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

AUDITOR´S REPORT ON THE CONSOLIDATED ANNUAL ACCOUNTS

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

We have audited the consolidated annual accounts of Gas Natural SDG, S.A. (parent Company) and its subsidiaries (the Group), consisting of the consolidated balance sheet at 31 December 2011, the consolidated income statement, the consolidated statement of comprehensive income, the statement of changes in consolidated net equity, the consolidated cash flow statement and related notes to the consolidated annual accounts for the year then ended. As explained in Note 3.1 to the accompanying annual accounts, the Directors are responsible for the preparation of these consolidated annual accounts in accordance with the International Financial Reporting Standards as endorsed by the European Union, and other provisions of the financial reporting framework applicable to the Group. Our responsibility is to express an opinion on the consolidated annual accounts taken as a whole, based on the work performed in accordance with the legislation governing the audit practice in Spain, which requires the examination, on a test basis, of evidence supporting the consolidated annual accounts and an evaluation of whether their overall presentation, the accounting principles and criteria applied and the estimates made are in accordance with the applicable financial reporting framework.

In our opinion, the accompanying consolidated annual accounts for 2011 present fairly, in all material respects, the consolidated financial position of Gas Natural SDG, S.A. and its subsidiaries at 31 December 2011, and the consolidated results of its operations and the consolidated cash flows for the year then ended in accordance with the International Financial Reporting Standards as endorsed by the European Union, and other provisions of the applicable financial reporting framework.

The accompanying consolidated Directors' report for 2011 contains the explanations which the Gas Natural SDG, S.A.'s Directors consider appropriate regarding the Group's situation, the development of its business and other matters and does not form an integral part of the consolidated annual accounts. We have verified that the accounting information contained in the consolidated Directors' report is in agreement with that of the consolidated annual accounts for 2011. Our work as auditors is limited to checking the consolidated Directors' report in accordance with the scope mentioned in this paragraph and does not include a review of information other than that obtained from the accounting records of Gas Natural SDG, S.A. and its subsidiaries.

PricewaterhouseCoopers Auditores, S.L.

Originally signed by Manuel Valls Morató
Partner

14 February 2012

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GAS NATURAL FENOSA
2011 Annual Report

CONSOLIDATED ANNUAL ACCOUNTS

Consolidated balance sheet
Consolidated income statement
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GAS NATURAL FENOSA
Consolidated Balance Sheet

	31.12.11	31.12.10
	(Million Euros)	
ASSETS		
Intangible assets (Note 5)	11,080	11,223
Goodwill	5,876	6,002
Other intangible assets	5,204	5,221
Property, plant and equipment *(Note 6)*	22,744	23,206
Investments recorded using the equity method *(Note 7)*	99	105
Non-current financial assets *(Note 8)*	1,024	694
Deferred income tax assets *(Note 21)*	975	957
NON-CURRENT ASSETS	**35,922**	**36,185**
Non-current assets held for sale *(Note 9)*	23	707
Inventories *(Note 10)*	879	755
Trade and other receivables *(Note 11)*	5,192	4,592
Trade receivables	4,577	3,946
Other receivables	497	534
Current income tax assets	118	112
Other current financial assets *(Note 8)*	1,388	1,901
Cash and cash equivalents *(Note 12)*	3,098	1,203
CURRENT ASSETS	**10,580**	**9,158**
TOTAL ASSETS	**46,502**	**45,343**
NET EQUITY AND LIABILITIES		
Share capital	992	922
Share premium	3,808	3,331
Reserves	6,900	6,106
Profit for the year attributed to the Equity holders of the Company	1,325	1,201
Interim dividend	(360)	(324)
Adjustments for changes in value	127	148
Hedging operations	(8)	(39)
Cumulative translation adjustments	135	187
Net equity attributable to the Company's equity holders	**12,792**	**11,384**
Minority interests	**1,649**	**1,590**
TOTAL NET EQUITY *(Note 13)*	**14,441**	**12,974**
Grants *(Note 14)*	803	657
Non-current provisions *(Note 15)*	1,712	2,865
Non-current financial liabilities *(Note 16)*	17,539	18,176
Borrowings	17,209	17,805
Other financial liabilities	330	371
Deferred income tax liability *(Note 21)*	2,642	2,704
Other non-current liabilities *(Note 18)*	1,033	1,040
NON-CURRENT LIABILITIES	**23,729**	**25,442**
Liabilities linked to non-current assets held for sale *(Note 9)*	-	350
Current provisions *(Note 15)*	133	127
Current financial liabilities *(Note 16)*	2,853	2,130
Borrowings	2,706	1,887
Other financial liabilities	147	243
Trade and other payables *(Note 19)*	4,671	3,658
Trade payables	3,900	3,005
Other payables	481	468
Current income tax liabilities	290	185
Other current liabilities *(Note 20)*	675	662
CURRENT LIABILITIES	**8,332**	**6,927**
TOTAL NET EQUITY AND LIABILITIES	**46,502**	**45,343**

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

GAS NATURAL FENOSA
Consolidated Income Statement **(Million Euros)**

	2011	2010
Sales *(Note 22)*	21,076	19,630
Procurements *(Note 23)*	(14,074)	(12,970)
Other operating income *(Note 24)*	263	258
Personnel cost *(Note 25)*	(858)	(798)
Other operating expenses *(Note 26)*	(2,013)	(1.912)
Depreciation and amortisation expenses *(Notes 5 and 6)*	(1,750)	(1,716)
Release of fixed assets grants to income and others *(Note 14)*	35	31
Other results *(Note 27)*	268	370
OPERATING INCOME	**2,947**	**2,893**
Financial income	137	118
Finance expense	(1,073)	(1,165)
Variations in fair value of financial instruments	2	(6)
Net exchange gains/losses	-	(6)
Gain on sales of financial instruments	2	44
NET FINANCIAL INCOME *(Note 28)*	**(932)**	**(1,015)**
Profit of entities recorded by equity method *(Note 7)*	7	5
INCOME BEFORE TAXES	**2,022**	**1,883**
Income tax expense *(Note 21)*	(496)	(468)
NET INCOME FOR THE YEAR FROM CONTINUING OPERATIONS	**1,526**	**1,415**
CONSOLIDATED NET INCOME FOR THE YEAR	**1,526**	**1,415**
Attributable to:		
Equity holders of the Company	1,325	1,201
Minority interests	201	214
	1,526	**1,415**
Basic and diluted earnings per share in Euros from continuing activities attributable to the equity holders of the parent Company*(Note 13)*	1.39	1.30
Basic and diluted earnings per share in Euros attributable to the equity holders of the parent Company *(Note 13)*	1.39	1.30

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

GAS NATURAL FENOSA
Consolidated Statement of Comprehensive Income (Million Euros)

	2011	2010
CONSOLIDATED INCOME FOR THE YEAR	**1,526**	**1,415**
OTHER COMPREHENSIVE INCOME RECOGNISED DIRECTLY IN NET EQUITY	**(146)**	**185**
Valuation of available-for-sale financial assets	-	(20)
Cash flow hedges	(60)	(92)
Cumulate translation adjustment	(81)	310
Actuarial gains and losses and other adjustments	(46)	(45)
Tax effect	41	32
RELEASES TO INCOME STATEMENT	**82**	**95**
Valuation of available-for-sale financial assets	-	(4)
Cash flow hedges	103	166
Cumulate translation adjustment	9	(19)
Tax effect	(30)	(48)
OTHER COMPREHENSIVE INCOME FOR THE YEAR	**(64)**	**280**
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**1,462**	**1,695**
Attributable to:		
Equity holders of the Company	1,281	1,444
Minority interests	181	251

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

GAS NATURAL FENOSA

Statement of changes in consolidated net equity **(Million Euros)**

	Net equity attributable to the Company's equity holders						
	Share Capital	Share premium and Reserves	Profit for the year	Adjustments for change in value	Subtotal	Minority interests	Net Equity
Balance at 1.1.10	**922**	**8,682**	**1,195**	**(118)**	**10,681**	**1,496**	**12,177**
Total comprehensive income for the year	-	(23)	1,201	266	**1,444**	251	**1,695**
Dividends distribution	-	465	(1,195)	-	**(730)**	(157)	**(887)**
Other variations	-	(11)	-	-	**(11)**	-	**(11)**
Balance at 31.12.10	**922**	**9,113**	**1,201**	**148**	**11,384**	**1,590**	**12,974**
Total comprehensive income for the year	-	(23)	1,325	(21)	**1,281**	181	**1,462**
Dividends distribution	-	841	(1,201)	-	**(360)**	(124)	**(484)**
Acquisition of free allocation rights (Note13)	-	(15)	-	-	**(15)**	-	**(15)**
Capital increase (Note 13)	70	445	-	-	**515**	-	**515**
Increase/decrease for business Combinations	-	-	-	-	-	16	**16**
Other variations	-	(13)	-	-	**(13)**	(14)	**(27)**
Balance at 31.12.11	**992**	**10,348**	**1,325**	**127**	**12,792**	**1,649**	**14,441**

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

GAS NATURAL FENOSA
Consolidated cash flow Statement **(Million Euros)**

	2011	2010
Net income before tax	**2,022**	**1,883**
Adjustments to net income:	**2,510**	**2,857**
Amortisation and depreciation of fixed assets	1,750	1,716
Other adjustments to net income	760	1,141
Changes in working capital	**(1,298)**	**(729)**
Other cash generated from operations:	**(1,097)**	**(1,265)**
Interest paid	(845)	(798)
Interest collected	59	9
Income tax paid	(311)	(476)
NET CASH GENERATED FROM OPERATING ACTIVITIES (*Note 29*)	**2,137**	**2,746**
Cash flows into investing activities:	**(2,750)**	**(2,333)**
Group companies, associates and business units	(76)	-
Purchases of Property, plant and equipment and intangible assets	(1,456)	(1,545)
Other financial assets	(1,218)	(788)
Proceeds from divestitures:	**2,521**	**2,216**
Group companies, associates and business units	685	1,868
Sales of Property, plant and equipment and intangible assets	539	84
Other financial assets	1,297	264
Other cash flows from investing activities:	**153**	**153**
Proceeds from dividends	4	5
Other proceeds/(payments) from/(of) investing activities	149	148
NET CASH RECEIVED FROM INVESTING ACTIVITIES	**(76)**	**36**
Receipts/(payments) for equity instruments:	**500**	**-**
Issue	515	-
Acquisition	(15)	-
Cash flows from financing activities:	**(166)**	**(1,272)**
Proceeds from borrowings	4,514	11,375
Repayment of borrowings	(4,680)	(12,647)
Dividends paid	**(445)**	**(858)**
Other cash flows from financing activities	**(55)**	**(69)**
NET CASH RECEIVED FROM FINANCING ACTIVITIES	**(166)**	**(2,199)**
Effect of exchange rates on cash and cash equivalents	**-**	**31**
VARIATION IN CASH AND CASH EQUIVALENTS	**1,895**	**614**
Cash and cash equivalents at beginning of the year	1,203	589
Cash and cash equivalents at year end	3,098	1,203

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

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NOTES TO THE CONSOLIDATED ANNUAL ACCOUNTS OF GAS NATURAL FENOSA FOR 2011

Note 1. General information

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

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

The acquisition and merger of Unión Fenosa, S.A. in 2009 meant a significant advance in the development of GAS NATURAL FENOSA and its strategy of becoming a fully integrated gas and electricity Group.

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

Note 4 includes financial segment reporting by business and geographic areas.

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

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

Note 2. Regulatory framework

a) Regulation of the natural gas industry in Spain

<u>Main characteristics of the natural gas industry in Spain</u>

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

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

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

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

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

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

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

Regulation of natural gas activities in Spain

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

1. Regulated activities

Regulated activities are characterised by:

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

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

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

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

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

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

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

1.1. Transport

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

- *Regasification*: Natural gas is imported to Spain through a pipeline network (in gas form) and by gas tankers (in liquid form, hereon, liquefied natural gas). The regasification is the activity that involves the conversion of liquid natural gas, stored in cryogenic tanks generally at regasification 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 tanks required to ensure the constant supply of natural gas and that supply will not be affected by seasonal changes and other demand peaks. These facilities are also used to comply with the obligation laid down in Royal Decree 1766/2007 of December 28, to maintain certain minimum security stocks. Part of the underground storage facilities is exempt from the obligation to allow access of third parties.

1.2. Distribution

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

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

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

Ministerial Order IET/3587/2011/30 December established the remuneration of the regulated activities of the gas industry for 2012. Specifically, initial remuneration recognised for GAS NATURAL FENOSA for 2012 totals Euros 1,077 million for distribution activities and Euros 42 million for transport activities.

In November, the Ministry of Industry, Energy and Tourism sent to the CNE and to the Consultative Council for Hydrocarbons the Draft Royal Decree which revises, as a result of the arbitral award issued in August 2010, remuneration for the natural gas supplied to the tariff market deriving from the Algeria contract referred to in Article 15 of Royal Decree 6/2000, proposing a surcharge to finance the cost incurred as a result of the arbitral award.

2. Unregulated activities

2.1. Supplies (import of natural gas)

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

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

2.2. Commercialisation

Since 1 July 2008, as per Law 12/2007 and the regulations pursuant thereto, of special note amongst which are Royal Decree 1068/2007 of July 27, and Order 2309/2007 of July 30, natural gas has come to be exclusively supplied by commercialisers, and the bundled tariff has disappeared, which up to such date was carried out by distribution companies, and the right has been given to under 4 bar consumers, who do not exceed a certain consumption threshold (3 GWh, which will fall 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.

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

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

The Ministry of Industry, Energy and Tourism issued Order ITC/1506/2010/8 June, which modifies Order ITC/1660/2009/22 June, 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%.

b) Regulation of the natural gas industry in Latin America

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

In Mexico, PEMEX is the dominant operator. On 23 February 2011, the new gas distribution tariff for all the zones in which GAS NATURAL FENOSA distributes gas in Mexico was officially published, entailing annual tariff rises of between 9% and 13.5%, except for the Los Bajíos zone where the newly approved five-year tariff represents an increase of 26.8%.

In Brazil, Petrobras is the dominant operator.

In Colombia the authorities have decided that transport companies cannot directly undertake any production, commercialisation or distribution activity (and vice-versa). Likewise, it has set a limit for the commercialisation of natural gas to end users up to a maximum of 25% of the market (and vice-versa).

In Argentina, as a result of the 2001 economic crisis, there was a freezing and pesofication of rates. However, since 2007, the Argentine Government has been gradually introducing a stable distributor remuneration system based on a proper remuneration of assets. Thus, on 10 October 2008, the Argentine Government published a rate increase of between 10% and 30%, in force as from September 1 of this year to residential and industrial customers and for vehicular natural gas.

c) Regulation of the natural gas industry in Italy

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

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

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

d) Regulation of the Electricity sector in Spain

Main characteristics of the electricity sector in Spain

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

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

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

Generally, the electricity sector has the following main features:

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

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

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

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

- The electricity system is not self-sufficient and its maintenance generates an annual deficit that has had to be financed by the electricity companies.

The regulation of electricity activities in Spain

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

1. Regulated activities

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

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

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

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

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

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

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

1.1. Transport

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

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

1.2. Distribution

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

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

Ministerial Order IET/3586/2011/30 December set the remuneration of the regulated activities for the electricity industry for 2012. Specifically, the initial remuneration recognised for GAS NATURAL FENOSA for 2012 totals Euros 862 million for distribution activity and Euros 41 million for transport activities.

2. Unregulated activities:

2.1. Electricity generation:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

On 24 December 2010 Royal Decree-Law 14/2010/23 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 debenture 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 adjustment it to the deviations, while the point at which tariff adequacy is reached has been maintained for 2013.

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

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

Order ITC/3127/2011 (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 (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.

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

2.2. The commercialisation of electricity

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

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

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

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

e) Regulation of the international electricity sector

1. Generation

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

The electricity sector in Mexico is made up of two public companies that have a monopoly in the industry: *Comisión Federal de Electricidad* (*CFE*) and *Luz y Fuerza del Centro*. Both companies are vertically integrated in terms of generation, transport and distribution. The Electricity Public Service Act of 1992 permitted the participation of private investment in the electricity sector in Mexico under the figure of the independent producer or external energy producer, self-supplier, as well as co-generation, import and export. The independent producers, including various investee companies of GAS NATURAL FENOSA, sell their energy only to CFE, in accordance with longer term energy and capacity contracts.

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

2. Distribution

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

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

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

On 15 June 2011, the Nicaraguan electricity system regulator (INE) approved a ruling to increase the tariff so as to absorb an increase in the average energy purchase price recognised at 41.88 %, without affecting the current tariff period (to 2013). This tariff rise comes into effect on 1 July.

Note 3. Basis of presentation and accounting policies

3.1 Basis of presentation

The Consolidated annual accounts of GAS NATURAL FENOSA for 2010 were adopted by the General Meeting of Shareholders of 14 April 2011.

The Consolidated annual accounts for 2011, which were formulated by the Board of Directors on 27 January 2012, will be submitted, along with those of the investee companies, to the approval of the respective General Meetings of Shareholders. It is expected that they will be adopted without modification.

The Consolidated annual accounts of GAS NATURAL FENOSA for 2011 have been prepared on the basis of the accounting records of Gas Natural SDG, S.A. and the other companies in the Group, in accordance with the provisions of International Financial Reporting Standards adopted by the European Union (hereon "IFRS-UE"), as per (EC) Regulation nº 1606/2002 of the European Parliament and Council.

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

These Consolidated annual accounts fairly present the consolidated equity and consolidated financial situation of GAS NATURAL FENOSA at 31 December 2011, and the consolidated results of its operations, the changes in the Consolidated statement of comprehensive income, the changes in consolidated net equity and the consolidated cash flows of GAS NATURAL FENOSA for the year then ended.

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

3.2 New IFRS-EU and IFRIC

As a result of adoption, publication and coming into force on 1 January 2011 the following new IFRS and IFRIC have been applied:

- IFRS 1 (amendment) "First-time Adoption of IFRS". Limited exemption of the comparisons of IFRS 7.
- IAS 24 (Revised) "Related party disclosures".
- IAS 32 (amendment) "Financial Instruments Presentation"
- IFRIC 14 (amendment) "Prepayments of a Minimum funding Requirements".
- IFRIC 19 "Extinguishing Financial Liabilities with Equity Instruments".
- International Financial Reporting Standards Improvement Projects.

The application of the above standards, modifications and interpretations has not had a significant impact on the Consolidated annual accounts.

In 2011 the Official Gazette of the European Union published the following new IFRS and IFRIC coming into force for the years beginning 1 January 2012, which have not been adopted in advance:

- IFRS 7 (modification). "Financial instruments. Information to be Disclosed". Disclosures – Transfer of financial assets.

The following amendments to IFRS have been approved and are in force for financial years commencing 1 January 2012 but have not yet been adopted by the European Union:

- IAS 12 (amendment) "Deferred tax: Recovery of underlying assets".
- IFRS 1 (amendment), "Severe hyperinflation and removal of fixed dates for first-time adopters".

Following the analysis of these new accounting standards and interpretations applicable in financial years commencing as from 1 January 2012, GAS NATURAL FENOSA does not expect their application to have significant effects on the Consolidated annual accounts.

Additionally, during 2011 the IASB issued a number of standards that will come into force between 1 January 2013 and 2015 and are pending adoption by the European Union. These include the amendment of consolidation rules through IFRS 10 "Consolidation financial statements", IFRS 11 "Joint arrangements" and IFRS 12 "Disclosure of interests in other entities". GAS NATURAL FENOSA is assessing the impact of the application of these standards on the Consolidated annual accounts.

3.3 Accounting policies

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

3.3.1 Consolidation

a) Subsidiaries

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

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

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

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

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

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

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

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

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

In relation to the acquisitions of minority interests, the difference between the price paid and their net carrying value, or as the case may be, the result of their sale, is booked as equity transactions.

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

b) Joint Ventures

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

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

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

c) Associates

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

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

d) Consolidation scope

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

Appendix II lists the main variations in the consolidation scope in 2011 and 2010.

2011

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

- sale of shareholdings in the Guatemalan electricity distributors (Note 9).
- additional sale of several gas distribution companies and assets in the Madrid area (Note 9).
- swap of EUFER's renewable assets as a result of the completion of the collaboration with another partner that was arranged through this company (Note 9).
- acquisition of shareholdings in a number of wind farms (Note 30).
- acquisition of the Italian gas distribution company Favellato Reti, S.R.L. (Note 30).

2010

In 2010 the main variations in the consolidation scope have been:

- The sale of various combined cycle electricity companies in Mexico (Note 9).
- The sale of various companies and assets related to gas distribution and supply in Madrid (Note 9).

3.3.2 Foreign currency translation

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

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

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

- assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;

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

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

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

The exchange rates against the Euro (EUR) of the main currencies of the companies in GAS NATURAL FENOSA at December 31, 2011 and 2010 have been:

	31 December 2011		31 December 2010	
	Closing Rate	Average Accumulated Rate	Closing Rate	Average Accumulated Rate
US Dollar (USD)	1.29	1.39	1.34	1.33
Argentinean Peso (ARS)	5.54	5.72	5.29	5.16
Brazilian Real (BRL)	2.43	2.33	2.22	2.33
Colombian Peso (COP)	2,514	2,569	2,557	2,516
Mexican Peso (MXN)	18.09	17.27	16.54	16.74
Nicaragua Córdoba (NIO)	29.72	31.21	29.24	28.32
Panama Balboa (PAB)	1.29	1.39	1.34	1.33
Moldovan Lei (MDL)	15.14	16.30	16.23	16.39

3.3.3 Intangible assets

a) Goodwill

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

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

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

The impairment losses on goodwill cannot be reversed.

b) Concessions and the like

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

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

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

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

c) Computer software applications

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

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

d) Research costs

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

e) Other intangible assets

Other intangible assets mainly include the following:

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

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

- The CO2 emission allowances received for no consideration are stated at no value while those acquired are stated at their acquisition cost. In the event that GAS NATURAL FENOSA does not have enough allowances to meet its emission quotas, the deficit is recorded under "Current provisions" and valued at the cost of acquisition for the allowances purchased and at fair value for the allowances pending to purchase on the date the Consolidated annual accounts are filed.

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

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

3.3.4 Property, plant and equipment

a) *Cost*

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

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

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

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

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

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

Expenses arising from actions designed to protect and improve the environment are expensed in the year they are incurred. They are capitalised when they represent asset additions to Property, plant and equipment, and when allocated to minimise environmental impact and protect and improve the environment.

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

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

b) *Depreciation*

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

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

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

The calculation of the depreciation charge for the hydro-electric plants differentiates between the different types of assets they have, distinguishing between the investments in civil works (which are depreciated on the basis of the concession period, or 100 years if there is no concession), electro-mechanical equipment (40 years) and the other fixed assets (14 years), taking into account, in any case, the use of the plant and the maximum term of the concessions (expiring between 2012 and 2060).

GAS NATURAL FENOSA depreciates its nuclear energy plants over a useful life of 40 years. However, the license to operate these plants usually covers a period of 30 years 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.

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

c) Exploration operations and production of gas

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

- Explorations costs

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

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

- Investments in areas with reserves

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

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

3.3.5 Impairment of non financial assets

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

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

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

These units have been defined using the following criteria:

- Gas distribution:

- Gas distribution Spain: The development, operations and maintenance of the gas distribution network is managed jointly.
- Gas distribution Latin America: There is a CGU for each country in which it operates (Argentina, Brazil, Colombia and Mexico), as these are businesses subject to different regulatory frameworks.
- Gas distribution Others: Relates to the gas distribution assets in Italy.

- Electricity distribution:

  - Electricity distribution Spain. The development, operations and maintenance of the gas distribution network is managed jointly.
  - Electricity distribution Latin America. There is a CGU for each country in which it operates (Colombia, Nicaragua, Panama), as these are businesses subject to different regulatory frameworks.
  - Electricity distribution Others. Relates to the electricity distribution assets in Moldova.

- Electricity:

  - Electricity Spain. Electricity production in Spain is managed jointly and in a centralised manner, depending on market conditions.
  - Electricity Latin America: there is a CGU for each country in which it operates (Costa Rica, Mexico, Puerto Rico, Panama and the Dominican Republic), since there is a generation capacity in each country that is similar to Spain's.
  - Electricity Others. Relates to Kenya.

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

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

The cash flows are based on the four-year strategic plan approved by GAS NATURAL FENOSA, extended to a five year on the basis of the regulation and the expectations of the market developments according to available sector forecasts and the historical experience of the evolution of prices and volumes.

Cash flow after forecast period are extrapolated considering the growth rates estimated by CGU that, in no event, exceed the long term average growth rate to the business and country in which are, in all cases, lower than the growth of strategic plan period

Furthermore, to estimate the future cash flows in the calculation of the residual values, all maintenance costs and, where applicable, replacement costs necessary to maintain the production capacity of the CGUs have been taken into account. The nominal growth rates applied are as follows:

	Rates 2011	Rates 2010
Distribution of gas Latin America	1.0%	1.0%
Distribution of gas rest of Europe	1.0%	1.0%
Distribution of electricity Spain	0.8%	0.8%
Distribution of electricity Rest of Europe	1.8%	1.8%
Distribution of electricity Latin America	1.2% - 3.0%	1.2% -3.0%
Generation of electricity in Spain	1.8%	1.8%
Generation of electricity – Latin America	1.9% - 4.9%	1.9% - 4.9%
Electricity Others	4.5%	4.5%
Unión Fenosa Gas	2.0%	2.0%

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

	Rates 2011	Rates 2010
Distribution of gas Latin America	17-18%	11%-20%
Distribution of gas rest of Europe	10.4%	9.6%
Distribution of electricity Spain	9.2%	8.4%
Distribution of electricity Rest of Europe	16.6%	13.7%
Distribution of electricity Latin America	10.7% - 24.1%	9.4% - 23.0%
Generation of electricity in Spain	10.0%	8.9%
Generation of electricity – Latin America	6.8% - 16.5%	8.6% - 16.2%
Electricity Others	12.6%	7.7%-12.1%
Unión Fenosa Gas	12.5%	11.0%

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

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

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

- Gas and electricity distribution in Spain:

  - Amount and growth in remuneration approved by the regulator.

- Gas and electricity distribution in Latin America and Others

  - Evolution of the tariffs.
  - Cost of energy and fuel.

- Electricity Spain:

  - Electricity produced and sold to the market, which depended on market demand and market share.
  - Price of the electricity in the Iberian market.
  - Cost of fuel and CO_2 emission rights.

- Electricity Latin America and Others:

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

As a result of the process, in 2011 and 2010, the recoverable values of the assets of the CGUs, calculated in line with the above-mentioned model are, in any case, greater than the net carrying values recorded in these Consolidated annual accounts, and, accordingly, no impairment has been booked. Furthermore, GAS NATURAL FENOSA estimates that the reasonably possible negative variations that could affect the the aforementioned assumptions on which the determination of the recoverable amounts of the different CGUs has been based would not vary the conclusions regarding the fact that the recoverable amount is higher that the net carrying values. This sensitivity analysis was prepared taking into account an increase of 50 basis points in the discount rates used in the base case.

3.3.6 Financial assets and liabilities

Financial investments

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

a) *Loans and other receivables*

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

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

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

b) *Held-to-maturity financial assets*

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

c) *Fair value financial assets through profit or loss.*

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

d) *Available-for-sale financial assets*

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

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

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

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

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

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

GAS NATURAL FENOSA has entered into debt claim assignment agreements in 2011 and 2010, which have been qualified as factoring without recourse since the risks and rewards inherent in ownership of the financial assets assigned have been transferred.

Cash and cash equivalents

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

Borrowings

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

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

Trade and other payables

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

3.3.7 Accounting for derivative financial instruments and hedging activities

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

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

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

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

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

- Derivatives that are not traded on official markets are calculated on the basis of the discounting of cash flows based on year end market conditions.

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

For accounting purposes, the operations are classified as follows:

1. Derivatives qualifying for hedge accounting

a) Fair value hedge

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

b) Cash flow hedge

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

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

c) Hedges of net foreign investments

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

2. Derivatives that do not qualify for hedge accounting

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

3. Energy purchase and sale agreements

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

3.3.8 Non-current assets held for sale and discontinued activities

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

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

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

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

3.3.9 Inventories

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

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

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

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

3.3.10 Share capital

Share capital is made up exclusively of ordinary shares.

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

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

3.3.11 Earnings per share

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

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

3.3.12 Preference shares

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

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

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

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

3.3.13 Capital grants and deferred Income

These amounts are recorded as "grants" and basically correspond to:

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

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

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

Capital grants and deferred income is recognised in "Grants" in the Consolidated Income statement systematically on the basis of the useful life of the corresponding asset, thus offsetting the depreciation expense.

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

3.3.14 Provisions for employee obligations

a) Post-employment pension and similar obligations

- Defined contribution plans

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

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

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

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

- Defined benefit plans

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

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

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

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

b) Other post-employment benefit obligations

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

c) Termination benefits

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

3.3.15 Provisions

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

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

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

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

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

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

3.3.16 Leases

a) Finance leases

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

b) Operating leases

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

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

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

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

- The lessee does not have a purchase option.

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

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

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

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

3.3.17 Income tax

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

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

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

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

3.3.18 Revenue and expenses recognition and payments for regulated activities

a) General

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

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

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

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

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

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

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

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

The Ministerial Order of 28 October 2002 which regulates the procedures for the payment of the regulated gas activity stipulates that the deviations that come to light from the application of the payment procedure between net payable final income and the accredited remuneration each year, will be taken into account in the calculation of the tolls and levies for the next two years. At the date of formulation of these Consolidated annual accounts the final payments for 2009 have not been published, although the provisional deviations for this year has been taken into account in order to calculate the tariffs, tolls and levies for 2011. It is not expected that the final payments will lead to significant differences in relation to the estimates made.

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

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

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

c) *Income from regulated electricity distribution activities*

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

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

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

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

At the date of formulation of these Consolidated annual accounts the final payments for the period 2007-2008 have not been published, although it is not expected that the final payments will generate significant differences in relation to the estimates made.

In the years 2006 to 2011, given that the income collected by the companies in the Spanish electricity industry have not been sufficient to remunerate the different regulated activities and costs of the system, the companies themselves, including Gas Natural SDG, S.A., were forced to finance this income deficit, until its definitive funding through the electricity system securitisation fund.

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

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

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

d) *Other income and expenses*

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

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

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

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

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

3.3.19 Cash Flow Statements

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

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

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

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

3.3.20 Significant accounting estimates and judgments

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

a) *Property, plant and equipment (Note 3.3.4)*

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

b) *Impairment of non-financial assets (Note 3.3.5)*

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

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

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

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

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

d) *Provisions for employee benefits (Note 3.3.14)*

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

e) *Provisions (Note 3.3.15)*

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

f) *Income tax (Note 3.3.17)*

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

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

Revenue from energy sales is recognized when the goods are delivered to the customer based on periodical meter readings and include the estimated accrual of the value of the goods consumed as from the date of the meter reading until the close of the period.

Estimated daily consumption is based on historical customer profiles taking into account seasonal adjustments and other factors than can be measured and may affect consumption. Historically, no material adjustments have been made relating to the amounts booked as unbilled income and none are expected in the future.

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

Note 4. Segment reporting

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

a) *Segment Information*

The operating segments of GAS NATURAL FENOSA are:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Segmental financial information – Income Statement

	Gas Distribution				Electricity Distribution				Electricity				Gas				Other	
2011	Spain	Latin America	Others	Total	Spain	Latin America	Others	Total	Spain	Latin America	Others	Total	Infrastructure	Supp. and Commerc.	Unión Fenosa Gas	Total		TOTAL
Sales segments	1,240	2,585	238	**4,063**	922	2,290	206	**3,418**	5,452	865	126	**6,443**	289	8,603	1,011	**9,903**	650	**24,477**
Sales inter segments	(108)	-	-	**(108)**	(30)	(2)	-	**(32)**	(1,182)	(9)	-	**(1,191)**	(192)	(1,220)	(495)	**(1,907)**	(163)	**(3,401)**
Sales consolidated	1,132	2,585	238	**3,955**	892	2,288	206	**3,386**	4,270	856	126	**5,252**	97	7,383	516	**7,996**	487	**21,076**
EBITDA	896	621	70	**1,587**	680	306	30	**1,016**	809	245	14	**1,068**	184	444	277	**905**	69	**4,645**
Other income	-	-	-	**-**	-	-	-	**-**	-	-	-	**-**				**-**	268	**268**
Depreciation and amortization expenses	(284)	(113)	(23)	**(420)**	(220)	(71)	(6)	**(297)**	(560)	(101)	(5)	**(666)**	(65)	(14)	(157)	**(236)**	(131)	**(1,750)**
Debtors provisions and others	-	(14)	(4)	**(18)**	(1)	(102)	-	**(103)**	(46)	-	-	**(46)**	-	(47)	-	**(47)**	(2)	**(216)**
Operating income	612	494	43	**1,149**	459	133	24	**616**	203	144	9	**356**	119	383	120	**622**	204	**2,947**
Net financial income	-	-	-	**-**	-	-	-	**-**	-	-	-	**-**	-	-	-	**-**	-	**(932)**
Equity-method result	-	-	-	**-**	-	-	-	**-**	-	-	-	**-**	-	-	7	**7**	-	**7**
Income before taxes	-	-	-	**-**	-	-	-	**-**	-	-	-	**-**	-	-	-	**-**	-	**2,022**
Income tax expense	-	-	-	**-**	-	-	-	**-**	-	-	-	**-**	-	-	-	**-**	-	**(496)**
Net income for the period	-	-	-	**-**	-	-	-	**-**	-	-	-	**-**	-	-	-	**-**	-	**1,526**

	Gas Distribution				Electricity Distribution				Electricity				Gas				Other	
2010	Spain	Latin America	Others	Total	Spain	Latin America	Others	Total	Spain	Latin America	Others	Total	Infrastructure	Supp. and Commerc.	Unión Fenosa Gas	Total		TOTAL
Sales segments	1,299	2,645	210	**4,154**	884	2,200	188	**3,272**	5,420	954	96	**6,470**	264	7,678	849	**8,791**	584	**23,271**
Sales inter segments	(127)	-	-	**(127)**	(55)	(2)	-	**(57)**	(1,144)	(8)	-	**(1,152)**	(179)	(1,525)	(365)	**(2,069)**	(236)	**(3,641)**
Sales consolidated	1,172	2,645	210	**4,027**	829	2,198	188	**3,215**	4,276	946	96	**5,318**	85	6,153	484	**6,722**	348	**19,630**
EBITDA	915	635	70	**1,620**	645	390	27	**1,062**	974	263	15	**1,252**	191	57	224	**472**	71	**4,477**
Other income	-	-	-	**-**	-	-	-	**-**	-	-	-	**-**					370	**370**
Depreciation and amortization expenses	(289)	(112)	(22)	**(423)**	(213)	(89)	(5)	**(307)**	(537)	(105)	(6)	**(648)**	(50)	(14)	(146)	**(210)**	(128)	**(1,716)**
Debtors provisions and others	-	(7)	(6)	**(13)**	(12)	(124)	(1)	**(137)**	(50)	(4)	-	**(54)**	-	(31)	-	**(31)**	(3)	**(238)**
Operating income	626	516	42	**1,184**	420	177	21	**618**	387	154	9	**550**	141	12	78	**231**	310	**2,893**
Net financial income	-	-	-	**-**	-	-	-	**-**	-	-	-	**-**	-	-	-	**-**	-	**(1,015)**
Equity-method result	-	-	-	**-**	-	-	-	**-**	(1)	-	-	**(1)**	-	-	3	**3**	3	**5**
Income before taxes	-	-	-	**-**	-	-	-	**-**	-	-	-	**-**	-	-	-	**-**	-	**1,883**
Income tax expense	-	-	-	**-**	-	-	-	**-**	-	-	-	**-**	-	-	-	**-**	-	**(468)**
INCN inter segments	-	-	-	**-**	-	-	-	**-**	-	-	-	**-**	-	-	-	**-**	-	**1,415**

Sales relates to net revenue.

(1) EBITDA is calculated as Operating profit excluding Other net income, plus depreciation and operating provisions.

The EBITDA for 2010 of the "Supply and Commercialisation" segment has decreased by Euros 305 million due to the net effect of various non-recurrent items, amongst which of special note are, amongst others, the additional to the already accounted for in 2009 provisions for risks arising from the litigation with Sonatrach (Note 15).

Segmental financial information – Assets, liabilities and investments

	Gas Distribution				Electricity Distribution				Electricity				Gas				Other	
2011	Spain	Latin America	Others	Total	Spain	Latin America	Others	Total	Spain	Latin America	Others	Total	Infrastructure	Supp. and Commerc,	Unión Fenosa Gas	Total		TOTAL
Assets (1)	4,208	2,633	673	**7,514**	5,160	2,087	163	**7,410**	11,562	1,758	118	**13,438**	1,055	2,469	2,301	**5,825**	1,953	**36,140**
Investments under equity method	-	-	-	-	-	-	-	-	23	-	-	**23**	-	1	61	**62**	14	**99**
Liabilities (2)	(786)	(488)	(104)	**(1,378)**	(696)	(893)	(33)	**(1,622)**	(1,326)	(192)	(26)	**(1,544)**	(65)	(2,560)	(159)	**(2,784)**	(1,085)	**(8,413)**
Investment in intangible assets (3)	9	16	28	**53**	11	2	1	**14**	27	5	-	**32**	5	-	-	**5**	72	**176**
Investm. in property, plant & equipment (4)	251	133	8	**392**	329	131	16	**476**	184	42	0	**226**	27	20	10	**57**	79	**1,230**
Business combinations (5)	-	-	10	**10**	-	-	-	-	77	-	-	**77**	-	-	-	-	-	87

	Gas Distribution				Electricity Distribution				Electricity				Gas				Other	
2010	Spain	Latin America	Others	Total	Spain	Latin America	Others	Total	Spain	Latin America	Others	Total	Infrastructure	Supp. and Commerc.	Unión Fenosa Gas	Total		TOTAL
Assets (1)	4,192	2,625	640	**7,457**	4,959	2,294	128	**7,381**	11,308	1,738	115	**13,161**	1,025	2,472	2,293	**5,790**	1,913	**35,702**
Investments under equity method	5	-	-	**5**	-	-	-	-	29	-	-	**29**	-	1	60	**61**	10	**105**
Liabilities (2)	(765)	(532)	(72)	**(1,369)**	(560)	(815)	(21)	**(1,396)**	(929)	(201)	(20)	**(1,150)**	(66)	(2,696)	(115)	**(2,877)**	(1,571)	**(8,363)**
Investment in intangible assets (3)	5	15	28	**48**	4	-	-	**4**	21	-	-	**21**	8	-	2	**10**	66	**149**
Investm. in property, plant & equipment (4)	216	93	10	**319**	309	137	16	**462**	340	149	2	**491**	14	19	24	**57**	65	**1,394**
Business combinations (5)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-

(1) Assets by segment consist of operating assets (including property, plant and equipment, intangible assets, inventories, derivatives designated to hedge future trading operations, trade receivables, trade payables and cash and other cash equivalents). They exclude the Tax refundable balances, the financial assets and derivatives for negotiating or hedging loans. The assets not included total Euros 10,362 million at 31 December 2011 (Euros 9,641 million at 31 December 2010).

(2) Liabilities by segment consist of operating liabilities (including derivatives designated as hedges of future operations). They exclude items such as Tax payable, borrowings and respective hedging derivatives. The excluded liabilities total Euros 23,648 million at December 2011 (Euros 24,006 million at December 2010).

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

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

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

b) Reporting by geographic area

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

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

	2011	**2010**
Spain	12,224	11,772
Rest of Europe	1,203	1,192
Latin America	6,370	5,954
Others	1,279	712
Total	**21,076**	**19,630**

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

	At 31.12.11	**At 31.12.10**
Spain	27,813	27,556
Rest of Europe	810	693
Latin America	6,582	6,508
Others	1,034	1,050
Total	**36,239**	**35,807**

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

	At 31.12.11	**At 31.12.10**
Spain	975	1,047
Rest of Europe	54	57
Latin America	345	400
Others	32	39
Total	**1,406**	**1,543**

Note 5. Intangible assets

The movement in 2011 and 2010 in intangible assets is as follows:

	Concession and other rights to use	Computer software	Other intangible assets	Subtotal	Goodwill	Total
Cost, gross	3,614	561	2,620	6,795	6,056	12,851
Accumulated depreciation	(1,023)	(371)	(71)	(1,465)	-	(1,465)
Net carrying value at 1.1.10	**2,591**	**190**	**2,549**	**5,330**	**6,056**	**11,386**
Investment	42	76	31	149	-	149
Divestitures	(1)	-	(56)	(57)	-	(57)
Depreciation charge	(112)	(70)	(139)	(321)	-	(321)
Translation adjustment	154	3	2	159	20	179
Business combination (Note 30)	-	-	-	-	-	-
Reclassifications and others (1)	57	4	(100)	(39)	(74)	(113)
Net carrying value at 31.12.10	**2,731**	**203**	**2,287**	**5,221**	**6,002**	**11,223**
Cost, gross	3,902	588	2,521	7,011	6,002	13,013
Accumulated depreciation	(1,171)	(385)	(234)	(1,790)	-	(1,790)
Net carrying value at 1.1.11	**2,731**	**203**	**2,287**	**5,221**	**6,002**	**11,223**
Investment	42	87	47	176	-	176
Divestitures	(1)	-	(8)	(9)	-	(9)
Depreciation charge	(111)	(76)	(166)	(353)	-	(353)
Translation adjustment	(90)	(1)	(2)	(93)	13	(80)
Business combination (Note 30)	43	-	238	281	4	285
Reclassifications and others (2)	(19)	(1)	1	(19)	(143)	(162)
Net carrying value at 31.12.11	**2,595**	**212**	**2,397**	**5,204**	**5,876**	**11,080**
Cost, gross	3,865	590	2,814	7,269	5,876	13,145
Accumulated depreciation	(1,270)	(378)	(417)	(2,065)	-	(2,065)
Net carrying value at 31.12.11	**2,595**	**212**	**2,397**	**5,204**	**5,876**	**11,080**

(1) Mainly includes transfers of wind energy development projects to the item "Property, plant and equipment in course" in the amount of Euros 64 million and transfers to the item "Non-current assets held for sale" totalling Euros 71 million (Note 9).

(2) Includes transfers to the item "Non-current assets held for sale" of electricity distribution concessions in the amount of Euros 88 million and of the goodwill of Euros 69 million in the Guatemalan companies (Note 9), as well as goodwill of Euros 68 million in EUFER (Note 9), which were written off in 2011.

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

"Concessions and the like" includes the value of the concessions that are considered intangible assets in accordance with IFRIC 12 "Service Concession Agreements" (Note 32), amounting to Euros 1,535 million (Euros 1,592 in 2010).

Also includes the Maghreb-Europe pipeline concession amounting to Euros 315 million at 31 December 2011 (Euros 327 million at 31 December 2010).

Also includes the electricity distribution concessions acquired as a result of the business combination of UNIÓN FENOSA totalling Euros 708 million at 31 December 2011 (Euros 802 million at 31 December 2010), of which Euros 684 million relate to electricity distribution concessions in Spain that have an indefinite useful life (Note 32) and Other relates to electricity distribution concessions in Latin America.

"Other intangible assets" mainly includes:

- Licences to operate wind farms totalling Euros 303 million at 31 December 2011, including the amounts relating to the acquisition of several wind energy companies mentioned in Note 30 (Euros 34 million at 31 December 2010).

- The cost of acquisition of the exclusive regasification rights in Puerto Rico totalling Euros 49 million at 31 December 2011 (Euros 58 million at 31 December 2010).

- The CO_2 emission allowances acquired, including those acquired as a result of the business combination of UNIÓN FENOSA, for Euros 67 million (Euros 44 million at 31 December 2010).

- Other intangible assets acquired as a result of the business combination of UNIÓN FENOSA totalling Euros 1,947 million at 31 December 2011 (Euros 2,073 million at 31 December 2010) which mainly includes gas supply contracts and other contractual rights.

Set out below is a summary of goodwill assignment by segment:

	At 31.12.11					
	Gas Distribution	Electricity Distribution	Electricity	Unión Fenosa Gas	Other	Total
Spain	-	1,133	2,878	891	-	4,902
Latin America	75	136	552	-	-	763
Others	143	16	17	-	35	211
	218	**1,285**	**3,447**	**891**	**35**	**5,876**

	At 31.12.10					
	Gas Distribution	Electricity Distribution	Electricity	Unión Fenosa Gas	Other	Total
Spain	-	1,133	2,948	891	-	4,972
Latin America	81	206	534	-	-	821
Others	143	14	16	-	36	209
	224	**1,353**	**3,498**	**891**	**36**	**6,002**

The impairment tests have been carried out at 31 December 2011 and 2010. On the basis of the goodwill impairment analysis it cannot be deduced that impairment will probably arise in the future (Note 3.3.5).

The intangible assets include, at 31 December 2011, fully amortised assets still in use totalling Euros 176 million.

Note 6. Property, plant and equipment

The movements in the accounts in 2011 and 2010 under property, plant and equipment and their respective accumulated amortisation and provisions have been as follows:

	Land and buildings	Gas installations	Electricity generation plants	Plant for electricity transport and distribution	Gas transport tankers	Other Property, plant and equipment	Property, plant and equipment under construction	Total
Cost, gross	579	7,740	10,142	5,314	661	1,086	2,003	**27,525**
Accumulated amortisation	(66)	(3,330)	(395)	(19)	(86)	(259)	-	**(4,155)**
Carrying amount at 1.1.10	**513**	**4,410**	**9,747**	**5,295**	**575**	**827**	**2,003**	**23,370**
Investment	27	248	78	182	-	45	814	**1,394**
Divestitures	(4)	(5)	(14)	(9)	-	-	(36)	**(68)**
Amortisation	(18)	(355)	(670)	(253)	(24)	(75)	-	**(1,395)**
Translation adjustment	16	107	115	148	-	25	50	**461**
Business combinations (Note 30)	-	-	-	-	-	-	-	**-**
Reclassifications and others (1)	26	19	999	301	-	(7)	(1,894)	**(556)**
Carrying amount at 31.12.10	**560**	**4,424**	**10,255**	**5,664**	**551**	**815**	**937**	**23,206**
Cost, gross	671	8,229	11,412	6,101	662	1,171	937	**29,183**
Accumulated amortisation	(111)	(3,805)	(1,157)	(437)	(111)	(356)	-	**(5,977)**
Carrying amount at 1.1.11	**560**	**4,424**	**10,255**	**5,664**	**551**	**815**	**937**	**23,206**
Investment	38	308	43	289	-	58	494	**1,230**
Divestitures	(3)	-	-	-	-	(3)	(8)	**(14)**
Amortisation	(23)	(355)	(607)	(283)	(25)	(104)	-	**(1,397)**
Translation adjustment	(1)	(29)	42	24	-	4	(2)	**38**
Business combinations (Note 30)	2	-	592	-	-	1	143	**738**
Reclassifications and others (2)	(5)	(47)	(412)	(129)	-	65	(529)	**(1,057)**
Carrying amount at 31.12.11	**568**	**4,301**	**9,913**	**5,565**	**526**	**836**	**1,035**	**22,744**
Cost, gross	688	8,198	11,721	6,259	662	1,315	1,035	**29,878**
Accumulated amortisation	(120)	(3,897)	(1,808)	(694)	(136)	(479)	-	**(7,134)**
Carrying amount at 31.12.11	**568**	**4,301**	**9,913**	**5,565**	**526**	**836**	**1,035**	**22,744**

(1) Includes transfers to "Non-current assets held for sale" totalling Euros 615 million (Note 9), of which Euros 28 million relate to assets sold in 2010 (Note 9).

(2) Includes transfers to "Non-current assets held for sale" totalling Euros 1,081 million, written off in 2011 (Note 9).

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

The financial expenses capitalised in 2011 in fixed assets projects during their construction total Euros 17 million (Euros 47 million in 2010). The financial expenses capitalised in 2011 represent 1.8% of the total financial costs of net borrowings (4.5% for 2010). The average capitalisation rate in 2011 and 2010 totals 4.9% and 2.7%, respectively.

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

"Gas transport tankers" includes the current value, at the date of acquisition, of the payment commitments to the fleet of 6 methane tankers (2 of which have been contracted jointly with the Repsol YPF Group and 2 have been contracted for the joint venture Union Fenosa Gas) under finance leases (Note 18).

"Other Property, plant and equiptment" includes at 31 December 2011 the net carrying value of investment in areas with reserves totalling Euros 411 million (Euros 417 million at 31 December 2010), including basically the investments in the coal field belonging to Kangra Coal (Proprietary), Ltd in South Africa acquired in the business combination of UNIÓN FENOSA and Exploration costs of Euros 64 million (Euros 73 million at 31 December 2010).

Fixed assets under construction at 31 December 2011 basically include investments in:

- The wind farms under construction totalling Euros 214 million.

- Recurrent investment in planning and development of gas and electricity distribution for Euros 130 million and electricity totalling 219 million.

In 2010 the combined cycle plants in Malaga, Puerto de Barcelona and Norte Durango (Mexico) began operating.

Property, plant and equipment includes, at 31 December 2011, fully depreciated assets in use totalling Euros 1,081 million.

It is the policy of GAS NATURAL FENOSA to take out all the insurance policies deemed necessary to cover the possible risks that could affect its tangible fixed assets.

GAS NATURAL FENOSA has investment commitments of Euros 244 million at 31 December 2011, basically for the construction of wind farms and gas infrastructure projects.

At 31 December 2011 GAS NATURAL FENOSA did not have any significant real estate investment.

Note 7. Investments recorded using the equity method

The movement in 2011 and 2010 in investments measured by equity accounting is as follows:

	2011	**2010**
At January 1	**105**	**141**
Investment	-	1
Share of loss/profit	7	5
Dividends received	(7)	(5)
Divestments and transfers	(6)	(37)
At December 31	**99**	**105**

2011

As a result of the swap of EUFER's renewable assets due to the agreement to end the collaboration with the other partner that was arranged through this company, shareholdings in several companies that were consolidated using the equity method have been written off in the amount of Euros 4 million (Note 9).

On 22 December 2011 the company Ensafeca Holding Empresarial S.L. was liquidated. GAS NATURAL FENOSA held an 18.5% interest in this company, generating a gain of Euros 1 million before tax (Note 28).

2010

On 17 December 2010 saw the sale of 35% de Gas Aragón, S.A. totalling Euros 75 million, generating a pre-tax capital gain of Euros 40 million (Note 28).

Appendix I includes a list of all GAS NATURAL FENOSA's associates.

The percentages of net income of the main associates, none which are listed in a stock exchange, and their assets (including goodwill of Euros 17 million as a result of the business combination of UNION FENOSA), and aggregate liabilities, are as follows:

	Country	Assets	Liabilities	Income	Net income	Shareholding
2011						
Bluemobility Systems, S.L.	Spain	1	-	-	-	20.0%
Enervent, S.A.	Spain	4	2	1	-	26.0%
Kromschroeder, S.A.	Spain	8	3	6	-	42.5%
Sistemas Energéticos La Muela, S.A.	Spain	2	-	1	-	20.0%
Sistemas Energéticos Mas Garullo, S.A. [1]	Spain	1	-	1	-	18.0%
Sociedade Galega do Medio Ambiente,S.A.	Spain	113	95	45	(1)	49.0%
Subgrupo Unión Fenosa Gas [1/2]	Spain/Oman	119	57	30	7	3.7-10.5%
Torre Marenostrum, S.L.	Spain	32	24	3	1	45.0%
2010						
Bluemobility Systems, S.L.	Spain	1	-	-	-	20.0%
Enervent, S.A.	Spain	5	2	1	-	26.0%
Ensafeca Holding Empresarial, S.L. [1]	Spain	2	-	-	-	18.5%
Gas Aragón, S.A. [3]	Spain	-	-	9	3	-
Kromschroeder, S.A.	Spain	7	2	6	-	42.5%
Sistemas Energéticos La Muela, S.A.	Spain	2	-	1	-	20.0%
Sistemas Energéticos Mas Garullo, S.A. [1]	Spain	2	1	1	-	18.0%
Sociedade Galega do Medio Ambiente,S.A.	Spain	116	97	41	(2)	49.0%
Subgrupo Eufer [1]	Spain	9	4	-	1	9.0-22.5%
Subgrupo Unión Fenosa Gas [1/2]	Spain/Oman	117	58	27	3	3.7-10.5%
Torre Marenostrum, S.L.	Spain	33	25	3	-	45.0%

[1] Consolidated by equity accounting in spite of the fact that the shareholding percentage is below 20%, since GAS NATURAL FENOSA has a significant representation in its management.
[2] Includes the shareholdings in the associates Qalhat LNG S.A.O.C. and Regasificadora del Noroeste, S.A. managed through the Unión Fenosa Gas subgroup.
[3] Includes the results of Gas Aragón, S.A. until the date of its sale, 17 December 2010.

Note 8. Financial assets

The breakdown of financial assets, excluding those carried under "Trade and other receivables" (Note 11) and "Cash and other cash equivalents" (Note 12), at 31 December 2011 and 2010, classified according to their nature and account, is as follows:

At 31 December 2011	Available for sale	Loans and other receivables	Investments held to maturity	Total
Equity instruments	75	-	-	75
Other financial assets	-	948	1	949
Non-current financial assets	**75**	**948**	**1**	**1,024**
Other financial assets	-	1,388	-	1,388
Current financial assets	-	**1,388**	-	**1,388**
Total	**75**	**2,336**	**1**	**2,412**

At 31 December 2010	Available for sale	Loans and other receivables	Investments held to maturity	Total
Equity instruments	90	-	-	90
Other financial assets	-	603	1	604
Non-current financial assets	**90**	**603**	**1**	**694**
Other financial assets	-	1,901	-	1,901
Current financial assets	-	**1,901**	-	**1,901**
Total	**90**	**2,504**	**1**	**2,595**

Available-for-sale financial assets

The breakdown of fair value financial assets through profit and loss, at December 31, 2011 and 2010, according with the method applied for calculating their fair value is as follows:

	2011				2010			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
At 1 January	-	-	**90**	**90**	**141**	-	**78**	**219**
Increases	-	-	3	3	-	-	4	4
Divestments	-	-	(11)	(11)	(127)	-	-	(127)
Business combinations	-	-	-	-	-	-	-	-
Fair value adjustment	-	-	-	-	(14)	-	-	(14)
Translation adjustments	-	-	(6)	(6)	-	-	11	11
Transfers and others	-	-	(1)	(1)	-	-	(3)	(3)
At 31 December	-	-	**75**	**75**	-	-	**90**	**90**

2011

During 2011, changes in the item "Available-for-sale financial assets" were due basically to the sale of the shareholding in the Colombian company Proyecto TDO, S.A.S. for Euros 9 million, which had no impact on the consolidated income statement.

2010

In 2010 the main variation in "Available-for-sale financial assets" was the result of the sale in April 2010 of the 5% stake in Indra Sistemas, S.A. totalling Euros 127 million, which generated a pre-tax profit of Euros 4 million, thus decreasing reserves for Value adjustments (Note 28).

Loans and other receivables

The breakdown at 31 December 2011 and 2010 is as follows:

	At 31.12.11	At 31.12.10
Commercial loans	118	182
Deposits and guarantee deposits	156	156
Debtors for levelling of capacity income	19	17
Other loans	655	248
Loans and other receivables non-current	**948**	**603**
Commercial loans	73	56
Tariff deficit	1,231	1,747
Dividend receivable	1	2
Other loans	83	96
Loan and other receivables current	**1,388**	**1,901**
Total	**2,336**	**2,504**

The breakdown by maturities at December 2011 and 2010 is as follows:

Maturities	At 31.12.11	At 31.12.10
No later than 1 year	1,388	1,901
Between 1 year and 5 years	444	313
Later than 5 years	504	290
Total	**2,336**	**2,504**

The fair value and carrying values of these assets do not differ significantly.

"Commercial loans" mainly include the credits for the heating sale and gas installations with long-term financing. The respective interest rates (between 7.75% and 9% for loans from 1 to 5 years) are adjusted to market interest rates for this type of loans and duration.

"Deposits and guarantee deposits" mainly include the amounts received from customers when they contract services as a guarantee for the supply of energy and which, under pertinent legislation, have been deposited with the public authorities.

Debtors for levelling of capacity income includes the income yet to be invoiced recognised through the levelling during the term of the generation capacity commitment contract in Puerto Rico.

"Other non-current loans" includes the financing of Euros 258 million granted to a company of the ContourGlobal Group for the sale of the Arrúbal combined cycle plant (La Rioja), which took place on 28 July 2011 (Note 9). The loan is secured by shares in this company and by other assets, bear annual interest at a market rate and matures in 2021.

"Other credits" includes the value of the concessions that are classified as financial assets in accordance with IFRIC 12 "Service Concession Agreements" (Note 32), in the amount of Euros 114 million (Euros 113 million at 31 December 2010).

"Other non-current loans" also includes the amount receivable resulting from the cost incurred due to the arbitral award issued in August 2010 (Note 15), quantified at Euros 157 million and recoverable over a five-year period, in accordance with Article 15 of Royal Decree-Law 6/2000 (23 June), which obligates the holder of the contract for the supply of natural gas from Algeria through the El Magreb gas pipeline to apply it preferably to tariff supplies. This amount has been estimated based on the calculation made by the Ministry of Industry, Energy and Tourism in the Draft Royal Decree sent in November to the CNE and to the Consultative Council on Hydrocarbons, which revises, as a consequence of the arbitral award, remuneration for the natural gas supplied to the tariff market deriving from the Algeria contract referred to in Royal Decree 6/2000, and proposes a surcharge to finance the cost incurred as a result of the arbitral award to be paid by the gas system to the company Sagane, S.A. (Note 2.1.2).

Other loans include the current and non-current value of the deferred amounts pending receipt for the sale of shareholdings mentioned in Note 18 to Chemo España, S.L. for USD 18 million maturing between 2011 and 2013.

The financing of the deficit for the settlement of the regulated electricity activities is included under "Other current financial assets", in accordance with the fact that, base on current legislation, there is a right to receive payment without submission to future contingent factors, and recovery is expected in less than 12 months. At 31 December 2011 GAS NATURAL FENOSA has a debt claim for this deficit totalling Euros 1,231 million for 2006 (Euros 192 million), for 2008 (Euros 194 million), for 2010 (Euros 317 million) and for 2011 (Euros 528 million). These assets accrue market interest rate (Note 2).

During 2011, in addition to the collections received from settlements, eleven Electricity System Deficit Securitisation Fund issues were completed, GAS NATURAL FENOSA having collected Euros 1,102 million as a result of these issues. Debt claims arising from the deficit in settlements for regulated electricity activities have been assigned irrevocably to the Electricity System Deficit Securitisation Fund (FADE).

Note 9. Non-current assets and disposable groups of assets held for sale and discontinued activities

The breakdown by nature of the assets classified as held for sale and the related liabilities, is as follows:

	At 31 December 2011			At 31 December 2010		
	Supp. and Commerc. Spain(1)	Electricity Spain (2)	Total	Supp. and Commerc. Spain(1)	Electricity Spain (2)	Total
Intangible assets	-	-	-	-	71	71
Property, plant and equipment	-	-	-	-	587	587
Non-current financial assets	-	-	-	-	7	7
Deferred tax asset	-	-	-	-	2	2
NON-CURRENT ASSETS	**-**	**-**	**-**	**-**	**667**	**667**
Inventories	-	-	-	-	1	1
Trade and other receivables	23	-	23	-	22	22
Cash and cash equivalents	-	-	-	-	17	17
CURRENT ASSETS	**23**	**-**	**23**	**-**	**40**	**40**
TOTAL ASSETS	**23**	**-**	**23**	**-**	**707**	**707**
Non-current financial liabilities	-	-	-	-	12	12
Deferred tax liabilities	-	-	-	-	34	34
Other non-current liabilities	-	-	-	-	3	3
NON-CURRENT LIABILITIES	**-**	**-**	**-**	**-**	**49**	**49**
Current financial liabilities	-	-	-	-	262	262
Trade and other payables	-	-	-	-	36	36

	At 31 December 2011			At 31 December 2010		
	Supp. and Commerc. Spain(1)	Electricity Spain (2)	Total	Supp. and Commerc. Spain(1)	Electricity Spain (2)	Total
Other current liabilities	-	-	-	-	3	3
CURRENT LIABILITIES	-	-	-	-	**301**	**301**
TOTAL LIABILITIES	-	-	-	-	**350**	**350**

(1) Sundry assets in municipalities in the Region of Madrid.
(2) Includes Combined Cycle Group in Plana del Vent and wind far assets to be assigned to Enel Green Power.

The contribution to total consolidated comprehensive income of these assets is not significant.

We describe below the main variations in assets and liabilities held for sale:

Assets and liabilities classified held for sale in 2011

On 7 February 2011, GAS NATURAL FENOSA reached an agreement with a company of the Madrileña Red de Gas Group to sell approximately 300,000 additional gas distribution supply points in the Madrid area for Euros 450 million. This transaction was carried out as part of the action plan adopted by the National Anti-Trust Commission in relation to the acquisition of Unión Fenosa. Since the date of the agreement, these assets have been classified as non-current assets held for sale. After obtaining the respective authorisations the sale was made on 30 June 2011 generating a profit before tax of Euros 280 million (Note 27).

On 14 April 2011, GAS NATURAL FENOSA agreed to sell the Arrúbal combined cycle plant (La Rioja), with an installed capacity of 800 MW, to a company of the ContourGlobal Group. This transaction was carried out as part of the action plan adopted by the National Anti-Trust Commission in relation to the acquisition of Unión Fenosa. Since the date of the agreement, these assets have been classified as non-current assets held for sale. After obtaining the respective authorisations, the sale was made on 28 July 2011, ownership of the plant having been transferred for Euros 313 million without any impact on the Consolidated income statement. The agreement included a buyer financing operation in the amount of Euros 258 million that bears annual interest at a market rate (Note 8) and the signing with Gas Natural Comercializadora SDG, S.A. (subsidiary of GAS NATURAL FENOSA) of gas supply and electricity purchase and sale contracts for less than 50% of forecast production with a maximum term of 10 years for the Plant (Note 35).

On 19 May 2011, GAS NATURAL FENOSA agreed with companies owned by the investment fund Actis to sell its shares in the Guatemalan electricity distributors Distribuidora de Electricidad de Oriente, S.A. and Distribuidora de Electricidad de Occidente, S.A., and in other Guatemalan companies engaged in energy activities, for a total of Euros 239 million, generating a pre-tax loss of Euros 9 million (Note 27).

On 30 June 2011, GAS NATURAL FENOSA agreed to sell approximately 245,000 additional gas customers and other associated contracts in the Madrid area to the Endesa Group for Euros 38 million. This transaction is part of the compliance with the commitments acquired by GAS NATURAL FENOSA before the Spanish National Anti-Trust Authorities for the purchase of UNIÓN FENOSA and is subject to obtaining the pertinent authorizations. Since the date of the agreement, these assets have been classified as non-current assets held for sale.

Assets and liabilities classified held for sale in 2010

On 19 December 2009, GAS NATURAL FENOSA agreed with Morgan Stanley Infraestructura and Galp Energia SGPS and certain companies in their groups to the sale of the natural gas distribution branch in 38 municipalities of the Region of Madrid relating to approximately 500,000 supply points, the natural gas and electricity supply branch for domestic-commercial customers and small and medium sized companies and the shared services branch in those regions. This transaction was carried out as part of the action plan adopted by the National Anti-Trust Commission in relation to the acquisition of UNIÓN FENOSA and is subject to adoption by the regulatory and anti-trust authorities. Since the date of the agreement, these assets have been classified as non-current assets held for sale. After obtaining the respective authorisations the sale was made on 30 April 2010 in the amount of Euros 800 million, generating a profit before tax of Euros 380 million (Note 27).

On 24 December 2009, GAS NATURAL FENOSA entered into an agreement with Mitsui Group and Tokyo Gas Company for the divestment of the following combined cycle electricity companies: México Anahuac (Río Bravo II), Lomas del Real (Río Bravo III), Vallehermoso (Río Bravo IV), Electricidad Aguila Altamiras and Saltillo, with a total generation capacity of 2.233 MW, and the Gasoducto del Río. After obtaining authorisation from the Mexican authorities, the sale was completed on 3 June 2010. Under this agreement Mitsui Group and Tokio Gas Company reached a 76% stake through a capital increase that diluted the shareholding of GAS NATURAL FENOSA and, afterwards, a 24% purchase option was exercised on the remaining capital. Since the date of this agreement these assets were considered non-current assets held for sale. After obtaining the respective authorisations, the transfer of control of all the companies took place on 3 June 2010 for the amount of Euros 1,012 million, generating a loss before tax of Euros 4 million, included under "Other results" in the Consolidated income statement (Note 27).

On 12 July 2010, GAS NATURAL FENOSA entered into an agreement with the Alpiq Group for the sale of 400MW generator at the combined cycle plant in Plana del Vent totalling Euros 200 million. Moreover, Alpiq will have the exclusive right of use and operation of the other 400 MW generator for a period of two years, over which it can exercise, at the end of these periods, a purchase right totalling Euros 195 million which related to representing market value of this right. This transaction is part of the compliance with the commitments acquired by GAS NATURAL FENOSA before the Spanish National Anti-Trust Authorities for the purchase of UNIÓN FENOSA Since 30 June 2010 the assets of the group agreed under the same have been classified as non-current assets held for sale. After obtaining the respective authorisations, the sale was made on 1 April 2011 without any impact on the Consolidated income statement.

In accordance with the provisions of the Ninth Temporary Provision of Law 17/2007/4 July, which modifies the Electricity Industry Act, Law 54/97, which requires that distribution companies sell their networks and electricity transport facilities, on 23 July 2010 Unión Fenosa Distribución, S.A.U and Red Eléctrica de España, S.A.U. reached an agreement on the sale electricity transport assets. Since that date these assets have been classified as non-current assets held for sale. After obtaining the respective authorisations, the sale was made on 30 November 2010 for an amount of Euros 47 million, generating a pre-tax gain of Euros 5 million (Note 27).

On 2 August 2010, GAS NATURAL FENOSA and Enel Green Power agreed to terminate their collaboration on renewable energy which until that time were channelled through Enel Unión Fenosa Renovables, S.A. (EUFER), a company in which each shareholder held a 50% stake. After this operation, each shareholder will receive approximately half of the assets of EUFER. The operation was approved on 10 November 2010 by the anti-trust authorities, pending regulatory and administrative authorization. As from that date, the part of the assets and liabilities that were reflected in the consolidated balance sheet of GAS NATURAL FENOSA that should have been assigned to Enel Green Power were treated as non-current assets and liabilities held for sale. After obtaining the respective authorisations, the sale was made on 27 de mayo de 2011. For accounting purposes, it has been treated as a swap of the assets and liabilities that are written off at their carrying amount in GAS NATURAL FENOSA's consolidated balance sheet for the acquired business that is recognised at fair value determined on the basis of independent third-party appraisals (Note 30), generating a loss before tax of Euros 4 million (Note 27).

Note 10. Inventories

The breakdown of Inventories is as follows:

	At 31.12.11	At 31.12.10
Natural gas and liquefied gas	513	414
Coal and fuel oil	260	234
Nuclear fuel	52	52
Raw materials and other inventories	54	55
Total	**879**	**755**

The inventories of gas basically include the inventories of gas deposited in underground storage units, sea transport, plants and pipelines.

Note 11. Trade and other receivables

The breakdown of this account is as follows:

	At 31.12.11	At 31.12.10
Trade receivables	5,150	4,267
Receivables with related companies (Note 33)	7	62
Provision for depreciation of receivables	(580)	(383)
Trade receivables for goods and services	4,577	3,946
Public Administrations	167	208
Prepayments	57	46
Derivative financial instruments (see Note 17)	46	93
Sundry receivables	227	187
Other receivables	497	534
Current deferred income tax assets	118	112
Total	**5,192**	**4,592**

In general, the outstanding invoices do not accrue interest as they fall due in an average period of twenty-five days.

The movement in the impairment of receivables is as follows:

	2011	2010
At 1 January	**(383)**	**(208)**
Net charge for the year	(216)	(238)
Disposals	42	98
Cumulative translation adjustments and others	(23)	(35)

At 31 December	**(580)**	**(383)**

Note 12. Cash and cash equivalents

Cash and cash equivalents comprise the following:

	At 31.12.11	At 31.12.10
Cash at bank and in hand	986	824
Short term investments (Spain and rest of Europe)	1,907	296
Short term investments (International)	205	83
Total	**3,098**	**1,203**

The short term investments in cash equivalents mature in less than three months and bear an average effective interest rate 3.0% at December 2011 (1.6% at December 2010).

Note 13. Equity

The main elements of Equity break down as follows:

Share capital and share premium

The variations in 2011 and 2010 in the number of shares and share capital and share premium accounts have been as follows:

	Number of shares (in thousands)	Share capital	Share premium	Total
At 1 January 2010	921,757	922	3,331	4,253
Variation	-	-	-	-
At 31 December 2010	921,757	922	3,331	4,253
Capital increase				
- in cash	38,184	38	477	515
- in swap	31,731	32	-	32
At 31 December 2011	991,672	992	3,808	4,800

At 31 December 2011 and at 31 December 2010 the total number of authorised ordinary shares was, respectively, 991.672.139 and 921.756.951 shares, made by accounting entries, with a par value of Euro 1 each. All the shares issued are fully paid and have the same economic and voting rights.

The proposed application of 2010 results approved by the Annual General Meeting on 14 April 2011 included the payment of a dividend of Euros 324 million (equal to the amount paid out as an interim dividend for 2010) and a fully-paid capital increase through the issue of new ordinary shares, providing mechanisms to guarantee that shareholders could receive the amount in cash if they wished. On 14 June 2011, the period for negotiating the free allocation rights pertaining to the fully-paid capital increase ended and the holders of 3.6% of the free allocation rights accepted the irrevocable commitment to purchase assumed by GAS NATURAL FENOSA, entailing the acquisition of 33,272,473 rights for a total gross amount of Euros 15 million. The owners of the remaining 96.4% opted to receive new shares. Accordingly, 31,731,588 ordinary shares were issued, with a par value of one euro each and no share premium. The capital increase was fully paid and entered in the Mercantile Register on 23 June 2011. The shares issued have been traded on the stock exchange since 29 June 2011.

In the context of the agreements concluded between the Algerian company La Société Nationale pour la Recherche, la Production, le Transport, la Transformation et la Commercialisation des Hydrocarbures s.p.a (Sonatrach) and GAS NATURAL FENOSA (Note 15) on 17 June 2011, the Board of Directors of Gas Natural SDG, S.A. approved a capital increase, excluding the pre-emptive subscription right, through the issue of 38,183,600 new shares at a price of 13.4806 euros per share, to be fully subscribed by Sonatrach for a total cash sum of Euros 515 million, resulting in a 3.85% shareholding owned by Sonatrach in Gas Natural SDG, S.A. According to the special report on the exclusion of the pre-emptive subscription right issued by the independent expert pursuant to the revised Spanish Companies Act 2010, the agreed issue price reflects the fair value of the Company's shares. This increase and the resulting entry of Sonatrach as a minority shareholder of Gas Natural SDG, S.A. was executed on 9 August 2011, once approval had been obtained from the Algerian authorities.

The Spanish Capital Companies Act expressly permits the use of the share premium balance to increase capital and does not establish a specific restriction on the availability of this balance.

In 2011 and 2010 no transfers of treasury shares took place.

According to the information available publicly, the most relevant interests in the capital of Gas Natural SDG, S.A. at 31 December 2011 are as follows:

	Interest in share capital %
- Grupo "la Caixa" (Criteria Caixaholding, S.A.U.)	35.3
- Grupo Repsol YPF	30.0
- Sonatrach	3.9

All the shares of Gas Natural SDG, S.A. are traded on the four official Spanish Stock Exchanges, the "Mercado continuo" and form part of Spain's Ibex 35 stock index.

The share price at the end of 2010 of Gas Natural SDG, S.A. is Euros 13.27 (Euros 11.49 at 31 December 2010).

Reserves

Reserves includes the following reserves:

	2011	2010
Legal reserve	185	185
Statutory reserve	91	89
Revaluation reserve under RD 7/96	225	225
Goodwill reserve	357	179
Voluntary reserves	4,491	4,388
Other reserves	1,551	1,040
	6,900	**6,106**

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

According to 273 Article of the Spanish Capital Companies Act, Gas Natural SDG, S.A. must appropriate a non-distributable reserve equivalent to the goodwill carried on the asset side of the balance sheet in an amount that represents at least 5% of goodwill. If there are no profits, or the profits are insufficient, to do so, the Share Premium or Freely Available Reserves can be used.

Earnings per share

The earnings per share are calculated by dividing the net income attributable to the equity holders of the parent Company by the average weighted number of ordinary shares in circulation during the year.

	At 31.12.11	At 31.12.10
Net income attributable to equity holders of the Company	1,325	1,201
Weighted average number of ordinary shares in issue (million)	953	922
Earnings per share from continuing activities (in Euros):		
- Basic	1.39	1.30
- Diluted	1.39	1.30
Earnings per share from discontinued activities (in Euros):		
- Basic	-	-
- Diluted	-	-

In order to calculate the average weighted number of ordinary shares in circulation in 2011 the shares issued in the capital increases mentioned in the "Share capital and Share premium" section of this Note have been taken into consideration. Fully-paid capital increases are treated as an issue of shares at market value and therefore the shares issued are included in the calculation of the weighted average number of ordinary shares in circulation as from the date on which the shares are paid up, calculated as follows:

	Number of shares (in thousands)	Days	Days x Number of shares
Shares at 1 January 2011	921,757	365	336,441,287
Fully-paid capital increase	31,731	191	6,061,733
Capital increase in cash	38,184	144	5,498,438
Shares at 1 December 2011	991,672	365	348,001,458
Weighted average number of shares for the period			**953,429**

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

Dividends

We break down below the payments of dividends made in 2011 and 2010:

	31.12.11			31.12.10		
	% of par value	Euros per share	Amount (1)	% of par value	Euros per share	Amount (2)
Ordinary shares	35%	0.35	324	79%	0.79	730
Remaining shares (no vote, redeemable, etc.)	-	-	-	-	-	-
Total dividends paid	**35%**	**0.35**	**324**	**79%**	**0.79**	**730**
a) Dividends charged to income statement	35%	0.35	324	79%	0.79	730
b) Dividends charged to reserves or share premium	-	-	-	-	-	-
c) Dividends in kind	-	-	-	-	-	-

(1) Includes the payment of the interim dividend of Euros 0.35 per share, totalling Euros 324 million, agreed on 26 November 2010 and paid on 7 January 2011.

(2) Includes the payment of the interim dividend of Euros 0.35 per share, totalling Euros 324 million, agreed on 27 November 2010 and paid on 8 January 2011 and the supplementary dividend 2009 of Euros 0.44 per share, totalling Euros 406 million, agreed on 20 April 2010 and paid on 1 July 2010.

The Board of Directors of Gas Natural SDG, S.A. agreed, at its meeting of 25 November 2011, to distribute an interim dividend against the income statement for 2011 of Euros 0.363 per share, totalling Euros 360 million, payable as from 9 January 2012.

At the date of approval of the interim dividend, the Company had the necessary liquidity to pay it in accordance with requirements established under the Spanish Capital Companies Act. The provisional accounting statement of the Company formulated by the Directors at 25 November 2011 is as follows:

Net income after tax		852
Reserves to be allocated		(200)
Maximum amount available for distribution		652
Forecast payment of interim dividend		360
Treasury liquidity	2,046	
Undrawn credit facilities	3,283	
Total liquidity		5,329

On 27 January 2012, the Board of Directors adopted the proposal to submit the following distribution of net profit of Gas Natural SDG, S.A. for FY 2011 to the General Meeting of Shareholders:

Basis for distribution	
Retained earnings	366
Profit and (loss)	1,317
Distribution	

To Legal reserve	14
To Statutory reserve	7
To the Goodwill reserve	179
To voluntary reserve	662
To dividend	360
To retained earnings	461

The proposed distribution of results prepared by the Board of Directors for approval by the General Meeting of Shareholders includes the payment of a dividend of Euros 360 million (equivalent to the amount allocated to the interim dividend for 2011 to be paid as from 9 January 2012), as well as an increase in the share bonus issue through the issue of new ordinary shares with a maximum quotation market value of Euros 461 million. This capital increase will offer the shareholders the possibility of receiving ordinary shares of Gas Natural SDG, S.A. instead of what they would have been paid, in July 2012, for the final dividend for 2011, and contemplates the creation by Gas Natural SDG, S.A. of mechanisms to guarantee that those shareholders who so desire can receive the amount in cash.

Minority Interest

In 2005 Unión Fenosa Preferentes, S.A. issued preference shares for a nominal amount of Euros 750 million, which was booked under "Minority interest". The main characteristics are:

- Dividend: variable non-accumulative; from the date of payment until 30 June 2015 it will be Euribor at three months plus a spread of 0.65%; as from that date, it will be Euribor at three months plus a spread of 1.65%.

- Dividend payment: will be paid by calendar quarters in arrears, depending on the existence of distributable profit of GAS NATURAL FENOSA, considering as such the lesser of the net profit declared by the GAS NATURAL FENOSA and the net profit of Gas Natural SDG, S.A. as guarantor.

- Term: perpetual, with the option for the issuer of reducing all or part of the shareholdings after 30 June 2015. Reduction will be made at nominal value.

- Remuneration: the dividend payment will be preferential and not accumulative and depends on whether distributable profit is reported by Gas Natural SDG, S.A. and the payment of a dividend to its ordinary shareholders. The issuer will have the option but not the obligation to pay the shareholders remuneration in kind by increasing the nominal value of the preference shares.

- Voting rights: none.

Note 14. Grants

The breakdown and the movements under capital grants and other deferred income in 2011 and 2010 have been as follows:

	Grants	Revenues from pipeline networks and branch lines	Income from extension of pipelines charged to third parties	Other revenues	Total
At 1.01.10	**168**	**192**	**111**	**49**	**520**
Financing received	37	108	16	11	172
Release to income	(6)	(13)	(11)	(1)	(31)
Cumulative translation adjustments	6	-	-	1	7
Transfers and others	(45)	60	1	(27)	(11)
At 31.12.10	**160**	**347**	**117**	**33**	**657**
Financing received	40	103	11	47	201
Release to income	(12)	(14)	(7)	(2)	(35)
Cumulative translation adjustments	1	-	(1)	1	1
Transfers and others	7	(30)	(4)	6	(21)
At 31.12.11	**196**	**406**	**116**	**85**	**803**

Note 15. Provisions

The breakdown of provisions at 31 December 2011 and 2010 is as follows:

	At 31.12.11	At 31.12.10
Provisions for employee obligations	709	698
Other provisions	1,003	2,167
Non-current provisions	**1,712**	**2,865**
Current provisions	**133**	**127**
Total	**1,845**	**2,992**

Provisions for employee obligations

A breakdown of the provisions related to employee obligations is as follows:

	2011	2010
At 1 January	**698**	**645**
Provisions charged to the income statement	42	47
Amounts paid during the year	(77)	(75)
Cumulative translation adjustments	-	37
Variations recognised directly in equity	46	45
Transfers and others	-	(1)
A 31 December	**709**	**698**

The breakdown of the provisions for post-employment pension obligations by country is as follows:

Breakdown by country	At 31.12.11	At 31.12.10	At 1.1.10
Spain (1)	355	362	389
Colombia (2)	284	268	222
Brazil (3)	61	57	25
Rest	9	11	9
Total	**709**	**698**	**645**

1) Pension plans and other post-employment benefits in Spain

Most of the post-employment obligations of GAS NATURAL FENOSA in Spain consist of the contribution of defined amount to occupational pension plan systems. Nevertheless, at 31 December 2011 and 31 December 2010, GAS NATURAL FENOSA held the following defined benefit obligations for certain groups of workers:

- Pensioners (retired workers, the disabled, widows and orphans).
- Defined benefit supplement obligations with retired personnel of the legacy Unión Fenosa Group who retired before November 2002 and a residual part of current personnel.
- Coverage of retirement and death for certain employees.
- Gas subsidy for current and retired personnel.
- Electricity for current and retired personnel.
- Liabilities with employees that took early retirement until they reach official retirement age and early retirement plans.
- Salary supplements and contributions to social security for a group of employees taking early retirement until they can access ordinary retirement.
- Health care and other benefits

2) Pension plans and Other post-employment benefits in Colombia

At 31 December 2011 and 2010 there are following obligations with certain employees of the Colombian company Electrificadora del Caribe, S.A. E.S.P:

- Pension liabilities for retired personnel.
- Post-retirement electricity for current and retired personnel.
- Healthcare and other post-retirement aid

3) Pension Plans and Other post-employment benefits in Brazil

At 31 December 2010 and at 31 December 2009, GAS NATURAL FENOSA has the following benefits for certain employees in Brazil:

- Defined post-employment benefits plan, covering retirement, death on the job and disability pensions and overall amounts.
- Post-employment healthcare plan.
- Other defined post employment benefit plans that guarantee temporary pensions, life-time pensions and overall amounts depending on seniority.

The breakdown of the provisions for pensions and liabilities, by country, recognised in the consolidated balance sheet and the fair value of the plan-related assets is as follows:

	2011			2010		
	Spain	Colombia	Brazil	Spain	Colombia	Brazil
Current value of the obligations						
As at 1 January	**1,200**	**268**	**171**	**1,204**	**222**	**117**
Current service cost	4	-	-	4	-	2
Interest cost	48	20	17	54	21	19
Actuarial gains and losses	(43)	31	28	(4)	26	36
Benefits paid	(90)	(34)	(14)	(97)	(34)	(13)
Transfers	6	-	-	40	-	-
Cumulative translation adjustments	-	5	(16)	-	33	10
Others	-	(6)	-	(1)	-	-
As at 31 December	**1,125**	**284**	**186**	**1,200**	**268**	**171**
Fair value of plan assets						
As at 1 January	**838**	-	**114**	**815**	-	**92**
Expected yield	33	-	14	37	-	17
Contributions	9	-	5	36	-	1
Actuarial gains and losses	(42)	-	12	7	-	7
Benefits paid	(68)	-	(9)	(97)	-	(10)
Transfers	-	-	-	40	-	-
Cumulative translation adjustments	-	-	(11)	-	-	7
As at 31 December	**770**	-	**125**	**838**	-	**114**
Provisions for post-employment pension obligations	**355**	**284**	**61**	**362**	**268**	**57**

The amounts recognized in the income statement for the aforementioned pension plans are as follows:

	2011			2010		
	Spain	Colombia	Brazil	Spain	Colombia	Brazil
Current service cost	4	-	-	4	-	2
Interest cost	48	20	17	54	21	19
Expected return on plan assets	(33)	-	(14)	(37)	-	(17)
Total income statement charge	**19**	**20**	**3**	**21**	**21**	**4**

The movement in the liability recognized in the balance sheet is as follows:

	2011			2010		
	Spain	Colombia	Brazil	Spain	Colombia	Brazil
As at January 1	**362**	**268**	**57**	**389**	**222**	**25**
Charge against the income statement	19	20	3	21	21	4
Contributions paid	(31)	(34)	(10)	(37)	(34)	(4)
Variations recognised directly in net equity	(1)	31	16	(10)	26	29
Transfers	6	(6)	-	-	-	-
Cumulative translation adjustments	-	5	(5)	-	33	3
Others	-	-	-	(1)	-	-
As at 31 December	**355**	**284**	**61**	**362**	**268**	**57**

The accumulated amount of the actuarial gains and losses recognised directly in equity is negative by Euros 95 million for 2011 (Spain: positive Euros 4 million, Colombia: negative Euros 66 million and Brazil: negative Euros 33 million).

The main categories of assets, expressed as a percentage of the total fair value of the assets are as:

	2011			2010		
% over total	**Spain**	**Colombia**	**Brazil**	**Spain**	**Colombia**	**Brazil**
Shares	-	-	16%	-	-	10.7%
Bonds	100%	-	76%	100%	-	84.0%
Real estate and other assets	-	-	8%	-	-	5.3%

Real yields on the plan-related assets in 2011, relating basically to Spain and Brazil, have been Euros 47 million (Euros 54 million in 2010).

The main annual actuarial assumptions used were as follows:

	At 31.12.11			At 31.12.10		
	Spain	**Colombia**	**Brazil**	**Spain**	**Colombia**	**Brazil**
Discount rate (1)	3.1 a 4.9%	7.8%	11.4%	2.5 a 5%	8%	6.8%
Expected return on plan assets (1)	3.1 a 4.9%	7.8%	12.8%	2.5 a 5%	8%	6.8%
Future salary increases (1)	3%	2.75%	7.6%	3%	2.7%	6.6%
Future pension increases (1)	2.5%	2.75%	5.5%	2.5%	2.7%	0%
Inflation rate (1)	2.5%	2.75%	5.5%	2.5%	2.7%	4.5%
Mortality table	PERMF 2000	RV08	AT-83	PERMF 2000	RV08	AT-83

(1) per annum

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

The following table includes the effect of a 1% variation in the inflation rate, a 1% change in the discount rate and a 1% change in the cost of healthcare over the provisions and actuarial costs:

	Inflation + 1%	Discount +1%	Healthcare +1%
Current value of the obligations	100	(136)	14
Fair value of plan-related assets	-	(61)	-
Provision for pensions	100	(75)	14
Cost of service for the year	1	(1)	-
Interest paid	7	6	1
Expected yield on plan-related assets	(1)	4	-

Other current and non-current provisions

The movement in current and non-current provisions is as follows:

	2011			2010		
	Non-current provisions	Current provisions	Total	Non-current provisions	Current provisions	Total
As at 1 January	2,167	127	2,294	1,236	128	1,364
Charged to / reversed in the income statement						
- provisions	264	18	**282**	767	9	**776**
- reversals	(29)	-	**(29)**	(38)	(4)	**(42)**
Amounts paid during the year	(53)	(5)	**(58)**	(66)	(42)	**(108)**
Business combinations	2	-	**2**	-	-	-
Cumulative translation adjustments	(3)	2	**(1)**	17	4	**21**
Transfer and others	(1,345)	(9)	**(1,354)**	251	32	**283**
As at 31 December	**1,003**	**133**	**1,136**	**2,167**	**127**	**2,294**

This account includes the provisions recorded to meet obligations arising mainly from tax claims, as well as litigation and arbitration proceedings underway. The information on the nature of the disputes with third parties and the position of the entity in relation to them is set out in the section on "Litigation and Arbitration" in Note 35.

On 14 June 2011, GAS NATURAL FENOSA and Sonatrach agreed to resolve their differences in relation to the price applicable to the gas supply contracts of Sagane S.A. (subsidiary of GAS NATURAL FENOSA) in respect of which an arbitral award was issued in 2010, determining both the price applicable to the period 2007-2009 and the price applicable from 1 January 2010 to 31 May 2011, both parties having abandoned all proceedings in progress. This agreement had no impact on the Consolidated income statement, since the risks deriving from the dispute were already provisioned, having been transferred to the item "Trade and other payables" in the amount of Euros 1,356 million, Euros 1,182 million of which was paid in 2011.

The end of the price dispute has allowed the two companies to analyse partnership opportunities, resulting specifically in Sonatrach's acquisition of a minority interest in Gas Natural SDG, S.A. (Note 13).

Additionally, this account includes the provisions to meet the liabilities arising from the dismantling, restoration and other costs related to the facilities, basically electricity generating facilities, totalling Euros 314 million at 31 December 2011 (Euros 318 million in 2010).

Current provisions also includes the excess of CO_2 emissions above the rights assigned totalling Euros 18 million at 31 December 2011 (Euros 5 million at 31 December 2010).

The estimated payment periods for the commitments provisioned in this item refer to Euros 452 million in between one and five years, Euros 325 million in between five and 10 years, and Euros 226 million after more than 10 years.

Note 16. Borrowings

The breakdown of borrowings at 31 December 2011 and 2010 is as follows:

	At 31.12.11	At 31.12.10
Issuing of debentures and other negotiable obligations	8,276	7,488
Loans from financial institutions	8,847	10,242
Derivative financial instruments	86	75
Other financial liabilities	330	371
Non-current borrowings	**17,539**	**18,176**
Issuing of debentures and other negotiable obligations	1,076	631
Loans from financial institutions	1,621	1,195
Derivative financial instruments	9	61
Other financial liabilities	147	243
Current borrowings	**2,853**	**2,130**
Total	**20,392**	**20,306**

The carrying amounts and fair value of the non-current borrowings are as follows:

	Carrying amount		Fair value	
	At 31.12.11	**At 31.12.10**	**At 31.12.11**	**At 31.12.10**
Issuing of debentures and other negotiable obligations	8,276	7,488	8,207	7,199
Loans from financial institutions and others	9,177	10,613	9,282	10,705

The fair value of the listed bond issues is estimated on the basis of their market price (Level 1). The fair value of loans with fixed interest rates is estimated on the basis of the discounted cash flows over the remaining terms of such debt. The discount rates were determined based on market rates available at 31 December 2011 and 31 December 2010 on borrowings with similar credit and maturity characteristics. These valuations are based on the quotation price of similar financial instruments in an official market or on observable information in an official market (Level 2).

The movement in borrowings is as follows:

	2011	2010
As at 1 January	**20,306**	**21,507**
Business combinations	640	-
Increase in borrowings	4,514	11,375
Decrease in borrowings	(4,680)	(12,647)
Cumulative translation adjustment	9	302
Transfers and others (1)	(397)	(231)
As at 31 December	**20,392**	**20,306**

(1) Mainly includes transfers to the item "Non-current assets held for sale" in the amount of Euros 399 million at 31 December 2011 (Euros 274 million at 31 December 2010), written off during 2011.

The following tables describe our consolidated gross borrowings by instrument at 31 December 2011 and 31 December 2010 and their maturity profile, taking into account the impact of the derivative hedges.

	2012	2013	2014	2015	2016	2017 and beyond	Total
At December 31, 2011							
Marketable Debt							
Fixed	742	600	1,977	790	987	3,922	9,018
Floating	334	-	-	-	-	-	334
Institutional Banks and other financial companies							
Fixed	133	127	181	177	175	638	1,431
Floating	165	33	32	46	25	112	413
Commercial Banks and other financial liabilities							
Fixed	799	723	154	110	99	349	2,234
Floating	680	1,648	263	3,224	356	791	6,962
Total Fixed	1,674	1,450	2,312	1,077	1,261	4,909	12,683
Total Floating	1,179	1,681	295	3,270	381	903	7,709
Total	**2,853**	**3,131**	**2,607**	**4,347**	**1,642**	**5,812**	**20,392**

	2011	2012	2013	2014	2015	2016 and beyond	Total
At December 31, 2010							
Marketable Debt							
Fixed	562	551	307	1,907	650	4,087	8,064
Floating	55	-	-	-	-	-	55
Institutional Banks and other financial companies							
Fixed	112	123	123	121	117	509	1,105
Floating	39	116	15	71	99	431	771
Commercial Banks and other financial liabilities							
Fixed	302	364	1,213	172	1,508	668	4,227
Floating	1,060	1,128	1,535	31	1,959	371	6,084
Total Fixed	976	1,038	1,643	2,200	2,275	5,264	13,396
Total Floating	1,154	1,244	1,550	102	2,058	802	6,910
Total	**2,130**	**2,282**	**3,193**	**2,302**	**4,333**	**6,066**	**20,306**

If the impact of the derivatives on borrowings is excluded, the classification between fixed and floating rates would be: fixed, Euros 10,918 million in 2011 (Euros 9,955 million in 2010) and floating, Euros 9,379 million in 2011 (10,215 million in 2010).

The following table describes our consolidated gross financial debt denominated by currency at 31 December 2011 and 31 December 2010 and its maturity profile, taking into account the impact of the derivative hedges.

	2012	2013	2014	2015	2016	2017 and beyond	Total
At 31 December 2011:							
Euro Debt	1,972	2,528	2,236	3,866	1,523	4,809	16,934
Foreign Currency Debt:							
US Dollar	507	428	116	276	119	600	2,046
Mexican peso	37	2	72	140	-	80	331
Brazilian real	116	77	30	21	-	12	256
Colombian peso	203	80	153	44	-	76	556
Argentinean peso	18	16	-	-	-	-	34
Rest	-	-	-	-	-	235	235
Total	**2,853**	**3,131**	**2,607**	**4,347**	**1,642**	**5,812**	**20,392**

	2011	2012	2013	2014	2015	2016 and beyond	Total
At 31 December 2010:							
Euro Debt	1,331	1,647	2,877	2,131	3,946	4,797	16,729
Foreign Currency Debt:							
US Dollar	249	305	381	109	297	677	2,018
Mexican peso	165	91	47	-	-	-	303
Brazilian real	173	56	28	9	43	58	367
Colombian peso	171	163	79	41	41	56	551
Argentinean peso	26	7	-	-	-	-	33
Rest	15	13	73	12	6	186	305
Total	**2,130**	**2,282**	**3,485**	**2,302**	**4,333**	**5,774**	**20,306**

Borrowings in Euros have borne an effective average interest rate of 4.14% at 31 December 2011 (3.99% at 31 December 2010) while borrowings in foreign currency have borne an effective average interest rate of 5.21% (5.29% at 31 December 2010), including derivative instruments assigned to each transaction.

At 31 December 2011, GAS NATURAL FENOSA has credit facilities totalling Euros 4,933 million (Euros 4,935 million at 31 December 2010), of which Euros 4,202 million have not been drawn down (Euros 3,573 million at 31 December 2010).

Bank borrowings totalling Euros 1,490 million are subject to the fulfilment of certain financial ratios relating mainly to debts incurred by the former UNIÓN FENOSA group and to the debts of Latin American companies in local market financing operations without recourse to the parent company.

At the preparation date of these Consolidated annual accounts, GAS NATURAL FENOSA is not in breach of its financial obligations or of any type of obligation that could give rise to the early maturity of its financial commitments.

Certain investment projects have been financed by means of specific structures (project finance) which include pledges on the shares in the project companies. At 31 December 2010, the outstanding balance of this type of financing totals Euros 812 million.

We describe below the most relevant financing instruments:

Issue of bonds and other negotiable securities

In 2011 and 2010 the evolution of the issues of debt securities has been as follows:

	At 1.1.2011	Issues	Buy backs or reimbursements	Exchange rate adjustments and others	At 31.12.2011
Issued in a member state of the European Union which required the filing of a prospectus	7,484	3,218	(2,259)	64	8,507
Issued in a member state of the European Union which did not required the filing of a prospectus	-	-	-	-	-
Issued outside a member state of the European Union	635	262	(35)	(17)	845
Total	**8,119**	**3,480**	**(2,294)**	**47**	**9,352**

	At 1.1.2010	Issues	Buy backs or reimbursements	Exchange rate adjustments and others	At 31.12.2010
Issued in a member state of the European Union which required the filing of a prospectus	6,439	3,660	(2,650)	35	7,484
Issued in a member state of the European Union which did not required the filing of a prospectus	5	-	(5)	-	-
Issued outside a member state of the European Union	653	15	(25)	(8)	635
Total	7,097	3,675	(2,680)	27	8,119

ECP Program

On 23 March 2010 a Euro Commercial Paper program (ECP) was contracted totalling Euros 1,000 million, the issuer being Unión Fenosa Finance BV. During 2011, further issues were completed under that Programme for a total amount of Euros 2,085 million. At 31 December 2011, the amount of Euros 266 million had been drawn down on the Programme (Euros 357 million at December 2010) and the sum of Euros 734 million was available (Euros 643 million at December 2010).

Promissory Notes Program

In July 2009 GAS NATURAL FENOSA subscribed a Promissory Note Program by virtue of which it could issue a total principal up to Euros 2,000 million, although in July 2010 this maximum amount was reduced to Euros 1,000 million. The aforementioned Program was renewed on July 2011 in the same amount. At 31 December 2011 the outstanding issues under this program totalled Euros 69 million (Euros 118 million at 31 December 2010), the available amount being Euros 932 million (Euros 882 million at 31 December 2010).

EMTN Program

GAS NATURAL FENOSA, though the subsidiary companies Gas Natural Capital Markets, S.A. and Unión Fenosa Finance, BV, maintains a European Medium Term Notes (EMTN) Program in the medium term. This Program was established in 1999 of which a total principal of up to Euro 2,000 million could be issued. Following a number of extensions, the latest in November 2011, the Programme limit is Euros 12,000 million (Euros 10,000 million at 31 December 2010). At 31 December 2011, principal drawn down totalled Euros 8,050 million (Euros 6,950 million at 31 December 2010) and the amount of Euros 3,950 million was available. The breakdown of the nominal issue balance is as follows:

	Nominal	Issue	Maturity	Coupon
	500	July 2009	2019	6.37%
	2,000	July 2009	2014	5.25%
	1,000	November 2009	2016	4.37%
	500	November 2009	2012	3.12%
	750	November 2009	2021	5.12%
	850	January 2010	2020	4.50%
	650	January 2010	2015	3.37%
	700	January 2010	2018	4.12%
	600	February 2011	2017	5.63%
	500	May 2011	2019	5.38%
Total	**8,050**			

Preference shares

In May 2003, Unión Fenosa Financial Services USA, Llc., issued preference shares for a nominal amount of Euros 609 million with the following characteristics:

- Dividend: variable, non-accumulative, until 20 May 2013, will be Euribor at three months plus a spread of 0.25% capped at 7% and a minimum of 4.25%; as from that date, Euribor at three months plus a spread of 4%.
- Term: perpetual, with the option for the issuer of reducing in advance all or part of the shareholding after 20 May 2013. Reduction will be made at par value.
- Remuneration: the dividend payment will be preferential and not accumulative and depends on whether distributable consolidation profit is reported or the payment of a dividend to its ordinary shareholders.
- Voting rights: none.

Negotiable bonds

The Group company, Empresa de Distribución Eléctrica Metro-Oeste, S.A, located in Panama, executed the issue in May 2010 of Negotiable Commercial Securities of up to USD 50 million (Euros 39 million). The amount drawn down at 31 December 2011 totalled Euros 23 million (Euros 15 million at 31 December 2010).

In turn, on 3 May 2011 GAS NATURAL FENOSA, through its subsidiary Gas Natural México S.A. de C.V., registered a Stock Market Certificate Programme in the Mexican Stock Exchange for the sum of MXN 10,000 million (Euros 544 million). Under this Programme, on 20 May 2011 debt was issued for periods of four and six years and a total amount of MXN 4,000 million (Euros 221 million), the available amount being Euros 323 million, secured by Gas Natural SDG, S.A.

Bank loans

European bank loans (commercial / institutional banks)

At 31 December 2011, bank borrowings include bank loans of Euros 6,595 million (Euros 6,437 million at 31 December 2010) and credit lines drawn in the amount of Euros 461 million (Euros 1,003 million at 31 December 2010). Additionally, debts incurred with Instituto de Crédito Oficial (ICO) total Euros 577 million, arranged through loans maturing in 2018 at maximum (Euros 593 million at 31 December 2010) and a credit line obtained in December 2005 with a limit of Euros 125 million, which was entirely drawn down at 31 December2011 (Euros 100 million at 31 December 2010).

The European Investment Bank (EIB) has granted financing of Euros 853 million to GAS NATURAL FENOSA, which includes Euros 150 million drawn down on a new line of financing granted in December 2011 in the amount of Euros 350 million. The remaining amount of Euros 200 million has yet to be utilised.

Loans from Latin American banks (commercial / institutional banks)

At 31 December 2011 borrowings from various Latin American banks totalled Euros 1,263 million (Euros 1,617 million at 31 December 2010). The geographic breakdown of these loans is as follows: Mexico: Euros 312 million (Euros 522 million at 31 December 2010), Colombia: Euros 556 million (Euros 551 million at 31 December 2010), Brazil: Euros 256 million (Euros 367 million at 31 December 2010), Argentina: Euros 34 million (Euros 13 million at 31 December 2010), Panama: Euros 99 million

(Euros 96 million at 31 December 2010), Nicaragua: Euros 6 million (Euros 5 million at 31 December 2010) and the Guatemalan debt of Euros 63 million was included at 31 December 2010 (Note 9).

Of total Latin American borrowings at 31 December 2011, 79% to commercial banks and the remaining 21% to institutional banks (BNDES, BEI, ICO, etc.).

At 31 December 2011, the debt related to the combined cycle plant and the regasification plant in Puerto Rico totals Euros 156 million (Euros 167 million at 31 December 2010), including Euros 12 million in credit facilities drawn down (Euros 11 million at 31 December 2010). The most of this debt matures on long term.

Wind farm operators (commercial banks)

At 31 December 2011, wind farm operating companies had Euros 66 million in outstanding loans, mainly for project financing (Euros 83 million at 31 December 2010). Most of this debt matures on long term.

At 31 December 2010, the companies owned by Enel Unión Fenosa Renovables (EUFER) recognised a total of Euros 274 million. If the borrowings associated with non-current assets held for sale (Note 9) are considered, the balance amounts to Euros 548 million. Due to the swap of EUFER's renewable assets on 27 May 2011, the carrying amount of this debt was written off the consolidated balance sheet and the borrowings were recognised at the fair value of the assets and liabilities acquired through the swap (Note 30); subsequently, the entire amount was eliminated.

Unión Fenosa Gas (commercial / institutional banks)

At 31 December 2011, the companies belonging to Unión Fenosa Gas had Euros 394 million in outstanding loans (Euros 389 million at 31 December 2010), mainly for financing in USD by Banco Europeo de Investments (BEI) to finance the natural gas liquefaction plant in Damietta (Egypt) totalling Euros 148 million (Euros 156 million at 31 December 2010), and for a loan in USD given by twenty-two lending entities totalling Euros 220 million (Euros 233 million at 31 December 2010). Most of this debt matures in 2016 and beyond.

Bank loans – other countries (commercial banks)

At 31 December 2011, bank loans from other countries total Euros 14 million (Euros 12 million at 31 December 2010) and pertain mainly to Moldova and Kenya.

Other financial liabilities

“Other financial liabilities” basically include the finance leases with banks for power islands at the combined cycle plants in Palos de la Frontera and Sagunto, with a maturity of 10 years, entered into respectively in 2005 and 2007.

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

	At 31.12.11			At 31.12.10		
	Nominal	Discount	Present value	Nominal	Discount	Present value
No later than 1 year	87	(4)	**83**	91	(4)	**87**
Between 1 and 5 years	274	(34)	**240**	321	(43)	**278**
Later than 5 years	51	(11)	**40**	88	(21)	**67**
Total	**412**	**(49)**	**363**	**500**	**(68)**	**432**

Note 17. Risk management and derivative financial instruments

Risk management

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

- Guaranteeing that the most relevant risks are correctly identified, evaluated and managed.

- Segregation at the operating level of the risk management functions.

- Assuring that the level of its risk exposure for GAS NATURAL FENOSA in its business is in line with the objective risk profile and achievement of its annual, strategic objectives.

- Ensuring the appropriate determination and review of the risk profile by the Risk Committee, proposing global limits by risk category, and assigning them to the Business Units.

Interest rate risk

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

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

GAS NATURAL FENOSA uses financial swaps to manage its exposure to fluctuations in interest rates by exchanging debt at a floating rate for fixed interest rates. Additionally, please bear in mind the financial swaps contracted to mitigate the risk of a specific financing operation in Yen that does not qualify for hedge accounting.

The debt structure at 31 December 2011 and 2010, after taking into account the hedges structured through derivatives, is as follows:

	At 31.12.11	At 31.12.10
Fixed interest rate	12,683	13,396
Floating interest rate	7,709	6,910
Total	**20,392**	**20,306**

The floating interest rate is mainly subject to the fluctuations of the EURIBOR, the LIBOR and the indexed rates of Mexico, Brazil, Colombia and Argentina.

The sensitivity of profit and equity ("Adjustments for changes in value") to the fluctuation in interest rates is as follows:

	Increase/decrease in interest rates (basics points)	Effect on profit before tax	Effect on equity before tax
2011	+50	(45)	18

	-50	41	(18)
2010	+50	(35)	15
	-50	35	(15)

Exchange rate risk

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

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

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

For open positions, the risks in investments in non-functional currencies are managed through financial swaps and foreign exchange fluctuation insurance within the limits approved for hedging instruments.

The non-Euro currency with which GAS NATURAL FENOSA operates the most is the US Dollar. The sensitivity of results and consolidated equity ("Adjustments for changes in value") of GAS NATURAL FENOSA to a 5% variation (increase or decrease) in the US Dollar / Euro exchange rate is as follows:

		2011	2010
Effect on profit before tax	+5%	2	-
	-5%	(2)	-
Effect on equity before tax	+5%	13	11
	-5%	(15)	(12)

Commodities price risk

A large portion of the operating expenses of GAS NATURAL FENOSA is linked to the purchase of gas in order to supply customers or for electricity generation at combined cycle plants. Therefore, GAS NATURAL FENOSA is exposed to gas price fluctuation risk, whose determination is basically subject to the prices of crude oil and its by-products. Additionally, in the electricity generation business GAS NATURAL FENOSA is exposed to CO_2 emission rights fluctuation risk and electricity prices variations.

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

The risk involved in the electricity trading operations carried out by GAS NATURAL FENOSA is not significant, due to the low volume of these operations and the limits established, both in terms of amount and maturity.

The sensitivity of profit and equity (Value adjustments) to the variation in the fair value of derivative contracts to hedge commodity prices is as follows:

	Increase / decrease in the purchase price of gas	Effect on profit before tax	Effect on equity before tax
2011	+10%	-	3
	-10%	-	(3)
2010	+10%	-	(12)
	-10%	-	12

	Increase / decrease in the electricity sale price	Effect on profit before tax	Effect on equity before tax
2011	+10%	(7)	(7)
	-10%	7	7
2010	+10%	-	4
	-10%	-	(4)

	Increase/decrease in the price of CO_2 emission rights	Effect on profit before tax	Effect on equity before tax
2011	+10%	-	1
	-10%	-	(1)
2010	+10%	1	1
	-10%	(1)	(1)

Credit risk

The credit risk arising from the default of a counterparty is controlled through policies that assure that wholesale sales of products are made to customers with an appropriate credit history, for which the respective solvency studies are established and based on which the respective credit limits are assigned.

In order to do so various credit quality measuring models have been designed. Based on these models, the probability of customer default on payment can be measured, and the expected commercial loss can be kept under control.

The main guarantees that are negotiated are guarantees, guarantee deposits and deposits. At 31 December 2011, GAS NATURAL FENOSA had received guarantees totalling Euros 10 million to cover the risk of large industrial customers (Euros 14 million at 31 December 2010). In 2011, guarantees have been executed for amounts lower than Euros 1 million (lower than Euros 1 million at 31 December 2010)

Furthermore, the debt claims are stated on the consolidated balance sheet net of provisions for bad debts (Note 11), estimated by GAS NATURAL FENOSA on the basis of the ageing of the debt and past experience in accordance with the prior segregation of customer portfolios and the current economic environment.

At 31 December 2011 and 2010 GAS NATURAL FENOSA does not have significant concentrations of credit risk.

In order to mitigate credit risk arising from financial positions, GAS NATURAL FENOSA enters into derivatives and places treasury surpluses in banks and financial entities that are highly solvent and rated by Moody's and S&P.

Likewise, most of the accounts receivable neither due nor provided for have a high credit rating, according to the valuations of GAS NATURAL FENOSA, based on the solvency analysis and payment habits of each customer.

The breakdown of the age of financial receivables overdue but not considered bad debts at 31 December 2011 and 2010 is as follows:

	At 31.12.11	At 31.12.10
Less than 90 days	338	268
90 – 180 days	108	77
More than 180	26	6
Total	**472**	**351**

The impaired financial assets are broken down in Note 11.

Liquidity risk

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

At 31 December 2011, available liquidity totals Euros 13,263 million, taking into account cash and other cash equivalents totalling Euros 3,098 million (Note 12), bank financing and credit facilities available of Euros 4,202 million (Note 16) and the capacity to issue debt not utilised of Euros 5,963 million (Note 16).

The breakdown of the maturities of the financial liabilities at 31 December 2011 and 2010 is as follows:

	2012	2013	2014	2015	2016	2017 and beyond	Total
At 31 December 2011							
Trade and other payables	(4,671)	-	-	-	-	-	(4,671)
Loans and other financial payables	(3,642)	(3,793)	(3,216)	(4,774)	(1,985)	(7,019)	(24,429)
Financial derivatives	(30)	(19)	(7)	(5)	(5)	65	(1)
Other liabilities	(62)	(62)	(154)	(57)	(58)	(763)	(1,156)
Total (1)	**(8,405)**	**(3,874)**	**(3,377)**	**(4,836)**	**(2,048)**	**(7,717)**	**(30,257)**

	2011	2012	2013	2014	2015	2016 and after	Total
At 31 December 2010							
Trade and other payables	(3,658)	-	-	-	-	-	(3,658)
Loans and other financial payables	(2,895)	(2,987)	(4,097)	(2,801)	(4,713)	(7,323)	(24,816)
Financial derivatives	(66)	(18)	(9)	(6)	(8)	65	(42)
Other liabilities	(67)	(61)	(157)	(57)	(56)	(820)	(1,218)
Total (1)	**(6,686)**	**(3,066)**	**(4,263)**	**(2,864)**	**(4,777)**	**(8,078)**	**(29,734)**

(1) The amounts are undiscounted contractual cash flows, and, accordingly, differ from the amounts included on the balance sheet and in Note 16.

Capital management

The main purpose of capital management of GAS NATURAL FENOSA is to ensure a financial structure that can optimise capital cost and maintain a solid financial position, in order to combine value creation for the shareholder with the access to the financial markets at a competitive cost to cover financing needs.

GAS NATURAL FENOSA considers the following to be indicators of the objectives set for capital management: maintaining, after the acquisition of UNIÓN FENOSA, a long-term leverage ratio of approximately 50%, and an A rating.

After the acquisition of UNIÓN FENOSA the rating agencies completed their review with negative implications in their ratings, confirming the ratings in line with the objectives forecast in the acquisition process.

The long-term credit rating of GAS NATURAL FENOSA is as follows:

	2011	2010
Moody's	Baa2	Baa2
Standard & Poor's	BBB	BBB
Fitch	A-	A-

Its leverage rating is as follows:

	2011	2010
Net borrowings:	**17,294**	**19,102**
Non-current borrowings (Note 16)	17,539	18,176
Current borrowings (Note 16)	2,853	2,130
Cash and cash equivalents (Note 12)	(3,098)	(1,203)
Derivatives (Note 17)	-	(1)
Net equity:	**14,441**	**12,974**
Equity holders of the Company (Note 13)	12,792	11,384
Minority interests	1,649	1,590
Leverage (Net borrowings / (Net borrowings + Net equity))	**54.5%**	**59.6%**

Should the net borrowings related to the non-current assets held for sale (Note 9) be taken into account, the balance of net borrowings would total Euros 19,359 million at 31 December 2010.

Derivative financial instruments

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

	At 31.12.11		At 31.12.10	
	Assets	Liabilities	Assets	Liabilities
Derivatives qualifying for hedge accounting	-	**72**	-	**56**
Cash flow hedges				
- Interest rate	-	71	-	56
Fair value hedge				
- Exchange rate	-	1	-	-
Other financial instruments	-	**14**	-	**19**
- Interest rate and exchange rate	-	14	-	19

Derivative financial instruments – non current	**-**	**86**	**-**	**75**
Derivatives qualifying for hedge accounting	**43**	**16**	**91**	**71**
Cash flow hedges				
- Interest rate	-	9	-	54
- Exchange rate	15	1	7	1
- Commodity prices	3	6	7	16
Fair value hedge				
- Exchange rate	25	-	77	-
Other financial instruments	**3**	**-**	**2**	**11**
- Commodity prices	3	-	2	4
- Interest rate	-	-	-	7
Derivative financial instruments – current	**46**	**16**	**93**	**82**
Total	**46**	**102**	**93**	**157**

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

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

	2011		**2010**	
	Operating Results	**Financial Results**	**Operating Results**	**Financial Results**
Cash flow hedges	-29	-74	-39	-127
Fair value hedges	-22	-5	32	-3
Other	3	3	-2	-11
Total	**-48**	**-76**	**-9**	**-141**

The breakdown of the derivative financial instruments at 31 December 2011 and 2010, their fair value and the breakdown by maturity of their notional values are as follows:

	Fair Value	31.12.11 Notional value (in million of Euros)						
		2012	2013	2014	2015	2016	Beyond	Total
Interest rate swap contracts:								
Cash flow hedges:								
Financial swaps (EUR)	(27)	847	55	651	4	2	26	1,585
Financial swaps (USD)	(52)	203	28	29	29	31	151	471
Financial swaps (MXN)	-	14	14	67	-	-	-	95
Collars (EUR)	(1)	13	3	3	2	-	-	21
EXCHANGE RATE HEDGE:								
Cash flow hedge:								
Exchange fluctuation insurance (USD)	14	376	-	-	-	-	-	376
Exchange fluctuation insurance (BRL)	-	42	-	-	-	-	-	42
Fair value hedge:								
Financial swaps (BRL)	-	2	-	-	-	-	-	2
Foreign exchange fluctuation insurance (BRL)								
Foreign exchange fluctuation insurance (USD)	-	10	-	-	-	-	-	10
Foreign exchange fluctuation insurance (DHN)	25	351	11	-	-	-	-	362
Foreign exchange fluctuation insurance (BRL)								
Foreign exchange fluctuation insurance (USD)	-	6	-	-	-	-	-	6
COMMODITY HEDGE:								
Cash flow hedge:								
Commodity price derivatives (EUR)	(3)	246	3	1	-	-	-	250
Commodity price derivatives (USD)	(1)	36	-	-	-	-	-	36
OTHERS:								
Financial swaps (JPY)	(14)	-	-	-	-	-	220	220
Commodity price derivatives (EUR)	3	78	2	2	1	-	-	83
TOTAL	**(56)**	**2,224**	**116**	**753**	**36**	**33**	**397**	**3,559**

	Fair Value	31.12.10 Notional value (in million of Euros)						
		2011	2012	2013	2014	2015	Beyond	Total
Interest rate swap contracts:								
Cash flow hedges::								
Financial swaps (EUR)	(66)	2,580	206	15	8	4	25	2,838
Financial swaps (USD)	(43)	20	193	24	25	24	162	448
Financial swaps (MXN)	-	16	16	16	-	-	-	48
Financial swaps (ARS)	-	9	-	-	-	-	-	9
Collars (EUR)	(1)	4	13	2	3	2	2	26
EXCHANGE RATE HEDGE:								
Cash flow hedge:								
Exchange fluctuation insurance (USD)	6	270	4	-	-	-	-	274
Fair value hedge:								
Financial swaps (BRL)	-	5	2	-	-	-	-	7
Foreign exchange fluctuation insurance (BRL)								
Foreign exchange fluctuation insurance (USD)	-	32	-	-	-	-	-	32
Foreign exchange fluctuation insurance (DHN)	77	1,156	-	-	-	-	-	1,156
Cash flow hedge:	-	7	-	-	-	-	-	7
COMMODITY HEDGE:								
Cash flow hedge:								
Commodity price derivatives (EUR)	(3)	175	-	-	-	-	-	175
Commodity price derivatives (USD)	(6)	85	-	-	-	-	-	85
OTHERS:								
Other commodities (USD)	(2)	2	-	-	-	-	-	2
Financial swaps (JPY)	(19)	-	-	-	-	-	220	220
Financial swaps (EUR)	(7)	105	-	-	-	-	-	105
Collars (EUR)	-	17	-	-	-	-	-	17
Commodity price derivatives (EUR)	-	2	-	-	-	-	-	2
TOTAL	**(64)**	**4,485**	**434**	**57**	**36**	**30**	**409**	**5,451**

Note 18. Other non-current liabilities

The breakdown of this account at 31 December 2011 and 2010 is as follows:

	At 31.12.11	At 31.12.10
Finance lease liabilities (1)	571	582
Payables for levelling of capacity income (2)	68	55
Deposits and guarantee deposits	198	212
Finance lease liabilities (3)	196	191
Total	**1,033**	**1,040**

There are no significant differences between the carrying values and the fair values of the items in the account "Other non-current liabilities".

(1) Finance lease liabilities

In 2003 GAS NATURAL FENOSA acquired two gas transport tankers to transport liquefied natural gas with a capacity of 276,000 m^3 through finance lease agreements. The duration of the contracts is 20 years, maturing in 2023.

In July 2004 Unión Fenosa Gas acquired two gas tankers for the transport of liquefied natural gas with capacities of 138,000 m^3 and 140,500 m^3 through 25-year time-charter contracts, extendible to 30 years.

In December 2007 a 138,000 m3 gas tanker was acquired through a 25-year time-charter lease maturing 2032, extendible for consecutive periods of 5 years, and which represents a joint investment of Euros 162 million relating to the current value of the payments to which Repsol YPF (50%) and GAS NATURAL FENOSA (50%) are committed.

In 2009 a 138,000 m^3 capacity gas tanker was acquired through a 25-year time-charter contract, extendible for consecutive periods of 5 years, which involved a joint investment of Euros 142 million, corresponding to the current value of the payments committed by Repsol YPF (50%) and GAS NATURAL FENOSA (50%).

Minimum lease payments are as follows:

	At 31.12.11			At 31.12.10		
	Nominal	Discount	Present value	Nominal	Discount	Present value
Less than 1 year	57	(3)	**54**	57	(3)	**54**
Between 1 and 5 years	229	(43)	**186**	227	(42)	**185**
More than 5 years	763	(378)	**385**	820	(423)	**397**
Total	**1,049**	**(424)**	**625**	**1,104**	**(468)**	**636**

The effective average interest rate on the liabilities for finance lease agreements at 31 December 2011 is 6.8% (6.7% at 31 December 2010).

(2) Payable for levelling of capacity income

This account includes the revenues invoiced for the assignment of electricity generating capacity pending recognition as income, for the levelling of the revenues over the term of the contracts in Mexico.

(3) Other liabilities

These basically include the repurchase obligations of preference shares of Buenergia Gas & Power, Ltd. (company holding 47.5% of EcoEléctrica L.P.), which is 95% owned by GAS NATURAL FENOSA and 5% owned by another partner, which is, as well, the holder of the preference shares of Buenergía, which gives it a preference right over the dividends of this company, which must be repurchased by Buenergía as the company distributes profit, in line with the following schedule:

	US Dollars million
2012 (1)	6
2013	6
Total	**12**

(1) Includes the short-term part of Other current liabilities (Note 20).

Also included is the purchase commitment without premium granted to Sinca Inbursa, S.A. de C.V. (Inbursa). On 22 September 2008 15% of Gas Natural Mexico, S.A. de C.V. and Sistemas de Administración, S.A. de C.V. was sold to Inbursa for Mexican Pesos 761 million (Euros 49 million), and a commitment was made to repurchase these shares. Until 22 May 2013 Inbursa can offer all the shares it holds at that time to GAS NATURAL FENOSA, who will be obligated to acquire them. The acquisition price will be set at the greater of the market valuation of each share, based on the results of the investee company, or the capital invested adjusted for financial interest.

As a result of this commitment, a deferred payment has been booked, and, accordingly, the aforementioned percentage of interest is still assigned to the parent Company. During 2011 the above-mentioned shareholdings were transferred to the company Holding Gasinmex, S.A. de C.V. Consequently, Gas Natural SDG, S.A.'s purchase commitment was transferred to Inbursa in respect of 17.29% of its shares. The liability booked at 31 December 2011 totals Mexican Pesos 988 million (Mexican Pesos 917 million at 31 December 2010) and equals the current value of the amount payable.

Also included is the purchase commitment without premium granted to Chemo España, S.L. On 16 December 2008 28% of Invergas, S.A. and Gas Natural SDG Argentina, S.A. which represents an interest of 19.6% of Gas Natural BAN, S.A., Natural Energy, S.A. and Natural Servicios, S.A., was sold to Chemo España, S.L. for USD 56 million (Euros 38 million) through an initial receipt of USD 28.5 million, with the rest of the receipts being deferred (see Note 8), and a commitment was made to repurchase these shares. Chemo España, S.L. will be able to offer during September 2013 all the shares it has at that time to GAS NATURAL FENOSA, who will be obligated to acquire them. The acquisition price will be set at the capital invested. As a result of this commitment, a deferred payment has been booked, and, accordingly, the aforementioned percentages of interest are still assigned to the parent Company. The liability booked at 31 December 2011 totals USD 55 million (USD 53 million at 31 December 2010) and equals the current value of the amount payable.

Note 19. Trade and other payables

The breakdown at 31 December 2011 and 2010 is as follows:

	At 31.12.11	**At 31.12.10**
Trade payables	3,775	2,928
Trade payables with related parties (Note 33)	83	36
Amounts due to associates	42	41
Trade payables	3,900	3,005
Social security and other taxes	375	357
Derivative financial instruments (see Note 17)	7	22
Amounts due to employees	99	89
Other payables	481	468
Current tax liabilities	290	185
Total	**4,671**	**3,658**

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

The outstanding trade payable balance with an accumulated deferral of payment at 31 December 2011 longer than the maximum legal limit under Law 15/2010/5 July, which laid down measures against slow payers, is as follow:

	2011		2010	
	Amount	%	Amount	%
Payments made during year within legal maximum period	7,210	99.8	1,706	99.7
Other payments made during year	11	0.2	5	0.3
Total payments during year	**7,221**	**100**	**1,711**	**100**
Weighted average period of payments outside legal period (days)	11		28	
Deferrals exceeding legal maximum period at year end	1		1	

The 2010 information includes payments to suppliers for commercial transactions effected within and outside the legal maximum period and balances that have been deferred for longer than the maximum period permitted by law, relating to contracts concluded after 7 July 2010.

Note 20. Other current liabilities

The breakdown of Other current liabilities at 31 December 2011 and 2010 is as follows:

	At 31.12.11	At 31.12.10
Dividend payable	392	351
Expenses accrued pending payment	159	154
Finance lease liabilities (Note 18)	54	54
Other liabilities	70	103
Total	**675**	**662**

Note 21. Tax situation

The Tax Group represented by Gas Natural SDG, S.A. as the parent company has been taxed since 1993 under the Consolidated Tax Regime in accordance with the Special Regime for Group Companies, regulated under Chapter VII of Title VII of the re-written Income tax Act which involves the joint determination of taxable income of GAS NATURAL FENOSA and the deductions and allowances on the tax payable. The Tax Consolidated Group for 2011 is indicated in Appendix III

The rest of the GAS NATURAL FENOSA companies file individual tax returns under their respective regimes, barring a number of Italian subsidiaries that form their own tax consolidated group.

The reconciliation of the applicable tax rate to the effective tax rate and the breakdown of the income tax expense for 2011 and 2010 are as follows:

	2011	%	2010	%
Profit before tax	**2,022**		**1,883**	
Statutory tax	**607**	**30.0**	**565**	**30.0**
Tax rates for foreign companies	(42)	(2.1)	(39)	(2.1)
Reinvestment tax deductions	(39)	(1.9)	(53)	(2.8)
Other tax deductions	(25)	(1.2)	(8)	(0.4)
Effect of net profit under equity accounting	(2)	(0.1)	(1)	(0.1)
Tax differences against prior years and others	(3)	(0.2)	4	0.2
Income tax	**496**	**24.5**	**468**	**24.9**
Breakdown of current/deferred expense:				
Current tax	441		370	
Deferred tax	55		98	
Accrued Corporate income tax	**496**		**468**	

The tax deductions for the reinvestment of extraordinary profit for 2011 relate basically to the sale of gas distribution assets in the Region of Madrid, which took place in compliance with the provision of anti-trust legislation (Note 9). The tax deductions for the reinvestment of extraordinary profit for 2010 relate basically to the sale of gas distribution assets in the Region of Madrid, which took place in compliance with the provision of anti-trust legislation (Note 9), and to the transfer of the 35% stake in Gas Aragón, S.A. (Note 7).

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 five years, together with that for 2011, are as follows:

Year of sale	Amount generated from sale	Amount reinvested
2006	321	321
2007	780	780
2008	152	152
2009	485	485
2010	882	882
2011	849	849
Total	**3,469**	**3,469**

The reinvestment has been made in fixed assets related to economic activities, carried out by Gas Natural SDG. S.A. or any other company included in the Consolidated Tax Group, by virtue of the provisions of article 75 of the Corporate Income Tax Act.

The breakdown of the tax effect relating to each component of Other comprehensive income for the year is as follows:

	At 31.12.11			At 31.12.10		
	Gross	Tax effect	Net	Gross	Tax effect	Net
Measurement of available-for-sale financial assets	-	-	-	(24)	7	(17)
Cash flow hedges	43	(12)	31	74	(21)	53
Cumulative translation adjustments	(72)	8	(64)	291	(14)	277
Actuarial gains and loss and other adjustments	(46)	15	(31)	(45)	12	(33)
Total	**(75)**	**11**	**(64)**	**296**	**(16)**	**280**

The breakdown and movement of deferred taxes is as follows:

Deferred tax assets	Provisions for employee benefit obligations	Other provisions	Tax losses carried forward	Amortization differences	Financial instruments valuation	Other	Total
At 1.1.10	**240**	**292**	**51**	**93**	**51**	**229**	**956**
Charged/(credited) to income statement	(38)	(49)	(5)	(33)	16	67	(42)
Business combinations	-	-	-	-	-	-	-
Charged to equity	12	-	-	-	(19)	-	(7)
Cumulative translation adjustments	5	20	4	19	1	3	52
Others	9	(4)	26	33	3	(69)	(2)
At 31.12.10	**228**	**259**	**76**	**112**	**52**	**230**	**957**
Charged/(credited) to income statement	(12)	(6)	49	5	-	(11)	25
Business combinations	-	-	-	-	-	-	-
Charged to equity	15	-	-	-	(9)	-	6
Cumulative translation adjustments	-	(2)	1	(3)	11	(2)	5
Others	(15)	(9)	41	-	(4)	(31)	(18)
At 31.12.11	**216**	**242**	**167**	**114**	**50**	**186**	**975**

Deferred tax liabilities	Amortization differences	Reinvestment capital gains	Fair value business combination	Financial instruments valuation	Other	Total
At 1.1.10	**258**	**163**	**2,083**	**23**	**173**	**2,700**
Charged/(credited) to income statement	5	68	(72)	(15)	70	56
Business combinations	-	-	-	-	-	-
Charged to equity	-	-	-	(5)	-	(5)
Cumulative translation adjustments	18	-	2	-	5	25
Others (1)	15	-	(35)	3	(55)	(72)
At 31.12.10	**296**	**231**	**1,978**	**6**	**193**	**2,704**
Charged/(credited) to income statement	37	50	(61)	-	54	80
Business combinations	-	-	5	-	-	5
Charged to equity	-	-	-	3	-	3
Cumulative translation adjustments	(1)	-	(2)	(1)	2	(2)
Others (1)	(7)	-	(127)	-	(14)	(148)
At 31.12.11	**325**	**281**	**1,793**	**8**	**235**	**2,642**

(1) The movement in 2010 and 2009 in "Others" basically includes the transfer to "Non-current assets held for sale" and "Liabilities linked to non-current assets held for sale" (Note 9).

As a result of the Gas Natural SDG, S.A. and Unión Fenosa, S.A. merger, a merger difference has arisen between the price of acquisition of the shareholding in Unión Fenosa, S.A. and its equity, determined at the time of the sale, which, as per article 89 of the Corporate Income Tax Act, will be charged, first of all, to the acquired assets and rights, and, the part of the difference not charged will be tax deductible, capped at an annual maximum of one-twentieth of its amount, provided that the conditions set down in letters a) and b) of the aforementioned provision are met. "Valuation of business combinations" under "Deferred tax liabilities" carries the tax effect of the part of the merges difference of the net assets acquired in the combination process of UNIÓN FENOSA, which is estimated not to have a tax effect, and the amount of the tax deduction applied of the part of the merger difference not assigned to net assets acquired.

At 31 December 2011 the tax credits that have not been recorded totalled Euros 31 million (Euros 25 million at 31 December 2010).

In 2011 tax inspections were initiated on Gas Natural SDG, Gas Natural Internacional SDG, S.A., Gas Natural Distribución SDG, S.A. and Gas Natural Informática, S.A. for Corporate Income Tax (2006 to 2008) and other taxes (2007 and 2008). These inspections are not expected to give rise to significant tax assessments for the Group. Tax Group of Gas Natural is open to inspection for the years from 2009 to 2011 for applicable taxes while the legacy companies of the Unión Fenosa Tax Group are open to inspection for the years 2002 and beyond for Corporate income tax and 2006 and beyond for the other applicable taxes.

The information on the main actions of the Tax Authorities and the position of the entity in each are discussed in the section on "Litigation and arbitration" in Note 35.

Note 22. Sales

The breakdown of this account for 2011 and 2010 is as follows:

	2011	2010
Sales of gas and connections to distribution networks	11,280	10,033
Sales of electricity and access to distribution networks	8,236	8,103
Rental of facilities, maintenance and other services	1,367	1,333
Other sales	193	161
Total	**21,076**	**19,630**

Note 23. Procurements

The breakdown of this account for 2011 and 2010 is as follows:

	2011	2010
Energy purchases	12,132	11,079
Access to transmission networks	1,433	1,448
Other purchases and Stock variation	509	443
Total	**14,074**	**12,970**

Note 24. Other operating income

The breakdown of this account for 2011 and 2010 is as follows:

	2011	2010
Other management income	261	251
Operating grants	2	7
Total	**263**	**258**

The item "Other management income" includes income from services relating to the construction or betterment of concession infrastructures under IFRIC 12 in the amount of Euros 95 million (Euros 71 million in 2010).

Note 25. Staff costs

The breakdown of this account for 2011 and 2010 is as follows:

	2011	2010
Wages and salaries	699	643
Social security costs	126	125
Defined contribution plans	32	33
Defined benefit plans	4	6
Own work capitalised	(82)	(82)
Others	79	73
Total	**858**	**798**

The average number of employees of GAS NATURAL FENOSA in 2011 has been 16,724 and 17,773 in 2010.

Under Law 3/2007/22 March, on gender equality, published in the Official State Gazette on 23 March 2007, the number of employees of GAS NATURAL FENOSA at the end of 2011 broken down by category and gender is as follows:

	2011		2010	
	Male	**Female**	**Male**	**Female**
Executives	862	249	821	224
Middle management	2,239	551	2,311	534
Specialized technicians	2,524	1,434	2,554	1,392
Workers	6,087	2,256	7,141	2,370
Total	**11,712**	**4,490**	**12,827**	**4,520**

	2011	2010
Spain	8,358	8,243
Rest of Europe	1,553	1,566
Latin American	5,475	6,406
Others	816	1,132
Total	**16,202**	**17,347**

Note 26. Other operating expenses

The breakdown of this account for 2011 and 2010 is as follows:

	2011	2010
Repairs and maintenance	439	438
Commercial services & advertising	339	316
Taxes	310	261
Bad debt provision (Note 11)	216	238
Professional services & insurance	170	184
Construction or improvement services (IFRIC 12)	95	71
Procurements	89	86
Leases	57	67
Energy efficiency	49	-
Others	249	251
Total	**2,013**	**1,912**

The increase in "Taxes" is due mainly to the recognition in 2011 of Euros 52 million in the Colombian subsidiaries in respect of Wealth Tax, introduced when Law 1370 was amended, taxing the value of assets at 1 January 2011, although the tax is payable in 12 instalments from 2011 to 2014.

"Energy efficiency" includes GAS NATURAL FENOSA's contribution to energy saving and efficiency policies under Royal Decree-Law 14/2010 (Note 2).

Note 27. Other results

In 2011 this relates basically to the gain obtained on the disposal of additional distribution assets in Madrid for the sum of Euros 280 million (Note 9) and the gain obtained in the business combination through the acquisition of wind energy companies from ACS (Note 30) in the amount of Euros 3 million. It also includes the loss generated by the sale of the Guatemalan electricity distributors in the amount of Euros 9 million (Note 9) and the loss of Euros 4 million on the EUFER swap (Note 9).

In 2010 relates basically to the gain from the sale of different companies and gas distribution and supply assets in Madrid totalling Euros 380 million (Note 9) and the gain from the sale of electricity transport assets totalling Euros 5 million (Note 9). Also includes the loss from the sale of electricity generation assets in Mexico totalling Euros 4 million (Note 9).

Note 28. Net financial income

The breakdown of this account for 2011 and 2010 is as follows:

	2011	2010
Dividends	4	4
Interest income	71	54
Others	62	60
Total financial income	**137**	**118**
Financial expense from borrowings	(892)	(924)
Interest expenses of pension plans and other post-employment benefits	(39)	(40)
Other financial expenses	(142)	(201)
Total financial expenses	**(1,073)**	**(1,165)**
Variations in the fair value of derivate financial instruments (Note 17)	2	(6)
Net exchange gains/losses	-	(6)
Gain on sales of financial instruments	2	44
Net financial income	**(932)**	**(1,015)**

"Other financial expenses" includes, in 2010, Euros 103 million relating to the recognition in the Consolidated income statement of the commissions on the loan for the acquisition of UNIÓN FENOSA, which had yet to be charged to the Consolidated income statement, as a result of the cancellation of this loan.

Gains and losses on the sale of financial instruments in 2011 relate to the gain of Euros 1 million on the sale of the 15% shareholding in Ecoenergía de Navarra, S.A. and the gain of Euros 1 million on the liquidation of Ensafeca Holding Empresarial, S.L. (Note 7).

The results from the sale of financial instruments for 2010 relate to the gain for the sale of the 35% stake in Gas Aragón, S.A. (Note 7) totalling Euros 40 million and for the sale of the 5% stake in Indra Sistemas, S.A. for Euros 4 million (Note 8).

Note 29. Cash generated from operating activities

The breakdown of cash generated from operations in 2011 and 2010 is as follows:

	2011	2010
Net income before tax	**2,022**	**1,883**
Adjustments to net income:	**2,510**	**2,857**
Depreciation and amortisation of fixed assets *(Note 5 and 6)*	1,750	1,716
Other adjustments to net income:	760	1,141
Net financial income *(Note 28)*	932	1,015
Profit of entities recorded by equity method *(Note 7)*	(7)	(5)
Release of fixed assets grants to income *(Note 14)*	(35)	(31)
Other results *(Note 27)*	(268)	(370)
Net variation in Provisions *(Note 15)*	138	532
Chances in working capital (excluding the effects on the consolidation scope and cumulative translation adjustments)	**(1,298)**	**(729)**
Inventories	(127)	(11)
Trade and other accounts receivable	(619)	(373)
Trade and other accounts payable	(552)	(345)
Other cash flows generated from operations:	**(1,097)**	**(1,265)**
Interest received	(845)	(798)
Interest collected	59	9
Income tax payments	(311)	(476)
CASH FLOWS GENERATED FROM OPERATING ACTIVITIES	2,137	2,746

Note 30. Business combinations

2011

During 2011 a number of wind energy companies and gas distribution companies were acquired in Italy, in line with GAS NATURAL FENOSA's strategic objectives.

Acquisition of EUFER's wind energy businesses

As indicated in Note 9, due to the agreement to end the collaboration with Enel Green Power through EUFER, GAS NATURAL FENOSA acquired approximately one half of EUFER's business and its assets and liabilities, the operation having included the transfer of the relevant human and other resources necessary to carry on the electricity generation activity under the special regime. The operation was therefore deemed to be a business combination and not an acquisition of assets.

The cost of the business combination, net of the debt assumed, is equal to the fair value calculated by independent third parties specifically for the operation. Set out below is a breakdown of the net assets acquired showing their carrying amount in EUFER and their fair values:

Cost of the business combination	286
Fair value of the net assets acquired	282
Goodwill (Note 5)	**4**

	Fair value	Carrying value
Other intangible assets	204	33
Property, plant and equipment	665	665
Non-current financial assets	3	3
Other current assets	39	39
Cash and other cash equivalents	21	21
TOTAL ASSETS	**932**	**761**
Minority interests	6	6
Non-current provisions	2	2
Non-current financial liabilities	546	546
Other non-current liabilities	5	1
Current financial liabilities	33	33
Other current liabilities	58	45
TOTAL LIABILITIES	**650**	**633**
Fair value of the net assets acquired	**282**	

Had the transaction been completed on 1 January 2011, the impact on consolidated revenue and on consolidated results would not have been significant.

This business combination has been recognised provisionally, since the 12-month period following the acquisition has not elapsed, as per IFRS 3. As a result of the purchase price allocation process, the value of intangible assets has increased, relating basically to licences to operate the assets received (mainly wind farms). As the main shareholdings received by Gas Natural Fenosa Renovables, S.A. (subsidiary of GAS NATURAL FENOSA) have been merged, most of this value increase has a tax effect.

Acquisition of wind energy companies from ACS

On 30 June 2011 a purchase and sale agreement was concluded with the ACS Group encompassing the sale of ACS' direct and indirect holdings in five wind farms with a capacity of 95.5 MW located in several Autonomous Regions for a price of Euros 66 million, together with certain debt claims totalling Euros 6 million. Once the necessary regulatory and administrative authorisations had been obtained, the agreement was executed on 12 September 2011.

Through this acquisition, the shareholding in the company Explotaciones Eólicas Sierra de Utrera, S.L. was increased from 50% to 75% and the interest in the parent company Energías Ambientales Easa, S.A. rose from 33.33% to 100%. As this was an acquisition in stages, the prior interests held were restated to fair value on the acquisition date. The difference between the carrying amount of the prior interests and their fair value generated a gain of Euros 3 million that was recognised in the item "Other results" (Note 27).

Set out below is a breakdown of the net assets acquired showing their historical carrying amounts and fair values:

Cost of the business combination	66
Fair value of the net assets acquired	66
Change in fair value of assets acquired in first stage	3
Gain (Note 27)	**(3)**

	Fair value	Carrying value
Other intangible assets	56	-
Property, plant and equipment	37	37
Other non-current assets	5	4
Other current assets	10	10
Cash and cash equivalents	11	11
TOTAL ASSETS	**119**	**62**
Non-current financial liabilities	16	16
Other non-current liabilities	2	2
Current financial liabilities	6	6
Other current liabilities	19	19
Total liabilities	**43**	**43**
Fair value of net assets acquired	**76**	
Minority interests	(10)	
Fair value of net assets acquired	**66**	

Had the transaction been completed on 1 January 2011, the impact on consolidated revenue and on consolidated results would have been an increase of Euros 13 million and Euros 2 million, respectively.

This business combination has been recognised provisionally, since the 12-month period following the acquisition has not elapsed, as per IFRS 3. As a result of the purchase price allocation process, the value of intangible assets has increased, relating basically to licences to operate the wind farms. As the main shareholdings received by Gas Natural Fenosa Renovables, S.A. (subsidiary of GAS NATURAL FENOSA) are being merged, most of this value increase has a tax effect.

Acquisition of wind energy companies from Gamesa

On 28 November 2011 a purchase and sale agreement was concluded with Gamesa Energía to acquire all the share capital of Sistemas Energéticos Alto de Seixal, S.A. Sociedad Unipersonal, which operates a 30 MW wind farm, for a price of Euros 11 million. Once the necessary regulatory and administrative authorisations had been obtained, the agreement was executed on 28 December 2011. Additionally, GAS NATURAL FENOSA and Gamesa Energía reached an agreement on the purchase and sale of Sistemes Energètics Passanant, S.A., which owns a 12 MW wind farm that is due to become operational in 2012. This agreement is subject to the fulfilment of certain suspensive conditions.

Set out below is a breakdown of the net assets acquired showing their carrying amounts in Sistemas Energéticos Alto de Seixal, S.A. and their fair values:

Cost of the business combination	11
Fair value of the net assets acquired	11
Goodwill (Note 5)	-

	Fair value	Carrying value
Other intangible assets	12	-
Property, plant and equipment	34	34
Other current assets	4	4
TOTAL ASSETS	**50**	**38**
Non-current financial liabilities	39	39
Total liabilities	**39**	**39**
Fair value of net assets acquired	**11**	

Had the transaction been completed on 1 January 2011, the impact on consolidated revenue and on consolidated results would not have been significant.

This business combination has been recognised provisionally, since the 12-month period following the acquisition has not elapsed, as per IFRS 3. As a result of the purchase price allocation process, the value of intangible assets has increased, relating basically to licences to operate the wind farms. As the main shareholdings received by Gas Natural Fenosa Renovables, S.A. (subsidiary of GAS NATURAL FENOSA) are being merged, most of this value increase has a tax effect.

Acquisition of a gas distribution company in Italy

Finally, on 6 December 2011 a purchase and sale agreement was signed, and executed on 22 December 2011, for all the share capital of the Italian company Favellato Reti, S.R.L., which distributes natural gas in the Italian provinces of Foggia, Isernia and Benevento, for a price of Euros 10 million.

Set out below is a breakdown of the net assets acquired showing their carrying amounts in Favellato Reti, S.R.L. and their fair values:

Cost of the business combination	10
Fair value of the net assets acquired	10
Goodwill (Note 5)	-

	Fair value	Carrying value
Other intangible assets	9	9
Property, plant and equipment	2	2
TOTAL ASSETS	**11**	**11**
Current liabilities	1	1
Total liabilities	**1**	**1**
Fair value of net assets acquired	**10**	

Had the transaction been completed on 1 January 2011, the impact on consolidated revenue and on consolidated results would not have been significant.

This business combination has been recognised provisionally, since the 12-month period following the acquisition has not elapsed, as per IFRS 3.

2010

In 2010, GAS NATURAL FENOSA did not carry out significant business combinations.

Note 31. Joint Ventures

GAS NATURAL FENOSA participates in different joint ventures that meet the conditions indicated in Note 3.3.1.b) and which are described in Appendix I. The relevant shareholdings in joint ventures at 31 December 2011 and 2010 are as follows:

	2011	2010		2011	2010
Barras Eléctricas Galaico Asturianas, S.A.	44.9%	44.9%	Eléctrica Conquense, S.A.	46.4%	46.4%
Barras Eléctricas Generación, S.L.	45.0%	45.0%	Eléctrica Conquense Distribución, S.A.	46.4%	46.4%
Centrales Nucleares Almaraz-Trillo, A.I.E	19.3%	19.3%	Gas Natural West Africa, S.L.	40.0%	40.0%
Comunidad de Bienes Central Nuclear de Almaraz	11.3%	11.3%	Nueva Generadora del Sur, S.A.	50.0%	50.0%
Comunidad de Bienes Central Nuclear de Trillo	34.5%	34.5%	Repsol - Gas Natural LNG, S.L.	50.0%	50.0%
Comunidad de Bienes Central Térmica de Aceca	50.0%	50.0%	Subgrupo EUFER	-	50.0%
Comunidad de Bienes Central Térmica de Anllares	66.7%	66.7%	Subgrupo Unión Fenosa Gas	50.0%	50.0%
EcoEléctrica Holding Ltd y dependientes	50.0%	50.0%			

The following amounts represent GAS NATURAL FENOSA's interest share of assets and liabilities, and sales and results of the joint ventures:

	At 31.12.11	At 31.12.10
Non-current assets	3,729	4,810
Current assets	568	1,006
Assets	4,297	5,816
Non-current liabilities	1,166	1,655
Current liabilities	419	993
Liabilities	1,585	2,648
Net assets	**2,712**	**3,168**

	2011	2010
Income	1,222	1,159
Expenses	1,085	1,131
Profit after income tax	137	28

There are no contingent liabilities on the holdings in joint ventures. The disclosure on contractual commitments in Note 35 include the commitments for gas purchases of Unión Fenosa Gas and EcoEléctrica LP totalling Euros 12,052 million at 31 December 2011 (Euros 11,353 million at 31 December 2010), the commitments for the purchase of nuclear fuel totalling Euros 59 million at 31 December 2011 (Euros 49 million at 31 December 2010) and the commitments for operating lease payments for the gas transport vessels of Unión Fenosa Gas totalling Euros 133 million at 31 December 2011 (Euros 91 million at 31 December 2010).

Note 32. Service Concession Agreements

GAS NATURAL FENOSA manages various concessions that include provisions for the construction, operation and maintenance of facilities, as well as connection and energy supply obligations during the concession period, in accordance with applicable legislation (Note 2). Set out below please find a breakdown of the remainder of the period until expiry of the concessions that are no indefinite:

Company	Activity	Country	Concession period	Initial remaining period
Gas Natural BAN, S.A.	Gas distribution	Argentina	35 (extendible 10)	16
Companhia Distribuidora de Gás do Río de Janeiro, S.A, Ceg Rio, S.A. y Gas Natural Sao Paulo Sul, S.A.	Gas distribution	Brazil	30 (extendible 20/30)	16-19
Gas Natural, S.A. ESP, Gas Natural del Oriente S.A. ESP, Gas Natural Cundiboyacense S.A. ESP y Gas Natural del Cesar S.A. ESP.	Gas distribution	Colombia	15-50 (extendible 20)	3-36
Gas Natural Distribuzione SpA, Cetraro Distribuzione Gas, S.R.L, Favellato Reti Gas, S.R.L y Cilento Reti Gas, S.R.L	Gas distribution	Italy	11-30	1-27
Gas Natural México S.A. de C.V.y Comercializadora Metrogas S.A. de C.V.	Gas distribution	Mexico	30 (extendible 15)	16-27
Europe Maghreb Pipeline Ltd	Gas transportation	Morocco	25 (extendible)	10
Unión Fenosa Generadora La Joya, S.A.y Unión Fenosa Generadora Torito, S.A.	Electricity generation	Costa Rica	20	11-19
Gas Natural SDG, S.A. y Gas Natural Fenosa Renovables, S.L.	Hydro-electricity generation	Spain	14-100	11-52
Red Unión Fenosa, S.A.	Electricity distribution	Moldova	25 (extendible)	14
Distribuidora de Electricidad del Norte, S.A. y Distribuidora de Electricidad del Sur, S.A.	Electricity distribution	Nicaragua	30	19
Empresa Distribuidora de Electricidad Metro Oeste, S.A. y Empresa Distribuidora de Electricidad Chiriqui, S.A.	Electricity distribution	Panama	15	2

As indicated in Note 3.3.3, on 1 January 2010 GAS NATURAL FENOSA applied IFRIC 12 "Service Concession Agreements" retrospectively, restating its financial statements for 2009 for comparative purposes, considering that the intangible assets model is basically applicable to the gas distribution activities in Argentina, Brazil and Italy and the financial asset model of electricity generation in Costa Rica.

The hydro-electric station concessions in Spain (Note 3.3.4.b) are beyond the scope of IFRIC 12, as a result, amongst other reasons, of the fact that the sale prices of energy are set by the market. The other concessions internationally are outside the scope of IFRIC 12 as a result of the fact that the Licensor does not control the significant residual holding in the infrastructure at the end of the concession agreement and at the same time, determines the cost of service. The assets related to these concessions are still booked as “Property, plant and equipment”.

Note 33. Related-parties disclosures

Related persons are as follows:

- Significant shareholders of GAS NATURAL FENOSA, i.e. those directly or indirectly owning 5% or more, and those who, though not significant, have exercised the power to appoint a member of the Board of Directors.

  On the basis of this definition, the significant shareholders of GAS NATURAL FENOSA are Criteria CaixaCorp, S.A., and consequently, Caixa d´Estalvis I Pensions de Barcelona Group ("la Caixa" Group), Repsol YPF Group, Caixa d'Estalvis de Catalunya (to 28 November 2011, when the Board director designated by this company handed in his resignation).

  Until 9 September 2010 the Gaz de France Suez Group (GDF Suez Group) was also considered a significant shareholder. On that date the GDF Suez Group sold, through a private placement, 5.01% of its stake in the share capital of Gas Natural SDG, S.A.

- Directors and executives of the company, and their immediate families. The term "director" means a member of the Board of Directors; "executive" means a member of the Management Committee of GAS NATURAL FENOSA. The operations with directors and executives are disclosed in Note 34.

- Operations between Group companies or entities for part of normal trade. The balances and transactions that are not eliminated in the consolidation process are not significant. Furthermore, the transactions with related parties have been made at arm's length.

The main aggregates for operations with significant shareholders are as follows:

2011

Income and expenses (Thousand Euros)	"la Caixa" Group	Repsol YPF Group	Catalunya Caixa (*)
Financial expense	12,601	-	1,850
Leases (1)	590	-	-
Services received	-	69,586	-
Goods purchased (finished or in progress)	-	884,397	-
Other expenses (2)	24,950	-	274
Total expenses	**38,141**	**953,983**	**2,124**
Financial income	15,617	-	433
Leases	-	353	-
Provision of services	-	31,159	-
Sale of goods (finished or in progress)	-	687,624	-
Other income	760	-	-
Total income	**16,377**	**719,136**	**433**

Other transactions (Thousand Euros)	"la Caixa" Group	Repsol YPF Group	Catalunya Caixa (*)
Acquisition of property, plant and equipment, intangible assets or other assets	-	3,340	-
Financing agreements: loans and capital contributions (lender) (3)	1,040,631	-	-
Sale of property, plant and equipment, intangible assets or other assets (4)	623,570	518	-
Financing agreements: loans and capital contributions (borrower) (5)	550,088	9,918	-
Deposits and guarantees deposits received	112,500	-	-
Dividends and other distributed profit	118,885	97,755	11,992
Other operations (6)	1,010,004	-	-

Trade debtors and creditors (in thousand Euros)	"la Caixa" Group	Repsol YPF Group	Catalunya Caixa (*)
Trade and other receivables	-	7,000	-
Trade and other payables	-	83,100	-

(*) Until November 28, 2011

2010

Income and expenses (Thousand Euros)	"la Caixa" Group	Repsol YPF Group	GDF-Suez Group (**)	Catalunya Caixa
Financial expense	10,562	-	-	156
Leases (1)	2,499	-	-	-
Services received	-	67,271	8,530	-
Goods purchased (finished or in progress)	-	592,697	142,475	-
Other expenses (2)	21,259	-	129	111
Total expenses	**34,320**	**659,968**	**151,134**	**267**
Financial income	433	5	-	33
Leases	-	1,114	-	-
Provision of services	-	21,766	1,054	-
Sale of goods (finished or in progress)	-	479,279	257,053	-
Other income	688	-	1	-
Total income	**1,121**	**502,164**	**258,108**	**33**

Other transactions (Thousand Euros)	"la Caixa" Group	Repsol YPF Group	GDF-Suez Group (**)	Catalunya Caixa
Acquisition of property, plant and equipment, intangible assets or other assets	-	6,202	-	-
Financing agreements: loans and capital contributions (lender) (3)	452,826	-	-	40,208
Sale of property, plant and equipment, intangible assets or other assets (4)	175,507	27	-	-
Financing agreements: loans and capital contributions (borrower) (5)	574,132	-	-	50,987
Deposits and guarantees deposits received	112,500	-	-	70,000
Dividends and other distributed profit	261,528	219,092	36,670	11,799
Other operations (6)	1,702,046	-	-	9

Trade debtors and creditors (in thousand Euros)	"la Caixa" Group	Repsol YPF Group	GDF-Suez Group (**)	Catalunya Caixa
Trade and other receivables	-	62,400	-	-
Trade and other payables	-	35,600	-	-

(**) Until September 9, 2010.

(1) The operations with the "la Caixa" Group relate basically to vehicle contract hire and maintenance services that are recognised as operating leases based on the characteristics of the contracts for the services which, to April 2011, were provided by a company of "la Caixa" Group.

(2) Includes contributions to pension plans, collective insurance policies, life insurance policies, and other expenses.

(3) Includes treasury and financial investments.

(4) Includes basically the assignment of debt claims (factoring without recourse) to the "la Caixa" Group.

(5) At 31 December 2011 the credit facilities extended by the "la Caixa" Group totalled Euros 474,914 thousand (Euros 483,936 thousand at 31 December 2010), of which Euros 30,316 thousand had been drawn down (Euros 36,316 thousand at 31 December 2010). Additionally, the "la Caixa" Group has stakes in syndicated loans of Euros 300,000 thousand (Euros 300,000 thousand at 31 December 2010) and other loans totalling Euros 207,665 thousand (Euros 237,816 thousand at 31 December 2010). At 31 December 2010 the credit facilities extended by Catalunya Caixa totalled Euros 100,000 thousand of which no amount has been drawn down and other loans totalling Euros 50.987 thousand. Additionally, this item includes the fully-paid capital increase in which the "la Caixa" Group and the Repsol YPF Group opted to receive new shares in Gas Natural SDG, S.A. (Note 13).

(6) At December 31, 2011 "Other operations" with the "la Caixa" Group include Euros 566,587 thousand for exchange rate hedges (Euros 1,249,800 thousand at December 31, 2010) and Euros 443,417 thousand for interest rate hedges (Euros 452,246 thousand at December 31, 2010). This same account includes a balance of Euros 9 thousand with Catalunya Caixa for interest rate hedges.

Note 34. Disclosures regarding members of the Board of Directors and the Management Committee

Remuneration of the members of the Board of Directors

In accordance with the provisions of the Articles of Association, the Company can allocate each year an amount of 10% 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 amounts received for the performance of functions other than supervision and decision-taking as a body for the Company, in respect of fixed remuneration, variable remuneration and other items, totalled Euros 1,012 thousand, Euros 966 thousand and Euros 3 thousand, respectively in 2011 (Euros 1,012 thousand, Euros 1,423 thousand and Euros 3 thousand in 2010). Furthermore, in 2011 the sum of Euros 1,725 thousand was received on an extraordinary, one-off basis as an incentive to reward the acquisition and integration of UNION FENOSA in progress since 2008.

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 (CAandC) and Appointments and Remuneration Committee (CNandR), totalled Euros 4,074 thousand (Euros 4,085 thousand in 2010), broken down as follows in euros:

	Office	Board	Executive Committee	ACC	ARC	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 Enrique Alcántara-García Irazoqui	Director	126,500	-	-	-	126,500
Mr Carlos Kinder Espinosa	Director	126,500	126,500	12,650	-	265,650
Mr Juan María Nin Génova	Director	126,500	126,500			253,000
Mr Juan Rosell Lastortras	Director	126,500	-	-	-	126,500
Mr Demetrio Carceller Arce	Director	126,500	126,500	-	-	253,000
Mr Luis Suárez de Lezo Mantilla	Director	126,500	-	12,650		139,150
Mr Narcís Serra Serra (1)	Director	115,000	-	-	-	115,000
Mr Ramón Adell Ramón	Director	126,500	-	-	-	126,500
Mr Santiago Cobo Cobo	Director	126,500	-	-	12,650	139,150
Mr Felipe González Márquez	Director	126,500	-	-	-	126,500
Mr Emiliano López Achurra	Director	126,500	126,500	-	-	253,000
Mr Carlos Losada Marrodán	Director	126,500	126,500	12,650	-	265,650
Mr Miguel Valls Maseda	Director	126,500	-	-	12,650	139,150
Mr Nemesio Fernandez Cuesta	Director	126,500	-	-	-	126,500
		2,562,500	1,435,500	37,950	37,950	4,073,900

(1) Mr Narcis Serra Serra formed part of the Board of Directors to 28/11/2011

In 2010, an additional sum of Euros 78 thousand was also received relating to the Boards of other investee companies, no amount having been received in this respect in 2011.

Contributions to pension plans and group insurance policies totalled Euros 263 thousand in 2011 (Euros 262 thousand in 2010).

The members the Board of Directors of the Company have not received remuneration from profit sharing, bonuses or indemnities, and have not been given loans or advances. Neither have they received shares or share options during the year, nor have they exercised options or have options to be exercised.

The contract of the Chief Executive Officer contains a clause that stipulates an indemnity that trebles his annual compensation in certain cases of termination of contract and an indemnity equivalent to one year's pay for the one-year post-employment non-compete clause.

Transactions with Directors

We disclose below the holdings and offices of the Directors in the share capital of companies with the same, analogous or complementary activity as that which constitutes the corporate purposes of GAS NATURAL FENOSA.

	DIRECTORS AND OFFICES IN OTHER COMPANIES WITH SIMILAR OR COMPLEMENTARY ACTIVITIES		Number of shares and % shareholding:														
			Gas Natural Fenosa			Enagás		Repsol YPF			Endesa		Red Eléctrica		Iberdrola		
D.	Salvador Gabarró Serra	Chairman	3,107	(0,000)		14,371	(0,006)						10,502	(0,008)	78,434	(0,001)	
	1st Vice-Chairman "La Caixa"																
	Board director Caixabank, S.A.																
D.	Antonio Brufau Niubó	Vice-Chairman	77,276	(0,008)				237,602	(0,019)								
	Chairman Repsol YPF, S.A.		1,035	(0,000)	(1)			1,650	(0,000)	(1)							
	Chairman YPF, S.A.																
D.	Rafael Villaseca Marco	CEO	12,434	(0,001)		356	(0,000)	646	(0,000)		859	(0,000)			2,614	(0,000)	
	Chairman Repsol-Gas Natural LNG, S.L.																
	Board director Gas Natural Aprovisionamientos SDG, S.A.																
D.	Enrique Alcántara-García Irazoqui	Director	7,942	(0,001)													
			20,714	(0,002)	(1)										7,459	(0,000)	
D.	Carlos Kinder Espinosa	Director	5,391	(0,001)													
D.	Juan María Nin Génova	Director	149	(0,000)				242	(0,000)								
	Director General de "La Caixa"																
	Vice-Chairman / CEO Caixabank, S.A.																
	Vice-Chairman de Criteria Caixaholding, S.A.U.																
	Board director Repsol-YPF, S.A.																
	Board director Grupo financiero INBURSA																
D.	Juan Rosell Lastortras	Director	2,000	(0,000)	(1)												
	Board director Caixabank, S.A.																
D.	Demetrio Carceller Arce	Director	2,692	(0,000)													
	Chairman Disa Corporación Petrolifera, S.A.																
	Chairman Disa Peninsular, S.L.U.																
D.	Luis Suárez de Lezo Mantilla	Director	18,156	(0,002)				8,038	(0,001)						333	(0,000)	(1)
	General Secretary /Board dir. Repsol YPF, S.A.		998	(0,000)	(1)			368	(0,000)	(1)							
	Board director YPF, S.A																
	Board director Repsol – Gas Natural LNG, S.L.																
	Vice-Chairman Fundación Repsol																
	Member of Environment and Energy Commission of International Chamber of Commerce (ICC)																
D.	Ramón Adell Ramón	Director	1,000	(0,000)													
D.	Santiago Cobo Cobo	Director	652	(0,000)													
D.	Felipe González Márquez	Director	1,812	(0,000)													
D.	Emiliano López Atxurra	Director	1,046	(0,000)													
	Board director Petróleos del Norte, S.A.																
D.	Carlos Losada Marrodán	Director	1,924	(0,000)													
	Board director Innoenergy		12,541	(0,001)	(1)												
D.	Miguel Valls Maseda	Director	6,530	(0,001)													
D.	Nemesio Fernández-Cuesta Luca de Tena	Director	1	(0,000)				21,353	(0,002)								
	Chairman Repsol Exploración, S.A.																
	Chairman Repsol Sinopec Brasil, S.A.																
	Joint & several administrator Repsol Exploración Argelia, S.A.																
	Joint & several administrator Repsol Exploración Guinea, S.A.																
	Joint & several administrator Repsol Exploración Murzuq, S.A.																
	Joint & several administrator Repsol Investigaciones Petroliferas, S.A.																
	Joint & several administrator Repsol YPF Oriente Medio, S.A.																
	Joint & several administrator Repsol Exploración Sierra Leona, S.L.																
	General Manager UPSTREAM Repsol YPF, S.A.																
	Sole Administrator Repsol Exploración Perú, S.A.																
	Sole Administrator Repsol Exploración Colombia, S.A.																
	Sole Administrator Repsol Exploración Atlas, S.A.																
	Sole Administrator Repsol Exploración Tobago, S.A.																
	Sole Administrator Repsol Exploración Kazakhstan, S.A.																
	Sole Administrator Repsol YPF Ecuador, S.A.																
	Sole Administrator Repsol YPF OCP de Ecuador, S.A.																
	Sole Administrator Repsol Exploración Suriname, S.L.																
	Sole Administrator Exploración Irlanda, S.A.																

(1) Number of shares held by related persons.

In the operations with related parties (significant shareholders) that have been submitted for approval by the Board, subject to a favourable report of the Appointments and Remuneration Committee, the Directors representing the related party involved have abstained from voting.

Remuneration of the Management Committee

The amounts received by the members of the Management Committee in respect of fixed remuneration, variable remuneration and other items, totalled Euros 4,177 thousand, Euros 2,405 thousand and Euros 72 thousand, respectively in 2011 (Euros 4,210 thousand, Euros 3,441 thousand and Euros 64 thousand in 2010).

Additionally, in 2011 the sum of Euros 3,919 thousand was received on an extraordinary, one-off basis as an incentive to reward the acquisition and integration of UNION FENOSA in progress since 2008.

Contributions to pension plans and group insurance policies totalled Euros 1,811 thousand in 2011 (Euros 1,745 thousand in 2010).

The members the Executive Committee of the Company have not received remuneration from profit sharing, bonuses or indemnities, and have not been given loans or advances. Neither have they received shares or share options during the year, nor have they exercised options or have options to be exercised. In 2010 the indemnities received for termination of contract and other items have totalled Euros 1,853 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.

Transactions with Directors and executives

The Directors and executives have not carried out any operations outside ordinary business in 2011 and 2010 or any operations not carried out at arm's length with the company or the Group companies.

Note 35. Commitments and contingent liabilities

Guarantees

At 31 December 2011 GAS NATURAL FENOSA has given guarantees to third parties for activities totalling Euros 1,223 million.

On the other hand, financial guarantees have also been given totalling Euros 622 million, of which Euros 245 million relate to the guarantee for compliance with the obligations on the loan received by investee companies.

GAS NATURAL FENOSA estimates that the liabilities not foreseen at 31 December 2011, if any, that could given arise from the guarantees given, would not be significant.

Contractual commitments

The following tables present the contractual commitments for purchases and sales at 31 December 2011:

Purchase	Total	At 31 December 2011 2012	2013	2014	2015	2016	And beyond
Commitments for operating leases (1)	818	103	67	49	49	43	507
Commitments for purchases of natural gas (2)	84,144	8,455	8,078	7,843	7,243	5,914	46,611
Commitments for purchases of nuclear fuel	59	26	33	-	-	-	-
Commitments for transport of natural gas (3)	2,414	185	158	197	202	213	1,459
Commitments for investments (4)	244	154	90	-	-	-	-
Total contractual obligations	**87,679**	**8,923**	**8,426**	**8,089**	**7,494**	**6,170**	**48,577**

Sales	Total	At 31 December 2011 2012	2013	2014	2015	2016	And beyond
Commitments for assignment of combined cycle capacity (5)	4,772	235	243	235	224	293	3,542
Commitments for sales of natural gas (6)	22,576	4,588	4,229	3,811	3,103	1,126	5,719
Total contractual obligations	**27,348**	**4,823**	**4,472**	**4,046**	**3,327**	**1,419**	**9,261**

1) Basically reflects the payments foreseen for the operating lease of the five liquefied natural gas transport tankers which terminate in the period 2012-2019 and the operating costs related to the tanker fleet contracts under finance leases indicated in Note 18. Also included is the rent of the "Torre del Gas" building owned by Torre Marenostrum, S.L., for which GAS NATURAL FENOSA has an operating lease without a purchase option for a period of ten years as from March 2006, extendible at market value for successive periods of three years, which is discretionary for GAS NATURAL FENOSA and obligatory for Torre Marenostrum, S.L.

2) Basically reflects the long-term commitments for natural gas purchases under gas supply contracts with *take or pay* clauses negotiated and held for "own use" (Note 3.3.7.3). Normally, these contracts are for 20-25 years, a minimum amount of gas to be purchased and revision mechanisms for prices indexed to international natural gas prices and regulated prices of natural gas in the countries of origin. The commitments according to these contracts have been calculated on the basis of natural gas prices at 31 December 2011.

   This also includes long-term commitments to buy electricity (Note 9), calculated based on prices at 31 December 2011.

   In November, GAS NATURAL FENOSA signed a long-term gas supply contract with the US group Cheniere. This contract will entail the acquisition of approximately 5 bcm per annum of gas over a 20-year period as from 2017. These purchase volumes have not been included in the contractual commitments shown in the above table because the contract is subject to suspensive conditions pending fulfilment.

3) Reflects the long-term commitments (20 to 25 years) for gas transport calculated on the basis of prices at 31 December 2011.

4) Basically reflects payment commitments for upstream projects and gas infrastructures.

5) Reflects the commitments as per the long-term contracts (25 years) of assignment of electricity generation capacity in Mexico and Puerto Rico without a purchase option, classified as operating leases (Note 3.3.16). The commitments under

these contracts have been calculated on the basis of prices at 31 December 2011.

6) Reflects the long-term commitment to sell natural gas under gas sale contracts with *take or pay* clauses negotiated and maintained for "own use" (Note 3.3.7.3). Calculated on the basis of natural gas prices at 31 December 2011.

Litigation and arbitration

At the date of formulation of these Consolidated annual accounts the main litigation or arbitration to which GAS NATURAL FENOSA is a party are as follows:

Tax claims in Spain

As a result of the different tax audits on the fiscal years from 1998 to 2005, the Inspectors have questioned the applicability of the export deduction used by GAS NATURAL FENOSA, and assessments were signed in disagreement, which are now being appealed before the Central Economic and Treasury Court, the National High Court and the Supreme Court. The total amount, including interest, at 31 December 2011 involved in these assessments totals Euros 265 million, which is fully provided for.

Tax claims in Argentina

The Argentine tax authorities made several tax claims totalling ARS 250 million including accrued interest (Euros 45 million) for the tax treatment of capital gains in the period from 1993 to 2001, arising from the transfer of distribution networks by third parties to Gas Natural BAN, S.A. All the claims have been opposed and it was estimated that a final judgment favourable to the company would be handed down. Thus, the National Appellate Court finally ruled in 2007, for the period 1993-1997, voiding the Judgement of the Federal Public Administration Treasury (*Administración Federal de Ingresos Públicos - AFIP*), which had claimed the tax alleged due, and confirming moreover, the voiding of the fines. The decision of the Appellate Court has been appealed to the Supreme Court.

Tax claims in Brazil

In September 2005 the Administrative Court of Río de Janeiro voided the claim that had been filed previously in April 2003 against offsetting the tax credits for the contributions on sales of PIS and COFINS paid by Companhia Distribuidora de Gás do Rio de Janeiro - CEG. The administrative court confirmed this judgement in March 2007, and, accordingly, the company filed an appeal before the contentious-administrative court, (Justicia Federal do Rio de Janeiro), an appeal which is now being heard. Subsequently, on 26 January 2009 notice was given of a public civil suit against CEG for the same events. GAS NATURAL FENOSA and the legal advisors of the company believe that the actions mentioned above are baseless, and, accordingly, it is not likely that losses will arise from this litigation. The amount of the tax payable in question, actualised at 31 December 2011, totals BR 348 million (Euros 143 million).

Claim against Edemet - Edechi (Panama)

In December 2010 notification was given of the judgement of the court of first instance by virtue of which the Group companies Edemet and Edechi were sentenced to pay the claimant amounts to be determined by the experts up to a maximum of

USD 84 million (Euros 65 million). Edemet, Edechi and the claimant have appealed this judgement. The damages claimed arise from a public tender to purchase energy en bloc called by the Public Service Authorities and which was tendered out to the claimant, which finally was not capable of meeting the terms of the contract for not having given the guarantees required in the bidding terms.

GAS NATURAL FENOSA believes that the provisions recorded in these Consolidated annual accounts adequately cover the risks described in this Note, and, accordingly, it is not expected that liabilities will arise in addition to the ones recorded.

Note 36. Auditors fees

The fees accrued in thousand Euros by the different companies trading under the PricewaterhouseCoopers mark are:

	Thousand Euros	
	2011	**2010**
Auditing and related services	4,184	4,235
Other services	1,199	1,847
Total fees	**5,383**	**6,082**

Additionally, in 2011, other audit firms have rendered the following services to Group companies:

	Thousand Euros	
	2011	**2010**
Auditing and related services	237	351
Other services	2	37
Total fees	**239**	**388**

Note 37. Environment

Main environmental actions

The main actions of GAS NATURAL FENOSA in 2011 formed part of its corporate environmental values. These actions have been aimed basically at ensuring compliance with legislation, and a tight environmental control of activities and facilities.

Measures have been adopted to combine the indispensable development of energy and the protection of the environment, and, in particular, the fight against the effects of climate change and the efficient use of resources. We have reduced the environmental impact of our activities, and conserved the bio-diversity of the environment and we have boosted continuous improvements by updating and reviewing environmental management, involving suppliers and fostering the responsible use of energy by our customers.

GAS NATURAL FENOSA has certified, under environmental Standard UNE-EN ISO 14001, 14,085 MW of electricity generation, 97% of its installed capacity of total electricity generation. Moreover, the environmental management certification has been received for the liquefaction plant in Damietta (Egypt) plant, the electricity distribution in Spain, Panama and Moldova, the distribution and marketing of gas in Spain and Mexico, energy services in Spain, Unión Fenosa Gas, Metragaz (Morocco), and the main work centres of the company. All these facilities are audited annually both internally and externally.

On the other hand, the coal-fired thermal energy plants, the Sabón thermal energy plant, the combined cycle plants in Palos de la Frontera and Nueva Generadora del Sur and the Sector Hidráulico de Tambre-Ulla in Galicia are still in the European EMAS system.

With respect to waste, the Pre3ver Plan has been implemented to establish and ensure the consistency of waste management criteria and guidelines. The current situation has been diagnosed and the forecast for waste generation and management during the term of the Plan (2010-2014) has been evaluated. The Plan also analyses potential options for minimising waste, identifying possible reductions, depending on the activity and/or process that generates waste, and establishes basic strategies and objectives, as well as specific measures to achieve them.

The main investments made in 2011 focused on energy efficiency improvement at hydraulic plants and activities to offset NOx emissions. Investments were also made in the renewal of gas distribution networks to reduce atmospheric leaks.

Additionally, GAS NATURAL FENOSA has made environmental investments to prevent pollution, protect the atmosphere, manage water resources and waste and soil quality and prepare environmental impact studies and environmental oversight plans.

All these environmental actions carried out in 2011 have cost a total of Euros 99 million, of which Euros 58 million related to investments and the rest, i.e., Euros 42 million, to expenses incurred in environmental management.

The possible contingencies, indemnities and other environment-related risk in which GAS NATURAL FENOSA could incur are adequately covered by civil liability insurance policies that it has taken out.

Emissions

The Council of Ministers on 14 November 2007 adopted the individual assignments of greenhouse gas emission rights for the 2008-2012 period. The assignment given to GAS NATURAL FENOSA totals Euros 47.1 million tonnes of CO_2, broken down as follows:

($mtCO_2$)	2008	2009 (*)	2010	2011	2012
Assigned emission allowances	2,884	11,447	11,220	11,026	10,519

(*) As from the year 2009 the emission allowances assigned to UNIÓN FENOSA are included.

In 2011, consolidated CO_2 emissions from GAS NATURAL FENOSA' coal thermal and combined cycle plants subject to regulations governing the greenhouse gas emission trade regime totalled 13.4 million tonnes of CO_2 (10.5 million tonnes of CO_2 in 2010).

GAS NATURAL FENOSA manages its CO_2 emission rights coverage portfolio in an integrated manner for the period 2008-2012 and post Kyoto, acquiring the necessary emission rights and credits through active participation in both the secondary market and in primary projects and carbon funds, in which an investment of approximately Euros 60 million has been committed.

GAS NATURAL FENOSA has also registered 10 MDL projects with the United Nations and two credit periods have been renewed in two projects. Additionally, the Group has other MDL projects for validation in different phase, based on generation using renewable sources, implementation of cogeneration systems, reduction of emissions in gas network and replacement of fuels by other less carbon-intensive alternatives.

Note 38. Subsequent events

Following the year end, three issues have been approved by the Electricity System Deficit Securitisation Fund for a total amount of Euros 787 million, payment being due at the start of February. The estimated amount pertaining to GAS NATURAL FENOSA is Euros 94 million.

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APPENDIX I GROUP COMPANIES OF GAS NATURAL FENOSA

1. Subsidiary companies

Company	Country	Activity	Consolidation Method	% de Shareholding Total	Net equity: Capital	Net equity: Reserves	Net equity: Profit 2011	Net equity: Interim dividend
Gas Natural Almacenamientos Andalucía, S.A.	Spain	Gas supply	I.G.	100.0	-	-	-	-
Gas Natural Aprovisionamientos SDG, S.A.	Spain	Gas supply	I.G.	100.0	1	21	(4)	-
Sagane, S.A.	Spain	Gas supply	I.G.	100.0	95	(11)	165	-
Energía Empresarial de la Costa, S.A., E.S.P.	Colombia	Electricity commercialisation	I.G.	85.4	-	5	(2)	-
Energía Social de la Costa S.A. E.S.P.	Colombia	Electricity commercialisation	I.G.	85.4	1	(2)	(7)	-
Cetraro Distribuzione Gas, S.R.L.	Italy	Gas commercialisation	I.G.	60.0	-	-	-	-
Gas Natural Europe, S.A.S.	France	Gas commercialisation	I.G.	100.0	-	6	(12)	-
Gas Natural Vendita Italia, S.P.A.	Italy	Gas commercialisation	I.G.	100.0	2	9	4	-
Natural Energy, S.A. (1)	Argentina	Gas commercialisation	I.G.	100.0	-	-	2	-
Gas Natural Comercial SDG, S.L.	Spain	Gas and Electricity commercialisation	I.G.	100.0	4	5	(1)	-
Gas Natural Comercializadora, S.A.	Spain	Gas and Electricity commercialisation	I.G.	100.0	2	30	(10)	-
Gas Natural S.U.R. SDG, S.A.	Spain	Gas and Electricity commercialisation	I.G.	100.0	2	6	11	-
Gas Natural Servicios SDG, S.A.	Spain	Gas and Electricity commercialisation	I.G.	100.0	2	(1)	2	-
GEM Suministro de Gas 3, S.L.	Spain	Gas and Electricity commercialisation	I.G.	100.0	-	-	-	-
GEM Suministro de Gas SUR 3, S.L.	Spain	Gas and Electricity commercialisation	I.G.	100.0	-	-	-	-
Unión Fenosa Comercial, S.L.	Spain	Gas and Electricity commercialisation	I.G.	100.0	10	101	(25)	-
Distribuidora de Electricidad del Norte, S.A.	Nicaragua	Electricity distribution	I.G.	72.3	80	(40)	(4)	-
Distribuidora de Electricidad del Sur, S.A.	Nicaragua	Electricity distribution	I.G.	73.7	62	(55)	(6)	-
Distribuidora Eléctrica Navasfrías, S.L.	Spain	Electricity distribution	I.G.	100.0	-	-	-	-
Electra de Abusejo, S.L.	Spain	Electricity distribution	I.G.	100.0	1	(1)	-	-
Electra del Jallas, S.A.	Spain	Electricity distribution	I.G.	99.9	-	40	6	-
Electrificadora del Caribe S.A, E.S.P.	Colombia	Electricity distribution	I.G.	85.4	964	(164)	(13)	-
Empresa de Distribución Eléctrica Chiriqui, S.A.	Panama	Electricity distribution	I.G.	51.0	18	(3)	11	-

Empresa de Distribución Eléctrica Metro Oeste, S.A.	Panama	Electricity distribution	I.G.	51.0	71	(3)	30	-
Red Unión Fenosa, S.A.	Moldova	Electricity distribution	I.G.	100.0	7	144	22	-
Unión Fenosa Distribución, S.A.	Spain	Electricity distribution	I.G.	100.0	833	1,773	315	(200)
Ceg Río, S.A.	Brazil	Gas distribution	I.G.	59.6	41	97	37	(41)
Comercializadora Metrogas, S.A. de CV	Mexico	Gas distribution	I.G.	86.8	128	(62)	12	-
Companhia Distribuidora de Gás do Río de Janeiro, S.A.	Brazil	Gas distribution	I.G.	54.2	212	276	100	(104)
Favellato Reti Gas, S.R.L.	Italy	Gas distribution	I.G.	100.0	1	9	-	-
Gas Galicia SDG, S.A.	Spain	Gas distribution	I.G.	61.6	33	10	5	-
Gas Natural Andalucía, S.A.	Spain	Gas distribution	I.G.	100.0	12	41	18	-
Gas Natural BAN, S.A. (1)	Argentina	Gas distribution	I.G.	70.0	215	(127)	7	(13)
Gas Natural Castilla-La Mancha, S.A.	Spain	Gas distribution	I.G.	95.0	27	20	11	-
Gas Natural Castilla y León, S.A.	Spain	Gas distribution	I.G.	90.1	6	79	26	-
Gas Natural Cegas, S.A.	Spain	Gas distribution	I.G.	99.7	25	68	28	-
Gas Natural Cundiboyacense, S.A. ESP	Colombia	Gas distribution	I.G.	45.8	1	14	4	-
Gas Natural Sao Paulo Sul, S.A.	Brazil	Gas distribution	I.G.	100.0	383	(104)	32	(1)
Gas Natural del Cesar, S.A. ESP	Colombia	Gas distribution	I.G.	21.7	3	5	1	-
Gas Natural del Oriente, S.A. ESP	Colombia	Gas distribution	I.G.	32.2	9	16	10	(9)
Gas Natural Distribución SDG, S.A.	Spain	Gas distribution	I.G.	100.0	81	794	277	(175)
Gas Natural Distribuzione Italia, S.P.A.	Italy	Gas distribution	I.G.	100.0	33	177	18	-
Gas Natural México, S.A. de CV (1)	Mexico	Gas distribution	I.G.	86.8	471	(137)	33	-
Gas Natural Rioja, S.A.	Spain	Gas distribution	I.G.	87.5	3	9	5	-
Gas Natural Transporte SDG, S.L.	Spain	Gas distribution	I.G.	100.0	15	46	10	-
Gas Natural, S.A. ESP	Colombia	Gas distribution	I.G.	59.1	11	136	100	-
Gas Navarra, S.A.	Spain	Gas distribution	I.G.	90.0	4	27	10	-
Berrybank development Pty, Ltd	Australia	Energy	I.G.	93.9	2	-	-	-
Crookwell development Pty, Ltd	Australia	Energy	I.G.	93.9	5	1	-	-
Hawkesdale development Pty, Ltd	Australia	Energy	I.G.	93.9	2	1	-	-
Ryan Corner development Pty, Ltd	Australia	Energy	I.G.	93.9	3	1	-	-
Gas Natural Exploración, S.L.	Spain	Hydrocarbon research and exploration	I.G.	100.0	9	22	(21)	-
Petroleum Oil & Gas España, S.A.	Spain	Hydrocarbon research and exploration	I.G.	100.0	4	43	(3)	-
Clover Financial and Treasury Services, Ltd.	Ireland	Finance	I.G.	100.0	-	613	30	(73)

Gas Natural Capital Markets, S.A.	Spain	Finance	I.G.	100.0	-	-	8	-
Unión Fenosa Finance B.V.	Netherlands	Finance	I.G.	100.0	-	-	-	-
Unión Fenosa Financiación, S.A.	Spain	Finance	I.G.	100.0	1	2	(1)	-
Unión Fenosa Financial Services USA, Llc.	United States	Finance	I.G.	100.0	-	1	-	(1)
Unión Fenosa Preferentes, S.A.	Spain	Finance	I.G.	100.0	-	735	17	(15)
Energía y Servicios de Panamá, S.A.	Panama	Electricity generation	I.G.	51.0	9	-	5	-
Andaluza de Energía Solar Cuarta, S.L.	Spain	Electricity generation	I.G.	76.0	-	-	-	-
Boreas Eólica 2, S.A.	Spain	Electricity generation	I.G.	89.6	3	5	2	-
Controladora del Golfo, S.A. de C.V.	Mexico	Electricity generation	I.G.	100.0	32	(84)	-	-
Corporación Eólica de Zaragoza, S.L	Spain	Electricity generation	I.G.	68.0	3	1	1	-
Energías Ambientales de Novo, S.A.	Spain	Electricity generation	I.G.	100.0	2	-	-	-
Energías Ambientales de Somozas, S.A.	Spain	Electricity generation	I.G.	97.5	1	-	2	-
Energías Ambientales de Vimianzo, S.A.	Spain	Electricity generation	I.G.	100.0	5	1	3	-
Energías Ambientales Easa, S.A.U.	Spain	Electricity generation	I.G.	100.0	16	3	3	-
Energía Termosolar de los Monegros, S.L.	Spain	Electricity generation	I.G.	90.0	1	-	-	-
Energías Especiales Alcoholeras, S.A.	Spain	Electricity generation	I.G.	82.3	-	-	(1)	-
Energías Especiales de Extremadura, S.L.	Spain	Electricity generation	I.G.	78.4	-	-	-	-
Eólica de Cordales, S.L.U.	Spain	Electricity generation	I.G.	85.0	-	-	-	-
Eólica de Cordales Bis, S.L.U.	Spain	Electricity generation	I.G.	85.0	-	-	-	-
Eufer Energías Especiais de Portugal, Unipessoal Lda	Portugal	Electricity generation	I.G.	100.0	-	-	-	-
Explotaciones Eólicas Sierra de Utrera, S.L.	Spain	Electricity generation	I.G.	75.0	3	6	4	-
Fenosa Wind, S.L.	Spain	Electricity generation	I.G.	85.0	2	-	-	-
Fenosa, S.L.U.	Spain	Electricity generation	I.G.	100.0	2	-	-	-
Fuerza y Energía BII Hioxo, S.A. DE C.V.	Mexico	Electricity generation	I.G.	100.0	41	(14)	-	-
Fuerza y Energía de Hermosillo, S.A. de C.V.	Mexico	Electricity generation	I.G.	100.0	49	7	(2)	-
Fuerza y Energía de Naco Nogales, S.A. de C.V.	Mexico	Electricity generation	I.G.	100.0	131	(29)	1	-
Fuerza y Energía de Norte Durango, S.A de C.V	Mexico	Electricity generation	I.G.	100.0	54	(9)	8	-
Fuerza y Energía de Tuxpan, S.A. de C.V.	Mexico	Electricity generation	I.G.	100.0	156	14	19	-
Gas Natural Electricidad SDG, S.A.	Spain	Electricity generation	I.G.	100.0	4	7	(7)	-
Gas Natural Fenosa Renovables Andalucía, S.L.U.	Spain	Electricity generation	I.G.	100.0	-	-	-	-
Gas Natural Fenosa Renovables, S.L.U.	Spain	Electricity generation	I.G.	100.0	90	343	31	-

Gas Natural Fenosa Renovables Castilla la Mancha, S.L.U.	Spain	Electricity generation	I.G.	100.0	-	-	-	-
Gas Natural Fenosa Renovables Ruralia, S.L.U.	Spain	Electricity generation	I.G.	100.0	-	-	-	-
Gas Natural Wind 4, S.L.U.	Spain	Electricity generation	I.G.	100.0	-	-	-	-
Gas Natural Wind 6, S.L.	Spain	Electricity generation	I.G.	60.0	-	-	-	-
Gas Natural Wind Canarias, S.L.U.	Spain	Electricity generation	I.G.	100.0	-	-	-	-
Generación Panamá, S.A.	Panama	Electricity generation	I.G.	100.0	-	-		-
Generadora Palamara La Vega, S.A.	Dominican Rep.	Electricity generation	I.G.	100.0	4	63	16	-
Iberáfrica Power Ltd.	Kenya	Electricity generation	I.G.	71.7	16	2	(3)	-
JGC Cogeneración Daimiel, S.L.	Spain	Electricity generation	I.G.	97.6	1	-	-	-
Lantarón Energía, S.L.	Spain	Electricity generation	I.G.	100.0	-	-	-	-
M&D Generación 1, S.L.U.	Spain	Electricity generation	I.G.	100.0	-	-	-	-
Sistemas Energéticos Alto do Seixal, S.A.U.	Spain	Electricity generation	I.G.	100.0	-	(1)	-	-
Sociedad de Tratamiento Hornillos, S.L.	Spain	Electricity generation	I.G.	94.4	1	2	1	-
Sociedad de Tratamiento La Andaya, S.L.	Spain	Electricity generation	I.G.	60.0	1	3	1	-
Societat Eòlica de l'Enderrocada, S.A.	Spain	Electricity generation	I.G.	80.0	6	3	2	-
Tratamiento Integral de Almazán, S.L.	Spain	Electricity generation	I.G.	90.0	3	3	2	-
Tratamiento Cinca Medio, S.L.	Spain	Electricity generation	I.G.	80.0	2	1	1	-
Unión Fenosa Generadora La Joya, S.A.	Costa Rica	Electricity generation	I.G.	65.0	25	-	4	-
Unión Fenosa Generadora Torito, S.A.	Costa Rica	Electricity generation	I.G.	65.0	-	5	-	-
UTE La Energía Gas Natural Electricidad	Spain	Electricity generation	I.G.	100.0	4	-	-	-
Zemer Energía, S.A. de C.V.	Mexico	Electricity generation	I.G.	50.0	-	(1)	-	-
Hispanogalaica de Extracciones, S.L.	Spain	Mining	I.G.	100.0	-	-	-	-
Kangra Coal (Proprietary), Ltd.	South Africa	Mining	I.G.	70.0	-	98	58	(21)
Lignitos de Meirama, S.A.	Spain	Mining	I.G.	100.0	23	16	2	-
Pizarras Mahide, S.L.	Spain	Mining	I.G.	100.0	1	-	-	-
Unión Fenosa Minería, S.A.	Spain	Mining	I.G.	100.0	11	169	15	-
Welgedacht Exploration Company Ltd	South Africa	Mining	I.G.	100.0	-	-	-	-
Gas Natural Rigassificazione Italia, S.P.A.	Italy	Gas regasification	I.G.	100.0	17	(1)	(1)	-
Natural Re, S.A.	Luxemburg	Insurance	I.G.	100.0	4	28	2	-
Administración y Servicios ECAP, S.A. de C.V.	Mexico	Services	I.G.	100.0	-	-	-	-
Administradora de Servicios de Energía México, S.A. de CV	Mexico	Services	I.G.	86.8	-	-	-	-

Almar Ccs, S.A.	Costa Rica	Services	I.G.	100.0	-	-	-	-
Arte Contemporáneo y Energía, A.I.E.	Spain	Services	I.G.	100.0	-	-	-	-
Cedifil Cored Wire, S.L.	Spain	Services	I.G.	98.5	4	1	1	-
Compañía Española de Industrias Electroquímicas, S.A.	Spain	Services	I.G.	98.5	3	8	-	-
Energía y Confort Administración de Personal, S.A. de C.V.	Mexico	Services	I.G.	87.0	-	1	-	-
Gas Natural Servicios Colombia Ltda.	Colombia	Services	I.G.	59.0	-	1	2	-
Gas Natural Servicios Integrales, S.A.S.	Colombia	Services	I.G.	100.0	1	-	-	-
Gas Natural Servicios, S.A. de C.V.	Mexico	Services	I.G.	86.8	6	2	1	-
Gas Natural Serviços, S.A.	Brazil	Services	I.G.	100.0	2	3	(2)	-
General de Edificios y Solares, S.L.	Spain	Services	I.G.	100.0	34	54	9	-
Inversiones Hermill, S.A.	Dominican Rep.	Services	I.G.	100.0	1	(1)	-	-
Natural Servicios, S.A. (1)	Argentina	Services	I.G.	100.0	2	(1)	-	-
Serviconfort Colombia, S.A.	Colombia	Services	I.G.	100.0	-	-	-	-
Sistemas de Administración y Servicios, S.A. de C.V. (1)	Mexico	Services	I.G.	87.0	-	-	-	-
Unión Fenosa Generación México, S.A. de C.V.	Mexico	Services	I.G.	100.0	-	-	-	-
Gas Natural Feñosa Engineering, S.L.U.	Spain	Professional services	I.G.	100.0	1	39	2	-
Gas Natural Informática, S.A.	Spain	Professional services	I.G.	100.0	20	7	4	-
M&D Energy Market, S.L.U.	Spain	Professional services	I.G.	100.0	-	-	-	-
Operación y Mantenimiento Energy Costa Rica, S.A.	Costa Rica	Professional services	I.G.	100.0	-	-	-	-
Operación y Mantenimiento Energy Madagascar, S.A.R.L.U.	Madagascar	Professional services	I.G.	100.0	-	-	-	-
Operations & Maintenance Energy Uganda Ltd	Uganda	Professional services	I.G.	100.0	-	-	-	-
Operación y Mantenimiento Energy, S.A.	Spain	Professional services	I.G.	100.0	-	7	-	-
Proyectos de Ingeniería la Joya, S.A. (Costa Rica)	Costa Rica	Professional services	I.G.	100.0	-	-	-	-
Socoin, S.A (Guatemala)	Guatemala	Professional services	I.G.	100.0	-	1	-	-
Socoin Colombia, S.A.S.	Colombia	Professional services	I.G.	100.0	-	-	-	-
Socoin INC (Puerto Rico)	Puerto Rico	Professional services	I.G.	100.0	-	-	1	-
Socoin México, S.A. de C.V.	Mexico	Professional services	I.G.	100.0	8	(6)	1	-
Socoin, S.A (Panamá)	Panama	Professional services	I.G.	100.0	-	1	-	-
Socoinve, C.A	Venezuela	Professional services	I.G.	100.0	-	-	-	-
Soluziona Technical Services, Llc.	Egypt	Professional services	I.G.	100.0	-	-	-	-
Soluziona, S.A. (Bolivia)	Bolivia	Professional services	I.G.	100.0	-	-	-	-

Unión Fenosa Operación México S.A. de C.V.	Mexico	Professional services	I.G.	100.0	-	1	1	-
United Saudi Spanish Power and Gas Services, LLC	Saudi Arabia	Professional services	I.G.	100.0	-	-	-	-
Gas Natural International, Ltd.	Ireland	Holding company	I.G.	100.0	6	8	-	(7)
Aplicaciones y Desarrollos Profesionales Nuevo Milenio, S.L.	Spain	Holding company	I.G.	100.0	32	1	1	-
Buenergía Gas & Power, Ltd.	Cayman I.	Holding company	I.G.	95.0	-	(3)	16	-
Caribe Capital B.V.	Netherlands	Holding company	I.G.	100.0	-	252	14	(12)
Distribuidora Eléctrica de Caribe, S.A. (Panamá)	Panama	Holding company	I.G.	100.0	110	9	21	(13)
First Independent Power (Kenya), Ltd.	Kenya	Holding company	I.G.	89.6	-	13	-	-
Gas Natural SDG Argentina, S.A. (1)	Argentina	Holding company	I.G.	100.0	104	(24)	1	-
Gas Natural do Brasil, S.A.	Brazil	Holding company	I.G.	100.0	3	(3)	-	-
Gas Natural Internacional SDG, S.A.	Spain	Holding company	I.G.	100.0	350	166	17	-
Gas Natural Italia S.P.A.	Italy	Holding company	I.G.	100.0	-	1	1	-
Gas Natural Puerto Rico, Inc	Puerto Rico	Holding company	I.G.	100.0	2	(1)	-	-
Holding Gasinmex, S.A. de C.V (1)	Mexico	Holding company	I.G.	82.7	302	-	-	-
Invergás, S.A. (1)	Argentina	Holding company	I.G.	100.0	61	46	2	-
La Energía, S.A.	Spain	Holding company	I.G.	100.0	11	4	2	-
La Propagadora del Gas, S.A.	Spain	Holding company	I.G.	100.0	10	2	-	-
Unión Fenosa Internacional, S.A.	Spain	Holding company	I.G.	100.0	174	212	209	(175)
Unión Fenosa International B.V.	Netherlands	Holding company	I.G.	100.0	5	19	-	-
Unión Fenosa México B.V.	Netherlands	Holding company	I.G.	100.0	128	306	-	(1)
Unión Fenosa México, S.A. de C.V.	Mexico	Holding company	I.G.	100.0	472	(184)	14	-
Unión Fenosa Minería B.V.	Netherlands	Holding company	I.G.	100.0	-	142	15	(14)
Unión Fenosa South Africa Coal (Proprietary), LTD	South Africa	Holding company	I.G.	100.0	-	72	15	(21)
Union Fenosa Wind Australia Pty, Ltd.	Australia	Holding company	I.G.	93.9	18	1	-	-
Gas Natural Fenosa Telecomunicaciones, S.A.	Spain	Telecommunications	I.G.	100.0	21	28	24	-
Gas Natural Fenosa Telecomunicaciones Colombia, S.A.	Colombia	Telecommunications	I.G.	88.2	1	5	3	-
Gas Natural Fenosa Telecomunicaciones Guatemala, S.A.	Guatemala	Telecommunications	I.G.	100.0	-	5	3	-
Unión Fenosa Redes de Telecomunicación, S.A. (Nicaragua)	Nicaragua	Telecommunications	I.G.	100.0	-	1	1	-
Unión Fenosa Redes de Telecomunicación, S.A. (Panamá)	Panama	Telecommunications	I.G.	90.2	2	7	3	-
Unión Fenosa Redes de Telecomunicación Costa Rica, S.A.	Costa Rica	Telecommunications	I.G.	66.7	-	-	-	-

Europe Maghreb Pipeline, Ltd.	United Kingdom	Gas transportation	I.G.	72.6	-	193	159	(75)
Metragaz, S.A.	Morocco	Gas transportation	I.G.	72.3	3	1	1	-

[1] The percentage of the shareholding corresponds to the legally held shares. Additionally, there is a share re-purchase commitment for the percentages indicated in Note 18, which are also assigned to the parent Company.

2. Joint ventures

Company	Country	Activity	Consolidation Method	% de Shareholding Total	Net equity: Capital	Reserves	Profit 2011	Interim dividend
Repsol-Gas Natural LNG, S.L.	Spain	Gas supply and transportation	I.P.	50.0	2	-	1	-
CH4 Energía S.A. de C.V.	Mexico	Gas commercialisation and transportation	I.P.	43.4	1	7	2	-
Transnatural S.R.L. de C.V.	Mexico	Gas commercialisation and transportation	I.P.	43.4	10	(34)	(9)	-
Barras Eléctricas Galaico Asturianas, S.A.	Spain	Electricity distribution	I.P.	44.9	16	69	16	-
Eléctrica Conquense de Distribución, S.A.	Spain	Electricity distribution	I.P.	46.4	1	3	1	-
Albidona Distribuzione Gas, S.R.L.	Italy	Gas distribution	I.P.	60.0	-	-	-	-
Cilento Reti Gas, S.R.L.	Italy	Gas distribution	I.P.	60.0	3	-	-	-
Gas Natural Vehicular del Norte Asociación en Participación	Mexico	Gas distribution	I.P.	44.3	1	-	-	-
Gas Natural West África, S.L.	Spain	Hydrocarbon exploration and production	I.P.	40.0	14	2	(4)	-
Palencia 3 Investigación Desarrollo y Explotación, S.L.	Spain	Hydrocarbon exploration and production	I.P.	39.0	-	-	-	-
Gas Directo, S.A.	Spain	Gas	I.P.	30.0	7	(1)	-	-
Gasifica, S.A.	Spain	Gas	I.P.	55.0	2	10	1	-
Infraestructuras de Gas, S.A.	Spain	Gas	I.P.	42.5	-	-	9	(5)
Nueva Electricidad del Gas, S.A.U.	Spain	Gas	I.P.	50.0	3	(1)	(5)	-
Palawan Sulu Sea Gas, Inc.	Philippines	Gas	I.P.	50.0	-	6	(5)	-
Planta de Regasificación de Sagunto, S.A.	Spain	Gas	I.P.	21.3	2	1	15	(13)
Segas Services, S.A.E.	Egypt	Gas	I.P.	40.7	1	-	-	-
Spanish Egiptian Gas Company S.A.E.	Egypt	Gas	I.P.	40.0	336	(61)	34	-
Unión Fenosa Gas Exploración y Producción, S.A.	Spain	Gas	I.P.	50.0	-	(1)	(1)	-
Unión Fenosa Gas Comercializadora, S.A.	Spain	Gas	I.P.	50.0	2	13	41	-
Unión Fenosa Gas Infraestructures B.V.	Netherlands	Gas	I.P.	50.0	-	6	(6)	-
Unión Fenosa Gas, S.A.	Spain	Gas	I.P.	50.0	33	455	272	(235)
Alas Capital & Gas Natural S.A.	Spain	Electriciy generation	I.P.	40.0	-	-	-	-
Barras Eléctricas Generación, S.L.	Spain	Electriciy generation	I.P.	44.9	1	2	-	-
Castrios, S.A.	Spain	Electriciy generation	I.P.	33.3	2	2	1	-

Centrales Nucleares Almaraz-Trillo, A.I.E	Spain	Electriciy generation	I.P.	19.3	-	-	-	-
Cogeneración del Noroeste, S.L.	Spain	Electriciy generation	I.P.	40.0	5	5	4	-
Desarrollo de Energías Renovables de la Rioja, S.A.	Spain	Electriciy generation	I.P.	36.3	17	3	6	-
Desarrollo de Energías Renovables de Navarra, S.A.	Spain	Electriciy generation	I.P.	50.0	10	29	15	-
EcoEléctrica, L.P.	Puerto Rico	Electriciy generation	I.P.	47.5	63	58	59	(12)
Energías Eólicas de Fuerteventura, S.L.	Spain	Electriciy generation	I.P.	50.0	-	-	-	-
Energías Eólicas de Lanzarote, S.L.	Spain	Electriciy generation	I.P.	50.0	-	-	-	-
Eólicos Singulares 2005, S.A.	Spain	Electriciy generation	I.P.	49.0	-	-	-	-
Eólica Tramuntana 12, S.L.	Spain	Electriciy generation	I.P.	60.0	-	-	-	-
Eólica Tramuntana 13, S.L.	Spain	Electriciy generation	I.P.	60.0	-	-	-	-
Eólica Tramuntana 14, S.L.	Spain	Electriciy generation	I.P.	60.0	-	-	-	-
Eólica Tramuntana 15, S.L.	Spain	Electriciy generation	I.P.	60.0	-	-	-	-
Eólica Tramuntana 16, S.L.	Spain	Electriciy generation	I.P.	60.0	-	-	-	-
Eólica Tramuntana 21, S.L.	Spain	Electriciy generation	I.P.	60.0	-	-	-	-
Eólica Tramuntana 22, S.L.	Spain	Electriciy generation	I.P.	60.0	-	-	-	-
Eólica Tramuntana 23, S.L.	Spain	Electriciy generation	I.P.	60.0	-	-	-	-
Eólica Tramuntana 24, S.L.	Spain	Electriciy generation	I.P.	60.0	-	-	-	-
Eólica Tramuntana 71, S.L.	Spain	Electriciy generation	I.P.	60.0	-	-	-	-
Eólica Tramuntana 72, S.L.	Spain	Electriciy generation	I.P.	60.0	-	-	-	-
Eólica Tramuntana 73, S.L.	Spain	Electriciy generation	I.P.	60.0	-	-	-	-
Eólica Tramuntana, S.L.	Spain	Electriciy generation	I.P.	60.0	-	-	-	-
Eufer-Caetano Energías Renovaveis, Lda	Portugal	Electriciy generation	I.P.	54.0	-	-	-	-
Molinos de la Rioja, S.A.	Spain	Electriciy generation	I.P.	33.3	3	2	2	-
Molinos del Linares, S.A.	Spain	Electriciy generation	I.P.	25.0	-	-	-	-
Molinos del Cidacos, S.A.	Spain	Electriciy generation	I.P.	50.0	10	8	10	-
Montouto 2000, S.A.	Spain	Electriciy generation	I.P.	49.0	6	4	2	-
Nueva Generadora del Sur, S.A.	Spain	Electriciy generation	I.P.	50.0	96	48	(11)	-
O Novo Aquilón, S.L.	Spain	Electriciy generation	I.P.	60.0	-	-	-	-
Parque Eólico Sierra del Merengue, S.L.	Spain	Electriciy generation	I.P.	50.0	-	-	-	-
Parques Eólicos 2008-2012, S.L.	Spain	Electriciy generation	I.P.	54.0	-	-	-	-
Toledo PV, A.E.I.E	Spain	Electriciy generation	I.P.	33.3	-	1	-	-

Eléctrica Conquense, S.A.	Spain	Services	I.P.	46.4	3	3	1	-
UTE ESE Clece - Gas Natural	Spain	Services	I.P.	50.0	-	-	-	-
Ghesa Ingeniería y Tecnología, S.A.	Spain	Professional services	I.P.	41.2	4	17	4	-
EcoEléctrica Holding, Ltd.	Cayman I.	Holding company	I.P.	47.5	63	20	-	(20)
EcoEléctrica Limited	Cayman I.	Holding company	I.P.	47.5	1	-	-	-
Alliance, S.A.	Nicaragua	Telecommunications	I.P.	49.9	-	-	-	-
Biogás Doña Juana, S.A. ESP	Colombia	Biogas treatment and use	I.P.	49.8	2	1	(1)	-

3. Jointly controlled assets and operations

Company	Country	Activity	% de Shareholding Total
Boquerón	Spain	Exploration and production	4.5%
Casablanca	Spain	Exploration and production	9.5%
Chipirón	Spain	Exploration and production	2.0%
Montanazo	Spain	Exploration and production	17.1%
Morcín – 1	Spain	Exploration	20%
Villaviciosa	Spain	Exploration	70%
Bezana / Beguenzo	Spain	Exploration	60%
Murcia-Siroco	Spain	Exploration	40.0%
Rodaballo	Spain	Exploration and production	4.0%
Sestao Knutsen	Spain	LNG Transportation	50.0%
Ibérica Knutsen	Spain	LNG Transportation	50.0%
Comunidad de bienes Central Nuclear de Trillo (Grupo I)	Spain	Electricity generation	34.5%
Comunidad de bienes Central Nuclear de Almaraz (Grupo I y II)	Spain	Electricity generation	11.3%
Comunidad de bienes Central Térmica de Anllares	Spain	Electricity generation	66.7%
Comunidad de bienes Central Térmica de Aceca	Spain	Electricity generation	50.0%
Gassi-Chergui	Argelia	Exploration	30.0%
Tánger Larrache	Morocco	Exploration	40.0%

4. Associates

Company	Country	Activity	Consolidation Method	% de Shareholding Total	Net equity Capital	Reserves	Profit 2011	Interim dividend
Kromschroeder, S.A.	Spain	Meters	P.E.	42.5	1	10	-	-
Qalhat LNG S.A.O.C.	Oman	Gas	P.E.	3.7	55	18	188	(47)
Regasificadora del Noroeste, S.A.	Spain	Gas	P.E.	10.5	48	5	16	-
Enervent, S.A.	Spain	Electriciy generation	P.E.	26.0	2	6	1	-
Sistemas Energéticos La Muela, S.A.	Spain	Electriciy generation	P.E.	20.0	3	2	1	-
Sistemas Energéticos Mas Garullo, S.A.	Spain	Electriciy generation	P.E.	18.0	2	2	2	-
Sociedad Gallega do Medio Ambiente, S.A.	Spain	Waste management	P.E.	49.0	32	3	3	-
3G Holdings Limited	United Kingdom	Holding company	P.E.	10.0	-	-	-	-
Torre Marenostrum, S.L.	Spain	Real Estate	P.E.	45.0	5	13	1	-
Bluemobility System, S.L.	Spain	Services	P.E.	20.0	-	1	(1)	-
Oficina de cambios de suministrador, S.A.	Spain	Services	P.E.	29.0	-	-	-	-

APPENDIX II VARIATIONS IN CONSOLIDATION SCOPE

The main changes in the consolidation scope in 2011 have been as follows:

Registered name of the entity	Operation category	Effective date of the operation	% of voting rights acquired / eliminated	% of voting rights after the operation	Consolidation method after the operation
Energías Especiales de Andalucía, S.L.	Acquisition	January 12	7.5%	50.0%	Proportional
Clece, S.A., Dragados S.A., Socoin S.A.U y Gas Natural Servicios SDG, S.A. UTE	Incorporation	January 31	50.0%	50%	Proportional
O & M Energy Uganda Limited.	Incorporation	February 4	100%	100%	Global
Gas Natural Finance, BV	Liquidation	March 15	100%	-	-
JGC Cogeneración Daimiel, S.L.	Incorporation	February 11	97.6%	97.6%	Global
Red Unión Fenosa, S.A.	Acquisition	April 24	6.0%	100%	Global
Gem de Suministro Gas 3, S.L.	Incorporation	May 9	100%	100%	Global
Gem de Suministro Gas SUR 3, S.L.	Incorporation	May 9	100%	100%	Global
Generación Limpia Guatemala, S.A.	Disposal	May 19	100%	-	-
Comercializadora Guatemalteca Mayorista de Electricidad, S.A.	Disposal	May 19	100%	-	-
Redes Eléctricas de Centroamérica, S.A.	Disposal	May 19	100%	-	-
Distribuidora de Electricidad de Oriente, S.A.	Disposal	May 19	92.8%	-	-
Distribuidora de Electricidad de Occidente, S.A.	Disposal	May 19	90.8%	-	-
Unión Fenosa Wind Australia Pty. Lda.	Acquisition	May 31	1.0%	92.4%	Global
Eufer Renovables Ibéricas 2004, S.A.	Acquisition	May 27	50.0%	100%	Global
Eólica del Cordal de Montouto, S.L.U.	Acquisition	May 27	50.0%	100%	Global
Energías Especiales Espina, S.L.U.	Acquisition	May 27	50.0%	100%	Global
Eólica Galaicoasturiana, S.A.U.	Acquisition	May 27	50.0%	100%	Global
Andaluza de Energía Solar Cuarta, S.L.	Acquisition	May 27	45.6%	76.0%	Global
Energías Especiales Alcoholeras, S.A.	Acquisition	May 27	41.2%	82.3%	Global
Vientos del Noroeste, S.A.U.	Acquisition	May 27	49.9%	100%	Global
Energía Termosolar de los Monegros, S.L.	Acquisition	May 27	45.0%	90.0%	Global
Energías Especiales de Extremadura, S.L	Acquisition	May 27	39.2%	78.3%	Global
Parque Eólico Cabo Vilano, S.L.U.	Acquisition	May 27	50.0%	100%	Global
Parque Eólico Sierra del Merengue, S.A.	Acquisition	May 27	25.0%	50.0%	Proportional
Energías Ambientales de Somozas, S.A.	Acquisition	May 27	22.6%	45.2	Proportional
Cogeneración del Noroeste, S.L.	Acquisition	May 27	20.0%	40%	Proportional
Energías Ambientales Easa, S.A.	Acquisition	May 27	16.7%	33.3%	Proportional
Energías Ambientales de Vimianzo, S.A.	Acquisition	May 27	16.7%	33.3%	Proportional
Energías Ambientales de Novo, S.A.	Acquisition	May 27	16.7%	33.3%	Proportional
Societat Eòlica de L' Enderrocada, S.A.	Acquisition	May 27	13.3%	26.7%	Proportional
Punta de Lens Eólica Marina, S.L.U.	Acquisition	May 27	50.0%	100%	Global
Punta de las Olas Eólica Marina, S.LU.	Acquisition	May 27	50.0%	100%	Global
Eufer Energías Especiais de Portugal, Unipessoal Lda.	Acquisition	May 27	50.0%	100%	Global
Prius Enerólica, S.L.U.	Acquisition	May 27	50.0%	100%	Global
Eufer-Caetano Energías Renovaveis, Lda.	Acquisition	May 27	25.5%	51.0%	Proportional
ENEL Unión Fenosa Renovables, S.A.	Disposal	May 27	50%	-	-
Andaluza de Energía Solar Primera, S.L.	Disposal	May 27	30.4%	-	-
Andaluza de Energía Solar Quinta, S.L.	Disposal	May 27	30%	-	-
Andaluza de Energía Solar Tercera, S.L.	Disposal	May 27	30%	-	-
Aprovechamientos Eléctricos, S.A.	Disposal	May 27	50%	-	-
Áridos Energías Especiales, S.L.	Disposal	May 27	21%	-	-
Azucarera Energías, S.A.	Disposal	May 27	20%	-	-
Barbao, S.A.	Disposal	May 27	50%	-	-
Boiro Energía, S.A.	Disposal	May 27	20%	-	-
Depuración, destilación y reciclaje, S.L.	Disposal	May 27	20%	-	-
Energías Especiales Alto Ulloa, S.A.	Disposal	May 27	50%	-	-
Energías Especiales de Andalucía, S.L.	Disposal	May 27	50%	-	-
Energías Especiales de Careón, S.A.	Disposal	May 27	39%	-	-
Energías Especiales de Gata, S.L.	Disposal	May 27	50%	-	-
Energías Especiales de Padul, S.L.U.	Disposal	May 27	50%	-	-
Energías Especiales del Bierzo, S.A.	Disposal	May 27	25%	-	-

Energías Especiales Montes Castellanos, S.L.U.	Disposal	May 27	50%	-	-
Energías Especiales Montes de Andalucía, S.L.	Disposal	May 27	50%	-	-
Energías Especiales Noroeste , S.A.U.	Disposal	May 27	50%	-	-
Energías Especiales Peña Armada , S.A.	Disposal	May 27	40%	-	-
Energías Especiales Santa Bárbara, S.L.	Disposal	May 27	50%	-	-
Energías Especiales Valencianas, S.L.	Disposal	May 27	50%	-	-
Energías Especiales Montes de San Sebastian, S.L.	Disposal	May 27	50%	-	-
Eufer Operación, S.L.	Disposal	May 27	50%	-	-
Parque Eólico Belmonte, S.A.	Disposal	May 27	25%	-	-
Parque Eólico de Capelada, A.I.E.	Disposal	May 27	25%	-	-
Parque Eólico de Corullón, S.L.	Disposal	May 27	50%	-	-
Parque Eólico de San Andrés, S.A.	Disposal	May 27	41%	-	-
Parque Eólico Malpica, S.A.	Disposal	May 27	18%	-	-
Parque Eólico Montes de las Navas, S.A.	Disposal	May 27	10%	-	-
Promociones Energéticas del Bierzo, S.L.	Disposal	May 27	50%	-	-
Proyectos Universitarios Energías Renovables, S.L.	Disposal	May 27	17%	-	-
Sistemas Energéticos Mañón Ortigueria, S.A.	Disposal	May 27	48%	-	-
Ufefys, S.L.	Disposal	May 27	20%	-	-
Energías de Villarubia, S.L.	Disposal	May 27	10%	-	-
Enerlasa, S.A.	Disposal	May 27	22%	-	-
Sotavento Galicia, S.A.	Disposal	May 27	9%	-	-
Tirmadrid, S.A.	Disposal	May 27	9%	-	-
Unión Fenosa Energías Renovables Chile, S.A.	Acquisition	June 30	11.2%	91.2%	Global
Bis Distribución de Gas, S.A.	Disposal	June 30	100%	-	-
3G Holdings Limited	Acquisition	June 30	7.5%	10.0%	Equity
Holding Gasinmex, S.A. de C.V.	Increase	June 30	-	82.7%	Global
Distribuidora de Electricidad del Norte, S.A.	Reduction	July 22	16%	72.3%	Global
Distribuidora de Electricidad del Sur, S.A.	Reduction	July 22	16%	73.7%	Global
Unión Fenosa Energías Renovables Chile, S.A.	Disposal	August 18	91.2%	-	-
Unión Fenosa Chile Limitada	Disposal	August 18	100%	-	-
Unión Fenosa Renovables Limitada	Disposal	August 18	100%	-	-
Ufacex Uk Holdings, Ltd	Liquidation	August 31	100%	-	-
Energías Ambientales Easa, S.A.U.	Acquisition	September 12	66.7%	100%	Global
Energías Ambientales de Vimianzo, S.A.	Acquisition	September 12	-	100%	Global
Energías Ambientales de Novo, S.A.	Acquisition	September 12	-	100%	Global
Energías Ambientales de Somozas, S.A.	Acquisition	September 12	-	97.5%	Global
Societat Eòlica de L' Enderrocada, S.A.	Acquisition	September 12	-	80.0%	Global
Explotaciones Eólicas Sierra de Utrera, S.L.	Acquisition	September 12	25%	75.0%	Global
Unión Fenosa Wind Australia Pty. Lda.	Acquisition	October 26	1.5%	93.9%	Global
Eólica de Cordales, S.L.U.	Incorporation	October 31	100%	100%	Global
Eólica de Cordales Bis, S.L.U.	Incorporation	October 31	100%	100%	Global
Bis Suministro de Gas, S.L.	Liquidation	October 10	100%	-	-
Bis Suministro de Gas Sur, S.L.	Liquidation	November 21	100%	-	-
Energy Way Produçao de Energía, Ltda	Disposal	November 8	100%	-	-
Dawn Energy-Produçao de Energía Unipesoal, Ltda	Disposal	November 8	100%	-	-
Compañía Auxiliar de Industrias Varias, S.A.	Liquidation	November 10	100%	-	-
Eufer-Caetano Energías Renovaveis, Lda	Acquisition	December 5	3%	54%	Proportional
Favellato Reti Gas, SRL	Acquisition	December 6	100%	100%	Global
Central Térmica la Torrecilla, S.A.	Liquidation	December 15	50%	-	-
Ensafeca Holding Empresarial, S.L.	Liquidation	December 22	18.5%	-	-
Sistemas Energéticos Alto do Seixal, SAU	Acquisition	December 30	100%	100%	Global
Electricaribe Mypimes de Energía, S.A. ESP	Liquidation	December 30	85%	-	-

The main changes in the consolidation scope in 2010 have been as follows:

Registered name of the entity	Operation category	Effective date of the operation	% of voting rights acquired / eliminated	% of voting rights after the operation	Consolidation method after the operation
Gas Natural Servicios Integrales, S.A.S	Incorporation	March 10	100%	100%	Global
Electrificadora del Caribe, S.A. E.S.P	Acquisition	March 31	4.1%	85.4%	Global
Madrileña Red de Gas, S.A.	Disposal	April 30	100%	-	-
Madrileña Suministro de Gas SUR 2010, S.L.	Disposal	April 30	100%	-	-
Madrileña Suministro Gas 2010, S.L.	Disposal	April 30	100%	-	-
Madrileña Servicios Comunes, S.L.	Disposal	April 30	100%	-	-
Central Anahuac, S.A. de C.V.	Disposal	May 25	100%	-	-
Central Lomas del Real, S.A. de C.V.	Disposal	May 25	100%	-	-
Central Vallehermoso S.A. de C.V.	Disposal	May 25	100%	-	-
Central Saltillo, S.A. de C.V.	Disposal	May 25	100%	-	-
Electricidad Águila Altamira, S.A. de C.V.	Disposal	May 25	100%	-	-
Gasoducto del Río, S.A. de C.V.	Disposal	May 25	100%	-	-
Compañía Mexicana de Gerencia y Operación, S.A. de C.V.	Disposal	May 25	100%	-	-
Palencia 3 Investigación Desarrollo y Explotación, S.L.	Incorporation	June 24	37%	37%	Proportional
Hispano Galaica de Extracciones, S.L.	Incorporation	June 30	100%	100%	Global
Eólica Tramuntana, S.L.	Incorporation	July 5	60%	60%	Proportional
Energía Termosolar los Monegros, S.L.	Acquisition	July 14	40%	45%	Proportional
Sistema Eléctrico de conexión Valcaire, S.L.	Incorporation	July 17	10.6%	10.6%	Proportional
Hotel Naturaleza Tambre, S.L.	Liquidation	July 19	100%	-	-
M&D Generación 1, S.L.U.	Incorporation	July 21	100%	100%	Global
M&D Energy Market, S.L.U.	Incorporation	July 21	100%	100%	Global
Promociones Energéticas del Bierzo, S.L.	Acquisition	July 30	25%	50%	Proportional
Gas Natural del Cesar, S.A. ESP	Acquisition	September 14	16%	62%	Global
Berrybank Development Pty Ltd	Incorporation	September 21	91%	91.4%	Global
Cilento Reti Gas, S.r.l.	Incorporation	October 13	60%	60%	Proportional
Unión Fenosa Wind Australia PtY, Ltd	Acquisition	October 18	80%	91.4%	Global
Crookwell Developmet PtY, Ltd	Acquisition	October 18	80%	91.4%	Global
Hawkesdale Development Pty Ltd	Acquisition	October 18	80%	91.4%	Global
Ryan Corner Development Pty Ltd	Acquisition	October 18	80%	91.4%	Global
Limeisa International Coal, B.V.	Liquidation	October 28	100%	-	-
Portal del Instalador, S.A.	Liquidation	November 2	100%	-	-
Eólica Tramuntana 12, S.L.	Incorporation	December 3	60%	60%	Proportional
Eólica Tramuntana 13, S.L.	Incorporation	December 3	60%	60%	Proportional
Eólica Tramuntana 14, S.L.	Incorporation	December 3	60%	60%	Proportional
Eólica Tramuntana 15, S.L.	Incorporation	December 3	60%	60%	Proportional
Eólica Tramuntana 16, S.L.	Incorporation	December 3	60%	60%	Proportional
Eólica Tramuntana 21, S.L.	Incorporation	December 3	60%	60%	Proportional
Eólica Tramuntana 22, S.L.	Incorporation	December 3	60%	60%	Proportional
Eólica Tramuntana 23, S.L.	Incorporation	December 3	60%	60%	Proportional
Eólica Tramuntana 24, S.L.	Incorporation	December 3	60%	60%	Proportional
Eólica Tramuntana 71, S.L.	Incorporation	December 3	60%	60%	Proportional
Eólica Tramuntana 72, S.L.	Incorporation	December 3	60%	60%	Proportional
Eólica Tramuntana 73, S.L.	Incorporation	December 3	60%	60%	Proportional
BIS Distribución de Gas, S.A.	Incorporation	December 3	100%	100%	Global
BIS Suministro de Gas, S.A	Incorporation	December 3	100%	100%	Global
BIS Suministro de Gas SUR, S.A	Incorporation	December 3	100%	100%	Global
Bluemobility System, S.L	Incorporation	December 15	20%	20%	Equity method
Molinos de Valdebezana, S.A.	Acquisition	December 17	60%	100%	Full consolidation
Gas Aragón, S.A	Disposal	December 17	35%	-	-
Unión Fenosa Distribución Colombia, BV	Liquidation	December 21	100%	-	-
ElectroCosta Mipymes de Energía, S.A. ESP	Liquidation	December 28	100%	-	-
UTE GNS-Dalkia Energía y Servicios	Liquidation	December 31	50%	-	-

APPENDIX III GAS NATURAL TAX GROUP COMPANIES

The GAS NATURAL Tax group at 31 December 2011 is as follows:

Gas Natural SDG, S.A.	Gas Natural Fenosa Telecomunicaciones, S.A.
Aplicaciones y Desarrollos Profesionales Nuevo Milenio, S.L.	Gas Natural Informática, S.A.
Aplicaciones y Proyectos energéticos, S.A.	Gas Natural Internacional SDG, S.A.
BIS Suministro de Gas, S.A.	Gas Natural Rioja, S.A.
BIS Suministro de Gas SUR, S.A.	Gas Natural S.U.R. SDG, S.A.
Boreas Eólica 2, S.A.	Gas Natural Servicios SDG, S.A.
Cedifil Cored Wire, S.L.	Gas Natural Transporte SDG, S.L.
Compañía Auxiliar de Industrias Varias, S.A.	Gas Natural Wind 4, S.L.U.
Compañía Española de Industrias Electroquímicas, S.A.	Gas Natural Wind Canarias, S.L.U.
Distribuidora Eléctrica Navasfrías, S.L.	Gas Navarra, S.A.
Electra de Abusejo, S.L.	GEM Suministro de Gas 3, S.L.
Electra del Jallas, S.A.	GEM Suministro de Gas SUR 3, S.L.
Eólica de Cordales Bis, S.L.U.	Generación Peninsular, S.L.
Eólica de Cordales, S.L.U.	General de Edificios y Solares, S.L.
Fenosa Wind, S.L.	Hispanogalaica de Extracciones, S.L.
Fenosa, S.L.U.	La Energía, S.A.
Gas Natural Almacenamientos 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.	M&D Energy Market, S.L.U.
Gas Natural Capital Markets, S.A.	M&D Generación 1, S.L.U.
Gas Natural Castilla La-Mancha, S.A.	Molinos de Valdebezana, S.A.U.
Gas Natural Castilla y León, S.A.	Operación y Mantenimiento Energy, S.A.
Gas Natural Cegas, S.A.	Pizarras Mahide, S.L.
Gas Natural Comercial SDG, S.L.	Sagane, S.A.
Gas Natural Comercializadora, S.A.	Sociedad de Tratamiento Hornillos, S.L.
Gas Natural Distribución SDG, S.A.	Tratamiento Cinca Medio, S.L.
Gas Natural Electricidad SDG, S.A.	Tratamiento Integral de Almazán, S.L.
Gas Natural Exploración, S.L.	Unión Fenosa Comercial, S.L.
Gas Natural Fenosa Engineering, S.L.U.	Unión Fenosa Distribución, S.A.
Gas Natural Fenosa Renovables Andalucía, S.L.U.	Unión Fenosa Financiación, S.A.
Gas Natural Fenosa Renovables Castilla La Mancha, S.L.U.	Unión Fenosa Internacional, S.A.
Gas Natural Fenosa Renovables Ruralia, S.L.U.	Unión Fenosa Minería, S.A.
Gas Natural Fenosa Renovables, S.L.U.	Unión Fenosa Preferentes, S.A.

GRUPO GAS NATURAL FENOSA

The Consolidated annual accounts – Consolidated balance sheet, Consolidated income statement, Consolidated statement of comprehensive income, Consolidated statement of changes in net equity, Consolidated statement of cash flows and the Notes to the Consolidated annual accounts – for 2011 of Gas Natural SDG, S.A. and Subsidiary Companies, which are set forth in this document, were formulated by the Board of Directors of Gas Natural SDG, S.A. on 27 January 2012 and signed below in agreement by all the Directors, in compliance with article 253 of the Spanish Capital Companies Act.

Mr. Salvador Gabarró Serra
Chairman

Mr. Antonio Brufau Niubó
Vice-Chairman

Mr. Rafael Villaseca Marco
Chief Executive Officer

Mr. Ramón Adell Ramón
Director

Mr. Enrique Alcántara-García Irazoqui
Director

Mr. Demetrio Carceller Arce
Director

Mr. Santiago Cobo Cobo
Director

Mr. Nemesio Fernández-Cuesta Luca de Tena
Director

Mr. Felipe González Márquez
Director

Mr. Carlos Kinder Espinosa
Director

Mr. Emiliano López Achurra
Director

Mr. Carlos Losada Marrodán
Director

Mr. Juan María Nin Génova
Director

Mr. Juan Rosell Lastortras
Director

Mr. Luís Suárez de Lezo Mantilla
Director

Mr. Miguel Valls Maseda
Director

GAS NATURAL FENOSA

Consolidated Directors' Report

1. Business performance

2011 Analysis

Net profit attributable to the parent company in 2011 rose 10.3% on the same period of the previous year to €1,325 million.

Consolidated EBITDA in the period amounted to €4,645 million, a 3.8% increase with respect to 2010, supported by GAS NATURAL FENOSA's excellent operating performance and balanced business profile, which offset the impact of divestments.

Despite lower gains booked on asset sales with respect to 2010, net profit in 2011 was €1,325 million, up 10.3% with respect to 2010. This growth was driven not only by debt reduction and financial cost containment, but also by good business performance.

The results obtained in this context highlight the fundamental value of GAS NATURAL FENOSA's business model, which is based on an appropriate balance of regulated and liberalised gas and electricity businesses, including a growing, diversified international presence.

GAS NATURAL FENOSA signed a contract with the US company Cheniere to purchase close to 5 bcm of GNL per year, with free destination.

GAS NATURAL FENOSA completed the purchase of a wind farm in Lugo and signed a purchase agreement for a wind farm in Tarragona from Gamesa, with a total installed capacity of 42 MW.

Additionally, on 13 September 2011, GAS NATURAL FENOSA acquired direct and indirect shareholdings from ACS in wind farms having a generation capacity of 95,5 MW.

GAS NATURAL FENOSA increased the total interim dividend charged to 2011 income by 10.9%, and distributed €0.363 per share on 9 January 2012.

Divestments, the company's sound, balanced business profile, and strict investment discipline in finances and capital expenditure are enabling the company to steadily reduce leverage, to 54.5% at 31 December 2011, which is particularly efficient since the debt structure, cost and maturities are in line with GAS NATURAL FENOSA's business profile.

Main financial aggregates

	2011	2010	%
Net sales	21,076	19,630	7.4
EBITDA	4,645	4,477	3.8
Operating income	2,947	2,893	1.9
Net income attributable to parent Company	1,325	1,201	10.3
Investments	1,514	1,553	(2.5)
Net financial debt (at 31/12)	17,294	19,102	(9.5)

Main physical aggregates

Gas and electricity distribution:

	2011	2010	%
Gas distribution (GWh):	395,840	411,556	(3.8)
Europe:	204,809	210,561	(2.7)
Tariff gas sales	2,730	2,741	(0.4)
TPA (third parties access)	202,079	207,820	(2.8)
Latin America:	191,031	200,995	(5.0)
Tariff gas sales	114,559	128,141	(10.6)
TPA	76,472	72,854	5.0
Electricity distribution (GWh):	54,067	54,833	(1.4)
Europa:	36,361	36,831	(1.3)
Tariff electricity sales	2,445	2,372	3.1
TPA	33,916	34,459	(1.6)
Latin America:	17,706	18,002	(1.6)
Tariff electricity sales	16,789	16,979	(1.1)
TPA	917	1,023	(10.4)
Gas distribution conections, ('000) (at 31/12):	11,372	11,361	0.1
Europe	5,490	5,696	(3.6)
Latin America	5,882	5,665	3.8
Electricity distribution connections ('000) (at 31/12):	8,133	9,436	(13.8)
Europe	4,568	4,535	0.7
Latin America	3,565	4,901	(27.3)
ICEIT (installed capacity equivalent interrupt time) (minutes)	42	61	(31.1)

Energy businesses:

	2011	2010	%
Electricity generated (GWH):	56,354	58,130	(3.1)
Spain:	38,081	38,338	(0.7)
Hydroelectric	2,892	4,752	(39.1)
Nuclear	4,378	4,325	1.2
Coal	4,464	772	478.2
Oil/gas	-	32	-
CCGT (Combined cycle gas turbine)	23,967	25,928	(7.6)
Renewables	2,380	2,529	(5.9)
International:	18,273	19,792	(7.7)
Hydroelectric	118	116	1.7
CCGT	16,362	17,985	(9.0)
Oil-fired	1,793	1,691	6.0
Installed capacity (MW):	15,392	17,254	(10.8)
Spain:	12,760	14,637	(12.8)
Hydroelectric	1,901	1,860	2.2
Nuclear	595	589	1.0
Coal	2,048	2,048	-
Oil/gas	157	617	(74.6)
CCGT	6,998	8,565	(18.3)
Renewables	1,061	958	10.8
International:	2,632	2,617	0.6
Hydroelectric	22	22	-
CCGT	2,289	2,274	0.7
Oil-fired	321	321	-
Gas supply (GWh):	308,725	305,704	1.0
Spain	236,992	250,885	(5.6)
Rest	71,733	54,819	30.9
Unión Fenosa Gas(1):			
Gas supply in Spain (GWh)	56,937	59,518	(4.3)
Rest (GWh)	26,503	27,774	(4.6)
Gas transportation – EMPL (GWh)	111,855	109,792	1.9

(1) Aggregates at 100%.

Analysis of consolidated earnings

Net sales

	2011	%s/total	2010	%s/total	% 2011/2010
Gas distribution	4,063	19.3	4,154	21.2	(2.2)
Spain	1,240	5.9	1,299	6.6	(4.5)
Latin America	2,585	12.3	2,645	13.5	(2.3)
Rest	238	1.1	210	1.1	13.3
Electricity distribution	3,418	16.2	3,272	16.7	4.5
Spain	922	4.4	884	4.5	4.3
Latin America	2,290	10.9	2,200	11.2	4.1
Rest	206	1.0	188	1.0	9.6
Electricity	6,443	30.6	6,470	33.0	(0.4)
Spain	5,452	25.9	5,420	27.6	0.6
Latin America	865	4.1	954	4.9	(9.3)
Rest	126	0.6	96	0.5	31.6
Gas	9,903	47.0	8,791	44.8	12.6
Infrastructure	289	1.4	264	1.3	9.5
Supply and commercialisation	8,603	40.8	7,678	39.1	12.0
Unión Fenosa Gas	1,011	4.8	849	4.3	19.1
Other activities	650	3.1	584	3.0	11.3
Consolidation adjustments	(3,401)	(16.1)	(3,641)	(18.5)	(6.6)
Total	**21,076**	**100.0**	**19,630**	**100.0**	**7.4**

Net sales for 2011 totals €21,076 million, an increase of 7.4% against last year, mainly as a result of the growth in the Supply and commercialisation business.

EBITDA [1]

	2011	%s/total	2010	%s/total	% 2011/2010
Gas distribution	1,587	34.2	1,620	36.2	(2.0)
Spain	896	19.3	915	20.4	(2.1)
Latin America	621	13.4	635	14.2	(2.2)
Others	70	1.5	70	1.6	-
Electricity distribution	1,016	21.9	1,062	23.7	(4.3)
Spain	680	14.6	645	14.4	5.4
Latin America	306	6.6	390	8.7	(21.5)
Others	30	0.6	27	0.6	11.1
Electricity	1,068	23.0	1,252	28.0	(14.7)
Spain	809	17.4	974	21.8	(16.9)
Latin America	245	5.3	263	5.9	(6.8)
Others	14	0.3	15	0.3	(6.7)
Gas	905	19.1	472	10.5	91.7
Infrastructures	184	4.0	191	4.3	(3.7)
Supply and commercialisation	444	9.6	57	1.3	678.9
Unión Fenosa Gas	277	6.0	224	5.0	23.7
Other activities	69	1.5	71	1.6	(2.8)
Total	**4,645**	**100.0**	**4,477**	**100.0**	**3.8**

(1) EBITDA = Operating profit + Depreciation + Operating provisions - Other income

Consolidated EBITDA for 2011 has totalled €4,645 million, an increase of 3.8% against last year, in a very tough macroeconomic, energy and financial context; this result was achieved due to an appropriate balance of regulated and liberalised gas and electricity businesses, including a growing, diversified international presence, which offset the EBITDA impact of divestments in 2010 and 2011.

The gas and electricity distribution activities in Spain (33.9%) and internationally (22.1%), represent 56.0% of the EBITDA of GAS NATURAL FENOSA.

The electricity activity in Spain represents 17.4% of consolidated EBITDA.

Operating income

	2011	%s/total	2010	%s/total	% 2011/2010
Gas distribution:	1,149	39.0	1,184	40.9	(3.0)
Spain	612	20.8	626	21.6	(2.2)
Latin America	494	16.8	516	17.8	(4.3)
Other	43	1.5	42	1.5	2.4
Electricity distribution:	616	20.9	618	21.4	(0.3)
Spain	459	15.6	420	14.5	9.3
Latin America	133	4.5	177	6.1	(24.9)
Other	24	0.8	21	0.7	14.3
Electricity	356	12.1	550	19.0	(35.3)
Spain	203	6.9	387	13.4	(47.5)
Latin America	144	4.9	154	5.3	(6.5)
Other	9	0.3	9	0.3	-
Gas	622	21.1	231	8.0	169.3
Infrastructures	119	4.0	141	4.9	(15.6)
Supply and commercialisation	383	13.0	12	0.4	3.091.7
Unión Fenosa Gas	120	4.1	78	2.7	53.8
Other activities	204	6.9	310	10.7	(34.2)
Total	**2,947**	**100.0**	**2,893**	**100.0**	**1.9**

Depreciation and amortisation expenses increased by 2.0% while provisions fell by €22 million to €216 million. Operating profit increased by 1.9% to €2,947 million despite lower proceeds from real estate divestments compared with last year.

Financial results

The cost of financial borrowings in 2011 was €849 million, lower than in 2010 because the reduction in average gross debt was slightly less (mainly in the first half of the year) and because of the remuneration on a larger balance of cash and cash equivalents. Both the reduction in gross debt and the increase in cash are due to divestments in 2010 and 2011, the amounts collected from securitisation of the tariff deficit, and cash flow from the company's businesses.

Corporate Income tax

GAS NATURAL FENOSA is taxed in Spain under the consolidated taxation system, in which the tax group is viewed as the taxpayer and its tax base is determined by aggregating the tax bases of its component companies. The other Spanish-resident companies that are not part of the tax group file individual returns, and those not resident in Spain are taxed in their respective countries; the tax rate on company income (or the equivalent tax) that is in force is applied to income for the period.

The income tax expense is recognised based on the effective tax rate envisaged for the year as a whole. The effective tax rate in 2011 was 24.5%, compared with 24.9% in 2010. The difference between the theoretical tax rate and the effective tax rate was due to the application of tax credits from reinvestment of extraordinary gains on asset sales performed in compliance with competition rules.

Minority interest

The main items in this account are the minority shareholders of EMPL, investees in Colombia, gas distribution companies in Brazil, and electricity generation and distribution companies in Panama.

Income attributed to minority interest in 2011 amounted to €201 million, €13 million less than in 2010, basically as a result of the impact in Colombia of the recent tax reforms, discussed in the analysis of results by activity.

Investments

The breakdown of investments by type is as follows:

	2011	2010	%
Investments in Property, plant and equipment	1,230	1,394	(11.8)
Investments in intangible assets	176	149	18.1
Financial investments	108	10	-
Total investments	**1,514**	**1,553**	(2.5)

Capital expenditure (intangible assets and property, plant and equipment) amounted to €1,406 million, 8.9% less than in 2010, due primarily to the completion of Combinated cycle gas turbines (CCGT) construction. There was a notable increase in capital expenditure in regulated businesses, primarily gas (+21.3%), including the acquisition of distribution and secondary transportation assets from Distribuidora Sureuropea de Gas.

Financial investments in 2011 included the acquisition of ACS's stakes in 6 wind farm companies, which resulted in GAS NATURAL FENOSA attaining majority stakes, and the acquisition of the Altos do Seixal wind farm (Galicia) from GAMESA.

The breakdown of capital expenditure by line of business is as follows:

	2011	2010	%
Gas distribution:	445	367	21.3
Spain	260	221	17.6
Latin America	149	108	38.0
Other	36	38	(5.3)
Electricity distribution:	490	466	5.2
Spain	340	313	8.6
Latin America	133	137	(2.9)
Other	17	16	6.3
Electricity:	258	512	(49.6)
Spain	211	361	(41.6)
Latin America	47	149	(68.5)
Other	-	2	-
Gas:	62	67	(7.5)
Infrastructures	32	22	45.5
Supply and commercialisation	20	19	5.3
Unión Fenosa Gas	10	26	(61.5)
Other activities	151	131	15.3
Total capital expenditure	**1,406**	**1,543**	**(8.9)**

GAS NATURAL FENOSA allocated 66.5% of capital expenditure to regulated gas and electricity distribution businesses, which will strengthen their contribution to consolidated EBITDA.

In the geographic scope, Spain remains the main recipient of investment with 70% of consolidated capital expenditure.

Capital expenditure in Latin America remains focused on Brazil, Mexico and Colombia.

Analysis of results by activity

Gas distribution in Spain

This area includes regulated gas distribution, third-party access and secondary transportation, as well as the distribution activities that are charged for outside the regulated remuneration (meter rentals, customer connections, etc.) in Spain.

GAS NATURAL FENOSA made commitments to divest certain gas distribution assets under the plan of action approved by the Spanish National Competition Commission (CNC) in connection with the acquisition of Unión Fenosa.

On 30 April 2010, the sale of low-pressure gas distribution assets, specifically 507,726 supply connections and 3,491 km of distribution networks, was completed. Also in line with commitments to Spain's National Competition Commission as a result of the Unión Fenosa acquisition, on 30 June 2011 the company completed the sale of another 304,456 natural gas supply points in Madrid (with a consumption of 1,439 GWh) to the Madrileña Red de Gas group for €450 million, i.e. a gross capital gain of €280 million. As a result of these divestments, there are notable variations when comparing the two years.

Results

	2011	2010	%
Net sales	1,240	1,299	(4.5)
Purchases	(12)	(18)	(33.3)
Personnel costs, net	(71)	(67)	6.0
Other expense/income	(261)	(299)	(12.7)
EBITDA	**896**	**915**	**(2.1)**
Depreciation and amortization	(284)	(289)	(1.7)
Change in operating provisions	-	-	-
Operating income	**612**	**626**	**(2.2)**

Net sales in the gas distribution business in Spain totalled €1,240 million and EBITDA amounted to €896 million in 2011.

Main aggregates

The main aggregates in gas distribution in Spain were as follows:

	2011	2010	%
Gas TPA sales (GWh)	201,231	207,174	(2.9)
Distribution network (Km)	43,871	44,931	(2.4)
Change in connections points ('000)	81	84	(3.6)

Conection points (at 31/12)	5,050	5,274	(4.2)

GAS NATURAL FENOSA continues to expand its distribution network and the number of distribution connections.

On 28 February 2011, the company acquired from Distribuidora Sureuropea de Gas (Grupo Corporación Llorente) a number of distribution and secondary transportation assets in the Andalusia and Castilla-La Mancha regions (101 km. of grid and 4 industrial connections) for €27 million.

On 31 December 2011, Spain's Ministry of Industry issued Order ITC/3587/2011, which established the tolls and fees for third-party access to gas installations and the remuneration for regulated gas activities in 2012. The order maintained the system for calculating the distribution remuneration as amended the previous year, updating the remuneration for 2012 in accordance with the actual IPH index for October 2011. The initial remuneration recognised for GAS NATURAL FENOSA in 2012 is €1,119 million.

Gas distribution in Latin America

This division involves gas distribution in Argentina, Brazil, Colombia and Mexico.

	2011	**2010**	**%**
Net sales	2,585	2,645	(2.3)
Purchases	(1,659)	(1,748)	(5.1)
Personnel costs, net	(89)	(81)	9.9
Other expense/income	(216)	(181)	19.3
EBITDA	**621**	**635**	**(2.2)**
Depreciation and amortization	(113)	(112)	0.9
Change in operating provisions	(14)	(7)	100.0
Operating income	**494**	**516**	**(4.3)**

EBITDA amounted to €621 million, a 2.2% decrease on 2010. This activity registered strong growth, despite the unusual events that occurred in 2010 and the impact of the weather, which led to a radical reduction in gas distribution to thermal power plants in Brazil, supply cuts in industrial markets and in automotive natural gas in Colombia, and a decline in residential consumption in Mexico. Excluding these and the currency effect, EBITDA would have increased by 4.9%.

Brazil and Colombia together accounted for 80.0% of total EBITDA; the gas distribution business in Colombia absorbed the sharp impact of the recent tax reform, specifically an amendment to Act 1370 to tax wealth as of 1 January 2011, although the tax is payable in 8 instalments between 2011 and 2014.

Moreover, and as a result of the cold wave, Decree 4825 was enacted in Colombia after a state of economic and social emergency was declared, increasing that tax by 25% to raise funds for relief efforts after the severe floods.

Net sales totalled €2,585 million, a 2.3% decline.

Main aggregates

The main physical aggregates in gas distribution in Latin America are as follows:

	2011	2010	%
Gas activity sales (GWh):	191,031	200,995	(5.0)
Tariff gas sales	114,559	128,141	(10.6)
TPA	76,472	72,854	5.0
Distribution network (Km)	65,831	64,492	2.1
Change in connections points ('000)	217	243	(10.7)
Connection points (000) (at 31/12)	5,882	5,665	3.8

The key physical aggregates by country in 2011 are as follows:

	Argentina	Brazil	Colombia	Mexico	Total
Gas activity sales (GWh)	76,172	49,810	17,345	47,704	191,031
Change vs. 2010 (%)	2.1	(22.4)	7.3	3.7	(5.0)
Distribution network	23,312	6,137	19,463	16,919	65,831
Change vs. 31/12/2010 (km)	307	131	453	448	1,339
Connections points ('000 at 31/12)	1,492	842	2,291	1,257	5,882
Change vs. 31/12/2010 ('000)	34	25	108	50	217

There were a total of 5,882,000 gas distribution connections in 2011. High year-on-year growth rates were maintained, and the number of distribution connections increased by 217,145; notably, Colombia added 108,000 distribution connections.

Sales in the gas activity in Latin America, which include both gas sales and TPA (third-party access)services, totalled 191,031 GWh, a 5.0% decrease with respect to the previous year. This slight decline is due primarily to lower sales for power generation in Brazil due to the fact that reservoir levels were much higher than in 2010.

The distribution grid expanded by 1,339 km (+2.1%) in the last 12 months, to 65,831 km at the end of December 2011.

Highlights of activities in Latin America:

- In Argentina, negotiations with the government on the application of the new tariff framework are continuing. The customer base and gas sales increased by 2%, and the company continued to curtail expenditure sharply in a situation of high inflation (23.4%).

- Business in Brazil expanded, with a 55% net increase in customers and a 19% increase in installations due to strong growth in property development, which is being driven by social programmes implemented by the Brazilian government.

- Gas sales increased by 7% in Colombia due to the larger customer base (mainly in residential, commercial, industrial and TPA markets) while average residential consumption also increased.

- In Mexico, installations expanded by 18% with respect to 2010, i.e. 78,099 new customers.

Gas distribution Other (Italy)

The business in Italy also includes gas sales at the regulated tariff.

Results

	2011	2010	%
Net sales	238	210	13.3
Purchases	(129)	(103)	25.2
Personnel costs, net	(14)	(15)	(6.7)
Other expenses/income	(25)	(22)	13.6
EBITDA	**70**	**70**	**-**
Depreciation and amortization	(23)	(22)	4.5
Change in operating provisions	(4)	(6)	(33.3)
Operating income	**43**	**42**	**2.4**

Gas supply and commercialisation in Italy contributed €70 million in EBITDA, i.e. 5.4% more than in 2010, after adjusting for the €3 million in compensation received in 2010 as a result of the regulator's decision in November 2010.

The improvement in EBITDA is attributable primarily to the higher margin on gas sales due to supplying natural gas obtained under GAS NATURAL FENOSA's own natural gas procurement contracts. Specifically, in 2011, fifteen shiploads of liquefied natural gas (5,373 GWh) were regasified at the Panigaglia plant.

Main aggregates

	2011	2010	%
Gas activity sales (GWh):	3,578	3,387	5.6
Tariff gas sales	2,730	2,741	(0.4)
TPA	848	646	31.3
Distribution network (km)	6,736	5,849	15.2
Connections points ('000) (at 31/12)	440	422	4.3

GAS NATURAL FENOSA in Italia now has 440,297 supply points in the gas distribution business, an increase against 31 December 2010 of 4.3%.

On 22 December 2011, Gas Natural Distribuzione Italia acquired the Favellato Reti Gas group, which distributes to 22 municipalities in southwest Italy with 9,669 gas distribution points.

A total of 3,578 GWh of gas were distributed, i.e. 5.6% more than in 2010.

The distribution grid expanded by 887 km in the last 12 months, to 6,736 km at 31 December 2011. This growth included the acquisition of assets from the Favellato Reti group, which added 324 km to the grid.

Electricity distribution in Spain

The electricity distribution business in Spain includes regulated distribution of electricity and network services for customers, basically connections and hook-ups, metering and other actions associated with third-party access to GAS NATURAL FENOSA's distribution network.

Results

	2011	2010	%
Net sales	922	884	4,3
Purchases	-	-	-
Personnel costs, net	(114)	(108)	5,6
Other expenses/income	(128)	(131)	(2,3)
EBITDA	**680**	**645**	**5,4**
Depreciation and amortization	(220)	(213)	3,3
Change in operating provisions	(1)	(12)	(91,7)
Operating income	**459**	**420**	**9,3**

On 31 December 2011, Ministerial Order IET/3586/2011 was published in the Official State Gazette, establishing tolls for third-party access as from 1 January 2012, the tariffs and premiums for special regime facilities, and the regulated revenues for transmission, supply and commercialisation access management.

The Order includes the definitive values for distribution remuneration for 2010, which had been considered provisional to date. It also establishes the provisional remuneration for 2011 and 2012. According to the provisional figures for 2011, remuneration from distribution increased by 4% year-on-year and from supply access management remained on par with 2010 figures.

Specifically, the initial remuneration recognised for GAS NATURAL FENOSA in 2012 is €862 million for distribution and €41 million for transportation.

Consequently, net revenue increased by 4.3% with respect to 2010 and is in line with the performance of regulated revenues discussed above and with other revenue performance (meter rental, connection fees, etc.).

Recurrent personnel costs remained on par with 2010 (and even absorbed part of the adjustments due to collective agreements) and the increase shown in the table reflects spending that is non-recurrent and not comparable with the previous year.

The other expenses/income item reflects the increase in efficiency obtained by improving processes, which provided for EBITDA of €680 million, i.e. up 5.4% with respect to 2010.

Main aggregates

	2011	2010	%
Electric activity sales (GWh):	33,916	34,465	(1.6)
Tariff electricity sales	-	6	-
TPA	33,916	34,459	(1.6)
Connection points (000) (at 31/12)	3,748	3,719	0.8
ICEIT (minutes)	42	61	(31.1)

Third-party access reflects the decline in consumption throughout Spain due not only to the current economic situation but also to very mild weather in the last few months of the year.

There were no relevant incidents in the period due to the facilities' good performance as a result of investment in recent years and ongoing maintenance, together with favourable weather. As a result, the ICEIT (installed capacity equivalent interrupt time) improved by almost 20 minutes compared with 2010, when performance was very positive (just 42 minutes).

The performance by quality, service and network energy efficiency indicators reflects the success of the ongoing capital expenditure plans, the quality of the network architecture and the allocation of considerable human resources and funds to operation and maintenance.

Electricity distribution in Latin America

This division involves gas distribution in Colombia, Guatemala, Nicaragua and Panama.

The sale of the electricity distribution business in Guatemala led to its deconsolidation on 1 June 2011.

Results

	2011	2010	%
Net sales	2,290	2,200	4.1
Purchases	(1,723)	(1,580)	9.1
Personnel costs, net	(42)	(54)	(22.2)
Other expenses/income	(219)	(176)	24.4
EBITDA	**306**	**390**	**(21.5)**
Depreciation and amortization	(71)	(89)	(20.2)
Change in operating provisions	(102)	(124)	(17.7)
Operating income	**133**	**177**	**(24.9)**

EBITDA from the electricity distribution business in Latin America amounted to €306 million, 21.5% less than last year. Excluding the currency effect, the divestment of electricity distribution companies in Guatemala and the weather, EBITDA would have expanded by 6.8%.

This unusual trend is attributable in part to the distribution business in Colombia, where the amendment to Act 1370 was approved, taxing wealth as of 1 January 2011, although the tax is payable in 8 instalments from 2011 to 2014.

Moreover, and as a result of the cold wave, Decree 4825 was enacted in Colombia after a state of economic and social emergency was declared, increasing that tax by 25% to raise funds for relief efforts after the severe floods. This weather event had a sharp effect on energy demand and prices which, through the pass-through clauses, had a notable impact on the tariff and on the efficacy of the execution of operating plans in the affected areas. But for these effects, EBITDA from the Colombian distribution business would have increased by 4.6%

In May 2011, GAS NATURAL FENOSA sold its stakes in distribution companies DEORSA and DEOCSA to UK fund Actis; those companies together distribute electricity to all of Guatemala except for the capital city and the Departments of Sacatepéquez and Escuintla; also included in the sale were the stakes in other companies in the energy business in Guatemala. The transaction price was US$345 million. As a result of this divestment, the Guatemala electricity distribution business contributed to the Latin America electricity distribution business EBITDA for only the first five months of 2011.

The sharp increase in the price of #6 fuel oil increased the cost of unrecognised losses. On 15 June 2011, Nicaragua approved a 41.9% increase in the tariff, which partly offset the higher fuel price. To shield end users from the impact of this increase, it will be subsidised until the renewable energy plants come into operation.

Main aggregates

	2011	2010	%
Electric activity sales (GWh):	17,706	18,002	(1.6)
Tariff electricity sales	16,789	16,979	(1.1)
TPA	917	1,023	(10.4)
Connection points (000) (at 31/12)	3,565	4,901	(27.3)

Electricity sales totalled 17,706 GWh, a moderate decline of 1.6% despite the divestment in Guatemala.

The key physical aggregates by country in 2011 are as follows:

	Colombia	Guatemala	Nicaragua	Panama	Total
Electric activity sales (GWh)	10,524	833	2,584	3,765	17,706
Change vs. 2010 (%)	4.2	(56.9)	6.6	6.2	(1.6)
Connections points ('000 at 31/12)	2,224	-	849	492	3,565
Change vs. 31/12/2010 ('000)	26	(1,422)	41	19	(1,336)
Network loss ratio (%)	18.3	17.2	20.6	10.2	-

Plans to reduce losses performed as expected, except in Colombia, where flooding led to difficulties and delays in execution.

Electricity distribution other (Moldova)

The business in Moldova consists of regulated distribution of electricity and the supply of electricity at the bundled tariff in the capital city and the central and southern regions. GAS NATURAL FENOSA is responsible for 70% of electricity distribution in Moldova.

Results

	2011	2010	%
Net sales	206	188	9.6
Purchases	(157)	(143)	9.8
Personnel costs, net	(8)	(7)	14.3
Other expenses/income	(11)	(11)	-
EBITDA	**30**	**27**	**11.1**

Depreciation and amortization	(6)	(5)	20.0
Change in operating provisions	-	1	-
Operating income	**24**	**21**	**14.3**

The revenues reflect the pass through effect of procurement costs together with the capex plan and operation and maintenance performed in accordance with the country's current regulations.

In local currency terms, the spark spread (revenues-procurement costs) increased by close to 6% with respect to 2010, reflecting basically the regulated remuneration for electricity distribution and electricity supply at the regulated tariff.

Personnel expenses increased by 8.5% in local currency terms due to indexation to the Moldovan CPI (which increased by about 8%). The Other expenses/income item reflects efficiency improvements attained through process enhancement. In local currency terms, this section reflects a decline of almost 3% in current terms due to high inflation.

As a result, EBITDA amounted to €30 million, an 11.1% increase over the same period of 2010. In local currency terms, EBITDA increased by around 8%.

Main aggregates

	2011	2010	%
Electric activity sales (GWh):	2,445	2,366	3.3
Tariff electricity sales:	2,445	2,366	3.3
TPA	-	-	-
Connection points (000) (at 31/12)	820	816	0.5

Electricity demand in GAS NATURAL FENOSA's distribution territory in Moldova increased by 3.3% and distribution points totalled 819,506, an increase compared with 2010.

GAS NATURAL FENOSA continues to implement its plan to improve management in Moldova, focusing essentially on processes linked to energy control in the distribution networks, operating processes associated with the entire customer management cycle, and optimisation of facility O&M; the plan is achieving its objectives.

This plan is driving a steady improvement in basic operating indicators, particularly the network loss indicator, which has improved almost half of a percentage point compared with last year (from 13.6% to 13.1%), making it possible to maximise regulated revenues.

There has also been a notable improvement in service quality and network incident ratios. Debt collection ratios are very close to 100%.

Electricity in Spain

This area basically includes power generation in Spain, wholesale and retail electricity supply in the liberalised market in Spain, electricity supply at the last-resort tariff and wholesale electricity trading.

Results

	2011	2010	%
Net sales	5,452	5,420	0.6
Purchases	(4,061)	(3,909)	3.9
Personnel costs, net	(149)	(130)	14.6
Other expenses/income	(433)	(407)	6.4
EBITDA	**809**	**974**	**(16.9)**
Depreciation and amortization	(560)	(537)	4.3
Change in operating provisions	(46)	(50)	(8.0)
Operating Income	**203**	**387**	**(47.5)**

The net turnover from electricity activity in 2011 totals €5,452 million, an increase of 0.6% over last year.

EBITDA amounted to €809 million in 2011, a 16.9% decrease year-on-year.

Higher fuel prices and the consequent increase in generation costs, together with the change in the electricity production mix (i.e. lower hydroelectric output) and the 3.2% decline in output due, among other reasons, to the divestment of the Plana del Vent and Arrúbal CCGTs in the second and third quarters of the year, respectively, reduced EBITDA even though wholesale power prices in Spain were higher.

Electricity demand in mainland Spain amounted to 62,274 GWh, a decline of 2.1% on 2010. Correcting for calendar effects and temperatures, demand declined by 1.2% in 2011, accentuating the trend that started at the beginning of the year, especially in the last two months of 2011, when demand fell by 7%.

Capacity hourly utilisation peaked at 44,107 MW at the end of January, around 700 MW below the record highs of mid-December 2007.

The physical balance of international power flows was a net export in annual terms: a net 6.1 TWh were exported in 2011,i.e. 26.6% less than last year, as a result of higher market prices with respect to 2010.

Special regime power generation declined by a cumulative annual 1.6% on the cumulative 2010 figure. Special regime output thus covered 36.2% of demand, i.e. 1.3 percentage points more than in 2010.

Wind power output was 2.6% lower in the year. Output from other renewable technologies expanded by 5.4% in the year, meaning that special regime output as a whole increased by 1.6% in 2011. Special regime output thus covered 36.2% of demand, i.e. 1.3 percentage points more than in 2010.

As a result of the decline in demand, and despite the decline in special regime power output, ordinary regime output fell by 5.7%, with reductions in output by all technologies except Spanish coal (due to the Royal Decree on Security of Supply).

In terms of hydroelectric energy capability, 2011 was a dry year, with an exceedance probability of 72% when compared with the historical average, i.e. statistically, only 72 out of every 100 years would be wetter than 2011. Reservoirs in Spain as a whole stood at 50% of capacity in 2011, i.e. 13 points lower than in 2010 (nevertheless, 2010 marked a 10-year record high).

Nuclear output fell by 7.0% in the year, affected by changes in the dates of scheduled shut-downs.

In 2011, coal-fired output increased by 96.7%, covering 15.9% of demand, i.e. twice the 2010 figure. This figures is clearly impacted by the entry into force on 26 February 2011 of the Royal Decree on Security of Supply, which enabled some coal plants to become operational again after being closed for almost two years in some cases.

In 2011 there was no oil-fired output in the ordinary regime.

CCGT output fell by 21.6% in 2011 as a whole, covering 19.5% of demand (down from 24.3% in 2010).

The upward trend in prices that started in the second quarter of last year began to ease as a result of several factors: less output by hydroelectric plants and wind farms plus a decline in commodities prices in the fourth quarter with respect to the third quarter. Average prices in the daily wholesale market exceeded €60/MWh on several occasions, and reached €66.4/MWh on 17 October 2011 (the highest level in the fourth quarter); then they declined slightly in November (reaching the lowest level in 2011), but recovered in December.

The weighted average price in 2011 was €50.8/MWh, i.e. €12.7 more than in 2010 (+33%)

As for other commodities, the average price of Brent crude increased by 40% year-on-year in 2011.

Main aggregates

The main aggregates in GAS NATURAL FENOSA's electricity business in Spain were as follows:

	2011	2010	%
Installed capacity (MW):	12,760	14,637	(12.8)
Ordinary Regime	11,699	13,679	(14.5)
Hydroelectric	1,901	1,860	2.2
Nuclear	595	589	1.0
Coal	2,048	2,048	-
Oil/gas	157	617	(74.6)
CCGT	6,998	8,565	(18.3)
Special Regime	1,061	958	10.8
Electricity generated (GWh):	38,081	38,338	(0.7)
Ordinari Regime:	35,701	35,809	(0.3)
Hydroelectric	2,892	4,752	(39.1)
Nuclear	4,378	4,325	1.2
Coal	4,464	772	478.2
Oil/gas	-	32	-
CCGT	23,967	25,928	(7.6)
Special Regime	2,380	2,529	(5.9)
Electricity sales (GWh):	35,905	40,559	(11.5)
Liberalised market	27,058	30,179	(10.3)
Last resort tariff / regulated	8,847	10,380	(14.8)

The change in ordinary regime installed capacity with respect to 31 December 2010 is due to a number of factors:

- Capacity increased in 2011 by 58.5 MW at Unit 1 of the Almaraz nuclear power plant (6 MW attributable to GAS NATURAL FENOSA), by 8 MW at the Puente Nuevo and Burguillo hydroelectric plants, by 32 MW at the Belesar, Albarellos and Tambre 2 plants, and by 65 MW at the Málaga and Barcelona Port CCGTs as a result of the new tests.

- Authorisation for the closure and discontinuation of activity in 2011 of the two oil-fired units at the Sabón plant (460 MW).

- Finally, in 2011 the two units of the Plana del Vent CCGT plant (833 MW) were sold to the company Alpiq, and the Arrúbal CCGT plant (799 MW) was sold to Contour Global.

GAS NATURAL FENOSA's power generation in mainland Spain fell by 0.7% in 2011, with a decline of 0.3% in ordinary regime output (vs. a 5.7% decline throughout Spain) and a decline of 5.9% in special regime output.

Hydroelectric output in 2011 amounted to 2.892 GWh, 39.1% less than in 2010. The year proved to be very dry in the watersheds where GAS NATURAL FENOSA operates, with an exceedance probability of 92% (i.e. probability that the period's energy capability will be exceeded, based on the historical record of average energy capability). Reservoirs in the watersheds were at 36.6% of capacity at 31 December 2011, i.e. 13 percentage points less than at 31 December 2010; however the reservoirs had been at 10-year record highs since the middle of June 2010.

Nuclear energy production has increased as a whole for the year by 1.2%.

The entry into force of the Royal Decree on Security of Supply resulted in GAS NATURAL FENOSA's Anllares, La Robla 2 and Narcea 3 plants working continuously, with coal-fired output in the year totalling 4,464 GWh, compared with 772 GWh in 2010.

GAS NATURAL FENOSA'S CCGT output declined by 7.6% in 2011, due to the sale of the Arrúbal and Plana del Vent units. CCGT output in Spain as a whole fell 21.6%.

The company's share of the ordinary regime power generation market at 31 December 2011 was 20.8%, 0.6 percentage points more than in the same period of 2010, despite the above-mentioned divestments.

The electricity supply area sold 35,905 GWh in 2011, including supply to the liberalised market and under the social (last-resort) tariff, i.e. 11.5% less than in 2010. The reduction in the electricity supply portfolio is in line with the company's strategy of maximising margins, optimising market share, and hedging against price variations in the electricity market.

Total emissions of CO_2 from thermal power plants and CCGTs affected by the regulation governing greenhouse gas emission trading was 13.4 million tonnes. GAS NATURAL FENOSA acquired the emission rights needed to cover its shortfall through the secondary market, primary projects and carbon funds, thereby managing its CO_2 emission right hedges for the 2008-2012 and post-Kyoto periods.

Under its commitments, during April 2011 GAS NATURAL FENOSA supplied the Spanish National Register of Greenhouse Gas Emission Rights (RENADE) with the rights equivalent to the CO_2 emissions certified at its conventional thermal and CCGT plants in 2010, a total of 9.7 million tonnes of $CO2_2$ including emission rights from Clean Development and Joint Implementation mechanisms.

The company traded over 50,000 GWh in the Iberian electricity market in 2011.

Energy trading in the French and German electricity markets in 2011 was performed via Virtual Power Plant (VPP) auctions, energy sales in grid loss auctions in France, and sales in organised markets and OTC; the company managed more than 970 GWh.

As regards crossborder trading between Spain-France and Germany-France, GAS NATURAL FENOSA optimised and diversified its position, participating in the organised markets in those countries and buying interconnection capacity in short- and medium-term auctions, trading over 108 GWh in 2011.

Finally, in CO_2 emission trading, in 2011 the company traded more than 120 Mt of CO_2 emission permits in numerous deals involving EUA rights and CER/ERU and VER credits, both in organised markets and with counterparties for a wide range of products.

Through spot and forward trading GAS NATURAL FENOSA actively manages its position and optimises its margins and exposure, while also developing its own trading business.

With respect to the special regime, the installed capacity of GAS NATURAL FENOSA at 31 December 2011 increased by 95.5 MW net (110.4 MW consolidated) as a result of increasing its stakes in various wind energy companies, explained below. Following those acquisitions, GAS NATURAL FENOSA has a consolidable total of 1,061 MW in operation under the special regime, of which 925 MW are wind, 69 MW are small hydroelectric and 67 MW are cogeneration.

Special regime output was 5.9% lower than in 2010 (2,380 GWh vs. 2,529 GWh). This change in output is primarily attributable to the fact that there were stronger winds and more precipitation in the first few months of 2010, with wind output declining by 7.1% and small hydroelectric output by 9.6% this year. In contrast, cogeneration output increased by 1.7%. Nevertheless, EBITDA increased by 5.3% to €140 million.

GAS NATURAL FENOSA has submitted bids in a tender in Andalusia for a total of 340 MW in 12 wind farms, the announcement of the successful bidder being due in the first quarter of 2012.

In November 2011, the results of the Extremadura government's wind farm tender were made public, GAS NATURAL FENOSA having bid for a total of 185 MW in 5 wind farms. It was awarded 86 MW in 4 wind farms, making it one of the most successful bidders.

As regards tenders already awarded, in the Canary Islands the company continues developing the 102 MW gross capacity which it was awarded, and progress is being made towards the obtainment of the environmental and town planning permits needed for administrative authorisation.

The paperwork for the wind farm concessions awarded to the company in Catalonia is still under way; the company submitted the execution design and applied for administrative authorisation in August 2011.

In Galicia, the paperwork is advancing for the grid connection for the 285 MW net capacity that was awarded and in the preparation of the industrial plans.

On 13 September 2011 the sale agreement was concluded with ACS for a net 95,5 MW package in 5 wind farms, representing its investment in 6 investees together with GNF Renovables. GAS NATURAL FENOSA now has a majority shareholding and control in these investees, increasing its operations in the Andalusia, Catalonia and Galicia regions.

Finally, the designs are complete for the three wind farms awarded in the Aragón wind tender and will be submitted in the first quarter of 2012.

Work continues on schedule for the construction of the Belesar II and Peares II small hydroelectric plants in Galicia and the J. García Carrión cogeneration plant in Castilla-La Mancha.

On 28 December 2011, the contract was signed with GAMESA to purchase its Altos do Seixal wind farm in Galicia, with an installed capacity of 30 MW, which will be added to GAS NATURAL FENOSA's capacity in 2012.

Electricity Latin America

This section includes electricity generation in Mexico, Puerto Rico, Panama and the Dominican Republic.

Currently operational assets in Mexico are the Hermosillo (270 MW) and Naco Nogales (300 MW) power plants in Sonora state; the Tuxpan III and IV (1,000 MW) power plants in Veracruz state and the Norte Durango (450 MW) plant in the state of Durango, also in north-western Mexico.

On 24 December 2009, GAS NATURAL FENOSA reached an agreement to sell part of its power generation business in Mexico and divested 2,233 MW of installed capacity. The transaction was completed on 3 June 2010; consequently, the information for 2010 includes those assets, which were deconsolidated in May 2010.

Results

	2011	2010	%
Net sales	865	954	(9.3)
Purchases	(548)	(607)	(9.7)
Personnel costs. net	(15)	(19)	(21.1)
Other expense/income	(57)	(65)	(12.3)
EBITDA	**245**	**263**	**(6.8)**
Depreciation and amortization	(101)	(105)	(3.8)
Change in operating provisions	-	(4)	-
Operating income	**144**	**154**	**(6.5)**

EBITDA in the period amounted to €245 million, i.e. 6.8% less than the same period of 2010, or 8.7% higher excluding the assets divested in 2010.

Excluding the impact of the divestments, EBITDA in Mexico would have increased by 21.8%, mainly due to the entry into operation of the Norte Durango plant, which was not operational until 3Q10. On 14 October 2011, an incident occurred during the maintenance work at block 3 of the CCGT in Tuxpan. The recovery plan enabled 50% of capacity to be restored by 1 December 2011, and 75% by 15 December. The remaining 25% is expected to be recovered by 14 February 2012.

Output levels in Panama were maintained but at lower prices compared with the previous year; as a result, EBITDA declined by 11.6%, or 7.3% at constant exchange rates.

In the Dominican Republic, EBITDA fell by 16.6%, or by 12.1% at constant exchange rates, as a result of a greater number of major maintenance operations at the plants.

Main aggregates

The main aggregates are as follows:

	2011	2010	%
Installed capacity (MW):	2,520	2,505	0.6
Mexico (CCGT)	2,035	2,020	0.7
Puerto Rico (CCGT)	254	254	-
Panama (hydroelectric)	22	22	-
Panama (thermal)	11	11	-
Dominican Republic (oil-fired)	198	198	-
Electricity generated (GWh):	17,506	19,147	(8.6)
Mexico (CCGT)	14,662	16,182	(9.4)
Puerto Rico (CCGT)	1,700	1,803	(5.7)
Panama (hydroelectric)	118	116	1.7
Panama (thermal)	19	16	18.8
Dominican Republic (oil-fired)	1,007	1,030	(2.2)

The reduction in output in Mexico is due to the sale of power plants in 2010. Excluding this effect, output by the plants in operation increased by 1,770 GWh, basically as a result of the entry into service of Norte Durango.

The Panama plants' availability increased by 9% as the Los Algarrobos hydroelectric plant operated at 100% capacity.

Availability in Puerto Rico increased by 7.9% as a result of the major overhaul of Unit II in the first quarter of 2010. Output did not increase since dispatching was reduced as a result of transmission line repairs.

Output in the Dominican Republic was affected by incidents at the La Vega plant on 21 July 2011 and again on 25 September, which reduced capacity to 60%. The Recovery Plan brought the plant's capacity up to 80% by the end of the year, and the remainder is expected to be recovered in the first quarter of 2012.

Electricity Other (Kenya)

This area refers to power generation in Kenya.

The prevailing very dry weather in Kenya throughout most of 2011 increased the load factor of the thermal power plants, resulting in a sizeable increase in electricity output.

Results

	2011	2010	%
Net sales	126	96	31.3
Purchases	(102)	(71)	43.7
Personnel costs. net	(2)	(2)	-
Other expenses/income	(8)	(8)	-
EBITDA	**14**	**15**	**(6.7)**
Depreciation and amortization	(5)	(6)	(16.7)
Change in operating provisions	-	-	-

Operating income	**9**	**9**	**-**

EBITDA amounted to €14 million in 2011 as a result of high output and a high level of availability (close to 88%), which is the factor determining capacity revenues. The considerable increase in world fuel prices in 2011 and the scheduled maintenance shut-downs led to a slight decline in EBITDA with respect to the previous year.

Main Aggregates

The main aggregates of the activity are the following:

	2011	**2010**	**%**
Electric generation capacity (MW)	112	112	-
Electric energy production (GWh)	767	645	18.9

Diesel-fired output in Kenya in 2011 (767 GWh) was 18.9% higher than in 2010. This increase is attributable to strong demand for thermal power in Kenya as a result of the low precipitation during most of the year and, consequently, the low level of water in the hydroelectric reservoirs.

Infrastructure

This area includes the development of integrated liquefied natural gas (LNG) projects, hydrocarbon exploration, development and production, maritime transportation, and the operation of the Maghreb-Europe gas pipeline.

Results

	2011	**2010**	**%**
Net sales	289	264	9.5
Purchases	(58)	(12)	383.3
Personnel costs, net	(8)	(6)	33.3
Other expense/income	(39)	(55)	(29.1)
EBITDA	**184**	**191**	**(3.7)**
Depreciation and amortization	(65)	(50)	30.0
Change in operating provisions	-	-	-
Operating income	**119**	**141**	**(15.6)**

Net turnover from infrastructure activity has totalled €289 million, an increase of 9.5%.

EBITDA for 2011 totals €184 million, 3.7% lower than last year. This decrease is mainly due to due mainly to the negative impact of the currency effect on international transportation in 2011. Additionally, revenues were lower due to the lower occupancy rate of the fleet, attributable to the political problems in Libya.

Main aggregates

The main aggregates in international gas transportation are as follows:

	2011	2010	%
Gas transportation-EMPL (GWh):	111,855	109,792	1.9
Portugal-Morocco	31,286	29,052	7.7
GAS NATURAL FENOSA	80,569	80,740	(0.2)

The gas transportation activity conducted in Morocco through companies EMPL and Metragaz represented a total volume of 111,855 GWh, 1.9% higher than last year. Of that figure, 80,569 GWh were transported for GAS NATURAL FENOSA through Sagane (on par with last year's figure), and 31,286 GWh for Portugal and Morocco (+7.7% year-on-year).

In October, EMPL signed a contract with Morocco's Office National de l'Electricité (ONE) to transport 0.6 bcm of gas per year, delivered by Sonatrach to ONE at the Algeria-Morocco border, to ONE's plants.

In the gas exploration and production area, options are being explored for developing the first well in the Tangier-Larache (Morocco) concession, in which GAS NATURAL FENOSA has a 24% stake.

In the integrated project being developed in Angola by GAS NATURAL FENOSA (20%) with Repsol, since drilling in the Garoupa II block gave positive results, another well is being prepared so as to continue with the exploration phase.

As part of the Villaviciosa concession in northern Spain, where GAS NATURAL FENOSA has a 70% stake, additional geological studies are being performed, which will conclude the evaluation of its potential.

The company continued to advance the paperwork for the five exploration, production and storage projects planned for the coming years in the Guadalquivir Valley (Marismas, Aznalcazar and Romeral areas). On 30 September 2010, the company obtained an Environmental Impact Assessment for the first of the five projects. Subsequently, on 15 November 2010, the Andalusia Regional Government issued a Combined Environmental Authorisation for the project, which is a prerequisite for obtaining approval from the Ministry of Industry, Tourism and Trade. On 15 July 2011, the Spanish Cabinet approved a Royal Decree for adapting the concessions in the Marismas district by authorising gas storage and setting the basic operational and economic conditions. On 14 November 2011, the Doñana Natural Space authorised two projects in the area.

The development of two regasification terminals in Italy is currently at the permit phase. The Trieste-Zaule project completed the permit process at national level in July 2009 by obtaining the Environmental Impact Assessment (VIA) Decree; after the commencement of a round of contacts between affected public administrations in the fourth quarter of 2011, it is awaiting the Single Authorisation from the regional government to commence construction; that authorisation is expected to be obtained in the first half of 2012. The process of obtaining permits for the Taranto project, as required under Italian legislation, is continuing.

Both projects are on-shore, located in the port areas of the respective cities, and have a planned regasification capacity of 8 bcm/year; investment per terminal will be approximately €500 million. These plants will enable the company to diversify its sources of natural gas supply in Italy and provide continuity in this energy supply, in line with the objectives of the Italian government's energy policy.

Supply and commercialisation

This area includes gas procurement and supply (wholesale and retail) in Spain and other countries, the supply in Spain of products and services related to supply, and supply of gas at the last-resort tariff in Spain.

Results

	2011	2010	%
Net sales	8,603	7,678	12.0
Purchases	(7,945)	(7,345)	8.2
Personnel costs, net	(46)	(64)	(28.1)
Other expenses/income	(168)	(212)	(20.8)
EBITDA	**444**	**57**	**678.9**
Depreciation and amortization	(14)	(14)	-
Change in operating provisions	(47)	(31)	51.6
Operating income	**383**	**12**	**-**

Net sales amounted to €8,603 million, 12.0% more than last year. EBITDA in 2011 totalled €444 million, having risen significantly compared with 2010 EBITDA, which included the net effect of a number of non-recurring items totalling €305 million, particularly the additional provision for liabilities deriving from the dispute with Sonatrach. Excluding this effect, EBITDA would have risen by 22.7%.

Diversification of the portfolio of commodities and combined management of the commodity and dollar risks mitigated the decline in EBITDA in a context of significant volatility in the energy and currency markets.

Main aggregates

The main aggregates in the gas procurement and supply activity are as follows:

	2011	2010	%
Gas supply (GWh)	308,635	305,704	1.0
Spain:	236,902	250,885	(5.6)
GAS NATURAL FENOSA supply(1)	169,204	184,744	(8.4)
Supply to third parties	67,698	66,141	2.4
International:	71,733	54,819	30.9
Europe	25,088	21,122	18.8
Other	46,645	33,697	38.4
Multiutility contracts (at 31/12)	1,682	1,521	10.6
Contracts per customer (at 31/12)	1.35	1.32	2.3

(1) Does not include exchange transactions with energy companies.

GAS NATURAL FENOSA supplied 169,204 GWh in the Spanish gas market, an 8.4% decline with respect to last year, primarily due to lower sales to residential customers as a result of divestment. The company sold 67,698 GWh of gas to third parties for supply to the Spanish market, a 2.4% increase.

With a view to guaranteeing gas exports from Spain to Portugal, GAS NATURAL FENOSA is using the gas grid connections in Campomaior (south-east) and Valença do Minho (north).

Gas Natural Europe (the French subsidiary for supply in Europe), currently has 499 customers in France in a range of sectors, from industrial companies (chemicals, paper mills, etc.) to local governments and the public sector, accounting for a total portfolio of 13.7 TWh.

The French supply subsidiary has 213 distribution connections in Belgium and Luxembourg, representing a contracted portfolio of over 1.9 TWh per year. GAS NATURAL FENOSA aims to increase gas supply in Europe. To that end, it opened an office in The Netherlands in September 2011. It is also considering an entry into other central European markets in the short term by offering a combination of customised energy consulting with the advantage of a diversified, secure supply.

Additionally, Gas Natural Vendita has obtained more customers in the Italian wholesale market and its portfolio under contract amounts to 2,382 GWh per year. It also supplies energy to residential customers in its retail business (a contracted portfolio of over 2,700 GWh).

GAS NATURAL FENOSA participated in the TURGAS auction, organised by OMEL, for the sale of natural gas to last-resort supply companies for the period from 1 July 2011 to 30 June 2012. It was awarded 510 GWh in the auction.

In line with its objectives, the company also continues to expand in Portugal, where it had a contracted portfolio of 3.4 TWh in 2011, i.e. 12.4% of the industrial market and over 5% of the market as a whole.

GAS NATURAL FENOSA further increased the diversification of its gas sales in Latin America, Asia, North America, and elsewhere. Noteworthy is the company's participation in Argentina, where it was awarded the last concession by Enarsa in the fourth quarter of 2011 to supply gas in 2012, thereby strengthening its presence and consolidating its position as Argentina's largest gas supplier.

The company continues to take steps to develop energy options for vehicles in Spain, in both the public and private sectors. The company is an expert in automotive LNG, a business which it already conducts in several Latin American countries and Italy, where automotive natural gas is widely used.

GAS NATURAL FENOSA undertakes end-to-end management of the process, from construction of service stations (capital cost and subsequent operation and maintenance) to the supply of compressed natural gas, thereby ensuring maximum availability of the facilities. It has 23 service stations selling 684 GWh/year; it also has 11 customers in the pipeline which represent an additional 225 GWh/year.

In the fourth quarter of 2011, the company started up new public gas filling stations in Madrid, Villaba (Pamplona), Salt (Gerona) and Murcia; the latter two also service municipal waste collection trucks. Those four stations represent potential consumption of 75.2 GWh/year.

GAS NATURAL FENOSA is also working on actions to foster energy efficiency and the rational use of electricity in the field of transport. We are developing value propositions which complement our existing range of products and services, with a view to improving our customers' energy efficiency.

In Galicia, the company is also managing the network of electric vehicle recharging stations in the city of A Coruña and is adapting charging stations to accommodate the full range of electric vehicles.

As regards one-off contracts in the private sector, GAS NATURAL FENOSA ended 2011 with 4 new contracts for over 55 GWh of primary energy and a portfolio of over 40 bids for primary energy amounting to more that 350 GWh and with the possibility of signing contracts in the first half of 2012.

With regard to energy efficiency projects aimed at more standard customer segments (homeowner associations and the tertiary and industrial markets), GAS NATURAL FENOSA added 198 new customers and ended the year with a total of 1,829 customers.

In 2011, GAS NATURAL FENOSA obtained more than a million new gas and electricity contracts, activated 469,000 services contracts and increased the number of gas+power customers by over 180,000. GAS NATURAL FENOSA now has over 1.68 million domestic maintenance contracts with residential customers based on its own operating platform consisting of over 164 associated firms connected via an online system, which has enabled it to improve service performance and quality (our customers rate this as our top service).

GAS NATURAL FENOSA continues to add features and users to its online customer management system. The site received 4.7 million visits in 2011, 20% more than in 2010. Over 340,000 customers now receive their bill online.

In 2011, the company began marketing all its products and service in all of Spain, it activated 926,000 new residential contracts and continued to expand in the SME market, obtaining over 107,000 contracts.

At the end of 2011, GAS NATURAL FENOSA had over 10.4 million active contracts. Sales efforts were increased, with the result that 82% more contracts were activated with respect to 2010. Retail sector contracts rose by 4%.

Unión Fenosa Gas

This area includes wholesale and retail gas procurement and supply performed by Unión Fenosa Gas, including the liquefaction plant in Damietta (Egypt), the Sagunto regasification plant, and the LNG tankers fleet.

Results

Unión Fenosa Gas is owned 50% by GAS NATURAL FENOSA and is proportionately consolidated.

	2011	2010	%
Net sales	1,011	849	19.1
Purchases	(694)	(580)	19.7
Personnel costs, net	(11)	(12)	(8.3)
Other expenses/income	(29)	(33)	(12.1)
EBITDA	**277**	**224**	**23.7**
Depreciation and amortization	(157)	(146)	7.5
Change in operating provisions	-	-	-
Operating income	**120**	**78**	**53.8**

EBITDA amounted to around €277 million in 2011, 23.7% more than in 2010. This increase was attained through more efficient management of procurements, logistics and infrastructure, and despite a 4.3% decline in sales volumes in Spain. Moreover, intense activity outside Spain provided a high margin in 2011.

Main aggregates

The main aggregates for the Unión Fenosa Gas business are as follows:

	2011	2010	%
Gas supply in Spain (GWh)	56,937	59,518	(4.3)
Gas supply in International (GWh)	26,503	27,774	(4.6)
Liquefaction (GWh)	42,831	35,851	19.5
Regasification (GWh)	42,845	56,092	(23.6)

There was a 4.3% year-on-year decline in gas supply in Spain in 2011, to 56,937 GWh. The decline in volume sales in the fourth quarter reduced full-year demand numbers in all segments: CCGT -2.5%,industrial -5.6% and sales to suppliers -19.2%.

Additionally, a total of 26,503 GWh of energy was traded in 28 international transactions in Japan, India, Taiwan, Korea, Argentina, France and Portugal.

The gas acquired under long-term contracts with Egypt and Oman in 2011 covered the bulk (86%) of the gas needs in the Spanish market in the period.

The main gas infrastructure (liquefaction, shipping and regasification) maintained levels of availability and efficiency in line with last year.

The Damietta (Egypt) liquefaction plant increased production with respect to 2010. The plant delivered 48 shiploads (39 in 2010), of which 29 were for Unión Fenosa Gas and the remainder for other operators.

The Sagunto regasification plant produced 42,845 GWh, i.e. 65 shiploads, of which 22 were for Unión Fenosa Gas (43.8% of the total volume).

Saggas commenced operation of its fourth LNG storage tank in November 2011. This tank, whose construction commenced in 2009, increased storage capacity by 33% (to 600,000 m^3 of LNG). Saggas' current installed regasification capacity is 1,000,000 m^3/h, i.e. it can meet up to 25% of Spain's demand for natural gas.

2. Risk factors related to the activity of GAS NATURAL FENOSA

a) Uncertainty of the macro-economic environment

In the last few months the international economy and financial system have gone through a period of considerable turbulence and uncertainty, especially in the financial markets, which began in August 2007 and which has deteriorated substantially since September 2008. This uncertainty has severely impacted the general levels of liquidity and credit available, as well as the terms and conditions for the same, which has contributed to an increase in the financial burden of homes and industrial customers of GAS NATURAL FENOSA, thus reducing their purchasing power and affecting demand adversely.

GAS NATURAL FENOSA cannot predict the trend in the economic cycle in the next few years nor whether there the current recession in the international economic cycle will take a turn for the worse.

b) GAS NATURAL FENOSA may not be successful in the roll out of its business strategy

Given the risks to which it is exposed and the uncertainties inherent in its business, GAS NATURAL FENOSA cannot ensure that it will be able to successfully implement its business strategy. The scope of and compliance with its strategic objectives are subject, amongst others risk factors, to:

- the lack of an increase in the number of supply points in Europe and Latin America, due to the fact that GAS NATURAL FENOSA cannot expand the distribution network;
- a failure to increase in the number of customers due to the lack of success of the marketing campaigns for liberalized market consumers;
- the enabling of take or pay clauses in supply contracts, which would involve the obligation to pay for a volume of gas exceeding the needs of GAS NATURAL FENOSA;
- the lack of success in the consolidation of the electricity production business in Spain conditioned by subsidised technology incentives;
- the incapacity to consolidate the multi-service business strategy or to increase the number of multi-product contracts per customer.

c) Regulatory risk

GAS NATURAL FENOSA and its subsidiaries are obligated to comply with the legislation in the natural gas and electricity sectors. Especially, the gas and electricity distribution business is regulated in most of the countries in which GAS NATURAL FENOSA carries out this business.

The applicable legislation to the natural gas and electricity sectors in the countries in which the GAS NATURAL FENOSA Group operates is typically subject to periodical revision by the competent authorities. The introduction of modifications could impact the remuneration of the regulated activity, adversely affecting the business, profits, grants and the financial position of GAS NATURAL FENOSA.

In the event that public or private entities interpret or apply criteria other than those of GAS NATURAL FENOSA, its compliance would be questioned or challenged, and, if any non-compliance were proven, this could adversely affect the business, outlook, profits, grants and financial position of GAS NATURAL FENOSA.

d) Operational risk

GAS NATURAL FENOSA activities are exposed to different operational risks, such as breakdowns in the distribution network, electricity generation facilities and the gas tankers, explosions, polluting emissions, toxic spills, fire, adverse meteorological conditions, contractual breaches, sabotage or accidents affecting the gas distribution network or electricity generation assets, as well as defects and force majeur that could result in personal and/or material damages, impairment of facilities or property of GAS NATURAL FENOSA or their destruction. Events such as these, or the like, are unpredictable and can cause interruptions in the supply of gas and the production of electricity. In situations of this type, in spite of the existence of the pertinent coverage through risk insurance policies, insurance on potential loss of profit and damages, the financial position and results of GAS NATURAL FENOSA may be affected to the extent that these losses are not insured, or coverage is insufficient, or economic losses are generated as a result of the limitation of coverage or deductibles borne, as well as for potential increases of the prices of the premiums paid in the insurance market.

We should also mention that GAS NATURAL FENOSA could be subject to civil liability claims for personal and/or other damages caused during the ordinary course of its business. The filing of these claims could lead to the payment of indemnities under applicable legislation in those countries in which GAS NATURAL FENOSA operates, which could give rise, to the extent that these civil liability insurance policies do not cover the indemnities, to an adverse material effect on the business, outlook, financial position and results.

e) Gas and electricity price risks

GAS NATURAL FENOSA is exposed to variations in crude oil, natural gas and electricity prices.

A major part of the operating expenses of GAS NATURAL FENOSA is linked to the purchase of natural gas and liquefied natural gas (LNG) for commercialisation on the deregulated market and to supply regulated markets. Likewise, its combined cycle plants use natural gas as fuel.

Although the prices that GAS NATURAL FENOSA applies to the sale of gas to its customers corresponds generally to market prices, in very volatile environments, the fluctuations in sale prices may not reflect the proportional fluctuations in the cost of raw materials. In addition to the costs related to the gas business, the rises in the prices of natural gas could lead to an increase in the costs of electricity production, given that the combined cycle plants of GAS NATURAL FENOSA use natural gas as fuel.

The GAS NATURAL FENOSA business includes, amongst other activities, the wholesale commercialisation of natural gas to electricity generators and other customers. With respect to these operations, the income and results of GAS NATURAL FENOSA usually depend to a great extent on the market prices in the regional markets in which it operates and in other competitive markets. As a result, the wholesale commercialisation of natural gas is exposed to the risk of fluctuation in raw material prices and the price of electricity.

The variations in the price of raw materials could adversely affect the results of GAS NATURAL FENOSA if the increase in generation costs is not recouped through sale prices of electricity, or in general, in the gas area, if we cannot attain a degree of efficiency in the management of the customer portfolio to permit a recovery through the commercialisation of the fluctuations in the energy scene.

f) Gas Volume risk

Most of the purchase of natural gas and liquefied natural gas (LNG) are made through long-term contracts that include clauses under which GAS NATURAL FENOSA has the obligation to make annual purchases for certain volumes of gas (known as "take or pay" clauses). Under these contracts, in spite of the fact that GAS NATURAL FENOSA does not need to acquire the gas volume agreed at a specific time, it will be contractually obligated to pay the minimum amount agreed under these "take-or-pay" clauses.

The aforementioned contracts contain certain gas volumes that relate to the estimated needs of GAS NATURAL FENOSA. However, the real needs may be lower than those forecasts at the time the contracts were signed. If there are significant variations in these estimates, GAS NATURAL FENOSA will be obligated to acquire a greater volume of gas than it actually needs, or failing this, to pay for a minimum amount of gas agreed, irrespective of whether it acquires the surplus over its needs, which could have an adverse, significant impact on the operating costs of GAS NATURAL FENOSA.

g) Environmental requirements

The activities of GAS NATURAL FENOSA are subject to compliance with extensive legislation on environmental protection.

GAS NATURAL FENOSA and its subsidiaries are subject to strict compliance with extensive legislation on environmental protection that requires, amongst other points, the preparation of environmental impact evaluation studies, obtaining the pertinent authorisations, licences and permits, as well as compliance with certain requirements, including, amongst others, the fact that:

- the environmental authorisations and licenses may not be granted or may be revoked due to non-compliance with the conditions that are imposed thereunder.
- the regulatory framework or its interpretation by the authorities could be modified or changed, which could lead to an increase in costs or deadlines in order to comply with the new regulatory framework.

h) Interest and exchanges rate risk

Variations in interest rates modify the fair value of the financial assets and liabilities that accrue a fixed interest rate, as well as the cash flows from financial assets and liabilities indexed to a floating interest rate, and, accordingly, they affect both equity and net incomes, respectively.

On the other hand, GAS NATURAL FENOSA is exposed to the risk related to the variation in currency exchange rates. These variations could affect, amongst other things, the debt of GAS NATURAL FENOSA denominated in non-euro currencies, to the operations that GAS NATURAL FENOSA carries out in other currencies that generate income denominated in another currency, as well as the counter-value of the cash flows related to the purchase and sale of raw materials denominated in non-euro currencies. The fluctuations in the exchange rate between the Euro and the US Dollar, the currency in which gas purchases are made by GAS NATURAL FENOSA are denominated in or pegged to, could also affect the results and financial position of GAS NATURAL FENOSA.

In spite of the fact that GAS NATURAL FENOSA has proactive management policies for the risks mentioned above in order to minimise their impact on its net income, in some cases these policies may be ineffective in mitigating the adverse effects inherent in the fluctuation in interest rates and exchange rates, and could adversely and significantly affect net income and the financial position of GAS NATURAL FENOSA.

i) Impact of meteorological conditions

Electricity and natural gas demand is linked to climate. A major part of gas consumption during the winter depends on the production of electricity and its use for heating, while during the summer months consumption depends on the production of electricity for air conditioning, basically. The income and net income of GAS NATURAL FENOSA from the distribution and commercialisation of natural gas could be affected adversely by warm falls or mild winters. Likewise, the demand for electricity could decline if summers are not hot, due to less demand for air conditioning. Furthermore, the occupancy degree of hydro-electric plants depends on the level of precipitation where these installations are located, which can be affected by periods of drought.

j) Evolution of electricity sector activities

The development of the electricity business of GAS NATURAL FENOSA is subject to different factors beyond the control of GAS NATURAL FENOSA, which are the following

- increases in the cost of generation, including the increases in the fuel price;
- loss of competitiveness with other technologies, due to the increase in the cost of generation using natural gas;
- a possible decrease in the growth rate of electricity consumption due to different factors, such as economic conditions or the implementation of energy savings programs;
- inherent risks in the operation and maintenance of electricity plants;
- the growing volatility in price due to the deregulation of the sector and changes in the market;
- a overcapacity situation of electricity production or in the markets in which GAS NATURAL FENOSA is the owner of generation plants or has an interest in them;
- the appearance of alternative energy sources due to the new technologies and growing interest in renewable energy and cogeneration.

k) Exposure in Latin America

A major portion of operating profit of GAS NATURAL FENOSA is generated by its Latin American subsidiaries. The operations in Latin America are exposed to different risks inherent in investment in that region. Amongst the risks factors linked to the investment and business in Latin America are:

- major influence on the economy by local governments;
- Significant fluctuation in the economic growth rate;
- High inflation rates
- Devaluation, depreciation or overvaluation of local currencies;
- Controls or restrictions on the repatriation of profits;
- Changing environment for interest rates;
- Changes in financial economic and tax policies;
- Unexpected changes in regulatory frameworks;
- Social tensions
- Political and macro-economic instability.

GAS NATURAL FENOSA cannot predict the way in which any future worsening of the political and economic situation in Latin American could take place or any other changes in legislation in the countries in which it operates.

3. Environment and technological innovation

Information on the environment is set out in Note 37 to the Annual Accounts.

GAS NATURAL FENOSA allocates a major portion of its resources and efforts to R&D&i, in order to optimise resources, develop new technologies and keep abreast of the technological advances in the sectors in which it operates.

GAS NATURAL FENOSA participates in domestic and international sectorial and business organisation. The collaboration in institutions of this type allows the Company to remain in the lead of sectorial knowledge and permits it to be identified as a benchmark in its various areas of activity.

4. Outlook

On 27 July 2010 GAS NATURAL FENOSA issued its new 2010-2014 Strategic Plan, which replaced the 2008-2012 Strategic Plan of GAS NATURAL and the Bigger Plan of UNIÓN FENOSA.

Under the heading 'grow by integrating markets', the four basic axes on which the new Strategic Plan is based are to consolidate the current position of GAS NATURAL FENOSA in Spain and Latin America, vertically integrating up and midstream, entering new markets by replicating its business model in Spain, especially in markets in the Atlantic and Mediterranean basins, and, finally, opting decisively for continued emphasis on efficiency.

This Strategic Plan will allow GAS NATURAL FENOSA to position itself as a leading world company in gas distribution, a leader in efficiency in the Iberian Peninsula and Latin America, the third largest utility company in the Iberian Peninsula, the third largest LGN operator in the world and the third largest combined cycle operator in the world.

The acquisition of Unión Fenosa, S.A. by Gas Natural SDG, S.A. was adopted by the CNC on 11 February 2009, subject to various commitments. Since then, GAS NATURAL FENOSA has carried out different transactions and agreements thanks to which it will meet most of the commitments imposed by the CNC:

- On 31 December 2009, the low-pressure gas distribution assets in the Cantabria and Murcia regions were sold.
- On 30 April 2010 GAS NATURAL FENOSA sold different natural gas supply and distribution assets in the Region of Madrid.
- On 12 July 2010 GAS NATURAL FENOSA reached an agreement on the sale of the combined cycle plant in Plana del Vent to a Spanish company in the Swiss Alpiq energy group. This agreement represents the first step in the process of divestment of generation capacity through combined cycle plants, as imposed by the CNC and in which GAS NATURAL FENOSA continue working.
- On 17 December 2010, GAS NATURAL FENOSA sold its 35% stake in Gas Aragón, S.A. a Endesa Gas, S.A.U.
- On 30 June 2011, GAS NATURAL FENOSA sold approximately 300,000 additional gas supply points in the Madrid region to a company of the Madrileña Red de Gas Group.
- On 28 July 2011, GAS NATURAL FENOSA sold the Arrúbal CCGT plant (La Rioja), with an installed capacity of 800 MW, to a company of the Contour Global Group.
- On 30 June 2011, GAS NATURAL FENOSA sold approximately 245,000 additional gas customers and other related contracts in the Madrid region to the Endesa Group. This transaction completes the company's fulfilment of the new commitments acquired with the National Competition Commission for the UNIÓN FENOSA acquisition and is subject to the obtainment of the relevant permits.

In addition to the divestments required to meet the obligations imposed by the CNC, throughout 2011 and 2010 different agreements were reached on the sale of other assets:

- On 14 April 2010 GAS NATURAL FENOSA announced the completion of the private placement of its 5% stake in Indra Sistemas, S.A. (INDRA) and its final sale.
- On 3 June 2010 GAS NATURAL FENOSA completed the divestment of part of its electricity generation business in Mexico.
- On 30 November 2010 GAS NATURAL FENOSA sold certain assets that make up the electricity transport network to Red Eléctrica de España for €46.9 million.
- On 19 May 2011, GAS NATURAL FENOSA sold its stake in the Guatemala electricity distribution companies to companies owned by the fund Actis.
- On 2 August 2010, GAS NATURAL FENOSA and Enel Green Power agreed to terminate collaboration on renewable energies which until that date were carried out through Enel

Unión Fenosa Renovables, S.A. (EUFER), the company in which company held a 50% stake. Once authorised, the transaction was completed on 27 May 2011. Following the deal, each shareholder received approximately one-half of EUFER's assets.

The combination of GAS NATURAL and UNIÓN FENOSA permitted the identification of major operating and tax synergies. On 31 July 2008 operating synergies of €300 million/year as from 2011 were announced.

Throughout 2009 these initial estimates and the final forecasts announced in November 2009 improved the following synergies:

- €350 million in annual operating synergies, of which €260 million will be cost savings and €90 million in income through synergies.
- €200 million in CAPEX synergies.

Throughout 2010 these estimates have improved and the latest projections issued in November 2010 contemplate the following synergies:

- €475 million in annual operating synergies, of which €343 million would be cost savings and €132 million revenues from synergies.
- €275 million in CAPEX synergies.

Detailed action plans have been prepared and put into motion in order to reach the 2011 synergy target.

The organic growth and integration and use of operating synergies based on the integration of the assets of GAS NATURAL and UNIÓN FENOSA, a balanced, moderate risk management, optimisation of the joint investment plan, and a decrease in the risk of execution of the growth strategy of the resulting group, should generate value for the shareholders of both companies.

With respect to financial discipline, GAS NATURAL FENOSA has the intention of optimizing its financial structure and maintaining a solid balance. GAS NATURAL FENOSA is reducing its debt thanks to divestments and cash generation from the businesses and expects that the leveraging will continue to diminish. Bonds were issued for a total of €8,050 million between 2009 and 2011 to maximise the financial structure. GAS NATURAL FENOSA will continue to seek to optimize its financial structure in the financial markets.

5. Annual Corporate Governance Report

Attached hereto as an Appendix to this Directors' Report, and forming an integral part of the same, is the Annual Corporate Governance Report for 2011, as required under article 526 of the Spanish Capital Companies Act.

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