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

AUDITOR´S REPORT ON THE CONSOLIDATED ANNUAL ACCOUNTS

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

We have audited the consolidated annual accounts of Gas Natural SDG, S.A. (the Company) and its subsidiaries (the Group), consisting of the consolidated balance sheet at 31 December 2012, 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 of the Company are responsible for the preparation of these consolidated annual accounts in accordance with the International Financial Reporting Standards as endorsed by the European Union, and other provisions of the financial reporting framework applicable to the Group. Our responsibility is to express an opinion on the consolidated annual accounts taken as a whole, based on the work performed in accordance with the legislation governing the audit practice in Spain, which requires the examination, on a test basis, of evidence supporting the consolidated annual accounts and an evaluation of whether their overall presentation, the accounting principles and criteria applied and the estimates made are in accordance with the applicable financial reporting framework.

In our opinion, the accompanying consolidated annual accounts for 2012 present fairly, in all material respects, the consolidated financial position of Gas Natural SDG, S.A. and its subsidiaries at 31 December 2012, 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 2012 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 2012. 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 Iñaki Goiriena Basualdu
Partner

8 February 2013

PricewaterhouseCoopers Auditores, S.L., Avinguda Diagonal, 640, 08017 Barcelona, España
T: +34 932 532 700 F: +34 934 059 032, www.pwc.com/es

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GAS NATURAL FENOSA
2012 Annual Report

CONSOLIDATED ANNUAL ACCOUNTS

Consolidated balance sheet
Consolidated income statement
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GAS NATURAL FENOSA

Consolidated Balance Sheet **(Million Euros)**

	31.12.12	**31.12.11**
ASSETS		
Intangible assets (Note 5)	10,764	11,080
Goodwill	5,837	5,876
Other intangible assets	4,927	5,204
Property, plant and equipment *(Note 6)*	22,308	22,744
Investments recorded using the equity method *(Note 7)*	100	99
Non-current financial assets *(Note 8)*	983	1,024
Deferred income tax assets *(Note 21)*	1,036	975
NON-CURRENT ASSETS	**35,191**	**35,922**
Non-current assets held for sale (*Note 9*)	-	23
Inventories *(Note 10)*	897	879
Trade and other receivables *(Note 11)*	5,106	5,192
Trade receivables	4,557	4,577
Other receivables	453	497
Current income tax assets	96	118
Other current financial assets *(Note 8)*	1,259	1,388
Cash and cash equivalents *(Note 12)*	4,434	3,098
CURRENT ASSETS	**11,696**	**10,580**
TOTAL ASSETS	**46,887**	**46,502**
NET EQUITY AND LIABILITIES		
Share capital	1,001	992
Share premium	3,808	3,808
Reserves	7,402	6,900
Net income for the year attributed to the Equity holders of the Company	1,441	1,325
Interim dividend	(391)	(360)
Adjustments for changes in value	-	127
Hedging operations	(19)	(8)
Cumulative translation adjustments	19	135
Net equity attributable to the Equity holders of the Company	**13,261**	**12,792**
Minority interests	**1,618**	**1,649**
NET EQUITY *(Note 13)*	**14,879**	**14,441**
Deferred income *(Note 14)*	878	803
Non-current provisions *(Note 15)*	1,665	1,712
Non-current financial liabilities *(Note 16)*	18,046	17,539
Borrowings	17,815	17,209
Other financial liabilities	231	330
Deferred income tax liability *(Note 21)*	2,688	2,642
Other non-current liabilities *(Note 18)*	834	1,033
NON-CURRENT LIABILITIES	**24,111**	**23,729**
Liabilities linked to non-current assets held for sale *(Note 9)*	-	-
Current provisions *(Note 15)*	144	133
Current financial liabilities *(Note 16)*	2,386	2,853
Borrowings	2,243	2,706
Other financial liabilities	143	147
Trade and other payables *(Note 19)*	4,560	4,671
Trade payables	3,936	3,900
Other payables	526	481
Current income tax liabilities	98	290
Other current liabilities *(Note 20)*	807	675
CURRENT LIABILITIES	**7,897**	**8,332**
TOTAL NET EQUITY AND LIABILITIES	**46,887**	**46,502**

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

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

	2012	2011
Sales *(Note 22)*	24,904	21,076
Procurements *(Note 23)*	(17,309)	(14,074)
Other operating income *(Note 24)*	250	263
Personnel cost *(Note 25)*	(871)	(858)
Other operating expenses *(Note 26)*	(2,163)	(2,013)
Depreciation and amortisation expenses *(Notes 5 and 6)*	(1,798)	(1,750)
Release of fixed assets grants to income and others *(Note 14)*	34	35
Other results *(Note 27)*	20	268
OPERATING INCOME	**3,067**	**2,947**
Financial income	178	137
Finance expense	(1,060)	(1,073)
Variations in fair value of financial instruments	15	2
Net exchange gains/losses	(7)	-
Gain on sales of financial instruments	-	2
NET FINANCIAL INCOME *(Note 28)*	**(874)**	**(932)**
Profit of entities recorded by equity method *(Note 7)*	10	7
INCOME BEFORE TAXES	**2,203**	**2,022**
Income tax expense *(Note 21)*	(546)	(496)
NET INCOME FOR THE YEAR FROM CONTINUING OPERATIONS	**1,657**	**1,526**
CONSOLIDATED NET INCOME FOR THE YEAR	**1,657**	**1,526**
Attributable to:		
Equity holders of the Company	1,441	1,325
Minority interests	216	201
	1,657	**1,526**
Basic and diluted earnings per share in Euros from continuing activities attributable to the equity holders of the parent Company*(Note 13)*	1,45	1,39
Basic and diluted earnings per share in Euros attributable to the equity holders of the parent Company *(Note 13)*	1,45	1,39

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

GAS NATURAL FENOSA

Consolidated Statement of Comprehensive Income (Million Euros)

	2012	2011
CONSOLIDATED NET INCOME FOR THE YEAR	**1,657**	**1,526**
OTHER COMPREHENSIVE INCOME RECOGNISED DIRECTLY IN NET EQUITY	**(224)**	**(146)**
Valuation of available-for-sale financial assets	-	-
Cash flow hedges	(25)	(60)
Cumulate translation adjustment	(153)	(81)
Actuarial gains and losses and other adjustments	(87)	(46)
Tax effect	41	41
RELEASES TO INCOME STATEMENT	**8**	**82**
Valuation of available-for-sale financial assets	-	-
Cash flow hedges	9	103
Cumulate translation adjustment	1	9
Tax effect	(2)	(30)
OTHER COMPREHENSIVE INCOME FOR THE YEAR	**(216)**	**(64)**
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**1,441**	**1,462**
Attributable to:		
Equity holders of the Company	1,260	1,281
Minority interests	181	181

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**	**Net income for the year**	**Adjustments for change in value**	**Subtotal**	**Minority interests**	**Net Equity**
Balance at 1.1.11	**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**
Total comprehensive income for the year	-	(54)	1,441	(127)	**1,260**	181	**1,441**
Dividends distribution	-	934	(1,325)	**-**	**(391)**	(204)	**(595)**
Acquisition of free allocation rights (Note13)	-	(379)	-	**-**	**(379)**	-	**(379)**
Capital increase (Note 13)	9	(9)	-	**-**	**-**	-	**-**
Increase/decrease for Business Combinations	-	-	-	**-**	**-**	-	**-**
Other variations	-	(21)	-	**-**	**(21)**	(8)	**(29)**
Balance at 31.12.12	**1,001**	**10,819**	**1,441**	**-**	**13,261**	**1,618**	**14,879**

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

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

	2012	2011
Income before tax	**2,203**	**2,022**
Adjustments to net income:	**2,540**	**2,510**
Depreciation and amortisation expenses	1,798	1,750
Other adjustments to net income	742	760
Changes in working capital	**(7)**	**(1,298)**
Other cash flow generated from operations:	**(1,299)**	**(1,097)**
Interest paid	(827)	(845)
Interest collected	91	59
Income tax paid	(563)	(311)
CASH FLOW GENERATED FROM OPERATING ACTIVITIES (*Note 29*)	**3,437**	**2,137**
Cash flows into investing activities:	**(2,138)**	**(2,750)**
Group companies, associates and business units	(29)	(76)
Property, plant and equipment and intangible assets	(1,441)	(1,456)
Other financial assets	(668)	(1,218)
Proceeds from divestitures:	**933**	**2,521**
Group companies, associates and business units	53	685
Property, plant and equipment and intangible assets	25	539
Other financial assets	855	1,297
Other cash flows from investing activities:	**127**	**153**
Proceeds from dividends	3	4
Other proceeds/(payments) from/(of) investing activities	124	149
CASH FLOW RECEIVED FROM INVESTING ACTIVITIES	**(1,078)**	**(76)**
Receipts/(payments) for equity instruments:	**(379)**	**500**
Issue	-	515
Acquisition	(379)	(15)
Cash flows from financing activities:	**(17)**	**(166)**
Proceeds from borrowings	5,442	4,514
Repayment of borrowings	(5,459)	(4,680)
Dividends paid	**(566)**	**(445)**
Other cash flows from financing activities	**(58)**	**(55)**
CASH FLOW RECEIVED FROM FINANCING ACTIVITIES	**(1,020)**	**(166)**
Effect of exchange rates on cash and cash equivalents	**(3)**	**-**
VARIATION IN CASH AND CASH EQUIVALENTS	**1,336**	**1,895**
Cash and cash equivalents at beginning of the year	3,098	1,203
Cash and cash equivalents at year end	4,434	3,098

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 2012

Note 1. General information

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

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

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

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

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

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

Note 2. Regulatory framework

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 organisation 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 re-gasification, storage and transport in the strict sense) and natural gas distribution. The non-regulated activities comprise production, storage and the supply of natural gas 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).

<u>Regulation of natural gas activities in Spain</u>

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

1. Regulated activities

Regulated activities are characterised by:

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

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

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

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

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

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

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

1.1. Transport

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

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

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

  The transport network is owned mainly by Enagás, S.A., although certain GAS NATURAL FENOSA companies own a small proportion of it.

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

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.

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

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

The Order IET/849/2012, of 26 April, was published on 26 April 2012, whereby the tolls and levies associated with the access by third parties to gas installations were updated and certain measures were taken related to the financial balance of the gas system, which result in a general increase in tolls of 5% from the application date of the Order (except for the tolls for underground storage, which were held as is, and the cost of gas, which was increased by 35%).

Ministerial Order IET/2812/2012, of 27 December, established the remuneration of the regulated activities of the gas industry for 2013. Specifically, the initial remuneration recognised for GAS NATURAL FENOSA for 2013 totals Euros 1,067 million for distribution activities and Euros 40 million for transport activities.

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 came to be exclusively supplied by commercialisers, and the bundled tariff disappeared, which up to such date was carried out by distribution companies, and the right was given to under 4 bar consumers, who do not exceed a certain consumption threshold (3 GWh, which fell to 2 GWh in July 2009 and 1 GWh in July 2010), to be supplied at a maximum rate that is called the last resort tariff (hereon, TUR).

In order to oversee that consumers do not have practical problems in changing their 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 of July 8, which modifies Order ITC/1660/2009 of June 22, under which the last resort tariff for gas natural will be carried out under the ruling of the General Directorate of Energy Policy and Mines. The fixed and variable terms of the tariffs will be reviewed when there is a modification of the fixed and variables terms of the tolls and levies for access to the system or in the waste coefficients in force. The variable term will be reviewed quarterly, as from the 1st day of the months of January, April, July and October of each year, provided that the cost of raw materials varies upward to downward by 2%.

On 28 April 2012, Resolution of 27 April, of the General Directorate of Energy Policy and Mines, was published, whereby the TUR for natural gas was published, which increased by 4.9% as a result of the increase in tolls and the increase in the cost of natural gas.

On 29 June 2012, Resolution of 28 June 2012, of the General Directorate of Energy Policy and Mines was published, whereby the TUR for natural gas was published, which increased by 2.1% as a result of increase in tolls and increase in the cost of natural gas.

On 31 December 2012, Resolution of 28 December 2012, of the General Directorate of Energy Policy and Mines was published, whereby the TUR for natural gas was published, which did not increase over the previous revision.

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

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 Brazil, Petrobras is the dominant operator. On 29 November 2012 the update of the tariff document of the company Gas Natural Sao Paulo Sul, S.A. was published due to the updating of the average weighted cost of gas and transport. The average tariff increase was 10%.

Regulations in Colombia establish that transporters of natural gas may not directly undertake production, commercialisation or distribution activities, nor hold economic interests in companies that are dedicated to these activities. On the other hand, natural gas commercialisation or distribution companies may not be transporters nor have economic interests in a transport company of this product. Companies that undertake production, sale or distribution activities may undertake commercialisation.

In Mexico, PEMEX is the dominant operator. On 23 February 2011, the new distribution tariff for gas for all the zones in which GAS NATURAL FENOSA distributes gas in Mexico was officially published, resulting in annual tariff increases of between 9% and 13.5%, with the exception of the Los Bajíos zone where the five-yearly tariff revision approved resulted in a tariff increase of 26.8%.

In Argentina, as a result of the 2001 economic crisis, there was a freezing and pesofication of rates. However, since 2007, the Argentine Government has been gradually introducing a stable distributor remuneration system applying the Agreement Act signed in 2005 based on a proper remuneration of assets. Thus, on 10 October 2008, the Argentine Government published a rate increase of between 10% and 30% applicable to Gas Natural BAN, in force as from September 1 of this year to residential and industrial customers and for vehicular natural gas. In spite of this, afterwards, all the tariff revisions that corresponded were not applied, in December 2012 an agreement was signed establishing the application of a fixed amount per invoice with the resulting amounts being considered as advances on account of the adjustments foreseen in the Agreement Act. These amounts must be deposited in a trust account established for this purpose and employed for the development and maintenance of the infrastructure.

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 supplier.

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

The Ministry of Industry, Energy and Tourism is the competent organisation 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 conventional electricity companies, among these GAS NATURAL FENOSA.

The regulation of electricity activities in Spain

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

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 on secondary transport network.

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.

On the date of the preparation of these consolidated annual accounts, the publication of the Ministerial Order that establishes the remuneration for the regulated activities of the electricity sector for 2013 was still pending.

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, natural gas 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 of 23 December was published in the Official State Gazette and established emergency measures for the correction of the tariff deficit in the electricity industry, the main features of which are as follows:

- Companies will finance a social voucher until 2013 and will bear the cost of the energy saving and efficiency policies in the period 2011-2013.
- All electricity producing companies, both under the ordinary regime and the renewable energy and cogeneration regime, will pay a toll of Euros 0.5/MWh.
- The hours having the right to a premium of the solar energy plants are limited to three years, which is what happened to other sectors, such as wind and thermo-solar energy.
- The maximum limits of the tariff deficit in 2010, 2011 and 2012 have been modified in order to adjust it to the deviations, while the point at which tariff adequacy is reached has been maintained for 2013.

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

On 27 January 2012 a Royal Decree-Law introduced temporarily suspension of 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.

On 22 March 2012, the Supreme Court issued a sentence which declared the financing mechanism through the social bond foreseen in Royal decree 6/2009 as being inapplicable by the generation companies, it being contrary to Directive 2003/54 on the interior electricity market.

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

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

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

The principal aspects of these dispositions are:

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

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

- Regarding the costs of generation under the ordinary regime of the peninsular and extra-peninsular electricity systems, it establishes that the revisions of the norms of the remuneration model of the production plants in those systems that develop the content of the Royal Decree Law 13/2012, of 30 March, will be applicable from 1 January 2012. For this purpose, some of the modifications of the remuneration model related to the elimination of expenses of a recurring nature, and to the revision of the financial interest rate on the remuneration, were advanced.
- It was established, for the Autonomous Regions that charge, directly or indirectly, the activities or installations destined to electricity supply, with their own taxes or surcharges on state taxes, are obliged to impose the territorial supplement on the access tolls and final prices, and that this should be paid by the consumers located in the territorial area of the respective Autonomous Regions.

- It was established that the remuneration for transport activities under the concept of investments will be made for those assets in service not yet amortised, applying the net value of these as the base for their financial retribution.
- For the amounts of the income deficit pending in the settlements of the regulated activities of the electricity sector generated in 2006, it was established that the interest rate to be applied is the average of the daily Euribor rate at three month of November of the previous year plus 65 basis points. The difference against the cession price to the Fund would be considered as a cost chargeable to the system.
- The present norm authorises the Ministry of Industry, Energy and Tourism to apply criteria of gradualness to access tolls.

On 28 December 2012, Law 15/2012, of 27 December on fiscal measures for energy sustainability was published, the principal aspects referring to electricity generation are:

- The establishment of a tax on the value of the production of electrical energy, of a direct type and real nature, imposed on the performance of production activities and incorporation of electricity into the Spanish electricity system. The tax will be applied on the production by all the generation installations at a rate of 7%.
- The regulation of two new taxes: the tax on production of nuclear fuel spent and radioactive residue that are the result of the nuclear generation of electricity and the tax on the storage of nuclear fuel generated and radioactive residue in central installations, with the aim of compensating society for the charges that it must bear as a result of this generation.
- Additionally, the Law revises the tax treatment applicable to the various energy generating products employed in the production of electricity. For the activity of generation of electricity from fossil fuels, certain exemptions are abolished while the energy generating products employed for combined generation of heat and electricity are taxed. In the same way, to apply a similar treatment to energy production from fossil energy sources, the tax rate on coal is increased, and at the same time, specific tax rates are created for fuels and gas-oils employed in the production of electricity or in the cogeneration of electricity and usable heat.
- The establishment of a new levy on publicly owned possessions for the use or exploitation of continental water sources in hydroelectric production.

Finally, on 31 December 2012, Royal Decree-Law 29/2012, of 28 December was published, covering the improvement of management and social protection under the Special Regime for Domestic Servants and other measures of an economic and social nature, which establish that the temporary imbalances in settlements in the electricity system that arise in 2012, from the amount that results from the final settlement by the National Energy Commission, will be considered as income deficits in the electricity settlement system for 2012, which will generate collection rights that may be ceded by their owners to the Securitisation Fund for the Deficit of the Electricity System, in addition to the Euros 1,500 millions deficit already recognised in the twenty-first supplementary disposition of Law 54/1997, of 27 November, on the Electricity Sector. Likewise, the prohibition of the *ex ante* deficit from 2013 onwards that this supplementary disposition contemplated is abolished. Moreover, to guarantee the final aim for which the remuneration priority mechanism for installations under special regime was established, that is, to assure an economic regime under the assumed condition of complete execution of the installation within a concrete timeframe, authorisation is introduced for the abolishment or correction of the priority economic regime if noncompliance with the obligations that constitute the essential suppositions upon which the final granting of this special regime was made should appear.

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.

On 29 June 2012, the Resolution of 28 June 2012, of the General Directorate for Energy Policy and Mines, was published, whereby the cost of the production of electricity is established and the TUR to be applied from 1 July 2012, which contemplates an increase in the TUR of 4.3% because of the increase of energy cost resulting from the CESUR auction.

On 29 September 2012, the Resolution of 27 September 2012, of the General Directorate for Energy Policy and Mines, was published, establishing the cost of production of electricity and the TURs to be applied from 1 October 2012, reflecting a decrease in the TUR of 2.29% because of the drop in the cost of energy resulting from the CESUR auction.

On 29 December 2012, the Resolution of 27 December 2012, of the General Directorate for Energy Policy and Mines, was published, which established the cost of energy production and the TURs to be applied from 1 January 2013, showing an increase in the TUR of 3% because of the increase in energy costs resulting from the CESUR auction.

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 a public company, *Comisión Federal de Electricidad* (*CFE*), vertically integrated, which has exclusive rights to conduction, transformation, distribution and supply of electricity in the country. The reform to 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 mainly 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.

Note 3. Basis of presentation and accounting policies

3.1 Basis of presentation

The Consolidated annual accounts of GAS NATURAL FENOSA for 2011 were adopted by the General Meeting of Shareholders of 20 April 2012.

The Consolidated annual accounts for 2012, which were formulated by the Board of Directors on 25 January 2013, 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 2012 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 2012, and the consolidated results of its operations, the changes in the Consolidated statement of comprehensive income, the changes in consolidated net equity and the consolidated cash flows of GAS NATURAL FENOSA for the year then ended.

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

3.2 New IFRS-EU standards and IFRIC interpretation

As a result of the adoption, publication and coming into force on 1 January 2012 the following changes in the standards were applied:

- IFRS 7 (Amendment), "Financial instruments: Disclosures – Transfers of Financial Assets".

The application of the above amendments had no significant impact on the Consolidated annual accounts.

Additionally, in 2012 the Official Gazette of the European Union published the following standards coming into force for financial years beginning on 1 January 2013 and thereafter, which have not been adopted in advance:

- IAS 1 (Amendment), "Presentation of items of other comprehensive income".
- IAS 19 (Amendment), "Employee benefits".
- IFRS 13, "Fair value measurement".
- IFRIC 20, "Stripping costs in the production phase of a surface mine".
- IFRS 7 (Amendment), "Financial instruments: Disclosures – Offsetting financial assets and financial liabilities".
- IAS 32, "Financial instruments: Presentation – Offsetting financial assets and financial liabilities".
- IAS 12 (Amendment), "Deferred tax: Recovery of underlying assets".

Following the analysis of these new accounting standards and interpretation applicable in financial years commencing as from 1 January 2013 and thereafter, GAS NATURAL FENOSA does not expect their application to have significant effects on the Consolidated annual accounts.

Additionally, The European Union has adopted the following standards for the financial years beginning 1 January 2014, which have not been applied in advance:

- IFRS 10, "Consolidated financial statements".
- IFRS 11, "Joint arrangements".
- IFRS 12, "Disclosure of interests in other entities".
- IAS 27 (Amendment), "Separate financial statements".
- IAS 28 (Amendment), "Investments in associates and Joint Ventures".

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

The sale options given to minority shareholders of subsidiary companies in relation to shareholdings in these companies are stated at the current value of the reimbursement, i.e., their exercise price and are carried under “Other non-current liabilities” or “Other 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 Consolidated income statement, and its share of post-acquisition movements in equity is recognized under reserves. Unrealised gains between GAS NATURAL FENOSA and its associates are eliminated in proportion to its interest in the latter.

d) Consolidation scope

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

Appendix II lists the main variations in the consolidation scope in 2012 and 2011.

2012

In 2012 the main variations in the consolidation scope correspond to the disposal, in February 2012, of the assets corresponding to certain clients for gas and associated contracts in the Region of Madrid (Note 9).

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).

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, 2012 and 2011 have been:

	31 December 2012		31 December 2011	
	Closing Rate	Average Accumulated Rate	Closing Rate	Average Accumulated Rate
US Dollar (USD)	1.32	1.28	1.29	1.39
Argentinean Peso (ARS)	6.46	5.82	5.54	5.72
Brazilian Real (BRL)	2.69	2.51	2.43	2.33
Colombian Peso (COP)	2,333	2,311	2,514	2,569
Mexican Peso (MXN)	17.14	16.91	18.09	17.27
Nicaragua Córdoba (NIO)	31.83	30.24	29.72	31.21
Panama Balboa (PAB)	1.32	1.28	1.29	1.39
Moldovan Lei (MDL)	15.99	15.55	15.14	16.30

3.3.3 Intangible assets

a) Goodwill

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

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

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

The impairment losses on goodwill cannot be reversed.

b) Concessions and the like

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

The aforementioned assets related to the service concession agreements under IFRIC 12 are those that the licensor controls the services that GAS NATURAL FENOSA (operator) must provide and the significant residual stake in the infrastructure at the end of the agreement, are set forth in this section in accordance with the accounting model for intangible assets based on the nature of the economic profits to be received by the operator. The income and expenses on construction services or infrastructure improvements are recognized for their gross amount. Given that concession agreements do not specify remuneration for these concepts, it is assumed that fair value of income corresponds to incurred costs without margin. [WU1]

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

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

c) Computer software applications

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

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

d) Research costs

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

e) Other intangible assets

Other intangible assets mainly include the following:

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

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

- The 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 deposit.

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

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

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

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

b) *Amortisation*

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

	Years of estimated useful life
Buildings	33-50
Liquefied natural gas (LNG) transport gas tankers	25-30
Technical installations (pipeline network and transport)	20-40
Technical installations (hydro-electric plants)	14-100
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 amortisation charge for the hydro-electric plants differentiates between the different types of assets they have, distinguishing between the investments in civil works (which are depreciated on the basis of the concession period, or 100 years if there is no concession), electro-mechanical equipment (40 years) and the other fixed assets (14 years), taking into account, in any case, the use of the plant and the maximum term of the concessions (expiring between 2013 and 2060).

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

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

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

c) Exploration operations and production of gas

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

- Explorations costs

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

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

- Investments in areas with reserves

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

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

3.3.5 Impairment of non financial assets

Assets are tested to 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 of sale and value in use calculated by applying the discount cash flow method. In general, GAS NATURAL FENOSA recoverable amount is considered as value in use, for which calculation, is used the methodology described below.

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

These units have been defined using the following criteria:

[GNSS2]

- 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 electricity 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.

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

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

	Rates 2012	**Rates 2011**
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	1.2% -3.0%	1.2% -3.0%
Distribution of electricity Latin America	1.8%	1.8%
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 2012	Rates 2011
Distribution of gas Latin America	15-16%	17-18%
Distribution of gas rest of Europe	9.8%	10.4%
Distribution of electricity Spain	9.6%	9.2%
Distribution of electricity Rest of Europe	9.4-24.4%	10.7% - 24.1%
Distribution of electricity Latin America	16.5%	16.6%
Generation of electricity in Spain	10.1%	10.0%
Generation of electricity – Latin America	6.4-16.9%	6.8% - 16.5%
Electricity Others	11.2%	12.6%
Unión Fenosa Gas	12.6%	12.5%

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 interest of each country at 10 years.
- Deleveraged Beta: According to average of each sector in each case.
- Local current interest rate swaps: 10-year swap.
- Net Equity-debt ratio: Sector average.

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

- Gas and electricity distribution in Spain:

  - The amount and growth of the remuneration approved by the regulator, considering the impact of Royal Decree-Law 13/2012 (Note 2.d).
  - Operational and maintenance costs.
  - Investments.

- 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, operation and maintenance and CO_2 emission rights.
  - The effect of new taxes established by Law 15/2012 (Note 2.d).

- Electricity Latin America and Others:

  - Electricity production in Latin America is protected by energy trading [GNSS3]contracts that are determined by stable business models and are not subject to risks based on the fluctuation of market variables.

- Unión Fenosa Gas:

  - Cost of the gas supplies.
  - Market price of natural gas.

As a result of the process, in 2012 and 2011, 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.

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

3.3.6 Financial assets and liabilities

<u>Financial investments</u>

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 account receivables assignment agreements in 2012 and 2011, 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.

[GNSS4]Borrowings

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

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

Trade and other payables

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

3.3.7 Derivatives and other financial instruments

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

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

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

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

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

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

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

For accounting purposes, the operations are classified as follows:

1. Derivatives qualifying for hedge accounting

a) Fair value hedge

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

b) Cash flow hedge

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

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

c) Hedges of net foreign investments

The accounting treatment is similar to cash flow hedges. The variations in value of the effective part of the hedging instrument are carried on the Consolidated balance sheet under

“Cumulative translation differences”. The gain or loss from the non-effective part is recognised immediately under “Exchange differences” on the Consolidated income statement. The accumulated amount of the valuation recorded under “Cumulative translation differences” is released to the Consolidated income statement as the foreign investment that gave rise to it is sold.

2. Derivatives that do not qualify for hedge accounting

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

3. Energy purchase and sale agreements

During the normal course of its business GAS NATURAL FENOSA enters into energy purchase and sale agreements which in most cases include “take or pay” clauses, by virtue of which the buyer takes on the obligation to pay the value of the energy contracted irrespective of whether he receives it or not. These agreements are executed and maintained in order to meet the needs of receipt of physical delivery of energy projected by GAS NATURAL FENOSA in accordance with the energy purchase and sale estimates made periodically, which are monitored systematically and adjusted 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 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 Deferred income

This caption mainly includes:

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

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

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

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

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

3.3.14 Provisions for employee obligations

a) Post-employment pension and similar obligations

- Defined contribution plans

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

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 under “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 under the caption “Net financial income”.

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.

d) Shares Acquisition Plan

In 2012, a Shares Acquisition Plan 2012-2013-2014 was initiated, addressed to GAS NATURAL FENOSA employees who fulfil certain conditions and join the plan voluntarily, allowing them to receive part of their remuneration in shares of Gas Natural SDG, S.A., to a maximum limit of Euros 12,000. The cost of the shares acquired and delivered to the Group employees as part of their remuneration for the year 2012 amounted to Euros 2 million and is registered under the heading “Personnel cost” in the Consolidated income statement.

3.3.15 Provisions

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

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

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

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

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

In the event that GAS NATURAL FENOSA does not have sufficient 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

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

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

b) Operating leases

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

Lessee accounting

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

Lessor accounting

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

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

3.3.17 Income tax

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

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

Deferred 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 settlement for regulated activities

a) General

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

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

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

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

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

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

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

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

Ministerial Order of 28 October 2002 which regulates the procedures for the payment of the regulated gas activity stipulates that the deviations that come to light from the application of the payment procedure between net payable final income and the accredited remuneration each year, will be taken into account in the calculation of the tolls and levies for the next two years. At the date of formulation of these Consolidated annual accounts the final payments for 2010 and 2011 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 2012 and 2013. It is not expected that the final payments will lead to significant differences in relation to the estimates made.

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

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

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

c) Revenue from electricity business and settlement for regulated activities

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

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

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

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

At[GNSS5] the date of formulation of these Consolidated annual accounts the final payments for the period 2008-2011 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 2012, 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. During the year 2012, the deficit from the years 2006, 2008 and 2009 was fully recovered through the issues of the securitisation fund. As for the deficit for the years 2010, 2011 and 2012, 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.

Sales aggregate includes the amount for the sale of electricity of last resort and the sales made in the deregulated market, since both the seller of last resort and the deregulated seller are considered to be the principal agent and not a commission agent of the delivered supply. Consequently, the sales and purchases of energy are recorded at their total amount. Nevertheless, the purchases and sales of energy to the pool made by these Group generation and 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) *Intangible assets and 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, which have historically been substantially met.

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)*[GNSS6]

Revenue from energy sales is recognized when the goods are delivered to the customer based on periodical meter readings and include the estimated accrual of the value of the goods consumed as from the date of the meter reading until the close of the period. Estimated daily consumption is based on historical customer profiles taking into account seasonal adjustments and other factors than can be measured and may affect consumption.
Historically, no material adjustments have been made relating to the amounts booked as unbilled income and none are expected in the future.

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

Note 4. Segment financial information

An operating segment is a component that carries on business activities from which it may obtain ordinary revenue and incur costs, the operating results of which are reviewed regularly by the 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.* Includes the electricity generation in Spain, Latin America (Costa Rica, Mexico, Puerto Rico, Panama and the Dominican Republic) and Rest (Kenya).

  The Electricity business in Spain includes electricity production activity through combined cycle, thermal, nuclear, hydro, co-generation and wind farm plants[GNSS7], and other special regime 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 and Unión Fenosa Gas.

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

  The Supply and Commercialization business includes the supply and 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, re-gasification 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 and investments for the periods of reference are as follows:

Segmental financial information – Income Statement[GNSS8]

2012	Gas Distribution Spain	Gas Distribution Latin America	Gas Distribution Others	Gas Distribution Total	Electricity Distribution Spain	Electricity Distribution Latin America	Electricity Distribution Others	Electricity Distribution Total	Electricity Spain	Electricity Latin America	Electricity Others	Electricity Total	Gas Infrastructure	Gas Supp. and Commerc.	Gas UF Gas	Gas Total	Other	Eliminations	TOTAL
Sales consolidated	1,135	2,979	285	**4,399**	804	2,512	250	**3,566**	4,952	852	128	**5,932**	111	9,841	638	**10,590**	417		**24,904**
Sales intersegments	131	3	12	**146**	48	1	-	**49**	1,242	7	-	**1,249**	195	1,379	509	**2,083**	196		**3,723**
Sales segment	1,266	2,982	297	**4,545**	852	2,513	250	**3,615**	6,194	859	128	**7,181**	306	11,220	1,147	**12,673**	613	**(3,723)**	**24,904**
Segment supplies	(24)	(1,993)	(170)	**(2,187)**	-	(1,891)	(194)	**(2,085)**	(4,624)	(515)	(100)	**(5,239)**	(56)	(10,245)	(859)	**(11,160)**	(361)	**3,723**	**(17,309)**
Net personnel expenses	(77)	(98)	(15)	**(190)**	(99)	(66)	(8)	**(173)**	(152)	(15)	(2)	**(169)**	(6)	(50)	(12)	**(68)**	(271)	**-**	**(871)**
Other operating income/expenses	(265)	(251)	(29)	**(545)**	(140)	(190)	(13)	**(343)**	(514)	(68)	(11)	**(593)**	(19)	(189)	(20)	**(228)**	65	**-**	**(1,644)**
EBITDA	900	640	83	**1,623**	613	366	35	**1,014**	904	261	15	**1,180**	225	736	256	**1,217**	46	**-**	**5,080**
Other income	-	-	-	**-**	-	-	-	**-**	-	-	-	**-**	-	-	-	**-**	20	**-**	**20**
Amortization expenses	(289)	(116)	(25)	**(430)**	(228)	(70)	(6)	**(304)**	(594)	(111)	(5)	**(710)**	(64)	(15)	(155)	**(234)**	(120)	**-**	**(1,798)**
Debtors provisions and others	-	(15)	(5)	**(20)**	1	(116)	-	**(115)**	(41)	-	-	**(41)**	-	(60)	-	**(60)**	1	**-**	**(235)**
Operating income	611	509	53	**1,173**	386	180	29	**595**	269	150	10	**429**	161	661	101	**923**	(53)	**-**	**3,067**
Net financial income	-	-	-	**-**	-	-	-	**-**	-	-	-	**-**	-	-	-	**-**	-	**-**	**(874)**
Equity-method result	-	-	-	**-**	-	-	-	**-**	-	-	-	**-**	-	-	9	**9**	1	**-**	**10**
Income before taxes	-	-	-	**-**	-	-	-	**-**	-	-	-	**-**	-	-	-	**-**	-	**-**	**2,203**
Income tax expense	-	-	-	**-**	-	-	-	**-**	-	-	-	**-**	-	-	-	**-**	-	**-**	**(546)**
Net income for the period	-	-	-	**-**	-	-	-	**-**	-	-	-	**-**	-	-	-	**-**	-	**-**	**1,657**

2011	Gas Distribution Spain	Gas Distribution Latin America	Gas Distribution Others	Gas Distribution Total	Electricity Distribution Spain	Electricity Distribution Latin America	Electricity Distribution Others	Electricity Distribution Total	Electricity Spain	Electricity Latin America	Electricity Others	Electricity Total	Gas Infrastructure	Gas Supp. and Commerc.	Gas UF Gas	Gas Total	Other	Eliminations	TOTAL
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**
Sales intersegments	108	-	-	**108**	30	2	-	**32**	1,182	9	-	**1,191**	192	1,220	495	**1,907**	163	**-**	**3,401**
Sales segment	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	**(3,401)**	**21,076**
Segment supplies	(12)	(1,659)	(129)	**(1,800)**	-	(1,723)	(157)	**(1,880)**	(4,061)	(548)	(102)	**(4,711)**	(58)	(7,945)	(694)	**(8,697)**	(387)	**3,401**	**(14,074)**
Net personnel expenses	(71)	(89)	(14)	**(174)**	(114)	(42)	(8)	**(164)**	(149)	(15)	(2)	**(166)**	(8)	(46)	(11)	**(65)**	(289)	**-**	**(858)**
Other operating income/expenses	(261)	(216)	(25)	**(502)**	(128)	(219)	(11)	**(358)**	(433)	(57)	(8)	**(498)**	(39)	(168)	(29)	**(236)**	95	**-**	**(1,499)**
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**
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)**
INCN inter segments	-	-	-	**-**	-	-	-	**-**	-	-	-	**-**	-	-	-	**-**	-	**-**	**1,526**

Segmental financial information – Assets, liabilities and investments

	Gas Distribution				Electricity Distribution				Electricity				Gas				Other	
2012	**Spain**	**Latin America**	**Others**	**Total**	**Spain**	**Latin America**	**Others**	**Total**	**Spain**	**Latin America**	**Others**	**Total**	**Infrastructure**	**Supp. and Commerc,**	**UF Gas**	**Total**		**TOTAL**
Assets (1)	3,550	2,591	682	**6,823**	5,284	2,279	172	**7,735**	10,710	1,731	115	**12,556**	1,045	2,257	2,507	**5,809**	2,437	**35,360**
Investments under equity method	-	-	-	**-**	-	-	-	**-**	25	-	-	**25**	-	1	61	**62**	13	**100**
Liabilities (2)	(562)	(562)	(137)	**(1,261)**	(1,003)	(947)	(31)	**(1,981)**	(1,149)	(214)	(21)	**(1,384)**	(57)	(2,599)	(135)	**(2,791)**	(1,158)	**(8,575)**
Investment in intangible assets (3)	16	94	39	**149**	11	2	-	**13**	19	-	-	**19**	2	-	2	**4**	79	**264**
Investm. in property, plant & equipment (4)	241	83	2	**326**	258	130	16	**404**	163	63	-	**226**	23	27	9	**59**	78	**1,093**
Business combinations (5)	-	-	-	**-**	-	-	-	**-**	1	-	-	**1**	-	-	-	**-**	-	**1**

	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.**	**UF 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	-	**226**	27	20	10	**57**	79	**1,230**
Business combinations (5)	-	-	10	**10**	-	-	-	**-**	77	-	-	**77**	-	-	-	**-**	-	**87**

(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 11,527 million at 31 December 2012 (Euros 10,362 million at 31 December 2011).

(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 23,433 million at December 2012 (Euros 23,648 million at December 2011).

(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 for 2011 included 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:

	2012	2011
Spain	14,027	12,224
Rest of Europe	1,268	1,203
Latin America	7,840	6,370
Others	1,769	1,279
Total	**24,904**	**21,076**

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 31.12.12	At 31.12.11
Spain	26,878	27,813
Rest of Europe	854	810
Latin America	6,737	6,582
Others	991	1,034
Total	**35,460**	**36,239**

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 31.12.12	At 31.12.11
Spain	864	975
Rest of Europe	58	54
Latin America	404	345
Others	31	32
Total	**1,357**	**1,406**

Note 5. Intangible assets

The movement in 2012 and 2011 in intangible assets is as follows:

	Concession and other rights to use	Computer software	Other intangible assets	Subtotal	Goodwill	Total
Cost, gross	3,902	588	2,521	**7,011**	6,002	**13,013**
Accumulated Amortisation	(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)**
Amortisation 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 (1)	(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 Amortisation	(1,270)	(378)	(417)	**(2,065)**	-	**(2,065)**
Net carrying value at 1.1.12	**2,595**	**212**	**2,397**	**5,204**	**5,876**	**11,080**
Investment	128	105	31	**264**	-	**264**
Divestitures	-	-	(22)	**(22)**	(1)	**(23)**
Amortisation charge	(115)	(81)	(171)	**(367)**	-	**(367)**
Translation adjustment	(133)	1	(19)	**(151)**	(38)	**(189)**
Business combination (Note 30)	-	-	1	**1**	-	**1**
Reclassifications and others	69	(11)	(60)	**(2)**	-	**(2)**
Net carrying value at 31.12.12	**2,544**	**226**	**2,157**	**4,927**	**5,837**	**10,764**
Cost, gross	3,906	659	2,736	**7,301**	5,837	**13,138**
Accumulated depreciation	(1,362)	(433)	(579)	**(2,374)**	-	**(2,374)**
Net carrying value at 31.12.12	**2,544**	**226**	**2,157**	**4,927**	**5,837**	**10,764**

(1) The year 2011 included transfers to the heading "Non-current assets held for sale" of electricity distribution concessions amounting to Euros 88 million and of goodwill for Euros 69 million from the companies in Guatemala (note 9), as well as Euros 68 million from EUFER (Note 9), which were removed during the year 2011.

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

"Concessions and the like" includes principally:

- The value of the concessions that are considered intangible assets in accordance with IFRIC 12 "Service Concession Agreements" (Note 32), amounting to Euros 1,549 million (Euros 1,535 million in 2011).

- The Maghreb-Europe pipeline concession amounting to Euros 283 million at 31 December 2012 (Euros 315 million at 31 December 2011).

- The electricity distribution concessions in Spain that have an indefinite useful life (Note 32) amounting to Euros 684 million (Euros 684 million at 31 December 2011).

The heading "Other intangible assets" mainly includes:

- Licences to operate wind farms totalling Euros 233 million at 31 December 2012, including the amounts relating to the acquisition of several wind energy companies mentioned in Note 30 (Euros 293 million at 31 December 2011).

- The cost of acquisition of the exclusive regasification rights in Puerto Rico totalling Euros 42 million at 31 December 2012 (Euros 49 million at 31

December 2011).

- The CO_2 emission allowances acquired, for Euros 59 million (Euros 67 million at 31 December 2011).

- Other intangible assets acquired as a result of the business combination of UNIÓN FENOSA totalling Euros 1,799 million at 31 December 2012 (Euros 1,947 million at 31 December 2011) which mainly includes gas supply contracts and other contractual rights.

Set out below is a summary of goodwill assignment by CGU or CGU group:

	At 31.12.12					
	Gas Distribution	**Electricity Distribution**	**Electricity**	**Unión Fenosa Gas**	**Other**	**Total**
Spain	-	1,133	2,863	891	-	4,887
Latin America	65	135	542	-	-	742
Others	143	15	16	-	34	208
	208	**1,283**	**3,421**	**891**	**34**	**5,837**

	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**

The impairment tests have been carried out at 31 December 2012 and 2011. On the basis of the goodwill impairment analysis it was concluded that impairment will not probably arise in the future (Note 3.3.5).

The intangible assets include, at 31 December 2012, fully amortised assets still in use totalling Euros 286 million.

Note 6. Property, plant and equipment

The movements in the accounts in 2012 and 2011 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	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 (1)	(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 1.1.12	**568**	**4,301**	**9,913**	**5,565**	**526**	**836**	**1,035**	**22,744**
Investment	24	312	60	237	-	56	404	**1,093**
Divestitures	(5)	(15)	(9)	(2)	-	(2)	(29)	**(62)**
Amortisation	(24)	(365)	(645)	(287)	(25)	(85)	-	**(1,431)**
Translation adjustment	2	24	(26)	35	-	(10)	4	**29**
Business combinations (Note 30)	-	-	15	-	-	-	-	**15**
Reclassifications and others	1	63	237	128	-	60	(569)	**(80)**
Carrying amount at 31.12.12	**566**	**4,320**	**9,545**	**5,676**	**501**	**855**	**845**	**22,308**
Cost, gross	694	8,582	12,020	6,602	662	1,377	845	**30,822**
Accumulated amortisation	(128)	(4,262)	(2,475)	(926)	(161)	(522)	-	**(8,514)**
Carrying amount at 31.12.12	**566**	**4,320**	**9,545**	**5,676**	**501**	**855**	**845**	**22,308**

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

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

The financial expenses capitalised in 2012 in fixed assets projects during their construction total Euros 12 million [GNSS9][PS10](Euros 17 million in 2011). The financial expenses capitalised in 2012 represent 1.4% of the total financial costs of net borrowings (1.8% for 2011). The average capitalisation rate in 2012 and 2011 totals 3.8% and 4.9%, 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 Group and 2 have been contracted for the joint venture Union Fenosa Gas) under finance leases (Note 18).

"Other Property, plant and equipment" includes at 31 December 2012 the net carrying value of investment in areas with reserves totalling Euros 396 million (Euros 417 million at 31 December 2011), including basically the investments in the coal field belonging to Kangra Coal (Proprietary), Ltd in South Africa and Exploration costs of Euros 74 million (Euros 64 million at 31 December 2011).

Property, Plant and equipment under construction at 31 December 2012 basically include investments in:

- Recurring development of the gas distribution network amounting to 84 million Euros and that of electricity amounting to 219 million Euros.
- Electricity generation stations in Latin America amounting to 110 million Euros.
- Mini hydraulic generation plants amounting to 37 million Euros and wind power parks amounting to 38 million Euros in Spain, the cost of which is expected to be recovered through the income to be received on the market, bearing in mind the new regulatory framework of the special regime (Note 2.d).

Property, Plant and equipment includes, at 31 December 2012, fully depreciated assets in use totalling Euros 1,262 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 200 million at 31 December 2012, basically for the development of the distribution network and other gas infrastructures and the development of the electricity distribution network.

At 31 December 2012 GAS NATURAL FENOSA did not have any significant real estate investment.

Note 7. Investments recorded using the equity method

The movement in 2012 and 2011 in investments measured by equity accounting is as follows:

	2012	2011
At January 1	**99**	**105**
Investment	-	-
Share of loss/profit	10	7
Dividends received	(10)	(7)
Divestments and transfers	1	(6)
At December 31	**100**	**99**

During the year 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).

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

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

	Country	Assets	Liabilities	Income	Net income	Shareholding
2012						
Bluemobility Systems, S.L.	Spain	1	-	-	-	20.0%
Enervent, S.A.	Spain	3	1	2	-	26.0%
Kromschroeder, S.A.	Spain	7	3	6	-	42.5%
Sistemas Energéticos La Muela, S.A.	Spain	2	-	1	-	20.0%
Sistemas Energéticos Mas Garullo, S.A. (1)	Spain	2	-	1	-	18.0%
Sociedade Galega do Medio Ambiente,S.A.	Spain	111	93	45	-	49.0%
Subgrupo Unión Fenosa Gas (1/2)	Spain/Oman	123	60	50	9	3.7-11.6%
Torre Marenostrum, S.L.	Spain	30	22	3	1	45.0%
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	3.7-11.6%
Torre Marenostrum, S.L.	Spain	32	24	3	1	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. and 3G Holdings Limited managed through the Unión Fenosa Gas subgroup.

Note 8. Financial assets

The breakdown of financial assets, excluding those carried under "Trade and other receivables" (Note 11) and "Cash and other cash equivalents" (Note 12), at 31 December 2012 and 2011, classified according to their nature and account, is as follows:

At 31 December 2012	Available for sale	Loans and other receivables	Investments held to maturity	Hedge derivatives	Fair value through profit and loss	Total
Equity instruments	73	-	-	-	-	**73**
Other financial assets	-	908	2	-	-	**910**
Non-current financial assets	**73**	**908**	**2**	**-**	**-**	**983**
Derivatives (Note 17)	-	-	-	3	7	**10**
Other financial assets	-	1,249	-	-	-	**1,249**
Current financial assets	-	**1,249**	-	**3**	**7**	**1,259**
Total	**73**	**2,157**	**2**	**3**	**7**	**2,242**

At 31 December 2011	Available for sale	Loans and other receivables	Investments held to maturity	Hedge derivatives	Fair value through profit and loss	Total
Equity instruments	75	-	-	-	-	**75**
Other financial assets	-	948	1	-	-	**949**
Non-current financial assets	**75**	**948**	**1**	-	**-**	**1,024**
Derivatives (Note 17)	-	-	-	-	-	-
Other financial assets	-	1,388	-	-	-	**1.388**
Current financial assets	-	**1,388**	-	-	**-**	**1,388**
Total	**75**	**2,336**	**1**	-	**-**	**2.412**

Available-for-sale financial assets

The movement of Available for sale financial assets in 2012 and 2011, according with the method applied for calculating their fair value is as follows:

	2012				2011			
	Level 1	**Level 2**	**Level 3**	**Total**	**Level 1**	**Level 2**	**Level 3**	**Total**
At 1 January	**-**	**-**	**75**	**75**	**-**	**-**	**90**	**90**
Increases	-	-	-	-	-	-	3	3
Divestments	-	-	-	-	-	-	(11)	(11)
Business combinations	-	-	-	-	-	-	-	-
Fair value adjustment	-	-	-	-	-	-	-	-
Translation adjustments	-	-	-	-	-	-	(6)	(6)
Transfers and others	-	-	(2)	(2)	-	-	(1)	(1)
At 31 December	**-**	**-**	**73**	**73**	**-**	**-**	**75**	**75**

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.

Loans and other receivables

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

	At 31.12.12	At 31.12.11
Commercial loans	137	118
Deposits and guarantee deposits	150	156
Debtors for levelling of capacity income	22	19
Other loans	599	655
Loans and other receivables non-current	**908**	**948**
Commercial loans	92	73
Tariff deficit	1,065	1,231
Dividend receivable	2	1
Other loans	90	83
Loans and other receivables current	**1,249**	**1,388**
Total	**2,157**	**2,336**

The breakdown by maturities at December 2012 and 2011 is as follows:

Maturities	At 31.12.12	At 31.12.11
No later than 1 year	1,249	1,388
Between 1 year and 5 years	414	444
Later than 5 years	494	504
Total	**2,157**	**2,336**

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 5% and 11% 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 (Note 18).

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 a loan of Euros 254 million (Euros 258 million at 31 December 2011) for financing ContourGlobal La Rioja, S.L. for the sale of the Arrúbal combined cycle plant (La Rioja), which took place on 28 July 2011 (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 133 million (Euros 114 million at 31 December 2011), of which Euros 16 million are classified under current assets.

“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 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 (Note 2.1.1), which revises, as a consequence of the arbitral award, remuneration (2005-2008) for the natural gas supplied to the tariff market deriving from the Algeria contract referred to in Royal Decree 6/2000, and proposes a surcharge to finance the cost incurred as a result of the arbitral award to be paid by the gas system to the company Sagane, S.A., being its recovery irrespective of future sales.

“Other current loans” include value of the deferred amounts pending receipt for the sale of shareholdings mentioned in Note 18 to Chemo España, S.L. for USD 7 million maturing in 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 2012 GAS NATURAL FENOSA has a debt claim for this deficit totalling Euros 1,065 million for 2010 (Euros 305 million), for 2011 (Euros 303 million), and for 2012 (Euros 457 million). These assets accrue market interest rate (Note 2).

During 2012, in addition to the collections received from settlements, nineteen Electricity System Deficit Securitisation Fund issues were completed (eleven issues in 2011), GAS NATURAL FENOSA having collected Euros 692 million as a result of these issues (Euros 1,102 million at 31 December 2011). Debt claims arising from the deficit in settlements for regulated electricity activities have been assigned irrevocably to the Electricity System Deficit Securitisation Fund (FADE).

Hedging derivatives

The variables upon which the valuation of the hedging derivatives reflected under this heading are based and observable in an active market (Level 2).

Note 17 shows the details of the derivative financial instruments.

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

At 31 December 2011, the balance under the heading “Non-current assets held for sale” included the assets corresponding to approximately 245,000 clients for gas and other associated contracts in the Region of Madrid, for which on 30 June 2011 GAS NATURAL FENOSA agreed to their sale to Grupo Endesa for Euros 38 million. This operation fell within the framework of compliance with commitments acquired by GAS NATURAL FENOSA with the National Commission for Competition (hereinafter NCC) for the acquisition of UNIÓN FENOSA. From the date of the agreement, these assets were considered as non-current assets held for sale. Once the corresponding authorisations were obtained, the sale took place on 29 February 2012, generating a capital gain before taxes of Euros 20 million (Note 27).

Additionally, in the year 2011 the following operations were performed:

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 ContourGlobal La Rioja, S.L.. 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 2 August 2010, GAS NATURAL FENOSA and Enel Green Power agreed to terminate their collaboration on renewable energy which until that time was 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 31.12.12	At 31.12.11
Natural gas and liquefied gas	527	513
Coal and fuel oil	241	260
Nuclear fuel	57	52
Raw materials and other inventories	72	54
Total	**897**	**879**

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 31.12.12	At 31.12.11
Trade receivables	5,262	5,150
Receivables with related companies (Note 33)	122	7
Provision for depreciation of receivables	(827)	(580)
Trade receivables for goods and services	4,557	4,577
Public Administrations	146	167
Prepayments	64	57
Derivative financial instruments (Note 17)	28	46
Sundry receivables	215	227
Other receivables	453	497
Current income tax assets	96	118
Total	**5,106**	**5,192**

In general, the outstanding invoices do not accrue interest as they fall due in an average period of 18 days.

The movement in the impairment of receivables is as follows:

	2012	2011
At 1 January	**(580)**	**(383)**
Net charge for the year (Note 26)	(235)	(216)
Write offs	42	42
Translation adjustments and others	(54)	(23)
At 31 December	**(827)**	**(580)**

Note 12. Cash and cash equivalents

Cash and cash equivalents comprise the following:

	At 31.12.12	At 31.12.11
Cash at bank and in hand	1,538	986
Short term investments (Spain and rest of Europe)	2,687	1,907
Short term investments (International)	209	205
Total	**4,434**	**3,098**

The short term investments in cash equivalents mature in less than three months and bear an average effective interest rate 2.0% at 31 December 2012 (3.0% at 31 December 2011).

Note 13. Equity

The main elements of Equity break down as follows:

Share capital and share premium

The variations in 2012 and 2011 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 31 December 2010	**921,757**	**922**	**3,331**	**4,253**
Variation				
Capital increase in cash	38,184	38	477	515
Capital increase in swap	31,731	32	-	32
At 31 December 2011	**991,672**	**992**	**3,808**	**4,800**
Variation				
Capital increase in cash	-	-	-	-
Capital increase in swap	9,017	9	-	9
At 31 December 2012	**1,000,689**	**1,001**	**3,808**	**4,809**

At 31 December 2012 and at 31 December 2011 the total number of authorised ordinary shares was, respectively, 1.000.689.341 and 991.672.139 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 proposal to apply the profits for the year 2011 approved by the General Shareholders Meeting held on 20 April 2012 included the payment of a dividend of Euros 360 million (an amount equal to the interim dividend distributed for the year 2011). The proposal for the application of profits for the year 2010, approved by the General Shareholders Meeting held on 14 April 2011, included the payment of a dividend of Euros 324 million (an amount equal to that distributed as interim dividend on account for the year 2010). Additionally, both in 2011 and in 2010, an increase in fully paid capital was included, through the issue of new ordinary shares, bearing in mind mechanisms to guarantee that those shareholders who so preferred could receive the amount in cash, with the following results:

	2011	**2010**
Termination date of the negotiation period of free assignation rights	13 June 2012	14 June 2011
% acceptance of irrevocable commitment to purchase	81.8%	3.6%
No. of rights acquired	811,328,072	33,272,473
Total value of the rights acquired	Euros 379 million	Euros 15 million
% of new shares	18.2%	96.4%
Shares issued	9,017,202	31,731,588
Nominal value	1 euro	1 euro

The capital increase of 2012 was totally paid up and entered in the Mercantile Registry on 23 June 2011 and the shares issued have been traded on the Stock Exchange since 29 June 2012.

The capital increase of 2011 was totally paid up and registered in the Mercantile Registry on 22 June 2012 and 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 2012, 1,325,160 treasury shares have been acquired for Euros 15 million, of which, 275,490 shares for Euros 2 million have been delivered to the Group's employees as part of their remuneration for 2012 in accordance with the Shares Acquisition Plan 2012-2013-2014 (Note 3.3.14.d) and all the rest have been sold for Euro 13 million. At the 2012 year end, GAS NATURAL FENOSA does not have any treasury shares. In 2011, no transfers of treasury shares took place.

The most representative holdings in the share capital of Gas Natural SDG, S.A. at 31 December 2012, in accordance with the public information available or the communication issued by the Company itself, are as follows:

	Interest in share capital %
- Grupo "la Caixa" (Criteria Caixaholding, S.A.U.)	35.0
- Grupo Repsol YPF	30.0
- Sonatrach	4.0

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

The share price at the end of 2012 of Gas Natural SDG, S.A. is Euros 13.58 (Euros 13.27 at 31 December 2011).

Reserves

Reserves includes the following reserves:

	2012	**2011**
Legal reserve	198	185
Statutory reserve	99	91
Revaluation reserve under RD 7/96	225	225
Goodwill reserve	536	357
Voluntary reserves	5,153	4,491
Other reserves	1,191	1,551
	7,402	**6,900**

Legal reserve

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

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

Statutory reserve

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

Revaluation reserve

The revaluation reserve can be used to offset accounting losses, increase share capital, or can be allocated to freely distributable reserves, provided that that the monetary gain has been realised. The part of the gain that will be considered realised is the part relating to the amortisation recorded or when the revaluated assets have been transferred or written off the books of account.

Goodwill reserve

According to 273 Article of the Spanish Capital Companies Act, [GNSS11]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 31.12.12	**At 31.12.11**
Net income attributable to equity holders of the Company	1,441	1,325
Weighted average number of ordinary shares in issue (million)	996	953
Earnings per share from continuing activities (in Euros):		
- Basic	1,45	1,39
- Diluted	1,45	1,39
Earnings per share from discontinued activities (in Euros):		
- Basic	-	-
- Diluted	-	-

In order to calculate the average weighted number of ordinary shares in circulation in 2012 the shares issued in the capital increases mentioned in the "Share capital and Share premium" section of this Note 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 2012	991,672	366	362,951,952
Capital increase in fully paid	9,017	192	1,731,264
Shares at 1 December 2012	1,000,689	366	364,683,216
Weighted average number of shares for the period			**996,402**

In the year 2011, the calculation of the weighted average number of ordinary shares was 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 Parent Company has no financial instruments that could dilute the earnings per share.

Dividends

The breakdown of the payments of dividends made in 2012 and 2011 is as follows:

	31.12.12			31.12.11		
	% of par value	**Euros per share**	**Amount (1)**	**% of par value**	**Euros per share**	**Amount (2)**
Ordinary shares	36%	0.36	360	35%	0.35	324
Remaining shares (no vote, redeemable, etc.)	-	-	-	-	-	-
Total dividends paid	**36%**	**0.36**	**360**	**35%**	**0.35**	**324**
a) Dividends charged to income statement	36%	0.36	360	35%	0.35	324
b) Dividends charged to reserves or share premium	-	-	-	-	-	-
c) Dividends in kind	-	-	-	-	-	-

(1) Includes the payment of the interim dividend of Euros 0.36 per share, totalling Euros 360 million, agreed on 25 November 2011 and paid on 9 January 2012.

(2) Includes the payment of the interim dividend of Euros 0.35 per share, amounting to a total of Euros 324 million, agreed on 26 November 2010 and paid on 7 January 2011.

The Board of Directors of Gas Natural SDG, S.A. agreed, at its meeting of 30 November 2012, to distribute an interim dividend against the net income for 2012 of Euros 0.391 per share, totalling Euros 391 million, payable as from 8 January 2013.

At the date of approval of the interim dividend, the Parent Company had the necessary liquidity to pay it in accordance with requirements established under the Spanish Capital Companies Act. The provisional accounting statement of the Company formulated by the Directors at 30 November 2012 is as follows:

Net income after tax		682
Reserves to be allocated		(181)
Maximum amount available for distribution		501
Forecast payment of interim dividend		391
Treasury liquidity	3,848	
Undrawn credit facilities	4,320	
Total liquidity		8,168

On 25 January 2013, the Board of Directors adopted the proposal to submit the following distribution of net income of Gas Natural SDG, S.A. FY 2012 to the Shareholders' General Meeting, and the Retained earnings for the year 2011, is as follows:

Basis for distribution	
Retained earnings	74
Profit and (loss)	1,140

Distribution	
To Legal reserve	2
To Statutory reserve	1
To the Goodwill reserve	179
To voluntary reserve	137
To dividend	895

The proposed distribution of results prepared by the Board of Directors for approval by the General Shareholders Meeting includes the payment of a dividend of Euros 391 million.

Minority Interest

In July 2012, GAS NATURAL FENOSA acquired an additional holding of 4.6% in the company Europe Magreb Pipeline Ltd, for the amount of US Dollars 23 million (Euros 19 million) from the group GALP, reaching a percentage holding of 77.2% Because it is a non-controlling interest acquisition it was booked as an equity transaction resulting in a reduction under the heading “Minority interests” amounting to Euros 15 million and a reduction under the heading “Reserves” amounting to Euros 4 million, due to the difference between the price paid and the carrying amount.

In December 2012, GAS NATURAL FENOSA sold, along with Sinca Inbursa, S.A. de C.V. (Inbursa), a holding of 1.75% in Gas Natural México S.A. de C.V and of 2% in Sistemas de Administración, S.A. de C.V. to Mitsui & Co, corresponding to GAS NATURAL FENOSA the sale of 0,875% and 1% respectively amounting to US Dollars 5 million (Euros 4 million). After this operation, GAS NATURAL FENOSA has a percentage of 70.9% of Gas Natural México S.A. de C.V. and 71 % of Sistemas de Administración, S.A. de C.V maintaining the control of these companies. Because this is a non-controlling interest sale without a loss of control, this was booked as an equity transaction, resulting in an increase under the heading “Minority interests” amounting to Euros 6 million and an increase under the heading “Reserves” amounting to Euros 1 million, plus the capital gain before taxes.

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

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

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

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

- Remuneration: the dividend payment will be preferential and not accumulative and depends on whether distributable profit is reported by Gas Natural SDG, S.A. and the payment of a dividend to its ordinary shareholders. The issuer will have the option but not the obligation to pay the shareholders remuneration in kind by increasing the nominal value of the preference shares.
- Voting rights: none.

Note 14. Deferred income

The breakdown and the movements under this heading in 2012 and 2011 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 1.01.11	**160**	**347**	**117**	**33**	**657**
Financing received	40	103	11	47	201
Release to income	(12)	(14)	(7)	(2)	(35)
Translation adjustments	1	-	(1)	1	1
Transfers and others	7	(30)	(4)	6	(21)
At 31.12.11	**196**	**406**	**116**	**85**	**803**
Financing received	24	76	6	21	127
Release to income	(14)	(11)	(9)	-	(34)
Translation adjustments	(1)	-	-	(2)	(3)
Transfers and others	(20)	1	(2)	6	(15)
At 31.12.12	**185**	**472**	**111**	**110**	**878**

Note 15. Provisions

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

	At 31.12.12	At 31.12.11
Provisions for employee obligations	789	709
Other provisions	876	1,003
Non-current provisions	**1,665**	**1,712**
Current provisions	**144**	**133**
Total	**1,809**	**1,845**

Provisions for employee obligations

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

	2012			2011		
	Pensions and other similar obligations	Other obligations to personnel	Total	Pensions and other similar obligations	Other obligations to personnel	Total
At 1 January	**709**	**-**	**709**	**698**	**-**	**698**
Contributions charged to profits	45	8	53	42	-	42
Payments during the year	(71)	-	(71)	(77)	-	(77)
Conversion differences	16	-	16	-	-	-
Variances recognised directly in equity	87	-	87	46	-	46
Transfers and other applications (1)	(4)	(1)	(5)	-	-	-
At 31 December	**782**	**7**	**789**	**709**	**-**	**709**

(1) Includes a reclassification of Euros 7 million from "Other provisions" and a transfer of Euros 8 million to "Other current liabilities"".

Pensions and other similar obligations

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

Breakdown by country	At 31.12.12	At 31.12.11	At 1.1.11
Spain (1)	380	355	362
Colombia (2)	330	284	268
Brazil (3)	65	61	57
Rest	7	9	11
Total	**782**	**709**	**698**

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 2012 and 31 December 2011, 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 2012 and 2011 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 2012 and at 31 December 2011, 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:

	2012	2011

	Spain	Colombia	Brazil	Spain	Colombia	Brazil
Current value of the obligations						
As at 1 January	**1,125**	**284**	**186**	**1,200**	**268**	**171**
Current service cost	3	-	-	4	-	-
Interest cost	50	23	18	48	20	17
Actuarial gains and losses	138	36	27	(43)	31	28
Benefits paid	(88)	(36)	(11)	(90)	(34)	(14)
Transfers	(15)	1	-	6	-	-
Cumulative translation adjustments	-	22	(19)	-	5	(16)
Others	-	-	-	-	(6)	-
As at 31 December	**1,213**	**330**	**201**	**1,125**	**284**	**186**
Fair value of plan assets						
As at 1 January	**770**	**-**	**125**	**838**	**-**	**114**
Expected yield	34	-	15	33	-	14
Contributions	6	-	6	9	-	5
Actuarial gains and losses	100	-	14	(42)	-	12
Benefits paid	(66)	-	(10)	(68)	-	(9)
Transfers	(11)	-	(1)	-	-	-
Cumulative translation adjustments	-	-	(13)	-	-	(11)
As at 31 December	**833**	**-**	**136**	**770**	**-**	**125**
Provisions for post-employment pension obligations	**380**	**330**	**65**	**355**	**284**	**61**

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

		2012			2011	
	Spain	**Colombia**	**Brazil**	**Spain**	**Colombia**	**Brazil**
Current service cost	3	-	-	4	-	-
Interest cost	50	23	18	48	20	17
Expected return on plan assets	(34)	-	(15)	(33)	-	(14)
Total income statement charge	**19**	**23**	**3**	**19**	**20**	**3**

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

		2012			2011	
	Spain	**Colombia**	**Brazil**	**Spain**	**Colombia**	**Brazil**
As at January 1	**355**	**284**	**61**	**362**	**268**	**57**
Charge against the income statement	19	23	3	19	20	3
Contributions paid	(28)	(36)	(7)	(31)	(34)	(10)
Variations recognised directly in net equity	38	36	13	(1)	31	16
Transfers	(4)	1	1	6	(6)	-
Cumulative translation adjustments	-	22	(6)	-	5	(5)
Others	-	-	-	-	-	-
As at 31 December	**380**	**330**	**65**	**355**	**284**	**61**

The accumulated amount of the actuarial gains and losses recognised directly in equity is negative by Euros 183 million for 2012 (Spain: negative Euros 34 million, Colombia: negative Euros 102 million and Brazil: negative Euros 47 million).

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

	2012			2011		
% over total	**Spain**	**Colombia**	**Brazil**	**Spain**	**Colombia**	**Brazil**
Shares	-	-	16%	-	-	16%
Bonds	100%	-	79%	100%	-	76%
Real estate and other assets	-	-	5%	-	-	8%

Real yields on the plan-related assets in 2012, relating basically to Spain and Brazil, have been Euros 49 million (Euros 47 million in 2011).

The main annual actuarial assumptions used were as follows:

	At 31.12.12			At 31.12.11		
	Spain	**Colombia**	**Brazil**	**Spain**	**Colombia**	**Brazil**
Discount rate (1)	1.0 - 4.2%	6.5%	9.8%	3.1 - 4.9%	7.8%	11.4%
Expected return on plan assets (1)	1.0 - 4.2%	6.5%	9.8%	3.1 - 4.9%	7.8%	12.8%
Future salary increases (1)	3.0%	2.5%	7.7%	3%	2.75%	7.6%
Future pension increases (1)	2.5%	2.5%	5.5%	2.5%	2.75%	5.5%
Inflation rate (1)	2.5%	2.5%	5.5%	2.5%	2.75%	5.5%
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 interest rates employed to discount the post-employment liabilities are applied based upon the period of each commitment and the reference curve is calculated as the average of the curves of corporate bonds with a high level credit rating (A, AA and AAA) at the real duration of the average flow measured in months, which does not significantly differ from what would have been obtained using the average of the curve of corporate bonds classified at AA.

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	112	(162)	22
Fair value of plan-related assets	-	(71)	-
Provision for pensions	112	(91)	22
Cost of service for the year	1	(1)	-
Interest paid	7	7	2
Expected yield on plan-related assets	(1)	3	-

Other obligations with the personnel

GAS NATURAL FENOSA operates a variable multi-annual remuneration system aimed at strengthening the commitment of the management to achieving the economic objectives of the Group directly related to those established in the current Strategic Plans, approved by the Board of Directors and communicated to the financial markets and the achievement of which, along with their permanence in the Group, grants the right to receive a variable remuneration in cash in the first quarter of the year after its termination. At the close of the year the remuneration programmes 2010-2012, 2011-2013 and 2012-2014 are in vigour, and a provision has been booked, at 31 December 2012, amounting to Euros 15 million (Euros 15 million at 31 December 2011 in other provisions), of which Euros 7 million are classified as non-current in 2012 and in 2011.

Other current and non-current provisions

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

	2012			2011		
	Non-current provisions	Current provisions	Total	Non-current provisions	Current provisions	Total
As at 1 January	**1,003**	**133**	**1,136**	**2,167**	**127**	**2,294**
Charged to / reversed in the income statement						
- Allowances	71	59	**130**	264	18	**282**
- Reversals	(15)	-	**(15)**	(29)	-	**(29)**
Payments (2)	(12)	(200)	**(212)**	(53)	(5)	**(58)**
Business combinations	-	-	**-**	2	-	**2**
Cumulative translation adjustments	(1)	(2)	**(3)**	(3)	2	**(1)**
Transfers and others	(170)	154	**(16)**	(1,345)	(9)	**(1,354)**
As at 31 December	**876**	**144**	**1,020**	**1,003**	**133**	**1,136**

(1) Includes Euros 28 million and Euros 42 million corresponding the financial updating of provisions 2012 and 2011, respectively. The current provisions include the contribution to the provision for excess CO_2 above the rights assigned.

(2) During the year 2012, the amount of Euros 185 million was settled corresponding to the sentence of the Supreme Court which rejected appeals against tax claims that questioned the validity of the deduction for export activities applied in the years 1998-2002 and for which provisions had been made in full.

This heading 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 363 million at 31 December 2012 (Euros 314 million in 2011). The increase is due, basically, to the consideration of the impact of the taxes established in Law 15/2012 (Note 2.d) on the production of nuclear fuel to be extracted from the reactor of the last recharge which is estimated not to be consumed at the closedown of the nuclear plants.

Current provisions include the excess issue of CO_2 above the rights assigned amounting to Euros 59 million at 31 December 2012 (Euros 18 million at 31 December 2011).

At 31 December 2012 and 2011 it was not deemed necessary to raise any provision for onerous contracts.

The estimated payment periods for the commitments provisioned in this item refer to Euros 453 million in between one and five years, Euros 116 million in between five and 10 years, and Euros 307 million after more than 10 years.

Note 16. Borrowings

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

	At 31.12.12	At 31.12.11
Issuing of debentures and other negotiable obligations	10,470	8,276
Loans from financial institutions	7,261	8,847
Derivative financial instruments	84	86
Other financial liabilities	231	330
Non-current borrowings	**18,046**	**17,539**
Issuing of debentures and other negotiable obligations	453	1,076
Loans from financial institutions	1,789	1,621
Derivative financial instruments	1	9
Other financial liabilities	143	147
Current borrowings	**2,386**	**2,853**
Total	**20,432**	**20,392**

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

	Carrying amount		Fair value	
	At 31.12.12	**At 31.12.11**	**At 31.12.12**	**At 31.12.11**
Issuing of debentures and other negotiable obligations	10,470	8,276	11,245	8,207
Loans from financial institutions and others	7,492	9,177	7,567	9,282

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 2012 and 31 December 2011 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:

	2012	2011
As at 1 January	**20,392**	**20,306**
Business combinations	19	640
Increase in borrowings	5,442	4,514
Decrease in borrowings	(5,459)	(4,680)
Cumulative translation adjustment	7	9
Transfers and others (1)	31	(397)
As at 31 December	**20,432**	**20,392**

(1) The year 2011 includes principally transfers to the heading "Liabilities linked to non-current assets held for sale" amounting to Euros 399 million, which were removed during the year 2011.

The following tables describe consolidated gross borrowings by instrument at 31 December 2012 and 31 December 2011 and their maturity profile, taking into account the impact of the derivative hedges.

	2013	2014	2015	2016	2017	2018 and beyond	Total
At December 31, 2012:							
Marketable Debt							
Fixed	279	1,994	798	985	1,100	5,464	10,620
Floating	174	-	-	-	42	87	303
Institutional Banks and other financial companies							
Fixed	129	182	199	229	289	598	1,626
Floating	51	35	26	12	10	11	145
Commercial Banks and other financial liabilities							
Fixed	329	102	206	102	168	492	1,399
Floating	1,424	252	3,621	529	298	215	6,339
Total Fixed	737	2,278	1,203	1,316	1,557	6,554	13,645
Total Floating	1,649	287	3,647	541	350	313	6,787
Total	**2,386**	**2,565**	**4,850**	**1,857**	**1,907**	**6,867**	**20,432**

	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**

If the impact of the derivatives on borrowings is excluded, the classification between fixed and floating rates would be: fixed, Euros 11,900 million in 2012 (Euros 10,918 million in 2011) and floating, Euros 8,447 million in 2012 (9,379 million in 2011).

The following table describes consolidated gross financial debt denominated by currency at 31 December 2012 and 31 December 2011 and its maturity profile, taking into account the impact of the derivative hedges.

	2013	2014	2015	2016	2017	2018 and beyond	Total
At 31 December 2012:							
Euro Debt	1,873	2,109	4,048	1,716	1,357	6,210	17,313
Foreign Currency Debt:							
US Dollar	310	129	451	127	396	259	1,672
Mexican peso	2	90	148	-	-	85	325
Brazilian real	88	71	23	14	8	5	209
Colombian peso	89	166	180	-	146	86	667
Argentinean peso	24	-	-	-	-	-	24
Rest	-	-	-	-	-	222	222
Total	**2,386**	**2,565**	**4,850**	**1,857**	**1,907**	**6,867**	**20,432**

	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**

Borrowings in Euros have borne an effective average interest rate of 3.85% at 31 December 2012 (4.14% at 31 December 2011) while borrowings in foreign currency have borne an effective average interest rate of 5.37% (5.21% at 31 December 2011), including derivative instruments assigned to each transaction.

At 31 December 2012, GAS NATURAL FENOSA has credit facilities totalling Euros 5,721 million (Euros 4,933 million at 31 December 2011), of which Euros 5,157 million have not been drawn down (Euros 4,202 million at 31 December 2011).

Bank borrowings totalling Euros 1,278 million (Euros 1,490 millions at 31 December 2011) 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 2012, the outstanding balance of this type of financing totals Euros 708 million (Euros 812 million at 31 December 2011).

The most relevant financing instruments are described below:

Issue of bonds and other negotiable securities

In 2012 and 2011 the evolution of the issues of debt securities has been as follows:

	At 1.1.2012	Issues	Buy backs or reimbursements	Exchange rate adjustments and others	At 31.12.2012
Issued in a member state of the European Union which required the filing of a prospectus	**8,507**	3,936	(2,550)	44	**9,937**
Issued in a member state of the European Union which did not required the filing of a prospectus	**-**	-	-	-	**-**
Issued outside a member state of the European Union	**845**	144	(23)	20	**986**
Total	**9,352**	**4,080**	**(2,573)**	64	**10,923**

	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**

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 2012, further issues were completed under that Programme for a total amount of Euros 1,941 million. At 31 December 2012, the amount of Euros 158 million had been drawn down on the Programme (Euros 266 million at December 2011) and the sum of Euros 842 million was available (Euros 734 million at December 2011).

Promissory Notes Program

In 2012 GAS NATURAL FENOSA did not renew the Promissory Note Program signed in July 2009 and renewed in July 2011 for a maximum amount of Euros 1,000 million. At 31 December 2012 live issues still exist under this program which amount to Euros 14 million (Euros 69 million at 31 December 2011).

EMTN Program

GAS NATURAL FENOSA, though the subsidiary companies Gas Natural Capital Markets, S.A. and Gas Natural Fenosa Finance BV (former Unión Fenosa Finance BV), maintains a European Medium Term Notes (EMTN) Program in the medium term. This Program was established in 1999 of which a total principal of up to Euro 2,000 million could be issued. Following a number of extensions, the latest in November 2011, the Programme limit is Euros 12,000 million (Euros 12,000 million at 31 December 2011). At 31 December 2012, principal drawn down totalled Euros 9,600 million (Euros 8,050 million at 31 December 2011) and the amount of Euros 2,400 million was available. The breakdown of the nominal issue balance is as follows:

Issue	Nominal	Maturity	Coupon
July 2009	500	2019	6.37%
July 2009	2.000	2014	5.25%
November 2009	1.000	2016	4.37%
November 2009	750	2021	5.12%
January 2010	850	2020	4.50%
January 2010	650	2015	3.37%
January 2010	700	2018	4.12%
February 2011	600	2017	5.63%
May 2011	500	2019	5.38%
February 2012	750	2018	5.00%
September 2012	800	2020	6.00%
October 2012	500	2017	4.12%
	9,600		

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 and Certificates Programme

The Group company, Empresa de Distribución Eléctrica Metro-Oeste, S.A, located in Panama, executed the issue in May 2010 of Negotiable Commercial Securities of up to USD 50 million (Euros 39 million). The amount drawn down at 31 December 2012 totalled Euros 16 million due in 2013 (Euros 23 million at 31 December 2011).

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 234 million), the available amount being Euros 234 million, secured by Gas Natural SDG, S.A.

During the year 2012, the dependent company Gas Natural S.A. ESP, located in Colombia, signed an Ordinary Bonds program for Columbian Pesos 500,000 million (Euros 215 million) on the local capital market; in the month of October it placed under this program two issues amounting to Columbian Pesos 100,000 million (Euros 43 million) and Columbian Pesos 200,000 million (Euros 86 million) with maturity at 5 and 7 years, respectively. The balance available at 31 December 2012 under this program is Columbian Pesos 200,000 million (Euros 86 million).

Bank loans

European bank loans (commercial / institutional banks)

At 31 December 2012, bank borrowings include bank loans of Euros 5,401 million (Euros 6,595 million at 31 December 2011) and credit lines drawn in the amount of Euros 349 million (Euros 461 million at 31 December 2011). Additionally, debts incurred with Instituto de Crédito Oficial (ICO) total Euros 379 million, arranged through loans maturing in 2018 at maximum (Euros 577 million at 31 December 2011).

Additionally, the European Investment Bank (EIB) has granted financing of Euros 1,008 million to GAS NATURAL FENOSA, of which Euros 150 million are held available on a new line of financing granted and yet to be utilised.

Loans from Latin American banks (commercial / institutional banks)

At 31 December 2012 borrowings from various Latin American banks totalled Euros 1,234 million (Euros 1,263 million at 31 December 2011). The geographic breakdown of these loans is as follows: Mexico: Euros 262 million (Euros 312 million at 31 December 2011), Colombia: Euros 538 million (Euros 556 million at 31 December 2011), Brazil: Euros 209 million (Euros 256 million at 31 December 2011), Argentina: Euros 24 million (Euros 34 million at 31 December 2011), Panama: Euros 167 million (Euros 99 million at 31 December 2011), Nicaragua: Euros 6 million (Euros 6 million at 31 December 2011) and Costa Rica: Euros 28 million.

Of total Latin American borrowings at 31 December 2012, 82% to commercial banks and the remaining 18% to institutional banks (BNDES, EIB, ICO, etc.).

At 31 December 2012, the debt related to the combined cycle plant and the re-gasification plant in Puerto Rico totals Euros 134 million (Euros 156 million at 31 December 2011), including Euros 11 million in credit facilities drawn down (Euros 11 million at 31 December 2011). The most of this debt matures on long term.

Wind farm operators (commercial banks)

At 31 December 2012, wind farm operating companies had Euros 53 million in outstanding loans, mainly for project financing (Euros 66 million at 31 December 2011). Most of this debt matures on long term.

Unión Fenosa Gas (commercial / institutional banks)

At 31 December 2012, the companies belonging to Unión Fenosa Gas had Euros 372 million in outstanding loans (Euros 394 million at 31 December 2011), mainly for financing in US Dollars by European Investment Bank (EIB) to finance the natural gas liquefaction plant in Damietta (Egypt) totalling Euros 138 million (Euros 148 million at 31 December 2011), and for a loan in US Dollars given by twenty-two lending entities totalling Euros 209 million (Euros 220 million at 31 December 2011). Most of this debt matures in 2016 and beyond.

Bank loans – other countries (commercial banks)

At 31 December 2012, bank loans from other countries total Euros 20 million (Euros 14 million at 31 December 2011) 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 31.12.12			At 31.12.11		
	Nominal	**Discount**	**Present value**	**Nominal**	**Discount**	**Present value**
No later than 1 year	83	(3)	**80**	87	(4)	**83**
Between 1 and 5 years	245	(31)	**214**	274	(34)	**240**
Later than 5 years	-	-	**-**	51	(11)	**40**
Total	**328**	**(34)**	**294**	**412**	**(49)**	**363**

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 2012 and 2011, after taking into account the hedges structured through derivatives, is as follows:

	At 31.12.12	**At 31.12.11**
Fixed interest rate	13,645	12,683
Floating interest rate	6,787	7,709
Total	**20,432**	**20,392**

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
2012	+50	(39)	20
	-50	40	(20)
2011	+50	(45)	18
	-50	41	(18)

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:

		2012	2011
Effect on profit before tax	+5%	-	2
	- 5%	-	(2)
	+5%	21	13
Effect on equity before tax	- 5%	(20)	(15)

Commodities price risk

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

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

The risk involved in the electricity ad CO_2 emission rights trading operations carried out by GAS NATURAL FENOSA is not significant, due to the low volume of these operations and the limits established, both in terms of amount and maturity.

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

	Increase / decrease in the purchase price of gas	Effect on profit before tax	Effect on equity before tax
2012	+10%	-	-
	-10%	-	-
2011	+10%	-	3
	-10%	-	(3)

	Increase / decrease in the electricity sale price	Effect on profit before tax	Effect on equity before tax
2012	+10%	(8)	(7)
	-10%	8	7
2011	+10%	(7)	(7)
	-10%	7	7

	Increase/decrease in the price of CO_2 emission rights	Effect on profit before tax	Effect on equity before tax
2012	+10%	-	-
	-10%	-	-
2011	+10%	-	1
	-10%	-	(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 2012, GAS NATURAL FENOSA had received guarantees totalling Euros 48 million to cover the risk of large industrial customers (Euros 10 million at 31 December 2011). In 2012, guarantees have been executed for amounts lower than Euros 1 million (lower than Euros 1 million at 31 December 2011)

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 2012 and 2011 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 2012 and 2011 is as follows:

	At 31.12.12	At 31.12.11
Less than 90 days	494	338
90 – 180 days	162	108
More than 180	15	26
Total	**671**	**472**

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 2012, liquidity availabilities amounted to Euros 13,293 million, considering cash and other cash equivalents amounting Euros 4,434 million (Note 12), financial asset derivates amounting to Euros 3 million (Note 8 and Note 17), bank financing and credit lines available amounting to Euros 5,157 million (Note 16) and the unused capacity to issue debt amounting to Euros 3,699 million (Note 16).

The breakdown of the maturities of the financial liabilities at 31 December 2012 and 2011 is as follows:

	2013	2014	2015	2016	2017	2018 and beyond	Total
At 31 December 2012							
Trade and other payables	(4,560)	-	-	-	-	-	(4,560)
Loans and other financial payables	(3,046)	(3,317)	(5,389)	(2,323)	(2,305)	(7,753)	(24,133)
Financial derivatives	(24)	(18)	(7)	(3)	-	73	21
Other liabilities	(148)	(57)	(57)	(57)	(58)	(707)	(1,084)
Total (1)	**(7,778)**	**(3,392)**	**(5,453)**	**(2,383)**	**(2,363)**	**(8,387)**	**(29,756)**

	2012	2013	2014	2015	2016	2017 and after	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)**

(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.

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

	2012	**2011**
Moody's	Baa2	Baa2
Standard & Poor's	BBB	BBB
Fitch	BBB+	A-

Its leverage rating is as follows:

	2012	**2011**
Net borrowings:	**15,995**	**17,294**
Non-current borrowings (Note 16)	18,046	17,539
Current borrowings (Note 16)	2,386	2,853
Cash and cash equivalents (Note 12)	(4,434)	(3,098)
Derivatives (Note 17)	(3)	-
Net equity:	**14,879**	**14,441**
Equity holders of the Company (Note 13)	13,261	12,792
Minority interests	1,618	1,649
Leverage **(Net borrowings / (Net borrowings + Net equity))**	**51.8%**	**54.5%**

Derivative financial instruments

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

	At 31.12.12		**At 31.12.11**	
	Assets	**Liabilities**	**Assets**	**Liabilities**
Derivatives qualifying for hedge accounting	**-**	**82**	**-**	**72**
Cash flow hedges				
- Interest rate	-	82	-	71
Fair value hedge				
- Exchange rate	-	-	-	1
Other financial instruments	**-**	**2**	**-**	**14**
- Interest rate and exchange rate	-	2	-	14
Derivative financial instruments – non current	**-**	**84**	**-**	**76**
Derivatives qualifying for hedge accounting	**26**	**14**	**43**	**16**
Cash flow hedges				
- Interest rate	-	-	-	9
- Exchange rate	1	9	15	1
- Commodity prices	10	4	3	6
Fair value hedge				
- Exchange rate	15	1	25	-

Other financial instruments	**12**	**2**	**3**	**-**
- Commodity prices	12	2	3	-
- Interest rate	-	-	-	-
Derivative financial instruments – current	**38**	**16**	**46**	**16**
Total	**38**	**100**	**46**	**102**

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

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

	2012		2011	
	Operating Income	**Financial Income**	**Operating Income**	**Financial Income**
Cash flow hedges	30	(39)	(29)	(74)
Fair value hedges	9	(6)	(22)	(5)
Other	9	12	3	3
Total	**48**	**(33)**	**(48)**	**(76)**

The breakdown of the derivative financial instruments at 31 December 2012 and 2011, their fair value and the breakdown by maturity of their notional values are as follows:

		31.12.12						
	Fair Value	**Notional value (in million of Euros)**						
		2013	**2014**	**2015**	**2016**	**2017**	**Beyond**	**Total**
Interest rate swap contracts:								
Cash flow hedges:								
Financial swaps (EUR)	(37)	55	651	254	202	135	23	1,320
Financial swaps (USD)	(45)	28	29	28	30	76	72	263
Financial swaps (MXN)	-	15	70	78	-	-	-	163
Collars (EUR)	-	2	3	2	-	-	-	7
EXCHANGE RATE HEDGE:								
Cash flow hedge:								
Exchange fluctuation insurance (USD)	(8)	491	3	3	-	-	-	497
Exchange fluctuation insurance (BRL)	-	-	-	-	-	-	-	-
Fair value hedge:								
Financial swaps (BRL)	-	-	-	-	-	-	-	-
Foreign exchange fluctuation insurance (BRL)	-	17	-	-	-	-	-	17
Foreign exchange fluctuation insurance (USD)	14	568	-	-	-	-	-	568
Foreign exchange fluctuation insurance (DHN)	-	6	-	-	-	-	-	6
COMMODITY HEDGE:								
Cash flow hedge:								
Commodity price derivatives (EUR)	4	332	1	-	-	-	-	333
Commodity price derivatives (USD)	2	36	-	-	-	-	-	36
OTHERS:								
Financial swaps (JPY)	(2)	-	-	-	-	-	220	220
Commodity price derivatives (EUR)	10	89	24	11	-	-	-	124
Commodity price derivatives (USD)	-	2	-	-	-	-	-	2
Commodity price derivatives (GBP)	-	1	-	-	-	-	-	1
TOTAL	**(62)**	**1,642**	**781**	**376**	**232**	**211**	**315**	**3,557**

	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)	-	10	-	-	-	-	-	10
Foreign exchange fluctuation insurance (USD)	25	351	11	-	-	-	-	362
Foreign exchange fluctuation insurance (DHN)	-	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**

Note 18. Other non-current liabilities

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

	At 31.12.12	At 31.12.11
Finance lease liabilities (1)	551	571
Payables for levelling of capacity income (2)	37	68
Deposits and guarantee deposits (Note 7)	202	198
Finance lease liabilities (3)	44	196
Total	**834**	**1,033**

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 (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 31.12.12			At 31.12.11		
	Nominal	**Discount**	**Present value**	**Nominal**	**Discount**	**Present value**
Less than 1 year	56	(2)	**54**	57	(3)	**54**
Between 1 and 5 years	223	(41)	**182**	229	(43)	**186**
More than 5 years	746	(377)	**369**	763	(378)	**385**
Total	**1.025**	**(420)**	**605**	**1.049**	**(424)**	**625**

The effective average interest rate on the liabilities for finance lease agreements at 31 December 2012 is 6.7% (6.8% at 31 December 2011).

(2) Payables for levelling of capacity income

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

(3) Other liabilities

During the year 2012, the purchase commitments without premium granted to Sinca Inbursa, S.A. de C.V and to Chemo España, S.L with maturity in 2013 (Note 20) were transferred to the heading “Other current liabilities”.

Note 19. Trade and other payables

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

	At 31.12.12	**At 31.12.11**
Trade payables	3,838	3,775
Trade payables with related parties (Note 33)	52	83
Amounts due to associates	46	42
Trade payables	3,936	3,900
Public Administration	417	375
Derivative financial instruments (see Note 17)	15	7
Amounts due to employees	94	99
Other payables	526	481
Current tax liabilities	98	290
Total	**4,560**	**4,671**

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

The total amount of payments made during the year, with details of periods of payments, according to the maximum legal limit under Law 15/2010 of 5 July, which laid down measures against slow payers, is as follows:

	2012		2011	
	Amount	**%**	**Amount**	**%**
Payments made during year within legal maximum period	10,070	99,9	7,210	99,8
Other payments made during year	8	0,1	11	0,2
Total payments during year	**10,078**	**100**	**7,221**	**100**
Weighted average period of payments outside legal period (days)	8		11	
Deferrals exceeding legal maximum period at year end	1		1	

Note 20. Other current liabilities

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

	At 31.12.12	At 31.12.11
Dividend payable	411	392
Expenses accrued pending payment	151	159
Finance lease liabilities (Note 18)	54	54
Other liabilities (1)	191	70
Total	**807**	**675**

(1) Other liabilities

This includes the repurchase commitment of the preferential shares of Buenergia Gas & Power, Ltd. (a company holding 47.5% of EcoEléctrica, L.P.), in which GAS NATURAL FENOSA has a 95% holding with 5% held by another company, which is, moreover, the holder of the preferential shares in Buenergia that gives it a preferential right over the dividends of that company and which must be repurchased by Buenergia, to the extent in which the company distributes profits, for the amount of Dollars 6 million.

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 México, S.A. de C.V. and de Sistemas de Administración, S.A. de C.V. was sold to Inbursa, for Mexican Pesos 761 million (Euros 49 million), agreeing on a repurchase commitment of these shares. Inbursa can offer until 22 May 2013 all the shares that it has at that time to Gas Natural SDG, S.A., which will have the obligation to buy them. The purchase price will be determined as the greater of, the market value of each share, on the basis of profits of the companies held or the capital invested updated at financial interest rates. As a result of this commitment this sale was booked as a deferred payment, so that the dominant company is still assigned the percentage of the repurchase commitment. Derived from the operations performed during the year 2012 mentioned under the heading "minority interests" in Note 13, the repurchase commitment is now being granted on 14.125% of the shares of Gas Natural México, S.A. de C.V. and 14 % of Sistemas de Administración, S.A. de C.V. The liability registered at 31 December 2012 amounts to Mexican Pesos 1,035 million and is equivalent to the current value of the amount to be reimbursed (Mexican Pesos 988 million at 31 December 2011).

Also included is the purchase commitment without premium granted Chemo España, S.L. On 16 December 2008, 28% of Invergas, S.A. and Gas Natural SDG Argentina, S.A. was sold to Chemo España, S.L., resulting in a participation of 19.6% in Gas Natural BAN, S.A., Natural Energy, S.A. and Natural Servicios, S.A., for US Dollars 56 million (Euros 38 million) through an initial collection of Dollars 28 million and the rest as deferred collections (Note 8), accepting a repurchase commitment for these shares. Chemo España, S.L. may offer during the month of September 2013 all the shares that it possesses at that time GAS NATURAL FENOSA which will have the obligation to purchase them. The purchase price will be determined by the capital invested. As a result of this commitment, this sale was booked as a deferred payment, so that the dominant company is still assigned the percentages mentioned.. The liability registered at 31 December 2012 amounts to US Dollars 55 million (US Dollars 55 million at 31 December 2011) and is equivalent to the current value of the amount to be reimbursed.

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 2012 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 2012 and 2011 are as follows:

	2012	%	2011	%
Profit before tax	**2,203**		**2.022**	
Statutory tax	**661**	**30.0**	**607**	**30.0**
Tax rates for foreign companies	(54)	(2.4)	(42)	(2.1)
Reinvestment tax deductions	(8)	(0.4)	(39)	(1.9)
Other tax deductions	(31)	(1.4)	(25)	(1.2)
Effect of net profit under equity accounting	(4)	(0.2)	(2)	(0.1)
Tax differences against prior years and others	(18)	(0.8)	(3)	(0.2)
Income tax	**546**	**24.8**	**496**	**24.5**
Breakdown of current/deferred expense:				
Current income tax	447		441	
Deferred income tax	99		55	
Accrued Corporate income tax	**546**		**496**	

The tax deductions for the reinvestment of extraordinary profit for 2012 relate basically to the disposal of certain clients of gas and associated contracts 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

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 income under the deduction for reinvestment of extraordinary profit as per article 42 of the Corporate Income Tax Act, and the investments in which they have materialised in prior years is disclosed in the annual accounts for said years. The breakdown relating to the last six years, together with that for 2012, are as follows:

Year of sale	Amount generated from sale	Amount reinvested
2006	321	321
2007	780	780
2008	152	152
2009	382	382
2010	873	873
2011	856	856
2012	39	39
Total	**3,403**	**3,403**

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

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

	At 31.12.12			At 31.12.11		
	Gross	Tax effect	Net	Gross	Tax effect	Net
Measurement of available-for-sale financial assets	-	-	-	-	-	-
Cash flow hedges	(16)	5	(11)	43	(12)	31
Cumulative translation adjustments	(152)	9	(143)	(72)	8	(64)
Actuarial gains and loss and other adjustments	(87)	25	(62)	(46)	15	(31)
Total	**(255)**	**39**	**(216)**	**(75)**	**11**	**(64)**

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 1.1.11	**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**
Charged/(credited) to income statement	1	8	(218)	(4)	(1)	(15)	(229)
Business combinations	-	-	-	-	-	-	-
Charged to equity	25	-	-	-	2	-	27
Cumulative translation adjustments	2	6	-	-	8	1	17
Others (1)	(9)	20	232	(1)	-	4	246
At 31.12.12	**235**	**276**	**181**	**109**	**59**	**176**	**1,036**

(1) "Transfers and others" includes an increase in "Tax Credits" arising from unrestricted amortisation as a result of the contents of Royal Decree 13/2010.

Deferred tax liabilities	Amortization differences	Reinvestment capital gains	Fair value business combination (3)	Financial instruments valuation	Other	Total
At 1.1.11	**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**
Charged/(credited) to income statement	(15)	(22)	(96)	-	3	(130)
Business combinations	-	-	-	-	-	-
Charged to equity	-	-	-	(4)	-	(4)
Cumulative translation adjustments	(1)	-	(16)	-	4	(13)
Others (2)	226	-	(29)	-	(4)	193
At 31.12.11	**535**	**259**	**1,652**	**4**	**238**	**2,688**

(1) The movement in the year 2011 in the lines "Transfers and others" reflects basically the transfer from the headings "Non-current assets held for sales" and Liabilities linked with non-current assets held for sales" (Note 9).

(2) "Transfers and others" includes an increase in "Amortisation differences" from the application of unrestricted amortisation in line with the content of Royal Decree 13/2010.

(3) The heading "Fair value of business combinations" under the heading "Deferred taxes liabilities" includes basically the tax effect of the difference upon the merger as a result of the absorption of Unión Fenosa, S.A. by Gas Natural SDG, S.A. that occurred in 2009 assigned to net assets acquired which is estimated not to have tax effects, as well as the tax deduction of the part of the merger not assigned to net assets acquired.

At 31 December 2012 the tax credits that have not been recorded totalled Euros 31 million (Euros 31 million at 31 December 2011).

In November 2012 it was notified the regularisation proposals derived from the inspections performed in Gas Natural, SDG, S.A. on Corporate Income Tax, as the leading company of the Tax Group, for the years 2006 to 2008, and for other taxes at an individual level for the years 2007 and 2008. No important matters were reported, except those referring to the regularisation of the deduction for export activities amounting to Euros 5 million and which does not have any impact on the Consolidated income statement since it was fully provided for in previous years (Note 35).

The Tax Group of Gas Natural SDG, S.A. is open to inspection for the years 2009 and thereafter for the applicable taxes, while the companies proceeding from the Tax Group of which Union Fenosa, S.A. was the leading company are open to inspection for the years 2002 and thereafter for Corporate Income Tax and 2008 and thereafter for the rest of the applicable taxes.

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

Note 22. Sales

The breakdown of this account for 2012 and 2011 is as follows:

	2012	2011
Sales of gas and connections to distribution networks	14,188	11,280
Sales of electricity and access to distribution networks	9,041	8,236
Rental of facilities, maintenance and other services	1,501	1,367
Other sales	174	193
Total	**24,904**	**21,076**

Note 23. Procurements

The breakdown of this account for 2012 and 2011 is as follows:

	2012	2011
Energy purchases	14,801	12,132
Access to transmission networks	1,845	1,433
Other purchases and Stock variation	663	509
Total	**17,309**	**14,074**

Note 24. Other operating income

The breakdown of this account for 2012 and 2011 is as follows:

	2012	2011
Other management income	247	261
Operating grants	3	2
Total	**250**	**263**

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 117 million (Euros 95 million in 2011).

Note 25. Personnel costs

The breakdown of this heading for 2012 and 2011 is as follows:

	2012	2011
Wages and salaries	707	699
Social security costs	129	126
Defined contribution plans	32	32
Defined benefit plans	4	4
Own work capitalised	(85)	(82)
Others	84	79
Total	**871**	**858**

The average number of employees of GAS NATURAL FENOSA in 2012 has been 16,172 and 16,274 in 2011.

Under Law 3/2007 of 22 March, on gender equality, published in the Official State Gazette on 23 March 2007, the number of employees of GAS NATURAL FENOSA at the end of 2012 and 2011 broken down by category and gender is as follows:

	2012		2011	
	Male	**Female**	**Male**	**Female**
Executives	931	291	862	249
Middle management	2,341	582	2,239	551
Specialized technicians	2,562	1,478	2,524	1,434
Workers	5,580	2,194	6,087	2,256
Total	**11,414**	**4,545**	**11,712**	**4,490**

	2012	2011
Spain	8,247	8,358
Rest of Europe	1,238	1,553
Latin American	5,436	5,475
Others	1,038	816
Total	**15,959**	**16,202**

Note 26. Other operating expenses

The breakdown of this heading for 2012 and 2011 is as follows:

	2012	2011
Repairs and maintenance	445	439
Commercial services & advertising	382	339
Taxes	285	310
Bad debt provision (Note 11)	235	216
Professional services & insurance	177	170
Construction or improvement services (IFRIC 12) (Note 24)	117	95
Procurements	105	89
Leases	61	57
Expenses for emission of CO_2	59	17
Energy efficiency	45	49
Others	252	232
Total	**2,163**	**2,013**

At 31 December 2011 under the heading "Taxes" an amount of Euros 52 million was booked 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 8 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 2012 this corresponds to the capital gains earned from the disposal of certain gas clients and other associated contracts in the Region of Madrid amounting to Euros 20 million (Note 9).

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).

Note 28. Net financial income

The breakdown of this account for 2012 and 2011 is as follows:

	2012	2011
Dividends	2	4
Interest income	107	71
Others	69	62
Total financial income	**178**	**137**
Financial expense from borrowings	(865)	(892)
Interest expenses of pension plans and other post-employment benefits	(42)	(39)
Other financial expenses	(153)	(142)
Total financial expenses	**(1,060)**	**(1,073)**
Variations in the fair value of derivate financial instruments (Note 17)	15	2
Net exchange gains/losses	(7)	-
Gain on sales of financial instruments	-	2
Net financial income	**(874)**	**(932)**

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).

Note 29. Cash generated from operating activities

The breakdown of cash generated from operations in 2012 and 2011 is as follows:

	2012	2011
Net income before tax	**2,203**	**2,022**
Adjustments to net income:	**2,540**	**2,510**
Depreciation and amortisation of fixed assets *(Note 5 and 6)*	1,798	1,750
Other adjustments to net income:	742	760
Net financial income *(Note 28)*	874	932
Profit of entities recorded by equity method (*Note 7)*	(10)	(7)
Release of fixed assets grants to income *(Note 14)*	(34)	(35)
Other results *(Note 27)*	(20)	(268)
Net variation in Provisions	(68)	138
Chances in working capital (excluding the effects on the consolidation scope and cumulative translation adjustments)	**(7)**	**(1,298)**
Inventories	(45)	(127)
Trade and other accounts receivable	(45)	(619)
Trade and other accounts payable	83	(552)
Other cash flows generated from operations:	**(1,299)**	**(1,097)**
Interest received	(827)	(845)
Interest collected	91	59
Income tax payments	(563)	(311)
CASH FLOWS GENERATED FROM OPERATING ACTIVITIES	**3,437**	**2,137**

Note 30. Business combinations

2012

Acquisition of Sistemes Energètics Passanant, S.L.U.

On 12 December 2012 the acquisition of the company Sistemes Energètics Passanant, S.L.U., a company that exploits of the wind park Les Forques II, from the Gamesa group for Euros 1 million was completed, and no goodwill was generated from the operation.

Had the operation taken place on 1 January 2012 the impact of the operation on the consolidated turnover and the consolidated profit figures would not have been significant.

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 was 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 was 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 had 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 was 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 was 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) were merged, most of this value increase had 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.

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 was 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 was 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) were merged, most of this value increase had 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 was recognised provisionally, since the 12-month period following the acquisition has not elapsed, as per IFRS 3.

The definite purchase price allocations of the business combinations for the year 2011 shown earlier were finished during the year 2012 and there were no modifications to the preliminary assignations.

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 2012 and 2011 are as follows:

	2012	2011		2012	2011
Barras Eléctricas Galaico Asturianas, S.A.	44.9%	44.9%	EcoEléctrica Holding Ltd y dependientes	50.0%	50.0%
Barras Eléctricas Generación, S.L.	45.0%	45.0%	Eléctrica Conquense, S.A.	46.4%	46.4%
Centrales Nucleares Almaraz-Trillo, A.I.E	19.3%	19.3%	Eléctrica Conquense Distribución, S.A.	46.4%	46.4%
Comunidad de Bienes Central Nuclear de Almaraz	11.3%	11.3%	Gas Natural West Africa, S.L.	40.0%	40.0%
Comunidad de Bienes Central Nuclear de Trillo	34.5%	34.5%	Nueva Generadora del Sur, S.A.	50.0%	50.0%
Comunidad de Bienes Central Térmica de Aceca	50.0%	50.0%	Repsol - Gas Natural LNG, S.L.	50.0%	50.0%
Comunidad de Bienes Central Térmica de Anllares	66.7%	66.7%	Subgroup Unión Fenosa Gas	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 31.12.12	At 31.12.11
Non-current assets	3,525	3,729
Current assets	600	568
Assets	4,125	4,297
Non-current liabilities	989	1,166
Current liabilities	398	419
Liabilities	1,387	1,585
Net assets	**2,738**	**2,712**

	2012	2011
Income	1,346	1,222
Expenses	1,238	1,085
Profit after income tax	108	137

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 12,195 million at 31 December 2012 (Euros 12,052 million at 31 December 2011), the commitments for the purchase of nuclear fuel totalling Euros 55 million at 31 December 2012 (Euros 59 million at 31 December 2011), the commitments for the cession of electricity generation capacity of EcoEléctrica LP amounting to Euros 315 million (Euros 354 million at 31 December 2011) and the commitments for operating lease payments for the gas transport vessels of Unión Fenosa Gas totalling Euros 158 million at 31 December 2012 (Euros 133 million at 31 December 2011).

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 maturity of the concessions that are no indefinite:

Company	Activity	Country	Concession period	Initial remaining period
Gas Natural BAN, S.A.	Gas distribution	Argentina	35 (extendible 10)	15
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)	15-18
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)	2-35
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	1-26
Gas Natural México S.A. de C.V.y Comercializadora Metrogas S.A. de C.V.	Gas distribution	Mexico	30 (extendible 15)	15-26
Europe Maghreb Pipeline Ltd	Gas transportation	Morocco	25 (extendible)	9
Unión Fenosa Generadora La Joya, S.A.y Unión Fenosa Generadora Torito, S.A.	Electricity generation	Costa Rica	20	10-18
Gas Natural SDG, S.A. y Gas Natural Fenosa Renovables, S.L.	Hydro-electricity generation	Spain	14-100	10-51
Red Unión Fenosa, S.A.	Electricity distribution	Moldova	25 (extendible)	13
Distribuidora de Electricidad del Norte, S.A. y Distribuidora de Electricidad del Sur, S.A.	Electricity distribution	Nicaragua	30	18
Empresa Distribuidora de Electricidad Metro Oeste, S.A. y Empresa Distribuidora de Electricidad Chiriqui, S.A.	Electricity distribution	Panama	15	1

As indicated in Note 3.3.3.b GAS NATURAL FENOSA applied IFRIC 12 "Service Concession Agreements" retrospectively, considering that the intangible assets model is basically applicable to the gas distribution activities in Argentina, Brazil and Italy and the financial asset model of electricity generation in Costa Rica.

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

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 Caixaholding, S.A.U., and consequently, Caixa d´Estalvis I Pensions de Barcelona Group ("la Caixa" Group), Repsol Group, Caixa d'Estalvis de Catalunya (to 28 November 2011, when the Board director designated by this company handed in his resignation).

- 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:

2012

Income and expenses (Thousand Euros)	"la Caixa" Group	Repsol Group
Financial expense	11,464	-
Leases	-	-
Services received	-	73,702
Goods purchased (finished or in progress)	-	1,175,291
Other expenses (1)	43,844	-
Total expenses	**55,308**	**1,248,993**
Financial income	30,823	-
Leases	-	360
Provision of services	-	41,371
Sale of goods (finished or in progress)	-	1,171,298
Other income	884	-
Total income	**31,707**	**1,213,029**

Other transactions (Thousand Euros)	"la Caixa" Group	Repsol Group
Acquisition of property, plant and equipment, intangible assets or other assets	-	5,044
Financing agreements: loans and capital contributions (lender) (2)	1,860,377	-
Sale of property, plant and equipment, intangible assets or other assets (3)	814,873	-
Financing agreements: loans and capital contributions (borrower) (4)	512,796	-
Deposits and guarantees deposits received	112,500	-
Dividends and other distributed profit	290,336	247,009
Other operations (5)	603,460	-

Trade debtors and creditors (in thousand Euros)	"la Caixa" Group	Repsol Group
Trade and other receivables	-	121,600

Trade and other payables	-	51,700

2011

Income and expenses (Thousand Euros)	"la Caixa" Group	Repsol Group	Catalunya Caixa (*)
Financial expense	12,601	-	1,850
Leases	590	-	-
Services received	-	69,586	-
Goods purchased (finished or in progress)	-	884,397	-
Other expenses (1)	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 Group	Catalunya Caixa (*)
Acquisition of property, plant and equipment, intangible assets or other assets	-	3,340	-
Financing agreements: loans and capital contributions (lender) (2)	1,040,631	-	-
Sale of property, plant and equipment, intangible assets or other assets (3)	623,570	518	-
Financing agreements: loans and capital contributions (borrower) (4)	550,088	9,918	-
Deposits and guarantees deposits received	112,500	-	-
Dividends and other distributed profit	118,885	97,755	11,992
Other operations (5)	1,010,004	-	-

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

(*) Until November 28, 2011.

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

(2) Includes treasury and financial investments.

(3) Includes basically the assignment of debt claims (factoring without recourse) to the "la Caixa" Group made during each of the years.

(4) At 31 December 2012 the credit facilities extended by the "la Caixa" Group totalled Euros 474,317 thousand (Euros 474,914 thousand at 31 December 2011), of which Euros 16,292 thousand had been drawn down (Euros 30,316 thousand at 31 December 2011). Additionally, the "la Caixa" Group has stakes in syndicated loans of Euros 300,000 thousand (Euros 300,000 thousand at 31 December 2011) and other loans totalling Euros 196,504 thousand (Euros 207,665 thousand at 31 December 2011). At 31 December 2011, this item includes the fully-paid capital increase in which the "la Caixa" Group and the Repsol Group opted to receive new shares in Gas Natural SDG, S.A. (Note 13).

(5) At December 31, 2012 “Other operations” with the “la Caixa” Group include Euros 459,183 thousand for exchange rate hedges (Euros 566,587 thousand at December 31, 2011) and Euros 144,277 thousand for interest rate hedges (Euros 443,417 thousand at December 31, 2011).

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 4% of liquid profits to remuneration of the members of the Board of Directors, which can only be drawn once the legal reserve and any other obligatory reserves have been covered, and if the shareholders have recognised a dividend of at least 4% of its nominal value.

The amount accrued by the members the Board of Directors of Gas Natural SDG, S.A., for belonging to the Board of Directors, Executive Committee (EC), Audit and Control Committee (A&CC) and Appointments and Remuneration Committee (A&RC), totalled Euros 4,062 thousand (Euros 4,074 thousand in 2011), broken down as follows in Euros:

	Office	Board	EC	A&CC	A&RC	Total
Mr Salvador Gabarró Serra	Chairman	550,000	550,000	-	-	1,100,000
Mr Antonio Brufau Niubó	Vice-Chairman	126,500	126,500	-	12,650	265,650
Mr Rafael Villaseca Marco	CEO	126,500	126,500	-	-	253,000
Mr Ramón Adell Ramón	Director	126.500	-	8.050	-	134.550
Mr Enrique Alcántara-García Irazoqui	Director	126.500	80.500	-	-	207.000
Mr Xabier Añoveros Trías de Bes (2)	Director	92.000	-	-	-	92.000
Mr Demetrio Carceller Arce	Director	126.500	126.500	-	-	253.000
Mr Santiago Cobo Cobo	Director	126.500	-	-	12.650	139.150
Mr Nemesio Fernandez Cuesta	Director	126.500	-	-	-	126.500
Mr Felipe González Márquez	Director	126.500	-	-	-	126.500
Mr Carlos Kinder Espinosa (1)	Director	46.000	46.000	4.600	-	96.600
Mr Emiliano López Achurra	Director	126.500	126.500	-	-	253.000
Mr Carlos Losada Marrodán	Director	126.500	126.500	12.650	-	265.650
Mr Juan María Nin Génova	Director	126.500	126.500	-	-	253.000
Mr Heribert Padrol Munté (2)	Director	92.000	-	-	-	92.000
Mr Juan Rosell Lastortras	Director	126.500	-	-	-	126.500
Mr Luis Suárez de Lezo Mantilla	Director	126.500	-	12.650		139.150
Mr Miguel Valls Maseda	Director	126.500	-	-	12.650	139.150
		2,551,000	**1,435,500**	**37,950**	**37,950**	**4,062,400**

(1) Are part of the Board of Directors until 20 April 2012.
(2) Are part of the Board of Directors from 20 April 2012.

In the year 2012, as in the year 2011, no additional amounts were received corresponding to the Board of other participated companies.

The amounts received by the Chief Executive Officer for the executive functions under the concept of fixed remuneration, annual variable remuneration, multi-annual variable remuneration and other concepts amounted to Euros 1,043 thousand, Euros 975 thousand, Euros 761 thousand and Euros 5 thousand, respectively, in the year 2012 (Euros 1,012 thousand, Euros 966 thousand, Euros 0 thousand and Euros 3 thousand in the year 2011).

Additionally, and substituting the multi-annual variable remuneration, in the year 2011, an amount of Euros 1,725 thousand was paid, of an extraordinary and singular nature, which was an incentive established to reward the acquisition and integration of UNIÓN FENOSA, which was performed from the year 2008.

Contributions to pension plans and group insurance policies totalled Euros 270 thousand in 2012 (Euros 263 thousand in 2011).

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

In accordance with the content of article 229 of the Capital Companies Law, we disclose below the holdings and offices of the Directors in the share capital of companies with the same, analogous or complementary activity as that which constitutes the corporate purposes of GAS NATURAL FENOSA.

Administrators and position in other Companies with similar or complementary Activity			Number of shares and percentage in:					
			Gas Natural Fenosa	Enagás	Repsol	Endesa	Red Eléctrica	Iberdrola
D.	Salvador Gabarró Serr	Chairman	3,262 (0.000)	14,371 (0.006)			10,502 (0.008)	84,736 (0.001)
	Vice-President 1º of "La Caixa"							
	Board Member of Caixabank, S.A.							
D.	Antonio Brufau Niubó	Vice-Chairman	81,139 (0.008)		273,974 (0.022)			
	President of Repsol , S.A.		1,086 (0.000) (1)		1,724 (0.000) (1)			
D.	Rafael Villaseca Marco	CEO	13,055 (0.001)	356 (0.000)	646 (0.000)	859 (0.000)		2,614 (0.000)
	Vice-President of Repsol-Gas Natural LNG, S.L.							
D.	Enrique Alcántara-García Irazoqui	Director	8,339 (0.001)					
			21,749 (0.002) (1)					7,459 (0.000)
D.	Xabier	Director	350 (0.000)					

	Añoveros Trías de Bes										
D.	Juan María Nin Génova	Director	156	(0.000)		253	(0.000)				
	Director General of "La Caixa"										
	Vice-President and Chief Executive of Caixabank, S.A.										
	Vice-President of Criteria Caixaholding, S.A.U.										
	Board Member of Repsol, S.A.										
	Board Member of Grupo financiero INBURSA										
D.	Juan Rosell Lastortras	Director	2,000	(0.000)	(1)						
	Board Member of Caixabank, S.A.										
D.	Demetrio Carceller Arce	Director	2,826	(0.000)							
	President of Disa Corporación Petrolífera, S.A.		31.150	(0.003)	(1)						
	President of Disa Peninsular, S.L.U.										
D.	Luis Suárez de Lezo Mantilla	Director	18,156	(0.002)		21,189	(0.002)		359	(0.000)	(1)
	Secretary Board Member of Repsol , S.A.		998	(0.000)	(1)	384	(0.000)	(1)			
	Board Member of Repsol – Gas Natural LNG, S.L.										
	Vice-President de la Fundación Repsol										
	Member of the Environmental and Energy Committee of the International Chamber of Commerce (ICC)										
D.	Ramón Adell Ramón	Director	1,500	(0.000)							
D.	Santiago Cobo Cobo	Director	683	(0.000)							
D.	Felipe González Márquez	Director	1,902	(0.000)					91	(0,000)	
D.	Emiliano López Atxurra	Director	1,098	(0.000)							
	Board Member of Petróleos del Norte,										

	S.A.						
D.	Carlos Losada Marrodán	Director	2,020	(0.000)			
	Board Member of Innoenergy		13,168	(0.001)	(1)		
D.	Miguel Valls Maseda	Director	7,000	(0.001)			
D.	Nemesio Fernández-Cuesta Luca de Tena	Director	1	(0.000)		43,665	(0.003)
	Director General of Business of Repsol, S.A.						
	Management Committee Member and Operations Committee Member of Repsol, S.A.						
	President of Repsol Exploración, S.A.						
	President of Repsol Sinopec Brasil, S.A.						
	President of Repsol Gas Natural LNG, S.L.						
	President of Repsol Petroleo, S.A.						
	President of Repsol Comercial de Productos Petroliferos, S.A.						
D.	Heribert Padrol Munté	Director					

(1) The number of shares held by linked 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, excluding those by the Chief Executive Officer detailed previously, in respect of fixed remuneration, annual variable remuneration, multi-annual variable remuneration and other items, totalled Euros 4,144 thousand, Euros 2,853 thousand, Euros 1,807 thousand and Euros 112 thousand, respectively in 2012 (Euros 4,177 thousand, Euros 2,405 thousand, Euros 0 thousand and Euros 72 thousand in 2011).

The amount of fixed remuneration in the year 2012 includes Euros 132 million received in shares of the Company, in agreement with the Share Purchase plan referred to in Note 3.3.14 d).

Additionally, and substituting the multi-annual remuneration, in the year 2011, an amount of Euros 3,919 thousand was paid, of an extraordinary and singular nature, which was an incentive to reward the acquisition and integration process of UNION FENOSA, which was performed since the year 2008.

Contributions to pension plans and group insurance policies totalled Euros 1,887 thousand in 2012 (Euros 1,811 thousand in 2011).

The members the Management Committee of the Company have not received remuneration from profit sharing, bonuses or indemnities, and have not been given loans or advances.

During the year 2012, the indemnities paid for the extinction of contract and other concepts amounted to Euros 1,613 thousand, with no amounts under this concept paid during the year 2011.

The contracts of the members of the Management 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 2012 and 2011 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 2012 GAS NATURAL FENOSA has given guarantees to third parties for activities totalling Euros 1,630 million.

On the other hand, financial guarantees have also been given totalling Euros 650 million, of which Euros 264 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 2012, 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 2012:

	At 31 December 2012						
Purchase	**Total**	**2013**	**2014**	**2015**	**2016**	**2017**	**And beyond**
Commitments for operating leases (1)	730	98	85	56	35	33	423
Commitments for purchases of natural gas (2)	111,281	10,156	9,539	9,210	7,403	7,847	67,126
Commitments for purchases of nuclear fuel	55	31	24	-	-	-	-
Commitments for transport of natural gas (3)	2,742	176	179	181	233	365	1,608
Commitments for investments (4)	200	119	81	-	-	-	-
Total contractual obligations	**115,008**	**10,580**	**9,908**	**9,447**	**7,671**	**8,245**	**69,157**

	At 31 December 2012						
Sales	**Total**	**2013**	**2014**	**2015**	**2016**	**2017**	**And beyond**
Commitments for assignment of combined cycle capacity (5)	4,449	238	231	220	287	262	3,211
Commitments for sales of natural gas (6)	18,136	5,405	4,579	3,542	1,027	1,002	2,581
Total contractual obligations	**22,585**	**5,643**	**4,810**	**3,762**	**1,314**	**1,264**	**5,792**

1) Basically reflects the payments foreseen for the operating lease of the five liquefied natural gas transport tankers which terminate in the period 2013-2019

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 2012.

   This also includes long-term commitments to buy electricity (Note 9), calculated based on prices at 31 December 2012.

   Includes the purchase volumes of the gas supply contract signed in November 2011 with the North American group Cheniere, complying in the year 2012 with the suspension conditions to which the contract was subject.

3) Reflects the long-term commitments (20 to 25 years) for gas transport calculated on the basis of prices at 31 December 2012.

4) Basically reflects payment commitments for the development of the distribution network and other gas infrastructures and the development of the electricity distribution network.

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 2012.

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 2012.

Litigation and arbitration

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

Tax claims in Spain

As a result of the different tax audits on the fiscal years from 2003 to 2008, the Inspectors have questioned the applicability of the export deduction used by GAS NATURAL FENOSA, and assessments were signed in disagreement and appealed through Economic-Administrative claims. The total amount, including interest, at 31 December 2012 involved in these assessments totals Euros 85 million, which is fully provided for.

Tax claims in Argentina

The Argentine tax authorities made several tax claims totalling ARS 257 million including accrued interest (Euros 40 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 2012, totals BR 361 million (Euros 134 million).

Claim against Edemet - Edechi (Panama)

In April 2012 notification was received on the not-guilty sentence in the second application which leaves ineffective that of the first application, which had condemned the companies of Grupo Empresa Distribuidora de Electricidad Metro Oeste S.A. and Empresa Distribuidora de Electricidad Chiriquí S.A. to indemnify the plaintiff with an amount to be determined by the experts with a maximum of Dollars 84 million (Euros 65 million). Both the plaintiff and the defendants (Edemet y Edechi) have appealed against the sentence. The alleged damages are derived from a tender for the purchase of energy in block that was called by the Public Services Authority and was awarded to the plaintiff who finally was incapable of complying with the contract by not presenting the guarantee conditioned in the specifications.

Qatar gas supply contract

After a period of negotiations, GAS NATURAL FENOSA initiated the arbitration procedures to determine the price of gas supplied by the company Qatar Liquefied Gas Company Limited under its long-term contracts, requesting a price reduction. Later, the supplier lodged a counterclaim, requesting a price increase. The arbitration is in its initial stage.

GAS NATURAL FENOSA believes that the provisions recorded in these Consolidated annual accounts adequately cover the risks described in this Note, and, accordingly, it is not expected that liabilities will arise in addition to the ones recorded.

Note 36. Auditors fees

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

	Thousand Euros	
	2012	**2011**
Auditing and related services	3,977	4,184
Other services	815	1,199
Total fees	**4,792**	**5,383**

Additionally, in 2012, other audit firms have rendered the following services to Group companies:

	Thousand Euros	
	2012	**2011**
Auditing and related services	138	237
Other services	2	2
Total fees	**140**	**239**

Note 37. Environment

Main environmental actions

The main actions of GAS NATURAL FENOSA in 2012 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.

All of these measures were developed within the framework of an Integrated Management System that GAS NATURAL FENOSA has certified under the Standard ISO 14.001 to guarantee correct environmental performance. Thus, certified to conform to this Standard are the normal generation parks, practically all of renewable energy park and 94% of the length of the electricity distribution network. Likewise, the gas distribution and transport activities are environmentally certified in Spain, Italy, Morocco, Egypt, Mexico, Colombia and Brazil and in the System implementation stage in Argentina. Additionally, GAS NATURAL FENOSA has its environmental management certified in the greater part of its commercial activities, engineering services and in its most representative buildings.

On the other hand, the coal-fired thermal energy plants, the combined cycle plants of Palos de la Frontera, Sabón and Nueva Generadora del Sur and the Sector Hidráulico de Tambre-Ulla in Galicia are still in the European EMAS system and Group I for the San Roque combined cycle plant has obtained for the first time registration.

During 2012, GAS NATURAL FENOSA´s management in the area of environmental sustainability and climate change was recognised by the prestigious Dow Jones Sustainability Index (DJSI) and Carbon Disclosure Project (CDP), locating us in first place among the companies of the sector that participated in both classifications. In 2012 it participated actively in numerous events linked to environmental management, its participation in the National Environmental Congress, held in Madrid at the end of November, stood out for its relevance.

The principal investments made during the year 2012 were aimed at the renovation of the gas distribution network with the objective of reducing escapes into the atmosphere, undertaking improvements in the energy efficiency of the hydro stations and work centres. Likewise, investments were made to improve residue treatment and to reduce the issues into the atmosphere in electricity generating stations.

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 2012 have cost a total of Euros 105 million, of which Euros 46 million related to investments and the rest, Euros 59 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 2012, 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 15.5 million tonnes of CO_2 (13.4 million tonnes of CO_2 in 2011).

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 9 projects of clean development mechanisms (hereinafter MDL) with the United Nations and two credit periods have been renewed in two projects. Additionally, the Group has other MDL projects for validation in different phase, based on generation using renewable sources, implementation of cogeneration systems, reduction of emissions in gas network and replacement of fuels by other less carbon-intensive alternatives.

Note 38. Subsequent events

On 8 January 2013, GAS NATURAL FENOSA and Sonatrach signed an agreement to acquire from the latter a 10% holding in Medgaz, S.A. (and 10% of the shareholders´ loan), for Euros 62 million euro. The acquisition of the holding is related with the transfer of 10% of the transport capacity of the submarine pipeline Argelia-Europe, with a capacity of 0.8 bcm/year. This capacity will be employed for a new supply contract of 0.8 bcm/year, with a duration of 18 years.

On 9 January 2013, GAS NATURAL FENOSA, through its Euro Medium Term Notes (EMTN) program, closed a bond issue on the Euro market amounting to Euros 600 million with a due date in January 2023, with an annual coupon of 3.87%.

On 14 January 2013, GAS NATURAL FENOSA closed a bond issue on the Swiss market amounting to Swiss Francs 250 million and due date in February 2019, with an annual coupon of 2.12%.

Following the year end, an issue for a total amount of Euros 996 million has been approved by the Electricity System Deficit Securitisation Fund, of which Euros 687 million have been destined to the sector, paid out on 21 January 2013. The estimated amount corresponding to GAS NATURAL FENOSA is Euros 96 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	Reserves	Profit 2012
Gas Natural Almacenamientos Andalucía, S.A.	Spain	Gas supply	I.G.	100	-	4	
Gas Natural Aprovisionamientos SDG, S.A.	Spain	Gas supply	I.G.	100	1	14	2
Sagane, S.A.	Spain	Gas supply	I.G.	100	95	18	1
Energía Empresarial de la Costa, S.A., E.S.P.	Colombia	Electricity commercialisation	I.G.	85,4	-	3	
Energía Social de la Costa S.A. E.S.P.	Colombia	Electricity commercialisation	I.G.	85,4	1	-9	
Cetraro Distribuzione Gas, S.R.L.	Italy	Gas commercialisation	I.G.	100	-	-	
Gas Natural Europe, S.A.S.	France	Gas commercialisation	I.G.	100	3	8	
Gas Natural Vendita Italia, S.P.A.	Italy	Gas commercialisation	I.G.	100	2	14	
Natural Energy, S.A. (1)	Argentina	Gas commercialisation	I.G.	100	-	1	
Gas Natural Comercial SDG, S.L. on liquidation	Spain	Gas and Electricity commercialisation	I.G.	100	4	4	
Gas Natural Comercializadora, S.A.	Spain	Gas and Electricity commercialisation	I.G.	100	2	22	1
Gas Natural S.U.R. SDG, S.A.	Spain	Gas and Electricity commercialisation	I.G.	100	2	13	-
Gas Natural Servicios SDG, S.A.	Spain	Gas and Electricity commercialisation	I.G.	100	2	1	
Unión Fenosa Comercial, S.L.	Spain	Gas and Electricity commercialisation	I.G.	100	10	77	
Distribuidora de Electricidad del Norte, S.A.	Nicaragua	Electricity distribution	I.G.	83,69	80	-46	
Distribuidora de Electricidad del Sur, S.A.	Nicaragua	Electricity distribution	I.G.	83,73	62	-60	
Electrificadora del Caribe S.A, E.S.P.	Colombia	Electricity distribution	I.G.	85,4	964	-148	
Empresa de Distribución Eléctrica Chiriqui, S.A.	Panama	Electricity distribution	I.G.	51	18	-5	
Empresa de Distribución Eléctrica Metro Oeste, S.A.	Panama	Electricity distribution	I.G.	51	71	-9	
Red Unión Fenosa, S.A.	Moldova	Electricity distribution	I.G.	100	7	143	
Unión Fenosa Distribución, S.A.	Spain	Electricity distribution	I.G.	100	833	1.837	2
Albidona Distribuzione Gas, S.R.L.	Italia	Gas distribution	I.G.	100	-	-	

Ceg Río, S.A.	Brazil	Gas distribution	I.G.	59,6	41	80	
Comercializadora Metrogas, S.A. de CV	Mexico	Gas distribution	I.G.	85	128	-46	
Companhia Distribuidora de Gás do Río de Janeiro, S.A.	Brazil	Gas distribution	I.G.	54,2	212	213	
Favellato Reti, S.R.L.	Italy	Gas distribution	I.G.	100	1	9	
Gas Galicia SDG, S.A.	Spain	Gas distribution	I.G.	61,6	33	11	
Gas Natural Andalucía, S.A.	Spain	Gas distribution	I.G.	100	12	41	
Gas Natural BAN, S.A. (1)	Argentina	Gas distribution	I.G.	70	215	-133	
Gas Natural Castilla-La Mancha, S.A.	Spain	Gas distribution	I.G.	95	27	21	
Gas Natural Castilla y León, S.A.	Spain	Gas distribution	I.G.	90,1	6	79	
Gas Natural Cegas, S.A.	Spain	Gas distribution	I.G.	99,7	25	68	
Gas Natural Cundiboyacense, S.A. ESP	Colombia	Gas distribution	I.G.	45,8	1	16	
Gas Natural del Cesar, S.A. ESP	Colombia	Gas distribution	I.G.	21,7	3	6	
Gas Natural del Oriente, S.A. ESP	Colombia	Gas distribution	I.G.	32,2	9	21	
Gas Natural Distribución SDG, S.A.	Spain	Gas distribution	I.G.	100	81	794	2
Gas Natural Distribuzione Italia, S.P.A.	Italy	Gas distribution	I.G.	100	33	196	
Gas Natural México, S.A. de CV (1)	Mexico	Gas distribution	I.G.	85	471	-91	-
Gas Natural Rioja, S.A.	Spain	Gas distribution	I.G.	87,5	3	9	
Gas Natural Sao Paulo Sul, S.A.	Brazil	Gas distribution	I.G.	100	383	-125	
Gas Natural Transporte SDG, S.L.	Spain	Gas distribution	I.G.	100	15	46	
Gas Natural, S.A. ESP	Colombia	Gas distribution	I.G.	59,1	11	139	1
Gas Navarra, S.A.	Spain	Gas distribution	I.G.	90	4	27	
Berrybank development Pty, Ltd	Australia	Energy	I.G.	94,8	2	-	
Crookwell development Pty, Ltd	Australia	Energy	I.G.	94,8	6	1	
Hawkesdale development Pty, Ltd	Australia	Energy	I.G.	94,8	2	1	
Ryan Corner development Pty, Ltd	Australia	Energy	I.G.	94,8	4	1	
Gas Natural Exploración, S.L.	Spain	Hydrocarbon research and exploration	I.G.	100	9	-	
Petroleum Oil & Gas España, S.A.	Spain	Hydrocarbon research and exploration	I.G.	100	4	39	
Clover Financial and Treasury Services, Ltd.	Ireland	Finance	I.G.	100	-	528	
Gas Natural Capital Markets, S.A.	Spain	Finance	I.G.	100	-	-	

Gas Natural Fenosa Finance B.V.	Netherlands	Finance	I.G.	100	-	1	
Unión Fenosa Financiación, S.A.	Spain	Finance	I.G.	100	1	3	
Unión Fenosa Financial Services USA, Llc.	United States	Finance	I.G.	100	-	1	
Unión Fenosa Preferentes, S.A.	Spain	Finance	I.G.	100	-	737	
Boreas Eólica 2, S.A.	Spain	Electricity generation	I.G.	89,6	3	7	
Corporación Eólica de Zaragoza, S.L	Spain	Electricity generation	I.G.	68	3	1	
Energía Termosolar de los Monegros, S.L.	Spain	Electricity generation	I.G.	100	1	-	
Energía y Servicios de Panamá, S.A.	Panama	Electricity generation	I.G.	51	9	-3	
Energías Ambientales de Somozas, S.A.	Spain	Electricity generation	I.G.	97,5	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.	99	9	-	
Eufer Energías Especiais de Portugal, Unipessoal Lda	Portugal	Electricity generation	I.G.	100	-	1	
Explotaciones Eólicas Sierra de Utrera, S.L.	Spain	Electricity generation	I.G.	75	3	1	
Fenosa Wind, S.L.	Spain	Electricity generation	I.G.	100	19	-	
Fenosa, S.L.U.	Spain	Electricity generation	I.G.	100	19	-	
Fuerza y Energía BII Hioxo, S.A. DE C.V.	Mexico	Electricity generation	I.G.	100	43	-12	
Fuerza y Energía de Hermosillo, S.A. de C.V.	Mexico	Electricity generation	I.G.	100	49	4	
Fuerza y Energía de Naco Nogales, S.A. de C.V.	Mexico	Electricity generation	I.G.	100	155	-31	
Fuerza y Energía de Norte Durango, S.A de C.V	Mexico	Electricity generation	I.G.	100	54	-2	
Fuerza y Energía de Tuxpan, S.A. de C.V.	Mexico	Electricity generation	I.G.	100	156	1	
Gas Natural Electricidad SDG, S.A.	Spain	Electricity generation	I.G.	100	4	1	
Gas Natural Fenosa Renovables Andalucía, S.L.U.	Spain	Electricity generation	I.G.	100	-	-	
Gas Natural Fenosa Renovables Castilla la Mancha, S.L.U.	Spain	Electricity generation	I.G.	100	-	-	
Gas Natural Fenosa Renovables Ruralia, S.L.U.	Spain	Electricity generation	I.G.	51	-	-	
Gas Natural Fenosa Renovables, S.L.U.	Spain	Electricity generation	I.G.	100	90	344	-1
Gas Natural Wind 4, S.L.U.	Spain	Electricity generation	I.G.	100	-	-	
Gas Natural Wind 6, S.L.	Spain	Electricity generation	I.G.	60	-	-	
Gas Natural Wind Canarias, S.L.U.	Spain	Electricity generation	I.G.	100	-	-	
Generación Panamá, S.A.	Panama	Electricity generation	I.G.	100	-	-	

Generadora Palamara La Vega, S.A.	Dominican Rep.	Electricity generation	I.G.	100	4	59	
Iberáfrica Power Ltd.	Kenya	Electricity generation	I.G.	71,7	16	-1	
JGC Cogeneración Daimiel, S.L.	Spain	Electricity generation	I.G.	97,6	1	-	
Lantarón Energía, S.L.	Spain	Electricity generation	I.G.	100	-	-	
M&D Generación 1, S.L.U.	Spain	Electricity generation	I.G.	100	-	-	
Sistemes Energètics Passanant, S.L.U.	España	Electricity generation	I.G.	100	-	-	-
Sociedad de Tratamiento Hornillos, S.L.	Spain	Electricity generation	I.G.	94,4	1	2	
Sociedad de Tratamiento La Andaya, S.L.	Spain	Electricity generation	I.G.	60	1	2	
Societat Eòlica de l´Enderrocada, S.A.	Spain	Electricity generation	I.G.	80	6	3	
Tratamiento Cinca Medio, S.L.	Spain	Electricity generation	I.G.	80	2	2	
Tratamiento Integral de Almazán, S.L.	Spain	Electricity generation	I.G.	90	3	4	
Unión Fenosa Generadora La Joya, S.A.	Costa Rica	Electricity generation	I.G.	65	25	-4	
Unión Fenosa Generadora Torito, S.A.	Costa Rica	Electricity generation	I.G.	65	-	5	
UTE La Energía Gas Natural Electricidad	Spain	Electricity generation	I.G.	100	4	-	
Zemer Energía, S.A. de C.V.	Mexico	Electricity generation	I.G.	50	-	-1	
Hispanogalaica de Extracciones, S.L.	Spain	Mining	I.G.	100	-	-	
Kangra Coal (Proprietary), Ltd.	South Africa	Mining	I.G.	70	-	148	
Lignitos de Meirama, S.A.	Spain	Mining	I.G.	100	23	17	
Pizarras Mahide, S.L.	Spain	Mining	I.G.	100	1	-	
Unión Fenosa Minería, S.A.	Spain	Mining	I.G.	100	11	169	
Welgedacht Exploration Company Ltd	South Africa	Mining	I.G.	100	1	-	-
Gas Natural Rigassificazione Italia, S.P.A.	Italy	Gas regasification	I.G.	100	17	-2	
Natural Re, S.A.	Luxemburg	Insurance	I.G.	100	4	29	
Administración y Servicios ECAP, S.A. de C.V.	Mexico	Services	I.G.	100	-	-	
Administradora de Servicios de Energía México, S.A. de CV	Mexico	Services	I.G.	85	-	-	
Almar Ccs, S.A.	Costa Rica	Services	I.G.	100	-	-	
Arte Contemporáneo y Energía, A.I.E.	Spain	Services	I.G.	100	-	-	
Compañía Española de Industrias Electroquímicas, S.A.	Spain	Services	I.G.	98,5	3	10	
Energía y Confort Administración de Personal, S.A. de C.V.	Mexico	Services	I.G.	85	-	1	

Gas Natural Servicios, S.A.S.	Colombia	Servicios	I.G.	59	-	3
Gas Natural Servicios Integrales, S.A.S.	Colombia	Services	I.G.	100	1	-
Gas Natural Servicios, S.A. de C.V.	Mexico	Services	I.G.	85	6	-
Gas Natural Serviços, S.A.	Brazil	Services	I.G.	100	2	1
General de Edificios y Solares, S.L.	Spain	Services	I.G.	100	34	54
Inversiones Hermill, S.A.	Dominican Rep.	Services	I.G.	100	1	-1
Natural Servicios, S.A. (1)	Argentina	Services	I.G.	100	2	-1
Serviconfort Colombia, S.A.S.	Colombia	Services	I.G.	100	-	-
Sistemas de Administración y Servicios, S.A. de C.V. (1)	Mexico	Services	I.G.	85	-	-
Unión Fenosa Generación México, S.A. de C.V.	Mexico	Services	I.G.	100	2	-
Gas Natural Fenosa Engineering, S.L.U.	Spain	Professional services	I.G.	100	1	39
Gas Natural Fenosa Engineering, S.A.S. (Colombia)	Colombia	Professional services	I.G.	100	-	-
Gas Natural Fenosa Engineering, S.A. (Costa Rica)	Costa Rica	Professional services	I.G.	100	-	-
Gas Natural Fenosa Engineering, S.A. (Guatemala)	Guatemala	Professional services	I.G.	100	-	1
Gas Natural Fenosa Engineering, S.A. (Panamá)	Panamá	Professional services	I.G.	100	-	1
Gas Natural Informática, S.A.	Spain	Professional services	I.G.	100	20	7
M&D Energy Market, S.L.U.	Spain	Professional services	I.G.	100	-	-
Operación y Mantenimiento Energy Costa Rica, S.A.	Costa Rica	Professional services	I.G.	100	-	-
Operación y Mantenimiento Energy Madagascar, S.A.R.L.U.	Madagascar	Professional services	I.G.	100	-	-
Operación y Mantenimiento Mexico, S.A. de C.V.	México	Professional services	I.G.	100	32	-85
Operación y Mantenimiento Energy, S.A.	Spain	Professional services	I.G.	100	-	7
Operations & Maintenance Energy Uganda Ltd	Uganda	Professional services	I.G.	100	-	-
Socoin INC (Puerto Rico)	Puerto Rico	Professional services	I.G.	100	-	1
Socoin México, S.A. de C.V.	Mexico	Professional services	I.G.	100	8	-5
Socoinve, C.A	Venezuela	Professional services	I.G.	100	-	-
Soluziona Technical Services, Llc.	Egypt	Professional services	I.G.	100	-	-
Unión Fenosa Operación México S.A. de C.V.	Mexico	Professional services	I.G.	100	-	1
United Saudi Spanish Power and Gas Services, LLC	Saudi Arabia	Professional services	I.G.	100	-	-
Aplicaciones y Desarrollos Profesionales Nuevo Milenio, S.L.	Spain	Professional services	I.G.	100	32	2

Buenergía Gas & Power, Ltd.	Cayman I.	Holding company	I.G.	95	-	13		
Caribe Capital B.V.	Netherlands	Holding company	I.G.	100	-	251		
Distribuidora Eléctrica de Caribe, S.A. (Panamá)	Panama	Holding company	I.G.	100	110	-13		
First Independent Power (Kenya), Ltd.	Kenya	Holding company	I.G.	89,6	-	13		
Gas Natural do Brasil, S.A.	Brazil	Holding company	I.G.	100	3	-3		
Gas Natural Internacional SDG, S.A.	Spain	Holding company	I.G.	100	350	183		
Gas Natural Italia S.P.A.	Italy	Holding company	I.G.	100	-	1		
Gas Natural Puerto Rico, Inc	Puerto Rico	Holding company	I.G.	100	3	-2		
Gas Natural SDG Argentina, S.A. (1)	Argentina	Holding company	I.G.	100	104	-23		
Invergás, S.A. (1)	Argentina	Holding company	I.G.	100	61	48		
La Energía, S.A.	Spain	Holding company	I.G.	100	11	4		
La Propagadora del Gas, S.A.	Spain	Holding company	I.G.	100	10	2		
Pacific Power Holdings Nº 2 B.V.	Paises Bajos	Holding company	I.G.	100	-	-		
Unión Fenosa Internacional, S.A.	Spain	Holding company	I.G.	100	174	212		
Unión Fenosa International B.V.	Netherlands	Holding company	I.G.	100	5	23		
Unión Fenosa México B.V.	Netherlands	Holding company	I.G.	100	128	308		
Unión Fenosa México, S.A. de C.V.	Mexico	Holding company	I.G.	100	475	-170		
Unión Fenosa Minería B.V.	Netherlands	Holding company	I.G.	100	-	136		
Unión Fenosa South Africa Coal (Proprietary), LTD	South Africa	Holding company	I.G.	100	-	70		
Union Fenosa Wind Australia Pty, Ltd.	Australia	Holding company	I.G.	94,8	22	-		
Capital Telecom Honduras, S.A.	Honduras	Holding company	I.G.	100	-	-		
Gas Natural Fenosa Telecomunicaciones Colombia, S.A.	Colombia	Telecomunicaciones	I.G.	88,2	1	2		
Gas Natural Fenosa Telecomunicaciones Costa Rica, S.A.	Costa Rica	Telecommunications	I.G.	66,7	-	-		
Gas Natural Fenosa Telecomunicaciones Guatemala, S.A.	Guatemala	Telecommunications	I.G.	100	-	4		
Gas Natural Fenosa Telecomunicaciones Panamá, S.A.	Panamá	Telecommunications	I.G.	90,2	2	3		
Gas Natural Fenosa Telecomunicaciones, S.A.	Spain	Telecomunicaciones	I.G.	100	21	35		
Unión Fenosa Redes de Telecomunicación El Salvador, S.A. de CV	El Salvador	Telecommunications	I.G.	100	-	-		
Unión Fenosa Redes de Telecomunicación, S.A. (Nicaragua)	Nicaragua	Telecomunicaciones	I.G.	100	-	1		
Europe Maghreb Pipeline, Ltd.	United Kingdom	Gas transportation	I.G.	77,2	-	250	1	

Metragaz, S.A.	Morocco	Gas transportation	I.G.	76,7	3	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 20, which are also assigned to the parent Company.

2. Joint ventures

Company	Country	Activity	Consolidation Method	% de Shareholding Total	Net equity Capital	Reserves	Profit 2012	Interim dividend
Repsol-Gas Natural LNG, S.L.	Spain	Gas supply and transportation	I.P.	50	2	-	-	-
CH4 Energía S.A. de C.V.	Mexico	Gas commercialisation and transportation	I.P.	42,5	1	9	3	-
Barras Eléctricas Galaico Asturianas, S.A.	Spain	Electricity distribution	I.P.	44,9	16	75	14	-
Eléctrica Conquense de Distribución, S.A.	Spain	Electricity distribution	I.P.	46,4	1	3	1	-
Cilento Reti Gas, S.R.L.	Italy	Gas distribution	I.P.	60	3	-	-	-
Gas Natural Vehicular del Norte Asociación en Participación	Mexico	Gas distribution	I.P.	43,4	1	-	-	-
Gas Natural West África, S.L.	Spain	Hydrocarbon exploration and production	I.P.	40	-	-	-	-
Palencia 3 Investigación Desarrollo y Explotación, S.L.	Spain	Hydrocarbon exploration and production	I.P.	39	-	-	-	-
Gas Directo, S.A.	Spain	Gas	I.P.	30	7	-2	1	-
Gasifica, S.A.	Spain	Gas	I.P.	55	2	9	1	-1
Infraestructuras de Gas, S.A.	Spain	Gas	I.P.	42,5	-	-	13	-10
Nueva Electricidad del Gas, S.A.U.	Spain	Gas	I.P.	50	-	-2	-1	-
Palawan Sulu Sea Gas, Inc.	Philippines	Gas	I.P.	50	-	-	-	-
Planta de Regasificación de Sagunto, S.A.	Spain	Gas	I.P.	21,3	2	4	26	-
Segas Services, S.A.E.	Egypt	Gas	I.P.	40,7	1	-	-	-
Spanish Egiptian Gas Company S.A.E.	Egypt	Gas	I.P.	40	336	-60	-	25
Unión Fenosa Gas Exploración y Producción, S.A.	Spain	Gas	I.P.	50	1	8	-	-
Unión Fenosa Gas Comercializadora, S.A.	Spain	Gas	I.P.	50	2	57	10	-
Unión Fenosa Gas Infraestructures B.V.	Netherlands	Gas	I.P.	50	-	-	-	-
Unión Fenosa Gas, S.A.	Spain	Gas	I.P.	50	33	458	260	-180
Alas Capital & Gas Natural S.A.	Spain	Electriciy generation	I.P.	40	-	-	-	-
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	3	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	5	6	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	10	29	17	-
EcoEléctrica, L.P.	Puerto Rico	Electriciy generation	I.P.	47,5	63	70	70	-12
Energías Eólicas de Fuerteventura, S.L.	Spain	Electriciy generation	I.P.	50	1	-	-	-
Eólica Tramuntana 12, S.L.	Spain	Electriciy generation	I.P.	60	-	-	-	-
Eólica Tramuntana 13, S.L.	Spain	Electriciy generation	I.P.	60	-	-	-	-
Eólica Tramuntana 14, S.L.	Spain	Electriciy generation	I.P.	60	-	-	-	-
Eólica Tramuntana 15, S.L.	Spain	Electriciy generation	I.P.	60	-	-	-	-
Eólica Tramuntana 16, S.L.	Spain	Electriciy generation	I.P.	60	-	-	-	-
Eólica Tramuntana 21, S.L.	Spain	Electriciy generation	I.P.	60	-	-	-	-
Eólica Tramuntana 22, S.L.	Spain	Electriciy generation	I.P.	60	-	-	-	-
Eólica Tramuntana 23, S.L.	Spain	Electriciy generation	I.P.	60	-	-	-	-
Eólica Tramuntana 24, S.L.	Spain	Electriciy generation	I.P.	60	-	-	-	-
Eólica Tramuntana 71, S.L.	Spain	Electriciy generation	I.P.	60	1	-	-	-
Eólica Tramuntana 72, S.L.	Spain	Electriciy generation	I.P.	60	-	-	-	-
Eólica Tramuntana 73, S.L.	Spain	Electriciy generation	I.P.	60	-	-	-	-
Eólica Tramuntana, S.L.	Spain	Electriciy generation	I.P.	60	1	-	-	-
Molinos de la Rioja, S.A.	Spain	Electriciy generation	I.P.	33,3	3	2	3	-
Molinos del Linares, S.A.	Spain	Electriciy generation	I.P.	25	-	-	-	-
Molinos del Cidacos, S.A.	Spain	Electriciy generation	I.P.	50	10	8	11	-
Montouto 2000, S.A.	Spain	Electriciy generation	I.P.	49	6	4	3	-
Nueva Generadora del Sur, S.A.	Spain	Electriciy generation	I.P.	50	96	37	-10	-
Parque Eólico Sierra del Merengue, S.L.	Spain	Electriciy generation	I.P.	50	-	-	-	-
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	2	1	-
UTE ESE Clece - Gas Natural	Spain	Services	I.P.	50	-	-	-	-
Ghesa Ingeniería y Tecnología, S.A.	Spain	Professional services	I.P.	41,2	4	18	3	-
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	-	1	-	-
Biogás Doña Juana, S.A. ESP	Colombia	Biogas treatment and use	I.P.	49,8	2	-	-5	-

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	20.0%
Villaviciosa	Spain	Exploration	70.0%
Bezana / Beguenzo	Spain	Exploration	50.0%
Granda	Spain	Exploration	50.0%
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%
Tánger Larrache	Morocco	Exploration	40.0%

4. Associates

Company	Country	Activity	Consolidation Method	% de Shareholding Total	Net equity Capital	Reserves	Profit 2012	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	11	242	-
Regasificadora del Noroeste, S.A.	Spain	Gas	P.E.	11.6	47	9	3	-
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	2	-
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	-	-
3G Holdings Limited	United Kingdom	Holding company	P.E.	10.0	-	-	-	-
Torre Marenostrum, S.L.	Spain	Real Estate	P.E.	45.0	5	11	1	-
Bluemobility System, S.L.	Spain	Services	P.E.	20.0	-	-	-	-
Oficina de cambios de suministrador, S.A.	Spain	Services	P.E.	20.0	-	-	-	-

APPENDIX II VARIATIONS IN CONSOLIDATION SCOPE

The main changes in the consolidation scope in 2012 have been as follows:

Registered name of the entity	Operation category	Effective date of the operation	% of voting rights acquired / eliminated	% of voting rights after the operation	Consolidation method after the operation
Transnatural, S.R.L. de C.V.	Disposal	31 January	50.0%	-	-
Distribuidora de Electricidad del Norte, S.A.	Acquisition	10 February	11.4%	83.7%	Global
Distribuidora de Electricidad del Sur, S.A.	Acquisition	10 February	10.0%	83.7%	Global
Capital Telecom Honduras, S.A.	Acquisition	14 February	100%	100%	Global
GEM Suministro de Gas 3, S.L.	Disposal	29 February	100%	-	-
GEM Suministro de Gas SUR 3, S.L.	Disposal	29 February	100%	-	-
Energías Especiales de Extremadura, S.A.	Acquisition	5 March	20.6%	99.0%	Global
U.F. Telecomunicación El Salvador, S.A. de C.V.	Acquisition	10 March	100%	100%	Global
Fenosa Wind, S.L.	Acquisition	26 April	15.0%	100%	Global
Eólica de Cordales, S.L.U.	Disposal	26 April	100%	-	-
Eólica de Cordales Bis, S.L.U.	Disposal	26 April	100%	-	-
Gas Natural International, Ltd.	Liquidation	30 April	100%	-	-
Eólicos Singulares 2005, S.A.	Liquidation	23 May	49.0%	-	-
Andaluza de Energía Solar Cuarta, S.L.	Liquidation	29 May	76.0%	-	-
Eufer-Caetano Energías Renovaveis Ltd	Disposal	11 June	54.0%	-	-
Energías Eólica de Lanzarote, S.L.	Disposal	22 June	50.0%	-	-
Electra del Jallas, S.A.U.	Acquisition	28 June	0.1%	100%	Global
Pacific Power Holdings Nº 2 BV	Acquisition	01 July	100%	100%	Global
Soluziona, S.A. (Bolivia)	Liquidation	02 July	100%	-	-
Europe Maghreb Pipeline, Ltd	Acquisition	02 July	4.6%	77.2%	Global
Energía Termosolar los Monegros, S.L	Acquisition	31 July	10%	100%	Global
O Novo Aquilón, S.L.	Liquidation	09 October	60%	-	-
Parques Eólicos 2008-2012, S.L.	Liquidation	26 October	54%	-	-
Distribuidora Eléctrica Navasfrías, S.L.	Disposal	31 October	100%	-	-
Unión Fenosa Wind Australia Pty, Ltd.	Acquisition	19 November	0.9%	94.8%	Global
Berrybank Development Pty, Ltd.	Acquisition	19 November	0.9%	94.8%	Global
Crookwell Development Pty, Ltd.	Acquisition	19 November	0.9%	94.8%	Global
Hawkesdale Development Pty, Ltd.	Acquisition	19 November	0.9%	94.8%	Global
Ryan Corner Development Pty, Ltd..	Acquisition	19 November	0.9%	94.8%	Global
Cetraro Distribuzione Gas, S.R.L.	Acquisition	03 December	40%	100%	Global
Albidona Distribuzione Gas, S.R.L.	Acquisition	03 December	40%	100%	Global
Sistemes Energetics Passanant, S.L.U.	Acquisition	12 December	100%	100%	Global
Metragaz, S.A.	Acquisition	20 December	4.4%	76.7%	Global
Gas Natural Fenosa Renovables Ruralia, S.L.U.	Disposal	21 December	49%	51%	Global
Gas Natural de México, S.A. de C.V.	Disposal	31 December	0.9%	70.9%	Global
Sistemas de Administración y Servicios, S.A. de C.V.	Disposal	31 December	1.0%	71.0%	Global

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%	-	-

APPENDIX III GAS NATURAL TAX GROUP COMPANIES

The GAS NATURAL Tax group is as follows:

Gas Natural SDG, S.A.	Gas Natural Fenosa Telecomunicaciones, S.A.
Andaluza Energía Solar Cuarta, S.L.	Gas Natural Informática, S.A.
Aplicaciones y Desarrollos Profesionales Nuevo Milenio, S.L.	Gas Natural Internacional SDG, S.A.
Aplicaciones y Proyectos energéticos, S.A.	Gas Natural Rioja, S.A.
Boreas Eólica 2, S.A.	Gas Natural S.U.R. SDG, S.A.
Cedifil Cored Wire, S.L.	Gas Natural Servicios SDG, S.A.
Compañía Española de Industrias Electroquímicas, S.A.	Gas Natural Transporte SDG, S.L.
Electra de Abusejo, S.L.	Gas Natural Wind 4, S.L.U.
Electra del Jallas, S.A.	Gas Natural Wind Canarias, S.L.U.
Energías Ambientales EASA, S.A.	Gas Navarra, S.A.
Energías Ambientales de Somozas, S.A.	Generación Peninsular, S.L.U.
Energías Ambientales de Novo, S.A.	General de Edificios y Solares, S.L.
Energías Ambientales de Vimianzo, S.A.	Hispanogalaica de Extracciones, S.L.
Energías Especiales Alcoholeras, S.A.	JGC Cogeneración Daimiel, S.L.
Energías Especiales de Extremadura, S.L.	La Energía, S.A.
Energías Especiales Espina, S.L.U.	La Propagadora del Gas, S.A.
Energía Termosolar de los Monegros, S.L.	Lignitos de Meirama, S.A.
Eólica del Cordal de Montouto, S.L.U.	M&D Energy Market, S.L.U.
Eólica Galaico Asturiana, S.A.U.	M&D Generación 1, S.L.U.
Eufer Renovables Ibéricas 2004, S.A.U.	Molinos de Valdebezana, S.A.U.
Explotaciones Eólicas Sierra de Utrera, S.L.	Operación y Mantenimiento Energy, S.A.
Fenosa Wind, S.L.	Pizarras Mahide, S.L.
Fenosa, S.L.U.	Parque Eólico de Cabo Vilano, S.L.U.
Gas Natural Almacenamientos Andalucía, S.A.	Punta de Las Olas Eólica Marina, S.L.U.
Gas Natural Andalucía, S.A.	Punta de Lens Eólica Marina, S.L.U.
Gas Natural Aprovisionamientos SDG, S.A.	Prius Enerólica, S.L.U.
Gas Natural Capital Markets, S.A.	Sagane, S.A.
Gas Natural Castilla-La Mancha, S.A.	Sistemas Energéticos Alto do Seixal, S.A.U.
Gas Natural Castilla y León, S.A.	Sociedad de Tratamiento Hornillos, S.L.
Gas Natural Cegas, S.A.	Societat Eòlica de l'Enderrocada, S.A.
Gas Natural Comercial SDG, S.L.	Tratamiento Cinca Medio, S.L.
Gas Natural Comercializadora, S.A.	Tratamiento Integral de Almazán, S.L.
Gas Natural Distribución SDG, S.A.	Unión Fenosa Comercial, S.L.
Gas Natural Electricidad SDG, S.A.	Unión Fenosa Distribución, S.A.
Gas Natural Exploración, S.L.	Unión Fenosa Financiación, S.A.
Gas Natural Fenosa Engineering, S.L.U.	Unión Fenosa Internacional, S.A.
Gas Natural Fenosa Renovables Andalucía, S.L.U.	Unión Fenosa Minería, S.A.
Gas Natural Fenosa Renovables Castilla La Mancha, S.L.U.	Unión Fenosa Preferentes, S.A.U.
Gas Natural Fenosa Renovables, S.L.U.	Vientos del Noroeste, S.A.

GAS NATURAL FENOSA

Consolidated Directors' Report

1. Business performance

2012 Analysis

Despite a much more demanding macroeconomic context, GAS NATURAL FENOSA attained the financial objectives set out in the 2010-2012 Strategic Plan due to its balanced business profile, growth in international activities and strict financial discipline.

Net profit in 2012 was Euros 1,441 million, up 8.8% year-on-year, despite lower gains on asset sales with respect to 2011.

Consolidated EBITDA in 2012 amounted to Euros 5,080 million, a 9.4% increase with respect to 2011, supported by GAS NATURAL FENOSA's diversification, the growing contribution from the international business, and its balanced business profile, which offset the stagnation in the contribution from the regulated businesses in Spain, which were impacted by the divestments in 2011 and by Royal Decree-Act 13/2012.

The results obtained in this context highlight the solid fundamentals 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.

EBITDA from GAS NATURAL FENOSA'S international activities increased by 22.6%, accounting for 43.2% of the consolidated total in 2012, compared with 38.5% the previous year.

Net interest-bearing debt amounted to Euros 15,995 million at year-end, and the company attained the objectives set out in the 2010-2012 Strategic Plan: leverage of 51.8%, and a Net debt/EBITDA ratio of 3.1x. Excluding the outstanding tariff deficit, Net debt would be Euros 14,930 million, i.e. leverage of 50.1% and Net debt/EBITDA of 2.9x.

In January 2013, GAS NATURAL FENOSA placed a Euros 600 million 10-year bond in the euro market with a fixed coupon of 3.875%, and a 250 million Swiss franc 6-year bond with a fixed coupon of 2.125%. These issues strengthen GAS NATURAL FENOSA's position as a leading issuer in the capital markets, expanding its investor base and its presence in financial markets.

Also in January 2013, GAS NATURAL FENOSA signed an agreement with Algerian company Sonatrach to buy a 10% stake in Medgaz, which operates the Algeria-Europe submarine gas pipeline connecting Beni Saf with the Almería coast with a capacity of 8 bcm/year. As part of this acquisition, GAS NATURAL FENOSA will receive 10% of the gas pipeline's transport capacity as well as a new natural gas supply contract of 0.8 bcm/year.

Main financial aggregates

	2012	2011	%
Net sales	24,904	21,076	18.2
EBITDA	5,080	4,645	9.4
Operating income	3,067	2,947	4.1
Net income attributable to parent Company	1,441	1,325	8.8
Investments	1,386	1,514	(8.5)
Net financial debt (at 31/12)	15,995	17,294	(7.5)

Main physical aggregates

Gas and electricity distribution:

	2012	2011	%
Gas distribution (GWh):	409,774	395,840	3.5
Europe:	199,416	204,809	(2.6)
Tariff gas sales	2,754	2,730	0.9
TPA (third parties access)	196,662	202,079	(2.7)
Latin America:	210,358	191,031	10.1
Tariff gas sales	131,407	114,559	14.7
TPA	78,951	76,472	3.2
Electricity distribution (GWh):	54,362	54,067	0.5
Europa:	36,288	36,361	(0.2)
Tariff electricity sales	2,525	2,445	3.3
TPA	33,763	33,916	(0.5)
Latin America:	18,074	17,706	2.1
Tariff electricity sales	17,087	16,789	1.8
TPA	987	917	7.6
Gas distribution conections, (‘000) (at 31/12):	11,663	11,372	2.6
Europe	5,573	5,490	1.5
Latin America	6,090	5,882	3.5
Electricity distribution connections (‘000) (at 31/12):	8,309	8,133	2.2
Europe	4,608	4,568	0.9
Latin America	3,701	3,565	3.8
ICEIT (installed capacity equivalent interrupt time) (minutes)	33	42	(21.4)

Energy businesses:

	2012	2011	%
Electricity generated (GWH):	55,978	56,354	(0.6)
Spain:	37,144	38,081	(2.5)
Hydroelectric	1,665	2,892	(42.4)
Nuclear	4,434	4,378	1.3
Coal	7,724	4,464	73.0
Oil/gas	-	-	-
CCGT (Combined cycle gas turbine)	20,602	23,967	(14.0)
Renewables	2,719	2,380	14.2
International:	18,834	18,273	3.1
Hydroelectric	100	118	(15.3)
CCGT	16,951	16,362	3.6
Oil-fired	1,783	1,793	(0.6)
Installed capacity (MW):	15,468	15,392	0.5
Spain:	12,827	12,760	0.5
Hydroelectric	1,907	1,901	0.3
Nuclear	604	595	1.5
Coal	2,048	2,048	-
Oil/gas	157	157	-
CCGT	6,998	6,998	-
Renewables	1,113	1,061	4.9
International:	2,641	2,632	0.3
Hydroelectric	22	22	-
CCGT	2,298	2,289	0.4
Oil-fired	321	321	-
Gas supply (GWh):	328,058	308,725	6.3
Spain	238,450	236,992	0.6
Rest	89,608	71,733	24.9
UF Gas(1):			
Gas supply in Spain (GWh)	55,683	56,937	(2.2)
Rest (GWh)	28,200	26,503	6.4
Gas transportation – EMPL (GWh)	116,347	111,855	4.0

(1) Aggregates at 100%.

Analysis of consolidated income

Net sales

	2012	%s/total	2011	%s/total	% 2012/2011
Gas distribution	4,545	18.3	4,063	19.3	11.9
Spain	1,266	5.1	1,240	5.9	2.1
Latin America	2,982	12.0	2,585	12.3	15.4
Rest	297	1.2	238	1.1	24.8
Electricity distribution	3,615	14.5	3,418	16.2	5.8
Spain	852	3.4	922	4.4	(7.6)
Latin America	2,513	10.1	2,290	10.9	9.7
Rest	250	1.0	206	1.0	21.4
Electricity	7,181	28.8	6,443	30.6	11.5
Spain	6,194	24.9	5,452	25.9	13.6
Latin America	859	3.4	865	4.1	(0.7)
Rest	128	0.5	126	0.6	1.6
Gas	12,673	50.9	9,903	47.0	28.0
Infrastructure	306	1.2	289	1.4	5.9
Supply and commercialisation	11,220	45.1	8,603	40.8	30.4
UF Gas	1,147	4.6	1,011	4.8	13.5
Other activities	613	2.5	650	3.1	(5.7)
Consolidation adjustments	(3,723)	(14.9)	(3,401)	(16.1)	9.5
Total	**24,904**	**100.0**	**21,076**	**100.0**	**18.2**

Net sales totalled Euros 24,904 million in 2012, an 18.2% increase over 2011, due basically to growth in the wholesale gas business outside Spain, generally, to business in Latin America.

EBITDA [(1)]

	2012	%s/total	2011	%s/total	% 2012/2011
Gas distribution	1,623	31.9	1,587	34.2	2.3
Spain	900	17.7	896	19.3	0.4
Latin America	640	12.6	621	13.4	3.1
Rest	83	1.6	70	1.5	18.6
Electricity distribution	1,014	20.0	1,016	21.9	(0.2)
Spain	613	12.1	680	14.6	(9.9)
Latin America	366	7.2	306	6.6	19.6
Rest	35	0.7	30	0.6	16.7
Electricity	1,180	23.2	1,068	23.0	10.5
Spain	904	17.8	809	17.4	11.7
Latin America	261	5.1	245	5.3	6.5
Rest	15	0.3	14	0.3	7.1
Gas	1,217	24.0	905	19.5	34.5
Infrastructures	225	4.4	184	4.0	22.3
Supply and commercialisation	736	14.5	444	9.5	65.8
UF Gas	256	5.0	277	6.0	(7.6)
Other activities	46	0.9	69	1.5	(33.3)
Total	**5,080**	**100.0**	**4,645**	**100.0**	**9.4**

(1) EBITDA = Operating profit + Depreciation + Operating provisions - Other income

Consolidated EBITDA in 2012 amounted to Euros 5,080 million, an increase of 9.4% with respect to 2011, in a very tough context in macroeconomic, energy and financial terms; this result was achieved due to an appropriate balance of regulated and liberalised gas and electricity businesses, including a growing, diversified international contribution, which offset the EBITDA impact of divestments in 2011 and the impact of Royal Decree-Act 13/2012.

Regulated gas and electricity distribution in Spain (29.8%) and other countries (22.1%) accounts for 51.9% of GAS NATURAL FENOSA's EBITDA.

The gas business expanded by 34.5% and accounts for 24.0% of consolidated EBITDA, while the electricity business accounts for 23.2% of consolidated EBITDA.

EBITDA from GAS NATURAL FENOSA's international business accounts for 43.2% of the consolidated total, compared to 36.3% the year before.

Operating income

	2012	%s/total	2011	%s/total	% 2012/2011
Gas distribution:	1,173	38.2	1,149	39.0	2.1
Spain	611	19.9	612	20.8	(0.2)
Latin America	509	16.6	494	16.8	3.0
Rest	53	1.7	43	1.5	23.3
Electricity distribution:	595	19.4	616	20.9	(3.4)
Spain	386	12.6	459	15.6	(15.9)
Latin America	180	5.9	133	4.5	35.3
Rest	29	0.9	24	0.8	20.8
Electricity	429	14.0	356	12.1	20.5
Spain	269	8.8	203	6.9	32.5
Latin America	150	4.9	144	4.9	4.2
Rest	10	0.3	9	0.3	11.1
Gas	923	30.1	622	21.1	48.4
Infrastructures	161	5.2	119	4.0	35.3
Supply and commercialisation	661	21.6	383	13.0	72.6
UF Gas	101	3.3	120	4.1	(15.8)
Other activities	(53)	(1.7)	204	6.9	(126.0)
Total	**3,067**	**100.0**	**2,947**	**100.0**	**4.1**

Amortisation allowances increased by 2.7%, while provisions increased by Euros 19 million to Euros 235 million at 31 December 2012. Revenues of Euros 20 million from the disposal of assets (Euros 268 million in 2011) brought the operating profits to Euros 3,067 million, which was 4.1% higher than the year before.

Financial results

The cost of net interest-bearing debt was Euros 823 million in 2012, i.e. lower than in 2011 due to the combined effect of lower net debt and the lower cost of debt.

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 rate for corporate income tax (or the equivalent tax) applicable to income for the period is applied.

The effective tax rate in 2012 was 24.8%, on par with last year's figure. The difference between the theoretical tax rate and the effective tax rate was due basically to the application of tax credits, the application of different tax systems to companies operating outside Spain, and the effect of net income from equity-accounted affiliates.

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 2012 amounted to Euros 216 million, Euros 15 million less than in 2011.

Investments

The breakdown of investments by nature is as follows:

	2012	2011	%
Investments in Property, plant and equipment	1,093	1,230	(11.1)
Investments in intangible assets	264	176	50.0
Financial investments	29	108	(73.1)
Total investments	**1,386**	**1,514**	(8.5)

Capital expenditure (intangible assets and property, plant and equipment) amounted to Euros 1,357 million, 3.5% less than in 2011, due primarily to the decline in regulated investment in Spain, which is partly offset by the increase in investment primarily in Latin America (gas distribution and power generation).

In 2008, the Costa Rican Institute of Electricity (ICE) awarded GAS NATURAL FENOSA the contract to build and operate the Torito hydroelectric plant (50 MW) for a 20-year period. Capital expenditure amounted to Euros 24 million in 2012; by application of IFRIC 12 "Service Concession Arrangements", that amount is classified as financial assets.

The breakdown of capital expenditure by line of business is as follows:

	2012	2011	%
Gas distribution:	475	445	6.7
Spain	257	260	(1.2)
Latin America	177	149	18.8
Rest	41	36	13.9
Electricity distribution:	417	490	(14.9)
Spain	269	340	(20.9)
Latin America	132	133	(1.5)
Rest	16	17	(0.8)
Electricity:	245	258	(5.0)
Spain	182	211	(13.7)
Latin America	63	47	34.0
Rest	-	-	-
Gas:	63	62	1.6
Infrastructures	25	32	(21.9)
Supply and commercialisation	27	20	35.0
UF Gas	11	10	10.0
Other activities	157	151	4.0
Total capital expenditure	**1,357**	**1,406**	**(3.5)**

GAS NATURAL FENOSA allocated 65.7% of capital expenditure to regulated gas and electricity distribution, which will strengthen their contribution to consolidated EBITDA.

A total of 63.7% of capital expenditure in the period corresponds to Spain (down 11.4%, compared with 69.3% in 2011), whereas 36.3% of capital expenditure corresponds to other countries, an increase of 14.4% with respect to 2011.

Capital expenditure in Latin America remains focused on Mexico, Brazil and Colombia, and capital spending on gas distribution expanded by a notable 19.5%.

Analysis of results by activity

Gas distribution in Spain

This area includes gas distribution, third-party access (TPA) and secondary transportation, as well as the distribution activities that are charged for outside the regulated remuneration (meter rentals, customer connections, etc.) in Spain.

In line with the action plan approved by Spain's National Competition Commission in connection with the purchase of Unión Fenosa, the company completed the sale of 304,456 natural gas supply points in Madrid (with a consumption of 1,439 GWh) to the Madrileña Red de Gas group on 30 June 2011. As a result, there are notable variations when comparing the two periods.

Results

	2012	2011	%
Net sales	1,266	1,240	2.1
Purchases	(24)	(12)	100.0
Personnel costs, net	(77)	(71)	8.5
Other expense/income	(265)	(261)	1.5
EBITDA	**900**	**896**	**0.4**
Depreciation and amortization	(289)	(284)	1.8
Change in operating provisions	-	-	-
Operating income	**611**	**612**	**(0.2)**

Net sales in the gas distribution business totalled Euros 1,266 million and EBITDA amounted to Euros 900 million, i.e. slightly higher in year-on-year terms despite divestments in 2011.

Main aggregates

The main aggregates in gas distribution in Spain were as follows:

	2012	2011	%
Gas TPA sales (GWh)	195,769	201,231	(2.7)
Distribution network (Km)	46,541	43,871	6.1
Change in connections points (‘000)	75	81	(7.4)

Conection points (at 31/12)	5,124	5,050	1.5

GAS NATURAL FENOSA continues to expand its distribution network and to increase the number of supply connections. The low level of activity in the new building market continues to impact growth in supply connections, which the company is offsetting by increasing connections in the existing building market. New customers in that market which are signed but not yet connected expanded by 12% with respect to 2011.

In like-for-like terms, the distribution network expanded by 1,459 km, connecting 40 new municipalities.

Order IET/2812/2012 was published on 31 December 2012, establishing the tolls and fees for third-party access to gas installations and remuneration for regulated gas activities for 2013. This Order established an efficiency factor of zero for updating remuneration assigned to the distribution and transport business. The remuneration recognised for GAS NATURAL FENOSA in 2013 from distribution and transportation activities in 2012 is Euros 1,107 million.

Gas distribution in Latin America

This division involves gas distribution in Argentina, Brazil, Colombia and Mexico.

	2012	2011	%
Net sales	2,982	2,585	15,4
Purchases	(1,993)	(1,659)	20,1
Personnel costs, net	(98)	(89)	10,1
Other expense/income	(251)	(216)	16,2
EBITDA	**640**	**621**	**3,1**
Depreciation and amortization	(116)	(113)	2,7
Change in operating provitions	(15)	(14)	7,1
Operating income	**509**	**494**	**3,0**

Revenues increased by 15.4% to Euros 2,982 million, on 10.1% growth in volume year-on-year.

EBITDA amounted to Euros 640 million, a 3.1% increase on 2011, and was positively impacted by appreciation of the Colombian peso (+11.5%), the Argentine peso (+0.8%) and the Mexican peso (+2.0%) and negatively impacted by the devaluation of the Brazilian real (-7.3%).

Brazil accounted for 48.4% of EBITDA; sales volume was 35.9% higher than in 2011, and the energy margin was 5.9% higher, mainly due to the Consumer Price Index update.

Growth in Colombia´s EBITDA accounted for 14.1%, taking into consideration the effect of the wealth tax booked in the first hald fo 2011 which does not apply in 2012.

EBITDA in Mexico accounted for 18.0% of the total, and the energy margin rose 11.6% with respect to 2011.

Main aggregates

The main physical aggregates in gas distribution in Latin America are as follows:

	2012	2011	%
Gas activity sales (GWh):	210,358	191,031	10.1
Tariff gas sales	131,407	114,559	14.7
TPA	78,951	76,472	3.2
Distribution network (Km)	67,334	65,831	2.3
Change in connections points ('000)	208	217	(4.1)
Connection points (000) (at 31/12)	6,090	5,882	3.5

The key physical aggregates by country in 2012 are as follows:

	Argentina	Brazil	Colombia	Mexico	Total
Gas activity sales (GWh)	76,847	67,692	17,656	48,163	210,358
Change vs. 2011 (%)	0.9	35.9	1.8	1.0	10.1
Distribution network	23,605	6,290	19,860	17,579	67,334
Change vs. 31/12/2011 (km)	293	153	397	660	1,503
Connections points ('000 at 31/12)	1,522	870	2,403	1,295	6,090
Change vs. 31/12/2011 ('000)	31	28	111	38	208

There were a total of 6,090,470 gas distribution connections in 2012. Year-on-year growth remains high, with the company adding 207,565 distribution connections (of which 111,159 in Colombia alone). The company now has more than 1.5 million customers in Argentina.

Sales in the gas activity in Latin America, which include both gas sales and TPA (third-party access) services, totalled 210,358 GWh, a 10.1% increase with respect to 2011.

The distribution grid expanded by 1,503 km (+2.3%) in the last 12 months, to 67,334 km at the end of December 2012. Mexico, where the grid added 660 km, contributed to this notable growth.

Highlights in Latin America:

- In Argentina, residential/commercial customer numbers net growth decreased by 10.9% compared with 2011. Gas and TPA sales increased by 0.9% due to the increase in unit consumption by domestic/commercial clients and to a larger customer base. The company continued to curtail expenditure in a situation of high inflation (around 23%). In December 2012, the company signed a contract with ENARGAS and Nación Fideicomisos to create a fund for construction and expenses related to infrastructure expansion and maintenance.

- The business performed very well in Brazil, with a 14.5% net increase in residential/commercial customer numbers and a 35.9% increase in gas and TPA sales, especially in power generation. Electric power plant dispatching in 2012 increased by 118% year-on-year, and sales also performed very well. Reservoir levels in December 2012 were 28.9%, i.e. below the historical average (62.3%).

- In Colombia, net residential/commercial customer numbers increased by 2.9% and installations grew by 6.2%, especially in the new building segment (+17.8%). Gas and TPA sales also expanded by 3.4% in the residential/commercial market.

- In Mexico, installations increased by 31.0% with to 2011, with notable improvements in central Mexico (Mexico City and Toluca) and in the north (Monterrey, Nuevo Laredo and Saltillo). As for gas and TPA sales, there was a notable increase in the residential/commercial market (+8.1%) and TPA (+3.6%) with respect to 2011, due to the larger customer base and higher residential unit consumption.

Gas distribution Rest (Italy)

The business in Italy also includes gas sales at the regulated tariff.

Results

	2012	2011	%
Net sales	297	238	24.8
Purchases	(170)	(129)	31.8
Personnel costs, net	(15)	(14)	7.1
Other expenses/income	(29)	(25)	16.0
EBITDA	**83**	**70**	**18.6**
Depreciation and amortization	(25)	(23)	8.7
Change in operating provisions	(5)	(4)	25.0
Operating income	**53**	**43**	**23.3**

EBITDA totalled Euros 83 million, i.e. 18.6% higher than in 2011, due to the increase in regulated gas distribution and the growing contribution from the margin on gas sales.

Main aggregates

	2012	2011	%
Gas activity sales (GWh):	3,647	3,578	1.9
Tariff gas sales	2,754	2,730	0.9
TPA	893	848	5.3
Distribution network (km)	6,885	6,736	2.2
Connections points ('000) (at 31/12)	449	440	2.0

A total of 3,647 GWh of gas were distributed, i.e. 1.9% more than in 2011, due mainly to the favourable weather.

The distribution grid expanded by 149 km in the last 12 months, to 6,885 km at 31 December 2012.

GAS NATURAL FENOSA has 448,967 gas distribution points in Italy, a 2.0% increase with respect to 2011.

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

	2012	2011	%
Net sales	852	922	(7.6)
Purchases	-	-	-
Personnel costs, net	(99)	(114)	(13.2)
Other expenses/income	(140)	(128)	9.4
EBITDA	**613**	**680**	**(9.9)**
Depreciation and amortization	(228)	(220)	3.6
Change in operating provisions	1	(1)	-
Operating income	**386**	**459**	**(15.9)**

Royal Decree-Act 13/2012, of 30 March 2012, adopting measures to correct imbalances between costs and revenues in the electricity and gas sectors, establishes a reduction in regulated revenues associated with distribution and customer management. This decline amounted to approximately Euros 110 million for GAS NATURAL FENOSA with respect to the 2012 figures established under Order IET/3586/2011 (Official State Gazette of 31/12/2011), the result of which is a decline of 7.6% in revenues and of 9.9% in EBITDA with respect to 2011.

Main aggregates

	2012	2011	%
Electric activity sales (GWh):	33,763	33,916	(0.5)
Tariff electricity sales	-	-	-
TPA	33,763	33,916	(0.5)
Connection points (000) (at 31/12)	3,772	3,748	0.6
ICEIT (minutes)	33	42	(21.4)

Energy supplied was on par with 2011 despite the fact that electricity demand fell by 1.7% in like-for-like terms, in line with performance nationwide.

The number of distribution connections increased slightly, by 0.6%, to 3,772,495.

There were no notable incidents in the period due to the facilities' optimal performance as a result of investment in recent years, the network architecture and ongoing operation and maintenance plans. As a result, the ICEIT (installed capacity equivalent interrupt time) was 33 minutes, i.e. an improvement of 21.4%.

Electricity distribution in Latin America

This division involves electricity distribution in Colombia, Nicaragua and Panama.

The sale of the electricity distribution business in Guatemala led to its deconsolidation on 1 June 2011.

Results

	2012	2011	%
Net sales	2,513	2,290	9.7
Purchases	(1,891)	(1,723)	9.8
Personnel costs, net	(66)	(42)	57.1
Other expenses/income	(190)	(219)	(13.2)
EBITDA	**366**	**306**	**19.6**
Depreciation and amortization	(70)	(71)	(1.4)
Change in operating provisions	(116)	(102)	13.7
Operating income	**180**	**133**	**35.3**

Net sales in electricity distribution in Latin America totalled Euros 2,513 million in 2012, a 9.7% increase. EBITDA amounted to Euros 366 million in 2012, 19.6% more than in 2011.

The distribution business in Colombia contributed Euros 246 million to EBITDA, i.e. a 1.2% improvement excluding the effect of the wealth tax in 2011. That increase reflects greater demand year-on-year, which was affected by a very strong cold wave in winter. This weather event also impacted energy prices, which had a notable impact on the tariff as a result of the pass-through clauses. The reduction of losses as a result of the action plans implemented during the year also contributed to these results.

EBITDA from distribution companies in Central America totalled Euros 120 million, i.e. up 11.9%, driven by higher demand in Panama (+9%) and Nicaragua (+6%). This absorbed the impact of the higher cost of unrecognised losses due to higher energy purchase prices, especially in Nicaragua, where procurement costs increased by around 6% on average.

Main aggregates

	2012	2011	%
Electric activity sales (GWh):	18,074	17,706	2.1
Tariff electricity sales	17,087	16,789	1.8
TPA	987	917	7.6
Connection points (000) (at 31/12)	3,701	3,565	3.8

Electricity sales totalled 18,074 GWh, an increase of 2.1% despite the fact that the 2011 figures reflect the sale of distribution companies in Guatemala.

The number of distribution connections increased by 3.8%, to 3,700,934.

The key physical aggregates by country in 2012 are as follows:

	Colombia	Nicaragua	Panama	Total
Electric activity sales (GWh)	11,238	2,751	4,085	18,074
Change vs. 2011 (%)	6.8	6.5	8.5	2.1
Connections points ('000 at 31/12)	2,312	880	509	3,701
Change vs. 31/12/2011 ('000)	88	31	17	136
Network loss ratio (%)	17.4	20.0	10.4	16.3

The performance of basic operating indicators reflects good business management and growth, as envisioned in the plan to reduce grid losses and bad debts, enabling the company to offset losses by increasing demand in this area.

Electricity distribution Rest (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

	2012	2011	%
Net sales	250	206	21.4
Purchases	(194)	(157)	23.6
Personnel costs, net	(8)	(8)	-
Other expenses/income	(13)	(11)	18.2
EBITDA	**35**	**30**	**16.7**
Depreciation and amortization	(6)	(6)	-
Change in operating provisions	-	-	-
Operating income	**29**	**24**	**20.8**

Net revenues reflect the effect of procurement costs together with the capex plan and operation and maintenance performed in accordance with the country's current regulations.

Excluding the currency effect, EBITDA expanded by 12.5% due to the increase in regulated remuneration for electricity distribution and supply at the bundled tariff, to the improvement in grid loss indicators, and to more efficient spending.

Main aggregates

	2012	2011	%
Electric activity sales (GWh):	2,525	2,445	3.3
Tariff electricity sales:	2,525	2,445	3.3
TPA	-	-	-
Connection points (000) (at 31/12)	836	820	2.0
Índice de pérdidas de red (%)	12	13	(7.7)

GAS NATURAL FENOSA continues to implement its plan to improve management in Moldova, focusing 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 and providing an ongoing improvement in basic operating indicators:

- Energy supply expanded by 3.3%, i.e. faster than electricity demand at national level (+2.1%) as a result of plans to improve the energy efficiency of the grids and of anti-fraud actions.

- Supply connections totalled 836,000, i.e. up 2.0% with respect to 2011, due primarily to growth in the real estate sector.

- The network loss indicator performed very favourably, declining by 1 percentage point compared with 2011, enabling the company to maximise regulated revenues.

Electricity 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

	2012	2011	%
Net sales	6,194	5,452	13.6
Purchases	(4,624)	(4,061)	13.9
Personnel costs, net	(152)	(149)	2.0
Other expenses/income	(514)	(433)	18.7
EBITDA	**904**	**809**	**11.7**
Depreciation and amortization	(594)	(560)	6.1
Change in operating provisions	(41)	(46)	(10.9)
Operating Income	**269**	**203**	**32.5**

Net sales in the electricity business amounted to Euros 6,194 million in 2012, 13.6% more than in 2011.

EBITDA amounted to Euros 904 million in 2012, an 11.7% increase year-on-year.

The negative performance of fuel prices, the change in the electricity production mix (lower hydroelectric output) and their impact on generation costs was managed adequately, since the company was able to increase EBITDA in a context of production prices in Spain that, over the full year, were on par with 2011.

Electricity demand in mainland Spain amounted to 251,749 GWh in 2012, a decline of 1.4% with respect to 2011. Adjusting for the different number of working days and the temperature, demand actually declined by 1.8% in the year as a whole.

The balance of international power flows was a net export in physical terms in 2012, amounting 11.2 TWh, i.e. up 84.0% with respect to 2011. The balance of international power flows was a net export in physical terms in 2012, amounting 11.2 TWh, i.e. up 84.0% with respect to 2011.

Spanish net electricity production increases 1.5% with respect 2011, special regime output increasing by 10.9% in 2012 and ordinary regime decreasing by 3.6%

Special regimen covered 40.7% of total Spanish mainland demand, i.e. almost four and a half points more than in 2011.

Wind output in 2012 increased by 14.3% with respect to 2011. Output from the other special regime energies expanded by 8.1% in the quarter due to the recovery in hydroelectric output and to the increase in solar output: photovoltaic and solar thermal together exceeded 11 TWh in 2012.

As far as Ordinary Regime output is concerned, when broken down by technology, hydraulic and combined cycle output declined while coal and nuclear increased compared to the year before.

Hydroelectric output declined by 29.4% in 2012. Nevertheless, and given the scant hydrological contribution in recent months, the hydroelectric energy capacity in the year marks 2012 as extremely dry, with an exceedance probability of more than 99% when compared with the historical average: i.e. statistically, 99 out of every 100 years would be wetter than 2012.

In 2012, CCGT output declined by 24.2%, covering 15.0% of demand (4.5 points less than in 2011).

Nuclear output increased by 6.7% in the year; this figure was affected by changes in the dates of scheduled shut-downs.

In 2012 as a whole, coal-fired output increased by 25.5%. Spanish coal-fired output increased by 11.8%, clearly impacted by the entry into force of the Royal Decree on Security of Supply on 26 February 2011. Imported coal-fired output increased by 47.8%, evidence of its competitiveness compared with other technologies.

There was no oil-fired output in 2011 or 2012.

In 2012, the weighted average price in the electricity pool was Euros 48.5/MWh, i.e. Euros 2.3/MWh less than in 2011.

Main aggregates

The main aggregates in GAS NATURAL FENOSA's electricity business in Spain were as follows:

	2012	**2011**	**%**
Installed capacity (MW):	12,827	12,760	0.5
Ordinary Regime	11,714	11,699	0.1
Hydroelectric	1,907	1,901	0.3
Nuclear	604	595	1.5
Coal	2,048	2,048	-
Oil/gas	157	157	-
CCGT	6,998	6,998	-
Special Regime	1,113	1,061	4.9

Electricity generated (GWh):	37,144	38,081	(2.5)
Ordinari Regime:	34,425	35,701	(3.6)
Hydroelectric	1,665	2,892	(42.4)
Nuclear	4,434	4,378	1.3
Coal	7,724	4,464	73.0
Oil/gas	-	-	-
CCGT	20,602	23,967	(14.0)
Special Regime	2,719	2,380	14.2

Electricity sales (GWh):	35,910	35,905	-
Liberalised market	28,216	27,058	4.3
Last resort tariff / regulated	7,694	8,847	(13.0)

The change in ordinary regime installed capacity with respect to 2011 is due to a number of factors:

- The 6 MW increase as a result of re-rating several hydroelectric plants.
- The 9 MW increase corresponding to GAS NATURAL FENOSA at the Almaraz nuclear power plant.

GAS NATURAL FENOSA's electricity output in mainland Spain declined by 2.5%, with ordinary regime output falling by 3.6% (mainly due to divestments and lower hydroelectric output), while special regime output increased by 14.2%, outstripping overall growth in mainland Spain (+10.9%)

Hydroelectric output in 2012 amounted to 1,665 GWh, i.e. 42.4% lower than in 2011. Overall, 2012 was extremely dry, with an exceedance probability of 99%, despite the improvement in December, a month which is not especially relevant in the calculation. Reservoirs in the GAS NATURAL FENOSA watersheds were at 31.6% of capacity, i.e. 5 points less than one year ago.

Nuclear output increases 1.3% in the year.

The application in 2012 of the Royal Decree on Security of Supply resulted in GAS NATURAL FENOSA's Anllares, La Robla 2 and Narcea 3 plants working continuously; In 2012, coal-fired output amounted to 7,724 GWh, i.e. up 73.0% compared with 2011. The greatest increase was in Meirama, where output in 2012 totalled 2,755 GWh, vs. 1,083 GWh in 2011.

In 2012, CCGT output amounted to 20,602 GWh, i.e. 14.0% less than in 2011, reflecting the divestment of CCGT plants; in like-for-like terms, the decline would have been 11.4%. In contrast, CCGT output in Spain as a whole fell by 24.2%, evidencing that GAS NATURAL FENOSA made intensive use of its CCGTs (practically double the rest of the ordinary regime).

GAS NATURAL FENOSA attained a 20.7% share of the ordinary regime power generation market in 2012, i.e. on par with 2011 figures or 0.4 percentage points more if the 2011 output of the divested CCGTs is excluded.

The electricity supply area sold 35,910 GWh in 2012, including supply to the liberalised market and under the last-resort tariff. 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.

The company's consolidated CO_2 emissions totalled 14.9 million tonnes in 2012, compared with 12.8 million tonnes in 2011. GAS NATURAL FENOSA applies a comprehensive approach to its CO_2 emission right hedges for the Kyoto period (2008-2012) and the second commitment period of the Kyoto Protocol (2013-2020), recently confirmed at the Doha Climate Change Conference, and it acquired the emission rights and credits that it needs through active participation in the secondary market, primary projects and carbon funds.

At 31 December 2012, Gas Natural Fenosa Renovables (GNF Renovables) had a consolidable total operational installed capacity of 1,113 MW, of which 968 MW are wind, 69 MW are small hydroelectric and 75 MW are cogeneration. Increases during the fourth quarter of 2012 are attributable to the commissioning of the García Carrión co-generation plant (8.5 MW, Castilla La Mancha) in October and of the Les Forques II wind facility (12 MW, Catalonia) in December.

Output was 14.2% higher than in 2011 (2,719 GWh vs. 2,380 GWh). This is primarily attributable to the 20.9% increase in wind output due to including all production by EASA companies (acquiring the ACS stake at the end of the third quarter of 2011), to the acquisition of the Alto do Seixal wind farm at the end of 2011, and to the greater winds compared with the previous year. Small hydroelectric output declined by 8.5% due to scant precipitation in the year. Co-generation output expanded by 3.8%. EBITDA increased by 10.9% to Euros 155 million.

Work continues on schedule for the construction of the Belesar II and Peares II small hydroelectric plants in Galicia, which are scheduled to become operational in 2013.

Electricity Latin America

This section includes electricity generation in Mexico, Puerto Rico, Costa Rica, 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.

Results

	2012	2011	%
Net sales	859	865	(0.7)
Purchases	(515)	(548)	(6.0)
Personnel costs. Net	(15)	(15)	-
Other expense/income	(68)	(57)	19.3
EBITDA	**261**	**245**	**6.5**
Depreciation and amortization	(111)	(101)	9.9
Change in operating provisions	-	-	-
Operating income	**150**	**144**	**4.2**

EBITDA amounted to Euros 261 million, a 6.5% increase on 2011. Excluding the currency effect, EBITDA declined by 0.7%.

EBITDA in Mexico in 2012 increased by 4.1% with respect to 2011 (-3.8% excluding the currency effect). The reduction in activity was due mainly to lower gas sales prices and greater costs as a result of the incident at the Tuxpan plant, which occurred in October 2011 during maintenance work on block 3. The recovery plan enabled 100% of capacity to be restored by the first half of February 2012.

EBITDA in Panama declined by 28.6% with respect to 2011 (34.0% excluding the currency effect), due to low precipitation in the fourth quarter, which reduced revenues from energy sales.

EBITDA in Puerto Rico increased by 11.1% with respect to 2011 (by 2.3% excluding the currency effect) due to higher sales in the spot market resulting from greater dispatching.

EBITDA in the Dominican Republic rose by 40.6% with respect to 2011 (by 30.1% excluding the currency effect) with respect to 2011 due to greater energy sales resulting from an increase in generation. Output in 2012 was favoured by more efficient plants dropping out of the system, higher demand, and a better position in the dispatching merit order.

Main aggregates

The main aggregates are as follows:

	2012	**2011**	**%**
Installed capacity (MW):	2,558	2,520	1.5
Mexico (CCGT)	2,035	2,035	-
Puerto Rico (CCGT)	263	254	3.5
Panama (hydroelectric)	51	22	-
Panama (thermal)	11	11	-
Dominican Republic (oil-fired)	198	198	-
Electricity generated (GWh):	18,188	17,506	3.9
Mexico (CCGT)	15,172	14,662	3.5
Puerto Rico (CCGT)	1,779	1,700	4.6
Panama (hydroelectric)	100	118	(15.3)
Panama (thermal)	8	19	(57.9)
Dominican Republic (oil-fired)	1,129	1,007	12.1

Output in Mexico increased by 3.5% in the year due to the incident at the Tuxpan plant in October 2011, which impeded it from operating during most of the fourth quarter of 2011, as visible also in the plant's availability. The company signed an agreement with Grupo México to sell surplus capacity at the Naco Nogales plant (up to 50 MW) in the first half of the year. The capacity tests requested by the Mexican Federal Electricity Commission (CFE) commenced late in 2012, and the plant is expected to commence commercial operations in the first quarter of 2013.

Output in Panama declined by 21% with respect to 2011, due to lower dispatching by the National Dispatch Centre (CND) of both thermal plants and hydroelectric plants as a result of less frequent rainfall in the fourth quarter of 2012.

Output in Puerto Rico increased by 4.6% with respect to 2011. Dispatching of the plant continued to rise, exceeding the contracted level due to the lower availability of PREPA's system and the optimisation of its economic dispatching in economic terms. The major overhaul of the plant took place in the first quarter of 2012, whereas the 2011 overhaul was brought forward to December 2010.

Output in the Dominican Republic expanded by 12.1% with respect to 2011 due to more efficient plants dropping out of the system, greater demand, and a better position in the dispatching merit order.

Electricity Rest (Kenya)

This area refers to power generation in Kenya.

The dominant weather conditions in the area (greater precipitation) during most of 2012 led to a decline in the use of thermal power plants, which reduced electricity output.

Results

	2012	2011	%
Net sales	128	126	1.6
Purchases	(100)	(102)	(2.0)
Personnel costs. net	(2)	(2)	-
Other expenses/income	(11)	(8)	37.5
EBITDA	**15**	**14**	**7.1**
Depreciation and amortization	(5)	(5)	-
Change in operating provisions		-	
Operating Income	**10**	**9**	**11.1**

EBITDA amounted to Euros 15 million in 2012. High availability (87.9%), the factor determining capacity revenues, together with the positive EUR/USD exchange rate provided for EBITDA in line with 2011 figures despite the notable increase in fuel prices in international markets throughout the year and to the scheduled and unscheduled maintenance shut-downs.

Main Aggregates

The main aggregates of the activity are the following:

	2012	2011	%
Electric generation capacity (MW)	112	112	-
Electric energy production (GWh/year)	646	767	(15.8)

Diesel-fired output in Kenya in 2012 (646 GWh) was 15.8% lower than in 2011. This decline is attributable to lower demand for thermal power in Kenya as a result of the greater precipitation in the year and, consequently, the higher level of water in the hydroelectric reservoirs.

Infrastructure

This area includes operation of the Maghreb-Europe gas pipeline, maritime transportation, the development of integrated liquefied natural gas (LNG) projects, and hydrocarbon exploration, development, production and storage.

Results

	2012	2011	%
Net sales	306	289	5.9
Purchases	(56)	(58)	(3.4)
Personnel costs, net	(6)	(8)	(25.0)
Other expense/income	(19)	(39)	(51.3)
EBITDA	**225**	**184**	**22.3**
Depreciation and amortization	(64)	(65)	(1.5)
Change in operating provisions		-	
Operating income	**161**	**119**	**35.3**

Net sales in the Infrastructure business totalled Euros 306 million in 2012, a 5.9% increase.

EBITDA in 2012 amounted to Euros 225 million, i.e. 22.3% more than in 2011, due mainly to the positive currency effect on international transportation in 2012 and to the 3% increase in transport tariffs in the year. Moreover, revenues rose as a result of higher occupancy of the fleet and lower operating costs for exploration and development.

Main aggregates

The main aggregates in international gas transportation are as follows:

	2012	2011	%
Gas transportation-EMPL (GWh):	116,347	111,855	4.0
Portugal-Morocco	36,872	31,286	17.9
GAS NATURAL FENOSA	79,475	80,569	(1.4)

The gas transportation activity conducted in Morocco through companies EMPL and Metragaz represented a total volume of 116,347 GWh, 4.0% more than in 2011. Of that figure, 79,475 GWh were transported for GAS NATURAL FENOSA through Sagane and 36,872 GWh for Portugal and Morocco.

The increase in gas transportation for Morocco in 2012 is attributable to the contract signed in October 2011 by EMPL with Morocco's Office National de l'Électricité (ONE) to transport 0.6 bcm of gas per year, delivered by Sonatrach at the Algeria-Morocco border, to ONE's power plants.

As part of the Villaviciosa concession in northern Spain, where GAS NATURAL FENOSA operates with a 70% stake; having concluded the evaluation of its potential, the company has ruled out moving on to the next phase of research and will exit the project.

GAS NATURAL FENOSA performed geological and geophysical surveys in the Bages area (Barcelona province), recently completing the technical feasibility study for underground natural gas storage in salt cavities. The administrative and environmental paperwork has commenced.

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, Aznalcázar and Romeral areas). On 30 September 2010, the company obtained an Environmental Impact Assessment (EIA) for the first of the five projects. On 14 November 2011, the Doñana Natural Space authorised the two projects in that area which, together with the other projects, are in the final phase of environmental paperwork with a view to obtaining the EIA in the first half of 2013. 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. The company commenced operation of this underground gas storage system on 2 April 2012.

As regards the Trieste regasification project in northern Italy (Zaule), having secured the environmental permit at national level and after commencing a round of contacts at the end of 2011, GAS NATURAL FENOSA is awaiting the Single Authorisation to commence construction.

The power to grant regarding that Authorisation has been transferred to the Ministry for Economic Development, from the Friuli–Venezia Giulia region, by virtue of a recent decision handed down by the Council of State.

The Trieste project (onshore) will have a regasification capacity of 8 bcm/year. This project will further diversify sources of natural gas, increase supply security in Italy, encourage competition among the various market actors and operators, and notably boost regional and local economic growth.

In 2013, GAS NATURAL FENOSA signed an agreement with Algerian company Sonatrach (Sociéte Nationale pour la Recherche, la Production, le Transport, la Transformation et la Commercialisation des Hydrocarbures, S.p.A) to acquire 10% of Medgaz, S.A., which operates the Algeria-Europe subsea gas pipeline connecting Beni Saf with the Almería coast (capacity: 8 bcm/year).

As part of this acquisition, GAS NATURAL FENOSA will receive 10% of the gas pipeline's transport capacity as well as a natural gas supply contract of 0.8 bcm/year.

Supply and commercialisation

This area includes gas supply and commercialisation (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

	2012	2011	%
Net sales	11,220	8,603	30.4
Purchases	(10,245)	(7,945)	29.0
Personnel costs, net	(50)	(46)	8.7
Other expenses/income	(189)	(168)	12.5
EBITDA	**736**	**444**	**65.8**
Depreciation and amortization	(15)	(14)	7.1
Change in operating provisions	(60)	(47)	27.7
Operating profit	**661**	**383**	**72.6**

Net sales amounted to Euros 11,220 million, 30.4% more than in 2011. EBITDA increased by 65.8% to Euros 736 million, mainly due to the increase in operations outside Spain.

Diversification of the portfolio of commodities, combined management of the commodity and dollar risks and greater sales outside Spain helped improve 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:

	2012	2011	%
Gas supply (GWh)	328,058	308,635	6.3
Spain:	238,451	236,902	0.7
GAS NATURAL FENOSA supply(1)	178,217	169,204	5.3
Supply to third parties	60,234	67,698	(11.0)
International:	89,607	71,733	24.9
Europe	23,715	25,088	(5.5)
Rest	65,892	46,645	41.3
Multiutility contracts (at 31/12)	1,882	1,682	11.9
Contracts per customer (at 31/12)	1.40	1.35	3.7

(1) Does not include exchange transactions with energy companies.

In a situation of weak demand, the company supplied 238,450 GWh in the Spanish gas market, a 1.6% increase with respect to 2011, primarily due to higher sales to final customers of GAS NATURAL FENOSA, which increased by 6.8%, while sales to third parties declined by 11.0%.

The upward trend in international gas sales continued, reaching 89,607 GWh in 2012, a 24.9% increase compared to the year before.

GAS NATURAL FENOSA participated in several auctions (last resort tariff, gas for operation and buffer storage), and was awarded 1,642 GWh.

GAS NATURAL FENOSA remains committed to promoting the use of natural gas in new industrial activities. As a result, at the end of the year Gas Natural Comercializadora signed a framework agreement with Navantia and Reganosa to offer a comprehensive service that completes the repair cycle of gas carrier ships in the Ferrol estuary to bring them into operation, guaranteeing an even more attractive and competitive product for the ship operators.

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 FENOSA continues to strengthen its position as the leading independent supplier in Portugal, with a market share of almost 15% in the industrial segment.

Gas Natural Europe (the French subsidiary for supply in Europe) currently has 2,566 distribution connections in a range of sectors in France, from industrial companies (chemicals, paper mills, etc.) to local governments and the public sector, accounting for a total portfolio of 14.1 TWh per year.

The French subsidiary strengthened its position in Belgium and Luxembourg with 465 supply points, representing a contracted portfolio of 4.9 TWh per year. In the beginning of the year it commenced operating in the Netherlands, with 80 supply points and a portfolio of 0.6 TWh, and at the end of the year in Germany, where it has already signed its first customers.

GAS NATURAL FENOSA 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.

Gas Natural Vendita had a portfolio under contract in the Italian wholesale market amounting to 2,645 GWh/year at the end of 2012.

Outside Spain, the company increased market diversification with gas sales in the Caribbean and South America as well as in Asia, favoured by strong demand in the area.

GAS NATURAL FENOSA has over 10.6 million active retail gas, electricity and services contracts. At the end of the year, more than 1.08 million residential customers had both electricity and gas supply contracts with GAS NATURAL FENOSA. The domestic maintenance contract portfolio was expanded to include 12 different types, and the company now has more than 1.88 million contracts with its own operating platform consisting of 163 associated firms connected via an online system, which has enabled it to improve service performance and quality.

It strengthened this business line in 2012 by providing customers with access to offers for efficient equipment (e.g. gas boilers and heaters). This line enables GAS NATURAL FENOSA to expand its customer services, offering technical solutions together with special offers on energy and credit lines.

GAS NATURAL FENOSA continues to add features and users to its online customer management system, and the website received 3.8 million hits in 2012. Over 415,000 customers now receive their bill online.

GAS NATURAL FENOSA had 35,000 gas and 319,000 electricity contracts in the SME market at the end of 2012. Sales campaigns enabled the company to expand the active portfolio to 6.7 TWh in gas and to 8.9 TWh in electricity.

The company is using its leading position in vehicular natural gas (VNG) to continue to advance in the development of energy options for vehicles in Spain, in both the public and private sectors.

At the end of 2012, GAS NATURAL FENOSA owned 30 VNG filling stations in Spain (five of which can also supply LNG): 18 are open to the public, with a projected total supply capacity of 363 GWh/year; the other 12 serve private fleets and have an annual capacity of 498 GWh.

GAS NATURAL FENOSA currently has 10 new CNG stations open to the public and two private stations under construction. The company maintains its plan to open additional fuelling stations (LNG and CNG) in the main cities and on the principal highways. Along these lines, the European Commission is funding the GARneT project (Gas as an Alternative for Road Transport), presented by a consortium comprising Grupo Ham and GAS NATURAL FENOSA. The project has received a grant covering 50% of capital costs of 7 LNG fuelling stations on the principal Spanish highways with a view to a subsequent massive roll-out at European level.

GAS NATURAL FENOSA commenced operation of the Santiago de Compostela University Hospital Complex, which will require more than 21 GWh of gas and 37 GWh of electricity per year.

The company continues to develop new competitive energy efficiency services for our customers using new efficient technologies, such as geothermal energy, electric heat pumps, and LED street lighting, while also expanding and reinforcing traditional products.

It is also working to innovate and develop smart solutions to obtain energy savings for the residential and SME segments, which will enable customers to take advantage of intelligent networks and communications technology.

Activities related to end-to-end energy efficiency solutions doubled with respect to 2011, and the company signed 14 new customers in 2012 (hotels, food industry, public administrations, etc.).

Including the three lines of business in the tertiary sector and in energy solutions, the company added 384 contracts and invested Euros 25 million.

Unión Fenosa Gas

This business 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 gas carrier fleet.

Results

Unión Fenosa Gas is owned 50% by GAS NATURAL FENOSA and is proportionately consolidated.

	2012	2011	%
Net sales	1,147	1,011	13.5
Purchases	(859)	(694)	23.8
Personnel costs, net	(12)	(11)	9.1
Other expenses/income	(20)	(29)	(31.0)
EBITDA	**256**	**277**	**(7.6)**
Depreciation and amortization	(155)	(157)	1.3
Change in operating provisions	-	-	-
Operating profit	**101**	**120**	**(15.8)**

EBITDA amounted to Euros 256 million in the year, i.e. 7.6% less than in 2011.

The company maintained these high results during a year of notable uncertainty in the market by seizing opportunities for LNG sales outside Spain, where UF Gas continued to operate actively all year.

Main aggregates

The main aggregates for the UF Gas business are as follows:

	2012	2011	%
Gas supply in Spain (GWh)	55,683	56,937	(2.2)
Gas supply International (GWh)	28,200	26,503	6.4
Liquefaction (GWh)	15,291	42,831	(64.3)
Regasification (GWh)	31,918	42,845	(25.5)

The total volume of gas supplied in Spain in 2012 was 55,683 GWh compared to 56, 937 GWh reported the year before. Supplies to electricity companies experienced a slight increase of 0.2%, while sales to the industrial sector fell by 8.1%.

In addition, 28,200 GWh of power were sold in international markets.

Work was completed to adapt the Sagunto regasification plant to load ships.

Gas infrastructure company Nueva Electricidad del Gas commissioned the gas pipeline connecting Córdoba C1 and Córdoba C1A wells (Andalucía).

In connection with the Viura Project (La Rioja), in August 2012, UF Gas Exploración & Producción awarded the EPC contract (Engineering, Procurement and Construction) for the early production plant and it received a positive environmental decision on the Viura-3 well. Field work for the acquisition of 232 km^2 of 3D seismic data commenced in November 2012.

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) Development of 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;
- the lack of an 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 majeure 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;
- 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) Geopolitical Exposure

GAS NATURAL FENOSA has interests in countries with diverse political, economic and social environments. Two of these geographical areas are worthy of note:

a) 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.

b) The Near East and Maghreb

GAS NATURAL FENOSA has both its own assets and important gas supply contracts with different countries in the Maghreb and Near East, particularly Egypt. Political instability in the region could result in property damages to the assets of the companies in which GAS NATURAL FENOSA holds an interest as well as the obstruction of the operations of those companies and others which could interrupt the Group's gas supplies.

The risk factors described above could have a negative impact on the legal, contractual and economic interests of GAS NATURAL FENOSA in the countries in that region, although it is impossible to predict when incidents may occur.

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

The 2010-2014 Strategic Plan published by GAS NATURAL FENOSA on 27 July 2010 set objectives for the period 2010-2012.

Under the heading 'grow by integrating markets', the four basic axes of the new Strategic Plan 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.

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.
- 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 29 February 2012, 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 Euros 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 UNION FENOSA permitted the identification of major operating and tax synergies. On 31 July 2008 operating synergies of Euros 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:

- Euros 350 million in annual operating synergies, of which Euros 260 million will be cost savings and Euros 90 million in income through synergies.
- Euros 200 million in CAPEX synergies.

Throughout 2010 these estimates have improved and the latest projections issued in November 2010 contemplate the following synergies:

- Euros 475 million in annual operating synergies, of which Euros 343 million would be cost savings and Euros 132 million revenues from synergies.
- Euros 275 million in CAPEX synergies.

The synergy objectives were met early following the implementation of the detailed action plans.

The organic growth and integration and use of operating synergies based on the integration of the assets of GAS NATURAL and UNION 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 Euros 12,181 million between 2009 and 2012 to maximise the financial structure. GAS NATURAL FENOSA will continue to seek to optimize its financial structure in the financial markets.

By the end of the year, the main financial objectives set out in the 2010-2014 Strategic Plan for the year 2012 had been met.

Due to major changes taking place in the sectors where the Group operators, the Strategic Plan is scheduled to be updated in 2013. The main objectives of the new Strategic Plan will be as follows:

- Reinforce efficiency in all areas of operations management and asset management.
- Maintain investment discipline, placing priority on strengthening the balance sheet.
- Adapt business growth and development to the evolution of the economic, energy and regulatory environment in each market.
- Create platforms for growth to capture opportunities for growth in new geographical areas in the medium term.

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 2012, as required under article 526 of the Spanish Capital Companies Act.

6. Treasury Stock

At the meeting held on 20 April 2010, the General Shareholders Meeting agreed to authorise the Board of Directors, vesting it with powers of delegation, to acquire up to 10% of the Share Capital or any other maximum amount applicable under the laws in force at the time of the acquisition, within a period not to exceed five years. This treasury stock must be paid in full and the nominal value may never exceed 10% of the subscribed share capital or any other legally established limit.

By virtue of the abovementioned authorisation, in 2012, 1,325,160 shares of treasury stock have been acquired for Euros 15 million which 275,490 shares for Euros 2 million have been delivered to the Group's employees as part of their remuneration for 2012 in accordance with the Share Acquisition Plan 2012-2013-2014 (Note 3.3.14.d of Consolidated Annual Accounts) and all the rest have been sold for Euro 13 million. At the 2012 year end, GAS NATURAL FENOSA does not have any treasury stock. In 2011, no transactions were carried out with treasury stock.

7. Events after the balance sheet date

The events that occurred subsequent to the closing date are described in Note 38 of the Notes to the Consolidated annual accounts.

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