Annual Report
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gasNatural


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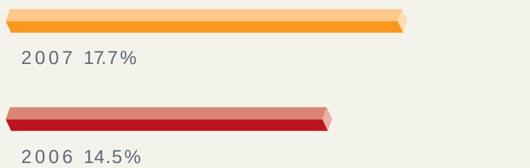
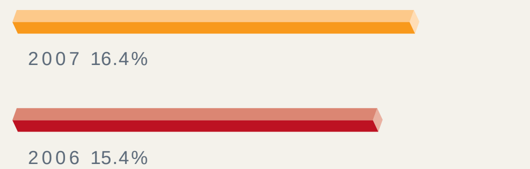
Basic Figures

ROACE ([1])



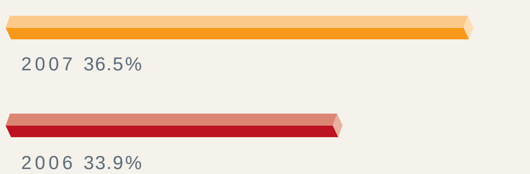
([1]) Operating profit/Average working capital (Net fixed tangible and intangible asset-deferred income linked to de fixed assets+Other fixed assets+Goodwill+Non-financial working capital).

ROE ([2])



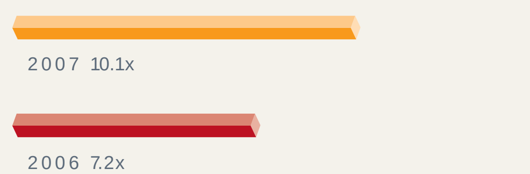
([2]) Profits after tax/Average net worth.

Debts ([3])

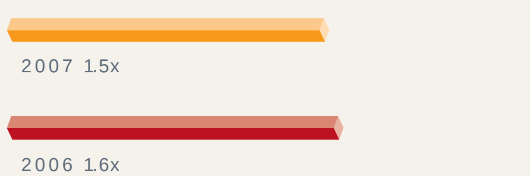


([3]) Net financial debt/Net financial debt+Net worth.

Ebitda/Net financial results

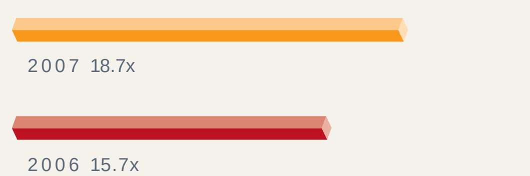


Net debt/Ebitda ([4])



([4]) Net financial debt has been adjusted by decreasing the debt incurred with the acquisition of assets in Mexico on 31 December 2007.

P/E



Operation

	2007	2006	%
Gas supply (GWh)	292,730	294,451	(0.6)
Gas transportation/EMPL (GWh)	124,150	129,499	(4.1)
Gas supply points (in thousands)	11,115	10,662	4.2
Gas distribution network (km)	109,759	104,528	5.0
Electricity generated (GWh)	18,700	19,514	(4.2)
Contracts per customer in Spain	1.37	1.43	(4.2)

Personnel

	2007	2006	%
No. of employees	6,699	6,686	0.2

Financial (in millions of euros)

	2007	2006	%
Net turnover	10,093.0	10,348.3	(2.5)
Gross operating profit (Ebitda)	2,276.6	1,912.4	19.0
Operating profit	1,567.0	1,263.1	24.1
Total investments	2,323.0	1,163.9	99.6
Profit attributable to the Group	959.4	854.5	12.3

Stock information (euros/share)

	2007	2006	%
Share prices as at 31 December	40.02	29.99	33.4
Book value	14.35	13.39	7.2
Profit	2.14	1.91	12.3
Dividend	1.14	0.98	16.3

Dear Shareholders,

We are pleased to present you with the excellent results that our Group has achieved. The figures corresponding to 2007 have followed the strong and sustained growth trend that has characterised the performance of the Gas Natural Group in recent years. We have, once more, obtained record results owing to the efficient management in the various businesses and activity areas.

The inauguration of our new headquarters by their Majesties the King and Queen of Spain on 24 January 2008 represented the beginning of a new phase. Four days later, the Company celebrated its 165th anniversary. These are two important milestones in the history of the Company, which has always been involved in the development of the gas industry and the entire Spanish energy sector. A history characterised by working for the progress and well-being of all of our customers in Spain, Europe and Latin America.

During the month of November, we presented our 2008-2012 Strategic Plan to foster the efficiency and profitability growth targets we have set. With net investments within the region of 12 billion euros, its objectives are to position the Gas Natural Group as world leader in gas distribution, world leader in efficiency within the Iberian Peninsula and Latin America, the third largest private utility in the Iberian Peninsula, and one of the leading international liquefied natural gas and combined cycle operators.

Accordingly, we will act through four basic axes: consolidating the Group's current position in Spain, Italy and Latin America; upstream & midstream vertical integration; exporting our business model to other markets in the Atlantic and Mediterranean basin; and placing continued emphasis on efficiency.

As you may see, we seek to continue growing and providing value to our shareholders. The excellent results obtained in 2007 attest the strength of our progress towards our 2012 goals.

Net profits reached 959 million euros with a rise of 12.3% against the 2006 figures. Gross operating profit (Ebidta), at 2,277 million euros, rose 19% compared to the previous year, and tangible investments amounted to 1,148 million euros, 8.6% up on 2006. The figure for gas distribution customers exceeded 11.1 million and the network length reached approximately 110,000 km.

These figures are truly important, as, in addition to reaffirming the Group's business model and its commitment to its shareholders, they enable an increase in the dividend by 16.3% and of between 52% and 55% in the pay-out.

To round off this brief summary of the 2007 results, I wish to highlight that this year saw the most important asset purchase in the history of the Company, through which we entered the electricity business in Mexico.

Through the acquisition of five combined-cycle power plants and a gas pipeline, our Group has a total installed power of 2.233 MW and has converted into the largest private energy operator and the only integrated gas and electricity operator in Mexico. This proves, once again, both the strength of our investments in the Mexican energy sector and our commitment to expand in Latin America.

Dear Shareholders, the results we present you today are a fruit of the professionalism and the spirit of accomplishment of our people, who, once more, I would like to thank for their efforts, dedication and great capacity to adapt to the changing landscape of the energy sector.

The strong trajectory of our Company is the best encouragement to help us achieve our targets for growth, as well as our best guide to further progress towards meeting our goals for efficiency, continuous improvement, corporative responsibility and sustainable development.

Salvador Gabarró Serra
Charmain of the Board of Directors

Most Significant Events

First Quarter

- The Gas Natural Foundation and the Generalitat Valenciana Regional Government presented educational material, of an informative and didactic nature, on "Air Quality in the Valencian Community", describing the factors causing air pollution and its effects.

- The Gas Natural Group began the construction works for the San Javier-Balsicas-Torre Pacheco-Roldán-Murcia interconnection, an important infrastructure made up of a 47.3 km interconnection and around 240 km of distribution network.

- In the Corporate Reputation Forum, the Company presented its participation in the communications campaign entitled "2015: A Better World for Joana", which promotes the eight Millennium Development Goals established by the UN to improve the global quality of life by 2015.

- Gas Natural Andalucía and the Lucena Town Council (Cordoba) signed two collaboration agreements whereby the Company will supply natural gas to over 175 new council houses which Suelo y Vivienda de Lucena, S.A. shall build in various areas within this municipality.

- Gas Natural Castilla y León began supply to the Fuentes de Valdepero municipality in Palencia.

- Gas Natural Cegas and the Generalitat Valenciana signed an agreement to foster the dissemination of the subsidies available for the refurbishment of buildings and homes in the region.

- Gas Navarra and the Arbizu Town Council (Navarre) signed a collaboration agreement to supply the municipality with natural gas and cooperate in adapting the installations of the municipal centres for natural gas consumption.

- Gas Natural Cegas began its supply in Guadassuar (Valencia).

- Gas Galicia signed a collaboration agreement with the Meniños Foundation whereby the gas company will contribute 5,000 euros to support the activities which this NGO carries out with children and young people facing social difficulties.

- For yet another year, the Gas Natural Group appeared as one of the 50 companies most preferred by university students for carrying out their career, according to the annual study by the Know How Foundation for students' career preferences.

- The Gas Natural Foundation, the Department of the Environment and Territorial Planning of the Community of Madrid, and the Professional Association of Building Administrators of Madrid organised a seminar on environmental management entitled "Energy Efficiency in Buildings: a Guide for Building Administrators" during which the "Guide to Energy Efficiency for Building Administrators" was presented.

- Gas Natural Soluciones and the Berriozar Town Council (Navarre) signed an agreement to make efficient use of energy at the municipal facilities.

- The Managing Director of Retailing of the Gas Natural Group, Josep Moragas, and the Director-General of Consumer Affairs of Castilla-La Mancha, Jesús Montalvo, signed the adhesion agreement of Gas Natural Servicios to the Consumer Arbitration Board of Castilla-La Mancha, making the Company the first major services company to join the Consumption Arbitration Board of this autonomous region.

- For the second successive year, Gas Natural Coruña sponsored a concert by the Galicia Symphony Youth Orchestra, an educational project of the Galicia Symphony Orchestra, whose primary goal is to integrate young musicians into the professional world.

- The Gas Natural Foundation presented the study entitled "Quality of Air, Health and Road Traffic", as part of a seminar organised by the Group in partnership with the Generalitat of Catalonia Regional Government and Barcelona City Council, to discuss various proposals geared towards reducing city pollution caused by traffic.

- Gas Natural Cegas presented the gasification project for the Corea district in the town of Gandia (Valencia).

- The General Manager of Gas Natural Cegas, Enric Argelich, presented the forthcoming supply of natural gas to the municipality of El Campello (Alicante).

- Gas Natural SDG signed a collaboration agreement with the Campllong Town Council to supply natural gas to the Les Ferreries industrial estate, within this municipality in Girona, and subsequently to the rest of the municipality.

- In Santander, the Gas Natural Foundation and the Government of Cantabria organised a seminar entitled "Climate Change: the Response of Cantabria", with the aim of promoting the initiatives proposed in the Kyoto Protocol.

- The Gas Natural Group, the Company's Customer Service Guarantee Office and Catalonia Consumers Association (OCUC) signed an agreement to develop amicable mediation mechanisms for claims and the protection of the Company's energy services customers.

- The Gas Natural Group launched gnSolar, a new line of business to foster the joint use of solar energy and natural gas in residential buildings and in the tertiary sector. This shall include assessing developers and constructors for the installation of solar panels, and a maintenance service for these facilities.

- Gas Natural Servicios signed an agreement with the Department of Finance of the Government of Cantabria for the Company's adhesion to the Consumption Arbitration Board of this autonomous region.

- The Gas Natural Group presented the start-up of sales activities in the town of Algeciras (Cadiz).

- The Gas Natural Group synchronised the first of the two 400 MW generation units in its La Plana del Vent plant (Tarragona) to the national electricity grid.

- Representatives of Gas Natural Cegas and Gas Natural Comercial in Valencia South presented the advantages of natural gas to the residents of Guadassuar (Valencia), following the arrival of natural gas in this town.

- Gas Natural Andalucía started to operate in Antequera (Malaga).

- The Gas Natural Group presented the gasification project in the municipality of Gelsa (Zaragoza).

- Gas Natural Cegas began its supply in the municipality of Cabanes (Castellon).

- The Chairman of the Gas Natural Group, Salvador Gabarró, and the Head of Government of Mexico City, Marcelo Ebrard, officially opened the new natural gas supply system for the tarmac

production plant in Coyoacán (Mexico City) where the Company has invested 9.6 million pesos (approx. 700,000 euros).

- In Madrid, the Gas Natural Foundation presented "Thermal Solar Energy and Natural Gas in the Community of Madrid" as part of the seminar organised by the Foundation, in partnership with the Department of Economy and Technological Innovation of the Community of Madrid.

- Gas Natural Andalucía began its supply in the municipality of Vélez-Málaga (Malaga).

- The UN registered the Gas Natural Group's new Clean Development Mechanism (CDM), which will prevent the emission of over 115,000 tonnes of CO_2 over the next ten years in a plant in Brazil.

- In Santiago de Compostela (A Coruña), the Gas Natural Foundation and the Xunta de Galicia Regional Government officially opened a seminar on the environmental impacts of the use of goods and services.

Second Quarter

- In Guadalajara, the Gas Natural Foundation and the Junta of Communities Castilla-La Mancha organised a seminar entitled "People Face to Face with the Environment: Responsibilities and Action", in which qualified experts offered advice on improving the environment in different contexts such as the home, the supermarket, transport, work or free time.

- The Gas Natural Group took part in the "Madrid is Science" fair, promoted by the Department of Education of the Community of Madrid, which in this year was being held for the eighth time, with the title of "A Place for Science and Technology".

- The Gas Natural Group and Televisió de Catalunya TV3, celebrated the 15th anniversary of the programme "The Environment", which it broadcasts at midday continuously since 1992. The Company has sponsored this programme since its inception.

- The General Manager of Gas Natural Cegas, Enric Argelich, the General Manager for Energy of the Generalitat Valenciana, Antonio Cejalvo, and the Mayor of Casinos (Valencia), José Salvador Murgui, officially opened the Llíria-Casinos-Villar del Arzobispo gas pipeline.

- In Navarre, the Gas Natural Foundation organised the seminar entitled "Climate Change: the Response of Navarre". In this seminar, the Autonomous Region of Navarre presented its experiences to contribute to the reduction of greenhouse gases and to comply with the Kyoto Protocol, as well as the latest techniques available in the industrial, agricultural, forestry and transport sectors.

- Gas Galicia began supplying the town of Sanxenxo (Pontevedra).

- The Gas Natural Foundation officially opened the "Energy Monitor" in the Housing Information Office of the Community of Madrid. This is a panel which shows the building's energy and water consumption, in real time, comparing with historical consumptions, and which records outside and inside temperatures.

- Gas Natural Soluciones and the Campo de Criptana Town Council (Ciudad Real) signed a collaboration agreement that includes the commitment to make efficient use of energy at the municipal facilities.

• Gas Natural Rioja and the Official Institute of Estate Managers of La Rioja signed and agreement to sponsor the 12th National Forum of Young Estate Managers.

• The Gas Natural Foundation and the Balearic Government signed a collaboration agreement to promote energy efficiency and rational energy use, as part of the seminar entitled "Natural Gas in the Balearic Islands: a New Energy" held in Majorca.

• In Santander, the Gas Natural Group sponsored the Leipzig Opera Ballet in Haydn's "The Creation", as part of the activities programmed in the "Cantabria 2006. Liébana, Land of Jubilation" campaign, organised as part of the Liébana Holy Year celebrations.

• The Gas Natural Foundation organised an environmental management seminar in Valencia in which it presented the book entitled "Information and Communications Technologies and the Environment" which analyses the contributions made by IT to society to reducing environmental impacts.

• Gas Natural Cantabria, the Government of Cantabria and Suelo Industrial de Cantabria, S.L. (SICAN) signed an agreement to supply natural gas to companies in the Alto Asón (Ramales de la Victoria) and Besaya (Reocín) industrial estates.

• Gas Natural SDG and the Artesa de Segre Town Council signed an agreement allowing natural gas to be supplied to this municipality in Lleida.

• Suez notified the Gas Natural Group that it had increased its shareholding by 5.9%. This shareholding is in addition to the 0.4% which it already owns directly, and the 5% through HISUSA, a company in which Suez has a 51% stake and "la Caixa" a 49% stake.

• The Chairman of the Gas Natural Group, Salvador Gabarró, chaired the General Meeting of Shareholders for the 2006 year, in which the Company presented historical results and announced that it was preparing a new Strategic Plan.

• Over the next three years, the Gas Natural Group will supply electricity to the Barcelona subway system, amounting to a total of 250 GWh/year, having been awarded the contract in the tender process called by Transports Metropolitans de Barcelona.

• The Gas Natural Group and Viessman, the solar panel manufacturer, signed a collaboration agreement to develop the use of thermal solar energy, using natural gas as a back-up energy, for producing hot domestic water in residential buildings.

• The Gas Natural Group, through Hc Energía, sold Energias de Portugal (EDP), the 9.39% shareholding it owned in Naturgas Energía, for 122 million euros.

• The CEO of the Gas Natural Group, Rafael Villaseca, the Mayor of Madrid, Alberto Ruiz-Gallardón, the Minister of Economics and Technological Innovation of the Community of Madrid, Fernando Merry del Val, the Councillor for Community Security and Services of Madrid City Council, Pedro Calvo, and representatives of General Motors España, S.L., Fiat Auto España, S.A., the Madrid Professional Taxi Association and the Madrid Professional Taxi Federation, signed a framework collaboration agreement which will make Madrid the first Spanish city to introduce natural gas in its taxi fleet.

• Gas Natural Cantabria started supply in the village of Casar de Periedo, which belongs to the municipality of Cabezón de la Sal.

• Gas Natural Andalucía began its activity in Utrera (Seville).

• The Gas Natural Group signed an agreement with the City Council of Barcelona and the Polytechnic University of Catalonia with the purpose of promoting a study to establish the appropriate measures to guarantee accessibility to areas where works are carried out for installing or maintaining services, thereby improving the mobility of collectives with most difficulties and the public in general.

• The Gas Natural Group signed a contract with the Puerto Rico Electric Power Authority (PREPA) to provide regasification services for the supply of gas to the Aguirre combined-cycle electrical plant, with approx. 600 MW power.

• The Gas Natural Group and Schüco International KG, the solar system supplier, signed a collaboration agreement to promote the development of thermal solar energy, using natural gas as a back-up energy, for producing hot domestic water in residential buildings.

• In the Valencian Community, the Gas Natural Group officially opened the La Jana-Vinaroz-Benicarló gas pipeline, a new infrastructure over 40 km long.

• The Gas Natural Foundation organised the environmental management seminar entitled "Urban Planning and Energy Infrastructures", as part of the Madrid Real-Estate Exhibition.

• In Morocco, the Gas Natural Foundation, in conjunction with the Gas Natural Group's Moroccan subsidiary, Metragaz, and the Moroccan Secretary of State of the Family, Childhood and the Disabled, held the seminar entitled "Psycho-Pedagogical Care of Autistic Children", geared towards teachers specialised in autism of the Ministry of National Education of Morocco.

- The Gas Natural Foundation signed an agreement with the University of Barcelona to cooperate in organising the "Responses to Climate Change" course, as part of the Els Juliols summer school in this teaching centre.

- The Gas Natural Group and the Taxi Drivers' Cooperative in Valencia signed an agreement to install a natural gas supply point for vehicles in the service station managed by this cooperative in Valencia capital. This "gn auto" station will be the first public station to operate in Spain.

- Gas Galicia and the Department of Innovation and Industry of the Xunta de Galicia signed a collaboration agreement to develop phase four of the Galicia gasification plan, in which the Company will invest 19 million euros to supply gas to 25 new municipalities in Galicia.

- The Gas Natural Group together with the Community and City Council of Madrid presented a campaign to replace the central coal boilers still used by over 1,300 neighbours' communities throughout the Madrid region. The campaign will last until 2010.

- For the fifth year running, the Gas Natural Group's 2006 Corporate Responsibility Report was awarded the highest rating possible in the Global Reporting Initiative (GRI). The GRI is a prestigious European association, which sets out in an annual guide, internationally recognised criteria for producing this type of report.

- The Gas Natural Foundation and the Pompeu Fabra University signed an agreement to present a monograph on the life and professional career of two generations of Catalonian entrepreneurs, Pere Gil Babot and his children, as forerunners of the gas industry in the Barcelona of the 19th century.

- The Gas Natural Group and General Motors Spain signed an agreement to jointly promote natural gas as a vehicle fuel in Spain.

- In Seville, the Gas Natural Foundation, in partnership with the Department of the Environment of the Junta of Andalusia Autonomous Government, organised a seminar entitled "Natural Gas in Transport Vehicles in Andalusia". In this seminar, the current situation regarding the use of this energy in the auto sector is analysed from the environmental standpoint and the manufacturer's economic and technical point of view, and from the point of view of users and the public manager, and also explains the solutions offered by natural gas.

- The Company's new headquarters in Barcelona was awarded the Quatrium Prize for Most Innovative Office Building, in the 7th Annual Real Estate Awards ceremony organised by the Vía publishing group, specialised in the construction, architecture and interior design sectors.

- The Gas Natural Group and APPLUS+ signed a collaboration agreement to certify the design, installation and operation processes of the solar facilities being promoted by Gas Natural, within the framework of its new gnSolar line of business.

- The Company launched the "Natural Commitment" online campaign, geared towards its major customers, to help towards reforesting Galician forests damaged by forest fires in summer 2006.

- Gas Natural Cegas and the Valencian Energy Agency signed an agreement to improve energy efficiency in the furnaces of the baking and confectionary sector of the Valencian Community.

- The Gas Natural Group signed a framework agreement with Sonagas, a subsidiary of the Angolan national oil company, Sonangol, to develop an integrated gas project in Angola, which boasts one of the highest potential gas reserves.

- The Gas Natural Group sponsored the fourth annual "Communications in Catalonia Report 2005-2006", published by the Communications Institute of the Autonomous University of Barcelona, and which provides an up-to-date description and a far-reaching and plural analysis of the communications sector in Catalonia.

- The Gas Natural Foundation and the Polytechnic University of Barcelona signed an agreement to carry out research on the development of gas technology from its inception up to the present day.

- Gas Natural Rioja and La Rioja Economic Development Agency signed a framework agreement to build natural gas distribution networks in the estates planned this agency Infraestructuras Industriales SRL in the La Rioja autonomous region.

- The Board of Directors of the Gas Natural Group approved the appointment by co-option, at the behest of Repsol YPF, of Demetrio Carceller and Enrique Locutura as new proprietary directors of the Company, following a favourable report by the Appointments and Remuneration Committee.

- Gas Natural ESP celebrates 20 years of activity. In honour of this, the Company organised a show at the National Museum in Bogotá attended by local and national authorities, business leaders and the Company executives.

- CEG and CEG Rio held an event to mark their tenth year under Gas Natural Group's management in Brazil and the closure of the manufactured gas factory

Third Quarter

- The Distribution Manager of the Gas Natural Group in Catalonia-Aragon-Balearic Islands, Ángel Larraga, and the Mayor of Sant Feliu de Guíxols (Girona), Pere Albó, signed an agreement whereby the Company sponsored the 45th International Festival La Porta Ferrada, the longest-standing and one of the most important festivals held in Catalonia.

- The Gas Natural Group started gas supply in the town of Esclanyà, within the municipality of Begur (Girona), in accordance with the network expansion plans set out for 2007.

- In Barcelona and Madrid, the Gas Natural Foundation presented the study entitled "Renewable Energies in Spain. Analysis and Perspectives", a report drawn up by the National Renewable Energies Centre, assessing the global importance of renewable energies in Spain.

- The Chairman of the Gas Natural Group, Salvador Gabarró, was awarded the medal of honour of the Barcelona Chamber of Commerce, in the silver category, for the services rendered to this institution over the 1998-2002 period, when he was a member of its Executive Committee.

- Gas Navarra presented the gasification project for the municipality of Aíbar, in which the Company will invest 400,000 euros to construct a 3 km-long distribution network from the Sanguesa-Cáseda gas pipeline.

- For the third successive year, Gas Galicia sponsored the 2007 Pontevedra International Jazz Festival, which has become a crucial event for jazz and blues, not only in Galicia but also in Spain.

- Gas Natural y León and the Carriegos Foundation signed a collaboration agreement whereby the Company will donate 6,000 euros to this Foundation to help in programmes for the rehabilitation of disabled individuals through equestrian therapy.

- The Gas Natural Group supported the acts for the celebration of the 15th anniversary of the official opening of the Barcelona'92 Olympic Games, installing a cauldron which kept the Olympic torch burning over several days.

- Gas Natural Cantabria presented the supply in Miengo, where the gas company will invest over 1.4 millions euros in supplying gas to the towns of Cuchía, Cudón, Miengo and Mogro.

- Gas Navarra presented the gasification project for the municipality of Artajona, in which the Company will invest 340,000 euros to construct a 3.5 km-long gas pipeline.

- The Gas Natural Group began the commercial operation of the two combined cycle sets at La Plana del Vent (Tarragona), having performed the mandatory trials stage prior to start-up.

- The Company secured the positive Environmental Impact Statement of the Ministry of the Environment to construct the Port of Barcelona 850 MW combined-cycle power plant, set out in its current Strategic Plan.

- Gas Natural Cantabria sponsored the staging of "La Sonnambula", by Vincenzo Bellini, which opened the opera programme of the 56th annual Santander International Festival. The Company thus sponsored this Festival for the eighth successive year.

- In Milan, the Gas Natural Group formalised the acquisition of Italmeco, the gas distribution and commercialisation group, which operates in four regions in central and southern Italy, for 32.2 million euros.

- The Gas Natural Group reached two million natural gas distribution customers in Catalonia, after adding around 45,000 new supply points in 2007.

- Gas Navarra presented the gasification project for the municipality of Arbizu, in which the Company will invest almost 250,000 euros to construct an access branch line and a 3.5 km-long distribution network.

- Representatives of Gas Natural Distribución in Aragon presented the gasification project in Fuentes de Ebro (Zaragoza).

- For the third consecutive year, the Gas Natural Group was included on the Dow Jones Sustainability World Index (DJSI World), which includes the 318 worldwide companies with the best corporate sustainability criteria. It also passed a new revision of the FTSE4Good sustainability indices series, in which the Company has been included continuously since 2001.

Fourth Quarter

- The Gas Natural Group and the Jerez de la Frontera Town Council (Cadiz) signed a collaboration agreement to promote the use of natural gas as an energy solution in the homes of this town.

- Company representatives presented the forthcoming arrival of natural gas to the municipality of Castellgalí (Barcelona).

- In Murcia, the Gas Natural Foundation organised an environmental management seminar entitled "Hydrogen as Energy Vector", during which experts in the application of this energy source highlighted, in particular, its relevance as transport fuel, thus reducing the environmental impact.

- The Gas Natural Group reported over five million customers in Latin America, where it is present through various distribution companies in Argentina, Brazil, Colombia and Mexico. The Company is consolidating its position in these countries with investments which came to 145.6 million euros in 2007, used primarily to expand distribution networks.

- The Group, in partnership with GRS Valtech, the energy management company belonging to the Veolia Group, was awarded the project to carry out biogas energy treatment and use in the Doña Juana Landfill, in Bogotá (Colombia), which is one of the largest landfill sites in Latin America, with two million tonnes of waste dumped annually.

- The Company reached 150,000 natural gas distribution customers in Cantabria.

- The Gas Natural Group received a special mention for Good Corporate Governance, awarded by the Spanish Association of Minority Shareholders in Listed Companies, for the Company's efforts in this field.

- The Gas Natural Foundation published a study entitled "The Role of Forests in Mitigating Climate Change", the purpose of which is to enhance knowledge regarding forests, taking into account their capacity to reduce the presence of CO_2, one of the greenhouse gases emitted to the atmosphere.

- Gas Galicia and the Pontevedra City Council agreed to expand the gasification network in the old historic centre. The distribution company will invest 70,000 euros in supplying natural gas to a further five streets in this old quarter.

- The Gas Natural Group sponsored the second annual FiraTaxi, the Taxi Fair held in Barcelona, where it presented its new "gn auto" line of business to the sector.

- The Gas Natural Group and Snam Rete Gas concluded an agreement by which the latter company will construct the connection gas pipelines of the two Trieste and Taranto regasification projects to the Italian national gas transportation network, once the procedure for the pertinent permits is completed.

- The Company signed the purchase agreement four combined cycle plants and a gas pipeline owned by EDF, and a fifth combined cycle owned by EDF and Mitsubishi, in Mexico.

- The Gas Natural Group signed an agreement with ENI, Exem, Galp and Sonagas (subsidiary of Sonangol) to set up an international consortium, in which it will have a 20% stake. The object of this consortium is the exploration, assessment, development and production of a set of gas fields in Angola, and represents an important step forwards towards achieving a future integrated gas project in Angola.

- The Chairman of the Gas Natural Group, Salvador Gabarró, and the President of ExpoAgua Zaragoza, Roque Gistau, signed the agreement whereby the Company adhered as a sponsor of the "Water for Life" International Exposition, to be held in Zaragoza in 2008.

- In Logroño, the Gas Natural Foundation organised a seminar entitled "Obtaining Energy from Waste", which analysed the potential for this type of process in Spain, and presented the new technologies available for converting waste into reusable energy.

- The Gas Natural Group began its gas supply in the municipality of Rivabellosa (Alava). The Company thereby moved into the domestic-commercial market in the Basque Country, where it had hitherto only supplied industrial customers.

- The Chairman of the Gas Natural Group, Salvador Gabarró, and the CEO, Rafael Villaseca, presented the 2008-2012 Strategic Plan, the primary aim of which is to make the company a leading international vertically integrated operator of natural gas and liquefied natural gas (LNG).

- The Gas Natural Group took part once again in the Barcelona, Meeting Point, Real Estate Exhibition, promoting the use of the solar-gas combination as an efficient and sustainable energy solution for new buildings.

- Company representatives presented the project for the gasification of the town of Artesa de Segre (Lleida).

- Gas Natural Cegas presented the gasification project for Gandia (Valencia).

- In Barcelona, the Gas Natural Foundation presented a study on how compressed natural gas (CNG) can help to reduce air pollution in Madrid and Barcelona.

- Gas Natural Castilla y León presented the gasification plans for the municipalities of Buniel and Villalbilla de Burgos.

- The Gas Natural Group and Localret signed a collaboration agreement to take advantage of works to install gas piping and telecommunications networks at the same time, in municipalities in Catalonia, and also to foster the implementation and connection of optic fibre cables.

- Gas Natural Cegas presented the residents of La Llosa with the project for the gasification of this municipality (Castellon).

- Gas Natural Andalucía began its supply in the municipality of Gelves (Seville).

- Gas Natural Castilla-La Mancha began its activity in Villarrobledo (Albacete).

- The Gas Natural Group and the Pozuelo Town Council (Madrid) signed an agreement to facilitate refuelling in the municipal facilities of the vehicles forming part of the pilot project to introduce compressed natural gas in the Madrid city fleet of taxis.

- The Company received the 2006 Catalonia Prize for Communications and Public Relations, in the business category, awarded by the Communication and Public Relations Association of Catalonia, in conjunction with the Foundation for the Promotion of Communications and Development.

- In Madrid, the Gas Natural Foundation held the seventh "International Climate Change" seminar, organised in conjunction with the Ministry of the Environment, and which on this occasion analysed the impact of transport on climate change.

- The Chairman of the Gas Natural Group, Salvador Gabarró, received the "2007 Protagonistas" award, in the business category, awarded by the Protagonistas programme aired by the Punto Radio channel, which is directed and presented by Luis del Olmo, the journalist.

- Gas Natural Cegas began its supply in Villar del Arzobispo (Valencia).

- The Gas Natural Group and the Council of Lantarón signed an agreement to build two electrical generation units with combined cycles fuelled by natural gas, in this municipality in Alava.

- Knutsen OAS Shipping, the shipbuilding company, delivered the new Sestao-Knutsen methane tanker, with 138,000 m^3 capacity, to the Gas Natural Group and Repsol YPF. This tanker will be added to the fleet of Stream, the joint company run by the two energy companies and dedicated to LNG transport.

• In Algeria, the Gas Natural Foundation organised a two-day seminar entitled "Information and Communications Technologies and the New Business Management Instruments".

• The Gas Natural Group was awarded a total of 430 GWh of the contract for Telefónica's electrical supply.

• Gas Natural Andalucía presented the termination of the first part of the works for the channelling works to enable natural gas to be brought to the towns of Los Palacios and Villafranca (Seville).

• The Gas Natural Group renewed its current Euro Medium Term Notes (PEMTN) debt issue programme, increasing it from 2,000 million to 4,000 million euros, with the same characteristics as the current programme.

• The Gas Natural Group took over effective control of the five combined cycle plants bought from EDF and Mitsubishi in Mexico, and concluded the operation after securing approval from the Mexican regulators, the Privatisation Committee of France, and the Boards of Directors of EDF, EDF International and Mitsubishi Corporation.

• In order to mark the 20th anniversary of supplying natural gas to the Community of Madrid, Gas Natural Group held a commemorative event in the city's Convention Centre. The Company's 1,200 employees in the region plus all of its retirees, the authorities of the Community of Madrid, organisations, institutions, associations related to the Company's activity and the press were in attendance.

• Their Majesties, King Juan Carlos and Queen Sofia, accompanied by the Company Chairman, Salvador Gabarró, and the CEO, Rafael Villaseca, among other people of note, opened the new headquarters of Gas Natural Group in La Barceloneta district (Barcelona). During the ceremony, the King and Queen unveiled a commemorative plaque in the foyer, inspected some of the more important parts of the building and signed the Company's official visitors' book.

Corporate Governance

Corporate governance practices are fully implemented in the Gas Natural Group. In 2006 the Corporate Governance Matters Unit was set up, reporting directly to the Secretary of the Board of Directors, its duties being to work closely alongside the Secretary of the Board in defining the basic aspects of corporate governance, drawing up internal regulations, ensuring compliance thereof and drafting the proposed Annual Corporate Governance Report. This Unit has carried out its duties with positive results, at a period when there have been changes in the regulations for good governance practices.

In May 2006, the Unified Code for the Good Corporate Governance of Listed Companies (Conthe Code) was approved, containing 58 recommendations and bringing the Olivencia and Aldama Reports up-to-date. During 2007, the Company has worked hard to adapt its internal regulations to the recommendations of the aforesaid Code, which are most convenient for the society and its shareholders. We may highlight the amendments made in December 2007 in the Organisation and Operation Regulations of the Board of Directors of Gas Natural SDG, S.A. and its Committees.

With this adaptation, new practices are implemented in the Company's activities in keeping with the most current terms for good corporate governance, while others which were already being applied are set out in the internal regulation and are considered as standard.

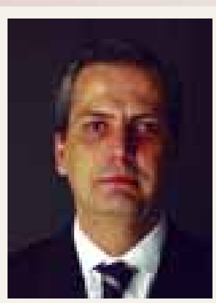
These corporate governance practices are reflected in the day-to-day activities of the Company, and also in the various annual reports drawn up by the pertinent corporate bodies and periodically submitted to the General Meeting of Shareholders, either for its information or approval. These reports are: this Annual Report, the Corporate Responsibility Report, the Annual Corporate Governance Report, the Annual Report of the Audit and Control Committee, and the Annual Accounts (both individual and consolidated), as well as the Management Report drawn up by the Board of Directors.

All this documentation prepared by the Company endeavours to inform third parties of the most relevant highlights of the Company's corporate activities, of how the Company works and of the criteria behind the

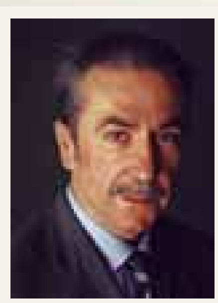
Management Committee

The Management Committee is the highest decision-making body in the executive sphere of the Gas Natural Group, and is made up as follows:

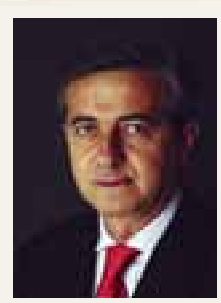
Chief Executive Officer
Mr. Rafael Villaseca Marco



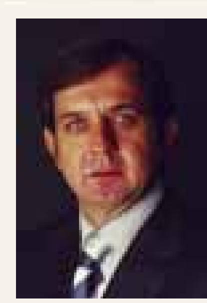
Financial-Economic Department
Mr. Carlos J. Álvarez Fernández



Latin America Department
Mr. Sergio Aranda Moreno



Gas Management Department
Mr. José Mª Egea Krauel



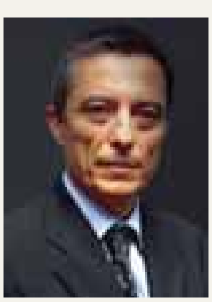
Wholesale Business Department
Mr. Manuel Fernández Álvarez

decisions taken, thereby enhancing the Company's transparency. The aforementioned information may be viewed on the Gas Natural Group website (www.gasnatural.com).

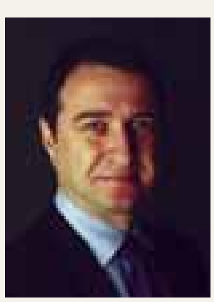
Good governance practices are spread essentially through the Company's various governing bodies. In addition to the General Meeting of Shareholders, which is held at least once a year, and is the highest decision-making body in the Company, the other governing bodies of the Company where the aforesaid practices are to be found are as follows: the Board of Directors and its delegate or proposal and report committees, viz., the Executive Committee, the Appointments and Remuneration Committee, the Strategy, Investment and Competence Committee (eliminated in February 2007) the Audit and Control Committee and finally, at the executive level, the Management Committee.

Composition of the Board of Directors and Committees (at 31 December 2007)

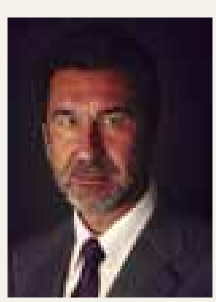
	Board of Directors	Executive Committee	Audit and Control Committee	Appointments and Remuneration Committee	Type of Director
Chairman	Mr. Salvador Gabarró Serra	Chairman			Executive
Deputy Chairman	Mr. Antonio Brufau Niubó	Board Member		Board Member	Proprietary member
Chief Executive Officer	Mr. Rafael Villaseca Marco	Board Member			Executive
Board Member	Mr. Enrique Alcántara-García Irazoqui				Proprietary member
Board Member	Caixa d´Estalvis de Catalunya represented by Mr. José María Loza Xuriach				Proprietary member
Board Member	Mr. José Arcas Romeu			Chairman	Independent
Board Member	Mr. Demetrio Carceller Arce	Board Member			Proprietary member
Board Member	Mr. Santiago Cobo Cobo	Board Member			Independent
Board Member	Mr. José Luis Jové Vintró	Board Member	Board Member		Proprietary member
Board Member	Mr. Carlos Kinder Espinosa	Board Member			Proprietary member
Board Member	Mr. Enrique Locutura Rupérez				Proprietary member
Board Member	Mr. Emiliano López Achurra				Independent
Board Member	Mr. Carlos Losada Marrodán	Board Member			Independent
Board Member	Mr. Fernando Ramírez Mazarredo		Board Member		Proprietary member
Board Member	Mr. Miguel Valls Maseda		Chairman	Board Member	Independent
Board Member	Mr. Jaime Vega de Seoane Azpilicueta				Independent
Board Member	Mr. José Vilarasau Salat				Proprietary member
Non-Director Assistant Secretary	Mr. Felipe Cañellas Vilalta	Non-Director secretary	Non-Director secretary	Non-Director secretary	



Resources Department
Mr. Antonio Gallart Gabas



Retail Business Department
Mr. Josep Moragas Freixa



Regulated Business Department
Mr. Antoni Peris Mingot

Strategy & Development Department
Mr. Antonio Basolas Tena

Legal Services Department
Mr. Manuel García Cobaleda

Communications Department and Chairman's Office
Mr. Jordi García Tabernero


Corporate Management Corporate Management Corporate Management Corporate Management Corporate
GasNatural
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Corporate Management

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Human Resources

The Gas Natural Group employs a staff of 6,699 in nine countries (Argentina, Brazil, Colombia, France, Italy, Mexico, Morocco, Puerto Rico and Spain), of which approximately 68% are men and 32% are women. The average age of employees is 40.9, and average seniority with the Company is 12.9 years.

The Group's human resources policy follows the lines defined in the corporate Mission, Vision and Values, and focuses on fostering an environment of respect in the workplace that encourages and facilitates employee training, growth and professional development. From this perspective, the Group is constantly striving to involve all employees in all spheres of activities, promoting the participation of everybody in a common project geared at achieving three strategic objectives: quality, profitability and growth.

In 2007, the main operations carried out by the Gas Natural Group within the sphere of human resources were aimed at ensuring a working environment that favours the contribution of value to the business and drives professional development of the employees, by providing conditions for optimum balance between professional and personal lives. Accordingly, the first Collective Bargaining Agreement of Gas Natural Comercial SDG, S.L. was signed with the employees' representation, and was implemented in the Company's labour framework; this has allowed Management by Objectives System initiatives to be launched. These were designed to improve the IT application supporting the system, and to enhance target and performance reporting.

The Gas Natural Group promotes the professional and personal development of its employees and guarantees equal opportunities for all. In this regard, the Group does not accept any kind of discrimination within the work or professional sphere, and undertakes to play an active role in the policies to support social integration and job placement of disabled persons.

One of the main goals of the Gas Natural Group's actions is to achieve a number of disabled employees equivalent to a least 2% of the total workforce, through direct hiring of disabled persons or the promotion of responsible procurement. Therefore, during 2007, various initiatives were carried out at national and international level. For example, the signing of collaboration agreements with the Spanish Paralympics Committee and with the Adecco Foundation in Spain; the "Young Apprentice" project, in collaboration with the National Industrial Training Service in Brazil, and the agreement with the State Government of Nuevo León (Mexico), to incorporate disabled persons in the Group's contractor companies and/or gas centre franchises.

The Gas Natural Group places different products and services at the disposal of employees to enhance their living conditions, such as supplements for financial benefits in cases of temporary incapacity, an allowance for consumption of gas supplied by the Company, and allowances for food, *inter alia*. What is more, various initiatives are carried out, such as the generalisation of the pension plans for the employment system in Spain, extending the social welfare programmes to families in Colombia, Morocco and Mexico, and continuing with the "Natural Knowledge" study programme for employees and their families in Argentina.

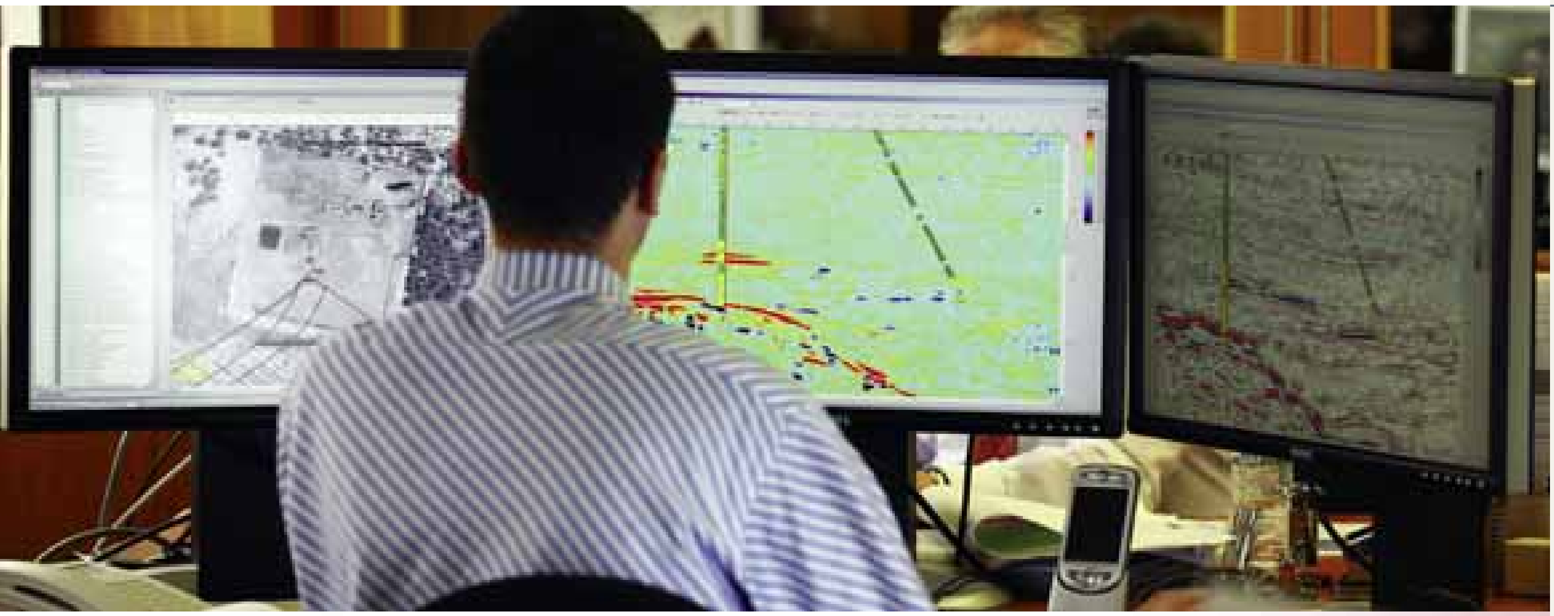
Elsewhere, the Gas Natural Group remuneration system rewards employee performance. The remuneration policy is guided by the concepts of equity (within the internal scope) and competitiveness (with other companies), and is set in accordance with whether the employee is included in the collective bargaining agreement or not. With regard to internal equity, the assessment of work positions pertaining to the national and international structural personnel were completed in 2007.

The Gas Natural Group believes in the professional advancement of all its employees, and with this in mind, has designed the tools necessary to encourage their careers in accordance with their professional profiles. The Group's Professional Development Programme (PDP) is the tool aimed at employees covered by collective bargaining agreements; while the Management by Objectives System was put in place to enable professional development in accordance with employee performance and potential outside these agreements.

In 2007, a PDP was applied, which, for all the businesses, consisted of a total of 195 promotions of employees. Within Gas Natural SDG and Gas Natural Distribución, the application of the 2004-2006 PDP, engaged the highest volume of employees (771 employees), involving the management of 1,080 participation applications and the obtaining of 169 promotions of the aforesaid total. The remaining promotions are split between Gas Natural Soluciones (four employees promoted), Gas Natural Servicios (two employees promoted), Gas Natural Informática (nine employees promoted) and Gas Natural Comercial (eleven employees promoted), in which the 2007 PDP has been applied.

Talent management has a prominent position in the Group: it takes up a specific section of the 2008-2012 Strategic Plan and management, involves the participation of the senior management, and the management and structural collectives.

In the Gas Natural Group, employees are considered to be the owners of the talent and value they contribute to the organisation. In this respect, the Company has defined a talent management system enabling the available human and intellectual capital to be identified; this system is used as the point of reference for developing and retaining this capital, or to draw it from the labour market when necessary.



During 2007, the Talent Management project was deployed throughout the Group, and in an initial phase, was directed to a group of 1,545 persons: executives, managers and skilled workers.

The first analysis of this collective's talent was made in December 2007. It was used as a starting point to work towards preparing individual development plans by talent groups. These would subsequently be extended to all the Group's employees, adapting them to each employee's needs and expectations, and, obviously, covering the strategic requirements of the business.

Training activities in the Gas Natural Group are based on giving training plans. These plans are published in each country at the start of the year in order to develop the continuous training programmes planned to respond effectively to the knowledge and skills which need to be acquired and are required for each job post.

With the courses included in the 2007 Training Plan, and with all the activities in addition to those planned as a result of specific training projects, a total of 5,763 persons were trained in the Gas Natural Group overall (86% of employees).

Some of them took part in more than one training initiative, meaning the number of those attending was 19,193.

Training activities are implemented in various ways (in-class, distance, online learning, or a combination of these) that ensure rapid results that meet the Company's requirements. Continuing with the progress experienced by the online courses carried out through the ACERCA platform in recent years, this method of learning has continued, as it enables easy access to training and the flexible acquisition of knowledge.

In 2007, the Company began to promote use of the online methodology at the level of the entire Group, and this has accounted for over 11% of the total training hours.

Efforts made over the course of the year in different training areas have been specially geared towards courses relating to management, management skills, technical business aspects (gas and electricity) and languages, as well as the IT tools used to optimise the Group's management.

Employees were able to convey their needs and evaluate the efficiency of the different courses through the “Training” page in NaturalNet. They are also given information, in an accessible form, on the training requested, and on the courses already performed.

Gas Natural Group training indicators. 2007 (training hours per employee)

Argentina	31
Brazil	39
Colombia	25
France	49
Italy	41
Mexico	19
Morocco	27
Puerto Rico	54
Spain	48

For the purpose of adapting employees to the Group’s dynamics, the Internal Communications Plan becomes a consultation tool for everyone within the Group, as it provides information on the communication channels and means that can be used by employees.

Likewise, the Group places different effective mechanisms at the disposal of employees for them to express their opinions more effectively. The “Employee Mailbox” is within the framework of the corporate intranet –NaturalNet–. It is an interactive space allowing staff members to give their opinions, make suggestions, remarks or concerns over different issues with regard to their activity or the Company’s activity. In 2007, 242 opinions were posted, added to the 166 suggestions received through the NaturalNet thematic channel.

In most of the countries where the Group operates, the Internal Communications Units, by means of their generic mail, inform employees of facts and actions affecting the Company, previewing campaigns and relevant actions, while they are also the communication channel in which opinions, requests and comments are received.

Furthermore, the Internal Communications Consultative Group, made up of executives belonging to different areas and representing their different fields of activity, continued to hold meetings in which the staff’s comments and concerns were addressed. The Consultative Group also meets regularly and carries out surveys to value basic elements of internal perception and specific actions implemented.

The proposals that arose through the Cost Reduction Plan were incorporated throughout 2007 at the Company’s main departments. The proposals implemented led to a saving of 3.6 million euros, with an estimated annual saving of 4.9 million euros, and prompted strong staff involvement in the application of said plan.

During 2007, the Integration Plan was renewed, updated and was brought in line with the other countries where the Group operates. The plan is to be implemented in Spain in 2008. In this context, the first consultations have been made at international level, in order to move ahead with the homogenisation of the procedure.

The new “Employee Fact Sheet” was launched, replacing the “Employee Self-Service” of NaturalNet, the contents being adapted to different countries, and the materials being translated to all the Group’s languages. The new fact sheet has an improved image, new functionalities and optimises data management.

Different initiatives were carried out for communicating the 2008-2012 Strategic Plan. We may highlight the presentation meeting attended by executives and managers, and the implementation of a new space in NaturalNet whereby all employees can become well acquainted with the Gas Natural Group's Strategic Plan.

In 2007, the Gas Natural Group's employees used the Consultation and Notification Procedure 22 times. The communications received derived from Argentina, Brazil, Colombia, Spain and Mexico.

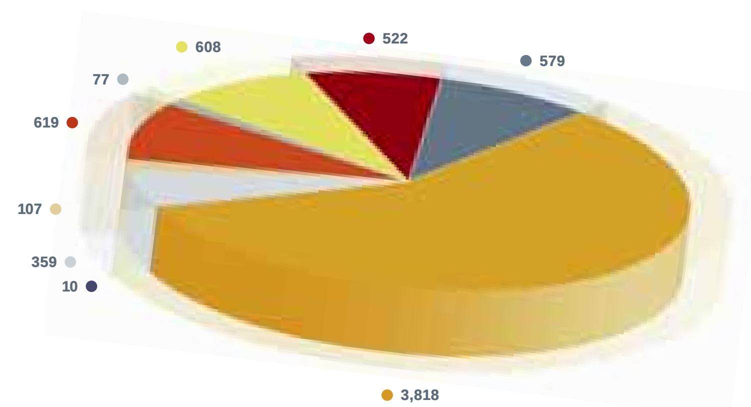
Both the Code of Conduct Committee and the units involved have strived to provide the best service to employees, clearing up doubts and helping to resolve the notifications made. Also in 2007, various initiatives were started up with the aim of improving the knowledge of and compliance with the code, in the organisation, suppliers and companies collaborating with the Group.

The Dow Jones Sustainability Index, a selective index of reference for advanced companies in corporate responsibility, has recognised the dissemination and compliance activities of the Code of Conduct carried out by the Gas Natural Group as among the most advanced at global level.

Staff breakdown by country. 2007

Argentina
Brazil
Colombia
France
Italy
Mexico
Morocco
Puerto Rico
Spain

Total: 6,699



Training data

Gas Natural Group training indicators	2007	2006
Training hours per employee	40.62	41.11
Total course hours	272,130	274,858
Annual investment in training (euros)	3,397,500	3,193,605
Investment in training per person (euros)	507.17	477.66
Participants	5,763	5,741
Attendees	19,193	19,649
No. of online courses taken (Spain)	345	440
Users of online training schemes over total staff (Spain) (%)	36.88	43.70

The Environment

Over the course of 2007, the Gas Natural Group reaffirmed its environmental commitments and its efforts to reduce the effects of climate change, by means of new and diverse initiatives designed to meet society's growing electrical demand while ensuring the utmost degree of environmental protection.

In order to accomplish these goals, the Company spent over 32 million euros on stringent control of all its gas exploration, storage, transportation, and distribution and electrical generation activities, as well as others associated with its facilities and working centres.

In accordance with the guidelines of the Kyoto Protocol, the Gas Natural Group strengthened its commitment towards reducing emissions of greenhouse gases. In this respect, it forged ahead with its integrated plan to renew piping with the most modern materials, and to eliminate those now considered obsolete. In Spain, over the last five years, these initiatives have led to a 43% reduction in emissions of CH_4 per network length unit.

In 2007, in the international arena, field tests were carried out in Latin America, with the purpose of improving and updating the calculation method used to determine methane emissions to the atmosphere, taking into account the characteristics of the networks and the supply pressures in the different countries where the Group operates.

The Gas Natural Group stressed its current focus on electrical generation using natural gas as a primary energy and applying technologies with lower emissions of greenhouse gases, such as combined cycle or cogeneration plants. By virtue of these generation technologies and its portfolio of wind farms, the Gas Natural Group managed to prevent the emission of 761,509 tonnes of CO_2 to the atmosphere in 2007.

In addition to using the best available technologies and reducing emissions associated with its processes and activities, the Gas Natural Group actively promoted the use of natural gas to replace contaminating fuels. Acting thus, in 2007 it prevented 222,702 tonnes of CO_2 from being emitted to the atmosphere, thereby helping to improve air quality.

Natural gas is a valid and available alternative for reducing traffic pollution emissions. With the purpose of facilitating its use, construction started on a new compressed natural gas supply plant in Badalona (Barcelona) for supplying compressed natural gas (CNG) for vehicle use based on liquefied natural gas (LNG), and thus to promote its development as a clean vehicle fuel.

With regard to this commitment towards reducing greenhouse gases emission levels, the Gas Natural Group has various projects to be implemented in Latin America within the Clean Development Mechanisms (CDM) programme. At the end of 2007, the Gas Natural Group had ten CDM projects under development, in different phases of execution, and 99,382 emission rights recognised by the UN from its Sombrilla and Quimvale projects.

As far as the Gas Natural Group's commitment towards rationalising energy consumption in its activities, in 2007 it further consolidated its objective of seeking a high level of efficiency in its processes. In fact, global yields of around 100% have been achieved in exploration and gas transportation and distribution activities.

As a result of the permanent focus on the best available technologies for generating electricity with natural gas and renewable energy sources, the Gas Natural Group's energy yield amounted to 56.28% in 2007.

The Gas Natural Group is now one of the leading combined cycle operators worldwide, with 6,474 MW of installed power. In December 2007, the Group concluded the acquisition of 2,233 MW in Mexico, which shall begin commercial operation in 2008. It also has 380 MW of installed power under the special regime, divided into 21 wind farms.

The Gas Natural Group is acutely aware of society's concerns about favouring energy saving and the promotion and progressive use of renewable energies. In 2007, in keeping with this policy, the Group carried out various initiatives, of which we may highlight those relating to the technological development of hydrogen, the perfection of high efficiency poly-generation solutions for the tertiary sector using generation distributed by micro-turbine facilities, and the starting up of projects to obtain cold from double effect absorption systems using solar energy.

In addition to these initiatives, various actions were taken with the purpose of reducing energy consumption in work places, by means of disseminating good energy saving practices, installing presence detection systems for switching lights on/off and dimming, replacing air conditioning machines with others with greater energy efficiency, and installing solar-photovoltaic systems for basic lighting.

During 2007, the Gas Natural Group also successfully materialised its commitment to identifying and minimising other environmental impacts caused by its activities, taking special care to perform all its operations with the utmost respect for the environment. Consequently, the Group works hard to carry out environmental impact studies and surveillance programmes that ensure compliance with preventive measures and minimise the possible impacts of projects and processes, which are not subject to Environmental Impact Assessments (EIA). The Group also played an active role in various initiatives geared towards improving biodiversity, such as reforesting, recovering endangered flora and fauna and archaeological activities.

Accordingly, a series of important improvements was made in the control of information regarding waste in exploration, distribution, combined-cycle power plants, cogeneration plants, wind farms and work places, while also promoting the use of certain types of waste as agricultural fertilizer.

Furthermore, initiatives were carried out for rational water consumption and to foster its reuse in all processes, especially in activities with heavy consumption of this natural resource. In 2007, the Gas Natural Group maintained the same water consumption ratio per electrical generation unit as in the last five years. The Company also helped to preserve biodiversity in Puerto Rico by purifying water for domestic use.

By means of a series of initiatives, the Gas Natural Group also managed to reduce the use of hardcopy (paper) by over 7% against the previous year.

The Gas Natural Group’s environmental commitments affect not only the companies that comprise it, but also extend to all the stakeholders in the Company’s value chain.

In this regard, in their dealings with contractors or external collaborating companies, the Group employees convey the principles that stem from the Company’s environmental management policy, and require compliance with any applicable environmental procedures and requirements.

The Group also involves customers in the responsible use of energy through sponsorship and environmental campaigns and workshops aimed at raising awareness of respect for the environment.

Moreover, the Gas Natural Group continued to make contributions to the Community Development Carbon Fund, a fund dependent on the World Bank, which works on projects tied to the development of production processes, education and health in the most underprivileged countries, and with the Spanish Carbon Fund, promoted by the Spanish Ministry of the Environment. In addition, the Gas Natural Group takes part in the Multilateral Carbon Credit Fund.

Technological Innovation

Biogas development

In 2007, the Gas Natural Group, in partnership with GRS Valtech, belonging to the Veolia Group, was awarded the project to carry out the project for biogas energy treatment and use in the Doña Juana Landfill, in Bogotá (Colombia), which is one of the largest landfill sites in Latin America, with 2 million tonnes of waste dumped annually. The environmental conditions in the landfill area have been improved, and the plan is to use the captured biogas as a renewable energy source, to be distributed through an independent supply network to nearby industries. By this means, it will be possible to replace the coal currently used, to contribute towards a substantial improvement in air quality and the economies of the populations near these industries, and to promote sustainable development in Bogotá.

This project, which will prevent over 15 million tonnes of CO_2 from being emitted to the atmosphere, was designed in such a way as to comply with all the UN's requirements relating to the clean development mechanisms of the Kyoto Protocol, and will enable a significant number of emission reduction certificates to be obtained.

Cogeneration development

In 2007, with the object of promoting and facilitating the implementation of cogeneration projects, an IT application was designed to make energy balances taking the different consumption profiles into account. The purpose of this application, which was developed in partnership with the Laboratory for Research in Combustion Technology, is to help users with designing energy efficient installations. The programme not only obtains energy balance results, but also includes a module to assist in performing the economic analyses needed to complete the feasibility study.

The Gas Natural Group also cooperates with other entities, research centres and universities in the project of the Centre for the Development of Industrial Technology, "The Eco-Technological City. Industrialisation in Steel Base for a More Sustainable Urban Habitat", geared towards peoples'needs in the framework of sustainable development. An important feature of this project is the contribution to energy sustainability and improvement of the urban environment by means of a new energy efficient and self-sustainable residential construction model; one of the specific technical objectives is to develop poly-generation (thermal and electrical) systems based on renewable energies, which are compatible and can be integrated into construction components and units. In this project, the Gas Natural Group addresses the question of distributed generation, research and development of cogeneration facilities appropriate for cities; here the objective is to develop and standardise cogeneration or tri-generation facilities in large-scale buildings or complexes, particularly in the tertiary sector (hotels, business parks and shopping centres) and micro-generation for buildings.

Development of solar cooling

Throughout 2007, the Company continued to develop cold production projects based on solar energy. A solar cooling pilot plant was built based on a field of concentration solar collectors, with a double effect BrLi/H_2O absorption cycle cooler. This facility, which stands on the roof of the Seville School of Engineering building, has become a touchstone in terms of the technical viability of this type of installation for professionals, energy consultants and for political authorities. The project also includes the first version of a freely distributed and user-friendly software application for calculating and dimensioning solar cooling facilities. The project has been granted a subsidy from the Andalusia Technology Corporation and has received technical collaboration from the Association of Research and Industrial Cooperation of Andalusia.

Development of "gn auto"

During 2007, the Gas Natural Group completed and started up a new compressed natural gas (CNG) plant based on liquefied natural gas (LNG), located in its Technical Services facilities in Badalona (Barcelona).

This is an innovative facility which eliminates gas compression costs, and which is made up of two parts: one part is similar to a typical LNG regasification plant, while the other is like a CNG service station. This plant is expected to provide services to the entire gas vehicles fleet of the North Catalonia delegation, and is complemented by the station which already exists in South Catalonia Technical Services.

Another new application developed with the aim of extending the potential use of natural gas as transport fuel focuses on the handling vehicles in Barajas airport (Madrid). This is part of the PROFIT project of the Ministry of Industry, Tourism and Trade, aimed at reducing airport emissions. Different types of natural gas vehicles were developed, which helped to comply with the environmental targets set for this airport by AENA. These solutions can be exported to similar facilities.

The Company is also working on developing solutions and the real implementation of LNG as a fuel for propelling fishing vessels. This project is promoted by the Celeiro Fishing Technological Center, in Viveiro (Lugo), and funded by the Department of Fisheries of the Xunta de Galicia and by the Ministry of Education and Science. The object of this initiative is to prove that natural gas also offers advantages in comparison with gas-oil in the fishing sector.

Hydrogen production and applications

In 2007, the Gas Natural Group started up an experimental facility for the production and storage of hydrogen. This plant, which is a pioneer in continental Europe, is located in the Sotavento wind farm (between the A Coruña and Lugo provinces) and produces hydrogen using surplus electricity from the farm. With this installation, the Gas Natural Group, in conjunction with the Xunta de Galicia and the Sotavento Galicia Foundation, is developing an innovative project with the purpose of studying hydrogen's use as a means of storing energy in gaseous form.

Furthermore, a poly-generation system was started up in the Company's headquarters in Barcelona, with generation using a molten carbonate fuel cell. This is the first application of this kind in Spain and one of the first experiences worldwide. It will produce 230 kW_e of electricity with almost 200 kW_t being harnessed to cover air conditioning and heating requirements, with a yield of around 80%.

The Gas Natural Group has been chosen by the Centre for the Development of Industrial Technology to coordinate the "CENIT SPHERA" project, a consortium of 17 companies and over 30 research centres, which has the objective of investigating techniques for the production, transportation, storage and use of hydrogen. The project has a duration of four years, and a budget of over 25 million euros.

Reading of domestic meters

The Automatic Metering Management (AMM) system enables gas consumption data to be obtained and managed remotely through sensors installed in the meters; the information then being sent by radio to the Gas Natural Group's corporate information systems.

In 2007, to progress with the implementation of this system, a project to install an AMM system for the remote reading of domestic meters was started. The Gas Natural Group is the first European gas company to adopt this initiative. The project consists of installing 10,000 supply points in different cities using various AMM technologies in the pre-commercial phase. At present, 5,600 consumption points in Tarragona are being billed automatically, and the results are wholly satisfactory in terms of reliability and accuracy. What is more, 4,600 supply points have just been installed in the town of Lorca (Murcia), with new ZegBee technology, and automatic billing will commence shortly.

The massive use of this technology will enable the Company to improve the quality of the service offered to our customers, eliminating any possible reading and billing errors, and will also furnish information allowing better management of the distribution systems.

Quality

Throughout 2007, within the framework of the Strategic Quality Plan started in 2004, the Gas Natural Group continued to work on various projects and improvement actions within each of the four lines of work laid down in the aforesaid plan:

Strengthening customer focus and service quality

Some of the most important improvements were:

- In the Emergency Service in Spain, several improvement projects were carried out in 2007 in the different technical services, the object being to reduce response times for the arrival of technicians. This has led to a significant improvement in the quality of service.

- In Italy, with regard to the billing process, improvements were made to the SAP IS-U system. These had an important effect on improving the quality of the service in comparison with 2006, reducing time spent in sending bills and errors in bills. As far as the telephone service is concerned, continuous improvement has been made in training employees for using SAP; this has led to fewer errors and a more efficient service.

Aligning the organisation with quality objectives

The Gas Natural Group continued to incorporate quality goals in the Management by Objectives System in Human Resources. The quality of personalised service in gas centres was one of the goals of the commercial delegates of the Retail Business Department in Spain, the aim being to strengthen employees' commitment towards continuously improving the service in these centres.

The Company continued to promote the culture of customer-internal supplier of the different services not intended for a final customer, by means of various perception studies. We may highlight, among others, the help desk service for systems users, and the health and occupational risk prevention monitoring services.

Furthermore, as part of the 2007 Training Plan, training initiatives were carried out, aimed at raising the awareness of the Group's employees in Spain, about the importance of focusing on management by processes in order to foster constant improvement in the services and products offered to customers.

Involving service providers in the Gas Natural Group's quality commitment to customers

The Gas Natural Group continued to extend the implementation of Q-Model and adopted it within its main processes. Q-Model is a project which enables the Group to assess the quality of its suppliers and collaborators, in quantitative fashion, in order to improve the selection process. In the Supplier Portal in Internet, suppliers can observe the level of quality they are providing, on a totally transparent basis, and they can compare their levels with those required for each supplier by the Gas Natural Group.

Over the course of the year, the commitment of collaborators in the service centre network in Spain was improved, by means of service level agreements relating to quality in contracts. This allowed collaborators to have a clearer idea of the Gas Natural Group's goals and significantly improved service quality.

The Company also made important efforts in training, with the aim of improving the skills and the focus on service of employees working in the gas centres network, and of the technicians serving domestic customers in Spain.

Developing quality management within the Group

Also during 2007, the Gas Natural Group continued to focus on quality management, within the framework of integration which provides management by processes:

- Progress was made in certifying the generation management system, in the Wholesale Business Department.

- The Certified Quality System was extended in the Gas Natural Group's distribution and commercialisation companies in Spain. Furthermore, the quality and environment certification was secured in Gas Natural Comercial, and the scope was extended in Gas Natural Servicios. In the international arena, new offices and work places were adapted to quality certification in Italy.

- As far as self-assessment processes are concerned, in accordance with the EFQM Excellence Model, 2007 saw the deployment of the said processes in the Regulated Business Department and in Metragaz (Morocco); in both cases, this prompted the development of the respective integrated improvement plan which goes by the name of LICEO (Leadership, Innovation, Change/Quality/Growth, Efficiency/Effectiveness, Opportunity).

Commitment to Society

The commitment towards society is a vital part of the Gas Natural Group's business model, and forms part of the Group's Mission, Vision and Values statement.

The Company materialises its social commitment through:

- Generating knowledge, capacity for management and innovation, thus benefiting society as a whole.
- Putting aside part of the profit generated to social actions, in a way which is in keeping with the Company's strategy and with local needs.

In 2007, the Gas Natural Group channelled over 16 million euros into social investment, 24% more than in 2006. 308 initiatives were developed.

The Group divides its social investment programmes into three main categories: social, cultural and environmental. In percentage terms, the Company made social action a priority in 2007, channelling over 57% of the total budget into this area.

In all its fields of activity, the Gas Natural Group cooperates strongly with institutions and associations, whose purpose is generally to protect human rights, preserve the environment and promote social development. This cooperation goes hand in hand with open dialogue with the governments and administrations of the different countries, in order to ensure that the Company's social initiatives are in keeping with those promoted by public authorities.

Commitments and actions

Commitment 1. Contribute to the development of the local communities in which the Gas Natural Group operates

Proposed actions for 2007	Results 2007		Actions for 2008
Launch of the new Educational Folder and reform of the online education section.	Delivery of copies to education centres and online content review.	●	Presenting of Educational Folder in each autonomous region and development of new online content related to technological innovation.
New sponsorship actions of social and cultural interest in the municipal districts with combined-cycle power plants.	Monitoring of agreements signed and development of new projects.	●	Establishing of a system to measure the impact of sponsorship projects, and obtaining of London Benchmarking Group certification.
Launch of a cultural and social action plan in Algeria.	Integration into the Mediterranean Energy Observatory and development of a seminar under the auspices of the Gas Natural Foundation. Participation in LNG 16 Algeria 2009.	●	Fostering of development co-operation projects.

Commitment 2. Collaborate and maintain an ongoing dialogue with associations working to improve society

Proposed actions for 2007	Results 2007		Actions for 2008
Extend the signing of collaboration collaboration agreements to CECU (Spanish Consumers Association) and OCUC (Catalonia Consumers Association).	Signing of a collaboration agreement with OCUC and collaboration with the American Consumer Congress, organised by CECU.	●	Issuing of the "Gas Guide", together with organisations with which the Group has collaboration agreements.
Promote the commitment and participation of the business areas in associations that foster corporate stakeholders.	The Group is a member of the Executive Committee of the UN Global Compact's Spanish Association.	●	Organising of seminars on corporate responsibility for suppliers. Participation in the working group on suppliers of the Association for the publication of a practical guide.
Presentation of the campaign for Millennium Goals in Latin America.	Presentation of the campaign in collaboration with IARSE (Argentina) and in the functional meeting of the Managing Direction International.	●	Development of development co-operation projects in Mexico.

Commitment 3. Establish transparent communication channels capable of responding to citizens' needs

Proposed actions for 2007	Results 2007		Actions for 2008
Review of the chapter on the Environment in the online section on "Corporate responsibility". (1)	Launch of the new Environment and Quality Control section.	●	Improvement in information available in the online section on "Corporate responsibility".
Increase the number of management advised in accordance with the needs detected through the outsourced appraisals of the Corporate Responsibility Report.	Development of 16 items of internal advice in the area of corporate responsibility to nine different Management bodies.	●	Incorporating of RepTrak results into advice methodology.
Updating of the "Crisis Communication Management Manual" to adapt it to the new organisation.	Publishing of Corporate Responsibility Reports in Argentina,Colombia and Mexico.	●	Launch of first Corporate Responsibility Report in Brazil.

(1) This action was modified in respect of the information published the previous year, due to an error compiling the information present in the 2006 Corporate Responsibility Report.

Level of compliance: High ● Average ● Low ●

The Gas Natural Group carries out initiatives within the framework of the Millennium Development Goals and the Principles of the UN Global Compact, with the intention of playing a positive role in the development of the societies where it is present. The Company carries out far-ranging social action activities geared towards improving the quality of life of underprivileged groups.

The Group also strives to promote culture and education. Universal primary education is a right enshrined in the Universal Declaration of Human Rights, and teaching also plays an essential role in promoting gender equality. For these two reasons, much of the Company's efforts are channelled into training the youngest members of society, supporting cultural and educational initiatives.

In 2007, other matters such as climate change and sustainable development were treated as priorities. The Gas Natural Foundation's activities have gradually moved towards specialising in these two areas.

The Gas Natural Group sees its social investment programmes as a complement to a solid business development strategy. It also has applications enabling it to measure the impact of the actions on the Company, and on its reputation in particular. In 2007, the Company incorporated the London Benchmarking Group (LBG) model for measuring the impact of its social initiatives on the community. By using this methodology, the Company can have a complete view of social investment, and it is easier to compare its results with those achieved by other companies.

Educational initiatives

During the 2006-2007 academic year, the Group continued to cooperate in youth education with the "Natural Gas and the Environment" programme. 278 school groups took part in the "Natural Gas, the 21st Century Energy" online activity. Through these initiatives, the Gas Natural Group endeavours to convey concepts such as sustainable development and to spread a philosophy of rational energy use.

The attendance-based educational programme reached 70,192 students in all the countries in which the Group is present. The students were given talks by renowned environmental specialists.

In Argentina, Colombia and Mexico, the educational programmes fostered under the name of "Gas in Schools" were maintained. The purpose of these programmes is to teach students about the environmental advantages of natural gas and to provide suitable recommendations for its proper use. Likewise, the teaching staff was furnished with educational material to assist in reinforcing their work with respect to sustainability.
The previous activities are backed up by other initiatives to raise environmental awareness. 2007 saw the 15th anniversary of the Company's sponsorship of TV3's "El Medi Ambient" TV programme, in Catalonia, which provides training and information on the importance of protecting the natural environment.

For further information, visit the "Educational Activities" section of the Gas Natural Group's website (www.gasnatural.com).

Health and research

Since 2007, the Gas Natural Group has been a founding member of the Andalusia Technology Corporation, in keeping with the Group's desire to be at the cutting-edge in R&D/I. The Corporation is entrusted with the management of Advanced Technology Renewable Energies Centre. This project, which has an initial investment of 62.2 million euros, shall, for the first time in Spain, address research on solar, wind and biomass energy in a coordinated fashion. The leading companies in the sector, the universities of Cadiz, Jaén and Almería, the Andalusian Energy Agency, and the Energy, Environmental and the Public Research Agency for Excellence in Energy and Environment are cooperating in this initiative.

The Company considers support for research to be a fundamental part of its commitment towards helping to improve the quality of life of the sick and their families. In 2007, it continued to help one of the founders of the National Cardiovascular Research Centre. Within the framework of the same project, in conjunction with the Ministry of Health and thirteen Spanish companies, it helped to constitute the ProCNIC Foundation, for research into cardiovascular diseases.

Social action focused on underprivileged groups

The policy of allocating resources to social programmes focuses on the projects that generate the greatest value for society addressing the most underprivileged groups. This involvement strengthens the commitment made by the Gas Natural Group to integrating positively in each community and country in which it is present.

Part of this commitment are the collaboration agreements on labour integration with organisations such as the Adecco Foundation and Femarec, in Spain. Within the framework of this cooperation, the Group also contracted services from organisations which have physically or mentally disabled persons on their staff. The Company became the leading client for Fundosa Galenas's promotional gifts. This company has the objective of complying with the goal of the ONCE Foundation: the labour insertion of the disabled.

Furthermore, in 2007 the Company concluded an agreement with the Barcelona City Council and the Technical University of Catalonia to study the measures required for guaranteeing accessibility in areas where service works are performed.

Corporate volunteers

In Argentina, with the support of the Gas Natural Foundation, the Company continued with its corporate volunteer programme started up in 2002. Volunteers can take part in a range of programmes, depending on their interests. Children, young persons and adults from families with risk of exclusion, with few resources and basic unfulfilled needs, are the persons benefiting from these programmes.

The Group's subsidiary in Mexico also fostered corporate volunteer activities in 2007. Here the special feature is that not only employees but also their families take part in social activities, thus helping to strengthen their bond with the Company and with society at large.

Employees are an important part of the Gas Natural Group's approach to corporate responsibility. Their efforts, carried out in keeping with corporate values, help to make the Company's commitment to sustainable development a reality.

Promotion of Musical culture

Part of the Gas Natural Group's cultural sponsorship initiatives are geared towards promoting classical music.

In 2007, the Company participated in a variety of initiatives with the Barcelona and National Catalonian Symphonic Orchestra in Girona, Lleida and Tarragona.

This commitment to music was further underlined by the Group's sponsorship of music seasons and series in various cities. The Gas Natural Group collaborated, among others, with the Gran Teatre del Liceu and the Palau de la Música Catalana concert halls (Barcelona), and the Auditorio Nacional and Teatro Real (Madrid).

It was also present in the Santander International Festival, the Pontevedra Jazz Festival and La Porta Ferrada International Festival (Girona).

For further information, see the "Sponsorship and Social Action" section of the Gas Natural Group's corporate website (www.gasnatural.com).

Fostering cultural enrichment

One of the Gas Natural Group's priorities is to communicate the richness and the value of our cultural heritage. With this in mind, every year the Group publishes a book on the natural and cultural heritage of the countries where it operates. In 2007, it published "Sicily. Cultural and Natural Heritange", with 26,000 copies distributed in six languages.

We may also highlight its support given to Expo Zaragoza 2008, agreed in 2007. The Company put forward 4 million euros for this event, which is dedicated to water as an essential element for life. The Gas Natural Group shall sponsor one of the events in the Expo, entitled "Water for Life".

Institutional commitment

The Gas Natural Group takes part in national and international sector and business organisations. Cooperating with this type of institutions helps the Company to stay at the cutting edge as far as sector knowledge is concerned, and enables it to be identified as a touchstone in its different areas of activity. In 2007, the Gas Natural Group spent almost 200,000 euros on cooperating with organisations of this kind.

The Gas Natural Group continued to collaborate with the International Chamber of Commerce (ICC) to foster corporate responsibility by taking part in this institution's Environment & Energy Commission. The Group also continued to participate in IESE-University of Navarre's "Business in Society" working group.

The Company also played an active role in the work of investor relations and corporate communications forums of The Conference Board, a reputed international business association.

In Spain, the Gas Natural Group forms part of the Corporate Reputation Forum an organisation whose member companies have joined forces to promote the analysis and dissemination of corporate reputation trends, tools and models in business management. For further details of the forum's work, refer to www.reputacioncorporativa.org.

The Company continued to cooperate with the UN Global Compact's Spanish Association and joined its Executive Committee as a member. The goal of this organisation is to support, promote and disseminate the incorporation of the ten principles of the Global Compact in companies' management and governance models. The Gas Natural Group also supports this association's work, taking part in its suppliers' working group.

The Group continues to cooperate with the Ethos Chair of Ramon Llull University, whose mission is to disseminate and promote ethics in the business and organisational field.

In 2007, the Company also began to work with the Codespa Foundation, an organisation which promotes social development projects in Latin America.

The Group also cooperates with institutions relating to the energy sector, internationally and those located in the countries in which it operates. It takes part, among others, in the Spanish Energy Club, in Eurogas, in the International Gas Union, in the European Technical Association of the Gas Industry and the Observatoire Méditerranéen de l'Énergie. We may also highlight the Company's presence in the Social Responsibility Committee of the CEOE and the Fomento del Trabajo.

In 2008, 50 executives of the Gas Natural Group are to take part in the 19th World Petroleum Congress, which will be held in Spain, where the Company executives shall express their opinions regarding the future of the energy sector.
For further information, refer to the "Corporate Responsibility" section on the Gas Natural Group website (www.gasnatural.com).

Commitment to consumers

Gas Natural Servicios is affiliated with the consumer arbitration systems of the different autonomous regions in Spain. These systems provide mechanisms which enable consumer claims to be swiftly resolved in impartial fashion, and free of charge.

In 2007, the Company adhered to the arbitration systems of the communities of Cantabria, Castilla-La Mancha, Madrid and Navarre; in fact, it is the first major services company to take this initiative in these Spanish autonomous regions.

The Gas Natural Group offers to train the employees of the Consumer Arbitration Boards in matters relating to the natural gas sector, thus allowing them to become better acquainted with the sector, its laws and its special technical features.

This initiative is yet another sign of the Company's commitment to its customers, offering a superior service based around a close relationship, transparency and trust.

Relations with the media

The aim of the Gas Natural Group's communication guidelines is to cover the entire population's expectations by providing access to important information issued by the Company and opening channels for dialogue. The Group has a close relationship with the media and has opened contact channels, which, through the website, enable stakeholders to come into contact with the appropriate bodies of the Company.

As indicated in its Mission, Vision and Values document, the Gas Natural Group is committed to providing transparent information.

The strategy for relations with the media is in keeping with the Group's desire to address its information requirements and structuring the information on the Company furnished to the market.

Accordingly, the Gas Natural Group coordinates corporate communication with its subsidiaries in order to ensure consistency in its messages and to provide the necessary guarantees regarding information offered to markets made available on the Company's service, strategy, operations and finances.

The Company released a total of 332 informative notes in 2007. 62% of them were corporate or referred to activities in Spain, and the other 38% referred to international subsidiaries.

The Group gave 153 press conferences in 2007. 66% of these took place in Spain, and the remaining 34% were called by international subsidiaries.

As might be expected for a company of its size, the Gas Natural Group has a ubiquitous presence in the media. During 2007, according to the report drawn up by Acceso Group, 391 news items on the Company appeared on television and 6,279 in the written media. These figures mean an average of 1.07 and 17.2 daily appearances, respectively, in each medium.

In this section, we may highlight the Company's involvement in the UN's campaign entitled "2015: A Better World for Joana", presented in January 2007 by the Corporate Reputation Forum which forms part of the Company. It is the largest inter-sectorial alliance between multinational companies for promoting and supporting compliance with the Millennium Development Goals.

The objective of the campaign is to disseminate the Millennium Goals, informing the public of the progress and initiatives made by the companies involved in the project. The campaign features a nine-year old girl who represents the millions of children who will have become adults by 2015, when the goals achieved will be analysed. In 2007, the website –which is the mainstay of the campaign– received 56,149 visits.

As part of this campaign, the Gas Natural Group carried out initiatives to enhance awareness of and disseminate the Millennium Goals among all the Company's stakeholders, disseminating them among employees by means of internal magazines, Intranet or visual media displayed in its buildings, *inter alia*. It also frees up advertising space in external media to disseminate the campaign.

Furthermore, the Group is developing various projects relating to the Millennium Development Goals; information is provided on these projects in the additional information section. For further information, refer to (http://2015unmundomejorparajoana.com).

The Gas Natural Foundation

In recent years, the Gas Natural Foundation has consolidated its national and international lines of business, always from the standpoint of awareness, environmental education and the struggle against the effects of climate change.

The Foundation continued with its approach based on organising seminars and publications. It also stepped up its presence in the different Spanish autonomous regions where the Group operates.

To achieve its goals in Spain and in other countries, the Foundation receives cooperation from the different gas distribution companies integrated in the Gas Natural Group.

Throughout 2007, the Foundation continued to work towards making the Gas Museum a reality. Work focused on the initial phase of the museum discourse, and the architectural design for the future building.

All the actions carried out in 2007 are described in the Activities Report of the Gas Natural Foundation. The Group's corporate website (www.gasnatural.com) also offers up-to-date information on the Foundation's activities and publications.

Environmental management seminars

In 2007, the Gas Natural Foundation organised 19 public events concerning environmental awareness, in twelve Spanish autonomous regions. They were all developed with the cooperation of the relevant authorities, and with national and international experts taking part.

The subjects addressed in the public talks concerned, among others, the relationship between energy and the environment, climate change and transport, obtaining energy from waste, energy efficiency, new energy vectors (such as hydrogen), and the alternatives for energy purposes offered by the use of natural gas.

Collaboration agreements

During 2007, the collaboration agreements formalised by the Foundation with the environmental authorities of different Spanish autonomous regions continued to be executed. In addition, a new agreement was formalised with the Government of the Balearic Islands. Research activities with different institutions were also agreed.

Environmental information publications

In 2007, the Foundation published four books, two albums and an educational fact sheet on environment-related topics. Publications are one of the methods the Foundation uses to accomplish one of its primary duties: to raise society's awareness towards environmental protection.

The Foundation also started a new line of publications entitled "Pedagogical Series", which is geared towards secondary school pupils, and addresses atmospheric pollution, its causes and its effects.

Energy Training Centre

During 2007, 17 programmes with varying contents were carried out, giving rise to 253 courses attended by 3,132 students, and which overall amounted to 48,486 training hours given in nine Spanish autonomous regions. The courses are related to the Company's activities *per se*, and those of the energy sector in general.

Gas Museum and History Centre

The Gas Museum and History Centre have been set up to preserve the cultural heritage of the sector, disseminating information on the history of gas and its technical and social impact. Throughout 2007, the Gas History Centre worked hard to classify and transfer documents, as a result of the new location for Gas Natural Group's head office. The Company also carried out the projects and initial agreements for the future installation of a Gas Museum in Sabadell (Barcelona).

Several research projects in the above fields were also developed, in partnership with important academic institutions.

International activities of the Gas Natural Foundation

In Argentina, further progress was made in the “First Export Programme”, started up in 2001, which helps SME in Argentina to strengthen their export capacity. Since it started, it has provided advice to more than 5,100 companies and has trained in excess of 14,000 professionals. During 2007, the website (www.primeraexportacion.com.ar) received around 200,000 visits, three times more than in 2006.

In Colombia, the “Young Scientists” programme fostering the learning of science and the theme of citizenship in schools, continued to be developed within the framework of an agreement established between the Gas Natural Foundation, the District Education Department and the University of the Andes.

During 2007, the Foundation continued to support “UNETE”, a programme started up in Mexico in 2006, which has the purpose of helping to raise the educational level of children in Mexico, using the benefits of information and communications technologies in primary and secondary schools nationwide.

In 2007, the Foundation began activity in Brazil with the setting up of a Training Centre in partnership with the NGO Viva Rio, in Rio de Janeiro. The Training Centre was attended by 110 students, 20% of which shall be contracted by companies of the Group’s subsidiary in Brazil.

In Brazil, the Foundation also has the “Espacio criança esperança” project, which has been running since 2005, and is internationally acknowledged to be a model for the care of children, adolescents, youths and their families. The initiative is coordinated by CEG, one of the Gas Natural Group’s companies in Brazil, and managed through the NGO Viva Rio. This project is also supported by UNESCO and TV Globo, the Brazilian TV channel.

Since this Training Centre was opened, classes have been given to 310 young adults and suppliers. The classes, which are focused on the gas sector and on civil engineering, are free of charge and are given by the Industrial Apprenticeship Service.

The Foundation also belongs to the Board of the “Institut Princesse Lalla Meryem pour Enfants Autistes” in Tangiers. In 2007, it organised a seminar in partnership with the Congost-Autisme Foundation, the object of which was to discuss the best course of action to help autistic children.

In Algeria in 2007, a seminar was held on “New Information and Communications Technologies and New Business Management Instruments”, with the aim of helping to modernise the business network in Algeria. The seminar was attended by 120 people.

Financial-Economic Management

In 2007, the use of the electronic bill was increased in Spain with more than 140 suppliers, representing an annual volume of 45,000 bills. The project for migrating the electronic bill technology platform was also launched and will bring in notable improvements in 2008, including the adoption of version 3.1 of the billing standard laid down by the Ministry of Industry, Tourism and Trade, and the Ministry of Finance.

In the area of taxes, the telematic presentation of the monthly and quarterly personal income tax (IRPF) and VAT assessments was also launched for Spanish enterprises.

With regard to the new Internal Control-Integrated Framework at the Gas Natural Group, the Company's General Procedure of Internal Control was published. Its aim is to develop the internal control guidelines and targets to ensure the appropriate authorisation, restriction, integrity and precision of the economic-financial transactions using the Sarbanes-Oxley Act as a reference method. The implementation of the said project also continued in Argentina, Brazil, Colombia and Mexico under the same criteria as in Spain.

With the approval at the end of 2007 of the new accounting standards in Spain, mandatory for the years beginning after 1 January 2008, the Group implemented a transition plan for its adaptation to the new accounting standards, which, among other issues, include the analysis of accounting standards and criteria differences, the selection of the accounting standards and criteria to be applied in the transition, and the assessment of the necessary modifications to the economic-financial information systems and procedures for their adaptation to the new requirements.

In addition, the analysis of the non-financial operations fund was automated at both consolidated and corporate level. This automation guarantees more reliable data thanks to its integration in the Gas Natural Group's Financial-Economic Management Model, enabling faster analysis for decision-making in the area of finance.

At the same time, an initial assessment of the impact of the SEPA implementation (Single Euro Payments Area) was made in collaboration with all the areas involved, and the process for monitoring its effects was launched.

The Credit Quality Measurement System was consolidated by the Financial-Economic Department in 2007. This system is based on the construction and integration in management of models that measure the financial solvency of commercial counterparts. Based on the said measurement, it is possible to discover the risk profile of the commercial portfolio as a whole.

This measurement system makes it possible to set objective limits in accordance with the counterpart's solvency, and develop pricing models that make it possible to optimise efficiency in commercial decision-taking from the viewpoint of risk-profitability.

In the area of Management Control and within the reporting system integrated through the Corporate Balance Scorecard, the Regulated Business Balance Scorecard was developed. A new report was also incorporated, called the Operations Report, which includes the relevant operative figures for all the businesses for monthly monitoring. The implementation of the investments monitoring system was extended to all the Group's businesses to speed up their analysis, approval and monitoring.

In 2007, the Financial-Economic Management Model was implemented in various wind energy and cogeneration companies. The model involves changes in the organisation, processes and systems, respecting local criteria in the area of legislation, taxation and regulation, at the same time as it allows a vision that is common to the Gas Natural Group's criteria. For the companies not yet integrated in the model, a new application, DGEF General Information, was launched to collect the economic-financial information. In addition, the capital ownership structure of the part-owned companies in Italy was reorganised.

The Gas Natural Group's activities in 2007 led to value being created for shareholders. At the end of the year, the stock was trading at 40.02 euros, which meant 33% up on the previous year; shareholders also received a dividend corresponding to 2006 results of 0.94 euros per share. The effective volume traded reached 15,649 million euros, up 95% in comparison with the volume traded the previous year.

The Group developed different channels to provide consistent information to institutional and minority investors in accordance with the principles of equal treatment and simultaneous diffusion. This has the object of satisfying the Group's commitment, in its corporate responsibility policy, to paying special attention to minority shareholders.

Finally, the Group continued its communication programme with analysts and investors, strengthening its relations with both collectives and providing more transparent economic-financial information to enable them to monitor the Group's business project. Accordingly, meetings were held with almost 150 investors and 40 analysts in different cities in both Europe and North America. The 2008-2012 Strategic Plan, which was presented at the new corporate centre in November 2007, was an excellent opportunity for informing the investment community of the main lines of action and targets the Group has set for the said period.

Internal Audit

The Gas Natural Group carries out internal audit activities as a means of independent and objective assessment. Internal Audit Management depends directly on the Audit and Control Committee, reporting in turn to the Chairman and CEO of Gas Natural SDG.

It is responsible for guaranteeing the supervision and continuous assessment of the effectiveness of the Internal Control System in all fields of the Gas Natural Group, providing a systematic and stringent approach for process monitoring and improvement and for the assessment of operational risks and controls relating thereto. All of which is geared towards meeting the strategic objectives of the Gas Natural Group and assisting the Audit and Control Committee and the senior management of the Gas Natural Group in carrying out their responsibilities in the fields of management, control and corporate governance.

In accordance with the recommendations of the COSO Report (Committee of Sponsoring Organisations of the Treadway Commission), the Internal Control System in the Gas Natural Group has been established as a process carried out by the Board of Directors, senior management and other personnel in the organisation, with the aim of providing a reasonable degree of confidence in meeting objectives in the following fields or categories:

- Operation efficiency and effectiveness.
- Reliability of financial information.
- Compliance with applicable laws and regulations.

The Strategic Audit Plan and the Annual Internal Audit Plans are drawn up principally on the basis of the Group's Strategic Plan, the risk areas included in the Group's Corporate Risk Map, assessment of the operational risks in each process (Operational Risk Map), the results of previous years' audits and the proposals from senior management.

The Internal Audit Department established a methodology for the assessment of operational risks in keeping with best corporate governance practices and based on the Conceptual Framework of the COSO Report, and on the basis of the types of risks defined in the Corporate Risk Map of Gas Natural SDG.

In accordance with the said methodology, the operational risks associated with the processes are prioritised by assessing their incidence, relative importance and degree of control. Based on the results obtained in the aforementioned assessment, an action plan is designed with a view to implementing corrective measures which shall mitigate residual risks identified as having greater potential impact than the established tolerable or accepted risks. The Annual Corporate Governance Report sets out the methodology for the identification and control of the Group's risks.

Internal audit projects are developed through the Company's internal audit corporate intranet (Audita). The aim of this IT application is to improve the effectiveness and efficiency of the development of the internal audit function in all geographic and business spheres of the Gas Natural Group. Furthermore, it should be pointed out that the function has been developed pursuant to International Standards for the Professional Practice of Internal Auditing, and that a number of the internal auditors are in the process of obtaining certification as Certified Internal Auditor (CIA), the only qualification recognised worldwide attesting to the excellence of the internal auditing services.

The development of the internal audit function within the Group is designed to contribute to continuous improvement in the provision of auditing services, by applying policies based on the management and measurement of its quality, and in encouraging the creation of a qualified team of human resources, promoting internal rotation, training, continuous assessment and professional development within the Group.

The 2007 Internal Audit Plan for the Gas Natural Group was approved by the Audit and Control Committee in their meeting held on 26 January 2007.

Pursuant to the Plan, during the period between 1 January 2007 and 29 February 2008 (date of drawing up of Annual Accounts), Internal Audit directors took part in nine meetings of the Audit and Control Committee to present the degree of execution of the Internal Audit Plan and the main conclusions, control and risk assessments and recommendations included in the Internal Audit Reports.

The functions of the Audit and Control Committee and its main activities during 2007 were included in the Annual Report on the Activities of the Audit and Control Committee, which is part of the documentation to be presented by the Board of Directors of Gas Natural SDG, S.A. at the General Meeting of Shareholders. It is also available on the Gas Natural Group website (www.gasnatural.com).

The functions and activities carried out by the Audit and Control Committee of Gas Natural SDG and the Internal Audit Department comply with the demands and recommendations of good corporate governance laid down in current legislation and the Unified Code of Recommendations for the Good Corporate Governance of Listed Companies, of 19 May 2006, published by the National Securities Market Commission (Conthe Code).

The main processes revised by the Internal Audit Department in 2007 were those concerning:

- Business processes:
  - Generation and supply.
  - Construction of distribution systems.
  - Commercialisation.
  - Recruitment and start-up.

- Support processes:
  - Purchases and service procurement.
  - Review of computer controls.
  - Review of the internal control system in the compilation of the financial statements.

In addition, given the organisational position of independence and the transverse scope of the internal audit function, the Company's management led or took part in other collaboration, research and consultancy projects. Accordingly, during 2006, the Internal Audit Department chaired the Code of Conduct Committee, which is responsible for encouraging the dissemination, awareness and compliance with the Gas Natural Group's Code of Conduct on all levels, and for processing the communications received over the various communication channels created for all the Group's employees to query or report breaches of the said Code. Notifications concerning fraud, auditing or faults in accounting or internal control processes are likewise sent directly to the Audit and Control Committee.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Consolidated Economic Analysis

In 2007, the Gas Natural Group reported consolidated net profits of 959 million euros, up 12.3% on the previous year.

The net turnover for 2007 totalled 10,093 million euros, 2.5% down on 2006, mainly due to the fall in electricity prices in Spain and the behaviour of the dollar with regard to the euro.

Gross operating profit (Ebitda) in 2007 totalled 2,277 million euros, 19% up on the previous year. The gas distribution overall (Spain, Latin America and Italy) accounted for 58.1% of the Gas Natural Group's Ebitda. The highest contribution corresponded to the regulated distribution in Spain, with 37.9%.

The gas retail and wholesale commercialisation activity, which also includes the retail commercialisation of other products and services in Spain, reached an Ebitda of 446 million euros in 2007 in comparison with the figure of 220 million euros the previous year. Despite the context of growing volatility on the energy scenario and with regard to the dollar, the overall management of the commercial portfolio risk contributed to achieving the said results.

The Company's activity in the electricity business as a whole (Spain and Puerto Rico) represented 14.9% of the consolidated Ebitda. In Spain, it reached an Ebitda of 279 million euros, up 7.9%, conditioned by the low pool price environment during the year.

In addition, the allocations for amortisations and supplies increased by 9.8% and 3.4%, respectively; operating profits stood at 1,567 million euros in 2007, 24.1% up on the previous year.

The net financial results for the year were 224 million euros in comparison with the 267 million euros of the previous year. This better result was mainly due to the reduction of the average debt, which shows the growing capacity for self-finance in the business as a whole, as well as to the lower average financial cost of the Gas Natural Group, despite the ups and downs of the monetary markets in 2007.

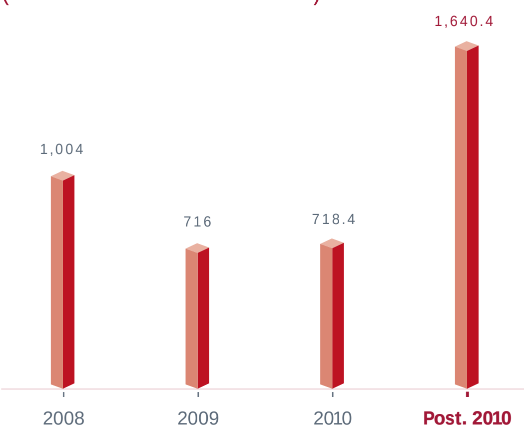
The results of the disposal of non-current assets corresponding to 2007 totalled 64 million euros, in comparison with the 230 million euros of the previous years, and were mainly due to the disposal during the year of the 9.4% holding in Naturgas Energía. The results for the previous year corresponded mainly to the disposal of 7.8% of the holding in Enagás and to the sale of the holding in Gas Natural de Álava.

Financial position

The acquisition of generation assets in Mexico, which the Company carried out in December 2007, led to an increase in the total consolidated net debt during the fourth quarter of 2007, positioning the net financial debt at the end of 2007 at 3,686 million euros. This gave rise to a debt ratio of 36.5% and a financial cover of 10.1 times.

The evolution of the exchange rates of the debt in non-euro currency (mainly the dollar and the Mexican peso) at the close of 2007, with regard to the close of 2006, led to a reduction of the net debt of 47 million euros during the year.

Maturity of the gross debt (at 31 December 2007)



45.5% of the consolidated debt is at a fixed interest rate and the remaining 54.5% is at a floating rate. 24.6% of the gross consolidated debt matures in the short-term and the remaining 75.4% matures in the long-term.

With regard to the distribution of maturities of the debt, 40.5% of the Gas Natural Group's gross financial debt matures after 2010.

Investments

Total investments stand at 2,323 million euros, a figure that is 99.6% up on the previous year, 1,148 million euros of which corresponded to tangible investments, 8.6% up on 2006, mainly due to investments in gas distribution in Spain and investments in electricity generation.

Financial investments in 2007 included the increase in holdings in subsidiaries in Argentina, the acquisition of 100% of Eastern España, the acquisition of the Italmeco Group in Italy, and the acquisition of Mexican companies whose assets comprise five combined-cycle power plants and one gas pipeline, whereas in 2006 they included the acquisition of 100% of Petroleum Oil & Gas España.

The assets acquired in Mexico include the Anáhuac power plant (Rio Bravo II), with a power of 495 MW; the Lomas del Real power plant (Rio Bravo III), with 495 MW; the Vallehermoso power plant (Rio Bravo IV), with 500 MW; the Águila de Altamira power plant (Altamira II), with 495 MW, located in the state of Tamaulipas, in north-west Mexico, as well as the 54-km gas pipeline that supplies these four installations; and the Saltillo power plant, with 248 MW, located in the state of Coahuila, also in the north west of the country.

The transaction was valued at $1,448 million and was approved by Mexican legislators and the Privatisation Committee of France. The transaction was closed on 27 December 2007.

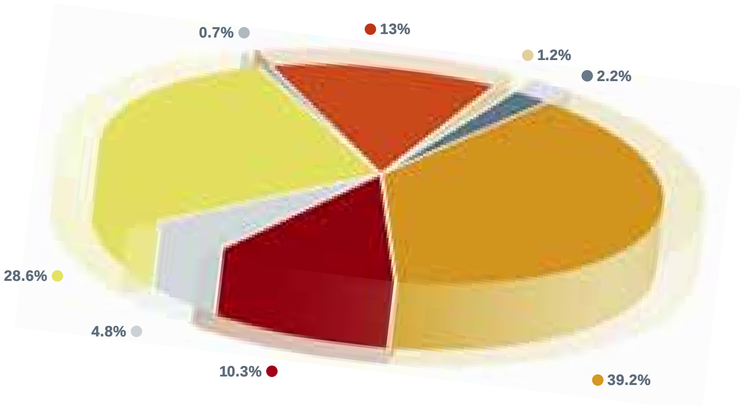
Tangible investments by activity. 2007 (%)

Distribution
- Spain
- Latin America
- Italy

Electricity
- Spain
- Puerto Rico

Gas
- Up & Midstream
- Wholesale & Retail

Others



The Gas Natural Group allocated 39.2% of its tangible investments to the gas distribution activity in Spain, represented by the commissioning of 3,065 km of new network, with a growth of 7.2%, which allows it to continue with the high rate with which it obtains new supply points despite the deceleration of the new construction segment.

28.6% of tangible investments during the period correspond to the electricity activity in Spain, mainly to the development of combined cycles.

The investment in up & midstream reflected the acquisition of 50% of a new methane tanker, the Sestao-Knutsen, with a capacity for 138,000 m^3, the developments in Gassi Chergui (Algeria) and the activity of Petroleum Oil & Gas España.

Net worth

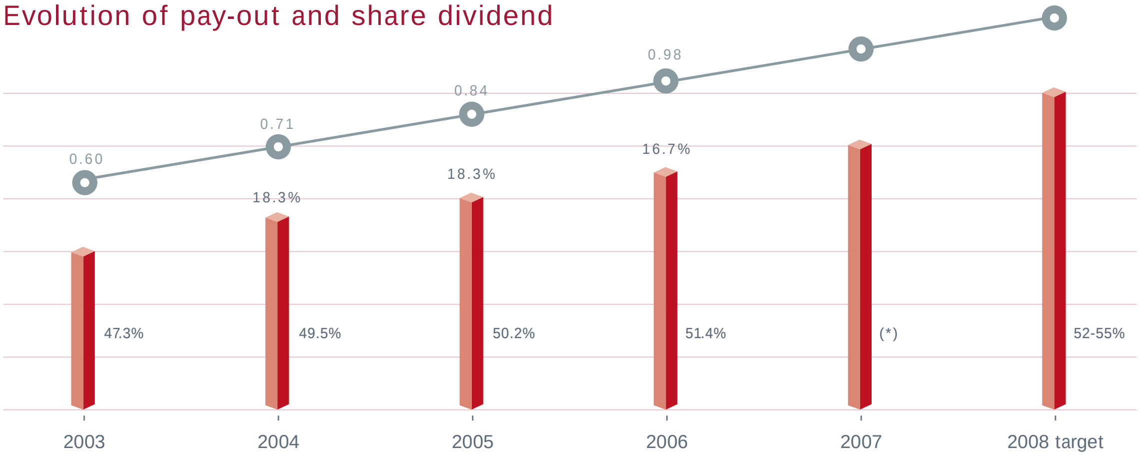
The Ordinary General Meeting of Shareholders held on 16 May 2007 adopted an increase of 16.7% in the dividend and the payment of 0.98 euros per share on the account of the results for the year 2006.

On 29 February 2008, the proposal for the distribution of the 2007 result was raised to the Board of Directors and is to be adopted by the General Meeting of Shareholders in the coming months.

The proposal will represent an increase in the pay-out of between 52% and 55% in 2008.

At the close of 2007, the Gas Natural Group's assets reached 6,427 million euros, with a growth of 7.2% over the last 12 months. Of these assets, the figure of 6,070 million euros can be attributed to the Gas Natural Group, with an increase of 7.4%. Accordingly, the profitability of the average equity reached 16.4%.

Evolution of pay-out and share dividend



Dividend (euro/share).

(*)€0.43 intirim dividend paid on 8 January 2008.

Stock Market Information

After several years of great stability on the stock market, the year 2007 was characterised by a high level of volatility on every market caused by the subprime mortgage crisis. In addition, the securities markets have had to deal with a heavy fall in the dollar and increases in the prices of raw materials, mainly oil.

As far as the Spanish stock market is concerned, it was a bull market in 2007 for the fifth year running and was characterised by a historic high in trading due to the high-level capitalisation of variable income, intense corporate activity and a considerable number of takeovers. This took it to second position on the European stock market ranking by revaluation.

The Ibex 35, the main Spanish stock market index, closed the year at 15,182.3 points, up 7.3% on 2006. The index recorded an annual high of 16,040.4 points on 9 November and an annual low of 13,519.1 on 14 March.

For their part, the Gas Natural Group's shares closed the year at 40.02 euros, with a gain of 33.4%. The annual high of 45.76 euros was recorded on 16 May, and the annual low of 29 euros on 19 January.

During 2007, a total number of 406.7 million shares were traded, 32% up on the previous year. Of the total number of shares traded, 78% corresponded to the continuous market, although 17% of this percentage was contracted through so-called block transactions. The remaining 22% was traded through special transactions. The daily average of shares traded stood at 1.4 million.

The effective volume traded represented 15,648 million euros, with a daily negotiation average of 55.1 million euros, up 95% on the previous year. As a result of these high trading levels, the Gas Natural Group was the 14th most traded share on the continuous market in 2007.

At 31 de December de 2007, the Company's stock market capitalisation stood at 17,919 million euros, lying 13th on the Ibex 35 ranking with a weighting of 2.04%. In accordance with stock market regulations, its participation in the said index totalled 60% of its capitalisation.

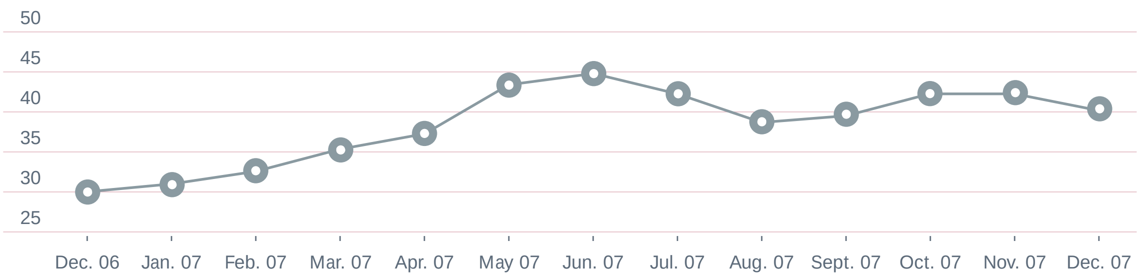
Accordingly, in 2007, the Gas Natural Group maintained its presence on the most prestigious socially responsible investment indices. The Company was listed on the Dow Jones Sustainability World Index and increased its score by approximately 5% in comparison with the previous year.

Mention must also be made of the Gas Natural Group's presence on the KLD Climate Change 100 Index, which recognises the companies that are better positioned regarding the climatic change. The Group also forms part of the ECPI Ethical Index Euro and the Triodos Bank ethical investment universe.

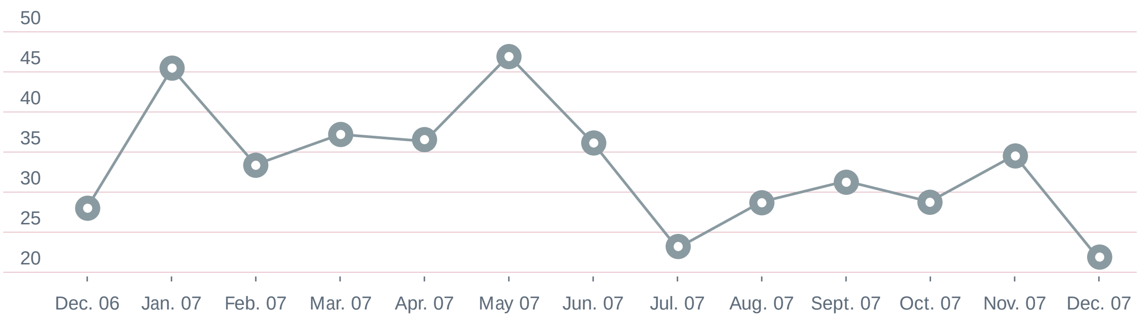
The shares of Gas Natural BAN, the distribution company for the Gas Natural Group in Argentina, stood at 2.53 pesos at year-end, reporting an increase of 37.5%. The annual high and low were 2.81 pesos and 1.70 pesos, respectively. During 2007, 8.1 million shares were traded. The Merval Index of the Buenos Aires Stock Market, closed the year with an increase of 2.9%.

According to the information taken from the last General Meeting of Shareholders held on 16 May 2007, there are estimated to be more than 30,000 Gas Natural SDG shareholders.

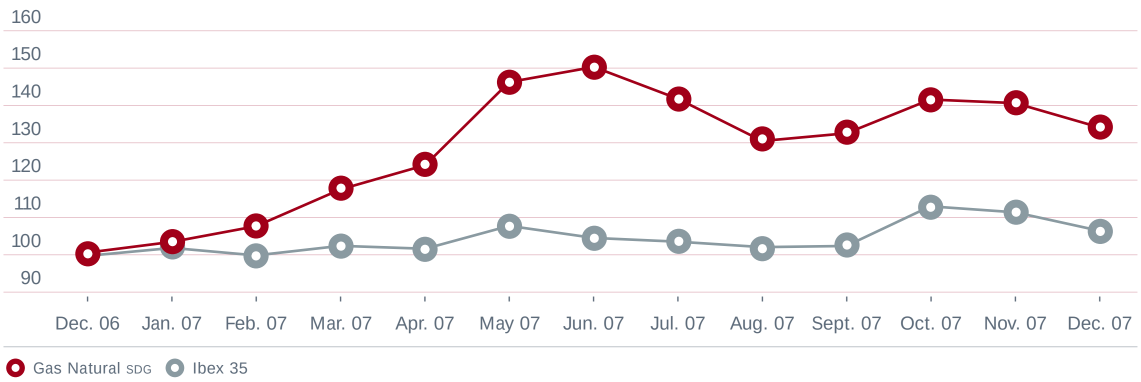
Share prices of Gas Natural SDG. Monthly close in euros



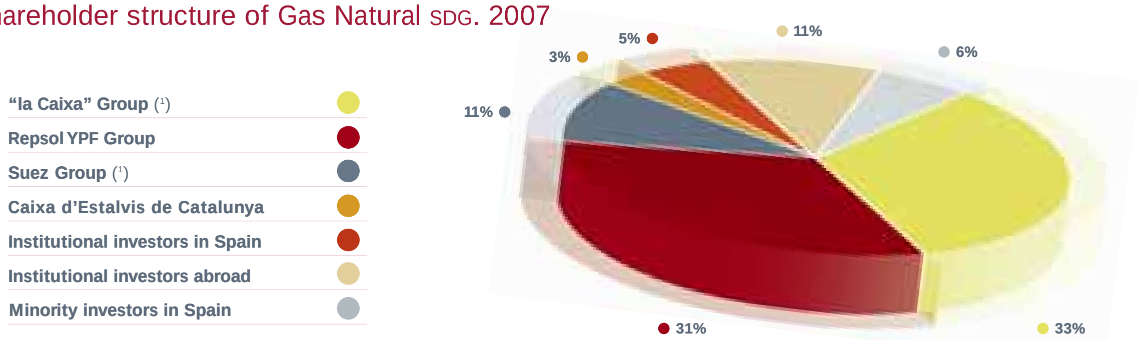
No. of shares traded. Monthly data in millions



Performance of Gas Natural SDG and Ibex 35



Shareholder structure of Gas Natural SDG. 2007



(1) Holding de infraestructuras y Servicios Urbanos, S.A. (HISUSA) is a company part-owned 51% by the Suez Group and 49% by the "la Caixa" Group. HISUSA owns 5.03%of the Gas Natural Group, a percentage that has been included in the Suez Group's holding. For economic intents and purposes, taking into account the ownership of HISUSA, the "la Caixa" Group's holding is 35.53%.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Distribution in Spain

Gas distribution in Spain includes the remunerated gas distribution activity, regulated gas supply, the third-party access to network services (TPA) and secondary transportation, as well as non-remunerated distribution activities (hiring of meters, installation to customers, etc.) in Spain.

The net turnover for the gas distribution activity in Spain reached 2,116 million euros, with a slight fall of 1.7% in comparison with the previous year, owing to lower tariff gas sales brought about by the transfer of natural gas volumes to the deregulated market.

The Ebitda stood at 863 million euros, 6.3% up on the previous year, in line with the increase in regulated remuneration for 2007.

Distribution in Spain. Main figures

	2007	2006	%
Gas-related activity sales (GWh)	271,058	258,758	4.8
Regulated gas sales	38,288	44,660	(14.3)
Residential	26,343	21,367	23.3
Industrial	11,945	21,148	(43.5)
Electricity	-	2,145	-
TPA	232,770	214,098	8.7
Distribution network (km)	45,429	42,364	7.2
Increase in supply points, in thousands	246	301	(18.3)
Supply points, in thousands (as at 31/12)	5,681	5,435	4.5

Sales in the regulated gas market in Spain, which comprises tariff gas supply and TPA services for both the distribution of gas and secondary transport totalled 271,058 GWh, up 4.8% on the previous year. Despite the mild winter temperatures of 2007 in comparison with those of the previous year, gas sales on the tariff residential market increased by 23.3% as a result of the increase in the number of new tariff clients thanks to the new supply points.

In addition, the transfer of most of the industrial customers to the deregulated market continued. Currently, the degree of opening of the gas market (sales of gas in the deregulated market vs. total market) stands at 88.6%, against 86.1% in 2006.

Distribution and secondary transport services for TPA rose 8.7% and reached 232,770 GWh, 105,847 GWh of which corresponded to services performed for third parties and the rest of which, 126,923 GWh, to the Gas Natural Group, also the leading operator on the deregulated gas market.

The Gas Natural Group's distribution network increased by 3,065 km in 2007, reaching the figure of 45,429 km at 31 December 2005. This represents a year-on-year growth of 7.2%. The year 2007 also saw the launch of the supply in 63 new towns.

The Gas Natural Group maintains high rates of growth in the number of supply points and, during the last twelve months, the number increased by 246,000 new points. At 31 December 2007, the figure for supply points on the Company's distribution network totalled 5,681,000, up 4.5%.

Distribution in Latin America

In 2007, the on-going growth of results was consolidated for the gas distribution business in Latin America, where the Gas Natural Group has a presence in Argentina, Brazil, Colombia and Mexico.

The net turnover reached the figure of 1,766 million euros, which represents a growth of 13.4% thanks to the contribution from Brazil, with 853 million euros, and Mexico, with 431 million euros.

The Ebitda reached the figure of 425 million euros, up 10.1% on the previous year. Excluding variations in the exchange rate, the Ebitda grew by 10.9%.

Gas-related activity sales in Latin America, which include gas sales and TPA services, totalled 179,314 GWh, up 4.4% on 2006.

The distribution network increased by 1,396 km in 2007, reaching the figure of 59,555 km at 31 December 2007. This represents a year-on-year growth of 2.4%.

The figure for gas distribution supply points reached 5,077,000 at 31 December 2007. The Gas Natural Group maintained high growth rates, with an increase of 170,000 supply points during the last twelve

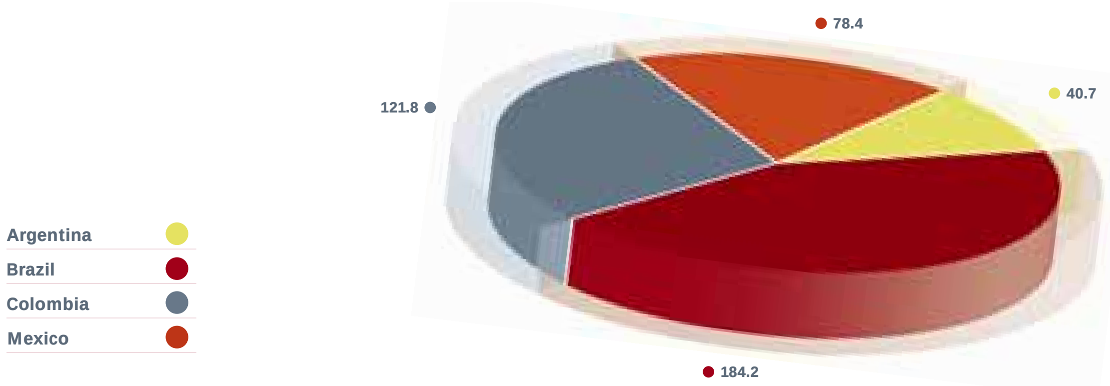
Distribution in Latin America. Main figures

	2007	2006	%
Gas-related activity sales (GWh)	179,314	171,750	4.4
Regulated gas sales	115,367	106,849	8
TPA	63,947	64,901	(1.5)
Distribution network (km)	59,555	58,159	2.4
Increase in supply points, in thousands	170	150	13.3
Supply points, in thousands (as at 31/12)	5,077	4,907	3.5

Distribution in Latin America. Main figures by country. 2007

	Argentina	Brazil	Colombia	Mexico	Total
Gas activity sales (GWh)	74,055	46,253	15,664	43,342	179,314
Increase vs. 31/12/2006 (%)	7	2.2	15.5	(0.9)	4.4
Distribution network	21,855	5,635	16,555	15,510	59,555
Increase vs. 31/12/2006 (km)	369	248	498	281	1,396
Supply points, in thousands (as at 31/12)	1,355	773	1,816	1,133	5,077
Increase vs. 31/12/2006, in thousands	33	20	104	13	170

Ebitda in Latin America by country. 2007 (in millions of euros)



months, despite the difficulties involving competitiveness on the conventional markets in Brazil and Mexico and the high level of saturation reached in Colombia.

In 2007, with regard to the activities carried out by the Gas Natural Group in Latin America, the following issues can also be highlighted:

- In Argentina, the National Gas Legislator Body published the tariff tables for implementing the agreement signed by and between Gas Natural BAN and the Argentinian government. The 33% increase in the distribution margin is applied to the domestic, commercial and industrial markets. This increase in tariffs, which was recorded in Gas Natural BAN's sales as from 1 November 2005, should be considered as part of an Integral Tariff Review (RTI), whose following phase of negotiation has already begun. Sales for the period were up 7% on the previous year thanks to the abnormally cold winter temperatures in comparison with the previous year.

- In Brazil, sales for 2007 were up slightly on the previous year, highlighting the growth of 13.6% in vehicular gas sales. This was partially compensated by the 5.7% fall in sales for electricity generation due to inconveniences in the gas supply resulting from the maintenance of the Petrobras transport infrastructure.

- In Colombia, the customer base increased by 6.1% in comparison with 2006, mainly due to the development of the new construction market in Bogotá and the gasification of the Cundiboyacá area. Sales were up 15.5% on the previous year, based on higher sales to industry and the intense development of the compressed natural gas market, which recorded sales of 2,721 GWh, up 46.5% on the previous year.

- During 2007, in Mexico, the increase in supply points was 22.6% in comparison with the previous year, where the figure increased from 10,600 to 13,000 customers because of the greater commercial development in Mexico City. In addition, gas-related sales for the year were down slightly on the previous year due to the fall in TPA sales because of the partial suspension of the gas supply in the Bajíos area, caused by incidents on the producer's (PEMEX) gas pipelines during the second half of the year. This was compensated by the increased consumption on the domestic/commercial markets (5% up on 2006) owing to the low temperatures recorded during the first quarter of 2007.

Distribution in Italy

Gas distribution in Italy represented a contribution to the Ebitda of 35 million euros, up 15.9% on the previous year.

Distribution Italy. Main figures

	2007	2006	%
Gas-related activity sales (GWh)	2,800	2,448	14.4
Regulated gas sales	2,635	2,347	12.3
TPA	165	101	63.4
Distribution network (km)	4,775	4,012	19.0
Supply points, in thousands (as at 31/12)	357	320	11.6

The gas distribution activity reached 2,800 GWh, up 14.4% on 2006, mainly due to an increase of 11.6% in supply points and a greater demand for gas during the fourth quarter, which totalled 386 GWh as a result of the temperatures during the last quarter, which were significantly lower than the temperatures for the same quarter of the previous year.

The expansion operations gave rise to an increase in the distribution network of 254 km, and a growth of 37,000 new supply points in year-on-year terms.

In September 2007, after the purchase of the gas group, Italmeco, for the amount of 32 million euros, the Gas Natural Group increased its distribution area in the country to 31 new towns in the regions of Basilicata, Calabria, Campania and Lazio. Once the takeover process had been completed, on 17 December 2007, it was added to the consolidation of the perimeter through global integration, which represented an incorporation of 8,930 gas distribution supply points and a network of 509 km.

With this transaction, the Company is now present in 178 towns in eight regions in central and southern Italy.

Electricity in Spain

This section includes the electricity generation activities in Spain (combined cycles, wind farms and cogeneration), electricity commercialisation and trading.

Electricity in Spain. Main figures

	2007	2006	%
Power generation capacity (MW)	3,980	3,169	25.6
Combined cycle	3,600	2,800	28.6
Wind power	363	347	4.6
Cogeneration	17	22	(22.7)
Electricity generated (GWh)	16,975	17,831	(4.8)
Combined cycle	16,096	16,987	(5.2)
Wind power	779	694	12.2
Cogeneration plants	100	150	(33.3)
Electricity contracted (GWh/year)	6,239	210	-
Electricity sales (GWh)	2,214	2,761	(19.8)
Residential	736	1,931	(61.9)
Industrial	1,478	830	78.1

The Ebitda for the electricity activity in Spain in 2007 reached 279 million euros, 7.9% up on the previous year, despite lower pool prices due to the optimisation of the Gas Natural Group's participation in various electricity generation businesses in Spain and the trading and commercialisation of electricity. The net turnover for the electricity activity totalled 1,127 million euros.

In 2007, the energy generated and sold, mainly to the wholesale market, reached the figure of 16,975 GWh, 4.8% down on 2006, largely due to the negative scenario of the pool prices.

The generation of electricity with combined cycles totalled 16,096 GWh in 2007. The Gas Natural Group's accumulated share in ordinary electricity generation stood at 7.5% in 2007.

The electricity customer portfolio at 31 December 2007 was 6,239 GWh per year, and was on the increase, with an average sale price that was higher than the previous year. The net portfolio increase was 6,029 GWh per year.

The Gas Natural Group's production with combined cycles represented 30% of the national production using this technology, 23% up on the previous year, which, together with a more efficient gas supply, strengthens its position in this sector.

The Gas Natural Group's generation park has 3,600 MW in operation in combined cycle electricity generation facilities, since it incorporated the 800 MW La Plana del Vent combined-cycle power plant (Tarragona) in 2007. Furthermore, it has 400 MW under construction in Malaga and another 800 MW at the Port of Barcelona (at an advanced permission stage). In addition, the Gas Natural Group and the Lantarón Town Council (Álava) recently signed an agreement for the construction of an 800 MW combined cycle plant in the said town.

In 2007, the Gas Natural Group generated 779 GWh of wind energy, a production that is 12.2% up on the previous year, thanks to the increase in the power installed. The operation of the Group's wind farm (2,243 hours) was higher than the national average, which stood at 2,104 hours.

Last year, the Company started three wind farms with a total of 31 MW, 16 MW attributable, corresponding to the extension of the Munilla (La Rioja), and San Esteban Egastiaga and San Esteban Caraquidoya (Navarre) farms, with 5 MW, 3 MW and 7.5 MW attributable, respectively. Accordingly, the Gas Natural Group consolidates its position as one of the main players in the sector, with 737 MW in operation and 900 MW under development. Its share stands at 2.4% of the Spanish wind energy market, which reached a power installed of 15,145 MW in 2007.

With regard to cogeneration, the Gas Natural Group's electricity sales totalled 99 GWh based on an attributable power of 17 MW in 2007. At the end of the year, two new power plants were at an advanced stage of construction, with a total installed power of 22 MW in Almazán (Soria), with 15 MW, and Cinca Medio (Huesca), with 7 MW.

Electricity in Puerto Rico

The Gas Natural Group has been present in Puerto Rico since October 2003, when it purchased a holding of 47.5% in the EcoEléctrica, as well as exclusive rights to the introduction of natural gas into the island and a fuel management, maintenance and operation contract.

EcoEléctrica's facilities comprise a regasification plant with two 114,000 m^3/hour vaporisers, a 160,000 m^3 LNG tank, and a 540 MW combined cycle plant, which produces between 15% and 17% of all the electricity consumed on the island.

The Ebitda of the activities in Puerto Rico reached 59 million euros in 2007 ($86.7 million in local currency).

EcoEléctrica's electricity sales in 2007 totalled 3,450 GWh (the energy attributable to the Gas Natural Group was 1,725 GWh), an increase of 2.5%, with a load factor of 77.7%, a slight improvement on the 75.7% of the previous year.

In May 2007, the Gas Natural Group signed a contract with the Electricity Authority of Puerto Rico (PREPA) to provide regasification services for a volume of 0.7 bcm/year as from 2008. This will be used to generate electricity at the electricity power plant of Aguirre, which is to change over to natural gas in the coming months.

Electricity in Puerto Rico (in millions of euros)

	2007	2006	%
Net turnover	144.1	158.7	(9.2)
Supplies	(72.0)	(80.8)	(10.9)
Personnel expenses, net	(3.3)	(3.1)	6.5
Other expenses/incomes	(9.9)	(12.2)	(18.9)
Ebitda	**58.9**	**62.6**	**(5.9)**
Allocation to depreciation	(17.4)	(18.2)	(4.4)
Allocation to provisions	(0.3)	0.1	-
Operating profit	**41.2**	**44.5**	**(7.4)**

Up & Midstream

Usptream & Midstream activities include development of integrated LNG projects, exploitation, development and production of hydrocarbons, sea transport management and operation of the Maghreb-Europe gas pipeline.

The net turnover for the Upstream & Midstream activity totalled 259 million euros. The Ebitda for 2007 was 158 million euros, 13.1% down on the previous year, mainly due to lower activity in the transport of gas by pipeline, a lower use of the methane tanker fleet in the current year (91.2% in 2007 in comparison with 96.5% in 2006) and an unfavourable dollar exchange rate that affects EMPL activities.

The gas transportation activity carried out in Morocco, through the companies EMPL and Metragaz, represented a total volume of 124,150 GWh, down 4.1%. Of this figure, 96,056 GWh were transported for the Gas Natural Group by the Sagane; 28,094 GWh were for Portugal and Morocco. The fall in the volumes transported is due basically to the fall in demand as a result of the mild winter temperatures.

Up & Midstream. Main figures

	2007	2006	%
Gas transportation/EMPL (GWh)	124,150	129,499	(4.1)
Portugal-Morocco	28,094	28,838	(2.6)
Gas Natural Group	96,056	100,661	(4.6)

The Gas Natural Group's projects continued the construction of underwater storage, exploration and production areas in Marismas (Huelva), and with Repsol YPF, the exploration projects in Gassi Chergui (Algeria), where the drilling of the first well has begun, the Tangiers-Larache project (Morocco) and the exploration project in Malaga.

The Gas Natural Group and Repsol YPF, in consortium with other companies, have signed a shareholders agreement for the first operations to develop an integrated gas project in Angola. Initially, gas reserves were assessed to later establish the necessary investments to develop and export them as LNG.

The Gas Natural Group's projects for the construction of two regasification plants in Italy (Trieste and Taranto) continued to progress with regard to the procedures for the approval of the different regional and national permits.

On 30 November 2007, Knutsen OAS Shipping delivered a new methane tanker to the Gas Natural Group and Repsol YPF. The ship, christened Sestao-Knutsen, joined the Stream fleet, the joint company dedicated to the transport and commercialisation of LNG. The ship was chartered through a 25 year time-charter contract which may be extended by consecutive five-year periods, representing a joint investment of 161 million euros.

The Sestao-Knutsen joins the current fleet of eleven methane tankers managed by Stream. Throughout 2009, the fleet will be increased by a new Knutsen ship, currently in operation, with a capacity of 138,000 m^3 and, in 2010, by a four new methane tankers, three of which are also commissioned from Knutsen OAS and one from the Elcano shipping company. In 2007, Stream processed volume of 15 bcm of LNG from the partners' contract portfolio from Trinidad and Tobago, Nigeria, Qatar and Libya.

Furthermore, last year, with a view to optimising the Gas Natural Group and Repsol YPF's LNG supply in accordance with the demand on their respective markets, Stream purchased and sold 33 LNG cargoes in the short-term (less than one year) for a total volume of over 2 bcm.

Wholesale & Retail

This section combines procurement and commercialisation activities, both in Spain and abroad, and retail commercialisation in Spain, besides those of gas commercialisation within the deregulated market, gas procurement for other gas distributors or commercialisers, and the commercialisation of other products and services relating to retail commercialisation.

The net turnover for the gas supply activity totalled 6,037 million euros, 4.9% down on the previous year. This fall was mainly due to the reduction of the volumes commercialised in Europe and the lower dollar/euro exchange rate; however, in the fourth quarter of 2007, there was an increase of 10.8%, mainly due to the higher sales for electricity generation.

The Ebitda for the wholesale and retail gas supply activity stood at 446 million euros in 2007, against the 220 million euros of the previous year. As a result of the measures adopted to foster deregulation, as well as the commercial policy implemented by the Gas Natural Group, the performance of the Ebitda continued to grow thanks to the optimisation of the gas contracts portfolio on the deregulated market, as well as the increase in efficiency resulting from the commodities portfolio risk management and the exchange rate associated with the commercial portfolio.

Gas Natural Gropus's total commercialisation and supply reached 292,730 GWh, with a fall of 0.6%. Of this amount, 245,566 GWh went to the Spanish market and the remaining 47,164 GWh went to international markets.

Wholesale & Retail. Main figures

	2007	2006	%
Gas supply (GWh):	292,730	294,451	(0.6)
Spain	245,566	251,410	(2.3)
Regulated Spanish market	45,024	58,678	(23.3)
Spanish liberalised market	200,542	192,732	4.1
Gas Natural Group Commercialisation ([1])	167,389	160,624	4.2
Third-party supplies	33,153	32,108	3.3
Others	47,164	43,041	9.6
Supplies	40,708	31,476	29.3
Commercialisation Europe	6,456	11,565	(44.2)
Multi-product contracts (as at 31/12)	1,904,663	2,137,135	(10.9)
Contracts per customer (as at 31/12)	1.37	1.43	(4.2)

([1]) Does not include exchange transactions with power companies.

On the deregulated market, sales amounted to 200,542 GWh, with an increase of 4.1% in comparison with the previous year. The lower gas consumption for electricity generation over the year, due to the high hydraulicity, affected the growth of this figure. Of these sales, 167,389 GWh were commercialised to end customers by the Gas Natural Group, and used mainly for the industrial market and to supply both combined cycle plants and the residential market. In addition, the supply to the deregulated market of other gas commercialisation companies totalled 33,153 GWh, with an increase of 3.3%.

The Gas Natural Group and General Motors España signed a collaboration agreement to promote the development in Spain of the use of compressed natural gas in both the public and private sector. By virtue of the agreement, General Motors España undertook to offer its range of natural gas vehicles with attractive finance options and prices in comparison with diesel, and in terms adjusted to demand. The Company will carry out studies on the location of public pumps at existing petrol stations or new locations. It will provide the technical means and investments required for the operation and maintenance of these installations, and supply the natural gas consumed.

Likewise, the Gas Natural Group launched a new line of business, gn Solar, to promote the joint use of solar energy and natural gas in residential buildings and the tertiary sector. It also signed a collaboration agreement with the solar system supplier, Schüco International KG, to promote the development of thermal solar energy using natural gas as a support energy for the production of domestic hot water in residential buildings. In addition, the Group and APPLUS+ signed a collaboration agreement to certify the design, installation and operation of the solar installations developed by the energy company.

With regard to the Gas Natural Group's multi-product activity, the temporary and selective abandonment of the residential commercialisation of electricity in recent months gave rise to a fall in the number of contracts which, together with the continued increase in the customer base, led to a reduction of the customer/contracts ratio. However, the Company had 1,532,000 maintenance contracts with its customers at 31 December 2007.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Free translation of the auditor's report on the consolidated annual accounts originally issued in Spanish. In the event of a discrepancy, the Spanish language version prevails.

AUDITOR'S REPORT ON THE CONSOLIDATED ANNUAL ACCOUNTS

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

We have audited the consolidated annual accounts of Gas Natural SDG, S.A. (parent company) and its subsidiaries (the Group), consisting of the consolidated balance sheet as at December 31, 2007, the consolidated income statement, the consolidated statement of income and expense recognised, the consolidated cash flow statement and the related notes to the consolidated annual accounts for the year then ended, the preparation of which is the responsibility of the Directors of the parent company. Our responsibility is to express an opinion on the consolidated annual accounts taken as a whole, based on the work carried out in accordance with auditing standards generally accepted in Spain, which require the examination, on a test basis, of evidence supporting the consolidated annual accounts and an evaluation of their overall presentation, the accounting principles applied and the estimates made.

In accordance with Spanish Corporate Law, the Directors of the parent company have presented, for comparative purposes only, for each item in the consolidated balance sheet, the consolidated income statement, the consolidated statement of income and expense recognised, the consolidated cash flow statement and the related notes to the consolidated annual accounts, the corresponding amounts for the previous year as well as the amounts for 2007. Our opinion refers solely to the consolidated annual accounts for 2007. On February 26, 2007 we issued our audit report on the consolidated annual accounts for 2006, in which we expressed an unqualified opinion.

In our opinion, the accompanying consolidated annual accounts for 2007 present fairly, in all material respects, the financial position of Gas Natural SDG, S.A. and its subsidiaries as at December 31, 2007 and the consolidated results of their operations, changes in consolidated incomes and expenses recognised and consolidated cash flows for the year then ended, and contain all the information necessary for their interpretation and comprehension in accordance with International Financial Reporting Standards as adopted by the European Union, applied on a basis consistent with the preceding year.

The accompanying consolidated Directors' Report for 2007 contains the information that the Directors of the parent company consider relevant to the Group's position, the evolution of its business and other matters and does not form an integral part of the consolidated annual accounts. We have verified that the accounting information contained in the aforementioned consolidated Directors' Report coincides with that of the consolidated annual accounts for 2007. Our work as auditors is limited to checking the consolidated Directors' Report within the scope already mentioned in this paragraph and it does not include a review of information other than that obtained from the accounting records of the Gas Natural SDG, S.A. and its subsidiaries.

PricewaterhouseCoopers Auditores, S.L.

Manuel Valls Morato
Partner

March 7, 2008

PricewaterhouseCoopers Auditores, S.L. - 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

Consolidated balance sheets (Euros in millions)

Assets	**31.12.07**	**31.12.06**
Property, plant and equipment *(Note 5)*	9,705	8,106
Goodwill *(Note 6)*	541	441
Intangible assets *(Note 6)*	1,095	1,188
Investments recorded using the equity method *(Note 7)*	38	34
Available-for-sale financial assets *(Note 8)*	298	368
Derivative financial instruments *(Note 18)*	33	20
Other non – current financial assets *(Note 9)*	388	138
Deferred income tax assets *(Note 23)*	274	255
Non current assets	**12,372**	**10,550**
Inventories *(Note 10)*	462	440
Trade and other receivables *(Note 11)*	2,367	2,130
Other current financial assets *(Note 9)*	54	95
Derivative financial instruments *(Note 18)*	11	10
Cash and cash equivalents *(Note 12)*	152	127
Assets held for sale	2	3
Current assets	**3,048**	**2,805**
Total assets	**15,420**	**13,355**

Equity and liabilities		
Share capital *(Note 13)*	448	448
Fair value reserves *(Note 13)*	152	162
Retained earnings and other reserves *(Note 13)*	5,483	4,988
Cumulative translation adjustment *(Note 13)*	(13)	54
Capital and reserves attributable to the Company's equity holders	**6,070**	**5,652**
Minority interests	**357**	**344**
Total equity	**6,427**	**5,996**
Deferred income *(Note 14)*	543	478
Provisions *(Note 15)*	378	367
Employee benefit obligations *(Note 16)*	87	78
Borrowings *(Note 17)*	3,029	2,510
Derivative financial instruments *(Note 18)*	46	82
Other long term liabilities *(Note 20)*	599	435
Deferred income tax liabilities	495	471
Pasivos no corrientes	**5,177**	**4,421**
Provisions *(Note 15)*	65	8
Borrowings *(Note 17)*	977	628
Derivative financial instruments *(Note 18)*	64	46
Other liabilitiies *(Note 21)*	390	325
Trade and other payables *(Note 22)*	2,150	1,848
Deferred income tax liabilities	170	83
Current liabilities	**3,816**	**2,938**
Total equity and liabilities	**15,420**	**13,355**

Notes 1 to 39 form an integral part of these consolidated annual accounts.

Consolidated income statements (Euros in millions)

	2007	2006
Sales *(Note 24)*	10,093	10,348
Other income *(Note 25)*	81	124
Procurements *(Note 26)*	(6,747)	(7,418)
Personnel cost *(Note 27)*	(308)	(277)
Depreciation and amortization expenses *(Note 5 y 6)*	(651)	(592)
Other operating expenses *(Note 28)*	(901)	(922)
Operating income	**1,567**	**1,263**
Net finance cost *(Note 29)*	(224)	(267)
Share of profit of associates *(Note 8)*	8	5
Gain on sales of non current assets *(Note 30)*	64	230
Income before taxes	**1,415**	**1,231**
Income tax expense *(Note 23)*	(359)	(302)
Net income for the period	**1,056**	**929**
Attributable to:		
Minority interests	97	74
Equity holders of the Company	959	855
	1,056	**929**
Earnings per share attributable to the equity holders – Basic and diluted *(Note 13)*	2.14	1.91

Notes 1 to 39 form an integral part of these consolidated annual accounts.

Consolidated statement of income and expense recognised (Euros in millions)

	2007	2006
Net income recognised directly in equity	**(79)**	**(229)**
In fair value reserves	(10)	(152)
Available-for-sale assets	(23)	(151)
Valuation adjustments *(Note 8)*	51	46
Sales released to income	(80)	(230)
Tax effect *(Note 23)*	6	33
Cash flow hedges	13	(1)
Valuation adjustments	(62)	(82)
Transfer to income	82	80
Tax effect *(Note 23)*	(7)	1
In retained earnings and other reserves	1	(2)
Actuarial profit and loss *(Note 16)*	1	(2)
In cumulative translation adjustment	(70)	(75)
Gross cumulative translation adjustment	(75)	(86)
Tax effect	5	11
Net income for the period	**1,056**	**929**
Total income and expenses recognised for the year	**977**	**700**
Attributable to:		
Minority Interests	94	56
Equity holders of the company	883	644

Notes 1 to 39 form an integral part of these consolidated annual accounts.

Consolidated cash flow statements (Euros in millions)

	2007	2006
Cash flows from operating activities		
Cash generated from operations (*Nota 31*)	2,430	2,147
Interest paid	(222)	(308)
Provisions paid	(51)	(34)
Income tax paid	(328)	(351)
Net cash generated from operating activities	**1,829**	**1,454**
Cash flows from investing activities		
Acquisition of subsidiaries, net of cash acquired	(1,015)	(35)
Purchases of property, plant and equipment and intangible assets	(1,135)	(1,159)
Other investments	(26)	(11)
Proceeds from sale of associates and other investments	125	319
Proceeds from sale of other assets	51	39
Deferred income received	76	95
Dividends receiveds	17	18
Interest received	18	24
Net cash used in investing activities	**(1,889)**	**(710)**
Cash flows from financing activities		
Proceeds from borrowings	1,270	370
Repayment of borrowings	(540)	(821)
Dividends paid to Company's shareholders	(439)	(376)
Dividends paid to minority interests	(82)	(75)
Variation in other liabilities	(112)	111
Net cash received from financing activities	**97**	**(791)**
Effect of exchange rates on cash and other equivalents	**(12)**	**(27)**
Cash and cash equivalents at beginning of the year	127	201
Cash and cash equivalents at end of the year	152	127
Net increase / (decrease) in cash and cash equivalents	**25**	**(74)**

Notes 1 to 39 form an integral part of these consolidated annual accounts.

Notes to the consolidated annual accounts of Gas Natural for 2007

Note 1. General information

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

Gas Natural SDG, S.A. and its subsidiaries (hereon, GAS NATURAL) is primarily engaged in the supply, transportation, distribution and commercialization of piped natural gas, as well as the activities involving exploration and developing, supply, regassification, liquefaction and storage of natural gas, and the generation and commercialization of electricity.

GAS NATURAL operates mainly in Spain and also outside of Spain, especially in Latin America, Puerto Rico, Italy, France and Africa.

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

The companies that make up GAS NATURAL close their fiscal year on December 31st.

The annual accounts of Gas Natural SDG, S.A. and the consolidated annual accounts of GAS NATURAL for the year ended 2007 were approved by the General Meeting of Shareholders of May 16, 2007.

The consolidated annual accounts for 2007, which have been formulated by the Board of Directors on February 29, 2008, will be submitted, as will be those of the investee companies, for approval by the respective General Meetings of Shareholders. It is expected that they will be approved without any modification.

The figures set down in these consolidated annual accounts are expressed in millions of Euros, except for the figure of earnings per share, which is expressed in Euros per shares and shares issued, which are presented in millions of shares, except when indicated otherwise.

Note 2. Summary of significant accounting policies

2.1 Basis of preparation

The accompanying consolidated annual accounts of GAS NATURAL for 2007 have been prepared in accordance with International Financial Reporting Standards adopted by the European Union (IFRS–EU), in accordance with Regulation (CE) no. 1606/2002 of the European Parliament and Council.

The consolidated annual accounts present a true and fair view of the consolidated equity and consolidated financial position of GAS NATURAL at December 31, 2007, as well as the consolidated results of its operations, the variations in the statements of income and expenses recognised and consolidated cash flows, which have occurred in GAS NATURAL in the year ended on said date.

The consolidated annual accounts for 2007 of GAS NATURAL have been prepared on the basis of the accounting records of Gas Natural SDG, S.A. and the other entities forming part of the Group. Each company prepares its annual accounts following the accounting principles and criteria of the country in which they carry out their operations, and accordingly, the adjustments and reclassifications necessary to homogenize said principles and criteria in order to adapt them to IFRS-EU have been introduced. The accounting principles of the consolidated Companies have been modified where necessary in order to assure that they are consistent with the accounting policies adopted by GAS NATURAL.

The policies set out below have been consistently applied to all the years presented.

2.2 Consolidation

a) Subsidiaries

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

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

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

The interest of minority shareholders in net equity and results of the subsidiaries is presented under Minority interests in the balance sheet and under Profit attributable to minority interests in the income statement. In the case of acquisitions of minority interests, the difference between the price paid and the net book value is recognised as goodwill.

b) Joint Ventures

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

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

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

c) Associates

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

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

d) Consolidation scope

The APPENDIX includes the direct and indirect investee companies of GAS NATURAL included in the consolidation scope.

The APPENDIX includes the direct and indirect investee companies of GAS NATURAL included in the consolidation scope (see *Note 32*):

- In February GAS NATURAL acquired all the share capital of Eastern España, S.A.U., a company engaged in research and exploitation of hydrocarbons and the transport, storage, treatment and sale of hydrocarbon by-products.

- In February 24% of the shareholding in Burgalesa de Generación Eólica, S.A. was sold.

- In June 28% of the shareholding in Invergas, S.A., Gas Natural SDG Argentina, S.A., Natural Energy, S.A. and Natural Servicios, S.A. was acquired, and, accordingly, the indirect shareholding in Gas Natural BAN, S.A. now stands at 70%.

- In September 80% of the shareholding in Tratamiento Cinca Medio, S.L., was acquired. This company is engaged in the development, construction and exploitation of a co-generation plant that is fully consolidated.

- In October a contribution of 51% of the share capital of Gas Natural Vehicular del Norte, Asociación en Participación, was made. This company is proportionally consolidated.

- The following companies are now fully consolidated: Gas Natural West Africa, S.L., Gas Natural Wind Canarias, S.L., Gas Natural Wind, S.L., Gas Natural Wind 2, S.L., Gas Natural Wind 3, S.L., Gas Natural Wind 4, S.L., Gas Natural Wind 5, S.L., Gas Natural Wind 6, S.L. and Gas Natural Energy Canarias, S.L. All of these are fully owned.

- The following companies have been proportionally consolidated: Energías Eólicas de Lanzarote, S.L. (50%), Energías Eólicas de Fuerteventura, S.L. (50%) and Alas Capital & Gas Natural, S.A. (40%).

- On 27 December the 100% shareholding was acquired in Central de Anáhuac, S.A. de C.V, Central Lomas del Real, S.A. de C.V., Central Valle Hermoso, S.A. de C.V., Central Saltillo, S.A. de C.V., Electricidad Águila de Altamira, Gasoducto del Río, S.A. de C.V., Compañía Mexicana de Gerencia y Operación, S.A. de C.V. and Controladora del Golfo, S.A. de C.V.

- The following gas distribution companies in Italy, which were acquired in December, have been consolidated: ITAL.ME.CO, S.R.L., Calgas, S.c.a.r.l y Mecogas, S.r.l., all are fully owned.

- The following companies, which have been wound up, have been eliminated from the consolidation scope: Agrupación Energética C.S.U. Bellvitge, A.I.E. and Iradia Climatización, A.I.E..

On the other hand, in 2007 the following corporate operations were made with Group companies:

- In July there was a takeover merger of Gas Natural Informática, S.A. and Portal Gas Natural, S.A.

- In July there was a takeover merger of Gas Natural Informática, S.A. and Portal Gas Natural, S.A.

- In December there was a takeover merger of S.C.M., S.r.L. and Nettis Gestioni, S.r.L. by Gas Natural Distribuzione Italia, S.p.A.

The main variations in the consolidate scope in 2006 were as follows *(see Note 32)*:

- In March GAS NATURAL acquired all the share capital of Petroleum Oil & Gas España, S.A., a company engaged in research and exploitation of hydrocarbons and the transport, storage, treatment and sale of hydrocarbon by-products.

- In June the Group acquired from a company consolidated by the equity method, Kromschroeder, its 38.5% shareholding in the capital of Natural Energy, S.A., and, accordingly, the Group's interest in this company now stands at 72%.

- In July the Group acquired an additional shareholding of 40.0% in the share capital of UTE La Energia-SPA, and now holds 100% of its share capital.

- The Group's consolidation scope now includes the fully consolidated companies Lantarón Energia, S.L. and Gas Natural Comercial SDG, S.L., and the company proportionally consolidated under the equity method, El Andalus LNG, SPA., all of which were incorporated during 2006. GAS NATURAL holds all the share capital of the first two and 32% of the latter.

- In November GAS NATURAL sold 10% of its shareholding in Gas Natural Álava, S. A.

On the other hand, in 2006 the following operations were carried out as part of the restructuring process of the Italian shareholdings:

- Nettis Impianti S.p.A. (now has the registered name) of Gas Distribuzione S.p.A. and Gas Natural Servizi e Logistica S.p.A. now has the registered name of Gas Natural Italia, S.p.A.

- In July Gas Natural Vendita Italia, S.p.A. carried out a takeover merger of Nettis Gas Plus S.p.A. and S.C.M. Gas Plus S.p.A.

2.3 Foreign currency translation

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

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

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

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

- income and expenses for each income statement are translated at monthly average exchange rates; and

- all resulting exchange differences are recognized as a separate component of equity (cumulative translation adjustment).

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

The exchange rates against the Euro of the main currencies of the companies in the GAS NATURAL at December 31, 2007 and 2006 have been:

	December 31, 2007		December 31, 2006	
	Closing Rate	Average Accumulated Rate	Closing Rate	Average Accumulated Rate
USD	1.472	1.370	1.317	1.255
Argentinean Peso	4.606	4.244	4.006	3.833
Brazilian Real	2.608	2.664	2.816	2.729
Mexican Peso	16.052	14.973	14.223	13.797
Colombian Peso	2,965.93	2,842.33	2,948.38	2,962.95

2.4 Segment reporting

A business segment (primary segment of GAS NATURAL) is a group of assets and operations that engage in providing products or services that are subject to risks and returns that are different from those of other business segments.

A geographical segment is engaged in providing products or services within a particular economic environment that is subject to risks and returns that are different from those of segments operating in other economic environments.

2.5 Property, plant and equipment

a) Cost

All property, plant and equipment are presented at cost of acquisition or production.

The financial cost for the technical installation projects that take longer than one year to complete, until the asset is ready to be brought into use, form part of property, plant and equipment.

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

Major maintenance expenditures (overhauls) are capitalized and depreciated over the estimated useful life of the asset (generally 1.5 to 6 years) while minor maintenance is expensed as incurred.

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

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

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

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

b) Depreciation

Assets are depreciated using the straight-line method, over their estimated useful life or, if lower, over the time of the concession agreement (see Note 6). Estimated useful lives are as follows:

	Years of estimated useful life
Buildings	33-50
Cryogenic LNG transport gas tankers	25-30
Technical installations (pipeline network and transport)	20-40
Technical installations (combined cycle gas turbine: CCGT)	25
Technical installations (wind farms)	20
Other technical installations and machinery	8-20
Tooling and equipment	3
Furniture and fittings	10
Computer equipment	4
Vehicles	6

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

An asset’s carrying amount is written down immediately to its recoverable amount if the asset’s carrying amount is greater than its estimated recoverable amount, i.e., when the asset is no longer useful such as due to a rerouting of the distribution pipeline *(see Note 2.7).*

c) Exploration operations and production of hydrocarbons

GAS NATURAL records exploration and hydrocarbon production operations using the “successful-effort” method, which treatment is as follows:

- Explorations costs.

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

Drilling costs are capitalised depending on the determination as to whether proven reserves have been found to justify their commercial exploitation. If proven reserves are not found, the drilling costs initially capitalised are expensed. However, if, as a result of the exploration probes proven reserves are found, the costs are transferred to Investments in areas with reserves.

- Investments in areas with reserves.

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

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

2.6 Intangible assets

a) Goodwill

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

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

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

b) Concessions and other rights to use

Administrative concessions and other rights to use refer to administrative authorization for the distribution of natural gas. They are valued at acquisition cost, if acquired directly from the government or a public body, or at the discounted cash flows to be obtained from the related concession if they have been acquired as part of a business combination.

Administrative concessions and other rights to use are amortized on a straight-line basis over the length of the concession, except in the case of the Maghreb-Europe pipeline, where the annual amortization charge is based on the volume of gas transported over the life of the right to use.

c) Computer software applications

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

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

d) Research costs

Research activities are expensed as incurred.

e) Other intangible assets

Other intangible assets mainly include the following:

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

- The projects in development for new wind farms that have still not been brought into use and acquired in the business combination of 2005 of Dersa, which will be amortized on a straight-line basis over their useful lives (20 years).

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

There are not intangible assets with indefinite useful life other than goodwill.

2.7 Impairment of assets

Assets are tested for impairment, provided that an event or change in circumstances indicates that their carrying amount may not be recoverable. Goodwill impairment is also reviewed annually. Thus, the assets and goodwill are assigned to Cash Generating Units (CGU). Each CGU represents the investment of GAS NATURAL in each business segment in each country in which it operates.

An impairment loss is recognized through profit and loss for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (CGU). When valuating value in use, the estimated future cash flows are calculated at their current value.

The calculation of recoverable value uses cash flow projections based on approved budgets that cover a period of five years based on past results and market forecasts. The most sensitive aspects that are included in the projections used in all the CGUs are purchase and sale prices of gas and/or electricity, inflation, staff costs and investments. The cash flows generated after the five-year period are extrapolated using the estimated growth rates from 0.0% to 1.0%. The growth rates do not exceed the average long-term growth rate for the business in which the CGU operates. The discount rates are determined on the basis of market data and in 2007 fluctuate between 5% and 15% for the CGUs.

2.8 Financial assets and liabilities

Investments

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

a) Financial assets at fair value through profit and loss

These are assets acquired for short-term sale. Derivatives form part of this category unless they are designated as hedges.

b) Held-to-maturity financial assets

These are non-derivative financial assets with fixed or determinable pay outs and fixed maturity which the Group plans to and can hold until maturity.

c) Loans and accounts receivable

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

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

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

d) Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated in this category. They are initially recognized at fair value.

Unrealized gains and losses arising from changes in fair value are recognized in equity. When these assets are sold or impaired, the accumulated adjustments to the reserve due to valuation adjustments are included in the income statement as profit and losses from investment securities.

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

Cash and cash equivalents

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

Borrowings

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

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

Trade and other payables

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

2.9 Accounting for derivative financial instruments and hedging activities

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

GAS NATURAL documents at the inception of the transaction the relationship between hedging instruments and hedged items, as well as its risk management objective.

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

a) Fair value hedge

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

b) Cash flow hedge

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

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

c) Derivatives that do not qualify for hedge accounting

Certain derivative instruments do not qualify for hedge accounting. Changes in the fair value of any derivative instruments that do not qualify for hedge accounting are recognized immediately in the income statement.

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

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

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

The embedded derivatives in other financial instruments or another type of contract are booked separately as derivatives only when their economic characteristics and tacit risks are not closely related to the instruments in which they are embedded and when the whole is not being booked at fair value.

2.10 Inventories

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

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

Net realizable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

2.11 Held-for-sale assets

GAS NATURAL classifies as held-for-sale assets those assets for which at the year end active initiatives have been initiated for their sale, which is estimated to take place within the next twelve months.

2.12 Share capital

Share capital is made up exclusively of ordinary shares.

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

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

2.13 Deferred Income

GAS NATURAL receives compensation for amounts paid for the construction or acquisition of certain plant.

Deferred income relates primarily to:

- Capital grants for assets stated at the amount granted.

- Income in consideration for new connections and branch lines.

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

Deferred income is recognised in results systematically on the basis of the useful life of the corresponding asset, thus offsetting the depreciation expense.

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

2.14 Provisions

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

Provisions are recorded when the inevitable costs of settling obligations required under a contract for valuable consideration exceed the expected profit to be generated by them.

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

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

2.15 Employee benefit obligations

a) Pension obligations

GAS NATURAL has several defined contribution pension schemes and externally insured benefit schemes for death and disability for certain groups of employees that are constituted under current legislation in this area, covering the commitments acquired by the Company with the current personnel involved. GAS NATURAL recognises certain past-service costs fully disbursed and is committed to making contributions based on a percentage of the computable salary corresponding to each employee group.

The annual contributions to cover the commitments accrued by the entity for these schemes are recorded against profit and loss each year.

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

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

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

Past-service costs are recognized immediately in income, unless the changes to the pension plan are conditional on the employees remaining in service for a specified period of time (the vesting period). In this case, the past-service costs are amortised on a straight-line basis over the vesting period.

b) Other post-employment benefit obligations

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

c) Termination benefits

Termination benefits are payable when employment is terminated before the normal retirement date, or when an employee accepts voluntary redundancy in exchange for these benefits. GAS NATURAL recognizes terminating the employment of current employees according to a detailed formal plan without possibility of withdrawal; or providing termination benefits.

2.16 Leases

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

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

2.17 Income tax

Corporate income tax expense includes the deferred tax expense, the current tax expense, which is the amount payable (or refundable) on the tax profit for the year and depreciation allowances net of provisions.

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

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

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

2.18 Revenue recognition

Sales are recognized when products are delivered to and have been accepted by the client, even if it has not been invoiced, or if applicable, services are rendered, and it is probable that the economic benefits associated with the transaction will flow to the entity. Sales for the year include the estimate of the energy supplied and pending to be invoiced.

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

Note 3 describes the basic features of the applicable regulations by sector.

The legal framework on the regulated activities in the gas industry of Spain, regulates the payment procedure to be applied among entities of the gas industry for the redistribution of the amounts received from tolls, levies and tariffs net of quotas for specific destinations, costs of acquisition of gas and remuneration of the bundled tariff activity, so that each company will finally collect the amounts based on its regulated activities.

The remuneration of the distribution activity is calculated on the basis of the revision of last year's remuneration, the average increase of the consumers and related energy prices, as set down by the Ministerial Order and adjusted using real data.

The remuneration of the bundled tariff is calculated using the variables and rates of the formula set down in the Ministerial Order that establishes remuneration for the year, bearing in mind the energy supplied.

The Ministerial Order of October 28, 2002, which regulates the settlement procedures for the deviations arising from the application of the settlement procedure between final net settlement income and the remuneration accredited each year, will be taken into account in the calculation of the tariffs, tolls and levies for the following years. At the date of formulation of these consolidated annual accounts, no final settlements have been published for 2003 to 2007, but the provisional deviations for these years have considered in order to calculate the tariffs, tolls and levies for 2004 to 2008. No final settlements are expected to give rise to significant differences in respect of the estimates made.

Income includes the amount of both regulated sales and sales in the de-regulated market, since both the bundled tariff distributor and the free-market seller are considered principal agents and not commission agents for the supplies delivered.

Exchange of gas with a different value, or which bear a cost, and which give rise to differences, are included as part of sales.

The purchase or sale contracts of non-financial assets that are executed and remain in force in order to receive or deliver these assets in accordance with the uses expected by the entity are recorded in accordance with the terms of the contracts.

The sales of electricity based on the Electricity Production Market Regulations that comply with the Electricity Industry Act, Law 54/1997 of November 27, were recorded according to actual consumption.

GAS NATURAL has "power purchase agreements (PPA)" contracts for the cession of electricity and the purchase-sale of energy for its combined cycle plants in Mexico and Puerto Rico. Under these contracts, GAS NATURAL obtains fixed revenues for capacity and operations of the combined cycle plants during the term of the contract. These fixed revenues are recognised on a straight-line basis over each year of the contract term, irrespective of the invoicing schedule agreed.

Interest income is recognized on a time-proportion basis using the effective interest method.

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

2.19 Statement of cash flows

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

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

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

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

2.20 New accounting standards IFRS-EU and IFRIC interpretations

Certain new accounting standards (IFRS-EU) and IFRIC interpretations have been adopted and promulgated that are mandatory for accounting periods beginning on or after January 1, 2007 and have been adopted by GAS NATURAL:

a) IAS 1 (Modification August 2005), "Presentation of financial statements – Capital disclosures";
b) IFRS 7, "Financial instruments: Disclosures";
c) IFRIC 7, "Applying the restatement approach under IAS 29, Financial reporting in hyper - inflationary economies";
d) IFRIC 8, "Scope of IFRS 2 – Share-based payments";
e) IFRIC 9, "Re - assessment of embedded derivatives";
f) IFRIC10, "Interim financial reporting and impairment".

The adoption of these standards has not had a significant impact on these consolidated financial statements.

GAS NATURAL has chosen not to make early application of IFRS 8, "Operating segments", which replaces IAS 14 and stipulates that the segment reporting must be based on internal management information.

On the basis of the analysis at the new accounting standards and interpretations to be applied in the years beginning January 1, 2008 or thereafter, GAS NATURAL does not expect that they will have a significant effect on the consolidated financial statements.

2.21 Significant accounting estimates and judgments

The preparation of consolidated financial statements requires the formulation of estimates and judgments. The actual results could be different from the estimates and judgments used. The valuation standards that require a large number of estimates are set out below:

a) Provisions

In general, liabilities are recorded when it is probable that a liability or obligation will give rise to an indemnity or payment. GAS NATURAL evaluates and makes an estimate of the amounts to be settled in the future, including additional amounts relating to income tax, contractual obligations, the settlement of outstanding litigation, and other liabilities. These estimates are subject to the interpretation of current events and circumstances, projections of future events and estimates of their financial effects.

b) Calculation of income tax and deferred income tax assets

The calculation of the income tax expense requires interpretations of tax legislation in the jurisdictions in which GAS NATURAL operates. The determination of expected outcomes of outstanding disputes and litigation requires the preparation of significant estimates and judgment by GAS NATURAL

GAS NATURAL evaluates the recoverability of the deferred income tax assets based on estimates of future taxable income. The recoverability of the deferred tax assets depends ultimately on the capacity of GAS NATURAL to generate sufficient tax profits during the periods in which these deferred taxes are deductible.

c) Revenue recognition

Revenue from energy sales is recognized when the goods are delivered to the customer based on periodical meter readings and include the estimated accrual of the value of the goods consumed as from the date of the meter reading until the close of the period. Estimated daily consumption is based on historical customer profiles taking into account seasonal adjustments and other factors than can be measured and may affect consumption.

Historically, no material adjustments relating to the amounts recorded as uninvoiced revenues have been made and none are expected in the future.

d) Goodwill

Goodwill is subject to impairment tests annually.

The estimated recoverable value of the cash generating units applied to impairment testing has been determined on the basis of the discount cash flows prepared in accordance with the business plan adopted by GAS NATURAL. The discount rate used is the average weighted cost of capital.

e) Pension commitments

The calculation of the expense for pension and other post-employment benefits, requires the use of different hypotheses, such as the long-term yield of the assets in the plan and the discount rate used, and the social security coverage assumptions.

The future changes in the yields of the plan, the discount rates used and other factors related to the unit holders of the pension plans and post-employment benefits will have an impact on future pension expenses and liabilities.

Note 3. Regulatory framework

a) Regulation of the natural gas industry in Spain

The regulation of the natural gas industry in Spain is set down in the Hydrocarbons Act, Law 34/1998 of October 7.

This Act, in its original wording, introduced the de-regulation of the natural gas market in line with the European Directive 98/30/EC, regulating the legal regime for the acquisition, liquefaction, regassification, transport, storage, distribution and commercialisation of combustible gas by pipeline.

Different legal provisions after the coming into force of Law 34/1998 sped up the de-regulation process, of special note being Decree Law 6/2000, of June 23, which:

- Designated Enagás, S.A. as Technical Manager of the System..

- Limited to 35% the shareholding of the same legal or natural person in Enagás, S.A. .

- Established a temporary cession to third parties of the contract for natural gas from Algeria and supplied through the Maghreb – Europe pipeline. It also stipulates that as from January 1, 2004 the natural gas in this contract must be applied preferentially to the regulated rate supply.

- Set January 1, 2003 as the date as from which no subject or subjects pertaining to the same group of companies that operate in the natural gas industry, may contribute, as a whole, natural gas for its consumption in Spain in an amount greater than 70% of national consumption. For the purposes of calculating this percentage self-consumption is not taken into account.

- Established a new remunerative regime of rates, tolls and levies and settlements.

Royal Decree 949/2001 regulated access of third parties to the gassistic installations and established the criteria for setting the integrated economic framework of the industry, both for the determination of remuneration and the setting of rates and tolls, as well as for the settlement process. The criteria of reference for the remuneration of system activities are as follows:

- To assure the recovery of the investments made by the titleholders in the period of the useful life of the same. Thus, annual remuneration includes the amortisation of the recognised cost of investment.

- To permit reasonable profitability on the investments.

- To determine the system for remunerating the operating costs in order to encourage effective management and improvements in productivity that must be passed on to the users and consumers.

Furthermore, it defines the system regulating access of third parties to the pipeline network: the subjects with access rights, how to apply for access, the periods of access, causes of rejection of access, and the rights and obligations of each subject in relation to the system.

Both for the rates and tolls a structure is set up based on supply pressure levels and customer consumption levels.

The economic framework is based on the collection of remuneration set down for each activity in the system through the application of rates, canons and levies. Given that each agent does not collect its recognised remuneration, a settlement procedure is required that reassigns the income in the system. This settlement procedure was finally set down in Order 2692/2002 issued by the Ministry of the Economy on October 28, 2002. The agent in charge of carrying out these settlements is the National Energy Commission.

Royal Decree 1434/2002 of December 27 regulated the transport, distribution, commercialisation, supply and installation authorisation procedures for natural gas, as well as the relations between gas companies and consumers both in the regulated and de-regulated market. Furthermore, it establishes the procedures for residential customer access to the free market as well as the changes in intermediaries, making it possible, as from January 1, 2003, for any consumer to choose their supplier. Finally, it regulates the applicable legal regime for the connections as well as the revenues to be received for them.

Royal Decree 1716/2004 of July 23, which regulates the obligation to maintain minimum security inventories and the diversification of natural gas supply, establishes the obligation to maintain certain minimum security inventories equal to 35 days of firm sales for transporters, intermediaries, and qualifying consumers that make use of their access right. This legislation has been modified by Royal Decree 1766/2007, which establishes the minimum inventories at 20 days of sales or consumption to which the parties are firmly bound.

Royal Decree 942/2005 of July 29, which modified certain provisions on hydrocarbon issues, expedited the regime from the shift of customers to the free market customers and regulated the related non regulated activities of distributors.

Royal Decree 919/2006 of July 28, adopted the technical regulations for the distribution and use of gas fuels which, amongst other changes, eliminated the four-year inspection-revision, replacing with a five-yearly inspection that must be undertaken by the distributor companies and paid for by the customer, and introduced a new regulation for the approval of the installers and installing companies and imposed upon the suppliers, and no longer on the distributors, the obligation to submit the emergency reports in the event of an accident to the competent administration.

Law 12/2007 of July 2, which modifies Law 34/1998, completed the de-regulation initiated in 1998 and transposes to Spanish legislation Directive 2003/55/CE of June 2003, 26, which revoked Directive 98/30/CE. The main aspects of the current legal regime in force, after the promulgation of this Law, are as follows:

- As from 1 July 2008 natural gas is supplied exclusively by the commercialisers; the bundled tariff disappears, which to date was done by the distributors, and the right recognition is granted to the consumer who does not surpass a certain consumption threshold (3 Gwh, which will fall to 1 Gwh in 2010), to be supplied at a maximum price that is called the final-recourse rate.

- Guarantees regulated access to the network to commercialisers and direct consumers in the market, de-coupling ownership from the use of the gassistic infrastructures.

- Force the legal and functional separation between free and regulated activities and the accounting separation of the regulated activities in order to avoid cross subsidies and to increase the transparency in the calculation of rates, tolls and levies.

- Creates the Bureau for Change of Supplier, which will be responsible for the supervision of the changes in supplier under the principles of transparency, objectivity and independence.

- Limits the shareholding in Enagás, S.A. to a maximum of five percent of its capital, the exercising of voting rights to three percent in general and to one percent in the case of persons involved in gassistic activities, and, in any case, the sum of the interest of shareholders undertaking activities in the gas industry cannot exceed forty percent.

- Law 12/2007 increases the functions of the National Energy Commission, which took over from the former National Electricity System Commission.

- Imposes the diversification of supply in order to increase the security of gas provisions.

- Suppresses the qualification of activities in the gas sector as being a public service.

- The undertaking of distribution activity is based on a system of administrative authorizations that grant exclusivity to the distributor for their zones and preference in obtaining the authorizations for bordering zones.

Royal Decree 1068/2007 regulates the start up of the last-resort supply in the natural gas sector and designates the last-resort commercialisers. Order ITC 2309/2007 establishes the mechanism for the transfer of customers from the bundled tariff market to the last-resort supply of natural gas and Order 3861/2007 establishes the last-resort rate for 2008 and contemplates the organisation of an auction for the acquisition of the percentage of gas to be supplied to the same to be determined.

Order 3862/2007 establishes the mechanism for assigning the underground storage capacity for natural gas and creates a capacity market, while modifying the Order on the transfer of customers in relation to the designation of the last-resort commercilising company for Extremadura.

Order 3863/2007 establishes the tolls and levies for access by third parties to gassistic installations for 2008 and updates certain aspects of the remuneration of regulated activities in the gas sector.

b) Regulation of the natural gas industry in Latin America

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

In Mexico, the market is totally de-regulated except for the domestic production of gas. PEMEX is the dominant operator. Brazil also has a de-regulated market, although Petrobras has a significantly dominating position. In Colombia the authorities have set a limit to the participation in the gas distribution business at a maximum of 30% of the users in the country as from 2015. Likewise, it has set a limit for the commercialisation of natural gas to end users up to a maximum of 25% of the market (excluding thermal power stations, petro-chemical installations and own use). Moreover, the transport companies cannot directly undertake any production, commercialisation or distribution activity (and vice-versa). The shareholding of transport companies in production, commercialisation or distribution of gas cannot surpass 25% (and vice-versa).

In Argentina, as a result of the 2001 economic crisis, there was a freezing and Pesoisation of rates. There is now an agreement, which involves updating rates and setting the basis for a stable payment system to distributors that is based, as in other countries, on the appropriate retribution of the assets.

The government adopted a decree on rate revision in order to establish a stable distributor remuneration system based, as in other countries, on a proper remuneration of assets and on April 9, 2007 the national gas regulator (Ente Nacional Regulador del Gas - ENARGAS) published the rate tables for implementing the agreement.

In 2004 the pricing cases of the Companhía Distribuidora de Gas do Rio de Janeiro, S.A. (Ceg, S.A.) in Brazil; Gas Natural, S.A. ESP, Gases de Barrancabermeja, S.A. ESP, and Gas Natural de Oriente, S.A. ESP in Colombia; and Comercializadora de Metrogas, S.A. de C.V. in Mexico, have been resolved favourably. In the first half of 2005 the pricing cases of Ceg Rio, S.A. and Gas Natural Sao Paulo Sul, S.A. in Brazil were resolved.

c) Regulation of the natural gas industry in Italy

Since 2004 the gas industry in Italy has been fully de-regulated, except in Sicily, which was declared an emerging development zone and where protection was established allowing free competition only in those municipalities with more than 10,000 supply points. As from January 2006 the gas market in all municipalities with more than 5,000 points was deregulated. As a result, in January 2006 the gas market is de-regulated in Sicily for all cities with more than 5,000 supply points. There is also an obligatory legal separation of the operators from the transport system, as well as certain limits to the maximum supply and commercialisation percentages in order to boost competition and the entrance of new operators.

d) Regulation of the electricity industry in Spain

The regulation of the electrical industry in Spain is established under the Electrical Industry Act, Law 54/1997 of November 27.

In respect of electricity generating activity, the law recognizes the right to the free installations of electricity power plants and establishes guiding plans in order to facilitate decision-making on investments by companies. The economic optimization of the production system is based on free competition of the market agents, within the framework of an organised wholesale market for electricity production.

The remuneration of the non-regulated generation activity is based on electricity production market prices. Law 17/2007 of July 4, has replaced the payment for power guarantees with a system of capacity-based payments for medium and long-term services. Additionally, until Decree Law 7/2006, the right of the generator is recognised to receive income to offset the so-called Transition to Free Market Costs that were established when the electricity industry was deregulated.

The generation facilities under the special regime received new regulation through Royal Decree 661/2007 of May 25, which regulate the electricity production under the special regime that was revoked by Royal Decree 436/2004 of March 12. It established a new legal and economic regime for these installations, as well as a transitional economic regime for certain installations. Royal Decree 616/2007 of May 11, on the fostering of co-generation that transposed European Directive 2004/8/CE was also adopted.

As for the transport and distribution activities, these are considered natural monopolies, but the pipeline networks are at the disposal of system players and consumers through access of third parties to the pipeline network.

The remuneration of the regulated transport and distribution activities is established in Royal Decree 2819/1998 which contemplates the recognition of the investments costs of the owners of the installations over the period of their useful life as well as the operating and maintenance costs, in addition to a reasonable yield on the funds invested. The remuneration of the transport is made per physical installation, while the remuneration of the distribution is updated as more energy is generated.

The economic framework of the sector is based on the receipts of the remuneration set down for each activity in the system through the application of the integral rate and toll rates. Given that each of the agents does not collects its recognized remuneration, a settlement procedure is required that reassigns the system revenues, and the National Energy Commission (CNE) is responsible for making the regulated settlements.

The commercialisation activity is based on the free market principles and choice of supplier by the customer. The remuneration of the commercialisastion as a deregulated activity is free agreed by the parties.

The rating methodology is set down in Royal Decree 1432/2002 of December 27. A Ministerial Order is published periodically with the electricity rates.

Royal Decree 3/2006 came into force on March 1, 2006 and introduced several measures to mitigate the deficit in the bundled tariff electricity market through the implementation of a mechanism where the electricity generated and sold on the regulated market by companies in the same group will be priced by the Government since they are pegged to bi-lateral contracts. This regime was suppressed as from January 1, 2008.

Royal Decree Law 3/2006, also established that the price of electricity that the Wholesale Electric Market players would receive would be decreased by the amount equal to the value of the green-house gas emission rights assigned previously and free of charge to each of the energy producers. This legislation was enacted in 2006 by means of the ITC Order 3315/2007 of November 5, which commissioned the Natural Energy Commission (CNE) to apply it. GAS NATURAL has appealed this regulation and will appeal the future ruling of the CNE. The result of the application of this new legislation does not represent the recording of significant amounts in the accounts of GAS NATURAL in respect of the estimates made.

Royal Decree Law 11/2007 has extended this regime to the National Emmission Rights Assignment Plan for 2008-2012 (PNA).

Auctions were held during 2007 both for primary energy emissions by the dominant generators and for the acquisition of energy by the distributors to cover the bundled tariff energy, as per ITC Order 400/2007 of February 26, which regulates the bi-lateral contracts signed by the distributors for the bundled tariff in the Iberian Peninsula.

Law17/2007 of July 4, which modifies the Electric Industry Act, Law 54/1997/27 November, in order to adapt it to the provisions of Directive 2003/54/CE of June 26, of the European Parliament and Council, governing the common standards for the domestic electric market, has set down the following calendar:

- The integral high tension rates will disappear on July 1, 2008.

- As from January 1, 2009 bundled tariff, which until that time was carried out by the distributors, will disappear, and the right of the consumers who do not surpass a certain threshold of consumptions will be recognized to be supplied at a maximum price called the final - recourse rate: to be limited as from January 1, 2010 to low tension consumption and as from January 1, 2011 to domestic consumers and small and medium sized companies using less than 50 kW.

- Legislation orders the creation of the Supplier Change Bureau – joint for gas and electricity -, which will be responsible for supervising the changes in supplier under the principles of transparency, objectivity and independence.

e) Regulation of the electricity sector in Puerto Rico

The electricity sector in Puerto Rico is controlled by the Autoridad de Energía Eléctrica (AEE or PREPA), which is a vertically integrated public corporation. PREPA was founded in 1941 as a public corporation of the Commonwealth de Puerto Rico, as stipulated in article 83 of the legislation of Puerto Rico.

PREPA was created to conserve and develop water and for the production of electrical energy in Puerto Rico. It currently generates 70% of demand, owns all electrical transmission and distribution and is one of the largest public utility electrical companies in the United States. PREPA has broad powers under article 83 and is self-regulating in terms of rates and quality standards.

f) Regulation of the electric sector in Mexico

The electric sector in Mexico is controlled by the Energy Regulatory Commission (“Comisión Reguladora de Energía” or CRE) and supplied mainly by two public utilities: the Comisión Federal de Electricidad (CFE) and Luz y Fuerza del Centro, the latter operating in the metropolitan area of Mexico City and the first in the rest of the country. The two utilities are vertically integrated in terms of generation, transmission and distribution.

Since the amendments to the Public Electrical Utilities Act in 1992, the private sector in the generation of electricity in Mexico has grown substantially, under the figure of external producers of energy, self-supply, cogeneration, import and export. In 1997 the Energy Regulatory Commission (CRE) granted the first permit under the classification of independent producer. In 2007 there are 21 permits for independent production with an authorized capacity of 11,478 MW (61% through combined cycle technology). The independent generators sell their energy to CFE under long-term supply contracts for the cession of generating capacity.

Note 4. Segment reporting

a) Primary segment reporting format-business segment

GAS NATURAL's reportable segments are as follows:

- Gas Distribution. Gas distribution includes the regulated gas activity, remunerated gas distribution and bundled tariff, third party access services to the pipeline network and non-regulated activities related to distribution.

  Gas distribution includes all of our sales to regulated customers in Spain, Latin America and Italy at regulated prices. Regulated customers are customers in jurisdictions where the natural gas market has not been liberalized, such as Latin America, or customers in jurisdictions where the natural gas market has been liberalized but who have chosen to remain in the regulated market.

- Electricity. Our electricity operations include the generation of electricity through combined cycle generation plants, cogeneration projects and wind farms in Spain, Puerto Rico and Mexico, and the commercialization of electricity in Spain to customers in the liberalized market.

- Upstream & Midstream (UP & MID):

  Upstream. Upstream activities include gas exploration and production activities, gas transportation from the moment gas is extracted until it reaches the liquefaction plant and the liquefaction process.

  Midstream. Midstream activities include value chain activities of LNG from the exit point in exporting countries (liquefaction plants) to the entry points in final markets (regassification plants).

These activities include the transport of LNG from the liquefaction plant by marine transport, the regassification process and the operation of the Maghreb-Europe gas pipeline.

- Wholesale & Retail (W&R). Wholesale & Retail activities include commercialization of natural gas to wholesale & retail customers in the liberalized market in Spain, as well as the provision of gas related products and services in Spain. In addition includes the sales of LNG to wholesalers outside of Spain.

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

	Gas distribution				Electricity			W&R	UP&MID	Other	Intersegmental eliminations	Total
2007	**Spain**	**Latin America**	**Italy**	**Total**	**Spain**	**Puerto Rico**	**Total**					
Total segment sales	2,116	1,766	151	4,033	1,127	144	1,271	6,037	259	154	(1,661)	10,093
Inter segment sales	(541)	-	-	(541)	(87)	-	(87)	(756)	(151)	(126)	1,661	-
Sales	1,575	1,766	151	3,492	1,040	144	1,184	5,281	108	28	-	10,093
Ebitda (*)	863	425	35	1,323	279	59	338	446	158	12	-	2,277
Depreciation and amortisation expenses	(285)	(94)	(24)	(403)	(79)	(18)	(97)	(8)	(46)	(97)	-	(651)
Debtors provisions and others	(6)	(18)	(9)	(33)	(5)	-	(5)	(10)	(6)	(5)	-	(59)
Operating income	572	313	2	887	195	41	236	428	106	(90)	-	1,567
Net finance cost	-	-	-	-	-	-	-	-	-	-	-	(224)
Share of profit of associates	6	-	-	6	2	-	2	-	-	-	-	8
Gain on sales of associates	-	-	-	-	-	-	-	-	-	-	-	64
Income before taxes and minority interests	-	-	-	-	-	-	-	-	-	-	-	1,415
Income tax expense	-	-	-	-	-	-	-	-	-	-	-	(359)
Net income for the period	-	-	-	-	-	-	-	-	-	-	-	1,056

	Gas distribution				Electricity			W&R	UP&MID	Other	Intersegmental eliminations	Total
2006	**Spain**	**Latin America**	**Italy**	**Total**	**Spain**	**Puerto Rico**	**Total**					
Total segment sales	2,154	1,557	138	3,849	1,348	159	1,507	6,346	285	146	(1,785)	10,348
Inter segment sales	(541)	-	(12)	(553)	(66)	-	(66)	(881)	(163)	(122)	1,785	-
Sales	1,613	1,557	126	3,296	1,282	159	1,441	5,465	122	24	-	10,348
Ebitda (*)	812	386	30	1,228	259	63	322	220	181	(39)	-	1,912
Depreciation and amortisation expenses	(273)	(91)	(28)	(392)	(77)	(18)	(95)	(7)	(47)	(51)	-	(592)
Debtors provisions and others	(12)	(24)	(2)	(38)	(3)	-	(3)	(16)	-	-	-	(57)
Operating income	527	271	-	798	179	45	224	197	134	(90)	-	1,263
Net finance cost	-	-	-	-	-	-	-	-	-	-	-	(267)
Share of profit of associates	4	-	-	4	1	-	1	-	-	-	-	5
Gain on sales of associates	-	-	-	-	-	-	-	-	-	-	-	230
Income before taxes and minority interests	-	-	-	-	-	-	-	-	-	-	-	1,231
Income tax expense	-	-	-	-	-	-	-	-	-	-	-	(302)
Net income for the period	-	-	-	-	-	-	-	-	-	-	-	929

(*) Sales relates to the net turnover. EBITDA is calculated as operating income, plus depreciation and amortization and operating provisions.

The segment assets, liabilities and capital expenditure including the additions due to business combinations are as follows:

At 31.12.07	Assets	Investments under equity accounting	Liabilities	Capital expenditure/ business combinations
Gas Distribution	6,960	32	(1,642)	688
Electricity	3,842	6	(487)	1,369
Upstream + Midstream	1,061	-	(121)	159
Wholesale & Retail	1,762	-	(1,159)	15
Others	410	-	(463)	71
Total	**14,035**	**38**	**(3,872)**	**2,302**

At 31.12.06	Assets	Investments under equity accounting	Liabilities	Capital expenditure/ business combinations
Gas Distribution	6,607	27	(1,412)	600
Electricity	2,532	7	(390)	315
Upstream & Midstream	960	-	(78)	163
Wholesale & Retail	1,700	-	(1,033)	14
Others	433	-	(425)	70
Total	**12,232**	**34**	**(3,338)**	**1,162**

Segment assets consist primarily of property, plant and equipment, intangible assets, inventories, derivatives designated as hedges of future commercial transactions, receivables, debtors and cash and cash equivalents. They exclude tax refundable, investments and derivatives held for trading or designated as hedges of borrowings. The assets excluded total Euros 1,347 million at December 31, 2007 and Euros 1,089 million at December 31, 2006.

Segment liabilities comprise operating liabilities (including derivatives designated as hedges of future transactions). They exclude items such as tax payable and corporate borrowings and related hedging derivatives. The liabilities excluded total Euros 5,121 million at December 2007 and Euros 4,021 million at December 2006.

Capital expenditure comprises additions to property, plant and equipment *(Note 5)* and intangible assets *(Note 6)*.

b) Secondary segment reporting format—geographical segments

The home-country of GAS NATURAL —which is also the main operating company—is Spain. The areas of operation are principally Rest of Europe (Italy and France), Latin America, Puerto Rico, the USA and the Maghreb.

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

	2007	2006
Spain	7,160	7,538
Rest of Europe	314	494
Latin America	1,797	1,557
Puerto Rico	144	159
USA	590	600
Rest of the world	88	-
Total	**10,093**	**10,348**

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

	31.12.07	31.12.06
Spain	9,511	8,794
Rest of Europe	731	526
Latin America	3,169	2,093
Puerto Rico	217	259
Maghreb	445	594
Total	**14,073**	**12,266**

The investments in tangible assets and other intangible assets of GAS NATURAL assigned according to location of the assets are as follows:

	31.12.07	31.12.06
Spain	888	812
Rest of Europe	58	72
Latin America	124	120
Puerto Rico	8	8
Maghreb	133	102
Total	**1,211**	**1,114**

Note 5. Property, plant and equipment

The movement during 2007 and 2006 in the different tangible asset accounts and their respective accumulated depreciation and provisions has been as follows:

	Land and buildings	Gas transport tankers under finance leases	Gas distribution installations	Combined cycle gas turbine	Wind farms	Exploration and development	Other fixed assets	PPE under construction	Total
At 1.1.06									
Cost, gross	214	352	7,712	988	218	-	462	904	10,850
Accumulated depreciation	(80)	(27)	(2,813)	(120)	(36)	-	(223)	-	(3,299)
Net book amount	**134**	**325**	**4,899**	**868**	**182**	**-**	**239**	**904**	**7,551**
Net book amount at 1.01.06	**134**	**325**	**4,899**	**868**	**182**	**-**	**239**	**904**	**7,551**
Cumulative translation adjustment	(3)	-	(91)	(15)	-	(3)	(9)	(5)	(126)
Business combination (Note 32)	2	-	-	-	-	46	-	-	48
Additions	9	-	485	21	16	31	30	465	1,057
Disposals	(2)	-	(1)	-	-	-	-	-	(3)
Depreciation charge	(3)	(12)	(362)	(63)	(17)	(3)	(33)	-	(493)
Reclassifications and others	21	-	124	511	144	8	5	(741)	72
Closing net book amount at 31.12.06	**158**	**313**	**5,054**	**1,322**	**325**	**79**	**232**	**623**	**8,106**
At 31.12.06									
Cost, gross	220	352	8,164	1,492	379	116	486	623	11,832
Accumulated depreciation	(62)	(39)	(3,110)	(170)	(54)	(37)	(254)	-	(3,726)
Net book amount	**158**	**313**	**5,054**	**1,322**	**325**	**79**	**232**	**623**	**8,106**
Net book amount at 1.1.07	**158**	**313**	**5,054**	**1,322**	**325**	**79**	**232**	**623**	**8,106**
Cumulative translation adjustment	(3)	-	(33)	(45)	-	(6)	(8)	(3)	(98)
Business combination *(Note 32)*	13	-	56	1,015	-	4	2	1	1,091
Additions	18	81	527	55	13	62	26	366	1,148
Disposals	(1)	-	(7)	(2)	-	(2)	(29)	-	(41)
Depreciation charge	(7)	(12)	(375)	(72)	(18)	(5)	(50)	-	(539)
Reclassifications and others	3	-	84	374	25	(62)	140	(526)	38
Net book amount at 31.12.07	**181**	**382**	**5,306**	**2,647**	**345**	**70**	**313**	**461**	**9,705**
At 31.12.07									
Cost, gross	249	433	8,760	2,873	416	112	594	461	13,898
Accumulated depreciation	(68)	(51)	(3,454)	(226)	(71)	(42)	(281)	-	(4,193)
Valor neto contable	**181**	**382**	**5,306**	**2,647**	**345**	**70**	**313**	**461**	**9,705**

Cryogenic LNG transport gas tankers were acquired under finance lease agreements (see Note 20). In December 2007 a 138,000 m^3 tank was acquired through a 25-year time-charter lease, extendible for consecutive periods of 5 year, and which represents a joint investment of Euros 162 million relating to the current value of the payments to which Repsol YPF (50%) and GAS NATURAL (50%) are committed.

In July 2007 the commercial operations began for the combined cycle power plant in Plana del Vent (Tarragona).

Exploration and development at December 31, 2007 includes the net carrying value of investments in zones with reserves of Euros 32 million and exploration costs of Euros 38 million.

The borrowing costs capitalised for the year ended December 31, 2007 to plant projects during their construction total Euros 17 million (Euros 18 million at December 31, 2006). The borrowing costs in 2007 represent 8.5% of total net debt (7.4% for the period corresponding to December 31, 2006).

Property, plant and equipment under construction at December 31, 2007 includes capital expenditures on combined cycle plants in Malaga whose start up is estimated for 2009, and at the Barcelona Harbour whose start up is estimated for 2010, and total Euros 298 million (Euros 49 million at December 31, 2006).

At December 31, 2006 property, plant and equipment under construction included Euros 374 million for the combined cycle plant in Plana del Vent. GAS NATURAL has investment commitments of Euros 376 million, basically for the construction of combined cycle electricity plants. Furthermore, it has a joint commitment with Repsol YPF, S.A. for contracting an LNG cryogenic transport gas tanker with a capacity of 138,000 m^3 that is expected to be operative in 2009.

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

Note 6. Intangible assets

The movement in 2007 and 2006 in intangible assets is as follows:

	Concessions and other rights to use	Computer software applications	Other intangible assets	Subtotal	Goodwill	Total
At 1.1.06						
Cost, gross	1,244	311	301	1,856	456	2,312
Accumulated depreciation	(301)	(193)	(8)	(502)	-	(502)
Net book amount	**943**	**118**	**293**	**1,354**	**456**	**1,810**
Net book amount at 1.1.06	**943**	**118**	**293**	**1,354**	**456**	**1,810**
Exchange differences	(53)	(1)	-	(54)	(20)	(74)
Business combination and other (Note 32)	-	-	-	-	2	2
Additions	3	49	5	57	-	57
Disposals	-	(1)	-	(1)	-	(1)
Amortisation charge	(52)	(38)	(9)	(99)	-	(99)
Reclassifications and others	-	(1)	(68)	(69)	3	(66)
Net book amount at 31.12.06	**841**	**126**	**221**	**1,188**	**441**	**1,629**
At 31.12.06						
Cost, gross	1,164	355	241	1,760	441	2,201
Accumulated depreciation	(323)	(229)	(20)	(572)	-	(572)
Net book amount	**841**	**126**	**221**	**1,188**	**441**	**1,629**
Net book amount at 1.1.07	**841**	**126**	**221**	**1,188**	**441**	**1,629**
Exchange differences	(16)	-	-	(16)	(22)	(38)
Business combination and other (Note 32)	-	-	-	-	122	122
Additions	3	55	5	63	-	63
Disposals	-	-	(1)	(1)	-	(1)
Amortisation charge	(49)	(45)	(18)	(112)	-	(112)
Reclassifications and others	-	-	(27)	(27)	-	(27)
Net book amount at 31.12.07	**779**	**136**	**180**	**1,095**	**541**	**1,636**
At 31.12.07						
Cost, gross	1,126	409	205	1,740	541	2,281
Accumulated depreciation	(347)	(273)	(25)	(645)	-	(645)
Net book amount	**779**	**136**	**180**	**1,095**	**541**	**1,636**

The Concessions and other rights of use include:

- The right to use the Maghreb-Europe pipeline, through which GAS NATURAL has exclusive use of the gas pipeline and the obligation to maintain and improve as necessary. The net carrying value of this right totals Euros 362 million at December 31, 2007 (Euros 431 million at December 31, 2006). This right will end in 2021, and may be renewed.

- Concession agreements through which GAS NATURAL operates in the distribution of natural gas in Latin America, generally with terms up to 30 years. These agreements have provisions for the use of public roads for the direct supply of gas to the end consumer, as well as the construction and maintenance of the gas installations. There are also connection obligations under current legislation. Upon expiry of the concession there is a legal obligation to transfer ownership of the pipeline network in exchange for appropriate compensation. Of special note are the following concession agreements:

a) Gas distribution concession in the Metropolitan area of Rio de Janeiro of Euros 210 million at December 31, 2007 (Euros 208 million at December 31, 2006). The concession will end in 2027, although it may be renewed.

b) Gas distribution concession in the South State of Sao Paulo of Euros 162 million at December 31, 2007 (Euros 157 million at December 31, 2006). The concession will end in 2030, and may be renewed.

The “Other intangibles assets” mainly includes projects in development for new wind farms and amounts to Euros 81 million at December 31, 2007 (Euros 96 million at December 31, 2006).

The main movements in goodwill for 2007 and 2006 are mentioned in Note 32.

In June 2007 GAS NATURAL acquired a 28% interest in the share capital of Invergas, S.A., Gas Natural SDG Argentina, S.A., Natural Energy, S.A. and Natural Servicios, S.A., generating goodwill amounting to Euros 27 million. In 2006 there were no changes in the shareholding percentages in subsidiaries, and the changes in prior years were not significant.

Goodwill is allocated to GAS NATURAL’s Cash Generating Units (CGUs) identified according to country of operation and business segment. A segment-level summary of the goodwill allocation is presented below.

	At 31.12.07				At 31.12.06			
	Gas distribution	**Electricity**	**UP&Mid**	**Total**	**Gas distribution**	**Electricity**	**UP&Mid**	**Total**
Spain	-	118	2	120	-	118	2	120
Italy	140	-	-	140	135	-	-	135
Argentina	27	-	-	27	-	-	-	-
Puerto Rico	-	115	-	115	-	129	-	129
Mexico	30	84	-	114	33	-	-	33
Brazil	25	-	-	25	24	-	-	24
	222	**317**	**2**	**541**	**192**	**247**	**2**	**441**

The impairment tests were carried out on December 31, 2007 and 2006. On the basis of the analysis of goodwill impairment the Company has not deduced that future impairment will arise.

Note 7. Investments consolidated by equity accounting

The movement in 2007 and 2006 in associates is as follows:

At 1.1.06	**32**
Share of loss/profit	5
Dividends received	(1)
Reclassifications *(Note 8)*	(3)
Others	1
At 31.12.06	**34**
Share of loss/profit	8
Dividends received	(2)
Disposals	(2)
At 31.12.07	**38**

In February 2007 the 24.2% interest in Burgalesa de Generación Eólica, S.A. was sold.

As a result of the sale of 10% of shares in Gas Natural de Álava, S.A. as at September 1, 2006, the Company ceased to use the equity method to account for the interest of GAS NATURAL in the capital of Gas Natural de Álava, S.A., reclassifying this investment to Available-for-sale financial assets.

The most significant information on associates consolidated by equity accounting are as follows:

	Country	Assets	Liabilities	% interest held
At 31.12.06				
Torre Marenostrum, S.L.	Spain	78	58	45.0
Kromschroeder, S.A.	Spain	18	6	42.5
Gas Aragón, S.A.	Spain	117	86	35.0
Enervent, S.A.	Spain	26	22	26.0
Burgalesa Eólica, S.A.	Spain	10	9	24.2
Sistemas Energéticos La Muela, S.A.	Spain	11	4	20.0
Sistemas Energéticos Mas Garullo, S.A.	Spain	12	8	18.0
At 31.12.07				
Torre Marenostrum, S.L.	Spain	78	58	45.0
Kromschroeder, S.A.	Spain	19	6	42.5
Gas Aragón, S.A.	Spain	123	82	35.0
Enervent, S.A.	Spain	24	18	26.0
Sistemas Energéticos La Muela, S.A.	Spain	11	4	20.0
Sistemas Energéticos Mas Garullo, S.A.	Spain	11	8	18.0

	Country	Assets	Liabilities	% interest held
2006				
Torre Marenostrum, S.L.	Spain	4	-	45.0
Kromschroeder, S.A.	Spain	23	1	42.5
Gas Aragón, S.A.	Spain	70	9	35.0
Enervent, S.A	Spain	5	2	26.0
Burgalesa Eólica, S.A.	Spain	2	-	24.2
Sistemas Energéticos La Muela, S.A.	Spain	4	2	20.0
Sistemas Energéticos Mas Garullo, S.A.	Spain	3	2	18.0
Gas Natural de Alava, S.A. ([1])	Spain	21	-	10.0
2007				
Torre Marenostrum, S.L.	Spain	6	-	45.0
Kromschroeder, S.A.	Spain	25	1	42.5
Gas Aragón, S.A.	Spain	74	17	35.0
Enervent, S.A	Spain	6	2	26.0
Sistemas Energéticos La Muela, S.A.	Spain	4	3	20.0
Sistemas Energéticos Mas Garullo, S.A.	Spain	4	2	18.0

([1]) The income statement includes in the line Share of profit of associates, the profit of Gas Natural de Alava, S.A. up to August 30, 2006.

At December 31, 2007, none of the associates are listed on a stock exchange.

Sistemas Energéticos Mas Garullo, S.A. is consolidated by equity accounting in spite of the fact that GAS NATURAL's interest on this company at December 31, 2007 less than 20%, as GAS NATURAL has a significant representation on this company's Board.

Note 8. Available-for-sale financial assets

The movement in 2007 and 2006 in available-for-sale financial assets is as follows:

At 1.1.06	**640**
Increases	1
Disposals	(319)
Cumulative translation adjustment	(2)
Reclassifications *(Note 7)*	3
Revaluation to fair value	46
Others	(1)
At 31.12.06	**368**
Increases	4
Disposals	(124)
Revaluation to fair value	51
Others	(1)
At 31.12.07	**298**

Available-for-sale financial assets include the following:

	At 31.12.07	At 31.12.06
Listed equity securities	239	210
Unlisted equity securities	31	132
Investment fund	28	26
	298	**368**

During 2007 the 9.38% interest in Naturgas Energía Grupo, S.A. was sold for Euros 122 million, which has generated a net profit of Euros 65 million, which has reduced the fair value revaluation reserve.

In 2006 a 10% interest in Gas Natural de Álava, S.A. was sold for Euros 9 million, which generated a net profit of Euros 6 million, which has reduced the fair value revaluation reserve.

In 2006 there were divestitures of 7.79% of the interest in Enagás, S.A. totaling Euros 310 million, which generated a net profit of Euros 194 million, which has reduced the fair value revaluation reserve.

At December 31, 2007 the interest of GAS NATURAL in Enagás, S.A. was 5%, in accordance with the provisions of the Social Tax and Administrative Measures Act, Law 62/2003/30 December, which stipulates that no natural or legal person can have a direct or indirect interest in this entity in a proportion higher than 5% of share capital. Under the provisions of Law 12/2007/2 July, natural or legal persons who undertake activities in the gassistic sector cannot exercise more than 1% of voting rights in its Technical System Management, which is a power attributed to Enagás, S.A. Given that the quotation of Enagás, S.A. at December 31, 2007 is Euros 19.99 per share (Euros 17.62 per share at December 31, 2006), the valuation of the shareholding totals Euros 239 million (Euros 210 million at December 31, 2006).

Note 9. Other financial assets

The breakdown of this account at December 31, 2007 and 2006 is as follows:

	At 31.12.07	At 31.12.06
Time deposits	202	-
Commercial loans	81	74
Deposits and guarantee deposits	52	53
Debtors for leveling of capacity income	50	4
Other loans	3	7
Non-current Other financial assets	**388**	**138**
Commercial loans	47	89
Others	7	6
Current Other financial assets	**54**	**95**
Total Other financial assets	**442**	**233**

The breakdown by maturities at December 2007 and 2006 is as follows:

Maturities	At 31.12.07	At 31.12.06
No later than 1 year	54	95
Between 1 year and 5 years	260	83
Later than 5 years	128	55
Total Other financial assets	**442**	**233**

Time deposits include Euros 150 million classified as financial asset at fair value through profit or loss and Euros 52 million classified as held-to-maturity financial assets, which have accrued interest of 3.11%, both maturing in 2009.

Commercial loans include mainly loans for the sale of heating and gas installations financed over the long term.

The corresponding interest rates (6.25% to 9% for loans between 1 to 5 years) are in line with market interest rates for loans of such kind and duration. Therefore, their book value approximates their fair value.

Debtors for levelling of capacity income includes the income pending to be invoiced recognised through the leveling revenues over the entire term of the power purchase agreement (PPA) in Mexico and Puerto Rico.

Note 10. Inventories

The breakdown of Inventories is as follows:

	At 31.12.07	At 31.12.06
Raw materials and other inventories	86	60
Natural gas and liquefied gas	376	380
Total	**462**	**440**

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

Note 11. Trade and other receivables

The breakdown of this account is as follows:

	31.12.07	31.12.06
Trade receivables	2,172	1,969
Trade with related parties ([1])	80	8
Less: provision for impairment of receivables with third parties	(175)	(153)
Trade receivables	**2,077**	**1,896**
Other debtors	139	93
Receivables from tax authorities	104	116
Prepayments	47	25
Total	**2,367**	**2,130**

([1]) Repsol YPF Group, Suez Group in 2007

The movement of the provision for impairment of receivables with third parties is as follows:

At 1.1.06	**(129)**
Net charge for the year	(48)
Disposals	17
Cumulative translation adjustments and others	7
At 31.12.06	**(153)**
Net charge for the year	(42)
Disposals	18
Cumulative translation adjustments and others	2
At 31.12.07	**(175)**

In general, the outstanding invoices do not accrue interest as they fall due in an average period of 15 days.

Note 12. Cash and cash equivalents

Cash and cash equivalents comprise the following:

	31.12.07	31.12.06
Cash at bank and in hand	55	70
Short term investments (Spain and rest of Europe)	13	19
Short term investments (Latin America)	84	38
Total	**152**	**127**

Bank deposits are very liquid (less than 10 days). The average effective interest rate is 5.9% at December 2007 (5.5% at December 2006).

The weighted average effective interest rates of short term investments are:

- Spain: 4.0% at December 2007 and 4.4% at December 2006.

- Latin America: 6.3% at December 2007 and 7.6% at December 2006.

Note 13. Equity

The breakdown and movement of this accounts is as follows:

	Equity attributable to the equity holders of the Company						
	Share capital	Reserves for valuation adjustments	Retained earnings and other reserves	Cumulative translation adjustments	Subtotal	Minority interests	Equity
Balance at 1.1.06	**448**	**313**	**4,539**	**111**	**5,411**	**355**	**5,766**
Dividend	-	-	(403)	-	(403)	(66)	(469)
Income and expenses recognised	-	(151)	852	(57)	644	56	700
Acquisition of minority interests minoritarios	-	-	-	-	-	(1)	(1)
Balance at 31.12.06	**448**	**162**	**4,988**	**54**	**5,652**	**344**	**5,996**
Dividend	-	-	(465)		(465)	(70)	(535)
Income and expenses recognised	-	(10)	960	(67)	883	94	977
Acquisition of minority interests	-	-	-	-	-	(11)	(11)
Balance at 31.12.07	**448**	**152**	**5,483**	**(13)**	**6,070**	**357**	**6,427**

Share capital

At December 31, 2007 and at December 31, 2006 the total authorized number of ordinary shares is 447,776,028 with a par value of Euro 1 per share. All issued shares are fully paid and have the same economic and voting rights.

The Board of Directors of the Company by virtue of the resolution of the General Meeting of Shareholders of May 16, 2007, under article 153, 1, b) of the Spanish Public Limited Companies Act, was authorised to increase share capital to a maximum of Euros 223,888,014 within a period of 5 years, through a monetary disbursement and in one or several increases without requiring new authorisation.

By virtue of a resolution of the General Meeting of Shareholders of May 16, 2007, the Board of Directors was authorised to acquire within a period no longer than eighteen months fully paid up treasury shares for consideration at one or more times up to 5% of share capital, as long as said acquisition does not exceed said percentage when computing the shares acquired by the Company and those held by the subsidiaries. The minimum and maximum price of acquisition will be the quotation of the share on the Spanish Stock Exchange with a fluctuation of more or less than 5%.

The same General Meeting of Shareholders also authorised the Board to issue within a maxim period of 5 years fixed income debentures not convertible into shares, in the form of debt, bonds, promissory notes, simple or mortgage-backed or guaranteed debentures up to a total amount of Euros 2,000 million.

During 2007 and 2006 no transactions were undertaken with treasury shares.

All the shares of Gas Natural SDG, S.A. are listed on the four official Spanish stock exchanges are traded simultaneously on all four (“mercado continuo”) and form part of the IBEX 35.

The 2007 year end quotations of Gas Natural SDG, S.A. was Euros 40.02 (Euros 29.99 at December 31, 2006). Furthermore, 159,514,583 shares of the investee company Gas Natural BAN, S.A., 49% of the total number of shares, are listed on the Buenos Aires (Argentina) stock exchange, with a quotation at December 31, 2007 of Pesos 2.53 per share (Pesos 1.84 per share at December 31, 2006).

The most important shareholdings in the share capital of Gas Natural SDG, S.A. at December 31, 2007 are as follows:

	% shareholding
“La Caixa” Group (*)	33.06
Repsol YPF Group	30.85
Suez Group (*)	11.30
Caixa d'Estalvis de Catalunya	3.03

(*) Holding de Infraestructuras y Servicios Urbanos, S.A. (HISUSA) is 51% owned by the Suez Group and 49% owned by the “la Caixa” Group. HISUSA holds 5.03% of the shares of GAS NATURAL, which has been included in the shareholding of the Suez Group. For economic purposes, the shareholding of the “la Caixa” Group totals 35.53%, taking into account its interest in HISUSA.

Retained earnings and other reserves

Retained earnings and other reserves include the following reserves:

	31.12.2007	31.12.2006
a) Legal reserve	90	90
b) Statutory reserve	68	68
c) Revaluation reserve	225	225
d) Reserve for redenomination in Euros	1	1

a) Legal reserve

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

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

b) Statutory reserve

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

c) Revaluation reserve

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

d) Reserve for redenomination in Euros

As per the Euro Act, Law 46/1998, a reserve not available for distribution was set up for the redenomination into Euros of the shares representing the share capital of the company.

Basic earnings per share

Basic earnings per share are calculated dividing the profit attributable to shareholders of the Company between the weighted average number of ordinary shares in issue during the year.

	31.12.07	31.12.06
Profit attributable to Shareholders of the Company	959	855
Weighted average number of ordinary shares in issue (million)	448	448
Earning per share (in Euros):		
Basic	2.14	1.91
Diluted	2.14	1.91

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

Dividends

The Board of Directors adopted a resolution on November 24, 2006 to distribute an interim dividend against 2006 profit of Euros 0.37 gross per share, totalling Euros 166 million, paid out as from January 9, 2007.

The General Meeting of Shareholders of May 16, 2007 adopted a resolution to pay a total of Euros 0.98 per share against 2006 results and, consequently, distribute a dividend payable in July 2007 of Euros 273 million (Euros 0.61 per share).

The Board of Directors of Gas Natural SDG, S.A. agreed, at its meeting of November 30, 2007 to pay an interim dividend of Euros 0.43 per share totalling Euros 193 million against 2007 profit for the year. The date of payment of the interim dividend was January 8, 2008.

On February 29, 2008, the Board of Directors adopted a proposal to be submitted to the General Meeting of Shareholders to pay a total dividend of Euros 1.14 per share against 2007 profit.

The proposed distribution of net profit of Gas Natural SDG, S.A. for 2007, which the Board of Directors will propose to the General Meeting of Shareholders for adoption, is as follows:

Basis for distribution	
Profit and (loss)	746
Distribution	
To voluntary reserve	235
To dividend	511

Capital management

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

GAS NATURAL believes that the indicators of the capital management targets it has set is to maintain the A rating by Standard & Poor's and establish a leverage level of approximately 50%.

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

	2007	2006
Moody's	A2	A2
Standard & Poor's	A	A+
Fitch	A+	A+

Its leverage rating is as follows:

	2007	2006
Net borrowings:	**3,689**	**3,071**
Long-term borrowings *(Note 17)*	3,075	2,590
Short-term borrowings *(Note 17)*	1,004	628
Cash and cash equivalents *(Note 12)*	(152)	(127)
Derivates *(Note 18)*	(36)	(20)
Time deposits *(Note 9)*	(202)	-
Net equity:	**6,427**	**5,996**
Shareholders of parent company *(Note 13)*	6,070	5,652
Minority interests *(Note 13)*	357	344
Leverage (Net borrowings/(Net borrowings + Net equity))	**36.5%**	**33.9%**

Note 14. Deferred income

The breakdown and movement in this account in 2007 and 2006 is as follows:

	Capital grants	Revenues from pipeline networks and branch lines	Income from extension of pipelines charged to third parties	Other revenues	Total
At 1.01.06	**160**	**147**	**88**	**38**	**433**
Financing received	48	28	19	1	96
Cancellations	-	(1)	-	-	(1)
Release to income	(12)	(13)	(11)	(10)	(46)
Cumulative translation adjustments	-	(1)	-	(3)	(4)
At 31.12.06	**196**	**160**	**96**	**26**	**478**
Financing received	27	27	20	2	76
Release to income	(9)	(11)	(9)	(1)	(30)
Business combinations *(Note 32)*	24	-	-	-	24
Cumulative translation adjustments	-	(1)	(1)	(3)	(5)
At 31.12.07	**238**	**175**	**106**	**24**	**543**

Note 15. Provisions

The breakdown of provisions at December 31, 2006 and 2007 is as follows:

	At 31.12.07	At 31.12.06
Non-current provisions	378	367
Current provisions	65	8
Total	**443**	**375**

This account includes the provisions for obligations arising mainly from tax claims and also litigation and arbitration underway and other commitments. The information on the nature of the disputes with third parties and the position of the entity in each is set out in the section on "Litigation and arbitration" in Note 36.

The movement in non-current provisions is as follows:

At 1.1.06	**283**
Charged to / reversed in the income statement	
Provisions	109
Reversals	(40)
Amounts paid during the year	(22)
Business combinations *(Note 32)*	10
Reclassifications and others	27
At 31.12.06	**367**
Charged to / reversed in income statement	
Provisions	137
Reversals	(22)
Amounts paid during the year	(40)
Business combinations *(Note 32)*	1
Cumulative translation adjustments	(5)
Reclassifications and others	(60)
At 31.12.07	**378**

Given the features of the risks included, it is not possible to determine a reasonable calendar for the payment dates.

The movement in current provisions is as follows:

At 1.1.06	**-**
Charged to income statement	8
At 31.12.06	**8**
Charged to / reversed in income statement	
Provisions	1
Reversals	(2)
Amounts paid during the year	(6)
Reclassifications and others	64
At 31.12.07	**65**

Note 16. Employee benefit obligations

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

	Post-employment	Other obligations with personnel	Total
At 1.1.06	**58**	**24**	**82**
Charge to the income statement	7	-	7
Amounts paid during the year	(9)	(3)	(12)
Cumulative translation adjustments	(1)	-	(1)
Variations recognised directly in equity	2	-	2
At 31.12.06	**57**	**21**	**78**
Charge to the income statement	6	2	8
Amounts paid during the year	(6)	-	(6)
Cumulative translation adjustments	1	-	1
Variations recognised directly in equity	(1)	-	(1)
Other utilisations	7	-	7
At 31.12.07	**64**	**23**	**87**

a) Post employment benefits

Breakdown by country	31.12.07	31.12.06	1.1.06
Spain (1)	27	21	19
Brazil (2)	32	31	35
Italy	4	4	4
Mexico	1	1	-
Total	**64**	**57**	**58**

(1) Pension Plans and other post-employment benefits in Spain.

At December 31, 2007 and December 31, 2006, GAS NATURAL had in force the following commitments for certain employees:

- Pensioners (retirees, disabled-persons, widows and orphans).
- Retirement and death coverage in favour of certain employees.
- Early retirement plans.
- Health and other benefits.
- Gas subsidy.
- Certain lump sums and pensions included in collective agreements.
- Lifetime death coverage for a certain collective.

The amounts recognized in the balance sheet are determined as follows:

	31.12.07	31.12.06	1.1.06
Present value of funded obligations	163	166	172
Fair value of plan assets	(155)	(168)	(169)
Present value of unfunded obligations	19	23	23
Other movements	-	-	(7)
Post employment benefit provisions	**27**	**21**	**19**

Pension plan assets are insurance policy contracts where the insurance company has assumed return on investment and mortality risks.

The amounts recognized in the income statement are as follows:

	31.12.07	31.12.06
Current service cost	2	2
Interest cost	10	7
Expected return on plan assets	(9)	(6)
Total charged to the income statement	**3**	**3**

The actual return on plan assets for the year ended December 31, 2007 was Euros 8 million.

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

At 1.1.2006	**19**
Total expense charged to the income statement	3
Contributions paid	(6)
Variations recognised directly in equity	5
At 31.12.2006	**21**
Total expense charged in the income statement	3
Contributions paid	(3)
Variations recognised directly in equity	(1)
Other utilisations	7
At 31.12.2007	**27**

The actuarial assumptions used were as follows:

	31.12.07	**31.12.066**
Discount rate (p.a) (%)	5.0	4.5
Expected return on plan assets (p.a) (%)	5.0	4.5
Future salary increases (p.a) (%)	3.0	3.0
Future pension increases (p.a) (%)	2.5	2.5
Mortality table	PERMF 2000	PERMF 2000

The discount rate has been determined using the corporate iboxx AA bond rate curve. The sensitivity analysis carried out determined that the impact on pension and post-employment benefit expense would not be significant.

(2) Pension Plans and other post-employment benefits in Brazil.

At December 31, 2007 and December 31, 2006, GAS NATURAL has in force the following employee benefits in its Brazilian subsidiary:

- Post-employment defined benefit plan, called "Gassius plan", covering retirement, death-in-service and disability pensions and lump sums.

- Post-employment health-care plan.

- Other minor post-employment defined benefit plan guaranteeing temporary pensions, lifetime pensions and lump sums depending on years of service

The amounts recognized in the balance sheet are determined as follows:

	31.12.07	31.12.06	1.1.06
Present value of funded obligations	85	70	70
Fair value of plan assets	(77)	(59)	(54)
Present value of unfunded obligations	24	20	19
Post employment benefit provisions	**32**	**31**	**35**

Pension plan assets are invested as follows:

	31.12.07	31.12.06
Equities (%)	18.9	28.5
Bonds (%)	77.1	64.6
Property (%)	4.0	6.9
Total (%)	**100**	**100**

The amounts recognized in the income statement are as follows:

	31.12.07	31.12.06
Current service cost	-	-
Interest cost	10	10
Expected return on plan assets	(7)	(6)
Total income statement charge	**3**	**4**

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

At 1.1.06	**35**
Cumulative translation adjustment	(1)
Total expense charged to the income statement	4
Contributions paid	(3)
Variations recognised directly in equity	(4)
At 31.12.06	**31**
Cumulative translation adjustment	1
Total expense charged to in the income statement	3
Contributions paid	(3)
Variations recognised directly in equity	-
At 31.12.07	**32**

The principal annual actuarial assumptions used were as follows:

	31.12.07	31.12.06
Discount rate (p.a) (%)	6.0	6.0
Expected return on plan assets (p.a) (%)	6.0	6.0
Future salary increases (p.a) (%)	1.5	1.5
Future pension increases (p.a) (%)	0.0	0.0
Inflation rate (p.a) (%)	4.5	4.5
Mortality table	AT-83	GAM-83

b) Other obligations with personnel

These relate to deferred remunerated commitment to compensate executive loyalty.

Note 17. Borrowings

The breakdown of borrowings at December 31, 2007 and 2006 is as follows:

	31.12.07	31.12.06
Issuing of debentures and other negotiable obligations	724	769
Loans from financial institutions and others	2,305	1,741
Derivative financial instruments *(Note 18)*	46	80
Non-current borrowings	**3,075**	**2,590**
Issuing of debentures and other negotiable obligations	70	43
Loans from financial institutions and others	907	585
Derivative financial instruments *(Note 18)*	27	-
Current borrowings	**1,004**	**628**
Total borrowings	**4,079**	**3,218**

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

	Carrying amounts		Fair values	
	31.12.07	31.12.06	31.12.07	31.12.06
Issuing of debentures and other negotiable obligations	724	769	770	798
Loans from financial institutions and others	2,305	1,741	2,278	1,821

The fair value of loans with fixed interest rates is estimated on the basis of the discounted cash flows over the remaining terms of such debt. The discount rates were determined based on market rates available at December 31, 2007 and December 31, 2006 on borrowings with similar credit and maturity characteristics.

At December 31, 2007 GAS NATURAL has credit facilities available totalling Euros 1,844 million (Euros 1,622 million at December 31, 2006), of which Euros 1,178 million have not been drawn down (Euros 1,492 million at December 31, 2006).

The following tables describe our consolidated gross borrowings by instrument at December 31, 2007 and December 31, 2006 and their maturity profile. The classification between fixed and variable debt is made taking into account the impact of the derivative hedges.

	2008	2009	2010	2011	2012	2013 and beyond	Total
At December 31, 2007:							
Marketable Debt							
Fixed	26	200	524	-	-	-	750
Floating	44	-	-	-	-	-	44
Institutional Banks							
Fixed	123	60	33	-	-	-	216
Floating	15	38	48	29	-	-	130
Commercial Banks and other financial liabilities							
Fixed	91	58	10	611	12	106	888
Floating	705	360	103	35	435	413	2,051
Total Fixed	240	318	567	611	12	106	1,854
Total Floating	764	398	151	64	435	413	2,225
Total	**1,004**	**716**	**718**	**675**	**447**	**519**	**4,079**

	2007	2008	2009	2010	2011	2012 and beyond	Total
At December 31, 2006:							
Marketable Debt							
Fixed	5	28	198	525	-	-	756
Floating	38	18	-	-	-	-	56
Institutional Banks							
Fixed	68	138	67	37	-	-	310
Floating	34	30	30	53	32	-	179
Commercial Banks and other financial liabilities							
Fixed	95	162	56	14	615	87	1,029
Floating	388	106	143	33	29	189	888
Total Fixed	168	328	321	576	615	87	2,095
Total Floating	460	154	173	86	61	189	1,123
Total	**628**	**482**	**494**	**662**	**676**	**276**	**3,218**

If the impact of the financial derivative is not taken into account, the financial debt at a fixed rate and at a floating rate would break down as follows: Euros 761 million at a fixed rate in 2007 (Euros 850 million in 2006) and Euros 3,245 million at a floating rate in 2007 (Euros 2,228 million in 2006).

The interest payable in future years for loans in force at December 31, 2007 included in the table above total a maximum annual amounts of approximately Euros 275 million.

The following table describes our consolidated gross financial debt denominated by currency at December 31, 2007 and December 31, 2006 and its maturity profile, taking into account the impact of the derivative hedges.

At December 31, 2007:	2008	2009	2010	2011	2012	2013 and beyond	Total
Euro Debt	440	426	586	612	413	353	2,830
Foreign Currency Debt:							
US Dollar	133	108	70	20	13	129	473
Mexican peso	197	-	-	-	-	-	197
Brazilian real	145	132	58	39	21	37	432
Colombian peso	45	11	4	4	-	-	64
Argentinean peso	44	39	-	-	-	-	83
Total	**1,004**	**716**	**718**	**675**	**447**	**519**	**4,079**

At December 31, 2006:	2007	2008	2009	2010	2011	2012 and beyond	Total
Euro Debt	212	-	202	525	600	149	1,688
Foreign Currency Debt:							
US Dollar	110	113	115	86	30	127	581
Mexican peso	110	213	-	-	-	-	323
Brazilian real	123	95	128	46	46	-	438
Colombian peso	45	32	5	5	-	-	87
Argentinean peso	28	29	44	-	-	-	101
Total	**628**	**482**	**494**	**662**	**676**	**276**	**3,218**

Borrowings in Euros bore average effective interest rate at December 31, 2007 of 4.62% (4.14% at December 31, 2006) and the foreign currency of the financial debt bore an average effective interest rate of 10.37% (10.40% at December 31, 2006) including the derivatives assigned to each transaction.

We set out below the most relevant financial instruments:

ECP Program. In March 2001, a Euro Commercial Paper program (ECP) was established under which up to an aggregate principal amount of Euros 1,000 million or its equivalent in alternative currencies may be issued. At December 31, 2007 and 2006 no amount has been drawn down.

EMTN Program. In 1999, an EMTN program (European Medium Term Note) was established under which up to an aggregate principal amount of Euros 2,000 million may be issued. On December 27, 2007 this program was increased to Euros 4,000 million. At December 31, 2007 and December 31, 2006 the principal issued was Euros 725 million.

Borrowings for the Maghreb-Europe Pipeline from institutional banks. In 1994, a US$450 million loan was subscribed with the Banco Europeo de Inversiones (EIB) structured in three tranches maturing between 2005 and 2010. In 1995, a US$200 million loan was subscribed with the Instituto de Crédito Oficial (ICO) maturing between 2006 and 2010. Both loans were granted in connection with the construction of the Maghreb-Europe gas pipeline. At December 31, 2007, US$234 million (Euros 159 million) of the EIB loan and US$120 million (Euros 82 million) of the Instituto de Crédito Oficial (ICO) loan were outstanding. The average maturity of this debt is 1.8 years. Furthermore, in 2007 a credit facility was formalised with a limit of US$ 45 million of which US$ 17 million have been drawn down at December 31, 2007 (Euros 12 million).

At December 31, 2006, this account included the syndicated "Club Deal" loan of Euros 600 million maturing in 2011, and a syndicated loan with 14 Spanish banks maturing in 2007 totalling Euros 120 million. It also included credit facilities drawn down totalling Euros 79 million.

Borrowings from European banks (commercial banks). At December 31, 2007 these borrowings relate to Euros 600 million for the syndicated "Club Deal" loan maturing in 2011 and to loans from Italian entities maturing in the long term totalling Euros 10 million and to bi-lateral loans for the acquisition of assets in Mexico maturing in 2008 totalling Euros 350 million and maturing in 2012 totalling the other Euros 400 million. It also included credit facilities drawn down totalling Euros 634 million.

At December 31, 2006, this account included the syndicated "Club Deal" loan of Euros 600 million maturing in 2011, and a syndicated loan with 14 Spanish banks maturing in 2007 totalling Euros 120 million. It also included credit facilities drawn down totalling Euros 79 million.

Latin American Facilities (commercial and institutional banks). At December 31, 2007, the debt in Latin America amounted to Euros 776 million with a wide range of financial institutions, of which 43% were guaranteed by the parent company. The geographical breakdown of our Latin American facilities is as follows: Argentina Euros 83 million, Mexico Euros 197 million, Colombia Euros 64 million and Brazil Euros 432 million, and Euros 10 million in drawn down credit facilities in Mexico. Moreover, the Argentine and Colombian debts also include short-term debentures of Euros 26 million and Euros 14 million, respectively.

At December 31, 2006, the debt in Latin America with a wide range of financial institutions amounted to Euros 908 million, of which 39% were guaranteed by the parent company. The geographical breakdown of our Latin American facilities is as follows: Argentina Euros 73 million, Mexico Euros 324 million, Colombia Euros 73 million and Brazil Euros 438 million. Mexico includes Euros 40 million in credit facilities drawn down. All our Latin American debt is denominated in local currency.

Wind Farm Operators (commercial banks). At December 31, 2007, the wind farm operators DERSA and Gas Natural Eólica (formerly Sinia XXI) had Euros 117 million of debt outstanding, mainly related to project financing. More than 55% of this debt matures in or after 2012.

At December 31, 2006, the wind farm operators DERSA and Gas Natural Eólica (formerly Sinia XXI) had Euros 121 million of debt outstanding, mainly related to project financing.

Puerto Rico (commercial banks). At December 31, 2007, GAS NATURAL had Euros 185 million, including Euros 10 million of credit lines drawn down, of attributable debt outstanding associated with our CCGT and regassification project finance in Puerto Rico. 77% of this debt matures in or after 2012.

At December 31, 2006 this debt totalled Euros 214 million, including Euros 11 million in credit facilities drawn down.

Note 18. Derivative financial instruments

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

	At 31.12.07		At 31.12.06	
	Assets	**Liabilities**	**Assets**	**Liabilities**
Derivatives qualifying for hedge accounting	**33**	**46**	**19**	**82**
Cash flow hedges				
Interest rate	30	12	19	12
Commodity prices	3	-	-	2
Fair value hedge				
Interest rate swap and exchange rate	-	34	-	68
Other financial instruments	**-**	**-**	**1**	**-**
Interest rate	-	-	1	-
Derivative financial instruments – non current	**33**	**46**	**20**	**82**
Derivative financial instruments – non current	**11**	**61**	**10**	**46**
Cash flow hedges				
Interest rate swap	-	-	-	1
Exchange rate	-	12	-	18
Commodity prices	4	22	10	27
Fair value hedge				
Interest rate swap and exchange rate	6	27	-	-
Exchange rate	1	-	-	-
Other financial instruments	**-**	**3**	**-**	**-**
Commodity prices	-	3	-	-
Derivative financial instruments – current	**11**	**64**	**10**	**46**
Total	**44**	**110**	**30**	**128**

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

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

	2007		2006	
	Operating results	Financial results	Operating results	Financial results
Cash flow hedges	(75)	(7)	(70)	(10)
Fair value hedges	(1)	18	-	(30)
Other	(1)	-	-	-
Total	**(77)**	**11**	**(70)**	**(40)**

The breakdown of derivatives at December 31, 2007 and 2006, their fair value and maturities of their notional values is as follows:

	31.12.07							
	Fair Value	Notional Value (in million by currency indicated)						
		2008	2009	2010	2011	2012	Beyond	Total
Interest rate swap contracts:								
Cash flow hedges:								
Financial swaps (EUR)	26	3	202	2	601	8	21	837
Financial swaps (USD)	(12)	13	13	52	11	12	77	178
Financial swaps (MXN)	-	1,000	-	-	-	-	-	1,000
Financial swaps (ARS)	-	113	-	-	-	-	-	113
Collar (EUR)	1	5	15	5	3	6	10	44
Collar with limits (EUR)	-	-	-	-	-	4	-	4
Exchange rate hedge:								
Cash flow hedge:								
Financial swaps (USD)	3	-	58	-	-	-	-	58
Foreign exchange fluctuation insurance (USD)	(12)	637	-	-	-	-	-	637
Fair value hedge:								
Financial swaps (BRL)	(61)	126	52	2	1	-	-	181
Financial swaps (MXN)	6	1,000	-	-	-	-	-	1,000
Foreign exchange fluctuation insurance (BRL)	-	35	-	-	-	-	-	35
Foreign exchange fluctuation insurance (USD)	1	103	-	-	-	-	-	103
Commodity hedge:								
Cash flow hedge:								
Commodity price derivatives (EUR)	(9)	147	4	-	-	-	-	151
Commodity price derivatives (USD)	(6)	88	-	-	-	-	-	88
Others:								
Foreign exchange fluctuation insurance (USD)	-	65	-	-	-	-	-	65
Commodity price derivatives (EUR)	(3)	35	-	-	-	-	-	35

	31.12.06							
	Fair Value	Notional Value (in million by currency indicated)						
		2007	2008	2009	2010	2011	Beyond	Total
Interest rate swap contracts:								
Cash flow hedge:								
Financial swaps (EUR)	18	2	1	201	2	601	14	821
Financial swaps (USD)	(10)	11	13	13	52	13	87	189
Financial swaps (MXN)	(2)	2,000	1,000	-	-	-	-	3,000
Financial swaps (ARS)	(1)	-	113	-	-	-	-	113
Collar (EUR)	-	5	5	15	5	2	13	45
Collar with limits (EUR)	-	-	1	-	-	-	3	4
Exchange rate hedge								
Cash flow hedge:								
Financial swaps (USD)	-	-	-	58	-	-	-	58
Foreign exchange fluctuation insurance (USD)	(18)	1,127	-	-	-	-	-	1,127
Fair value hedge:								
Foreign exchange fluctuation insurance (BRL)	-	19	-	-	-	-	-	19
Financial swaps (BRL)	(68)	107	154	58	1	1	-	321
Commodity hedge:								
Cash flow hedge:								
Commodity price derivatives (EUR)	(4)	65	-	-	-	-	-	65
Commodity price derivatives (USD)	(15)	40	-	-	-	-	-	40
Others:								
Financial swaps (EUR)	1	124	-	-	-	2	-	126

Note 19. Risk Management

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

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

Interest rate risk

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

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

GAS NATURAL uses financial swaps to manage its exposure to interest rate fluctuations.

The debt structure at December 31, 2007 and 2006, after taking into account the hedges structured through derivatives, is as follows:

	At 31.12.2007	At 31.12.2006
Fixed interest rate	1,854	2,095
Floating interest rate	2,225	1,123
Total	**4,079**	**3,218**

The floating interest rate is mainly subject to the fluctuations of the European Interbank Offered Rate (EURIBOR), the London Interbank Offered Rate (LIBOR) and the indexed rates of Mexico, Brazil, Colombia and Argentina.

The sensitivity of profit and equity to the fluctuation in interest rates is as follows:

	Increase/decrease in interest rates (basis points)	Effect on income before taxes	Effect on equity before taxes
2007	+10	(2)	3
	(10)	2	(3)
2006	+10	(1)	3
	(10)	1	(3)

Exchange rate risk

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

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

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

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

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

		2007	2006
Effect on income before taxes	+5%	1	1
	(5%)	(1)	(1)
Effect on equity before taxes	+5%	(21)	(38)
	(5%)	23	42

Commodity price exchange risk

GAS NATURAL is exposed to the variation in commodity prices since a major portion of its operating expenses are linked to the purchase of gas for commercialisation in the free market and supply to regulated markets. Likewise, its combined cycle plants are fuelled by natural gas. Of special note is the effect of seasonality on demand during winter consumption peaks, representing the need to acquire additional gas to guarantee the continuity of supply through spot market purchases at prices that are higher than those under long-term supply contracts. Additionally, as a result of the significant presence in the power generation business, GAS NATURAL is exposed to electricity sale prices.

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

The sensitivity of income and net equity to the variation in the fair value of derivatives to hedge commodity prices, taking the Henry Hub index as the reference for the variation in gas price purchases and the sale price of electricity daily electricity market (OMEL) as the reference for the variation in the sale price of electricity, is as follows:

	Increase / decrease in the Henry Hub index (purchase price of gas)	Effect on income before taxes	Effect on equity before taxes
2007	+10%	-	1
	(10%)	-	(1)
2006	+10%	-	3
	(10%)	-	(3)

	Increase / decrease in the OMEL price (electricity sale price)	Effect on income before taxes	Effect on equity before taxes
2007	+10%	(4)	(14)
	(10%)	4	14
2006	+10%	-	-
	(10%)	-	-

Credit risk

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

Furthermore, the outstanding trade receivables are stated on the balance sheet net of provisions for bad debts, estimated by GAS NATURAL on the basis of the experience in previous years in line with the prior segregation of customer portfolios and the current economic environment.

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

At December 31, 2007 and 2006 GAS NATURAL does not have significant concentrations of credit risk.

The breakdown of the age of financial receivables overdue but not considered bad debts at December 31, 2007 and 2006 is as follows:

	At 31.12.2007	At 31.12.2006
Less than 90 days	175	179
90-180 days	33	71
More than 180	1	1
Total	**209**	**251**

Liquidity risk

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

At December 31, 2007, the availability of liquidity totals Euros 5,807 million, taking into account cash *(see Note 12)*, time deposits *(see Note 9)* and credit facilities and debt issues not drawn down *(see Note 17)*.

Note 20. Other non-current liabilities

The breakdown of this account at December 31, 2007 and 2006 is as follows:

	31.12.07	31.12.06
Finance lease liabilities (1)	382	312
Payables for leveling of capacity income (2)	116	-
Other liabilities (3)	60	83
Deposits and guarantee deposits	41	40
Total	**599**	**435**

(1) Finance lease liabilities.

In December 2007 a 138,000 m^3 gas transport tankers was acquired through a 25-year time-charter lease maturing 2032, extendible for consecutive periods of 5 years, and which represents a joint investment of Euros 162 million relating to the current value of the payments to which Repsol YPF (50%) and GAS NATURAL (50%) are committed.

In 2003, GAS NATURAL acquired two cryogenic gas transport tankers with a 276,000 m^3 capacity through finance lease agreements. The contract's duration is 20 years, maturing in 2023.

Minimum lease payments are as follows:

	31.12.07			31.12.06		
	Nominal	Discount	Present value	Nominal	Discount	Present value
Not later than 1 year	36	(2)	34	29	(2)	27
Between 1 and 5 years	144	(29)	115	116	(24)	92
Later than 5 years	612	(345)	267	517	(297)	220
Total	**792**	**(376)**	**416**	**662**	**(323)**	**339**

(2) Payable for leveling of capacity income.

This account includes the installed capacity revenues invoiced and pending recognition as income through the leveling of income over the term of the power purchase agreement (PPA) in Mexico.

3) Other liabilities.

These basically include the repurchase obligations of preference shares of Buenergia Gas & Power, Ltd. The 47.5% indirect interest in EcoEléctrica LP is held through the company Buenergía. This company is 95% owned by Invergas Puerto Rico, S.A. and 5% owned by a subsidiary of the General Electric Group, named Project Finance XI (PFXI). PFXI is, as well, the holder of the preference shares of Buenergía, which gives it a preference right over the dividends of this company, which must be repurchased by Buenergía as the company distributes profit, in line with the following schedule:

	US Dollars million
2008 ([1])	16
2009	15
2010	21
More than 5 years	27
Total	**79**

([1]) Includes the short-term part of Other current liabilities mentioned in Note 21.

Note 21. Other current liabilities

The breakdown of Other current liabilities at December 31, 2007 and 2006 is as follows:

	At 31.12.07	At 31.12.06
Expenses incurred pending to be paid	124	94
Other liabilities	27	36
Finance lease liabilities	34	27
Dividend to be paid	205	168
Total	**390**	**325**

Note 22. Trade and other payables

The breakdown at December 31, 2007 and 2006 is as follows:

	At 31.12.07	At 31.12.06
Trade payables	1,909	1,650
Trade with related parties ([1])	16	7
Amounts due to associates	1	4
Social security and other taxes	195	161
Amounts due to employees	29	21
Others	-	5
Total	**2,150**	**1,848**

([1]) Repsol YPF Group, Suez Group in 2007

Most of the payables do not accrue interest and fall due in less than 30 days in the case of gas purchases and 30 to 90 days for the other providers.

Note 23. Tax situation

The Tax Group represented by Gas Natural SDG, S.A. as the parent company has been taxed since 1993 under the Consolidated Tax Regime in accordance with the Special Regime for Group Companies, regulated under Chapter VII of Title VII of Royal Legislative Decree 2004/5 March, which involves the joint determination of taxable income of GAS NATURAL and the deductions and allowances on the tax payable.

In 2007, the Consolidated Tax Group of Gas Natural SDG, S.A. was made up of the following companies: Gas Natural Castilla y León, S.A., Gas Natural Cegás, S.A., Gas Natural Castilla La Mancha, S.A., Compañía Auxiliar de Industrias Varias, S.A., Gas Natural Informática, S.A., Gas Natural Servicios SDG, S.A., Gas Natural Andalucía, S.A., Gas Natural Internacional SDG, S.A., Holding Gas Natural, S.A., La Propagadora del Gas, S.A., La Energía, S.A., Sagane, S.A., Gas Natural Cantabria SDG, S.A., Gas Natural Murcia SDG, S.A., Desarrollo del Cable, S.A., Gas Natural Electricidad SDG, S.A., Gas Natural Comercializadora, S.A., Gas Natural Aprovisionamientos SDG, S.A., Gas Navarra, S.A., Gas Natural Rioja, S.A., Gas Natural Distribución Eléctrica, S.A., Gas Natural Soluciones, S.L., Invergas Puerto Rico, S.A., Sociedad de Tratamiento Hornillos, S.L., Gas Natural Distribución SDG, S.A., Gas Natural Transporte SDG, S.L., Gas Natural Corporación Eólica, S.L., Gas Natural Exploración, S.L., Distribuidora Eléctrica Navasfrías, S.L., Electra de Abusejo, S.L., Gas Natural Capital Markets, S.A., Gas Natural Eólica, S.A., Tratamiento Almazán, S.L., Gas Natural Comercial SDG, S.L., Portal del Instalador, S.A., Aplicaciones y Proyectos Energéticos, S.A., Boreas Eólica, S.A., Boreas Eólica 2, S.A., Desarrollo de Energías Renovables, S.A., Desarrollo de Energías Renovables Castilla La Mancha, S.A., Gas Natural Wind, S.L., Gas Natural Wind 2, S.L., Gas Natural Wind 3, S.L., Gas Natural Wind 4, S.L., Gas Natural Wind 5, S.L., Gas Natural Wind 6, S.L., Gas Natural Wind Canarias, S.L., Gas Natural Energy Canarias, S.L. and Gas Natural West África, S.L.

Other companies resident in Spain that are not included in the Tax Group are taxed individually.

The profit for the year of other companies of GAS NATURAL are taxed in each country in which they operate at the current corporate income tax rate. Additionally, in some countries the minimum presumed income tax or asset tax on certain assets and liabilities is recorded. These are taxes than can be computed as payments on account of income tax on the profit that may be generated in the next 10 years.

The reconciliation of accounting profit to tax profit for corporate income tax purposes is as follows:

	31.12.07	31.12.06
Income before taxes	**1,415**	**1,231**
Non-deductible expenses and non-computable income	**(28)**	**(187)**
Individual companies	(209)	(303)
Consolidated adjustments	181	116
Temporary differences:	**151**	**(71)**
Provisions	89	(22)
Other items	62	(49)
Prior taxable income	**1,538**	**973**
Offset of tax loss carryforwards	(3)	(27)
Taxable income	**1,535**	**946**

The reconciliation between the applicable tax rate and the actual tax rate for 2007 and 2006 is as follows:

	2007	%	2006	%
Income before taxes	**1,415**		**1,231**	
Statutory tax	**460**	**32.5**	**431**	**35.0**
Reinvestment tax deductions	(68)	(4.8)	(45)	(3.7)
Other tax deductions	(13)	(0.9)	(13)	(1.1)
Change in tax rate in Spain	4	0.3	(8)	(0.6)
Tax rates for foreign companies	(27)	(2.0)	(46)	(3.7)
Effect of net profit under equity accounting	(2)	(0.1)	(2)	(0.2)
Tax differences against prior years and others	5	0.3	(15)	(1.2)
Accrued corporate income tax	**359**	**25.3**	**302**	**24.6**

Due to the amendment enacted by Law 35/2006 of November 28, by virtue of which the general corporate income tax rate in Spain has been reduced from 35% to 32.5% for tax years beginning as from 1 January 2007 and to 30% for tax years beginning as from 1 January 2008, the credits for tax loss carryforwards available for offset at the year end have been adjusted, along with the deferred tax on the basis of the amount expected to be recovered or paid, respectively. The aforementioned adjustments have been recorded under income tax expense, except if they are related to items initially recorded against net equity. These adjustments represent an increase in corporate income tax of Euros 4 million in 2007 and a decrease in the corporate income tax expense of Euros 8 million in 2006.

Law 12/2007 of July 2, amended the Spanish Corporate Income Tax Act in relation to the tax regime for the transfer of assets under provisions of anti-trust legislation. As a result, profit from the sale of shareholdings in Enagás, S.A. are recorded in the year they are transferred, or the year in which the assets and rights in which the reinvestment materialises are written off the balance sheet, subtracting the reinvestment deduction from the gross tax payable during the tax period in which the legislation established the transfer obligation was enacted.

The revenues eligible for the reinvestment deduction set down under Royal Legislative Decree 4/2004, which basically derive from the sale of shareholdings in Enagás, S.A., and the investments in which they have materialised, break down as follows:

Year of sale	Amount generated from sale	Amount reinvested
2002	917	917
2003	39	39
2004	327	327
2005	432	432
2006	321	321
2007	122	122
Total	**2,158**	**2,158**

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

The tax expense for the year is as follows:

Tax on income	31.12.07	31.12.06
Current tax	461	309
Deferred tax	(102)	(7)
Total	**359**	**302**

The breakdown of the deferred tax is as follows:

	31.12.07	31.12.06
Deferred income tax assets:		
Non-current	238	124
Current	36	131
	274	**255**
Deferred income tax liabilities		
Non current	(478)	(420)
Current	(17)	(51)
	(495)	**(471)**
Net deferred income tax	**(221)**	**(216)**

The breakdown of deferred taxes is as follows:

Deferred tax assets	Provisions for employee benefit obligations	Accruals	Tax losses carried forward	Deferred expenses for tax purposes	Financial instruments	Other	Total
At 1.1.06	**56**	**9**	**60**	**35**	**11**	**52**	**223**
Charged/(credited) to income statement	(11)	8	(8)	1	25	15	30
Business combinations	-	-	4	1	-	-	5
Charged to equity	-	-	-	-	5	-	5
Cumulative translation adjustments	-	-	(3)	(1)	(1)	(3)	(8)
Others	(10)	16	(12)	10	-	(4)	-
At 31.12.06	**35**	**33**	**41**	**46**	**40**	**60**	**255**
Charged/(credited) to income statement	(2)	26	(3)	1	(24)	12	10
Business combinations	-	-	8	-	-	13	21
Charged to equity	-	-	-	-	(2)	-	(2)
Cumulative translation adjustments	1	1	(1)	3	-	(3)	1
Others	(4)	5	(2)	(1)	(2)	(7)	(11)
At 31.12.07	**30**	**65**	**43**	**49**	**12**	**75**	**274**

Deferred tax liabilities	Amortisation differences	Reinvestment capital gains	Fair value business combi-nation	Fair value available for sale assets	Financial instruments	Other	Total
At 1.1.06	**49**	**144**	**153**	**72**	**6**	**26**	**450**
Charged/(credited) to income statement	(3)	34	(17)	-	27	(4)	37
Business combinations	-	-	15	-	-	-	15
Charged to equity	-	-	-	(33)	4	-	(29)
Cumulative translation adjustments	(2)	-	-	-	-	(1)	(3)
Others	16	-	(1)	-	(5)	(9)	1
At 31.12.06	**60**	**178**	**150**	**39**	**32**	**12**	**471**
Charged/(credited) to income statement	-	(55)	(11)	-	(25)	(1)	(92)
Business combinations	47	-	65	-	-	11	123
Charged to equity	-	-	-	(6)	5	-	(1)
Cumulative translation adjustments	(2)	-	2	-	1	(2)	(1)
Others	(8)	-	-	-	(1)	4	(5)
At 31.12.07	**97**	**123**	**206**	**33**	**12**	**24**	**495**

The reversal of the deferred tax liability for reinvestment of capital gains basically includes the application of Law 12/2007 which has been subtracted from corporate income tax expense.

Gas Natural SDG, S.A. is open to inspection by the Tax Authorities for the years between 2003 and 2007 for all applicable taxes. The information on the main actions of the Tax Authorities and the position of the entity in each are discussed in the section on “Litigation and arbitration” in Note 36.

Note 24. Sales

The breakdown of this account for 2007 and 2006 is as follows:

	2007	2006
Natural gas sales	7,699	7,827
Electricity sales	1,117	1,370
Access to transmission networks	617	566
Installation rental, maintenance and management services	368	337
Transportation services	98	115
Other revenues and services to clients	194	133
Total	**10,093**	**10,348**

Note 25. Other income

The breakdown of this account for 2007 and 2006 is as follows:

	2007	2006
Other management income	65	100
Income from works	15	21
Others	1	3
Total	**81**	**124**

Note 26. Procurements

The breakdown of this account for 2007 and 2006 is as follows:

	2007	2006
Energy purchases	6,145	6,872
Access to transmission networks	408	408
Other purchases	189	146
Stock variation	5	(8)
Total	**6,747**	**7,418**

Note 27. Personnel costs

The breakdown of this account for 2007 and 2006 is as follows:

	2007	2006
Wages and salaries	244	232
Social security costs	55	51
Pension costs—defined contribution plans	9	11
Defined benefit plans and other post-employment benefits	2	2
Capitalized costs	(47)	(46)
Other	45	27
Total	**308**	**277**

The average number of employees of GAS NATURAL during 2007 has totalled 6,705, against 6,692 in 2006.

At December 31, 2007 GAS NATURAL had a total of 6,953 employees, of which 3,818 were located in Spain, 369 in the rest of Europe, 107 in North Africa, 2,582 in Latin America and 77 in Puerto Rico.

Under the provisions of the Spanish Gender Equality Act, Law 3/2007 of March 22, published in the Official State Gazette on March 23, 2007, the number of employees of GAS NATURAL at the 2007 year end broken down by job and gender is as follows:

	Men	Women	Total
Executives	406	86	492
Technicians	2,917	1,168	4,085
Administrative personnel	463	916	1,379
Workers	993	4	997
Total	**4,779**	**2,174**	**6,953**

Note 28. Other operating expenses

The breakdown of this account for 2007 and 2006 is as follows:

	2007	2006
Repairs and maintenance	184	174
Commercial services & advertising	169	169
Professional services & insurance	86	126
Local taxes	88	89
Computer services	24	22
Leases	34	35
Supplies	42	38
Other	274	269
Total	**901**	**922**

Note 29. Net finance cost

The breakdown of this account for 2007 and 2006 is as follows:

	2007	2006
Dividends	9	13
Interest income	51	38
Others	12	20
Total financial income	**72**	**71**
Financial expense from borrowings	(223)	(265)
Interest expenses of pension plans and other post-employment benefits	(4)	(5)
Others	(68)	(65)
Total financial expenses	**(295)**	**(335)**
Net exchange gains/(losses)	(2)	(2)
Net fair value gains/(losses) on derivative financial instruments	1	(1)
Fair value valuation of derivatives	18	(30)
Valuation of asset hedged by fair value derivatives	(17)	29
Net finance cost	**(224)**	**(267)**

Note 30. Gain on sales of non-current assets

The results from the sale of non-current assets in 2007 relate mainly to the capital gain on the sale of the 9.38% shareholding in Naturgas Energía Grupo, S.A. (Note 8).

The results from the sale of non-current assets in 2006 relate mainly to the capital gain on the sale of the 7.79% shareholding in Enagás, S.A. and the sale of the 10% shareholding in Gas Natural de Alava, S.A. (Note 8).

Note 31. Cash generated from operations

The breakdown of cash generated from operations in 2007 and 2006 is as follows:

	2007	2006
Net income for the period	1,056	929
Adjustments for:		
Income tax	359	302
Depreciation (Note 5)	539	493
Amortisation (Note 6)	112	99
Net movements in provisions (Note 15)	115	69
Net movements in employee benefits (Note 16)	8	7
Net movements in provisions for trade creditors and other receivables	42	29
Net fair value gains/(losses) on derivative financial instruments (Note 29)	(1)	1
Gain on sales of non – current assets	(64)	(230)
Interest income (Note 29)	(72)	(71)
Interest expense (Note 29)	295	335
Share of loss/(profit) from associates (Note 7)	(8)	(5)
Exchange (gains)/losses (Note 29)	2	2
Deferred income applied to results (Note 14)	(30)	(46)
Other adjustments	(37)	(39)
Changes in working capital (excluding the effects of acquisition and exchange differences on consolidation):		
Inventories	(3)	31
Trade and other receivables	(232)	245
Trade and other payables	349	(4)
Cash generated from operations	**2,430**	**2,147**

Note 32. Business combinations

The most significant business combinations in 2007 are as follows:

On December 27, 2007 GAS NATURAL acquired in Mexico 100% of the share capital of the combined cycle power plant companies Central de Anáhuac S.A. de CV, Central Lomas del Real S.A. de CV, Central Valle Hermoso S.A. de CV, Central Saltillo S.A. de CV y Central Águila de Altamira S.A. de CV, Gasoducto del Río S.A. de CV y Controladora del Golfo S.A. de CV and Cía Mexicana de Gerencia y Operación S.A. de CV. If the acquisition had taken place on January 1, 2007, the contribution to sales and profit for the year would have been Euros 627 million and Euros 29 million, respectively.

Details of net assets acquired and goodwill are as follows:

Purchase consideration:	
Cash paid	1,010
Total purchase consideration	1,010
Fair value of net assets acquired	923
Goodwill (Note 6)	**87**

GAS NATURAL has made the following provisional purchase price allocation to reflect the fair value of the assets and liabilities acquired:

	Fair value	Carrying amount
Property, plant and equipment	1,030	807
Other non current financial assets	43	43
Deferred income tax assets	21	21
Other current financial assets	112	112
Cash and cash equivalents	69	69
Total assets	**1,275**	**1,052**
Borrowings	15	15
Other non current liabilities	119	119
Deferred income tax liabilities	121	59
Other current liabilities	97	97
Total liabilities	**352**	**290**
Net assets acquired	**923**	**762**
Purchase consideration	**1,010**	
Cash and cash equivalents in subsidiary acquired	69	
Cash and outflow on acquisition	**941**	

The fair value of the property, plant and equipment has been determined on the basis of the current value of the expected cash flows from the power purchase agreement (PPA) with the Comisión Federal de Electricidad of México. These contracts have a duration of 25 years as from the date on which each plant begins operating commercially.

The goodwill is attributable to the high yield of the business acquired and the benefits and synergies expected as a result of the acquisition and integration into the GAS NATURAL Group.

On December 17, 2007 GAS NATURAL acquired 100% of the share capital of ITAL.ME.CO SRL, an Italian Group mainly engaged in the distribution and commercialisation of gas operating in four central and southern regions of Italy. If the acquisition had taken place on January 1, 2007, the contribution to sales for the year would have been Euros 4 million and would have no impact in profit.

Details of net assets acquired and goodwill are as follows:

Purchase consideration:	
Cash paid	24
Total purchase consideration	24
Fair value of net assets acquired	24
Goodwill (Note 6)	**-**

The assets and liabilities arising from the acquisition are as follows:

	Fair value	Carrying amount
Property, plant and equipment	57	53
Other current financial assets	28	28
Cash and cash equivalents	1	1
Total assets	**86**	**82**
Borrowings	8	8
Deferred income	24	24
Other non current liabilities	1	1
Provisions	1	1
Deferred income tax liabilities	1	
Current borrowings	1	1
Other current liabilities	26	26
Total liabilities	62	61
Net assets acquired	**24**	**21**
Purchase consideration	**24**	
Cash and cash equivalents in subsidiary acquired	1	
Cash and outflow on acquisition	**23**	

In February 2007 GAS NATURAL acquired 100% of the share capital of Eastern España S.A.U., a company mainly engaged in the research and exploitation of hydrocarbons and the transport, storage, purification and sale of by-products. The fair value of the net assets acquired of this company totals Euros 3 million and the purchase price is Euros 3 million, and, accordingly, no goodwill has been generated.

The most significant business combinations in 2006 are as follows:

In March 2006 GAS NATURAL acquired 100% of the share capital of Petroleum Oil & Gas España S.A., a company mainly engaged in the research and exploitation of hydrocarbons and the transport, storage, purification and sale of by-products. The business acquired contributed sales of Euros 5 million and results of Euros 2 million to the group for the period from March 1, 2006 to December 31, 2006. If the acquisition had taken place on January 1, 2006, the contribution to sales and profit for the year would have been Euros 6 million and Euros 2 million, respectively.

The breakdown of net assets acquired and goodwill is as follows:

Purchase consideration:	
Cash paid	29
Total purchase consideration	29
Fair value of net assets acquired	27
Goodwill (Note 6)	**2**

The goodwill is attributable to the high profitability of the business acquired and the synergies expected to arise from the acquisition by GAS NATURAL.

The assets and liabilities arising from the acquisition are as follows:

	Fair value	Carrying value
Property, plant and equipment	48	16
Other non-current financial assets	4	4
Deferred income tax assets	5	5
Inventories	8	2
Other current financial assets	4	4
Cash and cash equivalents	6	6
Total assets	**75**	**37**
Non-current borrowings	6	6
Other non-current liabilities	11	-
Provisions	10	10
Deferred income tax assets	15	-
Current borrowings	1	1
Other current liabilities	5	5
Total liabilities	**48**	**22**
Net assets acquired	**27**	**15**
Purchase consideration	**29**	
Cash and cash equivalents in subsidiary acquired	6	
Cash and outflow on acquisition	**23**	

Note 33. Joint ventures

GAS NATURAL has the following interest in joint ventures in December 2007 and 2006:

	2007 (%)	2006 (%)
UTE Gas Natural Servicios-Dalkia Energía	50.0	50.0
A.E.Hospital Universitario Trias Pujol	50.0	50.0
Sociedad de Tratamientos La Andaya, S.A.	45.0	45.0
Central Térmica La Torrecilla, S.A.	50.0	50.0
Los Castrios, S.A.	33.3	33.3
Desarrollo de Energías Renovables de Navarra, S.A.	50.0	50.0
Desarrollo de Energías Renovables la Rioja, S.A.	36.3	36.3
Molinos del Cidacos, S.A.	50.0	50.0
Molinos de la Rioja, S.A.	33.3	33.3
Molinos de Linares, S.A.	33.3	33.3
Montouto 2000, S.A.	49.0	49.0
Explotaciones Eólicas Sierra de Utrera, S.L.	50.0	50.0
CH4 Energía S.A. de C.V.	50.0	50.0
Transnatural S.R.L. de México	50.0	50.0
EcoEléctrica Holding Ltd y dependientes	50.0	50.0
Repsol - Gas Natural LNG, S.L.	50.0	50.0
El Andalus LNG SPA	32.0	32.0
Gas Natural Vehicular del Norte, Asociación en Participación	51.0	-
Energías Eólicas de Lanzarote,S.A.	50.0	-
Energías Eólicas de Fuerteventura S.A.	50.0	-
Alas Capital & GN, S.A.	40.0	-

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

	At 31.12.07	At 31.12.06
Non-current assets	462	472
Current assets	88	101
Assets	**550**	**573**
Non-current liabilities	294	337
Current liabilities	118	75
Liabilities	**412**	**412**
Net assets	**138**	**161**

	At 31.12.07	At 31.12.06
Income	232	244
Expenses	218	228
Income after taxes	**14**	**16**

There are no contingent liabilities relating to the joint ventures. Commitments includes the gas purchase commitment made by EcoEléctrica LP of 28,764 Gwh at December 31, 2007 and 31,161 Gwh at December 31, 2006.

Additionally, GAS NATURAL at December 31, 2007 has an interest in the assets and operations of the joint ventures broken down below, from which it obtains income and incurs expenses in proportion to its shareholding:

Name	Shareholding (%)	Operator	Activity
Spain			
Boquerón	4.50	Repsol Investigaciones Petrolíferas, S.A.	Exploration and production
Casablanca	9.46	Repsol Investigaciones Petrolíferas, S.A.	Exploration and production
Barracuda	12.01	Repsol Investigaciones Petrolíferas, S.A.	Exploration and production
Rodaballo	4.00	Repsol Investigaciones Petrolíferas, S.A.	Exploration and production
Chipirón	2.00	Repsol Investigaciones Petrolíferas, S.A.	Exploration and production
Romeral	55.00	Petroleum Oil & Gas España, S.A.	Exploration and production
Murcia-Siroco	40.00	Repsol Investigaciones Petrolíferas, S.A.	Exploration
Sestao Knutsen	50.00	Repsol Gas Natural LNG, S.L.	Transport of LNG
Algeria			
Gassi-Chergui	30.00	Repsol Exploración Argelia, S.A.	Exploration

Note 34. Related-parties disclosures

Under article 37 of the Financial System Reform Measures Act, Law 44/2002, we set out below the operations in 2007 and 2006 between GAS NATURAL and related natural and legal persons.

Related persons are as follows:

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

  Based on the foregoing definition, GAS NATURAL's related parties are Caixa d'Estalvis i Pensions de Barcelona ("la Caixa" Group), Repsol YPF S.A. Group, Suez Group (for 2007), Holding de Infraestructuras y Servicios Urbanos, S.A. (HISUSA) and Caixa d'Estalvis de Catalunya.

- Directors and executives of the company, and their immediate families. The term "director" means a member of the Board of Directors; "executive" means a member of the Management Committee of GAS NATURAL. The operations with directors and executives are disclosed in Note 35.

Transactions with the "la Caixa"

- Loans. "la Caixa" participates in syndicated loans of $29.0 million (Euros 20 million), maturing in 2009. At December 31, 2006 the participation in syndicated loans was Euros 52 million and $29 million (Euros 22 million) maturing between 2007 and 2009.

“la Caixa” is the mediating bank coordinating the syndicated “Club Deal” loan in which it participates in the amount of Euros 10 million. This amount relates to both December 31, 2007 and 2006.

EMTN and ECP programs. “la Caixa” is one of the eight dealers in the EMTN program (Euro Medium Term Notes) of GAS NATURAL, and one of the five dealers in the ECP program (Euro Commercial Paper).

The accrual of unpaid interest totals Euros 1 million at December 31, 2007. At December 31, 2006 this amount totalled Euros 3 million. The interest accrued totals Euros 7 million and Euros 8 million at December 31, 2007 and December 31, 2006, respectively.

- Credit facilities. GAS NATURAL has Euros 231 million in credit facilities and it has drawn down Euros 81 at December 31, 2007. At December 31, 2006 the credit facilities available totalled Euros 200 million, of which Euros 15 million were drawn down. Interest accrued amounted to Euros 1 million at December 31, 2007 and December 31, 2006.

- Guarantees. Guarantees given amounted to Euros 73 million out of a limit of Euros 84 million and Euros 86 million out of a limit of Euros 98 million at December 31, 2007 and 2006, respectively.

GAS NATURAL is the counter-guarantor for a loan that “la Caixa” has granted to Gas Natural BAN. The income from this transaction totals Euros 1 million and Euros 2 million at 31 December, 2007 and 2006, respectively.

- Hedging operations. At December 31, 2007 there are exchange rate hedges totalling Euros 404 million for future payments in foreign currency and Euros 390 million for interest payments. The hedges at December 31, 2006 total Euros 689 million for future payments in currencies and Euros 405 million in interest payments.

During 2007, total exchange rate hedges totalled Euros 2,585 million. During 2006 the total hedging operations for exchange rates totalled Euros 2,286 million.

- Bank accounts and investments. At December 31, 2007 bank accounts and investments totalled Euros 111 million, and at December 31, 2006 Euros 43 million. The interest accrued under this heading at December 31, 2007 amounted to Euros 8 million and Euros 3 million at December 31, 2006.

- Pension plans and insurance policies. The amounts paid at December 31, 2007 for contributions to pension plans and insurance policies for personnel totalled Euros 2 million, having redeemed premiums totalling Euros 9 million. In 2006 the amount paid totalled Euros 8 million.

- Others. The remuneration received by GAS NATURAL for the collection management of invoices for gas installation financing operations totalled Euros 1 million and Euros 2 million at December 31, 2007 and 2006, respectively.

Commissions and other services provided by “la Caixa” accrued at December 31, 2007 and December 31, 2006 totalled Euros 7 million.

- Dividends. Dividends paid at December 31, 2007 amounted to Euros 145 million and Euros 124 million at December 31, 2006.

Transactions with the Repsol YPF S.A.

- Sales and purchases. Purchases of natural gas, liquefied natural gas, materials and sundry services amounted to Euros 859 million and Euros 844 million at December 31, 2007 and December 31, 2006, respectively.

Sales of natural gas, liquefied gas, electricity and sundry services amounted to Euros 374 million and Euros 237 million at December 31, 2007 and December 31, 2006, respectively.

- GAS NATURAL and Repsol YPF jointly manage the midstream business of the investee company Repsol-Gas Natural LNG, S.L. in which they each hold a 50% stake.

In November 2007 a new methane tanker has been added to the fleet, the Sestao-Knutsen, with a capacity of 138,000 m^3 through a time-charter jointly held by Repsol YPF (50%) and GAS NATURAL (50%).

- Agreement for the exploration and joint development of an integrated gassistic project in Angola.

- Others. The Reinsurance Program has been renewed with a group of insurance companies in which Repsol YPF holds up to 30%. The amount accrued at December 31, 2007 for this and other reinsurance operations relating to 30% and totalled Euros 6 million. At December 31, 2006 the amount totalled Euros 5 million.

- Dividends. Dividends paid at December 31, 2007 totalled Euro 135 million. At December 31, 2006 this amount totalled Euros 116 million.

Transactions with Suez Group

- Purchases and sales. The acquisitions of natural gas, procurements, materials and sundry services totalled Euros 100 million at December 31, 2007.

- The sales of natural gas and sundry services totalled Euro 683 million at December 31, 2007.

- Dividends. Dividends paid at December 31, 2007 totalled Euros 14 million.

Transactions with Caixa d'Estalvis de Catalunya

- Credit facilities. GAS NATURAL has Euros 30 million in credit facilities and it has drawn Euros 23 million at December 31, 2007. At December 31, 2006 the credit facilities available totalled Euros 30 million, of which Euros 1 million were drawn down.

- Guarantees. Guarantees given amounted to Euros 28 million out of a limit of Euros 60 million at December 31, 2007 and December 31, 2006.

- Hedges. At December 31, 2007 there are interest rate hedges totalling Euros 12 million, which totalled Euros 14 million at December 31, 2006.

In 2007 total exchange rate hedges totalled Euros 6 million. These hedges have been settled during the year.

- Others. Caixa Catalunya participates in a lease transaction totalling Euros 2 million which expires in 2008.

The amount of commissions and interest accrued at December 31, 2007 totals Euros 2 million.

- Dividends. Dividends paid at December 31, 2007 amounted to Euros 13 million. At December 31, 2006 the amount paid totalled Euros 11 million.

Transactions with HISUSA

HISUSA is a company 51% owned by the Suez Group and 49% owned by the "la Caixa" Group.

- Dividends. Dividends paid at December 31, 2007 amounted to Euros 22 million. At December 31, 2006 the amount paid totalled Euros 20 million.

Note. 35 Information regarding members of the Board of Directors and Management Committee

Remuneration of the members of the Board of Directors

The members of the Board of Directors collected a total of Euros 5,812 thousand (Euros 4,881 thousand in 2006) in meeting attendance fees (Board of Directors and its Committees) and other direct responsibilities at various executive levels at December 31, 2007.

The total remuneration paid to the members of the Board of Directors of Gas Natural SDG, S.A. for belonging to the Management Committee, the Executive Committee, the Audit and Control Committee (ACC), the Appointments and Remuneration Committee (ARC), the Strategy, Investment and Competition Committee (SICC) totalled Euros 4,092 thousand in 2007 (Euros 3,753 thousand in 2006) and breaks down as follows:

		Remuneration (thousand euros)					
	Office	Board	Executive Committee	ACC	ARC	ISCC	Total
Mr. Salvador Gabarró Serra	Chairman	550	550	-	-	-	1,100
Mr. Antonio Brufau Niubó	Vice-Chairmen	127	126	-	12	-	265
Mr. Rafael Villaseca Marco	Chief Executive Office	127	126	-	-	-	253
Mr. José Vilarasau Salat	Member	127	-	-	-	-	127
Mr. Enrique Alcántara-García Irazoqui	Member	127	-	-	-	-	127
Mr. José Luis Jové Vintró	Member	127	126	6	-	-	259
Mr. Carlos Kinder Espinosa	Member	127	126	-	-	2	255
Mr. Nemesio Fernández-Cuesta Luca de Tena (2)	Member	69	-	-	-	-	69
Mr. Enrique Locutura Rupérez (3)	Member	58	-	-	-	-	58
Mr. Guzmán Solana Gómez (2)	Member	69	69	6	-	-	144
Mr. Demetrio Carceller Arce (3)	Member	58	57	-	-	-	115
Mr. Fernando Ramírez Mazarredo	Member	127	-	12	-	-	139
Caixa d'Estalvis de Catalunya (1)	Member	127	-	-	-	-	127
Mr. Carlos Losada Marrodán	Member	127	126	-	-	2	255
Mr. Santiago Cobo Cobo	Member	127	126	-	-	2	255
Mr. Emiliano López Achurra	Member	127	-	-	-	-	127
Mr. Miguel Valls Maseda	Member	127	-	12	12	-	151
Mr. Jaime Vega de Seoane Azpilicueta	Member	127	-	-	-	-	127
Mr. José Arcas Romeu	Member	127	-	-	12	-	139
		2,582	**1,432**	**36**	**36**	**6**	**4,092**

(1) Represented by Mr. José María Loza Xuriach.
(2) Resigned on 29.06.07.
(3) Appointed on 29.06.07.

On February 23, 2007 the Board of Directors adopted a resolution to suppress the Strategy, Investment and Competition Committee (SICC). The functions of this Committee have been taken over by the Executive Committee.

The members of the Board of Directors of the Company have not received any remuneration for profit sharing or premiums. Neither have they received shares or share options during the year, nor have they exercised options nor held options to be exercised.

The remuneration for all items accrued in 2007 by those members of the Board of Directors that have had labour-related relationships with, or have held executive responsibilities in, GAS NATURAL totals Euros 1,720 thousand (Euros 1,128 thousand in 2006). This amount includes the contributions to pension plans and insurance premiums. The total amount accumulated for pension or retirement benefits or the like total Euros 312 thousand.

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

The amount of the remuneration accrued in 2007 by the members of the Board of Directors of GAS NATURAL for belonging to the administrative bodies of other investee companies totals Euros 77 thousand (Euros 82 thousand in 2006).

Operations with Directors

As per the provisions of Law 26/2003/17 July, the Company's Directors have the following shareholdings or hold offices or undertake functions in companies with the same, analogous or complementary activity as the Company at December 31, 2007 as GAS NATURAL:

		Number of shares and % shareholding				
Directors and offices in other companies with similar or complementary activities	**Office in Gas Natural SDG**	**Gas Natural**	**Enagás**	**Repsol YPF**	**Endesa**	**Iberdrola**
Mr. Salvador Gabarró Serra	Chairman	-	10 (0.000)	-	-	10,350 (0.001)
Member Board of Directors of Enagás, S.A. Vice-Chairman of "la Caixa" Board Member of Criteria CaixaCorp, S.A.						
Mr. Antonio Brufau Niubó	Vice-Chairman	32,306 (0.007)	-	205,621 (0.017)	-	-
Executive Chairman of Repsol YPF, S.A. Chairman of YPF, S.A.						
Mr. Rafael Villaseca Marco	Member	1,000 (0.000)	356 (0.000)	646 (0.000)	859 (0.000)	2,544 (0.000)
Vice-Chairman of Repsol-Gas Natural LNG, S.L.. Chairman of Gas Natural Aprovisionamientos SDG, S.A.						
Mr. José Vilarasau Salat	Member	90 (0.000)	-	-	-	-
Mr. Santiago Cobo Cobo	Member	-	-	-	-	-
Mr. Carlos Losada Marrodán	Member	-	-	-	-	-
Mr. Fernando Ramírez Mazarredo	Member	200 (0.000)	-	200 (0.000)	-	-
General Economic-Finance Director of Repsol YPF, S.A.						
Mr. Carlos Kinder Espinosa	Member	100 (0.000)	-	-	-	-
Mr. Enrique Alcántara-García Irazoqui	Member	3,834 (0.001)	-	-	-	-
Caixa d'Estalvis de Catalunya	Member	13,550,000 (3.03)	-	19,868,984 (1.627)	-	-
Mr. Emiliano López Achurra	Member	-	-	-	-	-
Mr. Miguel Valls Maseda	Member	2,000 (0.000)	-	-	-	-
Mr. Jaime Vega de Seoane Azpilicueta	Member	-	-	-	-	-
Mr. José Arcas Romeu	Member	415 (0.000)	-	-	-	5,226 (0.001)
Mr. José Luis Jové Vintró	Member	100 (0.000)	-	-	-	3,497 (0.000)
Mr. Demetrio Carceller Arce	Member	1,000 (0.000)	-	-	-	-
Mr. Enrique Locutura Rupérez	Member	4,134 (0.001)	-	3,719 (0.000)	-	-
General Director of GNL of Repsol YPF, S.A. Chairman of Repsol-Gas Natural LNG. S.L.						

In respect of the scope of the information required by article 127.3.4 of the Spanish Companies Act, we have disclosed the shareholding in the capital held directly or indirectly by the Directors in companies with the same, analogous or complementary activity as that of GAS NATURAL, or in companies that meet the same characteristics in group, associates or unrelated companies.

In 2007 and 2006 the Directors of the Company have not carried out any operations outside the ordinary course of business or which have not been undertaken under normal market conditions with the company or with companies in the GAS NATURAL Group.

Remuneration of Management Committee

The total remuneration paid to the Management Committee, excluding the Chief Executive Officer, who is included in the section on the remuneration of the members of the Board of Directors, totalled in 2007 Euros 4,885 thousand (Euros 3,025 thousand in 2006), including Euros 4 thousand in benefits for belonging to the Board of Directors of other investee companies and Euros 108 thousand for contributions to pension plans and insurance premiums. The total accumulated amount for pension, retirement or similar benefits totals Euros 5,035 thousand (Euros 3,871 thousand in 2006).

The contracts entered into with the members of the Management Committee have compensation or indemnity clauses that give their beneficiaries the following rights, in the event of termination of the labour relationship as the result of an unlawful dismissal, an amount that varies between a minimum of 1 and a maximum of 5 annuities plus a post-contractual non–compete indemnity for a period of 2 years, agreed with each members based on their seniority. At December 31, 2007 there were 8 beneficiaries.

The cost of the total indemnities received by members of the Executive Committee who have terminated their employment relationship in 2007 totals Euros 4,674 thousand (Euros 3,648 thousand in 2006).

Note 36. Contingent liabilities and commitments

Guarantees

At December 31, 2007, Gas Natural SDG, S.A. has asked for guarantees from financial institutions for Euros 742 million at December 31, 2007, in respect of current litigation and trading transactions of the Group companies. GAS NATURAL estimates that the unforeseeable liabilities at December 31, 2007, if any, that could arise from the guarantees given would not be significant.

Commitments

The following table presents our contractual commitments at December 31, 2007:

	At December 31, 2007						
Contractual obligations	**Total**	**2008**	**2009**	**2010**	**2011**	**2012**	**and beyond**
Finance leases ([1])	792	36	36	36	36	36	612
Operating leases ([2])	321	56	49	34	35	59	88
For purchases of natural gas ([3])	58,363	4,865	4,067	4,022	3,955	3,729	37,725
For the transport of natural gas ([4])	1,131	129	107	105	106	72	612
For the sale of natural gas ([5])	5,642	1,319	707	440	341	344	2,491
Power purchase agreement ([6])	2,837	183	191	183	165	169	1,946
Investment commitments ([7])	376	196	118	62	-	-	-
Other liabilities ([8])	53	11	10	14	10	4	4
Total contractual obligations	**69,515**	**6,795**	**5,285**	**4,896**	**4,648**	**4,413**	**43,478**

([1]) Reflects the payments foreseen for finance leases for three LNG gas transport tankers.
([2]) Reflects the future payments foreseen for leases for six LNG gas transport tankers and the rent for the "Torre del Gas" building, owned by Torre Marenostrum, S.L. for which GAS NATURAL has an operating lease for a period without a purchase option of 10 years as from March 2006, extendible at fair value for successive periods of 3 years, discretionary for GAS NATURAL but binding for Torre Marenostrum, S.L.
([3]) Reflects the long-term commitments to purchase natural gas under "take or pay" gas supply agreements. Normally, these agreements have a term from 20 to 25 years, a minimum quantity of gas to be purchase and price revision mechanism indexed to international natural gas prices and regulated natural gas prices in countries in which the gas is sold. The contractual commitments under these contracts have been calculated on the basis of our best estimates of natural gas prices at December 31, 2007.
([4]) Reflects the long-term commitment to purchase gas transport capacity calculated on the basis of prices at December 31, 2007.
([5]) The commitment for the sale of natural gas. We have calculated our contractual commitments under these contracts on the basis of natural gas prices at December 31, 2007.
([6]) Reflects the commitments under contract for the power purchase agreement (PPA) in Mexico and Puerto Rico. The commitments under these contracts have been calculated on the basis of natural gas prices at December 31, 2007.
([7]) Reflects basically the commitment for payments under the turnkey contracts for the construction of the combined cycle plant in Malaga (with a 400MW capacity) and the Barcelona Harbour (with a 850 MW capacity).
([8]) Reflects the commitments for the repurchase of preferred shares from Buenergía Gas&Power Ltd. (See Note 20).

Litigation and arbitration

At the date of formulation of these consolidated annual accounts the main litigation and arbitration involving GAS NATURAL are as follows:

Atlantic LNG arbitration

Atlantic LNG 2/3 Trinidad and Tobago has provided us with notice of the initiation of an arbitration regarding the revision of LNG supply prices under our supply agreement with this company. The arbitration process is in its initial phase.

Sonatrach

After an exchange of correspondence with Sonatrach in regards to certain differences in the interpretation of certain clauses in the supply contract, Sonatrach has filed for arbitration in order to modify the contracts, especially their pricing formula. GAS NATURAL has opposed this suit and has filed a counter-claim to execute a decrease in price.

Project Gassi Touil

Sonatrach has initiated an international arbitration proceeding in relation to the integrated Gassi Touil project requesting that its resolution of its contract with GAS NATURAL and Repsol YPF be declared licit. The three companies have announced that they will claim indemnities, which, at this time, have not been quantified. The arbitration court has set the conditions for the provisional transfer of the activities to Sonatrach as requested by the three companies, subjecting its economic consequence to the final ruling. The accumulated investment in the Gassi Touil project, which is carried under Other property, plant and equipment, totals Euros 143 million, net of the exploration costs already depreciated in the amount of Euros 11 million. It is estimated that the final result of these proceedings will not have a significant negative impact on these annual accounts.

Arbitration with Endesa

On September 13, 2006 Endesa filed arbitration proceedings to dispute the gas supply contract dated October 14, 1998. On October 10, 2006 GAS NATURAL filed another request to initiate arbitration on the same contract. The arbitration process is in its initial phase.

Arbitration with Tejas Gas de Toluca de R.L. de C.V.:

On January 18, 2007 GAS NATURAL received notice of an arbitration claim filed by Tejas Gas de Toluca S. de R.L. de C.V. (Tejas Gas) against Gas Natural México S.A. de C.V. and PEMEX, to which it provides transport service claiming the payment of the alleged differences according to its interpretation of the contract. The amount claimed is not fully disclosed in the claim since it refers to differences that occur from month to month, which net accumulated amount is estimated at Pesos 83 million at December 31, 2007. The proceedings are continuing and a favourable outcome is expected.

Investment and Customer Coverage Commitments in Mexico

In compliance with the conditions of the bids for distribution permits in Toluca, Distrito Federal, Bajío and Bajío Norte, GAS NATURAL gave guarantees totalling US$ 23 million to ensure investment and customer coverage commitments, which at the date of termination of the initial period could not be met, especially in relation to customer coverage, due to force majeure, including the delay in the construction of the distribution infrastructures to be built by third parties and necessary for the gasification of certain areas in which the distribution permits are operative, as well as the difficulties in obtaining the municipal licenses for the gas conduit construction. GAS NATURAL has filed the respective appeals with the Federal Courts alleging force majeure and has obtained the final suspension of the execution of the guarantees until the proceedings terminate.

Spanish Tax Claims

The Spanish Tax Authorities have been undertaking tax audits against us for tax returns filed for fiscal years 1990 to 2002, particularly for Corporate Income Tax, Personal Income Tax and Value Added Tax. Thus, on April 4, 2007 Tax Assessments were signed for corporate income tax (years 1999 to 2002) for the 59/93 Tax Group and for value added tax and tax on personal income (2001 and 2002) of Gas Natural SDG, S.A. The assessments were signed in agreement, except for the assessment on the export deductions from corporate tax payable, which total Euros 189 million, which were signed in disagreement, and are being appealed by the Company before the appropriate courts.

The aforementioned tax audits that resulted in Assessments signed in Disagreement are now in different phases of proceedings (Supreme Court, National High Court, and Central Tax and Treasury Court). Of the results obtained in these courts of special note is the large number of acceptances in relation to the tax assessments made. GAS NATURAL estimates that the final result of these claims will not have a significant impact on its annual accounts.

Argentina Tax Claims

The Argentina tax authorities have made various tax claims regarding the tax treatment of capital gains for a total of Argentine Pesos 207 million, interest included, arising from transfers of third party networks to our subsidiary in Argentina, Gas Natural BAN, S.A. between 1993 and 2001. GAS NATURAL has contested all that tax claims and expects to prevail. Thus, the National Appeals Court handed down in 2007 a ruling for the period 1993-1997 by virtue of which it voided the Ruling of the Argentine Tax Authorities (Administración Federal de Ingresos Públicos – AFIP) that claimed the alleged tax payable, and also confirmed the voiding of the fines. The ruling of this Court has been appealed before the Supreme Court of Argentina.

Brazilian Tax Claims

In September 2005 CEG (Companhia Distribuidora de Gás do Rio de Janeiro, S.A.) was informed of the decision handed down by the Tax Authorities of Rio de Janeiro, which voided the Company's recognition of tax credits for PIS and COFINS sales tax paid in previous years that had been previously admitted in the nominal amount of BR 83 million. The Company filed thereafter the necessary appeals to void this ruling. In March 2007 the Company lost its case in the administrative courts and immediately filed an appeal before the courts of instance, following due process. The Company's legal advisors estimate that the probability of losing this suit is remote, which is the reason why it has not set up a provision for these proceedings, which total amount at December 31, 2007 comes to BR 240 million.

Proceedings filed by the Service for the Defense of Competition

The Anti-Trust Services (Servicio de Defensa de la Competencia) have initiated certain proceedings against GAS NATURAL regarding a failure to comply with antitrust regulations. GAS NATURAL believes, although the resolution of these proceedings could be adverse, that such a ruling would not have a material adverse effect on its operations or financial position.

Differences in the supply contract with Petrobras

Petrobras has filed a claim against Companhia Distribuidora de Gás do Río de Janeiro, S.A. for higher prices for the supplies that exceed a certain volume; GAS NATURAL has initiated arbitration proceedings so that an independent third party can express an opinion on this claim. The proceedings are in their initial phase.

GAS NATURAL believes that the provisions recorded in these consolidated annual accounts sufficiently cover the risks described in this Note, and, accordingly, does not expect additional liabilities to arise from them.

Note 37. Audit fees

The fees accrued in 2007 to PricewaterhouseCoopers for auditing services and other services provided to the Group total Euros 1,855 thousand (Euros 3,067 thousand in 2006).

Furthermore, the fees accrued in 2007 for other services provided to the Group by other companies using the PricewaterhouseCoopers brand total amounted Euros 1,310 thousand (Euros 856 thousand in 2006).

Note 38. Environment

Environmental actions

Throughout 2007, GAS NATURAL has continued working actively in the adoption of measures to respond to the growing demand for energy by our society by striving to make energy development compatible with environmental protection, and by consolidating in time its global sustainability project.

In order to strengthen its objectives and guarantee environmental protection and the conservation of bio-diversity, GAS NATURAL has integrated into its business policy specific measures that include rigorous control of all its exploration, storage, transport, distribution of gas and power generation activities and operations, as well as others relating to its facilities and work centres.

Thus, GAS NATURAL has opted for electricity generation using natural gas as its primary energy source in conjunction with the application of more efficient technologies, such as combined cycle or co-generation plants, which not only permit high yields but also minimise CO_2 emissions. Additionally, it is expanding power generation from renewable energy sources through the expansion of wind energy production. At this time GAS NATURAL is one of the main combined cycle operators in the world, generating 6,474 MW.

The renewal of pipeline networks and the use of the latest generation of materials in their construction continue to be a major improvement activity that is being carried out annually in order to minimise the level of methane emissions. Thus, further to the report on the "Evaluation of Methane Emissions in the Spanish Distribution System", field testing has been carried out in 2007 in Monterrey (Mexico) in order to improve and upgrade the calculation method use to determine methane emissions, bearing in mind the particularities and features of the pipeline network and supply pressure of each country where GAS NATURAL is operating.

Additionally, other actions have been carried out to strengthen the integration of natural gas into the vehicle fleets and improve the quality of the air of our cities and their greater metropolitan areas. For a long time now GAS NATURAL has been preparing studies and proposals for the development of vehicular natural gas (VNG) along with educational and promotional activities on the use of this alternative fuel. Although in Latin America the use of this fuel is more developed, its use in Spain is still not very widespread. Thus Gas Natural Soluciones, S.A. has developed a new product, gnAuto, as an alternative energy source for automobiles and has made the company a pioneer and the only supplier of fuel of this type in the country. Along these lines, in November 2007, a detailed study was presented to the public, prepared with the collaboration of the Centro Nacional de Supercomputación "Mare Nostrum" of the Polytechnical University of Catalonia, which shows that the replacement by natural gas of 10% of the fleets of diesel and gasoline vehicles on the roads of the cities of Madrid and Barcelona would guarantee that the concentration of nitrogen oxide, carbon monoxide and volatile solid particles would fall below the threshold recommended by the World Health Organisation (WHO) at today's current traffic intensity levels.

In order to strengthen energy saving and consolidate the control in real time of gas, electricity and water consumption, tele-measuring systems have become fully operative for these utilities in 36 work centres. This monitoring system means we can customise the management of our utility consumption in order to maintain predefined parameters. The GAS NATURAL intranet offers information on temperature and energy expense in real time, as well as the historical values of each centre.

On the other hand, the introduction of successive and major improvements in the control of information on waste has allowed the Group to obtain a thorough knowledge of waste generation in our distribution activities, and at our combined cycle and co-generation plants and wind farms. Moreover, we have extended the separation and management of plastic waste to our smaller work centres to those that have nearby municipal waste management programs.

The commitment of GAS NATURAL to the environment has led to the study of new solutions that will integrate renewable energies and natural gas more efficiently, of special note being the following initiatives, amongst others:

- Incorporation and exploitation of a new 800 MW combined cycle plant in La Plana del Vent (Tarragona).

- Project SPHERA, as part of the CENIT program of the Ministry of Industry, is trying to foster stable public-private cooperation in research, development and innovation (R+D+i) in areas of strategic importance for the economy by promoting the creation of national strategic consortia in technical research (CENIT). This is a major, long-term, scientific-technical integrated strategic industrial research project in the area of the technological development of hydrogen, and its goal, through industrial research in different technologies related to the areas of production, storage, distribution and use, is to prepare an integrated proposal that covers the entire value chain of this energy vector, and which will allow us to acquire the most advantageous position possible when a legal and economic framework is established in which hydrogen has become one more element of the world energy map.

- Experimental installation of production and storage of hydrogen at the Sotavento Wind Farm. This facility, the first in Europe, produces hydrogen based on the surplus electrical energy of the wind farm.

The environmental commitments of GAS NATURAL not only have repercussions on the companies in the group but their scope also coves all the stakeholders in the company's value chain.

Thus in its relations with contractors or collaborating external companies, the employees of the Group transmit the principles that emanate from its environmental management policies, and demand compliance with the environmental procedures and requirements that are applicable.

Additionally, GAS NATURAL also involves its customers in the responsible use of energy through sponsorship activities and campaigns and environmental conferences providing information in order to increase environmental awareness.

All of these environmental activities in 2007 have involved total investments of Euros 26 million, which represents investment and accumulated depreciation carried on the balance sheet of Euros 369 million and euros 99 million, respectively.

GAS NATURAL has also undertaken sponsorship, training and environmental education and awareness activities.

The possible contingencies, indemnities and other environmental related risks in which the Group could incur are appropriately covered by civil liability insurance policies.

Emissions

The Government on January 21, 2005 approved a resolution on the final individual assignment of emission rights for 2005-2007. The GAS NATURAL Group was assigned the following thousands of tonnes of CO_2 for 2005, 2006 and 2007:

($mtCO_2$)	2005	2006	2007
Assigned emission rights	3,592	4,168	5,675

The use of emission rights during 2007 totalled 5,754 thousand tonnes.

GAS NATURAL has made the necessary acquisitions to cover its deficit of CO_2 rights.

The Council of Ministers approved the individual assigned of green-house gas emissions rights on November 14, 2007 for the 2008-2012 period. The GAS NATURAL Group was assigned 14.2 million tonnes of CO_2, in accordance with the following table:

($mtCO_2$)	2008	2009	2010	2011	2012
Assigned emission rights	2,884	2,829	2,829	2,829	2,829

GAS NATURAL has continued to make contributions to the Community Development Carbon Fund, a fund answering to the World Bank that works on projects related to the development of production processes, education and health in underprivileged countries, and to the Spanish Carbon Fund promoted by the Spanish Ministry of the Environment. Moreover, GAS NATURAL participates in the Multilateral Carbon Credit Fund. At the end of 2007, the GAS NATURAL has 10 CDM projects underway in different phases of execution and 75,567 emissions rights recognised by the United National for CDM projects (Sombrilla and Quimvale).

- Study on the use of biogas from solid urban waste deposits. Specifically, the energy use of biogas at the approximate rate of 250,000 MWh PCI/year at the Doña Juana Dump (Bogota), the largest installation of this type in Latin America, with two million tonnes of waste dumped annually.

- Clean Development Mechanisms Project-CDM (Proyecto de Mecanismos de Desarrollo Limpio - MDL), Sombrilla, replacing fuel oil with natural gas in furnaces, drying rooms and other facilities at 8 industrial plants in Bogota (Colombia). Quimvale CDM Project - replacing fuel oil with natural gas at the drying furnace of a calcium carbonate industrial facility in Rio de Janeiro (Brazil), and new CDM Projects in 2008 based on the implementation of co-generation systems, reduction of leakage in gas pipeline networks and the replacement of fuels with other methods that are less carbon-intensive.

Note 39. Subsequent events

On January 25, 2008 the Board of Directors of Gas Natural SDG, S.A. appointed Mr. Juan Maria Nin Génova and Mr. Francisco Reynés Massanet as board members representing shareholders of reference, upon the proposal of Criteria CaixaCorp, replacing Mr. José Vilarasau Salat and Mr. José Luis Jové Vintró.

Furthermore, Mr. Francisco Reynes is member of the Executive Committee and Audit and Control Committee of the Board of Directors.

In accordance with Law 26/2003 of July 17, we set out below the information presented by the new Members of the Board in relation to their shareholdings in companies with the same, analogous or complementary activity as that of the Company, as well as their offices or functions they undertake in the same:

Directors and offices in other Companies with the same or analogous activity	Cargo en Gas Natural SDG, S.A.	Number of shares and % in Gas Natural
Mr. Juan Maria Nin Génova	Board Member	144 (0.000)
Board Member of Criteria CaixaCorp, S.A. *Board Member of Repsol YPF, S.A.*		
Mr. Francisco Reynés Massanet	Board Member	24 (0.000)
General Director of Criteria CaixaCorp, S.A.		

Appendix of companies of Gas Natural

Company	Country	Activity
Gas Natural Aprovisionamientos SDG, S.A.	Spain	Gas supply
Sagane, S.A.	Spain	Gas supply
Repsol-Gas Natural LNG, S.L.	Spain	Supply and transport
La Energía, S.A.	Spain	Cogeneration
Sociedad de Tratamiento Hornillos, S.L.	Spain	Cogeneration
Tratamiento Almazán, S.L.	Spain	Cogeneration
UTE La Energía, SpA	Spain	Cogeneration
A.E. Hospital Universitario Trias Pujol	Spain	Cogeneration
Sociedad de Tratamiento La Andaya, S.A.	Spain	Cogeneration
Central Térmica La Torrecilla, S.A.	Spain	Cogeneration
Congas Servizi Consorzio Gas Acqua Servizi, S.p.A.	Italy	Gas commercialisation
Gas Natural Commercialisation France, S.P.A.S.	France	Gas commercialisation
Gas Natural Vendita Italia, S.p.A.	Italy	Gas commercialisation
Mecogas, S.r.l.	Italy	Gas commercialisation
Natural Energy, S.A.	Argentina	Gas commercialisation
Gas Natural Comercial SDG, S.L.	Spain	Domestic gas commercialisation
Gas Natural Comercializadora, S.A.	Spain	Industrial gas and electricity commercialisation
CH4 Energía S.A. de C.V.	Mexico	Gas commercialisation and transport
Transnatural S.R.L. de México	Mexico	Gas commercialisation and transport
Gas Natural Servicios SDG, S.A.	Spain	Commercialisation of gas, electricity and energy management
Distribuidora Eléctrica Navasfrías, S.L.	Spain	Distribution of electricity
Eléctra de Abusejo, S.L.	Spain	Distribution of electricity
Gas Natural Distribución Eléctrica, S.A.	Spain	Distribution of electricity
Agragas, S.p.A.	Italy	Gas distribution
Calgas, S.c.a.r.l.	Italy	Gas distribution
Ceg Río, S.A.	Brazil	Gas distribution
Comercializadora Metrogas, S.A. de CV	Mexico	Gas distribution
Companhia Distribuidora de Gás do Río de Janeiro, S.A.	Brazil	Gas distribution
Gas Aragón, S.A. (1)	Spain	Gas distribution
Gas Galicia SDG, S.A.	Spain	Gas distribution
Gas Natural Andalucía, S.A.	Spain	Gas distribution
Gas Natural BAN, S.A.	Argentina	Gas distribution
Gas Natural Cantabria SDG, S.A.	Spain	Gas distribution
Gas Natural Castilla y León, S.A.	Spain	Gas distribution
Gas Natural Castilla La-Mancha, S.A.	Spain	Gas distribution
Gas Natural Cegas, S.A.	Spain	Gas distribution
Gas Natural Cundiboyacense, S.A. ESP	Colombia	Gas distribution
Gas Natural de Sao Paulo Sul, S.A.	Brazil	Gas distribution
Gas Natural del Oriente, S.A. ESP	Colombia	Gas distribution
Gas Natural Distribución SDG, S.A.	Spain	Gas distribution
Gas Natural La Coruña, S.A.	Spain	Gas distribution
Gas Natural México, S.A. DE CV	Mexico	Gas distribution
Gas Natural Murcia SDG, S.A.	Spain	Gas distribution
Gas Natural Rioja, S.A.	Spain	Gas distribution
Gas Natural Transporte SDG, S.L.	Spain	Gas distribution
Gas Natural Vehicular del Norte Asociación en Participación	Mexico	Gas distribution
Gas Natural, S.A. ESP	Colombia	Gas distribution
Gas Navarra, S.A.	Spain	Gas distribution
Gasdotti Azienda Siciliana, S.p.A.	Italy	Gas distribution
Gases de Barrancabermeja, S.A.	Colombia	Gas distribution

		Equity			
Consolidation Method	% total shareholding	Capital	Reserves	2007 Profit (loss)	Interim dividend
F.C.	100.0	0.6	14.3	96.7	-
F.C.	100.0	94.8	13.5	119.6	-
P.C.	50.0	2.0	0.1	0.1	-
F.C.	100.0	10.7	0.7	0.8	-
F.C.	80.0	1.2	1.3	0.2	-
F.C.	90.0	2.7	-	(0.1)	-
F.C.	100.0	1.7	-	0.2	-
P.C.	50.0	0.9	(0.1)	(0.3)	-
P.C.	45.0	1.1	1.8	0.1	-
P.C.	50.0	1.2	-	-	-
F.C.	90.0	0.1	1.0	-	-
F.C.	100.0	-	2.8	1.7	-
F.C.	100.0	2.1	12.8	(7.7)	-
F.C.	100.0	-	0.2	-	-
F.C.	100.0	0.2	1.0	1.6	-
F.C.	100.0	4.5	0.2	3.3	-
F.C.	100.0	2.4	29.7	118.8	-
P.C.	43.4	0.6	1.0	0.7	-
P.C.	43.4	10.4	(13.0)	(4.2)	-
F.C.	100.0	2.9	2.4	4.2	-
F.C.	100.0	0.2	-	-	-
F.C.	100.0	0.7	-	-	-
F.C.	100.0	1.2	0.4	(0.4)	-
F.C.	90.0	0.1	34.6	0.4	-
F.C.	100.0	1.7	-	-	-
F.C.	59.6	24.7	31.7	11.1	(6.0)
F.C.	86.8	128.1	(67.5)	(0.9)	-
F.C.	54.2	153.3	112.5	37.8	(32.4)
E.M.	35.0	5.9	26.2	16.9	(3.9)
F.C.	62.0	32.6	5.7	0.1	-
F.C.	100.0	12.4	41.3	4.4	-
F.C.	70.0	214.7	(153.0)	15.9	(13.4)
F.C.	90.4	3.2	28.0	2.7	-
F.C.	90.1	6.3	78.5	18.3	-
F.C.	95.0	26.8	16.9	4.6	-
F.C.	99.7	25.4	68.0	8.1	-
F.C.	45.8	1.1	9.3	4.5	-
F.C.	100.0	347.5	(169.7)	6.7	(3.7)
F.C.	32.2	9.2	25.7	7.6	(9.4)
F.C.	100.0	101.0	1,031.8	277.0	(237.3)
F.C.	56.4	2.3	(0.9)	0.2	-
F.C.	86.8	470.7	(183.4)	7.1	-
F.C.	99.9	19.3	(5.5)	(3.7)	-
F.C.	87.5	2.7	8.9	2.7	-
F.C.	100.0	14.9	43.1	9.0	(5.8)
P.C.	44.3	0.7	-	-	-
F.C.	59.1	10.9	141.6	64.4	-
F.C.	90.0	3.6	27.1	6.6	-
F.C.	90.0	0.5	19.9	1.7	-
F.C.	32.2	1.3	1.5	0.5	-

Appendix of companies of Gas Natural *(continued)*

Company	Country	Activity
ITAL.ME.CO, S.R.L.	Italy	Gas distribution
Normanna Gas, S.p.A.	Italy	Gas distribution
Smedigas S.p.A.	Italy	Gas distribution
Petroleum Oil & Gas España, S.A.	Spain	Hydrocarbon exploration
Gas Natural Capital Markets, S.A.	Spain	Finance
Gas Natural Finance, B.V	Holland	Finance
Gas Natural International, Ltd.	Ireland	Finance
Kromschroeder, S.A. (2)	Spain	Meters
Torre Marenostrum, S.L.	Spain	Real estate
Central Anáhuac, S.A. de CV	Mexico	Electricity generation
Central Lomas del Real, S.A. de CV	Mexico	Electricity generation
Central Saltillo, S.A. de CV	Mexico	Electricity generation
Central Vallehermoso, S.A. de CV	Mexico	Electricity generation
Compañía Mexicana de Gerencia y Operación, S.A. de CV	Mexico	Electricity generation
Controladora del Golfo, S.A. de CV	Mexico	Electricity generation
EcoEléctrica, L.P.	Puerto Rico	Electricity generation
Electricidad Águila de Altamira, S.A. de CV	Mexico	Electricity generation
Gasoducto del Río, S.A. de CV	Mexico	Electricity generation
Lantarón Energía, S.L.	Spain	Electricity generation
Alas Capital & GN, S.A.	Spain	Wind farms
Aplicaciones y Proyectos energéticos, S.A.	Spain	Wind farms
Boreas Eólica 2, S.A.	Spain	Wind farms
Boreas Eólica, S.A.	Spain	Wind farms
Corporación Eólica de Zaragoza, S.L.	Spain	Wind farms
Desarrollo de Energías Renovables Castilla La Mancha, S.A.	Spain	Wind farms
Desarrollo de Energías Renovables de la Rioja, S.A.	Spain	Wind farms
Desarrollo de Energías Renovables de Navarra, S.A.	Spain	Wind farms
Desarrollo de Energías Renovables, S.A.	Spain	Wind farms
Energías Eólicas de Fuerteventura, S.L.	Spain	Wind farms
Energías Eólicas de Lanzarote, S.L.	Spain	Wind farms
Energy Way Produçao de Energía Lda	Portugal	Wind farms
Enervent, S.A. (2)	Spain	Wind farms
Explotaciones Eólicas Sierra de Utrera, S.L.	Spain	Wind farms
GN Wind, S.L.	Spain	Wind farms
GN Wind 2, S.L.	Spain	Wind farms
GN Wind 3, S.L.	Spain	Wind farms
GN Wind 4, S.L.	Spain	Wind farms
GN Wind 5, S.L.	Spain	Wind farms
GN Wind 6, S.L.	Spain	Wind farms
GN Wind Canarias, S.L.	Spain	Wind farms
Gas Natural Energy Canarias, S.L.	Spain	Wind farms
Los Castrios, S.A.	Spain	Wind farms
Molinos de la Rioja, S.A.	Spain	Wind farms
Molinos de Linares, S.A.	Spain	Wind farms
Molinos de Valdebezana, S.A.	Spain	Wind farms
Molinos del Cidacos, S.A.	Spain	Wind farms
Montouto 2000, S.A.	Spain	Wind farms
Sistemas Energéticos La Muela, S.A. (2)	Spain	Wind farms
Sistemas Energéticos Mas Garullo, S.A. (2)	Spain	Wind farms
Tratamiento Cinca Medio, S.L.	Spain	Wind farms
Gas Natural do Brasil, S.A.	Brazil	Generation and commercialisation of electricity

		Equity			
Consolidation Method	% total shareholding	Capital	Reserves	2007 Profit (loss)	Interim dividend
F.C.	100.0	22.4	(0.9)	-	-
F.C.	90.0	0.1	28.4	0.7	-
F.C.	100.0	0.6	20.1	(0.6)	-
F.C.	100.0	3.9	51.1	0.5	-
F.C.	100.0	0.1	1.6	0.1	-
F.C.	100.0	-	2.2	0.3	-
F.C.	100.0	25.4	8.9	1.3	-
E.M.	42.5	0.7	10.9	0.5	-
E.M.	45.0	5.3	15.7	0.1	-
F.C.	100.0	254.8	(86.6)	-	-
F.C.	100.0	37.5	121.0	-	-
F.C.	100.0	150.7	(49.5)	-	-
F.C.	100.0	43.4	146.9	-	-
F.C.	100.0	-	0.1	-	-
F.C.	100.0	122.7	-	-	-
P.C.	47.5	63.2	(19.4)	51.2	(12.1)
F.C.	100.0	159.7	(44.1)	-	-
F.C.	100.0	2.7	6.2	-	-
F.C.	100.0	-	-	-	-
P.C.	40.0	-	-	-	-
F.C.	100.0	0.1	0.1	-	-
F.C.	90.0	2.6	4.5	1.7	-
F.C.	99.5	5.2	5.3	2.2	-
F.C.	68.0	2.5	0.3	0.7	-
F.C.	100.0	0.1	0.3	1.1	-
P.C.	36.3	16.5	2.1	6.4	-
P.C.	50.0	9.9	29.1	12.9	-
F.C.	100.0	42.2	129.2	12.8	(11.3)
P.C.	50.0	-	-	-	-
P.C.	50.0	-	-	-	-
F.C.	100.0	-	-	-	-
E.M.	26.0	2.4	1.0	1.9	(0.5)
P.C.	50.0	2.7	2.8	2.4	-
F.C.	100.0	-	-	-	-
F.C.	100.0	-	-	-	-
F.C.	100.0	-	-	-	-
F.C.	100.0	-	-	-	-
F.C.	100.0	-	-	-	-
F.C.	100.0	-	-	-	-
F.C.	100.0	-	-	-	-
F.C.	100.0	-	-	-	-
P.C.	33.1	2.2	0.6	0.8	-
P.C.	33.3	3.0	2.4	2.8	-
P.C.	25.0	0.1	-	-	-
F.C.	59.7	0.1	-	-	-
P.C.	50.0	10.3	8.4	11.0	-
P.C.	49.0	6.0	1.4	2.3	-
E.M.	20.0	3.1	4.1	2.5	(1.7)
E.M.	18.0	1.5	2.5	2.2	(1.5)
F.C.	80.0	2.0	-	-	-
F.C.	100.0	0.6	(1.7)	(0.2)	-

Appendix of Companies of Gas Natural *(continued)*

Company	Country	Activity
Gas Natural Electricidad SDG, S.A.	Spain	Generation and commercialisation of electricity
UTE GNS-Dalkia Energia	Spain	Energy management
Gas Natural Informática, S.A.	Spain	IT
Natural Servicios, S.A.	Argentina	Gas installation
Gas Natural Exploración, S.L.	Spain	Hydrocarbon research and exploration
GN West Africa, S.L.	Spain	Hydrocarbon research and exploration
El Andalus LNG, SPA	Algeria	Liquefaction
Gas Natural Rigassificazione Italia, S.p.A.	Italy	Gas regassification
Natural Re, S.A.	Luxemburg	Insurance
Adm. de Servicios de Energía México, S.A. de CV	Mexico	Services
Compañía Auxiliar de Industrias Varias, S.A.	Spain	Services
Energía y Confort Administración de Personal, S.A. de CV	Mexico	Services
Gas Natural Servicios, S.A. de CV	Mexico	Services
Gas Natural Serviços, S.A.	Brazil	Services
Gas Natural Soluciones, S.L.	Spain	Services
Portal del Instalador, S.A.	Spain	Services
Serviconfort Colombia, S.A.	Colombia	Services
Sistemas de Administración y Servicios, S.A. de C.V.	Mexico	Services
Buenergía Gas & Power, Ltd.	Cayman I.	Holding company
Gas Natural Corporación Eólica, S.L.	Spain	Holding company
Gas Natural Internacional SDG, S.A.	Spain	Holding company
Gas Natural Italia, S.p.A.	Italy	Holding company
Gas Natural Puerto Rico, Inc	Puerto Rico	Holding company
Gas Natural Argentina SDG, S.A.	Argentina	Holding company
Holding Gas Natural, S.A.	Spain	Holding company
Invergas Puerto Rico, S.A.	Spain	Holding company
Invergás, S.A.	Argentina	Holding company
La Propagadora del Gas, S.A.	Spain	Holding company
Gas Natural Eólica, S.A.	Spain	Holding company
EcoEléctrica Holding, Ltd	Cayman I.	Holding company
EcoEléctrica Limited	Cayman I.	Holding company
Gas Natural Distribuzione, S.p.A.	Italy	Holding company and gas distribution
Desarrollo del Cable, S.A.	Spain	Telecommunications
Europe Maghreb Pipeline, LTD.	UK	Gas transport
Metragaz, S.A.	Morocco	Gas transport

(1) Results at Setpember 2007
(2) Results at November 2007
(*) Equity adapted to IFRS-EU only for the purposes of consolidation of GAS NATURAL GROUP

		Equity			
Consolidation Method	% total shareholding	Capital	Reserves	2007 Profit (loss)	Interim dividend
F.C.	100.0	32.8	(6.6)	1.9	-
P.C.	50.0	-	(0.2)	-	-
F.C.	100.0	19.9	5.7	(1.4)	-
F.C.	100.0	2.1	(1.1)	0.3	-
F.C.	100.0	15.4	2.4	(12.3)	-
F.C.	100.0	-	-	-	-
P.C.	32.0	79.8	(6.5)	0.6	-
F.C.	100.0	0.1	-	-	-
F.C.	100.0	-	5.0	2.9	-
F.C.	86.8	-	(0.3)	-	-
F.C.	100.0	0.3	1.4	-	-
F.C.	87.0	-	(0.1)	(0.1)	-
F.C.	86.8	6.1	(2.2)	2.2	-
F.C.	100.0	1.8	1.1	1.2	(0.2)
F.C.	100.0	6.2	3.4	0.7	-
F.C.	75.0	1.3	(0.1)	0.2	-
F.C.	100.0	0.2	0.1	0.6	-
F.C.	87.0	-	0.2	-	-
F.C.	95.0	0.1	(57.6)	17.4	-
F.C.	100.0	5.5	(1.3)	4.5	-
F.C.	100.0	349.5	19.7	25.1	-
F.C.	100.0	0.1	0.3	-	-
F.C.	100.0	2.1	(0.7)	(0.9)	-
F.C.	100.0	105.0	(23.5)	-	-
F.C.	100.0	0.3	0.2	-	-
F.C.	100.0	5.0	(2.4)	(1.3)	-
F.C.	100.0	48.9	60.6	-	-
F.C.	100.0	0.2	1.3	0.5	-
F.C.	100.0	6.0	0.5	0.5	-
P.C.	47.5	63.2	19.0	-	(20.4)
P.C.	47.5	0.6	0.1	-	(0.2)
F.C.	100.0	4.7	116.7	(0.9)	-
F.C.	100.0	21.1	20.6	9.9	-
F.C.	72.6	0.1	78.6	113.1	(81.4)
F.C.	72.3	3.4	0.8	1.0	-

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Directors' Report

Directors' Report Directors' Report

Consolidated Directors' Report

1. Evolution of the business

Analysis of 2007

Net profit for 2007 totalled Euros 959.4 million, a 12.3% increase on the previous year.

The growth in net profit remains double-digit, in spite of the decrease in profit on the sale of assets (Euros 64.3 million in 2007 against Euros 230.3 million in 2006).

Consolidated Ebitda for 2007 totals Euros 2,276.6 million and has increased by 19,0% on last year.

Gas wholesaling and retailing activity, which also includes the retailing of other products and services in Spain has reached an Ebitda of Euros 445.8 million against Euros 219,9 million last year. In spite of the growing volatility of the energy and US Dollar scene, global risk management of the commercial portfolio has contributed to achieving these results.

The Ebitda for gas distribution in Spain reached Euros 862.8 million, which represents 6.3% more than last year and 37.9% of consolidated Ebitda.

Gas distribution in Latin American continues to grow organically and Ebitda has increased by 10.1% and has totalled Euros 425.1 million.

Electricity activity (generation and commercialisation) in Spain has an Ebitda of Euros 279.2 million, 7.9% higher, conditioned by the low prices of the pool as a whole for the year.

GAS NATURAL and the City Council of Lantarón signed an agreement for the construction of an 800 MW combined cycle plant. Furthermore, Integrated Environmental Authorisation has been granted for a combined cycle place at the Barcelona Harbour (800 MW) while construction has begun on a combined cycle plant in Malaga (400 MW).

GAS NATURAL and Repsol YPF have a new methane vessel with a capacity to hold 138,000 m^3 which has become part of the fleet of Stream, the joint venture engaged in the transport and commercialisation of LNG.

GAS NATURAL and Repsol YPF, in a consortium with other companies will be carrying out an integrated gas project in Angola. The gas reserves evaluation project will begin in the first quarter of 2008.

GAS NATURAL has concluded the deal and has taken control of the five combined cycle plants acquired in Mexico after obtaining all the regulatory authorisations necessary.

On January 8, 2008 an interim dividend charged to 2007 profit was paid out in the amount of Euros 0.43 per share, which is an increase of 16.2% on the interim dividend last year.

Main financial aggregates

	2007	2006	%
Net sales	10,093.0	10,348.3	(2.5)
Ebitda	2,276.6	1,912.4	19.0
Operating income	1,567.0	1,263.1	24.1
Net profit attributable to equity holders of the Company	959.4	854.5	12.3
Tangible investments	1,148.2	1,057,0	8.6
Net financial debt (at 31/12)	3,689.5	3,071.5	20.1

Main physical aggregates

	2007	2006	%
Gas distribution (GWh)	453,172	432,956	4,7
Spain	271,058	258,758	4.8
Tariff gas sales	38,288	44,660	(14.3)
TPA	232,770	214,098	8.7
Latin America	179,314	171,750	4.4
Tariff gas sales	115,367	106,849	8.0
TPA	63,947	64,901	(1.5)
Italy	2,800	2,448	14.4
Ventas de gas a tarifa	2,635	2,347	12.3
TPA	165	101	63.4
Gas supply (GWh)	292,730	294,451	(0.6)
Spain (1)	245,566	251,410	(2.3)
International	47,164	43,041	9.6
Gas transportation - EMPL (GWh)	124,150	129,499	(4.1)
Distribution network (km)	109,759	104,528	5.0
Spain	45,429	42,364	7.2
Latin America	59,555	58,152	2.4
Italy	4,775	4,012	19.0
Distribution connections, ('000) (at 31/12)	11,115	10,662	4.2
Spain	5,681	5,435	4.5
Latin America	5,077	4,907	3.5
Italy	357	320	11.6
Contracts per customer in Spain (at 31/12)	1.37	1.43	(4.2)
Electricity generated (GWh	18,700	19,514	(4.2)
Spain	16,975	17,831	(4.8)
Puerto Rico	1,725	1,683	2.5
Installed capacity (MW)	6,484	3,440	88.5
Spain	3,980	3,169	25.6
Mexico	2,233	-	-
Puerto Rico	271	271	-

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

Net sales

	2007	%/total	2006	%/total	% 2007/2006
Gas Distribution	4,032.6	40.0	3,849.1	37.2	4.8
Spain	2,116.4	21.0	2,154.0	20.8	(1.7)
Latin America	1,765.5	17.5	1,557.1	15.1	13.4
Italy	150.7	1.5	138.0	1.3	9.2
Electricity	1,271.0	12.6	1,506.2	14.5	(15.6)
Spain	1,126.9	11.2	1,347.5	13.0	(16.4)
Puerto Rico	144.1	1.4	158.7	1.5	(9.2)
Upstream & Midstream	259.2	2.6	284.9	2.8	(9.0)
Wholesale & Retail	6,037.4	59.8	6,346.4	61.3	(4.9)
Others	153.9	1.5	146.3	1.4	5.2
Consolidation adjustments	(1,661.1)	(16.5)	(1,784.6)	(17.2)	(6.9)
Total	**10,093.0**	**100.0**	**10,348.3**	**100.0**	**(2.5)**

Net sales in 2007 exceeded Euros 10,093.0 million, a 2.5% decrease on 2006, due basically to the decrease in electricity prices in Spain and the performance of the Dollar against the Euro.

Ebitda ([1])

	2007	%/total	2006	%/total	% 2007/2006
Gas Distribution	1,322.8	58.1	1,228.1	64.2	7.7
Spain	862.8	37.9	811.8	42.4	6.3
Latin America	425.1	18.7	386.2	20.2	10.1
Italy	34.9	1.5	30.1	1.6	15.9
Electricity	338.1	14.9	321.4	16.8	5.2
Spain	279.2	12.3	258.8	13.5	7.9
Puerto Rico	58.9	2.6	62.6	3.3	(5.9)
Upstream & Midstream	157.5	6.9	181.3	9.5	(13.1)
Wholesale & Retail	445.8	19.6	219.9	11.5	-
Others	12.4	0.5	(38.3)	(2.0)	-
Total	**2,276.6**	**100.0**	**1,912**	**100**	**19,0**

([1]) Operating income + Depreciation and amortisation + Operating provisions.

Ebitda amounted to Euros 2,276.6 million in 2007, a 19.0% increase on last year, boosted mainly by the wholesale and retail gas activity, which represents 19.6% of consolidated Ebitda.

The gas distribution activity as a whole (Spain, Latin America and Italy) accounts for 58.1% of the Ebitda of GAS NATURAL. The largest contribution relates to the regulated distribution in Spain (37.9%).

The electricity business as a whole (Spain and Puerto Rico) represents 14.9%.

Operating profit

	2007	%/total	2006	%/total	% 2007/2006
Gas Distribution	887.2	56.7	798.2	63.2	11.2
Spain	571.7	36.5	527.0	41.7	8.5
Latin America	313.1	20.0	271.1	21.5	15.5
Italy	2.4	0.2	0.1	-	-
Electricity	236.0	15.0	223.2	17.7	5.7
Spain	194.8	12.4	178.7	14.2	9.0
Puerto Rico	41.2	2.6	44.5	3.5	(7.4)
Upstream & Midstream	105.5	6.7	134.2	10.6	(21.4)
Wholesale and Retail	428.0	27.3	197.3	15.6	-
Others	(89,7)	(5.7)	(89.8)	(7.1)	-
Total	**1,567.0**	**100.0**	**1,263.1**	**100**	**24.1**

An 9.8% and 3.4% increase in depreciation and amortisation charges and provisions, respectively, have led to a 24.1% increase in operating income to Euros 1,567.0 million.

Financial results

The net financial expense in the period amounted to Euros 224.3 million, compared with Euros 267.0 million in 2006, due to the decrease in average financial debt, reflecting the growing self-financing capacity of the business as a whole, and the lower average financial cost of GAS NATURAL in spite of the turbulence in the money markets in 2007, and to the fact that 2006 included most of the bank guarantee costs related to the Endesa takeover bid.

The acquisitoin of generation assets in Mexico in December 2007 gave rise to an increase in net total consolidated net financial debt in the fourth quarter of 2007, which meant that net financial debt at December 31, 2007 totals Euros 3,689.5 million (Euros 618.0 million more than last year). This has led to a debt ratio of 36.5% and financial coverage 10.1 times.

The evolution of 2007 year end exchange rates against 2006 of borrowings in non-Euro currencies (mainly US Dollars and Mexican Pesos) has led to a decrease in net debt of Euros 47.2 million during the year.

The available financial instruments exceed Euros 5,800 million at December 31, 2007. Thus, on December 27, 2007 GAS NATURAL renewed its Euro Medium Term Note (EMTN) program and increased it from Euros 2,000 million to Euros 4,000 million, under the same terms as the current program, although to date it has not made any additional issues.

The current credit rating of GAS NATURAL's short- and long-term debt is as follows:

Agencia	Long term	Short term	Outlook
Moody's	A2	P-1	Stable
Standard & Poor's	A	A-1	Stable
Fitch	A+	F1	Negative

Share of profit of associates

The main items in this account relate to results from minority stakes in gas distribution companies in Spain (Gas Aragón) and wind power companies. The stakes in Gas Natural de Álava as from September 1, 2006 are no longer consolidated by equity accounting.

The results from the share in profit of associates in 2007 total Euros 7.6 million against Euros 5.1 million in 2006.

Gain on sales of non-current assets

Disposals of instruments in associates provided a net gain of Euros 64.3 million in 2007, compared with Euros 230.3 million in 2006.

This result is due basically to the desinvestment in 2007 of 9.4% Naturgas Energía Group. The results for last year related basically to the sale of 7.8% of Enagás, S.A. and the sale of the stake in Gas Natural de Álava.

Corporate income tax

GAS NATURAL is taxed under the tax consolidation regime in Spain, as the taxpayer of the tax group, and calculates its taxable income by aggregating the taxable incomes of the companies in the Group. The other companies resident in Spain that do not form part of the special regime are taxed separately while the not-resident companies are taxed in the countries in which they operate, at the corporate income tax rate in force there (or the equivalent tax) on the profit for the tax period.

The corporate income tax expense totalled Euros 359 million, i.e. an effective tax rate of 25.3%, compared with 24.6% in 2006.

Minority interest

The main items in this account are the minority shareholders of EMPL (owned 72.6% by GAS NATURAL), the subgroup of subsidiaries in Colombia (owned 59.1%), Gas Natural BAN, (owned 70.0%), Gas Natural Mexico, (owned 86.8%), Brazilian companies CEG (owned 54.2%) and CEG Rio (owned 59.6%), as well as other companies in Spain.

Income attributed to minority interests in 2007 amounted to Euros 97.1 million, an increase of Euros 22.7 million due mainly to investee companies in Colombia and Brazil.

Investments

Investments totalled Euros 2,323.0 million in 2007, 99.6% higher than in 2006.

The breakdown of investments by type for 2007 and 2006 is as follows:

	2007	2006	%
Investments in tangible assets	1,148.2	1,057.0	8.6
Investments in intangible assets	63.4	56.6	12.0
Financial investments	1,111.4	50.3	-
Total investments	**2,323.0**	**1,163.9**	**99.6**

Capital expenditure totalled Euros 1,148.2 million, a 8.6% increase, basically because of the investment in gas distribution in Spain and investment in electricity generation.

The financial investments for the year include the shareholding in subsidiaries in Argentina, the acquisition of 100% of Eastern España, the acquisition of the Italmeco Group in Italy and the acquisition of Mexican companies whose assets are made up of five combined cycle plants and a gas pipeline, while in 2006 they included the acquisition of 100% of Petroleum Oil & Gas España.

The assets acquired in Mexico are: the Anáhuac plant (Río Bravo II) (495MW); the Lomas del Real plant (Río Bravo III) (495 MW); the Vallehermoso plant (Río Bravo IV) (500 MW); and the Electricidad Águila de Altamira plant (Altamira II) (495 MW), located in the state of Tamaulipas in northeast Mexico and the 54-km gas pipeline that supplies gas to these four installations; and the Saltillo plant (248 MW), located in the State of Coahuila, also in the northeast.

The operation is valuated at US$ 1,448.2 million and obtained the approval of the Mexican regulators and the Privatisation Committee of France. The deal was concluded on December 27, 2007. Its integration into the consolidated profit of GAS NATURAL through full consolidation has taken place since December 31, 2007.

The breakdown of capital expenditure by line of business for 2007 and 2006 is as follows:

	2007	2006	%
Distribution	623.6	591.4	5.4
Spain	450.3	412.3	9.2
Latin America	118.4	113.2	4.6
Italy	54.9	65.9	(16.7)
Electricity	336.4	313.4	7.3
Spain	328.9	305.6	7.6
Puerto Rico	7.5	7.8	(3.8)
Gas	163.4	122.9	33.0
Up & midstream	148.9	109.2	36.4
Wholesale & Retail	14.5	13.7	5.8
Rest	24.8	29.3	(15.4)
Total capital expenditure	**1,148.2**	**1,057.0**	**8.6**

Investment in gas distribution has totalled Euros 623.6 million, 5.4% higher than last year. On the one hand, the investment in distribution in Spain has grown by 9.2%, as a result of the development of the gas grid, on the other hand, the recovery of the investment in gas distribution in Latin America at the year end has increased by 4.6%.

Capital expenditure in electricity activity in 2007 includes the completion of the combined cycle plant in Plana del Vent (800 MW) and the development of the Malaga plant (400 MW) and the plant at the Barcelona Harbour (800 MW), while in the same period last year it included the completion of the Cartagena plant (1,200 MW) while the Plana del Vent plant was under construction.

The investment in gas distribution in Spain represents 39.2% of the total capital expenditure of GAS NATURAL. This investment has basically materialised in the start up of the 3,065 km pipeline network in the last twelve months, an increase of 7.2%, which allows for a continuation of the high pace of obtaining new supply points, in spite of the slowdown in the new construction segment.

28.6% of capital investments in tangible assets in 2007 relates to electricity activity in Spain, mainly the construction of the development of combined cycle plants.

Investment in Up & Midstream reflects the acquisition of a new methane vessel (50%), the Sestao-Knutsen, with a capacity of 138,000 m^3, the developments in Gassi Chergui (Algeria) and the activity of Petroleum Oil & Gas España.

Net tangible and intangible assets now total Euros 10,800.6 million at December 31, 2007.

The breakdown of this figure by line of business is as follows:

	At 31.12.07	%
Distribution	5,990.5	55.5
Spain	3,757.7	34.8
Latin America	1,702.4	15.8
Italy	530.4	4.9
Electricity	3,568.0	33.0
Spain	2,400.5	22.2
Mexico	997.4	9.2
Puerto Rico	170.1	1.6
Gas	1,046.4	9.7
Up & midstream	982.1	9.1
Wholesale & Retail	64.3	0.6
Rest	195.7	1.8
Total net tangible and intangible assets	**10,800.6**	**100,0**

Overall intangible and tangible assets included construction in progress worth Euros 473.8 million, of which Euros 319.3 million relate to the electricity business (construction of combined cycle plants and wind farms), Euros 68.4 million to Latin America and Euros 41.1 million to Up & Midstream.

Gas distribution accounts for the largest part of GAS NATURAL's net intangible and tangible assets, 55.5%.

Intangible assets and PPE in Latin America amount to Euros 1,702.4 million, 15.8% of the total of GAS NATURAL, and relate basically to gas distribution assets in this region.

Distribution in Spain

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

Results

	2007	2006	%
Net sales	2,116.4	2,154.0	(1.7)
Purchases	(827.2)	(928.3)	(10.9)
Personnel costs, net	(55.9)	(61.8)	(9.5)
Other expenses/income	(370.5)	(352.1)	5.2
Ebitda	**862.8**	**811.8**	**6.3**
Charge for depreciation and amortisation	(284.6)	(273.3)	4.1
Variation in operating provisions	(6.5)	(11.5)	(43.5)
Operating income	**571.7**	**527.0**	**8.5**

Net sales in gas distribution business in Spain totalled Euros 2,116.4 million, a slight decrease of 1.7 % on 2006, due to less rated gas sales, as a result of the transfer of natural gas volumes to the de-regulated market.

Ebitda amounted to Euros 862.8 million, up 6.3% on the figure reported in 2006, in line with the increase in regulated remuneration in 2007.

Main aggregates

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

	2007	2006	%
Gas activity sales (GWh)	271,058	258,758	4.8
Tariff gas sales	38,288	44,660	(14.3)
Residential	26,343	21,367	23.3
Industrial	11,945	21,148	(43.5)
Electricity	-	2,145	-
TPA	232,770	214,098	8.7
Distribution network (km)	45,429	42,364	7.2
Change in distribution connections ('000)	246	301	(18.3)
Distribution connections (000) (at 31/12)	5,681	5,435	4.5

Regulated gas sales in Spain, which encompass regulated-rate gas distribution and supply as well as third-party access (TPA), both in gas distribution and secondary transport, amounted to 271,058 GWh, i.e. up 4.8% on last year.

In spite of the milder temperatures this winter compared to last year, rated gas sales in the residential market increased by 23.3%, due to the increase in the number of tariff customers thanks to the new supply points.

ITC 4101/2005 stipulated that at June 30, 2006 the consumption of the thermal energy plants had to be met by the de-regulated market, leading to the abandonment of the regulated market.

On the other hand, the transfer of most industrial customers to the de-regulated market has continued. At this time the gas market has achieved a degree of de-regulation (sales of gas in the de-regulated market vs. total market) of 88.6% against 86.1% in 2006.

Distribution and secondary transport services for third party access to the pipeline (TPA) has increased by 8.7% and totals 232,770 GWh, of which 105,847 GWh (+10.0%) relate to services carried out for third parties and others, 126,923 GWh (+7.7%), for the commercialisation by GAS NATURAL as the main operator also in the de-regulated gas market.

GAS NATURAL continues to expand its distribution network, which has increased by 3,065 Km in the last twelve months and has reached 63 new municipalities in 2007. The number of supply points has increased by 246,000 during the year. At December 31, 2007, the distribution network totals 45,429 Km, an increase of 7.2%, and it has 5,681,000 supply points, 4.5% more.

On July 3, 2007 Law 12/2007 was enacted modifying the Hydrocarbons Act, Law 34/1998 in order to adapt it to the Second European Gas Directive 2003/55/CE and ordered the disappearance of the regulated market. The distribution companies will cease rated gas supply activity and the last resort supply has been created which will be carried out by certain commercialising companies. RD 1068/2007, promulgated on July 28, 2007, regulates the start up of the last-resort supply in the natural gas sector and stipulates that GAS NATURAL will be one of the companies that will bear the obligation of last-resort supply.

Ministerial Order ITC/2309/2007, promulgated on July 31 stipulates the mechanism for transferring customers from the rated to the last-resort supply system. In accordance with this Order, the mechanism for supplying the regulated market will terminate on July 1, 2008. As from that date, customers that have not chosen a commercialising company will be supplied by the last resort supply company belonging to the business group of the distribution company in the zone.

On December 29, 2007, Ministerial Order ITC 3993/2007 was published, updating the remuneration for 2008 for the regulated gas activities in Spain, in line with the framework approved in February 2002.

The Order assigns Euros 1,123.0 million to GAS NATURAL for 2008 as remuneration for distribution in 2007, i.e. a 5.5% increase on 2007 (Euros 1,064.2 million), taking into account the adjustments due to a decrease in expected activity, which has been the result of a milder climate and the shrinking of demand of certain consumer sectors.

The remuneration for secondary transportation for 2008 has been increased by 21.6% of the IPH, reaching Euros 22.5 million.

Distribution Latin America

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

Results

	2007	2006	%
Net sales	1,765.5	1,557.1	13.4
Purchases	(1,111.4)	(959.6)	15.8
Personnel costs, net	(60.7)	(60.6)	0.2
Other expenses/income	(168.3)	(150.7)	11.7
Ebitda	**425.1**	**386.2**	**10,1**
Charge for depreciation and amortisation	(94.4)	(91.0)	3.7
Variation in operating provisions	(17.6)	(24.1)	(27.0)
Operating income	**313.1**	**271.1**	**15.5**

Net sales totals Euros 1,765.5 million and has increased by 13.4%, of special note being the contribution of Brazil of Euros 853.3 million and Mexico, Euros 430.5 million

Ebitda amounted to Euros 425.1 million, an increase of 10.1% over last year, excluding the variations in the exchange rate, the growth in Ebitda is 10.9%

Main aggregates

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

	2007	2006	%
Gas activity sales (GWh)	179,314	171,750	4.4
Tariff gas sales	115,367	106,849	8.0
TPA	63,947	64,901	(1.5)
Distribution network (km)	59,555	58,152	2.4
Increase in distribution connections ('000)	170	150	13.3
Distribution connections (000) (at 31/12)	5,077	4,907	3.5

The main physical aggregates by country in 2007 are as follows:

	Argentina	Brazil	Colombia	Mexico	Total
Gas activity sales (GWh)	74,055	46,253	15,664	43,342	179,314
Change vs. 2006 (%)	7.0	2.2	15.5	(0.9)	4.4
Distribution network	21,855	5,635	16,555	15,510	59,555
Change vs. 31/12/06 (km)	369	248	498	281	1,396
Distribution connections ('000 at 31/12)	1,355	773	1,816	1,133	5,077
Change vs. 31/12/06 ('000)	33	20	104	13	170

Sales in the gas activity in Latin America, which include both gas sales and TPA (third-party access) services, totalled 179,314 GWh, a 4.4% increase year-on-year.

Gas sales at the regulated tariff increased by 8.0% to 115,367 GWh; Colombia attained a notable 15.5% increase, with strong growth in all segments of the market, including 46.5% growth in automotive gas sales with respect to 2006; Argentina increased gas sales to the residential-commercial segment by 22.7% with respect to 2006 due to what was the coldest winter in 60 years.

The distribution grid was extended by 1,396 km (2.4%) in the last twelve months to 59,555 km at 31 December 2007. Grid expansion was slower than in previous years since the commercial goal is to saturate the existing grid.

There were a total of 5,077,000 gas distribution connections at 31 December 2007. GAS NATURAL maintained a rapid pace of growth by increasing the number of distribution connections by 170,000 despite temporary difficulties with competitiveness in the commercial markets in Brazil and Mexico and the high level of saturation in Colombia.

Highlights of activities in Latin America:

- On April 9, 2007, the Argentinean gas regulator, ENARGAS, published the tariff sheet which will enable the agreement between Gas Natural BAN and the Argentinean government to be implemented.

- The 33% increase in the distribution margin is applicable to the residential, commercial and industrial markets. This tariff increase, which Gas Natural BAN had been applying to gas sales since November 1, 2005, should be viewed as part of a Comprehensive Tariff Review (Revisión Tarifaria Integral - RTI) whose next phase of negotiation has already commenced.

- Sales increased by 7.0% due to the abnormally cold winter compared with 2006.

- Sales in Brazil in 2007 were slightly higher than in 2006, including a 13.6% increase in automotive gas sales, offset partly by a 5.7% decline in sales of gas for power generation caused by supply difficulties resulting from maintenance work on the Petrobras gas transportation grid.

- The customer base in Colombia expanded by 6.1% with respect to 2006, mainly as a result of development of new building in Bogota and of implementation of the gas grid in the Cundiboyacá area. Sales increased by 15.5% year-on-year due to higher sales to industry and greater development of the automotive natural gas market, where sales increased by 46.5% to 2,721 GWh.

- The increase in the number of distribution connections in Mexico increased by 22.6% from 10,600 to 13,000 customers as a result of greater commercial development in Mexico City.

Gas activity sales were slightly lower than in 2006 since TPA sales declined slightly as a result of partial suspension of gas supplies to the Bajíos area in the second half because of incidents in PEMEX's gas grid, offset by higher consumption by residential/commercial customers (5% more than in 2006) caused by the low temperatures in the first quarter of 2007.

Distribution in Italy

Results

	2007	2006	%
Net sales	150.7	138.0	9.2
Purchases	(92.4)	(84.0)	10.0
Personnel costs, net	(15.4)	(12.9)	19.4
Other expenses/income	(8.0)	(11.0)	(27.3)
Ebitda	**34.9**	**30.1**	**15.9**
Charge for depreciation and amortisation	(23.9)	(28.3)	(15.5)
Variation in operating provisions	(8.6)	(1.7)	-
Operating income	**2.4**	**0.1**	**-**

Gas distribution in Italy contributed Euros 34.9 million in Ebitda (+15.9%).

Main aggregates

	2007	2006	%
Gas activity sales (GWh)	2,800	2,448	14.4
Tariff gas sales	2,635	2,347	12.3
TPA	165	101	63.4
Distribution network (km)	4,775	4,012	19.0
Distribution connections (000) (at 31/12)	357	320	11.6

A total of 2,800 GWh of gas were distributed in Italy in 2007, 14.4% more than in 2006 due basically to an 11.6% increase in the number of distribution connections and higher gas demand in the fourth quarter (386 GWh) basically as temperatures in that quarter were significantly lower than in the fourth quarter of 2006.

The distribution grid was extended by 254 kilometres and 37,000 new connection points were added with respect to the previous year.

In September 2007, after acquiring the Italian gas group Italmeco for Euros 32.0 million, GAS NATURAL extended its distribution territory in Italy to another 31 municipalities in the regions of Basilicata, Calabria, Campania and Lazio. Once control had been attained, the company has been fully consolidated since 17 December 2007. This added 8,930 gas connection points and 509 km of gas grid.

With this transaction, GAS NATURAL now has a presence in 178 municipalities in 8 regions of central and southern Italy.

Electricity in Spain

This area includes power generation in Spain (combined cycle plants, wind farms and cogeneration), trading via electricity purchases in the wholesale market, and the supply of electricity in the liberalised market in Spain.

Results

	2007	2006	%
Net sales	1,126.9	1,347.5	(16.4)
Purchases	(727.6)	(958.1)	(24.1)
Personnel costs. net	(4.9)	(7.8)	(37.2)
Other expenses/income	(115.2)	(122.8)	(6.2)
Ebitda	**279.2**	**258.8**	**7.9**
Charge for depreciation and amortisation	(79.5)	(77.2)	3.0
Variation in operating provisions	(4.9)	(2.9)	69.0
Operating income	**194.8**	**178.7**	**9.0**

Net sales in the electricity business amounted to Euros 1,126.9 million, a 16.4% decline that was basically due to lower pool prices and lower output.

The average pool price in 2007 was Euros 40.95/MWh, compared with Euros 52.97/MWh in 2006, in quite different circumstances.

Pool prices fell sharply in 2007 compared with 2006 for a number of reasons, including more moderate growth in electricity demand because of the mild winter, and the high level of production by hydroelectric and wind plants.

Nevertheless, the weighted price in the daily market in the fourth quarter of 2007 was Euros 50.0/MWh, 30% more than in the fourth quarter of 2006 (Euros 38.3/MWh), mainly as a result of low precipitation in the final months of the year and low water stocks in the reservoirs.

Electricity demand in 2007 (260,838 GWh) was 2.8% higher than in 2006. Adjusting for the different number of working days and the temperature, demand increased by 4.0%. Hydroelectric output in 2007 amounted to 26,381 GWh, 4.2% more than in 2006.

The aforementioned reduction in power prices was also due partly to the sharp decline in the price of CO_2 emission rights, from approximately Euros 20.0/tonne in 2006 to Euros 0.02/tonne at the end of 2007.

Despite lower pool prices, Ebitda increased by 7.9% in 2007 to Euros 279.2 million as a result of the optimisation of GAS NATURAL's participation in the various power generation businesses in Spain, wholesale trading of electricity, and supply in the Spanish liberalised market.

Main aggregates

The key figures of GAS NATURAL's electricity activities in Spain are as follows:

	2007	2006	%
Installed electricity capacity (MW)	3,980	3,169	25.6
CCGT	3,600	2,800	28.6
Wind	363	347	4.6
Cogeneration	17	22	(22.7)
Electricity generated (GWh)	16,975	17,831	(4.8)
CCGT	16,096	16,987	(5.2)
Wind	779	694	12.2
Cogeneration	100	150	(33.3)
Contracted electricity (GWh/year)	6,239	210	-
Electricity sales (GWh)	2,214	2,761	(19.8)
Residential	736	1,931	(61.9)
Industrial	1,478	830	78.1

GAS NATURAL has 3,600 MW of combined cycle power generation capacity in operation, since the Plana del Vent (Tarragona) 800 MW combined cycle plant became operational in 2007. The Málaga 400 MW plant is under construction, and another 800 MW of capacity (Barcelona Harbour) are at an advanced stage of permits. GAS NATURAL and the city government of Lantarón (Ávila) recently signed an agreement for the construction of an 800 MW combined cycle plant in that municipality.

In 2007, GAS NATURAL started up 31 MW of wind power capacity (16 MW net) and strengthened its position as one of the key players in this sector, with 737 MW of wind power in operation (363 MW net) and 900 MW under development. It has also bid for over 400 MW of wind capacity in the Canary Islands.

GAS NATURAL's cogeneration business (17 MW attributable capacity) generated 99 GWh. Two new slurry plants, with a total installed capacity of 22 MW, are at an advanced stage of construction and will be brought into service in the short term.

In 2007, power generated and sold, basically to the pool, amounted to 16,975 GWh, 4.8% less than in 2006 due to the adverse situation of pool prices.

The combined cycle plants generated 16,096 GWh in 2007. GAS NATURAL had a 7.5% share of the "ordinary regime" power generation market in 2007.

The power produced by GAS NATURAL's combined cycle plants accounts for 30% of Spain's power production using that technology, up considerably from 23% in 2006; that figure, plus its more efficient supply of gas, strengthen GAS NATURAL's position in this sector.

The plants logged 5,057 equivalent baseload hours in 2007, i.e. a load factor of 57.7%, despite the lower price situation.

In the area of renewable energy, net attributable output by the wind farms owned by GAS NATURAL totalled 221 GWh in the fourth quarter of 2007; that figure is very similar to 2006, despite the increase in GAS NATURAL's installed wind capacity, because of lower winds in the period. Output in 2007 amounted to 779 GWh, 12.2% more than in 2006 because of stronger winds in the early months of the year.

After the amendments introduced by Royal Decree 1634/2006 in the area of electricity supply in the liberalised market, this market segment expanded, basically among certain groups of high-tension tariff customers. For this reason, the liberalised market in Spain increased as a percentage of the total market from its December 2006 low of 20% to 28% at 2007 year-end.

As part of the policy of segmentation and selective acquisition of electricity customers, GAS NATURAL's portfolio of electricity customers amounted to 6,239 GWh/year at December 31, 2007 and was clearly rising; the average sale price was higher than at the same date in 2006.

In the fourth quarter of 2007, GAS NATURAL greatly optimised its participation in the electricity market through trading. In a situation of increasingly global and inter-related markets, the company trades in gas, electricity and CO_2 emission rights in Spain, some European countries and the US (worldwide in the case of CO_2 emission rights).

GAS NATURAL has been operating in the over-the-counter (OTC) market in electricity in Spain for years, and it increased its activity in this area substantially in 2007. The company has been a member of Spain's forward market (OMIP) practically since it was created in mid-2006, benefiting from the opportunities it offers and the advantages of transparency and solvency provided by the fact that it is an organised market. As a result, GAS NATURAL is actively managing its position and optimizing margins, earnings and exposure. The trading activity in those markets handled 6.6 TWh in 2007.

In the emission rights market, GAS NATURAL operates with bilateral contracts and in the most liquid exchanges: Powernext for spot trades and ECX (European Climate Exchange) for futures. It is also analysing the scope for Certified Emission Reductions (CERs) in the primary and secondary market. GAS NATURAL is also developing a number of Clean Development Mechanism (CDM) projects, basically in Latin America.

These activities are supported by open lines with the main banks, energy companies and brokers in Spain and other countries.

In February 2007, Spain's Industry Ministry established a calendar of auctions of electricity to cover the bundled tariff supply, by quarters. The third such auction was held on December 18, 2007, for power to cover the last-resort supply (CESUR auction). A total of 6,500 MW of baseload capacity were offered to distributors supplying consumers in mainland Spain and Portugal over the next three months (a total of 14,190 GWh). Twenty-four sellers participated and 23 (including GAS NATURAL) were chosen to sell power at a price of Euros 64.65/MWh in the first half of 2008. GAS NATURAL's success in this auction enables it to optimise its risk position.

The inauguration of Virtual Power Plant (VPP) auctions in June 2007 to create liquidity in the forward market has enabled GAS NATURAL to adopt positions that optimise its overall position in the trading and electricity supply businesses. The third VPP auction was held in December 2007; 5.18 TWh were awarded, compared with 1.45 TWh in the first auction and 2.5 TWh in the second auction, which were held in 2007. Seventeen players, including GAS NATURAL, participated. A total of 1,100 GWh of power was traded in these new products in 2007.

Electricity in Puerto Rico

GAS NATURAL has been operating in Puerto Rico since October 2003, when it acquired 47.5% of EcoEléctrica and the exclusive right to import gas to the island, plus an operation, maintenance and fuel management contract.

Results

	2007	2006	%
Net sales	144.1	158.7	(9,2)
Purchases	(72.0)	(80.8)	(10,9)
Personnel costs, net	(3.3)	(3.1)	6,5
Other expenses/income	(9.9)	(12.2)	(18,9)
Ebitda	**58.9**	**62.6**	**(5,9)**
Charge for depreciation and amortisation	(17.4)	(18.2)	(4,4)
Variation in operating provisions	(0.3)	0.1	-
Operating income	**41.2**	**44.5**	**(7,4)**

GAS NATURAL's activities in Puerto Rico provided US$80.6 million in Ebitda, 2.3% more than in 2006.

Main aggregates

EcoEléctrica has a regassification plant (capacity: 115,000 m^3) and a CCGT (540 MW). The CCGT, the first investor-owned natural gas-fired power plant in Puerto Rico, is located in Peñuelas, in the southern part of the island.

In 2007, EcoEléctrica sold 3,450 GWh (1,725 GWh attributable to GAS NATURAL), i.e. a 2.5% increase, with a load factor of 77.7%, slightly more than in 2006 (75.7%).

In May 2007, GAS NATURAL signed a contract with Puerto Rico Electric Power Authority (PREPA) to provide regasification services amounting to 0.7 bcm per year, starting in 2008; the gas will be used to generate power at the Aguirre power plant, which will be refitted to burn natural gas in the coming months.

Up & Midstream

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

Results

	2007	2006	%
Net sales	259.2	284.9	(9.0)
Purchases	(47.0)	(39.7)	18.4
Personnel costs, net	(5.3)	(4.1)	29.3
Other expenses/income	(49.4)	(59.8)	(17.4)
Ebitda	**157.5**	**181.3**	**(13.1)**
Charge for depreciation and amortisation	(45.9)	(47.3)	(3.0)
Variation in operating provisions	(6.1)	0.2	-
Operating income	**105.5**	**134.2**	**(21.4)**

Net sales in the Upstream+Midstream business totalled Euros 259.2 million, a 9.0% decrease.

Ebitda amounted to Euros 157.5 million in 2007, i.e. 13.1% less than in 2006, basically due to lower gas shipments by pipeline, lower utilisation of the LNG carrier fleet in 2007 (91.2%, vs. 96.5% in 2006) and, fundamentally, the adverse impact of the dollar exchange rate on EMPL.

Excluding the negative impact of local currency fluctuations with respect to the euro, Ebitda would have declined by just 5.4% with respect to 2006. This effect was particularly pronounced in the fourth quarter, when the dollar declined by 3.7% against the euro.

Gas exploration and production operations are booked using the "successful efforts" method, under which costs prior to drilling are expensed as they are incurred and the costs of the drilling phase are capitalised provisionally as construction in progress until such time as it is determined whether there are proven reserves to justify commercial development.

Main aggregates

The main aggregates in international gas transportation are as follows:

	2007	2006	%
Gas transportation-EMPL (GWh)	124.150	129,499	(4.1)
Portugal-Morocco	28.094	28,838	(2.6)
GAS NATURAL	96.056	100,661	(4.6)

The gas transportation activity conducted in Morocco through companies EMPL and Metragaz, represented a total volume of 124,150 GWh in 2007, an 4.1% decrease. Of that figure, 96,056 GWh were transported for GAS NATURAL through Sagane, and 28,094 GWh for Portugal and Morocco. The decrease in volume transported is due to the fall in demand as a result of the milder winter climate.

Development work continues on the Gassi Chergui exploration project in Algeria, where drilling of the first well commenced this quarter, and on the Marismas (Spain) and Tangier-Larache (Morocco) exploration projects.

GAS NATURAL and Repsol YPF, in consortium with other companies, have signed a partnership agreement to undertake preliminary work for the development of an integrated gas project in Angola. The gas reserves will be evaluated first, and then the necessary investments will be made to develop them and export them as liquefied natural gas (LNG). Work will begin in the first quarter of 2008.

State-owned company Sonatrach has notified Repsol YPF and GAS NATURAL of its decision to terminate the contract for the Gassi Touil integrated project, which had been awarded to those two companies in an international tender in 2004. In line with the political decision expressed in recent months by the Algerian authorities, Sonatrach announced its intention to take over exclusive control of the operation which, as an integrated project, extends from exploration & production to gas liquefaction and supply. Repsol YPF and GAS NATURAL will exercise their contractual right to seek international arbitration in order to determine the validity of the proposal to terminate and the damage caused. The outcome of that proceeding is not expected to have a negative impact on the financial statements.

GAS NATURAL's projects to build two regasification plants in Italy (Trieste and Taranto) continue to make progress in the permit process at regional and national level. In particular, since the beginning of 2008, GAS NATURAL has held technical meetings with the Italian Environment Ministry's Environmental Impact Analysis Commission and with a number of working groups at national level. And technical progress meetings continue to be held with SNAM Rete Gas in order to obtain environmental approval for the construction of the two gas pipelines to connect the regasification plants.

On November 30, 2007, Knutsen OAS Shipping delivered a new LNG carrier, the Sestao-Knutsen, to GAS NATURAL and Repsol YPF; the vessel has joined the fleet of Stream, the joint venture for liquefied natural gas (LNG) transportation and supply.

The gas tanker is held under a 25-year time charter, with the possibility of five-year extensions, and represents an overall investment of Euros 162 million corresponding to the present value of the payments committed by Repsol YPF (50%) and GAS NATURAL (50%).

The addition of this gas tanker to the fleet is in line with one of the main thrusts of GAS NATURAL's strategic plan for 2008-2012, which is aimed at attaining vertical integration in Upstream and Midstream as a key competitive advantage in an increasingly competitive and volatile market.

The Sestao-Knutsen can carry 138,000 m^3 of liquefied natural gas and attain a speed of 19.5 knots. The vessel has a double hull, double bottom in the cargo area and four cryogenic double membrane tanks. It is 284.4 metres in length, 42.5 metres wide and 25.4 metres high.

The ship can load or unload in at most 12 hours and can use the gas that evaporates during transportation to burn in the boilers feeding its steam turbine.

Stream's fleet currently consists of 12 LNG carriers and will be expanded to 15 by 2010 by adding and rotating vessels.

Wholesale & Retail

This area includes wholesale and retail gas supply in Spain and other countries, and the supply of other related products and services in Spain.

The wholesale sales to other distributors correspond to those made to Enagás for the regulated gas distribution market.

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Results

	2007	2006	%
Net sales	6,037.4	6,346.4	(4.9)
Purchases	(5,368.3)	(5,981.2)	(10.2)
Personnel costs, net	(56.5)	(21.3)	-
Other expenses/income	(166.8)	(124.0)	34.5
Ebitda	**445.8**	**219.9**	**-**
Charge for depreciation and amortisation	(7.9)	(6.6)	19.7
Variation in operating provisions	(9.9)	(16.0)	(38.1)
Operating income	**428.0**	**197.3**	**-**

Net sales in the gas supply business totalled Euros 6,037.4 million, 4.9% less than in 2006. The decline in net sales in 2007 was due basically to a reduction in gas volumes supplied in Spain and Europe and to a lower dollar/euro exchange rate, although net sales increased by 10.8% in the fourth quarter, basically because of greater gas sales for power generation.

Ebitda amounted to Euros 445.8 million in 2007, compared with Euros 219.9 million in 2006.

As a result of measures adopted to favour liberalisation and the commercial policy applied by GAS NATURAL, Ebitda continues to rise as a result of streamlining of GAS NATURAL's portfolio of liberalized gas market contracts, more efficient risk management with regard to commodity price and exchange rate risks associated with its commercial portfolio.

Ministerial Order ITC 3992/2006, which established the natural gas tariffs for 2007, maintained the trend of liberalising tariffs by eliminating tariffs for supplies at pressures over 4 bar, effective July 1, 2007.

Main aggregates

The main aggregates in the procurement and supply activity are as follows:

	2007	2006	%
Gas supply (GWh)	292,730	294,451	(0,6)
Spain	245,566	251,410	(2,3)
Regulated market	45,024	58,678	(23,3)
Liberalized market	200,542	192,732	4,1
Commercialisation GAS NATURAL ([1])	167,389	160,624	4,2
Supply to third parties	33,153	32,108	3,3
International	47,164	43,041	9,6
Supply	40,708	31,476	29,3
Commercialisation Europe	6,456	11,565	(44,2)
Multi utility contracts (at 31/12)	1,904,663	2,137,135	(10,9)
Contracts per customer (at 31/12)	1.37	1.43	(4,2)

([1]) Does not include exchange operations with energy companies.

A total of 292,730 GWh of natural gas were procured and supplied, i.e. 0.6% less than in 2006; 245,566 GWh were sold in the Spanish market (-2.3%) and the other 47,164 GWh were sold in other countries (+9.6%).

The gas procured for the regulated market is supplied to Enagás which, in addition to inventory management, supplies the gas to distribution companies, both in the GAS NATURAL group and third parties. In 2007, this business area moved 45,024 GWh, 23.3% less than in 2006 because of greater market opening and the fact that the 2006 figure includes 2,145 GWh of sales to conventional power plants at the bundled tariff.

Sales to the liberalised market amounted to 200,542 GWh, a 4.1% increase on 2006. Lower gas consumption for power generation in 2007, because of the high precipitation, affected growth in this area. Of those sales, 167,389 GWh went to end customers of GAS NATURAL, mainly in the industrial market, as well as to CCGTs and households. GAS NATURAL sold 33,153 GWh of gas for supply to the liberalised market by other supply companies (a 3.3% increase).

GAS NATURAL and General Motors Spain signed a cooperation agreement to promote the use of natural gas as vehicle fuel in Spain, in both the public and private sectors. Under the agreement, General Motors Spain undertakes to offer its range of vehicles fitted to burn natural gas at prices and financing conditions that are attractive compared with diesel, within time periods that will be dictated by demand.

GAS NATURAL will undertake surveys to identify locations for natural gas pumps at existing service stations and new locations, it will provide the technical resources and investments needed to operate and maintain the facilities, and it will supply the natural gas.

GAS NATURAL is an expert in this line of business, which it already conducts in several Latin American countries, where automotive natural gas is widely used. In Spain, it has begun marketing this application of natural gas under the "gnAuto" brand; OPEL is the first brand to produce vehicles of this type.

GAS NATURAL has also launched a new line of business, "gnSolar", to promote the combined use of solar energy and natural gas in residential buildings and the services sector and has signed a cooperation agreement with Schüco International KG, a supplier of solar systems, to foster the development of solar thermal energy using natural gas as backup to produce sanitary hot water in residential buildings. GAS NATURAL and APPLUS+ have signed a cooperation agreement to certify solar facility design, installation and operation processes being promoted by GAS NATURAL.

The temporary selective abandonment of electricity supplies to households in recent months has reduced the number of contracts in GAS NATURAL's multiutility business; coupled with the steady growth in the customer base, this has resulted in a reduction in the number of contracts per customer. Nevertheless, GAS NATURAL had 1,532,000 maintenance contracts with customers at 31 December 2007.

2. Main risks related to the activity of GAS NATURAL

The activity of GAS NATURAL takes place in an environment in which there are risks that could affect its operations. These are as follows:

a) The activities of GAS NATURAL are subject to compliance with certain regulations. Infringement of these regulations and their amendments can adversely affect its activities, results and financial situation.

GAS NATURAL is obligated to comply with legal regulations governing the natural gas and electricity industries. Although GAS NATURAL believes that it substantially complies with current legislation, this legislation is subject to a complex series of regulations that both public and private bodies can interpret in ways that may differ from the criteria applied by GAS NATURAL.

In particular, the distribution of natural gas is a regulated activity in more countries in which GAS NATURAL undertakes this activity. During 2007 and 2006 the distribution of gas represented 40.0% and 37.2% of consolidated net sales, respectively, of GAS NATURAL. Furthermore, the distribution of gas represented, respectively, 56.7% and 63.2% of operating income.

The adoption of changes in the regulated market for gas distribution could impact the current remuneration scheme, and the operating costs, capital, raw materials and efficiency incentives, and, moreover, the electricity business of GAS NATURAL is exposed to changes to or modifications of the current regulatory framework for the electricity sector. That is why any modification of the current regulatory framework for the natural gas and electricity sectors could adversely affect the activities, profits, grants and financial situation of GAS NATURAL.

b) Gas and electricity distribution is dependent on government concessions and authorizations and early termination of these concessions or authorizations by the granting authorities may prevent GAS NATURAL from realizing the full value of certain assets and cause to lose future profits without adequate compensation.

Given the regulated nature of part of the gas activity of GAS NATURAL (Spain, Latin America and Italy, as well as Morocco and Algeria) some of its activities are subject to obtaining the respective concessions and authorisations, which are generally long term. A usual practice, mainly in Latin American and Italy, is entering into contracts or distribution and transport agreements with the respective regulatory authorities. These agreements also assure the remuneration schemes and thus the return on investments made in these activities.

Moreover, these concessions are subject to early termination under certain circumstances. Generally, failure to comply with terms of the concession may result in the revocation of a concession and the enforcement of any guarantees or bonds that may have been given, which affect the return on investments of GAS NATURAL and its future profits

c) GAS NATURAL's operations are subject to particular operational and market risks that could lead to an interruption in gas supply.

GAS NATURAL's operations are subject to the inherent risks normally associated with such operations, including pipeline ruptures, damage to tankers or assets related to electricity generation, explosions, pollution, release of toxic substances, fires, adverse weather conditions, third party failure to fulfil contracts, sabotage and accidental damage to the gas distribution network or electricity generation assets. In this kind of situation, despite having suitable insurance cover protection against potential reduction to profits, certain circumstances may generate economic losses. There are events that are unpredictable and cause interruptions in the gas supply. To make up for such interruptions and in order to ensure an uninterrupted gas supply, GAS NATURAL may have to purchase additional gas in the spot market; these acquisitions can be made under more onerous conditions. The spot market is a non-organized market aimed at the short-term acquisition of gas, primarily LNG.

GAS NATURAL enters into supply contracts. Therefore, gas availability could also be subject to risks of contract fulfilment from counterparties. Thus, it might be necessary to look for other sources of natural gas in the case of non-delivery from any of these sources, which could require payment of higher prices than those called for under such contracts. Furthermore, GAS NATURAL's financial position and operations could be adversely affected if a significant event occurs that is not fully covered by insurance.

GAS NATURAL could face claims for civil liability for damages caused by its ordinary operations, such as breakdowns in the distribution network, gas explosions or damages caused by methane vessels transporting natural gas. The filing of these claims could lead to the payment of indemnities under current legislation in those countries in which GAS NATURAL operates, whenever its insurance policies do not totally cover them.

d) Rising natural gas and crude oil prices could materially and adversely affect GAS NATURAL's results of operations and financial conditions.

A significant portion of GAS NATURAL's expenses are from the purchase of natural gas and LNG for the commercialization in the liberalized market and for supply in the regulated market. In addition, GAS NATURAL's combined cycle plants operate on natural gas. Although the prices that GAS NATURAL may charge gas customers in Spain generally reflect the market price of natural gas, price fluctuations, in particular the prices applied in the regulated market, may not be adjusted to fully account for increased market prices in markets experiencing volatility. The prices for such commodities have historically fluctuated and it is not possible to know if prices will remain within projected levels. During the last few years, there have been significant changes in the price of crude oil, with a significant increase in price levels and their volatility. The annual average price of a barrel of Brent crude in December 2006 was $65.14, and increased by 11.1% in 2007 to a price of $72.39 in December 2007. Natural gas prices are also influenced by geopolitical factors. In addition to increased costs in gas and oil related operations, increased natural gas and oil prices will cause GAS NATURAL electricity generation costs to increase. An increase in natural gas prices would augment GAS NATURAL's operational costs and could have a materially adverse effect on GAS NATURAL's operating results.

e) GAS NATURAL may have to purchase an amount of natural gas that is greater than the operational needs pursuant to GAS NATURAL's take-or-pay contracts.

Most natural gas and LNG purchases are made pursuant to long-term contracts. These contacts have clauses that require GAS NATURAL to purchase a certain amount of natural gas annually take-or-pay. If GAS NATURAL does not request the minimum contracted amount, it is still contractually bound to pay for the minimum contracted amount, commonly known as take-or-pay clauses. These contracts have been established by considering reasonable forecasts of GAS NATURAL's future needs. Significant deviations of the expected levels of demand could lead to the obligation to execute purchases of natural gas greater than GAS NATURAL's needs, which could have an adverse effect on its cost of operations.

f) The activities of GAS NATURAL are subject to compliance with environmental protection legislation. The breach of these laws could adversely and significantly affect the business, profits and financial situation of GAS NATURAL.

GAS NATURAL and its subsidiaries companies must comply with environmental protection legislation, which requires, amongst other points, the preparation of environmental impact studies, obtaining the pertinent authorisations, licenses and permits, and compliance with certain requirements. Amongst others, GAS NATURAL must bear in mind the following risks:

- the environmental impact studies may not be approved by the competent authorities;

- public opinion may oppose the projects put forward by GAS NATURAL, which could lead to their delay or cancellation; and

- the regulatory framework or its interpretation by the authorities may be modified or changed, which could lead to an increase in the costs terms; this would adversely and significantly affect the activities and projections of GAS NATURAL and its subsidiaries.

In the last few years environmental protection requirements in various countries in which GAS NATURAL operates have stiffened. Although GAS NATURAL has made the necessary investments to comply with applicable legislation, the modification and application of said legislation could represent a demand for greater investments in order to be compliant, which could adversely affect the activities, profits and financial situation of GAS NATURAL.

The changes in environmental protection legislation could increase the costs of the start ups of combined cycle plants and adversely affect industrial customers that purchase gas for their businesses. The increase in the restrictions and charges for industrial market customers could lead to a decrease in the consumption of gas, which could adversely and significantly affect the activities and profits of GAS NATURAL.

Moreover, as from 2002, certain EU directives that could affect the activity of GAS NATURAL by limiting the emissions of pollutants into the atmosphere by large-scale combustion plants have been transposed into Spanish legislation. In accordance with the new National Plan for the Assignment of Emission Rights, GAS NATURAL has been assigned 14 million tonnes of emission rights for the period 2008-2012. In 2007 GAS NATURAL has made acquisitions of CO_2 emission rights in the market to cover its deficit of emission rights. The emission rights are negotiated on an organised market that has been operating since January 1, 2005 and are subject to price fluctuations. The purchase of these rights is a cost for GAS NATURAL. All of this could adversely and significantly affect the operations, profits and financial situation of GAS NATURAL.

g) GAS NATURAL's financial position and results of operations may be adversely affected if GAS NATURAL does not effectively manage its exposure to interest rate and foreign currency exchange rate risk.

GAS NATURAL is exposed to various types of market risk in the normal course of business, including the impact of interest rate changes and foreign currency exchange rate fluctuations. For this reason, GAS NATURAL actively manages these risks to seek to avoid a significant impact on its results. At December 31, 2007, Euros 1,132.5 million, or 30.7% of the net debt, was denominated in non-euro currencies, predominately dollars. GAS NATURAL's floating rate debt is principally subject to fluctuations in interest rates. The policy of GAS NATURAL is to hedge at least 30% of the fixed rate debt, which could be increased from time to time depending on interest rate forecasts for a particular jurisdiction. At December 31, 2007, the fixed rate debt represented 45.5% of net debt.

In addition, GAS NATURAL pays for most of its supply of natural gas and LNG in U.S. dollars, and its costs and revenues in Puerto Rico are denominated in U.S. dollars. An appreciation of the U.S. dollar against the euro could negatively impact its costs. As of December 31, 2007, approximately 20.0% of GAS NATURAL's revenues were from operations in Latin America and were generated in local currencies. To mitigate exposure to foreign exchange risk, GAS NATURAL funds investments in Latin America, Puerto Rico and the Maghreb pipeline in local currency and attempt to match dollar-denominated costs with dollar-denominated income, wherever possible. GAS NATURAL's risk management strategies may not be successful, however, in limiting exposure to changes in foreign currency exchange rates, which could adversely affect its financial position and results of operations.

h) The construction and development of new infrastructure projects may be adversely affected by factors that are beyond GAS NATURAL's control.

The construction and development of natural gas supply and distribution infrastructure and the exploration, production and sale of LNG, as well as electricity generation, transmission and distribution projects, can be time-consuming and highly complex.

In relation to these new projects, it is not possible to guarantee that these will not be:

- delays in obtaining regulatory approvals, licenses or permits including environmental permits;
- shortages or changes in the price of equipment, materials or labour;
- opposition to energy infrastructure development, including in environmentally sensitive areas;
- opposition of political groups;
- adverse changes in the political and regulatory environment in the countries where GAS NATURAL operates;
- expiration and/or renewal of existing interests in real property;
- adverse weather conditions, which may delay the completion of gas pipelines, electricity plants or substations, or cases of force majeure natural disasters, accidents etc;
- the inability to obtain financing at rates that are satisfactory to GAS NATURAL;
- service area competition; and
- unfavourable movements in natural gas and LNG prices.

Any of these factors may cause delays in completion or commencement of operations of construction projects and may increase the cost of contemplated projects. If GAS NATURAL is unable to complete the projects contemplated, the costs incurred in connection with such projects may not be recoverable and their profitability may be negatively impacted. Additionally, may not be able to achieve the targets projected in exploration and production.

i) Demand for natural gas and electricity may be negatively impacted by weather, negatively affecting revenues and results of operations of GAS NATURAL.

The demand for electricity and natural gas is closely related to weather and average temperatures. Operations generally experience higher demand during the cold weather months of October through March in Europe and Mexico (or April through September in Argentina and, to a lesser extent, Brazil) and lower demand during the warm weather months of April through September in Europe and Mexico (or October through March in Argentina and, to a lesser extent, Brazil). A significant portion of consumption of natural gas in the winter months relates to the production of electricity and heat and, in the summer months, to the production of electricity for air conditioning. Revenues and results of operations of GAS NATURAL for natural gas distribution and commercialization operations would be negatively affected by periods of unseasonable warm weather during the autumn and winter months. Likewise, electricity demand may decrease during mild summers as a result of reduced demand for air conditioning, causing a negative impact on revenues of GAS NATURAL generated from electricity generation and commercialization businesses.

j) The success of GAS NATURAL's activities in the electricity sector depends, in part, on many factors beyond its control.

The success of GAS NATURAL's new electricity projects could be adversely affected by factors beyond GAS NATURAL's control, including the following:

- increases in the cost of generation, including increases in fuel costs;

- the possibility of a reduction in the projected rate of growth in electricity usage as a result of factors such as regional economic conditions, excessive reserve margins and the implementation of energy conservation programs;

- risks incidental to the operation and maintenance of electricity generation facilities;

- the inability of customer to pay amounts owed under electricity purchase agreements;

- the increasing price volatility due to deregulation and changes in commodity practices;

- over-capacity of generation in markets served by the electricity plants GAS NATURAL owns or in which GAS NATURAL has an interest;

- uncertain regulatory conditions resulting from the ongoing deregulation of the electric industry in the jurisdiction where GAS NATURAL operates; and

- alternative sources and supplies of energy becoming available due to new technologies and interest in renewable energy and cogeneration.

k) Latin American subsidiaries of GAS NATURAL are subject to a variety of risks, including economic downturns and political risks.

GAS NATURAL derives and expects to continue to derive a significant portion of its revenues from the Latin American markets. Operations and investments in Latin America are exposed to various risks inherent in operating and investing this region. Operations in Latin America accounted for 18.7% of Ebitda for the year ended December 31, 2007 and 20.2% for the year ended December 31, 2006. Risks of investing and operating in Latin America include risks relating to the following:

- significant governmental influence over local economies;.

- substantial fluctuations in economic growth;

- high levels of inflation;
- devaluations or depreciation of local currencies;
- exchange controls or restrictions on expatriation of earnings,
- high domestic interest rates.
- changes in governmental financial, economic or tax policies;
- unexpected changes in governmental regulation;
- social unrest; and
- overall political and economic instability.

Most or all of these factors have occurred at various times in the last two decades in the most important Latin American markets, such as Brazil, Colombia, Mexico and Argentina.

In addition, revenues from operations of GAS NATURAL's Latin American subsidiaries, their market value and the dividends collected from these subsidiaries are exposed to risks in the countries in which they operate, which may materially and adversely affect demand, consumption and exchange rates.

For example, in the recent past, Group Argentine subsidiaries' financial condition and results of operations suffered due to adverse economic and political conditions prevailing in Argentina. In the face of this situation the Government repealed certain provisions of one of the Group subsidiary's concession contracts that permitted its distribution tariffs to be pegged to the dollar and provided for certain price indexation mechanisms, and in the Pesoification of all privately negotiated contracts and spot energy market prices. The Authorities froze gas transportation and distribution rates at 1999 year-end prices. Subsequently, the legal framework applicable to the transportation and distribution business was suspended, tariffs were obligatorily converted into pesos, and the inflation-related adjustment was revoked. In addition, such statute provided that a new legal framework for the industry would be renegotiated with the companies. GAS NATURAL has now reached an agreement with the Government of Argentina, pending approval by Parliament, which stipulates a rate update.

GAS NATURAL cannot predict what result any further deterioration in economic and political conditions in Latin America, or other legal or regulatory developments relating to the countries in which GAS NATURAL operates in Latin America, including Argentina, could have on the business, financial condition or results of operations of GAS NATURAL and its subsidiaries.

The financial risks are set out in Notes 18 and 19 to the Accounts.

3. Information under article 116 b of the Spanish Securities Exchange Act

In accordance with the provisions of article 116 b of the Spanish Securities Exchange Act, Law 24/1988/28 July, enacted by Law 6/2007/12 April, we set out below the following information:

a) The capital structure including securities that are not negotiated on regulated community markets, indicating, as the case may be, the different classes of shares and, for each class of shares, the rights and obligations they provide and the percentage of share capital represented:

Under articles 5 and 6 of the Articles of Association, the share capital of Gas Natural SDG, S.A. totals Euros 447,776,028 that are fully subscribed and paid. The share capital is made up of 447,776,028 shares with a par value of Euro 1 each, represented by accounting entries and of the same class.

All the shares have the same economic and voting rights.

Furthermore, under article 33, paragraph one, of the Articles of Association, the shareholders who individually or grouped hold 100 shares can attend the General Meeting of Shareholders, provided that they are inscribed in the respective accounting register five days prior to the meeting, and have the respective attendance card accrediting their compliance with the aforementioned requirements, which will be expedited to the bearer by the entities legally entitled to do so.

b) Restrictions on the transfer of securities:

There are no restrictions on the transfer of securities. According to article 11 of the Articles of Association of Gas Natural SDG, S.A. the shares are transferable in the manner set down by current provisions in force. Notwithstanding the application of certain norms, which are set out below.

As a listed company, the acquisition of significant shareholdings is subject to notification of the issuer and the Spanish Securities Exchange Commission (Comisión Nacional of the Mercado de Valores – CNMV) under article 53 of the Securities Exchange Act, Law 24/1988, article 23.1 of Royal Decree 1362/2007/19 October and Circular 2/2007/19 December of the CNMV, which sets the first notification threshold at 3% of share capital or voting rights.

Furthermore, as a listed company, the acquisition of 30% or more of share capital or voting rights of the Company requires the filing of a takeover bid under the terms set down in article 60 of the Securities Exchange Act, Law 24/1988.

c) The significant direct or indirect shareholdings in the share capital

The shareholdings in the share capital are mentioned in Note 13 to the Accounts.

d) Restrictions on voting rights:

There are no restrictions on voting rights.

e) Corporate agreements:

The Company is aware that the key shareholders, "la Caixa" and Repsol YPF, S.A. have entered into the following corporate agreements:

- Agreement of January 11, 2000.
- Novation of May 16, 2002.
- Addendum of December 16, 2002.
- Addendum of June 20, 2003.

All of these are to maintain the parity of both shareholders on the Board of Directors and the Executive Committee, and setting down various principles of industrial action.

f) The regulations governing the appointment and replacement of the members of the governing body and the modification the articles of association of the company:

f.1) The appointment and replacement of the members of the governing body is regulated by articles 41 and 42 of the Articles of Association and 11 to 15 of the Regulations on the Organisation and Functioning of the Board of Directors and its Committees.

Board of Directors.

- The administration of the company is entrusted to the Board of Directors, which will be made up of at least ten Members and a maximum of twenty, who can be re-elected indefinitely.

- The General Meeting of Shareholders has the power to determine its number and the appointment and removal of Board Members.

- The office of Board Member can be renounced, revoked and re-elected.

- Those persons who have been declared to be incompatible to the extent and under the conditions set down by Law 12/1995/11 May and those who are subject to the prohibitions of article 124 of the Spanish Companies Act (art. 41 Articles of Association) cannot occupy offices in the Company and, as the case may be, exercise them.

Appointment of Board Members

- Board Members will be designated by the General Meeting of Shareholders or by the Board of Directors, in accordance with the provisions of the Spanish Companies Act and in the Articles of Association.

- The appointment will be of persons who, in addition to meeting the legal and statutory requirements are widely renowned and have the professional knowledge and experience to exercise their functions. The appointments proposed of Board Members to be submitted by the Board of Directors to the decision of the General Meeting of Shareholders and the appointments adopted by said body by virtue of their powers of co-optation legally attributed to them must be preceded by the respective report of the Appointments and Remuneration Committee. When the Board differs from the recommendations of this Committee it will have to motivate them and record in the minutes the reasons for its actions.

- An updated professional and biographical profile of all the Board Members will be posted on the website of the Company, as well as the other Boards of Directors on which they sit, whether of listed companies or not, indicating the type of Board Member, and, in the case of Members representing key shareholders, the shareholder they represent or with who they are related, the date of the first appointment as Board Member of the Company and their appointments thereafter and the shares in the Company and share holds they hold (art. 11 Regulations of the Board).

Duration and co-optation

- The duration of the office of Board Member is three years. At the end of this term for which they were designated, the Board Members can be re-elected.

- For the purposes of this article it shall be understood that the appointment will expire when, once the term is completed the following General Meeting of Shareholders has been held or the legal term for the convening of the following Ordinary General Meeting of Shareholders has elapsed.

- If during the term for which the Directors were appointed vacancies appear, the Board can designate from amongst the shareholders those persons that will occupy these offices under the next General Meeting of Shareholders (art. 42 Articles of Association).

- Board Members will exercise their office during a maximum term of three years, and can be re-elected. In no case shall the Independent External Board Members remain in their office as such for a period exceeding twelve years. The Board Members designated by co-optation shall exercise their office until the date of the next General Meeting of Shareholders (art. 13 Regulations of the Board).

Designation of Independent External Board Members

- Persons cannot be proposed or designated as Independent External Board Members who:

a) Have been employees or Executive Offices of companies in the Gas Natural Group, unless 3 or 5 years have elapsed, respectively, since the termination of their former relationship.

b) Receive from the company, or Gas Natural Group, any amount or benefit for items other than remuneration as Board Member, unless it is not significant. For the purposes of this section, the dividends and pension supplements received by Board Members for their former professional or labour relationship are excluded, provided that said supplements are unconditional and, consequently, the company that pays them cannot on its own account, without a breach of obligations, suspend, modify or revoke their accrual.

c) Be or have been for the last 3 years an external audit partner or responsible for the audit report, either of the Company or any Company in the Gas Natural Group.

d) Be Executive Officers or top managers of a different company in which an Executive Officer or Top Manager of Gas Natural SDG, S.A. is an External Board Member.

e) Maintain or have maintained during the past year a major business relationship with the Company or any Company of the Gas Natural Group, either on his own behalf or as a significant shareholder, Board Member or top manager of an entity that maintains or has maintained said relationship. Business relationships are defined as providing goods or services, including financial, advisory or consulting services.

f) Be significant shareholders, Executive Officers or top managers of an entity that receives or has received in the last 3 years significant donations from any of the companies in the Gas Natural Group, excluding those who are mere trustees of a Foundation that receives donations.

g) Be spouses or persons bound by an analogous relationship of affectivity or consanguinity up to the second degree of an Executive Officer or Top Manager of the company.

h) Has not been proposed either by appointment or renewal by the Appointments and Remuneration Committee.

i) Are defined, in respect of a significant shareholder or represented on the Board, in any of the cases set out in letters a), e), f) or g) of this section. In the case of relatives under letter g), the limitation will be applied not only in relation to the shareholder but also in relation to its Board Members representing a key shareholder in the investee company.

- Board Members representing a key shareholder that are no longer such as a consequence of the sale of their shareholding by the shareholder they represented can only be re-elected as Independent Board Members when the shareholder they represented until that time has sold all their shares in the Company.

- A Board Member that holds an interest in the Company can be an Independent, provided that he meets all the conditions set out in this article and, moreover, his shareholding is not significant (art. 12 Regulations of the Board).

Re-election of Board Members

- The Appointments and Remuneration Committee, in charge of evaluating the quality of the work and dedication to the office of the Board Members proposed during the preceding mandate, must report on the proposal to re-elect Board Members that the Board of Directors decide to nominate at the General Meeting of Shareholders (art. 14 Regulations of the Board).

Removal of Board Members

- Board Members will be removed from their office when the period for which they were appointed elapses and in all other cases set forth by current legislation, the Articles of Association and the Regulations in force.

- Board Members must submit their resignation to the Board of Directors and formalize, if the latter finds it appropriate, their respective resignation in the following cases:

a) When Internal Board Members resign from executive offices outside the Board to which their appointment was attached as Board Members.

b) When they meet the grounds of incompatibility or are prohibited under the Law, the Articles of Association or these Regulations.

c) When they seriously breach their obligations as Board Members, place the interests of the Company at risk.

d) When the reason for which they were appointed as Independent Board Members, Executives or Board Members representing a key shareholder disappears (art. 15 Regulations of the Board).

f.2) In respect of the modification of the Articles of Association, articles 24, 32 and 68 of the Articles of Association and Article 2 of the Regulations of the General Meeting of Shareholders stipulate.

General Meeting of Shareholders

- The shareholders convened in a duly called General Meeting of Shareholders, will decide by a majority vote the issues that fall within the jurisdiction of the General Meeting of Shareholders.

- All the shareholders, including the opponents and those who have not participated in the meeting, are subject to the resolutions of the General Meeting of Shareholders (art. 24 Articles of Association).

Special resolutions and majorities. Constitution.

- In order for the ordinary or extraordinary General Meeting of Shareholders to be able to adopt a resolution to issue debentures, increase or decrease share capital, transform, merge or de-merge the company and, in general, make any modification to the Articles of Association, this will require, on first call, the presence of attending or represented shareholders holding at least (50%) of the share capital with voting rights. On second call twenty-five percent (25%) of said capital will be sufficient.

- When shareholders representing less than fifty percent (50%) of share capital with voting rights attend, the resolutions to which the preceding paragraph refer, can only be validly adopted by a majority of two-thirds of the capital in attendance or represented at the General Meeting of Shareholders (art. 32 Articles of Association).

Modification of the Articles of association

- The modification of the Articles of Association must be adopted at the General Meeting of Shareholders and requires the concurrence of the following requirements:

  • The Board of Directors or, as the case may be, the shareholders proposing the resolution must present a written report justifying the modification.

  • They must clearly explain at the meeting the points they wish to modify and the right of all the shareholders to examine, at the registered office, the full text of the modification proposed and the report on the same and to request that said documents be delivered to them free of charge.

- The resolution must be adopted by the General Meeting of Shareholders, in accordance with the provisions of the Articles of Association.

- In any case, the resolution will be recorded in a public deed, which will be inscribed in the Mercantile Register and published in its Official Gazette (art. 68 Articles of Association).

Competencies of the General Meeting of Shareholders.

- The General Meeting of Shareholders, as the maximum decision-making body of the company, has powers to adopt all types of resolutions concerning the Company and, in particular, can: Agree to the issue of debentures, increase or decrease share capital, transform, merge or de-merge the company and, in general, make any modifications to the Articles of Association (art. 2 Regulations of the General Meeting of Shareholders).

g) The powers of the members of the Board of Directors and, in particular, those relating to the possibility of issuing or repurchasing shares:

The Company has conferred on the Chairman of the Board of Directors and the Chief Executive Officer broad powers of representation and management, which allows them to deal with the ordinary matters faced by the company, except those that cannot be delegated by Law, or by Articles of Association or Regulations that pertain to the General Meeting of Shareholders, the Board of Directors or its Committees.

In order to execute certain resolutions which, for various issues, require a specific mandate, the Board of Directors or the Executive Committee have conferred special powers upon the Chairman or the Chief Executive Officer, which expire after they are executed, in one single act.

Note 13 to the Accounts describes these authorisations of the Board of Directors, on the issue or repurchase of shares.

The Board of Directors has not exercised the power conferred by the General Meeting of Shareholders.

h) The significant resolutions that have been executed by the Company and which come into force, are modified or conclude in the event of a change in control the company due to take over bid, and its effects, except when disclosure would be seriously damaging to the Company. This exception will not be applied when the company is legally obligated to divulge this information:

The Company has not entered into significant agreements that come into force, are modified or conclude in the case of change in control of the company due to a takeover bid.

i) Agreements between the Company and its officers, management or employees who are entitled to indemnities when they resign or are dismissed unlawfully or if the labour relationship terminates as a result of a takeover bid:

The agreements entered into by the Company and its officers and management, are mentioned in Note 35 to the Accounts.

In addition to the agreements between the Group and its officers and Management, there are severance agreements with 12 employees, which amounts are determined on the basis of their individual salary and professional conditions.

4. Environment and technological innovation

The information on the Environment is set out in Note 38 to the Accounts.

The technological innovation activities of the Company in 2007 have centred on the evaluation, development and testing of new energy technologies, in order to increase and improve the competitivity of the Group, focussing on technology in strategic high added value projects and on improving efficiency and respecting the environment.

The activities have been carried out as part of a coordinated action plan involving the different areas and companies in the Group.

5. Future Outlook

2007 has confirmed the favourable perspectives that were foretold at the beginning of the year, with double-digit growth in the main financial aggregates.

2007 has been the year of the launch of the new 2008 – 2012 Strategic Plan, which was presented to the shareholders and investors on November 6, 2007.

The evolution of the business and the financial aggregates of the Group will allow us to move forward in compliance with the main targets of the 2004 – 2008 Strategic Plan, to wit: average accumulated growth of 16% in Ebitda, up to Euros 2,500 million in 2008; average accumulated growth of net profit above 10%; pay-out of 52%-55%; investments of Euros 8,800 million in the year; and installed electricity capacity of 6,800 MW.

The new 2008–2012 Strategic Plan represents a new challenge for the Group, based on its competitive strengths, in order to become one of the main gas operators in the world. The Plan has four basic pillars:

I) Consolidating its position in its main markets: Spain, Italy and Latin America;

II) Vertical upstream integration in the gas chain;

III) Exporting the Spanish downstream model to other countries that can be integrated into the natural gas/ liquefied natural gas chain; and

IV) Ongoing focus on effectiveness and efficiency.

To do this, the Group has established major growth objectives in its main business lines:

- A gas contract portfolio of 35 bcms;

- Gas sales outside Spain above 11 bcms;

- 16 million supply points around the world;

- Surpassing 10 million contracts in Spain (energy and service); and

- 10,000 MW of installed electrical capacity; and

- Euros 70 million in cost savings.

Achieving these targets would put GAS NATURAL into a leadership position in its main business lines:

1) World leader in gas distribution.

2) 3rd largest Utility on the Iberian Peninsula.

3) One of the four largest world operators in LNG.

4) One of the four largest world operators in combined cycle plants.

5) Leader in efficiency on the Iberian Peninsula and in Latin America.

In order to achieve these goals the Group has adopted a Euros 12,500 million investment plan which, moreover, would allow it to optimise its financial structure. According to our calculations, the leverage ratio at the end of the period would be 50%, which would allow the Group to maintain a solid credit rating throughout the period. The Investment Plan includes also asset divestitures of Euros 500 million.

In economic terms, the goal of the Group is an average accumulated growth in Ebitda above 10%, and an average accumulated growth in net profit greater than 8%. This would allow the Group to continue to increase its dividends to its shareholders, for which it has established a pay-out target of 55% - 60% for the period.

Outlook for 2008

2008 should be a year of additional progress both in terms of results and profitability in line with our new Strategic Plan:

- Continued pace of growth of the gas distribution business in Spain, Italy and Latin America.

- A greater contribution of the electricity business thanks to the new 800 MW combined cycle plant in Plana del Vent, the optimisation of the commercialisation portfolio and an expected increase in generation prices.

- The inclusion of the electricity assets acquired in Mexico at the end of last year.

- Greater competition is expected at the end of the year in the wholesale and retail gas commercialisation business.

In conclusion, the evolution in the last few months in the world energy sector has reinforced the logical, potential growth of the gas sector in general, and GAS NATURAL in particular.

The final goal of the Company is to continue developing as a leading liquefied natural gas company in the Atlantic zone and in the distribution of gas, and to continue growing in the electricity business and in the gas-electricity conversion business, to the benefit of its shareholders and employees, while guaranteeing the security of supply.

6. Own shares

At December 31, 2007 and 2006 none of the companies of GAS NATURAL hold own shares.

7. Proposed distribution of profit

The information on the proposed distribution of profit is set out in Note 13 to the Accounts.

8. Subsequent events

The information on post-balance sheet investments is set out in Note 39 to the Accounts.


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Operating Statistics

	2007	2006	2005	2004	2003
Gas distribution (GWh)	**453,172**	**432,956**	**422,912**	**385,655**	**352,134**
Spain	271,058	258,758	254,774	228,954	211,2
Regulated gas sales	38,288	44,660	51,121	51,449	63,437
TPA	232,770	214,098	203,653	177,505	147,763
Latin America	179,314	171,750	165,408	155,346	140,934
Regulated gas sales	115,367	106,849	99,891	92,097	83,140
TPA	63,947	64,901	65,517	63,249	57,794
Itàlia	2,800	2,448	2,730	1,355	-
Regulated gas sales	2,635	2,347	2,652	1,315	-
TPA	165	101	78	40	-
Gas supply (GWh)	**292,730**	**294,451**	**305,324**	**288,055**	**266,204**
Spain (1)	245,566	251,410	259,649	243,510	233,140
International	47,164	43,041	45,675	44,545	33,064
Gas transportation/EMPL (GWh)	**124,150**	**129,499**	**145,923**	**115,637**	**101,803**
Gas distribution network (km)	**109,759**	**104,528**	**100,150**	**95,155**	**85,905**
Spain	45,429	42,364	39,611	37,534	34,701
Latin America	59,555	58,152	56,763	54,120	51,204
Italy	4,775	4,012	3,776	3,501	-
Increase in gas distribution points (in thousands)	**453**	**483**	**615**	**620**	**625**
Spain	246	301	325	326	308
Latin America	170	150	253	280	317
Italy	37	32	37	14	-
Gas supply points, in thousands (as at 31/12)	**11,115**	**10,662**	**10,179**	**9,565**	**8,707**
Spain	5,681	5,435	5,134	4,808	4,482
Latin America	5,077	4,907	4,757	4,505	4,225
Italy	357	320	288	252	-
Contracts per customer in Spain (as at 31/12)	**1,4**	**1,4**	**1,5**	**1,4**	**1,3**
Employees (as at 31/12) (2)	**6,953**	**6,686**	**6,717**	**6,697**	**6,150**
Electricity sales in Spain (GWh)	**2,214**	**2,761**	**6,296**	**4,457**	**3,023**
Electricity generated (GWh)	**18,700**	**19,514**	**10,466**	**7,272**	**4,324**
Spain	16,975	17,831	8,904	5,802	4,042
Latin America	1,725	1,683	1,562	1,470	282

(1) Does not include exchange transactions with power companies.
(2) In order to ensure a proper comparison, the figures for Enagás have not been included.

Financial Statistics

Balance Figures (in millions of euros)

The figures corresponding to 2003 are expressed in accordance with Spanish accounting principles, while those corresponding to 2004-2007 are presented in conformance with IFRS.

	2007	2006	2005	2004	2003
Property, plant and equipment and intangible fixed assets	15,638	13,592	12,706	10,639	8,854
Provisions and accumulated depreciation	(4,838)	(4,298)	(3,801)	(3,164)	(2,548)
Net property, plant and intangible fixed assets	**10,800**	**9,294**	**8,905**	**7,475**	**6,306**
Financial investments ([1])	**757**	**560**	**641**	**668**	**652**
Consolidation goodwill	**541**	**441**	**456**	**334**	**208**
Company shareholders' equity	**6,070**	**5,652**	**5,411**	**4,571**	**4,308**
Minority interests	**357**	**344**	**355**	**220**	**212**
Deferred income	**543**	**478**	**433**	**409**	**297**
Long- term borrowing	**3,075**	**2,590**	**3,304**	**2,152**	**1,936**
Short-term borrowing	**1,004**	**628**	**512**	**704**	**536**

([1]) Financial investments for the years according to Spanish accounting principles adapted in order to facilitate their comparison with IFRS information.

Profits and loss account figures (in millions of euros)

The figures corresponding to 2003 are expressed in accordance with Spanish accounting principles, while those corresponding to 2004-2007 are presented in conformance with IFRS.

	2007	2006	2005	2004	2003
Sales	10,093	10,348	8,527	6,266	5,628
Other income	81	124	108	87	85
Operating income	**10,174**	**10,472**	**8,635**	**6,353**	**5,713**
Gross operating income	**2,277**	**1,912**	**1,519**	**1,335**	**1,202**
Net operating income	**1,567**	**1,263**	**969**	**862**	**799**
Net finance cost	**(224)**	**(267)**	**(221)**	**(154)**	**(58)**
Income before tax	**1,415**	**1,231**	**1,068**	**926**	**790**
Net income for the period	**1,056**	**929**	**827**	**695**	**612**
Net income for the year attributable to shareholders of the parent company	**959**	**855**	**749**	**642**	**568**

Cash flow statement figures

The figures corresponding to 2003 are expressed in accordance with Spanish accounting principles, while those corresponding to 2004-2007 are presented in conformance with IFRS.

	2007	2006	2005	2004	2003
Net cash generated by operations	**1,829**	**1,454**	**838**	**806**	**793**
Acquisition of tangible fixed assets and intangible assets	**1,135**	**1,159**	**1,151**	**1,015**	**933**
Remaining acquisitions/investments	**1,041**	**46**	**436**	**420**	**74**
Divestitures	**176**	**358**	**472**	**390**	**112**
Paid dividends	**521**	**451**	**368**	**296**	**207**
Financial debt received/(cancelled)	**730**	**(451)**	**560**	**241**	**(162)**

Stock Market Statistics

	2007	2006	2005	2004	2003
Number of shares traded (millions)	406.7	309.2	240.6	258.9	345.0
Funds traded (thousands of euros)	15,648,804	8,019,065	5,537,046	5,169,724	5,946,824
Final share price (euros)	40.02	29.99	23.66	22.76	18.55
Maximum (euros)	45.76	32.88	24.88	22.99	19.85
Minimum (euros)	29.00	21.74	21.33	18.18	14.92
Book value per share (euros)	14.35	13.39	12.88	10.70	9.62
Ebitda per share (euros)	5.08	4.27	3.39	2.98	2.68
Net profit per share (euros)	2.14	1.91	1.67	1.43	1.27
Dividend per share (euros)	1.14	0.98	0.84	0.71	0.60
Share price-book value ratio	2.8	2.2	1.8	2.1	1.9
Enterprise value-Ebitda ratio	9.6	8.6	9.4	9.6	8.5
Share price-profit ratio	18.7	15.7	14.1	15.9	14.6
Dividend-profit ratio (%)	53.2	51.4	50.2	49.5	47.3
Dividend-share price ratio (%)	2.8	3.3	3.6	3.1	3.2
Share capital (number of shares as at 31/12)	447,776,028	447,776,028	447,776,028	447,776,028	447,776,028
Stock market capitalisation (thousands of euros)	17.919,997	13,428,803	10,594,381	10,191,382	8,306,245