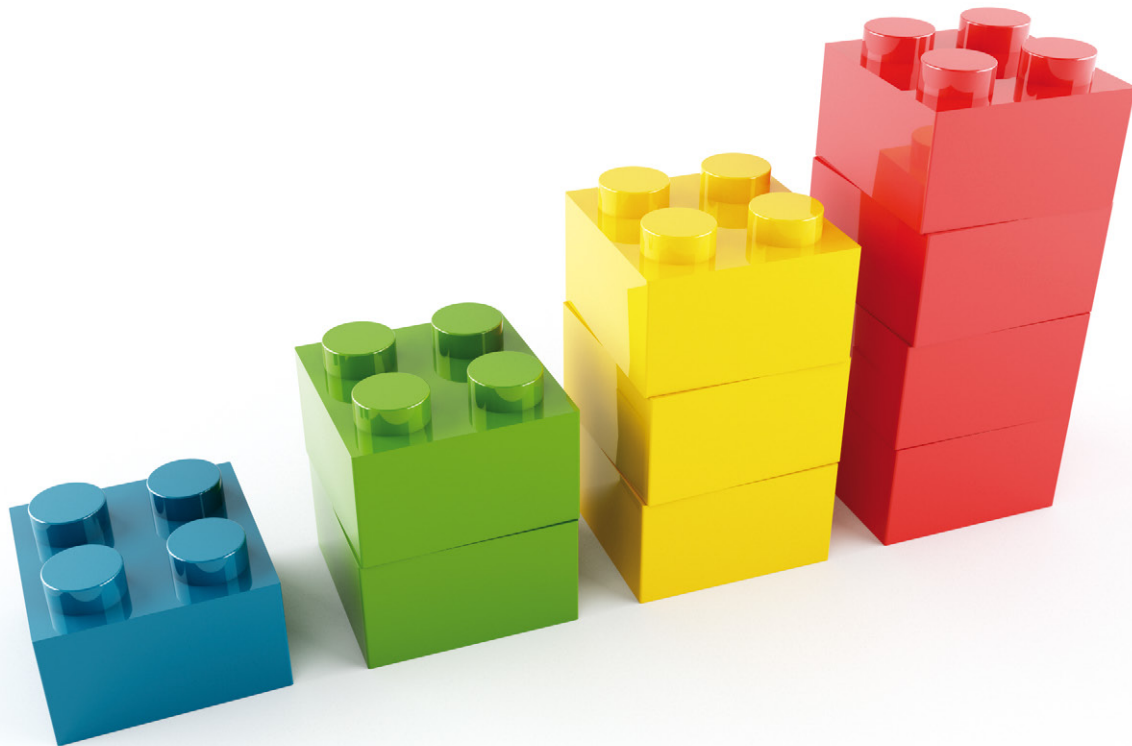


Gas Natural
SDG annual
report

2013





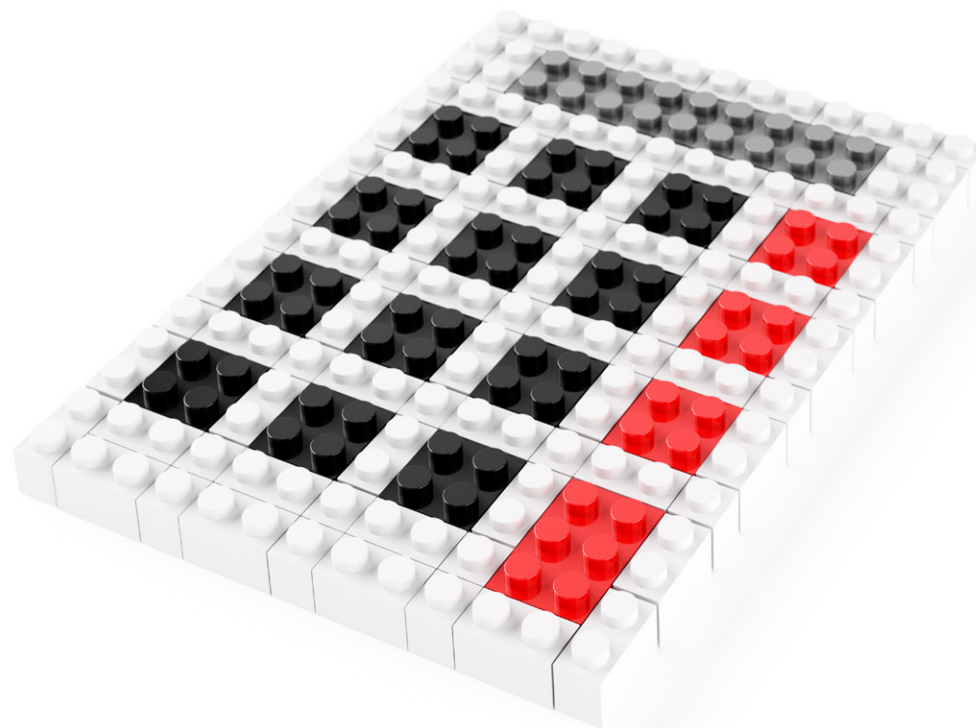
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Annual Accounts





Audit Report



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 ANNUAL ACCOUNTS

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

We have audited the annual accounts of Gas Natural SDG, S.A., consisting of the balance sheet at 31 December 2013, the income statement, the statement of changes in net equity, the cash flow statement and related notes to the annual accounts for the year then ended. The Company's Directors are responsible for the preparation of these annual accounts in accordance with the financial reporting framework applicable to the entity (as identified in note 3 to the accompanying annual accounts), and in particular, with the accounting principles and criteria included therein. Our responsibility is to express an opinion on the 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 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 annual accounts for 2013 present fairly, in all material respects, the equity and financial position of Gas Natural SDG, S.A. at 31 December 2013, and the results of its operations and cash flows for the year then ended in accordance with the applicable financial reporting framework, and in particular, with the accounting principles and criteria included therein.

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

PricewaterhouseCoopers Auditores, S.L.


Inaki Gortena Basualdu
Partner

12 February 2014

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● ● Balance sheet of Gas Natural SDG, S.A.

(million euros)

	31/12/13	31/12/12
Non-current assets	28,752	28,905
Intangible assets <i>(Note 5)</i>	4,158	4,272
Goodwill	3,574	3,574
Other intangible assets	584	698
Property, plant and equipment <i>(Note 6)</i>	6,898	7,270
Land and buildings	220	216
Technical installations and other property, plant and equipment	6,523	6,871
Property, plant and equipment under construction	155	183
Long-term investments in group companies and associates <i>(Note 7)</i>	16,919	16,992
Equity instruments	10,583	10,705
Loans to companies	6,336	6,287
Long-term investments <i>(Note 8)</i>	470	20
Equity instruments	7	6
Derivatives	2	-
Other financial assets	461	14
Deferred income tax assets <i>(Note 18)</i>	307	351
Current assets	6,130	6,418
Inventories <i>(Note 9)</i>	243	260
Raw materials and other supplies	243	260
Trade and other receivables <i>(Note 10)</i>	1,052	512
Trade receivables	49	69
Group companies and associates	585	262
Sundry receivables	185	28
Current income tax assets	143	145
Public Administrations	90	8
Short-term investments in group companies and associates <i>(Note 7)</i>	1,274	860
Loans to companies	822	531
Other financial assets	452	329
Short-term investments <i>(Note 8)</i>	75	1,094
Derivatives	9	7
Other financial assets	66	1,087
Short-term prepayments and accrued expenses	27	24
Cash and cash equivalents <i>(Note 11)</i>	3,459	3,668
Cash in banks and at hand	1,200	1,147
Other cash equivalents	2,259	2,521
Total assets	34,882	35,323

● ● Balance sheet of Gas Natural SDG, S.A.

(million euros)

	31/12/13	31/12/12
Net equity (Note 12)	13,254	12,092
Shareholders' equity	13,259	12,112
Capital	1,001	1,001
Authorised capital	1,001	1,001
Share premium	3,808	3,808
Reserves	7,734	6,480
Legal and statutory	300	297
Other reserves	7,434	6,183
Profit for the year	1,109	1,140
Profit/(loss) brought forward	-	74
Retained earnings	-	74
Interim dividend	(393)	(391)
Adjustments for changes in value	(9)	(24)
Hedging operations	(9)	(24)
Grants, donations and bequests received	4	4
Non-current liabilities	16,412	18,529
Long-term provisions (Note 13)	803	782
Long-term post-employment obligations	304	319
Other provisions	499	463
Long-term borrowings (Note 14)	3,721	5,470
Borrowings from financial institutions	3,534	5,200
Finance lease payables	155	223
Derivatives	17	35
Other financial liabilities	15	12
Amounts owing to group companies and associates falling due in more than one year (Note 16)	10,222	10,669
Deferred income tax liabilities (Note 18)	1,664	1,595
Long term accruals	2	13
Current liabilities	5,216	4,702
Short-term provisions (Note 13)	52	129
Short-term borrowings (Note 14)	665	1,927
Bonds and other negotiable securities	-	14
Borrowings from financial institutions	177	1,367
Finance lease payables	70	71
Derivatives	6	-
Other financial liabilities	412	475
Amounts owing to group companies and associates falling due in less than one year (Note 16)	3,429	1,767
Trade and other payables (Note 17)	1,070	876
Trade payables	686	640
Payables with group companies and associates	134	129
Sundry payables	23	29
Personnel (outstanding remuneration)	23	33
Other taxes payable	204	45
Short-term accruals and deferred income	-	3
Total net equity and liabilities	34,882	35,323

Notes 1 to 33 form an integral part of these Annual accounts.

Income statement of Gas Natural SDG, S.A.

(million euros)

	2013	2012
Net turnover <i>(Note 19)</i>	5,586	6,064
Sales	5,560	6,033
Services	26	31
Supplies <i>(Note 20)</i>	(4,327)	(4,884)
Consumption of goods	(3,223)	(3,631)
Raw materials and other consumables	(1,078)	(1,192)
Work carried out for other companies	(26)	(61)
Other operating income <i>(Note 23)</i>	340	319
Supplementary income and other operating income	340	318
Operating grants released to the income statement	-	1
Personnel costs <i>(Note 21)</i>	(286)	(282)
Wages, salaries and related expenses	(220)	(219)
Social Security	(48)	(44)
Provisions	(18)	(19)
Other operating expenses <i>(Note 22)</i>	(806)	(716)
External services	(441)	(480)
Local taxes	(287)	(69)
Impairment loss and variation in trade provisions	(2)	4
Other current operating expenses	(76)	(171)
Amortisation expense <i>(Notes 5 and 6)</i>	(491)	(592)
Release of fixed assets grants and others <i>(Note 12)</i>	-	72
Operating profit	16	(19)
Financial income	1,981	1,683
Shareholdings in equity instruments	1,685	1,418
Group companies and associates	1,685	1,417
Third parties	-	1
Negotiable securities and other financial instruments	296	265
Group companies and associates	187	184
Third parties	109	81
Financial expenses	(851)	(801)
Borrowings from group companies and associates	(609)	(532)
Borrowings from third parties	(242)	(269)
Variation in fair value of financial instruments	(3)	15
Investments	(3)	15
Net exchange gains / losses	(7)	5
Impairment and gains on disposals of financial instruments	(245)	12
Impairment and loss	(232)	(10)
Results of disposals and others	(13)	22
Net financial income <i>(Note 24)</i>	875	914
Profit before tax	891	895
<i>Income tax (Note 18)</i>	218	245
Profit for the year	1,109	1,140
Basic and diluted earnings per share in Euros	1.11	1.14

● ● Statement of changes in net equity of Gas Natural SDG, S.A.

A) Statement of income and expense recognised

(million euros)

	2013	2012
Profit for the year	1,109	1,140
Income and expense recognised directly in net equity	-	6
Cash flow hedges	1	(31)
Grants, donations and bequests received	-	72
Actuarial gains and losses and other adjustments	(1)	(32)
Tax effect	-	(3)
Releases to income statement	14	(35)
Cash flow hedges	20	22
Grants, donations and bequests received	-	(72)
Tax effect	(6)	15
Total income and expense recognised in net equity	1,123	1,111

B) Statement of total changes in net equity

(million euros)

	Share capital	Share premium	Reserves	Profit or loss brought forward	Profit for the year	Interim dividend	Adjustments for changes in value	Grants, donations and bequests received	Total
Balance at 31/12/2011	992	3,808	5,641	366	1,317	(360)	(17)	4	11,751
Total income and expense recognised	-	-	(22)	-	1,140	-	(7)	-	1,111
Operations with partners or owners									
Capital increase	9	-	-	(9)	-	-	-	-	-
Dividends distribution	-	-	-	-	-	(391)	-	-	(391)
Acquisition of free allocation rights	-	-	-	(379)	-	-	-	-	(379)
Other variations in net equity	-	-	861	96	(1,317)	360	-	-	-
Balance at 31/12/2012	1,001	3,808	6,480	74	1,140	(391)	(24)	4	12,092
Total recognised revenues and expenses	-	-	(1)	-	1,109	-	15	-	1,123
Operations with partners or owners									
Dividends distribution	-	-	-	(504)	-	(393)	-	-	(897)
Trading in treasury shares	-	-	1	-	-	-	-	-	1
Other variations in net equity (Note 7)	-	-	1,254	430	(1,140)	391	-	-	935
Balance at 31/12/2013	1,001	3,808	7,734	-	1,109	(393)	(9)	4	13,254

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

(million euros)

	2013	2012
Profit for the year before tax	891	895
Adjustments to income statement	(301)	(300)
Amortisation (<i>Notes 5 and 6</i>)	491	592
Impairment provisions	234	7
Variation in provisions	58	11
Release of grants to income statement	-	(72)
Results of disposals and sales of financial instruments	13	(22)
Financial income	(1,981)	(1,683)
Financial expense	851	801
Exchange differences	(7)	(9)
Variation in fair value of financial instruments	3	(15)
Other income and expenses	37	90
Changes in working capital	22	137
Inventories	17	4
Trade and other receivables	(196)	97
Other current assets	(3)	(5)
Trade and other payables	212	35
Other current liabilities	(8)	6
Other operating cash flows	1,329	507
Interest paid	(743)	(729)
Dividends received	1,698	1,096
Interest received	287	273
Income tax refunded (paid)	87	(133)
Cash flow from operating activities	1,941	1,239

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

(million euros)

	2013	2012
Payments for investments	(1,585)	(1,318)
Group companies and associates	(544)	(303)
Intangible assets	(44)	(20)
Property, plant and equipment	(148)	(207)
Other financial assets	(849)	(788)
Divestitures received	2,368	1,206
Group companies and associates	1,184	265
Other financial assets	1,184	941
Cash flows from investment activities	783	(112)
Receipts and payments for equity instruments	-	(379)
Issues	-	-
Acquisition	-	(379)
Collections and payments for financial liability instruments	(2,038)	896
Issues	6,680	5,901
Bonds and other negotiable securities	-	35
Borrowings from financial entities	1,717	792
Borrowings from group companies and associates	4,566	5,063
Other borrowings	397	11
Repayment and redemption of	(8,718)	(5,005)
Bonds and other negotiable securities	(14)	(89)
Borrowings from financial entities	(4,547)	(1,725)
Borrowings from group and associates	(3,672)	(3,191)
Other borrowings	(485)	-
Dividend payments	(895)	(391)
Cash flows from financing activities	(2,933)	126
Net increase/decrease in cash and cash equivalents	(209)	1,253
Cash and cash equivalents at the beginning of the year	3,668	2,415
Cash and cash equivalents at the year end	3,459	3,668



Notes to annual accounts of Gas Natural SDG, S.A. for the year ended 31 december 2013

Note 1. General information

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

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

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

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

Note 2. Regulatory framework

2.1. Regulation of the natural gas industry in Spain

Main characteristics of the natural gas industry in Spain

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

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

Furthermore, the Technical Manager of the System, Enagás, S.A., is responsible for the appropriate functioning and coordination of the gas system. Thus, please bear in mind that Law 12/2007 of July 2, limits the shareholding in Enagás, S.A. to a maximum of 5% of its share capital, and voting rights to 3% in general, and the voting rights of participants in gas activities to 1%, and, in any case, the sum of the interest of the shareholders undertaking activities in the gas sector cannot exceed 40%.

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

- It is an industry in which regulated and 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 strictly 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 separated.

Royal Decree 949/2001 regulates access by third parties to the pipeline network, determining which social entities 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 social entity 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, liquified 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 of July 2, 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 subjected 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

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 social entity 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 of July 2, 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 of July 2, 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 will 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 point of view, 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 Electricity sector in Spain

Main characteristics of the electricity sector in Spain

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

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

Furthermore, the Technical 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.

2.2.1. 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 above-mentioned 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 annually by ministerial order.

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

- **Subjection to specific obligations:** the carrying out of the regulated activities is subject to specific obligations to ensure the development of competition in 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 separated.

Royal Decree 1955/2000 of December 1, regulates access by third parties to the grid, determining social entities 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.

2.2.1.1. 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 year 2014.

2.2.1.2. 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 of 27 December was published, providing the methodology for calculating electricity distribution remuneration for year 2014.

2.2.2. Unregulated activities

2.2.2.1. 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 through 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 recognised 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 recognised under the Law 24/2013 of the Electricity Sector, is still pending.

On 2 October 2010 Royal Decree 1221/2010 of October 1, was promulgated which modified Royal Decree 134/2010 of February 12, 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 year 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, of 12 July, 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, of 30 March, 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 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, of 30 March, (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, of 12 July, 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, of 12 July, 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, of 27 December, 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-peninsular electricity systems. The measures brought in by this Law supplement the provisions of Law 54/1997, of 27 November, 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, of 31 October, 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 territory. 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.

2.2.2.2. 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.

Note 3. Basis of presentation

Gas Natural SDG, S.A. Annual accounts for 2012 were approved by the Annual General Meeting on 16 April 2013.

The Annual accounts for 2013, which were issued by the Board of Directors of Gas Natural SDG, S.A. on 31 January 2014, will be submitted to the General Meeting for approval; they are expected to be approved without any changes.

The accompanying Annual accounts have been prepared on the basis of the Company's accounting records and are presented in accordance with prevailing commercial legislation and the provisions of the Chart of Accounts introduced under Royal Decree 1514/2007 (16 November), as amended by Royal Decree 1159/2010 (17 September), so as to present fairly the Company's equity and financial position at 31 December 2013, and the results, changes in equity and cash flows of Gas Natural SDG, S.A. for then ended.

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

The consolidated Annual accounts of Gas Natural Fenosa for 2013 have been prepared in accordance with the International Financial Reporting Standards adopted by the European Union (IFRS-EU), in accordance with Regulation (EU) 1606/2002 of the European Parliament and of the Council. The main figures disclosed in the consolidated Annual accounts, which have been audited, are as follows:

Total assets	44,945
Equity attributed to the parent Company	13,444
Minority interest	1,566
Net turnover	24,969
Net income after tax attributed to the parent Company	1,445

Note 4. Accounting policies

The main accounting policies applied by the Company to prepare these Annual accounts are described below:

4.1 Intangible assets

Intangible assets are stated at acquisition or cost price minus accumulated amortisation, and, as the case may be, the accumulated amount of the losses recognised in order to cover possible impairment.

a) Goodwill

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

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

The impairment of goodwill cannot be reversed.

b) Other intangible assets

Research expenditure is recognised in the income statement when incurred.

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

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

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

Emission rights equivalent to emissions released must be submitted near the beginning of the following year. These rights are carried at market value when allocated to the Company, or at acquisition cost, and are not amortised. The necessary provisions are recorded, provided the carrying amount is not recoverable through the generation of sufficient revenue to cover all the costs and expenses of electricity production.

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

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

4.2 Property, plant and equipment

a) Cost

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

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

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

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

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

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

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

Future costs that must be borne by Gas Natural SDG, S.A. in connection with the closure of certain facilities are included in the asset's value at their discounted value, recognising the relevant provision (Note 4.12).

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

b) Depreciation

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

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

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

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

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

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

When the carrying value of an asset is greater than its estimated recoverable amount or when it is no longer useful, its value is written down immediately to its recoverable amount (Note 4.3).

4.3 Impairment of assets

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

When the recoverable amount is less than the asset's carrying amount, an impairment loss is recognised through profit and loss for the amount of the difference between the two. The recoverable amount is calculated at the higher of an asset's fair value less costs of sale and value in use calculated by applying the discount cash flow method. In general, Gas Natural SDG, S.A. is considering recoverable amount to be value in use, which is calculated using the methodology described below.

For the purposes of assessing impairment losses, assets are grouped together at the lowest level for which there are separately identifiable cash flows. Assets and goodwill are assigned to these cash-generating units (CGUs). In the case of investments in group companies, barring investments the recoverable amount of which is determined based on the investee's equity (Note 4.4) and goodwill, the cash flows employed are based on the Strategic Plan approved by Gas Natural SDG, S.A., extended to five years on the basis of regulations and expected market evolution, drawing on available industry forecasts and historical experience of price trends and volumes produced.

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

The nominal growth rates used for the CGUs and financial assets in Spain fluctuate between 0.6% and 1.8% (0.8% and 1.8% in 2012). Specifically, a growth rate of 1.4% has been applied to the shareholding in Unión Fenosa Gas, S.A. (2.0% in 2012). In the cases of the investees of Gas Natural Internacional SDG, S.A. and Unión Fenosa Internacional, S.A., growth rates are between 1.0% and 4.9% (1.0% and 4.9% in 2012).

The cash flows have been discounted using the average costs of funds before tax. For the CGU and financial assets in Spain this costs fluctuates between 8.5% and 9.0% (9.6% and 10.1% in 2012). In the particular case of Unión Fenosa Gas, S.A. the discount rate has been 12.8% (12.6% in 2012). For the businesses in which Gas Natural Internacional SDG, S.A. and Unión Fenosa Internacional, S.A. have invested, the average discount rate has been between 7.3% and 15.8% (6.4% and 24.4% en 2012).

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

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

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

- Electricity generated. Market demand evolution has been estimated based on the consensus expressed by several international bodies. The share has been estimated based on Gas Natural Fenosa's market share in each technology and on the expected evolution of each technology's share of the total market. It has been considered the impacts of RDL 2/2013, RDL 9/2013 and Law 24/2013 (Note 2.2.2.1).
- 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 CO₂ 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 2.2.2.1).

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 Annual accounts, and, accordingly, no impairment has been booked.

Likewise, Gas Natural SDG, S.A. estimates that the unfavourable variances which could be suffered by the sensitive aspects mentioned, on which the determination of the recoverable amount in certain CGUs was based, 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 and an increase of 5% in operation and maintenance costs. In addition, 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.

4.4 Financial assets and liabilities

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

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

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

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

Investments

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

a) Loans and financial receivables

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

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

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

b) Held-to-maturity financial assets

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

c) Financial assets held for disposal and other financial assets at fair value through profit or loss

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

d) Available-for-sale financial assets

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

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

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

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

Cash and cash equivalents

Cash and cash equivalents include cash at hand, time deposits with financial entities and other short-term investments noted for their great liquidity with an original maturity no longer than three months as from the acquisition date.

Borrowings

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

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

Trade and other payables

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

4.5 Financial derivatives and hedge accounting

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

For each hedging transaction, Gas Natural SDG, S.A. documents at the inception of the transaction and periodically, the relationship between hedging instruments and hedged items, as well as its risk management objective. Additionally, risk management aims and hedging strategy are reviewed periodically.

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

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

- Derivatives listed on an official market are calculated on the basis of their year end 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 eligible for hedge accounting

a) Fair value hedge

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

b) Cash flow hedge

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

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

c) Hedges of net foreign investments

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

2. Derivatives that do not qualify for hedge accounting

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

3. Energy purchase and sale agreements

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

4.6 Non-current assets held for sale

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

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

4.7 Inventories

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

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

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

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

4.8 Share capital

Share capital is represented by ordinary shares.

Incremental costs directly attributable to the issue of new shares or options, net of tax, are deducted from equity as a deduction from Reserves or share premium in the case of issues of capital with premiums.

Dividends on ordinary shares are recognised as a deduction from equity in they are approved.

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

4.9 Earnings per share

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

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

4.10 Grants

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

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

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

Emission rights received at no cost to 31 December 2012 were recognised as other grants at their market value when received.

4.11 Provisions for employee obligations

a) Post-employment pension obligations and the like

- Defined contribution plans

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

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

The contributions made have been recognised in "Staff costs" in the income statement.

- Defined benefit plans

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

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

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

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

b) Other post-employment benefit obligations

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

c) Termination benefits

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

d) Share Acquisition Plan

In 2012, a Share Acquisition Plan 2012-2013-2014 was initiated, addressed to Gas Natural Fenosa employees who fulfill 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 has been recognised in "Staff costs" in the income statement.

4.12 Provisions

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

Provisions are measured at the present value of the Company's best estimate of expenditure required to settle the present obligation at the Balance sheet date.

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

Gas Natural SDG, S.A. has the obligation to dismantle certain facilities at the end of their useful life, such as those related to nuclear power plants and mines, as well as carry out environmental restoration where these are located. To do so, it recorded under Property, plant and equipment the current value of the cost that these tasks would incur, which, in the case of nuclear plants, includes the time until ENRESA, the public entity, takes charge of the dismantling and management of radioactive waste, with a counter-entry under provisions for liabilities

and charges. This estimate is reviewed annually so that the provision reflects the current value of the future costs by increasing or decreasing the value of the asset. The variation in the provision arising from its financial restatement is recorded under "Financial expenses".

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

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

4.13 Leases

a) Finance leases

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

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

b) Operating leases

Leases where the lessor retains substantially all the risks and rewards of ownership are classified as operating leases. Payments made under operating leases are charged to the Income statement on a straight-line basis over the period of the lease.

4.14 Income tax

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

Deferred taxes are recorded by comparing the temporary differences that arise between the taxable income on assets and liabilities and their respective accounting figures in the Annual accounts used the tax rates that are expected to be in force when the assets and liabilities are realized.

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

Deferred income tax assets 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.

4.15 Revenue recognition and payments for regulated activities

a) General

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

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

Sales are stated net of tax and discounts.

b) Income from the gas business

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

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

c) Income from electricity activity and payments for regulated business

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

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

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

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

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

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 2.2.2.1).

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

d) Other income and expenses

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

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

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

The interest income and expense is recognised using the effective interest rate method.

Dividend income is recognised when the right to receive the dividend is established.

4.16 Transactions in foreign currency

The translation to euros of creditor and debtor foreign currency accounts are made at the exchange rate in effect at the time of the operation and then revaluated at the year end in accordance with the exchange rate in effect at that time.

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

4.17 Transactions between related parties

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

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

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

4.18 Joint ventures

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

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

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

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

4.19 Business combinations

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

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

The surplus cost of the acquisition in relation to the fair value of the shareholding of Gas Natural SDG, S.A. in the net identifiable assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets acquired, the difference is recognised directly in the Income statement.

4.20 Cash flows Statements

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

- a) Operating activities: activities that constitute ordinary Gas Natural SDG, S.A. revenues, as well as other activities that cannot be qualified as investment or financing.
- b) Investment activities: acquisition, sale or disposal and other means of assets in the long-term and other investments not included in cash and cash equivalents.
- c) Financing activities: activities that generate changes in the size and composition of equity and liabilities that do not form part of operating activities.

4.21 Significant accounting estimates and judgments

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

a) Intangible assets and Property, plant and equipment (Notes 4.1 and 4.2)

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

b) Impairment of non-financial assets (Note 4.3)

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

c) Derivatives or other financial instruments (Note 4.5)

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

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. Gas Natural SDG, S.A. uses a variety of methods and makes assumptions that are based on market conditions existing at each balance sheet date. Other techniques, such as estimated discounted cash flows, are used to determine fair value for the remaining financial instruments. The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows. The fair value of forward foreign exchange contracts is determined using quoted forward exchange rates at the Balance sheet date. The fair value of commodity derivatives is calculated by using forward prices curves. The recoverable value of the investments in the equity of group and multi-group companies and associates is determined as the greater of their fair value less costs of sale and the current value of the cash flows from the investment.

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

d) Provisions for employee benefits (Note 4.11)

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

e) Provisions (Note 4.12)

Gas Natural SDG, S.A. evaluates and makes an estimate of the amounts to be settled in the future, including additional amounts relating to income tax, contractual obligations, the settlement of outstanding litigation, and other liabilities. These estimates are subject to the interpretation of current events and circumstances, projections of future events and estimates of their financial effects.

f) Income tax (Note 4.14)

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

g) Recognition of revenue and settlements for regulated activities (Note 4.15)

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

Note 5. Intangible assets

The breakdown and movement in the accounts under intangible assets is as follows:

	Development	Computer software	Emission rights	Other intangible assets	Subtotal	Goodwill	Total
Cost	63	27	229	697	1,016	3,574	4,590
Accumulated amortisation	(62)	(21)	-	(94)	(177)	-	(177)
Net carrying value at 01/01/2012	1	6	229	603	839	3,574	4,413
Investment	-	-	89	2	91	-	91
Divestment	-	-	(186)	-	(186)	-	(186)
Amortisation	(1)	(3)	-	(37)	(41)	-	(41)
Reclassifications and transfers	-	-	-	(5)	(5)	-	(5)
Net carrying value at 31/12/2012	-	3	132	563	698	3,574	4,272
Cost	24	26	132	693	875	3,574	4,449
Accumulated amortisation	(24)	(23)	-	(130)	(177)	-	(177)
Net carrying value at 01/01/2013	-	3	132	563	698	3,574	4,272
Investment	-	1	49	1	51	-	51
Divestment	-	-	(129)	-	(129)	-	(129)
Amortisation	-	(1)	-	(35)	(36)	-	(36)
Net carrying value at 31/12/2013	-	3	52	529	584	3,574	4,158
Cost	24	27	52	694	797	3,574	4,371
Accumulated amortisation	(24)	(24)	-	(165)	(213)	-	(213)
Net carrying value at 31/12/2013	-	3	52	529	584	3,574	4,158

In 2013, acquisitions of CO₂ emission rights were effected in the amount of Euros 49 million (Euros 17 million at 31 December 2012). In 2012, the item "Emission rights" includes the CO₂ emission rights allocated to 2012 under the National Allocation Plan 2008-2012.

Pursuant to Law 1/2005, of 9 March 2005, which establishes the regulations on greenhouse gas emission rights trading, the National Assignment Plans were established, each of which should be approved by the Government by a Royal Decree, being the Royal Decree 1370/2006, of 24 November, the Royal Decree which passed the National Assignment Plan 2008-2012. Law 13/2010, of 5 July, which amends Law 1/2005, of 9 March, established that from 1 January 2013, the free allocation of emission rights to generators of electricity is eliminated. As a result, the Company's installations will no longer have the income from the corresponding subsidy.

"Other intangible assets", as a result of the merger of Unión Fenosa, S.A. and Unión Fenosa Generación, S.A.U. in 2009, include gas supply contracts and other contractual rights with a net carrying value of Euros 527 million at 31 December 2013 (Euros 562 million at 31 December 2012).

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

Intangible assets include, at 31 December 2012, fully amortised assets still in use totalling Euros 50 million (Euros 49 million at 31 December 2012).

Note 6. Property, plant and equipment

The amounts and variation in 2013 and 2012 in the accounts under Property, plant and equipment are as follows:

	Land and buildings	Plant and other property, plant and equipment	Fixed assets under construction	Total
Cost	281	11,783	207	12,271
Accumulated depreciation	(58)	(4,545)	-	(4,603)
Net carrying value at 01/01/2012	223	7,238	207	7,668
Investment	11	26	74	111
Depreciation	(15)	(536)	-	(551)
Reclassifications and transfers	(3)	143	(98)	42
Net carrying value at 31/12/2012	216	6,871	183	7,270
Cost	283	11,899	183	12,365
Accumulated depreciation	(67)	(5,028)	-	(5,095)
Net carrying value at 01/01/2013	216	6,871	183	7,270
Investment	12	28	63	103
Depreciation	(9)	(446)	-	(455)
Reclassifications and transfers	1	70	(91)	(20)
Net carrying value at 31/12/2013	220	6,523	155	6,898
Cost	294	11,896	155	12,345
Accumulated depreciation	(74)	(5,373)	-	(5,447)
Net carrying value at 31/12/2013	220	6,523	155	6,898

Plant and other Property, plant and equipment basically include the electricity generation plants. The Company employs the following technologies: combined cycle gas, hydraulic, nuclear and coal power plants.

In 2013 there were disposals of fully amortised assets totalling Euros 103 million (Euros 26 million at 31 December 2012).

The financial expenses capitalised in 2013 for fixed assets under construction total Euros 1 million (Euros 1 million at 31 December 2012). The financial expenses capitalised in 2013 account for 0.1% of total financial costs on net borrowings (0.1% in 2012).

The item "Plant and other Property, Plant and equipment" includes finance leases for the power islands at the Palos de la Frontera and Sagunto combined cycle plants, acquired under finance leases (Note 14).

In 2013 Property, Plant and equipment has been acquired from a group companies and associates totalling Euros 5 million (Euros 8 million in 2012).

Property, plant and equipment includes fully depreciated assets still in use at 31 December 2013 totalling Euros 476 million (Euros 482 million in 2012).

It is the policy of Gas Natural SDG, S.A. to take out all the insurance policies deemed necessary to cover the possible risks that could affect its Property, plant and equipment.

Gas Natural SDG, S.A. at 31 December 2013 and 31 December 2012 has no investment commitments.

Note 7. Investments in group companies and associates

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

	At 31/12/13	At 31/12/12
Equity instruments	10,583	10,705
Loans	6,336	6,287
Non-current	16,919	16,992
Loans	822	531
Other financial assets	452	329
Current	1,274	860

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

	Shareholdings in group companies	Loans to group companies	Shareholdings in associates	Total
Balance at 01/01/2012	10,794	5,974	14	16,782
Additions	14	20	-	34
Divestments (<i>Nota 24</i>)	(111)	(21)	-	(132)
Reclassification	-	322	-	322
Charge/reversal provisions	(5)	-	(1)	(6)
Exchange differences	-	(8)	-	(8)
Balance at 31/12/2012	10,692	6,287	13	16,992
Additions	1,043	1	-	1,044
Divestments (<i>Note 24</i>)	(930)	(6)	(3)	(939)
Reclassification	-	71	-	71
Charge/reversal provisions	(233)	-	1	(232)
Exchange differences	-	(17)	-	(17)
Balance at 31/12/2013	10,572	6,336	11	16,919

Year 2013

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

- Intragroup corporate restructuring operations:

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

Gas Natural SDG, S.A. has recognised an increase of Euros 908 million in shareholdings in group companies, with a balancing item in "Voluntary reserves" for the difference between the cost of the shares handed over and the carrying amount of the assets and liabilities received, as per the consolidated Annual accounts, after making adjustments to comply with the Regulations on the Preparation of Consolidated Annual Accounts (NFCAC); the effect on reserves of the restatement of fixed assets under Law 16/2012 (27 December) therefore amounted to Euros 346 million.

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

Gas Natural SDG, S.A. has recognised an increase of Euros 120 million in shareholdings in group companies and a balancing item in voluntary reserves for the difference between the cost of the shares in Unión Fenosa Comercial, S.L. and the carrying amount of the liabilities received at the transaction date, as per the group's Consolidated annual accounts, adjusted to comply with NFCAC.

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

The measurement of the non-cash contribution of these shareholdings at the carrying amount of the assets and liabilities received on the transaction date of the assets, as per the group's Consolidated annual accounts, has caused a reduction of Euros 53 million in shareholdings in group companies, with a balancing item in voluntary reserves.

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

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

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

Year 2012

The increases in "Shareholdings in group companies" and "Shareholdings in associates" in 2012, relate basically to:

- Contribution to Gas Natural Almacenamiento Andalucía, S.A. to offset losses in the amount of Euros 4 million.
- Contribution to Gas Natural Servicios SDG, S.A. to offset losses in the amount of Euros 6 million.

The decreases in "Shareholdings in group companies" and "Shareholdings in associates" in 2012, relate basically to:

- Sale of shares in GEM Suministro de Gas 3, S.L. and GEM Suministro de Gas SUR, S.L.
- Reimbursement of a capital contribution of Euros 97 million to Clover Financial and Treasury Services Ltd.
- In December 2012, the Company sold, together with Sinca Inbursa, S.A. de C.V., a 1.75% interest in Gas Natural México, S.A. de C.V. and a 2% interest in Sistemas de Administración, S.A. de C.V. to Mitsui&Co. The Company's part of the sold interests was 0.875% and 1%, respectively, for US Dollars 5 million (Euros 4 million).

- As a result of the sale by Sinca Inbursa, S.A. de C.V. of the 0.875% interest in Gas Natural México, S.A. de C.V. and the 1% interest in Sistemas de Administración, S.A. de C.V. indicated in the preceding paragraph, the divestment has been recorded for the modification of the repurchase agreement (Note 14).
- Liquidation of Gas Natural International, Ltd. for Euros 6 million.
- Liquidation of Central Térmica La Torrecilla for Euros 1 million.

The following corporate operations were completed in 2012:

- Spin-off of Gas Natural Servicios SDG, S.A. and Unión Fenosa Comercial, S.L. to GEM Suministro de Gas 3, S.L. for the contribution of gas customers and other related contracts in the Madrid Autonomous Region which, in accordance with an agreement made on 30 June 2011, were to be sold to the Endesa group (Note 24).
- Spin-off of Gas Natural S.U.R. SDG, S.A to GEM Suministro de Gas S.U.R. 3, S.L., for the contribution of gas customers and other related contracts in the Madrid Autonomous Region, in accordance with an agreement made on 30 June 2011, were to be sold to Endesa group (Note 24).
- Merger of Gas Natural México, S.A. de C.V as surviving company into Holding Gasinmex, S.A. de C.V as merged company. As a result of this merger, the shareholding in Holding Gasinmex, S.A. de C.V. is cancelled and Gas Natural SDG, S.A. receives shares representing 20.75% of Gas Natural México, S.A. de C.V.
- Merger of Unión Fenosa Distribución, S.A. (surviving company) with Electra de Abusejo, S.L. and Electra del Jallas, S.A. (merged companies).
- In the corporate reorganisation process affecting the renewable energies business, the following operations have been carried out:
 - Merger of Energías Ambientales Easa, S.A.U. (merged company) into Gas Natural Fenosa Renovables, S.L.U. (surviving company).
 - Merger of Energías Ambientales de Vimianzo, S.A.U., Energías Ambientales de Novo, S.A.U. and Sistemas Energéticos Altos del Seixal, S.A.U. (merged companies) into Fenosa Wind, S.L. (surviving company).
 - Liquidation of O Novo Aquilón, S.L. and Parques Eólicos 2008-2012, S.L.

The accumulated amount of the provision for impairment of shareholdings in group companies and associates is Euros 395 million at 31 December 2013 (Euros 272 million at 31 December 2012), which relates basically to the following companies:

- Gas Natural Exploración, S.L.: The recoverable value has been determined on the basis of equity. In 2013, an impairment loss of Euros 11 million was recorded (Euros 3 million at 31 December 2012). The provision at 31 December 2013 totals Euros 173 million (Euros 162 million at 31 December 2012).
- Nueva Generadora del Sur, S.A.: The recoverable value has been calculated on the basis of this company's equity. In 2013 an impairment loss of Euros 63 million was posted. The provision at 31 December 2013 amounts to Euros 63 million.
- Unión Fenosa Gas, S.A.: The recoverable value has been calculated based on the present value of cash flows. In 2013 an impairment loss of Euros 159 million was posted. The provision at 31 December 2013 amounts to Euros 159 million.
- Gas Natural Sao Paulo Sul, S.A.: The recoverable value has been determined in 2012 by converting to euros the current value of the cash flows generated. The cumulative provision stood at Euros 110 million at 31 December 2012.

Financial income for dividends received from investments in equity instruments of group companies and associates during the years 2013 and 2012, correspond to the following companies:

	2013	2012
Gas Natural Aprovisionamientos SDG, S.A	304	100
Gas Natural Distribución SDG S.A.	279	301
Unión Fenosa Internacional, S.A.	207	84
Unión Fenosa Distribución, S.A.	168	247
Sagane, S.A.	162	125
Gas Natural Comercializadora, S.A.	86	125
Gas Natural Cegás, S.A.	54	28
Gas Natural Servicios SDG, S.A.	54	-
Gas Natural Castilla y León, S.A.	45	24
Unión Fenosa Financial Services USA, Llc.	37	-
Unión Fenosa Minería, S.A.	32	15
Gas Natural Andalucía, S.A.	31	18
Unión Fenosa Comercial, S.L.	29	-
Gas Natural Internacional SDG, S.A.	28	30
Gas Navarra, S.A.	24	9
Gas Natural Fenosa Telecomunicaciones, S.A.	24	17
Gas Natural Transporte SDG, S.L.	22	10
Gas Natural Castilla-La Mancha, S.A.	20	10
Gas Natural Capital Markets, S.A.	18	8
Companhia Distribuidora de Gas do Rio de Janeiro, S.A.	15	19
Gas Natural Rioja, S.A.	8	4
Ceg Rio, S.A.	7	9
Clover Financial And Treasury Services, Ltd.	6	43
Gas Natural Comercial SDG, S.L., en liquidación	6	-
Gas Natural Sao Paulo Sul, S.A.	6	22
Operación y Mantenimiento Energy, S.A.	4	-
Gas Natural Fenosa Engineering, S.L.U.	3	3
Gas Galicia SDG, S.A.	3	3
Other	3	163
Total	1,685	1,417

The breakdown of shareholdings in group companies at 31 December 2013 is set out below:

Company	Registered Office	Activity	Net carrying value 2013	Net carrying value 2012	At December 31, 2013						
					Shareholding %			Net Equity			
					Direct	Indirect*	Total	Capital	Reserves and grants ¹	Profit (loss)	Interim dividend
Gas Natural Almacенamientos Andalucía, S.A.	Spain	Gas storage	4	4	100.0	-	100.0	-	3	(3)	-
Gas Natural Exploración, S.L.	Spain	Gas storage	6	17	100.0	-	100.0	9	(2)	(11)	-
Petroleum Oil & Gas España, S.A.	Spain	Gas storage	41	41	32.3	67.7	100.0	4	42	(3)	-
Gas Natural Aprovisionamientos SDG, S.A.	Spain	Gas supply	18	18	100.0	-	100.0	1	16	283	(200)
Sagane, S.A.	Spain	Gas supply	42	42	100.0	-	100.0	95	18	153	(40)
Unión Fenosa Gas, S.A.	Spain	Gas supply	2,281	2,441	50.0	-	50.0	33	596	75	-
Gas Natural Comercializadora, S.A.	Spain	Commercialisation gas and electricity	121	1	100.0	-	100.0	3	100	219	(70)
Gas Natural S.U.R. SDG, S.A.	Spain	Commercialisation gas and electricity	8	8	100.0	-	100.0	2	4	(5)	-
Gas Natural Servicios SDG, S.A.	Spain	Commercialisation gas and electricity	106	30	100.0	-	100.0	3	52	63	(40)
Unión Fenosa Comercial, S.L.	Spain	Commercialisation gas and electricity	-	77	-	-	-	-	-	-	-
La Energía, S.A.	Spain	Commercialisation gas and electricity	11	11	100.0	-	100.0	11	6	-	-
Barras Eléctricas Generación, S.L.	Spain	Generation of electricity	1	1	44.9	-	44.9	1	2	-	-
Biogas Doña Juana, S.A. E.S.P.	Colombia	Generation of electricity	-	-	-	-	-	-	-	-	-
Gas Natural Electricidad SDG, S.A.	Spain	Generation of electricity	956	40	100.0	-	100.0	10	845	37	(39)
Gas Natural Fenosa Generación, S.L.U.	Spain	Generation of electricity	-	-	100.0	-	100.0	-	-	-	-
Gas Natural Fenosa Renovables, S.L.	Spain	Generation of electricity	397	397	100.0	-	100.0	90	203	(8)	-
Lantarón Energía, S.L.	Spain	Generation of electricity	-	-	-	-	-	-	-	-	-
Nueva Generadora del Sur, S.A.	Spain	Generation of electricity	206	269	50.0	-	50.0	96	27	(106)	-
Toledo PV A.E.I.E., S.A.	Spain	Generation of electricity	-	-	33.3	-	33.3	-	1	-	-
Gas Natural Informática, S.A.	Spain	Professional services	20	20	100.0	-	100.0	20	7	6	-
Gas Natural Fenosa Engineering, S.L.U.	Spain	Professional services	32	38	100.0	-	100.0	1	33	(2)	-
Operación y Mantenimiento Energy, S.A.	Spain	Professional services	2	2	100.0	-	100.0	-	3	1	-
Clover Financial and Treasury Services, Ltd.	Ireland	Finance company	401	420	100.0	-	100.0	-	528	24	(109)
Gas Natural Capital Markets, S.A.	Spain	Finance company	-	-	100.0	-	100.0	-	-	10	(9)
Gas Natural Fenosa Finance, B.V.	Netherlands	Finance company	7	7	100.0	-	100.0	-	(2)	1	-
Unión Fenosa Financiación, S.A.	Spain	Finance company	13	13	100.0	-	100.0	1	3	(1)	-
Unión Fenosa Financial Services USA, Llc.	USA	Finance company	-	-	100.0	-	100.0	-	-	37	(37)
Unión Fenosa Preferentes, S.A.	Spain	Finance company	-	-	100.0	-	100.0	-	744	11	(7)
Natural Re, S.A.	Luxemburg	Insurance	7	7	100.0	-	100.0	4	41	6	-
Arte Contemporáneo y Energía, A.I.E.	Spain	Services	-	-	100.0	-	100.0	-	-	-	-

Company	Registered Office	Activity	Net carrying value 2013	Net carrying value 2012	At December 31, 2013						
					Shareholding %			Net Equity			
					Direct	Indirect*	Total	Capital	Reserves and grants ¹	Profit (loss)	Interim dividend
Compañía Española de Industrias Electroquímicas, S.A.	Spain	Services	4	4	98.5	-	98.5	3	11	1	-
Gas Natural Comercial SDG, S.L.	Spain	Services	-	9	-	-	-	-	-	-	-
General de Edificios y Solares, S.L.	Spain	Services	63	76	100.0	-	100.0	34	33	2	-
Repsol - Gas Natural LNG, S.L.	Spain	Services	2	1	100.0	-	100.0	2	-	-	-
Hispanogalaica de Extracciones, S.L.	Spain	Services	-	-	100.0	-	100.0	-	-	-	-
Sistemas de Administración y Servicios S.A. de C.V.	Mexico	Services	-	-	-	-	-	-	-	-	-
Gas Natural Internacional SDG, S.A.	Spain	Holding company	800	374	100.0	-	100.0	573	392	119	-
La Propagadora del Gas Latam, S.L.	Spain	Holding company	-	-	-	-	-	-	7	(3)	-
La Propagadora del Gas, S.A.	Spain	Holding company	10	10	100.0	-	100.0	10	(1)	6	-
Unión Fenosa Internacional, S.A.	Spain	Holding company	508	1,585	100.0	-	100.0	151	112	43	(41)
Unión Fenosa Internacional, B.V.	Netherlands	Holding company	-	29	100.0	-	100.0	5	(1)	-	-
Unión Fenosa Minería, S.A.	Spain	Holding company	316	316	100.0	-	100.0	11	169	16	(15)
Gas Natural Fenosa Telecomunicaciones, S.A.	Spain	Telecommunications	21	21	100.0	-	100.0	21	42	29	-
Unión Fenosa Distribución, S.A.	Spain	Distribution of electricity	2,180	2,730	100.0	-	100.0	833	1,337	236	(160)
Holding Negocios Regulados Gas Natural, S.A.	Spain	Distribution of gas	1,981	-	100.0	-	100.0	300	1,681	-	-
Gasífica, S.A.	Spain	Distribution of gas	3	3	55.0	-	55.0	10	1	1	-
Ceg Río, S.A.	Brazil	Distribution of gas	-	43	-	-	-	-	-	-	-
Companhia Distribuidora de Gas do Rio de Janeiro, S.A.	Brazil	Distribution of gas	-	132	-	-	-	-	-	-	-
Gas Galicia Sociedad para el Desarrollo del Gas, S.A.	Spain	Distribution of gas	-	26	-	-	-	-	-	-	-
Gas Natural Andalucía, S. A.	Spain	Distribution of gas	-	27	-	-	-	-	-	-	-
Gas Natural Castilla y León, S.A.	Spain	Distribution of gas	-	6	-	-	-	-	-	-	-
Gas Natural Castilla-La Mancha, S.A.	Spain	Distribution of gas	-	25	-	-	-	-	-	-	-
Gas Natural Cegás, S.A.	Spain	Distribution of gas	-	53	-	-	-	-	-	-	-
Gas Natural Distribución SDG, S.A.	Spain	Distribution of gas	-	849	-	-	-	-	-	-	-
Gas Natural México S.A. de C.V.	Mexico	Distribution of gas	-	121	-	-	-	-	-	-	-
Gas Natural Rioja S.A.	Spain	Distribution of gas	-	3	-	-	-	-	-	-	-
Gas Natural Sao Paulo Sul, S.A.	Brazil	Distribution of gas	-	271	-	-	-	-	-	-	-
Gas Natural Transporte SDG, S.L.	Spain	Distribution of gas	-	57	-	-	-	-	-	-	-
Gas Navarra S.A.	Spain	Distribution of gas	-	16	-	-	-	-	-	-	-
Total			10,572	10,692							

*The shareholding percentage relates to the shares legally owned and to the repurchase commitment in the percentages stated in Note 14.

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

The non-current loans to group companies which at 31 December 2013 total Euros 6,336 million mature in 2015 (at 31 December 2012, Euros 6,287 million matured in 2014).

Set out below are movements during 2013 and 2012 in loans and other current financial assets:

	Loans to group companies	Other financial assets	Total
Balance at 01/01/2012	677	41	718
Additions	256	328	584
Divestments	(80)	(40)	(120)
Reclassifications	(322)	-	(322)
Balance at 31/12/2012	531	329	860
Additions	501	451	952
Divestments	(365)	(328)	(693)
Reclassifications	155	-	155
Balance at 31/12/2013	822	452	1,274

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

“Loans to group companies” includes outstanding accrued interest totalling Euros 15 million (Euros 7 million in 2012).

“Other financial assets” includes outstanding dividends totalling Euros 452 million (Euros 326 million in 2012).

The loans to group companies and associates have accrued at 31 December 2013 an interest rate of 2.58% (2.67% in 2012).

Note 8. Investments

The breakdown of investments by category is:

At 31 December 2013	Available for sale	Loans and other receivables	Assets at fair value with changes in P&L	Hedging derivatives	Total
Equity instruments	7	-	-	-	7
Derivatives (Note 15)	-	-	-	2	2
Other financial assets	-	461	-	-	461
Non-current investments	7	461	-	2	470
Derivatives (Note 15)	-	-	8	1	9
Other financial assets	-	66	-	-	66
Current investments	-	66	8	1	75
Total	7	527	8	3	545

At 31 December 2012	Assets available for sale	Loans and other receivables	Assets at fair value with changes in P&L	Total
Equity instruments	6	-	-	6
Other financial assets	-	14	-	14
Non-current investments	6	14	-	20
Derivatives (Note 15)	-	-	7	7
Other financial assets	-	1,087	-	1,087
Current investments	-	1,087	7	1,094
Total	6	1,101	7	1,114

Available-for-sale financial assets

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

	2013	2012
At 1 January	6	6
Increases	1	1
Charge/reversal provisions	-	(1)
At 31 December	7	6

All available-for-sale financial assets relate to unlisted shareholdings in 2013 and 2012.

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

An impairment of Euros 1 million corresponding to Catalana d'Iniciatives C.R., S.A. and a contribution for outstanding payments for the capital increase of Neotec Capital Riesgo Sociedad de Fondos, S.A. S.R.C. totalling Euros 1 million have been recorded in 2012.

Loans and other receivables

The breakdown of Loans and other receivables is as follows:

	At 31/12/13	At 31/12/12
Loans to companies	2	7
Deposits and guarantee deposits	7	7
Tariff deficit	452	-
Non-current	461	14
Deposits and guarantee deposits	33	22
Tariff deficit	33	1,065
Current	66	1,087
Total	527	1,101

The financing for the settlements deficit in regulated electricity activities is recognised in this item since, under prevailing legislation, the Company has the right to be reimbursed for this amount and it is not subject to future contingent factors. At 31 December 2013, Gas Natural SDG, S.A. 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 (Notes 2.2.2.1 and 4.15), the item "Other current financial assets" includes the amount that is expected to be recovered over a period of less than one year; the remaining amount, to be recovered over a maximum of 15 years, is included in "Other non-current financial assets". These assets bear interest as explained in Note 2.2.2.1.

At 31 December 2012, Gas Natural SDG, S.A. records a debt claim of Euros 1,065 million in respect of the deficit relating to 2010 (Euros 305 million), 2011 (Euros 303 million), and 2012 (Euros 457 million) included in "Current financial assets" because, under applicable regulations, it was expected to be recovered through the Electricity System Deficit Securitisation Fund within one year.

During 2013, in addition to the collections received from settlements, fifteen Electricity System Deficit Securitisation Fund issues were completed, Gas Natural SDG, S.A. having collected Euros 1,079 million as a result of these issues (Euros 692 million in 2012).

Note 9. Inventories

The breakdown of inventories is as follows:

	At 31/12/13	At 31/12/12
Coal and fuel oil	173	198
Nuclear fuel	66	57
Materials and other inventories	4	5
Total	243	260

Note 10. Trade and other receivables

The breakdown of this account is as follows:

	At 31/12/13	At 31/12/12
Trade receivables	59	74
Trade receivables, group companies and associates	585	262
Sundry receivables	176	16
Provision	(10)	(5)
Derivatives (Note 15)	9	12
Current income tax asset (Note 18)	143	145
Public Administration	90	8
Total	1,052	512

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

Movements in the bad debt provision are as follows:

	2013	2012
Balance at 1 January	(5)	(9)
Net charge for the year (Note 22)	(2)	4
Other	(3)	-
Balance at 31 December	(10)	(5)

Note 11. Cash and cash equivalents

Cash and cash equivalents include:

	At 31/12/13	At 31/12/12
Cash at banks and in hand	1,200	1,147
Other cash equivalents	2,259	2,521
Total	3,459	3,668

Investments in Cash equivalents mature within less than three months a weighted effective interest rate of 1.0% at 31 December 2013 (1.8% at 31 December 2012).

Note 12. Equity

The main items of Equity are as follows:

Share capital and share premium

The variations during the years 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 1 January 2012	991,672,139	992	3,808	4,800
Capital increase				
Capital increase in swap	9,017,202	9	-	9
At 31 December 2012	1,000,689,341	1,001	3,808	4,809
Capital increase	-	-	-	-
At 31 December 2013	1,000,689,341	1,001	3,808	4,809

All issued shares are fully paid up and carry equal voting and dividend 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 Companies Act specifically allows the use of the share premium balance to increase capital and imposes no specific restrictions on its use.

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 shares amounting to Euros 3 million have been handed over to the group's employees as part of their 2013 remuneration under the

Share Purchase Plan 2012-2013-2014 (275,490 shares amounting to Euros 2 million in 2012) (Note 4.11.d); all the other treasury shares have been sold in the amount of Euros 50 million (Euros 13 million in 2012). At year-end 2013 and 2012 Gas Natural Fenosa held no treasury shares.

According to available public information or notifications sent to the Company, the most relevant shareholdings in Gas Natural SDG, S.A. at December 2013 are as follows:

	Shareholding %
"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 Ibx 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:

	2013	2012
Legal Reserves	200	198
Statutory Reserves	100	99
RD 7/96 revaluation reserve	225	225
Goodwill Reserves	715	536
Voluntary Reserves	6,226	5,153
Other Reserves	268	269
	7,734	6,480

Legal Reserve

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

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

Statutory Reserve

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

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

Under article 273 of the Spanish Capital Companies Act, the Company must appropriate a non-distributable reserve equivalent to the goodwill carried on the balance sheet asset, allocating annually 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.

Voluntary and other reserves

Relates basically to voluntary reserves for undistributed profits, also including the effects of the measurement of shareholdings in group companies as a result of transactions between group companies recognised in the same amounts stated in Gas Natural Fenosa's consolidated Annual accounts (Note 7).

Earnings per share

Basic earnings per share are calculated by dividing profit by the weighted average number of ordinary shares in issue during the year.

	At 31/12/13	At 31/12/12
Profit for the year	1,109	1,140
Weighted average number of ordinary shares in issue (million)	1,001	996
Earning per share (in Euros)		
Basic	1.11	1.14
Diluted	1.11	1.14

In order to calculate the average weighted number of ordinary shares in circulation in 2012, the shares issued in the capital increases mentioned in the "Share capital and Share premium" section of this Note have been taken into consideration. Fully-paid capital increases are treated as an issue of shares at market value and therefore the shares issued are included in the calculation of the weighted average number of ordinary shares in circulation as from the date on which the shares are paid up. The calculation is as follows:

	Number of shares (in thousands)	Days	Days per number of shares
Shares at 1 January 2012	991,672	366	362,951,952
Capital increase through swap	9,017	192	1,731,264
Total	1,000,689		364,683,216
Weighted average number of shares for the period			996,402

The Company has no financial instruments that could dilute the earnings per share.

Dividends

We set out below the payments of dividends made in 2013 and 2012:

	31/12/13			31/12/12		
	% of Nominal	Euros per share	Amount	% of Nominal	Euros per share	Amount
Ordinary shares	89	0.89	895	36	0.36	360
Other shares (without voting rights, 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 account	-	-	-	-	-	-
c) Dividends-in-kind	-	-	-	-	-	-

Year 2013

This includes the payment of an interim dividend of 0.391 per share out of 2012 profits, 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.

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.

The Company had sufficient liquidity to pay out the dividend at the approval date, pursuant to the Spanish Companies Act. The provisional liquidity statement drawn up by the Directors on 29 November 2013 is as follows:

Profit after tax	621
Reserves to be replenished	(179)
Maximum amount available for distribution	442
Forecast dividend payment on account	393
Liquidity	5,312
Undrawn credit facilities	6,363
Total liquidity	11,675

On January 31, 2014 the Board of Directors adopted a proposal to submit to the General Shareholders' Meeting a resolution to distribute net profit of Gas Natural SDG, S.A. for the year 2013 retained earnings, as follows:

Basis for distribution	
Profit and (loss)	1,109
Distribution	
To goodwill reserve	179
To voluntary reserve	32
To dividend	898

The proposed application of results prepared by the Board of Directors for approval by the General Shareholders' Meeting includes the payment of a supplementary dividend of 0.505 euros per share for a total of Euros 505 million payable on 1 July 2014.

Year 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 30 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	€ 379 million
% new shares	18.2
Shares issued	9,017,202
Par value	€ 1
Date entered in Mercantile Register	22 June 2012
Date listed on Stock Exchange	29 June 2012

Grants

The movement in this account in 2013 and 2012 is as follows:

	Capital grants
At 01/01/2012	4
Amount received	50
Release to the income statement	(50)
At 31/12/2012	4
Amount received	-
Release to the income statement	-
At 31/12/2013	4

The movements in the preceding table are stated net of tax.

The capital grants received in 2012 basically relate to the emissions rights received.

Note 13. Provisions

The breakdown of provisions at 31 December 2013 and 2012 is as follows:

	At 31/12/13	At 31/12/12
Provisions for post-employment obligations	304	319
Other provisions	499	463
Non-current provisions	803	782
Current provisions	52	129
Total	855	911

Provisions for employee benefits

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	314	5	319	286	-	286
Contributions charged to profits	14	7	21	15	6	21
Payments during the year	(38)	-	(38)	(21)	-	(21)
Variances recognised directly in equity	1	-	1	32	-	32
Transfers and other applications ¹	7	(6)	1	2	(1)	1
At 31 December	298	6	304	314	5	319

¹ 2012 figure includes the reclassification of Euros 5 million from "Other provisions" and a transfer of Euros 6 million to "Other current liabilities".

Pensions and other similar liabilities

Most of the post-employment obligations of Gas Natural SDG, S.A. consist of the contribution of defined amounts to occupational pension plan systems. Nevertheless, at 31 December 2013 and 31 December 2012, Gas Natural SDG, S.A. held the following defined benefit obligations for certain groups of workers:

- Pensioners to retired workers, the disabled, widows and orphans and other related groups.
- Defined benefit supplement obligations with retired personnel of the legacy Unión Fenosa group who retired before November 2002 and a residual part of current personnel.
- Coverage of retirement and death for certain employees.

- Gas subsidy for current and retired personnel.
- Electricity for current and retired personnel.
- Obligations with employees that took early retirement until they reach official retirement age and early retirement plans.
- Salary supplements and contributions to social security for a group of employees taking early retirement until they can access ordinary retirement.
- Health care and other benefits.

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

Present value of funded obligations	2013	2012
At 1 January	1,117	1,027
Service cost for the year	2	2
Interest cost	39	46
Changes recognised directly in equity	(4)	129
Benefits paid	(83)	(81)
Others	8	(6)
At 31 December	1,079	1,117
Fair value of plan assets		
At 1 January	803	741
Expected yield	27	33
Contributions	22	5
Changes recognised directly in equity	(5)	97
Benefits paid	(67)	(65)
Transfers and other	1	(8)
At 31 December	781	803
Provisions for pensions and similar obligations	298	314

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

	2013	2012
Current service costs	2	2
Interest costs	39	46
Expected return on plan assets	(27)	(33)
Total charge to the income statement	14	15

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

	2013	2012
1 to 5 years	8	12
5 to 10 years	45	74
More than 10 years	245	228
Provisions for pensions and similar obligations	298	314

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

% of total	2013	2012
Bonds	100	100

The accumulated actuarial gains and losses recognised directly in equity is negative in Euros 10 million for year 2013 (negative in Euros 9 million for 2012).

Actuarial assumptions applied are as follows:

	At 31/12/13	At 31/12/12
Discount rate (p.a.) (%)	0.7-3.6	1.0-4.2
Expected return on plan assets (p.a.) (%)	0.7-3.6	1.0-4.2
Future salary increases (p.a.) (%)	2.5	3.0
Future pension increases (p.a.) (%)	2.5	2.5
Inflation rate (annual) (%)	2.5	2.5
Mortality table	PERMF2000	PERMF2000
Life expectancy		
Men		
Retired in 2013	22.3	22.3
Retired in 2033	42.2	42.2
Women		
Retired in 2013	26.8	26.8
Retired in 2033	48.3	48.3

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

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

The costs of health care have been valued on the basis of the expected costs of the premiums of the different medical care policies taken out. A 1% variation in the increase in the cost of these premiums would not have a significant impact on the liability booked at 31 December 2013 and 31 December 2012, nor would it cause a relevant variation in the normal, financial costs for future years in relation to that booked in 2013 and 2012.

Other obligations with the personnel

The Company operates a variable multi-annual remuneration system aimed at strengthening the commitment of the management to achieving the economic objectives of the group directly related to those established in the current Strategic Plans, approved by the Board of Directors and communicated to the financial markets and the achievement of which, along with their permanence in the group, grants the right to receive a variable remuneration in cash in the first quarter of the year after their termination. At the close of the remuneration programs 2011-2013, 2012-2014 and 2013-2015 are in force, and a provision has been booked, at 31 December 2013, amounting to Euros 13 million (Euros 11 million at 31 December 2012 in other provisions), of which Euros 6 million are classified as non-current in 2013 (Euros 5 million 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	463	129	592	537	175	712
Allowances ¹	37	52	89	56	129	185
Reversals	-	-	-	(65)	-	(65)
Payments ²	(9)	(129)	(138)	-	(183)	(183)
Transfers and other	8	-	8	(65)	8	(57)
At 31 December	499	52	551	463	129	592

¹This includes Euros 20 million and Euros 22 million in 2013 and 2012, respectively, relating to the financial update of provisions. The item "Current provisions" includes the provision for CO₂ emissions (Note 22).

²In 2012, a total of Euros 147 million was paid under Supreme Court judgements that rejected appeals against tax assessments that questioned the admissibility of the deduction for export activities applied in the periods 1998 to 2002, which had been fully provisioned.

This item mainly includes:

- This account includes the provisions recorded to meet obligations arising mainly from tax claims, as well as litigation and arbitration underway. The information on the nature of the disputes with third parties and the position of the entity in relation to them is set out in the section on "Litigation and Arbitration" in Note 29.

- Provisions for commitments related to power plant decommissioning, restoration and other costs amounting to Euros 334 million at 31 December 2013 (Euros 322 million at 31 December 2012).
- Current provisions relating to the obligation to hand over CO₂ emissions rights totalling Euros 52 million (Euros 129 million in 2012).

No provision for onerous contracts was deemed necessary at 31 December 2013 or 2012.

The estimated payment periods for these commitments at 31 December 2013 amounts to Euros 72 million in between one and five years (Euros 148 million at 31 December 2012), Euros 86 million in between five and ten years (Euros 67 million at 31 December 2012), and Euros 341 million after more than ten years (Euros 248 million at 31 December 2012).

Note 14. Borrowings

The breakdown of borrowings at 31 December 2012 and 2011 is as follows:

	At 31/12/13	At 31/12/12
Borrowings from financial institutions	3,534	5,200
Finance lease payables	155	223
<i>Derivatives (Note 15)</i>	17	35
Other financial liabilities	15	12
Non-current borrowings	3,721	5,470
Issue of bonds and other negotiable securities	-	14
Borrowings from financial institutions	177	1,367
Finance lease payables	70	71
<i>Derivatives (Note 15)</i>	6	-
Other financial liabilities	412	475
Current borrowings	665	1,927
Total	4,386	7,397

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
Borrowings from financial institutions and other financial liabilities	3,721	5,470	3,731	5,461

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.

The movement in borrowings is as follows:

	2013	2012
At 1 January	7,397	8,400
Increase	1,804	879
Decrease	(4,815)	(1,882)
At 31 December	4,386	7,397

The following tables describe borrowings and maturities at 31 December 2013 and 2012, taking into account the impact of derivative hedges.

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

	2013	2014	2015	2016	2017	2018 and beyond	Total
At 31 December 2012							
Fixed	287	192	314	248	322	390	1,753
Floating	1,640	7	3,413	470	104	10	5,644
Total	1,927	199	3,727	718	426	400	7,397

Setting aside the impact of derivatives on borrowings, fixed-rate debt would amount to Euros 314 million of total borrowings at 31 December 2013 (Euros 485 million at 31 December 2012); variable-rate debt would amount to Euros 4,072 million at 31 December 2013 (Euros 6,912 million at 31 December 2012).

The following tables describe the gross borrowings denominated in foreign currencies at 31 December 2013 and at 31 December 2012 and their maturities, taking into account the impact of the derivative hedges:

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

	2013	2014	2015	2016	2017	2018 and beyond	Total
At 31 December 2012							
Euro debt	1,808	173	3,344	692	163	387	6,567
USD debt	119	26	383	26	263	13	830
Total	1,927	199	3,727	718	426	400	7,397

Borrowings bore an average effective interest rate in 2013 of 2.43% (2.31% in 2011) including the derivatives assigned to each transaction.

We set out below the most relevant financial instruments:

Bank borrowings

On 24 March 2010, a "Club Deal" loan of Euros 4,000 million was obtained from a total of 18 banks. Of the total loan, Euros 1,000 million was to mature in 2013 and Euros 3,000 million in 2015, although the loan was refinanced in November 2013. This new operation, also a "Club Deal" arrangement, consists of a new credit line of Euros 1,500 million with a five-year maturity, not utilised at 31 December 2013, and a second tranche in the form of a loan of Euros 750 million also maturing over five years, which had been utilised at 31 December 2013.

At 31 December 2013, bank borrowings also include other bilateral bank loans of Euros 1.477 billion (Euros 1.392 billion at 31 December 2012), no amounts having been drawn down on credit lines (Euros 159 million at 31 December 2012).

These payables include bank borrowings totalling Euros 666 million are subject to the fulfilment of certain financial ratios.

At the preparation date of these Annual accounts, Gas Natural SDG, S.A. is not in breach of its financial obligations or of any type of obligation that could give rise to the early maturity of its financial commitments.

Institutional financing

The Company records debts incurred with the Instituto de Crédito Oficial (ICO) through different instruments maturing in 2018 at the latest.

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

Finance lease liabilities

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

The breakdown of the minimum payments for the finance leases are as follows:

	At 31/12/13			At 31/12/12		
	Nominal value	Discount	Current value	Nominal value	Discount	Current value
Less than 1 year	80	(10)	70	77	(6)	71
Between 1 and 5 years	167	(12)	155	241	(18)	223
Total	247	(22)	225	318	(24)	294

Other financial liabilities

At 31 December 2012, other current liabilities included the repurchase commitment, without a premium, made to Sinca Inbursa, S.A. de C.V. (Inbursa) for 14.125% of the shares in Gas Natural México, S.A. de C.V. and a 14% stake in Sistemas de Administración y Servicios de S.A. de C.V., which were sold on 22 September 2008 to Sinca Inbursa. As a consequence of this commitment, the sale was recognised as a deferred payment and the disposal of the shares was therefore not recorded. The liability recognised at 31 December 2012 totalled 1.035 billion Mexican pesos, which was equal to the present value of the amount repayable.

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

Note 15. Risk management and derivative financial instruments

Risk management

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

- Guaranteeing that the most relevant risks are correctly identified, evaluated and managed.
- Segregation at the operating level of the risk management functions.
- Assuring that the level of its risk exposure of Gas Natural Fenosa in its business is in line with the objective risk profile and achievement of its annual, strategic objectives.
- Ensuring the appropriate determination and review of the risk profile by the Risk Committee, proposing global limits by risk category, and assigning them to the Business Units.

Interest rate risk

The fluctuations in interest rates modify the fair value of the assets and liabilities that accrue a fixed interest rate and the cash flows from assets and liabilities pegged to a floating interest rate, and, accordingly, affect equity and profit, respectively.

The purpose of interest rate risk management is to balance floating and fixed borrowings in order to reduce borrowing costs within the established risk parameters.

Gas Natural SDG, S.A. employs financial swaps to manage exposure to interest rate fluctuations, swapping floating rates for fixed rates. In 2013 a financing operation denominated in Japanese yen that included financial swaps to mitigate risks, but which did not qualify for hedge accounting, was repaid.

The financial debt structure at 31 December 2013 and 2012 (Note 14), after taking into account the hedges arranged through derivatives, is as follows:

	At 31/12/13	At 31/12/12
Fixed interest rate	1,491	1,753
Floating interest rate	2,895	5,644
Total	4,386	7,397

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

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

	Increase/decrease in interest rates (basis points)	Effect on profit before tax	Effect on equity before tax
2013	+50	(14)	22
	-50	14	(22)
2012	+50	(34)	16
	-50	34	(16)

Exchange rate risk

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

- Counter value of cash flows related to the purchase-sale of raw materials denominated in currencies other than local or functional currencies.
- Debt denominated in currencies other than local or functional currencies.
- Operations and investments in non-Euro currencies, and, accordingly, the counter value of equity contributed and results.

In order to mitigate these risks Gas Natural SDG, S.A finances, to the extent possible, its investments in local currency. Furthermore, it tries to match, whenever possible, costs and revenues indexed in the same currency, as well as amounts and maturities of assets and liabilities arising from operations denominated in non-Euro currencies.

For open positions, the risks in investments in non-functional currencies are managed through financial swaps and foreign exchange fluctuation insurance when its marginal contribution to the risk is relevant and can exceed the risk limits established.

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

	%	2013	2012
Effect on net income before tax	+5	-	-
	- 5	-	-
Effect on equity before tax	+5	-	(1)
	- 5	-	1

Commodity price exchange risk

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

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

The risk involved in the trading operations carried out by Gas Natural SDG, S.A 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 results and equity to the variation in both the fair value of derivatives to hedge commodity prices such as for trading operations, is as follows:

	Increase/decrease in electricity purchase price	Effect on profit before tax	Effect on equity before tax
2013	+10%	(1)	(1)
	-10%	1	1
2012	+10%	(8)	-
	-10%	8	-

	Increase/(decrease) in coal price	Effect on profit before tax	Effect on equity before tax
2013	+10%	(1)	(1)
	-10%	1	1
2012	+10%	-	-
	-10%	-	-

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.

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 negotiated are bank guarantees, guarantees and deposits.

Furthermore, the outstanding trade receivables are stated on the balance sheet net of provisions for bad debts (Note 10), estimated by Gas Natural SDG, S.A on the basis of ageing of the debt the experience in previous years in line with the prior segregation of customer portfolios and the current economic environment.

At 31 December 2013 and 2012 Gas Natural SDG, S.A. does not have significant concentrations of credit risk.

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

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

Set out below is an ageing analysis of financial assets that are in default but are not deemed to be impaired at 31 December 2013 and 2012:

	At 31/12/13	At 31/12/12
Less than 90 days	6	2
90–180 days	–	–
More than 180 days	–	1
Total	6	3

The impaired financial assets are broken down in Note 10.

Liquidity risk

Gas Natural SDG, S.A has liquidity policies that ensure compliance with its payment commitments, diversifying the coverage of financing needs and debt maturities. A prudent management of the liquidity risk includes maintaining sufficient cash and realisable assets and the availability of funds sufficient to cover credit obligations.

At 31 December 2013, available cash totalled Euros 10,384 million (Euros 8,271 million in 2012), including cash and cash equivalents of Euros 3,459 million (Euros 3,668 million in 2012), undrawn bank financing and credit lines in the amount of Euros 6,925 million (Euros 4,603 million in 2012) and debt issues not utilised.

Capital management

The main purpose of capital management of Gas Natural SDG, S.A is to ensure a financial structure 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 a long-term leverage ratio of approximately 50%.

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

	2013	2012
Moody's	Baa2	Baa2
Standard & Poor's	BBB	BBB
Fitch	BBB+	BBB+

Derivative financial instruments

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

	At 31/12/13		At 31/12/12	
	Assets	Liabilities	Assets	Liabilities
Hedging derivative financial instruments	2	17	-	33
Cash flow hedge	2	17	-	33
Interest rate	2	17	-	33
Other financial instruments	-	-	-	2
Interest rate and foreign exchange rate	-	-	-	2
Derivative financial instruments – non current	2	17	-	35
Hedging derivative financial instruments	1	6	-	-
Fair value hedge	1	-	-	-
Exchange rate	1	-	-	-
Cash flow hedge	-	6	-	-
Interest rate	-	6	-	-
Other financial instruments	17	5	19	9
Price of <i>commodities</i>	17	5	19	9
Derivative financial instruments current	18	11	19	9
Total	20	28	19	44

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

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

	2013		2012	
	Operating Profit	Net financial Income	Operating Profit	Net financial Income
Cash flow hedges	3	(20)	-	(22)
Fair value hedges	-	(3)	-	(1)
Other financial instruments	60	(6)	9	12
Total	63	(29)	9	(11)

The breakdown of derivatives at December 31, 2013 and 2012, their fair value and maturities of their notional values is as follows:

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

	Fair value	31/12/12 Notional value					Subsequent years	Total
		2013	2014	2015	2016	2017		
Interest rate hedges								
Cash flow hedges								
Financial swaps (EUR)	(33)	43	643	250	200	132	-	1,268
Exchange rate hedges								
Cash flow hedges								
Foreign exchange fluctuation insurance (USD)	-	19	-	-	-	-	-	19
Fair value hedge								
Exchange fluctuation insurance (USD)	-	6	-	-	-	-	-	6
Exchange fluctuation insurance (BRL)	-	146	-	-	-	-	-	146
Others								
Commodities price derivatives (EUR)	10	87	24	(11)	-	-	-	100
Commodities price derivatives (GBP)	-	(1)	-	-	-	-	-	(1)
Commodities price derivatives (USD)	-	2	-	-	-	-	-	2
Financial swap (JPY)	(2)	-	-	-	-	-	220	220
	(25)	302	667	239	200	132	220	1,760

Note 16. Borrowings from group companies and associates

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

Maturity	At 31/12/13	At 31/12/12
2013	-	1,767
2014	3,429	1,992
2015	742	1,299
2016	1,122	988
2017	1,419	1,264
2018	1,436	1,433
2019	1,193	987
Subsequent years	4,310	2,706
Total	13,651	12,436

Borrowings from group companies relate mainly to the issues of Gas Natural Capital Markets, S.A. and Gas Natural Fenosa Finance, B.V. under the European Medium-Term Notes (EMTN) programme. This programme was created in 1999; following a number of extensions, the latest in November 2013, the issuance limit is Euros 14,000 million (Euros 12,000 million in 2012). At 31 December 2013, a total principal of Euros 12,055 million had been utilised (9,600 million in 2012). Also included is the amount payable to Gas Natural Finance, B.V. for Euro Commercial Paper (ECP) issues, Euros 146 million having been utilised (Euros 158 million in 2012).

Borrowings from group companies include interest accrued pending maturity of Euros 376 million (Euros 273 million in 2012).

Borrowings from group companies and associates accrued an average interest rate of 0.21% in 2013 (0.80% in 2012).

Note 17. Trade and other payables

The breakdown in 2013 and 2012 is as follows:

	At 31/12/13	At 31/12/12
Trade payables	686	640
Trade payables with related parties	134	129
Derivative financial instruments (<i>Note 15</i>)	5	9
Other payables	18	20
Amounts due to employees (outstanding remunerations)	23	33
Public Administrations	204	45
Total	1,070	876

Disclosure of deferrals of payment to suppliers. D.A 3^a "Duty of disclosure" of Law 15/2010/5 July

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

	2013	%	2012	%
Payments made and pending payment within maximum legal period	3,935	99.95	3,589	99.94
Other	2	0.05	2	0.06
Total payments during the year	3,937	100	3,591	100
Weighted average period of payments outside legal period (days)	20		17	
Deferrals exceeding legal maximum period at year end	-	-	-	-

Note 18. Tax situation

Gas Natural SDG, S.A., as the parent of tax consolidated group 53/93, has filed corporate income tax returns in Spain since 1993 under the Tax Consolidation Regime provided by Title VII, Chapter VII of the Corporate Income Tax Act, whereby taxable income, tax credits and allowances are calculated for the tax group as a whole. The tax consolidated group for 2013 is analysed in Appendix I.

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

The reconciliation of accounting profit for the years 2013 and 2012 to taxable income is as follows:

	At 31/12/13	At 31/12/12
Accounting profit before tax	891	895
Permanent differences	(1,554)	(1,409)
Temporary differences		
Arising during current year	231	30
Arising in prior years	(45)	(54)
Taxable income	(477)	(538)

Permanent differences relate basically to the application of the Tax Consolidation Regime, entailing negative permanent differences of Euros 1,484 million (Euros 1,236 million at 31 December 2012), due mainly to downward adjustments for dividends accrued during the year.

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

Company	Amounts pending inclusion in tax base in 2012	Amounts included in 2013	Amounts pending inclusion in tax base
Gas Natural Sao Paulo Sul, S.A.	62	-	62
Biogas Doña Juana, S.A. Esp	2	(2)	-
Nueva Generadora del Sur, S.A.	44	-	44
	108	(2)	106

Income tax expense is as follows:

	2013	2012
Current tax	(355)	(372)
Deferred tax	137	127
Total	(218)	(245)

The current income tax is the result of applying the 30% tax rate to taxable income. In the Consolidated Tax group, the deductions to tax payable applied in 2013 total Euros 166 million (Euros 113 million in 2012), and the offset of tax-loss carryforwards totalling Euros 147 million (Euros 263 million in 2012) that were generated in the tax group's 2011 corporate income tax return due to the free depreciation permitted under Royal Decree 13/2010. Also included are adjustments for tax differences for last year leading to a decrease in the expense of Euros 2 million (Euros 19 million in 2012). Tax credits generated in 2012 relate basically to the double taxation of dividends.

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 or sale	Amount obtained from sale	Amount reinvested
2007	676	676
2008	151	151
2009	700	700
2010	827	827
2011	854	854
2012	38	38
2013	-	-
Total	3,246	3,246

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

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

	At 31/12/13			At 31/12/12		
	Gross	Tax effect	Net	Gross	Tax effect	Net
Cash flow hedges	21	(6)	15	(9)	2	(7)
Actuarial gains and losses and other adjustments	(1)	-	(1)	(32)	10	(22)
	20	(6)	14	(41)	12	(29)

A breakdown of deferred taxes is as follows:

	At 31/12/13	At 31/12/12
Deferred tax assets	307	351
Non-current	296	223
Current	11	128
Deferred tax liabilities	(1,664)	(1,595)
Non-current	(1,647)	(1,568)
Current	(17)	(27)
Net deferred tax	(1,357)	(1,244)

Movements and breakdown of deferred asset accounts are as follows:

Deferred tax assets	Personnel liability provisions	Other provisions	Tax credits	Valuation of assets and financial instruments	Depreciation/amortisation differences	Others	Total
At 01/01/ 2012	133	53	86	8	-	25	305
Creation (reversal)	(2)	17	(151)	-	-	(22)	(158)
Movements linked to equity adjustments	10	-	-	2	-	-	12
Reclassifications/transfers ¹	(3)	7	188	-	-	-	192
At 31/12/2012	138	77	123	10	-	3	351
Creation (reversal) ²	(1)	42	(120)	-	37	(1)	(43)
Movements linked to equity adjustments	-	-	-	(6)	-	-	(6)
Reclassifications/transfers	-	-	4	-	-	1	5
At 31/12/2013	137	119	7	4	37	3	307

¹The increase in the item "Tax credits" basically relates to the free depreciation applied under Royal Decree 13/2010.

²The increase in "Depreciation/amortisation differences" basically relates to the application of the temporary 30% limit on the deduction of depreciation charges stipulated in Law 16/2012.

Deferred tax liabilities	Depreciation/ amortisation differences	Deferred gains	Merger ¹	Others	Total
At 01/01/2012	122	249	1,145	92	1,608
Creation (reversal)	5	5	(40)	(1)	(31)
Reclassifications/transfers	30	-	-	(12)	18
At 31/12/2012	157	254	1,105	79	1,595
Creation (reversal)	5	-	(2)	91	94
Reclassifications/transfers	-	-	-	(25)	(25)
At 31/12/2013	162	254	1,103	145	1,664

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

In 2009, Unión Fenosa, S.A. and Unión Fenosa Generación, S.A. merged into Gas Natural SDG, S.A. The operation was carried out under the special tax regime for mergers, spin-offs, asset contributions, exchanges of securities and change of registered office of a European company or European cooperative company from one member state of the European Union to another member state regulated in Chapter VIII of Title VII of the Legislative Royal Decree 4/2004, of 5 March 2004. The information requirements established in the aforementioned regulation are stated in the Notes to the Annual accounts of Gas Natural SDG, S.A. for the 2009 financial year.

In May 2013, the inspection of Gas Natural SDG, S.A., as the parent of the tax group, for corporate income tax from 2006 to 2008, and for other taxes at the individual company level for 2007 and 2008, was finally completed. No relevant aspects were identified, except for the regularisation of the tax credit for export activities in the amount of Euros 5 million, which was fully provisioned in prior years and therefore did not affect the income statement (Note 29).

Gas Natural SDG, S.A.'s tax group is open to inspection for 2009 and subsequent periods and the taxes to which it is subject.

Notes 29 provides details of the main administrative actions have a tax impact and the Company's position, in the section "Litigation and arbitration".

Note 19. Sales

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

	2013	2012
Electricity sales	3,726	4,038
Natural gas sales	1,823	1,973
Other sales	11	22
Services	26	31
Total	5,586	6,064

Note 20. Procurements

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

Note 21. Staff costs

The breakdown of this account in the income statement for 2013 and 2012 is as follows:

	2013	2012
Wages and salaries	220	219
Social security costs	33	32
Defined contribution plans	16	17
Defined benefit plans (<i>Note 13</i>)	2	2
Others	15	12
Total	286	282

The average number of employees of Gas Natural SDG, S.A. during 2013 has totalled 2,786 and 2,663 in 2012.

In accordance with Organic Law 3/2007 (22 March) for effective equality between women and men, published in the Official State Gazette on 23 March 2007, the number of Company employees by gender at year-end 2013 and 2012 is as follows:

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

2012	Men	Women	Total
Executives	390	131	521
Middle managers	387	95	482
Specialists	436	341	777
Workers	703	321	1,024
Total	1,916	888	2,804

Note 22. Other operating expenses

A breakdown income statement account for 2013 and 2012 is as follows:

	2013	2012
Taxes	287	69
Operation and maintenance	137	136
Professional services and insurance	78	86
CO ₂ emission expenses	49	129
Advertising and other commercial services	25	30
Energy efficiency	25	41
Impairment losses and changes in trade provisions (<i>Note 13</i>)	2	(4)
Other	203	229
Total	806	716

The item "Energy efficiency" includes the Company's contribution to energy saving and efficiency policies pursuant to Royal Decree-Law 14/2010 (23 December) (Note 2.2.2.1.).

In 2013, the item "Taxes" includes amendments to taxes and new taxes and levies introduced by Law 15/2012 (27 December) on tax measures for energy sustainability (Note 2.2.2.1.).

As a result of the Supreme Court Judgement of 13 November 2013, which recognised the right of the companies that financed the social bond to be reimbursed for the amounts paid (Note 2.2.2.1.), the item "Other" includes a reduction of Euros 40 million in expenditure.

Note 23. Other operating income

This accounts includes Euros 313 million in transactions with group companies and associates in 2013 (Euros 224 million in 2012).

Note 24. Net financial income

The breakdown of this account in the Income statement for 2013 and 2012 is as follows:

	2013	2012
Dividends (Note 7)	1,685	1,418
Interest on loans	175	177
Others income	121	88
Total financial income	1,981	1,683
Cost of borrowings	(765)	(714)
Interest costs of pension plans (Note 13)	(12)	(13)
Other financial expenses	(74)	(74)
Total financial expense	(851)	(801)
Variation in fair value of financial instruments	(3)	15
Trading portfolio and other available-for-sale assets	(3)	15
Net exchange differences	(7)	5
Profit/(loss) on impairment and disposals of financial instruments	(245)	12
Impairment and losses (Note 7)	(232)	(10)
Profit/(loss) on disposals and other	(13)	22
Net financial results	875	914

In 2013, the item "Profit/(loss) on disposals and other" relates basically to settlement losses recognised by Gas Natural Comercial SDG, S.L. (in liquidation), Compañía Española de Terrenos y Urbanizaciones, S.A., Lantaron Energía, S.L., Unión Fenosa Internacional, B.V. and TIT Vectoria, S.L. for a total of Euros 13 million.

In 2012, "Results from sales and others" includes, basically, the profit from the sale of the shares in GEM Suministro de Gas 3, S.L. and GEM Suministro de Gas Sur 3, S.L. for Euros 20 million.

Note 25. Foreign currency transactions

The amounts of the transactions in foreign currency are as follows:

	2013	2012
Purchases	(968)	(1,015)
Sales	969	1,016
Services received	(11)	(12)
Total	(10)	(11)

Note 26. Joint ventures

Gas Natural SDG, S.A. participates in different joint ventures that meet the conditions indicated in Note 4.18. The relevant shareholdings in joint ventures at 31 December 2013 and 2012 are as follows:

	2013 (%)	2012 (%)
Comunidad de bienes Central Térmica Anllares	66.7	66.7
Comunidad de bienes Central Térmica Aceca	50.0	50.0
Comunidad de bienes Central Nuclear Trillo (Grupo I)	34.5	34.5
Comunidad de bienes Central Nuclear Almaraz (Grupo I y II)	11.3	11.3
Centrales Nucleares Almaraz-Trillo, A.I.E	19.3	19.3

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

	2013	2012
Non-current assets	627	663
Current assets	189	124
Assets	816	787
Non-current liabilities	39	70
Current liabilities	103	54
Liabilities	142	124
Net assets	674	663
Income	233	283
Expenses	228	250
Net income after tax	5	33

There are no contingent liabilities for the shareholdings in joint ventures. The disclosures on contractual commitments in Note 29 include the commitments for the purchase of nuclear fuel totalling Euros 43 million (Euros 55 million at 31 December 2012).

Note 27. Information on transactions with related parties

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

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

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

- Directors and executives of the Company and their immediate families. The term "director" means a member of the Board of Directors and the term "executive" means a member of the Management Committee and the Internal Audit Director. The operations undertaken with directors and executives are set out in Note 28.
- Group companies or entities. Transactions effected between group companies form part of the ordinary course of business.

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

Income and expense (thousand Euros)	2013		2012	
	"la Caixa" group	Repsol group	"la Caixa" group	Repsol group
Financial expense	5,093	-	9,060	-
Goods received	-	3,764	-	3,879
Purchase of goods (finished or in progress)	-	437,553	-	494,288
Other expenses ¹	17,564	-	28,120	-
Total expenses	22,657	441,317	37,180	498,167
Financial income	27,387	-	30,684	-
Leases	-	371	-	360
Services provided	-	802	-	771
Sale of goods (finished or in progress)	-	4	-	-
Other income	9	-	17	-
Total income	27,396	1,177	30,701	1,131

Other transactions (thousand Euros)	2013		2012	
	"la Caixa" group	Repsol group	"la Caixa" group	Repsol group
Purchase of property, plant and equipment, intangible assets or other assets ²	10,500	1,299	-	-
Financing agreements: loans and capital contributions (lender) ³	1,532,641	-	1,826,596	-
Financing agreements: loans and capital contributions (borrower) ⁴	-	-	490,049	-
Guarantees received	137,500	-	112,500	-
Dividends and other profit distribute	311,037	268,474	290,336	247,009
Other transactions ⁵	200,908	-	123,000	-

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

²This relates to the acquisition of a 10% stake in Gas Navarra, S.A. from the "la Caixa" group company Hiscan Patrimonio II, S.L.U. on 21 June 2013 and to the acquisition of 50% of Repsol-Gas Natural LNG, S.L. from Repsol, S.A. on 30 December 2013.

³Includes cash and cash equivalents.

⁴At 31 December 2013, credit lines contracted with the "la Caixa" group amounted to Euros 562,421 thousand (Euros 444,000 thousand at 31 December 2012), of which any amount had been utilised in 2013 and 2012. Additionally, the "la Caixa" group has not interests in syndicated loans (Euros 300,000 thousand at 31 December 2012).

⁵At 31 December 2013, the amount of Euros 200,908 thousand is included in the item "Other transactions" with the "la Caixa" group in respect of interest rate hedges (Euros 100,000 thousand at 31 December 2012).

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

Expenses, income and other transactions	2013		2012	
	Group companies	Multi-group companies and associates	Group companies	Multi-group companies and associates
Financial expenses	(609)	-	(533)	-
Lease expenses	(53)	(7)	(43)	(6)
Services received	(34)	(15)	(34)	(4)
Purchases of goods	(471)	(533)	(449)	(640)
Total expenses	(1,167)	(555)	(1,059)	(650)
Financial income	185	2	182	2
Dividends received	1,823	-	1,308	109
Services provided	-	7	7	-
Sale of goods	3,365	2	3,381	4
Other income	311	2	222	2
Total incomes	5,684	(13)	5,100	117
Sale of Property, plant and equipment, intangible and other assets	582	-	-	-
Purchase of Property, plant and equipment, intangible and other assets	(5)	-	(8)	-
Other transactions	577	-	(8)	-

The heading "Purchases of goods" corresponds to gas purchases made for the production of electricity.

Under the heading "Dividends received" are included the dividend payments from voluntary reserves, recorded as a lower value on investments in group companies (Note 7).

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

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

The heading "Sales of Property, plant and equipment, intangible and other assets" includes premium distributions made by group companies (Note 7).

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

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

Note 28. Information regarding members of the Board of Directors and Management Committee

Remuneration of the members of the Board of Directors

In accordance with the provisions of the Articles of Association, the Company can allocate each year, for all items, an amount of 4% of liquid profits to remuneration of the members of the Board of Directors, which can only be drawn once the legal reserve and any other obligatory reserves have been covered, and if the shareholders have recognised a dividend of at least 4% of its nominal value.

The amount accrued by the members the Board of Directors of Gas Natural SDG, S.A., for belonging to the Board of Directors, Executive Committee, Audit and Control Committee (CA&C) and Appointments and Remuneration Committee (CN&R), totalled Euros 4,085 thousand (Euros 4,062 thousand in 2012), broken down in Euros as follows:

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

Additionally, a total of Euros 5 thousand was received in 2013 for other items (Euros 4 thousand in 2012).

In 2013, as in 2012, no additional amounts were received in relation to the Boards of other investee companies.

The amounts received by the Chief Executive Officer for the executive functions under the concept of fixed remuneration, annual variable remuneration, multi-annual variable remuneration and other concepts amounted to Euros 1,043 thousand, Euros 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, respectively, in 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 any remuneration in profit sharing or premiums and have not been granted any loans or advances. Neither have they received shares or share options during the year, nor have they exercised any options or hold any options pending execution.

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

Operations with Directors

In accordance with Article 229 of the Spanish Companies Act 2010, we disclose below the holdings and offices of the Directors in the share capital of companies with the same, similar or complementary activity as that which constitutes the corporate purposes of Gas Natural SDG, S.A.

Directors having positions in other Companies with the same, similar or complementary activity	Gas Natural SDG, S.A.	Number of shares and percentage in					
		Gas Natural Fenosa	Enagás	Repsol	Endesa	Red Eléctrica	Iberdrola
Mr. Salvador Gabarró Serra First Vice-Chairman of "la Caixa" Board director of Caixabank, S.A.	Chairman	3,262 (0.000)	14,371 (0.006)			10,502 (0.008)	90,687 (0.001)
Mr. Antonio Brufau Niubó Chairman of Repsol, S.A.	Vice-Chairman	81,139 (0.008) 1,086 (0.000) ¹		306,604 (0.022) 1,820 (0.000) ¹			
Mr. Rafael Villaseca Marco	CEO	13,055 (0.001)		713 (0.000)			
Mr. Enrique Alcántara-García Irazoqui	Board Director	8,339 (0.001)					9,444 (0.000)
Mr. Xabier Añoveros Trías de Bes	Board Director	350 (0.000)					
Mr. Juan María Nin Génova General Manager of "la Caixa" Vice-Chairman and CEO of Caixabank, S.A. Vice-Chairman of Criteria Caixaholding, S.A.U. Board director of Repsol, S.A. Board director of Financial group INBURSA	Board Director	156 (0.000)		266 (0.000) 1,657 (0.000) ¹			
Mr. Juan Rosell Lastortras Board director of Caixabank, S.A.	Board Director	2,000 (0.000) ¹					

Directors having positions in other Companies with the same, similar or complementary activity	Number of shares and percentage in						
	Gas Natural SDG, S.A.	Gas Natural Fenosa	Enagás	Repsol	Endesa	Red Eléctrica	Iberdrola
Mr. Demetrio Carceller Arce Chairman of Disa Corporación Petrolífera, S.A.	Board Director	2,826 (0.000) 31,150 (0.003) ¹					
Mr. Luis Suárez de Lezo Mantilla Voting Board Secretary of Repsol, S.A. Member of the International Chamber of Commerce (ICC)'s Environment and Energy Commission	Board Director	18,156 (0.002) 998 (0.000) ¹		24,093 (0.002) 405 (0.000) ¹			383 (0.000) ¹
Mr. Ramón Adell Ramón	Board Director	5,000 (0.000)					
Mr. Santiago Cobo Cobo	Board Director	684 (0.000)					
Mr. Felipe González Márquez	Board Director	1,902 (0.000)		656 (0.000)	59 (0.000)		1,175 (0.000) 97 (0.000) ¹
Mr. Emiliano López Atxurra Board director of Petróleos del Norte, S.A.	Board Director	1,098 (0.000)					
Mr. Carlos Losada Marrodán Board director of Innoenergy	Board Director	2,020 (0.000) 8,025 (0.001) ¹					
Mr. Miguel Valls Maseda	Board Director	7,000 (0.001)					
Mr. Nemesio Fernández-Cuesta Luca de Tena General Manager of Negocios de Repsol, S.A. Member of Repsol, S.A.'s Management Committee and Operations Committee Chairman of Repsol Exploración, S.A. Chairman of Repsol Sinopec Brasil, S.A. Chairman of Repsol Petroleo, S.A. Chairman of Repsol Comercial de Productos Petrolíferos, S.A.	Board Director	1 (0.000)		58,661 (0.003)			
Mr. Heribert Padrol Munté	Board Director						

¹Number of shares held by related parties.

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

The Board Directors did not effect any transactions outside the ordinary course of business or on terms other than arm's length terms with the Company or with group companies during 2013 and 2012.

Remuneration of Management Committee

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

The amounts received by the executives in respect of fixed remuneration, annual variable remuneration, multi-year variable remuneration and other items, totalled Euros 4,348 thousand, Euros 2,495 thousand, Euros 1,893 thousand and Euros 119 thousand, respectively in 2013 (Euros 4,344 thousand, Euros 2,935 thousand, Euros 1,857 thousand and Euros 119 thousand in 2012).

Fixed remuneration for 2013 includes Euros 132 thousand received in the form of Company shares (Euros 132 in 2012) under the share purchase plan mentioned in Note 4.11.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 acceptance of a contractual amendment which, without altering the overall economic terms, changed certain terms in exchange for 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, the indemnities paid for termination of contract and other concepts amounted to Euros 1,613 thousand.

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

Note 29. Contingent liabilities and commitments

Guarantees

At 31 December 2013 Gas Natural SDG, S.A. has been given guarantees before third parties relating to their activities totalling Euros 300 million (Euros 497 million at 31 December 2012).

On the other hand, financial guarantees have also been given totalling Euros 256 million (Euros 207 million at 31 December 2012), Euros 186 million of which relate to the guarantee compliance with the obligations for the loans received by investee companies (Euros 150 million at 31 December 2012).

Gas Natural SDG, S.A. estimates that the unforeseeable liabilities at December 31, 2013, if any, that could arise from the guarantees given would not be significant.

Contractual commitments

At 31 December 2013, the Company is party to several gas supply contracts with “take or pay” clauses negotiated for “own use” (Note 4.5), by virtue of which it has gas purchase rights for the period 2014-2030 in the amount of Euros 26,905 million, calculated on the basis of natural gas prices at 31 December 2013.

Operating lease obligations break down as follows:

Period	2013		2012	
	Operating leases	Purchases of nuclear fuel	Operating leases	Purchases of nuclear fuel
Up to one year	6	20	6	31
Between 1 and 5 years	8	23	15	24
	14	43	21	55

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

Litigation and arbitration

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

Tax claims in Spain

As a result of the various inspection proceedings on tax periods 2003 to 2008, the Inspectorate has questioned the admissibility of the tax credit for export activities applied by Gas Natural Fenosa; the tax assessments have been contested and appeals have been lodged at the Tax and Treasury Court and the National Court. At 31 December 2013, the assessments amounted to Euros 89 thousand, including interest, and were fully provisioned.

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

Note 30. Auditors' fees

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

(Thousand of Euros)	2013	2012
Auditing and related services	985	669
Other services	-	478
Total fees	985	1,147

Note 31. Environment

Environmental actions

The main actions of Gas Natural Fenosa in 2013 were framed within the corporate environmental values. These actions have been aimed basically at ensuring compliance with legislation, and a tight environmental control of activities and facilities. Responsible measures were also taken to meet the energy needs of customers.

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 CO₂.

All of these measures were developed within the framework of an Integrated Management System that Gas Natural Fenosa has certified under the Standard ISO 14001 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 activities were 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 44 million (Euros 64 million in 2012), of which Euros 12 million relate to environmental investments (Euros 20 million in 2012) and Euros 32 million relate to environmental management expenditure (Euros 44 million in 2012). Additionally, Gas Natural Fenosa has made environmental investments to prevent pollution, protect the atmosphere, manage water resources and waste and soil quality and prepare environmental impact studies and environmental oversight plans.

Possible contingencies, indemnities and other environmental-related risks in which Gas Natural Fenosa could be incur are adequately covered by subscribed liability insurance policies.

Emissions

In 2013, consolidated CO₂ emissions from Gas Natural Fenosa's coal thermal and combined cycle plants subject to regulations governing greenhouse gas emission trading 11.5 million tonnes of CO₂ (15.5 million tonnes of CO₂ in 2012).

Gas Natural Fenosa manages its CO₂ emission rights coverage portfolio in an integrated manner, acquiring the necessary emission rights and credits through active participation in both the secondary market and in primary projects and carbon funds, in which an investment of approximately Euros 7 million has been committed.

Gas Natural Fenosa has also registered nine clean development mechanism (CDM) projects with the United Nations and two project credit periods have been renewed. Additionally, the group has other CDM projects for validation in different phases of development, based on generation using renewable sources, implementation of cogeneration systems, reduction of gas network emissions and replacement of fuels with other less carbon-intensive alternatives.

Note 32. Balance sheet and Income statement segregated by activities

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

- a) Electricity generation: Includes the generation of electricity under the ordinary production regime in Spain by means of combined cycle, hydro-electric, nuclear and coal plants.
- b) Other activities: Basically includes the activity as parent company of the Gas Natural Fenosa group, provisions of services to the group companies and purchase-sale of gas under contracts for supplies to other group companies.

The criteria used for segregating by activities are:

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

As a result of the definition of activities and in accordance with the criteria used, the Balance sheet and Income statement segregated at 31 December 2013 and 31 December 2012 are as follows:

● ● Segregated Balance Sheet (at 31/12/2013)

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

● ● Segregated Income Statement (2013)

(Million Euros)	Electricity generation	Other activities	Total
Sales	3,669	1,917	5,586
Supplies	(2,488)	(1,839)	(4,327)
Other operating income	-	340	340
Personnel costs	(102)	(184)	(286)
Other operating expenses	(524)	(282)	(806)
Depreciation/amortisation	(480)	(11)	(491)
Operating profit	75	(59)	16
Financial income	6	1,975	1,981
Financial expenses	(277)	(574)	(851)
Variation in fair value of financial instruments	-	(3)	(3)
Net exchange gains/losses	-	(7)	(7)
Impairment and gains on disposals of financial instruments	-	(245)	(245)
Net financial income	(271)	1,146	875
Profit before tax	(196)	1,087	891
Income tax	59	159	218
Profit for the year	(137)	1,246	1,109

● ● Segregated Balance Sheet (at 31/12/2012)

(Million Euros)	Electricity generation	Other activities	Total
Non-current assets	10,675	18,230	28,905
Intangible assets	3,453	819	4,272
Property, plant and equipment	7,130	140	7,270
Long-term investments in group companies and associates	-	16,992	16,992
Long-term investments	-	20	20
Deferred income tax assets	92	259	351
Current assets	1,484	4,934	6,418
Inventories	260	-	260
Trade and other receivables	159	353	512
Short-term investments in group companies and associates	-	860	860
Short-term investments	1,065	29	1,094
Short term prepayments and accrued expense	-	24	24
Cash and cash equivalents	-	3,668	3,668
Total assets	12,159	23,164	35,323
Equity	4,830	7,262	12,092
Shareholders' equity	4,826	7,286	12,112
Adjustments for changes in value	-	(24)	(24)
Grants, donations and bequests received	4	-	4
Non-current liabilities	5,771	12,758	18,529
Long-term provisions	307	475	782
Long-term borrowings	1,657	3,813	5,470
Amounts owing to group companies and associates falling due in more than one year	3,231	7,438	10,669
Deferred income tax liabilities	565	1,030	1,595
Long term accruals	11	2	13
Current liabilities	1,558	3,144	4,702
Short-term provisions	129	-	129
Short-term borrowings	584	1,343	1,927
Amounts owing to group companies and associates falling due in less than one year	535	1,232	1,767
Trade and other payables	308	568	876
Short-term accruals and deferred income	2	1	3
Total equity and liabilities	12,159	23,164	35,323

● ● Segregated Income Statement (2012)

(Million Euros)	Electricity generation	Other activities	Total
Net turnover	4,056	2,008	6,064
Supplies	(2,888)	(1,996)	(4,884)
Other operating income	23	296	319
Personnel costs	(96)	(186)	(282)
Other operating expenses	(479)	(237)	(716)
Amortisation expense	(578)	(14)	(592)
Release of fixed assets grants and others	72	-	72
Operating profit	110	(129)	(19)
Financial income	23	1,660	1,683
Financial expenses	(261)	(540)	(801)
Variation in fair value of financial instruments	-	15	15
Net exchange gains/losses	-	5	5
Impairment and gains on disposals of financial instruments	-	12	12
Net financial income	(238)	1,152	914
Profit before tax	(128)	1,023	895
Income tax	38	207	245
Profit for the year	(90)	1,230	1,140

Note 33. Subsequent events

On 31 January 2013, the Company's Board of Directors approved the plans for the segregation of Gas Natural SDG, S.A. to Gas Natural Fenosa Generación, S.L.U., and the report prepared by Gas Natural SDG, S.A.'s Board of Directors on the segregation of the hydraulic and non-nuclear thermal electricity generation line of business in Spain to Gas Natural Fenosa Generación, S.L.U., which will be submitted to the General Shareholders' Meeting for approval.

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

Gas Natural SDG, S.A.	Gas Natural Rioja, S.A.
Aplicaciones y Desarrollos Profesionales Nuevo Milenio, S.L.	Gas Natural S.U.R. SDG, S.A.
Boreas Eólica 2, S.A.	Gas Natural Servicios SDG, S.A.
Compañía Española de Industrias Electroquímicas, S.A.	Gas Natural Transporte SDG, S.L.
Energía Termosolar de los Monegros, S.L.	Gas Natural Wind 4, S.L.U.
Energías Ambientales de Somozas, S.A.	Gas Natural Wind Canarias, S.L.U.
Energías Especiales Alcohólicas, S.A.	Gas Navarra, S.A.
Energías Especiales de Extremadura, S.L.	General de Edificios y Solares, S.L.
Europe Magreb Pipeline Limited	Hispanogalaica de Extracciones, S.L.
Explotaciones Eólicas Sierra de Utrera, S.L.	Holding Negocios Regulados Gas Natural, S.A.
Fenosa Wind, S.L.	JGC Cogeneración Daimiel, S.L.
Fenosa, S.L.U.	La Energía, S.A.
Gas Natural Almacenamiento Andalucía, S.A.	La Propagadora del Gas, S.A.
Gas Natural Andalucía, S.A.	Lignitos de Meirama, S.A.
Gas Natural Aprovisionamientos SDG, S.A.	Gas Natural Fenosa Nuclear, S.L.U.
Gas Natural Capital Markets, S.A.	La Propagadora del Gas Latam, S.L.U.
Gas Natural Castilla y León, S.A.	Operación y Mantenimiento Energy, S.A.
Gas Natural Castilla-La Mancha, S.A.	Petroleum, Oil & Gas, S.A.
Gas Natural Cegas, S.A.	Pizarras Mahide, S.L.
Gas Natural Comercial SDG, S.L. (in liquidation)	Sagane, S.A.
Gas Natural Comercializadora, S.A.	Sistemas Energètics 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'Énderrocada, S.A.
Gas Natural Exploración, S.L.	Tratamiento Almazán, S.L.
Gas Natural Fenosa Engineering, S.L.U.	Tratamiento Cinca Medio, S.L.
Gas Natural Fenosa Renovables Andalucía, S.L.U.	Unión Fenosa Comercial, S.L.
Gas Natural Fenosa Renovables Castilla-La Mancha, S.L.U.	Unión Fenosa Distribución, S.A.
Gas Natural Fenosa Renovables, S.L.U.	Unión Fenosa Financiación, S.A.
Gas Natural Fenosa Telecomunicaciones, S.A.	Unión Fenosa Internacional, S.A.
Gas Natural Informática, S.A.	Unión Fenosa Minería, S.A.
Gas Natural Internacional SDG, S.A.	Unión Fenosa Preferentes, S.A.U.
Gas Natural Madrid SDG, S.A.	-



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.

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

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

	2013	2012	%
Net turnover	5,586	6,064	(7.9)
Operating profit	16	(19)	(184.2)
Profit for the year	1,109	1,140	(2.7)
Shareholders' equity	13,259	12,112	9.5

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

2.1. Main milestones in 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.

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 Decreed 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 Decreed 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 financial debt/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 financial debt (at 31/12)	14,641	15,995	(8.5)

¹Ebitda = 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 financial debt/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 financial debt/(Net financial debt + 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 financial debt

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
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	-

¹ Third party network access (energy distributed)

² Installed capacity equivalent interruption time in Spain

³ Figures for 50% (shareholding)

● ● Main physical aggregates (continued)

	2013	2012	%
Latin America			
Gas distribution			
Sales-TPA 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)

3. Sustainability

Environment

● ● Main aggregates

	2013	2012	%
Emission-free installed capacity (%)	19.9	19.40	2.6
Emission-free net production (%)	13.6	7.80	74.4
GHG emissions ¹ (t CO ₂ eq)	20.8	24.30	(14.4)
GHG emissions/electricity generation (t CO ₂ eq/GWh)	399.0	454.00	(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	15.80	(5.1)
Environmentally certified activities (% of ebitda environmentally certified) ²	99.4	99.40	-

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 CO₂. 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 CO₂ 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 SO₂ 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 31 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 21 to the Annual Accounts provides a breakdown of personnel by category, gender and geographic area at 31 December.

4. Main risks and uncertainties

4.1. 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 CO₂ 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:

a) 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.

b) The Near East and Maghreb

Gas Natural Fenosa has both its own assets and important gas supply contracts with different countries in the Maghreb and Near East, particularly Egypt. Political instability in the region could result in property damages to the assets of the companies in which Gas Natural Fenosa holds an interest as well as the obstruction of the 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 15 to the Annual Accounts.

4.3. Main opportunities

Gas Natural Fenosa's main opportunities are as follows:

- Generation mix: Gas Natural Fenosa's generation plants, consisting mainly of combined-cycle facilities, has the necessary flexibility to adapt to different market circumstances; it is thus a valuable asset to leverage opportunities related to price and demand volume volatility in the gas and electricity markets.
- CO₂ market evolution: The mechanisms proposed by the European Commission to increase the cost of emission rights are intended to discourage the use of the more polluting technologies so as to counteract Climate Change. In this context, Gas Natural Fenosa's plants would be more competitive than coal plants and opportunities could also arise in the emissions market.
- NG/LNG supply portfolio: Management of gas pipelines, investment in plants and the fleet of methane tankers allows the Group to meet its business needs in a flexible, diversified manner, optimising our approach to each energy scenarios. Specifically, our gas tankers fleet makes Gas Natural Fenosa one 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.

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).
- "Bii 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	% change
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 CO₂.

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 33 to the 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
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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 Nationale 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		% of total voting rights
		Direct holder of the stake	Number of 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		Number of equivalent shares	% of total voting rights
		Direct holder	Number of voting rights		

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

Name or company name of related parties	Relationship type	Brief outline
Repsol, S.A.	COM CON COR	Details of commercial, contractual or corporate relations between "la Caixa" and Repsol, S.A. are provided in the information prepared by said Groups. See also parallel shareholders agreements, section A.6.
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 Nationale 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.		Agreement of 11 January 2000, novation of 16 May 2002 and addenda of 16 December 2002 and 20 June 2003.
Caja de Ahorros y Pensiones de Barcelona		<p>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.</p> <p>ii) The Board shall comprise seventeen (17) members, five (5) appointed by Repsol, five (5) appointed by "la Caixa", one (1) Director representing Caixa Catalunya and six (6) Independent Directors jointly nominated by "la Caixa" and Repsol. Repsol and "la Caixa" shall vote in favour of the appointments put forward by the other party.</p> <p>iii) Among the Directors nominated by each of the parties, "la Caixa" shall propose who should hold the position of Chairman of the Board and Repsol to the Chief Executive Officer. The Repsol and "la Caixa" Directors shall vote in favour of the proposed appointments for each of the positions.</p> <p>iv) The Executive Committee shall be comprised by eight (8) members, of which three (3) shall be elected from among the Directors nominated by Repsol, including the CEO, three (3) from among those proposed by "la Caixa", including the Chairman, and two (2) from among the Independent Directors.</p> <p>v) In accordance with the principles outlined in section (i) above, the parties in good faith and in the sole interest of Gas Natural Fenosa, shall reach a consensus on the Gas Natural Fenosa Strategic Plan, prior to its submission to the Board of Directors, which shall include all decisions affecting the basic outlines of the company's strategy: its organisational structure, annual budget, operations of concentration, transfer and the acquisition of assets that are essential in the strategic development of Gas Natural Fenosa.</p> <p>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.</p>

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

Yes

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

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

A.7 Indicate if there is any individual person or legal entity 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		
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Quorum required for the second call to meeting		
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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	% represented	Attendance data		Total
			% remote voting		
			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
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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
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Indicate whether or not formal requests have been accepted for presence on the Board from shareholders whose holding is equal to or higher than that of others for whom Proprietary Directors have been appointed. If appropriate, explain the reasons why these have not been dealt with:

No

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

Director's name	Reason for resignation
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C.1.10 Indicate, where applicable, the powers delegated to the 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 Taberner	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
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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
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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-García Irazoqui	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)
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D.4 Report on the significant transactions carried out by the company with other companies belonging to the same group, provided that they are not eliminated in the process of drafting the Consolidated Financial Statements and are not part of the company's usual trading in terms of its purpose and conditions.

Under all circumstances, report any 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 5.19 of the Board Regulations sets out that the approval of the risk control and management policy and periodic monitoring of the internal indicators and control systems is one of the powers expressly reserved to the Board.

- Audit and Control Committee: Among other tasks, this Committee is responsible for 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 managers involved in the same.

- **Code of conduct, approval body, level of dissemination and instruction, principles and values included (indicating whether or not there are specific mentions to the register of operations and the preparation of financial reporting), the body in charge of analysing breaches and proposing corrective actions and fines.**

The undertakings of senior management of Gas Natural Fenosa include focusing their efforts on ensuring that operations are carried out within an environment of professional and ethical practices, not only through the introduction of mechanisms targeted at preventing and detecting fraud committed by employees, or inappropriate practices that could lead to sanctions, fines or which could damage the image of Gas Natural Fenosa, but also reinforcing the importance of ethical values and integrity 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.

F3.2. 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.

F3.3 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 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.

F4.2 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 out in detail on the SCIIF.

The complete economic financial management model of Gas Natural Fenosa guarantees that the administrative and accounting processes are uniform by means of the centralisation of the accounting and economic administration in 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.

F5.2 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 recommendation 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 effect 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 existing companies.
6. Adoption of merger, absorption, spin-off, concentration and dissolution transactions with or without liquidation, in which any of the companies in Gas Natural Fenosa 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 reflect the proportion between the company's share capital represented by the Proprietary Directors and the rest of the share capital.

This criterion of strict proportionality could be reduced as the weight of the Proprietary Directors is greater than that which would correspond to the total percentage of the share capital they represent:

1° In companies with a high level of capitalisation, when the shares that are legally considered as significant are zero or low-level, but where shareholders exist, with blocks of shares of high absolute value.

2° When it is a question of companies in which there is a plurality of shareholders represented on the Board and there are no associations between them.

See 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:

1° In relation to the internal control and information systems:

- a) That the main risks identified as a result of supervising the efficacy of the internal control of the company and the internal 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.

2° 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
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