2009 Annual Report

gasNatural UNION FENOSA

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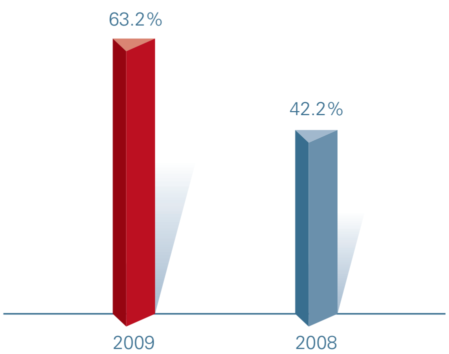
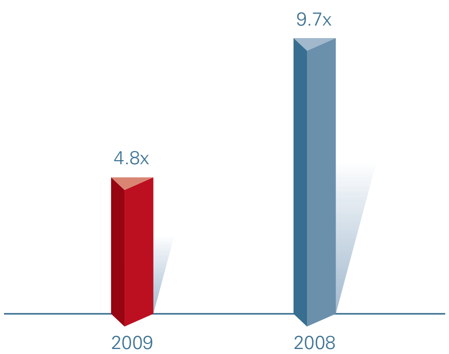
Borrowing[1]

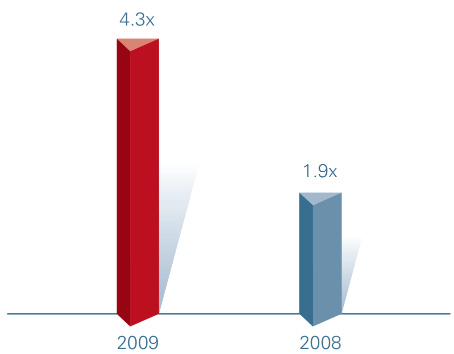


(1) Net financial debt/Net financial debt+Net worth+ Minority interests.

Ebitda/Net financial results



Net debt/Ebitda[2]



(2) Pro forma Ebitda.

Operation

	2009	2008	%
Gas distribution (GWh)	402,692	481,414	(16.4)
Electricity distribution (GWh)	34,973	–	–
Gas distribution supply points, in thousands (as at 31/12):	11,534	11,492	0.4
Electricity supply points, in thousands (as at 31/12):	8,663	–	–

	2009	2008	%
Electricity generated (GWh)	54,125	31,543	71.6
Spain	28,728	18,249	57.4
International	25,397	13,294	91.0
Power generation capacity (MW)	17,861	6,581	–
Spain	13,410	4,094	–
International	4,451	2,487	79.0
Gas supply (GWh)	286,152	328,631	(13.0)
Spain	234,230	275,288	(14.9)
Others	51,922	53,343	(2.7)
Unión Fenosa Gas[1]			
Gas commercialisation in Spain (GWh)	34,854	–	–
Trading (GWh)	10,785	–	–
Gas transportation-EMPL (GWh)	109,230	133,497	(18.2)

(1) Figures at 100%.

Personnel

	2009	2008	%
No. of employees of Gas Natural and Unión Fenosa	19,803	21,130	(6)

Financial (in millions of euros)

	2009	2008	%
Net turnover	14,879	13,544	9.9
Gross operating profit. (Ebitda)	3,937	2,564	53.5
Total investments	15,696	3,697	–
Net profit	1,195	1,057	13.1
Dividend	730	(663)*	10.1

*This figure includes 90 million euros in extraordinary dividends.

Shares

	2009	2008
Share prices at 31/12 (euros)	15.085	19.29/16.43*
Profit per share (euros)	1.48*	2.36/2.05*
Share price-profit ratio	10.2	8.2
Share capital (no. of shares)	921,756,951	447,776,028
Stock market capitalisation (in millions of euros)	13,905	8,638

*Figures adjusted because of the capital increase of March 2009.

Letter from the Chairman

Dear Shareholders,

It is a pleasure for me to present the results achieved by our Company for yet another year. 2009 will be remembered in the history of our Company and of the Spanish energy sector for the merger between Gas Natural and Unión Fenosa, which has led to the creation of the first integrated gas and electricity company in Spain and one of Iberia's top three utilities.

Approval for the merger, which was granted at the end of June and sanctioned in the General Meetings of both companies, meant the culmination of this exciting business project we started in the closing days of July 2008. We began to operate as an integrated entity in September 2009, once trading in the new Company's shares was allowed and after their corresponding inscription in the Mercantile Register.

Those 13 months were filled with intense and fruitful work, in which the sum of our efforts and compromise made an exemplary integration possible. The willingness of all of the parties involved has led to the successful creation of a world-class energy group that is able to operate competitively in international markets.

We have set sail towards the future with a strong wind behind us. The new Group is present in 23 countries, with more than 20 million customers and close to 18 GW of installed electricity generating capacity. We are leaders in the downstream business and one of the most important energy operators in Latin America. We are also ranked as the world's third largest operator in liquefied natural gas markets through our subsidiaries Stream and Unión Fenosa Gas. This enables us to develop our business in markets typified by strong competition and increasing globalisation.

The unfavourable economic climate in 2009 affected all productive sectors, including energy. In Spain, this situation was reflected in the demand for gas, which was 10.6% lower than the previous year, and for electricity, which was down 4.6%.

However, despite this environment, the contraction in demand and the significant levels of volatility in energy prices and currency and financial markets, the results achieved in 2009 are in keeping with the growth that has been the feature of recent years.

The Group's net profit rose to 1,195 billion euros, 13.1% higher than in 2008. Consolidated Ebitda was 3,937 billion euros, an increase of 53.5% on the previous year, mainly owing to the incorporation of Unión Fenosa as of 30 April 2009.

Our balanced business model was a decisive contributor to this result, with its high component of regulated business and a raised level of hedging to cover exposure to electricity pool prices. This style of business management allowed us to obtain such good results, in spite of the challenging state of the gas market in Spain and of greater competition in wholesale and retail gas markets, which we have overcome by means of anticipating movements in the global gas market and through flexibility in contracts and infrastructure.

On 31 December 2009, we had 13.4 GW of installed electricity generating capacity in Spain and 4.4 GW in other countries. Our energy mix is efficient and diversified (including combined cycle, hydraulic energy, wind, nuclear, coal and fuel oil-gas powered generation facilities) and is effectively managed through the Group's broad experience in all generation technologies.

Our customer base is evenly spread between Spain, with 9.4 million distribution points, and our international presence, with 10.8 million. By energy type, 11.5 million of these points correspond to the gas market and 8.7 million to electricity.

As you, our shareholders, can observe, we have achieved magnificent results, once again setting a new record in our Company's history. This permits us to fulfil our commitment to shareholder remuneration, for which we have destined 730 million euros to dividends paid from the profits from 2009, 10% more than in 2008. This figure amounts to a payout of 61.1%.

Finally, I would like to make special mention of the fact that our integration with Unión Fenosa is progressing satisfactorily with regard to achieving planned synergies and fulfilling refinancing and disinvestment commitments above the targets we set.

I point to the fact that we have reduced our debt through capital increases to the value of 3.5 billion euros and that our disinvestments, both executed and arranged, are for a total value of 3.6 billion euros. Added to this is the successful refinancing of 6.9 billion euros of the loan for the purchase of Unión Fenosa, which has provided a more stable degree of maturity. The purpose of these actions is to maintain a balanced financial structure and to lay a solid base for the Group's growth in the coming years.

This high level of fulfilment with our commitments can only be possible with the efforts and motivation of all our employees, who form the backbone of our new Company. I would like to offer special thanks to the trust and support shown to us by our shareholders. Our ambition is to always go further and forward in a new work culture that allows us to become stronger and to consolidate our achievements as benchmarks of quality in our sector. I am sure we will achieve this because we have all the energy in the world to make it happen.

Salvador Gabarró
Chairman of the Board of Directors

summary previous next català castellano

Most Significant Events

First Quarter

- The Minister of Environment and Housing of the Generalitat of Catalonia Regional Government, Francesc Baltasar, and the Chairman of the Gas Natural Group, Salvador Gabarró, signed a cooperation agreement for the management of programmes for the conservation, improvement and protection of the natural environment in the Baix Llobregat (Barcelona) area.

- Gas Natural Group approved the merger by absorption operation for the integration of Gas La Coruña within Gas Galicia; the Group having majority shareholdings in both these companies.

- Unión Fenosa was awarded the AENOR ISO 9001 and ISO 14001 certifications for its combined-cycle power plant in Sagunto. These certifications guarantee the environmental management and assure that the requirements of its Quality Management System are met in order to comply with the customer's requirements.

- Gas Galicia held a special event to commemorate the tenth anniversary of the arrival of natural gas in Galicia.

- Gas Natural Cegas signed a cooperation agreement with IVVSA (the Valencia Housing Institute) to construct the installations necessary to enable natural gas to be correctly supplied to Public Protected (VPP) housing developments executed by this entity.

- Gas Natural Castilla-La Mancha shall invest approximately 610,000 euros over the next four years in building over 7 km of gas pipeline in order to supply natural gas to the inhabitants of Villaluenga de la Sagra.

- The mayor of Roquetas de Mar, Gabriel Amat, and the Managing Director of Gas Natural Andalucía, Manuel Gil, visited the works of the liquefied natural gas plant (LNG) which is being built in this town in Almería province.

- Caja Mediterráneo and Unión Fenosa started up a project to promote saving and energy efficiency, intended for 18,000 Spanish SMEs which can save up to 20% in energy.

- The Group's Chairman, Salvador Gabarró, and the Chairman of FC Barcelona, Joan Laporta, signed an agreement making the Gas Natural Group FC Barcelona's official supplier for the next three years.

- The Gas Natural Foundation organised a seminar entitled "Environmental Journalism" in Barcelona. In this seminar, a debate was held on the role played by the media in society's perception of environmental challenges.

- The Board of Directors of Unión Fenosa agreed to make a proposal to the General Meeting of Shareholders for the distribution of a total gross dividend of 0.65 euros per share charged against the 2008 year, tantamount to an increase of 20.37% against the previous year's figure.

- The Board of Directors of the Gas Natural Group agreed to convene an Extraordinary General Meeting of Shareholders in order to approve a capital increase for the acquisition of Unión Fenosa.

- The Gas Natural Group presented its results for 2008, in which the Company's net profit amounted to 1,057 million euros, 10.2% higher than in 2007.

- Gas Natural Castilla-La Mancha will spend around 100 million euros in the region over the next four years with the aim of adding a further 17,000 supply points to the present total of 191,400 which the Company currently has.

- The Gas Natural Group presented its gasification project in the town of Moiá (Bages-Barcelona). The Company has invested 7.2 million euros in this project.

- The Gas Natural Group was given authorisation by the National Competition Commission (CNC) to acquire Unión Fenosa; the Company had submitted a request in September 2009.

- 97% of the Company's industrial customers stated that they were satisfied with the Company's global image, according to an on-line survey carried out by Gas Natural Group which has the object of constantly improving the quality of the products and services it offers.

- The Government ratified the ruling of the National Competition Commission (CNC) regarding the merger between the Gas Natural Group and Unión Fenosa.

- In Madrid, the Gas Natural Foundation organised a seminar entitled "Energy Consumption and the Environment in Spanish Housing. Analysis of the Life Cycle", analysing the environmental impact of domestic energy consumption.

- For the second successive year, the Gas Natural Group was given the "Gold Class" award, identifying the best companies in the sector, in the 2009 Sustainability Yearbook.

- The Gas Natural Group formalised the acquisition of 322,704,219 shares of Unión Fenosa, representing 35.32% of its voting rights, in execution of the share purchase and sale agreement signed on 30 July 2008 with ACS, at a price of 18.05 euros per share.

- The Gas Natural Group and Gazprom Marketing & Trading signed a memorandum of understanding (MOU) wherein both companies undertake to carry out liquefied natural gas purchase and sale agreements in the future, and to broaden their cooperation to other fields, such as the emissions market and electricity generation.

- The Group's Chairman, Salvador Gabarró, was appointed Chairman of the Board of Directors of Unión Fenosa, to represent the gas company, after the company formalised the acquisition of a 50.02% shareholding in Unión Fenosa agreed with ACS.

- The Gas Natural Group will invest over 10.6 million euros to bring the gas supply to the city of Marbella, where an 85 km long distribution network shall be installed over the next five years.

- The Extraordinary General Meeting of Shareholders of the Group, chaired by Salvador Gabarró, approved a capital increase with preferential subscription rights in relation to the acquisition of Unión Fenosa.

- The Chairman of the Group, Salvador Gabarró, collected the prize for the "Best Financial Operation of 2008", awarded by readers of "Mi cartera de inversión magazine".

- Unión Fenosa donated 30,000 euros to the NGO Acciónatura para la reforestación de la selva de Brasil; it obtained these funds from taking part in the Efiquest Internet game.

- The Legal Department of Unión Fenosa was a finalist in the European Counsel Awards 2009, organised by the International Law Office association. In these awards, over 3,000 candidatures are analysed by companies all over the world.

- Gas Natural Cegas signed a cooperation agreement with the Generalitat Valenciana Regional Government 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 in this autonomous region.

- The Gas Natural Foundation organised an environmental management seminar in Madrid in which it presented the book "Las tecnologías de la información y las comunicaciones (TIC) y el medio ambiente" (Information and Communication Technology (ICT) and the Environment).

- The Gas Natural Group incorporated five new Directors to the Board of Directors of Unión Fenosa, increasing the gas company's representation to nine members.

- The Board of Directors of Unión Fenosa handed down a favourable resolution concerning the takeover bid submitted by the Gas Natural Group over 100% of Unión Fenosa shares.

- In Agoncillo, Gas Natural Rioja presented the service which the Company will provide to the town's inhabitants; the Company will invest approximately 750,000 euros in this service.

- Unión Fenosa was chosen as one of the fourteen best companies in the international electricity sector in terms of corporate social responsibility, according to the ranking drawn up by the Scandinavian company, Storebrand Global SRI, which classified it as "Best in Class".

- The Gas Natural Group, with its partners Repsol, Dana and the Moroccan Hydrocarbons and Mines Office (ONHYM), discovered a gas field in the Tanger-Larache exploration zone, opposite the Atlantic coast of Morocco.

- The Gas Natural Group informed the National Securities Market Commission (CNMV) that the rights issue was subscribed, exercising the preferential subscription rights, for a total of 447,343,331 new shares, which make up 99.9% of the rights issue.

- Unión Fenosa sold its 5% shareholding in Cepsa to International Petroleum Investment company (IPIC), a company of the Emirate of Abu Dhabi, for 257 million euros.

Second Quarter

- The President of the Government of Cantabria, Miguel Ángel Revilla, and the Chairman of the Group, Salvador Gabarró, signed a cooperation agreement for researching and promoting offshore wind farm technology in Cantabria and joint participation in various R&D/i projects.

- The Gas Natural Foundation organised a seminar entitled "Thermo-electrical solar energy" in Seville, which also included the presentation of a book entitled "La electricidad solar térmica, tan lejos tan cerca" (Thermal Solar Electricity, so Near so Far).

- Through the "Solidarity Day" social initiative, Unión Fenosa employees financed four educational projects for 414 economically disadvantaged youths in Colombia.

- The Gas Natural Group started up the second "Natural Commitment" online programme, designed to improve the water quality of the Sils Lagoon (Girona).

- In the Company's natural gas distribution business in the Italian market, the number of customers reached 400,000.

- The Board of Directors of the Group approved the contents of its new Code of Ethics, covering the commitments assumed by the Company and updating the contents of the Code of Conduct which was in force since 2005.

- The Gas Natural Group closed its LNG plants in the Campollano and Romica industrial estates of Albacete. These plants had supplied natural gas to Albacete for the last 17 and 6 years, respectively.

- The takeover bid submitted by the Gas Natural Group for the share capital of Unión Fenosa was accepted for 317,655,538 shares representing 34.75% of the Company's share capital and 69.54% of the voting rights at which the bid was effectively targeted.

- The Company launched the "Gas sin PeGas" campaign, designed to encourage responsible use of natural gas installations.

- Once again, the Company took part in Construmat, the international construction fair in Barcelona, which presents new energy solutions based on natural gas.

- Gas Galicia invested 210,000 euros to bring the natural gas supply to the town of Curtis-Teixeiro (A Coruña), where the Company began to provide the service to the first customers in the town.

- The Gas Natural Group celebrated its tenth anniversary in Talavera de la Reina (Toledo). The Company has invested over 15 million euros to build a 160 km distribution network in Talavera, where it has 16,800 customers.

- The Board of Directors of Unión Fenosa and the Directors of Unión Fenosa Generación subscribed the merger by absorption by its leading shareholder, the Gas Natural Group.

- The Board of Directors awarded the Unión Fenosa Order of Merit, in the Gold class, to Honorato López Isla, acknowledging the track record and professional performance of the Deputy Chairman of Unión Fenosa.

- Gas Natural Castilla y León began to supply natural gas to the town of Calvarrasa de Abajo (Valladolid), where the Company has invested 300,000 euros.

- The Board of Directors of the Gas Natural Group unanimously approved the merger by absorption project of Unión Fenosa and of Unión Fenosa Generación, signed by the governing bodies and the two absorbed companies.

- In Gandia, the Gas Natural Group officially opened the Villalonga-Gandia-Oliva gas pipeline, an infrastructure of around 40 km long which enables the Company to supply natural gas to 35 towns in the Community of Valencia; the Company has invested 9 million euros in this project.

- The Gas Natural Group and Unión Fenosa launched an internal communication campaign using the slogan "Our Energy", to promote and facilitate the integration process between the two companies, which employ a total of 20,000 people.

- The Ministry of Economy, the Treasury and Employment awarded Unión Fenosa the high voltage electrical supply contract of the Community of Valencia. The supply, which amounts to a sum of 24 million euros, will be valid until 31 December, whereupon it can be extended.

- The Gas Natural Group unloaded the first cargo of LNG for Electricité de France (EDF), in the Montoir de Bretagne regasification plant (France).

- The Company organised "Mercados del Trueque" (Flea Markets) in over 40 Spanish towns. The object of this initiative is to encourage responsible consumption.

- The Gas Natural International Foundation awarded the representatives of nine state schools in Bogotá a special certificate to acknowledge their work in carrying out the "Young Scientists" programme.

- The Group's Chairman, Salvador Gabarró, received a 2009 Golden Microphone award from the Federation of Radio and Television Associations to acknowledge what the panel of judges called the "brilliant track record at the head of the energy company".

- Once again, the Company took part in Genera, the international energy and environment fair, where it presented new energy solutions based on natural gas.

- Gas Natural Castilla y León launched its supply in the municipality of Sotopalacios (Segovia).

- The Board of Directors of the Gas Natural Group, chaired by Salvador Gabarró, approved the general framework and the first guideline concerning the organisation of the new Group after the acquisition of Unión Fenosa.

- Gas Natural Castilla y León began to supply natural gas to the town of Lorenzana (León), where the Company will invest 182,000 euros.

- The Group launched a new website (www.gestonatural.es) in order to promote more sustainable consumption habits and to show the initiatives carried out by the company in the field of energy efficiency.

- Unión Fenosa sold its 1% shareholding in Red Eléctrica de España (REE), which acts as the Electrical Grid Operator.

- The Gas Natural Group took part in Carbon Expo 2009, the most important international CO_2 market project development fair in the world, where it presented its Clean Development Mechanism (CDM) and energy innovation projects.

- Unión Fenosa launched a plan to support town councils in implementing energy saving and efficiency measures in Spanish municipalities.

- The Gas Natural Group will supply VNG to a fleet of over 200 urban waste collection vehicles. The vehicles in question belong to companies which will be responsible for this service in Barcelona, starting in November and continuing over the next eight years.

- Gas Natural Castilla-La Mancha sponsored a concert by the Baden-Baden Philharmonic Orchestra, one of the eleven concerts which were part of the 15th Toledo International Music Festival.

- The Gas Natural Group agreed the sale of its 5% shareholding in Enagás to Oman Oil (OOC), an energy company. This was in accordance with the ruling of the National Competition Commission (CNC), which authorised, with conditions, the acquisition of Unión Fenosa in February.

- Gas Natural Castilla y León began to supply natural gas to the town of Villariezo (Burgos province), where the Company has invested 350,000 euros to build 6 km of network.

- Gas Natural Andalucía launched its supply to the town of Écija (Seville).

- The Gas Natural Group signed an agreement with the Government of Navarre for the construction of five branch lines from the gas pipeline of Larraga-Los Arcos to bring the supply to the towns of Larraga, Berbinzana, Miranda de Arga, Allo, Sesma, Lerín, Arróniz and Los Arcos.

- In Zaragoza, the Gas Natural Foundation organised a seminar entitled "Energy Efficiency in Companies in Aragón".

- The Chief Executive Officer of the Gas Natural Group, Rafael Villaseca, visited the 20,000 m^2 Unión Fenosa offices complex in A Coruña.

- The Gas Natural Group presented its expansion plan in the vehicular natural gas market in the Ist VNG Congress 2009 in Madrid.

- Gas Natural Castilla y León began to supply natural gas to the town of Arcos de la Llana (Burgos), where the company has invested 275,000 euros.

- The Gas Natural Group was included for the first time in the ECO10, an index of the 10 most recommended stocks on the Spanish stock market, according to a consensus of over 50 brokers, banks and investment companies operating in Spain. The index is prepared by Dow Jones Stoxx, the prestigious North American firm, for *El Economista* newspaper.

- The Gas Natural Foundation presented the project to construct the building which will host the new Gas Museum and the Foundation's historical archive in the Plaza del Gas, Sabadell.

- The Gas Natural Group explained its commitment to energy efficiency in the 2nd SIGAGALICIA Real-Estate Exhibition.

- In Seville, Gas Natural Andalucía and FADECO (the Andalusian Federation of Construction Workers) organised a workshop on the housing sector entitled "Housing in Andalusia, Growth Factor and Sustainability".

- Gas Galicia and APROINCO (the Association of Property Developers of A Coruña) signed an agreement to promote the continuous training of real estate developers and agents in A Coruña province.

- The Gas Natural Group concluded a transaction in the capital markets in two tranches: a five-year tranche, amounting to 2 billion euros, and another ten-year tranche, amounting to 500 million euros. The funds received from these operations will be used to partially refinance the Company's current debt.

- Gas Natural Cegas sponsored all the concerts offered by the Valencia Orchestra in the Palau de la Música (Valencia).

- The Gas Natural Group signed a cooperation agreement with the Government of La Rioja, via La Rioja Turismo, to support the cultural activities taking place to celebrate the Jubilee Year in Santo Domingo de la Calzada (La Rioja), and commemorating the 9th Centenary of the Saint's passing.

- The General Meeting of Shareholders of the Gas Natural Group, chaired by Salvador Gabarró, approved the merger by absorption operation of Unión Fenosa and Unión Fenosa Generación by the Group.

- The shareholders of Unión Fenosa approved the merger by absorption of the company by Gas Natural.

- Gas Galicia inaugurated the Abegondo-Betanzos gas pipeline, on which it has spent 1.4 million euros, and which will bring the supply of natural gas to Betanzos (A Coruña).

Third Quarter

- Unión Fenosa signed an agreement with the Spanish Federation of Large Families (FEFN) to optimise energy spending on lighting, air conditioning, water heating, household appliances, *inter alia*.

- Unión Fenosa agreed to sell 13.01% of its shareholding in Indra Sistemas, a company in which it had owned 18.01% of the share capital.

- Enel Unión Fenosa Renovables, EUFER, moved into the Canary Islands market with the construction of two wind farms.

- The Gas Natural Group signed an agreement with the Ministry of the Environment and Rural and Marine Affairs and Autocontrol (the Assocwiation for the Self-Regulation of Commercial Communication), whereby it undertakes to comply with a code of good working practices for the use of environmental messages in commercial advertising.

- In Argel, the Gas Natural Foundation organised a seminar on the creation of companies designed for young entrepreneurs.

- Gas Natural Servicios, the supplier of all the Group's services, has been awarded the APPLUS quality management and environmental management certification for its sales and contracting activity, and the provision of its maintenance, advisory, technical support and repair services for gas installations, hydraulic heating circuits and domestic appliances which run on natural gas, in accordance with the ISO 9001-2008 quality management standard and the ISO 14001:2004 environmental management standard.

- For the third successive year, Gas Natural Castilla y León signed a cooperation agreement with the Carriegos Foundation, to cooperate with this entity for the rehabilitation of disabled individuals through equestrian therapy.

- The Spanish Ornithology Society (SEO/BirdLife) and Unión Fenosa agreed to modify 23 electrical pylons of a medium voltage line owned by the company which passes through Campo de Montiel (Ciudad Real), an area considered to be of special importance for the Spanish imperial eagle.

- Italy's Ministry of the Environment awarded the Gas Natural Group the final approval of environmental impact assessment (VIA Decree) for the liquefied natural gas regasification plant which the company wishes to build in the port of Trieste-Zaule, in the region of Friuli Venezia Giulia, in north-east Italy.

- The Gas Natural Group agreed the sale of various natural gas distribution and commercialisation assets in Murcia and Cantabria amounting to 330 million euros.

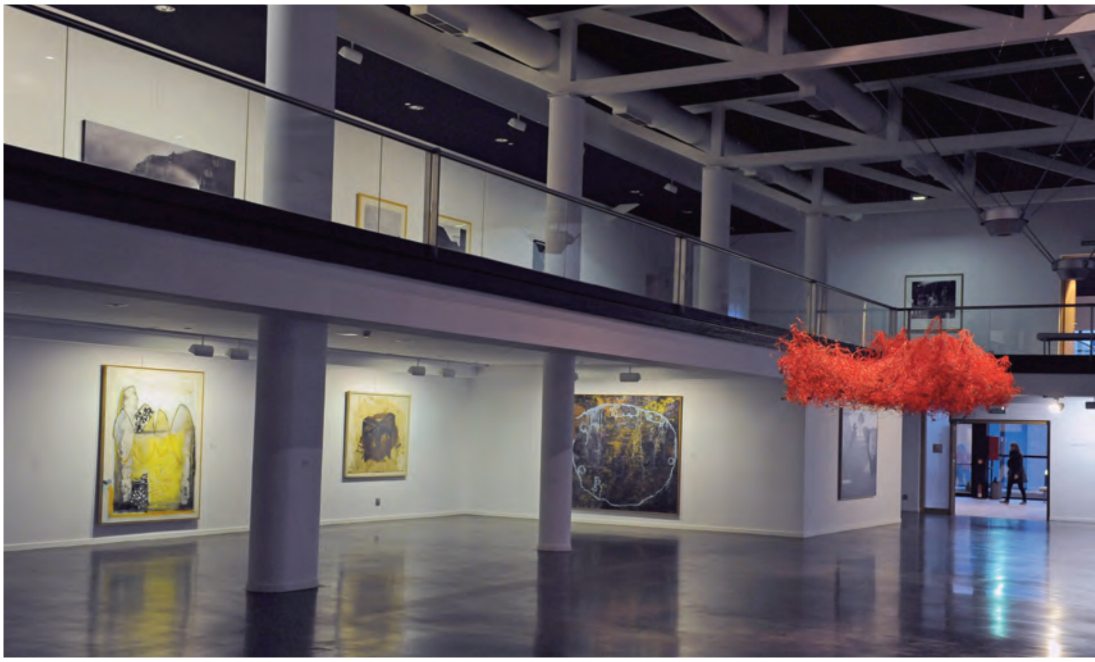
- The Gas Natural Group signed a cooperation agreement to organise the 15th Pablo Ruíz Picasso Workshop, which will be held in the Unión Fenosa Contemporary Art Museum in A Coruña.

- Gas Natural Cegas launched the natural gas service in the town of Oliva (Valencia).

- Unión Fenosa signed an agreement with five national consumer associations to define a system to supervise and assess actions by the company's commercial network and to ensure that customers' rights are upheld.

- The Gas Natural Group sponsored the staging of *La Favorite*, by Gaetano Donizetti, which opened the opera programme of the 58th annual Santander International Festival (FIS).

- The Gas Natural Group was awarded the contracts to build 11 wind farms in the Canary Islands, including three projects awarded to EUFER, thus increasing gross power in this region by 116.6 MW.



- The Gas Natural Group secured the necessary permits from the gas network manager of Belgium (Huberator) in order to operate in Belgium's gas market, and so take part as the first Spanish company in the Belgian gas hub, Zeebrugge.

- Gas Navarra invested 260,000 euros in constructing the infrastructures necessary to bring the natural gas supply to the town of Sunbilla.

- According to the DJSI WORLD and DJSI STOXX indices, the Gas Natural Group is the leading company in the gas distribution sector. For the fifth year in a row, Gas Natural Group has remained within the Dow Jones Sustainability Index (DJSI World), the global socially responsible investment index, and was also included in the European DJSI STOXX index.

- Gas Natural concluded the merger process with Unión Fenosa after the new company's shares were admitted for trading, and the public merger document was recorded in the Mercantile Register of Barcelona.

- For the eighth successive year, the Gas Natural Group was included in the FTSE4Good sustainability index.

- The Company officially opened the Lucena-Cabra Baena gas pipeline (Cordoba), where it has invested 13.6 million euros in building 72 km of gas network.

- The Gas Natural Foundation, as part of its First Export Programme, organised a trip to Barcelona for a group of 20 Argentinean business persons with the aim of helping to establish contacts between Argentinean and Spanish business people to promote exports.

Fourth Quarter

- In Madrid, the Gas Natural Group and Garrigues organised a workshop on the present situation and future of energy efficiency in Spain.
- The Company and Valladolid City Council signed a contract to supply natural gas to the council buildings.
- The Gas Natural Group was judged to be the best positioned Spanish utility company in the Carbon Disclosure Project Global 500 report.
- The Gas Natural Group was awarded the electrical supply for the Pamplona City Council buildings.
- The Gas Natural Foundation, in partnership with the Government of the Balearic Islands, organised an energy efficiency in tourist buildings seminar in Palma de Mallorca.
- The Gas Natural Group took part in the 24th World Gas Congress, which was held in Buenos Aires (Argentina).
- Gas Natural Andalucía began to supply natural gas to the first inhabitants of the town of Lucena (Cordoba).

- The Gas Natural Group held its first Board of Directors meeting after the merger with Unión Fenosa in its headquarters in Galicia. Present in the meeting were the President of the Xunta de Galicia Regional Government, Alberto Núñez Feijóo, the Chairman of the Company, Salvador Gabarró, and the Chief Executive Officer, Rafael Villaseca.

- The Gas Natural Foundation, in partnership with Murcia Region, organised a seminar which included the presentation of a book on thermo-electrical energy.
- Gas Navarra invested over 550,000 euros to bring the supply of natural gas to Doneztebe-Santesteban.
- The Gas Natural Group took part, for the fifth time, in the Ascer architecture prize, once again showing its support for the ceramics sector.
- Gas Navarra invested over 250,000 euros to bring the supply of natural gas to Bertizarana.

- The Company agreed the sale of its shareholding in EPSA, a Colombian company, for the sum of 1.10 billion dollars.
- Company representatives gave a course in the Industrial Engineering School of Béjar (Salamanca) on how to design, construct and maintain gas fuel installations in buildings.
- The Gas Natural Group and the Madrid Association of Hotel and Catering Businesses (AMER) signed an agreement to promote the responsible consumption of energy and energy efficiency.

- The work of six contemporary Galician artists was put on show in the "So Near, so Far" exhibition in the Contemporary Art Museum (MACUF).

- The Chief Executive Officer of the Group, Rafael Villaseca, took part in the 4th Business Competitiveness Forum, organised by the Association for Management Progress (APD), and presented the new dimension of the company after the recent merger with Unión Fenosa.

- For the fourth successive year, Gas Natural Cegas cooperated with the Casa de la Caridad (a Valencia-based Charitable Association) in the "365 Humanitarian Companies" project, providing funding for the meals offered by the association to the homeless during the day.

- Rafael Villaseca took part in the New Energy Forum, organised by Nueva Economía Forum.

- In Barcelona, the Gas Natural Foundation organised the "Territorial Planning, Energy and Environment" workshop, where it presented a study stressing the need for an integral design for energy networks.

- The MACUF started a new concert cycle, called "Animated Music", for the whole family.

- In Colombia, the Gas Natural Group brought together its Latin America management team in a meeting for the first time since the merger. The Colombian President, Álvaro Uribe, took part on the final day.

- The Gas Natural Foundation took part in the 8th Industrial Archaeology Workshops in Catalonia.

- Gas Natural Andalucía and the Seville City Council signed an agreement concerning civil protection.

- The MACUF gave a theoretical course on film history and aesthetics.

- The Gas Natural Group received an international award for its communications strategy in the merger with Unión Fenosa.

- The Company took part in the Valladolid Alternative Vehicle and Fuel Show.

- The MACUF exhibited the work of three young artists who in 2007 were awarded the Artistic Creation Abroad Grants of the Gas Natural Group.

- Gas Natural Castilla y León invested approximately 900,000 euros to bring the natural gas supply to Parque Robledo (Segovia).

- Gas Natural Cegas sponsored the 2nd Gandia Science and Climate Change Week (Valencia).

- The Platts Top 250 ranking of energy companies placed the Gas Natural Group as the first-ranking company in the gas sector worldwide. The Company stands 26th in the ranking of European energy companies and 54th in the world ranking.

- The Gas Natural Group officially opened the Huelva-Ayamonte gas pipeline, where it has invested 18 million euros in building 60 km of gas network.

- Gas Natural Cegas sponsored the 2nd Conference of Euro-Mediterranean Countries in Alicante.

- Gas Natural officially opened the Baztán-Bidasoa gas pipeline (Navarra), where the Company has invested over 8.5 million euros to supply natural gas to over 8,400 inhabitants.
- Gas Natural SDG will make an interim dividend payment of 324 million euros charged against the 2009 year.
- The Gas Natural Group officially opened a manure treatment and electricity generation plant in Almazán (Soria).
- Gas Natural Cegas and Casa de la Caridad handed out 1,500 blankets to economically disadvantaged people.
- The Spanish Association of Financial Managers and Company Treasurers (ASSET) has recognised the Gas Natural Group's excellent financial management during the successful merger with Unión Fenosa.
- In Madrid, the Gas Natural Foundation organised the 9th International "Seminar on Climate Change", in which it analysed the role of natural gas and renewable energies in the struggle against climate change.
- The Gas Natural Foundation and the Xunta de Galicia analysed the region's geothermal potential during a seminar on "Geothermal Energy and Energy Efficiency in Galicia", held in Santiago de Compostela.
- The Gas Natural Contemporary Art Museum hosted the Galicia Fashion Week.
- The Group and the City Council of La Bañeza (Leon) signed an agreement for the organisation of seminars, courses and conferences to inform municipal employees about rational energy use.
- In Valencia, the Gas Natural Foundation organised the "Business, Technology and the Environment" workshop, in which it analysed the implementation of the European Directive on Integrated Pollution Prevention and Control (IPPC).
- The Gas Natural Group presented its strategy for expansion into wholesale energy markets at the Emart trade fair (Barcelona).
- The Company registered a hydraulic project in Colombia as a Clean Development Mechanism (CDM), the Company's eighth.
- Gas Navarra launched its supply in Ziordia; it now provides 100 towns in this autonomous region with natural gas.
- The Gas Natural Group was awarded the electrical supply for the Fuerteventura Water Consortium (Canary Islands).
- The Gas Natural Foundation presented a book on the history of gas in Cordoba.
- In the First Energy Distribution Conference (Genedis), the Gas Natural Group explained its commitment towards putting electrical production as near as possible to consumption centres.

- In Barcelona, the Gas Natural Contemporary Art Museum (MACUF) presented an introduction to art book entitled *¿Pasión por crear, placer de admirar, necesidad de transformar?* (Passion to Create, the Pleasure of Admiring, Need to Transform?).
- Gas Natural and the Community of Madrid installed over 7,000 condensation boilers in 2009. The two entities spent approximately 2.1 million euros on replacing old or faulty gas heaters with condensation boilers.
- The Group established the head offices of its Italian regasification company (Gas Natural Rigassificazione Italia S.P.A.) in Trieste, where the Company has a project for the construction of a regasification plant.
- The Chairman of the Gas Natural Group, Salvador Gabarró, held a meeting with the Egyptian Minister of Oil and Mining.
- The Company renewed its Euro Medium Term Notes debt issue programme, extending the sum to 10 billion euros.
- Gas Natural Cegas presented the gasification project for Oliva (Valencia), where the Company will invest 2.7 million euros in the construction of 21 km of network.
- The Gas Natural Group took part in creating the European Institute of Innovation and Technology (EIT).
- Gas Natural Cegas organised safety-training workshops for fire workers in the Community of Valencia.
- This year, the Gas Natural Group donated the cost of producing this year's Christmas cards to the Down Medical Centre.
- The Company reached an agreement with Mitsui & CO. and Tokyo Gas for the sale of part of its generation assets in Mexico.

- In Galicia, the Group's Chairman, Salvador Gabarró, attended the traditional Christmas concert sponsored by the Company.
- The company became a member of the MOVELE project in Madrid. This project has the object of developing the pilot electrical mobility project in Madrid.
- The Gas Natural Group signed an agreement with the EDP Group for the sale of different gas distribution and commercialisation assets in the autonomous region of Cantabria and in the Murcia Region.

Corporate Governance

Management Committee

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

Chief Executive Officer
Mr. Rafael Villaseca

Chief Financial Officer
Mr. Carlos J. Álvarez

Managing Director of Latin America
Mr. Sergio Aranda

Head of Strategy and Development
Mr. Antonio Basolas

Managing Director of Regulated Power Business
Mr. José Antonio Couso

Managing Director of Energy Planning
Mr. José Mª Egea

Managing Director of Wholesale Energy Business
Mr. Manuel Fernández

Managing Director of Power Generation
Mr. José Javier Fernández

Chief Corporate Officer
Mr. Antonio Gallart

Managing Director General Counsel of Legal Services
Mr. Manuel García

Managing Director of Communications and the Chairman's Office
Mr. Jordi Garcia

Managing Director of Retail Energy Business
Mr. Josep Moragas

Managing Director of Regulated Gas Business
Mr. Antoni Peris

Composition of the Board of Directors and Committees (at 31 december 2009)

	Board of Directors	Executive Committee	Audit and Control Committee	Appointments and Remuneration Committee	Type of Director
Chairman	Mr. Salvador Gabarró	Chairman			Executive
Deputy Chairman	Mr. Antonio Brufau	Board Member		Board Member	Proprietary Member
Chief Executive Officer	Mr. Rafael Villaseca	Board Member			Executive
Board Member	Mr. Enrique Alcántara-García				Proprietary Member
Board Member	Mr. José Arcas			Chairman	Independent
Board Member	Mr. Demetrio Carceller	Board Member			Proprietary Member
Board Member	Mr. Santiago Cobo	Board Member			Independent
Board Member	Mr. Carlos Kinder(3)	Board Member	Board Member		Proprietary Member
Board Member	Mr. Enrique Locutura				Proprietary Member
Board Member	Mr. Emiliano López				Independent
Board Member	Mr. Carlos Losada	Board Member			Independent
Board Member	Mr. Juan María Nin(4)	Board Member			Proprietary Member
Board Member	Mr. Fernando Ramírez		Board Member		Proprietary Member
Board Member	Mr. Juan Rosell(2)				Proprietary Member
Board Member	Mr. Narcís Serra(1)				Proprietary Member
Board Member	Mr. Miguel Valls		Chairman	Board Member	Independent
Board Member	Mr. Jaime Vega de Seoane				Independent
Non-Director Assistant Secretary	Mr. Felipe Cañellas	Assistant Secretary	Assistant Secretary	Assistant Secretary	

(1) On 30 January 2009, the Board of Directors replaced the representative of Caixa d'Estalvis de Catalunya with Mr. Narcís Serra.
(2) Mr. Joan Rosell became a member of the Board of Directors on 26 June 2009, replacing the Board Member Mr. Francisco Reynés.
(3) Mr. Carlos Kinder became a member of the Audit and Control Committee on 26 June 2009, replacing Mr. Francisco Reynés.
(4) Mr. Juan María Nin became a member of the Executive Committee on 26 June 2009, replacing Mr. Francisco Reynés.

The Gas Natural Group priorities include guaranteeing transparency and the effectiveness of the way in which its bodies of government operate and, therefore, it assumes advanced practices in the area of corporate governance. After the amendments of the Regulation for the Organisation and Operation of the Board of Directors and its Committees, the Gas Natural Group can be said to fulfil most of the Recommendations for the Good Corporate Governance of Listed Companies.

In its commitment to lead the field in the area of good governance and information transparency, the Company continued to adapt its internal regulations to the most advanced international practices.

The Gas Natural Group practices in corporate governance are described in detail in various annual reports, which are raised to the General Meeting of Shareholders for its knowledge or approval.

The documentation drawn up by the Company in the area of corporate governance seeks to report on the most relevant information related to its standards and procedures, as well as the criteria on which the decisions that are taken are based.

All the corporate information is available to the public on the Group's website at **www.gasnatural.com**.

The development of corporate governance practices includes 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.

In 2009, the different bodies of government met as follows:

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

The Board of Directors, its Committees and the Management Committee operated as expected during 2009, fully exercising their competencies without interference and in full observance of current legislation and the applicable standards for the operation of the Regulations for the Organisation and Operation of the Board of Directors and its Committees.

As far as the diversity of the Board of Directors is concerned, 22% of the Directors are under 55 years of age, 33% are between 55 and 60 years of age, and the remaining 45% are over 60 years of age.

Corporate Management

Corporate Management

Human Resources

74% of the employees are men and 26% are women. The average age of our employees is 42.4; the average seniority in the company is 13.6 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, personal 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 merger between Gas Natural and Unión Fenosa, it was necessary to analyse the management models of the people in the two companies. Both Human Resources teams identified the practices which were most appropriate for the new Group's needs, capitalising on the best practices while at the same time guaranteeing daily operations without altering the Company's performance and making the integration process easier.

In the present context, human resources must be flexible and adaptable, be able to bring about changes and also respond quickly and efficiently to business needs and priorities. During 2009, a resources model has been consolidated based on management units which define the human resources policies and models, and on the figure of the business partner as the strategic business advisor in the implementation and adaptation of policies and models in the businesses and countries.

Human Resources. Main indicators. 2009

Staff rate. No. of employees	19,803
Men/Women (%)	74/26
Women in management posts (%)	19.7
Personnel costs (in millions of euros)	600
Training hours per employee	42.2
Annual investment in training (euros)	8,505,000

After its integration with Unión Fenosa, the Gas Natural Group is made up of 19,803 employees, practically half of which work in the international arena; professionals working on a common project in 22 countries: Argentina, Australia, Brazil, Colombia, Costa Rica, Chile, Egypt, Spain, France, Guatemala, Ireland, Italy, Kenya, Madagascar, Morocco, Mexico, Moldova, Nicaragua, Panama, Puerto Rico, Dominican Republic and South Africa.

Equal opportunities, guaranteeing diversity and offering an attractive professional career form part of the Gas Natural Group 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 Gas Natural Group commitment to equal opportunities and social integration goes beyond compliance with legislation. It resorts to responsible purchasing policies with suppliers that employee disabled individuals and directly contracts individuals with disabilities.

A good example of this commitment is that disabled employees account for 4.71% of the workforce in Italy, and 3.7% in Brazil (higher than the legal requirement). Other examples are the cooperation agreements signed with the Adecco Foundation, the agreement signed with the Generalitat of Catalonia to help promote the integration into the workplace of women who suffer domestic violence and risk of social exclusion, or the donation of 6,000 euros to FCSD (Catalan Downs Syndrome Foundation).

Remuneration is an essential tool for employee satisfaction, together with the attraction and retention of talent. The Gas Natural Group 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. At Group level, a variable remuneration policy applied to 53% of the employees has been established; this policy is based on meeting the company’s targets and on assessing 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. Depending on each agreement, employees have the possibility of working a continuous timetable (without a lunch break, and finishing earlier) on Friday and in summertime, while certain other groups of employees can manage their own timetables. Furthermore, under this system the legal entitlements to reduce the number of daily hours worked and the time limit thereof are extended.

The Gas Natural Group flexibility policy includes breast-feeding permits, and in certain cases the periods counted for accumulating hours are extended. Similarly, women employees can avoid travel that involves their moving away from their home during pregnancy or breastfeeding. 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.

The Gas Natural Group also offers numerous social benefits for its employees. The following are currently in place in some of the Group's companies and are worthy of particular mention among several collective bargaining agreements:

- Supplement to the legally required salary paid in cases of temporary incapacity.
- Gas and electricity consumption bonus.
- Health policy.

- Assistance for children with some kind of disability according to agreement.
- Meal vouchers.
- Pension plans.
- Study assistance for employees and their children.
- Interest-free advance salary payments.
- Loans under advantageous conditions, compared to those of the market.

In 2009, the different pension plans existing in the Group were integrated into a single one for the companies deriving from the Gas Natural Group. For the companies deriving from the Unión Fenosa Group, the pension plans were not changed.

Opportunities for professional development are 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) and the Competence Management Model are tools for the employees included in the agreement. Management by Objectives (MbO) is designed for employees whose labour conditions are not governed by the agreements. 100% of the Group employees have access to and are assessed by tools designed to enable professional development. Both programmes have the same objectives of favouring mobility and allowing vacancies to be covered through internal promotion.

In 2009, the Management Committee approved a new Internal Mobility Procedure for the Gas Natural Group which promotes and facilitates the voluntary movement of employees between units in order to help in the development of their professional careers, talent management and to improve transversality.

This new procedure, which was set up in December and managed by the Human Resources Department, will provide all the information available on vacancies in the Group, and employees will be able to choose those which they consider to be of interest. Furthermore, candidates showing interest in a particular job will be assessed and supported, so that candidates are able to take their decisions totally independently without fearing that this could influence their professional career.

Management by Objectives (MbO) of Gas Natural and Performance Management (PM), deriving from Unión Fenosa, are the management by objectives systems of the Gas Natural Group which establish targets for employees in line with business targets, and which help to increase employees' commitment in executing the strategy.

In 2009, common criteria were defined for them to be applied in the assessment process of the two models; the object being to promote and speed up the company's integration process and ensure people were involved in achieving a single set of targets for the whole Group. Communication and training activities were carried out regarding the models and their common application criteria, and new systems were developed enabling both models to be managed in a single system.

Talent is the basis for the HR Development Model of the Gas Natural Group. The Company has a Talent Management programme to identify human and intellectual capital and to introduce measures to attract it, retain it and develop it, helping to improve professional performance. The programme has two talent management systems:

- Executive Talent, applied to the Group's entire management team, enabling the management posts to be planned strategically in line with the Company's own strategy and values.
- Professional Talent, applicable to intermediate positions, technicians and operators. This complements executive talent management. It aims to develop talent among the other employees and create a pool of people who could possibly be promoted to positions of greater responsibility.

Gas Natural Group training indicators

	2009	2008	2007
Staff trained(*)(%)	85.4	90.1	80.6
Training hours per employee	42.2	44.5	40.6
Total course hours	707,219	304,595	272,130
Annual investment in training (euros)	8,505,000	3,480,300	3,397,500
Investment in training per person (euros)	506.9	508.7	507.2
Attendees	57,632	25,874	19,193
Users of online training schemes over total staff (%)	36.5	42.7	21.2
Participants' degree of satisfaction (out of 10)(*)	8.4	–	–

(*) New indicator in 2009.

A total of 3,051 persons within the Group took part in the Talent Management programme in 2009: 78.5% (2,395 persons) in Executive Talent and 21.5% (656 persons) in Professional Talent.

In 2009, the Corporate University opened a new phase geared towards serving the training and the professional and personal growth of all the employees of the new integrated Group. After a decade of work and experience, the Corporate University field of action is now much broader, and it is seen as an essential strategic tool for cementing our Group's culture, for facilitating changes, unifying policies, processes and styles.

Its main objective is to meet the Group's training requirements at all levels and areas of the organisation, in three phases: identification of needs, through managers, arising from business plans, design of training and knowledge management programmes set out in the annual plan, and, lastly, measuring results to assure the quality and the practical result of the activities carried out, and to establish continuous improvement plans.

What sets Gas Natural apart is the optimisation and transfer of internal knowledge, and for that purpose it can depend on the commitment of the managers, who are at the same time the teachers in each field of knowledge.

It forms part of various international business training centre networks, such as EFMD (European Foundation for Management Development) or the Global CCU (Corporate Council Universities), organisations where the best working practices are shared and a network of alliances are maintained with academic institutions in Spain and worldwide.

The Corporate University Training Centres are the starting point and the means for bringing about the transfer of knowledge and the culture of the new Group. In Spain, we can draw attention to the Puente Nuevo Campus (Ávila) and the Puente Princesa training centre in Madrid (both of which have the ISO 9001:2008 quality certification), as well as the centres in Barcelona (the company headquarters) and Bens, in A Coruña. It also has academic areas in nine other countries.

It provides an online training platform providing easy, quick and flexible access to training content. Employees were offered the first gas and electricity business course in October. 2,131 accessed the course and were highly satisfied.

The Corporate University annual plan includes the training programmes identified by each business, the transversal programmes and training in management and administration skills.

The Environment

Gas Natural carries out proactive policies geared towards sustainable development through eco-efficiency, the rational use of natural and energy resources, minimising environmental impact, encouraging innovation and using the best available technologies and processes.

Throughout 2009, the Group continued to integrate environmental criteria in business processes, in new projects, activities, products and services, and in selecting and assessing suppliers.

The Group's main lines of action have been focused on guaranteeing compliance with legislation, reducing environmental impact, mitigating climate change, maintaining the biodiversity of our natural setting and promoting continuous improvement through updating and reviewing environmental management.

Environmental management

The active participation of employees, via environmental training and awareness, responds in a coordinated and homogenous way to the development of activities, processes and procedures with environmental repercussions and the optimisation of environmental management.

At the end of 2009, the Gas Natural Group had certified 17,017 MW of electricity generation through the UNE-EN ISO 14001 environmental management standard. This amounts for 95% of its total installed power attributable to the Group.

It has also secured environmental certification for the distribution, supply and commercial management of natural gas to major customers, customer care, billing, commercialisation and maintenance of natural gas installations to domestic customers in Spain, natural gas distribution in Mexico, project management, works and maintenance in electrical transmission and distribution in Spain, electrical distribution and commercialisation in Panama, Unión Fenosa Gas, liquefied natural gas production in Damietta (Egypt), the Regasification Plant in Sagunto, Metragaz (Morocco), Gas Natural Soluciones, the professional services company, O&M Energy, Socoin engineering services and the Company's main work centres.

Furthermore, the coal power plants, the Sabón power station, the combined-cycles plants of Palos de la Frontera and Nueva Generadora del Sur and the Hydroelectric Sector of Tambre-Ulla in Galicia are still registered with the EMAS European system, making the Gas Natural Group a leading company in the energy sector in terms of the number of centres verified in accordance with this demanding environmental standard.

The Group has management tools used to control environmental matters. In 2009, the information of the Environmental Electricity Distribution System (SMD) was updated, incorporating the new protected areas (natural areas, SCIs, SPAs, etc.) published over the last year by different public administrations. New cartographic functions and environmental controls in works and operational phase have been incorporated and the seasonal controls on nine significant lines in the Aviary Fauna Risks Control System (CRA) have been enabled. Furthermore, with the Environmental Risks Assessment System (SERA) having been adapted to the Environmental Responsibility Act and to its regulatory implementation, eleven new substations have been incorporated and part of the database has been updated. As far as the System for the Identification and Assessment of Legal Environmental Requirements (NorMA) is concerned, the scope has been established for the legal requirements of all the processes in Spain, the Dominican Republic, Nicaragua, Panama, Guatemala, Moldova, Kenya, Egypt and Costa Rica and of the electricity generation and distribution processes in Mexico and Colombia. Lastly, the environmental aspects assessment tool (UMAS) and the SIA-ENABLON Environmental Information System have been developed for all processes and countries.

Environmental parameters

In 2009, the fostering of innovation and the use of the better technologies and processes available has led to a significant improvement in the main environmental indicators. Specific emissions from thermal power plants have been as follows: for nitrogen oxide, 0.46 g/kWh, for sulphur oxide, 0.14 g/kWh, and for particles, 0.02 g/kWh. These amounts were substantially reduced by the start-up of the new combined-cycle gas plants and the improvements implemented in plants.

Since the application of the National Emissions Reduction Plan, emissions in coal power plants have been reduced as follows: sulphur oxide by 94%, nitrogen oxide by 50%, and specific emissions of particles by 80%. The following actions have helped to bring about this reduction:

- Environmental adaptation of the Meirama boiler for the use of low-sulphur content fuel (Fausto project).
- Installation of wet desulphurisation plants for the combustion gases of the La Robla and Narcea plants.
- Replacement of NO_X low emissions burners in the Narcea and La Robla plants.
- Improvements in the control and yields of the electrostatic particle precipitators in the La Robla and Anllares plants.
- Installation of SO_3 injectors for particle reduction in Narcea and Anllares.
- Increased use of environmental high quality coal.
- Optimisation of plants' yields.

Improvements have been introduced in the waste control and measuring systems and in their management through authorised managers, in accordance with the regulations in force in each country.

Ash generation was reduced by 71% against 2008, and the amount of recycled ash increased significantly, reaching 82% of the total generated in 2009.

As part of the plan for the elimination of equipment with polychlorinated biphenyls (PCB), 281 tons were managed, inventories was taken, and PCBs were withdrawn and properly stored in the international area, thus considerably reducing the risk of pollution in installations due to spillages of this waste.

Furthermore, 34 hazardous waste minimisation programmes were carried out in thermal and hydroelectric power plants, wind farms and electrical distribution.

Sound emissions have been measured and controlled to check the legal compliance of operational installations and to answer complaints and claims. The most relevant step taken to reduce noise levels was to redesign and homogenise the constructive elements of each type of the natural gas regulation and measurement stations (ERMs).

Climate change

Gas Natural recognises and shares Governments' concerns concerning climate change, and believes that preventive action is justified; accordingly, it takes steps to reduce greenhouse gas emissions.

The Company seeks sustainability in the short, medium and long term; it thus believes that climate change and energy use trends should be sustainable, and that decisions by national, European and world institutions in the field of climate change should be valued with a balance between social, environmental and economic factors.

Gas Natural strategy and policy as far as energy is concerned are in line with objectives for safety of supply, competitiveness and environmental sustainability. It is necessary to design a post-Kyoto framework, dispelling uncertainties and focusing on investment on clean and sustainable energies and towards technologies for the capture and storage of CO_2, within a balanced mix of energy, providing us with a sufficient guarantee of supply to meet the expected demand required in the years to come.

In this context, natural gas will play a critical role, both in the transition towards an economy which is less coal-intensive, and because of the role it will have in the global energy balance in the future. Natural gas is the fossil fuel which gives off the lowest emissions to the atmosphere, both of greenhouse gases, and of contaminating emissions (sulphur oxides, nitrogen oxides, particles, etc.). With natural gas, electricity generation, industry, the tertiary sector, housing and also the transport sector are able to use a higher fuel with higher environmental quality, which can also be easily combined with the different types of renewable energies.

The Group is now one of the leading combined-cycle operators worldwide, with 11,379 MW of installed power, and a pioneer in the introduction of natural gas as an automobile fuel in Spain. At present, over 2,500 public and private vehicles use this fuel in 43 filling stations.

Gas Natural has calculated the carbon footprint through the inventory, control and verification of greenhouse gas emissions (GHG) arising from all the Group's activities in all the countries in which it operates. In 2009, the Group's total emissions came to 25.76 $MtCO_2$ and the emission factor of the generation energy mix was 337 g/kWh.

Particularly noteworthy, *inter alia*, are the steps taken in eco-efficiency, such as the improved plant yields, and the promotion of renewable energies, with 2,907 MW installed and the incorporation of 11,379 MW from combined-cycle power plants, spelling a 77% reduction in CO_2 emissions against 2007, falling from 13.49 $MtCO_2$ in 2007 to 3.06 $MtCO_2$ in 2009, and reducing specific emissions from thermal power plants by 24%, falling from 539 tCO_2/GWh in 2007 to 411 tCO_2/GWh in 2009.

By using the best materials, renewing piping and connections in the Group's gas distributors, the Company has been able to reduce its CH_4 emissions for each network length unit by 36% against

2003. Rationalising energy consumption is one of Gas Natural Group 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.

In 2009, the Group prevented 7.5 $MtCO_2$ from being emitted to the atmosphere due to its energy management activities, conversion of industrial and residential coal and fuel oil installations into others fuelled by natural gas, use of gas vehicles, Clean Development Mechanism (CDM) projects and other reduction initiatives.

Gas Natural is committed to reducing greenhouse gas emissions in developing countries through flexibility mechanisms. The Company takes part in various coal funds. The Gas Natural Group registered eight CDM projects at the United Nations: the hydroelectric power plants of Los Algarrobos, Macho de Monte and Dolega in Panamá, that of La Joya in Costa Rica and that of Amaime in Colombia; the use of biogas for energy Doña Juana Landfill in Bogotá (Colombia); the Sombrilla project in Bogotá (Colombia) and the Quimvale project in Rio de Janeiro (Brazil), in both of which fuel oil has been replaced with natural gas.

Gas Natural promotes sustainable consumption among its domestic consumers through its new (Natural gesture) website, which shows the Group's initiatives in terms of sustainability and energy efficiency.

To demonstrate its commitment towards reducing greenhouse gas emissions caused by its activities, the Company has joined 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 Gas Natural Group is the best positioned Spanish utility in the Carbon Disclosure Project Global 500, which distinguishes a selection of global companies on the strength of their efforts to struggle against climate change, through their effective steps taken to reduce carbon dioxide, because of their future vision and because they have taken effective risk measures for risk management and to take advantage of new opportunities.

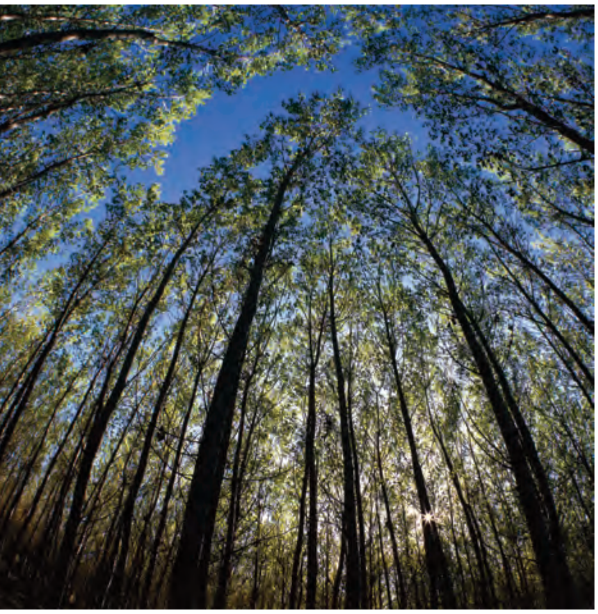
Sustainability and biodiversity

In its environmental management systems, Gas Natural incorporates the Conservation of Biodiversity Commitment, minimising adverse effects on ecosystems, fostering the conservation of biodiversity and contributing to the sustainable development process with the resources necessary so that activities are carried out respecting the environment in which they are carried out to the utmost.

This undertaking is materialised through a broad range of initiatives geared towards knowledge of the biodiversity which is present in ecosystems and habitats of the environment surrounding the installations, ensuring that they are preserved. Furthermore, restoration and compensation projects are carried out when the environmental impacts cannot be wholly prevented. Gas Natural also devotes part of its efforts and resources towards cooperating with different social organisations with the purpose of supporting their nature protection initiatives.

In order to characterise the natural environment and study the environmental impact of installations, the Gas Natural Group has continued to carry out terrestrial and aquatic ecosystem studies in environments surrounding the electrical production plants, and has obtained satisfactory results in all cases.

The terrestrial ecosystem studies are carried out twice a year with a methodology based on regulations. The analyses cover the main indicators which have an effect on ecosystems,



such as the climate, air quality, depositions, the soil condition and state of vegetation. The indicators of the ecological state of terrestrial ecosystems in the surroundings of the thermal power plant installations do not show a significant impact on forest masses.

Aquatic ecosystem studies are carried out once a year. To carry them out, the criteria set out in Directive 60/2000/CE (Water Framework Directive) have been followed. In particular, the physio-chemical, hydro morphological and biological quality indicators have been studied. The conclusion which we can draw from these studies is that any discharges from power plants do not cause a significant variation in the ecological state of the rivers and reservoirs in their surroundings.

43 soil quality studies were carried out in electrical substations: all of them complying with RD 9/2005 establishing the list of potential activities which could contaminate the soil and criteria and standards for the contaminated soil declaration.

In accordance with the regulation, eight preliminary reports on the soils of electrical substations were sent to different autonomous regions. Furthermore, the soils of twelve substations have been adjusted, and the tip at the Anllares power plant has been adapted.

With the object of promoting and cooperating with the conservation of territorial biodiversity, electrical lines have been adjusted to the Royal Decree on the Protection of Aviary Fauna in partnership with environmental autonomous bodies. Among the initiatives taken to reduce the risk of electrocution, we can highlight those carried out on medium voltage lines, as a result of the cooperation agreement with the Spanish Ornithology Society (SEO/BirdLife) and within the framework of actions carried out by the "Taking Flight Spanish Imperial Eagle Conservation" programme.

The Gas Natural Group environmental commitments affect not only the companies that comprise it, but also extend to all the stakeholders in the Company's value chain. 84% of the Group's main works contractors and 100% of companies providing services are voluntarily subscribed to the *Good Environmental Practices in Distribution Network Construction*.

Gas Natural commitment to the environment and sustainability was recognised once again in 2009 when it was again included in the Dow Jones Sustainability World Index, for the fifth successive year. It was awarded the Gold Class distinction, and is the only company in the gas distribution business which is also included in the European Dow Jones Sustainability STOXX Index. The Company was also included for the eighth year in a row in the series of FTSE4Good sustainability indices.

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. An example of the conservation of natural spaces is the management of programmes for the preservation, improvement and protection of the Baix Llobregat country, and cooperation in the "Delta Natural Heritage Dissemination" programme.

Technological Innovation

Because of the challenges associated with climate change and the threefold objective of energy which is cheap, reliable and sustainable, technology is currently becoming one of the main driving forces in energy companies. Gas Natural Group take part in this general trend through their own technological innovation model based on support actions and on developing key projects, such as technological improvement with short term returns and taking up positions in technology in the longer term.

First of all, we may highlight the cooperation with the public R&D system, and, in particular, the Company's participation in the CENIT programme of major R&D projects with an individual budget of over 20 million euros and four-year execution programmes.

As part of the support activities, technological surveillance and transfer provide excellent knowledge and use of the technological setting. In 2009, a new IT technological surveillance system was launched with a powerful data mining engine and documentary integration, providing relevant information to specialists within the surveillance groups. In the field of technological transfer, the Company continued to cooperate closely with the Electric Power Research Institute (EPRI) in the United States. Surveillance and transfer is completed with very active participation in technological platforms in the field of energy and other decision-taking forums, where the technological itineraries to be followed in this decade are being designed and agreed. We may particularly highlight the Company's participation in Innoenergy, a proposal selected by the European Commission to be carried out next year by the European Institute of Innovation and Technology (EIT) in the field of energy, which should be used as a launch-pad for new and ambitious technological projects. Other support activities have been based on technological training, communication and promoting a culture of innovation - factors which can ensure an appropriate level of technology in the Company.

Some of the most significant projects are outlined as follows:

Within the solar energy line of technology, the development of solar cooling systems is particularly noteworthy. After the satisfactory results obtained in the pilot solar cooling plant located in the Seville ETSII, a new compact storage system was dimensioned and designed in 2009 in order to optimise the plant's features. This new development was added to the IT application to calculate solar cooling installations developed as a complement already recognised in the CALENER official program.

As far as CO_2 treatment is concerned, the Company played a very active role in the Spanish CO_2 Technological Platform, in the Spanish CO_2 Association and in the Zero Emission Plants Platform (ZEPP) to define and agree on the technological development itineraries which must be followed in electricity generation plants. Gas Natural Group take part in the ZEPP Rector Group and they currently hold

the Deputy Chairman positions in the aforementioned Spanish platform and association. They are also a founding patron of the Petro Physical Institute, which is focused on the technological support to CO_2 storage to be developed in Spain.

In 2009, the CENIT CO_2 projected reached its final results phase. This project addresses a broad range of technological developments, from

co-combustion of biomass and coal, to the capture and storage of CO_2 and its final uses. In 2009, we may highlight the design and construction of an experimental 300 kWt plant for the capture of CO_2 in a biomass combustion facility in carbonation-calcination beds, thereby promoting the concept of negative CO_2 emissions.

Furthermore, Gas Natural Group have started to participate in an industrial project coordinated by the EPRI, of two pilot plants with CO_2 capture technology and post-combustion and storage in different geological formations.

With the integration of Unión Fenosa in Gas Natural, the remote reading of electrical and gas meters has been identified as one of the most interesting synergies both at deployment level and also in terms of operation, and an integration specification of remote measuring has been launched in order to have appropriate technological solutions. At the same time, the Company continued with the initiatives already under way, such as the ZIGAMIT project (within a programme of technological exchange and cooperation between Korea and Spain), the aim of which is to incorporate the offer of value added services to open and standard protocol customers within the remote reading infrastructure. Furthermore, a new remote reading system was developed in conjunction with the companies Mirakonta and Flow Lab; the system was implemented in a pilot test with a thousand supply points in the provinces of Zaragoza and Álava.

The SICEN Power Plant Intelligent Blowing project was completed in the La Robla power plant; this is in line with the optimisation of installations and markets, focused on the technological improvement in installations and tools for markets. In the same power station, the company is continuing with the development of the OPCOM Combustion Optimisation project, as part of the European project backed by the CECA programme for the support of R&D. The two projects have the common purpose of increasing the efficiency in this installation and establishing the bases whereby it can be disseminated to other power plants. Other projects to be highlighted are the application of variable speed to large engines and turbines, or the design and construction of the first mobile transformer unit of 132 kV - 35 kV and power of 30 MVAs, and the first dry transformer of 45 kV-15 kV and 15 MVAs power.

As part of the developments in the inspection and life management line, the new SAMYDI-TC application and the Turbine Monitoring and Diagnostics Systems in Combined-Cycle Power Plants was completed, with the object of achieving new safety levels in these key pieces of equipment. Additionally, a transfer program is being followed with the EPRI in order to have new latest technology tools for predictive maintenance. Furthermore, in 2009 the Smartwatch project was carried out for the online monitoring of the main valves and vents at power plants. In the field of hydroelectric generation, worthy of note are the initiatives taken geared towards the detailed study of concrete performance in dams, including a strategy for the continuous surveillance of the dams. Within the projects carried out in electrical networks, a system is being developed for the detection of partial discharges in high voltage lines.

In the framework of support high efficiency cogeneration for the tertiary sector, and as part of the CENIT CETICA project, the Company prepared a technical guide on systems and equipment, and the configuration alternatives appropriate for urban settings. An IT application was developed for the basic dimensioning of cogeneration installations. Together with this project, the resources have been developed to incorporate renewable energies or harnessing of residual energies, in addition to improvements in the user interface and in the analysis of energy demands.

In the field of intelligent networks, the CENIT ENERGOS project was launched, focused on developing the automated and intelligent management of distribution networks in the future. The Company also started the Optimum Integration of Distributed Energy Resources sub-project, within the REDES 2025 project. This is the first project launched from the FUTURED future networks platform, in which most of the Spanish electricity sector is taking part. The aforesaid sub-project is based on developing the tools which can enable the distributor to optimise its planning and its operation by deploying the intelligent management of energy resources distributed (demand, distributed generation and accumulation).

In the vehicular energy line, 2009 was the year of electrical vehicles. The Company took part in three projects: MOVELE Madrid, DOMOCELL and CITYELEC. Their objectives are, respectively, the installation of 280 recharging points for electrical vehicles, the design of an intelligent vehicle recharging system for community garages and a redesign of electrical distribution taking electrical vehicles into account.

Lastly, in the development of new energy vectors, the CENIT SPHERA project, which carries out an in-depth study of techniques of production, storage, transport and use of hydrogen, completed its third year (it lasts four years in total), having reached all the milestones set out in the hydrogen line from biomass, thermocatalytic decarbonation, Red-Ox separation of mixtures and syngas. Along the same lines, the Company started the characterisation tests of the equipment for the experimental installation of hydrogen production and storage using the surplus energy from the Sotavento Wind Farm, which will provide a source of knowledge in energy storage and management applications associated with renewable sources.

Quality

In the area of quality, the most important event in 2009 - just as it was for the rest of the organisation - was the merger between Gas Natural and Unión Fenosa, which led to the analysis and disclosure of the best working practices in each one of the companies.

Customer orientation and service quality

In 2009, one of the main objectives was to prevent the merger from having any effect on customer satisfaction and to maintain levels of quality in processes. Gas Natural global satisfaction index was 85.5% in 2009 (measured only for gas customers). Given that the satisfaction measurement models were different in the two companies, efforts are being made to incorporate electrical customers to the Gas Natural measuring model and to be able to obtain uniform satisfaction indices which can be comparable in all the Group companies in both Spain and abroad.

In Spain, we can highlight the project developed to improve resolution times in the Servigas emergency process, which led to a two point increase in customer satisfaction compared with the previous year. Initiatives were also carried out to improve the resolution of claims in certain critical processes, such as the regular inspection of gas installations.

In Italy, systematic improvements were developed with the object of reducing times in contracting new services and to make bills clearer for customers. The virtual office was implemented on the website; this service enables customers to check their consumption, consult bills on-line, send their own reading, revise particulars or make claims.

In Latin America, we can draw attention to the following:

In Colombia, the quality of the service improved in the Regulatory Technical Inspection and Domestic Operations. Other steps were also taken geared towards increasing customer satisfaction, such as implementing interactive voice response (IVR), improvements in bill design or in the claim resolution process, and the optimisation and improvement of the attention and payments network.

In Mexico, Internet bill printing, installation of prepayment meters and the remote reading for industrial customers were implemented, and payment methods were extended in order to be more convenient for customers; this was also the case in Guatemala, where mobile offices were also enabled for this purpose.

In Brazil, working groups were created to analyse the main reasons for claims, to improve their resolution and prevent further incidents. In Argentina, two diagnosis projects were carried out within the Customer Service Department, focused on the areas of Reading, Billing, Debt Collection and Monitoring and on the Measurement Control Unit. In Guatemala, projects were developed to improve the process for the generation of service orders, control of fraud and optimisation of reading routes, and remote reading has been implemented for customers with a consumption of over 25,000 KW/h in order to improve the quality of the measurement.

Aligning the organisation with quality and continuous improvement objectives

In 2009, very important efforts were made in the field of training in order to create a culture of quality where continuous improvement and customer satisfaction are consolidated as an important part of the organisation's ethos. In addition to raising employees' awareness in terms of quality, twelve training initiatives were carried out in Lean Six Sigma, both at developer or Champion level (over 100 persons were trained), and expert or Green Belt level. Through this training process, over 40 projects were carried out which contributed towards increasing the effectiveness and efficiency of the different processes and in achieving substantial savings.

EUFER, meanwhile, consolidated its continuous improvement programme with twelve improvement programmes performed in 2009, where we can highlight the stocks optimisation in warehouses project, with a reduction of around 50% of final stock.

In December 2009, the Quality Network of the new Group met together for the first time. This network consists of the quality managers of all the businesses in both Unión Fenosa and Gas Natural, with the aim of being used as an integrating element in order to disseminate the quality model and to help to achieve targets.

In the field of the Energy Industries Committee and the Six Sigma Committee of the Spanish Quality Association (AEC), Gas Natural took part in a benchmarking study of leading Spanish companies to ascertain the level of maturity in implementing improvement programmes and to be able to establish the best practices.

Gas Natural did not only take part in this Committee as part of its function of external representation in different organisations; it also took part in the Six Sigma Committee of the Spanish Quality Association (AEC), and in the CERPER Certification Committee, with which it organised the 2nd Cerper Forum in the Corporate University in 2009. It also forms part of the Governing Board of AENOR, of the Governing Committee of Club Excelencia en Gestión and of Fundibeq: Latin American Quality Foundation.

Progress in quality management

The management systems developed are a tool which assists the process management, based on indicators, focus on customers and continuous management. All quality and environmental systems certified in accordance with the ISO 9001 and ISO 14001 standards, respectively, were renewed through the pertinent audits carried out by authorised certification agencies. In 2009, moreover, the combined-cycle power plants of Besós and San Roque and the Energy Services Sale process of Gas Natural Soluciones were incorporated. The quality certification of the regulated electrical business was also completed with the incorporation of the MV/LW Network and Energy Control processes.

In the framework of the objective for the integration of the quality, environmental and prevention of occupational risk management systems of the Gas Natural Group, works began for the preparation of a new documentary framework to support the three systems and enabling management to be optimised, costs to be minimised and efficiency to increase.

In Spain, the Group had its "Madrid Excelente" quality guarantee seal renewed after the assessment made in July, having satisfactorily passed the requirements demanded.

In the international arena, Electricaribe (Colombia) and Red Unión Fenosa Moldova certified their quality management system for commercial processes. Socoin secured certification for the Mexico, Guatemala and Panama offices.

In Brazil and Argentina, the certifications of its respective laboratories were maintained according to the ISO 17025 standard, and in 2009 temperature tests were included. This year, Edemet-Edechi (Panama) obtained certification for its laboratory with this standard.

Implication of the value chain in the commitment to quality

In 2009, the implementation of the Q-Model was extended to manage the quality of services rendered by suppliers in Italy, Argentina, Brazil, Colombia and Mexico. This model is already implemented in Spain and enables the company to assure itself of selecting the most appropriate suppliers and products for critical business activities through an initial and scheduled authorisation process. In Guatemala, a new Logistics Model was defined for the regulation of warehouses, also including virtual and contracted warehouses.

In Brazil, the first quality meeting took place to disseminate the application of the Group's management tools, and meetings were held regularly with the contracted companies to discuss results and opportunities to improve; in addition, a team of internal quality auditors was established. As a result of these initiatives, the number of non-conformities detected in customer service processes fell by over 90%.

Commitment to Society

The development and well-being of the local communities in which it operates constitute the basic pillars for the Gas Natural Group 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 Company 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.

The Gas Natural Group social actions 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.

Positive integration in society

Gas Natural merger with Unión Fenosa has turned the Group into a world leader with greater capacity for action and responsibility when contributing to the development of the countries in which it operates. To put this into practice, within the framework of the Millennium Development Goals and the principles of the UN 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 enshrined 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. The Group also 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.

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 2008-2009, 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". The former provided training for a total number of 72,646 students in Spain, who attended conferences given by specialists in the area. The online activity involved the participation of 977 school groups.

The programmes for fostering a culture of energy efficiency continued in Latin America and teaching material was distributed to teachers that focused on the environmental benefits of natural gas and its correct use. The actions that were taken involved the participation of 164,683 schoolchildren. Furthermore, in keeping with its commitment towards education, the Group supported the Empresarios por la Educación Foundation in Colombia with a grants fund for primary school children at risk from social exclusion.

In Spain, the Group became one of the governors of the Príncep de Girona Foundation, which has the object of training youth in the fields of professional, academic and research activity.

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

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 cooperation agreements in Spain with organisations such as Femarec for the employment of underprivileged collectives and PAX Foundation to help child victims of antipersonnel mines. Furthermore, in 2009 the Group cooperated with the Codespa Foundation in their international cooperation projects.

In Argentina, Gas Natural BAN cooperated with the Musicium College for the integration of disabled children. In Mexico, the Group cooperates with civil society associations such as UNICEF and the Un Kilo de Ayuda Foundation in disseminating its initiatives through an insert placed in customer bills. By this means, the Group allows a direct link between customers and associations.

For more details on the social action programmes in the Gas Natural Group Latin American subsidiaries, please consult the corporate responsibility reports available at **www.gasnatural.com.**

Promotion of health and research

Since 2007, the Gas Natural Group has cooperated, in its position as founder, with CTA (Andalusian Technology Corporation), which manages CTAER (Advanced Technology Renewable Energies Centre. These projects constitute an example of the Group's vocation to being at the fore in R&D/i. The Group also collaborates with CSIC (Higher Council for Scientific Research) on the programme titled "Doñana Biological Station", which is focused on research in the area of conservation genetics.

The Group's commitment to research also focuses on improving the quality of life of sick people and their relatives. In 2009, 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.

In Latin America, and for the ninth 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. In Argentina, the Group cooperated with various local institutions and associations designed to promote health, of which we may highlight the Hospital de Niños Ricardo Gutiérrez Corporation Association and the Pedriatría en la Red paediatric network.

For more details on programmes that focus on research and the protection of health in the Gas Natural Group Latin American subsidiaries, please consult the corporate responsibility reports available at www.gasnatural.com.

Corporate volunteers

Employees are a key part of the Gas Natural Group focus on corporate responsibility. Their efforts help to make the Company's commitment to the society and the communities in which it operates a reality. An example of this is Solidarity Day, an initiative created and managed by employees who give up one day of their yearly salary for the execution of a social project in a certain country. The Company contributes an amount equal to that raised by employees, and bears the administration expenses.

Since it was founded in 1997, the Solidarity Day Association has raised over 2 million euros used for social projects in over eleven countries; through it, over 2,000 people make a commitment towards solidarity.

In 2009, an amount of over 290,000 euros was raised, a sum which enabled four educational projects to be set up in Colombia, allowing over 400 youths from an economically disadvantaged environment and high academic ability to go to university.

In Argentina, with the support of the Gas Natural Foundation, the Company continued with its corporate volunteer plan started up in 2002. The programme offers employees the possibility of collaborating with community initiatives and social projects. In 2009, the Foundation has funded eight projects associated with helping society, fighting poverty and community development, which are instrumented through an agreement with an NGO.

Promotion of music

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

In 2009, the company participated in a variety of initiatives with the Barcelona Symphony and Catalonia National Orchestra in Tarragona, Girona and Lleida, as well as with the Murcia and Galicia Symphony Orchestras.

The Group also sponsored musical cycles and seasons in different towns and cities. Among others, special mention must be given to the collaboration with the Gran Teatre del Liceu (Barcelona) and the Teatro Real (Madrid). The Company also financed the Granada International Festival of Music and Dance, and the Porta Ferrada International Festival (Girona).

In Latin America, the various subsidiaries also took part in promoting music. Numerous activities were carried out in 2009, of which we may highlight the sponsoring of the 7th Vale do Café festival in Brazil, and the "CEG. Our Voice" programme, which also took place in Brazil and which is focused on musical training for the Group employees.

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

Patronage and sponsorship

An important part of the Group's investment in this area is performed through the Contemporary Art Museum (MACUF) in A Coruña. Since the 1990s, this museum has reflected the company's interest in promoting and disseminating artistic creativity in any of its forms. The MACUF carries out exhibitions, drama activities and educational and leisure activities. During 2009, in its fourth year since it was officially reopened in 2005, it was visited by over 33,000 people.

In 2009, the MACUF put on several exhibitions such as "Genocidio, paisaje y memoria" (Genocide, Scenery and Memory) by Simon Norfol within the international artists category, the thesis exhibition "Antes de ayer y pasado mañana o lo que es la pintura hoy" (Before Yesterday and after Tomorrow or What Painting is Today), "La sombra habitada" (The Inhabited Shadow) by José Luis Raimond and "Tan cerca, tan lejos" (So Near, so Far) with a selection of Galician artists of the 1930s. All these were accompanied by the permanent exhibition from the museum's archive and the works of the three artists selected for the MACUF artistic creation grants in 2007, one of the museum's special features.

In addition to artistic activities, the MACUF also takes part in social participation programmes, such as healthy leisure activities which help the social normalisation of persons affected by any form of handicap. In 2009, thanks to an agreement with the provincial delegation of A Coruña, these programmes were extended to other centres in Galicia. Furthermore, in 2009, over 6,400 students from 80 educational centres took part in contemporary art dissemination activities organised by the museum, which also carries out cultural activities intended for the general public.

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 2009, it published the book "México. Ciudad de la Luna" (Mexico. City of the Moon); 9,334 copies were distributed.

In 2009, the Group also showed its commitment towards culture by cooperating with the Malaga International Film Festival, with the Royal Association of the Queen Sofia National Art Gallery and Museum, and with Casa de América in the "Nubes de un cielo que nunca cambia" (Clouds in a Sky which Never Changes) exhibition.

In 2009, we can also highlight the support given to the Santiago de Compostela *Xacobeo* Board, in the programme of cultural activities for the Xacobeo 2010 Holy Year, which will take place along the St. James's Way.

Its Latin American subsidiaries also allocated part of their investments to the promotion of cultural wealth. We can highlight, *inter alia*, the sponsorship of the well-known literary award, "Hay Festival", in Colombia and the agreement with the Cidade Viva Cultural Institute in Brazil for the sponsorship of the Rio Socio-Cultural Award 2009.

Initiatives in keeping with business

The Gas Natural Group continued numerous projects in 2009 to fight against energy poverty and favour access to basic services by the collectives most in need.

The basic philosophy behind these programmes is to create a new social management model in which residents, local collectives, non-profit organisations and enterprises join forces to build a system to access energy in low-income bracket communities.

One of these projects is Social Energy, a commercialisation company which since 2004 has provided disadvantaged areas on the Caribbean coast of Colombia with secure access to electricity; these areas are formed by human settlements caused by the armed conflict in the country. Since it was set up, this initiative has carried out 27 electrical normalisation projects, has another 35 under execution, and a further 178 are still to be launched. Together they have provided jobs for 1,000 skilled persons and have allowed 40,000 households to have safe access to electricity.

Contributions

	2009	2008	2007
Contributions (in millions of euros)	15.4*	16.8	16.1

Note: In 2010, the criteria for calculating the "contribution to the company" figure have been changed.
* Does not include the contribution from the international field of Unión Fenosa.

Breakdown by type of action (%)

	2009	2008	2007
Social	40.7	57.6	57.7
Environmental	23.8	25.6	24.9
Cultural	35.4	16.8	17.4
Others	0.1	–	–

"Cuartel V" and "Proyecto Raquira" are another two initiatives carried out for this reason. The former has the object of supplying natural gas to a disadvantaged area in the province of Buenos Aires, and the latter consists of the conversion to natural gas of the coal furnaces used in the pottery industry of this Colombian town, thereby enabling improvements in productivity and strengthening the local business community.

The "Impulse for your Business" programme, carried out in Mexico, is focused more on promoting training. This is a sustainable development programme focused on training and certifying installation technicians for natural gas, electricity and water which, in its first year, has been used to certify 128 qualified professionals in accordance with current laws in Mexico.

Institutional commitment

The Gas Natural Group plays an active role in various energy sector and business prestigious institutions, both nationally and internationally, where it takes part providing its experience and funding.

These include the International Chamber of Commerce, The Conference Board and the business federations for the gas and electricity sectors, UNESA and SEDIGAS respectively. It also plays an active role in the Spanish Energy Club, the World Energy Council, EUROGAS, International Gas Union (IGU), the Technical Association of the European Natural Gas Industry, the Mediterranean Energy Observatory and the Florence School of Regulation. It is also a member of CEOE and of the Catalan employers' association Foment del Treball.

In 2009, in the field of Corporate Responsibility, Gas Natural was a member of Forética, an ethical management association, and of the Spanish Association for the UN Global Compact, which promotes ten principles regarding human rights, labour rights, good environmental practices and fighting corruption. It forms part of the governing bodies in both associations. It has also been a member of Club de Excelencia en Sostenibilidad and of the Global Compact Foundation. Gas Natural has also belonged to the Corporate Reputation Forum (fRC) from the time it was created. This organisation promotes the measuring and improvement of assessment of reputation and corporate social responsibility.

Number of sponsorship and social action activities

	2009	2008	2007
No. of activities	325	274	308

Motivation for initiatives (%)

	2009	2008
Social investment	54.66	71.6
Specific contribution	16.94	1.2
Business-related initiatives	28.40	27.2

Area of action (%)

	2009	2008
Humanitarian assistance	0.03	0.1
Health	1.26	4.5
Education and youth	3.57	1.9
Economic development	50.13	30.9
Social welfare	7.55	18.5
The environment	18.15	29.7
Art and culture	17.34	14.4
Sports	1.34	0

The figures contain two decimals because the "Humanitarian assistance" field accounts for 0.03% of the total.

Total participation of students in the "Natural Gas and the Environment" educational programme. Spain

	2009	2008	2007
No. of students	72,646	69,402	70,192

The Gas Natural Foundation

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.

Activities in Spain

The main lines of action are focused on:

- Seminars on different subjects in relation to energy and the environment: over 2009, 17 seminars have been carried out on subjects relating to energy and the environment in thirteen autonomous regions.
- Cooperation agreements with the governments of the autonomous regions. The agreement with the Murcia Region was renewed and those signed with the Government of Castilla y León, Junta de Andalucía, Generalitat of Catalonia, Government of La Rioja, Government of Navarre, Xunta de Galicia, Community of Valencia, Government of Cantabria, Community of Madrid, Government of the Communities of Castilla La Mancha, Govern of the Balearic Islands and the Government of Aragon remain in force.
- Research and publications on the energy and environment interface, with the Cerdá Institute, the Mediterranean Institute for Sustainable Development and the Polytechnic University of Madrid.
- Training courses organised by the Energy Training Centre and the summer course performed by the University of Barcelona on Energy and Sustainability.
- Activities in the field of action of the Gas History Centre and the future Gas Museum. In Cordoba, a book entitled "La industria del gas en Córdoba" (1870-2007) (The Gas Industry in Cordoba, 1870-2007) was published by Mercedes Fernández Paradas, and two summer courses were organised with the Sabadell Universitat Association and the University of Barcelona. Furthermore, in 2009, the necessary authorisations were obtained in order to begin the works for the future Gas Museum in Sabadell.

Activities carried out in other countries:

The Gas Natural Foundation stepped up its international activity during 2009, by continuing projects such as those in Colombia and Mexico and developing programmes in other countries in Latin America, Europe and Africa.

Argentina

The Foundation continued to support 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 7,407 companies and trained 20,016 professionals.

Other programmes and activities carried out were as follows: the "FLACAM Grants" programme for master in sustainable development, various social enterprise programmes, skills and training workshops in the Gas Natural Foundation classroom, and different activities by the Energy Training Centre.

Algeria

A seminar took place on "Creating Companies: from the Idea to the Project", geared towards the business community in Algeria. More than a hundred people took part in the seminar.

Colombia

Four projects were carried out in total:

- "Young Scientists", a programme which has the object of renewing teaching and learning of experimental natural sciences at primary school.
- Conversion of natural Gas Vehicles Training Programme (Association of Auto Sector and its parts).
- Programme for the Training and Certification of Gas Natural Inspectors and domestic gas repair workers (Ecobosco, Société Générale de Surveillance).
- Programme for Business Strengthening of Contractors and Installation Companies, with the Colombian Association of Engineers and Management of Limited Technology.

Brazil

The Espaço Criança Esperanza professional training centre, which was visited by the President, Luiz Inácio Lula da Silva, continued with training courses in partnership with the Viva Rio NGO. This year, 76 people from the communities of Cantagalo, Pavao and Pavaozinho, in southern Rio de Janeiro, have obtained basic qualifications for working in areas such as environmental maintenance, plumbing and joinery/painting.

Gas Natural Foundation. Activities in Spain

	2009	2008	2007
No. of active agreements with autonomous regions	13	13	12
No. of seminars/courses held	18	18	19
Budget allocation (out of total) (%)	17	17	18
No. of publications	4	4	6
Environmental education fact sheets	0	1	1
Information sheets	11	11	11

Gas Natural Foundation. International activities

	2009	2008	2007
No. of activities	18	17	15
% of the total budget	14	17	16
No. of countries in which it operates	7	7	6

Italy

Activity got under way last year in Italy, and in 2009 the research project on "Boschi e deforestazionie in Italia. La azioni per mitigare il cambio climatico" (Università degli Studi de Bari) has been completed. The results will be published next year in Bari.

Mexico

As part of the training activities, this year the Company continued with the "Impulse for your Business" Suppliers Training Programme, which began in 2008. This programme is promoted by FUNDES, the Mexican Natural Gas Association and CMIC (Mexican Construction Industry Chamber).

In the field of research, the Mario Molina Centre for Strategic Studies on Energy and the Environment and Gazel are carrying out a study on the "Potential for use and the Environmental Impacts of the use of Natural Gas as a Fuel in the Valley of Mexico and Monterrey".

Morocco

Throughout 2009, two projects have been carried out in Morocco: the "Institut Princesse Lalla Meryem pour enfants autistes" (Tangiers), for which the Foundation forms part of the Board of the institution; and the natural gas training programme to future engineers of the National School of Applied Sciences (ENSAT, the Abdelmalek Esaadi University, Tangiers).

Financial-Economic Management

In 2009, with the companies of the Unión Fenosa Group being incorporated into the Gas Natural Group, the current Financial-Economic Model was reviewed in order to bring it in line with the requirements of the new businesses, from both a functional and a legal standpoint, and to be able to use the best working practices existing in the two Groups.

From 28 February, the information of the Unión Fenosa consolidated sub-group was included in the consolidated financial statements of the Gas Natural Group. With the merger by absorption of Unión Fenosa Generación S.A. and Unión Fenosa S.A., by Gas Natural SDG, S.A. the companies have reported as a single company, for accounting purposes backdated to 1 May.

During 2009, the Financial-Economic Information System was prepared for the incorporation of most of the Spanish and Mexican companies from the aforesaid sub-group from January 2010 onwards. From that date onwards, there shall be a single corporate model and system in the two countries. Furthermore, the IT systems have begun to be prepared so that from 2010 onwards, the consolidation process can be by individual companies and the company can thus have a single consolidation model.

The Company also carried out the migration of the economic-financial information located in Unión Fenosa systems to the Financial-Economic System for the centralised companies, and an economic administrative operations cutover plan was prepared to be applied from the close of the year. In December, the Company informed the approximately 10,000 active suppliers from both Groups of the plan.

All the companies from the two countries were included in the administrative and accounting management of the European and Mexican Financial-Economic Shared Services Centre. The Group also carried out other corporate operations with the aim of simplifying the corporate structure of the new Group, designed for them to be included in the fiscal regime set out in Chapter VIII, of Title VII of Royal Decree 4/2004 of 5 March, in Spain and Italy's case.

The project to optimise accounts payable processes and systems continued, designing new electronic signature functions and replacing physical delivery notes in those cases in which they are not necessary. The highlights of this section are the implementation of a digitalisation and bill work-flow system unified for the two Groups, the electronic auto-bill system and the 63,000 electronic bills accounted, making the Group one of the national models to follow in the intensive use of new technologies applied to administration.

In the Internal Control Area, the procedures associated with economic-administrative operations were updated in order to adapt them to the procedures associated in the new Group, and the necessary mechanisms were established to provide the administration area with the necessary key controls in the financial economic field. The Company also launched the internal control function analysis in the international area to help to apply control procedures in a uniform way in the Group.

As far as fiscal matters are concerned, the companies which belonged to the eliminated Unión Fenosa fiscal group were included in the Gas Natural Group fiscal group from 1 September 2009. There are currently 71 companies in the fiscal group of Gas Natural.

The Gas Natural Group was given the Single Electronic Address (DEU) by the Spanish Tax Administration (AEAT), enabling it to carry out improved tax management through improvements in communication processes with the Tax Administration.

Lastly, the Gas Natural Group has been incorporated into the Foro de Grandes Empresas (Large Companies Forum) promoted by AEAT, which extended the invitation, with the aim of pursuing greater cooperation between the companies and the National Tax Administration, the simplification and favouring of compliance with tax authorities, the study of regulatory changes and the assessment of internal actions of companies in relation to the application of the tax system.

In the final months of 2009, the debt and investment position reporting module began to be implemented in the companies of the Unión Fenosa sub-group in Spain. This reporting module is an IT application which 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.

Because of its international situation, the Group has been able to carry out an in-depth analysis of the financial structure dimensioning which is most efficient for creating value for shareholders, using the different means at its disposal, such as the issuing of marketable bonds and commercial paper with great demand from local investors, and bilateral banking financing, thereby strengthening the Group’s image in the international financial community.

Also in the final months of 2009, the Group began the centralised management process of the companies in the Unión Fenosa sub-group within the Gas Natural Group, thus reducing the daily administrative load and simplifying the processes and the final treasury position of the Group. This procedure will allow it to optimise liquidity and will be a starting point for projects or the improvement of efficiency in centralised payment processes.

In the field of Credit Risk, various initiatives were carried out to improve efficiency in decision-taking. We may highlight the design and approval of an

authorisations structure for the admission/renewal of operations in accordance with the exposure and credit rating of commercial counter-parties. The authorisations structure assumes a Target Expected Loss, and if this is exceeded, the approval from the pertinent hierarchical structure is required.

Furthermore, a long-term credit rating measuring methodology was developed which enables credit exposure in long-term credit contracts and investment proposals to be characterised.

Within the framework of the integration of Unión Fenosa, we may highlight the work carried out in the field of Insurable Operational Risk. Once the insurable operational risk of the two companies is analysed, assessing their main heterogeneities, the businesses have been integrated into a single Insurance Programme, thus allowing a homogenous operational risk management policy to be implemented for the entire Gas Natural Group following the integration of Unión Fenosa.

In the field of Market Risk, during 2009 and from the formal integration date, the flexibility of the system has enabled the risk position deriving from the businesses contributed by Unión Fenosa to be quickly incorporated, thus allowing the Group to quantify on a recurrent base the probable exposure to risk, capturing the complementarities of the businesses arising from the integration. Based on the results obtained, a series of policies have been put forward which have helped to expedite the integration and understanding of the businesses from the standpoint of risk management.

The main challenge of the Gas Natural Group, in the field of Management Control and within the process of integration of the Gas Natural and Unión Fenosa organisations, was to respond to the management and budgeting information requirements in the new scenario, with 291 companies in 33 countries, and the current diversification of business activities, operating throughout the energy chain from procurement up to the final customer, in both gas and electricity.

In this integration phase, equivalent teams have taken part from both companies to analyse the processes which are being carried out, in order to detect the best practices and define an integrated and efficient model for reporting, budgeting and planning.

The main bases for this information and reporting model are geared towards simplicity, enabling clear and direct analyses, covering the range of all the necessary information, to the consistency of the economic processes and business activity, to the efficiency with the guarantee of having information in order to assess decision-taking, and the rationality and homogeneity of the information processes and systems supporting this integrated information model.

For the investor process, and in keeping with the investment approval process which was put forward in 2008, during 2009 the profitability studies of the Group businesses were integrated and homogenised, successfully incorporating those from the field of Unión Fenosa.

Under the terms of the agreement signed on 30 July 2008, Gas Natural purchased the remaining shareholding from ACS on 26 February, obtaining a 50% stake in Unión Fenosa. The Company then prepared the corresponding mandatory takeover bid over all Unión Fenosa shares pursuant to the provisions set forth in Law 24/1988 of 28 July, governing the Securities Market, and Royal Decree 1066/2007.

Furthermore, in March 2009, the Gas Natural Group carried out a rights issue with preferential subscription rights for 3,502 million euros, wholly subscribed and paid in, bringing the number of shares in circulation to 895,552,056.

On 21 April 2009, the National Securities Market Commission (CNMV) notified the result of the takeover bid, whose acceptance period finished on 14 April 2009. The bid was accepted for shares representing 34.8% of Unión Fenosa share capital and 69.5% of the voting rights at which the bid was effectively targeted.

As a consequence of settlement of the bid and of the financial instruments signed with different banks with regard to Unión Fenosa shares, Gas Natural obtained 95.2% of Unión Fenosa share capital.

The General Meeting of Shareholders of the Gas Natural Group and of Unión Fenosa held on 26 and 29 June 2009, respectively, approved the operation for the merger by absorption of Unión Fenosa S.A. and Unión Fenosa Generación S.A. by Gas Natural SDG, S.A., by means of the dissolution without liquidation of the companies absorbed and the block transfer of all its assets to Gas Natural SDG, S.A. The swap ratio of the approved merger project was three shares of Gas Natural SDG, S.A. to every five shares of Unión Fenosa S.A.

In September 2009, the merger process with Unión Fenosa was concluded through the issue of 26,204,895 new shares and the delivery thereof in exchange to the minority shareholders of this company. The share capital of the Company is currently represented by 921,756,951 shares.

Shares of Gas Natural SDG, S.A. closed the year at 15.085 euros, with a loss of 8.2% in terms adjusted through the share capital increase carried out in March 2009 and the effective traded volume amounted to 9,749 million euros, 17.6% lower than that of 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 2009, representatives of the Company's management team and the Investor Relations Unit organised meetings in New York, Boston, Tokyo, London, Paris and Frankfurt, *inter alia*, having a total of 320 meetings with investors.

Internal Audit

The Gas Natural Group carries out internal audit activities as a means of independent and objective assessment. The Internal Audit Area reports in turn to the Audit and Control Committee, the Chairman and the 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. All of the foregoing is designed to achieve compliance with the Group's strategic objectives and to assist the Audit and Control Committee and the Company's top-tier management in the compliance with its duties in the fields of management, control and corporate governance.

In accordance with the recommendations of the COSO Report (Committee of Sponsoring Organisations of the Treadway Commission), the Internal Control System in the Gas Natural Group was established as a procedure to be carried out by the Board of Directors, top-tier management and the remainder of the organisation personnel, for the purpose of providing a reasonable degree of confidence in achieving objectives in the following sectors or categories:

- Effectiveness and efficiency in operations.
- Reliability of financial information.
- Compliance with applicable laws and regulations.

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

The Internal Audit Area 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 Group.

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

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

Furthermore, as a result of the integration of the Gas Natural Group and Unión Fenosa, the Internal Audit Area updated its organisational structure during 2009 with the object of improving the contribution of internal audit to compliance with the new Group's strategic objectives, of acquiring greater knowledge of businesses and processes by specialisation of the audit team and improving the efficiency and efficacy of the Internal Audit Process.

The 2009 Internal Audit Plan for the Gas Natural Group was approved by the Audit and Control Committee in their meeting held on 30 January 2009.

In its meeting on 30 October 2009, and as a result of the integration between the Gas Natural Group and the Unión Fenosa Group, the Audit and Control Committee approved the incorporation to the 2009 Internal Audit Plan of all internal audit projects deriving from the Unión Fenosa Internal Audit Plan, mainly corresponding to reviews of business processes.

Pursuant to the Plan, during the period between 1 January 2009 and 29 January 2010 (date of drawing up of the 2009 Annual Accounts), Internal Audit directors took part in six 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 Auditor's Reports, in particular those proposed by the Committee.

The functions of the Audit and Control Committee and its main activities during 2009 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 Area 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 Area in 2009 were those concerning:

- Business processes:
  - Distribution: infrastructures development, maintenance, reading and metering.
  - Customer Service: customer service and domestic operations
  - Generation and supply.
  - Wholesale and retail commercialisation: arrears management, recruitment and contracting.
- Support processes:
  - Management of financial and physical resources.
  - Purchases and service procurement.
  - Warehouse management.
  - Information systems.
- Others:
  - Review of the Gas Natural Group Regulatory System.
  - Review of the Gas Natural and Unión Fenosa integration process.
  - 2009 Corporate Responsibility Report Verification.
  - Monitoring undertakings to improvements in process auditing.
  - Human Resources (salary payments).

What is more, given the organisational position of independence and the field of transversal action of the internal audit function, this Area also led or took part

in other cooperation, research or consulting projects. In this regard, the Internal Audit Area chairs the Code of Ethics Committee, which is responsible for promoting the dissemination, awareness and compliance with the Gas Natural Group Code of Ethics on all levels, and for processing the communications received over the various communication channels created for all the Group 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

Economic Analysis

Consolidated Economic Analysis

Takeover of Unión Fenosa

On 11 February 2009, the National Competition Commission (CNC) authorised the takeover of Unión Fenosa subject to the undertakings presented by Gas Natural which include the divestiture of 600,000 gas distribution points and approximately 600,000 customers connected to these grids, 2,000 MW of production through combined-cycle power plants in operation and the stake in Enagás, as well as different commitments concerning corporate governance at Cepsa and Unión Fenosa Gas Comercializadora.

These assets have a relevant value and their divestiture will be carried out using the resources required for autonomous operation by future purchasers. Moreover, these divestitures are in line with the planned structure of the operation and enable Gas Natural to retain the gas and electricity convergence model it seeks through the inclusion of Unión Fenosa.

Under the terms of the agreement signed on 30 July 2008, Gas Natural purchased the remaining shareholding from ACS on 26 February, obtaining a 50% stake in Unión Fenosa. The Company then prepared the corresponding mandatory takeover bid over all Unión Fenosa shares pursuant to the provisions set forth in Law 24/1988 of 28 July, governing the Securities Market, and Royal Decree 1066/2007.

On 21 April 2009, the National Securities Market Commission (CNMV) notified the result of the bid, the acceptance deadline of which ended on 14 April 2009. The bid was accepted by shares representing 34.8% of Unión Fenosa's share capital and 69.5% of the voting rights at which the bid was effectively targeted.

As a consequence of settlement of the bid and of the financial instruments signed with different banks with regard to Unión Fenosa shares, Gas Natural obtained 95.2% of Unión Fenosa share capital.

The General Meetings of Shareholders of Gas Natural and Unión Fenosa held on 26 and 29 June 2009, respectively, approved the merger by absorption of Unión Fenosa, S.A. and Unión Fenosa Generación, S.A. by Gas Natural SDG, S.A. by means of the dissolution without liquidation of the companies absorbed and the block transfer of all its assets to Gas Natural SDG, S.A.

The approved merger provided for a swap of three Gas Natural SDG, S.A. shares for every five shares of Unión Fenosa, S.A. and was ratified through the report from the independent expert designated by the Mercantile Register of Barcelona.

The merger was finalised in September 2009 and is the culmination of a takeover process that commenced in July 2008. It represents the successful securing of the goal to integrate the gas and electricity business lines in a single company with in-depth experience in the energy sector, able to compete efficiently in markets subject to a process of growing integration, globalisation and increased competition.

Following the operation, the energy group is the leading integrated gas and electricity company in Spain and Latin America, and one of the top ten European utilities companies, with a presence in 23 countries. The Company now has new significance as an amalgamated gas and electricity operator, given the extreme complementary nature of the business of both companies throughout their respective value chain. The new Group has over 20 million customers and installed power of around 18,000 MW.

Financing the operation

At the beginning of April 2009, Gas Natural finalised the loan syndication for funding the operation and refinancing part of the Gas Natural and Unión Fenosa current borrowing with 27 participants for 18,260 million euros. The number of participating companies currently totals 53.

By the same token, in order to secure a solid and flexible financing structure, in March 2009 Gas Natural increased its share capital by 3,502 million euros. The share capital increase was fully subscribed and paid up. In April 2009, the equity from the share capital increase totalling 3,410 million euros was used to make partial repayment of the loan.

For the purpose of optimising the financial structure and the calendar of repayments, in June 2009, October 2009 and January 2010, Gas Natural finalised the issue of several debentures on the Euromarket for a total sum of 6,950 million euros.

Using the net amount of the share capital increase, tied to the bid take-up of less than 100% (788 million euros) and the amounts repaid through the sale of assets and the issue of debentures in 2009 (4,750 million euros), the initial loan was reduced to 7,510 million euros at 31 December 2009. Discounting the issue of debentures in January 2010 (2,200 million euros) and the proceeds from sale of assets in 2009, the loan would be 3,313 million euros.

Divestitures

Gas Natural has either divested or undertaken to divest a total of 3,600 million euros in assets, in due compliance with its announcement. In addition, the Company is scheduled to make the regulatory divestiture of 2,000 MW of combined-cycle power plants in Spain.

With regard to divestitures that have already taken place, for around 2,000 million euros, these include the sales of certain financial stakes (Cepsa, Red Eléctrica, Isagén, Enagás and Indra), the sale of 256,000 gas supply points in Spain and the sale of its stake in the Colombian company Empresa de Energía del Pacífico, S.A. ESP (EPSA). The scheduled divestitures exceed 1,600 million euros, represented by the sale of 504,000 gas supply points in the Community of Madrid and the sale of certain energy assets in Mexico.

Synergies and integration

The synergies initially forecast at 215 million euros in costs and 75 million euros in revenue have been revalued at 260 million euros in costs and 90 million euros in revenue. This is still scheduled to complete from 2011 onwards.

A further yearly figure of 200 million euros must be added to the foregoing figures through savings of recurrent investments as a result of the joint operation between Gas Natural and Unión Fenosa, versus the initially forecast sum of 100 million euros.

Similarly, the integration process continues in line with plans and the organisational structure throughout the organisation has been decided, geared at the strategic priority of successfully combining the companies. This will ensure the transfer of best practices between business lines and geographical areas, maximise the energy management margin on a global level, foster active management of the financial structure, drive management control and risk management procedures, maximise ROA of the gas and electricity businesses and ensure integrated management of gas and electricity customers.

Financial profit/loss

At 31 December 2009, net financial debt totals 20,916 million euros, equivalent to a borrowing ratio of 63.2%.

The graph shows the evolution of net debt and borrowing of Gas Natural from 31 December 2008 to 31 December 2009. If we discount the rate deficit (1,267 million euros) and the sale of assets already formalised or which are awaiting settlement in the first half of 2010 (1,685 million euros), net debt would be 17,964 million euros, representing a borrowing ratio of 59.6%.

The net debt increase was primarily due to funding the 80.5% stake in Unión Fenosa, which took place in the first half of the year, as well as the deferred payment for 4.7% of Unión Fenosa purchased in December 2008.

The adjusted net debt/Ebitda and Ebitda/Financial profit (loss) ratios were 3.7x at 31 December 2009 (4.3x if we consider the net debt without adjustment) and 4.8x, respectively.

The attached graph shows the schedule of repayments of the adjusted net debt including the issue of debentures carried out in January 2010 (2,200 million euros).

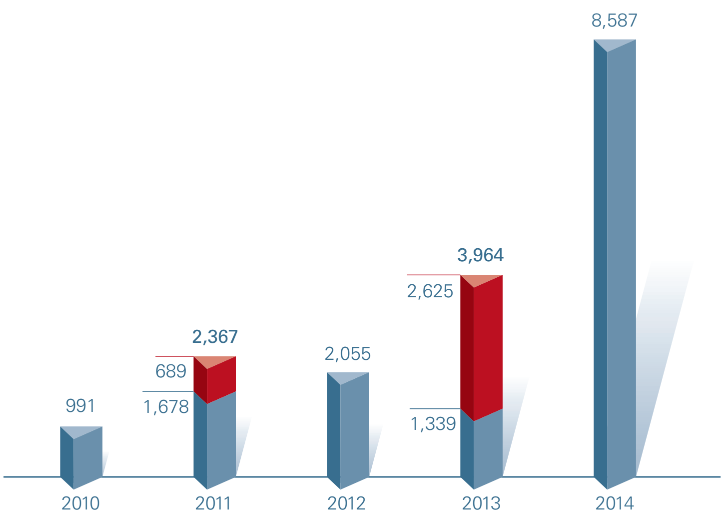
87.7% of the net financial debt is at a fixed interest rate and the remaining 12.3% is at a floating rate. 5.5% of the gross financial debt matures in the short term and the remaining 94.5% matures in the long term.

47.8% of the adjusted net financial debt becomes payable after 2014; the average life of the debt is in excess of 4.3 years.

At 31 December 2009, cash and other cash equivalents total 591 million euros, which, together with bank financing available for drawdown, totals immediate liquidity in excess of 4,000 million euros.

At the end of June and with an issue date of 9 July 2009, two debenture issues for the capital markets were finalised, under the Euro Medium Term Notes (EMTN) scheme, the former over five years for 2,000 million euros and the latter, over ten years, for 500 million

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



euros. In addition, on 14 October 2009, three debenture issues for the capital markets were closed over three, seven and 12 years for an amount of 500 million euros with an annual coupon of 3.125%, 1,000 million euros with an annual coupon of 4.375% and 750 million euros with an annual coupon of 5.125%, respectively.

Likewise, on 12 January 2010, three debenture issues for the capital markets were closed over five, eight and ten years for an amount of 650 million euros with an annual coupon of 3.375%, 700 million euros with an annual coupon of 4.125% and 850 million euros with an annual coupon of 4.500%, respectively.

Moreover, the financial instruments available on the capital market at 31 December 2009 exceeded 7,000 million euros and included the foregoing EMTN scheme for 4,725 million euros (discounting the issue made on 12 January 2010), the Euro Commercial Paper (ECP) scheme for 1,000 million euros and the promissory notes scheme for 1,606 million euros.

Having finished the takeover bid for shares in Unión Fenosa, in June 2009, the rating agencies downgraded their ratings, confirming the ratings in line with the planned objectives in the takeover process.

The short-term and long-term credit rating of Gas Natural is as follows:

Agency	l/t	s/t
Moody's	Baa2	P-2
Standard & Poor's	BBB+	A-2
Fitch	A-	F2

Investments

Investments totalled 15,696 million euros and included the financial investment in the purchase of 80.5% in Unión Fenosa in 2009.

The material investments for the year totalled 1,767 million euros, up 65.4% year-on-year, as a result of including Unión Fenosa investments, mainly in production and distribution of electricity. Financial investments for 13,813 million euros were mainly due to the acquisition of 80.5% of Unión Fenosa during the financial year.

The investment in gas distribution overall totalled 501 million euros, 24.3% down year-on-year.

Gas Natural targeted 33.2% of its material investments at the electricity line of business in Spain, mainly in developing the combined-cycle power plants in Malaga and at Barcelona port, the set-up of the desulphuration plants at Narcea and La Robla power stations, adaptation of the Meirama power station and the development of wind farm projects.

20.2% of its tangible investments was targeted at the gas distribution activity in Spain, represented by the commissioning of 2,119 km of new network over the last 12 months, with a growth of 4.4%, which allowed it to continue with the high rate with which it obtained new supply points despite the slowdown in the new construction segment.

Net worth

Gas Natural increased its share capital with a preferential subscription right from 14-28 March 2009, by issuing 447,776,028 new shares of the same class and series and with the same voting and economic rights as outstanding shares. The new shares were issued at a par value of 1 euro plus an issue premium of 6.82 euros, totalling an issue rate of 7.82 euros per share and a total cash amount of 3,502 million euros.

The share capital increase was fully subscribed and paid-up and filed with the Mercantile Register on 2 April 2009. The shares representing the increase were accepted for trading on the Stock Exchange on 3 April 2009.

The Ordinary General Meeting of Shareholders, held on 26 June 2009, agreed to pay dividends of 663 million euros, a figure that includes an extraordinary dividend of 90 million euros. This amount is equivalent to a payout of 62.7%, exceeding the objective set in 2008 of 52%-55%.

The merger with Unión Fenosa concluded in September 2009 with the issue of 26,204,895 new shares which were swapped with minority shareholders of this company. The share capital of the Company is currently represented by 921,756,951 shares.

The proposal for distribution of 2009 profits, which the Board of Directors will forward to the Ordinary General Meeting of Shareholders for approval, is to pay 730 million euros in dividends. This entails a payout of 61.1% and a dividend payout in excess of 5%, taking the share price listing at 31 December 2009 of 15.085 euros/share.

On 8 January 2010, an interim dividend charged to profits for the 2009 year was paid, equivalent to 0.352 euros/share.

At 31 December 2009, and following the share capital increase, Gas Natural equity totalled 12,177 million euros. 10,681 million euros of this equity was attributable to Gas Natural.

Stock Market Information

The main stock markets around the world closed 2009 with improved figures year-on-year, despite the bleak situation of the economy in general. The governments of most countries took measures to stimulate the economy, such as bailing out the respective central banks with cash injections which, coupled with the huge drop in interest rates, pushed huge amounts of money onto the stock markets.

The Spanish Stock Market closed the year with a positive balance, given that this was its second-best year in the last decade, once again confirming its status as one of the best performing stock markets in the world despite the adverse economic climate of Spain.

The Ibex 35, the primary Spanish stock market index, closed the year with an increase of 29.8% against 2008, when it reached 11,940.0 points. It set an annual high of 12,102.6 and an annual low of 6,702.6, on 18 November and 9 March 2009, respectively.

By the same token, between 14 and 28 March 2009, Gas Natural increased its share capital by 3,502 million euros, which was fully subscribed and paid-up. Gas Natural performed the share capital increase by issuing a total of 447,776,028 new shares, viz., one new share for each old share at an issue price of 7.82 euros/share.

The share capital increase was carried out with preferential subscription rights with a listing that ranged between a high of 2.15 euros and a low of 0.46 euros. A total of 165,814,289 rights were traded during the subscription period.

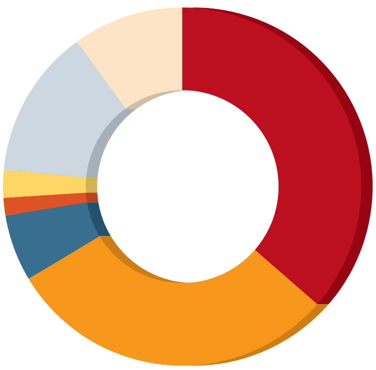
To deal with the takeover of Unión Fenosa, S.A. and Unión Fenosa Generación, S.A. by Gas Natural SDG, S.A., approved by the respective General Meetings of Shareholders and in accordance with the approved merger proposal and a swap of three shares in Gas Natural SDG, S.A. for every five shares in Unión Fenosa, S.A., a share capital increase of 26,204,895 shares took place. The shares were admitted for trading on 7 September 2009.

At 31 December 2009, the number of shares issued and outstanding totalled 921,756,951.

The Gas Natural shares closed the year at 15.085 euros with a year-on-year drop of 8.2%, adjusted through the share capital increase with preferential subscription right carried out in March. The annual high was recorded on 7 January when the share price was 18.97 and the annual low was on 20 March when the share fell to 8.39 euros.

The volume of shares traded over 2009 was 737 million shares, 96% up on the previous year. Of the total number of shares traded, 99.7% corresponded to the continuous market, although 17.3% of this percentage was contracted through so-called block transactions.

Gas Natural SDG: shareholder structure



36.4%	"la Caixa" Group
30%	Repsol YPF Group
6%	Suez
1.6%	Caixa Catalunya
2.5%	Institutional in Spain
13.5%	Institutional abroad
10%	Retailers in Spain

The remaining 0.3% was traded through special transactions. The daily average of shares traded stood at 2.9 million.

The effective volume traded amounted to 9,777 million euros, 17.4% down on the previous year. The daily average of shares traded stood at 38 million euros. Gas Natural was the most contracted security on the continuous market in 2009.

At 31 December 2009, the stock market capitalisation of Gas Natural SDG stood at 13,905 million euros, lying 11th in the Ibex 35 ranking with a weighting of 1.4%. In accordance with stock market regulations, the Technical Advisory Committee of the Ibex 35 decided at its meeting on 10 December 2008 that the participation of Gas Natural on that stock market index would fall from 60% to 40% of capitalisation with effect from 2 January 2009, as a consequence of changes in the non-circulating capital.

For the second year running, Gas Natural remained on the FTSE4Good IBEX index, made up of Spanish companies listed on the Bolsas y Mercados Españoles (BME) and which engage in socially responsible business practices. This index was created in 2008 by Bolsas y Mercados Españoles (BME) and the FTSE Group in Spain.

For the eighth year running, Gas Natural was included in the FTSE4Good sustainability indices following a new review of this tool targeted at investors looking for companies that comply with globally recognised responsibility standards and contribute to the development of corporate responsibility worldwide.

Gas Natural is one of only two Spanish companies which have been on the FTSE4Good since its creation in 2001, despite the fact that the standards for inclusion are ever more stringent and refer to environmental sustainability, the development of positive relations with stakeholders, respect and promotion of human rights, the assurance of good standards in management of the value chain and the fight to thwart corruption.

For the fifth year running, Gas Natural has also featured on the socially responsible Dow Jones Sustainability Index (DJSI), having scored 83 points, up 9% year-on-year. Gas Natural is currently the leader in the gas distribution sector of this index and the only sector company included on the European variant DJSI STOXX.

The DJSI, of which only a select few companies from around the world form part, includes those companies that provide evidence of greater compliance with corporate responsibility and sustainability criteria.

This means that Gas Natural is among the 17 Spanish companies on this year's FTSE4Good index, and also among the ten companies that belong to both the FTSE4Good as well as the Dow Jones sustainability index.

For the very first time, Gas Natural has been included on the ECO10 stock market index, an index that includes the top ten Spanish securities recommended through consensus of more than 50 brokers, banks and investment firms that operate in Spain, and which has been compiled by the Dow Jones Stoxx for *El Economista* newspaper for the last three years.

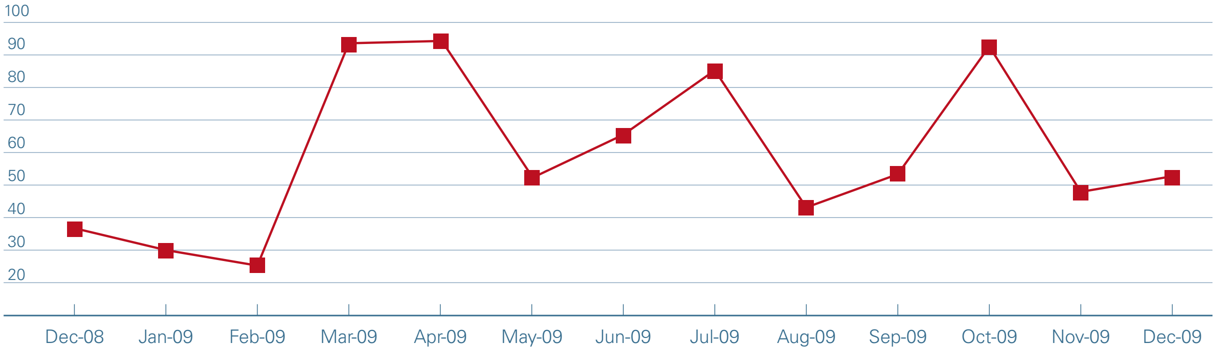
Mention must also be made of Gas Natural Group presence, for the third successive year, on the KLD Climate Change 100 Index, which recognises companies that are better positioned regarding climate change.

The shares of Gas Natural BAN, the distribution company for the Gas Natural Group in Argentina, stood at 1.49 pesos at year-end, reporting an increase of 22.1%.

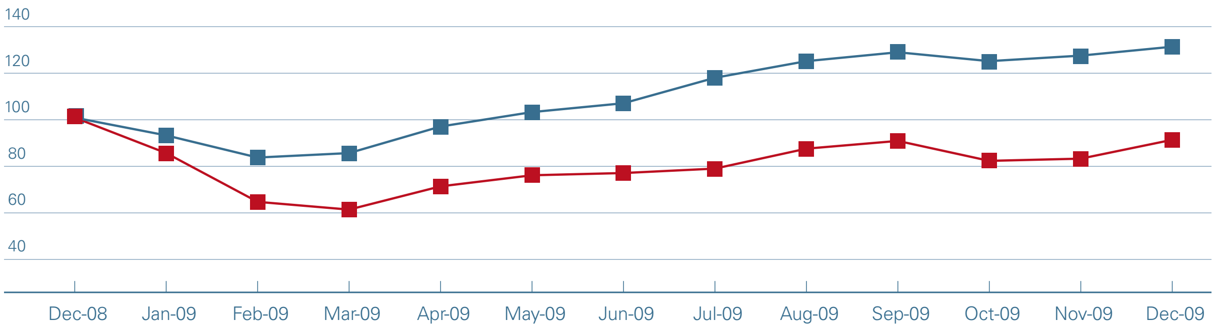
The annual high and low were 1.62 pesos and 0.88 pesos, respectively. During 2008, 2.4 million shares were traded. The Merval Index of the Buenos Aires Stock Market closed the year with an increase of 115.0%.

At 31 December 2009, and taking into account the best available information and the inclusion of Unión Fenosa shareholders as a result of the merger in September 2009, the number of Gas Natural SDG, shareholders is estimated at around 67,000.

No. of shares traded. Monthly data in millions

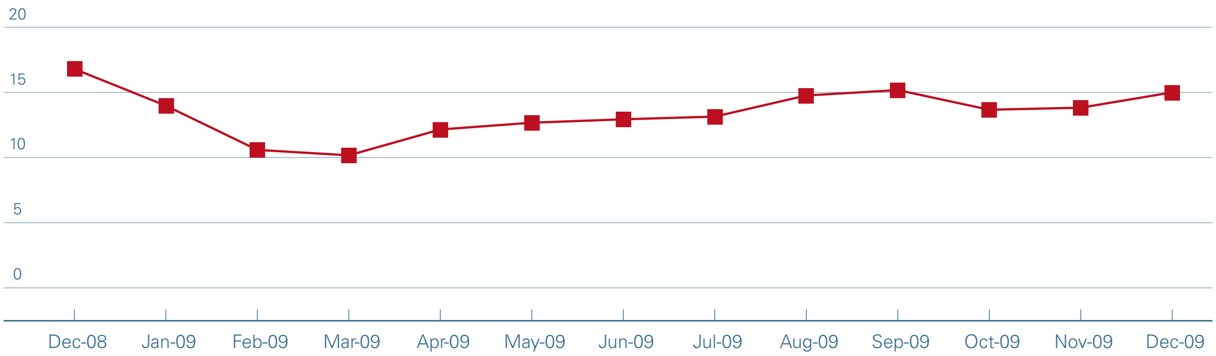


Performance of Gas Natural SDG and Ibex 35



Note: Share prices of Gas Natural adjusted because of the capital increase.

Share prices of Gas Natural SDG. Monthly close in euros



Note: Share prices of Gas Natural adjusted because of the capital increase.

Analysis of Results by Activity

For better comparison between 2009 and 2008, this section provides pro forma details through the aggregation of both companies from 1 January to 31 December of this year and the previous year, and uniforming the contribution in the case of divestitures.

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Gas Distribution in Spain

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

2008 includes the rate supply of gas, an activity that finished on 30 June 2008 and which is therefore not included in the 2009 accounts.

Net turnover for the gas distribution business in Spain amounted to 1,360 million euros, 20.5% down on the previous year's figure. This is due to finalisation of the rate gas sales which, in accordance with Law 12/2007 and Order ITC/2309/2007, stopped on 1 July 2008.

Ebitda is 927 million euros, 41 million up year-on-year, despite ceasing the rate supply mentioned previously. The higher regulated distribution remuneration for 2009 and cost containing has enabled the contribution to the Ebitda to exceed the rate supply.

Sales in the regulated gas market in Spain, which comprises the rate supply until 30 June 2008 and TPA services for both the distribution of gas and secondary transport, amounted to 229,585 GWh, a slight fall of 15% against the previous year, including standardisations as a result of stopping activity in the residential market.

The distribution and secondary transportation services for third-party access (TPA) to the network fell 10.3%, affected by the drop of industrial activity from the last quarter of 2008, and total 229,559 GWh, of which 91,862 GWh (-22.5%) correspond to services carried out to third parties and the remainder, 137,697 GWh (+0.3%), to commercialisation of Gas Natural as the main operator in the deregulated gas market.

The Group continued to expand its distribution network, which rose by 2,119 km over the last twelve months, and reached 33 new municipalities in 2009. The number of supply points rose 112,000 over the last twelve months, growth which was 43.7% below 2008, caused by the lower volume of construction of new homes.

At 31 December 2009, the distribution network amounted to 50,697 km, with growth of 4.4%, and with 5,954,000 supply points, 1.9% higher.

Within the action plan framework approved by the National Competition Commission (CNC) with regard to the purchase of Unión Fenosa, Gas Natural fulfilled the undertakings acquired with regard to divestiture in gas distribution assets.

In this regard, the sale of low pressure gas distribution assets took place on 31 December 2009 in the autonomous region of Cantabria (Gas Natural Cantabria, S.A.) and in the Region of Murcia (Gas Natural Murcia SDG, S.A.) which made up 2,611 km of low pressure distribution networks and 256,000 supply points. These assets accounted for an annual 3,500 GWh of gas, most of the high pressure distribution networks in the Principality of Asturias, Cantabria and the Basque Country, with a total of 489 km of networks, which carried an annual amount of 7,500 GWh of gas, as well as the domestic commercialisation and small and medium gas and electricity companies and services in these communities, which totalled around 210,000 gas customers, 4,000 electricity customers and 67,000 energy service contracts.

Elsewhere, on 19 December 2009, Gas Natural agreed the sale of 504,000 supply points and approximately 400,000 gas customers in the Community of Madrid. The agreement is subject to approval by the competent authorities and is expected to take place in the first half of 2010.

Order ITC/3520/2009 was published on 31 December 2009, establishing the tolls and royalties tied to third-party access to gas installation for 2010 and updating certain aspects concerning remuneration of regulated activities in the gas sector. This order maintains the system of calculating remuneration of distribution in accordance with the modification of the previous year with the remuneration update for 2010 using the real HPI of 2008. The initial remuneration for Gas Natural for 2010 totals 1,157 million euros (not including 40 million euros from Gas Natural Murcia SDG, S.A. and Gas Natural Cantabria, S.A.). Return for secondary transport in 2010 comes to 33 million euros.

Gas Distribution in Spain. Main figures

	2009	2008	%
Gas-related activity sales (GWh):	229,585	270,073	(15.0)
Regulated gas sales	26	14,177	–
Residential	27	13,910	–
Industrial	(1)	267	–
TPA	229,559	255,896	(10.3)
Distribution network (km)	50,697	48,578	4.4
Increase in supply points, in thousands	112	161	(43.7)
Supply points, in thousands (as at 31/12)	5,954	5,842	1.9

Gas Distribution in Latin America

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

The profits from distribution in Latin America in 2009 compared to figures for the previous year are affected by the unfavourable trend of currencies against the euro.

The net turnover totals 1,959 million euros, down 22.6% as a result of falling sales and the exchange rate losses.

The attached graph shows the breakdown of the Ebitda from gas distribution in Latin America and variations with regard to 2008.

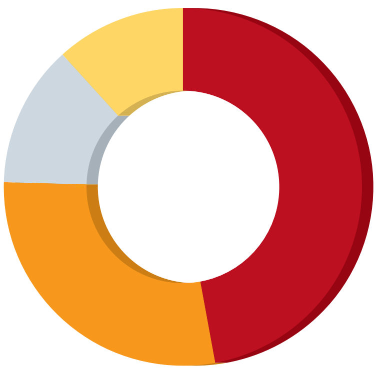
Ebitda reached 510 million euros, up 9.2% on the previous year. Without considering the exchange-rate effect, this indicator would be up to 14.5% year-on-year.

Of particular note is the contribution from Brazil and Colombia, jointly representing 79.4% of the total Ebitda.

Gas distribution and supply points totalled 5,422,000 in 2009. The high rates of year-on-year growth continue, with an increase of 169,164 supply points. Colombia is particularly noteworthy, with a rise of 105,197 supply points, exceeding the figure of 2 million customers, due to the higher levels of new customers in the Bogotá and Altiplano Cundiboyacense areas.

Ebitda in Latin America, main figures by country (in millions of euros)

€253m (+12.9%)	Brazil
€152m (+14.3%)	Colombia
€69m (-4.2%)	Mexico
€36m (-5.3%)	Argentina



Gas-related activity sales in Latin America, which include the sales of gas and third-party access services (TPA), totalled 169,612 GWh, a fall of 18.6% against sales reported the previous year. This across-the-board fall is basically in the electricity generation and industrial markets.

The distribution network increased by 1,119 km over the last 12 months, totalling 62,315 km at the end of 2009, up 1.8%.

Gas distribution in Latin America. Main figures

	2009	2008	%
Gas-related activity sales (GWh):	169,612	208,408	(18.6)
Regulated gas sales	107,197	144,065	(25.6)
TPA	62,415	64,343	(3.0)
Distribution network (km)	62,315	61,196	1.8
Increase in supply points, in thousands	169	176	(4.0)
Supply points, in thousands (as at 31/12)	5,422	5,253	3.2

Gas distribution in Latin America.
The main figures by countries in 2009 are as follows

	Argentina	Brazil	Colombia	Mexico	Total
Gas-related activity sales (GWh):	68,047	42,660	16,076	42,829	169,612
Increase vs. 2008 (%)	(5.4)	(43.8)	(3.9)	(2.3)	(18.6)
Distribution network (km)	22,736	5,932	17,451	16,196	62,315
Increase vs. 31-12-2008 (km)	376	51	399	293	1,119
Supply points, in thousands (as at 31/12)	1,425	802	2,031	1,164	5,422
Increase vs. 31-12-2008, in thousands	32	13	105	19	169

Gas Distribution in Italy

Results in this section refer to gas distribution in Italy.

Gas distribution in Italy represented a contribution to the Ebitda of 56 million euros, up 55.6% on the previous year.

The increase of Ebitda is basically due to the higher remuneration in the distribution sector, a consequence of the new regulatory model for 2009-2012. Other positive aspects that have contributed include the higher volume of gas sold as a result of climate conditions, the incorporation of Pitta Costruzioni and improvements in the commercialisation mark-up as a result of the new approved remuneration and a lower supply price

Gas Natural increased its distribution area in Italy and now supplies 187 municipalities in eight regions: Molise, Abruzzo, Puglia, Calabria, Sicilia, Basilicata, Campania and Lazio.

In Italy, the Gas Natural Group reached 414,125 supply points in the gas distribution business, thus achieving one of the primary commercial challenges after incorporating a total of 23,033 new supply points in 2009.

The gas distribution activity totalled 3,495 GWh, up 19.2% year-on-year, mainly due to the weather conditions and the incorporation of Pitta (+131 GWh), distributed entirely to third parties.

Gas distribution in Italy. Main figures

	2009	2008	%
Gas-related activity sales (GWh):	3,495	2,933	19.2
Regulated gas sales	2,974	2,632	13.0
TPA	521	301	73.1
Distribution network (km)	5,645	5,521	2.2
Supply points, in thousands (as at 31/12)	414	397	4.3

Electricity Distribution in Spain

The electricity distribution business in Spain includes the regulated activity of electricity distribution and network services with customers, mainly concerning connection and coupling rights, metering of consumption and other actions tied to third-party access to the distribution network within the sphere of Gas Natural.

We should point out that since 1 July 2009 the so-called integral tariff has ceased to exist with the creation of operators of last resort. Therefore, since that date, no electricity sales have been made from the distribution activity.

In the regulated activity of electricity distribution, revenue through the activity (transport, distribution and rate commercialisation) was up 4.2% on the previous year (an increase of 30.4 million euros). Regulated revenue for 2009 is still at the provisional stage, in accordance with the ITC 3519/2009, and until the reference network model is updated with more accurate figures and other activity criteria to set the foregoing revenue. The other regulated revenue, tied to network service actions with customers (connection and coupling rights, rental of metering equipment and others) is in line with the previous year despite less economic activity.

Electricity distribution in Spain. Main figures

	2009	2008	%
Electricity sales (GWh):	33,105	36,433	(9.1)
Rate electricity sales	9,198	23,229	(60.4)
TPA	23,907	13,204	81.1
Supply points, in thousands (as at 31/12)	3,698	3,650	1.3
TIEPI (minutes)(*)	59	78	(24.4)

(*) Equivalent Time Interruption of Intalled Power.

With regard to 2008, we must remember that in November of that year adjustments were made to the books, with an overall positive result, concerning settlements from previous years and, even more relevant, the higher price for purchases in the energy market and, elsewhere, the higher costs given to the power assimilated with Unión Fenosa Generación.

The non-recurrence of extraordinary revenue in 2008, mentioned previously, has an impact on the Ebitda trend profile with regard to the previous year. Without including the extraordinary effects mentioned or those recorded in 2009, likewise those concerning settlements of previous years and others, Ebitda growth would be higher than the foregoing growth of regulated revenue as a consequence of efficiency improvements that have cut costs.

The power demand in markets associated to the distribution network, under the same terms as 2008, posted a decrease of 6.6%, showing the correlation of electricity consumption with economic activity. However, we should point out that revenue from the regulated distribution business includes other reference criteria to remunerate the activity.

Energy sales, both at integral tariff as well as access tariff, recorded a drop higher than the decrease in terms of network-measured power as a consequence of changing criteria with regards to 2008, concerning billing to second-tier distributors (as per Transitory Provision 11 of Law 54/1997 of 27 November). If we discount this effect and the time lag of energy consumed but not yet invoiced, the decrease would be in line with the values mentioned.

Excluding those effects classified as "Major Cause", basically Hurricane Klaus in Galicia and to a lesser extent in Castilla y León, the service quality index (Equivalent Time Interruption of Installed Power -TIEPI-) recorded the highest value ever for Gas Natural and was ranked slightly below 60 minutes. We should point out that, with the exception of the aforementioned Klaus effect, the weather in 2009 was very favourable and our forecast shows that under normal conditions we would be close to the 70-80 minute band. In any case, Gas Natural pays constant attention to this indicator and assigns the corresponding resources to develop and improve installations as well as for the operation and maintenance tasks of the same.

Order ITC/3519/2009 reviews the remuneration of electricity distribution for 2009 and establishes the remuneration to 2010. This order determines that the values calculated are provisional while the preliminary validation and check of the reference network model is carried out by the National Energy Commission (CNE). Additional provision ten of the foregoing Order provides for the CNE, together with electricity distribution companies, to carry out this check and validation, which is subsequently forwarded to the Ministry of Industry, Tourism and Trade.

Electricity Distribution in Moldova

The business in Moldova involves the regulated distribution of electricity and rated sales of electricity in the capital and central areas as well as the south of the country.

The rate review carried out, which, in addition to the purchase price of energy, remunerates the investment and operating activity of Gas Natural, enabled a notable improvement over the previous year. Elsewhere, ongoing projects to improve management at this distribution company and, more specifically, those associated to improving the control of energy, have increased Ebitda by 47.1%, year-on-year.

The demand for electricity in Moldova was a little over 1% and the customer base increased by 1.6%.

The improvement of operating procedures concerning the control of energy and the investment, operation and maintenance actions that have taken place in this country are enabling us to continue improving the rate of power lost in the distribution networks, currently at 14% down from 15.4% the previous year, which helps improve the buy-sell margin.

Electricity distribution in Moldova. Main figures

	2009	2008	%
Electricity sales (GWh):	2,288	2,262	1.1
Rate electricity sales	2,288	2,262	1.1
TPA	–	–	–
Supply points, in thousands (as at 31/12)	807	794	1.6
Grid losses (%)	14	15	(6.7)

Electricity Distribution in Latin America

This section looks at regulated electricity distribution in Colombia, Guatemala, Nicaragua and Panama.

On 9 December 2009, Empresa de Energía de Pacífico S.A. ESP (EPSA) was sold. For comparison purposes, the sales of electricity by this company are included for the January-November 2009 and 2008 period, along with the number of supply points at the year-end.

Ebitda from distribution activity in Latin America was up 27.1% year-on-year, absorbing the 3.8% devaluation of the Colombian peso with regard to the previous year.

The distribution business in Colombia contributed 179 million euros, an increase of 12.4% without considering the negative effect of the exchange rate. This growth responds to an increased demand of 6.5% as a result of high temperatures in recent months as a consequence of the "El Niño" weather phenomenon

Ebitda of Central American distributors totalled 159 million euros, up 48.4%, mainly due to the Nicaraguan distributors, where distribution has accounted for 42 million euros, through the improvements to the Rate System as a consequence of the signing and subsequent ratification of the Memorandum of Understanding signed by and between the Nicaraguan Government and Gas Natural, as well as lower purchase prices.

Electricity sales totalled 18,797 GWh, up 3.2%. Customers increased by 3.9%, with particularly impressive growth in Colombia. For comparison purposes, we have included the EPSA electricity distribution points in 2009, which reached 481,000.

Despite the economic recession, increased energy demand in Central America countries was 3.6%. The Panama area posted significant growth of 6.3% as a result of the dry season lasting longer.

The basic business operating figures, tied to energy management, rates of losses and revenue, are relatively better than the previous year and in line with the targets set in the action plans.

Electricity distribution in Latin America. Main figures

	2009	2008	%
Electricity sales (GWh):	18,797	18,218	3.2
Rate electricity sales	17,425	16,812	3.6
TPA	1,372	1,406	(2.4)
Supply points, in thousands (as at 31/12)	5,120	4,927	3.9

Electricity distribution in Latin America.
The main figures by countries in 2009 are as follows

	Colombia	Guatemala	Nicaragua	Panama	Total
Electricity sales (GWh):	11,311	1,846	2,299	3,341	18,797
Increase vs. 2008 (%)	2.3	2.4	3.9	6.3	3.2
Supply points, in thousands (as at 31/12)	2,575	1,372	719	454	5,120
Increase vs. 31-12-2008, in thousands	113	33	28	18	193
Grid losses (%)	11.7	17.1	22.0	9.8	–

Electricity in Spain

This section includes electricity generation activities in Spain, 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 of electricity in 2009 came to 3,656 million euros, down 23.5% year-on-year, mainly due to lower electricity prices and reduced production.

In terms of Ebitda, results in 2009 were 1,050 million euros, up 1.9% on the previous year, as a result of the reasons given previously. It is worth pointing out that this increase contrasts with the drop of both production (23.7%) and Spanish wholesale prices (42%), due to the energy commercialised or contracted on the futures market and the gas supply contracts with pool prices, which in annual terms provides the group with a hedge against price changes of 96%.

In Spain, electricity demand fell sharply as a consequence of economic recession, with industrial activity decreasing substantially. Peninsula demand in 2009 (251,509 GWh), was 4.5% lower than in 2008. After correcting the number of days worked and the temperature effects, the real reduction in demand is 4.3%. In addition, the fact that the net balance of electricity exported to other neighbouring countries was down 26.5% leads to a net drop in Spain of 5.3%.

Peak power in 2009 was recorded at 8 pm on 13 January, with an average hourly power rate of 44,440 MW, down 436 MW on the record achieved in December 2007.

This reduction in national demand, tied to the increase of electricity production under the Special Regime, which in 2009 was up 20.4 percent year-on-year, contributing over 30% to coverage of demand, has given rise to reduced electricity production under the Ordinary Regime equivalent to 13.3%.

Combined cycles were down 14.2%, although their contribution to national production is 28.6% as against 31.6% in 2008. If we take production using the Ordinary Regime as a benchmark, production with combined cycles in 2009 represents 41.1%, close to the 41.4% of the previous year.

This fall in national electricity demand, and particularly the electricity production using combined cycles and coal (which are the technologies normally used to determine the pool price), caused prices in the electricity market to fall, and this was further provoked by the more than significant decrease of raw materials in international markets which, in 2009, reduced share prices by around 45%.

Electricity in Spain. Main figures

	2009	2008	%
Power generation capacity (MW):	13,411	13,424	(0.1)
Ordinary Regime	12,436	12,581	(1.1)
Hydraulic	1,860	1,860	–
Nuclear	589	589	–
Coal	2,048	2,048	–
Fuel oil-gas	617	774	(20.3)
Combined-cycle plants	7,322	7,310	0.2
Special Regime(*)	975	843	15.7
Electricity generated (GWh):	38,024	49,802	(23.6)
Ordinary Regime	35,572	47,824	(25.6)
Hydraulic	3,389	2,612	29.7
Nuclear	4,010	4,402	(8.9)
Coal	1,975	6,921	(71.5)
Fuel oil-gas	14	278	(95.0)
Combined-cycle plants	26,184	33,611	(22.1)
Special Regime(*)	2,452	1,978	24.0
Electricity sales (GWh):	31,103	22,249	39.8
Deregulated market	24,766	22,249	11.3
TUR	6,337	–	–

(*) Includes 50% Eufer.

As a result, the average weighted price of the daily market for 2009 was 38 euros/MWh, down 42% on the previous year (65.5 euros/MWh).

Peninsular electricity production by Gas Natural was 38,024 GWh, down 23.6% on 2008. Of this figure, 35,572 GWh was through Ordinary Regime production, a decrease of 25.6%. Production using the Special Regime, which reached 2,452 GWh, is up 24%.

Hydraulic production over the year was 3,389 GWh, up 29.7% year-on-year, as a consequence of the hydrological characteristics of 2009, which although it could be rated as dry (virtually an average year thanks to rainfall in recent weeks) from a hydrological point of view, with a probability of producible hydroelectric energy (PHE) being higher with regard to the historic series of average producible energy of 69%, far better than the previous year's PHE (91%). The producible hydroelectric energies are slightly higher than those of the previous year (3,658 GWh vs. 2,688 GWh). The Gas Natural basin reserves are 43% full; 16 percentage points higher than at the end of 2008 (27%).

Nuclear production was down 8.9% due to the increased stoppage time of the power stations at Trillo and Almaraz, for refuelling and maintenance.

With regard to the production, as a result of lower demand and the increase of the Special Regime, energy production using coal was down 71.5% year-on-year. Electricity production using combined cycles totalled 26,184 GWh over the year which, together with production using coal and fuel oil, represents an overall production drop of 31% with regard to the previous year.

At 31 December 2009, the accumulated share of Gas Natural in production of electricity using the Ordinary Regime was 20.1%.

On 31 December 2009, Gas Natural set up a Special Regime power system of 131 MW (with a 50% stake in Eufer), of which 92 MW corresponds to wind farms, 24 MW to mini-hydraulic power stations and 15 MW to co-generation plants.

Electricity sales in 2009 totalled 31,103 GWh, including commercialisation in the deregulated market and commercialisation of last resort from 1 July 2009. Sales to the deregulated market totalled 24,766 GWh, up 11.3%, representing a commercialisation share of 16.6%.

Continuing to develop the commercialisation business in electricity energy markets, the power from operations that expired in 2009 exceeded 14,987 GWh and the energy traded over the period was in excess of 9,241 GWh.

Moreover, cross-border trading in the Spain-France, France-Germany and Germany-Austria interconnections saw the Company take part in the monthly and daily auctions of interconnection capacity, negotiating accumulated energy at the year-end in excess of 1,245 GWh and administering this in the different markets of those countries. The Company also continued its participation in the French Virtual Power Plants (VPPs) as another flexible energy purchase market in France.

The Gas Natural operation in the French, German and Austrian market represents another step in the corporate aim of extending Gas Natural wholesale commercialisation and trading towards other European markets to achieve greater optimisation of the electricity position through a more diverse portfolio of countries and products.

Elsewhere, within the sphere of trading CO_2 emissions in 2009, a variety of EUA rights and DER credits were traded on organised markets (BLUENEXT, ECX) as well as with different counterparties.

In addition, Gas Natural performs comprehensive management of its portfolio of emission rights and credits.

Through all these activities in the futures markets, the Group is actively managing the position and optimisation of margins and exposure to risk.

Electricity in Mexico

The assets in operation in Mexico include the Anáhuac power plant (Rio Bravo II), with a power of 495 MW; the Lomas del Real power plant (Rio Bravo III), with 495 MW; the Valle Hermoso power plant (Rio Bravo IV), with 500 MW; the Águila de Altamira power plant (Altamira II), with 495 MW, located in the state of Tamaulipas, in north-west Mexico, as well as the 54 km gas pipeline that supplies these four installations; the Hermosillo power plant, with 270 MW and the Naco Nogales power plant, with 300 MW in the state of Sonora; the Tuxpan III and IV Power Plant, with 1,000 MW in the state of Veracruz; and the Saltillo power plant, with 248 MW, located in the state of Coahuila, also in the north-west of the country.

Ebitda for the period totalled 200 million euros, in line with the previous year's profits, due mainly to maintaining availability, load factors and the favourable dollar/euro exchange rate.

The energy generated in 2009 was 24,427 GWh, 8.6% up on the same period in 2008 and with a load factor of 74.9%, up 8.9% due to better dispatch by the Federal Electricity Commission (CFE) stemming from gas competition in the area.

Availability, which is a determining factor of income from combined cycles in Mexico, was 91.8%, up 0.83 percentage points year-on-year. The performance of installations was up 0.6% points overall.

The Norte combined-cycle power plant, located in the state of Durango, is still being built, and the project is 97.4% completed, in line with scheduled planning. The contract for this 450-MW power plant was awarded on 6 March 2007 and is scheduled to come into commercial operation in the first quarter of 2010.

On 24 December 2009, Gas Natural reached an agreement with Mitsui & Co., Ltd and Tokio Gas Co., Ltd for the divestiture of part of its electricity production business in Mexico. This operation forms part of the divestiture plan that will enable a more balanced exposure in the Mexican market, and is pending approval by the Mexican authorities. Approval is expected during the first half of 2010.

The plants included in the agreement are Central Anahuac, S.A. de C.V., Central Lomas del Real, S.A. de C.V., Central de Valle Hermoso, S.A. C.V., Electricidad Águila de Altamira, S. de R.L., Central de Saltillo, S.A. de C.V., Gasoducto del Río, S.A. de C.V., as well as Compañía Mexicana de Gerencia y Operación, S.A. de C.V., representing a divestiture of 2,233 MW of installed capacity.

Main figures. Electricity in Mexico

	2009	2008	%
Power generation capacity (MW)	3,803	3,803	–
Electricity generated (GWh)	24,427	22,491	8.6

Other Electricity

On 17 October 2009, Gas Natural signed a stock market pre-agreement with Colener, S.A.S., Inversiones Argos S.A. and Banca de Inversión Bancolombia S.A.- Corporación Financiera, geared at selling the indirect stake in the Colombian company Empresa de Energía de Pacífico S.A. ESP. On 9 December 2009, Bolsa de Valores de Colombia S.A. allocated the shares to complete the operation. This divestiture represents 950 MW of installed power.

For comparison purposes in this section, in addition to the production assets in Puerto Rico, Costa Rica, Panama, the Dominican Republican and Kenya, we also include production assets in Colombia during the January-November period of this year and the previous year.

Main figures. Other electricity

	2009	2008	%
Power generation capacity (MW):	1,598	1,537	4.0
Puerto Rico (combined cycle)(*)	254	254	–
Colombia (hydraulic)	950	950	–
Costa Rica (hydraulic)	51	51	–
Panama (hydraulic and production of heat)	33	26	26.9
Dominican Republic (fuel oil)	198	198	–
Kenya (fuel oil)	112	58	93.1
Electricity generated (GWh)	6,548	7,395	(11.5)
Puerto Rico (combined cycle)(*)	1,717	1,866	(8.0)
Colombia (hydraulic)	2,886	3,769	(23.4)
Costa Rica (hydraulic)	280	281	(0.4)
Panama (hydraulic and production of heat)	75	67	11.9
Dominican Republic (fuel oil)	1,119	1,085	3.1
Kenya (fuel oil)	471	327	44.0

(*) Figures at 50%.

Ebitda for the period was 249 million euros, largely in line with the previous year given that the decreased hydroelectric energy produced in the second half of the year in Colombia as a result of the "El Niño" weather phenomenon was offset by the coming into commercial operation of the 52-MW power plant in Kenya by the positive dollar/euro exchange rate trend

Power generated over the year was 6,548 GWh. Production at the Puerto Rico power plant was down 8% due to the reduced accumulated load factor over the year; 77.3% versus 83.8% the previous year, given that the price of gas stopped being competitive during the first half of the year. In the Dominican Republic, Kenya, Costa Rica and Panama, production was up 10.5%.

This was due to completing the enlargement of the existing 58 MW power plant in Kenya, which came into commercial operation in the third quarter of 2009; 52 MW corresponding to seven fuel-oil motors and increasing electricity production by 44.2% year-on-year, and the coming into operation of the Algarrobos Hydraulic power plant in Panama during the second half of 2009, with electricity production up 11.9%.

In Colombia, production was down 23.4% through reduced hydroelectric production in the second half of the year as a consequence of the "El Niño" weather phenomenon.

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 276 million euros, with a fall of 2.8%.

Ebitda in 2009 came to 181 million euros, 2.2% lower than the previous year. Despite the increased use of methane tankers in 2009, the lower amount of gas carried and higher exploration costs in the exploration and development business have contributed to this trend.

The gas transportation activity carried out in Morocco, through the companies EMPL and Metragaz, represented a total volume of 109,230 GWh, down 18.2%. Of this figure, 80,525 GWh was transported for Gas Natural by Sagane; and 28,705 GWh was for Portugal and Morocco. The falling energy demand on the Iberian Peninsula together with optimisation of the supply-demand balance of Gas Natural has given rise to a lower volume of transported gas and reduced use of the Maghreb-Europe gas pipeline.

On 27 March 2009, there was an auction for underground storage capacity from 1 April 2009 to 31 March 2010 and for a volume of 4,257 GWh. The auction, organised by the Electricity Market Operator (OMEL) and under the supervision of the National Energy Commission (CNE), was carried out through the ascending clock auction at a price of 1,767 euros/GWh. Gas Natural was awarded 37% of the auction capacity (1,586 GWh) in line with its forecast.

Main figures. Up & Midstream

	2009	2008	%
Gas transportation/EMPL (GWh):	109,230	133,497	(18.2)
Portugal-Morocco	28,705	34,926	(17.8)
Gas Natural	80,525	98,571	(18.3)

The third round of drilling concluded in the Gassi Chergui (Algeria) project with negative results, which brought exploration activities there to a halt. Elsewhere, a well drilled in Tangiers-Larache (Morocco) was successful. Gas Natural has a 24% stake and exploration is scheduled to continue in 2010.

Gas Natural is also taking part in offshore drilling at the Montanazo concession (off the coast of Tarragona), together with Repsol. Drilling finished at the end of May 2009 with a positive result and the purchase of equipment and administrative formalities are underway. The Company has also carried out geological research work and data compilation concerning the hydrocarbon research licence in Villaviciosa (Asturias), in which Gas Natural owns 90%. A seismic campaign is scheduled for 2010.

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In the fourth quarter of 2009, information was made public about three of the five projects that make up the exploration, production and storage actions that Gas Natural intends to carry out over the next few years in the Valle del Guadalquivir area. Gas Natural will also be commencing exploration activities in two areas (one in Palencia-Cantabria and the other in Catalonia) once the corresponding research permits have been authorised.

Gas Natural and Repsol, together with other companies, signed a shareholders agreement in 2008 for the purpose of developing a comprehensive gas project in Angola which would initially assess the available gas reserves prior to making the investments necessary to develop these as liquefied natural gas (LNG). The Gas Natural West Africa company has been set up (60% Repsol-40% Gas Natural), and will manage the project. In March 2009, the Angolan government approved the Concession Decree that provides the legal framework to execute the project. Exploratory seismic works are currently underway and are scheduled to continue throughout 2010. The first exploratory well is also expected to be drilled in 2010 (Garoupa-2).

The Gas Natural project to build two regasification terminals in Italy (Trieste - Zaule and Taranto) continue apace with regard to the procedures and approvals for the different permits required. The Trieste–Zaule terminal project received approval from the Ministry of Cultural Assets and Activities (MiBAC) in January 2009, followed by the Environmental Approval Decree in July 2009, which finalises the authorisations procedure at a national level. As far as the Taranto project is concerned, the authorisations process is ongoing pursuant to the provisions of Italian regulations.

The permitting process of Trieste is awaiting conclusion and the Single Authorisation for construction of the plant is hoped to be obtained at the end of 2010.

Both projects are on-shore, located in the port area of the municipalities, with planned regasification capacity of 8 bcm/year and represent an investment of around 500 million euros per terminal.

Gas Natural and Gazprom have signed a Memorandum of Understanding (MOU), by virtue of which both companies undertake to enter into agreements for sales of liquefied natural gas in forthcoming years, as well as to broaden their collaboration to other spheres, such as the emissions market or electricity generation. By virtue of the agreement, Gas Natural and Gazprom will negotiate the possible medium-term and long-term purchase of LNG. Both companies will also look into possible commercial agreements to develop their respective gas businesses in north-west Europe.

An arbitration award was given in the fourth quarter of 2009 concerning termination of the contract for the Gassi Touil integrated project. The arbitration board declared the foregoing contract as finalised in accordance with its clauses, without obliging either party to pay compensation to the other party as a consequence of this termination. The arbitration award also instructed Sonatrach to purchase the stake of Gas Natural and Repsol in the joint-venture responsible for liquefaction in the Gassi Touil project, transferring the proceeds to the Treasury.

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.

Net turnover totalled 6,972 million euros, which represents a decrease of 15.2% in comparison with the previous year. Ebitda in 2009 amounted to 396 million euros, with a fall of 14.8% year-on-year, due mainly to a lower volume of gas commercialised and a different mix of sales markets in the fourth quarter of 2009.

The diversification in the commodities portfolio, and the joint management of commodity and dollar risk, has been instrumental in mitigating the reduced Ebitda in a context of significant volatility in energy and currency markets.

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

On the deregulated market, sales amounted to 182,299 GWh, with a drop of 19.2% in comparison with the previous year, through lower consumption of gas for generation of electricity in combined cycles, due to reduced energy demand and low pool prices, and a fall in economic activity. In addition, the supply to the deregulated market of other gas commercialisation companies totalled 51,931 GWh, with an increase of 61.2%.

Faced with reduced consumption by end industrial customers, Gas Natural is actively seeking other activities to diversify demand:

- As a result, the Company was awarded the contract to sell 714 GWh of natural gas to REN Armazenagem, to be used to fill the new salt cavity in Carrizo, Portugal.
- Also, in June 2009, in the auction for TUR natural gas, Gas Natural was awarded 20 base gas blocks equivalent to 720 GWh, as well as a further 40 winter gas blocks equivalent to 1,100 GWh, making a total of 1,820 GWh. This represents roughly one third of the total auctioned.

Main figures. Wholesale & retail

	2009	2008	%
Gas supply (GWh):	286,152	328,631	(12.9)
Spain:	234,230	275,288	(14.9)
Spanish regulated market	–	17,383	–
Spanish deregulated market:	234,230	257,905	(9.2)
Commercialisation by Gas Natural	182,299	225,690	(19.2)
Third-party supplies	51,931	32,215	61.2
International:	51,922	53,343	(2.7)
France	15,627	7,397	–
Others	36,295	45,946	(21.0)
Multi-product contracts (as at 31/12)	2,125,270	2,119,631	0.3
Contracts per customer (as at 31/12)	1.39	1.39	–

Through its Portuguese subsidiary, Gas Natural was confirmed as the leading independent operator of natural gas in the Portuguese market (it has operated as a gas marketer in Portugal since the first quarter of 2008), with sales in 2009 of 2,200 GWh. To obtain the amount of gas sold, supply contracts were signed with REN, a company that owns the Portuguese transportation network, as well as distribution companies of the majority groups, EDP and Galp.

In order to guarantee its gas exports from Spain to Portugal, Gas Natural uses the entry points of the Campomaior (southeast) and Valença do Minho (north) pipelines, which assures supply.

Gas Natural has also actively taken part in the process headed by the ERGEG Group, to develop the infrastructures that enable a considerable increase of the Spain-France interconnection. The initiative has been confirmed as successful, given that demand outstrips the capacity offered.

Gas Natural presence in the international market has been consolidated through operations in new markets. Here, and within the sphere of gas trading, Gas Natural was the first Spanish company to form part of the Zeebrugge hub in Belgium and is therefore able to operate in that country. It also has the possibility of carrying out purchase and sale operations of gas on the Belgium wholesale market through new agreements that provide the company with a portfolio of trading possibilities on that market, as well as commercialising gases in the industrial and domestic markets in the future.

Gas Natural continues to drive development in Spain of alternative energy sources for vehicles, both in the public and private sectors. Gas Natural is a specialist in the use of natural gas for vehicles (NGV), a line of business which it has already developed in Latin American countries and Italy, where natural gas is commonly used as a vehicle fuel. In Spain, it commercialises this natural gas application under the "gn auto" trademark.

Through the "gn auto" line of business, Gas Natural 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 ensuring the installations are fully available.

Gas Natural has taken important strides in its plan to enter the natural gas for vehicles market in Spain:

- The Company has set up five new filling stations, with particular focus on the three new stations in Barcelona set up with the urban waste collection companies Cespa, CLD and Urbaser.
- Gas Natural has won a tender for the construction and operation of the new EMT bus station in Madrid, with capacity for over 400 buses. The bus station will be the biggest in Europe with these characteristics and one of the largest in the world.

Gas Natural is likewise working to develop the business model of the electric car, together with diverse Administrations and driven by the different national plans for this transportation alternative.

Gas Natural continued its intensive development of its energy solutions and services that provide added value, in the residential, tertiary and industrial markets. The Company participates actively in developing the energy efficiency market, in line with its energy policies to promote efficiency and savings.

Gas Natural also reached the figure of 1,420,000 maintenance contracts for installations and gas devices for domestic customers, developing its own operations platform with over 160 associated companies, connected through an online mobility system, which has enabled more features and better quality of the service. It is now the most popular service according to our customers.

Lastly, Gas Natural increased the number of multiproduct contracts with its customers by 0.3%, up to 2,125,270, placing the number of contracts/customer at 1.39 at 31 December 2009.

Unión Fenosa Gas

This section pools together the gas supply and commercialisation activities carried out by Unión Fenosa Gas and includes the liquefaction infrastructures in Damietta (Egypt), regasification infrastructures in Sagunto and tanker fleet management.

Unión Fenosa Gas is 50% held by Gas Natural and is included in the consolidated profits (losses) using the proportional integration method.

Ebitda in 2009 recorded profits of 214 million euros, a decrease of 33.7% conditioned by the reduced level of activity in a more unfavourable energy scenario than in 2008.

Gas supplied in 2009 fell 4.8%. Sales to the industrial sector dropped 3.7%, to operators 0.3%, while sales to combined cycles decreased 5.7%, accounting for 60.7% of the total. In addition, 18,396 GWh of power was managed in trading operations.

The gas purchased through long-term contracts with Egypt and Oman has covered virtually all gas needs in the Spanish market over the period, and it was only necessary to purchase 6.7% of all gas from other sources.

The main infrastructures of the gas business (liquefaction, sea transportation regasification) have maintained their operating criteria of availability and efficiency in accordance with forecast values.

The liquefaction plant in Damietta (Egypt) maintained a high level of production, reaching 50,978 GWh, up 3% on 2008. The number of vessels loaded was 57, 34 of which belonged to Unión Fenosa Gas and the rest to other operators.

The regasification plant in Sagunto produced 65,115 GWh, unloaded from 100 vessels, 42 of which were for Unión Fenosa Gas (36,691 GWh, 56.3% of the total).

The Sagunto regasification plant continues with the works to build the fourth tank. This project was approved by the Ministry of Industry, Tourism and Trade in July 2009. This second enlargement of the plant also includes the sixth vaporiser.

Main figures. Unión Fenosa GAS

	2009	2008	%
Gas commercialisation in Spain (GWh)	52,212	54,816	(4.8)
Trading (GWh)	18,396	23,491	(21.7)
Liquefaction (GWh)	50,978	49,515	3.0
Group	29,669	23,777	24.8
Other operators	21,309	25,738	(17.2)
Regasification (GWh)	65,115	67,681	(3.8)
Group	36,691	32,714	12.2
Other operators	28,424	34,967	(18.7)

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

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 and prepared in accordance with International Financial Reporting Standards as adopted by the European Union. 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, 2009, the consolidated income statement, the consolidated statement of comprehensive income, the statement of changes in consolidated net equity, 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 comprehensive income, the statement of changes in consolidated net equity, 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 2009. Our opinion refers solely to the consolidated annual accounts for 2009. On February 9, 2009 we issued our audit report on the consolidated annual accounts for 2008, in which we expressed an unqualified opinion.

In our opinion, the accompanying consolidated annual accounts for 2009 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, 2009 and the consolidated results of their operations, the changes in consolidated net equity 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 2009 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 2009. 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
Partner

February 12, 2010

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

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Consolidated Balance Sheet

(Million Euros)

	31.12.2009	31.12.2008
Assets		
Intangible assets *(Note 5)*	10,324	1,617
Goodwill	6,056	546
Other intangible assets	4,268	1,071
Property, plant and equipment *(Note 6)*	24,683	9,988
Investments recorded using the equity method *(Note 7)*	141	42
Non-current financial assets *(Note 8)*	604	2,820
Deferred income tax assets *(Note 21)*	956	339
Non-current assets	**36,708**	**14,806**
Non-current assets held for sale *(Note 9)*	1,694	5
Inventories *(Note 10)*	740	560
Trade and other receivables *(Note 11)*	4,234	2,785
Trade receivables	3,454	2,370
Other receivables	740	398
Current deferred income tax assets	40	17
Other current financial assets *(Note 8)*	1,387	360
Cash and cash equivalents *(Note 12)*	589	249
Current assets	**8,644**	**3,959**
Total assets	**45,352**	**18,765**

Net equity and liabilities		
Share capital	922	448
Share premium	3,331	–
Reserves	5,675	5,158
Profit for the year attributed to the Equity holders of the Company	1,195	1,057
Interim dividend	(324)	(215)
Adjustments for changes in value	(118)	(72)
Available-for-sale financial assets	19	57
Hedging operations	(99)	(78)
Cumulative translation adjustments	(38)	(51)
Net equity attributable to the Company's equity holders	**10,681**	**6,376**
Minority interests	**1,496**	**345**
Total net equity *(Note 13)*	**12,177**	**6,721**
Grants *(Note 14)*	705	606
Non-current provisions *(Note 15)*	1,881	625
Non-current financial liabilities *(Note 16)*	18,658	4,451
Borrowings	18,222	4,449
Other financial liabilities	436	2
Deferred income tax liability *(Note 21)*	2,700	526
Other non-current liabilities *(Note 18)*	1,077	706
Non-current liabilities	**25,021**	**6,914**
Liabilities linked to non-current assets held for sale *(Note 9)*	484	–
Current provisions *(Note 15)*	128	146
Current financial liabilities *(Note 16)*	2,849	934
Borrowings	2,650	924
Other financial liabilities	199	10
Trade and other payables *(Note 19)*	4,013	2,865
Trade payables	3,322	2,345
Other payables	465	311
Current deferred income tax liabilities	226	209
Other current liabilities *(Note 20)*	680	1,185
Current liabilities	**8,154**	**5,130**
Total net equity and liabilities	**45,352**	**18,765**

Notes 1 to 37 form an integral part of these consolidated annual accounts.

Consolidated Income Statement

(Million Euros)

	2009	2008
Sales *(Note 22)*	14,879	13,544
Procurements *(Note 23)*	(9,133)	(9,796)
Other operating income *(Note 24)*	124	58
Personnel cost *(Note 25)*	(600)	(338)
Other operating expenses *(Note 26)*	(1,518)	(985)
Depreciation and amortisation expenses *(Notes 5 and 6)*	(1,400)	(726)
Release of fixed assets grants to income and others *(Note 14)*	46	37
Other results *(Note 27)*	50	–
Operating income	**2,448**	**1,794**
Financial income	82	132
Finance expense	(925)	(419)
Variations in fair value of financial instruments	25	17
Net exchange gains/losses	1	7
Gain on sales of financial instruments	101	14
Net financial income *(Note 28)*	**(716)**	**(249)**
Profit of entities recorded by equity method *(Note 7)*	59	6
Income before taxes	**1,791**	**1,551**
Income tax expense *(Note 21)*	(440)	(379)
Net income for the year from continuing operations	**1,351**	**1,172**
Net income for the year from discontinued operations net of tax *(Note 9)*	39	–
Consolidated net income for the year	**1,390**	**1,172**
Attributable to:		
Equity holders of the Company	1,195	1,057
Minority interests	195	115
	1,390	**1,172**
Basic and diluted earnings per share in Euros from continuing activities attributable to the equity holders of the parent Company *(Note 13)*	1.45	2.05
Basic and diluted earnings per share in Euros attributable to the equity holders of the parent Company *(Note 13)*	1.48	2.05

Notes 1 to 37 form an integral part of these consolidated annual accounts.

Consolidated Statement of Comprehensive Income

(Million Euros)

	2009	2008
Consolidated income for the year	**1,390**	**1,172**
Other comprehensive income recognised directly in net equity	**133**	**(275)**
Valuation of available-for-sale financial assets	67	(126)
Cash flow hedges	(123)	(121)
Cumulate translation adjustment	166	(99)
Actuarial gains and losses and other adjustments	30	(15)
Companies measured by equity accounting	1	–
Tax effect	(8)	86
Releases to income statement	**(36)**	**11**
Valuation of available-for-sale financial assets	(101)	(4)
Cash flow hedges	87	17
Cumulate translation adjustment	(12)	–
Companies measured by equity accounting	–	–
Tax effect	(10)	(2)
Other comprehensive income for the year	**97**	**(264)**
Total comprehensive income for the year	**1,487**	**908**
Attributable to:		
Equity holders of the Company	1,166	839
Minority interests	321	69

Statement of Changes in Consolidated Net Equity

(Million Euros)

	Net equity attributable to the company's equity holders						
	Share Capital	Share premium and Reserves	Profit for the year	Adjustments for change in value	Subtotal	Minority interests	Net Equity
Balance at 1.1.08	**448**	**4,523**	**960**	**139**	**6,070**	**357**	**6,427**
Total comprehensive income for the year	–	(7)	1,057	(211)	**839**	69	**908**
Dividends distribution	–	427	(960)	–	**(533)**	(82)	**(615)**
Increase/decrease for business combinations	–	–	–	–	–	–	**–**
Other variations	–	–	–	–	–	1	**1**
Balance at 31.12.08	**448**	**4,943**	**1,057**	**(72)**	**6,376**	**345**	**6,721**
Total comprehensive income for the year	–	17	1,195	(46)	**1,166**	321	**1,487**
Dividends distribution	–	285	(1,057)	–	**(772)**	(135)	**(907)**
Capital Increase *(Note 13)*	474	3,445	–	–	**3,919**	(488)	**3,431**
Increase/decrease for business combinations *(Note 30)*	–	14	–	–	**14**	1,946	**1,960**
Other variations *(Note 13)*	–	(22)	–	–	**(22)**	(493)	**(515)**
Balance at 31.12.09	**922**	**8,682**	**1,195**	**(118)**	**10,681**	**1,496**	**12,177**

Notes 1 to 37 form an integral part of these consolidated annual accounts.

Consolidated Cash Flow Statement

(Million Euros)

	2009	2008
Net income before tax	**1,791**	**1,551**
Adjustments to net income:	**2,094**	**1,110**
Amortisation and depreciation of fixed assets	1,415	726
Other adjustments to net income	679	384
Changes in working capital	**(362)**	**(115)**
Other cash generated from operations:	**(1,011)**	**(523)**
Interest paid	(649)	(306)
Income tax paid	(362)	(217)
Net cash generated from operating activities *(Note 29)*	**2,512**	**2,023**
Cash flows into investing activities:	**(16,154)**	**(2,829)**
Group companies, associates and business units	(13,878)	(28)
Purchases of Property, plant and equipment and intangible assets	(1,792)	(1,088)
Other financial assets	(484)	(1,713)
Proceeds from divestitures:	**2,068**	**66**
Group companies, associates and business units	1,278	–
Sales of Property, plant and equipment and intangible assets	26	19
Other financial assets	764	47
Other cash flows from investing activities:	**271**	**111**
Proceeds from dividends	67	11
Proceeds from interest	14	20
Other proceeds/(payments) from/(of) investing activities *(Note 14)*	190	80
Net cash received from investing activities	**(13,815)**	**(2,652)**
Receipts/(payments) for equity instruments:	**3,401**	**–**
Issue	3,401	–
Cash flows from financing activities:	**9,039**	**1,286**
Proceeds from borrowings	21,510	2,865
Repayment of borrowings	(12,471)	(1,579)
Dividends paid	**(756)**	**(580)**
Other cash flows from financing activities	**(54)**	**32**
Net cash received from financing activities	**11,630**	**738**
Effect of exchange rates on cash and cash equivalents	**13**	**(12)**
Variation in cash and cash equivalents	**340**	**97**
Cash and cash equivalents at beginning of the year	249	152
Cash and cash equivalents at year end	589	249

Notes 1 to 37 form an integral part of these consolidated annual accounts.

Notes to the Consolidated Annual Accounts of Gas Natural for 2009

Note 1. General information

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

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

The acquisition and merger of Unión Fenosa, S.A. in 2009 (Notes 3.4.1.e and 30) has meant a significant advance in the development of GAS NATURAL and its strategy of becoming a leading gas and electricity Group.

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

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

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

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

Note 2. Regulatory framework

a) Regulation of the natural gas industry in Spain

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 3 August.

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

Regulation of natural gas activities in Spain

The natural gas activities are divided into: 1) regulated 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.

  The regulatory framework for the natural gas industry in Spain has a procedure for settlement compensation amongst companies in the sector for net invoicing of gas acquisition and other costs, so that each company receives the appropriate remuneration for their regulated activities.
- *Subjection to specific obligations:* The carrying out of the regulated activities is subject to specific obligations to ensure the development of competition in commercialisation. The two main obligations in this sense consist of permitting access by third parties to the transport and distribution pipelines (including 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.

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

1.1. Transport

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

- *Regasification:* Natural gas is imported to Spain through a pipeline network (in gas form) and by gas tankers (in liquid form, hereon, 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.

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

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

Ministerial Order ITC/3520/2009, of 31 December established the remuneration for regulated business in the gas sector for 2010. Specifically, the initial remuneration for GAS NATURAL for 2010 totals Euros 1,070 million for distribution and Euros 33 million for transport activities.

2. Unregulated activities

2.1. Supplies (import of natural gas):

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

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

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 America

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

In Mexico, PEMEX is the dominant operator.

In Brazil, Petrobras is the dominant operator.

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

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

c) Regulation of the natural gas industry in Italy

In Italy, natural gas supply activity has been fully liberalised since 1 January, 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 1 January 2010, when all the consumers will be free to choose their distributor.

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

d) Electricity Sector in Spain

Main characteristics of the electricity sector in Spain

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

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

- The electricity consumed in Spain is mostly generated domestically, since the international connections with France and Portugal have a very small capacity.
- Since July 1, 2007 the Iberian Electricity Market (MIBEL) has begun to operate effectively between Spain and Portugal, which has involved the integration of the electricity systems of both countries (although this integration is still not perfect).
- The electricity system is not self-sufficient and its maintenance generates an annual deficit that has had to be financed by the electricity companies.

The regulation of electricity activities in Spain

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

1. Regulated activities

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

- *Need for prior government authorisation:* The undertaking of regulated activities requires prior regulated administrative authorisation. In order to obtain this authorisation the applicant must basically demonstrate its legal, technical and economic capacity to exercise this activity. The abovementioned authorisation grants a legal monopoly in a given territory.
- *Remuneration established by legislation:* The general directives that set the remuneration for these activities are governed by Royal Decree 2819/1998 of December 23, for transport, and by Royal Decree 222/2008 of 15 February, for distribution, and are designed to ensure proper remuneration for these activities. The remuneration to be received is updated annually by ministerial order.

  The regulatory framework for the electricity industry in Spain has a procedure for settlement compensation amongst companies in the sector for net invoicing of electrcity acquisition and other costs, so that each company receives the appropriate remuneration for their regulated activities.
- *Subjection to specific obligations:* The carrying out of the regulated activities is subject to specific obligations to ensure the development of competition in commercialisation. The two main obligations in this sense consist of permitting access by third parties to transport and distribution and the obligation to keep regulated and unregulated activities separate.

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

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

1.1. Transport

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

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

1.2. Distribution

The distribution of electricity includes all activities that bring electricity from the high tension grid to the final consumer. 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 from 1 July 2009 the distributors have been restricted to the management of the distribution networks, and, as the case may be, the commercial companies in each group are in charge of the last resort supplies, as mentioned in section 2.2.

Ministerial Order ITC/3519/2009/28 December laid down the remuneration for the regulated business in the electricity sector for 2010. Specifically, the initial remuneration for GAS NATURAL for 2010 totals Euros 697 million for distribution and Euros 48 million for transport.

2. Unregulated activities:

2.1. Electricity generation:

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

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

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

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

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

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

2.2. The commercialisation of electricity:

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

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

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

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

e) Regulation of the international electricity sector

1. Generation

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

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

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

2. Distribution

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

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

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

Note 3. Basis of presentation and accounting policies

3.1 Basis of presentation

The Annual accounts of Gas Natural SDG, S.A. and the Consolidated annual accounts of GAS NATURAL for the year 2008 were adopted by the General Meeting of Shareholders held on 26 June 2009.

The Consolidated annual accounts for the year 2009, which have been formulated by the Board of Directors on 29 January 2010, will be submitted, as will those of the investee companies, for approval by their respective General Meetings of Shareholders. It is expected that they will be adopted without modification.

The Consolidated annual accounts of GAS NATURAL for 2009 have been prepared on the basis of the accounting records of Gas Natural SDG, S.A. and the other companies in the Group, in accordance with the provisions of International Financial Reporting Standards adopted by the European Union (hereon "IFRS-EU"), under Regulation (EC) nº 1606/2002 of the European Parliament and the Council.

These Consolidated annual accounts fairly present the consolidated equity and consolidated financial situation of GAS NATURAL at 31 December 2009, and the consolidated results of its operations, the changes in the consolidated statement of comprehensive income, the changes in consolidated net equity and the consolidated cash flows of GAS NATURAL for the year then ended.

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

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

3.2 New IFRS-EU and IFRIC

As a result of adoption, publication and coming into force on 1 January 2009 the following new IFRS and IFRIC have been applied:

- IAS 1 (modification) "Presentation of Financial Statements".
- IAS 23 (modification) "Borrowing Costs".
- IFRS 2 (modification) "Share-based Payments".
- IFRIC 13 "Customer Loyalty Programs".
- IFRS 1 (modification) "First-time Adoption of IFRS" and IAS 27 (modification) "Consolidated and Separate Financial Statements".
- Improvements in International Financial Reporting Standards
- IAS 32 (modification) "Financial Instruments: Presentation" and IAS 1 (modification) "Presentation of Financial Statements"
- IFRS 7 (modification) "Financial instruments: Information to be Disclosed"
- IFRIC 9 (modification) "New Measurement of Embedded Derivatives" and IAS 39 (modification) "Financial instruments: Recognition and Measurement".
- IFRIC 16 "Hedges of a Net Foreign Investment".

The application of the above standards, modifications and interpretations has not had a significant impact on the Consolidated annual accounts (Note 3.3).

In 2009 The Official Gazette of the European Union published the following new IFRS and IFRIC coming into force for the years beginning 1 January 2010, which have not been adopted in advance:

- IFRS 3 (revised), "Business Combinations".
- IAS 27 (revised), "Consolidated and Separate Financial Statements".
- IFRS 5 (modification), "Non-current Assets Held for Sale and Discontinued Activities" (and respective modification of IFRS 1 "First-time Adoption of IFRS").
- Improvements in International Financial Reporting Standards.
- IFRS 1 (Revised), "First-time Adoption of IFRS".
- IFRIC 17 "Distribution of Non-monetary Assets to Owners".
- IFRIC 18 "Transfer of Assets from Customers".
- IAS 32 (modification) "Classification of Rights Issues "
- IAS 39 (modification) "Hedge Accounting"
- IFRIC 15 "Agreements for the Construction of Real Estate".

On the basis of the analysis of these new accounting standards and interpretations to be applied in the years beginning 1 January 2010, GAS NATURAL does not expect that their application will have significant effects on these Consolidated annual accounts.

On the other hand, IFRIC 12 "Service Concession Agreements", which was issued by the IASB, has not been applied, given that the European Union has adopted it for the years beginning 1 January 2010. IFRIC 12 affects the service concession agreements that meet two conditions: a) when the grantor controls the services that the concessionaire must provide b) when the grantor controls the significant residual participation in the infrastructure at the end of the term of the agreement. The infrastructures under the concession agreement will not be recognised as property, plant and equipment of the concessionaire, and two accounting models will be established (financial assets and intangible assets) based on the nature of the economic benefits to be received by the concessionaire. GAS NATURAL is completing a study on the impact of this interpretation, although it believes that the intangible assets model is applicable to the gas distribution business in Argentina, Brazil and Italy, which would involve an estimated reclassification of Euros 1,058 million from "Property, plant and equipment" to "Intangible assets", which would not have a significant impact either on the financial position or the Consolidated income statement.

3.3 Comparability

As required under IFRS-EU, these Consolidated annual accounts for 2009 include, for comparative purposes, the aggregates for the prior year. Due to the fact that IAS 1 (Revised) has been adopted this year "Presentation of Financial Statements", the denomination and format of the Consolidated annual accounts have therefore been modified in relation to the contents of the Consolidated annual accounts for 2008.

As indicated in Note 3.4.1.e, as a result of the acquisition of Unión Fenosa, S.A, as from 30 April 2009, Unión Fenosa, S.A. and its subsidiary companies (hereon UNIÓN FENOSA) have been fully consolidated.

The Consolidated income statement, the Consolidated statement of comprehensive income, the Statement of changes in consolidated net equity and the Consolidated cash flow statement for the year ended 31 December 2009 include the operations of UNIÓN FENOSA as from 30 April 2009, while those relating to 2008 do not include any aggregates from these companies. On the other hand, the Consolidated Balance sheet at 31 December 2009 contains the assets and liabilities of UNIÓN FENOSA, which are not included on the Consolidated balance sheet at 31 December 2008.

Accordingly, the acquisition of UNIÓN FENOSA must be taken into account when comparing the respective aggregates at 31 December 2009 to those at 31 December 2008.

3.4 Accounting policies

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

3.4.1 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.

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

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

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

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

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

In respect of the acquisitions of minority interests until 2008 the surplus price paid in relation to the net carrying value was recognised as goodwill and as from 2009 the difference between the price paid and its net carrying value, or as the case may be, the results of its sale, is recorded as equity transactions. This modification was made after the adoption by the European Union of IAS 27 revised, which GAS NATURAL will begin applying on 1 January 2010, which stipulates this treatment for the transactions with the minority interest, insofar as more appropriate information is provided in considering that the minority interest is a separate component of equity and fosters the comparability of the financial information. In 2008 no transactions of this type were carried out, and the impact of this modification on the Consolidated annual accounts of GAS NATURAL for prior years has not been significant.

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

b) Joint Ventures

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

GAS NATURAL'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

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

Appendix II lists the main variations in the consolidation scope in 2008 and 2009.

2008

In 2008 the main variation that took place in the consolidation scope was the acquisition of Pitta Construzioni, S.P.A. (Note 30).

2009

In 2009 most of the companies incorporated in the consolidation scope relate to the acquisition of UNIÓN FENOSA (Notes 3.4.1.e and 30).

The deconsolidation of companies mainly involves:

– the sale of the Colombian company Empresa de Energía del Pacífico, S.A. (hereon EPSA) (Note 9).

– the sale of many companies and gas distribution and supply assets in Cantabria, Murcia and the Basque Country (Note 9).

e) Acquisition of Unión Fenosa, S.A.

Year 2008

In 2008 the agreements signed and transactions carried for the acquisition of Unión Fenosa, S.A. were as follows:

– 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 45.3% 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 9.9% of the voting rights of Unión Fenosa, S.A. took place over the following 5 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 18 September 2008, the CNE ruled that its authorisation was not required for the acquisition by GAS NATURAL of the remaining 35.3% of the voting rights in Unión Fenosa owned by ACS, and thus the first of the above-mentioned conditions was met.

At 31 December 2008 the anti-trust authorities had yet to hand down their resolution, and, accordingly, the above-mentioned 35.3% purchase and sale had not materialised.

After acquiring title of the shares held by ACS and given that GAS NATURAL would have obtained, consequently, more than 30% of the voting rights in Unión Fenosa, S.A., GAS NATURAL would be obligated to file a take-over bid for all the shares of Unión Fenosa, S.A. that it did not own within one month, until which time its voting rights would be limited to 30%. The price offered to the shareholders of Unión Fenosa, S.A. should be at least equal to the fair price as defined in legislation on Public Takeover Bids, which, at 31 December 2008 was 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 2 January 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, was reduced by the gross dividend paid out to Euros 18.05 per share.

The shareholdings representing 9.9% that had already been acquired were recorded at 31 December 2008 under "Financial assets available for sale" (Note 8).

In relation to the shareholding representing 35.3% that was pending acquisition and included in the same agreement by virtue of which 9.9% of the shares mentioned above were acquired, it was believed that this acquisition, together with the shares that would be acquired through the settlement of the obligatory takeover bid mentioned above, would give rise to the business combination of Unión Fenosa, S.A. in the future. Consequently, the acquisition mentioned above of 35.3% of the shares was outside the scope of IAS 39 and had 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 4.7% of its voting rights, which were transferred on that date at an effective price of Euros 18 per share, which represented an amount of Euros 776 million, with deferred payment, which would be paid as follows: 1) Euros 200 million would be paid on the same date on which GAS NATURAL pays ACS for its 35.3% of the shares of Unión Fenosa, S.A.; and 2) Euros 576 million would be paid on the third trading day following the date of publication of the result of the takeover bid of Unión Fenosa or 30 April 2009, whichever date came first.

These shareholdings had been recorded under the line item available-for-sale financial assets (Note 8) at 31 December 2008.

– **Equity Swap entered into with UBS Limited**

On 14 August 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 5.2% of its voting rights, as the underlying asset, which would 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 would be obtained. The settlement period, as the case may be, by means of a physical settlement of shares, which began 19 September 2008, ended on 27 April 2009 (i.e., 3 trading days before the date of maturity, set for 30 April 2009). GAS NATURAL could opt for early cancellation of the Equity Swap, subject to advance notice of 15 trading days, in which case it would end on the date set out in the notification.

– **Equity Swap entered into with ING Belgium, Spain Branch**

On 24 September 2008, GAS NATURAL entered into a new Equity Swap agreement with the financial entity ING Belgium, S.A., Spain Branch, on 27,421,139 shares of Unión Fenosa, S.A., as the underlying asset, representing approximately 3% of its voting rights. GAS NATURAL had 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 14 October 2008 and ended on 27 April 2009 (i.e., 3 trading days before the expiry date, set for 30 April 2009). GAS NATURAL had the option of early termination of the Equity Swap by providing prior notification of 5 trading days, in which case the swap would be cancelled on the date stated on the notification.

– **Equity Swap entered into with Société Générale, Spain Branch**

GAS NATURAL entered into an Equity Swap on 3 November 2008, which was amended on 24 December 2008, with Societé Génerale, Spain Branch, up to a maximum of 11,395,623 shares of Unión Fenosa, S.A., as the underlying asset, representing 1.2% of the voting rights. GAS NATURAL had 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 would be a cash settlement, unless GAS NATURAL provides notification prior to 23 March 2009 (i.e. 26 trading days prior to the date of expiry, set for 30 April 2009) of its intention to carry out a physical settlement. GAS NATURAL had the option of early termination of the Equity Swap by providing prior notification on or prior to 29 March 2009, indicating the settlement method chosen, in which case the settlement would take place on the third trading day after the notification of early termination.

– **Purchase-sale agreement entered into with Caja Navarra**

On 24 September 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 0.3% of the latter's voting rights, which were owned by Caja Navarra. The settlement of the transfer, i.e., the hand over of the shares and the payment of the purchase price would take place at the earliest of the following dates: 1) the third trading day after that on which the settlement was concluded of the Takeover Bid for the shares of Unión Fenosa, S.A. that GAS NATURAL planned to file; 2) 31 December 2009 or the immediately preceding trading day, in the event that the settlement of the Bid had not occurred prior to said date or was not scheduled for said date, or 3) the fifth trading day following the date on which GAS NATURAL would announce 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 Swap contracts and the Share Purchase and Sale Agreement entered into with Caja Navarra gave GAS NATURAL the right to acquire a total of 88,607,762 shares, representing 9.7% of the voting rights of Unión Fenosa, S.A., with an average price of Euros 17.33 per share. Insofar as these financial instruments are not liquidated through the physical handover of the shares, as the case may be, and of the aforementioned purchase-sale of shares, the voting rights of the same would pertain to the owners of the shares.

The aforementioned Equity Swaps contracts and the forward Share Purchase and Sale Agreement at a fixed price entered into with Caja Navarra were classified as financial derivatives and were recorded at 31 December 2008 under "Financial assets at fair value through profit and loss" (Note 8).

At 31 December 2008, Gas Natural SDG, S.A. held, therefore, a shareholding of 14.7% of the share capital of Unión Fenosa, S.A. (9.9% acquired from the ACS Group as per the share purchase and sale agreement and 4.7% acquired from Caixanova), which was recorded under "Financial assets available for sale" (Note 8), which total cost came to Euros 2,457 million.

Year 2009

In 2009 the agreements entered into and the transactions carried out for the acquisition of Unión Fenosa, S.A. have been as follows:

– **Equity Swap entered into by Société Générale, Branch in Spain**

On 14 January 2009, GAS NATURAL entered into a new Equity Swap contract with Société Générale, Spain Branch, on 6,885,127 shares of Unión Fenosa, S.A., representing 0.7% of its voting rights, as an underlying asset. This Equity Swap allowed GAS NATURAL to settle the operation, either through differences (Liquidation in cash), or through the physical handover of the shares (Physical settlement), the latter subject to the necessary authorisation. The settlement could be made for differences, provided that GAS NATURAL reported its intention to settle through the physical handover of the shares before 22 April 2009 (26 trading days prior to the maturity date, set for 29 May 2009). GAS NATURAL had the option to terminate the Equity Swap in advance, provided that this was reported on or before 22 April 2009.

– **Public Takeover Bid**

On 26 February 2009, after receiving authorisation from the anti-trust authorities, Gas Natural SDG, S.A. acquired the aforementioned 35.3% of the share capital of Unión Fenosa, S.A. totalling Euros 5,825 million from ACS.

Given that Gas Natural SDG, S.A. reached a percentage of voting rights of Unión Fenosa, S.A. of 50.0%, greater than the 30.0%, it was obligated to file a Public Takeover Bid for all the shares of Unión Fenosa, S.A. that it did not own, during which time its voting rights were limited to 30.0%, by virtue of which it appointed 4 Directors out of a total of 20 Directors to the latter's Board of Directors.

As a result of this representation on the Board of Directors there is a significant influence, and, accordingly, for accounting purposes, the shareholding in Unión Fenosa, S.A. qualifies as a shareholding in an associate and is consolidated by the Gas Natural Group by equity accounting as from 28 February 2009.

The Takeover Bid was approved by the CNMV (Comisión Nacional del Mercado de Valores) on 18 March, and the positive result of the Takeover Bid was reported to the CNMV on 21 April 2009, by virtue of which Gas Natural SDG, S.A., as a result of this settlement, acquired an additional shareholding in Unión Fenosa, S.A. of 34.8% for Euros 5,734 million. During April 2009, Gas Natural SDG, S.A. acquired additional shareholdings of 10.1%, as a result of the liquidation of the aforementioned Equity Swaps, as well as 0.3%, as a result of the liquidation of the aforementioned forward purchase agreement entered into with Caja Navarra, for a total amount of Euros 1,722 million. Through all these acquisitions, Gas Natural SDG, S.A. reached a total shareholding total of 95.2% in the share capital of Unión Fenosa, S.A. for an accumulated amount, including the costs of acquisition, of Euros 15,799 million.

As a result of the culmination of this entire process, on 23 April 2009 Gas Natural SDG, S.A. had a majority of the Directors on the Board of Directors of Unión Fenosa, S.A. and took effective control in order to direct its financial and operational policies, although, for accounting purposes, it has used the date of 30 April 2009, as it believes that the difference between both dates is not significant. As from the latter date, the shareholding in Unión Fenosa, S.A. qualifies as a shareholding in a subsidiary company and is fully consolidated by the Gas Natural Group (Note 30).

– **Takeover merger**

The General Meeting of Shareholders held on 26 June 2009 adopted the merger by Gas Natural SDG, S.A. (as merging company) and Unión Fenosa, S.A. and Unión Fenosa Generación, S.A. (as merged companies) through the winding up without liquidation of the latter, with the transfer en bloc to the merging company of all their equity (Note 13). This merger was subject to obtaining certain administrative authorisations and the expiry of the period for opposition by creditors. The merger resolution adopted by the Directors of the merged companies and the merging company included the following terms and conditions:

- Merger balance sheets to be those closed at 31 December 2008.
- Establishing 1 May 2009 as the date as from which the operations of the merged companies would be considered carried out for accounting purposes by the merging company.
- Establishing that the new shares issued by Gas Natural SDG, S.A. would give their holders the right to a share in the profits of Gas Natural SDG, S.A. as from the date on which the merger deed was inscribed in the Mercantile Registry.
- To use the Special Tax Neutral Regime for the merger operation as established in Chapter VIII, Section VII of the Corporate Income Tax Act.

On 1 September 2009, after compliance with the legal deadlines and after obtaining all the necessary authorisations, the merger was inscribed in the Mercantile Registry, and took effect as from that date. As a result of the swap equations approved and reviewed by an independent expert, the merging company, Gas Natural SDG, S.A. issued 26,204,895 shares whose fair value was Euros 375 million, in accordance with share price at that date. Given that the shares received related to the minority shareholding of 4.8% in the subsidiary company Unión Fenosa, S.A. that was merged, this transaction was treated in accounting terms as an acquisition of minority interests, totalling Euros 488 million, and, accordingly, the difference of Euros 113 million in relation to the fair value of the shares given was recorded under "Reserves" (Note 13).

3.4.2 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, 2009 and 2008 have been:

	31 December 2009		31 December 2008	
	Closing Rate	Average Accumulated Rate	Closing Rate	Average Accumulated Rate
US Dollar (USD)	1.44	1.39	1.39	1.47
Argentinean Peso (ARS)	5.45	5.18	4.78	4.61
Brazilian Real (BRL)	2.51	2.77	3.25	2.67
Mexican Peso (MXN)	18.79	18.79	19.17	16.29
Colombian Peso (COP)	2,945	2,990	3,122	2,874
Guatemala Quetzal (GTQ)	12.04	11.39	–	–
Nicaragua Córdoba (NIO)	30.02	28.39	–	–
Panamá Balboa (PAB)	1.44	1.39	–	–
Moldovan Lei (MDL)	17.72	15.51	–	–

3.4.3 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.

3.4.4 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 1 January 2004 is recorded at the amount recognized as such in the 31 December 2003 consolidated financial statements prepared using Spanish GAAP.

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

The impairment losses on goodwill cannot be reserved.

b) Concessions and other rights to use

The concessions and other rights to use are stated at their cost of acquisition if they are acquired directly from a public entity or similar, or at the fair value attributed to the corresponding concession in the event of being acquired as part of a business combination.

The concessions and other rights of use are amortised on a straight-line basis over the duration of each one, except in the case of the Maghreb-Europe gas pipeline, which, in order to properly reflect the consumption pattern expected from future economic profits, is based on the volume of gas piped over the life of the right of use, which involves accumulated amortisation that is no less than that obtained by using the straight-line amortisation method.

Furthermore, the concessions for the distribution of electricity in Spain, acquired as part of the business combination of UNIÓN FENOSA (Note 30), has no legal or any other type of limit. Accordingly, since we are dealing with intangible assets with an undefined life, they are not amortised, although it is possible to test them for possible impairment annually as per that set out in Note 3.4.6.

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 in the consolidated income statement as incurred.

e) Other intangible assets

Other intangible assets mainly include the following:

- The cost of acquisition of the exclusive 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 no 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.

- Gas supply contracts and other contractal rights purchased as part of a business combination, which are valuated at fair value and amortised over the contract term.

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

3.4.5 Property, plant and equipment

a) Cost

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

The financial cost for the technical installation projects 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 2 to 6 years) while minor maintenance is expensed as incurred.

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

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

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

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 (Note 6). Estimated useful lives are as follows:

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

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

The calculation of the depreciation charge for the hydro-electric plants differentiates between the different types of assets they have, distinguishing between the investments in civil works (which are depreciated on the basis of the concession period, or 100 years if there is no concession), electro-mechanical equipment (40 years) and the other fixed assets (14 years), taking into account, in any case, the use of the plant and the maximum term of the concessions (expiring between 2011 and 2060).

GAS NATURAL depreciates its nuclear energy plants over a useful life of 40 years. However, the license to operate these plants usually covers a period of 30 years as from their start up, while a renewal cannot be applied for until termination. However, taking into account the optimal performance of these plants, and their maintenance programs, it is considered that the renewal of these permits could be obtained at least until their 40-year useful life period has been reached.

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

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount, i.e., when the asset is no longer useful such as due to a rerouting of the distribution pipeline (see Note 3.4.6).

c) Exploration operations and production of gas

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

– Explorations costs

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

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

– Investments in areas with reserves

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

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

3.4.6 Impairment of assets

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

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 electricity, the remuneration of regulated activities, 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 3.0%. The growth rates do not exceed the average long-term growth rate for the business in which the CGU operates. The discount rates before tax include the cost of capital of the business and the respective geographic area.

The rates applied in 2009 and 2008 have been as follows:

	Rates 2009 (%)	Rates 2008 (%)
Distribution of gas Latin America	11-20	12-18
Distribution of gas rest of Europe	9	8.5
Distribution of electricity Spain	8.7	–
Distribution of electricity Rest of Europe	13	–
Distribution of electricity Latin America	11-20	–
Generation of electricity in Spain	9-10	7
Generation of electricity – International	7.5-16	6-10
Unión Fenosa Gas	11	–

3.4.7 Financial assets and liabilities

Financial 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 12 months are considered non-current payables.

3.4.8 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.

The valuations made at fair value are classified using a fair value hierarchy reflecting the variables used to make these measurements. This hierarchy has three levels:

– Level 1: Valuations based on the share price of identical instruments in an official market.

– Level 2: Valuations based on variables that can be observed for assets or liabilities.

– Level 3: Valuations based on variables that are not based on observable market information.

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 the consolidated income statement.

c) Hedges of net foreign investments

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

d) 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.

e) 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.

3.4.9 Non-current assets held for sale and discontinued activities

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

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

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

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

3.4.10 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.

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

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

3.4.11 Share capital

Share capital is made up exclusively of ordinary shares.

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

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

3.4.12 Earnings per share

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

Diluted earnings per share are calculated as a quotient between Consolidated net income for the year attributable to the ordinary equity holders of the company adjusted by the effect attributable to the potential ordinary shares having a dilutive effect and the average weighted number of ordinary shares in circulation during this period, adjusted by the average weighted number of ordinary shares that would be issued if all the potential ordinary shares were converted into ordinary shares of the Company. Accordingly, the conversion is considered to take place at the beginning of the period or at the time of issue of the potential ordinary shares, if these have been placed in circulation during the period itself. Given that there is no forecast capital increase or issue of shares, the basic earnings per share and diluted earnings per share coincide.

Basic earnings per share from discontinued activities are calculated as a quotient between Net income for the year from discontinued operations net of tax and the average weighted number of ordinary shares in circulation during this period, excluding the average number of shares of the parent Company held by the Group.

3.4.13 Preference shares

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

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

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

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

3.4.14 Capital grants and deferred Income

GAS NATURAL receives compensation for amounts paid for the construction or acquisition of certain plant. In some cases, receives the assignment of facilities.

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

- Capital grants relating basically to Agreements with the Regional Governments for the gasification of municipalities and other investments in gas infrastructure, for which GAS NATURAL 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.

3.4.15 Provisions for employee obligations

a) Post-employment pension and similar obligations

– Defined contribution plans

For certain groups GAS NATURAL has recognised defined contribution plans for retirement and externally insured benefits for death and disability, under current legislation on pension plans and funds, which cover the liabilities acquired by GAS NATURAL with its current personnel affected. These plans recognise certain economic rights for past services that are paid in full and there is a commitment to contribute a percentage of computable salary depending on the group of origin.

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

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

– Defined benefit plans

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

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

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

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

b) Other post-employment benefit obligations

Some of GAS NATURAL'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.

3.4.16 Provisions

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

Provisions are measured at the present value of the 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.

GAS NATURAL has the obligation to dismantle certain facilities at the end of their useful life, such as those related to nuclear power plants and mines, as well as carry out environmental restoration where these are located. To do so, it is recorded under Property, plant and equipment the current value of the cost that these tasks would amount, which, in the case of nuclear plants, includes the time until ENRESA, the public entity, takes charge of the dismantling and management of radioactive waste, with a counter-entry under provisions for liabilities and charges.

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

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

3.4.17 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.

3.4.18 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.

3.4.19 Revenue and expenses recognition and payments for regulated activities

a) General

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 Group are eliminated.

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

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

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

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

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

The Ministerial Order of 28 October 2002 which regulates the procedures for the payment of the regulated gas activity stipulates that the deviations that come to light from the application of the payment procedure between net payable final income and the accredited remuneration each year, will be taken into account in the calculation of the tariffs, tolls and levies for the next two years. At the date of formulation of these consolidated annual accounts the final payments for 2007 and 2008 have not been published, although the provisional deviations for these years have been taken into account in order to calculate the tariffs, tolls and levies for 2009 and 2010. It is not expected that the final payments will lead to significant differences in relation to the estimates made.

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

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

c) Income from electricity activity and payments for regulated business

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

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

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

At the date of formulation of these Consolidated annual accounts the final payments for the period 2006-2008 have not been published, although it is not expected that the final payments will generate significant differences in relation to the estimates made.

In the years 2006 to 2009, given that the income collected by the companies in the Spanish electricity industry have not been sufficient to remunerate the different activities and costs of the system, the companies themselves, including Gas Natural SDG, S.A., and the merged company Unión Fenosa Generación, S.A., were forced to finance this income deficit, with the right to receive a reimbursement a posteriori, under current legislation.

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

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

The best estimate of the electricity and services provided that have not yet been billed is recognised as income.

GAS NATURAL has electricity generation capacity assignment contracts without a purchase option for its combined cycle plants in Mexico and Puerto Rico. Under these contracts, GAS NATURAL obtains fixed revenues for the availability and operations of the combined cycle plants during the term of the contracts. These contracts are classified as operating leases, and, accordingly, the fixed income is recognised on a straight-line basis in each year of the term of the contract, irrespective of the invoicing schedule agreed.

d) Other income

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

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

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

Interest income is recognized using the effective interest method.

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

3.4.20 Cash Flow Statements

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

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

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

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

3.4.21 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) Goodwill and intangible assets with an indefinite life

The goodwill and intangible assets with an indefinite life are tested annually for impairment.

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

GAS NATURAL considers that, on the basis of current knowledge, the changes forecast in the key cases on which the determination of the recoverable amounts are based, would not lead to the net carrying values of the CGUs exceeding the recoverable amounts. A sensitivity analysis has been performed on the discount rate used and the conclusion is that if it were 1% higher, all other assumptions remaining constant, there would be no impact on the possible recovery of the goodwills recorded.

b) 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.

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

c) 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.

d) 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.

Sectorial regulation has provided time until 30 June 2009 to comply with the obligation to subtract the amount equivalent to the emission rights assigned from the generation revenues (Note 2). The result of applying this legislation has not meant that GAS NATURAL has had to record significant amounts for the estimates made.

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

e) 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.

f) Useful lives of property, plant and equipment

The accounting treatment of investments in Property, plant and equipment includes estimates for determining their useful lives for depreciation purposes, and for determining the fair value at the acquisition date, for assets acquired in business combinations.

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

Note 4. Segment reporting

a) Main reporting presentation format: business segments

The business segments of GAS NATURAL are:

– Gas distribution. Gas distribution covers the regulated gas business, the remunerated gas and transport distribution business, the third party pipeline connection services, as well as activities related to distribution. Until 30 June 2008 it also included bundled tariff supply, which is now provided in the deregulated market as supply of last resort.

  Gas distribution includes the sales to regulated customers in Spain (until 30 June 2008), Latin America (Argentina, Brazil, Colombia and Mexico) and the Rest of Europe (Italy) at regulated prices. The regulated customers live in countries in which the natural gas market has not been deregulated, such as Latin America, or customers living in countries where the natural gas market has been deregulated but where customers have elected to remain in the regulated market.

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

  The electricity distribution business in Spain includes the regulated electricity distribution business and network services for customers, mainly connection rights, metering and other business related to third party access to the distribution network of GAS NATURAL. Since 1 July 2009 the so-called integrated tariff has been discontinued through the creation of the commercialisers of last resort.

  The electricity distribution business in Latin America relates to the regulated electricity distribution business in Colombia, Guatemala, Nicaragua and Panama.

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

- Electricity Generation. Includes the electricity generation from combined cycle, thermal, nuclear, hydro-electric and cogeneration plants and wind farms in Spain and internationally (Latin America, the Dominican Republic and Costa Rica, Puerto Rico and Kenya).

  The electricity generation business in Spain includes the electricity generation business, the supply of electricity to wholesale markets and the wholesale and retail commercialisation of electricity in the deregulated Spanish market (including the supply of last resort as from 1 July 2009).

- *Upstream & Midstream (UP & MID):*

  Upstream. Includes the gas exploration, gas production and transport activities not included in the Unión Fenosa Gas segment, starting from the point of extraction until the gas reaches the liquefaction plant and the liquefaction process.

  Midstream. Includes the value chain activities of Liquefied Natural Gas (LNG) not included in the Unión Fenosa Gas segment starting from the time the gas leaves the exporting countries (liquefaction plants) until the points of entry to end markets. These activities include the transport of LNG from the liquefaction plant using maritime transport, the regasification process and the operation of the Maghreb-Europe pipeline.

- Wholesalers and Retailers (W&R). Includes the natural gas supply and sale to Wholesalers and Retailers in the deregulated Spanish market (including the supply of last resort as from 1 July 2008), as well as the supply of products and services related to retail commercialisation in Spain, excluding the analogous activities in the Unión Fenosa Gas segment. Also includes the sales of natural gas to Wholesalers outside Spain.

- Unión Fenosa Gas (UF Gas): The gas supply and commercialisation activities carried out by the jointly controlled business with Unión Fenosa Gas, including the liquefaction facilities in Damietta (Egypt), the regasification facilities in Sagunto and the management of the fleet in Spain and abroad jointly with another partner.

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

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

Segmental financial information-Consolidated income statement

2009	Gas Distribution Spain	Gas Distribution Latin America	Gas Distribution Italy	Gas Distribution Total	Electricity Distribution Spain	Electricity Distribution Latin America	Electricity Distribution Moldova	Electricity Distribution Total	Electricity Generation Spain	Electricity Generation International	Electricity Generation Total	UP&MID	W&R	UF Gas	Other	Total
Total segment sales	1,360	1,959	183	**3,502**	523	1,238	109	**1,870**	3,476	970	**4,446**	276	6,853	348	425	**17,720**
Inter segment sales	(169)	(10)	–	**(179)**	(312)	(2)	–	**(314)**	(489)	–	**(489)**	(173)	(1,461)	(65)	(160)	**(2,841)**
Consolidated total sales	1,191	1,949	183	**3,323**	211	1,236	109	**1,556**	2,987	970	**3,957**	103	5,392	283	265	**14,879**
EBITDA (1)	927	510	56	**1,493**	385	242	16	**643**	806	246	**1,052**	181	396	122	50	**3,937**
Other income	50	–	–	**50**	–	–	–	–	–	–	–	–	–	–	–	**50**
Depreciation and amortization expenses	(315)	(92)	(29)	**(436)**	(118)	(44)	(5)	**(167)**	(360)	(168)	**(528)**	(48)	(11)	(70)	(140)	**(1,400)**
Debtors provisions and others	3	(11)	(2)	**(10)**	(5)	(67)	1	**(71)**	(14)	(1)	**(15)**	–	(46)	–	3	**(139)**
Operating income	665	407	25	**1,097**	262	131	12	**405**	432	77	**509**	133	339	52	(87)	**2,448**
Net finance cost	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	**(716)**
Share of profit of associates	4	–	–	**4**	–	–	–	–	1	–	**1**	–	–	3	51	**59**
Income before taxes	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	**1,791**
Income tax expense	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	**(440)**
Net income after tax from continuing activities	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	**1,351**
Net income after tax from discontinued activities	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	**39**
Net income for the period	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	**1,390**

2008	Gas Distribution Spain	Gas Distribution Latin America	Gas Distribution Italy	Gas Distribution Total	Electricity Distribution Spain	Electricity Distribution Latin America	Electricity Distribution Moldova	Electricity Distribution Total	Electricity Generation (2) Spain	Electricity Generation (2) International	Electricity Generation (2) Total	UP&MID	W&R	UF Gas	Other	Total
Total segment sales	1,711	2,531	164	**4,406**	–	–	–	–	1,898	820	**2,718**	284	8,220	–	167	**15,795**
Inter segment sales	(158)	–	–	**(158)**	–	–	–	–	(461)	–	**(461)**	(157)	(1,339)	–	(136)	**(2,251)**
Consolidated total sales	1,553	2,531	164	**4,248**	–	–	–	–	1,437	820	**2,257**	127	6,881	–	31	**13,544**
EBITDA (1)	886	467	36	**1,389**	–	–	–	–	366	150	**516**	185	465	–	9	**2,564**
Other income	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
Depreciation and amortization expenses	(303)	(94)	(27)	**(424)**	–	–	–	–	(98)	(81)	**(179)**	(49)	(8)	–	(66)	**(726)**
Debtors provisions and others	(10)	(10)	(1)	**(21)**	–	–	–	–	(6)	–	**(6)**	–	(19)	–	2	**(44)**
Operating income	573	363	8	**944**	–	–	–	–	262	69	**331**	136	438	–	(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 after tax from continuing activities	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	**1,172**
Net income after tax from discontinued activities	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
Net income for the period	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	**1,172**

(1) EBITDA is calculated as Operating profit excluding Other net income, plus depreciation and operating provisions.
(2) At 31 December 2008 it exclusively included the generation of electricity in Puerto Rico and Mexico.

Segmental financial information-Assets, liabilities and investments

	Gas Distribution				Electricity Distribution				Electricity Generations			UP&MID	M&M	UF Gas	Other	Total
31 December 2009	**Spain**	**Latin Amrrica**	**Italy**	**Total**	**Spain**	**Latin America**	**Moldova**	**Total**	**España**	**Inter-national**	**Total**					
Assets	4,341	2,236	722	**7,299**	5,408	1,909	138	**7,455**	11,996	1,891	**13,887**	1,095	2,380	2,287	1,496	**35,899**
Investments under equity method	40	–	–	**40**	–	–	–	–	10	–	**10**	–	–	70	21	**141**
Liabilities	(758)	(414)	(254)	**(1,426)**	(565)	(831)	(115)	**(1,511)**	(2,151)	(324)	**(2,475)**	(60)	(2,252)	(122)	(291)	**(8,137)**
Capital Expenditure/ Business combinations	358	105	45	**508**	236	78	9	**323**	846	389	**1,235**	143	18	15	13,454	**15,696**

	Gas Distribution				Electricity Distribution				Electricity Generation			UP&MID	M&M	UF Gas	Other	Total
31 December 2008	**Spain**	**Latin America**	**Italy**	**Total**	**Spain**	**Latin America**	**Moldova**	**Total**	**Spain**	**Inter-national**	**Total**					
Assets	4,443	1,948	712	**7,103**	–	–	–	**–**	2,881	1,348	**4,229**	1,070	2,339	–	431	**15,172**
Investments under equity method	36	–	–	**36**	–	–	–	**–**	6	–	**6**	–	–	–	–	**42**
Liabilities	(982)	(393)	(256)	**(1,631)**	–	–	–	**–**	(264)	(240)	**(504)**	(61)	(2,387)	–	(484)	**(5,067)**
Capital Expenditure/ Business combinations	461	141	120	**722**	–	–	–	**–**	377	43	**420**	29	13	–	81	**1,265**

The assets reported by segments consist of operating assets (including PPE, intangible assets, inventories, derivatives designated as hedges of future commercial transactions, trade receivables, debtors and cash and other cash equivalents). They exclude the debtor balances with the Public Treasury, the financial assets and the derivatives for trading or hedging of loans. The assets not taken into consideration total Euros 9,453 million at 31 December 2009 and Euros 3,551 million at 31 December 2008.

The Liabilities reported by segments consist of operating liabilities (including derivatives designated as hedges of future transactions). They exclude creditor accounts with the Public Treasury, borrowings and respective hedging derivatives. The liabilities not taken into account total Euros 25,038 million at December 2009 and Euros 6,977 million at December 2008.

The investment includes the intangible assets (Note 5) and PPE (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, France and Moldova), Latin America, Puerto Rico, the USA and Africa.

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

	2009	2008
Spain	9,381	8,578
Rest of Europe	860	419
Latin America	4,055	3,201
Puerto Rico	194	149
United States of America	264	728
Africa and others	125	469
Total	**14,879**	**13,544**

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 31.12.09	At 31.12.08
Spain	28,271	10,712
Rest of Europe	1,036	858
Latin America	5,800	3,074
Puerto Rico	235	223
Africa and others	698	377
Total	**36,040**	**15,244**

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 31.12.09	At 31.12.08
Spain	1,440	936
Rest of Europe	55	69
Latin America	320	178
Puerto Rico	14	7
Africa and others	60	19
Total	**1,889**	**1,209**

Note 5. Intangible assets

The movement during 2009 and 2008 related to intangible assets was as follows:

	Concession and other rights to use	Computer software	Other intangible assets	Subtotal	Goodwill	Total
Cost, gross	1,126	409	205	1,740	541	2,281
Accumulated depreciation	(347)	(273)	(25)	(645)	–	(645)
Net carrying value at 1.1.08	**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)
Translation adjustment	(61)	(2)	–	(63)	2	(61)
Business combination *(Note 30)*	–	–	–	–	3	3
Reclassifications and others	3	1	(1)	3	–	3
Closing net carrying value at 31.12.08	**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 1.1.09	**676**	**154**	**241**	**1,071**	**546**	**1,617**
Investment	4	75	38	117	5	122
Divestitures	–	(6)	(133)	(139)	–	(139)
Depreciation charge	(49)	(75)	(47)	(171)	–	(171)
Translation adjustment	82	2	(8)	76	1	77
Business combination *(Note 30)*	818	38	2,454	3,310	5,670	8,980
Reclassifications and others [(1)]	(2)	2	4	4	(166)	(162)
Net carrying value at 31.12.09	**1,529**	**190**	**2,549**	**4,268**	**6,056**	**10,324**
Cost, gross	1,987	561	2,620	5,168	6,056	11,224
Accumulated depreciation	(458)	(371)	(71)	(900)	–	(900)
Net carrying value at 31.12.09	**1,529**	**190**	**2,549**	**4,268**	**6,056**	**10,324**

(1) Includes the decrease of the part of the goodwill of UNIÓN FENOSA totalling Euros 76 million that was assigned to the assets of EPSA, which were sold in December 2008; as well as the transfer of the goodwill from the combined cycle electricity generating companies in Mexico to "Non-current assets held for sale" totalling Euros 89 million (Note 9).

"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 325 million at 31 December 2009 (Euros 357 million at 31 December 2008). 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 195 million at 31 December 2009 (Euros 158 million at 31 December 2008). 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 154 million at 31 December 2009 (Euros 125 million at 31 December 2008). The concession will expire in 2030 and can be renewed.

– Electricity distribution concessions acquired as a result of the business combination of UNIÓN FENOSA totalling Euros 813 million at 31 December 2009, of which Euros 684 million relates to electricity distribution concessions in Spain that have an indefinite useful life (Note 30).

"Other intangible assets" mainly includes:

– Projects underway for wind farms totalling Euros 98 million at 31 December 2009 (Euros 79 million at 31 December 2008).

– The cost of acquisition of the exclusive regasification rights in Puerto Rico totalling Euros 57 million at 31 December 2009 (Euros 61 million at 31 December 2008).

– The CO_2 emission allowances acquired, including those acquired as a result of the business combination of UNIÓN FENOSA, for Euros 69 million (Euros 60 million at 31 December 2008).

– Other intangible assets acquired as a result of the business combination of UNIÓN FENOSA totalling Euros 2,199 million at 31 December 2009, which mainly includes gas supply contracts and other contractual rights (Note 30).

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 31.12.09						At 31.12.08		
	Gas Distribution	Electricity Distribution	Electricity Generation	UF Gas	Other	Total	Gas Distribution	Electricity Generation	Total
Spain	–	1,133	3,015	891	–	5,039	–	120	120
Rest of Europe	143	15	–	–	–	158	143	–	143
Latin America	74	205	411	–	–	690	72	89	161
Puerto Rico	–	–	118	–	–	118	–	122	122
Africa	–	–	16	–	35	51	–	–	–
	217	**1,353**	**3,560**	**891**	**35**	**6,056**	**215**	**331**	**546**

The impairment tests have been carried out at 31 December 2009 and 2008. On the basis of the goodwill impairment analysis it cannot be deduced that impairment will probably arise in the future.

The intangible assets include, at 31 December 2009, fully amortised assets still in use totalling Euros 276 million.

Note 6. Property, plant and equipment

The movements in the accounts in 2009 and 2008 under property, plant and equipment and their respective accumulated amortisation and provisions have been as follows:

	Land and buildings	Gas installations	Electricity generation plants	Plant for electricity transport and distribution	Gas transport tankers	Other PPE	PPE under construction	Total
Cost, gross	249	8,760	3,289	–	433	706	461	13,898
Accumulated amortisation	(68)	(3,454)	(297)	–	(51)	(323)	–	(4,193)
Net carrying value at 1.1.08	**181**	**5,306**	**2,992**	**–**	**382**	**383**	**461**	**9,705**
Investment	10	560	50	–	–	35	413	1,068
Divestitures	(2)	(12)	(1)	–	–	(2)	(1)	(18)
Amortisation	(8)	(395)	(167)	–	(15)	(37)	–	(622)
Translation adjustment	(1)	(177)	60	–	–	1	(10)	(127)
Business combinations *(Note 30)*	–	56	–	–	–	–	–	56
Reclassifications and others	(3)	113	8	–	–	(92)	(100)	(74)
Net carrying value at 31.12.08	**177**	**5,451**	**2,942**	**–**	**367**	**288**	**763**	**9,988**
Cost, gross	248	9,208	3,430	–	433	598	763	14,680
Accumulated amortisation	(71)	(3,757)	(488)	–	(66)	(310)	–	(4,692)
Net carrying value at 1.1.09	**177**	**5,451**	**2,942**	**–**	**367**	**288**	**763**	**9,988**
Investment	9	430	72	36	83	71	1,066	1,767
Divestitures	(33)	(50)	(11)	(13)	–	(2)	(5)	(114)
Depreciation charge	(13)	(412)	(512)	(171)	(21)	(115)	–	(1,244)
Translation adjustment	(3)	98	(80)	(16)	–	(4)	(22)	(27)
Business combination *(Note 30)*	333	525	8,606	5,294	146	546	1,433	16,883
Reclassifications and others [(1)]	43	(391)	(1,208)	165	–	49	(1,228)	(2,570)
Net carrying value at 31.12.09	**513**	**5,651**	**9,809**	**5,295**	**575**	**833**	**2,007**	**24,683**
Cost, gross	579	9,511	10,219	5,314	661	1,127	2,007	29,418
Accumulated amortisation	(66)	(3,860)	(410)	(19)	(86)	(294)	–	(4,735)
Net carrying value at 31.12.09	**513**	**5,651**	**9,809**	**5,295**	**575**	**833**	**2,007**	**24,683**

(1) Includes transfers to "Non-current assets held for sale" totalling Euros 2,253 million, of which Euros 1,079 million relate to assets sold in December 2009 (Note 9).

The financial expenses capitalised in 2009 in fixed assets projects during their construction total Euros 59 million (Euros 25 million in 2008). The financial expenses capitalised in 2009 represent 7.3% of the total financial costs of net borrowings (8.2% for 2008). The average capitalisation rate in 2009 and 2008 totals 3.8% and 4.4%, respectively.

"Gas transport tankers" includes the current value, at the date of acquisition, of the payment commitments to the fleet of 6 methane tankers (2 of which have been contracted jointly with the Repsol YPF Group and 2 have been contracted for the joint venture Unión Fenosa Gas) under finance leases (Note 17). In 2009 a 138,000 m3 tank was acquired through a 20-year finance lease, extendible for consecutive periods of 5 years, involving a joint investment of Euros 142 million corresponding to the current value of the payments committed by Repsol YPF (50%) and GAS NATURAL (50%).

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

"Other PPE" includes at 31 December 2009 the net carrying value of investment in areas with reserves totalling Euros 373 million, including the investments in the coal field belonging to Kangra Coal (Proprietary), Ltd in South Africa acquired in the business combination of UNIÓN FENOSA (Euros 31 million at 31 December 2008) and Exploration costs of Euros 56 million (Euros 46 million at 31 December 2008).

Fixed assets under construction at 31 December 2009 basically include investments in:

– Combined cycle plants in Malaga, Puerto de Barcelona and Norte Durango (Mexico), whose start up is forecast for 2010, in the amount of Euros 1,010 million (Euros 522 million at 31 December 2008).

– The wind farms under construction totalling Euros 211 million.

– Recurrent investment in planning and development of gas and electricity distribution.

In June 2009 the de-sulphurisation plant was brought into service for the Narcea III Thermal Energy Plant and in October 2009 commercial operations began for the reconversion of the Meirama thermal energy plant totalling Euros 226 million.

Property, plant and equipment includes fully depreciated assets totalling Euros 807 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.

GAS NATURAL has investment commitments of Euros 265 million at 31 December 2009, basically for the construction of combined cycle electricity plants, regasification plants and Upstream projects.

At 31 December 2009 GAS NATURAL did not have any real estate investment.

Note 7. Investments recorded using the equity method

The movement in 2009 and 2008 in investments measured by equity accounting is as follows:

	2009	2008
At January 1	**42**	**38**
Investment	5,825	–
Transfers of available-for-sale financial assets	2,457	–
Change in consolidation method	(8,269)	–
Business combinations	429	–
Share of loss/profit	59	6
Translation adjustments	42	–
Dividends received	(1)	(1)
Divestments and transfers	(443)	(1)
At December 31	**141**	**42**

The investments relates to the acquisition from ACS of the additional 35.3% shareholding in UNIÓN FENOSA and its consolidation as from 28 February 2009 by equity accounting together with the previous shareholding of 14.7% transferred from "Available-for-sale financial assets", after the elimination of the value adjustments in order to render the value to its historical cost (Notes 3.4.1.e and 8). As a result of the additional acquisitions afterwards, as from 30 April 2009 it has been fully consolidated (Note 3.4.1.e). The contribution of UNIÓN FENOSA to its consolidation by equity accounting has totalled Euros 46 million.

As a result of the business combination of UNIÓN FENOSA the most significant companies consolidated by equity accounting are Indra Sistemas, S.A. (partially sold afterwards), Sociedade Galega do Medio Ambiente, S.A., and different associates in the Unión Fenosa Gas sub-group.

On 2 July 2009 the sale of 13.0% of Indra Sistemas, S.A. totalling Euros 321 million materialised, and the remaining 5.0% totalling Euros 123 million was classified as "Available-for-sale financial assets" (Note 8) but having no impacting the Consolidated income statement, given the fact that the sale value of this shareholding is the fair value at the acquisition date of UNIÓN FENOSA (Note 30). The share of net income for the year contributed by Indra Sistemas, S.A. has totalled Euros 5 million.

Appendix I lists all investments recorded using the equity method of GAS NATURAL.

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

	Country	Assets	Liabilities	Income	Net income	% Shareholding
2009						
Enervent, S.A.	Spain	5	3	1	–	26.0
Ensafeca Holding Empresarial, S.L. (1)	Spain	2	–	–	–	18.5
Gas Aragón, S.A.	Spain	48	22	11	4	35.0
Kromschroeder, S.A.	Spain	7	2	6	–	42.5
Sistemas Energéticos La Muela, S.A.	Spain	2	–	1	–	20.0
Sistemas Energéticos Mas Garullo, S.A. (1)	Spain	2	1	1	–	18.0
Sociedade Galega do Medio Ambiente,S.A.	Spain	121	100	–	–	49.0
Subgrupo Eufer (1)	Spain	18	8	7	1	9.0-22.5
Subgrupo Unión Fenosa Gas (1/2)	Oman/Spain	125	62	38	3	3.7-11.6
Torre Marenostrum, S.L.	Spain	34	25	3	–	45.0
2008						
Enervent, S.A.	Spain	6	4	2	1	26.0
Gas Aragón, S.A.	Spain	46	23	19	5	35.0
Kromschroeder, S.A.	Spain	7	2	8	–	42.5
Sistemas Energéticos La Muela, S.A.	Spain	2	–	1	–	20.0
Sistemas Energéticos Mas Garullo, S.A. (1)	Spain	2	1	1	–	18.0
Torre Marenostrum, S.L.	Spain	35	26	3	–	45.0

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

(2) Includes the shareholdings in the associates Qalhat LNG S.A.O.C. and Regasificadora del Noroeste, S.A. managed through the Unión Fenosa Gas subgroup.

Note 8. Financial assets

The breakdown of financial assets, excluding those carried under "Trade and other receivables" (Note 11) and "Cash and other cash equivalents" (Note 12), at 31 December 2009 and 2008, classified according to their nature and account, is as follows:

At 31 December 2009	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	–	219	–	–	–	219
Derivatives (*Note 17)*	–	–	–	–	1	1
Other financial assets	–	–	383	1	–	384
Non-current financial assets	**–**	**219**	**383**	**1**	**1**	**604**
Derivatives (*Note 17)*	–	–	–	–	–	–
Other financial assets	–	–	1,386	1	–	1,387
Current financial assets	**–**	**–**	**1,386**	**1**	**–**	**1,387**
Total	**–**	**219**	**1,769**	**2**	**1**	**1,991**

At 31 December 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 17)*	–	–	–	–	4	4
Other financial assets	–	–	215	2	–	217
Non-current financial assets	**–**	**2,599**	**215**	**2**	**4**	**2,820**
Derivatives *(Note 17)*	36	–	–	–	7	43
Other financial assets	169	–	95	53	–	317
Current financial assets	**205**	**–**	**95**	**53**	**7**	**360**
Total	**205**	**2,599**	**310**	**55**	**11**	**3,180**

Fair value financial assets through profit and loss

The breakdown of fair value financial assets through profit and loss, at December 31, 2009 and 2008, according with the method applied for calculating their fair value is as follows:

	Level 1		Level 2		Level 3		Total	
	2009	2008	2009	2008	2009	2008	2009	2008
Fair value through profit and loss	–	–	–	205	–	–	–	205

At 31 December 2008 the fair value valuation of the Equity Swap contracts on 85,886,762 shares of Unión Fenosa, S.A. was included, representing 9.4% of share capital, and the forward purchase and sale contract entered into at a fixed price with Caja Navarra on 2,721,000 shares of Unión Fenosa, S.A., representing 0.3% of share capital, are all mentioned in Note 3.4.1.e. The difference between the market value of the asset and the contracted price is recorded in the Consolidated income statement for 2008, under "Variations in fair value of financial instruments" (Note 28).

At 31 December 2008 deposits maturing in July 2009 were also included in the amount of Euros 158 million that had accrued interest at 2.57%. No changes in the fair value arising from the credit risk related to the instrument have been identified.

Available-for-sale financial assets

The movement in 2009 and 2008 of the available-for-sale financial assets based on the method use to calculate their fair value is as follows:

	2009				2008			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
At 1 January	**2,571**	**–**	**28**	**2,599**	**267**	**–**	**31**	**298**
Increases	–	–	–	–	2,459	–	–	2,459
Transfers to/from associates	(2,334)	–	–	(2,334)	–	–	–	–
Divestments	(261)	–	(3)	(264)	(29)	–	(3)	(32)
Business combinations	101	–	51	152	–	–	–	–
Fair value adjustment	60	–	–	60	(126)	–	–	(126)
Translation adjustments	2	–	3	5	(1)	–	–	(1)
Transfers and others	2	–	(1)	1	1	–	–	1
At 31 December	**141**	**–**	**78**	**219**	**2,571**	**–**	**28**	**2,599**

Year 2009

The main variations in "Available-for-sale financial assets" are as follows:

- The transfer of the equity investment in UNIÓN FENOSA, after derecognition of the value adjustments in order to valuate it at historical cost, totalling Euros 2,457 million, to "Investments measured by equity accounting" as a result of consolidation as from 28 February 2009 (Note 7).
- The partial sales in May and July 2009 of the shareholding of 1% of Isagen S.A. E.S.P. by UNIÓN FENOSA totalling Euros 63 million, with no impact on the Consolidated income statement, given that the sale value of this shareholding was the fair value at the date of acquisition of UNIÓN FENOSA (Note 30).
- The sale in May 2009 of the 1% shareholding in Red Eléctrica Corporación, S.A. by UNIÓN FENOSA totalling Euros 43 million, with no impact on the Consolidated income statement, given that the sale value of this shareholding was the fair value at the date of acquisition of UNIÓN FENOSA (Note 30).
- The sale in June 2009 of the 5% shareholding in Enagás, S.A. by Gas Natural SDG, S.A., totalling Euros 155 million, which generated a profit before tax of Euros 101 million, reduced reserves due to value adjustments (Note 28).
- The transfer in June 2009 of the 5% shareholding in Indra Sistemas, S.A. as an available-for-sale financial asset (Note 7), which value is in line with the share price at 31 December 2009 totalling Euros 141 million.

Year 2008

The main variations in "Available-for-sale financial assets" were as follows:

- The acquisition of 14.7% of Unión Fenosa, S.A. (Note 3.4.1.e) for Euros 2,457 million, including the acquisition costs. This shareholding was adjusted to the share quotation value at the year end (Euros 17.73 per share) impacted "Value adjustments" under equity in the amount of Euros 72 million before the tax effect (net of tax totalling Euros 51 million). No impairment was recorded for this investment against the Consolidated income statement since there were tacit capital gains at the acquisition date.
- The sale in July 2008 of the 14.8% shareholding in Transportadora Colombiana de Gas S.A., ESP for Euros 11 million, which generated a net profit of Euros 8 million.

Loans and other receivables

The breakdown at 31 December 2009 and 2008 is as follows:

	At 31.12.09	At 31.12.08
Commercial loans	108	89
Deposits and guarantee deposits	125	53
Debtors for levelling of capacity income	14	57
Other loans	136	16
Loans and other receivables non current	**383**	**215**
Commercial loans	42	47
Tariff deficit	1,267	–
Dividend receivable	3	41
Others loans	74	7
Loan and other receivables current	**1,386**	**95**
Total	**1,769**	**310**

The breakdown by maturities at December 2009 and 2008 is as follows:

Maturities	At 31.12.09	At 31.12.08
No later than 1 year	1,386	95
Between 1 year and 5 years	233	127
Later than 5 years	150	88
Total	**1,769**	**310**

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

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

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

The financing of the deficit of the payments for the regulated electricity business is included under "Other current financial assets", in accordance with the fact that, under current legislation, there is a right to receive reimbursement without subjection to future contingencies and whereby recovery is expected in 2010. At December 31, 2009 GAS NATURAL still records a claim for this deficit of Euros 1,267 million for 2006 (Euros 195 million), 2008 (Euros 525 million) and 2009 (Euros 547 million).

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 maturing 2022.

Other loans include the current and non-current value of the deferred amounts pending receipt for the sale of shareholdings mentioned in Note 18 to Chemo España, S.L. for USD 20 million maturing between 2010 and 2013.

Investments held to maturity

Investments held to maturity in 2008 included deposits of Euros 53 million that matured in July 2009 and accrued 4.76% interest.

Hedging derivatives

The variables on which the measurement of hedging derivatives are based and included in this account can be observed in an official market (Level 2).

Note 17 includes the breakdown of the derivative financial instruments.

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

On 20 July 2009, GAS NATURAL agreed with Naturgas Energía Grupo, S.A. and certain group companies to sell the gas distribution branch in Cantabria and Murcia, the natural gas and electricity branch for distribution to domestic-commercial customers and Small and Medium Sized Companies and the shared services branch in these regions, as well as the high pressure distribution networks in Cantabria, País Vasco and Asturias. This transaction was carried out as part of the action plan adopted by the National Anti-Trust Commission in relation to the acquisition of Unión Fenosa (Note 3.4.1.e and Note 34) and was subject to approval by the regulatory and anti-trust authorities. Since that date these assets have been classified as non-current assets held for sale. After obtaining the respective authorisations the sale was made on 31 December 2009 in the amount of Euros 330 million, generating a profit before tax of Euros 50 million (Note 27).

On 17 October 2009, GAS NATURAL agreed with Colener, S.A.S., Inversiones Argos S.A. and Banca de Inversión Bancolombia S.A.- Corporación Financiera the sale of its 63.8% shareholding in the Colombian company Empresa de Energía del Pacífico, S.A. (EPSA). This sale was subject to the authorisation by the Superintendencia Financiera de Colombia of the Takeover Bid for 66.1% of the shares of EPSA. Since that date these assets have been classified as non-current assets held for sale. After obtaining the respective authorisations, the sale was made on 9 December 2009 for Euros 690 million, generating a capital gain before tax of Euros 11 million.

On 19 December 2009, GAS NATURAL agreed with Morgan Stanley Infraestructura and Galp Energia SGPS and certain companies in their groups to the sale of the natural gas distribution branch in 38 municipalities of the Region of Madrid, the natural gas and electricity supply branch for domestic-commercial customers and small and medium sized companies and the shared services branch in those regions. This transaction was carried out as part of the action plan adopted by the National Anti-Trust Commission in relation to the acquisition of UNIÓN FENOSA (Note 3.4.1.e. and Note 34) and is subject to adoption by the regulatory and anti-trust authorities, which is expected to be completed in May 2010. Since the date of the agreement, these assets have been classified as non-current assets held for sale. The amount agreed for the sale totals Euros 800 million.

On 24 December 2009, GAS NATURAL agreed with the Mitsui Group and the Tokyo Gas Company on the divestment of the combined cycle electricity generation companies México Anahuac (Río Bravo II), Lomas del Real (Río Bravo III), Vallehermoso (Río Bravo IV), Electricidad Aguila Altamiras and Saltillo, with an installed capacity of 2,233 MW, and Gasoducto del Río. By virtue of this agreement the Mitsui Group and the Tokio Gas Company will obtain a shareholding of 76% through a capital increase that will dilute the shareholding of GAS NATURAL and thereafter, in 2010, they will be able to exercise a purchase option, and GAS NATURAL will be able to exercise a sale option, on the outstanding 24% of the capital. This operation is subject to approval by the Mexican authorities, and it is expected to be completed by April 2010. Since the date of the agreement these assets have been classified as non-current assets held for sale. The total value of the operations comes to USD 1,225 million, with GAS NATURAL additionally receiving a reimbursement in cash totalling USD 240 million for the debts of the companies.

The assets and liabilities related to EPSA have been classified as discontinued activities, given that they are considered components representing a significant business line (electricity generation in Colombia). The other related assets and liabilities do not represent a significant business line or geographic area, and, accordingly, they are classified as discontinued activities.

The breakdown by nature of the assets classified as held for sale and the related liabilities and the total Comprehensive income for the year, at 31 December 2009, is as follows:

	2009		
	Gas distribution in Spain [1]	**International electricity generation** [2]	**Total**
Intangible assets	–	91	91
Property, plant and equipment	274	900	1,174
Non-current financial assets	7	45	52
Deferred tax asset	1	68	69
Non-current Assets	**282**	**1,104**	**1,386**
Inventories	2	18	20
Trade and other receivables	88	102	190
Cash and cash equivalents	–	98	98
Current Assets	**90**	**218**	**308**
Total Assets	**372**	**1,322**	**1,694**
Grants	23	–	23
Non-current provisions	1	28	29
Non-current financial liabilities	–	3	3
Deferred tax liabilities	12	162	174
Other non-current liabilities	3	186	189
Non-current liabilities	**39**	**379**	**418**
Current provisions	–	1	1
Current income tax liabilities	–	3	3
Trade and other payables	29	28	57
Other current liabilities	–	5	5
Current liabilities	**29**	**37**	**66**
Total liabilities	**68**	**416**	**484**

	2009		
	Gas distribution in Spain [1]	**International electricity generation** [2]	**Total**
Consolidated net income for the year	26	35	61
Income and expenses recognised directly in net equity:	–	(8)	(8)
Translation adjustments	–	(6)	(6)
For cash flow hedges	–	(2)	(2)
Total comprehensive income for the year	**26**	**27**	**53**

(1) Various assets in municipalities in the Region of Madrid mentioned above.
(2) Generation assets in Mexico mentioned above.

The breakdowns by nature under “Net income after tax from discontinued activities” in the Consolidated income statement and cash flows in the Consolidated statement of cash flows, relating to EPSA, are as follows:

	2009 (1)
	Electricity generation International
Sales	188
Procurements	(80)
Other operating income	2
Personnel costs	(9)
Other operating expenses	(2)
Depreciation and amortisation expenses	(15)
Operating income	**84**
Financial income	12
Financial expenses	(10)
Net financial income (expense)	**2**
Results of sale of assets	11
Net income before tax	**97**
Income tax expense	(58)
Net income for the year from discontinued activities net of tax	**39**

	2009 (1)
	Electricity generation International
Net cash from operating activities	46
Net cash from investing activities	59
Net cash from financing activities	(106)

(1) Relates to the period from 30 April 2009 (acquisition date of UNIÓN FENOSA) until 9 December 2009 (date of sale of EPSA).

Note 10. Inventories

The breakdown of Inventories is as follows:

	At 31.12.09	At 31.12.08
Natural gas and liquefied gas	360	480
Coal and fuel oil	241	–
Nuclear fuel	48	–
Raw materials and other inventories	91	80
Total	**740**	**560**

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

Note 11. Trade and other receivables

The breakdown of this account is as follows:

	At 31.12.09	At 31.12.08
Trade receivables	3,578	2,464
Receivables with related companies *(Note 32)*	84	89
Provision for depreciation of receivables	(208)	(183)
Trade receivables	3,454	2,370
Public Administrations	121	78
Prepayments	46	62
Derivative financial instruments *(see Note 17)*	30	60
Sundry receivables	543	198
Other receivables	740	398
Current deferred income tax assets	40	17
Total	**4,234**	**2,785**

The movement in the impairment of receivables is as follows:

	2009	2008
At 1 January	**(183)**	**(175)**
Net charge for the year	(38)	(41)
Disposals	16	18
Cumulative translation adjustments and others	(3)	15
At 31 December	**(208)**	**(183)**

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

Note 12. Cash and cash equivalents

Cash and cash equivalents comprise the following:

	At 31.12.09	At 31.12.08
Cash at bank and in hand	435	122
Short term investments (Spain and rest of Europe)	25	87
Short term investments (International)	129	40
Total	**589**	**249**

Bank deposits are very liquid (less than 10 days). The average effective interest rate is 2.1% at December 2009 (4.4% at December 2008).

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

– Spain and rest of Europe: 0.6 % at December 2009 and 3.6% at December 2008.

– International: 5.1% at December 2009 and 7.3% at December 2008.

Note 13. Equity

The main elements of Equity break down as follows:

Share capital and share premium

The variations in 2009 and 2008 in the number of shares and share capital and share premium accounts have been as follows:

	Number of shares (in thousands)	Share capital	Share premium	Total
At 1 January 2008	**447,776**	**448**	**–**	**448**
Variation	–	–	–	–
At 31 December 2008	**447,776**	**448**	**–**	**448**
Capital increase	473,981	474	3,331	3,805
– in cash	447,776	448	2,983	3,431
– in swap	26,205	26	348	374
At 31 December 2009	**921,757**	**922**	**3,331**	**4,253**

At 31 December 2009 and at 31 December 2008 the total number of authorised ordinary shares was, respectively, 921,756,951 shares and 447,776,028 shares, made by accounting entries, with a par value of Euro 1 each. All the shares issued are fully paid and have the same economic and voting rights.

The Extraordinary General Meeting of Shareholders of 10 March 2009 adopted a resolution to increase share capital by recognising the preferred subscription right of the shareholders by Euros 448 million through the issue and circulation of 447,776,028 new ordinary shares issued at Euros 7.82 per share (par value of Euros 1 and a share premium of Euros 6.82), and, accordingly, the effective total of the capital increase came to Euros 3,502 million. From this amount we must subtract the cost of issuing the new shares, which totalled Euros 101 million (Euros 71 million net of tax), and, accordingly, the net capital increase totalled Euros 3,431 million (Euros 448 million in share capital and Euros 2,983 million in share premium). The capital increase was subscribed and fully paid and was inscribed in the Mercantile Register on 2 April 2009 while the shares representing the increase have been traded on the Stock Exchange as from 3 April 2009.

As indicated in Note 3.4.1.e, the General Meeting of Shareholders of 26 June adopted a resolution on the takeover merger by Gas Natural SDG, S.A. (merging company) and Unión Fenosa, S.A. and Unión Fenosa Generación S.A. (merged companies). As a result of the swap equation agreed, and later revised by an independent expert, consisting of 3 shares of Gas Natural SDG, S.A. for every 5 shares of Unión Fenosa S.A., a capital increase was agreed totalling Euros 26,204,895 through the issue of 26,204,895 new shares with a par value of Euro 1 each, under the same class and series as those now in circulation. The subscription of these shares was reserved for the shareholders of Unión Fenosa, S.A. without a preferred subscription right being granted to the shareholders of Gas Natural SDG, S.A. On 1 September 2009, after complying with the legal deadlines and obtaining all necessary authorisations, the merger was inscribed in the Mercantile Registry and took effect as from that date. The recording of the shares issued at fair value in line with the share price at the issue date totalled Euros 375 million (Euros 26 million in share capital and Euros 348 million in share premium, net of the cost of issuing the shares). Given that the shares received relate to the minority interest of 4.8% in the merged subsidiary company Unión Fenosa, S.A., this transaction has been treated for accounting purposes as an acquisition of minority interest, whose value totalled Euros 488 million, and, accordingly, the difference of Euros 113 million against the fair value of the shares given has been recorded under "Reserves" (see "Capital increase" line in the Consolidated statement of changes in net equity).

By virtue of a resolution adopted by the General Meeting of Shareholders of 26 June 2009, the Board of Directors was authorised to acquire fully paid treasury shares for valuable consideration, once or several times, up to a maximum of 5% of share capital, within a period no longer than eighteen months. Likewise, the same Meeting authorised the Board of Directors to be able to increase share capital within a maximum period of five years to the maximum amount corresponding to 50% of share capital of the Company on the date of authorisation.

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

In 2009 and 2008 no transfers of treasury shares took place.

According to the information available publicly, the most relevant interests in the capital of Gas Natural SDG, S.A. at 31 December 2009 are as follows:

	Interest in share capital %
"la Caixa" Group (Criteria CaixaCorp, S.A.)	36.43
Repsol YPF Group	30.01
GDF-Suez Group	6.01
Caixa d'Estalvis de Catalunya	1.66

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

The share price at the end of 2009 of Gas Natural SDG, S.A. is Euros 15.09 (Euros 19.29 at 31 December 2008).

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.

Statutory reserve

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

Revaluation reserve

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

Goodwill reserve

Under the Spanish Public Limited Companies Act, Gas Natural SDG, S.A. must appropriate a non-distributable reserve equivalent to the goodwill carried on the asset side of the balance sheet in an amount that represents at least 5% of goodwill. If there are no profits, or the profits are insufficient, to do so, the Share Premium or Freely Available Reserves can be used. In order to comply with this legislation the Company's Directors will to propose to the General Meeting of Shareholder the appropriation of a goodwill reserve totalling Euros 179 million.

Earnings per share

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

	At 31.12.09	At 31.12.08
Net income attributable to equity holders of the Company	1,195	1,057
Weighted average number of ordinary shares in issue (million)	809	516
Earnings per share from continuing activities (in Euros):		
– Basic	1.45	2.05
– Diluted	1.45	2.05
Earnings per share from discontinued activities (in Euros):		
– Basic	0.03	–
– Diluted	0.03	–

In order to calculate the average weighted number of ordinary shares in circulation, the shares issued in the capital increases and the adjustment arising from the share capital with preferential subscription rights of 447,776,028 shares have been taken into account.

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

Dividends

The Board of Directors of Gas Natural SDG, S.A. agreed at their meeting of 28 November to distribute an interim dividend against net income for 2008 of Euros 0.48 per share, totalling Euros 215 million, payable as from 8 January 2009.

The General Meeting of Shareholders of 26 June 2009 adopted the following distribution of net profit of Gas Natural SDG, S.A. for year 2008:

Basis for distribution	
Profit and (loss)	992
Distribution	
To voluntary reserve	419
To dividend	573

Likewise, the General Meeting of Shareholders of 26 June 2009 agreed to distribute an extraordinary dividend of Euros 0.10 per share totalling Euros 90 million, charged to voluntary reserves, paid as from 3 July 2009.

The Board of Directors of Gas Natural SDG, S.A. agreed at their meeting of 27 November 2009 to distribute an interim dividend against net income for 2009 of Euros 0.35 per share, totalling Euros 324 million, payable as from 8 January 2010.

At the date of approval of the interim dividend, the Company had the necessary liquidity to make this payment, as per art. 194.3 and 216 of the Spanish Public Limited Companies Act.

The provisional accounting statement of the Company formulated by the Directors at 27 November 2009 is as follows:

Net income before tax	607
Forecast payment of interim dividend	324
Treasury liquidity	60
Undrawn credit facilities	3,183
Total liquidity	3,243

On 29 January 2010, the Board of Directors adopted the proposal to submit the following distribution of net profit of Gas Natural SDG, S.A. for FY 2009 to the General Meeting of Shareholders:

Basis for distribution	
Profit and (loss)	1,077

Distribution	
To Legal reserve	95
To Statutory reserve	21
To the Goodwill reserve	179
To voluntary reserve	52
To dividend	730

Minority interest

As a result of the business combination of UNIÓN FENOSA, the value of the shareholding of its minority interests has been consolidated (Note 30). On the other hand, "Other variations" on the Consolidated statement of changes in net equity basically includes the decrease in minority interest as a result of the sale of EPSA and Gas Natural Cantabria SDG, S.A. (Note 9).

In 2005 Unión Fenosa Preferentes, S.A. issued preference shares for a nominal amount of Euros 750 million, which was booked under "Minority interest" and has been consolidated as a result of the acquisition of UNIÓN FENOSA. The main characteristics are:

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

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

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

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

– Voting rights: none.

Note 14. Grants

The breakdown and movement in this account in 2009 and 2008 is as follows:

	Grants	Revenues from pipeline networks and branch lines	Income from extension of pipelines charged to third parties	Other revenues	Total
At 1.01.08	**238**	**175**	**106**	**24**	**543**
Financing received	28	29	20	3	80
Release to income	(13)	(14)	(9)	(1)	(37)
Business combinations	22	–	–	–	22
Cumulative translation adjustments	–	(1)	–	(1)	(2)
At 31.12.08	**275**	**189**	**117**	**25**	**606**
Financing received	101	25	31	33	190
Release to income	(17)	(15)	(11)	(3)	(46)
Cumulative translation adjustments	(2)	–	–	(2)	(4)
Transfers and others	(4)	(7)	(26)	(4)	(41)
At 31.12.09	**353**	**192**	**111**	**49**	**705**

"Transfers and others" includes the divestment of the gas distribution assets in Murcia and Cantabria and the transfer of the account "Non-current assets held for sale" of the gas distribution assets in Madrid mentioned above (Note 9).

Note 15. Provisions

The breakdown of provisions at 31 December 2009 and 2008 is as follows:

	At 31.12.09	At 31.12.08
Provisions for employee obligations	645	69
Other provisions	1,236	556
Non-current provisions	1,881	625
Current provisions	128	146
Total	**2,009**	**771**

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 1.1.08	**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 31.12.08	**69**	**–**	**69**
Business combinations	622	45	667
Charge to the income statement	43	–	43
Amounts paid during the year	(54)	(45)	(99)
Cumulative translation adjustments	18	–	18
Variations recognised directly in equity	(30)	–	(30)
Transfers and others	(23)	–	(23)
At 31.12.09	**645**	**–**	**645**

Post-employment pension obligations

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

Breakdown by country	At 31.12.09	At 31.12.08	At 1.1.08
Spain (1)	389	33	27
Colombia (2)	222	–	–
Brazil (3)	25	33	32
Others	9	3	5
Total	**645**	**69**	**64**

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

At 31 December 2009 and 31 December 2008, GAS NATURAL had the following liabilities with certain groups:

- Pensioners (retired workers, the disabled, widows and orphans).
- Coverage of retirement and death for certain employees.
- Early retirement plans.
- Gas subsidy for current and retired personnel.
- Healthcare and other benefits.

The following liabilities have been included as a result of the acquisition of UNIN FENOSA for certain groups from Unión Fenosa, S.A., Unión Fenosa Distribución, S.A. and Unión Fenosa Generación, S.A.:

- Pension liabilities: retired personnel leaving the company prior to November 2002 and a part of residual current personnel, accruing a right to defined benefit pension supplements.
- Liabilities with employees that took early retirement until they reach official retirement age.
- Salary supplements and contributions to social security for a group of employees taking early retirement until they can access ordinary retirement.
- Electricity for current and retired personnel.
- Health care.

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

These include, as a result of the acquisition of UNIÓN FENOSA, the following liabilities with certain employees of the Colombian company Electrificadora del Caribe, S.A. E.S.P:

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

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

At 31 December 2009 and at 31 December 2008, GAS NATURAL has the following benefits for certain employees in Brazil:

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

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

	2009			2008		
	Spain	Colombia	Brazil	Spain	Colombia	Brazil
Current value of the obligations						
As at 1 January	**191**	**–**	**95**	**182**	**–**	**109**
Business combinations	1,045	246	–	–	–	–
Current service cost	5	–	–	1	–	–
Interest cost	45	20	12	9	–	10
Actuarial gains and losses	(13)	(9)	(7)	12	–	3
Benefits paid	(69)	(19)	(10)	(13)	–	(6)
Transfers	–	(23)	–	–	–	–
Cumulative translation adjustments	–	7	27	–	–	(21)
As at 31 December	**1,204**	**222**	**117**	**191**	**–**	**95**
Fair value of plan assets						
As at 1 January	**158**	**–**	**62**	**155**	**–**	**77**
Business combinations	675	–	–	–	–	–
Expected yield	31	–	8	7	–	7
Contributions	11	–	2	3	–	3
Actuarial gains and losses	(10)	–	11	6	–	(6)
Benefits paid	(50)	–	(7)	(13)	–	(6)
Cumulative translation adjustments	–	–	16	–	–	(13)
As at 31 December	**815**	**–**	**92**	**158**	**–**	**62**
Provisions for post-employment pension obligations	**389**	**222**	**25**	**33**	**–**	**33**

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

	2009			2008		
	Spain	Colombia	Brazil	Spain	Colombia	Brazil
Current service cost	5	–	–	1	–	–
Interest cost	45	20	12	9	–	10
Expected return on plan assets	(31)	–	(8)	(7)	–	(7)
Total income statement charge	**19**	**20**	**4**	**3**	**–**	**3**

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

	2009			2008		
	Spain	Colombia	Brazil	Spain	Colombia	Brazil
As at 1 January	**33**	**–**	**33**	**27**	**–**	**32**
Business combinations	370	246	–	–	–	–
Charge against the income statement	19	20	4	3	–	3
Contributions paid	(30)	(19)	(5)	(3)	–	(3)
Variations recognised directly in net equity	(3)	(9)	(18)	6	–	9
Transfers	–	(23)	–	–	–	–
Cumulative translation adjustments	–	7	11	–	–	(8)
As at 31 December	**389**	**222**	**25**	**33**	**–**	**33**

The accumulated amount of the actuarial gains and losses recognised directly in equity is negative by Euros 4 million for 2009 (Spain: negative Euros 7 million, Colombia: negative Euros 9 million and Brazil: Euros 12 million).

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

	2009			2008		
% over total	Spain	Colombia	Brazil	Spain	Colombia	Brazil
Equities	–	–	10.7	–	–	10.7
Bonds	94.6	–	84.0	16.6	–	84.0
Property and others	5.4	–	5.3	83.4	–	5.3

Real yields on the plan-related assets in 2009, relating basically to Spain, have been Euros 31 million (Euros 7 million in 2008).

The main annual actuarial assumptions used were as follows:

	A 31.12.09			A 31.12.08		
	Spain	Colombia	Brazil	Spain	Colombia	Brazil
Discount rate (%) (1)	2,3 to 5	8.4	10.8	5.0	–	10.8
Expected return on plan assets (%) (1)	2.3 to 5	8.4	10.8	5.0	–	10.8
Future salary increases (%) (1)	3.0	3.0	6.5	3.0	–	6.5
Future pension increases (%) (1)	2.5	3.0	0.0	2.5	–	0.0
Inflation rate (%) (1)	2.5	3.0	4.5	2.3	–	4.5
Mortality table	PERMF 2000	ISS 1980/89	AT-83	PERMF 2000	–	AT-83

(1) Per annum.

The costs of health care have been valuated on the basis of the expected costs of the premiums of the different medical care policies taken out. A 1% variation in the increase in the cost of these premiums would not have a significant impact on the liability booked at 31 December 2009, nor would it cause a relevant variation in the normal, financial costs for future years in relation to that booked in 2009.

Other personnel-related liabilities

Effective 1 January 2008 the remunerated liabilities of a deferred nature have been replaced in order to offset the permanence of management personnel, which are included in this account, by a defined contribution savings plan upon retirement with guaranteed income, arranged through collective insurance policies for pension liabilities.

Certain UNIÓN FENOSA companies have entered into contracts with part of their management personnel and directors that could be terminated under certain circumstances, and, accordingly, these companies have recognised a provision to meet the costs arising from the contractual indemnities and remunerated compensation for the termination of these agreements. As a result of the business combination of UNIÓN FENOSA the existing provision included, on the date of the combination, the amount of Euros 45 million, which was fully paid thereafter.

Other current and non-current provisions

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

	2009		2008	
	Non-current provisions	Current provisions	Non-current provisions	Current provisions
As at 1 January	**556**	**146**	**378**	**65**
Charged to / reversed in the income statement				
– provisions	207	10	171	59
– reversals	(32)	(33)	(6)	–
Amounts paid during the year	(56)	(125)	(10)	(12)
Business combinations (Note 30)	611	93	1	–
Cumulative translation adjustments	–	(1)	(1)	5
Reclassifications and others	(50)	38	23	29
As at 31 December	**1,236**	**128**	**556**	**146**

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 34.

Additionally, this account includes the provisions to meet the liabilities arising from the dismantling, restoration and other costs related to the facilities, basically electricity generating facilities, totalling Euros 250 million at 31 December 2009 (Euros 29 million in 2008).

It also includes under Current provisions the excess emission of assigned rights totalling Euros 41 million at 31 December 2009 (Euro 60 million at 31 December 2008).

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 16. Borrowings

The breakdown of borrowings at 31 December 2009 and 2008 is as follows:

	At 31.12.09	At 31.12.08
Issuing of debentures and other negotiable obligations	5,386	551
Loans from financial institutions	12,648	3,784
Derivative financial instruments	188	114
Other financial liabilities	436	2
Non-current borrowings	**18,658**	**4,451**
Issuing of debentures and other negotiable obligations	1,711	231
Loans from financial institutions	923	683
Derivative financial instruments	16	10
Other financial liabilities	199	10
Current borrowings	**2,849**	**934**
Total	**21,507**	**5,385**

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

	Carrying amount		Fair value	
	At 31.12.09	At 31.12.08	At 31.12.09	At 31.12.08
Issuing of debentures and other negotiable obligations	5,386	551	5,567	562
Loans from financial institutions and others	13,084	3,786	13,137	3,797

The fair value of loans with fixed interest rates is estimated on the basis of the discounted cash flows over the remaining terms of such debt. The discount rates were determined based on market rates available at 31 December 2009 and 31 December 2008 on borrowings with similar credit and maturity characteristics. These valuations are based on the quotation price of similar financial instruments in an official market or on observable information in an official market (Level 2).

The movement in borrowings is as follows:

	2009	2008
As at 1 January	**5,385**	**4,079**
Business combinations	7,322	–
Increase in borrowings	21,510	2,865
Decrease in borrowings	(12,736)	(1,457)
Cumulative translation adjustment	26	(102)
As at 31 December	**21,507**	**5,385**

The following tables describe our consolidated gross borrowings by instrument at 31 December 2009 and 31 December 2008 and their maturity profile, taking into account the impact of the derivative hedges.

	2010	2011	2012	2013	2014	2015 and beyond	Total
At 31 December 2009:							
Marketable Debt							
Fixed	985	–	505	–	2,000	2,294	5,784
Floating	702	18	–	593	–	–	1,313
Institutional Banks and other financial companies							
Fixed	88	73	118	114	117	814	1,324
Floating	69	29	25	32	7	197	359
Commercial Banks and other financial liabilities							
Fixed	330	4,518	822	54	90	631	6,445
Floating	675	1,614	585	3,171	149	88	6,282
Total Fixed	1,403	4,591	1,445	168	2,207	3,739	13,553
Total Floating	1,446	1,661	610	3,796	156	285	7,954
Total	**2,849**	**6,252**	**2,055**	**3,964**	**2,363**	**4,024**	**21,507**

	2009	2010	2011	2012	2013	2014 and beyond	Total
At 31 December 2008:							
Marketable Debt							
Fixed	200	551	–	–	–	–	751
Floating	31	–	–	–	–	–	31
Institutional Banks and other financial companies							
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**

If we exclude the impact of the derivatives on borrowings, the classification between fixed and floating rates would be: fixed, Euros 7,930 million in 2009 (Euros 653 million in 2008) and floating: Euros 13,577 million in 2009 (4,608 million in 2008).

At 31 December 2009, GAS NATURAL has credit facilities totalling Euros 4,427 million (Euros 1,728 million at 31 December 2008), of which Euros 3,443 million are not drawn down (Euros 1,358 million at 31 December 2008).

The following table describes our consolidated gross financial debt denominated by currency at 31 December 2009 and 31 December 2008 and its maturity profile, taking into account the impact of the derivative hedges.

	2010	2011	2012	2013	2014	2015 and beyond	Total
At 31 December 2009:							
Euro Debt	2,152	5,752	1,355	3,538	2,194	3,310	18,301
Foreign Currency Debt:							
US Dollar	352	270	393	384	105	519	2,023
Mexican peso	5	98	80	–	–	–	183
Brazilian real	147	20	117	42	63	–	389
Colombian peso	145	93	110	–	1	–	349
Argentinean peso	25	19	–	–	–	–	44
Rest	23	–	–	–	–	195	218
Total	**2,849**	**6,252**	**2,055**	**3,964**	**2,363**	**4,024**	**21,507**

	2009	2010	2011	2012	2013	2014 and beyond	Total
At 31 December 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**

Borrowings in Euros have borne an effective average interest rate of 3.32% at 31 December 2009 (4.90% at 31 December 2008) while borrowings in foreign currency have borne an effective average interest rate of 7.10% (10.04% at 31 December 2008), including derivative instruments assigned to each transaction.

We describe below the most relevant financing instruments:

Issue of bonds and other negotiable securities

In 2009 and 2008 the evolution of the issues of debt securities has been as follows:

	At 1.1.2009	Issues	Buy backs or eimbursements	Business combinations	Exchange rate adjustments and others	At 31.12.2009
Issued in a member state of the European Union which required the filing of a prospectus	754	5,945	(1,512)	1,252	–	6,439
Issued in a member state of the European Union which did not required the filing of a prospectus	–	–	–	5	–	5
Issued outside a member state of the European Union	28	41	(9)	731	(138)	653
Total	**782**	**5,986**	**(1,521)**	**1,988**	**(138)**	**7,097**

	At 1.1.2008	Issues	Buy backs or eimbursements	Business combinations	Rate adjustments and others	At 31.12.2008
Issued in a member state of the European Union which required the filing of a prospectus	753	602	(602)	–	1	754
Issued in a member state of the European Union which did not required the filing of a prospectus		–	–	–	–	–
Issued outside a member state of the European Union	41	–	(14)	–	1	28
Total	**794**	**602**	**(616)**	**–**	**2**	**782**

ECP Program

In March 2001, GAS NATURAL subscribed a Euro Commercial Paper (ECP) program by virtue of which it could issue up to a total principal of Euros 1,000 million or its equivalent in alternative currencies. At 31 December 2009 no amount has been drawn down and, accordingly, the principal available was Euros 1,000 million.

Promissory Notes Program

In July 2009 GAS NATURAL subscribed a Promissory Note Program by virtue of which it could issue a total principal up to Euros 2,000 million. At 31 December 2009 the outstanding issues under this program totalled Euros 394 million.

Additionally, under the Promissory Note Program of Unión Fenosa S.A., already matured, there is still an outstanding balance issue of Euros 250 million at 31 December 2009.

EMTN Program

In 1999, GAS NATURAL established a European Medium Term Notes (EMTN) in the medium term by virtue of which a total principle of up to Euros 2.000 million could be issued. This program was extended on 27 December 2007 up to Euros 4,000 million, and on 2 December 2008 is was extended up to Euros 8.000 million, and on 15 December 2009 it was extended again to Euros 10,000 million. At 31 December 2009 a total principal of Euros 5,275 million was drawn down (Euros 725 million at 31 December 2008). The amount pending utilisation at 31 December 2009 totalled Euros 4,725 million. The breakdown of the nominal issue balance is as follows:

Nominal	Maturity	Coupon	Issuer
525	2010	6.12%	Gas Natural Finance, B.V.
500	2012	3.12%	Gas Natural Capital Markets, S.A.
2,000	2014	5.25%	Gas Natural Capital Markets, S.A.
1,000	2016	4.37%	Gas Natural Capital Markets, S.A.
500	2019	6.37%	Gas Natural Capital Markets, S.A.
750	2021	5.12%	Gas Natural Capital Markets, S.A.

Furthermore, GAS NATURAL has at 31 December 2009 an outstanding balance of bonds issued through Unión Fenosa Finance B.V. in the nominal amount of Euros 500 million.

Preference shares

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

– Dividend: variable, non-accumulative, until 20 May 2013, will be Euribor at three months plus a spread of 0.25% capped at 7% and a minimum of 4.25%; as from that date, Euribor at three months plus a spread of 4%.

– Term: perpetual, with the option for the issuer of reducing in advance all or part of the shareholding after 20 May 2013. Reduction will be made at par value.

– Remuneration: the dividend payment will be preferential and not accumulative and depends on whether distributable profit is reported or on the payment of a dividend to its ordinary shareholders.

– Voting rights: none.

Negotiable Bonds

Gas Natural BAN, S.A. (Argentina) has two issues of its Negotiable Bond program in the local market totalling Euros 44 million at 31 December 2009 (Euros 28 million at 31 December 2008).

Bank loans

Bank loans for the Maghreb-Europe pipeline

In 1994, a loan of USD 450 million was extended by Banco Europeo de Inversiones (BEI), arranged in three tranches with maturities until 2010. In 1995 a loan of USD 200 million was extended by the Instituto de Crédito Oficial (ICO) with maturities until 2010. Both loans were given in relation to the construction of the Maghreb-Europe gas pipeline. At 31 December 2009, USD 59 million (USD 149 million at 31 December 2008) of the BEI loan and USD 40 million (USD 80 million at 31 December 2008) of the ICO loan were pending repayment. Furthermore, in 2008 a credit facility was given of USD 40 million, fully drawn down at 31 December 2009.

European bank loans (commercial/institutional banks)

At 31 December 2009 these loans relate to the financing of the acquisition of Unión Fenosa, S.A. (see pertinent section), to the syndicated “Club Deal” loan of Euros 600 million (Euros 600 million at 31 December 2008) maturing in 2011, to a loan in 2008 from ICO and BEI totalling Euros 768 million and to bi-lateral loans totalling Euros 785 million maturing between 2011 and 2013 (Euros 725 million in 2008). Also included are credit facilities of Euros 414 million (Euros 239 million at 31 December 2008).

Loans from Latin American banks (commercial/institutional banks)

At 31 December 2009 borrowings from various Latin American banks totalled Euros 1,309 million (Euros 612 million at 31 December 2008). The geographic breakdown of these loans is as follows: Mexico: Euros 394 million (Euros 144 million at 31 December 2008), Colombia: Euros 349 million (Euros 59 million at 31 December 2008), Brazil: Euros 389 million (Euros 366 million at 31 December 2008), Argentina (Euros 43 million at 31 December 2008), Panama: Euros 113 million, Guatemala: Euros 57 million and Nicaragua: Euros 7 million.

Of total Latin American borrowings at 31 December 2009, 77% relates to commercial banks and the remaining 23% to institutional banks (BNDES, BEI, ICO, etc.).

Wind farm operators (commercial banks)

At 31 December 2009, wind farm operating companies had Euros 94 million in outstanding loans, mainly for project financing (Euros 107 million at 31 December 2008). Most of this debt matures in 2012 and year beyond.

Enel Unión Fenosa Renovables (commercial banks)

At 31 December 2009 the companies belonging to Enel Unión Fenosa Renovables (EUFER) had Euros 574 million in borrowings mainly for wind farm financing through traditional bank financing and project financing. Most of this debt matures in 2012 and years beyond.

Unión Fenosa Gas (commercial/institutional banks)

At 31 December 2009, the companies belonging to Unión Fenosa Gas had Euros 376 million in outstanding loans, mainly for financing in USD by Banco Europeo de Inversiones (BEI) to finance the natural gas liquefaction plant in Damietta (Egypt) totalling Euros 147 million, and for a loan in USD given by twenty-two lending entities totalling Euros 219 million. Most of this debt matures in 2015 and years beyond.

Puerto Rico (commercial banks)

At 31 December 2009 the debt related to the combined cycle plant and the regasification plant in Puerto Rico totals Euros 167 million (Euros 193 million at 31 December 2008), including Euros 10 million in credit facilities drawn down (Euros 11 million at 31 December 2008). Most of this debt matures in 2012 and years beyond.

Bank loans - other countries (commercial banks)

At 31 December 2009, bank loans from other countries total Euros 16 million and pertain mainly to Moldavia and Kenya.

Financing of the acquisition of Unión Fenosa, S.A.

On 7 August 2008, GAS NATURAL took out a loan from various banks totalling Euros 19,000 million at an interest rate indexed to the EURIBOR plus a variable margin based on the tranche and credit rating of GAS NATURAL.

In 2008 draw downs totalled Euros 1,675 million and partial redemptions totalled Euros 740 million, leaving an available amount of Euros 16,585 million.

In 2008 financial swaps were contracted to cover interest rate risk on the part already drawn down. These hedges were increased in 2009 (Note 17).

In 2009 various draw downs totalling Euros 15,692 million were made for the acquisition of shares of UNIÓN FENOSA and for debt refinancing and partial redemptions totalling Euros 893 million, leaving the facility, therefore, totally drawn down. Additionally, an early repayment was made of Euros 9,857 million using the funds from the capital increase of Gas Natural SDG, S.A., from bond issues and from the divestments of assets, and, accordingly the loan at 31 December 2009 totalled Euros 7,510 million.

The financing is divided into 10 tranches, with the following amounts and maturities:

Tranche	Amount (million Euros)	Maturity
A1	cancelled	
D1	cancelled	
A2	2,084	364 days as from 7 February 2009. This maturity could be extended by GAS NATURAL
D2	38	by one single additional term of 1 year, subject to certain conditions.
B	2,706	7 August 2011
D3	58	
C1	1,780	7 August 2013
D4	31	
C2	800	7 August 2013
D5	13	

In January 2010 an early repayment was made of Euros 2,492 million using the funds from the bond issues and asset divestments (Note 37), leaving tranches A2 and D2 completely repaid and tranches B and D3 partiallly repaid.

The Financing Agreements include as conditions for obligatory total or partial early repayment, as the case may be, the disposal of assets, the payment of dividends of Unión Fenosa, S.A., financing obtained, and the change in control of GAS NATURAL.

It also includes the following financial caps, expressed as financial ratios and aggregates using specific calculation criteria, which differ from the accounting aggregates:

1) The Consolidated EBITDA / Net Consolidated Financial Expenses ratio cannot be lower than:

Period	Ratio
31 December 2009 and 30 June 2010	2.75
31 December 2010 and beyond	3.50

2) The Consoldiated Net Financial Debt / Consolidated EBITDA ratio cannot exceed:

Period	Ratio
31 December 2009 (1)	5.25
30 June 2010	4.85
31 December 2010	4.50
30 June 2011 and beyond	4.00

(1) EBITDA proforma, taking into account the acquisition of UNIÓN FENOSA as from 1 January 2009.

3) Total assets: on the date after twelve months have lapsed as from the date on which GAS NATURAL acquired control of Unión Fenosa, S.A., the total assets o Gas Natural SDG, S.A. (excluding certain assets) cannot be lower than Euros 11,000 million.

4) Net Consolidated Financial Debt: cannot exceed Euros 30,000 million at any time prior to 31 December 2009.

Additionally, there are other bank loans that are subject to compliance with certain financial ratios. On the other hand, certain investment projects (renewable energy and Unión Fenosa Gas) have been financed specifically through loans that include the pignoration of the shares of these projects. The outstanding balance of loans of this type at 31 December 2009 totals Euros 978 million.

At the date of formulation of these consolidated annual accounts GAS NATURAL is not in breach of these financial obligations. It were, this could give rise to a situation of early redemption of its financial liabilities.

Other financial liabilities

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

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

	A 31.12.09			A 31.12.08		
	Nominal	Discount	Present value	Nominal	Discount	Present value
No later than 1 year	72	(4)	68	–	–	–
Between 1 and 5 years	329	(46)	283	–	–	–
Later than 5 years	184	(40)	144	–	–	–
Total	**585**	**(90)**	**495**	**–**	**–**	**–**

Note 17. 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.
- 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 fluctuations in interest rates by exchanging debt at a floating rate for fixed interest rates. Additionally, please bear in mind the financial swaps contracted to mitigate the risk of a specific financing operation in Yen that does not qualify for hedge accounting.

The debt structure at 31 December 2009 and 2008, after taking into account the hedges structured through derivatives, is as follows:

	At 31.12.2009	At 31.12.2008
Fixed interest rate	13,553	3,948
Floating interest rate	7,954	1,437
Total	**21,507**	**5,385**

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
2009	+50	(41)	45
	-50	41	(45)
2008	+50	(7)	37
	-50	7	(37)

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:

		2009	2008
Effect on profit before tax	+5%	3	–
	-5%	(3)	–
Effect on equity before tax	+5%	33	(25)
	-5%	(36)	28

Commodities price risk

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

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

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

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

	% Increase/decrease in the purchase price of gas	Effect on profit before tax	Effect on equity before tax
2009	+10	–	(1)
	-10	–	1
2008	+10	–	–
	-10	–	–

	% Increase/decrease in the electricity sale price	Effect on profit before tax	Effect on equity before tax
2009	+10	–	2
	-10	–	(2)
2008	+10	7	(5)
	-10	(7)	5

	% Increase/decrease in the price of CO_2 emission rights	Effect on profit before tax	Effect on equity before tax
2009	+10	–	3
	-10	–	(3)
2008	+10	–	–
	-10	–	–

Credit risk

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

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

The main guarantees that are negotiated are guarantees, guarantee deposits and deposits. At 31 December 2009, GAS NATURAL had received guarantees totalling Euros 18 million to cover the risk of large industrial customers (Euros 21 million at 31 December 2008). In 2009, guarantees have been executed for amounts lower than Euros 1 million (Euros 1 million at 31 December 2008).

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

At 31 December 2009 and 2008 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 31 December 2009 and 2008 is as follows:

	At 31.12.2009	At 31.12.2008
Less than 90 days	90	101
90-180 days	44	31
More than 180	11	9
Total	**145**	**141**

The impaired financial assets are broken down in Note 11.

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 31 December 2009, available liquidity totals Euros 11,365 million, taking into account cash and other cash equivalents totalling Euros 589 million (Note 12), deposits classified as held to maturity totalling Euros 1 million (Note 8) and derivative financial assets totalling Euros 1 million (Note 8), bank financing and credit facilities available of Euros 3,443 million (Note 16) and the capacity to issue debt not utilised of Euros 7,331 million (Note 16).

The breakdown of the maturities of the financial liabilities at 31 December 2009 and 2008 is as follows:

	2010	2011	2012	2013	2014	2015 and beyond	Total
At 31 December 2009							
Trade and other payables	(4,013)	–	–	–	–	–	(4,013)
Loans and other financial payables	(3,537)	(6,781)	(2,515)	(4,387)	(2,660)	(5,749)	(25,629)
Financial derivatives	(100)	(50)	(10)	(7)	(7)	(35)	(209)
Other liabilities	(69)	(65)	(59)	(147)	(55)	(875)	(1,270)
Total (1)	**(7,719)**	**(6,896)**	**(2,584)**	**(4,541)**	**(2,722)**	**(6,659)**	**(31,121)**

	2009	2010	2011	2012	2013	2014 and beyond	Total
At 31 December 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)**

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

Capital management

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

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

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

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

	2009	2008
Moody's	Baa2	A3
Standard & Poor's	BBB+	A
Fitch	A-	A

Its leverage rating is as follows:

	2009	2008
Net borrowings:	**20,916**	**4,913**
Non-current borrowings *(Note16)*	18,658	4,451
Current borrowings (*Note16)*	2,849	934
Cash and cash equivalents *(Note 12)*	(589)	(249)
Derivates *(Note 17)*	(1)	(11)
Time deposits *(Note 8)*	(1)	(212)
Net equity:	**12,177**	**6,721**
Equity holders of the Company *(Note 13)*	10,681	6,376
Minority interests	1,496	345
Leverage (Net borrowings/(Net borrowings + Net equity))	**63.2%**	**42.2%**

Derivative financial instruments

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

	At 31.12.09		At 31.12.08	
	Assets	Liabilities	Assets	Liabilities
Derivatives qualifying for hedge accounting	**1**	**163**	**4**	**114**
Cash flow hedges				
– Interest rate	–	162	1	114
Fair value hedge				
– Interest rate and exchange rate	1	–	3	–
– Interest rate	–	1	–	–
Other financial instruments	**–**	**25**	**–**	**–**
– Interest rate	–	25	–	–
Derivative financial instruments-non current	**1**	**188**	**4**	**114**
Derivatives qualifying for hedge accounting	**30**	**42**	**49**	**34**
Cash flow hedges				
– Interest rate	–	11	7	–
– Exchange rate	6	4	–	15
– Commodity prices	7	19	15	3
Fair value hedge				
– Interest rate and exchange rate	–	1	–	10
– Exchange rate	17	5	27	6
– Commodity prices	–	2	–	–
Other financial instruments	**–**	**4**	**54**	**44**
– Commodity prices	–	4	18	44
– *Equity swap*	–	–	36	–
Derivative financial instruments-current	**30**	**46**	**103**	**78**
Total	**31**	**234**	**107**	**192**

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

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

	2009		2008	
	Operating Results	Financial results	Operating Results	Financial results
Cash flow hedges	15	(102)	(20)	3
Fair value hedges	(3)	(14)	5	(36)
Other	(11)	24	(18)	13
Total	**(1)**	**(92)**	**(33)**	**(20)**

The breakdown of the derivative financial instruments at 31 December 2009 and 2008, their fair value and the breakdown by maturity of their notional values are as follows:

	31.12.09							
	Fair Value	Notional value (in million of Euros)						
		2010	2011	2012	2013	2014	Beyond	Total
Interest rate swap contracts:								
Cash flow hedges:								
Financial swaps (EUR)	(141)	2,209	2,586	212	21	14	124	5,166
Financial swaps (USD)	(29)	49	19	179	22	23	173	465
Financial swaps (ARS)	–	6	–	–	–	–	–	6
Collars (EUR)	(1)	6	4	13	3	3	3	32
Fair value hedge:								
Financial swaps (EUR)	(1)	4	5	3	3	25	–	40
Exchange rate hedge:								
Cash flow hedge:								
Financial swaps (USD)	2	2,290	–	4	–	–	–	2,294
Fair value hedge:								
Financial swaps (BRL)	–	5	5	2	–	–	–	12
Foreign exchange fluctuation insurance (USD)	10	538	–	–	–	–	–	538)
Foreign exchange fluctuation insurance (DHN)	–	5	–	–	–	–	–	5
Commodity hedge:								
Cash flow hedge:								
Commodity price derivatives (EUR)	(10)	147	–	–	–	–	–	147
Commodity price derivatives (USD)	(2)	35	–	–	–	–	–	35
Fair value hedge:								
Commodity price derivatives	(2)	4	–	–	–	–	–	4
Others:								
Financial swaps (JPY)	(25)	–	–	–	–	–	278	278
Commodity price derivatives (USD)	(3)	8	–	–	–	–	–	8
Commodity price derivatives (EUR)	(1)	–	–	–	–	–	–	–
Total	**(203)**	**5,306**	**2,619**	**413**	**49**	**65**	**578**	**9,030**

A notional amount of Euros 3,675 million in Financial Swaps (EUR) in the accompanying tables at 31 December 2009 (Euros 1,675 million at 31 December 2008) has been designated as a hedge of the interest rate risk on the part of the amount drawn down in relation to the financing agreement for the acquisition of Unión Fenosa, S.A. (Note 16).

		31.12.09						
	Fair Value	**Notional value** (in million of Euros)						
		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 (EUR)	(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
Total	**(85)**	**4,181**	**1,456**	**2,593**	**226**	**21**	**54**	**8,531**

Note 18. Other non-current liabilities

The breakdown of this account at 31 December 2009 and 2008 is as follows:

	At 31.12.09	**At 31.12.08**
Finance lease liabilities (1)	578	374
Payables for levelling of capacity income (2)	70	141
Deposits and guarantee deposits	197	42
Other liabilities (3)	232	149
Total	**1,077**	**706**

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

(1) Finance lease liabilities

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

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

In December 2007 a 138,000 m^3 gas tanker was acquired through a 25-year time-charter lease maturing 2032, extendible for consecutive periods of 5 years, and which represents a joint investment of Euros 162 million relating to the current value of the payments to which Repsol YPF (50%) and GAS NATURAL (50%) are committed.

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

Minimum lease payments are as follows:

	At 31.12.09			At 31.12.08		
	Nominal	Discount	Present value	Nominal	Discount	Present value
Not later than 1 year	55	(3)	52	36	(2)	34
Between 1 and 5 years	221	(43)	178	145	(30)	115
Later than 5 years	874	(474)	400	577	(318)	259
Total	**1,150**	**(520)**	**630**	**758**	**(350)**	**408**

The effective average interest rate on the liabilities for finance lease agreements at 31 December 2009 is 6.6% (6.8% at 31 December 2008).

(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
2010 [(1)]	21
2011	14
2012	6
2013	6
Total	**47**

(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 22 September 2008 15% of Gas Natural Mexico, S.A. de C.V. and Sistemas de Administración, S.A. de C.V. was sold to Inbursa for Mexican Pesos 761 million (Euros 49 million), and a commitment was made to repurchase these shares. Until 22 May 2013 Inbursa can offer all the shares it holds at that time to GAS NATURAL, 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 2009 totals Mexican Pesos 853 million (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 16 December 2008 28% of Invergas, S.A. and Gas Natural SDG Argentina, S.A., which represents an interest of 19.6% of Gas Natural BAN, S.A., Natural Energy, S.A. and Natural Servicios, S.A. was sold to Chemo España, S.L. for USD 56 million (Euros 38 million) through an initial receipt of USD 28.5 million, with the rest of the receipts being deferred (see Note 8), and a commitment was made to repurchase these shares. Chemo España, S.L. will be able to offer during September 2013 all the shares it has at that time to GAS NATURAL, 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 2009 totals USD 51 million and equals the current value of the amount payable (USD 50 million at 31 December 2008).

Note 19. Trade and other payables

The breakdown at 31 December 2009 and 2008 is as follows:

	At 31.12.09	At 31.12.08
Trade payables	3,232	2,254
Trade payables with related parties *(Note 32)*	62	90
Amounts due to associates	28	1
Trade payables	**3,322**	**2,345**
Social security and other taxes	354	212
Derivative financial instruments *(See Note 17)*	30	68
Amounts due to employees	81	31
Other payables	**465**	**311**
Current tax liabilities	226	209
Total	**4,013**	**2,865**

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 20. Other current liabilities

The breakdown of Other current liabilities at 31 December 2009 and 2008 is as follows:

	At 31.12.09	At 31.12.08
Dividend payable	374	230
Expenses accrued pending payment	108	117
Finance lease liabilities *(Note 18)*	52	34
Other liabilities	146	804
Total	**680**	**1,185**

At 31 December 2008 the debt with Caixanova of Euros 776 million was included in "Other liabilities" (Note 3.4.1.e).

Note 21. Tax situation

The Tax Group represented by Gas Natural SDG, S.A. s the parent company has been taxed since 1993 under the Consolidated Tax Regime in accordance with the Special Regime for Group Companies, regulated under Chapter VII of Title VII of the Spanish Corporate Income tax Act which involves the joint determination of taxable income of GAS NATURAL and the deductions and allowances on the tax payable.

On 1 September 2009 the takeover merger of Unión Fenosa, S.A. and Unión Fenosa Generación, S.A (Note 3.4.1.e) was inscribed in the Mercantile Registry. The winding up of Unión Fenosa S.A. due to its takeover by Gas Natural SDG, S.A. led to the termination of the Unión Fenosa Tax Group and the inclusion in the Gas Natural Group of the companies in said defunct Tax Group. The merger availed itself of the Special Tax Neutrality Regime as per Chapter VIII, Section VII of the Spanish Corporate Income Tax Act. The merger balance sheets and other disclosures required by said act are presented in the individual annual accounts. The Consolidated Tax Group for 2009 is set out in Appendix III.

Other companies resident in Spain which are not in the Tax Group are taxed individually.

On the other hand, different Group companies in Italy are taxed under the consolidation tax regime.

The other companies of GAS NATURAL are taxed in each country in which they trade at the rate in force for corporate income tax on profit for the year. In some countries additional taxes are recorded, such as the Minimum Presumed Profit tax, which are generally recoverable in the following ten years, or taxes that substitute the Single Rate Business Tax, which taxes the flow of cash and which settlements are not recoverable through future tax profits.

The reconciliation of the applicable tax rate to the effective tax rate and the breakdown of the income tax expense for 2009 and 2008 are as follows:

	2009	%	2008	%
Profit before tax	**1,791**		**1,551**	
Statutory tax	**537**	**30,0**	**465**	**30.0**
Tax rates for foreign companies	(35)	(2.0)	(29)	(1.9)
Reinvestment tax deductions	(23)	(1.3)	(1)	(0.1)
Other tax deductions	(15)	(0.8)	(43)	(2.8)
Effect of net profit under equity accounting	(18)	(1.0)	(2)	(0.1)
Tax differences against prior years and others	1	0.1	(15)	(0.9)
Other concepts	(7)	(0.3)	4	0.2
Income tax	**440**	**24.6**	**379**	**24.4**
Breakdown of current/deferred expense:				
Current tax	308		352	
Deferred tax	132		27	
Accrued Corporate income tax	**440**		**379**	

The tax deductions for reinvestment of extraordinary profit relate mainly to the disposal of the 5% shareholding in Enagás, S.A. (Note 8) and different companies and gas distribution and supply assets (Note 9), made in compliance with the provisions of current anti-trust legislation.

The revenues related to the deduction for reinvestment of extraordinary profit under the Corporate Income Tax Act, and the investments in which they have materialised, have been as follows:

Year of sale	Amount generated from sale	Amount reinvested
2002	925	925
2003	1,445	1,445
2004	595	595
2005	3,074	3,074
2006	323	323
2007	1,439	1,439
2008	304	304
2009	485	485
Total	**8,590**	**8,590**

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

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

	At 31.12.09			At 31.12.08		
	Gross	Tax effect	Net	Gross	Tax effect	Net
Measurement of available-for-sale financial assets	(34)	(4)	(38)	(130)	33	(97)
Cash flow hedges	(36)	13	(23)	(104)	29	(75)
Cumulative translation adjustments	154	(19)	135	(99)	18	(81)
Actuarial gains and loss and other adjustments	30	(8)	22	(17)	6	(11)
Companies measured by equity accounting	1	–	1	–	–	–
Total	**115**	**(18)**	**97**	**(350)**	**86**	**(264)**

The breakdown of the deferred tax is as follows:

	At 31.12.09	At 31.12.08
Deferred income tax assets:		
– Non-current	941	275
– Current	15	64
Total	**956**	**339**
Deferred income tax liabilities:		
– Non-current	(2,700)	(486)
– Current	–	(40)
Total	**(2,700)**	**(526)**
Net deferred income tax	**(1,744)**	**(187)**

The breakdown and movement of deferred taxes is as follows:

Deferred tax assets	Provisions for employee benefit obligationsl	Accruals	Tax losses carried forward	Amortization differences	Financial instruments valuation	Other	Total
At 1.1.08	**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 31.12.08	**22**	**63**	**43**	**78**	**68**	**65**	**339**
Charged/(credited) to income statement	(33)	(63)	(54)	12	–	41	(97)
Business combinations	248	310	96	62	5	105	826
Charged to equity	(3)	–	–	–	(22)	–	(25)
Cumulative translation adjustments	2	3	(1)	9	–	3	16
Others	4	(21)	(33)	(68)	–	15	(103)
At 31.12.09	**240**	**292**	**51**	**93**	**51**	**229**	**956**

Deferred tax liabilities	Amortization differences	Reinvestment capital gains	Fair value business combination	Financial instruments valuation	Other	Total
At 1.1.08	**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 31.12.08	**142**	**123**	**193**	**42**	**26**	**526**
Charged/(credited) to income statement	13	13	(17)	–	26	35
Business combinations	284	27	2,102	11	122	2,546
Charged to equity	–	–	–	(30)	–	(30)
Cumulative translation adjustments	(4)	–	12	–	(8)	–
Others	(177)	–	(207)	–	7	(377)
At 31.12.09	**258**	**163**	**2,083**	**23**	**173**	**2,700**

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

As a result of the aforementioned merger discussed in Notes 3.4.1.e and 13, a merger difference has arisen between the price of acquisition of the shareholding in Unión Fenosa, S.A. and its equity, determined at the time of the sale, which, as per article 89 of the Corporate Income Tax Act, will be charged, first of all, to the acquired assets and rights, and, the part of the difference not charged will be tax deductible, capped at an annual maximum of one-twentieth of its amount, provided that the conditions set down in letters a) and b) of the aforementioned provision are met. "Valuation of business combinations" under "Deferred tax liabilities" carries the tax effect of the part of the restatements of the net assets acquired in the combination process of UNIÓN FENOSA, which is estimated not to have a tax effect, and the amount of the tax deduction applied of the part of the merger difference not assigned to net assets acquired.

At 31 December 2009 the tax credits that have not been recorded totalled Euros 20 million (Euros 7 million at 31 December 2008).

In 2008 Tax Inspectors began their audit of Gas Natural SDG, S.A. and Gas Natural International SDG, S.A for corporate income tax (2003 to 2005) and for other taxes (2004 and 2005). Although the audit is not finished, it is not expected to generate significant liabilities. The Gas Natural Tax Group is open to inspection for the years between 2006 and 2009 for all applicable taxes and the companies from the Unión Fenosa Tax Group are open to inspection for the years between 2002 and 2009 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 34.

Note 22. Sales

The breakdown of this account for 2009 and 2008 is as follows:

	2009	2008
Sales of gas and connections to distribution networks	8,350	10,610
Sales of electricity and access to distribution networks	5,222	2,056
Rental of facilities, maintenance and other services	1,236	878
Other sales	71	–
Total	**14,879**	**13,544**

Note 23. Procurements

The breakdown of this account for 2009 and 2008 is as follows:

	2009	2008
Energy purchases	7,718	8,902
Access to transmission networks	920	716
Other purchases and Stock variation	495	178
Total	**9,133**	**9,796**

Note 24. Other operating income

The breakdown of this account for 2009 and 2008 is as follows:

	2009	2008
Other management income	122	56
Operating grants	2	2
Total	**124**	**58**

Note 25. Personnel cost

The breakdown of this account for 2009 and 2008 is as follows:

	2009	2008
Wages and salaries	501	258
Social security costs	103	57
Defined contribution plans	28	14
Defined benefit plans	5	1
Capitalized costs	(102)	(52)
Others	65	60
Total	**600**	**338**

The average number of employees of GAS NATURAL in 2009 has been 15,354 and 6,850 in 2008.

At 31 December 2009, GAS NATURAL had a total of 18,314 employees (6,757 at 31 December 2008), of which 8,712 work in Spain, 1,612 in the rest of Europe, 1,071 in Africa, 6,881 in Latin America and 38 in Puerto Rico.

Under Law 3/2007/22 March, on gender equality, published in the Official State Gazette on 23 March 2007, the number of employees of GAS NATURAL at the end of 2009 broken down by category and gender is as follows:

	Total
Executives	1,029
Middle management	3,306
Specialized technicians	3,818
Workers	10,161
Total	**18,314**

	Total
Men	13,506
Women	4,808
Total	**18,314**

Note 26. Other operating expenses

The breakdown of this account for 2009 and 2008 is as follows:

	2009	2008
Repairs and maintenance	344	191
Commercial services & advertising	255	190
Professional services & insurance	218	103
Local taxes	189	102
Leases	53	36
Procurements	74	46
Others	385	317
Total	**1,518**	**985**

In November 2009 an arbitration ruling was handed down on the termination of the integrated Gassi Touil project. The Arbitration Court declared that the aforementioned contract was terminated in accordance with its clauses, without forcing either party to indemnify the other as a result. The ruling also ordered Sonatrach to purchase the shareholding of GAS NATURAL and Repsol in the joint venture in charge of the liquefaction phase in the Gassi Touil project and to pay an amount equal to the treasury balance. The ruling did not include the restitution of the investments, and, accordingly, GAS NATURAL wrote off the related loans of Euros 60 million with a counter-entry in "Other operating expenses" on the Consolidated income statement.

Note 27. Other results

Relates to a capital gain from the sale of different group companies and gas supply and distribution assets in Cantabria, Murcia and the Basque Country totalling Euros 50 million (Note 9).

Note 28. Net financial income

The breakdown of this account for 2009 and 2008 is as follows:

	2009	2008
Dividends	12	48
Interest income	52	69
Others	18	15
Total financial income	**82**	**132**
Financial expense from borrowings	(810)	(325)
Interest expenses of pension plans and other post-employment benefits	(38)	(5)
Other financial expenses	(77)	(89)
Total financial expenses	**(925)**	**(419)**
Variations in the fair value of financial instruments:		
Derivative financial instruments *(Note 17)*	25	13
Financial assets at fair value through profit and loss *(Note 8)*	–	4
Net exchange gains/losses	1	7
Gain on sales of financial instruments	101	14
Net financial income	**(716)**	**(249)**

"Variations in fair value of derivative financial instruments" basically includes the effect of the Equity Swap contracts mentioned in Note 8, giving a positive result of Euros 35 million (Euros 13 million in 2008).

The results of the sale of financial instruments in 2009 relate to the gain from the sale of the 5% shareholding in Enagás, S.A.(Note 8).

The results of the sale of financial instruments in 2008 relate mainly to the gain from the sale of the 14,8% shareholding in Transportadora Colombiana de Gas S.A., ESP (Note 8).

Note 29. Cash generated from operating activities

The breakdown of cash generated from operations in 2009 and 2008 is as follows:

	2009	2008
Net income before tax	**1,791**	**1,551**
Adjustments to net income:	**2,094**	**1,110**
Depreciation and amortisation of fixed assets *(Note 5 and 6)*	1,415	726
Other adjustments to net income:	679	384
Net financial income *(Note 28)*	716	249
Net income for the year from discontinued operations net of tax *(Note 9)*	39	–
Profit of entities recorded by equity method *(Note 7)*	(59)	(6)
Release of fixed assets grants to income *(Note 14)*	(46)	(37)
Other results *(Note 27)*	(50)	–
Net variation in Provisions *(Note 15)*	34	180
Other adjustments	45	(2)
Chances in working capital (excluding the effects on the consolidation scope and cumulative translation adjustments):	**(362)**	**(115)**
Inventories	90	(99)
Trade and other accounts receivable	534	(438)
Trade and other accounts payable	(986)	422
Other cash flows generated from operations:	**(1,011)**	**(523)**
Interest received	(649)	(306)
Income tax payments	(362)	(217)
Cash flows generated from operating activities	**2,512**	**2,023**

Note 30. Business combinations

Year 2009

As indicated in Note 3.4.1.e, the control UNIÓN FENOSA has been obtained through various acquisitions, and, accordingly, it has been recorded as per IFRS 3 for business combinations made by stages. Accordingly, the total cost of the combination is the sum of the costs of the individual transactions and totals Euros 15,799 million relating to the acquisition of 95.2% of the share capital of Unión Fenosa, S.A. The goodwill has been calculated as the difference between the cost and the participation in the fair value of the identifiable assets and liabilities on the date of each transaction. The first consolidation difference is made up of the sum of the goodwills calculated in each partial purchase and totals Euros 5,670 million. On the date that control was taken, the changes in equity have been recorded as a revaluation of reserves and has totalled Euros 14 million.

The breakdown of the net assets acquired at 30 April 2009 and the goodwill is as follows:

Purchase price:	
Cost of acquisition	15,733
Acquisition expenses	66
Total purchase price	**15,799**
Fair value of the net assets acquired	10,129
Goodwill *(Note 5)*	**5,670**

	Fair value	Carrying value
Goodwill	–	219
Other intangible assets	3,310	238
Property, plant and equipment	16,883	12,822
Non-current financial assets	1,446	1,479
Deferred income tax assets	826	811
Other current assets	3,583	3,583
Cash and other cash equivalents	213	213
Total assets	**26,261**	**19,365**
Minority interests	1,458	1,258
Grants	–	872
Non-current financial liabilities	5,573	5,600
Other non-current liabilities	1,742	1,586
Deferred income tax liabilities	2,546	572
Other current liabilities	4,311	4,283
Total liabilities	**15,630**	**14,171**
Net assets acquired	**10,631**	**5,194**
Equity variations until control date	**(14)**	**–**
Minority interest	**(488)**	**–**
Fair value of the net assets acquired	**10,129**	**–**
Purchase price	**15,799**	**–**
Cash and cash equivalents of the subsidiary acquired	213	–
Net purchase price	**15,586**	**–**

The amount of the net consolidated income for the period contributed as from the date of acquisition has totalled Euros 396 million. If the acquisition had taken place on January 1, 2009, the increase in consolidated net turnover and consolidated net income for the period would have been Euros 2,223 million and Euros 161 million, respectively.

The recording of this business combination has been provisionally determined, given that at the date of adoption of these consolidated annual accounts the valuation of the assets acquired and liabilities borne has still not been completed, and the period of twelve months as from the acquisition of UNIÓN FENOSA as per IFRS 3 has still not lapsed. In this provisional measurement process independent experts have been used who have applied generally accepted measurement criteria.

As a result of the purchase price allocation process, and in relation to the carrying value of UNIÓN FENOSA at the purchase date, the main assets and liabilities identified at fair value are as follows:

- Intangible assets relating basically to the electricity distribution concessions in Spain and Latin America, to the CO_2, emission rights, to the gas supply contracts and other contractual rights (Note 5).

- Property, plant and equipment relating to the combined cycle, nuclear energy, hydro-electric and thermal plants and to wind farms, electricity generation networks and coal fields and other facilities (Note 6).

- Deferred tax liabilities for the revaluations mentioned above for the part that is estimated that will finally be non-tax deductible (Note 21).

The provisional goodwill resulting from this business combination is attributable to the high profitability of the business acquired and the benefits and synergies that are expected as a result of the acquisition and integration in GAS NATURAL.

Year 2008

The only business combination recorded in 2008 was the following:

On 3 July 2008 GAS NATURAL acquired 100% of the share capital of Pitta Construzione, S.p.A. Had the acquisition taken place on 1 January 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**
Other non-current liabilities	23	23
Deferred income tax liabilities	2	–
Other current liabilities	6	6
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.

Note 31. Joint Ventures

GAS NATURAL participates in different joint ventures that meet the conditions indicated in Note 3.4.1.b) and which are described in Appendix I. The relevant shareholdings in joint ventures at 31 December 2009 and 2008 are as follows:

	2009 (%)	2008 (%)		2009 (%)	2008 (%)
Barras Eléctricas Galaico Asturianas, S.A.	44.9	–	Eléctrica Conquense, S.A.	46.4	–
Barras Eléctricas Generación, S.L.	45.0	–	Eléctrica Conquense Distribución, S.A.	46.4	–
Centrales Nucleares Almaraz–Trillo, A.I.E	19.3	–	Gas Natural West Africa, S.L.	40.0	40.0
Comunidad de Bienes Central Nuclear de Almaraz	11.3	–	Nueva Generadora del Sur, S.A.	50.0	–
Comunidad de Bienes Central Nuclear de Trillo	34.5	–	Repsol Gas Natural LNG, S.L.	50.0	50.0
Comunidad de Bienes Central Térmica de Aceca	50.0	–	Subgroup EUFER	50.0	–
Comunidad de Bienes Central Térmica de Anllares	66.7	–	Subgrup Unión Fenosa Gas	50.0	–
EcoEléctrica Holding Ltd y dependientes	50.0	50.0			

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

	At 31.12.09	At 31.12.08
Non-current assets	5,328	365
Current assets	440	96
Assets	**5,768**	**461**
Non-current liabilities	2,054	285
Current liabilities	485	59
Liabilities	**2,539**	**344**
Net assets	**3,229**	**117**

	2009	2008
Income	837	265
Expenses	769	235
Profit after income tax	**68**	**30**

There are no contingent liabilities to which the shareholdings in joint ventures are exposed. The information on contractual commitments in Note 34 includes the commitments for gas purchases of Unión Fenosa Gas and EcoEléctrica LP of Euros 1,992 million at 31 December 2009 (Euros 314 million at 31 December 2008), the commitments for the purchase of nuclear fuel total Euros 47 million and the commitments for the payment of operating leases for the gas transport tankers of Unión Fenosa Gas totalling Euros 97 million.

Note 32. 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.

  On the basis of this definition, the significant shareholders of GAS NATURAL are Criteria CaixaCorp, S.A., and consequently, Caixa d´Estalvis I Pensions de Barcelona Group ("la Caixa" Group), Repsol YPF Group, Gaz de France-Suez Group (GDF-Suez Group), Caixa d'Estalvis de Catalunya. Until 28 October 2008 Holding de Infraestructuras y Servicios Urbanos, S.A. (HISUSA) was also considered a significant shareholder. On that date the GDF-Suez Group and Criteria CaixaCorp, S.A. acquired the 5.03% of Gas Natural SDG, S.A., that was held by HISUSA, in the same proportion in which they owned HISUSA (51% by the GDF-Suez Group and 49% by Criteria CaixaCorp, S.A.).

– Directors and executives of the company, and their immediate families. The term "director" means a member of the Board of Directors; "executive" means a member of the Management Committee of GAS NATURAL. 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. Furthermore, the transactions with related parties have been made at arm's length.

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

Income and expenses (Thousand Euros)	2009 "la Caixa" Group	Repsol YPF Group	GDF-Suez (*) Group	HISUSA	Caixa d'Estalvis de Catalunya
Financial expense	14,563	–	–	–	518
Leases (1)	3,344	7,439	–	–	–
Services received	243	47,253	39,083	–	–
Goods purchased (finished or in progress)	–	524,066	347,782	–	–
Other expenses (2)	25,299	4	125	–	98
Total expenses	**43,449**	**578,762**	**386,990**	**–**	**616**
Financial income	2,223	–	–	–	2
Leases	–	493	–	–	–
Provision of services	–	30,856	18,060	–	–
Sale of goods (finished or in progress)	–	365,409	590,163	–	–
Other income	2,231	–	–	–	–
Total income	**4,454**	**396,758**	**608,223**	**–**	**2**

Other transactions (Thousand Euros)	2009 "la Caixa" Group	Repsol YPF Group	GDF-Suez (*) Group	HISUSA	Caixa d'Estalvis de Catalunya
Acquisition of property, plant and equipment, intangible assets or other assets	–	1,265	256	–	–
Financing agreements: loans and capital contributions (lender) (3)	222,845	–	–	–	83
Sale of property, plant and equipment, intangible assets or other assets (4)	–	–	–	–	–
Financing agreements: loans and capital contributions (borrower) (5)	1,845,724	1,080,140	302,472	–	107,404
Deposits and guarantees deposits given	–	–	–	–	–
Deposits and guarantees deposits received	164,102	–	–	–	60,000
Dividends and other distributed profit	248,482	204,616	55,623	–	13,953
Other operations (6)	3,099,712	–	–	–	10,504

Trade debtors and creditors (in thousand Euros)	2009 "la Caixa" Group	Repsol YPF Group	GDF-Suez (*) Group	HISUSA	Caixa d'Estalvis de Catalunya
Trade and other receivables	–	8,400	76,093	–	–
Trade and other payables	–	21,000	31,032	–	–

Income and expenses (Thousand Euros)	2008 "la Caixa" Group	Repsol YPF Group	GDF-Suez (*) Group	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**

Other transactions (Thousand Euros)	2008 "la Caixa" Group	Repsol YPF Group	GDF-Suez (*) Group	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

Trade debtors and creditors (in thousand Euros)	2008 "la Caixa" Group	Repsol YPF Group	GDF-Suez (*) Group	HISUSA	Caixa d'Estalvis de Catalunya
Trade and other receivables	–	12,100	76,700	–	–
Trade and other payables	–	42,700	47,500	–	–

(*) 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 contributions to pension plans, collective insurance policies, life insurance policies, and other expenses. In June 2009 the Pension Plan Control Committee agreed to replace the fund manager and custodian of the Pension Plans with Vida Caixa, S.A.

(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, 2009 the credit facilities with the "la Caixa" Group totalled Euros 221,776 thousand, of which Euros 27,463 thousand have been drawn down. Additionally, "la Caixa" Group holds part of the participations in the syndicated loans of Euros 505,337 thousand.
With regards to the capital increase in cash made in April 2009 by Gas Natural SDG, S.A., the "la Caixa" Group has paid Euros 1,312,924 thousand for its proportional part in the company's share capital.
At 31 December 2008 the credit facilities contracted with the "la Caixa" Group totalled Euros 232,335 thousand, Euros 28,428 thousand of which had been drawn down. Additionally, the "la Caixa" Group has participations in syndicated loans of Euros 79,329 thousand.

(6) At December 31, 2009 "Other operations" with the "la Caixa" Group include Euros 2,451,815 thousand for exchange rate hedges (Euros 807,141 thousand at December 31, 2008) and Euros 647,897 thousand for interest rate hedges (Euros 471,590 thousand at December 31, 2008). This same account includes a balance of Euros 10,504 with Caixa d'Estalvis de Catalunya for interest rate hedges (Euros 11,477 thousand at 31 December 2008).

Note 33. Disclosures regarding members of the Board of Directors and the Management Committee

Remuneration of the members of the Board of Directors

The breakdown of the remuneration received by the members of the Board of Directors, in thousand Euros, is as follows:

	2009	2008
Remuneration items		
Fixed remuneration	1,258	707
Variable remuneration	1,113	764
Per diems	4,834	4,167
Others	3	3
Total	**7,208**	**5,641**
Other benefits		
Pension funds and plans: Contributions	414	151
Life insurance premiums	33	25
Total other benefits	**447**	**176**

"Fixed remuneration" includes both the amount received by members of the Board of Directors that have carried out their executive duties for Gas Natural SDG, S.A. and, in 2009, the remuneration for their executive duties carried out for Unión Fenosa, S.A. as a result of the acquisition of UNIÓN FENOSA.

Additionally, in order to compare the aggregates for 2009 to those of 2008 it must be beared in mind that in 2009 the criteria for receiving "Variable remuneration" have been changed as the entire remuneration for the year is included, while in 2008 only 60% was included, given that 40% had been received the previous year as an advance.

"Per diems" includes both the amount relating to membership of the Board of Directors of Gas Natural SDG, S.A. and its different Committees, and the respective Boards of Directors of the other investee companies. The difference between both periods is due, as a result of the acquisition of UNIÓN FENOSA, to the inclusion in "Per diems" of the amounts received for sitting on the Board of Directors of Unión Fenosa, S.A.

The amount accrued by the members the Board of Directors of Gas Natural SDG, S.A., for belonging to the Board of Directors, Executive Committee, Audit and Control Committee (CAandC) and Appointments and Remuneration Committee (CNandR), totalled Euros 4,086 thousand (Euros 4,086 thousand in2008), broken down as follows:

	Office	Board	Executive Committee	ACC	ARC	Total
Mr. Salvador Gabarró Serra	Chairman	550	550	–	–	1,100
Mr. Antonio Brufau Niubó	Vicechairman	127	126	–	12	265
Mr. Rafael Villaseca Marco	Chief Executive Officer	127	126	–	–	253
Mr. Juan María Nin Génova	Director	127	69	–	–	196
Mr. Enrique Alcántara-García Irazoqui	Director	127	–	–	–	127
Mr. Francisco Reynés Massanet	Director (1)	58	57	6	–	121
Mr. Carlos Kinder Espinosa	Director	127	126	6	–	259
Mr. Juan Rosell Lastortras	Director (2)	69	–	–	–	69
Mr. Enrique Locutura Rupérez	Director	127	–	–	–	127
Mr. Demetrio Carceller Arce	Director	127	126	–	–	253
Mr. Fernando Ramírez Mazarredo	Director	127	–	12	–	139
Mr. Narcís Serra Serra	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) Resignation accepted in Shareholders' meeting held on 26 June 2009
(2) Appointed in Shareholders' meeting held on 26 June 2009

"Pension Funds and Plans: Contributions", the contributions to pension plans and collective insurance policies.

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

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

Transactions with Directors

In relation to the scope of the disclosures required under article 127.3.4. of the Spanish Public Limited Companies Act, we report the direct and indirect interests that the directors have in companies with the same, analogous or complementary activity, and in companies that meet the same characteristics, be they group companies, associates or unrelated.

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	Red Eléctrica	Iberdrola
Mr. Salvador Gabarró Serra	Chairman	3,000 (0.000)	14,371 (0.006)	–	–	10,502 (0.008)	71,604 (0.001)
Vicechairman of "la Caixa"							
Director of Criteria CaixaCorp, S.A..							
Director of Indra Sistemas, S.A.							
Mr. Antonio Brufau Niubó	Vicechairman	74,612 (0.008)	–	205,621 (0.017)	–	–	–
Executivechairman of Repsol YPF, S.A.							
Chairman of YPF, S.A.							
Mr. Rafael Villaseca Marco	Chief Executive Officer	12,006 (0.001)	356 (0.000)	646 (0.000)	859 (0.000)	–	2,544 (0.000)
Vicechairmanof Repsol-Gas Natural LNG, S.L.							
Chairman GN Aprovisionamientos SDG, S.A.							
Mr. Juan María Nin Génova	Director	144 (0.000)	–	242 (0.000)	–	–	–
Director of Criteria CaixaCorp, S.A.							
Director of Repsol YPF, S.A.							
Manager Director of "la Caixa"							
Mr. Santiago Cobo Cobo	Director	30 (0.000)	–	–	–	–	–
Mr. Carlos Losada Marrodán (1)	Director	13,964 (0.002)	–	–	–	–	–
Mr. Fernando Ramírez Mazarredo	Director	260 (0.000)	–	200 (0.000)	–	–	–
Chief Financial Officer Repsol YPF, S.A.							
Mr. Carlos Kinder Espinosa	Director	5,206 (0.001)	–	–	–	–	–
Mr. Enrique Alcántara-García Irazoqui (2)	Director	27,669 (0.003)	–	–	–	–	–
Mr. Narcís Serra Serra	Director	26 (0.000)	–	–	–	–	–
Mr. Emiliano López Achurra	Director	60 (0.000)	–	–	–	–	–
Mr. Miguel Valls Maseda	Director	6,306 (0.001)	–	–	–	–	–
Mr. Jaime Vega de Seoane Azpilicueta (3)	Director	10,006 (0.001)	–	–	–	–	–
Mr. José Arcas Romeu	Director	6,975 (0.001)	–	–	–	–	2,320 (0.000)
Mr. Juan Rosell Lastortras							
Director Criteria CaixaCorp, S.A.	Director						
Mr. Demetrio Carceller Arce	Director	2,600 (0.000)	–	–	–	–	–
Mr. Enrique Locutura Rupérez	Director	10,607 (0.001)	–	3,797 (0.000)	–	–	–
Chairman of Repsol Gas Natural LNG,S.L.							

(1) 12.108 shares de Gas Natural SDG, S.A., through Ms. Mercedes Cavestany de Dalmases
(2) 20.000 shares de Gas Natural SDG, S.A., through Bufete Alcántara SPL
(3) 10.000 shares de Gas Natural SDG, S.A., through Ms. Sofía Vázquez de Sola Otero

Remuneration of the Management Committee

The breakdown of the remuneration received by the members of the Management Committee, excluding the Chief Executive Officers included in the section on the Remuneration of the members the Board of Directors, in thousand Euros, is as follows:

	2009	2008
Item		
Fixed remuneration	3,407	2,840
Variable remuneration	2,516	1,573
Per diems	–	–
Others	53	45
Total	**5,976**	**4,458**
Other benefits		
Pension funds and plans: Contributions	1,458	1,259
Life insurance premiums	57	45
Total other benefits	**1,515**	**1,304**

In order to compare the 2009 aggregates with those of 2008 it must be beared in mind that, as a result of the acquisition and integration of UNIÓN FENOSA, the Management Committee, excluding the Chief Executive Officer, has risen from 10 to 12 members. Additionally, please note that in 2009 the criteria for receiving "Variable remuneration" have changed, as all the remuneration for the year has been included, while in 2008 only 60% was included, given that 40% had been received the previous year as an advance.

"Pension funds and plans: contributions" includes the contributions to pension plans and collective insurance policies.

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

The contracts of the members of the Executive Committee contain a clause that stipulates a minimum indemnity of two years pay in certain cases of termination of contract and an indemnity equivalent to one year's fixed remuneration for the post-employment non-compete clause for a period of one year.

Transactions with Directors and executives

The Directors and executives have not carried out any operations outside ordinary business in 2009 and 2008 or any operations not carried out at arm's length with the company or the Group companies.

Note 34. Commitments and contingent liabilities

Guarantees

At 31 December 2009 GAS NATURAL has given guarantees to third parties for activities totalling Euros 1,150 million.

On the other hand, financial guarantees have also been given totalling Euros 643 million, of which Euros 486 million relate to the guarantee for compliance with the obligations on the loan received by investee companies.

GAS NATURAL estimates that the liabilities not foreseen at 31 December 2009, if any, that could given arise from the guarantees given, would not be significant.

Contractual commitments

The following tables present the contractual commitments for purchases and sales at 31 December 2009:

	At 31 December 2009						
Purchase	**Total**	**2010**	**2011**	**2012**	**2013**	**2014**	**And beyond**
Commitments for operating leases (1)	547	62	55	55	25	25	325
Commitments for purchases of natural gas (2)	64,711	6,266	6,358	6,094	5,299	4,598	36,096
Commitments for purchases of nuclear fuel	47	22	25	–	–	–	–
Commitments for transport of natural gas (3)	986	77	103	96	51	45	614
Commitments for investments (4)	325	325	–	–	–	–	–
Total contractual obligations	**66,616**	**6,752**	**6,541**	**6,245**	**5,375**	**4,668**	**37,035**

	At 31 December 2009						
Sales	**Total**	**2010**	**2011**	**2012**	**2013**	**2014**	**And beyond**
Commitments for assignment of combined cycle capacity (5)	2,516	187	169	173	190	175	1,622
Commitments for sales of natural gas (6)	17,662	3,709	2,941	2,847	1,536	1,276	5,353
Total contractual obligations	**20,178**	**3,896**	**3,110**	**3,020**	**1,726**	**1,451**	**6,975**

1) Basically reflects the payments foreseen for the operating lease of the four liquefied natural gas transport tankers which terminate in the period 2010-2012 and the operating costs related to the tanker fleet contracts under finance leases indicated in Note 18. Also included is the rent of the "Torre del Gas" building owned by Torre Marenostrum, S.L., for which GAS NATURAL has an operating lease without a purchase option for a period of ten years as from March 2006, extendible at market value for successive periods of three years, which is discretionary for GAS NATURAL and obligatory for Torre Marenostrum, S.L.

2) Basically reflects the long-term commitments for natural gas purchases under gas supply contracts with *take or pay* clauses negotiated and held for "own use" (Note 3.4.8.e). Normally, these contracts are for 20-25 years, a minimum amount of gas to be purchased and revision mechanisms for prices indexed to international natural gas prices and regulated prices of natural gas in the countries of origin. The commitments according to these contracts have been calculated on the basis of natural gas prices at 31 December 2009.

3) Reflects the long-term commitments (20 to 25 years) for gas transport calculated on the basis of prices at 31 December 2009.

4) Basically reflects the commitments for payments under the turnkey projects for the construction of the combined cycle plants in Malaga and the Barcelona Harbour, and the investment commitments for upstream projects and the construction of the connexion network of the regasification plant in Trieste (Italy).

5) Reflects the commitments as per the long-term contracts (25 years) of assignment of electricity generation capacity in Mexico and Puerto Rico without a purchase option, classified as operating leases. The commitments under these contracts have been calculated on the basis of prices at 31 December 2009.

6) Reflects the long-term commitment to sell natural gas under gas sale contracts with *take or pay* clauses negotiated and maintained for "own use" (Note 3.4.8.e). Calculated on the basis of natural gas prices at 31 December 2009.

Litigation and arbitration

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

Gas supply contract with Sonatrach

After corresponding with Sonatrach regarding certain differences in the interpretation of certain clauses in the supply contracts, Sonatrach filed a petition for arbitration to try to modify the contracts, especially the price formulae, requesting an increase in prices. GAS NATURAL opposed this petition and announced the filing of a countersuit to demand a decrease in prices. The arbitration proceedings are in the phase in which the parties present their conclusions.

Gas supply contract with Iberdrola

GAS NATURAL filed a petition to commence arbitration for discrepancies in the gas supply contract with Iberdrola. Subsequently, Iberdrola announced that it would file a counter petition. The arbitration proceedings are underway.

Tax claims in Spain

As a result of different tax audits, for the years 1998 to 2002, the Inspectors questioned the rationale behind the export deduction applied by GAS NATURAL and UNIÓN FENOSA, which have signed assessments in disagreement. The total accumulated amount at 31 December 2009 of these assessments totals Euros 262 million, and they have been appealed to the Central Tax and Treasury Court and the National High Court.

Tax claims in Argentina

The Argentine tax authorities made several tax claims totalling ARS 249 million including accrued interests(Euros 46 million) for the tax treatment of capital gains in the period from 1993 to 2001, arising from the transfer of distribution networks by third parties to Gas Natural BAN, S.A. All the claims have been opposed and it was estimated that a final positive judgment for the company would be handed down. Thus, the National Appellate Court finally ruled in 2007, for the period 1993-1997, voding the Judgement of the Federal Public Administration Treasury (*Administración Federal de Ingresos Públicos - AFIP*), which had claimed the tax alleged due, and confirming moreover, the voiding of the fines. The decision of the Appellate Court has been appealed to the Supreme Court.

Tax claims in Brazil

In September 2005 the Administrative Court of Río de Janeiro voided the claim that had been filed previously in April 2003 against offsetting the tax credits for the contributions on sales of PIS and COFINS paid by Companhia Distribuidora de Gás do Rio de Janeiro - CEG. The administrative court confirmed this judgement in March 2007, and, accordingly, the company filed an appeal before the contentious-administrative court, (Justicia Federal do Rio de Janeiro), an appeal which is now being heard. Subsequently, on 26 January 2009 notice was given of a public civil suit against CEG for the same events. GAS NATURAL and the legal advisors of the company believe that the actions mentioned above are baseless, and, accordingly, it is not likely that losses will arise from this litigation. The amount of the tax payable in question, actualised at 31 December 2009, totals BR 267 million (Euros 106 million).

Anti-trust

The anti-trust authorities have instigated, mainly in Spain, various actions for possible infringements of anti-trust legislation. There is also an appeal filed by Eni against the authorisation given by the National Anti-Trust Commission (CNC) for the merger of GAS NATURAL and UNIÓN FENOSA.

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

Other matters

In accordance with the commitments proposed and accepted by the National Anti-Trust Commission (CNC), as a result of the acquisition of UNIÓN FENOSA, GAS NATURAL must sell its gas distribution network comprising 600,000 supply points, approximately 600,000 customers connected to these networks, 2,000 MW of electricity generation capacity at combined cycle plants and its shareholding in Enagas, S.A.

At 31 December 2009, 5% of Enagas, S.A. was sold (Note 8) along with 256,000 supply points and the customers in Murcia and Cantabria (Note 9). The sale was also agreed of approximately 504,000 supply points and the customers connected in various municipalities in the Region of Madrid (Note 9). For the other assets, general initiatives have been set in motion to identify the assets and divestments as part of the plan adopted by the CNC.

Note 35. Auditors fees

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

	Thousand Euros	
	2009	**2008**
Auditing and related services	4,986	2,434
Other services	1,294	828
Total fees	**6,280**	**3,262**

Note 36. Environment

Main environmental actions

The main action lines of GAS NATURAL, throughout 2009, oriented basically to ensuring compliance with legislation, under strict environmental control of activities and installations involves exploration and extraction of gas, liquefaction, regasification, transport and distribution of gas, generation, transport and distribution of electricity and management and support for the Group.

Measures have been adopted to combine the indispensable development of energy and the protection of the environment, and, in particular, the fight against the effects of climate change and the efficient use of resources. We have reduced the environmental impact of our activities, and conserved the bio-diversity of the environment and we have boosted continuous improvements by updating and reviewing environmental management, involving suppliers and fostering the responsible use of energy by our customers.

GAS NATURAL at the year end has been ISO 14001 certified under Standard UNE EN for the environmental management 95% of its total installed power attributable to the Group. Moreover it has been certified for environmental management of the liquefaction plant in Damietta (Egypt), the distribution of electricity in Spain and Panama, the distribution and commercialisation of gas in Spain and Mexico, Unión Fenosa Gas, Metragaz (Morocco), and the main work centres of the company.

The main environmental investments made have been: the environmental adaptation of the boiler at Meirama for the use of low sulphur fuels; the desulphurisation plant for combustion gases, the improvement in the performance of the electrostatic precipitator and the change to low NO_x burners in Generator III at the Narcea Plant and the installation of an induced flow refrigeration tower for Generator II; the desulphurisation plant and change to low NO_x burners in Generator II at the La Robla Plant; the repowering of the hydro-electric plants in Albarellos and Tambre and the replacement of the rotors of the turbines in Generators I,II and III at the hydro-electric plant in Belesar; the environmental improvements of the combined cycle plant in Sabón; the adaptation of the slag heap of the Anllares Plant, the improvements to the refrigeration and water treatment systems at the Almaraz and Trillo plants; the optimisation of the performance of the thermal electric plants; the redesign and homogenisation of the building features at each metering and regulation station (ERMs) in order to decrease noise levels and the renewal of the pipeline and connections of the domestic and international gas distributors in order to avoid methane leaks.

The environmental commitments of GAS NATURAL not only have an impact on its companies but their scope reaches all the stakeholders in the company's value chain. Additionally, GAS NATURAL also involves its customers in the responsible use of energy by organising, in collaboration with the Fundación GAS NATURAL and the commercialisation area, campaigns and conferences under its sponsorship and creation, around the "Natural Commitment" initiative in order to increase sensitivity to environmental issues.

All these environmental actions carried out in 2009 have cost a total of Euros 133 million, of which Euros 109 million related to investments and the rest, i.e., Euros 24 million, to expenses incurred in environmental management. The environmental investments represent investments and accumulated deprecation carried on the consolidated balance sheet of Euros 995 million and Euros 164 million, respectively.

The possible contingencies, indemnities and other environment-related risk in which GAS NATURAL could incur are adequately covered by civil liability insurance policies that it has taken out.

Emissions

The Council of Ministers on 14 November 2007 adopted the individual assignments of greenhouse gas emission rights for the 2008-2012 period. The assignment given to GAS NATURAL totals Euros 48.1 million tonnes of CO_2, broken down as follows:

(mtCO_2)	2008	2009 (*)	2010	2011	2012
Assigned emission allowances	2,884	11,447	11,055	11,362	11,319

(*) As from the year 2009 the emission allowances assigned to UNIÓN FENOSA are included.

In 2009 the total emissions of CO_2 of the thermal energy and combined cycle plants affected by the legislation that regulates trading in greenhouse gas emissions have totalled 12.2 million tonnes of CO_2, for an annual assignment of 11.4 million tonnes of CO_2.

GAS NATURAL has made acquisitions of the necessary emissions allowances to cover its deficit of emission allowances through its participation in the secondary market and in primary projects and carbon funds.

Accordingly, the Group has acquired emission allowances from Clean Development Mechanisms (*Mecanismos de Desarrollo Limpio-MDL*) and Joint Application (*Aplicación Conjunta-AC*) projects through its participation in various carbon funds in which it has a committed investment of approximately Euros 60 million, such as the Spanish Carbon Fund (Fondo Español de Carbono) promoted by the Ministry of the Environment and administered by the World Bank), the Multilateral Carbon Fund (administered by the European Reconstruction and Development Bank and the European Investment Bank), the Natsource Carbon Asset Pool (administered by Natsource Assets) and the Community Development Carbon Fund (managed by the World Bank, which works on projects related to the development of production processes, education and health in the most underprivileged countries). To these we must add the bi-lateral contracting of the purchase of emission allowances from primary projects in different industries.

Moreover, the Gas Natural Group has filed eight MDL projects with the United Nations: the hydro-electric plants in Los Algarrobos (9.7 MW), Macho de Monte (2.4 MW) and Dolega (3.1 MW) in Panama, the La Joya plant (50 MW) in Costa Rica and the Amaime plant (18 MW) in Colombia; the use of bio-gas energy at the Doña Juana dump in Bogotá (Colombia); the Sombrilla project to replace fuel oil with gas natural in ovens, boilers, drying rooms and other facilities at 8 industrial plants in Bogotá (Colombia); the Quimvale project for the replacement of fuel oil with natural gas in the drying boiler at a calcium carbonate factory in Rio de Janeiro (Brazil).

Moreover, there are other MDLs to be validated in various degrees of evolution based on the generation of renewable energy sources, the implementation of co-generation systems, the reduction of gas leaks from gas mains or in the replacement of certain fuels with others with less carbon in countries such as Colombia, Guatemala, Brazil, Mexico or Panama.

Note 37. Subsequent events

On 14 January 2010 GAS NATURAL finalised three bond issues, under the EMTN program, in three tranches in the Euromarket maturing in five, eight and ten years, for Euros 650, 700 and 850 million, respectively.

With the funds from these issues and those obtained from the divestments of gas distribution and supply assets in Murcia and Cantabria, GAS NATURAL has repaid in advance Euros 2,492 million in January of the financing agreement entered into to finance the acquisition of Unión Fenosa, S.A..

Appendix I Group Companies of Gas Natural

1. Subsidiary companies

Company	Country	Activity	Consolidation Method	% Shareholding Total	Net equity Capital	Reserves	Profit 2009	Interim dividend
Gas Natural Aprovisionamientos SDG, S.A.	Spain	Gas supply	F.C.	100	1	20	31	–
Sagane, S.A.	Spain	Gas supply	F.C.	100	95	25	56	(52)
Comercializadora Guatemalteca Mayorista de Electricidad, S.A.	Guatemala	Electricity commercialisation	F.C.	100	–	1	–	–
Energía Empresarial de la Costa, S.A. E.S.P.	Colombia	Electricity commercialisation	F.C.	81.3	–	–	1	–
Energía Social de la Costa, S.A. E.S.P.	Colombia	Electricity commercialisation	F.C.	81.3	1	–	(2)	–
Cetraro Distribuzione Gas S.R.L.	Italy	Gas commercialisation	F.C.	60	–	–	–	–
Gas Natural Commercialisation France, S.A.S.	France	Gas commercialisation	F.C.	100	–	1	11	–
Gas Natural Vendita Italia, S.p.A	Italy	Gas commercialisation	F.C.	100	2	6	1	–
Natural Energy, S.A.[1]	Argentina	Gas commercialisation	F.C.	100	–	–	2	–
Gas Natural Comercial SDG, S.L.	Spain	Gas and Electricity commercialisation	F.C.	100	4	5	3	–
Gas Natural Comercializadora SDG, S.A.	Spain	Gas and Electricity commercialisation	F.C.	100	2	30	90	(83)
Gas Natural S.U.R. SDG, S.A.	Spain	Gas and Electricity commercialisation	F.C.	100	2	(8)	34	(20)
Unión Fenosa Comercial, S.L.	Spain	Gas and Electricity commercialisation	F.C.	100	10	32	69	–
Gas Natural Servicios SDG, S.A.	Spain	Gas and Electricity commercialisation	F.C.	100	3	17	68	(57)
Distribuidora de Electricidad de Occidente, S.A.	Guatemala	Electricity distribution	F.C.	90.8	8	–	11	–
Distribuidora de Electricidad de Oriente, S.A.	Guatemala	Electricity distribution	F.C.	92.8	14	(3)	8	–
Distribuidora de Electricidad del Norte, S.A.	Nicaragua	Electricity distribution	F.C.	88.3	74	(51)	8	–
Distribuidora de Electricidad del Sur, S.A.	Nicaragua	Electricity distribution	F.C.	89.7	60	(57)	2	–
Distribuidora Eléctrica Navasfrías, S.L.	Spain	Electricity distribution	F.C.	100	–	–	–	–
Electra de Abusejo, S.L.	Spain	Electricity distribution	F.C.	100	1	(1)	–	–
Electra del Jallas, S.A.	Spain	Electricity distribution	F.C.	99.9	–	36	4	–
Electricaribe Mipymes de Energía, S.A. E.S.P.	Colombia	Electricity distribution	F.C.	81.3	1	1	(16)	–
Electrificadora del Caribe, S.A, E.S.P.	Colombia	Electricity distribution	F.C.	81.3	789	(275)	25	–
Electrocosta Mipymes de Energía, S.A. E.S.P.	Colombia	Electricity distribution	F.C.	81.3	–	(3)	–	–
Empresa Distribuidora de Electricidad Chiriqui, S.A.	Panamá	Electricity distribution	F.C.	51	18	(3)	8	–
Empresa Distribuidora de Electricidad Metro Oeste, S.A.	Panamá	Electricity distribution	F.C.	51	71	(8)	18	–
Energía y Servicios de Panamá, S.A.	Panamá	Electricity distribution	F.C.	51	9	1	5	–
Gas Natural Distribución Eléctrica, S.A.	Spain	Electricity distribution	F.C.	100	833	1,895	–	–
Generación Limpia Guatemala, S.A.	Guatemala	Electricity distribution	F.C.	100	6	–	–	–
Hidroeléctrica Nuestra Señora de la Soledad de Tendilla y Lupiana, S.L.	Spain	Electricity distribution	F.C.	100	–	–	–	–
Red Unión Fenosa, S.A.	Moldova	Electricity distribution	F.C.	93.9	7	90	16	–
Redes Eléctricas de Centroamérica, S.A.	Guatemala	Electricity distribution	F.C.	100	2	–	–	–
Unión Fenosa Distribución, S.A.	Spain	Electricity distribution	F.C.	100	361	464	209	(203)
Ceg Río, S.A.	Brazil	Gas distribution	F.C.	59.6	34	43	26	(26)
Comercializadora Metrogas, S.A. de C.V.	México	Gas distribution	F.C.	86.8	128	(77)	5	–
Companhia Distribuidora de Gás do Río de Janeiro, S.A.	Brazil	Gas distribution	F.C.	54.2	178	151	87	(67)
Gas Galicia SDG, S.A.	Spain	Gas distribution	F.C.	62	33	6	7	–
Gas Natural Andalucía, S.A.	Spain	Gas distribution	F.C.	100	12	41	15	(10)
Gas Natural BAN, S.A.[1]	Argentina	Gas distribution	F.C.	70	215	(138)	10	–
Gas Natural Castilla-La Mancha, S.A.	Spain	Gas distribution	F.C.	95	27	18	8	–
Gas Natural Castilla y León, S.A.	Spain	Gas distribution	F.C.	90.1	6	79	23	–
Gas Natural Cegas, S.A.	Spain	Gas distribution	F.C.	99.7	25	68	26	–
Gas Natural Cundiboyacense, S.A. E.S.P.	Colombia	Gas distribution	F.C.	45.8	1	11	6	–
Gas Natural de São Paulo Sul, S.A..	Brazil	Gas distribution	F.C.	100	358	(141)	25	(14)
Gas Natural del Oriente, S.A. ESP	Colombia	Gas distribution	F.C.	32.2	9	24	11	(9)
Gas Natural Distribución SDG, S.A.	Spain	Gas distribution	F.C.	100	101	1,028	329	(288)
Gas Natural Distribuzione, S.p.A.	Italy	Gas distribution	F.C.	100	33	147	9	–
Gas Natural México, S.A. de C.V. [1]	México	Gas distribution	F.C.	86.8	471	(185)	11	–
Gas Natural Rioja, S.A.	Spain	Gas distribution	F.C.	87.5	3	9	5	–

Appendix I Group Companies of Gas Natural

1. Subsidiary companies

Company	Country	Activity	Consolidation Method	% Shareholding Total	Net equity: Capital	Reserves	Profit 2009	Interim dividend
Gas Natural Aprovisionamientos SDG, S.A.	Spain	Gas supply	F.C.	100	1	20	31	–
Sagane, S.A.	Spain	Gas supply	F.C.	100	95	25	56	(52)
Comercializadora Guatemalteca Mayorista de Electricidad, S.A.	Guatemala	Electricity commercialisation	F.C.	100	–	1	–	–
Energía Empresarial de la Costa, S.A. E.S.P.	Colombia	Electricity commercialisation	F.C.	81.3	–	–	1	–
Energía Social de la Costa, S.A. E.S.P.	Colombia	Electricity commercialisation	F.C.	81.3	1	–	(2)	–
Cetraro Distribuzione Gas S.R.L.	Italy	Gas commercialisation	F.C.	60	–	–	–	–
Gas Natural Commercialisation France, S.A.S.	France	Gas commercialisation	F.C.	100	–	1	11	–
Gas Natural Vendita Italia, S.p.A	Italy	Gas commercialisation	F.C.	100	2	6	1	–
Natural Energy, S.A.[1]	Argentina	Gas commercialisation	F.C.	100	–	–	2	–
Gas Natural Comercial SDG, S.L.	Spain	Gas and Electricity commercialisation	F.C.	100	4	5	3	–
Gas Natural Comercializadora SDG, S.A.	Spain	Gas and Electricity commercialisation	F.C.	100	2	30	90	(83)
Gas Natural S.U.R. SDG, S.A.	Spain	Gas and Electricity commercialisation	F.C.	100	2	(8)	34	(20)
Unión Fenosa Comercial, S.L.	Spain	Gas and Electricity commercialisation	F.C.	100	10	32	69	–
Gas Natural Servicios SDG, S.A.	Spain	Gas and Electricity commercialisation	F.C.	100	3	17	68	(57)
Distribuidora de Electricidad de Occidente, S.A.	Guatemala	Electricity distribution	F.C.	90.8	8	–	11	–
Distribuidora de Electricidad de Oriente, S.A.	Guatemala	Electricity distribution	F.C.	92.8	14	(3)	8	–
Distribuidora de Electricidad del Norte, S.A.	Nicaragua	Electricity distribution	F.C.	88.3	74	(51)	8	–
Distribuidora de Electricidad del Sur, S.A.	Nicaragua	Electricity distribution	F.C.	89.7	60	(57)	2	–
Distribuidora Eléctrica Navasfrías, S.L.	Spain	Electricity distribution	F.C.	100	–	–	–	–
Electra de Abusejo, S.L.	Spain	Electricity distribution	F.C.	100	1	(1)	–	–
Electra del Jallas, S.A.	Spain	Electricity distribution	F.C.	99.9	–	36	4	–
Electricaribe Mipymes de Energía, S.A. E.S.P.	Colombia	Electricity distribution	F.C.	81.3	1	1	(16)	–
Electrificadora del Caribe, S.A, E.S.P.	Colombia	Electricity distribution	F.C.	81.3	789	(275)	25	–
Electrocosta Mipymes de Energía, S.A. E.S.P.	Colombia	Electricity distribution	F.C.	81.3	–	(3)	–	–
Empresa Distribuidora de Electricidad Chiriqui, S.A.	Panamá	Electricity distribution	F.C.	51	18	(3)	8	–
Empresa Distribuidora de Electricidad Metro Oeste, S.A.	Panamá	Electricity distribution	F.C.	51	71	(8)	18	–
Energía y Servicios de Panamá, S.A.	Panamá	Electricity distribution	F.C.	51	9	1	5	–
Gas Natural Distribución Eléctrica, S.A.	Spain	Electricity distribution	F.C.	100	833	1,895	–	–
Generación Limpia Guatemala, S.A.	Guatemala	Electricity distribution	F.C.	100	6	–	–	–
Hidroeléctrica Nuestra Señora de la Soledad de Tendilla y Lupiana, S.L.	Spain	Electricity distribution	F.C.	100	–	–	–	–
Red Unión Fenosa, S.A.	Moldova	Electricity distribution	F.C.	93.9	7	90	16	–
Redes Eléctricas de Centroamérica, S.A.	Guatemala	Electricity distribution	F.C.	100	2	–	–	–
Unión Fenosa Distribución, S.A.	Spain	Electricity distribution	F.C.	100	361	464	209	(203)
Ceg Río, S.A.	Brazil	Gas distribution	F.C.	59.6	34	43	26	(26)
Comercializadora Metrogas, S.A. de C.V.	México	Gas distribution	F.C.	86.8	128	(77)	5	–
Companhia Distribuidora de Gás do Río de Janeiro, S.A.	Brazil	Gas distribution	F.C.	54.2	178	151	87	(67)
Gas Galicia SDG, S.A.	Spain	Gas distribution	F.C.	62	33	6	7	–
Gas Natural Andalucía, S.A.	Spain	Gas distribution	F.C.	100	12	41	15	(10)
Gas Natural BAN, S.A.[1]	Argentina	Gas distribution	F.C.	70	215	(138)	10	–
Gas Natural Castilla-La Mancha, S.A.	Spain	Gas distribution	F.C.	95	27	18	8	–
Gas Natural Castilla y León, S.A.	Spain	Gas distribution	F.C.	90.1	6	79	23	–
Gas Natural Cegas, S.A.	Spain	Gas distribution	F.C.	99.7	25	68	26	–
Gas Natural Cundiboyacense, S.A. E.S.P.	Colombia	Gas distribution	F.C.	45.8	1	11	6	–
Gas Natural de São Paulo Sul, S.A..	Brazil	Gas distribution	F.C.	100	358	(141)	25	(14)
Gas Natural del Oriente, S.A. ESP	Colombia	Gas distribution	F.C.	32.2	9	24	11	(9)
Gas Natural Distribución SDG, S.A.	Spain	Gas distribution	F.C.	100	101	1,028	329	(288)
Gas Natural Distribuzione, S.p.A.	Italy	Gas distribution	F.C.	100	33	147	9	–
Gas Natural México, S.A. de C.V. [1]	México	Gas distribution	F.C.	86.8	471	(185)	11	–
Gas Natural Rioja, S.A.	Spain	Gas distribution	F.C.	87.5	3	9	5	–

1. Subsidiary companies (continued)

					Net equity			
Company	**Country**	**Activity**	**Consolidation Method**	**% Shareholding Total**	**Capital**	**Reserves**	**Profit 2009**	**Interim dividend**
Gas Natural Transporte SDG, S.L.	Spain	Gas distribution	F.C.	100	15	45	9	(8)
Gas Natural, S.A. E.S.P.	Colombia	Gas distribution	F.C.	59.1	11	139	85	–
Gas Navarra, S.A.	Spain	Gas distribution	F.C.	90	4	27	8	–
GEM Distribución Gas 2, S.A.	Spain	Gas distribution	F.C.	100	–	–	–	–
GEM Suministro Gas 2, S.L.	Spain	Gas distribution	F.C.	100	2	–	–	–
GEM Suministro S.U.R. 2, S.L.	Spain	Gas distribution	F.C.	100	2	–	–	–
Crookwell development Pty, Ltd.	Australia	Energy	F.C.	87.3	2	–	–	–
Hawkesdale development Pty, Ltd.	Australia	Energy	F.C.	87.3	1	–	–	–
Ryan Corner development Pty, Ltd.	Australia	Energy	F.C.	87.3	2	–	–	–
Gas Natural Exploración, S.L.	Spain	Hydrocarbon research and exploration	F.C.	100	36	(6)	(112)	–
Petroleum Oil & Gas España, S.A.	Spain	Hydrocarbon research and exploration	F.C.	100	4	51	(6)	–
Clover Financial and Treasury Services, Ltd.	Ireland	Finance	F.C.	100	–	542	40	(36)
Gas Natural Capital Markets, S.A.	Spain	Finance	F.C.	100	–	–	2	–
Gas Natural Finance, B.V.	Netherlands	Finance	F.C.	100	–	2	1	–
Ufacex Uk Holdings, Ltd.	United Kingdom	Finance	F.C.	100	23	(19)	–	–
Unión Fenosa Finance, B.V.	Netherlands	Finance	F.C.	100	–	2	1	–
Unión Fenosa Financiación, S.A.	Spain	Finance	F.C.	100	1	6	31	–
Unión Fenosa Financial Services USA, Llc.	USA	Finance	F.C.	100	–	–	–	–
Union Fenosa Preferentes, S.A.	Spain	Finance	F.C.	100	–	727	21	(17)
Aplicaciones y Proyectos Energéticos, S.A.	Spain	Electricity generation	F.C.	100	–	–	–	–
Boreas Eólica 2, S.A.	Spain	Electricity generation	F.C.	89.6	3	5	1	–
Central Anahuac, S.A de C.V.	México	Electricity generation	F.C.	100	218	(69)	6	–
Central Lomas del Real, S.A. de C.V.	México	Electricity generation	F.C.	100	22	118	13	–
Central Saltillo, S.A. de C.V.	México	Electricity generation	F.C.	100	141	(39)	8	–
Central Vallehermoso, S.A de C.V.	México	Electricity generation	F.C.	100	28	149	13	–
Compañía Mexicana de Gerencia y Operación, S.A de C.V.	México	Electricity generation	F.C.	100	–	1	–	–
Controladora del Golfo, S.A. de C.V.	México	Electricity generation	F.C.	100	123	(1)	(34)	–
Corporación Eólica de Zaragoza, S.L	Spain	Electricity generation	F.C.	68	3	–	–	–
Dawn Energy-Produção de Energia, Unipessoal Lda.	Portugal	Electricity generation	F.C.	100	–	–	–	–
Electricidad Aguila de Altamira, S.A. de C.V.	México	Electricity generation	F.C.	100	153	(45)	1	–
Energy Way Produçao de Energía, Lda.	Portugal	Electricity generation	F.C.	100	–	–	–	–
Fuerza y Energía BII Hioxo, S.A. de C.V.	México	Electricity generation	F.C.	100	11	(9)	(1)	–
Fuerza y Energia de Hermosillo, S.A. de C.V.	México	Electricity generation	F.C.	100	49	(9)	3	–
Fuerza y Energia de Naco Nogales, S.A. de C.V.	México	Electricity generation	F.C.	100	131	(51)	(5)	–
Fuerza y Energia de Norte Durango, S.A. de C.V	México	Electricity generation	F.C.	100	54	(7)	(1)	–
Fuerza y Energia de Tuxpan, S.A. de C.V.	México	Electricity generation	F.C.	100	156	(32)	28	–
Gas Natural Corporación Eólica, S.L.	Spain	Electricity generation	F.C.	100	5	68	25	–
Gas Natural Electricidad SDG, S.A.	Spain	Electricity generation	F.C.	100	4	(1)	31	–
Gas Natural Energy Canarias, S.L.	Spain	Electricity generation	F.C.	100	–	–	–	–
Gas Natural Wind 2, S.L.	Spain	Electricity generation	F.C.	100	–	–	–	–
Gas Natural Wind 3, S.L.	Spain	Electricity generation	F.C.	100	–	–	–	–
Gas Natural Wind 4, S.L.	Spain	Electricity generation	F.C.	100	–	–	–	–
Gas Natural Wind 5, S.L.	Spain	Electricity generation	F.C.	100	–	–	–	–
Gas Natural Wind Canarias, S.L.	Spain	Electricity generation	F.C.	100	–	–	–	–
Gas Natural Wind, S.L.	Spain	Electricity generation	F.C.	100	–	–	–	–
Gasoducto del Río, S.A. de C.V.	México	Electricity generation	F.C.	100	3	8	3	–
Generación Peninsular, S.L.	Spain	Electricity generation	F.C.	100	4	28	6	–
Generadora Palamara La Vega, S.A.	Rep. Dominicana	Electricity generation	F.C.	100	4	64	10	–
Iberáfrica Power, Ltd.	Kenya	Electricity generation	F.C.	71.7	16	2	–	–
La Energía, S.A.	Spain	Electricity generation	F.C.	100	11	2	2	–
Lantarón Energía, S.L.	Spain	Electricity generation	F.C.	100	–	–	–	–

1. Subsidiary companies (continued)

Company	Country	Activity	Consolidation Method	% Shareholding Total	Net equity: Capital	Net equity: Reserves	Net equity: Profit 2009	Net equity: Interim dividend
Gas Natural Transporte SDG, S.L.	Spain	Gas distribution	F.C.	100	15	45	9	(8)
Gas Natural, S.A. E.S.P.	Colombia	Gas distribution	F.C.	59.1	11	139	85	–
Gas Navarra, S.A.	Spain	Gas distribution	F.C.	90	4	27	8	–
GEM Distribución Gas 2, S.A.	Spain	Gas distribution	F.C.	100	–	–	–	–
GEM Suministro Gas 2, S.L.	Spain	Gas distribution	F.C.	100	2	–	–	–
GEM Suministro S.U.R. 2, S.L.	Spain	Gas distribution	F.C.	100	2	–	–	–
Crookwell development Pty, Ltd.	Australia	Energy	F.C.	87.3	2	–	–	–
Hawkesdale development Pty, Ltd.	Australia	Energy	F.C.	87.3	1	–	–	–
Ryan Corner development Pty, Ltd.	Australia	Energy	F.C.	87.3	2	–	–	–
Gas Natural Exploración, S.L.	Spain	Hydrocarbon research and exploration	F.C.	100	36	(6)	(112)	–
Petroleum Oil & Gas España, S.A.	Spain	Hydrocarbon research and exploration	F.C.	100	4	51	(6)	–
Clover Financial and Treasury Services, Ltd.	Ireland	Finance	F.C.	100	–	542	40	(36)
Gas Natural Capital Markets, S.A.	Spain	Finance	F.C.	100	–	–	2	–
Gas Natural Finance, B.V.	Netherlands	Finance	F.C.	100	–	2	1	–
Ufacex Uk Holdings, Ltd.	United Kingdom	Finance	F.C.	100	23	(19)	–	–
Unión Fenosa Finance, B.V.	Netherlands	Finance	F.C.	100	–	2	1	–
Unión Fenosa Financiación, S.A.	Spain	Finance	F.C.	100	1	6	31	–
Unión Fenosa Financial Services USA, Llc.	USA	Finance	F.C.	100	–	–	–	–
Union Fenosa Preferentes, S.A.	Spain	Finance	F.C.	100	–	727	21	(17)
Aplicaciones y Proyectos Energéticos, S.A.	Spain	Electricity generation	F.C.	100	–	–	–	–
Boreas Eólica 2, S.A.	Spain	Electricity generation	F.C.	89.6	3	5	1	–
Central Anahuac, S.A de C.V.	México	Electricity generation	F.C.	100	218	(69)	6	–
Central Lomas del Real, S.A. de C.V.	México	Electricity generation	F.C.	100	22	118	13	–
Central Saltillo, S.A. de C.V.	México	Electricity generation	F.C.	100	141	(39)	8	–
Central Vallehermoso, S.A de C.V.	México	Electricity generation	F.C.	100	28	149	13	–
Compañía Mexicana de Gerencia y Operación, S.A de C.V.	México	Electricity generation	F.C.	100	–	1	–	–
Controladora del Golfo, S.A. de C.V.	México	Electricity generation	F.C.	100	123	(1)	(34)	–
Corporación Eólica de Zaragoza, S.L	Spain	Electricity generation	F.C.	68	3	–	–	–
Dawn Energy-Produção de Energia, Unipessoal Lda.	Portugal	Electricity generation	F.C.	100	–	–	–	–
Electricidad Aguila de Altamira, S.A. de C.V.	México	Electricity generation	F.C.	100	153	(45)	1	–
Energy Way Produçao de Energía, Lda.	Portugal	Electricity generation	F.C.	100	–	–	–	–
Fuerza y Energía BII Hioxo, S.A. de C.V.	México	Electricity generation	F.C.	100	11	(9)	(1)	–
Fuerza y Energia de Hermosillo, S.A. de C.V.	México	Electricity generation	F.C.	100	49	(9)	3	–
Fuerza y Energia de Naco Nogales, S.A. de C.V.	México	Electricity generation	F.C.	100	131	(51)	(5)	–
Fuerza y Energia de Norte Durango, S.A. de C.V	México	Electricity generation	F.C.	100	54	(7)	(1)	–
Fuerza y Energia de Tuxpan, S.A. de C.V.	México	Electricity generation	F.C.	100	156	(32)	28	–
Gas Natural Corporación Eólica, S.L.	Spain	Electricity generation	F.C.	100	5	68	25	–
Gas Natural Electricidad SDG, S.A.	Spain	Electricity generation	F.C.	100	4	(1)	31	–
Gas Natural Energy Canarias, S.L.	Spain	Electricity generation	F.C.	100	–	–	–	–
Gas Natural Wind 2, S.L.	Spain	Electricity generation	F.C.	100	–	–	–	–
Gas Natural Wind 3, S.L.	Spain	Electricity generation	F.C.	100	–	–	–	–
Gas Natural Wind 4, S.L.	Spain	Electricity generation	F.C.	100	–	–	–	–
Gas Natural Wind 5, S.L.	Spain	Electricity generation	F.C.	100	–	–	–	–
Gas Natural Wind Canarias, S.L.	Spain	Electricity generation	F.C.	100	–	–	–	–
Gas Natural Wind, S.L.	Spain	Electricity generation	F.C.	100	–	–	–	–
Gasoducto del Río, S.A. de C.V.	México	Electricity generation	F.C.	100	3	8	3	–
Generación Peninsular, S.L.	Spain	Electricity generation	F.C.	100	4	28	6	–
Generadora Palamara La Vega, S.A.	Rep. Dominicana	Electricity generation	F.C.	100	4	64	10	–
Iberáfrica Power, Ltd.	Kenya	Electricity generation	F.C.	71.7	16	2	–	–
La Energía, S.A.	Spain	Electricity generation	F.C.	100	11	2	2	–
Lantarón Energía, S.L.	Spain	Electricity generation	F.C.	100	–	–	–	–

1. Subsidiary companies (continued)

					Net equity			
Company	**Country**	**Activity**	**Consolidation Method**	**% Shareholding Total**	**Capital**	**Reserves**	**Profit 2009**	**Interim dividend**
Molinos de Valdebezana, S.A.	Spain	Electricity generation	F.C.	59.7	–	–	–	–
Sociedad de Tratamiento Hornillos, S.L.	Spain	Electricity generation	F.C.	94.4	1	2	1	–
Sociedad de Tratamiento La Andaya, S.L.	Spain	Electricity generation	F.C.	60	1	2	1	–
Tratamiento Cinca Medio, S.L.	Spain	Electricity generation	F.C.	80	2	–	1	–
Tratamiento Integral de Almazán, S.L.	Spain	Electricity generation	F.C.	90	3	–	2	–
Unión Fenosa Energías Renovables Chile, S.A.	Chile	Electricity generation	F.C.	80	1	1	–	–
Unión Fenosa Generación Panamá, S.A.	Panamá	Electricity generation	F.C.	100	–	–	–	–
Unión Fenosa Generadora La Joya, S.A.	Costa Rica	Electricity generation	F.C.	65	26	(8)	5	–
Unión Fenosa Generadora Torito, S.A.	Costa Rica	Electricity generation	F.C.	65	–	3	–	–
UTE La Energía Gas Natural Electricidad	Spain	Electricity generation	F.C.	100	2	–	1	–
Zemer Energia, S.A. de C.V.	México	Electricity generation	F.C.	50	–	(1)	–	–
Kangra Coal (Proprietary), Ltd.	South africa	Mining	F.C.	70	–	59	33	–
Lignitos de Meirama, S.A.	Spain	Mining	F.C.	100	23	12	4	–
Pizarras Mahide, S.L.	Spain	Mining	F.C.	100	1	–	1	–
Unión Fenosa Minería, S.A.	Spain	Mining	F.C.	100	11	167	8	–
Gas Natural Rigassificazione Italia, S.p.A.	Italy	Gas regassification	F.C.	100	11	–	–	–
Natural Re, S.A.	Luxemburg	Insurance	F.C.	100	3	14	5	–
Administración y Servicios ECAP, S.A. de C.V.	México	Services	F.C.	100	–	–	–	–
Administradora de Servicios de Energía México, S.A. de C.V.	México	Services	F.C.	86.8	–	–	–	–
Almar Ccs, S.A.	Costa Rica	Services	F.C.	100	–	–	–	–
Arte Contemporáneo y Energía, A.I.E.	Spain	Services	F.C.	100	–	–	–	–
Cedifil Cored Wire, S.L.	Spain	Services	F.C.	98.5	4	–	–	–
Compañía Española de Industrias Electroquímicas, S.A.	Spain	Services	F.C.	98.5	3	8	–	–
Energía y Confort Administración de Personal, S.A. de C.V.	México	Services	F.C.	87	–	–	–	–
Gas Natural Servicios Colombia LTDA.	Colombia	Services	F.C.	59	–	1	1	–
Gas Natural Servicios, S.A. de C.V.	México	Services	F.C.	86.8	6	–	1	–
Gas Natural Serviços, S.A.	Brazil	Services	F.C.	100	2	3	–	–
GEM Servicios Comunes 2, S.L.	Spain	Services	F.C.	100	–	–	–	–
General de Edificios y Solares, S.L.	Spain	Services	F.C.	100	34	71	(17)	–
Hotel de Naturaleza Tambre, S.L.	Spain	Services	F.C.	100	–	–	–	–
Inversiones Hermill, S.A.	Rep. Dominicana	Services	F.C.	100	1	–	–	–
Natural Servicios, S.A.[1]	Argentina	Services	F.C.	100	2	(1)	–	–
Portal del Instalador, S.A.	Spain	Services	F.C.	85	1	–	–	–
Serviconfort Colombia, S.A.	Colombia	Services	F.C.	100	–	–	–	–
Sistemas de Administración y Servicios, S.A. de C.V.[1]	México	Services	F.C.	87	–	–	–	–
Unión Fenosa Generación México, S.A. de C.V.	México	Services	F.C.	100	–	(1)	–	–
Gas Natural Informática, S.A.	Spain	Professional services	F.C.	100	20	1	(1)	–
Operación y Mantenimiento Energy Costa Rica, S.A.	Costa Rica	Professional services	F.C.	100	–	–	–	–
Operación y Mantenimiento Energy Dominicana, S.A.	Rep. Dominicana	Professional services	F.C.	100	–	4	–	–
Operación y Mantenimiento Energy Madagascar, S.A.R.L.U.	Madagascar	Professional services	F.C.	100	–	–	–	–
Operación y Mantenimiento Energy, S.A.	Spain	Professional services	F.C.	100	–	6	1	–
Saudi Soluziona Company for Maintenance and operation, Ltd.	Arabia Saudí	Professional services	F.C.	100	–	–	–	–
Socoin, S.A. (Guatemala)	Guatemala	Professional services	F.C.	100	–	–	–	–
Socoin Colombia, S.A.U.	Colombia	Professional services	F.C.	100	–	–	–	–
Socoin Ingeniería y Construcción Industrial, S.L.U.	Spain	Professional services	F.C.	100	1	33	5	–
Socoin México, S.A. de C.V.	México	Professional services	F.C.	100	–	(3)	1	–
Socoin, S.A. (Panamá)	Panamá	Professional services	F.C.	100	–	–	–	–
Socoinve, C.A.	Venezuela	Professional services	F.C.	100	–	–	–	–
Soluziona Technical Services, Llc.	Egypt	Professional services	F.C.	100	–	–	–	–
Soluziona, S.A. (Bolivia)	Bolivia	Professional services	F.C.	100	–	–	–	–
Unión Fenosa Operación México, S.A. de C.V.	México	Professional services	F.C.	100	–	–	–	–

1. Subsidiary companies (continued)

Company	Country	Activity	Consolidation Method	% Shareholding Total	Net equity: Capital	Net equity: Reserves	Net equity: Profit 2009	Net equity: Interim dividend
Molinos de Valdebezana, S.A.	Spain	Electricity generation	F.C.	59.7	–	–	–	–
Sociedad de Tratamiento Hornillos, S.L.	Spain	Electricity generation	F.C.	94.4	1	2	1	–
Sociedad de Tratamiento La Andaya, S.L.	Spain	Electricity generation	F.C.	60	1	2	1	–
Tratamiento Cinca Medio, S.L.	Spain	Electricity generation	F.C.	80	2	–	1	–
Tratamiento Integral de Almazán, S.L.	Spain	Electricity generation	F.C.	90	3	–	2	–
Unión Fenosa Energías Renovables Chile, S.A.	Chile	Electricity generation	F.C.	80	1	1	–	–
Unión Fenosa Generación Panamá, S.A.	Panamá	Electricity generation	F.C.	100	–	–	–	–
Unión Fenosa Generadora La Joya, S.A.	Costa Rica	Electricity generation	F.C.	65	26	(8)	5	–
Unión Fenosa Generadora Torito, S.A.	Costa Rica	Electricity generation	F.C.	65	–	3	–	–
UTE La Energía Gas Natural Electricidad	Spain	Electricity generation	F.C.	100	2	–	1	–
Zemer Energia, S.A. de C.V.	México	Electricity generation	F.C.	50	–	(1)	–	–
Kangra Coal (Proprietary), Ltd.	South africa	Mining	F.C.	70	–	59	33	–
Lignitos de Meirama, S.A.	Spain	Mining	F.C.	100	23	12	4	–
Pizarras Mahide, S.L.	Spain	Mining	F.C.	100	1	–	1	–
Unión Fenosa Minería, S.A.	Spain	Mining	F.C.	100	11	167	8	–
Gas Natural Rigassificazione Italia, S.p.A.	Italy	Gas regassification	F.C.	100	11	–	–	–
Natural Re, S.A.	Luxemburg	Insurance	F.C.	100	3	14	5	–
Administración y Servicios ECAP, S.A. de C.V.	México	Services	F.C.	100	–	–	–	–
Administradora de Servicios de Energía México, S.A. de C.V.	México	Services	F.C.	86.8	–	–	–	–
Almar Ccs, S.A.	Costa Rica	Services	F.C.	100	–	–	–	–
Arte Contemporáneo y Energía, A.I.E.	Spain	Services	F.C.	100	–	–	–	–
Cedifil Cored Wire, S.L.	Spain	Services	F.C.	98.5	4	–	–	–
Compañía Española de Industrias Electroquímicas, S.A.	Spain	Services	F.C.	98.5	3	8	–	–
Energía y Confort Administración de Personal, S.A. de C.V.	México	Services	F.C.	87	–	–	–	–
Gas Natural Servicios Colombia LTDA.	Colombia	Services	F.C.	59	–	1	1	–
Gas Natural Servicios, S.A. de C.V.	México	Services	F.C.	86.8	6	–	1	–
Gas Natural Serviços, S.A.	Brazil	Services	F.C.	100	2	3	–	–
GEM Servicios Comunes 2, S.L.	Spain	Services	F.C.	100	–	–	–	–
General de Edificios y Solares, S.L.	Spain	Services	F.C.	100	34	71	(17)	–
Hotel de Naturaleza Tambre, S.L.	Spain	Services	F.C.	100	–	–	–	–
Inversiones Hermill, S.A.	Rep. Dominicana	Services	F.C.	100	1	–	–	–
Natural Servicios, S.A.[1]	Argentina	Services	F.C.	100	2	(1)	–	–
Portal del Instalador, S.A.	Spain	Services	F.C.	85	1	–	–	–
Serviconfort Colombia, S.A.	Colombia	Services	F.C.	100	–	–	–	–
Sistemas de Administración y Servicios, S.A. de C.V.[1]	México	Services	F.C.	87	–	–	–	–
Unión Fenosa Generación México, S.A. de C.V.	México	Services	F.C.	100	–	(1)	–	–
Gas Natural Informática, S.A.	Spain	Professional services	F.C.	100	20	1	(1)	–
Operación y Mantenimiento Energy Costa Rica, S.A.	Costa Rica	Professional services	F.C.	100	–	–	–	–
Operación y Mantenimiento Energy Dominicana, S.A.	Rep. Dominicana	Professional services	F.C.	100	–	4	–	–
Operación y Mantenimiento Energy Madagascar, S.A.R.L.U.	Madagascar	Professional services	F.C.	100	–	–	–	–
Operación y Mantenimiento Energy, S.A.	Spain	Professional services	F.C.	100	–	6	1	–
Saudi Soluziona Company for Maintenance and operation, Ltd.	Arabia Saudí	Professional services	F.C.	100	–	–	–	–
Socoin, S.A. (Guatemala)	Guatemala	Professional services	F.C.	100	–	–	–	–
Socoin Colombia, S.A.U.	Colombia	Professional services	F.C.	100	–	–	–	–
Socoin Ingeniería y Construcción Industrial, S.L.U.	Spain	Professional services	F.C.	100	1	33	5	–
Socoin México, S.A. de C.V.	México	Professional services	F.C.	100	–	(3)	1	–
Socoin, S.A. (Panamá)	Panamá	Professional services	F.C.	100	–	–	–	–
Socoinve, C.A.	Venezuela	Professional services	F.C.	100	–	–	–	–
Soluziona Technical Services, Llc.	Egypt	Professional services	F.C.	100	–	–	–	–
Soluziona, S.A. (Bolivia)	Bolivia	Professional services	F.C.	100	–	–	–	–
Unión Fenosa Operación México, S.A. de C.V.	México	Professional services	F.C.	100	–	–	–	–

1. Subsidiary companies (continued)

					Net equity			
Company	Country	Activity	Consolidation Method	% Shareholding Total	Capital	Reserves	Profit 2009	Interim dividend
Aplicaciones y Desarrollos Profesionales Nuevo Milenio, S.L.	Spain	Holding company	F.C.	100	32	(12)	14	–
Buenergía Gas & Power, Ltd.	I. Cayman	Holding company	F.C.	95	–	(29)	(1)	–
Caribe Capital, B.V.	Netherlands	Holding company	F.C.	100	–	252	8	(8)
Compañía Auxiliar de Industrias Varias, S.A.	Spain	Holding company	F.C.	100	–	2	–	–
Distribuidora Eléctrica de Caribe, S.A. (Panamá)	Panamá	Holding company	F.C.	100	110	(25)	13	(13)
First Independent Power (Kenya), Ltd.	Kenya	Holding company	F.C.	89.6	4	7	–	–
Gas Natural Argentina SDG, S.A.[1]	Argentina	Holding company	F.C.	100	105	(24)	–	–
Gas Natural do Brasil, S.A.	Brazil	Holding company	F.C.	100	1	(2)	–	–
Gas Natural Internacional SDG, S.A.	Spain	Holding company	F.C.	100	350	121	27	–
Gas Natural International, Ltd.	Ireland	Holding company	F.C.	100	25	8	1	–
Gas Natural Italia, S.p.A.	Italy	Holding company	F.C.	100	–	1	–	–
Gas Natural Puerto Rico, Inc.	Puerto Rico	Holding company	F.C.	100	1	–	–	–
Holding Gas Natural, S.A.	Spain	Holding company	F.C.	100	–	–	–	–
Invergás, S.A.[1]	Argentina	Holding company	F.C.	100	49	60	1	(13)
La Propagadora del Gas, S.A.	Spain	Holding company	F.C.	100	–	1	–	–
Limeisa International Coal, B.V.	Netherlands	Holding company	F.C.	100	–	–	77	(77)
Unión Fenosa Renovables Limitada (Chile)	Chile	Holding company	F.C.	100	4	–	–	–
Unión Fenosa Chile, Limitada	Chile	Holding company	F.C.	100	4	–	–	–
Unión Fenosa Distribución Colombia, B.V.	Netherlands	Holding company	F.C.	100	–	131	109	–
Unión Fenosa Internacional, S.A.	Spain	Holding company	F.C.	100	174	86	372	–
Unión Fenosa International, B.V.	Netherlands	Holding company	F.C.	100	–	12	(1)	–
Unión Fenosa México, B.V.	Netherlands	Holding company	F.C.	100	128	130	1	(1)
Unión Fenosa México, S.A. de C.V.	México	Holding company	F.C.	100	297	(45)	(12)	–
Unión Fenosa Minería B.V.	Netherlands	Holding company	F.C.	100	–	142	–	–
Unión Fenosa South Africa Coal (Proprietary), Ltd.	South africa	Holding company	F.C.	100	–	52	1	–
Union Fenosa Wind Australia Pty, Ltd.	Australia	Holding company	F.C.	87.3	8	–	(1)	–
Desarrollo del Cable, S.A.	Spain	Telecommunications	F.C.	100	21	21	11	–
Unión Fenosa Redes de Telecomunicación, S.A. (Colombia)	Colombia	Telecommunications	F.C.	87.8	1	2	2	–
Unión Fenosa Redes de Telecomunicación, S.A. (Guatemala)	Guatemala	Telecommunications	F.C.	100	–	2	2	–
Unión Fenosa Redes de Telecomunicación, S.A. (Nicaragua)	Nicaragua	Telecommunications	F.C.	100	–	1	0	–
Unión Fenosa Redes de Telecomunicación, S.A. (Panama)	Panamá	Telecommunications	F.C.	90.2	2	1	2	–
Unión Fenosa Redes de Telecomunicación, S.L.	Spain	Telecommunications	F.C.	100	4	8	7	–
Europe Maghreb Pipeline, Ltd.	United Kingdom	Gas transportation	F.C.	72.6	–	95	140	(28)
Metragaz, S.A.	Morocco	Gas transportation	F.C.	72.3	3	1	1	–

(1) The percentage of the shareholding corresponds to the legally held shares. Additionally, there is a share re-purchase commitment for the percentages indicated in Note 17, which are also assigned to the parent Company.

1. Subsidiary companies (continued)

Company	Country	Activity	Consolidation Method	% Shareholding Total	Net equity: Capital	Net equity: Reserves	Net equity: Profit 2009	Net equity: Interim dividend
Aplicaciones y Desarrollos Profesionales Nuevo Milenio, S.L.	Spain	Holding company	F.C.	100	32	(12)	14	–
Buenergía Gas & Power, Ltd.	I. Cayman	Holding company	F.C.	95	–	(29)	(1)	–
Caribe Capital, B.V.	Netherlands	Holding company	F.C.	100	–	252	8	(8)
Compañía Auxiliar de Industrias Varias, S.A.	Spain	Holding company	F.C.	100	–	2	–	–
Distribuidora Eléctrica de Caribe, S.A. (Panamá)	Panamá	Holding company	F.C.	100	110	(25)	13	(13)
First Independent Power (Kenya), Ltd.	Kenya	Holding company	F.C.	89.6	4	7	–	–
Gas Natural Argentina SDG, S.A.[1]	Argentina	Holding company	F.C.	100	105	(24)	–	–
Gas Natural do Brasil, S.A.	Brazil	Holding company	F.C.	100	1	(2)	–	–
Gas Natural Internacional SDG, S.A.	Spain	Holding company	F.C.	100	350	121	27	–
Gas Natural International, Ltd.	Ireland	Holding company	F.C.	100	25	8	1	–
Gas Natural Italia, S.p.A.	Italy	Holding company	F.C.	100	–	1	–	–
Gas Natural Puerto Rico, Inc.	Puerto Rico	Holding company	F.C.	100	1	–	–	–
Holding Gas Natural, S.A.	Spain	Holding company	F.C.	100	–	–	–	–
Invergás, S.A.[1]	Argentina	Holding company	F.C.	100	49	60	1	(13)
La Propagadora del Gas, S.A.	Spain	Holding company	F.C.	100	–	1	–	–
Limeisa International Coal, B.V.	Netherlands	Holding company	F.C.	100	–	–	77	(77)
Unión Fenosa Renovables Limitada (Chile)	Chile	Holding company	F.C.	100	4	–	–	–
Unión Fenosa Chile, Limitada	Chile	Holding company	F.C.	100	4	–	–	–
Unión Fenosa Distribución Colombia, B.V.	Netherlands	Holding company	F.C.	100	–	131	109	–
Unión Fenosa Internacional, S.A.	Spain	Holding company	F.C.	100	174	86	372	–
Unión Fenosa International, B.V.	Netherlands	Holding company	F.C.	100	–	12	(1)	–
Unión Fenosa México, B.V.	Netherlands	Holding company	F.C.	100	128	130	1	(1)
Unión Fenosa México, S.A. de C.V.	México	Holding company	F.C.	100	297	(45)	(12)	–
Unión Fenosa Minería B.V.	Netherlands	Holding company	F.C.	100	–	142	–	–
Unión Fenosa South Africa Coal (Proprietary), Ltd.	South africa	Holding company	F.C.	100	–	52	1	–
Union Fenosa Wind Australia Pty, Ltd.	Australia	Holding company	F.C.	87.3	8	–	(1)	–
Desarrollo del Cable, S.A.	Spain	Telecommunications	F.C.	100	21	21	11	–
Unión Fenosa Redes de Telecomunicación, S.A. (Colombia)	Colombia	Telecommunications	F.C.	87.8	1	2	2	–
Unión Fenosa Redes de Telecomunicación, S.A. (Guatemala)	Guatemala	Telecommunications	F.C.	100	–	2	2	–
Unión Fenosa Redes de Telecomunicación, S.A. (Nicaragua)	Nicaragua	Telecommunications	F.C.	100	–	1	0	–
Unión Fenosa Redes de Telecomunicación, S.A. (Panama)	Panamá	Telecommunications	F.C.	90.2	2	1	2	–
Unión Fenosa Redes de Telecomunicación, S.L.	Spain	Telecommunications	F.C.	100	4	8	7	–
Europe Maghreb Pipeline, Ltd.	United Kingdom	Gas transportation	F.C.	72.6	–	95	140	(28)
Metragaz, S.A.	Morocco	Gas transportation	F.C.	72.3	3	1	1	–

(1) The percentage of the shareholding corresponds to the legally held shares. Additionally, there is a share re-purchase commitment for the percentages indicated in Note 17, which are also assigned to the parent Company.

2. Joint ventures

Company	Country	Activity	Consolidation Method	% Shareholding Total	Net equity: Capital	Net equity: Reserves	Net equity: Profit 2009	Net equity: Interim dividend
Repsol-Gas Natural LNG, S.L.	Spain	Gas supply and transportation	P.C.	50	2	–	1	–
Central Térmica La Torrecilla, S.A.	Spain	Cogeneration	P.C.	50	1	–	–	–
CH4 Energía, S.A. de C.V.	México	Gas commercialisation and transportation	P.C.	43.4	1	3	1	–
Transnatural, S.R.L. de C.V.	México	Gas commercialisation and transportation	P.C.	43.4	10	(24)	(5)	–
Albidona Distribuzione Gas, S.R.L.	Italy	Gas distribution	P.C.	60	–	–	–	–
Gas Natural Vehicular del Norte Asociación en Participación	México	Gas distribution	P.C.	44.3	1	–	–	–
Gas Natural West África, S.L.	Spain	Hydrocarbon research and exploration	P.C.	40	14	(3)	(5)	–
Gas Directo, S.A.	Spain	Gas	P.C.	30	7	–	–	–
Gasifica, S.A.	Spain	Gas	P.C.	55	2	8	–	–
Infraestructura de Gas, S.A.	Spain	Gas	P.C.	42.5	–	7	–	–
Nueva Electricidad del Gas, S.A.	Spain	Gas	P.C.	50	9	(3)	(1)	–
Palawan Sulu Sea Gas, Inc.	Philippines	Gas	P.C.	50	–	5	–	–
Planta de Regasificación de Sagunto, S.A.	Spain	Gas	P.C.	21.3	2	16	16	–
Segas Services, S.A.E.	Egypt	Gas	P.C.	40.7	1	–	–	–
Spanish Egiptian Gas Company, S.A.E.	Egypt	Gas	P.C.	40	349	(106)	35	–
Unión Fenosa Gas Exploración y Producción, S.A.	Spain	Gas	P.C.	50	–	–	–	–
Unión Fenosa Gas Comercializadora, S.A.	Spain	Gas	P.C.	50	2	16	11	–
Unión Fenosa Gas Infraestructures, B.V.	Netherlands	Gas	P.C.	50	–	5	–	–
Unión Fenosa Gas, S.A.	Spain	Gas	P.C.	50	33	464	210	(129)
Alas Capital & Gas Natural S.A.	Spain	Electricity generation	P.C.	40	–	–	–	–
Andaluza de Energía Solar Cuarta, S.L.	Spain	Electricity generation	P.C.	30.4	–	–	–	–
Andaluza de Energía Solar Primera, S.L.	Spain	Electricity generation	P.C.	30.4	–	–	–	–
Andaluza de Energía Solar Quinta, S.L.	Spain	Electricity generation	P.C.	30	–	–	–	–
Andaluza de Energía Solar Tercera, S.L.	Spain	Electricity generation	P.C.	30	–	–	–	–
Aprovechamientos eléctricos, S.A.	Spain	Electricity generation	P.C.	50	–	1	–	–
Áridos Energías Especiales, S.L.	Spain	Electricity generation	P.C.	20.5	1	–	–	–
Azucarera Energías, S.A.	Spain	Electricity generation	P.C.	20	1	4	(2)	–
Barbao, S.A.	Spain	Electricity generation	P.C.	50	–	–	–	–
Barras Eléctricas Galaico Asturianas, S.A.	Spain	Electricity generation	P.C.	44.9	16	47	7	–
Barras Eléctricas Generación, S.L.	Spain	Electricity generation	P.C.	45	1	2	–	–
Boiro Energía, S.A.	Spain	Electricity generation	P.C.	20	1	2	2	–
Centrales Nucleares Almaraz-Trillo, A.I.E	Spain	Electricity generation	P.C.	19.3	–	–	–	–
Cogeneración del Noroeste, S.L.	Spain	Electricity generation	P.C.	20	4	3	3	–
Depuración, destilación y reciclaje. S.L.	Spain	Electricity generation	P.C.	20	1	1	1	–
Desarrollo de Energías Renovables de la Rioja, S.A.	Spain	Electricity generation	P.C.	36.3	17	3	5	–
Desarrollo de Energías Renovables de Navarra, S.A.	Spain	Electricity generation	P.C.	50	10	28	13	–
EcoEléctrica, L.P.	Puerto Rico	Electricity generation	P.C.	47.5	63	32	49	(12)
Electrica Conquense, S.A.	Spain	Electricity generation	P.C.	46.4	3	2	1	–
Enel Unión Fenosa Renovables, S.A.	Spain	Electricity generation	P.C.	50	33	99	30	–
Energía Termosolar de los Monegros, S.L.	Spain	Electricity generation	P.C.	40	–	–	–	–
Energías Ambientales de Novo, S.A.	Spain	Electricity generation	P.C.	16.7	2	–	1	–
Energías Ambientales de Somozas, S.A.	Spain	Electricity generation	P.C.	22.6	1	–	2	–
Energías Ambientales de Vimianzo, S.A.	Spain	Electricity generation	P.C.	16.7	5	2	1	–
Energías Ambientales, S.A.	Spain	Electricity generation	P.C.	16.7	16	2	–	–
Energías eólicas de Fuerteventura, S.L.	Spain	Electricity generation	P.C.	50	–	–	–	–
Energías eólicas de Lanzarote, S.L.	Spain	Electricity generation	P.C.	50	–	–	–	–
Energías Especiales Alcoholeras, S.A.	Spain	Electricity generation	P.C.	41.2	–	(1)	(1)	–
Energías Especiales Alto Ulla, S.A.	Spain	Electricity generation	P.C.	50	9	(2)	1	–
Energías Especiales Andalucía, S.L.	Spain	Electricity generation	P.C.	40	1	–	–	–
Energías Especiales de Careón, S.A.	Spain	Electricity generation	P.C.	38.5	–	–	1	–
Energías Especiales de Extremadura, S.L.	Spain	Electricity generation	P.C.	39.2	–	–	–	–

2. Joint ventures

Company	Country	Activity	Consolidation Method	% Shareholding Total	Net equity: Capital	Net equity: Reserves	Net equity: Profit 2009	Net equity: Interim dividend
Repsol-Gas Natural LNG, S.L.	Spain	Gas supply and transportation	P.C.	50	2	–	1	–
Central Térmica La Torrecilla, S.A.	Spain	Cogeneration	P.C.	50	1	–	–	–
CH4 Energía, S.A. de C.V.	México	Gas commercialisation and transportation	P.C.	43.4	1	3	1	–
Transnatural, S.R.L. de C.V.	México	Gas commercialisation and transportation	P.C.	43.4	10	(24)	(5)	–
Albidona Distribuzione Gas, S.R.L.	Italy	Gas distribution	P.C.	60	–	–	–	–
Gas Natural Vehicular del Norte Asociación en Participación	México	Gas distribution	P.C.	44.3	1	–	–	–
Gas Natural West África, S.L.	Spain	Hydrocarbon research and exploration	P.C.	40	14	(3)	(5)	–
Gas Directo, S.A.	Spain	Gas	P.C.	30	7	–	–	–
Gasifica, S.A.	Spain	Gas	P.C.	55	2	8	–	–
Infraestructura de Gas, S.A.	Spain	Gas	P.C.	42.5	–	7	–	–
Nueva Electricidad del Gas, S.A.	Spain	Gas	P.C.	50	9	(3)	(1)	–
Palawan Sulu Sea Gas, Inc.	Philippines	Gas	P.C.	50	–	5	–	–
Planta de Regasificación de Sagunto, S.A.	Spain	Gas	P.C.	21.3	2	16	16	–
Segas Services, S.A.E.	Egypt	Gas	P.C.	40.7	1	–	–	–
Spanish Egiptian Gas Company, S.A.E.	Egypt	Gas	P.C.	40	349	(106)	35	–
Unión Fenosa Gas Exploración y Producción, S.A.	Spain	Gas	P.C.	50	–	–	–	–
Unión Fenosa Gas Comercializadora, S.A.	Spain	Gas	P.C.	50	2	16	11	–
Unión Fenosa Gas Infraestructures, B.V.	Netherlands	Gas	P.C.	50	–	5	–	–
Unión Fenosa Gas, S.A.	Spain	Gas	P.C.	50	33	464	210	(129)
Alas Capital & Gas Natural S.A.	Spain	Electricity generation	P.C.	40	–	–	–	–
Andaluza de Energía Solar Cuarta, S.L.	Spain	Electricity generation	P.C.	30.4	–	–	–	–
Andaluza de Energía Solar Primera, S.L.	Spain	Electricity generation	P.C.	30.4	–	–	–	–
Andaluza de Energía Solar Quinta, S.L.	Spain	Electricity generation	P.C.	30	–	–	–	–
Andaluza de Energía Solar Tercera, S.L.	Spain	Electricity generation	P.C.	30	–	–	–	–
Aprovechamientos eléctricos, S.A.	Spain	Electricity generation	P.C.	50	–	1	–	–
Áridos Energías Especiales, S.L.	Spain	Electricity generation	P.C.	20.5	1	–	–	–
Azucarera Energías, S.A.	Spain	Electricity generation	P.C.	20	1	4	(2)	–
Barbao, S.A.	Spain	Electricity generation	P.C.	50	–	–	–	–
Barras Eléctricas Galaico Asturianas, S.A.	Spain	Electricity generation	P.C.	44.9	16	47	7	–
Barras Eléctricas Generación, S.L.	Spain	Electricity generation	P.C.	45	1	2	–	–
Boiro Energía, S.A.	Spain	Electricity generation	P.C.	20	1	2	2	–
Centrales Nucleares Almaraz-Trillo, A.I.E	Spain	Electricity generation	P.C.	19.3	–	–	–	–
Cogeneración del Noroeste, S.L.	Spain	Electricity generation	P.C.	20	4	3	3	–
Depuración, destilación y reciclaje. S.L.	Spain	Electricity generation	P.C.	20	1	1	1	–
Desarrollo de Energías Renovables de la Rioja, S.A.	Spain	Electricity generation	P.C.	36.3	17	3	5	–
Desarrollo de Energías Renovables de Navarra, S.A.	Spain	Electricity generation	P.C.	50	10	28	13	–
EcoEléctrica, L.P.	Puerto Rico	Electricity generation	P.C.	47.5	63	32	49	(12)
Electrica Conquense, S.A.	Spain	Electricity generation	P.C.	46.4	3	2	1	–
Enel Unión Fenosa Renovables, S.A.	Spain	Electricity generation	P.C.	50	33	99	30	–
Energía Termosolar de los Monegros, S.L.	Spain	Electricity generation	P.C.	40	–	–	–	–
Energías Ambientales de Novo, S.A.	Spain	Electricity generation	P.C.	16.7	2	–	1	–
Energías Ambientales de Somozas, S.A.	Spain	Electricity generation	P.C.	22.6	1	–	2	–
Energías Ambientales de Vimianzo, S.A.	Spain	Electricity generation	P.C.	16.7	5	2	1	–
Energías Ambientales, S.A.	Spain	Electricity generation	P.C.	16.7	16	2	–	–
Energías eólicas de Fuerteventura, S.L.	Spain	Electricity generation	P.C.	50	–	–	–	–
Energías eólicas de Lanzarote, S.L.	Spain	Electricity generation	P.C.	50	–	–	–	–
Energías Especiales Alcoholeras, S.A.	Spain	Electricity generation	P.C.	41.2	–	(1)	(1)	–
Energías Especiales Alto Ulla, S.A.	Spain	Electricity generation	P.C.	50	9	(2)	1	–
Energías Especiales Andalucía, S.L.	Spain	Electricity generation	P.C.	40	1	–	–	–
Energías Especiales de Careón, S.A.	Spain	Electricity generation	P.C.	38.5	–	–	1	–
Energías Especiales de Extremadura, S.L.	Spain	Electricity generation	P.C.	39.2	–	–	–	–

2. Joint ventures (continued)

					Net equity			
Company	Country	Activity	Consolidation Method	% Shareholding Total	Capital	Reserves	Profit 2009	Interim dividend
Energías Especiales de Gata, S.L.	Spain	Electricity generation	P.C.	50	–	–	–	–
Energias Especiales de Padul, S.L.U.	Spain	Electricity generation	P.C.	50	–	–	–	–
Energías Especiales del Bierzo, S.A.	Spain	Electricity generation	P.C.	25	2	1	1	–
Energías Especiales Montes Castellanos, S.L.U.	Spain	Electricity generation	P.C.	50	7	(2)	–	–
Energías Especiales Montes de Andalucía, S.L.	Spain	Electricity generation	P.C.	50	–	–	–	–
Energías Especiales Noroeste, S.A.U.	Spain	Electricity generation	P.C.	50	7	–	5	–
Energías Especiales Peña Armada, S.A.	Spain	Electricity generation	P.C.	40	1	–	1	–
Energías Especiales Santa Bárbara, S.L.	Spain	Electricity generation	P.C.	50	–	–	–	–
Energías Especiales Valencianas, S.L.	Spain	Electricity generation	P.C.	50	–	–	–	–
Energías Renovables Montes de San Sebastián, S.L.	Spain	Electricity generation	P.C.	50	3	(1)	–	–
Eólica del Cordal de Montouto, S.L.	Spain	Electricity generation	P.C.	50	1	–	–	–
Eólica Galaico Asturiana, S.A.	Spain	Electricity generation	P.C.	50	–	–	–	–
Eólicos Singulares 2005, S.A.	Spain	Electricity generation	P.C.	49	–	–	–	–
Eufer Caetano Energías Renovaveis, Lda.	Portugal	Electricity generation	P.C.	25.5	–	–	–	–
Eufer Energías Especiais de Portugal, Unipessoal, Lda.	Portugal	Electricity generation	P.C.	50	–	–	–	–
Eufer Operación, S.L.	Spain	Electricity generation	P.C.	50	–	–	–	–
Eufer Renovables Ibéricas 2004, S.A.	Spain	Electricity generation	P.C.	50	16	(1)	3	–
Explotaciones Eólicas Sierra de Utrera, S.L.	Spain	Electricity generation	P.C.	50	3	3	3	–
Los Castrios, S.A.	Spain	Electricity generation	P.C.	33.1	2	1	1	–
Molinos de la Rioja, S.A.	Spain	Electricity generation	P.C.	33.3	3	1	2	–
Molinos de Linares, S.A	Spain	Electricity generation	P.C.	25	–	–	–	–
Molinos del Cidacos, S.A.	Spain	Electricity generation	P.C.	50	10	8	9	–
Montouto 2000, S.A.	Spain	Electricity generation	P.C.	49	6	4	2	–
Nueva Generadora del Sur, S.A.	Spain	Electricity generation	P.C.	50	96	39	16	–
O Novo Aquilón, S.L.	Spain	Electricity generation	P.C.	60	–	–	–	–
Parque Eólico Belmonte, S.A.	Spain	Electricity generation	P.C.	25.1	–	3	–	–
Parque Eólico Cabo Vilano, S.L	Spain	Electricity generation	P.C.	50	7	(2)	–	–
Parque Eólico de Capelada, A.I.E.	Spain	Electricity generation	P.C.	25	6	(2)	3	–
Parque Eólico de Corullón, S.L.	Spain	Electricity generation	P.C.	50	1	–	–	–
Parque Eólico de San Andrés, S.A.	Spain	Electricity generation	P.C.	41	1	2	2	–
Parque Eólico Espina, S.L.U.	Spain	Electricity generation	P.C.	50	–	–	–	–
Parque Eólico Malpica, S.A.	Spain	Electricity generation	P.C.	17.7	1	–	–	–
Parque Eólico Padul, S.L.	Spain	Electricity generation	P.C.	50	2	–	–	–
Parque Eólico Sierra del Merengue, S.L.	Spain	Electricity generation	P.C.	25	–	–	–	–
Parques Eólicos 2008-2012, S.L.	Spain	Electricity generation	P.C.	54	–	–	–	–
Parques Eólicos Montes de las Navas, S.A.	Spain	Electricity generation	P.C.	10	7	1	3	–
Prius Enerólica, S.L.	Spain	Electricity generation	P.C.	50	–	–	–	–
Promociones Energéticas del Bierzo, S.L.	Spain	Electricity generation	P.C.	25	–	–	–	–
Proyectos Universitarios Energías Renovables, S.L.	Spain	Electricity generation	P.C.	16.7	–	–	–	–
Punta de las Olas Eólica Marina, S.L.	Spain	Electricity generation	P.C.	50	–	–	–	–
Punta de lens Eólica Marina, S.L.	Spain	Electricity generation	P.C.	50	–	–	–	–
Sistemas Energéticos Mañon Ortigueira, S.A.	Spain	Electricity generation	P.C.	48	2	2	–	–
Sociedad Gallega de Cogeneración, S.A.	Spain	Electricity generation	P.C.	20	2	1	2	–
Societat Eòlica de l´Enderrocada, S.A.	Spain	Electricity generation	P.C.	13.3	6	1	1	–
Toledo PV A.E.I.E.	Spain	Electricity generation	P.C.	33.3	–	–	–	–
Ufefys, S.L.	Spain	Electricity generation	P.C.	20	–	1	(1)	–
UTE GNS-Dalkia Energia y Servicios, S.A.	Spain	Energy management	P.C.	50	–	–	–	–
Ghesa Ingeniería y Tecnología, S.A.	Spain	Professional services	P.C.	41.2	4	16	7	–
EcoEléctrica Holding, Ltd.	I. Cayman	Holding company	P.C.	47.5	63	19	–	(20)
EcoEléctrica, Ltd.	I. Cayman	Holding company	P.C.	47.5	1	–	–	–
Alliance, S.A.	Nicaragua	Telecommunications	P.C.	49.9	–	–	–	–
Biogás Doña Juana, S.A. E.S.P.	Colombia	Biogas treatment and use	P.C.	49.8	2	1	–	–

2. Joint ventures (continued)

Company	Country	Activity	Consolidation Method	% Shareholding Total	Net equity: Capital	Net equity: Reserves	Net equity: Profit 2009	Net equity: Interim dividend
Energías Especiales de Gata, S.L.	Spain	Electricity generation	P.C.	50	–	–	–	–
Energias Especiales de Padul, S.L.U.	Spain	Electricity generation	P.C.	50	–	–	–	–
Energías Especiales del Bierzo, S.A.	Spain	Electricity generation	P.C.	25	2	1	1	–
Energías Especiales Montes Castellanos, S.L.U.	Spain	Electricity generation	P.C.	50	7	(2)	–	–
Energías Especiales Montes de Andalucía, S.L.	Spain	Electricity generation	P.C.	50	–	–	–	–
Energías Especiales Noroeste, S.A.U.	Spain	Electricity generation	P.C.	50	7	–	5	–
Energías Especiales Peña Armada, S.A.	Spain	Electricity generation	P.C.	40	1	–	1	–
Energías Especiales Santa Bárbara, S.L.	Spain	Electricity generation	P.C.	50	–	–	–	–
Energías Especiales Valencianas, S.L.	Spain	Electricity generation	P.C.	50	–	–	–	–
Energías Renovables Montes de San Sebastián, S.L.	Spain	Electricity generation	P.C.	50	3	(1)	–	–
Eólica del Cordal de Montouto, S.L.	Spain	Electricity generation	P.C.	50	1	–	–	–
Eólica Galaico Asturiana, S.A.	Spain	Electricity generation	P.C.	50	–	–	–	–
Eólicos Singulares 2005, S.A.	Spain	Electricity generation	P.C.	49	–	–	–	–
Eufer Caetano Energías Renovaveis, Lda.	Portugal	Electricity generation	P.C.	25.5	–	–	–	–
Eufer Energías Especiais de Portugal, Unipessoal, Lda.	Portugal	Electricity generation	P.C.	50	–	–	–	–
Eufer Operación, S.L.	Spain	Electricity generation	P.C.	50	–	–	–	–
Eufer Renovables Ibéricas 2004, S.A.	Spain	Electricity generation	P.C.	50	16	(1)	3	–
Explotaciones Eólicas Sierra de Utrera, S.L.	Spain	Electricity generation	P.C.	50	3	3	3	–
Los Castrios, S.A.	Spain	Electricity generation	P.C.	33.1	2	1	1	–
Molinos de la Rioja, S.A.	Spain	Electricity generation	P.C.	33.3	3	1	2	–
Molinos de Linares, S.A	Spain	Electricity generation	P.C.	25	–	–	–	–
Molinos del Cidacos, S.A.	Spain	Electricity generation	P.C.	50	10	8	9	–
Montouto 2000, S.A.	Spain	Electricity generation	P.C.	49	6	4	2	–
Nueva Generadora del Sur, S.A.	Spain	Electricity generation	P.C.	50	96	39	16	–
O Novo Aquilón, S.L.	Spain	Electricity generation	P.C.	60	–	–	–	–
Parque Eólico Belmonte, S.A.	Spain	Electricity generation	P.C.	25.1	–	3	–	–
Parque Eólico Cabo Vilano, S.L	Spain	Electricity generation	P.C.	50	7	(2)	–	–
Parque Eólico de Capelada, A.I.E.	Spain	Electricity generation	P.C.	25	6	(2)	3	–
Parque Eólico de Corullón, S.L.	Spain	Electricity generation	P.C.	50	1	–	–	–
Parque Eólico de San Andrés, S.A.	Spain	Electricity generation	P.C.	41	1	2	2	–
Parque Eólico Espina, S.L.U.	Spain	Electricity generation	P.C.	50	–	–	–	–
Parque Eólico Malpica, S.A.	Spain	Electricity generation	P.C.	17.7	1	–	–	–
Parque Eólico Padul, S.L.	Spain	Electricity generation	P.C.	50	2	–	–	–
Parque Eólico Sierra del Merengue, S.L.	Spain	Electricity generation	P.C.	25	–	–	–	–
Parques Eólicos 2008-2012, S.L.	Spain	Electricity generation	P.C.	54	–	–	–	–
Parques Eólicos Montes de las Navas, S.A.	Spain	Electricity generation	P.C.	10	7	1	3	–
Prius Enerólica, S.L.	Spain	Electricity generation	P.C.	50	–	–	–	–
Promociones Energéticas del Bierzo, S.L.	Spain	Electricity generation	P.C.	25	–	–	–	–
Proyectos Universitarios Energías Renovables, S.L.	Spain	Electricity generation	P.C.	16.7	–	–	–	–
Punta de las Olas Eólica Marina, S.L.	Spain	Electricity generation	P.C.	50	–	–	–	–
Punta de lens Eólica Marina, S.L.	Spain	Electricity generation	P.C.	50	–	–	–	–
Sistemas Energéticos Mañon Ortigueira, S.A.	Spain	Electricity generation	P.C.	48	2	2	–	–
Sociedad Gallega de Cogeneración, S.A.	Spain	Electricity generation	P.C.	20	2	1	2	–
Societat Eòlica de l´Enderrocada, S.A.	Spain	Electricity generation	P.C.	13.3	6	1	1	–
Toledo PV A.E.I.E.	Spain	Electricity generation	P.C.	33.3	–	–	–	–
Ufefys, S.L.	Spain	Electricity generation	P.C.	20	–	1	(1)	–
UTE GNS-Dalkia Energia y Servicios, S.A.	Spain	Energy management	P.C.	50	–	–	–	–
Ghesa Ingeniería y Tecnología, S.A.	Spain	Professional services	P.C.	41.2	4	16	7	–
EcoEléctrica Holding, Ltd.	I. Cayman	Holding company	P.C.	47.5	63	19	–	(20)
EcoEléctrica, Ltd.	I. Cayman	Holding company	P.C.	47.5	1	–	–	–
Alliance, S.A.	Nicaragua	Telecommunications	P.C.	49.9	–	–	–	–
Biogás Doña Juana, S.A. E.S.P.	Colombia	Biogas treatment and use	P.C.	49.8	2	1	–	–

3. Jointly controlled assets and operations

Company	Country	Activity	% Shareholding Total
Boquerón	Spain	Exploration and production	4.5
Casablanca	Spain	Exploration and production	9.5
Chipirón	Spain	Exploration and production	2.0
Montanazo	Spain	Exploration and production	17.1
Murcia-Siroco	Spain	Exploration	40.0
Rodaballo	Spain	Exploration and production	4.0
Sestao Knutsen	Spain	LNG Transportation	50.0
Iberica Knutsen	Spain	LNG Transportation	50.0
Comunidad de bienes Central Nuclear de Trillo (Grupo I)	Spain	Electricity generation	34.5
Comunidad de bienes Central Nuclear de Almaraz (Grupo I y II)	Spain	Electricity generation	11.3
Comunidad de bienes Central Térmica de Anllares	Spain	Electricity generation	66.7
Comunidad de bienes Central Térmica de Aceca	Spain	Electricity generation	50.0
Gassi-Chergui	Argelia	Exploration	30.0
Tánger Larrache	Morocco	Exploration	40.0

4. Associates

					Net equity			
Company	Country	Activity	Consolidation Method	% Shareholding Total	Capital	Reserves	Profit 2009	Interim dividend
Kromschroeder, S.A.	Spain	Meters	E.M.	42.5	1	12	(1)	–
Gas Aragón, S.A.	Spain	Gas Distribution	E.M.	35.0	6	57	9	–
Enerlasa, S.A.	Spain	Energy	E.M.	22.5	–	(1)	8	–
Energías de Villarubia, S.L.	Spain	Energy	E.M.	10.0	1	(1)	–	–
Sotavento Galicia, S.A.	Spain	Energy	E.M.	9.0	1	3	1	–
Tirmadrid, S.A.	Spain	Energy	E.M.	9.3	17	6	9	–
Regasificadora del Noroeste, S.A.	Spain	Gas	E.M.	11.6	55	9	89	(2)
Qalhat LNG S.A.O.C.	Omán	Gas	E.M.	3.7	48	3	9	–
Enervent, S.A.	Spain	Electricity generation	E.M.	26.0	2	5	1	–
Sistemas Energéticos La Muela, S.A.	Spain	Electricity generation	E.M.	20.0	3	4	1	–
Sistemas Energéticos Mas Garullo, S.A.	Spain	Electricity generation	E.M.	18.0	2	2	2	–
Sociedade Galega do Medio Ambiente, S.A.	Spain	Waste management	E.M.	49.0	32	9	–	–
Ensafeca Holding Empresarial, S.L.	Spain	Holding company	E.M.	18.5	8	2	–	–
Torre Marenostrum, S.L.	Spain	Real Estate	E.M.	45.0	5	14	–	–
Oficina de cambios de suministrador, S.A.	Spain	Services	E.M.	29.0	–	–	–	–

3. Jointly controlled assets and operations

Company	Country	Activity	% Shareholding Total
Boquerón	Spain	Exploration and production	4.5
Casablanca	Spain	Exploration and production	9.5
Chipirón	Spain	Exploration and production	2.0
Montanazo	Spain	Exploration and production	17.1
Murcia-Siroco	Spain	Exploration	40.0
Rodaballo	Spain	Exploration and production	4.0
Sestao Knutsen	Spain	LNG Transportation	50.0
Iberica Knutsen	Spain	LNG Transportation	50.0
Comunidad de bienes Central Nuclear de Trillo (Grupo I)	Spain	Electricity generation	34.5
Comunidad de bienes Central Nuclear de Almaraz (Grupo I y II)	Spain	Electricity generation	11.3
Comunidad de bienes Central Térmica de Anllares	Spain	Electricity generation	66.7
Comunidad de bienes Central Térmica de Aceca	Spain	Electricity generation	50.0
Gassi-Chergui	Argelia	Exploration	30.0
Tánger Larrache	Morocco	Exploration	40.0

4. Associates

					Net equity			
Company	**Country**	**Activity**	**Consolidation Method**	**% Shareholding Total**	**Capital**	**Reserves**	**Profit 2009**	**Interim dividend**
Kromschroeder, S.A.	Spain	Meters	E.M.	42.5	1	12	(1)	–
Gas Aragón, S.A.	Spain	Gas Distribution	E.M.	35.0	6	57	9	–
Enerlasa, S.A.	Spain	Energy	E.M.	22.5	–	(1)	8	–
Energías de Villarubia, S.L.	Spain	Energy	E.M.	10.0	1	(1)	–	–
Sotavento Galicia, S.A.	Spain	Energy	E.M.	9.0	1	3	1	–
Tirmadrid, S.A.	Spain	Energy	E.M.	9.3	17	6	9	–
Regasificadora del Noroeste, S.A.	Spain	Gas	E.M.	11.6	55	9	89	(2)
Qalhat LNG S.A.O.C.	Omán	Gas	E.M.	3.7	48	3	9	–
Enervent, S.A.	Spain	Electricity generation	E.M.	26.0	2	5	1	–
Sistemas Energéticos La Muela, S.A.	Spain	Electricity generation	E.M.	20.0	3	4	1	–
Sistemas Energéticos Mas Garullo, S.A.	Spain	Electricity generation	E.M.	18.0	2	2	2	–
Sociedade Galega do Medio Ambiente, S.A.	Spain	Waste management	E.M.	49.0	32	9	–	–
Ensafeca Holding Empresarial, S.L.	Spain	Holding company	E.M.	18.5	8	2	–	–
Torre Marenostrum, S.L.	Spain	Real Estate	E.M.	45.0	5	14	–	–
Oficina de cambios de suministrador, S.A.	Spain	Services	E.M.	29.0	–	–	–	–

Appendix II Variations in consolidation scope

The main changes in the consolidation scope in 2009 have been as follows:

Registered name of the entity	Operation category	Effective date of the operation	% of voting de voto rights acquired/ eliminated	% of voting rights after the operation	Consolidation method after the operation
A.E.Hospital Universitario Trias Pujol	Liquidation	1 January	50	–	–
Gas Natural S.U.R. SDG, S.A.	Incorporation	6 April	100	100	Full consolidation
GEM Distribución Gas 1, S.A.	Incorporation	28 abri	100	100	Full consolidation
Eólicos Singulares 2005, S.A.	Acquisition	30 abril	49	49	Proportional
UNIÓN FENOSA	Acquisition	30 abril	80.5	95.2	Full consolidation
Punta de Lens Eólica Marina, S.L.	Acquisition	1 may	50	50	Proportional
Punta de las Olas Eólica Marina, S.L.	Acquisition	1 may	50	50	Proportional
Andaluza de Energía Solar Primera, S.L.	Acquisition	1 may	30.4	30.4	Proportional
Andaluza de Energía Solar Tercera, S.L.	Acquisition	1 may	30.4	30.4	Proportional
Andaluza de Energía Solar Cuarta, S.L.	Acquisition	1 may	30.4	30.4	Proportional
Andaluza de Energía Solar Quinta, S.L.	Acquisition	1 may	30.4	30.4	Proportional
Energías Especiales de Andalucía, S.L.	Disposal	1 may	10	40	Proportional
GN Wind 6, S.L.	Disposal	25 may	40	60	Full consolidation
Distribuidora de Electricidad de Norte, S.A.	Acquisition	1 june	2.5	87.7	Full consolidation
Distribuidora de Electricidad de Sur, S.A.	Acquisition	1 june	2.7	89	Full consolidation
Cedifil Cored Wired, S.L.	Incorporation	1 june	98.5	98.5	Full consolidation
Gas Energía Suministro Sur, S.L.	Incorporation	11 june	100	100	Full consolidation
Gas Energía Suministro, S.L.	Incorporation	11 june	100	100	Full consolidation
Gas Energía Servicios Comunes, S.L.	Incorporation	11 june	100	100	Full consolidation
Unión Fenosa Centro de Tesorería, S.L.	Liquidation	25 june	100	–	–
Energías Especiales de Portugal, U.Ltda.	Incorporation	26 june	50	50	Full consolidation
Empresa de Energía del Pacífico, S.A.E.	Acquisition	1 July	0	64	Full consolidation
Compañía de Electricidad de Tulua S.A.	Acquisition	1 July	1	55	Full consolidation
Indra Sistemas, S.A.	Disposal	2 July	13	5	–
GEM Suministro S.U.R. 2, S.L.	Incorporation	3 July	100	100	Full consolidation
GEM Suministro GAS 2, S.L.	Incorporation	3 July	100	100	Full consolidation
GEM Servicios Comunes 2, S.L.	Incorporation	3 July	100	100	Full consolidation
Kangra Coal, S.A.	Acquisition	15 July	6	70	Full consolidation
Albidona Distribuzione Gas SRL	Incorporation	20 July	60	60	Proportional
Planificación e Inversión estratégica, S.A.	Disolución	20 July	61	–	–
UNIÓN FENOSA	Acquisition	1 september	4.8	100	Full consolidation
Energías Especiales de Padul, S.L.U.	Incorporation	8 september	50	50	Proportional
Distribuidora de Electricidad de Norte, S.A.	Acquisition	8 october	1.0	87.7	Full consolidation
Distribuidora de Electricidad de Sur, S.A.	Acquisition	8 october	1.0	90.0	Full consolidation
Unión Fenosa Colombia, S.A.	Disposal	1 november	100	–	–
Compañía de Electricidad de Tulua S.A.	Disposal	7 december	55.1	–	–
Empresa de Energía del Pacífico S.A.	Disposal	9 december	63.8	–	–
Gas Energía Suministro Sur, S.L.	Disposal	31 december	100	–	–
Gas Energía Suministro, S.L.	Disposal	31 december	100	–	–
Gas Energía Servicios Comunes, S.L.	Disposal	31 december	100	–	–
Gas Natural Cantabria S.A.	Disposal	31 december	100	–	–
Gas Natural Murcia S.A.	Disposal	31 december	100	–	–
Unión Fenosa Emisiones, S.A.	Liquidation	31 december	100	–	–
Unión Fenosa Uninver, S.L.	Liquidation	31 december	100	–	–

On the other hand, the following corporate operations have taken place within the Group:

- In January: merger of Gasdotti Azienda Siciliana, SpA, Agragas, SpA, Normanna Gas, SpA. and Smedigas, SpA with Gas Natural Distribuzione, S.p.A.
- In April: merger of Gas Natural La Coruña, S.A. by Gas Galicia SDG, S.A. approved on 22 December 2008. The shareholding of GAS NATURAL in the new company is 61.6%.
- In July: takeover merger of Gases de Barrancabermeja, S.A. by Gas Natural del Oriente, S.A. ESP.
- In September: takeover merger of Unión Fenosa, S.A. and Unión Fenosa Generación, S.A. by Gas Natural SDG, S.A. effective as at 1 May 2009.
- In November: takeover merger of Boreas, S.A. and Desarrollo de Energías Renovables, S.A. by Gas Natural Corporación Eólica, S.L.
- In November: takeover merger of Mecogas SRL by Italmeco SRL and of Congas Servizi Consorzio Gas Acqua Servizi, S.p.A. by Gas Natural Distribuzione, S.p.A.
- In December: takeover merger of Italmeco SRL by Gas Natural Distribuzione, S.p.A.. and the takeover merger of Pitta Construzioni S.p.A. and Calgas SCARL by Gas Natural Distribuzione, S.p.A.
- In December: takeover merger of Unión Fenosa Metra, S.L. by Gas Natural Comercial S.L.
- In December: takeover merger of Gas Natural Soluciones, S.L. by Gas Natural Servicios, S.L.
- In December: demerger of Gas Natural Servicios, S.A. to Gas Energía Suministro Gas, S.L. for the contribution of gas supply business branch for domestic-commercial customers and small and medium size companies in the regions of Cantabria and Murcia.
- In December: demerger of Gas Natural S.U.R. SDG, S.A. to Gas Energía Suministro S.U.R., S.L. for the contribution of the gas supplier of last resort branch for domestic-commercial customers and small and medium size companies in the regions of Cantabria and Murcia.
- In December: demerger of Gas Natural Comercial SDG, S.A. to Gas Energía Servicios Comunes, S.L. for the contribution of the shared services branch for distribution and supply companies in Cantabria and Murcia.

The main changes in the consolidation scope in 2008 have been as follows (see Note 30):

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	5 February	50	50	Proportional
Gas Natural West África, S.L.	Disposal	29 February	60	40	Proportional
Administración y Servicios ECAP, S.A.	Incorporation	14 March	100	100	Full consolidation
Dawn Energy-Produção de Energia, Unipessoal Lda.	Acquisition	4 April	100	100	Full consolidation
Cetraro Distribuzione Gas S.r.l.	Incorporation	28 April	60	60	Full consolidation
O Novo Aquilón, S.L.	Acquisition	6 June	60	60	Proportional
Gas Natural Servicios, Ltd	Incorporation	9 June	100	100	Full consolidation
Parques Eólicos 2008-2012, S.L.	Acquisition	17 June	54	54	Proportional
Oficina de Cambios de Suministrador, S.A. (OCSUM)	Acquisition	20 June	20	20	Equity method
Pitta Construzioni S.p.A.	Acquisition	3 July	100	100	Full consolidation
Sociedad de Tratamiento la Andaya, S.L.	Acquisition	9 July	15	60	Full consolidation
Sociedad de Tratamiento Hornillos. S.L.	Acquisition	9 July	14	94	Full consolidation
Portal del Instalador, S.A.	Acquisition	9 July	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.

Appendix III Gas Natural Tax Group Companies

The Gas Natural Tax Group at 31 December 2009 is as follows

Gas Natural SDG, S.A.	Gas Natural Wind 2, S.L.
Aplicaciones y Proyectos Energéticos, S.A.	Gas Natural Wind 3, S.L.
Aplicaciones y Desarrollos Profesionales Nuevo Milenio, S.L.	Gas Natural Wind 4, S.L.
Boreas Eólica 2, S.A.	Gas Natural Wind 5, S.L.
Compañía Auxiliar de Industrias Varias, S.A.	Gas Natural Wind Canarias, S.L.
Compañía Española de Industrias Electroquímicas, S.A.	Gas Navarra, S.A.
Cedifil Cored Wire, S.L.	GEM Distribución Gas 1, S.A.
Desarrollo del Cable, S.A.	GEM Servicios Comunes 2, S.L.
Distribuidora Eléctrica Navasfrías, S.L.	GEM Suministro S.U.R. 2, S.L.
Electra de Abusejo, S.L.	GEM Suministro Gas 2, S.L.
Electra de Jallas, S.A.	General de Edificios y Solares, S.L.
Gas Natural Andalucía, S.A.	Generación Peninsular, S.L.
Gas Natural Aprovisionamientos SDG, S.A.	Hidroeléctrica Nuestra Señora de la Soledad de Tendilla y Lupiana, S.L.
Gas Natural Capital Markets, S.A.	Holding Gas Natural, S.A.
Gas Natural Castilla-La Mancha, S.A.	Hotel de Naturaleza Tambre, S.L.
Gas Natural Castilla y León, S.A.	La Propagadora del Gas, S.A.
Gas Natural Cegas, S.A.	Lignitos de Meirama, S.A.
Gas Natural Comercial SDG, S.L.	Operación y Mantenimiento Energy, S.A.
Gas Natural Comercializadora, S.A.	Pizarras Mahide, S.L.
Gas Natural Corporación Eólica, S.L.	Portal del Instalador, S.A.
Gas Natural Distribución Eléctrica, S.A.	Sagane, S.A.
Gas Natural Distribución SDG, S.A.	Sociedad de Tratamiento Almazán, S.L.
Gas Natural Electricidad SDG, S.A.	Sociedad de Tratamiento Hornillos, S.L.
Gas Natural Energy Canarias, S.L.	Socoin Ingeniería y Construcción Industrial, S.L.
Gas Natural Exploración, S.L.	Tratamiento Cinca Medio, S.L.
Gas Natural Informática, S.A.	Unión Fenosa Comercial, S.L.
Gas Natural Internacional SDG, S.A.	Unión Fenosa Distribución, S.A.
Gas Natural Rioja S.A.	Unión Fenosa Financiación, S.A.
Gas Natural Servicios SDG, S.A.	Unión Fenosa Internacional, S.A.
Gas Natural S.U.R. SDG, S.A.	Unión Fenosa Minería, S.A.
Gas Natural Transporte SDG, S.A.	Unión Fenosa Preferentes, S.A.
Gas Natural Wind, S.L.	Unión Fenosa Redes de Telecomunicación, S.L.

Consolidated Directors' Report

1. Business performance

2009 Analysis

Net profit in 2009 increased 13.1% with respect to 2008 and amounted to Euros 1,195 million, in a context of a falling energy demand and significant volatility in energy prices and in currency and financial markets.

Unión Fenosa, S.A. and its subsidiary companies (hereon, UNIÓN FENOSA) has been fully consolidated since 30 April 2009, and is reflected as such in the consolidated income statement. The consolidated balance sheet at 31 December 2009 includes UNIÓN FENOSA assets and liabilities, which were not included at 31 December 2008.

The merger of Gas Natural SDG,S.A. with Unión Fenosa, S.A. and Unión Fenosa Generación, S.A. was completed on 7 September 2009 after shares issued to Unión Fenosa, S.A. shareholders in the exchange were listed and the company was delisted.

Consolidated EBITDA totalled Euros 3,937 million, an increase of 53.5% with respect to 2008, mainly as a result of the integration of UNIÓN FENOSA since 30 April 2009.

Despite the contraction in energy demand and the sharp decline in electricity prices in Spain, growth in income from regulated activities and efficient management of the global portfolio enabled the company to maintain results on par with 2008. The results obtained in the above-mentioned context highlight the fundamental value of GAS NATURAL's business model, which is based on an appropriate balance of regulated and liberalised business in gas and electricity markets.

In accordance with commitments made to the National Competition Commission (CNC) to divest gas distribution assets, on 19 December 2009 the company signed an agreement to sell 504,000 gas distribution connections (subject to approval by the corresponding authorities), and on 31 December it sold another 256,000 gas distribution connections in Region of Murcia and Region of Cantabria.

On 9 December 2009, the company sold its stake in Colombia's Empresa de Energía del Pacífico, S.A. ESP (EPSA).

On 24 December 2009, an agreement was reached to divest part of the power generation business in Mexico, completing the Euros 3,600 million divestment process that had been announced.

In July 2009 the bond issue in two tranches of five and ten years totalling Euros 2,000 million and Euros 500 million, respectively, was closed.

In October 2009, GAS NATURAL completed three euro-denominated bond issues: Euros 500 million at 3 years, Euros 1,000 million at 7 years and Euros 750 million at 12 years. In January 2010, the company issued three bonds: Euros 650 million at 5 years, Euros 700 million at 8 years and Euros 850 million at 10 years.

Acquisition of UNIÓN FENOSA

On 11 February 2009, Spain's National Competition Commission (CNC) authorised the acquisition of Unión Fenosa, S.A. subject to the commitments presented by GAS NATURAL, which included the divestment of approximately 600,000 gas distribution connections and the related portfolio of customers, 2,000 MW of operational CCGT capacity in Spain and the stake in Enagás. GAS NATURAL also made a number of commitments in connection with corporate governance at Cepsa and Unión Fenosa Gas Comercializadora.

Those assets are of significant value, and they will be divested with the necessary resources to enable buyers to operate them on a standalone basis. Moreover, these divestments are consistent with the planned transaction structure and enable GAS NATURAL to maintain the gas-electricity convergence model it pursued by integrating UNIÓN FENOSA.

In accordance with the terms of the agreement signed on 30 July 2008, GAS NATURAL acquired the rest of ACS's stake on 26 February 2009, thus attaining 50.0% of Unión Fenosa, S.A. and launched a mandatory takeover bid for the remaining Unión Fenosa, S.A. shares, in accordance with Law 24/1998, of 28 July, on the Securities Market, and with Royal Decree 1066/2007.

On 21 April 2009, the Comisión Nacional del Mercado de Valores (CNMV) published the outcome of the takeover bid, whose acceptance deadline was 14 April 2009. The bid was accepted by shares representing 34.8% of Unión Fenosa, S.A.'s capital and by 69.5% of the voting rights actually addressed by the bid.

Following settlement of the takeover bid and of the financial instruments on Unión Fenosa, S.A. shares arranged with a number of banks, GAS NATURAL owns 95.2% of Unión Fenosa, S.A.

The General Shareholders' Meetings held by Gas Natural SDG, S.A. (26 June 2009) and Unión Fenosa, S.A. (29 June 2009) approved the merger of Unión Fenosa, S.A. and Unión Fenosa Generación, S.A. into Gas Natural SDG,S.A. via dissolution without liquidation of the absorbed companies and the transfer en bloc of their total equity to Gas Natural SDG,S.A.

The approved merger proposal posited an exchange ratio of three shares of Gas Natural SDG,S.A. for every five shares of Unión Fenosa, S.A., and received a favourable report from an independent expert appointed by the Barcelona Mercantile Registry.

The merger process, which commenced in July 2008 and was completed in September 2009, achieved the goal of integrating the gas and electricity businesses to create a single company with extensive experience in the energy sector that is able to compete effectively in markets which are becoming increasingly integrated, globalised and competitive.

The result is the largest integrated gas and electricity company in Spain and Latin America and one of the top ten utilities in Europe, operating in 23 countries worldwide. The deal puts the company 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. The resulting group has over 20 million customers and an installed capacity of 17,861 MW of which 7,322 MW are combined cycle in Spain and 4,057 MW are combined cycle abroad

Financing of the operation

Early in April 2009, GAS NATURAL signed an agreement with a syndicate of 27 banks to underwrite an Euros 18,260 million loan to finance the deal and refinance part of the current debt at GAS NATURAL and UNIÓN FENOSA; currently, 53 banks are participating.

With a view to ensuring a solid, flexible financial structure, GAS NATURAL launched a Euros 3,502 million capital increase in March 2009 which was fully subscribed and paid. In April 2009, the net proceeds of the capital increase (Euros 3,401 million) were used to partially repay the loan.

Moreover, with a view to optimising the financial structure and maturities calendar, GAS NATURAL completed various euro-denominated bond issues totalling Euros 6,950 million in June and October 2009 and January 2010.

The allocation of the net proceeds from the capital increase, plus the fact that the takeover bid was not accepted 100% (Euros 788 million) and the use of the proceeds from asset sales and bond issues in 2009 (Euros 4,750 million) reduced the loan to Euros 7,510 million at 31 December 2009. Deducting the bond issues in January 2010 (Euros 2,200 million) and the proceeds from asset sales agreed in 2009, the loan would amount to Euros 3,313 million.

Divestments

In keeping with its commitment, GAS NATURAL has divested or undertaken to divest assets worth a total of Euros 3,600 million. Additionally, GAS NATURAL has yet to complete the regulatory divestment of 2,000 MW of CCGT capacity in Spain.

Completed divestments (close to Euros 2,000 million) include the sale of certain stakes (Cepsa, Red Eléctrica, Isagén, Enagás and Indra), 256,000 gas distribution connections in Spain and the holding in Colombia's Empresa de Energía del Pacífico, S.A. ESP (EPSA).

Agreed divestments exceed Euros 1,600 million and include the sale of 504,000 gas distribution connections in the Madrid region and certain energy assets in Mexico.

Synergies and integration

Initial estimates of synergies amounting to Euros 215 million in costs and Euros 75 million in revenues have been revised upward to Euros 260 million in costs and Euros 90 million in revenue; it has been confirmed that they will be attained in full as from 2011.

Moreover, the joint operation of GAS NATURAL and UNIÓN FENOSA will save Euros 200 million in recurring capital expenditure, compare with the Euros 100 million envisaged initially.

Integration is advancing on schedule and the organisation structure has been specified for the company as a whole, in response to the strategic priority of successfully integrating the companies, ensuring the transfer of best practices between the businesses and geographic areas, maximising energy management earnings worldwide, actively managing the financial structure and promoting processes for management oversight and risk management, maximising returns on assets in the regulated gas and electricity segments, and integrated management of gas and electricity customers.

Economic situation

The deterioration of the macro-economic environment has had a significant impact on the basic aggregates of the business, of special note being the decrease in the sales of energy, especially relevant in the industrial segment of the gas business. Additionally, the general downturn in commodity prices internationally has created a scenario of severe cuts in electricity prices in Spain.

In spite of this situation, the diversification in the profit contribution generated by the businesses and risk control and management and the flexibility of the energy balance sheets have mitigated these effects to a great extent. Of special note is the way that electricity generation and commercialisation and the policies of margin immunisation for gas and energy commercialisation, the optimisation of the electricity generation and gas supply mix, the regulated nature of business with a contribution of 61.3% to operating results and the fall in financial costs, complement each other.

GAS NATURAL believes that the macro-economic environment has not caused any significant impact on the main assumptions, at 31 December 2009, that would lead to the impairment of the goodwill and other property, plant and equipment and intangible assets, assets relating to pension liabilities, and the fair value of financial assets and liabilities.

Main financial aggregates

	2009	2008	%
Net sales	14,879	13,544	9.9
EBITDA	3,937	2,564	53.5
Operating income	2,448	1,794	36.5
Net income attributable to equity holders	1,195	1,057	13.1
Investments	15,696	3,697	–
Net financial debt (at 31/12)	20,916	4,913	–

Main physical aggregates

Distribution of gas and electricity:

	2009	2008	%
Gas distribution (GWh):	402,692	481,414	(16.4)
Spain:	229,585	270,073	(15.0)
Tariff gas sales	26	14,177	–
TPA	229,559	255,896	(10.3)
International:	173,107	211,341	(18.1)
Tariff gas sales	110,171	146,697	(24.9)
TPA	62,936	64,644	(2.6)
Electricity distribution (GWh):	34,973	–	–
Spain:	21,435	–	–
Tariff gas sales	2,037	–	–
TPA	19,398	–	–
International:	13,538	–	–
Tariff gas sales	12,798	–	–
TPA	740	–	–
Gas distribution connections, ('000) (at 31/12):	11,534	11,492	2.6
Spain	5,698	5,842	(1.9)
International	5,836	5,650	3.3
Electricity distribution connections, ('000) (at 31/12):	9,144	–	–
Spain	3,698	–	–
International	4,965	–	–
ICEIT (minutes)	59	–	–

Energy businesses:

	2009	2008	%
Electricity generated (GWh):	54,125	31,543	71.6
Spain:	28,728	18,249	57.4
Hydroelectric	1,849	–	–
Nuclear	2,908	–	–
Coal	741	–	–
Oil - gas	4	–	–
CCGT	21,192	17,344	22.2
Renewables	2,034	905	–
International:	25,397	13,294	91.0
Hydroelectric	1,633	–	–
CCGT	22,638	13,294	70.3
Oil-fired	1,126	–	–
Installed capacity (MW):	17,861	6,581	–
Spain:	13,410	4,094	–
Hydroelectric	1,860	–	–
Nuclear	589	–	–
Coal	2,048	–	–
Oil - gas	617	–	–
CCGT	7,322	3,703	97.7
Renewables	974	391	–
International:	4,451	2,487	–
Hydroelectric	73	–	–
CCGT	4,057	2,487	63.1
Oil-fired	310	–	–
Gas supply (GWh):	286,152	328,741	(13.0)
Spain	234,230	275,398	(14.9)
Rest	51,922	53,343	(2.7)
Unión Fenosa Gas[(1)]:			
Gas supply in Spain (GWh)	34,854	–	–
Trading (GWh)	10,785	–	–
Gas transportation - EMPL (GWh)	109,230	133,497	(18.2)

(1) Including 100% of the company's figures.

Analysis of consolidated results

The acquisition of UNIÓN FENOSA and its full consolidation since 30 April 2009 led to significant changes in the year-on-year comparison and complicates an analysis of the performance of GAS NATURAL's businesses

Net sales

	2009	%s/total	2008	%s/total	% 2009/2008
Gas distribution:	3,502	23.5	4,406	32.5	(20.5)
Spain	1,360	9.1	1,711	12.6	(20.5)
Latin America	1,959	13.2	2,531	18.7	(22.6)
Italy	183	1.2	164	1.2	11.6
Electricity distribution:	1,870	12.6	–	–	–
Spain	523	3.5	–	–	–
Latin America	1,238	8.3	–	–	–
Moldova	109	0.7	–	–	–
Electricity:	4,446	29.9	2,718	20.1	63.6
Spain	3,476	23.4	1,898	14.0	83.1
International	970	6.5	820	6.1	18.3
Upstream & Midstream	276	1.9	284	2.1	(2.8)
Wholesale & Retail	6,853	46.1	8,220	60.7	(16.6)
Unión Fenosa Gas	348	2.3	–	–	–
Other activities	425	2.9	167	1.2	154.5
Consolidation adjustments	(2,841)	(19.1)	(2,251)	(16.6)	26.2
Total	**14,879**	**100.0**	**13,544**	**100.0**	**9.9**

Net sales at 31 December 2009 amounted to Euros 14,879 million, 9.9% more than in 2008 due to the addition of UNIÓN FENOSA and despite the decline in electricity prices and the lower electricity output in Spain with respect to last year.

EBITDA (1)

	2009	%s/total	2008	%s/total	% 2009/2008
Gas distribution:	1,493	37.9	1,389	54.2	7.5
Spain	927	23.5	886	34.6	4.6
Latin America	510	13.0	467	18.2	9.2
Italy	56	1.4	36	1.4	55.6
Electricity distribution:	643	16.3	–	–	–
Spain	385	9.8	–	–	–
Latin America	242	6.1	–	–	–
Moldova	16	0.4	–	–	–
Electricity:	1,052	26.7	516	20.1	103.9
Spain	806	20.5	366	14.3	120.2
International	246	6.2	150	5.9	64.0
Upstream & Midstream	181	4.6	185	7.2	(2.2)
Wholesale & Retail	396	10.1	465	18.1	(14.8)
Unión Fenosa Gas	122	3.1	–	–	–
Other	50	1.3	10	0.4	–
Total	**3,937**	**100.0**	**2,564**	**100.0**	**53.5**

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

EBITDA in 2009 totalled Euros 3,937 million, 53.5% more than in 2008, due primarily to the addition of UNIÓN FENOSA.

Distribution of gas and electricity in Spain and other countries accounts for 54.2% of GAS NATURAL's EBITDA. Regulated distribution of gas in Spain is the main source of EBITDA (23.5%).

Operating income

	2009	%s/total	2008	%s/total	% 2009/2008
Gas distribution:	1,097	44.8	944	52.6	16.2
Spain	665	27.2	573	31.9	16.1
Latin America	407	16.6	363	20.2	12.1
Italy	25	1.0	8	0.4	212.5
Electricity distribution:	405	16.5	–	–	–
Spain	262	10.7	–	–	–
Latin America	131	5.3	–	–	–
Moldova	12	0.5	–	–	–
Electricity:	509	20.8	331	18.5	53.8
Spain	432	17.6	262	14.6	64.9
International	77	3.1	69	3.8	11.6
Upstream & Midstream	133	5.4	136	7.6	(2.2)
Wholesale & Retail	339	13.8	438	24.4	(22.6)
Unión Fenosa Gas	52	2.1	–	–	–
Other	(87)	(3.5)	(55)	(3.1)	56.4
Total	**2,448**	**100.0**	**1,794**	**100.0**	**36.5**

Depreciation charges increased by 93.0%, while provisions rose from Euros 44 million to Euros 139 million, with the result that operating income amounted to Euros 2,448 million, a 36.5% increase year-on-year.

Net financial income

The cost of net financial debt in 2009 is Euros 799. The increase is due basically to the increase in average gross debt as a result of the debt taken on for the acquisition of UNIÓN FENOSA and of consolidating that company. Nevertheless, the interest rate on the gross interest-bearing debt declined by 224 basis points between December 2008 and December 2009 as a result of the decline in interest rates and the change in debt structure.

Gain on sales of financial instruments

The sale of the 5% stake in Enagás as a result of the commitments made to the National Competition Commission raised Euros 101 million in 2009.

Profit of entities recorded by equity method

This section includes the Euros 46 million contribution from UNIÓN FENOSA while it was equity-accounted (from 28 February 2009 to 30 April 2009). Other items primarily include results from minority stakes in Indra (until its partial sale) and in gas distribution companies in Spain (Gas Aragón). Income from holdings in associates amounted to Euros 59 million in the period.

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. On 1 September 2009, as a result of registration of the merger with Unión Fenosa, S.A. and Unión Fenosa Generación, S.A. in the Mercantile Register, the Unión Fenosa Tax Group was deregistered and the group of companies belonging to that tax group were added to the Gas Natural Group. The merger adopted the special tax-neutral regime established under Chapter VIII of Title VII of the Consolidated Text of the Corporate Income Tax Law.

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 440 million, an effective tax rate of 24.6%, compared with 24.4% in 2008. The difference with respect to the general tax rate was due to tax credits (mainly on the sale of 5% of Enagás and of various gas distribution and supply companies and assets in compliance with competition rules), different tax systems applied to companies operating outside Spain and the effect of net income from equity-accounted affiliates.

Net income from discontinued operations, net of taxes

On 9 December 2009, the company sold its stake in Colombian company Empresa de Energía del Pacífico, S.A. ESP (EPSA). In accordance with IFRS 5, since the related assets and liabilities are considered to be components of a significant business line (Electricity Generation in Colombia), the income is classified as from discontinued operations.

EPSA's income net of taxes amounted to Euros 39 million, comprising the consolidation of its operating income when it was fully consolidated (May to November 2009) and the income from its disposal.

Minority interest

The main items in this account are the minority shareholders of EMPL, the subgroup of subsidiaries in Gas Natural ESP Colombia, Gas Natural BAN, Gas Natural Mexico, CEG and CEG Rio, as well as other companies in Spain. Since 30 April 2009, this item includes the minority interests of companies acquired with UNIÓN FENOSA.

Income attributed to minority interest in 2009 amounted to Euros 195 million, Euros 80 million more than in 2008.

Investments

Investments totalled Euros 15,696 million, including the financial investment in 2009 to buy 80.5% of UNIÓN FENOSA.

The breakdown of investments by type is as follows:

	2009	2008	%
Capital expenditure	1,767	1,068	65.4
Investments in intangible assets	117	141	(17.0)
Financial investments	13,812	2,488	–
Total investments	**15,696**	**3,697**	**–**

Capital expenditure amounted to Euros 1,767 million, 65.4% more than in the same period last year as a result of including UNIÓN FENOSA's investments (basically electricity generation and distribution).

Financial investments amounting to Euros 13,813 million are due basically to the acquisition of 80.5% of UNIÓN FENOSA in 2009.

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

	2009	2008	%
Gas distribution:	501	662	(24.3)
Spain	357	461	(22.6)
Latin America	100	136	(32.5)
Italy	44	65	(26.5)
Electricity distribution:	311	–	–
Spain	225	–	–
Moldova	9	–	–
Latin America	77	–	–
Electricity:	749	353	–
Spain	587	310	89.4
International	162	43	–
Up+Midstream	139	21	–
Wholesale & Retail	18	12	50.0
UF Gas	12	–	–
Rest	37	20	85.0
Total capital expenditure	**1,767**	**1,068**	**65.4**

Investment in gas distribution totalled Euros 501 million, 24.3% less than in 2008.

GAS NATURAL allocated 33.2% of capital expenditure to the electricity business in Spain, mainly to develop the Málaga and Barcelona Port CCGT plants, the desulphurisation facilities at the Narcea and La Robla thermal power plants, adaptation of the Meirama thermal power plant, and development of wind farms.

In 2009, 20.2% of capital expenditure was allocated to gas distribution in Spain, by adding 2,119 km of gas grid in the last 12 months (a 4.4% increase), which will enable the company to sustain a rapid pace of growth in distribution connections despite the slowdown in new building.

Analysis of results by activity

The acquisition of UNIÓN FENOSA and its full consolidation in consolidated net income from 30 April 2009 gives rise to significant variations compared to last year.

Accordingly, please note the new segments of business contributed by UNIÓN FENOSA that are not comparable to last year. Moreover, the Spanish Electricity, International Electricity and Wholesale and Retail business includes in 2009 the contribution of UNIÓN FENOSA since 30 April 2009.

Gas distribution in Spain

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

The figures for 2008 included bundled-tariff supply, which was discontinued on 30 June 2008 and, therefore, is not included in the 2009 accounts.

Results

	2009	2008	%
Net sales	1,360	1,711	(20.5)
Purchases	(49)	(375)	(86.9)
Personnel costs, net	(62)	(73)	(15.1)
Other expenses/income	(322)	(377)	(14.6)
EBITDA	**927**	**886**	**4.6**
Other results	50	–	–
Charge for depreciation and amortisation	(315)	(303)	3.9
Variation in operating provisions	3	(10)	(130.0)
Operating income	**665**	**573**	**16.1**

Net sales in the gas distribution business in Spain totalled Euros 1,360 million, 20.5% less than in 2008.This was due to the discontinuation of the bundled tariff on 1 July 2008, in accordance with Law 12/2007 and Order ITC/2309/2007.

EBITDA amounted to Euros 927 million, Euros 41 million more than in 2008, despite the discontinuation of the bundled tariff business. Greater remuneration for regulated distribution in 2009 and containment of costs amply offset the loss of the EBITDA contribution from supply at the bundled tariff.

Main aggregates

The main physical aggregates in gas distribution in Spain are as follows:

	2009	2008	%
Gas activity sales (GWh):	229,585	270,073	(15.0)
Tariff gas sales:	26	14,177	(99.8)
Residential	27	13,910	(99.8)
Industrial	(1)	267	(100.4)
TPA	229,559	255,896	(10.3)
Distribution network (Km)	47,597	48,578	(2.0)
Change in distribution connections ('000)	101	161	(37.3)
Distribution connections (000) (at 31/12)	5,698	5,842	(1.9)

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 229,585 GWh in 2009, a 15.0% decrease on 2008, and includes adjustments due to discontinuation of the residential business.

Distribution and secondary transportation services for third-party access (TPA) declined by 10.3%, affected by the decline in industrial activity since 4Q08, and amounted to 229,559 GWh, of which 91,862 GWh (-22.5%) are related to services provided to third parties, and the remaining 137,697 GWh (+0.3%) to supply by GAS NATURAL, which is the main operator in the liberalised gas market.

GAS NATURAL is continuing its expansion of its distribution network, which totals 47,597 km at 31 December 2009. Excluding the effect of the divestments in Cantabria and Murcia, the total would be 50,697 km and 33 new municipalities in 2009. The number of supply points totals 5,698,000 after subtracting these divestments. Supply points have increased by 101,000 in the last twelve months, 37.3% lower than the increase in the same period last year, basically due to the decline in volume of new home construction and the effect of the divestments in Cantabria and Murcia.

GAS NATURAL has complied with the commitments to divest gas distribution assets under the plan of action approved by the National Competition Commission (CNC) in connection with the acquisition of UNIÓN FENOSA.

On 31 December 2009, it complete the sale of the low-pressure gas distribution assets in the Autonomous Regions of Cantabria (Gas Natural Cantabria, S.A.) and Murcia (Gas Natural Murcia SDG, S.A.), which represent 2,611 km of low-pressure distribution network and 256,000 distribution connections, and 3,500 GWh of gas per year; also the bulk of the high-pressure distribution networks in the Principality of Asturias, Cantabria and the Basque Country (489 km, which carry 7,500 GWh of gas per year); and the business of supplying gas, electricity and services to households and SMEs in those regions, which total approximately 210,000 gas customers, 4,000 electricity customers and 67,000 energy service contracts.

On 19 December 2009, GAS NATURAL agreed to sell 504,000 distribution connections and approximately 400,000 gas customers in the Madrid Autonomous Region. The agreement is pending approval by the competent authorities, which is expected in the first half of 2010.

On 31 December 2009, Spain's Ministry of Industry issued Order ITC/3520/2009, which established the tolls and fees for third-party access to gas installations in 2010 and updated certain aspects of the remuneration for regulated gas activities. The order maintained the system for calculating the distribution remuneration as amended the previous year, updating the remuneration for 2010 in accordance with the actual IPH index for 2008. The initial remuneration recognised for GAS NATURAL in 2010 is Euros 1,070 million (not including the corresponding to Gas Natural Murcia SDG,S.A. and Gas Natural Cantabria, S.A.).

The remuneration for secondary transportation in 2010 amounts to Euros 33 million.

Gas distribution in Latin America

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

	2009	2008	%
Net sales	1,959	2,531	(22.6)
Purchases	(1,217)	(1,814)	(32.9)
Personnel costs, net	(67)	(66)	1.5
Other expenses/income	(165)	(184)	(10.3)
EBITDA	**510**	**467**	**9.2**
Charge for depreciation and amortisation	(92)	(94)	(2.1)
Variation in operating provisions	(11)	(10)	10.0
Operating income	**407**	**363**	**12.1**

The comparison of gas distribution results in Latin America between 2009 and 2008 is affected by local currency depreciation against the euro.

Net sales amounted to Euros 1,959 million, a 22.6% decline, due to a decline in sales and to currency fluctuations.

EBITDA amounted to Euros 510 million, a 9.2% increase on 2008. Excluding the currency effect, EBITDA expanded 14.5% with respect to 2008.

Brazil and Colombia's contributions were particularly noteworthy: together they accounted for 79.4% of EBITDA.

Main aggregates

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

	2009	2008	%
Gas activity sales (GWh):	169,612	208,408	(18.6)
Tariff gas sales	107,197	144,065	(25.6)
TPA	62,415	64,343	3.0
Distribution network (km)	62,315	61,196	1.8
Change in distribution connections ('000)	169	176	(4.0)
Distribution connections (000) (at 31/12)	5,422	5,253	3.2

The main physical aggregates by country in 2009 are as follows:

	Argentina	Brazil	Colombia	México	Total
Gas activity sales (GWh)	68,047	42,660	16,076	42,829	169,612
Change vs. 2008 (%)	(5.4)	(43.8)	(3.9)	(2.3)	(18.6)
Distribution network	22,736	5,932	17,451	16,196	62,315
Change vs. 31/12/2008 (km)	376	51	399	293	1,119
Distribution connections ('000 at 31/12)	1,425	802	2,031	1,164	5,422
Change vs. 31/12/2008 ('000)	32	13	105	19	169

There were a total of 5,422 million gas distribution points at the end of 2009. High year-on-year growth rates were maintained, and the number of distribution connections increased by 169,164; notably, Colombia added 105,197 distribution connections and exceeded 2 million customers due to a faster rate of customer acquisition in Bogotá and the Atitlan Cundiboyacense area.

Sales in the gas activity in Latin America, which include both gas sales and TPA (third-party access) services, totalled 169,612 GWh, an 18.6% decrease with respect to the previous year, basically in consumption by power plants and industry.

The distribution grid expanded by 1,119 km in the last 12 months, to 62,315 km at the end of 2009 (+1.8%).

Highlights of activities in Latin America:

In Argentina, negotiations with the government on the application of the new tariff framework are continuing. In September 2009, a technical agreement was reached with ENARGAS with regard to the increase in the cost variation index for 2009; the agreement is pending approval by the Planning Ministry.

On 31 March, a new tariff framework for 2008-2012 in the Rio de Janeiro area was approved by the Brazilian government, providing an additional increase of 11.8% for CEG Rio and 11.3% for CEG.

The automotive LNG market in Colombia continues to grow: the number of service stations rose 8.9%, from 158 in 2008 to 172 in 2009. The number of vehicles refitted to burn LNG increased by 7.1%, from 110,092 in 2008 to 117,872 in 2009.

On 23 July 2009, the tariff orders for the Monterrey, Nuevo Laredo, Toluca and Saltillo concessions were approved for 2008-2012, providing an 18.5% average increase.

On 21 December 2009, the tariff for the Mexico City concession for 2009-2013 was approved, involving an average increase of 30%. On 14 January 2010, the proposed list of maximum tariffs and regulated charges was presented to a plenary meeting of the Comisión Reguladora de Energía (CRE).

Gas distribution in Italy

This area refers to gas distribution in Italy.

Results

	2009	2008	%
Net sales	183	164	11.6
Purchases	(96)	(105)	(8.6)
Personnel costs, net	(15)	(13)	1.5
Other expenses/income	(16)	(10)	60.0
EBITDA	**56**	**36**	**55.6**
Charge for depreciation and amortisation	(29)	(27)	7.4
Variation in operating provisions	(2)	(1)	100.0
Operating income	**25**	**8**	**212.5**

Gas distribution in Italy contributed Euros 56 million in EBITDA, i.e. 55.6% more than in 2008.

The increase in EBITDA was due mainly to the higher distribution remuneration under the new regulatory system for 2009-2012. Other contributing factors were the larger volume of gas sold due to weather conditions, the addition of Pitta Costruzioni, improved supply margins as a result of the new remuneration, and better procurement prices.

Main aggregates

	2009	2008	%
Gas activity sales (GWh):	3,495	2,933	19.2
Tariff gas sales	2,974	2,632	13.0
TPA	521	301	73.1
Distribution network (km)	5,645	5,521	2.2
Distribution connections ('000) (at 31/12)	414	397	4.3

On 3 July 2008, GAS NATURAL acquired gas distribution company Pitta Costruzione, which operates in the Puglia region in southern Italy. The acquired group has a license to supply natural gas to 11 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 8 regions: Molise, Abruzzo, Puglia, Calabria, Sicily, Basilicata, Campania and Lazio.

After adding 23,033 new distribution points in 2009, GAS NATURAL has 414,125 natural gas distribution points in Italy, thus attaining one of its first commercial goals.

A total of 3,495 GWh of gas were distributed in Italy, i.e. 19.2% more than in 2008, due basically to weather conditions and the inclusion of Pitta (+131 GWh), all of which was distributed to third parties.

Electricity distribution in Spain

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

The bundled electricity tariff was abolished on 1 July 2009 and the "last-resort" supply companies were designated; as a result, the distribution business ceased selling electricity on that date.

Results

	2009	2008	%
Net sales	523	–	–
Purchases	–	–	–
Personnel costs, net	(71)	–	–
Other expenses/income	(67)	–	–
EBITDA	**385**	**–**	**–**
Charge for depreciation and amortisation	(118)	–	–
Variation in operating provisions	(5)	–	–
Operating income	**262**	**–**	**–**

The regulated electricity distribution business includes the revenue recognised from the business (bundled tariff for transport, distribution and commercialisation). The regulated income for 2009 is provisional, as per ITC 3519/2009 and insofar as it is not updated using more accurate data, the benchmark network model and other parameters of activity for setting thee revenues. The other regulated income related to customer network services (connection and hook up rights, rental of metering equipment and others) is in line with last year in spite of the slow down in the economy.

Main aggregates

	2009	2008	%
Electric activity sales (GWh):	21,435	–	–
Tariff electricity sales	2,037	–	–
TPA	19,398	–	–
Distribution connections (000) (at 31/12)	3,698	–	–
ICEIT (minutes)	59	–	–

At the end of 2009, the Company's distribution network in Spain totals 3,698 supply points.

The demand for energy in the network-related markets is behaving in similar fashion to the domestic context with a decrease in consumption, highlighting the correlation between electricity consumption and economic activity.

As from 1 July 2009 the bundled tariff disappeared and all distributors' customers are now customers of the commercialisers of last resort or of the deregulated sellers. The decrease in the energy supplied by a percentage higher than demand is due to the gap between consumption and invoicing and the treatment of energy consumed but not yet invoiced.

The service quality indicator, Equivalent Interruption Time and Installed Power, is one of the best in the industry (ICEIT), and in the period from May to December it totalled 59 minutes.

We should point out that, except for the Klaus effect, the climate for 2009 has been very favourable and it is expected that this indicator, under normal conditions, is very close to the 70 or 80 minutes range. In any case, GAS NATURAL is permanently concerned with this indicator, and thus, it assigned the respective resources to develop and improve facilities and to facility operations and maintenance.

The demand for energy in the markets related to distribution has been very similar to that recorded domestically, with a decrease in consumption in terms of demand.

Order ITC/3519/2009 revised the remuneration of electricity distribution in 2009 and stipulated the remuneration for 2010. This Order stipulates that the values calculated are provisional while the validation and certification of the benchmark reference model used preliminarily by the National Energy Commission (CNE) is being carried out. Specifically, the initial remuneration recognised for GAS NATURAL for 2010 totals Euros 697 million for distribution and Euros 48 million for transport. The above-mentioned Order has an additional provision (10) establishing the mandate of the CNE so that together with the electricity distribution companies it can carry out this process of verification and validation, which, thereafter, must be reported to the Ministry of Industry, Tourism and Trade. GAS NATURAL believes that this verification and validation process will permit an increase in the provisional remuneration initially established.

Electricity distribution in Latin America

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

Results

	2009	2008	%
Net sales	1,238	–	–
Purchases	(861)	–	–
Personnel costs, net	(31)	–	–
Other expenses/income	(104)	–	–
EBITDA	**242**	**–**	**–**
Charge for depreciation and amortisation	(44)	–	–
Variation in operating provisions	(67)	–	–
Operating income	**131**	**–**	**–**

The EBITDA for the Electricity Distribution business in Latin America is 6.1% of the EBITDA of GAS NATURAL.

The EBITDA of the distributors in Latin American includes Colombia (Euros 132 million), Panama (48 million), Nicaragua (30 million) and Guatemala (32 million).

Main aggregates

	2009	2008	%
Electric activity sales (GWh):	12,054	–	–
Tariff electricity sales	11,314	–	–
TPA	740	–	–
Distribution connections (000) (at 31/12)	4,158	–	–

Electricity sales total 12,054 GWh and has more than 4,100,000 customers.

The main physical aggregates by country in 2009 are as follows:

	Colombia	Guatemala	Nicaragua	Panama	Total
Electric activity sales (GWh)	6,966	1,229	1,562	2,297	12,054
Distribution connections ('000)	1,613	1,372	720	454	4,158
Network loss index (%)	11.7	17.1	22.0	9.8	–

The demand for energy in Latin America is in line with the same period last year. The basic business operating indicators, related to energy management, energy leakage index and collection indices are in line with the targets set in the actions plans.

Of special note is Colombia, where GAS NATURAL supplied 6,966 GWh, with energy leakage in the distribution network of approximately 11.7%

The basic operating indicators for the business, relating to the management of energy, leakage index and collection indices are relatively at last year's ranges and in line with the targets set and the actions plans established.

Electricity distribution in Moldova

The business in Moldova consists of regulated distribution of electricity and the supply of electricity at the bundled tariff in the capital city and the central and southern regions.

Results

	2009	2008	%
Net sales	109	–	–
Purchases	(82)	–	–
Personnel costs, net	(5)	–	–
Other expenses/income	(6)	–	–
EBITDA	**16**	**–**	**–**
Charge for depreciation and amortisation	(5)	–	–
Variation in operating provisions	1	–	–
Operating income	**12**	**–**	**–**

The EBITDA of the electricity business represents 0.4% of the EBITDA of GAS NATURAL.

The tariff revision and the cost of acquisition of energy, which bears on the remuneration of the investments and operations of GAS NATURAL, has improved considerably on last year.

Main aggregates

	2009	2008	%
Electric activity sales (GWh):	1,484	–	–
Tariff electricity sales:	1,484	–	–
TPA	–	–	–
Distribution connections (000) (at 31/12)	807	–	–
Network loss index (%)	14	–	–

The distribution of electricity in Moldova has registered growth that covers 70% of the population.

The demand for electricity in Moldova has grown somewhat over 1% and the customer base has increased by 1.6%.

The improvement in the energy control operating processes and investments and operations and maintenance in Moldova have enhanced the energy leakage index in the distribution networks, which is now at 14.0%, against 15.4% on the same date last year, which has contributed to improving the energy purchase-sale margin.

Electricity Spain

This area includes power generation in Spain, wholesale electricity trading, and the wholesale and retail supply of electricity in the liberalised market in Spain.

Results

	2009	2008	%
Net sales	3,394	1,898	78.8
Purchases	(2,235)	(1,378)	62.2
Personnel costs, net	(86)	(4)	–
Other expenses/income	(267)	(150)	78.0
EBITDA	**806**	**366**	**120.2**
Charge for depreciation and amortisation	(360)	(98)	–
Variation in operating provisions	(14)	(6)	–
Operating income	**432**	**262**	**64.9**

Net turnover from the electricity business in 2009 totalled Euros 3,394 million, 78.8% over last year, due basically to the addition of UNIÓN FENOSA in spite of the decrease in electricity prices and a decrease in production.

In terms of EBITDA, 2009 results total Euros 806 million, 120.2% greater than last year due to the reasons mentioned above. Of special note is the fall both in production and Spanish wholesale market prices. The energy sold and contracted in the forward markets and the gas supply contracts with pool indexed prices, provide the Group in annual terms a degree of coverage of its exposure to the risk from variation in pool prices of 90%.

Domestically, electricity demand in the peninsula has slumped as a result of the recession, of special note being the decrease in industrial activity. Peninsular demand in 2009 (251,509 GWh) has been 4.5% less than 2008 demand. After adjusted for labour and temperature, the fall in real demand is 4.3%. Additionally the fact that the net export balance of electricity to other surrounding countries has fallen by 26.5% represents a decrease in net electricity generation in Spain of 5.3%.

The maximum power peak in 2009 was recorded at 8:00 pm on 13 January and totalled 44,440 MW on average per hour, 436 MW lower than the maximum record in December 2007.

This decrease in domestic demand in combination with the increase in the generation under the Special Regime, which in 2009 has increased by 20.4% against the same period last year, contributing more than 30% to the coverage of demand, has led to a decrease in generation under the Ordinary Regime by 13.3%.

All the technologies under the Ordinary Regime have had declines in their production in 2009 against last year, except for the hydro-electric power, which has increased by 11.5% as a result of the greater precipitation, particularly significant at the year end. The productivity recorded in 2009 has a probability of 73% of being exceeded in relation to the historical average productivity, i.e., statistically 73 years out of every 100 years will have more precipitation than 2009, which was the case in the same period last year.

Nuclear energy has fallen by 10.6%, due to the overhauls that were carried out last year, impacting to a greater degree than in 2008. The other thermal energy technologies have been the ones mainly affected, and, among these, coal has been especially affected and has decreased by 26.9% in terms of production against last year.

Production at combined cycle plants has decreased by 14.2%, in spite of which their contribution to domestic generation is 28.6% against 31.6% in 2008. If we take as a benchmark the power generated under the Ordinary Regime, combined cycle production in 2009 represents 41.1%, similar to last year's figure. This effect of decrease in domestic electricity demand, and, in particular, of combined cycle and coal-fired power (which are the technologies that normally determine the pool price), has led to a fall in electricity market prices that has been broadened by a more than considerable decrease in the international markets for energy raw materials, which, in 2009, has seen their prices fall by around 45%.

Accordingly, the Brent has gone from an average of 97.3 $/bbl in 2008 to 61.7 $/bbl on average in 2009 (36.6% decrease). The API 2, the main indicator of the cost of coal in Europe, has fallen by 52.2%, from a yearly average of 147.8 $/t in 2008 to 70.7 $/t in 2009. Finally, CO_2 has not been isolated from these movements, and its price (EUAs in Bluenext) as fallen from an average of 22.3 €/t in 2008 to 13.1 €/t on average in 2009 (- 41.3%). Accordingly, the average weighted price on the daily market for 2009 has been 38.0 €/MWh, 42.0% below last year (65.5 €/MWh).

Main aggregates

The key figures of GAS NATURAL's electricity activities in Spain are as follows:

	2009	2008	%
Installed capacity (MW):	13,410	4,094	227.6
Hydroelectric	1,860	–	–
Nuclear	589	–	–
Coal	2,048	–	–
Oil/gas	617	–	–
CCGT	7,322	3,703	97.7
Renewables	974	391	149.1
Electricity generated (GWh):	28,728	18,249	57.4
Hydroelectric	1,849	–	–
Nuclear	2,908	–	–
Coal	741	–	–
Oil/gas	4	–	–
CCGT	21,192	17,344	22.2
Renewables	2,034	905	124.8
Coal sales (Kt)	1,708	–	–

Electricity production on the peninsula of GAS NATURAL totalled 28.728 GWh, 57.4% higher than in 2008. Of this figure, 26,694 GWh relates to generation under the Ordinary Regime, an increase of 35.0%. Generation under the Special Regime, which totalled 2,034 GWh, has increased by 124.8%.

Hydro-electric production during the year totalled 1,849 GWh as a result of the weather conditions in 2009, a year that can be qualified as dry (practically an average year thanks to the precipitation in the last few weeks), from a hydrological point of view, with a PSS of 69% (probability that the productivity recorded will be exceeded, in relation to the historical average productivity), notably more positive than last year's PSS (91%) 688 GWh. The reservoir levels of GAS NATURAL are at 43%; 16 percentage points below the end of 2008 (27%).

Nuclear production totals 2,908 GWh.

With regards to thermal energy, due to the slump in demand and the growth of the Special Regime, there has been a reduction in coal production. The generation of combined cycle electricity totals 21,192 GWh during the year, 22.2% greater than last year due to the contribution of the combined cycle plants of UNIÓN FENOSA.

The accumulated share at 31 December 2009 of GAS NATURAL of electricity generation under the Ordinary Regime is 20.1%.

At 31 December 2009 GAS NATURAL has start up 131 MW under the Special Regime (with a 50% interest in Eufer), of which 92 MW relate to wind farms, 24 MW to mini-hydro-electric stations and 15 MW to co-generation plants.

The commercialisation of electricity includes sales in the deregulated market, the commercialisation of last resort and the bundled tariff supply. The sales in the deregulated market represent a share of 16.6% while commercialisation of last resort, in force since 1 July 2009, totals 6,452 GWh. Bundled tariff totals 9,857.

The Group has continued to roll out the commercialisation in the electricity markets.

Additionally, Spanish-French, French-Germany and German-Austrian cross-border trading has involved participation in the monthly and daily auctions of interconnection capacity, which is managed in the different markets in those countries. There has also been a continuation of participation in the Virtual Power Plants (VPPs) in France as another flexible energy purchasing market in France.

The operations of GAS NATURAL in the French, German and Austrian markets constitute an additional step as part of the goal of energy expansion of wholesale commercialisation and trading of GAS NATURAL towards other European markets in order to best optimise its electricity position through a more diversified portfolio of countries and products.

On the other hand, in terms of CO_2 emissions trade in 2009, various EUS and CER credit rights transactions have been arranged both in official markets (BLUENEXT, ECX), and with various counter-parties.

Additionally, GAS NATURAL has integrated management of its emission rights and credit for hedging.

Through these activities in forward contracting markets GAS NATURAL undertakes active management of its positions and optimises its margins while reducing exposure to risk.

Electricity International

Relates to electricity production in Latin America (Colombia, Puerto Rico, Mexico, Dominican Republic and Costa Rica).

The assets acquired in Mexico 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; the Hermosillo (270 MW) and Naco Nogales (300 MW) plants in the state of Sonora; the Tuxpan III and IV plants (1,000 MW) in the state of Veracruz; and the Saltillo (248 MW) power plant in Coahuila state, also in north-western Mexico.

On 9 December 2009 Empresa de Energía de Pacífico S.A. ESP. (EPSA) was sold. All the economic aggregates have been reclassified as discontinued activities and do not include this information.

On 17 October 2009, GAS NATURAL signed a draft agreement with Colener, S.A.S., Inversiones Argos S.A. and Banca de Inversión Bancolombia S.A.- Corporación Financiera for the sale of its indirect stake in Colombian company Empresa de Energía de Pacífico S.A. ESP.

On 24 December 2009, GAS NATURAL reached an agreement with Mitsui & Co., Ltd. and Tokyo Gas Co., Ltd. to divest part of its power generation business in Mexico. This deal is part of the company's divestment plan, which will enable it to obtain more balanced exposure in Mexico and divest 2,333 MW of installed capacity. The deal is pending approval by the Mexican authorities and is expected to take place in the first half of 2010.

The plants included in the agreement are: Central Anahuac, S.A. de C.V., Central Lomas del Real, S.A. de C.V., Central de Valle Hermoso, S.A. C.V., Electricidad Águila de Altamira, S. de R.L., Central de Saltillo, S.A. de C.V., Gasoducto del Río, S.A. de C.V. and Compañía Mexicana de Gerencia y Operación, S.A. de C.V. This means 2,233 MW of installed capacity.

Results

	2009	2008	%
Net sales	970	820	18.3
Purchases	(633)	(626)	1.1
Personnel costs, net	(15)	(10)	50.0
Other expenses/income	(76)	(34)	123.5
EBITDA	**246**	**150**	**64.0**
Charge for depreciation and amortisation	(168)	(81)	107.4
Variation in operating provisions	(1)	–	100.0
Operating income	**77**	**69**	**11.5**

Main aggregates

The main aggregates are as follows:

	2009	2008	%
Installed capacity (MW):	4,451	2,487	92.2
Puerto Rico (CCGT)	254	254	–
Mexico (CCGT)	3,803	2,233	70.3
Costa Rica (hydroelectric)	51	–	–
Panamá (hydroelectric and thermal)	33	–	–
Republica Dominicana (oil - fired)	198	–	–
Kenia (oil - fired)	112	–	–
Installed capacity (MW):	25,397	13,294	91.0
Puerto Rico (CCGT)	1,717	1,866	(8.0)
Mexico (CCGT)	20,921	11,428	83.1
Colombia (hydroelectric)	1,373	–	–
Costa Rica (hydroelectric)	199	–	–
Panamá (hydroelectric and thermal)	61	–	–
Republica Dominicana (oil - fired)	772	–	–
Kenia (oil - fired)	354	–	–

In 2009 the energy generated in Mexico has totalled 20,921 GWh, 83.1% higher than the same period last year due to the contribution of the UNIÓN FENOSA power plants and a baseload of 74.9%, 8.9% higher due to the increased delivery to the Comisión Federal de Electricidad (CFE) as a result of the gas competition in the area.

Availability, which is the determining factor of the income from combined cycle plants in Mexico, has been 91.8%, an increase of 0.83 percentage points against last year. The yield of the plants has increased as a whole by 0.6%.

The construction of the Norte combined cycle plant in Durango has continued, with a degree of progress of the project of 97.4%, in line with the scheduled program. This 450MW plant was adjudicated on 6 March 2007 and is expected to begin sales in the first quarter of 2010.

The energy generated in the other countries during the year has totalled 4,476 GWh. The production at the Puerto Rico plant has decreased by 8% due to the lower accumulated baseload during the year, 77.3% against 83.8% in the same period of the previous year, since the price of gas was no longer competitive in the first half of the year. In the Dominican Republic, Kenya, Costa Rica and Panama production has increased.

This is due to the completion of the expansion project of the 58 MW installed capacity plant in Kenya, which began operating commercially in the third quarter of 2009, 52 MW relating to seven fuel oil motors that have increased production and the coming on line for commercial operations of the hydro-electric plant in Algarrobos in Panama in the second half of 2009.

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

	2009	2008	%
Net sales	276	284	(2.8)
Purchases	(37)	(46)	(19.6)
Personnel costs, net	(7)	(5)	40.0
Other expenses/income	(51)	(48)	6.3
EBITDA	**181**	**185**	**(2.2)**
Charge for depreciation and amortisation	(48)	(49)	(2.0)
Variation in operating provisions	–	–	–
Operating income	**133**	**136**	**(2.2)**

Net sales in the Upstream&Midstream business totalled Euros 276 million, a 2.8% decline.

EBITDA amounted to Euros 181 million in 2009, 2.2% lower than in 2008. Despite higher utilisation of the gas carrier fleet in 2009, the lower gas volume shipped and greater exploration costs contributed to the decline.

Gas exploration and production operations are booked using the "successful efforts" method, under which costs prior to drilling are expensed as they are incurred and the costs of the drilling phase are capitalised provisionally as construction in progress until such time as it is determined whether there are proven reserves to justify commercial development.

Main aggregates

The main aggregates in international gas transportation are as follows:

	2009	2008	%
Gas transportation-EMPL (GWh):	109,230	133,497	(18.2)
Portugal-Morocco	28,705	34,926	(17.8)
GAS NATURAL	80,525	98,571	(18.3)

The gas transportation activity conducted in Morocco through companies EMPL and Metragaz represented a total volume of 109,230 GW, an 18.2% decline. Of that figure, 80,525 GWh were transported for GAS NATURAL through Sagane and 28,705 GWh for Portugal and Morocco. Lower energy demand in the Iberian Peninsula and optimisation of GAS NATURAL's supply/demand balance led to a lower volume of gas being shipped and, consequently, lower utilisation of the Maghreb-Europe pipeline.

On 27 March 2009, an auction of underground storage capacity was held in Spain for the period 1 April 2009 to 31 March 2010, for a total of 4,257 GWh. The auction, organised by OMEL (the electricity market operator) under the supervision of the CNE (Spain's National Energy Commission), was conducted via an ascending clock auction method, closing at a price of Euros 1,767/GWh. GAS NATURAL was awarded 37% of the capacity auctioned (1,586 GWh), in line with its projections.

A third exploratory well was completed in the Gassi Chergui (Algeria) concession which yielded negative results, thereby concluding exploration activities there. A well was completed in the Tangier-Larache (Morocco) concession, in which GAS NATURAL has a 24% stake, with positive results. Exploration efforts are expected to continue throughout 2010.

GAS NATURAL is also participating with Repsol in an off-shore well in the Montanazo concession (off Tarragona, on Spain's Mediterranean coast), where drilling concluded at the end of May 2009 with positive results; acquisition of equipment and paperwork for project development are under way. Geological prospection and data acquisition work is also continuing in connection with the hydrocarbon prospection permit in Villaviciosa (Asturias), which GAS NATURAL owns 90%, and a seismic survey is planned for 2010.

In the fourth quarter of 2009, the company opened a public information process for 3 of the 5 exploration, production and storage projects planned for the coming years in the Guadalquivir Valley. GAS NATURAL will also commence exploration activities in two areas (Palencia-Cantabria and Catalonia) once it receives the corresponding permits.

GAS NATURAL and Repsol, in consortium with other companies, signed a partnership agreement in 2008 to develop an integrated gas project in Angola in which they will initially assess available gas reserves and subsequently undertake the necessary investments to develop them as LNG. The company Gas Natural West Africa (60% Repsol, 40% GAS NATURAL) was created to manage the project. The Angola government granted a Concession Decree in March 2009 which provides the legal framework for developing the project. Seismic exploration work is currently under way and will continue throughout 2010. The first exploratory well (Garoupa-2) is planned for 2010.

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 obtained a positive report from the Ministry of Cultural Assets and Activities (MIBAC) in January 2009 and the Environmental Approval Decree in July 2009, culminating the permit process at national level. The process of obtaining permits for the Taranto project, as required under Italian legislation, is continuing.

GAS NATURAL expects to complete the Trieste permit process and obtain authorisation to build the plant at the end of 2010.

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. The Trieste terminal is expected to be in service in 2013. These plants will enable the company to diversify its sources of natural gas supply in Italy and provide continuity in this energy supply, which is one of the objectives of the Italian government's energy policy.

GAS NATURAL and Gazprom signed a Memorandum of Understanding (MOU) under which they undertake to reach LNG sale agreements in the coming years and to cooperate in other areas, such as the emissions market and power generation. Under the MOU, GAS NATURAL and Gazprom will negotiate medium- and long-term LNG sale agreements. Both companies will also explore commercial agreements to develop their gas businesses in north-western Europe.

The arbitral award on the termination of the Gassi Touil integrated contract was handed down in the fourth quarter. The arbitral tribunal declared the aforementioned contract to be terminated, in accordance with its clauses, and that neither party had to compensate the other as a result of the termination. The award also required Sonatrach to acquire GAS NATURAL and Repsol's stake in the joint company responsible for liquefaction in the Gassi Touil project for the value of its cash.

Wholesale and retail

This area includes gas procurement and supply in Spain and other countries, and the supply in Spain of products and services related to supply.

Results

	2009	2008	%
Net sales	6,935	8,220	(15.6)
Purchases	(6,126)	(7,433)	(17.6)
Personnel costs, net	(62)	(64)	(3.1)
Other expenses/income	(351)	(258)	36.0
EBITDA	**396**	**465**	**(14.8)**
Charge for depreciation and amortisation	(11)	(8)	37.5
Variation in operating provisions	(46)	(19)	142.1
Operating income	**339**	**438**	**(22.6)**

Net sales amounted to Euros 6,935 million, i.e. 15.6% less than in 2008. EBITDA in 2009 totalled Euros 396 million, down 14.8% with respect to 2008, due primarily to the smaller volume of gas sold and to the different sales mix in the fourth quarter of 2009.

Diversification of the portfolio of commodities and combined management of the commodity and dollar risks mitigated the decline in EBITDA in a context of significant volatility in the energy and currency markets.

Main aggregates

The main aggregates in the gas procurement and supply activity are as follows:

	2009	2008	%
Gas supply (GWh):	286,152	328,741	(13.0)
Spain:	234,230	275,398	(14.9)
Regulated market	–	17,383	–
Liberalised market:	234,230	258,015	(9.2)
GAS NATURAL (1)	182,299	225,800	(19.3)
Supply to third parties	51,931	32,215	61.2
International:	51,922	53,343	(2.7)
France	15,627	7,397	–
Other	36,295	45,946	(21.0)
Multiutility contracts (at 31/12)	2,125,270	2,119,631	0.3
Contracts per customer (at 31/12)	1.39	1.39	–

(1) Does not include exchanges with other energy companies.

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. This business amounted to 17,383 GWh in 2008.

GAS NATURAL supplied 182,299 GWh in the liberalised market, a 19.3% decline on 2008 as a result of lower gas consumption for power generation by CCGT plants (caused by lower electricity demand and lower pool prices) and of the decline in economic activity. GAS NATURAL sold 51,931 GWh of gas for supply to the liberalised market by other supply companies (a 61.2% increase).

In view of the decline in consumption by industrial end customers, GAS NATURAL is participating actively in other businesses in order to diversify demand:

As a result, it bid successfully in the auction to sell 714 GWh of natural gas to REN Armazenagem in order to fill the new salt dome in Carrizo, Portugal.

And in the June 2009 auction for the last resort tariff (TUR) in Spain, GAS NATURAL was awarded 20 blocks of baseload gas, equivalent to 720 GWh, as well as 40 blocks of winter gas, equivalent to 1,100 GWh (i.e. a total of 1,820 GWh). This represents roughly one third of the total auctioned.

Through its Portuguese subsidiary, GAS NATURAL is the leading independent natural gas company in Portugal (it has been operating as a gas supplier in Portugal since 1Q08), with sales of 2,200 GWh in 2009. To obtain those sales, GAS NATURAL signed supply contracts with REN, Portugal's grid operator, and with EDP and Galp, the leading distribution groups.

With a view to guaranteeing gas exports from Spain to Portugal, GAS NATURAL is using the gas grid connections in Campomaior (southeast) and Valença do Minho (north).

GAS NATURAL also participated actively in the process headed by the ERGEG group to develop infrastructure to greatly increase interconnection capacity between Spain and France. The initiative is a success since demand exceeded the capacity on offer.

GAS NATURAL consolidated its presence in the international market by entering new markets. In gas trading, GAS NATURAL was the first Spanish company to form part of the Zeebrugge gas hub in Belgium and, consequently, it has capacity to operate in that country by buying and selling gas in the Belgian wholesale market through new agreements that enable it to trade in that market and to supply gas to the industrial and domestic market in the future.

GAS NATURAL continues to take steps to develop energy options for vehicles in Spain, in both the public and private sectors. GAS NATURAL is an expert in automotive LNG, a business which 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.

GAS NATURAL has made significant progress in its plan to expand the automotive LNG market in Spain:

- The company has installed 5 new supply stations, including 3 in Barcelona with the municipal waste management companies Cepsa, CLD and Urbaser.

- GAS NATURAL has been awarded the contract to build and operate the new bus depot for the Madrid municipal bus company (EMT), with a capacity for over 400 buses. This will be the largest facility of its kind in Europe and one of the largest in the world.

GAS NATURAL is also working on the electric car business model in cooperation with various levels of government and the support of several central government programmes to promote this alternative means of transport.

GAS NATURAL continues to actively develop the value-added energy solutions and services business for residential, tertiary and industrial markets. It is working actively to develop the energy efficiency market in line with policies to promote energy efficiency and saving. In this context, the company bid in the first central government tender to outsource energy services in a public building, specifically the Cuzco complex in Madrid, which houses the Ministry of Industry, Tourism and Trade and the Ministry of Economy and Finance. GAS NATURAL is one of the three short-listed bidder which now go to the competitive negotiation phase.

GAS NATURAL has a total of 1,420,000 contracts to maintain facilities and gas appliances (SERVIGAS) for residential customers based on its own operating platform consisting of over 160 associated firms and connected via an online system, which has enabled it to improve service performance and quality (rated by our customers as our top service).

GAS NATURAL increased the number of multi-product contracts with its customers by 0.3% to 2,125,270, boosting the number of contracts per customer to 1.39 at 31 December 2009.

Unión Fenosa Gas

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

Results

GAS NATURAL has a 50% stake in Unión Fenosa Gas and it consolidates according to proportional consolidation

	2009	2008	%
Net sales	348	–	–
Purchases	(208)	–	–
Personnel costs, net	(8)	–	–
Other expenses/income	(10)	–	–
EBITDA	**122**	**–**	**–**
Charge for depreciation and amortisation	(70)	–	–
Variation in operating provisions	–	–	–
Operating income	**52**	**–**	**–**

The EBITDA of Unión Fenosa Gas represents 3.1% of the EBITDA of GAS NATURAL.

Main aggregates

The main facilities of the gas business, (liquefaction, sea transport and regasification) have maintained their availability operating parameters and efficiency parameters according to the forecast values.

	2009	2008	%
Gas commercialisation in Spain (GWh)	34,854	–	–
International gas commercialisation (GWh)	10,785	–	–
Liquefaction (GWh)	31,385	–	–
Group	18,266	–	–
Other operators	13,119	–	–
Regasification (GWh)	53,735	–	–
Group	26,721	–	–
Other operators	27,014	–	–

The Damietta (Egypt) liquefaction plant has maintained a high degree of production, totalling 31,385 GWh, supplying vessels for Unión Fenosa Gas and other operators.

The Sagunto regasification plant has generated 53,735 GWh, for the unloading of vessels for Unión Fenosa Gas and other operators.

The Sagunto regasification plant continues to work on the construction of the fourth tank, which was approved by the Ministry of Industry, Tourism and Trade in July 2009. This second expansion of the plant also includes a sixth atomiser.

2. Risk factors related to the activity of GAS NATURAL

a) Uncertainty of the macro-economic environment

In the last few months the international economy and financial system have gone through a period of considerable turbulence and uncertainty, especially in the financial markets, which began in August 2007 and which has deteriorated substantially since September 2008. This uncertainty has severely impacted the general levels of liquidity and credit available, as well as the terms and conditions for the same, which has contributed to an increase in the financial burden of homes and industrial customers of GAS NATURAL, thus reducing their purchasing power and affecting demand adversely.

GAS NATURAL cannot predict the trend in the economic cycle in the next few years nor whether there the current recession in the international economic cycle will take a turn for the worse.

b) GAS NATURAL may not be successful in the roll out of its business strategy.

Given the risks to which it is exposed and the uncertainties inherent in its business, GAS NATURAL cannot ensure that it will be able to successfully implement its business strategy. The scope of and compliance with its strategic objectives are subject, amongst others risk factors, to:

- the lack of an increase in the number of supply points in Europe and Latin America, due to the fact that GAS NATURAL cannot expand the distribution network;
- a failure to increase in the number of customers due to the lack of success of the marketing campaigns for deregulated market consumers;
- the enabling of take or pay clauses in supply contracts, which would involve the obligation to pay for a volume of gas exceeding the needs of GAS NATURAL;
- the lack of success in the consolidation of the electricity production business in Spain conditioned by subsidised technology incentives
- the incapacity to consolidate the multi-service business strategy or to increase the number of multi-product contracts per customer.

c) Regulatory risk

GAS NATURAL and its subsidiaries are obligated to comply with the legislation in the natural gas and electricity sectors. Especially, the gas and electricity distribution business is regulated in most of the countries in which GAS NATURAL carries out this business.

The applicable legislation to the natural gas and electricity sectors in the countries in which the Gas Natural Group operates is typically subject to periodical revision by the competent authorities. The introduction of modifications could impact the remuneration of the regulated activity, adversely affecting the business, profits, grants and the financial position of GAS NATURAL.

In the event that public or private entities interpret or apply criteria other than those of GAS NATURAL, its compliance would be questioned or challenged, and, if any non-compliance were proven, this could adversely affect the business, outlook, profits, grants and financial position of GAS NATURAL.

Level of competitiveness in the commercialisation in the gas and electricity markets.

GAS NATURAL operates in a stiffly competitive environment in relation to its positioning in the gas and electricity markets in the different countries in which it is present. In particular, the processes of energy market deregulation both in Spain and in major markets has negatively impacted the energy price levels and the market share of end customer sales, especially in the gas market. A new loss of market share could adversely and significantly affect the turnover of GAS NATURAL.

Divestments

The National Anti-Trust Commission (CNC, Spanish acronym), by virtue of a resolution of its Board dated 11 February 2009, notified GAS NATURAL on the following day that it had decided to subordinate the approval of the takeover of control of UNIÓN FENOSA by GAS NATURAL to compliance by the latter to certain commitments agreed by GAS NATURAL. For its part, the Second Vice-President of the Government and Minister of the Economy and the Treasury decided on 17 February 2009 not to refer the issue of this business concentration to the Council of Ministerst, and notified GAS NATURAL and the CNC of that decision on that date. Amongst the aforementioned commitments are:

- divestment of the following assets:

  (i) 600,000 natural gas distribution points;

  (ii) the customer portfolio of GAS NATURAL for these distribution points (approximately 600,000);

  (iii) 2,000 MW electricity generation capacity through combined cycle technology; and

  (iv) the shareholding of GAS NATURAL in Enagás S.A.

- GAS NATURAL must comply with certain confidential commitments in relation to Unión Fenosa Gas Comercializadora, S.A., in order to keep this company independent in relation to third party gas supply in Spain;

- GAS NATURAL undertook to remove from office, within a period of one month as from the acquisition of effective control of UNIÓN FENOSA, the Board Member appointed by the latter to the Board of Directors of Compañía Española de Petróleos, S.A. ("CEPSA").

  Additionally, as long as Repsol has a shareholding in GAS NATURAL above 15%, GAS NATURAL undertakes to:

  (i) not make use of its power to appoint Board Members to the Board of Directors of CEPSA;

  (ii) not request confidential commercial or industrial information of CEPSA as its shareholder;

  (iii) guarantee through the shareholding in Nueva Generadora del Sur, S.A. that Repsol YPF will not have access to confidential commercial information on the petro-chemical complex of CEPSA in San Roque.

  The sale of the assets required is subject to the review by the CNC, and the commitments in relation to the CNC can be appealed by GAS NATURAL competitors and by other third parties with legitimate interests. In the event of non-compliance by GAS NATURAL, or the sale of assets under unfavourable terms, there could be adverse material effects on its business, outlook, financial position and results. Given that the gross amounts that are obtained from any sale will depend on the market conditions, the competition for the assets amongst the buyers and other actors, many of which are beyond the control of GAS NATURAL, the latter cannot ensure the amount for any sale nor even that the sales will attain the market value estimated by GAS NATURAL for these assets.

d) Operational risk

GAS NATURAL activities are exposed to different operational risks, such as breakdowns in the distribution network, electricity generation facilities and the gas tankers, explosions, polluting emissions, toxic spills, fire, adverse meteorological conditions, contractual breaches, sabotage or accidents affecting the gas distribution network or electricity generation assets, as well as defects and force majeure that could result in personal and/or material damages, impairment of facilities or property of GAS NATURAL or their destruction. Events such as these, or the like, are unpredictable and can cause interruptions in the supply of gas and the production of electricity. In situations of this type, in spite of the existence of the pertinent coverage through risk insurance policies, insurance on potential loss of profit and damages, the financial position and results of GAS NATURAL may be affected to the extent that these losses are not insured, or coverage is insufficient, or economic losses are generated as a result of the limitation of coverage or deductibles borne, as well as for potential increases of the prices of the premiums paid in the insurance market.

We should also mention that GAS NATURAL could be subject to civil liability claims for personal and/or other damages caused during the ordinary course of its business. The filing of these claims could lead to the payment of indemnities under applicable legislation in those countries in which GAS NATURAL operates, which could give rise, to the extent that these civil liability insurance policies do not cover the indemnities, to an adverse material effect on the business, outlook, financial position and results.

e) Risks related to litigation and arbitration

In the sector in which the Gas Natural Group operates there has been in the last few years a trend to greater litigation, as a result of the volatility of oil prices and the increased competition in the deregulated market, amongst other factors. At this time GAS NATURAL and its subsidiaries are parties to various legal proceedings, arbitration and regulatory actions. The adverse results of one or more of these proceedings (including any out-of-court settlements) could have an adverse material effect on the business, results and financial situation of GAS NATURAL.

GAS NATURAL is exposed to variations in crude oil, natural gas and electricity prices.

A major part of the operating expenses of GAS NATURAL is linked to the purchase of natural gas and liquefied natural gas (LNG) for commercialisation on the deregulated market and to supply regulated markets. Likewise, its combined cycle plants use natural gas as fuel.

Although the prices that GAS NATURAL applies to the sale of gas to its customers corresponds generally to market prices, in very volatile environments, the fluctuations in sale prices may not reflect the proportional fluctuations in the cost of raw materials. In addition to the costs related to the gas business, the rises in the prices of natural gas could lead to an increase in the costs of electricity production, given that the combined cycle plants of GAS NATURAL use natural gas as fuel.

The GAS NATURAL business includes, amongst other activities, the wholesale commercialisation of natural gas to electricity generators and other customers. With respect to these operations, the income and results of GAS NATURAL usually depend to a great extent on the market prices in the regional markets in which it operates and in other competitive markets. As a result, the wholesale commercialisation of natural gas is exposed to the risk of fluctuation in raw material prices and the price of electricity.

The variation in the price of raw materials could adversely affect the results of GAS NATURAL to the extent that (in the case of increases in raw material prices) the increase in the costs of generation and operations cannot be passed on to the gas and electricity consumers, or if (in the case of decreases in the price of raw materials) a decrease in the prices to the suppliers of GAS NATURAL cannot be negotiated, or counteracted in any other way through hedges or other risk management measures.

f) Gas volume risk

Most of the purchase of natural gas and liquefied natural gas (LNG) are made through long-term contracts that include clauses under which GAS NATURAL has the obligation to make annual purchases for certain volumes of gas (known as "take or pay" clauses). Under these contracts, in spite of the fact that GAS NATURAL does not need to acquire the gas volume agreed at a specific time, it will be contractually obligated to pay the minimum amount agreed under these "take-or-pay" clauses.

The aforementioned contracts contain certain gas volumes that relate to the estimated needs of GAS NATURAL. However, the real needs may be lower than those forecast at the time the contracts were signed. If there are significant variations in these estimates, GAS NATURAL will be obligated to acquire a greater volume of gas than it actually needs, or failing this, to pay for a minimum amount of gas agreed, irrespective of whether it acquires the surplus over its needs, which could have an adverse, significant impact on the operating costs of GAS NATURAL.

The activities of GAS NATURAL are subject to compliance with extensive legislation on environmental protection.

GAS NATURAL and its subsidiaries are subject to strict compliance with extensive legislation on environmental protection that requires, amongst other points, the preparation of environmental impact evaluation studies, obtaining the pertinent authorisations, licences and permits, as well as compliance with certain requirements, including, amongst others, the fact that:

- the environmental authorisations and licenses may not be granted or may be revoked due to non-compliance with the conditions that are imposed thereunder.
- the regulatory framework or its interpretation by the authorities could be modified or changed, which could lead to an increase in costs or deadlines in order to comply with the new regulatory framework.

g) Interest and exchange rate risk

Variations in interest rates modify the fair value of the financial assets and liabilities that accrue a fixed interest rate, as well as the cash flows from financial assets and liabilities indexed to a floating interest rate, and, accordingly, they affect both equity and net incomes, respectively.

On the other hand, GAS NATURAL is exposed to the risk related to the variation in currency exchange rates. These variations could affect, amongst other things, the debt of GAS NATURAL denominated in non-euro currencies, to the operations that GAS NATURAL carries out in other currencies that generate income denominated in another currency, as well as the counter-value of the cash flows related to the purchase and sale of raw materials denominated in non-euro currencies. The fluctuations in the exchange rate between the Euro and the US Dollar, the currency in which gas purchases are made by GAS NATURAL are denominated in or pegged to, could also affect the results and financial position of GAS NATURAL.

In spite of the fact that GAS NATURAL has proactive management policies for the risks mentioned above in order to minimise their impact on its net income, in some cases these policies may be ineffective in mitigating the adverse effects inherent in the fluctuation in interest rates and exchange rates, and could adversely and significantly affect net income and the financial position of GAS NATURAL.

h) Impact of meteorological conditions

Electricity and natural gas demand is linked to climate. A major part of gas consumption during the winter depends on the production of electricity and its use for heating, while during the summer months consumption depends on the production of electricity for air conditioning, basically. The income and net income of GAS NATURAL from the distribution and commercialisation of natural gas could be affected adversely by warm falls or mild winters. Likewise, the demand for electricity could decline if summers are not hot, due to less demand for air conditioning. Furthermore, the occupancy degree of hydro-electric plants depends on the level of precipitation where these installations are located, which can be affected by periods of drought.

The development of the electricity business of GAS NATURAL is subject to different factors beyond the control of GAS NATURAL.

The new projects of GAS NATURAL in the electricity sector are subject to different factors that are beyond the control of GAS NATURAL, including:

- increases in the cost of generation, including the increases in the fuel price;
- loss of competitivity with other technologies, due to the increase in the cost of generation using natural gas;
- a possible decrease in the growth rate of electricity consumption due to different factors, such as economic conditions or the implementation of energy savings programs;
- inherent risks in the operation and maintenance of electricity plants;
- the growing volatility in price due to the deregulation of the sector and changes in the market;
- a overcapacity situation of electricity production or in the markets in which GAS NATURAL is the owner of generation plants or has an interest in them;
- the appearance of alternative energy sources due to the new technologies and growing interest in renewable energy and cogeneration.

i) Exposure in Latin America

A major portion of operating profit of GAS NATURAL is generated by its Latin American subsidiaries. The operations in Latin America are exposed to different risks inherent in investment in that region. Amongst the risks factors linked to the investment and business in Latin America are:

- major influence on the economy by local governments;
- Significant fluctuation in the economic growth rate;
- High inflation rates
- Devaluation, depreciation or overvaluation of local currencies;
- Controls or restrictions on the repatriation of profits;
- Changing environment for interest rates;
- Changes in financial economic and tax policies;
- Unexpected changes in regulatory frameworks;
- Political and macro-economic instability.

GAS NATURAL cannot predict the way in which any future worsening of the political and economic situation in Latin American could take place or any other changes in legislation in the countries in which it operates.

3. 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 29 January 2010 to approve this Report on the matters which, in compliance with the aforementioned provision, have been included in the Management Report for 2009.

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 921,756,951 that are fully subscribed and paid. The share capital is made up of 921,756,951 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.

Of special not during 2009 were the two consecutive capital increases through the issuing of 447,776,028 shares, the result of the combination of the execution of the authorisation granted to the Board of Directors by the General Meeting of Shareholders of 16 May 2007 and the resolution of the Extraordinary general Meeting of Shareholders of 10 March 2009, and the second, through the issuing of 26,204,895 shares as a result of the resolution adopted by the General Meeting of Shareholders of 26 June 2009.

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 del 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

At the 2009 year end the shareholders inscribed in the Register of the CNMV as significant shareholders were as follows:

Name or registered name of the shareholders	Number of direct voting rights	Number of indirect voting rights (*)	% of the total voting rights
Caja de Ahorros y Pensiones de Barcelona ("la Caixa")	200	335,786,262	36.429
Repsol - YPF, S.A.	217,376,260	59,255,920	30.011
GDF SUEZ, S.A.		55,376,167	6.008

Name or registered name of the indirect owner of the shareholding	Through: Name or registered name of the direct owner of the shareholding (*)	Number of direct voting rights	% of the total voting rights
Caja de Ahorros y Pensiones de Barcelona ("la Caixa")	Criteria CaixaCorp, S.A.	335,786,262	36.429
Repsol - YPF, S.A.	Repsol Petróleo, S.A.	44,121,920	4.787
Repsol - YPF, S.A.	Repsol Exploración,S.A.	15,134,000	1.642
GDF SUEZ, S.A.	Genfina, S.A.	55,376,167	6.008

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 11 January 2000.

– Novation of 16 May 2002.

– Addendum of 16 December 2002.

– Addendum of 20 June 2003.

Based on these agreements, LA CAIXA and Repsol YPF, S.A. jointly hold a controlling position over Gas Natural SDG,S.A. for regulatory and anti-trust purposes, and jointly hold a shareholding in the company over 50%, and have appointed from amongst themselves more than half of the members of its governing body.

As a result of the filing of the prospectus for the takeover bid of the shares of Unión Fenosa, S.A. with the CNMV on 3 March 2009, which was approved on 18 March 2009, the CNMV indicated that the agreements mentioned above, with their contents as from the last novation in 2003, include elements of common management policy, relevant influence on the company and regulation of the voting rights which, as per current legislation in force, indicate the notion of concerted action and grounds for the legal presumption of concerted action as per article 5.1.b of RD 1066/2007. Consequently, according to the criteria of the CNMV, the joint control arising from the agreements, which materially remains unaltered, has been reclassified as a situation of concerted action of both entities.

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 3 years significant donations from any of the companies in the Gas Natural Group, excluding those who are mere trustees of a Foundation that receives donations.

  g) Be spouses or persons bound by an analogous relationship of affectivity or consanguinity up to the second degree of an Executive Officer or Top Manager of the company.

  h) Has not been proposed either by appointment or renewal by the Appointments and Remuneration Committee.

  i) Are defined, in respect of a significant shareholder or represented on the Board, in any of the cases set out in letters a), e), f) or g) of this section. In the case of relatives under letter g), the limitation will be applied not only in relation to the shareholder but also in relation to its Board Members representing a key shareholder in the investee company.

- Board Members representing a key shareholder that are no longer such as a consequence of the sale of their shareholding by the shareholder they represented can only be re-elected as Independent Board Members when the shareholder they represented until that time has sold all their shares in the Company.

- A Board Member that holds an interest in the Company can be an Independent, provided that he meets all the conditions set out in this article and, moreover, his shareholding is not significant (art. 12 Regulations of the Board).

Re-election of Board Members

- The Appointments and Remuneration Committee, in charge of evaluating the quality of the work and dedication to the office of the Board Members proposed during the preceding mandate, must report on the proposal to re-elect Board Members that the Board of Directors decide to nominate at the General Meeting of Shareholders (art. 14 Regulations of the Board).

Removal of Board Members

- Board Members will be removed from their office when the period for which they were appointed elapses and in all other cases set forth by current legislation, the Articles of Association and the Regulations in force.

- Board Members must submit their resignation to the Board of Directors and formalize, if the latter finds it appropriate, their respective resignation in the following cases:

  a) When Internal Board Members resign from executive offices outside the Board to which their appointment was attached as Board Members.

  b) When they meet the grounds of incompatibility or are prohibited under the Law, the Articles of Association or these Regulations.

  c) When they seriously breach their obligations as Board Members, place the interests of the Company at risk.

  d) When the reason for which they were appointed as Independent Board Members, Executives or Board Members representing a key shareholder disappears (art. 15 Regulations of the Board).

- After the removal from office, he will not be able to render services to a competing entity for a period of two years, unless the Board of Directors exempts him from this obligation or reduces its duration.

- When an independent Board Member resigns from office prior to the termination of his mandate for which he was elected, the reasons must be explained in a letter addressed to the other Board Members. The resignation will be reported as a relevant event. (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. (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:

  1) The Board of Directors or, as the case may be, the shareholders proposing the resolution must present a written report justifying the modification.

  2) 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.

  3) The resolution must be adopted by the General Meeting of Shareholders, in accordance with the provisions of the Articles of Association.

  4) 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).

Powers of the General Meeting of Shareholders.

- The General Meeting of Shareholders, as the maximum decision-making body of the Company, has the power to adopt all types of resolutions regarding the Company, and, in particular:

  I. Approve, as the case may be, the annual accounts of the Company and decide on the application of results, and approve, as the case may be, the consolidated annual accounts.

  II. Appoint and remove the member of the Board of Directors, and, ratify or revoke the appointments made by cooptation by the Board and approve their management.

  III. Appoint, as the case may be, or re-appointment, the Accounts Auditors.

  IV. Agree on the issue of bonds, the increase or reduction in capital, the transformation, merger, demerger or winding up of the Company, and, in general, any modifications to the Articles of Association.

  V. Authorise the Board of Directors to increase share capital, in accordance with the provisions of article 153.1b) of the Spanish Public Limited Companies Act.

  VI. Authorise the derivative acquisition of treasury shares of the Company under the legal terms in force.

  VII. Confer upon the Board of Directors the powers which, for cases not foreseen, it deems necessary.

  VIII. Decide on the affairs that will be submitted to resolution by the Board of Directors.

  IX. Decide on the application of the remuneration systems consisting of the payment of shares or share options, and any other remuneration system that the value of the shares is indexed to, irrespective of who the beneficiary of said remuneration systems is.

  X. Decide on what is licit, especially in relation to the issues that are not especially regulated by the Articles of Association and are not exclusively the competence of the Board of Directors (art. 2 of the 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 has 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 under article 153, 1, b) of the Spanish Public Limited Companies Act, was authorised to increase share capital up to a maximum of Euros 223,888,014.00 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.

Said authorisation was executed entirely by means of a resolution of the Board of Directors meeting of 10 March 2009, and 223,888,014 shares were issued by virtue of the same with a par value of Euro 1 each.

Subsequently, the Board of Directors of the Company, by virtue of a resolution of the General Meeting of Shareholders of 26 June 2009, was authorised to increase capital by euros four hundred and forty-seven million seven hundred and seventy-six thousand and twenty-eight (Euros 447,776,028) within a period of five years through a cash disbursement in one or several times, when and in the amount that it decides, by issuing ordinary, preferred or redeemable shares with or without voting rights, with or without a share premium, without new authorisation from the General Meeting of Shareholders, with the possibility of agreeing, as the case may be, to the full or partial exclusion of the preferred subscription right, and to modify the articles of association as required by the increase or decrease in capital carried out by virtue of said authorisation when full subscription is not expected, as per the provisions of article 153.ab) of the Spanish Companies Act.

The Board of Directors have not made use of the power conferred by the General Meeting of Shareholders of 26 June 2009.

Furthermore, the General Meeting of Shareholders of 26 June 2009, voiding the authorisation conferred upon the Board of Directors by the General Meeting of Shareholders of 21 May 2008, authorised the Board so that, within a period no greater than eighteen months it could acquire for valuable consideration, in one time or more, up to a maximum of 5% of the share capital of the maximum number resulting from the application under current legislation at the time of acquisition of shares of the Company that are fully paid, without exceeding, amongst the shares acquired by the Company, and those held by the investee companies, the percentage mentioned above, or any other that is legally established. The minimum and maximum price of acquisition will be the quotation price on the "Mercado Continuo" of the Spanish stock exchanges, within an oscillation of more or less 5%. In the event that the shares are not listed, the maximum and minimum price of acquisition will be established at one and a half and two times the carrying value of the shares, according to the last audited consolidated balance sheet. The Board of Directors is empowered to delegate this authorisation to the person or persons it deems suitable. This authorisation is understood to cover the acquisition of shares of the Company by investee companies.

The Board of Directors has not made use of this 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 a clause that stipulates the minimum indemnity of two yearly pays of remuneration in certain cases of termination of contract and an indemnity equivalent to one yearly pay of fixed remuneration for the two-year post-contract non-compete clause.

Additionally, there are indemnity agreements with twenty-seven Executives, which amounts give them the right to receive a minimum indemnity in certain cases of termination of contract consisting of one year's pay. Furthermore, an indemnity is established equivalent to one year's pay of fixed remuneration a for post-contractual non-compete clause (non-compete and non-solicitation clause) for a period of two years as from the termination of the labour relationship.

4. Environment and technological innovation

Information on the environment is set out in Note 36 to the Annual Accounts.

GAS NATURAL allocates a major portion of its resources and efforts to R&D, in order to optimise resources, develop new technologies and keep abreast of the technological advances in the sectors in which it operates.

GAS NATURAL participates in domestic and international sector and business organisation. The collaboration in institutions of this type allows the Company to remain in the lead of sector knowledge and permits it to be identified as a benchmark in its various areas of activity.

5. Outlook

2009 was a milestone in the history of the Gas Natural Group after its acquisition of UNIÓN FENOSA and the merger of both companies, which concluded on 7 September 2009. The completion of the merger marked the culmination of an acquisition process that began on 31 July 2008, and was completed successfully in less than 14 months, in line with the timing forecast at all times during the process.

The acquisition of UNIÓN FENOSA has meant a significant move forward in the development of GAS NATURAL and its strategy of becoming a leading integrated gas and electricity company. Amongst the main advantages that this acquisition brings to GAS NATURAL, the following are of special note:

- Achievement of a new dimension as an integrated gas and electricity operator, due to the way in which the businesses of both companies throughout their respective value chains complement each other.
- Permits the consolidation of its presence in the electricity and gas markets in Spain and Latin American, generating major operating and financial efficiencies.
- Reinforces its position as a leading company in the LNG market, as the leading operator in the Atlantic basin, thanks to the contribution of key assets to the up and mid-stream business.
- In the electricity business, the group has gone from having an installed electric power of 18 GW, mainly in Spain and America, made up mostly of gas combined cycle plants and renewable energies (including hydro-electric stations). The combination of the electricity business of both companies has resulted in a balanced mix of generations and will make it one of the main combined cycle operators in the world.
- The new Group has acquired more than 20 million gas and electricity customers around the world. The regulated gas and electricity business contributes stability and sustained growth and this expanded customer base facilitates the monetisation of the gas and electricity generated.
- International presence has grown significantly, with major positions in the main markets in Latin America, as well as assets in Moldavia, South Africa and Kenya. UNIÓN FENOSA would contribute more than 1,500 MW from combined cycle plants in Mexico, 1.8 million electricity customers and relevant positions in Guatemala, Nicaragua and Panama.
- Accordingly, the new group has become one of the main gas and electricity companies in the European Union and one of the three main energy utilities on the Iberian Peninsula.

  From a strategic point of view, GAS NATURAL will prioritise aspects such as the integration of the gas value chain, the optimisation of the electricity generation portfolio, the improvement of the fuel mix, the improvement of the efficiency in the regulated business, customer focus and multi-product offerings in the commercialisation area. Specifically, we will seek:

- In the gas business, to take advantage of the benefits of being larger, such as better positioning, diversification of supply sources and a greater capacity to snap up opportunities in the LNG business.
- In the electricity business, to take advantage of the growth opportunities that arise from the possibility of optimising the joint generation mix.
- In Latin America and Central America, the new group will maximise its know-how in the development of a profitable gas and electricity business in the region.

The acquisition of UNIÓN FENOSA by GAS NATURAL was adopted by the Board of the National Anti-Trust Commission (CNC) at its meeting of 11 February 2009, subject to the various commitments. Since then, GAS NATURAL has carried out several transactions and agreements thanks to which it could comply with most of the commitments imposed by the CNC:

- On 31 March 2009 it announced the agreement to sell the shareholding of UNIÓN FENOSA in Compañía Española de Petróleos, S.A. (CEPSA), complying thus with the commitment to reduce its links to that company.
- On 1 June 2009 it agreed to the sale of the 5% shareholding of GAS NATURAL in Enagás.
- On 20 July 2009 GAS NATURAL reached an agreement with the EDP Group on the sale of different gas distribution and commercialisation assets in the Regions of Cantabria and Murcia. On 31 December 2009 this agreement was signed.
- On 19 December 2009 GAS NATURAL agreed to the sale of 504,000 supply points and 412,000 gas customers in Madrid to Morgan Stanley Infrastructure and to Galp Energia SGPS. This agreement is subject to the approval by the anti-trust authorities, and is expected to go through at the beginning of 2010. Through this divestment, GAS NATURAL will complete its divestment commitment in relation to the gas distribution assets.

In addition to the divestments in order to comply with its commitments to the CNC, throughout 2009 agreements were reached on the sale of other assets:

- Sale of 1% of Red Eléctrica de España (REE).
- Divestments of 13% of the shareholding of UNIÓN FENOSA in Indra.
- Sale of the shareholding of UNIÓN FENOSA in the Colombian electricity company Empresa de Energía del Pacífico S.A. – ESP (EPSA).
- Agreement on divestment of 2,233 MW combined cycle of GAS NATURAL in Mexico.

All of these divestments represent a total of Euros 3,600 million in assets, complying with the objectives announced in the acquisition of UNIÓN FENOSA to make divestments totalling the aggregate sum of Euros 3,000 million. Through 2010 it is expected that the divestments agreed will be completed.

Additionally, the regulatory divestment of 2,000 MW of combined cycle in Spain is still outstanding.

The combination of GAS NATURAL and UNIÓN FENOSA permitted the identification of major operating and tax synergies. On 31 July 2008 operating synergies of Euros 300 million/year as from 2011 were announced.

Throughout 2009 these initial estimates and the final forecasts announced in November 2009 improved with the following synergies:

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

Detailed action plans have been prepared and put into motion in order to reach the 2011 synergy target. The advance in synergies achieved is in line with the plan and it is expected that through 2010 the synergy targets will continue to be achieved.

The organic growth and integration and use of operating synergies based on the integration of the assets of GAS NATURAL and UNIÓN FENOSA, a balanced, moderate risk management, optimisation of the joint investment plan, and a decrease in the risk of execution of the growth strategy of the resulting group, should generate value for the shareholders of both companies.

As for financial discipline, the objective of GAS NATURAL is the optimisation of its financial structure and maintenance of a solid balance. GAS NATURAL is reducing its debt thanks to the divestments and generation of cash from businesses and it is expected that its leverage index will continue to fall. In order to optimise its financial structure, various bonds have been issued totalling Euros 6,950 million in 2009 and 2010. GAS NATURAL will continue to use the financial markets in order to continue optimising its financial structure.

The successful, swift, efficient integration of UNIÓN FENOSA will still be a priority for GAS NATURAL.

GAS NATURAL plans to publish a new strategic plan for the resulting group during 2010. This strategic plan will replace the 2008-2012 strategic plan of GAS NATURAL and Plan Bigger of UNIÓN FENOSA.

6. Annual Corporate Governance Report

Attached hereto as an Appendix to this Directors' Report, and forming an integral part of the same, is the Annual Corporate Governance Report for 2009, as required under article 202.5 of the Spanish Public Limited Companies Act.

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
04-09-2009	921,756,951	921,756,951	921,756,951

Please indicate whether or not there are different types of shares with different rights associated:

Yes ☐ No ☒

Type	Number of shares	Face value	Number of voting rights	Different rights
–	–	–	–	–

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	200	335,786,262	36.429
Repsol YPF, S.A.	217,376,260	59,255,920	30.011
GDF Suez		55,376,167	6.008

(*) Through:

Name or company name of the indirect holder of the stake	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.	335,786,262	36.429
Repsol YPF, S.A.	Repsol Petróleo, S.A.	44,121,920	4.787
Repsol YPF, S.A.	Repsol Exploración, S.A.	15,134,000	1.642
GDF Suez	Genfina, S.A.	55,376,167	6.008

Indicate the most significant changes in the shareholder structure occurred during the year:

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
Salvador Gabarró Serra	3,000	0	0.000
Antonio Brufau Niubó	74,612	0	0.008
Rafael Villaseca Marco	12,006	0	0.001
Carlos Kinder Espinosa	5,206	0	0.001
Carlos Losada Morradán	1,856	12,108 *	0.002
Demetrio Carceller Arce	2,600	0	0.000
Emiliano López Achurra	60	0	0.000
Enrique Alcántara-García Irazoqui	7,669	20,000 **	0.003
Enrique Locutura Rupérez	10,607	0	0.001
Fernando Ramírez Mazarredo	260	0	0.000
Jaime Vega de Seoane Azpilicueta	6	10,000 ***	0.001
José Arcas Romeu	6,975	0	0.001
Juan María Nín Génova	144	0	0.000
Miguel Valls Maseda	6,306	0	0.001
Narcís Serra Serra	26	0	0.000
Santiago Cobo Cobo	30	0	0.000

Name or company name of the indirect holder of the stake	Name or company name of the direct holder of the stake	Number of direct voting rights	% of total voting rights
Enrique Alcántara-García Irazoqui	Bufete Alcántara SLP	20,000	0.002
Carlos Losada Morradán	Mrs. Mercedes Cavestany de Dalmases	12,108	0.001
Jaime Vega de Seoane Azpilicueta	Mrs. Sofía Vázquez de Sola Otero	10,000	0.001

% total voting rights in possession of the Board of Directors	0.019

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. See also parallel shareholders agreements, section A.6.

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 ☒	No ☐

% of share capital affected:	66.44

Brief outline of agreement
Agreement of 11 January 2000, novation of 16 May 2002 and addenda of 16 December 2002 and 20 June 2003. (i) Repsol YPF and "la Caixa" shall preserve at all times the principles of transparency, independence and professionalism in the management of Gas Natural through maintaining full control of said Company. (ii) The Board shall comprise seventeen (17) members, five (5) appointed by Repsol YPF, five (5) appointed by "la Caixa", one (1) Director representing Caixa Catalunya and six (6) Independent Directors jointly nominated by "la Caixa" and Repsol YPF. Repsol YPF and "la Caixa" shall vote in favour of the appointments put forward by the other party. (iii) Among the Directors nominated by each of the parties, "la Caixa" shall propose who should hold the position of Chairman of the Board and Repsol YPF to the Chief Executive Officer. The Repsol YPF and "la Caixa" Directors shall vote in favour of the proposed appointments for each of the positions. iv) The Executive Committee shall be comprised by eight (8) members, of which three (3) shall be elected from among the Directors nominated by Repsol YPF, including the CEO, three (3) from among those proposed by "la Caixa", including the Chairman, and two (2) from among the Independent Directors. (v) In accordance with the principles outlined in section (i) above, the parties in good faith and in the sole interest of Gas Natural, shall reach a consensus on the Gas Natural Strategic Plan, prior to its submission to the Board of Directors, which shall include all decisions affecting the basic outlines of the Company's strategy: its organisational structure, annual budget, operations of concentration, transfer and the acquisition of assets that are essential in the strategic development of Gas Natural.

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:

Yes ☒	No ☐

% of share capital affected:	36.429

Brief description of the concerted action:

Agreement of 11 January 2000, novation of 16 May 2002 and addenda of 16 December 2002 and 20 June 2003. By virtue of the agreements referred to in the previous section, "la Caixa" and Repsol YPF, which separately each have a controlling interest in accordance with the rules of takeover bids, have joint control of Gas Natural owing to regulatory requirements and for competition purposes. They jointly have a share in the Company of over 50% and have appointed more than half of the governing body. In accordance with current regulations, said pacts give rise to a concerted action between "la Caixa" and Repsol in Gas Natural.

Parties to concerted action

Caja de Ahorros y Pensiones de Barcelona

% of share capital affected:	30.011

Brief description of the concerted action:

Agreement of 11 January 2000, novation of 16 May 2002 and addenda of 16 December 2002 and 20 June 2003. By virtue of the agreements referred to in the previous section, "la Caixa" and Repsol YPF, which separately each have a controlling interest in accordance with the rules of takeover bids, have joint control of Gas Natural owing to regulatory requirements and for competition purposes. They jointly have a share in the Company of over 50% and have appointed more than half of the governing body. In accordance with current regulations, said pacts give rise to a concerted action between "la Caixa" and Repsol in Gas Natural.

Parties to concerted action

Repsol YPF, S.A.

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:

Yes ☐ 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
0	0	0

(*) Through:

Total:	0

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)	0

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 nine of the agenda of the General Meeting of Shareholders of 26 June 2009 agreed the following:

Nine.- Authorisation to the Board of Directors for the derivative acquisition of own shares, either directly or through subsidiaries of Gas Natural SDG, S.A., 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 21 May 2008.

Nine one.- To cancel the authorisation granted to the Board of Directors by the General Meeting held on 21 May 2008 to acquire Company shares for good and valuable consideration.

Nine 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, or the maximum figure that is the result of the application in accordance with the legislation in force at the time of acquisition, 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:

Yes ☐ No ☒

Maximum percentage of voting rights that can be exercised by a shareholder in accordance with legal restrictions	0

Indicate whether or not there are statutory restrictions to exercising voting rights:

Yes ☐ No ☒

Maximum percentage of voting rights that can be exercised by a shareholder in accordance with statutory restrictions	0

Indicate whether or not there are legal restrictions to the acquisition or assignment of shares in the Company's capital:

Yes ☐ 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.

Yes ☐ 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	26-06-2009	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
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	26-06-2009	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
Jaime Vega de Seoane Azpilicueta	–	Director	20-04-2005	21-05-2008	Vote at General Meeting
Joan Rosell Lastortras	–	Director	26-06-2009	26-06-2009	Vote at General Meeting
José Arcas Romeu	–	Director	07-04-2006	26-06-2009	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
Narcís Serra Serra	–	Director	10-03-2009	10-03-2009	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
Caixa d'Estalvis de Catalunya	Proprietary Member	30-01-2009
Francisco Reynés Massanet	Proprietary Member	26-06-2009

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.
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.
Joan Rosell Lastortras	Appointments and Remuneration Committee	Criteria CaixaCorp, S.A.
Juan María Nín Génova	Appointments and Remuneration Committee	Criteria CaixaCorp, S.A.
Narcís Serra Serra	Appointments and Remuneration Committee	Caixa d'Estalvis de Catalunya

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 Explain, if appropriate, the reasons why Proprietary Directors have been appointed at the request of shareholders whose shareholding is less than 5% of the share capital:

Name or company name of shareholder	Explanation
Caixa d'Estalvis de Catalunya	Institution of recognised prestige that owns 1.663% The Director (Chairman) is a highly qualified professional.

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:

Yes ☐	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 ☒	No ☐

Director's name	Reason for resignation
Caixa d'Estalvis de Catalunya	Caixa d'Estalvis de Catalunya internal organisation
D. Francisco Reynés Massanet	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	Corporate name of group company	Position
Rafael Villaseca Marco	Repsol-Gas Natural LNG, S.L.	Deputy Chairman
	Gas Natural Aprovisonamientos SDG, S.A.	Chairman
Enrique Locutura Rupérez	Repsol-Gas Natural LNG, S.L.	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	Criteria CaixaCorp, S.A.	Director
	Indra Sistemas, S.A.	Director
Antonio Brufau Niubó	Repsol YPF, S.A.	Chairman
Demetrio Carceller Arce	Sacyr-Vallehermoso, S.A.	Director
	Compañía Logística de Hidrocarburos, CLH, S.A.	Director
	Sociedad Anónima Damm	Chairman
Jaime Vega de Seoane Azpilicueta	Obrascon Huarte Lain, S.A. (OHL, S.A.)	Director
Juan María Nín Génova	Repsol YPF, S.A.	Director
	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:

Yes ☐	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:

	Yes	No
The investment and finance policy	X	
The definition of the structure of the group of companies	X	
The corporate governance policy	X	
The corporate social responsibility policy	X	
Strategic or Business Plan, as well as the management aims and annual budgets	X	
The remuneration policy and appraisal of senior management performance		X
Control of risk management policy, as well as periodic monitoring of the internal information control system	X	
The dividend policy, as well as the treasury stock policy, with special focus on their limits	X	

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	847
Variable remuneration	1,113
Expenses	4,086
Established in Articles of Association	0
Stock options and/or other financial instruments	0
Others	3
Total:	6,049

Other benefits	Data in thousands of euros
Advances	0
Credits granted	0
Pension plans and funds: contributions	414
Pension plans and funds: obligations	0
Life insurance premiums	33
Guarantees made by the Company to Directors	0

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	411
Variable remuneration	0
Expenses	748
Established in Articles of Association	0
Stock options and/or other financial instruments	0
Others	0
Total:	1,159

Other benefits	Data in thousands of euros
Advances	0
Credits granted	0
Pension plans and funds: contributions	0
Pension plans and funds: obligations	0
Life insurance premiums	0
Guarantees made by the Company to Directors	0

c) Total remuneration by type of Director:

Director type	By Company	By Group
Executives	3,316	634
External Proprietary	1,683	293
External Independent	1,050	232
Other External	0	0
Total:	6,049	1,159

d) As a percentage of the profits attributable to the controlling company:

Total remuneration of Directors (in thousands of euros)	7,208
Directors' total remuneration/(net) profit attributed to the parent company (%)	0.6

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
Manuel Fernández Álvarez	Managing Director of Wholesale Energy Business
José María Egea Krauel	Managing Director of Energy Planning
Antoni Peris Mingot	Managing Director of Regulated Gas Business
Sergio Aranda Moreno	Managing Director of Latin America
Antonio Basolas Tena	Managing Director of Strategy & Development
Antonio Gallart Gabás	Chief Corporate Officer
Jordi García Tabernero	Managing Director of Communications Office
Carlos Javier Álvarez Fernández	Chief Financial Officer
Josep Moragas Freixa	Managing Director of Retail Energy Business
Manuel García Cobaleda	Managing Director of Legal Services
José Antonio Couso López	Managing Director of Regulated Power Business
José Javier Fernández Martínez	Managing Director of Power Generation

Total remuneration of senior management (in thousands of euros)	5,976

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	13

	Board of Directors	General Meeting
Body that authorises the clauses	No	No

	Yes	No
Is the General Meeting informed of the clauses?	X	

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:

Procedure to establish the remuneration of 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: putting forward 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 per cent 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:

	Yes	No
At the proposal of the chief executive of the Company, the appointment and possible resignation of senior executives, as well as their compensation clauses.	X	
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.	X	

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 ☒ No ☐

	Yes	No
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.	X	
Variable payment concepts.	X	
Main characteristics of the social benefits systems, with an estimate of the equivalent annual cost or amount.	X	
Conditions to be observed in the contracts of those who exercise senior management functions as Executive Directors.	X	

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:

Yes ☐ 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.	Executive Chairman
Enrique Locutura Rupérez	Repsol YPF, S.A.	Executive Vice-president of Repsol Foundation
Fernando Ramírez Mazarredo	Repsol YPF, S.A.	Chief Financial Officer
Joan Rosell Lastortras	Criteria CaixaCorp, S.A.	Director
Juan María Nín Génova	Repsol YPF, S.A.	Director
	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:

Yes ☐	No ☒

Description of modifications

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.

Directors are appointed and re-elected in accordance with a formal and transparent procedure, following a report from the Appointments and Remuneration Committee.

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.

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, unless 3 or 5 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 3 years a partner of the external auditor or the party responsible for the auditor's 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.

Proprietary Directors who lose such status due to the sale of their holding by the shareholder who they represent may only be reappointed as Independent Directors when the shareholder he/she represented until then has sold all of his/her shares in the Company.

A Director who has a shareholding in the Company may have an independent status, provided he/she satisfies all conditions set forth in this Article and also his/her holding is not significant.

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 12 years.

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. Likewise, Directors shall be replaced in all other circumstances where applicable pursuant to the Law, the Articles of Association and Regulations of the Board of Directors.

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 completion of his/her mandate, 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:

Yes ☐ 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.

Yes ☐ No ☒

B.1.22 Are reinforced majorities other than those applicable by law required for any type of decision?

Yes ☐ 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	Quorum	%	Type of majority	%
Various corporate decisions	Article 47 of Articles of Association and Article 10 of Board Regulations. Half plus one of the members in attendance or represented.	52.94	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.

Yes ☐ No ☒

B.1.24 Indicate whether the Chairman has a casting vote:

Yes ☐ No ☒

B.1.25 Indicate whether the Articles of Association or the Board Regulations establish any age limit for Directors:

Yes ☐ No ☒

Age limit for Chairman	0
Age limit for CEO	0
Age limit for Directors	0

B.1.26 Indicate whether the Articles of Association or the Board Regulations establish a limited mandate for Independent Directors:

Yes ☒ No ☐

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 ☒ No ☐

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: "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	12
Number of Board meetings without the Chairman attending	0

Indicate the number of meetings held by the different Board committees over the year:

Number of meetings of the Executive or Delegated Committee	7
Number of meetings of the Audit Committee	5
Number of meetings of the Appointments and Remuneration Committee	11
Number of meetings of the Appointments Committee	0
Number of meetings of the Remuneration Committee	0

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	14
% of non-attendances over the total number of votes during the year	6.86

B.1.31 Indicate if the individual and consolidated annual accounts submitted for approval by the Board are certified previously:

Yes ☒	No ☐

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 auditor's 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?

Yes ☐ 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."

	Yes	No
Does the Appointments Committee report the appointment?	X	
Does the Appointments Committee report the dismissal?	X	
Does the plenary session of the Board adopt the appointment?	X	
Does the plenary session of the Board adopt the dismissal?	X	

Is the Board Secretary commissioned with the duty of especially supervising the good governance recommendations?

Yes ☒ No ☐

Observations

Article 26 of the Regulations of the Board of Directors states in its point three the following:

The Secretary of the Board shall be responsible for the formal and material legality of the Board's actions at all times, ensuring that their procedures and governing rules are regularly reviewed.

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 Article 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 top-tier 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 of external auditor over the year. If appropriate, identify the incoming and outgoing auditors:

Yes ☐	No ☒

Outgoing auditor	Incoming auditor

In the case of disagreements with the outgoing auditor, explain the content of the said disagreements:

Yes ☐	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 ☒	No ☐

	Company	Group	Total
Amount of tasks other than auditing activities (in thousands of euros)	1,023	271	1,294
Amount of tasks other than auditing/Total amount billed by the audit company (%)	43.710	6.890	20.630

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.

Yes ☐	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	19	19

	Company	Group
No. of years audited by the current audit company /No. of years the Company has been audited (%)	100.0	100.0

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	Iberdrola, S.A.	0.001	–
	Enagás, S.A.	0.006	–
	Red Eléctrica Corporación, S.A.	0.008	–
Antonio Brufau Niubó	Repsol YPF, S.A.	0.017	Executive Chairman
Rafael Villaseca Marco	Repsol YPF, S.A.	0.000	–
	Iberdrola, S.A.	0.000	–
	Endesa, S.A.	0.000	–
	Enagás, S.A.	0.000	–
Enrique Locutura Rupérez	Repsol YPF, S.A.	0.000	–
Fernando Ramírez Mazarredo	Repsol YPF, S.A.	0.000	Chief Financial Officer
José Arcas Romeu	Iberdrola, S.A.	0.000	–
	Iberdrola Renovables, S.A.	0.000	–
Juan María Nín Génova	Repsol YPF, S.A.	0.000	Director

B.1.41 Indicate and, where applicable, provide details of whether there is a procedure whereby Directors can have external assessment:

Yes ☒ No ☐

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. (Article 21.2 of the Regulations of the Board and first paragraph of Article 21.3).

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. (Article 21.3 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 ☒	No ☐

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 […].

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."

However, according to Article 2.3 of the Regulations of the Board, 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 15 days' notice of the date of the meeting.

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 ☒ No ☐

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:

Yes ☐ 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.

Yes ☐ 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
Juan María Nin Génova	Board Member	Proprietary Member
Rafael Villaseca Marco	Board Member	Executive
Santiago Cobo Cobo	Board Member	Independent

Audit and Control Committee

Name	Position	Type
Miguel Valls Maseda	Chairman	Independent
Carlos Kinder Espinosa	Board Member	Proprietary Member
Fernando Ramírez Mazarredo	Board Member	Proprietary Member

Appointments and Remuneration Committee

Name	Position	Type
Antonio Brufau Niubó	Board Member	Proprietary Member
José Arcas Romeu	Chairman	Independent
Miguel Valls Maseda	Board Member	Independent

B.2.2 Specify whether the Audit Committee is responsible for the following:

	Yes	No
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.	X	
Regularly reviewing the internal control and risk management systems so that the main risks can be identified, processed and appropriately publicised.	X	
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.	X	
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.	X	
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.	X	
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.	X	
Guaranteeing the independence of the external auditor.	X	
In the event of groups, to see that the group auditor accepts liability for the audits of the companies that make up the group.	X	

B.2.3 Describe the organisational and operational rules and the responsibilities attributable to each of the Board's committees.

<table>
<tr><th>Committee name</th><th>Brief outline</th></tr>
<tr><td>Appointments and Remuneration Committee</td><td>Appointments and Remuneration Committee (Article 31 of the Board Regulations).
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 top-tier 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.</td></tr>
</table>

Committee name	Brief outline
Executive Committee	Executive Committee (Articles 50 and 51 of the Articles of Association and Article 30 of the Board Regulations): 1.1. Powers. The Board of Directors may designate one or more Executive Committees and appoint one or more Chief Executive Officers and delegate them, temporarily or permanently, any or all of the functions, except those that legally or by agreement of the General Meeting, were within the exclusive jurisdiction thereof, or that may not be delegated by the Board. By agreement of the Board of Directors on 20 February 1992, the following powers of attorney were delegated to the Executive Committee: • Organising, directing and inspecting all services and facilities of the Company. • Appointing, suspending and dismissing employees and workers of the Company and establishing salaries, as well as providing guarantees to those employees with whom the Company has an agreement to provide. • Establishing the salary that should be paid for extra services. • Auditing the Company's funds. • Receiving, directing and answering private requests and advocating the drawing up of minutes of all kinds. • Issuing, endorsing, accepting, collecting and discounting bills of exchange and other draft documents, drawing up re-accounts and summoning protests for non-acceptance or non-payment. • Monitoring, opening, cancelling in the Banco de España, in any locality, or any other bank, savings bank or establishment, current and credit accounts signing, for this purpose, cheques, orders, policies and other documents; and requesting, agreeing to or rejecting statements and account balances. • Making payments and collections for any security and quantity and even making payment orders for the state, autonomous regions, provinces or municipalities, signing receipts and official receipts. • Collecting letters, certificates, dispatches, parcels, money orders and goods with declared monetary value from Post Offices, rail and shipping companies and in general all transport companies, customs and agencies, as well as sent merchandise and stock, and making objections and complaints, and the refusal and abandonment of goods. • Opening, replying to and signing correspondence and updating the accounting books in accordance with the law. • Contracting insurance of all kinds, signing policies and related documents and receiving indemnities where appropriate. • Representing the Company in acquaintances and grace intervals, insolvencies, defaults, bankruptcy of debtors, attending General Meetings, appointing trustees and administrators, accepting or rejecting the proposals of the debtor and carrying out all the paperwork until the end of the procedure. • Buying, selling, leasing, reducing, or conditionally or simply exchanging, with the declared price, deferred or paid in cash, all kinds of movable and immovable assets, in rem and personal rights, carrying out planting and building declarations, surveys and marking of boundaries, consolidations and severances and granting contracts of all kinds. • Establishing, accepting, modifying, acquiring, disposing of, postponing and cancelling, wholly or partially before or after maturity, whether or not the insured security has been fulfilled, mortgages, liens, prohibitions, conditions and all kinds of limitations or guarantees as well as easements and other in rem rights. • Establishing, merging, transforming, dissolving and liquidating all types of companies, associations, economic interest groups, European economic interest groups and joint ventures, assisting or intervening in all types of Boards, providing companies all kinds of goods, receiving in return holdings, fees, rights and actions that may apply and, in case of dissolution, the appropriate assets. • Participating in tenders and auctions, submitting proposals and accepting awards. • Buying, selling, trading and pledging securities and receiving interest, dividend and amortisation payments from them. • Modifying, transferring, cancelling, withdrawing and establishing interim or definite deposits of cash and/or securities. • Coordinating and arranging bank loans with personal guarantees or pledged securities, with banks, savings banks and credit institutions, including the Banco de España, signing policies and related documents.

Committee name	Brief outline (continued)
	• Advocating all kinds of notarial deeds, organising and keeping records of the ownership and release of liens, requesting entries in the Mercantile and Property Registers. • Appearing in name and representation of the Company before centres and organisations of the State; autonomous regions, provinces and municipalities of Spain; judges, courts and judiciary, attorneys, unions, delegations, committees, Boards, juries and commissions and, in general, any individual person or legal entity or public or private entity. And before these parties, requesting, monitoring and terminating as the plaintiff, defendant or for any other concept, all manner of processes, procedures, hearings and actions and administrative and of a tax nature; trials and civil and commercial procedures; criminal trials and hearings; contentious-administrative trials; governmental; labour hearings of all levels, jurisdictions and ranks; lodging petitions, carrying out actions and exceptions at whatsoever procedures, formalities and appeals; including annulments and reviews and other extraordinary appeals and providing personal ratification whenever required, acquitting positions and legally acquiescing. • Appointing trustees and granting them the pertinent powers, both generally and for a specific occasion or event, as well as revoking the powers granted at any time. Similarly, Article 5 of the Regulations of the Board states that the agreements laid down in points five to eight, ten to thirteen and sixteen can be adopted, without distinction, by the Board of Directors or the Executive Committee. See Article 5 of the Board Regulations. Likewise, Article 30.4 of the Regulations of the Board states that the continued monitoring of management by the Company's top-tier level is a specific responsibility of the Executive Committee, as is any other of its functions pursuant to the Articles of Association or these regulations or assigned to it by the Board of Directors. 1.2. 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 will act as Chairman of the Executive Committee and the Secretary of the Board of Directors will undertake the secretariat and may be assisted by the Assistant Secretary. • 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 Committee 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	Brief outline
Audit Committee	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, 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 the 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 the development 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 it is 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 whenever necessary in order to issue its reports, and will be convened by its Chairman on his own initiative or upon request of two of 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, in writing. The meetings shall normally take place at the registered office. The Committee may invite to its meetings any executive or employee it deems appropriate.

B.2.4 Indicate the faculties for advising, consultancy and, if relevant, appointments, for each of the committees:

Committee name	Brief outline
Appointments and Remuneration Committee	Already detailed in section B.2.3 in this report.
Executive Committee	Already detailed in section B.2.3 in this report.
Audit Committee	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	Brief outline
Appointments and Remuneration Committee	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 2009. 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	Brief outline
Executive Committe	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 2009. 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	Brief outline
Audit Committee	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 2009. 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 ☒	No ☐

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 ☒	No ☐

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	Financing agreements: credits and provisions of capital (lender)	222,845
Caja de Ahorros y Pensiones de Barcelona	Gas Natural SDG, S.A.	Commercial	Other income	2,231
Caja de Ahorros y Pensiones de Barcelona	Gas Natural SDG, S.A.	Commercial	Dividends and other distributed earnings	248,482
Caja de Ahorros y Pensiones de Barcelona	Gas Natural SDG, S.A.	Commercial	Collaboration or management contracts	3,099,712
Caja de Ahorros y Pensiones de Barcelona	Gas Natural SDG, S.A.	Commercial	Other costs	25,299
Caja de Ahorros y Pensiones de Barcelona	Gas Natural SDG, S.A.	Commercial	Financial expenses	14,563
Caja de Ahorros y Pensiones de Barcelona	Gas Natural SDG, S.A.	Commercial	Leases	3,344
Caja de Ahorros y Pensiones de Barcelona	Gas Natural SDG, S.A.	Commercial	Financial income	2,223
Caja de Ahorros y Pensiones de Barcelona	Gas Natural SDG, S.A.	Commercial	Guarantees received	164,102
Caja de Ahorros y Pensiones de Barcelona	Gas Natural SDG, S.A.	Commercial	Reception of services	243
Caja de Ahorros y Pensiones de Barcelona	Gas Natural SDG, S.A.	Commercial	Financing agreements: credits and provisions of capital (borrower)	1,845,724
Repsol YPF, S.A.	Gas Natural SDG, S.A.	Commercial	Provision of services	30,856
Repsol YPF, S.A.	Gas Natural SDG, S.A.	Commercial	Leases	6,946
Repsol YPF, S.A.	Gas Natural SDG, S.A.	Commercial	Purchase of tangible assets, intangible assets and other assets	1,265
Repsol YPF, S.A.	Gas Natural SDG, S.A.	Commercial	Financing agreements: credits and provisions of capital (borrower)	1,080,140
Repsol YPF, S.A.	Gas Natural SDG, S.A.	Commercial	Reception of services	47,253
Repsol YPF, S.A.	Gas Natural SDG, S.A.	Commercial	Purchase of goods (manufactured or not)	524.066
Repsol YPF, S.A.	Gas Natural SDG, S.A.	Commercial	Sales of goods (manufactured or not)	365,409
Repsol YPF, S.A.	Gas Natural SDG, S.A.	Commercial	Other costs	4
Repsol YPF, S.A.	Gas Natural SDG, S.A.	Commercial	Dividends and other distributed earnings	204,616
GDF Suez, S.A.	Gas Natural SDG, S.A.	Commercial	Reception of services	39,083
GDF Suez, S.A.	Gas Natural SDG, S.A.	Commercial	Other costs	125
GDF Suez, S.A.	Gas Natural SDG, S.A.	Commercial	Purchase of tangible assets, intangible assets and other assets	256
GDF Suez, S.A.	Gas Natural SDG, S.A.	Commercial	Purchase of goods (manufactured or not)	347,782
GDF Suez, S.A.	Gas Natural SDG, S.A.	Commercial	Financing agreements: credits and provisions of capital (borrower)	302,472
GDF Suez, S.A.	Gas Natural SDG, S.A.	Commercial	Provision of services	18,060
GDF Suez, S.A.	Gas Natural SDG, S.A.	Commercial	Sales of goods (manufactured or not)	590,163
GDF Suez, S.A.	Gas Natural SDG, S.A.	Commercial	Dividends and other distributed earnings	55,623

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 the Administrators or Executives	Name or company name of the company or entity of the Group	Nature of the relationship	Type of operation	Amount (thousands of euros)
Caixa d'Estalvis de Catalunya	Gas Natural SDG, S.A.	Commercial	Financial income	2
Caixa d'Estalvis de Catalunya	Gas Natural SDG, S.A.	Commercial	Financial expenses	518
Caixa d'Estalvis de Catalunya	Gas Natural SDG, S.A.	Commercial	Other costs	98
Caixa d'Estalvis de Catalunya	Gas Natural SDG, S.A.	Commercial	Financing agreements: credits and provisions of capital (lender)	83
Caixa d'Estalvis de Catalunya	Gas Natural SDG, S.A.	Commercial	Dividends and other distributed earnings	13,953
Caixa d'Estalvis de Catalunya	Gas Natural SDG, S.A.	Commercial	Collaboration or management contracts	10,504
Caixa d'Estalvis de Catalunya	Gas Natural SDG, S.A.	Commercial	Financing agreements: credits and provisions of capital (borrower)	107,404
Caixa d'Estalvis de Catalunya	Gas Natural SDG, S.A.	Commercial	Guarantees received	60,000

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.

Yes ☒ No ☐

Name or company name of Director	Description of the conflict of interest
Antonio Brufau Niubó Carlos Kinder Espinosa Demetrio Carceller Arce Enrique Alcántara-García Irazoqui Enrique Locutura Rupérez Fernando Ramirez Mazarredo Joan Rosell Lastortras Juan María Nín Génova Narcís Serra Serra	In related-party transactions that have been submitted for approval by the Board, following a favourable report from the Appointments and Remuneration Committee those Directors representing the involved related party have abstained from voting. See section C.2.

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 SDG, 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 and, in particular, transactions with associated parties submitted to the Board.

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?

Yes ☐	No ☒

Identify the subsidiary companies that are listed:

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.

Gas Natural Group strategy is based on the basic principles of growth, integration, profitability and quality, which are transmitted repeatedly to its stakeholders in the reports issued. 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 and electricity.

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 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 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 Gas Natural Group

The process of identifying and assessing Gas Natural Group risks is governed by the Corporate Risk Map. The preparation and updating of the said Map is the responsibility of the Financial Area 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 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 Area.

With regard to regulations, special mention must be made 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 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.

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 ☒ No ☐

If the answer is affirmative, 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 ☒ No ☐

If the answer is affirmative, 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 applicable, 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 2009 concerning the review of the internal control and risk management systems of Gas Natural 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 but 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, Health & Safety, Environment and General Services Unit, it reports on the development of the measurements taken recurrently and systematically of Gas Natural Group 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 main functions include researching and proposing the Objectives, the Strategic Plan and the Annual Budget, as well as forwarding the proposals for actions that may affect the securing of the Company's Strategic Plan to the governing bodies. 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.
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 integrated regulation strategy, ensuring that the uncertainty associated with the regulatory sphere is properly managed.

Name of the Committee or body	Description of duties
Risk Committee	This Committee is responsible for guaranteeing the correct determination and review of Gas Natural Group 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 Area, the Energy Planning Area, the Wholesale Energy Business Area, the Retail Energy Business Area and the Internal Audit Area. 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 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 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. Board of Directors: 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 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 Gas Natural Group 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.
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.

Name of the Committee or body	Description of duties
Financial Area	The Financial Area assumes the global responsibility on risks, finance, fiscal, accounting and administration policies, as well as controlling the management and the relationships with investors. The Risk Unit is responsible for the conceptual determination of inherent risk for the Group's businesses as well as the assessment of the Group's global risk profile and its monitoring. This unit develops the regulations, policies and tools for the management and monitoring of risk as well as the proposal of levels of authorisation, responsibilities and operational limits. It is also responsible for assessing the potential risks of material damage, civil liability and loss of profit, as well as contracting and administering industrial and vehicle insurance policies. Additionally, it administers incident management. The Finance Unit is responsible for conducting the Group's short, medium and long-term financial management as well as proposing the Group's financial policy in terms of distribution of results, levels of leverage, financial criteria on interest rates and the financial structure of companies.
Legal Services Area	The Legal Services Area is responsible for giving advice on the legal issues and manages the commercial, civil, penal and administrative matters in the different areas of the Group.
Internal Audit Area	The main purpose of the Internal Audit Area 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 the foregoing is designed to achieve compliance with the strategic objectives of the Gas Natural Group and to assist the Audit and Control Committee and the top-tier management of Gas Natural Group, in the fields of management, control and corporate governance. In order to achieve these aims, the Internal Audit Area, 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 Area are provided in Annual Report on the Activities of the Audit and Control Committee.
Energy Planning Area	The Balance Unit is responsible for the consolidation of the Group's integrated energy balance and proposes indicators to improve the allocation of energy.
Resources Area	This Area is responsible for the overall management of the common services in fields such as Information, Purchases, Engineering and Technology, Quality, Health & Safety and Environment Systems. 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 integrated management of the Group's Information Sytem, defining the technological strategy and planning, ensuring the quality of services, cost and safety required by the Group. Of particular significance is the Methodology, Policies and Risk Unit, which is responsible for the definition of the methodologies, policies, tools and the System's Risk Map. The Purchasing Unit is responsible for the definition, planning and implementation of the policies for the purchases of goods and services. This unit is also responsible for the management, bidding, awarding and contracting of suppliers, and the standardisation and certification of equipment and material. The Engineering and Technology Unit is responsible for the development and introduction of technological solutions that improve the efficiency, quality and safety of the Group's processes. The Quality, Health & Safety, Environment and General Services Unit is responsible for the planning and management of the quality, safety, protection of the health and the environment. Likewise, this unit manages the personal, patrimonial and industrial safety.

D.4 Identification and description of the procedures for compliance with the different regulations affecting the Company and/or its Group.

Gas Natural Group 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 D.3, the Regulation Committee, especially with regard to environmental issues and in collaboration with the Resources Area through the Quality, Health & Safety, Environment and General Services 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.

Yes ☐ 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	0	0
Quorum required for the second call to meeting	0	0

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:

Yes ☐ 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 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 and modify in June 2006.

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.

The aforesaid possibility was available in 2008. However, it was not employed in 2009 as during its term, the system was minimally used by shareholders, in the General Meeting in 2007, only five shareholders, in possession of 1,550 shares, used it, which represented 0.000346% of the share capital and at the General Meeting of 2008 it was only used by seven shareholders, holders of 3,632 shares, representing 0.0008% of the share capital. As a result, the limited use of the electronic vote does not justify the economic cost of its introduction.

If circumstances change in the future, its reinstatement will be analysed.

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 ☒	No ☐

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:

- More announcements for the General Meetings are published (ordinary and extraordinary) than those legally required.
- Attendance cards are issued to make the voting process for shareholder easier.
- 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 is allowed access to the meeting in order to make public the progress of the meeting and the decisions taken.
- In addition, a video of the meeting is 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 are adopted.
- 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 2009.

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: Electronic vote	% remote voting: Others	% Total
10/03/2009	74.30	9.30	0	0	83.60
26/06/2009	70.30	5.60	0	0	75.90

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 2009, Gas Natural SDG, S.A. held an Extraordinary General Meeting on 10 March 2009 and an Ordinary General Meeting on 26 June 2009. The decisions adopted and the percentage of votes accorded to each are indicated below, as well as the share capital present and represented.

Extraordinary General Meeting of Gas Natural, SDG, S.A. held on 10 March 2009.

One.- Modification of Article 15 "Preferential Subscription Rights" of the Articles of Association. Adaptation of the minimum period for exercising the preferential right to subscription of shares to the provisions set forth in Article 158.1 of the Spanish Companies Act.
Votes against: 0.0008%.
Abstentions: 0.0045%.
Votes in favour: 99.9947%.

Two.- An increase in share capital with preferential subscription rights through the issue of two hundred and twenty-three million eight hundred and eighty-eight thousand and fourteen new ordinary shares individual face value of one (1) euro, each of them belonging to Gas Natural SDG, S.A., i.e, a total nominal amount of two hundred and twenty-three million eight hundred and eighty-eight thousand and fourteen euros (223,888,014 euros), with delegation in the Board of Directors of the powers of establishing the date for their implementation and any other conditions not provided in the pertinent agreement, under the provisions of Article 153.1.a) of the Spanish Companies Act, and amendment of Articles 5 and 6 of the Articles of Association.
Votes against: 0.0179%.
Abstentions: 0.0022%.
Votes in favour: 99.9799%.

Three.- Ratification and, if appropriate, appointment of Narcís Serra i Serra as a member of the Board of Directors.
Votes against: 0.0906%.
Abstentions: 0.0055%.
Votes in favour: 99.9039%.

Four.- Delegation of powers of attorney to supplement, develop, execute, remedy and formalise the decisions taken by the General Meeting.
Votes against: 0.0005%.
Abstentions: 0.0177%.
Votes in favour: 99.9818%.

Ordinary General Meeting of Gas Natural SDG, S.A. held on 26 June 2009.

One.- Analysis and approval, where applicable, of the Annual Accounts and of the Management Report for Gas Natural SDG, S.A. pertaining to the year ended on 31 December 2008.
Votes against: 0.0003%.
Abstentions: 0.4476%.
Votes in favour: 99.5521%.

Two.- Analysis and approval, where applicable, of the Consolidated Annual Accounts and of the Consolidated Management Report for Gas Natural, SDG, S.A. pertaining to the year ended on 31 December 2008.
Votes against: 0.4437%.
Abstentions: 0.0042%.
Votes in favour: 99.5521%.

Three.- Examination and approval, where applicable, of the proposed application of the results of the 2008 financial year and share-out of dividends.
Votes against: 0.0005%.
Abstentions: 0.00002%.
Votes in favour: 99.99948%.

Four.- Examination and approval, where applicable, of the Board of Directors' actions during the 2008 financial year.
Votes against: 0.0120%.
Abstentions: 0.0014%.
Votes in favour: 99.9866%.

Five.- Re-election of the accounts auditors of the Company and its consolidated Group for the year 2009.
Votes against: 0.0464%.
Abstentions: 0.00003%.
Votes in favour: 99.9535%.

Six.- Re-election, ratification and, where applicable, appointment of members of the Board of Directors.

Six 1.- Re-election and, where applicable, appointment for the statutory term of three (3) years of,
Salvador Gabarró Serra as a Company Director.
Votes against: 1.1453%.
Abstentions: 0.0004%.
Votes in favour: 98.543%.

Six 2.- Re-election and, where applicable, appointment for the statutory term of three (3) years of,
Emiliano López Achurra as a Company Director.
Votes against: 0.0928%.
Abstentions: 0.0004%.
Votes in favour: 99.9068%.

Six 3.- Appointment for the statutory term of three (3) years of,
Juan Rosell Lastortras as a Company Director.
Votes against: 1.7699%.
Abstentions: 0.0004%.
Votes in favour: 98.2297%.

Six 4.- Re-election and, where applicable, appointment for the statutory term of three (3) years of,
José Arcas Romeu as a Company Director.
Votes against: 0.
Abstentions: 0.
Votes in favour: 100%.

Seven.- Examination and approval, if appropriate, of the merger balance sheet that corresponds to the Gas Natural SDG,S.A. balance sheet as of 31 December 2008, verified by the Company's auditing firm; of the project for merger by absorption of Unión Fenosa, S.A. and Unión Fenosa Generación, S.A. (merged companies) by Gas Natural SDG,S.A. (merging company) and of the operation for the merger by absorption of Unión Fenosa, S.A. and Unión Fenosa Generación, S.A. (merged companies) by Gas Natural SDG,S.A. (merging company), with the extinction of the first two companies and the block transfer of all its assets to Gas Natural SDG,S.A., all of this in agreement with the merger project.
Votes against: 0.0459%.
Abstentions: 0.0440%.
Votes in favour: 99.9101%.

Eight.- Examination and approval, if appropriate, of the capital increase of Gas Natural SDG, S.A. to the amount of twenty-six million two hundred and four thousand eight hundred and ninety five euros (26,204,895 euros) through the issue of 26,204,895 new shares with individual face value of one euro, of the same class and series as those currently in circulation. as a consequence of the above merger operation and depending on the approved exchange rate and consequential amendments, if any, of Articles 5 "Social Capital" and 6 "Assets" of the Articles of Association. Requesting admission to trading of all issued shares in the stock exchanges of Barcelona, Madrid, Bilbao and Valencia as well as their transaction through the Spanish Stock Exchange Interconnection System (Continuous Market).
Votes against: 0.0458%.
Abstentions: 0.0428%.
Votes in favour: 99.9114%.

Nine.- Authorisation to the Board of Directors for the derivative acquisition of own shares, either directly or through companies of Gas Natural SDG, S.A., 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 21 May 2008.
Votes against: 0.0004%.
Abstentions: 0.0008%.
Votes in favour: 99.9988%.

Ten.- Authorisation for the Board of Directors, in accordance with the provisions laid down in Article 153 1. b) of the Spanish Companies Act, so that, within the maximum term of five (5) years, if it considers it appropriate, it can increase the share capital, to the maximum quantity corresponding to 50% of the social capital of the Company, with the possibility of incomplete subscription, on the date of the authorisation issuing shares with or without the right to vote, with or without a premium, up to half the share capital, in one or more times and on the occasions and to the amount it considers appropriate, rewriting the temporary Article of the Articles of Association.
Votes against: 0.7547%.
Abstentions: 0.0405%.
Votes in favour: 99.2048%.

Eleven.- Modification of certain articles of the Articles of Association and adaptation in one context of its content, incorporating the modification agreed by the General Meeting.

11.1.- Modification of Article 2 of the Articles of Association. (Corporate purpose).
Votes against: 0.0460%.
Abstentions: 0.0013%.
Votes in favour: 99.9527%.

11.2.- Modification of Article 9 of the Articles of Association. (Capital call and shareholder default).
Votes against: 0.0007%.
Abstentions: 0.0008%.
Votes in favour: 99.9985%.

11.3.- Modification of Article 15 of the Articles of Association. (Preferential subscription rights).
Votes against: 0.0519%.
Abstentions: 0.0008%.
Votes in favour: 99.9473%.

11.4.- Modification of Article 16 of the Articles of Association. (Exclusion of preferential subscription rights).
Votes against: 0.0519%.
Abstentions: 0.0009%.
Votes in favour: 99.9472%.

11.5.- Modification of Article 17 of the Articles of Association. (Reduction of share capital).
Votes against: 0.0007%.
Abstentions: 0.0009%.
Votes in favour: 99.9984%.

11.6.- Modification of Article 18 of the Articles of Association. (Issue of debentures).
Votes against: 0.0007%.
Abstentions: 0.0009%.
Votes in favour: 99.9984%.

11.7.- Modification of Article 32 of the Articles of Association. (Specific agreements and majorities).
Votes against: 0.0007%.
Abstentions: 0.0009%.
Votes in favour: 99.9984%.

11.8.- Modification of Article 64 of the Articles of Association. (Distribution of dividends).
Votes against: 0.0007%.
Abstentions: 0.0009%.
Votes in favour: 99.9984%.

11.9.- Modification of Article 69 of the Articles of Association. (From the merger and spin-off).
Votes against: 0.0007%.
Abstentions: 0.0009%.
Votes in favour: 99.9984%.

11.10.- Adaptation of Articles of Association.
Votes against: 0.0494%.
Abstentions: 0.0013%.
Votes in favour: 99.9493%.

Twelve.- Delegation of powers of attorney to supplement, develop, execute, remedy and formalise the decisions taken by the General Meeting.
Votes against: 0.00003%.
Abstentions: 0.0003%.
Votes in favour: 99.99997%.

E.9 Indicate whether or not there is a statutory restriction to the minimum number of shares required to attend the General Meeting:

Yes ☒	No ☐

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.

Pursuant to Article 34 of the Articles of Association, any shareholder with right of attendance may be represented at the General Meeting by another person who must be a shareholder, with the equal right of attendance, informing the Company of the representation at least three days before the meeting is held.

The representation must be conferred in writing for each General Meeting except the provisions set forth in Article 108 of the Spanish Companies Act. Representation may be revoked at any time. Personal attendance at the General Meeting of the person represented may be revoked.

Likewise, Article 8 of the Regulations of the General Meeting indicates that the right to attend the General Meeting may be delegated in favour of another shareholder who also has the right of attendance.

The representation should be stated in writing or by any means of remote communication such as postal correspondence, telephone, email, sms or any other electronic means of communication supported by the Company for this purpose.

The Company will report on the corporate website and in any other media it deems appropriate on the representation system by remote media and on the guarantees that it requires with regard to the identity and authenticity of the shareholder granting the representation and the security and integrity of the content of the remote communication. Accordingly, the Company may require the use of a recognised electronic signature or any other system that, in the sole judgement of the Board of Directors or the body or persons who the Board delegates this power of attorney, is deemed to satisfy the sufficient security guarantees.

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.

In cases where 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:

Yes ☐	No ☒

E.12 Indicate the address and means of access to corporate governance content 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 SDG, 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 10 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 15 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 SDG, 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 10 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 10 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 2 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 epigraph: 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. When the number of female Directors is very low or non-existent, the Board should explain the reasons and the initiatives adopted to correct this situation; and, more specifically, the Appointments Committee should ensure 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. **The Chairman, as the person responsible for the effective performance of the Board should ensure, that the Directors receive sufficient information beforehand; stimulate 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 organise and coordinate 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 epigraph: 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 epigraph: 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:

"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 epigraph: 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 epigraph: 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 partiall

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 to be observed in the contracts of those who exercise senior management functions as Executive Directors including:

- **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 epigraph: 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 Remuneration 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 a Delegated or Executive 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 epigraph: 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. In addition to the Audit Committee required through the Securities Market Act, the Board of Directors constitute one Committee, or two separate Committees, for Appointments and Remuneration.

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 epigraph: 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. The supervision of compliance with the internal codes of conduct and the rules of corporate governance should be 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. 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 epigraphs: 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) Ensuring the observance of the remuneration policy laid down by the Company.

See epigraph: B.1.14, 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 A.1

The General Meeting of 26 June 2009 adopted a capital increase agreement of 26,204,895 shares that were registered in the Mercantile Register of Barcelona on 4 September 2009, resulting in a total social capital of 921,756,951 shares.

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 14 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.

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;

Yes ☐	No ☒

This Annual Corporate Governance Report has been adopted by the Board of Directors of the Company in its session held on 29/01/2010.

Indicate whether or not there have been Directors who voted against or abstained from voting on the adoption of this report.

Yes ☐	No ☒

Consolidated Data 2005-2009

Consolidated Data 2005-2009

Operating statistics

	2009	2008	2007	2006	2005
Gas distribution (GWh)	**402,691**	**481,414**	**453,172**	**432,956**	**422,912**
Spain	229,586	270,073	271,058	258,758	254,774
Regulated gas sales	26	14,177	38,288	44,660	51,121
TPA	229,559	255,896	232,770	214,098	203,653
Latin America	169,612	208,408	179,314	171,750	165,408
Regulated gas sales	107,196	144,065	115,132	106,849	99,891
TPA	62,416	64,343	64,182	64,901	65,517
Italy	3,494	2,933	2,800	2,448	2,730
Regulated gas sales	2,974	2,632	2,635	2,347	2,652
TPA	521	301	165	101	78
Gas supply (GWh)	**286,152**	**292,629**	**292,730**	**294,451**	**305,324**
Spain[1]	234,230	239,090	245,566	251,410	259,649
International	51,922	53,539	47,164	43,041	45,675
Unión Fenosa Gas (GWh)					
Commercialisation	34,854	–	–	–	–
Trading	10,785	–	–	–	–
Gas transportation/EMPL (GWh)	**109,230**	**133,497**	**124,150**	**129,499**	**145,923**
Gas distribution network (km)	**118,658**	**115,295**	**109,759**	**104,528**	**100,150**
Spain	50,697	48,578	45,429	42,364	39,611
Latin America	62,315	61,196	59,555	58,152	56,763
Italy	5,645	5,521	4,775	4,012	3,776
Increase in gas distribution points (thousands)	**298**	**377**	**453**	**483**	**615**
Spain	112	161	246	301	325
Latin America	169	176	170	150	253
Italy	17	40	37	32	37
Gas distribution points (thousands) as at 31/12	**11,790**	**11,492**	**11,115**	**10,662**	**10,179**
Spain	5,954	5,842	5,681	5,435	5,134
Latin America	5,422	5,253	5,077	4,907	4,757
Italy	414	397	357	320	288
Contracts per customer in Spain as at 31/12	**1.4**	**1.4**	**1.4**	**1.4**	**1.5**
Employees as at 31/12	**16,691**	**6,842**	**6,953**	**6,686**	**6,717**
Electricity generated (GWh)	**54,125**	**31,451**	**18,700**	**–**	**–**
Spain	28,728	18,130	16,975	–	–
International	25,397	13,321	1,725	–	–
Electricity distribution (GWh)	**34,973**	**–**	**–**	**–**	**–**
Spain	21,435	–	–	–	–
International	13,538	–	–	–	–
Electricity distribution points (thousands) as at 31/12	**8,663**	**–**	**–**	**–**	**–**
Spain	3,698	–	–	–	–
International	4,965	–	–	–	–

(1) Does not include exchange transactions.

Financial statistics

Balance sheet figures (in millions of euros)

	2009	2008	2007	2006	2005
Gross property, plant and equipment and intangible fixed assets	34,586	16,456	15,638	13,592	12,706
Consolidation goodwill	6,056	546	541	441	456
Provisions and accumulated depreciation	(5,635)	(5,397)	(4,838)	(4,298)	(3,801)
Net property, plant and equipment and intangible fixed assets	**35,007**	**11,605**	**11,341**	**9,735**	**9,361**
Financial investments	**745**	**2,862**	**757**	**560**	**884**
Net equity attibuted to the parent company	**10,681**	**6,376**	**6,070**	**5,652**	**5,411**
Minority interests	**1,496**	**345**	**357**	**344**	**355**
Grants	**705**	**606**	**543**	**478**	**433**
Non-current financial liabilities	**18,658**	**4,451**	**3,075**	**2,590**	**3,304**
Current financial liabilities	**2,849**	**934**	**1,004**	**628**	**512**

Profit and loss account figures (in millions of euros)

	2009	2008	2007	2006	2005
Sales	14,879	13,544	10,093	10,348	8,527
Other operating income and release of fixed assets to income	170	95	81	124	108
Operating income	**15,049**	**13,639**	**10,174**	**10,472**	**8,635**
Gross operating profit	**3,937**	**2,564**	**2,277**	**1,912**	**1,519**
Net operating profit	**2,448**	**1,794**	**1,567**	**1,263**	**969**
Financial expenses and income, fair value variations in financial instruments and net exchange differences	(817)	(263)	(224)	(267)	(221)
Gain on sales of financial instruments	101	14	64	230	286
Financial profit/loss	**(716)**	**(249)**	**(160)**	**(37)**	**65**
Income before taxes	**1,791**	**1,551**	**1,415**	**1,231**	**1,068**
Consolidated net income for the year	**1,351**	**1,172**	**1,056**	**929**	**827**
Consolidated net income for the year attributed to the parent company	**1,195**	**1,057**	**959**	**855**	**749**

Cash flow statement figures (in millions of euros)

	2009	2008	2007	2006	2005
Net cash generated from operating activities	**2,512**	**2,023**	**1,829**	**1,454**	**838**
Payments for purchases of Property, plant and equipment and intangible fixed assets	**1,792**	**1,088**	**1,135**	**1,159**	**1,151**
Payments for other investments	**14,362**	**1,741**	**1,041**	**46**	**436**
Proceeds for divestitures	**2,068**	**66**	**176**	**358**	**472**
Dividends paid	**756**	**580**	**521**	**451**	**368**
Proceeds/Repayment of borrowings	**9,039**	**1,286**	**730**	**(451)**	**560**

Stock market statistics

	2009	2008	2007	2006	2005
Number of shares traded (millions)	737	376	407	309	241
Funds traded (millions of euros)	9,777	11,833	15,649	8,019	5,537
Final share price (euros)	15.09	19.29	40.02	29.99	23.66
Final adjusted share price (euros)*	15.09	16.43	34.08	25.54	20.15
Maximum (euros)	22.28	42.45	45.76	32.88	24.88
Maximum adjusted (euros)*	18.97	36.15	38.97	28.00	21.19
Minimum (euros)	8.39	18.51	29.00	21.74	21.33
Minimum adjusted (euros)*	7.14	15.76	24.70	18.51	18.16
Book value per share (euros)	15.05 *	15.01/13.03 *	14.35	13.39	12.88
EBITDA per share (euros)	4.97 *	5.73/4.87 *	5.08	4.27	3.39
Net profit per share (euros)	1.48 *	2.36/2.05 *	2.14	1.91	1.67
Share price-book value ratio	1.0 *	1.3	2.8	2.2	1.8
Enterprise value-EBITDA ratio	7.2	5.3	9.5	8.6	9.4
Share price-profit ratio	10.2 *	8.2	18.7	15.7	14.1
Dividend-stock market capitalisation ratio (%)	5.3	7.7	2.8	3.3	3.6
Dividend-profit ratio (%)	61.1	62.7	53.2	51.4	50.2
Share capital (number of shares as at 31/12)	921,756,951	447,776,028	447,776,028	447,776,028	447,776,028
Stock market capitalisation (millions of euros)	13,905	8,638	17,920	13,429	10,594
Dividend (millions of euros)	730	663	510	439	376

* Considering adjustments arising from the capital increase with preferential subscription rights carried out in March 2009.

Stock market statistics

	2009	2008	2007	2006	2005
Number of shares traded (millions)	737	376	407	309	241
Funds traded (millions of euros)	9,777	11,833	15,649	8,019	5,537
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Final adjusted share price (euros)*	15.09	16.43	34.08	25.54	20.15
Maximum (euros)	22.28	42.45	45.76	32.88	24.88
Maximum adjusted (euros)*	18.97	36.15	38.97	28.00	21.19
Minimum (euros)	8.39	18.51	29.00	21.74	21.33
Minimum adjusted (euros)*	7.14	15.76	24.70	18.51	18.16
Book value per share (euros)	15.05 *	15.01/13.03 *	14.35	13.39	12.88
EBITDA per share (euros)	4.97 *	5.73/4.87 *	5.08	4.27	3.39
Net profit per share (euros)	1.48 *	2.36/2.05 *	2.14	1.91	1.67
Share price-book value ratio	1.0 *	1.3	2.8	2.2	1.8
Enterprise value-EBITDA ratio	7.2	5.3	9.5	8.6	9.4
Share price-profit ratio	10.2 *	8.2	18.7	15.7	14.1
Dividend-stock market capitalisation ratio (%)	5.3	7.7	2.8	3.3	3.6
Dividend-profit ratio (%)	61.1	62.7	53.2	51.4	50.2
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