November	25.0	-	-
Energía Termosolar de los Monegros, S.L.U.	Liquidation	29 November	100.0	-	-
Gas Natural Fenosa Engineering Brasil, S.A.	Incorporation	2 December	100.0	100.0	Global
UTE La Energía Gas Natural Electricidad	Liquidation	4 December	100.0	-	-
Lantarón Energía, S.L.	Liquidation	5 December	100.0	-	-
Biogás Doña Juana, S.A. ESP	Disposal	19 December	49.8	-	-
Generación Panamá, S.A.	Liquidation	27 December	100.0	-	-
Repsol-Gas Natural LNG, S.L.	Acquisition	30 December	50.0	100.0	Global

The main changes in the consolidation scope in 2012 have been as follows:

Registered name of the entity	Operation category	Effective date of the operation	% of voting rights acquired / eliminated	% of voting rights after the operation	Consolidation method after the operation
Transnatural, S.R.L. de C.V.	Disposal	31 January	50.0	-	-
Distribuidora de Electricidad del Norte, S.A.	Acquisition	10 February	11.4	83.7	Global
Distribuidora de Electricidad del Sur, S.A.	Acquisition	10 February	10.0	83.7	Global
Capital Telecom Honduras, S.A.	Acquisition	14 February	100	100	Global
GEM Suministro de Gas 3, S.L.	Disposal	29 February	100	-	-
GEM Suministro de Gas SUR 3, S.L.	Disposal	29 February	100	-	-
Energías Especiales de Extremadura, S.A.	Acquisition	5 March	20.6	99.0	Global
U.F. Telecomunicación El Salvador, S.A. de C.V.	Acquisition	10 March	100	100	Global
Fenosa Wind, S.L.	Acquisition	26 April	15.0	100	Global
Eólica de Cordales, S.L.U.	Disposal	26 April	100	-	-
Eólica de Cordales Bis, S.L.U.	Disposal	26 April	100	-	-
Gas Natural International, Ltd.	Liquidation	30 April	100	-	-
Eólicos Singulares 2005, S.A.	Liquidation	23 May	49.0	-	-
Andaluza de Energía Solar Cuarta, S.L.	Liquidation	29 May	76.0	-	-
Eufer-Caetano Energías Renovaveis Ltd	Disposal	11 June	54.0	-	-
Energías Eólica de Lanzarote, S.L.	Disposal	22 June	50.0	-	-
Electra del Jallas, S.A.U.	Acquisition	28 June	0.1	100	Global
Pacific Power Holdings Nº 2 BV	Acquisition	01 July	100	100	Global
Soluziona, S.A. (Bolivia)	Liquidation	02 July	100	-	-
Europe Maghreb Pipeline, Ltd	Acquisition	02 July	4.6	77.2	Global
Energía Termosolar los Monegros, S.L	Acquisition	31 July	10	100	Global
O Novo Aquilón, S.L.	Liquidation	09 October	60	-	-
Parques Eólicos 2008-2012, S.L.	Liquidation	26 October	54	-	-
Distribuidora Eléctrica Navasfrías, S.L.	Disposal	31 October	100	-	-
Unión Fenosa Wind Australia Pty, Ltd.	Acquisition	19 November	0.9	94.8	Global
Berrybank Development Pty, Ltd.	Acquisition	19 November	0.9	94.8	Global
Crookwell Development Pty, Ltd.	Acquisition	19 November	0.9	94.8	Global
Hawkesdale Development Pty, Ltd.	Acquisition	19 November	0.9	94.8	Global
Ryan Corner Development Pty, Ltd..	Acquisition	19 November	0.9	94.8	Global
Cetraro Distribuzione Gas, S.R.L.	Acquisition	03 December	40	100	Global
Albidona Distribuzione Gas, S.R.L.	Acquisition	03 December	40	100	Global
Sistemes Energetics Passanant, S.L.U.	Acquisition	12 December	100	100	Global
Metragaz, S.A.	Acquisition	20 December	4.4	76.7	Global
Gas Natural Fenosa Renovables Ruralia, S.L.U	Disposal	21 December	49	51	Global
Gas Natural de México, S.A. de C.V.	Disposal	31 December	0.9	70.9	Global
Sistemas de Administración y Servicios, S.A. de C.V.	Disposal	31 December	1.0	71.0	Global

Appendix III. Gas Natural tax group companies

The Gas Natural Tax group is as follows:

Gas Natural SDG, S.A.	Gas Natural Madrid SDG, S.A.
Aplicaciones y Desarrollos Profesionales Nuevo Milenio, S.L.	Gas Natural Rioja, S.A.
Boreas Eólica 2, S.A.	Gas Natural S.U.R. SDG, S.A.
Compañía Española de Industrias Electroquímicas, S.A.	Gas Natural Servicios SDG, S.A.
Energías Ambientales de Somozas, S.A.	Gas Natural Transporte SDG, S.L.
Energías Especiales Alcoholeras, S.A.	Gas Natural Wind 4, S.L.U.
Energías Especiales de Extremadura, S.L.	Gas Natural Wind Canarias, S.L.U.
Energía Termosolar de los Monegros, S.L.	Gas Navarra, S.A.
Europe Mahgreb Pipeline Limited	General de Edificios y Solares, S.L.
Explotaciones Eólicas Sierra de Utrera, S.L.	Hispanogalaica de Extracciones, S.L.
Fenosa Wind, S.L.	Holding Negocios Regulados Gas Natural, S.A.
Fenosa, S.L.U.	JGC Cogeneración Daimiel, S.L.
Gas Natural Almacenamientos Andalucía, S.A.	La Energía, S.A.
Gas Natural Andalucía, S.A.	La Propagadora del Gas, S.A.
Gas Natural Aprovisionamientos SDG, S.A.	La Propagadora del Gas Latam, S.L.U.
Gas Natural Capital Markets, S.A.	Lignitos de Meirama, S.A.
Gas Natural Castilla-La Mancha, S.A.	Operación y Mantenimiento Energy, S.A.
Gas Natural Castilla y León, S.A.	Petroleum, Oil&Gas España, S.A.
Gas Natural Cegas, S.A.	Pizarras Mahide, S.L.
Gas Natural Comercial SDG, S.L.	Sagane, S.A.
Gas Natural Comercializadora, S.A.	Sistemes Energétics Passanant S.L.U.
Gas Natural Distribución SDG, S.A.	Sociedad de Tratamiento Hornillos, S.L.
Gas Natural Electricidad SDG, S.A.	Societat Eòlica de l'Enderrocada, S.A.
Gas Natural Exploración, S.L.	Tratamiento Cinca Medio, S.L.
Gas Natural Fenosa Engineering, S.L.U.	Tratamiento de Almazán, S.L.
Gas Natural Fenosa Nuclear, S.L.U.	Unión Fenosa Comercial, S.L.
Gas Natural Fenosa Renovables Andalucía, S.L.U.	Unión Fenosa Distribución, S.A.
Gas Natural Fenosa Renovables Castilla La Mancha, S.L.U.	Unión Fenosa Financiación, S.A.
Gas Natural Fenosa Renovables, S.L.U.	Unión Fenosa Internacional, S.A.
Gas Natural Fenosa Telecomunicaciones, S.A.	Unión Fenosa Minería, S.A.
Gas Natural Informática, S.A.	Unión Fenosa Preferentes, S.A.U.
Gas Natural Internacional SDG, S.A.	

Consolidated Director's Report

224 Company's situation.

226 Business evolution and results.

263 Sustainability.

266 Main risks and uncertainties.

271 Group's foreseeable evolution.

274 R&D&i activities.

275 Annual Corporate Governance Report.

275 Treasury shares.

275 Events after the reporting date.

integrated
**annual
report**

2013

Consolidated Directors’ Report

1. Company’s situation

1.1. Business model

Gas Natural Fenosa's business model is characterised by responsible and sustainable management of all resources. Our commitment to sustainability and value creation over time is reflected specifically in our corporate responsibility policy, approved by the Board of Directors and implemented across all the Company's business processes; it comprises seven corporate responsibility commitments to stakeholders, which guide our activities: commitment to results, customer orientation, environment, concern for people, health and safety, commitment to society and integrity.

Gas Natural Fenosa is an integrated energy company that supplies gas and electricity to over 20 million customers. Its main purpose is to supply energy to society so as to maximise development and welfare, using innovation, energy efficiency and sustainability as the fundamental pillars of the business model. It is an energy sector leader and a pioneer in the integration of gas and electricity. The business focuses on the complete life-cycle of gas and on production, distribution and marketing of electricity. These are joined by other business areas, such as energy services, which encourage diversification of activities and revenues, anticipating market trends, in order to deal with the specific needs of customer and be able to offer them a comprehensive service that does not focus solely on the sale of energy.

Gas Natural Fenosa's business model is developed through a large number of companies, basically in Spain, the rest of Europe, Latin America and Africa; there are five major business areas:

Gas distribution Europe (Spain and Rest)

Gas Natural Fenosa has a leading position in the markets in which it operates, allowing organic growth opportunities to be leveraged both by winning new customers in municipalities to which gas is supplied and by expanding networks into zones without a gas supply. It is the leader in Spain and has a major presence in Italy.

Electricity distribution Europe (Spain and Rest)

Gas Natural Fenosa is one of the most efficient operators in terms of operating and maintenance costs in electricity distribution. It is the third operator in the Spanish market and leader in Moldavia.

Gas (Infrastructure, Supply and Commercialisation, and Unión Fenosa Gas)

Gas Natural Fenosa has a unique, integrated gas infrastructure that provides considerable business stability, operational flexibility and the capacity to transport gas towards the best business opportunities.

For Gas Natural Fenosa, our suppliers play an essential role in the optimal functioning of the value chain; accordingly, long-term contracts are concluded, a commitment to society is assumed and environmental impacts are minimised so as to guarantee supply.

Gas Natural Fenosa responds with value added services to customers' demands for speed, guarantees, quality and energy efficiency.

Electricity (Spain and Rest)

Gas Natural Fenosa has broad knowledge of all generation technologies and an implementation infrastructure that can be tailored to the needs of any energy model and each country's circumstances. A competitive, flexible gas supply allows the Company to achieve better margins than its competitors when managing combined cycle plants.

Our leading position in the combined retailing of natural gas and electricity brings major advantages, such as a lower service cost, integrated customer service and lower acquisition costs, without forgetting greater proximity to customers.

Latin America (Gas Distribution, Electricity distribution and Electricity)

In the gas distribution business, Gas Natural Fenosa has operations in Mexico, Colombia, Brazil and Argentina.

In the electricity distribution business, Gas Natural Fenosa operates in Panama and Colombia.

In the electricity business, Gas Natural Fenosa is established in Mexico, Puerto Rico, Dominican Republic, Costa Rica and Panama.

Operations throughout the whole gas value chain provide Gas Natural Fenosa with a competitive advantage resulting in a leading company in the sector. Management capacity and experience in the electricity business, combined with a unique integrated position in the gas and electricity markets, make the company a benchmark in this sector. International presence guarantees a privileged position to capture growth in new regions in process of economic development, making the Company one of the world's leading operators.

Appendix I to the Consolidated Annual Accounts contains a list of Gas Natural Fenosa's investees.

1.2. Corporate governance

Gas Natural Fenosa develops and maintains continuously updated its corporate governance rules so as to implement recommendations and best practices of good governance. This set of regulations is formed by:

- Company By-laws.
- General Shareholders' Meeting Regulations.
- Board of Directors and Board Committee Regulations.
- Internal Code of Conduct with regard to the Stock Markets.
- Code of Ethics.
- Corporate Responsibility Policy.

Gas Natural Fenosa has continued to enhance its commitment to transparency and good practices, involving the General Shareholders' Meeting, Board of Directors and Board committees: Executive Committee, Appointments and Remuneration Committee, and Audit and Control Committee. The Management Committee also plays a relevant role.

The 2013 Annual Corporate Governance Report, annexed to this Directors' Report, contains a more detailed description.

The Board of Directors represents the Company and is Gas Natural Fenosa's ultimate decision-taking body, barring decisions reserved for the General Meeting. In particular, the Board is responsible for the following matters:

- Determining strategic orientation and economic objectives.
- Supervising and verifying that the top executives observe the strategies and objectives.
- Assuring the company's future viability and competitiveness.
- Approving codes of conduct.

The Executive Committee is the Board committee responsible for continuous monitoring of Company management.

The Appointments and Remuneration Committee proposes Board members remuneration criteria and general management remuneration policies. It also reviews the Board's structure and composition, supervising the inclusion of new members and establishing guidelines for the appointment of directors.

The Audit and Control Committee supervises systems and the effectiveness of internal controls and of risk management systems, preparation of financial information and internal audit services.

The Management Committee coordinates business and corporate areas. Its main functions include studying and proposing Objectives, the Strategic Plan and the Annual Budget, as well as assessing, for the main Governing Bodies, action proposals that could affect the fulfilment of the Company's Strategic Plan. All the Management Committee members participate in the preparation of the Corporate Risk Map through work meetings in which they express opinions on the main uncertainties and potential impacts on the businesses.

2. Business evolution and results

2.1. Main milestones in 2013

In a context of regulatory stress, net profit for 2013 rose 0.3% on the previous year to Euros 1,445 million. These results were possible due to the business model's solidity and diversification, the growing contribution from international business and increased financial strength achieved by deleveraging.

Consolidated ebitda for the year totalled Euros 5,085 million, up 0.1% on the previous year, thanks to diversification, increasing revenue from international activities and the balance provided by Gas Natural Fenosa's business profile, offsetting the decline in the contribution from business in Spain caused both by the increase in fiscal pressure on electricity generation in Spain due to Law 15/2012 and by the impact of the recent Royal Decree Law 9/2013 on electricity generation and distribution in Spain.

Ebitda from Gas Natural Fenosa's international activities increased by 2.2% and accounted for 44.1% of the consolidated total as compared with 43.2% in the previous year. Ebitda from operations in Spain fell by 1.6% basically due to a reduction in distribution activity (-4.1%) and electricity activity (-12.7%) as a consequence of the huge impact that regulatory measures contained in Law 15/2012 and Royal Decree Law 9/2013 have supposed and which have raised to Euros 455 million on year 2013.

The Company's deleveraging process continued and net borrowings stood at Euros 14,641 million at 31 December 2013; the leverage ratio stood at 49.4% and the ratio of net borrowings/ebitda at 2.9x. This progressive restructuring of borrowings allows optimal alignment with the business profile, which has been confirmed as a key aspect of sustained value creation.

On 25 July 2013, Gas Natural Fenosa was awarded the contract tendered by the Peruvian State to take natural gas services to four towns in south west Peru. The start of business in Peru entails the consolidation and extension of the Company's presence in Latin America.

In July 2013, Gas Natural Fenosa signed two agreements for the sale of natural gas to Repsol. The first one was for 2 bcm per annum for the period 2015-2018 and the second one for 1 bcm per annum for 20 years (estimated to commence in 2017).

Gas Natural Fenosa will continue to operate its two electricity distribution companies (Edemet and Edechi) in Panama for the next 15 years following the award of the relevant contracts by Panama's National Public Services Authority (ASEP) on 14 August 2013.

Gas Natural Fenosa's Asian operations grew in September 2013 when a contract was signed for the supply of natural gas to the South Korean energy company Kogas for the next two years.

In November 2013, Gas Natural Fenosa presented the update of its strategic lines for the period 2013-2015 and its strategic vision to 2017 in order to adequate them with the current macroeconomic and energy context and with regulatory impacts.

2.2. Main aggregates

Financial main aggregates

	2013	2012	%
Net sales	24,969	24,904	0.3
Ebitda[1]	5,085	5,080	0.1
Operating income	2,963	3,067	(3.4)
Net income attributable to equity holders of the Company	1,445	1,441	0.3
Cash flows from operating activities	3,451	3,437	0.4
Investments	1,636	1,386	18.0
Net equity	15,010	14,879	0.9
Attributed net equity	13,444	13,261	1.4
Net borrowings (at 31/12)	14,641	15,995	(8.5)

[1] Ebitda=Operating income+Depreciation, Amortisation and Impairment+Operating provisions-Other results.

Main financial ratios

	2013	2012
Leverage[1]	49.4%	51.8%
Ebitda/Net financial income	6.1x	5.8x
Net borrowings/Ebitda	2.9x	3.1x
Liquidity ratio[2]	1.2x	1.5x
Solvency ratio[3]	1.1x	1.1x
Return on equity[4]	10.7%	10.9%
Return on assets[5]	3.2%	3.1%

[1] Net borrowings/(Net borrowings+Net equity).
[2] Current assets/Current liabilities.
[3] (Net equity+Non-current liabilities)/Non-current assets.
[4] ROE: Net income attributable/Attributed net equity.
[5] ROA: Net income attributable/Total assets.

Main stock market ratios and shareholder remuneration

	2013	2012
Average number of shares (thousand)	1,000,689	996,402
Share price at 31/12 (euro)	18.69	13.58
Stock market capitalisation (million euro)	18,708	13,589
Earnings per share (euro)	1.44	1.45
Attributable net equity per share (euro)	13.43	13.25
Price-earnings ratio (PER)	12.9x	9.4x
EV/ebitda[1]	6.6x	5.8x
Pay out (%)	62.1	62.1
Total dividend[2] (million euro)	898	895
Dividend per share	0.90	0.89

[1] EV: Enterprise value calculated as stock market capitalisation + net borrowings.
[2] Considering the equivalent total amount destined to dividends. In 2013, this includes a supplementary dividend of Euros 505 million pending approval by the General Meeting.

Main physical aggregates

	2013	2012	%
Gas distribution Europe			
Sales-TPA[1]	194,975	199,416	(2.2)
Gas distribution connections points (thousand) (at 31/12)	5,627	5,573	1.0
Electricity distribution Europe			
Sales-TPA[1]	35,307	36,288	(2.7)
Electricity distribution connections points (thousand) (at 31/12)	4,618	4,608	0.2
ICEIT[2] (minutes)	47	33	42.4
Gas			
Gas supply (GWh)	326,923	328,058	(0.3)
Spain	229,419	238,450	(3.8)
Retail commercialisation Italy	2,992	2,844	5.2
Rest	94,512	86,764	8.9
Unión Fenosa Gas[3]			
Gas supply in Spain (GWh)	24,228	27,842	(13.0)
Rest (GWh)	10,245	14,100	(27.3)
Gas transportation-EMPL (GWh)	122,804	116,347	5.5

[1] Third party network access (energy distributed).
[2] Installed capacity equivalent interruption time in Spain.
[3] Figures for 50% (shareholding).

Main physical aggregates (continuation)

	2013	2012	%
Electricity			
Electricity generated (GWh)	34,342	37,790	(9.1)
Spain	33,785	37,144	(9.0)
Hydroelectric	4,434	1,665	166.3
Nuclear	4,287	4,434	(3.3)
Coal	5,430	7,724	(29.7)
Combined cycles	16,593	20,602	(19.5)
Renewables	3,041	2,719	11.8
Other			
Oil-gas	557	646	(13.8)
Electricity generation capacity (MW)	12,840	12,939	(0.8)
Spain	12,728	12,827	(0.8)
Hydroelectric	1,914	1,907	0.4
Nuclear	604	604	-
Coal	2,065	2,048	0.8
Oil-gas	-	157	-
Combined cycles	6,998	6,998	-
Renewables	1,147	1,113	3.1
Other			
Oil-gas	112	112	-
Latin America			
Gas distribution			
Sales-TPA1[1]	229,833	210,358	9.3
Gas distribution connections points (thousand) (at 31/12)	6,321	6,090	3.8
Electricity distribution			
Sales-TPA[1]	16,443	18,074	(9.0)
Electricity distribution connections points (thousand) (at 31/12)	2,925	3,701	(21.0)
Electricity generated (GWh)	19,414	18,458	5.2
Hydroelectric	320	370	(13.5)
Combined cycles	17,980	16,951	6.1
Oil-gas	1,114	1,137	(2.0)
Electricity generation capacity (MW)	2,580	2,580	-
Hydroelectric	73	73	-
Combined cycles	2,298	2,298	-
Oil-gas	209	209	-

[1] Third party network access (energy distributed).

2.3. Analysis of consolidated results

Net Sales

	2013	% of total	2012	% of total	% 2013/2012
Gas distribution Europe	1,597	6.4	1,563	6.3	2.2
Spain	1,283	5.1	1,266	5.1	1.3
Rest	314	1.3	297	1.2	5.7
Electricity distribution Europe	1,087	4.4	1,102	4.4	(1.4)
Spain	845	3.4	852	3.4	(0.8)
Rest	242	1.0	250	1.0	(3.2)
Gas	12,914	51.7	12,673	50.9	1.9
Infrastructures	313	1.3	306	1.2	2.3
Supply and Commercialisation	11,570	46.3	11,220	45.1	3.1
Unión Fenosa Gas	1,031	4.1	1,147	4.6	(10.1)
Electricity	6,029	24.1	6,322	25.4	(4.6)
Spain	5,927	23.7	6,194	24.9	(4.3)
Rest	102	0.4	128	0.5	(20.3)
Latin America	6,342	25.4	6,354	25.5	(0.2)
Gas distribution	3,260	13.1	2,982	12.0	9.3
Electricity distribution	2,121	8.5	2,513	10.1	(15.6)
Electricity	961	3.8	859	3.4	11.9
Other activities	655	2.6	613	2.5	6.9
Consolidation adjustments	(3,655)	(14.6)	(3,723)	(14.9)	(1.8)
Total	**24,969**	**100.0**	**24,904**	**100.0**	**0.3**

Net sales to 31 December 2013 totals Euros 24,969 million, having risen 0.3% on the previous year, due mainly to the growth in the gas distribution business in Latin America and in the wholesale international gas business.

Ebitda

	2013	% of total	2012	% of total	% 2013/2012
Gas distribution Europe	1,009	19.8	983	19.4	2.6
Spain	917	18.0	900	17.7	1.9
Rest	92	1.8	83	1.6	10.8
Electricity distribution Europe	623	12.3	648	12.8	(3.9)
Spain	588	11.6	613	12.1	(4.1)
Rest	35	0.7	35	0.7	0.0
Gas	1,244	24.5	1,217	24.0	2.2
Infrastructures	258	5.1	225	4.4	14.7
Supply and Commercialisation	863	17.0	736	14.5	17.3
Unión Fenosa Gas	123	2.4	256	5.0	(52.0)
Electricity	801	15.8	919	18.1	(12.8)
Spain	789	15.5	904	17.8	(12.7)
Rest	12	0.2	15	0.3	(20.0)
Latin America	1,301	25.6	1,267	24.9	2.7
Gas distribution	686	13.5	640	12.6	7.2
Electricity distribution	340	6.7	366	7.2	(7.1)
Electricity	275	5.4	261	5.1	5.4
Other activities	107	2.1	46	0.9	132.6
Total	**5,085**	**100.0**	**5,080**	**100.0**	**0.1**

Consolidated ebitda in 2013 totalled Euros 5,085 million, having risen 0.1% on the previous year in a highly demanding macroeconomic, energy and financial environment, thanks to an adequate balance of regulated and non-regulated businesses in the gas and electricity markets, including a growing and diversified contribution from international activities that offset the impacts of Law 15/2012 and Royal Decree-Law 9/2013.

Ebitda generated in Latin America accounts for 25.6% of the consolidated total and comprises regulated gas and electricity activities, and electricity generation.

Regulated gas and electricity distribution in Europe contributes 32.1% and the electricity generation business represents 15.8%.

Ebitda from Gas Natural Fenosa's international activities increased by 2.2% and accounted for 44.1% of the consolidated total as compared with 43.2% in the previous year. This growth is explained by a significant increase in gas commercialisation and by business development in Latin America. Conversely, ebitda from operations in Spain fell 1.6%, its relative significance in relation to the consolidated total having fallen to 55.9%.

Net operating income

	2013	% of total	2012	% of total	% 2013/2012
Gas distribution Europe	681	23.0	664	21.6	2.6
Spain	621	21.0	611	19.9	1.6
Rest	60	2.0	53	1.7	13.2
Electricity distribution Europe	391	13.2	415	13.5	(5.8)
Spain	362	12.2	386	12.6	(6.2)
Rest	29	1.0	29	0.9	0.0
Gas	830	28.0	923	30.1	(10.1)
Infrastructures	160	5.4	161	5.2	(0.6)
Supply and Commercialisation	786	26.5	661	21.6	18.9
Unión Fenosa Gas	(116)	(3.9)	101	3.3	(214.9)
Electricity	165	5.6	279	9.1	(40.9)
Spain	158	5.3	269	8.8	(41.3)
Rest	7	0.2	10	0.3	(30.0)
Latin America	901	30.4	839	27.4	7.4
Gas distribution	557	18.8	509	16.6	9.4
Electricity distribution	182	6.1	180	5.9	1.1
Electricity	162	5.5	150	4.9	8.0
Other activities	(5)	(0.2)	(53)	(1.7)	(90.6)
Total	**2,963**	**100.0**	**3.067**	**100.0**	**(3.4)**

Depreciation, amortisation and impairment expenses amount to Euros 1,907 million, having risen by 6.1% due basically to a charge of Euros 70 million relating to the impairment of the value assigned in the Unión Fenosa business combination to the gas processing rights held by Gas Natural Fenosa through its investee Unión Fenosa Gas in the Damietta (Egypt) liquefaction plant, as a result of the temporary interruption of plant activities caused by the suspension of deliveries by the natural gas supplier.

Provisions stand at Euros 226 million as compared with Euros 235 million in 2012; together with profits from the disposal of assets totalling Euros 11 million (Euros 20 million in 2012), operating profit totalled Euros 2,963 million, 3.4% below the previous year.

Net financial income

Net financial income for 2013 totalled Euros 838 million (Euros 874 million in 2012), slightly below the previous year due to the effect of a reduction in gross debt, although at a slightly higher cost, together with an increase in cash volumes.

Corporate income tax

In June 2013, the General Shareholders' Meetings of some Group companies resolved to revaluate fixed assets as permitted by Law 16/2012 (27 December), resulting in the recognition of a net tax credit of Euros 109 million in "Income tax" in the consolidated income statement.

As a result of the revaluation, the effective tax rate for 2013 fell to 22.0%, as compared with 24.8% in 2012.

Non-controlling shareholdings

The main items in this caption relate to the minority interests in EMPL, the investees in Colombia, the gas distribution companies in Brazil, and the electricity generation and distribution companies in Panama and Colombia.

In 2013, the profit attributed to minority interests totalled Euros 219 million, which is Euros 3 million above the previous year.

2.4. Analysis of the consolidated balance sheet

Investments

A breakdown of investments by nature is as follows:

	2013	2012	%
Investments in property, plant and equipment and intangible assets	1,494	1,357	10.1
Financial investments	142	29	389.7
Total investments	**1,636**	**1,386**	**18.0**

Investments in property, plant and equipment and intangible assets during the year amounted to Euros 1,494 million, 10.1% up on the previous year. This growth is due basically to the investment in electricity generation in the international arena (Mexico).

Financial investments in 2013 relate basically to the acquisition of a 14.9% stake (together with the proportional percentage of the shareholder loan) in Medgaz for a total of Euros 101 million.

Set out below is a breakdown of investments in property, plant and equipment and intangible assets:

	2013	2012	%
Gas distribution Europe	309	298	3.7
Spain	279	257	8.6
Rest	30	41	(26.8)
Electricity distribution Europe	238	285	(16.5)
Spain	224	269	(16.7)
Rest	14	16	(12.5)
Gas	56	63	(11.1)
Infrastructures	12	25	(52.0)
Supply and Commercialisation	25	27	(7.4)
Unión Fenosa Gas	19	11	72.7
Electricity	176	182	(3.3)
Spain	176	182	(3.3)
Rest	-	-	-
Latin America	559	372	50.3
Gas distribution	181	177	2.3
Electricity distribution	128	132	(3.0)
Electricity	250	63	296.8
Other activities	156	157	(0.6)
Total investments in PPE and intangible assets	**1,494**	**1,357**	**10.1**

Gas Natural Fenosa allocated 57.3% of capital expenditure to regulated gas and electricity distribution businesses in Europe and Latin America in order to boost their contribution to consolidated ebitda.

In geographic terms, investments in Spain fell by 4.0%, although Spain is still the main investment location, accounting for 55.7% of consolidated investments in 2013 (63.9% in the previous year), while international investments represented 44.3%, having grown 35.0% on 2012.

In Latin America, Mexico was the main investment location due to the construction of a 234 MW wind farm, entailing cumulative capital expenditure of Euros 161 million in 2013.

Net equity

At 31 December 2013, Gas Natural Fenosa's net equity stood at Euros 1,010 million. The amount of Euros 13,444 million is attributable to Gas Natural Fenosa, having increased by 1.4% with respect to 31 December 2012.

At 31 December 2013, there were 1,000,689,341 ordinary shares represented by book entries, with a par value of one euro per share. All issued shares are fully paid up and carry equal voting and dividend rights.

At 31 December 2013, according to available public information or notifications received by the Company, the most relevant shareholdings in Gas Natural SDG, S.A. are as follows:

	% shareholding
"la Caixa" Group	34.6
Repsol Group	30.0
Sonatrach	4.0

See Note 12 to the Consolidated Annual Accounts for further details.

FY 2013

The proposal for the distribution of 2013 profits that will be submitted by the Board of Directors to the Annual General Shareholders' Meeting for approval is to allocate Euros 898 million to dividends. This proposal represents a 62.1% pay out and a dividend yield of over 4.8%, by reference to the share price of 18.695 euros per share at 31 December 2013.

In the meeting of 29 November 2013, the Board of Directors of Gas Natural SDG, S.A. resolved to pay an interim dividend of 0.393 euros per share out of 2013 results, for a total of Euros 393 million, payable as from 8 January 2014.

FY 2012

The application of 2012 profits approved by the Annual General Shareholders' Meeting on 16 April 2013 entailed the allocation of Euros 895 million in cash to dividends, representing a 62.1% pay out and a dividend yield of over 6.6%, by reference to the share price of 13.58 euros per share at 31 December 2012.

Consequently, and based on the number of shares outstanding (1,000,689,341), a total gross dividend of 0.894 per share was paid out.

Net borrowings

Evolution of net borrowings (million euro)

	2013	2012	%
Net borrowings	14,641	15,995	(8.5)

At 31 December 2013, net borrowings stood at Euros 14,641 million, placing the leverage ratio at 49.4%. Excluding tariff deficit financing, net borrowings would amount to Euros 14,156 million and leverage would stand at 48.5%.

At 31 December 2013, the ratios Net borrowings/ebitda and ebitda/cost of net borrowings stood at 2.9x (2.8x excluding the tariff deficit) and 6.1x, respectively.

Since the Electricity Deficit Amortisation Fund (FADE) completed its first issue of bonds backed by the electricity system rights assigned on 11 January 2011, issues and extensions have amounted to Euros 25,301 million, of which Euros 9,662 million were issued in 2013. Gas Natural Fenosa has received the relevant portion, for an aggregate amount of Euros 2,873 million, of which Euros 1,079 million were collected in 2013.

Net borrowings maturities (million Euros)

	2014	2015	2016	2017	Post 2018
Net borrowings maturities	643	1,157	1,380	1,956	9,505

The above table shows Gas Natural Fenosa's net borrowings maturities at 31 December 2013.

As regards the distribution of maturity dates for net borrowings, 87.7% falls due during or after 2016. The average life of net borrowings is around five years.

Taking into account the impact of hedges contracted, 82.2% of net borrowings are at fixed interest rates and the remaining 17.8% at variable rates. 4.4% of net borrowings falls due in the short term and 95.6% in the long term.

At 31 December 2013, cash and cash equivalents plus drawable bank financing amounted to Euros 11,613 million, which covers maturities for over 24 months.

Additionally, financial instruments available in the capital market at 31 December 2013 stood at Euros 3,216 million and include the Euro Medium Terms Notes (EMTN) programme for the sum of Euros 1,945 million, following the programme's extension on 30 May in the amount of Euros 2,000 million to reach Euros 14,000 million; the Euro Commercial Paper (ECP) programme for the sum of Euros 854 million; and the Stock Market Certificate programme in the Mexican Stock Exchange, the Commercial Notes Programme in Panama and the Ordinary Bonds Programme in Colombia, for a combined total of Euros 417 million.

In January 2013, a new 10-year bond issue in the capital market was completed for the sum of Euros 600 million at an annual coupon of 3.875%, under the EMTN programme; additionally, under the same programme, the first issue in a currency other than the euro was completed in February, consisting of 250 million Swiss francs at an annual coupon of 2.125% and a six-year maturity. Subsequently, in April a new public issue was completed for Euros 750 million at a coupon of 3.875% and a nine-year maturity, plus a four-year issue of Euros 300 million at a 2.310% coupon. In July, the second issue in a non-euro currency was completed, in this case 800 million Norwegian krone (approximately Euros 100 million), for an annual yield in euros of 3.97% and a 10-year maturity. Finally, in October, a new issue was completed under the EMTN programme in the amount of Euros 500 million at a 3.5% coupon for a term of 7.5 years.

An aggregate amount of Euros 12,055 million has been issued and has not yet matured under the EMTN programme, at an average coupon of 4.65% and with an average term of approximately 4.46 years.

On 16 April 2013, Gas Natural SDG, S.A.'s Board of Directors approved a bid to repurchase an issue of preferred shares, in cash, at 93% of the par value. These preferred shares were issued by Unión Fenosa Financial Services USA, LLC for Euros 609 million in 2003; the bid was accepted by 88.56% of the preferred shareholders.

As part of the continuing debt restructuring process, the early repayment of the Euros 3,000 million Club Deal loan maturing in March 2015 was agreed, by arranging a new five-year credit line of Euros 1,500 million in October 2013, which had not been utilised at 31 December 2013, together with a new five-year loan of Euros 750 million, all on a Club Deal basis.

On 9 July 2013, Gas Natural Fenosa arranged the first tranche of a loan totalling Euros 475 million from the European Investment Bank (EIB) to finance a part of the plan to invest in Unión Fenosa Distribución's transportation and distribution business from 2012 to 2015. The loan consists of two tranches, the first of which amounts to Euros 250 million, secured by Unión Fenosa Distribución, for an eight-year term, drawn down in July 2013; the second tranche of Euros 225 million has not yet been disposed.

The EIB loan reflects the solidity of Gas Natural Fenosa's project, which meets the European Investment Bank's feasibility, quality and environmental required standards.

Set out below is a breakdown by currency of net borrowings at 31 December 2013 showing relative significance with respect to total net borrowings:

(million euro)	31/12/2013	%
EUR	12,567	85.8
US$	1,238	8.5
COP	447	3.1
MXN	270	1.8
BRL	119	0.8
Total net borrowings	**14,641**	**100.0**

Note 3.3.2 to the Consolidated Annual Accounts contains details of the euro exchange rates with respect to the main currencies used by Gas Natural Fenosa companies.

The credit rating of Gas Natural Fenosa's short- and long-term debt is as follows:

Agency	Long term	Short term
Fitch	BBB+	F2
Moody's	Baa2	P-2
Standard & Poor's	BBB	A-2

Liquidity and capital funds

Despite the generalised macroeconomic and financial difficulties, Gas Natural Fenosa has a solid financial and liquidity position. Available cash resources at 31 December 2013 and 2012 are as follows:

Liquidity source	Availability 2013	Availability 2012
Committed credit lines	7,036	4,912
Uncommitted credit lines	100	95
Undrawn loans	225	150
Cash and cash equivalents	4,252	4,434
Total	**11,613**	**9,591**

At 31 December 2013, cash and cash equivalents plus drawable bank financing amounted to Euros 11,613 million, which covers maturities for over 24 months.

There is additional capital market issuance capacity of Euros 3,217 million under Euro and LatAm (Mexico, Argentina, Panama) programmes, recently supplemented by a 500,000 million Colombian peso programme.

Set out below is a breakdown of working capital at 31 December:

(million euro)	2013	2012
Current operating assets[1]	6,034	5,907
Current operating liabilities[2]	(4,597)	(4,858)
	1,437	**1,049**

[1] Includes Inventories, Trade receivables, and Other receivables.
[2] Includes Trade payables, Other payables and Other current liabilities, excluding the dividend payable.

Analysis of contractual obligations and off-balance-sheet transactions

Note 34 to the Consolidated Annual Accounts provides a breakdown of Gas Natural Fenosa's contractual obligations, off-balance-sheet transactions and contingent liabilities.

2.5. Analysis of results by activity

Gas distribution Europe

2.5.1. Gas distribution Spain

Business in Spain includes the remunerated activity charged to the gas distribution system, TPA (third party network access) and secondary transport, and the non-remunerated activities charged to the same distribution system (meter rental, customer connections, etc.).

Results

	2013	2012	%
Net sales	1,283	1,266	1.3
Procurements	(26)	(24)	8.3
Personnel cost	(75)	(77)	(2.6)
Other expenses/income	(265)	(265)	-
Ebitda	**917**	**900**	**1.9**
Depreciation, amortisation and impairment expenses	(288)	(289)	(0.3)
Change in operating provisions	(8)	-	-
Operating income	**621**	**611**	**1.6**

Net sales and ebitda from the gas distribution business totalled Euros 1,283 million and Euros 917 million, having grown moderately by 1.3% and 1.9%, respectively.

Market context

Gas transported in Spain totalled 321,900 Gwh (349,392 Gwh in 2012), while single-customer LNG carried amounted to 9,759 Gwh (11,490 Gwh in 2012), entailing a total demand for gas of 331,659 Gwh (360,882 Gwh in 2012).

Overall sales in the regulated gas activity in Spain fell by 2.3% (-4,580 GWh) compared with the previous year. While demand for gas subject to distribution remuneration (below 60 bars) grew 3.3%, gas carried in transport and secondary transport was 44.8% lower due basically to a significant decline in combined-cycle consumption.

Main aggregates

The main aggregates for gas distribution in Spain are as follows:

	2013	2012	%
Sales-TPA (GWh)	191,189	195,769	(2.3)
Distribution network (Km)	47,678	46,541	2.4
Increase in connections points (thousand)	47	75	(37.3)
Connections points (thousand) (at 31/12)	5,172	5,124	0.9

Gas Natural Fenosa continues to expand its distribution network and the number of connections points. The volume of new customers, not yet connected, increased 5.2% on the previous year. Low activity in the markets for new buildings and the current economic crisis continue to condition the net increase in connections points.

The distribution network grew 1,137 km, including the gasification of 36 new municipalities, to reach a total of 1,100 municipalities.

On 30 December 2013, Order IET/2446/2013 was published, establishing the tolls and levies payable for third-party access to gas facilities and remuneration for regulated activities in 2014. Remuneration recognised for Gas Natural Fenosa in 2014, for distribution and transport activities, totals Euros 1,108 million.

2.5.2. Gas distribution rest (Italy)

Business in Italy also includes gas tariff sales.

Results

	2013	2012	%
Net sales	314	297	5.7
Procurements	(176)	(170)	3.5
Personnel cost	(16)	(15)	6.7
Other expenses/income	(30)	(29)	3.4
Ebitda	92	83	10.8
Depreciation, amortisation and impairment expenses	(27)	(25)	8.0
Change in operating provisions	(5)	(5)	-
Operating income	**60**	**53**	**13.2**

Ebitda followed the same trend shown during the year, amounting to Euros 92 million, 10.8% up on the previous year, due to steady growth in profits from the regulated distribution activity and the increasing contribution from the gas sales margin.

Ebitda from liberalised commercialisation to customers in Italy rose 29.7% to Euros 24 million in 2013.

The Group's strengthening of its position in gas and electricity regulated and non-regulated activities in Italy was confirmed.

In December, the regulator approved the new regulatory framework for distribution during the period 2014 to 2019.

Main aggregates

	2013	2012	%
Sales–TPA (GWh)	3,786	3,647	3.8
Distribution network (Km)	6,958	6,885	1.1
Connections points (thousand) (at 31/12)	455	449	1.3
Gas retailing commercialisation (GWh)	2,992	2,844	5.2

Gas distribution amounted to 3,786 GWh, up 3.8% on 2012, due mainly to favourable weather conditions.

Retail sales rose 5.2% to 2,992 GWh.

The distribution network reached 6,958 km, having grown by 73 km in the past twelve months.

In Italy, Gas Natural Fenosa reached 455,000 connections points in the gas distribution business, representing an increase of 1.3% on the previous year.

In the retail market, Gas Natural Fenosa reached 506,719 active gas, electricity and services contracts in Italy.

Electricity distribution Europe

2.5.3. Electricity distribution Spain

Business in Spain includes regulated electricity distribution activity and activities related to network services for customers, basically connection rights, metering and other activities relating to third party access to Gas Natural Fenosa's distribution network.

Results

	2013	2012	%
Net sales	845	852	(0.8)
Procurements	-	-	-
Personnel cost	(104)	(99)	5.1
Other expenses/income	(153)	(140)	9.3
Ebitda	588	613	(4.1)
Depreciation, amortisation and impairment expenses	(220)	(228)	(3.5)
Change in operating provisions	(6)	1	-
Operating income	**362**	**386**	**(6.2)**

Order IET/221/2013 of 14 February stipulates remuneration for the transportation, distribution and commercial management activities performed by Gas Natural Fenosa's electricity distributors, together with the other market operators. This remuneration takes into consideration the amendments brought in by Royal Decree-Law 13/2012, recognising the investments made in 2011. Additionally, on 12 July 2013, the Council of Ministers approved a package of measures referred to as an energy reform, comprising Royal Decree-Law 9/2013 on urgent measures to guarantee the electricity system's financial stability, a Bill of Law on the Electricity Sector and several proposed Royal Decrees, which affect the electricity distribution business. Law 24/2013 of 26 December on the Electricity Sector was also approved.

Finally, on 26 December 2013, Order IET/2442/2013 was published, establishing the remuneration for the second period of 2013 for electricity transport and distribution activities, including other prior-year measures.

Ebitda for 2013 totalled Euros 588 million, having fallen by 4.1%. The above-mentioned evolution of net sales was accompanied by an increase in net operating expenditure basically due to efficiency measures applied during the year, the positive impact of which is expected in coming years.

Main aggregates

	2013	2012	%
Electricity sales (GWh): TPA	32,766	33,763	(3.0)
Connections points (thousand) (at 31/12)	3,772	3,772	-
ICEIT (minutes)	47	33	42.4
Network loss ratio (%)	8.6	8.1	6.2

Electricity supplied decreased by 3.0%, above the fall in domestic demand for electricity distribution, which stood at 243,126 Gwh in 2013 (248,903 Gwh in 2012), entailing a decline of 2.3% according to Red Eléctrica de España (REE)'s balance sheet.

The number of connections points remained at the same level as in the previous year, reaching 3,772,000.

Supply quality, in terms of Installed Capacity Equivalent Interruption Time (ICEIT), exceeded the previous year due to less favourable weather conditions, but was in line with the recent-year average; this may be explained by the correct functioning of facilities thanks to the continuing investment process, the network architecture implemented and systematic operating and maintenance plans.

2.5.4. Electricity distribution rest (Moldova)

Business in Moldova consists of regulated electricity distribution and tariff commercialisation in the capital city and areas in the centre and south of the country. Gas Natural Fenosa distributes 70% of Moldava's total electricity.

Results

	2013	2012	%
Net sales	242	250	(3.2)
Procurements	(188)	(194)	(3.1)
Personnel cost	(7)	(8)	(12.5)
Other expenses/income	(12)	(13)	(7.7)
Ebitda	35	35	-
Depreciation, amortisation and impairment expenses	(6)	(6)	-
Change in operating provisions	-	-	-
Operating income	**29**	**29**	**-**

Net sales reflects, on a pass-through basis, the performance of supplies and, additionally, the recognition of the investment plan implemented and operation and maintenance activities performed in accordance with the country's current regulations. As from 1 March 2013, the new tariff methodologies for commercialisation and distribution came into force for a five-year period.

Excluding the effect of exchange rates, ebitda grew by 7.3% due to a reduction in losses, efficiency improvements and cost containment.

Main aggregates

	2013	2012	%
Electricity sales (GWh)–tariff sales	2,541	2,525	0.6
Connections points (thousand) (at 31/12)	846	836	1.2
Network loss ratio (%)	10.7	12.4	(13.7)

Gas Natural Fenosa continues to implement its plan to improve management in Moldova in connection with processes linked to energy control in the distribution networks, operating processes associated with the commercial management cycle and optimisation of facility operation and maintenance; the plan is achieving its objectives and a steady improvement in basic operating indicators:

- Energy supplied grew by 0.6%, the anti-fraud campaigns having been offset by the decline in consumption due to milder weather conditions in 2013 compared with 2012.
- Connections points reached 846,080, representing a rise of 1.2% on the previous year, due mainly to growth in the real estate sector.
- The network loss ratio evolved favourably, allowing regulated electricity Net sales to be maximised.

Gas

2.5.5. Infrastructure

This business inclusion operation of the Maghreb-Europe gas pipeline, management of maritime transport, development of integrated liquefied natural gas projects (LNG) and exploration, development, production and storage of hydrocarbons.

Results

	2013	2012	%
Net sales	313	306	2.3
Procurements	(32)	(56)	(42.9)
Personnel cost	(4)	(6)	(33.3)
Other expenses/income	(19)	(19)	-
Ebitda	258	225	14.7
Depreciation, amortisation and impairment expenses	(98)	(64)	53.1
Change in operating provisions	-	-	-
Operating income	**160**	**161**	**(0.6)**

Net sales from the infrastructures business in 2013 totalled Euros 313 million, having increased by 2.3%.

Ebitda for 2013 amounted to Euros 258 million, 14.7% up on the previous year due mainly to an increase in production as the Montanazo (Tarragona) well became operational in October 2012, the rise in the international transport tariff for the Maghreb-Europe gas pipeline in 2013 and fleet logistics optimisation.

The increase in depreciation, amortisation and impairment expenses in 2013 is explained by the impairment of sundry assets totalling Euros 16 million.

Main aggregates

The main aggregates of the international gas transport business are as follows:

	2013	2012	%
Gas transportation-EMPL (GWh)	122,804	116,347	5.5
Portugal-Morocco	38,023	36,872	3.1
Spain-Morocco (Gas Natural Fenosa)	84,781	79,475	6.7

The gas transport business in Morocco, performed through the companies EMPL and Metragaz, recorded a total volume of 122,804 GWh, 5.5% up on the previous year. Of this amount, 84,781 GWh were transported for Gas Natural Fenosa by the company Sagane and 38,023 GWh for Portugal and Morocco.

In January 2013, Gas Natural Fenosa and the Algerian company Sociéte Nationale pour la Recherche, la Production, le Transport, la Transformation et la Commercialisation des Hydrocarbures, S.p.A (Sonatrach) entered into an agreement for the purchase from the latter company of a 10% stake in Medgaz, S.A. for Euros 54 million. Medgaz owns and operates the Algeria-Europe submarine gas pipeline connecting Beni Saf to the coast of Almería, with a capacity of 8 bcm/year.

The acquisition of this shareholding relates to the transfer to Gas Natural Fenosa of 10% of the pipeline's transport capacity and a new 0.8 bcm/year natural gas supply contract. The supply contract has an 18-year term and supplies commenced on 1 February 2013. Volumes carried during the year by the Medgaz gas pipeline for Gas Natural Fenosa totalled 4,889 GWh.

In July 2013, Gas Natural Fenosa acquired an additional 4.9% interest from the company Gaz de France International, S.A.S. for Euros 36 million. As a result of this acquisition, which did not involve any transport rights or additional gas contract, Gas Natural Fenosa's interest in the gas pipeline increased to 14.9%.

Authorisation processes continued for the five exploration, production and storage projects planned by Gas Natural Fenosa for the coming years in the Guadalquivir Valley (Marismas, Aznalcazar and Romeral areas). On 29 and 30 January 2013, the Secretary of State for the Environment issued the Environmental Impact Declarations for the Saladillo, Marismas Oriental and Aznalcázar, in addition to the Declaration already obtained for the Marismas Occidental project. Subsequently, the Andalusia Regional Government expressed doubts as to whether or not the synergic impacts of the projects on each other had been evaluated, asking the Environment Ministry to complete the evaluation before issuing the relevant environmental permits.

With regard to the Trieste regasification terminal project that the Group is to carry out in the north of Italy (Zaule), on 18 April 2013 a decree was published temporarily suspending the Valutazione di Impatto Ambientale (VIA). The decree temporarily suspended the VIA so that Gas Natural Fenosa could present an alternative location or so that the Port Authority could alter its maritime traffic development planning. On 13 June 2013, the Company filed an appeal at the administrative court against the temporary suspension decree and is awaiting a ruling.

2.5.6. Supply and Commercialisation

This business groups together gas supply and commercialisation (wholesale and retail) activities in Spain and abroad, as well as the supply of products and services related to supply in Spain and supply of gas at the last-resort tariff in Spain.

Results

	2013	2012	%
Net sales	11,570	11,220	3.1
Procurements	(10,485)	(10,245)	2.3
Personnel cost	(49)	(50)	(2.0)
Other expenses/income	(173)	(189)	(8.5)
Ebitda	863	736	17.3
Depreciation, amortisation and impairment expenses	(18)	(15)	20.0
Change in operating provisions	(59)	(60)	(1.7)
Operating income	**786**	**661**	**18.9**

Net sales totalled Euros 11,570 million, 3.1% up on the previous year. Ebitda amounted to Euros 863 million, having risen 17.3% due basically to due to growth in foreign operations.

Diversification of the commodities portfolio and joint management of commodity and dollar risks, combined with a larger volume of foreign sales, contributed towards the improvement in ebitda in a context of significant volatility in energy and currency markets.

Market context

Spanish gas market demand reached 331,659 GWh in 2013 (360,882 GWh in 2012), of which 55,757 GWh relate to the residential market (55,815 GWh in 2012), 219,180 GWh to the industrial market and third-party supplies (220,782 GWh in 2012) and 56,722 GWh to the electricity market (84,285 GWh in 2012).

Evolution of the main gas market price indices is set out below:

	2013	2012	%
Brent (USD/bbl)	108.7	111.5	(2.5)
Henry Hub (USD/MMBtu)	3.7	2.8	32.1
NBP (USD/MMBtu)	10.7	9.6	11.5
TTF (€/MWh)	26.6	25.0	6.4

Main aggregates

The main aggregates of the supply and commercialisation business are as follows:

	2013	2012	%
Gas supply (GWh)	323,931	325,214	(0.4)
Spain	229,419	238,450	(3.8)
Gas Natural Fenosa supply	166,991	178,216	(6.3)
Residential	30,786	31,278	(1.6)
Industrial	97,955	94,811	3.3
Electricity	38,250	52,127	(26.6)
Supplies to third parties	62,428	60,234	3.6
International	94,512	86,764	8.9
Europe	30,672	20,871	47.0
Rest	63,840	65,893	(3.1)
Multiutility contracts (thousand) (at 31/12)	2,246	1,882	19.3
Contracts per customer (at 31/12)	1.48	1.40	5.7
Share of supply market in Spain	44.6%	42.3%	5.4

Gas demand in Spain totalled 333,659 GWh (360,882 GWh in 2012), 8.1% below the previous year, 3.8% in the case of Gas Natural Fenosa. Conventional demand amounted to 274,937 GWh, representing an overall fall of 0.6%, but 2.9% growth for Gas Natural Fenosa. Electricity generation demand totalled 56,722 GWh, entailing an overall decline of 32.7%, 26.6% for Gas Natural Fenosa.

In a weak demand scenario, natural gas sold in the Spanish gas market amounted to 229,419 GWh, 3.8% down on the previous year due to a decline in sales to Gas Natural Fenosa's end customers (-6.3%); this is explained mainly by the reduction in combined-cycle consumption, partly offset by growth in supplies to third parties (+3.6%).

International gas sales totalled 94,512 GWh, having risen 8.9% on the previous year.

In Portugal, Gas Natural Comercializadora reached a gas market share of 13%, according to data published by the regulator in Portugal (ERSE), making it the country's second-ranked operator. In the industrial market, where activities are focused, share is estimated at above 20%. This consolidates the Group's leadership in the Iberian Peninsula just prior to the creation of the single Iberian market (MIBGAS).

Our position as the leading foreign operator in Portugal has also been confirmed, with an industrial contract portfolio of 5.5 TWh/year.

Gas Natural Europe (a French commercialisation subsidiary in Europe), currently has 2,798 supply connections points in France in a range of sectors, from industrial companies (chemicals, paper mills, etc.) to local governments and the public sector, accounting for a total portfolio of 23.3 TWh/year.

The French subsidiary has also consolidated its position in Belgium and Luxembourg, with 569 supply connections points and a contracted portfolio of 6.7 TWh/year. In the Netherlands, supply connections points increased to 309 with a 5.4 TWh/year portfolio. In Germany, where activities commenced at the end of 2012, 97 supply connections points and a portfolio of 1 TWh/year have already been contracted.

Gas Natural Fenosa continues to study the possibility of entering other central European markets in the short term by offering a combination of customised energy consulting and a diversified, secure supply.

Gas Natural Vendita ended 2013 with a contracted portfolio of 4TW/year in Italy's wholesale market.

Foreign market diversification continued through gas sales in America (Caribbean and South America) and Asia (Japan, India and Korea). This has consolidated our presence in the main international LNG markets, with a medium-term position in countries in economic growth or countries that lead the LNG market. In October 2013, Gas Natural Fenosa was awarded an LNG contract for the supply of 1.8 bcm/year to Argentina during 2014 and 2015.

In September 2013, Gas Natural Fenosa entered into a contract with the South Korean energy company Kogas to supply between 1 and 1.5 bcm of liquefied natural gas (LNG) in the next two years. This agreement consolidates our position as a global LNG operator and boosts growth in Asia.

In July 2013, Gas Natural Fenosa signed two agreements for the sale of natural gas to Repsol. The first one was for 2 bcm per annum for the period 2015-2018 and the second one for 1 bcm per annum for 20 years (estimated to commence in 2017).

In the retail market, Gas Natural Fenosa reached 11.2 million gas, electricity and services contracts. More than 1.3 million homes have entrusted Gas Natural Fenosa with combined supply of gas and electricity.

Products and services were marketed throughout Spain and 1,700,000 new contracts were activated. Expansion continued in the small- and medium-sized companies market, more than 114,000 new contracts having been concluded for gas, electricity and services to reach 340,000 at year-end 2013.

Gas Natural Fenosa has extended its residential maintenance services portfolio, adding new services. The services portfolio exceeded 2.2 million active contracts, service offerings and quality having been enhanced through the Company's own operating platform, comprising 164 associate companies connected through an online mobility system.

This performance brought 6% growth in retail segment contracts, on consistent terms, with respect to 31 December 2012.

In the SMEs segment, Gas Natural Fenosa continued to grow and consolidate business in Portugal, active electricity contracts exceeding 15,000 at 31 December 2013.

Gas Natural Fenosa remains committed to increasing the functionalities and users of the virtual office, where products and services can be contracted online.

Gas Natural Fenosa continues to develop a network of vehicular natural gas filling stations open to all users. In 2013, the network comprised 24 proprietary filling stations located on the peninsula's main transport routes, seven of which supply both compressed natural gas and liquid natural gas for heavy freight vehicles. As regards ports, Gas Natural Fenosa supplies fuel, through a mobile station, to the first LNG-driven truck used to move containers in the Port of Valencia.

In integrated energy efficiency solutions, the business volume generated doubled for the second consecutive year. According to a survey by the company DBK, Gas Natural Servicios leads the market for energy services.

Ongoing analysis of efficient new technologies, as part of our firm commitment to energy efficiency, has allowed the Company to develop new products and services for our growing portfolio of energy solutions tailored to our customers' energy needs.

2.5.7. Unión Fenosa Gas

This business groups together the gas supply and commercialisation activities performed by Unión Fenosa Gas and includes the Damietta (Egypt) liquefaction, Sagunto regasification and management of the gas transport tanker fleet.

Results

Unión Fenosa Gas is 50%-owned by Gas Natural Fenosa and is included in consolidated results on a proportionate basis.

	2013	2012	%
Net sales	1,031	1,147	(10.1)
Procurements	(891)	(859)	3.7
Personnel cost	(11)	(12)	(8.3)
Other expenses/income	(6)	(20)	(70.0)
Ebitda	**123**	**256**	**(52.0)**
Depreciation, amortisation and impairment expenses	(239)	(155)	54.2
Change in operating provisions	-	-	-
Operating income	**(116)**	**101**	**-**

Ebitda amounts to Euros 123 million, entailing a 52.0% decline in connection with the preceding year.

Results for the year have been affected by the reduction in gas supplied by Egypt. Nonetheless, opportunities generated by the situation in the international LNG selling markets, where UF Gas continue its intense activities, were leveraged. A stable economic contribution was also made by the infrastructures during the period.

The increase in depreciation, amortisation and impairment expenses is due basically to an impairment loss of Euros 70 million on the value assigned in the Unión Fenosa business combination to the gas processing rights held by Gas Natural Fenosa through its investee Unión Fenosa Gas in the Damietta (Egypt) liquefaction plant, as a result of the temporary interruption of plant activities caused by the suspension of deliveries by the natural gas supplier.

Main aggregates

Main aggregates for Unión Fenosa Gas' activities (reflecting the 50% interest) are as follows:

	2013	2012	%
Gas supply in Spain (GWh)	24,228	27,842	(13.0)
Gas supply International (GWh)	10,245	14,100	(27.3)
Liquefaction (GWh)	(158)	7,646	-
Regasification (GWh)	8,266	15,959	(48.2)

The volume of gas supplied in Spain amounted to 24,228 GWh, as compared with 27,842 GWh in the previous year. The fall is particularly significant in supplies to electricity generation companies (-18%) due to an electricity generation mix in which renewable sources grew in relevance and to the use of coal to fill the thermal gap. There was a more moderate decline in the industrial segment (-5.3%).

Additionally, energy managed totalled 10,245 GWh through international sales in different markets.

In 2012, the SAGGAS (Sagunto) plant was adapted to tanker loading operations. The plant's new activity, approved by the Valencia Port Authority in December 2012, allows diversification into a business, LNG tanker loading, that has grown in recent years. SAGGAS has thus diversified its activities and adapted its facilities in order to both unload and load GNL tankers, in parallel to its usual regasification tasks.

As regards the exploration and production project in the La Rioja region of Spain, work continued in the subsoil and in surface facilities. The drilling of the second test (Viura-3) well is due to be completed in February 2014. Construction of the processing plant also continued and is due for completion in the middle of 2014, while the gas pipelines and electricity line are expected to be built by February 2014.

Electricity

2.5.8. Electricity Spain

The electricity business in Spain includes electricity generation in Spain, electricity wholesaling and retailing in Spain's liberalised market, electricity supply at the last-resort tariff and wholesale electricity trading.

Results

	2013	2012	%
Net sales	5,927	6,194	(4.3)
Procurements	(4,222)	(4,624)	(8.7)
Personnel cost	(158)	(152)	3.9
Other expenses/income	(758)	(514)	47.5
Ebitda	**789**	**904**	**(12.7)**
Depreciation, amortisation and impairment expenses	(594)	(594)	-
Change in operating provisions	(37)	(41)	(9.8)
Operating income	**158**	**269**	**(41.3)**

Net sales from the electricity business in 2013 totalled Euros 5,927 million, having increased by 4.3% on 2012.

Ebitda amounted to Euros 789 million, representing a fall of 12.7% on the previous year.

This decrease is explained basically by the evolution of fuel market prices, the lower price of electricity in the wholesale market due to a change of production mix (increased Hydroelectric output) and the tax and regulatory measures brought in by Law 15/2012 and RD 9/2013), affecting electricity generation.

Market context

In the domestic arena, mainland electricity demand reached 246,204 GWh (251,850 GWh in 2012), entailing a fall of 2.2% in both gross demand and in demand adjusted for calendar and temperature effects; this was the third consecutive annual decrease.

The physical balance of international exchanges remained on the export side, with 6.8 TWh exported in 2013, which is 39.7% less than exports accumulated in 2012.

Pumping consumption amounted to 6.0 TWh in 2013, 19.9% up on the previous year.

In cumulative terms for 2013, net generation fell by 3.1% on the previous year due to a 10.6% decline in ordinary regime generation and an 8.6% rise in special regime generation.

Cumulative figures for wind generation in 2013 rose 13.2%, with 22.1% coverage, which was 2% above demand coverage achieved by this technology in 2012; this was the first time in history that wind generation contributed more than any other technology to demand coverage. During the year, wind generation beat a number of demand coverage records, the maximum being 68.5% in the early morning of 25 December.

As regards the other special regime activities, cumulative figures for the period showed a moderate 4.5% increase, the most relevant aspects being the sharp rise in Hydroelectric generation and the significance of solar generation, which reached 12.5 TWh (photovoltaic and thermal), which is more than one half the figure for combined cycle output.

Overall, the special regime accounted for 45.1% of demand in cumulative terms, more than 4.5% up on 2012.

Hydroelectric generation for the year increased by 75.0%. Producible hydroelectric power recorded in 2013 reflects a wet year, with 26% probability of being exceeded (PSS) with respect to the historical average producible figure (the PSS of 5% in March and 3% in April are noteworthy due to their significance in the annual calculation), i.e. statistically, only 26 of every 100 years would be wetter than the current year.

Nuclear generation fell 7.4% over the year; this figure was affected by changes to scheduled maintenance work and the load reductions at the end of March and beginning of April, when market prices were very low (even reaching zero).

The thermal gap accumulated during the year fell by over 27 TWh, from 35.3% demand coverage to in 2012 to 25.0% of the cumulative figure for 2013.

Coal generation decreased by 27.4% of the cumulative total for the year, despite the application of the Royal Decree on Supply Guarantee as from 26 February 2011. In cumulative values for 2013, generation using domestic coal, at 12.8 TWh, amounted to nearly one half of generation using imported coal (24.2 TWh); together, they covered 15.0% of demand, 5% less than in 2012.

In 2013, as in the previous year, no power was generated using Oil.

Combined-cycle output amounted to 24.6 TWh in 2013, far below the 37.9 TWh in 2012. Demand coverage by this technology fell from 15.0% in 2012 to 10.0% in 2013.

Movements in the main electricity and related market price indices (in addition to the indices mentioned in point 2.5.6.) are set out below:

	2013	2012	%
Weighted average daily market price (€/MWh)	44.3	48.5	(8.7)
Coal API 2 CIF (USD/t)	81.7	92.5	(11.7)
CO_2 EUA (€/ton)	4.5	7.4	(39.2)

Main aggregates

Main aggregates for Gas Natural Fenosa's electricity business in Spain are as follows:

	2013	2012	%
Installed capacity (MW)	12,728	12,827	(0.8)
Ordinary regime	11,581	11,714	(1.1)
Hydroelectric	1,914	1,907	0.4
Nuclear	604	604	-
Coal	2,065	2,048	0.8
Oil-gas	-	157	-
Combined cycles	6,998	6,998	-
Special regime	1,147	1,113	3.1
Wind	967	968	(0.1)
Mini-Hydroelectric	108	69	56.5
Cogeneration and other	72	76	(5.3)
Electricity generated (GWh)	33,785	37,144	(9.0)
Ordinary regime	30,744	34,425	(10.7)
Hydroelectric	4,434	1,665	166.3
Nuclear	4,287	4,434	(3.3)
Coal	5,430	7,724	(29.7)
Oil-gas	-	-	-
Combined cycles	16,593	20,602	(19.5)
Special regime	3,041	2,719	11.8
Wind	2,209	1,999	10.5
Mini-hydroelectric	362	257	40.9
Cogeneration and other	470	463	1.5
Ordinary regime availability factor (%)	94.4	94.7	(0.3)
Capacity under construction	38.6	38.6	-
Electricity sales (GWh)	32,941	35,910	(8.3)
Liberalised market	25,948	28,216	(8.0)
Last-resort tariff/Regulated	6,993	7,694	(9.1)
Market share of ordinary regime generation	**20.6%**	**20.7%**	**(0.5)**
Market share of special regime generation	**2.7%**	**2.7%**	**-**
Share of commercialisation market	**13.6%**	**14.4%**	**(5.6)**

The change in ordinary regime installed capacity with respect to the previous year is due to a number of factors:

- A 7 MW increase as a result of new certification at several Hydroelectric plants.
- Definitive closure of Group 1 at the Aceca thermal (fuel) plant, with a gross capacity of 157 MW attributable to Gas Natural Fenosa.
- Increase of 17.3 MW in gross capacity at the Meirama plant, recognised in August 2013.

Gas Natural Fenosa's mainland power generation fell by 9.0% due to a 10.7% decrease in ordinary regime generation and a 11.8% rise in special regime generation.

In 2013, hydroelectric generation nearly tripled the figure for 2012, due basically to large contributions at the beginning of the year.

The beginning of 2013 was wet and rainfall continued throughout the first and second quarters before drying up in the last two quarters (particularly the third, which was extremely dry) and ending the year at an average of 47% PSS (probability that recorded producible electricity will be exceeded, based on historical average data). The level of energy reserves in Gas Natural Fenosa's basins stood at 38.2%, as compared with 31.6% at the previous year end. The beginning of 2014 is even wetter than 2013, reserves having rise to over 50% in the first ten days of January.

Accumulated annual nuclear output fell by 3.3% with respect to 2012, having been affected by changes to scheduled maintenance work and load reductions at Easter due to high special regime generation.

The application of the Royal Decree on Supply Guarantee in the final quarter of 2013 resulted in electricity generation using supply guarantee coal amounting to 758 GWh for Gas Natural Fenosa, for a total of 2,314 GWh in the whole of 2013. Generation using coal fell by 29.7% with respect to 2012.

Accumulated figures for combined-cycle electricity generation were 19.5% below the 2012 figure.

Gas Natural Fenosa's cumulative market share of ordinary regime generation stood at 20.6% at 31 December 2013, close to the 20.7% figure for year-end 2012.

Cumulative electricity sales totalled 33 TWh at 31 December 2013, including sales in the liberalised market and last-resort tariff (TUR) sales. The electricity commercialisation portfolio is in line with Gas Natural Fenosa's strategy of maximising margins, optimising market share and hedging against price variations in the electricity market.

At year-end 2013, cumulative CO_2 emissions totalled 11.5 million tonnes as compared with 14.9 million tonnes in 2012, affected by regulations governing greenhouse gas emissions trading.

Gas Natural Fenosa manages its CO_2 emission rights coverage portfolio in an integrated manner for the post Kyoto period (2013-2020), acquiring the necessary emission rights and credits through active participation in both the secondary market and in primary projects and carbon funds.

Gas Natural Fenosa Renovables

At 31 December 2013, Gas Natural Fenosa Renovables (GNF Renovables) has a consolidable total operational installed capacity of 1,147 MW, of which 967 MW relates to wind technology, 108 MW to mini-Hydroelectric and 72 MW to cogeneration. The increase in relation to the previous year relates mainly to the commissioning of 39 MW in mini-Hydroelectric plants in Galicia.

Output was 11.8% above the figure for 2012 (3,041 GWh vs. 2,719 GWh). This output increase is due basically to the 10.5% rise in wind output as a result of the improved wind conditions compared with the previous year. As regards mini-Hydroelectric technology, high precipitation in 2013 allowed a 40.9% rise in output. Cogeneration remained steady, having risen by 1.5%. Ebitda amounted to Euros 152 million, 1.9% down on the previous year.

With respect to the results obtained in the same period of 2012, it should be noted that a number of regulations have come into force (Law 15/2012, RDL 2/2013 and RDL 9/2013), affecting economic results forecast by companies using special regime technologies.

Finally, construction work on the Peares II and Belesar II mini-Hydroelectric projects in Galicia was completed, commercial operations having commenced at the end of 2013.

2.5.9. Electricity rest (Kenya)

This includes electricity generation in Kenya.

The prevailing very dry weather in Kenya throughout most of 2013 increased the load factor of the thermal power plants, resulting in a sizeable increase in electricity output.

Results

	2013	2012	%
Net sales	102	128	(20.3)
Procurements	(76)	(100)	(24.0)
Personnel cost	(2)	(2)	-
Other expenses/income	(12)	(11)	9.1
Ebitda	**12**	**15**	**(20.1)**
Depreciation, amortisation and impairment expenses	(5)	(5)	-
Change in operating provisions	-	-	-
Operating income	**7**	**10**	**(30.0)**

Ebitda totalled Euros 12 million in 2013. The decrease is due to a reduction in output (13.8%) and to foreign exchange fluctuations. High availability (indicator determining capacity Net sales), at 86.1%, and the reduction in the price of fuel in international markets, offset the decline in ebitda.

Main aggregates

The main aggregates are as follows:

	2013	2012	%
Installed capacity (MW)	112	112	-
Electricity generated (GWh)	557	646	(13.8)
Availability factor (%)	86.0	87.9	(2.2)

In 2013, fuel-oil electricity output in Kenya fell by 13.8% on the previous year to 557 GWh. This decrease is attributable to a reduction in demand for thermal power in Kenya as a result of the higher precipitation during most of the year and, consequently, the rise in water levels in hydroelectric reservoirs.

Latin America

2.5.10. Gas distribution

This relates to gas distribution in Argentina, Brazil, Colombia and Mexico.

	2013	2012	%
Net sales	3,260	2,982	9.3
Procurements	(2,235)	(1,993)	12.1
Personnel cost	(96)	(98)	(2.0)
Other expenses/income	(243)	(251)	(3.2)
Ebitda	**686**	**640**	**7.2**
Depreciation, amortisation and impairment expenses	(109)	(116)	(6.0)
Change in operating provisions	(20)	(15)	33.3
Operating income	**557**	**509**	**9.4**

Net sales totalled Euros 3,260 million, having risen by 9.3%, the volume of sales being 9.3% higher than the previous year.

Ebitda amounted to Euros 686 million, representing a rise of 7.2% on 2012, despite the negative impact on exchange rates of the devaluation of local currencies in Brazil (-11.9%), Argentina (-19.6%), Colombia (-7.3%) and Mexico (-0.4%).

Brazil's contribution accounted for 50.9% of ebitda, the volume of sales having risen by 31.4% on the previous year, and for 21.6% of the energy margin due to the combined effect of higher generation sales and the update of the General Market Price Index.

Colombia contributed 27.7% of ebitda, the most noteworthy aspects being the increase in sales volumes in the industrial and vehicular natural gas markets, and the higher margins.

Ebitda in Mexico represents 17.5% of the total business, the energy margin having grown by 6.1% on the previous year due to improved margins in the household/commercial, vehicular natural gas and third party network access (TPA) markets.

Main aggregates

Set out below are the physical Main aggregates for the gas distribution business in Latin America:

	2013	2012	%
Gas sales (GWh)	229,833	210,358	9.3
Tariff gas sales	148,283	131,407	12.8
TPA	81,550	78,951	3.3
Distribution network (Km)	69,054	67,334	2.6
Change in connections points (thousand)	231	208	11.1
Connections points (thousand) (at 31/12)	6,321	6,090	3.8

The key physical aggregates by country in 2013 are as follows:

	Argentina	Brazil	Colombia	Mexico	Total
Gas activity sales (GWh)	73,164	88,961	18,736	48,972	**229,833**
Change *vs.* 2012 (%)	(4.8)	31.4	6.1	1.7	**9.3**
Distribution network	24,033	6,476	20,293	18,252	**69,054**
Change *vs.* 31/12/2012 (km)	427	186	433	674	**1,720**
Connections points (thousand) (at 31/12)	1,556	899	2,518	1,348	**6,321**
Change *vs.* 31/12/2012 (thousand)	34	29	115	53	**231**

In 2013, gas distribution connections points reached 6,321,000 customers. High growth levels were maintained, new connections points totalling 231,000, relating mainly to Colombia with an increase of 115,000.

Gas activity sales in Latin America, including gas sales and third party access (TPA) services, totalled 229,833 GWh, 9.3% up on sales recorded in 2012.

The gas distribution network grew by 1,720 km in the last twelve months to reach 69,054 km at the end of December 2013, representing an increase of 2.6%. The expansion of the Mexican network (+674 km) made a considerable contribution to this growth.

The most relevant aspects of these business activities during the year are explained below:

- In Argentina, the energy margin rose 45.7% on the previous year due to the income from FOCEGAS (fund for construction work and costs related to infrastructure expansion and maintenance) granted in December 2012. Cost containment measures continued in a complex economic and financial context with inflation at close to 25%.

- Business performance in Brazil was highly satisfactory, with an increase of new home/commercial connections of 9.6% and of 31.4% of gas and third party access sales particularly in the generation market. Gas thermal plants increased their output by 162% in 2013 compared with the previous year due to low precipitation and low reservoir levels. In December 2013, water levels stood at 43.2%, 10.4 p.p. below the historical average (53.6% average over eight years) in the south east-centre west region, where 70% of the country's reservoirs are located. On 19 December 2013, the Río de Janeiro State Regulator (AGENERSA) approved the request submitted to companies to apply the result of the tariff review, duly updated, as from 1 January 2014; on 20 December 2013, AGENERSA Deliberations Numbers 1,880 and 1,881 were published, approving the tariff review. The tariff framework envisages a recognised WACC reduction of 0.5% that will be offset by an increase in operating efficiency.

- In Colombia, gas and TPA sales rose 6.1% on the previous year due mainly to growth in industrial consumption (+12.4%) and in the customer base. The net 4.1% increase in home/commercial customers, now close to 115,000, is expected to be maintained in coming years, despite the high level of market saturation. In non-regulated businesses, appliance sales rose 28.8% on the previous year, particularly heaters (+32.0%) and water heaters (+13.4%).

- In Mexico, activities continued under the growth acceleration plan, centred mainly on the Distrito Federal and Los Bajíos zones in order to maintain sustained growth. Customers grew by a net 38.7%; there were more new connections than in the previous year due mainly to the increased saturation of the Los Bajíos zone. Gas and third-party access sales rose 1.7% due to growth in the household/commercial customer base, partly offset by the decline in industry sales as a result of the economic slowdown in the final months of the year.

2.5.11. Electricity distribution Latin America

This relates to regulated electricity distribution in Colombia, Nicaragua (to the divestment date, 11 February 2013) and Panama.

Results

	2013	2012	%
Net sales	2,121	2,513	(15.6)
Procurements	(1,559)	(1,891)	(17.6)
Personnel cost	(57)	(66)	(13.6)
Other expenses/income	(165)	(190)	(13.2)
Ebitda	340	366	(7.1)
Depreciation, amortisation and impairment expenses	(65)	(70)	(7.1)
Change in operating provisions	(93)	(116)	(19.8)
Operating income	**182**	**180**	**1.1**

Ebitda for electricity distribution in Latin America totalled Euros 340 million, 7.1% down on the previous year.

Excluding the effect of foreign exchange rates and the divestment in Nicaragua, ebitda would have risen by 5.8%.

The distribution business in Colombia contributed Euros 241 million to ebitda, representing an increase of 5.1%, excluding the effect of exchange rates. This increase was offset by certain external factors such as the application of lower tariff update rates. Excluding these effects, ebitda rose by 11%.

Additionally, 2013 ebitda includes the results of the Nicaragua business (Euros 3 million) for January and the amount relating to the Panamanian distributors (Euros 96 million).

Main aggregates

	2013	2012	%
Electricity sales (GWh)	16,443	18,074	(9.0)
Tariff electricity sales	15,406	17,087	(9.8)
TPA	1,037	987	5.1
Connections points (thousand) (at 31/12)	2,925	3,701	(21.0)

Electricity sales totalled 16,443 GWh, having fallen by 9.0% because previous-year figures include Nicaraguan distributor sales of 2,752 GWh (12 months) as compared with 239 GWh in 2013 (one month). Excluding Nicaraguan operations in both periods, sales grew by 5.8% due to the increased demand in Colombia and Panama.

The number of customers fell by 21.0% due to the deconsolidation of customers of the Nicaraguan business. Setting aside the effect of this decrease, customers increased by 4%.

The key physical aggregates by country in 2013 are as follows:

	Colombia	Nicaragua	Panama	Total
Electricity activity sales	11,929	239	4,275	**16,443**
Change *vs.* 2012 (%)	6.2	-	4.6	**5.8**
Connections points (thousand)	2,396	-	529	**2,925**
Change *vs.* 31/12/2012 (thousand)	84	-	20	**104**
Network loss ratio (%)	16.9	-	10.0	**16.1**

The evolution of the basic operating indicators reflects successful business management and the performance of the loss and default reduction plans as expected.

Loss indicators for Panama and Colombia remained below 2012 levels.

2.5.12. Electricity Latin America

This business groups together generation assets in Mexico, Puerto Rico, Panama and the Dominican Republic.

The assets currently in use in Mexico are the 270 MW Hermosillo plant and the 300 MW Naco Nogales plant in Sonora state, the 1,000 MW Tuxpan III and IV plant in Veracruz state, and the 450 MW Norte Durango plant in Durango state, also in the north west of Mexico.

Results

	2013	2012	%
Net sales	961	859	11.9
Procurements	(612)	(515)	18.8
Personnel cost	(16)	(15)	6.7
Other expenses/income	(58)	(68)	(14.7)
Ebitda	275	261	5.4
Depreciation, amortisation and impairment expenses	(113)	(111)	1.8
Change in operating provisions	-	-	-
Operating income	**162**	**150**	**8.0**

Ebitda amounted to Euros 275 million, having risen 5.4% on the previous year.

In Mexico, ebitda increased by 2.5% due basically to the effect on previous-year results of the incident at the Tuxpan plant in October 2011, which affected operations to March 2012. Contributions were also made by an increase in surplus capacity sales at the Naco Nogales plant and the containment of operating expenditure.

Ebitda in Puerto Rico rose 10.2% due to the rise in spot market prices and the reduction in fuel costs as a result of the reduction in the acquisition price of spot tankers.

Ebitda in the Dominican Republic rose by 9.3% due to an increase in the energy sales contract margin, offsetting the reduction in spot market earnings.

Ebitda in Panama fell by 23.1% as a result of the reduction in generation due to scarce precipitation and to the increase in market purchase costs or to generation using thermal units to cover contracted capacity commitments.

Main aggregates

The main aggregates are as follows:

	2013	2012	%
Installed capacity (MW)	2,580	2,580	-
Mexico	2,035	2,035	-
Puerto Rico (CC)	263	263	-
Costa Rica (Hydroelectric)	51	51	-
Panama (Hydroelectric)	22	22	-
Panama (Oil)	11	11	-
Dominican Republic (Oil)	198	198	-
Capacity under construction	284	50	468.0
Electricity generated (GWh)	19,414	18,458	5.2
Mexico	16,193	15,172	6.7
Puerto Rico (CC)	1,787	1,779	0.4
Costa Rica (Hydroelectric)	239	270	(11.5)
Panama (Hydroelectric)	81	100	(19.0)
Panama (Oil)	17	8	-
Dominican Republic (Oil)	1,097	1,129	(2.8)
Availability factor (%)	94.8	92.3	2.7
Mexico	95.7	92.1	3.9
Puerto Rico (CC)	91.2	95.1	(4.1)
Panama (Hydroelectric and Oil)	92.5	95.0	(2.6)
Dominican Republic (Oil)	90.3	89.5	0.9

Output increased in Mexico due to the increase in operations at the Tuxpan plant following the above-mentioned incident that affected the plant's availability to March 2012. Output in Mexico also rose due to the increase at the Naco Nogales plant compared with the previous year as a result of the sale of capacity surpluses and because in 2012 this plant was affected by water supply issues.

Output in Puerto Rico rose by 0.4% due to an increase in dispatch, offsetting first-quarter results affected by the longer duration of schedule maintenance work causing a reduction in availability.

Hydroelectric generation in Panama fell by 19.0% on the previous year due to scarce precipitation and unfavourable weather conditions in the first half of 2013, slightly offset by an increase in thermal plant output.

Output in the Dominican Republic decreased by 2.8% because lower demand and the opening of new plants affected final quarter generation.

3. Sustainability

Environment

Main aggregates

	2013	2012	% Change.
Emission-free installed capacity (%)	19.9	19.4	2.6
Emission-free net production (%)	13.6	7.8	74.4
GHG emissions1 (t CO_2 eq.)	20.8	24.3	(14.4)
GHG emissions/electricity generation (t CO_2 eq./GWh)	399	454	(12.1)
Methane emissions in gas distribution (t CO_2 eq./km network)	9.9	11.53	(14.1)
CO_2 emissions avoided (Mt CO_2 eq.)	15.0	15.8	(5.1)
Environmentally certified activities (% of ebitda environmentally certified)[2]	99.4	99.4	-

[1] Greenhouse gases. Scope 1 Direct emissions as per The Greenhouse Gas Protocol. *A Corporate accounting and reporting standard.*
[2] Environmentally certified ebitda as a % of the Group's total ebitda is approximately 80%.

Gas Natural Fenosa strives to meet its customers' energy needs in a responsible manner. This entails a secure operation that guarantees fulfilment of regulations and the minimum possible impact on the environment while ensuring that stakeholder relations are based on trust.

As regards Climate Change, Gas Natural Fenosa has continued to make progress in mechanisms to reduce and analyse our footprint. In 2013, in order to identify and minimise the Group's indirect emissions, the first evaluation of the main suppliers' carbon management was performed. Activities also intensified to enhance the advantages of our products in terms of CO_2. With respect to recognition of our carbon management, for the second consecutive year Gas Natural Fenosa led the worldwide ranked list of utilities companies in the CDP Global 500 Climate Change Report 2013. In terms of emission values, direct CO_2 emissions have declined significantly as a result of the decreasing use of Spanish coal and combined cycle plants in favour of technologies that generate fewer emissions, as a result of a lower demand and growth in Hydroelectric generation; the reduction in emissions derives from the updating of estimation methodology to better reflect network reality.

NO_x and SO_2 emission rates also decreased due to reductions in the use of large combustion plants. Other environmental indicators less closely related to these technologies have not changed significantly.

Note 36 to the annual accounts contains other relevant information on the main environmental and sustainability activities, emissions and environmental investments.

Personnel

Main aggregates

Social nature indicators	2013	2012	% change.
Number of employees at 31/12	14,982	15,959	(6.1)
Voluntary turnover rate (%)	2.3	2.1	9.5
Integration rate (disabled persons)[1]	2.1	1.6	31.3
Employee training hours	55.7	52.7	5.7
Absenteeism	1.70	2.14	(20.6)
Days' work lost	4,184	3,547	18.0
Number of accidents causing sick leave	152	157	(3.2)

[1] Spain.

Human and social development

Gas Natural Fenosa provides stable and quality employment (95% of posts are indefinite) and a solid, structured and appealing professional career.

Gas Natural Fenosa has a unique global model for external selection and internal mobility in all the geographies in which it operates, thereby guaranteeing a unique employer image and best practices in identifying, attracting and retaining the professional talent necessary to carry on our businesses.

In 2013, 725 vacancies were filled successfully throughout the Company, 239 in Spain and the rest internationally. Of the total new hirings, 263 were women.

Ethical conduct, personal respect, prevention and safety in the workplace, promotion and observance of equality, combined with an appealing, stimulating professional career, are an essential part of Gas Natural Fenosa's commitment to its employees.

These principles are assumed in Gas Natural Fenosa's daily activities, as clearly expressed in the Code of Ethics and in relevant texts such as the Collective Bargaining Agreement, the Equality Plan in Spain and the recently approved Protocol for the Prevention of Workplace, Sexual and Gender-based Harassment.

The globalisation of principles has allowed Gas Natural Fenosa to become the first company in the world to obtain global "Family Responsible Company" (FRC) certification in recognition of the implementation of consistent human resources policies in the 25 countries in which it operates.

In the diversity area, the success of the campaign "We focus on Ability" and the project "Capácitas" led to the hiring in 2013 of 11 disabled persons, thereby exceeding the minimum integration thresholds stipulated by law, without neglecting complementary policies for cooperation with Special Employment Centres and Foundations engaged in the social integration of disabled persons. This has all contributed towards the award of the Bequal seal, recognising Gas Natural Fenosa as one of seven Spanish companies showing Excellence in Diversity.

Gas Natural Fenosa's "Health and Safety Commitment" Plan seeks to bring about a qualitative change in the prevention culture and in safety statistics. In 2013, a powerful internal communication campaign was launched in all the countries in which the Company operates to increase sensitivity and awareness, extend best practices in health and safety, and disseminate the Basic Health and Safety Principles of our Corporate Responsibility Policy.

Training and talent management

Knowledge management, people development and talent attraction and identification form part of the same integrated process to ensure maximum alignment of training activities and business objectives.

Corporate University training hours totalled 55.7 per employee, a large part of which were online through the Corporate University Platform accessible to Company employees in Argentina, Brazil, Colombia, France, Italy, Morocco, Mexico, Moldavia, Nicaragua, Panama and the Dominican Republic.

In 2013 the Corporate University renewed its CLIP (Corporate Learning Improvement Process) accreditation, a certificate awarded by the European Foundation for Management Development recognising the quality of learning and people development processes in business education organisations.

Additionally, for the seventh consecutive time, Gas Natural Fenosa's interest in its people was recognised when it obtained the maximum score (100%) in the Human Capital Development section of the Dow Jones Sustainability Index World (DJSI).

Gas Natural Fenosa's commitment to employees' individual development and professional careers is reflected in our Talent Management Model, which helps to define professional learning in a controlled and consistent manner so as to ensure that corporate needs are also fulfilled. The first pillar is a unique Leadership Model for all our employees, comprising 24 competencies. In 2013, the Leadership Model, in which 180 directors were involved in 2012, was completed for assistant directors and department heads, reaching a total of 1,100 people.

Remuneration

Gas Natural Fenosa's remuneration policy is governed by internal equality and by market competitiveness. The governing criteria are as follows:

- For employees included covered by a collective bargaining agreement, remuneration levels are determined based on professional groups and subgroups, as stipulated in collective bargaining agreements in force.

- Remuneration for executives and employees not covered by such agreements is defined individually, applying the remuneration policy approved by the Board's Appointments and Remuneration Committee.

Variable remuneration under Gas Natural Fenosa's remuneration policy is designed to promote employee commitment and motivate performance, in line with the long-term interests of the Company and its shareholders.

Annual variable remuneration rewards the achievement of individual targets depending on the post occupied, related to economic-financial, efficiency and growth variables, as well as on quality and security issues, directly related to the fulfilment of the objectives proposed in the Management Objective Plan.

The remuneration package is line with market trends and is supplemented by a company pension system. The Company's pension system includes the Pension Plan, the main financing vehicle for post-employment commitments.

Moreover, Gas Natural Fenosa provides a number of fringe benefits supplementing the employee remuneration package, such as the Flexible Remuneration System, which is now a permanent fixture in the Company following its launch in 2012 for executives and specialists excluded from Collective Bargaining Agreements in Spain. This system allows beneficiaries to voluntarily design the composition of their remuneration package, assigning a part of their cash remuneration to contract certain products qualifying for advantageous tax and economic treatment, pursuant to legislation in force at a given time.

During the 2013 Flexible Remuneration campaign, requests received were 10% up on 2012. This percentage reflects the success of this remuneration system.

Personnel structure

Note 24 to the Consolidated Annual Accounts provides a breakdown of personnel by category, gender and geographic area at 31 December.

4. Main risks and uncertainties

Operating risks

4.1.1. Regulatory risk

Gas Natural Fenosa and its subsidiaries are obligated to comply with the legislation in the natural gas and electricity sectors. Especially, the gas and electricity distribution business is regulated in most of the countries in which Gas Natural Fenosa carries out it.

The applicable legislation to the natural gas and electricity sectors in the countries in which Gas Natural Fenosa operates is typically subject to periodical revision by the competent authorities. The introduction of modifications could impact the remuneration of the regulated activities, adversely affecting Gas Natural Fenosa's business, profits, grants and financial situation.

In the event that public or private entities interpret or apply criteria other than those of Gas Natural Fenosa, its compliance would be questioned or challenged, and, if any non-compliance were proven, this could adversely affect the business, outlook, profits, grants and financial position of Gas Natural Fenosa.

Regulatory risk management is founded on smooth communication between Gas Natural Fenosa and regulators. Additionally, in the course of its regulated activities, Gas Natural Fenosa ensures that its costs and investments are aligned with the rates of return recognised for each business.

4.1.2. Gas and electricity volume risk

Most purchases of natural gas and liquefied natural gas (LNG) are made under long-term contracts containing clauses whereby Gas Natural Fenosa is obligated to purchase certain annual volumes of gas (known as take-or-pay clauses). Under such contracts, even if Gas Natural Fenosa does not need to acquire the committed volume of gas at a given time, it is contractually obligated to pay for the minimum volume committed in the take-or-pay clauses.

The contracts stipulates gas volumes in line with Gas Natural Fenosa's estimated needs. However, actual needs may be below the volumes estimated when the contracts are concluded. In the event of significant departures from the estimates, Gas Natural Fenosa will be obligated to purchase a large volume of gas than is actually needed or, failing this, to pay for the minimum volume of gas committed, irrespective of whether or not it acquires the volume that exceeds its needs; this could have a significant adverse effect on Gas Natural Fenosa's operating costs.

In the electricity business, Gas Natural Fenosa's results are exposed to the contracting of electricity generation volumes, which is conditional on the evolution of demand for electricity. Additionally, in view of the major role played by combined-cycle technology in Gas Natural Fenosa's generation plants, volumes generated could be reduced by the increasing relative significance of generation using renewable energies.

A decrease in volumes generated would increase uncertainty as regards the achievement of generation/retailing objectives.

Gas Natural Fenosa's management of contracts and assets is in a globally integrated manner to optimise energy balance sheets, allowing the correction of any departures in the most profitable manner possible.

4.1.3. Operational risk

a) Insurable risks

Gas Natural Fenosa's activities are exposed to a variety of operational risks such as breakdowns in the distribution network, in electricity generation facilities and in gas tankers, explosions, polluting emissions, toxic spills, fire, adverse meteorological conditions, contractual breaches, sabotage or accidents affecting the gas distribution network or electricity generation assets, and other damage and force majeure circumstances that could cause bodily injuries and/or material damage, affecting or destroying Gas Natural Fenosa's facilities or property. Events such as these, or similar events, are unforeseeable and may interrupt the supply of gas and generation of electricity. In such situations, although coverage is provided by risk insurance policies, such as policies covering potential loss of profit and material damage, Gas Natural Fenosa's financial situation and results could be affected to the extent that any losses caused are not insured, coverage is insufficient, or economic losses are generated due to coverage limits or an increase in the excess, as well as potential increases in premiums paid in the insurance market.

Gas Natural Fenosa could also be subject to civil liability claims for personal and/or other damages caused during the ordinary course of its business. The filling of these claims could lead to the payment of indemnities under applicable legislation in the countries in which Gas Natural Fenosa operates, which could have a material adverse effect on the business, outlook, financial situation and results if the third-party liability insurance policies contracted do not cover the amount of the indemnities.

Gas Natural Fenosa prepares continuous improvement plans to reduce the frequency and severity of potential incidents. Specific asset supervision units have been created to intensify preventive and predictive maintenance, among other measures. Additionally, our approach to insurance coverage is based on optimising the Total Cost of Risks.

b) Image and reputation

Gas Natural Fenosa is exposed to opinions and perceptions of a variety of stakeholders. Such perceptions may be adversely impacted by events caused by the Company or by third parties over which the Company has little or no control, impacting our own reputation or the reputation of the industry as a whole. Should this impacts arise, they could cause medium-term financial damage as a result of an increase in demands from regulators, financing costs or commercial efforts to win customers.

Gas Natural Fenosa is engaged actively in identifying and monitoring potential reputational events and the stakeholders affected. Transparency also forms part of our communication policy.

c) Environment

Gas Natural Fenosa's activities are subject to compliance with extensive legislation on environmental protection.

Gas Natural Fenosa and its subsidiaries are subject to strict compliance with extensive legislation on environmental protection that requires, amongst other points, the preparation of environmental impact evaluation studies, obtaining the pertinent authorisations, licenses and permits, as well as compliance with certain requirements, including, amongst others, the fact that:

- The environmental authorisations and licences might not be granted or may be revoked due to non-compliance with the conditions that are imposed thereunder;

- The regulatory framework or its interpretation by the authorities could be modified or changed, which could lead to an increase in costs or deadlines in order to comply with the new regulatory framework.

In order to mitigate this risk, Gas Natural Fenosa has adopted an integrated environmental management system and has emergency plans for facilities where accidents could cause environmental impacts. Specific insurance policies have also been taken out to cover this type of risks.

d) Climate change

Demand for electricity and natural gas is related to climate change. A significant part of gas consumption during the winter months depends on electricity generation and its use in heating systems, while summer consumption depends basically on electricity generation for use in air-conditioning systems. Gas Natural Fenosa's Net sales and results from natural gas distribution and retailing activities could be adversely affected in the event that the autumn months become warmer or winters become milder. Demand for electricity could also fall if summers become milder, due to a decline in demand for air-conditioning. Additionally, hydroelectric generation plant occupancy depends on rainfall levels in the plant locations and could be affected by droughts.

European policies and measures to combat climate change could affect Gas Natural Fenosa's results in the event that the Company's generation mix competitiveness is altered.

Gas Natural Fenosa forms part of a number of work groups at the European level, allowing early adaptation of strategies to new regulations. Gas Natural Fenosa also forms part of clean development projects designed to reduce CO_2 emissions.

e) Geopolitical exposure

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

- Latin America

  A major portion of Gas Natural Fenosa's operating profits are generated by its Latin American subsidiaries. Latin American operations are exposed to a number of risks inherent in investment in this region. Amongst the risk factors linked to the investment and business are:

  - Major influence on the economy by local governments;
  - Significant fluctuation in the economic growth rate;
  - High inflation rates;
  - Devaluation, depreciation or overvaluation of local currencies;
  - Controls or restrictions on the repatriation of profits;
  - Changing environment for interest rates;
  - Changes in financial, economic and tax policies;
  - Unexpected changes in regulatory frameworks;
  - Social tensions and
  - Political and macro-economic instability

- The Near East and Maghreb

  Gas Natural Fenosa has both its own assets and important gas supply contracts with different countries in the Maghreb and Near East, particularly Egypt. Political instability in the region could result in property damages to the assets of the companies in which Gas Natural Fenosa holds an interest as well as the obstruction of the operation of those companies and others which could interrupt the group’s gas supplies.

Gas Natural Fenosa has a diversified portfolio both in the countries in which it carries on energy distribution activities (Latin America, Europe) and the countries from which gas is supplied (Latin America, Africa, Near East, Europe). Diversification minimises the risk of expropriation and supply interruption due to the knock-on effect of political instability in neighbouring countries. Specific insurance policies have also been taken out for these risks.

4.2. Financial risks

Financial risks (interest rate, exchange rate, commodities prices, credit risk, liquidity risk) are explained in Note 16 to the Consolidated Annual Accounts.

4.3. Main opportunities

Gas Natural Fenosa's main opportunities are as follows:

- Generation mix: Gas Natural Fenosa's generation plants, consisting mainly of combined-cycle facilities, has the necessary flexibility to adapt to different market circumstances; it is thus a valuable asset to leverage opportunities related to price and demand volume volatility in the gas and electricity markets.

- CO_2 market evolution: The mechanisms proposed by the European Commission to increase the cost of emission rights are intended to discourage the use of the more polluting technologies so as to counteract Climate Change. In this context, Gas Natural Fenosa's plants would be more competitive than coal plants and opportunities could also arise in the emissions market.

- NG/LNG supply portfolio: Management of gas pipelines, investment in plants and the fleet of methane tankers allows the Group to meet its business needs in a flexible, diversified manner, optimising our approach to each energy scenarios. Specifically, our gas tankers fleet makes Gas Natural Fenosa on of the world's leading LNG operators and a benchmark in the Atlantic and Mediterranean basin.

- Expected growth in energy demand as from 2015 and new business opportunities in emerging markets.

5. Group's foreseeable evolution

5.1. Strategic priorities

In order to achieve our objectives, Gas Natural Fenosa defines medium-term strategies that are updated periodically to adapt to current and future circumstances, taking into consideration the peculiarities of each of the Company's business lines.

In November 2013, Gas Natural Fenosa presented its updated Strategic Plan 2013-2017, establishing the Group's strategic priorities for the period 2013-2015 and the foundations for growth post 2015. The strategic priorities are:

- Implementation of the Efficiency Plan.
- Management of each business line on the basis of market conditions.
- Management of the business portfolio in accordance with its strategic role.

a) Implementation of the Efficiency Plan

The main objective of the "Efficiency Plan" is to enhance efficiency across all areas of operational and asset management. This will allow a saving of Euros 300 million in 2015 through the implementation of 90 projects in the operation and maintenance, commercialisation and corporate areas.

b) Management of each business line on the basis of market conditions

Bearing in mind the market scenario, Gas Natural Fenosa has analysed priorities for each business line, updating ebitda growth targets and the Company's investment policy to 2015.

The following key actions have been planned for each business line:

Gas distribution Europe:

- Capture potential organic growth.
- Continue to manage regulatory aspects.

Electricity distribution Europe:

- Reduce regulatory impacts through the efficiency plan.
- Manage the investment plan in line with profitability.

Gas:

- Increase international business market share.
- Leverage the LNG platform to capture growth opportunities.
- Continue to capture opportunities in dual fuel, energy services and energy efficiency.
- Manage retail process efficiency.

Electricity:

- Reduce regulatory impacts through the efficiency plan.
- Manage coverage of electricity generation and commercialisation.

Latin America:

- Exploit potential organic growth.
- Manage upcoming regulatory changes.
- Develop new opportunities in gas distribution and generation.
- Develop services and energy efficiency.

c) Management of the business portfolio in accordance with its strategic role

In recent years, Gas Natural Fenosa has made considerable divestment efforts. More than Euros 5,000 million have been divested in the past five years, since the acquisition of Unión Fenosa. The current leverage situation provides comfort for Gas Natural Fenosa and no divestment will be necessary for financial reasons. However, the analysis of the strategic role of the Company's portfolio to 2015 will continue.

5.2. Financial priorities

The Strategic Plan establishes a financial policy that is compatible with growth and dividend objectives:

- Strategic lines defined in the context of financial discipline.
- Flexibility to increase investments for future growth if necessary.
- Cash dividend commitment.

Gas Natural Fenosa defines new objectives for 2015 (data in million euro):

	2015 objectives under IFRS 11[1]	2015 objectives excluding IFRS 11[1]
Ebitda 2015	> 5,000	> 5,200
Net income	~ 1,500	~ 1,500
Dividend (pay out)	~ 62%	~ 62%
Investments 2013-2015	~5,100	~5,200
Net debt	~ 12,500	~ 13,000
Net debt/ebitda 2015	~ 2.5x	~ 2.5x

[1] As from 1 January 2014, IFRS 11 will be mandatory. Joint ventures must be equity consolidated (Note 3.2 to the Consolidated Annual Accounts).

5.3. Group's outlook

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

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

Gas Natural Fenosa has several projects in progress, aligned with this strategy, that will pick up speed as from 2015, which will bring additional and flexible volume growth.

The main medium-term projects are as follows:

- Contract with Cheniere, which will provide additional, flexible gas volume growth as from 2016.
- Additional LNG volumes for 2019 with Shah Deniz II (Azerbaijan) and Yamal (Russia).
- "Bií Hioxo Project" (Mexico) for wind generation, which will boost the Company's position in the generation market as from 2014.
- "Torito Project" (Costa Rica) for hydroelectric generation, which will consolidate the Company's position as the leading private generator in Costa Rica as from 2016.
- Tender process in 2013 for natural gas distribution in four towns in the south west of Peru, as a result of which gas will be sold and distributed to over 60,000 homes.

Gas Natural Fenosa has targeted ebitda of approximately Euros 5,700 million in 2017 and a net profit of around Euros 1,900 million, entailing annual growth of 7% and 13%, respectively, for the period 2015-2017 and an additional investment capacity of Euros 7,000 million in 2017 to maintain the net debt/ebitda ratio at 3.0x.

Gas Natural Fenosa also expects to invest Euros 9,200 million during the period 2013-2017, entailing an average investment of approximately Euros 2,000 million in 2016 and 2017. As a result of the increased pace of growth envisaged post-2015, Gas Natural Fenosa expects debt to stand at around Euros 10,600 million, representing a net debt/ebitda ratio of approximately 1.8x.

Finally, pay out is expected to remain at around 62% in 2017, in line with recent years.

In recent years, Gas Natural Fenosa has demonstrated the strength of its business model, which will allow it to fulfil the updated Strategic Plan 2013-2017.

Business expectations are clear and realistic for the period 2013-2015, with achievable financial objectives. Gas Natural Fenosa's profile will change as the gas business and Latin America grow in significance.

Gas Natural Fenosa will also focus on mitigating the regulatory impact of Spain's energy system through efficiency measures and an improved international positioning.

Finally, Gas Natural Fenosa will continue with an unequivocal financial discipline and shareholder remuneration plan, establishing the foundations for growth acceleration as from 2015.

6. R&D&i activities

Innovation is one of the drivers of Gas Natural Fenosa's development; considerable resources and efforts are therefore devoted to R&D&i activities, seeking to optimise resources, develop new technologies and keep abreast of technological advances in the sectors in which we operate.

Investment in technological innovation activities is analysed below:

	2013	2012	% Var.
Total investment (million euro)	12.5	11.3	10.6

Gas Natural Fenosa's main projects are described below:

In the field of sustainable mobility, Gas Natural Fenosa is working on projects to make natural gas and electricity a genuine alternative for short-, medium- and long-distance transportation. In this area, efforts continued, as in previous years, to develop advanced electric vehicle charging systems and standard service stations for vehicular natural gas: GARNET project, RIVE project and DOMOCELL project, among others.

In advanced electricity network solutions, work continued on new technology projects through the automation of electricity infrastructure operation and maintenance: I2L (intelligent line inspection) project, SEPS (expect network incident probability and severity system) project, OVI-RED (virtual micro-network operator) project, KSI Zigamit project, ME3Gas project and PRICE project.

In the search for advanced technologies for power plants and large facilities, the CAPWA project to develop new systems for collecting water generated by combustion at thermal plants continued. Additionally, the Company has participated in a number of pilot research projects in the field of marine wind energy, development of energy fuels from microalgae and processing of CO_2.

7. Annual Corporate Governance Report

Attached hereto as an Appendix to this Directors' Report, and forming an integral part of the same, is the Annual Corporate Governance Report for 2013, as required under article 526 of the Spanish Capital Companies Act.

8. Treasury shares

The General Meeting held on 20 April 2010 resolved to provide the Board of Directors with specific authorisation, including the power to delegate, to acquire fully-paid Company shares, for valuable consideration, within a period not exceeding five years, up to a maximum of 10% of share capital or the maximum figure permitted under regulations in force at the acquisition date; the total par value of treasury shares may not exceed 10% of issued share capital, or any other percentage that may be legally stipulated.

By virtue of such authorisation, in 2013, 3,447,535 treasury shares were acquired for Euros 52 million (1,325,160 treasury shares for Euros 15 million in 2012), of which 163,279 treasury shares, totalling Euros 3 million (275,490 shares totalling Euros 2 million in 2012) were handed over to the Group's employees as part of their 2013 remuneration under the Share Acquisition Plan 2012-2013-2014 (Note 3.3.14.d); the remainder were sold for Euros 50 million (Euros 13 million at 31 December 2012). At year-end 2013 and 2012 Gas Natural Fenosa held no treasury shares.

9. Events after the reporting date

Events after the reporting date are described in Note 37 to the Consolidated Annual Accounts.

A. Capital structure

A.1 Fill in the following table regarding the share capital of the company:

Date of last modification	Share capital (euros)	Number of shares	Number of voting rights
22/06/2012	1,000,689,341,00	1,000,689,341	1,000,689,341

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

No

Type	Number of shares	Unit value	Number of voting rights	Different rights

A.2 Detail 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	
Caja de Ahorros y Pensiones de Barcelona	-	Caixabank, S.A.	208	0.000
Caja de Ahorros y Pensiones de Barcelona	-	Criteria CaixaHolding, S.A.U.	346,450,080	34.621
Caja de Ahorros y Pensiones de Barcelona	-	Vidacaixa, S.A. de Seguros y Reaseguros	1,438	0.000
Repsol, S.A.	238,844,669		-	23.868
Repsol, S.A.	-	Repsol Exploración, S.A.	15,674,500	1.566
Repsol, S.A.	-	Repsol Petróleo, S.A.	45,697,702	4.567
Société Nacionale pour la Production, le Transport, la Transformation et la Commercialisation	40,092,780	-	-	4.007

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

Name or company name of shareholder	Date of the transaction	Description of the transaction

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 shareholder	Number of direct voting rights	Indirect voting rights: Direct holder of the stake	Indirect voting rights: Number of voting rights	% of total voting rights
Mr. Salvador Gabarró Serra	3,262	-	-	0.000
Mr. Antonio Brufau Niubó	81,139	Mr. Antonio Brufau Panella	1,086	0.008
Mr. Rafael Villaseca Marco	13,055	-	0	0.000
Mr. Carlos Losada Marrodán	2,020	Mrs. Mercedes Cavestany de Dalmases	8,025	0.001
Mr. Demetrio Carceller Arce	2,826	Inversiones las Parras de Castellote, S.L.	31,150	0.003
Mr. Emiliano López Achurra	1,098	-	0	0.000
Mr. Enrique Alcántara-García Irazoqui	8,339	-	0	0.001
Mr. Felipe González Márquez	1,902	-	0	0.000
Mr. Heribert Padrol Munté	0	-	0	0.000
Mr. Juan María Nin Génova	156	-	0	0.000
Mr. Juan Rosell Lastortras	-	Mr. Juan Rosell Codinachs	2,000	0.000
Mr. Luis Suárez de Lezo Mantilla	18,156	Mr. Soledad Suárez de Lezo Rivas	998	0.002
Mr. Miguel Valls Maseda	7,000	-	0	0.001
Mr. Nemesio Fernández-Cuesta Luca de Tena	1	-	0	0.000
Mr. Ramón Adell Ramón	5,000	-	0	0.000
Mr. Santiago Cobo Cobo	684	-	0	0.000
Mr. Xabier Añoveros Trías de Bes	350	-	0	0.000

% total voting rights in possession of the Board of Directors.

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

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

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

Name or company name of related parties	Relationship type	Brief outline
Repsol, S.A.	COM CON COR	Details of commercial, contractual or corporate relations between "la Caixa" and Repsol, S.A. are provided in the information prepared by said Groups. See also parallel shareholders agreements, section A.6.
Caja de Ahorros y Pensiones de Barcelona	COM CON COR	Details of commercial, contractual or corporate relations between "la Caixa" and Repsol, S.A. are provided in the information prepared by said Groups. See also parallel shareholders agreements, section A.6.

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

Name or company name of related parties	Relationship type	Brief outline
Société Nacionale pour la Production, le Transport, la Transformation et la Commercialisation	Commercial	Acquisition of a 10% stake in Medgaz, S.A. performed on 8 January 2013 (54 million Euros) together with 10% of the shareholder loan (8 million Euros).

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

Yes

Parties to parallel shareholders agreements	% of share capital affected	Brief outline of agreement
Repsol, S.A. Caja de Ahorros y Pensiones de Barcelona		Agreement of 11 January 2000, novation of 16 May 2002 and addenda of 16 December 2002 and 20 June 2003. i) Repsol YPF 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 representinag 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 No. 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

Parties to concerted action	% of share capital affected	Brief description of the concerted action
Repsol, S.A. Caja de Ahorros y Pensiones de Barcelona		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 No. 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:

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

Yes

Name or company name
Caja de Ahorros y Pensiones de Barcelona
Repsol, S.A.

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

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

At year end:

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

*Through:

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

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

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

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

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

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

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

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

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

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

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) 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, with the power to designate this to the Executive Committee, has the power to exclude, in full or in part, the preferential subscription right with regard to all or any of the issues agreed on the basis 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 power to delegate this to the Executive Committee, and for a maximum term of five (5) years from today's date, is 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) through a cash contribution, in one or more payments and as appropriate for the amount decided, duly issuing ordinary, privileged and redeemable shares, with or without the right to vote, with or without a premium, without the need for new authorisation from the General Meeting, as well as to amend the Articles of Association required for the share capital increase(s) carried out by virtue of the foregoing authorisation, not fully subscribed. All the foregoing is in accordance with the provisions laid down in article 297.1.b) of the Corporate Enterprises Act."

A.10 State 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 nine 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 or not the General Meeting of Shareholders has agreed to adopt measures to neutralise a takeover bid by virtue of the provisions laid down in Law 6/2007.

No

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

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

No

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

B. General meeting

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

No

	% of quorum different to the provisions set forth in Article 193 LSC for general cases	% of quorum different to the provisions set forth in Article 194 LSA for these special cases set forth in Article 194 LSC
Quorum required for the first call to meeting		
Quorum required for the second call to meeting		

Description of the differences

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

No

Describe how the system differs from that of the LSC.

	Enhanced majority other than that laid down by Article 201.2 LSC for the cases of 194.1 LSC	Other cases of enhanced majorities
% laid down by the institution for the adoption of resolutions		

Describe the differences

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

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

General Meeting.

- The shareholders constituted in a duly convened General Meeting, shall decide by majority vote on the matters which fall to the terms of reference of the Meeting.

- All shareholders, including dissidents and those that have not taken part in the meeting, are subject to the resolutions of the General Meeting. (Art. 24 of the Articles of Association).

Specific agreements and majorities. Constitution.

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

Amendment to the Articles of Association.

- The modification of the Articles of Association must be agreed by the General Meeting and requires the concurrence of the following requisites:

  1) The Board of Directors or, where appropriate, the shareholders that make the proposal, must compile a written report with justification for the amendment.

  2) The call to meeting must clearly express the proposed points of change, as well as the right all shareholders have to examine, at the registered office, the full text of the proposed modification and a report on this. They also have the right to ask for handover or free-of-charge sending of said documents.

  3) The agreement must be adopted by the General Meeting in accordance with the provisions set out in these Articles of Association.

  4) Under all circumstances, the agreement must be set out in a public deed, which will be registered with the Business Register and published in the Register's Official Gazette (art. 68 of the Articles of Association).

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

Date of General Meeting	% physical presence	Attendance data			
		% represented	% remote voting		Total
			Electronic vote	Others	
16/04/2013	68.86	10.48	0	-	79.34
20/04/2012	67.09	8.80	0	-	75.89

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

Yes

Number of shares required to attend the General Meeting	100

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

No

B.7 Indicate the URL of the company and the method of accessing information on corporate governance 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 Fill in the following table with the members of the Board of Directors:

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

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

Name or company name of Director	Condition member of the Board at the time of replacement	Replacement date

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	Committee which reported appointment	Position in the company's management structure
Mr. Salvador Gabarró Serra	Appointments and remuneration committee	Chairman
Mr. Rafael Villaseca Marco	Appointments and remuneration committee	Chief executive officer
Total number of Executive Directors		**2**
% of the entire board		**11.765**

External proprietary directors

Name or company name of Director	Committee which reported appointment	Name or title of significant shareholder he/she represents or who proposed appointment
Mr. Antonio Brufau Niubó	Appointments and remuneration committee	Repsol, S.A.
Mr. Demetrio Carceller Arce	Appointments and remuneration committee	Repsol, S.A.
Mr. Enrique Alcántara-García Irazoqui	Appointments and remuneration committee	Criteria CaixaHolding, S.A.U.
Mr. Heribert Padrol Munté	Appointments and remuneration committee	Criteria CaixaHolding, S.A.U.
Mr. Juan María Nin Génova	Appointments and remuneration committee	Criteria CaixaHolding, S.A.U.
Mr. Juan Rosell Lastortras	Appointments and remuneration committee	Criteria CaixaHolding, S.A.U.
Mr. Luis Suárez de Lezo Mantilla	Appointments and remuneration committee	Repsol, S.A.
Mr. Nemesio Fernández-Cuesta Luca de Tena	Appointments and remuneration committee	Repsol, S.A.
Total number of Proprietary Directors		**8**
% of the entire board		**47.059**

External independent directors

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

Total number of Independent Directors	**7**
% total of the Board	**41.176**

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 Carlos Losada Marrodán	Gas tariff bonus	The amount of the bonus is insignificant for the Director and therefore does not compromise his independence.

Other external directors

Name of Director	Committee which proposed or reported their appointment

Total number of other External Directors	
% total of the Board	

Detail the reasons why they cannot be considered as proprietary or independent and their relationships, either with the company or its executives or with its shareholders:

Name or company name of Director	Reasons	Company, executive or shareholder with whom the bond is maintained

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

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

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

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

Explanation of the measures

C.1.6 Explain the measures which, where appropriate, have been agreed by the Appointments Committee to ensure the selection procedures are unaffected by any implicit bias that prevents the selection of female Directors, and that the company deliberately seeks those women that satisfy the professional profile sought and includes them among potential candidates among the potential candidates:

Explanation of the measures

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

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

Explanation of the reasons

Having examined the different professional characteristics in the selection of possible male and female candidates to occupy a post on the Board, the male candidates matched the required profile better than the female candidates.

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

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

Both Caja de Ahorros y Pensiones de Barcelona 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, Caja de Ahorros y Pensiones de Barcelona 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 Caja de Ahorros y Pensiones de Barcelona 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 5% 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. If appropriate, explain the reasons why these have not been dealt with:

No

Name or company name of shareholder	Explanation

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

Director's name	Reason for resignation

C.1.10 Indicate, where applicable, the powers delegated to the Managing Director(s):

Name or company name of Director	Brief outline
Mr. Rafael Villaseca Marco	He has delegated extensive powers of representation and administration in accordance with the nature and requirements of the Chief Executive Officer.

C.1.11 Indicate, where applicable, the Board members holding positions of administrators or executives in other companies forming part of the group of the listed company:

Name or company name of Director	Company name of group company	Position
Mr. Rafael Villaseca Marco	Repsol-Gas Natural LNG, S.L.	Deputy chairman

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. Salvador Gabarró Serra	Caixabank, S.A.	Director
Mr. Antonio Brufau Niubó	Repsol, S.A.	Chairman
Mr. Demetrio Carceller Arce	Ebro Puleva, S.A.	Deputy chairman
Mr. Demetrio Carceller Arce	Sacyr-Vallehermoso, S.A.	Deputy chairman
Mr. Juan María Nin Génova	Repsol, S.A.	Director
Mr. Juan María Nin Génova	Caixabank, S.A.	Deputy chairman-CEO
Mr. Juan María Nin Génova	Banco Portugues de Investimento, S.A. (BPI)	Director
Mr. Juan María Nin Génova	Grupo Financiero Inbursa, S.A.B. de C.V.	Director
Mr. Juan María Nin Génova	Erste Group Bank AG	Director
Mr. Juan Rosell Lastortras	Caixabank, S.A.	Director
Mr. Luís Suárez de Lezo Mantilla	Repsol, S.A.	Voting secretary

C.1.13 Indicate and, where applicable, explain whether or not the company has laid down rules on the number of boards on which its Directors can sit:

No

Explanation of the rules

C.1.14 Specifying the company's general policies and strategies for which the full board is responsible for approving:

The investment and finance policy	Yes
The definition of the structure of the group of companies	Yes
The corporate governance policy	Yes
The corporate social responsibility policy	Yes
The strategic or business plan, as well as the management aims and annual budgets	Yes
The remuneration policy and appraisal of senior management performance	Yes
Control of risk management policy, as well as periodic monitoring of the internal information control system	Yes
The dividend policy, as well as the treasury stock policy and, in particular, its limits	Yes

C.1.15 Indicate the overall remuneration of the Board of Directors:

Remuneration of the Board of Directors (thousands of euros)	6,890
Amount of overall remuneration corresponding to the cumulative pension rights of Directors (thousands of euros)	2,335
Overall remuneration of the Board of Directors (thousands of euros)	9,225

C.1.16 Identify members of senior management who are not also Executive Directors, and indicate the total remuneration they earned during the year:

Name or company name	Position/s
Mr. Manuel Fernández Álvarez	Managing Director of Wholesale Energy Business
Mr. José María Egea Krauel	Head of Energy Planning
Mr. José Javier Fernández Martínez	Head of Power Generation
Mr. Antonio Peris Mingot	Head of Regulated Business
Mr. Daniel López Jordà	Head of Retail Energy Business
Mr. Sergio Aranda Moreno	General Manager of Latin America
Mr. Antonio BasolasTena	Head of Strategy and Development
Mr. Antonio Gallart Gabás	Chief Corporate Officer
Mr. Jordi Garcia Tabernero	Director General of Communications and the Chairman´s Office
Mr. Carlos Javier Álvarez Fernández	Chief Financial Officer
Mr. Manuel García Cobaleda	Director-General of Legal Services and Secretary of the Board
Mr. Carlos Ayuso Salinas	Head of Internal Audit Area

Total remuneration of senior management (in thousands of euros)	**8,855**

C.1.17 Indicate, where applicable, the members of the Board of Directors who are also members of the boards of Directors of companies that are significant shareholders and/or companies of its group:

Name or company name of Director	Company name of significant shareholder	Position
Mr. Salvador Gabarró Serra	Caja de Ahorros y Pensiones de Barcelona	First Deputy Chairman
Mr. Salvador Gabarró Serra	Caja de Ahorros y Pensiones de Barcelona	Director of Caixabank, S.A.
Mr. Antonio Brufau Niubó	Repsol, S.A.	Chairman
Mr. Juan María Nin Génova	Repsol, S.A	Director
Mr. Juan María Nin Génova	Caja de Ahorros y Pensiones de Barcelona	Deputy Chairman of Criteria CaixaHolding S.A.U.
Mr. Juan María Nin Génova	Caja de Ahorros y Pensiones de Barcelona	Director of Vidacaixa Grupo, S.A.U.
Mr. Juan María Nin Génova	Caja de Ahorros y Pensiones de Barcelona	Vice-President and CEO of Caixabank, S.A.
Mr. Luís Suárez de Lezo Mantilla	Repsol, S.A	Voting Secretary
Mr. Juan Rosell Lastortras	Caja de Ahorros y Pensiones de Barcelona	Director of Caixabank, S.A.
Mr. Nemesio Fernández-Cuesta Luca de Tena	Repsol, S.A	Chairman of Repsol Exploración, S.A.
Mr. Nemesio Fernández-Cuesta Luca de Tena	Repsol, S.A	Chairman of Repsol Petróleo, S.A.
Mr. Nemesio Fernández-Cuesta Luca de Tena	Repsol, S.A	Chairman of Repsol Sinopec Brasil, S.A.
Mr. Nemesio Fernández-Cuesta Luca de Tena	Repsol, S.A	Chairman of Repsol Comercial de Productos Petrolíferos, S.A.
Mr. Miguel Valls Maseda	Caja de Ahorros y Pensiones de Barcelona	Director of Vidacaixa Grupo, S.A.U.

Provide details, as the case may be, 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 associated shareholder	Description of relationship
Mr. Salvador Gabarró Serra	Caja de Ahorros y Pensiones de Barcelona	Deputy Chairman "la Caixa" Foundation
Mr. Nemesio Fernández-Cuesta Luca de Tena	Repsol, S.A.	Director General of Business. Member of the Steering Committee and Member of the Operations Committee of Repsol, S.A.
Mr. Juan María Nin Génova	Caja de Ahorros y Pensiones de Barcelona	Director General of Caja de Ahorros y Pensiones de Barcelona
Mr. Juan María Nin Génova	Caja de Ahorros y Pensiones de Barcelona	Deputy Chairman "la Caixa" Foundation

C.1.18 Indicate whether or not there has been any modification to the regulations of the board during the year:

No

Description of modifications

C.1.19 Indicate the procedures for the selection, appointment, re-election, assessment and removal of Directors. Provide details of the competent bodies, the procedures to be followed and the criteria applicable in each procedure.

Procedures for the appointment, re-election, assessment and removal of Directors are set out in Articles 41 and 42 of the Articles of Association and in Articles 11 to 14, 16 and 31 of the Board of Directors' Regulations.

1. Appointment:

The General Meeting of Shareholders is competent for appointing Directors and establishing the number thereof, subject to the limits stipulated in Article 41 of the Articles of Association.

If vacancies were to arise during the term for which the Directors were appointed, the Board shall be entitled to designate, using the co-option system, among the shareholders, the persons to occupy these vacancies until the next General Meeting of Shareholders is held.

A person does not have to be a shareholder to be appointed as a Director, except in the event of the aforementioned appointment by co-option.

Persons subject to prohibition or professional incompatibility as established by law cannot be appointed as Administrator.

It will be necessary to appoint persons who not only satisfy legal provisions and those laid down in the Articles of Association for the position, but who have a prestigious position and are equipped with the professional skills and expertise required to perform their duties.

Directors are appointed and re-elected in accordance with a formal and transparent procedure, following a report from the Appointments and Remuneration Committee.

All the proposals for the appointment of Directors submitted by the Board of Directors to the General Meeting of Shareholders and the approved appointment decisions by co-option shall have to be notified previously by the Appointments and Remuneration Committee. When the Board does not follow the recommendations of said Committee, it will have to explain the reasons and record the said reasons in the minutes. Directors affected by appointment, re-election or replacement proposals shall refrain from attending or taking part in the deliberations and votes of the Board of Directors or of the Committee dealing with said proposals.

Pursuant to the Regulations of the Board of Directors, the following persons cannot be proposed or designated as External Independent Directors:

a) Those who have been employees or Executive Directors of companies in the Gas Natural Fenosa group unless three or five years, respectively, have elapsed since the said relationship.

b) Those who receive from the company or the Gas Natural Fenosa Group whatsoever amount or benefit for a concept other than the Director's remuneration, unless it is not significant.

   For the intents and purposes of the provisions laid down in this section, consideration shall not be given to the dividends or pension complements received by the Director as a result of his/her previous professional or labour relationship, as long as the said complements are unconditional and, consequently, the company paying them cannot suspend, modify or revoke their accrual at its discretion without a breach of obligations.

c) Those who are or have been during the last three years a partner of the external auditor or the party responsible for the auditor's report for the audit during the said period of the company or any other company in the Gas Natural Fenosa.

d) Those who are Executive Directors or senior executives of another company in which any Executive Director or Senior Executive of Gas Natural SDG, S.A. is an External Director.

e) Those who maintain or have maintained during the last year an important business relationship with the company or with any company in the Gas Natural Fenosa Group either on their own behalf or as a majority shareholder, Director or Senior Executive of an institution that maintains or would have maintained the said relationship.

The consideration of business relation shall apply to that of goods or services supplier, including financial, advisory or consultancy services.

f) Those who are major shareholders, Executive Directors or senior executives of an institution that receives or has received during the last three years significant donations from any of the companies in Gas Natural Fenosa.

This shall not include those who are mere patrons of a foundation that receives donations.

g) Those who are spouses, individuals bound by a similar kinship or second-degree relatives of an Executive Director or Senior Executive of the company.

h) Those who have not been proposed for either appointment or renovation by the Appointments and Remuneration Committee.

i) Those who are in any of the cases indicated in paragraphs a), e), f) or g) of this section with regard to any majority shareholder or shareholder represented on the Board. In the case of kinship as per paragraph g), the limitation shall apply not only to the shareholder but also to its Proprietary Directors in the investee company.

Proprietary Directors who lose such status due to the sale of their holding by the shareholder who they represented may only be reappointed as Independent Directors when the shareholder he/she represented until then has sold all of his/her shares in the company.

A Director who has a shareholding in the Company may have an independent status, provided he/she satisfies all conditions set forth in this article and also his/her holding is not significant.

2. Re-election:

Directors shall be appointed to their position for a term of three (3) years, although outgoing Directors can be re-elected one or more times. Under no circumstances shall the Independent Directors remain in their post as such for a period of more than twelve years.

3. Assessment:

In accordance with article 4.5 of the Board Regulations, every year the quality and performance of the Board will be assessed, along with that of its Committees, following a report from the same.

4. Replacement or removal:

Directors shall be replaced in their position for the length of the term for which they were appointed, unless they are re-elected, and when so determined by the General Meeting of Shareholders by virtue of the powers granted thereto. Likewise, Directors shall be replaced in all other circumstances where applicable pursuant to the Law, the Articles of Association and Regulations of the Board of Directors.

According to Article 15.4 of the Regulations of the Board of Directors, when an Independent Director resigns from his/her post prior to the completion of his/her mandate, he/she shall explain the reasons in a letter addressed to the other Directors. The resignation shall be notified as relevant information.

C.1.20 Indicate whether or not the Board of Directors has performed an assessment of its activity over the year:

Yes

Where appropriate, explain to what extent the self-assessment has led to major changes in its internal organisation and on the procedures applicable to its activities:

Description of modifications
The self-assessment has not led to any major changes in the internal organisation or with regard to the procedures applicable to its activities. In its report, the Board concludes that in 2013 the company performed as expected, exercising its powers in full and without any interference, fully respecting both current legality as well as the organisation and performance of the Board's Regulations.

C.1.21 Indicate cases in which Directors are compelled to resign.

Besides the cases of professional incompatibility or prohibition applicable by law, Article 15 of the Regulations of the Board of Directors states:

… 2. Directors shall be compelled to tender their resignation to the Board of Directors and proceed with the pertinent resignation, if the latter deemed it appropriate, in the following cases:

a) When Internal Directors leave the executive positions outside the Board and which were associated with their appointment as Director.

b) When they are subject to any of the conditions of professional prohibition or incompatibility pursuant to applicable laws, the Articles of Association or these regulations.

c) When they commit a serious breach of their obligations as Directors, jeopardising the interests of the company.

d) When the reason why they were appointed as Independent, Executive or Proprietary Directors is no longer applicable.

3. Once a Director has been relieved of his/her duties, he/she shall not be permitted to offer his/her services in a rival company for two years, unless the Board of Directors exempts him/her from this obligation or shortens the duration thereof.

C.1.22 Explain whether the duties of the chief executive of the company correspond to the position of Chairman of the Board. If this is the case, indicate the measures which have been taken to limit the risks of accumulation of powers in a single person:

No

Measures for limiting risks

Indicate and, where applicable, explain whether or not rules have been laid down to empower one of the Independent Directors to request the call of a Board meeting or the inclusion of new matters on the agenda to coordinate and report the concerns of the External Directors and direct the assessment by the Board of Directors.

No

Explanation of the rules

C.1.23 Are enhanced majorities other than those applicable by law required for any type of decision?

No

Where appropriate, describe the differences.

Description of the differences

C.1.24 Indicate if there are specific requirements other than those relating to Directors in order to be appointed as Chairman of the Board of Directors.

No

Description of requirements

C.1.25 Indicate whether the Chairman has a casting vote:

No

Matters for which there is a casting vote

C.1.26 Indicate whether the Articles of Association or the Board Regulations establish any age limit for Directors:

No

Age limit for Chairman	Age limit for CEO	Age limit for Director
0	0	0

C.1.27 Indicate whether the Articles of Association or the Board Regulations establish a limited mandate for Independent Directors:

No

Maximum number of years of mandate

C.1.28 Indicate whether or not the Articles of Association or the Board's 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 it is obligatory to delegate to a Director of the same type. Where appropriate, give a brief description of these rules.

According to Article 47 of the Articles of Association: "...The Directors who are unable to attend shall be entitled to confer their representation to another Director, there is no limit on the number of representations that each Director can have. The representation shall have to be granted by means of any written document, and also by telegram, telex or telefax".

In addition, Article 10.3 of the Regulations of the Board lays down the following: "Each Director shall be entitled to confer his/her representation to another Director, there being no limit on the number of representations held by each member for attending the Board meeting.Absent Directors' representations can be conferred by means of any written document, and by telegram, email, telex or telefax addressed to the Chairman's Office or the Board Secretary sufficiently in advance".

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

Indicate the number of meetings held by the different Board Committees over the year:

Number of meetings of the Executive Committee	4
Number of meetings of the Audit Committee	5
Number of meetings of the Appointments and Remuneration Committee	9
Number of meetings of the Appointments Committee	-
Number of meetings of the Remuneration Committee	-
Number of meetings of the ______ Committee	-

C.1.30 Indicate the number of meetings held by the Board of Directors during the year with the attendance of all its members. When calculating the number, representations made with specific instructions shall be considered as attendance:

Attendance of Directors	5
% of attendances over the total number of votes during the year	94.61

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 auditor's report.

In accordance with Article 7 of the Regulations of the Board: "1.- Once it has received the reports issued by the Financial-Economic Department and by the Audit and Control Committee, and following pertinent clarifications, the Board of Directors shall draw up the individual and consolidated Annual Accounts and the Management Report, in clear and precise terms which render their content easily intelligible. The Board of Directors shall ensure that said accounts provide a true and fair view of the assets, financial position and the results of the company, pursuant to laws applicable.

2. Unless expressly stated otherwise in the minutes, it will be understood that before signing the formulation of the Annual Accounts required by law, the Board of Directors and each one of its members has been provided with the information necessary to perform this deed, and may record the exceptions it deems pertinent, where applicable.

3. The Board of Directors shall endeavour to prepare the accounts in such a way that the auditor of the company's accounts shall be unable to record qualifications. Nevertheless, if the Board of Directors considers that its criterion must be maintained, it will publicly explain the content and extent of the discrepancy".

Article 32 of the Regulations of the Board of Directors regulates the duties of the Audit and Control Committee, and certain powers and functions it assigns to said Committee pertain to the auditing process.

C.1.33 Is the Secretary of the Board a Director?

No

C.1.34 Explain the procedures for appointing and dismissing the Secretary of the Board, indicating whether or not his/her appointment and dismissal have been reported by the Appointments Committee and approved by the Board in its plenary session.

Appointments and dismissal procedure
Article 26 of the Regulations of the Board of Directors states the following: "The Secretary of the Board shall be appointed and dismissed by the latter after a report issued by the Appointments and Remuneration Committee and shall not necessarily have to be Director. He/She shall be responsible for exercising the functions attributed to his/her status by mercantile legislation and these regulations".

Does the Appointments Committee report the appointment?	Yes
Does the Appointments Committee report the dismissal?	Yes
Does the plenary session of the Board approve the appointment?	Yes
Does the plenary session of the Board approve the dismissal?	Yes

Is the Board Secretary commissioned with the duty of especially supervising the good governance recommendations?

Yes

Observations
Article 26 of the Regulations of the Board of Directors states in its point three the following:
"The Secretary of the Board shall be responsible for the formal and material legality of the Board's actions at all times, ensuring that their procedures and governing rules are regularly reviewed".

C.1.35 Indicate, where applicable, the mechanisms established by the company to safeguard the independence of the auditor, financial analysts, investment banks and rating agencies.

According to article 32.2 of the Board Regulations, the Audit and Control Committee is responsible for "maintaining necessary relations with the external auditors to receive information on any questions which could jeopardise their independence, and any other matters relating to the progress of the audit, as well as any communications required pursuant to legislation governing auditing and auditing standards".

In addition, the Board of Directors is bound by its own regulations (Article 6.4) to hold direct relations with the members of the company's top-tier management and the auditors. The objective, professional and continuous nature of this relationship shall respect the independence of the auditors to the utmost.

The company's relations with financial analysts and investment banks are based on the principles of transparency, simultaneity and non-discrimination, as well as the existence of specific and different agents for each collective.

In addition, the company shall take special care not to compromise or interfere with the independence of the financial analysts in respect of the services offered by investment banks, in accordance with the internal codes of conduct established by them and designed to separate their analysis and assessment services.

C.1.36 Specify whether the company has changed of external auditor over the year. If appropriate, identify the incoming and outgoing auditors:

No

Outgoing auditor	Incoming auditor

In the case of disagreements with the outgoing auditor, explain the content of the said disagreements:

No

Explanation of the disagreements

C.1.37 Indicate if the audit company performs other tasks for the company and/or its group other than auditing activities, and if so, state the amount of the fees received for said activities and the percentage of the fees billed to the company and/or its group:

Yes

	Company	Group	Total
Amount of tasks other than auditing activities (thousands of euros)	-	24	24
Amount of tasks other than auditing/Total amount billed by the audit company (%)	-	0.719	0.555

C.1.38 Indicate if the auditor's report on the annual accounts corresponding to the previous year involves reservations or exceptions. Where applicable, indicate the reasons given by the Chairman of the Audit Committee to explain the content and scope of the said reservations or exceptions.

No

Explanation of the reasons

C.1.39 Indicate how many years the current audit company has been auditing, without interruption, the annual accounts of the company and/or its group. Also indicate the percentage of the number of years audited by the current audit company over the total number of years that the annual accounts have been audited:

	Company	Group
Number of years without interruption	23	23
Number of years audited by the current audit company/Number of years the company has been audited (in %)	100.0	100.0

C.1.40 Indicate and, where applicable, provide details of whether there is a procedure whereby Directors can have external assessment:

Yes

Details of the procedure

In accordance with internal regulations, Directors are entitled to propose to the Board, via the Secretary and by means of a notification directed to the Chairman, that external advisors be hired at the company's expense (legal, accounting, technical, financial, commercial advisors or of any other kind), advisors they consider necessary for the company's interests, to provide assistance in their duties when faced with specific problems of some relevance and complexity associated with their duties. (Article 21.2 of the Regulations of the Board and first paragraph of Article 21.3).

The Board of Directors shall be entitled to veto the approval of the proposal if considered unnecessary, in view of the amount involved, or if it considers that the said assessment can be provided by the company's own specialists and technicians. (Article 21.3 of the Regulations of the Board).

C.1.41 Indicate and, where applicable, provide details of whether there is a procedure whereby Directors can have the information necessary to prepare the meetings of the Boards of Directors with sufficient time:

Yes

Details of the procedure

Article 9.2 of the Regulations of the Board of Directors states:

"2. Ordinary meetings shall be convened by the Chairman, or by the Secretary or Assistant Secretary following the order of the Chairman, through any of the channels set out in the Articles of Association, including by email, provided the recipient Director has given his/her address in said mail. The notification shall include the place and the agenda of said meeting and shall be issued, barring exceptional cases, at least 48 hours before the meeting is to be held. Prior to each meeting, the Directors shall be furnished with the information and documentation considered to be pertinent or relevant regarding the subjects to be addressed in the Board meeting. Directors shall also be furnished with the minutes of the previous meeting, regardless of whether said minutes have been approved or not. …

The Board meeting shall have a quorum, without being previously convoked, if all the Directors are present or represented and unanimously accept that the Board meeting be held".

However, according to Article 2.3 of the Regulations of the Board, when the agreement to be adopted is the modification of the Regulations of the Board of Directors, "the Chairman of the Board, the Audit and Control Committee or at least four Directors may propose the said modifications to the Board when circumstances arise which, in their opinion, make it appropriate or necessary, attaching a report explaining the reasons and scope of the modification being proposed, where applicable. The Board shall be called by means of individual notice sent to each of the members with more than 15 days' notice of the date of the meeting".

Articles 21.1 and 3 of the aforementioned regulations state the following concerning the right of information of Directors:

"1. Directors shall have access, through the Chairman, and, as the case may be, through the Secretary, to all the company's services, and shall be entitled to collect, with unlimited powers, any information or assessment they may require regarding any aspect of the company. The right of information also applies to the subsidiaries and shall be channelled through the Chairman or the Secretary of the Board of Directors or of the pertinent Committees of the Board, furnishing him/her with the information directly, offering him/her the appropriate agents or taking any measures required for the requested analysis.

(…)

3. The Chairman of the company shall have to be notified of the request for access and the proposal referred to in numbers 1 and 2 of this article through the Secretary of the Board of Directors".

It is usual practice to send the members of the Board of Directors, together with the call to the meeting, all the information that may be useful for learning the matters on the agenda for the Board meeting. In our opinion, the information given is considered complete and sufficient for the members of the Board of Directors to reach an opinion and form criteria.

Likewise, during and following the meeting, Directors shall be furnished with any information or clarifications they deem appropriate in respect of the points included in the agenda, or points which were not included but which were addressed in the same meeting.

C.1.42 Indicate and, where applicable, give details of whether or not the company has laid down rules that oblige the Directors to report and, and, if necessary, resign in cases that damage the company's credit and reputation:

Yes

Explain the rules

Article 15.2 of the Regulations of the Board of Directors states the following:

"Directors shall be compelled to tender their resignation to the Board of Directors and proceed with the pertinent resignation, if the latter deemed it appropriate, in the following cases:

a) When Internal Directors leave the executive positions outside the Board and which were associated with their appointment as Directors.

b) When they are subject to any of the conditions of professional prohibition or incompatibility pursuant to applicable laws, the Articles of Association or these regulations.

c) When they commit a serious breach of their obligations as Directors, jeopardising the interests of the company.

d) When the reason why they were appointed as Independent, Executive or Proprietary Directors is no longer applicable".

Furthermore, Article 16.7 of the Regulations of the Board of Directors states:

"The Director shall inform the company of any kind of legal or administrative claim or any claim of any nature in which he/she is involved which, due to its significance, could have a serious bearing on the reputation of the company. The Board shall examine the matter and adopt the appropriate measures in the company's interest and with the required urgency."

C.1.43 Indicate whether or not any member of the Board of Directors has informed the company that he/she has been prosecuted or hearings against him/her have been opened for any of the offences laid down in Article 213 of the Corporate Enterprises Act:

No

Director's name	Criminal case	Observations

Indicate whether or not the Board of Directors has analysed the case. If the answer is yes, give a reasoned explanation for the decision taken over whether or not the Director is allowed to continue in his/her position 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.

No

Decision taken/action taken	Reasoned explanation

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, and the Shareholder Agreement between Repsol, S.A. and Gas Natural SDG, S.A., concerning Repsol-Gas Natural LNG, S.L., considered any change to the controlling structure of either party as grounds for termination, as at 31 December 2013.

Furthermore, the majority of the outstanding debt, which includes a change of control clause, whether through acquisition of more than 50% of the voting shares or through obtaining the right to appoint the majority of Board members of Gas Natural SDG, S.A., are subject to additional conditions such as the major reduction of the credit rating caused by the change of control; material damage to the creditor; an adverse material change affecting solvency or the capacity to fulfil the contract. These clauses entail the repayment of the debt over a much longer time in the event of early termination. Some clauses provide for the arrangement of guarantees as an alternative to repayment.

More specifically, the bonds issued, with an approximate value of 12 billion euros (standard practice in the Euromarket), would be susceptible to early maturity providing that the change of control causes a fall of three full notches in at least two of the three ratings it had or all of the ratings fall below investment grade, and providing the Rating Agency explains that the reduction of the credit rating is caused by the change of control.

There are also loans for an approximate amount of 2.4 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.

More than 60% of the change of control clauses are also associated to any damages caused to creditors or major reductions in the rating. Almost all of those clauses exclude the change of control if any of the current shareholders has a relevant holding in the company together with the 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	26
Beneficiary type Steering Committee and other Executives	Description of an agreement The CEO's contract contains a clause that provides for compensation for three times annual remuneration in certain cases of termination of the relationship, except in cases of grave misconduct vis-à-vis his/her professional obligations with serious consequences for the company. It also provides for compensation equivalent to one year's remuneration through the one-year post-contractual antitrust arrangement. The contract signed with members of the Steering Committee and the Head of Internal Audit contain a clause that sets out minimum compensation equivalent to two years' remuneration in certain cases of contractual termination, except in cases of grave misconduct vis-à-vis his/her professional obligations that cause serious damage to the company. They also provide for compensation equivalent to one year's fixed remuneration through the two-year post-contractual antitrust arrangement. In addition, there are compensation agreements with a further fourteen Executives, the amounts of which entitle these Executives to receive minimum compensation of one year's remuneration in certain cases of contractual termination, except in cases of grave misconduct vis-à-vis their professional obligations and which cause serious damage to the company. The agreement also sets out compensation equivalent to one year's fixed remuneration through the two-year post-contractual antitrust arrangement."

Indicate if these contracts must be notified and/or approved by the bodies of the company or its group:

	Board of Directors	General Meeting
Body that authorises the clauses	No	No

Is the General Meeting informed of the clauses?	Yes

C.2 Committees of the Board of Directors.

C.2.1 Detail all the committees of the Board of Directors, their members and the proportion of Proprietary and Independent Directors that sit on these committees:

Executive Committee

Name	Position	Type
Mr. Salvador Gabarró Serra	Chairman	Executive
Mr. Antonio Brufau Niubó	Deputy chairman	Proprietary member
Mr. Carlos Losada Marrodán	Board member	Independent
Mr. Demetrio Carceller Arce	Board member	Proprietary member
Mr. Emiliano López Achurra	Board member	Independent
Mr. Enrique Alcántara-Garcia Iirazoqui	Board member	Proprietary member
Mr. Juan María Nín Génova	Board member	Proprietary member
Mr. Rafael Villaseca Marco	Board member	Executive

% of Executive Directors	25
% of Proprietary Directors	50
% of Independent Directors	25
% of other External Directors	-

Audit Committee

Name	Position	Type
Mr. Carlos Losada Marrodán	Chairman	Independent
Mr. Luís Suárez de Lezo Mantilla	Board member	Proprietary member
Mr. Ramón Adell Ramón	Board member	Independent

% of Executive Directors	-
% of Proprietary Directors	33.33
% of Independent Directors	66.66
% of other External Directors	-

Appointments and remuneration committee

Name	Position	Type
Mr. Miguel Valls Maseda	Chairman	Independent
Mr. Antonio Brufau Niubó	Board member	Proprietary member
Mr. Santiago Cobo Cobo	Board member	Independent

% of Executive Directors	-
% of Proprietary Directors	33.33
% of Independent Directors	66.66
% of other External Directors	-

Appointments committee

Name	Position	Type

% of Executive Directors	
% of Proprietary Directors	
% of Independent Directors	
% of other External Directors	

Remuneration committee

Name	Position	Type

% of Executive Directors	
% of Proprietary Directors	
% of Independent Directors	
% of other External Directors	

Committee _____

Name	Position	Type

% of Executive Directors	
% of Proprietary Directors	
% of Independent Directors	
% of other External Directors	

C.2.2 Complete the following table with information on the number of female Directors that have made up the committees of the Board of Directors over the last four years:

	Number of female Directors			
	Financial year t Number %	Financial year t-1 Number %	Financial year t-2 Number %	Financial year t-3 Number %
Executive Committee				
Audit Committee				
Appointments and Remuneration Committee				
Appointments Committee				
Remuneration Committee				
Committee _____				

C.2.3 Specify whether the Audit Committee is responsible for the following:

Supervising the preparation process and integrity of the financial information related to the company and, where applicable, the group, reviewing compliance with the standard requirements, the appropriate definition of the consolidation perimeter and the correct application of the bookkeeping criteria	Yes
Regularly reviewing the internal control and risk management systems so that the main risks can be identified, processed and appropriately publicised	Yes
Ensuring the independence and effectiveness of the internal audit duty; propose the selection, appointment, re-election and dismissal of the person in charge of the internal audit service; forward the budget for this service; receive periodic information on its activities, and verify that senior management considers the conclusions and recommendations in its reports	Yes
Setting up and supervising a mechanism that enables employees to communicate any significant irregularities, especially those related to finance and bookkeeping, and to do so in a confidential manner and, if considered suitable, anonymous	Yes
Raising the selection, appointment, re-election and substitution proposals concerning the external auditor to the Board, as well as the terms and conditions of his/her contract	Yes
Receiving information from the external auditor on the audit plan and the results of carrying it out and checking that senior management take its recommendations into account	Yes
Guaranteeing the independence of the external auditor	Yes

C.2.4 Describe the organisational and operational rules and the responsibilities attributable to each of the Board's committees.

Executive Committee
(Articles 50 and 51 of the Articles of Association and Article 30 of the Board Regulations)

1.1. Powers:

The Board of Directors may designate one or more Executive Committees and appoint one or more Chief Executive Officers and delegate them, temporarily or permanently, any or all of the functions, except those that legally or by agreement of the General Meeting, were within the exclusive jurisdiction thereof, or that may not be delegated by the Board.

By agreement of the Board of Directors on 20 February 1992, the following powers were delegated to the Executive Committee:

- Organising, directing and inspecting all services and facilities of the company.
- Appointing, suspending and dismissing employees and workers of the company and establishing salaries, as well as providing guarantees to those employees with whom the company has an agreement to provide.
- Establishing the salary that should be paid for extra services.
- Auditing the company's funds.
- Receiving, directing and answering private requests and advocating the drawing up of minutes of all kinds.
- Issuing, endorsing, accepting, collecting and discounting bills of exchange and other draft documents, drawing up re-accounts and summoning protests for non-acceptance or non-payment.
- Monitoring, opening, cancelling in the Banco de España, in any locality, or any other bank, savings bank or establishment, current and credit accounts signing, for this purpose, cheques, orders, policies and other documents; and requesting, agreeing to or rejecting statements and account balances.
- Making payments and collections for any security and quantity and even making payment orders for the State, autonomous regions, provinces or municipalities, signing receipts and official receipts.
- Collecting letters, certificates, dispatches, parcels, money orders and goods with declared monetary value from Post Offices, rail and shipping companies and in general all transport companies, customs and agencies, as well as sent merchandise and stock, and making objections and complaints, and the refusal and abandonment of goods.
- Opening, replying to and signing correspondence and updating the accounting books in accordance with the law.
- Contracting insurance of all kinds, signing policies and related documents and receiving indemnities where appropriate.
- Representing the company in acquaintances and grace intervals, insolvencies, defaults, bankruptcy of debtors, attending General Meetings, appointing trustees and administrators, accepting or rejecting the proposals of the debtor and carrying out all the paperwork until the end of the procedure.
- Buying, selling, leasing, reducing, or conditionally or simply exchanging, with the declared price, deferred or paid in cash, all kinds of movable and immovable assets, in rem and personal rights, carrying out planting and building declarations, surveys and marking of boundaries, consolidations and severances and granting contracts of all kinds.

- Establishing, accepting, modifying, acquiring, disposing of, postponing and cancelling, wholly or partially before or after maturity, whether or not the insured security has been fulfilled, mortgages, liens, prohibitions, conditions and all kinds of limitations or guarantees, as well as easements and other in rem rights.

- Establishing, merging, transforming, dissolving and liquidating all types of companies, associations, economic interest groups, European economic interest groups and joint ventures, assisting or intervening in all types of Boards, providing companies all kinds of goods, receiving in return holdings, fees, rights and actions that may apply and, in case of dissolution, the appropriate assets.

- Participating in tenders and auctions, submitting proposals and accepting awards.

- Buying, selling, trading and pledging securities and receiving interest, dividend and amortisation payments from them.

- Modifying, transferring, cancelling, withdrawing and establishing interim or definite deposits of cash and/or securities.

- Coordinating and arranging bank loans with personal guarantees or pledged securities, with banks, savings banks and credit institutions, including the Banco de España, signing policies and related documents.

- Advocating all kinds of notarial deeds, organising and keeping records of the ownership and release of liens, requesting entries in the Mercantile and Property Registers.

- Appearing in name and representation of the company before centres and organisations of the State; autonomous regions, provinces and municipalities of Spain; judges, courts and judiciary, attorneys, unions, delegations, committees, Boards, juries and commissions and, in general, any individual person or legal entity or public or private entity. And before these parties, requesting, monitoring and terminating as the plaintiff, defendant or for any other concept, all manner of processes, procedures, hearings and actions and administrative and of a tax nature; trials and civil and commercial procedures; criminal trials and hearings; contentious-administrative trials; governmental; labour hearings of all levels, jurisdictions and ranks; lodging petitions, carrying out actions and exceptions at whatsoever procedures, formalities and appeals; including annulments and reviews and other extraordinary appeals and providing personal ratification whenever required, acquitting positions and legally acquiescing under decisory or non-decisory oath.

- Appointing trustees and granting them the pertinent powers, both generally and for a specific occasion or event, as well as revoking the powers granted at any time.

Similarly, Article 5 of the Regulations of the Board states that the agreements outlined in points five to eight, ten to thirteen and sixteen can be adopted, without distinction, by the Board of Directors or the Executive Committee. See Article 5 of the Board Regulations.

Likewise, Article 30.4 of the Regulations of the Board states that the continued monitoring of management by the company's top-tier level is a specific responsibility of the Executive Committee, as is any other of its functions pursuant to the Articles of Association or these regulations or assigned to it by the Board of Directors.

1.2. Organisation and operation:

- The Executive Committee shall comprise the Chairman of the Board of Directors and a maximum of another seven Directors, belonging to the groups envisaged in Article 3 of the Regulations and in the same proportion as exists in the Board of Directors. The appointment of the members of the Executive Committee shall require an affirmative vote from at least two thirds of the Board members with existing appointments.

- The Chairman of the Board of Directors will act as Chairman of the Executive Committee and the Secretary of the Board of Directors will undertake the secretariat and may be assisted by the Assistant Secretary.

- The Executive Committee shall be understood to be validly constituted when more than half of its members attend the meeting in person or by representative.

- The members of the Executive Committee shall leave their post when they do so in their capacity as Directors or as agreed by the Board. The positions that become available shall be covered promptly by the Board of Directors.

- The Executive Committee, convened by its Chairman, shall hold meetings whenever its Chairman considers it necessary or upon request of one third of its members. The Secretary will take the minutes of the agreements adopted in the meeting and these will be outlined in the following plenary meeting of the Board of Directors.

- For cases in which, in the view of the Chairman or of the majority of members of the Executive Committee, the importance of the issue so requires, the agreements adopted by the Committee shall be submitted for ratification from the plenary Board meeting.

The same shall be applicable in relation to issues the Board has submitted for examination to the Executive Committee and the Board has the final decision.

In any other case, the agreements adopted by the Executive Committee shall be valid and binding, without the need for subsequent ratification from the full Board meeting.

- The provisions in the regulations for the operation of the Board of Directors shall be applicable to the Executive Committee to the full extent possible.

Appointments and Remuneration Committee
(article 31 of the Board Regulations)

Duties:

The Committee carries out research and makes proposals to the Board for the following issues:

- Putting forward criteria for the remuneration of the company's Directors and to assure transparency in remunerations.

- Putting forward the general policy for remuneration of the Gas Natural Fenosa Group Directors.

- Putting forward the guidelines for appointments, selection, careers, promotion and dismissal of senior management, in order to ensure that the group always has highly qualified personnel suitable for the management of its activities.

- Reviewing the structure and composition of the Board of Directors, the criteria that should be applied to the statutory renewal of the Directors, the aptitudes required of the candidates to cover each vacancy, the fulfilment of the requirements for each category of Director and the process for the incorporation of new members, raising the corresponding reports to the Board as applicable. For covering new vacancies, selection processes shall be guaranteed that are not subject to implicit bias that prevents the selection of female Directors, including, under the same conditions and among potential candidates, women who meet the professional profile being sought.

- Issuing a report on the transactions that involve or may involve conflicts of interests and, in particular, transactions with associated parties submitted to the Board.

- Issuing a report on the appointments and dismissals of the members of top-tier management.

Organisation and operation:

The Appointments and Remuneration Committee shall comprise a minimum of three and a maximum of five Directors, designated by the Board of Directors from among the External Directors, bearing in mind their experience and aptitudes. Its members shall leave their post when they do so in their capacity as Directors, when agreed by the Board of Directors, or after a period of three years from their appointment. They can be re-elected.

The Board of Directors shall elect the Chairman from among the members of the Committee; the Chairman shall not have the casting vote. The Secretary of the Committee shall be the same as the Secretary of Board of Directors.

The Committee shall hold meetings whenever necessary to issue its reports, when considered necessary by the Chairman or upon request from two of its members. At least four meetings per year must be held. They shall be called by the Chairman with prior notice of at least two days before the meeting date, except in certain defined circumstances. Notification for the meeting shall include the agenda together with the pertinent documents to aid proceedings. The meetings shall normally take place at the registered office.

Audit and Control Committee
(article 51 bis of the Articles of Association and Article 32 of the Board Regulations)

Duties:

Article 51 bis of Articles of Association:

"1. Reporting to the General Meeting of Shareholders on issues raised by shareholders with respect to matters within their competence.

2. Proposing to the Board of Directors, for submission to the General Meeting of Shareholders, the appointment of external auditors, pursuant to Article 264 of the Corporate Enterprises Act.

3. Supervising the efficiency of the company's internal control, internal audit services, if appropriate, and the risk management systems, as well as discussing any significant weaknesses of the internal control system detected during the audit with accounts auditors or with audit firms.

4. Supervising the process of compiling and presenting the regulated financial reporting.

5. Establishing the appropriate relations with accounts auditors or audit firms to receive information on any issues which could jeopardise their independence, to be examined by the Committee, and any other matters relating to the progress of the audit, as well as any communications required pursuant to legislation governing auditing and auditing standards. Under all circumstances, every year they must receive written confirmation from the accounts auditors or audit firms reporting their independence with regard to the entity or entities related to the company, directly or indirectly, as well as information on the additional services of any kind provided to these entities by the foregoing auditors or companies, or by persons or entities related to the auditors, in accordance with the provisions laid down in the Accounts Auditing Act, Law 19/1988 of 12 July.

6. Every year, before issuing the Audit Report, providing a report that gives an opinion on the independence of the accounts auditors or audit firm. This report shall, in any case, refer to the provision of additional services referred to in the previous section.

7. Any other general or specific function delegated by the Board of Directors.

The Committee will hold meetings as often as decided or whenever called by the Chairman or requested by two of its members. The majority of votes will be used in adopting decisions or recommendations.

The performance of the Audit Committee will be subject to direct application of the rules laid down in the Regulations of the Board of Directors. The provisions in the regulations for the operation of the Board of Directors will apply to the extent possible.

Organisation and operation:

The Audit and Control Committee shall comprise a minimum of three and a maximum of five Directors appointed by the Board of Directors from among the External Directors, taking into account their knowledge and experience in issues of accountancy, audit and risk management. Its members shall leave their post when they do so in their capacity as Directors, when agreed by the Board of Directors, or after a period of three years from their appointment. They can be re-elected.

At least one of the Committee members will be an Independent Director.

The Board of Directors shall elect the Chairman of the Committee, who shall not have a casting vote and shall be replaced in accordance with the Articles of Association (Article 51 bis) and legislation. He/she may be re-elected following the term of one year after his/her dismissal. The Secretary of the Committee shall be the same as the Secretary of the Board of Directors.

The Committee shall hold meetings whenever necessary in order to issue its reports, and will be convened by its Chairman on his own initiative or upon request of two of its members. At least four meetings per year must be held. The notification for the meeting shall include the agenda together with the relevant documents to facilitate proceedings, and must be made at least two days in advance, except in certain defined circumstances, in writing. The meetings shall normally take place at the registered office. The Committee may invite to its meetings any executive or employee it deems appropriate."

Article 32 of the Regulations of the Board:

2. The Committee is competent on the following issues:

- Reporting to the General Meeting of Shareholders on questions raised by shareholders with respect to matters within their competence.
- Proposing to the Board of Directors, for submission to the General Meeting of Shareholders, the appointment of external auditors, pursuant to Article 264 of the Corporate Enterprises Act.
- Supervising the internal audit services, guaranteeing their independence and proposing the appointment, re-election and dismissal of the person responsible. Accordingly, the person responsible for the internal audit function shall present an annual work plan, report on the relevant incidents occurring during its development and submit a report on its activities at the end of the year.
- Monitoring and supervising the preparation of regulated financial information, guaranteeing the proper application of the accounting principles and the inclusion of all the companies that are to be included in the consolidation perimeter.
- Monitoring and supervising the company's risk management and internal control systems and their effectiveness, guaranteeing that they identify the types of risk the company faces and the measures considered for reducing them and dealing with them in the event of effective damage. Speaking to the accounts auditors about significant weaknesses of the internal control system detected during the audit.
- Raising the selection, appointment, re-election and substitution proposals concerning the external auditor to the Board, as well as the terms and conditions of his/her contract.
- Liaising with external auditors to receive information on any questions which could jeopardise their independence and any other matters relating to the progress of the audit, as well as any communications required pursuant to legislation governing auditing and auditing standards.
- Monitoring the development of the annual auditing.

- Acting as a communication channel between the Board of Directors and the external auditors and assessing the results of each audit. Under all circumstances, every year they must receive written confirmation from the company's accounts auditors reporting their independence with regard to the entity or entities related to the company, directly or indirectly, as well as information on the additional services of any kind provided to these entities by the foregoing auditors or by persons or entities related to the auditors, in accordance with the provisions laid down in the Accounts Auditing Act.

- Every year, before issuing the Audit Report, providing a report that gives an opinion on the independence of the accounts auditors. This report shall, in any case, refer to the provision of additional services referred to in the previous section.

- Reviewing the information on the company's activities and results which is compiled periodically in compliance with current stock market regulations, making sure that it is prepared in accordance with the same accounting criteria as the Annual Accounts and ensuring the transparency and accuracy of this information.

- Adopting the measures it considers appropriate in the auditing activity, internal financial control system and compliance with legal regulations in matters of provision of information to markets and the transparency and accuracy thereof.

- Checking compliance with the Internal Code of Conduct for Securities Markets current at any time and in general with the rules governing the company and making any necessary proposals for their improvement.

- Providing information during the first quarter of the year and whenever the Board of Directors so requests, on compliance with these regulations.

- Setting up and supervising a mechanism that enables employees to communicate any significant irregularities, especially those related to finance and bookkeeping, and to do so in a confidential manner and, if considered suitable, anonymous.

C.2.5 Indicate, where applicable, the existence of Committee regulations, the location at which they are available for consultation and the modifications that have been made during the financial year. Also indicate whether any annual report on each Committee's activities has been voluntarily drafted.

The Committees of the Board of Directors of Gas Natural SDG, S.A. are the Executive Committee, the Appointments and Remuneration Committee and the Audit and Control Committee. The last two hold powers to make proposals and perform studies.

The aforementioned Committees are regulated in the company's Articles of Association and in the Regulations governing the organisation and operation of the Board of Directors of Gas Natural SDG, S.A. and its Committees. Both documents may be checked at the Business Register of Barcelona and on the company's website (www.gasnaturalfenosa.com)

Neither the Articles of Association nor the Regulations governing the organisation and operation of the Board of Directors of Gas Natural SDG, S.A. and its Committees were modified in 2013.

In compliance with article 5 of the Board Regulations, the Committees of the Board have drawn up an annual report which has been submitted to the Board of Directors with regard to the quality and efficiency of its performance in 2013.

C.2.6 Indicate whether the makeup of the Delegated or Executive Committee reflects the participation in the Board by the various Directors depending on their capacity:

Yes

If the answer is No, explain the makeup of your Delegated or Executive Committee

D. Related-party transactions and intra-group transactions

D.1 Identify the competent body and, where appropriate, explain the procedure for approval of transactions with related parties and intragroup parties.

Body in charge of approving related-party transactions

Board of Directors.

Procedure for approval of related-party transactions

In accordance with Article 16 of the Regulations of the Board of Directors: "… any direct or indirect transaction between the company and a significant shareholder must be submitted for approval by the Board of Directors, subject to a ruling from the Appointments and Remuneration Committee of the Board. The Committee must assess the transaction in terms of equal treatment and fair market conditions. The affected Proprietary Directors must abstain from taking part in the Board deliberations and voting. Where the transactions in question are ordinary ones, across-the-board authorisation may be granted for the line of transactions and the conditions for their execution."

Article 31 of the Board Regulations envisages, among the functions entrusted to the Appointments and Remuneration Committee, the task of informing the Board of transactions that imply or may imply conflicts of interest and, in particular, transactions with associated parties submitted to the Board.

Finally, Article 6.5 of the Regulations obliges the Board of Directors to include, in the Annual Report and the Annual Corporate Governance Report, information on the transactions completed with significant shareholders, so that other shareholders may be informed of their scope and importance.

Explain whether or not the approval of transactions with related parties has been delegated, specifying the body or persons to whom this has been delegated, where appropriate.

At its session held on 30 September 2011, the Board of Directors, following a favourable report from the Appointments and Remuneration Committee, agreed to give across-the-board authorisation to related-party transactions concerning purchase of the polyethylene network of Repsol Butano, S.A. carried out under normal market conditions. Said authorisation is exercised by the Director General of Retail 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 transaction	Amount (thousands of euros)
Criteria CaixaHolding, S.A.U.	Gas Natural SDG, S.A.	Commercial	Financial expenses	6,916
Criteria CaixaHolding, S.A.U.	Gas Natural SDG, S.A.	Commercial	Other costs	36,983
Criteria CaixaHolding, S.A.U.	Gas Natural SDG, S.A.	Commercial	Financial income	27,697
Criteria CaixaHolding, S.A.U.	Gas Natural SDG, S.A.	Commercial	Purchase of tangible assets, intangible assets and other assets	10,500
Criteria CaixaHolding, S.A.U.	Gas Natural SDG, S.A.	Commercial	Other income	804
Criteria CaixaHolding, S.A.U.	Gas Natural SDG, S.A.	Commercial	Financing agreements: credits and provisions of capital (lender)	1,577,755
Criteria CaixaHolding, S.A.U.	Gas Natural SDG, S.A.	Commercial	Sale of tangible assets, intangible assets and other assets	705,852
Criteria CaixaHolding, S.A.U.	Gas Natural SDG, S.A.	Commercial	Financing agreements: credits and provisions of capital (borrower)	6,186
Criteria CaixaHolding, S.A.U.	Gas Natural SDG, S.A.	Commercial	Guarantees received	137,500
Criteria CaixaHolding, S.A.U.	Gas Natural SDG, S.A	Commercial	Collaboration or management contracts	843,020
Criteria CaixaHolding, S.A.U.	Gas Natural SDG, S.A	Commercial	Dividends and other distributed earnings	311,037
Repsol, S.A.	Gas Natural SDG, S.A	Commercial	Reception of services	91,702
Repsol, S.A.	Gas Natural SDG, S.A	Commercial	Purchase of goods (manufactured or not)	1,090,558
Repsol, S.A.	Gas Natural SDG, S.A	Commercial	Leases	371
Repsol, S.A.	Gas Natural SDG, S.A	Commercial	Provision of services	54,524
Repsol, S.A.	Gas Natural SDG, S.A	Commercial	Sales of goods (manufactured or not)	1,108,363
Repsol, S.A.	Gas Natural SDG, S.A	Commercial	Purchase of tangible assets, intangible assets and other assets	1,299
Repsol, S.A.	Gas Natural SDG, S.A	Commercial	Financing agreements: credits and provisions of capital (lender)	6,620
Repsol, S.A.	Gas Natural SDG, S.A	Commercial	Dividends and other distributed earnings	268,474

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 Directors or executives:

Name or company name of the Administrators or Executives	Name or company name of the related party	Relationship	Nature of the transaction	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 intragroup 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 transaction	Amount (thousands of euros)
Buenergía Gas & Power, Ltd	Dividends received from EcoEléctrica Holding, Ltd and Ecoeléctrica Limited	26,710
EcoEléctrica Holding, Ltd	Dividends received from Ecoeléctrica, L.P. and paid to Buenergía Gas & Power, Ltd	26,443
Ecoeléctrica Limited	Dividends received from Ecoeléctrica, L.P. and paid to Buenergía Gas & Power, Ltd	267

D.5 Indicate the amount of the transactions performed with other related parties.

D.6 Detail the mechanisms established to detect, determine and resolve possible conflicts of interest between the company and/or its group, and its Directors, Executives or significant shareholders.

1. Directors:

The conflicts of interest are regulated by Article 16 of the Regulations of the Board of Directors, which states the following:

- The Director must abstain from intervening in deliberations and voting on issues in which he/she has a direct or indirect interest and would give rise to a conflict of interests.

- The Director shall be considered to have an interest when the issue affects a member of his/her family, or a company, entity or their respective groups, not belonging to the Gas Natural Fenosa Group, in which the Director acts as representative, manager or adviser, or has a major holding in their capital or has been put forward by those entities as a Proprietary Director in Gas Natural Fenosa.

- Directors must report their personal situations to the Board, as well as those of their closest family members and also the companies controlled by them. Specifically, Directors must report aspects relating to holdings, positions held and activities, syndication agreements and, in general, any fact, situation or link that may influence their loyal conduct as Administrators of the company. Likewise, Proprietary Directors must inform the Board of any conflict of interest between the company and the shareholder that proposed their appointment, or which could compromise their duty to be loyal.

- The Director cannot carry out direct or indirect professional or commercial transactions with the company or companies in the group, unless he/she has previously reported the situation of conflict of interests, and the Board, subject to a report from the Appointments and Remuneration Committee, has approved the transaction. For ordinary operations, the generic authorisation for the operation type and its implementation procedure shall be sufficient. In all cases, any conflicts of interest of the company's Administrators shall be reported in the Annual Corporate Governance Report.

- In his/her capacity as loyal representative of the company, the Director must inform the company of shares in the company he/she holds, directly or through companies in which he/she has a major holding, following the procedure and other processes that are established for investment in Gas Natural SDG, S.A and investee companies.

- Votes on proposals for appointments, re-election or dismissal of Directors shall be secret, and the affected Directors must abstain from taking part in these votes and their deliberations.

- The Director must notify the company of significant changes to their professional circumstances and changes which affect the nature or capacity by virtue of which he/she was appointed as Director.

- The Director shall inform the company of any kind of legal or administrative claim or any claim of any nature in which he/she is involved which, due to its significance, could have a serious bearing on the reputation of the company. The Board shall examine the matter and adopt the appropriate measures in the company's interest and with the required urgency.

- The Board of Directors shall endeavour, at all times, to prevent Proprietary Directors from using their position to obtain asset benefits without adequate compensation, to the advantage of the shareholder that put them forward for the position.

2. Directors and executives:

Section 6 of the Internal Code of Conduct, for issues relating to the Securities Markets of Gas Natural SDG, S.A., contains the information that the Directors and Executives of the entity must provide concerning conflicts of interest:

"6.1. The persons included in the subjective scope of this internal Code of Conduct shall be obliged to inform the Secretary of the Board of Directors of Gas Natural SDG, S.A. of any possible conflicts of interest that may emerge with the corporate relationships in which they hold an interest or with the ownership of their personal or family assets or any other cause that may interfere in the fulfilment of activities which are the object of these regulations.

In the case of there being any doubt over the existence of a conflict of interest, the obliged persons must consult the Secretary of the Board of Directors of Gas Natural SDG, S.A. who shall resolve the issue in writing. The Secretary may take the matter to the Appointments and Remuneration Committee if he/she considers it to be of particular significance.

The persons affected by potential conflicts of interest must keep the information up to date, reporting any modification or closure of the previously communicated situations.

6.2. The affected persons must abstain from participating in the adoption of any kind of decision that could be affected by the conflict of interests with the company…"

3. Significant shareholders:

With regard to this section, Article 16 of the Board Regulations establishes:

"Accordingly, any direct or indirect transaction between the company and a significant shareholder must be submitted for approval by the Board of Directors, subject to a ruling from the Appointments and Remuneration Committee of the Board. The Committee must assess the transaction in terms of equal treatment and fair market conditions. The affected Proprietary Directors must abstain from taking part in the Board deliberations and voting. Where the transactions in question are ordinary ones, across-the-board authorisation may be granted for the line of transactions and the conditions for their execution."

Article 31 of the Board Regulations envisages, among the functions entrusted to the Appointments and Remuneration Committee, the task of informing the Board of transactions that imply or may imply conflicts of interest and, in particular, transactions with associated parties submitted to the Board.

Finally, Article 6.5 of the aforementioned regulations obliges the Board of Directors to include, in the Annual Report and the Annual Corporate Governance Report, information on the transactions completed with significant shareholders (overall volume of the transactions and the nature of the most significant), so that other shareholders may be informed of their scope and importance.

D.7 Is there more than one listed company in the group in Spain?

No

Identify the subsidiary companies that are listed in Spain:

Listed subsidiary companies

Indicate whether or not their respective activity areas and possible business relations between them have been publicly defined, as well as those of the listed subsidiary with the other companies in the group;

No

Define the possible business relations between the parent company and the listed subsidiary company and between the listed subsidiary and the other companies in the group

Identify the mechanisms laid down to solve possible conflicts of interests between the listed subsidiary and the other companies in the group:

Mechanisms for solving possible conflicts of interests

E. Risk Management & Control Systems

E.1 Explaining the scope of the company's Risk Management System.

The Risk Management System works in a comprehensive and continuous way, with said management being consolidated by area or business unit or activity, subsidiaries, geographical areas or support areas (such as human resources, marketing or management control) at corporate level.

E.2 Identifying the company bodies responsible for preparing and executing the Risk Management System.

Audit and Control Committee.

Risk Committee.

Financial-Economic Department.

Director of Internal Audit.

Risk Department.

E.3 Specify the main risks that could prevent business objectives from being reached.

Commodities price.

Gas volume.

Electricity price.

Electricity volume.

Regulatory.

Strategic.

Credit.

Exchange rates.

Interest rate.

Liquidity.

Image and reputation.

Fraud.

Processes.

Accidents.

Environment.

Climate change.

E.4 Specify whether the entity has a level of risk tolerance.

The company has levels of risk tolerance established at corporate level for the main kinds of risks.

The risk assessment process lies in identifying the risks, generally by those businesses that are subject to risk exposure. This identification take 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 what risks have materialised over the financial year.

The main risk that has materialised over the year is of a Regulatory type, stemming from the measures taken to ensure financial stability of the electricity sector, published in July.

All the causes of the risks are external and inherent to the activities carried out by Gas Natural Fenosa.

The remaining risks have evolved without significant impact on the consolidated annual accounts: the internal control systems have worked appropriately.

E.6 Explain the response and supervision plans for the entity's main risks.

The risks susceptible to affecting the performance of Gas Natural Fenosa are set out in the company's Risk Map. Said map is the main means of communication to the Audit and Control Committee in its duties to supervise the entity's risks.

On a more operational level, the Risks 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 systems of control and management of risks with regard to the internal control systems over financial reporting (SCIIF)

Describe the mechanisms that make up your entity's system of control 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:

F.1.1. 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 a supervision.

Gas Natural Fenosa has defined its internal control systems over financial reporting (hereinafter SCIIF) in the "Internal Control System over Financial Reporting (SCIIF) General Standard of Gas Natural Fenosa".

As part of the SCIIF, Gas Natural Fenosa has defined, in the foregoing General Standard, the responsibilities model of the same. This model revolves around the following five areas of responsibility:

- Board of Directors: The Board is responsible for the existence of an appropriate and efficient SCIIF, the supervision of which falls to the Audit and Control Committee.

  Article 5.I9 of the Board Regulations sets out that the approval of the risk control and management policy and periodic monitoring of the internal indicators and control systems is one of the powers expressly reserved to the Board.

- Audit and Control Committee: Among other tasks, this Committee is responsible for supervision of the SCIIF. Article 32.2 of the Board Regulations sets out that the Committee has, inter alia, the following powers:

  - Monitoring and supervising the preparation of regulated financial information, guaranteeing the proper application of the accounting principles and the inclusion of all the companies that are to be included in the consolidation perimeter.

  - Monitoring and supervising the company's risk management and internal control systems and their effectiveness, guaranteeing that they identify the types of risk the company faces and the measures considered for reducing them and dealing with them in the event of effective damage. Speaking to the accounts auditors about significant weaknesses of the internal control system detected during the audit.

  - Reviewing the information on the company's activities and results which is compiled periodically in compliance with current stock market regulations, making sure that it is prepared in accordance with the same accounting criteria as the Annual Accounts and ensuring the transparency and accuracy of this information.

- Adopting the measures it considers appropriate in the auditing activity, internal financial control system and compliance with legal regulations in matters of provision of information to markets and the transparency and accuracy thereof.

For the performance of some of these duties, the Audit and Control Committee has the Internal Audit Unit.

- Financial-Economic Department: This department is responsible for the design, introduction and operation of the SCIIF. It has the Internal Control Unit to assist in the performance of this duty.

- Internal Audit Unit. In general, it is responsible for assisting the Audit and Control Committee in the ongoing supervision and assessment of the effectiveness of the Internal Control System in all areas of Gas Natural Fenosa, providing a systematic and rigorous approach for the monitoring and improvement of processes and for the assessment of operational risks and controls associated to these, including those corresponding to the SCIIF and to the Criminal Risks Prevention Model.

- Business units and corporate units involved in the financial reporting process. These are responsible for carrying out the processes and maintaining daily operations to ensure that the control activities introduced are performed.

F.1.2 Whether or not the following elements exist, particularly with regard to the procedure for financial reporting:

- **Departments and/or mechanisms responsible for: (i) the design and review of the organisational structure; (ii) clearly defining 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 General 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 General 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 "the interrelations map of financial reporting of Gas Natural Fenosa".

In this regard, there are six main areas that Gas Natural Fenosa has taken into consideration in compiling the interrelations map showing the financial reporting processes:

I) the information required to prepare the financial reporting;

II) the parties in charge that are either the source or destination of the financial reporting and

III) the distribution of tasks among the different organizational units;

IV) the scope of this distribution to all group companies;

V) the frequency of information transfer;

VI) the information systems that take part in the financial reporting preparation and issue process.

Thus, using the interrelations map of Gas Natural Fenosa, the processes that have an impact on the preparation of financial reporting are clearly defined, both vis-à-vis the operational processes that have a relevant impact on financial reporting, as well as those processes associated to the administrative and accounting area, and those 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 amongst 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 its approval it has been modified on three occasions, the last of which took place on 19 May 2009, in order to update it and to include the new undertakings acquired by Gas Natural Fenosa in issues of Good Governance and Corporate Responsibility, incorporating best international practices into ethical and social aspects and complying with the regulatory demands stemming from integration of the Gas Natural group and Fenosa.

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) scope of application (involving all members of Gas Natural Fenosa); (ii) governing criteria vis-à-vis conduct at Gas Natural Fenosa (declaration of the group’s style of governance); (iii) conduct guidelines (declaration of key values of Gas Natural Fenosa; (iv) acceptance and compliance of the Code; (iv) Code of Ethics Committee and (V) 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:

- Respecting legality. (Section 4.1).

  “Gas Natural Fenosa accepts the undertaking to act at all times in accordance with current legislation and internationally accepted ethical practices, with full respect for 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 financial transactions must be clearly and accurately reflected in the corresponding records. Specifically, all the Accounts must be properly reflected in the records, along with all transactions carried out and all revenue and expenditure incurred.

  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”.

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.

To enable the Code of Ethics Committee to carry out its duties in an objective and independent manner, it is chaired by the Internal Audit Area and is made up of representatives from the different areas involved in monitoring the compliance with the Code of Ethics.

The Committee regularly reports to senior management and reports every quarter to the Audit and Control Committee. The nature of the committee is to provide reports and recommendations, proposing corrective actions to those units in charge of providing solutions to problems through practical application of the Code of Ethics, and simultaneously acting as a bridge between these units and employees. The penalising system, in those cases where this is necessary, is established by the Human Resources Unit. By the same token, the Code of Ethics Committee may propose updates to the Code content, and has done so on several occasions. These updates are first approved by the Audit and Control Committee before being ratified by the Board of Directors.

Local Code of Ethics Committees have also been set up to promote the dissemination and application of the Code in some of the countries in which Gas Natural Fenosa is present, more specifically in Argentina, Brazil, Mexico, Colombia, Panama, Italy and Moldavia.

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, we have developed online training courses through the Corporate University of Gas Natural Fenosa, 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, 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.

To encourage awareness of the Code of Ethics amongst its collaborating companies and suppliers, in its General Conditions of Orders Gas Natural Fenosa includes a clause that provides information on where to find the group's Code of Ethics, along with information on the channel for making inquiries and notifications on aspects related to the Code of Ethics. A project is currently underway to modify the clauses of commercial contracts and orders applicable to purchases in Spain, to increase the information scope within the sphere of the Human Rights Policy and Code of Ethics of Gas Natural Fenosa.

- **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 its Committees, the Audit and Control Committee has powers "to establish and supervise a mechanism that enables employees to report, in confidence, and if necessary, anonymously, irregularities of potential importance, particularly those of a financial and accounting nature, that take place within the company".

In addition, the Board of Directors in its meeting of 31 March 2006 established that notifications received through the notification procedure for non-compliance with the Code of Ethics of Gas Natural Fenosa relating to fraud, auditing or faults in accounting processes and internal control shall be directly transferred to the Audit and Control Committee.

As remarked upon in the previous section and as a mechanism to obtain greater internal control of compliance with the principles included in the Code of Ethics, in July 2005 the Code of Ethics Commission 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. 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, 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. 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 absolutely confidential, pursuant to the restrictions set out 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 (Head of Internal Audit) is the sole member, at the initial stage, authorised to be aware of all the information from all the enquiries and notifications received from the group through the consultation and notification procedure. Notifications concerning fraud, auditing or faults in accounting processes or internal control are likewise sent directly to the Audit and Control Committee.

These consultations and notifications are processed and resolved by the Code of Ethics Committee.

The 2013 Corporate Responsibility Report from Gas Natural Fenosa provides more detailed information on the Code of Ethics, the activity of the Code of Ethics Committee and 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, whereby 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 been certified with ISO 9001-2008 and has held CLIP status since 2003 (renewed in 2013). This certification recognises the quality of the learning processes and development of persons at business education organisations.

The aims of the Corporate University include: to ensure management of knowledge at a multinational and multicultural organisation; to position the organisation as a training benchmark in the energy sector; to ensure that employees acquire the technical knowledge and skills required to achieve the strategic objectives set and to transmit and share the experience and best practices that exist at the company.

The new training model of Gas Natural Fenosa has been introduced throughout 2013. This is based on training itineraries, which involves a major evolution in the skills model, given that it aligns training with business objectives to the greatest extent possible. The itineraries, which encompass major functions or roles of the organisation, comprise three blocks: knowledge of context, which forms part of the itineraries; functional knowledge, assigned by the businesses to a position or to a profile; and skills, associated to the 24 skills set out in the Leadership Model of Gas Natural Fenosa.

The 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. Training in 2013 included training on the SCIIF "SAP GRC Process Control" management tool, which lasted 357 hours and was attended by 53 participants. A number of professionals from the unit were also trained in issues such as real estate appraisals and assessment, energy finances, consolidation of financial statements and sales strategies, financial mathematics, international tax planning and legal-tax aspects.

In 2013, a total of 136 professionals from the economic-financial area spent almost 1,706 hours on specific training for this area.

F.2 Assessment of financial reporting risks

Provide information at least one the following:

F.2.1 What are the main characteristics in the risk identification process, including error or fraud, with regard to:

- If the process exists and it is documented.
- 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.
- 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.
- If the process takes other types of risks into account (operating, technological, financial, legal, reputation, environmental, etc.) insofar as they affect the financial statements.
- What governing body of the company supervises the process.

The approach used by Gas Natural Fenosa to identify and analyse financial reporting risks, is displayed in the following chart:

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 subprocesses associated with the accounts/significant breakdowns have been defined, and the risks which might give rise to errors in financial reporting have been identified, covering the objectives for the control of existence and occurrence; integrity; valuation; presentation, breakdown and comparability; and rights and obligations, in the "Risks matrix of financial reporting of Gas Natural Fenosa".

Furthermore, the Risks Matrix has taken into account the risks associated with reaching the objectives of financial reporting, considering, in that identification, the effects of other kinds of risks (for example: operating, technological, financial, reputation, etc.) which form part of the Corporate Risks Map of Gas Natural Fenosa.

Lastly, the control activities consisting of the policies and procedures included in all stages of the financial reporting process, which guarantee it is reliable, are set out in the "Matrix of the financial reporting control activities of Gas Natural Fenosa".

The scope definition Matrix, and the risks Matrix, the control activities Matrix, are updated annually.

In 2013, Gas Natural Fenosa, aware of the importance of having a tool that guarantees proper management of the SCIIF, completed the set up the SAP GRC Process Control for automated and integral management of the documentation, assessment and supervision of internal control in processes of Gas Natural Fenosa. This implementation, which was performed within the framework of the programme for improving the efficiency of Gas Natural Fenosa, has been initially carried out in all Spanish companies with majority shareholdings in which the company is held responsible for its operation and/or management, and is scheduled to be implemented in other countries during the 2014-2015 period. Users responsible for the key controls of SCIIF and Internal Auditing have provided support in its implementation.

The SCIIF model of Gas Natural Fenosa is integrated in SAP GRC, except for the scope definition matrix. This application includes the critical processes, their associated risks, and the control activities used to mitigate them, set out in the aforementioned risk 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, annually, 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 an user-friendly and immediate way.

- It is a support tool for the SCIIF supervision process by Internal Audit.

- It allows both external and internal information required for reporting on the SCIIF to be obtained and support.

SAP GRC Process Control was started up in April 2013, with the launch of the first assessment request of the controls referring to the close of the month of March. From then on, two other additional assessment requests have been made during the year, requesting evidence for the carrying out of controls on the units involved in the SCIIF, according to the frequency established in each case. If applicable, this assessment allows weaknesses, and the actions plans necessary, to be identified and completed.

Part of the critical processes identified includes the process for identifying the consolidation perimeter of Gas Natural Fenosa and it has been described in a technical instruction called "Consolidated Closing Cycle of the Gas Natural Fenosa group".

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.

The Audit and Control Committee is responsible for supervising the efficacy of the SCIIF. In order to carry out this function, the Audit and Control Committee uses the internal Audit unit and external Audit (see section F.5).

F.3 Control activities

Inform, indicating its main characteristics, if it has 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 responsible persons of the General Economic Financial Department, identifying possible deviations. In this regard, the General Economic-Financial Department reports on the financial reporting regulated to the Audit and Control Committee, safeguarding the transparency and accuracy of the information and mentioning the internal control systems and the accounting criteria applicable. It also provides information on the main accounting, procedures, judgements, estimates, assessments and processes used in drawing up the economic-financial information and the financial statements, regarding the main risks and contingencies and their cover by means of provisions, and regarding the Risk Management and Control Policies and Systems in Gas Natural Fenosa.

Ultimately, the General Economic-Financial Director 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 "General Rule of Internal Control System on Financial Reporting (SCIIF) of Gas Natural Fenosa", control activities defined by the group in its SCIIF comply with the basic objective of ensuring that the financial reporting of Gas Natural Fenosa represents the true and fair image of the group.

The control activities defined in the SCIIF include both general controls and controls in critical points.

While they do not allow a sufficient degree of control to be achieved over the group's processes, general controls are mechanisms that enable a series of key targets to be obtained for the achievement of an effective SCIIF; in other words, they describe the policies and guidelines designed to protect Gas Natural Fenosa's SCIIF in its entirety.

In addition, all the critical processes identified have been documented by means of the control activities matrix and by the pertinent descriptive technical descriptions of the processes. These critical processes, their associated risks and the control activities which mitigate them, as well as the descriptive documentation of the aforesaid processes, are identified in the SCIIF management tool, SAP GRC Process Control. In this regard, Gas Natural Fenosa has identified all the processes necessary to draw up the financial information, using relevant judgements, estimates, valuations and forecasts, all of them being considered to be critical. The Audit and Control Committee is regularly informed of the main hypotheses used to estimate the financial reporting which depends on relevant judgements, valuations and projections.

The following information has been included in the documentation included in SAP GRC of the critical processes and control activities:

- Process description.
- Process information flow chart.
- Map of systems which interact in the process.
- Description of financial reporting risks associated with the different processes and control objectives.
- Definition of control activities to mitigate risks identified and their attributes.
- Descriptions of persons responsible for processes and control activities.

The following classifications of control activities have also been identified in the definition of control activities, in accordance with the five following criteria:

- Scope: Depending on the scope of the control activities, they can be divided into:
    - General control activities
    - Processes control activities.
- Implementation: control activities have been classified into implemented and non-implemented.
- Level of automation: Depending on the level of automation of the control activities, they can be divided into automatic and manual.
- Nature of the activity: Depending on the nature of the control activities, they can be divided into preventive or detective.
- Frequency: Depending on the recurrence which the activity has over the course of time, for example: annual, weekly, monthly, daily, etc.

Lastly, the SCIIF of Gas Natural Fenosa includes the definition of the annual internal certification model of the controls identified in the critical processes which have to be performed by the business and corporate Units involved in the process of drawing up financial information. The Internal 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 Audit Unit is responsible for reviewing and assessing the conclusions regarding the compliance and effectiveness of the annual internal certifications 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 prevent unauthorised access to both data and applications.

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, and all accesses are registered.

Communications with these systems include systems such as IDS and antivirus 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 an application, operating system and database level, the user-password combination is used as preventive control. At a data level, profiles have been defined to limit access thereto but a functions separation matrix to ensure that the functions are not incompatible has not been developed.

b) Control of changes:

A change management methodology has been developed and implemented which establishes the cautions and validations necessary to limit the risk in that process.

Some of the main aspects it includes are as follows:

- Approval by the business area.
- Carrying out tests 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.

c) Operation:

To guarantee that operations are carried out correctly, monitoring is conducted at three levels:

- All interfaces between systems are monitored to ensure they are correctly executed.
- At a 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.

There is also an internal "Help Desk" service which final users can contact if they detect any kind of discrepancy.

d) Availability and continuity:

The systems have a local High Availability so as to be able to ensure that reporting systems are available in the case of incidents.

A backup copy of data is made regularly, and temporarily kept in a secure location. 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 using a series of profiles which define the functionalities to which a user must have access. These profiles are used to limit user access to Reporting Systems.

Gas Natural Fenosa, in the SCIIF model, has also developed a specific technical instruction including the systems maps of the critical cycles, and interfaces between systems and control activities at application level allowing the information to be registered in full and accurately.

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.

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 and 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 conduct of Gas Natural Fenosa, the Human Rights Policy and the Health and Safety Policy, are complied with at all times. It is 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. Once a period of one year has elapsed since the implementation of the aforesaid Plan, these 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 clients 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 carry out 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.

The internal Audit Unit of Gas Natural Fenosa audits the processes and correct application of Procurement and Supplier Quality standards and if breaches are detected then the pertinent corrective actions are taken.

F.4 Information and communication

Inform, indicating its main characteristics, if it has at least:

F.4.1 A specific function responsible for defining accounting policies (area or department of accounting policies), and 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, and a manual of accounting policies which is up to date and communicated with the units through which the entity operates.

One of the responsibilities, inter alia, of the the General Economic-Financial Department, via the Accounting Planning and Internal Control Unit, is to keep the accounting policies applicable to the group up to date. In this regard, it is responsible for updating the “Gas Natural Fenosa Accounting Plan”, which includes the group's accounting Criteria and accounts Plan, and an analysis of the accounting changes which might have an impact on the financial reporting of Gas Natural Fenosa.

The “Gas Natural Fenosa Accounting Plan” is updated annually, and the last update is in December 2013. 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 accounts plans of the group's subsidiaries and the accounts Plan of Gas Natural Fenosa, which is used as a basis for preparing the different reporting of the financial information to be supplied to external bodies and of the Management Control information.

Once the Accounting Plan is updated, it is disseminated to all the personnel of the organisation via the Gas Natural Fenosa intranet. Furthermore, after the updated accounting plan is published on the intranet, an on-line alert is sent to users who access the intranet, thus informing all the staff of the update.

The Accounting Planning and Internal Control Unit is responsible for analysing the EU-IFRS 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, and the information set our 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 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 EC-CS application is used, which is a SAP application for managing the consolidation process. The SAP BPC application is also used to provide support for drawing up separation of activities reports.

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, standardised, coherent and rational.

Gas Natural Fenosa also has local accounts plans to comply with accounting, fiscal, mercantile and regulatory requirements established by the different laws of the countries in which it operates. Those local accounts plans are conflated into a group accounts 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 auditing committee and whether the company has an internal auditing function which includes the responsibility of supporting the committee in its task of supervising the internal control system, including the SCIIF. Information will also be provided on the scope of the assessment of SCIIF carried out during the year and on the procedure through which the party responsible for carrying out the assessment notifies its results, if the company has an action plan with details of the possible corrective measures, and if its impact on financial information has been taken into account.

The duties of the Audit and Control Committee are established in article 32 section 2 of the Regulation of the Board of Directors and its committees, and its responsibilities include the following:

- Monitoring and supervising the preparation of regulated financial information, guaranteeing the correct application of the accounting principles and the inclusion of all the companies that are to be included in the consolidation perimeter.

- Monitoring and supervising the company's risk management and internal control systems and their effectiveness, guaranteeing that they identify the types of risk the company faces and the measures considered for reducing them and dealing with them in the event of effective damage. Speaking to the accounts auditors about significant weaknesses of the internal control system detected during the audit.

- Reviewing the information on the company’s activities and results which is compiled periodically in compliance with current stock market regulations, making sure that it is prepared in accordance with the same accounting criteria as the annual accounts and ensuring the transparency and accuracy of this information.

- Reporting to the General Meeting of Shareholders on questions raised by shareholders with respect to matters within their competence.

- Proposing to the Board of Directors, for submission to the General Meeting of Shareholders, the appointment of external auditors, pursuant to Article 264 of the Corporate Enterprises Act.

- Raising the selection, appointment, re-election and substitution proposals concerning the external auditor to the Board, as well as the terms and conditions of his/her contract.

- Liaising with external auditors to receive information on any questions which could jeopardise their independence and any other matters relating to the progress of the audit, as well as any communications required pursuant to legislation governing auditing and technical auditing standards.

- Every year, before issuing the Audit Report, providing a report that gives an opinion on the independence of the accounts auditors.

- Supervision of the services of the Internal Audit Area, overseeing its independence and proposing the appointment, re-election and stepping down of its manager. Accordingly, the person responsible for the internal audit function shall present an annual work plan, report on the relevant incidents occurring during its development and submit a report on its activities at the end of the year.

- Monitoring the development of the annual auditing.

- Acting as a communication channel between the Board of Directors and the external auditors and assessing the results of each audit. Under all circumstances, every year they must receive written confirmation from the company's accounts auditors reporting their independence with regard to the entity or entities related to the company, directly or indirectly, as well as information on the additional services of any kind provided to these entities by the foregoing auditors or by persons or entities related to the auditors, in accordance with the provisions laid down in the Accounts Auditing Act.

- Adopting the measures it considers appropriate in the auditing activity, internal financial control system and compliance with legal regulations in matters of provision of information to markets and the transparency and accuracy thereof.

In order to be able to comply with its responsibilities, the Audit and Control Committee avails itself of the information and documentation provided by the Internal Audit and Economic-Financial Units.

The internal audit function was established in Gas Natural Fenosa as a means of independent and objective assessment and for this reason the Internal Audit Area reports to the Audit and Control Committee and to the Chairman and Chief Executive Officer of Gas Natural SDG, S.A.

Its main purpose is to ensure the supervision and continuous assessment of the effectiveness of the Internal Control System, including the Internal Control System on Financial Reporting (SCIIF) and the Criminal Risk Prevention Model, in all fields of Gas Natural Fenosa, providing a methodical and stringent approach for process monitoring and improvement, and for the assessment of operational risks and controls relating thereto. All of the foregoing is designed to achieve compliance with the strategic objectives of the group and to assist the Audit and Control Committee and the company's top-tier management, control and corporate governance.

The Strategic Audit Plan and the Annual Internal Audit Plans are drawn up principally on the basis of the group's Strategic Plan, the risk areas included in the Corporate Risk Map of Gas Natural Fenosa, the SCIIF scope matrix, the assessment of the operational risks in each Process (Operational Risk Maps), the results of previous years' audits and the proposals from the Audit and Control Committee and from top-tier management.

The Internal Audit Area has established a methodology for assessment of the operational risks based on the conceptual framework of the COSO Report, taking as a point of departure the type of risks defined in the Corporate Risk Map of Gas Natural Fenosa.

In accordance with the aforementioned methodology, the operational risks associated with the processes are prioritised by assessing their impact, relative importance and degree of control. Based on the results obtained in the aforementioned assessment, an action plan is designed with a view to implementing corrective measures which shall mitigate residual risks identified as having greater potential impact than the established tolerable or accepted risks.

Furthermore, it should be pointed out that the internal audit function has been developed pursuant to International Standards for the Professional Practice of Internal Auditing, and that a number of the internal auditors are in the process of obtaining certification as Certified Internal Auditor (CIA), the only qualification recognised worldwide attesting to the excellence of the internal auditing services.

In the performance of its activity, the Internal Audit Area constantly verifies compliance with all those policies, regulations and controls of processes (including those laid down in the SCIIF and in the Criminal Risk Prevention Model) to ensure they are working properly and for the purpose of preventing and identifying cases of fraud, corruption or bribery. To this end, all of the work review programmes of each of Gas Natural Fenosa procedures include a specific section targeted at verifying the correct design and operation of the foregoing policies, regulations and controls. In accordance with the Strategic Audit Plan, the Internal Control System of Gas Natural Fenosa is fully supervised by the Internal Audit for five years.

More specifically and with regard to the Internal Control System on Financial Reporting (SCIIF), the Internal Audit Area is in charge of:

- Validating the proper design of the SCIIF, based on the basic principles of the model approved by the Audit and Control Committee.
- Supervising the efficacy and adaptation of control policies and procedures put in place (in full over five years).
- Revising and assessing of conclusions on compliance and effectiveness of the SCIIF resulting from the internal certifications of the business and corporate units in charge of the controls (in full over five years).
- Assessing and communicating the results obtained in the process of supervising the Internal Control System on Financial Reporting (SCIIF) and the controls of the SCIIF processes.

With regard to the Criminal Risk Prevention Model, the Internal Audit 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 2013 were those concerning:

- Business processes:
  - Gas distribution: capture and commissioning of supply points, TPA billing, periodic inspection and dealing with emergencies.
  - Electricity distribution: reading, TPA tilling, development of medium and low voltage and management of network incidents.
  - Wholesale and retail commercialisation: administration of contracts and management of access, management of energy clients and products, maintenance of power facilities, capture and procurement of energy products.
  - Generation: operation and maintenance of production assets and warehouse management.
  - Energy management: purchases of raw materials and energy transactions.
  - Exploration.
  - Procurement: purchases of gas and seafreight logistics.
- Support processes:
  - Customer Service: wholesale billing and management of wholesale client defaults.
  - Management of financial and physical resources: administrative execution of operations and management of purchases and procurement of services.
  - Management of information systems: logic security and communications management.
  - Monitoring undertakings to improvements in process auditing.
  - Management of the regulatory framework.
  - Review of the group’s regulatory system.
  - Review of the 2012 Corporate Responsibility Report.

- Review of the assessment and achievement of the 2012 efficiency projects.

- Internal Control System on Financial Reporting Model (SCIIF).

- Crime Prevention Model.

51% of the review processes correspond to Spain and the remaining 49% 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 it has a discussion procedure through which the accounts auditor (as established in the NTA), the internal auditing function and other experts can inform the senior management and the auditing committee or company directors of significant weaknesses in internal control identified during the annual accounts review processes or others which might have been entrusted to them. It shall also state whether it has an action plan to try to correct or mitigate the weaknesses observed.

As established in article 6.4 of the Regulation of the Board and of its committees:

> "The Board of Directors will hold direct relations with the members of the company's top-tier management and the auditors. The objective, professional and continuous nature of this relationship shall respect the independence of the auditors to the utmost".

In article 9 of this Regulation, it is stipulated that:

> "The Board shall meet once every two months and, on the Chairman's initiative, as many times as he/she considers it appropriate for the smooth running of the company. The Ordinary Board sessions shall deal with general matters related to group operation, economic results, the balance sheet, cash flow status and its comparison with the approved budget, matters mentioned in Article 5, where applicable, and, in any case, the points included on the agenda prepared in accordance with the provisions of these regulations. These regular meetings shall also be occasion for the Board to receive specific information regarding achievements and the most significant operational problems, and foreseeable situations that may be critical for company affairs and the actions that management may propose in order to deal with them, as the case may be...".

The members of the Board of Directors, in order to obtain the information necessary for them to carry out their duties, shall be aided by the Executive Committee, which is specifically empowered with the continuous monitoring of the top-tier management of the group, and also the Audit and Control Committee, whose duties include the knowledge and supervision of the process for drawing up regulated financial information, and the efficacy of the internal control system.

The continued monitoring of the top-tier company Management at is a specific responsibility of the Executive Committee, as is any other of its functions pursuant to the Articles of Association and Regulation of the Board of Directors and 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 its committees, the Audit and Control Committee shall comprise a minimum of three and a maximum of five Directors appointed by the Board of Directors from among the External Directors, taking into account their knowledge and experience in issues of accountancy, audit and risk management. Its members shall leave their post when they do so in their capacity as Directors, when agreed by the Board of Directors or after a period of three years from their appointment. They can be re-elected. At least one of the committee members will be an Independent Director. At 31 December 2013, the committee is made up of three Directors, one of which is proprietary and two independents, and one of the latter, in turn, is the Chairman.

The Board of Directors shall elect the Chairman of the committee, who shall not have a casting vote and shall be replaced in accordance with the Articles of Association (Article 51 bis) and legislation. He/she may be re-elected following the term of one year after his/her dismissal. The Secretary of the committee shall be the same as the Secretary of the Board of Directors.

The committee shall hold meetings whenever necessary in order to issue its reports, and will be convened by its Chairman on his own initiative or upon request of two of its members. At least four meetings per year must be held. The committee may invite to its meetings any executive or employee it deems appropriate.

The functions and activities performed by the Audit and Control Committee of Gas Natural SDG, S.A. duly comply with the legal requirements introduced through Law 12/2010, which amends Law 19/1988 of 12 July, governing Accounts Auditing, Law 24/1988 of 28 July, governing the Securities Market, and the consolidated text of the Public Limited Companies Act, approved through Royal Legislative Decree 1564/1989 of 22 December, and Royal Legislative Decree 1/2010 of 2 July, which approves the consolidated text of the Corporate Enterprises Act.

Likewise, the duties and activities carried out by the committee comply with the recommendations of good corporate governance set forth in current legislation and the Unified Code for the Good Corporate Governance of Listed Companies, dated 19 May 2006 and approved on 22 May 2006, published by the National Securities Market Commission (Conthe Code).

The sphere of activity of the Audit and Control Committee extends to:

- Gas Natural SDG, S.A.

- Companies in which Gas Natural SDG, S.A. holds a majority interest.

- Other entities and companies for which Gas Natural SDG, S.A. has in some form the effective control or responsibility for management or operation.

The Internal Audit Unit regularly reports to the Audit and Control Committee on the actions taken to ensure that Gas Natural Fenosa complies with all the policies, standards and controls of the processes established by the top-tier Management of the group. They also present:

- The Annual Internal Audit Plan for the committee's approval.

- The degree of execution of the Internal Audit Plan and the main conclusions and recommendations included in the Internal Audit Reports.

- The assessment of the efficacy of the Control System and assessment of operational and Internal Control risks of the Gas Natural Fenosa group (including those referring to SCIIF and to the Crime Prevention Model), including the corresponding Action Plans to improve the level of internal control.

- The level of implementation by the audited units of the corrective measures appearing in the Auditor's Reports, in particular those proposed by the Audit and Control Committee.

The General Economic-Financial Department reports the financial information regulated to the Audit and Control Committee, safeguarding the transparency and accuracy of the information and mentioning the internal control systems and the accounting criteria applicable. It also provides information on the main accounting procedures and processes used in drawing up the economic-financial information, and the main risks and contingencies and their cover through provisions, and regarding the Management Policies and Systems and Risk Control in Gas Natural Fenosa, and the relevant matters associated with the drawing up and definition and conclusions of the Corporate Risks Map of Gas Natural Fenosa.

Lastly, the external auditor informs the Audit and Control Committee of the weaknesses in internal control detected during the audit. The external auditors also report on the main conclusions they have reached in the review of internal control, regarding the risks assessment and about 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 of 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 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 2013 year, Gas Natural Fenosa has carried out the annual internal certification process, whereby changes have been identified in a limited number of processes. Importantly, those changes have not necessitated a modification of the control activities previously identified, so that the risks associated with the preparation and reporting of financial reporting are considered to be covered in the critical processes affected. The main items of this process have been as follows:

	Spain	International	Total
Business or corporate units	134	85	219
Processes identified	54	123	177
Controls certified	927	1,932	2,859

Action plans have also been identified due to weaknesses in evidence of controls, which amount to 90, 11 of which are in Spain. During 2013, 33% of the action plans identified in 2012 have been resolved, and new plans have arisen during 2013. In any event, the subprocesses affected by the aforesaid action plans do not have a significant impact on the quality of financial reporting.

F.7 Report by external auditor

Reports on:

F.7.1 If the SCIIF information submitted to the markets has been reviewed by the external auditor, in which case the company will have to include the corresponding report as an annex. Otherwise, it will have to explain why.

Gas Natural Fenosa has deemed it pertinent to ask the External Auditor to issue a report referring to the information on the Internal Control System on Financial Reporting (SCIIF).

G. Degree of compliance with Corporate Governance Recommendations

Indicate the company's degree of compliance with the recommendations given in the Unified Code of Good Governance.

If any recommendations is not followed or is followed partially, it will be necessary to include a detailed explanation of the reasons why so that the shareholders, investors, and the market in general, have sufficient information to be able to assess the company's actions. General explanations will not be acceptable.

1. The Articles of Association of listed companies should not limit the maximum number of votes that can be issued by the same shareholder or contain other restrictions that prevent the company from being taken over through the purchase of its shares on the market.

See headings: A.10, B.1, B.2, C.1.23 and C.1.24

Complies

2. When the parent company and the subsidiary are listed, they must both publicly define the following in detail:

a) The respective areas of activity and possible business relationships between them, as well as those of the listed subsidiary with the remaining group companies;

b) The mechanisms in place to solve possible conflicts of interest that may occur.

See headings: D.4 and D.7

Not applicable

3. Although it is not expressly required in mercantile legislation, they should submit the transactions that involve a modification to the company's structure for approval by the General Meeting of Shareholders, especially the following:

a) The transformation of listed companies into holding companies through the creation of subsidiaries or the incorporation of essential activities into dependent enterprises that hitherto had been carried out by the company itself, even though this party holds full domain over the former;

b) The acquisition or disposal of essential operating assets, when this involves an effective modification of the corporate purpose;

c) Operations that have the same affect as liquidation of the company.

See heading: B.6

Complies

4. The detailed proposals of the agreements to be adopted by the General Meeting of Shareholders, including the information referred to in recommendation 27, should be published with the publication of the announcement of the call to the Meeting.

Complies

5. In the General Meeting of Shareholders, the matters that are substantially independent must be voted separately so that shareholders can exercise their voting preferences separately. And the said rule should be applied, in particular:

a) To the appointment or ratification of Directors, which must be voted on separately;

b) In the event of amendments to the Articles of Association, to each article or group of articles that are substantially independent.

Complies

6. The companies should allow the division of the vote so that the financial brokers legitimated as shareholders but acting on behalf of different customers can issue their votes in accordance with the instructions given by the said customers

Complies

7. The Board should carry out its functions on the basis of a unified purpose and independence, giving the same treatment to all the shareholders and following the company's interest, understood as maximising the company's economic value in a sustained manner.

It should also ensure that, in its relations with the stakeholders, the company observes legislation and regulations; fulfils its duties and contracts in good faith; observes the uses and good practices of the sectors and territories in which it operates; and observes the additional principles of social responsibility it has voluntarily accepted.

Complies

8. As the core of its mission, the Board should adopt the company's strategy and the organisation required for its implementation, as well as supervising and controlling the management's fulfilment of targets and observance of the company's corporate interest and purpose. Accordingly, in its plenary session, the Board reserves the competency for adopting the following:

a) The general policies and strategies of the company, and more specifically:

I) The Strategic or Business Plan, as well as management targets and annual budgets;

II) The investment and finance policy;

III) The definition of the group companies structure;

IV) The corporate governance policy;

V) The corporate social responsibility policy;

VI) The remuneration policies and assessment of performance of senior management;

VII) The policy for control and management of risks, as well as periodic monitoring of the internal information and control systems.

VIII) The dividend policy, as well as the treasury stock policy, with special focus on their limits.

See headings: C.1.14, C.1.16 and E.2

b) The following decisions:

I) At the proposal of the chief executive of the company, the appointment and possible resignation of senior executives, as well as their compensation clauses.

II) The remuneration of directors, as well as, in the case of executives, the additional remuneration through their executive duties and other conditions that their contracts must include.

III) The financial information that must be published periodically, given its status as a listed company.

IV) All kinds of investment or operations which, due to the amount or special characteristics, are of a strategic nature, unless approval falls to the General Meeting;

V) The creation or acquisition of shareholdings in special purpose enterprises or enterprises with registered offices in countries or territories considered as tax havens, as well as any other transactions or operations of a similar nature which, due to their complexity, could hamper the group's transparency.

c) The transactions completed by the company with members of the Board, important shareholders or shareholders represented on the Board or with associated individuals (“related-party transactions”).

However, this authorisation by the Board should not be considered necessary for the related-party transactions that meet the following three conditions:

1. They are carried out by virtue of contracts whose terms and conditions are standardised and applied generally to many customers;

2. They are carried out at prices or rates generally established by the person acting as the supplier of the good or service in question;

3. Their amount does not exceed 1% of the company’s annual revenue.

It is recommended that the Board should approve the associated transactions after a favourable report has been issued by the Audit Committee or, where applicable, any other party to which that function has been commissioned; and, besides not exercising or delegating their right to vote, the members of the Board who are affected should leave the meeting room while the Board deliberates and votes on the matter.

It is recommended that the competencies attributed to the Board here should be non-delegable, with the exception of those mentioned in paragraphs b) and c), which may be adopted in emergencies by the Executive Committee and subsequently ratified by the Board in its plenary session.

See headings: D.1 and D.6

Complies partially

The degree of fulfilment is very high as a result of the following:

In accordance with Article 4 of the Regulations of the Board of Directors:

“1. The Board of Directors is responsible for carrying out whatsoever action that may be necessary for the fulfilment of the corporate purpose laid down in the Articles of Association. At any given time, the criterion governing the actions taken by the Board of Directors is the sustained maximisation of the company’s value. In particular, it shall be competent for the following:

- Determining the company’s strategic orientation and financial objectives and agreeing, at the proposal of senior management, the appropriate measures for their achievement.

- Supervising and verifying that the members of senior management comply with the strategy and meet the targets set and observe the corporate purpose and interest.

- Ensuring the company’s future viability and its competitiveness, as well as the existence of appropriate leadership and management, where the company’s activity is expressly submitted to its control.

- Adopting the company’s codes of conduct and exercising the powers laid down in Article 5 of these regulations.

When carrying out its functions, the Board of Directors shall establish all the supervision systems required to guarantee the control of its members’ decisions, in accordance with its corporate interest and the interests of the minority shareholders.

2. The Board of Directors shall be responsible for whatsoever management, representation and control activities necessary or appropriate for achieving the corporate purpose as laid down in the Articles of Association. It shall respond for this obligation to the General Meeting. The bestowing of powers in favour of one or more members of the Board does not deprive the latter of the organic competency laid down in the Public Limited Companies Act and Articles of Association.

3. The Board of Directors is authorised, within the legal and statutory limits or those expressly laid down in these regulations, for the following:

- Appointing one or more Directors, in the case of vacancies, by means of the co-option system until the first General Meeting is held.
- Accepting Directors' resignations, where applicable.
- Appointing and dismissing the Chairman, Deputy Chairman, Chief Executive Officers, Secretary and Assistant Secretary of the Board of Directors.
- Delegating functions to any of its members under the terms and conditions laid down in law and the Articles of Association, as well as their revocation.
- Appointing the Directors to the various committees laid down in these regulations and revoking their mandates.
- Preparing the Annual Accounts and the Management Report.
- Presenting the reports and agreement proposals which, in accordance with the provisions laid down in law and the Articles of Association, are to be prepared by the Board of Directors to be heard and adopted, where applicable, by the General Meeting, including the Annual Corporate Governance Report.
- Establishing the company's economic targets and adopting, when so proposed by senior management, the strategies, plans and policies aimed at achieving the said targets, where the fulfilment of the said activities is subject to its control.
- Adopting the acquisitions and transfers of the company's assets or those of its subsidiary companies which, as a result of whatsoever circumstance, are of particular significance.
- Establishing its own organisation and operation, and as well as that of the company's senior management, and, in particular, modifying these regulations.
- Exercising the powers awarded to the Board of Directors by the General Meeting, which may only be delegated if so laid down expressly by agreement of the General Meeting, as well as the other powers bestowed by virtue of these regulations.

4. The Board of Directors is also the company's organic representative under the legal terms and conditions laid down in the Articles of Association. The delegation or bestowing of such a power of representation in favour of one or more Directors implies an obligation for the latter to notify the Board of whatsoever documents they sign in the exercise of the said power and which go beyond ordinary administrative requirements.

5. The Board of Directors shall regularly assess its own operations and that of its committees."

Similarly, Article 5 of the said regulations on the powers reserved expressly for the Board of Directors lays down the following:

Article 5. Powers reserved expressly for the Board of Directors

Notwithstanding the powers of representation and execution awarded by the Articles of Association to the Chairman and the Chief Executive Officers, as well as the effects of the powers or delegations bestowed to third parties directly by the company, with regard to the legal independence of the governing bodies of the companies in the group, a prior decision by the Board of Directors of Gas Natural SDG, S.A. shall be required in the following cases:

1. Presentation to the Ordinary General Meeting of the Annual Accounts and the Management Report of Gas Natural SDG, S.A. and the consolidated accounts, as well as any other proposals legally required of the Administrators of the company.

2. Adoption of the group's Strategic Plan, the Annual Budgets, the Annual Financial Plan and the investments and finance policy.

3. Definition of the capital ownership structure and the structure for delegations and powers.

4. Adoption of the corporate governance and corporate social responsibility policies.

5. Incorporation of new companies or entities or participation in already exiting companies.

6. Adoption of merger, absorption, spin-off, concentration and dissolution transactions with or without liquidation, in which any of the companies in Gas Natural Fenosa Group.

7. Disposal of capital shares in companies or other fixed assets by any of the companies in Gas Natural Fenosa Group.

8. Adoption of investment projects to be carried out by any company in Gas Natural Fenosa Group.

9. Adoption of programmes for the issue and renewal of serial commercial papers, debentures or similar securities by any of the companies in Gas Natural Fenosa Group.

10. Adoption of financial transactions to be carried out by any company in Gas Natural Fenosa Group which are not included in the Annual Financial Plan.

11. Awarding of guarantees by companies belonging to Gas Natural Fenosa Group to guarantee the obligations of entities that do not belong to it or which, belonging to it, have external shareholders.

12. Transfer of rights over the trade name and brands as well as patents, technology and any other type of industrial property belonging to any of the companies in Gas Natural Fenosa Group.

13. Adoption or ratification of the appointment and dismissal of the members of top-tier management.

14. Adoption of the appointment and dismissal of the patrons and posts held in the Gas Natural Foundation and of the individual representatives of Gas Natural SDG, S.A. in the cases in which the said company holds the post of administrator in another company. Approval of contribution to patronage activities.

15. Creation, investment and supervision of the management of personnel pension plans and any other undertakings involving personnel which imply long-term financial liabilities for the company.

16. The signing of commercial, industrial or financial agreements of relevant or strategic importance for the Gas Natural Fenosa Group that represent a modification, change or review of the current Strategic Plan or Annual Budget.

17. Approval of any company transaction with a significant shareholder pursuant to the terms of Article 19.

18. Adoption of the financial information that corresponds according to legislation.

19. Adoption of the risk management and control policy and regular monitoring of the indicators and internal control systems.

20. Adoption of the policy on dividends and treasury stocks.

In relation to the agreements covered in points 5, 6, 7, 8, 10, 14 and 15, prior approval by the Board of Directors refers to those agreements that, owing to their quantum or nature, are of special relevance for the Gas Natural Fenosa Group. Whatever the case, the transaction involving quanta of more than 15 million euros shall be understood as relevant, except in points 11 and 12 where the figure stands at five million euros and point 14, with a relevance threshold of 200,000 euros.

The agreements laid down in paragraphs five to eight, ten to thirteen and sixteen can be adopted without distinction by the Board of Directors or the Executive Committee.

The Chairman, the Chief Executive Officer(s) or the Secretary shall execute the decisions taken by the Board of Directors pursuant to this article and shall notify the authorisation or approval in the appropriate manner, or shall issue instructions to act as required".

Consequently, there are certain competencies which, owing to urgency, effectiveness and operability, have been awarded without distinction to the Board of Directors and to the Executive Committee.

9. The Board should have the necessary size for effective, participatory operation, which means that it should not have fewer than five or more than 15 members.

See heading: C.1.2

Explain

At present, the Board of Directors of Gas Natural SDG, S.A., within the minimum number of 10 members and a maximum of 20 members laid down in Article 41 of the Articles of Association, by virtue of the agreement adopted by the General Meeting of Shareholders held on 23 June 2003, comprises 17 members. The said number exceeds by two that of recommendation 9 of the Unified Code of Good Governance; however, the company understands that the current size of the Board is appropriate and necessary for the correct management and supervision of the company, where the said number does not prevent, limit or restrict in whatsoever way the effective and participatory operation of the said governing body.

10. The External Proprietary and Independent Directors should represent a broad majority of the Board and the number of Executive Directors should be the required minimum, taking into account the complexity of the corporate group and the percentage of participation of the Executive Directors in the company's capital.

See headings: A.3 and C.1.3

Complies

11. Among the external Directors, the ratio between the number of Proprietary Directors and the Independent Directors should reflects the proportion between the company's share capital represented by the Proprietary Directors and the rest of the share capital.

This criterion of strict proportionality could be reduced as the weight of the Proprietary Directors is greater than that which would correspond to the total percentage of the share capital they represent:

1º In companies with a high level of capitalisation, when the shares that are legally considered as significant are zero or low-level, but where shareholders exist, with blocks of shares of high absolute value.

2º When it is a question of companies in which there is a plurality of shareholders represented on the Board and there are no associations between them.

See headings: A.2, A.3 and C.1.3

Complies

12. The number of Independent Directors should represent at least one third of the total number of Directors.

See heading: C.1.3

Complies

13. The character of each Director must be explained by the Board before the General Meeting of Shareholders that is to carry out or ratify his/her appointment, which should be confirmed or reviewed annually, as appropriate, in the Annual Corporate Governance Report, with prior confirmation by the Appointments Committee. The said report should also explain the reasons why Proprietary Directors have been appointed at the request of shareholders whose holding is less than 5% of the share capital; and reasons should be given for the rejection, where applicable, of formal requests for presence on the Board from shareholders whose holding is equal to or higher than that of others at whose request Proprietary Directors have been appointed.

See headings: C.1.3 and C.1.8

Complies

14. When the number of female Board members is low or non-existent, the appointments committee shall ensure that when new vacancies arise:

a) The selection procedures are not affected by an implicit bias that prevents female Directors from being selected;

b) The company purposefully seeks women that satisfy the professional profile, including among potential candidates.

See headings: C.1.2, C.1.4, C.1.5, C.1.6, C.2.2 and C.2.4.

Complies partially

Article 31 of the regulations for the organisation and operation of the Board of Directors and its committees lays down that the Appointments and Remuneration Committee shall review the necessary aptitudes in the candidates that are to cover each vacancy, the fulfilment of the requirements for each category of Director and the process for incorporating new members, raising the corresponding reports to the Board as required. For covering new vacancies, selection processes shall be guaranteed that are not subject to implicit bias that prevents the selection of female Directors, including, under the same conditions and among potential candidates, women who meet the professional profile being sought.

At present, the number of female Directors on the Board is zero, although Gas Natural SDG, S.A. has had female Directors in the past. On no occasion has the company limited, vetoed or restricted the possible appointment of a Director on the basis of gender, a circumstance which has never been taken into account.

15. That the Chairman, as the person responsible for the effective performance of the Board, ensures that the Directors receive sufficient information beforehand; stimulates the debate and active participation of Directors during the Board sessions, safeguarding their right to take their own position and express their own opinion; and organises and coordinates the periodic assessment of the Board together with the chairmen of the relevant committees as well as, if appropriate, that of the CEO or senior executive.

See headings: C.1.19 and C.1 41

Complies

16. When the Chairman of the Board is also the company's senior executive, one of the Independent Directors should be empowered to request the call to meeting of the Board or the inclusion of new matters on the agenda; coordinate and echo the concerns of the External Directors; and direct the Board's assessment of its Chairman.

See heading: C.1.22

Not applicable

17. The Secretary of the Board must be particularly sure that the Board's actions:

a) Comply with the content and spirit of the laws and their regulations, including those approved by the regulating bodies;

b) Are in accordance with the Articles of Association of the company and with the Meeting rules and regulations, those of the Board and any others that the company has;

c) Take into consideration recommendations concerning good governance set forth in this Unified Code which the company has accepted.

And, in order to safeguard the Secretary's independence, impartiality and professionalism, his/her appointment and dismissal must be reported by the Appointments Committee and approved by the Board in its plenary session; and the said appointment and dismissal procedure must be laid down in the Board Regulations.

See heading: C.1.34

Complies

18. The Board should meet as regularly as necessary to carry out its functions effectively, following the schedule of dates and business laid down at the beginning of the year, where each Director may propose other business for the agenda not considered initially.

See heading: C.1.29

Complies

19. The non-attendance of the Directors should be reduced to essential cases and quantified in the Annual Corporate Governance Report. And if representation is essential, it must be designated with instructions.

See headings: C.1.28, C.1.29 y C.1.30

Complies

20. When the Directors or the Secretary express concern for any proposal or, in the case of the Directors, for the company's progress and the said concern is not resolved by the Board, it should be recorded in the minutes of the meeting at the request of the person expressing the said concern.

Complies

21. In its plenary session, the Board should assess the following once a year:

a) The quality and effectiveness of the Board's performance;

b) Based on the report prepared by the Appointments Committee, the performance of the Chairman of the Board and the chief executive of the company;

c) The operation of its committees, based on the report prepared by these.

See headings: C.1.19 and C.1.20

Complies

22. All the Directors should be able to exercise the right to gather the additional information they consider necessary on business that falls within the competency of the Board. And, unless the Articles of Association or the Regulations of the Board lay down otherwise, they should address their requirement to the Chairman or Secretary of the Board.

See heading: C.1.41

Complies

23. All the Directors should have the right to obtain the advice they need for the fulfilment of their functions from the company. The company should lay down the appropriate ways of exercising this right, which, under special circumstances, could include external advisory services on the company's account.

See heading: C.1.40

Complies

24. The companies should establish a guidance programme to provide new Directors with rapid and sufficient knowledge of the company, as well as its rules on corporate governance. And they should also offer Directors updated awareness programmes whenever circumstances deem such action advisable.

Complies

25. The companies should require the Directors to devote the time and effort necessary for carrying out their function effectively and, consequently:

a) The Directors should notify the Appointments Committee of the other professional obligations in case these could interfere with the dedication required;

b) The companies should establish rules on the number of Boards of which their Directors can form part.

See headings: C.1.12, C.1.13 and C.1.17

Complies partially

Owing to the high level of participation and attendance at the sessions of the governing bodies by the members of the Board, to date the company has not established any rules on the number of Boards on which the said Directors can sit; however, Article 18 of the Regulations of the Board expressly lays down the duty to non-competition.

Article 18 of the Regulations of the Board states:

"Directors may not hold, themselves or by means of a representative, posts of whatsoever kind in companies or enterprises that compete with Gas Natural SDG S.A. or any company in its group, or provide the same services of representation or consultancy in favour thereof. A company shall be considered as a competitor of Gas Natural SDG, S.A. when, directly or indirectly, or through companies in its group, it is devoted to any of the activities included in the corporate purpose of Gas Natural SDG, S.A.

The Board of Directors, on the basis of report from the Appointments and Remuneration Committee, may excuse the fulfilment of this obligation when there is justified cause and it does not have a negative effect on the company's interests".

26. The proposal for the appointment or re-election of Directors raised by the Board to the General Meeting of Shareholders, as well as their provisional appointment by co-option, should be approved by the Board:

a) At the proposal of the Appointments Committee, in the event of Independent Directors.

b) Following a report from the Appointments Committee, in the event of remaining Directors.

See heading: C.1.3

Complies

27. The companies should publish the following information about their Directors on their website and keep the said information up-to-date:

a) Professional and biographical profile;

b) Other Boards of Directors to which they belong, whether or not these are listed companies;

c) An indication of the classification of Director to which they belong, specifying, in the event of Proprietary Directors, the shareholder they represent or with whom they are linked.

d) Date of the first appointment as Director of the company, as well as subsequent appointments; and

e) Company shares and stock options of which they are the holder.

Complies

28. The Proprietary Directors should present their resignation when the shareholder they represent sells all his/her shares in the company. They should also present their resignation, in the corresponding number, when the said shareholder lowers his/her shares in the company to a level that requires a reduction in the number of his/her Proprietary Directors.

See headings: A.2, A.3 and C.1.2

Complies

29. The Board of Directors should not propose the dismissal of any independent director before the fulfilment of the statutory term for which he/she has been appointed, except when there is just cause, understood as such by the Board after a report issued by the Appointments Committee. In particular, there shall be understood to be just cause when the Director had failed to carry out the duties inherent to his or her position or had been involved in any of the circumstances which might lead him or her to forego his/her position of independent Director, pursuant to Order ECC/461/2013.

    The dismissal of Independent Directors resulting from takeover bids, mergers or other similar corporate transactions that represent a change to the company's share capital structure could be proposed when the said changes to the structure of the Board are brought about by the criterion of proportionality indicated in recommendation 11.

    See headings: C.1.2, C.1.9, C.1.19 and C.1.27

    Complies

30. The companies should establish rules that oblige the Directors to report and, where applicable, resign in cases that could damage the company's reputation and credit and, in particular, oblige them to inform the Board of the criminal cases in which they appear as an accused party, as well as their subsequent procedural events.

    If a Director is tried or a sentence is issued against him/her for the commencement of a hearing for any of the crimes laid down in Article 213 of the Capital Companies Act, the Board should examine the case as soon as possible and, in view of the specific circumstances, decide whether or not it is fitting for the Director to continue in his/her post. The Board should give a reasoned account of all the events in the Annual Corporate Governance Report.

    See headings: C.1.42, C.1.43

    Complies

31. All the Directors should clearly express their opposition when they consider that any proposed decision submitted to the Board may be contrary to the company's interests. And this should apply especially to the Independent Directors and other Directors not affected by the potential conflict of interest in the case of decisions that may damage the shareholders not represented on the Board.

    When the Board adopts significant or reiterated decisions on which the Director has formulated serious reservations, the said Director should draw the corresponding conclusions and, if he/she decides to resign, explain the reasons in the letter referred to in the following recommendation.

    The scope of this recommendation also includes the Secretary of the Board, even though he/she does not have the status of Director.

    Complies

32. When, either due to resignation or any other reason, a Director abandons his/her post before the end of his/her mandate, he/she should explain the reasons in a letter sent to all the members of the Board. And, without prejudice to the said resignation being notified as a relevant event, the reason for the resignation should be accounted for in the Annual Corporate Governance Report.

    See heading: C.1.9

    Not applicable

33. The remuneration made through shares in the company or companies in the group, options over shares or instruments referenced to the value of the share, variable remuneration associated with the company's performance or social security systems should be limited to the Executive Directors.

    This recommendation will not cover the provision of shares when it is conditioned to the Directors maintaining them until their resignation as a Director.

    Complies

34. The remuneration of the External Directors should be the amount necessary for compensating the devotion, qualification and responsibility required by the post; but not so high as to compromise their independence.

    Complies

35. The remuneration related to the company's results should take into account the possible exceptions included in the external auditor's report, which may reduce the said results.

    Not applicable

36. In the case of variable remuneration, the remuneration policies should incorporate limits and the necessary technical precautionary measures to ensure that the said remuneration is related to the professional devotion of the beneficiaries and do not result simply from the general evolution of the markets or the company's activity sector or other similar circumstances.

    Complies

37. When there is a Delegated or Executive Committee (hereinafter called "Executive Committee"), the participation structure of the various categories of Directors should be similar to that of the Board itself and its Secretary should be the Secretary of the Board.

    See headings: C.2.1 and C.2.6

    Complies

38. The Board should always be aware of the matters dealt with and the decisions adopted by the Executive Committee and all the members of the Board should receive a copy of the minutes of the sessions of the Executive Committee.

    Explain

The Chairman of the Board, also Chairman of the Executive Committee of the company, informs the members of the Board of Directors of the matters dealt with in the committee that are not recurrent, ordinary or usual. In addition, when the Executive Committee, in the full exercise of its competencies, considers that a certain matter submitted to its consideration as a result of its strategic, quantitative or qualitative importance must be reported to the Board of Directors or known thereby, it raises the said matter to the Board for the corresponding decision to be taken.

39. The Board of Directors should constitute not only the Audit Committee required by the Securities Market Act, but also one or two separate committees: the Appointments Committee and the Remuneration Committee.

    The rules governing the make-up and operation of the Audit Committee and the Appointments and Remuneration Committee or Committees should be given in the Regulations of the Board and include the following:

a) The Board should appoint the members of these committees, bearing in mind the know-how, skills and experience of the Directors and the missions of each committee; it should deliberate on its proposals and report; and it should report on its activities and respond for the work carried out during the first plenary session of the Board after its meetings.

b) These committees should be made up exclusively of External Directors, with a minimum of three. The above is understood as without prejudice to the attendance of Executive Directors or senior executives when so agreed expressly by the members of the committee.

c) Their Chairmen should be Independent Directors.

d) They should be able to seek external consultancy services when they consider it necessary for their functions.

e) Minutes should be recorded of their meetings and a copy of the said minutes should be sent to all the members of the Board.

See headings: C.2.1 and C.2.4

Complies partially

The Chairmen and members of the various committees form part of the Board of Directors and, in turn and in the exercise of their competencies, they make various proposals and submit reports which are then submitted to the Board, which, together with the aim of avoiding the sending of duplicated documentation, is why the minutes of the committees are not sent.

40. The supervision of compliance with the internal codes of conduct and the rules of corporate governance should be attributed to the Audit Committee, to the Appointments Committee or, if these are separate, to the Compliance or Corporate Governance Committee.

See headings: C.2.3 and C.2.4

Complies

41. The members of the Audit Committee and, in particular, its Chairman should be appointed on the basis of their know-how and experience in bookkeeping, audits and risk management.

Complies

42. The listed companies should have an internal audit function which, under the supervision of the Audit Committee, should monitor the correct functioning of the internal control and information systems.

See heading: C.2.3

Complies

43. The person responsible for the internal audit function should present his/her annual work plan to the Audit Committee; he/she should inform it directly of the incidents occurring during its development; and, at the end of each year, submit an activities report.

Complies

44. The risk control and management policies should identify at least:

a) The different kinds of risk (operational, technological, financial, legal, those affecting the corporate reputation, etc.) which are faced by the company and which include - as part of the financial or economic risks - contingent liabilities and other off-balance sheet risks;

b) The setting of the risk level that the company believes is acceptable;

c) The mechanisms to mitigate the impact of the risks identified, in the event that they materialise;

d) Internal control and information systems which shall be used to control and manage the foregoing risks, including the contingent liabilities or off-balance sheet risks.

See heading: E

Complies

45. The Audit Committee should be responsible for the following:

1º In relation to the internal control and information systems:

a) That the main risks identified as a result of supervising the efficacy of the internal control of the company and the internal audit, as the case may be, are adequately managed and disclosed.

b) Ensuring the independence and effectiveness of the internal audit function; proposing the selection, appointment, re-election and dismissal of the person in charge of the internal audit service; forwarding the budget for this service; receiving periodic information on its activities, and verifying that senior management considers the conclusions and recommendations in its reports.

c) Setting up and supervising a mechanism that enables employees to communicate any irregularities of importance, especially those of a financial and bookkeeping nature, and to do so in a confidential manner and, if considered suitable, anonymous.

2º In relation to the external auditor:

a) Receiving information from the external auditor on the audit plan and the results of carrying it out and checking that senior management take its recommendations into account.

b) Ensuring the independence of the external auditor and, to this end:

i) The company should notify the change of auditor to the CNMV as a relevant event and attach a declaration on the possible existence of disagreements with the outgoing auditor and, if there are any disagreement, the content thereof.

ii) In the case of the resignation of the external auditor, it should examine the circumstances leading to the said resignation.

See headings: C.1.36, C.2.3, C.2.4 and E.2

Complies

46. The Audit Committee should be able to call any of the company's employee or manager, and also have them appear without the presence of any other executive.

Complies

47. The Audit Committee should report to the Board before the Board adopts the corresponding decisions on the following matters indicated in recommendation 8:

a) The financial information that must be published periodically, given its status as a listed company. The committee should ensure that the intermediate accounts are prepared under the same bookkeeping criteria as the annual accounts and, accordingly, consider the appropriateness of a limited review by the external auditor.

b) The creation or acquisition of shareholdings in special purpose enterprises or enterprises with registered offices in countries or territories considered as tax havens, as well as any other transactions or operations of a similar nature which, due to their complexity, could hamper the group's transparency.

c) The related-party transactions, unless that preliminary report function has been attributed to another of the supervision and control committees.

See headings: C.2.3 and C.2.4

Complies

48. The Board of Directors should seek to present the accounts to the General Meeting without reservation or exception in the auditors' report and, in whatsoever exceptional case, both the Chairman of the Audit Committee and the auditors should clearly explain to shareholders the content and scope of the said reservations or exceptions.

See heading: C.1.38

Complies

49. Most of the members of the Appointments Committee (or the Appointments and Remuneration Committee, if there is only one committee) should be Independent Directors.

See heading: C.2.1

Complies

50. Besides the functions indicated in the above recommendations, the following responsibilities should correspond to the Appointments Committee:

a) Assessing the skills, knowledge and experience required on the Board, subsequently defining the duties and aptitudes required by the candidates to cover each vacancy, and assessing the time and dedication required to correctly perform their duties.

b) Properly examining and organising the succession of the Chairman and chief executive and, if appropriate, making proposals to the Board to enable the foregoing succession to occur in an organised and well planned manner.

c) Reporting the appointments and resignations of senior executives proposed to the Board by the chief executive.

d) Notifying the Board on the gender diversity issues shown in recommendation 14 of this code.

See heading: C.2.4

Complies partially

The only matter to be considered under this heading would be gender diversity, for which the Appointments and Remuneration Committee is responsible for reviewing the necessary aptitudes in the candidates that are to cover each vacancy, the fulfilment of the requirements for each category of Director and the process for incorporating new members, raising the corresponding reports to the Board as required. For covering new vacancies, selection processes shall be guaranteed that are not subject to implicit bias that prevents the selection of female Directors, including, under the same conditions and among potential candidates, women who meet the professional profile being sought. The said obligation is laid down in Article 31.2 of the Regulations of the Board of Directors.

51. The Appointments Committee should consult the company's Chairman and chief executive, especially with regard to business concerning the Executive Directors.

And any Director should be able to ask the Appointments Committee to consider potential candidates for the vacancy of Director if they consider them to be ideal.

Complies

52. Besides the functions indicated in the above recommendations, the following responsibilities should correspond to the Remuneration Committee:

a) Proposing to the Board of Directors:

i) The remuneration policy for Directors and senior executives;

ii) Individual remuneration of Executive Directors and the other conditions of their contracts.

iii) The basic contractual conditions of senior executives.

b) Ensuring the observance of the remuneration policy laid down by the company.

See headings: C.2.4

Complies

53. The Remuneration Committee should consult the company's Chairman and chief executive, especially with regard to business concerning the Executive Directors and senior executives.

Complies

H. Other information of interest

1. If there is any relevant aspect in corporate governance in the company or in the group companies which has not been included in the rest of the sections of this report, but which it were necessary to include to show more complete and reasoned information on the governance structure and practices in the company or its group, briefly indicate them here.

2. In this section, you may include any information or clarification with regard to the previous sections of this report to the extent that they are relevant and non-repetitive.

   More specifically, indicate whether your company is subject to any corporate governance legislation other than Spanish law, and if so, include any information that is mandatory and different from that requested herein.

3. The company will also be able to indicate if it has voluntarily subscribed to other codes of ethical principles or good practices, at international or sector level, or in any other field. In that case, indicate the code in question and the date it was subscribed to.

At its meeting on 17 September 2010, the Board of Directors agreed that Gas Natural Fenosa would adhere to the Code of Good Tax Practices. In accordance with the provisions laid down in the Code of Good Tax Practices, it is expressly placed on record that Gas Natural Fenosa has effectively complied with the content of this code and, more specifically, at the meeting held on 31 January 2014 the Board of Directors of Gas Natural Fenosa was notified about the tax policies adhered to by the group in 2013.

Explanatory note for item D.4

Pursuant to the Spanish laws determining countries which are considered to be tax havens (Royal Decree 1080/1991, of 5 July and Royal Decree 116/2003, of 31 January), Gas Natural Fenosa only has three shareholdings in companies incorporated in such territories, specifically the shareholdings of 95% in Buenergía Gas & Power, Ltd, of 47.5% in EcoEléctrica Holding, Ltd and of 47.5% in Ecoeléctrica Limited, all registered in the Cayman Isles. They are companies which directly or indirectly own a single industrial shareholding which carries out the electrical generation activity by gas combined cycle plant in Puerto Rico (Ecoeléctrica, L.P.), which pay tax on their income in this country and which do not offer any kind of tax advantage for Gas Natural Fenosa.

This Annual Corporate Governance Report has been adopted by the Board of Directors of the company in its session held on 31 January 2014.

Indicate whether or not there have been Directors who voted against or abstained from voting on the adoption of this report.

No

Name or company name of the Director not voting in favour of the adoption of this report	Reasons (against, abstention, not present)	Explain the reasons

2009-2013 consolidated data

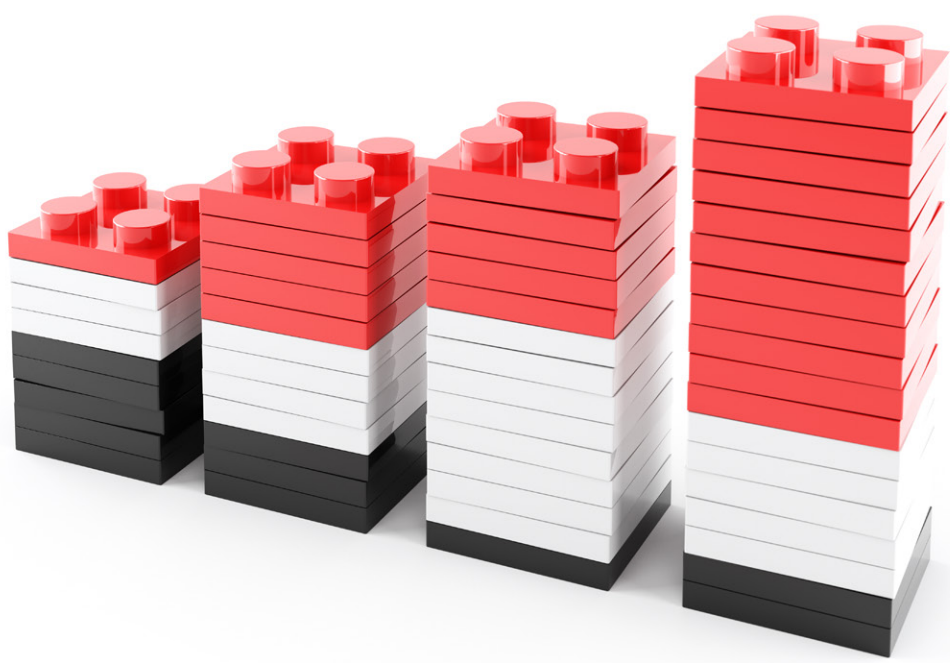
362 Operating statistics.

363 Financial statistics.

364 Stock market statistics.

integrated
annual
report

2013



Operating statistics

	2013	2012	2011	2010	2009
Gas distribution (GWh)	**424,808**	**409,775**	**395,840**	**411,556**	**402,691**
Spain (Sales-TPA)[1]	191,189	195,769	201,231	207,174	229,586
Latin America (Sales-TPA)[1]	229,833	210,359	191,031	200,995	169,612
Italy (Sales-TPA)[1]	3,786	3,647	3,578	3,387	3,494
Gas supply (GWh)	**326,923**	**328,058**	**308,635**	**305,704**	**286,152**
Spain	229,419	238,450	236,903	250,885	234,230
Retail commercialisation in Italy	2,992	2,844			
International	94,512	86,764	71,732	54,819	51,922
UF Gas (GWh)[2]					
Commercialisation	24,228	27,842	28,469	29,759	17,427
Trading	10,245	14,100	13,252	13,887	5,393
Gas transportation/Empl (GWh)	**122,804**	**116,347**	**111,855**	**109,792**	**109,230**
Gas distribution network (km)	**123,690**	**120,760**	**116,438**	**115,272**	**118,658**
Spain	47,678	46,541	43,871	44,931	50,697
Latin America	69,054	67,334	65,831	64,492	62,315
Italy	6,958	6,885	6,736	5,849	5,645
Increase in gas distribution points (thousands)	**284**	**292**	**316**	**335**	**298**
Spain	47	75	81	84	112
Latin America	231	208	217	243	169
Italy	6	9	18	8	17
Gas distribution points (thousands) as at 31/12	**11,948**	**11,663**	**11,372**	**11,361**	**11,790**
Spain	5,172	5,124	5,050	5,274	5,954
Latin America	6,321	6,090	5,882	5,665	5,422
Italy	455	449	440	422	414
Contracts per customer in Spain as at 31/12	**1.5**	**1.4**	**1.4**	**1.3**	**1.4**
Employees as at 31/12	**16,323**	**17,270**	**17,769**	**18,778**	**19,346**
Electricity generated (GWh)	**53,756**	**56,248**	**56,616**	**58,389**	**52,752**
Spain	33,785	37,144	38,081	38,338	28,728
International	19,971	19,104	18,535	20,051	24,024
Electricity distribution (GWh)	**51,750**	**54,362**	**54,067**	**54,833**	**34,973**
Europe	35,307	36,288	36,361	36,831	22,919
International	16,443	18,074	17,706	18,002	12,054
Electricity Distrib. supply points (thousands) at 31/12	**7,543**	**8,309**	**8,133**	**9,436**	**9,136**
Europe	4,618	4,608	4,568	4,535	4,497
International	2,925	3,701	3,565	4,901	4,639

[1] Third-party access.
[2] Figures at 50%.

Financial statistics

Balance Sheet Figures

(in millons of euros)

Assets	2013	2012	2011	2010	2009*
Gross tangible and intangible fixed assets	38,160	38,123	37,147	36,194	34,320
Consolidation goodwill	5,756	5,837	5,876	6,002	6,056
Provisions and accumulated depreciation	(12,260)	(10,888)	(9,199)	(7,767)	(5,620)
Net tangible and intangible fixed assets	**31,656**	**33,072**	**33,824**	**34,429**	**34,756**
Financial investments	**1,553**	**1,083**	**1,123**	**799**	**811**
Net worth attributed to the parent company	**13,444**	**13,261**	**12,792**	**11,384**	**10,681**
Minority interests	**1,566**	**1,618**	**1,649**	**1,590**	**1,496**
Subsidies	**932**	**878**	**803**	**657**	**520**
Non-current financial liabilities	**15,508**	**18,046**	**17,539**	**18,176**	**18,658**
Current financial liabilities	**3,403**	**2,386**	**2,853**	**2,130**	**2,849**

* On 1 January 2010 Gas Natural Fenosa applied the IFRIC 12 "Service Concession Arrangements" retroactively,reformulating the consolidated balance sheets at 1 January 2009 and 31 December 2009 for the intents and purposes of comparison.

Profit and Loss Account Figures

(in millons of euros)	2013	2012	2011	2010	2009
Net turnover	24,969	24,904	21,076	19,630	14,873
Other operating income and allocation of subsidies	264	284	298	289	238
Operating income	**25,233**	**25,188**	**21,374**	**19,919**	**15,111**
Gross operating profit	**5,085**	**5,080**	**4,645**	**4,477**	**3,923**
Net operating profit	**2,963**	**3,067**	**2,947**	**2,893**	**2,445**
Financial expenses and income, fair value variations in financial instruments and net exchange differences	(838)	(874)	(934)	(1,059)	(814)
Results from disposal of financial instruments	0	0	2	44	101
Financial profit/loss	**(838)**	**(874)**	**(932)**	**(1,015)**	**(713)**
Profit before tax	**2,132**	**2,203**	**2,022**	**1,883**	**1,791**
Consolidated profit for the financial year	**1,664**	**1,657**	**1,526**	**1,415**	**1,351**
Consolidated profit for the financial year attributed to the parent company	**1,445**	**1,441**	**1,325**	**1,201**	**1,195**

* On 1 January 2010 Gas Natural Fenosa applied the IFRIC 12 "Service Concession Arrangements" retroactively, reformulating the consolidated profit and loss account for the year 2009 for comparison purposes.

Cash Flow Statement Figures

(in millons of euros)	2013	2012	2011	2010	2009
Cash flow statements of operations	3,451	3,437	2,137	2,746	2,512
Payments for investments in tangible and intangible fixed assets	1,417	1,441	1,456	1,545	1,792
Payments for other investments	1,068	697	1,294	788	14,362
Collection for divestitures	1,280	933	2,521	2,216	2,068
Payments for dividends	1,057	566	445	858	756
Collection/Payment for financial liabilities	(2.497)	(1.020)	(166)	(1.272)	9.039

Stock market statistics

	2013	2012	2011	2010	2009
Number of shares traded (millions)	795	576	844	1,064	737
Funds traded (millions of euros)	12,161	6,726	10,827	13,258	9,777
Final share price (euros)	18.69	13.58	13.27	11.49	15.09
Final share price (euros)[1]	18.69	13.58	13.14	11.00	14.44
Maximum (euros)	18.80	13.97	15.00	15.67	22.28
Maximum adjusted (euros)[1]	18.80	13.97	14.86	15.00	18.17
Minimum (euros)	13.22	8.36	10.20	10.07	8.39
Minimum adjusted (euros)[1]	13.22	8.36	9.77	9.64	8.03
Book value per share (euros)	15.00	14.93[2]	15.15[2]	14.08	15.04[2]
Ebitda per share (euros)	5.08	5.10[2]	4.87[2]	4.86	4.85[2]
Net profit per share (euros)	1.44	1.45[2]	1.39[2]	1.30	1.48[2]
Capitalisation-book value ratio	1.2	0.9	0.9	0.8	1.1
Business value-ebitda ratio	6.6	5.8	6.6	6.6	8.9
Capitalisation-profit ratio	12.9	9.4	9.9	8.8	11.6
Dividend-stock market capitalisation ratio (%)	4.8	6.6	6.3	7.0	5.3
Dividend-profit ratio (%)	62.1	62.1[3]	62.1[3]	61.8[3]	61.1
Share capital (number of shares as at 31/12)	1,000,689,341	1,000,689,341	991,672,139	921,756,951	921,756,951
Average number of shares	1,000,689,341	996,402,474	953,425,915	921,756,951	809,485,236
Stock market capitalisation (millions of euros)	18,708	13,589	13,155	10,591	13,905
Dividend (millions of euros)	898	895[3]	823[3]	742[3]	730

[1] Considering adjustments arising from the capital increase with preferential subscription rights carried out in March 2009, June 2011 and June 2012.
[2] Considering the average number of shares for the year.
[3] Considering total amount equivalent for dividends.

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