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.

LIMITED REVIEW REPORT ON THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

To the Shareholders of Gas Natural SDG, S.A. at the request of the Board of Directors

We have carried out a review of the accompanying condensed consolidated interim financial statements (hereon, the interim financial statements) of Gas Natural SDG, S.A. (hereon, the Parent Company) and its subsidiaries (hereon, the Group), which comprise the balance sheet at 30 June 2012, the income statement, the statement of comprehensive income, the statement of changes in net equity and the cash flow statement, and the notes, all of which have been condensed and consolidated, for the six-month period then ended. The Parent Company's Directors are responsible for preparing said interim financial statements in accordance with the requirements established by International Accounting Standards (IAS) 34, "Interim Financial Reporting", as adopted by the European Union, for the preparation of condensed interim financial reports, as per article 12 of Royal Decree 1362/2007. Our responsibility is to express a conclusion on these interim financial statements based on our limited review.

Our review was performed in accordance with the International Standard on Review Engagements 2410, "Review of Interim Financial Information performed by the Independent Auditor of the Entity". A limited review of the interim financial statements consists of making inquiries, primarily of personnel responsible for financial and accounting matters, and applying certain analytical and other review procedures. A review is substantially less in scope than an audit, and, therefore, does not enable us to obtain assurance that we have become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion on the accompanying interim financial statements.

Based on our review, which under no circumstances can be considered an audit of financial statements, nothing has come to our attention which would lead us to conclude that the accompanying interim financial statements for the six-month period ended 30 June 2012 have not been prepared, in all material respects, in accordance with the requirements established by International Accounting Standard (IAS) 34, "Interim Financial Reporting", as adopted by the European Union, in accordance with article 12 of Royal Decree 1362/2007 for the preparation of condensed interim financial statements.

Without qualifying our conclusion, as explained in Note 3 of the accompanying interim financial statements, these interim financial statements do not include all the information that would be required for complete consolidated financial statements prepared in accordance with International financial Reporting Standards, as adopted by the European Union, and, therefore, the accompanying interim financial statements should be read together with the Group's consolidated annual accounts for the year ended 31 December 2011.

PricewaterhouseCoopers Auditores, S.L., Edificio Caja de Madrid, Avda. Diagonal, 640, 08017 Barcelona
T: +34 932 532 700 F: +34 934 059 032, www.pwc.com/es

R. M. Madrid, hoja 87.250-1, folio 75, tomo 9.267, libro 8.054, sección 3ª. Inscrita en el R.O.A.C. con el número S0242 - CIF: B-79 031290

The accompanying interim consolidated director's report for the six-month period ended 30 June 2012 contains such explanations as the Parent Company's Directors of Gas Natural SDG, S.A. consider necessary regarding the important events which occurred during said period and their effect on the interim financial statements, of which it is not an integral part, as well as on the information required in accordance with article 15 of Royal Decree 1362/2007. We have verified that the accounting information included in the above-mentioned director's report agrees with the interim financial statements for the six-month period ended 30 June 2012. Our work is limited to verifying the director's report in accordance with the scope mentioned in this paragraph, and does not include the review of information other than that obtained from the consolidated companies' accounting records.

This report has been prepared at the request of Directors of the Parent Company with regard to the publication of the semi-annual financial report required by article 35 of the Securities Exchange Act 24/1988/July 28, by Royal Decree 1362/2007/19 October.

PricewaterhouseCoopers Auditores, S.L.

Originally signed by
Iñaki Goiriena Basualdu
Partner

24 July 2012

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GAS NATURAL FENOSA

Condensed consolidated interim financial statements as at 30 June 2012

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GAS NATURAL FENOSA

Consolidated interim balance sheet (in Million Euros)

	30.06.12	31.12.11
ASSETS		
Intangible assets *(Note 5)*	10,987	11,080
Goodwill	5,863	5,876
Other intangible assets	5,124	5,204
Property, plant and equipment *(Note 5)*	22,614	22,744
Investments recorded using the equity method	95	99
Non-current financial assets *(Note 6)*	1,012	1,024
Deferred income tax assets	941	975
NON-CURRENT ASSETS	**35,649**	**35,922**
Non-current assets held for sale *(Note 7)*	-	23
Inventories	866	879
Trade and other receivables	4,734	5,192
Trade receivables arising from sales and services rendered	4,189	4,577
Other receivables	446	497
Current income tax assets	99	118
Other current financial assets *(Note 6)*	1,245	1,388
Cash and cash equivalents	4,328	3,098
CURRENT ASSETS	**11,173**	**10,580**
TOTAL ASSETS	**46,822**	**46,502**
NET EQUITY AND LIABILITIES		
Share capital	1,001	992
Share premium	3,808	3,808
Reserves	7,465	6,900
Profit for the period attributed to the equity holders of the Company	767	1,325
Interim dividend	-	(360)
Adjustments for changes in value	173	127
Hedging operations	(18)	(8)
Cumulative translation adjustment	191	135
Net equity attributable to the Company´s equity holders	**13,214**	**12,792**
Minority interests	**1,631**	**1,649**
TOTAL NET EQUITY *(Note 8)*	**14,845**	**14.441**
Grants	829	803
Non-current provisions *(Note 9)*	1,635	1,712
Non-current financial liabilities *(Note 6)*	16,985	17,539
Borrowings	16,716	17,209
Other financial liabilities	269	330
Deferred income tax liabilities	2,641	2,642
Other non-current liabilities	940	1,033
NON CURRENT LIABILITIES	**23,030**	**23,729**
Current provisions *(Note 9)*	118	133
Current financial liabilities *(Note 6)*	4,284	2,853
Borrowings	4,120	2,706
Other financial liabilities	164	147
Trade and other payables	4,137	4,671
Trade payables	3,445	3,900
Other payables	435	481
Current income tax liabilities	257	290
Other current liabilities	408	675
CURRENT LIABILITIES	**8,947**	**8,332**
TOTAL NET EQUITY AND LIABILITIES	**46,822**	**46,502**

Notes 1 to 21 form an integral part of the Condensed consolidated interim financial statements.

GAS NATURAL FENOSA

Consolidated interim income statement (in Million Euros)

	For the six-month period ended 30 June	
	2012	2011
Sales *(Note 10)*	12,439	10,205
Procurements *(Note 11)*	(8,639)	(6,684)
Other operating income	103	98
Personnel cost *(Note 12)*	(423)	(438)
Other operating expenses *(Note 13)*	(1,045)	(901)
Depreciation and amortisation expenses *(Note 5)*	(890)	(869)
Release of fixed assets grants to income and others	17	20
Other results *(Note 14)*	20	267
OPERATING INCOME	**1,582**	**1,698**
Financial income	89	58
Financial expenses	(527)	(556)
Variations in fair value of financial instruments	11	3
Net Exchange gain/losses	(4)	5
Gain on sales of financial instruments	-	1
NET FINANCIAL INCOME (Note 15)	**(431)**	**(489)**
Profit of entities recorded by equity method	7	5
INCOME BEFORE TAXES	**1,158**	**1,214**
Income tax expense *(Note 16)*	(288)	(302)
NET INCOME FOR THE PERIOD FROM CONTINUING OPERATIONS	**870**	**912**
CONSOLIDATED NET INCOME FOR THE PERIOD	**870**	**912**
Attributable to:		
Equity holders of the Company	767	822
Minority interests	103	90
	870	**912**
Basic and diluted earnings per share in Euros from continuing operations attributable to the equity holders of the parent Company *(Note 8)*	0.77	0.89
Basic and diluted earnings per share in Euros attributable to the equity holders of the parent Company *(Note 8)*	0.77	0.89

Notes 1 to 21 form an integral part of the Condensed consolidated interim financial statements.

GAS NATURAL FENOSA

Consolidated interim statement of comprehensive income (in Million Euros)

	For the six-month period ended 30 June 2012	2011
CONSOLIDATED INCOME FOR THE PERIOD	**870**	**912**
OTHER COMPREHENSIVE INCOME RECOGNISED DIRECTLY IN EQUITY	**72**	**(262)**
Cash flow hedges	(2)	(46)
Cumulate translation adjustments	69	(232)
Actuarial gains and losses and others adjustments	(1)	-
Tax effect	6	16
RELEASES TO INCOME STATEMENT	**(7)**	**64**
Cash flow hedges	(11)	77
Cumulate translation adjustments	1	9
Tax effect	3	(22)
OTHER COMPREHENSIVE INCOME FOR THE PERIOD	**65**	**(199)**
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	**935**	**714**
Attributable to:		
Equity holders of the Company	813	666
Minority interests	122	48

Notes 1 to 21 form an integral part of the Condensed consolidated interim financial statements.

GAS NATURAL FENOSA

Consolidated interim statement of changes in equity (in Million Euros)

	Net equity attributed to the Company's equity holders						
	Share Capital	Share Premium and Reserves	Profit	Adjustments for changes in value	Subtotal	Minority interests	Total Net Equity
Balance at 1.1.11	**922**	**9,113**	**1,201**	**148**	**11,384**	**1,590**	**12,974**
Dividends distribution	-	1,201	(1,201)	-	-	(55)	**(55)**
Acquisition of free allocation rights (Note 8)	-	(15)	-	-	**(15)**	-	**(15)**
Capital increase (Note 8)	32	(32)	-	-	-	-	-
Total comprehensive income for the period	-	-	822	(156)	**666**	48	**714**
Increase/reduction for business combinations	-	-	-	-	-	6	**6**
Other variations	-	(6)	-	-	**(6)**	(26)	**(32)**
Balance at 30.06.11	**954**	**10,261**	**822**	**(8)**	**12,029**	**1,563**	**13,592**
Dividends distribution (Note 8)	-	(360)	-	-	**(360)**	(69)	**(429)**
Capital increase (Note 8)	38	477	-	-	**515**	-	**515**
Total comprehensive income for the period	-	(23)	503	135	**615**	133	**748**
Increase/reduction for business combinations	-	-	-	-	-	10	**10**
Other variations	-	(7)	-	-	**(7)**	12	**5**
Balance at 31.12.11	**992**	**10,348**	**1,325**	**127**	**12,792**	**1,649**	**14,441**
Dividends distribution	-	1,325	(1,325)	-	-	(138)	**(138)**
Acquisition of free allocation rights (Note 8)	-	(379)	-	-	**(379)**	-	**(379)**
Capital increase (Note 8)	9	(9)	-	-	-	-	-
Total comprehensive income for the period	-	-	767	46	**813**	122	**935**
Increase/reduction for business combinations	-	-	-	-	-	-	-
Other variations	-	(12)	-	-	**(12)**	(2)	**(14)**
Balance at 30.06.12	**1,001**	**11,273**	**767**	**173**	**13,214**	**1,631**	**14,845**

Notes 1 to 21 form an integral part of the Condensed consolidated interim financial statements.

GAS NATURAL FENOSA

Consolidated interim cash flow statement (in Million Euros)

	For the six-month period ended 30 June 2012	2011
Net income before tax	**1,158**	**1,214**
Adjustments to net income	**1,232**	**1,052**
Amortisation and depreciation of fixed assets	890	869
Other adjustments to net income	342	183
Changes in working capital	**171**	**110**
Other cash flows generated from operations:	**(628)**	**(498)**
Interest paid	(386)	(353)
Interest collected	50	12
Income tax paid	(292)	(157)
NET CASH GENERATED FROM OPERATING ACTIVITIES	**1,933**	**1,878**
Cash flows into investing activities:	**(1,181)**	**(1,579)**
Group companies, associates and business units	(9)	-
Purchases of property, plant and equipment and intangible assets	(769)	(745)
Other financial assets	(403)	(834)
Proceeds from divestitures:	**513**	**1,810**
Group companies, associates and business units	36	663
Sales of property, plant and equipment and intangible assets	2	209
Other financial assets	475	938
Other cash flows from investing activities:	**63**	**71**
Proceeds from dividends	3	-
Other proceeds/ (payments) from /(of) investing activities	60	71
NET CASH RECEIVED FROM INVESTING ACTIVITIES	**(605)**	**302**
Proceeds and (payments) for equity instruments:	**(379)**	**(15)**
Proceeds and (payments) for financial liability instruments:	**717**	**122**
Proceeds from borrowings	2,952	3,088
Repayment of borrowings	(2,235)	(2,966)
Dividends paid	**(416)**	**(341)**
Other cash flows from financing activities	**(35)**	**(29)**
NET CASH RECEIVED FROM FINANCING ACTIVITIES	**(113)**	**(263)**
Effect of exchange rates on cash and cash equivalent	**15**	**(14)**
VARIATION IN CASH AND CASH EQUIVALENTS	**1,230**	**1,903**
Cash and cash equivalents at the beginning of the period	**3,098**	**1,203**
Cash and cash equivalents at the end of the period	**4,328**	**3,106**

Notes 1 to 21 form an integral part of the Condensed consolidated interim financial statements.

Notes to the Condensed consolidated interim financial statements

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 Plaça del Gas, 1, 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 production, liquefaction, regasification, transportation, 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, the rest of Europe (France, Italy, Moldova and Portugal) and Africa.

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

Note 2. Regulatory framework

In relation to regulatory framework described in the Consolidated annual accounts for the year ended 31 December 2011, of special note are the following points relating to the first half of 2012:

a) Regulation of the natural gas industry in Spain

On 31 March 2012 was published the Royal Decree Law 13/2012 of 30 March 2012,of which writes into Spanish legislation the directives on the domestic electricity and gas and electronic communications markets and lays down measures to correct departures owing to imbalances between income and costs in the electricity and gas sectors. With respect to the gas industry, the measures designed to correct the gas deficit relate in particular to the suspension of administrative authorisations for gas pipelines, except for those subject to international commitments, and the new regasification plants and the delay in the remuneration of underground storage facilities.

On 27 April 2012 was published the Order IET/849/2012 of 26 April 2012, updating the tolls and levies associated with third party access to gas facilities and adopting certain measures relating to the financial balance of the gas system, with a general increase in tolls of 5% as from the entry into effect of the Order (except for the toll for underground storage facilities which remains unchanged and the cost of gas which increases by 35%).

On 28 April 2012 was published the Resolution of 27 April 2012 by the General Directorate of Energy Policy and Mines, setting out the last resort rate for natural gas (hereon TUR) which increases by 4.9% as a result of the rise in tolls and increase in the cost of gas.

On 29 June 2012 the Resolution of 28 June 2012 was published by the General Directorate of Energy Policy and Mines, setting out the TUR for natural gas which increases by 2.1% as a result of the rise in the cost of gas.

b) Regulation of the Electricity sector in Spain

On 22 March 2012 the Supreme Court issued a Judgement, declaring that the mechanism for the financing of the social bond by generating companies envisaged in Royal Decree 6/2009 infringes Directive 2003 /54 on the domestic electricity market.

Royal Decree -Law 13/2012 of 30 March was published on 31 March 2012 and transposes the directives on the internal markets of electricity and gas and electronic communications market, adopting measures to correct deviations owing to imbalances between income and costs in the electricity and gas sectors.

The adjustments included in Royal Decree-Law 13/2012 to reduce the deficit in the electricity system entail a reduction in system costs of Euros 1,764 million deriving, inter alia, from a 10% reduction in the remuneration of distribution activities, a 75% reduction in distributors' commercial management costs, a 10% reduction in capacity payments, the volume of production using local coal and the availability services, while certain surplus balances of the National Energy Commission and Institute for Energy Diversification and Saving have been recovered and included in the electricity system.

On 26 April was published the Order IET/843/2012 of 25 April 2012, of which determines the access tolls for the period as from 1 April 2012 and certain rates and premiums for facilities under the special regime, in addition the General Directorate of Energy and Mines Resolution which establishes the cost of energy and the TUR for the period 1 October to 22 October, the first quarter of 2012, and as from 1 April 2012. The foregoing is in accordance with the Supreme Court Writ of 12 March 2012 which establishes that the access tolls set for the first quarter of 2012 must be complemented.

The main aspects of the above are:

- Toll income increases annually by 11% as compared with current levels, representing an increase in revenues of Euros 1,400 million.
- The effective application of the Supreme Court Writ of 20 December concerning the elimination of 2011 rates is extended to the whole of the fourth quarter of 2011. Access tolls are reviewed as from 1 January 2012, in accordance with the Supreme Court Writs of March 2012 ensuring that tolls take into account all forecast costs for 2012 and any temporary imbalances for 2011.
- Access tolls are adjusted as from 1 April, taking into account the cost reductions established in Royal Decree Law 13/2012 (which reduced system costs by Euros 1,764 million) in order to balance the system (income-cost).
- A new mechanism is established for financing the social bond which will be financed by consumers as it is a cost which may be settled through the system. This is applicable as from 7 February 2012.

On 29 June 2012 was published the Resolution of the General Directorate of Energy Policy and Mines approved on 29 June 2012, laying down the cost of electricity production and TUR to be applied as from 1 July 2012 providing an increase in TUR of 4.3% as a result of the increase in energy costs because of the CESUR auction.

Note 3. Basis of presentation and accounting policies

3.1 Basis of presentation

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

The accompanying Condensed consolidated interim financial statements at June 30, 2012 of GAS NATURAL FENOSA have been prepared by the Board of Directors on July 20, 2012 in accordance with IAS 34 "Interim Financial Reporting" and must be read together with the Consolidated annual accounts for the year ended December 31, 2011, which have been prepared in accordance with Regulation (CE) no, 1606/2002 of the European Parliament and Council (hereon, "IFRS-EU").

Consequently, it has not been necessary to repeat or restate certain notes or estimates included in the aforementioned Consolidated annual accounts. Instead, the accompanying explanatory notes to the accounts selected include an explanation of the events or variations that are, as the case may be, significant for the explanation of the changes in the financial position and results of operations, recognised income and expenses, changes in equity, and the consolidated cash flows of GAS NATURAL FENOSA from 31 December 2011, the date of the Consolidated annual accounts mentioned above, to 30 June 2012.

The figures contained in these Condensed consolidated interim financial statements are stated in millions of Euros, unless expressly indicated otherwise.

3.2 Main risks and uncertainties

The main risks and uncertainties correspond to those broken down in the Consolidated annual accounts for the 2011 financial year, without significant changes since its publication. In the six month period ending June 30, 2012 there were no significant changes in the business or economic or regulatory environment that might affect the reasonable value of financial assets and liabilities, or which could give rise to an impairment of the goodwill, intangible or tangible fixed assets of GAS NATURAL FENOSA.

3.3 Seasonality

The demand for natural gas is seasonal, with the supply and commercialisation of gas in Europe generally being highest in the coldest months from October to March and lower during the warmest months from April to September. This seasonality is partially offset by the increase in demand in Latin America and for the demand of natural gas for industrial uses and electricity production, which is normally more stable throughout the year. Due to this seasonality, the operating gains and earnings of Gas segment are higher in the first and fourth quarters and lower in the second and third quarters. On the other hand, demand for electricity tends to increase during the summer months in Spain, especially in July and August, and, accordingly, operating gains and earnings in the electricity segment are higher in Spain in this period.

3.4 Accounting policies

The accounting policies used in these Condensed consolidated interim financial statements are the same as those used for the Consolidated annual accounts for the year ended December 31, 2011.

Entry into force of new accounting standards

As a result of adoption, publication and coming into force on 1 January 2012 the following new IFRS has been applied:

- IFRS 7 (Modification), "Financial instruments. Information to be disclosed: Transfer of financial assets".

The application of the above modification has not had any significant impact on the Condensed consolidated interim financial statements.

The following IFRS amendments were published in the Official Journal of the European Union in the first half of 2012 are set to come into effect in the years starting on 1 January 2013 and have not been adopted early:

- IAS 1 (Modification), "Presentation of financial statements".
- IAS 19 (Modification), "Employee benefits".

GAS NATURAL FENOSA does not expect the application of these standards have a significant effect on its financial statements.

None of the standards that have been approved but are pending adoption by the European Union have been adopted early. Specifically, in 2011 the IASB issued a series of standards effective in the period 1 January 2013 to 2015 which are pending of adoption by the European Union, including the amendment of consolidation legislation through IFRS 10 "Consolidated Financial Statements"; IFRS 11 "Joint Arrangements" and IFRS 12 "Disclosures of interests in other entities". GAS NATURAL FENOSA is assessing the impact that the application of these standards will have on its financial statements together with the amendment of IAS 12 and IFRS 1.

3.5 Consolidation scope

In the first semester of 2012 changes in the consolidation scope relate basically to the sale in February 2012 of certain gas customers and contracts associated with the Madrid Community (Note 7).

In the first semester of 2011 changes in the consolidation scope related mainly to the sale in June 2011 of gas distribution assets in Madrid Community, the sale in May 2011 of interests in the electricity distributors in Guatemala and the exchange in May 2011 of the renewable assets and liabilities of Enel Unión Fenosa Energías Renovables (EUFER) as a result of the finalisation of the collaboration with another partner through this company (Note 7).

Annex I contains variations to the consolidation scope in the first semester of 2012 and 2011.

Note 4. Segment reporting

a) Information by operating segments

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 third party network access services, as well as the activities related to distribution.

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

  Distribution of gas in Other (Italy) consists of the regulated distribution of gas and its sales to retail customers.

- *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, the network services and other activities related to third party access to the distribution network.

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

  The income statement for the first half of 2011 includes the electricity business in Guatemala through to the date of its disposal, 19 May 2011 (Note 7).

  The electricity distribution business in Moldova consists of the regulated distribution of electricity and the bundled tariff sale of electricity throughout the country.

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

  The Electricity business in Spain includes electricity production activity through combined cycle, thermal, nuclear, hydro, cogeneration and wind farm plants, 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 gas infrastructure, the supply and commercialisation activity and Unión Fenosa Gas.

  The infrastructure business includes the gas exploration and production activities from the time of extraction to the liquefaction process. It also includes the supply chain activities of Liquefied Natural Gas (LNG) from the time it leaves the exporting countries (liquefaction plants) to the entry points into the end market, including the sea transport of LNG and the reclassification process. It also includes the Maghreb-Europe gas pipeline.

  The Supply and Commercialisation business includes the supply and commercialisation of natural gas to wholesale and retail customers in the de-regulated Spanish market, as well as the supply of products and services related to retail commercialisation. It also includes the sales of natural gas to customers outside Spain.

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

- *Others.* Includes the exploitation of coal fields of Kangra Coal (Proprietary), Ltd. in South Africa, activities related to optic fibre and other non-energy activities.

The segments results and investments for the periods indicated are as follows:

	Gas Distribution				Electricity Distribution				Electricity				Gas				Others	Adjust-ments	
Six months ended 30 June 2012	Spain	Latin-America	Others	Total	Spain	Latin-America	Others	Total	Spain	Latin-America	Others	Total	Infrastructures	Supply and sale	UF GAS	Total			TOTAL
Sales consolidated	569	1,377	161	2,107	401	1,230	125	1,756	2,406	395	65	2,866	56	5,085	371	5,512	198	-	12,439
Sales inter segments	62	-	-	62	23	-	-	23	583	4	-	587	97	715	264	1,076	90	-	1,838
Sales segments	631	1,377	161	2,169	424	1,230	125	1,779	2,989	399	65	3,453	153	5,800	635	6,588	288	(1,838)	12,439
Procurement segments	(11)	(901)	(93)	(1,005)	-	(924)	(98)	(1,022)	(2,211)	(233)	(52)	(2,496)	(29)	(5,312)	(445)	(5,786)	(168)	1,838	(8,639)
Personnel cost	(36)	(51)	(8)	(95)	(50)	(28)	(4)	(82)	(73)	(8)	(1)	(82)	(3)	(26)	(6)	(35)	(129)	-	(423)
Other operating income/expenses	(133)	(115)	(14)	(262)	(66)	(97)	(6)	(169)	(254)	(33)	(6)	(293)	(11)	(99)	(11)	(121)	27	-	(818)
EBITDA	451	310	46	807	308	181	17	506	451	125	6	582	110	363	173	646	18	-	2,559
Other income	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	20	-	20
Depreciation and amortisation expenses	(141)	(58)	(12)	(211)	(111)	(35)	(3)	(149)	(289)	(53)	(3)	(345)	(39)	(7)	(77)	(123)	(62)	-	(890)
Debtors provisions and others	(2)	(12)	(2)	(16)	1	(63)	-	(62)	(18)	-	-	(18)	-	(27)	-	(27)	16	-	(107)
Operating income	308	240	32	580	198	83	14	295	144	72	3	219	71	329	96	496	(8)	-	1,582
Net financial income	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(431)
Share of profit associates	-	-	-	-	-	-	-	-	2	-	-	2	-	-	5	5	-	-	7
Income before taxes	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	1,158
Income tax expense	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(288)
Net income after taxes from continuing	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	870
Investments	108	65	17	190	121	44	4	169	80	32	-	112	14	7	3	24	40	-	535

	Gas Distribution				Electricity Distribution				Electricity				Gas				Others	Adjust-ments	
Six months ended 30 June 2011	Spain	Latin-America	Others	Total	Spain	Latin-America	Others	Total	Spain	Latin-America	Others	Total	Infrastructures	Supply and sale	UF GAS	Total			TOTAL
Sales Consolidated	578	1,285	125	1,988	436	1,191	102	1,729	2,298	440	61	2,799	45	3,201	216	3,462	227	-	10,205
Sales Inter Segments	47	-	-	47	30	-	-	30	546	2	-	548	94	874	221	1,189	84	-	1,898
Sales segments	625	1,285	125	2,035	466	1,191	102	1,759	2,844	442	61	3,347	139	4,075	437	4,651	311	(1,898)	10,205
Procurement segments	(7)	(829)	(67)	(903)	-	(893)	(78)	(971)	(2,127)	(285)	(50)	(2,462)	(27)	(3,747)	(282)	(4,056)	(190)	1,898	(6,684)
Personnel cost	(38)	(45)	(7)	(90)	(59)	(29)	(4)	(92)	(74)	(8)	(1)	(83)	(4)	(23)	(6)	(33)	(140)	-	(438)
Other operating income/expenses	(118)	(109)	(12)	(239)	(58)	(132)	(5)	(195)	(183)	(25)	(3)	(211)	(26)	(99)	(13)	(138)	86	-	(697)
EBITDA	462	302	39	803	349	137	15	501	460	124	7	591	82	206	136	424	67	-	2,386
Other income	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	267	-	267
Depreciation and amortisation expenses	(141)	(56)	(11)	(208)	(106)	(40)	(3)	(149)	(288)	(46)	(2)	(336)	(30)	(7)	(76)	(113)	(63)	-	(869)
Debtors provisions and others	-	(5)	(1)	(6)	2	(53)	-	(51)	(10)	(1)	-	(11)	-	(18)	-	(18)	-	-	(86)
Operating income	321	241	27	589	245	44	12	301	162	77	5	244	52	181	60	293	271	-	1,698
Net financial income	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(489)
Share of profit associates	-	-	-	-	-	-	-	-	1	-	-	1	-	-	4	4	-	-	5
Income before taxes	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	1,214
Income tax expense	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(302)
Net income after taxes from continuing	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	912
Investments	108	50	15	173	102	47	5	154	94	24	-	118	14	6	4	24	49	-	518

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, Africa and others.

GAS NATURAL FENOSA's sales for the six-month period ended in 2012 and 2011, depending on country assignation, are as follows:

	2012	2011
Spain	6,994	6,196
Rest of Europe	847	599
Latin America	3,764	3,056
Africa and others	834	354
Total	**12,439**	**10,205**

Note 5. Intangible assets and property, plant and equipment,

The movement for the six-month period ended 30 June 2012 in intangible assets and property, plant and equipment is as follows:

	Goodwill	Other intangible assets	Total intangible assets	Property, plant and equipment
Net carrying value at 31.12.11	**5,876**	**5,204**	**11,080**	**22,744**
Cost, gross	5,876	7,269	13,145	29,878
Accumulated depreciation	-	(2,065)	(2,065)	(7,134)
Net carrying value at 1.1.12	**5,876**	**5,204**	**11,080**	**22,744**
Investment	-	89	89	446
Divestitures	(1)	(16)	(17)	(5)
Amortisation and depreciation expense	-	(187)	(187)	(703)
Translation adjustment	(12)	(76)	(88)	245
Reclassifications and others	-	110	110	(113)
Net carrying value at 30.06.12	**5,863**	**5,124**	**10,987**	**22,614**
Cost, gross	5,863	7,389	13,252	30,390
Accumulated depreciation	-	(2,265)	(2,265)	(7,776)
Net carrying value at 30.06.12	**5,863**	**5,124**	**10,987**	**22,614**

Note 4 discloses investments by operating segment, the most significant of which are those related to the planning and development of the gas and electricity distribution network. The first semester of 2011, also included is the purchase of certain distribution assets and secondary gas transport assets in February 2011 from the company Corporación Llorente Muñoz, S.L. for the sum of Euros 27 million.

At 30 June 2012 GAS NATURAL FENOSA has investment commitments amounting to Euros 227 million basically relating to gas infrastructure construction projects and the development of Information Technologies projects.

Note 6. Financial instruments

a) Financial assets

The breakdown of financial assets, excluding Trade and other receivables and Cash and others cash equivalents, at June 30, 2012 and at December 31, 2011, classified by nature and category is as follows:

At 30 June 2012	Available for sale	Loans and other receivables	Investments held to maturity	Total
Equity instruments	76	-	-	76
Other financial assets	-	935	1	936
Non-current financial assets	**76**	**935**	**1**	**1,012**
Other financial assets	-	1,245	-	1,245
Current financial assets	-	**1,245**	-	**1,245**
Total financial assets at 30.06.2012	**76**	**2,180**	**1**	**2,257**

At 31 December 2011	Available for sale	Loans and other receivables	Investments held to maturity	Total
Equity instruments	75	-	-	75
Other financial assets	-	948	1	949
Non-current financial assets	**75**	**948**	**1**	**1,024**
Other financial assets	-	1,388	-	1,388
Current financial assets	-	**1,388**	-	**1,388**
Total financial assets at 31.12.2011	**75**	**2,336**	**1**	**2,412**

The financing of the deficit for settlements of the regulated electricity business is included in "Other current financial assets", in accordance with the fact that, under current legislation, there is a right to receive the settlement, which is not subject to future contingent factors and its recuperation is expected for the next twelve months. At June 30, 2012, GAS NATURAL FENOSA maintains a right to receive this deficit settlement totalling Euros 1,067 million (Euros 1,231 million at December 31, 2011). During first semester of the 2012 financial year, eleven issues were carried out by the Electricity System Deficit Securitisation Fund, having charged GAS NATURAL FENOSA, as a result of these issues, the sum of 367 million Euros.

b) Financial liabilities

The breakdown of the financial liabilities, excluding trade and other payables at June 30, 2012 and December 31, 2011, classified by nature and category, is as follows:

At 30 June 2012	Other financial liabilities at fair value through profit and loss	Debits and other payables	Hedging derivatives	Total
Loans from financial institutions	-	7,594	-	7,594
Issuing of debentures and other negotiable obligations	-	9,037	-	9,037
Derivative financial instruments	5	-	80	85
Other financial liabilities	-	269	-	269
Non-current financial liabilities	**5**	**16,900**	**80**	**16,985**
Loans from financial institutions	-	2,963		2,963
Issuing of debentures and other negotiable obligations	-	1,146		1,146
Derivative financial instruments	-	-	11	11
Other financial liabilities	-	164	-	164
Non-current financial liabilities	-	**4,273**	**11**	**4,284**
Total financial liabilities at 30.06.2012	**5**	**21,173**	**91**	**21,269**

At 31 December 2011	Other financial liabilities at fair value through profit and loss	Debits and other payables	Hedging derivatives	Total
Loans from financial institutions	-	8,847	-	**8,847**
Issuing of debentures and other negotiable obligations	-	8,276	-	**8,276**
Derivative financial instruments	14	-	72	**86**
Other financial liabilities	-	330	-	**330**
Non-current financial liabilities	**14**	**17,453**	**72**	**17,539**
Loans from financial institutions	-	1,621	-	**1,621**
Issuing of debentures and other negotiable obligations	-	1,076	-	**1,076**
Derivative financial instruments	-	-	9	**9**
Other financial liabilities	-	147	-	**147**
Current financial liabilities	**-**	**2,844**	**9**	**2,853**
Total financial liabilities at 31.12.2011	**14**	**20,297**	**81**	**20,392**

During the first half of 2012 and in 2011 the evolution of issues of debt securities has been as follows:

	At 1.1.2012	Issues	Buy backs or reimburse-ments	Business combinations	Exchange rate adjustments and others	At 30.06.2012
Issued in a member state of the European Union requiring the filing of a prospectus	8,507	2,046	(1,275)	-	51	9,329
Issued in a member state of the European Union not requiring the filing of a prospectus	-	-	-	-	-	-
Issued outside a member state of the European Union	845	-	-	-	9	854
Total	**9,352**	**2,046**	**(1,275)**	**-**	**60**	**10,183**

	At 1.1.2011	Issues	Buy backs or reimburse-ments	Business combinations	Exchange rate adjustme nts and others	At 30.06.2011
Issued in a member state of the European Union requiring the filing of a prospectus	7,484	2,417	(1,376)	-	253	8,778
Issued in a member state of the European Union not requiring the filing of a prospectus	-	-	-	-	-	-
Issued outside a member state of the European Union	635	255	(34)	-	2	858
Total	**8,119**	**2,672**	**(1,410)**	**-**	**255**	**9,636**

On January 30, 2012, GAS NATURAL FENOSA issued bonds on the Euromarket within the scope of the Euro Medium Term Notes (EMTN) program for the amount of Euros 750 million maturing in six years, This issue included an annual coupon of 5% and an issue price for the new bonds of 99.413% of their nominal value. The total amount made available as part of the program, of which the limit at 30 of June 2012 is Euros 12,000 Million, totals 8,800 Million Euros (December 31, 2011: Euros 8,050 Million).

In first half of 2012, GAS NATURAL FENOSA has continued to carry out issues under the Euro Commercial Paper (ECP) and promissory note program, carrying out issues for a total amount of Euros 1,296 Million (June 30, 2011 Euros 1,317 Million).

On May 3, 2011, GAS NATURAL FENOSA, via its subsidiary Gas Natural México S.A. de C.V., registered a stock exchange certificate program on the Mexican stock market for the amount of 10,000 Million Mexican pesos (Euros 600 million). Within the scope of this Program, 20 May 2011 saw the closure of four and seven year debt issues, with a total value of 4,000 Million Mexican pesos (Euros 240 million), with the guarantee of Gas Natural SDG, S.A..

Note 7. Non-current assets and disposable groups of assets held for sale

At 31 December 2011 the balance under "Non-current assets held for sale" included the assets relating to approximately 245,000 gas customers and other related contracts in the Autonomous Region of Madrid which on 30 June 2011 GAS NATURAL FENOSA agreed to sell to the Endesa Group, This transaction forms part of the fulfilment of the commitments entered by GAS NATURAL FENOSA with the National Competition Authorities (hereon CNC) in relation to the acquisition of UNIÓN FENOSA. As from the agreement date, these assets were considered as held for sale. Following the pertinent authorisations, the sale was completed on 29 February 2012 and generated a capital gain before tax of Euros 20 Million (Note 14).

Additionally, the following transactions were completed in the first half of 2011:

- On 7 February 2011, GAS NATURAL FENOSA reached an agreement with a company of the Madrileña Red de Gas Group to sell approximately 300,000 additional gas distribution supply points in the Madrid area for Euros 450 million. This transaction was carried out as part of the action plan adopted by the National Anti-Trust Commission in relation to the acquisition of Unión Fenosa. Since the date of the agreement, these assets have been classified as non-current assets held for sale. After obtaining the respective authorisations the sale was made on 30 June 2011 generating a profit before tax of Euros 280 million (Note 14).

- 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 14).

- On August 2, 2010, GAS NATURAL FENOSA and Enel Green Power agreed to end their collaboration in renewable energies via Enel Unión Fenosa Renovables, S.A. (EUFER), a company in which each shareholder held a 50% stock, by reducing its share capital to half of its previous value and by returning contributions worth approximately half of the company's assets and liabilities to GAS NATURAL FENOSA. This operation was subject to the necessary regulatory and administrative authorisations being obtained. From this date, the share of assets and liabilities contained in the consolidated balance sheet of GAS NATURAL FENOSA, and which were to be transferred to Enel Green, were considered non-current assets and liabilities held for sale. Once the corresponding authorisations had been obtained, the operation was carried out on May 27, 2011. In accounting terms this was treated as a transfer of the assets and liabilities struck off at their book value in the consolidated balance sheet of GAS NATURAL FENOSA to the business acquired, recognised at their fair value based on valuations carried out by independent third parties (Note 17), posting a pre-tax capital loss of 4 million Euros (Note 14).

Note 8. Equity

Share capital and share premium

Variations during the first semester of 2012 and 2011 financial year in the number of shares and Shares capital and Shares premium accounts were as follows:

	Number of shares (thousands)	Share Capital	Share premium	Total
At 1 January 2011	**921,757**	**922**	**3,331**	**4,253**
Variations:				
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**
Variations:				
Capital increase in swap	9,017	9	-	9
At 30 June 2012	**1,000,689**	**1,001**	**3,808**	**4,809**

At June 30, 2012 and December 31, 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 proposed distribution of profits for the 2011 financial year approved by the General Shareholders Meeting held on April 20, 2012 included the payment of a dividend of Euros 360 million (amount equivalent to the amount distributed in the form of dividends in the 2011 financial year), as well as an increase in paid up capital via the issue of new ordinary shares, with mechanisms giving shareholders the option to receive the amount in cash for those that prefer to do so. On June 13, 2012, the negotiation period for free allocation rights corresponding to the afore-mentioned increase of paid up capital ended, with the result that owners of 81.81% of free allocation rights accepted the irrevocable commitment undertaken by GAS NATURAL FENOSA to purchase rights, involving the acquisition of 811,328,072 rights for a total amount of 379 million Euros. The titleholders of the remaining 18.19% opted to receive new shares, meaning that the number of ordinary shares worth one Euro nominal value issued, without a premium, totalled 9,017,202 shares. The capital increase was paid up in full and registered with the Trade and Companies Register on June 22, 2012, and the shares arising from this capital increase were accepted for stock market trading on June 29, 2012.

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

As a continuation of the agreements concluded on June 2011 between the Algerian company Société Nationale pour la Recherche, la Production, le Transport, la Transformation et la Commercialisation des Hydrocarbures s.p.a (Sonatrach) and GAS NATURAL FENOSA to resolve their differences relating to the price applicable to contracts for the supply of gas, 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.

Earnings per share

The basic earnings per share are calculated by dividing the profit attributable to the equity holders of the parent company by the average weighted number of ordinary shares in circulation during the period.

	At 30.06.12	At 30.06.11
Net income attributable to equity holders of the company	767	822
Weighted average number of ordinary shares in issue (million)	992,068,500	922,107,576
Earnings per share from continued activities (in Euros):		
- Basic	0,77	0,89
- Diluted	0,77	0,89

For the calculation of the average weighted number of ordinary shares in issue the 9,017,202 shares issued in the capital increase have been taken into account.

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

Dividends

Set out below are details of the dividend payments made during the six month period ended 30 June 2012 and 2011:

	30.06.2012			30.06.2011		
	% 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
Other shares (without 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 payment of dividends on account of 0,363 Euros per share, for a total amount of Euros 360 million agreed on November 25, 2011, and paid on January 9, 2012

(2) Includes payment of dividends on account of 0,35 Euros per share, for a total amount of Euros 324 million agreed on November 26, 2010 and paid on January 7, 2011

Note 9. Provisions

The breakdown of Provisions for the six-month period ended June 30, 2012 and December 31 2011 is as follows:

	At 30.06.12	At 31.12.11
Provisions for employee obligations	727	709
Other provisions	908	1,003
Total non-current provisions	**1,635**	**1,712**
Total current provisions	**118**	**133**
Total	**1,753**	**1,845**

Other provisions include provisions arising from decommissioning obligations, as well as, tax claims, and litigation and arbitration in progress (Note 20).

Note 10. Sales

The breakdown of sales for the six-month period for 2012 and 2011 is as follows:

	For the period ended 30 June	
	2012	2011
Sales of gas and connections to distribution networks	7,238	5,154
Sales of electricity and access to distribution networks	4,389	4,318
Rentals of facilities, maintenance and other services	730	651
Other sales	82	82
Total	12,439	10,205

Note 11. Procurements

The breakdown of purchases for the six-month period for 2012 and 2011 is as follows:

	For the period ended 30 June	
	2012	2011
Energy purchases	7,347	5,630
Access to transmission networks	925	771
Other purchases and stock variation	367	283
Total	8,639	6,684

Note 12. Staff costs

The breakdown of this account for the six-month period for 2012 and 2011 is as follows:

	For the period ended 30 June	
	2012	**2011**
Wages and salaries	342	340
Social Security costs	65	63
Defined contribution plans	19	17
Own work capitalized	(37)	(31)
Others	34	49
Total	**423**	**438**

The average number of employees of GAS NATURAL FENOSA for the six-month period for 2012 and 2011 is as follows:

	For the period ended 30 June	
	2012	**2011**
Men	11,549	12,335
Women	4,806	4,670
Total	**16,355**	**17,005**

Note 13. Other operating expenses

The breakdown of this account for the six-month period of 2012 and 2011 is as follows:

	For the period ended 30 June	
	2012	**2011**
Repairs and maintenance	183	153
Commercial services & advertising	187	134
Taxes	148	184
Bad debt provision	107	86
Professional services & insurance	81	73
Procurements	53	40
Construction or improvement services (IFRIC 12)	49	33
Leases	30	30
Energy efficiency	23	21
Others	184	147
Total	**1,045**	**901**

During the first half of 2011 Taxes reflected an expense amounting to Euros 52 million in the Colombia subsidiaries relating to Wealth Tax, approved through the amendment of Law 1370, which was levied on the value of assets at 1 January 2011 although it will be paid in 8 instalments for the period 2011 to 2014.

Note 14. Other results

During the six-month period ended 30 June 2012 this relates to the capital gain obtained on the disposal of certain gas customers and other associated contracts in the Madrid Community amounting to Euros 20 million (Note 7).

In the six-month period ending June 30 2011, this corresponded primarily to the profit on disposal of various gas distribution and supply companies and assets in Region of Madrid for the sum of 280 million Euros (Note 7). It also included the loss on disposal of electricity generation assets in Guatemala for 9 million Euros and the loss on disposal on the exchange of EUFER for 4 million Euros (Note 7).

Note 15. Net financial income

The breakdown of net finance income for the six-month period for 2012 and 2011 is as follows:

	For the period ended 30 June	
	2012	**2011**
Dividends	2	2
Interest income	51	28
Others	36	28
Total financial income	**89**	**58**
Financial expense from borrowings	(430)	(445)
Interest expenses of pension plans and other post-employment benefits	(21)	(21)
Other financial expenses	(76)	(90)
Total financial expenses	**(527)**	**(556)**
Variations in fair value of financial derivatives:	11	3
Derivative financial instruments	11	3
Net exchange gains/losses	(4)	5
Gain on sales of financial instruments	-	1
Net financial income	**(431)**	**(489)**

The profit on disposal of financial instruments for the period ended June 30, 2011 related to the sale of the 15% stake in the company Ecoenergía de Navarra, S.A.

Note 16. Income tax

The breakdown of the income tax expense is as follows:

	For the period ended 30 June	
	2012	**2011**
Current tax	238	216
Deferred tax	50	86
Total	**288**	**302**

The income tax expense is recognised on the basis of the best estimate of the effective tax rate for the year. The estimated effective tax rate for the first half of 2012 and 2011 amounted 24.9%.The difference between the theoretical tax rate and the actual tax rate is primarily due to the tax deductions for reinvestment of extraordinary profit and other tax deductions.

Note 17. Business combinations

In the six months period ended on June 30, 2012, there were no significant business combinations

As mentioned in Note 7, as a result of the agreement for the finalisation of the collaboration with Enel Green Power through EUFER, in June 2011 GAS NATURAL FENOSA acquired approximately half of the business and the corresponding assets and liabilities of EUFER, the relevant human and other means necessary for the generation of electricity under the special regime having been transferred. It has therefore been considered a business combination and not an acquisition of assets.

The cost of business combination, net of the debt taken on, equates to the valuations at fair value which were carried out by independent third parties specifically to serve as a basis for the transaction. The detail of the net assets acquired, at its EUFER book value and fair value, is the following:

Business combinations costs	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
Other non-current 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**	

The final assignment of the acquisition price of EUFER at the fair value of its assets, liabilities and contingent liabilities was completed in May 2012. This information agrees with that used to prepare the Consolidated annual accounts for 2011.

If the operation had taken place on January 1, 2011, the impact of the operation on the net amount of consolidated turnover and consolidated results would not have been significant either.

As a consequence of the process to allocate the purchase price was, primarily, the revaluation of intangible assets, which relates to the licenses of the assets received, mainly wind farms. Given that various operations have been initiated to merge the main holdings received by Gas Natural Fenosa Renovables, S.A. (subsidiary of GAS NATURAL FENOSA), most of the aforementioned revaluation has a fiscal impact.

Note 18. Related-parties disclosures

Related parties are as follows:

- Significant shareholders of GAS NATURAL FENOSA, understood as those who directly or indirectly hold an interest equal to or greater than 5%, as well as the shareholders who, while not significant, have appointed a member to the Board of Directors.

  On the basis of this definition, the significant shareholders of GAS NATURAL FENOSA are Criteria CaixaHolding S.A.U. and therefore Grupo Caixa d´Estalvis i Pensions de Barcelona ("la Caixa" group), Repsol Group and Catalunya Caixa (until 28 November 2011, date on which the Director designated by this company tendered his resignation).

- Directors and executives of the company and their immediate family. The term "director" means a member of the Board of Directors; "executive" means a member of the Management Committee of GAS NATURAL FENOSA. Transactions with directors and executives are disclosed in Note 19.

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

The aggregate amounts of the transactions with significant shareholders are in thousand Euros as follows:

Income and expenses (Thousand Euros)	Six-month period ended 30 June 2012 "La Caixa" Group	Repsol Group
Financial expenses	5,936	-
Leases	-	-
Services received	-	42,976
Goods purchases (finished or in progress)	-	511,995
Other expenses (1)	16,998	-
Total expenses	**22,934**	**554,971**
Financial income	14,056	-
Leases	-	180
Services rendered	-	25,621
Sale of goods (finished or in progress)	-	526,263
Other income	400	-
Total income	**14,456**	**552,064**

Other transactions (Thousand Euros)	Six-month period ended 30 June 2012 "La Caixa" Group	Repsol Group
Acquisition of property, plant and equipment, intangible assets and other assets	-	-
Financing agreements: loans and capital contributions (lender) (2)	998,453	-
Sale of property, plant and equipment, intangible assets and other assets (3)	348,990	-
Financing agreements: loans and capital contributions (borrower) (4)	523,130	-
Deposits and guarantees deposits received	112,500	-
Dividends and others distributed profit	290,336	247,009
Other operations (5)	780,714	-

Income and expenses (Thousand Euros)	Six-month period ended 30 June 2011 "La Caixa" Group	Repsol Group	Catalunya Caixa (*)
Financial expenses	7,301	-	944
Leases	580	-	-
Services received	-	32,541	-
Goods purchases (finished or in progress)	-	366,964	-
Other expenses (1)	8,072	-	139
Total expenses	**15,953**	**399,505**	**1,083**
Financial income	7,300	-	138
Leases	-	174	-
Provision of services	-	18,207	-
Sale of goods (finished or in progress)	-	267,310	-
Other income	468	-	-
Total income	**7,768**	**285,691**	**138**

Other transactions (Thousand Euros)	Six-month period ended 30 June 2011 "La Caixa" Group	 Repsol Group	 Catalunya Caixa (*)
Acquisition of property, plant and equipment, intangible assets and other assets	-	-	-
Financing agreements: loans and capital contributions (lender) (2)	1,333,036	-	52,194
Sale of property, plant and equipment, intangible assets and other assets	253,958	195	-
Financing agreements: loans and capital contributions (borrower) (4)	508,837	-	50,000
Deposits and guarantees deposits received	112,500	-	70,000
Dividends and others distributed profit	118,885	97,755	5,256
Other operations (5)	1,493,895	-	9

(*) Significant shareholders until 28 November 2011.

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

(2) Includes treasury and financial investments.

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

(4) At June 30, 2012 the credit facilities extended by "la Caixa" Group totalled 475,771 thousand Euros (June 30, 2011: 471,676 thousand Euros) of which 17,442 thousand Euros had been drawn down (June 30, 2011: 21,564 thousand). Additionally, "la Caixa" Group hold participations in syndicated loans of 300,000 thousand Euros (June 30, 2011: 300,000 thousand Euros) and other loans totalling 205,688 thousand Euros (June 30, 2011: 187,273 thousand Euros). At June 30, 2011 the credit facilities extended with Catalunya Caixa totalled Euros 100,000 thousand Euros of which no amount has been drawn down and other loans totalling 50,000 thousand Euros.

(5) At June 30, 2012 Other transactions with "la Caixa" Group include 432,903 thousand Euros for Exchange rate hedges (June 30, 2011: 1,035,999 thousand Euros) and Euros 347,811 thousand for interest rate hedges (June 30, 2011: 457,896 thousand Euros), at June 30, 2012 this same account includes a balance of 9 thousand Euros with Catalunya Caixa for interest rate hedges.

Note 19. Disclosures regarding members of the Board of Directors and the Management Committee

Remuneration of the members of the Board of Directors

The amounts received for the members of Gas Natural SDG, S.A.'s Board of Directors and the various committees at June 30, 2012 amount to Euros 2,205 thousand (Euros 2,228 thousand at June 30, 2011).

The amounts received for functions other than supervisory and decision-making functions are at 30 June 2012 the amount to Euros 2,260 thousand, Euros 522 thousand in respect of fixed remuneration, Euros 1,736 thousand in respect of variable remuneration and Euros 2 thousand in respect of other items (Euros 3,198 thousand at 30 June 2011 relating to Euros 506 thousand in respect of fixed remuneration, Euros 966 thousand in respect of variable remuneration, Euros 1,725 thousand in respect of a one-off incentive and Euros 1 thousand in respect of other items).

The contributions to pension plans and group insurance at June 30, 2012 are Euros 140 thousand (Euros 136 thousand at June 30, 2011).

Remuneration of the Executive Committee

The sums received by the members of the Company's Executive Committee for remuneration at 30 June 2012 amount to Euros 6,553 thousand (Euros 8,428 thousand at 30 June 2011).

The contributions to pension plans and group insurances at June 30, 2012 are Euros 894 thousand (Euros 852 thousand at June 30, 2011).

Operations with Directors and executives

Directors and executives have not carried out any operations outside ordinary business and have not carried out any operations with the Company or the companies of the Group which are not at arm's length.

Note 20. Litigation and arbitration

At the date of preparation of these Condensed consolidated interim financial statements as at 30 June 2012 the main litigations or arbitration proceedings in which GAS NATURAL FENOSA is involved are as follows:

Tax claims in Spain

As a result of the inspection proceedings, for the years 2003 to 2005, the Inspectorate has questioned the appropriateness of the deduction for exports applied by GAS NATURAL FENOSA. The assessments raised have been contested and an appeal has currently been filed with the Central Treasury and Tax Court. The total payable, including interest, accumulated at 30 June 2012 that would derive from such assessments amounts to Euros 80 million, which is fully provided for.

Tax claims in Argentina

The Argentinean tax authorities have filed tax claims for a total amount, including interest, of 253 million Argentinean pesos (Euros 45 million) in relation to the tax treatment of certain capital gains in the period 1993 to 2001, deriving from the transfer of distribution networks by third parties to the Group company Gas Natural BAN, S.A.. All claims have been contested and a positive final outcome is expected with respect to these claims. The National Appeal Chamber issued in 2007 a judgment for 1993 to 1997, ordering that the Decision through which the Federal Public Revenues Administration (AFIP) claimed the tax allegedly owed, be declared null and void and confirming the non-application of fines. An appeal has been filed against the Chamber's Decision with the Supreme Court of Justice.

Tax claims in Brazil

In September 2005 the Tax Administration of Río de Janeiro declared voided the recognition that it had previously accepted in April 2003 to compensate the loans for the contributions related to the sale of PIS and COFINS paid by the Group company Companhia Distribuidora de Gás do Rio de Janeiro - CEG. The Tax Administration confirmed that resolution in March 2007 and the Company therefore filed an appeal with the administrative courts (Justicia Federal do Rio de Janeiro), which is being processed. Subsequently, on 26 January 2009 notification was received of public civil action against CEG in connection with the same events. GAS NATURAL FENOSA considers, together with the company's legal advisors, that the actions in question are baseless and it is therefore improbable that these legal actions will be lost. The total tax under dispute, updated at 30 June 2012, amounts to BRL 356 million (Euros 140 million).

Claim against Edemet - Edechi (Panama)

In April 2012 a non-guilty verdict was issued in the second instance, leaving a judgement in the first instance void which condemned the Group companies Empresa Distribuidora de Electricidad Metro Oeste, S.A. and Empresa Distribuidora de Electricidad Chiriqui, S.A. to indemnity the plaintiff for the amount determined by the experts and up to a maximum of USD 84 million (Euros 65 million), The plaintiff has appealed against this judgement. The damages sought would derive from a tender to purchase energy, which was arranged by the Public Services Authorities and which was awarded to the plaintiff who was finally unable to fulfil the contract owing to its failure to submit the guarantees required in the tender specifications.

GAS NATURAL FENOSA considers that the provisions recorded in these Condensed consolidated interim financial statements at 30 June 2012 adequately cover the risks described in this Note and therefore no liabilities other than those disclosed are expected to arise.

Note 21. Subsequent events

At the date of preparation of these Condensed consolidated interim financial statements, no significant additional events that the Company believes could significantly affect them have occurred subsequent to the period end date.

APPENDIX I: VARIATIONS IN CONSOLIDATION SCOPE

The main changes to the consolidation scope in the first half of 2012 have been as follows:

Name of the company	Operation category	% of voting rights acquired / disposed of	Effective date of the operation	Consolidation method after the operation
Transnatural, S.R.L. de C.V.	Disposal	50.0%	31 January	-
Distribuidora de Electricidad del Norte, S.A.	Acquisition	11.4%	10 February	Full
Distribuidora de Electricidad del Sur, S.A.	Acquisition	10.0%	10 February	Full
Capital Telecom Honduras, S.A.	Acquisition	100%	14 February	Full
GEM Suministro de Gas 3, S.L.	Disposal	100%	29 February	-
GEM Suministro de Gas SUR 3, S.L.	Disposal	100%	29 February	-
Energías Especiales de Extremadura, S.A.	Acquisition	20.6%	5 March	Full
U.F. Telecomunicación El Salvador, S.A. de C.V.	Acquisition	100%	10 March	Full
Fenosa Wind, S.L.	Acquisition	15.0%	26 April	Full
Eólica de Cordales, S.L.U.	Disposal	100%	26 April	-
Eólica de Cordales Bis, S.L.U.	Disposal	100%	26 April	-
Gas Natural International, Ltd.	Liquidation	100%	30 April	-
Eólicos Singulares 2005, S.A.	Liquidation	49.0%	23 May	-
Andaluza de Energía Solar Cuarta, S.L.	Liquidation	76.0%	29 May	-

The main changes to the consolidation scope in the first half of 2011 have been as follows:

Name of the company	Operation category	% of voting rights acquired / disposed of	Effective date of the operation	% of voting rights after the operation	Consolidation method after the operation
Energías Especiales de Andalucía, S.L.	Acquisition	7.5%	12 January	50%	Proportion
Gas Natural Finance, BV	Liquidation	100%	15 March	-	-
Holding Gasinmex, S.A. de C.V	Increase	-	30 June	82.7%	Full
JGC Cogeneración Daimiel, S.L.	Incorporation	97.6%	11 February	97.6%	Full
Red Unión Fenosa, S.A.	Acquisition	6.0%	24 April	100%	Full
Gem de Suministro Gas 3, S.L.	Incorporation	100%	9 May	100%	Full
Gem de Suministro Gas SUR 3, S.L.	Incorporation	100%	9 May	100%	Full
Generación Limpia Guatemala S.A.	Disposal	100%	19 May	-	-
Comercializadora Guatemalteca Mayorista de Electricidad, S.A.	Disposal	100%	19 May	-	-
Redes Eléctricas de Centroamérica, S.A.	Disposal	100%	19 May	-	-
Distribuidora de Electricidad de Oriente, S.A.	Disposal	92.8%	19 May	-	-
Distribuidora de Electricidad de Occidente, S.A.	Disposal	90.8%	19 May	-	-
Unión Fenosa Wind Australia Pty. Lda.	Acquisition	1.0%	31 May	92.4%	Full
Eufer Renovables Ibéricas 2004, S.A.	Acquisition	50.0%	27 May	100%	Full
Eólica del Cordal de Montouto, S.L.	Acquisition	50.0%	27 May	100%	Full
Energías Especiales Espina, S.A.U.	Acquisition	50.0%	27 May	100%	Full
Eólica Galaicoasturiana, S.A.	Acquisition	50.0%	27 May	100%	Full
Andaluza de Energía Solar Cuarta, S.L.	Acquisition	46.0%	27 May	76%	Full
Energías Especiales Alcoholeras, S.A.	Acquisition	41.0%	27 May	82%	Full
Vientos del Noroeste, S.A.	Acquisition	50.0%	27 May	100%	Full
Energía Termosolar de los Monegros, S.L.	Acquisition	45.0%	27 May	90%	Full
Energías Especiales de Extremadura, S.L	Acquisition	39.0%	27 May	78%	Full
Parque Eólico Cabo Vilano, S.L.	Acquisition	50.0%	27 May	100%	Full

Parque Eólico Sierra del Merengue, S.A.	Acquisition	25.0%	27 May	50%	Proportional
Energías Ambientales de Somozas, S.A.	Acquisition	23.0%	27 May	46%	Proportional
Cogeneración del Noroeste, S.L.	Acquisition	20.0%	27 May	40%	Proportional
Energías Ambientales, S.A.	Acquisition	16.7%	27 May	33%	Proportional
Energías Ambientales de Vimianzo, S.A.	Acquisition	16.7%	27 May	33%	Proportional
Energías Ambientales de Novo, S.A.	Acquisition	16.7%	27 May	33%	Proportional
Societat Eòlica de L' Enderrocada, S.A.	Acquisition	13.0%	27 May	27%	Proportional
Punta de Lens Eólica Marina, S.L.	Acquisition	50.0%	27 May	100%	Full
Punta de las Olas Eólica Marina, S.L.	Acquisition	50.0%	27 May	100%	Full
Eufer Energías Especiais de Portugal, Unipessoal Lda.	Acquisition	50.0%	27 May	100%	Full
Prius Enerólica, S.L.U.	Acquisition	50.0%	27 May	100%	Full
Eufer-Caetano Energias Renovaveis, Lda.	Acquisition	26.0%	27 May	51%	Proportional
ENEL U.F. Renovables, S.A.	Disposal	50%	27 May	-	-
Andaluza de Energía Solar Primera, S.A.	Disposal	30%	27 May	-	-
Andaluza de Energía Solar Quinta, S.A.	Disposal	30%	27 May	-	-
Andaluza de Energía Solar Tercera, S.A.	Disposal	30%	27 May	-	-
Aprovechamientos Eléctricos, S.A.	Disposal	50%	27 May	-	-
Aridos Energías Especiales, S.L.	Disposal	21%	27 May	-	-
Azucarera Energías, S.A.	Disposal	20%	27 May	-	-
Barbao, S.A.	Disposal	50%	27 May	-	-
Boiro Energía, S.A.	Disposal	20%	27 May	-	-
Depuración, destilación y reciclaje, S.L.	Disposal	20%	27 May	-	-
Energías Especiales Alto Ulloa, S.A.	Disposal	50%	27 May	-	-
Energías Especiales de Andalucía, S.L.	Disposal	50%	27 May	-	-
Energías Especiales de Careón, S.A.	Disposal	39%	27 May	-	-
Energías Especiales de Gata, S.L.	Disposal	50%	27 May	-	-
Energías Especiales de Padul, S.L.U.	Disposal	50%	27 May	-	-
Energías Especiales del Bierzo, S.A.	Disposal	25%	27 May	-	-
Energías Especiales Montes Castellanos, S.L.U.	Disposal	50%	27 May	-	-
Energías Especiales Montes de Andalucía, S.L.	Disposal	50%	27 May	-	-
Energías Especiales Noroeste, S.A.U.	Disposal	50%	27 May	-	-
Energías Especiales Peña Armada , S.A.	Disposal	40%	27 May	-	-
Energías Especiales Santa Bárbara, S.L.	Disposal	50%	27 May	-	-
Energías Especiales Valencianas, S.L.	Disposal	50%	27 May	-	-
Energías Renovables Montes de San Sebastian, S.L.	Disposal	50%	27 May	-	-
Eufer Operación, S.L.	Disposal	50%	27 May	-	-
Parque Eólico Belmonte, S.A.	Disposal	25%	27 May	-	-
Parque Eólico de Capelada , A.I.E.	Disposal	25%	27 May	-	-
Parque Eólico de Corullón , S.L.	Disposal	50%	27 May	-	-
Parque Eólico de San Andrés, S.A.	Disposal	41%	27 May	-	-
Parque Eólico Malpica, S.A.	Disposal	25%	27 May	-	-
Parque Eólico Montes de las Navas, S.A.	Disposal	10%	27 May	-	-
Promociones Energéticas del Bierzo, S.L.	Disposal	18%	27 May	-	-
Proyectos Universitarios Energías Renovables, S.L.	Disposal	17%	27 May	-	-
Sistemas Energéticos Mañón Ortigueria, S.A.	Disposal	48%	27 May	-	-
Ufefys, S.L.	Disposal	20%	27 May	-	-
Energías de Villarubia, S.L.	Disposal	10%	27 May	-	-
Enerlasa, S.A.	Disposal	22%	27 May	-	-
Sotavento Galicia, S.A., S.A.	Disposal	9%	27 May	-	-
Tirmadrid, S.A.	Disposal	9%	27 May	-	-
O & M Energy Uganda Limited.	Acquisition	100%	30 June	100%	Full

U.F. Energias Renovables Chile, S.A.	Acquisition	11%	30 June	91%	Full
Bis Distribución de Gas, S.A.	Disposal	100%	30 June	-	-
3G Holdings Limited	Acquisition	7.5%	30 June	10%	Equity method

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GAS NATURAL FENOSA

Consolidated Directors' Report at 30 June 2012

1. Business performance

Analysis of the six-month period ended the 30 June 2012

Net profit in the first half of 2012 was Euros 767 million, down 6.7% year-on-year, due primarily to lower gains booked on asset sales with respect to the same period of 2011.

In recurrent terms, i.e. adjusting for gains/losses on asset divestments in the first half of 2012 and 2011, net profit would have expanded by 24.3%. That growth is the result of positive EBITDA performance in a demanding macroeconomic context and of financial discipline, reflected by the gradual normalisation of rate debt and decline in financial expenses.

Consolidated EBITDA in the period amounted to Euros 2,559 million, a 7.3% increase with respect to the first half of 2011, supported by GAS NATURAL FENOSA's diversification, the growing contribution from the international business, and its balanced business profile, which neutralised the evolution of businesses in Spain, impacted by divestments in 2011 and the estimated impact from Royal Decree-Act 13/2012.

Standardising for divestments in 2011 and 2012, EBITDA would have expanded by 10.0%.

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.

The scrip dividend transaction was completed on 13 June 2012. The acceptance rate among GAS NATURAL FENOSA shareholders was 18.2%. The new shares were listed on 29 June 2012.

GAS NATURAL FENOSA commenced construction of the 50 MW Torito hydroelectric plant (Costa Rica), which is expected to become operational in 2014.

GAS NATURAL FENOSA commenced the administrative paperwork for building an underground natural gas storage facility in Bages (Barcelona).

Divestments, the Company's sound, balanced business profile, and strict discipline in finances and capital expenditure have enabled the Company to steadily reduce leverage, to 53.3% at 30 June 2012, which is particularly efficient since the debt structure, cost and maturities are in line with GAS NATURAL FENOSA's business profile.

Main financial aggregates

	2012	2011	%
Net sales	12,439	10,205	21.9
EBITDA	2,559	2,386	7.3
Operating income	1,582	1,698	(6.8)
Net income attributable to parent company	767	822	(6.7)
Investments	551	520	6.0
Net financial debt (at 30/6)	16,939	16,949	(0.1)

Main physical aggregates

Gas and electricity distribution

	2012	2011	%
Gas distribution (GWh):	207,754	202,976	2.4
Europe:	108,028	109,644	(1.5)
Tariff gas sales	1,926	1,801	6.9
TPA	106,102	107,843	(1.6)
Latin America	99,726	93,332	6.9
Tariff gas sales	58,960	54,301	8.6
TPA	40,766	39,031	4.4
Electricity distribution (GWh):	27,404	27,654	(0.9)
Europe:	18,621	18,567	0.3
Tariff electricity sales	1,268	1,223	3.7
TPA	17,353	17,344	0.1
Latin America	8,783	9,087	(3.3)
Tariff electricity sales	8,321	8,622	(3.5)
TPA	462	465	(0.6)
Gas distribution connections ('000) (at 30/06):	11,509	11,498	0.1
Europe	5,524	5,736	(3.7)
Latin America	5,985	5,762	3.7
Electricity distribution connections ('000) (at 30/06):	8,221	8,057	2.0
Europe	4,586	4,548	0.8
Latin America	3,635	3,509	3.6
ICEIT in Spain (minutes)	15	20	(25.0)

Energy businesses:

	2012	2011	%
Electricity generated (GWh):	27,890	28,799	(3.2)
Spain:	18,721	19,250	(2.7)
Hydroelectric	782	2,363	(66.9)
Nuclear	2,081	2,020	3.0
Coal	3,916	1,305	200.1
Oil - gas	-	(2)	-
CCGT	10,554	12,315	(14.3)
Renewables	1,388	1,249	11.1
International:	9,169	9,549	(4.0)
Hydroelectric	43	42	2.4
CCGT	8,274	8,544	(3.2)
Oil - fired	852	963	(11.5)
Electricity capacity (MW).	15,445	16,443	(6.1)
Spain:	12,804	13,811	(7.3)
Hydroelectric	1,905	1,868	2.0
Nuclear	603	595	1.3
Coal	2,048	2,048	-
Oil - gas	157	617	(74.6)
CCGT	6,998	7,733	(9.5)
Renewables	1,093	950	15.1
International:	2,641	2,632	0.3
Hydroelectric	22	22	-
CCGT	2,298	2,289	0.4
Oil - fired	321	321	-
Gas supply (GWh):	173,406	153,410	13.0
Spain	125,920	121,083	4.0
Rest	47,486	32,327	46.9
Unión Fenosa Gas(1):			
Gas supply in Spain (GWh)	29,619	27,592	7.3
Rest (GWh)	14,898	12,473	19.4
Gas transportation - EMPL (GWh)	66,203	62,972	5.1

(1) 100% included.

Analysis of consolidated earnings

Net sales

	For the 6-month period ended 30 June				
	2012	% of the total	2011	% of the total	% 2012/2011
Gas distribution	2,169	17.4	2,035	19.9	6.6
Spain	631	5.1	625	6.1	1.0
Latin America	1,377	11.1	1,285	12.6	7.2
Rest	161	1.3	125	1.2	28.8
Electricity distribution	1,779	14.3	1,759	17.2	1.1
Spain	424	3.4	466	4.6	(9.0)
Latin America	1,230	9.9	1,191	11.7	3.3
Rest	125	1.0	102	1.0	22.5
Electricity	3,453	27.8	3,347	32.8	3.2
Spain	2,989	24.0	2,844	27.9	5.1
Latin America	399	3.2	442	4.3	(9.7)
Rest	65	0.5	61	0.6	6.6
Gas	6,588	53.0	4,651	45.6	41.6
Infrastructures	153	1.2	139	1.4	10.1
Supply and commercialisation	5,800	46.6	4,075	39.9	42.3
Unión Fenosa Gas	635	5.1	437	4.3	45.3
Other activities	288	2.3	311	3.0	(7.4)
Consolidation adjustments	(1,838)	(14.8)	(1,898)	(18.6)	(3.2)
Total	**12,439**	**100.0**	**10,205**	**100.0**	**21.9**

Net sales totalled Euros 12,439 million until June 30, 2012 an increase of 21.9% over the same period last year, due basically to growth in the wholesale gas business both Supply and commercialisation, and UF Gas.

EBITDA [(1)]

	For the 6-month period ended 30 June				
	2012	% of the total	2011	% of the total	% 2012/2011
Gas distribution	807	31.5	803	33.7	0.5
Spain	451	17.6	462	19.4	(2.4)
Latin America	310	12.1	302	12.7	2.6
Rest	46	1.8	39	1.6	17.9
Electricity distribution	506	19.8	501	21.0	1.0
Spain	308	12.0	349	14.6	(11.7)
Latin America	181	7.1	137	5.7	32.1
Rest	17	0.7	15	0.6	13.3
Electricity	582	22.7	591	24.8	(1.5)
Spain	451	17.6	460	19.3	(2.0)
Latin America	125	4.9	124	5.2	0.8
Rest	6	0.2	7	0.3	(14.3)
Gas	646	25.2	424	17.8	52.4
Infrastructures	110	4.3	82	3.4	34.1
Supply and commercialisation	363	14.2	206	8.6	76.2
Unión Fenosa Gas	173	6.8	136	5.7	27.2
Other activities	18	0.7	67	2.8	(73.1)
Total	**2,559**	**100.0**	**2,386**	**100.0**	**7.3**

(1) EBITDA = Operating income + Depreciation and amortization + Operating provisions – Other income

Consolidated EBITDA in the first half of 2012 amounted to Euros 2,559 million, an increase of 7.3% with respect to the first half of 2011, in a very tough macroeconomic energy and financial context; this result was achieved due to an appropriate balance of regulated and liberalised gas and electricity businesses, including a growing, diversified international presence, which offset the EBITDA impact of divestments in 2011 and the estimated impact of Royal Decree-Act 13/2012.

Regulated gas and electricity distribution in Spain (29.7%) and other countries (21.6%) accounts for 51.3% of GAS NATURAL FENOSA's EBITDA.

Gas business expanded by 52.4% and accounts for 25.2% of consolidated EBITDA. The electricity business declined in importance, and now accounts for 22.7% of consolidated EBITDA.

EBITDA from GAS NATURAL FENOSA'S international activities accounted for 42.2% of the consolidated total in the first half of 2012, compared with 34.4% in the same period last year.

Operating income

	For the 6-month period ended 30 June				
	2012	% of the total	2011	% of the total	% 2012/2011
Gas distribution	580	36.7	589	34.7	(1.5)
Spain	308	19.5	321	18.9	(4.0)
Latin America	240	15.2	241	14.2	(0.4)
Rest	32	2.0	27	1.6	18.5
Electricity distribution	295	18.6	301	17.7	(2.0)
Spain	198	12.5	245	14.4	(19.2)
Latin America	83	5.2	44	2.6	88.6
Rest	14	0.9	12	0.7	16.7
Electricity	219	13.8	244	14.4	(10.2)
Spain	144	9.1	162	9.5	(11.1)
Latin America	72	4.6	77	4.5	(6.5)
Rest	3	0.2	5	0.3	(40.0)
Gas	496	31.4	293	17.3	69.3
Infrastructures	71	4.5	52	3.1	36.5
Supply and commercialisation	329	20.8	181	10.7	81.8
Unión Fenosa Gas	96	6.1	60	3.5	60.0
Other activities	(8)	(0.5)	271	16.0	(103.0)
Total	**1,582**	**100.0**	**1,698**	**100.0**	**(6.8)**

Depreciation charges increased by 2.4% while provisions increased by Euros 21 million to Euros 107 million in the first half of 2012. Gains from asset disposals totalled Euros 20 million (Euros 267 million in the first half of 2011), providing operating profit of Euros 1,582 million, i.e. 6.8% lower than the same period last year.

Adjusting for gains/losses on asset divestments, EBITDA would have increased by 10.0%.

Financial results

The cost of net interest debt in the first half of 2012 was Euros 388 million, lower than in in the first half of 2011 due to the combined effect of lower net debt and the lower cost of debt. The reduction in gross debt and the increase in cash are the result of collections from securitisation of the tariff deficit and of operating cash flow.

Corporate income tax

GAS NATURAL FENOSA is taxed in Spain under the consolidated taxation system, in which the tax group is viewed as the taxpayer and its tax base is determined by aggregating the tax bases of its component companies. The other Spanish-resident companies that are not part of the tax group file individual returns, and those not resident in Spain are taxed in their respective countries; the tax rate on Company income (or the equivalent tax) that is in force is applied to income for the period.

The income tax expense is recognised based on the effective tax rate envisaged for the year as a whole. The effective tax rate in the first half of 2012 was 24.9%, on par with last year's figure. The difference between the theoretical tax rate and the effective tax rate was mainly due to the application of tax credits for reinvestment of extraordinary gains.

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 103 million, Euros 13 million more than in the same period of 2011.

Investments

The breakdown of investments by type is as follows:

	2012	2011	%
Property, plant & equipment	446	463	(3.7)
Intangible assets	89	55	61.8
Financial investments	16	2	-
Total investments	**551**	**520**	6.0

Investments in property, plant & equipment and intangible assets amounted to Euros 535 million in the period, an increase of 3.3% year-on-year.

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 15 million in in the first half of 2012; by application of IFRIC 12 "Service Concession Arrangements", that amount is classified as financial assets.

The breakdown of investment in property, plant and equipment and intangible assets by line of business is as follows:

	For the 6-month period ended 30 June		
	2012	**2011**	**%**
Gas distribution:	190	173	9.8
Spain	108	108	-
Latin America	65	50	30.0
Rest	17	15	13.3
Electricity distribution	169	154	9.7
Spain	121	102	18.6
Latin America	44	47	(6.4)
Rest	4	5	(20.0)
Electricity:	112	118	(5.1)
Spain	80	94	(14.9)
Latin America	32	24	33.3
Other	-	-	-
Gas	24	24	-
Infrastructures	14	14	-
Supply and commercialisation	7	6	16.7
Unión Fenosa Gas	3	4	(25.0)
Other activities	40	49	(18.4)
Total investments in property, plant and equipment	**535**	**518**	**3.3**

GAS NATURAL FENOSA allocated 67.1% of capital expenditure to regulated gas and electricity distribution, which will strengthen their contribution to consolidated EBITDA.

A total of 65.4% of consolidated capital expenditure in the period corresponds to Spain.

Capital expenditure in Latin America remains focused on Mexico, Brazil and Colombia.

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	631	625	1.0
Purchases	(11)	(7)	57.1
Personnel costs, net	(36)	(38)	(5.3)
Other expense/ income	(133)	(118)	12.7
EBITDA	**451**	**462**	**(2.4)**
Depreciation and amortization	(141)	(141)	-
Change in operating provisions	(2)	-	-
Operating income	**308**	**321**	**(4.0)**

Net sales in the gas distribution business totalled Euros 631 million and EBITDA to Euros 451 million.

Excluding the effect of the divestment of assets in the Madrid region and non-recurring revenues in the first half of 2011, net sales would have expanded by 6% and EBITDA by 4.6% with respect to the same period the previous year.

Main Aggregates

The main aggregates relating to the gas distribution activity in Spain were as follows:

	2012	2011	%
Gas TPA sales (GWh)	105,518	107,340	(1.7)
Distribution network (Km)	45,785	44,557	2.8
Change in connection points ('000)	31	36	(13.9)
Connection points ('000) (at 30/06)	5,081	5,310	(4.3)

Excluding divestment proceeds, revenues in the regulated gas business in Spain, which includes TPA (third-party access) services in the gas distribution network and secondary transportation, increased by just 0.1% (+143 GWh) with respect to the same period of 2011.

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 aims to offset in the coming quarter by increasing connections in the existing building market. New customers in that market which are signed but not yet connected expanded by 3% with respect to the first half of 2011.

In like-for-like terms, the distribution network expanded by 1,261 km, by adding 35 municipalities.

Order IET/3587/2011 was published on 31 December 2011, establishing the tolls and fees for third-party access to gas installations and remuneration for regulated gas activities for 2012. The order maintains the system for calculating the distribution remuneration as amended the previous year, updating the remuneration for 2012 in accordance with the actual IPH index for October 2011. The remuneration recognised for GAS NATURAL FENOSA in 2012 from distribution and transportation activities in 2012 is Euros 1,119 million.

The measures approved under Royal Decree-Act 13/2012 of 30 March, which transposes EU directives relating to the internal electricity and gas markets, are a first step towards reforming the electricity and gas sectors. The measures focus on the causes of the gas deficit which is a temporary result of the decline in demand caused by the economic crisis. Those measures will maintain the system's financial equilibrium with moderate toll increases. They will not have any impact on the Company's gas distribution revenues in 2012.

Gas distribution in Latin America

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

	2012	2011	%
Net sales	1,377	1,285	7.2
Purchases	(901)	(829)	8.7
Personnel costs, net	(51)	(45)	13.3
Other expense/ income	(115)	(109)	5.5
EBITDA	**310**	**302**	**2.6**
Depreciation and amortization	(58)	(56)	3.6
Change in operating provisions	(12)	(5)	140.0
Operating income	**240**	**241**	**(0.4)**

EBITDA amounted to Euros 310 million, a 2.6% increase in the first half of 2011, and was positively impacted by appreciation of the Colombian peso (+9.9%) and the Argentine peso (+2.4%) and negatively impacted by the devaluation of the Brazilian real (-5.7%) and the Mexican peso (-3.1%).

Net sales totalled Euros 1,377 million, an improvement of 7.2%, with a sales volume that was 6.9% higher than in the first half of 2011.

Brazil accounted for 49.4% of EBITDA on a 20.8% increase in sales with respect to the first half of 2011, and a 5.1% increase in the spark spread, mainly due to the Consumer Price Index update.

Colombia's contribution to EBITDA amounted to 12.3%, taking into consideration the effect of the wealth tax booked in the first half of 2011 earnings and which does not apply in 2012.

EBITDA in Mexico accounted for 18.4% of the total, and the spark spread in local currency rose 11.3% with respect to the first half of 2011. The average bill for residential customers will decline by approximately 45%, allowing for strong development of natural gas in the Bajío region, a market with 400,000 potential customers.

Main aggregates

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

	2012	2011	%
Gas activity sales (GWh):	99,726	93,332	6.9
Tariff gas sales	58,960	54,301	8.6
TPA	40,766	39,031	4.4
Distribution network (Km)	66,413	64,987	2.2
Change in connection points ('000)	103	97	6.2
Connection points ('000) (at 30/06)	5,985	5,762	3.9

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

	Argentina	Brazil	Colombia	Mexico	Total
Gas activity sales (GWh):	37,965	29,282	8,528	23,951	99,726
Increase vs. First half of 2011 (%)	3.1	20.8	(0.7)	1.1	6.9
Distribution network	23,406	6,180	19,632	17,195	66,413
Increase vs 30/06/2011 (km)	263	136	428	599	1,426
Connection points ('000 at 30/06)	1,507	853	2,346	1,279	5,985
Increase vs. 30/06/2011, in thousands	34	27	112	50	223

There were a total of 5,985,000 gas distribution connections in the first half of 2012. Year-on-year growth remains high, with the Company adding 223,000 distribution connections (of which 112,473 in Colombia alone). The Company has 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 99,726 GWh, a 6.9% increase with respect to the same period in 2011.

The distribution grid expanded by 1,426 km (+2.2%) in the last 12 months, to 66,413 km at the end of June 2012.

Highlights in Latin America:

- In Argentina, residential/commercial customer numbers declined by 1.9% compared with the first half of 2011 as a result of the low level of commercial activity. Gas and TPA sales increased by 3.1% as a result of the weather effect, and the Company continued to curtail expenditure sharply in a situation of high inflation (23%).

- The business performed very well in Brazil, with a 22.1% net increase in residential/commercial customer numbers and a 20.8% increase in gas and TPA sales, especially in the residential/commercial, automotive LNG and power generation segments. Electric power plant dispatching in the first half of 2012 increased by 68% year-on-year, and sales also performed very well. Reservoir levels in June 2012 were 72.5%, i.e. below the historical average (85.2%).

- In Colombia, residential/commercial customer numbers increased by 8.8% and sales of appliances by 24.2% (from 17,282 to 21,465) with respect to the first half of 2011, reflecting 3.5% sales growth in this market.

- In Mexico, installations increased by 32.6% with respect to the first half of 2011, with notable improvements in central Mexico (Metrogas and Toluca) and in the north (Monterrey, Nuevo Laredo and Saltillo).Gas and TPA sales in the residential/commercial markets and TPA increased notably, by +6.6% and +3.2%, respectively, compared with the first half of 2011.

Gas distribution other (Italy)

This area refers to regulated gas distribution and retail sales of gas in Italy.

Results

	2012	2011	%
Net sales	161	125	28.8
Purchases	(93)	(67)	38.8
Personnel costs, net	(8)	(7)	14.3
Other expense/ income	(14)	(12)	16.7
EBITDA	**46**	**39**	**17.9**
Depreciation and amortization	(12)	(11)	9.1
Change in operating provisions	(2)	(1)	-
Operating income	**32**	**27**	**18.5**

Gas distribution and supply in Italy contributed Euros 46 million in EBITDA, i.e. 17.9% more than in the first half of 2011

The improvement in EBITDA is attributable to the higher gas tariff in the retail market for the first quarter of the year and to greater gas distribution volumes as a result of the weather conditions.

Main aggregates

GAS NATURAL FENOSA has 443,494 gas distribution points in Italy, a 4.0% increase with respect to 30 June 2011.

	2012	2011	%
Gas activity sales (GWh):	2,510	2,304	8.9
Tariff gas sales	1,926	1,801	6.9
TPA	584	503	16.1
Distribution network (Km)	6,788	6,344	7.0
Connection points ('000) (at 30/06)	443	426	4.0
Retail gas procurement (Gwh)	1.908	1.803	5.8

A total of 2,510 GWh of gas were distributed, i.e. 8.9% more than in in the first half of 2011, due to growth of the distribution network and to weather conditions.

The distribution grid expanded by 444 km in the last 12 months, to 6,788 km at 30 June 2012. This growth included the acquisition of the Favellato Reti group on 22 December 2011, which added 324 km to the grid.

Electricity distribution in Spain

The electricity distribution business in Spain includes regulated distribution of electricity and network services for customers, basically connections and hook-ups, metering and other actions associated with third-party access to GAS NATURAL FENOSA's distribution network.

Results

	2012	2011	%
Net sales	424	466	(9.0)
Purchases	-	-	-
Personnel costs, net	(50)	(59)	(15.3)
Other expense/ income	(66)	(58)	13.8
EBITDA	**308**	**349**	**(11.7)**
Depreciation and amortization	(111)	(106)	4.7
Change in operating provisions	1	2	(50.0)
Operating income	**198**	**245**	**(19.2)**

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 decline in regulated revenues associated with distribution and commercial management of access. This decline amounted to close to 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).

In this context, net revenues declined by 9.0% year-on-year.

EBITDA in the first half of 2012 declined by 11.7% year-on-year as a result of the estimated negative impact of the above-mentioned Royal Decree-Law.

Main aggregates

	2012	2011	%
Electricity activity sales (GWh):	17,353	17,344	0.1
Tariff electricity sales	-	-	-
TPA	17,353	17,344	0.1
Connection points ('000) (at 30/06)	3,760	3,733	0.7
ICEIT (minutes)	15	20	(25.0)

Although energy distribution was on par with the same period in 2011, standardised electricity demand fell by around 0.5%, in line with performance nationwide. The number of distribution connections increased by 0.7%, to 3,760,196.

There were no notable incidents in the first six months due to the facilities' good performance as a result of investment in recent years and ongoing maintenance, together with favourable weather. As a result, the ICEIT (installed capacity equivalent interrupt time) was 15 minutes, compared to 20 minutes in in the first half of 2011, i.e. an improvement of 25%.

The performance by quality, service and network energy efficiency ratios reflects the success of the capital expenditure plans, the quality of the network architecture and the allocation of considerable human resources and funds to operation and maintenance.

Electricity distribution in Latin America

This division involves 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	1,230	1,191	3.3
Purchases	(924)	(893)	3.5
Personnel costs, net	(28)	(29)	(3.4)
Other expense/ income	(97)	(132)	(26.5)
EBITDA	**181**	**137**	**32.1**
Depreciation and amortization	(35)	(40)	(12.5)
Change in operating provisions	(63)	(53)	18.9
Operating income	**83**	**44**	**88.6**

EBITDA from the electricity distribution business in Latin America amounted to Euros 181 million, 32.1% more than in in the first half of 2011.

Excluding the currency effect and the divestment of electricity distribution companies in Guatemala, EBITDA would have expanded by 47.6%. Moreover, excluding from 2011 EBITDA the wealth tax in Colombia, which was a non-recurring item, EBITDA would have improved by just 5.6%.

The distribution business in Colombia contributed Euros 125 million to EBITDA, i.e. a 7.4% improvement excluding the effect of the wealth tax in 2011. That increase reflects greater demand in year-on-year terms, 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.

EBITDA from distribution companies in Central America totalled Euros 56 million, i.e. up 9.8%, driven by higher demand in Panama (+9.0%) and Nicaragua (+4.1%). This absorbed the impact of the higher cost of unrecognised losses due to higher energy purchasing prices, especially in Nicaragua, where procurement costs increased by around 8% on average.

Main aggregates

	2012	2011	%
Electricity activity sales (GWh):	8,783	9,087	(3.3)
Tariff electricity sales	8,321	8,622	(3.5)
TPA	462	465	(0.6)
Connection points ('000) (at 30/06)	3,635	3,509	3.6

Electricity sales totalled 8,783 GWh, a decline of 3.3% year-on-year as a result of the divestment of distribution companies in Guatemala. Excluding those companies, sales expanded by 6% due to growing demand in other Central American countries.

The number of customers (distribution connections) increased by 3.6%.

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

	Colombia	Nicaragua	Panama	Total
Electricity activity sales	5,416	1,350	2,017	8,783
Change vs. 30/06/2011 (%)	5.8	4.6	9.4	(3.3)
Connection points ('000 at	2,266	869	500	3,635
Change vs. 30/06/2011 ('000)	71	37	18	126
Network loss ratio	18.2	20.5	10.2	16.7

The performance of basic operating indicators reflects good business management and growth, as envisioned in the plan to reduce losses and bad debts.

Plans to reduce losses implemented in the various countries have enabled the Company to lessen the negative effect of the increase in demand on the power loss index.

Electricity distribution other (Moldova)

The business in Moldova consists of regulated distribution of electricity and the supply of electricity at the bundled tariff in the capital city and the central and southern regions. GAS NATURAL FENOSA is responsible for 70% of electricity distribution in Moldova.

Results

	2012	2011	%
Net sales	125	102	22.5
Purchases	(98)	(78)	25.6
Personnel costs, net	(4)	(4)	-
Other expense/ income	(6)	(5)	20.0
EBITDA	**17**	**15**	**13.3**
Depreciation and amortization	(3)	(3)	-
Change in operating provisions	-	-	-
Operating income	**14**	**12**	**16.7**

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

In local currency terms, the spark spread (revenues-procurement costs) increased by 5.6% with respect to the same period of 2011, reflecting basically the regulated remuneration for electricity distribution and electricity supply at the regulated tariff. It is worth noting the strength of the local currency with respect to the euro in the period.

As a result, EBITDA amounted to Euros 17 million, a 13.3% increase over the same period of 2011. The increase was 7.2% in local currency terms. The strength of the local currency against the euro explains the larger increase in EBITDA in euro.

Main aggregates

	2012	2011	%
Electricity activity sales (GWh):	1,268	1,223	3.7
Tariff electricity sales	1,268	1,223	3.7
TPA	-	-	-
Connection points ('000) (at 30/06)	826	815	1.3
Network loss ratio (%)	12	13	(7.7)

Energy supply expanded by 3.7%, faster than electricity demand at national level (+1.3%), as a result of plans to improve grid energy efficiency and of anti-fraud actions. Supply connections totalled 825,892 at the end of June 2012, up 1.3% year-on-year.

GAS NATURAL FENOSA continues to implement its plan to improve management in Moldova, focusing essentially on processes linked to energy control in the distribution networks, operating processes associated with the entire customer management cycle, and optimisation of facility operation and maintenance; the plan is achieving its objectives.

This plan is driving a steady improvement in basic operating indicators, particularly the network loss indicator, which has improved almost one percentage point compared with last year (from 13.3% to 12.4%), making it possible to maximise regulated revenues.

There has also been a notable improvement in service quality and network incidence indicators. Debt collection ratios continue to perform well.

Electricity in Spain

The electricity business in Spain includes the generation of electricity, wholesale and retail marketing of electricity in the deregulated Spanish market and the supply of last-resort electricity at tariff rates.

Results

	2012	2011	%
Net sales	2,989	2,844	5.1
Purchases	(2,211)	(2,127)	3.9
Personnel costs, net	(73)	(74)	(1.4)
Other expense/ income	(254)	(183)	38.8
EBITDA	**451**	**460**	**(2.0)**
Depreciation and amortization	(289)	(288)	0.3
Change in operating provisions	(18)	(10)	80.0
Operating income	**144**	**162**	**(11.1)**

Net sales in the electricity business amounted to Euros 2,989 million in the first half of 2012, 5.1% more than in the same period of 2011.

EBITDA amounted to Euros 451 million in the first six months of 2012, a 2.0% decline year-on-year.

Higher fuel prices and the consequent increase in generation costs, together with the change in the electricity production mix (i.e. lower hydroelectric output) and the 3.2% decline in output due, among other reasons, to the divestment of the Plana del Vent and Arrúbal CCGTs in the second and third quarters of 2011, respectively, reduced EBITDA even though wholesale power prices in Spain were higher.

Nationally, demand for electricity on mainland Spain reached 127,637 GWh during the first half of the year, 0.2% less than the same period in 2011, although during the last three months monthly growth has been slightly positive. Adjusting demand for the effects of employment and temperature, demand fell by 1.7% in the first six months of the year.

During the first half of the year the high point of hourly demand reached 43,010 MW in mid-February, which is 1,866 MW lower than the maximum historic amount attained in December 2007.

The physical balance of international exchanges remains on the export side and during the first half of 2012 reached 5.6 TWh exported, which is a 64.8% increase over the first half of 2011.

The slight reduction in demand for electricity on mainland Spain during the first half of the year, and the strong increase seen in exports and pumping consumption translate into an increase in net generation of national electricity, which is the result of the uneven increase in generation under the Special System, especially wind energy, which was 12.5% higher than during the same period the preceding year, and the decline in the net generation under the Ordinary System.

During this half of the year wind energy exceeded several historic maximums. In April the record for monthly wind energy production was attained, together with new maximum instantaneous production, hourly and daily energy and a new record was also established with respect to the coverage of demand by wind energy.

The rest of the Special System also recorded an increase during the first half of the year due to the high increases in solar energy, which exceeded 6 TWh produced over the course of the year so far.

Special regime output as a whole increased by 9.8% in 2012, and covered 41.0% of total Spanish mainland demand, almost 4 points more than in the first half of 2011.

Production under the Ordinary System shows a decline, returning to the trend seen in 2011. By technology, both nuclear, due to the effect of the deferral of revisions, and coal, both nationally due to the effect of the Royal Decree on Supply Guarantees and imports, showed increases. The rest of the technologies under the Ordinary System, hydroelectric and combined cycles presented declines during the first half of the year.

Hydroelectric production fell during the first half of 2012 compared with the same period in 2011 as a result of less available water. Over the course of 2012, hydroelectric energy that may be produced classifies the year as extremely dry with a Probability of Being Exceeded (PBE), compared with the historic production capacity average, of 97%, this means that statistically, 97 of every 100 years are wetter than this year. Only May, with a probability of being exceeded of 37%, allowed this situation to be mitigated. On an accumulated basis, hydroelectric production declined by 47.1%.

Nuclear production increased during the first half of the year by 11.3%, which has been affected by the deferral of revisions.

Since the start of the year, coal-fired output in general has increased by 66.7%. Spanish coal-fired output increased by 44.6%, clearly impacted by the entry into force of the Royal Decree on Security of Supply on 26 February 2011. Imported coal-fired output more than doubled, evidence of its competitiveness compared with other technologies.

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

Combined cycles decreased production during the first half of the year compared with 2011 by 25.7% and covered 14.5% of the market, 5% less than during the first half of 2012.

The average weighted price on the daily market is Euros 49.70 per MWh, 4.8% higher than the accumulated figure for the first half of 2011.

Main Aggregates

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

	2012	2011	%
Installed capacity (MW):	12,804	13,811	(7.3)
Ordinary Regime:	11,711	12,861	(8.9)
Hydroelectric	1,905	1,868	2.0
Nuclear	603	595	1.3
Coal	2,048	2,048	-
Oil/gas	157	617	(74.6)
CCGT	6,998	7,733	(9.5)
Special Regime:	1,093	950	15.1
Wind	957	814	17.6
Mini hydroelectric	69	69	-
Cogeneration and others	67	67	-
Electricity generated (GWh):	18,721	19,250	(2.7)
Ordinary Regime:	17,333	18,001	(3.7)
Hydroelectric	782	2,363	(66.9)
Nuclear	2,081	2,020	3.0

Coal	3,916	1,305	200.1
Oil/gas	-	(2)	-
CCGT	10,554	12,315	(14.3)
	1,388	1,249	11.1
Special Regime:			
Wind	1,023	869	17.7
Mini hydroelectric	135	170	(20.6)
Cogeneration and others	230	210	9.5
Electricity sales (GWh):	17,944	18,531	(3.2)
Liberalised market	13,924	13,613	2.3
Last-resort regulator tariff	4,020	4,918	(18.3)

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

- An increase in capacity during the second half of 2011 of 32 MW at the Belesar, Albarellos and Tambre 2 hydroelectric plants, and 65 MW as a result of re-rating of the Málaga and Puerto de Barcelona CCGTs.

- The 5 MW increase (in 2012) at the Tambre I hydroelectric plant, and the 8 MW increase at group 2 of the Almaraz nuclear plant.

- Authorisation for the closure and discontinuation of activity in 2011 of the two oil-fired units at the Sabón plant (460 MW).

- The transfer of the Arrúbal (799 MW) CCGT to Contour Global in 2H11.

Electricity production on mainland Spain by GAS NATURAL FENOSA declined by 2.7%, while the Ordinary System recorded a 3.7% decline, mainly due to divestments and the lower level of hydroelectric production, and the Special System showed an 11.1% increase, higher than the percentage of the mainland increase (+9.8%).

During the first half of 2012 the extremely dry conditions have continued, with a 99% probability of being exceeded and therefore hydroelectric production is one third that of the first half of 2011. The level of energy reserves in basins operated by GAS NATURAL FENOSA was 43.3% full, close to the average over the past ten years and 46.6% at the end of the same period last year.

Nuclear production increased by 3% over the course of the year so far, and these aggregates have been affected by the deferral programmed production stoppages.

For GAS NATURAL FENOSA the Royal Decree on Supply Guarantees has meant that the groups in Anllares, La Robla 2 and Narcea 3, which are subject to that Royal Decree, have been operating on a continuous basis. Production using coal totalled 3,916 GWh during the six-month period, compared with 1,305 GWh during the same period in 2011. Of this higher production, 1,238 GWh relate to Meirama, which was hardly in operation during the first half of last year.

The oil-fired plants were not operational during the period.

Electricity production using combined cycle plants during the first half of 2012 totalled 10,554 GWh, 14.3% less than the same period in 2011, although this figure is affected by the sale of the Arrubal and Plana de Vent plants and, accordingly, in uniform terms the decline would be 9.2%.

GAS NATURAL FENOSA attained a 20.7% share of the ordinary regime power generation market in the first half of 2012, 0.4 percentage points less than in the same period of 2011; however, these aggregates were affected by divestments of the Arrúbal and Plana de Vent CCGTs mentioned above.

The electricity supply area sold 17,944 GWh in the first half of 2012, including supply to the liberalised market and under the last-resort tariff. The reduction in the electricity supply portfolio is in line with the Company's strategy of maximising margins, optimising market share, and hedging against price variations in the electricity market.

During the first half of 2012, consolidated CO_2 emissions from coal and combined cycle plants operated by GAS NATURAL FENOSA, and affected by the legislation that governs greenhouse gas emission right trading was 7.5 million tonnes of CO_2. GAS NATURAL FENOSA manages its post-Kyoto CO_2 emissions right portfolio for 2008-2012 on an integral basis, acquiring the rights and credits that are necessary through active participation in the secondary market and in primary projects and carbon funds.

Under its commitments, during April 2012 GAS NATURAL FENOSA supplied the Spanish National Register of Greenhouse Gas Emission Rights (RENADE) with the rights equivalent to the CO_2 emissions certified at its conventional thermal and CCGT plants in 2011, a total of 12.8 million tonnes of CO_2, including emission rights from Clean Development and Joint Implementation mechanisms.

At 30 June 2012 GAS NATURAL FENOSA has a total consolidated installed operating capacity of 1,093 MW, of which 953 MW is from wind technology, 69 MW from mini-hydroelectric plants and 67 MW from co-generation.

Production was 11.1% higher than in 2011 (1,388 GWh vs 1,249 GWh). This change in production is mainly due to the fact that during the first few months of 2012 there is little water available and production by mini-hydroelectric plants fell by 20.6%. Conversely, wind energy production grew by 17.7% and co-generation rose by 9.5%. EBITDA increased by 15.7% to Euros 81 million.

During this half of the year the Company has filed, within the deadlines established by the competent authorities, applications for administrative authorisation and approval of the execution project for the wind farms awarded to GAS NATURAL FENOSA in the past wind energy tenders that took place in Andalusia and Extremadura.

Advances continue to be made with respect to the rest of the projects in Spain, including work relating to the awarding of tenders for wind energy projects in the Canary Islands, Catalonia, Galicia and Aragon. In addition, the Company has continued with all the work necessary to develop the rest of the projects involving various technologies that are not related to the wind energy tenders.

Finally, the construction work for the mini-hydroelectric plants Belesar II and Peares II in Galicia continues, as well as the co-generation plant J. García Carrión in Castilla-La Mancha

Electricity in Latin America

This includes generation assets in Mexico, Puerto Rico, Panama and the Dominican Republic.

Results

	2012	2011	%
Net Sales	399	442	(9.7)
Purchases	(233)	(285)	(18.2)
Personnel costs, net	(8)	(8)	-
Other expense/ income	(33)	(25)	32.0
EBITDA	**125**	**124**	**0.8**
Depreciation and amortization	(53)	(46)	15.2
Change in operating provisions	-	(1)	-
Operating income	**72**	**77**	**(6.5)**

The EBITDA totals Euros 125 million, with a 0.8% increase in activity compared with the same period last year.

In Mexico, the EBITDA is 5.7% lower compared with 2011, despite the lower selling prices for gas and the higher costs deriving from the incident at the Tuxpan plant, which took place in October 2011 during maintenance work at Block 3 at the plant. The replacement plan that was activated allowed the recovery of 100% of the plant's capacity during the first fifteen days of February 2012.

The EBITDA of Puerto Rico declined by 8.6% in local currency due to the acquisition of LNG supplies on the spot market. The purchase of this shipment made the cost of fuel more expensive compared with the same period last year.

Main Aggregates

The main aggregates relating to this activity are as follows:

	2012	2011	%
Installed capacity (MW):	2,529	2,520	0.4
Mexico (CCGT)	2,035	2,035	-
Puerto Rico (CCGT)	263	254	3.5
Panama (hydroelectric)	22	22	-
Panama (oil-fired)	11	11	-
Dominican Republic (oil-fired)	198	198	-
Electricity generated (GWh):	8,847	9,167	(3.5)
Mexico (CCGT)	7,463	7,744	(3.6)
Puerto Rico (CCGT)	811	800	1.4
Panama (hydroelectric)	43	42	2.4

Panama (oil-fired)	9	8	12.5
Dominican Republic (oil-fired)	521	573	(9.1)

Output in Mexico declined due to the decline in functioning of the Tuxpan plant as a result of the incident in October 2011, which impeded it from operating at 100%, as visible in the plant's availability. The diesel at the Hermosillo plant was unloaded and sold in June; a refill is scheduled for the third quarter of 2012, given that it is a dual-fuel power plant. On 8 June 2012, the Company signed an agreement with Grupo México to sell surplus power from the Naco Nogales plant (up to 50 MW). The effective execution is scheduled for the last quarter of the year.

Output in Panama increased by 4.0% with respect to the same period last year, due to greater dispatching of both thermal plants and hydroelectric plants required by the National Dispatch Centre (CND) as a result of more frequent rainfall.

Production in Puerto Rico increased by 1.4% as a result of the higher dispatches by *Puerto Rico Electric Power Authority* (PREPA). It continues on the rising trend that gave rise to an increase of the dispatches from the plant in excess of the contracted values as a result of the low availability of PREPA's generation system and the optimisation of its economic dispatching. During the first half of 2012 the programmed major review or the plant took place, after the last one in December 2010.

Production in the Dominican Republic is lower due to the outflow of fewer resources than last year and the lower position held by the plants on the merit-based dispatch list compared with the positions held in 2011.

Electricity other (Kenya)

This area refers to power generation in Kenya. The dominant weather conditions in the area (greater precipitation) in the first half of 2012 led to a decline in the use of thermal power plants, which reduced electricity output.

Results

	2012	2011	%
Net sales	65	61	6.6
Purchases	(52)	(50)	4.0
Personnel costs, net	(1)	(1)	-
Other expense/ income	(6)	(3)	100.0
EBITDA	**6**	**7**	**(14.3)**
Depreciation and amortization	(3)	(2)	50.0
Change in operating provisions	-	-	-
Operating income	**3**	**5**	**(40.0)**

EBITDA amounted to Euros 6 million in the first half of 2012. Although availability, the factor determining capacity revenues, was high (86.6%), the notable increase in world fuel prices during the first half of the year, together with the impact of scheduled and unscheduled maintenance shut-downs, led to a 14.3% decline in EBITDA with respect to the previous year.

Main Aggregates

The main aggregates relating to this activity are as follows:

	2012	2011	%
Electricgeneration capacity (MW).	112	112	-
Electric energy production generated (GWh):	322	382	(15.7)

Diesel-fired output in Kenya in the first half of 2012 (322 GWh) was 15.7% lower than in the first half of 2011. This decline is attributable to lower demand for thermal power in Kenya as a result of the greater precipitation in the period and, consequently, the higher level of water in the hydroelectric reservoirs.

Infrastructures

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

Results

	2012	2011	%
Net sales	153	139	10.1
Purchases	(29)	(27)	7.4
Personnel costs, net	(3)	(4)	(25.0)
Other expense/ income	(11)	(26)	(57.7)
EBITDA	**110**	**82**	**34.1**
Depreciation and amortization	(39)	(30)	30.0
Change in operating provisions	-	-	-
Operating income	**71**	**52**	**36.5**

Net sales in the infrastructure business totalled Euros 153 million in the half quarter, a 10.1% increase.

EBITDA in 2012 amounted to Euros 110 million, 34.1% more than in the same period last year, due mainly to the positive currency effect on international transportation in 2012 and to the larger volume transported by Gas pipeline. Moreover, revenues rose as a result of higher occupancy of the fleet and increased output.

Main Aggregates

The main aggregates in the international gas transportation activity are as follows:

	2012	2011	%
Gas transportation-EMPL (GWh):	66,203	62,972	5.1
Portugal-Morocco	20,319	18,741	8.4
GAS NATURAL FENOSA	45,884	44,231	3.7

The gas transportation activity conducted in Morocco through companies EMPL and Metragaz represented a total volume of 66,203 GWh, 5.1% more than in 2011. Of that figure, 45,884 GWh were transported for GAS NATURAL FENOSA through Sagane and 20,319 GWh for Portugal and Morocco.

In October 2011, EMPL signed a contract with Morocco's Office National de l'Electricité (ONE) to transport 0.6 bcm of gas per year, delivered by Sonatrach at the Algeria-Morocco border, to ONE's plants.

In the integrated project being developed in Angola by GAS NATURAL FENOSA (20%) with Repsol, since drilling in the first two wells gave positive results, a third well was drilled, also with positive results.

As part of the Villaviciosa concession in northern Spain, where GAS NATURAL FENOSA has a 70% stake, additional geological studies are being completed, so as to conclude the evaluation of its potential and determine the process going forward.

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

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 for the first of the five projects. On 14 November 2011, the Doñana Natural Space authorised the two projects in that area. Environmental paperwork for the remaining Marismas and Aznalcázar areas is in the final phase for obtaining the Environmental Impact Assessment. 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 its underground gas storage system on 2 April 2012.

As regards the Trieste-Zaule LNG regasification project in northern Italy, having secured the permit at national level via the Environmental Impact Assessment (VIA) Decree, and after commencing a round of contacts at the end of 2011, GAS NATURAL FENOSA is awaiting the Single Authorisation from the regional government to commence construction; that authorisation is expected in the second half of 2012.

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, and boost regional and local economic growth.

The Italian Environmental Ministry has shelved GAS NATURAL FENOSA's application for the Taranto regasification terminal.

Supply and commercialisation

This area includes gas procurement and supply (wholesale and retail) in Spain and other countries, the supply in Spain of products and services related to supply, and supply of gas at the last-resort tariff in Spain.

Results

	2012	2011	%
Net Sales	5,800	4,075	42.3
Purchases	(5,312)	(3,747)	41.8
Personnel costs, net	(26)	(23)	13.0
Other expense/ income	(99)	(99)	-
EBITDA	**363**	**206**	**76.2**
Depreciation and amortization	(7)	(7)	-
Change in operating provisions	(27)	(18)	50.0
Operating income	**329**	**181**	**81.8**

Net sales amounted to Euros 5,800 million, 42.3% more than in the first half of 2011. EBITDA increased by 76.2% to Euros 363 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):	173,406	153,410	13.0
Spain:	125,920	121,083	4.0
GAS NATURAL FENOSA supply[2]	94,376	87,970	7.3
Supply to third parties	31,544	33,113	(4.7)
International:	47,486	32,327	46.9
Europe	13,875	11,261	23.2
Other	33,611	21,066	59.6
Multiutility contracts (000) (at 30/06)	1,788,191	1,559,000	14.7

2 Does not include exchange transactions.

Contracts per customer (at 30/06)	1.38	1.30	6.2

In a situation of weak demand, the Company supplied 125,920 GWh in the Spanish gas market, a 4.5% increase with respect to the same period last year, primarily due to higher sales to final customers of GAS NATURAL FENOSA, which increased by 7.9%, while sales to third parties declined by 4.7%.

Gas sales outside Spain, which maintained the trend from the first quarter, amounted to 47,486 GWh,. 44.5% more than in the first half of 2011.

GAS NATURAL FENOSA participated in several auctions (last resort tariff, gas for operation and buffer storage), and was awarded 1,642 GWh, i.e. 25% of the total.

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 2,438 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 11.9 TWh per year.

The French subsidiary obtained 254 customers in Belgium and Luxembourg, representing a contracted portfolio of 4.1 TWh per year,. twice as much as in the previous quarter. The office in the Netherlands continues to grow and add new customers in 2012. The Company also obtained its first customer in Germany, after opening an office there in January.

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 amounting to 3,403 GWh/year in the Italian wholesale market in the first half 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 10.4 million active retail gas, electricity and services contracts. At the end of the quarter, more than one 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 1.79 million contracts with its own operating platform consisting of 168 associated firms connected via an online system, which has enabled it to improve service performance and quality.

GAS NATURAL FENOSA continues to add features and users to its online customer management system, and the website received 7.3 million hits in the second quarter of 2012. Over 370,000 customers now receive their bill online.

The Company continues to take steps to develop energy options for vehicles in Spain, in both the public and private sectors. It is an expert in automotive natural gas, a business which it already conducts in several Latin American countries and Italy, where automotive natural gas is widely used.

GAS NATURAL FENOSA undertakes end-to-end management of the process, from construction of service stations (capital cost and subsequent operation and maintenance) to the supply of compressed natural gas, thereby ensuring maximum availability of the facilities. It has 24 service stations selling 685 GWh/year; it also has plans to add 10 new stations in 2012, which represent potential additional consumption of 220 GWh/year.

Of the new stations to be added this year, 40% will supply compressed natural gas and liquefied natural gas, making this fuel more viable for long-distance routes both inside Spain and internationally.

GAS NATURAL FENOSA is also working on actions to foster energy efficiency and the rational use of energy in the field of transport. As part of the electric mobility framework, the Company is developing several lines of work and pilot projects, including the following:

- Urban infrastructure network for recharging electric vehicles in A Coruña (30 recharging stations in 7 different locations).
- Electromobility Pilot Project, with the Madrid city government, by which the municipal police force and traffic wardens will receive electric motorcycles for a two- year period.

GAS NATURAL FENOSA won a Euros 45 million contract to provide energy supply and maintenance services in the energy efficiency tender organised by the Santiago de Compostela University Hospital Complex, which will require 21 GWh of gas and 37 GWh of electricity per year.

Unión Fenosa Gas

This area includes gas procurement and supply performed by Unión Fenosa Gas, including the liquefaction plant in Damietta (Egypt), the Sagunto regasification plant, and the LNG tankers fleet.

Results

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

	2012	2011	%
Net sales	635	437	45.3
Purchases	(445)	(282)	57.8
Personnel costs, net	(6)	(6)	-
Other expense/ income	(11)	(13)	(15.4)
EBITDA	**173**	**136**	**27.2**
Depreciation and amortization	(77)	(76)	1.3
Change in operating provisions	-	-	-
Operating income	**96**	**60**	**60.0**

EBITDA amounted to Euros 173 million in the first six months of the year, i.e. 27.2% more than the same period in 2011. This increase was attributable mainly to seizing opportunities for LNG sales outside Spain, where UF Gas continued to operate actively. Other positive factors included an increase in sales in Spain together with the favourable energy market situation (primarily due to brent prices in previous months) and a stable contribution from infrastructure.

Main Aggregates

	2012	2011	%
Gas supply in Spain (GWh)	29,619	27,592	7.3
Gas Supply in International (GWh)	14,898	12,473	19.4
Liquefaction (GWh)	14,244	24,299	(41.4)
Regasification (GWh)	16,031	23,146	(30.7)

There was a 7.3% year-on-year increase in gas supply in Spain in the first half of 2012, to 29,619 GWh. Sales to electric utilities increased by 15.2% while sales to the industrial segment declined by 3.8%.

A total of 14,898 GWh of energy was traded in international transactions.

The main gas infrastructure (liquefaction, shipping and regasification) maintained levels of availability and efficiency in line with last year.

The Damietta (Egypt) liquefaction plant decreased production with respect to the same period last year, which was especially high due to the situation in the country at that time. Production in the period amounted to 14,244 GWh.

The Sagunto regasification plant produced 16,031 GWh, i.e. 19 shiploads, of which 6 were for Unión Fenosa Gas (57% of the total volume).

The Spanish Ministry for Industry and Trade issued a resolution at the beginning of the year to include the initial plant facilities (2006) in the remuneration regime. An upward revision of the initial plant's regulatory asset base is under consideration.

2. Risk factors associated with the activities carried out by GAS NATURAL FENOSA

a) Uncertainty in the macroeconomic environment

During the past few months, the economy and global financial system have endured significant turbulence and uncertainty, particularly uncertainty in financial markets since August 2007 and worsening substantially since September 2008. This uncertainty severely impacted general liquidity levels, the availability of credit and the terms and conditions for such credit, which has contributed to an increase in the financial burden of households and industrial customers of GAS NATURAL FENOSA, and a reduction in their capacity to make purchases and in demand.

GAS NATURAL FENOSA cannot predict the trends of economic cycles over coming years or whether or not the current recession will worsen with respect to the global economic cycle.

b) Development of the business strategy

Given the risks to which it is exposed and the uncertainties inherent to its business GAS NATURAL FENOSA cannot guarantee that it will successfully implement its business strategy. The scope and compliance of its strategic objectives are subject to the following, among other risk factors:

- The absence of any increase in the number of supply points in Europe and Latin America, given the fact that GAS NATURAL FENOSA cannot increase the distribution network.
- The failure to increase the number of customers due to the lack of success of the marketing campaigns intended to recruit customers in the deregulated market.
- The activation of take or pay clauses in supply contracts, which would give rise to an obligation to make payment for a higher volume of gas than needed by GAS NATURAL FENOSA.
- The absence of success in the consolidation of the electricity generation business in Spain, conditioned by the incentives provided to subsidised technologies.
- 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 required to comply with the legislation applicable to the natural gas and electricity sectors. In particular, the gas and electricity distribution businesses are regulated in most of the countries in which GAS NATURAL FENOSA carries out activities.

The legislation applicable to the natural gas and electricity sectors in the countries in which GAS NATURAL FENOSA operates is typically reviewed regularly by the competent authorities. The introduction of the aforementioned amendments may affect the current compensation for regulated activities, adversely affecting the business, profits, subsidies and the financial situation of GAS NATURAL FENOSA.

In the event that the public or private bodies may interpret or apply this legislation in a manner different than GAS NATURAL FENOSA, compliance could be questioned or appealed and, if any failure to comply is proven, there could be a material adverse effect on the business, outlook, profits, subsidies and financial situation of GAS NATURAL FENOSA.

d) Operational risk

The activities of GAS NATURAL FENOSA are exposed to various operating risks, such as breakdowns in the distribution network, the electricity generation facilities and the gas ships, explosions, polluting emissions, toxic spills, fires, adverse meteorological conditions or accidents affecting the gas distribution or electricity generation assets, as well as other damages and force majeur that could result in personal and/or material injury/damages, the deterioration of the installations or property of GAS NATURAL FENOSA, or their destruction. Events such as these, or others of a similar nature, are unpredictable and may interrupt the supply of gas and the generation of electricity. In these types of situation, despite having appropriate insurance coverage against risks, such as insurance against potential business losses and material damages, the financial situation and results of GAS NATURAL FENOSA may be affected to the extent that the losses that arise are not insured, the coverage is insufficient or financial losses are incurred as a result of coverage limitations or the upward evolution of deductibles, as well as due to potential increases in the premiums paid to the insurance market.

It should also be noted that GAS NATURAL FENOSA may be liable to civil liability claims for personal injury and/or material damages caused during the ordinary course of its business. The filing of such claims could lead to the payment of indemnities in accordance with applicable legislation in those countries in which GAS NATURAL FENOSA operates, which could lead to an adverse material effect on the business, outlook, financial situation and results, to the extent that the civil liability insurance policies contracted do not cover the amount of any such indemnities.

e) Price risk for gas and electricity

GAS NATURAL FENOSA is exposed to changes in crude, natural gas and electricity prices.

A significant part of the operating expenses of GAS NATURAL FENOSA is associated with the purchase of natural gas and liquefied natural gas (LNG) for sale in the free market and the supply of regulated markets. Similarly, its combined cycle plants use gas natural gas as a fuel.

Although the prices that GAS NATURAL FENOSA applies to the sale of gas to customers are generally market prices, in very volatile environments, the fluctuations in selling prices may not proportionally reflect the fluctuations in the cost of raw materials. In addition to the costs associated with the gas business, the increases in natural gas prices could lead to an increase in the cost of electricity generation, given that the combined cycle plants owned by GAS NATURAL FENOSA use natural gas as a fuel.

The business carried out by GAS NATURAL FENOSA includes, among other activities, the wholesale commerce of natural gas to electricity generators and other customers. The revenues and results of GAS NATURAL FENOSA usually depends, to a large degree, on the market prices in force in the regional markets in which it operates and other competitive markets. As a result, the wholesale commerce of natural gas is exposed to the risk of raw material price fluctuation risk and the price of electricity.

Changes in the price of raw materials could adversely affect the results of GAS NATURAL FENOSA, to the extent that the increase in generation costs are not recovered through the selling price of the generated electricity or, in general, the gas area does not attain a degree of efficiency in the management of the commercial portfolio that allows recovery through the marketing of oscillations in the energy scenario.

f) Gas volume risk

Most of the purchases of natural gas and liquefies natural gas (LNG) are covered by long-term contracts that include clauses under which GAS NATURAL FENOSA has the obligation to purchase certain volumes of gas each year (known as "take or pay" clauses). In accordance with those contracts, despite the fact that GAS NATURAL FENOSA does not need to acquire the promised volume of gas at any set moment, it is contractually obliged to make payment of the minimum promised amount in accordance with the "take or pay" clauses.

These contracts are for volumes of gas that are in line with the estimated needs of GAS NATURAL FENOSA. However, actual needs may be less that foreseen at the time the contracts were concluded. Should there be significant variances in these estimates, GAS NATURAL FENOSA would be required to acquire more volume of gas than it effectively needs or to pay for the minimum amount of gas promised, regardless of whether or not it acquires the excess amount over its needs, which could adversely and significantly affect the operating costs incurred by GAS NATURAL FENOSA.

g) Environmental requirements

The activities carried out by GAS NATURAL FENOSA are subject to compliance with extensive environmental protection legislation.

GAS NATURAL FENOSA and its subsidiaries are required to strictly comply with extensive environmental protection legislation which demands, among other things, the preparation of environmental impact evaluation studies, the issue of appropriate authorisations, licences and permits and compliance with certain other requirements.

Among others:

- The environmental authorisations and licences may not be granted or may be revoked due to any failure to comply with the established conditions.
- The regulatory framework, or its interpretation by the authorities may be modified or changed, which could give rise to an increase in the costs or deadlines to comply with the new regulatory framework.

h) Interest rate and exchange rate cover:

Variations in interest rates modify the fair value of those assets and liabilities which accrue interest at a fixed rate, and the future flows from assets and liabilities linked to a variable interest rate.

GAS NATURAL FENOSA is exposed to risks associated with changes in foreign currency exchange rates. These changes may affect, among other things, the debts carried by GAS NATURAL FENOSA that are denominated in a currency other than the euro, the transactions that GAS NATURAL FENOSA carries out in other currencies that generate revenues denominated in other currencies, as well as the value of cash flows associated with purchases of raw materials denominated in currencies other than the euro. Fluctuations in the exchange rate between the euro and the US dollar, the currency in which gas purchases made by GAS NATURAL FENOSA are denominated or indexed, may also affect results and the financial situation of GAS NATURAL FENOSA.

Despite the fact that GAS NATURAL FENOSA applies pro-active policies with respect to the aforementioned risks in order to minimise their effect on results, in some cases these policies may not be effective to mitigate the adverse effects inherent to the fluctuations in interest and exchange rates, which could adversely and materially affect the results and financial situation of GAS NATURAL FENOSA.

i) Impact of meteorological conditions

Demand for electricity and natural gas is linked with the weather. A significant part of gas consumption during the winter months depends on the production of electricity and its use as heating, while during the summer months consumption depends on the production of electricity for use by air conditioning, fundamentally. The revenues and results of GAS NATURAL FENOSA deriving from the distribution and marketing of natural gas could be adversely affected if autumns are mild or winters are warmer. Similarly, the demand for electricity could decline if summers are cooler due to lower demand for air conditioning. The occupancy of the hydroelectric plans depends on rain volume at the plant's location and they could be affected in times of drought.

j) Development of activities in the electricity sector

The new projects carried out by GAS NATURAL FENOSA in the electricity sector are subject to various factors that go beyond the control of GAS NATURAL FENOSA, such as:

- Increases in the cost of generation, including increases in fuel prices.
- Loss of competitiveness against other technologies, due to the relative increase of the cost of using natural gas for generation purposes.

- A possible decline in the electricity consumption growth rate due to several factors, such as economic conditions or the implementation of energy savings programmes.
- Risks inherent to the operation and maintenance of generation plants.
- The growing volatility of prices caused by the deregulation of the sector and changes in the market.
- A situation of generation over-capacity in the markets in which GAS NATURAL FENOSA owns, or owns a stake in, generation plants.
- The appearance of alternative energy sources due to new technologies and the growing interest in renewable energies and co-generation.

k) Exposure in Latin America

A significant part of the operating results obtained by GAS NATURAL FENOSA is obtained by its Latin American subsidiaries. Operations in Latin America are exposed to different risks inherent to investing in the region. Among the risk factors associated with investments and doing business in Latin America are the following:

- Significant influence in the economy by local governments.
- Significant fluctuations in economic growth rates.
- High inflation rates.
- Devaluation, depreciation or over-valuation of local currencies.
- Controls or restrictions relating to the repatriation of profits.
- Rising interest rates.
- Changes in financial, economic or tax policies.
- Unexpected changes in regulatory frameworks.
- Social tensions
- Political and macroeconomic instability.

GAS NATURAL FENOSA cannot predict the manner in which any future downgrade in the political or economic situation in Latin America would affect the Company, or any other change in legislation or regulations in the countries in which it operates.

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