Annual Report
2006

gasNatural

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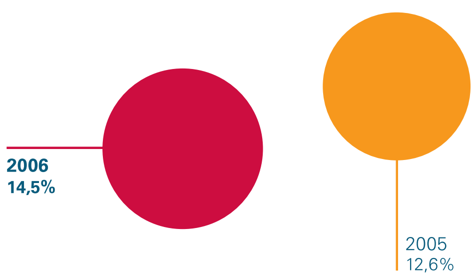
Summary

Basic Figures

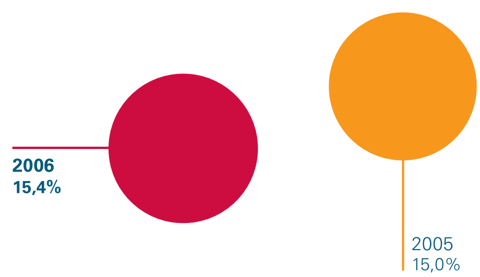
ROACE

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



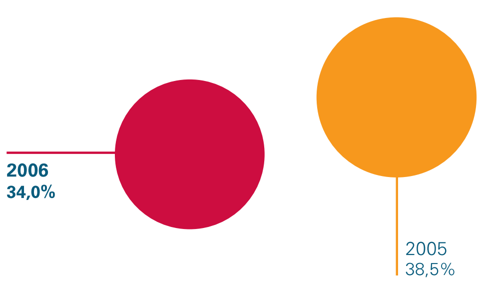
ROE

Profits after tax/Average net worth.

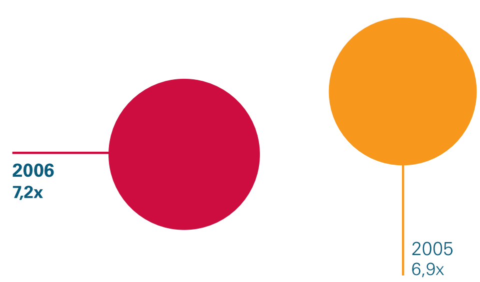


Debts

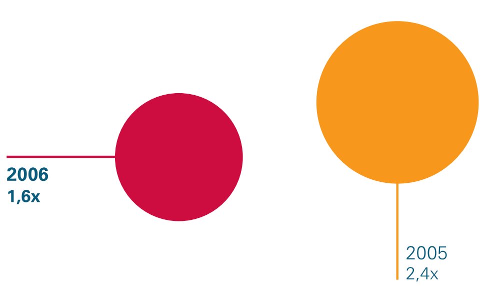
Net financial debt/Net financial debt+Net worth+Minority interests.



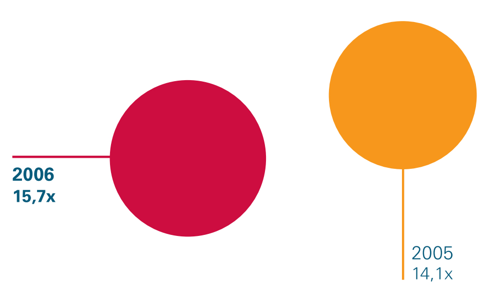
Ebitda/Net Financial Results

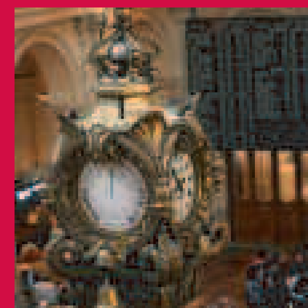


Net Debt/Ebitda



P/E





Operations

	2006	2005	%
Gas Supply (GWh)	294,451	305,324	(3.6)
Gas Transportation/EMPL (GWh)	129,499	145,923	(11.3)
Gas Distribution Supply Points (in thousands)	10,662	10,179	4.7
Gas Distribution Network (km)	104,528	100,149	4.4
Electricity Generated (GWh)	19,514	10,466	86.4
Contracts per Customer in Spain	1.43	1.47	(2.7)

Personnel

	2006	2005	%
Nº of Employees ([1])	6,686	6,717	(0.5)

Financial

(millions of euros)

	2006	2005	%
Net Turnover	10,348.3	8,527	21.4
Gross Operating Profits (Ebitda)	1,912.4	1,519	25.9
Operating Profit	1,263.1	969	30.4
Investments	1,164	1,484	(21.6)
Profit Attributable to the Group	855	749	14.1

Stock Information

(euros/share)

	2006	2005	%
Share Prices as at 31 December	29.99	23.66	26.8
Book Value	13.39	12.88	4.0
Profit	1.91	1.67	14.1
Dividend	0.98	0.84	16.7

([1]) Including all the staff at the jointly managed companies (Repsol-Gas Natural LNG and EcoEléctrica).

Dear Shareholders,

I am once again honoured to be addressing all of you for the purpose of presenting with our Company results. The excellent figures we have obtained are yet again proof of the Group's ever increasing efficiency and profitability, and our consequent ability to overcome sector-related obstacles and to adapt to the changing climate of the environment in which we carry out our activities.

In general terms, 2006 was characterised by considerable competition in the industrial and residential segments, and by high and volatile prices in the international gas markets. In this context, the Group's leading position in the field of liquefied natural gas has enabled us to manage fluctuations in demand and promote our main competitive advantages, which are focused on the flexibility and diversification of gas procurement.

The year 2006 marked a significant turning point for our Group, which became the sector leader and the most efficient electricity generator by means of natural gas combined cycles. Likewise, the stable, sound and profitable growth of our basic gas distribution business in regulated markets, together with the consolidation of our leadership in commercialisation despite strong competition from other operators, reaffirms our confidence in our ability to reach the targets for 2008.

I would like to make some comments on the Endesa takeover bid made on 5 September 2005. As you will no doubt remember, we proposed the creation of a global gas and electricity power generation company that would contribute towards strengthening the Spanish energy sector. Our aim was to make the Spanish energy sector more efficient and competitive and capable of successfully meeting the international challenges of the sector.

Our initiative did not reach a satisfactory conclusion. On 1 February 2007, after nearly 17 months immersed in legal processes, both on a national and international level, the Board of Directors of Gas Natural SDG decided unanimously to withdraw from the operation. We were not willing to participate in a process full of uncertainties that could only lead to an unstable situation with considerable legal insecurity.

We are confident that this decision is best for the future of our Company. We must now focus on the way forward, with our sights set on securing the new strategic objectives that will define our future.

I would like to outline three main points regarding the 2006 figures. Firstly, the growth in double-figure results, i.e. the 25.9% increase in gross operating profit (Ebitda), and the 14.1% growth in net profits that reached a record figure of 855 million euros.

To have achieved this growth in the uncertain climate mentioned above, further consolidates the fulfilment of the Strategic Plan 2004-2008.

Secondly, the number of gas distribution supply points totalled 10.7 million, with 483,000 new customers in Spain, Europe and Latin America. This implies a growth of 4.7%. A breakdown of these figures reveals that we have nearly 5.5 million customers in Spain, 4.9 million in Latin America and more than 0.3 million in Italy.

Finally, in the electricity business we have increased our share of electricity generation under the ordinary system in the Spanish market up to nearly 8%. This means that the Group is ranked as fourth operator in the Spanish generation market, in line with our target of reaching 10% in 2008.

The upward evolution of these figures reinforces the proven solidity of our business model and our strategic plan, and constitutes an excellent starting point for the new horizons envisaged for the Group. This has led to a further increase in dividend, this time of 16.7%, in line with the target of reaching a payout in the range of 52-55% in 2008.

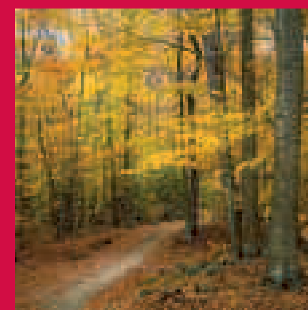
As far as perspectives for the year 2007 are concerned, the expectations for growing gas demand in Spain, the continuous optimisation of customer portfolios and operational efficiency, added to the start-up of 800 MW of installed power at the Plana del Vent (Tarragona) combined cycle power plant, indicate another year of expected Ebitda double-figure growth, as envisaged by our current Strategic Plan.

Allow me to sign off by thanking all our Group's employees for their huge effort, especially over the last year, which has led to the results outlined above. We are proud to have such a professional and humane team, and the 2006 results reflect their motivation and dedication to the Gas Natural Group business project.

I should like to express my gratitude to you for your loyalty and trust in our management. Your support inspires us to continue working to meet growth, profitability and international projection targets that will guarantee our future development.

Salvador Gabarró Serra
Chairman of the Board of Directors

Most Significant Events



First Quarter

- Gas Natural Andalusia commenced the supply of natural gas to the first customers in the town of El Ejido (Almeria).

- The Gas Natural Group started its activity in the town of Vilallonga del Camp municipality (Tarragona).

- Rotártica, held by Gas Natural SDG and Fagor Electrodomésticos, won the award at the 10th European Business Awards for the Environment, convened by the European Commission and the Entorno Foundation, in the sustainable development product classification.

- Gas Natural São Paulo Sul commenced a supply of natural gas to the residential market in the town of Mairinque, in São Paulo (Brazil).

- Gas Natural Soluciones signed an agreement with the Béjar City Council (Salamanca) for the purpose of promoting the use of natural gas at municipal installations and the efficient use of energy.

- The Gas Natural Foundation launched its activities in the Cantabrian region with the holding of "Environmental Management of Cattle Manure" seminar in Santander, and the signing of a collaboration agreement with the Department of the Environment of the Government of Cantabria to promote actions within the sphere of environmental protection in that autonomous region.

- Gas Natural São Paulo Sul began a supply of natural gas to the secondary network of the "Virtual Gas Pipeline" in the towns of Avaré and Iperó (São Paulo).

- Gas Natural Andalusia signed an agreement with the Council of Rincón de la Victoria (Malaga) to supply natural gas to that town.

- The Gas Natural Group set up a campaign through the interactive area of its web to promote the efficient use of domestic energy. The aim of this initiative is to make the growing demand for energy compatible with the preservation of the environment thus contributing to the sustainable development of our society.

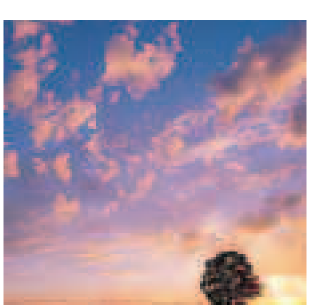
- Gas Natural Castilla y León began supplying natural gas to the town of Castellanos de Moriscos (Salamanca).

- CEG Rio inaugurated the natural gas station number 400 in the state of Rio de Janeiro.

- The Gas Natural Foundation and the Bosch i Gimpera Foundation signed an agreement to carry out research and analysis works of the deeds and registers of the Catalonia gas industry up until 1905.

- The Gas Natural Group set up the combined cycle power plant of Cartagena. This installation, with 3 x 400 MW modules providing 1,200 MW is one of the biggest combined cycle power plants in operation in Spain.

- Gas Natural México took part in the "Generación Distribuida de Luz y Fuera del Centro", one of the most relevant infrastructure projects in the city of Mexico, comprising the set-up of 14 electricity power stations at strategic points of the city.



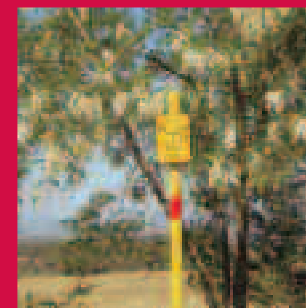
- The Gas Natural Foundation and the Departament of the Environment and Territorial Planning of the Community of Madrid signed an agreement to carry out environmental protection activities and the reduction of the impact caused by the consumption of energy of the Community of Madrid.

- Together with Valladolid University, the Gas Natural Foundation signed an agreement to carry out a study on the role that forests have in mitigating climate change.

- CEG launched the first bus in Brazil that uses natural gas as a vehicle fuel and diesel.

- Gas Natural Cegas and the Association of Consumers in Action, FACUA of The Community of Valencia signed an agreement for the dissemination of information measures and protection of users of energy services provided by the Company.

- Within the framework of the “First Export Programme”, the Gas Natural Foundation and the SAyDS (the Secretariat of Environment and Sustainable Development), via the UPLyCS (the Unit of Cleaner Production and Sustainable Consumption) of the Argentine Government, signed a collaboration



agreement to carry out an exploratory study for the wine producing sector, which includes the processes employed in the sector and the demands of the international markets with regard to the environmental impact of these products.

• Gas Natural Andalucía and the Council of Vélez-Málaga signed two agreements to set up an LNG plant and start work to provide natural gas to that community.

• Gas Natural Castilla y León and the Association of Consumers in Action, FACUA of Castilla y León signed a collaboration agreement for the purpose of protecting users of the Company and setting up an amicable mediation mechanism to solve the differences that may arise between the partners of FACUA Castilla y León and the power company.

• Gas Natural México received recognition from AMCO (the Mexican Association of Organizational Communicators) for the technological applications of internal communication used on its intranet.

• Gas Natural Distribución SDG and COAATM (the Proffesional Body of Architects of Madrid) signed an agreement to promote and improve training of building professionals, as well as sponsor the 2nd Research Awards organised by the School of Construction Foundation.

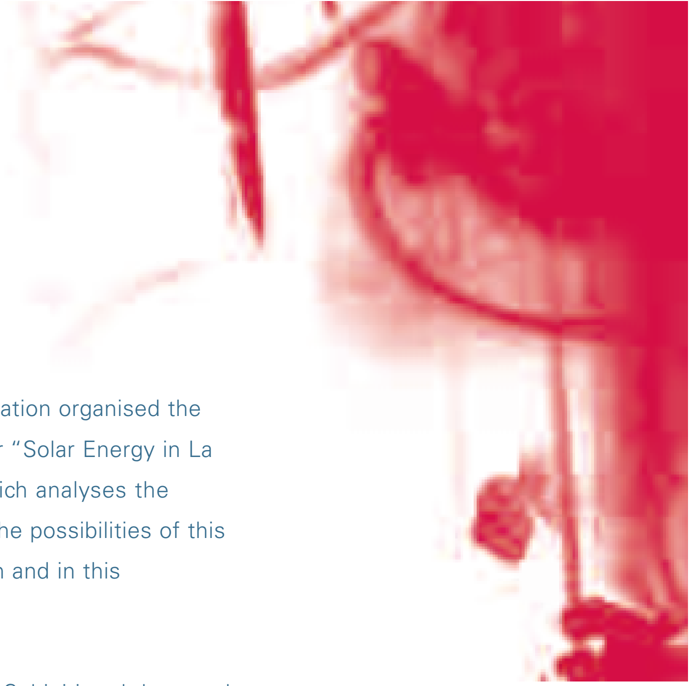
• Gas Natural São Paulo Sul inaugurated the pilot project to use natural gas as a vehicle fuel (NGV) on six urban collective buses in the town of Sorocaba.

• Gas Natural Castilla y León began supplying natural gas to Villanubla (Valladolid).

• Gas Natural ESP provided natural gas in the town of Sibaté, in Cundinamarca (Colombia).

• Gas Natural Distribución SDG and UCE (the Community of Madrid Consumer Union) signed an agreement to collaborate in the publication of information concerning energy services that may be of interest to consumers.

• The Gas Natural Foundation launched the "Energy and Environment at Shopping Centres and Department Stores" seminar in Seville, the aim of which is to show the environmental problems of these shopping centres in Spain and try to find operational solutions to reduce the environmental impact of the energy of these establishments.



- Gas Natural Cantabria launched the new 2006 campaign for gas installers, the purpose of which is to reinforce the presence of natural gas in the region through ongoing and joint endeavours by gas installers from this region.

- Gas Natural México opened the first natural gas station in the city of Monterrey (Nuevo León).

- Gas Natural Andalucía and the Association of Consumers in Action, FACUA-Andalusia signed a collaboration agreement for the promotion and dissemination of information measures and protection of users of energy services provided by the Company.

- Gas Natural São Paulo Sul started distribution of natural gas to the first service station in the town of Araçariguama, in São Paulo.

- Gas Natural SDG, Repsol YPF and Sonatrach signed an agreement to set up a joint company for the construction of a LNG plant in the integrated gas project of Gassi Touil, in Algeria.

- The Association of Consumers in Action, FACUA-Andalusia awarded Gas Natural Andalusia one of its 12th awards for "its readiness for dialogue and the consensus with the consumers' representatives", in an act organised on the occasion of the Worldwide Day of Consumers' Rights.

- In Bailén, the Gas Natural Group and the Provincial Delegation of the Department of Innovation, Science and Companies of Jaén presented the enlargement of the natural gas supply infrastructures in this region. The reinforcement branch line, with a length in excess of 4,000 m, will enable the supply capacity of the gas infrastructure to be raised significantly, both in the region of Andújar as well as in Bailén.

- The Gas Natural Foundation organised the environmental seminar "Solar Energy in La Rioja" in Logroño, which analyses the current situation and the possibilities of this kind of energy in Spain and in this autonomous region.

- Gas Natural São Paulo Sul initiated the supply of natural gas to the industrial market in the town of Cerquilho.

- The Gas Natural Group signed agreements with the councils of Mont-roig del Camp, Pratdip and Tivissa (Tarragona) to supply natural gas to these three towns, coinciding with the construction of the combined cycle electricity plant of Plana del Vent, in Vandellós i l'Hospitalet de l'Infant (Tarragona).

- The Gas Natural Foundation and the Department of the Environment and Housing of the Generalitat de Cataluña Regional Government organised the "Strategies to

Promote Public Behaviour that favours the Environment", for the purpose of analysing how to foster responsible public conduct.

- Gas Natural São Paulo Sul finalised the gasification of the pipeline that supplies the towns of Tieté, Cerquilho and Laranjal Paulista.

- Gas Natural Italia commenced the works to build the natural gas distribution network in Sbarre and Rione Ferrovieri (Reggio Calabria).

Second Quarter

- Gas Natural SDG and Repsol YPF presented the integrated LNG project at the 10th Africa Oil & Gas Trade and Finance Congress, one of the biggest international meetings of the energy and financial sector. This project is being carried out jointly with Sonatrach in Gassi Touil (Algeria).

- Together with the City Council and the Community of Madrid and CSCAE (the Council of Colleges of Architects of Spain), the Gas Natural Foundation organised "The Refurbishment of Buildings with Environmental Criteria" seminar, as part of the Real-Estate Exhibition in Madrid.

- Gas Natural México received the ESR-2006 Award as a socially responsible company. This award is given by CEMEFI (the Mexican Centre for Philanthropy) and AliaRSE (the Alliance for Corporate Social Responsibility).

- Through their joint venture targeted at the international liquefied natural gas business (Stream), Gas Natural SDG and Repsol YPF signed a framework agreement with the Government of Nigeria which sets forth the conditions for the construction and operation of the future LNG plant with capacity for 10 bcm.

- Gas Natural Castilla-La Mancha organised the "Natural Gas and Safety-Emergency Actions" seminar in Valdepeñas, which boasted the presence of personnel from the fire brigade of Ciudad Real and local police officers from the Valdepeñas City Council.

- The Gas Natural Foundation signed an agreement with the University of Barcelona (UB) that includes the Foundation's collaboration in the organisation of the "Energy and Sustainability" course, as part of the summer courses offered at this University.

- The general manager of the Gas Natural Foundation, Pedro Fábregas, presented the book entitled "A history of gas in Alicante", the first of a collection of essays on the history of gas in Spain, which the Foundation will publish jointly with LID Editorial Empresarial.

• Gas Natural São Paulo Sul commenced the supply of natural gas to the town of Laranjal Paulista in São Paulo.

• The Gas Natural Group acted as sponsor in the Aid Programme for Paralympics (ADOP), which was carried out following the agreement signed by the State Secretary for Sport, the State Secretary for Social Welfare and the Adecco Foundation.

• Gas Natural SDG and Repsol YPF signed an agreement with the shipbuilder Knutsen for a time-charter contract for a methane vessel with capacity for 138,000 m^3 which both companies will target of the transportation of LNG from 2009 onwards.

• Gas Natural Cantabria opened the Colindres-Limpias-Ampuero pipeline, which will satisfy the industrial supply needs of the Asón Valley and the domestic/commercial supply for the towns of Ampuero and Limpias.

• Gas Natural São Paulo Sul, together with Cervecería Petrópolis in Boituva (inland São Paulo), set up the first project in the region, and one of the first two in the country, to convert large fleets over to natural gas fleets.

• Together with Community of Madrid, Cepsa and Repsol Butano, Gas Natural Distribución SDG presented the results of the Renove Plan for domestic gas appliances during 2005 and increased its commitment for the current year.

• The Gas Natural Group launched the new design of its web www.gasnatural.com, which has a quicker and simpler browsing structure and a new graphic image that reflects the brand values of the Company.

• In Pamplona, the Gas Natural Foundation organised "Energy Efficiency in Collective Housing" seminar, which analysed the formulas to improve energy efficiency in this kind of housing and of housing subject to refurbishment.

• Via Gas Natural Distribución SDG, the Gas Natural Group entered the domestic gas distribution market the autonomous region of Aragon for the very first time, with the gasification of the town of Mallén (Zaragoza).

• Together with the Adecco Foundation, the Gas Natural Group set up the "Family Plan" project that seeks to assist social and employment insertion of families of Group employees in Spain that have some kind of disability.

• Gas Natural Italia commenced the works to build the natural gas distribution network in Gebbione (Reggio Calabria).

• Gas Natural SDG held the Ordinary General Meeting of Shareholders, which approved the Company management and the results for 2005, as well as the proposal to increase the dividend by 18.3%, up to 0.84 euros per share.

• Gas Natural Galicia signed a collaboration agreement with the Down's Syndrome Association of Vigo to set up the "Life School" project, for the purpose of providing Down's syndrome sufferers and/or those with intellectual disability with help in finding an independent life.

• The chairman of the Gas Natural Group, Salvador Gabarró, was awarded the "Key to Barcelona", a prize given by the Key to Barcelona Friends' Club to those persons that contribute to the development of the Catalan capital through their professional and personal trajectory.

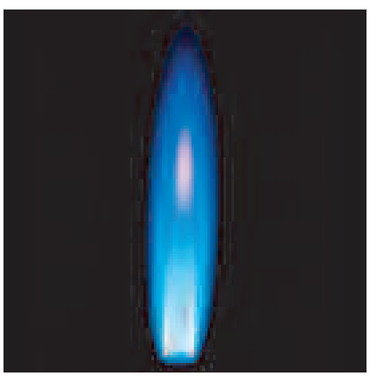
• Gas Natural México created "Chiquilínea", a telephone number to enable the children of Monterrey (Nuevo León) to express their concerns.

• Gas Natural Cegas commenced gas distribution activity in the Viaducto de Alcoy (Alicante) district in order to finish off the gasification of this municipality.

• The Gas Natural Group and the Malaga City Council signed an agreement for the construction of a combined cycle power plant with natural gas, which will have overall power of 400 MW.

• Gas Natural ESP renewed the collaboration agreements it holds with the most important cultural centres of the country for five years, to assist with the development of this sector in Colombia.

• Together with the Department of Industry and the Environment of the region of Murcia, the Gas Natural Foundation organised an environmental management seminar for the purpose of looking at energy saving and efficiency of lands that are key for agriculture and cattle rearing.



- The Corporate Responsibility Report of the Gas Natural Group 2005 was awarded the "In Accordance" recognition by Global Reporting Initiative (GRI) for the fourth year running.

- Gas Natural Italia began the works necessary to build the natural gas distribution network in Prizzi (Palermo).

- Gas Natural Castilla y León began supplying the town of Bernuy de Porreros (Segovia).

- Through Gas Natural Comercializadora and ASCER (the Spanish Association of Ceramic Tile and Flooring Manufactures), the Gas Natural Group signed a new agreement to supply natural gas to 140 companies in the Spanish ceramics sector. This is the biggest agreement in the entire Spanish industrial sector, both in terms of consumption as well as billing volume.

- The Gas Natural Group signed a collaboration agreement with the Directorate General for Trade and Industry of the Government of Navarre to develop a gasification operations plan for this autonomous region.

Third Quarter

- Gas Natural Soluciones and the Council of Estella–Lizarra (Navarre) signed a collaboration agreement that includes the commitment to make efficient use of energy at the municipal facilities.

- The Gas Natural Group received the 1st Clinical Research Award from FUINSA (the Organisation for Health Research) for its participation in the set-up of CNIC (the National Cardiovascular Research Centre).

- The Gas Natural Group and the Government of Cantabria signed a collaboration agreement through which the gas company sponsored the "Cantabria 2006. Liébana, Land of Jubilee" campaign.

- Gas Natural Italia reached 300,000 customers in the regulated business of natural gas distribution in the Italian market.

- Gas Natural Galicia signed an agreement with the Pontevedra City Council to sponsor the 2006 International Jazz Festival of Pontevedra.

- The Gas Natural Group signed an agreement with the Sabadell City Council that laid down the bases to locate the new Gas Museum, the Gas Natural Foundation and the Company's Historic Archive at the Plaça del Gas of this Catalan city.

- Gas Natural BAN proceeded to issue the initial class of Negotiable Securities for a total amount of 113 million dollars, fully redeemable on 19 July 2008.

- Gas Natural SDG signed an agreement with the Granollers City Council (Barcelona) to carry out improvements to the natural gas distribution network of the city.

- The Gas Natural Group opened the Grao pipeline of Castellón-Benicàssim.

- The Gas Natural Group and the telemarketing company Qualytel, with its headquarters in Jerez de la Frontera (Cádiz), signed a service agreement to set up part of the Customer Care Service for the liberalised business in this location.

- Gas Natural São Paulo Sul received the "Solidarity Company" certificate from the Monteiro Lobato Boarding School, an institution that looks after underprivileged children and teenagers in Sorocaba, for the support it provides to the actions carried out by this institution.

- Gas Natural Cantabria sponsored the staging of La Traviata by Giuseppe Verdi, as part of the lyrical programme of the 55th International Festival of Santander (FIS), which the Company has supported since 1999.

• Gas Natural Andalucía signed a collaboration agreement with the Department of Culture of the Junta de Andalucía Autonomous Government to sponsor the "West Eastern Divan" concert in Seville, a workshop founded by the Israeli musician Daniel Barenboim and the Palestine intellectual Edward Said.

• Gas Natural Cegas, AVEN (the Valencian Energy Agency) and COPP (the Valencian Confederation of Bakers' Organisations) renewed the collaboration agreement that they first signed three years ago, in order to continue bolstering the use of natural gas in the sector.

• The Gas Natural Group completed the reduction of its shareholding in Enagás to below 5%, in accordance with current legislation and prior to the established deadline of 1 January 2007.

• Gas Natural Italia sponsored the 32nd Valle d'Itria Festival, which on this occasion was dedicated to Mozart and the 18th century, at the Palazzo Ducale in Martina Franca.

• Gas Navarra signed a collaboration agreement with the Aibar City Council (Navarre) to supply natural gas to residents there in the second half of 2007.

• For the second consecutive year, the Gas Natural Group was included on the Dow Jones Sustainability World Index (DJSI World), which includes the 318 worldwide companies with the best corporate sustainability criteria.

• The Gas Natural Group and Naturgas Energía signed an agreement for the sale of the 10% shareholding of Gasnalsa.

• Gas Natural ESP received the award for the best public service company, within the customer service category, awarded by the Bogotá City Council.

• The Cantabria Natural Area branch of the Gas Natural Group and COERCAN (the Cantabria Trade Federation) signed a collaboration agreement to collaborate in the expansion of natural gas and foster participation of Cantabrian trade in the campaign promoted by the Company.

• The Gas Natural Group is ranked second in the gas sector, just behind Gaz de France, in the ranking of the 250 biggest energy companies in the world, prepared by the Platts agency. The Company is also ranked 33rd of European energy companies and 83rd in the world.

• The Gas Natural Foundation and CRANA (the Navarre Environmental Resource Centre Foundation) presented the "Guide to Energy Efficiency in Navarre Homes", a publication to increase energy efficiency of homeowners associations through self-diagnosis and the design of energy plans.

- Employees of Gas Natural México set up "GNM Voluntary Work" for the purpose of organising support activities in the communities where the Company operates.

- The New York Museum of Modern Art (MOMA) acquired the model of the new headquarters of the Gas Natural Group in Barcelona. This model is on permanent architectural display.

- Gas Natural Cegas reached 500,000 gas distribution customers in the region of Valencia, more specifically in Burriana (Castellón).

- The chairman of the Gas Natural Group, Salvador Gabarró, and the president of the La Rioja Region, presided over the opening ceremony of the palaeontology journey "The Path of the Dinosaurs" at the Enciso site (La Rioja).

- Gas Natural ESP received an honorary mention for its social endeavours within the category of corporate responsibility. The award was handed over by ANDESCO, an organisation that incorporates public service companies of Colombia.

- The Gas Natural Group passed a new review of the sustainability index series FTSE4Good, on which the Group has remained uninterruptedly since 2001. The Company is among the 11 Spanish companies that have a presence this year, and also among the seven that belong to both the FTSE4Good as well as the Dow Jones sustainability indexes.

- Gas Natural Castilla y León commenced the supply of natural gas to Carbajal de la Legua, within the municipal district of Sariegos (León).

- In Argentina, the Gas Natural Foundation and Fundalam (Foundation for Nursing and Maternity) signed a collaboration agreement to raise awareness among families of the importance of breast-feeding.

- Gas Natural Cegas commenced its activity in the town of Turís (Valencia).

- The model of the new headquarters of the Gas Natural Group in Barcelona was on show at the Villanueva Pavilion of the Madrid Botanical Gardens, as part of the "On-site: New Architecture in Spain" exhibition, which attracted a million visitors to the NY Museum of Modern Art (MOMA) this year.

- The Gas Natural Group opened the Chiva-Utiel pipeline (Valencia), a large infrastructure that will enable the supply to 19,800 homes in these municipalities.

- With the help of neighbourhood communities, local organisations and several NGOs, Gas Natural BAN carried out the gasification at Cuartel V, district of Moreno, in the province of Buenos Aires. The initiative involves extending the distribution network in five districts, which will enable almost 4,000 families to be able to use this source of energy.

- Representatives of Gas Natural Murcia, Gas Natural Navarra and the Customer Service Guarantee Office met with representatives from consumer associations from the respective regions to look at the balance of the year's activity of the Office and review the latest regulatory changes in the gas sector.

- In collaboration with the Xunta de Galicia Regional Government, the Gas Natural Foundation organised the "Transportation, Local Pollution and Human Health" seminar, which invited experts from different organisations and institutions to look at the current status of atmospheric pollution in cities and to put forward solutions.

- The Board of Directors of Gas Natural SDG approved the new organisational structure of the Company for the purpose of strengthening it to enable it to continue to lead in the energy sector. The General Management of Regulated Businesses and the General Management for Latin America were created to this end, and Josep Moragas joined the management team as Managing Director of Retailing.

- Gas Natural México signed an integration agreement with the Monterrey Coherence Movement to incorporate persons with miscellaneous disabilities into activities that the Company carries out in the northern region of the country.

Fourth Quarter

- The Gas Natural Group signed a collaboration agreement with the SEK Foundation to take part in the organisation and development of "Madrid, World Scenario of Creativity 2006", an initiative to foster and promote the entrepreneurial and creative spirit of young persons around the world between 18 and 29 years of age.

- The Gas Natural Foundation and the Junta de Andalucía Autonomous Government organised the "Environmental Management of Tourism Companies and Activities" seminar in Cádiz, for the purpose of revealing the environmental problems that affect companies in the tourist sector in Spain and to try to promote saving and efficiency solutions to reduce the environmental impact of energy in this sector.

- El Laietà, the LNG carrier of the Repsol-Gas Natural LNG fleet arrived at the regasification plant in Panigaglia (Italy) to unload 38,000 m^3 of liquefied natural gas at the terminal.

- In Madrid, the Gas Natural Foundation carried out the "Natural Gas in the Automotive Sector: the Moment of Truth" seminar,

promoting the use of this fuel and analysing the strategies through which companies and public authorities can help natural gas transportation to become a reality as it already is in other European countries.

- The Gas Natural Group started to leave its historical headquarters at Avenida Portal de l'Àngel in Barcelona, where it had been since 1895, as part of the staff moved over to the new complex that the Company has built in La Barceloneta district.

- As part of the "Gas in Schools" programme, Gas Natural ESP opened the first natural gas interactive classroom in Colombia at the Maloka Interactive Centre.

- The Gas Natural Group joined the domestic-commercial gas market of the Basque Country with its arrival at Rivabellosa, in the region of Álava.

- Gas Natural Castilla-La Mancha and the Customer Service Guarantee Office met with representatives from consumer associations in the autonomous region to look at the Office's first year performance, find out the gas company's expansion plans and review the regulatory changes in the sector.

- Gas Natural Vendita opened the first gas centres in the towns of Acquaviva delle Fonti and Caltagirone (Catania-Sicily).

- The Board of Directors of the Gas Natural Group, chaired by Salvador Gabarró, met for its first ordinary session, with the attendance of all board members at the new headquarters of the Company.

- The initial clean Development Mechanism Project (CDM) of the Gas Natural Group via its Colombia subsidiary, Gas Natural ESP was registered with the UNO Framework Convention for Climate Change. The "Sombrilla Project" will enable CO_2 atmospheric emissions at eight industrial plants in Colombia to be reduced by 325,000 tonnes over the next ten years.

- Gas Natural México set up the “Universities” programme to further the education of journalism students of different university centres by providing information on the characteristics of natural gas and presenting the Company.

- Gas Natural Cantabria organised a meeting with representatives of consumer associations in the area to look at the pros and cons of the Customer Service Guarantee Office’s activity, explain the Company’s growth plans and review the latest regulatory changes in the gas sector.

- The Gas Natural Group completed the installation of the main elements of the 800 MW combined cycle power station at Plana del Vent (Tarragona), as well as the construction of the pipeline that will supply natural gas and the electricity discharge line.

- The Gas Natural Foundation and the Department of the Environment and Rural Development of the Junta de Castilla-La Mancha Regional Government signed a framework collaboration agreement in Toledo in environmental issues to involve the Company in looking after the natural environment and promoting more environmentally friendly building.

- Together with the Junta de Castilla-La Mancha Regional Government, the Gas Natural Foundation organised a seminar in Toledo to look at the environmental advantages of energy sources based on biological or biomass fuels and analysing the situation of alternative energies in Spain.

- Gas Natural ESP and private investors finalised the construction of 80 natural gas stations which will enable the growing demand for VNG in Colombia to be met.

- Gas Natural Soluciones and the Council of Olías del Rey (Toledo) signed a collaboration agreement that includes the commitment to make efficient use of energy at the municipal facilities.

- Representatives of Gas Natural Rioja and Gas Galicia organised an informative meeting with the consumer associations from their respective regions to look at the pros and cons of the activity and the Company's growth plans in these autonomous regions, as well as analysing the Customer Service Guarantee Office’s first year's performance.

- CEG receive the "Social Balance iBase/Betinho 2005" hallmark, granted by the Brazilian Institute of Social and Economic Analyses, in recognition of the transparency and dissemination criteria used in the preparation of its Social Balance.

- Gas Natural Castilla y León held an informative meeting in León with the consumer associations of León and Zamora to continue improving the service given to consumers' representatives and to customers.

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

- The Gas Natural Foundation held a seminar in Valladolid to analyse the capacity of the forests to consume excess carbon dioxide.

- CEG Rio commenced the supply of natural gas in the town of Engeheiro de Frontin.

- Gas Natural Andalucía launched the supply in Algeciras (Cádiz).

- In collaboration with the Community of Madrid, Gas Natural Distribución SDG presented the new "Safety Campaign for Gas Installations", as well as revealing the results obtained in the current "Renove Plan", which has seen the replacement of more than 2,800 gas devices older than ten years or in a deficient condition since it was presented in May.

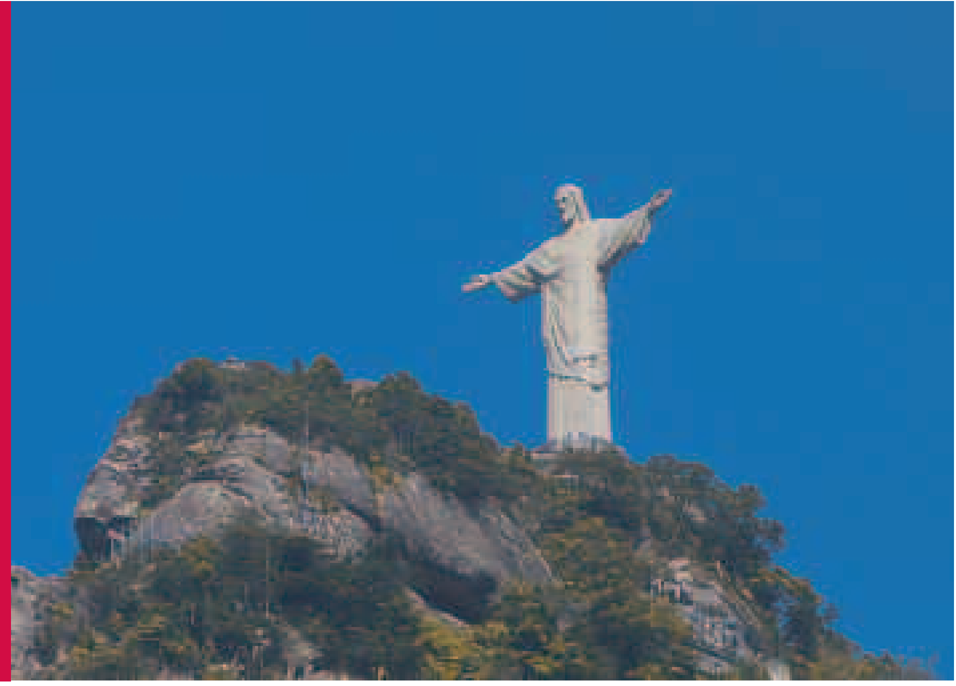
- The Minister for the Environment, Cristina Narbona, and the Chairman of the Gas Natural Group, Salvador Gabarró, opened the "Sixth International Seminar on Climate Change", in Madrid. This was organised by the Gas Natural Foundation and the Ministry of the Environment, and revealed the impact that climate change is having on the water resources and on the coastal zones of our country, as well as looking at the effects this problem is causing in agriculture, energy, insurance and tourist sectors.

- Gas Natural BAN received the "Solidarity Advocacy" award in the Companies-Solidarity Development category, granted by the Ecumenical Social Forum, for its gasification of marginalised districts project "The Cuartel V Experiment".

- Gas Natural Andalucía reached 300,000 customers in the autonomous region, meaning that 1.2 million people in Andalusía currently use natural gas.

- The Gas Natural Group and the FIDAS (Foundation for the Investigationand Dissemination of Architecture, Seville) signed a collaboration agreement to promote the training and information of building and construction sector agents, and foster ongoing improvement of the sector in Andalusía.

- Gas Natural Cegas opened the Alicante-Santa Pola pipeline, with a length of 25.2 km, which will enable gas to reach the district of L´Altet, the coast and the town centre of Los Arenales del Sol (in the municipal district of Elche) and Gran Alacant in Santa Pola.



- The Gas Natural Foundation and the Department of the Environment and Town Planning of the Community of Madrid gave an informative and didactic presentation on "Air Quality" in this autonomous region.

- For the second time, CEG and CEG Rio received NBR ISO 9001:2000 certification, after carrying out an lengthy procedure to find out and satisfy customers' need and set up management improvements through the use of indicators.

- Gas Natural Castilla y León held an informative meeting in Valladolid with the consumer associations from Burgos, Palencia, Salamanca, Segovia, Soria and Valladolid to explain the Company's growth plans, look at the pros and cons of the Customers Service Guarantee Office's activity and review the latest regulatory changes in the sector.

- Gas Natural Cegas opened the 15 km-long Cabanes-Oropesa pipeline (Castellón).

- The Gas Natural Group started supplying gas to Callús (Barcelona).

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

- Gas Natural Andalucía and EMUVYSSA (the Municipal Housing and Land Company of Granada), signed three collaboration agreements through which the gas company will supply natural gas to more than 2,350 government-subsidised properties that EMUVYSSA will build in different areas of Granada.

Corporate Governance

The Gas Natural Group has fully incorporated good corporative governance practices. February 2006 saw the creation of the Corporate Governance Matters Unit, which is directly answerable to the Secretary of the Board of Directors. The duties of this Unit are to define the basic aspects of corporate governance in close collaboration with the Secretary of the Board, as well as drawing up internal regulations, ensuring compliance and drafting the proposal for the Annual Corporate Governance Report.

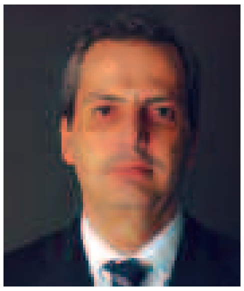
In May 2006, the Unified Code of Good Governance for Listed Companies (Conthe Code) was approved to bring the Olivencia and Aldama Reports up-to-date. In this regard, the Company is currently working on adapting its operation to the recommendations which best serve the interests of society and and those of its shareholders.

These corporate governance practices are reflected not only in the day-to-day activities of the Company, but are also evidenced in the various annual reports drawn up by the corresponding corporate bodies and periodically submitted to the General Meeting of Shareholders. These reports are: this 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. The aforementioned information may be viewed on the Gas Natural Group website (www.gasnatural.com).

Composition of the Board of Directors and Committees

(at 31 December 2006)

	Board of Directors	**Executive Committee**	**Audit and Control Committee**	**Appointments and Remuneration Committee**	**Strategy, Investment and Competence Committee**	**Type of Director**
Chairman	Mr. Salvador Gabarró Serra	Chairman				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					Proprietary
Board Member	Caixa d´Estalvis de Catalunya Represented by Mr. José María Loza Xuriach				Proprietary	
Board Member	Mr. José Arcas Romeu			Chairman		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			Chairman	Independent
Board Member	Mr. Fernando Ramírez Mazarredo		Board Member			Proprietary
Board Member	Mr. Guzmán Solana Gómez	Board Member	Board Member			Proprietary
Board Member	Mr. Miguel Valls Maseda		Chairman	Board Member		Independent
Board Member	Mr. Jaime Vega de Seoane Azpilicueta					Independent
Board Member	Mr. José Vilarasau Salat					Proprietary
Non-Director Assistant Secretary	Mr. Felipe Cañellas Vilalta	Secretary	Secretary	Secretary	Secretary	



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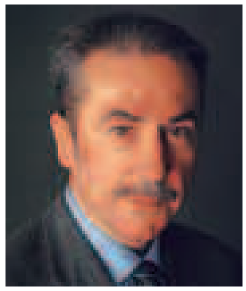

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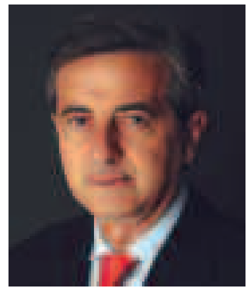

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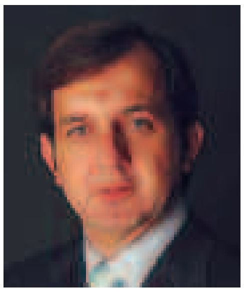

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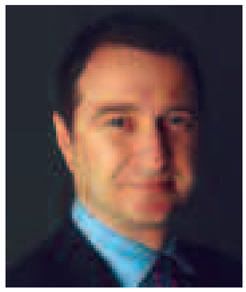

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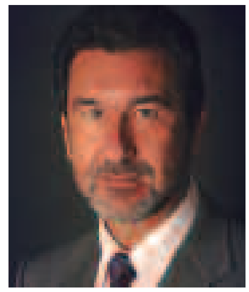

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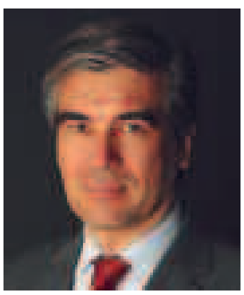

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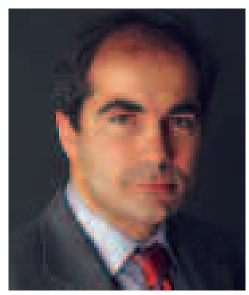

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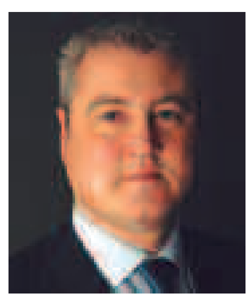
Good governance practices are spread essentially through the Company's various governing bodies. As the highest decision-making corporate body, at least one General Meeting of Shareholders is held every year (during 2006 two general meetings were held by way of an exception). The remaining corporate governing bodies from which the aforementioned practices stem are: the Board of Directors and its delegate or proposal and report committees, viz., the Executive Committee, the Appointments and Remuneration Committee, the Strategy, Investment and Competence Committee, the Audit and Control Committee and finally, at the executive level, the Management Committee.

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



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Management Committee

The Management Committee is the highest decision-making body at the executive level of the Gas Natural Group. Subsequent to the 2006 year end, the Company decided to reorganise its Management Committee, which since 1 February 2007 has been made up as follows:

Chief Executive Officer
Mr. Rafael Villaseca Marco (1)

Chief Financial Officer
Mr. Carlos J. Álvarez Fernández (2)

Managing Director of Latin America
Mr. Sergio Aranda Moreno (3)

Managing Director of Gas Management
Mr. José Mª Egea Krauel (4)

Managing Director of Wholesale
Mr. Manuel Fernández Álvarez (5)

Managing Director of Retail Business
Mr. Josep Moragas Freixa (6)

Managing Director of Regulated Business
Mr. Antoni Peris Mingot (7)

Chief Corporate Officer
Mr. Francisco Reynés Massanet (8)

Manager of Strategy & Development
Mr. Antonio Basolas Tena (9)

Manager of Legal Services
Mr. Manuel García Cobaleda (10)

Manager of Communications Office
Mr. Jordi García Tabernero (11)

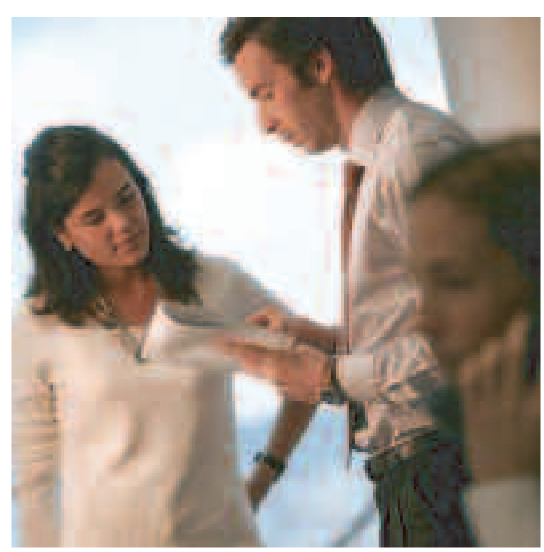
Corporate Management

Human Resources

The Gas Natural Group employs a staff of 6,686 in nine countries (Argentina, Brazil, Colombia, Spain, France, Italy, Morocco, Mexico and Puerto Rico), of which approximately 69% are men and 31% are women. The average age of employees is 40.6, and average seniority with the Company is 12.7 years.

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

In 2006, the main operations carried out by the Gas Natural Group within the sphere of human resources were aimed at ensuring a working environment that favours the contribution of value to the business and drives professional development of the employees, by providing conditions for optimum balance between professional and personal lives. To this end, the Company segregated the Spain Commercial Services activity and set up the new company Gas Natural Comercial SDG; it inaugurated new Management by Objectives (MbO 2006), incorporating new concepts into the current system to achieve better adaptation and boost



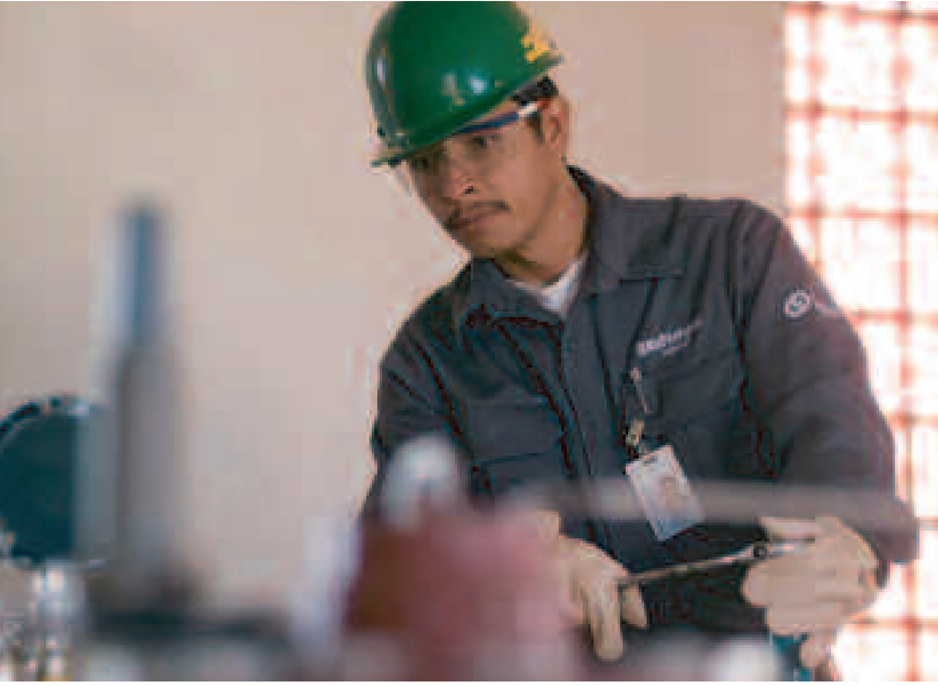
employees' motivation; it also carried out the first "Management Development Programme" (MDP) at a Latin American level, pursuant to the parameters of the Group's Corporate Programme.

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

One of the main goals of the Gas Natural Group's actions is to achieve a number of disabled employees equivalent to a least 2% of the total workforce, through direct hiring of disabled persons or the promotion of responsible procurement. To this end, 2006 saw different actions take place at a national and international level, such as the signing of agreements with the Adecco Foundation and the Galenas company which forms part of the Fundosa-ONCE Group in Spain; the upkeep of a social inclusion project through the skills centre for disabled persons in the western region of Rio de Janeiro, in collaboration with ADEZO (the Association for the Support of People with Disabilities); and the signing of an agreement with the Government of Nuevo León (Mexico) to enable disabled persons to join the Group's contractors.

The Gas Natural Group places different products and services at the disposal of employees to enhance their living conditions, as a complement to the financial benefits in cases of temporary incapacity, or an allowance for consumption of gas supplied by the Company, *inter alia*. Different initiatives also take place, such as the employment system pension scheme (Spain), the inclusion of the family in the social welfare programmes in Colombia, the set-up of the study programme "Natural Knowledge" and the educational course "Building my Profile" for children of employees of Gas Natural BAN.

Elsewhere, the Gas Natural Group remuneration system rewards employee performance. The remuneration policy is guided by the equality concept (within the internal scope) and competitiveness (with other companies), and is set in accordance with whether the employee is included in the collective bargaining agreement or not. With regard to the internal parity, a description and assessment of jobs project started in 2006, for the purpose of defining a job classification system that is coherent with the



new corporate model, and the new Talent Management System was developed that will be progressively implanted at all business units.

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

The first edition of the "Management Development Programme" took place this year in Colombia (MDC), which follows the same lines as the "Management Development Programme" (MDP) carried out in Spain. The postgraduate programme "Executive Programme in General Management" (EPGM) commenced in Argentina, in collaboration with UADE (the Argentine Business School).

As in previous years, the Gas Natural Group carried out ongoing training programmes to respond effectively to the need to acquire the knowledge and skill required for each post. The design of the 2006 Training Plan included 16 actions in the Commercial Area, 26 actions in the Technical Area, 18 in the Administrative Area, eigth in QC, two in Environment, 22 in Management, nine in Office IT and 16 on different issues from the Safety Area, in which 5,741 employees took part, some of which participated in more than one training action, meaning that the total number of attendees was 19,649.

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

This year, the Group workers made a special effort on those courses covering languages, the Safety Area or technical aspects of gas and electricity.

Likewise, employees had the possibility to communicate their needs and evaluate the efficiency of the different courses through a practical and simple application available in NaturalNet. Moreover, employees have easily accessible information on the training requested and pending, as well as the courses already carried out.

Elsewhere, the Group places different effective mechanisms at the disposal of employees to find out their opinion. Within the framework of the corporate intranet –NaturalNet- is the Employee Mailbox, an interactive space that allows staff members to give their opinions, make suggestions, remarks or concerns over different issues concerning their activity or the Company's activity. In 2006, a total of 90 opinions were received in Spain, added to the 194 suggestions received through the NaturalNet thematic channel.

The proposals that arose through the cost reduction project were incorporated throughout 2006 at the Company's main departments. These actions generated savings of some 8 million euros and, what is even more important, represent incontrovertible evidence of employee involvement in the Company's progress.

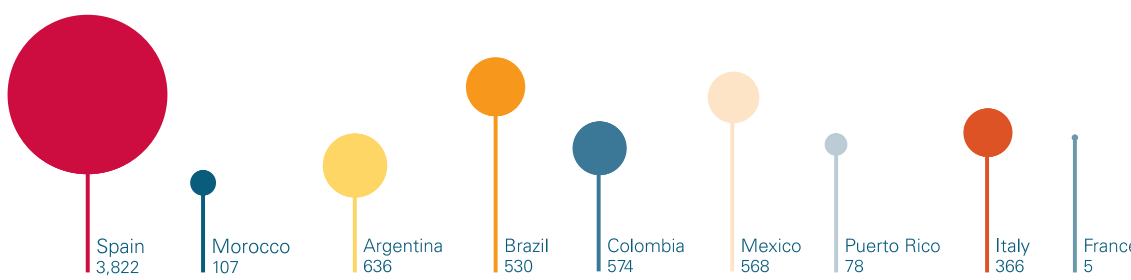
One of the most relevant landmarks of the year was the creation of the Internal Communication Consultative Group, as a tool for detection and assessment of employees' communication needs. Likewise, and through the generic mail of Internal Communication, employees were notified of facts and actions that affected the Company, providing advance news on campaigns and relevant actions.

In 2006 the Gas Natural Group published a Code of Conduct which was provided to all group employees through a personalised dispatch to their place of work. Besides, a consultation and notification procedure was set up through NaturalNet, with local committees of the Code of Conduct set up, similar to the Code of Conduct Committee, in those countries where the Company operates (these have been set up in Argentina, Brazil, Colombia and Mexico). Employees used this procedure on 23 occasions in 2006, a ratio that is comparable to that of similar companies.

The corresponding communication plan was set up to coincide with the transfer of more than 1,000 employees from Barcelona to the Group's new headquarters. A space was therefore provided on NaturalNet which incorporated information on basic and specific issues to enable the transfer to have the minimum impact on the worker’s professional activity.

Breakdown of Staff by Country 2006

Total: 6,686



Training Data

Gas Natural Group Training Data	2006	2005
Training hours per employee	41.11	33.30
Total course hours	274,858	223,655
Annual investment in training (euros)	3,193,605	2,703,700
Investment in training per person (euros)	478	403
Participants	5,741	5,695
Attendees	19,649	21,729
Nº of online courses taken (Spain)	440	407
Users of online training schemes over total staff (Spain) (%)	43.70	46.07

The Environment

During 2006, the Gas Natural Group consolidated its global sustainability project by incorporating new actions into its business policy, such as the rigorous control of all its activities and operations of transportation, gas distribution and generation of electricity, as well as those associated with its installations and workplaces, tracing a positive contribution on the emerging phenomenon of climate change.

In order to carry out these actions, the Company targeted 42 million euros at different operations directly concerning the protection and recovery of the environment. Chief among these were the operational running of the 1,200 MW combined cycle power station in Cartagena (Murcia), the incorporation of new wind farms into the energy portfolio of the Gas Natural Group, the construction of new cogeneration plants, and the maintenance and operation of energy management facilities, bearing witness to the Company's productivity and sensitivity towards social concerns in favour of bolstering more efficient electricity generation technologies and the progressive use of renewable energies.

As in previous years, network management and the use of latest generation materials entailed a large and ongoing reduction of methane emissions into the atmosphere. In this regard, in collaboration with the University of Zaragoza, the "Appraisal of the Methane Emissions in the Spanish Distribution System" report was prepared and presented at the 23rd World Gas Congress, held in Amsterdam. The report included the results of the analysis carried out on the emission factors in the Group's distribution system and enabled the calculation method used to determine its methane emissions into the atmosphere to be updated and improved.

Moreover, in order to boost the set-up of environmental management systems in accordance with international standards, the certification process of the combined cycle power stations commenced. In 2006, the 800 MW Arrúbal power station (La Rioja) was chosen as the pilot project for the certification of the remaining combined cycle plants that the Gas Natural Group has in Spain.

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 to 35. This initiative enabled more effective rationalisation of consumption, by speeding up the take-up of improvement actions or plans.

Elsewhere, and continuing with the application of environmental good practices, the segregation and management of plastics was extended to the larger workplaces, and printers and photocopiers replaced with latest generation multifunction machines with the subsequent savings of paper, energy and toner. We also increased the information sent to customers through email (e-billing) and reduced the use of paper as hardcopy support, replacing it with digital medium in the channelling line works projects.

The Gas Natural Group continued to take on board society's concerns with regard to the increase of energy saving and efficiency. The Group therefore set up a pilot demand-management system through remote measurement of domestic customers. The Company also built a low-power (9.5 kW) solar cooling plant in Seville and set up measures to reduce nighttime light pollution in the main workplaces.

Likewise, the Gas Natural Group provided extensive environmental commitments to all the stakeholders of the Company's value chain. Thus, the Company increased the distribution of a document entitled "Best environmental practices in distribution network construction", and set up monitoring initiatives to check the environmental measures and actions adopted at 10% of these contractors to ensure the effectiveness of their affiliation to the aforementioned good practices document.

The Gas Natural Group also involved customers in the responsible use of energy through environmental campaigns and workshops aimed at raising awareness of the need to be environmentally friendly. Furthermore, customers were given tips on the application of energy saving measures through other more specific communication actions on the Gas Natural Group's website.

Along the same lines, projects under the umbrella of the Clean Development Mechanism (CDM), set forth in the Kyoto Protocol, continued to progress. As at December 2006, the Gas Natural Group had 13 CDM projects at different stages of execution: one project registered with the United Nations, another with the application for registration, two other projects under validation, another two awaiting methodology approval, one at the bidding stage, another being drafted and five on the portfolio.

Moreover, the Gas Natural Group continued to make contributions to the Community Development Carbon Fund, a fund dependent on the World Bank, which works on projects tied to the development of production processes, education and health in the most underprivileged countries, and with the Spanish Carbon Fund, promoted by the Spanish Ministry of the Environment. In addition, in 2006 the Gas Natural Group formalised its participation in the Multilateral Carbon Credit Fund.

Technological Innovation

The Technological Innovation Area continued to develop the Group's Strategic Plan for the purpose of coming into line with two of the central pillars of European energy policy: improving the efficiency of converting primary energy into useful energy, and studying and developing sustainable solutions for energy conversion.

Along this line, projects were carried out to obtain cooling via double effect absorption systems based on solar energy. This solution, completely new and with only a couple of precedents in the world, would enable air conditioning needs to be solved on the basis of a completely renewable source of energy. It would also reduce the saturation problems of the electricity distribution networks at peak hours in summer months. More specifically, there is already an operating installation at the offices of the Gas Natural Group in Seville and another plant of around 200 kWf is under construction to provide service to the facilities of the High School of Engineering in that same city.

During 2006 investigation projects were also carried out on the use of biogas from urban solid waste tanks. The escape of this gas into the atmosphere means that not only does a renewable energy source that is generated spontaneously fail to be used, but also adverse environmental effects take place as this is a gas with a powerful greenhouse effect. More specifically, studies took place to look at the use of 180 GWh/year of biogas at the Valdemingómez waste treatment centre in Madrid and 280 GWh/year at the Doña Juana landfill in Bogotá, the biggest installation of its kind in Latin America. Both cases saw an attempt to inject biogas into a network for industrial consumption of gas, a solution that no energy company of our size has undertaken to date.

Elsewhere, highly efficient polygeneration solutions for the tertiary sector continued to be developed. So, the installation of generation distributed through the micro-turbine of the Gas Natural Group's building in Montigalà (Badalona - Barcelona) reached 12,700 operating hours, during which electricity was supplied to the building and the surplus energy exported to the electricity grid. Moreover, the heat needs of the Company's building and a large part of those of the neighbouring school "CEIP Planas i Casals", were satisfied through the heat recovery of the combustion gases, achieving an output of around 75%.

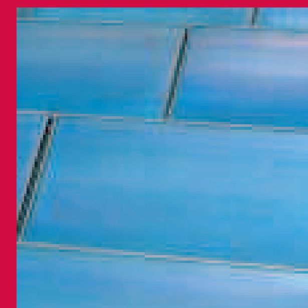
Likewise, the equipment was acquired for the project to provide electricity power from our new headquarters in Barcelona with a combustible battery with a rated value of 200 kWe, and the residual heat was used to produce 170 kWf of additional cooling that was used for the air-conditioning of the building's data-processing centre. This solution means that the new headquarters are not only a point of reference from an architectural point of view, but also from an optimisation of efficiency standpoint, enabling excellent energy efficiency rating to be achieved.

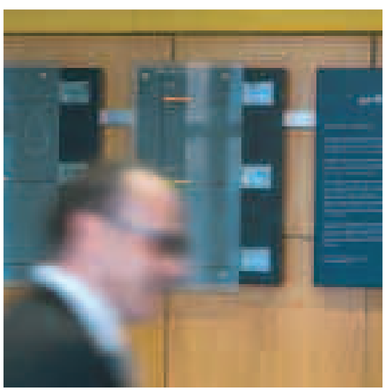
Lastly, a project to develop solutions for specific sectors materialised in the form of standardised solutions to solve the energy needs of hotel and leisure complexes which shall take place over the next year.

The Gas Natural Group is committed to the use of natural gas in the automotive industry, and the use of this fuel is starting to be recognised in Spain. Construction started this year to build a plant in Badalona for the purpose of supplying compressed natural gas for vehicle use based on LNG. This plant, which complements the one that already exists in L'Hospitalet de Lobregat (Barcelona), should enable the efficiency and the operating costs to be compared with a view to massive implantation. Specific solutions are likewise being developed for the airport sector and to set up this solution as an alternative in the fishing industry. Moreover, the Gas Natural Group has 48 hybrid natural gas/petrol vehicles in Spain, comprising the biggest private fleet of this nature in the country. In line with these initiatives, the Group bolstered commercial activity in the municipal fleet segment, set to grow swiftly in forthcoming years.

The Gas Natural Group also undertook a detailed study with the aid of the Barcelona Supercomputing Centre of the Technical University of Catalonia (UPC), which showed that the replacement of a large percentage of diesel vehicles that travel through the centres of Madrid and Barcelona would enable the concentrations of nitrogen oxide, carbon monoxide and volatile solid particles, with current traffic intensity, to be guaranteed to be below the thresholds recommended by the World Health Organisation.

Aware of the importance that the development of hydrogen as an energy vector could have in the future, the Gas Natural Group led an initiative,





together with other large national energy groups, research centres and university centres, which was presented to the CDTI (the Centre for the Development of Industrial Technology) to enable this to be taken into consideration as part of the second CENIT Programme (National Strategic Technological Research Consortiums) from the Ministry of Industry, Tourism and Trade. This project, which, if approved, would have a large budget, attempts to develop hydrogen production systems based on renewable energies or on conventional energies, but with the impact on the environment notably reduced.

With regard to demand management, a pilot remote measuring system was set up for domestic customers in Tarragona to monitor the consumption of more than 5,000 customers with a defined timeline. This experiment, which was the first initiative of this kind carried out by a European gas distributor, will enable the consumption billing procedure to be automated, reducing difficulties and enhancing quality, as well as recognising their consumption habits and making recommendations for more efficient use of energy when practices that are not optimised are detected.

The Gas Natural Group implemented a system to monitor energy and water consumption at all of its workplaces with more than 50 employees (35 centres), which enables personalised management of the centres to maintain consumption within predefined limits. This experiment, as well as leading by example, enabled a product to be developed that could have considerable importance if a decision is taken to incorporate it into the portfolio of the Company's products and services.

Quality

As part of its aim to become a leader in quality in the energy sector, the Gas Natural Group continued to work on various projects and launched a variety of improvement actions within each of the four courses of action laid down in the Strategic Quality Plan 2004-2008 to provide a service that is excellent at all times and become a reference for product and service quality and safety.

Strengthening customer focus and service quality

Customer focus is the preferential reference in Gas Natural Group's Mission and Vision, and the first of the Values on which the Company is based. Accordingly, as part of its Strategic Quality Plan and based on the corporate culture, it started up numerous initiatives to optimise the quality of the telephone service it provides its customers. Likewise, in Mexico, a claims processing system was implanted to improve the solutions given, notably increasing the perception of quality of the customer-related services.

Aligning the organisation with quality objectives

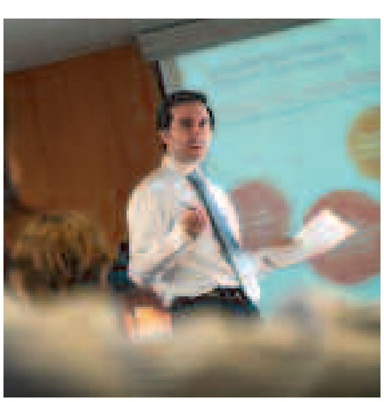
In the constant search for employee commitment to customers and the satisfaction of their requirements, during 2006 and as part of its 2006 Training Plan, the Gas Natural Group continued to offer courses for the Company's employees in Spain to make them aware of the importance of service quality in the business and of the continuous improvement of the products and services we offer our customers. In addition, the Gas Natural Group continued to incorporate service quality targets in its Human Resources Management by Objectives System in order to obtain the full commitment of all its employees and continuously improve product safety and quality, providing its customers with an excellent service.

Furthermore, during 2006, the Company worked on promoting the supplier-internal customer culture by measuring the satisfaction of internal

customers with the services offered by some of the Gas Natural Group's corporate areas. In Colombia, the Company continued its collaborator training process, which is aimed at improving the Company's awareness of the measurements taken of the quality perceived by customers.

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

In 2006, the Gas Natural Group continued the implementation of Q-Model, a project enabling the Group to provide the quantitative assessment of its suppliers and collaborator quality in order to improve their selection process. This methodology has the objective of furnishing in-depth information on each supplier's degree of compliance with the commitments adopted, and to improve quality by managing collaborators in a more efficient and transparent fashion.

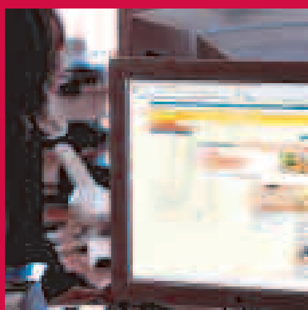


In addition, in Argentina, the Company started up the Registered Supplier portal for the presentation of the various forms and procedures to be completed by the said parties.

Developing quality management within the Group

In order to integrate its quality management into its business management, the Gas Natural Group continued to develop various tools for the integration process, including the following:

- Deployment of the Process Map and Process Management. It continued to record the strategic, business and support processes, identifying the associated profitability, performance and quality indicators in each case, and to implement the tools required for their control and monitoring. The Gas Natural Group's value chain was also brought up to date in keeping with the Company's internal situation and the market performance.



- Improvement of the Certified Quality System in the Gas Natural Group's distribution and marketing companies in Spain, refocusing their management in accordance with their processes, increasing their scope on both a national and international scale.

- In 2006, significant improvements were made to the self-assessment method and the self-assessment process was carried out at Gas Natural Comercializadora, in accordance with the EFQM Excellence Model.

- Implantation of a programme for systematic and continuous process improvement through Six Sigma, with improvement projects being carried out in 2006 regarding the processes related to Servigas Emergencias, attracting customers and attending emergencies within the scope of the Gas Natural Group in Spain.

- Development of the Quality Indicator System (INCA) computer application, which made it possible to monitor the indicators in several of the Gas Natural Group's processes.

- Implantation of the "Applied Mobility" project for the reading quality control (random digital photographs of the meter and printing on the customer's bill) and control of the distribution of bills via GPS at Gas Natural México.

Commitment to Society

The Gas Natural Group continued its collaboration with the communities in which it operates, aware of the importance of this policy, which forms part of the Company's mission, vision and values, contributing to their development with its know-how, management capacity and creativity.

As part of its commitment to society, the Group devoted part of its profits to a variety of activities, maintaining constant dialogue with society to find out and satisfy its needs.

The Company allocated 13 million euros for financing 337 general-interest initiatives, ten of which were carried out in Spain, increasing for the third year running the number of social and cultural actions started up in 2006.

In addition, there was an increase in investments in the environment, which brought the allocations of resources for the Gas Natural Group's courses of action up to the same level: society, culture and the environment.

In order to fulfil its commitment to collaboration with society, the Gas Natural Group worked intensively on cooperating with institutions and associations devoted to the protection of human rights, the conservation of the environment and cultural development in the countries in which it operates. This co-operation was backed by open dialogue with the governments and administrations of the said countries to guarantee that the local actions contributed to global development.

Cultural Projects

Some of the Gas Natural Group's cultural sponsorship actions were focused on activities related to fostering classical music in the communities where it has a presence.

Accordingly, the Group collaborated on the organisation of 14 concerts, which attracted more than 21,000 enthusiasts. The most outstanding projects include the "West Eastern Divan" workshop organised in Sevilla, directed by Israeli musician Daniel Barenboim. The aim of the workshop is to encourage dialogue and co-existence between peoples traditionally set against each other.

In addition, on the occasion of the Liébana Holy Year, the Gas Natural Group sponsored three concerts at the Cantabria Festival Palace in Santander. The Group also participated in a variety of initiatives with the Barcelona and National Catalonian Symphonic Orchestra in Girona, Lleida and Tarragona. The Group also lent its support to important institutions such as the Gran Teatre del Liceu (Barcelona) and the National Symphony Hall (Madrid). It was also present at the Pontevedra Jazz Festival and the Peralada and Torroella de Montgrí Music Festivals (Girona).

Another of the outstanding actions carried out in 2006 was the Company's participation in the making, promotion and diffusion of the "Cantabria 2006. Liébana, Land of Jubilee" campaign, an initiative carried out by the Government of Cantabria as part of the 2006 and 2007 celebrations of the Liébana Jubilee Year, which include a wide range of cultural and leisure activities.

In addition, the Company also collaborated on the leisure-educational conditioning of "The Path of the Dinosaurs" circuit at the important dinosaur track sites of Enciso (La Rioja). Together with the Paleontological Heritage Foundation from La Rioja and La Rioja Turismo, the Gas Natural Group sponsored the refurbishment of the facilities, allowing visitors access to and understanding of the different sets of tracks and the surrounding area.

Throughout the 2005-2006 academic year, the Gas Natural Group continued to support the education of younger generations through its "Natural Gas and the Environment" educational programme and the online activity "Natural Gas, the 21^{st} Century Energy". The first programme involved 63,035 students and the online activities included the participation of 7,803 students, which represented an increase of 305.3% in comparison with the previous academic year.

In addition, various educational programmes were implemented under the name of "Gas in Schools" in Argentina, Brazil, Colombia and Mexico. The programmes taught students about the environmental benefits of natural gas, and teachers were given teaching material to reinforce their work. The programmes were attended by 109,687 children in the countries in which the Group is active.

As part of its goal of spreading the cultural and natural wealth of the countries in which it operates, in 2006, the Gas Natural Group published the book "Nigeria. Cultural and natural heritage", of which 26,000 copies were distributed in six languages.

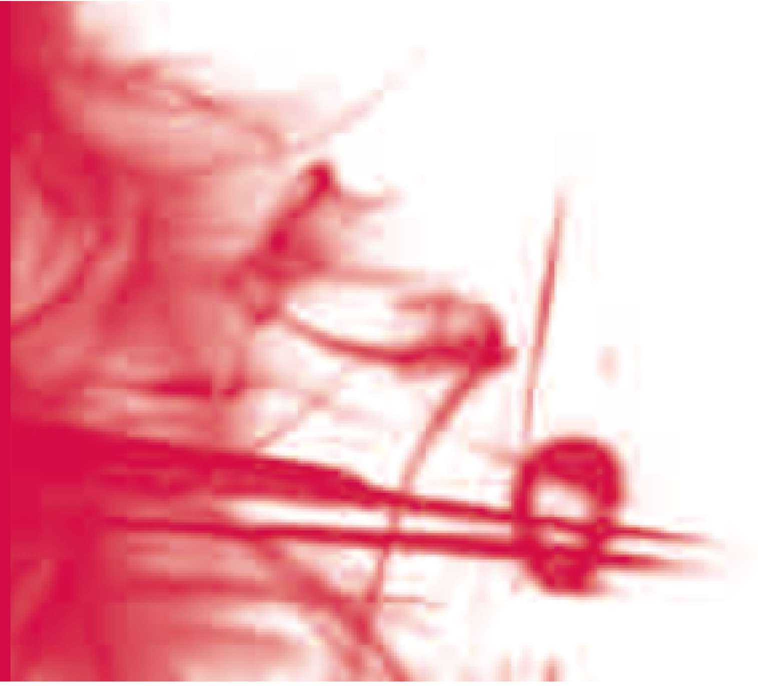
Community Investment Programme

The Gas Natural Group pays special attention to social projects that generate a higher value for society, reinforcing the Company's commitment to its positive integration in the communities and countries in which it operates.

In 2006, the Group set up numerous activities in collaboration with social organisations and foundations focused on the integration of underprivileged groups and those at risk of social exclusion. In keeping with this line of support for the more needy local groups, and for the third year running, the decision was taken to donate the amount traditionally allocated to sending out Christmas cards to the non-profit organisation, International Cooperation, for the refurbishment programme aimed at low-resource housing carried out by the NGO in Seville.

The Gas Natural Group understands support for research as a fundamental stage of the life quality improvement process for the sick and their families. Accordingly, in 2006, the Company continued its support for the National Cardiovascular Research Centre (CNIC) which, in conjunction with the Ministry of Health and another 13 Spanish companies, constituted the ProCNIC Foundation to promote research in cardiovascular diseases.

In line with the integration policy for underprivileged groups, the Gas Natural Group maintained collaboration agreements with Foundations such as Tallers de Catalunya, Adecco and Femarec. With these support measures, the Group hired individuals with various physical and mental disabilities for the development of different projects.



In addition, the “Family Plan” project was maintained and carried out different training actions aimed at helping the underprivileged collectives gain access to employment and social inclusion. In Galicia, the Gas Natural Group signed a collaboration agreement to start up the “Life School” project, whose endeavour is the incorporation into independent life of individuals with intellectual disabilities.

In Spain, the Company renewed its collaboration agreement with the Lealtad Foundation, whereby the foundation in question offers consultancy services for the selection of community action and sponsorship initiatives. It also offers assessments of compliance by NGO, non-profit foundations and associations with principles of transparency and good practice.

Likewise, the Company's community actions were reinforced in Mexico and Argentina with corporate volunteer programmes. Gas Natural BAN continued its volunteer programme, whose endeavour is to develop the skills of collectives with low economic resources and unsatisfied basic needs by implanting various projects with a resource development team and community actions or beginners workshop in electricity, leisure and entertainment.

In Argentina, Gas Natural BAN, together with the Capacitare Fundation, also launched “Natural Know-How”, an initiative that provides employees and their direct relatives with the possibility of beginning or completing primary and secondary schooling to obtain official qualifications by means of accessible education.

For its part, in 2006, Gas Natural México created a group of volunteers through which its employees and their families could take part in activities aimed at providing help for those in need, strengthening their relations between the Company and society. Accordingly, employees take an active part in the Company's corporate responsibility, carrying out work for the communities in which the Company lives and works, in keeping with corporate values.

In Brazil, the Gas Natural Group signed an agreement with the "Bola para Frente" institute to collaborate on the training of 340 young people who live in an underprivileged quarter in the Rio area. The Company supported the "Artillero I" project, which endeavours to stimulate the creative potential of young people through sport, since it conditions participation in the programme to continued attendance at school.

Also in 2006, the Company maintained the collection of unused mobile phones in order to collaborate with the "Rewrite the Future" initiative led by Save the Children to provide schooling for eigth million children who are victims of armed conflicts.

One of the most significant actions of the Gas Natural Group as part of its commitment to society was its adhesion to the Objectives of the Millennium. This initiative comprises various actions aimed at developing solutions to eradicate world poverty, the main aim of the Millennium Declaration signed by 189 heads of state and government at the headquarters of the United Nations Organisation in 2000. Aware of the size of the commitments and the need for collaboration, the Group brought part of its social actions into line with the Development Objectives of the Millennium.

Institutional Commitment

The Gas Natural Group has made several commitments in the form of national and international initiatives. As a result of its commitment, the Company is in a position 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 11 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 and Business in Society. It also took part in institutions related to the energy sector, such as the Spanish Energy Club, Eurogas and the International Gas Union, to name just a few.

Commitment to Consumers

The Company's past commitment to consumer representatives and their associations can be seen in the development of tools to encourage dialogue and co-operation. Accordingly, the Gas Natural Group held its annual round of meetings in 2006 with customer representatives in eight autonomous regions, which were attended by 161 delegations of consumer associations and municipal consumer information offices (OMIC).

The meetings looked at the changes to standards in the sector, the activity of the Customer Service Guarantee Office and its results for its first year in operation, as well as the various expansion plans for the distribution companies in their respective regions.

Relations with the Media

The aim of the Gas Natural Group's communication policy is to respond to the information requirements of every citizen, providing them with access to the relevant information issued by the Company and offering them channels that favour dialogue, developing the corresponding tools and processes to cover all the communication requirements with the various stakeholders.

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

Accordingly, 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 2006, the Company published 372 informative notes, 51% of which were corporate or referred to the Company’s activity in Spain and the remaining 49% corresponded to the communication activity of its international subsidiaries.

The Group also convened the media in 94 press conferences during 2006, 66% of which took place in Spain and the remaining 34% at its international subsidiaries. During 2006, the Gas Natural Group appeared in the Spanish press 8,059 times and 1,262 times on television.

The Gas Natural Foundation

In 2006, the Gas Natural Foundation consolidated the lines of activity started up in previous years with the development of the History of Gas Centre and Energy Training Centre, maintaining the specialisation in environmental education and awareness in all the communities and countries in which it operates.

Accordingly, the Gas Natural Foundation continued its presence in the various autonomous regions of Spain and developed a variety of activities in Argentina, Brazil, Colombia, Mexico and Morocco.

Courses and Seminars

During 2006, the Foundation held 16 public events aimed at creating environmental awareness in eleven autonomous regions, in which the central, regional and local authorities took an active part, together with national and foreign experts from the business and universit y sectors.

The aspects examined in the various seminars focused mainly on energy and the environment, such as energy efficiency and savings, alternative electricity generation technologies, solar energy and the climatic change, a subject of great interest in 2006 and one whose effects in Spain were analysed, together with the options for response open to enterprise.

Publications

In 2006, the Foundation continued its environmental diffusion work and published a book, notebook and educational sheet to provide and spread knowledge about the subjects, as well as promoting greater social awareness of the environment.

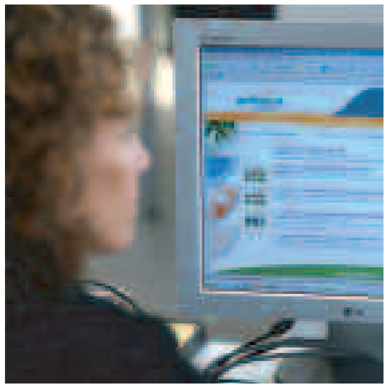
Collaboration Agreements

Throughout 2006, the collaboration agreements were maintained with the environmental authorities of the regions of Castilla y León, Andalusia, Catalonia, La Rioja, Navarre, Galicia, Murcia and Valencia, extending its scope to new agreements in Cantabria and Castilla-La Mancha and renewing the agreement with the Community of Madrid.

Last year, different collaboration agreements were also signed for the preparation of research work focusing on the climatic change, energy efficiency and air quality.

Energy Training Centre

In 2006, the challenge of improving training for energy sector professionals was taken on by the Energy Training Centre, which consolidated its activity with over 2,954 students in courses held in eight autonomous regions in Spain.



History of Gas Centre

In 2006, the History of Gas Centre continued to develop an intensive campaign for cataloguing the Group's historical collections in order to conserve the sector's cultural heritage. It also began publishing books and carrying out research work.

In addition, the Board of the Gas Natural Foundation proposed a strategic extension of the activities laid down in its foundational purpose, in particular, the decision to create a Gas Museum to show society how this energy has developed, as well as its social function and capacity for development in conjunction with renewable energies.

International Activities

In 2006, the Foundation also promoted numerous international activities.

In Argentina, with the support of the Gas Natural Foundation, Gas Natural BAN continued to develop the "First Export Programme", which, since 2001, has provided consultancy services to more than 4,000 enterprises and 10,000 entrepreneurs with an average of 80 seminars a year. The purpose is to offer guidance and training for small and medium-sized Argentinean enterprises to strengthen their export capacity.

Accordingly, the collaboration agreement with the Pompeu Fabra University in Barcelona was maintained for various activities on the programme.

The "FLACAM fellowship" programme for Latin American professionals was extended and the volunteer programme by which the Company personnel are trained was maintained.

In addition and together with the Viva Rio NGO in Brazil, the Foundation started up a Professional Training Centre in Rio de Janeiro and organised 14 training courses that were attended by 177 students.

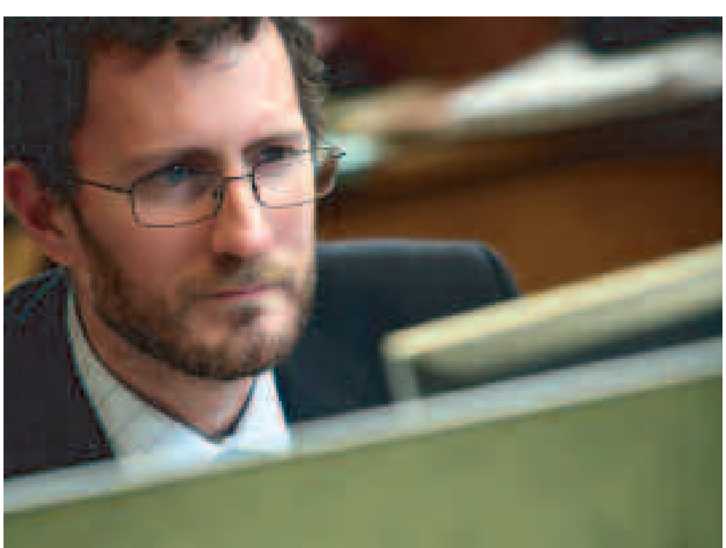
In Colombia, the Foundation continued its teaching activities with its "Little Scientists" programme, whose endeavour is to promote the learning of scientific attitudes and concepts at school. Other actions in the same area include the "Teacher Training" programme, which seeks to extend the training of natural science teachers in the Bogotá area, and the "School Head Teacher Training" programme, which was signed in 2006 with the Javeriana University and the District Education Department. Elsewhere, a new training agreement was signed for the "Conversion of Vehicles to Natural Gas" programme, and training was given to 350 mechanics.

In Mexico, the "Support for Mexican SMEs" programme organised with the backing of the Mexican Department of the Economy and FUNDES (Foundation for Sustainable Development) was completed with great success. A new programme called "UNETE" was also started up, consisting of equipping the low-resource public schools of "La Ciudad de los Niños" in Monterrey and "Librado Acevedo" in Celaya with new technologies. The seminar titled "Innovation and Enterprise: Evolution and Experiences in Innovation, Property and Internationalisation in Mexico, Latin America and Spain" was organised in collaboration with the National University of Mexico.

In Morocco, the Foundation continued to provide support and collaboration for "Institut Princesse Lalla Meryem pour Enfants Autistes", a training centre for autistic children in Tangiers.

Financial Economic Management

During 2006, the General Financial-Economic Department started up a Risk Measurement System aimed at quantifying, on the base of probability, the risk assumed partly or entirely by each of the relevant businesses regarding risk factors related to exchange rates and energy commodities. This system was designed as a support tool for business units, guaranteeing an optimum level of independence in the decision-taking process and ensuring that the risk assumed is in keeping with the risk profile laid down by the government bodies.



Furthermore, it makes it possible to identify the existence of natural covers between different business units, guaranteeing efficiency in economic terms and in the terms of risk in decision-taking, safekeeping the interests of Gas Natural Group's bodies of government and stakeholders.

In 2006, the first full year of operation of the reassurance company, Natural Re, owned 100% by the Gas Natural Group, the Company fulfilled its objectives, achieving a lower level of dependence on the insurance market and optimising risk management costs.

The year 2006 also saw the implantation of the new Financial Economic Management Model in France and in the company Petroleum Oil & Gas España. The new model involves changes in the organisation, processes and systems, respecting local criteria in the area of legislation, taxation and regulation at the same time as it allows a vision that is common to the Gas Natural Group's criteria.

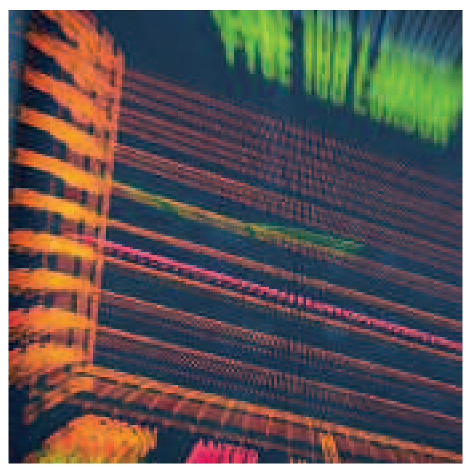
The organisation of both the French company and Petroleum Oil & Gas España included their incorporation into the European Financial-Economic Shared Services Centre (SSC) in Barcelona. After this new incorporation, the European SSC manages the companies whose head offices are located in Spain, France and Italy.

In addition, the year 2006 saw the implantation of the Business Balance Scorecard for Brazil and Colombia, which joins those already in existence for Argentina and Mexico. With these latest incorporations, there is now a uniform Financial Economic Management Model in Argentina, Brazil, Colombia, Spain, France, Italy, Morocco and Mexico.

As a complement to this model, a new application enabling the processing, adoption and monitoring of investments and the hiring of external consultants was developed and implanted throughout the Group.

The year 2006 also continued the project to develop a new competitive internal control 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).

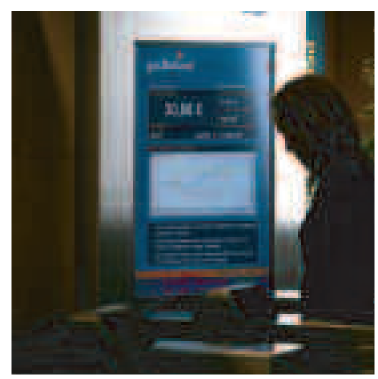
Therefore, financial information to third parties must abide by the principles of independence, integrity, proper supervision, responsibility, secure internal controls and transparency.



Furthermore, the year 2006 saw the consolidation in Spain of the electronic bills regarding suppliers, an option that was chosen by 80 suppliers, representing a total annual volume of 31,400 bills.

The Gas Natural Group's activities in 2006 led to value being created for shareholders. At the year end, the stock was trading at 29.99 euros, 27% up on the previous year; shareholders also received a dividend of 0.84 euros per share. The effective volume traded reached 8,019 million euros, up 45% in comparison with the volume traded the previous year.

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



In addition, the General Financial-Economic Department started up a communication programme with analysts and investors, which optimised relations between both collectives and enabled the task of informing them of the Group's corporate reality and business project. Accordingly, meetings were held with more than 200 investors and almost 40 analysts in different cities in both Europe and North America.

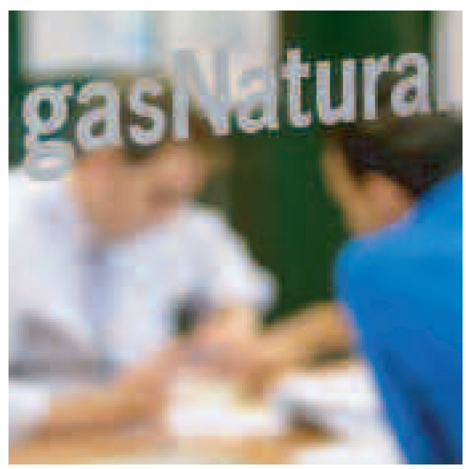
During 2006, a comprehensive cash management system was effectively implanted (with zero balance cash pooling structure) in the Gas Natural Group's Italian companies. This system simplified the financial management and enabled considerable savings by reducing administrative costs and maximising cash surplus profitability. Likewise, the concentration of the banking business associated with this process led to the generation of economies of scale in a heavily atomised geographical action area.

Internal Audit

The Gas Natural Group carries out internal audit activities as a means of independent and objective assessment. The Internal Audit Department 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 rigorous approach for process monitoring and improvement and for the assessment of related operational risks and controls. All of this is geared towards meeting the strategic objectives of the Gas Natural Group: profitability, growth and quality, and assisting the Audit and Control Committee and the senior management of the Gas Natural Group in carrying out their responsibilities in the fields of management, control and corporate governance.

In accordance with the recommendations of the COSO Report (Committee of Sponsoring Organisations of the Treadway Commission), the Internal Control System in the Gas Natural Group has been established as a process carried out by the Board of Directors, senior management and other personnel in the organisation, with the aim



of providing a reasonable degree of confidence in meeting objectives in the following fields or categories:

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

The objectives, operating standards, powers and responsibilities of Internal Audit, as well as the methodology for drawing up the Annual Internal Audit Plans, are set out in the Internal Audit General Regulations approved by the senior management of the Gas Natural Group.

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

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

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

Internal audit projects were developed partly through the Company's internal audit corporate Intranet (Audita). This IT application aims to improve the effectiveness and efficiency of the development of the internal audit operation in all geographical and business aspects of the Gas Natural Group. Furthermore, it should be pointed out that the operation has been designed in conformity with International Standards for the Practice of Internal Auditing and that a number of the internal auditors are or are in the process of being certified as Certified Internal Auditors (CIA), the only qualification recognised worldwide attesting to the excellence of internal audit services.

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 human resources, promoting internal rotation, training, continuous assessment and professional development within the Group.

The 2006 Internal Audit Plan for the Gas Natural Group was approved by the Audit and Control Committee in their meeting held on 26 January 2006.

Pursuant to the Plan, during the period between 1 January 2006 and 23 February 2007 (date of drawing up of Annual Accounts), Internal Audit directors took part in eight meetings of the Audit and Control Committee to present the degree of execution of the Internal Audit Plan and the main conclusions, control and risk assessments and recommendations included in the Internal Audit Reports.

In addition, these meetings reported the level of implementation by the units of the corrective measures shown in the Audit Reports and, in particular, the proposals put forward by the Commission itself, as well as the proposal for the adoption of the 2007 Internal Audit Plan.

The functions of the Audit and Control Commission and its main activities during 2006 were included in the Annual Report on the Activities of the Audit and Control Commission, which is part of the documentation to be presented by the Board of Directors of Gas Natural SDG, at the General Meeting of Shareholders. It is also available on the Gas Natural Group website (www.gasnatural.com).

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

The main processes reviewed by the Internal Audit Department during 2006 were those relating to sales (commercialisation mainly), procurement, distribution (canalisation, start-up and reading), financing, information systems, quality, investments and allocation and contracting of goods and services.

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

Economic Analysis

Consolidated Economic Analysis

In 2006, the Gas Natural Group reported consolidated net profits of 855 million euros, up 14.1% on the previous year.

The net turnover totalled 10,348 million euros, 21.4% up on 2005, mainly due to the activity levels reached and, in particular, to the 45.5% increase in the electricity activity in Spain.

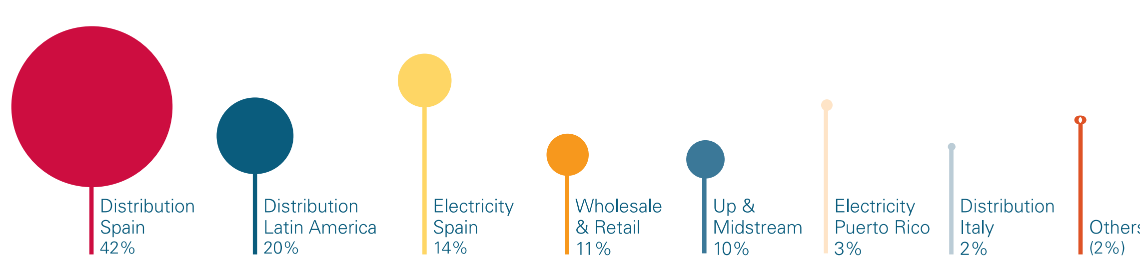
Gross operating profit (Ebitda) for 2006 totalled 1,912 million euros, up 25.9% on 2005. The greatest contribution to the Group's Ebitda came from the regulated gas distribution activity as a whole (Spain, Latin America and Italy), which represented 64.2% of the total, and, in particular, the distribution in Spain, which represented 42.4%.

The Company's activity in the electricity business in Spain continued to grow significantly and contributed with 13.5% of total Ebitda, similar to the gas commercialisation and supply activities in both Spain and abroad, which represented 11.5% of the consolidated Ebitda.

In addition, the charge for provisions and accumulated depreciation increased by 18% overall, mainly due to investments in gas distribution networks and the generation of electricity. As a result, operating profits increased by 30.4% to 1,263 million euros.

The net financial expenses for the year totalled 276 million euros in comparison with the 221 million euros of the previous year. The increase in the net financial expenses was due to the greater cost of the financial debt, caused by a higher average debt volume (4.8%), and to a slight increase in the average cost as a result of the greater weight of the debt in Latin American currencies, as well as to other specific costs, such as those corresponding to bank guarantees for the bid for Endesa.

Contribution to Ebitda by Activity. 2006



Consolidated Results Accounts

(millions of euros)

	2006	2005	%
Net turnover	10,348	8,527	21.4
Supplies	(7,418)	(6,150)	20.6
Net personnel, expenses	(277)	(252)	10.2
Other income, expenses	(741)	(606)	22.2
Ebitda	**1,912**	**1,519**	**25.9**
Charge for accumulated depreciation	(592)	(519)	14.1
Charge for provisions	(57)	(31)	84.5
Operating profits	**1,263**	**969**	**30.4**
Net financial, expense	(267)	(221)	20.7
Equity accounted income	5	34	(85.5)
Income from disposal of assets	230	286	(19.6)
Profits before tax	**1,231**	**1,068**	**15.3**
Corporate income tax	(302)	(241)	(25.4)
Minority interests	(74)	(78)	(4.2)
Profit attributable to the Group	**855**	**749**	**14.1**

The results of the disposal of non-current assets corresponding to 2006 totalled 230 million euros and were mainly due to the disposal during the year of the 7.8% holding in Enagás, and include the results generated by the sale in November of the holding in Gas Natural de Álava (10%). In addition, the non-consolidation of the holding in Enagás in 2006 explains the drop in the results according to the equity method.

At 31 December 2006, the holding in Enagás totalled 5%. Accordingly, the Company completed the reduction of its holding in compliance with current legislation.

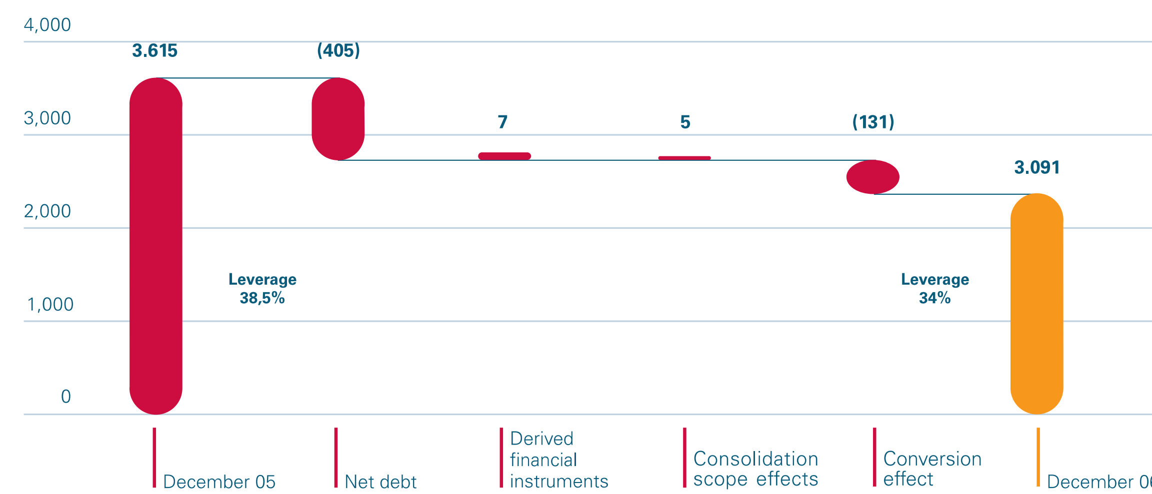
Financial Position

Net debts were reduced by 524 million euros and reached 3,091 million euros at the close of 2006. This gave a healthier debt ratio of 34%, net debt/Ebitda ratio of 1.6x and a financial hedging of 7.2x.

In 2006, Gas Natural BAN developed the policy for converting its finance in dollars to local currency. Accordingly, in July 2006 it completed the first issue of its Negotiable Securities Programme on the local market for the amount of 130 million Argentinian pesos over a term of two years and, at the end of the year, it completed the conversion of its finance in dollars to pesos.

Performance of the Net Financial Debt

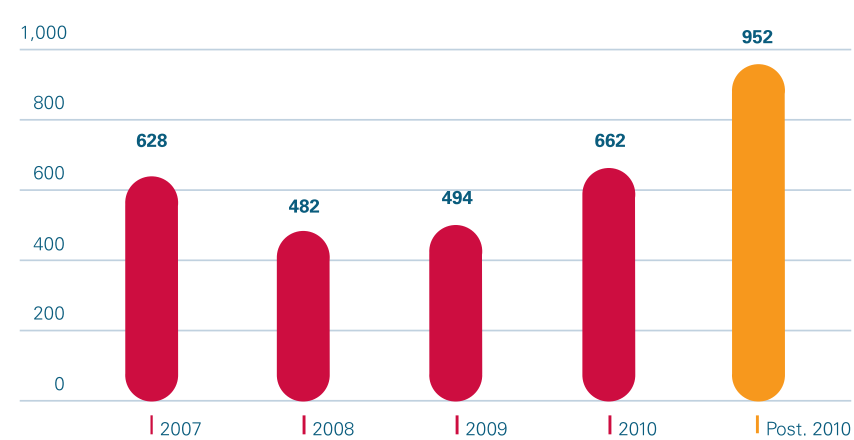
(millions of euros)



65.1% of the consolidated debt is at a fixed interest rate and the remaining 34.9% is at a floating rate.

Maturity of the Gross Debt (at 31 december 2006)

(millions of euros)



In addition, the gross debt([1]) maturity schedule shows an adequate structure with 19.5% due in the short-term and the remaining 80.5% due in the long-term, and almost one third due after the year 2010.

Investments

Investments totalled 1,164 million euros in 2006, 1,057 million euros of which corresponded to tangible investments.

([1]) Total gross debt: 3,218 million euros.

Tangible investments are lower than the previous year due to the lower volume of electricity generation assets (combined cycle power stations) under construction in 2006 (1,200 MW) in comparison with the assets of the previous year (2,000 MW).

The financial investments for the period include the acquisition of 100% of Petroleum Oil & Gas España.

39% of the tangible investments were allocated to gas distribution in Spain and led to the laying and opening of 2,753 km of new network to cover new supply points in the areas in which the Gas Natural Group operates.

The electricity activity in Spain took second place by investment volume, with 28.9%. These investments were basically used to develop the construction of the combined cycle power stations in Plana del Vent, Tarragona (800 MW), and Malaga (400 MW).

Assets

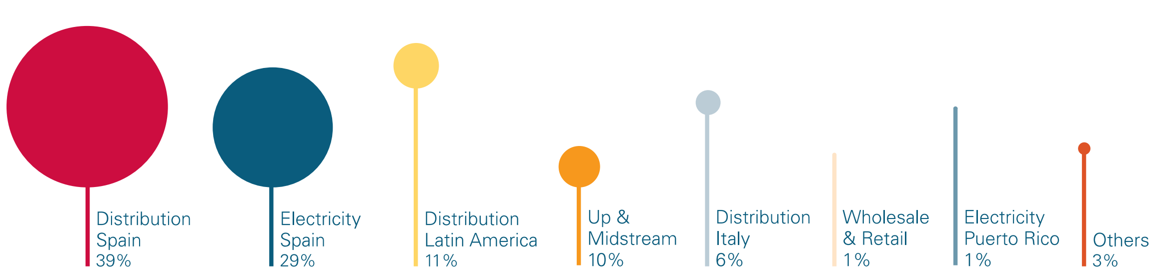
On 23 February 2007, the Board of Directors adopted the proposal, which shall be submitted to the General Meeting of Shareholders, of an increase of 16.7% in the dividend and a payment of a total of 0.98 euros per share on the account of the results for 2006, 0.37 euros of which were paid in January 2007.

The proposal will represent an increase of the payout from 50.2% to 51.4% in keeping with the aim of reaching a payout in the range of 52%-55% by 2008.

The anticipated complementary dividend is, therefore, 0.61 euros per share, up 15.1% on the complementary dividend of the previous year.

At the close of 2006, the assets reached 5,996 million euros, with the growth of 4% over the last 12 months. Of these assets, the figure of 5,652 million euros can be attributed to the Gas Natural Group, with an increase of 4.5%. Accordingly, the profitability of the average stockholder equity increased from 15% in 2005 to 15.4% in 2006.

Tangible Investments by Activity. 2006



Stock Market Information

2006 was a record year for the stock market, including world markets in general and the Spanish market in particular, which has become the most profitable in the world after recording the greatest increase since 1998. The increase in oil prices during 2006 affected all the stock markets, but the Spanish market managed to take the greatest advantage when crude fell after summer, thanks to good business results and intense corporate activity.

The Ibex 35, the main Spanish stock market index, rose for the fourth year running, closing the year at 14,146.5 points, with a revaluation of 31.8% in comparison with 2005. The index recorded an annual maximum of 14,420.8 points on 15 December and an annual minimum of 10,611.1 points on 23 January.

At year end, shares of Gas Natural SDG stood at 29.99 euros, up 26.7%. The annual maximum reached was 32.88 euros on 8 November and the annual minimum was 21.74 euros on 16 June.

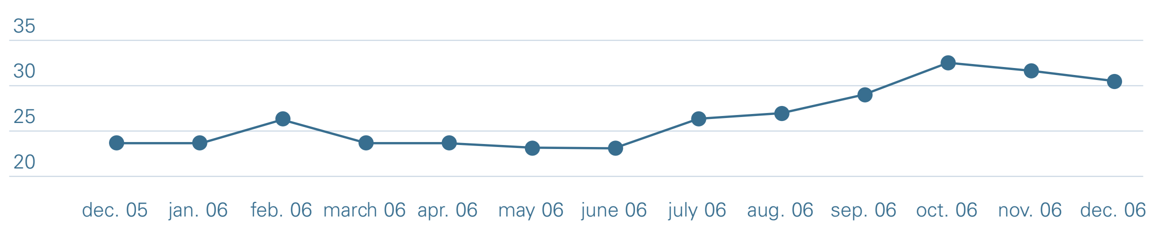
During 2006, a total number of 309.2 million shares were traded, 29% up on the previous year. Of the total number of shares traded, 94% corresponded to the continuous market, although 18% of this percentage was contracted through so-called block transactions. The remaining 6% was traded through special transactions. The daily average of shares traded stood at 1.2 million.

The effective volume traded represented 8,019 million euros, with a daily negotiation average of 31.6 million euros, up 45% on the previous year. As a result of these high contracting levels, Gas Natural SDG was the eighteenth most contracted share on the continuous market in 2006.

At 31 December 2006, the stock market capitalisation of Gas Natural SDG stood at 13,429 million euros, lying fifteenth in the Ibex 35 ranking with a weighting of 1.57%. In accordance with stock market regulations, its participation in the said index totalled 60% of its capitalisation.

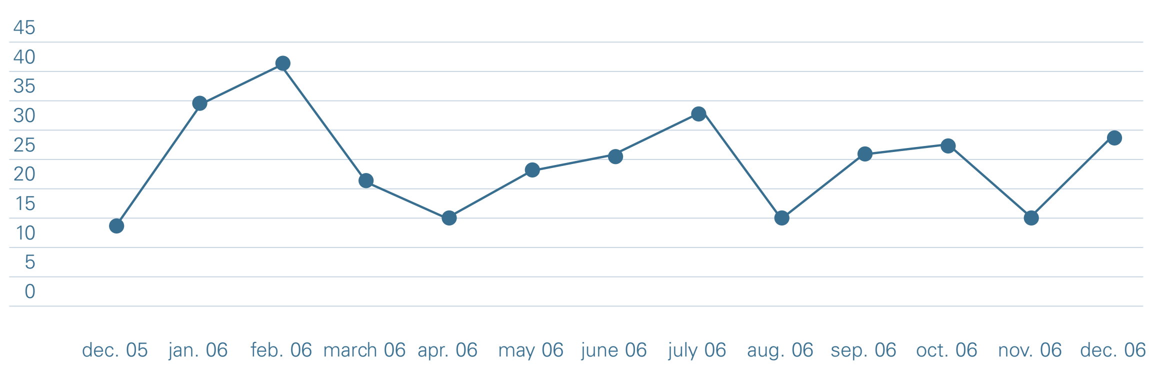
Share Prices of Gas Natural SDG

(monthly close in euros)

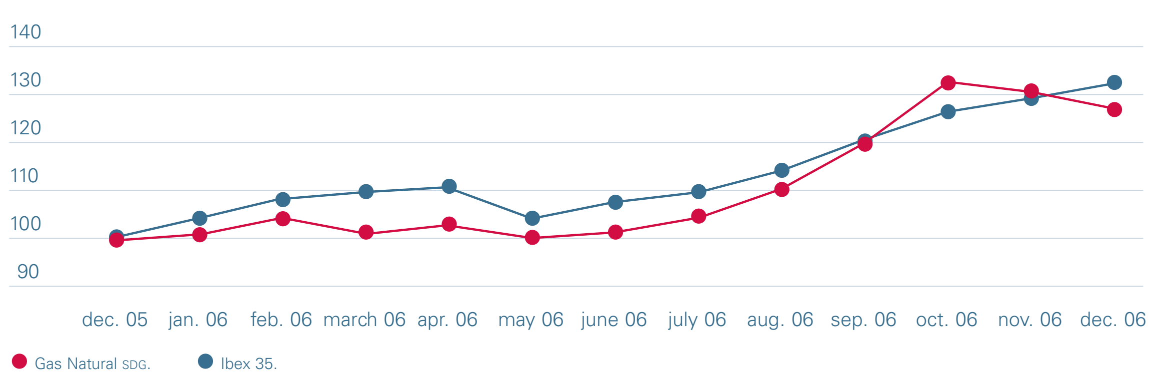


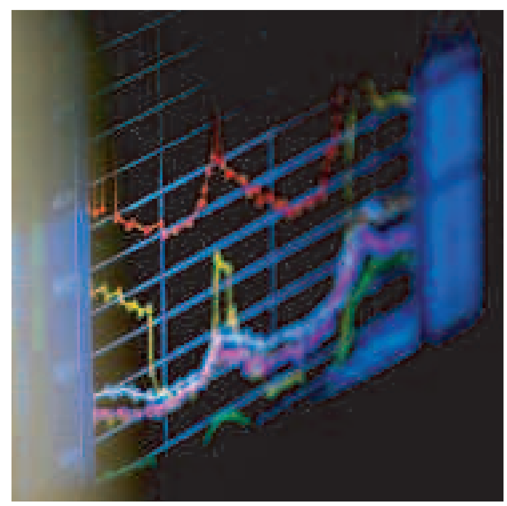
Number of Shares Traded

(monthly data in millions)



Performance of Gas Natural SDG and Ibex 35



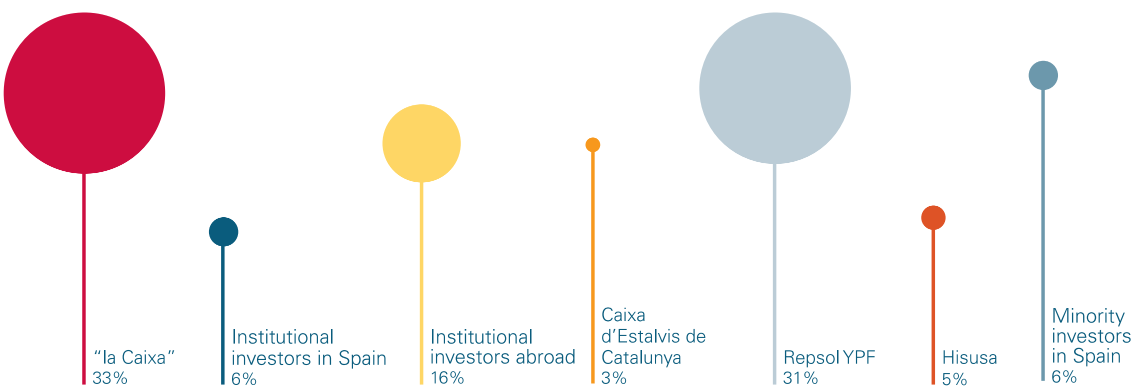


In 2006, Gas Natural SDG again passed the FTSE4Good sustainability index review, where its shares have been present uninterruptedly since 2001. In addition, for the second year running, it was included in the Dow Jones Sustainability World Index (DJSI World), which involves all the companies in the world with the best behaviour in economy, environment and society.

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.

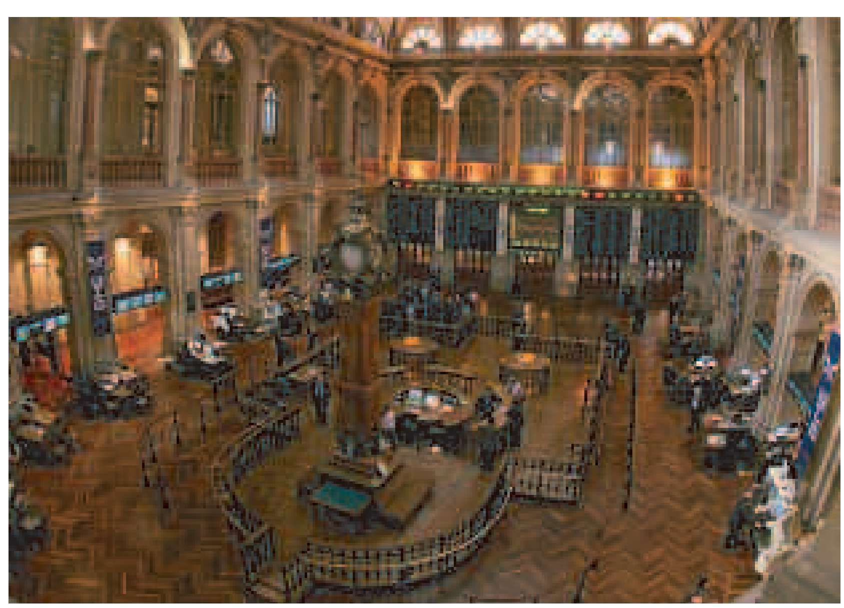
The shares of Gas Natural BAN, the distribution company for the Gas Natural Group in Argentina, stood at 1.84 pesos at year end, with a increase of 5.1%. The annual high and low were 2.02 pesos and 1.34 pesos, respectively. During 2006, 5.9 million shares were traded. The Merval Index of the Buenos Aires Stock Market, closed the year with an increase of 35.8%.

Shareholder Structure of Gas Natural SDG. 2006



According to the information taken from the last General Meeting of Shareholders held on 8 June 2006, there are estimated to be approximately 40,000 Gas Natural SDG. shareholders.

At 31 December 2006, 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%.



Analysis of Results by Activity

Distribution in Spain

Gas distribution in Spain 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 2006, net turnover for the gas distribution business in Spain amounted to 2,154 million euros, 8.1% up on the previous year's figure.

Ebitda stood at 812 million euros, up 4.4% on 2005, in keeping with the increase in the regulated remuneration for 2006. The Ebitda was affected by the lower growth of gas for vehicles and supply points. Accordingly, the year 2006 was the second hottest year since 1980, and the year 2005 was slightly colder than a normal thermal year.

Sales on the regulated gas market in Spain, which comprises regulated gas distribution and marketing and third-party access to the network (TPA), amounted to 258,758 GWh, 1.6% up on the previous year. Gas sales on the residential regulated market fell by 19.8% due to the gradual changeover of customers to the liberalised market and to temperatures that were higher than the previous year.

In 2006, the degree of opening of the gas market (sales of gas on the liberalised market vs. total market) stood at 85.9%, against 83.2% the previous year. Despite this, gas sales on the industrial regulated market where up 59% in comparison with 2005, mainly due to the return to the regulated market of various medium-consumption industrial customers due to market prices.

Distribution services for third-party access to the network (TPA) rose 5.1% and reached 214,098 GWh, 96,221 GWh of which corresponded to services carried out for third parties and the rest, 117,877 GWh, corresponded to the commercialisation of gas on the liberalised market through the Gas Natural Group’s commercialisation companies.

The distribution network increased by 2,753 km in 2006, reaching the figure of 42,364 km at 31 December 2005. This represents a year-on-year growth of 7%. The year 2006 saw the commencement of supply in 56 new municipalities and, currently, natural gas is being supplied to 870 towns. In addition, the Company signed gasification agreements with various municipalities all over Spain, which will enable the arrival of the supply in the coming quarters.

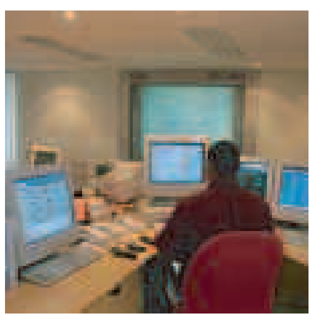
The Gas Natural Group maintains high rates of growth in the number of supply points and, during the last twelve months, the number increased by 301,000 new points. At 31 December 2006, the figure for supply points on the Gas Natural Group's distribution network in Spain totalled 5,435,000, up 5.9%.

Distribution in Spain. Main Figures

(millions of euros)

	2006	2005	%
Gas-related activity sales (GWh):	258,758	254,774	1.6
Regulated gas sales:	44,660	51,121	(12.6)
Residential	21,367	26,639	(19.8)
Industrial	21,148	13,303	59.0
Electricity	2,145	11,179	(80.8)
TPA	214,098	203,653	5.1
Distribution network (km)	42,364	39,611	7.0
Increase in supply points, in thousands	301	325	(7.4)
Supply points, in thousands (as at 31/12)	5,435	5,134	5.9

Distribution in Latin America



In 2006, the continuous growth of the results for the gas distribution activity in Latin America was consolidated, with the Gas Natural Group operating in Argentina, Brazil, Colombia and Mexico.

The net turnover totalled 1,557 million euros in 2006, which represents an increase of 9.7% in comparison with the previous year.

The Ebitda reached 386 million euros, which represents an increase of 21.9% due mainly to the improved operating results in all countries.

Gas-related activity sales in Latin America, which include gas sales and third-party access to the network (TPA), totalled 171,750 GWh, up 3.8% on 2005.

The distribution network increased by 1,390 km in 2006, reaching the figure of 58,152 km at 31 December. This represents a year-on-year growth of 2.4%.

The figure for gas distribution customers reached 4,907,000 at 31 December 2006, with a year-on-year increase of 150,000 gas supply points, despite the difficulties associated with competitiveness in Brazil and Mexico and the high level of saturation in Colombia.

In 2006, with regard to the activities carried out by the Gas Natural Group in Latin America, the following issues can also be highlighted:

- In Argentina, Gas Natural BAN increased its distribution client portfolio with 33,000 new supply points, reaching 1,322,000 at the close of the year.

- In Brazil, the competitiveness of gas for vehicles in comparison with alternative fuels increased its sales on this market by 22% in comparison with the previous year and represented 23% of total sales. In addition, the year 2006 saw the continuity of the important commercial development in the country, with special focus on the growth of industrial sales in the São Paulo area, with an increase of 17.9%.

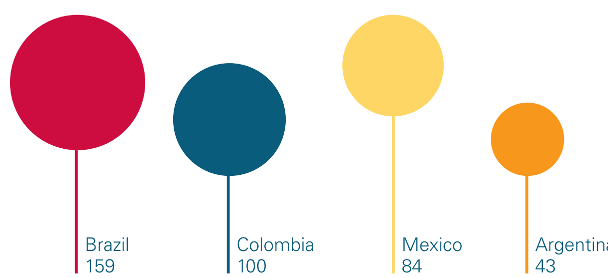
- In Colombia, sales increased by 21.1%, with double-figure rates on all markets. The client portfolio grew by 6.1% in comparison with 2005 and reached 1,712,000 supply points, despite the high level of saturation in Bogotá. By markets, special mention must be made of industrial sales, with the growth of 25.7%, and those of natural gas for vehicles, which increased by 53.1%. In 2006, 32,685 vehicles were converted to gas, which is an

increase of 108%, and the number of compressed natural gas stations rose from 38 to 75.

- Mexico increased its gas sales by 5.2%, mainly due to the higher sales to the industrial market and a 6% increase in third-party access to the network (TPA). Likewise, sales on the residential market fell due to the increase in gas costs, which is referenced to prices in the south of the United States. The Federal Government launched measures to compensate this effect initially until 30 September 2006. These measures are expected to be renewed in the future in order to encourage gas consumption.

Ebitda Distribution in Latin America. 2006

(millions of euros)



Distribution in Latin America. Main Figures

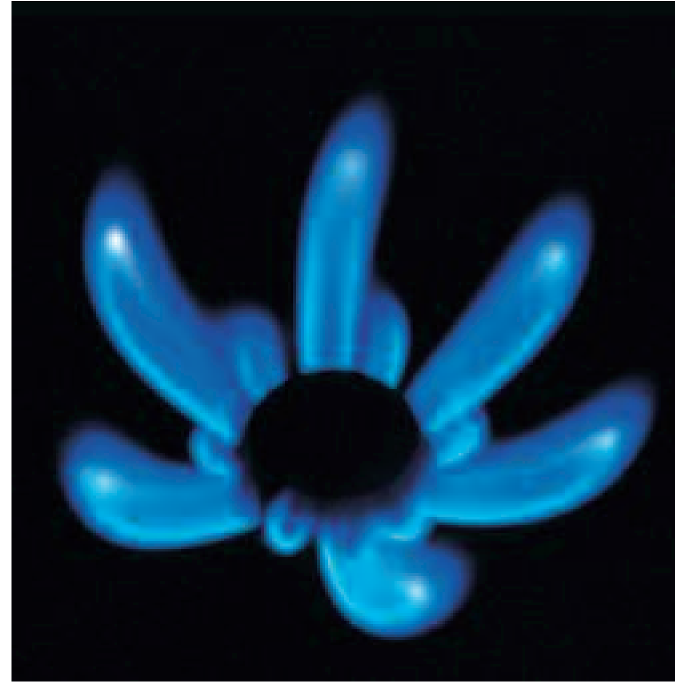
(millions of euros)

	2006	2005	%
Gas-related activity sales (GWh):	171,750	165,408	3.8
Regulated gas sales	106,849	99,891	7.0
TPA	64,901	65,517	(0.9)
Distribution network (km)	58,152	56,762	2.4
Increase in supply points, in thousands	150	253	(40.7)
Supply points, in thousands (as at 31/12)	4,907	4,757	3.2

Distribution in Latin America. Main Figures by Country. 2006

	Argentina	Brasil	Colombia	México	Total
Gas-related activity sales (GWh)	69,200	45,274	13,557	43,719	171,750
Increase *vs.* 2005 (%)	(0.2)	4.6	21.1	5.2	3.8
Distribution network (km)	21,486	5,387	16,050	15,229	58,152
Increase *vs.* 31/12/2005 (km)	249	382	563	196	1,390
Supply points, in thousands (as at 31/12)	1,322	753	1,712	1,120	4,907
Increase *vs.* 31/12/2005, in thousands	33	8	98	11	150

Distribution in Italy



The Ebitda for the gas distribution activity in Italy stood at 30 million euros in 2006, up 10.3% on the previous year. These figures show the consolidation of the Gas Natural Group's activity in the country.

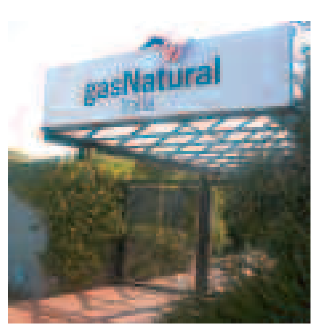
The mild winter temperatures, especially in certain areas of Sicily (which are also compared with 2005, which was colder than the average of the previous four years), led to a lower demand for gas.

The gas distribution activity in Italy reached 2,448 GWh, down 10.3% in comparison with the same period of the previous year, mainly due to higher temperatures during 2006.

Distribution in Italy. Main Figures

(millions of euros)

	2006	2005	%
Gas-related activity sales (GWh):	2,448	2,730	(10.3)
Regulated gas sales	2,347	2,652	(11.5)
TPA	101	78	29.5
Distribution network (km)	4,012	3,776	6.3
Supply points, in thousands (as at 31/12)	320	288	11.1



Trade was consolidated in 2006 by a year-on-year increase of 32,000 new supply points and by intense activity in the Palermo, Catania and the Reggio Calabria regions.

At 31 December 2006, the Company had 320,000 gas supply points, 11.1% higher, and a distribution network in Italy of 4,012 km, which represents a year-on-year growth of 6.3%.

Electricity in Spain

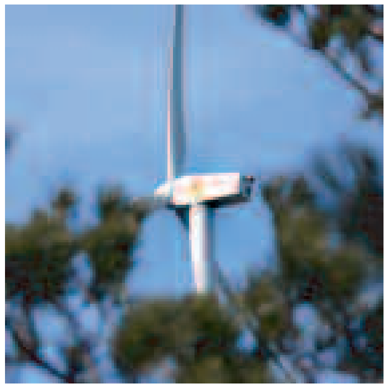
This section includes electrical power activities in Spain (combined cycles, wind farms and cogeneration plants), trading for the purchase of electricity from the wholesale market and the commercialisation of electricity on the Spanish liberalised market.

In 2006, the Ebitda for electricity activity in Spain stood at 259 million euros, a figure that almost triples that of the previous year. In addition, the turnover for the electricity activity totalled 1,348 million euros in 2006, which represents an increase of 45.5% in comparison with the previous year.

The energy generated and sold, mainly to the wholesale market, reached 17,831 GWh in 2006, double the figure for the previous year, thanks to the start-up of the combined cycle power station in Cartagena, with the power of 1,200 MW, and the favourable context of the pool prices.

The electrical power generated by combined cycle plants totalled 16,987 GWh. The accumulated share of Gas Natural SDG in power generation under the ordinary system reached 7.9% in 2006.

The Gas Natural Group's portfolio of electricity contracts continued the trend set during the second half of 2005 which fell notably in 2006 due to the temporary abandonment of the commercialisation of electricity until the market conditions settle. As a result, electricity sales in the industrial commercialisation activity fell by 80.6% and in the residential segment, they fell by 4.8%.



The Gas Natural Group's generators have 2,800 MW in operation in combined cycle facilities, as well 1,200 MW under construction, with an investment of around 650 million euros: 800 MW in Plana del Vent (Vandellós, Tarragona) and 400 MW in Malaga. There are a further 800 MW at an advanced stage regarding the application for permits, all aimed at fulfilling the generation capacity goal of 4,800 MW with combined cycles by 2008.

Furthermore, in 2006, the Gas Natural Group's production of wind energy totalled 694 GWh, equivalent to an average use of 2,184 hours, a figure slightly higher than the average use of the total number of wind energy facilities on the Iberian Peninsula (2,018 hours).

After the purchases through its subsidiary Gas Natural Corporación Eólica and its own promotional activities, the Company currently has a gross installed power of 721 MW (attributable 347 MW) and more than 900 MW under development. In 2006, 112 new wind power MW were incorporated (attributable 67.7 MW) and the construction of a further 31 MW (attributable 15.5 MW) are at an advanced stage.

The sales of co-generation electricity totalled 150 GWh in 2006, 21% up on sales in 2005. The Gas Natural Group's installed power in co-generation plants totalled 22 MW in 2006.

Electricity in Spain. Main Figures

	2006	2005	%
Power generation capacity (MW):	3,169	3,102	2.2
Combined cycle plants	2,800	2,800	-
Wind power installations	347	279	24.4
Cogeneration plants	22	23	(4.3)
Electricity generated (GWh):	17,831	8,904	-
Combined cycle plants	16,987	8,234	-
Wind power installations	694	528	31.4
Cogeneration plants	150	142	5.6
Electricity contracted (GWh/year)	210	1,688	(87.6)
Electricity sales (GWh):	2,761	6,296	(56.1)
Residential	1,931	2,028	(4.8)
Industrial	830	4,268	(80.6)

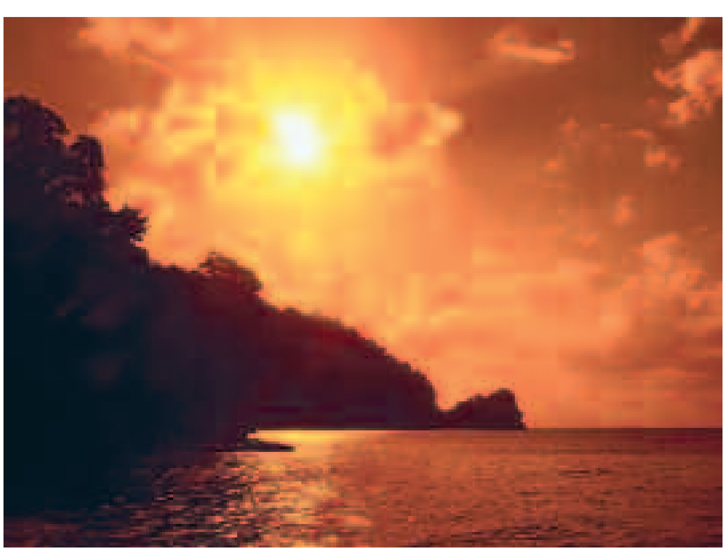
Electricity in Puerto Rico

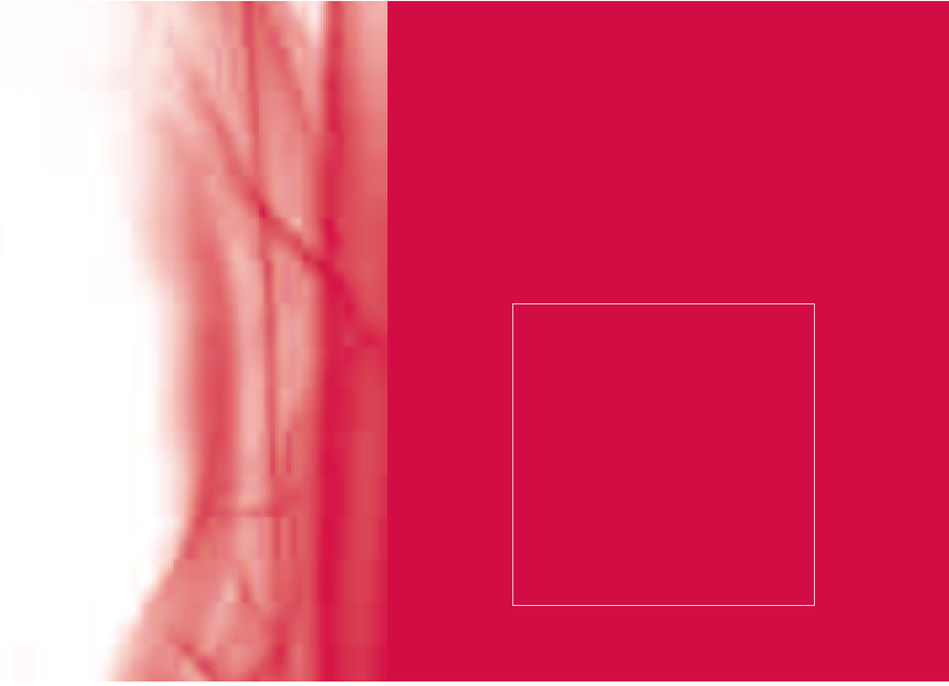
The Gas Natural Group has been present in Puerto Rico since October 2003, when it purchased a holding of 47.5% in the company EcoEléctrica, as well as exclusive rights to the introduction of natural gas into the island and a fuel management, maintenance and operation contract.

EcoEléctrica's facilities comprise a regasification plant with a capacity of 115,000 m³/hour, a 160,000 m³ LNG tank and a 540 MW combined cycle power station, which produces between 15% and 17% of all the electricity consumed on the island.

The Ebitda of the activities in Puerto Rico reached 63 million euros ($79 million in local currency, 6.5% up on 2005).

EcoEléctrica's electricity sales in 2006 totalled 3,375 GWh (the energy attributable to the Gas Natural Group was 1,603 GWh), an increase of 8%, with a load factor of 76%, an improvement on the 70% of the previous year.





Up & Midstream

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

The net turnover for the Upstream and Midstream activities amounted to 285 million euros, with an increase of 8.7%. The Ebitda for 2006 stood at 181 million euros, 3.2% up on the previous year, mainly due to the greater use of the methane ship fleet (97% against the 78% of 2005), despite less activity in the transport of gas by gas pipeline and an unfavourable dollar exchange rate.

Up & Midstream. Main Figures

	2006	2005	%
Gas transportation-EMPL (GWh):	129,499	145,923	(11.3)
Portugal-Morocco	28,838	35,287	(18.3)
Gas Natural Group	100,661	110,636	(9.0)

The gas transport activity carried out in Morocco by the companies EMPL and Metragaz represented a total figure of 129,499 GWh, 11.3% down on 2005 due to the fall in demand as a result of a milder winter and the use of the flexibility of the piped natural gas contract. Of this figure, 100,661 GWh were transported for the Gas Natural Group by the company Sagane and 28,838 GWh were for Portugal and Morocco.

In 2006, the Gas Natural Group purchased 100% of the company Petroleum Oil & Gas España, dedicated to the exploration, development and production of hydrocarbons in Spain, with gas reserves mainly in the valley of the Guadalquivir.

The Gas Natural Group also has the Marismas (Huelva) underground storage project, which is currently being implemented. In 2006, the surface facilities were completed and the drilling is to begin next year.

In conjunction with Repsol YPF, the Gas Natural Group continues the joint development of the exploration project in Gassi Chergui (Algeria), as well as the integrated LNG exploration, production and commercialisation project in the area of Gassi Touil (Algeria). In addition, both companies signed a framework agreement with the Nigerian Government to develop an LNG project in the said country.

Furthermore, in 2006, both companies collaborated on an exploration project in Murcia which involved drilling work, and another in Malaga, which involved seismic acquisition and interpretation.

In April 2006, the Gas Natural Group and Repsol YPF, through their joint venture (Stream), signed a new time charter contract for a new methane ship with a capacity of 138,000 m^3, which is to come into service in 2009 for a period of 20 years.

The Gas Natural Group presented the Italian Government (Ministero delle Attività Produttive) with an application for an administrative authorisation to develop the construction projects of two regasification plants in Italy. In the final quarter of 2006, the Group's projects were included by the Italian Government on a shortlist of urgent projects.

Wholesale & Retail

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

The net turnover for the gas supply activity amounted to 6,346 million euros, 9.9% up on 2005.

Thanks to the measures adopted to favour deregulation and the adjustment of raw material costs, the convergence towards international price levels and the Gas Natural Group's commercial policy, the Ebitda for the wholesale and retail gas supply activity stood at 220 million euros against the 61 million of the previous year. The Ebitda of this activity continues the positive evolution that began halfway through 2005 with the optimisation of the gas contract portfolio in the liberalised market.

Gas Natural Group's total commercialisation and supply reached 294,451 GWh in 2006, with a fall of 3.6%. Of this amount, 251,410 GWh went to the Spanish market and the remaining 43,041 GWh went to international markets.

The market gas supply activity reached 58,678 GWh, down 2.2%, due to the greater opening-up of the market and a milder winter, which reduced residential demand.

The sales on the liberalised market reached 192,732 GWh, 3.5% down on 2005. Of this total, the Gas Natural Group commercialised 160,624 GWh to end customers, 5% up on the previous year, and they went mainly to the industrial market, as well as the supply to combined cycles and the residential market. The supply to the liberalised market of other gas commercialisation companies totalled 32,108 GWh, 31.2% down on 2005.

At 31 December 2006, the Gas Natural Group's multi-product activity reached the figure of 1,497,000 maintenance contracts.

Also at the end of 2006, the Group had 211 collaborator centres and one centre of its own, which are joined by 672 associate centres. This powerful commercial network is the only one of its kind in Spain and allowed the commercialisation of products and services other than the sale of gas, including financial services and the sale of electricity in excess of 2,137,000 contracts, which positions the client/contract ratio in Spain at 1.43.

In 2006, the Gas Natural Group redesigned its website (www.gasnatural.com), to make it easier to surf and access contents. It was also given an innovative, open image, which applies the Company's brand name values. In addition, there

was a campaign to launch and publicise the virtual office for large customers and the new domain www.gasnaturalcomercializadora.com.

The Company also used its website to carry out online campaigns, which obtained very successful levels of participation. As a result, with a view to encouraging the efficient use of energy in the home and valuing user awareness, the "Energy Efficiency" campaign was launched on the basis of the information given by IDAE (the Spanish Institute for Energy Diversification and Saving) of the Ministry of Industry, Tourism and Trade, which involved the participation of 85,000 people, 15,500 of which complied with the interactive challenges that were proposed.

In addition, the website also published an awareness campaign aimed at good environmental practices "Looking after your Environment Counts", which formed part of the actions planned to achieve one of the ISO quality and environment objectives and also included a good level of participation.

Wholesale & Retail. Main Figures

	2006	2005	%
Gas supply (GWh):	294,451	305,324	(3.6)
Spain:	251,410	259,649	(3.2)
Regulated market	58,678	59,985	(2.2)
Liberalised market:	192,732	199,664	(3.5)
Commercialisation Gas Natural Group (1)	160,624	152,966	5.0
Third-party supplies	32,108	46,698	(31.2)
International:	43,041	45,675	(5.8)
Supplies	31,476	32,202	(2.3)
Commercialisation Europe	11,565	13,473	(14.2)
Multi-product contracts (as at 31/12)	2,137,135	2,249,137	(5.0)
Multi-product contracts (as at 31/12)	1.43	1.47	(2.7)

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

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

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Free translation of the auditor's report on the consolidated annual accounts originally issued in Spanish. In the event of a discrepancy, the Spanish language version prevails.

AUDITOR'S REPORT ON THE CONSOLIDATED ANNUAL ACCOUNTS

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

We have audited the consolidated annual accounts of Gas Natural SDG, S.A. (parent company) and its subsidiaries (the Group), consisting of the consolidated balance sheet as at December 31, 2006, the consolidated income statement, the consolidated statement of income and expense recognised in the consolidated net equity, the consolidated cash flow statement and the related notes to the consolidated annual accounts for the year then ended, the preparation of which is the responsibility of the Directors of the parent company. Our responsibility is to express an opinion on the consolidated annual accounts taken as a whole, based on the work carried out in accordance with auditing standards generally accepted in Spain, which require the examination, on a test basis, of evidence supporting the consolidated annual accounts and an evaluation of their overall presentation, the accounting principles applied and the estimates made.

For comparative purposes and in accordance with Spanish Corporate Law, the parent company's Directors have presented for each item in the consolidated balance sheet, the consolidated income statement, the consolidated statement of income and expense recognised in the consolidated net equity, the consolidated cash flow statement and the related notes to the consolidated annual accounts, the corresponding amounts for the previous year as well as the amounts for 2006. Our opinion refers solely to the 2006 consolidated annual accounts. On March 31, 2006 we issued our audit report on the consolidated annual accounts for 2005, in which we expressed an unqualified opinion.

In our opinion, the accompanying consolidated annual accounts for 2006 present fairly, in all material respects, the financial position of Gas Natural SDG, S.A. and its subsidiaries as at December 31, 2006 and the consolidated results of their operations, changes in consolidated incomes and expenses recognised in the consolidated net equity and consolidated cash flows for the year then ended, and contain all the information necessary for their interpretation and comprehension in accordance with International Financial Reporting Standards as adopted by the European Union, applied on a basis consistent with the preceding year.

The accompanying consolidated Directors' Report for 2006 contains the information that the parent company's Directors consider relevant to the Group's position, the evolution of its business and other matters and does not form an integral part of the consolidated annual accounts. We have verified that the accounting information contained in the aforementioned consolidated Directors' Report coincides with that of the consolidated annual accounts for 2006. Our work as auditors is limited to checking the consolidated Directors' Report within the scope already mentioned in this paragraph and it does not include a review of information other than that obtained from the accounting records of the Gas Natural SDG, S.A. and its subsidiaries.

PricewaterhouseCoopers Auditores, S.L.

Manuel Valls Morató
Audit Partner

February 26, 2007

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Consolidated Balance Sheets

(euros in millions)

Assets	31.12.06	31.12.05
Property, plant and equipment *(Note 6)*	8,106	7,551
Goodwill *(Note 7)*	441	456
Intangible assets *(Note 7)*	1,188	1,354
Investments in associates *(Note 8)*	34	32
Deferred income tax assets *(Note 20)*	255	223
Available-for-sale financial assets *(Note 9)*	368	640
Derivative financial instruments *(Note 10)*	20	18
Financial receivables *(Note 11)*	138	194
Non current assets	**10,550**	**10,468**
Inventories *(Note 12)*	440	456
Trade and other receivables *(Note 13)*	2,130	2,459
Financial receivables *(Note 11)*	95	123
Derivative financial instruments *(Note 10)*	10	2
Cash and cash equivalents *(Note 14)*	127	201
Assets held for sale	3	3
Currents assets	**2,805**	**3,244**
Total assents	**13,355**	**13,712**
Equity and liabilities		
Share capital *(Note 15)*	448	448
Fair value reserves	162	313
Retained earnings and other reserves *(Note 15)*	4.988	4.539
Cumulative translation adjustment	54	111
Capital and reserves attributable to the Company's equity holders	**5,652**	**5,411**
Minority interests	**344**	**355**
Equity total	**5,996**	**5,766**
Borrowings *(Note 16)*	2,510	3,223
Derivative financial instruments *(Note 10)*	82	81
Other long term liabilities *(Note 17)*	435	467
Provisions *(Note 18)*	367	283
Employee benefit obligations *(Note 19)*	78	82
Deferred income tax liabilities *(Note 20)*	471	450
Deferred income *(Note 21)*	478	433
Non current liabilities	**4,421**	**5,019**
Borrowings *(Note 16)*	628	512
Derivative financial instruments *(Note 10)*	46	19
Other liabilities *(Note 22)*	325	378
Provisions *(Note 18)*	8	-
Trade and other payables *(Note 23)*	1,848	1,867
Current income tax liabilities	83	151
Current liabilities	**2,938**	**2,927**
Total equity and liabilities	**13,355**	**13,712**

The notes hereto form an integral part of these Consolidated Annual Accounts

Consolidated profit and loss accounts

(euros in millions)

	2006	2005
Sales *(Note 24)*	10,348	8,527
Other income *(Note 25)*	124	108
Procurements *(Note 26)*	(7,418)	(6,150)
Personnel cost *(Note 27)*	(277)	(252)
Depreciation and amortization expenses *(Notes 6 and 7)*	(592)	(519)
Other operating expenses *(Note 28)*	(922)	(745)
Operating income	**1,263**	**969**
Net finance cost *(Note 29)*	(267)	(221)
Share of profit of associates	5	34
Gain on sales of associates and other investments *(Notes 8 and 9)*	230	286
Income before taxes	**1,231**	**1,068**
Income tax expense *(Note 20)*	(302)	(241)
Net income for the period	**929**	**827**
Attributable to:		
Minority interests	74	78
Equity holders of the Company	855	749
	929	**827**
Earnings per share attributable to the equity holders - Basic and diluted *(Note 15)*	1.91	1.67

The notes hereto form an integral part of these Consolidated Annual Accounts

Statements of income and expense recognised in consolidated net equity

(euros in millions)

	2006	2005
Net income recognised directly in equity	**(229)**	**466**
In fair value reserves	*(152)*	*296*
Available-for-sale assets	(184)	341
Valuation adjustments *(Note 9)*	46	410
Sales released to income	(230)	(69)
Cash flow hedges	(2)	10
Tax effect *(Note 20)*	34	(55)
In retained earnings and other reserves	*(2)*	-
Actuarial profit and loss *(Note 19)*	(2)	-
In cumulative translation adjustment	*(75)*	*170*
Gross cumulative translation adjustment	(86)	199
Tax effect	11	(29)
Net income for the period	**929**	**827**
Total income and expenses recognised for the year	**700**	**1,293**

Attributable to:		
Minority Interests	56	116
Equity holders of the company	644	1,177

The notes hereto form an integral part of these Consolidated Annual Accounts

Consolidated cash flow statements

(euros in millions)

	2006	2005
Cash flows from operating activities		
Cash generated from operations *(Note 30)*	2,147	1,285
Interest paid	(308)	(298)
Provisions paid *(Notes 18 and 19)*	(34)	(32)
Income tax paid	(351)	(117)
Net cash generated from operating activities	**1,454**	**838**
Cash flows from investing activities		
Acquisition of subsidiaries, net of cash acquired	(35)	(266)
Purchases of property, plant and equipment	(1,102)	(1,089)
Purchases of intangible assets	(57)	(62)
Other investments	(11)	(170)
Proceeds from sales of property plant and equipment	5	17
Proceeds from sale of associates and other investments *(Notes 8 and 9)*	319	432
Proceeds from financial receivables	34	23
Deferred income received	95	51
Dividends received	18	21
Interest received	24	27
Net cash used in investing activities	**(710)**	**(1,016)**
Cash flows from financing activities		
Receipt / (payment) from capital increase / (reduction)	-	(16)
Proceeds from borrowings	370	1,021
Repayment of borrowings	(821)	(461)
Dividends paid to Company's shareholders	(376)	(318)
Dividends paid to minority interests	(75)	(50)
Variation in other liabilities and investing activities	111	(28)
Net cash received from financing activities	**(791)**	**148**
Effect of exchange rates on cash and other equivalents	**(27)**	**25**
Cash and cash equivalents at beginning of the year	201	206
Cash and cash equivalents at end of the year *(Note 14)*	127	201
Net increase / (decrease) in cash and cash equivalents	**(74)**	**(5)**

The notes hereto form an integral part of these Consolidated Annual Accounts.

Notes to the Consolidated Annual Accounts of Gas Natural for 2006

Note 1. General information

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

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

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

The shares of Gas Natural SDG, S.A. are listed on the four official Spanish stock exchanges are traded simultaneously on all far ("mercado continuo"), and form part of the Ibex 35. The shares of Gas Natural BAN, S.A. are listed on the Buenos Aires Stock Exchange (Argentina).

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

The annual accounts of Gas Natural SDG, S.A. and the consolidated annual accounts of GAS NATURAL for the year ended 2005 were approved by the General Meeting of Shareholders of June 8, 2006.

The consolidated annual accounts for 2006, which have been formulated by the Board of Directors on February 23, 2007, will be submitted, as will be those of the investee companies, for approval by the respective General Meetings of Shareholders. It is expected that they will be approved without any modification.

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

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.

GAS NATURAL obtained all the authorisations necessary to launch its take-over bid. However, different events arose led to the fact that February 1, 2007, under the powers set down in article 36.1 of Royal Decree 1197/1991, on public offerings for securities acquisitions, the Board of Directors of GAS NATURAL decided unanimously to truncate its takeover bid of all the shares of Endesa.

The company explained its position on this process in a document made public on February 1, 2007.

Note 2. Summary of significant accounting policies

2.1 Basis of preparation

The accompanying consolidated annual accounts of GAS NATURAL for 2006 have been prepared in accordance with International Financial Reporting Standards adopted by the European Union (IFRS-EU), in accordance with Regulation (CE) no. 1606/2002 of the European Parliament and Council. The consolidated annual accounts of the Group for the year ended December 31, 2005 were the first to be prepared under IFRS-EU.

The consolidated annual accounts present a true and fair view of the consolidated equity and consolidated financial position of GAS NATURAL at December 31, 2006, as well as the consolidated results of its operations, the variations in the statements of income and expenses recognised in 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 2006 of GAS NATURAL have been prepared on the basis of the accounting records of Gas Natural SDG, S.A. and the other entities forming part of the Group. Each company prepares its annual accounts following the accounting principles and criteria of the country in which they carry out their operations, and accordingly, the adjustments and reclassifications necessary to homogenize said principles and criteria in order to adapt them to IFRS-EU have been introduced. The accounting principles of the consolidated Companies have been modified where necessary in order to assure that they are consistent with the accounting policies adopted by GAS NATURAL.

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

2.2 Consolidation

a) Subsidiaries

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

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

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

b) Joint Ventures

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

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

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

c) Associates

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

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

d) Consolidation scope

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

The main changes in the consolidation scope in 2006 have been as follows (see Note 31):

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

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

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

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

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

- During 2006 the Group has sold 7.79% of its interest in Enagás, S.A., and, accordingly, at December 31, 2006 its shareholding stands at 5%.

- In the process of restructuring its holdings in Italy, the following operations have been carried out:

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

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

The main variations in the consolidation scope in 2005 were 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 were fully consolidated and are within the consolidation scope: Desarrollo de Energías Renovables (100%), Aplicaciones y Proyectos Energéticos, S.A. (100%), Boreas Eólica, S.A. (99.5%), Molinos de Valdebezana (59.7%), Boreas Eólicas 2, S.A. (90%), Desarrollo de Energías Renovables Castilla-La Mancha, S.A.(100%); while the following companies were 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%) and Molinos de Linares, S.A. (24.9%); and the following companies were 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 12.4% of the shareholding in CEG Rio, S.A was sold, bringing 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., bringing the interest to 24.2%.

- The following fully consolidated companies were incorporated in 2005, Gas Natural Exploración, S.L., Natural Re, S.A., Gas Natural Capital Markets, S.A., were 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 was proportionally consolidated (see Note 32).

- During the first nine months of 2005 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, 2005, Enagás, S.A. the equity accounting method was no longer applied to the investment in Enagás, S.A.

On the other hand, the following corporate operations took 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. issued shares of Euros 1,100 million while Gas Natural Transporte, S.L. has issued shares of Euros 52 million, both with a share premium, all of which were 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 Segment reporting

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

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

2.4 Foreign currency translation

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

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

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

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

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

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

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

The exchange rates against the Euro of the main currencies of the companies in the GAS NATURAL at December 31, 2006 and 2005 have been:

	December 31, 2006		December 31, 2005	
	Closing Rate	Average Accumulated Rate	Closing Rate	Average Accumulated Rate
USD	1.317	1.255	1.184	1.243
Argentinean Peso	4.006	3.833	3.567	3.609
Brazilian Real	2.816	2.729	2.772	3.037
Mexican Peso	14.223	13.797	12.585	13.715
Colombian Peso	2,948.381	2,962.950	2,706.830	2,886.721

2.5 Property, plant and equipment

a) Cost

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

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

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

Major maintenance expenditures (overhauls) are capitalized and depreciated over the estimated useful life of the asset (generally 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.

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

Expenses arising from actions designed to protect and improve the environment are expensed in the year they are incurred. They are capitalised when they represent asset additions to Property, plant and equipment, and when allocated to minimise environmental impact and protect and improve the environment, and depreciated on a straight-line basis over the years of useful life of the asset.

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

b) Depreciation

Assets are depreciated using the straight-line method, over their estimated useful life or, if lower, over the time of the concession agreement (see note 33). Estimated useful lives are as follows:

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

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

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

c) Exploration operations and production of hydrocarbons

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

- Explorations costs

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

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

- Investments in areas with reserves

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

At the year end, or provided that there is an indication that there may be asset impairment, the future discounted cash flows from the proven and unproven reserves, the latter being subject to a risk factor, are compared to their carrying value.

2.6 Intangible assets

a) Goodwill

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

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

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

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 for each primary reporting segment in each country of operation (Note 2.7).

b) Concessions and other rights to use

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

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

c) Computer software applications

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

Computer software development costs recognized as assets are amortised over their estimated useful lives as from the time the assets are brought into use.

d) Research costs

Research activities are expensed as incurred.

e) Other intangible assets.

Other intangible assets mainly include the following:

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

- The projects in development for new wind farms that have still not been brought into use and acquired in the business combination of 2005 (see note 31), which will be amortized on a straight-line basis over their useful lives (20 years).

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

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

2.7 Impairment of assets

Assets are tested for impairment, provided that an event or change in circumstances indicates that their carrying amount may not be recoverable. Goodwill impairment is also reviewed annually.

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

The calculation of recoverable value uses cash flow projections based on approved budgets that cover a period of five years based on past results and market forecasts. The most sensitive aspects that are included in the projections used in all the CGUs are purchase and sale prices of gas and/or electricity, inflation, staff costs and investments. The cash flows generated after the five-year period are extrapolated using the estimated growth rates from 0.0% to 1.0%. The growth rates do not exceed the average long-term growth rate for the business in which the CGU operates. The discount rates are determined on the basis of market data and fluctuate between 4% and 14% for the CGUs.

2.8 Investments

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

a) Financial assets at fair value impacting results

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

b) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not listed on an active market and with no intention of being traded. 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 11).

Loans and receivables are carried initially at fair value and then at their amortised cost using the effective interest method.

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

c) Available-for-sale financial assets

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

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

2.9 Inventories

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

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

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

2.10 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.

2.11 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.

2.12 Financial debt

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.

2.13 Leases

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

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

2.14 Provisions

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

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

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

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

2.15 Employee benefits

a) Pension obligations

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

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

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

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

GAS NATURAL has availed itself of the possibility of fully recognising the actuarial gains and losses arising from changes in actuarial assumptions or from differences between the assumptions and the reality in the period in which they occur, directly in equity under "Retained earnings and other reserves". The impact of actuarial gains and losses from prior years is not significant.

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

b) Other post-employment benefit obligations

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

c) Termination benefits

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

2.16 Deferred Income

GAS NATURAL receives compensation for amounts paid for the construction or acquisition of certain plant or, in some cases, directly receives the plant under current legislation.

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.
- Plant, property and equipment received without consideration.

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

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

2.17 Trade and other payables

Trade and other payables are short-term financial liabilities that are valuated at fair value. They do not accrue explicit interest and are recorded at their nominal value.

2.18 Income tax

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

Deferred tax are recorded by comparing the temporary differences that arise between the taxable income on assets and liabilities and their respective accounting figures in the consolidated annual accounts used the tax rates that are expected to be in force when the assets and liabilities are realised.

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

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

2.19 Revenue recognition

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

Sale are stated net of tax and discounts and the transactions between companies in the GAS NATURAL Group 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 tariffs net of quotas 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 4).

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

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

The Ministerial Order of October 28, 2002, which regulates the settlement procedures for the deviations arising from the application of the settlement procedure between final net settlement income and the remuneration accredited each year, will be taken into account in the calculation of the tariffs, tolls and levies for the following years. At the date of formulation of these consolidated annual accounts, no final settlements have been published for 2002 to 2006, but the provisional deviations for these years have considered in order to calculate the tariffs, tolls and levies for 2004 to 2007. 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 not commission agents for the supplies delivered.

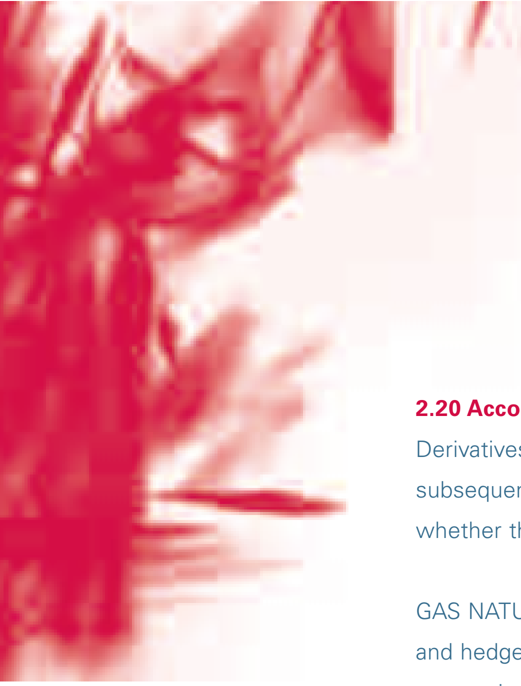
Exchange of gas with a different value, or which bear a cost, and which give rise to differences, are included as part of sales.

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

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

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.



2.20 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 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 10.

a) Fair value hedge

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

b) Cash flow hedge

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

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

c) Derivatives that do not qualify for hedge accounting

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

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

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

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

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

2.21 New accounting standards IFRS-EU and IFRIC interpretations

Certain new accounting standards (IFRS-EU) and IFRIC interpretations have been adopted and promulgated that are mandatory for accounting periods beginning on or after January 1, 2006 and have been adopted by GAS NATURAL:

a) IAS 21 (Amendment of December 2005), "Net investment in a foreign business";
b) IAS 39 (Amendment of April 2005), "Cash flow hedge accounting of forecast intragroup transactions";
c) IAS 39 (Amendment of June 2005), "The fair value option";
d) IAS 19 (Amendment), "Employee benefits";
e) IFRS 6 and IFRS 6 (Amendment), "Exploration for and evaluation of mineral resources";
f) IFRIC 4, "Determining whether an arrangement contains a lease"; and
g) IFRIC 5, "Rights to interests arising from decommissioning, restoration and environmental rehabilitation funds".

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

GAS NATURAL has chosen not to make early application of the following standards and interpretations:

a) IFRS 7, "Financial Instruments: Disclosures", which introduces new requirements to improve the information on financial instruments.

b) Complementary amendment to IAS 1, "Presentation of financial statements - Capital disclosures", which introduces information to allow for the evaluation of capital management objectives, policies and processes.

c) IFRIC 7, "Applying the restatement approach under IAS 29 - Financial reporting in hyperinflationary economies", which provides measure as to how to apply IAS 29 in the event of hyperinflation.

d) IFRIC 8, "Scope of IFRS 2, Share-based payments", which requires consideration of the transactions that involve the issuing of net equity instruments in order to determine whether these transactions are within the scope of IFRS 2.

e) IFRIC 9, "Reassessment of embedded derivatives", which forces companies to evaluate whether an embedded derivative must be separated from the main contract and be recognised as a derivative when it becomes part of the contract.

On the basis of the analysis of the new accounting standards and interpretations to be applied in the years beginning January 1, 2007 or thereafter, GAS NATURAL does not expect that they will have a significant effect on the consolidated financial statements.

2.22. Significant accounting estimates and judgments

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

a) Provisions

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

b) Calculation of income tax and deferred income tax assets

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

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

c) Revenue recognition

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

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

d) Goodwill

Goodwill is subject to impairment tests annually.

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

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

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

Note 3. Risk management

GAS NATURAL has a series of standards, procedures and systems for identifying, measuring and managing the different risk categories.

At the end of 2006 it decided to set up a Risk Committee. This Committee's mission is to oversee the interests of its governing bodies and stakeholders through:

- The correct determination and review of the objective risk profile of GAS NATURAL, and guarantee its alignment with the strategic position required at all times.

- To guarantee that the entire organisation understands and accepts their responsibilities in identifying, evaluating and managing the most salient risks.

Market Risk

GAS NATURAL in particular has highly proactive policies for managing its market risk exposure during its normal course of business, including the impact of changes in raw material prices, interest rates and exchange rates. Its management of these risks is partially carried out through financial derivatives, which 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 CCGT plants use natural gas as fuel.

GAS NATURAL manages and mitigates the risk of raw material price fluctuations by following its net global 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.

Of special note is the effect of the significant seasonal factors in demand peaks in winter consumption, which requires the acquisition of additional gas, to guarantee the continuity of supplies, through spot purchases at prices significantly higher than those stipulated in long-term supply agreements.

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.

c) Exchange rate risk

The Group's exchange rate risks relate mainly to:

- Counter-value of the cash flows related to the purchase-sale of commodities denominated in functional currencies other than the Euro.

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

- Investments and operations in currencies other than the Euro, in relation to the counter-value of the net equity contributed, results and repatriation of dividends.

At December 31, 2006 approximately 21.5% 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 volatility 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 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.

Credit risk

GAS NATURAL does not have significant credit risk concentrations.

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 and/or the necessary hedging instruments are used.

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.

Note 4. 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, regasification, 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 qualified intermediaries and consumers, thus 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.

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

- Replaces the administrative concession regime for distribution activity by another based on authorisations which, after various legislative modifications, grant distributors exclusivity in their zone.

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

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

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

Royal Decree 949/2001 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 reasonable profitability on the investments.

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

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

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

The Ministry of Industry, Tourism and Trade 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.

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 procedure was finally set down in Order 2692/2002 issued by the Ministry of the Economy on October 28, 2002.

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.

Royal Decree 1716/2004 of July 23, which regulates the obligation to maintain minimum security inventories and the diversification of natural gas supply, establishes the obligation to maintain certain minimum security inventories equal to 35 days of firm sales for transporters, intermediaries, and qualifying consumers that make use of their access right.

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 Ministerial Order of October 5, 2005 adopted the Technical Management Standards for the Gas System.

Order 4099/2005/27 December of the Ministry of Industry, Tourism and Trade updates the remuneration of activities relating to regasification, storage, transport, gas purchase-sale management in the regulated market, distribution, rated natural gas supply and remuneration of the Technical Management System.

Ministerial Order 4101/2005, of December 27 set the natural gas rates for 2006, suppressing the rate for customers whose consumption exceeds 100 GWh per year (who must, therefore, acquire gas on the de-regulated market).

On February 24, 2006 the Spanish Cabinet adopted a series of regulatory changes for the gas and electricity market and adopted two first draft bills to adapt Spanish legislation to the EU Directives of 2003 on the gas and electricity markets. The changes proposes include the following measures:

- The elimination of the tariffs as from January 1, 2011 for the electricity market and as from January 1, 2008 for the gas market.

- The functional separation of regulated and non-regulated activities.

- The creation of a Final Resort Supplier, appointed by the Government, to attend to small industrial and domestic customers in order to guarantee supply in a fully de-regulated market.

- The reduction of the limit of shareholding of companies in Enagás from 5% to 1%; and

- The creation of an Office Responsible for Changing suppliers in order to increase transparency and facilitate effective competition.

Royal Decree 4/2006, which came into force on February 28, 2006, increases the oversight powers of the National Energy Commission (CNE) of corporate operations in the energy sector.

Royal Decree Law 7/2006 establishes a change in the criteria for the storage of gas and location of underground storage capacity, based on location in proportion to sales of the previous year instead of a "first come-first served" basis.

ITC Order 3992/2006, which sets the natural gas tariffs for 2007, includes 24% of LNG in the structure of the CMP in order to cover the significant seasonality factor affecting the regulated market, which is mostly residential, and which represents a new improvement in the formation of prices in the de-regulated market, based on the growing importance of LNG in the world. Furthermore, the same order suppresses the tariffs higher than a pressure of four bars as from July 1, 2007.

b) Regulation of the natural gas industry in Latin America

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

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

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

Recently in Argentina the government has adopted a decree on rate revision in order to establish a stable distributor remuneration system based, as in other countries, on a proper remuneration of assets. The regulations pursuant to this decree have still not been issued.

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

c) Regulation of the natural gas industry in Italy

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

d) Regulation of the electricity industry in Spain

The legal framework for the regulation of the electrical industry in Spain is the 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.

The Act reorganised the electricity system by introducing competition - based criteria and beginning de-regulation.

The basic 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.

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

- Creates the figure of commercialisation under the principle of free contracting 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 establishes 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.

The most salient features of the Urgent Measures to Strengthen Competition in the Goods and Services Market Act, Royal Decree Law 6/2000 are as follows:

- 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.

- Instrumentalisation of 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/December 1st 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.

Royal Decree 1164/2001 on network access rates 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.

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.

In November 2004, the Ministry of Industry, Tourism and Trade commissioned an independent expert to prepare a White Paper on electricity generation, which has just been completed recently. It focussed on offering a diagnosis of the electricity market and reform proposals for those issues that require serious revision.

For its part, Royal Decree Law 5/2005/March 11th 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.

A Royal Decree is published annually to set the electricity rates. Royal Decree 1556/2005/December 23rd establishes the electricity rate for 2006 (modified by Royal Decrees 470/2006 and 809/2006). Royal Decree 1634/2006/December 29th establishes the electricity rate for 2007.

Royal Decree 3/2006 came into force on March 1, 2006. It introduces several measures to mitigate the deficit in the rated electricity market through the implementation of a mechanism where the electricity generated and sold on the regulated market by companies in the same group will be priced by the Government since they are pegged to bi-lateral contracts. Moreover, the amount equal to the value of the green gas emission rights assigned previously and free of charge to each electricity producer will be subtracted from the electricity price to be received by the players in the Electricity Wholesale Market players. The regulations pursuant to this legislation have still not been enacted.

Royal Decree Law 7/2006, which came into force on June 23, 2006, introduces certain urgent measures for the energy sector and modifies the Electricity Sector Act, Law 54/1997 as well as The Hydrocarbons Sector Act, Law 34/1998. In respect of the electricity sector the main changes are the elimination of the "Transition to Free Market Costs" (CTCs), a new national coal consumption incentives plan and Special Regime incentives (renewable energy and co-generation), especially in relation to efficiency by promoting co-generation.

Throughout 2007 we expect the adoption of new legislation on power guarantees, efficient localisation of electricity production and a new framework for transport remuneration. A new framework for the Special Regime is also pending adoption.

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 5. Segment reporting

a) Primary segment reporting format-business segment

GAS NATURAL's reportable segments are as follows:

- *Gas Distribution.* Gas distribution includes the regulated gas activity, remunerated gas distribution and 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 liquefaction plant and the liquefaction process.

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

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

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

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

	Gas distribution				Electricity			W&R	UP&MID	Other	Interseg-mental elimi-Inations	Total
2006	**Spain**	**Latin América**	**Italy**	**Total**	**Spain**	**P. Rico**	**Total**					
Total segment sales	2,154	1,557	164	3,875	1,348	159	1,507	6,346	285	146	(1,811)	10,348
Inter segment sales	(541)	-	(38)	(579)	(66)	-	(66)	(881)	(163)	(122)	1,811	-
Sales	1,613	1,557	126	3,296	1,282	159	1,441	5,465	122	24	-	10,348
Ebitda (*)	812	386	30	1,228	259	63	322	220	181	(39)	-	1,912
Depreciation and amortization expenses	(273)	(91)	(28)	(392)	(77)	(18)	(95)	(7)	(47)	(51)	-	(592)
Debtors provisions and others	(12)	(24)	(2)	(38)	(3)	-	(3)	(16)	-	-	-	(57)
Operating income	527	271	-	798	179	45	224	197	134	(90)	-	1,263
Net finance cost	-	-	-	-	-	-	-	-	-	-	-	(267)
Share of profit of associates	4	-	-	4	1	-	1	-	-	-	-	5
Gain on sales of associates	-	-	-	-	-	-	-	-	-	-	-	230
Income before taxes and minority interests	-	-	-	-	-	-	-	-	-	-	-	1,231
Income tax expense	-	-	-	-	-	-	-	-	-	-	-	(302)
Net income for the period	-	-	-	-	-	-	-	-	-	-	-	929

	Gas distribution				Electricity			W&R	UP&MID	Other	Interseg-mental elimi-Inations	Total
2005	**Spain**	**Latin América**	**Italy**	**Total**	**Spain**	**P. Rico**	**Total**					
Total 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 de las asociadas	3	-	-	3	1	-	1	-	-	30	-	34
Gain on sales of associates	-	-	-	-	-	-	-	-	-	-	-	286
Income before taxes and minority interests	-	-	-	-	-	-	-	-	-	-	-	1,068
Income tax expense	-	-	-	-	-	-	-	-	-	-	-	(241)
Net income for the period	-	-	-	-	-	-	-	-	-	-	-	827

(*) 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/ / busines combinations
At 31.12.06				
Gas Distribution	6,607	27	(1,412)	600
Electricity	2,532	7	(390)	315
Upstream & Midstream	960	-	(78)	163
Wholesale & Retail	1,700	-	(1,033)	14
Others	433	-	(425)	70
Total	**12.232**	**34**	**(3.338)**	**1,162**
At 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
Others	236	-	(88)	75
Total	**12,285**	**32**	**(3,239)**	**1,533**

Segment assets consist primarily of property, plant and equipment, intangible assets, inventories, derivatives designated as hedges of future commercial transactions, receivables, debtors and cash and cash equivalents. They exclude tax refundable, investments and derivatives held for trading or designated as hedges of borrowings. The assets excluded total Euros 1,089 million at December 31, 2006 and Euros 1,395 million at December 31, 2005.

Segment liabilities comprise operating liabilities (including derivatives designated as hedges of future transactions). They exclude items such as tax payable and corporate borrowings and related hedging derivatives. The liabilities excluded total Euros 4,021 million at December 2006 and Euros 4,707 million at December 2005.

Capital expenditure comprises additions to property, plant and equipment (note 6) and intangible assets (note 7).

b) Secondary segment 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 USA and the Maghreb.

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

	2006	**2005**
Spain	7,566	6,002
Rest of Europe	466	419
Latino America	1,557	1,420
Puerto Rico	159	133
USA	600	553
Total	**10,348**	**8,527**

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:

	31.12.06	**31.12.05**
Spain	8.794	8.623
Rest of Europe	526	676
Latino America	2.093	2.151
Puerto Rico	259	315
Maghreb	594	552
Total	**12.266**	**12.317**

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:

	31.12.06	**31.12.05**
Spain	812	913
Rest of Europe	72	68
Latino America	120	197
Puerto Rico	8	4
Maghreb	102	6
Total	**1,114**	**1,188**

Note 6. Property, plant and equipment

The movement during 2006 and 2005 in the different tangible asset accounts and their respective accumulated depreciation and provisions has been as follows:

	Land and buildings	Gas transport gas tankers under finance leases	Gas distribution installations	Combine cycle gas turbine	Wind farms	Exploration and development	Other fixed assets	PPE under construction	Total
At 1.1.05									
Cost, gross	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**
Net book amount at 1.01.05	**126**	**337**	**4,482**	**486**	**32**	**-**	**227**	**831**	**6,521**
Cumulative translation adjustment	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)
Depreciation charge	(6)	(12)	(326)	(39)	(8)	-	(35)	-	(426)
Reclassifications and others	3	-	90	384	7	-	(5)	(550)	(71)
Closing net book amount at 31.12.05	**134**	**325**	**4,899**	**868**	**182**	**-**	**239**	**904**	**7,551**
At 31.12.05									
Cost, gross	214	352	7,712	988	218	-	462	904	10,850
Accumulated depreciation	(80)	(27)	(2,813)	(120)	(36)	-	(223)	-	(3,299)
Net book amount	**134**	**325**	**4,899**	**868**	**182**	**-**	**239**	**904**	**7,551**
Net book amount at 1.1.06	**134**	**325**	**4,899**	**868**	**182**	**-**	**239**	**904**	**7,551**
Cumulative translation adjustment	(3)	-	(91)	(15)	-	(3)	(9)	(5)	(126)
Business combination (Note 31)	2	-	-	-	-	46	-	-	48
Additions	9	-	485	21	16	31	30	465	1,057
Disposals	(2)	-	(1)	-	-	-	-	-	(3)
Depreciation charge	(3)	(12)	(362)	(63)	(17)	(3)	(33)	-	(493)
Reclassifications and others	21	-	124	511	144	8	5	(741)	72
Net book amount at 31.12.06	**158**	**313**	**5,054**	**1,322**	**325**	**79**	**232**	**623**	**8,106**
At 31.12.06									
Cost, gross	220	352	8,164	1,492	379	116	486	623	11,832
Accumulated depreciation	(62)	(39)	(3.110)	(170)	(54)	(37)	(254)	-	(3.726)
Net book amount	**158**	**313**	**5,054**	**1,322**	**325**	**79**	**232**	**623**	**8,106**

LNG cryogenic gas tankers were acquired under finance lease agreements (see note 17).

In February 2006 the commercial operations began for the combined cycle power plant in Cartagena (Murcia).

Exploration and development at December 31, 2006 includes the net carrying value of investments in zones with reserves of Euros 44 million and exploration costs of Euros 35 million.

The borrowing costs applied for the year ended December 31, 2006 to plant projects during their construction total Euros 18 million (Euros 23 million at December 31, 2005. The borrowing costs in 2006 represent 7.4% of total net debt (10.8% for the period corresponding to December 31, 2005).

Property, plant and equipment under construction at December 31, 2006 includes capital expenditures on combined cycle gas turbine plants in Plana del Vent (Tarragona), totalling Euros 374 million (Euros 189 million at December 31, 2005), which start up is expected to take place in the first quarter of 2007, and in Malaga, totalling Euros 46 million (Euros 3 million at December 31, 2005), which start up is expected in the second half of 2008, as well as the investments in the liquefaction plant in Algeria through the joint venture (32% interest) El Andalus LNG, SPA.

At December 31, 2006 GAS NATURAL has investment commitments of Euros 181 million, basically for the construction of combined cycle electricity plants

Furthermore, there are two 138,000 cubic meter capacity methane gas tanker that are now under construction and which will be acquired under a finance lease together with Repsol YPF, S.A. It is expected that these two new gas tankers will be operative in 2007 and 2009.

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

Note 7. Intangible assets

The movement in 2006 and 2005 in intangible assets is as follows:

	Concessions and other rights to use	Compute softwar applications	Other intangible assets	Subtotal	Goodwill	Total
At 1.1.05						
Cost, gross	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**
Net book amount at 1.1.05	**747**	**100**	**107**	**954**	**334**	**1,288**
Exchange differences	137	2	-	139	30	169
Business combination and other (Note 32)	68	-	176	244	95	339
Additions	2	46	15	63	-	63
Disposals	-	-	1	1	-	1
Amortization charge	(51)	(36)	(6)	(93)	-	(93)
Reclassifications and others	40	6	-	46	(3)	43
Net book amount at 31.12.05	**943**	**118**	**293**	**1,354**	**456**	**1,810**
At 31.12.05						
Cost, gross	1,244	311	301	1,856	456	2,312
Accumulated depreciation	(301)	(193)	(8)	(502)	-	(502)
Net book amount	**943**	**118**	**293**	**1,354**	**456**	**1,810**
Net book amount at 1.1.06	**943**	**118**	**293**	**1,354**	**456**	**1,810**
Cumulative translation adjustment	(53)	(1)	-	(54)	(20)	(74)
Business combination and other (Note 32)	-	-	-	-	2	2
Additions	3	49	5	57	-	57
Disposals	-	(1)	-	(1)	-	(1)
Amortization charge	(52)	(38)	(9)	(99)	-	(99)
Reclassifications and others	-	(1)	(68)	(69)	3	(66)
Net book amount at 31.12.06	**841**	**126**	**221**	**1,188**	**441**	**1,629**
At 31.12.06						
Cost, gross	1,164	355	241	1,760	441	2,201
Accumulated depreciation	(323)	(229)	(20)	(572)	-	(572)
Net book amount	**841**	**126**	**221**	**1,188**	**441**	**1,629**

The Concessions and other rights to use include:

- The right to use the Maghreb-Europe pipeline of Euros 431 million at December 31, 2006 (Euros 510 million at December 31, 2005). This right will end in 2021, and may be renewed.

- Gas distribution concession in the Metropolitan area of Rio de Janeiro of Euros 208 million at December 31, 2006 (Euros 220 million at December 31, 2005). The concession will end in 2027, although it may be renewed.

- Gas distribution concession in the South State of São Paulo of Euros 157 million at December 31, 2006 (Euros 167 million at December 31, 2005). The concession will end in 2030, and may be renewed.

The "Other intangibles assets" mainly includes projects in development for new wind farms and amounts to Euros 96 million at December 31, 2006 (Euros 176 million at December 31, 2005). The variation on last year is due to the reclassification to PPE of the wind farms that have been brought into use.

Goodwill is allocated to GAS NATURAL's cash-generating units (CGUs) identified according to country of operation and business segment. A segment-level summary of the goodwill allocation is presented below.

	At 31.12.06				At 31.12.05		
	Gas distribution	**Electricity**	**UP&MID**	**Total**	**Gas distribution**	**Electricity**	**Total**
Spain	-	118	2	120	-	118	118
Italy	135	-	-	135	135	-	135
Puerto Rico	-	129	-	129	-	143	143
Mexico	33	-	-	33	38	-	38
Brazil	24	-	-	24	22	-	22
	192	**247**	**2**	**441**	**195**	**261**	**456**

The impairment tests were carried out on December 31, 2006 and 2005. On the basis of the analysis of goodwill impairment the Company has not deduced that future impairment will arise.

Note 8. Investments in associates

The movement in 2006 and 2005 in associates is as follows:

At 1.1.05	**297**
Business combinations (Note 31)	4
Disposals	(114)
Share of loss/profit	34
Dividends received	(16)
Reclassifications (Note 9)	(174)
Others	1
At 31.12.05	**32**
Share of loss/profit	5
Dividends received	(1)
Reclassifications (Note 9)	(3)
Others	1
At 31.12.06	**34**

The disposals in 2005 include the sale of shares in Enagás S.A. of 10.58% at September 30, 2005. As a result of these disposals on October 1, 2005 the Company ceased to use the equity method to account for the interest of GAS NATURAL in the capital of Enagás S.A., reclassifying this investment to Available-for-sale financial assets.

As a result of the sale of the 10% shareholding in the capital of Gas Natural de Alava, S.A. on September 1, 2006, the Company ceased to use the equity method to account for the interest of GAS NATURAL in the capital of this company, 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 associates for the GAS NATURAL, is as follows:

	Country	Assets	Liabilities	% interest held
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
At 31.12.06				
Torre Marenostrum, S.L.	Spain	78	58	45,0
Kromschroeder, S.A.	Spain	18	6	42,5
Gas Aragón, S.A.	Spain	117	86	35,0
Enervent, S.A.	Spain	26	22	26,0
Burgalesa Eólica, S.A.	Spain	10	9	24,2
Sistemas Energéticos La Muela, S.A.	Spain	11	4	20,0
Sistemas Energéticos Mas Garullo, S.A.	Spain	12	8	18,0

	Country	Assets	Liabilities	% interest held
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. (1)	Spain	484	30	-
At 31.12.06				
Torre Marenostrum, S.L.	Spain	4	-	45,0
Kromschroeder, S.A.	Spain	23	1	42,5
Gas Aragón, S.A.	Spain	70	9	35,0
Enervent, S.A	Spain	5	2	26,0
Burgalesa Eólica, S.A.	Spain	2	-	24,2
Sistemas Energéticos La Muela, S.A.	Spain	4	2	20,0
Sistemas Energéticos Mas Garullo, S.A.	Spain	3	2	18,0
Gas Natural de Alava, S.A. (2)	Spain	21	-	10,0

(1) The income statement includes in the line Share of profit of associates the profit of Enagás, S.A. up to September 30, 2005.
(2) The income statements includes in the line Share of profit of associates the profit of Gas Natural de Alava, S.A. up to August 30, 2006.

At December 31, 2006, none of the associates are listed on a stock exchange.

Sistemas Energéticos Mas Garullo, S.A. is consolidated by equity accounting in spite of the fact that GAS NATURAL's shareholding percentage at December 31, 2006 is under 20%, since GAS NATURAL has a significant representation on the Board of Directors of this company

Note 9. Available-for-sale financial assets

The movement in 2006 and 2005 in available-for-sale financial assets is as follows:

At 1.1.05	**150**
Increases	5
Disposals	(104)
Business combinations (Note 31)	2
Cumulative translation adjustment	3
Reclassifications (Note 8)	174
Revaluation to fair value	410
At 31.12.05	**640**
Increases	1
Disposals	(319)
Cumulative translation adjustment	(2)
Reclassifications (Note 8)	3
Revaluation to fair value	46
Others	(1)
At 31.12.06	**368**

Available-for-sale financial assets include the following:

	At 31.12.06
Listed equity securities	210
Unlisted equity securities	132
Investment fund (Note 19)	26
	368

As from October 1, 2005, Enagás, S.A. is considered an Available-for-sale asset. From 1 October to the year end 2005 there were divestments totalling Euros 102 million, which generated a net profit of Euros 60 million against Fair value reserves. During the year 2006 there have been disposals of 7.79% of the interest in Enagás, S.A. totalling Euros 310 million, which has generated a net profit of Euros 194 million against Fair value reserves. According to the quotation of Enagás S.A. at December 31, 2006 of Euros 17.62 per share, the valuation of the interest in Enagás S.A. at market value totals Euros 210 million (Euros 483 million at December 31, 2005).

In accordance with the Twentieth Additional Provision to the Hydrocarbons Act, Law 34/98/7 October, amended by the Corporate, Fiscal and Administrative Measures Act, Law 62/2002/30 December, no legal or natural person can hold a direct or indirect interest in Enagás, S.A. greater than 5% of its share capital or voting rights.

At December 31, 2006, the investment of GAS NATURAL in Enagás is 5% (12.79% at December 31, 2005).

During the year the Group has sold 10% of the shareholding in the capital of Gas Natural de Álava for Euros 9 million, what has generated a net profit of Euros 6 million, reducing the Fair value reserves.

The 9.38% shareholding in the capital of Naturgas Energía Grupo, S.A. is included in this account.

Available-for-sale investments relating to unlisted securities for which it has not been possible to set a fair value, are stated at cost. However, based on the public information available (the latest annual accounts) on these unlisted securities, there are no indications of impairment of these assets.

Note 10. Derivative financial instruments

The breakdown of derivative financial instruments by category and maturity is as follows:

	At 31.12.06		At 31.12.05	
	Assets	**Liabilities**	**Assets**	**Liabilities**
Derivatives not qualifying for hedge accounting	**1**	**-**	**1**	**-**
Interest rate swap	1	-	1	-
Derivatives qualifying for hedge accounting	**19**	**82**	**17**	**81**
Fair value hedge				
Interest rate swap and exchange rate	-	68	3	55
Cash Flow hedge				
Interest rate swap	19	12	3	26
Exchange rate	-	-	11	-
Others (commodity prices)	-	2	-	-
Non-current derivatives	**20**	**82**	**18**	**81**
Derivatives qualifying for hedge accounting	**10**	**46**	**2**	**19**
Cash Flow hedge				
Interest rate swap	-	1	-	-
Exchange rate	-	18	-	1
Others (commodity prices)	10	27	2	18
Current derivatives	**10**	**46**	**2**	**19**
Total	**30**	**128**	**20**	**100**

The breakdown of derivatives at December 31, 2006 is as follows:

a) Raw material price hedge transactions:

At December 31, 2006 natural gas price hedges indexed to the US Dollar were contracted in the aggregate amounting to USD 40 million, with a negative fair value of Euros 15 million. Furthermore, there are natural gas price hedge positions denominated in Euros with a negative fair value of Euros 4 million. There are also hedges for gas purchases for industrial and commercial customers in Mexico totalling USD 55 million, with no impact in the fair value.

b) Interest rate hedge transactions:

The following tables provide information on the hedging derivates at December 31, 2006 and include interest rate swaps and interest rate options. In respect of the swaps contacts, 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, 2006, broken down by applicable currencies. 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	2007	2008	2009	2010	2011	2012 and following years	Fair value
Variable to Variable					(in millions of Euros, except percentages)			
Notional amount (EUR)	120	120	-	-	-	-	-	1
Average payment rate (EUR)	-	Euribor 6m-0.10%	-	-	-	-	-	-
Average collection rate (EUR)	-	Euribor 6m+0.375%	-	-	-	-	-	-
Variable to Fixed								
Notional amount (EUR)	621	2	1	1	2	601	14	17
Average payment rate (EUR)	-	3.83%	3.21%	3.21%	3.21%	3.40%	3.24%	-
Average collection rate (EUR)	-	Euribor 6m	Euribor 6m	Euribor 6m	Euribor 6m	Euribor 6m	Euribor 6m	-
Notional amount (MXN)	3,000	2,000	1,000	-	-	-	-	-
Average payment rate (MXN)	-	7.75%	9.99%	-	-	-	-	(2)
Average collection rate (MXN)	-	TIIE 28 days	TIIE 28 days	-	-	-	-	-
Notional amount (USD)	189	11	13	13	52	13	87	(10)
Average payment rate (USD)	-	6.38%	6.38%	6.38%	6.38%	6.38%	6.38%	-
Average collection rate (USD)	-	Libor 3m	Libor 3m	Libor 3m	Libor 3m	Libor 3m	Libor 3m	-
Notional amount (EUR)	6	4	-	-	-	2	-	-
Average payment rate (EUR)	-	Fixed rate/increasing Euribor 3m	-	-	-	Fixed rate/increasing Libor 6m	-	-
Average collection rate (EUR)		Euribor 3m	-	-	-	Euribor 3m	-	-
Notional Amount (EUR)	200	-	-	200	-	-	-	1
Average payment rate (EUR)	-	-	-	3.67%	-	-	-	-
Average collection rate (EUR)	-	-	-	Euribor 3m	-	-	-	-
Notional Amount (ARS)	113	-	113	-	-	-	-	(1)
Average payment rate (ARS)	-	-	11.4%	-	-	-	-	-
Average collection rate (ARS)	-	-	CER	-	-	-	-	-

		Maturity						
Interest rate options	Total	2007	2008	2009	2010	2011	2012 and following years	Fair value
					(in millions of Euros, except percentages)			
Collar								
Notional amount (EUR)	45	5	5	15	5	2	13	-
Purchase CAP (EUR)	-	5.01%	5.01%	5.18%	4.72%	4.93%	4.99%	-
Sale FLOOR (EUR)	-	3.11%	3.11%	3.41%	2.81%	2.85%	2.90%	-
Collar with limits								
Notional amount (EUR)	4	-	1	-	-	-	3	-
Purchase CAP (EUR)	-	4.74%	4.74%	4.74%	4.74%	4.74%	4.74%	-
Sale FLOOR (EUR)	-	Knock-in	Knock-in	Knock-in	Knock-in	Knock-in	Knock-in	-

c) 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, 2006:

					Maturity			
Interest rate swap contracts	**Total**	**2007**	**2008**	**2009**	**2010**	**2011**	**2012 and following years**	**Fair value**
Variable to Variable						(in millions of Euros, except percentages)		
Notional amount (EUR)	99	18	81	-	-	-	-	(21)
Average payment rate (EUR)	-	103% CDI	103% CDI	-	-	-	-	-
Average collection rate (EUR)	-	Libor +2.65%	Libor +2.65%	-	-	-	-	-
Variable to Fixed								
Notional amount (EUR)	197	74	63	58	1	1	-	(46)
Average payment rate (EURL)	-	113% CDI	113% CDI	112% CDI	129% CDI	129% CDI	-	-
Average collection rate (EUR)	-	US +6.94%	US +7.48%	US +7.61%	US +10.59%	US +10.59%	-	-
Notional amount (EUR)	25	15	10	-	-	-	-	(1)
Average payment rate (EURL)	-	CDI +1.70%	CDI +1.70%	-	-	-	-	-
Average collection rate (EUR)	-	US +6.29%	US +6.00%	-	-	-	-	-
Notional amount (EUR)	58	-	-	58	-	-	-	-
Average payment rate (EURL)	-	-	-	14.3%	-	-	-	-
Average collection rate (EUR)	-	-	-	Libor 6m	-	-	-	-

				Maturity				
Interest rate options	**Total**	**2007**	**2008**	**2009**	**2010**	**2011**	**2012 and following years**	**Fair value**
						(in millions of Euros, except percentages)		
Notional amount (USD)	1.127	1.127	-	-	-	-	-	(18)
Average exchange rate (EUR/USD)	-	1.29	-	-	-	-	-	-
Notional amount (BRL)	19	19	-	-	-	-	-	-
Average exchange rate (EUR/BRL)	-	3.00	-	-	-	-	-	-

Set out below is a breakdown of the derivatives at December 31, 2005:

a) Raw material price hedge transactions:

At December 31, 2005 natural gas price hedges indexed to the US Dollar were contracted in the aggregate amounting to USD 233 million, with a negative fair value of Euros 15 million. Furthermore, there are natural gas price hedge positions denominated in Euros maturity along a scale up until February 2007 in the amount of Euros 7 million.

Additionally, at December 31, 2005 the electricity price hedge positions have been maintained in the amount of Euros 35 million, maturing along a scale throughout 2006 and with a negative fair value of Euros 1 million.

b) 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. 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 financial swaps	**Total**	**2006**	**2007**	**2008**	**2009**	**2010**	**2012 and following years**	**Fair value**
Variable to Variable						(in millions of Euros, except percentages)		
Notional amount (EUR)	120	-	120	-	-	-	-	1
Average payment rate (EUR)	-	-	Euribor 6m-0.10%	-	-	-	-	-
Average collection rate (EUR)	-	-	Euribor 6m+ 0.38%	-	-	-	-	-
Variable to Fixed								
Notional amount (EUR)	469	2	2	1	1	1	462	(7)
Average payment rate (EURL)	-	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	-
Notional amount (MXN)	2,000	1,000	-	1,000	-	-	-	(3)
Average payment rate (MXN)	-	9.81%	-	9.99%	-	-	-	-
Average collection rate (MXN)	-	TIIE 28 días	-	TIIE 28 días	-	-	-	-
Notional amount (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	-
Notional amount (EUR)	8	2	4	-	-	-	2	-
Average payment rate (EUR)	-	Fijo/ Euribor 3m	Fijo creciente/ Euribor 3m	-	-	-	Fijo creciente /Libor 6m	-
Average collection rate (EUR)	-	Euribor 3m	Euribor 3m	-	-	-	Euribor 3m	-

				Maturity				
Interest rate options	**Total**	**2006**	**2007**	**2008**	**2009**	**2010**	**2012 and following years**	**Fair value**
						(in millions of Euros, except percentages)		
Collar								
Notional amount (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								
Notional amount (EUR)	4	-	-	-	-	-	4	-
Purchases CAP (EUR)	-	-	-	-	-	-	5.00%	-
Sale FLOOR (EUR)	-	-	-	-	-	-	Knock in	-

c) 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, 2005:

Financial swaps for payments in different currencies and at different interest rates	Total	2006	2007	2008	2009	2010	2012 and following years	Fair value
				Maturity				
Variable to Variable					(in millions of Euros, except percentages)			
Notional amount (EUR	127	127	-	-	-	-	-	3
Average payment rate (EUR)	-	Euribor 3m + 0.33%	-	-	-	-	-	-
Average collection rate (USD)	-	Libor 3m + 0.30%	-	-	-	-	-	-
Notional amount (BRL)	117	18	18	81	-	-	-	(18)
Average payment rate (BRL)	-	111.5%CDI	103.0%CDI	103.0%CDI	-	-	-	-
Average collection rate (USD)	-	LIBOR2.65%	LIBOR2.65%	LIBOR2.65%	-	-	-	-
Variable to Fixed								
Notional amount (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%	-	-	-
Notional amount (BRL)	8	8	-	-	-	-	-	-
Average payment rate (BRL)	-	2.25% CDI	-	-	-	-	-	-
Average collection rate (USD)	-	1.00%	-	-	-	-	-	-
Notional amount (USD)	58	-	-	-	58	-	-	3
Average payment rate (ARS)	-	-	-	-	14.30%	-	-	-
Average collection rate (USD)	-	-	-	-	Libor 6m	-	-	-

Currency forward contracts	Total	2006	2007	2008	2009	2010	2012 and following years	Fair value
				Maturity				
					(in millions of Euros, 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	-	-	-	-	-	-

Note 11. Financial Receivables

The breakdown of this account at December 31, 2006 and 2005 is as follows:

	At 31.12.06	At 31.12.05
Commercial loans	78	120
Other loans	7	14
Other financial receivables	53	60
Non-current Receivables	**138**	**194**
Commercial loans	89	95
Others	6	28
Current Receivables	**95**	**123**
Total financial receivables	**233**	**317**

The breakdown by maturities at December 2006 and 2005 is as follows:

Maturities	At 31.12.06	At 31.12.05
No later than 1 year	95	123
Between 1 year and 5 years	83	109
Later than 5 years	55	85
Total financial receivables	**233**	**317**

The corresponding interest rates (7.5% 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 for the sale of long-term financed gas and heating installations.

Current Receivables

Other loans primarily hold the loans 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 at December 31, 2005 that have been cancelled in 2006.

Note 12. Inventories

The breakdown of Inventories is as follows:

	At 31.12.06	At 31.12.05
Raw materials and other inventories	60	39
Natural gas and liquefied gas	380	417
Total	**440**	**456**

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

Note 13. Trade and other receivables

The breakdown of this account is as follows:

	At 31.12.06	At 31.12.05
Trade receivables	1,969	2,214
Trade with related parties ([1])	80	63
Less: provision for impairment of receivables with third parties	(153)	(129)
Trade receivables-net	**1,896**	**2,148**
Other debtors	93	135
Receivables from tax authorities	116	104
Prepayments	25	72
Total	**2,130**	**2,459**

([1]) Repsol YPF Group

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

At 1.1.05	**(106)**
Net charge for the year	(23)
At 31.12.05	**(129)**
Net charge for the year	(48)
Disposals	17
Cumulative translation adjustments and others	7
At 31.12.06	**(153)**

Note 14. Cash and cash equivalents

Cash and cash equivalents comprise the following:

	A 31.12.06	A 31.12.05
Cash at bank and in hand	70	106
Short term investments (Spain and rest of Europe)	19	71
Short term investments (Latin America)	38	24
Total	**127**	**201**

Bank deposits are very liquid (less than 10 days). The average effective interest rate is 5.5% at December 2006 (4.3% at December 2005).

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

- Spain: 4.4% at December 2006 and 4.5% at December 2005.
- Latin America: 7.6% at December 2006 and 8% at December 2005.

Note 15. Equity

The breakdown and movement of this accounts is as follows:

	Equity attributable to the equity holders of the Company						
	Share capital	Reserves for valuation adjustments	Retained earnings and other reserves	Cumulative translation adjustments	Subtotal	Minority interests	Equity
Balance at 1.1.05	**448**	**17**	**4.127**	**(21)**	**4.571**	**220**	**4,791**
Dividend	-	-	(336)	-	(336)	(52)	(388)
Income and expenses recognised in net equity	-	296	749	132	1,177	116	1,293
Acquisition of minority interests	-	-	(1)	-	(1)	(3)	(4)
Reduction of share capital of subsidiaries	-	-	-	-	-	(18)	(18)
Sale of shareholdings during the year	-	-	-	-	-	2	2
Business combinations	-	-	-	-	-	90	90
Balance at 31.12.05	**448**	**313**	**4,539**	**111**	**5,411**	**355**	**5,766**
Dividend	-	-	(403)	-	(403)	(66)	(469)
Income and expenses recognised in net equity	-	(151)	852	(57)	644	56	700
Acquisition of minority interests	-	-	-	-	-	(1)	(1)
Balance at 31.12. 06	**448**	**162**	**4,988**	**54**	**5,652**	**344**	**5,996**

Share capital

Share capital includes the following:

(millons)	Number of shares	Ordinary shares	Total
A 1.1.05	448	448	448
A 31.12.05	448	448	448
A 31.12.06	448	448	448

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

The Board of Directors of the Company by virtue of the resolution of the General Meeting of Shareholders of April 30, 2002, was authorised to increase share capital to a maximum of Euros 223,888,014 within a period of 5 years, through a monetary disbursement and in one or several increases without requiring new authorisation.

The General Meeting of Shareholders of June 8, 2006 authorised the Board to issue within a maxim period of 5 years fixed income debentures not convertible into shares, in the form of debt, bonds, promissory notes, simple or mortgage-backed or guaranteed debentures up to a total amount of Euros 2,000 million.

Furthermore, by virtue of a resolution of the General Meeting of Shareholders of June 8, 2006, the Board of Directors was authorised to acquire fully paid up treasury shares for consideration, under the terms agreed by the General Meeting of Shareholders and following the legally established restrictions, voiding the authorisation agreed by the General Meeting of Shareholders of April 20, 2005.

All the shares of Gas Natural SDG, S.A. are listed on the four official Spanish stock exchanges are traded simutaneously on all four (“mercado continuo”) and are listed on the Ibex 35.

The 2006 year end quotations of Gas Natural SDG, S.A. was Euros 29.99 (Euros 23.66 at December 31, 2005). 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, 2006 of Pesos 1.84 per share (Pesos 1.75 per share at December 31, 2005).

The most important direct and indirect shareholdings in the share capital of Gas Natural SDG, S.A. at December 31, 2006 and 2005 are as follows:

	% shareholding	
	31.12.06	**31.12.05**
- "La Caixa" Group	33.06	33.06
- Repsol YPF Group	30.85	30.85
- Holding de Infraestructuras y Servicios Urbanos, S.A. (HISUSA)	5.00	5.00
- Chase Nominees Ltd. [1]	4.84	5.03
- Caixa d'Estalvis de Catalunya	3.03	3.03

[1] Chase Nominees Ltd., asking in representation of its clients has disclosed that none of its clients is under obligation to report that they have a significant shareholding as none (clients that are not resident in tax havens) holds an interest above 5% or multiples thereof or more than 1% (clients residents in tax havens).

Retained earnings and other reserves

Retained earnings and other reserves include the following reserves:

	31.12.06
a) Legal reserve	90
b) Statutory reserve	68
c) Revaluation reserve	225
d) Reserve for redenomination in Euros	1

a) Legal reserve

Appropriations to the legal reserve are made in compliance with the Spanish Companies Act, which stipulates that 10% of the profits must be transferred to this reserve until it represents at least 20% of share capital. The legal reserve can be used to increase capital in the part that exceeds 10% of the capital increased.

Except for the use mentioned above, and as long as it does not exceed 20% of share capital, the legal reserve can only be used to offset losses in the event of no other reserves being available.

b) Statutory reserve

Under the articles of association of Gas Natural SDG, S.A., 2% of net profit for the year must be allocated to the statutory reserves until it reaches at least 10% of share capital.

c) Revaluation reserve

The revaluation reserve can be used to offset accounting losses, increase share capital, or can be allocated to freely distributable reserves, provided that the monetary gain has been realised. The part of the gain that will be considered realised is the part relating to the amortisation recorded or when the revaluated assets have been transferred or written off the books of account.

d) Reserve for redenomination in Euros

As per the Euro Act, Law 46/1998, a reserve not available for distribution was set up for the redenomination into Euros of the shares representing the share capital of the company.

Basic earnings per share

Basic earnings per share are calculated by dividing the profit attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the year

	31.12.06	31.12.05
Profit attributable to Shareholders of the Company	855	749
Weighted average number of ordinary shares in issue (million)	448	448
Earning per share		
- Basic earnings per share	1.91	1.67
- Diluted earnings per share	1.91	1.67

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

Dividends

The Board of Directors adopted a resolution on November 25, 2005 to distribute an interim dividend against 2005 profit of Euros 0.31 gross per share, totalling Euros 139 million, paid out as from January 10, 2006.

The General Meeting of Shareholders of June 8, 2006 adopted a resolution to pay a total of Euros 0.84 per share against 2005 results and, consequently, distribute a dividend payable in July 2006 of Euros 237 million (Euros 0.53 per share).

The Board of Directors of Gas Natural SDG, S.A. agreed, at its meeting of November 24, 2006 to pay a dividend of Euros 0.37 per share totalling Euros 166 million against 2006 profit for the year. The date of payment of the interim dividend was January 9, 2007.

On February 23, 2007, the Board of Directors adopted a proposal to be submitted to the General Meeting of Shareholders to increase the dividend by 16.7% and pay out a total of Euros 0.98 per share against 2006 profit.

The proposed distribution of net profit of Gas Natural SDG, S.A. for 2006, which the Board of Directors will propose to the General Meeting of Shareholders for adoption, is as follows:

Basis for distribution	
Profit and (loss)	743
Distribution	
To voluntary reserve	304
To dividend	439

Note 16. Borrowings

The breakdown of borrowings at December 31, 2006 and 2005 is as follows:

	31.12.06	**31.12.05**
Issuing of debentures and other negotiable obligations - non-current	769	554
Amounts owed to financial institutions and others - non-current	1,741	2,669
Derivative financial instruments (Note 10)	80	81
Non-current borrowings	**2,590**	**3,304**
Issuing of debentures and other negotiable obligations - current	43	56
Current amounts owed to financial institutions and others - current	585	456
Current borrowings	**628**	**512**
Total borrowings	**3,218**	**3,816**

The carrying amounts and fair value of the non-current borrowings are as follows:

	Carrying amounts		**Fair values**	
	31.12.06	**31.12.05**	**31.12.06**	**31.12.05**
Issuing of debentures and other negotiable obligations	769	554	798	612
Loans from financial institutions and others	1,741	2,669	1,821	2,750

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, 2006 and December 31, 2005 on borrowings with similar credit and maturity characteristics.

At December 31, 2006 GAS NATURAL has credit facilities available totalling Euros 1,622 million (Euros 1,187 million at December 31, 2005), of which Euros 1,492 million have not been drawn down (Euros 650 million at December 31, 2005).

The following tables describe our consolidated gross borrowings by instrument at December 31, 2006 and December 31, 2005 and their maturity profile. The classification between fixed and variable debt is made taking into account the impact of the derivative hedges.

At December 31, 2006:	**2007**	**2008**	**2009**	**2010**	**2011**	**2012 and beyond**	**Total**
Marketable Debt							
Fixed	5	28	198	525	-	-	756
Floating	38	18	-	-	-	-	56
Institutional Banks							
Fixed	68	138	67	37	-	-	310
Floating	34	30	30	53	32	-	179
Commercial Banks and other financial liabilities							
Fixed	95	162	56	14	615	87	1,029
Floating	388	106	143	33	29	189	888
Total Fixed	168	328	321	576	615	87	2,095
Total Floating	460	154	173	86	61	189	1,123
Total	**628**	**482**	**494**	**662**	**676**	**276**	**3,218**

At December 31, 2005:	**2006**	**2007**	**2008**	**2009**	**2010**	**2012 and 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**

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 floating rate under "Commercial banks and other financial liabilities" would be as follows: Euros 10 million at a fixed rate in 2006 (Euros 4 million in 2005) and Euros 1,829 million at a floating rate in 2006 (Euros 2,464 million in 2005). Furthermore, the breakdown of “Marketable securities” for 2006 would be: Euros 530 million at a fixed rate and Euros 281 million at a floating rate.

The following table describes our consolidated gross financial debt by currency at December 31, 2006 and December 31, 2005 and its maturity profile.

At December 31, 2006:	2007	2008	2009	2010	2011	2012 and beyond	Total
Euro Debt	212	-	202	525	600	149	1,688
Foreign Currency Debt:							
Dollar	110	113	115	86	30	127	581
Mexican peso	110	213	-	-	-	-	323
Brazilian real	123	95	128	46	46	-	438
Colombian peso	45	32	5	5	-	-	87
Argentinean peso	28	29	44	-	-	-	101
Total	**628**	**482**	**494**	**662**	**676**	**276**	**3,218**

At December 31, 2005:	2006	2007	2008	2009	2010	2011 and 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**

Borrowings in Euros bore average effective interest rate at December 31, 2006 of 4.14% (3.71% at December 31, 2005) and the foreign currency of the financial debt bore an average effective interest rate of 10.40% (11.20% at December 31, 2005) including the derivatives assigned to each transaction.

We set out below the most relevant financial instruments.

ECP Program

In March 2001, a Euro Commercial Paper program (ECP) was established under which up to an aggregate principal amount of Euros 1,000 million or its equivalent in alternative currencies may be issued. At December 31, 2006 no amount has been drawn down and at December 31, 2005 an aggregate principal amount of Euros 25 million (short-term marketable debt) was outstanding.

EMTN Program

In 1999, an EMTN program (European Medium Term Note) was established under which up to an aggregate principal amount of Euros 2,000 million may be issued. At December 31, 2006 an aggregate principal amount of Euros 725 million was outstanding. At December 31, 2005 the principal issued was Euros 525 million.

Borrowings for the Maghreb-Europe Pipeline (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, 2006, US$322 million (Euros 245 million) of the EIB loan and US$160 million (Euros 121 million) of the Instituto de Crédito Oficial (ICO) loan were outstanding. The average maturity of this debt is 2.1 years.

At December 31, 2005, US$410 million (Euros 346 million) of the EIB loan and US$200 million (Euros 169 million) of the Instituto de Crédito Oficial (ICO) loan were outstanding. The average maturity of this debt is 2.4 years.

Borrowings from European banks (commercial banks)

At December 31, 2006 these borrowings relate to Euros 600 million for the syndicated “Club Deal” loan maturing in 2011 and a syndicated loan of Euros 120 million with 14 Spanish commercial banks maturing in 2007, as well as Euros 79 million in credit facilities drawn down with different banks.

At December 31, 2005, this account included the syndicated “Club Deal” loan of Euros 600 million maturing in 2011, a syndicated loan with 14 Spanish banks maturing in 2007 totalling Euros 120 million, a bilateral loan maturing in 2007 of Euros 50 million and borrowings of Euros 33 million from a group of Italian banks. It also included credit facilities drawn down totalling Euros 428 million.

Deuda con entidades de crédito en Latinoamérica (bancos comerciales/institucionales)

At December 31, 2006, the debt in Latin America amounted to Euros 908 million with a wide range of financial institutions, of which 39% were guaranteed by the parent company. The geographical breakdown of our Latin American facilities is as follows: Argentina Euros 73 million, Mexico Euros 324 million, Colombia Euros 73 million and Brazil Euros 438 million, and Euros 40 million in drawn down credit facilities in Mexico.

At December 31, 2005, the debt in Latin America amounted to Euros 1,029 million (including Euros 97 million in credit lines in Mexico described above) with a wide range of financial institutions, of which 47% were guaranteed by the parent company. The geographical breakdown of our Latin American facilities is as follows: Argentina Euros 118 million, Mexico Euros 417 million, Colombia Euros 86 million and Brazil Euros 408 million. Mexico includes Euros 97 million in credit facilities drawndown. All our Latin American debt is denominated in local currency except for Argentina, where our debt is mainly denominated in U.S. dollars.

Wind Farm Operators (commercial banks)

At December 31, 2006, the wind farm operators DERSA and Gas Natural Eólica (formerly Sinia XXI) had Euros 121 million of debt outstanding, mainly related to project financing. More than 88% of this debt matures in or after 2010.

At December 31, 2005, the wind farm operators DERSA and Gas Natural Eólica (formerly Sinia XXI) had Euros 184 million of debt outstanding, mainly related to project financing.

Puerto Rico (commercial banks)

At December 31, 2006, Gas Natural had Euros 214 million (including Euros 11 million of credit lines drawn down) of attributable debt outstanding associated with our CCGT and regasification project finance in Puerto Rico. 69% of this debt matures in or after 2011.

At December 31, 2005 this debt totalled Euros 252 million, including Euros12 million in credit facilities drawn down.

Note 17. Other non-current liabilities

The breakdown of this account at December 31, 2006 and 2005 is as follows:

	A 31.12.06	A 31.12.05
Finance lease liabilities (1)	312	322
Other liabilities (2)	83	107
Deposits	40	38
Other non-current liabilities	**435**	**467**

1) Finance lease liabilities

In 2003, GAS NATURAL acquired two cryogenic gas transport gas tankers with a 276,000 m^3 capacity through finance lease agreements. The contract's duration is 20 years, maturing in 2023.

Minimum lease payments are as follows:

	At 31.12.06			At 31.12.05		
	Nominal	**Discount**	**Present value**	**Nominal**	**Discount**	**Present Value**
Not later than 1 year	29	(2)	27	29	(2)	27
Between 1 and 5 years	116	(24)	92	116	(24)	92
Later than 5 years	517	(297)	220	540	(310)	230
Total	**662**	**(323)**	**339**	**685**	**(336)**	**349**

2) Other liabilities

These basically include the repurchase obligations of preference shares of Buenergia Gas & Power, Ltd. The 47.5% indirect interest in EcoEléctrica LP is held through the company Buenergía. This company is 95% owned by Invergas Puerto Rico, S.A. and 5% owned by a subsidiary of the General Electric Group, Project Finance XI (PFXI). PFXI is, as well, the holder of the preference shares of Buenergía, which gives it a preference right over the dividends of this company, which must be repurchased by Buenergía as the company distributes profit, in line with the following schedule:

	US Dollars million
2007	13
2008	16
2009	15
More than 5 years	48
Total	**92**

Note 18. Provisions

The breakdown of provisions is as follows:

	At 31.12.06	At 31.12.05
Non-current provisions	367	283
Current provisions	8	-
Total	**375**	**283**

The movement in non-current provisions is as follows:

At 1.1.05	**200**
Charged in the income statement:	
– additional provisions	46
– unused amounts reversed	(4)
Amounts paid during the year	(8)
Business combinations (Note 31)	4
Reclassifications and others	45
At 31.12.05	**283**
Charged to consolidated income statement	
– additional provisions	109
– unused amounts reversed	(40)
Amounts paid during the year	(22)
Business combinations (Note 31)	10
Reclassifications and others	27
At 31.12.06	**367**

The movement in current provisions is as follows:

At 31.12.05	**-**
Charged to consolidated income statement	8
At 31.12.06	**8**

Note 19. Employee benefit obligations

A breakdown of the provisions related to employee benefits is as follows:

	Post-employment	Other obligations	Total
At 1.1.05	**52**	**36**	**88**
Charge to the income statement:	3	4	7
Amounts paid during the year	(7)	(17)	(24)
Transfers	-	1	1
Cumulative translation adjustments	10	-	10
At 31.12.05	**58**	**24**	**82**
Charge to the income statement:	7	-	7
Amounts paid during the year	(9)	(3)	(12)
Cumulative translation adjustments	(1)	-	(1)
Other movements recognised directly in equity	2	-	2
At 31.12.06	**57**	**21**	**78**

a) Post employment benefits

Breakdown by country	31.12.06	31.12.05	1.1.05
España (1)	21	19	20
Brasil (2)	31	35	28
Italia	4	4	4
Méjico	1	-	-
Total	**57**	**58**	**52**

1) Pension Plans and other post-employment benefits in Spain

At December 31, 2006 and December 31, 2005, GAS NATURAL had in force the following commitments for certain employees:

- Pensioners (retirees, disabled-persons, widows and orphans).
- Retirement and death coverage in favour of certain employees.
- Early retirement plans.
- Health and other benefits.
- Gas subsidy.
- Certain lump sums and pensions included in collective agreements.
- Lifetime death coverage for a certain collective.

The amounts recognized in the balance sheet are determined as follows:

	31.12.06	31.12.05	1.1.05
Present value of funded obligations	166	172	174
Fair value of plan assets	(168)	(169)	(170)
Present value of unfunded obligations	23	23	23
Unrecognized past service cost	-	-	-
Otros movimientos	-	(7)	(7)
Post employment benefit provisions	**21**	**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:

	31.12.06	31.12.05
Current service cost	2	2
Interest cost	7	8
Expected return on plan assets	(6)	(7)
Past service cost	-	-
Total charged to the income statement	**3**	**3**

The actual return on plan assets for the year ended December 31, 2006 was Euros 7 million.

The movement in the liability recognized in the balance sheet is as follows:

At 1.1.05	**20**
Total expense charged in the income statement	3
Contributions paid	(4)
At 31.12.05	**19**
Total expense charged in the income statement	3
Contributions paid	(6)
Total expense charged to retained earnings and other reserves	5
At 31.12.06	**21**

The principal annual actuarial assumptions used were as follows:

	A 31.12.06	**A 31.12.05**
Discount rate (p.a) (%)	4.5	4.0
Expected return on plan assets (p.a) (%)	4.5	4.5
Future salary increases (p.a) (%)	3.0	3.0
Future pension increases (%)	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, 2006 and December 31, 2005, 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:

	31.12.06	31.12.05	1.1.05
Present value of funded obligations	70	70	51
Fair value of plan assets	(59)	(54)	(37)
Present value of unfunded obligations	20	19	12
Unrecognized past service cost	-	-	(7)
Other movements	-	-	9
Post employment benefit provisions	**31**	**35**	**28**

Pension plan assets are invested as follows:

	31.12.06	31.12.05
Equities (%)	28.46	27.00
Bonos (%)	64.62	67.00
Terrenos (%)	6.92	6.00
Total	**100.00**	**100.00**

The amounts recognized in the income statement are as follows:

	31.12.06	31.12.05
Current service cost	-	-
Interest cost	10	8
Expected return on plan assets	(6)	(5)
Others	-	(3)
Total income statement charge	**4**	**-**

The movement in the liability recognized in the balance sheet is as follows:

At 1.1.05	**28**
Cumulative translation adjustment	10
Contributions paid	(3)
At 31.12.05	**35**
Cumulative translation adjustment	(1)
Total expense charged in the income statement	4
Contributions paid	(3)
Total expense charged to retained earnings and other reserves	(4)
At 31.12.06	**31**

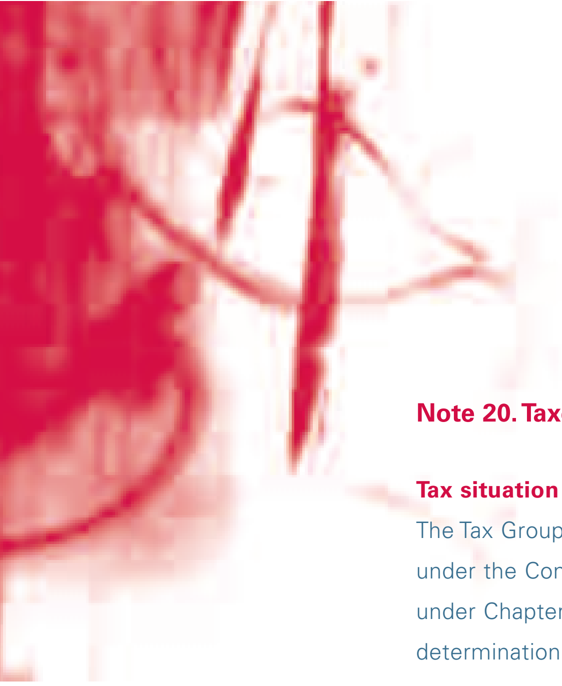
The principal annual actuarial assumptions used were as follows:

	A 31.12.06	A 31.12.05
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.

GAS NATURAL also has a Loyalty Plan for which contributions are invested in an investment fund classified as Available for sale financial asset (see note 9). Similar movements as in the fair value of the investment fund are recorded in the loyalty bonus with the corresponding effect on profit and loss.



Note 20. 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, regulated under Chapter VII of Title VII of Royal Legislative Decree 2004/5 March, which involves the joint determination of taxable income of GAS NATURAL and the deductions and allowances on the tax payable.

In 2006, the Consolidated Tax Group of Gas Natural SDG, S.A. was made up of the following companies: Gas Natural Castilla y León, S.A., Gas Natural Cegás, S.A., Gas Natural Castilla La Mancha, S.A., Compañía Auxiliar de Industrias Varias, S.A., Gas Natural Informática, S.A., Gas Natural Servicios SDG, S.A., Gas Natural Andalucía, S.A., Gas Natural Internacional SDG, S.A., Holding Gas Natural, S.A., La Propagadora del Gas, S.A., La Energía, S.A., Sagane, S.A., Gas Natural Cantabria SDG, S.A., Gas Natural Murcia SDG, S.A., Desarrollo del Cable, S.A., Gas Natural Electricidad SDG, S.A., Gas Natural Comercializadora, S.A., Gas Natural Aprovisionamientos SDG, S.A., Gas Navarra, S.A., Gas Natural Rioja, S.A., Gas Natural Distribución Eléctrica, S.A., Gas Natural Soluciones, S.L., Invergas Puerto Rico, S.A., Sociedad de Tratamiento Hornillos, S.L., Gas Natural Distribución SDG, S.A., Gas Natural Transporte SDG, S.L., Gas Natural Corporación Eólica, S.L., Gas Natural Exploración, S.L., Distribuidora Eléctrica Navafrías, S.L., Electra de Abusejo, S.L., Gas Natural Capital Markets, S.A., Gas Natural Eólica, S.A, Tratamiento Almazán, S.L., Gas Natural Comercial SDG, S.L., Portal Gas Natural, S.A., Portal del Instalador, S.A., Aplicaciones y Proyectos Energéticos, S.A., Boreas Eólica, S.A. , Boreas Eólica 2, S.A., Desarrollo de Energías Renovables, S.A. and Desarrollo de Energías Renovables Castilla-La Mancha, S.A.

Other companies resident in Spain that are not included in the Tax Group are taxed individually.

The profit for the year of other companies of GAS NATURAL are taxed in each country in which they operate at the current corporate income tax rate. Additionally, in some countries the minimum presumed income tax or asset tax on certain assets and liabilities is recorded. These are taxes than can be computed as payments on account of income tax on the profit that may be generated in the next 10 years.

The reconciliation of accounting profit to tax profit for corporate income tax purposes is as follows:

	A 31.12.06	A 31.12.05
Profit before tax	**1,231**	**1,068**
Non-deductible expenses and non-computable income	**(187)**	**(164)**
Individual companies	(303)	(399)
Consolidated adjustments	116	235
Temporary differences:	**(71)**	**(79)**
Provisions	(22)	(8)
Other items	(49)	(71)
Prior taxable income	**973**	**825**
Offset of tax loss carryforwards	(27)	(7)
Taxable income	**946**	**818**

The deductions from taxable income applied in 2006 have totalled Euros 35 million (Euros 47 million in 2005) and withholding and payments on account total Euros 244 million (Euros 107 million in 2005). Also included are adjustments for tax differences for last year of Euros 16 million (Euros 3 million in 2005).

The effective tax rate at the 2006 year end was 24.6%, the consequence of the application of the tax regime under additional provision 14 of the Corporate Income Tax Act, Law 43/1995/December 27, for the transfers of assets made under legal provisions, to the profit of companies consolidated under equity accounting, in order not to affect the calculation of the corporate income tax expense, as well as the application of lower tax rates and the use of tax credits available for offset by profits.

In accordance with the provisions of Additional Provision 4 of the Corporate Income Tax Act, the taxable income for corporate income tax purposes does not include the profit obtained in 2002 as a result of the Public Offering of sale of Shares of Enagás, S.A. or the profit on the sale made in 2003, 2004, 2005 and 2006, pending inclusion until the assets and rights in which the amounts obtained from the sales have been reinvested, transferred or written off the balance sheet, break down as follows in million Euros:

Year of sale	Amount obtained from sale	Reinvestment
2002	917	917
2003	39	39
2004	292	292
2005	432	432
2006	310	310
Total	**1,990**	**1,990**

The reinvestment has been made in fixed assets attached to economic activities, carried out by virtue of the provisions of article 75 of the Corporate Income Tax Act.

In 2004 and 2006 Euros 34.8 million and Euros 10.5 million have been invested. These amounts were obtained from the sale of assets transferred in 2001 and 2006, respectively.

Non-deductible expenses and non-computable income relate to the reversal of non-deductible provisions, consolidation adjustments and the aforementioned shareholding sale operations.

The tax expense for the year is as follows

Tax on income	31.12.06	31.12.05
Current tax	309	266
Deferred tax	(7)	(25)
Total	**302**	**241**

The breakdown of the deferred tax is as follows:

	31.12.06	31.12.05
Deferred income tax assets:		
Non-current	124	60
Current	131	163
	255	**223**
Deferred income tax liabilities:		
Non current	(420)	(376)
Current	(51)	(74)
	(471)	**(450)**
Net deferred income tax	**(216)**	**(227)**

The breakdown of deferred taxes is as follows:

Deferred tax liabilities	Provisions for employee benefit obligation	Accruals	Tax losses carried forward	Deferred expenses for tax purposes	Financial instruments	Other	Total
At 1.1.05	**46**	**12**	**36**	**26**	**8**	**33**	**161**
Charged/(credited) to income statement	(2)	(4)	(4)	2	-	10	2
Business combinations	-	-	29	-	-	1	30
Charged to equity	-	-	-	-	2	-	2
Cumulative translation adjustments	1	1	3	6	-	4	15
Others	11	-	(4)	1	1	4	13
At 31.12.05	**56**	**9**	**60**	**35**	**11**	**52**	**223**
Charged/(credited) to income statement	(11)	8	(8)	1	25	15	30
Business combinations	-	-	4	1	-	-	5
Charged to equity	-	-	-	-	5	-	5
Cumulative translation adjustments	-	-	(3)	(1)	(1)	(3)	(8)
Others	(10)	16	(12)	10	-	(4)	-
At 31.12.06	**35**	**33**	**41**	**46**	**40**	**60**	**255**

Deferred tax assets	Amortization differences	Reinvestment capital gains	Fair value business combination	Fair value available fo sale assets	Financial instruments	Others	Total
At 1.1.05	**49**	**99**	**88**	**20**	**-**	**35**	**291**
Charged/(credited) to income statement	-	45	(5)	-	(1)	(12)	27
Business combinations	-	-	62	-	-	-	62
Charged to equity	-	-	-	52	5	-	57
Cumulative translation adjustments	-	-	13	-	-	3	16
Others	-	-	(5)	-	2	-	(3)
At 31.12.05	**49**	**144**	**153**	**72**	**6**	**26**	**450**
Charged/(credited) to income statement	(3)	34	(17)	-	27	(4)	37
Business combinations	-	-	15	-	-	-	15
Charged to equity	-	-	-	(33)	4	-	(29)
Cumulative translation adjustments	(2)	-	-	-	-	(1)	(3)
Others	16	-	(1)	-	(5)	(9)	1
At 31.12.06	**60**	**178**	**150**	**39**	**32**	**12**	**471**

Due to the amendment introduced by Law 35/2006/28 November, by virtue of which the general corporate tax rate in Spain has been changed from 35% to 32.5% for tax years beginning January 1, 2007 and to 30% for tax years beginning as from January 7, 2008, as at December 31, 2006, the credits for tax loss carryforwards available for offset at the year end have been adjusted, as well as the deferred tax, on the basis of the amount expected to be recouped or paid, respectively. These adjustments are recorded under corporate income tax expense, unless they are related to items initially charged to equity. The aforementioned adjustments have decreased the corporate tax expense by Euros 8 million.

Both this year and in prior years the Tax Authorities have undertaken actions discussed in Note 36.

Note 21. Deferred income

The breakdown and movements in 2006 and 2005 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 1.01.05	**158**	**31**	**130**	**74**	**16**	**409**
Financing received	10	-	25	16	-	51
Cancellations	-	-	-	-	(1)	(1)
Taken to income	(8)	(1)	(8)	(6)	(7)	(30)
Business combinations (Note 31)	-	-	-	-	(1)	(1)
Cumulative translation differences	-	-	1	4	-	5
Others	-	(1)	(1)	-	2	-
At 31.12.05	**160**	**29**	**147**	**88**	**9**	**433**
Financing received	48	-	28	19	1	96
Cancellations	-	-	(1)	-	-	(1)
Taken to income	(12)	(1)	(13)	(11)	(9)	(46)
Cumulative translation differences	-	(3)	(1)	-	-	(4)
At 31.12.06	**196**	**25**	**160**	**96**	**1**	**478**

Note 22. Other liabilities

The breakdown at December 31, 2006 and 2005 is as follows:

	31.12.06	31.12.05
Accrued expenses not paid	94	166
Other liabilities (1)	36	46
Finance lease liabilities	27	27
Interim dividend	168	139
Total	**325**	**378**

(1) Includes the short term part of other liabilities mentioned in Note 17.

Note 23. Trade and other payables

The breakdown at December 31, 2006 and 2005 is as follows:

	31.12.06	31.12.05
Trade payables	1,650	1,647
Trade with related parties (1)	7	6
Amounts due to associates	4	2
Social security and other taxes	161	186
Amounts due to employees	21	26
Others	5	-
Total	**1,848**	**1,867**

(1) Repsol YPF Group.

Note 24. Sales

The breakdown of this account for 2006 and 2005 is as follows:

	2006	2005
Natural gas sales	7,827	6,731
Electricity sales	1,370	753
Access to transmission networks	566	547
Installation rental, maintenance and management services	337	238
Transportation services	115	101
Other revenues and services to clients	133	157
Total	**10,348**	**8,527**

Note 25. Other income

The breakdown of this account for 2006 and 2005 is as follows:

	2006	2005
Other management income	100	86
Income from works	21	10
Operating grants	-	4
Others	3	8
Total	**124**	**108**

Note 26. Procurements

The breakdown of this account for 2006 and 2005 is as follows:

	2006	2005
Energy purchases	6,872	5,748
Access to transmission networks	408	331
Other purchases	146	138
Stock variation	(8)	(67)
Total	**7,418**	**6,150**

Note 27. Personnel costs

The breakdown of this account for 2006 and 2005 is as follows:

	2006	2005
Wages and salaries	232	222
Social security costs	51	48
Pension costs-defined contribution plans	11	6
Defined benefit plans and other post-employment benefits	2	2
Capitalized costs	(46)	(42)
Other	27	16
Total	**277**	**252**

The average number of employees of GAS NATURAL during 2006 has totalled 6,692, 6,756 in 2005.

Note 28. Other operating expenses

The breakdown of this account for 2006 and 2005 is as follows:

	2006	2005
Repairs and maintenance	174	141
Commercial services & advertising	169	156
Professional services & insurance	126	70
Local taxes	89	78
Computer services	22	23
Leases	35	30
Supplies	38	35
Other	269	212
Total	**922**	**745**

Note 29. Net finance cost

The breakdown of this account for 2006 and 2005 is as follows:

	2006	2005
Dividends	13	3
Interest income	38	43
Others	20	19
Total financial income	**71**	**65**
Financial expense from borrowings	(265)	(242)
Interest expenses of pension plans and other post-employment benefits	(5)	(4)
Other financial expenses	(65)	(33)
Total financial expenses	**(335)**	**(279)**
Net exchange gains/(losses)	(2)	(5)
Net fair value gains/(losses) on derivative financial instruments	(1)	(2)
Financial Results	**(267)**	**(221)**

Note 30. Cash generated from operations

The breakdown of cash generated from operations in 2006 and 2005 is as follows:

	2006	2005
Net income for the period	929	827
Adjustments for:		
Income tax	302	241
Depreciation (Note 6)	493	426
Amortisation (Note 7)	99	93
Net movements in provisions (Note 18)	69	42
Net movements in employee benefits (Note 19)	7	7
Net movements in provisions for trade creditors and other receivables	29	23
Net fair value gains/(losses) on derivative financial instruments (Note 29)	1	2
Gain on sales of associates (Notes 8 and 9)	(230)	(286)
Interest income (Note 29)	(71)	(65)
Interest expense (Note 29)	335	279
Share of loss/(profit) from associates (Note 8)	(5)	(34)
Exchange (gains)/losses (Note 29)	2	5
Deferred income applied to results (Note 21)	(46)	(30)
Other adjustments	(39)	(28)
Changes in working capital (excluding the effects of acquisition and exchange differences on consolidation):		
Inventories	31	(65)
Trade and other receivables	245	(529)
Trade and other payables	(4)	377
Cash generated from operations	**2,147**	**1,285**

Note 31. Business combinations

In March 2006 GAS NATURAL acquired 100% of the share capital of Petroleum Oil & Gas España, S.A., a Spanish company mainly engaged in research and exploitation of hydrocarbons, as well as the transport, storage, treatment and sale of related products. wind farms. The acquired business contributed net sales of Euros 5 million and profit of Euros 2 million to GAS NATURAL for the period from March 1, 2006 to December 31, 2006. 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 Euros 6 million and Euros 2 million, respectively.

Details of net assets acquired and goodwill are as follows:

Purchase consideration:	
Cash paid	29
Total purchase consideration	29
Fair value of net assets acquired	27
Goodwill (Note 7)	**2**

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	**Carrying amount**
Property, plant and equipment	48	16
Other non current financial assets	4	4
Deferred income tax assets	5	5
Inventories	8	2
Other current financial assets	4	4
Cash and cash equivalents	6	6
Total assets	**75**	**37**
Borrowings	6	6
Other non current liabilities	11	-
Provisions	10	10
Deferred tax liabilities	15	-
Borrowings	1	1
Other current liabilities	5	5
Total Liabilities	**48**	**22**
Net assets acquired	**27**	**15**
Purchase consideration	**29**	
Cash and cash equivalents in subsidiary acquired	6	
Cash and outflow on acquisition	**23**	

The business combinations set up in 2005 are as follows:

In April 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 Euros 29 million and profit of Euros 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 Euros 39 million and Euros 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 7)	**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	**Carrying amount**
Property, plant and equipment	170	170
Other intangible assets	175	-
Non-current assets	7	7
Deferred income tax assets	9	9
Inventories	1	1
Other current financial assets	15	15
Cash and cash equivalents	20	20
Total assets	**397**	**222**
Borrowings	127	127
Other non current liabilities	7	7
Deferred tax liabilities	61	-
Borrowings	6	6
Other current liabilities	19	19
Total Liabilities	**220**	**159**
Net assets acquired	**177**	**63**
Purchase consideration	**272**	
Cash and cash equivalents in subsidiary acquired	20	
Cash and outflow on acquisition	**252**	

In June 2005 an additional shareholding was acquired of 36.8% in Portal Gas Natural, S.A. totalling Euros 4.2 million.

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 Euros 1 million and Euros 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 Euros 68 million.

In August 2005 the capital of Gas Natural ESP, S.A. was reduced through a return of Euros 23 million to Gas Natural Internacional SDG, S.A. This operation has had no effect on equity and results attributed to the equity holders of the parent Company. The effect on minority interest is a decrease of Euros 18 million.

Note 32. Joint ventures

GAS NATURAL has the following interest in joint ventures in December 2006 and 2005:

	2006 (%)	2005 (%)
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	33.3
Desarrollo de Energías Renovables de Navarra, S.A.	50.0	50.0
Desarrollo de Energías Renovables la Rioja, S.A.	36.3	36.3
Molinos del Cidacos, S.A.	50.0	50.0
Molinos de la Rioja, S.A.	33.3	33.3
Molinos de Linares, S.A.	33.3	33.3
Montouto 2000, S.A.	49.0	49.0
Explotaciones Eólicas Sierra de Utrera, S.L.	50.0	50.0
CH4 Energía S.A. de C.V.	50.0	50.0
Transnatural S.R.L. de México	50.0	50.0
EcoEléctrica Holding Ltd y dependientes	50.0	50.0
Repsol - Gas Natural LNG , S.L.	50.0	50.0
El Andalus LNG SPA	32.0	-

The following amounts represent GAS NATURAL's interest share of assets and liabilities, and sales and results of the joint ventures.

	31.12.06	31.12.05
Non-current assets	472	420
Current assets	101	116
Assets	**573**	**536**
Non-current liabilities	337	372
Current liabilities	75	54
Liabilities	**412**	**426**
Net assets	161	110

	2006	2005
Income	244	210
Expenses	228	177
Profit after income tax	16	33

There are no contingent liabilities relating to the joint ventures. Commitments includes the gas purchase commitment made by EcoEléctrica LP of 31,161 GWh at December 31, 2006 and 33,588 GWh at December 31, 2005.

Additionally, GAS NATURAL at December 31, 2006 has an interest in the assets and operations of the joint ventures broken down below, from which it obtains income and incurs expenses in proportion to its shareholding:

Name	Shareholding (%)	Operator	Activity
Spain			
Boquerón	4.50	Repsol Investigaciones Petrolíferas, S.A.	Exploration and production
Casablanca	9.46	Repsol Investigaciones Petrolíferas, S.A.	Exploration and production
Barracuda	12.01	Repsol Investigaciones Petrolíferas, S.A.	Exploration and production
Rodaballo	4.00	Repsol Investigaciones Petrolíferas, S.A.	Exploration and production
Chipirón	2.00	Repsol Investigaciones Petrolíferas, S.A.	Exploration and production
Romeral	55.00	Petroleum Oil & Gas España, S.A.	Exploration and production
Murcia-Siroco	40.00	Repsol Investigaciones Petrolíferas, S.A.	Exploration
Argelia			
Gassi-Chergui	30.00	Repsol Exploración Argelia, S.A.	Exploration
Gassi-Touil	26.00	Repsol Exploración Argelia, S.A.	Exploration and development

Note 33. Concession arrangements

Through the right of the use of the Maghreb-Europe pipeline agreement GAS NATURAL has the right to use exclusively 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).

- Directors and executives of the company, and their immediate families. The term "director" means a member of the Board of Directors; "executive" means a member of the Management Committee of GAS NATURAL. The operations with directors and executives are disclosed in Note 35.

Transactions at and for the year ended December 31, 2006 and 2005 are as follows:

Transactions with the "la Caixa":

- *Financing of the Takeover Bid.* "La Caixa" was one of the financial institutions that was participating in the loan of up to Euros 7,806 million that would have been used exclusively to finance the cash payment to be received by the shareholders of Endesa S.A. had they accepted the offer. "La Caixa" would also have acted as the payment agent for this contract. The loan contract was syndicated on October 21, 2005 to 22 other financial institutions. This loan was automatically reduced to Euros 6,367 million after the automatic adjustment of the consideration included in the Takeover Bid of July 3, 2006 as a result of the payment of the supplementary dividends approved by the General Meeting of Shareholders of Endesa in February 2006.

- *Syndicated loans.* La Caixa participates in syndicated loans of Euros 52.3 million and $29 million (Euros 22 million), maturing between 2007 and 2009, accruing Euros 3.4 million in interest not paid at December 31, 2006. At December 31, 2005 the participation in syndicated loans was Euros 52.3 million and $54 million (Euros 45.6 million) accruing Euros 1.9 million in interest not paid. Balances are included under Borrowings. At December 31, 2006 and December 31, 2005 the Interest accrued amounted to Euros 7.9 million and 5.4 million, respectively.

- *Credit facilities.* GAS NATURAL has Euros 200 million in credit facilities and it has drawn down Euros 15.1 at December 31, 2006. At December 31, 2005 the credit facilities available totalled Euros 30 million, of which Euros 8 million were drawn down. Interest accrued amounted to Euros 1.2 million at December 31, 2006 and Euros 0.6 million at December 31, 2005.

- *Club Deal Loan Agreement.* . La Caixa is the intermediary bank coordinating the club deal with a share of Euros 10 million. This amount relates both to December 31, 2006 and 2005.

- *Guarantees.* Guarantees given amounted to Euros 85.7 million out of a limit of Euros 97.5 million and Euros 109.1 million out of a limit of Euros 116.1 million at December 31, 2006 and 2005, respectively.

In addition to the guarantees mentioned above, "la Caixa" gave an irrevocable bank guarantee to GAS NATURAL in relation to the Endesa, S.A. takeover bid.

GAS NATURAL is the counter-guarantor for a loan that "la Caixa" has granted to Gas Natural BAN. The income from this transaction totals Euros 2.1 million and Euros 2.3 million at 31 December, 2006 and 2005, respectively.

- *Pension Plans.* The amounts paid at December 2006 to a company controlled by "la Caixa" Group and a third party for contributions to pension plans and insurance for personnel total Euros 7.8 million. In 2005 the amount totalled Euros 2.9 million.

Vida Caixa (investee company of "la Caixa") has been awarded the contract for life insurance policies for certain executives of GAS NATURAL.

- *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 is now 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, 2006 there are exchange rate hedges totalling Euros 689.4 million for future payments in foreign currency and Euros 404.5 million for interest payments. The hedges at December 31, 2005 total Euros 567 million for future payments in currencies and Euros 406.1 million in interest payments.

- *Incentives Plan 2002-2006.* The incentive plan for executives in force outsourced to "la Caixa" relates to 2002, for which 279,411 options were taken out, with 5,418 exercised in 2004 and 136,265 in 2005. All the other options were exercised in the first quarter of 2006.

- *Bank accounts with the "la Caixa".* At December 31, 2006 cash and cash equivalents amount to Euros 42.8 million and Euros 30.2 million at December 31, 2005. Interest accrued under this heading at December 31,2006 amounted to Euros 3.3 million and Euros 2.6 million at December 31, 2005.

- *Others.* The remuneration received by GAS NATURAL for the collection management of invoices for gas installation financing operations totalled Euros 1.6 million and Euros 2.1 million at December 31, 2006 and 2005, respectively.

Commissions accrued at December 31, 2006 total Euros 4.8 million. At December 31, 2005 this amount totalled Euros 2.4 million.

Other services provided by companies in the "la Caixa" group total Euros 1.9 million at December 31, 2006 and Euros 0.5 million at December 31, 2005.

In 2006 Promocaixa manages the "Puntos Natural" loyalty program for GAS NATURAL in Spain.

- *Sale of fixed assets.* In October 2006 GAS NATURAL sold certain commercial premises located in Madrid for Euros 1.5 million to "la Caixa".

- *Dividends.* Dividends paid at December 31, 2006 amounted to Euros 124.4 million and Euros 105.1 million at December 31, 2005.

Transactions with the Repsol YPF S.A.

- *Sales and purchases.* Purchases of natural gas, liquefied natural gas, materials and sundry services amounted to Euros 843.9 million and Euros 548.9 million at December 31, 2006 and December 31, 2005, respectively. This figure includes the purchases of liquefied natural gas (LNG) to supply the combined cycle plant in Cartagena.

Sales of natural gas, liquefied gas, electricity and sundry services amounted to Euros 237.3 million and Euros 435.2 million at December 31, 2006 and December 31, 2005, respectively.

Agreement for the supply of gas-oil to the combined cycle power plant in Arrúbal totalling Euros 2 million.

- *Brazil.* GAS NATURAL gave Repsol YPF, S.A a pre-emptive option to supply natural gas in Brazil, with an attached commitment to pay $30 million through annual payments of $ 10 million. The first accrual took place in December 2004, the second in December 2005, and the third in December 2006, and, accordingly, the outstanding amount at December 31,2006 is nil.

- *Midstream.* In the framework of the midstream agreements reached, GAS NATURAL and Repsol YPF, S.A. have concluded an agreement with the shipping operator Knutsen for a Time Charter for a cryogenic gas tanker with a capacity of 138,000 m^3, which both companies will use to transport liquefied natural gas as from 2009. This contract is in addition to the one signed in January 2005 for the acquisition of a similar gas tanker, which is now being built at the Izar (Sestao) shipyards and which will be delivered in December 2007.

GAS NATURAL and Repsol YPF have asked for offers for newly built cryogenic gas tankers for the transport of liquefied natural gas with a capacity of 170,000 m^3 and 150,000 m^3 in order to cover their future transport needs.

- *Others.* The adjudication of the services for the direct management of joint tenders and procurements of GAS NATURAL and Repsol YPF has been renewed.

Furthermore, there has been a renewal of the Reinsurance Program until October 29, 2007, with a total premium of up to $25.7 million, with a group of insurers in which Repsol YPF participates up to 30%.

- *Dividends.* Dividends paid at December 31, 2006 totalled Euros116 million. At December 31, 2005 this amount totalled Euros 98.1 million.

Transactions with Caixa de Catalunya

- *Financing the takeover bid.* Caixa Catalunya was one of the financial institutions that was participating in the loan of up to Euros 7,806 million that would have been used exclusively to finance the cash payment to be received by the shareholders of Endesa S.A. had they accepted the Offer. The loan contract was syndicated on October 21, 2005 to 22 other financial institutions. This loan was automatically reduced to Euros 6,367 million after the automatic adjustment of the consideration included in the Takeover Bid of July 3, 2006 as a result of the payment of the supplementary dividends approved by the General Meeting of Shareholders of Endesa in February 2006.

- *Credit facilities.* GAS NATURAL has Euros 30 million in credit facilities and it has drawn Euros 1.2 million at December 31, 2006. This item, at December 2005, represents amounts of Euros 30 million in credit facilities, of which Euros 10.9 million have been drawn down. The interest accrued totals Euros 0.2 million at December 31, 2006 and is not significant at December 31, 2005.

- *Guarantees.* Caixa de Catalunya provided guarantees for Euros 28.3 million out of Euros 60 million and for Euros 28.3 million out of a limit of Euros 31.3 million at December 31, 2006 and December 31, 2005, respectively.

- *Interest rate hedges.* At December 31, 2006 there are interest rate hedges totalling Euros 13.6 million, which totalled Euros 6.9 million at December 31, 2005.

- *Bank accounts at Caixa de Catalunya.* Cash and cash equivalents at December 31, 2006 and December 31,2005 are not significant. The interest accrued totals Euros 0.1 million.

- *Others.* Caixa Catalunya participates in a lease transaction totalling Euros 1.5 million which expires in 2008.

The amount of commissions and interest accrued at December 31, 2006 totals Euros 0.5 million. At December 31, 2005 this amount totalled Euros 0.1 million.

- *Dividends.* Dividends paid at December 31, 2006 amounted to Euros 11.4 million. At December 31, 2005 the amount paid totalled Euros 9.6 million.

Transactions with Holding de Infraestructuras y Servicios Urbanos, S.A. (HISUSA)

- *Dividends.* Dividends paid at December 31, 2006 amounted to Euros 18.8 million. At December 31, 2005 the amount paid totalled Euros 15.9 million.

Note 35. Information regarding members of the Board of Directors and Management Committee

Remuneration of the members of the Board of Directors

The members of the Board of Directors collected a total of Euros 4,881 thousand (Euros 4,019 thousand in 2005) in meeting (Board of Directors and its Committes) attendance fees and other direct responsibilities at various executive levels at December 31, 2006.

The total remuneration paid to the members of the Board of Directors of Gas Natural SDG, S.A. for belonging to the Management Committee, the Executive Committee, the Audit and Control Committee (ACC), the Appointments and Remuneration Committee (ARC), the Investment Strategy and Competition Committee (ISCC) totalled Euros 3,753 thousand in 2006 (Euros 2,963 thousand in 2005) and breaks down as follows:

		Remuneration (thousand euros)					
	Office	Board	Executive Committee	ACC	ARC	ISCC	Total
Mr. Salvador Gabarró Serra	Chairman	500	500	-	12	-	1,012
Mr. Antonio Brufau Niubó	Vice-Chairman	115	115	-	12	-	242
Mr. Rafael Villaseca Marco	Chief Executive Officer	115	115	-	-	-	230
Mr. José Vilarasau Salat	Member	115	-	-	-	-	115
Mr. Enrique Alcántara-García Irazoqui	Member	115	-	-	12	-	127
Mr. José Luis Jové Vintró	Member	115	115	1	-	-	231
Mr. Carlos Kinder Espinosa	Member	115	115	-	-	12	242
Mr. Nemesio Fernández-Cuesta Luca de Tena	Member	115	-	-	-	-	115
Mr. Guzmán Solana Gómez	Member	115	115	12	-	-	242
Mr. Fernando Ramírez Mazarredo	Member	115	-	12	-	-	127
Caixa d'Estalvis de Catalunya (1)	Member	115	-	-	-	-	115
Mr. Carlos Losada Marrodán	Member	115	115	-	-	12	242
Mr. Santiago Cobo Cobo	Member	115	115	-	-	12	242
Mr. Emiliano López Achurra	Member	115	-	-	-	-	115
Mr. Miguel Valls Maseda	Member	115	-	11	-	-	126
Mr. Jaime Vega de Seoane Azpilicueta	Member	115	-	-	-	-	115
Mr. José Arcas Romeu	Member	115	-	-	-	-	115
		2,340	**1,305**	**36**	**36**	**36**	**3,753**

(1) Representada por Mr. José María Loza Xuriach.

The members of the Board of Directors of the Company have not received any remuneration for profit sharing or premiums. Neither have they received shares or share options during the year, nor have they exercised options nor held options to be exercised.

The remuneration for all items accrued in 2006 by those members of the Board of Directors that have had labour-related relationships with, or have held executive responsibilities in, GAS NATURAL totals Euros 1,128 thousand (Euros 1,056 thousand in 2005). This amount includes the contributions to pension plans and insurance premiums. The total amount accumulated for pension or retirement benefits or the like total Euros 190 thousand (Euros 78 thousand in 2005).

Additionally, the contract with the Chief Executive Officer contains a clause that establishes a severance indemnity that triples his annual compensation in the event of termination of the labour relationship and an indemnity of one year's remuneration for the post-contractual non-compete clause with a term of one year.

As a result of the removal in April 2006 of Mr. Guzmán Solana Gómez, he has received an indemnity of Euros 2,566 thousand.

The amount of the remuneration accrued in 2006 by the members of the Board of Directors of Gas Natural SDG, S.A. for belonging to the administrative bodies of other investee companies totals Euros 82 thousand (Euros 156 thousand in 2005), and breaks down as follows:

	Enagás, S.A.
D. Salvador Gabarró Serra	61
D. Rafael Villaseca Marco	21

Operations with Directors

As per the provisions of Law 26/2003/17 July, the Company's Directors have the following shareholdings or hold offices or undertake functions in companies with the same, analogous or complementary activity as the Company at December 31, 2006 as GAS NATURAL:

		Number of shares and % shareholding:					
Directors and offices in other companies with similar or complementary	**Office in Gas Natural SDG S.A.**	**Gas Natural**	**Enagás**	**Repsol YPF**	**Endesa**	**Iberdrola**	**Suez**
Mr. Salvador Gabarró Serra *Member Board of Directors of Enagás, S.A* *Vice-Chairman of "la Caixa"*	Chairman	-	10 (0.000)	-	-	10,350 (0.001)	-
Mr. Antonio Brufau Niubó *Executive President of Repsol YPF, S.A.* *and Chairman of YPF, S.A.* *Member Board of Directors of Suez, S.A.*	Vice-Chairman	30,602 (0.007)	-	24,354 (0.002)	-	-	2,222 (0.000)
Mr. Rafael Villaseca Marco *Chairman of Repsol-Gas Natural LNG, S.L.* *Chairman of Gas Natural Aprovisionamientos SDG, S.A.*	Member	1,000 (0.000)	356 (0.000)	646 (0.000)	859 (0.000)	636 (0.000)	-
Mr. José Vilarasau Salat	Member	90 (0.000)	-	-	-	-	-
Mr. Santiago Cobo Cobo	Member	-	-	-	-	-	-
Mr. Carlos Losada Marrodán	Member	-	-	-	-	-	-
Mr. Fernando Ramírez Mazarredo *General Economic-Financial Director of Repsol YPF, S.A.*	Member	200 (0.000)	-	200 (0.000)	-	-	-
Mr. Carlos Kinder Espinosa	Member	100 (0.000)	-	-	-	-	-
Mr. Enrique Alcántara-García Irazoqui	Member	3,834 (0.001)	-	-	-	-	-
Caixa d'Estalvis de Catalunya	Member	13,550,000 (3.03)	-	19,868,984 (1.63)	-	-	-
Mr. Nemesio Fernández-Cuesta Luca de Tena *General Manager Upstream Repsol YPF, S.A.* *Vice-Chairman of Repsol-Gas Natural LNG, S.L.*	Member	-	-	11,368 (0.001)	-	-	-
Mr. Emiliano López Achurra	Member	-	-	-	-	-	-
Mr. Guzmán Solana Gómez *Executive President Maxus Energy Corporation*	Member	-	-	-	-	-	-
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	Vocal	100 (0.000)	-	-	-	3,497 (0.000)	-

In respect of the scope of the information required by article 127.3.4 of the Spanish Companies Act, we have disclosed the shareholding in the capital held directly or indirectly by the Directors in companies with the same, analogous or complementary activity as that of GAS NATURAL, or in companies that meet the same characteristics in group, associates or unrelated companies.

In 2006 the Directors of the Company have not carried out any operations outside the ordinary course of business or which have not been undertaken under normal market conditions with the company or with companies in the GAS NATURAL Group.

Remuneration of Management Committee

The total remuneration paid to the Management Committee, excluding the Chief Executive Officer, who is included in the section on the remuneration of the members of the Board of Directors, totalled in 2006 Euros 3,025 thousand (Euros 3,388 thousand in 2005), of which Euros 2,895 thousand are in the form of short-term benefits, and Euros 29 thousand in benefits for belonging to the Board of Directors of other investee companies and Euros 101 thousand for contributions to pension plans and insurance premiums. The total accumulated amount for pension, retirement or similar benefits totals Euros 3,871 thousand (Euros 7,422 thousand in 2005).

The contracts entered into with the members of the Management Committee have compensation or indemnity clauses that give their beneficiaries the following rights:

- an indemnity calculated on the basis of no more than 84 months, bearing in mind the fixed remuneration for the year in which the labour relationship is terminated, plus the variable remuneration;

- the amount of the length of service bonus (deferred amount to reward seniority in GAS NATURAL and non-compete commitments for two years following retirement); and

- in the event that the executive is 55 years old on the date of termination, he will also be entitled to receive the value of the amount of the contributions made to the pension plan, the contributions to the length-of-service bonus premium, and the special agreement with Social Security as from the date of the termination of the contract until he is 65 years old.

The cost of the total indemnities received by members of the Executive Committee who have terminated their employment relationship in 2006 totals Euros 3,648 thousand (Euros 4,458 thousand in 2005).

Note 36. Contingent liabilities and commitments

Guarantees

At December 31, 2006, Gas Natural SDG, S.A. has given guarantees to Group companies totalling Euros 1,589 million. Furthermore, GAS NATURAL has asked for guarantees from financial institutions for Euros 734 million at December 31, 2006, in respect of current litigation and trading transactions of the Group companies. GAS NATURAL estimates that the unforeseeable liabilities at December 31, 2006, if any, that could arise from the guarantees given would not be significant.

Commitments

The following table presents our contractual commitments at December 31, 2006:

	Year ended December 31, 2006						
Contractual obligations	**Total**	**2007**	**2008**	**2009**	**2010**	**2011**	**beyond**
Finance leases (1)	661	29	29	29	29	29	516
Operating leases (2)	424	68	62	54	38	39	163
For purchases of natural gas (3)	62,753	4,792	4,304	3,957	3,942	3,942	41,816
For the transport of natural gas (4)	854	124	92	78	79	79	402
For the sale of natural gas5 (5)	5,890	1,205	1,125	593	284	273	2,410
Investments (6)	181	116	65	-	-	-	-
Other liabilities (7)	70	10	12	12	16	11	9
Total obligaciones contractuales	**70,833**	**6,344**	**5,689**	**4,723**	**4,388**	**4,373**	**45,316**

(1) Reflects the payments foreseen for finance leases for two LNG gas tankers.
(2) Reflects the future payments foreseen for leases for six LNG gas tankers and the rent for the "Torre del Gas" building, owned by Torre Marenostrum, S.L. for which GAS NATURAL has an operating lease for a period of 10 years as from March 2006, extendible for successive periods of 3 years, discretionary for GAS NATURAL but binding for Torre Marenostrum, S.L.
(3) Reflects the long-term commitments to purchase natural gas totalling 4,193,506 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, 2006.
(4) Reflects the long-term commitment to purchase gas transport capacity totalling 476,190 GWh.
(5) The commitment for the sale of natural gas totals 611,249 GWh. We have calculated our contractual commitments under these contracts on the basis of our best estimates of natural gas prices at December 31, 2006.
(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 800 MW capacity) and in Malaga (with a 400 MW capacity)
(7) Reflects the commitments for the repurchase of preferred shares from Buenergía Gas&Power Ltd. (See Note 17).

Litigation and arbitration

At December 31, 2006 GAS NATURAL is party to several legal proceedings, mainly related to trading, regulatory, labour-related, tax and contentious-administrative affairs. According to the information made available to GAS NATURAL, amongst these proceedings there are some which, in the event of an unfavourable judgment, could have a negative impact on its business or financial situation.

Iberdrola arbitration

Our subsidiary, Gas Natural Aprovisionamientos, SDG 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. The arbitrators have already been appointed and both parties have filed their respective claims.

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.

On August 15, 2006 Atlantic LNG Trinidad and Tobago filed its claim and GAS NATURAL filed its response and counter-claim on October 13, 2006 requesting a price reduction.

At December 31, 2006 Atlantic LNG 2/3 Trinidad y Tobago has not given notice of a claim.

Furthermore, on August 4, 2006 Repsol YPG, an entity with which GAS NATURAL has concluded a supply contract for its combined cycle plant in Cartagena, informed GAS NATURAL of the instigation by its supplier, Atlantic LNG, of arbitration proceedings that could adversely affect the contract concluded by Repsol YPF and GAS NATURAL.

Arbitration with Endesa

On September 13, 2006 Endesa filed arbitration proceedings to dispute the gas supply contract dated October 14, 1998. On October 10, 2006 GAS NATURAL filed another request to initiate arbitration on the same contract. The parties are now in the process of appointing the arbitrators.

Arbitration with Tejas Gas de Toluca de R.L. de C.V.:

On January 18, 2006 GAS NATURAL received notice of an arbitration claim filed by Tejas Gas de Toluca S. de R.L. de C.V. (Tejas Gas) against Gas Natural México S.A. de C.V. and Pemex Gas y Petroquímica Basica (PEMEX). Tejas Gas provides transport service to Gas Natural México and PEMEX as distributors through a pipeline built for the transport service in Toluca, which began operating in July 2003. Tejas Gas is claiming from Gas Natural México and PEMEX (not severally liable) the payment of the alleged differences owed for not having purchased the minimum amount of gas stipulated by contract. The amount claimed was not fully disclosed in the claim; in any case, the claim refers to the difference of several months, which net accumulated amount is estimated at Pesos 51 million at December 31, 2006. Gas Natural México and PEMEX have opposed this claim and filed a countersuit on March 22, 2006 with the ICC.

Contracts in Algeria

GAS NATURAL has been corresponding with Sonatrach in relation to the differences of interpretation of certain clauses in the gas supply contracts. On March 1, 2006 GAS NATURAL received a notice from Sonatrach proposing that these differences be settled either through an independent expert opinion or arbitration proceedings. On July 1, 2006 price revision proceedings began in which GAS NATURAL has asked for a price reduction while Sonatrach has asked for an increase. At December 31, 2006 no formal negotiations have been taken place.

Arbitration with the Argentinean Republic

GAS NATURAL has begun arbitration proceedings against the Republic of Argentina before the "International Center of Settlement of Investment Disputes" (ICSID) claiming greater protection for investments made in Argentina. However, the proceedings have been suspended until April 19, 2007.

Investment and Customer Coverage Commitments in Mexico

GAS NATURAL has given guarantees totalling US$ 23.3 million in order to assure its commitments for investment and customer coverage acquired in the distribution permits for Toluca, Distrito Federal, Bajío and Bajío Norte. These investment and customer coverage commitments have not been fully met, mainly as a result of causes beyond the control of Gas Natural México. In relation to customer coverage, the breach has been due to the delay in the construction of the distribution infrastructures to be built by third parties and necessary for the gasification of certain areas in which the distribution permits are operative, as well as the difficulties in obtaining the municipal licenses for the gas conduit construction. In any case, there are grounds for defending arguments of force majeure in relation to these breaches.

At this time GAS NATURAL has filed writs before the regulatory authorities arguing the grounds of force majeure that have impeded compliance with these commitments. GAS NATURAL filed an appeal before the Federal Court and obtained the final suspension of the execution of the guarantees. In February and March 2006 the authorities handed down judgments for Toluca, Bajío and Bajío Norte, partly accepting the allegations of force majeure and declaring a partial execution of the guarantees. The execution has been suspended by the Court throughout the proceedings.

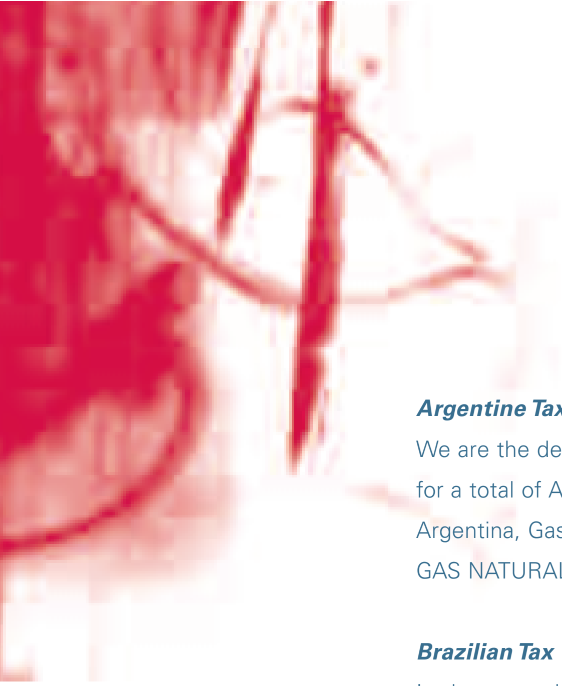
Spanish Tax Claims

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.

On April 4, 2006 Tax Assessments were signed for corporate income tax (years 1999 to 2002) for the 59/93 Tax Group and for value added tax and tax on personal income (2001 and 2002) of Gas Natural SDG, S.A. The assessments were signed in agreement, except for the assessment on the export deductions from corporate tax payable, which total Euros 189 million, which were signed in disagreement, and are being appealed by the Company before the appropriate courts.

The aforementioned tax audits that resulted in Assessments signed in Disagreement are now in different phases of proceedings (Supreme Court, National High Court, and Central Tax and Treasury Court). Of the results obtained in these courts of special note is the large number of acceptances in relation to the tax assessments made.

Gas Natural believes that they will be successful in reducing or cancelling some of these claims. The audits relating to tax years from 1999 to 2002 are currently underway and 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 the 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. Of special note however is the fact that GAS NATURAL has contested the tax claim before the competent appeals courts and expects to prevail.

Brazilian Tax Claims

In the second quarter of 2003 the Brazilian Tax Authorities handed down a ruling whereby the taxes on sales (PIS and COFINS) during different periods were not applicable to petroleum by-products for CEG (Compañía Estadual do Gas do Rio de Janeiro), and, accordingly, this company benefited from the tax credits generated in the amount of Brazilian Reales 99 million. However, in September 2005 the Tax Authorities, based on technical reports, ruled that gas was not a petroleum by-product. This affair is now in litigation and the Company estimates that there are solid arguments to support the administrative decision of 2003. This is why it has not set up a provision for possible losses.

Proceedings filed 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.

Note 37. Audit fees

The fees accrued in 2006 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 Euros 3,067 thousand (Euros 4,097 thousand in 2005).

Furthermore, the fees accrued in 2006 for other services provided to the Group by other companies using the PricewaterhouseCoopers mark total Euros 856 thousand (Euros 827 thousand in 2005).

Note 38. Environment

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 and thus contribute positively to the worrying phenomenon of Climate Change.

Thus, GAS NATURAL has established as one of its environmental objectives the steady increase in wind energy in its electricity mix in order to reduce green house gas emissions. As proof of this idea, this year we have incorporated several new wind farms into our electricity generation assets.

The renovation of the pipeline network and the use of the latest materials continue to be a major annual activity for the improvement of levels of emissions of methane gas. In this respect, and in collaboration with the

University of Zaragoza, we prepared and delivered a report entitled "Evaluation of Methane Emissions in the Spanish Distribution System" at the 23rd World Gas Congress" held in Amsterdam. This report includes the results of the analysis on emission factors in our distribution system, which has allowed us to improve and update the calculation method used to determine our methane emissions level.

In addition to these actions, the oldest vehicles in its fleet have also been replaced by ones that are more efficient and environment friendly, using natural gas for fuel.

In order to improve the control and management of energy and natural resources at its work centres, GAS NATURAL now has 35 buildings with tele-measured systems that 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.

The commitment of GAS NATURAL to the environment has led to the preparation of a study of solutions to integrate renewable energy and natural gas more efficiently, of special note being the following projects:

- GAS NATURAL, aware of the importance of the development of hydrogen as a future energy vector, is leading an initiative, in collaboration with other major national energy groups, to develop hydrogen production systems based on renewable energy or convention energy while reducing environmental impact notably.

- Adaptation of specific solutions for the use of natural gas as a fuel in the aviation-port sector and adaptations in order to implement this solution as an alternative in the fishing industry.

- Development of projects to obtain refrigeration through dual-effect absorption systems using solar energy, solving air conditioning needs using a fully renewable energy source and, also, reducing the problems of the saturation of the electricity distribution networks at peak times in summer months.

- Study of the use of biogas generated from solid urban waste.

- Development of projects to obtain refrigeration through dual-effect absorption systems using solar energy, solving air conditioning needs using a fully renewable energy source and, also, reducing the problems of the saturation of the electricity distribution networks at peak times in summer months.

As for the management of suppliers, we have increased the dissemination and promotion amongst our main contractors in Spain of the document prepared last year entitled "Best practices in environmental action in construction of distribution networks". The number of main contractors of the Group in Spain that have signed on to these best practices has increased. Thus, this year we have taken one more step, and are "monitoring" a sample of these contractors to verify their use of this document..

Special attention is merited by the advances in the projects under the Clean Development Mechanism (CDM), 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 13 projects, which are at different stages of development.

GAS NATURAL has continued to make contributions to the *Community Development Carbon Fund*, a fund answering to the World Bank that works on projects related to the development of production processes, education and health in underprivileged countries, and to the *Spanish Carbon Fund* promoted by the Spanish Ministry of the Environment. Moreover, during 2006, GAS NATURAL has announced its formal participation in the *Multilateral Carbon Credit Fund*.

All of these environmental activities in 2006 have involved total investments of Euros 36 million, which represents investment and accumulated depreciation carried on the balance sheet of Euros 338 million and euros 81 million, respectively.

GAS NATURAL has also undertaken sponsorship, training and environmental education and awareness activities.

The possible contingencies, indemnities and other environmental related risks in which the Group could incur are appropriately covered by civil liability insurance policies.

Emissions

Royal Decree Law 5/2004 was adopted on August 27, 2005 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 capable of generating 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 2006, 2006 and 2007 as follows:

($mtCO_2$)	2005	2006	2007
Assigned emission rights	3,592	4,168	5,853 (*)

(*) Pending transfer to the account of GAS NATURAL.

GAS NATURAL has made the necessary acquisitions to cover its deficit of CO_2 rights.

Note 39. Subsequent events

There have been no relevant events subsequent to the 2006 year end.

Appendix of companies of GAS NATURAL

Company	Country	Activity
Gas Natural Aprovisionamientos SDG, S.A.	Spain	Gas supply
Sagane, S.A.	Spain	Gas supply
Repsol-Gas Natural LNG, S.L.	Spain	Supply and transport
A.E.C.S. Vall d'Hebrón, A.I.E.	Spain	Cogeneration
La Energía, S.A.	Spain	Cogeneration
Sociedad de Tratamiento Hornillos , S.L.	Spain	Cogeneration
Tratamiento Almazán, S.L.	Spain	Cogeneration
UTE La Energía, SpA	Spain	Cogeneration
A.E.Hospital Universitario Trias Pujol	Spain	Cogeneration
A.E.Ciutat Sanitaria Bellvitge	Spain	Cogeneration
Sociedad de Tratamiento La Andaya, S.A.	Spain	Cogeneration
Central Térmica La Torrecilla, S.A.	Spain	Cogeneración
Congas Servizi Consorzio Gas Acqua Servizi, S.p.A.	Italy	Gas commercialisation
Gas Natural Commercialisation France, S.P.A.S.	France	Gas commercialisation
Gas Natural Vendita Italia, S.P.A.	Italy	Gas commercialisation
Natural Energy, S.A.	Argentina	Gas commercialisation
Gas Natural Comercial SDG, S.L.	Spain	Domestic gas commercialisation
Gas Natural Comercializadora, S.A.	Spain	Gas commercialisation and industrial electricity
CH4 Energía S.A. de C.V.	México	Gas commercialisation and transport
Transnatural S.R.L. de México	México	Gas commercialisation and transport
Gas Natural Servicios SDG, S.A.	Spain	Gas commercialisation, electricity and energy management
Gas Aragón, S.A. (1)	Spain	Distribution
Distribuidora Eléctrica Navasfrías, S.L.	Spain	Distribution of electricity
Eléctra de Abusejo, S.L.	Spain	Distribution of electricity
Gas Natural Distribución Eléctrica, S.A.	Spain	Distribution of electricity
Agragas, S.p.A.	Italy	Gas distribution
Ceg Río, S.A.	Brazil	Gas distribution
Comercializadora Metrogas, S.A. de CV	Mexico	Gas distribution
Companhia Distribuidora de Gás do Río de Janeiro, S.A.	Brazil	Gas distribution
Gas Galicia SDG, S.A.	Spain	Gas distribution
Gas Natural Andalucía, S.A.	Spain	Gas distribution
Gas Natural BAN, S.A.	Argentina	Gas distribution
Gas Natural Cantabria SDG, S.A.	Spain	Gas distribution
Gas Natural Castilla y León, S.A.	Spain	Gas distribution
Gas Natural Castilla La-Mancha, S.A.	Spain	Gas distribution
Gas Natural Cegas, S.A.	Spain	Gas distribution
Gas Natural Cundiboyacense, S.A. ESP	Colombia	Gas distribution
Gas Natural de São Paulo Sul, S.A.	Brazil	Gas distribution
Gas Natural del Oriente, S.A. ESP	Colombia	Gas distribution
Gas Natural Distribución SDG, S.A.	Spain	Gas distribution
Gas Natural La Coruña, S.A.	Spain	Gas distribution
Gas Natural México, S.A. de CV	Mexico	Gas distribution
Gas Natural Murcia SDG, S.A.	Spain	Gas distribution
Gas Natural Rioja, S.A.	Spain	Gas distribution
Gas Natural Transporte SDG, S.L.	Spain	Gas distribution
Gas Natural, S.A. ESP	Colombia	Gas distribution
Gas Navarra, S.A.	Spain	Gas distribution
Gasdotti Azienda Siciliana, S.p.A.	Italy	Gas distribution

(1) Results at September 2006.
(*) Equity adapted to IFRS-EU only for the purposes of consolidation of GAS NATURAL.

		Net Equity			
Consolidation method	% total Shareholding	Capital	Reserves	2006 Results	Interim dividend
I.G.	100.0	0.6	(14.2)	17.9	-
I.G.	100.0	94.8	14.2	137.8	-
I.P.	50.0	2.0	-	0.5	-
I.G.	81.3	1.7	0.1	(0.9)	-
I.G.	100.0	10.7	0.9	(0.2)	-
I.G.	80.0	1.2	1.1	0.2	-
I.G.	90.0	2.8	-	-	-
I.G.	100.0	1.4	-	0.3	-
I.P.	50.0	0.9	0.1	(0.2)	-
I.P.	50.0	0.8	(0.5)	(0.3)	-
I.P.	45.0	1.1	1.2	0.6	-
I.P.	50.0	1.2	-	-	-
I.G.	100.0	0.1	1.1	-	-
I.G.	100.0	-	(4.0)	2.0	-
I.G.	100.0	2.1	5.9	(4.5)	-
I.G.	72.0	-	1.5	1.7	-
I.G.	100.0	-	-	0.2	-
I.G.	100.0	2.4	29.7	33.8	-
I.P.	43.4	0.6	0,7	0,6	-
I.P.	43.4	10.3	(10.2)	(3.4)	-
I.G.	100.0	2.9	2.8	2.3	-
P.E.	35.0	5.9	16.8	9.4	-
I.G.	100.0	0.2	-	-	-
I.G.	100.0	0.1	-	-	-
I.G.	100.0	1.2	(0.4)	(0.3)	-
I.G.	90.0	-	35.2	(0.6)	-
I.G.	59.6	22.8	28.6	4.6	(2.2)
I.G.	86.8	128.1	(61.8)	2.2	-
I.G.	54.2	147.7	97.2	16.6	(21.2)
I.G.	62.0	32.6	5.4	0.2	-
I.G.	100.0	12.4	41.3	3.5	-
I.G.	50.0	214.7	(151.1)	4.2	(13.4)
I.G.	90.4	3.2	27.9	1.0	-
I.G.	90.1	6.3	78.5	15.9	-
I.G.	95.0	26.8	16.7	1.8	-
I.G.	99.7	25.5	67.9	5.9	-
I.G.	45,8	1,1	6,9	2,6	-
I.G.	100.0	346.4	(183.7)	2.1	(1.3)
I.G.	32.2	9.2	20.3	7.4	(9.5)
I.G.	100.0	101.0	1,005.1	269.1	(192.1)
I.G.	56.4	2.3	(0.4)	(0.5)	-
I.G.	86.8	470.7	(167.2)	2.6	-
I.G.	99.9	19.4	(2.4)	(3.1)	-
I.G.	87.5	2.7	8.9	2.3	-
I.G.	100.0	15.0	42.2	9.0	(6.6)
I.G.	59.1	10.9	146.4	52.0	-
I.G.	90.0	3.6	27.1	5.9	-
I.G.	90.0	0.5	23.0	(3.1)	-

Appendix of companies of GAS NATURAL (continued)

Company	Country	Activity
Gases de Barrancabermeja, S.A.	Colombia	Gas distribution
Nettis Gestioni, S.r.L.	Italy	Gas distribution
Normanna Gas, S.p.A.	Italy	Gas distribution
SCM s.r.l.	Italy	Gas distribution
Smedigas S.p.A.	Italy	Gas distribution
Portal Gas Natural, S.A.	Spain	E-Bussines
Petroleum Oil & Gas España, S.A.	Spain	Hydrocarbon exploitation
Gas Natural Capital Markets, S.A.	Spain	Finance
Gas Natural Finance, B.V.	Holland	Finance
Gas Natural International, Ltd.	Ireland	Finance
Kromschroeder, S.A. [2]	Spain	Meters
Torre Marenostrum, S.L.	Spain	Real estate
Lantarón Energía, S.L.	Spain	Electricity generation
EcoEléctrica, L.P.	Puerto Rico	Electricity generation
Aplicaciones y Proyectos energéticos, S.A.	Spain	Wind farms
Boreas Eólica 2, S.A.	Spain	Wind farms
Boreas Eólica, S.A.	Spain	Wind farms
Corporación Eólica de Zaragoza, S.L	Spain	Wind farms
Desarrollo de Energias Renovables Castilla La Mancha, S.A.	Spain	Wind farms
Desarrollo de Energías Renovables, S.A.	Spain	Wind farms
Energy Way Produçao de Energía Lda	Portugal	Wind farms
Molinos de Valdebezana, S.A.	Spain	Wind farms
Montouto 2000, S.A.	Spain	Wind farms
Explotaciones Eólicas Sierra de Utrera, S.L.	Spain	Wind farms
Los Castrios, 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, SA	Spain	Wind farms
Molinos de la Rioja, S.A.	Spain	Wind farms
Molinos de Linares, S.A	Spain	Wind farms
Enervent, S.A. [3]	Spain	Wind farms
Burgalesa de Generación Eólica, S.A.[3]	Spain	Wind farms
Sistemas Energéticos La Muela, S.A. [2]	Spain	Wind farms
Sistemas Energéticos Mas Garullo, S.A. [2]	Spain	Wind farms
Gas Natural do Brasil, S.A.	Brazil	Generation and commercialisation of electricity
Gas Natural Electricidad SDG, S.A.	Spain	Generation and commercialisation of electricity
Iradia Climatización, AIE	Spain	Energy management
UTE GNS-Dalkia Energia	Spain	Energy management
Gas Natural Informática, S.A.	Spain	IT
Natural Servicios, S.A.	Argentina	Gas installation
Gas Natural Exploración, S.L.	Spain	Research and exploration of hydrocarbons
El Andalus LNG SPA	Argelia	Liquefaction
Gas Natural Rigassificazione Italia, S.P.A.	Italy	Gas regasification
Natural Re, S.A.	Luxemburg	Insurance
Adm. de Servicios de Energía México, S.A. de CV	Mexico	Services
Compañía Auxiliar de Industrias Varias, S.A.	Spain	Services
Energía y Confort Administración de Personal, S.A. de CV	Mexico	Services
Gas Natural Servicios, S.A. de C.V.	Mexico	Services

[2] Results at October 2006.
[3] Results at November 2006.
(*) Equity adapted to IFRS-EU only for the purposes of consolidation of GAS NATURAL.

		Net Equity			
Consolidation method	% total Shareholding	Capital	Reserves	2006 Results	Interim dividend
I.G.	32.2	1.3	1.4	0.3	-
I.G.	100.0	0.1	1.9	1.0	-
I.G.	90.0	0.1	28.7	(0.3)	-
I.G.	100.0	0.8	-	0.3	-
I.G.	100.0	0.6	20.8	(0.6)	-
I.G.	100.0	8.0	0.5	0.2	-
I.G.	100.0	1.3	13.7	(1.8)	-
I.G.	100.0	0.1	0.9	-	-
I.G.	100.0	-	2.3	0.4	-
I.G.	100.0	25.4	11.9	0.7	-
P.E.	43.0	0.7	10.4	0.5	-
P.E.	45.0	5.3	15.7	-	-
I.G.	100.0	-	-	-	-
I.P.	47.5	63.2	(7.0)	51.4	(12.1)
I.G.	100.0	0.1	-	-	-
I.G.	90.0	2.6	4.5	2.0	-
I.G.	99.5	5.2	5.1	2.0	-
I.G.	68.0	2.5	0.2	1.0	-
I.G.	100.0	0,1	-	-	-
I.G.	100.0	42.2	121.3	12.8	(2.7)
I.G.	100.0	-	-	-	-
I.G.	59.7	0.1	-	-	-
I.P.	49.0	6.0	0.6	2.4	-
I.P.	50.0	2.7	2.8	4.0	-
I.P.	33.3	2.2	-	1.0	-
I.P.	50.0	9.9	25.8	12.2	-
I.P.	36.3	16.5	1.2	7.2	(1.5)
I.P.	50.0	10.3	8.3	9.1	-
I.P.	33.3	3.0	2.7	1.5	-
I.P.	25.0	0.1	-	-	-
P.E.	26.0	2.4	(0.8)	1.8	-
P.E.	24.0	1.5	0.3	0.2	-
P.E.	20.0	3.1	1.7	2.4	-
P.E.	18.0	1,5	0,7	1,8	-
I.G.	100.0	0.6	(1.8)	0.1	-
I.G.	100.0	32.8	(0.6)	(6.0)	-
I.G.	100.0	0.3	0.1	-	-
I.P.	50,0	-	(0.3)	-	-
I.G.	100.0	19.9	4.9	0.8	-
I.G.	72.0	2.1	(1.2)	0.3	-
I.G.	100.0	15.4	(0.1)	(4.9)	-
I.P.	32.0	79.7	(2.1)	(0.6)	-
I.G.	100.0	-	-	-	-
I.G.	100.0	3.1	(0.5)	3.4	-
I.G.	86.8	-	(0.3)	-	-
I.G.	100.0	0.3	1.4	-	-
I.G.	87.0	-	0.2	(0.4)	-
I.G.	100.0	6.1	(3.1)	1.8	-

Appendix of companies of GAS NATURAL (continued)

Company	Country	Activity
Gas Natural Serviços, S.A.	Brazil	Services
Gas Natural Soluciones, S.L.	Spain	Services
Portal del Instalador, S.A.	Spain	Services
Serviconfort Colombia, S.A.	Colombia	Services
Sistemas de Administración y Servicios, S.A. de C.V.	Mexico	Services
Buenergía Gas & Power, Ltd.	Cayman I.	Holding company
Gas Natural Corporación Eólica, S.L.	Spain	Holding company
Gas Natural Internacional SDG, S.A.	Spain	Holding company
Gas Natural Italia SpA	Italy	Holding company
Gas Natural Puerto Rico, Inc	Puerto Rico	Holding company
Gas Natural Argentina SDG, S.A.	Argentina	Holding company
Holding Gas Natural, S.A.	Spain	Holding company
Invergas Puerto Rico, S.A.	Spain	Holding company
Invergás, S.A.	Argentina	Holding company
La Propagadora del Gas, S.A.	Spain	Holding company
Gas Natural Eólica, S.A.	Spain	Holding company
EcoEléctrica Holding, Ltd	Cayman I.	Holding company
EcoEléctrica Limited	Cayman I.	Holding company
Gas Natural Distribuzione S.p.A.	Italy	Holding company and gas distribution
Desarrollo del Cable, S.A.	Spain	Telecommunications
Europe Maghreb Pipeline, LTD.	UK	Gas transport
Metragaz, S.A.	Morocco	Gas transport

(*) Equity adapted to IFRS-EU only for the purposes of consolidation of GAS NATURAL.

		Net Equity			
Consolidation method	% total Shareholding	Capital	Reserves	2006 Results	Interim dividend
I.G.	100.0	1.7	0.4	0.5	-
I.G.	100.0	6.2	3.3	0.1	-
I.G.	75.0	1.3	(0.2)	0.2	-
I.G.	100.0	0.2	0.1	0.5	-
I.G.	87.0	-	0.2	-	-
I.G.	95.0	0.1	(76.8)	10.5	-
I.G.	100.0	5.5	(2.6)	1.2	-
I.G.	100.0	349.5	4.4	15.3	-
I.G.	100.0	0.1	0.1	0.2	-
I.G.	100.0	1.5	(0.4)	(0.3)	-
I.G.	72.0	105.0	(23.4)	-	-
I.G.	100.0	0,3	0,2	-	-
I.G.	100.0	5.1	(1.6)	(0.8)	-
I.G.	72.0	48.9	60.6	-	-
I.G.	100.0	0.2	1.2	0.1	-
I.G.	100.0	6.0	0.2	2.3	(1.6)
I.P.	47.5	63.2	4.0	15.8	(20.4)
I.P.	47.5	0.6	-	0.2	-
I.G.	100.0	4.7	119.1	(4.2)	-
I.G.	100.0	21.1	20.5	8.1	-
I.G.	72.6	0.1	57.6	115.1	(50.8)
I.G.	72.4	3.4	0.9	0.5	-

Directors' Report

Consolidated Directors' Report

1. Evolution of the business

Analysis of 2006

Net profit for 2006 totalled Euros 855 million, a 14.1% increase on the previous year.

Consolidated Ebitda has increased 25.9% on last year. The gas supply and commercialisation activity and the electricity business in Spain have been the main growth drivers.

Gas supply and commercialisation in Spain and abroad and the commercialisation of other products and services related to retail commercialisation in Spain has reached an Ebitda of Euros 220 million, tripling last year's figure.

Ebitda in the electricity business in Spain (generation and commercialisation) reached Euros 259 million, which represents an increase of 188.2%, which has been due to the boost in generation - due to the start up of the three 400 MW units at the Cartagena plant at the beginning of the year - and the temporary, selective abandonment of electricity commercialisation.

The electricity generated in Spain has risen to 16,987 GWh (+ 106.3%). The quota of electricity generation in Spain of GAS NATURAL in the ordinary market system has increased up to 7.9%.

The gas distribution activity in Latin America continues to grow organically and has increased its Ebitda by 21.9% to Euros 386 million. Brazil has become consolidated as the main driver behind this growth.

GAS NATURAL has exceeded the figure of 10.7 million gas distribution supply points with an increase of 483,000 points in the last twelve months, which represents growth of 4.7%.

Main financial aggregates

	2006	2005	%
Net sales	10,348	8,527	21.4
Ebitda	1,912	1,519	25.9
Operating income	1,263	969	30.4
Net profit attributable to equity holders of the Company	855	749	14.1
Tangible investments	1,057	1,125	(6.1)
Net financial debt (at 31/12)	3,091	3,615	(14.5)

Main financial aggregates

	2006	2005	%
Gas distribution (GWh):	432,954	422,912	2.4
Spain:	258,758	254,774	1.6
Tariff gas sales	44,660	51,121	(12.6)
TPA	214,098	203,653	5.1
Latin America:	171,750	165,408	3.8
Tariff gas sales	106,849	99,891	7.0
TPA	64,901	65,517	(0.9)
Italy:	2,448	2,730	(10.3)
Tariff gas sales	2,347	2,652	(11.5)
TPA	101	78	29.5
Gas supply (GWh):	294,451	305,324	(3.6)
Spain [1]	251,410	259,649	(3.2)
International	43,041	45,675	(5.8)
Gas transportation - EMPL (GWh)	129,499	145,923	(11.3)
Distribution network (km):	104,528	100,150	4.4
Spain	42,364	39,611	7.0
Latin America	58,152	56,763	2.4
Italy	4,012	3,776	6.3
Distribution connections, ('000) (at 31/12):	10,662	10,179	4.7
Spain	5,435	5,134	5.9
Latin America	4,907	4,757	3.2
Italy	320	288	11.1
Contracts per customer in Spain (at 31/12)	1.43	1.47	(2.7)
Electricity generated (GWh):	19,514	10,466	86.4
Spain	17,831	8,904	-
America	1,683	1,562	7.7
Installed capacity (MW):	3,440	3,373	2.0
Spain	3,169	3,102	2.2
America	271	271	-

[1] Does not include exchange operations with energy companies.

Sales

	2006	% total	2005	%/total	% 2006/2005
Gas Distribution	3,875	37.5	3,537	41.5	9.6
Spain	2,154	20.8	1,993	23.4	8.1
Latin America	1,557	15.1	1,420	16.6	9.7
Italy	164	1.6	124	1.5	32.0
Electricity	1,507	14.5	1,059	12.4	42.3
Spain	1,348	13.0	926	10.9	45.5
Puerto Rico	159	1.5	133	1.6	19.1
Upstream & Midstream	285	2.8	262	3.1	8.7
Wholesale & Retail	6,346	61.3	5,774	67.7	9.9
Others	146	1.4	135	1.6	8.1
Consolidation adjustments	(1,811)	(17.5)	(2,240)	(26.3)	(19.2)
Total	**10,348**	**100.0**	**8,527**	**100.0**	**21,4**

Sales in 2006 exceeded Euros 10,000 million for the first time and total Euros 10,348 million, 21.4% higher than in 2005, due basically to increased business activity, particularly with respect to the increase in the electricity business in Spain by 45.5%.

Ebitda (¹)

	2006	%total	2005	%total	% 2006/2005
Gas Distribution	1,228	64.2	1,122	73.9	9.5
Spain	812	42.4	778	51.2	4.4
Latino America	386	20.2	317	20.9	21.9
Italy	30	1.6	27	1.8	10.3
Electricity	322	16.8	152	10.0	-
Spain	259	13.5	90	5.9	-
Puerto Rico	63	3.3	62	4.1	0.6
Upstream & Midstream	181	9.5	176	11.6	3.2
Wholesale & Retail	220	11.5	61	4.0	-
Others	(39)	(2.0)	8	0.5	-
Total	**1,912**	**100.0**	**1,519**	**100.0**	**25.9**

(¹) Ebitda = Operating income + Depreciation and amortization + Operating provisions.

Ebitda amounted to Euros 1,912 million in 2006, a 25.9% increase on last year.

The largest contribution to Ebitda is the regulated gas distribution activity as a whole (Spain, Latin America and Italy) which accounts for almost two thirds of the total (64.2%), and, in particular, gas distribution in Spain (42.4%).

The electricity business in Spain continues its stiff growth and accounts for 13.5% of the total.

Upstream and Midstream activities in Spain and abroad has grown heavily in 2006 and account for 11.5% of consolidated Ebitda.

Operating profit

	2006	%total	2005	%total	% 2006/2005
Operating profit	798	63.2	752	77.7	6.1
Spain	527	41.7	517	53.4	1.9
Latin America	271	21.5	229	23.6	18.4
Italy	-	-	6	0.7	-
Electricity	224	17.7	89	9.1	-
Spain	179	14.2	45	4.6	-
Puerto Rico	45	3.5	44	4.5	2.2
Upstream & Midstream	134	10.6	128	13.2	5.0
Wholesale and Retail	197	15.6	46	4.7	-
Others	(90)	(7.1)	(46)	(4.7)	-
Total	**1,263**	**100.0**	**969**	**100.0**	**30.4**

An 18% increase in depreciation and amortisation charges due to capital expenditure mainly in gas distribution networks and electricity generation, led to a 30.4% increase in operating income to Euros 1,263 million.

Financial results

The net financial expense in the period amounted to Euros 267 million, compared with Euros 221 million in 2005, due to the increase in net financial debt mainly due to the greater average cost of borrowing (+4.8%) and a slight increase in the average cost as a result of the greater weight of borrowing in Latin American currencies, and to the costs of the bank guarantee for the Endesa takeover bid.

The significant generation of cash has led to a reduction of net borrowing of Euros 524 million, dropping to Euros 3,091 million at the 2006 year end.

The financial instruments available at the year end exceed Euros 3,900 million.

The evolution of 2006 year end exchange rates against 2005 of borrowings in non-Euro currencies (mainly US Dollars and Mexican Pesos) has led to a decrease in net debt of Euros 131 million during the year.

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	Stable
Standard & Poor's	A+	A-1	Rating watch negative
Fitch	A+	F1	Rating watch negative

Share of profit of associates

The main items in this account relate to results from minority stakes in gas distribution companies in Spain (Gas Aragón), wind power companies, and the consolidation by equity accounting of the results of Enagás, S.A between January and September 2005. The stakes in Enagás, S.A. and Gas Natural de Álava as from October 1, 2005 and September 1, 2006, respectively, are no longer consolidated by equity accounting.

The results from the share in profit of associates in 2006 total Euros 5 million against Euros 34 million in 2005. The decrease in this result is mainly due to the deconsolidation of Enagás as from October 1, 2005.

Gain on sales of associates

Disposals of instruments in associates and other investments provided a net gain of Euros 230 million in 2006, compared with Euros 286 million in 2005.

This result is due basically to the divestment in 2006 of 7.8% of Enagás, S.A. It also includes the results from the sale in November of the stake in Gas Natural de Álava (10%).

The shareholding in Enagás, S.A. at December 31, 2006 is 5%. GAS NATURAL has completed its reduction of its holdings as per current legislation in force.

Corporate income tax

The corporate income tax expense totalled Euros 302 million, i.e. an effective tax rate of 24.6%, compared with 22.6% in 2005.

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.

Investments

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 (owned 54.2%) and CEG Rio (owned 59.6%), as well as other companies in Spain.

Income attributed to minority interests in 2006 amounted to Euros 74 million, a decrease of Euros 4 million due mainly to a lower contribution from sub-group of investee companies in Argentina and Brazil.

Investments

Investments totalled Euros 1,164 million in 2006, 21.6% lower than in 2005, basically due to a reduction in financial investments.

The breakdown of investments by type is as follows:

	2006	2005	%
Investments in tangible assets	1,057	1,125	(6.1)
Investments in intangible assets	57	63	(9.6)
Financial investments	50	296	(83.0)
Total investments	**1,164**	**1,484**	**(21.6)**

Capital expenditure totalled Euros 1,057 million, a 6.1% decrease, basically because of the completion and start up of the combined 1,200 MW cycle plant in Cartagena, which was in construction in 2005.

The financial investments for the year include the full acquisition of Petroleum Oil & Gas España in March 2006, while last year the main acquisiton was DERSA.

The breakdown of capital expenditure by line of business is as follows:

	2006	2005	%
Distribution:	591	611	(3.3)
Spain	412	354	16.4
Latin America	113	191	(40.6)
Italy	66	66	(0.9)
Electricity:	314	450	(30.3)
Spain	306	446	(31.5)
Puerto Rico	8	4	-
Gas:	123	33	-
Up & Midstream	109	17	-
Wholesale & Retail	14	16	(16.0)
Rest	29	31	(4.6)
Total capital expenditure	**1,057**	**1,125**	**(6.1)**

Investment in gas distribution in Spain has totalled Euros 591 million, 3.3% lower than last year, although, on the one hand, the investment in distribution in Spain has grown by 16.4%, as a result of the development of the gas network, on the other hand, investment in distribution in Latin America has fallen by 40.6%, due mainly to the slow down of activity in Mexico.

Capital expenditure in electricity activity in Spain has dropped by 31.5%, as a result of the lower volume of assets under construction in 2006 (1,200 MW) against 2005 (2,000 MW).

The investment in gas distribution in Spain represents 39% of the total capital expenditure of GAS NATURAL. This investment has been basically allocated to recruiting new supply points, with the start up of 2,753 km, of the new network in the last twelve months, which is a growth rate of 7%.

28.9% of capital investments in tangible assets in 2006 relates to electricity activity in Spain, mainly the construction of the combined cycle plant in Plana del Vent (800 MW) and Malaga (400 MW).

Investment in Up & Midstream reflects the beginning of the integrated LNG project of Gassi Touil and the development of Petroleum Oil & Gas España.

Tangible and intangible assets have increased by Euros 390 million in 2006, and now total Euros 9,294 million at December 31, 2006.

The breakdown of this figure by line of business is as follows:

	At 31.12.06	**%**
Distribution:	5,762	62.0
Spain	3,645	39.2
Latin America	1,681	18.1
Italy	436	4.7
Electricity:	2,342	25.2
Spain	2,140	23.0
Puerto Rico	202	2.2
Gas:	998	10.7
Up & Midstream	900	9.7
Wholesale & Retail	98	1.0
Rest	192	2.1
Total net tangible and intangible assets	**9,294**	**100.0**

Overall intangible and tangible fixed assets included construction in progress worth Euros 623 million, of which Euros 436 million relate to the electricity business (construction of CCGT plants), Euros 74 million to Up & Midstream (development of Gassi Touil) and Euros 61 million to Latin America.

Gas distribution accounts for the large part of GAS NATURAL's net tangible and intangible assets, 62%.

Intangible and tangible fixed assets in Latin America amount to Euros 1,681 million, 18.6% 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

	2006	2005	%
Net sales	2,154	1,993	8.1
Purchases	(928)	(784)	18.3
Personnel costs, net	(62)	(76)	(18.6)
Other expenses/income	(352)	(355)	(0.8)
Ebitda	**812**	**778**	**4.4**
Charge for depreciation and amortisation	(273)	(256)	6.6
Variation in operating provisions	(12)	(5)	-
Operating income	**527**	**517**	**1.9**

Net sales in gas distribution business in Spain totalled Euros 2,154 million, 8.1% more than in 2005.

Ebitda amounted to Euros 812 million, up 4.4% on the figure reported in 2005, in line with the increase in regulated remuneration in 2006. Ebitda has been affected by a slower in growth in distributed gas and in the number of supply points, which led to an adjustment to the expected remuneration for 2006 (Euros 25 million). 2006 has been the second warmest year since 1980, and it must also be compared to 2005, which was slightly colder than usual.

The reduction in personnel expenses was due to the fact that capitalised in-house work on fixed assets was higher in 2006 than 2005, related to increased capital expenditure (+16.4%). This figure is stated net in the consolidated income statement under IFRS.

As a result of a 6.6% increase in depreciation and amortisation charges and of lower provisions, operating income increased by 1.9%.

Main aggregates

The main aggregates in gas distribution in Spain were as follows:

	2006	2005	%
Gas activity sales (GWh)	258,758	254,774	1.6
Tariff gas sales	44,660	51,121	(12.6)
Residential	21,367	26,639	(19.8)
Industrial	21,148	13,303	59.0
Electricity	2,145	11,179	(80.8)
TPA	214,098	203,653	5.1
Distribution network (km)	42,364	39,611	7.0
Change in distribution connections ('000)	301	325	(7.4)
Distribution connections (000) (at 31/12)	5,435	5,134	5.9

Regulated gas sales in Spain, which encompass regulated-rate gas distribution and supply as well as third-party access (TPA), amounted to 258,758 GWh, i.e. up 1.6% on last year.

Gas sales to the regulated residential market decreased by 19.8% due to progressive customer migration to the liberalised segment (to GAS NATURAL's supply companies and to third-party companies) and to milder winter temperatures compared to last year. The level of loyalty of in-house supply companies is 76%.

Currently, the percentage of sales in the de-regulated gas market versus the total market have reached 85.9% against 83.2% last year. However, the sales of gas in the rated industrial market have increased by 59% on lat year, mainly due to the return to the regulated market of several industrial clients with average consumption levels for reasons of market pricing. Finally, the ITC 4101/2005 stipulated that at 30 June thermal power plants had to be supplied by the de-regulated market, and were thus forced out of the regulated market.

Third-party access (TPA) increased by 5.1% to 214,098 GWh, of which 96,221 GWh (+3.1%) related to services to third parties, and the remaining 117,877 GWh (+ 6.8%) to de-regulated commercialisation by GAS NATURAL, which is the main operator in the liberalised gas market as well.

The distribution network was extended by 2,753 km in 2006 to 42,364 km, a year-on-year increase of 7%. In 2006, the number of municipalities connected to the gas network was increased by 56 reaching 870. Gassification agreements have also been signed with various municipalities in Spain, which will materialised in the next few quarters.

GAS NATURAL's number of individual supply points continued to grow rapidly, increasing by 301,000 in the last 12 months. At December 31, 2006, there were a total of 5,435,000 gas distribution connections in Spain, a 5.9% increase on 2005.

On December 30, 2006, Ministerial Order ITC 3993/2006 was published, updating the remuneration for 2007 for the regulated gas activities in Spain, in line with the framework approved in February 2002.

The Order assigns Euros 1,085 million to GAS NATURAL as remuneration for distribution in 2007, i.e. a 5.2% increase on 2006 (Euros 1,031 million). The 2007 regulated income has been reduced as the result of adjustments to 2005 and 2006 remuneration, due in turn to a decrease in expected activity, which has been the result of a milder climate and the shrinking of demand of certain consumer sectors.

The historical remuneration for secondary transportation was updated in line with 85% of the IPH and has reached Euros 19 million.

Distribution Latin America

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

Results

	2006	2005	%
Net sales	1,557	1,420	9.7
purchases	(960)	(897)	7.0
Personnel costs, net	(61)	(53)	14.1
Other expenses/income	(151)	(153)	(1.6)
Ebitda	**386**	**317**	**21.9**
Charge for depreciation and amortisation	(91)	(78)	17.3
Variation in operating provisions	(24)	(10)	-
Operating income	**271**	**229**	**18.4**

In 2006 gas distribution earnings continued to consolidate growth in Latin America. Net sales totalled Euros 1,557 million, a 9.7% increase.

Ebitda amounted to Euros 386 million, an increase of 21.9%, and euros 69 million in absolute terms on last year. The main reasons for this growth are:

- Improved operating income in all countries, with a contribution to Ebitda of Euros 61 million, due to the general growth in activity.

- Appreciation by local currencies, contributing Euros 8 million to Ebitda.

Excluding the exchange rate fluctuations, Ebitda grew 19.3%.

We should highlight the aggregates for Brazil, which represents 41.3% of the total, with Ebitda of Euros 160 million and a growth of 38.6% on last year (+27.4%, excluding exchange rate variations).

Net borrowings at December 31, 2006 of the gas companies in Latin America total Euros 909 million, a reduction of Euros 77 million against last year.

The main physical aggregates

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

	2006	2005	%
Gas activity sales (GWh):	171,750	165,408	3.8
Tariff gas sales	106,849	99,891	7.0
TPA	64,901	65,517	(0.9)
Distribution network (km)	58,152	56,763	2.4
Change in distribution connections ('000)	150	253	(40.7)
Distribution connections (000) (at 31/12)	4,907	4,757	3.2

Sales in the gas activity in Latin America, which include both gas sales and third-party access (TPA) services, totalled 171,750 GWh, a 3.8% increase year-on-year. Gas sales have increased by 7% to 106,849 GWh, while TPA services have decreased slightly by 0.9%.

Colombia continues to be of special note with an increase of 21.1% in sales of gas and double digit growth in each of its market segments.

The distribution network was extended by 1,389 km in the last four months to 58,152 km at December 31, 2006, a year-on-year increase of 2.4%. The development of new networks was lower than in previous years since the commercial goal is to saturate the existing network.

There were a total of 4,907,000 gas distribution connections at December 31, 2006. GAS NATURAL's number of individual distribution connections continued to grow rapidly, rising by 150,000 year-on-year, in spite of the temporary difficulties in terms of competitivity in Brazil and Mexico and the high level of saturation in Colombia.

The main physical aggregates by country in 2006 are as follows:

	Argentina	Brazil	Colombia	México	Total
Gas activity sales (GWh)	69,200	45,274	13,557	43,719	171,750
Change vs. 2005 (%)	(0.2)	4.6	21.1	5.2	3.8
Distribution network	21,486	5,387	16,050	15,229	58,152
Change vs. 31/12/05 (%)	1.2	7.6	3.6	1.3	2.4
Distribution connections ('000 at 31/12/05)	1,322	753	1,712	1,120	4,907
Change vs. 31/12/05 ('000)	33	8	98	11	150

Highlights:

- On July 20, 2005, Gas Natural BAN 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 Official State Gazette on April 10, 2006 carries the ratification of the memorandum agreement by Argentina's President. It is now pending application by the regulator.

  This tariff increase has been recorded in the sales of gas of Gas Natural BAN since November 1, 2005.

- In Brazil, the competitiveness of vehicular gas compared to alternative fuels has raised sales in this market by 22% over 2005, and now represents 23% of total sales. Furthermore, GAS NATURAL continues its major commercial operations in the country, which are having a greater impact on the industrial market, and have led to growth in sales of 17.9% in São Paulo. On the other hand, the write off of debtor accounts has given rise to a decrease in the growth rate of supply points.

  The growth in gas distribution activity, the improvement in industrial margins and a greater efficiency in cost savings, with a growth in expenses far below the country's inflation rate, has raised Ebitda in terms of local currency 27.4% higher than last year.

- Double-digit growth in Colombia in all markets has continued (+21.1%). The customer base has increased by 6.1% on 2005, reaching 1,712,000 supply points in spite of the high level of saturation in Bogotá.

  Of special note is the 25.7% growth in the industrial market and 53.1% growth in the vehicular natural gas market, as 32,685 vehicles have converted to natural gas in 2006, an increase of 108%. There has also been stiff growth in the number of service stations, from 38 in 2005 to 75 at the end of 2006.

- Finally, in Mexico, gas sales grew by 5.2%, basically due to increased sales in the industrial market as result of the substitution of coke and oil fuel and to the TPA services (+6%). This effect was offset in part by the decrease in gas sales in the residential market, due to the increase in the cost of gas that is pegged to prices in the southern USA. The federal government has set up measures to palliate this effect which will be in effect until September 30, 2006. Other measures to promote the consumption of natural gas will be studied in the future.

The improvement in efficiency related to cost savings is the driver behind the growth in Ebitda of 5.3% on last year.

Distribution in Italy

Results

	2006	2005	%
Net sales	164	124	32.0
Purchases	(110)	(77)	43.0
Personnel costs, net	(13)	(11)	16.2
Other expenses/income	(11)	(9)	23.6
Ebitda	**30**	**27**	**10.3**
Charge for depreciation and amortisation	(28)	(21)	35.4
Variation in operating provisions	(2)	-	-
Operating income	**-**	**6**	**(100.0)**

Gas distribution in Italy contributed Euros 30 million in Ebitda (+10.3%), showing that GAS NATURAL's operations are being consolidating there.

Expansion operations in the regions of Reggio Calabria and Catania have given rise to major investments (236 km. of new distribution network) and consequently, higher depreciation and amortisation charges, which explains the decrease in operation income.

Main aggregates

	2006	2005	%
Gas activity sales (GWh):	2,448	2,730	(10.3)
Tariff gas sales	2,347	2,652	(11.5)
TPA	101	78	29.5
Distribution network (km)	4,012	3,776	6.3
Distribution connections (000) (at 31/12)	320	288	11.1

Gas distribution in Italy totalled 2,448 GWh, a decrease on 2005 of 10.3% due mainly to higher temperatures during the year.

Commercial activity was consolidated in 2006 with a growth of 32,000 in the number of supply points year-on-year and intense activity in the Palermo, Catania and Reggio Calabria regions.

Electricity in Spain

This area includes power generation in Spain (CCGT plants, wind farms and cogeneration), electricity trading in the wholesale market, and the supply of electricity in the liberalised market in Spain.

Results

	2006	2005	%
Net sales	1,348	926	45.5
Purchases	(958)	(788)	21.6
Personnel costs. Net	(8)	(7)	18.2
Other expenses/income	(123)	(41)	-
Ebitda	**259**	**90**	**-**
Charge for depreciation and amortisation	(77)	(44)	76.3
Variation in operating provisions	(3)	(1)	-
Operating income	**179**	**45**	**-**

Net electricity sales totalled Euros 1,348 million, an increase of 45.5%.

The average annual price in 2006 is Euros 52.97/MWh. The pool prices in the fourth quarter of the year have decreased steadily and considerably, reaching the lowest pool price in the last 24 months. This has been due, amongst other reasons, to the major hydraulic and wind power effects and moderate demand.

Ebitda has risen to Euros 259 million in 2006, almost tripling last year's figure.

Main aggregates

The key figures of GAS NATURAL's electricity activities in Spain are as follows:

	2006	2005	%
Installed electricity capacity (MW):	3,169	3,102	2.2
CCGT	2,800	2,800	-
Wind	347	279	24.4
Cogeneration	22	23	(4.3)
Electricity generated (GWh):	17,831	8,904	-
CCGT	16,987	8,234	-
Wind	694	528	31.4
Cogeneration	150	142	5.6
Contracted electricity (GWh/year)	210	1,688	(87.6)
Electricity sales (GWh):	2,761	6,296	(56.1)
Residential	1,931	2,028	(4.8)
Industrial	830	4,268	(80.6)

A total of 17,831 GWh were generated and sold - mostly to the wholesale market - in 2006, i.e. doubling than figure for 2005, thanks to the start-up of the combined cycle plant in Cartagena (1,200 MW) in the first quarter, together with favour pool prices.

CCGT plants generated 16,987 GWh in 2006. This output had a 7.9% share of the "ordinary regime" power generation market in 2006.

The plants attained 6,071 equivalent hours of operation at full load in 2006, representing a load factor of over 69%.

Electricity supply in the liberalised market continued to be penalised since it had to compete with the regulated tariff (which is considerably lower), so losses are incurred when the market cost exceeds the tariff. Therefore, a large number of supply companies are streamlining their customer portfolio in the liberalised market since customers are returning to the regulated market.

GAS NATURAL has maintained the trend established in the second half of 2005 and has considerably reduced its portfolio of contracts and has temporarily abandoned the commercialisation of electricity until market conditions become rationalised.

Along these lines, industrial electricity sales and residential sales have decreased by 80.6% and 4.8%, respectively, against 2005.

GAS NATURAL has 2,800 MW of operational combined cycle power production capacity, another 1,200 MW under construction (Plana del Vent and Malaga) and more than 800 MW at an advanced stage of permit obtainment, all in line with the objective of having 4,800 MW of CCGT capacity by 2008.

After its acquisitions of wind farms through its subsidiary Gas Natural Corporación Eólica and completing its own developments, GAS NATURAL now has 721 MW of gross installed wind power capacity (347 MW of attributable capacity) and over 900 MW of wind power capacity under development. Net attributable wind capacity production of the wind farms in which GAS NATURAL has a stake totals 694 GWh in 2006.

At the end of the fourth quarter of 2006, 31 MW (15.5 MW attributable capacity) are now in an advanced stage of construccion. GAS NATURAL is fast becoming one of the main players in the renewable energy business, specifically in wind energy.

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

	2006	2005	%
Net sales	159	133	19.1
Purchases	(81)	(59)	36.0
Personnel costs, net	(3)	(3)	14.8
Other expenses/income	(12)	(9)	37.1
Ebitda	**63**	**62**	**0.6**
Charge for depreciation and amortisation	(18)	(16)	11.7
Variation in operating provisions	-	(2)	-
Operating income	**45**	**44**	**2.3**

GAS NATURAL's activities in Puerto Rico provided US$79 million in Ebitda, 6.5% more than in 2005.

Main aggregates

EcoEléctrica has a regasification 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 has sold 3,375 GWh net (1,603 GWh attributable to GAS NATURAL), growing by 8%, and with a load factor of 76%, i.e. better than the 70% registered in 2005.

Up & Midstream

This area includes the development of integrated LNG projects, hidrocarbon exploration, development and production, maritime transportation, and the operation of the Maghreb-Europe gas pipeline

Results

	2006	2005	%
Net sales	285	262	8.7
Purchases	(40)	(52)	(23.8)
Personnel costs, net	(4)	(2)	64.0
Other expenses/income	(60)	(32)	88.1
Ebitda	**181**	**176**	**3.2**
Charge for depreciation and amortisation	(47)	(48)	(1.9)
Variation in operating provisions	-	-	-
Operating income	**134**	**128**	**5.1**

Net sales in the Upstream + Midstream business totalled Euros 285 million, an 8.7% increase.

Ebitda amounted to Euros 181 million in 2006, 3.2% higher than in 2005, mainly due to the greater utilisation of the gas tanker ships during the year (97% vs. 78% in 2005), in spite of a decrease in activity in the transport of gas through the pipeline and an unfavourable dollar exchange rate.

Main aggregates

The main aggregates in international gas transportation are as follows:

	2006	2005	%
Gas transportation-EMPL (GWh):	129,499	145,923	(11.3)
Portugal	28,838	35,287	(18.3)
GAS NATURAL	100,661	110,636	(9.0)

The gas transportation activity conducted in Morocco through companies EMPL and Metragaz, represented a total volume of 129,499 GWh in 2006, an 11.3% decrease. Of that figure, 100,661 GWh were transported for GAS NATURAL through Sagane, and 28,838 GWh for Portugal and Morocco. The decrease in volume transported is due to the fall in demand as a result of the warm winter climate and the use of the flexibility in the pipeline natural gas contract.

In March 2006 GAS NATURAL acquired 100% of Petroleum Oil & Gas España, which is engaged in the exploration, develop and production of hydrocarbons in Spain and which has gas reserves mainly located in the Guadalquivir Valley. This company provides GAS NATURAL with the only known gas reserves in Spain and allows it to consolidate and increase its exploration and production know-how.

In the context of an agreement reached by GAS NATURAL and Repsol YPF of special note is the joint development of the exploitation project in Gassi Chergui (Algeria) and the integrated project for the exploration, production and commercialisation of LNG, in Gassi Touil (Algeria), which includes the construction of a natural gas liquefaction plant in Arzew. In May 2006 the company in charge of its construction and operation was incorporated under the name El Andalus LNG, in which GAS NATURAL has a 32% stake.

Drilling continues in Gassi Touil. Basic engineering for the overground facilities has been completed and the construction contracts will be awarded during 2007. Different alternatives are being used in relation to the construction of the liquefaction plant.

GAS NATURAL and Repsol YPF, through their joint venture (Stream), have entered into a master agreement with the Nigerian government to develop an LNG project there, including the future construction and operation of a liquefaction plant, with an initial capacity of 10 bcm of natural gas, and for the acquisition and development of gas reserves to feed the plant.

In April 2006 GAS NATURAL and Repsol YPF have signed a new "time charter" for a methane gas tanker with a 138,000 m^3 capacity that will be brought into service in 2009 for a period of 20 years. Stream has also launched a process for the call for bids for the construction of up to 11 methane gas tankers, in two stages, to cover the future needs arising from the projects underway. The first 5 gas tankers will being operating in 2010.

GAS NATURAL filed an application with the Italian Industry Ministry (Ministero delle Attività Produttive) for permission to develop projects to build two regasification plants in Trieste and Taranto. Both projects are similar, consisting of two tanks with a capacity of 150,000 m^3 and a regasification capacity of 8 bcm per year each. In the last quarter of 2006, the projects of GAS NATURAL have been included on the short list of urgent projects of the Italian Government.

Both projects would deliver major benefits to the regions in which they will be located, and have a favourable impact on their economic development.

Wholesale & Retail

This area includes wholesale and retail gas supply in Spain and other countries, and the supply of other related products and services in Spain.

The wholesale sales to other distributors correspond to those made to Enagás for the regulated gas distribution market.

Results

	2006	2005	%
Net sales	6,346	5,774	9.9
purchases	(5,981)	(5,609)	6.6
Personnel costs, net	(21)	(23)	(9.0)
Other expenses/income	(124)	(81)	53.5
Ebitda	**220**	**61**	**-**
Charge for depreciation and amortisation	(7)	(5)	26.9
Variation in operating provisions	(16)	(10)	52.4
Operating income	**197**	**46**	**-**

Net sales in the gas supply business totalled Euros 6,346 million, a 9.9% increase on 2005.

Ebitda amounted to Euros 220 million in 2006, compared with Euros 61 million in 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 cost of raw material has increased by 14%.

As a result of the measures adopted to encourage de-regulation, the recognition of raw material costs, the convergence towards international price levels, and the commercial policy followed by GAS NATURAL, the evolution of Ebitda is still in line with the positive evolution that began in 2005 with the optimisation of the gas contract portfolio in the de-regulated market and the pricing policy applied, adapting it to current market conditions.

Under Order ITC 3992/2006, which establishes the natural gas tariffs for 2007, includes 24% of liquefied natural gas in the raw material cost calculation structure in order to cover the stiff seasonality of the regulated market, mostly residential, which represents a new improvement in price formation in the liberalised market, given the growing importance of LNG world-wide. The same Order also stipulates the suppression of tariffs with a pressure greater than 4 bars as from July 1, 2007.

Main aggregates

The main aggregates in the procurement and supply activity are as follows:

	2006	2005	%
Gas supply (GWh)::	294,451	305,324	(3.6)
Spain:	251,410	259,649	(3.2)
Regulated market	58,678	59,985	(2.2)
Liberalized market:	192,732	199,664	(3.5)
GAS NATURAL (1)	160,624	152,966	5.0
Supply to third parties	32,108	46,698	(31.2)
International:	43,041	45,675	(5.8)
Supply	31,476	32,202	(2.3)
Supply Europe	11,565	13,473	(14.2)
Multiutility contracts (at 31/12)	2,137,135	2,249,137	(5.0)
Contracts per customer (at 31/12)	1.43	1.47	(2.7)

(1) Does not include exchange operations with energy companies.

A total of 294,451 GWh of natural gas was procured and supplied, i.e. 3.6% less than in 2005; 251,410 GWh were sold in the Spanish market (3.2%) and the other 43,041 GWh were sold in other countries (5.8%).

The gas procured for the regulated market is supplied to Enagás 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 in 2006 by 2.2% to 58,678 GWh, due to the greater market opening and a warm winter, which shrunk residential demand, and in spite of utilisation of the regulated market as a shelter for certain medium-sized industrial customers.

Sales to the liberalised market amounted to 192,732 GWh, a 3.5% decrease on 2005. Out of those sales, 160,624 GWh were to end customers of GAS NATURAL, mainly in the industrial market, as well as to CCGTs and the residential market, with a total growth of 5% on 2005. On the other hand, the supply to the liberalised market of other gas suppliers reached 32,108 GWh, a decrease of 31.2%.

In GAS NATURAL's multi-utility area, close to 72,000 gas maintenance contracts were added in 2006, making a total of 1,497,000 contracts in force at December 31, 2006.

At December 31, 2006 GAS NATURAL has 211 franchise centres, one company-owned centre and 672 associated centres, a powerful sales network that is unmatched in Spain, which has enabled it to commercialise products and services in addition to its gas sales, including financial services and the electricity sales, and it now has over 2,137,000 contracts, which puts the ratio of contracts per customer in Spain at 1.43.

2. Main risks related to the activity of GAS NATURAL

The activity of GAS NATURAL takes place in an environment in which there are risks that could affect its operations. These are as follows:

a) The activities of GAS NATURAL are subject to compliance with certain regulations. Infringement of these regulations and their amendments can adversely affect its activities, results and financial situation.

GAS NATURAL is obligated to comply with legal regulations governing the natural gas and electricity industries. Although GAS NATURAL believes that it substantially complies with current legislation, this legislation is subject to a complex series of regulations that both public and private bodies can interpret in ways that may differ from the criteria applied by GAS NATURAL.

In particular, the distribution of natural gas is a regulated activity in more countries in which GAS NATURAL undertakes this activity. During 2006 and 2005 the distribution of gas represented 37.5% and 41.5% of consolidated net turnover, respectively, of GAS NATURAL. Furthermore, the distribution of gas represented, respectively, 63.2% and 77.7% of operating income.

The adoption of changes in the regulated market for gas distribution could impact the current remuneration scheme, and the operating costs, capital, raw materials and efficiency incentives, and, moreover, the electricity business of GAS NATURAL is exposed to changes to or modifications of the current regulatory framework for the electricity sector. That is why any modification of the current regulatory framework for the natural gas and electricity sectors could adversely affect the activities, profits, grants and financial situation of GAS NATURAL.

b) Gas and electricity distribution is dependent on government concessions and authorizations and early termination of these concessions or authorizations by the granting authorities may prevent GAS NATURAL from realizing the full value of certain assets and cause to lose future profits without adequate compensation.

Given the regulated nature of part of the gas activity of GAS NATURAL (Spain, Latin America and Italy, as well as Morocco and Algeria) some of its activities are subject to obtaining the respective concessions and authorisations, which are generally long term. A usual practice, mainly in Latin American and Italy, is entering into contracts or distribution and transport agreements with the respective regulatory authorities. These agreements also assure the remuneration schemes and thus the return on investments made in these activities.

Moreover, these concessions are subject to early termination under certain circumstances. Generally, failure to comply with terms of the concession may result in the revocation of a concession and the enforcement of any guarantees or bonds that may have been given, which affect the return on investments of GAS NATURAL and its future profits.

c) GAS NATURAL's operations are subject to particular operational and market risks that could lead to an interruption in gas supply

GAS NATURAL's operations are subject to the inherent risks normally associated with such operations, including pipeline ruptures, damage to tankers or assets related to electricity generation, explosions, pollution, release of toxic substances, fires, adverse weather conditions, third party failure to fulfil contracts, sabotage and accidental damage to the gas distribution network. There are events that are unpredictable and cause interruptions in the gas supply. To make up for such interruptions and in order to ensure an uninterrupted gas supply, GAS NATURAL may have to purchase additional gas in the spot market; these acquisitions can be made under more onerous conditions. The spot market is a non-organized market aimed at the short-term acquisition of gas, primarily LNG.

GAS NATURAL enters into supply contracts. Therefore, gas availability could also be subject to risks of contract fulfilment from counterparties. Thus, it might be necessary to look for other sources of natural gas in the case of non-delivery from any of these sources, which could require payment of higher prices than those called for under such contracts. Furthermore, GAS NATURAL's financial position and operations could be adversely affected if a significant event occurs that is not fully covered by insurance.

GAS NATURAL could face claims for civil liability for damages caused by its ordinary operations, such as breakdowns in the distribution network, gas explosions or damages caused by methane gas tankers transporting natural gas. The filing of these claims could lead to the payment of indemnities under current legislation in those countries in which GAS NATURAL operates, whenever its insurance policies do not totally cover them.

d) Rising natural gas and crude oil prices could materially and adversely affect GAS NATURAL's results of operations and financial conditions.

A significant portion of GAS NATURAL's expenses are from the purchase of natural gas and LNG for the commercialization in the liberalized market and for supply in the regulated market. In addition, GAS NATURAL's CCGT plants operate on natural gas. Although the prices that GAS NATURAL may charge gas customers in Spain generally reflect the market price of natural gas, price fluctuations, in particular the prices applied in the regulated market, may not be adjusted to fully account for increased market prices in markets experiencing volatility. The prices for such commodities have historically fluctuated and it is not possible to know if prices will remain within projected levels. During the last few years, there have been significant changes in the price of crude oil, with a significant increase in price levels and their volatility. The annual average price of a barrel of Brent crude in December 2005 was $54.38, and increased by 19.8% in 2006 to a price of $65.14 in December 2006. Natural gas prices are also influenced by geopolitical factors. In addition to increased costs in gas and oil related operations, increased natural gas and oil prices will cause GAS NATURAL electricity generation costs to increase. An increase in natural gas prices would augment GAS NATURAL's operational costs and could have a materially adverse effect on GAS NATURAL's operating results.

e) GAS NATURAL may have to purchase an amount of natural gas that is greater than the operational needs pursuant to GAS NATURAL's take-or-pay contracts.

Most natural gas and LNG purchases are made pursuant to long-term contracts. These contacts have clauses that require GAS NATURAL to purchase a certain amount of natural gas annually take-or-pay. If GAS NATURAL does not request the minimum contracted amount, it is still contractually bound to pay for the minimum contracted amount, commonly known as take-or-pay clauses. These contracts have been established by considering reasonable forecasts of GAS NATURAL's future needs. Significant deviations of the expected levels of demand could lead to the obligation to execute purchases of natural gas greater than GAS NATURAL's needs, which could have an adverse effect on its cost of operations.

f) The activities of GAS NATURAL are subject to compliance with environmental protection legislation. The breach of these laws could adversely and significantly affect the business, profits and financial situation of GAS NATURAL.

GAS NATURAL and its 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 or cancellation; and

- The regulatory framework or its interpretation by the authorities may be modified or changed, which could lead to an increase in the costs terms; this would adversely and significantly affect the activities and projections of GAS NATURAL and its subsidiaries.

In the last few years environmental protection requirements in various countries in which GAS NATURAL operates have stiffened. Although GAS NATURAL has made the necessary investments to comply with applicable legislation, the modification and application of said legislation could represent a demand for greater investments in order to be compliant, which could adversely affect the activities, profits and financial situation of GAS NATURAL.

The changes in environmental protection legislation could increase the costs of the start ups of CCGT 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. In 2006 GAS NATURAL has made acquisitions of CO_2 emission rights in the market to cover its deficit of emission rights. The emission rights are negotiated on an organised market that has been operating since January 1, 2005 and are subject to price fluctuations. The purchase of these rights is a cost for GAS NATURAL. All of this could adversely and significantly affect the operations, profits and financial situation of GAS NATURAL. In 2006 Decree-Law 3/2006 was adopted. This law significantly affects the system of emission rights granted free of charge in 2005, although the regulations pursuant thereto have not yet been enacted.

g) GAS NATURAL's financial position and results of operations may be adversely affected if GAS NATURAL does not effectively manage its exposure to interest rate and foreign currency exchange rate risk.

GAS NATURAL is exposed to various types of market risk in the normal course of business, including the impact of interest rate changes and foreign currency exchange rate fluctuations. For this reason, GAS NATURAL actively manages these risks to seek to avoid a significant impact on its results. At December 31, 2006, Euros 1,446.8 million, or 46.8% of the net debt, was denominated in non-euro currencies, predominately dollars. GAS NATURAL's floating rate debt is principally subject to fluctuations in interest rates. The policy of GAS NATURAL is to hedge at least 30% of the fixed rate debt, which could be increased from time to time depending on interest rate forecasts for a particular jurisdiction. At December 31, 2006, the fixed rate debt represented 65.1% of net debt.

In addition, GAS NATURAL pays for most of its supply of natural gas and LNG in U.S. dollars, and its costs and revenues in Puerto Rico are denominated in U.S. dollars. An appreciation of the U.S. dollar against the euro could negatively impact its costs. As of December 31, 2006, approximately 21.5% of GAS NATURAL's revenues were from operations in Latin America and were generated in local currencies. To mitigate exposure to foreign exchange risk, GAS NATURAL funds investments in Latin America, Puerto Rico and the Maghreb-Europe pipeline in local currency and attempt to match dollar-denominated costs with dollar-denominated income, wherever possible. GAS NATURAL's risk management strategies may not be successful, however, in limiting exposure to changes in foreign currency exchange rates, which could adversely affect its financial position and results of operations.

h) The construction and development of new infrastructure projects may be adversely affected by factors that are beyond GAS NATURAL's control.

The construction and development of natural gas supply and distribution infrastructure and the exploration, production and sale of LGN, as well as electricity generation, transmission and distribution projects, can be time-consuming and highly complex.

In relation to these new projects, it is not possible to guarantee that these will not be:

- Delays in obtaining regulatory approvals, licenses or permits including environmental permits;

- Shortages or changes in the price of equipment, materials or labour;

- Opposition to energy infrastructure development, including in environmentally sensitive areas;

- Opposition of political groups;

- Adverse changes in the political and regulatory environment in the countries where GAS NATURAL operates;

- Expiration and/or renewal of existing interests in real property;

- Adverse weather conditions, which may delay the completion of gas pipelines, electricity plants or substations, or cases of force majeure natural disasters, accidents etc;

- The inability to obtain financing at rates that are satisfactory to GAS NATURAL;

- Service area competition; and

- Unfavourable movements in natural gas and liquids prices.

Any of these factors may cause delays in completion or commencement of operations of construction projects and may increase the cost of contemplated projects. If GAS NATURAL is unable to complete the projects contemplated, the costs incurred in connection with such projects may not be recoverable and their profitability may be negatively impacted. Additionally, these factors may impact GAS NATURAL's ability to achieve the target for gas supply consisting of equity gas, an objective GAS NATURAL aims to achieve through the agreement dated April 2005 with Repsol YPF, S.A.,

i) Demand for natural gas and electricity may be negatively impacted by weather, negatively affecting revenues and results of operations of GAS NATURAL.

The demand for electricity and natural gas is closely related to weather and average temperatures. Operations generally experience higher demand during the cold weather months of October through March in Europe and Mexico (or April through September in Argentina and, to a lesser extent, Brazil) and lower demand during the warm weather months of April through September in Europe and Mexico (or October through March in Argentina and, to a lesser extent, Brazil). A significant portion of consumption of natural gas in the winter months relates to the production of electricity and heat and, in the summer months, to the production of electricity for air conditioning. Revenues and results of operations of GAS NATURAL for natural gas distribution and commercialization operations would be negatively affected by periods of unseasonable warm weather during the autumn and winter months. Likewise, electricity demand may decrease during mild summers as a result of reduced demand for air conditioning, causing a negative impact on revenues of GAS NATURAL generated from electricity generation and commercialization businesses.

j) The success of GAS NATURAL's activities in the electricity sector depends, in part, on many factors beyond its control.

The success of GAS NATURAL's new electricity projects could be adversely affected by factors beyond GAS NATURAL's control, including the following:

- Increases in the cost of generation, including increases in fuel costs;

- The possibility of a reduction in the projected rate of growth in electricity usage as a result of factors such as regional economic conditions, excessive reserve margins and the implementation of energy conservation programs;

- Risks incidental to the operation and maintenance of electricity generation facilities;

- The inability of customer to pay amounts owed under electricity purchase agreements;

- The increasing price volatility due to deregulation and changes in commodity practices;

- Over-capacity of generation in markets served by the electricity plants GAS NATURAL owns or in which GAS NATURAL has an interest;

- Uncertain regulatory conditions resulting from the ongoing deregulation of the electric industry in the jurisdiction where GAS NATURAL operates; and

- Alternative sources and supplies of energy becoming available due to new technologies and interest in renewable energy and cogeneration.

k) Latin American subsidiaries of GAS NATURAL are subject to a variety of risks, including economic downturns and political risks.

GAS NATURAL derives and expects to continue to derive a significant portion of its revenues from the Latin American markets. Operations and investments in Latin America are exposed to various risks inherent in operating and investing this region. Operations in Latin America accounted for 20.2% of Ebitda for the year ended December 31, 2006 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;

- High levels of inflation;

- Devaluations or depreciation of local currencies;

- Exchange controls or restrictions on expatriation of earnings;

- High domestic interest rates;

- Changes in governmental 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 the most important Latin American markets, such as Brazil, Colombia, Mexico and Argentina.

In addition, revenues from operations of GAS NATURAL's Latin American subsidiaries, their market value and the dividends collected from these subsidiaries are exposed to risks in the countries in which they operate, which may materially and adversely affect demand, consumption and exchange rates.

For example, in the recent past, Group Argentine subsidiaries' financial condition and results of operations suffered due to adverse economic and political conditions prevailing in Argentina. In the face of this situation the Government repealed certain provisions of one of the Group subsidiary's concession contracts that permitted its distribution tariffs to be pegged to the dollar and provided for certain price indexation mechanisms, and in the Pesoification of all privately negotiated contracts and spot energy market prices. The Authorities froze gas transportation and distribution rates at 1999 year-end prices. Subsequently, the legal framework applicable to the transportation and distribution business was suspended, tariffs were obligatorily converted into pesos, and the inflation-related adjustment was revoked. In addition, such statute provided that a new legal framework for the industry would be renegotiated with the companies.
GAS NATURAL has now reached an agreement with the Government of Argentina, pending approval by Parliament, which stipulates a rate update.

GAS NATURAL cannot predict what result any further deterioration in economic and political conditions in Latin America, or other legal or regulatory developments relating to the countries in which GAS NATURAL operates in Latin America, including Argentina, could have on the business, financial condition or results of operations of GAS NATURAL and its subsidiaries.

3. Technology, research, innovation and environmental protection

The information on technology, research, innovation and environmental protection is included in note 38 to the Accounts.

4. Human Resources

At December 31, 2006 GAS NATURAL had a total of 6,686 employees, of which 3,822 were employed in Spain, 371 in the rest of Europe, 107 in the Maghreb, 2,308 in Latin America and 78 in Puerto Rico.

5. Risk management and derivative financial instruments

The information on risk management and derivative financial instruments is set out in notes 3 and 10 to the Accounts.

6. Future perspectives

2006 has been a year in which the Group has continued evolving in line with the directives set down in the Strategic Plan that is in force (SP 2004-2008).

Strategic Plan

The Strategic Plan of GAS NATURAL for 2004-2008 includes investments totalling Euros 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 by 2008 and to consolidate GAS NATURAL's 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.

Outlook for 2007

2007 should be another year of progress both in terms of results and profitability in line with our Strategic Plan.

- It is expected that the improved mix of supplies and the new conditions in the gas commercialisation market will have a significant effect.

- The profitability of the electricity generation business is expected to improve after the start up of the Plana del Vent combined cycle plant and our supply portfolio optimisation.

- 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.

On February 1, 2007 the Board of Directors of Gas Natural SDG, S.A. unanimously decided not to participate in the closed bidding process, since it considered it unfair, and, consequently, truncate its takeover bid of all the shares of Endesa, S.A. The communiqué on its position on the takeover process that began on September 5, 2005 stated:

"After having fulfilled the necessary legal formalities some time ago, and after the cautionary measures were finally lifted by the courts, it was agreed that the period for tendering the competing bids for the share capital of Endesa would begin.

After more than 16 months of waiting, and now that the information and conditioning factors of the situation can be known, the time has finally come in which, as anticipated, GAS NATURAL can make a decision in relation to the bid that it presented on September 5, 2005 for Endesa.

Accordingly, the Board of Directors of GAS NATURAL has unanimously decided not to participate in a process in which there are inequalities and has therefore decided to truncate its takeover bid of all the shares of Endesa."

The evolution of the last few months in the world energy sector has reinforced the logic and growth potential of the gas sector in general, and GAS NATURAL in particular. GAS NATURAL is a global company open to the opportunities that are offered to it by the international situation and its current national and international position.

The goal of GAS NATURAL is to continue its development as a leading liquefied natural gas company in the Atlantic and in the distribution of gas, as well as continue growing in the electricity business and gas - electricity convergence, to the benefit of its shareholders and employees, while guaranteeing the security of supply.

Therefore, the Company is updating its Strategic Plan, which conclusions are expected to be announced throughout 2007.

7. Own shares

At December 31, 2006 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 15 to the Accounts.

9. Subsequent events

The information on post-balance sheet investments is set out in note 39 to the Accounts.

Consolidated data 2002-2006

Operating statistics

	2002	2003	2004	2005	2006
Gas distribution (GWh)	**341,396**	**352,134**	**385,655**	**422,912**	**432,954**
Spain	213,092	211,200	228,954	254,774	258,758
Regulated gas sales	88,693	63,437	51,449	51,121	44,660
TPA	124,399	147,763	177,505	203,653	214,098
Latin America	128,304	140,934	155,346	165,408	171,750
Regulated gas sales	77,506	83,140	92,097	99,891	106,849
TPA	50,798	57,794	63,249	65,517	64,901
Italy	-	-	1,355	2,730	2,448
Regulated gas sales	-	-	1,315	2,652	2,347
TPA	-	-	40	78	101
Gas supply (GWh)	**239,318**	**266,204**	**288,055**	**305,324**	**294,451**
Spain ([1])	223,221	233,140	243,510	259,649	251,410
International	16,097	33,064	44,545	45,675	43,041
Gas transportation/EMPL (GWh)	**103,392**	**101,803**	**115,637**	**145,923**	**129,499**
Gas distribution network (km)	**79,574**	**85,905**	**95,155**	**100,150**	**104,528**
Spain	31,648	34,701	37,534	39,611	42,364
Latin America	47,926	51,204	54,120	56,763	58,152
Italy	-	-	3,501	3,776	4,012
Increase in gas supply points, in thousands	**567**	**625**	**620**	**615**	**483**
Spain	287	308	326	325	301
Latin America	280	317	280	253	150
Italy	-	-	14	37	32
Gas supply points, in thousands (as at 31/12)	**8,082**	**8,707**	**9,565**	**10,179**	**10,662**
Spain	4,174	4,482	4,808	5,134	5,435
Latin America	3,908	4,225	4,505	4,757	4,907
Italy	-	-	252	288	320
Contracts per customer in Spain (as at 31/12)	**1.2**	**1.3**	**1.4**	**1.5**	**1.4**
Employees (as at 31/12) ([2])	**6,040**	**6,150**	**6,697**	**6,717**	**6,686**
Electricity sales in Spain (GWh)	**2,571**	**3,023**	**4,457**	**6,296**	**2,761**
Electricity generated (GWh)	**2,075**	**4,324**	**7,272**	**10,466**	**19,514**
Spain	2,075	4,042	5,802	8,904	17,831
America	-	282	1,470	1,562	1,683

([1]) Does not include exchange transactions with power companies.
([2]) In order to ensure a proper comparison, the figures for Enagás have not been included.

Financial statistics

Balance Figures (in millions of euros)

The figures corresponding to 2002-2003 are expressed in accordance with Spanish accounting principles, while those corresponding to 2004, 2005 and 2006 are presented in conformance with IFRS.

	2002	2003	2004	2005	2006
Property, plant and equipment and intangible fixed assets	7,622	8,854	10,639	12,706	13,592
Provisions and accumulated depreciation	(2,225)	(2,548)	(3,164)	(3,801)	(4,298)
Net property, plant and intangible fixed assets	**5,397**	**6,306**	**7,475**	**8,905**	**9,294**
Financial investments (1)	**652**	**668**	**641**	**884**	**560**
Goodwill	**72**	**208**	**334**	**456**	**441**
Company shareholders' equity	**3,993**	**4,308**	**4,571**	**5,411**	**5,652**
Minority interests	**201**	**212**	**220**	**355**	**344**
Deferred income	**271**	**297**	**409**	**433**	**478**
Non current borrowing	**2,027**	**1,936**	**2,152**	**3,304**	**2,590**
Current borrowing	**562**	**536**	**704**	**512**	**628**

(1) Financial investments for the years according to Spanish accounting principles adapted in order to facilitate their comparison with IFRS information.

Profit and loss account figures (in millions of euros)

The figures corresponding to 2002-2003 are expressed in accordance with Spanish accounting principles, while those corresponding to 2004, 2005 and 2006 are presented in conformance with IFRS.

	2002	2003	2004	2005	2006
Sales	5,268	5,628	6,266	8,527	10,348
Other income	88	85	87	108	124
Operating revenues	**5,356**	**5,713**	**6,353**	**8,635**	**10,472**
Gross operating income	**1,366**	**1,202**	**1,335**	**1,519**	**1,912**
Net operating income	**907**	**799**	**862**	**969**	**1,263**
Net financial cost	**(208)**	**(58)**	**(154)**	**(221)**	**(267)**
Income before tax	**1,011**	**790**	**926**	**1,068**	**1,231**
Net income for the year	**798**	**612**	**695**	**827**	**929**
Net income for the year attributable to equity holders of the company	**806**	**568**	**642**	**749**	**855**

Cash flow statement figures (in millions of euros)

The figures corresponding to 2002-2003 are expressed in accordance with Spanish accounting principles, while those corresponding to 2004, 2005 and 2006 are presented in conformance with IFRS.

	2002	2003	2004	2005	2006
Net cash generated by operationg activities	**884**	**793**	**806**	**838**	**1,454**
Acquisition of property, plant and equipment and intangible assets	**925**	**933**	**1,015**	**1.151**	**1,159**
Acquisition of subsidiaries and other investments	**160**	**74**	**420**	**436**	**46**
Proceeds from sale of non current assets	**1,102**	**112**	**390**	**472**	**358**
Dividends paid	**158**	**207**	**296**	**368**	**451**
Proceeds/(payments) from/of borrowings	**(334)**	**(162)**	**241**	**560**	**(451)**

Stock market statistics

	2002	2003	2004	2005	2006
Number of shares traded (millions)	476.8	345.0	258.9	240.6	309.2
Funds traded (thousands of euros)	9,148,038	5,946,824	5,169,724	5,537,046	8,019,065
Last share price (euros)	18.07	18.55	22.76	23.66	29.99
Maximum (euros)	22.87	19.85	22.99	24.88	32.88
Minimum (euros)	15.37	14.92	18.18	21.33	21.74
Book value per share (euros)	8.92	9.62	10.70	12.88	13.39
Ebitda per share (euros)	3.05	2.68	2.98	3.39	4.27
Net profit per share (euros)	1.80	1.27	1.43	1.67	1.91
Dividend per share (euros)	0.40	0.60	0.71	0.84	0.98
Share price-book value ratio	2.0	1.9	2.1	1.8	2.2
Enterprise value-Ebitda ratio	7.1	8.5	9.6	9.4	8.6
Price earnings ratio	10.0	14.6	15.9	14.1	15.7
Pay out ratio (%)	22.2	47.3	49.5	50.2	51.4
Yield ratio (%)	2.2	3.2	3.1	3.6	3.3
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)	8,091,313	8,306,245	10,191,382	10,594,381	13,428,803

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