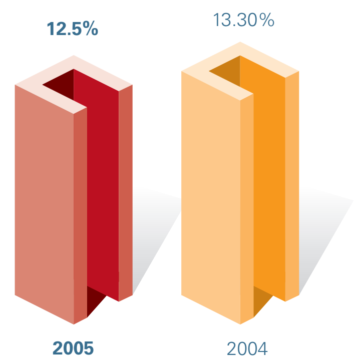
gasNatural

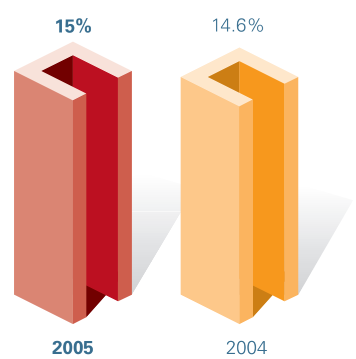
Annual Report 2005

Basic Figures

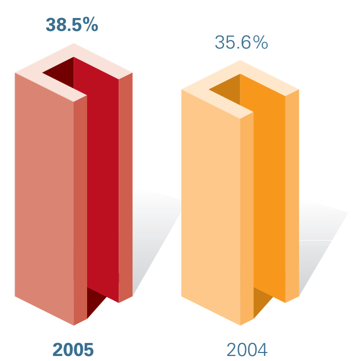
ROACE (1)



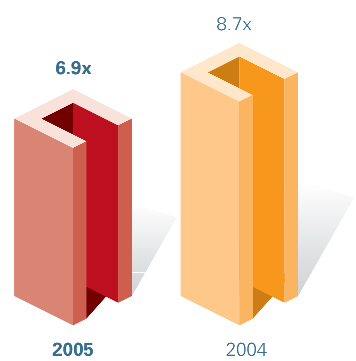
ROE (2)



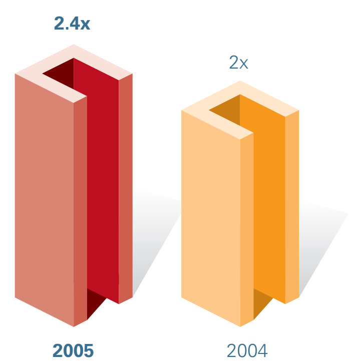
Debts (3)



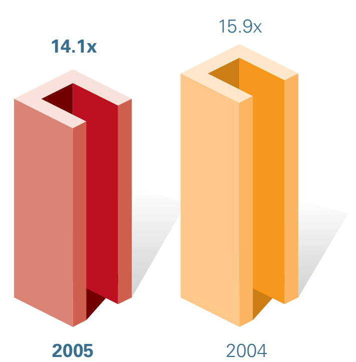
Ebitda / Net Financial Results



Net Debt / Ebitda



P/E



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

(2) Profits after tax/Average net worth.

(3) Net financial debt (Net financial debt+Net worth+Minority interests).

Operation

	2005	2004	Variation (%)
Gas Supply (GWh)	**317,555**	288,055	10.2
Gas Transportation/EMPL (GWh)	**145,923**	115,637	26.2
Gas Supply Points (in thousands)	**10,179**	9,565	6.4
Gas Distribution Network (km)	**100,150**	95,155	5.2
Electricity Generated (GWh)	**10,466**	7,272	43.9
Contracts per Customer in Spain	**1.47**	1.37	7.3

Personnel

	2005	2004	Variation (%)
Number of Employees	**6,717**	6,697	0.3

Financial (millions of euros)

	2005	2004	Variation (%)
Net Turnover	**8,526.6**	6,266.2	36.1
Gross Operating Income (Ebitda)	**1,518.8**	1,335.3	13.7
Operating Profit	**968.6**	861.6	12.4
Total Investments	**1,483.7**	1,503.5	(1.3)
Profit Attributable to the Group	**749.2**	642.0	16.7

Stock Information (euros/share)

	2005	2004	Variation (%)
Share Prices as at 31 December	**23.66**	22.76	4.0
Book Value	**12.83**	10.7	19.9
Profit	**1.67**	1.43	16.8
Dividend	**0.84**	0.71	18.3

Dear Shareholders,

I am once again honoured to be addressing all of you for the purpose of presenting the 2005 financial year result and to explain our future projects and strategy. Prior to doing this, please allow me to comment briefly on two relevant facts that have marked the trend of a year that has been especially significant in the history of our Group.

The first of these is the Public Offer of Shares which we presented on 5 September for 100% of Endesa. This operation clearly defines our strategy of creating a leading and global Spanish Company with excellent skills in energy management in high-growth markets and, of course, strongly geared towards its customers.

This leads me to the second relevant fact. We have exceeded the figure of 10 million customers in the total of our markets in Spain, Latin America and Italy. This consolidates and strengthens our leadership position as a multinational Company of energy services, with a presence in 11 countries and operating activities throughout the natural gas energy chain.

In recent months, Gas Natural SDG has acquired an extremely strong and noteworthy relevance in Spanish and European energy sectors as a consequence of our offer for Endesa. Regardless of the fact that we have attained the corresponding authorisations from the obligatory regulatory bodies, both national and international under current legislation, the operation is currently subject to legal situations that are causing a delay.

To you Shareholders I would say that although we are faced with longer deadlines than were first thought, I reiterate that our project, as well as being integrating and open, has always responded to clear business logic by helping us to fulfil our strategic objectives in advance and to increase the creation of value for the Gas Natural SDG and Endesa Shareholders. It also offers new opportunities to the employees of both Companies and benefits consumers, as the creation of energy market with more effective competition between operators will lead to greater effectiveness in the service, with subsequent lower costs. This will strengthen the Spanish energy sector and well as ensure energy supplies and the essential investments in Spain, at the same time as increasing the negotiation power of our country on the international stage.

The 2005 results and strategic operating lines

In this regard I should especially like to underline the wonderful year-on-year results that the Group obtained in 2005. These include the net profit of almost 750 million euros, with an increase of 16.7%; the consolidated ebitda, with 1,518.8 million euros, which continued its progressive trend and rose by 13.7% thanks to the electricity activity in Spain -which has doubled its results- and to the gas distribution in Latin America. Added to this, as I have already mentioned, the total figure in excess of 10 million gas distribution supply points, with the incorporation of 615,000 new customers in 2005.

These excellent results, which go a long way to revealing the potential for growth and profitability that our business project incorporates in Spain, in Latin America and in Europe, have led to a share dividend increase of 18.3%, in line with the policy announced in the Company's strategic plan.

For our Group, the strategic plan is based on the availability of flexible, competitive and diversified gas supply; leading the gas distribution in areas where the Company has a presence and favouring the development of the electric business, and becoming leaders of the multi-product offer in Spain.

In so far as gas supplies are concerned, our strategy ensures a diversified basket of contracts, both through the gas pipeline as well as through LNG tankers. In this field, the high purchase capacity of the Group, its knowledge of the market and the availability of its own fleet are key factors. To increase its competitive advantages, the Group has integrated itself upstream of the gas chain to take part in the exploration, production and liquefaction of natural gas, and hold a volume of natural gas equivalent to 15% of the demands.

We have therefore joined forces with Repsol YPF to create a joint-venture for the exploitation of these businesses, for the purpose of using the knowledge of both Companies and to share risks. Gas Natural SDG and Repsol YPF are currently developing their first integrated gas project in Algeria (Gassi Touil) via the construction of a natural gas liquefaction plant in Arzew, which is set to come into service in 2009. Projects in other countries that should materialise over the forthcoming months are already underway.

With regard to gas distribution, our Group is the leader in Spain and Latin America, where it distributes gas in Argentina, Brazil, Colombia and Mexico. Moreover, we have consolidated this activity in Italy. As you are aware, we have notable experience in this business, especially in the extension of the supply of gas in areas with high growth potential. Our strategy consists in favouring gasification of the areas in which the Group operates, to generate economies of scale and satisfy the profitability targets.

The generation of electricity through combined cycles of natural gas allows the convergence of both energies and, therefore, the development of this is one of our strategic priorities. We currently have 2,800 MW of electrical power installed with this technology, and a significant portfolio of projects underway will allow us to reach 4,800 MW in service at the end of 2008. In the last quarter of 2005, three 400 MW generating units of the combined-cycle power station in Escombreras, Cartagena, were synchronised with the national electricity grid. This is the largest power station in Spain with these characteristics. Also in 2005, the Group purchased DERSA, one of the leading Spanish Companies in wind energy, for the purpose of diversifying the technologies used for the production of electricity and to increase the installed power.

Customer focus is one of the Group's trademarks. A recognised brand image and high service quality, together with potent commercial force and an attractive commercial offer place Gas Natural Group as the leader in the sector. Our strategy is targeted at increasing both customer loyalty as well as the profitability of the activity based on
a wide range of value-added services, such as the joint offer of gas and electricity and the provision of other financial and domestic services.

Please allow me to sign off by sincerely thanking you for the confidence and loyalty you have always shown in the Company. We hope to continue responding as we have done to date and we also hope that you will encourage us to continue along the path that we have set out upon. I should also like to express my grateful thanks to the men and women of the Gas Natural Group whose work, dedication and effort will allow us to face new and future challenges of growth, service and profitability together.

Salvador Gabarró Serra
Chairman of the Board of Directors

Most Significant Events

First Quarter

• The Board of Directors of Gas Natural SDG welcomed Rafael Villaseca as a new member of the Board, and approved his nomination as Chief Executive Officer of the company, upon recommendation from Respol YPF. In the same session, the Board welcomed Guzmán Solana, Nemesio Fernández Cuesta and Carlos Kinder as Propietary Directors, and Miquel Valls as Independent Director.

• The Gas Natural Foundation and the Xunta de Galicia Regional Government signed a partnership agreement to promote actions for the protection of the environment in Galicia, in the context of a seminar on cogeneration organised by the Foundation in Santiago de Compostela.

• The Gas Natural Group signed an agreement with the Efe Agency to finance six bursaries for its Masters in Journalism during the 2005-2006 academic year.

• Gas Natural Castilla-La Mancha began supplying the first customers of the Quintanar de la Orden municipal area (Toledo).

• The Gas Natural Foundation held the "Cogeneration in Galician Industry and Services" seminar in Santiago. Likewise, the Foundation signed a partnership agreement with the Department for the Environment of the Xunta de Galicia for the implementation of actions of public interest for the protection of the environment in the Autonomous Region of Galicia.

• The Gas Natural Customer Service Guarantee Office was created, taking charge of ultimately resolving claims and informing customers of their rights and obligations in relation to the company, among other functions.

• Gas Natural Servicios began supplying electricity in the Canary Islands and signed an agreement with the ASEINCA business group to supply its approximately 300 members.

• Gas Natural México signed an agreement with the Mexican College of Chemical Engineers and Chemists (CONIQQ) with the aim of promoting the use of natural gas in the country. The agreement envisages the implementation of training courses for communities and local and state authorities in all cities in which the distributor operates.

• CEG began supplying the first customers in Niterói, the second largest market in the State of Rio de Janeiro.

• The Board of Directors approved the Code of Conduct for the Group's employees.

Second Quarter

• Gas Natural Servicios, together with the insurance broker Marsh, S.A., leading firm in the insurance consultancy and brokerage market, launched a new range of products and services aimed at property developers, increasing their commercial offering to this sector for the first time.

• The Gas Natural Foundation and the Generalitat Valenciana Regional Government signed a partnership agreement in order to implement actions of public interest for the protection of the environment and sustainable development.

• Gas Natural Servicios signed an agreement with EPYME (the Seville Provincial Association of Authorised Installers) so that the 900 member companies of EPYME in Seville and its

province will benefit from Gas Natural Group's offers, both for their businesses and for their employees of gas and electricity for the liberalised market.

• Gas Natural Castilla-La Mancha sponsored a recital at the 11th Toledo International Music Festival.

• The Gas Natural Foundation organised a new seminar on housing and the environment in Toledo. Various experts contributed ideas on how to build property causing the least possible impact on the environment and how to make this new direction compatible with the profitability sought after by the real-estate companies.

• The Gas Natural Group presented the manual entitled *Solar-Gas*, a calculation and design guide for sanitary hot water installations in homes which use a combination of solar energy and natural gas.

• The Gas Natural Group finalised, for 272 million euros, the purchase of 100% of the Navarre company Desarollo de Energías Renovables, S.A. (DERSA), and became one of the main wind power operators.

• The Gas Natural Group held its General Meeting of Shareholders in Barcelona, in which the annual accounts for the year 2004 were approved envisaging an 11.5% increment in net profit and an increase of the dividend by 18%. Likewise, an investment of 1,850 million euros during 2005 was approved in order to continue the implementation of the Strategic Plan.

• The Gas Natural Foundation sponsored a pilot scheme for the Navarre Environmental Resources Centre. This initiative was part of the "Promotion of Energy Saving and Efficiency in Residents Associations" project, directed at promoting measures and criteria for energy saving and efficiency in residential areas.

• The Natural Gas Foundation held a seminar in Pamplona promoting the economic and environmental advantages of distributed electricity generation.

• For the fifth time, Gas Natural SDG received the "Llotja" prize from the Barcelona Chamber of Commerce for the best information provided by a trading company to shareholders and the market.

• Gas Natural SDG and Repsol YPF agreed on the creation of the joint venture "Repsol-GasNatural LNG S.L." aimed at wholesale marketing, trading and transportation of LNG. The venture will improve the competitive position of LNG in the international market, facilitate access to new wholesale markets, increase the flexibility of its procurement, increase its power to act, and enhance operating and market risk management.

• Gas Natural Castilla y Leon began supplying the Doñinos locality of Salamanca.

• Gas Natural Servicios signed an agreement with the Santa Coloma de Gramenet Trade and Industry Group in order to offer gas and electricity to the 800 members of the Group and their employees.

• Gas Natural Cegas arrived at the San Juan locality of Alicante.

• Gas Natural Castilla y Leon sponsored the permanent exhibition on natural gas opened at the Valladolid Science Museum.

• The Gas Natural Foundation organised a seminar on housing and the environment in Toledo, with the aim of strengthening the pioneering initiatives being carried out to promote sustainable construction in the region.

• Gas Natural SDG signed an agreement with the Lealtad Foundation, in order to work with the NGOs analysed in the "Guía de la Transparencia y las Buenas Prácticas" (Transparency and Good Practice Guide) written by the Foundation.

• Gas Natural Servicios signed an agreement with COEVAL (the Vall d'Albaida Business Confederation) in order to offer its products under the best possible conditions to the employees and companies that are members of the Group.

• The Gas Natural Group changed its organisational structure to adapt to the strategic challenges posed by its vision of growth which it is developing, and to the environment in which it competes.

• The Community of Madrid and the Gas Natural Foundation, in cooperation with the city council, promoted a new seminar on sustainable construction putting forward the latest construction solutions of reduced environmental cost which have been implemented in four new projects in the Community of Madrid.

• Gas Natural Andalucia reached customer number 250,000 in the region.

• Gas Natural Murcia sponsored the "In Harmony with Nature" concert by the Murcia Region Symphonic Orchestra at the Teatro Circo in Cartagena.

• Gas Natural SDG sponsored a concert promoted by the Conservatori del Licell in Barcelona to raise funds for the academy's grants.

• Gas Natural Galicia inaugurated the Nigran-Baiona-Gondomar pipeline, an infrastructure more than 22 kilometres in length and of great technical complexity, in which 2 million euros have been invested.

• Gas Natural Cegas began supplying the first customers in the Montaverner municipal area (Valencia).

• ICO (the Spanish Official Credit Institute) concluded a loan with Gas Natural México of 1 billion Mexican pesos (equivalent to 75 million euros) to finance the Gas Natural Group investment plan in Mexico during forthcoming years.

• Gas Natural Castilla y Leon began supplying Cabrerizos (Salamanca).

• Gas Natural Andalucia agreed with the Seville Energy Agency to sponsor the "Seville is Energy" programmes, whose objective is the diffusion of basic concepts related to energy management and the promotion of energy saving among citizens.

• Gas Galicia invested 630,000 euros to begin supplying the Negreira municipal area of A Coruña.

• Gas Natural Andalucia began its activity in the Osuna locality (Seville).

• Gas Natural Rioja began supplying natural gas to the first customers of Tirgo.

• Gas Natural SDG cooperated with the Department of Industry and the Environment and the city council of Cartagena on the implementation of the Aries project. The project seeks

to introduce a system for improving the control and monitoring of the air quality in the Cartagena and Mar Menor environment.

• Gas Natural SDG will invest around 800,000 euros to take supply to Gelida (Barcelona).

• The Gas Natural Group, together with other energy companies, cooperated with the Community of Madrid to start up the "Madridsolar" campaign, an initiative with the objective of promoting the use of solar energy in the region.

• Gas Natural Castilla-La Mancha began its activity in Quintanar de la Orden (Toledo).

• The Gas Natural Foundation and the Murcia Region Department of Industry and the Environment promoted a seminar on environmental quality in the food and agriculture business. During the day, both organisations signed a partnership agreement with the aim of developing joint actions to boost, promote and develop activities for diffusion, information, training and raising of awareness related to the environment.

• Gas Natural Andalucia began its activity in the municipal area of Motril (Granada).

• Gas Natural Servicios signed an agreement with AICO (the Benidorm and Province Independent Association of Traders) to offer its products, under the best possible conditions, both to the shops belonging to the association and to the employees.

• The Gas Natural Foundation and the Government of Castilla y Leon inaugurated the signage of the new paths in the Picos de Europa Regional Park, in Castilla y Leon. The project is part of the partnership agreement established between the two entities in 2003 with the aim of fostering the Region's Nature Reserves.

• Gas Natural Cegas invested 550,000 euros to take supply to Canet d'en Berenguer (Valencia).

• Gas Natural Servicios signed an agreement with FEDECOR (the Orihuela Federation of Commerce and Service), which will allow the 300 members of the Alicante federation to benefit from advantages when purchasing the Company's products.

• The mock-up of the new Gas Natural Group head office was exhibited at the Aedes Gallery in Berlin, the most prestigious in Europe.

• Gas Natural Cantabria sponsored the Symphonic Concert at the 250th Anniversary of Santander.

• Gas Natural Galicia began its activity in Rábade (Lugo).

• Gas Natural SDG welcomed José Arcas onto the Board of Directors as Independent Director.

• The Gas Natural Foundation cooperated with CEPA (the Environmental Studies and Planning Centre Foundation) for the publication of a book on sustainable development entitled "Sustainability Today, 2005" presented at the 31st International Book Fair held in Buenos Aires.

Third Quarter

• The Gas Natural Group, through their marketing company in France (Gas Natural Commercialisation), signed the first contracts to begin sale of natural gas in France.

• The Gas Natural Foundation and the Municipal Transportation Company (EMT) of Valencia organised the "Natural gas for self-propulsion: environmental and profitable" seminar, presenting the numerous environmental advantages offered by this energy source over the traditional petroleum based fuels.

• Gas Natural Galicia signed an agreement with the Santiago de Compostela (A Coruña) city council, to cooperate on the programming of the cultural activities of the 2005 Compostela Festival.

• Gas Natural SDG began supplying natural gas to Benissanet (Tarragona).

• Gas Natural Galicia sponsored the 2005 Pontevedra International Jazz Festival.

• Gas Natural México and the Gas Natural Foundation signed an agreement to support the scheme for driving the Small and Medium-sized Enterprise, implemented by Gas Natural México and FUNDES (Business Solutions Network), in partnership with the Mexican Treasury.

• Gas Natural Andalucia signed an agreement with the Department of Culture of the Junta de Andalucia Regional Government to sponsor the "West Eastern Divan" concert in Seville.

• Gas Natural Cantabria signed a partnership agreement to sponsor the "The Valkyrie" opera, part of the 54th Santander International Festival (FIS) programme.

• The Gas Natural Group announced that it will invest 42 million euros to build a wind farm of 50 MW in the municipal areas of Canredondo and Torrecuadradilla (Guadalajara).

• Gas Natural Cegas signed a partnership agreement with IVVSA (the Valencia Housing Institute) which will allow provision of natural gas to the residential areas promoted by IVVSA within Gas Natural Cegas catchment area in the Region of Valencia.

• The Gas Natural Group agreed with FACUA (the Consumers and Users in Action Association) to carry out joint actions for the promotion and diffusion of measures for informing and protecting users of the energy services provided by the Company.

• The new company Repsol-Gas Natural LNG, S.L. began wholesale trading, marketing and transportation of liquefied natural gas (LNG), following the formal incorporation of the company by Gas Natural SDG and Repsol YPF.

• Gas Natural Castilla y Leon began supplying natural gas to the Castrogonzalo municipal area (Zamora).

• The Gas Natural Foundation, together with the Viva Rio NGO, opened a training centre for young people and adults to learn about gas and civil construction, in the Cantagalo community of Rio de Janeiro (Brazil).

• The Gas Natural Group organised a selection process for the allocation of its publicity budget during the following three years. The contract was won by the Barcelona office of the JWT Group, formed by the JWT agency and RMG-Connect.

• The Board of Directors of Gas Natural SDG,S.A. agreed unanimously to launch a takeover bid for 100% of the share capital of Endesa, S.A.

• The Gas Natural SDG and Iberdrola companies signed an agreement for the sale and purchase of certain assets of the resulting company following the acquisition of Endesa, depending on the success of the process and included in the expected divestiture plan for the operation.

• The Gas Natural Foundation, in cooperation with the Navarre Government and the Navarre Environmental Resources Centre Foundation (CRAN), participated in the Soustenergy European project for the promotion of energy saving and efficiency.

• Gas Navarra began supplying the Cáseda locality.

• The general manager of the Gas Natural Foundation, Pedro A. Fábregas, and the vice-chancellor of the Technical University of Catalonia (UPC), Josep Ferrer Llop, signed an agreement to cooperate on the drafting of a book entitled "Air Quality".

• The Gas Natural Foundation presented "Young Spaniards in the Face of Energy and the Environment. Willingness and Fragile Premises", which reveals that young Spaniards have a readiness, but are also greatly confused in matters of energy saving.

• The Chairman of Gas Natural Group, Salvador Gabarró, met with the president of the Xunta de Galicia, Emilio Perez Touriño, in Compostela, to personally explain the takeover bid for Endesa made by the company.

• The Chairman of the Gas Natural Group, Salvador Gabarró, met with the president of Junta de Castilla y the Leon Regional Government, Juan Vicente Herrera, to explain the takeover bid for Endesa and reassure him about the future of the Endesa and Gas Natural SDG assets in the region.

• The Chairman of the Gas Natural Group, Salvador Gabarró, and the president of the Region of La Rioja, Pedro Sanz, presided over the official opening ceremony of the combined- cycle plant constructed by the Gas Natural Group in the Arrúbal locality (La Rioja).

• The Gas Natural Group brought together more than 25 national and international financial institutions interested in the syndicated financing of 7,806 million euros, which will cover the amount corresponding to the cash consideration for the takeover bid for 100% acquisition of Endesa.

• The Gas Natural Group enter the Dow Jones Sustainability World Index (DJSI World) the world index of companies committed to sustainability for the first time, and remained both on the European DJSI Stoxx Index and on the FTSE4Good Index for socially responsible corporations.

• The Chairman of Gas Natural Group, Salvador Gabarró, met with the president of the Junta de Andalucía, Manuel Chaves, to personally explain the takeover bid for Endesa made by the Company, and reassure him about the future of the assets and expected investments in Andalucia.

Fourth Quarter

• Gas Natural SDG segregated the regulated gas distribution and secondary gas transportation activities from the Company, which until then it had carried out itself. Gas Natural Distribución SDG became the regulated gas distribution branch, valued at 110 million euros, and Gas Natural Transporte SDG the secondary gas transportation branch, valued at 52 million euros.

• The Chairman of the Gas Natural Group, Salvador Gabarró, met in Santiago (Chile) with the president of the country, Ricardo Lagos, to personally explain the takeover bid for Endesa made by the Company.

• The Gas Natural Foundation presented a publication entitled "Climate Change in the Energy Industry: a New Wave of Investment Opportunities which Respect the Environment", edited by the Foundation and drafted by the independent institution Sustainable Asset Management (SAM).

• Salvador Gabarró visited the president of the Xunta de Galicia, Emilio Pérez Touriño, to inform him of the takeover bid for Endesa and reassure him that operation would not affect the Reganosa project or any other expected investments in the Region.

• The Chairman of Gas Natural Group, Salvador Gabarró, made a commitment to the president of the Canary Islands Government, Adán Martín Menis, to cooperate in the search for solutions for improving the energy system of the archipelago.

• The Distribution Manager of the Northern Zone for Gas Natural Group, Jesús López de Andrés, and the mayor of A Coruña, Francisco Vázquez, signed a partnership agreement to sponsor the Galicia Symphonic Youth Orchestra (JOSGA).

•The Chairman of the Gas Natural Group, Salvador Gabarró, reassured the president of the Junta de Extremadura Regional Government, Juan Carlos Rodríguez Ibarra, about the future of the assets and expected investments in the Region, and indicated that the takeover bid for Endesa would not affect the creation of wealth or the jobs that the two companies currently provide in the region.

• The Chairman of the Gas Natural Group Salvador Gabarró met in Toledo with the president of the Junta de Castilla-La Mancha, José María Barrera, to personally explain the takeover bid for Endesa made by the Company.

• The Gas Natural Foundation and the Generalitat de Catalunya Regional Government in cooperation with the College of Architects of Catalonia, organised a seminar on sustainable construction at the Barcelona Meeting Point Real-Estate Exhibition.

• Three generation units of 400 MW each, from the combined-cycle plant built by the Company in the Escombreras valley (Cartagena), were synchronised to the national electricity network by the Gas Natural Group.

• The Chairman of the Gas Natural Group, Salvador Gabarró, and the Environmental Minister, Cristina Narbona, opened the 5th International Seminar on Climate Change, analysing the opportunities presented to Spanish businesses by the application of Clean Development Mechanisms (CDM) envisaged in the Kyoto Protocol.

• The Gas Natural Foundation organised the "Environmental Quality in the Coastal Residential Property" seminar in Malaga, with the aim of promoting viable alternatives that harmonise the development of the tourist industry with protection of the environment.

• Gas Natural Andalucia and the University of Cordoba (UCO) signed a partnership agreement for the development of scientific, technical, cultural and academic activities specific to the UCO, particularly in relation to the natural gas industry.

• The Gas Natural Foundation, in cooperation with the Department of Land and Property of the Generalitat Valenciana, organised an environmental management seminar, "New Challenges for Sustainable Construction", in the context of the Valencia "City Development" contest.

• Gas Natural Cegas and the Palau de la Música concert hall in Valencia signed a partnership agreement under which the Distributor would sponsor the Valencia Orchestra season ticket concerts.

• The Gas Natural Group sponsored the "Don Quijote: 18th Century Spanish Tapestries" exhibition at the Museum of Santa Cruz in Toledo.

• The General Manager of the Gas Natural Foundation, Pedro A. Fábregas, and the manager of the Barcelona Institute of Economics (IEB), Martí Parellada, presented a book entitled "Environmental Taxation on Energy" in Barcelona: a study of the characteristics and development of environmental taxation on energy in Spain.

• Gas Natural Castilla y Leon began supplying natural gas to Camponaraya (Leon).

• The Gas Natural Group made a donation of 12,000 euros to the Meniños Children's Foundation, equivalent to the cost that would have been implied by the Group's Christmas greetings which once again were replaced by a letter this year.

Corporate Governance

As a system addressed at ensuring the transparency and efficiency of management, the Gas Natural Group is fully aware of the importance of good corporate governance practices. Such practices have been assimilated naturally in the Group on the premise that they represent greater value for the general and individual good of the shareholders, as well as for all other third parties that interact with the Company.

In this respect, the Gas Natural Group pays special attention to all of the actions which contribute to ensuring the transparency of company management, faithfully upholding not only the legislation in force (general rules and regulations), but also the internal regulations (regulations and codes of conduct established within the Gas Natural Group itself) approved by the competent governing bodies.

Corporate Governance practices are illustrated, not only in the normal daily activities of the Company, but also in the following reports: the present Annual Report, the Corporate Responsibility Report, the Corporate Governance Report, the Annual Report of the Audit and Control Committee, and the Annual Accounts (Balance Sheet, Report and Profit and Loss Accounts), as well as the Directors' Report drawn up by the Board of Directors, are drafted by the corresponding corporate bodies and submitted on a regular basis to the General Shareholders' Assembly, for their information or approval. The aforementioned information may be viewed on the Gas Natural Group website: www.gasnatural.com.

Good governance practices are spread essentially through the Company's various governing bodies. Apart from at least one General Meeting of Shareholders which is held every year as a minimum, in its role as the highest decision-making corporate body, the remaining corporate departments which organise and execute the aforementioned practices are: The Board of Directors and its delegated or proposal and report Committees, namely the Executive Committee, the Appointments and Remuneration Committee, the Strategy, Investment and Competence Committee, the Audit and Control Committee and finally, at the executive level, the Management Committee.

These corporate bodies meet regularly to adopt their respective decisions relating to corporate interest understood in its broadest sense, i.e., how to make the most of the financial and corporate value of the Company in a sustainable manner.

	Board of Director	Executive Committee	Audit and Control Committee	Appointments and Remuneration Committee	Strategy, Investment and Competences Committee	Type of Director
Chairman	Mr. Salvador Gabarró Serra	President		President		Executive
Deputy Chairman	Mr. Antonio Brufau Niubó	Board Member		Board Member		Proprietary
Chief Executive Officer	Mr. Rafael Villaseca Marco	Board Member				Executive
Board Member	Mr. Enrique Alcántara-García Irazoqui			Board Member		Proprietary
Board Member	Caixa d´Estalvis de Catalunya Represented by Mr. José María Loza Xuriach					Proprietary
Board Member	Mr. José Arcas Romeu					Independent
Board Member	Mr. Santiago Cobo Cobo	Board Member			Board Member	Independent
Board Member	Mr. Nemesio Fernández-Cuesta Luca de Tena					Proprietary
Board Member	Mr. José Luis Jové Vintró	Board Member				Proprietary
Board Member	Mr. Carlos Kinder Espinosa	Board Member			Board Member	Proprietary
Board Member	Mr. Emiliano López Achurra					Independent
Board Member	Mr. Carlos Losada Marrodán	Board Member			President	Independent
Board Member	Mr. Fernando Ramírez Mazarredo		Board Member			Proprietary
Board Member	Mr. Guzmán Solana Gómez	Board Member	President			Executive
Board Member	Mr. Miguel Valls Maseda		Board Member			Independent
Board Member	Mr. Jaime Vega de Seoane Azpilicueta					Independent
Board Member	Mr. José Vilarasau Salat					Proprietary
Non-Director Assistant Secretary	Mr. Felipe Cañellas Vilalta	Non-Director Assistant Secretary	Non-Director Assistant Secretary	Non-Director Assistant Secretary	Non-Director Assistant Secretary	










Management Committee

With a view to adapting to the new strategic challenges it will be facing, in the month of May 2005 the Company decided to reorganise the Management Committee, which is now configured as follows:

(from left to right, from top to bottom)

Chief Executive Officer
Mr. Rafael Villaseca Marco

Chief Financial Officer
Mr. Carlos J. Álvarez Fernández

Managing Director of Gas Management
Mr. José Mª Egea Krauel

Managing Director of Wholesale
Mr. Manuel Fernández Álvarez

Chief Corporate Officer
Mr. Antonio Llardén Carratalá

Managing Director of Retailing
Mr. Joan Saurina Gispert

Managing Director International
Mr. Alberto Toca Gutierrez-Colomer

Manager of Strategy and Development
Mr. Antonio Basolas Tena

Manager of Legal Services
Mr. Manuel García Cobaleda

Manager of Communications Office
Mr. Jordi García Tabernero

Corporate Management

Human Resources

The Gas Natural Group has 6,717 employees in nine countries (Argentina, Brazil, Colombia, Spain, France, Italy, Morocco, Mexico and Puerto Rico), of which approximately 70% are men and 30% are women. The average age of employees is 40.2, and average seniority with the Company is 12.4 years.

The Group's human resources policy follows the lines defined in the corporate Mission, Vision and Values, and focuses on fostering an environment of respect in the workplace that encourages and facilitates employee training, growth and professional development. Thus, the company endeavours to achieve the commitment and motivation of all the members of its staff, whom it considers the most important factor of its success. From this perspective, the Group promotes the concept of participation in a collective project which targets the attainment of three strategic goals: profitability, growth and quality.

In 2005, the main activities carried out by the Gas Natural Group in the scope of human resources were addressed at adapting to the challenges posed by the new vision of the Company's growth and the environment in which it competes. This environment is undergoing significant changes that indirectly affect the Gas Natural Group's business model and the contribution it expects from its staff. The Company has made changes in its organisational structure, which defines people as the cornerstones of growth and fosters transversal relations.

Likewise, it is important to highlight that Gas Natural SDG, S.A. segregated its gas distribution and transport activities to the new companies Gas Natural Distribucion SDG, S.A. and Gas Natural Transporte SDG, S.L. This involved the corresponding segregation of assets and subsequent incorporation of the 1,079 employees affected by the segregation of the gas distribution division into Gas Natural Distribucion SDG, S.A. A new collective Bargaining Agreement was signed in the new company that established the same working conditions for employees as in the original company.

The changes in the Company's organisational structure have driven forward human resources proximity within the various Group businesses. The human resources managers in each of the businesses aim their work at encouraging mobility, internal promotion and the identification of potential, establishing the basis for defining development and training plans.

Training Data (2005)

	Spain	Morocco	Argentina	Brazil	Colombia	Mexico	Italy	Puerto Rico	Total
Number of courses	1,162	68	239	332	281	301	63	75	**2,477**
Total course hours	109,558	7,850	14,742	22,087	38,416	24,050	6,666	1,136	**223,655**
Training hours per employee	29.51	72	23.29	39.23	67.51	37.58	16.38	14.38	**33.30**
Annual investment in training (€)	1,561,300	50,500	96,000	277,800	176,400	364,700	177,300	78,561(*)	**2,703,700**
Investment in training per person (€)	420.61	463.3	151.66	493.43	310.02	570	435.63	994.45	**402.52**
Participants	3.067	111	475	515	574	689	383	493	**5,695**
Attendees	9,158	369	1,753	2,114	5,543	2,242	539	70	**21,729**

(*) Value Received in US Dollars ($93.331). Exchange rate applied 1.188 $ x €

With a view to promoting mobility, the company developed the mechanisms to request transfers on the corporate intranet, affording general access by all the Group employees. Through this process, all requests for internal, functional or geographical transfers are received and studied, examining the possible internal and inter-business movements that favour the best adjustment and performance in the position. This tool has been instrumental in filling vacant positions via internal promotion. Once again this year, new Professional Development Programs (PDP) were offered to employees covered under the collective bargaining agreement.

As in previous years, the Gas Natural Group encouraged continual training to effectively meet employee training needs. The 2005 Training Plan served as the blueprint for training activities and various educational actions were renewed and added to it in response to the business challenges that Gas Natural Group faces at present and in the immediate future.

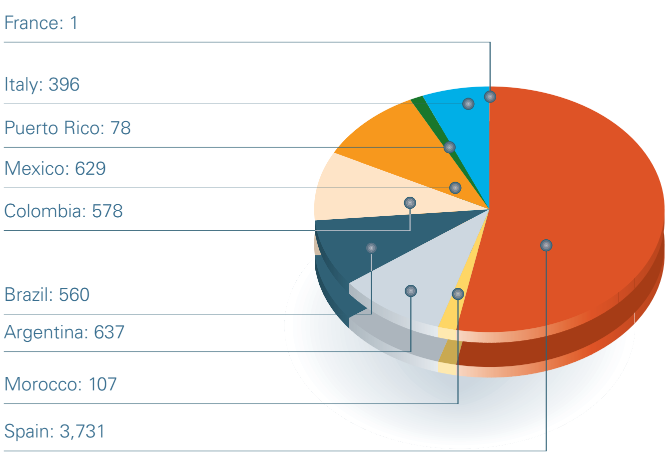
Throughout 2005, a total of 2,477 training courses were offered and attended by 5,695 employees, some of whom participated in more than one learning event, bringing the total number of attendees up to some 21,800.

Online training via the Acerca platform, a tool designed to foster professional development in the company's employees, continued to be a successful initiative. This platform went international in 2005, a move aimed at establishing a single and centralised access to the Group's online Resources and Learning Content Environment for the over 6,000 users in Spain, Morocco, Argentina, Mexico, Colombia, Brazil and Italy.

Within the 2005 Training Plan, another significant highlight was the training involved in the implementation of the ECO and COMPRAS projects, undertaken to meet the need to provide training, information and support for the various modules of the SAP Business Financing and Purchasing applications. Increased e-learning and recycling of the Technical Services in Spain were two other significant training initiatives.

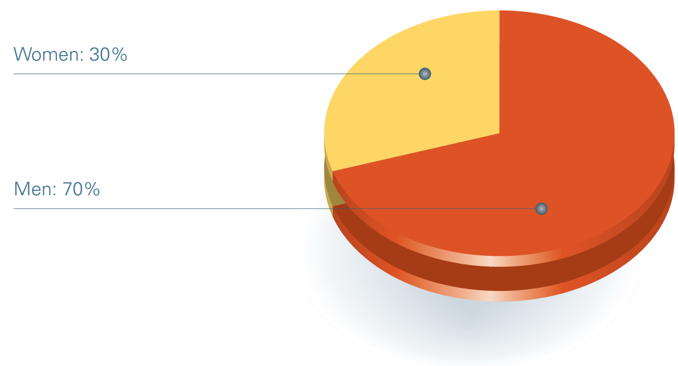
Internal communications also had considerable repercussions due, among other factors, to the success of the corporate portal for employees, NaturalNet, an interactive communications channel which received 1,855,923 hits throughout 2005. Of particular interest is the content of the "Employee Mailbox", a space where employees are encouraged to express their opinions, comments or concerns about the Group, or to make suggestions on specific topics in the Thematic Channel.

Breakdown of Staff by Country



Total: 6,717

Breakdown of Staff by Sex*



* December 2005.

Furthermore, the Code of Conduct was approved by the Management Committee and the Board of Directors, and subsequently submitted to the General Meeting of Shareholders. This Code establishes the guidelines that govern the relations between employees and with the Group, as well as with stakeholders, and includes the Ten Principles of the Global Compact to which the Gas Natural Group adhered in 2002. The Corporate Code of Conduct Committee was established in July 2005 and entrusted with promoting its dissemination and content, as well as orienting employee actions in the event of any doubts.

During the last quarter of 2005, the Gas Natural Group established the Joint Risk Prevention Service under the Chief Corporate Officer. The aim of this occupational risk prevention unit is to cover employee protection from job-related risks in all the companies in Spain in which the Gas Natural Group holds a majority interest. The Unit coordinates the resources needed for the four mandatory areas of prevention: job safety, ergonomics and psycho-sociology, and supervision of occupational health and safety.

In 2005, collective bargaining agreements were signed in Gas Natural SDG, Gas Natural Distribución SDG, Gas Natural Castilla y Leon, Gas Navarra, Gas Natural Castilla La Mancha, Gas Galicia SDG, Gas Natural La Coruña, Gas Natural Murcia, Gas Natural Rioja, Gas Natural Informatica, Gas Natural Comercializadora, Gas Natural Servicios SDG and Gas Natural Soluciones. Some of these collective bargaining agreements include articles that envisage the corporate Mission, Vision, Values and Principles of Action, and the Code of Conduct.

In the international scope, the "Growth with Profitability, Safety and Quality" CRESCA project, implemented in Mexico, was awarded by the Mexican HR Management Association (AMEDIRH) as best practices. The project lasted throughout the entire 2005 year, affecting the main business processes and their consolidation in different geographical areas, and, in turn, involving all external and internal staff at Gas Natural México.

Other significant international events included signature of the Collective Bargaining Agreement by Gasoriente, signature of the Agreement on the operation of Trade Union Relations and Workers' Councils by Metragaz, the activation of a new employee communications channel in Mexico ("Ábrele electrónico"), the commencement of the University Internship Programme by Gas Natural BAN and the implementation of the Quality Management Self-Assessment Project (Fundibeq) in Argentina.

The Environment

In 2005, the Gas Natural Group continued to observe its commitment to conserving the environment, paying particular attention to protecting its customers and society in general throughout the activities involved in its processes, facilities and services.

In this regard, the Gas Natural Group invested over 43 million euros in developing different activities relating directly to the protection and recovery of the environment.

Among the most outstanding of these activities are the start-up of commercial production at the Arrúbal combined-cycle plant and the incorporation of the following thirteen wind farms into the Group's energy portfolio which have made it possible to decrease the greenhouse gas emission factor during the electricity generation process.

Another way to improve energy efficiency during electrical energy production is to use cogeneration. The Group participates in numerous cogeneration plants through its company La Energía.

Likewise, network renovation and the use of state-of-the-art materials led to a significant reduction in methane emissions into the atmosphere. Other actions included the replacement of the fleet's oldest vehicles with cleaner ones running on natural gas.

In order to improve the control and management of energy and natural resources in the workplace, the Group increased the number of buildings equipped with systems for remote gas, electricity and water meter reading. This initiative provides real-time information on the company's intranet (NaturalNet) on temperature and consumption in buildings, as well as historical data on each centre, thus making it easier to adopt specific measures or improvement plans.

Selective collection and management of plastic bottles and containers in the workplace was also extended. This measure was accompanied by posters listing 15 best practices, which enabled employees to contribute to environmental preservation and to the cost-reduction plan put in place by the Gas Natural Group.

The Group continued to address social concerns regarding the promotion and use of renewable energies by studying the most efficient ways of integrating them with natural gas. An illustration of this is the publication and distribution of the "Calculation and Design Manual for Domestic Hot Water Facilities in Homes Using Solar Energy and Individual Natural Gas Backup Units". This publication describes the most appropriate solutions for each situation, taking different configurations. In 2005, the Manual was presented at Spain's major Real-Estate Exhibitions and 2,000 copies were distributed to civil servants, architects, promoters, universities, fitters, etc.

Along the same lines, plans were made in 2005 for five solar heating installations for domestic hot water production to meet the needs of five worksites in the technical service sector.

Likewise, in collaboration with the Fluid Mechanics Department of the University of Zaragoza, the Group also prepared, published and circulated the "Distributed Electricity Generation Manual", whose purpose is to present the various options available in the fields of cogeneration and urban energy supply with high efficiency standards and minimal environmental impact.

In the supplier management sphere, a document entitled "Best Environmental Practices in Distribution Network Construction" was drawn up and the Group's main contractors in Spain were encouraged to adopt these practices, with positive results.

With a view to promoting sustainable development, the Gas Natural Group undertook all the administrative procedures required for application for emission permits and the registration of rights granted in accordance with legislation on the trading of emission rights established in the Kyoto Protocol. It also monitored electricity-generation, gas transportation and distribution and own-use emissions.

A further sphere of action that deserves special mention is the progress made in projects undertaken under the Clean Development Mechanism (CDM) established in the Kyoto Protocol, which enables agents from industrialised countries to implement projects aimed at improving energy efficiency or reducing emissions in developing countries, thus generating emission credits that can be used to fulfil their commitments in their country of origin. The following CDM projects undertaken by the Gas Natural Group are currently either at the validation stage or pending approval of their baseline methodology:

- The "Umbrella" fuel replacement project in industries in Bogotá, Colombia.
- A leakage-reduction project for gas pipelines in Monterrey, Mexico.
- A leakage-reduction project for gas pipelines in Rio de Janeiro, Brazil .
- A small-scale fuel replacement project in Brazilian industries.

The Gas Natural Group also made contributions to the Community Development Carbon Fund administered by the World Bank. This Fund was designed to implement CDM projects in order to promote sustainable development in the most deprived areas on the planet. The company is also considering the possibility of investing in other public and private funds.

Technological Innovation

The Technological Innovation area continued to follow the guidelines and courses of action laid down in the Gas Natural Group's Strategic Plan. The main action taken in this area involved establishing a series of high energy efficiency projects, which individually entail activities aimed at increasing environmental awareness and together give shape to a broader sustainability project within the Gas Natural Group.

Along the same lines, as well as promoting the introduction of high-efficiency and low-emission technologies among its customers, the Gas Natural Group drew up proposals for distributed power generation projects (GEDIS), particularly in newly designed industrial areas. These projects include an innovative sustainable energy solution to meet energy needs at the Bellvitge Hospital and the future Vela Hotel complex in Barcelona and an initial feasibility study on a trigeneration system for the new hospital in Torrevieja.

The Gas Natural Group also began applying these concepts in its own buildings, as illustrated by the monitoring, operation and improvement of the gas microturbine generator in the Montigalá building in Badalona (Barcelona) during 2005, which enables the building to generate its own energy and meet its own heating and cooling requirements, and also transfer part of the heat generated to the Plana i Casals Primary School, thus considerably reducing gas consumption. 660.9 MWhe were generated in 2005, of which around 80% was consumed and the rest exported to the electrical distribution network. The unit is estimated to have led to emission reductions of around 130 tCO_2/year.

Furthermore, the technical project for a 9 MW GEDIS plant next to Gas Natural Group's new head office in Barcelona was completed. The plant will supply energy to the head office building, to Hospital del Mar, to the Barcelona Biomedical Research Park, to some buildings pertaining to the Pompeu Fabra University, to the Oceanographic Institute and to a new hotel currently under construction. It includes a new state-of-the-art fuel cell system, which will supply 230 kWe and 170 kWt to meet the building's needs in an advanced tri-generation system that is expected to operate for 8,000 hours per year, with efficiency levels of around 80%.

To facilitate and improve the monitoring of energy and water consumption at Gas Natural Group workplaces and following on from the "Energy Mirror" project in the building on Avenida de América in Madrid, new telemetry systems were brought into operation in the 32 largest workplaces.

A demonstration operation on remote domestic meter reading for Gas Natural Group customers also took place; this provides real-time consumption data and improves the Company's invoicing processes. Customers' daily demand profiles facilitate the gradual development of energy demand models and the analysis of consumer habits in terms of a series of variables such as type of housing or family and climatic conditions and therefore enables recommendations to be made regarding energy efficiency and saving in the residential sector in accordance with the strategy and guidelines contained in Directive 2002/91/EC on Energy Performance of Buildings, which will soon come into force in our country.

In Spain, the Gas Natural Group has always been cutting edge in promoting natural gas as motor fuel. Ever since the first experiment on Madrid public transport, the ECOBUS, in 1993, the Gas Natural Group has played a leading role in various projects, mainly in the public transport and waste-collection sectors. Thirty service stations in different Spanish cities supply almost 400 buses, particularly the Madrid and Barcelona fleets, as well as 500 waste-collection trucks and other commercial vehicles.

Furthermore, in 2005 a study was carried on running taxi fleets on compressed natural gas to accustom the public to the use of this fuel in light private vehicles. As a pacesetter in the field, the Gas Natural Group built a filling station in l'Hospitalet de Llobregat (Barcelona) to supply a fleet of 40 company vehicles.

Natural gas is the only fossil fuel capable of reconciling economic growth with sustainable development, acting as a bridge between the current range of fossil fuel-based energy sources and future renewable energy sources. For this reason, the Gas Natural Group continued to promote the development of new solutions to contribute to this transition, such as the use of solar heating in combination with natural gas for hot water production and cooling purposes.

Aware of its key role in the transition towards a sustainable future, the Gas Natural Group also promoted the development of new solutions to simplify this transition for its customers. One of these initiatives is the use of solar heating in combination with natural gas to produce domestic hot water, thus making a major contribution to CO_2 emission reduction. A further initiative involves the use of high-temperature solar collectors to supply cold-production units through absorption cycles, which is being piloted in one of the Gas Natural Group's own buildings in Seville.

In the same sphere and in collaboration with the Xunta de Galicia, the Gas Natural Group examined the possibility of harnessing wind power for hydrogen production purposes. The Xunta and Gas Natural SDG identified various fields of activity, the most prominent of which is the storage and modulation of renewable energies for hydrogen development and the harnessing of ocean wave energy.

In a series of experiments, the first of these projects will analyse ways of exploiting the electrical energy generated by wind farms to the full, as generation does not always coincide with the electricity demand curve.

The method studied entails using excess wind energy to produce hydrogen by electrolysis and storing this hydrogen in order to generate electricity at peak demand times. The other area of cooperation, which is still at the planning stage, involves capturing wave energy, an abundant renewable resource that does not emit pollutants and is not damaging to the environment.

A joint project was carried out with the University of Zaragoza (Politechnical Centre) in order to check and update leakage-induced methane emission factors in distribution networks. Values from the regulations of the most highly developed countries and a proposal made for Spain in accordance with these data were contrasted through field analysis and used as a benchmarking. The outcome of the project was the updating of emission coefficients, which were adapted to the actual status of the current gas network and its different materials. These coefficients can subsequently be adapted to Gas Natural Group network conditions in its various distribution companies in Latin America or Italy.

Quality

The main efforts of the Gas Natural Group focus on identifying and satisfying customer needs in order to continuously improve the quality and safety of its products and services and therefore provide customers with an excellent service.

In keeping with these efforts, the Gas Natural Group continued to develop its Strategic Quality Plan 2004-2008 in order to provide its customers with quality products and services and face the challenge of the liberalisation process in the increasingly competitive and constantly changing environment in which the company operates.

In the context of this commitment to quality, the Gas Natural Group's Strategic Quality Plan establishes the following four courses of action, which are leading to several improvement projects and activities being carried out in the Group's different organisations and subsidiaries:

- Deepening customer focus and service quality. The Continuous Improvement area was created within the Quality Department in order to promote and consolidate continuous service-quality and process-performance improvement.

- Aligning the organisation with quality objectives. To this end the company continued to incorporate quality objectives into the Objective-Based Management System (OBMS).

- Allying the environment with Gas Natural Group quality. In order to encourage suppliers and employees to take on Gas Natural Group's quality commitment towards its customers, an objective supplier-quality assessment model called "Modelo Q" was set up in 2005.

  In this respect, the Gas Natural México's CRESCA project, the aim of which is to strengthen employee commitment to growth, responsibility and quality, is also worthy of note.

- Developing quality management within the Group. The aim is to establish a single perception of quality for control and monitoring purposes within the Group and to guide the continuous improvement process in accordance with the efficiency and quality objectives pursued. To achieve this, in 2005 the Organisation Department continued to work on the development and deployment of the Process Map and the promotion of the Process-Based Management System.

The Gas Natural Group also continued to expand and develop its Quality Control System by extending ISO 9001: 2000, renewing the certification of the distribution and marketing companies and in some cases extending its scope in Spain and Brazil. It should also be pointed out that the Certifying Body was changed in 2005, thus favouring the objectivity and maximum transparency of Certified Quality Management Systems.

A further project that is being carried out as part of this strategic course of action is the "Development of Self-Assessment Processes" in accordance with international excellence models.

The Quality Measurement Department also coordinates continuous customer satisfaction measurement for those who have recently been involved in the different processes. The purpose of these surveys is to determine customer needs and service expectations in order to anticipate them and improve our products and services accordingly.

In 2005, 83,525 telephone surveys were conducted using the CATI (computer-assisted interview) method.

Furthermore, in 2005 the Gas Natural Group collaborated with different quality associations and bodies, such as the Club Excelencia en Gestión, the AEC (the Spanish Quality Association), Madrid Excelente, Fundibeq: Latin American Quality Foundation or the ISE (the Higher Institute for Energy). The cooperation with Fundibeq, in which three technicians from the Quality Department collaborated as coordinators and assessors of the prize awarded by this Foundation to companies excelling in the sphere in Latin America, is particularly worthy of note.

Commitment to Society

In 2005, the Gas Natural Group continued in its commitment to helping to develop local communities where the Company operates, by collaborating and maintaining an ongoing dialogue with associations working to improve society, and by establishing transparent communication channels in order to respond to the needs of the population.

In this respect, the Group dedicates part of its financial profits to activities relating to corporate social responsibility, so that it maintains a permanent dialogue with society in order to determine and satisfy its needs.

With this aim in mind, the Company set aside 14.87 million euros to finance the 262 cultural and community projects it carried out during 2005, of which 13.5 million euros were allocated to programmes in Spain, and the remainder to initiatives in various Latin American countries where the Group operates.

Cultural Projects

The Group's sponsorship activities in Spain and Latin America during 2005 were focused mainly on activities such as classical music, environmental education and the promotion of culture in countries where the Company has a presence.

In terms of promoting musical culture, the Group contributed to the organisation of twelve concerts and eight musical cycles in different cities where the Company is active. One of these was "West Eastern Divan", a workshop held in Seville by the Israeli musician Daniel Barenboim in which he endeavoured to encourage dialogue and coexistence between two traditionally conflicting peoples. In musical cycles, the Group provided its support to important institutions such as the Gran Teatre del Liceu (Barcelona) or the Teatro Real (Madrid), and collaborated in the organisation of events including, among others, the Pontevedra Jazz Festival or the Perelada Music Festival.

Likewise, during the 2004-2005 academic year, the Gas Natural Group continued to support the training of younger generations with its education programme "Natural Gas and the Environment" and the online activity "Natural Gas, the Energy of the 21st Century". The educational programme was attended by 58,341 students, while the Company's internet educational activity had 7,754 students, an increase on the previous course.

In addition, various educational programmes were implemented under the umbrella of the title "Gas in Schools" in Argentina, Brazil, Colombia and Mexico. Through these initiatives, students were made aware of the environmental advantages of natural gas and teaching material was also distributed to supplement the work of teachers in matters of sustainability.

The Gas Natural Group continued in this line with its work of disseminating the cultural and natural wealth of the countries where the Company operates. In 2005, "Algeria's Cultural and Natural Heritage" was published with 26,000 copies distributed in six languages.

Another important event in the cultural agenda this year was participation in the activities programmed in honour of the 4th centenary of the publication of Don Quixote including an exhibition, "Don Quijote: 18^{th} Century Spanish Tapestries", and the sponsorship of the opera "Aida" in Toledo.

Community Investment Programme

The Gas Natural Group pays special attention to any community programmes which generate greater value for society, and which strengthen the company's commitment to integrating in a positive manner, in each community and country where it operates.

Throughout 2005, the Group set up numerous activities collaborating with foundations and social organisation for the integration of underprivileged groups and those at risk of social exclusion. As part of this endeavour, for the third year running, the company donated the sum it traditionally spent on sending Christmas greetings, and this year the money was allocated to the Meniños children's Foundation.

Another important activity was the Group's work with AFANOC (Association for Children with Cancer) in its task of creating awareness and providing information on cancer in children in order to familiarise society overall with the disease.

In an effort to help in the areas of social integration and employment, the Gas Natural Group held collaboration agreements with Foundations such as Tallers de Catalunya, Adecco, Femarec and Down Vigo (an association for sufferers of Down's syndrome which works to integrate those with physical or mental disabilities, women with family commitments, or those over 45 into society and the workplace). In line with this endeavour, in 2005 the Group also began buying its promotional gifts through Galenas, run by the ONCE Foundation, which employs 90 % disabled people out of its total staff.

The Gas Natural Group understands the importance of supporting research into disease as a fundamental step towards improving quality of life for the sick and their families. With this aim, in 2005 the Company was one of the founders of the National Cardiovascular Research Centre (Cnic) which, together with the Ministry of Health and 13 other Spanish companies, set up the ProCnic Foundation to promote research into cardiovascular diseases.

Gas Natural BAN continued its volunteer programme in an effort to promote the development of skills within those groups with scarce financial resources, who are barely able to cover their basic needs, chiefly in the poorest areas of the province of Buenos Aires.

In Colombia, one of Gas Natural ESP's main community actions was the creation of a fund providing 444 grants, in conjunction with the Dividendo por Colombia Foundation, which raises funds and administers resources to support the education of underprivileged children. Continuing these efforts to provide support to children and underprivileged sectors of the population, Gas Natural ESP collaborated in 2005 with the Empresarios por la Educación Foundation.

In addition, the company collaborated with the District Education Department to set up a programme for improving educational quality, through the "Little Scientist" project which received the PuRkwa Prize for the best initiative in the science teaching awarded by the Mining School of St. Etienne in France, which was chosen from among 1,000 projects assessed from all over the world.

One of Gas Natural ESP's own initiatives in 2005 was to set up a pilot scheme with the associated work cooperative Ecobosco, in Ciudad Bolivar, in which 15 young people took part. The aim was to create productive units in the procedure for Company readings in some sectors of the city.

In addition, in Mexico, once again this year the Company took part in the annual collection organised by the Mexican Red Cross and collaborated with the State of Nuevo Leon Development Council in the restoration of homes designed for elderly people in reduced circumstances, as well as collaborating wit the National Volunteer Association for the Integral Rehabilitation of Neuromotor Disability (ANVRIDN).

Furthermore, in 2005, Gas Natural SPS renewed its work with the "Coat Campaign" sponsored by the State of São Paulo's Social Solidarity Fund, and CEG signed a collaboration agreement with the Humanitá Development Centre, an association which provides aid to autistic children.

Institutional Commitment

The Gas Natural Group has made several commitments in the form of national and international initiatives aimed at sharing knowledge and experience with other businesses and organisations in the sector.

As a result of its commitment to these initiatives, the Company is able to assume a role as leader in this field as well as introducing improvements in the main strategic areas.

Therefore, in 2005, the Group entered into 19 collaboration agreements with various bodies such as the International Chamber of Commerce (ICC) the Corporate Reputation Forum, the Ethos Chair at the Ramon Llull University, the Codespa Foundation or the Conference Board as well as retaining a presence in institutions linked to the energy sector such as the Spanish Energy Club or the World Energy Congress to name just a few.

Commitment to Consumers

Historically, the Company has always been committed to its consumers, maintaining a relation of cooperation and dialogue at all times, and listening and attending to their needs and suggestions. As part of this commitment, the Group held a round of meetings in 2005 with customer representatives in 10 different autonomous regions which were attended by 136 delegations of consumer associations and municipal consumer information offices (OMICs).

During these meetings the Company presented its Customer Guarantee Service Department (a personalised channel created to deal with queries and claims of these associations and OMICs), in addition to providing information on the deregulation of the energy market.

Relations with the Media

The Gas Natural Group communication policy responds to the Company's desire to address the informative needs of society in general. With this in mind, the Company has developed several instruments, tools and processes which seek to cover all communication needs with various interest groups.

As the Company's Mission, Vision and Values document states, the Gas Natural Group maintains a constant commitment to transparency of information and has a fluid and close relationship with the media.

The Group has established a corporate communication strategy which coordinates communications between its subsidiaries in order to ensure consistency in its messages and to provide the necessary guarantees of the information made available regarding the company's service, strategy, operations and finances.

In 2005, the company published 303 informative notes, 42% of which were corporate or referred to company activity and the remaining 58% corresponded to the communications activity of its international subsidiaries.

It also convened the media in 82 press conferences during 2005, 71% of which took place in Spain and the remaining 29% in its international subsidiaries.

During 2005, the Gas Natural Group appeared in the Spanish media in 5,454 written press releases and 1,083 times on television.

The Gas Natural Foundation

In 2005, the Gas Natural Foundation continued to extend its activities in new fields such as the training of installers and conservation of the historical heritage of the gas industry as well as continuing its work in themes such as environmental awareness.

The Foundation continued its work in Spain while also extending its activities to the international scenario in Argentina, Brazil, Colombia Morocco and Mexico.

Courses and Seminars

During 2005, the Foundation held 14 public events aimed at creating environmental awareness in nine autonomous regions, in which the central, regional and local authorities actively collaborated, in addition to national and foreign experts from the business and university sectors.

The seminars addressed several themes such as climatic change, savings and efficiency in energy use and sustainable building. The speaker's lectures and the various conferences were posted on the Foundation's website.

The Ministry of the Environment also collaborated with the company in organising the 5th International Seminar on Climate Change in Madrid, which was attended by the Secretary General of the Spanish Environment Ministry, Arturo Gonzalo Aizpiri, and the president of the 11th Conference of the Parties to the UN Framework Convention on Climate Change and Canadian Minister for the Environment, Stéphane Dion.

Publications

The Foundation continued its work of creating environmental awareness in 2005 by publishing two books, two albums and an educational fact sheet on environmental themes aimed at creating greater awareness of the environment in society.

Special mention should be made in this regard of the book entitled "Young Spaniards in the Face of Energy and the Environment. Willingness and Fragile Premises" published in Madrid by the Gas Natural Foundation, which offers a realistic vision of the opinions of Spanish youth on energy and its environmental impact.

Collaboration Agreements

During 2005, the existing collaboration agreements on the environment continued with the regions of Andalusia, Castilla y León, Catalonia, La Rioja and Navarre, extending their scope to new agreements or updating those already in existence in Madrid and Valencia, in order to monitor the activities carried out and propose possible updates and developments.

Various agreements were also signed to carry out research studies on matters such as renewable energy or air quality.

Energy Training Centre (CFE)

In 2005, four courses were held on customer service and marketing techniques in 25 cities along twelve autonomous regions. 1,867 students attended these courses.

The History of Gas Centre

This project aims to provide the cultural means for explaining and developing the history of gas and its technical and social effects and influence. Throughout 2005, this centre completed its first full year of activity by carrying out the important task of cataloguing and preserving the cultural heritage of the sector.

International Activities

In 2005, the Foundation also promoted numerous international activities.

In Argentina, Gas Natural BAN, with the backing of the Gas Natural Foundation, continued its "First Export" programme, which, since its inception in 2001, has provided advice to over 4,000 companies and 10,000 professionals, and has organised on average 80 seminaries per year. The aim of the programme is to provide small and medium businesses with technical training and specialised advice on foreign trade to increase their export capacity. With this aim the Foundation has signed an agreement with the Pompeu Fabra University in Barcelona

to hold a course on this programme in Buenos Aires, and another agreement with REDIEX (Investment and Export Network) of the Paraguay Ministry of Industry and Trade in order to provide expert assistance in this initiative.

The Company has also continued its volunteer programme with the FLACAM grants for Latin American professionals as well as publishing a book entitled "Sustainability Today, 2005" on studies carried out by the CEPA Foundation (Centre for Environmental and Studies Projects).

The Gas Natural Foundation began its activities in Brazil by setting up, aided by the Viva Rio NGO, the Professional Skills Centre which in 2005 trained 420 inhabitants of the Rio de Janeiro region in gas installation and civil work.

In Colombia, the Foundation continued its educational work with the "Little Scientist" programme, which aims to promote learning of scientific concepts and attitudes in primary school students through innovative educational methods. The "Teacher Training" programme was also set up providing ongoing training to teachers of natural sciences in the Bogotá area.

In Morocco, the Foundation continued to provide support to the activities of the Training Centre for Autistic Children, the "Lalla Maryem Institute for Autistic Children" in Tangiers, and took part in a round table on autism with Spanish and Moroccan experts in field.

In Mexico, the Foundation and Gas Natural México carried on their activities by setting up the "Support for Mexican SMEs", a programme which aims to improve its competence in business management in order to improve quality, competitive efficiency and position.

Financial Economic Management

During 2005, Financial Economic Management considerably boosted the development of the Integrated Risk Management System, which is designed for the identification, assessment and permanent management of the most important risks in their respective categories. Progress was made mainly in two areas: preparing the Corporate Risk Map and designing a Market Risk Measuring System.

The Corporate Risk Map is prepared on the basis of the observations submitted by the different managing directors and conveyed in *ad-hoc* working meetings. The identified risks are classified in accordance with their nature, severity and degree of control. The conclusions of said Map are conveyed to the Management Committee and the Audit and Control Committee; basic guidelines for action concerning risks are established periodically with the aim of reducing exposure in activities which might have a residual risk with the greatest impact on the Company.

At the same time, progress was made in the design and functional specifications of a recurrent Market Risk Measuring System. The objective of this system is to allow business units to know, and independently manage, the risk position arising from the volatility of market prices, so providing support for securing strategic goals.

Furthermore, 2005 saw the establishment of a reassurance company, Natural Re, S.A., 100% owned by the Gas Natural Group, with corporate offices in Luxembourg and share capital of 3.8 million dollars. Inherent natural gas risks are underwritten through this reassurance company, thereby providing less dependence on the insurance market and optimising costs incurred in risk management.

2005 also saw the continued international implementation of the new Financial Economic Management Model in Brazil, Colombia and in the Italian companies in which it had not been implemented the previous year. Now these countries have been added, a uniform Financial Economic Management Model now applies in Argentina, Brazil, Colombia, Spain, Italy and Mexico.

This Model abides by local criteria in the legal, fiscal and regulatory spheres, and also allows a view in common with the criteria of the Gas Natural Group.

The scope of the Model includes transactional financial economic systems, management by activity, management control systems and the corporate and business integrated control balance scorecard. Since last year, the Business Balance Scorecard was also available for Argentina and Mexico.

The new model entails changes in organisation, processes and systems. As far as organisation is concerned,

one of the main changes was the creation of the Financial Economic Shared Service Centres (SSC), designed to secure economies of scale, standardise processes, improve service quality and apply the best practices. During 2005, the Brazilian SSC were created, while the Spanish SSC became a European SSC following the incorporation of the Italian companies.

As far as systems are concerned, version SAP R3 Enterprise was implemented as support for financial-economic and purchasing activities, and SAP SEM and SAP BW as support to Management information systems.

2005 also saw the start of the project to develop a new Internal Control integrated framework in the Gas Natural Group. Its objective is to assure transparency in the processing of financial information offered to third parties, on the basis of the provisions of the Sarbanes-Oxley Act for companies operating under the supervision of the Securities and Exchange Commission (SEC).

Therefore, financial information to third parties must abide by the principles of independence, integrity, proper supervision, responsibility, secure internal controls and transparency.

This project was designed in two stages: the first applies to Spain and the second to international expansion. Each stage has two phases: phase I, which was carried out in 2005 for Spain, consisting of the planning and development of the new model; and phase II, to be carried out in 2006 in Spain, through which the recommendations to cover detected weaknesses shall be implemented.

Another highlight was beginning to use the electronic bill with suppliers. The suppliers which avail themselves of this service can choose between different scenarios which basically consist of the creation and digital signature of the bill, the electronic sending and receiving of the authenticated document and its storage in digital format. This offers substantial savings in costs for both parties and greater speed and safety in processing, reducing dead time and expediting accounting.

Internal Audit

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

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

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

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

The objectives, operational rules, powers and responsibilities of the Internal Audit, and the methodology for preparing Annual Internal Audit Plans are set out in the Internal Audit General Regulations approved by the Senior Management of the Gas Natural Group.

The Process Audit Strategic Plan and the Annual Internal Audit Plans are drawn up mainly considering the Group's Strategic Plan, the areas of risk included in the Group's Corporate Risk Map, the assessment of the operational risks in each one of the processes, the results of previous years' audits and the proposals made by the Audit and Control Committee and the Senior Management.

Internal Audit Management has established a methodology for the assessment of operational risks based on the Conceptual Framework of the COSO Report and on the basis of the types of risks defined in the Corporate Risk Map of Gas Natural SDG.

In accordance with the aforesaid methodology, operational risks associated with the processes are prioritised, assessing their impact, relative importance and degree of control. In accordance with the results obtained in the aforesaid assessment, an action plan is designed with the aim of implementing the corrective measures which might allow the residual risks identified with a potential impact higher than the established tolerated or accepted risk to be mitigated. The Annual Corporate Governance Report sets out the methodology for the identification and control of the Group's risks.

Internal audit projects have been developed via the internal audit corporate Intranet ("Audita"). The aim of this IT application is to improve the effectiveness and efficiency of the development of the internal audit function in all geographic and business spheres of the Gas Natural Group. Furthermore, it is important to note that the function is developed pursuant to International Standards for Internal Auditing Practices and that part of the internal auditors have or are in the process of obtaining the Certified Internal Auditor (CIA) certificate, the only certificate acknowledged worldwide assuring the excellence of the internal audit services rendered.

Internal audit activities in the Group are designed to enable constant improvement in audit services through the application of policies based on audit quality management and measuring, and in encouraging the creation of a qualified team of professionals, promoting internal rotations, training, continuous assessment and professional development within the Group.

The 2005 Internal Audit Plan for the Gas Natural Group was approved by the Audit and Control Committee in their meeting held on 22 December 2004.

Pursuant to the Plan, during the period between 1 January 2005 and 31 March 2006 (date of drawing up of Annual Accounts), Internal Audit directors took part in nine meetings of the Audit and Control Committee to present the degree of execution of the Internal Audit Plan and the main conclusions, control and risk assessments and recommendations included in the Internal Audit Reports.

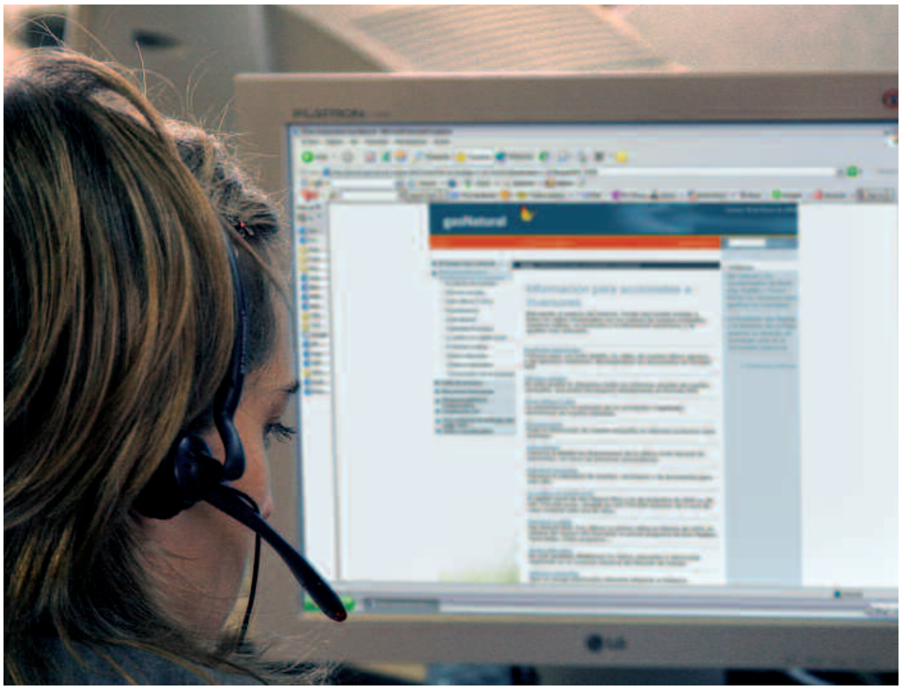
Furthermore, in these meetings the Audit and Control Committee was briefed regarding the degree of implementation by the audited units of the corrective measures appearing in the Audit Reports, and, in particular, the proposals of the Committee itself. In addition, the 2006 Internal Audit Plan was submitted for approval.

The responsibilities of the Audit and Control Committee and its main activities during 2005 were included in the Annual Report on Activities of the Audit and Control Committee, which forms part of the documentation to be submitted by the Board of Directors of Gas Natural SDG S.A. in the General Meeting of Shareholders. It is also available on the Gas Natural Group website (www.gasnatural.com).

The main processes inspected by the Internal Audit Management in 2005 were those relating to sales areas (liberalised market, mainly), Procurement, Finance, Quality, Investments and Awarding and Contracting of Goods and Services.

Economic Analysis

Consolidated Economic Analysis



In the 2005 fiscal year, the Gas Natural Group reported consolidated net profit of 749.2 million euros, representing growth of 16.7% against the previous year.

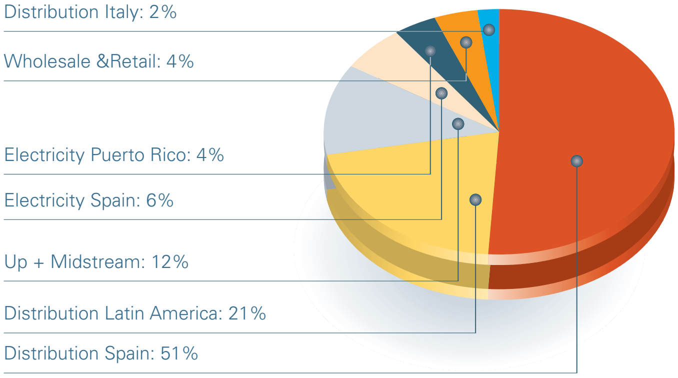
Gross operating profit (Ebitda) in 2005 amounted to 1,518.8 billion euros, 13.7% up on the previous year.

These results were boosted by growth in gas distribution activity in Spain, which continues to be the area making the largest contribution to Group Ebitda, reporting 7.7% growth up on the previous year.

The year's results were also driven by the gradual contribution of the activities carried out by the Gas Natural Group in gas distribution activity in Latin America, which continues to report important development, posting a 39,0% increase in Ebitda, which stood at 316.7 million euros.

Upstream and Midstream activities together made up 11.6% of the total. The extension of the Maghreb-Europe gas pipeline, which has been operational since February of last year, made a substantial contribution to this growth.

Contribution to Ebitda by Activity



Financial Results

Net financial expenses for 2005 amounted to 221.2 million euros, against the 153.6 million euros the previous year, owing to higher costs arising from the increase in net financial debt, and largely because of the acquisitions made in the second half of the previous year (additional holdings in CEG and CEG Rio, Smedigas Group, Nettis Group and wind power companies) and the purchase of DERSA in April 2005 (with the incorporation of its debt).

The Foreign Exchange Differences item in Argentina records the foreign exchange differences recorded in Gas Natural BAN in the financial debt which this company has contracted in dollars. This effect is slightly positive, in annual terms, despite the unfavourable performance of the Argentine peso (1 dollar/3.01 Argentine pesos compared with 1dollar/2.96 Argentine pesos at 2004) due to hedging of loans in dollars.

During 2005, Gas Natural BAN contracted exchange rate and interest rate hedging for part of its financing. This operation enabled Gas Natural BAN to partially reduce the exposure of its debt to the dollar.

Furthermore, Gas Natural México concluded a 3-year loan with ICO (the Spanish Official Credit Institute) to finance its investments, establishing a line of institutional financing in local currency.

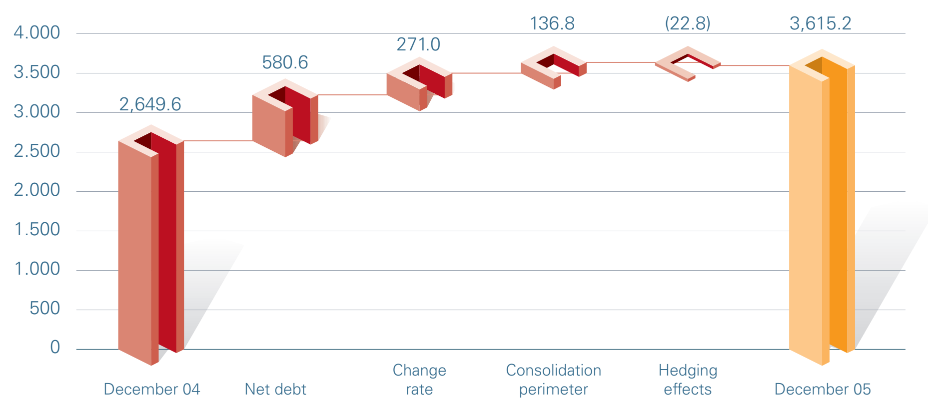
At 31 December 2005, the Group's net debt amounted to 3.615,2 billion euros, with a gearing ratio of 38.5%, against 35.6% at the end of the previous year.

Net financial debt in dollars –without considering Argentine debt– pertains mainly to EMPL, the company which manages the Maghreb-Europe gas pipeline, and to EcoEléctrica, whose financial figures and cash flows employ this currency. The rest of currencies item includes net debt in Argentine pesos and Moroccan dirhams. The debt of companies in Latin America is in local currency, except for Argentina, where 55% of net debt is in dollars. 51% of consolidated debt is at a floating interest rate and the remaining 49% is at a fixed rate. As far as the debt maturity schedule is concerned, more than 53% of all debt matures from 2009 on.

Financial Income (millions of euros)

	2005	2004
Cost of net financial debt	(217.1)	(160.7)
Forex differences in Argentina	0.2	(2.3)
Rest of forex differences, net	(4.8)	3.0
Capitalised interest	23.4	14.8
Other financial (expenses)/income	(22.9)	(8.4)
Net financial profit	**(221.2)**	**(153.6)**

Net Financial Debt Performance



Details of Net Financial Debt by Currency (millions of euros)

	31/12/05	%
EUR	1,918.8	53.1
USD	711.2	19.7
MXN	414.5	11.5
BRL	400.1	11.1
COP	62.8	1.7
USD–Argentina	59.6	1.6
Other	48.2	1.3
Total net financial debt	**3,615.2**	**100.0**

Credit Rating of Gas Natural SDG

Agency	Long term	Short term	Outlook
Moody's	A2	P-1	Under revision - Possible downgrade
Standard & Poor's	A+	A-1	Under revision - Negative
Fitch	A+	F1	Under revision - Negative

Equity Accounted Income

The main items in this heading refer to the results from the minority holdings in Spanish gas distribution companies (Gas Aragón and Gas Natural de Álava), wind power generation companies and the consolidation by the equity method of the results of Enagás from January to September 2005. From 1 October 2005 on, the holding in Enagás has been included as securities available for sale, and it is no longer consolidated by the equity method.

Equity accounted income amounted to 34.4 million euros in 2005, against 61.2 millions in 2004. This change is mainly due to the decrease in the Enagás holding and its withdrawal from the consolidation perimeter since 1 October 2005, plus not including the results of the Naturgas Energía Group since February 2004.

In 2005, Enagás contributed 30.3 million euros to equity accounted income.

Income from Disposal of Non-Current Assets

In 2005, income from the disposal of non-current assets amounted to 286.4 million euros, against 162.3 million euros in the same period the previous year. This income is mainly due to the disposal during the present year of 13.3% of the holding in Enagás. In the same period the previous year, a holding of 12.5% of Enagás was sold.

The net gains from the divestment in Enagás were 247.9 million euros, compared with 144.5 million euros the previous year. Furthermore, the company is compelled to reduce its holding in Enagás to 5% by 31 December 2006. At 31 December 2005, the holding in Enagás stood at 12.8%.

Corporate Income Tax

In 2005, Corporate Income Tax amounted to 241.3 million euros, with a tax rate of 22.6%, against 24.9% recorded the previous year.

The difference in the general tax rate is due to allowances applied, to equity accounted income, to tax credits pending balancing, and to the application of different tax regimes for companies operating in other jurisdictions.

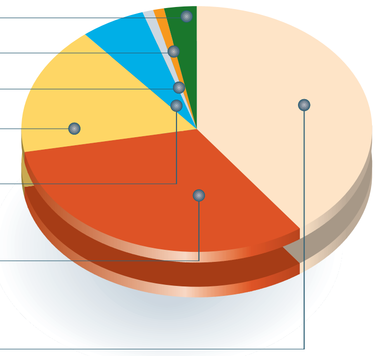
Minority Interests

The main items in this heading are the income from the minority shareholders in EMPL (Gas Natural Group has a 72.6% stake), in the sub-group of investee companies in Colombia (stake of 59.1%), in Gas Natural BAN (50.4% stake), in Gas Natural México (86.8% stake) and in the Brazilian companies CEG (54.2% stake) and CEG Rio (59.6% stake), as well as in other gas distribution companies in Spain.

In July, 12.4% of CEG Rio was sold to Petrobras, Gas Natural Group's holding thereby falling from 72.0% to 59.6%, consolidation continuing by the global integration method and giving rise to a higher contribution for minority interests.

In 2005, income attributable to minority interests amounted to 77.7 million euros, an increase of 24.7 million euros reported over the year, largely due to a higher contribution from EMPL and the Latin American subsidiaries, and, in particular, due to the incorporation of minority interests in Brazil since 1 July 2004.

Tangible Investments by Activity



Breakdown of Investments by Type (millions of euros)

	2005	2004	%
Tangible investment	1,125.4	946.3	18.9
Investments in intangible assets	62.6	62.5	0.2
Financial investment	295.7	494.7	(40.2)
Total investment	**1,483.7**	**1,503.5**	**(1.3)**

Details by Activity of Tangible Investments (millions of euros)

	2005	2004	%
Gas distribution:	611.4	512.7	19.3
Spain	354.2	365.8	(3.2)
Latin America	190.7	121.2	57.3
Italy	66.5	25.7	–
Electricity:	449.8	379.5	18.5
Spain	446.0	373.5	19.4
Puerto Rico	3.8	6.0	(36.7)
Gas:	33.5	33.8	(0.9)
Up + Midstream	17.2	24.9	(30.9)
Wholesale and Retail	16.3	8.9	83.1
Other	30.7	20.3	51.2
Total tangible investments	**1,125.4**	**946.3**	**18.9**

Investments

Investments amounted to 1,483.7 billion euros, slightly up on the previous year's figure, despite higher tangible investment, 18.9% which has been offset by lower financial investment (acquisition of holdings in companies) against the previous year.

It is important to note that the previous year's substantial investment volume includes the acquisitions made in Italy and the increased holding in the Group's companies in Brazil.

Tangible investments amounted to 1,125.4 billion euros, a rise of 18.9% largely due to the considerable progress of Gas Natural Group's electrical generation plans in Spain through combined-cycles and the ongoing development of the gas distribution activities.

Investment in gas distribution in Spain, which accounted for 31.5% of the total, was used to secure new customers, with the start-up of approximately 2,100 kilometres of new distribution network over the year, reporting growth of 5.5%.

Tangible investments in gas distribution in Latin America stood at 190.7 million euros, an increase of 57.3%. Investment in Mexico was at levels similar to those of the previous year, basically due to the slowdown in network construction in Mexico, while Brazil became the main focus for investment in the area, caused by the change in the consolidation perimeter, accounting for 65.1% of investment in the area.

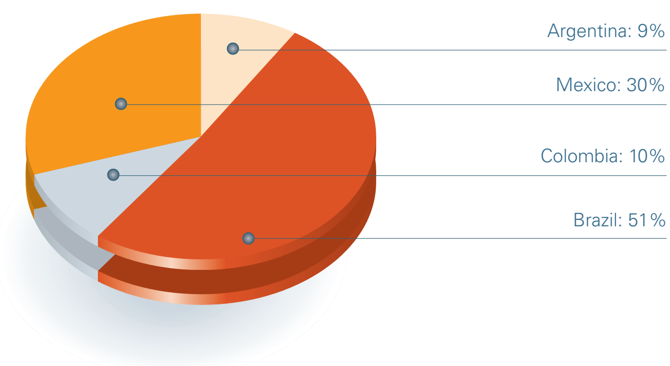
Tangible and intangible assets include fixed assets under construction for the sum of 904.5 million euros, 740.2 million of which pertained to electricity activity and 94.6 million to Latin America. Gas distribution activity accounted for 63.3% of the assets of Gas Natural Group.

Tangible and intangible assets in Latin America amounted to 1.773 billion euros, 19.9% of the consolidated total, and pertained to gas distribution assets in that area.

Consolidation Goodwill

International Financial Reporting Standards (IFRS) do not allow the amortisation of consolidation goodwill. Nevertheless, revisions must be made to ascertain if any deterioration in its value has occurred. According to available estimates, estimated attributable income guarantees the recovery of the net assets and the goodwill of Gas Natural Group. The increase in goodwill during 2005 in Spain is due to that generated through the acquisition of DERSA.

Tangible and Intangible Fixed Assets in America



Tangible and Intangible Fixed Assets (millions of euros)

	31/12/05	%
Gas distribution:	5,633.2	63.3
Spain	3,463.7	38.9
Latin America	1,773.0	19.9
Italy	396.5	4.5
Electricity:	2,146.7	24.1
Spain	1,911.1	21.5
Puerto Rico	235.6	2.6
Gas:	935.5	10.5
Up + Midstream	836.0	9.4
Wholesale and Retail	99.5	1.1
Rest	189.2	2.1
Total tangible fixed assets and intangible assets	**8,904.6**	**100.0**

Breakdown of Consolidation Goodwill (millions of euros)

	31/12/05
Spain	118.4
Italy	135.0
Brazil	21.8
Mexico	37.6
Puerto Rico	143.4
Total	**456.2**

Stock Market Information

At the end of 2005, the Spanish Stock Market was one of the most profitable markets worldwide, closing the year with a positive growth for the third year in a row, with good business results and the interest rates in the Euro zone having played an important role by offsetting the sharp rise in oil prices and the increase in interest rates in the US.

The main Spanish Stock Market index, the Ibex 35, reached 10,734 points in the last session of 2005, reporting a revaluation of 18%, with an annual high of 10,919 points on 2 October and an annual low of 8,907 points on 15 January.

At year end, shares of Gas Natural SDG stood at 23.66 euros, with a gain of 4%. The annual high of 24.88 euros was recorded on 22 July, and the annual low of 21.33 euros on 18 April.

241 million Gas Natural SDG shares were traded during 2005, with an effective traded volume of 5.537 billion euros, tantamount to a daily average of 937,453 shares and 21.6 million euros of effective volume. Consequently, Gas Natural SDG stood fifteenth in the ranking of the most traded stock in the continuous market in 2005.

At 31 December 2005, the stock market capitalisation of Gas Natural SDG sixteenth in the Ibex 35 ranking with a 1.56% weighting. At present, pursuant to Stock Market regulations, the participation of Gas Natural SDG in the Ibex 35 is 60% of its stock market capitalisation.

On 5 September 2005, Gas Natural SDG launched a takeover bid for 100% of the share capital of Endesa.

In 2005, Gas Natural SDG entered the Dow Jones Sustainability World Index (DJSI World) for the first time. This Index brings together 10% of companies worldwide reporting the best performance in economic, environmental and social spheres. Furthermore, it remained in the European listing of the select Dow Jones Sustainability Index (DJSI Stoxx) for the second successive year, and has kept in the FTSE4Good since 2001, confirming the Company's good positioning in the field of corporate social responsibility.

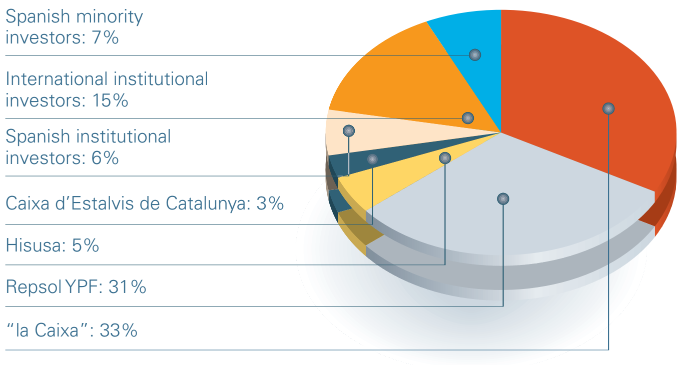
The shares of Gas Natural SDG also form part of the FTSE Eurotop 300 and Dow Jones Stoxx 600 Indexes, and, in particular, the Dow Jones Stoxx Utilities Index, with a 1.1% weighting.

The shares of Gas Natural BAN, the distribution company for the Gas Natural Group in Argentina, stood at 1.83 pesos at year end, reporting a loss of 19.4%. The annual high and low were 2.65 pesos and 1.27 pesos, respectively. During 2005, 10.8 million shares were traded. The Merval index, of the Buenos Aires Stock Market, closed the year with a 1.2% gain.

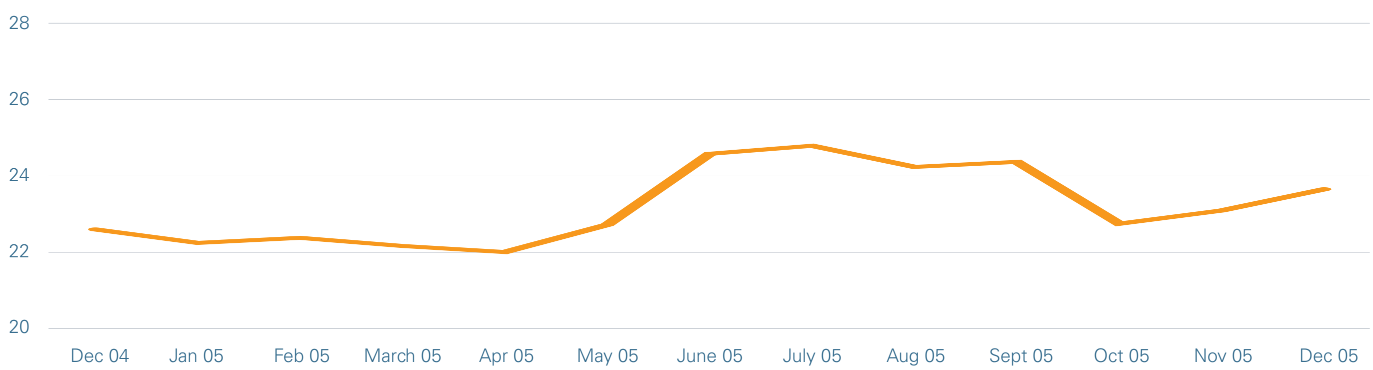
According to the information taken from the last General Meeting of Shareholders held on 20 April 2005, there are estimated to be approximately 42,000 Gas Natural SDG shareholders.

At 31 December 2005, the main shareholders of Gas Natural SDG were "la Caixa", with 33%; Repsol YPF, with 31%; Holding de Infraestructuras y Servicios Urbanos, S.A. (Hisusa), with 5%; and Caixa d'Estalvis de Catalunya, with 3%.

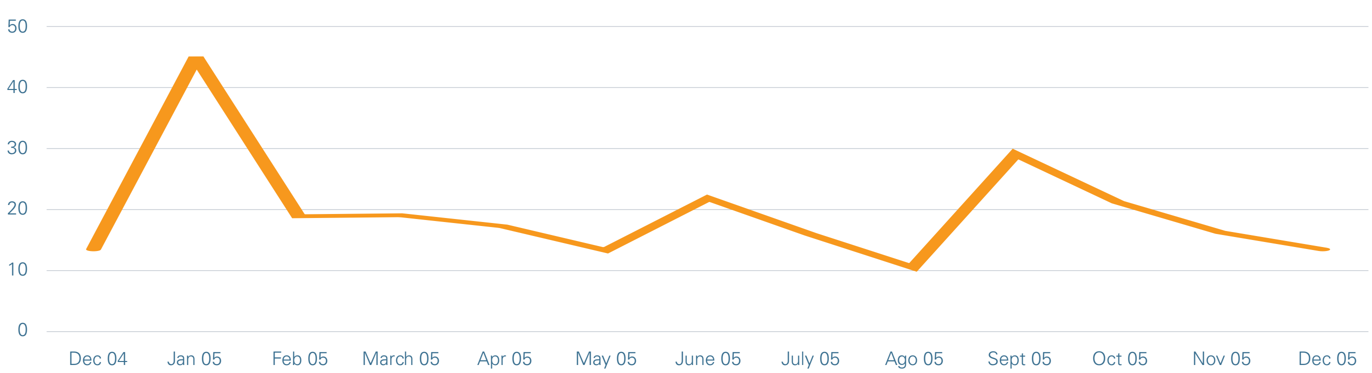
Shareholder Structure of Gas Natural SDG



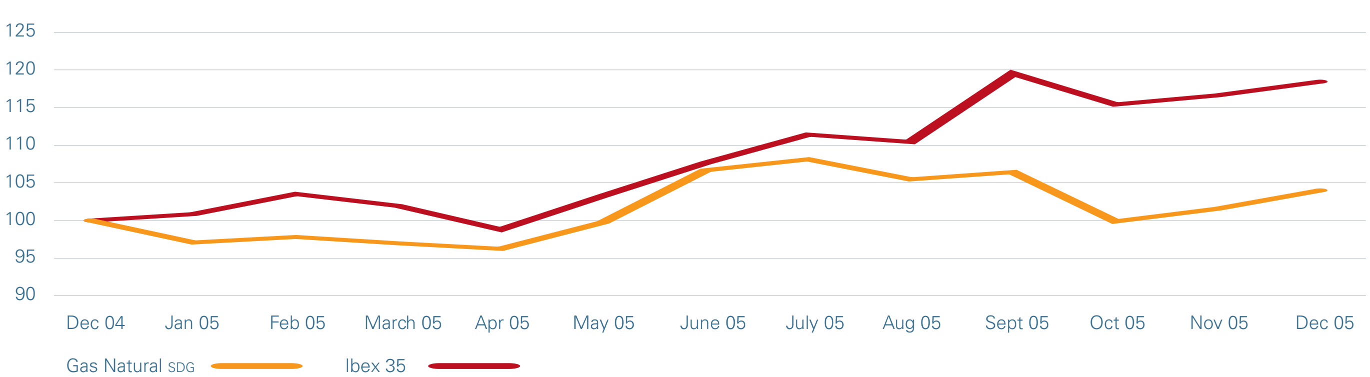
Share Prices of Gas Natural SDG (month end in euros)



Number of Shares Traded (monthly data in millions)



Performance of Gas Natural SDG and Ibex 35 in 2005



Analysis of Results by Activity

Distribution in Spain

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

During 2005, net turnover for the gas distribution business in Spain amounted to 1,993.4 billion euros, 9.5% up on the previous year's figure. Ebitda stood at 777.8 million euros, 7.7% above that reported the previous year, in line with the increase in regulated remuneration for 2005.

The reduction in personnel expenses was due to a figure higher than in 2004 for own work and costs capitalised, which in the consolidated income statement with IFRS criteria appear as net. The 4.5% rise in depreciations and the lower impact of provisions caused operating profit to rise 12.6%.

Sales in the regulated gas market in Spain, which comprises regulated gas distribution and marketing and third party access to network services (TPA), amounted to 254,774 GWh, an 11.3% increase against the previous year.

Gas sales in the regulated residential market fell 14.6%, owing to the gradual transfer of customers to liberalised sales, either to the sales company of Gas Natural Group or to other sales companies. Currently, the degree of opening of the gas market (sales of gas in the liberalised market vs. total market) stands at 83%, against 80% the previous year. Nevertheless, gas sales in the industrial market rose 4.9%, and electrical generation sales reported very substantial growth against the previous year due to low hydro-electrical production over the period and the use of the regulated market to supply conventional power plants, bringing total regulated gas sales to the same level as the previous year.

Distribution services for third party access to the network (TPA) rose 14.7% and reached 203,653 GWh, 93,327 GWh of which pertained to services performed for third parties and the rest of which, 110,326 GWh, to Gas Natural Group, also the leading operator in the liberalised gas market.

The distribution network increased by approximately 2,100 kilometres over the last twelve months, and at 31 December 2005 stood at 39,611 kilometres, with year-on-year growth of 5.5%. During 2005, municipalities with gas supply rose by 49, reaching a total of 814 at 31 December 2005.

With regard to gas distribution points, Gas Natural SDG maintained the hefty growth rates reported the previous year, with an increase of 325,000 distribution points during 2005.
At 31 December 2005, there were 5,134,000 gas distribution points in Spain, an increase of 6.8%.

On 30 September 2005, the Board of Directors of Gas Natural SDG approved a project to divide gas distribution and transportation activities through transfer en bloc to its subsidiaries, Gas Natural Distribución SDG and Gas Natural Transporte SDG, respectively. This division took place

Distribution in Spain. Main Figures

	2005	2004	%
Gas activity sales (GWh) :	254,774	228,954	11.3
Regulated gas sales	51,121	51,449	(0.6)
Residential	26,639	31,204	(14.6)
Industrial	13,303	12,678	4.9
Electricity	11,179	7,567	47.7
TPA	203,653	177,505	14.7
Distribution network (km)	39,611	37,534	5.5
Increase in gas supply points, in thousands	325	326	(0.3)
Gas supply points, in thousands (as at 31/12)	5,134	4,808	6.8

Distribution in Spain. Results (millions of euros)

	2005	2004	%
Net turnover	1,993.4	1,820.8	9.5
Supplies	(784.6)	(685.6)	14.4
Personnel expenses, net	(75.9)	(76.9)	(1.3)
Other expenses/income	(355.1)	(336.1)	5.7
Ebitda	**777.8**	**722.2**	**7.7**
Allocation to depreciation	(256.3)	(245.2)	4.5
Allocation to provisions	(4.2)	(17.7)	(76.3)
Operating profit (Ebit)	**517.3**	**459.3**	**12.6**

through rights issues in both companies, subscribed using the non-financial contribution of the assets and liabilities of Gas Natural SDG making up the distribution and transportation activities. In exchange for the non-financial contributions, Gas Natural Distribución SDG issued shares for the value of 1,100 millions of euros and Gas Natural Transporte SDG for the value of 52 million euros, all subscribed by Gas Natural SDG.

This division of regulated and non-regulated activities was carried out to comply with European and national regulations requiring that regulated activities be separated from liberalised activities into different legal entities.

On 8 November 2005, the National Energy Commission (NEC) authorised the corporate restructuring carried out by Gas Natural SDG.

Lastly, on 30 December 2005 saw the publication of Order ITC 4099/2005 adjusting the remuneration for 2006 of regulated activities in the gas sector in Spain, in accordance with the framework agreement approved in February 2002.

Distribution remuneration assigned to Gas Natural SDG for 2006 amounts to 1,052 billion euros, an increase of 5.6% against the previous year's figure. This rise is due to the estimated growth in the company's activities in 2006, to the estimated IPH and maintaining efficiency factors.

Lastly, regarding secondary transportation, historical remuneration was adjusted to 85% of the IPH and the incorporation of new infrastructures, amounting to 18.5 million euros.

Furthermore, with the aim of increasing natural gas registrations in areas of Spain with low penetration levels, Gas Natural SDG carried out a campaign to secure new distribution points in Andalucia (Seville, Granada, Cordoba, Dos Hermanas and Alcalá de Guadaira), the campaign consisting of different phases. The population was informed of this campaign through presence in local media, and also through the sending of an invitation to all potential customers within the municipality to attend and take part in a leisure and family event that Gas Natural SDG would hold in the coming days.

By this means, through this leisure event in which the advantages and benefits of having natural gas in the home were conveyed, together with the marketing campaign carried out by installers and sales agents, the number of customers was increased, so reaching 49 municipalities: five in Catalonia, nine in Andalusia, ten in Castilla y León, three in the Region of Valencia, eight in Galicia, two in Cantabria, nine in Navarre and three in Castilla-La Mancha.

Distribution in Latin America

Distribution in Latin America. Results (millions of euros)

	2005	2004	%
Net turnover	1,419.6	1,027.4	38.2
Supplies	(896.7)	(652.9)	37.4
Personnel expenses, net	(53.1)	(30.2)	75.8
Other expenses/income	(153.1)	(116.5)	31.4
Ebitda	**316.7**	**227.8**	**39.0**
Allocation to depreciation	(77.6)	(47.3)	64.1
Allocation to provisions	(10.2)	(5.0)	–
Operating profit (Ebit)	**228.9**	**175.5**	**30.4**

The Gas Natural Group carries out various activities in America, including the distribution of gas in Argentina, Brazil, Colombia and Mexico.

The net turnover for activities in Latin America totalled 1,419.6 million euros in 2005, with a growth of 38.2%.

The Ebitda totalled reached the 316.7 million euros, with an increase of 39%. A higher growth in the depreciation volume in comparison with the previous year as a result of investments led to an increase in operating profits of 34%.

The increase in the Ebitda of 88.9 million euros in comparison with the previous year includes the following:

- Improved operating results in all countries with an Ebitda contribution of 41 million euros based on a 6.5% increase in sales and new tariffs in Colombia, Mexico and Brazil.
- An increase in the Brazilian consolidation perimeter with an Ebitda contribution of 25.8 million euros.
- The appreciation of local currencies with an Ebitda contribution of 22.1 million euros.

Excluding variations in the consolidation perimeter and the exchange rate, the Ebitda grew by 18%.

Brazil made the highest Latin American contribution to the consolidated Ebitda due to increased holdings in companies belonging to Gas Natural SDG and to the significant organic growth of the business in the country.

The net financial debt in Latin America at 31 December 2005 amounted to 985.9 million euros. This figure includes loans in dollars in Argentina totalling $81.5 million.

Gas-related activity sales in Latin America, which include the sales of gas and third-party access services (TPA), totalled 165,408 GWh, with an increase of 6.5%.

The highest percentage increases occurred in Brazil and Colombia, with growth levels of 16.2% and 14.9%, respectively, maintained on all markets.

Special mention must be made of the car industry market in all four countries, with an overall increase of 16.6% in comparison with 2004, and this trend is expected to continue given the prices of alternative fuels.

The distribution network increased by 2,643 km over the last twelve months, reaching the figure of 56,763 km at 31 December 2005. This represents an interannual growth of 4.9%. The development of new networks fell short of previous years due to the commercial target focusing on saturating the existing network.

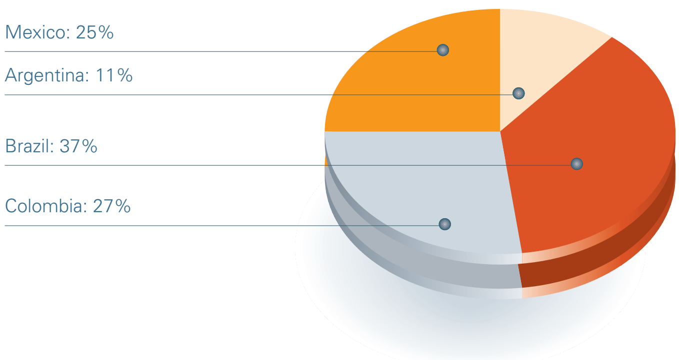
The number of gas distribution supply points totalled 4,757,000 at 31 December 2005. Gas Natural SDG maintained high growth rates, with an increase of 253,000 supply points in the last twelve months.

With regard to the activities carried out by the Gas Natural Group in Latin America in 2005, the following issues can also be highlighted:

- Argentina consolidated its trade reactivation with a net increase of 32,000 supply points in 2005 in comparison with 27,000 in 2004, as well as a 3.7% increase in gas-related activity sales and an outstanding 6.2% increase on the domestic market with an improved unit margin. Gas sales recovered from a 10.1% fall during the first half of the year to an increase of 10.7% in the second half, resulting in an annual increase of 0.6%.

  On 20 July 2005, Gas Natural BAN and representatives of the Argentinian ministries of economy and production, federal planning, public investment and services signed an agreement which, among other issues, established a price increase on the account of the

Ebitda Distribution in Latin America



future tariff framework equivalent to a 27% increase of the Company's distribution margin, applicable as from November 2005.

The agreement was approved by means of Decree 385/2006 (published 10 April 2006).

- Brazil reached the highest increase in supply points since the Company has been operating in the country. Sales continued to grow in double figures, as in 2004, reaching an increase of 16.2% in 2005. Worthy of particular mention are the increases in sales for electrical power due to a more conservative use of hydraulic methods and for the car industry, with a significant growth in the southern region of São Paulo.

- Colombia maintained the intense growth rate with levels in double figures helped along by the country's economic reactivation. Sales grew by 14.9% and the customers database was increased by more than 119,000, taking the total number of supply points to 1,614,000. The monthly vehicle conversion figure reached a record level of 1,900 conversions per month.

- Finally, Mexico witnessed a slight increase in comparison with sales for 2004 despite the significant increase in the cost of gas, which is reference-linked to prices in the southern United States. The federal government took steps to reduce this effect, offering residential

Distribution in Latin America. Main Figures (millions of euros)

	2005	2004	%
Gas-related activity sales (GWh):	165,408	155,346	6.5
Regulated gas sales	99,891	92,097	8.5
TPA	65,517	63,249	3.6
Distribution network (km)	56,763	54,120	4.9
Increase in supply points, in thousands	253	280	(9.6)
Supply points, in thousands (as at 31/12)	4,757	4,505	5.6

Distribution in Latin America. Main Figures by Country

	Argentina	Brazil	Colombia	Mexico	Total
Gas related activity sales (GWh):	69,359	43,280	11,197	41,572	165,408
Increase vs. 2004 (%)	3.7	16.2	14.9	0.3	6.5
Distribution network (km at 31/12)	21,237	5,005	15,488	15,033	56,763
Increase vs. 31/12/04 (km)	307	769	832	735	2,643
Supply points, in thousands, (as at 31/12)	1,289	745	1,614	1,109	4,757
Increase vs. 31/12/04, in thousands	32	54	119	48	253

clients with average monthly consumption levels below 60 m^3 a gas subsidy as from 15 April 2005 which reduced the bill by 28%. This subsidy is initially expected to remain in force until 30 September 2006.

Distribution in Italy

Distribution in Italy. Results (millions of euros)

	2005	2004	%
Net turnover	124.2	63.1	96.8
Supplies	(76.9)	(38.4)	–
Personnel expenses, net	(11.1)	(5.3)	–
Other expenses/income	(8.9)	4.5	–
Ebitda	**27.3**	**23.9**	**14.2**
Allocation to depreciation	(20.9)	(13.0)	60.8
Allocation to provisions	–	(0.4)	–
Operating Profit	**6.4**	**10.5**	**(39.0)**

Distribution in Italy. Main Figures

	2005	2004	%
Gas-related activity sales (GWh):	2,730	1,355	–
Regular gas sales	2,652	1,315	–
TPA	78	40	95.0
Distribution network (km)	3,776	3,501	7.9
Supply points, in thousands (as at 31/12)	288	252	14.3

Gas distribution activities in Italy led to an Ebitda contribution of 27.3 million euros, with a growth of 14.2%, which demonstrates the consolidation of Gas Natural Group's activity in the country.

Expansion operations in the Reggio Calabria and Catania regions gave rise to greater investment and, consequently, greater depreciation. Together with higher operating expenses during the period in question, this affected the year's financial figures, especially during the second half.

The gas distribution activity in Italy totalled 2,730 GWh, with a notable increase in comparison with the same period of the previous year thanks to the consolidation of operations in Italy after the acquisition of the Nettis and Smedigas Groups in the second half of 2004.

Trade was consolidated in 2005 by an increase of 36,000 new supply points and by important activity in the Palermo area, with 18,000 new points, 11,000 in Catania and 7,000 in the Reggio Calabria region. Forecasts for 2006 look to exceed this level of growth and reach the figure of 39,000 new supply points.

Electricity in Spain

Electricity in Spain. Main Figures

	2005	2004	%
Power generation capacity (MW):	3,102	874	–
Combined-cycle plants	2,800	800	–
Wind power installations	279	51	–
Cogeneration plants	23	23	–
Electricity generated (GWh):	8,904	5,802	53.5
Combined-cycle plants	8,234	5,672	45.2
Wind power installations	528	24	–
Cogeneration plants	142	106	34.0
Electricity contracted (GWh/year)	1,688	4,942	(65.8)
Electricity sales (GWh):	6,296	4,457	41.3
Residential	2,028	657	–
Industrial	4,268	3,800	12.3

It includes electrical power activities in Spain (combined-cycles, wind power installations and cogeneration plants), trading for the purchase of electricity from the wholesale market and the commercialisation of electricity on the liberalised market in Spain. Net turnover for electricity in 2005 amounted to 925.8 million euros due to the increase in power generated and sold to the wholesale market.

The Ebitda for 2005 reached 89.8 million euros and the operating result totalled 44.9 million euros, with growth levels of 102.7% and 57%, respectively. The power generated and sold to the wholesale markets in 2005 totalled 8,904 GWh, which is an increase of 53% in comparison with the previous year.

The total electrical power generated in 2005 was 8,904 GWh, with a growth of 53.5% in comparison with 2004.

The electrical power generated by combined cycle plants totalled 8,234 GWh. Once the amounts corresponding to self-consumption were discounted, this power represented a cover ratio of 118% of the electricity commercialised by the group in Spain. With the above production level, the share of electrical power under the ordinary system was 4%.

The number of hours at full-operation levels corresponding to the combined-cycle plants exceeded 5,152 hours in 2005, in accordance with a demand factor in excess of 58%.

The commercialisation of electricity on the liberalised market was affected by high market prices in 2005, especially during the last quarter. Consequently, the electricity contracts portfolio fell from 4,942 GWh/year in 2004 to 1,688 GWH/year in 2005.

Electricity sales to end customers increased by 41.3% in comparison with 2004. The highest increase took place on the residential market, which has more than 475,000 customers.

The combined-cycle plants of the Group were increased with units 1 and 2 at the station of Arrúbal (La Rioja), which came into commercial operation during the first quarter of 2005.

The construction work on the Cartagena plant (Murcia) continued throughout the year and its three units passed the 100-hours test in December. With a power demand of over 1,200 MW, the complex is one of the largest combined-cycle installations in Spain. Its total investment is approximately 600 million euros and it is expected to produce an annual power level of over 9,000 GWh.

With these new facilities, the Gas Natural Group has a total power demand in combined-cycle plants of 2,800 MW. In addition, February 2005 saw the commencement of the construction work on the Plana de Vent power station (Tarragona), comprising two units of 400-MW each. The commercial operations corresponding to this installation, with investments of over 400 million euros, are scheduled for the first half of 2007.

Electricity in Spain. Results (millions of euros)

	2005	2004	%
Net turnover	925.8	474.9	94.9
Supplies	(788.2)	(390.1)	–
Personnel expenses, net	(6.6)	(6.7)	(1.5)
Other expenses/income	(41.2)	(33.8)	21.9
Ebitda	**89.8**	**44.3**	**–**
Allocation to depreciation	(43.8)	(16.8)	–
Allocation to provisions	(1.1)	1.1	–
Operating Profits (Ebit)	**44.9**	**28.6**	**57.0**

Furthermore, the Gas Natural Group continued its combined-cycle power station expansion plan, which aims to reach an operative level of 4,800 MW by 2008. Accordingly, the allocation of the tenders for the Malaga (400 MW) and Barcelona (800 MW) projects is planned for the first quarter of 2006, together with the continued processing of permits for several sites, which are currently at different stages.

In 2005, wind power reached 528 GWh, which consolidates the Gas Natural Group as the sixth-ranking wind power operator on the domestic market.

In April 2005, Gas Natural Group completed the acquisition of the company DERSA (Desarrollo de Energías Renovables, S.A.). With this operation, it purchased an operative total of 433 MW (228 MW attributable) on various wind energy installations in eight regions (Galicia, Aragon, Catalonia, La Rioja, Navarre, Castilla-La Mancha, Castilla y León and Andalusia) and up to 1200 MW at different stages of development in the aforementioned regions and also in Cantabria.

At 31 December 2005, the Gas Natural Group operated wind power of 608 MW (279 MW attributable) and 112 MW under construction (68 MW attributable), with more than 1,000 MW being processed. The Group’s wind power assets are spread over nine autonomous regions (Galicia, Aragon, Catalonia, La Rioja, Navarra, Castilla-La Mancha, Castilla y León, Andalusia and Cantabria).

Gas Natural Group's production of wind power in 2005 corresponds to an average use of 2,570 hours, which is slightly higher than the average use of the total number of wind power installations on the peninsular wind farms (2,239 hours).

The sales of electricity generated by cogeneration plants totalled 142 GWh, 34% higher than sales in 2004. Gas Natural Group’s attributable power demand in cogeneration plants at the end of 2005 was 23 MW. The 7.4 MW plant at Hornillos came into service in 2005.

In addition, during 2005 the Gas Natural Group completed sales to the wholesale market corresponding to a special system portfolio, with a total power volume of 478 GWh.

Electricity in Puerto Rico

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

Gas Natural Group's activities in Puerto Rico totalled an Ebitda in local currency of 76.9 million US dollars, with an increase of 16.3% in comparison with the previous year.

EcoEléctrica's facilities include a regasification plant, with a capacity for 160,000 m^3, and a 540 MW combined-cycle power station. The power station, which is the first private electrical power plant on the island to use natural gas as a fuel, is located in Peñuelas, to the south of Puerto Rico, and produces around 15% of all the electricity consumed on the island.

Electricity in Puerto Rico. Results (millions of euros)

	2005	2004	%
Net turnover	133.2	117.9	13.0
Supplies	(59.4)	(50.3)	18.1
Personnel expenses, net	(2.7)	(2.5)	8.0
Other expenses/income	(8.9)	(11.3)	(21.2)
Ebitda	**62.2**	**53.8**	**15.6**
Allocation to depreciation	(16.3)	(16.2)	0.6
Allocation to provisions	(2.4)	(3.1)	(22.6)
Operating Profit	**43.5**	**34.5**	**26.1**

The net energy generated by EcoEléctrica was 3,124 GWh (the energy attributable to Gas Natural Group was 1,562 GWh), with a demand factor of over 70%, a notable improvement on the 66% recorded in 2004. In 2005, the moving average availability was higher than the value guaranteed in the long-term energy sales contract.

Up + Midstream

This includes development of integrated LNG projects, sea transport management and the operation of the Maghreb-Europe gas pipeline.

The net turnover for the Upstream and Midstream activity amounted to 262 million euros, with an increase of 21.9%. The Ebitda for 2005 was 175.6 million euros, 21.6% higher than the previous year, despite a more conservative use of the LNG carrier fleet in 2005 (78% vs. 90% in 2004), which partially compensated the higher economic contribution from the Maghreb-Europe gas pipeline as a result of the transportation of higher volumes thanks to the recent increase in capacity. Furthermore, the commencement of integrated LNG project developments gave rise to initial start-up costs that have not been capitalised.

The gas transportation activity carried out in Morocco through the companies EMPL and Metragaz represented a total volume of 145,923 GWh, with a growth of 26.2%, as a result of the aforementioned increase in capacity. Of this amount, 110,636 GWh were transported for Gas Natural Group through the company Sagane and 35,287 GWh were transported for the Portuguese company Transgas.

In April 2005, Gas Natural SDG and Repsol YPF reached an agreement in the areas of exploration, production, liquefaction, transportation, trading and wholesale commercialisation of liquid natural gas (LNG).

In the area of exploration, production and liquefaction (Upstream), the agreement establishes association for the development of new projects, in which Repsol YPF shall be the operator and take part with 60% of the assets and Gas Natural SDG shall own 40%.

In the area of transportation, trading and wholesale commercialisation (Midstream), the company Repsol-Gas Natural LNG (stream) was incorporated for the wholesale commercialisation and transportation of LNG, where each company has a holding of 50%, the post of CEO is rotated and the managing director will be proposed by Gas Natural SDG.

Accordingly, particular mention must be made of the joint development of the exploration project in Gassi Chergui and the comprehensive liquid natural gas (LNG) exploration, production and commercialisation project in the area of Gassi Touil, both in Algeria. This includes the construction of a natural gas liquefaction plant in Arzew with a capacity of 5.2 Bcm of LNG per year with the option for increased capacity in the future through a second train.

As part of the Gassi Touil project, the year 2005 saw the creation of a comprehensive drilling, geoscience and engineering technical team, together with the finalisation of the geology models, the planning of the drilling campaign and the operation and start-up of seismic campaigns. The investments made so far in the project total 11.4 million euros.

Gas Natural SDG applied to the Italian government (the Ministero delle Attività Produttive) for a licence to develop the building projects for two regasification plants in Italy, which are to be located in Trieste and Taranto.

Both projects have similar specifications and include two 150,000 m^3 tanks with an annual regasification capacity of 8 Bcm each.

In Spain, the Gas Natural Group purchased 274,375 GWh during the year 2005. Of this amount, 141,293 GWh (51.7%) were obtained via gas pipeline, and the remaining 132,658 GWh (43.3%) were obtained as LNG. This represented an increase of 10.0% in comparison with the total supplies for the previous year.

Short-Term Supplies

In order to satisfy peaks in demand and seasonal deficit, additional quantities were contracted via gas pipeline and LNG.

Supplies to the Distributors Belonging to the Gas Natural Group in France and Italy

After the reorganisation of the Gas Natural Group's structure, the Gas Purchasing Department worked flat-out to provide supplies for the Group's subsidiaries in France and Italy.

Their efforts resulted in the negotiation and signing of a contract with Shell in November 2005 to supply Gas Natural Vendita Italia S.p.A. (GNVI) with approximately 3,700 GWh in the period between 1 November 2005 and 30 September 2006, as well as talks with various suppliers at the end of 2005 to cover GNVI's deficit during the first quarter of 2006, which was caused by the exceptional weather conditions experienced this winter.

In addition, contacts and talks continue with various producers to find new long-term supplies for these distributors, as well as to obtain the required transportation capacity on the European gas pipeline network for the supplies in question.

Up + Midstream. Results (millions of euros)

	2005	2004	%
Net turnover	262.0	214.9	21.9
Supplies	(52.1)	(42.5)	22.6
Personnel expenses, net	(2.5)	(2.5)	0.0
Other expenses/income	(31.8)	(25.5)	24.7
Ebitda	**175.6**	**144.4**	**21.6**
Allocation to depreciation	(48.2)	(47.9)	0.6
Allocation to provisiions	0.3	2.0	(85.0)
Operating Profits (Ebit)	**127.7**	**98.5**	**29.6**

Up + Midstream. Main Figures (Gwh)

	2005	2004	%
Gas transportation/EMPL (GWh):	145,923	115,637	26.2
Portugal	35,287	28,251	24.9
Gas Natural Group	110,636	87,386	26.6

Wholesale & Retail

This section includes gas supply and commercialisation activities in Spain and abroad and the commercialisation of other products and services related to retail commercialisation in Spain, gas commercialisation activities on the liberalised market, gas supply for other gas distributors and commercialisers, and the commercialisation of other products and services relating to retail commercialisation.

The supply of gas to other distributors corresponds to that provided to Enagás for the regulated gas distribution market. The turnover for gas supplies amounted to 5,774.3 million euros, which represents an increase of 46.1% in comparison with the previous year.

The Ebitda for 2005 threw up a result of 61.2 million euros in comparison with the 107 million euros of the previous year. The significant increase in the demand for gas in Spain, caused by the harsh winter, required the acquisition of additional gas with spot purchases on a scenario of high international gas prices. This led to a real average price far above the cost of raw material (CRM) included in the tariff.

On 27 October 2005, Order ITC 3321/2005 was published, modifying the formula for calculating the cost of raw material (CRM) for the year 2005. The order recognised the extra cost in the gas supply for the regulated market as a consequence of a demand in 2005 that was higher than the forecast made the previous year to calculate the cost of supplying the unforeseen additional quantities to the regulated market, as well as the difference between the cost of purchasing gas on international markets and the CRM.

Order ITC 3321/2005 estimated extra costs of 83 million euros, which shall be corrected when the final sales and acquisition costs for 2005 become available. In addition, Order ITC 4101/2005, of 27 December, which establishes natural gas tariffs for 2006, includes the anticipated cost of supplies during the winter months in the CRM calculation structure (in accordance with the provisions laid down in ITC 3321/2005, of 27 October) to enable better pricing on the liberalised market.

In addition, tariffs for large consumers (over 100 GWh/year), thermal power stations and interruptible gas service customers, were eliminated and are now supplied on the liberalised market. A transition period of 3 to 12 months was created until these tariffs finally disappear.

Gas Natural Groups's total commercialisation and supply reached 317,555 GWh, with a growth of 10.2%. Of this amount, 271,880 GWh went to the Spanish market 11.7% and the remaining 45,675 GWh went to international markets 2.5%.

The supply of gas to the regulated market corresponds to the supply to Enagás, which, together with its stock management, serves gas distribution companies, including Gas Natural Group and third parties, and reached 59,985 GWh, with a slight fall of 2.2%, despite the market expansion. This was mainly due to the use of the regulated market as a refuge for certain conventional thermal power stations and industrial clients that have left the liberalised market.

On the liberalised market, sales amounted to 211,895 GWh, with an increase of 16.3% in comparison with the previous year. Of these sales, 165,197 GWh were commercialised to end customers by the Gas Natural Group and used mainly for the industrial market and to supply both combined-cycle plants and the residential market.

The supply of the liberalised market by other gas commercialisers totalled 46,698 GWh, with an increase of 8.2%, and corresponded mainly to gas supplies under mid- and long-term contracts.

With regard to the Gas Natural Group's multi-product activity, almost 128,000 gas maintenance contracts were added in 2005, taking current contracts beyond the figure of 1,282,000 at 31 December 2005.

Furthermore, the Group continued to develop products and services using its offline and online commercialisation channels. At 31 December 2005, it had 113 franchised centres and one centre of its own, which, together with the 763 associated centres, represents a powerful commercial network that is unique in Spain.

At 31 December 2005, the contracts for products and services additional to the sale of gas, including financial services and the sale of electricity, totalled more than 2,249,000, with an increase of 30.2% in comparison with the contracts that were current at 31 December 2004. This represented a contract-customer ratio in Spain of 1.47, in line with the strategic target of two contracts per customer by 2008.

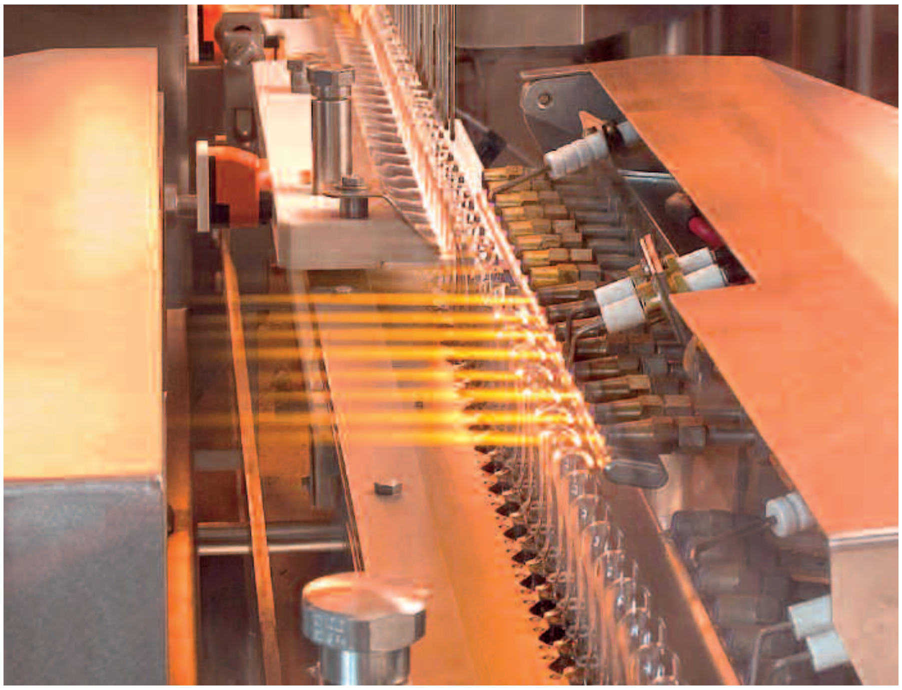
In addition, the commercial activity enabled an increase in the number of homes with gas heating of 35,300 and in the sales of appliances of 56,000, including more than 13,400 air-conditioning installations.

On 23 January 2006, Gas Natural SDG launched an institutional campaign in the media aimed at all the Company's target publics in order to emphasise its brand-name values and reaffirm its corporate commitments. The claim used in the campaign was "Together, we have more energy", with which Gas Natural SDG highlighted the roles played by customers, shareholders, workers and suppliers in the construction of a sound, profitable project for the future.

The campaign was broadcasted on the main TV channels and radio stations. Furthermore, the sale of products and services was backed by direct marketing actions.

In addition, and despite the fact that the online bill option began in 2004, various actions were carried out throughout 2005 (leaflet sent with bills and advertising on the Gas Natural Group website). These actions enabled a considerable increase in the number of clients that access their bill online, which represented significant savings in paper and helped contribute to the conservation of the environment.

Furthermore, and with a view to obtaining safer installations for customers, as well as energy savings, efforts were made to boost the renewal of natural gas appliances that were more than 10 years old. Gas Natural Servicios (GNS) launched two campaigns aimed at its customers whose appliances were old or in poor condition: a campaign for the renewal of boilers; and a campaign for the renewal of heaters. The advertising, which was sent with the bill and implemented via direct marketing, on the Gas Natural Group website and through installers, reminded customers of the importance of owning modern



appliances for greater safety and economy. With the payment facilities that were offered, customers were able to replace their old appliance with a new appliance by the best manufacturers on the market.

Similarly, special commercial activities were carried out in Cantabria and Zaragoza. For these activities, which lasted approximately two months, both the representatives that visited customers at home and the Gas Natural centres were supplied with specific gifts to encourage energy contracts with Gas Natural Servicios. The campaign included a significant amount of advertising on outdoor media (bill hoardings and bus shelters) and in local media (press and radio). In addition, as a backup and demonstration of the Gas Natural Group's commitment to the population, leisure activities were organised with great impact in the media (an ice rink in Santander and a three-a-side football tournament in Zaragoza).

Wholesale & Retail. Main Figures

	2005	**2004**	**%**
Gas supply (GWh):	317,555	288,055	10.2
Spain:	271,880	243,510	11.7
Regulated market	59,985	61,364	(2.2)
Liberalised market:	211,895	182,146	16.3
Commercialisation Gas Natural	165,197	138,973	18.9
Third party suppies	46,698	43,173	8.2
International:	45,675	44,545	2.5
Supplies	32,202	36,033	(10.6)
Commercialisation Europe	13,473	8,512	58.3
Multi-product contracts (as at 31/12)	2,249,137	1,727,147	30.2
Contracts per customer (as at 31/12)	1.47	1.37	7.3

Wholesale & Retail. Results (millions of euros)

	2005	**2004**	**%**
Net turnover	5,774.3	3,952.3	46.1
Supplies	(5,608.9)	(3,781.6)	48.3
Personnel expenses, net	(23.4)	(19.2)	21.9
Other expenses/income	(8.8)	(44.5)	81.6
Ebitda	**6.2**	**107.0**	**(42.8)**
Allocation to depreciation	(5.2)	(2.5)	–
Allocation to provisions	(10.5)	(10.0)	5.0
Operating Profits (Ebit)	**45.5**	**94.5**	**(51.9)**

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

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

Consolidated Balance Sheet of the Gas Natural Group

(€ in millions)

Assets	31.12.05	31.12.04
Property, plant and equipment (Note 5)	7,551	6,521
Goodwill (Note 6)	456	334
Intangible assets (Note 6)	1,354	954
Investments in associates (Note 7)	32	297
Deferred income tax assets (Note 19)	223	161
Available-for-sale financial assets (Note 8)	640	150
Derivative financial instruments (Note 9)	18	–
Financial receivables (Note 10)	194	194
Non current assets	**10,468**	**8,611**
Inventories (Note 11)	456	264
Trade and other receivables (Note 12)	2,459	1,850
Financial receivables (Note 10)	123	64
Derivative financial instruments (Note 9)	2	–
Cash and cash equivalents (Note 13)	201	206
Assets held for sale (Note 5)	3	2
Current assets	**3,244**	**2,386**
Total assets	**13,712**	**10,997**
Equity and liabilities		
Share capital (Note 14)	448	448
Fair value reserves	313	17
Retained earnings and other reserves (Note 14)	4,539	4,127
Cumulative translation adjustment	111	(21)
Capital and reserves attributable to the Company's equity holders	**5,411**	**4,571**
Minority interests	**355**	**220**
Total equity	**5,766**	**4,791**
Borrowings (Note 15)	3,223	2,080
Derivative financial instruments (Note 9)	81	72
Other long term liabilities (Note 16)	467	463
Provisions (Note 17)	283	200
Employee benefit obligations (Note 18)	82	88
Deferred income tax liabilities (Note 19)	450	291
Deferred income (Note 20)	433	409
Non current liabilities	**5,019**	**3,603**
Borrowings (Note 15)	512	704
Derivative financial instruments (Note 9)	19	–
Other liabilities (Note 21)	378	309
Trade and other payables (Note 22)	1,867	1,508
Current income tax liabilities	151	82
Current liabilities	**2,927**	**2,603**
Total equity and liabilities	**13,712**	**10,997**

The notes hereto form an integral part of these consolidated annual accounts.

Consolidated Profit and Loss Account of the Gas Natural Group

(€ in millions)

	2005	2004
Sales (Note 23)	8,527	6,266
Other income (Note 24)	108	87
Procurements (Note 25)	(6,150)	(4,234)
Personnel cost (Note 26)	(252)	(205)
Depreciation and amortization expenses (Note 5 and 6)	(519)	(437)
Other operating expenses (Note 27)	(745)	(615)
Operating income	**969**	**862**
Net finance cost (Note 28)	(221)	(154)
Impairment loss	–	(5)
Share of profit of associates	34	61
Gain on sales of associates (Notes 7 and 8)	286	162
Income before taxes	**1,068**	**926**
Income tax expense (Note 19)	(241)	(231)
Net income for the period	**827**	**695**
Net income attributable to:		
Minority interests	78	53
Equity holders of the Company	749	642
	827	**695**
Earnings per share attributable to the equity holders – Basic and diluted (Note14)	1.67	1.43

The notes hereto form an integral part of these consolidated annual accounts.

Consolidated Statements of Changes in Shareholders' Equity

Balance at 1.1.04
Fair value gains/losses, net of tax
Available for sale
Cash flow hedges
Currency translation adjustments
Share of equity movements in associates
Net income/(expense) recognized directly in equity
Profit for the year
Total recognized income/(expense) for the period
Dividend
Acquisition of minority interest in the year
Capital contributions in a subsidiary
Business combinations
Other movements recognised directly in equity
Balance at December 31 2004
Fair value gains/losses, net of tax
Available for sale
Fair value, net of tax
Transfer to profit due to sale
Cash flow hedges
Currency translation adjustments
Share in equity movements in associates
Net income/(expense) recognized directly in equity
Profit for the period
Total recognized income/(expense) for the period
Dividend
Acquisition of minority interests during the year
Reduction of capital of subsidiaries
Sale of shareholdings during the year
Business combinations
Balance at 31.12.05

The notes hereto form an integral part of these consolidated annual accounts.

(€ in millions)

Atributable to equity holders of the Company						
Share capital	**Fair value reserves**	**Retained earnings and other reserves**	**Cumulative Translation adjustment**	**Subtotal**	**Minority interest**	**Total equity**
448	**(8)**	**3,792**	**–**	**4,232**	**198**	**4,430**
–	31	–	–	31	–	31
–	38	–	–	38	–	38
–	(7)	–	–	(7)	–	(7)
–	–	–	(21)	(21)	3	(18)
–	(6)	–	–	(6)	–	(6)
–	25	–	(21)	4	3	7
–	–	642	–	642	53	695
–	**25**	**642**	**(21)**	**646**	**56**	**702**
–	–	(294)	–	(294)	(47)	(341)
–	–	(12)	–	(12)	(11)	(23)
–	–	–	–	–	1	1
–	–	–	–	–	23	23
–	–	(1)	–	(1)	–	(1)
448	**17**	**4,127**	**(21)**	**4,571**	**220**	**4,791**
–	297	–	–	297	–	297
–	290	–	–	290	–	290
–	350	–	–	350	–	350
–	(60)	–	–	(60)	–	(60)
–	7	–	–	7	–	7
–	–	–	132	132	38	170
–	(1)	–	–	(1)	–	(1)
–	296	–	132	428	38	466
–	–	749	–	749	78	827
–	**296**	**749**	**132**	**1,177**	**116**	**1,293**
–	–	(336)	–	(336)	(52)	(388)
–	–	(1)	–	(1)	(3)	(4)
–	–	–	–	–	(18)	(18)
–	–	–	–	–	2	2
–	–	–	–	–	90	90
448	**313**	**4,539**	**111**	**5,411**	**355**	**5,766**

Consolidated Cash Flow Statements of the Gas Natural Group

(€ in millions)

	2005	2004
Cash flows from operating activities		
Cash generated from operations (Note 30)	1,285	1,162
Interest paid	(298)	(164)
Provisions paid	(32)	(20)
Income tax paid	(117)	(172)
Net cash generated from operating activities	**838**	**806**
Cash flows from investing activities		
Acquisition of subsidiaries, net of cash acquired	(266)	(397)
Purchases of property, plant and equipment	(1,089)	(950)
Purchases of intangible assets	(62)	(65)
Other investments	(170)	(23)
Proceeds from sales of property plant and equipment	17	15
Proceeds from sale of associates (Notes 7 and 8)	432	292
Proceeds from financial receivables	23	83
Deferred income received	51	64
Dividends received	21	28
Interest received	27	26
Net cash used in investing activities	**(1,016)**	**(927)**
Cash flows from financing activities		
Receipt/(payment) from capital increase/(reduction)	(16)	1
Proceeds from borrowings	1,021	511
Repayment of borrowings	(461)	(270)
Other liabilities	1	(29)
Cash payments for finance leases	(29)	(30)
Dividends paid to Company's shareholders	(318)	(269)
Dividends paid to minority interests	(50)	(27)
Net cash received from financing activities	**148**	**(113)**
Effect of exchange rates on cash and other equivalents	**25**	**(2)**
Net increase/(decrease) in cash and other equivalents	**(5)**	**(236)**
Cash and cash equivalents at beginning of the year	206	442
Cash and cash equivalents at end of the year	201	206
Net increase in cash and cash equivalents	**(5)**	**(236)**

The notes hereto form an integral part of these consolidated annual accounts.

Notes to the Consolidated Annual Accounts of the Gas Natural Group for the year ended 31 December 2005

Note 1. General information

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

GAS NATURAL operates mainly in Spain and also outside of Spain, especially in Latin America, Puerto Rico, Italy, France and Africa (through Maghreb-Europe gas pipeline and LNG integrated projects in Algeria).

The shares of Gas Natural SDG, S.A. are listed on the four official Spanish stock exchanges and forms part of the Ibex 35. The shares of Gas Natural BAN, S.A. are listed on the Buenos Aires Stock Exchange (Argentina).

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

The registered office of GAS NATURAL is Avda. Portal de l'Àngel 22 Barcelona, Spain.

The annual accounts of Gas Natural SDG, S.A. and the consolidated annual accounts of GAS NATURAL for the year ended 2004 were approved by the General Meeting of Shareholders of April 20, 2005.

The consolidated annual accounts for 2005, which have been formulated by the Board of Directors on March 31, 2006, will be submitted, as will be those of the investee companies, for approval by the respective general meetings of shareholders. It is expected that they will be approved without any modification.

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

Takeover Bid of Shares of Endesa

The Board of Directors unanimously adopted a resolution of September 5, 2005 to launch a takeover bid of 100% of the share capital of Endesa.

Furthermore, GAS NATURAL and Iberdrola entered into an agreement for the purchases of certain assets of the company arising from the acquisition of Endesa by the GAS NATURAL, subject to the success of the transaction and conferral of the respective authorisations. The operation will be carried out at market prices, which will be determined by different investment banks of renowned prestige.

On February 6, 2006 the Board of Directors of GAS NATURAL adopted a resolution to continue its bid on all the shares of Endesa, after studying the twenty conditions laid down by the Council of Ministers.

GAS NATURAL believes that the strategic, industrial and financial advantages of the operation are compatible with its meeting the conditions set down by the Council of Ministers governing the economic concentration.

The application of the conditions to the project presented by GAS NATURAL will allow the company to continue to maintain the strategic logical of the operation as it was initially designed. Thus, the industrial and financial advantages of the operation remain intact: taking advantage of the opportunities of convergence of gas and electricity; having a flexible, competitive supply of gas; having a diversified energy generation portfolio; managing gas and electricity customers in an integrated way; having an attractive business mix and investment profile; and, finally, taking advantage of a highly potential synergies.

On February 21, 2006 the German company E.ON filed a takeover bid to the CNMV (Spanish Securities Exchange Commission) to acquire all the share capital of Endesa, subject to the meeting of certain conditions.

On February 27, 2006, after GAS NATURAL received final regulatory approval and after having decided to move forward, the CNMV approved the offer addressed to the shareholders of Endesa.

On March 6, 2006 the period for formal acceptance of the public takeover bid began in Spain and the USA. On that same day the United States Securities and Exchange Commission (SEC) formally accepted the filing of the F-4 including in the U.S. prospectus addressed to the shareholders of Endesa residing in the United States.

On March 21, 2006, in response to Endesa's motion for injunctive relief, the Madrid Court ordered the suspension of, and declared suspended, the following: the processing of GAS NATURAL's offer for the share capital of Endesa and, consequently, the execution of all acts relating to, or connected with, GAS NATURAL's offer for the share capital of Endesa, in particular, the acquisition of Endesa shares by GAS NATURAL, and the performance of the agreement dated September 5, 2005, between GAS NATURAL and Iberdrola.

For the injunctive relief to become effective, and to address possible damages arising from the adoption and maintenance of the injunctive measures, Endesa is required to furnish a bond in the amount of € 1,000 million by means of a bank guarantee, to be furnished within the term of 10 days of the date of the decision.

On March 28, 2006, GAS NATURAL notified the Madrid Court of GAS NATURAL's intention to appeal the Madrid Court's order. Based on recent news reports, GAS NATURAL understands that Endesa has also notified the Madrid Court of Endesa's intention to appeal the amount of the € 1,000 million bond required to be posted by Endesa pursuant to the Madrid Court's order.

The CNMV announced on March 24, 2006, that if the GAS NATURAL offer is suspended, the sealed envelope procedure for improving offers will also be provisionally suspended. The CNMV also announced that the acceptance period for all competing offers for Endesa, including those of GAS NATURAL and E.ON, will be extended, as necessary, so that all expire on the same date.

Note 2. Summary of significant accounting policies

2.1. Basis of preparation

The accompanying consolidated annual accounts of GAS NATURAL for 2005 have been prepared in accordance with International Financial Reporting Standards adopted by the European Union (IFRS-EU), in accordance with Regulation (CE) no. 1606/2002 of the European Parliament and Council.

GAS NATURAL's consolidated annual accounts at and for the year ended December 31, 2004 were prepared in accordance with Generally Accepted Accounting Principles in Spain (hereon, "Spanish GAAP"). Spanish GAAP differs in some areas from IFRS-EU. For comparative purposes, in preparing consolidated annual accounts for 2005, the Directors have adopted certain accounting and valuation methods to comply with IFRS-EU. The comparative figures in respect of 2004 were restated to reflect these adjustments under IFRS-EU. Reconciliations and descriptions of the effect of the transition from Spanish GAAP to IFRS-EU on GAS NATURAL's equity and net income are provided in Note 3.

The consolidated annual accounts present a true and fair view of the consolidated equity and consolidated financial position of GAS NATURAL at December 31, 2005, as well as the consolidated results of its operations, the variations in the statements of consolidated net equity and consolidated cash flows, which have occurred in GAS NATURAL in the year ended on said date.

The consolidated annual accounts for 2005 of GAS NATURAL have been prepared on the basis of the accounting records of Gas Natural SDG, S.A. and the other entities forming part of the Group. Each company prepares its annual accounts following the accounting principles and criteria of the country in which they carry out their operations, and accordingly, the adjustments and reclassifications necessary to homogenize said principles and criteria in order to adapt them to IFRS-EU have been introduced. The accounting principles of the consolidated Companies have been modified where necessary in order to assure that they are consistent with the accounting policies adopted by GAS NATURAL.

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

2.2. Consolidation

a) Subsidiaries

Subsidiaries are all entities over which GAS NATURAL has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether GAS NATURAL controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to GAS NATURAL. They are de-consolidated from the date on which control ceases.

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.

b) 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. When the shareholding is less than 20% or the overall evaluation of the conditions shows that this influence has disappeared, this shareholding is not considered as associate. Investments in associates are accounted for by the equity method of accounting and are initially recognized at cost.

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 reserves is recognized in reserves. The post-acquisition movements of the associates are adjusted against the carrying amount of the investment.

Unrealized gains on transactions between GAS NATURAL and its associates are eliminated to the extent of GAS NATURAL's interest in the associates. Unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

c) Joint Ventures

GAS NATURAL's interests in jointly controlled entities are accounted for by proportionate consolidation. GAS NATURAL combines its share of the joint ventures' individual income and expenses, assets and liabilities and cash flows on a line-by-line basis with similar items in GAS NATURAL's accounts.

GAS NATURAL recognizes the portion of gains or losses on the sale of assets by GAS NATURAL to the joint venture that is attributable to the other ventures. GAS NATURAL does not recognize its share of profits or losses that result from GAS NATURAL's purchase of assets from the joint venture until it resells the assets to an independent third party. A loss on the transaction is recognized immediately if it provides evidence of a reduction in the net realizable value of current assets, or an impairment loss.

d) Consolidation scope

The Appendix includes the direct and indirect investee companies of GAS NATURAL, which have been included in the consolidation scope.

The main changes in the consolidation scope in 2005 have been as follows (see Note 31):

– In April all the share capital of Desarrollo de Energías Renovables, S.A. (DERSA), the holding company of a group engaged in the development and exploitation of wind farms was acquired. Through this acquisition the following companies have been fully consolidated and are within the consolidation scope: Desarrollo de Energías Renovables, S.A. (100%), Aplicaciones y Proyectos Energéticos, S.A. (100%), Boreas Eólica, S.A. (99.5%), Molinos de Valdebezana, S.A. (59.7%), Boreas Eólicas 2, S.A. (90%), Desarrollo de Energías Renovables Castilla-La Mancha, S.A.(100%); while the following companies have been proportionally consolidated within the consolidation scope: Los Castrios, S.A. (33.1%), Desarrollo de Energías Renovables de Navarra, S.A. (50%), Desarrollo de Energías Renovables de La Rioja, S.A. (36.3%), Molinos del Cidacos, S.A. (50%), Molinos de la Rioja, S.A. (33.3%) y Molinos de Linares, S.A. (24.9%); and the following companies have been included within the consolidation scope as equity method investees: Sistemas Energéticos La Muela, S.A. (20%) and Sistemas Energéticos Mas Garullo, S.A. (18%).

– In June an additional shareholding of 36.8% was acquired in Portal Gas Natural, S.A., bringing the interest to 100%.

– In June an additional shareholding of 2.4% was acquired in Corporación Eólica de Zaragoza, S.A. bring the interest to 68%.

– In July 12.41% of the shareholding in CEG Rio, S.A was sold, bring the interest to 59.6%.

– In July the Company acquired an additional stake of 4.24% of the share capital of Burgalesa de Generación Eólica, S.A., bring the interest to 24.2%.

– The following fully consolidated companies incorporated this year, Gas Natural Exploración, S.L., Natural Re, S.A., Gas Natural Capital Markets, S.A., have been added to the consolidation scope. The Company holds a 100% interest in all of these. Tratamiento Integral Almazán, S.L., in which the company holds 90% of the shares was also fully consolidated, while Repsol-Gas Natural, LNG, S.L., in which the company has a 50% interest has been proportionally consolidated (see Note 32).

– During the first nine months of the year 10.58% of the interest in Enagás, S.A. was sold, and, accordingly, at September 30, 2005 the shareholding totalled 15.55%. Consequently, as from October 1, Enagas, S.A. the equity accounting method was no longer applied to the investment in Enagas, S.A. (see Notes 7 and 8).

On the other hand, the following corporate operations have taken place in 2005 amongst Group companies:

– On September 30, 2005, the Board of Directors of Gas Natural SDG, S.A. adopted a resolution to approve a project to segregate the activities of gas distribution and transport by a transfer en bloc to its subsidiaries Gas Natural Distribución SDG, S.A. and Gas Natural Transporte SDG, S.L., respectively. This segregation has taken place through capital increases in both companies subscribed through a non-monetary contribution of assets and liabilities by Gas Natural SDG, S.A. that make up the transport and distribution activity branches. In consideration for the non-monetary contributions, Gas Natural Distribución SDG, S.A. has issued shares of € 1,100 million while Gas Natural Transporte SDG, S.L. has issued shares of € 52 million, all of which have been subscribed by Gas Natural SDG, S.A.

– In December the shareholdings in Italy were restructured, giving rise to the following takeover mergers:

  • Gea S.p.A, Impianti Sicuri, S.r.L and Smedigas S.r.L. were merged with Gas Natural Vendita Italia, S.p.A.

  • Gas Natural Distribuzione Italia S.p.A was merged with Nettis Impianti S.p.A.

  • Gas Fondiaria S.p.A. was merged with Gas S.p.A

2.3. Business Combinations

Business combinations are accounted for by applying the purchase accounting method. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange plus costs directly attributable to the acquisition. Intangible assets acquired in a business combination should be recognized separate from goodwill if the recognition criteria of the assets is met, that is, are separable or are originated from legal or contractual rights and its fair value may be measured reliably.

The identifiable assets acquired, liabilities or contingent liabilities incurred or assumed as a consequence of the transaction, should be initially fair valued at the acquisition date, irrespective of the extent of any minority interest.

The excess of the cost of acquisition over the fair value of GAS NATURAL's share of the identifiable net 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 recognized directly in the income statement.

Acquisitions of additional equity interests in companies already controlled by GAS NATURAL are accounted for as equity transactions, with the excess of the amount paid to the minority over the book value of the minority interest being recognized directly in equity.

2.4. Segment reporting

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

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

2.5. Foreign currency translation

a) Functional and presentation currency

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 'functional currency'). The consolidated financial statements are presented in euros, which is the GAS NATURAL functional and presentational currency.

b) Transactions and balances

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.

c) GAS NATURAL companies

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 presentation currency are translated into the presentation currency as follows:

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

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

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

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

2.6. Property, plant and equipment

Property, plant and equipment includes mainly pipeline networks, gas transport vessels, combined cycle electricity plants and wind farms.

All property, plant and equipment are presented at cost less accumulated depreciation and, if necessary, impairment. Cost includes expenditure that is directly attributable to the acquisition of the items. Land is not depreciated.

Costs of improvements are capitalized only when it is probable that future economic benefits associated with the item will flow to GAS NATURAL and the cost of the item can be measured reliably. The net book value of the replaced assets is expensed. The rest of repairs and maintenance are expensed in the income statement during the financial period in which they are incurred.

Major maintenance expenditures (overhauls) are capitalized and depreciated over the estimated useful life of the asset (generally 1.5 to 3 years) while minor maintenance is expensed as incurred.

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

Assets received by the company without consideration after the transition date are recorded at their nominal value on Property, plant and equipment. Before the transition date they were recorded at fair value (see note 3.1.2.b.). For these assets, deferred income is recognized as income, on a straight-line basis, over the useful life of the respective assets.

Assets are depreciated using the straight-line method, over their estimated useful life or, if lower, over the time of the concession agreement for items used a part of a concession (see note 33). Estimated useful lives are the following (years):

	Estimated useful lives
Buildings	33-50
LNG transport vessels	30
Technical installations (pipeline network)	20-30
Technical installations (combined cycle gas turbine: CCGT)	25
Technical installations (wind farms)	20
Other technical installations	8-20
Tooling and equipment	3
Furniture and fittings	10
Computer equipment	4
Vehicles	6

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

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount, i.e., when the asset is no longer useful such as due to a rerouting of the distribution pipeline (see Note 2.8).

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

Borrowing costs incurred for the construction of any qualifying assets are capitalized during the period of time that is required to complete and prepare the asset for its intended use. Other borrowings costs are expensed as incurred.

It is the policy of GAS NATURAL to insure all its assets and inherent risks facing its business and activities. To this purpose, material damages, the possible interruptions of supply, and civil liability with respect to third parties, are all insured. GAS NATURAL believes that the level of coverage of its insurance policies is sufficient, in general, to cover the risk inherent in its business.

Furthermore, we should point out that GAS NATURAL has its own insurance company, Natural Re, S.A. This company, which is fully integrated into the risk management of GAS NATURAL, is used as an instrument to centralize the global risk coverage of the Group. Thus, Natural Re, S.A. enables GAS NATURAL to effectively implement its risk management program, without prejudice to the modifications to regulations in the different countries in which it operates.

GAS NATURAL has adopted IFRS 5, "Non-current assets held for sale and discontinuous operations" since January 1, 2004, prospectively, in accordance with the standard's provisions. As December 31, 2005, GAS NATURAL has classified five buildings as "held for sale" and, consequently, the recovery of their book value will be realised through their sale and not through their use. There has been no modification of the valuation of these buildings as a result of their reclassification (see note 5).

2.7. 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 or associate at the date of acquisition. Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill on acquisitions of associates is included in investments in associates. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash-generating units (CGUs) for the purpose of impairment testing. Each of these cash-generating units represents GAS NATURAL's investment in each country of operation by each primary reporting segment (Note 2.8).

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

b) Concessions

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

Administrative concessions are amortized on a straight-line basis over the length of the concession. In respect of the Maghreb-Europe concession pipeline, the annual amortization charge is based on the volume of gas transported over the life of contract.

c) Computer software applications

Acquired computer software licenses are capitalized on the basis of the costs incurred to acquire and bring to use the specific software.

Cost associated with developing or maintaining computer software programs are recognized as an expense as incurred. Costs that are directly associated with the production of identifiable and unique software products controlled by GAS NATURAL, and that will probably generate economic benefits exceeding costs beyond one year, are recognized as intangible assets. Direct costs include the costs of software development employees.

Computer software development costs recognized as assets are amortised over their estimated useful lives when the assets are ready to be used (four years).

d) Research costs

Research activities, are expensed as incurred as they do not fulfil the requirements to be considered intangible assets.

e) Other intangible assets

Other intangible assets include mainly the following meanings:

- 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 acquired in the 2005 business combination (see note 31), which will be amortized on a straight-line basis over their useful lives (twenty years).

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

2.8. Impairment of assets

No assets have an indefinite useful life. Assets that are subject to amortisation are tested for impairment whenever events or changes in circumstance indicate that the carrying amount may not be recoverable. 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).

2.9. 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. Investments are derecognized when the rights to receive cash flows from the investments have expired or have been transferred and GAS NATURAL has transferred substantially all risks and rewards of ownership.

GAS NATURAL classifies its investments in these two categories:

a) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and with no intention of trading. They are included in current assets, except for maturities greater than 12 months after the balance sheet date. These are classified as non-current assets. Loans and receivables are included in Financial receivables in the balance sheet (see Note 10).

Loans and receivables are carried at amortised cost using the effective interest method.

b) Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated in this category. They are initially recognized at fair value. Investments classified as available-for-sale that were previously associates are stated, at the time of the loss of significant influence, at the carrying value using on the equity method. These investments and are subsequently carried at fair value.

Unrealized gains and losses arising from changes in the fair value of non-monetary securities classified as available-for-sale are recognized in equity. When securities are sold or impaired, the accumulated adjustments to the reserve due to valuation adjustments are included in the income statement as gains and losses from investment securities.

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

GAS NATURAL assesses at each balance sheet date whether there is evidence that a financial asset is impaired. In the case of equity securities is considered in determining whether the securities are impaired. If any such evidence exists for the cumulative loss –measured as the difference between the acquisition cost and the current fair value, less any impairment loss previously recognized in profit or loss– is removed from equity and recognized in the income statement. Impairment losses recognized in the income statement on equity investments are not reversed. For unlisted securities impairment is assessed based on the company's equity, any known unrealized gains or losses and any other objective evidence, if any, that may result in impairment.

2.10. Inventories

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

Inventories costs include the cost of raw materials and those that are directly attributable to the acquisition and/or production.

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

2.11. Trade and other receivables

Trade receivables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method, less provision for impairment. A provision for impairment of trade receivables is established when there is objective evidence that GAS NATURAL will not be able to collect all amounts due according to the original terms of the receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The amount of the provision is recognized in the income statement.

Gas and electricity consumed and not billed are included in Trade and other receivables.

2.12. Cash and Cash equivalents

Cash and cash equivalents include cash in hand, deposits held at call with banks and other short-term highly liquid investments with maturities up to three months from the date of acquisition.

2.13. Share capital

Share capital is made up exclusively of ordinary shares.

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

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

2.14. Borrowings

Borrowings are recognized initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortized cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognized in the income statement over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless they mature at more than 12 months after the balance sheet date or include tacit renewal clauses.

2.15. Leases

Leases of property, plant and equipment where GAS NATURAL (the lessee) has substantially 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 exept for those falling due more than twelve months. The interest element of the finance cost is charged to the income statement over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The property, plant and equipment acquired under finance leases is depreciated over the asset's useful life.

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

2.16. Provisions

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

Provisions are measured at the present value of the Group's best estimate of expenditure required to settle the present obligation at the balance sheet date. The discount rate used to determine the present value reflects current market assessments of the time value of money and the specific risk related to the liability.

2.17. Employee benefits

a) Pension obligations

GAS NATURAL companies operate various pension schemes. The schemes are funded through payments to insurance companies or trustee-administered funds, determined by periodic actuarial calculations. GAS NATURAL has both defined benefit and defined contribution plans.

A defined contribution plan is a pension plan under which GAS NATURAL pays fixed contributions into a separate entity. GAS NATURAL has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods.

The contributions are recognized as employee benefit expense when they are due.

A defined benefit plan is a pension plan that defines an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation.

The liability recognized in the balance sheet in respect of defined benefit pension plans is the present value of the defined benefit obligation at the balance sheet date less the fair value of plan assets, together with adjustments for unrecognized actuarial gains or losses and past service costs. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating to the terms of the related pension liability. In countries where there is no deep market in such bonds, the market yields on government bonds are used.

Cumulative actuarial gains and losses arising from changes in actuarial assumptions in excess of the greater of 10% of the value of plan assets or 10% of the defined benefit obligation are spread to income over the employees' expected average remaining working lives. In those plans where most of liability refers to pensioners, the previous 10% corridor would apply, recognizing to income the excess over this corridor.

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

b) Other post-employment benefit obligations

Some of GAS NATURAL's companies provide post-retirement benefits to their retirees. The entitlement to these benefits is usually conditional on the employee remaining in service up to retirement age and the completion of a minimum service period. The expected costs of theses 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 experience adjustments, and changes in actuarial assumptions, are charged or credited to income over the expected average remaining working lives of the relevant employees to the extent that they exceed the 10% corridor.

c) Termination benefits

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

Benefits falling due more than twelve months after balance sheet date are discounted to their present value.

2.18. Deferred income tax

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements.

The deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction, other than a business combination, that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using applicable tax rates.

Deferred income tax assets are recognized to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized.

2.19. Deferred Income

Deferred income relates primarily to:

- Capital grants for assets stated at the amount granted
- Income in consideration for new connections and branch lines.
- Income from the extension of the pipeline network that will be financed by third parties.

Other deferred income items are recognized as income over the related asset useful lives on systematic basis.

2.20. Dividend distribution

Dividend distributions to the Company's shareholders are recognized as a liability in GAS NATURAL's financial statements in the period in which the dividends are approved by the Company's shareholders (or by the Boards of Directors, in the case of interim dividends) until they are paid.

2.21. Revenue recognition

Sales are recognized when products are delivered and have been accepted by the client, even if it has not been invoiced, or if applicable, services are rendered, as long as it is probable that the economic benefits associated with the transaction will flow to the entity. Sales are presented net of taxes and discounts and inter-company transactions are eliminated.

The legal framework on the regulated activities in the gas industry, regulates the payment procedure to be applied among entities of the gas industry for the redistribution of the amounts received from tolls, levies and net tariffs for specific destinations, costs of acquisition of gas and remuneration of the rated supply activity, so that each company will finally collect the amounts based on its regulated activities. (see note 2.27).

The Ministerial Order of October 28, 2002, which regulates the settlement procedures for the deviations arising from the application of the settlement procedure between final net settlement income and the remuneration accredited each year, will be taken into account in the calculation of the tariffs, tolls and levies for the following years. At the date of formulation of the consolidated annual accounts, no final settlements have been published for 2002 to 2005, but the provisional deviations for these years have considered in order to calculate the tariffs, tolls and levies for 2004 to 2006. No final settlements are expected to give rise to significant differences in respect of the estimates made.

Income includes the amount of both regulated sales and sales in the de-regulated market, since both the rated distributor and the free-market seller are considered principal agents and no commission agents for the supplies delivered.

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

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

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

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

2.22. 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 in designated as a hedging instrument, and if so, the nature of the item being hedged. GAS NATURAL designates certain derivatives as either hedges of the fair value of recognized assets or liabilities or a firm commitment (fair value hedge) or hedges of highly probable forecast transactions (cash flow hedge).

The non financial asset purchase-sale contracts entered into, which have been maintained in order to receive or deliver these assets according to the requirements of use expected by the entity, are recorded in accordance with the terms of the contracts. 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.

GAS NATURAL documents at the inception of the transaction the relationship between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. GAS NATURAL also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

The fair values of various derivative instruments used for hedging purposes are disclosed in Note 9.

a) Fair value hedge

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

b) Cash flow hedge

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

Amounts accumulated in equity are recycled in the income statement in the periods when the hedged item will affect profit or loss (for instance when the forecast purchase that is hedged takes place). However, when the forecast transaction that is hedged results in the recognition of a non-financial asset (for example, inventory), the gains and losses previously deferred in equity are transferred from equity and included in the initial measurement of the cost of the asset.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognized when the forecast transaction is ultimately recognized in the income statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the income statement.

c) Derivatives that do not qualify for hedge accounting

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

2.23. Environment and emission rights

a) Emission rights

GAS NATURAL books the emission rights received without consideration at their nominal value. In the event that GAS NATURAL does not have enough rights to meet its emission quotas, it records the shortfall at the fair value of the rights on the date of presentation of its financial statements. Given that the pollution emitted is below the level of the rights held, no provision is recorded for this item.

There have been no acquisitions or disposals of emission rights in 2005.

b) Environment

Expenses arising from business activity aimed at the protection and improvement of the environment are booked as expense for the year in which they are incurred. When such expenses represent additions to fixed assets, which purpose is to minimize environmental impact and protect and improve the environment, they are included under fixed assets.

2.24. New accounting standards and IFRIC interpretations

Certain new accounting standards and IFRIC interpretations have been published that are mandatory for accounting periods beginning on or after January 1, 2006. GAS NATURAL's assessment of the impact of these new standards and interpretations is set out below.

a) IFRS 6, Exploration for and Evaluation of Mineral Resources

This standard provides guidance on accounting for exploration and evaluation expenditures including the recognition of exploration and evaluation assets. This standard also provides guidance on performing impairment tests and on information disclosures in the accounts. IFRS 6 is effective for annual periods beginning on or after January 1, 2006. GAS NATURAL does not have any exploration and evaluation activities at December 31, 2005. Nevertheless, this standard will be applicable in the future to GAS NATURAL's financial statements, due to the fact that de Company foresees undertaking activities of this kind.

b) IFRS 7, Financial Instruments Disclosures

The IFRS introduces new requirements to improve the information on financial instruments that is given in entities' financial statements. It replaces IAS 30 and some of the requirements in IAS 32. IFRS 7 is effective for annual periods beginning on or after January 1, 2007. Earlier application is encouraged. GAS NATURAL has not decided yet whether to early adopt this standard. The application of this standard will not be significant on GAS NATURAL Financial Statements.

c) IAS 39 amendment – Cash Flow Hedge Accounting of Forecast Intragroup Transactions

The amendment permits the foreign currency risk of a highly probable intragroup forecast transaction to qualify as the hedged item in consolidated financial statements provided that the transaction is denominated in a currency other than the functional currency of the entity entering into that transaction and the foreign currency risk will affect consolidated financial statements. It has an effective date of January 1, 2006, although earlier application is encouraged. GAS NATURAL has not elected to adopt it earlier.

d) IAS 39 Amendment – The Fair Value Option

The amendment permits the irrevocable designation on initial recognition of financial instruments that meet certain conditions as ones to be measured at fair value through profit or loss. It has an effective date of January 1, 2006, although earlier application is encouraged. GAS NATURAL has not elected to adopt the standard early. The Group has not decided yet whether to apply the fair value option after it becomes effective.

e) IAS 39 and IFRS 4 Amendment – Financial Guarantee Contracts

The amendments are intended to ensure that issuers of financial guarantee contracts include the resulting liabilities in their balance sheet. Issuers must apply the amendments for annual periods beginning on or after January 1, 2006. Earlier application is encouraged. GAS NATURAL has not elected to early adopt the standard. This amendment is not expected to significantly impact GAS NATURAL'S financial statements.

f) IFRIC 4, Determining whether an Arrangement contains a Lease

It specifies that an arrangement contains a lease if it depends on the use of a specific asset and conveys a right to control the use of that asset. An entity shall apply this Interpretation for annual periods beginning on or after January 1, 2006. GAS NATURAL has not elected to adopt IFRIC 4 early. GAS NATURAL will apply IFRIC 4 in its 2006 financial statements and the IFRIC 4 transition provisions. GAS NATURAL will therefore apply IFRIC 4 on the basis of facts and circumstances that existed at January 1, 2005. GAS NATURAL will evaluate the arrangements under the provisions of IFRIC 4.

g) IFRIC 5, Rights to Interest arising from Decommissioning, Restoration and Environmental Rehabilitation Funds

IFRIC 5 explains how to treat expected reimbursements from funds set up to meet the costs of decommissioning plant, or equipment or in undertaking environmental restoration or rehabilitation. An entity shall apply this Interpretation for annual periods beginning on or after January 1, 2006. GAS NATURAL does not have interest in this kind of funds and therefore the interpretation will not affect GAS NATURAL's financial statements.

h) Clarification and amendment to IAS 21 – The Effects of Changes in Foreign Exchange Rates

This amendment clarified that net investment in a foreign entity can be held between subsidiaries of the same parent Company (i.e., sister companies). It also modified the treatment of exchange differences arising when the currency, in which the net investment is realized, is not the functional currency, nor the foreign company currency nor the currency of the entity that makes the net investment. The modification is applicable for years beginning on or after January 1, 2006. GAS NATURAL does not apply the net investment treatment to any investments in subsidiaries with financial statements denominated in foreign currency.

i) IFRIC 7, Application of the revaluation approach under IAS 29

IFRIC 7 explains how to restate comparative amounts in the financial statements when an entity detects the existence of hyperinflation in the economy of the currency used in the financial statements and how to restate the deferred tax items in the opening balance. This interpretation will be applied for annual terms beginning on 1 January 2006 or thereafter. GAS NATURAL is not currently operating in hyperinflationary countries, as defined under IAS 29. Consequently, this interpretation will not affect the consolidated financial statements of GAS NATURAL.

2.25. Significant accounting estimates and judgments

The preparation of consolidated financial statements under IFRS requires the formulation of estimates and judgments. The actual results could be different from the estimates and judgments used. The significant estimates and judgements used, which do not cover all the uncertainties relating to financial results that could arise from the application of all the valuation standards, are the following:

a) Provisions

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

b) Calculation of income tax and deferred income tax assets

The calculation of the income tax expense requires interpretations of complex tax legislation and regulations in the jurisdictions in which GAS NATURAL operates. The determination of expected outcomes of outstanding disputes and litigation and the evaluation of the conclusions reached by the Public Treasury during its tax audits 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 the Company to generate sufficient tax profits during the periods in which these deferred taxes are deductible. Management evaluates the expected reversal of the deferred income tax liabilities, the taxable income projected and its tax planning strategies.

c) Revenue recognition

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

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

d) Goodwill

Goodwill represents the positive difference between the cost of an acquisition and the fair value of the investment in the identifiable net assets of the subsidiary or associate purchased at the acquisition date. The goodwill that arises from purchases of subsidiaries is recorded separately as an intangible asset. This goodwill is subject to impairment tests annually and is recorded at cost minus accumulated impairment loss. Goodwill is assigned to different Cash Generating Units (CGU) in order to carry out the impairment tests. Each Cash Generating Units represents the investment of GAS NATURAL in each of the countries in which it operates through the primary reporting segment.

The estimated recoverable value of the cash generating units applied to impairment testing has been determined on the basis of the discount cash flows prepared in accordance with the business plan adopted by GAS NATURAL. The discount rate used is the average weighted cost of capital. If the discount rate used to determine the fair value were increased by 10%, the estimated recoverable value of the CGU would still exceed the carrying value in the consolidated financial statements. On the basis of the Goodwill impairment analysis at December 31, 2005, it is not probable that any impairment will arise in the future.

e) Defined benefit post-retirement plans and other post-retirement benefit plans

The calculation of the expense for pension, other post-employment benefits, and post-employment liabilities, requires the use of different hypotheses. Changes that affect these hypotheses can result in different expenses and liabilities. The most important hypothesis for pension benefits or post-employment benefits included the long-term yield of the assets in the plan and the discount rate used. Moreover, the social security coverage hypotheses are essential in determining other post-employment benefits.

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

GAS NATURAL cannot predict with certainty what these factors will be in the future.

2.26. Risk management

The standards and procedures for measuring, managing and monitoring financial risk have been defined. The risks, including market risk, are a major discussion point of the Management Committee, which sets down the principle rules and policies for risk management and determines the corporate risk profile. Furthermore, the conclusions of the Committee are presented to the Audit and Control Committee.

GAS NATURAL is exposed to several types of market risk during the normal course of its business, including the impact of changes in the prices of raw materials, interest rates and exchange rates. The raw material price risk, interest rate risk and exchange rate risk are managed actively, partially through financial derivatives. All transactions in financial derivatives are contracted for hedging purposes.

a) Raw material price risk

A major part of the operating costs of GAS NATURAL are related to the purchases of natural gas and liquefied natural gas (LNG) for sale on the free market and supply to the regulated markets. Likewise, its combined cycle plants use natural gas as fuel. Thus, although the price that GAS NATURAL applies to the sale of gas to its customers relates to market prices, in much more volatile environments, the fluctuations of its sale prices may not evolve proportionally to the costs of raw material, especially in regulated markets.

It is normal practice in the industry to index the purchases-sale contracts of natural gas to the prices of crude oil. In the last two years there have been significant variations in the price of crude oil, which are especially sensitive to geopolitical factors, such as the increase in demand from Asia, the war and post-war situation in Iraq, the increase in instability in other parts of the Middle East, and the eventual deterioration of the political and economic situation in hydro-carbon producing nations. The average annual Brent price of a barrel of oil in 2004 was USD 38.21, which has increased 42% in 2005 to the price of USD 54.38. In addition to the costs related to the gas business, the rise in crude oil prices and natural gas could lead to an increase in the cost of electricity generation.

Additionally, during 2005 the significant increase in the demand for gas in Spain in the period (above 20%) together with the winter consumer peaks, has led to the need to acquire additional gas on the spot market in a context of high international gas prices.

GAS NATURAL manages and mitigates the risk of raw material price fluctuations by following its net position in relation to these commodities, balancing its purchase and supply obligations. When it is not possible to achieve a natural hedge, the position is managed within reasonable risk parameters using financial hedging instruments.

Electricity price risk relates to the surplus electricity generated above contractual demand of GAS NATURAL's customers in Spain. In this case the risk of the electricity position is managed through the monitoring of its net position of gross margin of generation, mitigating the exposure to the price volatility of electricity through hedges when there have been opportunities based on the liquidity of the market.

b) Interest rate risk

GAS NATURAL has proactive interest rate risk management policies in order to minimise its negative impact on results. The purpose of interest rate risk management is to maintain a balance between variable borrowings and fixed borrowings that can reduce borrowing costs within reasonable risk parameters. The variable borrowing rate is subject mainly to the fluctuations of the European Interbank Offered Rate (EURIBOR), the London Interbank Offered Rate (LIBOR) and the indexed rates in Mexico, Brazil, Colombia and Argentina. The general financial cost optimisation policy is aimed at covering at least 30% of borrowings at a fixed rate and this percentage can increase based on interest rate projections for a particular country.

c) Exchange rate risk

The Group's exchange rate risks relate mainly to:

– Commitments for gas purchases denominated in US Dollars or indexed to the same.

– Long-term borrowings denominated in non-Euro currencies.

– Substantial investments and operations in Latin America, in relation to the counter-value of the net equity contributed, results and repatriation of dividends.

– Operations and investments in companies denominated in US Dollars.

At December 31, 2005 approximately 23.6% of the operating profit of GAS NATURAL came from Latin American companies, generated in their respective local currencies. Therefore, its equivalent value is subject to the volatile of the parity of these currencies with the Euro.

In order to mitigate the inherent risks of volatility of these currencies against the Euro, GAS NATURAL finances, to the extent possible, its investments in Latin America, Puerto Rico and the Maghreb pipelines in local currencies. GAS NATURAL also tries to make the costs coincide with income indexed to the dollar as well as the amounts and maturity of assets and liabilities arising from the transactions denominated in currencies other than the Euro.

In cases in which this general policy is not applied, the risks relating to the investments in currencies that are not the functional currency are managed through financial swaps of payments in different currencies at different interest rates.

Each subsidiary contracts financial swaps for payments in different currencies and at different interest rates to cover their assets and liabilities denominated in non-functional currencies.

d) Credit risk

GAS NATURAL does not have significant credit risk concentrations and its exposure is spread amongst a large number of counterparties and debtors.

The Group has policies to assure that wholesale sales of products are made to customers with an appropriate credit record, for which the respective credit limits are established.

Furthermore, the trade debtor balances are stated on the balance sheet net of bad debt provisions, estimated by GAS NATURAL on the basis of experience from prior years, after prior segregation of debtors, and taking into account the current economic environment.

2.27. Regulatory framework

a) Regulation of the natural gas industry in Spain

The regulation of the natural gas industry in Spain is set down in the Hydrocarbons Act, Law 34/1998 of October 7. This Act de-regulated the natural gas market in line with the European Directive 98/30/EC, regulating the legal regime for the acquisition, liquefaction, regassification, transport, storage, distribution and commercialisation of combustible gas by pipeline. The main points are:

– Allows the supply in the free market to qualifying consumers, although they have the right to remain or return to regulated rates under the terms set down in the regulations.

– Law 34/1998 stipulated a calendar according to which consumers would slowly acquire the condition as qualifying consumer. The initial deadlines were moved up so that all the consumers would be qualifying as from January 1, 2003.

- Guarantee regulated access to the network by qualifying intermediaries and consumers who decided to supply directly without the intermediary, segregating use from the gas infrastructures.

- Obligates the legal separation of deregulated and regulated activities and the accounting separation of the regulated activities in order to avoid cross-subsidies and to increase the transparency in the calculation of rates, tolls and levies.

- Creates the National Energy Commission which takes over the former National Electrical System Commission.

- Requires the diversification of the supply in order to increase the security of supply. The volumes from the main supplier country to the Spanish market must be lower than 60%.

- Suppresses the classification of gas industry activities as a public utility.

- Replaces the administrative concession regime for distribution activity by another base don authorisation in which exclusivity of the authorisation zone will be maintained for a maximum period of 15 years.

Thereafter, different legal provisions speed up the de-regulation process, even above what was required by Directive 98/30/CE. Amongst these provisions was Royal Decree Law 6/2000, of June 23, which:

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

- Limited to 35% the shareholding of the same legal or natural person in Enagás, S.A. This limitation has been reduced to 5% by virtue of Law 62/2003 of December 30, the Corporate, Tax and Administrative Measures Act.

- Established the cession of 25% of the contract for natural gas from Algeria and supplied through the Maghreb pipeline to gas intermediaries alien to GAS NATURAL for a period of 3 years. The remaining 75% of this contract is assigned to Enagás, S.A., which sells it to gas distribution companies to supply the regulated market. It also stipulates that as from January 1, 2004 the natural gas in this contract must be applied preferentially to regulated rate supply.

- Set January 1, 2003 as the date as from which no subject or subjects pertaining to the same group of companies, as per article 42 of the Commercial Code, that operate in the natural gas industry, may contribute, as a whole, natural gas for its consumption in Spain in an amount greater than 70% of national consumption. For the purposes of calculating this percentage self-consumption is not taken into account.

- Moved up the deadline for total de-regulation to January 1, 2003 for all customers classified as eligible.

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

- Moved up to 1 January 2005 the date on which the exclusivity of distribution authorisations expires. However, Decree Law 5/2005 restored the exclusivity of these administrative authorisations, within setting a maximum term.

Royal Decree 949/2001 defines the regulated activities and the criteria for setting the integrated economic framework of the industry, both for the determination of remuneration and the setting of rates and tolls, as well as for the settlement process.

The criteria of reference for the remuneration of system activities are as follows:

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

- To permit a reasonable profitability on the investments.

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

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

On the other hand, the rates, which must assure the recovery of the remunerations of the system agents of and the National Energy Commission, charged for supplying the regulated market, must be the same and even throughout the country, differentiated by the level of supply pressure and the level of customer consumption, and will be updated in accordance with the evolution of the cost of the raw material.

The tolls must not be discriminatory, and must be the same and equal throughout the entire country, based on the costs incurred by the user of the networks, regassification plants and storage for the customers.

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

The Ministry of the Economy is responsible for setting the sale rates of natural gas for the distributors to the regulated consumers, the natural gas cession prices of the transporters to the distributors and the tolls and levies for the access services for third parties to the gas infrastructures. At the beginning of 2002 this Royal Degree was extended with the approval of the respective ministerial orders on remuneration, rates and tools for 2002.

The new framework is based on the collection of remuneration set down for each activity in the system through the application of rates, canons and levies. Given that each agent does not collect its recognised remuneration, a settlement procedure is required that reassigns the income in the system. This settlement procedures was finally set down in Order 2692/2002 issued by the Ministry of the Economy on October 28, 2002. This Order stipulates that the settlement procedures for remunerating the activities regulated for the natural gas industry and the quotas with specific destinations, and has established the reporting system for companies. The agent in charge of expediting the settlements will is the General Directorate of Energy and Mining Policy proposed by the National Energy Commission.

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

On January 17, 2003, January 19, 2004 and January 31, 2005 the Official State Gazette promulgated the respective updates of the Ministerial Orders on remuneration, tolls and rates for application in 2003, 2004 and 2005, respectively. Order 4099/2005 of December 27 of the Ministry of Industry, Tourism and Trade updated the remuneration regime for regassification, storage, transport, gas purchase-sale management in the regulated market, distribution, rated supply of natural gas and remuneration to the Technical System Manager.

Royal Decree 1716/2004 of July 23, which regulates the obligation to maintain minimum security inventories and the diversification of natural gas supply, states:

– Obligation to maintain certain minimum security inventories equal to 35 days of firm sales for transporters, intermediaries, and qualifying consumers that make use of their access right.

– Obligation to diversify supplies for transporters, intermediaries and qualifying consumers who make use of their access right, so that the sum of the supplies from the main supplier of the Spanish market does not exceed 60%.

For its part, Royal Decree Law 5/2005 of March 11 moved forward the reform of the energy market through the adoption of measures to foster more efficient performance of the agents and extend the orderly deregulation of the industry, establishing certain conditions for the passage from the free market to the regulated market for customers of a certain type, which involves circumscribing the regulated market.

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

The Ministry of Industry, Tourism and Trade issued an Order on October 5, 2005 which adopted the Technical Management Standards for the Gas System. In particular, it established the procedures and mechanisms for the technical management of the system, coordinating the activity of all the subjects or agents involved in the system, in order to guarantee its proper functioning, continuity, quality and security of the natural gas and the gases manufactured in the pipeline.

On October 27, 2005 ITC Order 3321/2005 was promulgated, which modified the formula for calculating the cost of raw materials (CRM) forecast for 2005. This Order recognises the extra cost arising from the supply of gas to the regulated market as a result of:

– 2005 demand higher than the forecast made in 2004 for the purposes of calculating the cost of gas supply to the regulated market.

– The difference of the cost of acquisition of gas in the global markets in comparison with the CRM, of these additional amounts not foreseen.

ITC 3321/2005 has estimated a surplus cost of € 83 million, which will be adjusted later when the final information on sales and cost of acquisition for 2005 is known.

Furthermore, ITC 4101/2005, of December 27, which sets the natural gas rates for 2006, includes in the calculation of the CRM the expected cost for supplies in the winter months (in accordance with what had been recognised in ITC 3321/2005, of October 27) in order to allow for improved price formation in the de-regulated market.

On the other hand, the rates for large consumers (more than 100GHh/year), thermal power plants and interruptible customers, have been suppressed, and, accordingly, these major consumers will have to procure their supplies on the de-regulated market. A 3 to 12-month transition period has been set up until these rates have been eliminated.

Finally, on December 30, 2005, Order ITC 4099/2005 was promulgated which updates the remuneration for 2006 of regulated gas industry activities in Spain, in accordance with the framework adopted in February 2002.

Distribution remuneration for GAS NATURAL for 2006 totals € 1,052 million (including specific remuneration), which represents and increase of 5.6% on last year. This increase is due to the expected growth in Group activity for 2006, the IPH forecast made by the regulator, and the maintenance of efficiency factors.

The estimated remuneration to be received for rated supply in 2006 will be approximately 8% higher than in 2005, due to the growth of the regulated market, to supply pressures below 4 bar, to the increase in the remuneration rates and higher raw material costs.

In respect of secondary transport, the historical remuneration has been updated in line with 85% of the IPH, and the inclusion of new infrastructures, reaching € 18 million.

b) Regulation of the natural gas industry in Latin America

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

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

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

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

On July 20, 2005 the Chairman of Gas Natural BAN, S.A. and the ministers of the Economy and Federal Production and Planning, Public Investment and Services of the Government of Argentina signed an Agreement which, amongst other points, established a rate increase on account of the future master rate agreement equal to an increment of 27% of the Company's distribution margin. This rate increase will come into force as from November 2005.

This Agreement has been tacitly approved by the Argentine legislature and is pending the signing of the respective decree by the President of the Republic so that it can be executed retroactively as from November 2005.

c) Regulation of the natural gas industry in Italy

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

d) Regulation of the electricity industry in Spain

The legal framework for the regulation of the electrical industry in Spain is Electrical Industry Act, Law 54/1997 of November 27, pursuant to the European Directive 96/92/EC (repealed thereafter by Directive 2003/54/EC) governing common standards of the Development of the Domestic Electricity Market.

This Law reorganised the working of the electrical system, introducing competition criteria and beginning the process of de-regulation, under the following basic principles:

– Guaranteeing the supply of electricity.

– Guaranteeing the quality of this supply.

– Obtaining the least cost possible.

– Improving energy efficiency.

– Protecting the environment.

The basis changes in Law 54/1997 compared to the former organisation of the Spanish electricity sector (Energy Industry ACT – LOSENB – of December 1994) are as follows:

– It does not reserve for the Government any supply integration activity, and, accordingly, unified exploitation has been eliminated.

– It guarantees the supply to all consumers, replacing the former concept of the public service.

– Recognises the right to the free installation of power plants and established a planning system to facilitate company decision making on investments.

– Creates the figure of commercialisation under the principle of free contacting and customer choice of supplier.

– Bases the economic optimisation of the production system on free competition of the market agents, within the framework of the organised wholesale market of electricity production (pursuant to Royal Decree 2019/1997).

– Establishes the figure of the Market Operator (OMEL) for the economic management of the market and the System Operator (REE) for the technical management of the market. It also established the National Energy Commission, as the regulating body for the electricity industry.

– Views the transport and distribution as natural monopolies, but the networks are placed at the disposal of subjects working in the system and consumers through third party access to the pipeline network. The remuneration of these activities is set by the regulators along with a binding planning system.

– Establishes the principle of legal separation between "regulated activities" (transport and distribution) and "non regulated activities" (generation and commercialisation).

– Steadily de-regulates commercialisation over 10 years.

The new economic framework of the industry, set down in Law 54/1997, is based on the collection of the remuneration established for each activity in the system through integral rates and toll rates. Both must assure the recovery of the remuneration of the regulated activities, both must be unique and equal in the entire country, and differentiated by the voltage and customer consumption levels.

In view of the fact that each agent does not collect their recognised remuneration, a settlement procedure is needed that reassigns the income in the system. This settlement procedure is set down in Royal Decree 2017/1997 of 26 December and designates the National Energy Commission as the body responsible for making the regulated settlements.

The remuneration of the regulated activities in transport and distribution is set down in Royal Decree 2819/1998 and contemplates the recognition of the investment cost of the owners of the plants over their useful life and the cost of operations and maintenance, as well as a reasonable return on the investment. The remuneration of the transport is made by physical plant, while the remuneration of the distribution is updated with the increase in energy.

The remuneration of the non regulated generation activity is based on electricity production market prices and the concept of the power guarantee, which is the economic indicator for providing an incentive to the construction of new power plants in the system, which is set by the Administration. Additionally, the right of the generator is recognised to receive income to offset the so-called Transition to Free Market Costs that were established when the electricity industry was deregulated.

On the other hand, commercialisation, as a deregulated activity, is remunerated by the free trading between parties.

In 2000 the Council of Europe asked for urgent measures to fully deregulate the domestic gas and electricity markets. As a result, on June 23, 2000 the Urgent Measures to Strengthen Competition in the Goods and Services Market Act, Royal Decree Law 6/2000, was adopted. Its most salient features are:

– Establishment of the full de-regulation of the supply of electricity as from January 1, 2003 and the disappearance of high voltage rates as from January 1, 2007.

– Instrumentalises new forms of intermediary contracting (bi-lateral contracts with the special regime and external agents), in order to increase competition through intermediaries that are not part of production unit business groups in Spain.

– Obligates certain production plants in the special regime with incentive rights (those that have installed voltage of more than 50 MW, under Royal Decree 2366/1994), which use the wholesale market pool to dump their electrical energy surplus.

– Limits the increase in the production capacity of electricity groups that have a market share greater than 20% (3 years) or 40% (5 years).

Royal Decree 1995/2000 of 1 December regulates the transport, distribution, commercialisation, supply and plant authorisation procedures of electricity production, as well as the relations between electricity companies and consumers, both in the regulated and deregulated market and for both access and supply contracts Furthermore, it regulates the process for authorising and closing installations and the quality of the supply service.

In 2001 a new provision was adopted on network access rates. This was through Royal Decree 1164/2001. This Royal Decree maintains the binomial structure of the rates, but sets down a new structure to simplify the domestic and general usage rates while creating a tariff for three periods for high tension, as well as simplifying them.

The Government published a Royal Decree annually setting the electricity rates. Royal Decree 2392/2004 of December 30 has set the electricity rates for 2005.

Moreover, the Government has adopted the National Emission Rights Allocation Plan 2005-2007 (PNA) that allocates the free emission rights for each plant, in order to comply with the Kyoto Protocol.

On November 2004, the Ministry of Industry, Tourism and Trade commissioned an independent expert to prepare a White Paper on electricity generation. This study has been recently concluded. It focussed on offering a diagnosis of the electricity market and reform proposal on those issues that require serious revision.

For its part, Royal Decree Law 5/2005 of March 11 sets down a series of urgent measures to stimulate electricity production and improve public contracting. The measures bear in mind the future Iberian Electricity Market (MIBEL), incorporating the forward market into the structure of the production market. Moreover, it homogenises the conditions between the free and regulated markets, stipulates the requirement of guarantees while plant authorisations are expedited, rationalises the development of the distribution plants and forces distribution companies to report more information on their customers in order to allow intermediaries to present better offers.

e) Regulation of the electricity sector in Puerto Rico

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

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

Note 3. Transition to IFRS

3.1. Basis of transition to IFRS

3.1.1. Application of IFRS 1

Regulation (EC) no. 1606/2002 of the European Parliament and of the Council of July 19, 2002 sets down that all officially listed companies that are governed by the legislation of a member state of the European Union must present consolidated accounts for the years beginning January 1, 2005 under International Financial Reporting Standards (IFRS), which have been convalidated by the European Union. The consolidated annual accounts for 2004 were prepared in accordance with the General Chart of Accounts. The accounting principles included in these annual accounts have been taken into consideration as the "Former Generally Accepted Accounting Principles", as defined in IFRS 1, for the preparation of the opening consolidated balance sheet as at January 1, 2004 (date of transition).

These consolidated annual accounts have been prepared as described in Note 2.1. GAS NATURAL has applied IFRS 1 in order to prepare these consolidated annual accounts, applying all the obligatory exceptions and some of the optional exemptions from retroactive application of IFRS.

The date of transition of GAS NATURAL is January 1, 2004. GAS NATURAL has prepared its balance sheet under initial IFRS at said date. The date of adoption of IFRS by GAS NATURAL is January 1, 2005.

3.1.2. Exemptions from full retrospective application – elected by GAS NATURAL

a) Business combinations

GAS NATURAL has applied the business combinations exemption in IFRS 1 for business combinations. Therefore, it has not restated business combinations that took place prior to the January 1, 2004 transition date.

b) Fair value or revaluation as deemed cost

The value of tangible fixed assets revaluated as a result of the 1996 revaluation of balance sheets in Spain (which adjusted depreciated cost to reflect changes in the consumer price index-CPI) and the inflation-adjusted appraisal values as per accounting principles in force in the corresponding countries (Colombia and Mexico) are designated as deemed cost. Assets received by the company without consideration before the transition date were recorded at their fair value on Property, plant and equipment. At the transition date their value is designated as deemed cost.

c) Employee benefits

GAS NATURAL has elected to recognize all cumulative actuarial gains and losses as at January 1, 2004.

d) Cumulative translation differences

GAS NATURAL has elected to set the previously accumulated cumulative translation to zero at January 1, 2004. This exemption has been applied to all subsidiaries in accordance with IFRS 1. The application of this exemption is detailed in Note 3.2.2. (item 11).

e) Compound financial instruments

GAS NATURAL has not issued any compound instruments. Therefore, this exemption is not applicable.

f) Assets and liabilities of subsidiaries, associates and joint ventures

This exemption is not applicable.

g) Exemption from restatement of comparatives for IAS 32 and IAS 39

GAS NATURAL has not used the exemption and has applied IAS 32 and IAS 39 since the transition date (January 1, 2004).

h) Designation of previously recognized financial instruments

GAS NATURAL has reclassified various securities as available for sale investments at the transition date in accordance with IAS 39. Under Spanish GAAP they were recorded as "other investments".

i) Share-based payment transaction

GAS NATURAL has taken the exemption and has not applied IFRS 2 to liabilities that were settled before January 1, 2005.

j) Insurance contracts

This exemption is not applicable in GAS NATURAL.

k) Decommissioning liabilities included in the cost of property, plant and equipment exemption

GAS NATURAL has not detected at first January 2005 any asset that could incur dismantling costs or the like, and, accordingly, this exemption is not applicable.

l) Fair value measurement of financial assets or liabilities at initial recognition

GAS NATURAL has not applied the exemption offered by the revision of IAS 39 on the initial recognition of the financial instruments measured at fair value through profit and loss where there is no active market. This exemption is therefore not applicable.

3.2. Reconciliations between IFRS and Spanish GAAP

The following reconciliations provide a quantification of the effect of the transition to IFRS in GAS NATURAL. The reconciliation provides details of the impact of the transition on the following details:

– Summary of equity (Note 3.2.1)

– Equity at January 1, 2004 (Note 3.2.2)

– Equity at December 31, 2004 (Note 3.2.3)

– Equity at December 31, 2004 (Note 3.2.4)

GAS NATURAL does not present a Cash flow statement under Spanish GAAP.

3.2.1. Summary of equity

	1.1.04	Note 3.2.2	31.12.04	Note 3.2.3
Total equity under local GAAP	**4,520**		**4,899**	
Adjustment property, plant and equipment	(4)	2	(24)	2
Adjustment goodwill (cumulative translation adjustments)	(26)	3	(30)	3, 4 y 17
Other adjustments to goodwill	–	–	7	3
Adjustment deferred charges and intangible assets	(23)	1, 4 y 7	(32)	1, 4 y 8
Adjustment fair value available for sale	–	–	58	6
Adjustment financial instruments	(6)	–	(20)	13,14 y 19
Adjustment in associates	(1)	–	(5)	–
Cumulative impact of other non material items	(6)	–	(6)	–
Deferred tax adjustments	(10)	5 y 14	(20)	5 y 17
Adjustment to minority interests	(14)	–	(36)	–
Total equity under IFRS	**4,430**		**4,791**	

3.2.2 Reconciliation of equity at January 1, 2004

	Item	Spanish GAAP	Effect of transition to IFRS	IFRS
Formation expenses	1	6	(6)	–
Property, plant and equipment	2	5,152	338	5,490
Goodwill	3	208	(26)	182
Intangible assets	4	1,154	(350)	804
Investments in associates		435	(1)	434
Deferred income taxes	5	41	127	168
Available-for-sale financial assets (*)		36	–	36
Financial receivable	6	197	(9)	188
Deferred expenses	7	411	(411)	–
Non current assets		**7,640**	**(338)**	**7,302**
Inventories		318	–	318
Trade debtors and other receivables	8	1,449	(102)	1,347
Financial receivables	9	497	(337)	160
Cash and other equivalent liquids	10	105	337	442
Total current assets		**2,369**	**(102)**	**2,267**
Total assets		**10,009**	**(440)**	**9,569**
Share capital		448	–	448
Fair value reserves		–	(8)	(8)
Retained earnings and other reserves		4,342	(550)	3,792
Cumulative translation adjustments	11	(482)	482	–
Capital and reserves attributable to equity holders		**4,308**	**(76)**	**4,232**
Minority interest		**212**	**(14)**	**198**
Total equity		**4,520**	**(90)**	**4,430**
Borrowings		1,936	(5)	1,931
Derivative financial instruments		–	6	6
Other long term liabilities	12	833	(400)	433
Provisions		167	–	167
Employee benefit obligation	13	64	14	78
Deferred income taxes	14	80	76	156
Other deferred income	15	297	(5)	292
Non current liabilities		**3,377**	**(314)**	**3,063**
Borrowings		536	(5)	531
Other liabilities		232	(2)	230
Trade creditors and other payables	16	1,280	(29)	1,251
Current income tax liabilities		64	–	64
Current Liabilities		**2,112**	**(36)**	**2,076**
Total equity and liabilities		**10,009**	**(440)**	**9,569**

(*) Recorded as "other investments" under Spanish GAAP.

Explanation of effects of transition to IFRS

We set out below explanations and quantifications of the different items in the reconciliation included in the point above.

1. Formation expenses

Cancellation against other reserves of all expenses that do not meet the intangible criteria under IAS 38	**(6)**

2. Property, plant and equipment

a) Reclassification of assets acquired under finance leases	349	
b) Other	(11)	**338**

a) Reclassification of assets (LNG transport vessels) acquired under finance leases from Intangible Asset to Property, plant and equipment. By meeting the IAS 17p10 specifications these are considered, given their nature, as Property, plant and equipment. (see item 4)

b) Elimination of different assets that do not meet the IAS 16 requirements.

Of these adjustments, (4) relate to company Reserves and (7) to minority interest.

3. Goodwill

Cumulative translation adjustments	**(26)**

Under IAS 21, goodwill is stated in the functional currency of the acquired company, translated into euros on the closing date of the balance sheet and the difference is adjusted in retained earnings exchange differences. GAS NATURAL has opted for the retroactive application at the transition date in order to homogenize the treatment of all its goodwill.

Goodwill has been tested for impairment at January 1, 2004. No losses have been identified.

Goodwill was allocated to Cash Generating Units (CGU) for the purpose of impairment testing. Each of those CGUs represented GAS NATURAL's investment in each country of operation by primary reporting segment.

A segment level summary of the goodwill allocation is presented below.

	Distribution	Electricity	Total
Brazil	16	–	**16**
Puerto Rico	–	135	**135**
Mexico	31	–	**31**
	47	**135**	**182**

The recoverable amount of CGUs was determined based on value-in-use calculations. These calculations use cash flow projections based on financial budgets approved by management covering a five-year period, based on past performance, and its expectations for the market development. Cash flows beyond the five-year period are extrapolated using the estimated growth rates of 0.0% to 1.0%. The growth rate does not exceed the long-term average growth rate for the business in which the CGU operates. Discount rates are determined on the basis of market data and are between 6% and 13% for the cash-generating units.

GAS NATURAL is of the opinion that, based on current knowledge, expected changes in the aforementioned key assumptions on which the determination of the recoverable amounts is based would not cause the carrying amounts of the cash-generating units to exceed the recoverable amounts.

4. Intangible assets

a) Reclassification of assets acquired under finance leases	(349)	
b) Other adjustments	(1)	**(350)**

a) Reclassification of assets (LNG transport vessels) acquired under finance leases. By meeting the IAS 17p10 specifications these are considered, given their nature, as Property, plant and equipment (see item 2).

b) Under Spanish GAAP, intangible assets expected to benefit future periods were recorded at cost, adjusted by amortisation on a straight-line basis over the period expected to benefit. These assets did not meet the IFRS definition of an asset and have therefore been written off against other reserves

5. Deferred income taxes (assets

a) Reclassification from trade debtors and other receivables (see item 8)	101	
b) Inclusion of deferred tax assets	12	
c) Adjustment of deferred tax assets	14	**127**

a) Reclassification with other items on the balance sheet. (see item 8)

b) Recognition under IAS 12 of deferred tax assets for tax credits (mainly for tax losses carry forward) that had not been recognized under previous GAAP

c) Recognition of deferred tax assets according to IAS 12, for the adjustments recorded in other Reserves on the transition date.

Of these adjustments, 24 relate to company Reserves and 2 to minority interests.

6. Financial receivable (non current)

Reclassification of interest in order to present assets at their current value (see item 15)	**(9)**

7. Deferred expenses

a) Reclassification of lease expenses	(392)	
b) Reclassification of debt issue expenses less liabilities	(3)	
c) Adjustments for start up and other expenses	(16)	**(411)**

a) Reclassification with other liabilities (current and non-current) on the balance sheet in order to show liabilities for finance leases under IAS 17.

b) Reclassification to show net financial liabilities (see item 12 for the reclassification to non-current liabilities)

c) Under Spanish GAAP, deferred charges expected to benefit future periods were recorded at cost, adjusted by amortisation on a straight-line basis over the period expected to benefit. These deferred charges did not meet the IFRS definition of an asset and have therefore been written off against other reserves.

8. Trade debtors and other receivables

Reclassification to deferred income taxes (see item 5)	(101)	
Other	(1)	**(102)**

9. Financial receivable (current)

a) Reclassification to Cash and cash equivalents (see item 10)	**(337)**

a) Demand deposits with credit institutions and highly liquid short-term investments (at less than 3 months) are reclassified as Cash and other liquid equivalents.

10. Cash and cash equivalents

Reclassification of Other current investments (see item 9)	**337**

11. Cumulative translation adjustments

Reset of the cumulative translation adjustment reserve to Zero (against retained earnings)	**482**

12. Other long term liabilities

Reclassification lease expenses (see item 7)	(390)	
Reclassification to employee benefit obligation (see item 13)	(9)	
Other	(1)	**(400)**

13. Employee benefit obligation

Reclassification from borrowings	5	
Reclassification from other long term liabilities (see item 12)	9	**14**

14. Deferred income tax liabilities

Reclassification from trade creditors and other payables (see item 16)	35	
a) Inclusion of deferred tax liabilities	38	
b) Adjustment of deferred tax liabilities	3	**76**

a) Recognition under IAS 12 of deferred tax liabilities, which were not recognized under previous GAAP.

b) Recognition of deferred tax liabilities, following IAS 12, for the tax effect of the adjustments recorded in equity on the transition date.

Of these adjustments, 34 relate to company Reserves and 7 to minority interest.

15. Deferred income

Reclassification with financial receivable–non current (see item 6)	(9)	
Other	4	**(5)**

16. Trade creditors and other payables

Reclassification to deferred income taxes (see item 14)	(35)	
Other	6	**(29)**

3.2.3. Reconciliation of consolidated equity at December 31, 2004

	Item	Spanish GAAP	Effect of transition to IFRS	IFRS
Formation expenses	1	7	(7)	–
Property, plant and equipment	2	6,222	299	6,521
Goodwill	3	469	(135)	334
Intangible assets	4	1,117	(163)	954
Investments in associates		302	(5)	297
Deferred income taxes	5	38	123	161
Available-for-sale financial assets	6	94	56	150
Financial receivable	7	198	(4)	194
Deferred expenses	8	424	(424)	–
Non current assets		**8,871**	**(260)**	**8,611**
Inventories		264	–	264
Trade debtors and other receivables	9	1,928	(78)	1,850
Financial receivables	10	184	(120)	64
Cash and other equivalent liquids	11	90	116	206
Non current assets held for sale		–	2	2
Total current assets		**2,466**	**(80)**	**2,386**
Total assets		**11,337**	**(340)**	**10,997**
Share capital		448	–	448
Fair value reserves		–	17	17
Retained earnings and other reserves		4,695	(568)	4,127
Cumulative translation adjustments	12	(500)	479	(21)
Capital and reserves attributable to equity holders		**4,643**	**(72)**	**4,571**
Minority interest		**256**	**(36)**	**220**
Total equity		**4,899**	**(108)**	**4,791**
Borrowing	13	2,125	(45)	2,080
Derivative financial instruments	14	–	72	72
Other long term liabilities	15	837	(374)	463
Provisions		199	1	200
Employee benefit obligations	16	66	22	88
Deferred income taxes	17	126	165	291
Other deferred income	18	415	(6)	409
Non current liabilities		**3,768**	**(165)**	**3,603**
Borrowings	19	723	(19)	704
Other liabilities		312	(3)	309
Trade creditors and other payables	20	1,553	(45)	1,508
Current income tax liabilities		82	–	82
Current liabilities		**2,670**	**(67)**	**2,603**
Total equity and liabilities		**11,337**	**(340)**	**10,997**

Explanation of the effect of the transition to IFRS

We set out below explanations and quantifications of the different items in the reconciliation included in the point above.

1. Formation expenses

Cancellation of all expenses that do not meet the intangible criteria under IAS 38		**(7)**

2. Property, plant and equipment

Reclassification of assets acquired under finance leases	337	
Adjustments for inflation elimination (Colombia and Mexico)	(27)	
Reclassification of non-current assets held for sale	(2)	
Other reclassifications of intangible assets	5	
Other adjustments	(14)	**299**

Other adjustments includes (11) eliminated on the transition date.

Of these adjustments, 24 relate to company Reserves and 17 to minority interest

3. Goodwill

Cumulative translation adjustments (adjusted in transition)	(26)	
Cumulative translation adjustments (corresponding to the period)	(10)	
a) Assignment to goodwill Brazil	(113)	
b) Reclassification of deferred expenses Brazil	7	
c) Reclassification to other reserves for purchase from minority interest	(11)	
d) Adjustment for cancellation of goodwill amortisation	(18)	**(135)**

a) Acquisition of additional interests in Brazilian companies (see Note 31), and the goodwill recorded under local GAAP has been classified as Administrative concessions (see item 4). Under local GAAP there is no obligation to assign the consideration paid for intangible assets purchased in the business combination.

b) Reclassification net of the tax effect (items 5 and 8).

4. Intangible assets

Reclassification of assets acquired under finance leases	(337)	
Assignment of goodwill (item 3)	174	
Cumulative translation differences	9	
Cumulative translation adjustment	(5)	
Other adjustments	(4)	**(163)**

5. Deferred income taxes (assets)

Reclassification from trade debtors and other receivables	82	
Deferred tax liabilities reclassified (items 3 and 8)	3	
Other reclassifications	2	
Inclusion of deferred tax assets (*)	10	
Adjustment of deferred tax assets (*)	26	**123**

(*) Of these adjustments, 25 relate to Group Reserves and 11 to minority interest.

6. Available-for-sale financial assets

Fair value of Naturcorp Multiservicios, S.A.	58	
Other	(2)	**56**

7. Financial receivable (non current)

Reclassification of interest in order to present assets at their current value	(8)	
Other	4	**(4)**

8. Deferred expenses

Reclassification of lease expenses	(361)	
Reclassification of debt issue expenses	(2)	
Reclassification of goodwill (item 3)	(10)	
Other reclassifications (IFRS)	(5)	
Adjustments for start up and other expenses (*)	(46)	**(424)**

(*) Of these adjustments, (21) relate to company Reserves and (25) to minority interest

9. Trade debtors and other receivables

Reclassification to deferred income taxes	(82)	
Others	4	**(78)**

10. Financial receivable (current)

Reclassification to Cash and cash equivalents	(116)	
Other	(4)	**(120)**

11. Cash and other equivalent liquids

Reclassification of Other current investments		**116**

12. Cumulative translation adjustments (C.T.A.)

Reset to zero the cumulative translation adjustment reserve existing at the transition date	482	
Cumulative translation differences for the period (items 3, 4 and 17)	(4)	
Other	1	**479**

13. Non-current borrowings

Fair value adjustments (*)	(26)	
Reclassification to financial derivative instruments (item 14)	(14)	
Reclassification to employee benefit obligations	(2)	
Others	(3)	**(45)**

(*) Fair value adjustments of borrowings hedged by derivatives in point 14

14. Derivative financial instruments

Fair value under IAS 39	58	
Reclassification of financial debt (item 13)	14	**72**

15. Other long-term liabilities

Reclassification of finance leases	(359)	
Reclassification to employee benefit obligations	(19)	
Other	4	**(374)**

16. Provisions for employee benefit obligations

Reclassification to employee benefit obligations (items 13, 15 and 19)	24	
Other	(2)	**22**

17. Deferred income tax liabilities

Reclassification of trade and other payables (item 20)	49	
Inclusion of deferred income tax liabilities (*)	29	
Cumulative translation adjustments	3	
Adjustment for deferred income tax assets (*)	84	**165**

(*) Of these adjustments, 45 relate to company Reserves, 7 to minority interest and 61 reflect the deferred tax resulting from the assignment of goodwill to administrative concessions (see items 3 and 4).

18. Deferred income

Reclassification with other long-term financial assets	(8)	
Other	2	**(6)**

19. Short-term borrowings

Fair value adjustments (*)	(12)	
Reclassification to employee benefit obligations	(3)	
Others	(4)	**(19)**

(*) Adjustment to fair value of loans hedged by the derivatives in item 14.

20. Trade creditors and other payables

Reclassification to deferred income taxes (item 17)	(49)	
Others	4	**(45)**

3.2.4. Reconciliation of net income for year ended December 31, 2004

	Item	Spanish GAAP	Effect of transition to IFRS	IFRS
Sales		6,266	–	6,266
Other income	1	125	(38)	87
Procurements	2	(4,228)	(6)	(4,234)
Personnel cost	3	(246)	41	(205)
Depreciation and amortization expenses	4	(442)	5	(437)
Other operating expenses	5	(576)	(39)	(615)
Operating income		**899**	**(37)**	**862**
Net finance cost	6	(140)	(14)	(154)
Impairment loss	7	–	(5)	(5)
Share of profit of associates		58	3	61
Amortization of goodwill		(18)	18	–
Gain on sales of associates	8	–	162	162
Extraordinary results	9	125	(125)	–
Income before income taxes and minority interests		**924**	**2**	**926**
Income tax expense	10	(234)	3	(231)
Net income for the period		**690**	**5**	**695**
Net income attributable to minority interests		56	(3)	53
Net income attributable to equity holders of the company		634	8	642
		690	**5**	**695**

Explanation of the effects of the transition to IFRS

We set out below explanations and quantifications of the different items in the reconciliation included in the point above.

1. Other income

Reclassification income from own work capitalised	(41)	
Reclassification of Extraordinary results	3	**(38)**

2. Procurements

Reclassification of Extraordinary results	**(6)**

3. Personnel cost

Reclassification of Extraordinary results	(4)	
Reclassification of income from own work capitalised	41	
Other adjustments	4	**41**

4. Depreciation and amortization expenses		
Reclassification of Extraordinary results	2	
Amortisation of revaluated fixed assets	(5)	
Adjustment for inflation elimination	3	
Elimination of amortisation of intangible assets	5	**5**

5. Other operating expenses		
Reclassification of Extraordinary results	(20)	
Adjustment for elimination of deferred expenses	(19)	**(39)**

6. Net finance cost		
Adjustment for inflation elimination	(11)	
Reclassification of Extraordinary results	(2)	
Adjustment for net results of financial instruments	(1)	**(14)**

7. Impairment loss		
Reclassification of Extraordinary results		**(5)**

8. Gain on sales of associates		
Reclassification of Extraordinary results (*)	162	**162**

(*) Reclassification of gains from the sale of shares in Enagás, S.A.

9. Extraordinary results		
Reclassification to other items		**(125)**

10. Income tax expense		
Reclassification of Extraordinary results	(8)	
Deferred tax effect of IFRS adjustments	11	**3**

Note 4. Segment information

a) Primary reporting format-business segment

GAS NATURAL's reportable segments are as follows:

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

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

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

- *Upstream & Midstream (UP & MID):*

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

    The Upstream segment had no operations in 2004.

  - *Midstream.* Midstream activities include value chain activities of LNG from the exit point in exporting countries (liquification plants) to the entry points in final markets (regassifications plants).

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

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

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

	Distribution				Electricity			W&R	UP&MID	Other	Intersegmental eliminations	Total
	Spain	Latin America	Italy	Total	Spain	P. Rico	Total					
2005												
Total gross segment sales	1,993	1,420	124	3,537	926	133	1,059	5,774	262	135	(2,240)	8,527
Inter segment sales	(509)	–	–	(509)	(304)	–	(304)	(1,166)	(157)	(104)	2,240	–
Sales	1,484	1,420	124	3,028	622	133	755	4,608	105	31	–	8,527
Ebitda (*)	778	317	27	1,122	90	62	152	61	176	8	–	1,519
Depreciation and amortization expenses	(256)	(78)	(21)	(355)	(44)	(16)	(60)	(5)	(48)	(51)	–	(519)
Debtors provisions and others	(5)	(10)	–	(15)	(1)	(2)	(3)	(10)	–	(3)	–	(31)
Operating income	517	229	6	752	45	44	89	46	128	(46)	–	969
Net finance cost	–	–	–	–	–	–	–	–	–	–	–	(221)
Share of profit of associates	3	–	–	3	1	–	1	–	–	30	–	34
Gain on sales of associates	–	–	–	–	–	–	–	–	–	–	–	286
Income before taxes and minority interests	–	–	–	–	–	–	–	–	–	–	–	1,068
Income taxexpense	–	–	–	–	–	–	–	–	–	–	–	(241)
Net income for the period	–	–	–	–	–	–	–	–	–	–	–	827
2004												
Total gross segment sales	1,821	1,027	63	2,911	475	118	593	3,952	215	119	(1,524)	6,266
Inter segment sales	(369)	–	(1)	(370)	(145)	–	(145)	(802)	(114)	(93)	1,524	–
Sales	1,452	1,027	62	2,541	330	118	448	3,150	101	26	–	6,266
Ebitda (*)	722	228	24	974	44	54	98	107	144	12	–	1,335
Depreciation and amortization expenses	(245)	(47)	(13)	(305)	(17)	(16)	(33)	(3)	(47)	(49)	–	(437)
Debtors provisions and others	(18)	(5)	(1)	(24)	1	(3)	(2)	(10)	2	(2)	–	(36)
Operating income	459	176	10	645	28	35	63	94	99	(39)	–	862
Net finance cost	–	–	–	–	–	–	–	–	–	–	–	(158)
Share of profit of associates	6	–	–	6	–	–	–	–	–	55		61
Gain on sales of associates	–	–	–	–	–	–	–	–	–	–	–	162
Income before taxes and minority interests	–	–	–	–	–	–	–	–	–	–	–	926
Income tax expense	–	–	–	–	–	–	–	–	–	–	–	(231)
Net income for the period	–	–	–	–	–	–	–	–	–	–	–	695

(*) Ebitda is calculated as operating income, plus depreciation and amortization and operating provisions.

The segment assets, liabilities and capital expenditure are as follows:

	Assets	Associates	Liabilities	Capital Expenditure
31.12.05				
Gas Distribution	7,139	25	(1,795)	619
Electricity	2,352	7	(237)	796
Upstream & Midstream	552	–	(33)	27
Wholesale & Retail	2,006	–	(1,086)	16
Other	236	–	(88)	75
Total	**12,285**	**32**	**(3,239)**	**1,533**
31.12.04				
Gas Distribution	6,219	26	(1,707)	1,184
Electricity	1,487	1	(170)	416
Upstream & Midstream	500	–	(25)	33
Wholesale & Retail	1,388	–	(603)	9
Other	216	270	(70)	64
Total	**9,810**	**297**	**(2,575)**	**1,706**

Segment assets consist primarily of property, plant and equipment, intangible assets, inventories, derivatives designated as hedges of future commercial transactions, receivables, debtors and cash and cash equivalents, as well as associates. They exclude deferred taxation, investments and derivatives held for trading or designated as hedges of borrowings. The assets excluded total € 1,395 million at December 31, 2005 and € 890 million at December 31, 2004.

Segment liabilities comprise operating liabilities (including derivatives designated as hedges of future transactions). They exclude items such as taxation and corporate borrowings and related hedging derivatives. The liabilities excluded total € 4,707 million at December 2005 and € 3,631 million at December 2004.

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

b) Secondary reporting format – geographical segments

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

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

Sales	2005	2004
Spain	6,002	4,449
Rest of Europe	419	210
Latin America	1,420	1,027
Puerto Rico	133	118
US	553	462
Total	**8,527**	**6,266**

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

	31.12.05	**31.12.04**
Spain	8,623	7,183
Rest of Europe	676	520
Latin America	2,151	1,636
Puerto Rico	315	268
Maghreb	552	500
Total	**12,317**	**10,107**

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

	31.12.05	**31.12.04**
Spain	913	830
Rest of Europe	68	27
Latin America	197	127
Puerto Rico	4	6
Maghreb	6	18
Total	**1,188**	**1,008**

Note 5. Property, plant and equipment

The movement during 2005 and 2004 in the different tangible asset accounts and their respective accumulated depreciation and provisions has been as follows:

	Land and buildings	Gas transport vessels	Gas distribution installations	Combine cycle gas turbine	Wind farms	Other fixed assets	PPE under construction	Total
1.1.04								
Cost	156	352	5,878	576	–	344	409	**7,715**
Accumulated depreciation	(45)	(3)	(1,986)	(60)	–	(131)	–	**(2,225)**
Net book amount	**111**	**349**	**3,892**	**516**	**–**	**213**	**409**	**5,490**
Opening net book amount at 1/01/2004	**111**	**349**	**3,892**	**516**	**–**	**213**	**409**	**5,490**
Exchange differences	(1)	–	(25)	(10)	–	–	1	**(35)**
Business combination (Note 31)	6	–	437	–	18	2	55	**518**
Additions	9	–	439	7	–	27	464	**946**
Disposals	(1)	–	(6)	(1)	–	–	(10)	**(18)**
Transfers	7	–	45	–	14	16	(88)	**(6)**
Impairment provisions	–	–	(5)	–	–	–	–	**(5)**
Depreciation charge	(5)	(12)	(295)	(26)	–	(31)	–	**(369)**
Closing net book amount at 31/12/2004	**126**	**337**	**4,482**	**486**	**32**	**227**	**831**	**6,521**
31.12.04								
Cost	194	352	6,921	567	36	411	831	**9,312**
Accumulated depreciation	(68)	(15)	(2,439)	(81)	(4)	(184)	–	**(2,791)**
Net book amount	**126**	**337**	**4,482**	**486**	**32**	**227**	**831**	**6,521**
Opening net book amount at 1 January 2005	**126**	**337**	**4,482**	**486**	**32**	**227**	**831**	**6,521**
Exchange differences	5	–	175	20	–	17	28	**245**
Business combination (Note 31)	–	–	–	–	147	–	23	**170**
Additions	7	–	483	17	5	40	573	**1,125**
Disposals	(1)	–	(5)	–	(1)	(5)	(1)	**(13)**
Transfers	3	–	90	384	7	(5)	(550)	**(71)**
Depreciation charge	(6)	(12)	(326)	(39)	(8)	(35)	–	**(426)**
Closing net book amount at December 31, 2005	**134**	**325**	**4,899**	**868**	**182**	**239**	**904**	**7,551**
31.12.05								
Cost	214	352	7,712	988	218	462	904	**10,850**
Accumulated depreciation	(80)	(27)	(2,813)	(120)	(36)	(223)	–	**(3,299)**
Net book amount	**134**	**325**	**4,899**	**868**	**182**	**239**	**904**	**7,551**

The borrowing costs applied for the year ended December 31, 2005 to plant projects during their construction total € 23 million (€ 15 million at December 31, 2004); the capitalization rate for the period 2005 was 10.8% of total net debt (9.2% for the period corresponding to December 31, 2004).

Transfers includes, in 2004, the Reclassification of € 2 million to Non current assets held for sale and € 2 million in December 2004.

The gas transport vessels have been acquired under finance leases (see Note 16).

The transfers from Property, plant and equipment to intangibles mainly relate to an extension of the Maghreb-Europe gas pipeline. It is considered as such while it is being constructed and transferred to intangible (concessions) when a phase is completed.

Property, plant and equipment under construction at December 31, 2005 includes capital expenditures on combined cycle gas turbine in Cartagena amounting € 502 million (€ 285 million at December 31, 2004), wich start up has been in January 2006, and Plana del Vent (Tarragona) amounting € 189 million (€ 11 million at December 31, 2004), which start up will be in the first half of 2007.

At December 31, 2005 the Group has investment commitments of € 471 million, basically for the construction of combined cycle electricity plants

Furthermore, there is a 138,000 cubic meter capacity methane vessel that is now under construction and which will be acquired under a finance lease together with Repsol YPF, S.A. It is expected that this new vessel will be operative in December 2007.

Note 6. Intangible assets

The movement in 2005 and 2004 in intangible assets is as follows:

	Concessions	Computer software applications	Other intangible assets	Subtotal	Goodwill	Total
1.1.04						
Cost	818	204	97	**1,119**	182	**1,301**
Accumulated depreciation	(190)	(124)	(1)	**(315)**	–	**(315)**
Net book amount	**628**	**80**	**96**	**804**	**182**	**986**
Opening net amount at 1.1.04	**628**	**80**	**96**	**804**	**182**	**986**
Exchange differences	(21)	–	–	**(21)**	(9)	**(30)**
Business combination and other (Note 31)	174	2	4	**180**	161	**341**
Additions	1	50	11	**62**	–	**62**
Disposals	–	–	–	**–**	–	**–**
Amortization charge	(34)	(32)	(2)	**(68)**	–	**(68)**
Transfers	(1)	–	(2)	**(3)**	–	**(3)**
Closing net amount at 31.12.04	**747**	**100**	**107**	**954**	**334**	**1,288**
31.12.04						
Cost	961	256	110	**1,327**	334	**1,661**
Accumulated depreciation	(214)	(156)	(3)	**(373)**	–	**(373)**
Net book amount	**747**	**100**	**107**	**954**	**334**	**1,288**
Opening amount at 1.1.05	**747**	**100**	**107**	**954**	**334**	**1,288**
Exchange differences	137	2	–	**139**	30	**169**
Business combination and other (Note 31)	68	–	176	**244**	95	**339**
Additions	2	46	15	**63**	–	**63**
Disposals	–	–	1	**1**	–	**1**
Amortization charge	(51)	(36)	(6)	**(93)**	–	**(93)**
Transfers and Others	40	6	–	**46**	(3)	**43**
Closing net amount at 31.12.05	**943**	**118**	**293**	**1,354**	**456**	**1,810**
31.12.05						
Cost	1,244	311	301	**1,856**	456	**2,312**
Accumulated depreciation	(301)	(193)	(8)	**(502)**	–	**(502)**
Net book amount	**943**	**118**	**293**	**1,354**	**456**	**1,810**

The "Concessions" include:

– The right to use the Maghreb-Europe pipeline of € 510 million at December 31, 2005 (€ 425 million at December 31, 2004). This right will end in 2021, and may be renewed.

– Gas distribution concession in the Metropolitan area of Rio de Janeiro of € 220 million at December 31, 2005 (€ 133 million at December 31, 2004). The concession will end in 2027, although it may be renewed.

– Gas distribution concession in the State of São Paulo of € 167 million at December 31, 2005 (€ 134 million at December 31, 2004). The concession will end in 2030, and may be renewed.

The "Other intangibles assets" mainly includes projects in development for new wind farms and amounts to € 176 million at December 31, 2005.

a) Impairment tests for goodwill

Goodwill is allocated to GAS NATURAL's cash-generating units (CGUs) identified according to country of operation and business segment.

A segment-level summary of the goodwill allocation is presented below.

	December 31, 2005			December 31, 2004		
	Distribution	**Electricity**	**Total**	**Distribution**	**Electricity**	**Total**
Spain	–	118	118	–	25	25
Italy	135	–	135	136	–	136
Puerto Rico	–	143	143	–	126	126
Mexico	38	–	38	31	–	31
Brazil	22	–	22	16	–	16
	195	**261**	**456**	**183**	**151**	**334**

All impairment tests have been carried out at 31 December 2004 and 2005.

b) Key assumptions used for value-in-use calculations

The recoverable amount of a CGU is determined based on value-in-use calculations. These calculations use cash flow projections based on financial budgets approved by the Board of Directors covering a five-year period based on past performance, and its expectations for the market development. The most sensitive issues included in all the CGUs are the purchase and sale price of gas and/or electricity, inflation, staff costs and investments. Cash flows beyond the five-year period are extrapolated using the estimated growth rates of 0.0% to 1.0%. The growth rate does not exceed the long-term average growth rate for the business in which the CGU operates. Discount rates are determined on the basis of market data and are between 3% and 13% for the cash-generating units.

GAS NATURAL is of the opinion that, based on current knowledge, expected changes in the aforementioned key assumptions on which the determination of the recoverable amounts is based would not cause the carrying amounts of the cash-generating units to exceed the recoverable amounts.

Note 7. Investments in associates

The movement in 2005 and 2004 in associates is as follows:

At 1.1.04	**434**
Acquisition of subsidiaries (Note 31)	1
Disposals	(129)
Share of loss/profit	61
Dividends received	(25)
Reclassifications (Note 8)	(42)
Other equity movements	(6)
Other	3
At 31.12.04	**297**
Business combinations (Note 31)	4
Disposals	(114)
Share of loss/profit	34
Dividends received	(16)
Reclassifications (Note 8)	(174)
Other	1
At 31.12.05	**32**

The 20.5% investment in Sociedad de Gas de Euskadi has historically been accounted for under the equity method as associate. As a result of a merger with gas business company Naturcorp Multiservicios, S.A., the participation of GAS NATURAL on the merged company was reduced below the 20% interest and was reclassified as available for sale, considering its book value as the initial cost of this investment.

The disposals in both periods include the sale of shares in Enagás, S.A. of 10.58% at September 30, 2005 and 12.54% in 2004. The gains from the sales in Enagás, S.A. in 2005 amount to € 286 million. As a result of these disposals on October 1, 2005 the Company ceased to use the equity method as associate to account for the interest of GAS NATURAL in the capital of Enagás, S.A., reclassifying this investment to Available-for-sale financial assets.

The breakdown of the associates, taking into account assets, liabilities and income of the companies and the share in results of the associations for the GAS NATURAL is as follows:

	Country	Assets	Liabilities	% interest held
At 31.12.04				
Torre Marenostrum, S.L.	Spain	50	30	45.0%
Kromschroeder, S.A.	Spain	19	8	42.5%
Gas Aragón, S.A.	Spain	113	88	35.0%
Enagás, S.A.	Spain	3,101	2,103	26.1%
Enervent, S.A.	Spain	31	28	26.0%
Burgalesa Eólica, S.A.	Spain	11	10	20.0%
Gas Natural de Alava, S.A.	Spain	36	14	10.0%
At 31.12.05				
Torre Marenostrum, S.L.	Spain	72	52	45.0%
Kromschroeder, S.A.	Spain	18	7	42.5%
Gas Aragón, S.A.	Spain	127	104	35.0%
Enervent, S.A.	Spain	28	24	26.0%
Burgalesa Eólica, S.A.	Spain	11	9	24.2%
Sistemas Energéticos La Muela, S.A.	Spain	13	5	20.0%
Sistemas Energéticos Mas Garullo, S.A.	Spain	13	8	18.0%
Gas Natural de Alava, S.A.	Spain	33	9	10.0%

	Country	Revenues	Profit/(Loss)	%interest held
At 31.12.04				
Torre Marenostrum, S.L.	Spain	–	–	45.0%
Kromschroeder, S.A.	Spain	22	–	42.5%
Gas Aragón, S.A.	Spain	60	3	35.0%
Enagás, S.A.	Spain	554	55	26.1%
Enervent,S.A.	Spain	5	–	26.0%
Burgalesa Eólica,S.A.	Spain	1	–	20.0%
Gas Natural de Alava, S.A.	Spain	25	–	10.0%
Sociedad de Gas de Euskadi, S.A.[(1)]	Spain	–	3	–
At 31.12.05				
Torre Marenostrum, S.L.	Spain	–	–	45.0%
Kromschroeder, S.A.	Spain	22	–	42.5%
Gas Aragón, S.A.	Spain	66	3	35.0%
Enervent, S.A	Spain	7	1	26.0%
Burgalesa Eólica, S.A.	Spain	2	–	24.2%
Sistemas Energéticos La Muela, S.A.	Spain	5	–	20.0%
Sistemas Energéticos Mas Garullo, S.A.	Spain	4	–	18.0%
Gas Natural de Alava, S.A.	Spain	25	–	10.0%
Enagás, S.A.[(2)]	Spain	484	30	–

(1) The income statement includes in the line Share of profit of associates the profit of Sociedad de Gas de Euskadi, S.A. up to February 2004.

(2) The income statements includes in the line Share of profit of associates the profit of Enagás, S.A. up to September 30, 2005.

At December 31, 2005, none of the associates are listed on a stock exchange.

Sistemas Energéticos Mas Garullo, S.A. and Gas Natural de Alava, S.A. are consolidated by equity accounting in spite of the fact that GAS NATURAL's shareholding percentage at December 31, 2005 is under 20%, since GAS NATURAL has a significant representation on the Boards of Directors of these companies.

Note 8. Available-for-sale financial assets

The movement in 2005 and 2004 in available-for-sale financial assets is as follows:

At 1.1.04	**36**
Increases	16
Disposals	(1)
Exchange differences	1
Reclassifications (note 7)	42
Revaluation to fair value	57
Other	(1)
At 31.12.04	**150**
Increases	5
Disposals	(104)
Business combinations (Note 31)	2
Exchange differences	3
Reclassifications (note 7)	174
Revaluation to fair value	410
At 31.12.05	**640**

Available-for-sale financial assets include the following:

	At 31.12.05
Unlisted equity securities	133
Listed equity securities	483
Investment fund (note 18)	24
	640

In 2004 Naturcorp Multiservicios S.A. (nowadays Naturgas Energia Group), according to a valuation determined by an independent third party valuator, carried out a share capital increase and allocated to GAS NATURAL the 9.38% of Naturcorp Multiservicios, S.A. An unrealised gain was recognized as the difference between the fair value of the investment (based on the percentage in the equity of Naturcorp Multiservicios, S.A.) and its previous book value (see note 3.2.3.14).

As from October 1, 2005, Enagás, S.A. is considered an Available-for-sale asset. From October 1 to the year end there have been divestments totalling € 102 million, which have generated a net profit of € 60 million against Fair value reserves. According to the quotation of Enagás, S.A. at December 31, 2005 (€ 15.80 per share), the valuation of the interest in Enagás, S.A. at market value totals € 483 million. The difference between the market valuation of the investment and the carrying amount applying the equity method at September 30, 2005 is recognized as an adjustment in equity.

At December 31, 2005, the investment of GAS NATURAL in Enagás, S.A. is 12.79%.

In accordance with the Twentieth Additional Provision of the Hydrocarbons Act, Law 34/98 of October 7, modified by the Corporate, Administrative and Tax Measures Act, Law 62/2003 of December 30, no legal or natural person can have a direct or indirect interest in Enagás, S.A. above 5% of its share capital or voting rights. The adjustment of shareholdings to this Additional Provision must take place within no more than 3 years as from January 1, 2004, through the transfer of shares or, as the case may be, preference subscription rights.

The available-for-sale investments are unlisted securities and are carried at cost. For these investments, GAS NATURAL has insufficient financial information regarding business plans and financial prospects that would allow the company to carry out a solid valuation analysis using generally accepted techniques to determine the fair value of the asset, due to these companies have not provided to GAS NATURAL enough information in order to perform this analysis and no significant transactions involving these companies have occurred. Nevertheless, taking into account the available information for these unlisted securities (the latest official annual accounts), there is no indications that these investments may be impaired.

Note 9. Derivative financial instruments

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

	31.12.05		31.12.04	
	Assets	**Liabilities**	**Assets**	**Liabilities**
Derivatives not qualifying for hedge accounting	**1**	**–**	**–**	**–**
Interest rate swap	1	–	–	–
Derivatives qualifying for hedge accounting	**19**	**100**	**–**	**72**
Fair value hedge				
Interest rate swap and exchange rate	3	55	–	38
Cash Flow hedge				
Interest rate swap	3	26	–	19
Exchange rate	11	1	–	15
Commodity Purchases	2	18	–	–
Total	**20**	**100**	**–**	**72**

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

	31.12.05		31.12.04	
	Assets	**Liabilities**	**Assets**	**Liabilities**
Derivatives not qualifying for hedge accounting	**1**	**–**	**–**	**–**
Interest rate swap	1	–	–	–
Derivatives qualifying for hedge accounting	**17**	**81**	**–**	**72**
Fair value hedge				
Interest rate swap and exchange rate	3	55	–	38
Cash Flow hedge				
Interest rate swap	3	26	–	19
Exchange rate	11	–	–	15
Long-term derivatives	**18**	**81**	**–**	**72**
Short-term derivatives	**2**	**19**	**–**	**–**
Total	**20**	**100**	**–**	**72**

The breakdown of derivatives contracted is as follows:

At December 31, 2005

Raw material price hedge transactions

At December 31, 2005 natural gas price hedges indexed to the US Dollar were contracted in the aggregate amount of € 233 million with a negative fair value of € 15 million. Furthermore, there are natural gas price head positions denominated in euros maturing over time up to February 2007 of € 7 million.

Additionally, at December 31, 2005 there are electricity price hedge positions worth € 35 million maturing over time in 2006 and which have a negative fair value of € 1 million.

Interest rate hedge transactions

The following tables provide information on the hedging derivates at December 31, 2005 and include interest rate swaps, interest rate forward contracts and interest rate options. In respect of the swaps and forward contracts, the table show the notional amounts and the weighted interest rates arising from the same according to maturity. The notional amounts are used to calculate the contractual payments to be exchanged under the contracts.

Set out below is a description of all derivative operations at December 31, 2005, broken down by applicable currencies, and the interest rates. The information presents the amount in euros equivalent to the corresponding compound interest by Indexed Rate and the average weighted differential. The cash flows of the instruments are denominated in the currency indicated.

		Maturity						
Interest rate swap contracts	**Total**	**2006**	**2007**	**2008**	**2009**	**2010**	**and following years**	**Fair value**
Variable to Variable								(in millions of € , except percentages)
Amount Contractual/Notional (EUR)	**120**	–	120	–	–	–	–	1
Average payment rate (EUR)	–	–	Euribor 6m-0.10%	–	–	–	–	–
Average collection rate (EUR)	–	–	Euribor 6m+0.38%	–	–	–	–	–
Variable to Fixed								
Amount Contractual/Notional (EUR)	**469**	2	2	1	1	1	462	(7)
Average payment rate (EUR)	–	3.90%	3.81%	3.01%	3.01%	3.01%	3.46%	–
Average collection rate (EUR)	–	Euribor 6m	Euribor 6m	Euribor 6m	Euribor 6m	Euribor 6m	Euribor 6m	–
Amount Contractual/Notional (MXN)	**2,000**	1,000	–	1,000	–	–	–	(3)
Average payment rate (MXN)	–	9.81%	–	9.99%	–	–	–	–
Average collection rate (MXN)	–	TIIE 28 days	–	TIIE 28 days	–	–	–	–
Amount Contractual/Notional (USD)	**198**	9	11	13	13	52	100	(15)
Average payment rate (USD)	–	6.383%	6.383%	6.383%	6.383%	6.383%	6.383%	–
Average collection rate (USD)	–	Libor 3m	Libor 3m	Libor 3m	Libor 3m	Libor 3m	Libor 3m	–
Amount Contractual/Notional (EUR)	**8**	2	4	–	–	–	2	–
Average payment rate (EUR)	–	Fixed rate Euribor 3m	Fixed rate/increasing Euribor 3m	–	–	–	Fixed rate/increasing Libor 6m	–
Average collection rate (EUR)	–	Euribor 3m	Euribor 3m	–	–	–	Euribor 3m	–

		Maturity						
Interest rate options	**Total**	**2006**	**2007**	**2008**	**2009**	**2010**	**and following years**	**Fair value**
								(in millions of € , except percentages)
Collar								
Amount Contractual/Notional (EUR)	**50**	5	4	5	15	5	16	(1)
Purchase CAP (EUR)	–	5.00%	5.01%	5.01%	5.18%	4.72%	5.00%	–
Sale FLOOR (EUR)	–	3.10%	3.11%	3.11%	3.41%	2.81%	2.91%	–
Collar with limits								
Amount Contractual/Notional (EUR)	**4**	–	–	–	–	–	4	–
Purchase CAP (EUR)	–	–	–	–	–	–	5.00%	–
Sale FLOOR (EUR)	–	–	–	–	–	–	Knock in	–

Interest rate hedge operations

Set out below is a breakdown of the financial swaps for payments in different currencies and at different interest rates contracted at December 31, 2005:

Financial swaps for payments in different currencies and at different interest rates	Total	Maturity 2006	2007	2008	2009	2010	and following years	Fair value
Variable to Variable								(in millions of € , except percentages)
Amount Contractual/Notional (EUR)	**127**	127	–	–	–	–	–	3
Average payment rate (EUR)	–	Euribor 3m+0.33%	–	–	–	–	–	–
Average collection rate (USD)	–	Libor 3m+0.30%	–	–	–	–	–	–
Amount Contractual/Notional (BRL)	**117**	18	18	81	–	–	–	(18)
Average payment rate (BRL)	–	111.5% CDI	103.0% CDI	103.0% CDI	–	–	–	–
Average collection rate (USD)	–	LIBOR 2.65%	LIBOR 2.65%	LIBOR 2.65%	–	–	–	–
Variable to Fixed								
Amount Contractual/Notional (BRL)	**213**	35	63	59	56	–	–	(37)
Average payment rate (BRL)	–	110.3% CDI	111.6% CDI	111.6% CDI	111.6% CDI	–	–	–
Average collection rate (USD)	–	5.38%	7.3%	7.3%	7.3%	–	–	–
Amount Contractual/Notional (BRL)	**8**	8	–	–	–	–	–	–
Average payment rate (BRL)	–	2.25% CDI	–	–	–	–	–	–
Average collection rate (USD)	–	1.00%	–	–	–	–	–	–
Amount Contractual/Notional (USD)	**58**	–	–	–	58	–	–	3
Average payment rate (ARS)	–	–	–	–	14.30%	–	–	–
Average collection rate (USD)	–	–	–	–	Libor 6m	–	–	–

Current forward rate contracts	Total	Maturity 2006	2007	2008	2009	2010	and following years	Fair value
								(in millions of € , except percentages)
Notional amount (USD)	**1,296**	1,296	–	–	–	–	–	10
Average exchange rate (EUR/USD)	–	1.2	–	–	–	–	–	–
Notional amount (BRL)	**25**	25	–	–	–	–	–	–
Average exchange rate (EUR/BRL)	–	3.07	–	–	–	–	–	–

At December 31, 2004

Raw material price hedge operations

At December 31, 2004 natural gas price hedges were contracted pegged to the USD in the aggregate amount of € 155 million, which matured in June 2005 with a fair value of € 2 million.

Interest rate hedge operations

The following tables provide information on the hedging derivates at December 31, 2004 and include interest rate swaps, interest rate forward contracts and interest rate options. In respect of the swaps and forward contracts, the table show the notional amounts and the weighted interest rates arising from the same according to maturity. The notional amounts are used to calculate the contractual payments to be exchanged under the contracts.

Set out below is a description of all derivative operations at December 31, 2004, broken down by applicable currencies, and the interest rates. The information presents the amount in euros equivalent to the corresponding compound interest by Indexed Rate and the average weighted differential. The cash flows of the instruments are denominated in the currency indicated.

		Maturity						
Interest rate swap contracts	**Total**	**2005**	**2006**	**2007**	**2008**	**2009**	**and following years**	**Fair value**
								(in millions of € , except percentages)
Variable to Variable								
Amount Contractual/Notional (EUR)	**120**	–	–	120	–	–	–	2
Average payment rate (EUR)	**–**	–	–	Euribor 6m-0.10%	–	–	–	–
Average collection rate (EUR)	**–**	–	–	Euribor 6m+0.38%	–	–	–	–
Variable to Fixed								
Amount Contractual/Notional (MXN)	**1,000**	1,000	–	–	–	–	–	–
Average payment rate (MXN)	**–**	6.67%	–	–	–	–	–	–
Average collection rate (MXN)	**–**	TIIE 28 days	–	–	–	–	–	–
Amount Contractual/Notional (EUR)	**307**	5	1	1	–	–	300	(2)
Average payment rate (EUR)	**–**	4.48%	4.48%	5.22%	–	–	3.6525%	–
Average collection rate (EUR)	**–**	Euribor 6m	Euribor 6m	Euribor 6m	–	–	Euribor 3m	–
Amount Contractual/Notional (EUR)	**150**	5	5	5	6	7	122	(19)
Average payment rate (USD)	**–**	6.383%	6.383%	6.383%	6.383%	6.383%	6.383%	–
Average collection rate (USD)	**–**	Libor 3m	Libor 3m	Libor 3m	Libor 3m	Libor 3m	Libor 3m	–
Amount Contractual/Notional (EUR)	**8**	–	2	4	–	–	2	–
Average payment rate (EUR)	**–**	–	Fixed rate	Fixed rate	–	–	Fixed rate	–
Average collection rate (EUR)	**–**	–	Euribor 3m	Euribor 3m	–	–	Euribor 3m	–

Interest rate forward contracts	Total	Maturity 2005	2006	2007	2008	2009	and following years	Fair value
							(in millions of € , except percentages)	
Variable to Fixed								
Amount Contractual/Notional (EUR)	**300**	300	–	–	–	–	–	–
Average payment rate (EUR)	**–**	2.32%	–	–	–	–	–	–
Average collection rate (EUR)	**–**	Euribor 6m	–	–	–	–	–	–

Interest rate options	Total	Maturity 2005	2006	2007	2008	2009	and following years	Fair value
							(in millions of € , except percentages)	
Collar								
Amount Contractual/Notional (EUR)	**13**	–	1	1	1	1	9	–
Purchase CAP (EUR)	**–**	–	3.35%	3.35%	3.35%	3.35%	3.35%	–
Sale FLOOR (EUR)	**–**	–	5.50%	5.50%	5.50%	5.50%	5.50%	–

Exchange rate hedging operations

Set out below is a breakdown of the financial swaps for payments in different currencies and at different interest rates contracted at December 31, 2004:

Financial swaps for payments in different currencies and at different interest rates	Total	Maturity 2005	2006	2007	2008	2009	and following years	Fair value
								(in millions of € , except percentages)
Variable to Variable								
Amount Contractual/Notional (EUR)	**128**	128	–	–	–	–	–	(13)
Average payment rate (EUR)	–	Euribor 3m+0.33%	–	–	–	–	–	–
Average collection rate (USD)	–	Libor 3m+0.30%	–	–	–	–	–	–
Amount Contractual/Notional (EUR)	**38**	4	6	5	23	–	–	(6)
Average payment rate (BRL)	–	101.07% CDI	103.00% CDI	103.00% CDI	103.00% CDI	–	–	–
Average collection rate (USD)	–	Libor +2.28%	Libor +2.65%	Libor +2.65%	Libor +2.65%	–	–	–
Variable to Fixed								
Amount Contractual/Notional (EUR)	**82**	13	20	17	16	16	–	(19)
Average payment rate (BRL)	–	112.45% CDI	110.93% CDI	110.43% CDI	111.62% CDI	111.61% CDI	–	–
Average collection rate (USD)	–	6.49%	4.59%	7.33%	7.31%	7.28%	–	–
Fixed to Fixed								
Amount Contractual/Notional (EUR)	**3**	3	–	–	–	–	–	–
Average payment rate (BRL)	–	Taxa Pre 10.79%	–	–	–	–	–	–
Average collection rate (USD)	–	US $	–	–	–	–	–	–

Currency call contracts	Total	Maturity 2005	2006	2007	2008	2009	and following years	Fair value
								(in millions of € , except percentages)
EURO/USD	**402**	402	–	–	–	–	–	(15)
Average exchange rate (EUR/USD)	–	1,30	–	–	–	–	–	–

Note 10. Financial Receivables

The breakdown of this account at December 31, 2005 and 2004 is as follows:

	31.12.05	31.12.04
Commercial loans	120	112
Other loans	14	17
Other financial receivables	60	65
Non-current Receivables	**194**	**194**
Commercial loans	95	39
Others	28	25
Current Receivables	**123**	**64**
Total financial receivables	**317**	**258**

The breakdown by maturities at December 2005 and 2004 is as follows:

Maturities	31.12.05	31.12.04
No later than 1 year	123	64
Later than 1 year and no later than 5 years	109	122
Later than 5 years	85	72
Total financial receivables	**317**	**258**

The corresponding interest rates (6.75% for loans between 1 to 5 years) are in line with market interest rates for loans of such kind and duration. Therefore, their book value approximates their fair value.

Non-current Receivables

Commercial loans mainly carry the loans at December 31, 2005 and December 31, 2004 for the sale of long-term financed gas and heating installations

Current Receivables

Other loans primarily hold the loans at December 31, 2005 and December 31, 2004 for the short-term financed gas and heating installations, as well as US dollars 10 million receivable from Repsol YPF, S.A in consideration for the granting of a preferential right for gas supplies in Brazil.

Note 11. Inventories

The breakdown of Inventories is as follows:

	31.12.05	31.12.04
Raw materials and other inventories	39	59
Natural gas	417	205
Total inventories	**456**	**264**

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

Note 12. Trade and other receivables

The breakdown of this account is as follows:

	31.12.05	31.12.04
Trade receivables	2,214	1,439
Trade with related parties [1]	63	61
Receivables from associates	–	224
Less: provision for impairment of receivables with third parties	(129)	(106)
Trade receivables-net	**2,148**	**1,618**
Other debtors	135	102
Receivables from tax authorities	104	98
Prepayments	72	32
Total	**2,459**	**1,850**

[1] Repsol YPF Group

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

At 1.1.04	**(91)**
Net charge for the year	(21)
Other	6
At 31.12.04	**(106)**
Net charge for the year	(23)
At 31.12.05	**(129)**

Note 13. Cash and cash equivalents

Cash and cash equivalents comprise the following:

	31.12.05	31.12.04
Cash at bank and in hand	106	90
Bank deposits	–	23
Short term investments (Spain and rest of Europe)	71	42
Short term investments (Latin America)	24	51
Total	**201**	**206**

Bank deposits are very liquid (less than 10 days). The effective interest rate is 4.3% at December 2005 (2.33% at December 2004).

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

– Spain: 4.5% at December 2005 and 2.3% at December 2004.

– Latin America: 8% at December 2005 and 8.7% at December 2004.

Note 14. Shareholders' Equity

The breakdown of this account is as follows:

Share capital

Share capital includes the following:

	Number of shares (millions)	Ordinary shares	Total
At 1.1.04	448	448	448
At 31.12.04	448	448	448
At 31.12. 05	448	448	448

The total authorized number of ordinary shares is 448 million with a par value of € 1 per share. All issued shares are fully paid and have the same economic and voting rights.

The Board of Directors of Gas Natural SDG, S.A., by virtue of the resolution of the General Meeting of Shareholders of April 30, 2002, was authorised to increase share capital to a maximum of € 223,888,014 within a period of 5 years, through a monetary disbursement and in one or several increases without requiring new authorisation. Furthermore, it was authorised by resolution of said General Meeting of Shareholders to issue within a maxim period of 5 years fixed income debentures not convertible into shares, in the form of debt, bonds, promissory notes, simple or mortgage-backed or guaranteed debentures up to a total amount of € 1,000,000 thousand.

Furthermore, by virtue of a resolution of the General Meeting of Shareholders of April 20, 2005, the Board of Directors was authorised to acquire fully paid up treasury shares for consideration, within a period of no longer than 18 months, in one or several acquisitions, up to a maximum of 5% of share capital, without this percentage being surpassed by the shares acquired by the Company and those held by the investee companies. The minimum and maximum price of acquisition will be the quotation of the shares on the Spanish Stock Exchange with a fluctuation of plus or minus 5%.

All the shares of Gas Natural SDG, S.A. are listed on the four official Spanish stock exchanges and are listed on the Ibex 35.

The 2005 and 2004 year end quotations of Gas Natural SDG. S.A. are € 23.66 and € 22.76, respectively. Furthermore, 159,514,583 shares of the investee company Gas Natural BAN, S.A., 49% of the total number of shares, are listed on the Buenos Aires (Argentina) stock exchange, with a quotation at December 31, 2005 of Pesos 1.75 per share.

The most important direct and indirect shareholdings in the share capital of Gas Natural SDG, S.A. at December 2005 and 2004 are as follows:

	% shareholding	
	31.12.05	31.12.04
"la Caixa" Group	33.06	32.06
Repsol YPF Group	30.85	30.85
Holding de Infraestructuras y Servicios Urbanos, S.A. (HISUSA)	5.00	5.00
Caixa d'Estalvis de Catalunya	3.03	3.03

Retained earnings and other reserves

Retained earnings and other reserves include the following reserves:

	31.12.2005
a) Reserve for redenomination in euros	1
b) Legal reserve	90
c) Statutory reserve	68

a) Reserve for redenomination in euros

As per the Euro Act, Law 46/1998, a reserve not available for distribution was set up for the redenomination into euros of the shares representing the share capital of the company.

b) 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.

c) 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.

Basic earnings per share are calculated by dividing the profit attributable to Shareholders of the Company by the weighted average number of ordinary shares in issue during the year.

	31.12.05	31.12.04
Profit attributable to Shareholders of the Company	749	642
Weighted average number of ordinary shares in issue (million)	448	448
Earning per share		
Basic earnings per share	1.67	1.43
Diluted earnings per share	1.67	1.43

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

Note 15. Borrowings

The breakdown of borrowings at December 31, 2005 and 2004 is as follows:

	31.12.05	31.12.04
Issuing of debentures and other negotiable obligations	554	552
Non current amounts owed to financial institutions and others	2,669	1,528
Derivative financial instruments (Note 9)	81	72
Non-current	**3,304**	**2,152**
Issuing of debentures and other negotiable obligations	56	30
Current amounts owed to financial institutions and others	456	674
Current	**512**	**704**
Total borrowings	**3,816**	**2,856**

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

	Carrying amounts		Fair values	
	31.12.05	31.12.04	31.12.05	31.12.04
Issuing of debentures and other negotiable obligations	554	552	612	621
Loans from financial institutions	2,669	1,528	2,750	1,600

The fair value of loans with fixed interest rates is estimated on the basis of the discounted cash flows over the remaining terms of such debt. The discount rates were determined based on market rates available at December 31, 2005 and December 31, 2004 on borrowings with similar credit and maturity characteristics.

At December 31, 2004 there are unused credit facilities available totalling € 1,148 million. At December 31, 2005 they total € 650 million.

The following table describes our consolidated gross financial debt by instrument at December 31, 2005 and December 31, 2004 and its maturity profile. The classification between fixed and variable debt is made taking into account the impact of the derivative hedge.

At December 31, 2005:	2006	2007	2008	2009	2010	Beyond	Total
Marketable Debt							
Fixed	–	–	–	–	525	–	525
Floating	56	13	16	–	–	–	85
Institutional Banks							
Fixed	81	74	153	74	41	–	423
Floating	34	36	34	34	33	63	234
Commercial Banks and other financial liabilities							
Fixed	88	11	88	62	14	628	891
Floating	253	431	193	130	38	613	1,658
Total Fixed	169	85	241	136	580	628	1,839
Total Floating	343	480	243	164	71	676	1,977
Total	**512**	**565**	**484**	**300**	**651**	**1,304**	**3,816**

At December 31, 2004:	2005	2006	2007	2008	2009	Beyond	Total
Marketable Debt							
Fixed	–	–	–	–	–	525	525
Floating	30	2	11	14	–	–	57
Institutional Banks							
Fixed	35	72	66	66	66	36	341
Floating	2	30	30	29	29	73	193
Commercial Banks and other financial liabilities							
Fixed	286	–	–	–	–	463	749
Floating	351	65	254	71	190	60	991
Total Fixed	321	72	66	66	66	1,024	1,615
Total Floating	383	97	295	114	219	133	1,241
Total	**704**	**169**	**361**	**180**	**285**	**1,157**	**2,856**

If the impact of the financial derivative is not taken into account, the breakdown between the financial debt at a fixed rate and at a variable rate under "Commercial banks and other financial liabilities" would be as follows: € 4 million at a fixed rate in 2005 (€ 220 million in 2004, totally short term) and € 2,464 million at a variable rate in 2005 (€ 1,448 million in 2004).

The following table describes our consolidated gross financial debt by currency at December 31, 2005 and December 31, 2004 and its maturity profile.

At December 31, 2005:	2006	2007	2008	2009	2010	Beyond	Total
Euro Debt	110	317	11	–	527	1,033	1,998
Foreign Currency Debt:							
Dollar	133	134	120	163	89	218	857
Mexican peso	177	–	240	–	–	–	417
Brazilian real	56	90	87	88	35	53	409
Colombian peso	36	24	26	–	–	–	86
Argentinean peso	–	–	–	49	–	–	49
Total	**512**	**565**	**484**	**300**	**651**	**1,304**	**3,816**

At December 31, 2004:	2005	2006	2007	2008	2009	Beyond	Total
Euro Debt	225	30	198	30	108	764	1,355
Foreign Currency Debt:							
Dollar	100	102	104	105	106	330	847
Mexican peso	320	–	–	–	–	–	320
Brazilian real	36	19	41	30	71	63	260
Colombian peso	23	18	18	15	–	–	74
Total	**704**	**169**	**361**	**180**	**285**	**1,157**	**2,856**

The financial debt in euros bore average effective interest rate of 3.71% (4.08% at December 2004) and the foreign currency of the financial debt bore an average effective interest rate of 11.20% (8.19% at December 2004) including the derivatives assigned to each transaction.

Commercial Paper Program

In March 2001, a euro commercial paper program was established under which up to an aggregate principal amount of € 1,000 million or its equivalent in alternative currencies may be issued. At December 31, 2005, an aggregate principal amount of € 25 million (short-term marketable debt) was outstanding under this short-term euro commercial paper program with an average interest rate of 2.10%. At December 31, 2004 no outstanding amounts remained under this commercial paper program.

Medium Term Note Program

In 1999, a medium term note program was established under which up to an aggregate principal amount of € 2,000 million may be issued. At December 31, 2005 and December 31, 2004, an aggregate principal amount of € 525 million (marketable debt) was outstanding under this euro medium term note program with an average interest rate of 6.125%.

Credit Lines

At December 31, 2005, credit lines in an aggregate amount of € 1,187 million were committed of which € 650 million, or 55%, were undrawn. The geographical breakdown of drawn credit lines is as follows: Europe € 428 million (commercial banks), Mexico € 97 million and Puerto Rico € 12 million. During 2005, the European credit lines bear an average interest rate of 2.33%, and the Mexican and Puerto Rico credit lines bear an average interest rate of 12,92% and 4.58%, respectively.

At December 31, 2004, credit lines in an aggregate amount of € 1,211 million were committed of which € 848 million, or 70%, were undrawn. The geographical breakdown of drawn credit lines is as follows: Europe € 165 million, Mexico € 188 million and Puerto Rico € 10 million. During 2004, the European credit lines bear an average interest rate of 2.91%, and the Mexican and Puerto Rico credit lines bear an average interest rate of 10.52%.

Credit Facilities

- *European facilities (commercial banks).* At December 31, 2005. these facilities include a € 600 million Club Deal facility maturing in 2011, a € 120 million syndicated loan with 14 Spanish financial institutions maturing in 2007, a € 50 million bilateral loan maturing in 2007 and facilities in an aggregate principal amount of € 33 million with a group of Italian banks. These facilities bear an average interest rate during 2005 of 2.29%.

  At December 31, 2004, they include a Club Deal loan of € 300 million maturing in 2011, a syndicated loan with 14 Spanish financial institutions for € 120 million, a bilateral loan maturing in 2007 of 50 million and three syndicated loans of € 145 million maturing in the first quarter of 2005. These facilities bear an average interest rate of 2.93% during 2004.

- *EMPL Pipeline Facilities (institutional banks).* In 1994, a US $ 450 million loan was subscribed with the Banco Europeo de Inversiones (EIB) structured in three tranches maturing between 2005 and 2010. In 1995, a US $ 200 million loan was subscribed with the Instituto de Crédito Oficial (ICO) maturing between 2006 and 2010. Both loans were granted in connection with the construction of the Maghreb-Europe gas pipeline. At December 31, 2005, US $ 410 million (€ 346 million) of the EIB loan and US $ 200 million (€ 169 million) of the Instituto de Crédito Oficial (ICO) loan were outstanding. The average maturity of this debt is 2.4 years and the average interest rate 6.07%.

  At December 31, 2004, US $ 450 million (€ 332 million) of the EIB loan and US $ 200 million (€ 148 million) of the Instituto de Crédito Oficial (ICO) loan were outstanding. The average maturity of this debt is 3.0 years and the average interest rate 5.47%.

- *Latin American Facilities.* At December 31, 2005, our debt in Latin America amounted to € 1,029 million (including € 97 million in credit lines in Mexico described above) with a wide range of financial institutions, of which 47% were guaranteed. The geographical breakdown of our Latin American facilities is as follows: Argentina € 118 million, Mexico € 417 million, Colombia € 86 million and Brazil € 408 million. All our Latin American debt is denominated in local currency except for Argentina, where our debt is mainly denominated in U.S. dollars. This debt bears an average interest rate of 15.01%.

  At December 31, 2004, our debt in Latin America amounted to € 759 million (including € 188 million in credit lines in Mexico described above) with a wide range of financial institutions, of which 63% were guaranteed. The geographical breakdown of our Latin American facilities is as follows: Argentina € 114 million, Mexico € 320 million, Colombia € 73 million and Brazil € 252 million. All our Latin American debt is denominated in local currency except for Argentina, where our debt is mainly denominated in U.S. dollars. This debt bears an average interest rate of 12.42%

Project Finance

- *Wind Farm Operators (commercial banks).* At December 31, 2005, the wind farm operators DERSA and Sinia XXI had € 184 million of debt outstanding, mainly related to project financing, with an average interest rate of 3.34%. More than 95% of this debt matures in or after 2010.

  At December 31, 2004 the wind farm operator Sinia XXI had an outstanding debt of € 32 million, related mainly to project financing.

- *Puerto Rico (commercial banks).* At December 31, 2005, we had € 252 million (including € 12 million of credit lines described above) of attributable debt outstanding associated with our CCGT and regassification project finance in Puerto Rico. This debt bears an average interest rate of 7.20%. Over 75% of this debt matures in or after 2010.

  At December 31, 2004 this debt totalled € 243 million (including € 10 million in credit facilities described above) and bore an average interest rate of 7.01%.

Note 16. Other long term liabilities

The breakdown of this account at December 31, 2005 and 2004 is as follows:

	31.12.05	31.12.04
Finance lease liabilities (a)	322	326
Other liabilities (b)	107	105
Deposits	38	32
Other long term liabilities	**467**	**463**

a) Finance lease liabilities

In 2003, GAS NATURAL acquired two gas transport vessels through finance lease agreements. The contract's duration is 20 years, maturing in 2023. The purchase option executable at the end of the contract amounts to € 85 million for each vessel.

Minimum lease payments are as follows:

	31.12.05			31.12.04		
	Nominal value	**Discount**	**Present value**	**Nominal value**	**Discount**	**Present value**
Not later than 1 year	29	(2)	**27**	29	(2)	**27**
Later than 1 year & not later than 5 years	116	(24)	**92**	116	(24)	**92**
Later than 5 years	540	(310)	**230**	569	(335)	**234**
Total	**685**	**(336)**	**349**	**714**	**(361)**	**353**

b) Other liabilities

These basically include the repurchase obligations of preference shares of Buenergia Gas & Power, Ltd (Buenenergía). The 47.5% indirect interest in EcoEléctrica LP is held through the company Buenergía This company is 95% owned by Invergas Puerto Rico, S.A. and 5% owned by a subsidiary of the General Electric Group, Project Finance XI (PFXI), which represents an indirect interest of 2.5% in EcoEléctrica LP. 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
2006	11
2007	13
2008	16
2009	15
More than 5 years	48
Total	**103**

The increase in the liability in € from December 2004 to December 2005 is due basically to the charge in the US Dollar/€ exchange rate.

Note 17. Provisions

The movement in provisions has been as follows:

At 1.1.04	**167**
Charged in the income statement:	
Additional provisions	29
Unused amounts reversed	(7)
Amounts paid during the year	(2)
Business combinations	10
Reclassifications and others	3
At 31.12.04	**200**
Charged in the income statement:	
Additional provisions	46
Unused amounts reversed	(4)
Amounts paid during the year	(8)
Exchange differences	4
Reclassifications and others	45
At 31.12.05	**283**

Note 18. Employee benefit obligations

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

	Post-employment	Termination Benefits	Loyalty bonus	Total
At 1.1.04	**29**	**27**	**22**	**78**
Charge to the income statement:				
Additional provisions	6	4	–	10
Unused amounts reversed	–	(2)	–	(2)
Amounts paid	(7)	(17)	–	(24)
Acquisition of subsidiaries	24	–	–	24
Other	–	3	(1)	2
At 31.12.04	**52**	**15**	**21**	**88**
Charge to the income statement:				
Additional provisions	3	4	–	7
Unused amounts reversed	–	–		
Amounts paid	(7)	(17)	–	(24)
Transfers	–	1	–	1
Exchange differences	10	–	–	10
At 31.12.05	**58**	**3**	**21**	**82**

a) Post employment benefit

Breakdown by country	**31.12.05**	**31.12.04**	**1.1.04**
Spain (1)	19	20	22
Brazil (2)	35	28	7
Italy	4	4	–
Total	**58**	**52**	**29**

1) Pension Plans and other post-employment benefits in Spain

At December 31, 2005 and December 31, 2004, GAS NATURAL had in force the following commitments for certain employees:

- Pensioners (retirees, disabled-persons, widows and orphans).
- Retirement and death coverage in favour of certain executives.
- Early retirement plans in order to encourage retirement from age 60 instead of age 65.
- Health and other benefits.
- Gas subsidy.
- Certain lump sums and pensions included in collective agreements.
- Lifetime death coverage for a certain collective.

The amounts recognized in the balance sheet are determined as follows

	31.12.05	31.12.04
Present value of funded obligations	172	174
Fair value of plan assets	(169)	(170)
Present value of unfunded obligations	23	23
Unrecognized actuarial losses	(7)	(7)
Unrecognized past service cost	–	–
Provisions for pensions and similar obligations	**19**	**20**

Pension plan assets are insurance policy contracts where the insurance company has assumed return on investment and mortality risks.

The amounts recognized in the income statement are as follows:

	31.12.05	31.12.04
Current service cost	2	2
Interest cost	8	7
Expected return on plan assets	(7)	(6)
Net actuarial losses recognized during the year	–	–
Past service cost	–	–
Total charged to the income statement	**3**	**3**

The actual return on plan assets for the year ended December 31, 2005 was € 16 million.

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

At 1.1.04	**22**
Total expense charged in the income statement	3
Contributions paid	(5)
At 31.12.04	**20**
Total expense charged in the income statement	3
Contributions paid	(4)
At 31.12.05	**19**

The principal annual actuarial assumptions used were as follows:

	31.12.05	31.12.04
Discount rate (p.a) (%)	4.0	4.5
Expected return on plan assets (p.a) (%)	4.5	5.0
Future salary increases (p.a) (%)	3.0	3.0
Future pension increases (p.a) (%)	2.5	2.5
Mortality table	PERMF 2000	PERMF 2000

The discount rate has been determined using the corporate iboxx AA bond rate curve. The sensitivity analysis carried out determined that the impact on pension and post-employment benefit expense would not be significant.

2) Pension Plans and other post-employment benefits in Brazil

At December 31, 2005 and December 31, 2004, GAS NATURAL has in force the following employee benefits in its Brazilian subsidiary:

– Post-employment defined benefit plan, called "Gasius plan", covering retirement, death-in-service and disability pensions and lump sums.

– Post-employment health-care plan.

– Other minor post-employment defined benefit plan guaranteeing temporary pensions, lifetime pensions and lump sums depending on years of service

The amounts recognized in the balance sheet are determined as follows:

	31.12.05	31.12.04
Present value of funded obligations	70	51
Fair value of plan assets	(54)	(37)
Present value of unfunded obligations	19	12
Unrecognized actuarial (losses)/gains	–	9
Unrecognized past service cost	–	(7)
Provision for pensions and similar obligations	**35**	**28**

Pension plan assets are invested as follows:

	31.12.05 (%)	31.12.04 (%)
Equities	27.00	47.00
Bonds	67.00	47.00
Property	6.00	6.00
Total	**100.00**	**100.00**

The amounts recognized in the income statement are as follows:

	31.12.05	31.12.04
Current service cost	–	–
Interest cost	8	6
Expected return on plan assets	(5)	(3)
Net actuarial losses/(gains) recognized during the year	(3)	–
Past service cost	–	–
Total income statement charge	**–**	**3**

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

	Million €
At 1.1.04	**7**
Exchange differences	–
Liabilities acquired in a business combination (note 31)	20
Total expense charged in the income statement	3
Contributions paid	(2)
At 31.12.04	**28**
Exchange differences	10
Liabilities acquired in a business combination	–
Total expense charged in the income statement	–
Contributions paid	(3)
At 31.12.05	**35**

The principal annual actuarial assumptions used were as follows:

	31.12.05	**31.12.04**
Discount rate (p.a) (%)	6.00	6.00
Expected return on plan assets (p.a) (%)	6.00	6.00
Future salary increases (p.a) (%)	1.50	1.50
Future pension increases (p.a) (%)	0.00	0.00
Inflation rate (p.a) (%)	4.50	4.50
Mortality table	GAM – 83	GAM – 83

b) Termination benefits

GAS NATURAL initiated a voluntary reduction in workforce in 2002. The voluntary termination employees are entitled to receive a minimum lump sum payment under Spanish law equivalent to 45 days for each year of service at their current salary. In addition to the minimum payment required by Spanish law, additional one-time termination benefits will be provided. Both the minimum amount required by Spanish law and the additional benefits are expensed when it is probable that the payment will occur.

c) Loyalty bonus

Loyalty plan for which contributions are invested in an investment fund classified as available for sale financial asset (see note 8). Similar movements as in the fair value of the investment fund are recorded in loyalty bonus with the corresponding effect in profit and loss.

Note 19. Taxes

Tax situation

The Tax Group represented by Gas Natural SDG, S.A. as the parent company has been taxed since 1993 under the Consolidated Tax Regime in accordance with the Special Regime for Group Companies as per Law 4/1995, which involve the joint determination of taxable income of GAS NATURAL and the deductions and allowances on the tax payable.

In 2005, the Consolidated Tax Group of Gas Natural SDG, S.A. was made up of the following companies: Gas Natural Castilla y León, S.A., Gas Natural Cegas, S.A., Gas Natural Castilla La Mancha, S.A., Compañía Auxiliar de Industrias Varias, S.A., Gas Natural Informática, S.A., Gas Natural Servicios SDG, S.A., Gas Natural Andalucía, S.A., Gas Natural Internacional SDG, S.A., Holding Gas Natural, S.A., La Propagadora del Gas, S.A., La Energía, S.A., Sagane, S.A., Gas Natural Cantabria SDG, S.A., Gas Natural Murcia SDG, S.A., Desarrollo del Cable, S.A., Gas Natural Electricidad SDG, S.A., Equipos y Servicios, S.A., Gas Natural Comercializadora, S.A., Gas Natural Aprovisionamientos SDG, S.A., Gas Navarra, S.A., Gas Natural Rioja, S.A., Gas Natural Distribución Eléctrica, S.A., Gas Natural Soluciones, S.L., Invergas Puerto Rico, S.A., Sociedad de Tratamiento Hornillos, S.L., Gas Natural Distribución SDG, S.A., Gas Natural Transporte SDG, S.L., Gas Natural Corporación Eólica, S.L., Gas Natural Exploración, S.L., Distribución Eléctrica Navafrías, S.L., Electra de Abusejo, S.L., Gas Natural Capital Markets, S.A., Sinia XXI, S.A. and Tratamiento Almazán, S.L.

The other companies included in the consolidation scope are taxed individually.

The reconciliation of accounting profit to tax profit for corporate income tax purposes is as follows:

	31.12.05	31.12.04
Accounting profit before tax	**1,068**	**926**
Non-deductible expenses and non-computable income	**(164)**	**(62)**
Individual companies	(399)	(181)
Consolidated adjustments	235	119
Temporary differences:	**(79)**	**(153)**
Provisions	(8)	(54)
Other items	(71)	(99)
Prior taxable income	**825**	**711**
Offset of tax loss carryforwards	(7)	(27)
Taxable income	**818**	**684**

The differences of the individual companies include, as the most significant item, the capital gain on the disposals of 13.34% of Enagás, S.A.

In accordance with the provisions of Additional Provision 4 of the Corporate Income Tax Act adopted by Legislative Decree 4/2004 of 5 March (former additional Provision 14 of the Corporate Income Tax Act, Law 43/1995 of 27 December), in the wording set out in Law 24/2001 of 27 December, the taxable income for corporate income tax purposes does not include the profit obtained in 2002 as a result of the Public Offering of Shares of Enagás, S.A. or the profit on the sale made in 2003, 2004 and 2005, pending inclusion until the assets and rights in which the amounts obtained from the sales have been reinvested have been transferred or written off the balance sheet, broken down as follows in million euros:

Year of sale	Amount obtained from sale	Reinvestment	Termination of reinvestment term
2002	917	917	2005
2003	39	39	2006
2004	292	118	2007
2005	432	–	2008
Total	**1,680**	**1,074**	

The reinvestment has been made in fixed assets attached to economic and financial investments in group companies which gives a share higher than 5%, carried out both in the name of the Company and other companies in the tax Group, by virtue of the provisions of article 75 of the Spanish Companies Act.

At December 31, 2004 € 34.8 million have been reinvested. This is the amount obtained from the sale of all the equity assets transferred in 2001 as well as the secondary transport infrastructure and natural gas distribution assets in Spain, which are governed by the provisions of Temporary Provision 3 of Law 24/2001.

Non-deductible expenses and non-computable income relate to the amortisation of the non-deductible goodwill, to the reversal of non-deductible provisions and the consolidation adjustments of the aforementioned shareholding sale operations.

The deductions to the tax payable applied in 2005 have totalled € 47 million while withholding and income on account total € 107 million. The adjustments for tax differences from last year of € 3 million have also been included.

The effective tax rate at the 2005 year end was 22.6% as a consequence of the application of the tax regime under additional provision 14 of the Corporate Income Tax Act, Law 43/1995 of December 27, for the transfers of assets made under legal provisions, profit of companies consolidated under equity accounting since it does not affect the calculation of the corporate income tax expense, the application of lower tax rates, the use of tax credits available for offset by profits.

The tax expense for the year is as follows

Tax on income	31.12.05	31.12.04
Current tax	266	267
Deferred tax	(25)	(36)
	241	**231**

Tax assessments

On April 21, 2004 tax assessments for the Tax Group were signed in disagreement in relation to corporate income tax (years 1995 to 1998) and VAT and Personal Income Tax (August 1997 to December 2000). After the Company filed its initial allegations, the Tax Inspection Bureau notified the Company of the respective Administrative Tax Settlement. This settlement has been appealed by GAS NATURAL before the appropriate authorities.

The above-mentioned inspection, the results of which concluded with the signing of the assessments in disagreement, are at different stages of the appeal process (Supreme Court, National Court, Central Tax and Treasury Court). On the basis of the results obtained in these courts of special note is the number of rulings in favour of the tax assessments.

Furthermore, since 2004 the Tax Authorities have been carrying out tax audits on the Consolidated Tax Group of GAS NATURAL for corporate income tax for 1999 to 2002, and an exclusive audit of the parent Company for VAT, withholding tax on personal income and tax on income from capital for January 2001 to December 2002. The other taxes are open to inspection for the period not legally prescribed.

The Directors believe, consequently, that the results of these situations will not have a significant impact on these annual accounts of GAS NATURAL.

Deferred tax

The breakdown of the deferred tax is as follows:

	31.12.05	31.12.04
Deferred income tax assets:		
Non-current	60	36
Current	163	125
	223	**161**
Deferred income tax liabilities:		
Non-current	(376)	(239)
Current	(74)	(52)
	(450)	**(291)**
Net deferred income tax	**(227)**	**(130)**

Gross movement in the deferred income tax account is as follows:

At 1.1.04	**12**
Exchange differences	(2)
Business combinations (Note 31)	(81)
Income statement charge	(36)
Movements linked to equity adjustments	(17)
Others	(6)
At 31.12.04	**(130)**
Exchange differences	(2)
Business combinations (Note 31)	(32)
Income statement charge	(25)
Movements related to equity variations	(55)
Others	17
At 31.12.05	**(227)**

The breakdown of deferred taxes is as follows:

Deferred tax liabilities	**Amorti-zation differences**	**Rein-vestment capital gains**	**Fair value business combination**	**Fair value available for sale assets**	**Financial instruments**	**Other**	**Total**
At 1.1.04	**49**	**75**	**–**	**–**	**–**	**32**	**156**
Charged/(credited) to income statement	(1)	24	–	–	(1)	(5)	17
Business combinations	–	–	88	–	–	9	97
Charged to equity	–	–	–	20	–	–	20
Others	1	–	–	–	1	(1)	1
At 31.12.04	**49**	**99**	**88**	**20**	**–**	**35**	**291**
Charged/(credited) to income statement	–	45	(5)	–	(1)	(12)	27
Business combinations	–	–	62	–	–	–	62
Others	–	–	(5)	–	2	–	(3)
Charged to equity	–	–	–	52	5	–	57
Exchange differences	–	–	13	–	–	3	16
At 31.12.05	**49**	**144**	**153**	**72**	**6**	**26**	**450**

Deferred tax assets	**Provision and employee benefits**	**Accruals**	**Tax losses carried forward**	**Deferred expenses for tax purposes**	**Financial instruments**	**Other**	**Total**
At 1.1.04	**55**	**16**	**46**	**8**	**4**	**39**	**168**
Charged/(credited) to income statement	(13)	(4)	(6)	5	–	(1)	(19)
Business combinations	3	–	–	11	–	2	16
Credited to equity	–	–	–	–	3	–	3
Reclassifications	1	–	–	–	1	(2)	–
Others	–	–	(2)	2	–	(5)	(5)
Exchange differences	–	–	(2)	–	–	–	(2)
At 31.12.04	**46**	**12**	**36**	**26**	**8**	**33**	**161**
Charged/(credited) to income statement	(2)	(4)	(4)	2	–	10	2
Business combinations	–	–	29	–	–	1	30
Credited to equity	–	–	–	–	2	–	2
Others	11	–	(4)	1	1	4	13
Exchange differences	1	1	3	6	–	4	15
At 31.12.05	**56**	**9**	**60**	**35**	**11**	**52**	**223**

Note 20. Deferred income

The breakdown and movements in 2005 and 2004 have been as follows:

	Government grants	Assets received without consideration	Income from connections and extension of branch lines	Income from the rerouting of pipelines charged to third parties	Other income	Total
At 1.1.04	**54**	**30**	**113**	**68**	**27**	**292**
Financing received	13	–	34	14	6	67
Cancellations	–	–	–	–	–	0
Taken to income	(10)	–	(8)	(5)	(10)	(33)
Area	100	–	(1)	–	1	100
Others	1	4	(7)	(3)	(4)	(9)
Translation differences	–	(3)	(1)	–	(4)	(8)
At 31.12.04	**158**	**31**	**130**	**74**	**16**	**409**
Financing received	10	–	25	16	–	51
Cancellations	–	–	–	–	(1)	(1)
Taken to income	(8)	(1)	(8)	(6)	(7)	(30)
Transfers to short term	–	–	–	–	(1)	(1)
Others	–	(1)	(1)	–	2	0
Translation differences	–	–	1	4	–	5
At 31.12.05	**160**	**29**	**147**	**88**	**9**	**433**

Other income includes € 8 million at December 31, 2005 relate to the consideration for the granting of the preference right to Repsol YPF (€ 15 million at December 31, 2004). (See note 10).

Note 21. Other liabilities

The breakdown at December 31, 2005 and 2004 is as follows:

	31.12.05	31.12.04
Accrued expenses not paid	166	123
Other liabilities (*)	46	33
Finance lease liabilities	27	27
Interim dividend	139	126
Total	**378**	**309**

(*) Includes the short term part of other liabilities mentioned in Note 16.

Note 22. Trade and other payables

The breakdown at December 31, 2005 and 2004 is as follows:

	31.12.05	31.12.04
Trade payables	1,647	1,183
Trade with related parties[1]	6	22
Amounts due to associates	2	183
Social security and other taxes	186	103
Amounts due to employees	26	17
Total	**1,867**	**1,508**

[1] Repsol YPF Group

Note 23. Sales

The breakdown of this account for 2005 and 2004 is as follows:

	2005	2004
Natural gas sales	6,731	4,709
Electricity sales	753	455
Access to transmission networks and distribution compensation	547	622
Installation rental, maintenance and management services	238	198
Transportation services	101	103
Other revenues and services to clients	157	179
Total	**8,527**	**6,266**

Note 24. Other income

The breakdown of this account for 2005 and 2004 is as follows:

	2005	2004
Other management income	86	64
Income from works	10	9
Operating grants	4	–
Others	8	14
Total	**108**	**87**

Note 25. Procurements

The breakdown of this account for 2005 and 2004 is as follows:

	2005	2004
Energy purchases	5,748	3,884
Access to transmission networks	331	197
Other purchases	138	164
Stock variation	(67)	(11)
Total	**6,150**	**4,234**

Note 26. Personnel costs

The breakdown of this account for 2005 and 2004 is as follows:

	2005	2004
Wages and salaries	222	182
Social security costs	48	43
Pension costs-defined contribution plans	6	5
Defined benefit plans and other post-employment benefits	2	2
Capitalized costs	(42)	(41)
Other	16	14
Total	**252**	**205**

The average number of employees of GAS NATURAL during 2005 has totalled 6,756, 6,484 in 2004.

Note 27. Other operating expenses

The breakdown of this account for 2005 and 2004 is as follows:

	2005	2004
Commercial services & advertising	156	146
Computer services	23	16
Leases	30	28
Local taxes	78	59
Professional services & insurance	70	56
Repairs and maintenance	141	110
Supplies	35	32
Other	212	168
Total	**745**	**615**

Note 28. Net finance cost

The breakdown of this account for 2005 and 2004 is as follows:

	2005	2004
Interest income	43	39
Interest from loans to associates	12	10
Others	10	9
Total financial income	**65**	**58**
Financial expense from borrowings	(242)	(183)
Interest expenses of pension plans and other post-employment benefits	(4)	(4)
Other financial expenses	(33)	(25)
Total financial expenses	**(279)**	**(212)**
Net exchange gains/(losses)	(5)	1
Net fair value gains/(losses) on derivative financial instruments	(2)	(1)
Financial Results	**(221)**	**(154)**

All the exchange differences during the period have been included in financial results, under Net exchange gains/(losses).

Note 29. Dividends

The Board of Directors of Gas Natural SDG, S.A. on November 26, 2004 agreed to distribute an interim dividend against 2004 results of € 0.27 gross per share, totalling € 121 million, paid as from January 11, 2005.

The General Meeting of Shareholders adopted a resolution on April 20, 2005 to pay € 0.71 per share against 2004 results and, consequently, to distribute a dividend payable in July 2005 of € 197 million (€ 0.44 per share).

The Board of Directors of Gas Natural SDG, S.A. on November 25, 2005 adopted a resolution to distribute an interim dividend against 2005 results of € 0.31 per share, totalling € 139 million, paid as from January 10, 2006.

The distribution of net profit for 2005, which the Board of Directors will propose to the General Meeting of Shareholders for adoption is as follows:

Basis of distribution	
Profit for the year	767
Distribution:	
To voluntary reserves	391
To dividends	376

Note 30. Cash generated from operations

The breakdown of cash generated from operations in 2005 and 2004 is as follows:

	2005	**2004**
Net income for the period	827	695
Adjustments for:		
Tax	241	231
Depreciation (Note 5)	426	369
Amortisation (Note 6)	93	68
Net movements in provisions (Note 17)	42	22
Net movements in employee benefits (Note 18)	7	8
Net movements in provisions for trade creditors and other receivables	23	20
Net fair value gains/(losses) on derivative financial instruments	2	1
Gain on sales of associates	(286)	(162)
Interest income (Note 28)	(65)	(58)
Interest expense (Note 28)	279	212
Share of loss/(profit) from associates (Note 7)	(34)	(61)
Exchange (gains)/losses (Note 28)	5	(1)
Deferred income applied to results (Note 20)	(30)	(33)
Other adjustments	(28)	(9)
Changes in working capital (excluding the effects of acquisition and exchange differences on consolidation):		
Inventories	(65)	69
Trade and other receivables	(529)	(433)
Trade and other payables	377	224
Cash generated from operations	**1,285**	**1,162**

Note 31. Business combinations

On April 13, 2005, GAS NATURAL acquired 100% of the share capital of DERSA, a Spanish Group mainly engaged in wind farms. The acquired business contributed net sales of € 29 million and profit of € 16 million to GAS NATURAL for the period from April 1, 2005 to December 31, 2005. If the acquisition had taken place at the beginning of the year, the sale and profit for the year, instead of the previous figure, would have increased by € 39 million and € 20 million, respectively.

Details of net assets acquired and goodwill are as follows:

Purchase consideration:	
Cash paid	272
Total purchase consideration	272
Fair value of net assets acquired	177
Goodwill (Note 6)	**95**

The goodwill is attributable to the high profitability of the acquired business and the significant synergies expected to arise after GAS NATURAL's acquisition.

The assets and liabilities arising from the acquisition are as follows:

	Fair value	**Acquiree's carrying amount**
Property, plant and equipment	170	170
Wind farms	147	147
Property, plant and equipment under construction	23	23
Intangible assets	175	–
Wind farm development	175	–
Non current financial assets	7	7
Associates	2	2
Other non current financial assets	5	5
Deferred income tax assets	9	9
Non current assets	**361**	**186**
Inventories	1	1
Other currents assets	15	15
Cash and other equivalent liquids	20	20
Current assets	**36**	**36**
Total assets	**397**	**222**
Borrowings	127	127
Other non current liabilities	7	7
Deferred taxes	61	–
Non current liabilities	**195**	**134**
Borrowings	6	6
Other current liabilities	19	19
Current liabilities	**25**	**25**
Total Liabilities	**220**	**159**
Net assets acquired	**177**	**63**
Purchase consideration settled in cash	**272**	
Cash and cash equivalents in subsidiary acquired	20	
Cash and outflow on acquisition	**252**	

An additional shareholding of 36.8% has been acquired in the subsidiary Portal Gas Natural S.A. for a cost of € 4.2 million has been acquired. The difference (€ 1 million) between the amount paid and the book value of the minority (€ 3.2 million) has been adjusted against retained earnings and other reserves.

In July 2005 Petrobras exercised the purchase option on 12.41% of CEG Rio, S.A. After this sale our shareholding fell to 59.59% with an effect on reserves of € 1 million and € 2 million in minority interests. The final accounting of the business combination arising from the acquisition of the additional interest in Companhia Distrbuidora de Gás do Rio de Janeiro and CEG Rio, S.A. has meant an increase in intangible assets of € 68 million.

In August 2005 the capital of Gas Natural, S.A. ESP was reduced through a return of € 23 million to Gas Natural Internacional SDG, S.A. This operation has had no effect on equity and results attributed to shareholders of the parent Company. The effect on minority interest is a decrease of € 18 million.

The business combinations set up in 2004 are as follows:

On January 13, 2004 all the shareholdings in distribution gas companies Gea, S.p.A, Gas S.p.A, Agragas S.p.A., Gas Natural Servizi e Logistica, S.p.A., Congas, S.p.A and Gas Fondiaria, S.p.A. were acquired through Gas Natural Distribuzione Italia, S.p.A. and Gas Natural Vendita, S.p.A. The business acquired has contributed to the results of GAS NATURAL in 2004 with a net profit of € 3 million.

Breakdown of net assets acquired and goodwill is as follows:

Purchase consideration:	
Cash paid	104
Total purchase consideration	104
Fair value of net assets acquired	79
Goodwill (Note 6)	**25**

The goodwill is attributable to the high profitability of the acquired business and the significant synergies expected to arise after GAS NATURAL's acquisition.

The assets and liabilities arising from the acquisition are as follows:

	Fair value	Acquiree's carrying amount
Property, plant and equipment	148	133
Non current financial assets	1	1
Non current assets	**149**	**134**
Inventories	14	14
Other current assets	21	21
Cash and other equivalent liquids	6	6
Current assets	**41**	**41**
Total assets	**190**	**175**
Deferred income (Grants)	45	45
Employee benefit obligation provisions	2	2
Deferred tax liabilities	6	–
Non current liabilities	**53**	**47**
Borrowings	13	13
Other current liabilities	45	45
Current liabilities	**58**	**58**
Total liabilities	**111**	**105**
Net assets acquired	79	70
Purchase consideration settled in cash	**104**	
Cash and cash equivalents in subsidiary acquired	6	
Cash and outflow on acquisition	**98**	

On July 16, 2004 GAS NATURAL's shareholdings were increased in Companhia Distribuidora de Gás do Rio de Janeiro S.A. (CEG) to 54.2%, (through the acquisition of an additional shareholding of 25.5%) and in CEG Rio,S.A. to 72.0%, (through the acquisition of an additional interest of 33.7%). These companies, which were proportionally consolidated, are now fully consolidated. GAS NATURAL is engaged in gas distribution in Brazil. The business acquired has contributed to GAS NATURAL results in 2004 with a profit of € 3 million. If the acquisition had been made at the beginning of the year, sales and profit for the year, instead of the previous figure, would have increased by € 80 million and € 9 million, respectively.

Breakdown of net assets acquired and goodwill are as follows:

Purchase consideration:	
Cash paid	129
Total purchase consideration	129
Fair value of net assets acquired	129
Goodwill	**–**

The assets and liabilities arising from the acquisition are as follows (total fair values incorporated to the accounts; that is, the information does not include the amounts already owned by GAS NATURAL at the time of this acquisition):

	Fair value	Acquiree's carrying amount
Property, plant and equipment	129	129
Gas distribution installations	92	92
Other tangible assets	37	37
Intangible assets	176	2
Concessions	174	–
Other intangible assets	2	2
Non current financial assets	2	2
Deferred income tax assets	12	12
Other non current assets	8	8
Non current assets	**327**	**153**
Inventories	1	1
Other currents assets	45	45
Cash and other equivalent liquids	15	15
Current assets	**61**	**61**
Total assets	**388**	**214**
Borrowings	69	69
Employee benefit obligations	20	20
Other provisions	7	7
Deferred tax liabilities	64	3
Non current liabilities	**160**	**99**
Borrowings	37	37
Current income tax liabilities	39	39
Current liabilities	**76**	**76**
Total liabilities	**236**	**175**
Net assets	**152**	**39**
Minority interests	23	23
Net assets acquired	**129**	**16**
Purchase consideration settled in cash	**129**	
Cash and cash equivalents in subsidiary acquired	15	
Cash and outflow on acquisition	**114**	

Gas Natural Internacional SDG S.A. on August 3, 2004 acquired all the shareholdings in Smedigas, S.p.A. and Smedigas S.r.L, Italian companies engaged in gas distribution. The business acquired has contributed to GAS NATURAL 2004 results with a profit of € 1 million. If the acquisition had taken place at the beginning of the year the sales and profit for the year, instead of the previous figure, would have increased by € 19 million and € 2 million, respectively.

Breakdown of net assets acquired and goodwill are as follows:

Purchase consideration:	
Cash paid	46
Total purchase consideration	46
Fair value of net assets acquired	13
Goodwill (Note 6)	**33**

The goodwill is attributable to the high profitability of the acquired business and the significant synergies expected to arise after GAS NATURAL's acquisition.

The assets and liabilities arising from the acquisition are as follows:

	Fair value	Acquiree's carrying amount
Property, plant and equipment	108	108
Deferred income tax assets	1	1
Non current assets	**109**	**109**
Inventories	1	1
Other current assets	13	13
Cash and other equivalent liquids	1	1
Total current assets	**15**	**15**
Total assets	**124**	**124**
Borrowings	12	12
Deferred income (capital grants)	55	55
Employee benefit obligations	1	1
Other non current liabilities	16	16
Deferred tax liabilities	8	8
Non current liabilities	**92**	**92**
Borrowings	4	4
Other current liabilities	15	15
Current liabilities	**19**	**19**
Total liabilities	**111**	**111**
Net assets acquired	**13**	**13**
Purchase consideration settled in cash	**46**	
Cash and cash equivalents in subsidiary acquired	1	
Cash and outflow on acquisition	**45**	

Gas Natural Internacional SDG, S.A., acquired on September 14, 2004 100% of Nettis Impianti, S.p.A. This company holds all the shares in Nettis Gestioni S.p.A, Nettis Gas Plus S.p.A, Imianti Sicuri, S.r.L, Società Consortile di Metanizzazione, A.r.L. and SCM Gas Plus, S.r.L, and Italian group which is mainly engaged in gas distribution. The business acquired has contributed to GAS NATURAL 2004 results with a profit of € 2 million.

If the acquisition had taken place at the beginning of the year the sales and profit for the year, instead of the previous figure, would have increased by € 42 million and € 3 million, respectively.

Breakdown of net assets acquired and goodwill are as follows:

Purchase consideration:	
Cash paid	137
Total purchase consideration	137
Fair value of net assets acquired	60
Goodwill (Note 6)	**77**

The goodwill is attributable to the high profitability of the acquired business and the significant synergies expected to arise after GAS NATURAL's acquisition.

The assets and liabilities arising from the acquisition are as follows:

	Fair value	Acquiree's carrying amount
Property, plant and equipment	98	49
Gas distribution installations.	84	35
Other tangible assets.	14	14
Intangible assets	4	4
Deferred income tax assets	3	3
Non current assets	**105**	**56**
Inventories	1	1
Other currents assets	27	27
Cash and other equivalent liquids	8	8
Total current assets	**36**	**36**
Total assets	**141**	**92**
Borrowings	7	7
Employee benefit obligations	1	1
Other non current liabilities	9	9
Deferred taxes	18	–
Non current liabilities	**35**	**17**
Borrowings	6	6
Other current liabilities	40	40
Total current liabilities	**46**	**46**
Total liabilities	**81**	**63**
Net assets acquired	**60**	**29**
Purchase consideration settled in cash	**137**	
Cash and cash equivalents in subsidiary acquired	8	
Cash and outflow on acquisition	**129**	

Gas Natural Corporación Eólica, S.L. was set up on November 10, 2004. Through this company GAS NATURAL acquired the total shareholding in Sinia XXI, S.A, parent company of a group engaged in wind farm activity. This company has shareholdings in Corporación Eólica de Zaragoza, S.L. (65.6%), Explotaciones Eólicas Sierra de Utrera, S.L. (50%), Montouto 2000, S.L. (49%), Enervent, S.A. (26%) and Burgalesa de Wind farms (20%). The business acquired has contributed to GAS NATURAL 2004 results with a profit of € 0.5 million. If the acquisition had taken place at the beginning of the year the sales and profit for the year would have increased, instead of the previous figure, by € 5 million and € 1 million, respectively.

Breakdown of net assets acquired and goodwill are as follows:

Purchase consideration:	
Cash paid	33
Total purchase consideration	33
Fair value of net assets acquired	8
Goodwill (Note 6)	**25**

The goodwill is attributable to the high profitability of the acquired business and the significant synergies expected to arise after GAS NATURAL's acquisition.

The assets and liabilities arising from the acquisition are as follows:

	Fair value	Acquiree's carrying amount
Property, plant and equipment	35	35
Wind farms	18	18
Property, plant and equipment under construction	17	17
Non current financial assets	2	2
Other non current assets	1	1
Non current assets	**38**	**38**
Other currents assets	5	5
Cash and other equivalent liquids	8	8
Total current assets	**13**	**13**
Total assets	**51**	**51**
Borrowings	31	31
Deferred tax liabilities	1	1
Other non current liabilities	1	1
Non current liabilities	**33**	**33**
Borrowings	9	9
Other current liabilities	1	1
Total current liabilities	**10**	**10**
Total liabilities	**43**	**43**
Net assets acquired	**8**	**8**
Purchase consideration settled in cash	**33**	
Cash and cash equivalents in subsidiary acquired	8	
Cash and outflow on acquisition	**25**	

In April 2004, the shareholding in the subsidiary Gas Natural Cegas, S.A. increased by 9.3%, with a cost of € 18 million. The difference (€ 11 million) between the amount paid and the book value of the minority interest (€ 7 million) has been adjusted against retained earnings.

In June 2004 Proinvergas, S.A. ESP was eliminated from the consolidation scope after being liquidated. Minority interests decreased by € 4 million.

Note 32. Joint ventures

GAS NATURAL has the following interest in joint ventures in December 2005 and 2004:

	2005 (%)	2004 (%)
UTE Gas Natural Servicios-Dalkia Energia	50.0	50.0
A.E.Hospital Universitario Trias Pujol	50.0	50.0
A.E.Ciutat Sanitaria Bellvitge	50.0	50.0
Sociedad de Tratamientos La Andaya, S.A.	45.0	45.0
Central Térmica La Torrecilla, S.A.	50.0	50.0
Los Castrios, S.A.	33.3	–
Desarrollo de Energías Renovables de Navarra, S.A.	50.0	–
Desarrollo de Energías Renovables la Rioja, S.A.	36.3	–
Molinos del Cidacos, S.A.	50.0	–
Molinos de la Rioja, S.A.	33.3	–
Molinos de Linares, S.A.	33.3	–
Montouto 2000, S.A.	49.0	49.0
Explotaciones Eólicas Sierra de Utrera, S.L.	50.0	50.0
CH Energía S.A. de C.V.	50.0	50.0
Transnatural S.R.L. de México	50.0	50.0
EcoEléctrica Holding Ltd	50.0	50.0
EcoEléctrica Limited	50.0	50.0
EcoEléctrica LP	50.0	50.0
Repsol-Gas Natural LNG, S.L.	50.0	–

The following amounts represent GAS NATURAL's interest share of assets and liabilities, and sales and results of the joint ventures.

	December 31, 2005	December 31, 2004
Non-current assets	420	267
Current assets	116	74
Assets	**536**	**341**
Non-current liabilities	372	270
Current liabilities	54	24
Liabilities	**426**	**294**
Net assets	**110**	**47**

	December 31, 2005	December 31, 2004
Income	210	154
Expenses	177	131
Profit after income tax	33	23

There are no contingent liabilities relating to the joint ventures. Commitments includes the gas purchases commitment made by EcoEléctrica LP of 33,588 Gwh at December 31, 2005 and 41,824 Gwh at December 31, 2004.

Note 33. Concession arrangements

Through the concession of the use of the Maghreb-Europe pipeline GAS NATURAL has the right to use the transportation pipeline, and the obligation to maintain and enhance it, as necessary. GAS NATURAL also operates in natural gas distribution in Latin America under concession agreements generally with terms of up to 30 years. Gas concession agreements contain provisions for the usage of public roadways for the direct supply of gas to end consumers as well as for the construction and maintenance of gas installations. There are also statutory connection obligations, in accordance with current legislation. When the concession agreements expire, there is a legal obligation to transfer ownership of the network in exchange for appropriate compensation.

Note 34. Related-parties disclosures and other

Related parties with whom GAS NATURAL has entered into transactions are the following:

– Significant shareholders of GAS NATURAL, i.e. those owning 5% or more, and those who, though not significant, have exercised the power to appoint a member of the Board of Directors. Based on the foregoing definition, GAS NATURAL's related parties are Caixa d'Estalvis i Pensions de Barcelona ("la Caixa"), Repsol YPF, S.A., Holding de Infraestructuras y Servicios Urbanos, S.A. (HISUSA) and Caixa d'Estalvis de Catalunya (Caixa Catalunya).

– Also included are transactions with companies over which GAS NATURAL exercises significant influence (associates). Based on this definition, Enagás, S.A. is included in this disclosure until September 30, 2005.

– 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.

Transactions at and for the year ended December 31, 2005 and 2004 are as follows:

Transactions with the "la Caixa"

- *Financing of the Takeover Bid*. "la Caixa" is one of the financial institutions that is participating in the loan of up to € 7,806 million to be used exclusively to finance the cash payment to be received by the shareholders of Endesa S.A. who accept the offer. "la Caixa" is also the payment agent for this contract. The loan contract was syndicated on October 21, 2005 to 22 other financial institutions. Moreover, "la Caixa" is the Small Block Agent who will intervene in the swap of small blocks of shares of Endesa, S.A. and as settlement agent.

- *Participation in syndicated loans* of € 52.3 million and $54.0 million (€ 45.6 million), maturing between 2007 and 2009, accruing € 1.9 million in interest not paid at December 31, 2005. At December 31, 2004 the participation in syndicated loans was € 88.1 million and $55.9 million (€ 39.9 million) accruing € 0.8 million in interest not paid. Balances are included under Borrowings. At December 31, 2005 and December 31, 2004 the Interest accrued amounted to € 5.4 million and 5.8 million, respectively.

- *Credit lines*. GAS NATURAL has € 30.0 million in credit facilities and it has drawn down € 8.0 at December 31, 2005. At December 31, 2004 the credit facilities available totalled € 200 million, of which € 5.4 million were drawn down. Interest accrued amounted to € 0.6 million at December 31, 2005 and € 0.1 at December 31, 2004.

- *Club Deal Loan Agreement*. "la Caixa" is the intermediary bank coordinating the club deal with a share of € 10.0 million. This amount relates both to December 31, 2005 and 2004.

- *Guarantees*. Guarantees given amounted to € 109.1 million out of a limit of € 116.1 million and € 100.8 million out of a limit of € 117.3 million at December 31, 2005 and 2004, respectively. The interest on the guarantees given by companies in the "la Caixa" Group total € 2.4 million at December 31, 2005 and € 1.8 million at December 31, 2004.

  In addition to the guarantees mentioned above, "la Caixa" has given an irrevocable bank guarantee to Gas Natural BAN, S.A. in relation to the Endesa, S.A. Takeover Bid (see Note 35).

- GAS NATURAL is the counter-guarantor for a loan that "la Caixa" has granted to Gas Natural BAN, S.A. The income from this transaction totals € 2.3 million and € 2.4 million at 31 December 2005 and 2004, respectively.

- *Pension Plans*. The amounts paid in 2005 to a company controlled by "la Caixa" Group and a third party for contributions to pensions plans insurance for personnel total € 2.9 million. In 2004 the amount totalled € 4.1 million.

- *Participation of Invercaixa in EMTA and ECP programmes*. InverCaixa Valores was one of the eight dealers in the Gas Natural EMTN program (Euro Medium Term Note) and one of the five dealers in the ECP program (Euro Commercial Paper). In 2005 the activities of Invercaixa Valores were integrated in "la Caixa", which is why the renewal of the EMTN program in 2005 was made directly by "la Caixa" as the program dealer.

- *Exchange rate hedges for future payments in foreign currency and interest payments*. At December 31, 2005 there are exchange rate hedges totalling € 567.0 million for future payments in foreign currency and € 406.1 million for interest payments. The hedges at December 31, 2004 total € 243.8 million and € 150.0 million, respectively.

- *Incentives Plan 2002-2006*. The incentive plan for executives in force outsourced to Invercaixa relates to 2002, for which 279,411 options were taken out, with 5,418 exercised in 2004 and 136,265 in 2005. At December 31, 2005 a total of 137,728 options are still outstanding.

- *Bank accounts with the "la Caixa"*. At December 31, 2005 cash and cash equivalents amount to € 30.2 million and € 62.4 million at December 31, 2004. Interest accrued under this heading in 2005 amounted to € 2.6 million and € 0.8 million at December 31, 2004.

- *Acquisition of Portal Gas Natural, S.A.* On June 29, 2005, Gas Natural SDG, S.A. aquired 36.84% of Portal Gas Natural, S.A. of "e-la Caixa" (subsidiary of "la Caixa") for € 4.2 million.

- *Collection services*. In relation to the master agreement for collection management of invoices for gas installation financing operations entered into on April 4, 2003 by "la Caixa" and GAS NATURAL, the remuneration received by GAS NATURAL for these services totalled € 2.1 million; both at December 31, 2005 and December 31, 2004.

- *Others*. Other services provided by companies in the "la Caixa" group total € 2.9 million and € 2.1 million at December 31, 2005 and 2004, respectively.

- *Dividends*. Dividends paid at December 31, 2005 amounted to € 105.1 million and € 84.1 million at December 31, 2004.

Transactions with the Repsol YPF, S.A.

- *Sales and purchases*. Purchases of natural gas, liquefied natural gas, materials and sundry services amounted to € 548.9 million and € 345.8 million at December 31, 2005 and December 31, 2004, respectively.

  Sales of natural gas, liquefied gas, electricity and sundry services amounted to € 435.2 million and € 366.2 million at December 31, 2005 and December 31, 2004, respectively.

- *Brazil*. Repsol YPF, S.A has a pre-emptive option to supply natural gas in Brazil, with an attached commitment to pay $ 30.0 million through annual payments of $ 10.0 million. The first accrual took place in December 2004 and the second in December 2005, and, accordingly, the outstanding amount at today's date is $ 10.0 million.

- *Argentina*. Repsol YPF, S.A has a contract to supply GAS NATURAL with natural gas for the Group's distribution activities in Argentina until December 2006 for an annual volume of 2.1 bcm of natural gas.

- *Upstream and midstream*. In the areas of upstream and midstream, GAS NATURAL and Repsol YPF, S.A have set committed to GNL projects through the creation of joint ventures or the signing of collaboration agreements. In 2005 agreements were reached to intensify collaboration in both areas:

  – *Upstream*. In the area of exploration, production and liquefaction, both companies will be able to enter into agreements to develop new projects, in which Repsol YPF, S.A will be the operator and own 60% of the assets, and GAS NATURAL will have a 40% stake. To date, agreements have been reached to participate jointly in the Gassi Touil LNG project and the Gassi Chergui hydrocarbon exploration project, both in Algeria.

    Agreements have also been reached in 2005 to take a 30% share in the exploration project of three offshore blocks in the Tangiers-Larache region, which were adjudicated by the Kingdom of Morocco to Repsol YPF, S.A. in November 2003.

  – *Midstream*. In transportation, trading and wholesale supply (midstream), GAS NATURAL and Repsol YPF, S.A. have created in August 2005 a joint venture for LNG transportation and wholesale supply, owned 50% each, called Repsol-Gas Natural LNG, S.L. Under the same agreement, GAS NATURAL and Repsol YPF, S.A. will coordinate the development of different regassification plant projects in which GAS NATURAL will be the operator while the regassification rights will belong to the new joint venture company.

- *Insurance*. Until December 27, 2005, there was a contract between Gaviota Re, S.A. a reinsurance company fully owned by Repsol YPF, S.A., and GAS NATURAL, for which Gaviota Re renders a "fronting" service and other services related to the preparation and filling out of documentation on behalf of GAS NATURAL. The cost for these services amounts to € 0.1 million in 2005. Gaviota Re has participated as a reinsurer in the Insurance Program of GAS NATURAL.

- *Dividends*. Dividends paid at December 31, 2005 totalled € 98.1 million. At December 31, 2004 this amount totalled € 81.4 million.

Transactions with Caixa de Catalunya

- *Financing the Takeover Bid*. Caixa Catalunya is one of the financial institutions participating in the loan of up to € 7,806 million to be used exclusively to finance the cash payment to be received by the shareholders of Endesa, S.A., who accept the offer (see Note 1). The loan contract was syndicated on October 21, 2005 to 22 other financial institutions.

- *Loans*. At December 31, 2004 Caixa de Catalunya participated in syndicated loans in the amount of € 0.3 million. In December 2005 none of this amount was outstanding. The interest accrued has not been significant either in 2005 or 2004.

- *Credit facilities*. GAS NATURAL has € 30.0 million in credit facilities and it has drawn € 10.9 million, included under borrowings at December 31, 2005. This item, at December 2004, represents amounts of € 30 million in credit facilities, of which € 2.5 million have been drawn down. The interest accrued totals € 0.3 million at December 31, 2005 and is not significant at December 31, 2005.

- *Guarantees*. Caixa de Catalunya has provided guarantees for € 28.3 million out of a limit of € 31.3 million. This amount is the same at December 31, 2005 and December 31, 2004.

- *Interest rate hedges*. At December 31, 2005 there are interest rate hedges totalling € 6.9 million. These hedges did not exist at December 31, 2004.

- *Leases*. Caixa de Catalunya participates in a leasing transaction for € 1.5 million that matures in 2008. This transaction did not exist in 2004.

- *Others*. Commission and interest accrued in 2005 amounted to € 0.1 million, both at December 31, 2005 and December 31, 2004.

- *Dividends*. Dividends paid at December 31, 2005 amounted to € 9.6 million. At December 31, 2004 the amount paid totalled € 8.1 million.

Transactions with Holding de Infraestructuras y Servicios Urbanos, S.A. (HISUSA)

- Dividends paid at December 31, 2005 amounted to € 15.9 million. At December 31, 2004 the amount paid totalled € 13.4 million.

Transactions with Enagás, S.A.

- *Sales and purchases*. Sales of natural gas and liquefied natural gas for supply to regulated rate customers, amounted to € 580.5 million at September 30, 2005 and € 722.6 million at December 31, 2004.

  Purchases of natural gas and liquefied natural gas for supply at the regulated rate, amounting to € 514.6 million at September 30, 2005 and € 674.4 million at December 31, 2004.

- *Other services*. Regassification and gas transportation and storage and other services were worth € 71.6 million at September 30, 2005 and € 77.9 million at December 31, 2004.

  Sundry services rendered by GAS NATURAL for an amount of € 19.6 million at September 30, 2005. The amount for December 31, 2004 is € 17.7 million.

- *Optic fibre*. During the nine-month period ended September 30, 2005, GAS NATURAL signed and agreement with Enagás, S.A. to buy an optical fibre network for € 4.9 million and to sell an optical fibre network for € 2.5 million.

- *Dividends*. Dividends received at September 30, 2005 amount to € 8.5 million while they total € 22.7 million at December 31, 2004.

Transactions with Directors, Executives and close relatives

2005

Remuneration of the members of the Board of Directors

The members of the Board of Directors collected a total of € 3,982 thousand in meeting (Board of Directors and other meetings) attendance fees and other direct responsibilities at various executive levels at December 31, 2005.

The total remuneration paid to the members of the Board of Directors and the Management Committee and other Committees, broken down individually, has been as follows.

			Remuneration (in thousand euros)			
	Office	Period	Board	Executive Committee	Other Committees	Total
Mr. Salvador Gabarró Serra	Chairman	01/01/05 to 31/12/05	300	300	10	610
Mr. Antonio Brufau Niubó	Vice-chairman	01/01/05 to 31/12/05	100	100	9	209
Mr. Rafael Villaseca Marco	Chief Executive Officer	01/02/05 to 31/12/05	91	91	–	182
Mr. José Vilarasau Salat	Member	01/01/05 to 31/12/05	100	–	–	100
Mr. Enrique Alcántara-García Irazoqui	Member	01/01/05 to 31/12/05	100	–	10	110
Mr. José Luis Jové Vintró	Member	01/01/05 to 31/12/05	100	100	9	209
Mr. Carlos Kinder Espinosa	Member	01/02/05 to 31/12/05	91	91	9	191
Mr. Nemesio Fernández-Cuesta Luca de Tena	Member	01/02/05 to 31/12/05	91	–	–	91
Mr. Guzmán Solana Gómez	Member	01/02/05 to 31/12/05	91	91	9	191
Mr. Fernando Ramírez Mazarredo	Member	01/01/05 to 31/01/05 and 01/05/05 to 31/12/05	73	9	8	90
Caixa d'Estalvis de Catalunya	Member	01/01/05 to 31/12/05	100	–	–	100
Mr. Carlos Losada Marrodán	Member	01/01/05 to 31/12/05	100	100	10	210
Mr. Santiago Cobo Cobo	Member	01/01/05 to 31/12/05	100	100	10	210
Mr. Emiliano López Atxurra	Member	01/01/05 to 31/12/05	100	–	–	100
Mr. Miguel Valls Maseda	Member	01/02/05 to 31/12/05	91	–	–	91
Mr. Jaime Vega de Seoane Azpilicueta	Member	01/05/05 to 31/12/05	64	–	–	64
Mr. José Arcas Romeo	Member	01/07/05 to 31/12/05	45	–	–	45
Mr. Enrique Locutura Rupérez	Chief Executive Officer	01/01/05 to 31/01/05	9	9	–	18
Mr. José Ramón Blanco Balín						
	Member	01/01/05 to 31/01/05	9	9	1	19
Mr. Miguel Angel Remón Gil	Member	01/01/05 to 31/01/05	9	–	1	10
Mr. Gregorio Villalabeitia Galárraga	Member	01/01/05 to 30/04/05	36	–	4	40
Mr. José Mª. Goya Laza	Member	01/01/05 to 28/02/05	18	–	–	18
Mr. Leopoldo Rodés Castañé	Member	01/01/05 to 30/06/05	55	–	–	55
			1,873	**1,000**	**90**	**2,963**

The amount of the remuneration accrued in 2005 by the members of the Board of Directors of Gas Natural SDG, S.A. for belonging to the administrative bodies of other companies in the Group or associates or related company corresponds exclusively to Enagás, S.A. and is broken down as follows:

	Enagás, S.A.
Mr. Salvador Gabarró Serra	68
Mr. Rafael Villaseca Marco	55
Mr. José Ramón Blanco Balín	33
	156

The members of the Board of Directors of Gas Natural SDG, S.A. as directors have not received any loans or pensions and there are no life insurance commitments with them. The obligations contracted for pensions and the payment of insurance premiums of Board members as executives totals € 37 thousand.

Operations with Directors

As per the provisions of Law 26/2003 of July 17, the Company's Directors have the following shareholdings or hold offices or undertake functions in companies with the same, analogous or complementary activity as the Company at December 31, 2005 as GAS NATURAL (excluding companies in companies in the GAS NATURAL Group):

Directors and offices in other companies con with similar or complementary activities	**Office in Gas Natural SDG S.A.**	**Number of share and % in:**					
		Gas Natural	**Enagás**	**Repsol YPF**	**Endesa**	**Iberdrola**	**Suez**
Mr. Salvador Gabarró Serra Member of Board of Directors of Enagás, S.A. and President of the Appointments and Remumeneration Committee	Chairman	–	10 (0.000)	–	–	10.350 (0.001)	–
Mr. Antonio Brufau Niubó Executive President of Repsol YPF, S.A. and Member Board of Directors of Suez, S.A. and Member of the Audit Committee	Vice-chairman	25.020 (0.006)	–	15.649 (0.001)	–	–	2.222 (0.000)
Mr. Rafael Villaseca Marco Member of Board of Directors of Enagás, S.A. Chairman of Repsol- Gas Natural LNG, S.L. President of Gas Natural Aprovisionamientos SDG, S.A.	Director	1.000 (0.000)	356 (0.000)	–	859 (0.000)	636 (0.000)	–
Mr. José Vilarasau Salat	Member	90 (0.000)	–	–	–	–	–
Mr. Santiago Cobo Cobo	Member	–	–	–	5.000 (0.001)	–	–
Mr. Carlos Losada Marrodán	Member	–	–	–	–	–	–
Mr. Fernando Ramírez Mazarredo Finance and Economic General Director Repsol YPF, S.A.	Member	200 (0.000)	–	–	–	–	–
Mr. Carlos Kinder Espinosa	Member	100 (0.000)	–	–	–	–	–
Mr. Enrique Alcántara-García Irazoqui	Member	3.834 (0.001)	–	–	–	–	–
Caixa d'Estalvis de Catalunya	Member	13.550.000 (3.03)	–	–	–	–	–
Mr. Nemesio Fernández-Cuesta Luca de Tena General Director Upstream Repsol YPF, S.A. Member of Board of Directors of Gas Natural LNG, S.L.	Member	–	–	–	–	–	–
Mr. Emiliano López Achurra	Member	–	–	–	–	–	–
Mr. Guzmán Solana Gómez	Member[1]	–	–	–	–	–	–
Mr. Miguel Valls Maseda	Member	200 (0.000)	–	–	–	–	–
Mr. Jaime Vega de Seoane Azpilicueta	Member	–	–	–	–	–	–
Mr. José Arcas Romeu	Member	415 (0.000)	–	–	1,190 (0.000)	–	–
Mr. José Luis Jové Vintró	Member	100 (0.000)	–	–	–	–	–

[1] Has an ordinary labour relationship with GAS NATURAL as an Advisory to Top Management

In respect of the scope of the information required by article 127.3.4 of the Spanish Companies Act, we disclose the shareholding in the capital held directly or indirectly by the Directors in companies with the same, analogous or complementary activity as that of GAS NATURAL, or in companies that meet the same characteristics in group, associates or unrelated companies.

In 2005 the Directors of the Company have not carried out any operations outside the ordinary course of business or which have not been undertaken under normal market conditions with the company or with companies in the GAS NATURAL Group.

Management Committee

The total remuneration paid to the Management Committee totals € 3,388 thousand, of which € 3,322 thousand are in the form of short-term benefits and € 66 thousand in benefits upon conclusion of the labour relationship. The cost of the total indemnities received by members of the Management Committee who have resigned their functions in 2005, totals € 4,458 thousand.

2004

Remuneration of the members of the Board of Directors

During 2004 the amount accruing to the members of the Board of Directors of Gas Natural SDG, S.A. totals € 3,338 thousand, including payment for participation in the Board of Directors and other committees and for their labour relationships or direct responsible they may have at various executive levels.

The amounts accrued in 2004 in remuneration for sitting on the Board of Directors, the Executive Committee or other Committees that were received individually by the members of the Board of Directors are broken down as follows.

			Remuneration (thousand euros)			
	Office	**Period**	**Board**	**Executive Committee**	**Other Committee**	**Total**
Mr. Salvador Gabarró Serra	Chairman (*)	01/01/04 to1/12/04	136	136	10	282
Mr. Antonio Brufau Niubó	Vice-Chairman (*)	01/01/04 to 31/12/04	141	141	9	291
Mr. Enrique Locutura Rupérez	Chief Executive Officer	01/01/04 to 31/12/04	100	100	–	200
Mr. Enrique Alcantara-García Irazoqui	Member	01/01/04 to 31/12/04	100	–	10	110
Mr. José Ramón Blanco Balín	Member	01/01/04 to 31/12/04	100	100	10	210
Mr. Santiago Cobo Cobo	Member	01/01/04 to 31/12/04	100	100	6	206
Mr. José M.ª Goya Laza	Member	01/01/04 to 31/12/04	100	–	–	100
Mr. José Luis Jové Vintró	Member	26/11/04 to 31/12/04	9	9	–	18
Mr. Emiliano López Atxurra	Member	01/01/04 to 31/12/04	100	–	–	100
Mr. Carlos Losada Marrodán	Member	01/01/04 to 31/12/04	100	100	6	206
Mr. Fernando Ramírez Mazarredo	Member	01/01/04 to 31/12/04	100	100	16	216
Mr. Miguel Ángel Remón Gil	Member	01/01/04 to 31/12/04	100	82	19	201
Mr. Leopoldo Rodés Castañé	Member	01/01/04 to 31/12/04	100	–	–	100
Mr. José Vilarasau Salat	Member	01/01/04 to 31/12/04	100	–	–	100
Mr. Gregorio Villalabeitia Galárraga	Member	01/01/04 to 31/12/04	100	–	10	110
Caixa d'Estalvis de Catalunya	Member	01/01/04 to 31/12/04	100	–	–	100
Mr. Narciso Barceló Estrany	Member	01/01/04 to 19/06/04	55	–	–	55
Mr. Juan Sancho Rof	Member	01/01/04 to 28/10/04	82	–	5	87
			1,723	**868**	**101**	**2,692**

(*) Appointment dated October 27, 2004.

The amount of the remuneration accrued in 2004 by the members of the Board of Directors of Gas Natural SDG, S.A. for belonging to the administrative bodies of other companies in the Group or associates totals € 171 thousand, and is broken down as follows.

	Gas Natural Electricidad SDG, S.A.	Enagás, S.A.	Total
Mr. Salvador Gabarró Serra	5	12	17
Mr. Antonio Brufau Niubó	–	56	56
Mr. Enrique Locutura Ruperez	5	35	40
Mr. José Ramón Blanco Balín	–	53	53
Mr. Leopoldo Rodés Castañé	5	–	5
	15	**156**	**171**

The members of the Board of Directors of Gas Natural SDG, S.A. as directors have not received any loans or pensions and there are no life insurance commitments with them. The obligations contracted for pensions and the payment of insurance premiums of Board members as executives totals € 23 thousand.

Operations with Directors

As per the provisions of Law 26/2003 of July 17, the Company's Directors have the following shareholdings or hold offices or undertake functions in companies with the same, analogous or complementary activity as the Company at December 31, 2004 as GAS NATURAL (excluding companies in companies in the GAS NATURAL Group):

Directors and offices in other Companies con with similar or complementary activities	Office in Gas Natural SDG, S.A.	Number of share and % in:				
		Enagás	Repsol YPF	Endesa	Iberdrola	Suez
Mr. Salvador Gabarró Serra Member of Board of Directors of Enagás, S.A. y Chairman of the Appointments and Remuneration Committee	Chairman	10 (0.000)	–	–	10,350 (0.001)	–
Mr. Antonio Brufau Niubó Executive Chairman of Repsol YPF, S.A. and Chairman of the Delegated Committee Member of Board of Directors of Suez, S.A. and Member of the Audit Committee	Vice-chairman	–	7,035 (0.001)	–	–	2,000 (0.000)
Mr. Enrique Locutura Rupérez Member of Board of Directors de Enagás, S.A.	Chief Executive Officer	–	3,719 (0.000)	306 (0.000)	–	–
Mr. José Ramón Blanco Balín Chief Executive Officer of Repsol YPF, S.A. Member of Board of Directors of Enagás, S.A.	Member	–	22,955 (0.002)	7,279 (0.001)	7,265 (0.001)	–
Mr. Santiago Cobo Cobo	Member	–	–	7,500 (0.001)	5,000 (0.001)	–
Mr. Carlos Losada Marrodán	Member	–	–	–	–	–
Mr. Fernando Ramírez Mazarredo	Member	–	–	–	–	–
Mr. Miguel Ángel Remón Gil Executive Vice-Chairman of Exploration and Production of Repsol YPF, S.A.	Member	22,654 (0.009)	–	–	–	–
Mr. Enrique Alcántara-García Irazoqui	Member	–	–	–	–	–
Mr. Caixa de Catalunya	Member	–	–	–	–	–
Mr. José M.ª Goya Laza	Member	–	–	–	–	–
Mr. Emiliano López Achurra	Member	–	–	–	–	–
Mr. Leopoldo Rodés Castañé	Member	–	–	–	–	–
Mr. José Vilarasau Salat	Member	–	–	–	–	–
Mr. Gregorio Villalabeitia Galárraga Member of Board of Directors of Repsol YPF, S.A.	Member	–	–	–	–	–
Mr. José Luis Jové Vintró	Member	–	–	–	–	–

In 2004 the Directors of the Company have not carried out any operations outside the ordinary course of business or which have not been undertaken under normal market conditions with the company or with companies in the GAS NATURAL Group.

Executive Committee

The total remuneration paid to the Management Committee totals € 3,776 thousand, of which € 3,689 thousand are in the form of short-term benefits and € 87 thousand in benefits upon conclusion of the labour relationship.

Note 35. Guarantees

At December 31, 2005, Gas Natural SDG, S.A. has given guarantees to Group companies totalling € 1,633 million. Furthermore, GAS NATURAL has asked for guarantees from financial institutions for € 842 million at December 31, 2005, in respect of current litigation and trading transactions of the Group companies (detailed in note 36). GAS NATURAL estimates that the unforeseeable liabilities at December 31, 2005, if any, that could arise from the guarantees given would not be significant.

In accordance with the provisions of article 11.1 of Royal Decree 1.197/1991, of July 26, in order to guarantee the payment of the part of the cash consideration for the shares of Endesa to be paid to those shareholders who accept the Offering, GAS NATURAL has presented two, several and irrevocable bank guarantees for a total amount of € 7,806 million, one of which is issued by Caixa d'Estalvis i Pensions de Barcelona ("la Caixa") in the amount of € 3,903 million and the other by Société Générale, Sucursal en España in the same amount of € 3,903 million. The guarantee issued by Société Générale, Sucursal en España guarantees, in addition to the part of the cash consideration offered by GAS NATURAL for the shares covered by the Offering, the payment obligations up to € 35 million borne by the Small Blocks Agent for the acquisition of Small Blocks of Shares in the Offering.

Note 36. Commitments

The following table presents our contractual commitments at December 31, 2005:

		Year ended December 31, 2005					
Contractual obligations	**Total**	**2006**	**2007**	**2008**	**2009**	**2010**	**beyond**
Finance leases[1]	685	29	29	29	29	29	540
Operating leases[2]	390	67	59	50	50	31	133
For purchases of natural gas[3]	65,830	4,851	4,302	4,242	4,016	4,018	44,401
For the transport of natural gas[4]	991	170	142	145	132	90	312
For the sale of natural gas[5]	7,325	1,286	1.143	1.112	562	294	2,928
Investments[6]	471	207	247	17	–	–	–
Other liabilities[7]	87	10	11	14	13	17	22
Total contractual obligations	**75,779**	**6,620**	**5,933**	**5,609**	**4,802**	**4,479**	**48,336**

(1) Reflects the payments foreseen for finance leases for two LNG vessels.
(2) Reflects the future payments foreseen for leases for six LNG vessels.
(3) Reflects the long-term commitments to purchase natural gas totalling 4,503,880 GWh under "take or pay" gas supply agreements. Normally, these agreements have a term from 20 to 25 years, a minimum quantity of gas to be purchase and price revision mechanism indexed to international natural gas prices and regulated natural gas prices in countries in which the gas is sold. We have calculated our contractual commitments under these contracts on the basis of our best estimates of natural gas prices at December 31, 2005
(4) Reflects the long-term commitment to purchase gas transport capacity totalling 446,726 GWh.
(5) The commitment for the sale of natural gas totals 389,712 GWh. We have calculated our contractual commitments under these contracts on the basis of our best estimates of natural gas prices at December 31, 2005.
(6) Reflects basically the commitment for payments under the turnkey contracts for the construction of the combined cycle plant in Plana del Vent (with a 800MW capacity) and in Malaga (with a 400MW capacity).
(7) Reflects the commitments for the repurchase of preferred shares from one of the shareholders in the combined cycle plant, according to a resolution adopted by the Shareholders regulating the joint venture in Puerto Rico.

Litigation

At the date of the preparation of these consolidated annual accounts, the main litigation or arbitration processes in which we are involved are as follows:

Iberdrola arbitration

Our subsidiary, Gas Natural Aprovisionamientos, S.A. is party to arbitration proceedings with Iberdrola to discuss the application of the price revision clause pursuant to the supply agreement entered into by GAS NATURAL and Iberdrola.
We received notification of Iberdrola's request for arbitration on June 20, 2005, however it did not specify a monetary claim. Proceedings have not yet commenced and we are in the process of determining arbitrators.

Atlantic LNG arbitration

Atlantic LNG Trinidad and Tobago and Atlantic LNG 2/3 Trinidad and Tobago has provided us with notice of the initiation of an arbitration regarding the revision of LNG supply prices under our supply agreement with the two companies. The monetary amount claimed is yet to be determined and the proceedings have not yet commenced.

Argentinean arbitration

We have filed an arbitration against the Republic of Argentina at the International Center for Settlement of Investment Disputes, ICSID, related to the protection of its investments in Argentina. However, the arbitration is temporarily suspended.

Getafe, Tarragona and Santa Coloma de Gramanet explosion

We may be subject to civil and criminal liabilities resulting from an explosion in Getafe, Spain on January 20, 2005, which was caused by a gas leak, and explosions in Tarragona, Spain on November 10, 2005 and Santa Coloma de Gramanet on January 12, 2006, the reasons for which are still under investigation. A determination has not yet been made as to the parties responsible for the explosions, and as such, we have not been able to reasonably estimate the total liability that might be assessed against us.

We have notified our insurer of the potential liability arising from the explosions. We believe our potencial liability, if any, is covered under our insurance policy, subject to a € 500,000 deductible with respect to the Getafe explosion, and a € 1,500,000 deductible with respect to each of the Tarragona and Santa Coloma de Gramanet explosions. These deductibles are, in turn, covered by our reinsurance policy, which is underwritten by Natural Re, a reinsurance company and a wholly-owned subsidiary of GAS NATURAL. We have not recorded a liability related to this incident other than the aforementioned deductibles as we do not believe that the eventual outcome will result in other amounts being incurred by us. At the date of this prospectus supplement, the causes and total costs of these claims are still to be determined.

Spanish Tax Claims

Tax audits have been opened by the Spanish authorities against us for tax returns filed for fiscal years 1991 to 2002. These tax audits relate in each case to different taxes such as corporate tax, withholding of personal income tax, valued added tax and tax deductions for exporting activities. The audits relating to 1991 to 1998 have been completed and we have appealed these tax claims before the courts. We believe that we will be successful in reducing or canceling some of these claims. The audits relating to tax years from 1999 to 2002 are currently underway. We believe that the result of these tax claims and audits will not have a significant impact on the company as we have properly provisioned for such claims in our annual accounts.

Argentine Tax Claims

We are the defendant to a claim by Argentine tax authorities regarding the tax treatment of capital gains for a total of Argentine Pesos 155 million arising from transfers of third party networks to our subsidiary in Argentina, Gas Natural BAN, S.A. between 1993 and 1997. This claim is before the appeals court and we believe that we are likely to prevail.

Investment and Customer Coverage Commitments in Mexico

GAS NATURAL has issued guarantees for an amount of $ 41.5 million to guarantee the investment and customer coverage commitments assumed in the concessions for the geographic areas of Toluca, Distrito Federal, Bajío y Bajío Norte. These investment and customer coverage commitments have not totally been fulfilled, mainly with respect to number of customers covered by our distribution network as a result of delays by third parties in the construction of transport infrastructures needed for gasification in the regions where we obtained distribution licenses, as well as the difficulties in obtaining local licenses for gas transport works. There are grounds for defending a force majeure case. At this moment, we have submitted written statements to the regulatory authorities, alleging that the assumed commitments have not been completely fulfilled due to force majeure.

However, there is no indication as to whether the authorities will decide to execute, totally or partially, the guarantees we issued, or whether our concessions will be affected by this dispute. Given the silence of the authorities, we filed a precautionary appeal before the Federal Court, and we obtained suspension of the execution of the guarantees.

Algerian Contracts

We have exchanged letters with Sonatrach regarding differences in the interpretation of certain clauses in our gas supply contracts. On March 1, 2006, we received a notification from Sonatrach proposing to either obtain the opinion of an independent expert or start an arbitration to settle our differences. At this moment, no independent third party expert has been appointed nor have any formal legal proceedings regarding this discussion been commenced.

Arbitration with Tejas Gas de Toluca S. de R.L. de C.V.

On January 18, 2006, we received a notification regarding an arbitration request launched by Tejas Gas de Toluca S. de R.L. de C.V., or Tejas Gas, against Gas Natural México S.A. de C.V., or Gas Natural México, and Pemex Gas y Petroquimica Basica, or Pemex. Tejas Gas provides transport services to Gas Natural México and Pemex through a gas pipeline built for the Toluca region which commenced operations in July 2003. Tejas Gas claims that we have not purchased the minimum contracted quantity of gas. Therefore, Tejas Gas claims that it is entitled to payment from Gas Natural México and Pemex in respect of the differences. The claimed amount is not detailed in the notification, but the claim references a repeated deficit over several months. We estimate the claimed amount to be approximately US $ 1.7 million at December 31, 2005.

Proceeding by the Autonomous Community of Madrid

In accordance with section 67.1 of the 34/1998 Hydrocarbons Act, on October 26, 2005 we notified the autonomous community of Madrid and the relevant autonomous communities of the spin-off of our regulated activities in favor of Gas Natural Distribución SDG, S.A. On November 21, 2005, the Autonomous Community of Madrid notified us of the commencement of a proceeding against Gas Natural claiming that we had not requested prior clearance for the spin-off and that Gas Natural Distribución SDG, S.A. is not registered with the Ministry of Industry, Tourism and Commerce (such registration was made on December 22, 2005). This proceeding is currently under review, and the resolution initiating the proceedings indicates that the maximum potential fine for both charges is € 3.6 million.

The Autonomous Community of Madrid has notified GAS NATURAL of three draft proposals that, if adopted, would result in denial of the necessary authorizations required by Gas Natural Distribución SDG, S.A. to carry out works in network facilities located in this Autonomous Community.

Moreover, Endesa has filed an appeal before the Ministry of Industry, Tourism and Commerce challenging the CNE resolution of November 8, 2005 which authorized the spin-off. On February 16, 2006, the Ministry of Industry, Tourism and Commerce dismissed Endesa's appeal.

Proceedings by the Service for the Defense of Competition

The Service for the Defense of Competition (Servicio de Defensa de la Competencia) has initiated certain proceedings against us regarding a failure to comply with antitrust regulations. We believe that, although the resolution of these proceedings could be adverse to us, such a ruling would not have a material adverse effect in our operations or financial condition.

Based on information currently available, it is the opinion of management that the ultimate resolution of the above mentioned legal proceedings will not have a material adverse effect on GAS NATURAL's financial condition or results of operations.

Note 37. Audit

2005

The fees accrued in 2005 to PricewaterhouseCoopers for auditing services and other services provided to the Group, including the reviews and audits required for the Takeover Bid of the shares of Endesa, total € 4.1 million.

Furthermore, the fees accrued in 2005 for other services provided to the Group to companies using the PricewaterhouseCoopers mark total € 0.8 million.

2004

The fees accrued in 2004 to PricewaterhouseCoopers for auditing services and other services provided to the Group total € 1.3 million.

Furthermore, the fees received in 2004 for other services provided to the Group by companies using the PricewaterhouseCoopers mark total € 0.5 million.

Note 38. Environment

Environmental Action 2005

In accordance with the environmental policies of GAS NATURAL, the company has continued to apply measures aimed at reducing the impact of its activities and processes on the environment.

Amongst these, of special note is the incorporation into its electricity mix of the energy from several wind farms, which has enabled it to reduce its green gas emissions factor.

Furthermore, the renovation of the pipeline network and the use of the latest materials have led to an improvement of levels of emissions of methane gas.

The oldest vehicles in its fleet have also been replaced by ones using natural gas for fuel.

In order to improve the control and management of energy and natural resources at its work centres, GAS NATURAL has increased the number of buildings with tele-measured systems which enable it to monitor the consumption in real time and visualise historical figures, which facilitates the adoption of improvement actions and plans.

On the other hand, there has been an extension of the selective collection and management of packages and plastic recipients at the work centres. These measures have been accompanied by posters explaining the 15 best practices through which employees can contribute to conserving the environment and helping the cost saving plan of GAS NATURAL.

The commitment of GAS NATURAL to the environment has led to the preparation of a study of solutions to integrate renewal energy and natural gas efficiently. Proof of this is the publication and distribution of the "Manual for the calculation and design of hot sanitary water production installations in housing through solar energy and individual support to natural gas".
This publication puts forward the best solutions for each situation. In 2005 presentations of this manual were made in the major Housing Trade Fairs in Spain. 2,000 copies have also been distributed to representatives of the public administrations, architects developers, universities, installers, etc.

Furthermore, in collaboration with the Fluid Mechanics department of the University of Zaragoza, a "Manual on Distributed Electrical Generation" has been prepared and published. Its objective is to demonstrate the different possibilities available in the area of co-generation and urban energy supply using the criteria of high efficiency and minimum environmental impact. There has been wide distribution of this manual.

As for supplier management, a document has been prepared entitled "Best practices in environmental action in construction of distribution networks". The main contractors of the Group in Spain have signed on to these best practices.

Special attention is merited by the advances in the projects under the Clean Development Mechanism, which is part of the Kyoto protocol, which allows agents in industrial countries to undertake energy efficiency or emission reduction programs in developing countries and generate emission credits that can be used to meet the Kyoto commitments in the countries of origin. GAS NATURAL is now validating and approving the following projects:

– "Umbrella project" to replace fuels in industries in Bogotá, Colombia.

– Gas pipeline leak reduction project in Monterrey, Mexico.

– Gas pipeline leak reduction project in Río de Janeiro, Brazil.

– Small scale fuel replacement project in industries in Brazil.

All these environmental actions carried out in 2005 have involved investments totalling € 37 million, which represents investment and accumulated depreciation carried on the balance sheet under assets of € 302 and 66 million, respectively.

GAS NATURAL has also undertaken sponsorship, training and environmental education and awareness activities.

The possible contingencies, indemnities and other environmental related risks in which the Group could incur are appropriately covered by civil liability insurance policies.

Environmental Actions 2004

During 2004 the GAS NATURAL Group has maintained its commitment to contribute to the improvement of the environment, providing special attention to the protection of the environment during its undertakings.

This has materialised, amongst other actions, in 42 Environmental Impact Studies in Spain and Latin America. An example would be the two reforestation projects in the degraded Petroplis area (Brazil) spanning more than 10,000 m^2.

The Environmental Management System of the GAS NATURAL Group, which has UNE-EN-ISO 14001 certification, covers ten gas distribution companies in Spain as well as Metragaz, S.A., a gas transmission company in Morocco. In 2004 Gas Natural Mexico, S.A. de C.V. was also certified.

One of the main objectives of the Environmental Management System was to reduce energy and water consumption at work centres. In order to facilitate monitoring and to contribute to resource saving, the head office in Madrid and certain office buildings in Barcelona have installed a series of "Energy Mirror" panels. These show current and historical consumption levels so that users can follow their evolution and compare them to target values. Additionally, these buildings have installed tele-measured energy consumption systems, so that energy managers can adopt decisions that will improve energy efficiency.

On the other hand, the Group continues to apply its policy of reducing paper consumption and increase the use of recycle paper, as well as decrease both the consumption of water in buildings and installations, and improve waste management.

During 2004 the Group also continued to promote electricity generation and distribution projects, especially in newly planned industrial estates. The Group applies these concepts to its own installations.

Along these lines, a mini-gas-turbine was installed in the Montigalà building in Badalona, which produces electricity and heat to cover its own needs, as well as heating a nearby municipal school.

The Group continues to undertake cogeneration projects, like the one that will be set up next to the future head offices of GAS NATURAL in Barcelona. This plant will supply the energy needs not only to the building itself but also to the Hospital del Mar, the Biomedical Research Park of Barcelona, different buildings at the Universidad Pompeu Fabra, the Oceanographic Institute and a hotel now under construction.

In 2004 the Group began a project to install a state of the art fuel cell in its building on Avenida de América en Madrid. This is a device that is highly energy efficient and can cover the energy needs of the building through an advanced trigeneration system.

The GAS NATURAL Group has been a pioneering company in the application of the advantages of natural gas in generating electricity. That is why, for several years, it has been developing combined cycle technology as the best option for producing electricity, because of its high performance ratings and low environmental impact.

In 2004 the Group has been producing electricity in Spain through combined cycle thermal electric plants in San Roque (Cádiz), Sant Adrià de Besòs (Barcelona) and Arrúbal (La Rioja). Internationally, electricity production is centred in Puerto Rico.

Along these lines, the Group has fostered the development of projects in which, in order to capitalised on energy, the plants have been located near large electricity consumers, which is why the new combined cycle plant was planned for the Barcelona Harbour.

Another way of improving energy efficiency in the electricity production phase is cogeneration. The Group is participating in many cogeneration plants through its company La Energía, S.A.

In order to promote sustainable development, the GAS NATURAL Group has maintained its commitment to preparing and applying measures aimed at reducing greenhouse gas emissions, under the directives of the Kyoto Protocol and the EU directives deriving therefrom. Along these lines, it controls its gas transmission and distribution emissions, from electricity generation activity and from its own use.

In 2004 the Group made a study on noise emissions during each of the installations phases of its gas networks, as well as ERM (regulation and measurement station)and Standard Cabinets, in order to meet the requirements set down by applicable legislation.

Finally, GAS NATURAL Group has subscribed a participation in the World Bank's Community Development Carbon Fund. This Carbon Fund was designed to undertake projects linked to the development of productive processes, habits, education and health of the most underprivileged peoples on the planet.

All these environmental activities carried out in 2004, have involved total investments of € 41 million, which represents investments and accumulated depreciation stated on the balance sheet in the amount of € 265 million and € 52 million, respectively.

Moreover, the Group has also undertaken environmental sponsorship, training and divulgation activities.

The possible environment-related contingencies, indemnities and other risks which the Group could incur, are adequately covered by civil liability insurance policies.

The Group has not received any grants or income as a result of the aforementioned environmental activities.

Emissions

Royal Decree Law 5/2004 was adopted on August 27, 2004 to regulate the trade in green house gas emission rights, which object is to aid compliance with the obligations deriving from the Kyoto Protocol. The provisions of this Royal Decree are applicable to installations that can generate carbon dioxide emissions at a level higher than that set down in respect of its activity and capacity, specifically for the GAS NATURAL Group as the owner of Combined Cycle public service electricity production plants with a nominal fuel-generated power over 20 MW.

The Government on 21 January 2005 approved a resolution on the final individual assignment of emission rights for 2005-2007. The GAS NATURAL Group was assigned 14 millions of tonnes of CO_2.

The tonnes assigned by year for 2005, 2006 and 2007 as follows:

($mtCO_2$)	2005	2006	2007
Assigned emission rights	3,592	4,225 (*)	5,853 (*)

(*) Pending transfer to the account of GAS NATURAL 1.847 mt CO_2 for 2006 and the assignment for 2007.

There have been no acquisitions or disposals of emission rights in 2005.

Note 39. Subsequent events

The divestiture in Enagás, S.A. has continued in 2006, and, accordingly, the shareholding in this company has decreased to below 10% at the date of formulation of these consolidated annual accounts.

In January 2006 the combined cycle power plant began operating in Cartagena (Murcia) with an installed capacity of 1,200 MW divided into three 400 MW modules.

On February 24, 2006, the Government agreed to a series of regulatory changes related to the gas and electricity markets. The Government dealt with several issues, including bringing Spanish legislation into line with the 2003 EU directives on gas and electricity, the introduction of different measures to mitigate the rated electricity market deficit which, for 2005, has been estimated in the amount of € 3.6 trillion, all of which is due to the fact that electricity prices do not reflect their real cost, as well as the acceleration of the market de-regulation process, and increasing the transparency and effectiveness of the oversight powers of the National Energy Commission.

Royal Decree Law 3/2006, which came into force on March 1, 2006 introduces several measures to mitigate the rated electricity market deficit through the implementation of a mechanism in which the electricity generated and sold on the regulated market by companies belonging to the same group will have a price set by the Government since the transactions involved are on the same level as bi-lateral agreements. Moreover, the price of electricity to be received by the companies in the Wholesale Electricity Market will be decreased by the value of the greenhouse gas emission rights assigned previously and freely to each of the electricity producers.

Royal Decree Law 4/2006, which came into force on February 28, 2005, has increased the oversight powers of the National Energy Commission in respect of mergers and acquisitions in the energy sector. According to this Royal Decree Law, the National Energy Commission must authorise all operations affecting companies carrying out regulated activities or activities that are subject to administrative intervention having a special administration-subject relationship, such as nuclear power plants, coal-powered thermal power plants of special relevance to the consumption of national coal production, or activities in insular or extra-peninsular electricity systems, as well as activities in the storage or transport of natural gas through international gas pipelines with destinations in Spain, whether or not the company carrying out these activities is the acquiring entity or the object of acquisition. The National Energy Commission has the power to analyse the existence of significant risks to these activities, protect the general interests of the energy sector and guarantee the appropriate supply of gas and electricity. In the event of the filing of a public takeover bid, the National Energy Commission must authorise the operation prior to its receiving authorisation from the CNMV. This Royal Decree will be applicable to all operations, unless they have been authorised by the National Energy Commission.

Additionally, on February 24, 2006 the Spanish Government adopted two reports on the first drafts of bills to make Spanish legislation compliant with 2003 EU Directives on the gas and electricity markets.

The changes proposed, subject to the respect parliamentary processes, include the following measures:

- The disappearance of the rates as from January 1, 2011 for the electricity market and from January 1, 2008 for the gas market;

- a legal, functional separation between regulated and non-regulated activities;

- the creation of a Last Resort Supplier, appointed by the Government, to supply small industrial and domestic customers in order to guarantee the supply in a totally de-regulated market;

- the reduction of the limit of the shareholding that a company can have in Enagás, S.A. from 5% to 1%; and

- the creation of a Bureau Responsible for the Change in Supplier in order to increase transparency and facilitate effective competition.

GAS NATURAL does not expect that these draft bills will be adopted by the Spanish Parliament before the last quarter of 2006.

Repsol YPF, GAS NATURAL, and Sonatrach signed an agreement to incorporate a joint venture company to build a liquefied natural gas plant as part of the integrated gas project in Gassi Touil, Algeria.

The new company, Sociedad de Licuefacción (SDL), will build and operate the natural gas liquefaction plant, which forms part of this project, which includes the exploration, production, liquefaction and commercialisation of a block of hydrocarbon reserves in the region of Gassi Touil, Rhourde Nouss and Hamra, in eastern Algeria.

The shareholding structure of the new company is as follows: Repsol Exploración Argelia S.A. (48%); Gas Natural Exploración S.L. (32%, fully owned subsidiary of Gas Natural SDG, S.A.), and Holding Sonatrach Raffinage et Chimie (20%, fully owned subsidiary of Sonatrach).

In March GAS NATURAL acquired for a cost of approximately € 30 million all the shares of Petroleum Oil and Gas España, S.A., which is mainly engaged in the exploration, development and production of hydrocarbons in Spain and which has gas reserves, basically in the Guadalquivir Valley. Additionally, a variable payment will be made subject to the volume of the actual reserves.

Appendix - GAS NATURAL companies

Company	Country	Activity
Sagane, S.A.	Spain	Gas supply
Gas Natural Aprovisionamientos SDG, S.A.	Spain	Gas supply
Repsol-Gas Natural LNG, S.L.	Spain	Gas transport
A.I.E. Ciudad Sanitaria Vall d'Hebrón	Spain	Co-generation
La Energía, S.A.	Spain	Co-generation
Sociedad de Tratamiento Hornillos, S.L.	Spain	Co-generation
Sociedad de Tratamiento La Andaya, S.L.	Spain	Co-generation
UTE La Energía-SPA	Spain	Co-generation
AECS Hospital Trias I Pujol AIE	Spain	Co-generation
AECS Hospital Bellvitge AIE	Spain	Co-generation
Tratamiento Almazán, S.L.	Spain	Co-generation
Gas Natural Servicios SDG, S.A.	Spain	Gas commercialisation and domestic electricity and energy management
Nettis Gas Plus, S.p.A.	Italy	Gas commercialisation
SCM Gas Plus, S.r.L.	Italy	Gas commercialisation
Congas, S.r.A.	Italy	Gas commercialisation
Gas Natural Commercialisation France, S.A.S.	France	Gas commercialisation
Gas Natural Vendita Italia, S.p.A.	Italy	Gas commercialisation
Natural Energy, S.A.	Argentina	Gas commercialisation
Gas Natural Comercializadora, S.A.	Spain	Gas commercialisation and industrial electricity
CH4 Energía, S.A de C.V.	Mexico	Gas commercialisation and transport
Transnatural, SRL de C.V.	Mexico	Gas commercialisation and transport
Kromschroeder, S.A.[1]	Spain	Meters
Gas Natural Cegas S.A.	Spain	Gas distribution
Gas Natural Andalucía, S.A.	Spain	Gas distribution
Gas Natural Castilla La Mancha, S.A.	Spain	Gas distribution
Gas Galicia SDG, S.A.	Spain	Gas distribution
Gas Natural Castilla y León, S.A.	Spain	Gas distribution
Gas Natural La Coruña, S.A.	Spain	Gas distribution
Gas Navarra, S.A.	Spain	Gas distribution
Gas Natural Rioja, S.A.	Spain	Gas distribution
Gas Natural Murcia SDG, S.A.	Spain	Gas distribution
Gas Natural Cantabria SDG, S.A.	Spain	Gas distribution
Gas Natural Distribución SDG, S.A.	Spain	Gas distribution
Gas Natural de Álava, S.A.[1]	Spain	Gas distribution
Gas Aragón, S.A.[1]	Spain	Gas distribution
Companhia Distribuidora de Gás do Rio de Janeiro S.A.	Brazil	Gas distribution
CEG Rio, S.A.	Brazil	Gas commercialisation
Gas Natural SPS, S.A.	Brazil	Gas distribution
Gas Natural, S.A. ESP	Colombia	Gas distribution
Gases de Barrancabermeja, S.A. ESP	Colombia	Gas distribution

[1] Results at November 2005

(*) Equity adapted to IFRS only for the purposes of consolidation of GAS NATURAL GROUP

		Net equity (*)			
Consolidation Method	Total % Shareholding	Capital	Reserves	Results 2005	Inteirm dividend
I.G.	100.0	94.8	29.0	76.3	–
I.G.	100.0	0.6	18.3	(44.6)	–
I.P.	50.0	2.0	–	(0.4)	–
I.G.	81.3	1.7	0.2	(0.1)	–
I.G.	100.0	10.7	0.8	0.1	–
I.G.	80.0	1.2	(0.1)	1.1	–
I.P.	45.0	1.1	0.2	1.0	–
I.G.	60.0	1.3	–	0.1	–
I.P.	50.0	0.9	0.1	–	–
I.P.	50.0	0.8	(0.6)	(0.2)	–
I.G.	90.0	–	–	–	–
I.G.	100.0	2.9	2.7	–	–
I.G.	100.0	2.6	2.6	1.9	–
I.G.	100.0	0.2	0.1	(0.2)	–
I.G.	100.0	0.1	1.2	(0.1)	–
I.G.	100.0	–	–	(1.4)	–
I.G.	100.0	2.1	6.9	(1.1)	–
I.G.	49.9	–	0.2	1.4	–
I.G.	100.0	2.4	29.6	4.1	–
I.P.	43.4	0.6	0.1	0.9	–
I.P.	43.4	10.4	(8.4)	(1.9)	–
P.E.	42.5	0.7	10.5	(0.2)	–
I.G.	99.7	25.5	60.3	7.6	–
I.G.	100.0	12.4	30.7	10.6	–
I.G.	95.0	26.9	15.1	1.6	–
I.G.	62.0	32.6	4.7	0.7	–
I.G.	90.1	6.3	78.4	17.0	–
I.G.	56.4	2.3	(0.6)	0.2	–
I.G.	90.0	3.6	27.1	5.2	–
I.G.	87.5	2.7	8.9	2.2	–
I.G.	99.9	19.4	(2.2)	(0.2)	–
I.G.	90.4	3.2	27.9	2.1	–
I.G.	100.0	101.0	997.6	61.0	–
P.E.	10.0	10.3	10.3	4.3	–
P.E.	35.0	5.9	16.2	8.5	(3.9)
I.G.	54.2	147.7	(85.8)	19.6	(11.1)
I.G.	59.6	20.1	(0.1)	7.3	(5.2)
I.G.	100.0	346.4	(175.6)	(5.5)	–
I.G.	59.1	10.9	159.2	43.9	–
I.G.	32.2	1.3	1.6	0.3	–

Appendix - GAS NATURAL companies (Continued)

Company	Country	Activity
Gas Natural del Oriente, S.A. ESP	Colombia	Gas distribution
Gas Natural Cundiboyacense, S.A. ESP	Colombia	Gas distribution
Gas Natural BAN, S.A.	Argentina	Gas distribution
Gas Natural México, S.A. de c.v.	Mexico	Gas distribution
Comercializadora Metrogas S.A. de C.V.	Mexico	Gas distribution
Smedigas, S.p.A.	Italy	Gas distribution
Nettis Gestioni, S.r.L.	Italy	Gas distribution
SCM, S.r.L.	Italy	Gas distribution
Gasdotti Azienda Siciliana, S.p.A.	Italy	Gas distribution
Agragas, S.p.A.	Italy	Gas distribution
Normanna Gas, S.p.A.	Italy	Gas distribution
Gas Natural Rigassificazione Italia, S.p.A.	Italy	Regasification de gas
Gas Natural Transporte SDG, S.L.	Spain	Gas distribution
Gas Natural Distribución Eléctrica, S.A.	Spain	Distribution of electricity
Electra de Abusejo, S.L.	Spain	Distribution of electricity
Distribuidora Eléctrica Navasfrías, S.L.	Spain	Distribution of electricity
Portal Gas Natural, S.A.	Spain	E – Business
Gas Natural Finance, B.V.	Holland	Finance
Gas Natural International, Ltd.	Ireland	Finance
Gas Natural Capital Markets, S.A.	Spain	Finance
Ecoeléctrica L.P. Ltd.	Bermudas	Electricity generation
Central Térmica la Torrecilla, S.A.	Spain	Electricity generation
Corporación Eólica Zaragoza, S.L.	Spain	Wind farms
Montouto 2000, S.A.	Spain	Wind farms
Explotaciones Eólicas Sierra de Utrera	Spain	Wind farms
Enervent, S.A.(1)	Spain	Wind farms
Burgalesa de Wind Farms, S.A.	Spain	Wind farms
Desarrollo de Energías Renovables, S.A.	Spain	Wind farms
Aplicaciones y Proyectos Energéticos, S.A.	Spain	Wind farms
Boreas Eólica, S.A.	Spain	Wind farms
Los Castrios, S.A.	Spain	Wind farms
Molinos de Valdebezana, S.A.	Spain	Wind farms
Boreas Eólica 2, S.A.	Spain	Wind farms
Desarrollo de Energias Renovables Castilla-La Mancha, S.A.	Spain	Wind farms
Desarrollo de Energías Renovables de Navarra, S.A.	Spain	Wind farms
Desarrollo de Energías Renovables de La Rioja, S.A.	Spain	Wind farms
Molinos del Cidacos, S.A.	Spain	Wind farms
Molinos de La Rioja, S.A.	Spain	Wind farms
Molinos de Linares, S.A.	Spain	Wind farms
Sistemas Energéticos La Muela, S.A.	Spain	Wind farms
Sistemas Energéticos Mas Garullo, S.A.	Spain	Wind farms

(1) Results at November 2005
(*) Equity adapted to IFRS only for the purposes of consolidation of GAS NATURAL GROUP

Consolidation Method	Total % Shareholding	Net equity (*) Capital	Reserves	Results 2005	Inteirm dividend
I.G.	32.2	9.2	24.6	6.7	(9.4)
I.G.	45.8	1.1	5.2	2.4	–
I.G.	50.4	214.7	(152.2)	10.4	(13.4)
I.G.	86.8	470.7	(148.2)	3.5	–
I.G.	86.8	128.1	(56.1)	2.9	–
I.G.	100.0	0.6	20.7	0.9	–
I.G.	100.0	0.1	1.7	0.2	–
I.G.	100.0	0.8	(0.2)	0.2	–
I.G.	100.0	0.5	27.1	(4.1)	–
I.G.	100.0	0.1	35.7	(0.5)	–
I.G.	100.0	0.1	28.9	(0.2)	–
I.G.	100.0	0.1	–	–	–
I.G.	100.0	15.0	42.0	1.5	–
I.G.	100.0	0.1	(0.1)	(0.2)	–
I.G.	100.0	0.1	–	–	–
I.G.	100.0	0.2	–	–	–
I.G.	100.0	8.0	0.4	0.1	–
I.G.	100.0	–	2.5	0.7	–
I.G.	100.0	25.4	15.5	0.2	–
I.G.	100.0	0.1	–	–	–
I.P.	47.5	63.2	4.8	47.2	(28.6)
I.P.	50.0	2.1	–	–	–
I.G.	68.0	2.5	0.1	0.7	–
I.P.	49.0	6.0	(2.2)	2.5	–
I.P.	50.0	2.7	2.4	4.5	–
P.E.	26.0	2.4	0.4	1.7	–
P.E.	24.2	1.5	0.1	0.3	–
I.G.	100.0	42.3	120.9	3.9	–
I.G.	100.0	0.1	0.1	–	–
I.G.	99.5	5.2	2.5	2.4	–
I.P.	33.3	2.2	–	–	–
I.G.	60.0	0.1	–	–	–
I.G.	90.0	2.6	2.7	1.8	–
I.G.	100.0	0.1	–	–	–
I.P.	50.0	9.9	18.1	7.6	–
I.P.	36.3	16.5	2.4	5.6	(1.0)
I.P.	50.0	10.2	3.6	9.9	–
I.P.	33.3	3.0	1.0	1.7	–
I.P.	75.0	1.0	–	–	–
P.E.	20.0	3.1	2.5	1.8	–
P.E.	18.0	1.5	1.4	1.5	–

Appendix - GAS NATURAL companies (Continued)

Company	Country	Activity
Energy way Produçao de energía, L.Mr.A.	Portugal	Wind farms
Gas Natural Electricidad SDG, S.A.	Spain	Generation and commercialisation of electricity
Gas Natural do Brasil S.A.	Brazil	Generation and commercialisation of electricity
UTE-Dalkia-GN Servicios	Spain	Energy management
Iradia Climatización AIE	Spain	Energy management
Gas Natural Informática, S.A.	Spain	IT
Torre Marenostrum, S.L.	Spain	Real Estate
Natural Servicios, S.A.	Argentina	Gas installation
Natural Re, S.A.	Luxemburg	Finance
Compañía Auxiliar de Industrias Varias, S.A.	Spain	Services
Serviconfort Colombia S.A.	Colombia	Services
Gas Natural Servicios, S.A. de C.V.	Mexico	Services
Sistemas Administración y Servicios, S.A. de C.V.	Mexico	Services
Energía y Confort Admón. de Personal, S.A. de C.V.	Mexico	Services
Adm. Servicios Energía México, S.A. de C.V.	Mexico	Services
Serviconfort Brasil, S.A.	Brazil	Services
Gas Natural Soluciones, S.L.	Spain	Services
Portal del Instalador, S.A.	Spain	Services
Gas Natural Servici e Logistica, S.p.A.	Italy	Holding company
Gas Natural Puerto Rico, Inc.	Puerto Rico	Holding company
Gas Natural Corporación Eólica, S.L.	Spain	Holding company
Sinia XXI, S.A.	Spain	Holding company
La Propagadora del Gas, S.A.	Spain	Holding company
Holding Gas Natural, S.A.	Spain	Holding company
Gas Natural Internacional SDG, S.A.	Spain	Holding company
Invergas, S.A.	Argentina	Holding company
Gas Natural Argentina SDG, S.A.	Argentina	Holding company
Invergas Puerto Rico, S.A.	Spain	Holding company
Buenergía Gas & Power, Ltd.	Cayman I.	Holding company
Ecoeléctrica Holdings, Ltd.	Cayman I.	Holding company
Ecoeléctrica, Ltd.	Cayman I.	Holding company
Nettis Impianti, S.p.A.	Italia	Holding company and Gas distribution
Desarrollo del Cable, S.A.	Spain	Telecommunications
Europe Maghreb Pipeline, Ltd. (EMPL)	UK	Gas transport
Metragaz, S.A.	Morocco	Gas transport
Gas Natural Exploración, S.L.	Spain	Research and exploration of hydrocarbon

(*) Equity adapted to IFRS only for the purposes of consolidation of GAS NATURAL GROUP

Consolidation Method	Total % Shareholding	Net equity (*) Capital	Reserves	Results 2005	Inteirm dividend
I.G.	100.0	–	–	–	–
I.G.	100.0	33.1	(0.9)	0.2	–
I.G.	100.0	0.6	(1.5)	(0.4)	–
I.P.	50.0	–	(0.3)	–	–
I.G.	100.0	0.3	0.1	–	–
I.G.	100.0	19.9	3.5	1.4	–
P.E.	45.0	5.3	14.5	(0.1)	–
I.G.	79.3	2.3	(1.3)	0.3	–
I.G.	100.0	3.1	–	(0.4)	–
I.G.	100.0	0.3	1.7	(0.3)	–
I.G.	100.0	0.2	0.3	0.5	–
I.G.	86.8	6.1	(2.8)	(0.2)	–
I.G.	87.0	–	0.2	–	–
I.G.	87.0	–	0.1	0.1	–
I.G.	86.8	–	(0.4)	–	–
I.G.	100.0	1.7	0.3	0.1	–
I.G.	100.0	6.2	2.0	1.3	–
I.G.	75.0	1.3	(0.1)	(0.1)	–
I.G.	100.0	0.1	0.4	(0.3)	–
I.G.	100.0	1.0	(0.1)	(0.2)	–
I.G.	100.0	1.0	(0.1)	(3.5)	–
I.G.	100.0	6.0	(0.3)	0.6	–
I.G.	100.0	0.2	0.9	0.3	–
I.G.	100.0	0.3	0.2	–	–
I.G.	100.0	349.5	(60.0)	64.4	–
I.G.	72.0	48.9	60.6	–	–
I.G.	72.0	105.0	(23.4)	–	–
I.G.	100.0	5.1	(1.0)	(0.6)	–
I.G.	95.0	0.1	(88.1)	(0.6)	–
I.G.	47.5	63.2	12.2	8.5	(20.4)
I.G.	47.5	0.6	0.1	0.1	(0.2)
I.P.	100.0	3.1	123.1	(0.4)	–
I.G.	100.0	21.1	20.5	8.0	–
I.G.	72.6	0.1	102.4	115.9	(82.6)
I.G.	72.3	3.4	1.0	1.4	–
I.G.	100.0	6.3	0.1	(0.7)	–

Directors' Report

Consolidated Directors' Report
Gas Natural SDG, S.A. and subsidiary companies

1. Evolution of the business

Analysis of 2005

Net profit totalled € 749 million, a 16.7% increase on the previous year.

Consolidated Ebitda has continued to evolve positively and steadily during the year. Electricity in Spain and gas distribution in Latin America were the main growth drivers, enabling Ebitda to grow by 13.7% to € 1,519 million in 2005.

GAS NATURAL had 10.2 million gas distribution connections in 2005, representing a year-on-year increase of 615,000 (increase of 6.4%).

Ebitda in the electricity business in Spain (generation and supply) reached € 90 million, double the figure reported in 2004.

Electric power sales totalled 8,904 GWh, 53.5% more than in 2004.

The ordinary market share of electricity generation in Spain of GAS NATURAL has increased to 4.0%.

Investment in tangible fixed assets totalled € 1,125 million in 2005, an 18.9% increase year-on-year, due to investment in power generation in Spain, which accounted for 39.6% of the total.

Main financial aggregates

	2005	2004	%
Net sales	8,527	6,266	36.1
Ebitda	1,519	1,335	13.7
Operating income	969	862	12.4
Net profit attributable to equity holders of the Company	749	642	16.7
Tangible investments	1,125	946	18.9
Net financial debt (at 31/12)	3,615	2,650	36.4

Main physical aggregates

	2005	2004	%
Gas distribution (GWh):	422,912	385,655	9.7
Spain:	254,774	228,954	11.3
Tariff gas sales	51,121	51.449	(0.6)
TPA	203,653	177,505	14.7
Latin America:	165,408	155,346	6.5
Tariff gas sales	99,891	92,097	8.5
TPA	65,517	63,249	3.6
Italy:	2,730	1,355	–
Tariff gas sales	2,652	1,315	–
TPA	78	40	95.0
Gas supply (GWh):	317,555	288,055	10.2
Spain	271,880	243,510	11.7
International	45,675	44,545	2.5
Gas transportation - EMPL (GWh)	145,923	115,637	26.2
Distribution network (km):	100,150	95,155	5.2
Spain	39,611	37,534	5.5
Latin America	56,763	54,120	4.9
Italy	3,776	3,501	7.9
Distribution connections, ('000) (at 31/12):	10,179	9,565	6.4
Spain	5,134	4,808	6.8
Latin America	4,757	4,505	5.6
Italy	288	252	14.3
Contracts per customer in Spain (at 31/12)	1.47	1.37	7.3
Electricity generated (GWh):	10,466	7,272	43.9
Spain	8,904	5,802	53.5
Puerto Rico	1,562	1,470	6.3
Installed capacity (MW):	3,373	1,145	–
Spain	3,102	874	–
Puerto Rico	271	271	–

Net turnover

Net turnover

	2005	%s/total	2004	%s/total	% 2005/2004
Gas Distribution	3,537	41.5	2,911	46.5	21.5
Spain	1,993	23.4	1,821	29.1	9.5
Latin America	1,420	16.6	1,027	16.4	38.1
Italy	124	1.5	63	1.0	96.8
Electricity	1,059	12.4	593	9.5	78.6
Spain	926	10.9	475	7.6	94.9
Puerto Rico	133	1.6	118	1.9	13.0
Upstream & Midstream	262	3.1	215	3.4	21.9
Wholesale & Retail	5,774	67.7	3,952	63.1	46.1
Other	135	1.6	119	1.9	13.5
Consolidation adjustments	(2,240)	(26.3)	(1,524)	(24.3)	47.0
Total	**8,527**	**100.0**	**6,266**	**100.0**	**36.1**

Net sales totalled € 8,527 million in 2005, a 36.1% increase on 2004, due basically to increased business activity by GAS NATURAL, particularly with respect to the increase in the gas supply resulting from volume growth an high natural gas prices, the electricity business and business expansion in Latin America.

Ebitda[1]

	2005	%s/total	2004	%s/total	% 2005/2004
Gas Distribution	1,122	73.9	974	72.9	15.2
Spain	778	51.2	722	54.1	7.7
Latin America	317	20.9	228	17.1	39.0
Italy	27	1.8	24	1.8	14.2
Electricity	152	10.0	98	7.3	54.9
Spain	90	5.9	44	3.3	102.7
Puerto Rico	62	4.1	54	4.0	15.6
Upstream & Midstream	176	11.6	144	10.8	21.6
Wholesale & Retail	61	4.0	107	8.0	(42.8)
Others	8	0.5	12	0.9	(31.1)
Total	**1,519**	**100.0**	**1,335**	**100.0**	**13.7**

[1] Ebitda is calculated as operating income, plus depreciation and amortization and operating provisions.

Ebitda amounted to € 1,519 million in 2005, a 13.7% increase on 2004.

Gas distribution overall (Spain, Latin America and Italy) accounts for 73.9% of GAS NATURAL's Ebitda.

Gas distribution in Spain is the main source of Ebitda (51.2%).

Ebitda in 2005 also increased due to growth in the electricity business in Spain, which accounts for 5.9% of the total.

Upstream and Midstream activities together accounted for 11.6% of the total. This figure increased significantly due to the expansion of the Maghreb-Europe gas pipeline's capacity (operational since February 2005).

Operating profit

	2005	%s/total	2004	%s/total	% 2005/2004
Gas Distribution	752	77.7	645	74.9	16.6
Spain	517	53.4	459	53.3	12.6
Latin America	229	23.6	176	20.4	30.4
Italy	6	0.7	10	1.2	(39.0)
Electricity	89	9.1	63	7.3	40.1
Spain	45	4.6	28	3.3	57.0
Puerto Rico	44	4.5	35	4.0	26.1
Upstream & Midstream	128	13.2	99	11.4	29.6
Wholesale and Retail	46	4.7	94	11.0	(51.9)
Others	(46)	(4.7)	(39)	(4.6)	14.6
Total	**969**	**100.0**	**862**	**100.0**	**12.4**

An 18.7% increase in depreciation and amortisation charges due to capital expenditure mainly in electricity generation and gas distribution grids, to allocation of certain consolidation goodwill to amortisable assets, and to the consolidation of acquired companies in the second half of 2004, coupled with a similar amount of working capital provisions, led to a 12.4% increase in operating income to € 969 million.

Net financial debt

The net financial expense in the period amounted to € 221 million, compared with € 154 million in 2004, due to the increase in net financial debt mainly as a result of the acquisitions made in the second half of 2004 (additional stakes in CEG, S.A. and CEG Rio, S.A., Smedigas, S.p.A., Nettis and wind farm companies) and April 2005 (DERSA), as well as the consolidation of their debt.

GAS NATURAL's consolidated net debt at December 31, 2005 amounted to € 3,615 million, i.e. a debt/equity ratio of 38.5%, compared with 35.6% at 2004 year-end.

The various factors affecting the variation in GAS NATURAL's net debt, which led to an increase of € 965 million in 2005 are basically as follows:

– The € 581 million increase in net debt is due basically to debt in Spain as a result of the acquisition of DERSA and investments in tangible assets.

– The impact of exchange rate fluctuations on debt in currencies other than the euro led to a € 271 million increase in net debt in the period.

The current credit rating of GAS NATURAL's short- and long-term debt is as follows:

Agency	Long term	Short term	Outlook
Moody's	A2	P-1	Review for possible downgrade
Standard & Poor's	A+	A-1	Rating watch negative
Fitch	A+	F1	Rating watch negative

After the filing of the Public Takeover Bid for the shares of Endesa S.A, as explained in Note 1 to the Annual Accounts, on September 6, 2005 the rating agencies announced that its ratings were under review.

Share of profit of associates

The main items in this account relate to results from minority stakes in gas distribution companies in Spain (Gas Aragón and Gas Natural de Álava), wind power companies, and Enagás, S.A (equity-accounted between January and September 2005).The Enagás, S.A stake was reclassified on October 1, 2005 as available-for-sale financial assets and is no longer consolidated by equity accounting.

Stakes in associated companies yielded € 34 million in 2005 (€ 61 million in 2004). This change is due mainly to the reduction of the stake in Enagás, S.A and its deconsolidation on October 1, 2005 and to the deconsolidation of Naturgas Energía Group in February 2004.

Enagás, S.A contributed € 30 million to the equity-accounted affiliates line-item in 2005.

Gain on sales of associates

Disposals of non-current assets provided a net gain of € 286 million in 2005, compared with € 162 million in 2004. This result is due basically to the divestment in 2005 of 13.3% of Enagás, S.A. The company sold 12.5% of Enagás, S.A in 2004.

The net capital gains on the sale of Enagás, S.A totalled € 248 million in 2005, compared with € 145 million in 2004.

The shareholding in Enagás, S.A. at December 31, 2005 is 12.79%. Under the provisions of the Additional Twentieth Provision of the Hydrocarbons Act, Law 34/98 of 7 October, modified by the Tax, Administrative and Corporate Measures Act, Law 62/2003 of December 30, no legal or natural person can have a direct or indirect shareholding in Enagás, S.A. above 5% of its share capital or voting rights. Coming into line in terms of shareholdings in Enagás, S.A in respect of this Additional Provision must be undertaken within a maximum period of 3 years as from January 1, 2004, through the transfer of shares or, as the case may be, the transfer of preferred subscription rights.

Corporate income tax

The corporate income tax expense totalled € 241 million, i.e. an effective tax rate of 22.6%, compared with 24.9% in 2004.

The difference with respect to the general tax rate was due to tax credits, equity-accounted affiliates, tax loss carryforwards, and different tax systems applied to companies operating outside Spain.

Minority interest

The main items in this account are the minority shareholders of EMPL (owned 72.6% by GAS NATURAL), the subgroup of subsidiaries in Colombia (owned 59.1%), Gas Natural BAN, S.A., (owned 50.4%), Gas Natural Mexico, S.A. de C.V. (owned 86.8%), Brazilian companies CEG, S.A. (owned 54.2%) and CEG Rio, S.A. (owned 59.6%), as well as gas distribution companies in Spain.

In July, 12.4% of CEG Rio, S.A. was sold to Petrobras, which reduced GAS NATURAL's stake from 72.0% to 59.6%; this holding is still fully consolidated and the sale resulted in an increase in the minority interest item.

Income attributed to minority interests in 2005 amounted to € 78 million, a € 25 million increase due mainly to a higher contribution from EMPL and the Latin American subsidiaries, particularly as a result of the inclusion of minority interests in Brazil from July 1, 2004.

Investments

Investments totalled € 1,484 million, slightly lower than in 2004, in spite of the fact that the 18.9% increase in tangible fixed assets was offset by a reduction in financial investments (acquisition of holdings in companies).

The sizeable volume of financial investments in 2004 included acquisitions in Italy and an increase in the Group's interests in Brazil, whereas acquisitions in 2005 were confined basically to DERSA.

The breakdown of investments by type is as follows:

	2005	**2004**	**%**
Capital expenditure	1,125	946	18.9
Investments in intangible assets	63	62	0.2
Financial investments	296	495	(40.2)
Total investments	**1,484**	**1,503**	**(1.3)**

Capital expenditure totalled € 1,125 million, an 18.9% increase, basically because of ongoing development of GAS NATURAL's programme to generate power using combined cycle plants in Spain and to expand gas distribution in Latin America.

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

	2005	**2004**	**%**
Gas distribution:	611	513	19.3
Spain	354	366	(3.2)
Latin America	191	121	57.3
Italy	66	26	–
Electricity:	450	379	18.5
Spain	446	373	19.4
Puerto Rico	4	6	(36.7)
Gas:	33	34	(0.9)
Up & Midstream	17	25	(30.9)
Wholesale & Retail	16	9	83.1
Rest	31	20	51.2
Total capital expenditure	**1,125**	**946**	**18.9**

EIn 2005, 39.6% of investment in tangible fixed assets related to the electricity business in Spain, specifically to complete the construction of the Arrúbal combined cycle plant (800 MW), to develop the three combined cycle units at Cartagena (1,200 MW), and to commence construction of another two units at Plana del Vent (800 MW).

Investment in gas distribution in Spain, which accounted for another 31.5% of the total, was allocated to acquiring new customers: the distribution grid was extended by close to 2,100 km in 2005 (5.5% growth).

Capital expenditure in gas distribution in Latin America amounted to € 191 million, a 57.3% increase. The investment in Mexico was similar to 2004 due basically to the slowdown in grid construction there. Brazil is now the main destination of company investments in the region because of the change in consolidated group structure; Brazil accounted for 65.1% of investment in the area.

Net intangible and tangible fixed assets increased by € 1,430 million to € 8,905 million at December 31, 2005. The breakdown of this figure by line of business is as follows:

	2005	**%**
Gas distribution:	5,633	63.3
Spain	3,464	38.9
Latin America	1,773	19.9
Italy	396	4.5
Electricity:	2,147	24.1
Spain	1,911	21.5
Puerto Rico	236	2.6
Gas:	936	10.5
Up & Midstream	836	9.4
Wholesale & Retail	100	1.1
Rest	189	2.1
Total net tangible and intangible assets	**8,905**	**100.0**

Overall intangible and tangible fixed assets included construction in progress worth € 904 million, of which € 740 million relate to the electricity business and € 95 million to Latin America.

Gas distribution accounts for 63.3% of GAS NATURAL's assets.

Intangible and tangible fixed assets in Latin America amount to € 1,773 million (19.9% of the consolidated total) and relate to gas distribution assets in this region.

Distribution in Spain

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

Results

	2005	2004	%
Net sales	1,993	1,821	9.5
Purchases	(784)	(686)	14.5
Personnel costs. net	(76)	(77)	(1.3)
Other expenses/income	(355)	(336)	5.7
Ebitda	**778**	**722**	**7.7**
Charge for depreciation and amortisation	(256)	(245)	4.5
Variation in operating provisions	(5)	(18)	(76.3)
Operating income	**517**	**459**	**12.6**

Net sales in gas distribution business in Spain totalled € 1,993 million, 9.5% more than in 2004.

Ebitda amounted to € 778 million, up 7.7% on the figure reported in 2004, in line with the increase in regulated remuneration in 2005.

The reduction in personnel expenses was due to the fact that capitalised in-house work on fixed assets was higher in 2005, and this figure is stated net in the consolidated income statement under IFRS.

As a result of a 4.5% increase in depreciation and amortisation charges and of lower provisions, operating income increased by 12.6%.

Main aggregates

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

	2005	2004	%
Gas activity sales (GWh)	254,774	228,954	11.3
Tariff gas sales	51,121	51,449	(0.6)
Residential	26,639	31,204	(14.6)
Industrial	13,303	12,678	4.9
Electricity	11,179	7,567	47.7
TPA	203,653	177,505	14.7
Distribution network (km)	39,611	37,534	5.5
Change in distribution connections ('000)	325	326	(0.3)
Distribution connections (000) (at 31/12)	5,134	4,808	6.8

Regulated gas sales in Spain, which encompass regulated-rate gas distribution and supply as well as third-party access (TPA), amounted to 254,774 GWh, i.e. up 11.3% on last year.

Gas sales to the regulated residential market decreased by 14.6% due to progressive customer migration to the liberalised segment (to GAS NATURAL's supply company and to rivals).The liberalised gas market now represents 83% of the total, up from 80% one year ago. Nevertheless, the sale of gas for industrial use rose 4.9% and sales for power generation increased very significantly with respect to 2004 due to low precipitation in the period and the use of the regulated market to supply conventional power plants; as a result, total regulated-rate gas sales were in line with 2004.

Third-party access (TPA) increased by 14.7% to 203,653 GWh, of which 93,327 GWh related to services to third parties, and the remaining 110,326 GWh to GAS NATURAL, which is the main operator in the liberalised gas market.

The distribution grid was extended by close to 2,100 km in 2005 to 39,611 km, a year-on-year increase of 5.5%. In 2005, the number of municipalities connected to the gas grid was increased by 49 to 814.

GAS NATURAL's number of individual supply points continued to grow rapidly, increasing by 325,000 in 2005. At December 31, 2005, there were a total of 5,134,000 gas distribution connections in Spain, a 6.8% increase on 2004.

On September 30, 2005, the Board of Directors of Gas Natural SDG, S.A., approved plans to spin off its gas distribution and transportation businesses en bloc into its subsidiaries Gas Natural Distribución SDG, S.A., and Gas Natural Transporte SDG, S.L., respectively. That spin-off was done through capital increases at both companies, subscribed with the non-monetary contribution of assets and liabilities of Gas Natural SDG, S.A. in the distribution and transportation activities. In exchange for the non-monetary contributions, Gas Natural Distribución SDG, S.A., issued shares worth € 1,100 million and Gas Natural Transporte SDG, S.L. issued shares worth € 52 million, all of which were subscribed by Gas Natural SDG, S.A.

That spin-off of regulated and deregulated businesses was done to comply with Spanish and EU regulations, which require that regulated activities be legally separated from liberalised activities.

On November 8, 2005, the CNE (Spain's energy regulator) authorised GAS NATURAL's ownership restructuring.

On December 30, 2005, Ministerial Order ITC 4099/2005 was published, updating the remuneration for 2006 for the regulated gas activities in Spain, in line with the framework approved in February 2002.

The Order assigns € 1,052 million to GAS NATURAL as remuneration for distribution in 2006, i.e. a 5.6% increase on 2005. This increase is due to projected growth in GAS NATURAL's activity in 2006, the projection of the hydrocarbon price index (IPH), and the fact that the efficiency factors remained unchanged.

The historical remuneration for secondary transportation was updated in line with 85% of the IPH and the addition of new infrastructure, to € 18.5 million.

Distribution Latin America

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

Results

	2005	2004	%
Net sales	1,420	1,027	38.2
Purchases	(897)	(653)	37.4
Personnel costs. net	(53)	(30)	75.8
Other expenses/income	(153)	(116)	31.4
Ebitda	**317**	**228**	**39.0**
Charge for depreciation and amortisation	(78)	(47)	64.1
Variation in operating provisions	(10)	(5)	–
Operating income	**229**	**176**	**30.4**

Gas distribution earnings increased significantly in Latin America in 2005. Net sales totalled € 1,420 million, a 38.2% increase.

Ebitda amounted to € 317 million, 39.0% more than in 2004. Ebitda increased by 30.4% year-on-year due to faster growth in depreciation and amortisation charges as a result of investments.

The increase in Ebitda of € 89 million in 2005 is due to:

– Improved Ebitda in all countries (€ 41 million) due mainly to a 6.5% increase in revenues and new tariffs in Colombia, Mexico and Brazil.

– A larger consolidation scope in Brazil, which contributed € 26 million to Ebitda.

– Appreciation by local currencies, contributing € 22 million to Ebitda.

Excluding changes in consolidation and the currency effect, Ebitda grew 18.0%.

By countryies, Brazil is the largest Latin American contributor to consolidated Ebitda due to the increase in the stake in GAS NATURAL companies and to fast organic growth.

The Main aggregates

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

	2005	2004	%
Gas activity sales (GWh):	165,408	155,346	6.5
Tariff gas sales	99,891	92,097	8.5
TPA	65,517	63,249	3.6
Distribution network (km)	56,763	54,120	4.9
Change in distribution connections ('000)	253	280	(9.6)
Distribution connections (000) (at 31/12)	4,757	4,505	5.6

Sales in the gas activity in Latin America, which include both gas sales and third-party access (TPA) services, totalled 165,408 GWh, a 6.5% increase year-on-year.

Brazil increase sales by 16.2% and Colombia by 14.9%, based on growth in all markets.

The automotive fuel market performed notably in the four countries, rising 16.6% overall in 2005, and this trend is expected to continue as a result of the prices of replacement fuels.

The distribution grid was extended by 2,643 km to 56,763 km at December 31, 2005, a year-on-year increase of 4.9%. The development of new grids was lower than in previous years since the commercial goal is to saturate the existing grid.

There were a total of 4,757,000 gas distribution connections at December 31, 2005. GAS NATURAL's number of individual distribution connections continued to grow rapidly, rising by 253,000 year-on-year.

The main physical aggregates by country in 2005 are as follows:

	Argentina	Brazil	Colombia	Mexico	Total
Gas activity sales (GWh)	69,359	43,280	11,197	41,572	165,408
Change vs. 2004 (%)	3.7	16.2	14.9	0.3	6.5
Distribution network (km at 31/12/05)	21,237	5,005	15,488	15,033	56,763
Change vs. 31/12/04 (km)	307	769	832	735	2,643
Distribution connections ('000 at 31/12/05)	1,289	745	1,614	1,109	4,757
Change vs. 31/12/04 ('000)	32	54	119	48	253

Highlights:

– In Argentina, as a result of renewed commercial activity, there was a net increase of 32,000 distribution connections in 2005 (vs. 27,000 in 2004) and 3.7% growth in gas sales; the residential-commercial market rose by 6.2% and the unit margin also improved. Gas sales decreased by 10.1% in the first half of 2005 whereas they increased by 10.7% in the second half of 2005, so annual growth was 0.6%.

  On July 20, 2005, Gas Natural BAN, S.A., and representatives of Argentina's Economy & Production and Federal Planning, Public Investment & Services Ministries signed a memorandum agreement which, among other items, established a tariff increase based on the future tariff framework equivalent to a 27% increase in the company's distribution margin, applicable as from November 2005.

  The memorandum agreement has passed through various legislative and executive stages and is pending signature of the corresponding decree by Argentina's President in order to apply it retroactively from November 2005.

– In Brazil, GAS NATURAL achieved the largest single increase in the number of supply points since it commenced operations. As in 2004, there was double-digit sales growth in 2005 (16.2%). There was considerable growth in sales to electricity power plants due to lower precipitation and for the automotive fuel sector (sales expanded considerably in southern São Paulo).

– Double-digit growth in Colombia is being driven by the reactivation of the country's economy. Sales grew 14.9% and the customer base increased by over 119,000 to 1,614,000 supply points. Monthly vehicle conversion figures reached a record of 1,900.

– In Mexico, sales grew slightly faster than in 2004, despite a significant increase in the cost of gas, which is indexed to southern US prices. The Mexican government is implementing measures to palliate that effect: since April 15, 2005, it has offered residential customers with an average monthly consumption of under 60 m^3 a subsidy which reduces gas bills by 28%; this will initially be in force until September 30, 2006.

On July 16, 2004, GAS NATURAL acquired Enron's stakes in CEG and CEG Rio, S.A., thus increasing its stake in those companies to 54.2% and 72.0%, respectively. Accordingly, these companies have been fully consolidated since July 1, 2004 (they were proportionately consolidated in the first half of 2004). In July 2005, Petrobras exercised a call option on 12.4% of CEG Rio, S.A.

Distribution in Italy

Results

	2005	2004	%
Net sales	124	63	96.8
Purchases	(77)	(38)	–
Personnel costs. Net	(11)	(5)	–
Other expenses/income	(9)	4	–
Ebitda	**27**	**24**	**14.2**
Charge for depreciation and amortisation	(21)	(13)	60.8
Variation in operating provisions	–	(1)	–
Operating income	**6**	**10**	**(39.0)**

Gas distribution in Italy contributed € 27 million in Ebitda (+14.2%), evidencing that GAS NATURAL's operations in that country are gaining in strength.

Performance in 2005, especially in the second half of 2005, was affected by expansion into the regions of Regio Calabria and Catania (which led to greater investment and higher depreciation and amortisation charges) and by higher operating expenses.

Main aggregates

	2005	2004	%
Gas activity sales (GWh):	2,730	1,355	–
Tariff gas sales	2,652	1,315	–
TPA	78	40	95.0
Distribution network (km)	3,776	3,501	7.9
Distribution connections (000) (at 31/12)	288	252	14.3

Gas distribution in Italy totalled 2,730 GWh, a considerable increase on 2004 due to strengthening of operations in Italy following the acquisition of Smedigas and Nettis in the second half of 2004.

Commercial activity was reinforced in 2005: the number of supply points increased by 36,000 due to rapid expansion in Palermo (+18,000 supply points), Catania (+11,000) and Reggio Calabria (+7,000). The Company expects to exceed that growth figure in 2006 and add 39,000 new supply points.

Electricity in Spain

This area includes power generation in Spain (combined cycle plants, wind farms and cogeneration), trading via electricity purchases in the wholesale market, and the supply of electricity in the liberalised market in Spain.

Results

	2005	2004	%
Net sales	926	475	94.9
Purchases	(788)	(390)	–
Personnel costs. Net	(7)	(7)	(1.5)
Other expenses/income	(41)	(34)	21.9
Ebitda	**90**	**44**	**–**
Charge for depreciation and amortisation	(44)	(17)	–
Variation in operating provisions	(1)	1	–
Operating income	**45**	**28**	**57.0**

Net electricity sales totalled € 926 million.

The power generation business continues to be favoured by high pool prices, averaging over € 55.73/MWh in 2005. GAS NATURAL now has 15 power plants operating under the special regime in the wholesale market.

Electricity supply was negatively impacted by having to compete with the regulated tariff.

The combination of these factors led to € 90 million in Ebitda in 2005, double the figure reported in 2004.

Main aggregates

The key figures of GAS NATURAL's electricity activities in Spain are as follows:

	2005	2004	%
Installed capacity (MW):	3,102	874	–
CCGT	2,800	800	–
Wind	279	51	–
Cogeneration	23	23	–
Electricity generated (GWh):	8,904	5,802	53.5
CCGT	8,234	5,672	45.2
Wind	528	24	–
Cogeneration	142	106	34.0
Contracted electricity (GWh/year)	1,688	4,942	(65.8)
Electricity sales (GWh):	6,296	4,457	41.3
Residential	2,028	657	–
Industrial	4,268	3,800	12.3

A total of 8,904 GWh were generated and sold to the wholesale market in 2005, i.e. 53.5% more than in 2004.

The combined cycle plants generated 8,234 GWh. This output, measured at plant busbars, represents 118% of the electricity supplied to customers by GAS NATURAL. GAS NATURAL had a 4.0% share of the "ordinary regime" power generation market in 2005.

The plants attained 5,152 equivalent hours of operation at full load in 2005, representing a load factor of over 58%.

The business of electricity supply in the liberalised market continued to be penalised by high prices in the fourth quarter (the highest so far this year) since it had to compete with the regulated tariff (which is considerably lower), so losses are incurred when the tariff is lower than the market cost.

Therefore, a large number of supply companies are optimising their customer portfolio in the liberalised market since customers are returning to the regulated market. In 2005, GAS NATURAL's portfolio of electricity contracts increased from 4,942 GWh/year to 1,688 GWh/year, and the process accelerated in the forth quarter of 2005.

Retail electricity sales increased by 41.3% on 2004. The largest increase in electricity sales was to the residential market, where customer numbers stand at over 475,000. From an economic standpoint, and until tariffs start reflecting real market costs, the only way to reduce the negative impact of the supply activity is to reduce the share of the liberalised market. GAS NATURAL had a share of approximately 7.4% of the liberalised market in electricity in 2005.

GAS NATURAL has 2,800 MW of operational combined cycle power production capacity, another 800 MW under construction (Plana del Vent) and more than 1,200 MW at an advanced stage of permit obtainment (including the Malaga and Barcelona projects), all in line with the objective of having 4,800 MW of CCGT capacity by 2008.

In April 2005, through subsidiary Gas Natural Corporación Eólica, GAS NATURAL acquired 100% of Desarrollo de Energías Renovables (DERSA). DERSA, which has 433 MW of gross installed wind power capacity (228 MW of net attributable capacity) and over 1,200 MW of wind power capacity under development, now forms part of GAS NATURAL's wind power assets, which currently total 608 MW of gross installed capacity, with an average 46% stake.

The construction of 112 MW (68 MW of net attributable capacity) is expected to be completed in the first quarter of 2006. The wind power projects are located in the following regions: Galicia, Cantabria, Castilla y León, Navarra, La Rioja, Aragón, Catalonia, Andalusia and Castilla-La Mancha. The acquisition of DERSA, and other companies in November 2004, reinforces GAS NATURAL's position as one of the leading renewable energy companies, specifically wind power. The net wind power capacity of investees attributable to GAS NATURAL was 528 GWh in 2005.

GAS NATURAL's wind power plants managed by the Power Control Centre generated nearly 300 GWh in 2005. That energy is currently sold to the Spanish electricity market and the final price of that sale is received as revenues.

The move into wind power complements GAS NATURAL's decision in 1999 to commence power generation by developing combined cycle plants. GAS NATURAL's strategy is to have a balanced, competitive, environmentally-friendly generation mix in line with the Kyoto Protocol's objectives, and to reinforce its position as one of Spain's leading electricity companies.

On August 27, 2004, Royal Decree Law 5/2004 was approved; it regulates the greenhouse gas emission trading rights in order to comply with the Kyoto Convention and Protocol obligations. That Royal Decree applies to facilities whose carbon dioxide emissions may potentially exceed the limits established for their activity and capacity; GAS NATURAL is affected as owner of public service electricity production installations with over 20 MW of nominal thermal capacity (its combined cycle units).

Electricity in Puerto Rico

GAS NATURAL has been operating in Puerto Rico since October 2003, when it acquired 47.5% of EcoEléctrica and the exclusive right to import gas to the island, plus an operation, maintenance and fuel management contract.

Results

	2005	2004	%
Net sales	133	118	13.0
Purchases	(59)	(50)	18.1
Personnel costs. Net	(3)	(3)	8.0
Other expenses/income	(9)	(11)	(21.2)
Ebitda	**62**	**54**	**15.6**
Charge for depreciation and amortisation	(16)	(16)	0.6
Variation in operating provisions	(2)	(3)	(22.6)
Operating income	**44**	**35**	**26.1**

GAS NATURAL's activities in Puerto Rico provided US $ 77 million in Ebitda, 16.3% more than in 2004.

Main aggregates

EcoEléctrica has a regassification plant (capacity: 115,000 m^3) and a combined cycle plant (CCGT) of 540 MW. This CCGT, the first investor-owned gas-fired power plant in Puerto Rico, is located in Peñuelas, to the south of the island, and produces 15%-17% of the island's total electricity needs.

EcoEléctrica generated 3,124 GWh net (1,562 GWh attributable to GAS NATURAL), with a load factor of over 70%, i.e. considerably better than the 66% registered in 2004. The moving average availability in 2005 was above the figure guaranteed in the long-term power purchase agreement.

Up & Midstream

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

Results

	2005	2004	%
Net sales	262	215	21.9
Purchases	(52)	(43)	22.6
Personnel costs, net	(2)	(2)	–
Other expenses/income	(32)	(26)	24.7
Ebitda	**176**	**144**	**21.6**
Charge for depreciation and amortisation	(48)	(47)	0.6
Variation in operating provisions	–	2	(85.0)
Operating income	**128**	**99**	**29.6**

Net sales in the Upstream & Midstream business totalled € 262 million, a 21.9% increase.

Ebitda amounted to € 176 million in 2005, 21.6% more than in 2004 despite lower utilisation of the gas tanker ships in the year (78% vs. 90% in 2004), which was partly offset by the higher contribution from the Maghreb gas pipeline, which carried a larger volume of gas following its recent capacity increase.

Additionally, commencement of development of the integrated LNG projects led to start-up expenses that were not capitalised.

Main aggregates

The main aggregates in international gas transportation are as follows:

	2005	2004	%
Gas transportation-EMPL (GWh):	145,923	115,637	26.2
Portugal	35,287	28,251	24.9
GAS NATURAL	110,636	87,386	26.6

The gas transportation activity conducted in Morocco through companies EMPL and Metragaz, S.A., represented a total volume of 145,923 GWh in 2005, a 26.2% increase as a result of the expansion of capacity. Of that figure, 110,636 GWh were transported for GAS NATURAL through Sagane S.A., and 35,287 GWh for Portuguese company Transgas.

In April, GAS NATURAL and Repsol YPF, S.A., reached an agreement in the area of exploration, production, liquefaction, transportation, trading and wholesale marketing of liquefied natural gas (LNG).

In exploration, production and liquefaction (Upstream), the agreement envisages joint ventures to develop new projects, in which Repsol YPF, S.A., will be the operator and own 60% of the assets, and GAS NATURAL will have a 40% stake.

In transportation, trading and wholesale supply (Midstream), the Repsol-Gas Natural LNG joint venture was created for LNG transportation and wholesale supply, owned 50% each, whose chairman will be appointed alternately by the two partners and whose CEO will be proposed by GAS NATURAL.

The joint venture has developed an exploration project in Gassi Chergui (Algeria) and an integrated project to explore, produce and supply LNG in Gassi Touil (Algeria), which includes building an LNG plant in Arzwe with a capacity of 5.2 bcm per year that can be extended in the future with a second train.

In 2005, a technical team comprising drilling, geoscience and engineering professionals was created for the Gassi Touil project, the geology models were completed, the drilling and operation campaign was planned and the seismic studies commenced. Investment in the project totals € 11.4 million.

GAS NATURAL filed an application with the Italian Industry Ministry for permission to develop projects to build two regassification plants in Italy (Trieste and Taranto). The two projects are similar, consisting of two tanks with a capacity of 150,000 m^3 and a regassification capacity of 8 bcm per year each.

Wholesale & Retail

This area includes wholesale and retail gas supply in Spain and other countries, and the supply of other related products and services in Spain.

The wholesale sales to other distributors correspond to those made to Enagás, S.A for the regulated gas distribution market.

Results

	2005	2004	%
Net sales	5,774	3,952	46.1
Purchases	(5,609)	(3,782)	48.3
Personnel costs, net	(23)	(19)	21.9
Other expenses/income	(81)	(44)	81.6
Ebitda	**61**	**107**	**(42.8)**
Charge for depreciation and amortisation	(5)	(3)	–
Variation in operating provisions	(10)	(10)	5.0
Operating income	**46**	**94**	**(51.9)**

Net sales in the gas supply business totalled € 5,774 million, a 46.1% increase on 2004.

Ebitda amounted to € 61 million in 2005, compared with € 107 million in 2004.

As a result of the significant increase in gas demand in Spain due to a particularly cold winter, which made it necessary to buy additional gas on the spot market in a context of high international gas prices, average real prices were considerably higher than the raw material cost recognised in the tariff.

Since the supply price is indexed to the tariff with a discount, that situation led to an additional cost that was not passed on to the liberalised market and, therefore, hurt supply margins.

As a result of applying the new economic and contractual conditions to the industrial gas customers, supply margins are improving both quantitatively and qualitatively.

On October 27, 2005, the Industry Ministry issued Order ITC 3321/2005, amending the formula for calculating the raw material cost envisaged for 2005. The Order acknowledged the additional cost arising on gas supplies to the regulated market as a result of the following factors:

– Demand in 2005 is above the projection made in 2004 for calculating the costs of gas supplies to the regulated market.

– The difference, for the amount of gas above projections, between the actual cost of gas on the international markets and the regulatory raw material cost.

Order ITC 3321/2005 estimates an additional cost of € 83 million, and this figure will be corrected subsequently using the final sales and cost figures for 2005.

Under Order ITC 4101/2005, dated December 27, which also establishes the natural gas tariffs for 2006, the raw material cost calculation structure includes the supply cost expected in the winter months (in line with that recognised in Order ITC 3321/2005, dated October 27), improving price formation in the liberalised market.

The tariffs for large consumers (over 100 GWh/year), thermal plants and interruptible customers, were eliminated, so they have to buy gas in the liberalised market; there will be a transition period of 3-12 months until those tariffs are finally eliminated.

As a result of measures adopted to favour liberalisation and of the recognition of raw material costs, plus the commercial policy applied by GAS NATURAL, Ebitda performed very positively in the last two quarters of 2005.

Main aggregates

The main aggregates in the procurement and supply activity are as follows:

	2005	2004	%
Gas supply (GWh):	317,555	288,055	10.2
Spain:	271,880	243,510	11.7
Regulated market	59,985	61,364	(2.2)
Liberalized market:	211,895	182,146	16.3
GAS NATURAL	165,197	138,973	18.9
Supply to third parties	46,698	43,173	8.2
International:	45,675	44,545	2.5
USA	32,202	36,033	(10.6)
Supply Europe	13,473	8,512	58.3
Multiutility contracts (at 31/12)	2,249,137	1,727,147	30.2
Contracts per customer (at 31/12)	1.47	1.37	7.3

A total of 317,555 GWh of natural gas was supplied wholesale, i.e. 10.2% more than in 2004; 271,880 GWh were sold in the Spanish market (+11.7%) and the other 45,675 GWh were sold in other countries (+2.5%).

Wholesale gas supplies for the regulated market are sold to Enagás, S.A which, in addition to inventory management, supplies the gas to distribution companies, both those in the GAS NATURAL group and third parties; the total amount decreased by 2.2% to 59,985 GWh despite greater market opening, basically because certain power plants and industrial customers abandoned the liberalised market and took shelter in the regulated market.

Sales to the liberalised market amounted to 211,895 GWh, a 16.3% increase on 2004. Out of those sales, 165,197 GWh were to end customers of GAS NATURAL, mainly in the industrial market, as well as to CCGTs.

GAS NATURAL sold 46,698 GWh of gas for supply to the liberalised market by other supply companies (an 8.2% increase), basically under medium- and long-term contracts.

Despite a sharp increase in gas supply in Europe (+58.3%), international wholesale gas supplies increased just 2.5% due to the absence of spot transactions in 2005 as the Spanish market's demand in the winter prevented gas being allocated to other countries.

In GAS NATURAL's multi-utility area, close to 128,000 gas maintenance contracts were added in 2005, making a total of over 1,282,000 contracts in force at December 31, 2005.

GAS NATURAL continues to develop products and services based on off-line and on-line marketing channels.
At December 31, 2005, GAS NATURAL had 113 franchise centres, one company-owned centre and 763 associated centres-a powerful sales network that is unmatched in Spain.

At December 31, 2005, the Group had over 2,249,000 product and service contracts other than for gas sales, which includes financial services and the sale of electricity; this represents a 30.2% increase on 31 December 2004; consequently, there were 1.47 contracts per customer in Spain, in line with the company's strategic objective of 2 contracts per customer by 2008.

Because of marketing efforts, the number of homes with gas heating increased by 35,300, and 56,000 appliances were sold, including over 13,400 air conditioners.

On January 23, 2006, GAS NATURAL carried out an institutional campaign in the media aimed at all the company's stakeholders in order to highlight its brand values and reaffirm its corporate commitments. The "Joining energies together" campaign highlights the role of GAS NATURAL's customers, shareholders, employees and suppliers in building a solid, profitable future.

The campaign was geared towards the main television and radio channels.

2. Main risks related to the activity of GAS NATURAL

The activity of GAS NATURAL takes place in an environment in which there are risk that could affect its operations. These are as follows:

a) The activities of GAS NATURAL are subject to compliance with certain regulations. Infringement of these regulations and their amendments can adversely affect its activities, results and financial situation

GAS NATURAL is obligated to comply with legal regulations governing the natural gas industry. Although GAS NATURAL believes that it substantially complies with current legislation, this legislation is subject to a complex series of regulations that both public and private bodies can interpret in ways that may differ from the criteria applied by GAS NATURAL. The adoption of new laws, regulations and modifications to the current regulatory framework could adversely affect the activities, profits, grants and financial situation of GAS NATURAL.

In most of the jurisdictions where we operate, regulators may review the manner in which we are compensated for our gas distribution activities. During the years 2005 and 2004, gas distribution represented, respectively, 41.5% and 46.5% of consolidated turnover of GAS NATURAL and 77.7% and 74.9% of its operating profit, respectively. Changes to regulations could include changes to our compensation for regulated activities, the costs that we are permitted to claim as operating costs, capital expenditures, raw material costs, cost reduction incentives and efficiency factors. Adverse changes to any of these items could have a material adverse affect on our activities, profits, grants and financial situation.

The electricity activity of GAS NATURAL is exposed to a change or modification of the current regulatory framework of the electricity industry. This is why any change to this regulatory framework could have an adverse effect on the activities, profits, grants and financial situation of GAS NATURAL.

b) We are dependent on government concessions and authorizations and early termination of our concessions or authorizations by the granting authorities may prevent us from realizing the full value of certain assets and cause us to lose future profits without adequate compensation.

A characteristic common to certain sectors in which we operate, including in Spain, Latin America and Italy, as well as Morocco and Algeria, is the existence of legal and regulatory frameworks as well as agreements with various governmental authorities. A usual practice is entering into concession agreements with government authorities, which are based on the granting by such authorities of long-term permits or licenses connected to compensation systems geared to safeguard the recovery of investments. These agreements principally cover our gas distribution in Latin America and Italy as well as our transport activities through international pipelines.

Moreover, the concessions we hold are subject to early termination under certain circumstances. Generally, failure to comply with terms of the concession may result in the revocation of a concession and the enforcement of any guarantees or bonds that may have been given.

c) Our natural gas operations are subject to particular operational and market risks that could lead to an interruption in gas supply

Our operations are subject to the inherent risks normally associated with such operations, including pipeline ruptures, damage to tankers or assets related to electricity generation, explosions, pollution, release of toxic substances, fires, adverse weather conditions, third party failure to fulfil contracts, sabotage and accidental damage to our gas distribution network and other hazards and force majeure events, each of which could result in damage to or destruction of our facilities or damages to persons and property. For example, LNG available for purchase from Algeria declined due to lower supplies from Sonatrach related to an accidental explosion in January 2004 at a liquefaction plant in Skikda, Algeria. As a result, we had to increase our purchases from other suppliers and on the spot market. Events such as this explosion in Algeria, as well as sabotage to pipelines in the countries where we purchase our gas, damage to tanks, or other events are unpredictable and cause interruptions in our gas supply. To make up for such interruptions and in order to ensure an uninterrupted gas supply, we may have to purchase additional gas in the spot market which could be more costly than our contracted prices for gas. The spot market is a non-organized market aimed at the short-term acquisition of gas, primarily LNG.

As we do not own natural gas reserves, we enter into supply contracts. Therefore, gas availability could also be subject to risks of contract fulfilment from counterparties. Thus, it might be necessary to look for other sources of natural gas in the case of non-delivery from any of these sources, which could require payment of higher prices than those called for under such contracts. Furthermore, our financial condition and operations could be adversely affected if a significant event occurs that is not fully covered by insurance.

GAS NATURAL could face claims for civil liability for damages caused by its ordinary operations, such as breakdowns in the distribution network, gas explosions or damages caused by methane vessels transporting natural gas. The filing of these claims could lead to the payment of indemnities under current legislation in those countries in which GAS NATURAL operates, whenever its insurance policies do not totally cover them.

d) Rising natural gas prices could materially and adversely affect our results of operations and financial conditions.

A significant portion of our expenses are from the purchase of natural gas and LNG for our commercialization in the liberalized market and for supply in the regulated market. In addition, our combined cycle plants operate on natural gas. Although the prices that we may charge our gas customers in Spain generally reflect the market price of natural gas, our prices, in particular the prices applied in the regulated market, may not be adjusted to fully account for increased market prices in markets experiencing volatility. The prices for such commodities have historically fluctuated and we do not know if prices will remain within projected levels. Particularly noteworthy over the last two years, have been the changes in the price of crude oil, with a significant increase in price levels and their volatility. The annual average price of a barrel of Brent crude in December 2004 was $ 38.21, and increased by 42% in 2005 to a price of $ 54.38 in December 2005. Natural gas prices are also influenced by geopolitical factors, including, but not limited to, increases in demand in China and India, the war and post-war insurgency in Iraq, increased volatility in other parts of the Middle East and further deterioration of the economic and political situation in hydrocarbon-producing countries such as Venezuela and Nigeria. In addition to increased costs in our gas and oil related operations, increased natural gas and oil prices will cause our electricity generation costs to increase. An increase in natural gas prices would augment our operational costs and could have a materially adverse affect on our results of operations.

e) Pursuant to our take-or-pay contracts, we may have to purchase an amount of natural gas that is greater than our operational needs.

Most of our natural gas and LNG purchases are made pursuant to long-term contracts with clauses that require us to purchase a certain amount of natural gas annually take-or-pay. If we do not request the minimum contracted amount, we are still contractually bound to pay for the minimum contracted amount, commonly known as take-or-pay clauses. These contracts have been established by considering reasonable forecasts of our future needs. Significant deviations of the expected levels of demand could lead to the obligation to execute purchases of natural gas greater than our needs, which could have an adverse effect on our cost of operations.

f) The activities of GAS NATURAL are subject to compliance with environmental protection legislation. The breach of these laws could adversely and significantly affect the business, profits and financial situation of GAS NATURAL.

GAS NATURAL and its subsidiary companies must comply with environmental protection legislation, which requires, amongst other points, the preparation of environmental impact studies, obtaining the pertinent authorisations, licenses and permits, and compliance with certain requirements. Amongst others, GAS NATURAL must bear in mind the following risks:

– the environmental impact studies may not be approved by the competent authorities;

– public opinion may oppose the projects put forward by GAS NATURAL, which could lead to their delay; and

– the regulatory framework or its interpretation by the authorities may be modified or changed, which could lead to an increase in the costs that guarantee compliance with the new regulatory framework; this would adversely and significantly affect the activities and projections of GAS NATURAL and its subsidiaries.

In the last few years environmental protection requirements in various countries in which GAS NATURAL operates have stiffened. Although GAS NATURAL has made the necessary investments to comply with applicable legislation, the modification and application of said legislation could represent a demand for greater investments in order to be compliant, which could adversely affect the activities, profits and financial situation of GAS NATURAL.

The changes in environmental protection legislation could increase the costs of the start ups of combined cycle plants and adversely affect industrial customers that purchase gas for their businesses. The increase in the restrictions and charges for industrial market customers could lead to a decrease in the consumption of gas, which could adversely and significantly affect the activities and profits of GAS NATURAL.

Moreover, as from 2002, certain EU directives that could affect the activity of GAS NATURAL by limiting the emissions of pollutants into the atmosphere by large-scale combustion plants have been transposed into Spanish legislation. In accordance with the new National Plan for the Assignment of Emission Rights, GAS NATURAL has been assigned 14 million tonnes of emission rights for the period 2005-2007. This is why, in spite of the fact that at today's date GAS NATURAL has not participated as a buyer or seller in the emission rights market, it believes that it may have to buy emission rights on the market in the event that its CO_2 emissions were greater than the emission rights assigned to it. Emission rights are traded in an organised market which has been operating since January 1, 2005, and are subject to price fluctuations. The purchase of these rights will be a cost for GAS NATURAL. All of this could adversely and significantly affect the operations, profits and financial situation of GAS NATURAL.

g) Our financial condition and results of operations may be adversely affected if we do not effectively manage our exposure to interest rate and foreign currency exchange rate risk.

We are exposed to various types of market risk in the normal course of business, including the impact of interest rate changes and foreign currency exchange rate fluctuations. For this reason, we actively manage these risks to seek to avoid a significant impact on our results. At December 31, 2005, € 1,696.40 million or 46.9% of our net debt was denominated in non-euro currencies, predominately dollars. Our floating rate debt is principally subject to fluctuations in interest rates. The policy of GAS NATURAL is to hedge at least 30% of our fixed rate debt, which we may increase from time to time depending on our interest rate forecasts for a particular jurisdiction. At December 31, 2005, our fixed rate debt represented 48.2% of our net debt.

In addition, we pay for most of our supply of natural gas and LNG in U.S. dollars. Our costs and revenues in Puerto Rico are denominated in U.S. dollars. An appreciation of the U.S. dollar against the euro could negatively impact our costs. As of December 31, 2005, approximately 23.6% of our revenues were from our operations in Latin America and were generated in local currencies. To mitigate exposure to foreign exchange risk, we fund investments in Latin America, Puerto Rico and the Maghreb pipeline in local currency and attempt to match our dollar-denominated costs with dollar-denominated income, wherever possible. Our risk management strategies may not be successful, however, in limiting our exposure to changes in foreign currency exchange rates, which could adversely affect our financial condition and results of operations.

h) The construction and development of new infrastructure projects may be adversely affected by factors that are beyond our control and/or unpredictable.

The development of natural gas supply and distribution infrastructure and the exploration, production and sale of liquefied natural gas, as well as electricity generation, transmission and distribution projects, can be time-consuming and highly complex, which may affect our ability to develop new projects include, among others:

- delays in obtaining regulatory approvals, including environmental permits;
- shortages or changes in the price of equipment, materials or labour;
- opposition to energy infrastructure development, including in environmentally sensitive areas;
- opposition of political and ethnic groups;
- adverse changes in the political and regulatory environment in the countries where we and our related companies operate;
- expiration and/or renewal of existing interests in real property;
- adverse weather conditions, which may delay the completion of gas pipelines, electricity plants or substations, or natural disasters, accidents or other unforeseen events;
- the inability to obtain financing at rates that are satisfactory to us;
- service area competition; and
- unfavourable movements in natural gas and liquids prices

Any of these factors may cause delays in completion or commencement of operations of our construction projects and may increase the cost of contemplated projects. If we are unable to complete the projects contemplated, the costs incurred in connection with such projects may not be recoverable and our profitability may be negatively impacted. Additionally, these factors may impact our ability to achieve our target for gas supply consisting of equity gas, an objective we aim to achieve through our agreement dated April 2005 with Repsol YPF, S.A., regarding upstream and midstream business.

i) Demand for natural gas and electricity may be negatively impacted by weather, negatively affecting our revenues and results of operations.

The demand for electricity and natural gas is closely related to weather and average temperatures. Our operations generally experience higher demand during the cold weather months of October through March in Europe and Mexico (or April through September in Argentina and, to a lesser extent, Brazil) and lower demand during the warm weather months of April through September in Europe and Mexico (or October through March in Argentina and, to a lesser extent, Brazil). A significant portion of consumption of natural gas in the winter months relates to the production of electricity and heat and, in the summer months, to the production of electricity for air conditioning. Revenues and results of operations for our natural gas distribution and commercialization operations would be negatively affected by periods of unseasonable warm weather during the autumn and winter months. Likewise, electricity demand may decrease during mild summers as a result of reduced demand for air conditioning, causing a negative impact on revenues generated from our electricity generation and commercialization businesses.

j) The success of our activities in the electricity sector depends, in part, on many factors beyond our control.

The success of our electricity projects could be adversely affected by factors beyond our control, including the following:

- increases in the cost of generation, including increases in fuel costs;
- the possibility of a reduction in the projected rate of growth in electricity usage as a result of factors such as regional economic conditions, excessive reserve margins and the implementation of conservation programs;
- risks incidental to the operation and maintenance of electricity generation facilities;

– the inability of customer to pay amounts owed under electricity purchase agreements;

– the increasing price volatility due to deregulation and changes in commodity practices;

– over-capacity of generation in markets served by the electricity plants we own or in which we have an interest;

– uncertain regulatory conditions resulting from the ongoing deregulation of the electric industry in the jurisdiction where we operate, the United States, and in non-U.S. jurisdictions; and

– alternative sources and supplies of energy becoming available due to new technologies and interest in renewable energy and cogeneration.

k) Our Latin American subsidiaries are subject to a variety of risks, including economic downturns and political risks.

We derive and expect to continue to derive a significant portion of our revenues from the Latin American markets, and our operations and investments in Latin America are exposed to various risks inherent in operating and investing in Latin America. Operations in Latin America accounted for 17.1% of consolidated operating income for the year ended December 31, 2004 and 20.9% for the year ended December 31, 2005. Risks of investing and operating in Latin America include risks relating to the following:

– significant governmental influence over local economies;

– substantial fluctuations in economic growth;

– historically high levels of inflation;

– devaluations or depreciation, or over-valuation, of local currencies;

– exchange controls or restrictions on expatriation of earnings;

– high domestic interest rates;

– changes in governmental fiscal, economic or tax policies;

– unexpected changes in governmental regulation;

– social unrest; and

– overall political and economic instability.

Most or all of these factors have occurred at various times in the last two decades in GAS NATURAL's most important Latin American markets, Brazil, Colombia, Mexico and Argentina.

In addition, revenues from operations of our Latin American subsidiaries, their market value and the dividends collected from these subsidiaries are exposed to risks in the countries in which they operate, which may materially and adversely affect demand, consumption and exchange rates.

– For example, in the recent past, our Argentine subsidiaries' financial condition and results of operations suffered due to adverse economic and political conditions prevailing in Argentina. The macroeconomic and political situation in Argentina led to legislation resulting in the repeal of certain provisions of one of our subsidiary's concession contracts that permitted its distribution tariffs to be pegged to the dollar and provided for certain price indexation mechanisms, and in the Pesoification of all privately negotiated contracts and spot energy market prices. The Authorities froze gas transportation and distribution rates at 1999 year-end prices. Subsequently, the legal framework applicable to the transportation and distribution business was suspended, tariffs were obligatorily converted into pesos, and the inflation-related adjustment was revoked. In addition, such statute provided that a new legal framework for the industry would be renegotiated with the companies. GAS NATURAL has now reached an agreement with the Government of Argentina, pending approval by Parliament, which stipulates a rate update.

– We cannot predict what result any further deterioration in economic and political conditions in Latin America, or other legal or regulatory developments relating to the countries in which we operate in Latin America, including Argentina, could have on our business, financial condition or results of operations.

3. Technology, research, innovation and environmental protectione

The information on technology, research, innovation and environmental protection is included in Note 38 to the Accounts.

4. Human Resources

At December 31, 2005, GAS NATURAL has a total of 6,717 employees, of which 3,712 are employed in Spain, 412 in the rest of Europe, 109 in the Maghreb, 2,405 in Latin America and 79 in Puerto Rico.

5. Risk management and derivative financial instruments

The information on risk management and derivative financial instruments is set out in notes 2.26 and 9 to the Accounts.

6. Future perspectives

The strategy of GAS NATURAL will continue to evolve in line with the directives set in the Strategic Plan that is in force (PE 2004-2008).

Strategic Plan

The Strategic Plan of GAS NATURAL for 2004-2008 includes investments totalling € 8,800 million.

The distribution of investment by activity under the Strategic Plan is as follows:

Investment breakdown (*)	%
Gas distribution	28%
Electricity generation CC	23%
Latin America	14%
Europe	14%
Up & Midstream	10%
Wind power	7%
Others	4%
Total Investment	**100%**

(*) The breakdown by activity in the table above relates to the activity prior to the reorganisation of the main business lines in 2005.

Gas distribution: the investments foreseen are needed to expand the distribution network and increase the number of supply points by 1.7 million in the period, as well as maintain and renew the pipeline networks in order to assure the quality of supply.

Electricity generation: includes the investment needed in order to have 4.800 MW in Spain in combined cycle and more than 1,000 MW under the special regime by 2008.

Latin America: investment needed to extend the pipeline network to other countries in order to increase by number of supply points in the period to 1.7 million.

Europe: investment needed to reach the figure of 700,000 customers in Italy by 2008 and to consolidate our presence in France.

Upstream & Midstream: this investment relates mainly to the integrated LNG projects. Of special note is the Gassi Touil project, which involves the creation of a consortium 40% owned by GAS NATURAL and 60% by Repsol YPF, S.A., It involves the exploration, production, liquefaction and commercialisation of gas reserves, including the construction of one or two gas liquefaction plants with a 61-81 TWh/year capacity. The project has a duration of 30 years and commercial operations are expected to begin in 2010. The total investment approved as at September 2005 totals between € 600 and € 800 million up to 2009.

Perspectives 2006

The positive trends in 2005 should lead to a n increase in the profitability of GAS NATURAL in 2006.

- It is expected that the improved mix of supplies and the new conditions in the gas commercialisation market will have a significant effect in 2006.

- The profitability of the electricity generation business is expected to improve after the start up of the Cartagena combined cycle plant and with the new supply contract containing very competitive conditions.

- It is expected that the distribution business will continue to provide solid growth thanks to the increase in remuneration and the positive performance of the business in Latin America.

Last September 5, 2005 GAS NATURAL launched a Public Takeover Bid for all the shares 100% of Endesa S.A., the main electricity company in Spain. GAS NATURAL believes that this operation will give rise to the creation of a large integrated energy group.

The goal of GAS NATURAL, with the acquisition of the shares of Endesa, S.A., is to take over control of the company and give the latter's shareholders the possibility of becoming shareholders of GAS NATURAL. Thus, GAS NATURAL is seeking the full integration of Endesa, S.A., from the operational and legal perspective, into its Group in order to create an integrated gas and electricity champion in Spain with a strong global presence.

The complementary nature of the activities of GAS NATURAL and Endesa, S.A., as well as their management capacity will allow the new GAS NATURAL Group to take advantage of the growth of the markets in which both companies are operating. By integrating Endesa, S.A., into the GAS NATURAL Group, GAS NATURAL would become a major global player in the energy sector, with more than 30 million customers in 11 markets and a balanced position in the Spanish electricity and gas markets. Furthermore, the goal of this Group would be to maintain a solid financial profile, with the commitment to investing in its strategic businesses.

The industrial marriage of GAS NATURAL and Endesa, S.A. could generate major benefits for its customers. Specifically:

a) the cost savings arising from the joint operations of the gas and electricity networks of GAS NATURAL and Endesa, S.A.: it is estimated that there will be savings of approximately € 70 million from joint operations of the distribution networks of both companies in Spain. GAS NATURAL is committed to fully reinvesting these possible savings in the improvement of the quality of its customer service; and

b) the territorial shareholding structure announced by GAS NATURAL would bring the decision making process closer to the markets and customers.

Creation of a major global operator in the energy sector

With the acquisition of Endesa, S.A., the goal of GAS NATURAL is to create a major global integrated gas and electricity group, basically in Europe and Latin America.

If the expected divestitures are made, the resulting group would be the largest in gas and the second in electricity in Spain and would have a relevant position in Italy. It would maintain its current position in the liquid natural gas (LNG) market and a significant presence in Latin America.

Creation of a major operator in the fastest growing European markets

The Group resulting from the integration of the two companies would become one of the major gas and electricity operations in Spain and Italy.

As for Spain, the resulting Group would become the largest gas operator and the second largest electricity operator, which would allow it to take advantage of the convergence of gas and electricity and the stiff growth expected in gas powered electricity generation in Spain in the forthcoming years, moving forward, as a result, and like the major European players, in the integration of the gas and electricity businesses. Moreover, the new group would have a combined mix of electricity generation in line with the mix in the sector, by reducing the weight of coal and increasing electricity from Combined Cycle Gas Turbines (CCTGs) and renewables.

In Spain, it is also expected that there will be major growth in gas powered electricity generation, rising from 6,000 MW from Combined Cycle Gas Turbines (CCTGs) in 2004 to 24,000 MW form CCTGs in 2008. In fact, it is expected that the increase in the demand for gas in Spain is mainly motivated by the development of Combined Cycle Gas Turbines.

As for Italy, the new group would be better positioned to take advantage of the opening of the Italian market, due to the fact that:

a) Endesa, S.A., has played an active role in the de-regulation of the energy market through its acquisition of Enel's energy generation assets. Moreover, Endesa, S.A., has sought involvement in re-conversion projects (re-powering projects or the conversion of convention thermal electricity plants based on coal or fuel-gas into combined cycle plants) and the new construction of combined cycle plants in order to increase production at its plants.

b) GAS NATURAL on the other hand has obtained a substantial portfolio of gas customers through one-off acquisitions (of companies in the Italian groups Brancato, Nettis and Smedigas), in order to reach the target individually of 700,000 customers in 2008.

Complementarity of the main management capabilities

The Offering Company believes that there is a high degree of complementarity between the management capabilities of GAS NATURAL and Endesa, S.A. Thus, for example:

a) GAS NATURAL has a great deal of experience in obtaining gas flexibly and competitively at the global level, along with its access to equity gas or direct participation in gas reserves through an agreement with Repsol YPF, S.A. This strategy can be seen working in the development of combined cycles, LNG management capability, experience in the development and management of gas distribution and a business highly focuses on the customer.

b) Endesa, S.A., for its part has a great deal of experience in the management of energy assets in Spain, in penetrating high growth markets, in expansion in Latin America and Italy, and is a major operator in electricity distribution.

Fitting in with Endesa's strategic potential

The new GAS NATURAL Group would also be well-positioned to maximise the strategic potential of the assets of Endesa, S.A., thanks to its fit with the energy generation assets of GAS NATURAL and the joint use of the combustibles mix. Thus, GAS NATURAL would be able to satisfy Endesa's growing needs for gas internationally in a flexible, competitive way.

Furthermore, this group could be in a position to complete Endesa's generation capacity through the combined cycle turbines of GAS NATURAL while GAS NATURAL could diversify its energy generation portfolio (now only natural gas), even in spite of the expected sell off of generation assets. Finally, GAS NATURAL could continue to take advantage of the growth opportunities in the gas markets in Europe (mainly Spain and Italy) and Latin America (Brazil and Mexico).

Generation of synergies and cost savings

The strategic fit of the assets of Endesa, S.A., and GAS NATURAL and their respective organisation could generate d a series of synergies and cost savings.

Specifically, and in a general way, GAS NATURAL's goal would be for these synergies to represent a steady yearly savings reaching € 350 million per year by 2008. Of this amount, approximately one half of the potential savings, i.e., € 175 million, would arise from the integration of the commercial platforms, call centres, invoicing and commercial services and marketing. Moreover, it is expected that there would be a reduction of around € 85 million in corporate services and administrative structure, and € 90 million in information technologies (through the optimisation of operations, reduction of maintenance costs and unification of systems). It is expected that these savings would be allocated to financing the growth of the business of the new group, or, as the case may be, increasing the profit to be distributed to shareholders.

On the other hand, the distribution business in Spain, through the joint operation of gas and electricity networks, would also offer a potential savings on purchases and the outsourcing of services up to € 70 million annually, which is lower than the figure announced previously, as a result of the fact that the conditions imposed by the Government involve larger divestitures of gas pipeline networks than initially foreseen as well as improvements to the distribution area. GAS NATURAL plans to reinvest these savings fully in the distribution business in order to enhance the quality of customer service.

Furthermore, it is estimated that there will be possible synergies between both groups in Latin America totalling € 30 million, although this figure is not include in the € 350 million mentioned above.

7. Own shares

At December 31, 2005 none of the companies of GAS NATURAL hold own shares.

8. Proposed distribution of profit

The information on the proposed distribution of profit is set out in Note 29 to the Accounts.

9. Subsequent events

The information on post-balance sheet investments is set out in Note 39 to the Accounts.

Consolidated data 2001-2005

Operating statistics

	2001	2002	2003	2004	2005
Gas distribution (GWh)	**305,401**	**341,396**	**352,134**	**385,655**	**422,912**
Spain	189,877	213,092	211,200	228,954	254,774
Regulated gas sales	111,216	88,693	63,437	51,449	51,121
TPA	78,661	124,399	147,763	177,505	203,653
Latin America	115,524	128,304	140,934	155,346	165,408
Regulated gas sales	66,750	77,506	83,140	92,097	99,891
TPA	48,774	50,798	57,794	63,249	65,517
Italy	–	–	–	1,355	2,730
Regulated gas sales	–	–	–	1,315	2,652
TPA	–	–	–	40	78
Gas supply (GWh)	**214,886**	**239,318**	**266,204**	**288,055**	**317,555**
Spain	212,262	223,221	233,140	243,510	271,880
International	2,624	16,097	33,064	44,545	45,675
Gas transportation/EMPL (GWh)	**88,341**	**103,392**	**101,803**	**115,637**	**145,923**
Gas distribution network (km)	**73,895**	**79,574**	**85,905**	**95,155**	**100,150**
Spain	28,829	31,648	34,701	37,534	39,611
Latin America	45,066	47,926	51,204	54,120	56,763
Italy	–	–	–	3,501	3,776
Increase in gas distribution connections, in thousands	**548**	**567**	**625**	**620**	**615**
Spain	301	287	308	326	325
Latin America	247	280	317	280	253
Italy	–	–	–	14	37
Gas distribution connections, in thousands (as at 31/12)	**7,538**	**8,082**	**8,707**	**9,565**	**10,179**
Spain	3,910	4,174	4,482	4,808	5,134
Latin America	3,628	3,908	4,225	4,505	4,757
Italy	–	–	–	252	288
Contracts per customer in Spain (as at 31/12)	**1.1**	**1.2**	**1.3**	**1.4**	**1.5**
Employees (as at 31/12)(1)	**6,154**	**6,040**	**6,150**	**6,697**	**6,717**
Electricity sales in Spain (GWh)	**809**	**2,571**	**3,023**	**4,457**	**6,296**
Electricity generated (GWh)	**–**	**2,075**	**4,324**	**7,272**	**10,466**
Spain	–	2,075	4,042	5,802	8,904
America	–	–	282	1,470	1,562

(1) In order to ensure a proper comparison, the figures for Enagás have not been included.

Financial statistics

Balance figure (In millions of euros)

The figures corresponding to 2001-2002-2003 are expressed in accordance with Spanish accounting principles, while those corresponding to 2004 and 2005 are presented in conformance with IFRS.

	2001	2002	2003	2004[2]	2005
Property, plant and equipment and intangible fixed assets	10,443	7,622	8,854	10,639	12,706
Provisions and accumulated depreciation	(2,906)	(2,225)	(2,548)	(3,164)	(3,801)
Net property, plant and equipment and intangible fixed assets	**7,537**	**5,397**	**6,306**	**7,475**	**8,905**
Investments[1]	**287**	**652**	**668**	**641**	**884**
Goodwill	**56**	**72**	**208**	**334**	**456**
Shareholders' equity	**3,678**	**3,993**	**4,308**	**4,571**	**5,411**
Minority interests	**142**	**201**	**212**	**220**	**355**
Deferred income	**736**	**271**	**297**	**409**	**433**
Non current borrowing	**2,485**	**2,027**	**1,936**	**2,152**	**3,304**
Current borrowing	**1,662**	**562**	**536**	**704**	**512**

(1) Financial investments for the years according to Spanish accounting principles adapted in order to facilitate their comparison with IFRS information.

(2) Details of conciliation between Spanish accounting principles and the IFRS for comparative purposes are included in note 3.2 of the Accounts.

Profit and Loss Account Figures (In millions of euros)

The figures corresponding to 2001-2002-2003 are expressed in accordance with Spanish accounting principles, while those corresponding to 2004 and 2005 are presented in conformance with IFRS.

	2001	2002	2003	2004[1]	2005
Sales	5,531	5,268	5,628	6,266	8,527
Other income	117	88	85	87	108
Operating revenues	**5,648**	**5,356**	**5,713**	**6,353**	**8,635**
Gross operating income	**1,484**	**1,366**	**1,202**	**1,335**	**1,519**
Operating income	**1,019**	**907**	**799**	**862**	**969**
Net financial cost	**(287)**	**(208)**	**(58)**	**(154)**	**(221)**
Income before tax	**757**	**1,011**	**790**	**926**	**1,068**
Net income for the year	**561**	**798**	**612**	**695**	**827**
Net income for the year attributable to equity holders of the company	**571**	**806**	**568**	**642**	**749**

[1] Details of conciliation between Spanish accounting principles and the IFRS for comparative purposes are included in note 3.2 of the Accounts.

Cash Flow Statement Figures (In millions of euros)

The figures corresponding to 2001-2002-2003 are expressed in accordance with Spanish accounting principles, while those corresponding to 2004 and 2005 are presented in conformance with IFRS.

	2001	2002	2003	2004	2005
Net cash generated from operating activities	**813**	**884**	**793**	**806**	**838**
Acquisition of property, plant and equipment assets and intangible assets	**970**	**925**	**933**	**1,015**	**1,151**
Acquisition of subsidiaries and other invesments	**18**	**160**	**74**	**420**	**436**
Proceeds from sale of non current assets	**100**	**1,102**	**112**	**390**	**472**
Dividends paid	**167**	**158**	**207**	**296**	**368**
Proceeds/(payments) from/of borrowings	**110**	**(334)**	**(162)**	**241**	**560**

Stock market statistics

	2001	2002	2003	2004	2005
Number of shares traded (millions)	180.4	476.8	345.0	258.9	240.6
Funds traded (thousands of euros)	3,453,138	9,148,038	5,946,824	5,169,724	5,537,046
Last share price (euros)	18.70	18.07	18.55	22.76	23.66
Maximum (euros)	21.40	22.87	19.85	22.99	24.88
Minimum (euros)	16.60	15.37	14.92	18.18	21.33
Book value per share (euros)	8.21	8.92	9.62	10.70	12.83
Ebitda per share (euros)	3.31	3.05	2.68	2.98	3.39
Net profit per share (euros)	1.27	1.80	1.27	1.43	1.67
Dividend per share (euros)	0.33	0.40	0.60	0.71	0.84
Share price-book value ratio	2.3	2.0	1.9	2.1	1.8
Enterprise value-Ebitda ratio	8.1	7.1	8.5	9.6	9.4
Price earnings ratio	14.7	10.0	14.6	15.9	14.1
Pay out ratio (%)	26.0	22.2	47.3	49.5	50.2
Yield ratio (%)	1.8	2.2	3.2	3.1	3.6
Share capital (number of shares as at 31/12)	447,776,028	447,776,028	447,776,028	447,776,028	447,776,028
Stock market capitalisation (thousands of euros)	8,373,412	8,091,313	8,306,245	10,191,382	10,594,381