Annual Report 08

gasNatural

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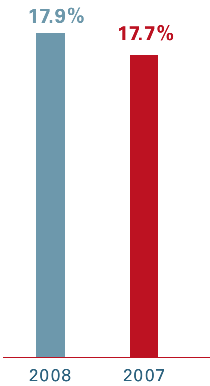
Summary

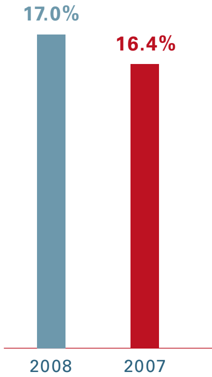
Basic Figures

ROACE (1)



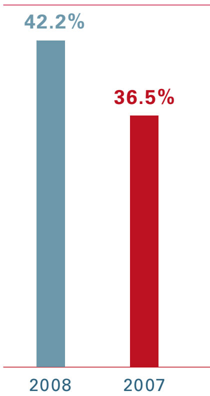
(1) Operating profit/Average working capital (Net fixed tangible and intangible assets-Deferred income linked to the fixed assets+Other fixed assets+Goodwill+Non-financial working capital).

ROE (2)



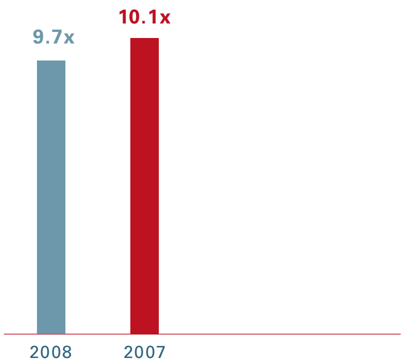
(2) Profits after tax/Average net worth.

Debts (3)

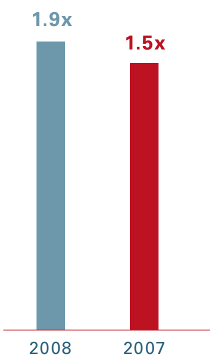


(3) Net financial debt/(Net financial debt+Net worth).

EBITDA/Net financial results

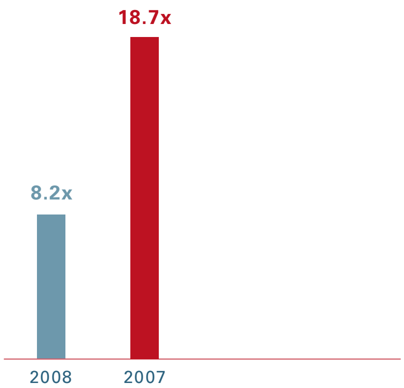


Net debt/EBITDA (4)



(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

	2008	2007	%
Gas supply (GWh)	292,629	292,730	-
Gas transportation/EMPL (GWh)	133,497	124,150	7.5
Gas supply points (in thousands)	11,492	11,115	3.4
Gas distribution network (km)	115,295	109,759	5.0
Electricity generated (GWh)	31,451	18,700	68.2
Contracts per customer in Spain	1.39	1.37	1.5

Personnel

	2008	2007	%
No. of employees	6,842	6,953	(1.6)

Financial

(in millions of euros)

	2008	2007	%
Net turnover	13,544	10,093	34.2
Gross operating profit (EBITDA)	2,564	2,277	12.6
Operating profit	1,794	1,567	14.5
Total investments	3,697	2,323	59.1
Profit attributable to the Group	1,057	959	10.2
Total dividend	663	510	30.0

Stock information

(euros/share)

	2008	2007	%
Share prices as at 31 December	19.29	40.02	(51.8)
Book value	15.01	14.35	4.6
Profit	2.36	2.14	10.2

Letter from the Chairman

Dear Shareholders,

2008 will undoubtedly be considered as one of the most important years in the Company's history. The takeover of Unión Fenosa, a decisive point of inflection on the road taken to create a large worldwide energy group, will turn us into a stronger and more efficient company that is better prepared for competing on international energy markets and has a relevant presence on the gas and electricity chain of value.

The takeover process was started at the end of July 2008. After the corresponding authorisations from the regulatory bodies and the different government authorities had been obtained, our Company's Extraordinary General Meeting of Shareholders approved the increase in capital to finance part of the transaction on 10 March 2009. By virtue of the 50% stake we held on that date, together with the subsequent takeover bid and the liquidation of the financial instruments to which we had subscribed, our stake in Unión Fenosa has been higher than 95% since the end of April 2009.

We are convinced that the transaction brings tangible benefits for all those involved. It will create value for shareholders, strengthen the certainty of the energy supply for Spain, benefit consumers through greater competition and open up new forms of professional development for employees.

The merger of Gas Natural and Unión Fenosa has now been signed by the respective Boards of Directors and needs to be approved by the Ordinary General Meetings of Shareholders of both firms. This will create the first integrated gas and electricity company in Spain and one of the top ten European utilities, present in 23 countries on all five continents with more than 20 million customers all over the world.

The new company will have an installed electricity-generation power of 17,000 MW and a mix that will include combined cycles, hydraulic energy, wind power, nuclear power and coal. After the merger, the resulting company will be one of the main liquefied natural gas operators in the Mediterranean and Atlantic basins and will have a greater capacity for competing with other international operators, a high level of diversification in different businesses and a greater geographic differentiation of the various activities.

Together with the takeover of Unión Fenosa, special mention must be made of our Group's excellent progress, which continued to increase in profitability and growth despite the negative economic situation that affected the final months of last year. As you know, the year 2008 was extraordinarily difficult for all world economies. The global financial crisis was felt by every business and market, and the energy sector was no

exception. This challenging working environment was marked by high market volatility and large variations in the American dollar and oil prices, which dropped sharply during the second half of the year after reaching record highs. Mention should be made of the upheaval in international financial markets that gave rise to the credit crisis.

All this led to a sharp fall in economic activity during the last four months of the year, which gave rise to lower energy consumption, especially in the industrial sector. However, natural gas continued to increase its participation in the Spanish energy mix and demand increased by 10% thanks to the combined-cycle power plants, which were the driving force behind the gas sector in 2008. Spain is the fifth-ranked country of the European Union in terms of gas consumption and first in growth, with a level of 24% in the primary energy balance.

Dear Shareholders, despite the significant challenges that had to be overcome, our Company's behaviour was highly satisfactory and we accomplished all the targets that were set. Evidence of this is the soundness of the Gas Natural Group's business model, which means that we can continue to grow profitably in a difficult context thanks to the integration along the entire gas chain and the integrated management of the energy activity in which we are involved.

As far as results are concerned, the Gas Natural Group's net profits totalled 1,057 million euros in 2008, up 10.2% on the year 2007. This means that we have maintained a significant rate of growth despite the high-level volatility of energy prices, currency markets and financial markets.

The EBITDA reached 2,564 million euros, up 12.6% on the figure for 2007, mainly brought about by the electricity-generation activity and the incorporation of this activity in Mexico, as well as the growth in distribution in Latin America. In addition, the EBITDA improved its consistency in 2008 thanks to a more diversified contribution from the Group's businesses.

The number of customers totalled 11.5 million at 31 December: 5.8 million in Spain and 5.2 million in Latin America. The rest, which total almost 400,000, are to be found in Italy. As you can see, the results are excellent and, once again, they represent record dividend payment figures for the Company. We propose an allocation of 663 million euros on the account of 2008. This figure includes 90 million in extraordinary dividends and implies a payout of 62.7%.

Finally, I would like to express my gratitude to everyone involved in the Gas Natural Group, whose professional conduct and efforts made these results possible and which enable us to continue to build the future projects we have proposed. I would also like to give my particular and sincere thanks to all of our shareholders for their trust in us. With their firm commitment we will be able to position our new company at the fore of the international energy sector.

Salvador Gabarró Serra
Chairman of the Board of Directors

Most Significant Events

First quarter

- Gas Natural Group and the Association of Developers and Constructors of Barcelona (APCE) signed an agreement to promote the introduction of natural gas and to cooperate in designing energy solutions geared towards achieving greater efficiency.

- In Monforte del Cid (Alicante), Gas Natural Cegas showed the inhabitants of this town the gasification project which will be carried out in the municipality, and also explained to them the advantages offered by natural gas.

- In Logroño, the President of the Government of La Rioja, Pedro Sanz, and the Chairman of the Gas Natural Group, Salvador Gabarró, presented the Cenicero-Nájera-Santo Domingo-Baños de Río Tobía-Ezcaray gas pipeline project, which will connect 16 towns in the valleys of Oja and Najerilla.

- In Madrid, the CEO of the Gas Natural Group, Rafael Villaseca, presented a study entitled "Renewable Energies in Spain. Analysis and Perspectives", sponsored by the Gas Natural Foundation, and prepared by the National Renewable Energies Centre (CENER).

- Gas Natural Castilla y León initiated the gas supply to the inhabitants of the towns of Calvarrasa de Arriba and Terradillos, in the province of Salamanca.

- For the second successive year, Gas Natural SPS received the "Solidarity Company" certificate for the assistance it has given to the Monteiro Lobato de Sorocaba boarding school (Brazil).

- The Board of Directors of Gas Natural SDG, chaired by Salvador Gabarró, approved the appointment by co-option, at the behest of Criteria CaixaCorp, of Joan Maria Nin, to replace José Vilarasau, and of Francisco Reynés, to replace José Luis Jové, as new Proprietary Directors of the Company, following a favourable report by the Appointments and Remuneration Committee.

- Launching of the Company's own "gn auto" service station brand in Colombia.

- The Gas Natural Group began the works for the construction of the Campanillas combined-cycle electrical generation plant, having been granted the works permit by the Malaga City Council.

- In the town of Torre-Serona (Segria, province of Lleida), Gas Natural Distribución informed the inhabitants of the different phases of the network extension works, and the steps to be taken to contract the gas supply.

- After the Gas Natural Group had bought the assets of Électricité de France in Mexico, it created Gas Natural Electricidad Mex, which manages five combined-cycle power plants (Altamira, Río Bravo I, II and III, and Saltillo) and a gas pipeline.

• Gas Natural Coruña signed an agreement to sponsor, for the third successive year, a concert by the Galicia Symphony Youth Orchestra (OJSG).

• Company representatives informed the inhabitants of Gelida (Barcelona) of the gasification project to be carried out in this municipality, where Gas Natural will invest 1.5 million euros.

• For the first time, the Gas Natural Group was given the "Gold Class" company rating awarded by the Sustainability Yearbook 2008, a publication drawn up by Sustainable Asset Management (SAM) in partnership with PricewaterhouseCoopers, and which includes the best performing companies in terms of sustainability and corporate responsibility.

• Gas Natural Comercializadora handed over the first prize in the Architecture category in the 6th Title of Spain Award of Architecture and Interior Design, a competition organised by the Spanish Ceramic Tile Manufacturers' Association (ASCER). The prize went to the architect José Durán for his project entitled "Colour Revolution", which concerns the remodelling of the Calle de San Vicente in Burriana (Castellón).

• Gas Natural ESP sponsored the Ibero-American Theatre Festival, with the representation of the work entitled "Los gitanos le cantan a Dios", in the Catedral Primada de Colombia.

• The Gas Natural Foundation, in partnership with the Department of the Environment of the Government of Cantabria, organised the seminar entitled "Local Pollution and Human Health" in Santander, with the object of carrying out an in-depth analysis of the current state of urban pollution in Cantabria, and examining how this affects the health of its inhabitants.

• Gas Natural Cantabria presented the gasification project for Gibaja and Ramales de la Victoria, where the Company will invest 1.3 million euros in setting up the natural gas supply.

• The Gas Natural Group, in partnership with the Xunta de Galicia Regional Government and the Sotavento Galicia Foundation, officially opened the first experimental hydrogen production and storage plant in Europe, in the Sotavento Wind Farm, in Xermade (Lugo) and Monfero (A Coruña).

• Company representatives presented the inhabitants of Cacabelos (León) with the different gas network piping phases required to bring this gas to the municipality, and also explained the characteristics and use of natural gas.

• Gas Natural Italia, in conjunction with a group of companies, created the first Corporate Social Responsibility Forum in southern Italy, with the aim of promoting and developing corporate responsibility throughout the sphere of activities of the Gas Natural Group.

• The Company signed a contract with Électricité de France (EDF) to supply the latter company with a total of 4 bcm of natural gas in the coming years.

- Gas Natural Cegas started up the natural gas supply in the municipality of Monforte del Cid (Alicante).

- The Gas Natural Foundation started up its activities in Italy after having signed a collaboration agreement with the Puglia Region for the protection of the environment.

- The Gas Natural Group sponsored the Tecnotast Trade Fair, which specialises in the food and restaurant sector of the Girona area; the Company also organised a technical workshop and an information stand.

- Gas Natural Murcia presented the forthcoming arrival of the natural gas supply in Fuente Álamo, where this year the Company expects to pass the 100-customer mark.

- The Gas Natural Group was awarded the commercialisation permit for the Portuguese natural gas energy market. This was after it had applied to Portugal's Directorate General for Energy and Geology to register the Group's company, Gas Natural Comercializadora, as a commercialisation company.

- Gas Natural ESP launched the "Ráquira, Clean and Productive Energy" programme. This project concerns the conversion of furnaces to natural gas, so that over 250 craft workers can improve their productivity and reduce environmental pollution in this municipality of Colombia.

- The Company handed over 18,000 euros to ATADES (Mentally Handicapped Tutelary Assistance Association). This donation stems from an initiative set up by the Company, whereby the funds traditionally used for sending Christmas cards are used instead for a specific social project, promoted by a foundation or non-profit making organisation in the communities where the Group carries out its business activities.

- In Valencia, the Gas Natural Group opened the first public station for gas-propelled vehicles.

- Gas Natural Soluciones took part in the 11th Genera Trade Fair, an international energy and environment meeting organised in Madrid.

- In Pozuelo de Alarcón (Madrid), the Gas Natural Foundation organised the "Urban Air Quality, Transport and Health" seminar, where various case studies were presented regarding air quality in Madrid and Barcelona.

- Gas Natural Soluciones and Carrefour signed a framework collaboration agreement to promote the use of natural gas as fuel for light vehicles in Spain. The purpose of the agreement is to improve air quality of cities and their greater urban areas.

- Gas Natural Castilla y León started up the natural gas supply in San Cristóbal de la Cuesta (Salamanca). In this town, the Company has invested 300,000 euros to construct 7.6 km of distribution network to provide a service to 120 homes in the town this year.

- Gas Natural Distribución began its energy supply in the municipality of Gelida (Barcelona).

- Expansión, the most important business magazine in Mexico, named Gas Natural México as a "Super Company", and included it on the list of companies in which Mexicans would like to work.

- Gas Natural Italia and the Reggio Calabria City Council signed an agreement to carry out social policy initiatives.

- The Gas Natural Group signed a collaboration agreement with the Regional Government of Aragon in the field of civil protection services. The aim of the agreement is to optimise reaction times and resources in emergency situations arising within the facilities and networks of Gas Natural Distribución and Gas Natural Transporte in this autonomous region.

- The Company began the works for the construction of two combined-cycle generator sets in the Port of Barcelona, each with 425 MW. These initial works consisted of preparing the terrain in the Port extension area.

- The Gas Natural Group's 2007 Corporate Responsibility Report was a finalist in three different categories of the Corporate Register Reporting (CRR) corporate report awards, and was given the highest rating of the Spanish companies taking part.

- Gas Natural ESP created the Guarantee Office, which aims to offer a dynamic, efficient and personalised channel, with customer representatives and consumer associations, for managing claims.

- Gas Natural Andalucía began its supply of natural gas in Estepa (Seville), where it has invested 1 million euros in the gas supply.

- The Gas Natural Group signed an agreement with Petrobras, guaranteeing the current consumption and envisaging annual growth in the gas market of 5% until 2012, tantamount to 2 million m³ a day.

- In Palma de Mallorca, the Gas Natural Foundation organised a seminar entitled "Transport and the Environment", analysing the environmental impact - on land and air - caused by the transport sector in the Balearic Islands, and offering alternatives to improve air quality in the area, particularly with the introduction of natural gas in vehicles.

- For the second successive year, 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.

Second quarter

- Gas Natural Distribución began its supply in the municipality of Castellterçol (Barcelona).

- In Seville, the Gas Natural Foundation organised a cogeneration workshop, setting out details of the environmental and economic advantages of using this efficient system for simultaneous generation of heat and electricity.

- Gas Natural ESP held on first place in the "Bogotá, Our Progress" survey, in the category of "Quality in the Provision of Public Natural Gas Services"; this survey was organised by the El Tiempo magazine and the Carvajal Foundation.

- In the Cartagena regasification plant (Murcia), the Company received the first cargo of liquefied natural gas (LNG) to reach Europe in the Q-Flex type vessel, a newly constructed methane tanker with capacity to transport 210,000 m³.

- The Gas Natural Group presented its energy services for homes in the 10th Madrid Real-Estate Exhibition (SIMA).

- For the third successive year, Gas Natural México received the "Socially Responsible Company" award, granted by the Mexican Philanthropic Centre.

- The Company was awarded 1,209 GWh of underground natural gas storage capacity in the first natural gas underground storage auction carried out in Spain.

- Gas Natural Distribuzione Italia started up the supply in Pellaro (Reggio Calabria).

- The Gas Natural Group was selected by the new FTSE4Good Ibex index, and was one of the 27 Spanish companies to comply with the social and

environmental responsibility criteria established by the company that draws up the FTSE4Good indices.

• Gas Natural Italia started the "Sulle ali dell'energia" campaign, which consists of organising activities on rational and safe energy use in eight municipalities in southern Italy.

• Gas Galicia signed a collaboration agreement with the Department of Innovation and Industry to construct the distribution network for carrying natural gas to the industrial estate of O Pousadoiro, in Vilagarcía de Arousa (Pontevedra).

• The Company took part in the 9th "Madrid is Science" fair with a stand in which visitors were provided with information on the economic and environmental advantages of "gn auto".

• Gas Natural ESP received the Andesco Prize for corporate responsibility in the category of "Best Market Environment", for its "Wake up, Carbon Monoxide Kills" campaign in Colombia.

• Ecoeléctrica, the Gas Natural Group investee company in Puerto Rico, received an award from the US Environmental Protection Agency (US EPA) for its environmental action and improvement of the location where it carries out its activities.

• The Board of Directors of Gas Natural SDG, chaired by Salvador Gabarró, approved Narcís Serra's inclusion in the Company's governing body on behalf of Caixa d'Estalvis de Catalunya, which owns a holding of 3% in the Company.

• The Managing Director of Gas Natural SPS, Eduardo Cardenal, was awarded the title of "Citizen of Sorocaba" by the Municipal Chamber of Sorocaba (Brazil).

• In Barcelona, the Gas Natural Foundation organised a seminar entitled "Obtaining Energy from Waste", which analysed the potential offered by waste as a way of harnessing energy in Spain, and the environmental and economic advantages of applying measures for recovering energy from waste.

• Gas Natural Andalucía launched the supply in Espartinas (Seville).

• In Cee (A Coruña), Gas Galicia presented the gasification project which will be carried out in the municipality, and also explained the applications and advantages of natural gas.

• Gas Natural ESP signed agreements with Radio Caracol and RCN Radio to broadcast slots with safety messages from the "Wake up, Carbon Monoxide Kills" campaign in Colombia.

• In Pamplona, the Gas Natural Foundation organised the "Water, Energy and Climate Change" seminar, carrying out an in-depth analysis of the interrelations between energy efficiency and the water cycle, and the contribution water makes to efficient energy management.

• The Gas Natural Group's 2006 Corporate Responsibility Report was awarded the readers' prize in the "Best Report for the Media" category by the Global Reporting Initiative (GRI).

• Gas Natural SPS sponsored the 29th Green Expo of Sorocaba (Brazil), an exhibition of flowers and plants, which also contained cultural and educational activities regarding the importance of environmental conservation.

• Gas Natural Castilla y León presented the gasification project for the natural gas supply in the town of Turégano (Segovia).

- Gas Natural Castilla-La Mancha sponsored the inaugural concert at the 14th Toledo International Music Festival.

- The Gas Natural Group signed a contract for provision of services with the RACC Automóvil Club whereby, over the next three years, through one of its subsidiaries, RACC will be responsible for managing and rendering the assistance services of the gas Company's customers who have contracted the ServiHogar Direct product.

- Gas Natural ESP and the Alverde Vivo Foundation fostered an initiative whereby the Company's employees planted 700 trees in the PANACA Park (Colombia).

- In Valladolid, the Gas Natural Foundation organised a seminar entitled "Citizens and Climate Change: Commitment and Action", analysing the environmental impact of human consumption habits and proposing several initiatives to help to improve the environment.

- 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 and establishes internationally recognised criteria for producing this type of report.

- The Gas Natural Group took part in the Madrid International Car Show for the first time, promoting the use of natural gas as car fuel and presenting its "gn auto" business line to the sector.

- The Company took part in the 1st Galicia Real-Estate Exhibition promoting the use of the combined solar energy and gas as an energy solution, which is efficient and sustainable for new constructions.

- Gas Natural ESP signed an agreement with the Ministry of Culture of Colombia to take part in commemorating the 200th anniversary of the death of José Celestino Mutis, the botanist and mathematician.

- In Castellón, Gas Natural Comercializadora signed a contract with ASCER (Spanish Ceramic Tile Manufacturers' Association to extend the largest industrial gas supply contract, set to expire in 2009, to 2012.

- Business Week, the economics journal, put the Gas Natural Group in 39th place in its ranking of the "Europe's Top 50". The Gas Natural Group is only one of four Spanish companies included in the ranking, and is the only company in the Spanish energy sector forming part of the selection.

- Gas Natural Italia sponsored the "Art and Natural Gas" competition in the Mattia Preti Art School of Reggio Calabria.

- In Zaragoza, the Gas Natural Foundation officially opened the seminar entitled "Strategies to Promote Public Behaviour that favours the Environment", presenting strategies and conducts for complying with the goals of the new environmental culture.

- For the sixth successive year, the Gas Natural Group sponsored the Durán Farell Award for Technological Research. This year the prize went to a project regarding the efficient design of processors by the Polytechnic University of Catalonia.

- Círculo de Economía, celebrating its 50th anniversary, rewarded the Gas Natural Group for its track record in the energy sector, both in Spain and abroad, in an act where the company Chairman, Salvador Gabarró, received the award from His Royal Majesty Juan Carlos, King of Spain.

- Gas Natural SPS, in partnership with the prefectures of Salto and Votorantim, in Brazil, started up the "Ver de nuevo" and "Sala Verde" spaces, respectively, to promote environmental education.

- In Barcelona, the Company sponsored the 15th National Property Manager's Congress, where it presented its energy services for homeowners associations.

- Gas Natural Commercialisation France sponsored and took part in the first meeting of French-Spain companies, an act organised by the Official Chamber of Commerce of Spain in France (COCEF) and El Correo de Francia, which took place in the emblematic Eiffel Tower in Paris.

• In Barcelona, the Gas Natural Group presented its new educational folder, geared towards teachers and students from between 12 and 18, and which has the purpose of educating the new generations in a new energy and environmental culture.

• The Chairman of Gas Natural Group, Salvador Gabarró, received the "Career Achievement" award by the Association of Industrial Engineers of Catalonia as part of its Annual Engineering Congress.

• In Pamplona, Gas Navarra sponsored the recital given by the Symphonic Orchestra of Navarre as part of the 12th Concert Cycle.

• Through the corporate voluntary work programme, employees of Gas Natural México and their families took part in the "A Day of Reforesting" campaign, during which a thousand trees were planted in one day in Mexico City.

• In Santiago de Compostela (A Coruña), the Gas Natural Foundation and the Xunta de Galicia organised an environmental management seminar entitled "Galician Forests: a Deposit of CO_2 and Energy Source".

• The Gas Natural Group has signed the "Pro Clima Madrid Forum", an initiative which seeks to promote cooperation between companies in different economic sectors and the City Council of Madrid, to foster actions conducive to improving air quality in the capital and helping to fight the effects of climate change.

• The Company is taking part in the first "International Fair for Energy Efficiency and New Technological Solutions, EGETICA", a project promoted by the Generalitat Valenciana Regional Government.

• In Toledo, the Gas Natural Foundation officially opened the "Climate, Energy and the Environment" seminar, the purpose of which is to analyse the potential for development of climate prediction models, their practical application and their part in conserving the environment.

• The Official Chamber of Commerce of Spain in France (COCEF) awarded Gas Natural Commercialisation France and the Gas Natural Group, the "Prize for the Best Spanish Company of the Year in France", taking into account its efforts made in investment and communication, and its constant capacity for adaptation and growth.

• In Algiers, the Gas Natural Foundation organised a seminar on communication and leadership, analysing their basic aspects in the Company in order to improve professional efficiency.

• Gas Natural Italia and the Caltagirone Town Council signed an agreement to carry out social policy initiatives.

• The Gas Natural Group passed a further revision of the series of FTSE4Good sustainability indices, and was included -for the seventh successive year- in this indicator geared towards socially responsible investors.

• The Gas Natural Group organised information meetings with the consumer associations of Castilla-La Mancha, Catalonia, the Community of Madrid, the Community of Valencia and La Rioja to clear up any uncertainties about the change of regulation in the sector, coming into force on 1 July 2008.

• In Valencia, the Gas Natural Foundation carried out a seminar entitled "Urban Air Quality, Transport and Health. The Contribution of Natural Gas", in which the most recent tools and methods for improving air quality in cities were presented.

• Gas Natural Coruña signed an agreement to sponsor -for the fourth successive year- the Galicia Symphony Youth Orchestra (OJSG).

• Italy's Ministry of the Environment gave the Gas Natural Group a positive ruling in the Environmental Impact Study relating to the project for a regasification plant, which the Company wishes to build in the port of Trieste-Zaule, in northern Italy.

• The Gas Natural Group signed an agreement to sponsor, for the second successive year, the 46th International Festival of La Porta Ferrada, in Sant Feliu de Guíxols (Girona).

• The Spanish Official Credit Institute (ICO) signed a loan with the Company amounting to 300 million euros to finance the Group's investment plan for the coming years.

- The Company took part in the Galicia Construction Fair held in the Vigo Congress and Exhibition Centre (Pontevedra), where it promoted the use of the combined solar energy and gas as an efficient, sustainable energy solution for new constructions.

- Incorporation of Gas Natural Servicios in Colombia.

- Gas Natural Castilla y León signed an agreement with the Carriegos Foundation, renewing its commitment to cooperate with the entity with programmes for the rehabilitation of disabled individuals through equestrian therapy.

- In Madrid, the Gas Natural Group sponsored the 19th World Petroleum Congress, held in Spain for the first time ever. The congress was once again held in Europe, after fourteen years. This year the title was "A World in Transition: Delivering Energy for Sustainable Growth".

- The Company signed a strategic agreement with Sinca Inbursa S.A. de CV to sell it 15% of Gas Natural México, with the object of increasing the Group's growth in that country. The Gas Natural Group is the leading gas distributor in Brazil, and also the second-ranking private electrical generation operator, and the only joint gas and electricity operator.

Third quarter

- In Madrid, the Gas Natural Foundation organised a seminar entitled "Energy Consumption and the Environment in Housing in Spain. Life Cycle Analysis", during which a book was presented with the same title, analysing the environmental impacts of domestic energy consumption.

- Gas Natural Soluciones and the Laredo Town Council (Cantabria) signed a collaboration agreement with the purpose of efficiently using and managing energy in municipal facilities.

- Gas Natural Cegas and AVEN (Valencian Energy Agency) renewed the collaboration agreement to promote the use of natural gas in the baking and confectionary sectors, by cooperating in the conversion of furnaces in the Community of Valencia.

- The Company acquired PITTA Costruzione SpA, a gas distribution group that operates in the region of Puglia, southern Italy, for 30.25 million euros.

- In Palermo, Italy, the Chairman of the Gas Natural Group, Salvador Gabarró, presided over the presentation of the book "Sicily. Cultural and Natural Heritage", sponsored by the Company.

- In Vilagrassa (Lleida) the Gas Natural Group presented the gasification project to be carried out in the town.

- Gas Natural Italia sponsored the 34th Valle d'Itria Festival, a well-known classical music event held in southern Italy.

- The Company launched a new Virtual Office at www.gasnatural.es, offering all customers much more intuitive browsing, faster access to information and a more attractive and practical design, with the object of providing functionality, flexibility, agility and simplicity in the service.

- Gas Natural México celebrated its 10th anniversary in Monterrey.

- In Seville, the Gas Natural Group set up the first solar cooling plant in Europe with dual-effect absorption technology, allowing the Company to better harness solar energy to get proper cooling for air conditioning systems.

- Gas Natural Cegas officially opened the natural gas service in the town of Vinarós (Castellón).

- For the fourth consecutive year, Gas Natural Galicia sponsored the Pontevedra International Jazz and Blues Festival.

- In Gandía (Valencia), Gas Natural Cegas found archaeological remains from the 15th, 16th, 18th and 19th centuries in perfect condition. The Company found these remains while it was carrying out piping works in this municipality.

- Gas Natural SPS signed an important natural gas supply contract with Guardian Vidros Planos do Brasil Ltda, an industrial customer.

- The Gas Natural Group and Gazprom Marketing & Trading signed a framework agreement to carry out specific operations in the liquefied natural gas market.

- The Company signed an agreement with the Madrid 16 Foundation with the goal of sponsoring Madrid's campaign to host the 31st Summer Olympic and Paralympic Games in 2016.

- Gas Natural Cegas renewed its commitment to Casa de la Caridad (a Valencia-based Charitable Association) to sponsor and collaborate in the "365 Humanitarian Companies" project.

- In Lantarón (Álava), the Gas Natural Group presented the project for the construction of a combined-cycle natural gas plant of 800 MW in the town's industrial estate.

- The Company and Qatargas, in partnership with Repsol-Gas Natural LNG and Stream, agreed to extend and reinforce their commercial relationship in order to negotiate increases in supply of 5 bcm in the future.

- Gas Natural ESP passed the 1,500,000 customer mark in Colombia.

- The Gas Natural Group began to install the main equipment of the Malaga combined-cycle power plant on the land put aside for the facility, in the PTA (Andalusia Technology Park).

- The Gas Natural Group and the Community of Madrid signed a collaboration agreement to develop the coal-fuelled boiler replacement plan in the region.

- In Santa Catarina, Gas Natural Serviços inaugurated the Company's 100th Compressed Natural Gas station in Brazil.

• Gas Natural SDG signed an agreement with ACS for the acquisition of the entirety of its 45.3% holding in Unión Fenosa, at a cash price of 18.33 euros per share.

• Gas Natural Castilla-La Mancha reached an agreement with CEPSA Gas Licuado to buy the propane gas distribution network in Miguelturra (Ciudad Real).

• The Group concluded an agreement to include a local partner in Gas Natural BAN having agreed to sell 19.6% of its subsidiaries to the Chemo Group, in Argentina.

• The Company signed an agreement with UBS (Union Bank of Switzerland) to acquire a future shareholding in Unión Fenosa, amounting to 47,070,000 shares, pertaining to 5.15% of the voting rights.

• The Group took part in setting up the National Gas Vehicle Association (NGVA Europe), a new organisation that represents natural gas for vehicle fuel at European level.

• Gas Natural México began its activities within the "Drive for your Business" programme, with which it seeks to promote the development of small companies in the Federal District, Monterrey and Toluca.

• The Company published a technical guide for the design and construction of thermal solar panels on home buildings, so that developers and builders can have an updated tool when installing this kind of equipment.

• The Gas Natural Group sponsored the set decoration of the opera "Samson and Delilah", by Camille Saint-Saëns, in the 57th Santander International Festival (FIS). This was the tenth successive year that the Group has sponsored this event.

• CEG promoted "Today You Can Make a Difference" the biggest set of voluntary initiatives worldwide, whereby artists and people from different parts of Brazil spent the day cooperating with an institution to help the disadvantaged.

• The Company received the highest rating for the energy sector in the DJSI World index "Risk Management System" area, and the highest score in another six areas. This year, it was also included in the European DJSI STOXX index.

• Gas Natural SPS sponsored the event organised to commemorate the 354th anniversary of the city of Sorocaba, the 7th Ceagesp em Flor and the 1st All Nations Fair in Sorocaba, one of the most important cultural and gastronomic events in this Brazilian city.

• In Pamplona, the Gas Natural Foundation presented the study entitled "Renewable Energies in Spain. Analysis and Perspectives" drawn up by the National Renewable Energies Centre (CENER).

• Gas Natural ESP sold 25% of its shareholding in Transcogas, a natural gas transportation company that operates in central Colombia.

• The Gas Natural Foundation signed an agreement with the Government of Navarre to work together in environmental protection matters in this autonomous region.

• The Chairman of the Gas Natural Group, Salvador Gabarró, held a meeting with the President of the Xunta de Galicia, Emilio Pérez Touriño, informing him that the operation to buy Unión Fenosa would not have any negative impact on either jobs or investments planned in Galicia.

• In Argentina, the Gas Natural Foundation was given the Konex Award in the "Company Foundations" category. In this event, 100 personalities, institutions and companies received awards for their special efforts made over the last decade.

- The Gas Natural Group took part in the 6th Power Expo and in the 1st Ecobuilding Fair, held simultaneously in the Zaragoza Trade Fair, where it showed the public important new developments for improving the efficiency and performance of thermal systems.

- The Mexican subsidiary of the Gas Natural Group was awarded the "Max Shein" medal from the Union of Entrepreneurs for Educational Technology, A.C. (ÚNETE). ÚNETE gives these awards to people and institutions committed to technological development in Mexico's educational sector.

- The Foundation and the Polytechnic University of Madrid signed a collaboration agreement to carry out a scientific research project entitled "The Contribution of Natural Gas to Reducing Air Pollution".

- In Madrid, the Gas Natural Foundation organised a workshop entitled "Environmental Awareness and Energy Saving" that included a study carried out with Madrid schoolchildren on the subject which featured in a publication by the Foundation.

Fourth quarter

- Representatives of Gas Galicia presented the forthcoming arrival of natural gas in the town of Betanzos (A Coruña).

- Gas Galicia showed the inhabitants of Curtis-Teixeiro (A Coruña) the gasification projected to be carried out in this town.

- Gas Natural BAN signed agreements for the execution of the distribution and piping networks in the Cabos del Lago and Los Alisios quarters of the Tigre area (Buenos Aires, Argentina).

- Gas Natural Distribución presented the forthcoming arrival of the natural gas service to the inhabitants of Tivissa (Tarragona).

- The Federal Competition Commission (COFECO) of Mexico granted authorisation to Gas Natural SDG for the acquisition of the combined-cycle electricity plants operated by Unión Fenosa in Mexico, as part of the operation to buy 100% of the Spanish company.

- Gas Natural Cegas collaborated with the 1st Week on Science and Climate Change (SECICA 2008) held in Gandía (Valencia). The purpose of his event is to make all sections of society more familiar with science as a whole, and to raise awareness regarding climate change.

- The Gas Natural Group took part in the 5th Mediterranean Real-Estate Exhibition (SIMED), held in Malaga, and offered a technical workshop on energy certification.

- Gas Natural ESP signed an agreement with the municipal council of Subachoque (Colombia) to start gasification in this town.
- Gas Natural Distribución started to offer its natural gas service to the first customers in the town of Moià (Barcelona).
- In Logroño (La Rioja), the Gas Natural Foundation organised an environmental management seminar entitled "Climate Change, Agriculture and the Agrifood Industry", analysing the effects of climate change on the agricultural sector.
- The Government of Argentina increased tariffs to domestic and industrial customers of Gas Natural BAN and on vehicular natural gas by between 10 and 30%. This increase, which varies in accordance with levels of consumption, has been applied since 1 September 2008. The Groups' subsidiary was the first gas distribution company in Argentina to renegotiate its contract.
- Gas Natural Cantabria signed an agreement to supply natural gas to the new facilities of the Scientific and Technological Park of Cantabria (PCTCAN) in Santander.
- Gas Natural México cooperated with the Civil Protection Department of the Government of the Federal District, in carrying out the "Carbon Monoxide, an Invisible Hazard" campaign.
- The Gas Natural Group took part with a stand, and organised a technical workshop on energy certification for buildings in the 4th ExpoVivienda Cántabra Real-Estate Fair.
- The Company signed an agreement with ASPRIMA (Association of Property Developers of Madrid), whereby the Group undertook to cooperate in matters pertaining to technical consulting in gas installations and in energy management.
- Gas Natural SPS passed the 30,000 natural gas users mark in its concession area in São Paulo (Brazil).
- Once again, for the third year in a row, the Gas Natural Group was the second-ranking company worldwide in the gas sector, according to the "Platts Top 250" ranking of the most important global energy companies, published by the Platts agency.
- The Company and the Community of Madrid signed an agreement whereby they shall continue to cooperate in developing the Renove Plan for domestic natural gas appliances.
- The Gas Natural Foundation and the University of Bari (Italy) signed a collaboration agreement in order to carry out a scientific research project entitled "Forests and Deforestation in Italy. Actions to Mitigate Climate Change".
- In Mexico, the Gas Natural Foundation started up the Energy Training Centre, a space created to promote development and improve personnel training in Gas Natural México.
- The Gas Natural Group became a member of "Caring for Climate: The Business Leadership Platform", an initiative signed by the business leaders taking part in the UN Global Compact, and committed to lead the way in fighting against the effects of climate change.
- Gas Natural Cegas presented the gasification project for La Vilavella (Castellón).
- Gas Natural Cundiboyacense ESP celebrated ten years of operations in Colombia.
- Gas Natural Murcia discovered archaeological remains during the piping works between Murcia and Torre Pacheco.
- Representatives of Gas Natural Cegas presented the gasification project for the municipality of Redován (Alicante).
- Gas Natural BAN signed an agreement for the execution of the distribution and piping networks in the quarter of Condominio Tortugas, in the Escobar area (Buenos Aires, Argentina).
- The Company successfully passed the certification process (ISO 9001 and 14001 standards for quality and the environment) in the management and exploitation of the Arrúbal combined-cycle power plant, in La Rioja.
- Gas Natural Cantabria sponsored a concert by the Cadaqués Orchestra in Santander, as part of the "Remembering Ataulfo Argenta" musical cycle.
- CEG received the "Solidarity Company" certificate given by the Regional Accounting Board of Brazil for the publication of its 2007 Social Balance.
- Gas Natural Comercializadora signed an agreement with ASCER (Spanish Ceramic Tile Manufacturer's Association) in order to sponsor, for the fourth time, the 7th Title of Spain Awards of Architecture and Interior Design.
- The Gas Natural Group and Baxi Calefacción signed an agreement to promote the implementation and development of micro-cogeneration in Spain.
- Gas Natural Servicios launched the "gn soluciones" trademark in Colombia.

• For yet another year, the Company took part in the Barcelona "Meeting Point" Real-Estate Exhibition, promoting the use of the combined solar energy and gas as an efficient, sustainable energy solution for new constructions.

• In Madrid, the Gas Natural Foundation, in partnership with the Ministry of the Environment, organised the 8th International Climate Change seminar, which analysed the role played by new technologies in mitigating the effects of climate change.

• Gas Natural BAN officially opened the 4.5 km of piping supplying the quarter of San Carlos-La Loma, in the Moreno area (Buenos Aires, Argentina). This initiative has been supported by the Pro Vivienda Social Foundation and the "Unión por los Vecinos" platform, as part of a programme that aims to improve the development of low-income bracket quarters.

• Because of the Company's rating as the fourth-ranking operator in the Spanish electricity sector - according to the list of operators provided by the National Energy Commission (CNE) -, it was included in the Electricity and Other Energies section of the Spanish Energy Club.

• Gas Natural SPS, CEG and CEG Rio were awarded the ISO 9001:2000 quality certification, thereby unifying the Gas Natural Group's Quality Management System in Brazil.

• Gas Natural Cegas signed an agreement with the Valencia City Council to sponsor the activities of the Palau de la Música in Valencia.

• The Gas Natural Group took part in the 7th Valladolid Homes Exhibition, where it promoted the used of combined solar and gas energy and organised a technical workshop on energy certification in buildings.

• The Group, in partnership with the Community of Madrid, Repsol, the Spanish Gas Association (Sedigas) and the Madrid Association of Plumbing, Hot Water, Gas, Heating, Air Conditioning, Electricity, Maintenance and Related Companies (ASEFOSAM), collaborated for yet another year in the gas fittings safety campaign.

• The Boards of Directors of Gasoriente S.A. ESP and Gases de Barrancabermeja Gasoriente S.A. ESP authorised a merger between these two companies, which shall now have over 215,000 customers in Colombia.

• In Sant Pau de Segúries (Girona), representatives of Gas Natural Distribución presented the project to supply natural gas to this town.

• The Gas Natural Foundation, together with Metragaz, the Group's subsidiary in Morocco, and the National School of Applied Sciences (ENSAT) in Tangiers signed a collaboration agreement to introduce and promote natural gas technology in Morocco.

• The Spanish Chamber of Commerce of Argentina (CECRA) presented Gas Natural BAN with the award to the "2008 Best Corporate Social Work".

• The Company started up its natural gas supply in the municipality of Les Masies de Roda (Barcelona).

• Gas Natural Andalucía began its supply of natural gas in Estepona (Malaga).

• Representatives of Gas Natural Cegas presented the gasification project for the municipality of Benimodo (Valencia).

• The Gas Natural Group took part once again in the 8th City Development, Mediterranean Real-Estate Ehibition, held in Feria Valencia, promoting the use of the solar-gas combination as an efficient and sustainable energy solution for new buildings.

• The Company and the Generalitat of Catalonia Regional Government signed a collaboration agreement to help unemployed women suffering domestic violence to find jobs and improve their professional training.

• Gas Natural Distribución signed a collaboration agreement with the Government of Cantabria in the field of civil protection services. The aim of the agreement is to optimise reaction times and resources in emergency situations arising within the facilities and networks of Gas Natural Distribución in this autonomous region.

• The "First Export" programme of the Gas Natural Foundation received the Corporate Citizenship Prize awarded by the UN Chamber of Commerce in Argentina (AMCHAM).

- The Gas Natural Group organised information meetings with the consumer associations of Castilla y León and La Rioja to clear up any uncertainties about the sector's recent change of regulation, coming into force on 1 July 2008.

- CEG started up its natural gas supply in Teresópolis (Brazil).

- The Company started the gas pipeline works which will join the valleys of Oja and Najerilla (La Rioja), and which will bring natural gas to 24,000 inhabitants in the Cenicero-Nájera-Santo Domingo-Baños de Río Tobía-Ezcaray axis.

- Gas Natural Castilla y León began its supply in Roales del Pan and Valcabado (Zamora).

- Representatives of Gas Natural Cegas presented the gasification project for the municipality of Benejúzar (Alicante).

- Gas Natural Cantabria signed an agreement with the City Council of Santander, to cooperate in building an ice skating rink in the city's popular Plaza Porticada.

- The Gas Natural Foundation, in cooperation with the Mario Molina Centre for Strategic Studies on Energy and the Environment, A.C. in Mexico, signed an agreement to study local pollution in Mexico and to propose improvements through fostering natural gas as a vehicle fuel in Mexico D.F. and Monterrey.

- Representatives of Gas Natural Cantabria presented the forthcoming arrival of natural gas in Puebla Vieja de Laredo.

- The Gas Natural Foundation signed an agreement with the Government of Aragon to work together in environmental protection matters in this autonomous region.

- The Gas Natural Group started works for the new Baztán-Bidasoa gas pipeline, a facility which shall be executed in ten months and through which over 2,400 families stand to benefit.

- Gas Natural SPS sponsored the "Cantata de Natal 2008" event, carried out by economically disadvantaged children and youths taking part in socio-cultural projects in the prefecture of Sorocaba (Brazil).

- Gas Natural Andalucía got the project under way for the distribution of natural gas in the town of Alhaurín el Grande (Malaga).

- Gas Natural Castilla-La Mancha began its supply to Mocejón (Toledo).

- Gas Navarra renewed the collaboration agreement signed with the Pablo Sarasate Foundation, whereby the Company confirms its commitment to this institution in order to contribute to and promote music in Navarre for the next three years.

- Representatives of Gas Natural Cegas presented the gasification project for the municipality of San Jorge (Castellón).

- Gas Natural Distribución began its energy supply in the municipality of Tivissa (Tarragona).

- Gas Natural Murcia presented the gasification project for Calasparra (Murcia).

- Stream, the joint venture made up by Repsol and Gas Natural SDG, took part in the 9th World LNG Summit held in Barcelona.

- Gas Natural México started up a pilot project for the installation of pre-paid meters in the city of Monterrey.

- Gas Natural Castilla-La Mancha began its supply to Magán (Toledo).

- Gas Natural SDG signed an agreement with Caixanova to acquire its 4.72% shareholding in Unión Fenosa.

- Gas Natural Distribución began its energy supply in the municipality of l´Hospitalet de l'Infant (Tarragona).

- Gas Natural Castilla y León began its supply to Onzonilla (León).

- Gas Natural México started up its supply to the Luz y Fuerza del Centro' plants of Aragón and Coapa, in Mexico. By virtue of its consumption, Luz y Fuerza became the most important distribution customer in the country.

- In Barcelona, Segovia, Toledo and Bargas (Toledo), the Gas Natural Group organised the "Swap Shop", a market for the exchange of used objects in a good condition; those taking part can exchange their used objects for new objects of a similar value provided by the Company.

- The Company donated 18,000 euros to the Diógenes Foundation. This was the amount it would have spent that year on designing and producing Christmas cards for the fifth successive year, the Company has used a letter instead.

Corporate Governance

Management Committee

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

Chief Executive Officer
Rafael Villaseca Marco

Chief Financial Officer
Carlos J. Álvarez Fernández

Managing Director of Latin America
Sergio Aranda Moreno

Managing Director of Gas Management
José Mª Egea Krauel

Managing Director of Wholesale Business
Manuel Fernández Álvarez

Chief Corporate Officer
Antonio Gallart Gabás

Managing Director of Retail Business
Josep Moragas Freixa

Managing Director of Regulated Business
Antoni Peris Mingot

Manager of Strategy and Development
Antonio Basolas Tena

Manager of Legal Services
Manuel García Cobaleda

Communications Manager and Head of Chairman's Office
Jordi García Tabernero

Aware of the importance of guaranteeing the transparency and effectiveness of highest corporate governance bodies, the Gas Natural Group has assumed advanced corporate governance practices. Indeed, in December 2007, the Company modified the Regulations for the Organisation and Operation of the Board of Directors and its Committees, with two purposes: to bring them in line with the recommendations of the Unified Code for the Good Corporate Governance of Listed Companies, and to introduce technical improvements regarding which areas had to be expressly addressed by the Board of Directors and which could be delegated to any of the Committees. Taking all of this into account, we can assert that the Gas Natural Group satisfies, to a very exacting level, most of the Recommendations for the Good Corporate Governance of Listed Companies.

In addition, the Group continued to work to adapt the other internal regulations to the advanced practices that are best suited to the Company's interest and that of its shareholders. Always with the purpose of keeping the Gas Natural Group among the most advanced companies in the area of good corporate governance and information transparency.

Corporate governance practices form part of the culture of the Gas Natural Group and are implemented within the Company. They are described in various annual reports, drawn up internally and regularly raised to the General Meeting of Shareholders for its awareness or approval. They include the Corporate Responsibility Report, the Annual Corporate Governance Report and the Annual Audit and Control Committee Report.

Within the scope of their respective competencies, the documents drawn up by the Company in the area seek to provide third parties (shareholders, investors and stakeholders) with the most relevant figures related to the activity, their forms and procedures, as well as the criteria that justify the decisions taken. Information transparency with regard to the markets constitutes one of the Gas Natural Group's basic principles.

The aforementioned information may be viewed on the Gas Natural Group corporate website (www.gasnatural.com).

Good governance practices include the participation of the General Meeting of Shareholders, the Company's highest decision-making body, as well as the Board of Directors and its Committees: the Executive Committee, the Appointments and Remuneration Committee and the Audit and Control Committee. The Management Committee also plays a relevant role from the viewpoint of management.

The said Committees meet on a regular basis to take decisions on their respective areas of responsibility, the aim being for these decisions to lead to sustained optimisation of the Company's economic and social value. In 2008, the following meetings were held:

- Board of Directors: thirteen meetings.
- Executive Committee: twelve meetings.
- Appointments and Remuneration Committee: eleven meetings.
- Audit and Control Committee: seven meetings.
- Management Committee: monthly meetings.

Composition of the Board of Directors and Committees (at 31 December 2008)

	Board of Directors	Executive Committee	Audit and Control Committee	Appointments and Remuneration Committee	Type of Director
Chairman	Salvador Gabarró Serra	Chairman			Executive
Deputy Chairman	Antonio Brufau Niubó	Board Member		Board Member	Propietary Member
Chief Executive Officer	Rafael Villaseca Marco	Board Member			Executive
Board Member	Enrique Alcántara-García Irazoqui				Propietary Member
Board Member	Caixa d´Estalvis de Catalunya represented by Narcís Serra Serra				Propietary Member
Board Member	José Arcas Romeu			Chairman	Independent
Board Member	Demetrio Carceller Arce	Board Member			Propietary Member
Board Member	Santiago Cobo Cobo	Board Member			Independent
Board Member	Carlos Kinder Espinosa	Board Member			Propietary Member
Board Member	Enrique Locutura Rupérez				Propietary Member
Board Member	Emiliano López Achurra				Independent
Board Member	Carlos Losada Marrodán	Board Member			Independent
Board Member	Juan María Nin Génova				Propietary Member
Board Member	Fernando Ramírez Mazarredo		Board Member		Propietary Member
Board Member	Francisco Reynés Massanet	Board Member	Board Member		Propietary Member
Board Member	Miguel Valls Maseda		Chairman	Board Member	Independent
Board Member	Jaime Vega de Seoane Azpilicueta				Independent
Non-Director Assistant Secretary	Felipe Cañellas Vilalta	Assistant Secretary	Assistant Secretary	Assistant Secretary	

Corporate Management

Human Resources

The Gas Natural Group employs a staff of 6,842 in nine countries (Argentina, Brazil, Colombia, Spain, France, Italy, Morocco, Mexico and Puerto Rico), of which approximately 69% are men and 32% are women. The average age of employees is 40.7, and average seniority with the Company is 12.5 years.

The Company's human resources strategy, set out in the Mission, Vision and Values statement, is to seek to promote a working environment which is respectful to employees and committed to their training and professional development, and to provide a variety of opinions, perspectives, cultures, ages and gender. Furthermore, executive development and talent management are the Group's reference objectives and it seeks to create opportunities for growth, generate commitment and attract talent.

In the present context, it is important for human resources to be flexible and adaptable, to have the power to promote changes, and also to respond quickly and efficiently to business needs and priorities. Consequently, in 2008 the human resources function was reorganised using the business partner figure for each business line. Business partners act as consultants and managers of the human resources matters which are of importance for employees and business managers.

Human resources. Main indicators. 2008

Staff rate. No. of employees	6,842
Men/Women (%)	69/31
Women in management posts (%)	18.9
Personnel costs (in millions of euros)	338
Training hours per employee	44.52
Annual investment in training (euros)	3,480,300

Equal opportunities, guaranteeing diversity and offering an attractive professional career form part of the Gas Natural Group's commitment to its employees. The Company thus rejects any discrimination based on age, gender, religion, race, sexual orientation, nationality or disability. This commitment covers the selection and promotion processes, which are based on the assessment of the individual's skills, the analysis of the requirements that apply to the position and individual performance levels.

The commitment to equal opportunities and social integration goes beyond compliance with legislation. Indeed, one of the Gas Natural Group's goals is for 2% of its staff to be made up of persons with some kind of disability. In Italy and Brazil this objective has already been met: they already account for 5% and 3% of the total staff, respectively. In other subsidiaries, efforts are also being made to promote the integration of disabled individuals. In Spain, collaboration agreements were signed with the Spanish Paralympics Committee and the Adecco Foundation. A donation of 6,000 euros was also made to FCSD (Catalan Down Syndrome Foundation).

In 2008, an agreement was signed with the Generalitat of Catalonia to help women suffering domestic violence to find jobs; the Company undertook to contract the candidates presented by the Department of Employment.

Remuneration is an essential tool for employee satisfaction, together with the attraction and retention of talent. The Gas Natural Group's remuneration policy is governed by equality on an internal scale and competitiveness from the point of view of the market. In order to assess the competitiveness of its remuneration policy on the market, the Company carries out regular studies and develops a policy based on the increases in the actual and anticipated CPI and the resulting and anticipated salary increases, as provided by specialists in the subject. Furthermore, in countries such as Spain, there is a variable remuneration policy that is applied to 49% of employees. It is based on the fulfilment of the Company's targets and on the assessment of each employee's individual performance.

Flexibility in working conditions is an important factor for employees to be able to make their family life compatible with their professional responsibilities. The Company allows its employees a number of professional benefits further to those laid down in legislation. Accordingly, it offers workers subject to an incentive system who carry out their functions outside the work centre the possibility of a flexible working day in accordance with a self-management system. The Group's flexibility policy also includes breastfeeding leave, and female employees have the possibility of not travelling away from their homes during the pregnancy or breastfeeding period. In addition, employees who are looking after families under various circumstances can apply for the policies that stand for bringing their place of work closer to their home.

Moreover, the Gas Natural Group offers its employees many social benefits, among which we can highlight the supplements for financial benefits in the event of temporary invalidity, a discount on gas consumption, assistance for children with some kind of disability, meal vouchers for employees working a split or flexible shift, study assistance for employees and their children, interest-free advance salary payments and loans under advantageous conditions, among others. In 2008, the number of pension schemes in place in the Group was increased, with contributions made by the Company in favour of its employees and their beneficiaries.

The existence of opportunities for professional development is a basic part of employee satisfaction. The Group has designed tools that have been adapted to the different profiles and aimed at professional development. The Professional Development Programme (PDP) is the tool aimed at the employees included in the collective bargaining agreement. The Management by Objectives (MbO) has been designed for those not included. It is important to note that 100% of the Group's employees have these applications at their disposal and are assessed by them to help in their professional development. Both programmes have the same objectives of favouring mobility and promoting the cover of vacancies through internal promotion.

In 2008, as a result of the application of the PDP, there were 1,548 promotions in the Group, which represents 32.15% of the employees covered by the agreement. As part of the "Description and Assessment of Work Posts" project, which also figured in 2008, new work posts were created and described in the Group.

Management by Objectives (MbO) is a strategic system for the Gas Natural Group and is a basic lever for involving employees in the implementation of the strategy and achieving business targets. In 2008, updates were designed to the MbO model to promote the involvement of managers and the assessed parties. The new features focus on the introduction of success concepts, which include the valuable contributions by the employee beyond the fulfilment of targets, and areas for improvement, which inform the individual of the areas that need to be developed.

The Gas Natural Group defined a Talent Management Programme to identify the human and intellectual capital and to introduce measures to attract it, develop it and retain it. The programme, which was implemented in 2007, focused initially on 1,545 people and was complemented with the development of the Professional Talent Management Model, whose sequential implementation is scheduled for all employees in 2009. In 2008, professional development activities were carried out involving 73% of employees in outstanding talent groups at the Business Departments. These include 234 promotions, an increase of 127% in comparison with 2007.

In the same year, the Succession Plans tool was implemented and created to manage the cover provided by the executive team for selecting individuals with the option for occupying vacant posts. Gender is one of the key factors managed by the tool, which designs teams with greater female participation.

What is more, the Group has established continuous training programmes and skills development programmes that help its employees satisfy their training requirements so that they can do their work correctly and continue their professional development. These training plans are constantly updated in order to bring them in line with the needs of each person and business. The training methodology used is in-class, distance, online or mixed.

As support for its strategic target in the area of talent development and promotion, the Gas Natural Group has a Management Development Programme, which was in its eighth edition in 2008. It involved the participation of 24 professionals with executive and management functions. The Leadership Development and People Management Cycle also continued as a training plan for executives, involving the participation of 32 people.

In addition, the Gas Natural Group has an online training platform, called "Acerca",

Gas Natural Group training indicators

	2008	2007
Training hours per employee	44.52	40.62
Total course hours	304,595	272,130
Annual investment in training (euros)	3,480,300	3,397,500
Investment in training per person (euros)	508.67	507.17
Participants	6,165	5,763
Attendees	25,874	19,193
No. of online courses taken (Group)	511	422
Users of online training schemes over total staff (Group) (%)	42.66	21.18

implemented in every country in which it operates. This tool enables easy, rapid and flexible access to training contents. In 2008, 42.66% of the people at the Company received online training, making a total of 40,500 hours.

As one of its most valuable assets, the Gas Natural Group devotes notable efforts to knowledge management. The Company enables and favours teamwork, which allows for a better use of the capacities, resources and knowledge of its human resources. One of the tools designed to enable the correct management of knowledge is the Group's Intranet: NaturalNet. In 2008, it was optimised to enable the option of sharing the Company's technological and information resources, strengthening teamwork and minimising the disadvantages of geographical distance.

The Internal Communications Plan includes the communication actions and channels in place in the Group. Its objectives include fostering employee participation on a daily basis, motivating their commitment to the Group's common objectives and ensuring their satisfaction and integration in the Company. The Gas Natural Group provides its employees with the Opinion channel, which allows them to put forward their opinions, suggestions, comments and concerns. In 2008, 234 consultations and opinions were made in Spain.

The Group also has an Internal Communications Consultative Group, which comprises managers from various areas. The aim of the group is to hold regular meetings to collect the comments and concerns put forward by employees. In Spain, 49 communications and 29 informative notes were published in 2008.

Another of the mechanisms for communication with employees in Spain is the Intranet noticeboard. In 2008, a total of 313 personal announcements and 149 job offers were published for the Group's employees under advantageous conditions.

Furthermore, in Mexico, the "Breakfast with Managers" initiative was developed, where a department manager is invited so that employees can talk with him/her and propose improvements. Mention must be made of the implementation in Spain of the new Integration Plan, which affords special relevance to determining tutors for new employees, the renewal of the Welcome Manual and the delivery to new employees of a kit with useful information about the Company.

With regard to international homogenisation, mention must be made of the fact that Italy, Morocco, Brazil, Colombia, Mexico and Argentina now share the same general integration procedure applied by the Group and adapted to local particularities.

In 2008, a survey was carried out to measure employee satisfaction with their jobs. The questionnaire comprised 58 questions that were common to every country and a variable number of them adapted to each geographical area. Various valuation categories were used: compensation and benefits, commitment, communication, working conditions, professional development and corporate responsibility, among others. Employees were able to complete the questionnaire, which was translated into six languages, anonymously and confidentially.

The level of participation was in excess of 70% in every country. The results of the survey and the action plans that were established will be reported in 2009. These will emphasise the areas that were given the worst score, those that most affect employees and those that are most related to business targets and priorities.

The Environment

Throughout 2008, the Gas Natural Group continued to take measures to make essential energy development compatible with environmental protection, and, in particular, with the struggle against the effects of climate change, by means of stringent environmental control of all its activities and operations.

In order to accomplish these goals, the Company spent over 56 million euros on its exploration activities and operations, storage, transportation, gas distribution and electrical generation activities, as well as others associated with management and other activities.

The Company is aware of the risks posed by the effects of climate change. Accordingly, it maintains its commitment to reduce the greenhouse gas emissions (GHG) caused by its activities. One example of this commitment is its membership of the "Caring for Climate: The Business Leadership Platform" programme, a platform of business leaders taking part in the United Nations Global Compact, whose goal is to fight against the effects of climate change by improving efficiency and reducing greenhouse gas emissions.

The use of better materials and the establishment of a comprehensive pipe monitoring and renewal plan have allowed the Company to reduce its emissions of CH_4 per unit and network length by 31.76% in comparison with 2003. With a view to maintaining the trend towards reducing its CH_4 emissions, the Group planned new field tests in 2008; on this occasion, in Brazil. The purpose of the tests was to improve and update the method for calculating atmospheric CH_4 emissions, considering the particularities and specifications and supply pressures in the different countries in which it operates.

The use of less carbon-intensive energy sources and the best technologies available are the two basic pillars for reducing greenhouse gas emissions. Accordingly, the Gas Natural Group's 2008-2012 Strategic Plan fosters the generation of electricity at combined-cycle or natural gas co-generation power plants as a source of primary energy. The Group is now one of the leading combined cycle operators worldwide, with 6,484 MW of installed power.

The Company is also committed to the production of electricity using renewable energy sources. This is the case of wind energy, where the Group has 363 MW installed on 21 wind farms. Globally, with this electrical generation mix, the Group's emission factor is 0.096 t CO_2/GJe.

In 2008, the Gas Natural Group prevented 3,892,027 t of CO_2 eq emissions from entering the atmosphere thanks to its energy management activities, the conversion of coal and fuel-oil industrial and residential installations into others using natural gas, use of gas vehicles, Clean Development Mechanism (CDM) projects, and other initiatives for reducing GHG, such as encouraging the use of video-conferences, thus reducing travel and the pertinent emissions caused by methods of transport.

The Company is a pioneer in introducing natural gas as a vehicle fuel in Spain. At present, more than 1,600 public vehicles refill with this fuel at 40 filling stations in cities such as Barcelona, Burgos, Madrid, Salamanca, Seville and Valencia.

The Group uses every mechanism within its scope to fulfil its commitment to reducing emissions. In late 2008, it had eight CDM projects under way -two of which were authorised by the UN (Sombrilla and Quimvale)- generating 48,000 emission rights.

The Company believes that the main lines of action in the post-Kyoto scenario are: investigating new energy sources and technologies for collecting and confining CO_2; fostering renewable energies; making a commitment to sustainable forest management; promoting the reduction of emissions in transport; promoting the transfer of more environmentally advanced technologies and procedures to developing countries; cooperating on research projects in o reduce the uncertainty related to the effects of the climate change, and providing public knowledge and access to information on the subject.

The rationalisation of energy consumption is one of the Gas Natural Group's priorities. The Company supervises and submits all its processes to strict controls, consolidating its goal of seeking maximum efficiency. In fact, global yields of around 100% have been achieved in exploration and gas transportation and distribution activities. The global efficiency of electrical generation activities was 55.24%.

The Gas Natural Group is acutely aware of society's concerns about the promotion and progressive use of renewable energies and measures favouring energy saving. In keeping with this policy, a series of initiatives was carried out in 2008, of which we may highlight: the first solar cooling plant in Europe, in Seville, with dual-effect technology, allowing the Company to better harness solar energy for air conditioning systems; the first experimental hydrogen production and storage plant in Europe, taking advantage of the surplus from the Sotavento Experimental Wind Farm (A Coruña and Lugo); the installation of a 200 kW hydrogen fuel cell at the

Group's offices in Barcelona; the SPHERA investigation project for obtaining hydrogen from renewable resources or using CO_2 emission-free procedures; and the "Technical Guide for Thermal-Solar Power Installations". Furthermore, the Company focused on the development of specific solutions for the use of natural gas as a fuel in the airport sector and progress in its implementation in the fishing industry, as well as high efficiency poly-generation in the tertiary sector.

At the same time, efforts are being made to improve efficiency in the use of resources in management and support activities: replacing less efficient equipment, controlling consumption of electricity, gas and water using monitoring systems, and encouraging good environmental practices. The Group's average consumption in Spain was 540.78 kWh/m^2.

The reduction of the environmental impact of its activities is one of the Gas Natural Group's main commitments. This can be seen not only in the reduction of greenhouse gas emissions and in the improvements to energy efficiency, but also in the control of NO_x and CO emissions, the consumption of resources and the generation of waste.

By virtue of the stringent saving and reutilisation measures implemented for the use of natural resources, the Group has been able to maintain the same water consumption ratio per electrical generation unit as for the last five years. We may also highlight the recovery of water from manure, for generation and irrigation purposes, from the cogeneration plants, and also the purification of water for public use in the Puerto Rico combined-cycle power plant. What is more, the Group's domestic water consumption fell 11.34% against 2007. It also cut its use of paper by 2.11% through campaigns and initiatives to encourage the use of digital supports and sending information in electronic format to customers and suppliers.

By modifying its waste control and measuring systems, the Company was able to improve its compiling of data in distribution and generation activities. In 2008, only 0.20% of the waste generated by the Group was hazardous; this waste was processed by authorised handlers, in accordance with the legislation in force in each country. The Company also valorised waste from manure, using it as agricultural fertiliser.

During 2008, the Gas Natural Group also successfully delivered on its undertaking to identify and minimise other environmental impacts caused by its activities, carrying out environmental impact studies and surveillance programmes which ensure compliance with preventive measures and minimise the possible impacts of projects and processes which are not subject to environmental impact assessments. The Gas Natural Group is particularly careful to carry out its activities with the utmost respect for the environment. Furthermore, the Company's priority is to use bodies of water which do not pose a risk to neighbouring ecosystems or habitats.

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. Internationally, we can point to the reforestations with indigenous species in Colombia, and the repopulation of grasses and corals in Puerto Rico.

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. Most of the companies making up the Group are certified under the UNE-EN ISO 14001 standard. In this regard, in their dealings with contractors or external collaborating companies, the Group employees convey the principles enshrined in the Company's environmental management policy, and require compliance with any applicable environmental procedures and requirements. 75% of the main contractors and collaborating companies voluntarily adhered to "Good Environmental Practices in Distribution Network Construction.

The Group also involves customers in the responsible use of energy and natural resources, through sponsorship and environmental campaigns and workshops aimed at raising awareness of respect for the environment. In 2008, the World Water Year, the Gas Natural Group also increased its environmental efforts in reed-bed recovery projects.

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.

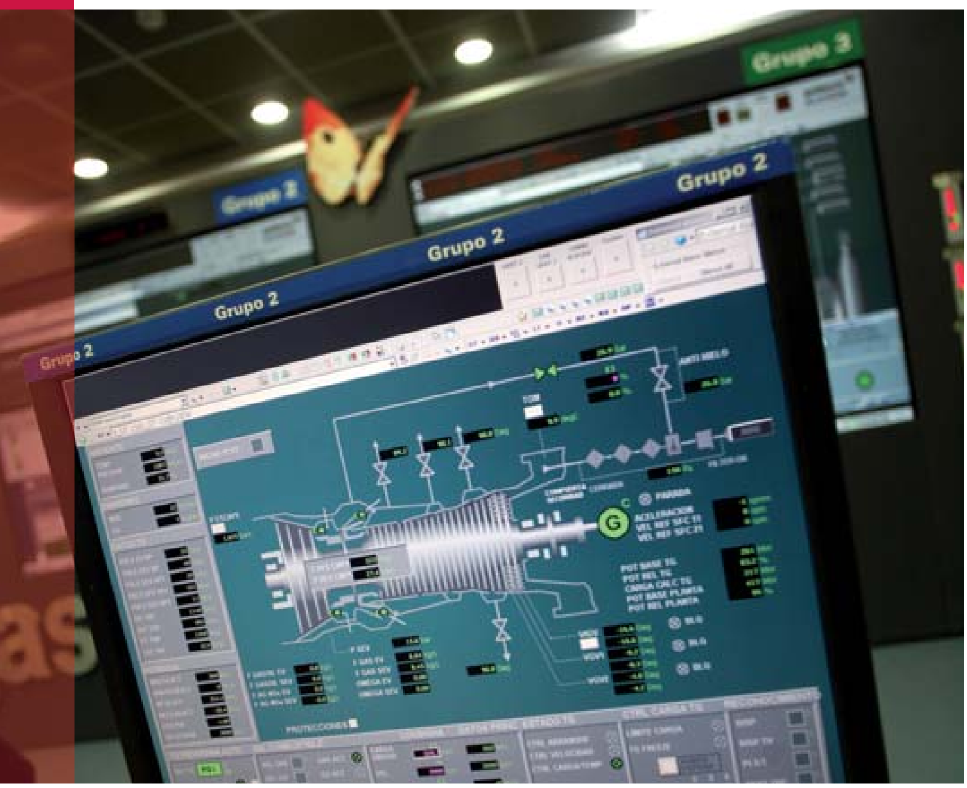
Technological Innovation

Biogas development

In 2008, in consortium with GRS Valtech, a member of the Veolia Group, the Gas Natural Group created the company Biogás Doña Juana S.A. ESP, the company which owns the public biogas concession in the Doña Juana Landfill in Bogotá (Colombia), which, with 2 million tonnes of waste deposited per year is one of the largest in Latin America.

Biogás Doña Juana has started to build the infrastructures required for the capture, treatment and use of biogas for energy purposes. Biogas will be used in the thermal processes in the brick manufacturing industries in the area, replacing the intensive use of coal in the area, and thus substantially helping to improve air quality and fostering the economic development of the towns where the industries are located.

Biogas capture and treatment will improve environmental conditions in the controlled landfill, and will prevent 15 million tons of CO_2 from being issued to the atmosphere during the concession period. The project will be able to obtain emission reduction certificates through the application of the Clean Development Mechanism principles set out in the Kyoto Protocol, and thus also help to develop renewable energies in the Colombian capital and transfer efficient and sustainable technologies.



Cogeneration development

This year, with the aim of optimising energy efficiency and reducing implementation costs and periods, the basic engineering was developed for a standard low-power cogeneration plant, as a preliminary step prior to building and implementing a pilot plant in the tertiary sector. To help develop this type of project, was created to calculate cogeneration facilities in the tertiary sector, thereby enabling the Company to simulate the operation of cogeneration plants. In 2008, the operation of the pre-dimensioning modules and the installation performance programme were optimised, thereby enabling the Company to obtain a design more in keeping with energy demands and a seasonal modulation appropriate for the tertiary sector.

The Gas Natural Group also cooperated, together with other partners, in the CENIT-CETICA project, which seeks to define the urban building designs of the future. As part of this project, the Company undertakes to disseminate the use and advantages of cogeneration systems in these environments, to analyse different building types and to select, for each type, the most appropriate cogeneration technology. The activities carried out in 2008 included the analysis of energy demands in urban environments and the implementation to estimate the aforesaid demands for different types of urban buildings.

Development of solar cooling

In 2008, the Company completed the construction and start-up of a solar cooling pilot plant based on a field of concentration solar collectors, with a surface area of 352 m² and a double effect BrLi/H2O absorption cycle cooler.

This facility, which was awarded a subsidy by the Andalusian Technology Corporation (CTA) and received technical collaboration from the Association of Research and Industrial Cooperation of Andalusia (AICIA), is located on the roof of the Seville School of Engineering building. Its purpose is to analyse the viability of solar cooling generation for tertiary use. It is thus a way of producing cool air using renewable energies, and its advantage is that peak demand for cooling is precisely when solar energy is most available. In this solution, the absorption machine installed includes a natural gas burner enabling solar energy to be complemented in low sunshine periods.

The Company also completed the IT application for calculating and dimensioning solar cooling facilities, and the steps required to incorporate this technology in authorised procedures for the energy rating of buildings.

Furthermore, in order to fully harness solar resources, the Company started a medium temperature thermal storage project, using phase change material (PCM) at temperatures in the region of 180ºC. This project was presented to the Andalusian Technology Corporation and the Centre for the Development of Industrial Technology (CDTI) in order to apply for subsidies.

Development of "gn auto"

In 2008, the Company established the normal and optimised exploitation regime for the compressed (from liquefied) natural gas service station in the installations of the North Catalonia Technical Services, the station was constructed and started up in late 2007. Over the first nine months of the year, the Company achieved electrical consumption savings of over 90% against average conventional compression station levels. The Company also eliminated practically all gas vents through recovering and reusing the boil-off more efficiently. Meanwhile, the Company increased the use of gas consumption, compared with petrol, in its own fleet of vehicles.

The Company forged ahead in analysing the technical and economical viability of implementing liquefied natural gas in different kinds of marine fleets, largely in the fishing and port services sectors.

Lastly, in 2008 the Group focused on standardising and optimising the design, dimensioning and operation of the compressed natural gas service stations for light vehicles, with the aim of minimising investment and exploitation costs.

Hydrogen production and applications

The molten carbonate fuel cell, with 230 kWe of electricity and 200 kWt thermal energy, installed in the Gas Natural Group's main offices in Barcelona, is the core of the technological demonstration project for a tri-generation system based on this generation technology.

Also in 2008, the Group worked on developing and implementing a global control system for the main equipment used in the experimental hydrogen production and storage plant in the Sotavento Wind Farm (located between the provinces of A Coruña and Lugo, in Galicia).

Having our customers' hourly consumption profiles has shown the great potential offered by remote telemetering technology with a view to improving the consumption information we give our customers, and, by extension, the advantages which can arise in terms of achieving more rational energy use in people's homes.

The Group also produced a business case - another step necessary to assess the global viability of domestic remote measuring - which analysed all the benefits and improvements in the internal processes implying cost savings.

During 2008, it operated with an availability of over 95%, generating over 1,145 MWh of electricity. The heat in the process is integrated with the heat and cold production systems; the Group's know how regarding the operation and maintenance of this system gives it a considerable technological edge in the energy services sector.

The Company reached the milestones referring to the second year of deployment of the SPHERA project (CENIT). Gas Natural SDG is the leading company and the coordinator of this initiative, which concerns the in-depth analysis of techniques for the production, transportation, storage and use of hydrogen. A consortium of 18 companies and over 30 research centres are taking part in this project, which has a duration of four years and a budget of over 30 million euros.

Remote measuring of domestic meters

Through monitoring the demonstration operations in the city of Tarragona and in Lorca-Mula (Murcia), the Company was able to detect a number of areas of improvement in the installation and operational processes of each technology used, and from the differential factors arising from the two demonstrations (such as urban density or building types). This year, the Company reported reading ratios of over 99%, which enabled it to adjust the technical specifications and the installation and maintenance procedures.

Over the course of 2008, new remote measuring operations were performed in scenarios also considered to be of interest, as in the case of new towns (Baqueira-Beret, in Lleida, and Gelida, in Barcelona), and in a selection of customers representing domestic and commercial consumption in eight different cities (Barcelona, Burgos, Girona, Lleida, Madrid, Seville, Valencia and Valladolid). The final objective here was to improve the demand prediction systems.

Quality

During 2008, the Group forged ahead with the various projects included in the 2004-2008 Strategic Quality Plan, establishing four types of improvement in the processes:

Strengthening customer focus and service quality

With the object of homogenising quality measuring methodologies and processes, all measurements of processes in the Latin American subsidiaries (including the Gas Natural Italia data added in January 2009) were integrated in the Quality and Standards Unit.

In Spain, two further process satisfaction studies were performed: Servihogar Direct, in its different modalities of Customer Support, Homes and Emergencies; and Servigas, where the results showed satisfaction of 93%, the Company's image and the perception of service against the established cost received particularly high scores.

In Argentina, one particularly important improvement initiative, of the many carried out, was the implementation of the "New On-Site and Telephone Service Model", which enabled the Company to achieve a higher degree of efficiency in customer care and to improve the quality given to customers. In Colombia, several processes were carried out with the aim of improving service.

In Mexico, one particularly important development was the change in the image of the automatic customer care system, with online customer service for various matters, such as gas centre addresses, consulting of balances and carrying out/status of applications.

In Colombia, a series of processes was implemented to improve service. For example, the installation of the Interactive Voice Response (IVR) system for telephone customer service, the creation of two new telephone lines exclusively for VIP customers and for the technical inspection process, the implementation of auto-consulting terminals in Gas Centres, sending bills in Braille, and the launching of the Virtual Offices through the website, among others.

Aligning the organisation with quality objectives

The Strategic Quality Plan is based on the EFQM Excellence Model. In 2008, this model was used to carry out a self-assessment process in Italy, defining the strong points and areas for improvement. These were set out in the LICEO improvement Italian plan, made up of six different projects.

In Spain, the second measurement of the Internal Resources Department took place; in Colombia, the Company evaluated the perception of the service offered by the Purchasing, Internal Resources, Information Systems and Legal Services Units and the Financial-Economic Shared Services Centre. The analysis of the results will enable the Company to set up action plans, which shall be evaluated next year. In Mexico, the first evaluation of the Purchases and Internal Resources area was carried out, and improvement plans were developed on the basis of the results obtained.

Meanwhile, within the framework of the 2008 Training Plan, the management of processes was improved, particular emphasis being put on training elements intended for process managers, and for methodological experts in Lean Six Sigma.

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

In Spain, the implementation of the Q-Model continued, allowing quality associated with suppliers to be managed and the no-quality costs resulting from suppliers' actions to be reduced. The analysis of non-quality is taken into account in awards of contracts and in the design of penalties, and is fed into the Asigna project, where information referring to non-quality of suppliers is used as a decision-making parameter when assigning workloads. Accordingly, a control panel in the Q-Model was implemented to assist in costs diagnosis and monitoring, and in order to directly monitor the objectives set in the different levels of responsibility.

The Gas Natural Group believes that training of suppliers helps to improve their performance and to cut costs, and also has a direct impact on the quality of the products and services offered to customers. This is why the Company puts particular emphasis on training suppliers in the countries in which it operates. In Spain, through the Energy Training Centre of the Gas Natural Foundation, various training programmes were carried out and involved the participation of over 2,600 employees of the Group's supplier companies.

In Argentina, technical and/or commercial training courses were given to works contractors and to those responsible for implementing the framework contract. Surveys were also carried out on selected suppliers to establish a free training programme. In Colombia, the "Supplier Development" programme was started to train competitive and socially responsible suppliers that comply with the Group's objectives, policies and values.

In Mexico, following the audits made on contractors in 2008, improvement plans were designed, which included training in critical activities. In Brazil, meanwhile, a training programme was carried out with the aim of improving the qualifications of service providers: 2,570 persons took part in 81 training courses.

Developing quality management within the Group

The Gas Natural Group aims to obtain quality certification for all the critical service processes. In 2008, it was awarded the certification for the Arrúbal combined-cycle power plant (La Rioja).

In Italy, the quality certification for Gas Natural Vendita Italia also extended to the certification of the "Gestione Calore" processes, with the object of broadening the current certified system.

In Argentina, pertinent steps were taken to assure and control quality in the key business processes. The Company achieved satisfactory results in the inspection for the renewal of the certification corresponding to the "Determining the Quality and Odourisation of Natural Gas", in accordance with the ISO 9001 standard.

In Brazil, the ISO 9001:2000 quality certificates of the distribution companies CEG, CEG Rio and Gas Natural São Paulo Sul were integrated, and a quality system was implemented in Gas Natural Servicios, the company thus being awarded the same certificate.

In Colombia, at the Government's behest, the implementation of the Quality System got under way in accordance with the Colombian standard NTCGP-1000:2004, based on the ISO-9001:2000 standard. Lastly, in Mexico the second environmental monitoring inspection was carried out, and as a result the ISO 14:000 standard was maintained.

Commitment to Society

The development and well-being of the local communities in which the Company operates constitute the basic pillars for the Gas Natural Group's focus in corporate responsibility.

The Company has developed mechanisms for understanding the main social requirements that need to be satisfied and focuses on the said satisfaction with its own initiatives and in collaboration with the relevant institutions in each country.

The Gas Natural Group's social actions have an increasingly strategic focus. They are centred on the contribution to development through training, social investment and the conservation of the environment. These lines strengthen the Group's own activity and look for structural improvements that contribute to its sustained progress.

Accordingly, the Company also exercises its social responsibility when it contributes to supplying the energy required by the communities in which it operates in an efficient, sustainable and safe manner. Similarly, its capacity for innovation, together with its participation in new businesses, generates positive effects not only for the Company, but also for society as a whole.

Relevant actions

Proposed actions for 2008	Actions taken 2008	Actions planned in 2009
Presentation of the new educational folder on environmental awareness and energy efficiency.	Presentation of the educational folder in twelve cities. Economic contribution to the international exhibition titled "Water and Sustainable Development" (Expo Zaragoza 2008).	Support for the candidature of Madrid 2016 to hold the next 31st Summer Olympic and Paralympic Games.
Establishment of a system to measure the impact of sponsorship projects through the London Benchmarking Group methodology (LBG).	Adaptation of the social investment management tool to the LBD methodology and the Millennium Development Goals.	Relaunch of the new version of the tool for the online management of social investment in Spain and Latin America.
Improvement of the information provided in Corporate Responsibility with the publication of Corporate Responsibility Reports in all the Latin American subsidiaries and the review of the web section.	Publication of Corporate Responsibility Reports in all the Group's Latin American subsidiaries.	Increase in the scope of the independent external reviews of the Group's Corporate Responsibility Reports.
Promotion of development co-operation projects	Development of a new global sponsorship strategy to consolidate the generation of value in local communities.	Improvements in the systems for measuring the social impact of sponsorship actions.

Level of compliance: high medium low

Positive integration in society

The Gas Natural Group maintains its commitment to contributing to the development and progress of the communities in which it operates. To put this into practice, within the framework of the Millennium Development Goals and the principles of the United Nations Global Compact, the Company develops initiatives aimed at improving the living conditions of underprivileged collectives.

In addition, the Company is aware of the importance of education for social cohesion and progress. Universal primary education is one of the fundamental rights included in the Universal Declaration of Human Rights and is of critical importance for progress in issues such as equal opportunities and gender equality. Accordingly, the Gas Natural Group allocates part of its resources and efforts to supporting and fostering educational and cultural initiatives.

In recent years, issues related to the climate change and sustainable development have been included in the Company's social agenda and took on special relevance in 2008.

The Group considers its social investment programmes within the framework of its business development strategy. The aim is to generate a higher level of commitment by the Company to the society of which it forms a part. Given its priority, the Group has tools for measuring the reputational impact of the social programmes it develops. In 2008, it continued to use the London Benchmarking Group methodology (LBG), which offers an overall view of social investment and enables a comparison of the results obtained with those of other companies.

Furthermore, the Group progressed in the redesign of its internal control tool for sponsorship and social action, whose completion is scheduled for 2009 and which will allow an improved management of the initiatives that are taken.

Educational initiatives

The Gas Natural Group continued its activities for promoting values such as sustainable development and the rational use of energy among young people. In 2007-2008, special mention must be made of the "Natural Gas and the Environment" programme, as well as the online activity titled "Natural Gas, the 21st Century Energy". In 2008, the former provided training for almost 69,500 students in Spain, who attended conferences given by specialists in the area. Meanwhile, the new educational folder with teaching improvements for teachers was presented in twelve cities.

The programmes for fostering a culture of energy efficiency continued in Latin America and teaching material that focused on the environmental benefits of natural gas and its correct use was distributed to teachers. Over 145,000 schoolchildren took part in these initiatives.

The Group carried out other projects to raise environmental awareness in 2008. For example, it sponsored "Joves fora de sèrie" a programme broadcast by TV3, the catalan public television channel, which gives examples of young people who collaborate on projects for supporting underprivileged collectives.

Health and research

In 2007, the CTA (Andalusian Technology Corporation) was opened with the Gas Natural Group as one of its founders. The corporation manages CTAER (Advanced Technology Renewable Energies Centre). Also in 2008, the Group collaborated with CSIC (Higher Council for Scientific Research) on the programme titled "Biological Station of Doñana", which focused on research in the area of conservation genetics. These projects constitute an example of the Group's location to being at the fore in R&D.

The Group's commitment to research also focuses on improving the life quality of sick people and their relatives. In 2008, the Company continued to lend its support to CNIC (National Cardiovascular Research Centre) of which it is a co-founder. Accordingly and in collaboration with the Spanish Ministry of Health and another 13 Spanish companies, the Gas Natural Group contributed to creating the ProCNIC Foundation, which carries out research on cardiovascular diseases, the first cause of death in the world.

Furthermore and as part of World Heart Day, the Company distributed several recommendations by Valentín Fuster, Scientific Chairman of ProCNIC, among its employees, aimed at reducing the risk factors that lead to cardiovascular disease.

In Latin America and for the eighth year running, the Group took part in the activities for collecting funds for the Mexican Red Cross. In Argentina, Gas Natural BAN continued to collaborate with FUNDALAM (Foundation for Nursing and Maternity) to promote mother-baby health.

Social action focused on underprivileged groups

The Gas Natural Group fosters projects that help reduce social inequality and integrate collectives that are at risk of exclusion. Accordingly, the Company has set up a number of collaboration agreements in Spain with organisations such as the Adecco Foundation and Femarec for the employment of underprivileged collectives. In keeping with this undertaking, the Group fosters the contracting of services to companies that employ individuals with physical or mental disabilities. Special mention must be made of the fact that the Company is one of the leading clients of Fundosa Galenas, a company with the objective of complying with the targets set by the ONCE Foundation: the labour insertion of the disabled.

In Argentina, the collaboration of Gas Natural BAN with the Musicium College for the integration of disabled children should be pointed out.

Corporate volunteers

Employees are a key part of the Gas Natural Group's focus on corporate responsibility. Their efforts help to put the Company's commitment to sustainable development into practice.

In Argentina, with the support of the Gas Natural Foundation, Gas Natural BAN continued with its corporate volunteer plan started up in 2002. The programme offers employees the possibility of collaborating with community initiatives and social projects.

For its part, Gas Natural México also fostered its corporate volunteer activities 2008. Employees received additional support from their families, strengthening their bond with the Company and the local community.

In 2008, these corporate volunteer activities were bolstered with various social awareness initiatives. Of these we may highlight the sponsoring of the 5th Encounter of Corporate Volunteers in Argentina, which focused on recognising and appreciating the companies' volunteers, as well as offering an area for exchange and participation for employees from different companies.

Promotion of music

Part of the Gas Natural Group's cultural sponsorship initiatives are geared towards promoting music. In 2008, the Company participated in a variety of initiatives with the Barcelona and National Catalonian Symphonic Orchestra in Girona, Lleida and Tarragona.

The Gas Natural Group also sponsored musical seasons and cycles in various cities, including the collaborations with the Gran Teatre del Liceu and the Palau de la Música Catalana concert halls (Barcelona), and the Teatro Real (Madrid). The Company likewise financed the Santander International Festival, the Pontevedra Jazz Festival and the Porta Ferrada International Festival (Girona).

In Latin America, the various subsidiaries also considered the promotion of music. In 2008, numerous activities were carried out, including the programme titled "CEG. Our Voice", which took place in Brazil and focused on musical training for Group employees.

Fostering cultural enrichment

Every year, the Gas Natural Group publishes a book on the natural and cultural legacy of one of the countries in which it operates. In 2008, it published "Angola. Cultural and Natural Heritage" with 26,000 copies distributed in six languages.

The Group's support for Expo Zaragoza 2008 is also worth of mention, which was formalised in 2007 and renewed in 2008 with a second contribution of 2 million euros for the event. The Gas Natural Group sponsored one of the events in the Expo, entitled "Water for Life".

Its Latin American subsidiaries also allocated part of their investments to the promotion of cultural wealth. One of the most important initiatives was the signing of an agreement with the National Museum of Colombia, where the Company sponsors the Temporary Exhibition Hall.

Initiatives in keeping with business

The Gas Natural Group continued numerous projects in 2008 to fight against energy poverty and favour access to basic services by the collectives most in need.

One important initiative was "Cuartel V", which seeks to supply natural gas to an underprivileged area of the province of Buenos Aires. The Company's managers undertook to create a new social management model in which residents, local collectives, non-profit organisations and enterprises joined forces to achieve a gasification system that was accessible to communities in the low-income bracket.

Another of the programmes that were launched on the back of this philosophy is "The Ráquira project", which was developed in collaboration with local craft workers and fosters the conversion of wood and coal furnaces with natural gas furnaces, to offer benefits through reduced furnace time, gas emissions and the production of waste. The replacement also offers improvements in terms of productivity, contributing to strengthen the local business fabric.

In Bogotá and in collaboration with a subsidiary of the Veolia Group, the Gas Natural Group incorporated the company Biogás Doña Juana S.A. ESP in 2007 for the extraction, processing and energetic use of the biogas generated by one of the largest dumps in the city and in Latin America. The aim of the project is to make use of the energy possibilities of the methane to reduce the uncontrolled emissions generated by the decomposition of urban waste, as mentioned previously.

Institutional commitment

The Gas Natural Group takes part in national and international sector and business associations, putting it at the cutting edge in terms of sector knowledge and making it a touchstone in its different fields of activity. In 2008, the Gas Natural Group spent around 290,000 euros on cooperating with organisations of this kind. In 2008 the Group spent around 290,000 euros on cooperating with organisations of this kind.

The Company continued its collaboration with the International Chamber of Commerce (ICC), an organisation that speaks for companies from more than 140 countries and fosters the development of voluntary standards and regulations. It also played an active role in the work of investor relations and corporate communications forums of The Conference Board, a reputed international business association.

The Gas Natural Group is part of the Corporate Reputation Forum (fRC), a Spanish organisation that focuses on analysing corporate reputation and publishing the related trends, tools and management models. In 2008, the Group took an active part in the monthly meetings for the exchange of experiences and the promotion of various events and publications.

Furthermore, the Company supports ASEPAM (Spanish Global Compact Association) and sits on its Executive Committee. 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. Accordingly, in 2008, the Group supported various initiatives by the Global Compact Foundation, such as its "Principle for Responsible Management Education" and "Caring for Climate".

In 2008, the Group continued to cooperate with the Ethos Chair of Ramon Llull University, whose mission is to disseminate and promote ethics in the business and organisational field.
The Company also works with institutions related to the energy sector on both an international scale and in the countries in which it operates. We may highlight the Spanish Gas Association (SEDIGAS), the Spanish Energy Club, Eurogas, the International Gas Union, European Technical Association of the Gas Industry and the Mediterranean Energy Observatory. It also takes part in various institutional forums related to corporate responsibility and cooperation for development, such as that of the CEOE or that of the Catalan employers' association Fomento del Trabajo.

In 2008, the Group sponsored the 19th edition of the World Petroleum Congress, which brought together players from the sector in Spain to analyse the challenges and trends of the petroleum and gas industry. The congress was attended by representatives from 60 countries, including more than 30 ministers.

The Gas Natural Foundation

In recent years, the Foundation has continued to extend the scope of its activities, launching new lines of action and consolidating those already in existence. In this respect, it has intensified its activities in the environment and strengthened its lines of action in training and in the protection and diffusion of cultural heritage. In 2008, the Foundation reported increased international activity, with new programmes in Colombia and Mexico, and activity getting under way in Italy.

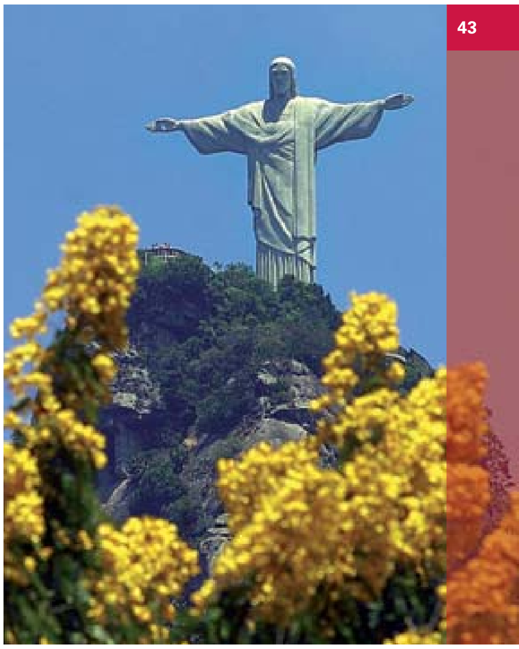
The Foundation's main action areas include the following:

- Environmental management seminars.
- Collaboration agreements.
- Environmental information publications.
- Energy Training Centre.
- Gas Museum and History Centre.

International activities of the Gas Natural Foundation

In Colombia, in collaboration with the District Education Department and the University of Los Andes, the Foundation fostered the “Young Scientists” programme, aimed at providing support for learning in science and citizenship. In addition, three new projects were launched: a training programme for converting vehicles to natural gas; a training and certification programme for natural gas inspectors; and, finally, a programme for strengthening the business of contractors and installation firms.

In Mexico, the Foundation maintained its support for the "ÚNETE" programme in 2008. This programme was launched in 2006 and focuses on improving child education through the use of information and communication technologies. The “Supplier Training Programme” was also been launched in collaboration with FUNDES (Business Solutions Network). Besides, an agreement was signed with the Mario Molina Centre for Strategic Studies on Energy and the Environment with a view to carrying out research on the use and environmental impact of natural gas as a fuel.



In Argentina, the Foundation continued its support for the “First Export” programme. Launched in 2001, it aims to help Argentinian SMEs develop their capacity for exports. Since it began, the programme has provided consultancy services to 7,100 companies and trained 18,500 professionals.

In Brazil, the Foundation continued to carry out training courses in collaboration with the Viva Rio NGO. These courses are intended for youths and adults living in the communities of Cantagalo, Pavao and Pavaozinho, in southern Rio de Janeiro.

In Algeria, there was a new seminar on “Communication and Leadership”, designed for the country's business fabric.

In Morocco, the Foundation belongs to the Board of the Institut Princesse Lalla Meryem pour Enfants Autistes, located in Tangiers, and it also started a training programme in natural gas for future engineers from the National School of Applied Sciences.

Financial-Economic Management

In 2008, the Group began a project to optimise the processes and systems relating to the accounts payable operations. The goal was to improve the efficiency and quality of the delivery note and suppliers' invoices management processes, through automating processes and eliminating paper and non-value added activities. This was based on the certified digitalisation of invoices approved by Law 11/2007 governing Citizens' Electronic Access to Public Services.

146 of our suppliers already use electronic invoices, with an annual volume of 48,500 invoices.

Furthermore, the Italian companies of the Italmeco and PITTA groups and the Portuguese branch of Gas Natural Comercializadora in Portugal were also included in the Financial-Economic Management Model and the administrative and accounting management of the European SSC. Steps were also taken to prepare for the Economic-Financial IT System for including the Comego Group in Mexico to the Economic-Financial Management Model from January 2009. For Spain, the electronic funds application was started up for cash payments.

In the field of internal control, the revision of the procedures for the economic-administrative operations in force reinforced and simplified the existing controls. This led to new procedures which address the main compulsory controls in the Group.

The Gas Natural Group also published its Accounting Plan, with the accounting criteria and the Group's Accounts Plan, in order to furnish a uniform framework of reference for drawing up the Group's economic-financial information.

From 2008, the Group carried out the transition to the General Accounting Plan, which was approved in 2007, adapting the economic-financial procedures and information systems to the submittal requirements and accounting standards set out therein.

The Group continued with its corporate restructuring in Italy. In Spain too, corporate restructuring activities were carried out in the wind energy and distribution sector.

In the fiscal arena, the documentation process for the related-party transactions begun; these transactions were performed by the Group in accordance with the new transfer prices regulation, which came into force in February 2009. Furthermore, during the 2008 year, the Gas Natural Group began to pay tax in the Consolidated VAT Regulations, as set out in the Value Added Tax Act, Law 37/1992.

The Group is initially made up of 34 companies.

In the latter months of 2008, the debt and investment reporting module was implemented, which covers all the Group companies. This IT application is fed at local level, and provides detailed and systematic information on the characteristics of each one of the financial positions (loans, bond issues, credit lines, hedging with derivatives, short-term liquidity placements, etc.). By this means the Company was able to improve the debt monitoring and management processes, automate and homogenise the reporting capacity for the Group's financial position, and have a centralised repository of positions to feed the Risk Control applications, through developing a connection with the applications in this field.

What is more, significant progress was made in the control, measuring and management of market risk, understood as the uncertainty associated with the development of and achieving the targets set for the various lines of business, brought about by the evolution of commodity prices, the exchange rate and the interest rates.

In the regulatory field, the Group sought to implement policies for price risk management, materialised in the form of the Market Risk Limits Allocation and Management Procedure, which was approved by the Risk Committee. This procedure sets out the Gas Natural Grup's Target Risk Profile relating to the aforementioned uncertainty in the evolution of commodity prices, exchange rate and interest rates.

The Group also progressed in the implementation of long-term price risk measuring models, complementing the models already currently used. It is a significant challenge to measure long-term price risk, given that the measures tend to become less precise the longer the uncertainty time horizon becomes; although, in turn, this measuring is increasingly essential in order to measure the effect of strategic decisions on risk.

In the field of Management Control, the Group established the bases for a new integrated information and reporting process by developing the general criteria, the analytical dimensions and defining the management and operation model. In this regard, the Group began to publish the Regulated Business Balance Scorecard, and the design for the extension was completed.

A set of improvements and automatisms were developed in the application for carrying out the Group Budget, making the preparation, analysis and approval process more flexible.

In the investment approval process, the first phase of the homogenisation of the profitability studies was developed and applied to the Group's main businesses, with the purpose of collaborating in the appropriate development of the investment process, geared towards achieving the Group's strategic targets.

The shares of Gas Natural SDG closed the year at 19.3 euros, with a loss of 51.8% in line with the rest of the Spanish stock market; the Ibex 35 ended the year with a fall of 39.4%. The effective volume traded amounted to 11,833 million euros, 24.4% down on 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 and providing more transparent economic-financial information to enable them to monitor the Group's business project. In 2008, representatives of the Company's management team and the Investor Relations Unit organised meetings in Boston, Frankfurt, London, New York and Paris. In addition, a roadshow was organised in Asia for the first time in the Company's history, with meetings held in

the cities of Tokyo, Hong Kong, Sydney and Singapore. The meetings focused on the presentation of financial results and the different quarters of 2008, as well as the outlook and development of the 2008-2012 Strategic Plan. Meetings were held with a total of 320 investors and ten analysts.

At the end of July, Gas Natural SDG made a presentation to announce the agreement made with ACS to acquire its 45.3% holding in Unión Fenosa.

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 Chief Executive Officer 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 methodical and rigorous approach for process monitoring and improvement and for the assessment of operational risks and controls relating thereto. This is all geared towards complying with the Group's strategic targets, as well as assisting the Audit and Control Committee and the top-tier management of the Gas Natural Group in fulfilling its duties in terms 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 Annual Internal Audit Plans are carried out mainly taking into account the following: the Group's Strategic Plan; the risk areas included in the Group's Corporate Risk Map; the assessment of the operational risks of each one of the processes (Operational Risk Maps); the results of previous years' audits; and the proposals of the Audit and Control Committee and the top-tier 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 internal auditing practice, 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 2008 Internal Audit Plan for the Gas Natural Group was approved by the Audit and Control Committee in their meeting held on 25 January 2008.

Pursuant to the Plan, during the period between 1 January 2008 and 30 January 2009 (date of drawing up of Annual Accounts), Internal Audit directors took part in eight 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.

In addition, these reports reported on the level of implementation by the units of the corrective measures arising from the Audit Reports, in particular those proposed by the Committee.

The functions of the Audit and Control Committee and its main activities during 2008 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 2008 were those concerning:

- Business processes:
  - Generation and supply.
  - Distribution: infrastructures development, maintenance, reading and metering.
  - Commercialisation by wholesalers and retailers.
  - Retailers.
  - Customer service: customer care, billing and collection.

- Support processes:
  - Information Systems: SAP ISU Large Customers and LOPD.
  - Management of financial and physical resources.
  - Investment monitoring.
  - Purchases and service procurement.
  - Supplier monitoring and certification.

- Others:
  - Review of the Gas Natural Group's Regulatory System.
  - 2008 Corporate Responsibility Report Verification.
  - Monitoring undertakings to improvements in process auditing.
  - Participation in the implementation of the internal control model based on the Sarbanes-Oxley Act.

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. In this regard, 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, suppliers and collaborating companies 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.

Economic Analysis

Consolidated Economic Analysis

Net profit for the 2008 year rose 10.2% against the previous year to 1,057 million euros, continuing with the trend of double-digit growth despite the volatility seen in energy prices, currency markets and financial markets.

Net turnover for 2008 amounted to 13,544 million euros, an increase of 34.2% in comparison with the previous year.

This important growth is largely underpinned by the average rise in electricity prices in Spain compared with the previous year and by higher electrical production, the incorporation of electrical activity in Mexico and greater gas activity, particularly in regulated distribution in Brazil, and in gas supply and commercialisation in deregulated markets.

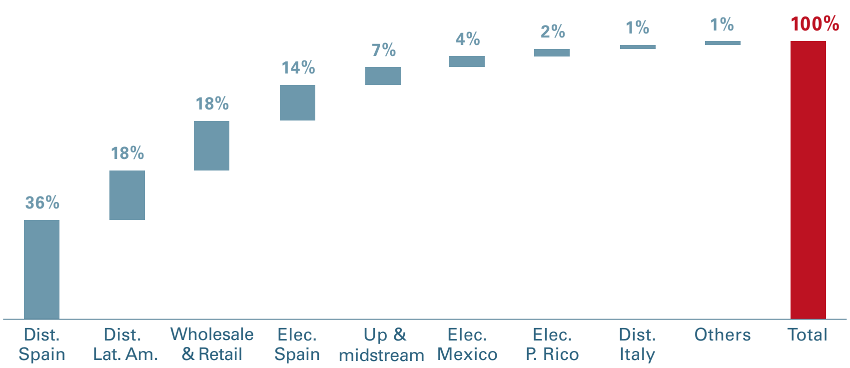
EBITDA for 2008 amounted to 2,564 million euros, 12.6% up on the previous year, largely fuelled by electrical generation in Spain, the incorporation of this activity in Mexico in 2008, and the growth in distribution activity in Latin America. This has all meant that EBITDA for 2008 has been more consistent than the previous year as the contribution from each business was more diversified.

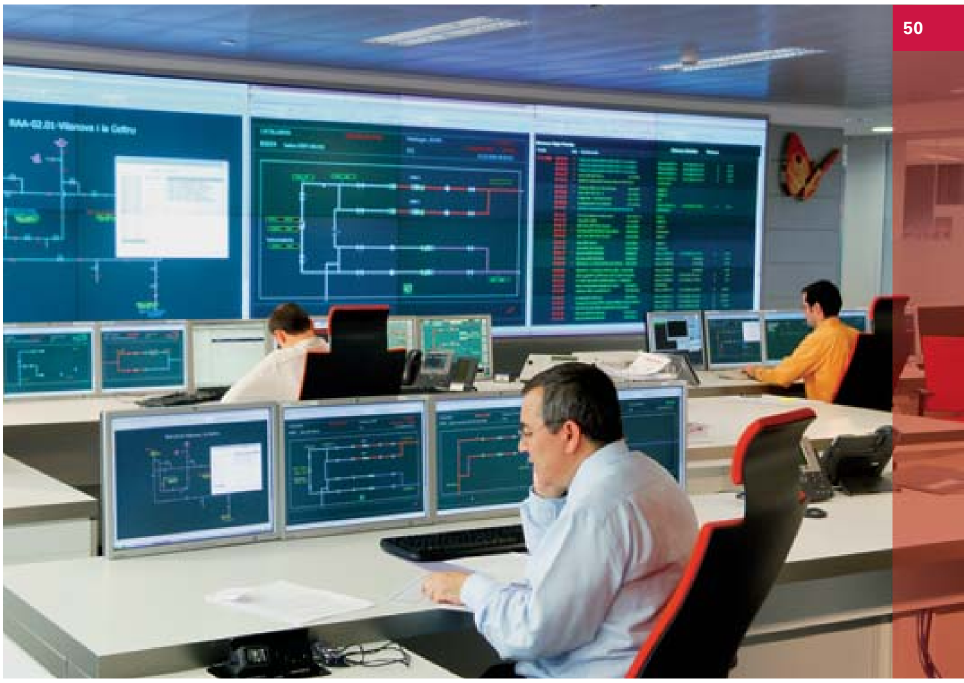
Gas distribution overall (Spain, Latin America and Italy) accounted for 54.2% of the Gas Natural Group's EBITDA. The highest contribution stemmed from regulated distribution in Spain, with 34.6%.

Electrical activity in Mexico accounted for 3.8% of consolidated EBITDA, and together with the important growth in Spain, brought the weight of the Gas Natural Group's electrical activity to 20.1%.

In addition, the allocations for amortisations increased by 11.6%, while allocations to supplies fell by 24.6%; this brought operating profit to 1,794 million euros, 14.5% up on the previous year.

Contribution to EBITDA by activity





Net investment income was 263 million euros, 39 million euros up on the previous year. This was the result of the higher average gross debt (+52%) due to the financial debt associated with the acquisition of energy assets in Mexico in December 2007 and the acquisition of 9.9% of Unión Fenosa in 2008.

Financial position

Despite the financing to acquire the shareholding in Unión Fenosa, the substantial cash generated over the period meant that the increase in net debt was lower than the net debt contracted for the aforesaid acquisition.
At 31 December 2008, net financial debt stood at 4,913 million euros, the debt ratio at 42.2%, and the net debt/EBITDA and financial coverage ratios at 1.9x and 9.7x, respectively.

On 2 December 2008, the Gas Natural Group renewed its Euro Medium Term Notes (PEMTN) debt issue programme, increasing it from 4,000 million euros to 8,000 million euros, with the same characteristics as the current program. At 31 December 2008, this programme is being used for issues made in previous years of 725 million euros.

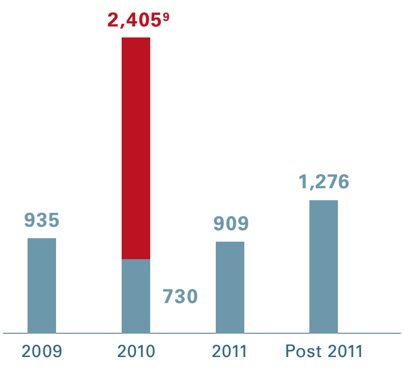
Financial instruments available amount to over 10,095 million euros at 31 December 2008 and include the Euro Medium Term Notes (EMTN) programme amounting to 7,275 million euros and the Euro Commercial Paper (ECP) programme for 1,000 million euros, with limited use over this period.

As part of the process for the acquisition of Unión Fenosa, the Gas Natural Group signed the documents to guarantee the financing needed to buy 100% of the aforesaid company, with ten financial entities.

This financing amounted to 18,260 million euros and included 1,100 million euros for refinancing debt in Unión Fenosa and up to a maximum of 700 million euros for refinancing the debt of the Gas Natural Group. It is structured around ten tranches with maturities between February 2010 and August 2013. At 31 December 2008, 1,675 million euros had been drawn.

73.8% of the gross financial debt (1) at 31 December 2008 is at a fixed interest rate and the remaining 26.2% is at a floating rate.

Maturity of the gross financial debt (in millions of euros)



16.9% of the gross financial debt matures in the short-term and the remaining 83.1% matures in the long-term.

With regard to the distribution of maturities of the debt, 23.1% of the Gas Natural Group's gross financial debt at 31 December 2008 (2) matures after 2011.

At 31 December 2008, cash and other equivalent liquid assets amounted to 473 million euros (including active derivative financial instruments).

Investments

Total investments amounted to 3,697 million euros and include the financial investment made to acquire the 14.7% shareholding in Unión Fenosa for a total sum of 2,451 million euros.

The breakdown of investments by type is as follows:

(1) Total gross financial debt 5,525 million euros.
(2) Includes 1,675 million euros from the financing of the acquisition of 9.9% of Unión Fenosa.

Breakdown of investments by type (in millions of euros)

	2008	2007	%
Tangible investment	1,068	1,148	(6.9)
Investments in intangible assets	141	63	-
Financial investment	2,488	1,112	-
Total investment	**3,697**	**2,323**	**59.1**

Tangible investments for the year amounted to 1,068 million euros, 6.9% down against the previous year, largely due to lower investments in up & midstream and in electrical generation in Spain.

Financial investments for 2,488 million euros basically refer to the acquisition of 14.7% of Unión Fenosa carried out over the year, while in 2007 they primarily include the acquisition of the Italmeco Group in Italy, and the acquisition of the Mexican companies whose assets are made up of five combined-cycle power plants and one gas pipeline.

Investment in gas distribution came to 662 million euros, 6.1% higher than the previous year. We may highlight the recovery in investment in gas distribution in Latin America, which rose 15.3%, with the main driving force being gas distribution in Brazil. Investment in gas distribution in Spain was up 2.2%, in line with the growth in supply points in the residential market.

Investments in electrical generation in 2008 include the development of the Malaga power plant (400 MW) and the Port of Barcelona plant (800 MW); in the same period of the previous year these included the development of the Plana del Vent (800 MW), operating commercially since 2007, that of the Malaga plant.

The Gas Natural Group allocated 43% of its tangible investments to the gas distribution activity in Spain, represented by the commissioning of 3,149 km of new network over the last twelve months, with a growth of 6.9% allows it to continue with the high rate with which it obtains new supply points despite the slowdown in the new construction segment.

29.1% of tangible investments during the period correspond to the electricity activity in Spain, mainly to the development of combined-cycle power plants.

Net worth

The Ordinary General Meeting of Shareholders, held on 21 May 2008, adopted an increase of 16.3% in the dividend and the payment of 1.14 euros per share charged to the results for the year 2007, 0.43 of which were paid on 8 January 2008 on an interim basis. The supplementary dividend of 0.71 euros was paid on 1 July 2008.

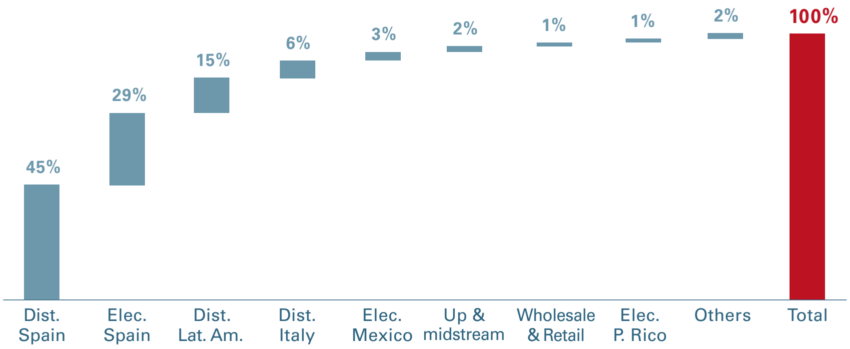
The proposal for the distribution of results for 2008 which the Board of Directors shall submit to the Ordinary General Meeting for approval shall include allocating 663 million euros for dividends, including an extraordinary dividend of 90 million euros.

On 8 January 2009, an interim dividend was charged against 2008 results, amounting to 0.48 euros per share, representing an increase of 11.6% against the previous year's interim dividend.

Furthermore, on 30 January 2009 the Board of Directors of the Gas Natural Group agreed to convene an Extraordinary Shareholders' Meeting to seek approval for an operation to raise capital with preferential subscription rights in the context of the operation to acquire Unión Fenosa.

At 31 December 2008, the Gas Natural Group's assets amounted to 6,721 million euros, with a growth of 4.6% over the last twelve months. Of these assets, the figure of 6,376 million euros can be attributed to the Gas Natural Group, with an increase of 5%. Accordingly, the return on average equity was 17%.

Tangible investments by activity



Stock Market Information

A distinguishing feature of 2008 was how the crisis of confidence in the international financial markets (which began in 2007) was transferred to the real economy. In September 2008, the situation grew significantly worse, and several financial entities operating in the mortgage market went bankrupt. These events all had an impact on the main global stock markets, most of which reported losses of over 40%.

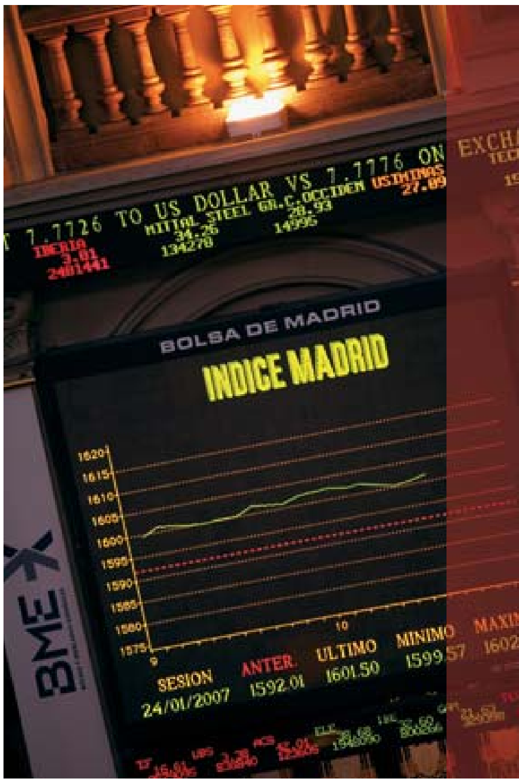
The Spanish stock market, which followed the same trend as the rest of the world's stock markets, ended five years of continuous gains. Only two stocks of the 133 listed on the Spanish Continuous Market managed to end the year with gains.

The Ibex 35, the primary Spanish stock market index, closed the year with a 39.4% fall against 2007, when it reached 9,195.8 points. It set an annual high of 15,186 and an annual low of 7,737.2, on 2 January and 27 October 2008, respectively.

At year-end, shares of Gas Natural SDG stood at 19.29 euros, with a loss of 51.8%. The annual high of 42.45 euros was recorded on 19 February, and the annual low of 18.51 euros on 10 October.

The volume of shares traded over 2008 was 376.2 million shares, 7.5% down on the previous year. Of the total number of shares traded, 93.9% corresponded to the continuous market, although 16.1% of this percentage was contracted through so-called block transactions. The remaining 7.1% was traded through special transactions. The daily average of shares traded stood at 1.6 million.

The effective volume traded amounted to 11,833.3 million euros, 24.4% down on the previous year. The daily average of shares traded stood at 37.5 million euros.



The Gas Natural Group was the fourteenth most highly traded stock on the continuous market in 2008. At 31 December 2008, the market cap of Gas Natural SDG was 8,637.6 million euros, standing in twelfth place in the Ibex 35 with a weighting of 1.61%. In accordance with stock market regulations, its participation in the said index totalled 60% of its capitalisation.

On 30 July 2008, Gas Natural SDG signed an agreement with ACS for the acquisition of the entirety of its 45.3% holding in Unión Fenosa, at a cash price of 18.33 euros per share. In early August 2008, it already bought 9.9% of Unión Fenosa; the transfer of the remaining shares was subject to the authorisation by the anti-trust authorities. Once this authorisation had been granted, and the 30% cap on voting rights in Unión Fenosa had been passed, the Gas Natural Group will be required, within a period of one month, to submit a takeover bid for the rest of the Unión Fenosa shares.

In accordance with the contract signed with ACS, the acquisition price was adjusted, deducting the dividend distributed by Unión Fenosa of 0.28 euros per share on 2 January 2009, meaning that the new adjusted price amounted to 18.05 euros per share.

The Gas Natural Group passed a further revision of the series of FTSE4Good sustainability indices, and was included - for the seventh successive year - in this indicator geared towards socially responsible investors. The criteria for inclusion in the FTSE4Good refer to environmental sustainability, the development of positive relations with interest groups, respect for and promotion of human rights, the guarantee of good standards in managing the human chain, and efforts intended to thwart corruption. The Group is one of the two only Spanish companies which have been included in the FTSE4Good since it was created, in 2001.

In the 2008-year, Bolsas y Mercados Españoles (BME) and the FTSE Group in Spain together launched a new index called FTSE4Good Ibex, in which Gas Natural SDG was included. This new indicator is made up of Spanish companies that are listed in the markets operated by Bolsas y Mercados Españoles (BME), and which use socially responsible business practices.

For the fourth consecutive year, the Gas Natural Group was included on the Dow Jones Sustainability World Index (DJSI World), which includes the 320 worldwide companies with the best corporate sustainability criteria. The Group's global score was up 4% against the previous year, to 76 percentage points, bringing it to only one point from the global sector leader, and fifteen points above the sector average.

In 2008, the Gas Natural Group was also included in the European DJSI Stoxx, in whose utilities subsector strict criteria are applied.

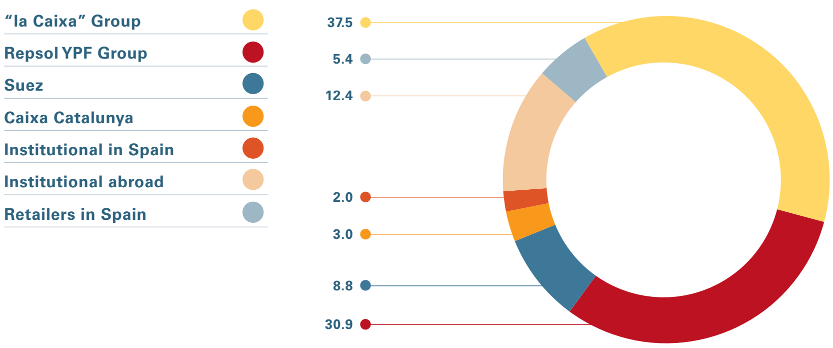
In fact, the Group was included among the small number of companies present in both the FTSE4Good and DJSI World.

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

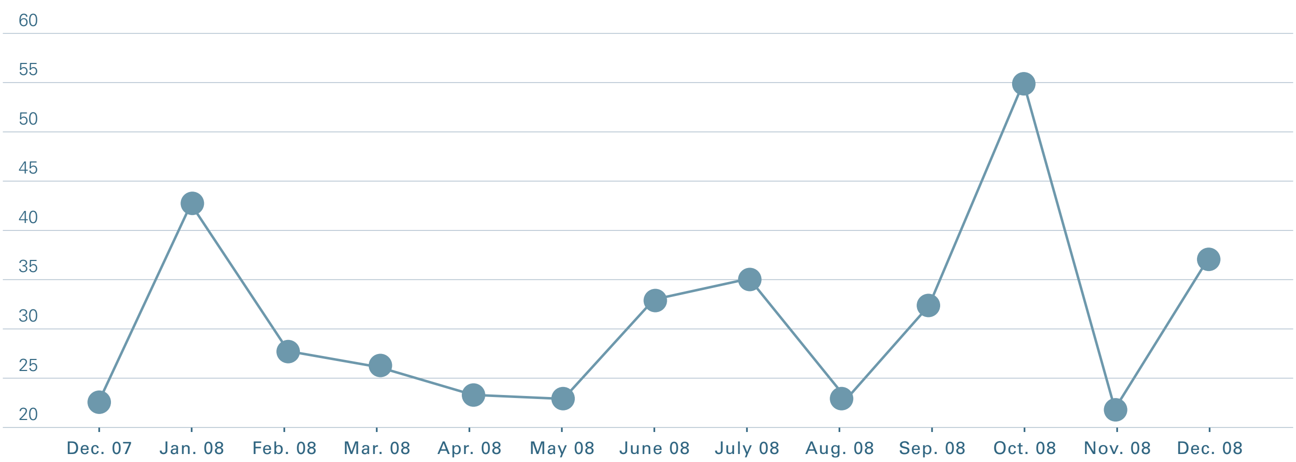
The shares of Gas Natural BAN, the distribution company for the Gas Natural Group in Argentina, stood at 1.22 pesos at year-end, reporting a decrease of 51.8%. The annual high and low were 2.54 and 1.15 pesos, respectively. During 2008, 1.6 million shares were traded. The Merval Index of the Buenos Aires Stock Market, closed the year with a loss of 49.8%.

At 31 December 2008, and taking the best available information into account, it is estimated that there are around 27,000 shareholders of Gas Natural SDG.

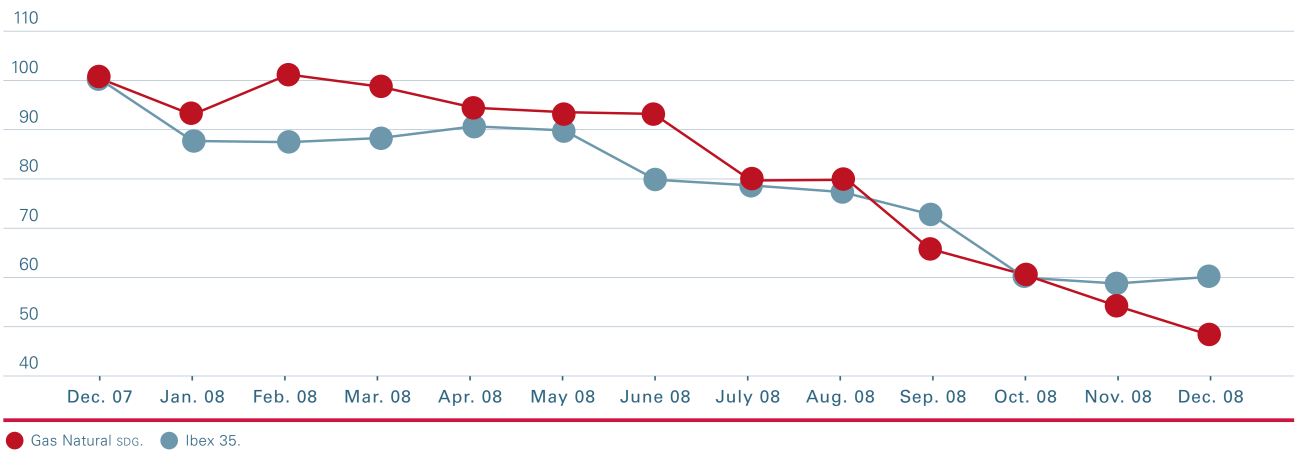
Gas Natural SDG: shareholder structure (%) 2008



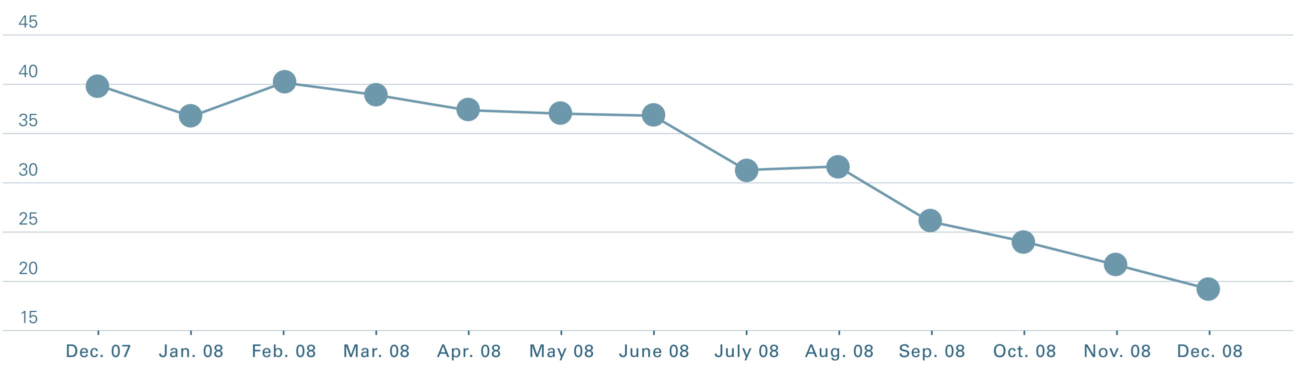
Number of shares traded. Monthly data in millions



Performance of Gas Natural SDG and Ibex 35



Shave prices of Gas Natural SDG. Monthly close in euros



Analysis of Results by Activity

Distribution in Spain

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

Net turnover for the gas distribution activity in Spain amounted to 1,711 million euros, with a fall of 19.1% in comparison with the previous year, owing to lower regulated gas sales given that this activity ceased to take place from 1 July 2008 onwards in accordance with Law 12/2007 and Order ITC/2309/2007.

EBITDA came to 886 million euros, with an increase of 2.7% against that reported the previous year and in line with the increase in regulated return for 2008. In the final quarter it fell 9% against 2007, due to the halting of regulated rate supply (July 2008) and the adjustment of the best estimate of adjustments in return for 2008.

Sales in the regulated gas market in Spain, which comprises the rate gas supply until 30 June 2008 and TPA access services for both the distribution of gas and secondary transport, amounted to 270,073 GWh, a slight fall of 0.4% against the previous year, due to the slowdown in industrial activity in the last quarter of the year as a result of the economic situation.

Pursuant to Law 12/2007, published on 3 July 2007, and with Order ITC/2309/2007, published on 31 July 2007, the regulated gas market disappeared on 1 July 2008. Distribution companies halted the supply of regulated gas and the

Distribution in Spain. Main figures

	2008	2007	%
Gas activity sales (GWh)	270,073	271,058	(0.4)
Regulated gas sales	14,177	38,288	(63.0)
Residential	13,910	26,343	(47.2)
Industrial	267	11,945	(97.8)
TPA	255,896	232,770	9.9
Distribution network (km)	48,578	45,429	6.9
Increase in supply points, in thousands	161	246	(34.6)
Supply points, in thousands (as at 31/12)	5,842	5,681	2.8

last resort supply was created. Royal Decree 1068/2007, published on 28 July 2007, regulates the start-up of the last resort supply in the natural gas sector, which will be available to consumers connected to gas pipelines with a pressure of no higher than 4 bars and with an annual consumption of 3 GWh. The Gas Natural Group is one of the companies which accepts the obligation of last resort supply.

Distribution and secondary transport services for TPA rose 9.9% and reached 255,896 GWh, 118,578 GWh (12%) of which corresponded to services performed for third parties, and the rest of which, 137,318 GWh (8.2% more), to the commercialisation Group's commercialisation, as the leading operator on the deregulated gas market.

The Group continued to expand its distribution network, which rose by 3,149 km over the last twelve months, and reached 45 new municipalities in 2008. The number of supply points rose 161,000 over the last twelve months, growth which was 34.6% below 2007, caused by the lower volume of construction of new homes.

At 31 December 2008, the distribution network amounted to 48,578 km, with growth of 6.9%, and with 5,842,000 supply points, 2.8% higher.

On 16 January 2009, the Energy Policy and Mining Directorate Resolution of 31 December 2008 was published, establishing the return on distribution with the application of the ITC/3802/2008. The initial return acknowledged for the Gas Natural Group for 2009 amounted to 1,206 million euros. Return for secondary transport in 2009 comes to 24 million euros.

Distribution in Latin America

This refers to gas distribution activity in Argentina, Brazil, Colombia and Mexico.

Net turnover amounted to 2,531 million euros, with an increase of 43.3%, where Brazil's contribution of 1,517 million euros was particularly important.

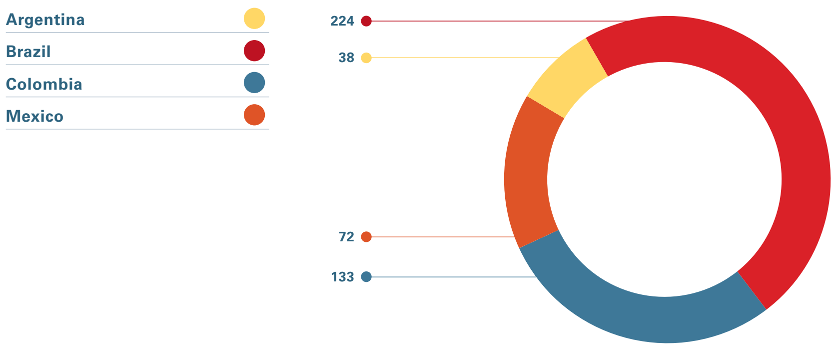
Distribution in Latin America. Main figures

	2008	2007	%
Gas activity sales (GWh)	208,408	179,314	16.2
Regulated gas sales	144,065	115,132	25.1
TPA	64,343	64,182	0.3
Distribution network (km)	61,196	59,555	2.8
Increase in supply points, in thousands	176	170	3.5
Supply points, in thousands (as at 31/12)	5,253	5,077	3.5

Distribution in Latin America. Main figures by country. 2008

	Argentina	Brazil	Colombia	Mexico	Total
Gas activity sales (GWh)	71,964	75,867	16,720	43,857	208,408
Increase vs. 2007 (%)	(2.8)	64.0	6.7	1.2	16.2
Distribution network	22,360	5,881	17,052	15,903	61,196
Increase vs. 31/12/2007 (km)	505	246	497	393	1,641
Supply points, in thousands (as at 31/12)	1,393	789	1,926	1,145	5,253
Increase vs. 31/12/2007, in thousands	38	16	110	12	176

EBITDA in Latin America by country. Main figures by country (in million euros) 2008



EBITDA reached the figure of 467 million euros, up 9.9% on the previous year.

The attached chart shows the important contribution made by Brazil, which accounts for 48% of the total, with EBITDA of 224 million euros and an increase of 21.7% against the previous year, basically stemming from the increased gas margin through the higher sales to the electrical generation market and the tariff adjustment due to inflation in the areas of Rio de Janeiro and São Paulo.

Also noteworthy is Colombia, which reported EBITDA of 133 million euros, 9% up on the same period of the previous year, due mainly to the increased sales in the residential market and the higher commercialisation margins and sales in the automobile market.

The falls in EBITDA in Argentina and Mexico were largely due to the depreciations of 7% and 9% respectively in each country's currency against the euro.

Gas-related activity sales in Latin America, which include the sales of gas and third-party access services (TPA), totalled 208,408 GWh, an increase of 16.2% against the sales reported the previous year.

We may highlight Brazil's increase of 64%, basically arising from the higher sales to the electrical generation market, fostered by the Federal Government on account of the low hydroelectric generation, and Colombia, with a 6.7% rise due to higher sales to the residential market owing to the increase in the customer base and the higher number of vehicles converted in the automobile sector.

Furthermore, Mexico's gas sales rose 2.6% against the previous year's as a result of the higher sales in the industrial market; Argentina's gas sales were down 5.5% owing to the lower sales to the residential market, due to the warmer weather conditions compared to the previous year.

The distribution network was extended by 1,641 km over the last twelve months, reaching 61,196 km at 31 December 2008, with growth of 2.8%, in line with the 3.5% increase in supply points.

The number of gas distribution supply points amounted to 5,253,000 at 31 December 2008. Gas Natural maintained the high year-on-year growth rates, the number of supply points up by 176,000. Colombia is particularly noteworthy, with a rise of 110,000 supply points, due to the higher levels of new customers in the Bogotá and Altiplano Cundiboyacense areas.

Distribution in Italy

Gas distribution in Italy represented a contribution to the EBITDA of 36 million euros, up 2.9% on the previous year. In the second quarter of 2007, there was an extraordinary adjustment of 7 million euros in distribution rates in new distribution areas, recognised by the regulatory authority.

The Gas Natural Group bought the Italmeco gas group in December 2007, thus expanding its distribution area in Italy to 31 new municipalities in the regions of Basilicata, Calabria, Campania and Lazio, which meant adding 8,930 gas distribution supply points and 509 km of network.

On 3 July 2008, the Gas Natural Group acquired PITTA Costruzione, a gas distribution group that operates in the region of Puglia, southern Italy, for 30 million euros. The acquired group has a license to distribute natural gas in eleven municipalities, where it has 15,000 customers and a 393 km distribution network.

After closing this operation, the Gas Natural Group broadened its distribution area in Italy, and now operates in 187 municipalities in eight regions: Abruzzo, Basilicata, Calabria, Campania, Lazio, Molise, Puglia and Sicily.

Gas distribution activity reached 2,933 GWh, 4.8% up on 2007, and largely due to the addition of Italmeco and PITTA (a further 176 GWh).

Distribution in Italy. Main figures

	2008	2007	%
Gas activity sales (GWh)	2,933	2,800	4.8
Regulated gas sales	2,632	2,635	(0.1)
TPA	301	165	82.4
Distribution network (km)	5,521	4,775	15.6
Supply points, in thousands (as at 31/12)	397	357	11.2

Electricity in Spain

This section includes electrical generation activities in Spain (combined cycles, wind farms and cogeneration plants), trading for the purchase of electricity from the wholesale market and the wholesale and retail commercialisation of electricity on the Spanish deregulated market.

Net turnover amounted to 1,898 million euros, much higher than the 2007 figure, mainly due to the rise in electricity prices and higher production.

Accumulated electrical demand at December 2008 (263,784 GWh) was 0.9% higher than 2007 demand. Having discounted the effects of the different number of working days and the

Electricity in Spain. Main figures

	2008	2007	%
Power generation capacity (MW):	3,991	3,980	0.3
Combined-cycle plants	3,600	3,600	-
Wind power installations	363	363	-
Cogeneration plants	28	17	64.7
Electricity generated (GWh)	18,130	16,975	6.8
Combined-cycle plants	17,225	16,096	7.0
Wind power installations	772	779	(0.9)
Cogeneration plants	133	100	33.0
Electricity contracted (GWh/year) [4]	2,541	6,239	(59.3)
Electricity sales (GWh)	6,216	2,214	-
Residential	484	736	(34.2)
Industrial	5,732	1,478	-

[4] Source: Red Eléctrica Española (REE).

temperature, this meant an increase of 0.7%. Economic slowdown was apparent in electrical consumption: in December, demand fell by 1.3%; once corrected, this means a 3.4% fall against December 2007.

In terms of EBITDA, 2008 results amounted to 366 million euros, 31.2% higher than the previous year's figure, due to the rise in electricity generated and in pool prices. This is all taking into account the optimisation of the Group's participation in the different electrical generation markets in Spain, in conjunction with trading activity and commercialisation in the Spanish deregulated market.

The Group manages 3,600 MW in combined-cycle electrical generation plants. The Group is currently building a 400 MW set in Malaga and two sets for a total of 800 MW in the Port of Barcelona. The procedure continues for the 800 MW combined-cycle power plant in Lantarón (Álava).

Combined-cycle electricity generation amounted to 17,225 GWh in 2008. The Gas Natural Group's accumulated share in ordinary electricity generation stood at 8% in 2008. There were 4,817 equivalent operating hours in 2008, pertaining to a load factor of 54.8%, compared with 57.7% the previous year.

In the special regime, the Company has attributable wind power of 363 MW. The Group produced 772 GWh of attributable net wind energy in its wind farms in 2008, a similar figure as in 2007.

Furthermore, the Group's cogeneration business, with attributable power of 28 MW, generated 133 GWh in 2008, a rise of 33% against 2007. In the fourth quarter of 2008, 7 MW were put into commercial operation, referring to the Cinca Medio manure treatment plant in Monzón (Huesca).

At 31 December 2008, the Gas Natural Group's portfolio of electrical customers amounted to 2,541 GWh/year, down against 2007 and especially so at the close of the year, due to the optimisations of the customers' portfolio.

In the fourth quarter of 2008, the Group continued to carry out trading activity in electricity markets, and also in trading CO_2 emission rights and credits, and in managing formulas on gas and oil derivative indices. Through all this activity, the Group is actively managing the position and optimisation of margins and exposure to risk.

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 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 a capacity for 115,000 m^3, and a 542 MW combined-cycle power plant (271 MW attributable). It is the first private electrical generation plant fuelled by natural gas, and is located in Peñuelas, in southern Puerto Rico.

In Puerto Rico, the Group reported EBITDA of 53 million euros, 10.2% down largely due to the dollar's depreciation against the euro. In local currency, EBITDA came to 77 million dollars, a fall of 4.4%.

Electricity Puerto Rico (in millions of euros)

	2008	2007	%
Net turnover	149	144	3.5
Supplies	(82)	(72)	13.9
Personnel expenses, net	(3)	(3)	-
Other expenses/income	(11)	(10)	10.0
EBITDA	**53**	**59**	**(10.2)**
Allocation to depreciation	(18)	(18)	-
Allocation to provisions	-	-	-
Operating profit	**35**	**41**	**(14.6)**

Up & midstream

This includes the development of the integrated liquefied natural gas (LNG) projects, the exploration, development and production of hydrocarbons, sea transport management and the operation of the Maghreb-Europe gas pipeline.

The net turnover for the up & midstream activity amounted to 284 million euros, with an increase of 9.7%.

EBITDA in 2008 came to 185 million euros, 17.1% higher than the previous year. The greater use of the methane tanker fleet this year and a higher volume of natural gas channelled through the Maghreb-Europe gas pipeline (7.5% higher) offset the unfavourable impact of the dollar exchange rate, which affects EMPL activities, and the higher exploration and development costs.

The Gas Natural Group was awarded the long-term export capacity in the international tender for the granting of import and export capacity through the Larrau international connection. Once again, this shows the Company's interest in developing interconnection infrastructures with the rest of Europe.

The Group published the rules for the 2008/2009 Winter Plan, addressing the cover of demand over this period. The measures adopted by the Gas Natural Group for compliance with this plan include two liquefied natural gas storage tankers, and the capacity to extract underground storage through the reserve awarded to and also acquired by the Group.

The Group forged ahead with the development of the exploration project in Gassi Chergui (Algeria), having drilled a second well, and in 2009 it is preparing to drill another well in Tangiers-Larache (Morocco), where the Gas Natural Group has a 24% stake.

Petroleum Oil & Gas España (100% of the Gas Natural Group) is taking part with Repsol YPF in an off-shore drilling project which is expected to be executed in 2009 in the Montanazo concession (off the coast of Tarragona). Preliminary activities were carried out for this project in the fourth quarter of 2008. Geological research and data compiling also got under way for the hydrocarbons research license in Villaviciosa (Asturias), where the Group owns 90%. The Company is also taking part in the Loquiz-Urederra permit (Alava and Navarre), where the primary objective is to carry out an exploratory drilling exercise over the course of 2009.

Up & midstream. Main figures

	2008	2007	%
Gas transportation/EMPL (GWh)	133,497	124,150	7.5
Portugal - Morocco	34,926	28,094	24.3
Gas Natural Group	98,571	96,056	2.6

Repsol YPF and the Gas Natural Group, in consortium with other companies, have signed a shareholders agreement to develop an integrated gas project in Angola. For this purpose, the Gas Natural West Africa company was incorporated (60% Repsol YPF - 40% Gas Natural Group), and will manage the project. Initially, gas reserves shall be assessed; at a later stage, investments required to develop and export them as LNG shall be established. The Group continued to set out the exploratory seismic and drilling works that shall take place in 2009.

The Gas Natural Group and Gazprom Marketing & Trading signed a framework agreement to carry out specific operations in the LNG market. Through this agreement, the two companies will be able to carry out flexible transactions when specific opportunities arise and under favourable market conditions. The two companies are also working together to analyse further areas for cooperation in other lines of business.

On 24 July 2008, the decision was taken to broaden the commercial relationship with Qatargas and establish the framework and the bases for negotiating the acquisition of 5 bcm of LNG in the mid and long term.

Wholesale & Retail

This section comprises gas supply and commercialisation activities on the Spanish market and abroad, and the commercialisation of other products and services relating to retail commercialisation in Spain.

The net turnover totalled 8,220 million euros in 2006, which represents an increase of 36.2% in comparison with the previous year. This growth is largely due to the rise in commercialised volumes, both in Spain - owing to higher sales to combined cycles - and in Europe.

EBITDA in 2008 amounted to 465 million euros, 4.3% up on aggregate and 13.7% in quarterly terms. This EBITDA performance is the result of the optimisation of the gas contracts portfolio in the deregulated market, and the increase in efficiency springing from the risk management of the commodities portfolio and the exchange rate associated with the trading portfolio. The diversification in the commodities portfolio, and the joint management of commodity and dollar risk, has been instrumental in maintaining the level of EBITDA in a context of significant volatility in energy and currency markets.

Gas Natural Group's total supply and commercialisation amounted to 292,629 GWh, a figure in line with the previous years. Of this amount, 239,090 GWh was used in the Spanish market (-2.6%), and the remaining 53,539 GWh in the international markets (+13.5%), due to the margins obtained in sales abroad.

Wholesalers and retailers. Main figures

	2008	2007	%
Gas supply (GWh):	292,629	292,730	-
Spain:	239,090	245,566	(2.6)
Spanish regulated market	17,383	45,024	(61.4)
Spanish deregulated market	221,707	200,542	10.6
Gas Natural Group commercialisations [5]	189,492	167,389	13.2
Third-party supplies	32,215	33,153	(2.8)
Others:	53,539	47,164	13.5
Supplies	45,946	40,708	12.9
Commercialisation Europe	7,593	6,456	17.6
Multi-product contracts (as at 31/12)	2,119,631	1,904,663	11.3
Contracts per customer (as at 31/12)	1.39	1.37	1.5

[5] Does not include exchange transactions with power companies.

Until 1 July 2008, Enagás was responsible for supplying gas to the regulated market. This company manages stocks and also supplies the gas distributors, the company itself and also third parties. Until 30 June 2008, this activity amounted to 17,383 GWh.

On the deregulated market, sales amounted to 221,707 GWh, with an increase of 10.6% in comparison with the previous year. This increase was driven by the higher gas consumption for electricity generation in combined-cycle power plants, due to the low hydro electrical output. Of these sales, 189,492 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 32,215 GWh, with a decrease of 2.8%.

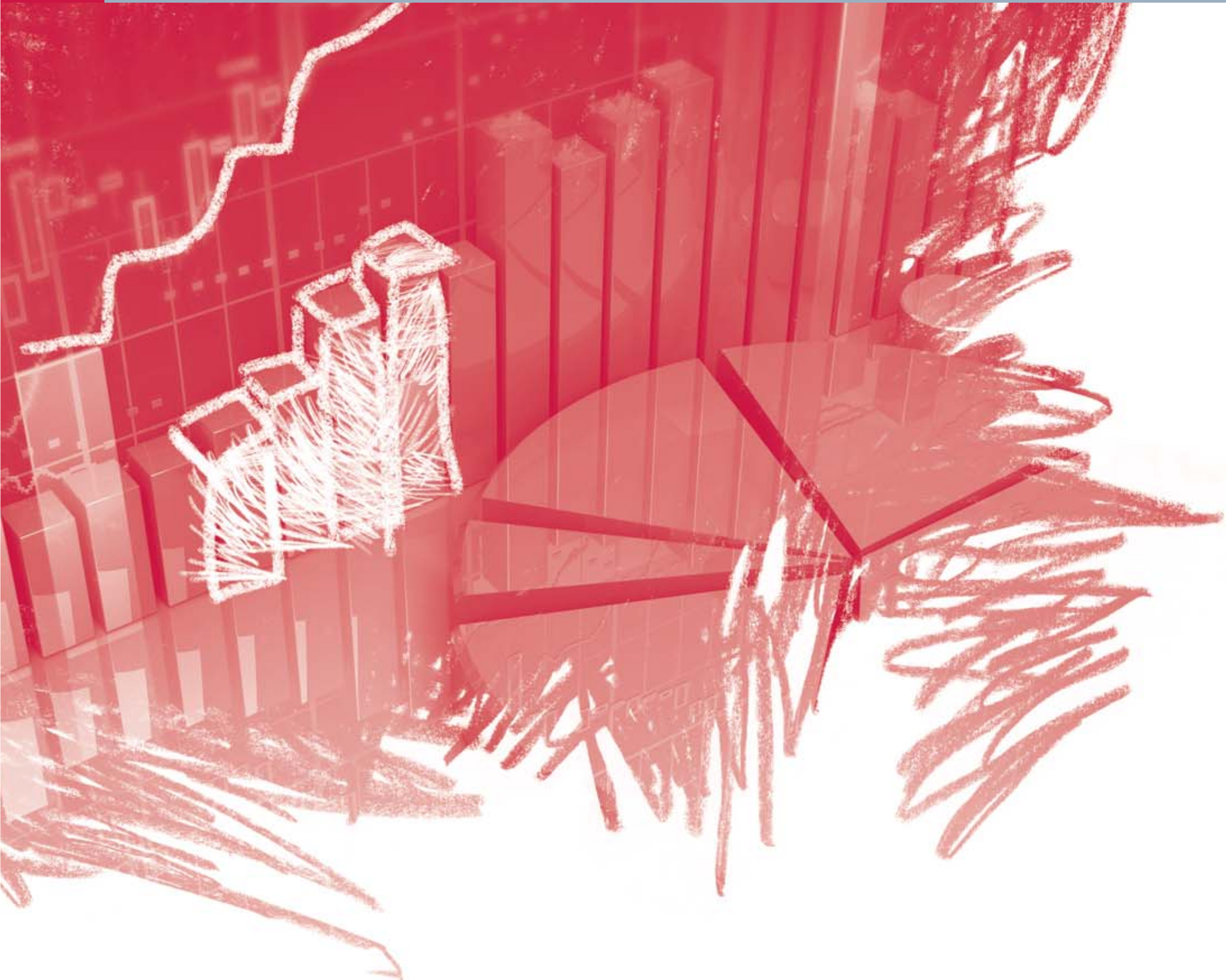
The Group is currently taking steps to foster the development of compressed natural gas for vehicles Compressed Natural Gas in Spain, in both the public and the private sector. The Gas Natural Group is a specialist in this line of business, which it has already developed in Latin American countries and in Italy, where natural gas is commonly used as vehicle fuel. In Spain, it commercialises this natural gas application under the "gn auto" trademark.

Through the "gn auto" line of business, the Company offers the complete management of the project for the construction of the filling station (economic investment, subsequent maintenance and management), and the supply of compressed natural gas, thereby assuring the installations are totally available.

As part of the activities in the gnSolar business line, the Gas Natural Group published a new technical guide for solar energy installations. The purpose of this guide was for developers and builders to have an updated tool when installing these service infrastructures. This new line of business aims to foster the joint use of solar energy and natural gas in residential buildings and in the tertiary sector, assessing developers and constructors and also offering a maintenance service for these facilities.

In July 2008, the Gas Natural Group launched the new virtual office at www.gasnatural.es, enabling customers to deal with most of their steps over the Internet by means of a more intuitive navigation and faster access to information, and a more attractive and practical design.

Lastly, by the end of 2008 the Gas Natural Group had increased the number of maintenance contracts with its customers by 144,000, reaching a total of 1,677,000 at year-end.



Auditor's Report, Consolidated Annual Accounts and Director's Report of the Gas Natural Group

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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, 2008, 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 2008. Our opinion refers solely to the consolidated annual accounts for 2008. On March 7, 2008 we issued our audit report on the consolidated annual accounts for 2007, in which we expressed an unqualified opinion.

In our opinion, the accompanying consolidated annual accounts for 2008 present fairly, in all material respects, the consolidated equity and the consolidated financial position of Gas Natural SDG, S.A. and its subsidiaries as at December 31, 2008 and the consolidated results of their operations, the changes in consolidated income 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 2008 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 2008. 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 Morató
Audit Partner

February 9, 2009

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Consolidated Balance Sheet

(Million Euros)

Assets	**31.12.2008**	**31.12.2007**
Intangible assets *(Note 5)*	1,617	1,636
Goodwill	546	541
Other intangible assets	1,071	1,095
Property, plant and equipment *(Note 6)*	9,988	9,705
Investments recorded using the equity method *(Note 7)*	42	38
Non-current financial assets *(Note 8)*	2,820	719
Deferred income tax assets *(Note 20)*	339	274
Non-current assets	**14,806**	**12,372**
Non-current assets held for sale	5	2
Inventories *(Note 9)*	560	462
Trade and other receivables *(Note 10)*	2,785	2,372
Trade receivables	2,370	2,077
Other receivables	398	282
Current deferred income tax assets	17	13
Other current financial assets *(Note 8)*	360	60
Cash and cash equivalents *(Note 11)*	249	152
Current Assets	**3,959**	**3,048**
Total Asssets	**18,765**	**15,420**

Net equity and liabilities		
Share capital	448	448
Reserves	5,158	4,716
Profit for the year attributed to the Equity holders of the Company	1,057	959
Interim dividend	(215)	(192)
Adjustments for changes in value	(72)	139
Available-for-sale financial assets	57	155
Hedging operations	(78)	(3)
Cumulative translation adjustments	(51)	(13)
Capital and reserves attributable to the Company's equity holders	**6,376**	**6,070**
Minority interests	**345**	**357**
Total Net Equity *(Note 12)*	**6,721**	**6,427**
Grants *(Note 13)*	606	543
Non-current provisions *(Note 14)*	625	465
Non-current financial liabilities *(Note 15)*	4,451	3,075
Borrowings	4,449	3,072
Other financial liabilities	2	3
Deferred income tax liability *(Note 20)*	526	495
Other non-current liabilities *(Note 17)*	706	599
Non-current liabilities	**6,914**	**5,177**
Current provisions *(Note 14)*	146	65
Current financial liabilities *(Note 15)*	934	1,004
Borrowings	924	996
Other financial liabilities	10	8
Trade and other payables *(Note 18)*	2,865	2,357
Trade payables	2,345	1,926
Other payables	311	261
Current deferred income tax liabilities	209	170
Other current liabilities *(Note 19)*	1,185	390
Current Liabilities	**5,130**	**3,816**
Total Net Equity and liabilities	**18,765**	**15,420**

Notes 1 to 35 form an integral part of these consolidated annual accounts.

Consolidated Income Statement

(Million Euros)

	2008	2007
Sales *(Note 21)*	13,544	10,093
Procurements *(Note 23)*	(9,796)	(6,747)
Other operating income *(Note 22)*	58	51
Personnel cost *(Note 24)*	(338)	(308)
Other operating expenses *(Note 25)*	(985)	(901)
Depreciation and amortisation expenses *(Notes 5 and 6)*	(726)	(651)
Release of fixed assets grants to income and others *(Note 13)*	37	30
Operating income	**1,794**	**1,567**
Net financial income	132	72
Net finance expense	(419)	(295)
Variations in fair value of financial instruments	17	1
Net exchange gains/losses	7	(2)
Gain on sales of financial instruments	14	64
Net financial income *(Note 26)*	**(249)**	**(160)**
Profit of entities recorded by equity method *(Note 7)*	6	8
Income before taxes	**1,551**	**1,415**
Income tax expense *(Note 20)*	(379)	(359)
Consolidated net income for the period	**1,172**	**1,056**
Attributable to:		
Equity holders of the Company	1,057	959
Minority interests	115	97
	1,172	**1,056**
Earnings per share attributable to the equity holders of the Company basic and diluted *(Note 12)*	2,36	2.14

Notes 1 to 35 form an integral part of these consolidated annual accounts.

Consolidated Statement of Income and Expense Recognised

(Million Euros)

	2008	2007
Consolidated income for the year	**1,172**	**1,056**
Income and expense recognised directly in equity	**(275)**	**(69)**
Valuation of available-for-sale financial assets	(126)	51
Cash flow hedges	(121)	(62)
Cumulate translation adjustment	(99)	(75)
Actuarial gains and loss and other adjustments	(15)	1
Tax effect	86	16
Releases to income statement	**11**	**(10)**
Valuation of available-for-sale financial assets	(4)	(80)
Cash flow hedges	17	82
Tax effect	(2)	(12)
Total income and expense recognised for the year	**908**	**977**
Attributable to:		
Equity holders of the Company	839	883
Minority interests	69	94

Notes 1 to 35 form an integral part of these consolidated annual accounts.

Consolidated Cash Flow Statements

(Million Euros)

	2008	2007
Net income before tax	**1,551**	**1,415**
Adjustments to net income:	**1,110**	**850**
Amortisation and depreciation of fixed assets	726	651
Other adjustments to net income	384	199
Changes in working capital	**(115)**	**114**
Other cash generated from operations:	**(523)**	**(550)**
Interest paid	(306)	(222)
Income tax paid	(217)	(328)
Net cash generated from operating activities *(Note 27)*	**2,023**	**1,829**
Cash flows into investing activities:	**(2,829)**	**(2,176)**
Group companies, associates and business units	(28)	(1,015)
Purchases of Property, plant and equipment and intangible assets	(1,088)	(1,135)
Other financial assets	(1,713)	(26)
Proceeds from divestitures:	**66**	**176**
Sales of Property, plant and equipment and intangible assets	19	13
Other investments	47	163
Other cash flows from investing activities:	**111**	**111**
Proceeds from dividends	11	17
Proceeds from interest	20	18
Other proceeds/(payments) from/(of) investing activities *(Note 13)*	80	76
Net cash received from investing activities	**(2,652)**	**(1,889)**
Cash flows from financing activities:	**1,286**	**730**
Proceeds from borrowings	2,865	1,270
Repayment of borrowings	(1,579)	(540)
Dividends paid	**(580)**	**(521)**
Other cash flows from financing activities	**32**	**(112)**
Net cash received from financing activities	**738**	**97**
Effect of exchange rates on cash and cash equivalents	**(12)**	**(12)**
Variation in cash and cash equivalents	**97**	**25**
Cash and cash equivalents at beginning of the year	152	127
Cash and cash equivalents at year end	249	152

Notes 1 to 35 form an integral part of these consolidated annual accounts.

Notes to the Consolidated Annual Accounts of Gas Natural for 2008

Note 1. General information

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

Gas Natural SDG, S.A. and its 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, regasification, 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 Ibex 35. 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 21, 2008.

The consolidated annual accounts for 2008, which have been formulated by the Board of Directors on January 30, 2009, 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 share and shares issued, which are presented in millions of shares, while information on operations with related parties, remuneration of members of the Board of Directors and Management Committee and Auditors’ Fees are presented in thousands of Euros, except when otherwise indicated.

Note 2. Summary of significant accounting policies

2.1 Basis of preparation

The accompanying consolidated annual accounts of GAS NATURAL for 2008 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, 2008, 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 have been prepared under the historical cost convention, although modified by the revaluation of financial instruments, which, as per financial instrument standards, are stated at fair value and taking into account the criteria for recording business combinations.

The consolidated annual accounts for 2008 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.

For the purposes of coming into line with Circular 1/2008/30 January of the Comisión Nacional del Mercado de Valores (Spanish Securites Exchange Commission, or CNMV), the structure of the consolidated balance sheet, consolidated income statement, consolidated statement of income and expenses recognised, and the consolidated cash flow statements, differs in relation to that presented in the consolidated annual accounts for 2007 in respect of some of the line items.

The line items carried on the balance sheet pertaining to Derivative financial instruments have been aggregated to Non-current financial assets, Trade and other receivables, Other current financial assets, Non-current and current financial liabilities and Trade and other payables.

Net financial cost has been separated under Net financial income, Net financial expense, Variations in fair value of financial instruments and Net exchange gains/(losses). Gain on sales of non current assets are presented under Gain on sales of financial instruments. The line items Release of fixed assets grants to income and others has been separated from Other income.

The differences in the presentation of these accounts are not relevant for a proper interpretation and understanding of these consolidated annual accounts.

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.

The purchase method is used for recording the acquisition of subsidiaries. The cost of acquisition is the fair value of the assets handed over, plus the equity instruments issued and the liabilities incurred or borne on the transaction date, as well as the fair value of any additional consideration that depends on future events (provided that it is probable and can be reliably valued) plus the costs directly attributable to the acquisition.

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.

The sale options granted to minority interests in subsidiary companies for their shareholdings in these companies are stated at their current redemption value, i.e., their execution price, and are stated under Other liabilities.

b) Joint Ventures

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

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

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

c) Associates

Associates are all entities over which GAS NATURAL 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 main changes in the consolidation scope in 2008 have been as follows (see Note 28):

Registered name of the entity	Operation category	Effective date of the operation	% of voting rights acquired/ eliminated	% of voting rights after the operation	Consolidation method after the operation
Biogás Doña Juana, S.A. ESP	Incorporation	February 5	50	50	Proportional
Gas Natural West África, S.L.	Disposal	February 29	60	40	Proportional
Administración y Servicios ECAP, S.A.	Incorporation	March 14	100	100	Full consolidation
Dawn Energy - Produção de Energia, Unipessoal Lda.	Acquisition	April 4	100	100	Full consolidation
Cetraro Distribuzione Gas S.r.l.	Incorporation	April 28	60	60	Full consolidation
O Novo Aquilón, S.L.	Acquisition	June 6	60	60	Proportional
Gas Natural Servicios, Ltd	Incorporation	June 9	100	100	Full consolidation
Parques Eólicos 2008-2012, S.L.	Acquisition	June 17	54	54	Proportional
Oficina de Cambios de Suministrador, S.A. (OCSUM)	Acquisition	June 20	20	20	Equity method
Pitta Construzioni S.p.A.	Acquisition	July 3	100	100	Full consolidation
Sociedad de Tratamiento la Andaya, S.L.	Acquisition	July 9	15	60	Full consolidation
Sociedad de Tratamiento Hornillos. S.L.	Acquisition	July 9	14	94	Full consolidation
Portal del Instalador, S.A.	Acquisition	July 9	10	85	Full consolidation

On the other hand, in 2008, the following corporate transactions were undertaken between Group companies:

- In July there was a takeover merger of Invergas Puerto Rico, S.A. by Gas Natural Electricidad SDG, S.A.

- In November there was a takeover merger of Gas Natural Corporación Eólica, S.L. by Gas Natural Eólica, S.A. and DER Castilla la Mancha, S.A. by Desarrollo de Energías Renovables, S.A.

- On December 22, 2008 the takeover merger of Gas Natural La Coruña, S.A. by Gas Galicia, S.A. was adopted. After the merger, foreseen for 2009, the shareholding of GAS NATURAL will be 61.6%.

The main variations in the consolidation scope in 2007 were as follows (see Note 28):

Registered name of the entity	Operation category	Effective date of the operation	% of voting rights acquired/ eliminated	% of voting rights after the operation	Consolidation method after the operation
Burgalesa de Generación Eólica, S.A.	Disposal	February 9	24	-	-
Gas Natural Vehicular del Norte, Asociación en Participación	Incorporation	February 14	51	51	Proportional
Eastern España, S.A.U,	Acquisition	February 21	100	100	Full consolidation
Invergas, S.A.	Acquisition	June 15	28	100	Full consolidation
Gas Natural SDG Argentina, S.A.	Acquisition	June 15	28	100	Full consolidation
Natural Energy, S.A.	Acquisition	June 15	28	100	Full consolidation
Natural Servicios, S.A.	Acquisition	June 15	28	100	Full consolidation
Tratamiento Cinca Medio, S.L.	Acquisition	August 1	80	80	Full consolidation
Sub-group of Canary Island Wind Farm Companies (1)	Incorporation	August 1	100	100	Full consolidation
Energías Eólicas de Lanzarote, S.L.	Acquisition	September 7	50	50	Proportional
Energías Eólicas de Fuerteventura, S.L.	Acquisition	September 7	50	50	Proportional
Alas Capital & Gas Natural, S.A.	Acquisition	September 11	40	40	Proportional
Gas Natural West Africa, S.L.	Incorporation	October 26	100	100	Full consolidation
Agrupación Energética C.S.U. Bellvitge, AIE	Liquidation	November 20	50	-	-
ITAL.ME.CO, S.R.L.	Acquisition	December 17	100	100	Full consolidation
Calgas, S.c.a.r.	Acquisition	December 17	100	100	Full consolidation
Mecogas, S.r.l.	Acquisition	December 17	100	100	Full consolidation
Sub-group Generación México (2)	Acquisition	December 27	100	100	Full consolidation
Iradia Climatización, A.I.E	Liquidation	December 31	100	-	-

(1 The sub-group of Canary Island wind farm Companies includes: 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.

(2) The sub-group Generación México includes the following companies: 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. y Compañía Mexicana de Gerencia y Operación, S.A. de C.V., Controladora del Golfo, S.A. de C.V. (Note 28).

(3) Through the purchase of ITALMECO, S.R.L. the companies Calgas, s.r.l. and Mecogas, s.r.l. were acquired. (Note 28).

On the other hand, in 2007 the following corporate operations between Group companies took place:

- On June 20 there was a takeover merger of Eastern España, S.A.U. by Petroleum Oil & Gas, S.A.U

- On July 20 there was a takeover merger Portal Gas Natural, S.A. by Gas Natural Informática, S.A.

- On December 21 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.

e) Acquisition of Unión Fenosa, S.A.

In July GAS NATURAL announced its resolution to acquire the 45.306% shareholding of ACS, S.A. in Unión Fenosa, S.A. The purchase of Unión Fenosa, S.A. will represent a significant step forward in the development of GAS NATURAL and its strategy to become a leading integrated gas and electricity Group.

In respect of the acquisition of Unión Fenosa, S.A., GAS NATURAL has entered into the following agreements:

Sale and purchase agreement of shares entered into with ACS

On July 30, 2008, GAS NATURAL and ACS, S.A., Actividades de Construcción y Servicios, S.A., PR Pisa, S.A., Roperfeli, S.L., Villa Áurea, S.L., and Villanova, S.A. (jointly, ACS) entered into a sale and purchase agreement for the acquisition by GAS NATURAL of the entire stake held by ACS in the share capital of Unión Fenosa, S.A., i.e., 414,108,015 shares, representing 45.306% of its voting rights, for an effective price of Euros 18.33 per share.

Under the provisions of the agreement, the transfer of ownership of 91,403,796 shares, representing 9.99% of the voting rights of Unión Fenosa, S.A. took place over the following five business days for an amount of Euros 1,676 million.

The acquisition of the remaining 322,704,219 shares was subject to the following conditions: 1) the receipt by GAS NATURAL of the respective authorisation from the Comisión Nacional de la Energía (National Energy Commission, "CNE"), or express confirmation from the latter that its authorisation is not necessary; and 2) receipt of the final administrative resolution from the competent anti-trust authorities authorising the transfer of the aforementioned shares.

On September 18, 2008, the CNE ruled that its authorisation was not required for the acquisition by GAS NATURAL of the remaining 35.316% of the voting rights in Unión Fenosa owned by ACS, and thus the first of the above-mentioned conditions was met.

At the date of formulation of these consolidated annual accounts, the ruling of the Anti-trust Authorities is still pending, and, accordingly, the acquisition of the 35.316% mentioned above has still not take place.

After acquiring title of the shares held by ACS and given that GAS NATURAL will have obtained, consequently, more than 30% of the voting rights in Unión Fenosa, S.A., GAS NATURAL will be obligated to file a take-over bid for all the shares of Unión Fenosa, S.A. that it does not own within one month, until which time its voting rights will be limited to 30%. The price offered to the shareholders of Unión Fenosa, S.A. must be at least equal to the fair price as defined in legislation on Public Takeover Bids, which, at the date of formulation of these consolidated annual accounts is expected to be equal to the price per share paid to ACS, minus the gross amount of any dividends or other payouts made to the shareholders of Unión Fenosa, S.A. prior to the acquisition.

As a result of the resolution adopted on December 16, 2008 by the Board of Directors of Unión Fenosa, S.A. on the distribution on January 2, 2009 of an interim dividend against 2008 profit of Euros 0.28 gross per share, and as covenanted in the aforementioned agreement and stated in the announcement on the same published by GAS NATURAL, the price of the 322,704,219 shares of ACS pending transfer and consideration for the take-over bid, initially set at Euros 18.33 per share, has been reduced by the gross dividend paid out to Euros 18.05 per share.

The 9.99% shareholding that has already been transferred has been recorded under the line item available-for-sale financial assets (Note 8).

In relation to the shareholding representing 35.316% that is pending acquisition and included in the same agreement by virtue of which 9.99% of the shares mentioned above were acquired, it is believed that this acquisition, together with the shares that will be acquired through the settlement of the obligatory takeover bid mentioned above, will give rise to the business combination of Unión Fenosa, S.A. in the future. Consequently, the acquisition mentioned above of 35.316% of the shares is outside the scope of IAS 39 and has not been recorded as a financial instrument on the balance sheet at December 31, 2008.

Purchase-sale agreement entered into with Caixanova

On December 12, 2008, GAS NATURAL, on the one hand, and Caixa de Ahorros de Vigo, Ourense e Pontevedra (Caixanova), on the other, entered into a sale and purchase agreement for the acquisition by GAS NATURAL of 43,106,409 shares of Unión Fenosa, S.A. representing 4.72% of its voting rights, which were transferred on that date at an effective price of Euros 18 per share, which represents an amount of Euros 776 million, with deferred payment, which will be paid as follows: 1) Euros 200 million will be paid on the same date on which GAS NATURAL pays ACS for its 35.316% of the shares of Unión Fenosa, S.A.; and 2) Euros 576 million will be paid on the third trading day following the date of publication of the result of the takeover bid of Unión Fenosa or April 30, 2009, whichever date comes first.

These shareholdings have been recorded under the line item available-for-sale financial assets (Note 8).

Equity Swap entered into with UBS Limited

On August 14, 2008, GAS NATURAL signed an Equity Swap agreement with the financial entity UBS Limited, with 47,070,000 shares of Unión Fenosa, S.A. representing 5.15% of its voting rights, as the underlying asset, which will allow GAS NATURAL to realize the operation, either by differences (Cash Settlement) or through the acquisition of the aforementioned shares (Physical Settlement) once the necessary authorisations to do so are obtained. The settlement period, as the case may be, by means of a physical settlement of shares, which began September 19, 2008, will end on April 27, 2009 (i.e., three trading days before the date of maturity, set for April 30, 2009). GAS NATURAL can opt for early cancellation of the Equity Swap, subject to advance notice of fifteen trading days, in which case it will end on the date set out in the notification.

Equity Swap entered into with ING Belgium, Sucursal en España

On September 24, 2008, GAS NATURAL entered into a new Equity Swap agreement with the financial entity ING Belgium, S.A., Sucursal en España, on 27,421,139 shares of Unión Fenosa, S.A., as the underlying asset, representing approximately 3% of its voting rights. GAS NATURAL has the option of settling the Equity Swap, either through differences (Cash Settlement), or through the physical delivery of the aforementioned shares (Physical Settlement). The period during the year for the settlement, as the case may be, by physical settlement of the shares, began on October 14, 2008 and will end on April 27, 2009 (i.e., three trading days before the expiry date, set for April 30, 2009).
GAS NATURAL has the option of early termination of the Equity Swap by providing prior notification of five trading days, in which case the swap will be cancelled on the date stated on the notification.

Equity Swap entered into with Société Générale, Sucursal en España

GAS NATURAL entered into an Equity Swap on November 3, 2008, which was amended on December 24, 2008, with Societé Génerale, Sucursal en España, up to a maximum of 11,395,623 shares of Unión Fenosa, S.A., as the underlying asset, representing 1.25% of the voting rights. GAS NATURAL has the option of settlement through differences (cash settlement) or physical hand over of shares (physical settlement), the latter being subject to the authorisations necessary to do so. The settlement will be a cash settlement, unless GAS NATURAL provides notification prior to March 23, 2009 (i.e. 26 trading days prior to the date of expiry, set for April 30, 2009) of its intention to carry out a physical settlement. GAS NATURAL has the option of early termination of the Equity Swap by providing prior notification on or prior to March 29, 2009, indicating the settlement method chosen, in which case the settlement will take place on the third trading day after the notification of early termination.

Purchase-sale agreement entered into with Caja Navarra

On September 24, 2008 GAS NATURAL entered into an Agreement with Caja de Ahorros y Monte de Piedad de Navarra (Caja Navarra), for its acquisition of 2,721,000 shares of Unión Fenosa, S.A., representing 0.297% of the latter's voting rights, which are owned by Caja Navarra. The settlement of the transfer, i.e., the hand over of the shares and the payment of the purchase price will take place at the earliest of the following dates: 1) the third trading day after that on which the settlement is concluded of the Takeover Bid for the shares of Unión Fenosa, S.A. that GAS NATURAL plans to file; 2) December 31, 2009 or the immediately preceding trading day, in the event that the settlement of the Bid has not occurred prior to said date or is not scheduled for said date, or 3) the fifth trading day following the date on which GAS NATURAL announces its decision not to file the Bid or to withdraw the Bid once filed, said announcement having to take place within 24 hours after said decision has been adopted.

The aforementioned Equity Swaps and the Share sale and purchase Agreement entered into with Caja Navarra give GAS NATURAL the right to acquire a total of 88,607,762 shares, representing 9.69% of the voting rights in Unión Fenosa, S.A.

If the aforementioned financial instruments, and as the case may be, the aforementioned sale and purchase of shares, are not settled physically, the voting rights inherent in the shares will pertain to the holders of the shares.

The aforementioned Equity Swaps and the Share Purchase-Sale Agreement entered into with Caja Navarra, which has an average price of Euros 17.33 per share, have been classified as financial derivatives and recorded as fair value financial assets impacting the income statement (Note 8).

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. The consolidated financial statements are presented in Euros, which is the GAS NATURAL 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, unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rate on the dates of the transactions.

- all resulting cumulative translation adjustments 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 (EUR) of the main currencies of the companies in GAS NATURAL at December 31, 2008 and 2007 have been:

	December 31, 2008		December 31, 2007	
	Closing Rate	Average Accumulated Rate	Closing Rate	Average Accumulated Rate
United States Dollar (USD)	1.39	1.47	1.47	1.37
Argentinean Peso (ARS)	4.78	4.61	4.61	4.24
Brazilian Real (BRL)	3.25	2.67	2.61	2.66
Mexican Peso (MXU)	19.17	16.29	16.05	14.97
Colombian Peso (COP)	3,122	2,874	2,966	2,842

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 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 recorded under Investments 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 have developed the computer programs.

Computer software development costs recognized as assets are amortised on a straight–line basis over their useful lives (four years) as from the time the assets are 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, which will be amortized on a straight-line basis over their useful lives (20 years).

- The emission allowances 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 allowances to meet its emission quotas, the deficit is recorded under provisions and valued at the cost of acquisition for the allowances purchased and at fair value for the allowances pending to purchase on the date the financial statements are filed.

There are no intangible assets with indefinite useful life other than goodwill.

2.6 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, plan 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 two to six 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 amounts. These are included in the income statement.

b) Depreciation

Assets are depreciated using the straight-line method, over their estimated useful life or, if lower, over the time of the concession agreement (see Note 5). Estimated useful lives are as follows:

	Years of estimated useful life
Buildings	33-50
Liquefied natural gas (LNG) transport gas tankers	25-30
Technical installations (pipeline network and transport)	20-40
Technical installations (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 gas

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

- Explorations costs

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

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

- Investments in areas with reserves

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

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

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 at least annually.

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 evaluating value in use, the estimated future cash flows are calculated at their current value. Thus, the assets and goodwills are assigned to Cash Generating Units (CGUs). Each CGU represents the investment of GAS NATURAL in each business segment in each country in which it trades.

If there is impairment, reviews are made at each balance sheet date in the event that losses are reversed.

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 in accordance with the sector forecasts available. 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 2008 fluctuated between 6% and 18% 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) Loans and financial receivables

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

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

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

b) Held-to-maturity financial assets

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

c) Fair value financial assets through profit or loss

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

d) Available-for-sale financial assets

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

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

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

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

Cash and cash equivalents

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

Borrowings

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

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

Trade and other payables

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

2.9 Accounting for derivative financial instruments and hedging activities

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

GAS NATURAL documents at the inception of the transaction and periodically, 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 assets hedged are offset by the change in the fair value or cash flows of the hedging instrument, with an effectiveness ranging from 80% to 125%.

For accounting purposes, the operations are classified as follows:

a) Fair value hedge

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

b) Cash flow hedge

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

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

c) Derivatives that do not qualify for hedge accounting

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

d) Gas purchase and sale agreements

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

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

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

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

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

2.10 Inventories

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

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

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 relevant year end initiatives have been initiated for their sale, which is estimated to take place within the next twelve months. These assets are stated at the lower of their carrying value and fair value, less the costs necessary for their sale and are not subject to depreciation.

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, net of tax, are deducted from equity as a deduction from Reserves.

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

2.13 Capital grants and deferred Income

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

Capital grants and deferred income relates primarily to:

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

- Income in consideration for new connections and branch lines due to the activity required to provide new supply needs to expand those already existing.

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

Capital grants and 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 for employee obligations

a) Post-employment pension obligations and the like

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. It also has defined post-employment saving contribution plans to award management loyalty.

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 GAS NATURAL, which in relation to companies in Spain have been transferred out of the companyin 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 on the balance sheet in respect of defined benefit pension plans is the present value of the defined benefit obligation at the balance sheet date less the fair value of plan assets, together with adjustments for 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 "Reserves".

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

b) Other post-employment benefit obligations

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

c) Termination benefits

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

2.15 Provisions

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

Provisions are 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.

2.16 Leases

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

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

Deferred taxes are recorded by comparing the temporary differences that arise between the taxable income on assets and liabilities and their respective accounting figures in the consolidated annual accounts used the tax rates that are expected to be in force when the assets and liabilities are realised. No deferred tax liabilities are recognised for profits not distributed from the subsidiaries when GAS NATURAL 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 and expenses recognition

Sales are recognized when products are delivered to and have been accepted by the client, even if they have not been invoiced, or if applicable, services are rendered, and it is probable that the economic benefits associated with the transaction will flow to the entity. The expenses are recognised on an accruals basis, immediately in the case of disbursements that are not going to generate future economic profits or when the requirements for recording them as assets are not met.

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

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

Sales for the year include the estimate of electricity supplied which has not been billed.

The legal framework governing the regulated activities in the gas industry in Spain (Note 3), 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 and recorded as income on the basis of the revision of last year's remuneration, the average increase in the consumer price index and related energy prices, as set out by the Ministerial Order and adjusted using real data.

The remuneration of the bundled tariff is calculated and recorded as income using the variables and rates of the formula laid down in the Ministerial Order that establishes remuneration for the year, bearing in mind the energy supplied. As from July 1, 2008 the bundled tariff is no longer a distribution activity.

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 2006 and 2007, but the provisional deviations for these years have been considered in order to calculate the tariffs, tolls and levies for 2007 to 2009. 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 deregulated 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.

Electricity sales based on industry regulation (Note 3) are accounted for according to actual consumption.

GAS NATURAL has electricity generating capacity assignment agreements without purchase options for its combined cycle plants in Mexico and Puerto Rico. Under these agreements, GAS NATURAL obtains fixed revenues for capacity and operation of the combined cycle plants over the term of the agreements. These fixed revenues are recognised as operating lease revenues on a straight-line basis in each year of the term of the agreement as these agreements are classified as operating lease, irrespective of the agreed billing schedule.

Interest income is recognized using the effective interest method.

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

2.19 Cash flow Statements

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

a) operating activities: activities that constitute ordinary Group revenues, as well as other activities that cannot be qualified as 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, 2008 and have been adopted by GAS NATURAL:

a) IFRIC 11, "Group and Treasury Shares Transactions", which provides guidance on the way in which IFRS 2 "Share-based payments" must be applied.

b) IFRIC 14, "IAS 19 The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction."

Furthermore, GAS NATURAL has adopted IAS 39 and IFRS 7 (Amendments), "Reclassification of Financial Assets - Efective Date and Transition", issued by the IASB in October 2008 and adopted by the European Union for application as from July 1, 2008, and it has availed itself of early adoption of IFRS 8, "Operating Segments", which substitutes IAS 14 and stipulates that segment reporting must be based on internal management information.

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

The following new IFRS and IFRIC coming into force no later than January 1, 2009 have also been approved and published:

- IAS 1 "Presentation of Financial Statements".
- IAS 23 (Amendment) "Borrowing Costs".
- IFRS 2 (Amendment) "Share-based payments".
- IFRIC 13 "Customer Loyalty Programmes".
- IFRS 1 "First-time Adoption of IFRS" and IAS 27 "Consolidated and Separate Financial Statements".
- Improvements to International Financial Reporting Standards.
- IAS 32 (Amendment) "Financial Instruments: Presentation" and IAS 1 (Amendment) "Presentation of Financial Statements".

On the basis of an analysis of these new accounting standards and interpretations to be applied to fiscal years beginning January 1, 2009, GAS NATURAL does not expect that its application will have significant effects on the consolidated annual accounts.

On the other hand, two other interpretations of IFRS have come into force that were issued by the IASB (IFRIC 12 "Service Concession Arrangements), which have not been applied given that they have not been adopted by the European Union at the date of formulation of these annual accounts. GAS NATURAL has not assessed the impact of their application on the annual accounts.

2.21 Significant accounting estimates and judgments

The preparation of consolidated financial statements requires the formulation of estimates and judgements. 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) 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 and expenses 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.

Sector regulation stipulates the obligation to subtract from energy generation revenues the amount equivalent to the assigned emission rights (Note 3). The result of the application of this legislation has not led GAS NATURAL to recording significant amounts for the estimates made.

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.

GAS NATURAL believes that, based on current knowledge, the changes expected in the key assumptions on which the determination of the recoverable amounts are based would not result in the carrying values of the CGUs exceeding the recoverable amounts. It has been carried out a sensitivity analysis in relation to the used estimate discount rate concluding that if it was 1% higher, holding constant the other scenarios, it would not impact on the possible recovery of the recorded goodwill.

e) Fair value of derivatives or other financial instruments

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

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

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

Note 3. Regulatory framework

a) Regulation of the natural gas industry in Spain

Main characteristics of the natural gas industry in Spain

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

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

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

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

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

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

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

Regulation of natural gas activities in Spain

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

1. Regulated activities

Regulated activities are characterised by:

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

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

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

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

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

Regulation stipulates the obligation of transport and distribution companies to maintain a legal separation of the regulated and unregulated activities, which must be carried out by different companies as well as the separation of the accounting for the regulated activities in order to avoid cross-subsidisation and to increase the transparency in the calculation of rates, tolls and levies.

1.1. Transport

The transport activity includes regasification, storage and transport of gas in the strict sense through the basic high pressure gas pipeline network. We describe these activities concisely below, along with the main obligations of the transport companies:

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

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

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

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

1.2. Distribution

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

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

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

The Resolution of December 31, 2008 of the Directorate of Energy and Mining Policy set out the remuneration for 2009 distribution in application of the Ministerial Order 3802/2008. Specifically, the initial remuneration for GAS NATURAL for 2009 totals Euros 1,206 million.

2. Unregulated activities

2.1. Supplies (import of natural gas):

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

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

2.2. Commercialisation:

Since 1 July 2008, as per Law 12/2007 and the regulations pursuant thereto, of special note amongst which are Royal Decree 1068/2007 of July 27, and Order 2309/2007 of July 30, natural gas has come to be exclusively supplied by commercialisers, and the bundled tariff has disappeared, which up to such date was carried out by distribution companies, and the right has been given to under 4 bar consumers, who do not exceed a certain consumption threshold (3 GWh, which will fall to 2 GWh in July 2009 and 1 GWh in July 2010), to be supplied at a maximum rate that is called the last resort tariff.

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

Under successive ministerial orders the criteria have been regulated for the establishment of the last resort tariff, its functioning and the setting of the specific amounts. Concretely, for the calculation of this tariff, which is updated quarterly, the cost of raw materials, the respective access tolls, the commercialisation costs and the supply security costs are all taken into account.

b) Regulation of the natural gas industry in Latin American

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

In Mexico, PEMEX is the dominant operator.

Brazil Petrobras is the dominant operator.

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

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

c) Regulation of the natural gas industry in Italy

In Italy, natural gas activity has been fully liberalised since January 1, 2003. However, the natural gas supply price is still being set by the Autorità per Energia Elettrica e il Gas (the Italian National Energy Commission, AEEG) for residential customers (customers that do not surpass the consumption threshold 200,000 m^3 per year), who have not opted for a new provider. On the other hand, for residential customers that have opted for a new natural gas provider in the market, the AEEG has established, on the basis of effective service costs, reference tariffs that the supply companies, as part of their public service obligations, must include in their commercial offering.

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

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

d) Electricity Sector in Spain

Main characteristics of the electricity sector in Spain

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

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

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

Generally, the electricity industry has the following main features:

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

- Following the directives set out in EU legislation (Directives 2003/54/CE of June 26, and 96/30/CE of June 22), the supply of electricity in Spain is totally deregulated, and all Spanish consumers and can freely choose their electricity provider as from January 1, 2003. Under Law 17/2007, and, as in the gas industry, as from January 1, 2009, the bundled tariff should have disappeared and all consumers would have been obligated to participate in the deregulated market. However, this reform has been delayed by the failure to publish the regulations pursuant to Law 12/2007, which will regulate the practical functioning of the last resort tariff.

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

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

- The electricity system is not self-sufficient and its maintenance generates an annual deficit.

The regulation of electricity activities in Spain

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

1. Regulated activities

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

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

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

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

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

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

1.1. Transport

The transport of electricity connects the generation plants with the distribution grids and specific final customers. The grid is owned mainly by REE.

1.2. Distribution

The distribution of electricity includes all activities that bring electricity from the high tension grid to the final consumer. At this time the distributors are also the owners of the distribution facilities, managers of the low tension grid and the final customer bundled tariff electricity suppliers.

However, as in the gas sector, it was expected that as from January 1, 2009 the distributors would be restricted to the management of the distribution grids, and, as the case may be, the commercialisers of each group would be in charge of last resort supply. The enactment of this reform has been delayed due to the failure to publish the regulations on the last resort electricity rate.

2. Unregulated activities

2.1. Electricity generation

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

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

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

Since 2006 legislation stipulates the obligation of generators to subtract from energy generation revenue an amount equal to the value of the greenhouse gas emission rights assigned previously and free of charge.

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

2.2. The commercialisation of electricity

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

As mentioned above, as from 1 January 2009, the regulated market would have been reduced to small consumers (last resort tariff) and this activity would have been carried out by bundled commercialisers. However, the coming into force of this reform has been delayed, although it is expected that the new regime will begin on July 1, 2009.

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

e) Regulation of the electricity sector in Puerto Rico

The Electricity sector in Puerto Rico is controlled by the Electricity Authorities (Autoridad de Energía Eléctrica - AEE or PREPA), a public corporation and government agency founded in 1941. Its mission is to provide electricity to its customers as efficiently, economically and safely as possible, in harmony with the environment.

At this time it generates, transports and distributes practically all the electricity consumed in Puerto Rico and is one of the largest public electrical utilities in the USA. PREPA has broad powers under Puerto Rican legislation and is self-regulated in terms of rates and service quality standards.

There are some independent generators that sell energy to PREPA, including Ecoeléctrica, an investee company of GAS NATURAL.

f) Regulation of the electric sector in Mexico

The electricity sector in Mexico is controlled by two government companies that monopolise the industry: the Federal Electricity Commission (Comisión Federal de Electricidad–CFE) and the Light and Power Centre. The latter company operates in the centre of the country, mainly Mexico City, while the former operates in the rest of the country. The two utilities are vertically integrated in terms of generation, transmission and distribution.

The amendments to the Public Electrical Utilities Act in 1992, allowed the private sector to participate in the generation of electricity in Mexico as external producers of energy, self-supply, cogeneration, import and export.

Until December 2008, the Energy Regulatory Commission had given 22 licences for independent production, with an authorised capacity of 11,958 MW using combined cycle plants. The independent producers sell their electricity exclusively to CFE, in accordance with long-term capacity and electricity contracts.

Note 4. Segment reporting

a) Primary segment reporting format-business segment

GAS NATURAL's reportable segments are as follows:

- *Gas distribution.* Gas distribution includes regulated gas activity, the remunerated gas distribution and transport activity, the services for access of third parties to the pipeline grid, and activities related to distribution. Until June 30, 2008 it also includes the bundled tariff supply, which, as indicated in Note 3.a), has come to be supplied through the de-regulated market as the supply of last resort.

  Gas distribution includes all of our sales to regulated customers in Spain (until June 30, 2008), 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 (as a result of the business combinations carried out on December 27, 2007) 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 (including the last resort supply as from July 1, 2008), as well as the provision of gas related products and services in Spain. In addition, they include the sales of natural gas 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	Total
2008	**Spain**	**Latin America**	**Italy**	**Total**	**Spain**	**Mexico**	**P. Rico**	**Total**				
Total segment sales (*)	1,711	2,531	164	4,406	1,898	671	149	2,718	8,220	284	167	15,795
Inter segment sales (*)	(993)	-	-	(993)	(461)	-	-	(461)	(504)	(157)	(136)	(2,251)
Consolidated total sales (*)	718	2,531	164	3,413	1,437	671	149	2,257	7,716	127	31	13,544
Ebitda (*)	886	467	36	1,389	366	97	53	516	465	185	9	2,564
Depreciation and amortization expenses	(303)	(94)	(27)	(424)	(98)	(63)	(18)	(179)	(8)	(49)	(66)	(726)
Debtors provisions and others	(10)	(10)	(1)	(21)	(6)	-	-	(6)	(19)	-	2	(44)
Operating income	573	363	8	944	262	34	35	331	438	136	(55)	1,794
Net finance cost	-	-	-	-	-	-	-	-	-	-	-	(249)
Share of profit of associates	5	-	-	5	1	-	-	1	-	-	-	6
Income before taxes	-	-	-	-	-	-	-	-	-	-	-	1,551
Income tax expense	-	-	-	-	-	-	-	-	-	-	-	(379)
Net income for the period	-	-	-	-	-	-	-	-	-	-	-	1,172

	Gas distribution				Electricity				W&R	UP&MID	Other	Total
2007	**Spain**	**Latin America**	**Italy**	**Total**	**Spain**	**Mexico**	**P. Rico**	**Total**				
Total segment sales (*)	2,116	1,766	151	4,033	1,127	-	144	1,271	6,037	259	154	11,754
Inter segment sales (*)	(541)	-	-	(541)	(87)	-	-	(87)	(756)	(151)	(126)	(1,661)
Consolidated total 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 amortization 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	-	-	-	-	-	-	-	-	-	-	-	(160)
Share of profit of associates	6	-	-	6	2	-	-	2	-	-	-	8
Income before taxes	-	-	-	-	-	-	-	-	-	-	-	1,415
Income tax expense	-	-	-	-	-	-	-	-	-	-	-	(359)
Net income for the period	-	-	-	-	-	-	-	-	-	-	-	1,056

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

The assets and investments recorded under equity accounting, liabilities and investments, including additions for business combinations, by segments, are as follows:

At 31.12.2008	Assets	Investments under equity method	Liabilities	Capital expenditure/ business combinations
Gas Distribution	7,103	36	(1,631)	722
Spain	4,443	36	(982)	461
Latin America	1,948	-	(393)	141
Italy	712	-	(256)	120
Electricity	4,229	6	(504)	420
Spain	2,881	6	(264)	377
Mexico	1,126	-	(175)	36
Puerto Rico	222	-	(65)	7
Wholesale & Retail	2,339	-	(2,387)	13
Upstream & Midstream	1,070	-	(61)	29
Others	431	-	(484)	81
Total	**15,172**	**42**	**(5,067)**	**1,265**

At 31.12.2007	Assets	Investments under equity method	Liabilities	Capital expenditure/ business combinations
Gas Distribution	6,960	32	(1,642)	688
Spain	4,249	32	(1,083)	451
Latin America	2,074	-	(322)	124
Italy	637	-	(237)	113
Electricity	3,842	6	(487)	1,369
Spain	2,530	6	(236)	331
Mexico	1,095	-	(180)	1,030
Puerto Rico	217	-	(71)	8
Wholesale & Retail	1,762	-	(1,159)	15
Upstream & Midstream	1,061	-	(121)	159
Others	410	-	(463)	71
Total	**14,035**	**38**	**(3,872)**	**2,302**

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 3,551 million at December 31, 2008 and Euros 1,347 million at December 31, 2007.

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 6,956 million at December 2008 and Euros 5,121 million at December 2007.

The investment includes the intangible assets (see Note 5) and property, plant and equipment (see 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:

	2008	2007
Spain	8,578	7,160
Rest of Europe	419	314
Latin America	3,201	1,797
Puerto Rico	149	144
USA	728	590
Other	469	88
Total	**13,544**	**10,093**

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:

	At 31.12.2008	At 31.12.2007
Spain	10,712	9,511
Rest of Europe	858	731
Latin America	3,074	3,169
Puerto Rico	223	217
Maghreb	377	445
Total	**15,244**	**14,073**

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

	At 31.12.2008	At 31.12.2007
Spain	936	888
Rest of Europe	69	58
Latin America	178	124
Puerto Rico	7	8
Maghreb	19	133
Total	**1,209**	**1,211**

Note 5. Intangible assets

The movement during 2008 and 2007 related to intangible assets was as follows:

	Concession and other rights to use	Computer software	Other intangible assets	Subtotal	Goodwill	Total
Cost, gross	1,164	355	241	1,760	441	2,201
Accumulated depreciation	(323)	(229)	(20)	(572)	-	(572)
Net carrying value at 1.1.2007	**841**	**126**	**221**	**1,188**	**441**	**1,629**
Investment	3	55	5	63	-	63
Divestitures	-	-	(1)	(1)	-	(1)
Depreciation charge	(49)	(45)	(18)	(112)	-	(112)
Cumulative translation adjustment	(16)	-	-	(16)	(22)	(38)
Business combinations *(Note 28)*	-	-	-	-	122	122
Reclassifications and others	-	-	(27)	(27)	-	(27)
Closing net carrying value at 31.12.2007	**779**	**136**	**180**	**1,095**	**541**	**1,636**
Cost gross	1,126	409	205	1,740	541	2,281
Accumulated depreciation	(347)	(273)	(25)	(645)	-	(645)
Net carrying value at 1.1.2008	**779**	**136**	**180**	**1,095**	**541**	**1,636**
Investment	4	69	68	141	-	141
Divestitures	-	(1)	-	(1)	-	(1)
Depreciation charge	(49)	(49)	(6)	(104)	-	(104)
Cumulative translation adjustment	(61)	(2)	-	(63)	2	(61)
Business combinations *(Note 28)*	-	-	-	-	3	3
Reclassifications and others	3	1	(1)	3	-	3
Net carrying value at 31.12.2008	**676**	**154**	**241**	**1,071**	**546**	**1,617**
Cost, gross	1,071	434	271	1,776	546	2,322
Accumulated depreciation	(395)	(280)	(30)	(705)	-	(705)
Net carrying value at 31.12.2008	**676**	**154**	**241**	**1,071**	**546**	**1,617**

Concessions and other rights to use includes:

- The right to use the Maghreb-Europe pipeline, through which GAS NATURAL has an exclusive right to use the pipeline and the obligation to maintain and improve it when necessary. The net carrying value of this right totals Euros 357 million at December 31, 2008 (Euros 362 million at December 31, 2007). This right will terminate in 2021 and can be renewed.

- Concession agreements by virtue of which GAS NATURAL operates in the distribution of natural gas in Latin America, generally with extendable terms longer than 30 years. These agreements contemplate provisions for the use of public thoroughfares for the direct supply of gas to end users. There are also branch line connection obligations under current legislation. Upon termination of the concession agreements, there is a legal obligation to transfer ownership of the pipeline network for appropriate consideration. The following concession agreements are of special note:

  a) Gas distribution concession in the metropolitan area of Rio de Janeiro, which totals Euros 158 million at December 31, 2008 (Euros 210 million at December 31, 2007). The concession will expire in 2027 and can be renewed.

b) Gas distribution concession in the south of the state of São Paulo, which totals Euros 125 million at December 31, 2008 (Euros 162 million at December 31, 2007). The concession will expire in 2030 and can be renewed.

Other intangible assets mainly includes projects underway for new wind farms totalling Euros 79 million at December 31, 2008 (Euros 81 million at December 31, 2007), the cost of the acquisition of the exclusive regasification rights in Puerto Rico, which total Euros 61 million at December 31, 2008 (Euros 65 million at December 31, 2007) and the acquired emission allowances for Euros 60 million (Euros 1 million at December 31, 2007).

The main movements in goodwill in 2008 and 2007 are described in Note 28. In 2007 the Group acquired 28% of the share capital of the subsidiaries Invergás, S.A., Gas Natural SDG Argentina, S.A., Natural Energy, S.A. and Natural Servicios, S.A., which gave rise to goodwill of Euros 27 million.

The goodwill is assigned to the Cash Generating Units (CGUs) of GAS NATURAL, identified by country of operation and business trading segment. Set out below is a summary of goodwill assignment by segment.

	At 31.12.2008				At 31.12.2007			
	Gas distribution	Electricity	UP&MID	Total	Gas distribution	Electricity	UP&MID	Total
Spain	-	118	2	120	-	118	2	120
Italy	143	-	-	143	140	-	-	140
Argentina	26	-	-	26	27	-	-	27
Puerto Rico	-	122	-	122	-	115	-	115
Mexico	25	89	-	114	30	84	-	114
Brazil	21	-	-	21	25	-	-	25
	215	**329**	**2**	**546**	**222**	**317**	**2**	**541**

The impairment tests have been carried out at December 31, 2008 and 2007. On the basis of the goodwill impairment analysis it cannot be deduced that impairment will probably arise in the future.

Note 6. Property, plant and equipment

The movements in the accounts in 2008 and 2007 under property, plant and equipment and their respective accumulated amortisation and provisions have been as follows:

	Land and buildings	Gas transport tankers under finance lease	Gas installa-tions	Combined cycle plants	Wind farms	Exploration and development	Other PPE	PPE under construction	Total
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 carrying value at 1.1.2007	**158**	**313**	**5,054**	**1,322**	**325**	**79**	**232**	**623**	**8,106**
Investment	18	81	527	55	13	62	26	366	1,148
Divestitures	(1)	-	(7)	(2)	-	(2)	(29)	-	(41)
Depreciation charge	(7)	(12)	(375)	(72)	(18)	(5)	(50)	-	(539)
Cumulative translation adjustment	(3)	-	(33)	(45)	-	(6)	(8)	(3)	(98)
Business combinations *(Note 28)*	13	-	56	1,015	-	4	2	1	1,091
Reclassifications and others	3	-	84	374	25	(62)	140	(526)	38
Net carrying value at 31.12.2007	**181**	**382**	**5,306**	**2,647**	**345**	**70**	**313**	**461**	**9,705**
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)
Net carrying value at 1.1.2008	**181**	**382**	**5,306**	**2,647**	**345**	**70**	**313**	**461**	**9,705**
Investment	10	-	560	48	2	14	21	413	1,068
Divestitures	(2)	-	(12)	-	(1)	-	(2)	(1)	(18)
Depreciation charge	(8)	(15)	(395)	(145)	(22)	(4)	(33)	-	(622)
Cumulative translation adjustment	(1)	-	(177)	60	-	1	-	(10)	(127)
Business combinations *(Note 28)*	-	-	56	-	-	-	-	-	56
Reclassifications and others	(3)	-	113	3	5	(4)	(88)	(100)	(74)
Net carrying value at 31.12.2008	**177**	**367**	**5,451**	**2,613**	**329**	**77**	**211**	**763**	**9,988**
Cost, gross	248	433	9,208	3,001	429	123	475	763	14,680
Accumulated depreciation	(71)	(66)	(3,757)	(388)	(100)	(46)	(264)	-	(4,692)
Net carrying value at 31.12.2008	**177**	**367**	**5,451**	**2,613**	**329**	**77**	**211**	**763**	**9,988**

LNG transport gas tankers for the transport of liquefied natural gas were acquired under finance lease agreements (see Note 17). In December 2007 a 138,000 m^3 tank was acquired through a 25-year time-charter lease, extendible for consecutive periods of five 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.

Exploration and development at December 31, 2008 includes the net carrying value of investments in zones with reserves of Euros 31 million and exploration costs of Euros 46 million.

PPE under construction at December 31, 2008 includes investment in combined cycle plants in Malaga that are expected to come into operation in 2009, and at the Barcelona Harbour, to be operating in 2010, and totals Euros 522 million (Euros 298 million at December 31, 2007). In July 2007 commercial operations began for the combined cycle power plant in Plana del Vent (Tarragona).

The borrowing costs capitalised for the year ended December 31, 2008 to plant projects during their construction total Euros 25 million (Euros 17 million at December 31, 2007). The borrowing costs in 2008 represent 8.2% of total net debt (8.5% for the period corresponding to December 31, 2007).

GAS NATURAL has investment commitments of Euros 316 million at December 31, 2008, basically for the construction of combined cycle electricity plants and Upstream projects. Furthermore, it has a joint commitment with Repsol YPF, S.A. for contracting an LNG transport gas tanker with a capacity of 138,000 m³ that is expected to be operative in 2009.

At December 31, 2008 GAS NATURAL did not have any real estate investment.

Property, plant and equipment includes fully depreciated assets totalling Euros 716 million.

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 7. Investments recorded using the equity method accounting

The movement in 2008 and 2007 in associates is as follows:

	2008	2007
Opening balance	**38**	**34**
Share of loss/profit	6	8
Dividends received	(1)	(2)
Divestitures	-	(2)
Others	(1)	-
Closing Balance	**42**	**38**

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

The most significant information on associates consolidated using the equity method (which none of them are listed in a stock market) are as follows:

	Country	Assets	Liabilities	Income	Profit	% Interest held
2008						
Enervent, S.A.	Spain	22	16	7	2	26.0%
Gas Aragón, S.A	Spain	131	67	55	10	35.0%
Kromschroeder, S.A.	Spain	16	4	18	-	42.5%
Oficina de Cambios de Suministrador, S.A.	Spain	-	-	-	-	20.0%
Sistemas Energéticos La Muela, S.A.	Spain	11	2	5	2	20.0%
Sistemas Energéticos Mas Garullo, S.A. (1)	Spain	10	6	4	2	18.0%
Torre Marenostrum, S.L	Spain	77	57	6	-	45.0%
2007						
Enervent, S.A.	Spain	24	18	6	2	26.0%
Gas Aragón, S.A	Spain	123	82	74	17	35.0%
Kromschroeder, S.A.	Spain	19	6	25	1	42.5%
Sistemas Energéticos La Muela, S.A.	Spain	11	4	3	3	20.0%
Sistemas Energéticos Mas Garullo, S.A. (1)	Spain	11	8	2	2	18.0%
Torre Marenostrum, S.L	Spain	78	58	6	-	45.0%

(1) Consolidated by equity method in spite of the fact that the shareholding percentage is below 20%, since GAS NATURAL has a significant representation in the company's management.

Note 8. Financial assets

The breakdown of financial assets, excluding Trade and other receivables (Note 10) and Cash and cash equivalents (Note 11) at December 31, 2008 and 2007, is as follows:

At December 31, 2008	Fair value through profit and loss for the year	Available for sale	Loans and other receivables	Investments held to maturity	Hedging derivatives	Total
Equity instruments	-	2,599	-	-	-	2,599
Derivatives *(Note 16)*	-	-	-	-	4	4
Other financial assets	-	-	215	2	-	217
Non-current financial assets	**-**	**2,599**	**215**	**2**	**4**	**2,820**
Derivatives *(Note 16)*	36	-	-	-	7	43
Other financial assets	169	-	95	53	-	317
Current financial assets	**205**	**-**	**95**	**53**	**7**	**360**
Total financial assets at December 31, 2008	**205**	**2,599**	**310**	**55**	**11**	**3,180**

At December 31, 2007	Fair value through profit and loss for the year	Available for sale	Loans and other receivables	Investments held to maturity	Hedging derivatives	Total
Equity instruments	-	298	-	-	-	298
Derivatives *(Note 16)*	-	-	-	-	33	33
Other financial assets	150	-	186	52	-	388
Non-current financial assets	**150**	**298**	**186**	**52**	**33**	**719**
Derivatives *(Note 16)*	-	-	-	-	6	6
Other financial assets	-	-	54	-	-	54
Current financial assets	**-**	**-**	**54**	**-**	**6**	**60**
Total financial assets at December 31, 2007	**150**	**298**	**240**	**52**	**39**	**779**

Fair value financial assets through profit and loss

Fair value financial instruments through profit and loss include financial deposits maturing in 2009 totalling Euros 158 million accruing interest of 2.57%. No changes in fair value have been identified in these deposits arising from instrument-related credit risk.

It also includes the fair value valuation of the Equity Swap contracts on 85,886,762 shares of Unión Fenosa, S.A., representing 9.40% of share capital, and the forward fixed-price sale and purchase agreement entered into with Caja Navarra for 2,721,000 shares of Unión Fenosa, S.A., representing 0.297% of share capital, all of which have been mentioned in Note 2.2.e), which have been carried in the income statement, under Variations in fair value of financial instruments (Note 26).

Available-for-sale financial assets

The investment of Available-for-sale financial assets for 2008 and 2007 is as follows:

	2008	2007
Opening balance	**298**	**368**
Increases	2,459	4
Divestitures	(32)	(124)
Fair value adjustment	(126)	51
Conversion differences	(1)	-
Others	1	(1)
Closing balance	**2,599**	**298**

Available-for-sale financial assets include the following:

	At 31.12.2008	At 31.12.2007
Listed equity securities	2,571	239
Unlisted equity securities	28	31
Investment fund	-	28
	2.599	**298**

The main variation in 2008 is the result of the purchase of 14.72% of Unión Fenosa, S.A. (see Note 2.2.e) in the amount of Euros 2,457 million. This stake has been adjusted to the quotation value at the year end (Euros 17.73 per share) impacting Adjustments for changes in value in equity totalling Euros 72 million before the tax effect (net of taxes it totals Euros 51 million). It was not considered necessary to record an impairment loss for this investment against the income statement since there were tacit gains at the time of the purchase that subsist at the balance sheet date and at the date of formulation of the consolidated annual accounts.

On July 30, 2008, the 14.77% shareholding in Transportadora Colombiana de Gas S.A., ESP was sold for Euros 11 million, which generated a net profit of Euros 8 million.

At December 31, 2008 the shareholding of GAS NATURAL in Enagás, S.A. was 5%, in accordance with the provisions of the Tax, Administrative and Labour Measures Act, Law 62/2003/December 30, which states that no natural or legal person can hold a direct or indirect share in this entity above 5% of its share capital. Under the provisions of Law 12/2007/July 2, any natural or legal persons undertaking activities in the gas industry cannot exercise voting rights in the System Technical Regulatory Body (Gestor Técnico del Sistema), which is a feature of Enagás, S.A., if its share exceeds 1%. Given that the quotation of Enagás, S.A. at December 31, 2008 was Euros 15.56 per share (Euros 19.99 per share at December 31, 2007), the valuation of the shareholding totals Euros 186 million (Euros 239 million at December 31, 2007).

On May 17, 2007 the 9.38% shareholding in Naturgas Energía Grupo, S.A. was sold for Euros 122 million, generating a net profit of Euros 65 million, reducing Adjustments for change in value.

Loans and other financial assets

The breakdown at December 31, 2008 and 2007 is as follows:

	At 31.12.2008	At 31.12.2007
Commercial loans	89	81
Deposits and guarantee deposits	53	52
Debtors for levelling of capacity income	57	50
Other loans	16	3
Loans and Other non-current financial assets	**215**	**186**
Commercial loans	47	47
Dividend receivable	41	3
Others loans	7	4
Loan and Other current financial assets	**95**	**54**
Total	**310**	**240**

The breakdown by maturities at December 2008 and 2007 is as follows:

Maturities	At 31.12.2008	At 31.12.2007
No later than one year	95	54
Between one year and five years	127	58
Later than five years	88	128
Total Other financial assets	**310**	**240**

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

The corresponding interest rates (7.75% to 9% for loans between one to five years) are in line with market interest rates for loans of such kind and duration. Therefore, their carrying value approximates to their fair value.

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

Other loans include the current and non-current value of the deferred amounts pending receipt for the sale of shareholdings mentioned in Note 17 to Chemo España, S.L. for USD 22 million maturing between 2009 and 2013.

Investments held to maturity

Financial instruments held to maturity include financial investments totalling Euros 54 million, of which Euros 53 million mature in 2009, that have accrued interest of 4.76%.

Hedging derivatives

Note 16 includes the breakdown of derivative financial instruments.

Note 9. Inventories

The breakdown of Inventories is as follows:

	At 31.12.2008	At 31.12.2007
Natural gas and liquefied gas	480	376
Raw materials and other inventories	80	86
Total inventories	**560**	**462**

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

Note 10. Trade and other receivables

The breakdown of this account is as follows:

	At 31.12.2008	At 31.12.2007
Trade receivables	2,464	2,172
Receivables with related companies (1)	89	80
Provision for depreciation of receivables	(183)	(175)
Trade receivables	2,370	2,077
Public Administrations	78	92
Prepayments	62	47
Derivative financial instruments *(see Note 16)*	60	5
Sundry receivables	198	138
Other receivables	398	282
Current deferred income tax assets	17	13
Total	**2,785**	**2,372**

(1) Repsol YPF Group, Suez Group (GDF-Suez at 31.12.08)

The movement in the impairment of receivables is as follows:

	2008	2007
Opening balance	**(175)**	**(153)**
Net charge for the year	(41)	(42)
Disposals	18	18
Cumulative translation adjustments and others	15	2
Closing balance	**(183)**	**(175)**

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

Note 11. Cash and cash equivalents

Cash and cash equivalents comprise the following:

	At 31.12.2008	At 31.12.2007
Cash at bank and in hand	122	55
Short term investments (Spain and rest of Europe)	87	13
Short term investments (Latin America)	40	84
Total	**249**	**152**

Bank deposits are very liquid (less than ten days). The average effective interest rate is 4.4% at December 2008 (5.9% at December 2007).

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

- Spain: 3.6 % at December 2008 and 4.0% at December 2007.

- Latin America: 7.3% at December 2008 and 6.3% at December 2007.

Note 12. Equity

The breakdown and movements in this account are as follows:

	Equity attributable to the equity holders of the Company						
	Share capital	Reserves	Profit for the year	Adjust-ments for changes in value	Subtotal	Minority interest	Total net equity
Balance at 1.1.2007	**448**	**4,133**	**855**	**216**	**5,652**	**344**	**5,996**
Dividend	-	390	(855)	-	(465)	(70)	(535)
Income and expenses recognised	-	-	960	(77)	883	94	977
Acquisition of minority interests	-	-	-	-	-	(11)	(11)
Balance at 31.12.2007	**448**	**4,523**	**960**	**139**	**6,070**	**357**	**6,427**
Dividend	-	427	(960)		(533)	(82)	(615)
Income and expenses recognised	-	(7)	1,057	(211)	839	69	908
Other variations		-	-	-	-	1	1
Balance at 31.12.2008	**448**	**4,943**	**1,057**	**(72)**	**6,376**	**345**	**6,721**

Share capital

At December 31, 2008 and at December 31, 2007 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, nullifying the authorization given to the Board of Directors by the General Meeting of Shareolders of April 30, 2002 under article 153, 1, b) of the Spanish Public Limited Companies Act, was authorised to increase share capital up to a maximum of Euros 223,888,014 within a period of five years, through a cash contribution, and once or several times without new authorisation.

By virtue of a resolution of the General Meeting of Shareholders of May 21, 2008, 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%.

During 2008 and 2007 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 are listed on the Ibex 35.

The 2008 year end quotation of Gas Natural SDG, S.A. was Euros 19.29 (Euros 40.02 at December 31, 2007). 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, 2008 of Pesos 1.22 per share (Pesos 2.53 per share at December 31, 2007).

The most important shareholdings in the share capital of Gas Natural SDG, S.A. at December 31, 2008 are as follows:

	% shareholding
"La Caixa" Group (Criteria CaixaCorp, S.A.)	37.46
Repsol YPF Group	30.85
GDF-Suez Group	8.84
Caixa d'Estalvis de Catalunya	3.03

On July 22, 2008 the merger of the Gaz de France and Suez groups concluded, thus creating the GDF-Suez Group.

On October 28, 2008 the GDF-Suez Group and Criteria CaixaCorp,S.A. acquired 5.03% of Gas Natural SDG, S.A., which had been owned until that date by Holding de Infraestructuras y Servicios Urbanos, S.A. (HISUSA), in the same proportion to their interest in HISUSA (51% for GDF-Suez Group and 49% for Criteria CaixaCorp, S.A.).

Reserves

Reserves includes the following reserves:

	At 31.12.2008	At 31.12.2007
Legal reserve (a)	90	90
Statutory reserve (b)	68	68
Revaluation reserve (c)	225	225
Reserve for redenomination in Euros (d)	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 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 revalued 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.

Earnings per share

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

	At 31.12.2008	At 31.12.2007
Profit attributable to equity holders of the Company	1,057	959
Weighted average number of ordinary shares in issue (million)	448	448
Earning per share (in Euros):		
Basic	2.36	2.14
Diluted	2.36	2.14

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

Dividends

The Board of Directors adopted a resolution on November 30, 2007 to distribute an interim dividend against 2007 profit of Euros 0.43 gross per share, totalling Euros 193 million, paid out as from January 8, 2008.

The General Meeting of Shareholders of May 21, 2008 adopted the following distribution of net profit of Gas Natural SDG, S.A. for 2007:

Basis for distribution	
Profit and (loss)	746
Distribution	
To voluntary reserve	235
To dividend	511

The Board of Directors of Gas Natural SDG, S.A. agreed at its meeting of November 28, 2008 to distribute an interim dividend against 2008 net income of Euros 0.48 per share, for a total of Euros 215 million, payable as from January 8, 2009.

The Company had the necessary liquidity at the date of approval of the interim dividend to make the payment in accordance with the requirements of articles 194.3 and 216 of the Spanish Public Limited Companies Act.

The provisional statement formulated by the Directors at November 28, 2008 is as follows:

Profit after tax		676
Forecast payment on account		215
Liquidity	464	
Undrawn credit facilities	1,350	
Total liquidity		1.814

On January 30, 2009 the Board of Directors adopted a proposal to submit to the General Meeting of Shareholders a resolution to distribution of net profit of Gas Natural SDG, S.A. for the year 2008 that is as follows:

Basis for distribution	
Profit and (loss)	992
Distribution	
To voluntary reserve	419
To dividend	573

Note 13. Grants

The breakdown and movement in this account in 2008 and 2007 is as follows:

	Grants	Revenues from pipeline networks and branch lines	Income from extension of pipelines charged to third parties	Other revenues	Total
At 1.01.2007	**196**	**160**	**96**	**26**	**478**
Financing received	27	27	20	2	76
Release to income	(9)	(11)	(9)	(1)	(30)
Business combinations *(Note 28)*	24	-	-	-	24
Cumulative translation adjustments	-	(1)	(1)	(3)	(5)
At 31.12.2007	**238**	**175**	**106**	**24**	**543**
Financing received	28	29	20	3	80
Release to income	(13)	(14)	(9)	(1)	(37)
Business combinations *(Note 28)*	22	-	-	-	22
Cumulative translation adjustments	-	(1)	-	(1)	(2)
At 31.12.2008	**275**	**189**	**117**	**25**	**606**

Note 14. Provisions

The breakdown of provisions at December 31, 2007 and 2008 is as follows:

	At 31.12.2008	At 31.12.2007
Provisions for employee obligations	69	87
Other provisions	556	378
Non-current provisions	625	465
Current provisions	146	65
Total	**771**	**530**

Provisions for employee obligations

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

	Post-employment pension obligations	Other employee obligations	Total
At 1.1.2007	**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 31.12.2007	**64**	**23**	**87**
Charge to the income statement	6	1	7
Amounts paid during the year	(8)	(18)	(26)
Cumulative translation adjustments	(8)	-	(8)
Variations recognised directly in equity	15	-	15
Other utilisations	-	(6)	(6)
At 31.12.2008	**69**	**-**	**69**

Post employment pension obligations

Breakdown by country	At 31.12.2008	At 31.12.2007	At 1.1.2007
Spain (1)	33	27	21
Brazil (2)	33	32	31
Italy	2	4	4
Mexico	1	1	1
Total	**69**	**64**	**57**

1) Pension Plans and other post-employment benefits in Spain.

At December 31, 2008 and December 31, 2007, 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 bargaining agreements.
- Lifetime death coverage for a certain collective.

The breakdown of the provisions for post-employment pensions and like obligations recognised on the balance sheet, as well as the movement in the current value of the obligations and the fair value of the assets of the plan are as follows:

Current value of the obligations	2008	2007
Opening balance	**182**	**189**
Current service cost	1	2
Interest cost	9	10
Actuarial gains and losses	12	(7)
Benefits paid	(13)	(12)
Closing balance	**191**	**182**
Fair value of plan assets		
Opening balance	**155**	**168**
Expected yield	7	9
Contributions	3	2
Actuarial gains and losses	6	(6)
Benefits paid	(13)	(11)
Others		(7)
Closing balance	**158**	**155**
Provisions for post-employment pension obligations	**33**	**27**

The real yield on plan assets in 2008 totalled Euros 7 million.

The amounts recognized in the income statement are as follows:

	At 31.12.2008	At 31.12.2007
Current service cost	1	2
Interest cost	9	10
Expected return on plan assets	(7)	(9)
Total charged to the income statement	**3**	**3**

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

	2008	2007
Opening balance	**27**	**21**
Total expense charged to the income statement	3	3
Contributions paid	(3)	(3)
Variations recognised directly in equity	6	(1)
Other utilisations	-	7
Closing balance	**33**	**27**

The main types of assets, expressed in percentages of the total fair value of the assets, are as follows:

% over total	2008	2007
Bonds	16.55	16.53
Buildings and other assets	83.45	83.47

Plan assets are insurance policies which flows relate exactly to the insured benefits both in terms of amounts and payment schedule (matching policies) with the guarantee yield of the plan.

The accumulated amount of actuarial gains and losses recognised directly in equity is negative in the amount of Euros 4 million for 2008 (positive by Euros 2 million in 2007).

The actuarial assumptions used were as follows:

	At 31.12.2008	At 31.12.2007
Discount rate (p.a) (%)	5.0	5.0
Expected return on plan assets (p.a) (%)	5.0	5.0
Future salary increases (p.a) (%)	3.0	3.0
Future pension increases (p.a) (%)	2.5	2.5
Inflation rate (p.a) (%)	2.3	2.0
Mortality table	PERMF 2000	PERMF 2000

The expected yield on plan assets is equal to the discount rate used in determining the current value of the obligations, since this rate has been determined in line with a certain yield that meets market conditions at the date of valuation for highly credit worthy corporate bonds.

2) Pension Plans and other post-employment benefits in Brazil

At December 31, 2008 and December 31, 2007, GAS NATURAL has in force the following employee benefits in its Brazilian subsidiary:

- Post-employment defined benefit plan, called "Gasius plan", covering retirement, death-in-service and disability pensions and lump sums.
- Post-employment health-care plan.
- Other minor post-employment defined benefit plans guaranteeing temporary pensions, lifetime pensions and lump sums depending on years of service.

The amounts recognized in the balance sheet are determined as follows:

Current value of the obligations	**2008**	**2007**
Opening balance	**109**	**90**
Current service cost	-	-
Interest cost	10	10
Actuarial gains and losses	3	10
Benefits paid	(6)	(7)
Cumulative translation adjustments	(21)	6
Closing balance	**95**	**109**
Fair value of plan assets		
Opening balance	**77**	**59**
Expected yield	7	7
Contributions	3	3
Actuarial gains and losses	(6)	10
Benefits paid	(6)	(7)
Cumulative translation adjustments	(13)	5
Closing balance	**62**	**77**
Provisions for post-employment pension obligations	**33**	**32**

Actual yield from plan assets in 2008 have not had significant impacts.

Pension plan assets are invested as follows:

	At 31.12.2008 (%)	**At 31.12.2007 (%)**
Equities	10,7	18,9
Bonds	84,0	77,1
Property	5,3	4,0
Total	**100,0**	**100,0**

The amounts recognized in the income statement are as follows:

	At 31.12.2008	**At 31.12.2007**
Current service cost	-	-
Interest cost	10	10
Expected return on plan assets	(7)	(7)
Total income statement charge	**3**	**3**

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

	At 31.12.2008	At 31.12.2007
Opening balance	**32**	**31**
Cumulative translation adjustments	(8)	1
Charge against the income statement	3	3
Contributions paid	(3)	(3)
Variations recognised directly in net equity	9	-
Closing balance	**33**	**32**

The accumulated actuarial gains and losses recognised directly in equity total Euros 3 million in 2008 (Euros 12 million in 2007).

The principal annual actuarial assumptions used were as follows:

	At 31.12.2008	At 31.12.2007
Discount rate (p.a) (%)	10,8	10,5
Expected return on plan assets (p.a) (%)	10.8	10.5
Future salary increases (p.a) (%)	6.5	6.0
Future pension increases (p.a) (%)	0.0	0.0
Inflation rate (p.a) (%)	4.5	4.5
Mortality table	AT-83	AT-83

Other provisions for employee obligations

These relate to deferred remunerated commitments to award executive loyalty.

Effective as from January 1, 2008, these commitments have been replaced by a defined retirement savings contribution plan with a guaranteed yield, arranged through collective pension insurance policies.

Other current and non-current provisions

This account includes the provisions recorded to meet obligations arising mainly from tax claims, as well as litigation and arbitration proceedings underway. The information on the nature of the disputes with third parties and the position of the entity in relation to them is set out in the section on “Litigation and Arbitration” in Note 32. It also includes under Current provisions the excess emission of assigned rights totalling Euros 60 million at December 31, 2008 (with no impact at December 31, 2007).

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

	2008		2007	
	Non-current provisions	Current provisions	Non-current provisions	Current provisions
Opening balance	**378**	**65**	**367**	**8**
Charged to / reversed in the income statement				
Provisions	171	59	137	1
Reversals	(6)	-	(22)	(2)
Amounts paid during the year	(10)	(12)	(40)	(6)
Business combinations *(Note 28)*	1	-	1	-
Cumulative translation adjustments	(1)	5	(5)	-
Reclassifications and others	23	29	(60)	64
Closing balance	**556**	**146**	**378**	**65**

In relation to non current provisions, given the features of the risks included, it is not possible to determine a reasonable calendar for the payment dates.

Note 15. Borrowings

The breakdown of borrowings at December 31, 2008 and 2007 is as follows:

	At 31.12.2008	At 31.12.2007
Issuing of debentures and other negotiable obligations	551	724
Loans from financial institutions	3,784	2,302
Derivative financial instruments	114	46
Other financial liabilities	2	3
Non-current borrowings	**4,451**	**3,075**
Issuing of debentures and other negotiable obligations	231	70
Loans from financial institutions	683	899
Derivative financial instruments	10	27
Other financial liabilities	10	8
Current borrowings	**934**	**1,004**
Total	**5,385**	**4,079**

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

	Carrying amounts		Fair values	
	At 31.12.2008	At 31.12.2007	At 31.12.2008	At 31.12.2007
Issuing of debentures and other negotiable obligations	551	724	562	770
Loans from financial institutions and others	3,786	2,305	3,797	2,278

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, 2008 and December 31, 2007 on borrowings with similar credit and maturity characteristics.

The movement in borrowings is as follows:

	2008	2007
Opening balance	**4,079**	**3,218**
Cumulative translation adjustment	(102)	(59)
Increase/(decrease) in borrowings	1.408	920
Closing balance	**5,385**	**4,079**

In 2008 and 2007 the evolution of debt issues has been as follows:

	At 1.1.2008	Issues	Repurchases or reimbursements	Cumulative translation adjustments and others	At 31.12.2008
Issued in a member state of the EU	753	602	(602)	1	754
Issued outside a member state of the EU	41	-	(14)	1	28
Total	**794**	**602**	**(616)**	**2**	**782**

	At 1.1.2007	Issues	Repurchases or reimbursements	Cumulative translation adjustments and others	At 31.12.2007
Issued in a member state of the EU	756	-	(3)	-	753
Issued outside a member state of the EU	56	-	(11)	(4)	41
Total	**812**	**-**	**(14)**	**4**	**794**

At December 31, 2008 GAS NATURAL has liquid assets of Euros 10,095 million, taking into account cash and other equivalents that amounted to Euros 249 million (Note 11), time deposits classified as held to maturity and at fair value through profit and loss statement that amounted to Euros 212 million (Note 8) and credit facilities and debt issues not drawn down that amounted Euros 9,634 million. These amounts do not include the financing committed for the acquisition of Unión Fenosa S.A., which at December 31, 2008 is available but not drawn down in the amount of Euros 16,585 million.

The following tables describe our consolidated gross borrowings by instrument at December 31, 2008 and December 31, 2007 and their maturity profile, taking into account the impact of the derivative hedges.

	2009	2010	2011	2012	2013	2014 and beyond	Total
At December 31, 2008							
Marketable Debt							
Fixed	200	551	-	-	-	-	751
Floating	31	-	-	-	-	-	31
Institutional Banks							
Fixed	64	35	21	43	43	193	399
Floating	41	41	22	23	15	7	149
Commercial Banks and other financial liabilities							
Fixed	90	1,612	600	411	11	74	2,798
Floating	508	84	232	30	69	334	1,257
Total Fixed	354	2,198	621	454	54	267	3,948
Total Floating	580	125	254	53	84	341	1,437
Total	**934**	**2,323**	**875**	**507**	**138**	**608**	**5,385**

	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**

If the impact of the financial derivatives is not taken into account, the financial debt at a fixed rate and at a floating rate would break down as follows: Euros 653 million at a fixed rate in 2008 (Euros 761 million in 2007) and Euros 4,608 million at a floating rate in 2008 (Euros 3,245 million in 2007).

The following table describes our consolidated gross financial debt denominated by currency at December 31, 2008 and December 31, 2007 and its maturity profile, taking into account the impact of the derivative hedges.

	2009	2010	2011	2012	2013	2014 and beyond	Total
At December 31, 2008							
Euro Debt	453	2,132	775	457	29	463	4,309
Foreign Currency Debt:							
US Dollar	184	77	22	16	17	120	436
Mexican peso	76	-	-	-	68	-	144
Brazilian real	147	71	65	34	24	25	366
Colombian peso	29	17	13		-	-	59
Argentinean peso	45	26	-	-	-	-	71
Total	**934**	**2,323**	**875**	**507**	**138**	**608**	**5,385**

	2008	2009	2010	2011	2012	2013 and beyond	Total
At December 31, 2007							
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**

Borrowings in Euros bore an average effective interest rate at December 31, 2008 of 4.90% (4.62% at December 31, 2007) and the foreign currency of the financial debt bore an average effective interest rate of 10.04% (10.37% at December 31, 2007) including the derivatives assigned to each transaction.

We set out below the most relevant financial instruments:

ECP Program. In March 2001, GAS NATURAL established a Euro Commercial Paper (ECP) program by virtue of which it could issue up to a principle amount of Euros 1,000 million or its equivalent in alternative currencies. At December 31, 2008 and 2007 no amount has been drawn down.

EMTN Program. In 1999, a European Medium Term Notes (EMTN) program was established, by virtue of which a principal amount of up to Euros 2,000 million could be issued. On December 27, 2007, this program was increased to Euros 4,000 million, and on December 2, 2008, it was increased to Euros 8,000 million. At December 31, 2008 and 2007 a principal of Euros 725 million was outstanding.

Borrowings for the Maghreb-Europe Pipeline from institutional banks. In 1994, a loan was taken out for USD 450 million with the Banco Europeo de Inversiones (BEI), arranged in three tranches with maturity dates up until until 2010. In 1995, a USD 200 million loan was taken out with the Instituto de Crédito Oficial (ICO) with maturity dates up until 2010. Both loans were extended for the construction of the Maghreb-Europe Pipeline. At December 31, 2008, USD 149 million (USD 234 million at December 31, 2007) of the BEI loan and USD 80 million (USD 120 million at December 31, 2007) of the ICO loan were pending repayment. The average maturity of this debt is two years. Furthermore, during 2008, a credit facility was contracted for USD 40 million, which was totally drawn down at December 31, 2008.

Amounts owing to European credit institutions (commercial/institutional banks). At December 31, 2008, these debts relate to the financing for the acquisition of Unión Fenosa, S.A. (see section in this regard), Euros 600 million (Euros 600 million at December 31, 2007) for the syndicated "Club Deal" loan maturing in 2011, to a loan extended by ICO totalling Euros 300 million in 2008 and to bilateral loans totalling Euros 725 million and maturing in 2009, 2011 and 2012 (Euros 750 million in 2007 with maturities in 2008 and 2012). Credit facilities were also drawn down in the amount of Euros 239 million (Euros 634 million drawn down at December 31, 2007).

Latin American Facilities (commercial and institutional banks). At December 31, 2008, the debt in Latin America totalled Euros 640 million (Euros 776 million at December 31, 2007) with a large number of financial entities, 16% of which were guaranteed by the parent company. The geographic breakdown of these loans is as follows: Argentina, Euros 71 million (Euros 83 million at December 31, 2007); Mexico, Euros 144 million (Euros 197 million at December 31, 2007); Colombia, Euros 59 million (Euros 64 million at December 31, 2007); and Brazil, Euros 366 million (Euros 432 million at December 31, 2007).

Wind Farm Operators (commercial banks). At December 31, 2008, the operator companies of the wind farms had outstanding loans of Euros 107 million, mainly for the financing of projects (Euros 117 million at December 31, 2007). Most of this debt matures in 2012 and following years.

Puerto Rico (commercial banks). At December 31, 2008, the debt related to the combined cycle and regassification plant in Puerto Rico totals Euros 193 million (Euros 185 million at December 31, 2007), including Euros 11 million in credit facilities drawn down (Euros 10 million at December 31, 2007). 80% of this debt matures in 2012 and following years.

Financing of the acquisition of Unión Fenosa, S.A.

On August 7, 2008, GAS NATURAL entered into a financing agreement with several financial entities for a maximum of Euros 19,000 million, which has been voluntarily and partially redeemed in the amount of Euros 740 million. The Financing Agreement contains an interest rate indexed to the EURIBOR plus a variable margin of between 1.05% and 3.00% (depending on the credit rating of GAS NATURAL) and includes the obligation to pay certain commissions in relation to the arrangement and availability of the funds, the issuing of guarantees and the functions of the agent entity of the syndicate.

This financing can be used only for the acquisition of shares of Unión Fenosa, S.A. and for the refinancing of the financial borrowings of Unión Fenosa, S.A. (up to 1,100 Euros million) and GAS NATURAL (up to Euros 700 million) in accordance with the requirements stated in the Financing Agreement.

The financing is divided into five tranches, with the following amounts and maturities:

Tranche	Amount (Millon €)	Maturity
A1 D1	5,940 99	364 days as from the first of the following dates (the "Reference Date"): - the date on which GAS NATURAL must pay in cash for the purchase-sale of the shares of Unión Fenosa, S.A. in accordance with the bid; - the date on which GAS NATURAL acquires "control" over Unión Fenosa, S.A.; and - February 7, 2009.
A2 D2	5,940 99	364 days as from the Reference Date. This maturity could be extended by GAS NATURAL for an additional period of one year, subject to certain conditions.
B D3	3,500 58	August 7, 2011.
C1 D4	1,780 31	August 7, 2013.
C2 D5	800 13	August 7, 2013.

At December 31, 2008 Euros 1,675 million has been drawn down from the Financing Agreement to finance the acquisition of 9.99% of the shares of Unión Fenosa, S.A., by virtue of the agreement of purchase-sale of shares entered into with ACS and referred to in Note 2.2.(e). Furthermore, interest rate swaps have been contracted to cover the interest rate risk on the total amount drawn down (Note 16).

The Financing Agreement sets out as a cause of early redemption a situation in which the long-term credit rating of GAS NATURAL is lower than Standard and Poor's BBB (stable) and Moody's Baa2 (stable), and, cumulatively, if an amount lower than Euros 3,500 million has been received from the subscription of its share capital increase. Criteria Caixacorp and Repsol YPF during the Board of Directors' meeting of July 30, 2009, undertook, to make the necessary contributions to equity in the maximum amount of Euros 1,903 million and Euros 1,600 million, respectively.

The conditions set down in the Financing Agreement for obligatory early total or partial redemption, as appropriate, include the disposal of assets, payment of dividends of Unión Fenosa, S.A., the financing obtention and change in the control of GAS NATURAL. It also includes the following financial limitations, expressed in financial ratios and aggregates:

1) The Consolidated Ebitda/Consolidated Net Financial Expense ratio must not be lower than:

Period	Ratio
31 December 2009 and 30 June 2010	2.75
31 December 2010 and beyond	3.50

2) The Consolidated Net Borrowings/Consolidated Ebitda ratio must not exceed:

Period	Ratio
31 December 2009	5.25
30 June 2010	4.85
31 December 2010	4.50
30 June 2011 and beyond	4.00

3) Total Assets: on the date after a lapse of twelve months as from the control date on which GAS NATURAL acquires "control" of Unión Fenosa, S.A., the total amount of the assets of GAS NATURAL (excluding certain assets) cannot be lower than Euros 11,000 million.

4) Net Consolidated Borrowings: cannot exceed Euros 30,000 millions at any time before December 31, 2009.

At the date of formulation of these consolidated annual accounts, GAS NATURAL is not in breach of the financial obligations indicated above which could give rise to early termination of the financial commitments.

Note 16. Risk management and derivative financial instruments

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 for GAS NATURAL 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, 2008 and 2007, after taking into account the hedges structured through derivatives, is as follows:

	At 31.12.2008	At 31.12.07
Fixed interest rate	3,948	1,854
Floating interest rate	1,437	2,225
Total	**5,385**	**4,079**

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

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

	Increase/decrease in interest rates (basis points)	Effect on profit before tax	Effect on equity before tax
2008	+10	(1)	8
	-10	1	(8)
2007	+10	(2)	3
	-10	2	(3)

Exchange rate risk

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

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

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

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

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

	%	2008	2007
Effect on profit before tax	+5	-	1
	-5	-	(1)
Effect on equity before tax	+5	(25)	(21)
	- 5	28	23

Commodity price exchange risk

A major portion of its operating expenses are linked to the purchase of gas for supplies or for the energy production of its combined cycle plants. Therefore, GAS NATURAL is exposed to the variation in commodity prices that are determined based mainly on crude oil prices and oil derivatives. 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 the fluctuation risk of electricity sale prices.

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

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

The sensitivity of results and net equity ("Adjustments for changes in value") 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 purchase price of gas (%)	Effect on profit before tax	Effect on equity before tax
2007	+10	-	1
	-10	-	(1)

At December 31, 2008 no derivatives on gas prices remain.

	Increase / decrease in the electricity sale price (%)	Effect on profit before tax	Effect on equity before tax
2008	+10	7	(5)
	-10	(7)	5
2007	+10	(4)	(14)
	-10	4	14

Credit risk

The credit risk arising from the default of a counterparty is controlled through policies that assure that wholesale sales of products are made to customers with an appropriate credit history, for which the respective solvency studies are established and based on which the respective credit limits are assigned. In order to do so various credit quality measuring models have been designed. Based on these models, the probability of customer default on payment can be measured, and the expected commercial loss can be kept under control.

The main guarantees that are negotiated consist of guarantees, guarantee deposits and deposits. At December 31, 2008 GAS NATURAL has received guarantees totalling Euros 21 million to cover the debtor risk of large industrial customers. During 2008 guarantees have been executed totalling less than Euros 1 million.

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

At December 31, 2008 and 2007 GAS NATURAL does not have significant concentrations of credit risk.

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

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

The breakdown of the age of financial receivables overdue but not considered bad debts at December 31, 2008 and 2007 is as follows:

	At 31.12.2008	At 31.12.2007
Less than 90 days	101	175
90 – 180 days	31	33
More than 180	9	1
Total	**141**	**209**

The impaired financial assets are broken down in Note 10.

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 includes maintaining sufficient cash and realisable assets and the availability of funds sufficient to cover credit obligations.

At December 31, 2008, the availability of liquidity totals Euros 10,095 million (see Note 15).

The breakdown of the maturities of the financial liabilities at December 31, 2008 and 2007 is as follows:

	2009	2010	2011	2012	2013	2014 and beyond	Total
At December 31, 2008							
Trade and other payables	(2,865)	-	-	-	-	-	(2,865)
Loans and other financial payables	(1,350)	(2,520)	(1,001)	(563)	(200)	(672)	(6,306)
Financial derivatives	(47)	(38)	(15)	(6)	(5)	(2)	(113)
Other liabilities	(823)	(51)	(46)	(40)	(139)	(577)	(1,676)
Total (1)	**(5,085)**	**(2,609)**	**(1,062)**	**(609)**	**(344)**	**(1,251)**	**(10,960)**

	2008	2009	2010	2011	2012	2013 and beyond	Total
At December 31, 2007							
Trade and other payables	(2,357)	-	-	-	-	-	(2,357)
Loans and other financial payables	(1,189)	(836)	(841)	(742)	(485)	(556)	(4,649)
Financial derivatives	(12)	(12)	(3)	(1)	(4)	(5)	(37)
Other liabilities	(48)	(47)	(51)	(55)	(36)	(612)	(849)
Total (1)	**(3,606)**	**(895)**	**(895)**	**(798)**	**(525)**	**(1,173)**	**(7,892)**

(1) The amounts are undiscounted contractual cash flows, and, accordingly, differ from the amounts included on the balance sheet and in Note 15.

Capital management

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

On August 1, 2008 and as a result of the agreement reached with ACS for the acquisition of 45.306% of the shares of Unión Fenosa, S.A. by GAS NATURAL (Note 2.2.e), the rating agencies have revised the current ratings downward.

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

	2008	2007
Moody's	A3	A2
Standard & Poor's	A	A
Fitch	A	A+

GAS NATURAL considers that the indicators for achieving the objectives of capital management are: to maintain, after the acquisition of Unión Fenosa, S.A., a long-term leverage level of approximately 50% and a minimum credit rating of BBB. Moreover, in order to guarantee a solid, flexible financial structure, GAS NATURAL will be able to increase share capital in order to assure this credit rating. It is estimated that the maximum increase would amount to Euros 3,500 million. The main shareholders, Criteria Caixa Corp. and Repsol YPF, are committed to ensuring the necessary contributions to guarantee this amount.

Its leverage rating is as follows:

	2008	2007
Net borrowings:	**4,913**	**3,689**
Non-current borrowings *(Note 15)*	4,451	3,075
Current borrowings *(Note 15)*	934	1,004
Cash and cash equivalents *(Note 11)*	(249)	(152)
Derivates *(Note 16)*	(11)	(36)
Time deposits *(Note 8)*	(212)	(202)
Net equity:	**6,721**	**6,427**
Equity holders of the Company *(Note 12)*	6,376	6,070
Minority interests *(Note 12)*	345	357
Leverage (Net borrowings / (Net borrowings + Net equity))	**42.2%**	**36.5%**

Derivative financial instruments

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

	At 31.12.2008		At 31.12.2007	
	Assets	**Liabilities**	**Assets**	**Liabilities**
Derivatives qualifying for hedge accounting	**4**	**114**	**33**	**46**
Cash flow hedges				
- Interest rate	1	114	30	12
- Commodity prices	-	-	3	-
Fair value hedge				
- Interest rate and exchange rate	3	-	-	34
Derivative financial instruments – non current	**4**	**114**	**33**	**46**
Derivatives qualifying for hedge accounting	**49**	**34**	**11**	**61**
Cash flow hedges				
- Interest rate	7	-	-	-
- Exchange rate	-	15	-	12
- Commodity prices	15	3	4	22
Fair value hedge				
- Commodity prices	-	10	6	27
- Equity swap	27	6	1	-
Other financial instruments	**54**	**44**	**-**	**3**
- Commodity prices	18	44	-	3
- Equity swap	36	-		
Derivative financial instruments – current	**103**	**78**	**11**	**64**
Total	**107**	**192**	**44**	**110**

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

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

	2008		2007	
	Operating results	**Financial results**	**Operating results**	**Financial results**
Cash flow hedges	(20)	3	(75)	(7)
Fair value hedges	5	(36)	(1)	18
Other	(18)	13	(1)	-
Total	**(33)**	**(20)**	**(77)**	**11**

The breakdown of derivatives at December 31, 2008 and 2007, their fair value and maturities of their notional values is as follows:

	31.12.2008							
	Fair Value	Notional Value (in million by currency indicated)						
		2009	2010	2011	2012	2013	Beyond	Total
Interest rate swap contracts								
Cash flow hedges:								
Financial swaps (EUR)	(92)	1,401	1,401	2,577	202	8	5	5,594
Financial swaps (USD)	(13)	52	39	8	9	10	44	162
Financial swaps (MXN)	-	34	-	-	-	-	-	34
Financial swaps (ARS)	-	-	6	-	-	-	-	6
Financial swaps (BRL)	-	4	-	-	-	-	-	4
Collars (EUR)	(1)	17	6	4	13	3	5	48
Exchange rate hedge:								
Cash flow hedge:								
Financial swaps (USD)	(15)	530	-	-	-	-	-	530
Fair value hedge:								
Financial swaps (BRL)	(7)	19	4	4	2	-	-	29
Foreign exchange fluctuation insurance (USD)	21	441	-	-	-	-	-	441
Foreign exchange fluctuation insurance (DHN)	-	6	-	-	-	-	-	6
Commodity hedge:								
Cash flow hedge:								
Commodity price derivatives (EUR)	12	89	-	-	-	-	-	89
Others:								
Foreign exchange fluctuation insurance (USD)	-	1	-	-	-	-	-	1
Foreign exchange fluctuation insurance (DHN)	-	1	-	-	-	-	-	1
Equity swaps (EUR)	36	1,487	-	-	-	-	-	1,487
Commodity price derivatives (EUR)	(26)	99	-	-	-	-	-	99

31.12.2007								
	Fair Value	Notional Value (in million by currency indicated)						
		2008	2009	2010	2011	2012	Beyond	Total
Interest rate swap contracts:								
Cash flow hedge:								
Financial swaps (EUR)	26	3	202	2	601	8	21	837
Financial swaps (USD)	(12)	9	9	35	7	8	52	120
Financial swaps (MXN)	-	62	-	-	-	-	-	62
Financial swaps (ARS)	-	25	-	-	-	-	-	25
Collars (EUR)	1	5	15	5	3	10	10	48
Exchange rate hedge:								
Cash flow hedge:								
Financial swaps (USD)	3	-	39	-	-	-	-	39
Foreign exchange fluctuation insurance (USD)	(12)	433	-	-	-	-	-	433
Fair value hedge:								
Financial swaps (BRL)	(61)	48	20	1	-	-	-	69
Financial swaps (MXN)	6	62	-	-	-	-	-	62
Foreign exchange fluctuation insurance (BRL)	-	13	-	-	-	-	-	13
Foreign exchange fluctuation insurance (USD)	1	70	-	-	-	-	-	70
Commodity hedge:								
Cash flow hedge:								
Commodity price derivatives (EUR)	(9)	147	4	-	-	-	-	151
Commodity price derivatives (USD)	(6)	60	-	-	-	-	-	60
Others:								
Foreign exchange fluctuation insurance (USD)	-	44	-	-	-	-	-	44
Commodity price derivatives (EUR)	(3)	35	-	-	-	-	-	35

Note 17. Other non-current liabilities

The breakdown of this account at December 31, 2008 and 2007 is as follows:

	At 31.12.2008	At 31.12.2007
Finance lease liabilities (1)	374	382
Payables for levelling of capacity income (2)	141	116
Deposits and guarantee deposits	42	41
Other liabilities (3)	149	60
Total	**706**	**599**

(1) Finance lease liabilities

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

In December 2007 a 138,000 m^3 gas tanker was acquired through a 25-year time-charter lease maturing 2032, extendible for consecutive periods of five 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.

Minimum lease payments are as follows:

	At 31.12.2008			At 31.12.2007		
	Nominal	**Discount**	**Present value**	**Nominal**	**Discount**	**Present value**
Not later than 1 year	36	(2)	34	36	(2)	34
Between 1 and 5 years	145	(30)	115	144	(29)	115
Later than 5 years	577	(318)	259	612	(345)	267
Total	**758**	**(350)**	**408**	**792**	**(376)**	**416**

The effective average interest rate on the liabilities for finance lease agreements at December 31, 2008 is 6.8% (7% at December 31, 2007).

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

(3) Other liabilities
These basically include the repurchase obligations of preference shares of Buenergia Gas & Power, Ltd. (company holding 47.5% of EcoEléctrica L.P.), which is 95% owned by GAS NATURAL and 5% owned by a subsidiary of the General Electric Group, 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
2009 (1)	15
2010	21
2011	14
2012	6
2013	6
Total	**62**

(1) Includes the short-term part of Other current liabilities (Note 19).

Also included is the purchase commitment without premium granted to Sinca Inbursa, S.A. de C.V. (Inbursa). On September 22, 2008 15% of Gas Natural Mexico, S.A. de C.V. and Sistemas de Administración, S.A. de C.V. was sold to Inbursa for Mexican Pesos 761 million (Euros 49 million), and a commitment was made to repurchase these shares. Until May 22, 2013 Inbursa can offer all the shares it holds at that time to GAS NATURAL, who will be obligated to acquire them. The acquisition price will be set at the greater of the market valuation of each share, based on the results of the investee company, or the capital invested adjusted for financial interest. As a result of this commitment, a deferred payment has been booked, and, accordingly, the aforementioned percentage of interest is still assigned to the parent Company. The liability booked at 31 December 2008 totals Mexican Pesos 781 million and equals the current value of the amount payable.

Also included is the purchase commitment without premium granted to Chemo España, S.L. On December 16, 2008 28% of Invergas, S.A. and Gas Natural SDG Argentina, S.A. which represents an interest of 19.6% of Gas Natural BAN, S.A., Natural Energy, S.A. and Natural Servicios, S.A., was sold to Chemo España, S.L. for USD 56 million (Euros 38 million) through an initial receipt of USD 28.5 million, with the rest of the receipts being deferred (see Note 8), and a commitment was made to repurchase these shares. Chemo España, S.L. will be able to offer during September 2013 all the shares it has at that time to GAS NATURAL, who will be obligated to acquire them. The acquisition price will be set at the capital invested. As a result of this commitment, a deferred payment has been booked, and, accordingly, the aforementioned percentages of interest are still assigned to the parent Company. The liability booked at 31 December 2008 totals USD 50 million and equals the current value of the amount payable.

There are no significant differences between the carrying values and fair values of liabilities for financial lease agreements, Guarantee deposits and deposits and Other liabilities.

Note 18. Trade and other payables

The breakdown at December 31, 2008 and 2007 is as follows:

	At 31.12.2008	At 31.12.2007
Trade payables	2,254	1,909
Trade payables with related parties (1)	90	16
Amounts due to associates	1	1
Trade payables	**2,345**	**1,926**
Social security and other taxes	212	195
Derivative financial instruments *(see Note 16)*	68	37
Amounts due to employees	31	29
Other payables	**311**	**261**
Current tax liabilities	209	170
Total	**2.865**	**2.357**

(1) Repsol YPF Group, Suez Group (GDF-Suez at 31.12.08)

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 19. Other current liabilities

The breakdown of Other current liabilities at December 31, 2008 and 2007 is as follows:

	At 31.12.2008	At 31.12.2007
Dividend payable	230	205
Expenses accrued pending payment	117	124
Finance lease liabilities	34	34
Other liabilities	804	27
Total	**1,185**	**390**

This account includes in other liabilities the debtor balance with Caixanova totalling Euros 776 million (see Note 2.2.e).

Note 20. 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 2008, the Consolidated Tax Group of Gas Natural SDG, S.A. was made up (in addition to Gas Natural SDG, S.A) of the following companies:

Aplicaciones y Proyectos Energéticos, S.A.	Gas Natural Informática, S.A.
Boreas Eólica 2, S.A.	Gas Natural Internacional SDG, S.A.
Boreas Eólica, S.A.	Gas Natural Murcia SDG, S.A.
Compañía Auxiliar de Industrias Varias, S.A.	Gas Natural Rioja S.A.
Desarrollo de Energías Renovables, S.A.	Gas Natural Servicios SDG, S.A.
Desarrollo del Cable, S.A.	Gas Natural Soluciones, S.L.
Distribuidora Eléctrica Navasfrías, S.L.	Gas Natural Transporte SDG, S.L.
Electra de Abusejo, S.L.	Gas Natural Wind, S.L.
Gas Natural Andalucía, S.A.	Gas Natural Wind 2, S.L.
Gas Natural Aprovisionamientos SDG, S.A.	Gas Natural Wind 3, S.L.
Gas Natural Cantabria SDG, S.A.	Gas Natural Wind 4, S.L.
Gas Natural Capital Markets, S.A.	Gas Natural Wind 5, S.L.
Gas Natural Castilla La Mancha, S.A.	Gas Natural Wind 6, S.L.
Gas Natural Castilla y León, S.A.	Gas Natural Wind Canarias, S.L.
Gas Natural Cegás, S.A.	Gas Navarra, S.A.
Gas Natural Comercial SDG, S.L.	Holding Gas Natural, S.A.
Gas Natural Comercializadora, S.A.	La Energía, S.A.
Gas Natural Corporación Eólica, S.L.	La Propagadora del Gas, S.A.
Gas Natural Distribución Eléctrica, S.A.	Portal del Instalador, S.A.
Gas Natural Distribución SDG, S.A.	Sagane, S.A.
Gas Natural Electricidad SDG, S.A.	Sociedad de Tratamiento Hornillos, S.L.
Gas Natural Energy Canarias, S.L.	Sociedad de Tratamiento Almazán, S.L.
Gas Natural Exploración, S.L.	Tratamiento Cinca Medio, S.L.

Other companies resident in Spain that are not included in the Tax Group are taxed individually.

On the other hand, certain Italian group subsidiaries are also taxed under consolidated tax regime.

The other companies of GAS NATURAL are taxed, in each of the countries in which they operate, at the income tax rate in force. In some countries additional taxes are booked, such as the tax on the Presumed Minimum Gain, which are generally refundable in the next ten years, or taxes substituting the Single Rate Business Tax (Impuesto Empresarial a Tasa Única - IETU) on the current treasury account, which is not recoverable through future income tax profit.

The reconciliation of the applicable tax rate to the effective tax rate and the breakdown of the income tax expense for 2008 and 2007 are as follows:

	2008	%	2007	%
Profit before tax	**1,551**		**1,415**	
Statutory tax	**465**	**30.0**	**460**	**32.5**
Change in tax rate in Spain	-	-	4	0.3
Tax rates for foreign companies	(29)	(1.9)	(27)	(2.0)
Reinvestment tax deductions	(1)	(0.1)	(68)	(4.8)
Other tax deductions	(43)	(2.8)	(13)	(0.9)
Effect of net profit under equity accounting	(2)	(0.1)	(2)	(0.1)
Tax differences against prior years and others	(15)	(0.9)	3	0.2
Other concepts	4	0.2	2	0.1
Accrued corporate income tax	**379**	**24.4**	**359**	**25.3**
Breakdown of current/deferred expense:				
Current tax	352		461	
Deferred tax	27		(102)	
Accrued Corporate income tax	**379**		**359**	

The effective tax rate for year 2008 has been 24.4% (25.3% in year 2007). The change in the effective rate is basically due to the decrease in the tax rate in Spain from 32.5% to 30.0% and to the application of tax deductions (mainly deductions for reinvestment of extraordinary income, export deduction and other).

Due to the amendment enacted by Law 35/2006 of November 28, by virtue of which the general corporate income tax rate in Spain was modified from 35% to 32.5% for tax years beginning as from January 1, 2007 and to 30% for tax years beginning as from January 1, 2008, deferred tax was adjusted on the basis of the amount expected to be recovered or paid. The aforementioned adjustments were recorded as an increase of corporate income tax expense (for an amount of Euros 4 million in 2007), except if they are related to items initially recorded against net equity.

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 income that is deductible under the reinvestment provisions of the Corporate Income Tax Act and basically generated by sales of shareholdings in Enagas, S.A., and gains that have materialised from investments, have been 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 breakdown of the deferred tax is as follows:

	At 31.12.2008	At 31.12.2007
Deferred income tax assets:		
Non-current	275	238
Current	64	36
	339	**274**
Deferred income tax liabilities		
Non-current	(486)	(478)
Current	(40)	(17)
	(526)	**(495)**
Net deferred income tax	**(187)**	**(221)**

The movement and breakdown under the accounts of deferred taxes is as follows:

Deferred tax assets	Provisions for employee benefit obligations	Accruals	Tax losses carried forward	Amortization differences	Financial instruments valuation	Other	Total
At 1.1.2007	**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 31.12.2007	**30**	**65**	**43**	**49**	**12**	**75**	**274**
Charged/(credited) to income statement	(6)	(16)	(1)	4	(2)	3	(18)
Business combinations	-	-	-	-	-	1	1
Charged to equity	5	-	-	-	59	-	64
Cumulative translation adjustments	(1)	(2)	1	(6)	-	(5)	(13)
Others	(6)	16	-	31	(1)	(9)	31
At 31.12.2008	**22**	**63**	**43**	**78**	**68**	**65**	**339**

Deferred tax liabilities	Amortization differences	Reinvestment capital gains	Fair value business combination	Financial instruments valuation	Others	Total
At 1.1.2007	**60**	**178**	**150**	**71**	**12**	**471**
Charged/(credited) to income statement	-	(55)	(11)	(25)	(1)	(92)
Business combinations	47	-	65	-	11	123
Charged to equity	-	-	-	(1)	-	(1)
Cumulative translation adjustments	(2)	-	2	1	(2)	(1)
Others	(8)	-	-	(1)	4	(5)
At 31.12.2007	**97**	**123**	**206**	**45**	**24**	**495**
Charged/(credited) to income statement	19	-	(11)	1	-	9
Business combinations	-	-	2	-	-	2
Charged to equity	-	-	-	(4)	-	(4)
Cumulative translation adjustments	5	-	(8)	-	(1)	(4)
Others	21	-	4		3	28
At 31.12.2008	**142**	**123**	**193**	**42**	**26**	**526**

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.

At December 31, 2008 the tax credits not recorded total Euros 7 million (Euros 15 million at December 31, 2007).

This year the Tax Authorities have begun auditing Gas Natural SDG, S.A. and Gas Natural Internacional SDG, S.A. for corporate income tax (2003 to 2005) and other taxes (2004 to 2005). Although the audit has not terminated, it is not expected to bring to light significant liabilities. Gas Natural SDG, S.A. is open to inspection by the Tax Authorities for the years between 2006 and 2008 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 32.

Note 21. Sales

The breakdown of this account for 2008 and 2007 is as follows:

	2008	2007
Natural gas sales	10,610	8,316
Electricity sales	2,056	1,117
Installation rental, maintenance and management services	534	368
Transportation services	117	98
Other revenues and services to clients	227	194
Total	**13.544**	**10.093**

Note 22. Other operating income

The breakdown of this account for 2008 and 2007 is as follows:

	2008	2007
Other management income	56	50
Operating grant	2	1
Total	**58**	**51**

Note 23. Procurements

The breakdown of this account for 2008 and 2007 is as follows:

	2008	2007
Energy purchases	8,902	6,145
Access to transmission networks	716	408
Other purchases and Stock variation	178	194
Total	**9.796**	**6.747**

Note 24. Personnel costs

The breakdown of this account for 2008 and 2007 is as follows:

	2008	2007
Wages and salaries	258	244
Social security costs	57	55
Defined contribution plans	14	9
Defined benefit plans	1	2
Capitalized costs	(52)	(47)
Others	60	45
Total	**338**	**308**

The average number of employees of GAS NATURAL during 2008 has totalled 6,850 against 6,705 in 2007.

At December 31, 2008 GAS NATURAL had a total of 6,757 employees (6,953 at December 31, 2007), of which 3,696 were located in Spain, 391 in the rest of Europe, 107 in North Africa, 2,525 in Latin America and 38 in Puerto Rico.

Under the provisions of the Spanish Gender Equality Act, Law 3/2008/22 March published in the Official State Gazette on March 23, 2008, the number of employees of GAS NATURAL at the 2008 year end broken down by job and gender is as follows:

	Men	Women	Total
Executives	439	102	541
Technicians	2,896	1,269	4,165
Administrative personnel	335	750	1,085
Workers	961	5	966
Total	**4,631**	**2,126**	**6,757**

Note 25. Other operating expenses

The breakdown of this account for 2008 and 2007 is as follows:

	2008	2007
Repairs and maintenance	191	184
Commercial services & advertising	190	169
Professional services & insurance	103	86
Local taxes	102	88
Computer services	25	24
Leases	36	34
Procurements	46	42
Others	292	274
Total	**985**	**901**

Note 26. Net finance income

The breakdown of this account for 2008 and 2007 is as follows:

	2008	2007
Dividends	48	9
Interest income	69	51
Others	15	12
Total financial income	**132**	**72**
Financial expense from borrowings	(325)	(223)
Interest expenses of pension plans and other post-employment benefits	(5)	(4)
Other financial expenses	(89)	(68)
Total financial expenses	**(419)**	**(295)**
Variations in fair value of financial instruments		
Derivative financial instruments *(Note 16)*	13	1
Fair value financial assets through profit and loss *(Note 8)*	4	-
Net exchange gains/(losses)	7	(2)
Net fair value gains/(losses) on financial instruments	14	64
Financial Results	**(249)**	**(160)**

Variations in fair value of derivatives financial instruments basically includes the effect of the Equity Swap contracts mentioned in Note 8, amounting to a gain of Euros 13 million.

The net gain on the sale of financial instruments for 2008 relate mainly to the proceeds from the sale of the 14.77% shareholding in Transportadora Colombiana de Gas, S.A. ESP. (see Note 8).

The net gain on the sale of financial instruments for 2007 relates mainly to the proceeds from the sale of the 9.38% shareholding in Naturgas Energía Grupo, S.A. (Note 8).

Note 27. Cash generated from operating activities

The breakdown of cash generated from operations in 2008 and 2007 is as follows:

	2008	2007
Net income before tax	**1,551**	**1,415**
Adjustments to net income:	**1,110**	**850**
Depreciation and amortisation of fixed assets *(Note 5 and 6)*	726	651
Other adjustments to net income:	384	199
Net financial income *(Note 26)*	249	160
Profit of entities recorded by equity method *(Note 7)*	(6)	(8)
Release of fixed assets grants to income and others *(Note 13)*	(37)	(30)
Net variation in Provisions *(Note 14)*	180	72
Other adjustments	(2)	5
Changes in working capital (excluding the effects on the consolidation scope and cumulative translation adjustments)	**(115)**	**114**
Inventories	(99)	(3)
Trade and other accounts receivable	(438)	(232)
Trade and other accounts payable	422	349
Other cash flows generated from operations:	**(523)**	**(550)**
Interest received	(306)	(222)
Income tax payments	(217)	(328)
Cash flows generated from operating activities	**2,023**	**1,829**

Note 28. Business combinations

On December July 3, 2008 GAS NATURAL acquired 100% of the share capital of Pitta Construzione, S.p.A. Had the acquisition taken place on January 1, 2008, the contribution to sales for the year would have totalled Euros 4 million and had no impact in net income.

Details of net assets acquired and goodwill are as follows:

Purchase consideration:	
Cash paid	27
Total purchase consideration	27
Fair value of net assets acquired	24
Goodwill *(Note 5)*	**3**

The cash paid for the acquisition of Pitta Construzione S.p.A. totals Euros 27 million, assuming liabilities of Euros 3 million, which represents a valuation of the company of Euros 30 million.

The assets and liabilities acquired are as follows:

	Fair value	Carrying amount
Property, plant and equipment	53	47
Deferred income tax assets	1	1
Trade and other receivables	1	1
Total assets	**55**	**49**
Grants	22	22
Non-current provisions	1	1
Deferred tax liabilities	2	-
Current financial liabilities	3	3
Other current liabilities	3	3
Total liabilities	**31**	**29**
Net assets acquired	**24**	**20**
Purchase consideration	**27**	
Cash and cash equivalents in subsidiary acquired	-	
Cash and outflow on acquisition	**27**	

The goodwill is attributable to the high profitability of the business acquired and the synergies that are expected to arise after the acquisition by GAS NATURAL.

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 following combined cycle electricity 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 and Central Aguila de Altamira S.A. de CV, Gasoducto del Río S.A. de CV and Controladora del Golfo S.A. de CV and Cía Mexicana de Gerencia y Operación S.A. de CV. Had the acquisition taken place on January 1, 2007, the contribution to sales and net income for the year would have totalled Euros 627 million and Euros 29 million, respectively.

The breakdown of net assets acquired and goodwill is as follows:

Purchase consideration:	
Cash paid	1,010
Total purchase consideration	1,010
Fair value of net assets acquired	923
Goodwill *(Note 5)*	**87**

GAS NATURAL has completed the assignment of the purchase price to reflect the fair value of the assets and liabilities acquired. No difference in relation to the provisional assignment has arisen:

	Fair value	Carrying value
Property, plant and equipment	1,030	807
Non-current financial assets	43	43
Deferred income tax assets	21	21
Other current assets	112	112
Cash and cash equivalents	69	69
Total assets	**1,275**	**1,052**
Non-current financial liabilities	15	15
Other on-current liabilities	119	119
Deferred income tax assets	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 was 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. Had the acquisition 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 5)*	**-**

The assets and liabilities arising from the acquisition are as follows:

	Fair value	Carrying value
Property, plant and equipment	57	53
Other current financial assets	28	28
Cash and cash equivalents	1	1
Total assets	**86**	**82**
Non-current financial liabilities	8	8
Grants	24	24
Other non current liabilities	1	1
Provisions	1	1
Deferred income tax liabilities	1	-
Current financial liabilities	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 totalled Euros 3 million and the purchase price is Euros 3 million, and, accordingly, no goodwill was generated.

Note 29. Joint ventures

GAS NATURAL participates in different joint ventures that meet the conditions indicated in Note 2.2.b). The stakes in joint ventures at December 31, 2008 and 2007 are as follows:

	2008 (%)	2007 (%)		2008 (%)	2007(%)
A.E.Hospital Universitario Trias Pujol	50,0	50,0	Gas Natural West Africa, S.L. (1)	40,0	100,0
Alas Capital & GN, S.A.	40,0	40,0	Los Castrios, S.A.	33,3	33,3
Biogas Doña Juana, S.A. ESP	48,0	-	Molinos de la Rioja, S.A.	33,3	33,3
Central Térmica La Torrecilla, S.A.	50,0	50,0	Molinos de Linares, S.A.	33,3	33,3
CH4 Energía S.A. de C.V.	50,0	50,0	Molinos del Cidacos, S.A.	50,0	50,0
Desarrollo de Energías Renovables . de Navarra, S.A	50,0	50,0	Montouto 2000, S.A.	49,0	49,0
Desarrollo de Energías Renovables la Rioja, S.A.	36,3	36,3	O Novo Aquilón, S.L.	60,0	-
EcoEléctrica Holding Ltd y dependientes	50,0	50,0	Parques Eólicos 2008-2012, S.L.	54,0	-
Energías Eólicas de Fuerteventura S.A.	50,0	50,0	Repsol - Gas Natural LNG, S.L.	50,0	50,0
Energías Eólicas de Lanzarote,S.A.	50,0	50,0	Sociedad de Tratamientos La Andaya, S.L. (2)	-	45,0
Explotaciones Eólicas Sierra de Utrera, S.L.	50,0	50,0	Transnatural S.R.L. de México	50,0	50,0
Gas Natural Vehicular del Norte, Asociación en Participación	51,0	51,0	UTE Gas Natural Servicios-Dalkia Energia	50,0	50,0

1) In February 60% of the interest was sold, and the company became proportionally consolidated.
2) In July 2008 an additional 15% of the interest was acquired and the company was fully consolidated, and, subsequently, no longer classified as a joint venture since that date.

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

	At 31.12.2008	At 31.12.2007
Non-current assets	365	462
Current assets	96	88
Assets	**461**	**550**
Non-current liabilities	285	294
Current liabilities	59	118
Liabilities	**344**	**412**
Net assets	**117**	**138**

	2008	2007
Income	265	232
Expenses	235	218
Profit after income tax	30	14

There are no contingent liabilities relating to the joint ventures. Commitments in Note 32 includes the gas purchase commitment made by EcoEléctrica LP in the amounts of Euros 314 million at December 31, 2008 (Euros 162 million at December 31, 2007).

Additionally, GAS NATURAL at December 31, 2008 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
Chipirón	2.00	Repsol Investigaciones Petrolíferas, S.A.	Exploration and production
Montanazo	17.06	Repsol Investigaciones Petrolíferas, S.A.	Exploration and production
Murcia-Siroco	40.00	Repsol Investigaciones Petrolíferas, S.A.	Exploration
Rodaballo	4.00	Repsol Investigaciones Petrolíferas, S.A.	Exploration and production
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 30. Related-parties disclosures

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, Gaz de France-Suez Group (GDF-Suez Group), Caixa d'Estalvis de Catalunya, and, until October 28, 2008, HISUSA (see Note 12).

- 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 31.

- Operations between Group companies or entities for part of normal trade. The balances and transactions that are not eliminated in the consolidation process are not significant.

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

	2008				
Income and expenses (Thousand Euros)	**Grupo "la Caixa"**	**Grupo Repsol YPF**	**Grupo GDF-Suez (*)**	**HISUSA**	**Caixa d'Estalvis de Catalunya**
Financial expense	16,810	-	-	-	37
Leases (1)	3,174	8,460	-	-	-
Services received	-	27,005	14,667	-	-
Goods purchased (finished or in progress)	-	964,210	357,267	-	-
Other expenses (2)	12,339	8,904	665	-	304
Total expenses	**32,323**	**1,008,579**	**372,599**	**-**	**341**
Financial income	13,622	-	-	-	825
Leases	-	463	-	-	-
Provision of services	-	18,803	39,878	-	-
Sale of goods (finished or in progress)	-	442,202	1,143,004	-	-
Other income	2,344	2,949	-	-	-
Total income	**15,966**	**464,417**	**1,182,882**	**-**	**825**

	2008				
Other transactions (Thousand Euros)	**Grupo "la Caixa"**	**Grupo Repsol YPF**	**Grupo GDF-Suez (*)**	**HISUSA**	**Caixa d'Estalvis de Catalunya**
Acquisition of property, plant and equipment, intangible assets or other assets	-	219	-	-	-
Financing agreements: loans and capital contributions (lender) (3)	161,936	-	-	-	341
Sale of property, plant and equipment, intangible assets or other assets (4)	-	2	-	-	-
Financing agreements: loans and capital contributions (borrower) (5)	107,757	-	-	-	-
Deposits and guarantees deposits given	39,418	-	-	-	-
Deposits and guarantees deposits received	114,598	-	-	-	60.000
Dividends and other distributed profit	172,367	157,463	32,016	25,677	15,447
Other operations (6)	1,278,731	-	-	-	11,477

	2007				
Income and expenses (Thousand Euros)	**Grupo "la Caixa"**	**Grupo Repsol YPF**	**Grupo GDF-Suez (*)**	**HISUSA**	**Caixa d'Estalvis de Catalunya**
Financial expense	7,991	-	-	-	215
Leases (1)	3,377	157	-	-	-
Services received	-	12,809	4,303	-	-
Goods purchased (finished or in progress)	-	846,294	95,483	-	-
Other expenses (2)	6,368	6,420	-	-	315
Total expenses	**17,736**	**865,680**	**99,786**	**-**	**530**
Financial income	7,812	-	-	-	2,336
Leases	-	120	-	-	-
Provision of services	-	13,426	37,416	-	-
Sale of goods (finished or in progress)	-	360,777	645,850	-	-
Other income	2,176	-	-	-	-
Total income	**9,988**	**374,323**	**683,266**	**-**	**2,336**

	2007				
Other transactions (Thousand Euros)	**Grupo "la Caixa"**	**Grupo Repsol YPF**	**Grupo GDF-Suez (*)**	**HISUSA**	**Caixa d'Estalvis de Catalunya**
Acquisition of property, plant and equipment, intangible assets or other assets	-	-	-	-	-
Financing agreements: loans and capital contributions (lender) (3)	110,703	-	-	-	-
Financing agreements: loans and capital contributions (borrower) (5)	110,288	-	-	-	23,042
Finance leases (lessee)	-	-	-	-	1.472
Deposits and guarantees deposits given	39,402	-	-	-	-
Deposits and guarantees deposits received	83,605	-	-	-	60,000
Dividends and other distributed profit	145,081	135,363	14,124	22,023	13,279
Other operations (6)	794,241	-	-	-	12,380

(*) Since July 22, 2008, this account includes the operations of the Gaz de France Group, which has been integrated into the Gaz de France-Suez Group through a merger.

(1) The operations with the "la Caixa" Group relate mainly to the vehicle leasing and maintenance services, recorded as operating leases in accordance with the features of the contracts.
(2) Includes the contributions to post-employment Benefit plans, life insurance, collective insurance policies and others. A defined contribution plan has been subscribed and paid to Vida Caixa, S.A. replacing deferred remunerative commitments with management personnel (Note 14).
(3) Includes treasury and financial investments.
(4) As part of the joint exploration and development agreement for an integrated gassistic project in Angola a 60% interest in Gas Natural West Africa, S.L. has been sold to the Repsol YPF Group for Euros 2 thousand (Note 2).
(5) At December 31, 2008 the credit facilities with the "la Caixa" Group totalled Euros 232,335 thousand, of which Euros 28,428 thousand have been drawn down. Additionally, "la Caixa" Group holds part of the participations in the syndicated loans of Euros 79,329 thousand.
At December 31, 2008 the credit facilities with the "la Caixa" Group totalled Euros 230,571 thousand, of which Euros 80,587 thousand have been drawn down. Additionally, "la Caixa" Group holds part of the participations in the syndicated loans of Euros 29,701 thousand. The credit facilities with Caixa d'Estalvis de Catalunya totalled Euros 30,000 thousand, of which Euros 23,042 thousand were drawn down.
(6) At December 31, 2008 Other operations with the "la Caixa" Group include Euros 807,141 thousand for exchange rate hedgers (Euros 403,841 thousand at December 31, 2007) and Euros 471,590 thousand for interest rate hedges (Euros 390,400 thousand at December 31, 2007). This account with Caixa d'Estalvis de Catalunya also includes Euros 11,477 thousand for interest rate hedges (Euros 12,380 thousand at December 31, 2007).

Note. 31. Information regarding members of the Board of Directors and Management Committee

Remuneration of the members of the Board of Directors

The remuneration received by the members of the Board of Directors, in Thousand Euros, breaks down as follows:

Remunerative item	2008	2007
Fixed remuneration	707	547
Variable remuneration	764	1,135
Per diems	4,167	4,169
Others	3	2
Total	**5.641**	**5.853**
Other benefits		
Pension funds and plans: Contributions	151	12
Life insurance premiums	25	24
Total other benefits	**176**	**36**

Per diems includes both the amount relating to the Board of Directors of Gas Natural SDG, S.A. and its various Committees, as well as those relating to the Boards of other investee companies totalling Euros 81 thousand in 2008 (Euros 77 thousand in 2007).

The total remuneration paid to the members of the Board of Directors of Gas Natural SDG, S.A. for belonging to the Board of Directors, the Executive Committee, the Audit and Control Committee (ACC), the Appointments and Remuneration Committee (ARC), the Strategy, Investment and Competition Committee (SICC) totalled Euros 4,086 thousand (Euros 4,092 thousand in 2007) and breaks down as follows:

	Office	Board	Executive Committee	ACC	ARC	Total
Mr. Salvador Gabarró Serra	Chairman	550	550	-	-	1,100
Mr. Antonio Brufau Niubó	Vice-Chairman	127	126	-	12	265
Mr. Rafael Villaseca Marco	Chief Executive Officer	127	126	-	-	253
Mr. Juan María Nin Génova	Director	127	-	-	-	127
Mr. Enrique Alcántara-García Irazoqui	Director	127	-	-	-	127
Mr. Francisco Reynés Massanet	Director	127	126	12	-	265
Mr. Carlos Kinder Espinosa	Director	127	126	-	-	253
Mr. Enrique Locutura Rupérez	Director	127	-	-	-	127
Mr. Demetrio Carceller Arce	Director	127	126	-	-	253
Mr. Fernando Ramírez Mazarredo	Director	127	-	12	-	139
Caixa d'Estalvis de Catalunya (1)	Director	127	-	-	-	127
Mr. Carlos Losada Marrodán	Director	127	126	-	-	253
Mr. Santiago Cobo Cobo	Director	127	126	-	-	253
Mr. Emiliano López Achurra	Director	127	-	-	-	127
Mr. Miguel Valls Maseda	Director	127	-	12	12	151
Mr. Jaime Vega de Seoane Azpilicueta	Director	127	-	-	-	127
Mr. José Arcas Romeu	Director	127	-	-	12	139
		2,582	**1.432**	**36**	**36**	**4,086**

(1) Represented by Mr. Narcís Serra i Serra.

On February 23, 2007 the Board of Directors adopted a resolution to dissolve the Strategy, Investment and Competition Committee (SICC). The functions of this Committee have been taken over by the Executive Committee.

"Pension Funds and Plans: Contributions" includes the contributions to pension plans and collective insurance policies.

The Members of the Board of Directors of the Company have not received any remuneration in profit sharing or premiums and have not been granted any loans or advances. Neither have they received shares or share options during the year, nor have they exercised any options or hold any options pending execution.

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

Operations with Directors

In 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:

Directors and offices in other companies with similar or complementary activities	Office in Gas Natural SDG S.A	Number of shares and % shareholding: Gas Natural	Enagás	Repsol YPF	Endesa	Iberdrola
Mr. Salvador Gabarró Serra Member Board of Directors of Enagás, S.A. Vice-Chairman of "la Caixa" Board Member of Criteria CaixaCorp, S.A.	Chairman	-	10 (0.000)	-	-	10,350 (0,001)
Mr. Antonio Brufau Niubó Executive Chairman of Repsol YPF, S.A. Chairman of YPF, S.A.	Vice-Chairman	32,306 (0.007)	-	205,621 (0.017)	-	-
Mr. Rafael Villaseca Marco Vice-Chairman of Repsol-Gas Natural LNG, S.L. Chairman of Gas Natural Aprovisionamientos SDG, S.A.	Chief Executive	1,000 (0.000)	356 (0.000)	646 (0.000)	859 (0.000)	2,544 (0.000)
Mr. Juan María Nin Génova Member of Criteria CaixaCorp, S.A. Member of Repsol YPF, S.A.	Member	144 (0.000)	-	242 (0.000)	-	-
Mr. Santiago Cobo Cobo	Member	-	-	-	-	-
Mr. Carlos Losada Marrodán (1)	Member	5,808 (0.001)	-	-	-	-
Mr. Fernando Ramírez Mazarredo Economic-Financial General Director Repsol YPF, S.A.	Member	200 (0.000)	-	200 (0.000)	-	-
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	2,600 (0.001)	-	-	-	-
Mr. Jaime Vega de Seoane Azpilicueta	Member	-	-	-	-	-
Mr. José Arcas Romeu	Member	415 (0.000)	-	-	-	2,320 (0.000)
Mr. Francisco Reynés Massanet General Director of Criteria CaixaCorp, S.A.	Member	24 (0.000)	-	-	-	-
Mr. Demetrio Carceller Arce	Member	1,000 (0.000)	-	-	-	-
Mr. Enrique Locutura Rupérez General Director of GNL de Repsol YPF, S.A. Chairman of Repsol-Gas Natural LNG, S.L.	Member	4,134 (0.001)	-	3,758 (0.000)	-	-

(1) Through Ms. Mercedes Cabestany de Dalmases.

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, including contributions to pension plans and insurance premiums, breaks down as follows (in thousand Euros):

Remuneration	2008	2007
Fixed remuneration	2,840	2,422
Variable remuneration	1,573	2,324
Per diems	-	4
Others	45	27
Total	**4.458**	**4.777**
Other benefits		
Pension funds and plans: Contributions	1,259	81
Life insurance premiums	45	27
Total other benefits	**1,304**	**108**

In 2007 the cost of the indemnities received by the members of the Management Committee who left the Company totalled Euros 4,647 thousand. There was no cost in 2008.

"Pension Funds and Plans: Contributions" includes the contributions to pension plans a collective insurance policies.

The agreements entered into with members of the Management Committee contain indemnity clauses that give the beneficiaries the right to receive, in the event of termination of the labour relationship for the following reasons:

- Unlawful or objective dismissal;
- Termination of the individual employment contracts under articles 40, 41 and 50 of the Spanish Labour Act;
- At the Member's decision after a change in control of the Company.

The indemnity that legally corresponds to the minimum amount of two (2) times his annual salary, and an indemnity equal to his annual Fixed Remuneration for the post-contractual non-compete clause (agreement not to engage in activities and non-solicitation pact) with a duration of two (2) years as from termination of the labour relationship.

Operations with Directors and Executives

The Directors and Executives have not carried out any operations outside ordinary trade in 2008 and 2007 or any operations that have not been undertaken under normal market conditions with the Company or Group companies.

Note 32. Contingent liabilities and commitments

Guarantees

At December 31, 2008, Gas Natural SDG, S.A. has in place third party guarantees relating to its activities totalling Euros 538 million.

On the other hand, financial guarantees have also been given totalling Euros 667 million to guarantee compliance with the obligations for the loans received by investee companies.

GAS NATURAL estimates that the unforeseeable liabilities at December 31, 2008, if any, that could arise from the guarantees given would not be significant.

Commitments

The following table presents our contractual sale and purchase commitments at December 31, 2008:

	At December 31, 2008						
Purchases	**Total**	**2009**	**2010**	**2011**	**2012**	**2013**	**and beyond**
Obligations for operating leases (1)	407	69	58	50	51	20	159
Obligations for purchases of natural gas (2)	85,396	7,854	7,295	7,171	6,496	5,887	50,693
Obligations for the transport of natural gas (3)	1,151	111	119	116	102	98	605
Investment commitments (4)	316	200	116	-	-	-	-
Total contractual obligations	**87,270**	**8,234**	**7,588**	**7,337**	**6,649**	**6,005**	**51,457**

	At December 31, 2008						
Sale	**Total**	**2009**	**2010**	**2011**	**2012**	**2013**	**and beyond**
Obligations under PPAs (5)	2,807	202	194	175	179	197	1,860
Obligations for sales of natural gas (6)	11,972	2,992	1,924	1,541	1,544	1,423	2,548
Total contractual obligations	**14,779**	**3,194**	**2,118**	**1,716**	**1,723**	**1,620**	**4,408**

1) Basically reflects the payments foreseen for operating leases for six LNG tankers for the LNG transport, which terminate in 2009-2012, and the operating costs related to the tankers lease contracts under finance leases indicated in Note 17. Also included is the rent of the "Torre del Gas" building, owned by Torre Marenostrum, S.L. for which GAS NATURAL has an operating lease without a purchase option for a period of ten years as from March 2006, extendible at fair value for successive periods of three years, discretionary for GAS NATURAL but binding for Torre Marenostrum, S.L.
2) Basically reflects the long-term commitments to purchase natural gas under "take or pay" gas supply agreements negotiated and held for "own use" (Note 2.9.d). Normally, these agreements have a term from 20 to 25 years, a minimum quantity of gas to be purchased 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, 2008.
3) Reflects the long-term commitments (from 20 to 25 years) to purchase gas transport capacity calculated on the basis of prices at December 31, 2008.
4) 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 800 MW capacity) and the 100 MW expansion of the Arrúbal plant, together with investment commitments related to Upstream projects.
5) Reflects the commitments under the long-term agreements (from 20 to 25 years) for the power purchase agreement (PPA) in Mexico and Puerto Rico, without purchase option, which are both classified as operating leases. The commitments under these agreements have been calculated on the basis of prices at December 31, 2008.
6) Reflects the long term commitments for the sale of natural gas under the gas sales agreements having take or pay clauses negotiated and held for "own use" (Nota 2.9.d). They have been calculated on the basis of natural gas prices at December 31, 2008.

Litigation and arbitration

At the date of formulation of these consolidated annual accounts the main litigation and arbitration involving GAS NATURAL are as follows:

Supply agreement with Atlantic

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.

Supply agreement with 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, requesting an increase in price. GAS NATURAL has opposed this suit and has filed a counter-claim to execute a decrease in price.

Gassi Touil Project

Sonatrach has instigated international arbitration proceedings in relation to the integrated Gassi Touil project, petitioning that the termination of its contract with GAS NATURAL and Repsol YPF be declared lawful. The arbitration court has established the conditions for the provisional transfer of the activities to Sonatrach as requested by the three companies, conditioning the economic consequences on the final ruling. Sonatrach, Repsol YPF and GAS NATURAL have already filed their respective claims, with Sonatrach asking for an indemnity of USD 800 million, while Repsol YPF and GAS NATURAL (participating in consortium with 60% y 40% respectively) are claiming USD 2,400 million. The final outcome of the proceedings is expected not to have a significant negative impact on these annual accounts.

Supply agreement with Iberdrola

GAS NATURAL filed an application to initiate arbitration proceedings for the divergences in the gas supply agreement with Iberdrola. Afterwards, Iberdrola announced that it would file a counter-claim. The arbitration proceedings are in the initial stages.

Arbitration with Tejas Gas de Toluca de R.L. de C.V.:

GAS NATURAL received notice of an arbitration claim filed by Tejas Gas de Toluca S. de R.L. de C.V. 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, but the net accumulated amount of the claim is estimated at Pesos 121 million at December 31, 2008. 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 licences 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

As a result of the various tax audits in the years 1990 to 2002, the Tax Inspectors have questioned the lawfulness of the export deduction and tax assessments have been signed in disagreement. The total updated amount at December 31, 2008 of these assessments totals Euros 201 million. The assessments have been appealed before the National High Court. GAS NATURAL estimates that the final outcome of these claims will not have a significant impact that has not been taken into consideration in these annual accounts.

Argentine Tax Claims

We are the defendant to claims by the Argentine tax authorities regarding the tax treatment of capital gains for a total of Argentine Pesos 229 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 tax claims before the competent appeals courts 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 claims 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 the Tax Authorities of Rio de Janeiro voided the recognition permitted previously in April 2003 to offset the tax credits for the contributions on PIS and COFINS sales paid by the Compañía Distribuidora de Gás de Rio de Janeiro–CEG. The administrative court confirmed this ruling in March 2007, and, accordingly, the company immediately filed an appeal with the competent court of instance (Justicia Federal de Rio de Janeiro). Thereafter, notice was given on January 26, 2009 of a public civil suit filed against CEG for the same events. GAS NATURAL believes, together with the legal advisors of the company, that the action of the authorities is groundless, and, therefore, the probability of losing this case, which restated at December 31, 2008 totals BR 257 million, is remote.

GAS NATURAL believes that the provisions recorded in these consolidated annual accounts sufficiently cover the risks described in this Note, and, accordingly, it does not expect that liabilities in addition to those already posted will be generated.

Note 33. Audit fees

The fees accrued in 2008 to PricewaterhouseCoopers for auditing services and other services provided to the Group total Euros 2,434 thousand (Euros 1,855 thousand in 2007).

Furthermore, the fees accrued in 2008 for other services provided to the Group by other companies using the PricewaterhouseCoopers mark total Euros 828 thousand (Euros 1,310 thousand in 2007).

Note 34. Environment

Main environmental actions

During 2008 GAS NATURAL continued to adopt measures to make indispensable energy development compatible with environmental protection, and, in particular, the fight against the effects of climate changes.

This way of understanding our business has been accompanied by strict environmental control of all activities and operations: gas exploration, storage, transport, and distribution as well as electricity generation, as well as other activities at facilities and work centres.

The Group holds concessions for the extraction and production of hydrocarbons. Given the peculiar environmental characteristics of where these activities take place, strict environmental measures have been adopted.

The electricity generation of GAS NATURAL has reached a level of environmental efficiency higher than those of traditional systems. 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 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.

GAS NATURAL has an active oversight policy covering the replacement and upgrading of pipelines, as the case may be, enabling it to properly manage and minimise methane emissions into the atmosphere. In this respect, during 2008 field tests have been planned in Brazil in order to improve and update the calculation method used to determine atmospheric methane emissions, taking into account the particularities and characteristics of the pipelines and supply pressure levels of each country where GAS NATURAL operates.

GAS NATURAL continues to promote compressed natural gas in Spain, where more than 1,600 public service vehicles are now running on this fuel, now available at 40 service stations. Cities such as Madrid, Salamanca, Burgos, Sevilla and Valencia, amongst others, have natural gas propelled vehicles. Through its "gn auto" business line, the Group offers the full management of a project for the construction of a compressed natural gas supply and service station, thus ensuring maximum availability of these facilities. In 2008 in Valencia GAS NATURAL opened the first natural gas station for public use and signed agreements with various city councils and entities to study the addition of natural gas pumps at petrol stations and the use of vehicular natural gas for vehicle fleets in Spain. In June 2008 GAS NATURAL joined the *Foro pro clima Madrid,* an initiative to promote the use of natural gas by delivery fleets in order to promote measures to improve air quality in urban areas and contribute to the fight against climate change.

GAS NATURAL has fostered the development during 2008 of measures aimed at reducing energy consumption by educating its employees in best practices for energy saving, installing energy monitors in large buildings, and establishing systems to detect the presence and the improvement of thermal insulation. The Gas Natural intranet offers information on temperatures and energy expense in real time as well as the historical levels of each centre.

On the other hand, the constant introduction of major improvements to the control of information on waste disposal has led to knowledge, in each waste category managed, of the treatment method used for exploration, distribution, and for combined cycle plants, co-generation plants, wind farms and work centres.

The commitment of GAS NATURAL to the environment has led it to elect cleaner, more economical and efficient technologies, while studying new solutions to foster the integration of renewable energies more efficiently, highlighting, amongst others, the following initiatives:

- The first experimental plant for the production and storage of hydrogen in Europe, as part of the decision of the GAS NATURAL to opt for clean, renewable energies. The purpose of this initiative is to study the suitability of hydrogen as a means of storing energy in gas form, taking advantage of the Sotavento Experimental Wind Farm.

- Integration of a combustible, 200 kW, H2 battery at the head office of the Group in Barcelona.

- First solar refrigeration plant in Europe, with double-purpose technology, which makes better use of solar energy in order to generate cold for air-conditioning systems. The objective of this project is to establish the technical, economic and environmental parameters for designing and implementing refrigeration systems through the use of solar energy in building construction, substituting electricity and reducing summer demand peaks, as well as to create a benchmark facility to demonstrate the technical viability of applications of this type to professionals, energy legislators and government administrations.

- The SPHERA Project for basic research in obtaining hydrogen from renewable sources (bio-mass) or through CO_2 free emissions procedures (thermocatalytic decarbonisation of CH_4) and its use in electricity generation. This initiative, forming part of the CENIT programme of the Ministry of Industry, is aimed at fostering stable public-private cooperation in research, development and innovation (R+D+i), in areas of strategic importance for the economy, promoting the creation of national strategic consortia in technical research (CENIT).

- Technical Guide for thermal solar facilities: development of a user-friendly, free computer tool for the calculation and sizing of solar refrigeration facilities.

The environmental commitments of GAS NATURAL not only impact the companies in the group, but their scope also reaches all the stakeholders in the company's value chain. 75% of the Group's main contractors and collaborating entities have already signed on to the "Best Practices for Environmental Action in the Construction of Distribution Pipelines". Additionally, GAS NATURAL also involves its customers in the responsible use of the energy by carrying out, in collaboration with the GAS NATURAL Foundation and the Marketing Area, educational and training campaigns and conferences under the "Natural Commitment" initiative, in order to increase awareness of environmental issues. Through its website various awareness campaigns are launched along with energy efficient inter-active games, which provide advice to customers on the application of energy saving measures.

All of these environmental activities in 2008 have involved total investments of Euros 46 million, which represents investment and accumulated depreciation carried on the balance sheet of Euros 405 million and Euros 117 million, respectively.

The possible contingencies, indemnities and other environmental related risks in which the Group could incur are appropriately covered by civil liability insurance policies.

Emisions

The Council of Ministers adopted the individual assignment of green-house gas emissions rights on November 14, 2007 for the 2008-2012 period. GAS NATURAL 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

The consumption of emission rights in 2008 totalled 6,348 million tonnes (5,754 thousand tonnes in 2007).

GAS NATURAL made the acquisitions necessary to cover its emissions rights deficit.

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 2008, GAS NATURAL has eight MDL projects underway in different phases of execution and 48,000 emissions rights recognised by the United National for MDL 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 *(Proyecto de Mecanismos de Desarrollo Limpio - MDL)*, Sombrilla, replacing fuel oil with natural gas in furnaces, drying rooms and other facilities at eight industrial plants in Bogota (Colombia). Quimvale MDL Project - replacing fuel oil with natural gas at the drying furnace of a calcium carbonate industrial facility in Rio de Janeiro (Brazil), and new MDL Projects in 2009 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 35. Subsequent events

On January 30, 2009 the Board of Directors resolved to call an Extraordinary General Meeting for March 10, 2009 to increase the share capital of GAS NATURAL (Note 15).

On January 30, 2009, the Board of Directors of Gas Natural SDG, S.A. adopted, under the co-optation system, and upon the proposal of Caixa d'Estalvis de Catalunya, the appointment of Mr. Narcís Serra i Serra to the Board, representing the same significant shareholder, Caixa d'Estalvis de Catalunya, to replace the legal person Board Member Caixa d'Estalvis de Catalunya.

In accordance with the provisions of Law 26/2003/17 July, we set out below the names of the new Administrators and their shareholdings in companies with the same, analogous or complementary activity as that of the Company, and the offices or functions that they undertake therein:

Administrators and offices they hold in other companies with analogous or complementary activity	Office in Gas Natural SDG S.A	Number of shares and shareholding percentage in: Gas Natural
Mr. Narcís Serra i Serra President of Caixa d'Estalvis de Catalunya	Member	20 (0.000)

Appendix of Companies of Gas Natural

Company	Country	Activity	Consolidation Method	Total shareholding %	Equity: Capital	Equity: Reserves	Equity: 2008 profit (loss)	Equity: Interim dividend
Gas Natural Aprovisionamientos SDG, S.A.	Spain	Gas supply	F.C.	100.0	0.6	14.9	194.8	-
Sagane, S.A.	Spain	Gas supply	F.C.	100.0	94.8	22.1	89.1	-
Repsol-Gas Natural LNG, S.L.	Spain	Supply and transport	P.C.	50.0	2.0	0.1	0.7	-
A.E.Hospital Universitario Trias Pujol	Spain	Cogeneration	P.C.	50.0	0.4	(0.4)	-	-
Central Térmica La Torrecilla, S.A.	Spain	Cogeneration	P.C.	50.0	1.2	(54.3)	-	-
La Energía, S.A.	Spain	Cogeneration	F.C.	100.0	10.7	1.4	1.3	-
Sociedad de Tratamiento Hornillos , S.L.	Spain	Cogeneration	F.C.	94.0	1.2	1.4	0.2	-
Sociedad de Tratamiento La Andaya, S.L.	Spain	Cogeneration	P.C.	60.0	1.1	1.8	0.2	-
Tratamiento Almazán, S.L.	Spain	Cogeneration	F.C.	90.0	2.7	(0.1)	(0.1)	-
UTE La Energía, SpA	Spain	Cogeneration	F.C.	100.0	2.0	-	0.1	-
Cetraro Distribuzione Gas SRL	Italy	Gas commercialisation	F.C.	60.0	0.1	-	-	-
Congas Servizi Consorzio Gas Acqua Servizi, S.p.A.	Italy	Gas commercialisation	F.C.	90.0	0.1	1.0	(0.1)	-
Gas Natural Commercialisation France, S.A.S.	France	Gas commercialisation	F.C.	100.0	-	1.4	15.3	-
Gas Natural Vendita Italia, SPA	Italy	Gas commercialisation	F.C.	100.0	2.1	5.3	0.6	-
Mecogas SRL	Italy	Gas commercialisation	F.C.	100.0	-	0.1	0.1	-
Natural Energy, S.A. (¹)	Argentina	Gas commercialisation	F.C.	80.4	0.2	(0.3)	1.7	-
Gas Natural Comercial SDG, S.L.	Spain	Domestic gas commercialisation	F.C.	100.0	4.5	0.6	1.5	-
Gas Natural Comercializadora, S.A.	Spain	Industrial gas and electricity commercialisation	F.C.	100.0	2.4	29.9	4.7	-
CH4 Energía S.A. de C.V.	Mexico	Gas commercialisation and transport	P.C.	35.9	0.6	1.1	1.4	-
Transnatural S.R.L. de México	Mexico	Gas commercialisation and transport	P.C.	35.9	10.4	(14.9)	(8.6)	-
Gas Natural Servicios SDG, S.A.	Spain	Commercialisation of gas, electricity and energy management	F.C.	100.0	2.9	19.6	(17.0)	-
Kromschroeder, S.A.	Spain	Meters	E.M.	42.5	0.7	10.9	0.1	-
Gas Aragón, S.A.	Spain	Distribution	E.M.	35.0	5.9	44.4	10.1	(3.9)
Distribuidora Eléctrica Navasfrías, S.L.	Spain	Distribution of electricity	F.C.	100.0	0.2	(7.0)	-	-
Eléctra de Abusejo, S.L.	Spain	Distribution of electricity	F.C.	100.0	0.7	(0.1)	(0.5)	-
Gas Natural Distribución Eléctrica, S.A.	Spain	Distribution of electricity	F.C.	100.0	1.2	0.1	(0.3)	-
Agragas, S.p.A.	Italy	Gas distribution	F.C.	90.0	0.1	35.0	0.9	-
Calgas S.c.a.r.l.	Italy	Gas distribution	F.C.	100.0	1.7	-	-	-
Ceg Rio, S.A.	Brazil	Gas distribution	F.C.	59.6	27.5	19.6	23.5	(12.4)
Comercializadora Metrogas, S.A. de CV	Mexico	Gas distribution	F.C.	71.8	128.1	(77.9)	(0.1)	-
Companhia Distribuidora de Gás do Rio de Janeiro, S.A.	Brazil	Gas distribution	F.C.	54.2	164.9	53.4	44.7	(33.3)
Gas Galicia SDG, S.A.	Spain	Gas distribution	F.C.	62.0	32.6	7.3	0.8	-
Gas Natural Andalucía, S.A.	Spain	Gas distribution	F.C.	100.0	12.4	41.4	7.5	-
Gas Natural BAN, S.A. (¹)	Argentina	Gas distribution	F.C.	50.4	214.7	(138.5)	11.1	(13.4)
Gas Natural Cantabria SDG, S.A.	Spain	Gas distribution	F.C.	90.4	3.2	28.0	3.5	-
Gas Natural Castilla La-Mancha, S.A.	Spain	Gas distribution	F.C.	95.0	26.8	17.4	3.8	-
Gas Natural Castilla y León, S.A.	Spain	Gas distribution	F.C.	90.1	6.3	78.6	21.2	-
Gas Natural Cegas, S.A.	Spain	Gas distribution	F.C.	99.7	25.4	68.1	11.7	-
Gas Natural Cundiboyacense, S.A. ESP	Colombia	Gas distribution	F.C.	45.8	1.1	9.5	4.1	-
Gas Natural de São Paulo Sul, S.A.	Brazil	Gas distribution	F.C.	100.0	350.7	(205.3)	22.6	(9.5)
Gas Natural del Oriente, S.A. ESP	Colombia	Gas distribution	F.C.	32.2	9.2	23.4	9.0	(9.4)
Gas Natural Distribución SDG, S.A.	Spain	Gas distribution	F.C.	100.0	101.0	1.026.7	285.0	(284.3)
Gas Natural La Coruña, S.A.	Spain	Gas distribution	F.C.	56.4	2.3	(0.7)	0.6	-
Gas Natural México, S.A. DE CV (¹)	Mexico	Gas distribution	F.C.	71.8	470.7	(204.6)	16.9	-
Gas Natural Murcia SDG, S.A.	Spain	Gas distribution	F.C.	99.9	24.3	(5.8)	(4.0)	-
Gas Natural Rioja, S.A.	Spain	Gas distribution	F.C.	87.5	2.7	8.9	3.5	-
Gas Natural Transporte SDG, S.L.	Spain	Gas distribution	F.C.	100.0	14.9	44.0	8.9	(7.2)
Gas Natural Vehicular del Norte Asociación en Participación	Mexico	Gas distribution	P.C.	36.6	0.7	(0.1)	(0.1)	-
Gas Natural, S.A. ESP	Colombia	Gas distribution	F.C.	59.1	10.9	130.2	84.0	-
Gas Navarra, S.A.	Spain	Gas distribution	F.C.	90.0	3.6	27.1	7.4	-
Gasdotti Azienda Siciliana, S.p.A.	Italy	Gas distribution	F.C.	90.0	0.5	21.6	(0.1)	-
Gases de Barrancabermeja, S.A.	Colombia	Gas distribution	F.C.	32.2	1.3	1.3	0.8	-
ITAL.ME.CO. S.R.L.	Italy	Gas distribution	F.C.	100.0	22.4	(1.1)	(1.2)	-
Normanna Gas, S.p.A.	Italy	Gas distribution	F.C.	90.0	0.1	29.2	0.6	-
Pitta Construzioni S.p.A.	Italy	Gas distribution	F.C.	100.0	6.0	1.3	(0.3)	-
Smedigas S.p.A.	Italy	Gas distribution	F.C.	100.0	0.6	19.6	(4.2)	-
Petroleum Oil & Gas España, S.A.	Spain	Hydrocarbon exploration	F.C.	100.0	3.9	51.5	(0.3)	-
Gas Natural Capital Markets, S.A.	Spain	Finance	F.C.	100.0	0.1	0.1	0.1	-
Gas Natural Finance, BV	Holland	Finance	F.C.	100.0	-	2.0	0.5	-

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Appendix of Companies of Gas Natural (continued)

Company	Country	Activity	Consolidation Method	Total shareholding %	Equity: Capital	Equity: Reserves	Equity: 2008 profit (loss)	Equity: Interim dividend
Gas Natural International, Ltd.	Ireland	Finance	F.C.	100.0	25.4	11.7	0.6	-
Central Anahuac, SA de CV	Mexico	Electricity generation	F.C.	100.0	254.8	(75.6)	5.6	-
Central Lomas del Real, SA de CV	Mexico	Electricity generation	F.C.	100.0	37.5	130.5	(5.2)	-
Central Saltillo S.A. de C.V.	Mexico	Electricity generation	F.C.	100.0	150.7	(43.1)	3.9	-
Central Vallehermoso SA de CV	Mexico	Electricity generation	F.C.	100.0	43.4	160.6	(2.4)	-
Compañía Mexicana de Gerencia y Operación, SA de CV	Mexico	Electricity generation	F.C.	100.0	-	0.6	(0.1)	-
Controladora del Golfo, SA de CV	Mexico	Electricity generation	F.C.	100.0	122.7	-	-	-
EcoEléctrica, L.P.	Puerto Rico	Electricity generation	P.C.	47.5	63.2	39.6	43.2	(12.1)
Electricidad Aguila de Altamira, SA de CV	Mexico	Electricity generation	F.C.	100.0	159.8	(41.6)	2.7	-
Gasoducto del Río, SA de CV	Mexico	Electricity generation	F.C.	100.0	2.7	6.5	2.4	-
Lantarón Energía, S.L.	Spain	Electricity generation	F.C.	100.0	-	-	-	-
Alas Capital & GN Sa	Spain	Wind farms	P.C.	40.0	0.1	-	-	-
Aplicaciones y Proyectos energéticos, S.A.	Spain	Wind farms	F.C.	100.0	0.1	0.1	-	-
Boreas Eólica 2, S.A.	Spain	Wind farms	F.C.	90.0	2.6	4.5	3.1	-
Boreas Eólica, S.A.	Spain	Wind farms	F.C.	99.5	5.2	5.5	3.3	-
Corporación Eólica de Zaragoza, S.L.	Spain	Wind farms	F.C.	68.0	2.5	0.3	1.0	-
Dawn Energy - Produção de Energia, Unipessoal Lda.	Portugal	Wind farms	F.C.	100.0	-	-	-	-
Desarrollo de Energías Renovables de la Rioja, S.A.	Spain	Wind farms	P.C.	36.3	16.5	3.1	7.3	-
Desarrollo de Energías Renovables de Navarra, S.A.	Spain	Wind farms	P.C.	50.0	9.9	28.6	14.9	(4.0)
Desarrollo de Energías Renovables, S.A.	Spain	Wind farms	F.C.	100.0	42.2	128.1	19.7	-
Energías eólicas de Fuerteventura, S.L.	Spain	Wind farms	P.C.	50.0	-	-	-	-
Energías eólicas de Lanzarote, S.L.	Spain	Wind farms	P.C.	50.0	-	-	-	-
Energy Way Produçao de Energía Lda	Portugal	Wind farms	F.C.	100.0	-	-	-	-
Enervent, S.A.	Spain	Wind farms	E.M.	26.0	2.4	3.7	2.1	-
Explotaciones Eólicas Sierra de Utrera, S.L.	Spain	Wind farms	P.C.	50.0	2.7	2.8	5.1	-
GN Energy Canarias, S.L.	Spain	Wind farms	F.C.	100.0	-	-	-	-
GN Wind 2, S.L.	Spain	Wind farms	F.C.	100.0	-	-	-	-
GN Wind 3, S.L.	Spain	Wind farms	F.C.	100.0	-	-	-	-
GN Wind 4, S.L.	Spain	Wind farms	F.C.	100.0	-	-	-	-
GN Wind 5, S.L.	Spain	Wind farms	F.C.	100.0	-	-	-	-
GN Wind 6, S.L.	Spain	Wind farms	F.C.	100.0	-	-	-	-
GN Wind Canarias, S.L.	Spain	Wind farms	F.C.	100.0	-	-	-	-
GN Wind, S.L.	Spain	Wind farms	F.C.	100.0	-	-	-	-
Los Castrios, S.A.	Spain	Wind farms	P.C.	33.1	2.2	0.3	1.5	-
Molinos de la Rioja, S.A.	Spain	Wind farms	P.C.	33.3	3.0	2.5	3.8	-
Molinos de Linares, S.A.	Spain	Wind farms	P.C.	25.0	0.1	-	-	-
Molinos de Valdebezana, S.A.	Spain	Wind farms	F.C.	59.7	0.1	-	(0.1)	-
Molinos del Cidacos, S.A.	Spain	Wind farms	P.C.	50.0	10.3	8.5	1.,9	-
Montouto 2000, S.A.	Spain	Wind farms	P.C.	49.0	6.0	1.9	3.1	-
O Novo Aquilon S.L.	Spain	Wind farms	P.C.	60.0	-	-	-	-
Parques Eólicos 2008-2012, S.L.	Spain	Wind farms	P.C.	54.0	-	-	-	-
Sistemas Energéticos La Muela, S.A.	Spain	Wind farms	E.M.	20.0	3.1	3.5	2.0	-
Sistemas Energéticos Mas Garullo, S.A.	Spain	Wind farms	E.M.	18.0	1.5	2.2	1.7	-
Tratamiento Cinca Medio, S.L.	Spain	Wind farms	F.C.	80.0	2.0	-	0.3	-
Gas Natural do Brasil, S.A.	Brazil	Generation and commercialisation of electricity	F.C.	100.0	0.6	(1.6)	(0.2)	-
Gas Natural Electricidad SDG, S.A.	Spain	Generation and commercialisation of electricity	F.C.	100.0	32.8	(4.8)	(26.0)	-
UTE GNS-Dalkia Energia	Spain	Energy Management	P.C.	50.0	-	(0.2)	-	-
Gas Natural Informática, S.A.	Spain	IT	F.C.	100.0	19.9	4.3	(3.5)	-
Torre Marenostrum, S.L.	Spain	Real Estate	E.M.	45.0	5.3	14.4	(0.2)	-
Natural Servicios, S.A. (1)	Argentina	Gas installation	F.C.	80.4	2.1	(0.9)	0.4	-
Gas Natural Exploración, S.L.	Spain	Hydrocarbon research and exploration	F.C.	100.0	26.8	(0.6)	(9.2)	-
GN West Africa, S.L.	Spain	Hydrocarbon research and exploration	F.C.	40.0	-	-	-	-
El Andalus LNG, SPA	Algeria	Liquefaction	P.C.	32.0	-	-	-	-
Gas Natural Rigassificazione Italia, S.p.A.	Italy	Gas regassification	F.C.	100.0	7.4	-	-	-
Natural Re, S.A.	Luxembourg	Insurance	F.C.	100.0	3.2	9.1	5.1	-
Adm. de Servicios de Energía México, S.A. de CV	Mexico	Services	F.C.	71.8	-	(0.3)	-	-
Adm. y Servicios ECAP, S.A. de CV	Mexico	Services	F.C.	100.0	-	-	0.1	-
Compañía Auxiliar de Industrias Varias, S.A.	Spain	Services	F.C.	100.0	0.3	1.4	0.1	-
Energía y Confort Administración de Personal, S.A. de CV	Mexico	Services	F.C.	72.3	-	(0.2)	0.6	-
Gas Natural Servicios, S.A. de CV	Mexico	Services	F.C.	71.8	6.1	(1.0)	1.1	-

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Appendix of Companies of Gas Natural (continued)

Company	Country	Activity	Consolidation Method	Total shareholding %	Equity: Capital	Equity: Reserves	Equity: 2008 profit (loss)	Equity: Interim dividend
Gas Natural Serviços, S.A.	Brazil	Services	F.C.	100.0	1.9	1.2	1.2	(0.2)
Gas Natural Soluciones, S.L.	Spain	Services	F.C.	100.0	6.2	4.1	3.7	-
GNS Colombia Ltda.	Colombia	Services	F.C.	100.0	0.3	(0.1)	1.3	-
Oficina de cambios de suministrador, S.A.	Spain	Services	E.M.	20.0	-	-	-	-
Portal del Instalador, S.A.	Spain	Services	F.C.	85.0	1.3	0.1	0.2	-
Serviconfort Colombia, S.A.	Colombia	Services	F.C.	100.0	0.2	-	0.6	-
Sistemas de Administración y Servicios, S.A. de C.V. (1)	Mexico	Services	F.C.	72.0	-	0.2	-	-
Buenergía Gas & Power, Ltd.	Cayman Is.	Holding company	F.C.	95.0	0.1	(43.4)	12.5	-
EcoEléctrica Holding, Ltd	Cayman Is.	Holding company	P.C.	47.5	63.2	19.4	-	(20.4)
EcoEléctrica Limited	Cayman Is.	Holding company	P.C.	47.5	0.6	0.2	-	(0.2)
Gas Natural Argentina SDG, S.A. (1)	Argentina	Holding company	F.C.	72.0	105.0	(23.5)	-	-
Gas Natural Corporación Eólica, S.L.	Spain	Holding company	F.C.	100.0	5.5	5.8	3.7	-
Gas Natural Internacional SDG, S.A.	Spain	Holding company	F.C.	100.0	349.5	120.4	1.4	-
Gas Natural Italia S.p.A.	Italy	Holding company	F.C.	100.0	0.1	0.4	0.1	-
Gas Natural Puerto Rico, Inc	Puerto Rico	Holding company	F.C.	100.0	0.8	(0.1)	(0.4)	-
Holding Gas Natural, S.A.	Spain	Holding company	F.C.	100.0	0.3	0.2	-	-
Invergás, S.A. (1)	Argentina	Holding company	F.C.	72.0	48.9	60.5	-	-
La Propagadora del Gas, S.A.	Spain	Holding company	F.C.	100.0	0.2	1.3	0.7	-
Gas Natural Distribuzione S.p.A.	Italy	Holding company and gas distribution	F.C.	100.0	4.7	116.1	(1.4)	-
Desarrollo del Cable, S.A.	Spain	Telecommunications	F.C.	100.0	21.1	20.6	11.9	-
Europe Maghreb Pipeline, LTD.	UK	Gas transport	F.C.	72.6	0.1	70.7	119.3	(45.0)
Metragaz, S.A.	Morocco	Gas transport	F.C.	72.3	3.4	0.9	1.0	-
Biogás Doña Juana, S.A. ESP	Colombia	Biogas treatment and use	P.C.	49.8	1.1	-	-	-

(1) The percentage of the shareholding corresponds to the legally held shares. Additionally, there is a share re-purchase commitment for the percentages indicated in Note 17, which are also assigned to the parent Company.

Consolidated Director's Report

1. Evolution of the business

Analysis of 2008

In 2008, net profit increased by 10.2% on 2007, to Euros 1,057 million, maintaining the trend of double-digit growth despite volatility in the energy, currency and financial markets.

Ebitda in 2008 increased by 12.6% to Euros 2,564 million. This strong growth is attributable primarily to the power generation business in Spain, commencement of power generation in Mexico in 2008, and growth in distribution in Latin America.

Ebitda was more balanced in 2008 than in 2007 since the contribution from the businesses was more diversified.

Ebitda in the gas distribution business in Spain amounted to Euros 886 million, a 2.7% increase on 2007, and accounted for 34.6% of consolidated Ebitda.

The gas distribution business in Latin America saw Ebitda rise by 9.9% to Euros 467 million. Diversifies exposure to local currencies mitigated the impact of the depreciation of some currencies.

The gas procurement and wholesale and retail supply business established itself as a significant source of Ebitda, contributing 18.1% of the consolidated total.

The electricity business (generation and supply) in Spain obtained Euros 366 million in Ebitda, a 31.2% increase.

Consolidated earnings include the contribution from electricity assets acquired in Mexico at 2007 year-end (2,233MW of installed capacity), which provided Euros 97 million of Ebitda, 3.7% of the consolidated total.

On 30 July 2008, GAS NATURAL signed an agreement with ACS to buy 45.3% of Unión Fenosa, S.A., and in early August it acquired 9.9% of that electric utility. GAS NATURAL signed an underwriting agreement with ten financial entities for the finance necessary to acquire 100% of Unión Fenosa, S.A. On 12 December 2008, it acquired an additional 4.7% of Unión Fenosa, S.A. from Caixanova.

On 8 January 2009, GAS NATURAL paid an interim dividend against 2008 net income amounting to euros 0,48 per share, 11.6% more than the previous year's interim dividend.

The Board of Directors will propose to the Ordinary Shareholders' Meeting that it allocate Euros 573 million out of 2008 income to dividends, i.e. a pay-out of 54.2%.

Acquisition of Unión Fenosa, S.A.

On 30 July 2008, GAS NATURAL reached an agreement to buy ACS's entire 45.3% stake in Unión Fenosa, S.A. at Euros 18.33 per share in cash; this implies that 100% of Unión Fenosa, S.A. is worth Euros 16,757 million.

Under the terms of the agreement, GAS NATURAL acquired 9.9% of Unión Fenosa, S.A. from ACS in early August for Euros 1,675 million. The transfer of the remaining shares is currently pending authorisation by the competition authorities.

Under the contract signed with ACS, the purchase price was adjusted by deducting the euros 0,28 per share dividend distributed by Union Fenosa, S.A. on 2 January 2009, resulting in an adjusted price of Euros 18.05 per share.

Also, on 12 December 2008, the company acquired 4.7% of Unión Fenosa, S.A. from Caixanova with the result that, at 31 December 2008, GAS NATURAL owned 14.7% of Unión Fenosa, S.A..

Once GAS NATURAL exceeds the threshold of 30% of voting rights in Unión Fenosa, S.A., it will be obliged, within one month, to make a tender offer for all the remaining shares of Unión Fenosa, S.A..

The acquisition of Unión Fenosa, S.A. is a significant step forward in the development of GAS NATURAL and its goal of becoming a leading integrated gas and electricity company; it will also enable GAS NATURAL to accelerate compliance with its 2008-2012 Strategic Plan by putting it on another plane as an integrated gas and electricity operator because of the very good fit between the two companies' businesses throughout their value chains.

With the acquisition of Unión Fenosa, S.A., GAS NATURAL will have over 20 million gas and electricity customers worldwide, 9 million of them in Spain. The regulated gas and electricity business will provide stability and sustained growth

Financing of the operation

In July 2008, GAS NATURAL reached an agreement with ten financial entities to finance the acquisition of 100% of Unión Fenosa, S.A. (i.e. the purchase of ACS's and Caixanova's stakes and the subsequent tender offer to the other shareholders). There are currently 19 entities in the bank syndicate and the process of general syndication has commenced.

Also, to ensure a solid, flexible financial structure, Criteria CaixaCorp and Repsol YPF have undertaken to contribute to GAS NATURAL's equity in the amount and form that is necessary to enable GAS NATURAL to obtain a consolidated rating of at least BBB (stable) from S&P and Baa2 (stable) from Moody's immediately after settling the takeover.

The debt will also be reduced by selling assets for an estimated total of Euros 3,000 million.

Main financial aggregates

	2008	2007	%
Net sales	13,544	10,093	34.2
Ebitda	2,564	2,277	12.6
Operating income	1,794	1,567	14.5
Net profit attributable to equity holders of the company	1,057	959	10.2
Investments	3,697	2,323	59.1
Net financial debt (at 31/12)	4,913	3,690	33.1

Main physical aggregates

	2008	2007	%
Distribution (GWh):	481,414	453,172	6.2
Spain:	270,073	271,058	(0.4)
Tariff gas sales	14,177	38,288	(63.0)
TPA	255,896	232,770	9.9
Latin America:	208,408	179,314	16.2
Tariff gas sales	144,065	115,132	25.1
TPA	64,343	64,182	0.3
Italy:	2,933	2,800	4.8
Tariff gas sales	2,632	2,635	(0.1)
TPA	301	165	82.4
Gas supply (GWh):	292,629	292,730	-
Spain	239,090	245,566	(2.6)
Rest	53,539	47,164	13.5
Gas transportation - EMPL (GWh)	133,497	124,150	7.5
Distribution network (km):	115,295	109,759	5.0
Spain	48,578	45,429	6.9
Latin America	61,196	59,555	2.8
Italy	5,521	4,775	15.6
Gas distribution connections, ('000) (at 31/12):	11,492	11,115	3.4
Spain	5,842	5,681	2.8
Latin America	5,253	5,077	3.5
Italy	397	357	11.2
Contracts per customer in Spain (at 31/12)	1.39	1.37	1.5
Electricity generated (GWh):	31,451	18,700	68.2
Spain	18,130	16,975	6.8
Mexico	11,455	-	-
Puerto Rico	1,866	1,725	8.2
Installed capacity (MW):	6,495	6,484	0.2
Spain	3,991	3,980	0.3
Mexico	2,233	2,233	-
Puerto Rico	271	271	-

Net sales

Net sales	2008	%s/total	2007	%s/total	% 2008/2007
Gas Distribution	4,406	32.5	4,033	40.0	9.2
Spain	1,711	12.6	2,116	21.0	(19.1)
Latin America	2,531	18.7	1,766	17.5	43.3
Italy	164	1.2	151	1.5	8.6
Electricity	2,718	20.1	1,271	12.6	113.8
Spain	1,898	14.0	1,127	11.2	68.4
Mexico	671	5.0	-	-	-
Puerto Rico	149	1.1	144	1.4	3.5
Upstream & midstream	284	2.1	259	2.6	9.7
Wholesale & Retail	8,220	60.7	6,037	59.8	36.2
Others	167	1.2	154	1.5	8.4
Consolidation adjustments	(2,251)	(16.6)	(1,661)	(16.5)	35.5
Total	**13,544**	**100.0**	**10,093**	**100.0**	**34.2**

Net sales in 2008 totalled Euros 13,544 million, 34.2% more than in 2007. This sizeable increase is mainly the result of the average increase in electricity prices in Spain with respect to 2007 together with greater electricity production, the addition of the electricity business in Mexico, and increased gas activity, especially in regulated distribution in Brazil and procurement and supply in liberalised markets.

Ebitda (1)

	2008	%s/total	2007	%s/total	% 2008/2007
Gas Distribution	1,389	54.2	1,323	58.1	5.0
Spain	886	34.6	863	37.9	2.7
Latin America	467	18.2	425	18.7	9.9
Italy	36	1.4	35	1.5	2.9
Electricity	516	20.1	338	14.9	52.4
Spain	366	14.3	279	12.3	31.2
Mexico	97	3.8	-	-	-
Puerto Rico	53	2.1	59	2.6	(10.2)
Upstream & midstream	185	7.2	158	6.9	17.1
Wholesale & Retail	465	18.1	446	19.6	4.3
Others	10	0.4	12	0.5	(16.7)
Total	**2,564**	**100.0**	**2,277**	**100.0**	**12.16**

(1) Ebitda = Operating income + Depreciation and amortization + Operating provisions.

Ebitda amounted to Euros 2,564 million in 2008, a 12.6% increase over 2007, driven mainly by the power generation business in Spain and the addition of the power generation business in Mexico in 2008, plus growth in distribution in Latin America.

Distribution overall (Spain, Latin America and Italy) accounted for 54.2% of GAS NATURAL's Ebitda. Regulated distribution in Spain is the largest single source of Ebitda (34.6%).

The electricity business in Mexico accounted for 3.8% of consolidated Ebitda; combined with significant growth of this segment in Spain, GAS NATURAL's electricity business accounted for 20.1% of the total.

Operating profit

	2008	%s/total	2007	%s/total	% 2008/2007
Gas Distribution	944	52.6	887	56.6	6.4
Spain	573	31.9	572	36.5	0.2
Latin America	363	20.2	313	20.0	16.0
Italy	8	0.4	2	0.1	-
Electricity	331	18.5	236	15.0	40.3
Spain	262	14.6	195	12.4	34.4
Mexico	34	1.9	-	-	-
Puerto Rico	35	2.0	41	2.6	(14.6)
Upstream & midstream	136	7.6	106	6.8	28.3
Wholesale & Retail	438	24.4	428	27.3	2.3
Others	(55)	(3.1)	(90.0)	(5.7)	(38.9)
Total	**1,794**	**100.0**	**1,567.0**	**100.0**	**14.5**

Depreciation charges increased by 11.6% while provisions fell by 24.6%, with the result that operating income amounted to Euros 1,794 million, 14.5% more than in 2007.

Financial results

The cost of net financial debt was Euros 301 million, Euros 97 million more than in 2007, as a result of the 52% increase in average gross debt due to the debt arranged to acquire energy assets in Mexico in December 2007 and 9.9% of Unión Fenosa, S.A. in 2008.

As a result of strong cash flow in the year, net debt increased by less than the amount of debt taken on to acquire the stake in Unión Fenosa, S.A. At 31 December, net financial debt amounted to Euros 4,913 million, leverage was 42.2%, the net debt/ Ebitda ratio was 1.9, and financial coverage was 9.7. times.

On 2 December 2008, GAS NATURAL renewed its Euro Medium Term Note (EMTN) programme and expanded it by Euros 4,000 million to Euros 8,000 million, with the same characteristics as before. At 31 December 2008, Euros 725 million issued in previous years were outstanding under that programme.

Financial instruments available achieved Euros 10,095 million at 31 December 2008 and included Euros 7,275 million under the Euro Medium Term Notes (EMTN) programme and Euros 1,000 million under the Euro Commercial Paper (ECP) programme, of which limited use was made in the period.

Also, in the framework of the acquisition of Unión Fenosa, S.A., in July 2008 GAS NATURAL signed an agreement with ten banks to underwrite the finance needed to buy 100% of that company.

That finance amounts to Euros 18,260 million, including Euros 1,100 million to refinance Unión Fenosa, S.A.'s debt and up to Euros 700 million to refinance GAS NATURAL's debt. It is structured in 10 tranches that mature between February 2010 and August 2013. At 31 December 2008, Euros 1,675 million had been drawn.

On 1 August 2008, as a result of the agreement with ACS to buy 45.3% of Unión Fenosa, S.A., the rating agencies put GAS NATURAL's credit rating on negative watch.

The credit ratings of GAS NATURAL's short- and long-term debt are as follows:

Agency	l/t	c/t
Moody's	A3	P-2
Standard & Poor's	A	A-1
Fitch	A	F1

GAS NATURAL is firmly committed to maintaining a solid, stable financial position. To that end, its minimum target rating post-acquisition is BBB, in line with other utilities worldwide. Also, to ensure a sound flexible financial structure, GAS NATURAL may increase capital to secure the aforementioned rating. The increase is estimated to amount to at most Euros 3,500 million. The main shareholders, Criteria CaixaCorp and Repsol YPF, have undertaken to make the necessary contributions to guarantee that amount is achieved.

Gain on sale of financial instruments

Disposals of financial instruments in 2008 provided a net gain of Euros 14 million, compared with Euros 64 million in 2007.

The gains in 2007 were basically from the disposal of 9.4% of Naturgas Energía.

Profit of entibies recorded by equity method

The main items in this account relate to results from minority stakes in gas distribution companies in Spain (Gas Aragón) and wind farms companies.

Income from holdings in associates amounted to Euros 6 million in 2008 compared with Euros 8 million in 2007.

Income tax expense

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

The corporate income tax expense totalled Euros 379 million, i.e. an effective tax rate of 24.4%, compared with 25.3% the previous year.

The difference with respect to the general tax rate was due to tax credits and different tax systems applied to companies operating outside Spain.

Minority interests

The main items in this account are the minority shareholders of: EMPL, the subgroup of subsidiaries in Colombia, Gas Natural BAN, Gas Natural Mexico, CEG and CEG Rio, as well as other companies in Spain.

Income attributed to minority interests in 2008 amounted to Euros 115 million, Euros 18 million more than in 2007, basically due to the investees in Brazil and Colombia.

Investments

Investments totalled Euros 3,697 million, including the financial investment of Euros 2,451 million to buy 14.7% of Unión Fenosa, S.A.

The breakdown of investments by type is as follows:

	2008	2007	%
Capital expenditure	1,068	1,148	(6.9)
Investments in intangible assets	141	63	-
Financial investments	2,488	1,112	-
Total investments	**3,697**	**2,323**	**59.1**

Capital expenditure amounted to Euros 1,068 million in 2008, a 6.9% decrease with respect to 2007, due basically to lower investment in up & midstream and in power generation in Spain.

Financial investments in 2008, amounting to Euros 2,488 million, include basically the acquisition of 14.7% of Unión Fenosa, S.A.; in 2007, this item included mainly the acquisition of the Italmeco Group in Italy, and of Mexican companies that own five combined cycle plants and a gas pipeline.

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

	2008	2007	%
Gas distribution:	662	624	6.1
Spain	461	451	2.2
Latin America	136	118	15.3
Italy	65	55	18.2
Electricity:	353	336	5.1
Spain	310	329	(5.8)
Mexico	36	-	-
Puerto Rico	7	7	-
Gas:	33	163	-
Upstream & midstream	21	149	(85.9)
Wholesale & Retail	12	14	(14.3)
Rest	20	25	(20.0)
Total inversiones materiales	**1,068**	**1,148**	**(7.0)**

Investment in distribution totalled Euros 662 million, 6.1% more than in 2007. Investment in gas distribution in Latin America rebounded by 15.3% in 2008, mainly due to growth in gas distribution in Brazil. Investment in gas distribution in Spain rose by 2.2%, in line with the pace of growth in residential supply points.

Investments in power generation in 2008 included development of the Malaga 400 MW plant and the Barcelona Port 800 MW plant; in 2007, they included the development of the Plana del Vent 800 MW plant (in commercial operation since 2007) and the Malaga plant.

Investment in up & midstream in 2007 included the acquisition of a new LNG carrier (50%), the Sestao-Knutsen, which has a capacity of 138,000 m^3, as well as development of Gassi Chergui (Algeria), and expanded activity by Petroleum Oil & Gas España.

GAS NATURAL allocated 43% of capital expenditure to gas distribution in Spain, adding 3,149 km of gas grid in the last 12 months, a 6.9% increase, which will enable it to maintain the rapid pace of growth in distribution connections despite the slowdown in new building. The electricity business in Spain accounted for 29.1% of capital expenditure in 2007, mainly for development of the combined cycle plants

Net intangible and tangible fixed assets amounted to Euros 11,059 million at 31 December 2008. The breakdown by business line is as follows:

	A 31.12.2008	%
Distribution	6,056	54.8
Spain	3,967	35.9
Latin America	1,468	13.3
Italy	621	5.6
Electricity	3,879	35.1
Spain	2,688	24.3
Mexico	1,023	9.3
Puerto Rico	168	1.5
Gas	939	8.5
Up & midstream	870	7.9
Wholesale & Retail	69	0,6
Rest	185	1.7
Total net tangible and intangible assets	**11,059**	**100.0**

Overall intangible and tangible fixed assets included construction in progress worth Euros 770 million, of which Euros 603 million relate to the electricity business (construction of combined cycle plants and wind farms), Euros 66 million to Latin America, and Euros 46 million to up & midstream.

Gas distribution still accounts for the bulk (54.8%) of GAS NATURAL's total net tangible fixed and intangible assets.

Intangible and tangible fixed assets in gas distribution in Latin America amount to Euros 1,468 million (13.3% of the consolidated total).

Distribution in Spain

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

Results

	2008	2007	%
Net sales	1,711	2,116	(19.1)
Purchases	(375)	(827)	(54.7)
Personnel costs, net	(73)	(56)	30.4
Other expenses/income	(377)	(370)	1.9
Ebitda	**886**	**863**	**2,7**
Charge for depreciation and amortisation	(303)	(285)	6.3
Variation in operating provisions	(10)	(6)	66.7
Operating income	**573**	**572**	**0.2**

Net sales in the gas distribution business in Spain totalled Euros 1,711 million, 19.1% less than in 2007. This was due to lower sales of gas at the bundled tariff since that activity was discontinued on 1 July 2008 in accordance with Law 12/2007 and Order ITC/2309/2007.

Ebitda amounted to Euros 886 million, up 2.7% on the figure reported in 2007 and in line with the increase in regulated remuneration for 2008.

Main aggregates

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

	2008	2007	%
Gas activity sales (GWh)	270,073	271,058	(0.4)
Tariff gas sales	14,177	38,288	(63.0)
Residential	13,910	26,343	(47.2)
Industrial	267	11,945	(97.8)
TPA	255,896	232,770	9.9
Distribution network (km)	48,578	45,429	6.9
Change in distribution connections ('000)	161	246	(34.6)
Distribution connections (000) (at 31/12)	5,842	5,681	2.8

Regulated gas sales in Spain, which encompassed bundled tariff gas supply until 30 June 2008 as well as third-party access (TPA), for both gas distribution and secondary transportation, amounted to 270,073 GWh, a slight 0.4% decrease on 2007 due to declining industrial activity in the context of the current economic situation.

In accordance with Law 12/2007, published on 3 July 2007, and Ministerial Order ITC/2309/2007, published on 31 July 2007, the regulated gas market was abolished on 1 July 2008. Distribution companies ceased to supply at the bundled tariff and a last-resort supply was established. Royal Decree 1068/2007, published on 28 July 2007, regulates the implementation of last-resort supply in the natural gas sector for consumers connected to the gas pipeline with a pressure less than or equal to 4 bar and whose annual consumption is less than 3 GWh. GAS NATURAL is one of the companies that opted to be a last-resort supplier.

Distribution and secondary transportation services for third-party access (TPA) increased by 9.9% to 255,896 GWh, of which 118,578 GWh (+12%) related to services provided to third parties and the remaining 137,318 GWh (+8.2%) to deregulated supply by GAS NATURAL, which is the main operator in the liberalised gas market.

GAS NATURAL continues to expand its distribution network, having added 3,149 km. in the last twelve months and connected another 45 municipalities in 2008. The number of distribution connections increased by 161,000 in the last 12 months (i.e. by 34.6% less than in 2007 due to the smaller number of new homes being built).

At 31 December 2008, the distribution grid measured 48,578 km., having increased by 6.9%, and there were a total of 5,842,000 distribution connections, 2.8% more than last year.

On 31 December 2008, Ministerial Order ITC/3802/2008 was published, establishing the tolls, last-resort tariff and certain aspects of the regulated gas business in Spain. The Order maintains the system of calculating the remuneration for distribution but amended its inflation indexation (IPH). Henceforth, indexation will be based on the actual IPH index since 2007 rather than on projections, as was previously the case.

On 16 January 2009, the Directorate of Energy Policy and Mines issued its Resolution of 31 December 2008 establishing the distribution remuneration, by application of Order ITC/3802/2008. The initial remuneration allocated to GAS NATURAL for 2009 is Euros 1,206 million.

The remuneration for secondary transportation in 2009 amounts to Euros 24 million.

Distribution in Latin America

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

Results

	2008	2007	%
Net sales	2,531	1,766	43.3
Purchases	(1,814)	(1,112)	63.1
Personnel costs, net	(66)	(61)	8.2
Other expenses/income	(184)	(168)	9.5
Ebitda	**467**	**425**	**9.9**
Charge for depreciation and amortisation	(94)	(94)	-
Variation in operating provisions	(10)	(18)	(44.4)
Operating income	**363**	**313**	**16.0**

Net sales totalled Euros 2,531 million, a 43.3% increase, including a notable contribution from Brazil: Euros 1,517 million.

Ebitda amounted to Euros 467 million, a 9.9% increase on 2007.

Brazil's contribution (48% of the total) is particularly noteworthy: Ebitda amounted to Euros 224 million (up 21.7% with respect to 2007) basically due to the increase in the gas margin as a result of higher sales to the power generation market and the inflation-indexed update of the tariff in Rio de Janeiro and São Paulo.

In Colombia, Ebitda amounted to Euros 133 million, a 9% increase with respect to 2007 due mainly to higher sales to the residential market and improved margins and sales in the automobile fuel market.

The decline in Ebitda in Argentina and Mexico is mainly due to depreciation of their currencies with respect to the euro (7% and 9%, respectively).

Main aggregates

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

	2008	2007	%
Gas activity sales (GWh):	208,408	179,314	16.2
Tariff gas sales	144,065	115,132	25.1
TPA	64,343	64,182	0.3
Distribution network (km)	61,196	59,555	2.8
Change in distribution connections ('000)	176	170	3.5
Distribution connections ('000) (at 31/12)	5,253	5,077	3.5

The main physical aggregates by country in 2008 are as follows:

	Argentina	Brazil	Colombia	Mexico	Total
Gas activity sales (GWh)	71,964	75,867	16,720	43,857	208,408
Change vs. 2007 (%)	(2.8)	64.0	6.7	1.2	16.2
Distribution network	22,360	5,881	17,052	15,903	61,196
Change vs. 31/12/2007 (km)	505	246	497	393	1,641
Distribution connections ('000 at 31/12)	1,393	789	1,926	1,145	5,253
Change vs. 31/12/2007 ('000)	38	16	110	12	176

Sales in the gas activity in Latin America, which include both gas sales and TPA (third-party access) services, totalled 208,408 GWh, a 16.2% increase with respect to the previous year.

Sales in Brazil were up 64% as a result basically of greater sales in the power generation market boosted by the Federal Government due to low precipitation, and in Colombia sales were up 6.7% as a result of higher sales to the residential market (due to an increase in customer numbers) and to the automobile fuel market (due to the greater number of vehicles fitted to burn LNG).

Gas sales in Mexico rose 2.6% with respect to 2007 as a result of higher sales to the industrial market, while sales in Argentina fell 5.5% as a result of lower sales to the residential market because of milder winter temperatures.

The distribution grid was extended by 1,641 km a 2.8% increase in the last twelve months to 61,196 km at 31 December 2008; this is in line with the 3.5% growth in the number of distribution connections.

There were a total of 5,253,000 gas distribution connections at 31 December 2008. High year-on-year growth rates were maintained with the addition of 176,000 supply points; Colombia added 110,000 distribution points due to a faster rate of customer acquisition in Bogotá and the Altiplano Cundiboyacense area.

Highlights of activities in Latin America:

On 10 October 2008, the Argentine government published the tariff increase as a continuation of the advance reflected in the memorandum agreement of 9 April 2007. This increase, applicable to residential and industrial customers and to gas natural for vehicles, ranges from 10% to 30% depending on levels of consumption and is in force since 1 September 2008.

On 16 December 2008, GAS NATURAL completed the sale of 19.6% of Gas Natural BAN to the Chemo Group for US$56 million as a result of the memorandum of understanding signed in August 2008. Following the sale, GAS NATURAL retains a majority stake and controls the company.

On 17 July 2008, Gas Natural BAN issued negotiable bonds for 125.9 million Argentine pesos, maturing in July 2010.

In Rio de Janeiro (Brazil), distribution margins were increased by 6.2% since January 2008 as a result of inflation indexation. Negotiations continue with the Government for the application of the new tariff framework for 2008-2012.

In June 2008, inflation indexation in the São Paulo area increased distribution margins by 9.8%.

On 21 July 2008, margins in the power generation market were increased by 13.4% due to inflation indexation.

On 31 July 2008, the final contract was signed with Petrobras as a continuation of the gas procurement agreement of 25 March 2008 which guarantees 5% annual growth in gas sales in Brazil through 2012. This agreement ensures the required volume of gas to meet current demand and future growth in line with the Strategic Plan 2008-2012, and it includes features such as flexibility to cover gas supply even in emergency situations.

In Colombia, the automotive gas market continues to grow: the number of vehicles fitted to burn natural gas increased by 16%, from 94,994 at 31 December 2007 to 110,092 at 31 December 2008. The "gn auto" brand was launched to present a uniform image in the automotive gas natural market.

On 1 April 2008, the Company signed an agreement with Petrobras to develop 14 natural gas service stations in Bogotá; they are expected to commence operation in the next 12 months.

On 24 April 2008, rating agency Duff and Phelps (Colombia) confirmed the AAA rating, outlook stable, of Gas Natural ESP.

On 17 June 2008, the Ministry of Environment, Housing and Territorial Development approved the project to "capture, treat and use biogas from the Doña Juana landfill as energy", stating that it contributed to the country's commitment to sustainable development, and estimating that it would reduce greenhouse gas emissions into the atmosphere by 15 million tonnes of CO_2 during the course of the project.

The new tariff frameworks for the various distribution licences in Mexico are being negotiated. Negotiations continue with the government of Mexico City under the agreement signed on 31 August 2007 to develop and expand gas distribution in the city, an area with a potential market of 2,100,000 customers; a total of 18,253 new distribution points were acquired in 2008, 23% more than in 2007.

On 22 September 2008, the sale of 15% of Gas Natural México to SINCA INBURSA agreed upon in June 2008 was completed, enabling a strategic agreement to be signed by the two companies with the goal of accelerating growth in Mexico and advancing the Strategic Plan 2008-2012, which identifies Mexico as a key objective; GAS NATURAL retains a majority stake and control of management.

Distribution in Italy

Results

	2008	2007	%
Net sales	164	151	8.6
Purchases	(105)	(93)	12.9
Personnel costs, net	(13)	(15)	(13.3)
Other expenses/income	(10)	(8)	25.0
Ebitda	**36**	**35**	**2.9**
Charge for depreciation and amortisation	(27)	(24)	12.5
Variation in operating provisions	(1)	(9)	(88.9)
Operating income	**8**	**2**	**-**

Gas distribution in Italy contributed Euros 36 million in Ebitda, i.e. 2.9% more than in 2007. In the second quarter of 2007, the regulated distribution tariffs in areas newly connected to the gas grid were updated by the Regulator on an extraordinary basis by Euros 7 million.

Main aggregates

	2008	2007	%
Gas activity sales (GWh):	2,933	2,800	4.8
Tariff gas sales	2,632	2,635	(0.1)
TPA	301	165	82.4
Distribution network (km)	5,521	4,775	15.6
Distribution connections ('000) (at 31/12)	397	357	11.2

The acquisition of Italmeco extended GAS NATURAL's gas distribution territory in Italy to another 31 municipalities in the regions of Basilicata, Calabria, Campania and Lazio, adding 8,930 distribution connections and 509 km. of grid.

On 3 July 2008, GAS NATURAL acquired the gas distribution company Pitta Costruzioni, which operates in the Puglia region in southern Italy, for Euros 30 million. The acquired group has a license to supply natural gas to eleven municipalities with a total of 15,000 clients and a distribution grid measuring 393 km.

With this deal, GAS NATURAL expanded its distribution area in Italy to 187 municipalities in eight regions: Molise, Abruzzo, Puglia, Calabria, Sicily, Basilicata, Campania and Lazio.

A total of 2,933 GWh of gas were distributed in Italy, i.e. 4.8% more than in 2007, due basically to the inclusion of Italmeco and Pitta (+176 GWh).

The distribution network was organically expanded by 345 kilometres and 24,290 new distribution connections were added in 2008.

Electricity in Spain

This area includes power generation in Spain (combined cycle plants, wind farms and cogeneration), wholesale electricity trading, and the wholesale and retail supply of electricity in the liberalised market in Spain.

Results

	2008	2007	%
Net sales	1,898	1,127	68.4
Purchases	(1,378)	(727)	89.5
Personnel costs, net	(4)	(5)	(20.0)
Other expenses/income	(150)	(116)	29.3
Ebitda	**366**	**279**	**31.2**
Charge for depreciation and amortisation	(98)	(79)	24.1
Variation in operating provisions	(6)	(5)	20.0
Operating income	**262**	**195**	**34.4**

Net sales in the electricity business amounted to Euros 1,898 million, much higher than the 2007 figure, basically due to higher electricity prices and greater output.

The weighted average pool price in 2008 was Euros 65.6/MWh, 60.8% higher than in 2007 (Euros 40.8/MWh).

This significant increase in pool prices in 2008 was due, among other factors, to higher generation costs in the context of rising fuel prices at the beginning of the year, although fuel prices fell in November and December and lower demand compared with 2007 plus a high level of wind power output helped to contain power prices.

CO_2 emission rights prices also continued to rise in year-on-year terms. The average price of emission rights in 2008 was Euros 22.13/tonne, and the price was declining at year-end in line with other commodity prices and the economic situation.

Electricity demand in 2008 (263,784 GWh) was 0.9% higher than in 2007. Adjusting for the different number of working days and the temperature, demand increased by 0.7%. The economic deceleration had a visible impact on electricity consumption: demand in December 2008 fell by 1.3% (corrected figure: 3.4%) with respect to December 2007.

Ebitda increased by 31.2% in 2008 to Euros 366 million as a result of an increase in power generation and of higher pool prices. Additionally, GAS NATURAL optimised its participation in Spain's various power generation markets and was involved in trading and supplying electricity in the liberalised market in Spain.

Main aggregates

The key figures of GAS NATURAL's electricity activities in Spain are as follows:

	2008	2007	%
Installed capacity (MW):	3,991	3,980	0.3
CCGT	3,600	3,600	-
Wind	363	363	-
Cogeneration	28	17	64.7
Electricity generated (GWh):	18,130	16,975	6.8
CCGT	17,225	16,096	7.0
Wind	772	779	(0.9)
Cogeneration	133	100	33.0
Contracted electricity (GWh/year)	2,541	6,239	(59.3)
Electricity sales (GWh):	6,216	2,214	-
Residential	484	736	(34.2)
Industrial	5,732	1,478	-

GAS NATURAL currently has 3,600 MW of combined cycle capacity operating in Spain. The Málaga 400 MW plant and the two units of the Barcelona Port 800 MW plant are under construction. The process of obtaining permits for the Lantarón (Álava) 800 MW combined cycle plant is ongoing.

The combined cycle plants generated 17,225 GWh in 2008. GAS NATURAL's cumulative share of the ordinary regime power generation market was 8% in 2008. The plants logged 4,817 equivalent baseload hours in 2008, i.e. a load factor of 54.8% (57.7% in 2007).

In the area of "special regime" power production, GAS NATURAL has 363 MW of attributable wind power capacity. GAS NATURAL's net attributable wind output was 772 GWh in 2008, similar to the 2007 figure.

Also, GAS NATURAL's cogeneration business with a 28 MW attributable capacity generated 133 GWh in 2008, a 33% increase with respect to 2007. The Cinca Media 7 MW slurry-based biogas power plant, in Monzón (Huesca), entered commercial operation in the fourth quarter of 2008. The Almazán (Soria) 15 MW slurry plant will be started up in the first quarter of 2009.

GAS NATURAL's roster of electricity customers at 31 December 2008 represented 2,541 GWh/year, a considerable reduction on the 2007 year-end figure due to optimisation of the customer portfolio.

GAS NATURAL has throughout 2008 continued to trade on electricity markets and trade in CO_2 emissions rights and credits and manage gas index formulas and petroleum by-products. Through this activity it has been actively managing its position while optimising margins and managing exposure to risk.

As regards crossborder trading between Spain and France, GAS NATURAL participated in the daily, monthly and annual auctions, and managing it in the various markets in the two countries (daily, intraday, constraints, futures). GAS NATURAL's operations in the French market are a further step towards expanding its energy trading business into other European markets so as to optimise its position in electricity through a more diversified portfolio of countries and products.

GAS NATURAL intensified trading of CO_2 emissions in through numerous deals involving EUA rights and CER credits, both in organised markets (BLUENEXT, ECX) and with different counterparties, in spot, forward and structured products.

In February 2007, Spain's Industry Ministry established a calendar of electricity auctions to cover the bundled tariff supply, by quarters. The seventh auction under this system (CESUR) was held on 16 December in which two products were auctioned: three-month baseload capacity (January-March 2009) and three-month peak capacity (08.00-20.00 hours on working days in January-March 2009). A total of 3,600 MW were auctioned (3,400 MW baseload, and 200 MW peak capacity), i.e. lower in energy terms than in the sixth auction. Thirty-four players, including GAS NATURAL, participated. Closing prices were Euros 58.86/MWh for the baseload product and Euros 66.84/MWh for the peak product.

Electricity in Mexico

The assets acquired in Mexico in December 2007 are the Anáhuac power plant (Río Bravo II: 495 MW), the Lomas del Real power plant (Río Bravo III: 495 MW), Valle Hermoso power plant (Río Bravo IV: 500 MW), and Electricidad Águila de Altamira (Altamira II: 495 MW), all of which are located in the state of Tamaulipas, in north-western Mexico, as well as a 54-kilometre gas pipeline that supplies gas to those four plants; it also acquired the Saltillo 248 MW power plant in Coahuila state, also in north-western Mexico.

The transfer was completed on 27 December 2007 after obtaining approval from the Mexican regulators and France's Privatisation Committee. Those companies have been fully consolidated by GAS NATURAL since 31 December 2007.

Resultados

	2008	2007	%
Net sales	671	-	-
Purchases	(544)	-	-
Personnel costs, net	(7)	-	-
Other expenses/income	(23)	-	-
Ebitda	**97**	**-**	**-**
Charge for depreciation and amortisation	(63)	-	-
Variation in operating provisions	-	-	-
Operating income	**34**	**-**	**-**

Ebitda in the period totalled Euros 97 million, 3.8% of GAS NATURAL's consolidated total.

Main aggregates

In 2008, power generated and sold amounted to 11,455 GWh, with a load factor of 58.3%.

Mexico's electricity sector is controlled by the Comisión Reguladora de Energía and supplied by two public companies: Comisión Federal de Electricidad (CFE) and Luz y Fuerza del Centro. Private-sector power generation has grown substantially in the shape of independent power producers (IPP). GAS NATURAL, as independent party, sells energy to CFE, according to long term power purchase agreements.

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 additional natural gas to the island, plus an operation, maintenance and fuel management contract.

Results

	2008	2007	%
Net sales	149	144	3.5
Purchases	(82)	(72)	13.9
Personnel costs, net	(3)	(3)	-
Other expenses/income	(11)	(10)	10.0
Ebitda	**53**	**59**	**(10.2)**
Charge for depreciation and amortisation	(18)	(18)	-
Variation in operating provisions	-	-	-
Operating income	**35**	**41**	**(14.6)**

GAS NATURAL's activities in Puerto Rico provided Euros 53 million in Ebitda, 10.2% less than in 2007, mainly as a result of the dollar's depreciation against the euro. In local currency, Ebitda fell 4.4% to US$77 million.

Main aggregates

EcoEléctrica has a regasification plant (capacity: 115,000 m^3) and a 542 MW CCGT (271 MW attributable). 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 2008, EcoEléctrica sold 3,732 GWh (1,866 GWh attributable to GAS NATURAL), i.e. an 8.2% increase, with a load factor of 83.8%, much higher than the 77.7% registered in 2007.

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 2009; 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 liquefied natural gas (LNG) projects, hydrocarbon exploration, development and production, maritime transportation, and the operation of the Maghreb-Europe gas pipeline.

Results

	2008	2007	%
Net sales	284	259	9.7
Purchases	(46)	(47)	(2.1)
Personnel costs, net	(5)	(5)	-
Other expenses/income	(48)	(49)	(2.0)
Ebitda	**185**	**158**	**17.1**
Charge for depreciation and amortisation	(49)	(46)	(6.5)
Variation in operating provisions	-	(6)	-
Operating income	**136**	**106**	**28.3**

Net sales in the up & midstream business totalled Euros 284 million, a 9.7% increase.

Ebitda amounted to Euros 185 million in 2008, 17.1% more than in 2007. Greater use of the fleet of gas carriers in 2008 and the higher volume of natural gas shipped through the Maghreb-Europe pipeline (+7.5%) were offset by the poor performance of the dollar, which affected EMPL's activities, and by greater exploration and development costs.

Gas exploration and production operations are booked using the "successful efforts" method, under which costs prior to drilling phase 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:

	2008	2007	%
Gas transportation-EMPL (GWh):	133,497	124,150	7.5
Portugal-Morocco	34,926	28,094	24.3
GAS NATURAL	98,571	96,056	2.6

The gas transportation activity conducted in Morocco, through companies EMPL and Metragaz, represented a total volume of 133,497 GWh, a 7.5% increase. Of that figure, 98,571 GWh were transported for GAS NATURAL through Sagane and 34,926 GWh for Portugal and Morocco. Optimisation of GAS NATURAL's supply and demand balance, growth in sales in Spain, and the increase in volume transported for Portugal have enabled the company to increase utilisation of the Maghreb-Europe gas pipeline considerably.

On 10 April 2008, the first auction of underground storage capacity was held for the period 1 April 2008 to 31 March 2009, for a total of 1,518 GWh. The auction, organised by OMEL (the electricity market operator) under the supervision of the CNE (Spain's National Energy Commission), was completed via an ascending clock auction method, closing at a price of Euros 2,588/GWh. GAS NATURAL was awarded 80% of the capacity auctioned (1,209 GWh). This quantity is in line with the company's strategic target share of the Spanish residential-commercial supply market.

GAS NATURAL was awarded long-term gas export capacity under the international tender for gas imports and exports through the Larrau international connection. This is further evidence of GAS NATURAL's interest in developing interconnection infrastructure with the rest of Europe.

The rules governing the 2008-2009 Winter Plan, which refer to meeting demand in the period, were published. As part of the measures adopted by GAS NATURAL to comply with the Plan, it has two LNG storage vessels and capacity to extract gas from the underground storage through the reserve awarded to and acquired by GAS NATURAL.

Development work continues on the Gassi Chergui exploration project in Algeria, where drilling of a second well has commenced, and preparatory work is continuing with a view to drilling in 2009 in Tangier-Larache (Morocco), where GAS NATURAL has a 24% stake.

Petroleum Oil & Gas España (100% owned by GAS NATURAL) is participating with Repsol YPF in an off-shore drilling operation which is scheduled to be implemented in 2009 in the Montanazo concession (off the coast of Tarragona, Spain); preparatory work was performed in the fourth quarter of 2008. Geological prospection and data acquisition work has commenced in connection with the hydrocarbon prospection permit in Villaviciosa (Asturias), which GAS NATURAL owns 90%. The Company is also participating in the Loquiz-Urederra permit (Álava and Navarra, Spain); the next step is to carry out a first exploratory drilling operation in 2009.

GAS NATURAL and Repsol YPF, in consortium with other companies, have signed a partnership agreement to develop an integrated gas project in Angola. The company Gas Natural West Africa (60% Repsol YPF, 40% GAS NATURAL) has been created to manage the project. The gas reserves will be evaluated first, and then the necessary investments will be made to develop them as liquefied natural gas (LNG). Progress has been made in defining the seismic exploratory operations and drilling work to be performed in 2009.

Regarding the Gassi Touil project, and following Sonatrach's decision to unilaterally terminate the contract in August 2007, Repsol YPF and GAS NATURAL are asserting their contractual rights in international arbitration, which will determine the validity of the termination as well as the damages. The arbitration decision is expected to be handed down in 2009.

GAS NATURAL's projects to build two regasification plants in Italy (Trieste-Zaule and Taranto) continue to make progress towards obtaining the required permits and licenses. The Trieste-Zaule project's Environmental Impact Survey obtained a positive outcome from Italy's Environment Ministry (MATT) on 20 June 2008 and it is expected to obtain the Ministerial Decree of Environmental Authorisation in the coming months. The process of obtaining permits for the Taranto project, as required under Italian legislation, is continuing.

Both projects are on-shore, located in the port areas of the respective cities, and have a planned regasification capacity of 8 bcm/year; investment per terminal will be approximately Euros 500 million.

Snam Rete Gas continues to develop its projects to connect the terminals with Italy's national gas grid. The Trieste terminal connection project is currently in the process of obtaining environmental approvals.

These plants will enable the company to diversify its sources of natural gas supply in Italy and provide continuity in this energy source, which is one of the objectives of the Italian government's energy policy.

GAS NATURAL and Gazprom Marketing & Trading signed a framework agreement for sporadic operations in the LNG market. The agreement will allow for transactions to be made rapidly when opportunities arise and market conditions are favourable. The two companies are also jointly analysing other possibilities for cooperation in other lines of business.

On 24 July 2008, it was agreed to expand commercial relations with Qatargas and establish a framework and rules for negotiating the purchase of 5 bcm of LNG in the medium and long term.

As part of the plan to update the fleet, to which the 138,000 m^3 Sestao-Knutsen vessel was added at the end of 2007, in May 2008 the sub-contract for the 40,000 m^3 carrier Laietà, which had been part of GAS NATURAL's fleet since 1969, came to an end. The fleet operated by Stream currently has eleven tankers.

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.

Results

	2008	2007	%
Net sales	8,220	6,037	36.2
Purchases	(7,433)	(5,368)	38.5
Personnel costs, net	(64)	(57)	12.3
Other expenses/income	(258)	(166)	55.4
Ebitda	**465**	**446**	**4.3**
Charge for depreciation and amortisation	(8)	(8)	-
Variation in operating provisions	(19)	(10)	90
Operating income	**438**	**428**	**2.3**

Net sales in the supply activity amounted to Euros 8,220 million, 36.2% more than last year. This growth was due basically to the increase in gas volumes supplied in Spain (higher sales to CCGTs) and other European countries.

Ebitda amounted to Euros 465 million, 4.3% more than in 2007.

Ebitda performance in the first half of the year was due to streamlining of GAS NATURAL's portfolio of liberalised gas market contracts, and to greater efficiency as a result of managing the commodity price and exchange rate risks associated with the commercial portfolio. Diversification of the portfolio of commodities and combined management of the commodity and dollar risks supported Ebitda in a context of significant volatility in the energy and currency markets.

Main aggregates

The main aggregates in the gas procurement and supply activity are as follows:

	2008	2007	%
Gas supply (GWh)	292,629	292,730	-
Spain	239,090	245,566	(2.6)
Regulated market	17,383	45,024	(61.4)
Liberalised market:	221,707	200,542	10.6
GAS NATURAL (1)	189,492	167,389	13.2
Supply to third parties	32,215	33,153	(2.8)
International	53,539	47,164	13.5
Supply	45,946	40,708	12.9
Supply Europe	7,593	6,456	17.6
Multiutility contracts (at 31/12)	2,119,631	1,904,663	11.3
Contracts per customer (at 31/12)	1.39	1.37	1.5

(1) Does not include exchanges with other energy companies.

A total of 292,629 GWh of natural gas were procured and supplied (similar to the 2007 figure); 239,090 GWh were sold in the Spanish market (-2.6%) and the other 53,539 GWh were sold in other countries (+13.5%) due to higher margins there.

Until 1 July 2008, the gas procured for the regulated market was supplied to Enagás which, in addition to inventory management, supplied the gas to distribution companies, both in the GAS NATURAL group and third parties. Up to 30 June 2008, that activity amounted to 17,383 GWh.

Sales to the liberalised market amounted to 221,707 GWh, a 10.6% increase on last year. Growth in this area was boosted by higher gas consumption for power generation as a result of low precipitation. Of those sales, 189,492 GWh were sold by GAS NATURAL, mainly in the industrial market, as well as to CCGTs and households. GAS NATURAL also sold 32,215 GWh of gas for supply to the liberalised market by other supply companies (2.8% less than in 2007).

GAS NATURAL is taking steps to promote the use of natural gas as vehicle fuel in Spain, in both the public and private sectors. GAS NATURAL is an expert in this line of business, which it already conducts in several Latin American countries and Italy, where automotive natural gas is widely used; in Spain, it markets this application of natural gas under the "gn auto" brand.

Under the "gn auto" project, GAS NATURAL undertakes end-to-end management of the process, from construction of the service station (capital cost and subsequent operation and maintenance) to the supply of compressed natural gas, thereby ensuring maximum availability of the facilities.

In this line, during 2008 it signed framework agreements with:

- Carrefour, to consider the installation of natural gas pumps at the retail chain's service stations in Spain, and to include gas natural-powered vehicles in its logistics fleet.

- The government of the city of Pozuelo de Alarcón (Madrid), in order to develop natural gas as a fuel for public and private vehicles in the municipality. The agreement also includes surveying and developing a network of gas natural service stations in the area.

It also participated for the first time in the Madrid International Auto Show, promoting the use of natural gas as a vehicle fuel and presenting its "gn auto" brand.

And Spain's first public gas natural service station was inaugurated in Valencia. The station is expected to be used by waste collection vehicles in the short term and by taxis and light vehicles in the medium term.

GAS NATURAL participated in the foundation of the Natural Gas Vehicle Association Europe (NGVA Europe), an organisation created to represent the vehicular natural gas industry, to promote the use of this fuel and to attain uniform development of the sector Europe-wide.

Within the activities undertaken in the "gnSolar" business line, GAS NATURAL published a new technical guide for solar thermal installations, to provide property developers and builders with an up-to-date guide for installing this type of infrastructure. This line of business seeks to promote the joint use of solar energy and natural gas in residential and tertiary buildings, providing advice for property developers and builders as well as a maintenance service for such installations.

In this field, in a joint project with the Seville University School of Industrial Engineering, GAS NATURAL started up the first solar chilling plant in Europe using double-effect absorption technology, which enables solar energy to be used more efficiently to provide cooling that is appropriate for air conditioning systems.

GAS NATURAL has participated in seminars on environmental management which analysed the environmental impact of the transportation sector and identified vehicular natural gas as one of the most efficient options for improving air quality. It also participated in a number of events to promote energy management services and the solar-gas combination. In this connection, GAS NATURAL signed a cooperation agreement with ASPRIMA, the association of property developers in Madrid, under which the company undertook to provide technical advice for gas installations and for the "gnSolar" product and energy management.

At the GENERA 2008 fair, GAS NATURAL presented a new energy assessment service for buildings, which consists of an energy audit followed by a report containing proposals for energy saving and efficiency. In 2008, the company organised a number of seminars on energy certification of buildings within the framework of a number of real estate fairs in which it participated (SIMED in Malaga, Feria de Vividenda de Valladolid, etc.). In the seminars, GAS NATURAL analysed current regulations in this area, the degree to which they are being applied, and the company's own contribution in this field.

GAS NATURAL and Baxi Calefacción, a company in the Baxi Group, a world leader in heating and sanitary hot water, signed an agreement to promote and develop micro-cogeneration in Spain. Through this new business line, which is aimed at property developers and builders, GAS NATURAL will develop projects to install, start up and maintain installations of this type in tertiary and residential buildings.

GAS NATURAL also signed an agreement with RACC to provide home assistance and repair services to its clients.

In July 2008, GAS NATURAL inaugurated its new virtual office at www.gasnatural.es where customers can deal with the main paperwork with the company online through a site with a more attractive, practical design that is more intuitive to navigate and provides faster access to information.

GAS NATURAL increased the number of maintenance contracts by 144,000 in 2008 to 1,677,000 at year-end.

2. Risk factors linked to the business of GAS NATURAL

The activity of GAS NATURAL takes place in an environment in which there are risks that could affect its business and operations. These risk are not the only ones that GAS NATURAL will have to face in the future, since other risks, which at this time are unknown or not considered relevant, could have an effect on its operations or business.

Generally, the operations, business, perspectives, financial position and results of GAS NATURAL could be adversely affects by the following risk, amongst others:

a) Regulatory risks.

- The activities of GAS NATURAL are subject to compliance with certain regulations, especially the applicable legislation governing the natural gas and electricity sectors. The infringement of these regulations and their amendments could adversely affect the business, results and financial position of GAS NATURAL.

- The distribution of gas and electricity is subject to obtaining and maintaining certain concessions and administrative authorisations. A revocation or early termination of these could affect the return on investments of GAS NATURAL and its future earnings.

- The activities of GAS NATURAL are subject to compliance with environmental protection regulations, including legislation limiting the emissions of polluting agents into the atmosphere from major combustion facilities. Compliance with applicable legislation at all times could require significant investments and costs and adversely affect the business, results and financial position of GAS NATURAL. Non-compliance with this legislation (which could lead, amongst others, to the impossibility of acquiring all the emission rights necessary in the market to carry out its activities) and a change in applicable legislation, could adversely and significantly affects the business, results and financial position of GAS NATURAL.

- The market share of GAS NATURAL in Spain has decreased and could continue to decline as a result of the de-regulation of the natural gas sector.

b) Market risks.

- A variation in crude oil prices and natural gas prices could adversely and significantly affect the results and financial position of GAS NATURAL.

- The results and financial position of GAS NATURAL could be adversely and significantly affected if it cannot manage the possible risks arising in fluctuations in interest rates and variations in foreign currency exchange rates.

- The purchasing capacity of the residential and industrial customers of GAS NATURAL has been eroded by the current macro-economic situation, adversely affecting consumer demand. If this unfavourable macro-economic situation continues, the results and financial position of GAS NATURAL could be adversely affected.

- The development of the electricity business of GAS NATURAL is subject to different factors that are beyond the control of GAS NATURAL, including, for illustrative purposes only, increases in the cost of generation (due to increase in the price of fuel), a possible decrease in the growth rate of electricity consumption due to various factors, such as economic conditions, risk inherent in operations and the maintenance of electricity plants, volatility of prices, overcapacity, appearance of major energy alternatives arising from the new technologies and the growing interest in renewable energy and cogeneration, etc.

- Weather conditions could also adversely affect the demand for gas and electricity, negatively impacting the results and revenues of GAS NATURAL.

c) Operating risks.

- The businesses of GAS NATURAL are subject to operating risks inherent in the market (including, for illustrative purposes only, impairments of facilities or breaches of certain supply contracts by counterparties), which could cause interruptions in the supply of gas and/or electricity generation.

- The construction and development of new infrastructures (including, for illustrative purposes only, natural gas distribution and supply projects, while the exploration, production and sale of liquefied natural gas, and electricity generation and distribution projects) could be affected by factors beyond the control of GAS NATURAL, such as delays in obtaining authorisations, licences or permits, modification to the prices of machinery, materials or labour, opposition of certain political, ethnic or other types of groups, or any other similar factors.

- GAS NATURAL could find itself obligated to purchase more gas than it needs for its activity because of contracts containing clauses under which GAS NATURAL is obligated to make annual purchases of certain gas volumes (so-called take or pay clauses).

- GAS NATURAL is exposed to the risk of losses arising from existing or potential legal proceedings, given the current litigious trend in the sector. The adverse results of one or more of these proceedings could translate into an adverse material effect on results for a specific period.

- GAS NATURAL is exposed to possible civil liability claims for damages caused during the ordinary undertaking of its activities.

d) Risks arising from the international business of GAS NATURAL.

- The subsidiary companies of GAS NATURAL could be exposed to a series of risks, including economic recessions and political risks, as well as the devaluation, depreciation, overvaluation or volatility of local currencies.

• GAS NATURAL may encounter obstacles to the repatriation of earnings obtained by foreign subsidiaries, given that they could be subject to restrictions or taxation and to compliance in general with foreign legislation and control of changes in force in the jurisdictions of the subsidiaries.

e) Risks linked to the Takeover Bid for the shares of Unión Fenosa, S.A., and the consolidation of this company:

• In general terms, the risks that currently affect Unión Fenosa, S.A., and any other factors that could arise as a result of the Takeover Bid of Unión Fenosa, S.A. (the Bid) and the consolidation from the operating point of view of the GAS NATURAL Group and Unión Fenosa, S.A. after the liquidation of the latter.

• After the takeover of Unión Fenosa, S.A., the business, the financial position and the results of the GAS NATURAL Group will differ substantially from the business, financial position and current results of the GAS NATURAL Group, and could be affected by different risks, including, for illustrative purposes only, those arising from the operational integration of the GAS NATURAL Group and Unión Fenosa, S.A., and after the Bid, the possible activation of control change clauses in the contracts of Unión Fenosa, S.A. or acquisition of the capital of certain companies belonging to Unión Fenosa, S.A. or other authorisations that are obligatory in other jurisdictions, the financial risks of the Bid and the capacity of GAS NATURAL to meet its payment obligations for this financing, etc.

• It may be possible that GAS NATURAL cannot carry out the divestments of assets which, as the case may be, may be required by the Spanish regulatory authorities, or which may have to be carried out under unfavourable terms, and GAS NATURAL may have to face stiff competition as a result of these divestments. Any of these situations could have adverse material effects on results and the financial position of GAS NATURAL.

f) Financial risks.

The financial risks are set out in Note 16 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, the Board of Directors of Gas Natural SDG, S.A. adopted a resolution at its meeting of 30 January 2009 to approve this Report on the matters which, in compliance with the aforementioned provision, have been included in the Management Report for 2008.

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, and except of the exemption under the First Additional Provision of Royal Decree 1066/2007 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:

Shareholder	% direct or indirect shareholdings
"la Caixa" Group (1)	37.46
Repsol-YPF Group (2)	30.85
GDF-SUEZ Group (3)	8.84
Caixa d'Estalvis de Catalunya	3.03

(1) through Criteria CaixaCorp.
(2) through Repsol-YPF, Repsol Petróleo and Repsol Exploración.
(3) through Genfina and Suez Environnement Holding Be S.c.r.L.

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.

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.

- 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 three 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:

a) The Board of Directors or, as the case may be, the shareholders proposing the resolution must present a written report justifying the modification.

b) 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.

c) The resolution must be adopted by the General Meeting of Shareholders, in accordance with the provisions of the Articles of Association.

d) 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.

The Board of Directors of the Company, by virtue of the resolution of the General Meeting of Shareholders of May 16, 2007, nullifying the authorisation given to the Board of Directors by the General Meeting of Shareholders of 30 April 2002, was authorised to increase share capital up to a maximum of Euros 223,888,014 within a period of 5 years, through a cash contribution, and once or several times without new authorisation. All of which is in accordance with the provisions of article 153.1b) of the Spanish Public Limited Companies Act..

The Board of Directors has not exercised the power conferred by the General Meeting of Shareholders.

By virtue of a resolution of the General Meeting of Shareholders of May 21, 2008, nullifying the authorisation given to the Board of Directors by the General Meeting of Shareholders of 16 May 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 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 Industrial Action Agreement entered into by Repsol YPF and Gas Natural SDG, S.A., which constituted a relevant event, of which the Spanish Securities and Exchange Commissions (Comisión Nacional del Mercado de Valores) was notified on 29 April 2005, as well as the Shareholders Agreement entered into by Repsol YPF, S.A. and Gas Natural SDG, S.A. relating to Repsol-Gas Natural LNG, S.L., include the change in control of the governing structure of either party to be cause for termination.

Likewise, the financing agreement entered into for the acquisition of Unión Fenosa, S.A. contemplates certain consequences, including termination, in the event of a change in control.

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 contract of the Chief Executive Officer contains a clause stipulating an indemnity that trebles his or her annual compensation in certain cases of termination of the relationship, and an indemnity of one year's remuneration in consideration for the post-contractual non-compete clauses for a period of one year.

The contracts entered into with the members of the Management Committee contain indemnity clauses that give their beneficiaries the right to receive, in the event of termination of the labour relationship for the following causes:

• Unlawful or objective dismissal;

• Termination of the individual employment contract under articles 40, 41 and 50 or the Spanish Labour Act;

• Criteria of the Executive after there has been a change in control of the Company;

The legal indemnity corresponding to a minimum amount of two (2) annual pays, as well as an indemnity equivalent to one (1) annual pay of fixed remuneration for the post-contractual non-compete clause (non-compete and non-solicitation agreement) for a period of two (2) years as from the termination date.

In addition to the agreements between the Group and its officers and Management, there are severance agreements with 12 executive, 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 34 to the Accounts

GAS NATURAL assigns a significant part of its funds and effort to R+D+I activities and seeks to optimise its resources, develop new technologies and keep up to date with the technological advances in the sectors in which it operates.

GAS NATURAL participates in national and international sectorial and business organisations. Collaboration in institutions of this type helps the Company remain in the vanguard of sectorial knowledge and be identified as a benchmark in its different areas of activity. In 2008 GAS NATURAL assigned Euros 85 thousand to collaboration with organisations of this type, compared to Euros 199 thousand earmarked for this item in 2007.

5. Future Outlook

2008 has been the year of the burst of the new 2008 – 2012 Strategic Plan, which was presented to the shareholders and investors on November 6, 2007.

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:

• Consolidating its position in its main markets: Spain, Italy and Latin America;

•Vertical upstream integration in the gas chain;

• Exporting the Spanish downstream model to other countries that can be integrated into the natural gas / liquefied natural gas chain; and

• 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:

• World leader in gas distribution.

• 3rd largest Utility on the Iberian Peninsula.

• One of the four largest world operators in LNG.

• One of the four largest world operators in combined cycle plants.

• 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.

The evolution of the businesses of the Group in 2008 has confirmed the favourable prospects that were announced at the beginning of the year, with double digit growth in the main financial aggregates, in line with the targets set in the new 2008–2012 Strategic Plan.

On July 30 2008 GAS NATURAL signed an agreement with ACS to purchase its 45.3% interest in Unión Fenosa, S.A. and secured the financing necessary for the acquisition of the remaining interest, once the operation was approved by the competent authorities.

The purchase of Unión Fenosa, SA. would involve a significant advance in the development of GAS NATURAL and its strategy of becoming a leading integrated gas and electricity company.

The acquisition of Unión Fenosa, S.A. is a significant step forward in the development of GAS NATURAL and its goal of becoming a leading integrated gas and electricity company; it will also enable GAS NATURAL to accelerate compliance with its 2008-2012 Strategic Plan by putting it on another plane as an integrated gas and electricity operator because of the very good fit between the two companies' businesses throughout their value chains.

GAS NATURAL would consolidate its presence in the electricity and gas markets in Spain and Latin American and notably expand its up & midstream business, generating major operating and financial efficiencies.

Through this operation, GAS NATURAL would reinforce its leading company position in the GNL market, as the leading Atlantic basin operator. Unión Fenosa, S.A. could contribute key assets to the up & midstream business of GAS NATURAL, as well as its shareholdings in regassification plants in Sagunto (42.5%) and Reganosa (21.5%), and its participation in liquefaction plants in Damietta (80%), Egypt and Qalhat (7.3%), in Oman.

Furthermore, Unión Fenosa, S.A. would add a gas supply portfolio of 6.5 bcm to the more than 25 bcm of GAS NATURAL, as well as two more vessels to the current fleet of 11 methane vessels managed by Repsol-Gas Natural LNG, Stream.

In the electricity business, Unión Fenosa, S.A. has close to 12,000 MW installed capacity, which would make the new company the third largest utility on the Iberian Peninsula and one of the largest in Europe. As a whole, if we include the installed capacity of GAS NATURAL, the new company would have 18,200 MW of installed capacity across the world.

The combinations of the electricity business of both companies would result in a balanced, competitive mix of electricity generation, in which the gas-run combined cycle plants would play a key role thanks to the supply of gas under competitive terms and conditions of the combined company. The new company would be one of the largest combined cycle operators in the world.

As a result of the purchase of Unión Fenosa, S.A., GAS NATURAL would come to have more than 20 million gas and electricity customers around the world, of which more than 9 million would be in Spain. The regulated gas and electricity business could contribute stability and sustained growth and this expanded customer base would enable the new group to monetise the gas and electricity generated.

On the other hand, the international presence of GAS NATURAL would grow significantly, with major positions in the main markets in Latin America. Unión Fenosa, S.A. would contribute more than 1,500 MW of combined cycle capacity in Mexico; 1.8 million electricity customers and 952 MW of hydro power in Colombia; as well as relevant positions in Guatemala, Nicaragua and Panama. Unión Fenosa, S.A. would also contribute a major presence in integrated gas projects in Egypt and Oman and its 64% shareholding in Kangra Coal (South Africa).

6. Own shares

At December 31, 2008 and 2007 none of the companies of GAS NATURAL hold own shares.

7. Proposed distribution of benefit

The information on the proposed distribution of profit is set out in Note 12 to the Accounts.

8. Corporate Governance Report

A. Capital Structure

A.1. Complete the following table on the Company's share capital:

Date of last modification	Share capital (euros)	Number of shares	Number of voting rights
30-04-1999	447,776,028	447,776,028	447,776,028

Please indicate whether or not there are different types of shares with different rights associated:

No

A.2. Provide details of the direct and indirect owners of significant stakes in your company at year end, excluding Directors:

Name or company name of shareholder	Number of direct voting rights	Number of indirect voting rights (*)	% of total voting rights
Caja de Ahorros y Pensiones de Barcelona	100	167,734,747	37.460%
Repsol YPF, S.A.	108,497,349	29,627,960	30.847%
GDF Suez, S.A.	-	39,571,184	8.837%

Name or company name of the direct holder of the stake	Through: name or company name of the direct holder of the stake	Number of direct voting rights	% of total voting rights
Caja de Ahorros y Pensiones de Barcelona	Criteria CaixaCorp, S.A.	167,734,747	37.460
Repsol YPF, S.A	Repsol Petróleo, S.A.	22,060,960	4.927
Repsol YPF, S.A	Repsol Exploración,S.A.	7,567,000	1.690
GDF Suez, S.A.	Genfina	28,084,032	6.272
GDF Suez, S.A.	Suez Environnement Holding Be S.c.r.L.	11,487,152	2.565

Indicate the most significant changes in the shareholder structure occurred during the year:

Name or company name of shareholder	Date of the transaction	Description of the transaction
GDF Suez, S.A.	28/10/2008	Equity below 10% of share capital
Caja de Ahorros y Pensiones de Barcelona	28/10/2008	Equity over 35% of share capital

A.3. Complete the following tables regarding the members of the company's Board of Directors who hold voting rights over the Company shares:

Name or company name of Director	Number of direct voting rights	Number of indirect voting rights (*)	% of total voting rights
Antonio Brufau Niubó	32,306	–	0.007
Rafael Villaseca Marco	1,000	–	–
Caixa d'Estalvis de Catalunya	13,550,000	–	3.026
Carlos Kinder Espinosa	100	–	–
Carlos Losada Morradán	–	5,808	0.001
Demetrio Carceller Arce	1,000	–	–
Enrique Alcántara-García Irazoqui	3,834	–	0.001
Enrique Locutura Rupérez	4,134	–	0.001
Fernando Ramírez Mazarredo	200	–	–
Francisco Reynés Massanet	24	–	–
José Arcas Romeu	415	–	–
Juan María Nín Génova	144	–	–
Miguel Valls Maseda	2,600	–	0.001

Name or company name of the direct holderf of the stake	Name or company name of the direct holderf of the stake	Number of direct voting rights	% of total voting rights
Carlos Losada Marrodán	Mercedes Cavestany de Dalmases	5,808	0.001

% total voting rights in possession of the Board of Directors	3.038

Fill in the following tables regarding the members of the Company's Board of Directors who own stock options in the Company:

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

Relationship type.

COM CON COR

Brief outline:

Details of commercial, contractual or corporate relations between "la Caixa" and Repsol YPF, S.A. are provided in the information prepared by said Groups.

Name or company name of related parties
Repsol YPF, S.A.
Caja de Ahorros y Pensiones de Barcelona

A.5. Indicate, where applicable, the commercial, contractual or corporate relations which could exist between the holders of significant shares and the company and/or its group, unless they are irrelevant or arise from normal trading activities:

Relationship type:

Commercial

Brief outline:

Normal trading operations.

Name or company name of related parties
Caja de Ahorros y Pensiones de Barcelona
Repsol YPF, S.A.

A.6. Specify whether any shareholders' agreements have been notified to the Company that affect it in accordance with the provisions set forth in Article 112 of the Securities Market Act. Where applicable, give a brief description and list the shareholders associated with the agreement:

Yes

% of share capital affected:

68.307

Brief outline of agreement:

Agreement of 11 January 2000, novation of 16 May 2002 and addenda of 16 December 2002 and 20 June 2003.

Parties to parallel shareholders agreements
Repsol YPF, S.A.
Caja de Ahorros y Pensiones de Barcelona

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

No

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

A.7. Indicate if there is any individual person or legal entity that exercises or who might exercise control of the Company pursuant to Article 4 of the Securities Market Act. Respond where applicable:

No

A.8. Complete the following tables concerning the Company's treasury stock:

At year end:

Number of direct shares	Number of indirect shares (*)	% of share capital
–	–	–

(*) Through:

Total
–

Provide details of the significant changes occurring during the year pursuant to Royal Decree 1362/2007:

Unrealised gains/(Losses) of treasury stock disposed of over the period (in thousands of euros)
–

A.9. Give details of the terms and conditions corresponding to the General Meeting of Shareholders' current mandate to the Board of Directors for acquiring or assigning own shares.

Point five of the agenda of the General Meeting of Shareholders of 21 May 2008 agreed the following:

Five.- Authorisation to the Board of Directors for the derivative acquisition of own shares, either directly or through owned companies, in the terms agreed by the General Meeting and with the legally established restrictions, thus cancelling the authorisation agreed by the Ordinary General Meeting of 16 May 2007.

Five one).- To cancel the authorisation granted to the Board of Directors by the General Meeting held on 16 May 2007 to acquire Company shares for good and valuable consideration.

Five two).- To authorise the Board of Directors to acquire, on a payment basis, and in a term of no longer than eighteen months, on one or more occasions, up to a maximum of 5% of share capital, Company shares which are completely paid in provided that the aforesaid percentage between the shares acquired by the Company and those held by the subsidiaries is never exceeded. The minimum and maximum acquisition price shall be the share price on the Continuous Market of the Spanish Stock Exchange, with an upward or downward variation of 5%. If the shares are not listed, the maximum and minimum acquisition price shall be established at between one and a half times and twice the book value of the shares, as per the latest audited consolidated balance sheet. The Board of Directors is authorised to delegate this authorisation to the person or persons it deems pertinent. This authorisation is understood to apply also to the acquisition of Company shares by subsidiaries.

A.10. Indicate, where applicable, the legal and statutory requirements in the Articles of Association regarding the use of voting rights, and legal restrictions on the acquisition or sale of holdings in the share capital.

Indicate whether or not there are legal restrictions to exercising voting rights:

No

Maximum percentage of voting rights that can be exercised by a shareholder in accordance with legal restrictions
–

Indicate whether or not there are statutory restrictions to exercising voting rights:

No

Maximum percentage of voting rights that can be exercised by a shareholder in accordance with statutory restrictions
–

Indicate whether or not there are legal restrictions to the acquisition or assignment of shares in the Company's capital:

No

A.11. Specify whether the General Meeting has agreed to take up measures of neutralisation against a takeover bid by virtue of provisions set forth in Law 6/2007.

No

If appropriate, explain the measures approved and the terms under which the restrictions would not be enforceable:

B. Structure of the Management of the Company

B.1. Board of Directors

B.1.1. Describe the maximum and minimum number of Directors set forth in the Articles of Association:

Maximum number of Directors	20
Minimum number of Directors	10

B.1.2. Complete the following table with the members of the Board:

Name or company name of Director	Representative	Position on Board	Date first appointment	Date last appointment	Election procedure
Salvador Gabarró Serra	–	Chairman	23-06-2003	08-06-2006	Vote at General Meeting
Antonio Brufau Niubó	–	Deputy Chairman	16-06-1989	16-05-2007	Vote at General Meeting
Rafael Villaseca Marco	–	Chief Executive Officer	20-04-2005	21-05-2008	Vote at General Meeting
Caixa d'Estalvis de Catalunya	Narcís Serra Serra	Director	23-06-2003	08-06-2006	Vote at General Meeting
Carlos Kinder Espinosa	–	Director	20-04-2005	21-05-2008	Vote at General Meeting
Carlos Losada Marrodán	–	Director	16-12-2002	21-05-2008	Vote at General Meeting
Demetrio Carceller Arce	–	Director	21-05-2008	21-05-2008	Vote at General Meeting
Emiliano López Achurra	–	Director	23-06-2003	08-06-2006	Vote at General Meeting
Enrique Alcántara-García Irazoqui	–	Director	27-06-1991	16-05-2007	Vote at General Meeting
Enrique Locutura Rupérez	–	Director	21-05-2008	21-05-2008	Vote at General Meeting
Fernando Ramírez Mazarredo	–	Director	20-04-2005	21-05-2008	Vote at General Meeting
Francisco Reynés Massanet	–	Director	21-05-2008	21-05-2008	Vote at General Meeting
Jaime Vega de Seoane Azpilicueta	–	Director	20-04-2005	21-05-2008	Vote at General Meeting
José Arcas Romeu	–	Director	07-04-2006	07-04-2006	Vote at General Meeting
Juan María Nin Génova	–	Director	21-05-2008	21-05-2008	Vote at General Meeting
Miguel Valls Maseda	–	Director	20-04-2005	21-05-2008	Vote at General Meeting
Santiago Cobo Cobo	–	Director	16-12-2002	21-05-2008	Vote at General Meeting

Total number of Directors	17

Indicate the replacements occurring in the Board of Directors during the period:

Name or company name of Director	Condition member of the Board at the time of replacement	Replacement date
José Luis Jové Vintró	Proprietary Member	25-01-2008
José Vilarasau Salat	Proprietary Member	25-01-2008

B.1.3. Complete the following tables regarding the members of the Board of Directors and their different status:

Executive Directors

Name or company name of Director	Committee which proposed appointment	Position in the Company's management structure
Salvador Gabarró Serra	Appointments and Remuneration Committee	Chairman
Rafael Villaseca Marco	Appointments and Remuneration Committee	Chief Executive Officer

Total number of Executive Directors	2
% total of the Board	11.765

External Proprietary Directors

Name or company name of Director	Committee which proposed appointment	Name or title of significant shareholder he/she represents or who proposed appointment
Antonio Brufau Niubó	–	Repsol YPF, S.A.
Caixa d´Estalvis de Catalunya	–	Caixa d'Estalvis de Catalunya
Carlos Kinder Espinosa	Appointments and Remuneration Committee	Criteria CaixaCorp, S.A.
Demetrio Carceller Arce	Appointments and Remuneration Committee	Repsol YPF, S.A.
Enrique Alcántara-García Irazoqui	–	Criteria CaixaCorp, S.A.
Enrique Locutura Rupérez	Appointments and Remuneration Committee	Repsol YPF, S.A.
Fernando Ramírez Mazarredo	Appointments and Remuneration Committee	Repsol YPF, S.A.
Francisco Reynés Massanet	Appointments and Remuneration Committee	Criteria CaixaCorp, S.A.
Juan María Nín Génova	Appointments and Remuneration Committee	Criteria CaixaCorp, S.A.

Total number of Proprietary Directors	9
% total of the Board	52.941

External Independent Directors

Name or company name of Director	Profile
Carlos Losada Marrodán	Managing Director of ESADE. Academic. Law Graduate and Doctorate in Business Administration
Emiliano López Achurra	Lawyer. Diploma in International Studies (I.E.P.). Diploma in European Community Law (Colegio de Europa)
Jaime Vega de Seoane Azpilicueta	Naval Engineer and Entrepreneur
José Arcas Romeu	Engineer. Entrepreneur
Miguel Valls Maseda	Business Studies Graduate. Master's Degree from EADA and Business Administration Diploma from IESE
Santiago Cobo Cobo	Entrepreneur. Business Administration Graduate

Total number of Independent Directors	6
% total of the Board	35.294

Other External Directors

Detail the reasons why they cannot be considered as proprietary or independent and their relationships, either with the company or its executives or with its shareholders:

Indicate the changes, if any, in the type of Director during the period:

B.1.4. Where applicable, explain why Proprietary Directors have been appointed at the request of shareholders whose holding in the capital is less than 5%.

Name or company name of shareholder	Explanation
Caixa d'Estalvis de Catalunya	Institution of recognised prestige and solvency that owns 3.026%

Indicate whether or not formal requests have been accepted for presence on the Board from shareholders whose holding is equal to or higher than that of others for whom Proprietary Directors have been appointed. If appropriate, explain the reasons why these have not been dealt with:

No

B.1.5. Indicate whether or not a Director has resigned from his/her post before the conclusion of his/her term of office, whether or not he/she has provided the Board with reasons and through which medium and, if he/she has done so in writing to the entire Board, explain at least the reasons given:

Yes

Director's name	Reason for resignation
José Luis Jové Vintró	Professional reasons
Josep Vilarasau Salat	Professional reasons

B.1.6. Indicate, where applicable, the powers delegated to the Managing Director(s):

Name or company name of Director	Brief outline
Rafael Villaseca Marco	He has delegated extensive powers of representation and administration in accordance with the nature and requirements of the Chief Executive Officer.

B.1.7. Indicate, where applicable, the Board members holding positions of administrators or executives in other companies forming part of the group of the listed company:

Name or company name of Director	Company name of group company	Position
Rafael Villaseca Marco	Gas Natural Aprovisionamientos SDG, S.A.	Chairman
Rafael Villaseca Marco	Repsol-Gas Natural LNG, S.L.	Deputy Chairman

B.1.8. Identify, if applicable, the Directors of your company who are members of the Board of Directors of other companies listed on official stock exchanges in Spain other than those of your group, that have been reported to the company:

Name or company name of Director	Corporate name of the listed company	Position
Salvador Gabarró Serra	Enagás, S.A.	Director
Salvador Gabarró Serra	Criteria CaixaCorp, S.A.	Director
Antonio Brufau Niubó	Repsol YPF, S.A.	Chairman
Demetrio Carceller Arce	Ebro Puleva, S.A.	Director
Demetrio Carceller Arce	Compañía Logística de Hidrocarburos CLH, S.A.	Director
Demetrio Carceller Arce	Sacyr-Vallehermoso, S.A.	Director
Demetrio Carceller Arce	Sociedad Anónima Damm	Chairman
Francisco Reynés Massanet	Sociedad General de Aguas de Barcelona, S.A.	Director
Jaime Vega de Seoane Azpilicueta	Obrascon Huarte Lain, S.A.	Director
Juan María Nin Génova	Repsol YPF, S.A.	Director
Juan María Nin Génova	Criteria CaixaCorp, S.A.	Director

B.1.9. Indicate and, where applicable, explain whether or not the Company has laid down rules on the number of Boards on which its Directors can sit:

No

B.1.10. With regard to Recommendation No. 8 of the Unified Code, indicate the general policies and strategies of the company that the plenary Board has reserved the right to approve:

The investment and finance policy	Yes
The definition of the structure of the group of companies	Yes
The corporate governance policy	Yes
The corporate social responsibility policy	Yes
Strategic or Business Plan, as well as the management aims and annual budgets	Yes
The remuneration policy and appraisal of senior management performance	No
Control of risk management policy, as well as periodic monitoring of the internal information control system	Yes
The dividend policy, as well as the treasury stock policy, with special focus on their limits	Yes

B.1.11. Fill in the following tables regarding the total remuneration of the Directors earned over the year:

a) In the Company which is the object of this report:

Remuneration concept	Data in thousands of euros
Fixed remuneration	707
Variable remuneration	764
Expenses	4,086
Established in Articles of Association	–
Stock options and/or other financial instruments	–
Others	3
Total:	**5,560**

Other benefits	Data in thousands of euros
Advances	–
Credits granted	–
Pension plans and funds: contributions	151
Pension plans and funds: obligations	–
Life insurance premiums	25
Guarantees made by the Company to Directors	–

b) Through company Directors belonging to other Boards of Directors and/or the senior management of group companies:

Remuneration concept	Data in thousands of euros
Fixed remuneration	–
Variable remuneration	–
Expenses	81
Established in Articles of Association	–
Stock options and/or other financial instruments	–
Others	–
Total:	**81**

Other benefits	Data in thousands of euros
Advances	–
Credits granted	–
Pension plans and funds: contributions	–
Pension plans and funds: obligations	–
Life insurance premiums	–
Guarantees made by the Company to Directors	–

c) Total remuneration by type of Director:

Director type	By company	By group
Executive	2,827	81
External Proprietary	1,683	–
External Independent	1,050	–
Other External	–	–
Total:	**5,560**	**81**

d) As a percentage of the profits attributable to the controlling company:

Total remuneration of Directors (in thousands of euros)	5,641
Directors' total remuneration/(net) profit attributed to the parent company (%)	0.5

B.1.12. Identify members of senior management who are not also Executive Directors, and indicate the total remuneration they earned during the year:

Name or company name	Position
Sergio Aranda Moreno	Managing Director Latin America
Antonio Basolas Tena	Manager of Strategy & Development
Antonio Gallart Gabás	Chief Corporate Officer
Jordi García Tabernero	Manager of Communications Office
Carlos Javier Álvarez Fernández	Chief Financial Officer
Josep Moragas Freixa	Managing Director of Retailing
Manuel García Cobaleda	Manager of Legal Services
Manuel Fernández Álvarez	Managing Director of Wholesale
José María Egea Krauel	Managing Director of Gas Management
Antoni Peris Mingot	Managing Director of Regulated Business

Total remuneration of senior management (in thousands of euros)	5,762

B.1.13. Indicate if there are guarantee or ironclad clauses, for cases of dismissal or control changes, in favour of members of senior management, including Executive Directors of the Company or its Group. Indicate if these contracts must be notified and/or approved by the bodies of the Company or its Group:

Number of beneficiaries	11

Body that authorises the clauses	
Board of Directors	No
General Meeting	No

Is the General Meeting informed of the clauses?	No

B.1.14. Indicate the process for establishing the remuneration of the members of the Board of Directors and the relevant clauses of the Articles of Association in that respect:

Process for establishing payment for the members of the Board of Directors and the statutory clauses:

Article 22 of the Regulations of the Board of Directors states the following:

"1.- The position of Director of Gas Natural SDG, S.A. shall be remunerated in the form set out in the Articles of Association, in the light of the report issued by the Appointments and Remuneration Committee, pursuant to Article 31 of these regulations.

The Appointments and Remuneration Committee shall propose to the General Meeting of Shareholders the criteria it deems appropriate to assure compliance with the purposes of this Article, and the Board shall be responsible for its approval and the final distribution of the total sum, within the limits set out in the Articles of Association for that purpose. Each year, whenever it deems appropriate, the Board of Directors shall be entitled to approve payments of the amounts pertaining to each Director for the activities performed during that period.

2.- The Board shall define the payment policy for its Directors, determining (i) the amounts corresponding to the fixed components, with a breakdown of those that correspond to the participation in the Board and its Committees and (ii) the variable concepts, where applicable, specifying their relative importance with regard to the fixed components. Except for just cause, remuneration through the delivery of shares, stock options or instruments referenced to the share value shall be limited to Executive Directors.

3.- Remuneration of the Directors shall be transparent. The Annual Report, which is an essential part of the Annual Accounts, shall contain any information deemed appropriate concerning the remuneration received by the members of the Board of Directors."

Complementing the foregoing, section 2 of Article 31 expressly states: "The Committee (Appointments and Remuneration Committee) has powers to examine and submit the following matters: ...to propose criteria for the remuneration of the Company's Directors and to assure transparency in remunerations."

Furthermore, Article 44 of the revised text of the Articles of Association, in accordance with the agreements adopted in the General Meeting of Shareholders of 23 June 2003, specifically states:

The remuneration of the Board of Directors shall consist of a maximum of 10% of annual net profit, the sum within this limit being determined in proportion with the number of active Directors.

The said remuneration can be subtracted from net profit only after the legal and statutory reserves have been covered and having paid ordinary shares a dividend of no less than 4% of their face value.

The Board of Directors shall share out the remuneration as they see fit.

Directors can also receive additional remuneration by receiving Company shares, stock options or other securities offering entitlement to shares, or through remuneration systems correlated with share prices. The application of such systems shall have to be approved by the General Meeting of Shareholders, which shall establish the value of shares taken as reference, the number of shares to be delivered to each Director, the strike price of the stock options, the duration of the agreed system and any other terms deemed pertinent.

The Board of Directors shall be entitled to implement incentive plans consisting of the delivery of Company shares, stock options, other securities offering entitlement to shares, or pegged to the share price, to remunerate Company personnel or the personnel members it deems appropriate, complying at all times with the requirements set out in the Spanish Companies Act (LSA), the Securities Market Act and other regulations applying to these cases, in particular prior approval of the General Meeting of Shareholders when mandatory.

Remunerations set out in this Article shall be compatible and independent from salaries, wages, compensations, pensions, stock options or compensations of any kind determined with a general or singular character for members of the Board of Directors performing executive duties, no matter what their relationship with the Company may be, whether labour -common or senior management- mercantile or rendering of services, relationships which shall be compatible with the status of member of the Board of Directors".

Indicate whether or not the Board in its plenary session has reserved the right to adopt the following decisions:

At the proposal of the chief executive of the company, the appointment and possible resignation of senior executives, as well as their compensation clauses.	Yes
The remuneration of Directors, as well as, in the case of executives, the additional remuneration through their executive duties and other conditions that their contracts must include.	Yes

B.1.15. Indicate whether or not the Board of Directors adopts a detailed payments policy and specify the matters on which it pronounces:

Yes

Amount of the fixed elements, with a breakdown if applicable of the allowances for participation on the Board and its Committees, and an estimate of the annual fixed remuneration to which they are entitled	Yes
Variable payment concepts	Yes
Main characteristics of the social benefits systems, with an estimate of the equivalent annual cost or amount	Yes
Conditions to be observed in the contracts of those who exercise senior management functions as Executive Directors	Yes

B.1.16. Specify whether the Board submits a report on the remuneration policy for Directors to voting at the General Meeting as a separate item of the agenda. Where applicable, explain the aspects of the report regarding the salary policy adopted by the Board for future years, the most significant changes in the said policies with regard to that applied during the year, and the global summary of how the remuneration policy was applied during the year. Give details of the role played by the Remuneration Committee and, if external consultancy services have been used, the identity of the external consultants that have provided the service:

No

Have external consultancy services been used?

Identity of the external consultants

B.1.17. Indicate, where applicable, the identity of Board members who are also members of the Boards of Directors, Directors or employees of companies that hold significant stakes in the listed company and/or companies of your group:

Name or company name of Director	Company name of significant shareholder	Position
Salvador Gabarró Serra	Criteria CaixaCorp, S.A.	Director
Antonio Brufau Niubó	Repsol YPF, S.A.	Chairman Executive
Enrique Locutura Rupérez	Repsol YPF, S.A.	Executive Director of LNG
Fernando Ramírez Mazarredo	Repsol YPF,S.A	Chief Financial Officer
Francisco Reynés Massanet	Criteria CaixaCorp, S.A.	General Director
Juan María Nín Génova	Criteria CaixaCorp, S.A.	Director

Provide details, if appropriate, of the relevant relationships other than those included in the previous heading, of the members of the Board of Directors with the significant shareholders and/or in entities of its Group:

B.1.18. Indicate whether or not there has been any modification to the regulations of the Board during the year:

No

B.1.19. Indicate the procedures for the appointment, re-election, assessment and removal of Directors. Provide details of the competent bodies, the procedures to be followed and the criteria applicable in each procedure.

Procedures for the appointment, re-election, assessment and removal of Directors are set out in Articles 41 and 42 of the Articles of Association and in Articles 11 to 14, 16 and 31 of the Board of Directors' Regulations.

1.- Appointment, re-election or ratification:

The General Meeting of Shareholders is competent for appointing Directors and establishing the number thereof, subject to the limits stipulated in Article 41 of the Articles of Association.

If vacancies were to arise during the term for which the Directors were appointed, the Board shall be entitled to designate, using the cooption system, among the shareholders, the persons to occupy these vacancies until the next General Meeting of Shareholders is held.

A person does not have to be a shareholder to be appointed as a Director, except in the event of the aforementioned appointment by cooption.

Persons subject to prohibition or professional incompatibility as established by law cannot be appointed as Administrator.

It will be necessary to appoint persons who not only satisfy legal provisions and those laid down in the Articles of Association for the position, but who have a prestigious position and are equipped with the professional skills and expertise required to perform their duties.

Pursuant to the Regulations of the Board of Directors, the following persons cannot be proposed or designated as External Independent Directors:

a) Those who have been employees or Executive Directors of companies in the Gas Natural Group Gas Natural, unless three or five years, respectively, have lapsed since the said relationship.
b) Those who receive from the Company or the Gas Natural Group whatsoever amount or benefit for a concept other than the Director's remuneration, unless it is not significant.
For the intents and purposes of the provisions laid down in this section, consideration shall not be given to the dividends or pension complements received by the Director as a result of his/her previous professional or labour relationship, as long as the said complements are unconditional and, consequently, the company paying them cannot suspend, modify or revoke their accrual at its discretion without a breach of obligations.
c) Those who are or have been during the last three years a partner of the external auditor or the party responsible for the auditors' report for the audit during the said period of the Company or any other company in the Gas Natural Group.
d) Those who are Executive Directors or senior executives of another company in which any Executive Director or Senior Executive of Gas Natural SDG, S.A. is an External Director.
e) Those who maintain or have maintained during the last year an important business relationship with the Company or with any company in the Gas Natural Group either on their own behalf or as a majority shareholder, Director or senior executive of an institution that maintains or would have maintained the said relationship.
The consideration of business relation shall apply to that of goods or services supplier, including financial, advisory or consultancy services.
f) Those who are majority shareholders, Executive Directors or senior executives of an institution that receives or has received during the last three years significant donations from any of the companies in the Gas Natural Group.
This shall not include those who are mere patrons of a foundation that receives donations.
g) Those who are spouses, individuals bound by a similar kinship or second-degree relatives of an Executive Director or Senior Executive of the Company.
h) Those who have not been proposed for either appointment or renovation by the Appointments and Remuneration Committee.
i) Those who are in any of the cases indicated in paragraphs a), e), f) or g) of this section with regard to any majority shareholder or shareholder represented on the Board. In the case of kinship as per paragraph g), the limitation shall apply not only to the shareholder but also to its Proprietary Directors in the investee company.
Directors are appointed and re-elected in accordance with a formal and transparent procedure, following a report from the Appointments and Remuneration Committee.

Directors shall be appointed to their position for a term of three (3) years, although outgoing Directors can be re-elected once or several times. Under no circumstances shall the Independent Directors remain in their post as such for a period of more than twelve years.

All the proposals for the appointment of Directors submitted by the Board of Directors to the General Meeting of Shareholders and the approved appointment decisions by cooption shall have to be notified previously by the Appointments and Remuneration Committee. When the Board does not follow the recommendations of said Committee, it will have to explain the reasons and record the said reasons in the minutes. Directors affected by appointment, re-election or replacement proposals shall refrain from attending or taking part in the deliberations and votes of the Board of Directors or of the Committee dealing with said proposals.

2.- Replacement or removal:
Directors shall be replaced in their position for the length of the term for which they were appointed, unless they are re-elected, and when so determined by the General Meeting of Shareholders by virtue of the powers granted thereto.

According to Article 15.4 of the Regulations of the Board of Directors, when an Independent Director resigns from his/her post prior to the termination of his/her term of office, he/she shall explain the reasons in a letter addressed to the other Directors. The resignation shall be notified as relevant information.

B.1.20. Indicate cases in which Directors are compelled to resign.

Besides the cases of professional incompatibility or prohibition applicable by law, Article 15 of the Regulations of the Board of Directors states:

"…2.- Directors shall be compelled to tender their resignation to the Board of Directors and proceed with the pertinent resignation, if the latter deemed it appropriate, in the following cases:

a) When Internal Directors leave the executive positions outside the Board and which were associated with their appointment as Director.
b) When they are subject to any of the conditions of professional prohibition or incompatibility pursuant to applicable laws, the Articles of Association or these regulations.
c) When they commit a serious breach of their obligations as Directors, jeopardising the interests of the Company.
d) When the reason why they were appointed as Independent, Executive or Proprietary Directors is no longer applicable.

3.- Once a Director has been relieved of his/her duties, he/she shall not be permitted to offer his/her services in a rival company for two years, unless the Board of Directors exempts him/her from this obligation or shortens the duration thereof.

B.1.21. Explain whether the duties of the chief executive of the Company correspond to the position of Chairman of the Board. If this is the case, indicate the measures which have been taken to limit the risks of accumulation of powers in a single person:

No

Indicate and, where applicable, explain whether or not rules have been laid down to empower one of the Independent Directors to request the call of a Board meeting or the inclusion of new matters on the agenda to coordinate and report the concerns of the External Directors and direct the assessment by the Board of Directors.

No

B.1.22. Are reinforced majorities other than those applicable by law required for any type of decision?

No

Indicate how decisions are taken in the Board of Directors, specifying at least the minimum quorum and the type of majorities for approving decisions:

Description of decision:

Various corporate decisions.

Quorum	%
Article 47 of Articles of Association and Article 10 of Board Regulations. Half plus one of the members in attendance or represented.	52.94

Type of majority	%
Articles 49 and 50 of the Articles of Association and 10 of the Board Regulations. Absolute majority of those in attendance or represented. Two-thirds majority for the delegation of powers.	52.94

B.1.23. Indicate if there are specific requirements other than those relating to Directors in order to be appointed as Chairman.

No

B.1.24. Indicate whether the Chairman has a casting vote:

No

B.1.25. Indicate whether the Articles of Association or the Board Regulations establish any age limit for Directors:

No

Age limit for Chairman	–
Age limit for CEO	–
Age limit for Directors	–

B.1.26. Indicate whether the Articles of Association or the Board Regulations establish a limited mandate for Independent Directors:

Yes

Maximum number of years of mandate	12

B.1.27. If there are few or no female Directors, explain the reasons or the initiatives adopted to correct this situation.

Explication of the reasons and the initiatives
Cf. Section F. Recommendation 15.

In particular, indicate whether or not the Appointments and Remuneration Committee has laid down procedures to ensure that the selection processes are not subject to implicit bias that prevents the selection of female Directors and deliberately look for female candidates with the required profile:

Yes

Indicate the main procedures
Article 31.2 of the Regulations of the Board of Directors lays down the Appointments and Remuneration Committee's obligation to ensure that "when covering new vacancies, selection processes shall apply that are not subject to implicit bias that prevents the selection of female Directors, where the potential candidates shall include, under the same conditions, women that meet the professional profile being sought."

B.1.28. Indicate if there are formal processes for delegation of votes in the Board of Directors. If so, describe them briefly.

According to Article 47 of the Articles of Association: "[…] The Directors who are unable to attend shall be entitled to confer their representation to another Director, there being no limit on the number of representations that each Director can have. The representation shall have to be granted by means of any written document, and also by telegram, telex or telefax."

In addition, Article 10.3 of the Regulations of the Board lays down the following: "3.- Each Director shall be entitled to confer his/her representation to another Director, there being no limit on the number of representations held by each member for attending the Board meeting. Absent Directors' representations can be conferred by means of any written document, and by telegram, email, telex or telefax addressed to the Chairman's Office or the Board Secretary sufficiently in advance."

B.1.29. Indicate the number of meetings that the Board of Directors has held over the year. Also indicate, where applicable, how many times the Board has met without the Chairman being present:

Number of meetings of the Board	13
Number of Board meetings without the Chairman attending	–

Indicate the number of meetings held by the different Board committees over the year:

Number of meetings of the Executive or Delegated Committee	12
Number of meetings of the Audit Committee	7
Number of meetings of the Appointments and Remuneration Committee	11
Number of meetings of the Appointments Committee	–
Number of meetings of the Remuneration Committee	–

B.1.30. Indicate the number of meetings held by the Board of Directors during the year without the attendance of all its members. When calculating the number, representations made without specific instructions shall be considered as non-attendance:

Number of non-attendances of Directors during the year	10
% of non-attendances over the total number of votes during the year	7.690

B.1.31. Indicate if the individual and consolidated Annual Accounts submitted for approval by the Board are certified previously:

Yes

Identify, where applicable, the person(s) who has/have certified the Company's individual and consolidated Annual Accounts in order to be drawn up by the Board:

Name	Position
Carlos Javier Álvarez Fernández	Chief Financial Officer

B.1.32. Explain, where applicable, the mechanisms established by the Board of Directors to prevent the individual and consolidated annual accounts it draws up from being submitted to the General Meeting of Shareholders with qualifications in the auditors' report.

In accordance with Article 7 of the Regulations of the Board: "1.- Once it has received the Reports issued by the Financial-Economic Department and by the Audit and Control Committee, and following pertinent clarifications, the Board of Directors shall draw up the individual and consolidated Annual Accounts and the Management Report, in clear and precise terms which render their content easily intelligible. The Board of Directors shall ensure that said Accounts provide a true and fair view of the assets, financial position and the results of the Company, pursuant to laws applicable.

2.- Unless expressly stated otherwise in the minutes, it will be understood that before signing the formulation of the Annual Accounts required by law, the Board of Directors and each one of its members has been provided with the information necessary to perform this deed, and may record the exceptions it deems pertinent, where applicable.

3.- The Board of Directors shall endeavour to prepare the accounts in such a way that the auditor of the Company's accounts shall be unable to record qualifications. Nevertheless, if the Board of Directors considers that its criterion must be maintained, it will publicly explain the content and extent of the discrepancy."

Article 32 of the Regulations of the Board of Directors regulates the duties of the Audit and Control Committee, and certain powers and functions it assigns to said Committee pertain to the auditing process.

B.1.33. Is the Secretary of the Board a Director?

No

B.1.34. Explain the procedures for appointing and dismissing the Secretary of the Board, indicating whether or not his/her appointment and dismissal have been reported by the Appointments Committee and adopted by the Board in its plenary session.

Appointments and dismissal procedure

Article 26 of the Regulations of the Board of Directors states the following:

The Secretary of the Board shall be appointed and dismissed by the latter after a report issued by the Appointments and Remuneration Committee and shall not necessarily have to be Director. He/She shall be responsible for exercising the functions attributed to his/her status by mercantile legislation and these regulations.

Does the Appointments Committee report the appointment?	Yes
Does the Appointments Committee report the dismissal?	Yes
Does the plenary session of the Board adopt the appointment?	Yes
Does the plenary session of the Board adopt the dismissal?	Yes

Is the Board Secretary commissioned with the duty of especially supervising the good governance recommendations?

Yes

B.1.35. Indicate, where applicable, the mechanisms established by the Company to safeguard the independence of the auditor, financial analysts, investment banks and rating agencies.

In accordance with Art. 32.2 of the Board Regulations, the Audit and Control Committee is responsible for maintaining necessary relations with the External Auditors to receive information on any questions which could jeopardise their independence, and any other matters relating to the progress of the audit, as well as any communications required pursuant to legislation governing auditing and technical auditing standards.

In addition, the Board of Directors is bound by its own Regulations (Article 6.4) to hold direct relations with the members of the Company's senior management and the auditors. The objective, professional and continuous nature of this relationship shall respect the independence of the auditors to the utmost.

The Company's relations with financial analysts and investment banks are based on the principles of transparency, simultaneity and non-discrimination, as well as the existence of specific and different agents for each collective.

In addition, the Company shall take special care not to compromise or interfere with the independence of the financial analysts in respect of the services offered by investment banks, in accordance with the internal codes of conduct established by them and designed to separate their analysis and assessment services.

B.1.36. Specify whether the Company has changed external auditor over the year. If appropriate, identify the incoming and outgoing auditors:

No

Outgoing auditor	Incoming auditor

In the case of disagreements with the outgoing auditor, explain the content of the said disagreements:

No

Explanation of the disagreements

B.1.37. Indicate if the audit company performs other tasks for the company and/or its group other than auditing activities, and if so, state the amount of the fees received for said activities and the percentage of the fees billed to the company and/or its group:

Yes

	Company	Group	Total
Amount of tasks other than auditing activities (in thousands of euros)	458	370	828
Amount of tasks other than auditing / Total amount billed by the audit company (%)	48.083	16.004	25.360

B.1.38. Specify whether the Auditor's report on the Annual Accounts from the previous year includes any reservations or exceptions. Where applicable, indicate the reasons given by the Chairman of the Audit Committee to explain the content and scope of the said reservations or exceptions.

No

B.1.39. Indicate how many years the current audit company has been auditing, without interruption, the Annual Accounts of the Company and/or its Group. Also indicate the percentage of the number of years audited by the current audit company over the total number of years that the Annual Accounts have been audited:

	Company	Group
Number of years without interruption	18	18

	Company	Group
No. of years audited by the current audit company / No. of years the Company has been audited (%)	100	100

B.1.40. Indicate the holdings of the members of the Board of Directors in the capital of companies which have the same, similar or complementary type of activity that constitutes the business purpose of the Company and of its Group, and of which the Company has been informed. Also indicate the positions or duties that they perform in these companies:

Name or company name of Director	Name of object company	% holding	Position or duties
Salvador Gabarró Serra	Enagás, S.A.	–	Director
	Iberdrola, S.A.	0.001	–
Antonio Brufau Niubó	Repsol YPF, S.A.	0.017	Executive Chairman
Rafael Villaseca Marco	Enagás, S.A.	–	–
	Repsol YPF, S.A.	–	–
	Enagás, S.A.	–	Director
	Iberdrola, S.A.	–	–
Caixa d'Estalvis de Catalunya	Repsol YPF, S.A. through Repinves	1.627	–
Demetrio Carceller Arce	Disa Corporación Petrolífera, S.A.	–	Executive Chairman
Enrique Locutura Rupérez	Repsol YPF, S.A.	–	Executive Director of LNG
Fernando Ramírez Mazarredo	Repsol YPF, S.A.	–	Chief Financial Officer
José Arcas Romeu	Iberdrola Renovables, S.A.	–	–
	Iberdrola, S.A.	–	–
Juan María Nín Génova	Repsol YPF, S.A.	–	Director

B.1.41. Indicate and, where applicable, provide details of whether there is a procedure whereby Directors can have external assessment:

Yes

Details of the procedure

In accordance with internal regulations, Directors are entitled to propose to the Board, via the Secretary and by means of a notification directed to the Chairman, that external advisors be hired at the Company's expense (legal, accounting, technical, financial, commercial advisors or of any other kind), advisors they consider necessary for the Company's interests, to provide assistance in their duties when faced with specific problems of some relevance and complexity associated with their duties.

The Board of Directors shall be entitled to veto the approval of the proposal if considered unnecessary, in view of the amount involved, or if it considers that the said assessment can be provided by the Company's own specialists and technicians. (cf. Article 21.2 and 3 of the Regulations of the Board).

B.1.42. Indicate and, where applicable, provide details of whether there is a procedure whereby Directors can have the information necessary to prepare the meetings of the Boards of Directors with sufficient time:

Yes

Details of the procedure

Article 9.2 of the Regulations of the Board of Directors states:

"2.- Ordinary meetings shall be convened by the Chairman, or by the Secretary or Assistant Secretary following the order of the Chairman, through any of the channels set out in the Articles of Association, including by email, provided the recipient Director has given his/her address in said mail. The notification shall include the place and the agenda of said meeting, and shall be issued, barring exceptional cases, at least 48 hours before the meeting is to be held. Prior to each meeting, the Directors shall be furnished with the information and documentation considered to be pertinent or relevant regarding the subjects to be addressed in the Board meeting. Directors shall also be furnished with the minutes of the previous meeting, regardless of whether said minutes have been approved or not.

However, when the agreement to be adopted is the modification of the Regulations of the Board of Directors, the Chairman of the Board, the Audit and Control Committee or at least four Directors may propose the said modifications to the Board when circumstances arise which, in their opinion, make it appropriate or necessary, attaching a report explaining the reasons and scope of the modification being proposed, where applicable. The Board shall be called by means of individual notice sent to each of the members with more than fifteen days' notice of the date of the meeting.

The Board meeting shall have a quorum, without being previously convoked, if all the Directors are present or represented and unanimously accept that the Board meeting be held."

Articles 21.1 and 3 of the aforementioned Regulations state the following concerning the right of information of Directors:

"1.- Directors shall have access, through the Chairman, and, as the case may be, through the Secretary, to all the Company's services, and shall be entitled to collect, with unlimited powers, any information or assessment they may require regarding any aspect of the Company. The right of information also applies to the subsidiaries and shall be channelled through the Chairman or the Secretary of the Board of Directors or of the pertinent Committees of the Board, furnishing him/her with the information directly, offering him/her the appropriate agents or taking any measures required for the requested analysis.

…

3.- The Chairman of the Company shall have to be notified of the request for access and the proposal referred to in numbers 1 and 2 of this Article through the Secretary of the Board of Directors."

It is usual practice to send the members of the Board of Directors, together with the call to the meeting, all the information that may be useful for learning the matters on the agenda for the Board meeting. In our opinion, the information given is considered complete and sufficient for the members of the Board of Directors to reach an opinion and form criteria.

During and following the meeting, Directors shall be furnished with any information or clarifications they deem appropriate in respect of the points included in the agenda, or points which were not included but which were addressed in the same meeting.

B.1.43. Indicate and, where applicable, give details of whether or not the Company has laid down rules that oblige the Directors to report and, in cases that damage the Company's credit and reputation, resign:

Yes

Explain the rules

Article 15.2 of the Regulations of the Board of Directors states the following:

Directors shall be compelled to tender their resignation to the Board of Directors and proceed with the pertinent resignation, if the latter deemed it appropriate, in the following cases:

a) When Internal Directors leave the executive positions outside the Board and which were associated with their appointment as Directors.
b) When they are subject to any of the conditions of professional prohibition or incompatibility pursuant to applicable laws, the Articles of Association or these regulations.
c) When they commit a serious breach of their obligations as Directors, jeopardising the interests of the Company.
d) When the reason why they were appointed as Independent, Executive or Proprietary Directors is no longer applicable.

B.1.44. Indicate whether or not any member of the Board of Directors has informed the Company that he/she has been prosecuted or hearings against him/her have been opened for any of the offences laid down in Article 124 of the Spanish Companies Act:

No

Indicate whether or not the Board of Directors has analysed the case. If the answer is affirmative, give a reasoned explanation of the decision taken as to whether or not the Director remains in his/her post.

No

Decision taken	Reasoned explanation

B.2. Committees of the Board of Directors

B.2.1. Provide details of all the committees of the Board of Directors and their members:

Executive Committee

Name	Position	Type
Salvador Gabarró Serra	Chairman	Executive
Antonio Brufau Niubó	Board Member	Proprietary Member
Carlos Kinder Espinosa	Board Member	Proprietary Member
Carlos Losada Marrodán	Board Member	Independent
Demetrio Carceller Arce	Board Member	Proprietary Member
Francisco Reynés Massanet	Board Member	Proprietary Member
Rafael Villaseca Marco	Board Member	Executive
Santiago Cobo Cobo	Board Member	Independent

Audit Committee

Name	Position	Type
Miguel Valls Maseda	Chairman	Independent
Fernando Ramírez Mazarredo	Board Member	Proprietary Member
Francisco Reynés Massanet	Board Member	Proprietary Member

Appointments and Remuneration Committee

Name	Position	Type
José Arcas Romeu	Chairman	Independent
Antonio Brufau Niubó	Board Member	Proprietary Member
Miguel Valls Maseda	Board Member	Independent

B.2.2. Specify whether the Audit Committee is responsible for the following:

Supervising the preparation process and integrity of the financial information related to the Company and, where applicable, the Group, reviewing compliance with the standard requirements, the appropriate definition of the consolidation perimeter and the correct application of the bookkeeping criteria.	Yes
Regularly reviewing the internal control and risk management systems so that the main risks can be identified, processed and appropriately publicised.	Yes
Ensuring the independence and effectiveness of the internal audit duty; propose the selection, appointment, re-election and dismissal of the person in charge of the internal audit service; forward the budget for this service; receive periodic information on its activities, and verify that senior management considers the conclusions and recommendations in its reports.	Yes
Setting up and supervising a mechanism that enables employees to communicate any significant irregularities, especially those related to finance and bookkeeping, and to do so in a confidential manner.	Yes
Raising the selection, appointment, re-election and substitution proposals concerning the external auditor to the Board, as well as the terms and conditions of his/her contract.	Yes
Likewise receiving information from the external auditor on the audit plan and the results of carrying it out and checking that senior management take its recommendations into account.	Yes
Guaranteeing the independence of the external auditor.	Yes
In the event of groups, to see that the group auditor accepts liability for the audits of the companies that make up the group.	Yes

B.2.3. Describe the organisational and operational rules and the responsibilities attributable to each of the Board's committees.

Committee name

Appointments and Remuneration Committee.

Brief outline

Appointments and Remuneratión Committee (Article 31 of the Regulations of the Board of Directors).

- Duties:

The Committee carries out research and makes proposals to the Board for the following issues:

- Putting forward criteria for the remuneration of the Company's Directors and to assure transparency in remunerations.
- Putting forward the general policy for remuneration of the member of the Gas Natural Group Board of Directors.
- Putting forward the guidelines for appointments, selection, careers, promotion and dismissal of senior management, in order to ensure that the Group always has highly qualified personnel, suitable for the management of its activities.
- Reviewing the structure and composition of the Board of Directors, the criteria that should be applied to the statutory renewal of the Directors, the aptitudes required of the candidates to cover each vacancy, the fulfilment of the requirements for each category of Director and the process for the incorporation of new members, raising the corresponding reports to the Board as applicable. For covering new vacancies, selection processes shall be guaranteed that are not subject to implicit bias that prevents the selection of female Directors, including, under the same conditions and among potential candidates, women who meet the professional profile being sought.
- Issuing a report on the transactions that involve or may involve conflicts of interests and, in particular, transactions with associated parties submitted to the Board.
- Issuing a report on the appointments and dismissals of the members of senior management.

- Organisation and operation:

- The Appointments and Remuneration Committee shall comprise a minimum of three and a maximum of five Directors, designated by the Board of Directors from among the External Directors, bearing in mind their experience and aptitudes. Its members shall leave their post when they do so in their capacity as Directors, when agreed by the Board of Directors, or after a period of three years from their appointment. They can be re-elected.

- The Board of Directors shall elect the Chairman from among the members of the Committee; the Chairman shall not have the casting vote. The secretary of the Committee shall be the same as the secretary of Board of Directors.
- The Committee shall hold meetings whenever necessary to issue its reports, when considered necessary by the Chairman or upon request from its members. At least four meetings per year must be held. They shall be called by the Chairman with prior notice of at least two days before the meeting date, except in certain defined circumstances. Notification for the meeting shall include the agenda together with the pertinent documents to aid proceedings. The meetings shall normally take place at the registered office.

Committee name

Executive or Delegated Committee.

Brief outline

Executive Committee (Articles 50 and 51 of the Articles of Association and Article 30 of the Board Regulations).

- Powers:

The Executive Committee has been delegated all the powers of the Board except the following:

a) Powers that cannot be legally delegated.

b) Approval of the Group's Strategic Plan and Annual Budgets.

c) Approval of and modification to the Regulations of the Board of Directors.

d) Determination of policies for information and communication with shareholders, markets and public opinion and approval of the Annual Corporate Governance Report.

e) Determination of the content of the Company's corporate website.

f) Approval of treasury stock policy.

g) In general, the decision on operations that entail acquisition and disposal of substantial Company assets.

- Organisation and operation:

- The Executive Committee shall be comprised by the Chairman of the Board of Directors and a maximum of another seven Directors, belonging to the groups envisaged in Article 3 of the Regulations and in the same proportion as exists in the Board of Directors. The appointment of the members of the Executive Committee shall require an affirmative vote from at least two thirds of the Board members with existing appointments.
- The Chairman of the Board of Directors shall act as Chairman of the Executive Committee and the Secretary of the Board of Directors shall act as secretary, or the person taking his/her place.
- The Executive Committee shall be understood to be validly constituted when more than half of its members attend the meeting in person or by representative.
- The members of the Executive Committee shall leave their post when they do so in their capacity as Directors or as agreed by the Board. The positions that become available shall be covered promptly by the Board of Directors.
- The Executive Committee shall hold its ordinary meetings at least once a month. The Secretary shall take the minutes of the agreements adopted in each meeting and these shall be outlined in the following plenary meeting of the Board of Directors.
- For cases in which, in the view of the Chairman or of the majority of members of the Executive Committee, the importance of the issue so requires, the agreements adopted by the Committee shall be submitted for ratification from the plenary Board meeting.
- The same shall be applicable in relation to issues the Board has submitted for examination to the Executive Committee and the Board has the final decision.
- In any other case, the agreements adopted by the Executive Commission shall be valid and binding, without the need for subsequent ratification from the full Board meeting.
- The provisions in the Regulations for the operation of the Board of Directors shall be applicable to the Executive Committee.

Committee name

Audit Committee.

Brief outline

Audit and Control Committee (Article 51 bis of the Articles of Association and Article 32 of the Board Regulations).

- Duties:

- Reporting to the General Meeting of Shareholders on questions raised by shareholders with respect to matters within their competence.
- Proposing to the Board of Directors for submission to the General Meeting of Shareholders of the appointment of external auditors, pursuant to Article 204 of the revised Spanish Companies Act approved by Royal Decree 1564/1989, of 22 December.
- Supervising the internal audit services, guaranteeing their independence and proposing the appointment, re-election and dismissal of the person responsible. Accordingly, the person responsible for the internal audit function shall present an annual work plan, report on the relevant incidents occurring during its development and submit a report on its activities at the end of the year.
- Monitoring and supervising the preparation of financial information, guaranteeing the correct application of the accounting principles and inclusion of all the companies that are to be included in the consolidation perimeter.
- Monitoring and supervising the Company's risk management and internal control systems, guaranteeing that they identify the types of risk the Company faces and the measures considered for reducing them and dealing with them in the event of effective damage.
- Raising the selection, appointment, re-election and substitution proposals concerning the external auditor to the Board, as well as the terms and conditions of his/her contract.
- Liaising with External Auditors to receive information on any questions which could jeopardise their independence, and any other matters relating to the progress of the audit, as well as any communications required pursuant to legislation governing auditing and technical auditing standards.
- Monitoring of the development of annual auditing.
- Acting as a communication channel between the Board of Directors and the external auditors, and assessing the results of each audit.
- Reviewing the information on the Company's activities and results which is compiled periodically in compliance with current stock market regulations, making sure that they are prepared in accordance with the same accounting criteria as the annual accounts and ensuring the transparency and accuracy of this information.
- Measures it considers appropriate in the auditing activity, internal financial control system, and compliance with legal regulations in matters of provision of information to markets and the transparency and accuracy thereof.
- Checking compliance with the Internal Code of Conduct for Securities Markets current at any time, and in general with the rules governing the Company and making any necessary proposals for their improvement.
- Providing information during the first quarter of the year, and whenever the Board of Directors so requests, on compliance with these regulations.
- Setting up and supervising a mechanism that enables employees to communicate any significant irregularities, especially those related to finance and bookkeeping, and to do so in a confidential manner.

- Organisation and operation:

- The Audit and Control Committee shall comprise a minimum of three and a maximum of five Directors appointed by the Board of Directors from among the External Directors, taking into account their knowledge and experience in issues of accountancy, audit and risk management. Its members shall leave their post when they do so in their capacity as Directors, when agreed by the Board of Directors, or after a period of three years from their appointment. They can be re-elected.

- The Board of Directors shall elect the Chairman of the Committee, who shall not have a casting vote and shall be replaced in accordance with the Articles of Association (Article 51 bis) and legislation. He/She may be re-elected following the term of one year after his/her dismissal. The Secretary of the Committee shall be the same as the Secretary of Board of Directors.
- The Committee shall hold meetings, called by its Chairman, whenever necessary, to issue their reports, when considered necessary by the Chairman or upon request from its members. At least four meetings per year must be held. The notification for the meeting shall include the agenda together with the relevant documents to facilitate proceedings, and must be made at least two days in advance, except in certain defined circumstances, by way of any written means. The meetings shall normally take place at the registered office. The Committee may invite any executive or employee it deems appropriate to its meetings.

B.2.4. Indicate the faculties for advising, consultancy and, if relevant, appointments, for each of the committees:

Committee name

Appointments and Remuneration Committee.

Brief outline

Already detailed in section B.2.3 in this report.

Committee name

Executive Committee.

Brief outline

Already detailed in section B.2.3 in this report.

Committee name

Audit Committee.

Brief outline

Already detailed in section B.2.3 in this report.

B.2.5. Indicate, where applicable, the existence of Committee Regulations, the location at which they are available for consultation, and the modifications that have been made during the financial year. Also indicate whether any annual report on each Committee's activities has been voluntarily drafted.

Committee name

Appointments and Remuneration Committee.

Brief outline:

No regulations corresponding to the Board Committees have been approved. They are regulated by the Organisation and Operation Regulations of the Board of Directors and its Committees, which are available on the Company's website. These Regulations were not modified in 2008.

Mention must be made of the fact that the Regulations of the Board of Directors are duly registered in the Mercantile Register of Barcelona.

Committee name

Executive or Delegated Committee.

Brief outline

No regulations corresponding to the Board Committees have been approved. They are regulated by the Organisation and Operation Regulations of the Board of Directors and its Committees, which are available on the Company's website. These Regulations were not modified in 2008.

Mention must be made of the fact that the Regulations of the Board of Directors are duly registered in the Mercantile Register of Barcelona.

Committee name

Audit Committee.

Brief outline

No regulations corresponding to the Board Committees have been approved. They are regulated by the Organisation and Operation Regulations of the Board of Directors and its Committees, which are available on the Company's website. These Regulations were not modified in 2008.

Mention must be made of the fact that the Regulations of the Board of Directors are duly registered in the Mercantile Register of Barcelona.

Furthermore, the Audit and Control Committee drafts an annual report on its own activities which is placed at the disposal of the shareholders before the Ordinary General Meeting and published on the Company website.

B.2.6. Indicate whether the makeup of the Executive Committee reflects the participation in the Board by the various Directors depending on status:

Yes

C. Related-Party Transactions

C.1. Indicate whether the plenary Board has reserved the power to approve the operations that the company carries out with Directors, with major shareholders or shareholders represented on the Board, or with individuals related to these, following a favourable report from the Audit Committee or any other Committee commissioned with this duty:

Yes

C.2. Detail the significant operations that imply a transferral of resources or obligations between the Company and entities within its Group and the significant shareholders of the Company:

Name or company name of significant shareholder	Name or company name of the company or entity of the Group	Nature of the relationship	Type of operation	Amount (thousands of euros)
Caja de Ahorros y Pensiones de Barcelona	Gas Natural SDG, S.A.	Commercial	Financial expenses	16,810
Caja de Ahorros y Pensiones de Barcelona	Gas Natural SDG, S.A.	Commercial	Leases	3,1740
Caja de Ahorros y Pensiones de Barcelona	Gas Natural SDG, S.A.	Commercial	Other expenses	12,339
Caja de Ahorros y Pensiones de Barcelona	Gas Natural SDG, S.A.	Commercial	Financial income	13,622
Caja de Ahorros y Pensiones de Barcelona	Gas Natural SDG, S.A.	Commercial	Other income	2,344
Caja de Ahorros y Pensiones de Barcelona	Gas Natural SDG, S.A.	Commercial	Financing agreements: credits and provisions of capital (lender)	161,936
Caja de Ahorros y Pensiones de Barcelona	Gas Natural SDG, S.A.	Commercial	Financing agreements: credits and provisions of capital (borrower)	107,757
Caja de Ahorros y Pensiones de Barcelona	Gas Natural SDG, S.A.	Commercial	Guarantees provided	39,418
Caja de Ahorros y Pensiones de Barcelona	Gas Natural SDG, S.A.	Commercial	Guarantees received	114,598
Caja de Ahorros y Pensiones de Barcelona	Gas Natural SDG, S.A.	Commercial	Dividends and other distributed earnings	172,367
Caja de Ahorros y Pensiones de Barcelona	Gas Natural SDG, S.A.	Commercial	Collaboration or management contracts	1,278,731
Repsol YPF, S.A.	Gas Natural SDG, S.A.	Commercial	Other costs	8,904
Repsol YPF, S.A.	Gas Natural SDG, S.A.	Commercial	Purchase of tangible assets, intangible assets and other assets	219
Repsol YPF, S.A.	Gas Natural SDG, S.A.	Commercial	Provision of services	18,803
Repsol YPF, S.A.	Gas Natural SDG, S.A.	Commercial	Sales of goods (manufactured or not)	442,202
Repsol YPF, S.A.	Gas Natural SDG, S.A.	Commercial	Leases	7,997
Repsol YPF, S.A.	Gas Natural SDG, S.A.	Commercial	Purchase of goods (manufactured or not)	964,210
Repsol YPF, S.A.	Gas Natural SDG, S.A.	Commercial	Reception of services	27,005
Repsol YPF, S.A.	Gas Natural SDG, S.A.	Commercial	Other income	2,949
Repsol YPF, S.A.	Gas Natural SDG, S.A.	Commercial	Sale of tangible assets, intangible assets and other assets	2
Repsol YPF, S.A.	Gas Natural SDG, S.A.	Commercial	Dividends and other distributed earnings	157,463
GDF Suez, S.A.	Gas Natural SDG, S.A.	Commercial	Reception of services	14,667
GDF Suez, S.A.	Gas Natural SDG, S.A.	Commercial	Provision of services	39,878
GDF Suez, S.A..	Gas Natural SDG, S.A.	Commercial	Dividends and other distributed earnings	32,016
GDF Suez, S.A.	Gas Natural SDG, S.A.	Commercial	Sales of goods (manufactured or not)	1,143,004
GDF Suez, S.A.	Gas Natural SDG, S.A.	Commercial	Other costs	665
GDF Suez, S.A.	Gas Natural SDG, S.A.	Commercial	Purchase of goods (manufactured or not)	357,267

C.3. Detail the significant operations that imply a transferral of resources or obligations between the Company or entities within its Group and the Administrators or Executives of the Company:

Name or company name of Administrators or Executives	Name or company name of the company or entity of the Group	Nature of the operation	Type of operation	Amount (thousands of euros)
Caixa d'Estalvis de Catalunya	Gas Natural SDG, S.A.	Commercial	Financing agreements: credits and provisions of capital (lender)	341
Caixa d'Estalvis de Catalunya	Gas Natural SDG, S.A.	Commercial	Financial expenses	37
Caixa d'Estalvis de Catalunya	Gas Natural SDG, S.A	Commercial	Other costs	304
Caixa d'Estalvis de Catalunya	Gas Natural SDG, S.A	Commercial	Guarantees received	60,000
Caixa d'Estalvis de Catalunya	Gas Natural SDG, S.A	Commercial	Collaboration or management contracts	11,477
Caixa d'Estalvis de Catalunya	Gas Natural SDG, S.A	Commercial	Financial income	825
Caixa d'Estalvis de Catalunya	Gas Natural SDG, S.A	Commercial	Dividends and other distributed earnings	15,447

C.4. Detail the important operations carried out by the Company with other companies belonging to the same Group, provided that they are not eliminated in the process of drafting the consolidated financial statements and are not part of the Company's usual trading in terms of its purpose and conditions:

C.5. Indicate whether the members of the Board of Directors have been affected by any conflicts of interest over the year, in accordance with the provisions set forth in Article 127 ter of the Public Limited Companies Act.

No

C.6. Detail the mechanisms established to detect, determine and resolve possible conflicts of interest between the Company and/or the Group, and its Directors, Executives or significant shareholders.

1.- Directors:

The conflicts of interest are regulated by Article 16 of the Regulations of the Board of Directors, which states the following:

- The Director must abstain from intervening in deliberations and voting on issues in which he/she has a direct or indirect interest and would give rise to a conflict of interests.

- The Director shall be considered to have an interest when the issue affects a member of his/her family, or a Company, entity or their respective Groups, not belonging to the Gas Natural Group, in which the Director acts as representative, manager or adviser, or has a majority holding in their capital or has been put forward by those entities as a Proprietary Director in Gas Natural Group.

- Directors must report their personal situations to the Board, as well as those of their closest family members and also the companies controlled by them. Specifically, Directors must report aspects relating to holdings, positions held and activities, syndication agreements and, in general, any fact, situation or link that may influence their loyal conduct as Administrators of the Company. Likewise, Proprietary Directors must inform the Board of any conflict of interest between the Company and the shareholder that proposed their appointment, or which could compromise their duty to be loyal.

- The Director cannot carry out direct or indirect professional or commercial transactions with the Company or companies in the Group, unless he/she has previously reported the situation of conflict of interests, and the Board, subject to a report from the Appointments and Remuneration Committee, has approved the transaction. For ordinary operations, the generic authorisation for the operation type and its implementation procedure shall be sufficient. In all cases, any conflicts of interest of the Company's Administrators shall be reported in the Annual Corporate Governance Report.

- In his/her capacity as loyal representative of the Company, the Director must inform the Company of shares in the Company he/she holds, directly or through companies in which he/she has a majority holding, following the procedure and other processes that are established for investment in Gas Natural SDG, S.A and investee companies.

- Votes on proposals for appointments, re-election or dismissal of Directors shall be secret, and the affected Directors must abstain from taking part in these votes and their deliberations.

- The Director must notify the Company of significant changes to their professional circumstances and changes which affect the nature or capacity by virtue of which he/she was appointed as Director.

- The Director shall inform the Company of any kind of legal or administrative claim or any claim of any nature in which they are involved which, due to its significance, could have a serious bearing on the reputation of the Company. The Board shall examine the matter and adopt the appropriate measures in the Company's interest and with the required urgency.

- The Board of Directors shall endeavour, at all times, to prevent Proprietary Directors from using their position to obtain asset benefits without adequate compensation, to the advantage of the shareholder that put them forward for the position.

2.- Directors and Executives:

Section 6 of the Internal Code of Conduct, for issues relating to the Securities Markets of Gas Natural SDG, S.A., contains the information that the Directors and Executives of the entity must provide concerning conflicts of interest:

"6.1. The persons included in the subjective scope of this internal Code of Conduct shall be obliged to inform the Secretary of the Board of Directors of Gas Natural SDG, S.A. of any possible conflicts of interest that may emerge with the corporate relationships in which they hold an interest or with the ownership of their personal or family assets, or any other cause that may interfere in the fulfilment of activities which are the object of these regulations.

In the case of there being a doubt over the existence of a conflict of interest, the obliged persons must consult the Secretary of the Board of Directors of Gas Natural, S.A who shall resolve the issue in writing. The Secretary may take the matter to the Appointments and Remuneration Committee if he/she considers it to be of particular significance.

The persons affected by potential conflicts of interest must keep the information up to date, reporting any modification or closure of the previously communicated situations.

6.2. The affected persons must abstain from participating in the adoption of any kind of decision that could be affected by the conflict of interests with the Company."

3.- Significant shareholders:

With regard to this section, Article 16, *in fine,* of the Board Regulations establishes:

"Accordingly, any direct or indirect transaction between the Company and a significant shareholder must be submitted for approval by the Board of Directors, subject to a ruling from the Appointments and Remuneration Committee of the Board. The Committee must assess the transaction in terms of equal treatment and fair market conditions. The affected

Proprietary Directors must abstain from taking part in the Board deliberations and voting. For ordinary operations, a generic authorisation may be granted for the operation type and its implementation procedure."

Article 31 of the Board Regulations envisages, among the functions entrusted to the Appointments and Remuneration Committee, the task of informing the Board of transactions that imply or may imply conflicts of interest.

Finally, Article 6.5 of these Regulations obliges the Board of Directors to include, in the Annual Report and the Annual Corporate Governance Report, information on the transactions completed with significant shareholders, so that other shareholders may be informed of their scope and importance.

C.7. Is there more than one listed company in the group in Spain?

No

Identify the subsidiary companies that are listed in Spain:

D. Risk Control Systems

D.1. General description of the risk policies of the Company and/or the Group, detailing and assessing the risks covered by the system, together with justification for the adaptation of the system to the profile of each risk type.

The Gas Natural Group's strategy is based on the basic principles of growth, diversification, profitability and quality, which are transmitted repeatedly to its interest groups in the reports issued recurrently. These include annual reports, quarterly earnings reports and various reports of a strategic nature.

The said strategy basically covers the exploration and production of gas reserves, the gas supply and transportation, the wholesale and retail commercialisation of gas and electricity, the generation of electricity and the distribution of gas.

All with presence in both Spain and in other countries of Europe, Africa and America. This places Gas Natural Group in a context which is subject to several types of risk factors that are inherent to its activity.

The general risk policy is aimed at safeguarding Gas Natural Group's assets and is consolidated by the following aspects:

- Controlled expansion of activities ensuring the fulfilment of quality standards.
- Profitable growth risk guidelines established by the governing bodies.
- Quick response to changes in the environment.
- High level of professionalism of members of the Board of Directors and other members of the organisation.
- Dynamic decision-making processes.
- Flexibility, objective-based organisational structure.
- Standard structure aimed at ensuring proper operation of critical processes and sub-processes for Gas Natural, guaranteeing their efficiency and effectiveness and the appropriate control of transactional risks.

Gas Natural Group takes the view that the risks that require a greater degree of proactive management are those that, given the severity of the risk occurring, could have a negative bearing on the fulfilment of the Strategic Plan and/or on the Company's financial soundness in the short, medium and long term. Although Gas Natural Group administrates its business with prudence and diligence, many of the risks are inherent to the management of its activities, and are therefore beyond its control on certain occasions, and foreseeing and/or avoiding their consequences is unfeasible.

Gas Natural Group's broad experience in understanding and controlling risks can be seen in their integrated management. The main aim of global risk management is to guarantee the correct identification, assessment and management of the most important risks by the various business units. All with the aim of guaranteeing that the level of exposure to the risk assumed by Gas Natural Group in the development of its business is consistent with its global target risk profile. The said risk profile responds to the level of uncertainty that must be assumed to achieve the strategic annual targets set by its governing bodies. The target risk profile is laid down in the different levels of uncertainty in accordance with the relevant risk category, as approved by the corresponding governing bodies.

Monitoring and assessing risk exposure in an integrated approach, and controlling overall exposure to it, allows efficiency in decision-making to be underpinned, making it possible to optimise the risk-return binomial

The Corporate Risk Map of the Gas Natural Group

The process of identifying and assessing Gas Natural Group's risks is governed by the Corporate Risk Map. The preparation and updating of the said Map is the responsibility of the Financial-Economic Department in close collaboration with the Internal Audit Department and the business units.

It is an instrument which is designed to identify and assess the main risk categories that affect Gas Natural Group. In a schematic form these are:

a) Business risks.
  a.1) Price.
  a.2) Volume.
  a.3) Regulatory.
  a.4) Strategic.

b) Financial risk.
  b.1) Exchange rate.
  b.2) Interest rate.
  b.3) Liquidity.

c) Credit risk.
  c.1) Retail.
  c.2) Wholesale.

d) Operational risk.
  d.1) Legal/Contractual.
  d.2) Human Resources.
  d.3) Fraud.
  d.4) Processes.
  d.5) Information systems.

The aim of the preparation of the Risk Map is to analyse the effects of the various risk categories on each of the Gas Natural Group's basic processes/activities. Accordingly, the following is taken into account:

a) Risk position: definition and characteristics.
b) Impact variables.
c) Qualitative and quantitative severity of the risk occurring.
d) Probability of risk occurring.
e) Defined controls and their effectiveness.

The conclusions drawn from the Map are conveyed to the Risk Committee, the Chief Executive Officer and the Audit and Control Committee; basic guidelines for action concerning risks are established regularly with the aim of reducing exposure in activities that have a residual risk of greater impact for Gas Natural Group.

Comprehensive Risk Control and Management System

Gas Natural Group has established a Comprehensive Risk Control and Management System that identifies, assesses and controls the risks to which the Company is exposed. The foundations for this system are:

a) Definition of the general risk policy and profile.
b) Provision of organisational resources.
c) Internal policies, procedures and regulations of various types.
d) Adequate controls and measurement methodologies.
e) Technological infrastructure and information systems.

These foundations are set up through a process of continuous improvement, and their implementation is permanently regulated in cooperation among the various Committees, Governing Bodies and Departments of Gas Natural Group, as well as by the Internal Audit Department.

With regard to regulations, special mention must be made of the coming-into-the effect in 2007 of the General Risk Standard, whose main aim is to lay down the general principles and behaviour guidelines to guarantee the appropriate identification, information, assessment and management of Gas Natural Group's exposure to risk. The aim of the General Risk Standard is to guarantee that the entire organisation understands and accepts its responsibility in identifying, appraising and managing the most significant risks. Accordingly, it establishes various managers for the management, measurement, control and laying-down of limits for each of the typified risk categories. In 2008, progress has been made in the development of the General Risk Standard, based on the issue of procedures that specify the general issues laid down in the Standard. In particular, mention must be made of the approval by the Risk Committee of the Market Risk Limits Allocation and Management Procedure. It lays down the guidelines for managing the uncertainty associated with the development of and achieving the targets set for the various lines of business, brought about by the evolution of commodity prices, the exchange rate and the interest rates that are relevant for Gas Natural Group.

The fundamental principle on which Gas Natural Group is based in order to assess, mitigate and reduce the principal existing risks is that of reasoned business prudence in all of its actions, with strict and faithful compliance of the legislation in force.

As an integral part of the Comprehensive Control and Management System, particular mention must be made of the Risk Measurement System. The purpose of the system is to quantify the risk assumed globally and by each of the relevant businesses on a recurring base of probability, regarding risk factors related to variations in market prices.

D.2. Indicate whether or not any of the various types of risk (operative, technological, financial, legal, reputational, fiscal, etc.) that affect the Company and/or its Group have arisen during the year:

Yes

If the answer is Yes, indicate the circumstances that caused them and whether or not the established control systems worked.

Risks occurred during the year	Causes of risks	Operation of Control Systems
The risks have evolved without significant impact on the consolidated Annual Accounts.	All the causes of the risks are external and inherent to the activities carried out by Gas Natural Group.	The internal control systems have worked appropriately.

D.3. Indicate whether there is a committee or governing body that is responsible for establishing and supervising these control devices:

Yes

If the answer is Yes, describe its functions.

Name of the Committee or body	Description of duties
Executive Committee:	The Executive Committee, in its capacity as appointed body of the Board of Directors, likewise gathers the necessary reports and advice for each case; it examines and authorises all significant operations which, due to their habitual occurrence in the Company or their financial magnitude, are not authorised by the Board. The Executive Committee usually informs the Board of the decisions taken and requests, where appropriate, their ratification or approval from the highest governing body. The Executive Committee is also responsible for proposing the Strategic Plan, the Group's Objectives and the Annual Budget to the Board of Directors.
Audit and Control Committee:	The responsibilities of the Audit and Control Committee are established in the Articles of Association and the Regulations of the Board of Directors. Among these are the functions of researching, reporting, supporting and making proposals to the Board of Directors in relation to their monitoring tasks, by means of a periodic review of compliance with the procedure for drafting business and financial information, the procedure for the identification and assessment of the risks included in the Corporate Risk Map, the Internal Control System of the Company (Regulations, Laws, Policies, Codes, Accounting and Internal Control Procedures, etc.) of the auditing procedure and independence of the External Auditor, and compliance with established policies in matters of corporate governance. The Committee has also been assigned with the responsibilities of setting up and supervising a mechanism that enables employees to communicate any irregularities of importance, especially those of a financial and bookkeeping nature, and to do so in a confidential manner. The main activities of the Committee in 2008 concerning the review of the internal control and risk management systems of Gas Natural Group are set forth, *inter alia*, in the Annual Report on the Activities of the Audit and Control Committee.
Quality Committee:	Its main objectives are to submit the Strategic Quality Plan for approval from the senior management and, in partnership with the Quality Department, it is also responsible for coordinating and driving the introduction of the provisions in the Plan in each of the affected organisational units, theses units being ultimately responsible for their introduction. Likewise, through the Quality Department, it reports on the development of the measurements taken recurrently and systematically of the Gas Natural Group's customer satisfaction and the alignment between the quality objectives and intrinsic business risks.
Management Committee:	The Management Committee, comprising senior executives (specifically the Chief Executive Officer, the General Managers and the remaining Directors, as shown in the table of foregoing section B.1.9), is the body that coordinates the business and corporate departments. Its principal functions include researching and proposing the objectives, the Strategic Plan and the Annual Budget, as well as escalating the proposals for actions that may affect the securing of the Company's Strategic Plan to the highest authorities. All of the members of the Management Committee also participate in the drafting of the Corporate Risk Map through technical meetings at which they contribute their views on the principal uncertainties and possible effects on the business.

Name of the Committee or body	Description of duties
Data Protection Committee:	Its objective is to instigate, coordinate and drive the introduction of organisational and technical measures in all of the Group's companies, which ensure the security and confidentiality of the personal data provided by customers, suppliers or employees, fulfilling, in turn, the provisions set forth in the Personal Data Protection Act and its Security Regulations. It must ensure coverage for the risks that are inherent to its scope of operation.
Regulation Committee:	Its objective is the definition of the carrying out of the Gas Natural Group integrated regulation strategy, ensuring that the uncertainty associated with the regulatory sphere is properly managed.
Risk Committee:	This Committee is responsible for guaranteeing the correct determination and review of Gas Natural Gas Natural Group's target risk profile, ensuring that the entire organisation understands and accepts its responsibility in the identification, assessment and management of the most relevant risks. The permanent members of the said Committee include the Financial-Economic Department, the Gas Management Department, the Wholesale Business Department, the Retail Business Department and the Internal Audit Department. In addition, the other members of the Management Committee can take part in the Committee as non-permanent members for dealing with specific cases. The risk management strategy designed by the Committee is applied by the Risk Subcommittee.
Chief Executive Officer:	The Chief Executive Officer authorises those operations that, due to their financial cost or nature, are directly submitted to the his/her jurisdiction and have been proposed by the Company's Executive Directors in the necessary reports. In the event that the operations exceed the pre-established limits, they are submitted by the Chief Executive Officer to the Executive Committee or the Board of Directors, as appropriate. As a fundamental and principal function, the Chief Executive Officer is responsible for the execution and implementation of the agreements adopted by the Board of Directors and the Executive Committee, and can give authority to the Company Executives which are most suitable in each case, in accordance with the nature and significance of the matter. The participation of the Chief Executive Officer in the discussion of the most pertinent conclusions of the Corporate Risk Map is also significant. The conclusions complement and contextualise the . decision-making process in terms of the risks assumed by Gas Natural Group
Board of Directors:	Gas Natural Group practises a business policy in which the analysis and management of risks plays a key role in decision-making processes. The established risk management control systems are configured at the following levels: the Board of Directors is responsible for carrying out whatsoever action that may be necessary for the fulfilment of the corporate purpose laid down in the Articles of Association. At any given time, the governing criterion is the sustained maximisation of the Company's value. Accordingly, it shall be competent to determine Gas Natural Group's strategic focuses and economic targets, the supervision and verification of the fulfilment of the said strategy and targets by senior management in accordance with the Company's purpose and interests. All guaranteeing the future viability of Gas Natural Group and its competitiveness in the development of the business activity expressly under its control. When carrying out its functions, the Board of Directors shall establish as many supervision systems as required to guarantee control over its members' decisions. In order to carry out the aforementioned functions, the Board of Directors has the following powers, particularly relevant in the area of risk management and control. Adoption of the Group's Strategic Plan, the Annual Budgets, the Annual Financial Plan and the investments and finance policy. Adoption of the risk management and control policy and regular monitoring of the indicators and internal control systems. Adoption of the corporate governance and corporate social responsibility policies. Adoption of the policy on dividends and treasury stocks.
Strategy and Development Department:	In charge of defining and ensuring compliance with the strategic vision of the Gas Natural Group. In this regard, it is responsible for preparing the strategic reflection of the Group and ensuring the strategic consistency of business planning and portfolio of the Group, carrying out the required internal analyses, those of the business environs and of the Group's positioning in the sector. In addition, together with the corresponding business units, it is in charge of detecting new gas and electricity business opportunities and new energy projects for the Group, and taking part in the definition, assessment and negotiation of the resulting business development projects.

Name of the Committee or body	Description of duties
Financial-Economic Department:	The Financial-Economic Department is responsible for defining the accounting, financial, fiscal, risk-control, investor-relations and management control policies, as well as their development and implantation at Gas Natural Group, supervising the level of fulfilment of the targets and the evolution of each business unit. With regard to the control and management of risks, mention must be made of the functions carried out by the Finance and the Risk Control and Management Units attached to the said Department. The Risk Control and Management Unit is responsible for conceptually determining the risks inherent in Gas Natural's business and assess the global risk profile, developing the necessary policies and tools. The Finance Unit, through the Insurance Department, is responsible for assessing potential risks of material damage, civil liability and loss of profit, as well as the management of incidents that affect Gas Natural Group in this area, proposing, managing and administrating the industrial insurance policies. Likewise, it is responsible for defining and monitoring the Regulations which govern authorisations, responsibilities and limits for the risks to be assumed in the operations carried out by Gas Natural Group. Through Finance and the Capital Market, the Finance Unit is responsible for managing the needs for finance and the financial risks associated with the interest rate. In addition, through the Treasury Board, it is responsible for organising, directing and controlling the funds of the different companies, as well as the exchange rate financial risk management, all coordinated with the Risk Control and Management Unit.
Gas Management Department:	Responsible, through the Gas Balance Unit, for defining the supply of gas and analysing the balance of supply and demand, knowing its value and flexibilities in order to propose performance indicators to optimise global profit. In addition, it acts in coordination with the business units to ensure the safety of the gas supply system in countries in which Gas Natural Group operates.
Resources Department:	This Department is responsible for the overall management of the common services in fields such as Information Systems, Contracting and Resources, Engineering and Technology, as well as Process Improvement. The role played by these units is fundamental for the management and mitigation of risks of an operational nature. Specifically: the Information Systems unit is responsible for the comprehensive management of the Information Systems, enhancing the level of contact with the business units and valuing and prioritising the required solutions. Special mention must be made of Information Security, which is responsible for laying down the policies and standards governing information security and the administration of tools for its management and the analysis of risks. The Contracting and Resources Unit is responsible for the definition, planning and implementation of the policies for the purchases of goods and services. It is also responsible for designing the property management policies, inventories, internal resources, documentation and assets security. The Engineering and Technology Unit is responsible for improving internal customer service, guaranteeing safety and prevention in technical activities and ensuring the efficient use of the corresponding resources. In particular, in the area of Engineering, it is responsible for the definition, planning and implementation of the infrastructures policies. In addition, in the area of Technology, it is responsible for carrying out technological research and development, implementing energy solutions and developing and fostering the use of renewable energies. It is also responsible for coordinating activities resulting from the application of the Kyoto Protocol through Clean Development projects. Finally, the Engineering and Technology Unit is also responsible for the area of Industrial Safety, Prevention and the Environment, laying down the general policies and principles that govern Gas Natural Group with regard to Industrial Safety and Occupational Risk Prevention. The Process Improvement Unit is responsible for focusing the Group's processes, consolidating and generalising initiatives aimed at improving productivity and quality. In particular, the Quality and Standards Unit is responsible for laying down the basic guidelines for the Quality Plan, measuring satisfaction, homogeneity and support for the measurement criteria, the modernisation of processes and the coherence of the standards as they are developed.
Internal Audit Department:	The main purpose of the Internal Audit Management is to ensure 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: profitability, growth and quality, 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 order to achieve these aims, the Internal Audit Department, which answers to the Audit and Control Committee and which in turn reports to the Chairman and Chief Executive Officer of Gas Natural Group, draws up and executes a Strategic Audit Plan and Annual Internal Audit Plans, in accordance with a method of assessment of operational risks, based on the Conceptual Framework of the COSO Report (the Committee of Sponsoring Organisations of the Treadway Commission) and taking as a basis the type of risks defined in the Corporate Risk Map of Gas Natural Group. In accordance with the aforementioned methodology, the operational risks associated with the processes are prioritised by assessing their impact, relative importance and degree of control. Based on the results obtained in the aforementioned assessment, an action plan is designed with a view to implementing corrective measures which shall mitigate residual risks identified as having greater potential impact than the established tolerable or accepted risks. Finally, it should be pointed out that the functions and activities of the Internal Audit Department are provided in Annual Report on the Activities of the Audit and Control Committee.

Name of the Committee or body	Description of duties
Legal Services Department:	The Legal Services Department carries out its functions and services to guarantee the legality of the Company's operations and avoid risks in commercial and corporate areas and, in general, guarantee the fulfilment of existing legal obligations. It is divided into several units geared at providing service to the various business units, in fields related to wholesale, retail and Latin America business, financial-economic services, strategy and development, gas management, fair competition and litigious legal services.
Secretary of the Board of Directors:	In accordance with Article 26 of the Regulations of the Board of Directors, the Secretary of the Board, via the Secretary or, where applicable, via the Assistant Secretary, is responsible for assisting the Chairman in his/her tasks, and especially for providing the Board members with advice and information required, looking after the Company documentation, as well as keeping the minutes of the sessions and attesting to the agreements of the Company's governing bodies. The Secretary of the Board shall be responsible for the formal and material legality of the Board's actions at all times, as well as those of other Committees, ensuring that their procedures and governing rules are regularly reviewed, thus minimising the existing Company risks.

D.4. Identification and description of the procedures for compliance with the different regulations affecting the Company and/or its Group.

Gas Natural Group's activities are significantly conditioned by the application of various relevant regulations related to gas, electricity and environmental activities in all the countries in which Gas Natural Group operates. In order to guarantee compliance with the said regulations, there is an appropriate allocation of responsibilities in each of the business units, aimed at guaranteeing observance of and compliance with relevant legislative issues. In addition, as laid down in section D3, the Regulation Committee, especially with regard to environmental issues and in collaboration with the Resources Department through the Engineering and Technology Unit, is responsible for implementing a global and integrated control of compliance with legislative requirements in order to avoid risks in the said area.

E. General Meeting

E.1. Indicate and, where applicable, give details of whether or not there are differences between the quorum system laid down in the Spanish Companies Act and the quorum for constituting the General Meeting of Shareholders.

No

	% of quorum different to the provisions set forth in Article 102 LSA for general cases	% of quorum different to the provisions set forth in Article 103 LSA for these special cases set forth in Article 103
Quorum required for the first call to meeting	–	–
Quorum required for the second call to meeting	–	–

E.2. Indicate and, where applicable, give details of whether or not there are differences between the system laid down in the Spanish Companies Act and the system for adopting corporate agreements:

No

Describe how the system differs from that of the LSA.

E.3. List the shareholders' rights in relation to General Meetings which differ from those of the LSA.

Shareholders' rights in respect of General Meetings are those established by the Spanish Companies Act and other applicable legal regulations:

- Right to information.
- Right of attendance.
- Right of representation.
- Right to vote.

In accordance with the right to attendance, the General Meeting may be attended by those shareholders who, either individually or grouped with others, hold a minimum of 100 shares, provided that they are recorded in the corresponding accounting register five days prior to the meeting, and that they possess, as indicated in the meeting announcement, the corresponding attendance card attesting to compliance with the aforementioned requirements, which shall be issued in the name of the entities to whom it legally corresponds (Article 33 of the Articles of Association).

E.4. Indicate, where applicable, the measures adopted to encourage participation of the shareholders in General Meetings.

The most notable measure adopted is the Meeting's approval of its regulations since, as indicated in its introduction, the regulations constitute an obligatory reference for improving the information provided to shareholders on the content of the decisions to be taken and in achieving their active participation in the General Meetings.

The regulations were approved by the Ordinary General Meeting held on 14 April 2004.

In addition, mention must be made of the fact that in the General Meeting of Shareholders of 16 May 2007, in order to enable the participation of all the Company's shareholders, the possibility of voting on the website at www.gasnatural.com was introduced for the first time in the section on the General Meeting of Shareholders, creating a specific area called electronic vote, with clear and simple instructions for voting on each matter on the agenda of the Ordinary General Meeting of Shareholders.

From the date of publication of the announcement of the General Meeting, the Company shall place on its website all the proposals for decisions formulated by the Board of Directors in respect to the items on the agenda, unless since the proposals are not legally or statutorily required to be made available to the shareholders from the date of the meeting announcement, the Board deems that there is a justifiable reason for not doing so.

In addition, from the date of the announcement of the meeting, any other information which is considered appropriate for facilitating the attendance of the shareholders at the Meeting and their active participation therein shall be published on the Company website including:

(I) Information on the meeting venue, indicating, where applicable, access to the room designated for this purpose.
(II) Sample of an attendance card and the document for vote delegation indicating the procedure for obtaining the originals.
(III) A description of the delegation or electronic voting systems which may be used.
(IV) Information, where applicable, on the systems and procedures which facilitate monitoring of the Meeting (simultaneous translation or diffusion via audiovisual media).

Likewise, shareholders may, prior to the General Meeting, request in writing from the Board of Directors any reports or clarifications they deem appropriate regarding matters included in the agenda. The Board of Directors, except in specific cases (detrimental to Company interests, matters not included in the agenda or irrelevant information) is obliged to provide that information.

When the meeting is held, the Chairman shall invite the shareholders who wish to intervene to identify themselves to the Meeting Secretary. Having given the reports that the Chair deems appropriate, and prior to voting having addressed all the items in the agenda, the shareholders may take the floor. During this part of the meeting, shareholders may verbally request any reports or clarifications deemed appropriate regarding items in the agenda. The Administrators of the Company, except in the cases mentioned in the previous paragraph, are obliged to provide the information requested. This information shall be provided by the Chairman or, where applicable, as he/she indicates, by the Chairman of the Audit and Control Committee, or any other Board Committee competent in the matter in question, the Secretary, an Administrator, or if advisable, any employee or expert in the matter in hand.

E.5. Indicate whether the position of Chairman of the General Meeting coincides with that of Chairman of the Board of Directors. Indicate, where applicable, the measures adopted to encourage independence and effective operation of the General Meeting:

Yes

Details of measures

The General Meeting Regulations, which contain full details of the measures for ensuring independence and effective operation of the meeting, may be consulted on the Company website.

The most significant measures adopted are as follows:

- The General Meeting may be attended by those shareholders who either individually or in a group with others hold a minimum of 100 shares provided that they are recorded in the corresponding accounting register five days prior to the meeting, and that they possess as indicated in the meeting announcement, the corresponding attendance card attesting to compliance with the aforementioned requirements, which shall be issued in the name of the entities to whom it legally corresponds.

- As a general rule, the media shall be permitted access to the Meeting in order to subsequently make public the progress of the meeting and the decisions taken therein.

- In addition, a video of the meeting shall be made available for subsequent dissemination.

- In order to ensure the security of those attending and the good order and progress of the General Meeting, sufficient surveillance, protective measures as well as access control shall be available.

- As a general rule, the necessary requirements for simultaneous translation of the speakers at the meeting shall be made available.

- Prior to the Meeting and following publication of the call to meeting, the shareholders that represent the least 5% of the share capital may request that a complement to the call to meeting be published, including one or more points of the agenda. The exercise of this right must be carried out through notification requiring acknowledgement of receipt received at the Company's registered office within five days following publication of the call to Meeting.

- Shareholders have the right to intervene in the General Meeting and to request the information and clarifications they deem appropriate, and the Chairman of the Meeting in the exercise of his/her powers and without prejudice to any other actions may:

  (I) Request that speakers clarify questions which have not been understood or which have not been sufficiently explained.
  (II) Call the other shareholders to order so that they confine their comments to matters relating to the Meeting and refrain from making inappropriate statements or exercising their rights in an abusive or obstructive manner.
  (III) Announce to those wishing to speak that the time allotted to them is coming to an end and that they should adjust their speech accordingly, and if they persist in the conduct described in the preceding paragraph, their right to speak shall be withdrawn; and
  (IV) If it is considered that their contribution disrupts or may disrupt the normal course of the meeting, they may be required to leave the premises and, where applicable, the necessary measures may be taken to ensure that they are ejected.

- Mention must be made of the fact that, without prejudice to the possibility of presenting a complement to the call in accordance with Article 97 of the LSA and proposals for agreements in accordance with Article 100 of the LSA, prior to the announcement of the General Meeting, when the floor is open to speakers, the shareholders may formulate proposals for decisions to the General Meeting on matters in the agenda which do not legally need to be made available to the shareholders when the meeting is announced, and on those issues on which the Meeting may deliberate without their being included in the agenda.

E.6. Indicate, where applicable, the amendments made during the financial year to the General Meeting Regulations.

The Regulations of the General Meeting of Shareholders were not modified in 2008.

E.7. Indicate the attendance data of the General Meetings held during the financial year to which this report refers:

Attendance data

Date of General Meeting	% physical presence	% represented	% remote voting		Total
			Electronic vote	Others	
21/05/2008	69.400	16.100	–	–	85.500

E.8. Indicate briefly any decisions taken in the General Meetings held during the financial year to which this report refers, and the percentage of votes in the case of each decision.

During 2008, Gas Natural SDG, S.A. held an Ordinary General Meeting on 21 May 2008. The decisions adopted and the percentage of votes accorded to each are indicated below, as well as the share capital present and represented.

Ordinary General Meeting of Gas Natural SDG, S.A.

One.- Analysis and approval, where applicable, of the Annual Accounts (Annual Report, Balance Sheet and Profit and Loss Account) of the Management Report, for Gas Natural SDG, S.A. pertaining to the year ended on 31 December 2007.
Votes against: 0.004%.
Abstentions: 1.193%.
Votes in favour: 98.803%.

Two.- Analysis and approval, where applicable, of the Consolidated Annual Accounts (Balance Sheet and Profit and Loss Account, recognised Income and Expenses Statement, Cash Flow Statement and Report) and Management Report, for the Consolidated Group of Gas Natural SDG, S.A. pertaining to the year ended on 31 December 2007.
Votes against: 0.004%.
Abstentions: 1.193%.
Votes in favour: 98.803%.

Three.- Examination and approval, where applicable, of the proposed application of the results of the 2007 financial year and share-out of dividends.
Votes against: 0.000%.
Abstentions: 0.0002%.
Votes in favour: 99.9998%.

Four.- Examination and approval, where applicable, of the Board of Directors' actions during the 2007 financial year.
Votes against: 0.011%.
Abstentions: 0.044%.
Votes in favour: 99.945%.

Five.- Authorisation to the Board of Directors for the derivative acquisition of own shares, either directly or through owned companies, in the terms agreed by the General Meeting and with the legally established restrictions, thus cancelling the authorisation agreed by the Ordinary General Meeting of 16 May 2007.
Votes against: 0.003%.
Abstentions: 0.036%.
Votes in favour: 99.961%.

Six.- Amendments to the Articles of Association.
6.1.- Amendment of Article 2 on the corporate purpose.
Votes against: 0.004%.
Abstentions: 0.038%.
Votes in favour: 99.958%.

6.2.- Amendment of Article 51 bis on the rules for the operation of the Auditing Committee, as well as the introduction of a new Article 51 ter on the Appointments and Remunerations Committee.
Votes against: 0.004%.
Abstentions: 0.038%.
Votes in favour: 99.958%.

6.3.- Amendment of Articles 55 and 56 on the Annual Accounts for adaptation to Law 16/2007, dated 4 July, on the reform and adaptation of mercantile legislation governing accounts for the international harmonisation thereof in accordance with European Union legislation.
Votes against: 0.004%.
Abstentions: 0.038%.
Votes in favour: 99.958%.

6.4.- Amendment of Article 59 on the appointment of auditors.
Votes against: 0.004%.
Abstentions: 0.038%.
Votes in favour: 99.958%.

6.5.- Deletion of Article 67 on the resolution of conflicts.
Votes against: 0.004%.
Abstentions: 0.044%.
Votes in favour: 99.952%.

Seven.- Ratification, appointment or re-election of members of the Board of Directors.
7.1.- Ratification and, where applicable, appointment of Demetrio Carceller Arce.
Votes against: 0.370%.
Abstentions: 0.038%.
Votes in favour: 99.592%.

7.2.- Ratification and, where applicable, appointment of Enrique Locutura Rupérez.
Votes against: 0.370%.
Abstentions: 0.038%.
Votes in favour: 99.,592%.

7.3.- Ratification and, where applicable, appointment of Francisco Reynés Massanet.
Votes against: 0.382%.
Abstentions: 0.038%.
Votes in favour: 99.58%.

7.4.- Ratification and, where applicable, appointment of Juan María Nín Génova.
Votes against: 0.370%.
Abstentions: 0.038%.
Votes in favour: 99.592%.

7.5.- Re-election and, where applicable, appointment of Rafael Villaseca Marco.
Votes against: 0.234%.
Abstentions: 0.038%.
Votes in favour: 99.728%.

7.6.- Re-election and, where applicable, appointment of Santiago Cobo Cobo.
Votes against: 0.004%.
Abstentions: 0.037%.
Votes in favour: 99.959%.

7.7.- Re-election and, where applicable, appointment of Carlos Kinder Espinosa.
Votes against: 0.378%.
Abstentions: 0.038%.
Votes in favour: 99.584%.

7.8.- Re-election and, where applicable, appointment of Carlos Losada Marrodán.
Votes against: 0.004%.
Abstentions: 0.037%.
Votes in favour: 99.959%.

7.9.- Re-election and, where applicable, appointment of Fernando Ramírez Mazarredo.
Votes against: 0.487%.
Abstentions: 0.048%.
Votes in favour: 99.465%.

7.10.- Re-election and, where applicable, appointment of Miguel Valls Maseda.
Votes against: 0.004%.
Abstentions: 0.037%.
Votes in favour: 99.959%.

7.11.- Re-election and, where applicable, appointment of Jaime Vega de Seoane Azpilicueta.
Votes against: 0.047%.
Abstentions: 0.037%.
Votes in favour: 99.916%.

Eight.- Re-election of the accounts auditors of the Company and its Consolidated Group for the year 2008.
Votes against: 0.005%.
Abstentions: 0.058%.
Votes in favour: 99.937%.

Nine.- Delegation of powers of attorney to supplement, develop, execute, remedy and formalise the decisions taken by the General Meeting.
Votes against: 0.0000%.
Abstentions: 0.0007%.
Votes in favour: 99.9993%.

E.9. Indicate whether or not there is a statutory restriction to the minimum number of shares required to attend the General Meeting:

Yes

Number of shares required to attend the General Meeting	100

E.10. Indicate and justify the Company's policies with regard to delegation of votes at the General Meeting

In accordance with the terms of Article 34 of the Articles of Association and Article 8 of the General Meeting Regulations, each shareholder with the right to vote in the General Meeting may be represented by an agent provided that this person as a Company shareholder is part of the Meeting.

The representation should be stated in writing which includes any representation granted by any means of remote communication which duly guarantees the identity of the person.

Natural persons who are shareholders and who are not in full possession of their civil rights and legal persons who are shareholders may be represented by duly accredited legal agents

Representation which cannot be demonstrated according to law shall not be deemed valid or effective.

Representation may be revoked at any time.

Personal attendance at the General Meeting of the person represented may be revoked.

When the Administrators of the Company represent any shareholder, the document authorising that delegation should contain the agenda of the Meeting as well as instructions for exercising the right to vote. If there are no such instructions, a favourable vote shall be assumed in respect of the proposals of the Board of Directors.

E.11. Indicate whether the Company is aware of the institutional investors' policy of participating or not in the Company decisions:

No

E.12. Indicate the address and means of access to corporate governance information on the website.

All the information required pursuant to Article 117 of the Securities Market Act, Law 26/2003, of 17 July, and Order ECO/3722/2003 and Circular 4/2007 of 27 December of the National Securities Market Commission (CNMV) may be found on the website www.gasnatural.com. The Corporate Governance information can be accessed through the section Information for Shareholders and Investors

F. Degree of Compliance with Corporate Governance Recommendations

Indicate the Company's degree of compliance with the recommendations given in the Unified Code of Good Governance.

In the event of failure to comply with any such recommendations, explain the recommendation, standards, practices or criteria in question applied by the Company.

1. The Articles of Association of listed companies should not limit the maximum number of votes that can be issued by the same shareholder or contain other restrictions that prevent the Company from being taken over through the purchase of its shares on the market.

See epigraphs: A.9, B.1.22, B.1.23 and E.1, E.2

Complies

2. When the parent company and the subsidiary are listed, they must both publicly define the following in detail:

a) The respective areas of activity and possible business relationships between them, as well as those of the dependent listed company with the remaining group companies;
b) The mechanisms in place to solve possible conflicts of interest that may occur.

See epigraphs: C.4 and C.7.

Not applicable

3. Although it is not expressly required in mercantile legislation, they should submit the transactions that involve a modification to the Company's structure for approval by the General Meeting of Shareholders, especially the following:

a) The transformation of listed companies into holding companies through the creation of subsidiaries or the incorporation of essential activities into dependent enterprises that hitherto had been carried out by the company itself, even though this party holds full domain over the former;
b) The acquisition or disposal of essential operating assets, when this involves an effective modification of the corporate purpose;
c) Operations that have the same affect as liquidation of the Company.

Complies

4. The detailed proposals of the agreements to be adopted by the General Meeting of Shareholders, including the information referred to in Recommendation 28, should be published with the publication of the announcement of the call to the meeting.

Complies

5. In the General Meeting of Shareholders, the matters that are substantially independent must be voted separately so that shareholders can exercise their voting preferences separately. And the said rule should be applied, in particular:

a) To the appointment or ratification of Directors, which must be voted on separately;

b) In the event of amendments to the Articles of Association, to each Article or group of Articles that are substantially independent.

See epigraph: E.8

Complies

6. The companies should allow the division of the vote so that the financial brokers legitimated as shareholders but acting on behalf of different customers can issue their votes in accordance with the instructions given by the said customers.

See epigraph: E.4.

Complies

7. The Board should carry out its functions on the basis of a unified purpose and independence, giving the same treatment to all the shareholders and following the Company's interest, understood as maximising the Company's economic value in a sustained manner.

It should also ensure that, in its relations with the stakeholders, the company observes legislation and regulations; fulfils its duties and contracts in good faith; observes the uses and good practices of the sectors and territories in which it operates; and observes the additional principles of social responsibility it has voluntarily accepted.

Complies

8. As the core of its mission, the Board should adopt the Company's strategy and the organisation required for its implementation, as well as supervising and controlling the management's fulfilment of targets and observance of the Company's corporate interest and purpose. Accordingly, in its plenary session, the Board reserves the competency for adopting the following:

a) The general policies and strategies of the Company, and more specifically:

- **I) The Strategic or Business Plan, as well as the management aims and annual budgets;**
- **II) The investment and finance policy;**
- **III) The definition of the group companies structure;**
- **IV) The corporate governance policy;**
- **V) The corporate social responsibility policy;**
- **VI) The remuneration policies and assessment of performance of senior management;**
- **VII) The policy for control and management of risks, as well as periodic monitoring of the internal information and control systems;**
- **VIII) The dividend policy, as well as the treasury stock policy, with special focus on their limits.**

See epigraphs: B.1.10, B.1.13, B.1.14 and D.3.

b) The following decisions:

- **I) At the proposal of the chief executive of the Company, the appointment and possible resignation of senior executives, as well as their compensation clauses.**
  See epigraph: B.1.14.
- **II) The remuneration of Directors, as well as, in the case of executives, the additional remuneration through their executive duties and other conditions that their contracts must include.**
  See epigraph: B.1.14.
- **III) The financial information that must be published periodically, given its status as a listed company.**
- **IV) All kinds of investment or operations which, due to the amount or special characteristics, are of a strategic nature, unless approval falls to the General Meeting;**
- **V) The creation or acquisition of shareholdings in special purpose enterprises or enterprises with registered offices in countries or territories considered as tax havens, as well as any other transactions or operations of a similar nature which, due to their complexity, could hamper the Group's transparency.**

c) The operations that the Company carries out with Directors, with major shareholders or shareholders represented on the Board, or with related parties ("related-party transactions").

However, this authorisation by the Board should not be considered necessary for the related-party transactions that meet the following three conditions:

1. **They are carried out by virtue of contracts whose terms and conditions are standardised and applied generally to many customers;**
2. **They are carried out at prices or rates generally established by the person acting as the supplier of the good or service in question;**
3. **Their amount does not exceed 1% of the Company's annual revenue.**

It is recommended that the Board should approve the associated transactions after a favourable report has been issued by the Audit Committee or, where applicable, any other party to which that function has been commissioned; and, besides not exercising or delegating their right to vote, the members of the Board who are affected should leave the meeting room while the Board deliberates and votes on the matter.

It is recommended that it should not be possible to delegate the competencies attributed to the Board here, except for those mentioned in paragraphs b) and c), which may be adopted in emergencies by the Executive Committee and subsequently ratified by the Board in its plenary session.

See epigraphs: C.1 and C.6.

Complies partially

The degree of fulfilment is very high as a result of the following:

In accordance with Article 4 of the Regulations of the Board of Directors:

"1.- The Board of Directors is responsible for carrying out whatsoever action that may be necessary for the fulfilment of the corporate purpose laid down in the Articles of Association. At any given time, the criterion governing the actions taken by the Board of Directors is the sustained maximisation of the Company's value. In particular, it shall be competent for the following:

- Determining the Company's strategic orientation and financial objectives and agreeing, at the proposal of senior management, the appropriate measures for their achievement.
- Supervising and verifying that the members of senior management comply with the strategy and meet the targets set and observe the corporate purpose and interest.
- Ensuring the Company's future viability and its competitiveness, as well as the existence of appropriate leadership and management, where the Company's activity is expressly submitted to its control.
- Adopting the Company's codes of conduct and exercising the powers laid down in Article 5 of these regulations.

When carrying out its functions, the Board of Directors shall establish all the supervision systems required to guarantee the control of its members' decisions, in accordance with its corporate interest and the interests of the minority shareholders.

2.- The Board of Directors shall be responsible for whatsoever management, representation and control activities necessary or appropriate for achieving the corporate purpose as laid down in the Articles of Association. It shall respond for this obligation to the General Meeting. The bestowing of powers in favour of one or more members of the Board does not deprive the latter of the organic competency laid down in the Spanish Companies Act and Articles of Association.

3.- The Board of Directors is authorised, within the legal and statutory limits or those expressly laid down in these regulations, for the following:

- Appointing one or more Directors, in the case of vacancies, by means of the cooptation system until the first General Meeting is held.
- Accepting Directors' resignations, where applicable.
- Appointing and dismissing the Chairman, Deputy Chairman, Chief Executive Officers, Secretary and Assistant Secretary of the Board of Directors.
- Delegating functions to any of its members under the terms and conditions laid down in law and the Articles of Association, as well as their revocation.
- Appointing the Directors to the various Committees laid down in these regulations and revoking their mandates.
- Preparing the annual accounts and the Management Report.
- Presenting the reports and agreement proposals which, in accordance with the provisions laid down in law and the Articles of Association, are to be prepared by the Board of Directors to be heard and adopted, where applicable, by the General Meeting, including the Annual Corporate Governance Report.
- Establishing the Company's economic targets and adopting, when so proposed by senior management, the strategies, plans and policies aimed at achieving the said targets, where the fulfilment of the said activities is subject to its control.

- Adopting the acquisitions and transfers of the Company's assets or those of its subsidiary companies which, as a result of whatsoever circumstance, are of particular significance.
- Establishing its own organisation and operation, and as well as that of the Company's senior management, and, in particular, modifying these regulations.
- Exercising the powers awarded to the Board of Directors by the General Meeting, which may only be delegated if so laid down expressly by agreement of the General Meeting, as well as the other powers bestowed by virtue of these regulations.

4.- The Board of Directors is also the Company's organic representative under the legal terms and conditions laid down in the Articles of Association. The delegation or bestowing of such a power of representation in favour of one or more Directors implies an obligation for the latter to notify the Board of whatsoever documents they sign in the exercise of the said power and which go beyond ordinary administrative requirements.

5.- The Board of Directors shall regularly assess its own operations and that of its Committees.

Similarly, Article 5 of the said regulations on the powers reserved expressly for the Board of Directors lays down the following:

"Notwithstanding the powers of representation and execution awarded by the Articles of Association to the Chairman and the Chief Executive Officers, as well as the effects of the powers or delegations bestowed to third parties directly by the Company, with regard to the legal independence of the governing bodies of the companies in the Group, a prior decision by the Board of Directors of Gas Natural, S.A. shall be required in the following cases:

1.- Presentation to the Ordinary General Meeting of the Annual Accounts and the Management Report of Gas Natural SDG, S.A. and the consolidated accounts, as well as any other proposals legally required of the Administrators of the Company.

2.- Adoption of the Group's Strategic Plan, the Annual Budgets, the Annual Financial Plan and the investments and finance policy.

3.- Definition of the capital ownership structure and the structure for delegations and powers.

4.- Adoption of the corporate governance and corporate social responsibility policies.

5.- The incorporation of new companies or entities, or participation in already existing companies when this presupposes an investment exceeding ten million euros of a stable nature for the Gas Natural Group, or is removed from the main Company activity.

6.- Adoption of merger, absorption, splin-off, concentration and dissolution transactions with or without liquidation, in which any of the companies in the Gas Natural Group is involved and which are relevant for the said Group. Whatever the case, the transactions involving companies with shareholders external to the Gas Natural Group shall be understood as transactions of relevance.

7.- Transfer of shares in the capital of companies or other fixed assets by any Company in the Gas Natural Group which, owing to their quantum or nature, are relevant for the said Group. Whatever the case, the transactions involving quanta of more than ten million euros shall be understood as relevant.

8.- Adoption of investment projects to be carried out by any Company in the Gas Natural Group which, owing to their quantum or nature, are relevant for the said Group. Whatever the case, the transactions involving quanta of more than fifteen million euros shall be understood as relevant.

9.- Adoption of programmes for the issue and renewal of serial commercial papers, debentures or similar securities by Gas Natural, S.A. or its major investee or controlled holdings.

10.- Adoption of financial transactions to be carried out by any Company in the Gas Natural Group which, owing to their quantum or nature, are of relevance for the said Group and are not included in the Annual Financial Plan. Whatever the case, whatsoever positioning of surpluses for a term of more than one year or financing at any term for quanta of over ten million euros shall be considered relevant.

11.- Awarding of guarantees by companies belonging to the Gas Natural Group to guarantee the obligations of entities that do not belong to the said Group or which, belonging to the said Group, have external shareholders.

12.- Transfer of rights over the trade name and brands as well as patents, technology and any other type of industrial property belonging to Gas Natural SDG, S.A. or Group companies, and which have financial relevance.

13.- Adoption or ratification of the appointment and dismissal of members of senior management and the administrators of the various companies in the Gas Natural Group.

14.- Adoption of the appointment and dismissal of the patrons and posts held in the Gas natural Foundation, of the individual representatives of Gas Natural SDG, S.A. in the cases in which the said Company holds the post of administrator in another company, and administrators of part-owned companies that do not belong to the Gas Natural Group when the Company has the power for proposing the said appointment.

15.- Creation, investment and supervision of the management of personnel pension plans and any other undertakings involving personnel which imply long-term financial liabilities for the Company.

16.- The signing of commercial, industrial or financial agreements of relevant or strategic importance for the Gas Natural Group that represent a modification, change or review of the current strategic Plan or Annual Budget.

17.- Approval of any Company transaction with a significant shareholder pursuant to the terms of Article 19.

18.- Adoption of the financial information that corresponds according to legislation.

19.- Adoption of the risk management and control policy and regular monitoring of the indicators and internal control systems.

20.- Adoption of the policy on dividends and treasury stocks.

The agreements laid down in paragraphs five to eight, ten to thirteen and sixteen can be adopted without distinction by the Board of Directors or the Executive Committee.

The Chairman, the Chief Executive Officer(s) or the Secretary shall execute the decisions taken by the Board of Directors pursuant to this Article and shall notify the authorisation or approval in the appropriate manner, or shall issue instructions to act as required."

Consequently, there are certain competencies which, owing to urgency, effectiveness and operability, have been awarded without distinction to the Board of Directors and to the Executive Committee.

9. The Board should have the necessary size for effective, participatory operation, which means that it should not have fewer than five or more than 15 members.

See epigraph: B.1.1

Explain

At present, the Board of Directors of Gas Natural SDG, S.A., within the minimum number of ten members and a maximum of 20 members laid down in Article 41 of the Articles of Association, by virtue of the agreement adopted by the General Meeting of Shareholders held on 23 June 2003, comprises 17 members. The said number exceeds by two that of Recommendation 9 of the Unified Code of Good Governance; however, the Company understands that the current size of the Board is appropriate and necessary for the correct management and supervision of the Company, where the said number does not prevent, limit or restrict in whatsoever way the effective and participatory operation of the said governing body.

10. The External Proprietary and Independent Directors should represent a broad majority of the Board and the number of Executive Directors should be the required minimum, taking into account the complexity of the corporate group and the percentage of participation of the Executive Directors in the Company's capital.

See epigraphs: A.2 , A.3, B.1.3 and B.1.14.

Complies

11. If there is an External Director who cannot be considered as either a Proprietary or Independent, the Company should explain the said circumstance and his/her association either with the Company or its executives, as well as with its shareholders.

See epigraphs: B.1.3.

Not applicable

12. Among the external Directors, the ratio between the number of Proprietary Directors and the Independent Directors should reflect the proportion between the Company's share capital represented by the Proprietary Directors and the rest of the share capital.

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

1° In companies with high capitalisation in which the shareholdings legally considered as majority are very few or non-existent, but there are shareholders with stock that has an absolute high value.
2° When these are companies that do not have a plurality of shareholders represented on the Board, and there are no related-parties between the shareholders.

See epigraphs: B.1.3, A.2 and A.3.

Complies

13. The number of Independent Directors should represent at least one third of the total number of Directors.

See epigraphs: B.1.3.

Complies

14. The character of each Director must be declared by the Board before the General Meeting of Shareholders, which shall effect or ratify their appointment, an appointment that shall be confirmed or reviewed annually, as appropriate, in the Annual Corporate Governance Report, with prior confirmation by the Appointments Committee. The said report should also explain the reasons why Proprietary Directors have been appointed at the request of shareholders whose holding is less than 5% of the share capital; and reasons should be given for the rejection, where applicable, of formal requests for presence on the Board from shareholders whose holding is equal to or higher than that of others at whose request Proprietary Directors have been appointed.

See epigraphs: B.1.3 and B.1.4.

Complies

15. That when the number of female Directors is very low or non-existent, the Board explains the reasons and the initiatives adopted to correct this situation; and that, more specifically, the Appointments Committee ensures that when new seats on the Board are available:

a) The selection procedures are not affected by an implicit bias that prevents female Directors from being selected;
b) The company purposefully seeks women that satisfy the professional profile, including among potential candidates.

See epigraphs: B.1.2, B.1.27 and B.2.3.

Complies partially

Article 31 of the regulations for the organisation and operation of the Board of Directors and its Committees lays down that the Appointments and Remuneration Committee shall review the necessary aptitudes in the candidates that are to cover each vacancy, the fulfilment of the requirements for each category of Director and the process for incorporating new members, raising the corresponding reports to the Board as required. For covering new vacancies, selection processes shall be guaranteed that are not subject to implicit bias that prevents the selection of female Directors, including, under the same conditions and among potential candidates, women who meet the professional profile being sought.

At present, the number of female Directors on the Board is zero, although Gas Natural SDG, S.A. has had female Directors in the past. On no occasion has the Company limited, vetoed or restricted the possible appointment of a Director on the basis of gender, a circumstance which has never been taken into account.

16. That the Chairman, as the person responsible for the effective performance of the Board, ensures that the Directors receive sufficient information beforehand; stimulates the debate and active participation of Directors during the Board sessions, safeguarding their right to take their own position and express their own opinion; and organises and coordinates the periodic assessment of the Board together with the chairmen of the relevant Committees as well as, if appropriate, that of the Managing Director or chief executive.

See epigraph: B.1 42.

Complies

17. When the Chairman of the Board is also the Company's chief executive, one of the Independent Directors should be empowered to request the call to meeting of the Board or the inclusion of new matters on the agenda; coordinate and echo the concerns of the External Directors; and direct the Board's assessment of its Chairman.

See epigraph: B.1.21.

Not applicable

18. The Secretary of the Board should make particularly sure that the Board's actions:

a) Comply with the content and spirit of the laws and their regulations, including those approved by the regulating bodies;
b) Are in accordance with the Articles of Association of the company and with the Meeting Rules and Regulations, those of the Board and any others that the Company has;
c) Take into consideration recommendations concerning good governance set forth in this Unified Code which the Company has accepted.

And, in order to safeguard the Secretary's independence, impartiality and professionalism, his/her appointment and dismissal must be reported by the Appointments Committee and approved by the Board in its plenary session; and the said appointment and dismissal procedure must be laid down in the Board Regulations.

See epigraph: B.1.34.

Complies

19. The Board should meet as regularly as necessary to carry out its functions effectively, following the schedule of dates and business laid down at the beginning of the year, where each Director may propose other business for the agenda not considered initially.

See epigraph: B.1.29.

Complies

20. The non-attendance of the Directors should be reduced to essential cases and quantified in the Annual Corporate Governance Report. And if representation is essential, it must be designated with instructions.

See epigraphs: B.1.28 and B.1.30.

Complies

21. When the Directors or the Secretary express concern for any proposal or, in the case of the Directors, for the Company's progress and the said concern is not resolved by the Board, it should be recorded in the minutes of the meeting at the request of the person expressing the said concern.

Complies

22. In its plenary session, the Board should assess the following once a year:

a) The quality and effectiveness of the Board's performance;
b) Based on the report prepared by the Appointments Committee, the performance of the Chairman of the Board and the chief executive of the Company;
c) The operation of its Committees, based on the report prepared by these.

See epigraph: B.1.19.

Complies

23. All the Directors should be able to exercise the right to gather the additional information they consider necessary on business that falls within the competency of the Board. And, unless the Articles of Association or the Regulations of the Board lay down otherwise, they should address their requirement to the Chairman or Secretary of the Board.

See epigraph: B.1.42.

Complies

24. All the Directors have the right to obtain the advice they need for the fulfilment of their functions from the Company. The Company should lay down the appropriate ways of exercising this right, which, under special circumstances, could include external advisory services on the Company's account.

See epigraph: B.1.41.

Complies

25. The Company should establish a guidance programme to provide new Directors with rapid and sufficient knowledge of the Company, as well as its rules on corporate governance. And that they also offer Directors updated awareness programmes whenever circumstances deem such action advisable.

Complies

26. The Company should require the Directors to devote the time and effort necessary for carrying out their function effectively and, consequently:

a) That the Directors notify the Appointments Committee of the other professional obligations in case these could interfere with the dedication required;

b) That the companies establish rules on the number of Boards of which their Directors can form part.

See epigraphs: B.1.8, B.1.9 and B.1.17.

Complies partially

Owing to the high level of participation and attendance at the sessions of the governing bodies by the members of the Board, to date the Company has not established any rules on the number of Boards on which the said Directors can sit; however, Article 18 of the Regulations of the Board expressly lays down the duty to non-competition.

Article 18 of the Regulations of the Board states:

"The Directors may not hold, themselves or by means of a representative, posts of whatsoever kind in companies or enterprises that compete with Gas Natural SDG, S.A. or any company in its Group, or provide the same services of representation or consultancy in favour thereof. A company shall be considered as a competitor of Gas Natural SDG, S.A. when, directly or indirectly, or through companies in its Group, it is devoted to any of the activities included in the corporate purpose of Gas Natural SDG, S.A.

The Board of Directors, on the basis of report from the Appointments and Remuneration Committee, may excuse the fulfilment of this obligation when there is justified cause and it does not have a negative effect on the Company's interests."

27. The proposal for the appointment or re-election of Directors raised by the Board to the General Meeting of Shareholders, as well as their provisional appointment by co-optation, should be approved by the Board:

a) At the proposal of the Appointments Committee, in the event of Independent Directors.
b) Following a report from the Appointments Committee, in the event of remaining Directors.

See epigraph: B.1.2.

Complies

28. The companies should publish the following information about their Directors on their website and keep the said information up-to-date:

a) Professional and biographical profile;
b) Other Boards of Directors to which they belong, whether or not these are listed companies;
c) An indication of the classification of Director to which they belong, specifying, in the event of Proprietary Directors, the shareholder they represent or with whom they are linked.
d) Date of the first appointment as Director of the Company, as well as subsequent appointments; and
e) Company shares and stock options of which they are the holder.

Complies

29. The Independent Directors should not remain as such for a continued term of more than 12 years.

See epigraph: B.1.2.

Complies

30. The Proprietary Directors should present their resignation when the shareholder they represent sells all his/her shares in the Company. They should also present their resignation, in the corresponding number, when the said shareholder lowers his/her shares in the Company to a level that requires a reduction in the number of his /her Proprietary Directors.

See epigraph: A.2, A.3 and B.1.2.

Complies

31. That the Board of Directors does not propose the standing down of any Independent Director prior to compliance with the statutory period for which they were appointed, unless there are good reasons observed by the Board following a report from the Appointments Committee. More specifically, justified reason shall be understood to exist when the Director has breached the duties that are inherent to their post or incurs any of the circumstances described in heading 5 of section 3 of definitions of this Code.

The dismissal of Independent Directors resulting from takeover bids, mergers or other similar corporate transactions that represent a change to the Company's share capital structure could be proposed when the said changes to the structure of the Board are brought about by the criterion of proportionality indicated in Recommendation 12.

See epigraphs: B.1.2, B.1.5 and B.1.26 .

Complies

32. The Company should establish rules that oblige the Directors to report and, where applicable, resign in cases that can damage the Company's reputation and credit and, in particular, oblige them to inform the Board of the criminal cases in which they appear as an accused party, as well as their subsequent procedural events.

If the Director is tried or a sentence is issued against him/her for the commencement of a hearing for any of the crimes laid down in Article 124 of the Spanish Companies Act, the Board should examine the case as soon as possible and, in view of the specific circumstances, decide whether or not it is fitting for the Director to continue in his/her post. The Board should give a reasoned account of all the events in the Annual Corporate Governance Report.

See epigraphs: B.1.43 and B.1.44.

Complies

33. All the Directors should clearly express their opposition when they consider that any proposed decision submitted to the Board may be contrary to the Company's interests. And this should apply especially to the Independent Directors and other Directors not affected by the potential conflict of interest in the case of decisions that may damage the shareholders not represented on the Board.

When the Board adopts significant or reiterated decisions on which the Director has formulated serious reservations, the said Director should draw the corresponding conclusions and, if he/she decides to resign, explain the reasons in the letter referred to in the following Recommendation.

The scope of this Recommendation also includes the Secretary of the Board, even though he/she does not have the status of Director.

Complies

34. When, either due to resignation or any other reason, a Director abandons his/her post before the end of his/her mandate, he/she should explain the reasons in a letter sent to all the members of the Board. And, without prejudice to the said resignation being notified as a relevant event, the reason for the resignation should be accounted for in the Annual Corporate Governance Report.

See epigraph: B.1.5.

Complies partially

The Recommendation does not apply to the Proprietary Directors or Executive Directors insofar as they access the Board in a different manner from the Independent Directors. The former are appointed by means of a proposal put forward by a holder of significant stable shares in the Company's share capital; the latter access the Board of Directors by virtue of their executive skills or senior management functions and the Independent Directors are appointed by virtue of their personal and professional conditions, since they exercise their functions without being conditioned by relations with the Company, its majority shareholders or executives. Accordingly, only these Directors are asked to explain the reasons for their resignation to the other Directors when, for whatsoever reason, they leave their post before the completion of their mandate.

35. The remuneration policy approved by the Board should indicate at least the following:

a) Amount of the fixed elements, with a breakdown if applicable of the allowances for participation on the Board and its Committees and an estimate of the annual fixed remuneration to which they are entitled;

b) Variable payment, specifically including:

- **I) Classification of Directors that apply, as well as an explanation of the relative importance of the variable items with regard to the fixed items.**
- **II) Criteria for assessing results on which any rights to payment through shares, stock options or any variable component are based;**
- **III) Fundamental parameters and basis of any annual premium system (bonus) or other benefits not paid in cash; and**
- **IV) An estimate of the total amount of variable payments to which the proposed remuneration plan shall lead, in accordance with the degree of compliance with the targets or hypotheses on which it is based.**

c) Key features of the complementary pensions, life-assurance policies and similar, with an estimate of the annual equivalent amount or cost.

d) Conditions that must be included in the contracts of senior management such as Executive Directors:

I) Duration;

II) Periods of notice; and

III) Any other clauses concerning joining bonuses, as well as compensation or golden parachute clauses through early termination or termination of the contractual relationship between the company and the executive Director.

See epigraph: B.1.15.

Complies

36. The remuneration made through shares in the company or companies in the Group, options over shares or instruments referenced to the value of the share, variable remuneration associated with the Company's performance or social security systems should be limited to the Executive Directors.

This Recommendation will not cover the provision of shares when it is conditioned to the Directors maintaining them until their resignation as a Director.

See epigraphs: A.3 and B.1.3.

Complies

37. The remuneration of the External Directors must be the amount necessary for compensating the devotion, qualification and responsibility required by the post; but not so high as to compromise their independence.

Complies

38. The remuneration related to the Company's results should take into account the possible exceptions included in the external auditor's report, which may reduce the said results.

Not applicable

39. In the case of variable remuneration, the remuneration policies should incorporate the necessary technical precautionary measures to ensure that the said remuneration is related to the professional devotion of the beneficiaries and do not result simply from the general evolution of the markets or the Company's activity sector or other similar circumstances.

Complies

40. The Board should submit a report on the Directors' remuneration policy to vote at the General Meeting of Shareholders, as a separate, consultative matter on the agenda. The said report should be made available to the shareholders either separately or in any other way the Company considers appropriate.

The said report should focus particularly on the remuneration policy approved by the Board for the present year, as well as, where applicable, the policies anticipated for future years. It shall include all the matters referred to in Recommendation 35, except for circumstances that may suppose the revelation of sensitive commercial information. It shall underline the most significant changes in the said policies with regard to that applied during the past year to which the General Meeting refers. It shall also include an overall summary of how the remuneration policy was applied during the past year.

The Board should also report on the role played by the salaries committee in the preparation of the remuneration policy and, if external consultancy services are used, on the identity of the external consultants providing the service.

See epigraph: B.1.16.

Explain

Article 44 of the Articles of Association of Gas Natural SDG, S.A. lays down a limit to Directors' remuneration. The aforementioned Article points out that "the remuneration of the Board of Directors shall consist of a maximum of 10% of annual net profit, the sum within this limit being determined in proportion with the number of active Directors.

The said remuneration can be subtracted from net profit only after the legal and statutory reserves have been covered and having paid ordinary shares a dividend of no less than 4% of their face value."

Furthermore, the Report gives details of the individual remuneration of the Directors, including all the information necessary for the shareholders to be fully aware of the Directors' remuneration.

41. The Report should give details of the individual remuneration paid to Directors during the year, and include:

a) The individualised breakdown of payment to each Director, which shall include, if appropriate:
- **I) The attendance allowances and other fixed remuneration as Director;**
- **II) Additional payments as chairman or member of any of the Board's Committees;**
- **III) Any payment as profit share or bonuses, and the reason why these were given;**
- **IV) Defined contributions to pension schemes in favour of the Director; for the increase of the Director's consolidated rights, when these are contributions to defined payment plans;**
- **V) Any agreed or paid compensation in the event of termination of their duties;**
- **VI) Remuneration received as Director of other group companies;**
- **VII) Payments for the performance of senior management duties carried out by Executive Directors;**
- **VIII) Any other payment item other than the foregoing, regardless of their nature or the group company that pays them, especially when it is considered as a related-party operation or leaving it out would distort the true image of total payments received by the Director.**

b) The individualised breakdown of any shares of stock options given to Directors, or any other instrument pegged to the share value, with a breakdown of:
- **I) Number of shares or options granted over the year and the conditions for the exercise of these;**

II) Number of options exercised over the year with an indication of the number of shares affected and the price;

III) Number of options pending exercise at the year-end, an indication of their price, date and other requirements to exercise these;

IV) Any modification over the year of the terms for exercising the options already granted.

c) Information on the ratio, the previous year, between the remuneration obtained by executive Directors and the profits or other performance indicators of the company.

Complies

42. When there is an Executive or Delegated Committee (hereinafter called "Executive Committee"), the participation structure of the various categories of Directors should be similar to that of the Board itself and its Secretary should be the Secretary of the Board.

See epigraphs: B.2.1 and B.2.6.

Complies

43. The Board should always be aware of the matters dealt with and the decisions adopted by the Executive Committee and all the members of the Board should receive a copy of the minutes of the sessions of the Executive Committee.

Explain

The Chairman of the Board, also Chairman of the Executive Committee of the Company, informs the members of the Board of Directors of the matters dealt with in the Committee that are not recurrent, ordinary or usual. In addition, when the Executive Committee, in the full exercise of its competencies, considers that a certain matter submitted to its consideration as a result of its strategic, quantitative or qualitative importance must be reported to the Board of Directors or known thereby, it raises the said matter to the Board for the corresponding decision to be taken.

44. The Board of Directors should constitute not only the Audit Committee required by the Securities Market Act, but also one or two separate committees: the Appointments Committee and the Remuneration Committee.

The rules governing the make-up and operation of the Audit Committee and the Appointments and Remuneration Committee or Committees should be given in the Regulations of the Board and include the following:

a) That the Board designates the members of these Committees, in accordance with the knowledge, skills and experience of the Directors and the duties of each Committee; deliberate on the proposals and reports; and report on the activity and the work carried out at the first plenary Board meeting following the Committee meetings;

b) That these Committees are made up exclusively of External Directors, with a minimum of three. The above is understood as without prejudice to the attendance of Executive Directors or senior executives when so agreed expressly by the members of the Committee.

c) Their Chairmen should be Independent Directors.

d) That outsourced consultancy can be used whenever deemed necessary for the performance of their duties.

e) That minutes of their meetings be taken, with a copy sent to all Board members.

See epigraphs: B.2.1 and B.2.3.

Complies partially

The Chairmen and members of the various Committees form part of the Board of Directors and, in turn and in the exercise of their competencies, they make various proposals and submit reports which are then submitted to the Board, which, together with the aim of avoiding the sending of duplicated documentation, is why the minutes of the Committees are not sent.

45. That the supervision of compliance with the internal codes of conduct and the rules of corporate governance are attributed to the Audit Committee, to the Appointments Committee or, if these are separate, to the Compliance or Corporate Governance Committee.

Complies

46. The members of the Audit Committee and, in particular, its Chairman should be appointed on the basis of their know-how and experience in bookkeeping, audits and risk management.

Complies

47. The listed companies should have an internal audit function which, under the supervision of the Audit Committee, should monitor the correct functioning of the internal control and information systems.

Complies

48. The person responsible for the internal audit function should present his/her annual work plan to the Audit Committee; he/she should inform it directly of the incidents occurring during its development; and, at the end of each year, submit an activities report.

Complies

49. The risk control and management policies should identify at least:

a) The different kinds of risk (operational, technological, financial, legal, those affecting the corporate reputation, etc.) which are faced by the company and which include - as part of the financial or economic risks - contingent liabilities and other off-balance sheet risks;

b) The setting of the risk level that the company believes is acceptable;

c) The mechanisms to mitigate the impact of the risks identified, in the event that they materialise;

d) Internal control and information systems which shall be used to control and manage the foregoing risks, including the contingent liabilities or off-balance sheet risks.

See epigraph: D.

Complies

50. The Audit Committee should be responsible for the following:

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

a) Supervising the preparation and completeness of the financial information concerning the company and, if appropriate, the Group, checking due compliance with the governing regulations, the proper delimitation of the consolidation criteria and the correct application of accounting criteria.
b) Periodically checking the internal control systems and risk management, to identify, manage and notify the key risks properly.
c) Ensuring the independence and effectiveness of the internal audit function; proposing the selection, appointment, re-election and dismissal of the person in charge of the internal audit service; forwarding the budget for this service; receiving periodic information on its activities, and verifying that senior management considers the conclusions and recommendations in its reports.
d) Setting up and supervising a mechanism that enables employees to communicate any irregularities of importance, especially those of a financial and bookkeeping nature, and to do so in a confidential manner.

2. In relation to the external auditor:

a) Presenting the Board with proposals for selection, appointment, re-election and replacement of the external auditor, as well as their contractual terms.
b) Receiving regular information from the external auditor on the audit plan and the results of carrying it out, and checking that senior management take its recommendations into account.
c) Ensuring the independence of the external auditor and, to this end:
- **I) That the company notifies the change of auditor to the CNMV as a relevant event and attaches a declaration on the possible existence of disagreements with the outgoing auditor and, if there are any disagreement, the content thereof.**
- **II) That the company and the auditor be seen to respect the current rules governing the provision of services other than audit services, the limits on business concentration of the auditor and, in general, the other norms established to ensure independence of auditors;**
- **III) In the case of the resignation of the external auditor, it should examine the circumstances leading to the said resignation.**

d) In the event of groups, to see that the group auditor accepts liability for the audits of the companies that make up the group.

See epigraphs: B.1.35, B.2.2, B.2.3 and D.3.

Complies

51. The Audit Committee should be able to call any of the Company's employee or manager, and also have them appear without the presence of any other executive.

Complies

52. The Audit Committee should report to the Board before the Board adopts the corresponding decisions on the following matters indicated in Recommendation 8:

a) The financial information that must be published periodically, given its status as a listed company. The Committee should ensure that the intermediate accounts are prepared under the same bookkeeping criteria as the annual accounts and, accordingly, consider the appropriateness of a limited review by the external auditor.
b) The creation or acquisition of shareholdings in special purpose enterprises or enterprises with registered offices in countries or territories considered as tax havens, as well as any other transactions or operations of a similar nature which, due to their complexity, could hamper the Group's transparency.
c) The related-party transactions, unless that preliminary report function has been attributed to another of the supervision and control committees.

See epigraphs: B.2.2 and B.2.3.

Complies

53. 53. The Board of Directors should seek to present the accounts to the General Meeting without reservation or exception in the auditors' report and, in whatsoever exceptional case, both the Chairman of the Audit Committee and the auditors should clearly explain to shareholders the content and scope of the said reservations or exceptions.

See epigraph: B.1.38.

Complies

54. Most of the members of the Appointments Committee (or the Appointments and Remuneration Committee, if there is only one Committee) should be Independent Directors.

See epigraph: B.2.1.

Complies

55. Besides the functions indicated in the above recommendations, the following responsibilities should correspond to the Appointments Committee:

a) Assessing the skills, knowledge and experience required on the Board, subsequently defining the duties and aptitudes required by the candidates to cover each vacancy, and assessing the time and dedication required to correctly perform their duties.
b) Properly examining and organising the succession of the Chairman and chief executive and, if appropriate, making proposals to the Board to enable the foregoing succession to occur in an organised and well planned manner.

c) Reporting the appointments and resignations of senior executives proposed to the Board by the chief executive.
d) Notifying the Board on the gender diversity issues shown in Recommendation 14 of this Code.

See epigraph: B.2.3.

Complies partially

The only matter to be considered under this epigraph would be gender diversity, for which the Appointments and Remuneration Committee is responsible for reviewing the necessary aptitudes in the candidates that are to cover each vacancy, the fulfilment of the requirements for each category of Director and the process for incorporating new members, raising the corresponding reports to the Board as required. For covering new vacancies, selection processes shall be guaranteed that are not subject to implicit bias that prevents the selection of female Directors, including, under the same conditions and among potential candidates, women who meet the professional profile being sought. The said obligation is laid down in Article 31.2 of the Regulations of the Board of Directors.

56. The Appointments Committee should consult the Company's Chairman and chief executive, especially with regard to business concerning the Executive Directors.

And that any Director may request the Appointments Committee to consider potential candidates they consider ideal to cover vacancies.

Complies

57. Besides the functions indicated in the above Recommendations, the following responsibilities should correspond to the Remuneration Committee:

a) Proposing to the Board of Directors:
- **I) The remuneration policy for Directors and senior executives;**
- **II) Individual remuneration of Executive Directors and the other conditions of their contracts.**
- **III) The basic contractual conditions of senior executives.**

b) To ensure that the remuneration policy established by the Company is duly observed.

See epigraphs: B.1.14 and B.2.3.

Complies

58. The Remuneration Committee should consult the Company's Chairman and chief executive, especially with regard to business concerning the Executive Directors and senior executives.

Complies

G. Other Information of Interest

If you consider that there is any important principle or aspect regarding the corporate governance practices applied by your company, which have not been covered in this report, please explain below.

Clarification of section B.1.10

The Appointments and Remuneration Committee is competent, by virtue of Article 31.2 of the Regulations of the Board of Directors, for proposing the general policy for senior executives of the Gas Natural Group, where the specific execution corresponds to the Chairman and Chief Executive Officer of the Company.

Clarification of section B.1.30

Number 10 in the above table indicates the number of Board meetings not attended by all the members thereof in accordance with the definition given in the final paragraph of this section.

Clarification of section C.2

In 2008 Gas Natural SDG, S.A. paid Holding de Infraestructuras y Servicios Urbanos, S.A. (part-owned by Criteria CaixaCorp, S.A. and Suez Environnement España, S.L.U.) for dividends and other shared-out profits, the amount of €25,677 thousand.

Clarification of sections B.1.15 and F.35

According to Article 22.2 of the Regulations of the Board of Directors, the Board shall define the payment policy for its Directors, determining (i) the amounts corresponding to the fixed components, with a breakdown of those that correspond to the participation in the Board and its Committees and (ii) the variable concepts, where applicable, specifying their relative importance with regard to the fixed components. Except for just cause, remuneration through the delivery of shares, stock options or instruments referenced to the share value shall be limited to Executive Directors.

With regard to section d) of F.35, see B.1.14 and B.1.15.

In this section, you may include any information or clarification with regard to the previous sections of this report to the extent that they are relevant and non-repetitive.

More specifically, indicate whether your company is subject to any corporate governance legislation other than Spanish law, and if so, include any information that is mandatory and different from that requested herein.

Binding definition of Independent Director:

Indicate whether or not any of the Independent Directors has or has had any relationship with the Company, its significant shareholders or executives which, if sufficiently significant or important, would have meant that the Director could not be considered as independent in accordance with the definition laid down in section 5 of the Unified Code of Good Governance;

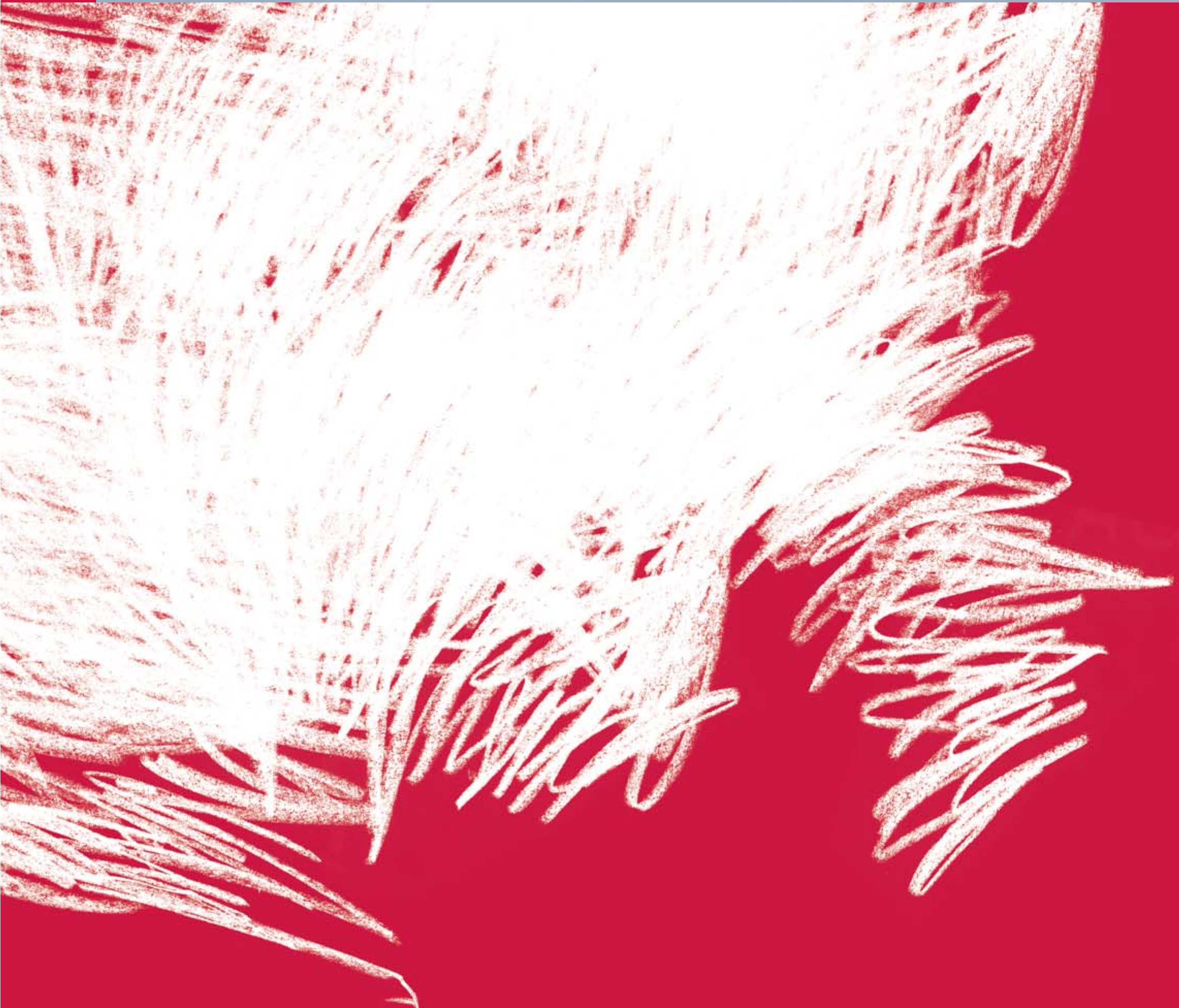
No

Date and signature:

This Annual Corporate Governance Report has been adopted by the Board of Directors of the Company in its session held on 30 January 2009.
30/01/2009

Indicate whether or not there have been Directors who voted against or abstained from voting on the adoption of this report.

No



Consolidated Data 2004-2008

Operating Statistics

	2008	2007	2006	2005	2004
Gas distribution (GWh)	**481,414**	**453,172**	**432,956**	**422,912**	**385,655**
Spain	270,073	271,058	258,758	254,774	228,954
Regulated gas sales	14,177	38,288	44,660	51,121	51,449
TPA	255,896	232,770	214,098	203,653	177,505
Latin America	208,408	179,314	171,750	165,408	155,346
Regulated gas sales	144,065	115,132	106,849	99,891	92,097
TPA	64,343	64,182	64,901	65,517	63,249
Italy	2,933	2,800	2,448	2,730	1,355
Regulated gas sales	2,632	2,635	2,347	2,652	1,315
TPA	301	165	101	78	40
Gas supply (GWh)	**292,629**	**292,730**	**294,451**	**305,324**	**288,055**
Spain (1)	239,090	245,566	251,410	259,649	243,510
International	53,539	47,164	43,041	45,675	44,545
Gas transportation/EMPL (GWh)	**133,497**	**124,150**	**129,499**	**145,923**	**115,637**
Gas distribution network (km)	**115,295**	**109,759**	**104,528**	**100,150**	**95,155**
Spain	48,578	45,429	42,364	39,611	37,534
Latin America	61,196	59,555	58,152	56,763	54,120
Italy	5,521	4,775	4,012	3,776	3,501
Increase in gas distribution points (thousands)	**377**	**453**	**483**	**615**	**620**
Spain	161	246	301	325	326
Latin America	176	170	150	253	280
Italy	40	37	32	37	14
Gas distribution points (thousands) as at 31/12	**11,492**	**11,115**	**10,662**	**10,179**	**9,565**
Spain	5,842	5,681	5,435	5,134	4,808
Latin America	5,253	5,077	4,907	4,757	4,505
Italy	397	357	320	288	252
Contracts per customer in Spain as at 31/12	**1.4**	**1.4**	**1,4**	**1.5**	**1.4**
Employees as at 31/12	**6,757**	**6,953**	**6,686**	**6,717**	**6,697**
Electricity sales in Spain (GWh)	**6,216**	**2,214**	**2,761**	**6,296**	**4,457**
Electricity generated (GWh)	**31,451**	**18,700**	**19,514**	**10,466**	**7,272**
Spain	18,130	16,975	17,831	8,904	5,802
Latin America	13,321	1,725	1,683	1,562	1,470

(1) Does not include exchange transactions.

Financial Statistics

Balance sheet figures (in millions of euros)

	2008	2007	2006	2005	2004
Gross property, plant and equipment and intangible fixed assets	16,456	15,638	13,592	12,706	10,639
Consolidation goodwill	546	541	441	456	334
Provisions and accumulated depreciation	(5,397)	(4,838)	(4,298)	(3,801)	(3,164)
Net property, plant and equipment and intangible fixed assets	**11,605**	**11,341**	**9,735**	**9,361**	**7,809**
Financial investments	**2,862**	**757**	**560**	**884**	**641**
Capital and reserves attributable to the Company's equity holders	**6,376**	**6,070**	**5,652**	**5,411**	**4,571**
Minority interests	**345**	**357**	**344**	**355**	**220**
Grants	**606**	**543**	**478**	**433**	**409**
Non-current financial liabilities	**4,451**	**3,075**	**2,590**	**3,304**	**2,152**
Current financial liabilities	**934**	**1,004**	**628**	**512**	**704**

Profit and loss account figures (in millions of euros)

	2008	2007	2006	2005	2004
Sales	13,544	10,093	10,348	8,527	6,266
Other operating income and release of fixed assets grants to income	95	81	124	108	87
Operating income	**13,639**	**10,174**	**10,472**	**8,635**	**6,353**
Gross operating profit	**2,564**	**2,277**	**1,912**	**1,519**	**1,335**
Net operating profit	**1,794**	**1,567**	**1,263**	**969**	**862**
Financial expenses and income, variations in fair value of financial instruments and net exchange gains/losses	(263)	(224)	(267)	(221)	(154)
Gain on sales of financial instruments	14	64	230	286	162
Financial profit/loss	**(249)**	**(160)**	**(37)**	**65**	**8**
Income before taxes	**1,551**	**1,415**	**1,231**	**1,068**	**926**
Consolidated net income for the period	**1,172**	**1,056**	**929**	**827**	**695**
Consolidated net income for the period attributable to the equity holders of the Company	**1,057**	**959**	**855**	**749**	**642**

Cash flow statement figures (in millions of euros)

	2008	2007	2006	2005	2004
Net cash generated from operating activities	**2,023**	**1,829**	**1,454**	**838**	**806**
Purchases of Property, plant and equipment and intangible assets	**1,088**	**1,135**	**1,159**	**1,151**	**1,015**
Purchases of other investment activities	**1,741**	**1,041**	**46**	**436**	**420**
Proceeds from divestitures	**66**	**176**	**358**	**472**	**390**
Dividends paid	**580**	**521**	**451**	**368**	**296**
Proceeds/repayment of borrowings	**1,286**	**730**	**(451)**	**560**	**241**

Stock Market Statistics

	2008	2007	2006	2005	2004
Number of shares traded (millions)	376.2	406.7	309.2	240.6	258.9
Funds traded (millions of euros)	11,833.3	15,648.8	8,019.1	5,537.0	5,169.7
Final share price (euros)	19.29	40.02	29.99	23.66	22.76
Maximum (euros)	42.45	45.76	32.88	24.88	22.99
Minimum (euros)	18.51	29.00	21.74	21.33	18.18
Book value per share (euros)	15.01	14.35	13.39	12.88	10.70
EBITDA per share (euros)	5.73	5.08	4.27	3.39	2.98
Net profit per share (euros)	2.36	2.14	1.91	1.67	1.43
Share price-book value ratio	1.3	2.8	2.2	1.8	2.1
Business value-EBITDA ratio	5.3	9.6	8.6	9.4	9.6
Share price-profit ratio	8.2	18.7	15.7	14.1	15.9
Dividend-stock market capitalisation ratio (%)	7.7	2.8	3.3	3.6	3.1
Dividend-profit ratio (%)	62.7	53.2	51.4	50.2	49.5
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 (millions of euros)	8,637.6	17,920.0	13,428.8	10,594.4	10,191.4
Dividend (millions of euros)	662.7	510.5	438.8	376.1	317.9

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