

## **GAS NATURAL FENOSA**

### **2010 Annual Report**

#### **CONSOLIDATED ANNUAL ACCOUNTS**

Consolidated balance sheet

Consolidated income statement

Consolidated statement of comprehensive income

Statement of changes in consolidated net equity

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***This version of our report is a free translation of the original, which was prepared in Spanish. All possible care has been taken to ensure that the translation is an accurate representation of the original. However, in all matters of interpretation of information, views or opinions, the original language version of our report takes precedence over this translation***

## **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 at 31 December 2010, the consolidated income statement, the consolidated statement of comprehensive income, the statement of changes in consolidated net equity, the consolidated cash flow statement and related notes to the consolidated annual accounts for the year then ended. As explained in Note 3.1 to the accompanying annual accounts, the Directors of the parent company are responsible for the preparation of these consolidated annual accounts in accordance with the International Financial Reporting Standards as endorsed by the European Union, and other provisions of the financial reporting framework applicable to the Group. Our responsibility is to express an opinion on the consolidated annual accounts taken as a whole, based on the work performed in accordance with the legislation governing the audit practice in Spain, which requires the examination, on a test basis, of evidence supporting the annual accounts and an evaluation of whether their overall presentation, the accounting principles and criteria applied and the estimates made are in accordance with the applicable financial reporting framework.

In our opinion, the accompanying consolidated annual accounts for 2010 present fairly, in all material respects, the consolidated financial position of Gas Natural SDG, S.A. and its subsidiaries at 31 December 2010 and the consolidated results of its operations and the consolidated cash flows for the year then ended in accordance with the International Financial Reporting Standards as endorsed by the European Union, and other provisions of the applicable financial reporting framework.

The accompanying consolidated Directors' report for 2010 contains the explanations which the Gas Natural SDG, S.A.'s Directors consider appropriate regarding the Group's situation, the development 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 consolidated Directors' report is in agreement with that of the consolidated annual accounts for 2010. Our work as auditors is limited to checking the consolidated Directors' report in accordance with the scope mentioned in this paragraph and does not include a review of information other than that obtained from the accounting records of Gas Natural SDG, S.A. and its subsidiaries.

PricewaterhouseCoopers Auditores, S.L.

Originally signed by  
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7 february 2011

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**GAS NATURAL FENOSA**  
**Consolidated Balance Sheet**

**(Million Euros)**

	<b>31.12.10</b>	<b>31.12.09 (1)</b>	<b>01.01.09 (1)</b>
<b>ASSETS</b>			
Intangible assets (Note 5)	11,223	11,386	2,500
Goodwill	6,002	6,056	546
Other intangible assets	5,221	5,330	1,954
Property, plant and equipment (Note 6)	23,206	23,370	8,923
Investments recorded using the equity method (Note 7)	105	141	42
Non-current financial assets (Note 8)	694	670	2,820
Deferred income tax assets (Note 21)	957	956	339
<b>NON-CURRENT ASSETS</b>	<b>36,185</b>	<b>36,523</b>	<b>14,624</b>
Non-current assets held for sale (Note 9)	707	1,694	5
Inventories (Note 10)	755	740	560
Trade and other receivables (Note 11)	4,592	4,232	2,785
Trade receivables	3,946	3,452	2,370
Other receivables	534	740	398
Current income tax assets	112	40	17
Other current financial assets (Note 8)	1,901	1,389	360
Cash and cash equivalents (Note 12)	1,203	589	249
<b>CURRENT ASSETS</b>	<b>9,158</b>	<b>8,644</b>	<b>3,959</b>
<b>TOTAL ASSETS</b>	<b>45,343</b>	<b>45,167</b>	<b>18,583</b>
<b>NET EQUITY AND LIABILITIES</b>			
Share capital	922	922	448
Share premium	3,331	3,331	-
Reserves	6,106	5,675	5,158
Profit for the year attributed to the Equity holders of the Company	1,201	1,195	1,057
Interim dividend	(324)	(324)	(215)
Adjustments for changes in value	148	(118)	(72)
Available-for-sale financial assets	-	19	57
Hedging operations	(39)	(99)	(78)
Cumulative translation adjustments	187	(38)	(51)
<b>Net equity attributable to the Company's equity holders</b>	<b>11,384</b>	<b>10,681</b>	<b>6,376</b>
<b>Minority interests</b>	<b>1,590</b>	<b>1,496</b>	<b>345</b>
<b>TOTAL NET EQUITY (Note 13)</b>	<b>12,974</b>	<b>12,177</b>	<b>6,721</b>
Grants (Note 14)	657	520	424
Non-current provisions (Note 15)	2,865	1,881	625
Non-current financial liabilities (Note 16)	18,176	18,658	4,451
Borrowings	17,805	18,222	4,449
Other financial liabilities	371	436	2
Deferred income tax liability (Note 21)	2,704	2,700	526
Other non-current liabilities (Note 18)	1,040	1,077	706
<b>NON-CURRENT LIABILITIES</b>	<b>25,442</b>	<b>24,836</b>	<b>6,732</b>
Liabilities linked to non-current assets held for sale (Note 9)	350	484	-
Current provisions (Note 15)	127	128	146
Current financial liabilities (Note 16)	2,130	2,849	934
Borrowings	1,887	2,650	924
Other financial liabilities	243	199	10
Trade and other payables (Note 19)	3,658	4,013	2,865
Trade payables	3,005	3,322	2,345
Other payables	468	465	311
Current income tax liabilities	185	226	209
Other current liabilities (Note 20)	662	680	1,185
<b>CURRENT LIABILITIES</b>	<b>6,927</b>	<b>8,154</b>	<b>5,130</b>
<b>TOTAL NET EQUITY AND LIABILITIES</b>	<b>45,343</b>	<b>45,167</b>	<b>18,583</b>

(1) On 1 January 2010 GAS NATURAL FENOSA has applied IFRIC 12 "Service concession agreements" retrospectively, restating the consolidated balance sheets at 1 January 2009 and 31 December 2009 for comparative purposes (Note 32).  
*Notes 1 to 38 form an integral part of these consolidated annual accounts*

**GAS NATURAL FENOSA**  
**Consolidated Income Statement**

**(Million Euros)**

	<b>2010</b>	<b>2009 (1)</b>
Sales (Note 22)	19,630	14,873
Procurements (Note 23)	(12,970)	(9,133)
Other operating income (Note 24)	258	200
Personnel cost (Note 25)	(798)	(600)
Other operating expenses (Note 26)	(1,912)	(1,594)
Depreciation and amortisation expenses (Notes 5 and 6)	(1,716)	(1,389)
Release of fixed assets grants to income and others (Note 14)	31	38
Other results (Note 27)	370	50
<b>OPERATING INCOME</b>	<b>2,893</b>	<b>2,445</b>
Financial income	118	85
Finance expense	(1,165)	(925)
Variations in fair value of financial instruments	(6)	25
Net exchange gains/losses	(6)	1
Gain on sales of financial instruments	44	101
<b>NET FINANCIAL INCOME (Note 28)</b>	<b>(1,015)</b>	<b>(713)</b>
Profit of entities recorded by equity method (Note 7)	5	59
<b>INCOME BEFORE TAXES</b>	<b>1,883</b>	<b>1,791</b>
Income tax expense (Note 21)	(468)	(440)
<b>NET INCOME FOR THE YEAR FROM CONTINUING OPERATIONS</b>	<b>1,415</b>	<b>1,351</b>
Net income for the year from discontinued operations net of tax (Note 9)	-	39
<b>CONSOLIDATED NET INCOME FOR THE YEAR</b>	<b>1,415</b>	<b>1,390</b>
Attributable to:		
Equity holders of the Company	1,201	1,195
Minority interests	214	195
	<b>1,415</b>	<b>1,390</b>
Basic and diluted earnings per share in Euros from continuing activities attributable to the equity holders of the parent Company (Note 13)	1.30	1.45
Basic and diluted earnings per share in Euros attributable to the equity holders of the parent Company (Note 13)	1.30	1.48

On 1 January 2010 GAS NATURAL FENOSA has applied IFRIC 12 "Service concession agreements" retrospectively, restating the 2009 consolidated income statement for comparative purposes (Note 32).

*Notes 1 to 38 form an integral part of these consolidated annual accounts*

**GAS NATURAL FENOSA**  
**Consolidated Statement of Comprehensive Income**

**(Million Euros)**

	<b>2010</b>	<b>2009</b>
<b>CONSOLIDATED INCOME FOR THE YEAR</b>	<b>1,415</b>	<b>1,390</b>
<b>OTHER COMPREHENSIVE INCOME RECOGNISED DIRECTLY IN NET EQUITY</b>	<b>185</b>	<b>133</b>
Valuation of available-for-sale financial assets	(20)	67
Cash flow hedges	(92)	(123)
Cumulate translation adjustment	310	166
Actuarial gains and losses and other adjustments	(45)	30
Companies measured by equity accounting	-	1
Tax effect	32	(8)
<b>RELEASES TO INCOME STATEMENT</b>	<b>95</b>	<b>(36)</b>
Valuation of available-for-sale financial assets	(4)	(101)
Cash flow hedges	166	87
Cumulate translation adjustment	(19)	(12)
Tax effect	(48)	(10)
	<b>280</b>	<b>97</b>
<b>OTHER COMPREHENSIVE INCOME FOR THE YEAR</b>	<b>1,695</b>	<b>1,487</b>
<b>TOTAL COMPREHENSIVE INCOME FOR THE YEAR</b>	<b>1,695</b>	<b>1,487</b>
Attributable to:		
Equity holders of the Company	1,444	1,166
Minority interests	251	321

*Notes 1 to 38 form an integral part of these consolidated annual accounts*

**GAS NATURAL FENOSA**

**Statement of changes in consolidated net equity**

**(Million Euros)**

<b>Net equity attributable to the Company's equity holders</b>							
	<b>Share Capital</b>	<b>Share premium and Reserves</b>	<b>Profit for the year</b>	<b>Adjustments for change in value</b>	<b>Subtotal</b>	<b>Minority interests</b>	<b>Net Equity</b>
<b>Balance at 1.1.09</b>	<b>448</b>	<b>4,943</b>	<b>1,057</b>	<b>(72)</b>	<b>6,376</b>	<b>345</b>	<b>6,721</b>
Total comprehensive income for the year	-	17	1,195	(46)	1,166	321	1,487
Dividends distribution	-	285	(1,057)	-	(772)	(135)	(907)
Capital increase (Note 13)	474	3,445	-	-	3,919	(488)	3,431
Increase/decrease for business Combinations ( Note 30)	-	14	-	-	14	1,946	1,960
Other variations	-	(22)	-	-	(22)	(493)	(515)
<b>Balance at 31.12.09</b>	<b>922</b>	<b>8,682</b>	<b>1,195</b>	<b>(118)</b>	<b>10,681</b>	<b>1,496</b>	<b>12,177</b>
Total comprehensive income for the year	-	(23)	1,201	266	1,444	251	1,695
Dividends distribution	-	465	(1,195)	-	(730)	(157)	(887)
Other variations	-	(11)	-	-	(11)	-	(11)
<b>Balance at 31.12.10</b>	<b>922</b>	<b>9,113</b>	<b>1,201</b>	<b>148</b>	<b>11,384</b>	<b>1,590</b>	<b>12,974</b>

*Notes 1 to 38 form an integral part of these consolidated annual accounts*

**GAS NATURAL FENOSA**  
**Consolidated cash flow Statement**

(Million Euros)

	2010	2009 (1)
<b>Net income before tax</b>	<b>1,883</b>	<b>1,791</b>
<b>Adjustments to net income:</b>	<b>2,857</b>	<b>2,094</b>
Amortisation and depreciation of fixed assets	1,716	1,404
Other adjustments to net income	1,141	690
<b>Changes in working capital</b>	<b>(729)</b>	<b>(362)</b>
<b>Other cash generated from operations:</b>	<b>(1,274)</b>	<b>(1,011)</b>
Interest paid	(798)	(649)
Income tax paid	(476)	(362)
<b>NET CASH GENERATED FROM OPERATING ACTIVITIES (Note 29)</b>	<b>2,737</b>	<b>2,512</b>
 <b>Cash flows into investing activities:</b>	 <b>(2,333)</b>	 <b>(16,154)</b>
Group companies, associates and business units	-	(13,878)
Purchases of Property, plant and equipment and intangible assets	(1,545)	(1,792)
Other financial assets	(788)	(484)
<b>Proceeds from divestitures:</b>	<b>2,216</b>	<b>2,068</b>
Group companies, associates and business units	1,868	1,278
Sales of Property, plant and equipment and intangible assets	84	26
Other financial assets	264	764
<b>Other cash flows from investing activities:</b>	<b>162</b>	<b>271</b>
Proceeds from dividends	5	67
Proceeds from interest	9	14
Other proceeds/(payments) from/(of) investing activities (Note 14)	148	190
<b>NET CASH RECEIVED FROM INVESTING ACTIVITIES</b>	<b>45</b>	<b>(13,815)</b>
 <b>Receipts/(payments) for equity instruments:</b>	 -	 <b>3,401</b>
Issue	-	3,401
<b>Cash flows from financing activities:</b>	<b>(1,272)</b>	<b>9,039</b>
Proceeds from borrowings	11,375	21,510
Repayment of borrowings	(12,647)	(12,471)
<b>Dividends paid</b>	<b>(858)</b>	<b>(756)</b>
<b>Other cash flows from financing activities</b>	<b>(69)</b>	<b>(54)</b>
<b>NET CASH RECEIVED FROM FINANCING ACTIVITIES</b>	<b>(2,199)</b>	<b>11,630</b>
 <b>Effect of exchange rates on cash and cash equivalents</b>	 <b>31</b>	 <b>13</b>
<b>VARIATION IN CASH AND CASH EQUIVALENTS</b>	<b>614</b>	<b>340</b>
Cash and cash equivalents at beginning of the year	589	249
Cash and cash equivalents at year end	1,203	589

(1) On 1 January 2010 GAS NATURAL FENOSA has applied IFRIC 12 "Service Concession Agreements" retrospectively, restating the 2009 consolidated statement of cash flows 2009 for comparative purposes (Note 32).

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## **NOTES TO THE CONSOLIDATED ANNUAL ACCOUNTS OF GAS NATURAL FENOSA FOR 2010**

### **Note 1. General information**

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

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

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

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

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

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

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

### **Note 2. Regulatory framework**

#### **a) Regulation of the natural gas industry in Spain**

##### Main characteristics of the natural gas industry in Spain

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

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

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

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

- It is an industry in which regulated and de-regulated activities coexist. The regulated activities consist of transport (including regassification, storage and transport in the strict sense) and natural gas distribution. The non-regulated activities comprise production, storage and the supply of natural gas through commercialisers.
- The natural gas sector is practically entirely dependent on foreign supplies of natural gas, which represent almost 99.9% of the natural gas supply in Spain.
- Following the directives set out in EU legislation (Directives 2003/55/CE of June 26, and 98/30/CE of June 22), the supply of natural gas in Spain is totally de-regulated, and all Spanish consumers can freely choose their natural gas provider as from 1 January 2003. The deregulation procedure for the industry has been reinforced substantially by the disappearance as from 1 July 2008 of the bundled tariff of distribution companies and the subsequent obligation of consumers to participate in the deregulated market (although as indicated further below a tariff of last resort has been maintained for consumers of lower consumption).

### Regulation of natural gas activities in Spain

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

#### 1. Regulated activities

Regulated activities are characterised by:

- *Need for prior government authorisation:* The undertaking of regulated activities requires prior regulated administrative authorisation. In order to obtain this authorisation the applicant must basically demonstrate its legal, technical and economic capacity to exercise this activity. The above mentioned authorisation concedes a legal monopoly in a given territory.
- *Remuneration established by legislation:* The general directives that set the remuneration for these activities are governed by Royal Decree 949/2001, while the specific remuneration to be received is updated annually by ministerial order.

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

The regulatory framework for the natural gas industry in Spain has a procedure for settlement compensation amongst companies in the sector for net invoicing of gas acquisition and other costs, so that each company receives the appropriate remuneration for their regulated activities.

- *Subject to specific obligations:* The carrying out of the regulated activities is subject to specific obligations to ensure the development of competition in commercialisation. The two main obligations in this sense consist of permitting

access by third parties to the transport and distribution pipelines (including regassification and storage) and the obligation to keep the regulated and non-regulated activities separate.

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

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

### *1.1. Transport*

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

- *Regassification:* Natural gas is imported to Spain through a pipeline network (in gas form) and by gas tankers (in liquid form, hereon, LNG). The regassification is the activity that involves the conversion of liquid natural gas, stored in cryogenic tanks generally at regassification plants, into a gaseous state, and then pumped into the national gas pipeline network.
- *Transport:* once the natural gas is imported or produced and, if necessary, regassified, it is injected in gas form into the high pressure gas pipeline transport network. The transport network crosses most regions in Spain and transports the natural gas to the major consumers, such as electricity plants and industrial customers and local distributors.

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

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

### *1.2. Distribution*

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

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

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

Ministerial Order ITC/3354/2010/28 December established the remuneration of the regulated activities of the gas industry for 2011. Specifically, initial remuneration recognised for GAS NATURAL FENOSA for FY 2011 totals Euros 1,098 million for distribution activities and Euros 31 million for transport activities.

## 2. Unregulated activities

### 2.1. *Supplies (import of natural gas)*

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

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

### 2.2. *Commercialisation*

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

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

Under successive ministerial orders the criteria have been regulated for the establishment of the last resort tariff, its functioning and the setting of the specific amounts. Concretely, for the calculation of this tariff, which is updated quarterly, the cost of raw materials, the respective

access tolls, the commercialisation costs and the supply security costs are all taken into account.

The Minister of Industry, Tourism and Trade issued Order ITC/1506/2010/8 June, which modifies Order ITC/1660/2009/22 June, under which the last resort tariff for gas natural will be carried out under the ruling of the General Directorate of Energy Policy and Mines. The fixed and variable terms of the tariffs will be reviewed when there is a modification of the fixed and variables terms of the tolls and levies for access to the system or in the waste coefficients in force. The variable term will be reviewed quarterly, as from the 1<sup>st</sup> day of the months of January, April, July and October of each year, provided that the cost of raw materials varies upward to downward by 2%.

b) Regulation of the natural gas industry in Latin America

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

In Mexico, PEMEX is the dominant operator.

In Brazil, Petrobras is the dominant operator.

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

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

c) Regulation of the natural gas industry in Italy

In Italy, natural gas supply activity has been totally deregulated since 1 January 2003. However, residential customers (customers who do not exceed the threshold of 2 Gwh per year) that have not elected to use a new supplier, the price of the natural gas supplied is still set by the *Autorità per Energia Elettrica e il Gas* (the Italian National Energy Commission, AEEG). On the other hand, for residential customers that have opted for a new natural gas provider in the market, the AEEG has established, on the basis of effective service costs, reference tariffs that the supply companies, as part of their public service obligations, must include in their commercial offering.

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

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

#### d) Electricity Sector in Spain

##### Main characteristics of the electricity sector in Spain

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

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

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

Generally, the electricity industry has the following main features:

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

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

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

- Since July 1, 2007 the Iberian Electricity Market (MIBEL) has begun to operate effectively between Spain and Portugal, which has involved the integration of the electricity systems of both countries (although this integration is still not perfect).
- The electricity system is not self-sufficient and its maintenance generates an annual deficit that has had to be financed by the electricity companies.

### The regulation of electricity activities in Spain

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

#### 1. Regulated activities

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

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

The regulatory framework for the electricity industry in Spain has a procedure for settlement compensation amongst companies in the sector for net invoicing of electricity acquisition and other costs, so that each company receives the appropriate remuneration for their regulated activities

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

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

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

### *1.1. Transport*

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

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

### *1.2. Distribution*

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

However, as from 1 July 2009 the distributors have been restricted to the management of the distribution networks, and, as the case may be, the commercial companies in each group are in charge of the last resort supplies, as mentioned in section 2.2.

Ministerial Order ITC/3353/2010/28 December set the remuneration of the regulated activities for the electricity industry for 2011. Specifically, the initial remuneration recognised for GAS NATURAL FENOSA for FY 2011 totals Euros 837 million for distribution activity and Euros 51 million for transport activities.

## 2. Unregulated activities:

### *2.1. Electricity generation:*

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

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

The remuneration of the ordinary plants is based on electricity market prices. Royal Decree 661/2007 provides a specific economic system for electricity plants under the special regime,

which includes rates, premiums and specific incentives for each type of technology (except for solar energy plants after 29 September 2008).

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

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

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

On 21 April Royal Decree 437/2010 was published in the Official State Gazette, setting forth the regulations for the securitisation of the electricity system deficit that was established under Royal Decree Law 6/2009, the main features of which are as follows:

- The following can be assigned to the system's Deficit Securitisation Fund:
  - The debt claims generated in 2006 and 2008 and not assigned to third parties, up to Euros 10,000 million.
  - The deficit debt claims for 2009, up to Euros 3,500 million.
  - The deficit debt claims for 2010 to 2012 recognised each year in the Ministerial Order, which sets the access tariffs for the following year, as from which time the rights can be assigned to the Securitisation Fund. The differences between the estimated tariff deficits and the actual deficits will be settled during the current year.
- The Fund must acquire the debt claims whose assignment commitment has been filed by the initial owners, within a maximum period of one year as from said filing, provided that there are no exception circumstances affecting the markets.
- The restatement interest on the outstanding debt claims will accrue the following amounts:
  - Debt claims for 2006 and 2008: Euribor at 3 months.
  - Debt claims 2009: Euribor at 3 months plus a spread of 0.20 percentage points.

On 2 October 2010 Royal Decree 1221/2010 was promulgated which modified RD 134/2010, which had created a mechanism of restrictions for guaranteeing supplies of autochthonous coal, contemplating a regulated price for remunerating this energy.

On 24 December 2010 Royal Decree-Law 14/2010/23 December was published in the Official State Gazette and established emergency measures for the correction of the tariff deficit in the electricity industry, the main features of which are as follows:

- Companies will finance a social debenture until 2013 and will bear the cost of the energy saving and efficiency policies in the period 2011-2013.
- All electricity producing companies, both under the ordinary regime and the renewable energy and cogeneration regime, will pay a toll of Euros 0.5/MWh.
- The hours having the right to a premium of the solar energy plants are limited to three years, which is what happened to other sectors, such as wind and thermo-solar energy.
- The maximum limits of the tariff deficit in 2010, 2011 and 2012 have been modified in order to adjust it to the deviations, while the point at which tariff adequacy is reached has been maintained for 2013.

## *2.2. The commercialisation of electricity*

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

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

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

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

### e) Regulation of the international electricity sector

#### 1. Generation

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

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

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

## 2. Distribution

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

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

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

## **Note 3. Basis of presentation and accounting policies**

### **3.1 Basis of presentation**

The Consolidated Annual Accounts of GAS NATURAL FENOSA for 2009 were adopted by the General Meeting of Shareholders of 20 April 2010.

The Consolidated Annual Accounts for 2010, which were formulated by the Board of Directors on 28 January 2011, will be submitted, along with those of the investee companies, to the approval of the respective General Meetings of Shareholders. It is expected that they will be adopted without modification.

The Consolidated Annual Accounts of GAS NATURAL FENOSA for 2010 have been prepared on the basis of the accounting records of Gas Natural SDG, S.A. and the other companies in the Group, in accordance with the provisions of International Financial

Reporting Standards adopted by the European Union (hereon “IFRS-UE”), as per (EC) Regulation n° 1606/2002 of the European Parliament and Council.

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

These Consolidated Annual Accounts fairly present the consolidated equity and consolidated financial situation of GAS NATURAL FENOSA at 31 December 2010, and the consolidated results of its operations, the changes in the consolidated statement of comprehensive income, the changes in consolidated net equity and the consolidated cash flows of GAS NATURAL FENOSA for the year then ended.

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

### **3.2 New IFRS-EU and IFRIC**

As a result of adoption, publication and coming into force on 1 January 2010 the following new IFRS and IFRIC have been applied:

- IFRS 1 (Revised), “First-time Adoption of IFRS”.
- IFRS 1 (Modification), “Additional Exemptions for Companies Adopting IFRS for the First Time”.
- IFRS 2 (Modification), “Group Operations with Share Based Payments Settled in Cash”.
- IFRS 3 (Revised), “Business Combinations”.
- IFRS 5 (modification), “Non-current Assets Held for Sale and Discontinued Activities” (and related modification of IFRS 1 “First-time Adoption of IFRS”).
- IAS 27 (Revised), “Consolidated and Separate Financial Statements”.
- IAS 39 (Modification) “Items Qualifying as Hedges”.
- IFRIC 12 “Service Concession Agreements”.
- IFRIC 15 “Agreements for the Construction of Real Estate”.
- IFRIC 16 “Hedges of a Net Foreign Investment”.
- IFRIC 17 “Distribution of Non-Cash Assets to Owners”.
- IFRIC 18 “Transfers of Assets from Customers”.
- Improvements to IFRS.

The application of the above standards, modifications and interpretations has not had a significant impact on the Consolidated Annual Accounts, except in respect of IFRIC 12, which is described in Notes 3.3 and 32.

In 2010 the Official Gazette of the European Union published the following new IFRS and IFRIC coming into force for the years beginning 1 January 2011, which have not been adopted in advance:

- IFRS 1 (modification) “First-time Adoption of IFRS”. Limited exemption of the comparisons of IFRS 7.
- IFRS 7 (modification). “Financial instruments. Information to be Disclosed”. Disclosures – Transfer of financial assets.
- IAS 24 (Revised) “Related-party Transactions to be Disclosed”.
- IAS 32 (modification) “Financial Instruments Presentation”
- IFRIC 14 (modification) “Prepayments. Minimum Reporting Requirements”.
- IFRIC 19 “Extinguishing of Financial Liabilities with Equity Instruments”.

Furthermore, IFRS 9 "Financial instruments" has been adopted, which has not been adopted by the European Union.

On the basis of the analysis of these new accounting standards and interpretations to be applied in the years beginning 1 January 2011, GAS NATURAL FENOSA does not expect that their application will have significant effects on these Consolidated Annual Accounts.

### **3.3 Comparability**

As a result of the acquisition of Unión Fenosa, S.A. since 30 April 2009 (Note 3.4.1.e) Unión Fenosa, S.A. and its subsidiary companies (hereon UNIÓN FENOSA) have been fully consolidated, and, accordingly, the acquisition of UNIÓN FENOSA must be taken into account when comparing the aggregates at 31 December 2010 with those at 31 December 2009. The Consolidated Income Statement, the Consolidated Statement of Comprehensive Income, the Consolidated Statement of Changes in Net Equity and the Consolidated Statement of Cash Flow for 2010 include all the operations of UNIÓN FENOSA as from 30 April 2009 (Note 30).

Furthermore, on 1 January 2010 GAS NATURAL FENOSA has applied IFRIC 12 "Service Concession Agreements" retrospectively, restating, for comparative purposes, the Consolidated Balance Sheet at 1 January 2009 and 31 December 2009, the Consolidated Income Statement and the Consolidated Statement of Cash Flow at 31 December 2009 (Note 32).

### **3.4 Accounting policies**

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

#### **3.4.1 Consolidation**

##### **a) Subsidiaries**

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

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

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

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

The surplus cost of the acquisition in relation to the fair value of the shareholding of GAS NATURAL FENOSA in the net identifiable assets acquired is recorded as goodwill. If the cost

of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the Consolidated income statement.

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

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

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

In relation to the acquisitions of minority interests, the difference between the price paid and their net carrying value, or as the case may be, the result of their sale, is booked as equity transactions.

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

*b) Joint Ventures*

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

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

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

*c) Associates*

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

The investments in associates are recorded under the equity method. GAS NATURAL FENOSA'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 FENOSA and its associates are eliminated in proportion to its interest in the latter.

*d) Consolidation scope*

Appendix I includes the investee companies directly and indirectly owned by GAS NATURAL

FENOSA that have been included in the consolidation scope.

Appendix II lists the main variations in the consolidation scope in 2010 and 2009.

## 2010

In 2010 the main variations in the consolidation scope have been:

- The sale of various combined cycle electricity companies in Mexico (Note 9).
- The sale of various companies and assets related to gas distribution and supply in Madrid (Note 9).

## 2009

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

The deconsolidation of companies mainly involves:

- the sale of the Colombian company Empresa de Energía del Pacífico, S.A. (hereon EPSA) (Note 9).
- the sale of many companies and gas distribution and supply assets in Cantabria, Murcia and the Basque Country (Note 9).

### e) *Acquisition of Unión Fenosa, S.A*

At 31 December 2008, Gas Natural SDG, S.A. had a 14.7% stake of the share capital of Unión Fenosa, S.A. (9.99% acquired from the ACS Group as per the Share Purchase and Sale Agreement entered into on 30 July 2008 and 4.7% acquired from Caixanova under the Share Purchase and Sale Agreement entered into on 12 December 2008), all described in the Consolidated Annual Accounts for 2008, which was recorded under "Available-for-sale financial assets" and whose total acquisition cost totalled Euros 2,457 million.

In accordance with the aforementioned Share Purchase and Sale Agreement entered into con el Grupo ACS, the acquisition of the remainder of the shareholder, which represented an additional 35.3% of the share capital of Unión Fenosa, S.A., remained subject to the final ruling of the administrative authorities in terms of anti-trust regulations to authorised their sale.

On the other hand, Gas Natural SDG, S.A. had several *Equity Swaps* entered into on 14 August, 24 September and 3 November 2008 for 9.4% of the voting rights of Unión Fenosa, S.A., as well as a share purchase and sale agreement entered into with Caja Navarra on 24 September 2008 for 0.3% of the voting rights of Unión Fenosa, S.A., all described in the Consolidated Annual Accounts for 2008, qualifying as financial derivatives and booked at 31 December 2008 under "Financial assets at fair value through profit and loss".

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

- Equity Swap entered into by Société Générale, Branch in Spain

On 14 January 2009, GAS NATURAL FENOSA entered into a new Equity Swap contract with Société Générale, Spain Branch, on 6,885,127 shares of Unión Fenosa, S.A.,

representing 0.7% of its voting rights, as an underlying asset. This Equity Swap allowed GAS NATURAL FENOSA to settle the operation, either through differences (Liquidation in cash), or through the physical handover of the shares (Physical settlement), the latter subject to the necessary authorisation. The settlement could be made for differences, provided that GAS NATURAL FENOSA reported its intention to settle through the physical handover of the shares before 22 April 2009 (26 trading days prior to the maturity date, set for 29 May 2009). GAS NATURAL FENOSA had the option to terminate the Equity Swap in advance, provided that this was reported on or before 22 April 2009.

– Public Takeover Bid

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

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

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

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

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

- Takeover merger

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

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

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

### **3.4.2 Foreign currency translation**

Items included in the financial statements of each of GAS NATURAL FENOSA's entities are measured using the currency of the primary economic environment in which the entity operates. The consolidated financial statements are presented in Euros, which is the GAS NATURAL FENOSA 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 FENOSA entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentational currency are translated into the presentational currency as follows:

- assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;
- income and expenses for each income statement are translated at monthly average

exchange rates, unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rate on the dates of the transactions.

- All the exchange differences are recognised in the Consolidated Statement of Comprehensive Income.

The adjustments to goodwill and the fair value arising from the acquisition of a foreign company are treated as its assets and liabilities and are translated at the closing exchange rate.

The exchange rates against the Euro (EUR) of the main currencies of the companies in GAS NATURAL FENOSA at December 31, 2010 and 2009 have been:

	31 December 2010		31 December 2009	
	Closing Rate	Average Accumulated Rate	Closing Rate	Average Accumulated Rate
US Dollar (USD)	1.34	1.33	1.44	1.39
Argentinean Peso (ARS)	5.29	5.16	5.45	5.18
Brazilian Real (BRL)	2.22	2.33	2.51	2.77
Mexican Peso (MXN)	16.54	16.74	18.79	18.79
Colombian Peso (COP)	2,557	2,516	2,945	2,990
Guatemala Quetzal (GTQ)	10.71	10.68	12.04	11.39
Nicaragua Córdoba (NIO)	29.24	28.32	30.02	28.39
Panamá Balboa (PAB)	1.34	1.33	1.44	1.39
Moldovan Lei (MDL)	16.23	16.39	17.72	15.51

### 3.4.3 Intangible assets

#### a) Goodwill

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

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

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

The impairment losses on goodwill cannot be reversed.

#### b) Concessions and the like

The concessions and the like relates to the cost of acquisition of concessions if they are acquired directly from a public entity or similar, or at the fair value attributed to the

corresponding concession in the event of being acquired as part of a business combination. These amounts relate both to the concessions that are considered intangible assets, in accordance with IFRIC 12 “Service Concession Agreements”, and those that do not qualify as such.

The assets related to the service concession agreements under IFRIC 12 aforementioned in which the licensor controls the services that GAS NATURAL FENOSA (operator) must provide, and a significant residual stake in the infrastructure at the end of the agreement, are set forth in this section in accordance with the accounting model for intangible assets based on the nature of the economic profits to be received by the operator.

The assets included in this accounts are amortised on a straight-line basis over the duration of each concession, except in the case of the Maghreb-Europe pipeline, which, in order to properly reflect the expected consumption scheme for the future economic profits, is based on the value of gas transported during the life of the right of use, which represents accumulated amortisation that is no less than what would be the result of using a straight-line amortisation method.

Furthermore, the concessions for the distribution of electricity in Spain, acquired as part of the business combination of UNIÓN FENOSA (Note 30), has no legal or any other type of limit. Accordingly, since we are dealing with intangible assets with an undefined life, they are not amortised, although they are tested for possible impairment annually as per that set out in Note 3.4.5.

*c) Computer software applications*

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

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

*d) Research costs*

Research activities are expensed in the consolidated income statement as incurred.

*e) Other intangible assets*

Other intangible assets mainly include the following:

- The cost of acquisition of the exclusive regassification rights at the installations of EcoEléctrica L.P., Ltd. in Puerto Rico, which are amortised on a straight-line basis until the end of their term (2025).
- The projects in development for new wind farms that have still not been brought into use, which will be amortized on a straight-line basis over their useful lives (20 years), once they will start functioning.
- The CO2 emission allowances received for no consideration are stated at no value while those acquired are stated at their acquisition cost. In the event that GAS NATURAL FENOSA does not have enough allowances to meet its emission quotas, the deficit is recorded under “Current provisions” and valued at the cost of acquisition for the allowances

purchased and at fair value for the allowances pending to purchase on the date the Consolidated Annual Accounts are filed.

- Gas supply contracts and other contractual rights purchased as part of a business combination, which are valued at fair value and amortised over the contract term, that does not differ from the expected consumption scheme.

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

### **3.4.4 Property, plant and equipment**

#### *a) Cost*

All property, plant and equipment are presented at cost of acquisition or production, or the value attributed to the asset in the event that it were acquired as part of a business combination.

The financial cost for the technical installation projects until the asset is ready to be brought into use, form part of property, plant and equipment.

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

Major maintenance expenditures (overhauls) are capitalized and depreciated over the estimated useful life of the asset (generally 2 to 6 years) while minor maintenance is expensed as incurred.

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

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

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

The future costs to which GAS NATURAL FENOSA must meet in relation to the closure of certain facilities are included in the value of the assets at the restated value, including the respective provision (Note 3.4.15).

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

#### *b) Depreciation*

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

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

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

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

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

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

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount, i.e., when the asset is no longer useful such as due to a rerouting of the distribution pipeline (Note 3.4.5).

*c) Exploration operations and production of gas*

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

- Explorations costs

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

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

- Investments in areas with reserves

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

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

### **3.4.5 Impairment of assets**

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

An impairment loss is recognized through profit and loss for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use.

In order to evaluate the impairment loss, the assets are grouped separately at the lowest level for which there are identifiable cash flows. When evaluating value in use, the estimated future cash flows are calculated at their present value. Accordingly, the assets and goodwill are allocated to Cash Generating Units (CGU). These units have been defined using the following criteria:

- Gas distribution:

- Gas distribution Spain: The development, operations and maintenance of the gas distribution network is managed jointly.
- Gas distribution Latin America: There is a CGU for each country in which it operates (Argentina, Brazil, Colombia and Mexico), as these are businesses subject to different regulatory frameworks.
- Gas distribution Others: Relates to the gas distribution assets in Italy.

- Electricity distribution:

- Electricity distribution Spain. The development, operations and maintenance of the gas distribution network is managed jointly.
- Electricity distribution Latin America. There is a CGU for each country in which it operates (Colombia, Guatemala, Nicaragua, Panama), as these are businesses subject to different regulatory frameworks.
- Electricity distribution Others. Relates to the electricity distribution assets in Moldavia.

- Electricity:

- Electricity Spain. Electricity production in Spain is managed jointly and in a centralised manner, depending on market conditions.
- Electricity Latin America: there is a CGU for each country in which it operates (Costa Rica, Mexico, Puerto Rico, Panama and the Dominican Republic), since there is a generation capacity in each country that is similar to Spain's.
- Electricity Others. Relates to Kenya.

- Gas. Includes the gas infrastructure, supplies and commercialisation CGUs and

those of Unión Fenosa Gas.

- Other. Includes the coal field CGUs in South Africa and optic fibre.

The recoverable amount is calculated as the greater of the fair value of the asset less the costs of sale and their use value following the procedure for the discounting of future cash flows. The cash flows are based on the four-year strategic plan approved and published by GAS NATURAL FENOSA, extended to a fifth year on the basis of the expectations of the market developments according to available sector forecasts and the historical experience of the evolution of prices and volumes. The cash flows after the five-year period are extrapolated using the following growth rates estimated for each CGU or Group of CGUs, and in no case exceed the average long-term growth rate for the business in which they operate:

	Rates 2010	Rates 2009
Distribution of gas Latin America	1.0%	1.0%
Distribution of gas rest of Europe	1.0%	1.0%
Distribution of electricity Spain	0.8%	0.8%
Distribution of electricity Rest of Europe	1.8%	1.5%
Distribution of electricity Latin America	1.2% - 3.0%	1.2% -3.2%
Generation of electricity in Spain	1.8%	1.8%
Generation of electricity – Latin America	1.9% - 4.9%	2.7% - 5.5%
Electricity Others	4.5%	4.5%
Unión Fenosa Gas	2.0%	2.3%

The discount rates used to calculate the recoverable value of each CGU or Group of CGUs are as follows:

	Rates 2010	Rates 2009
Distribution of gas Latin America	11%-20%	11%-20%
Distribution of gas rest of Europe	9.6%	9.6%
Distribution of electricity Spain	8.4%	8.7%
Distribution of electricity Rest of Europe	13.7%	13%
Distribution of electricity Latin America	9.4% - 23.0%	11%-20%
Generation of electricity in Spain	8.9%	9%-10%
Generation of electricity – Latin America	8.6% - 16.2%	7.5%-16%
Electricity Others	7.7% -12.1%	9% -10%
Unión Fenosa Gas	11%	11%

The parameters used in the breakdown of the above discount rates have been:

- Risk free bond: 10-year bond.
- Market risk premium: Estimate of the variable income in Spain at 10 years.
- Deleveraged Beta: According to average of each sector in each case.
- Local current interest rate swaps: 10-year swap.
- Equity-debt ratio: Sector average.

Apart from the discount rates, the most sensitive aspects that are included in the projections used and that are based on sector forecasts and historical experience are as follows:

- Gas and electricity distribution in Spain:
  - Amount and growth in remuneration approved by the regulator.
- Gas and electricity distribution in Latin America and Others

- Evolution of the tariffs.
- Cost of fuel.

- Electricity Spain:

- Electricity produced and sold to the market, which depended on market demand and market share.
- Price of the electricity in the Iberian market.
- Cost of fuel and CO<sub>2</sub> emission rights.

- Electricity Latin America and Others:

- Electricity production in Latin America is protected by energy purchase contracts that are determined by stable business models and are not subject to risks based on the fluctuation of market variables.

As a result of the process, in 2010 and 2009, the recoverable values of the assets of the CGUs, calculated in line with the above-mentioned model are, in any case, greater than the net carrying values recorded in these consolidated annual accounts, and, accordingly, no impairment has been booked. Furthermore, it is estimated that the reasonably possible variations that could affect the main assumptions on which the determination of the recoverable amounts of the different CGUs has been based would not vary the conclusions regarding the valuation of the assets. This sensitivity analysis was prepared taking into account an increase of 50 basis points in the discount rates used in the base case.

### 3.4.6 Financial assets and liabilities

#### Financial investments

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

a) *Loans and other receivables*

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

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

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

b) *Held-to-maturity financial assets*

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

*c) Fair value financial assets through profit or loss.*

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

*d) Available-for-sale financial assets*

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

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

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

The valuations at fair value have been classified using a fair value ranking that reflects the relevance of the variables used to make these valuations. This ranking has three levels:

- Level 1: Valuations based on the quotation price of identical instruments in an official market.
- Level 2: Valuations based on variables that are observable for the asset or liability.
- Level 3: Valuations based on variables that are not based on observable market information.

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

GAS NATURAL FENOSA has entered into debt claim assignment agreements in 2010, which have been qualified as factoring without recourse since the risks and rewards inherent in ownership of the financial assets assigned have been transferred.

Cash and cash equivalents

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

Borrowings

Borrowings are initially recognised at their fair value, net of the transaction costs that they may have incurred. Any difference between the amount received and the repayment value is

recognised in the income statement during the period of repayment using the effective interest rate method.

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

#### Trade and other payables

Trade and other current payables are financial liabilities that fall due in less than twelve months that are stated at their fair value and do not accrue explicit interest. They are accounted for at their nominal value. Those maturing in more than 12 months are considered non-current payables.

### **3.4.7 Accounting for derivative financial instruments and hedging activities**

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

GAS NATURAL FENOSA documents at the inception of the transaction and periodically, the relationship between hedging instruments and hedged items, as well as its risk management objective. Additionally, the aims of risk management and hedging strategies are periodically reviewed

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

For accounting purposes, the operations are classified as follows:

*1. Derivatives qualifying for hedge accounting*

*a) Fair value hedge*

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

*b) Cash flow hedge*

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

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

*c) Hedges of net foreign investments*

The accounting treatment is similar to cash flow hedges. The variations in value of the effective part of the hedging instrument are carried on the Consolidated balance sheet under

“Cumulative translation differences”. The gain or loss from the non-effective part is recognised immediately under “Exchange differences” on the Consolidated income statement. The accumulated amount of the valuation recorded under “Cumulative translation differences” is released to the Consolidated income statement as the foreign investment that gave rise to it is sold.

## *2. 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.

## *3. Gas purchase and sale agreements*

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

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

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

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

### **3.4.8 Non-current assets held for sale and discontinued activities**

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

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

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

they are classified as non-current assets held for sale.

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

### **3.4.9 Inventories**

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

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

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

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

### **3.4.10 Share capital**

Share capital is made up exclusively of ordinary shares.

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

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

### **3.4.11 Earnings per share**

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

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

Basic earnings per share from discontinued activities are calculated as a quotient between

Net income for the year from discontinued operations net of tax and the average weighted number of ordinary shares in circulation during this period, excluding the average number of shares of the parent Company held by the Group.

### **3.4.12 Preference shares**

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

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

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

### **3.4.13 Capital grants and deferred Income**

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

- Capital grants relating basically to Agreements with the Regional Governments for the gasification of municipalities and other investments in gas infrastructure, for which GAS NATURAL FENOSA has met all the conditions established, are stated at the amount granted.
- Income received for the construction of connection facilities for the gas or electricity distribution network, which are booked for the cash received, as well as assignments received for these facilities, which are booked at their fair value, since both the cash and the facilities are received in consideration for an ongoing service of providing access to the network during the life of the facilities. This treatment is in accordance with the provisions of IFRIC 18 applied by GAS NATURAL FENOSA since 1 January 2010, and has not generated an impact in relation to the criterion applied before they came into force.
- Income from the extension of the pipeline network that will be financed by third parties.

Capital grants and deferred income is recognised in "Grants" in the Consolidated Income statement systematically on the basis of the useful life of the corresponding asset, thus offsetting the depreciation expense.

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

### **3.4.14 Provisions for employee obligations**

#### *a) Post-employment pension and similar obligations*

- Defined contribution plans

Gas Natural SDG, S.A., together with other Group companies, is the promoter of a joint occupational pension plan, which is defined contribution plan for retirement and a defined benefit plan for the so-called risk contingencies.

On the other hand, there are several groups of employees from the legacy Unión Fenosa, S.A., Unión Fenosa Generación, S.A. and Unión Fenosa Distribución, S.A. who are the beneficiaries of a joint occupational pension plan, which is a defined contribution for retirement and a defined benefits plan for the so-called risk contingencies.

As a result of the takeover merger of Unión Fenosa, S.A. and Unión Fenosa Generación, S.A. (Note 3.4.1.e), Gas Natural SDG, S.A. is now the promoter of both pension plans.

Current legislation stipulates that a promoter can only promote one occupational pension plan. In order to comply with this legislation, GAS NATURAL FENOSA is trying to integrate the two plans. If this is not possible, the General Sub-Directorate of Pension Plans and Funds could force the liquidation and termination of these plans and the creation of a new one. This would not have an impact on Gas Natural SDG, S.A. as promoter of the plans, since its obligation is limited to the contributions mentioned above.

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

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

#### - Defined benefit plans

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

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

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

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

financial expense.

*b) Other post-employment benefit obligations*

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

*c) Termination benefits*

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

#### **3.4.15 Provisions**

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

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

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

GAS NATURAL FENOSA has the obligation to dismantle certain facilities at the end of their useful life, such as those related to nuclear power plants and mines, as well as carry out environmental restoration where these are located. To do so, it is recorded under Property, plant and equipment the current value of the cost that these tasks would amount, which, in the case of nuclear plants, includes the time until ENRESA, the public entity, takes charge of the dismantling and management of radioactive waste, with a counter-entry under provisions for liabilities and charges. This estimate is reviewed annually so that the provision reflects the current value of the future costs by increasing or decreasing the value of the asset. The variation in the provision arising from its financial restatement is recorded under "Financial expenses".

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

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

### **3.4.16      Leases**

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

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

GAS NATURAL FENOSA has contracts regulating commitments for the capacity to generate and buy and sell electricity for its combined cycle plants en Mexico and Puerto Rico. A portion of the income is obtained as a fixed capacity charge under which the availability of the Plant is assured. These contracts are classified as operating leases, and, accordingly, the fixed capacity charges are recognised on a straight-line basis in each year of the contract term, irrespective of the invoicing Schedule, since GAS NATURAL FENOSA retains all the risks and rewards inherent in the assets given that:

- At the end of the lease period the lessor (GAS NATURAL FENOSA) continues to retain ownership of the asset.
- The lessee has no right to claim an extension of the lease term.
- The lessee does not have a purchase option.
- The risk of the operation is borne by the lessor.
- The fixed capacity charge can reach nil in the periods in which the availability of the Plant is below the guaranteed level. If non-compliance continues, the contract can be cancelled.
- The current value of the capacity charges is lower than the cost of construction of the Plant.
- The lessor has the right to sell energy from the part of the installed capacity that exceeds the level guaranteed under contract to third parties.

### **3.4.17      Income tax**

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

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

assets and liabilities are realised. No deferred tax liabilities are recognised for profits not distributed from the subsidiaries when GAS NATURAL FENOSA can control the reversal of the timing differences and it is likely that they will not reverse in the foreseeable future.

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

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

### **3.4.18 Revenue and expenses recognition and payments for regulated activities**

#### *a) General*

The sales of goods are recognised when they have been delivered to the customer and the customer has accepted them, even if they have not been billed, or, if applicable, the services have been rendered and the collectability of the respective accounts receivable is reasonably assured. The sales figure for the year includes the estimate of the energy supplied that has yet to be invoiced.

The expenses are recognised on an accruals basis, immediately in the case of disbursements that are not going to generate future economic profits or when the requirements for recording them as assets are not met.

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

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

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

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

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

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

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

The income aggregate includes the amount of both the sales of last resort and the sales

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

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

The best estimate of the gas and services provided that have yet to be invoiced is recognised as income.

c) *Income from electricity activity and payments for regulated business*

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

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

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

At the date of formulation of these Consolidated Annual Accounts the final payments for the period 2007-2009 have not been published, although it is not expected that the final payments will generate significant differences in relation to the estimates made.

In the years 2006 to 2010, given that the income collected by the companies in the Spanish electricity industry have not been sufficient to remunerate the different activities and costs of the system, the companies themselves, including Gas Natural SDG, S.A., and the merged company Unión Fenosa Generación, S.A., were forced to finance this income deficit, with the right to receive a reimbursement a posteriori, under current legislation.

In 2008 the entire deficit for 2007 was auctioned, the financed principal and the interest for the period were received. As for the deficit for the years 2006, 2008, 2009 and 2010, under current legislation (Note 2) the recouping of the contributions that were not assigned to third parties will be made through the assignment to the securitisation fund of the debt claims. Given the forecast that the assignments will occur in a period of less than one year, the estimated amount recoverable has been recorded under "Other current financial assets" on the Consolidated balance sheet.

The income aggregate includes the amount for the sale of electricity of last resort and the sales made in the deregulated market, since both the seller of last resort and the deregulated seller are considered to be the principal agent and not a commission agent of the delivered supply. Consequently, the sales and purchases of energy are recorded at their total amount. Nevertheless, the purchases and sales of energy to the pool made by these Group generation and commercialisation companies in the same hourly period are eliminated in the consolidation process.

The best estimate of the electricity and services provided that have yet to be billed is recognized as income.

d) *Other income*

In accounting for revenues from the service provision agreements the percentage realisation

method is used in which, when the income can be reliably estimated, it is recorded on the basis of the degree of progress in the completion of the contract at the year end, calculated as a proportion of the costs incurred at that date of the estimated costs required to fulfil the contract.

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

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

Interest income is recognized using the effective interest method.

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

#### **3.4.19 Cash Flow Statements**

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

- a) operating activities: activities that constitute ordinary Group revenues, as well as other activities that cannot be qualified as investing or financing.
- b) investing activities: acquisition, sale or disposal by other means of assets in the long-term and other investments not included in cash and cash equivalents.
- c) financing activities: activities that generate changes in the size and composition of net equity and liabilities that do not form part of operating activities.

#### **3.4.20 Significant accounting estimates and judgments**

The preparation of the Consolidated Annual Accounts requires the use of estimates and assumptions. We set out below the measurement policies that require a greater use of estimates:

##### *a) Goodwill and intangible assets with an indefinite life*

The goodwill and intangible assets with an indefinite life are tested annually for impairment.

The estimated recoverable value of the CGU applied to the impairment tests has been determined using the discounted cash flows based on the budgets approved by GAS NATURAL FENOSA.

##### *b) Provisions*

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

On the other hand, the calculation of the pension expense, other post-employment benefit expenses or other post-employment liabilities, requires the application of various assumptions. GAS NATURAL FENOSA estimates at each year end the provision necessary to meet its pension liabilities and the like, in accordance with the advice from independent actuaries. The changes that affect these assumptions could give rise to different expenses and liabilities recorded. The main assumptions for the pension benefits or post-employment benefits include the long-term yield on the plan-related assets and the discount rate used. Moreover, the assumptions of social security coverage are essential in determining other post-employment benefits. The future changes in these assumptions will have an impact on the future pension expenses and liabilities.

c) *Fair value of derivatives or other financial instruments*

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

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

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

d) *Revenue and expenses recognition*

Revenue from energy sales is recognized when the goods are delivered to the customer based on periodical meter readings and include the estimated accrual of the value of the goods consumed as from the date of the meter reading until the close of the period. Estimated daily consumption is based on historical customer profiles taking into account seasonal adjustments and other factors than can be measured and may affect consumption. Historically, no material adjustments have been made relating to the amounts booked as unbilled income and none are expected in the future.

Sectorial regulation has provided time until 30 June 2009 to comply with the obligation to subtract the amount equivalent to the emission rights assigned from the generation revenues (Note 2). The result of applying this legislation has not meant that GAS NATURAL FENOSA has had to record significant amounts for the estimates made.

Certain aggregates for the electricity system, including those relating to other companies which allow for the estimate of the overall settlement of the electricity system that must materialise in the respective final payments, could affect the calculation of the deficit in the payments for the regulated electricity business in Spain.

e) *Income tax and deferred income tax assets*

The calculation of the income tax expense requires interpretations of tax legislation in the jurisdictions in which GAS NATURAL FENOSA operates. The determination of expected

outcomes of outstanding disputes and litigation requires the preparation of significant estimates and judgment. GAS NATURAL FENOSA 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 FENOSA to generate sufficient tax profits during the periods in which these deferred taxes are deductible.

f) *Useful lives of property, plant and equipment*

The accounting treatment of investments in Property, plant and equipment includes estimates for determining their useful lives for depreciation purposes, and for determining the fair value at the acquisition date, for assets acquired in business combinations.

The determination of useful life requires estimates of their degree of use, as well as expected technological evolution. The assumptions regarding the degree of use, technological framework and future development involve a significant degree of judgement, insofar as the timing and nature of future events are difficult to foresee.

**Note 4. Segment reporting**

a) *Segment Information*

The operating segments of GAS NATURAL FENOSA are:

- Gas distribution. Encompasses the regulated gas distribution business in Spain, Latin America and Others (Italy).

The gas distribution business in Spain includes the regulated gas distribution activity, the services for third-party access to the network, as well as the activities related to distribution.

Distribution in Latin America (Argentina, Brazil, Colombia and Mexico) includes the regulated gas distribution business and the sales to customers at regulated prices.

The gas distribution in Others (Italy) consists of the regulated distribution and commercialisation of gas.

- *Electricity distribution.* Covers the regulated electricity distribution business in Spain, Latin America and Rest of Europe (Moldova).

The electricity distribution business in Spain includes the regulated electricity distribution business and network services for customers, mainly connection rights, metering and other business related to third party access to the distribution network of GAS NATURAL FENOSA. Since 1 July 2009 the so-called integrated tariff has been discontinued through the creation of the commercialisers of last resort.

The electricity distribution business in Latin America relates to the regulated electricity distribution business and sales to customers at regulated prices in Colombia, Guatemala, Nicaragua and Panama.

The electricity distribution business in Moldova consists of the regulated distribution of electricity and its bundled tariff sale in the capital and south and central areas of the country.

- *Electricity generation.* Includes the electricity generation from combined cycle, thermal, nuclear, hydro-electric and cogeneration plants and wind farms in Spain and internationally (Latin America, the Dominican Republic and Costa Rica, Puerto Rico and Kenya).

The Electricity business in Spain includes electricity production activity through combined cycle, thermal, nuclear, hydro, co-generation and wind farm plants, the supply of electricity to wholesale markets and the wholesale and retail commercialisation of electricity in the de-regulated Spanish market (including the supply of last resort as from 1 July 2009).

- Gas. Includes the activity arising from the gas infrastructure, and the supply and commercialisation activity of Unión Fenosa Gas.

The infrastructure business includes the exploration and production of gas from extraction to the liquefaction process. It also includes the value chain activities of Liquefied Natural Gas (LNG) from the exporting countries (liquefaction plants) to the entry points of final markets, including the sea transport of LNG and the regasification process. Also includes Maghreb-Europe pipeline operation.

The Supply and Commercialization business includes the supply and commercialisation of natural gas to wholesale and retail customers in the deregulated Spanish market, as well as the supply of products and services related to retail commercialisation. Furthermore, it includes the sales of natural gas to customers outside Spain.

The business of Unión Fenosa Gas includes the liquefaction activities in Damietta (Egypt), sea transport, regasification in Sagunto and supply and commercialisation of gas, managed jointly with another partner.

- *Other:* Includes the exploitation of the coal field belonging to Kangra Coal (Proprietary), Ltd in South Africa, the activities related to optic fibre and the other non-energy business.

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

## Segmental financial information – Income Statement

	Gas Distribution				Electricity Distribution				Electricity				Gas				Other	
2010	Spain	Latin America	Others	Total	Spain	Latin America	Others	Total	Spain	Latin America	Others	Total	Infrastructure	Supp. and Commerc.	UF GAS	Total		TOTAL
INCN segments	1,299	2,645	210	4,154	884	2,200	188	3,272	5,420	954	96	6,470	264	7,678	849	8,791	584	23,271
INCN inter segments	(127)	-	-	(127)	(55)	(2)	-	(57)	(1,144)	(8)	-	(1,152)	(179)	(1,525)	(365)	(2,069)	(236)	(3,641)
INCN consolidated	1,172	2,645	210	4,027	829	2,198	188	3,215	4,276	946	96	5,318	85	6,153	484	6,722	348	19,630
EBITDA (1)	915	635	70	1,620	645	390	27	1,062	974	263	15	1,252	191	57	224	472	71	4,477
Other income	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	370	370	
Depreciation and amortization expenses	(289)	(112)	(22)	(423)	(213)	(89)	(5)	(307)	(537)	(105)	(6)	(648)	(50)	(14)	(146)	(210)	(128)	(1,716)
Debtors provisions and others	0	(7)	(6)	(13)	(12)	(124)	(1)	(137)	(50)	(4)	-	(54)	-	(31)	-	(31)	(3)	(238)
Operating income	626	516	42	1,184	420	177	21	618	387	154	9	550	141	12	78	231	310	2,893
Net finance cost	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(1,015)
Share of profit of associates	-	-	-	-	-	-	-	-	(1)	-	-	(1)	-	-	3	3	3	5
Income before taxes	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	1,883
Income tax expense	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(468)
Net income after tax from continuing activities	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	1,415
Net income after tax from discontinued activities	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Net income for the period	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	1,415

	Gas Distribution				Electricity Distribution				Electricity				Gas				Other	
2009	Spain	Latin America	Others	Total	Spain	Latin America	Others	Total	Spain	Latin America	Others	Total	Infrastructure	Supp. and Commerc.	UF GAS	Total		TOTAL
INCN segments	1,360	1,959	183	3,502	523	1,231	109	1,863	3,476	929	42	4,447	276	6,853	348	7,477	425	17,714
INCN inter segments	(169)	(10)	-	(179)	(312)	(2)	-	(314)	(489)	-	-	(489)	(173)	(1,461)	(65)	(1,699)	(160)	(2,841)
INCN consolidated	1,191	1,949	183	3,323	211	1,229	109	1,549	2,987	929	42	3,958	103	5,392	283	5,778	265	14,873
EBITDA (1)	927	510	48	1,485	385	236	16	637	806	242	4	1,052	181	396	122	699	50	3,923
Other income	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	50	50
Depreciation and amortization expenses	(315)	(92)	(21)	(428)	(118)	(44)	(5)	(167)	(360)	(163)	(2)	(525)	(48)	(11)	(70)	(129)	(140)	(1,389)
Debtors provisions and others	3	(11)	(2)	(10)	(5)	(67)	1	(71)	(14)	(1)	-	(15)	-	(46)	-	(46)	3	(139)
Operating income	615	407	25	1,047	262	125	12	399	432	78	2	512	133	339	52	524	(37)	2,445
Net finance cost	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(713)
Share of profit of associates	4	-	-	4	-	-	-	-	1	-	-	1	-	-	3	3	51	59
Income before taxes	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	1,791
Income tax expense	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(440)
Net income after tax from continuing activities	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	1,351
Net income after tax from discontinued activities	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	39
Net income for the period	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	1,390

(1) EBITDA is calculated as Operating profit excluding Other net income, plus depreciation and operating provisions.

The EBITDA for 2010 of the "Supply and Commercialisation" segment has decreased by Euros 305 million due to the net effect of various non-recurrent items, amongst which of special note are, amongst others, the additional to the already accounted for in 2009 provisions for risks arising from the litigation with Sonatrach (Note 35).

## Segmental financial information – Assets, liabilities and investments

	Gas Distribution				Electricity Distribution				Electricity				Gas				Other		
2010	Spain	Latin America	Others	Total	Spain	Latin America	Others	Total	Spain	Latin America	Others	Total	Infrastructure	Supp. and Commerc.	UF GAS	Total		TOTAL	
Assets (1)	4,192	2,625	640	7,457	4,959	2,294	128	7,381	11,308	1,738	115	13,161	1,025	2,472	2,293	5,790	1,913	35,702	
Investments under equity method	5	-	-	5	-	-	-	-	29	-	-	-	29	-	1	60	61	10	105
Liabilities (2)	(765)	(532)	(72)	(1,369)	(560)	(815)	(21)	(1,396)	(929)	(201)	(20)	(1,150)	(66)	(2,696)	(115)	(2,877)	(1,571)	(8,363)	
Capital Expenditure (3)	221	108	38	367	313	137	16	466	361	149	2	512	22	19	26	67	131	1,543	

	Gas Distribution				Electricity Distribution				Electricity				Gas				Other		
2009	Spain	Latin America	Others	Total	Spain	Latin America	Others	Total	Spain	Latin America	Others	Total	Infrastructure	Supp. and Commerc.	UF GAS	Total		TOTAL	
Assets (1)	4,197	2,236	537	6,970	5,408	1,873	138	7,419	11,667	1,750	96	13,513	1,095	2,470	2,287	5,852	1,894	35,648	
Investments under equity method	32	-	-	32	-	-	-	-	10	-	-	-	10	-	-	70	70	29	141
Liabilities (2)	(758)	(414)	(69)	(1,241)	(565)	(827)	(115)	(1,507)	(540)	(303)	(23)	(866)	(60)	(2,610)	(122)	(2,792)	(1,546)	(7,952)	
Capital Expenditure (3)	358	105	35	498	236	78	9	323	629	147	13	789	143	18	15	176	13,457	15,243	

(1) Assets by segment consist of operating assets (including property, plant and equipment, intangible assets, inventories, derivatives designated to hedge future trading operations, trade receivables, trade payables and cash and other cash equivalents). They exclude the Tax refundable balances, the financial assets and derivatives for negotiating or hedging loans. The assets not included total Euros 9,641 million at 31 December 2010 (Euros 9,519 million at 31 December 2009).

(2) Liabilities by segment consist of operating liabilities (including derivatives designated as hedges of future operations). They exclude items such as Tax payable, borrowings and respective hedging derivatives. The excluded liabilities total Euros 24,006 million at December 2010 (Euros 25,038 million at December 2009).

(3) The investment includes intangible assets (Note 5) and property, plant and equipment (Note 6).

b) *Reporting by geographic area*

The home-country of GAS NATURAL FENOSA - which is also the main operating company - is Spain. The areas of operation are principally Rest of Europe (Italy, France and Moldova), Latin America, Africa and others.

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

	<b>2010</b>	<b>2009</b>
Spain	11,772	9,381
Rest of Europe	1,192	860
Latin America	5,954	4,243
Africa and others	712	389
<b>Total</b>	<b>19,630</b>	<b>14,873</b>

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

	<b>At 31.12.10</b>	<b>At 31.12.09</b>
Spain	27,556	28,271
Rest of Europe	693	851
Latin America	6,508	5,969
Africa and others	1,050	698
<b>Total</b>	<b>35,807</b>	<b>35,789</b>

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

	<b>At 31.12.10</b>	<b>At 31.12.09</b>
Spain	1,047	1,440
Rest of Europe	57	44
Latin America	400	329
Africa and others	39	60
<b>Total</b>	<b>1,543</b>	<b>1,873</b>

## Note 5. Intangible assets

The movement in 2010 and 2009 (restating the balances under the application of IFRIC 12) in intangible assets is as follows:

	Concession and other rights to use	Computer software	Other intangible assets	Subtotal	Goodwill	Total
Cost, gross	2,428	434	271	3,133	546	3,679
Accumulated depreciation	(869)	(280)	(30)	(1,179)	-	(1,179)
<b>Net carrying value at 1.1.09 (1)</b>	<b>1,559</b>	<b>154</b>	<b>241</b>	<b>1,954</b>	<b>546</b>	<b>2,500</b>
Investment	39	75	38	152	5	157
Divestitures	-	(6)	(133)	(139)	-	(139)
Depreciation charge	(92)	(75)	(47)	(214)	-	(214)
Translation adjustment	197	2	(8)	191	1	192
Business combination (Note 30)	818	38	2,454	3,310	5,670	8,980
Reclassifications and others (2)	70	2	4	76	(166)	(90)
<b>Net carrying value at 31.12.09 (1)</b>	<b>2,591</b>	<b>190</b>	<b>2,549</b>	<b>5,330</b>	<b>6,056</b>	<b>11,386</b>
Cost, gross	3,614	561	2,620	6,795	6,056	12,851
Accumulated depreciation	(1,023)	(371)	(71)	(1,465)	-	(1,465)
<b>Net carrying value at 1.1.10 (1)</b>	<b>2,591</b>	<b>190</b>	<b>2,549</b>	<b>5,330</b>	<b>6,056</b>	<b>11,386</b>
Investment	42	76	31	149	-	149
Divestitures	(1)	-	(56)	(57)	-	(57)
Depreciation charge	(112)	(70)	(139)	(321)	-	(321)
Translation adjustment	154	3	2	159	20	179
Business combination (Note 30)	-	-	-	-	-	-
Reclassifications and others (3)	57	4	(100)	(39)	(74)	(113)
<b>Net carrying value at 31.12.10</b>	<b>2,731</b>	<b>203</b>	<b>2,287</b>	<b>5,221</b>	<b>6,002</b>	<b>11,223</b>
Cost, gross	3,902	588	2,521	7,011	6,002	13,013
Accumulated depreciation	(1,171)	(385)	(234)	(1,790)	-	(1,790)
<b>Net carrying value at 31.12.10</b>	<b>2,731</b>	<b>203</b>	<b>2,287</b>	<b>5,221</b>	<b>6,002</b>	<b>11,223</b>

(1) Balances restated at 1 January 2009 and at 31 December 2009 under the application of IFRIC 12 (Note 32).

(2) Includes the decrease of the part of the goodwill of UNIÓN FENOSA, totalling Euros 76 million, which was allocated to the assets of EPSA, which were sold in December 2009; as well as the transfer of the goodwill of the combined cycle electricity companies in Mexico to "Non-current assets held for sale" totalling Euros 89 million (Note 9).

(3) Includes mainly transfers of wind generation development projects to "Property, plant and equipment under construction" totalling Euros 64 million as well as transfers to "Non-current assets held for sale" totalling Euros 71 million (Note 9).

"Concessions and the like" includes the value of the concessions that are considered intangible assets in accordance with IFRIC 12 "Service Concession Agreements" (Note 32), amounting to Euros 1,592 million (Euros 1,450 in 2009).

Also includes the Maghreb-Europe pipeline concession, through which GAS NATURAL FENOSA has exclusive use until 2021 (renewable) and the obligation to maintain and improve it, if necessary. The net carrying value totals Euros 327 million at 31 December 2010 (Euros 325 million at 31 December 2009).

Also includes the electricity distribution concessions acquired as a result of the business combination of UNIÓN FENOSA totalling Euros 802 million at 31 December 2010 (Euros 813 million at 31 December 2009), of which Euros 684 million relate to electricity distribution concessions in Spain that have an indefinite useful life (Note 30) and Other relates to electricity distribution concessions in Latin America.

"Other intangible assets" mainly includes:

- Projects underway for wind farms totalling Euros 34 million at 31 December 2010 (Euros 98 million at 31 December 2009)

- The cost of acquisition of the exclusive regasification rights in Puerto Rico totalling Euros 58 million at 31 December 2010 (Euros 57 million at 31 December 2009).
- The CO<sub>2</sub> emission allowances acquired, including those acquired as a result of the business combination of UNIÓN FENOSA, for Euros 44 million (Euros 69 million at 31 December 2009).
- Other intangible assets acquired as a result of the business combination of UNIÓN FENOSA totalling Euros 2,073 million at 31 December 2010 (Euros 2,199 million at 31 December 2009) which mainly includes gas supply contracts and other contractual rights (Note 30).

Set out below is a summary of goodwill assignment by segment:

At 31.12.10						
	Gas Distribution	Electricity Distribution	Electricity	UF GAS	Other	Total
Spain	-	1,133	2,948	891	-	4,972
Latin America	81	206	534	-	-	821
Others	143	14	16	-	36	209
	<b>224</b>	<b>1,353</b>	<b>3,498</b>	<b>891</b>	<b>36</b>	<b>6,002</b>

  

At 31.12.09						
	Gas Distribution	Electricity Distribution	Electricity	UF GAS	Other	Total
Spain	-	1,133	3,015	891	-	5,039
Latin America	74	205	529	-	-	808
Others	143	15	16	-	35	209
	<b>217</b>	<b>1,353</b>	<b>3,560</b>	<b>891</b>	<b>35</b>	<b>6,056</b>

The impairment tests have been carried out at 31 December 2010 and 2009. On the basis of the goodwill impairment analysis it cannot be deduced that impairment will probably arise in the future (Note 3.4.5).

The intangible assets include, at 31 December 2010, fully amortised assets still in use totalling Euros 304 million.

## Note 6. Property, plant and equipment

The movements in the accounts in 2010 and 2009 (restating the balances under the application of IFRIC 12) under property, plant and equipment and their respective accumulated amortisation and provisions have been as follows:

	Land and buildings	Gas installations	Electricity generation plants	Plant for electricity transport and distribution	Gas transport tankers	Other PPE	PPE under construction	Total
Cost, gross	248	7,701	3,430	-	433	566	763	13,141
Accumulated amortisation	(71)	(3,310)	(488)	-	(66)	(283)	-	(4,218)
<b>Net carrying value at 1.1.09 <sup>(1)</sup></b>	<b>177</b>	<b>4,391</b>	<b>2,942</b>	<b>-</b>	<b>367</b>	<b>283</b>	<b>763</b>	<b>8,923</b>
Investment	9	385	72	36	83	71	1,065	1,721
Divestitures	(33)	(50)	(11)	(13)	-	(2)	(5)	(114)
Amortisation	(13)	(362)	(509)	(171)	(21)	(114)	-	(1,190)
Translation adjustment	(3)	(17)	(75)	(16)	-	(5)	(22)	(138)
Business combinations (Note 30)	333	525	8,536	5,294	146	546	1,430	16,810
Reclassifications and others (2)	43	(462)	(1,208)	165	-	48	(1,228)	(2,642)
<b>Net carrying value at 31.12.09 <sup>(1)</sup></b>	<b>513</b>	<b>4,410</b>	<b>9,747</b>	<b>5,295</b>	<b>575</b>	<b>827</b>	<b>2,003</b>	<b>23,370</b>
Cost, gross	579	7,740	10,142	5,314	661	1,086	2,003	27,525
Accumulated amortisation	(66)	(3,330)	(395)	(19)	(86)	(259)	-	(4,155)
<b>Net carrying value at 1.1.10 <sup>(1)</sup></b>	<b>513</b>	<b>4,410</b>	<b>9,747</b>	<b>5,295</b>	<b>575</b>	<b>827</b>	<b>2,003</b>	<b>23,370</b>
Investment	27	248	78	182	-	45	814	1,394
Divestitures	(4)	(5)	(14)	(9)	-	-	(36)	(68)
Amortisation	(18)	(355)	(670)	(253)	(24)	(75)	-	(1,395)
Translation adjustment	16	107	115	148	-	25	50	461
Business combinations (Note 30)	-	-	-	-	-	-	-	-
Reclassifications and others (3)	26	19	999	301	-	(7)	(1,894)	(556)
<b>Net carrying value at 31.12.10</b>	<b>560</b>	<b>4,424</b>	<b>10,255</b>	<b>5,664</b>	<b>551</b>	<b>815</b>	<b>937</b>	<b>23,206</b>
Cost, gross	671	8,229	11,412	6,101	662	1,171	937	29,183
Accumulated amortisation	(111)	(3,805)	(1,157)	(437)	(111)	(356)	-	(5,977)
<b>Net carrying value at 31.12.10</b>	<b>560</b>	<b>4,424</b>	<b>10,255</b>	<b>5,664</b>	<b>551</b>	<b>815</b>	<b>937</b>	<b>23,206</b>

(1) Balances restated at 1 January 2009 and at 31 December 2009 under the application of IFRIC 12 (Note 32).

(2) Includes transfers to "Non-current assets held for sale" totalling Euros 2,253 million, of which Euros 1,079 million relate to assets sold in 2009 (Note 9).

(3) Includes transfers to "Non-current assets held for sale" totalling Euros 615 million (Note 9), of which Euros 28 million relate to assets sold in 2010 (Note 9).

The financial expenses capitalised in 2010 in fixed assets projects during their construction total Euros 47 million (Euros 59 million in 2009). The financial expenses capitalised in 2010 represent 4.5% of the total financial costs of net borrowings (7.3% for 2009). The average capitalisation rate in 2010 and 2009 totals 2.7% and 4.4%, respectively.

"Gas transport tankers" includes the current value, at the date of acquisition, of the payment commitments to the fleet of 6 methane tankers (2 of which have been contracted jointly with the Repsol YPF Group and 2 have been contracted for the joint venture Union Fenosa Gas) under finance leases (Note 17). In 2009 a 138,000 m<sup>3</sup> tank was acquired through a 20-year finance lease, extendible for consecutive periods of 5 years, involving a joint investment of Euros 142 million corresponding to the current value of the payments committed by Repsol YPF (50%) and GAS NATURAL FENOSA (50%).

"Electricity generation plants" includes the power islands of the combined cycle plants in Palos de la Frontera and Sagunto acquired under finance leases (Note 16).

"Other PPE" includes at 31 December 2010 the net carrying value of investment in areas with reserves totalling Euros 411 million (Euros 373 million at 31 December 2009), including the investments in the coal field belonging to Kangra Coal (Proprietary), Ltd in South Africa acquired in the business combination of UNIÓN FENOSA and Exploration costs of Euros 73 million (Euros 56 million at 31 December 2009).

Fixed assets under construction at 31 December 2010 basically include investments in:

- The wind farms under construction totalling Euros 149 million.
- Recurrent investment in planning and development of gas and electricity distribution for Euros 103 million and electricity totalling 231 million.

In 2010 the combined cycle plants in Malaga, Puerto de Barcelona and Norte Durango (Mexico) began operating.

In 2009 saw the coming into service of the desulphurization plant at the Narcea III thermal energy plant and the commercial operation for the reconversion of the Meirama thermal energy plant.

Property, plant and equipment includes, at 31 December 2010, fully depreciated assets in use totalling Euros 940 million.

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

GAS NATURAL FENOSA has investment commitments of Euros 426 million at 31 December 2010, basically for the construction of wind farms and gas infrastructure projects.

At 31 December 2010 GAS NATURAL FENOSA did not have any real estate investment.

#### **Note 7. Investments recorded using the equity method**

The movement in 2010 and 2009 in investments measured by equity accounting is as follows:

	2010	2009
<b>At January 1</b>	<b>141</b>	<b>42</b>
Investment	1	5,825
Transfers of available-for-sale financial assets	-	2,457
Change in consolidation method	-	(8,269)
Business combinations	-	429
Share of loss/profit	5	59
Translation adjustments	-	42
Dividends received	(5)	(1)
Divestments and transfers	(37)	(443)
<b>At December 31</b>	<b>105</b>	<b>141</b>

## 2010

On 17 December 2010 saw the sale of 35% de Gas Aragón, S.A. totalling Euros 75 million, generating a pre-tax capital gain of Euros 40 million (Note 28).

## 2009

The investments relates to the acquisition from ACS of the additional 35.3% shareholding in UNIÓN FENOSA and its consolidation as from 28 February 2009 by equity accounting together with the previous shareholding of 14.7% transferred from “Available-for-sale financial assets”, after the elimination of the value adjustments in order to render the value to its historical cost (Notes 3.4.1.e and 8). As a result of the additional acquisitions afterwards, as from 30 April 2009 it has been fully consolidated (Note 3.4.1.e). The contribution of UNIÓN FENOSA to its consolidation by equity accounting totalled Euros 46 million.

On 2 July 2009 the sale of 13.0% of Indra Sistemas, S.A. totalling Euros 321 million materialised, and the remaining 5.0% totalling Euros 123 million was classified as “Available-for-sale financial assets” (Note 8) but having no impacting the Consolidated income statement, given the fact that the sale value of this shareholding is the fair value at the acquisition date of UNION FENOSA (Note 30). The share of net income for the year contributed by Indra Sistemas, S.A. totalled Euros 5 million.

Appendix I lists all investments recorded using the equity method of GAS NATURAL FENOSA.

The percentages of net income of the main associates, none which are listed in a stock exchange, and their assets (including goodwill of Euros 17 million as a result of the business combination of UNION FENOSA), and aggregate liabilities, are as follows:

	Country	Assets	Liabilities	Income	Net income	Shareholding
<b>2010</b>						
Bluemobility Systems, S.L.	Spain	1	-	-	-	20.0%
Enervent, S.A.	Spain	5	2	1	-	26.0%
Ensafeca Holding Empresarial, S.L. <sup>(1)</sup>	Spain	2	-	-	-	18.5%
Gas Aragón, S.A. <sup>(3)</sup>	Spain	-	-	9	3	-
Kromschroeder, S.A.	Spain	7	2	6	-	42.5%
Sistemas Energéticos La Muela, S.A.	Spain	2	-	1	-	20.0%
Sistemas Energéticos Mas Garullo, S.A. <sup>(1)</sup>	Spain	2	1	1	-	18.0%
Sociedade Galega do Medio Ambiente, S.A.	Spain	116	97	41	(2)	49.0%
Subgrupo Eufer <sup>(1)</sup>	Spain	9	4	-	1	9.0-22.5%
Subgrupo Unión Fenosa Gas <sup>(1/2)</sup>	Spain/Oman	117	58	27	3	3.7-10.5%
Torre Marenostrum, S.L.	Spain	33	25	3	-	45.0%
<b>2009</b>						
Enervent, S.A.	Spain	5	3	1	-	26.0%
Ensafeca Holding Empresarial, S.L. <sup>(1)</sup>	Spain	2	-	-	-	18.5%
Gas Aragón, S.A.	Spain	48	22	11	4	35.0%
Kromschroeder, S.A.	Spain	7	2	6	-	42.5%
Sistemas Energéticos La Muela, S.A.	Spain	2	-	1	-	20.0%
Sistemas Energéticos Mas Garullo, S.A. <sup>(1)</sup>	Spain	2	1	1	-	18.0%
Sociedade Galega do Medio Ambiente, S.A.	Spain	121	100	-	-	49.0%
Subgrupo Eufer <sup>(1)</sup>	Spain	18	8	7	1	9.0-22.5%
Subgrupo Unión Fenosa Gas <sup>(1/2)</sup>	Spain/Oman	125	62	38	3	3.7-11.6%
Torre Marenostrum, S.L.	Spain	34	25	3	-	45.0%

<sup>(1)</sup> Consolidated by equity accounting in spite of the fact that the shareholding percentage is below 20%, since GAS NATURAL FENOSA has a significant representation in its management.

<sup>(2)</sup> Includes the shareholdings in the associates Qalhat LNG S.A.O.C. and Regasificadora del Noroeste, S.A. managed through the Unión Fenosa Gas subgroup.

<sup>(3)</sup> Includes the results of Gas Aragón, S.A. until the date of its sale, 17 December 2010.

## Note 8. Financial assets

The breakdown of financial assets, excluding those carried under "Trade and other receivables" (Note 11) and "Cash and other cash equivalents" (Note 12), at 31 December 2010 and 2009 (restating the balances under the application of IFRIC 12), classified according to their nature and account, is as follows:

At 31 December 2010	Available for sale	Loans and other receivables	Investments held to maturity	Hedging derivatives	Total
Equity instruments	90	-	-	-	90
Derivatives (Note 17)	-	-	-	-	-
Other financial assets	-	603	1	-	604
<b>Non-current financial assets</b>	<b>90</b>	<b>603</b>	<b>1</b>	<b>-</b>	<b>694</b>
Other financial assets	-	1,901	-	-	1,901
<b>Current financial assets</b>	<b>-</b>	<b>1,901</b>	<b>-</b>	<b>-</b>	<b>1,901</b>
<b>Total</b>	<b>90</b>	<b>2,504</b>	<b>1</b>	<b>-</b>	<b>2,595</b>

At 31 December 2009	Available for sale	Loans and other receivables	Investments held to maturity	Hedging derivatives	Total
Equity instruments	219	-	-	-	219
Derivatives (Note 17)	-	-	-	1	1
Other financial assets	-	449	1	-	450
<b>Non-current financial assets</b>	<b>219</b>	<b>449</b>	<b>1</b>	<b>1</b>	<b>670</b>
Other financial assets	-	1,388	1	-	1,389
<b>Current financial assets</b>	<b>-</b>	<b>1,388</b>	<b>1</b>	<b>-</b>	<b>1,389</b>
<b>Total (1)</b>	<b>219</b>	<b>1,837</b>	<b>2</b>	<b>1</b>	<b>2,059</b>

(1) Balances restated at 1 January 2009 and at 31 December 2009 under the application of IFRIC 12 (Note 32).

### Available-for-sale financial assets

The breakdown of fair value financial assets through profit and loss, at December 31, 2010 and 2009, according with the method applied for calculating their fair value is as follows:

	2010				2009			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
<b>At 1 January</b>	<b>141</b>	-	<b>78</b>	<b>219</b>	<b>2,571</b>	-	<b>28</b>	<b>2,599</b>
Increases	-	-	4	4	-	-	-	-
Transfers to/from associates	-	-	-	-	(2,334)	-	-	(2,334)
Divestments	(127)	-	-	(127)	(261)	-	(3)	(264)
Business combinations	-	-	-	-	101	-	51	152
Fair value adjustment	(14)	-	-	(14)	60	-	-	60
Translation adjustments	-	-	11	11	2	-	3	5
Transfers and others	-	-	(3)	(3)	2	-	(1)	1
<b>At 31 December</b>	<b>-</b>	<b>-</b>	<b>90</b>	<b>90</b>	<b>141</b>	<b>-</b>	<b>78</b>	<b>219</b>

### 2010

In 2010 the main variation in “Available-for-sale financial assets” was the result of the sale in April 2010 of the 5% stake in Indra Sistemas, S.A. totalling Euros 127 million, which has generated a pre-tax profit of Euros 4 million, thus decreasing reserves for Value adjustments (Note 28).

### 2009

The main variations in “Available-for-sale financial assets” are as follows:

- The transfer of the equity investment in UNIÓN FENOSA, after derecognition of the value adjustments in order to valuate it at historical cost, totalling Euros 2,457 million, to “Investments measured by equity accounting” as a result of consolidation as from 28 February 2009 (Note 7).

- The partial sales in May and July 2009 of the shareholding of 1% of Isagen S.A. E.S.P. by UNIÓN FENOSA totalling Euros 63 million, with no impact on the Consolidated income statement, given that the sale value of this shareholding was the fair value at the date of acquisition of UNIÓN FENOSA (Note 30).
- The sale in May 2009 of the 1% shareholding in Red Eléctrica Corporación, S.A. by UNIÓN FENOSA totalling Euros 43 million, with no impact on the Consolidated income statement, given that the sale value of this shareholding was the fair value at the date of acquisition of UNIÓN FENOSA (Note 30).
- The sale in June 2009 of the 5% shareholding in Enagás, S.A. by Gas Natural SDG, S.A., totalling Euros 155 million, which generated a profit before tax of Euros 101 million, reduced reserves due to value adjustments (Note 28).
- The transfer in June 2009 of the 5% shareholding in Indra Sistemas, S.A. as an available-for-sale financial asset (Note 7), which value is in line with the share price at 31 December 2009 totalling Euros 141 million.

### **Loans and other receivables**

The breakdown at 31 December 2010 and 2009 is as follows:

	<b>At 31.12.10</b>	<b>At 31.12.09 (1)</b>
Commercial loans	182	108
Deposits and guarantee deposits	156	125
Debtors for levelling of capacity income	17	14
Other loans	248	202
<b>Loans and other receivables non current</b>	<b>603</b>	<b>449</b>
Commercial loans	56	44
Tariff deficit	1,747	1,267
Dividend receivable	2	3
Others loans	96	74
<b>Loan and other receivables current</b>	<b>1,901</b>	<b>1,388</b>
<b>Total</b>	<b>2,504</b>	<b>1,837</b>

(1) Balances restated at 1 January 2009 and at 31 December 2009 under the application of IFRIC 12 (Note 32).

The breakdown by maturities at December 2010 and 2009 is as follows:

<b>Maturities</b>	<b>At 31.12.10</b>	<b>At 31.12.09</b>
No later than 1 year	1,897	1,388
Between 1 year and 5 years	313	252
Later than 5 years	294	197
<b>Total</b>	<b>2,504</b>	<b>1,837</b>

The fair value and carrying values of these assets do not differ significantly.

"Comercial loans" mainly include the credits for the heating sale and gas installations with long-term financing. The respective interest rates (between 7.75% and 9% for loans from 1 to 5 years) are adjusted to market interest rates for this type of loans and duration.

"Deposits and guarantee deposits" mainly include the amounts received from customers when they contract services as a guarantee for the supply of energy and which, under pertinent legislation, have been deposited with the public authorities.

The financing of the deficit for the settlement of the regulated electricity activities is included under "Other current financial assets", in accordance with the fact that, base

on current legislation, there is a right to receive payment without submission to future contingent factors, and recovery is expected in less than 12 months. At 31 December 2010 GAS NATURAL FENOSA has a debt claim for this deficit totalling Euros 1,747 million for 2006 (Euros 207 million), for 2008 (Euros 482 million), for 2009 (Euros 570 million) and for 2010 (Euros 488 million). These assets accrue market interest rate (Note 2).

Debtors for levelling of capacity income includes the income yet to be invoiced recognised through the levelling during the term of the generation capacity commitment contract in Puerto Rico.

“Other credits” includes the value of the concessions that are classified as financial assets in accordance with IFRIC 12 “Service Concession Agreements” (Note 32).

Other loans include the current and non-current value of the deferred amounts pending receipt for the sale of shareholdings mentioned in Note 18 to Chemo España, S.L. for USD 18 million maturing between 2011 and 2013.

### **Hedging derivatives**

The variables on which the measurement of hedging derivatives are based and included in this account can be observed in an official market (Level 2).

Note 17 includes the breakdown of the derivative financial instruments.

## Note 9. Non-current assets and disposable groups of assets held for sale and discontinued activities

The breakdown by nature of the assets classified as held for sale and the related liabilities, is as follows:

	At 31 December 2010			At 31 December 2009				
	Gas distribution in Spain (1)	Electricity Spain (2)	Electricity Latin America (3)	Total	Gas distribution in Spain (1)	Electricity Spain (2)	Electricity Latin America (3)	Total
Intangible assets	-	71	-	71	-	-	91	91
Property, plant and equipment	-	587	-	587	274	-	900	1,174
Non-current financial assets	-	7	-	7	7	-	45	52
Deferred tax asset	-	2	-	2	1	-	68	69
<b>NON-CURRENT ASSETS</b>	<b>-</b>	<b>667</b>	<b>-</b>	<b>667</b>	<b>282</b>	<b>-</b>	<b>1,104</b>	<b>1,386</b>
Inventories	-	1	-	1	2	-	18	20
Trade and other receivables	-	22	-	22	88	-	102	190
Cash and cash equivalents	-	17	-	17	-	-	98	98
<b>CURRENT ASSETS</b>	<b>-</b>	<b>40</b>	<b>-</b>	<b>40</b>	<b>90</b>	<b>-</b>	<b>218</b>	<b>308</b>
<b>TOTAL ASSETS</b>	<b>-</b>	<b>707</b>	<b>-</b>	<b>707</b>	<b>372</b>	<b>-</b>	<b>1,322</b>	<b>1,694</b>
Grants	-	-	-	-	23	-	-	23
Non-current provisions	-	-	-	-	1	-	28	29
Non-current financial liabilities	-	12	-	12	-	-	3	3
Deferred tax liabilities	-	34	-	34	12	-	162	174
Other non-current liabilities	-	3	-	3	3	-	186	189
<b>NON-CURRENT LIABILITIES</b>	<b>-</b>	<b>49</b>	<b>-</b>	<b>49</b>	<b>39</b>	<b>-</b>	<b>379</b>	<b>418</b>
Current provisions	-	-	-	-	-	-	1	1
Current income tax liabilities	-	262	-	262	-	-	3	3
Trade and other payables	-	36	-	36	29	-	28	57
Other current liabilities	-	3	-	3	-	-	5	5
<b>CURRENT LIABILITIES</b>	<b>-</b>	<b>301</b>	<b>-</b>	<b>301</b>	<b>29</b>	<b>-</b>	<b>37</b>	<b>66</b>
<b>TOTAL LIABILITIES</b>	<b>-</b>	<b>350</b>	<b>-</b>	<b>350</b>	<b>68</b>	<b>-</b>	<b>416</b>	<b>484</b>

(1) Sundry assets in municipalities in the Region of Madrid.

(2) Includes Combined Cycle Group in Plana del Vent and wind far assets to be assigned to Enel Green Power.

(3) Electricity generation assets in Mexico.

The contribution to total consolidated comprehensive income of these assets is not significant.

We describe below the main variations in assets and liabilities held for sale:

#### Assets and liabilities classified held for sale in 2010

On 12 July 2010, GAS NATURAL FENOSA entered into an agreement with the Alpiq Group for the sale of 400MW generator at the combined cycle plant in Plana del Vent totalling Euros 200 million. Moreover, Alpiq will have the exclusive right of use and operation of the other 400 MW generator for a period of two years, over which it can exercise, at the end of these periods, a purchase right totalling Euros 195 million which related to representing market value of this right. This transaction is part of the compliance with the commitments acquired by GAS NATURAL FENOSA before the Spanish National Anti-Trust Authorities for the purchase of UNIÓN FENOSA and is subject to obtaining the pertinent authorizations. Since 30 June 2010 the assets of the group agreed under the same have been classified as non-current assets held for sale.

In accordance with the provisions of the Ninth Temporary Provision of Law 17/2007/4 July, which modifies the Electricity Industry Act, Law 54/97, which requires that distribution companies sell their networks and electricity transport facilities, on 23 July 2010 Unión Fenosa Distribución, S.A.U and Red Eléctrica de España, S.A.U. reached an agreement on the sale electricity transport assets, subject to the respective administrative authorisation. Since that date these assets have been classified as non-current assets held for sale. After obtaining the respective authorisations, the sale was made on 30 November 2010 for an amount of Euros 47 million, generating a pre-tax gain of Euros 5 million (Note 27).

On 2 August 2010, GAS NATURAL FENOSA and Enel Green Power agreed to terminate their collaboration on renewable energy which until that time were channelled through Enel Unión Fenosa Renovables, S.A. (EUFER), a company in which each shareholder held a 50% stake. After this operation, each shareholder will receive approximately half of the assets of EUFER. The operation was approved on 10 November 2010 by the anti-trust authorities, pending regulatory and administrative authorization. The portion of the assets and liabilities on the consolidated balance sheet of GAS NATURAL FENOSA that will be assigned to Enel Green Power have been classified as non-current assets and liabilities held for sale.

#### Assets and liabilities classified held for sale in 2009

On 20 July 2009, GAS NATURAL FENOSA agreed with Naturgas Energía Grupo, S.A. and certain group companies to sell the gas distribution branch in Cantabria and Murcia, the natural gas and electricity branch for distribution to domestic-commercial customers and Small and Medium Sized Companies and the shared services branch in these regions, as well as the high pressure distribution networks in Cantabria, País Vasco and Asturias. This transaction was carried out as part of the action plan adopted by the National Anti-Trust Commission in relation to the acquisition of Unión Fenosa (Note 3.4.1.e and Note 34) and was subject to approval by the regulatory and anti-trust authorities. Since that date these assets have been classified as non-current assets held for sale. After obtaining the respective authorisations the sale was made on 31 December 2009 in the amount of Euros 330 million, generating a profit before tax of Euros 50 million (Note 27).

On 19 December 2009, GAS NATURAL FENOSA agreed with Morgan Stanley Infraestructura and Galp Energia SGPS and certain companies in their groups to the sale of the natural gas distribution branch in 38 municipalities of the Region of Madrid, the natural gas and electricity supply branch for domestic-commercial customers and small and medium sized companies and the shared services branch in those regions.

This transaction was carried out as part of the action plan adopted by the National Anti-Trust Commission in relation to the acquisition of UNIÓN FENOSA (Note 3.4.1.e. and Note 34) and is subject to adoption by the regulatory and anti-trust authorities, which is expected to be completed in May 2010. Since the date of the agreement, these assets have been classified as non-current assets held for sale. The amount agreed for the sale totals Euros 800 million, generating a pre-tax gain of Euros 380 million, carried under "Other results" in the Consolidated Income Statement (Note 27).

On 24 December 2009, GAS NATURAL FENOSA entered into an agreement with Mitsui Group and Tokyo Gas Company for the divestment of the following combined cycle electricity companies: México Anahuac (Río Bravo II), Lomas del Real (Río Bravo III), Vallehermoso (Río Bravo IV), Electricidad Aguila Altamiras and Saltillo, with a total generation capacity of 2.233 MW, and the Gasoducto del Río. After obtaining authorisation from the Mexican authorities, the sale was completed on 3 June 2010. Under this agreement Mitsui Group and Tokio Gas Company reached a 76% stake through a capital increase that diluted the shareholding of GAS NATURAL FENOSA and, afterwards, a 24% purchase option was exercised on the remaining capital. Since the date of this agreement these assets were considered non-current assets held for sale. After obtaining the respective authorisations, the transfer of control of all the companies took place on 3 June 2010 for the amount of Euros 1,012 million, generating a loss before tax of Euros 4 million, included under "Other results" in the Consolidated Income Statement (Note 27).

#### Discountinued operations

On 17 October 2009, GAS NATURAL FENOSA agreed with Colener, S.A.S., Investments Argos S.A. and Banca de Inversión Bancolombia S.A.- Corporación Financiera the sale of its 63.8% shareholding in the Colombian company Empresa de Energía del Pacífico, S.A. (EPSA). This sale was subject to the authorisation by the *Superintendencia Financiera de Colombia* of the Takeover Bid for 66.1% of the shares of EPSA. Since that date these assets have been classified as non-current assets held for sale. After obtaining the respective authorisations, the sale was made on 9 December 2009 for Euros 690 million, generating a capital gain before tax of Euros 11 million.

The assets and liabilities related to EPSA have been classified as discontinued activities, given that they are considered components representing a significant business line (electricity generation in Colombia). The other related assets and liabilities in 2010 and 2009 do not represent a significant business line or geographic area, and, accordingly, they are classified as discontinued activities.

The breakdowns by nature under "Net income after tax from discontinued activities" in the Consolidated income statement and cash flows in the Consolidated statement of cash flows, relating to EPSA, are as follows:

	At 31 December 2010	At 31 December 2009 (1)
Sales	-	188
Procurements	-	(80)
Other operating income	-	2
Personnel costs	-	(9)
Other operating expenses	-	(2)
Depreciation and amortisation expenses	-	(15)
<b>OPERATING INCOME</b>	<b>-</b>	<b>84</b>
Financial income	-	12
Financial expenses	-	(10)
<b>NET FINANCIAL INCOME (EXPENSE)</b>	<b>-</b>	<b>2</b>
Results of sale of assets	-	11
<b>NET INCOME BEFORE TAX</b>	<b>-</b>	<b>97</b>
Income tax expense	-	(58)
<b>NET INCOME FOR THE YEAR FROM DISCONTINUED ACTIVITIES</b>	<b>-</b>	<b>39</b>
<b>NET OF TAX</b>	<b>-</b>	<b>-</b>

	At 31 December 2010	At 31 December 2009 (1)
Net cash from operating activities	-	46
Net cash from investing activities	-	59
Net cash from financing activities	-	(106)

(1) Relates to the period from 30 April 2009 (acquisition date of UNIÓN FENOSA) until 9 December 2009 (date of sale of EPSA).

## Note 10. Inventories

The breakdown of Inventories is as follows:

	At 31.12.10	At 31.12.09
Natural gas and liquefied gas	414	360
Coal and fuel oil	234	241
Nuclear fuel	52	48
Raw materials and other inventories	55	91
<b>Total</b>	<b>755</b>	<b>740</b>

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

## Note 11. Trade and other receivables

The breakdown of this account is as follows:

	At 31.12.10	At 31.12.09 (1)
Trade receivables	4,267	3,576
Receivables with related companies (Note 33)	62	84
Provision for depreciation of receivables	(383)	(208)
Trade receivables for goods and services	3,946	3,452
Public Administrations	208	121
Prepayments	46	46
Derivative financial instruments (see Note 17)	93	30
Sundry receivables	187	543
Other receivables	534	740
Current deferred income tax assets	112	40
<b>Total</b>	<b>4,592</b>	<b>4,232</b>

(1) Balances restated at 1 January 2009 and at 31 December 2009 under the application of IFRIC 12 (Note 32).

The movement in the impairment of receivables is as follows:

	2010	2009
<b>At 1 January</b>	<b>(208)</b>	<b>(183)</b>
Net charge for the year	(238)	(138)
Disposals	98	116
Cumulative translation adjustments and others	(35)	(3)
<b>At 31 December</b>	<b>(383)</b>	<b>(208)</b>

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

## Note 12. Cash and cash equivalents

Cash and cash equivalents comprise the following:

	At 31.12.10	At 31.12.09
Cash at bank and in hand	824	435
Short term investments (Spain and rest of Europe)	296	25
Short term investments (International)	83	129
<b>Total</b>	<b>1,203</b>	<b>589</b>

Bank deposits are very liquid (less than 10 days). The average effective interest rate is 1.6% at December 2010 (2.1% at December 2009).

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

- Spain and rest of Europe: 0.8 % at December 2010 and 0.6% at December 2009.
- International: 2.5% at December 2010 and 5.1% at December 2009.

## Note 13. Equity

The main elements of Equity break down as follows:

### Share capital and share premium

The variations in 2010 and 2009 in the number of shares and share capital and share premium accounts have been as follows:

	Number of shares (in thousands)	Share capital	Share premium	Total
<b>At 1 January 2009</b>	<b>447,776</b>	<b>448</b>	-	<b>448</b>
Capital increase	473,981	474	3,331	3,805
- in cash	447,776	448	2,983	3,431
- in swap	26,205	26	348	374
<b>At 31 December 2009</b>	<b>921,757</b>	<b>922</b>	<b>3,331</b>	<b>4,253</b>
Variation	-	-	-	-
<b>At 31 December 2010</b>	<b>921,757</b>	<b>922</b>	<b>3,331</b>	<b>4,253</b>

At 31 December 2010 and at 31 December 2009 the total number of authorised ordinary shares was, respectively, 921,756,951 shares, made by accounting entries, with a par value of Euro 1 each. All the shares issued are fully paid and have the same economic and voting rights.

The Extraordinary General Meeting of Shareholders of 10 March 2009 adopted a resolution to increase share capital by recognising the preferred subscription right of the shareholders by Euros 448 million through the issue and circulation of 447,776,028 new ordinary shares issued at Euros 7.82 per share (par value of Euros 1 and a share premium of Euros 6.82), and, accordingly, the effective total of the capital increase came to Euros 3,502 million. From this amount we must subtract the cost of issuing the new shares, which totalled Euros 101 million (Euros 71 million net of tax), and, accordingly, the net capital increase totalled Euros 3,431 million (Euros 448 million in share capital and Euros 2,983 million in share premium). The capital increase was subscribed and fully paid and was inscribed in the Mercantile Register on 2 April 2009 while the shares representing the increase have been traded on the Stock Exchange as from 3 April 2009.

As indicated in Note 3.4.1.e, the General Meeting of Shareholders of 26 June adopted a resolution on the takeover merger by Gas Natural SDG, S.A. (merging company) and Unión Fenosa, S.A. and Unión Fenosa Generación S.A. (merged companies). As a result of the swap equation agreed, and later revised by an independent expert, consisting of 3 shares of Gas Natural SDG, S.A. for every 5 shares of Unión Fenosa S.A., a capital increase was agreed totalling Euros 26,204,895 through the issue of 26,204,895 new shares with a par value of Euro 1 each, under the same class and series as those now in circulation. The subscription of these shares was reserved for the shareholders of Unión Fenosa, S.A. without a preferred subscription right being granted to the shareholders of Gas Natural SDG, S.A. On 1 September 2009, after complying with the legal deadlines and obtaining all necessary authorisations, the merger was inscribed in the Mercantile Registry and took effect as from that date. The recording of the shares issued at fair value in line with the share price at the issue date totalled Euros 375 million (Euros 26 million in share capital and Euros 348 million in share premium, net of the cost of issuing the shares). Given that the shares received relate to the minority interest of 4.8% in the merged subsidiary company Unión Fenosa, S.A., this transaction has been treated for accounting purposes as an acquisition of minority interest, whose value totalled Euros 488 million, and, accordingly, the difference of Euros 113 million against the fair value of the shares given has been recorded under "Reserves" (see "Capital increase" line in the Consolidated statement of changes in net equity in 2009).

By virtue of a resolution adopted by the General Meeting of Shareholders of 20 April 2010, the Board of Directors was authorised to acquire fully paid treasury shares for valuable consideration, once or several times, up to a maximum of 5% of share capital, within a period no longer than eighteen months. Likewise, the same Meeting authorised the Board of Directors to be able to increase share capital within a maximum period of five years to the maximum amount corresponding to 50% of share capital of the Company on the date of authorisation.

The Spanish Capital Companies Act expressly permits the use of the share premium balance to increase capital and does not establish a specific restriction on the availability of this balance.

In 2010 and 2009 no transfers of treasury shares took place.

According to the information available publicly, the most relevant interests in the capital of Gas Natural SDG, S.A. at 31 December 2010 are as follows:

	Interest in share capital %
- Grupo "la Caixa" (Criteria CaixaCorp, S.A.)	36.6
- Grupo Repsol YPF	30.0
- Catalunya Caixa	1.6

All the shares of Gas Natural SDG, S.A. are traded on the four official Spanish Stock Exchanges, the "Mercado continuo" and form part of Spain's Ibex 35 stock index.

The share price at the end of 2010 of Gas Natural SDG, S.A. is Euros 11.49 (Euros 15.09 at 31 December 2009).

## Reserves

Reserves includes the following reserves:

	2010	2009
Legal reserve	185	90
Statutory reserve	89	68
Revaluation reserve under RD 7/96	225	225
Goodwill reserve	179	-
Voluntary and other reserves	5,428	5,292
	<b>6,106</b>	<b>5,675</b>

### Legal reserve

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

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

### Statutory reserve

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

### Revaluation reserve

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

### Goodwill reserve

Under the Spanish Capital Companies Act, Gas Natural SDG, S.A. must appropriate a non-distributable reserve equivalent to the goodwill carried on the asset side of the balance sheet in an amount that represents at least 5% of goodwill. If there are no profits, or the profits are insufficient, to do so, the Share Premium or Freely Available Reserves can be used.

### Earnings per share

The earnings per share are calculated by dividing the net income attributable to the equity holders of the parent Company by the average weighted number of ordinary shares in circulation during the year.

	At 31.12.10	At 31.12.09
Net income attributable to equity holders of the Company	1,201	1,195
Weighted average number of ordinary shares in issue (million)	922	809
Earnings per share from continuing activities (in Euros):		
- Basic	1.30	1.45
- Diluted	1.30	1.45
Earnings per share from discontinued activities (in Euros):		
- Basic	-	0.03
- Diluted	-	0.03

In order to calculate the average weighted number of ordinary shares in circulation in 2009, the shares issued in the capital increases and the adjustment arising from the share capital with preferential subscription rights of 447,776,028 shares have been taken into account.

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

### Dividends

We break down below the payments of dividends made in 2010 and 2009:

	31/12/2010			31/12/2009		
	% of par value	Euros per share	Amount (1)	% of par value	Euros per share	Amount (2)
Ordinary shares	79%	0.79	730	98%	0.98	663
Remaining shares (no vote, redeemable, etc.)	-	-	-	-	-	-
<b>Total dividends paid</b>	<b>79%</b>	<b>0.79</b>	<b>730</b>	<b>98%</b>	<b>0.98</b>	<b>663</b>
a) Dividends charged to income	79%	0.79	730	88%	0.88	573

statement						
b) Dividends charged to reserves or share premium	-	-	-	10%	0,10	90
c) Dividends in kind	-	-	-	-	-	-

(1) Includes the payment of the interim dividend of Euros 0.35 per share, totalling Euros 324 million, agreed on 27 November 2009 and paid on 8 January 2010 and the supplementary dividend 2009 of Euros 0.44 per share, totalling Euros 406 million, agreed on 20 April 2010 and paid on 1 July 2010.

(2) Includes el payment of the interim dividend of Euros 0.48 per share, totalling Euros 215 million agreed on 28 November 2008 and paid on 8 January 2009, as well as the supplementary dividend for 2008 of Euros 0.40 per share totalling Euros 358 million and the extraordinary dividend of Euros 0.10 per share totalling Euros 90 million agreed on 26 June 2009, and paid on 3 July 2009.

The Board of Directors of Gas Natural SDG, S.A. agreed, at its meeting of 26 November 2010, to distribute an interim dividend against the income statement for 2010 of Euros 0.35 per share, totalling Euros 324 million, payable as from 7 January 2011.

At the date of approval of the interim dividend, the Company had the necessary liquidity to pay it in accordance with requirements established under the Spanish Capital Companies Act. The provisional accounting statement of the Company formulated by the Directors at 26 November 2010 is as follows:

Net income after tax	657
Reserves to be allocated	(192)
Maximum amount available for distribution	465
Forecast payment of interim dividend	324
Treasury liquidity	115
Undrawn credit facilities	9,394
<b>Total liquidity</b>	<b>9,509</b>

On 28 January 2011, the Board of Directors adopted the proposal to submit the following distribution of net profit of Gas Natural SDG, S.A. for FY 2010 to the General Meeting of Shareholders:

<b>Basis for distribution</b>	
Profit and (loss)	1,021
<b>Distribution</b>	
To Statutory reserve	3
To the Goodwill reserve	179
To voluntary reserve	102
To dividend	324
<b>To retained earnings</b>	<b>413</b>

The proposed distribution of results prepared by the Board of Directors for approval by the General Meeting of Shareholders includes the payment of a dividend of Euros 324 million (equivalent to the amount allocated to the interim dividend for 2010) to be paid as from 7 January 2011, as well as an increase in the share bonus issue through the issue of new ordinary shares with a maximum quotation market value of Euros 413 million. This capital increase will offer the shareholders the possibility of receiving ordinary shares of Gas Natural SDG, S.A. instead of what they would have been paid, in July 2011, for the final dividend for 2010, and contemplates the creation by Gas Natural SDG, S.A. of mechanisms to guarantee that those shareholders who so desire can receive the amount in cash.

### **Minority Interest**

As a result of the business combination of UNIÓN FENOSA in 2009, the value of the shareholding of its minority interests has been consolidated (Note 30).

In 2005 Unión Fenosa Preferentes, S.A. issued preference shares for a nominal amount of Euros 750 million, which was booked under "Minority interest" and has been consolidated as a result of the acquisition of UNIÓN FENOSA. The main characteristics are:

- Dividend: variable non-accumulative; from the date of payment until 30 June 2015 it will be Euribor at three months plus a spread of 0.65%; as from that date, it will be Euribor at three months plus a spread of 1.65%.
- Dividend payment: will be paid by calendar quarters in arrears, depending on the existence of distributable profit of GAS NATURAL FENOSA, considering as such the lesser of the net profit declared by the GAS NATURAL FENOSA and the net profit of Gas Natural SDG, S.A. as guarantor.
- Term: perpetual, with the option for the issuer of reducing all or part of the shareholdings after 30 June 2015. Reduction will be made at nominal value.
- Remuneration: the dividend payment will be preferential and not accumulative and depends on whether distributable profit is reported by Gas Natural SDG, S.A. and the payment of a dividend to its ordinary shareholders. The issuer will have the option but not the obligation to pay the shareholders remuneration in kind by increasing the nominal value of the preference shares.
- Voting rights: none.

### **Note 14. Grants**

The breakdown and the movements under capital grants and other deferred income in 2010 and 2009 (restating the balances under the application of IFRIC 12) have been as follows:

	Grants	Revenues from pipeline networks and branch lines	Income from extension of pipelines charged to third parties	Other revenues	Total
<b>At 1.01.09 (1)</b>	93	189	117	25	424
Financing received	90	25	31	33	179
Release to income	(9)	(15)	(11)	(3)	(38)

Cumulative translation adjustments	(2)	-	-	(2)	(4)
Transfers and others	(4)	(7)	(26)	(4)	(41)
<b>At 31.12.09 (1)</b>	<b>168</b>	<b>192</b>	<b>111</b>	<b>49</b>	<b>520</b>
Financing received	37	108	16	11	172
Release to income	(6)	(13)	(11)	(1)	(31)
Cumulative translation adjustments	6	-	-	1	7
Transfers and others	(45)	60	1	(27)	(11)
<b>At 31.12.10</b>	<b>160</b>	<b>347</b>	<b>117</b>	<b>133</b>	<b>657</b>

(1) Relate to the amounts restated according to the consolidated balance sheets for 2008 and 2009 (Note 32).

In 2009 "Transfers and others" includes the divestment of the gas distribution assets in Murcia and Cantabria and the transfer of the account "Non-current assets held for sale" of the gas distribution assets in Madrid mentioned above (Note 9).

### Note 15. Provisions

The breakdown of provisions at 31 December 2010 and 2009 is as follows:

	At 31.12.10	At 31.12.09
Provisions for employee obligations	698	645
Other provisions	2,167	1,236
<b>Non-current provisions</b>	<b>2,865</b>	<b>1,881</b>
<b>Current provisions</b>	<b>127</b>	<b>128</b>
<b>Total</b>	<b>2,992</b>	<b>2,009</b>

#### Provisions for employee obligations

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

	Post-employment pension obligations	Other employee obligations	Total
<b>At 1.1.09</b>	<b>69</b>	-	<b>69</b>
Business combinations	622	45	667
Provisions charged to the income statement	43	-	43
Amounts paid during the year	(54)	(45)	(99)
Cumulative translation adjustments	18	-	18
Variations recognised directly in equity	(30)	-	(30)
Transfers and others	(23)	-	(23)
<b>At 31.12.09</b>	<b>645</b>	-	<b>645</b>
Provisions charged to the income statement	47	-	47
Amounts paid during the year	(75)	-	(75)
Cumulative translation adjustments	37	-	37
Variations recognised directly in equity	45	-	45
Transfers and others	(1)	-	(1)
<b>At 31.12.10</b>	<b>698</b>	-	<b>698</b>

#### **Post-employment pension obligations**

The breakdown of the provisions for post-employment pension obligations by country is as follows:

Breakdown by country	At 31.12.10	At 31.12.09	At 1.1.09

Spain (1)	362	389	33
Colombia (2)	268	222	-
Brazil (3)	57	25	33
Others	11	9	3
<b>Total</b>	<b>698</b>	<b>645</b>	<b>69</b>

*1) Pension plans and other post-employment benefits in Spain*

Most of the post-employment obligations of GAS NATURAL FENOSA in Spain consist of the contribution of defined amount to occupational pension plan systems. Nevertheless, at 31 December 2010 and 31 December 2009, GAS NATURAL FENOSA held the following defined benefit obligations for certain groups of workers:

- Pensioners (retired workers, the disabled, widows and orphans).
- Defined benefit supplement obligations with retired personnel of the legacy Unión Fenosa Group who retired before November 2002 and a residual part of current personnel.
- Coverage of retirement and death for certain employees.
- Gas subsidy for current and retired personnel.
- Electricity for current and retired personnel.
- Liabilities with employees that took early retirement until they reach official retirement age and early retirement plans.
- Salary supplements and contributions to social security for a group of employees taking early retirement until they can access ordinary retirement.
- Health care.

*2) Pension plans and Other post-employment benefits in Colombia*

At 31 December 2010 and 2009 there are following obligations with certain employees of the Colombian company Electrificadora del Caribe, S.A. E.S.P:

- Pension liabilities for retired personnel.
- Post-retirement electricity for current and retired personnel.
- Healthcare and other post-retirement aid

*3) Pension Plans and Other post-employment benefits in Brazil*

At 31 December 2010 and at 31 December 2009, GAS NATURAL FENOSA has the following benefits for certain employees in Brazil:

- Defined post-employment benefits plan, covering retirement, death on the job and disability pensions and overall amounts.
- Post-employment healthcare plan.
- Other defined post employment benefit plans that guarantee temporary pensions, life-time pensions and overall amounts depending on seniority.

The breakdown of the provisions for pensions and liabilities, by country, recognised in the consolidated balance sheet and the fair value of the plan-related assets is as follows:

	2010			2009		
	Spain	Colombia	Brazil	Spain	Colombia	Brazil
<b>Current value of the obligations</b>						
<b>As at 1 January</b>	<b>1,204</b>	<b>222</b>	<b>117</b>	<b>191</b>	<b>-</b>	<b>95</b>
Business combinations	-	-	-	1,045	246	-
Current service cost	4	-	2	5	-	-
Interest cost	54	21	19	45	20	12
Actuarial gains and losses	(4)	26	36	(13)	(9)	(7)
Benefits paid	(97)	(34)	(13)	(69)	(19)	(10)
Transfers	40	-	-	-	(23)	-
Cumulative translation adjustments	-	33	10	-	7	27
Others	(1)	-	-	-	-	-
<b>As at 31 December</b>	<b>1,200</b>	<b>268</b>	<b>171</b>	<b>1,204</b>	<b>222</b>	<b>117</b>
<b>Fair value of plan assets</b>						
<b>As at 1 January</b>	<b>815</b>	<b>-</b>	<b>92</b>	<b>158</b>	<b>-</b>	<b>62</b>
Business combinations	-	-	-	675	-	-
Expected yield	37	-	17	31	-	8
Contributions	36	-	1	11	-	2
Actuarial gains and losses	7	-	7	(10)	-	11
Benefits paid	(97)	-	(10)	(50)	-	(7)
Transfers	40	-	-	-	-	-
Cumulative translation adjustments	-	-	7	-	-	16
<b>As at 31 December</b>	<b>838</b>	<b>-</b>	<b>114</b>	<b>815</b>	<b>-</b>	<b>92</b>
<b>Provisions for post-employment pension obligations</b>	<b>362</b>	<b>268</b>	<b>57</b>	<b>389</b>	<b>222</b>	<b>25</b>

The amounts recognized in the income statement for the aforementioned pension plans are as follows:

	2010			2009		
	Spain	Colombia	Brazil	Spain	Colombia	Brazil
Current service cost	4	-	2	5	-	-
Interest cost	54	21	19	45	20	12
Expected return on plan assets	(37)	-	(17)	(31)	-	(8)
<b>Total income statement charge</b>	<b>21</b>	<b>21</b>	<b>4</b>	<b>19</b>	<b>20</b>	<b>4</b>

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

	2010			2009		
	Spain	Colombia	Brazil	Spain	Colombia	Brazil
<b>As at January 1</b>						
<b>As at January 1</b>	<b>389</b>	<b>222</b>	<b>25</b>	<b>33</b>	<b>-</b>	<b>33</b>
Business combinations	-	-	-	370	246	-
Charge against the income statement	21	21	4	19	20	4
Contributions paid	(37)	(34)	(4)	(30)	(19)	(5)
Variations recognised directly in net equity	(10)	26	29	(3)	(9)	(18)
Transfers	-	-	-	-	(23)	-
Cumulative translation adjustments	-	33	3	-	7	11
Others	(1)	-	-	-	-	-
<b>As at 31 December</b>	<b>362</b>	<b>268</b>	<b>57</b>	<b>389</b>	<b>222</b>	<b>25</b>

The accumulated amount of the actuarial gains and losses recognised directly in equity is negative by Euros 49 million for 2010 (Spain: positive Euros 3 million, Colombia: negative Euros 35 million and Brazil: negative Euros 17 million).

The main categories of assets, expressed as a percentage of the total fair value of the assets are as:

% over total	2010			2009		
	Spain	Colombia	Brazil	Spain	Colombia	Brazil
Equities	-	-	10.7%	-	-	10.7%
Bonds	100%	-	84.0%	94.6%	-	84.0%
Property and others	-	-	5.3%	5.4%	-	5.3%

Real yields on the plan-related assets in 2010, relating basically to Spain and Brazil, have been Euros 54 million (Euros 39 million in 2009).

The main annual actuarial assumptions used were as follows:

	At 31.12.10			At 31.12.09		
	Spain	Colombia	Brazil	Spain	Colombia	Brazil
Discount rate (1)	2.5 a 5%	8%	6.8%	2.3% a 5%	8.4%	10.8%
Expected return on plan assets (1)	2.5 a 5%	8%	6.8%	2.3% a 5%	8.4%	10.8%
Future salary increases (1)	3%	2.7%	6.6%	3.0%	3.0%	6.5%
Future pension increases (1)	2.5%	2.7%	0%	2.5%	3.0%	0.0%
Inflation rate (1)	2.5%	2.7%	4.5%	2.5%	3.0%	4.5%
Mortality table	PERMF 2000	RV08	AT83 PERMF 2000	ISS 1980/89	AT-83	

(1) per annum

These assumptions are applicable to all the obligations homogeneously irrespective of the origin of their collective bargaining agreements.

The following table includes the effect of a 1% variation in the inflation rate, a 1% change in the discount rate and a 1% change in the cost of healthcare over the provisions and actuarial costs:

	Inflation + 1%	Discount +1%	Healthcare +1%
Current value of the obligations	102	(148)	11
Fair value of plan-related assets	-	(70)	-
Provision for pensions	102	(78)	11
Cost of service for the year	1	(1)	-
Interest paid	7	6	1
Expected yield on plan-related assets	1	4	-

### **Other personnel-related liabilities**

Certain UNIÓN FENOSA companies had entered into contracts with part of their management personnel and directors that could be terminated under certain circumstances, and, accordingly, these companies had recognised a provision to meet the costs arising from the contractual indemnities and remunerated compensation for the termination of these agreements. As a result of the business combination of UNIÓN FENOSA the existing provision included, on the date of the combination, amounting to Euros 45 million, which was fully paid in 2009.

### **Other current and non-current provisions**

The movement in current and non-current provisions is as follows:

	2010		2009	
	Non-current provisions	Current provisions	Non-current provisions	Current provisions
<b>As at 1 January</b>	<b>1,236</b>	<b>128</b>	<b>556</b>	<b>146</b>
Charged to / reversed in the income statement				
- provisions	767	9	207	10
- reversals	(38)	(4)	(32)	(33)
Amounts paid during the year	(66)	(42)	(56)	(125)
Business combinations (Note 30)	-	-	611	93
Cumulative translation adjustments	17	4	-	(1)
Transfer and others	251	32	(50)	38
<b>As at 31 December</b>	<b>2,167</b>	<b>127</b>	<b>1,236</b>	<b>128</b>

This account includes the provisions recorded to meet obligations arising mainly from tax claims, as well as litigation and arbitration proceedings underway. The information on the nature of the disputes with third parties and the position of the entity in relation to them is set out in the section on "Litigation and Arbitration" in Note 35.

Additionally, this account includes the provisions to meet the liabilities arising from the dismantling, restoration and other costs related to the facilities, basically electricity generating facilities, totalling Euros 318 million at 31 December 2010 (Euros 250 million in 2009).

Current provisions also includes the excess of CO<sub>2</sub> emissions above the rights assigned totalling Euros 5 million at 31 December 2010 (Euros 41 million at 31 December 2009).

In relation to non current provisions, given the features of the risks included, it is not possible to determine a reasonable calendar for the payment dates.

#### **Note 16. Borrowings**

The breakdown of borrowings at 31 December 2010 and 2009 is as follows:

	At 31.12.10	At 31.12.09
Issuing of debentures and other negotiable obligations	7,488	5,386
Loans from financial institutions	10,242	12,648
Derivative financial instruments	75	188
Other financial liabilities	371	436
<b>Non-current borrowings</b>	<b>18,176</b>	<b>18,658</b>
Issuing of debentures and other negotiable obligations	631	1,711
Loans from financial institutions	1,195	923
Derivative financial instruments	61	16
Other financial liabilities	243	199
<b>Current borrowings</b>	<b>2,130</b>	<b>2,849</b>
<b>Total</b>	<b>20,306</b>	<b>21,507</b>

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

	Carrying amount		Fair value	
	At 31.12.10	At 31.12.09	At 31.12.10	At 31.12.09
Issuing of debentures and other negotiable obligations	7,488	5,386	7,199	5,567
Loans from financial institutions and others	10,613	13,084	10,705	13,137

The fair value of loans with fixed interest rates is estimated on the basis of the discounted cash flows over the remaining terms of such debt. The discount rates were determined based on market rates available at 31 December 2010 and 31 December 2009 on borrowings with similar credit and maturity characteristics. These valuations are based on the quotation price of similar financial instruments in an official market or on observable information in an official market (Level 2).

The movement in borrowings is as follows:

	2010	2009
<b>As at 1 January</b>	<b>21,507</b>	<b>5,385</b>
Business combinations	-	7,322
Increase in borrowings	11,477	21,510
Decrease in borrowings	(12,980)	(12,736)
Cumulative translation adjustment	302	26
<b>As at 31 December</b>	<b>20,306</b>	<b>21,507</b>

The following tables describe our consolidated gross borrowings by instrument at 31 December 2010 and 31 December 2009 and their maturity profile, taking into account the impact of the derivative hedges.

	2011	2012	2013	2014	2015	2016 and beyond	Total
<b>At December 31, 2010</b>							
Marketable Debt							
Fixed	562	551	307	1,907	650	4,087	8,064
Floating	55	-	-	-	-	-	55
Institutional Banks and other financial companies							
Fixed	112	123	123	121	117	509	1,105
Floating	39	116	15	71	99	431	771
Commercial Banks and other financial liabilities							
Fixed	302	364	1,213	172	1,508	668	4,227
Floating	1,060	1,128	1,535	31	1,959	371	6,084
<b>Total Fixed</b>	<b>976</b>	<b>1,038</b>	<b>1,643</b>	<b>2,200</b>	<b>2,275</b>	<b>5,264</b>	<b>13,396</b>
<b>Total Floating</b>	<b>1,154</b>	<b>1,244</b>	<b>1,550</b>	<b>102</b>	<b>2,058</b>	<b>802</b>	<b>6,910</b>
<b>Total</b>	<b>2,130</b>	<b>2,282</b>	<b>3,193</b>	<b>2,302</b>	<b>4,333</b>	<b>6,066</b>	<b>20,306</b>

	2010	2011	2012	2013	2014	2015 and beyond	Total
<b>At December 31, 2009:</b>							
Marketable Debt							
Fixed	985	-	505	-	2,000	2,294	5,784
Floating	702	18	-	593	-	-	1,313
Institutional Banks and other financial companies							
Fixed	88	73	118	114	117	814	1,324
Floating	69	29	25	32	7	197	359
Commercial Banks and other financial liabilities							
Fixed	330	4,518	822	54	90	631	6,445
Floating	675	1,614	585	3,171	149	88	6,282
<b>Total Fixed</b>	<b>1,403</b>	<b>4,591</b>	<b>1,445</b>	<b>168</b>	<b>2,207</b>	<b>3,739</b>	<b>13,553</b>
<b>Total Floating</b>	<b>1,446</b>	<b>1,661</b>	<b>610</b>	<b>3,796</b>	<b>156</b>	<b>285</b>	<b>7,954</b>

<b>Total</b>	<b>2,849</b>	<b>6,252</b>	<b>2,055</b>	<b>3,964</b>	<b>2,363</b>	<b>4,024</b>	<b>21,507</b>
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If the impact of the derivatives on borrowings is excluded, the classification between fixed and floating rates would be: fixed, Euros 9,955 million in 2010 (Euros 7,930 million in 2009) and floating, Euros 10,215 million in 2010 (13,373 million in 2009).

The following table describes our consolidated gross financial debt denominated by currency at 31 December 2010 and 31 December 2009 and its maturity profile, taking into account the impact of the derivative hedges.

	2011	2012	2013	2014	2015	2016 and beyond	Total
<b>At 31 December 2010:</b>							
Euro Debt	1,331	1,647	2,877	2,131	3,946	4,797	16,729
Foreign Currency Debt:							
US Dollar	249	305	381	109	297	677	2,018
Mexican peso	165	91	47	-	-	-	303
Brazilian real	173	56	28	9	43	58	367
Colombian peso	171	163	79	41	41	56	551
Argentinean peso	26	7	-	-	-	-	33
Rest	15	13	73	12	6	186	305
<b>Total</b>	<b>2,130</b>	<b>2,282</b>	<b>3,485</b>	<b>2,302</b>	<b>4,333</b>	<b>5,774</b>	<b>20,306</b>
	2010	2011	2012	2013	2014	2015 and beyond	Total
<b>At 31 December 2009:</b>							
Euro Debt	2,152	5,752	1,355	3,538	2,194	3,310	18,301
Foreign Currency Debt:							
US Dollar	352	270	393	384	105	519	2,023
Mexican peso	5	98	80	-	-	-	183
Brazilian real	147	20	117	42	63	-	389
Colombian peso	145	93	110	-	1	-	349
Argentinean peso	25	19	-	-	-	-	44
Rest	23	-	-	-	-	195	218
<b>Total</b>	<b>2,849</b>	<b>6,252</b>	<b>2,055</b>	<b>3,964</b>	<b>2,363</b>	<b>4,024</b>	<b>21,507</b>

Borrowings in Euros have borne an effective average interest rate of 3.99% at 31 December 2010 (3.32% at 31 December 2009) while borrowings in foreign currency have borne an effective average interest rate of 5.29% (7.10% at 31 December 2009), including derivative instruments assigned to each transaction.

At 31 December 2010, GAS NATURAL FENOSA has credit facilities totalling Euros 4,935 million (Euros 4,427 million at 31 December 2009), of which Euros 3,573 million have not been drawn down (Euros 3,443 million at 31 December 2009).

We describe below the most relevant financing instruments:

#### **Issue of bonds and other negotiable securities**

In 2010 and 2009 the evolution of the issues of debt securities has been as follows:

	At 1.1.2010	Issues	Buy backs or reimbursemen ts	Business combinations	Exchan ge rate adjustm ents and others	At 31.12.2010
Issued in a member state of the European Union which required the filing of a prospectus	6,439	3,660	(2,650)	-	35	7,484
Issued in a member state of the European Union which did not required the filing of a prospectus	5	-	(5)	-	-	-
Issued outside a member state of the European Union	653	15	(25)	-	(8)	635
<b>Total</b>	<b>7,097</b>	<b>3,675</b>	<b>(2,680)</b>	-	27	<b>8,119</b>

	At 1.1.2009	Issues	Buy backs or reimbursemen ts	Business combinations	Exchan ge rate adjustm ents and others	At 31.12.2009
Issued in a member state of the European Union which required the filing of a prospectus	754	5,945	(1,512)	1,252	-	6,439
Issued in a member state of the European Union which did not required the filing of a prospectus	-	-	-	5	-	5
Issued outside a member state of the European Union	28	41	(9)	731	(138)	653
<b>Total</b>	<b>782</b>	<b>5,986</b>	<b>(1,521)</b>	<b>1,988</b>	<b>(138)</b>	<b>7,097</b>

### ECP Program

In March 2001, GAS NATURAL FENOSA subscribed a Euro Commercial Paper (ECP) program by virtue of which it could issue up to a total principal of Euros 1,000 million or its equivalent in alternative currencies. On 23 March 2010 a Euro Commercial Paper program (ECP) was contracted totalling Euros 1,000 million, the issuer being Unión Fenosa Finance BV. At 31 December 2010 the amount drawn down from this program was Euros 357 million, with Euros 643 million still available.

### Promissory Notes Program

In July 2009 GAS NATURAL FENOSA subscribed a Promissory Note Program by virtue of which it could issue a total principal up to Euros 2,000 million, although in July 2010 this maximum amount was reduced to Euros 1,000 million. At 31 December 2010 the outstanding issues under this program totalled Euros 118 million.

Additionally, there is no outstanding balance under the already matured Unión Fenosa S.A. Promissory Note Program (Euros 250 million at 31 December 2009).

### EMTN Program

In 1999, GAS NATURAL FENOSA established a European Medium Term Notes (EMTN) in the medium term by virtue of which a total principle of up to Euros 2.000 million could be issued. This program was extended on 27 December 2007 up to Euros 4,000 million, and on 2 December 2008 is was extended up to Euros 8.000 million, and on 15 December 2009 it was extended again to Euros 10,000 million. On 14 January 2010 GAS NATURAL FENOSA completed three bond issues under this program in three tranches in the Euromarket that mature in five, eight and ten years, totalling Euros 650, 700 and 850 million, respectively. At 31 December 2009 a total principal of Euros 6,950 million was drawn down (Euros 5,275 million at 31 December 2009). The amount pending utilisation at 31 December 2010 totalled Euros 3,050 million. The breakdown of the nominal issue balance is as follows:

Nominal	Maturity	Coupon	Issuer
500	2012	3.12%	Gas Natural Capital Markets S.A.
2,000	2014	5.25%	Gas Natural Capital Markets S.A.
1,000	2016	4.37%	Gas Natural Capital Markets S.A.
500	2019	6.37%	Gas Natural Capital Markets S.A.
750	2021	5.12%	Gas Natural Capital Markets S.A.
850	2020	4.50%	Gas Natural Capital Markets S.A.
650	2015	3.37%	Gas Natural Capital Markets S.A.
700	2018	4.12%	Gas Natural Capital Markets S.A.
<b>Total</b>	<b>6,950</b>		

#### Preference shares

In May 2003, Unión Fenosa Financial Services USA, Llc., issued preference shares for a nominal amount of Euros 609 million with the following characteristics:

- Dividend: variable, non-accumulative, until 20 May 2013, will be Euribor at three months plus a spread of 0.25% capped at 7% and a minimum of 4.25%; as from that date, Euribor at three months plus a spread of 4%.
- Term: perpetual, with the option for the issuer of reducing in advance all or part of the shareholding after 20 May 2013. Reduction will be made at par value.
- Remuneration: the dividend payment will be preferential and not accumulative and depends on whether distributable profit is reported or on the payment of a dividend to its ordinary shareholders.
- Voting rights: none.

#### Negotiable bonds

Gas Natural BAN, S.A. (Argentina) has two issues of its Negotiable Bond program in the local market totalling Euros 19 million at 31 December 2010 (Euros 44 million at 31 December 2009).

For its part, the Group company, Empresa de Distribución Eléctrica Metro-Oeste, S.A, located in Panama, executed the issue in May 2010 of Negotiable Commercial Securities of up to USD 50 million. The amount drawn down at 31 December 2010 totalled Euros 15 million.

#### **Bank loans**

##### European bank loans (commercial / institutional banks)

On 24 March 2010 a loan agreement was signed totalling Euros 4,000 million under a "Club Deal" with a total of 18 banks. The total amount of the loan is divided: Euros 1,000 million maturing in 3 years and Euros 3,000 million maturing in 5 years.

On 11 June 2010 an agreement was entered into with Banco Europeo de Investments (BEI) for a loan of Euros 450 million that will be allocated to financing the investment plan of the network for the transport and distribution of electricity in Spain for 3 years.

At 31 December 2010, borrowings from banks includes other bilateral bank loans totalling Euros 2,437 million and credit facilities drawn down totalling Euros 1,003 million (Euros 414 million at 31 December 2009). Moreover, the Company has borrowings from the Instituto de Crédito Oficial (ICO) totalling Euros 593 million in the

form of loans with maximum maturity in 2018, as well as credit facility contracted in December 2005 with a limit of Euros 125 million, the amount of Euros 100 million of which has been drawn down at 31 December 2010.

At 31 December 2009 these loans relate to the financing of the acquisition of Unión Fenosa, S.A. (see pertinent section), to the syndicated "Club Deal" loan of Euros 600 million, maturing in 2011, to a loan in 2008 from ICO and BEI totalling Euros 768 million and to bi-lateral loans totalling Euros 785 million.

#### Loans from Latin American banks (commercial / institutional banks)

At 31 December 2010 borrowings from various Latin American banks totalled Euros 1,617 million (Euros 1,309 million at 31 December 2009). The geographic breakdown of these loans is as follows: Mexico: Euros 522 million (Euros 394 million at 31 December 2009), Colombia: Euros 551 million (Euros 349 million at 31 December 2009), Brazil: Euros 367 million (Euros 389 million at 31 December 2009), Argentina: Euros 13 million (Euros 43 million at 31 December 2009), Panama: Euros 96 million (Euros 113 million at 31 December 2009), Guatemala: Euros 63 million (Euros 57 million at 31 December 2009) and Nicaragua: Euros 5 million (Euros 7 million at 31 December 2009).

Of total Latin American borrowings at 31 December 2010, 80% relates to commercial banks and the remaining 20% to institutional banks (BNDES, BEI, ICO, etc.).

At 31 December 2010, the debt related to the combined cycle plant and the regasification plant in Puerto Rico totals Euros 167 million (167 million at 31 December 2009), including Euros 11 million in credit facilities drawn down (Euros 10 million at 31 December 2009). The most of this debt matures in 2012 and beyond.

#### Wind farm operators (commercial banks)

At 31 December 2010, wind farm operating companies had Euros 83 million in outstanding loans, mainly for project financing (Euros 94 million at 31 December 2009). Most of this debt matures in 2012 and year beyond

#### Enel Unión Fenosa Renovables (commercial banks)

At 31 December 2010 the companies belonging to Enel Unión Fenosa Renovables (EUFER) had Euros 274 million in borrowings mainly for wind farm financing through traditional bank financing and project financing. Most of this debt matures in 2012 and years beyond. Should the borrowings related to the non-current assets held for sale (Note 9) be taken into account, the balance would total Euros 548 million (Euros 574 million at 31 December 2009).

#### Unión Fenosa Gas (commercial / institutional banks)

At 31 December 2010, the companies belonging to Unión Fenosa Gas had Euros 389 million in outstanding loans (Euros 376 million at 31 December 2009), mainly for financing in USD by Banco Europeo de Investments (BEI) to finance the natural gas liquefaction plant in Damietta (Egypt) totalling Euros 156 million (Euros 147 million at 31 December 2009), and for a loan in USD given by twenty-two lending entities totalling Euros 233 million (Euros 229 million at 31 December 2009). Most of this debt matures in 2015 and years beyond.

### Bank loans – other countries (commercial banks)

At 31 December 2010, bank loans from other countries total Euros 12 million (Euros 16 million at 31 December 2009) and pertain mainly to Moldavia and Kenya.

### Financing of the acquisition of Unión Fenosa, S.A.

On 7 August 2008, GAS NATURAL FENOSA took out a loan from various banks totalling Euros 19,000 million at an interest rate indexed to the EURIBOR plus a variable margin based on the tranche and credit rating of GAS NATURAL FENOSA.

In 2008 draw downs totalled Euros 1,675 million and partial redemptions totalled Euros 740 million, leaving an available amount of Euros 16,585 million.

In 2009 various draw downs totalling Euros 15,692 million were made for the acquisition of shares of UNIÓN FENOSA and for debt refinancing and partial redemptions totalling Euros 893 million, leaving the facility, therefore, totally drawn down. Additionally, an early repayment was made of Euros 9,857 million using the funds from the capital increase of Gas Natural SDG, S.A., from bond issues and from the divestments of assets, and, accordingly the loan at 31 December 2009 totalled Euros 7,510 million.

As a result of the financial transactions mentioned above signed in 2010, together with the receipt for the sale of generation in Mexico and gas distribution in the Region of Madrid, the financing of the acquisition of UNIÓN FENOSA was cancelled on 2 June 2010.

On the other hand, certain investment projects included in the breakdown of renewables, Enel Unión Fenosa Renovables and Unión Fenosa Gas, have been financed specifically through loans that include the pignoration of the shares of these projects. The outstanding balance of loans of this type, at 31 December 2010 totals Euros 376 million (Euros 978 million at 31 December 2009).

### **Other financial liabilities**

“Other financial liabilities” basically include the finance leases with banks for power islands at the combined cycle plants in Palos de la Frontera and Sagunto, with a maturity of 10 years, entered into respectively in 2005 and 2007.

The breakdown of the minimum payments for the finance leases are as follows:

	At 31.12.10			At 31.12.09		
	Nominal	Discount	Present value	Nominal	Discount	Present value
No later than 1 year	91	(4)	87	72	(4)	68
Between 1 and 5 years	321	(43)	278	329	(46)	283
Later than 5 years	88	(21)	67	184	(40)	144
<b>Total</b>	<b>500</b>	<b>(68)</b>	<b>432</b>	<b>585</b>	<b>(90)</b>	<b>495</b>

### **Note 17. Risk management and derivative financial instruments**

#### Risk management

GAS NATURAL FENOSA has a series of standards, procedures and systems for identifying, measuring and managing different types of risk which are made up of the following basic action principles:

- Guaranteeing that the most relevant risks are correctly identified, evaluated and managed.
- Segregation at the operating level of the risk management functions.
- Assuring that the level of its risk exposure for GAS NATURAL FENOSA in its business is in line with the objective risk profile and achievement of its annual, strategic objectives.
- Ensuring the appropriate determination and review of the risk profile by the Risk Committee, proposing global limits by risk category, and assigning them to the Business Units.

### **Interest rate risk**

The fluctuations in interest rates modify the fair value of the assets and liabilities that accrue a fixed interest rate and the cash flows from assets and liabilities pegged to a floating interest rate, and, accordingly, affect equity and profit, respectively.

The purpose of interest rate risk management is to balance floating and fixed borrowings in order to reduce financial debt costs within the established risk parameters.

GAS NATURAL FENOSA uses financial swaps to manage its exposure to fluctuations in interest rates by exchanging debt at a floating rate for fixed interest rates. Additionally, please bear in mind the financial swaps contracted to mitigate the risk of a specific financing operation in Yen that does not qualify for hedge accounting.

The debt structure at 31 December 2010 and 2009, after taking into account the hedges structured through derivatives, is as follows:

	<b>At 31.12.2010</b>	<b>At 31.12.2009</b>
Fixed interest rate	13,396	13,553
Floating interest rate	6,910	7,954
<b>Total</b>	<b>20,306</b>	<b>21,507</b>

The floating interest rate is mainly subject to the fluctuations of the EURIBOR, the LIBOR and the indexed rates of Mexico, Brazil, Colombia and Argentina.

The sensitivity of profit and equity ("Adjustments for changes in value") to the fluctuation in interest rates is as follows:

	Increase/decrease in interest rates (basis points)	Effect on profit before tax	Effect on equity before tax
2010	+50	(35)	15
	-50	35	(15)
2009	+50	(41)	45
	-50	41	(45)

### **Exchange rate risk**

The variations in the exchange rates can affect the fair value of:

- Counter value of cash flows related to the sale and purchase of raw materials denominated in currencies other than local or functional currencies.
- Debt denominated in currencies other than local or functional currencies.
- Operations and investments in non-Euro currencies, and, accordingly, the counter value of equity contributed and results.

In order to mitigate these risks GAS NATURAL FENOSA finances, to the extent possible, its investments in local currency. Furthermore, it tries to make, whenever possible, costs and revenues indexed in the same currency, as well as amounts and maturities of assets and liabilities arising from operations denominated in non-Euro currencies.

For open positions, the risks in investments in non-functional currencies are managed through financial swaps and foreign exchange fluctuation insurance within the limits approved for hedging instruments.

The non-Euro currency with which GAS NATURAL FENOSA operates the most is the US Dollar. The sensitivity of results and consolidated equity ("Adjustments for changes in value") of GAS NATURAL FENOSA to a 5% variation (increase or decrease) in the US Dollar / Euro exchange rate is as follows:

		2010	2009
Effect on profit before tax	+5%	-	3
	- 5%	-	(3)
Effect on equity before tax	+5%	11	33
	- 5%	(12)	(36)

### Commodities price risk

A large portion of the operating expenses of GAS NATURAL FENOSA is linked to the purchase of gas in order to supply customers or for electricity generation at combined cycle plants. Therefore, GAS NATURAL FENOSA is exposed to gas price fluctuation risk, whose determination is basically subject to the prices of crude oil and its by-products. Additionally, in the electricity generation business GAS NATURAL FENOSA is exposed to CO<sub>2</sub> emission rights fluctuation risk and electricity prices variations.

The exposure to these risks is managed and mitigated through the monitoring of its position regarding these commodities, trying to balance purchase and supply obligations and diversification and management of supply contracts. When it is not possible to achieve a natural hedge the position is managed, within reasonable risk parameters, through derivatives to reduce exposure to price risk, generally through hedging instruments.

The risk involved in the electricity trading operations carried out by GAS NATURAL FENOSA is not significant, due to the low volume of these operations and the limits established, both in terms of amount and maturity.

The sensitivity of profit and equity (Value adjustments) to the variation in the fair value of derivative contracts to hedge commodity prices is as follows:

	Increase / decrease in the purchase price of gas	Effect on profit before tax	Effect on equity before tax
2010	+10%	-	(12)
	-10%	-	12

2009	+10%	-	(1)
	-10%	-	1
	Increase / decrease in the electricity sale price	Effect on profit before tax	Effect on equity before tax
2010	+10%	-	4
	-10%	-	(4)
2009	+10%	-	2
	-10%	-	(2)
	Increase/decrease in the price of CO <sub>2</sub> emission rights	Effect on profit before tax	Effect on equity before tax
2010	+10%	1	1
	-10%	(1)	(1)
2009	+10%	-	3
	-10%	-	(3)

## Credit risk

The credit risk arising from the default of a counterparty is controlled through policies that assure that wholesale sales of products are made to customers with an appropriate credit history, for which the respective solvency studies are established and based on which the respective credit limits are assigned.

In order to do so various credit quality measuring models have been designed. Based on these models, the probability of customer default on payment can be measured, and the expected commercial loss can be kept under control.

The main guarantees that are negotiated are guarantees, guarantee deposits and deposits. At 31 December 2010, GAS NATURAL FENOSA had received guarantees totalling Euros 14 million to cover the risk of large industrial customers (Euros 18 million at 31 December 2009). In 2010, guarantees have been executed for amounts lower than Euros 1 million (Euros 1 million at 31 December 2009).

Furthermore, the debt claims are stated on the consolidated balance sheet net of provisions for bad debts (Note 11), estimated by GAS NATURAL FENOSA on the basis of the ageing of the debt and past experience in accordance with the prior segregation of customer portfolios and the current economic environment.

At 31 December 2010 and 2009 GAS NATURAL FENOSA does not have significant concentrations of credit risk.

In order to mitigate credit risk arising from financial positions, GAS NATURAL FENOSA enters into derivatives and places treasury surpluses in banks and financial entities that are highly solvent and rated by Moody's and S&P

Likewise, most of the accounts receivable neither due nor provided for have a high credit rating, according to the valuations of GAS NATURAL FENOSA, based on the solvency analysis and payment habits of each customer.

The breakdown of the age of financial receivables overdue but not considered bad debts at 31 December 2010 and 2009 is as follows:

	At 31.12.2010	At 31.12.2009
Less than 90 days	268	90
90 – 180 days	77	44
More than 180	6	11
<b>Total</b>	<b>351</b>	<b>145</b>

The impaired financial assets are broken down in Note 11.

### Liquidity risk

GAS NATURAL FENOSA has liquidity policies that ensure compliance with its payment commitments, diversifying the coverage of financing needs and debt maturities. A prudent management of the liquidity risk includes maintaining sufficient cash and realisable assets and the availability of funds sufficient to cover credit obligations.

At 31 December 2010, available liquidity totals Euros 9,352 million, taking into account cash and other cash equivalents totalling Euros 1,203 million (Note 12) and derivative financial assets totalling Euros 1 million (Note 8), bank financing and credit facilities available of Euros 3,573 million (Note 16) and the capacity to issue debt not utilised of Euros 4,575 million (Note 16).

The breakdown of the maturities of the financial liabilities at 31 December 2010 and 2009 is as follows:

	2011	2012	2013	2014	2015	2016 and beyond	Total
<b>At 31 December 2010</b>							
Trade and other payables	(3,658)	-	-	-	-	-	(3,658)
Loans and other financial payables	(2,895)	(2,987)	(4,097)	(2,801)	(4,713)	(7,323)	(24,816)
Financial derivatives	(66)	(18)	(9)	(6)	(8)	65	(42)
Other liabilities	(67)	(61)	(157)	(57)	(56)	(820)	(1,218)
<b>Total (1)</b>	<b>(6,686)</b>	<b>(3,066)</b>	<b>(4,263)</b>	<b>(2,864)</b>	<b>(4,777)</b>	<b>(8,078)</b>	<b>(29,734)</b>

	2010	2011	2012	2013	2014	2015 and beyond	Total
<b>At 31 December 2009</b>							
Trade and other payables	(4,013)	-	-	-	-	-	(4,013)
Loans and other financial payables	(3,537)	(6,781)	(2,515)	(4,387)	(2,660)	(5,749)	(25,629)
Financial derivatives	(100)	(50)	(10)	(7)	(7)	(35)	(209)
Other liabilities	(69)	(65)	(59)	(147)	(55)	(875)	(1,270)
<b>Total (1)</b>	<b>(7,719)</b>	<b>(6,896)</b>	<b>(2,584)</b>	<b>(4,541)</b>	<b>(2,722)</b>	<b>(6,659)</b>	<b>(31,121)</b>

(1) The amounts are undiscounted contractual cash flows, and, accordingly, differ from the amounts included on the balance sheet and in Note 16.

### Capital management

The main purpose of capital management of GAS NATURAL FENOSA is to ensure a financial structure that can optimise capital cost and maintain a solid financial position, in order to combine value creation for the shareholder with the access to the financial markets at a competitive cost to cover financing needs.

GAS NATURAL FENOSA considers the following to be indicators of the objectives set for capital management: maintaining, after the acquisition of UNIÓN FENOSA, a long-term leverage ratio of approximately 50%, and an A rating.

After the acquisition of UNIÓN FENOSA the rating agencies completed their review with negative implications in their ratings, confirming the ratings in line with the objectives forecast in the acquisition process.

The long-term credit rating of GAS NATURAL FENOSA is as follows:

	2010	2009
Moody's	Baa2	Baa2
Standard & Poor's	BBB	BBB+
Fitch	A-	A-

Its leverage rating is as follows:

	2010	2009
<b>Net borrowings:</b>	<b>19,102</b>	<b>20,916</b>
Non-current borrowings (Note 16)	18,176	18,658
Current borrowings (Note 16)	2,130	2,849
Cash and cash equivalents (Note 12)	(1,203)	(589)
Derivatives (Note 17)	(1)	(1)
Time deposits (Note 8)	-	(1)
<b>Net equity:</b>	<b>12,974</b>	<b>12,177</b>
Equity holders of the Company (Note 13)	11,384	10,681
Minority interests	1,590	1,496
<b>Leverage (Net borrowings / (Net borrowings + Net equity))</b>	<b>59.6%</b>	<b>63.2%</b>

Should the net borrowings related to the non-current assets held for sale (Note 9) be taken into account, the balance of net borrowings would total Euros 19,359 million at 31 December 2010 and Euros 20,824 million at 31 December 2009.

### **Derivative financial instruments**

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

	At 31.12.10		At 31.12.09	
	Assets	Liabilities	Assets	Liabilities
<b>Derivatives qualifying for hedge accounting</b>				
Cash flow hedges				
- Interest rate	-	56	1	163
Fair value hedge				
- Interest rate and exchange rate	-	-	1	-
- Interest rate	-	-	-	1
<b>Other financial instruments</b>				
- Interest rate	-	19	-	25
<b>Derivative financial instruments – non current</b>				
Derivatives qualifying for hedge accounting	91	71	30	42

<b>Cash flow hedges</b>						
- Interest rate	-	54		-		11
- Exchange rate	7	1		6		4
- Commodity prices	7	16		7		19
<b>Fair value hedge</b>						
- Interest rate and exchange rate	-	-		-		1
- Exchange rate	77	-		17		5
- Commodity prices	-	-		-		2
<b>Other financial instruments</b>	<b>2</b>	<b>11</b>		-		<b>4</b>
- Commodity prices	2	4		-		4
- Interest rate	-	7		-		-
- <i>Equity swap</i>	-	-		-		-
<b>Derivative financial instruments – current</b>	<b>93</b>	<b>82</b>	<b>30</b>	<b>46</b>		
<b>Total</b>	<b>93</b>	<b>157</b>	<b>31</b>	<b>234</b>		

Other financial instruments includes the derivatives not qualifying for hedge accounting.

The impact on the income statement of derivative financial instruments is as follows:

	2010		2009	
	Operating Results	Financial results	Operating results	Financial results
Cash flow hedges	(39)	(127)	15	(102)
Fair value hedges	32	(3)	(3)	(14)
Other	(2)	(11)	(11)	24
<b>Total</b>	<b>(9)</b>	<b>(141)</b>	<b>1</b>	<b>(92)</b>

The breakdown of the derivative financial instruments at 31 December 2010 and 2009, their fair value and the breakdown by maturity of their notional values are as follows:

	Fair Value	31.12.10							
		Notional value (in million of Euros)							
		2011	2012	2013	2014	2015	Beyond	Total	
<b>Interest rate swap contracts:</b>									
Cash flow hedges:									
Financial swaps (EUR)	(66)	2,580	206	15	8	4	25	2,838	
Financial swaps (USD)	(43)	20	193	24	25	24	162	448	
Financial swaps (MXN)	-	16	16	16	-	-	-	48	
Financial swaps (ARS)	-	9	-	-	-	-	-	9	
Collars (EUR)	(1)	4	13	2	3	2	2	26	
<b>COBERTURA DE TIPO DE CAMBIO:</b>									
Cash flow hedge:									
Exchange fluctuation insurance (USD)	6	270	4	-	-	-	-	274	
Fair value hedge:									
Financial swaps (BRL)	-	5	2	-	-	-	-	7	
Foreign exchange fluctuation insurance (BRL)	-								
Foreign exchange fluctuation insurance (USD)	-	32	-	-	-	-	-	32	
Foreign exchange fluctuation insurance (DHN)	77	1,156	-	-	-	-	-	1,156	
Fair value hedge:									
<b>COMMODITY HEDGE:</b>									
Cash flow hedge:									
Commodity price derivatives (EUR)	(3)	175	-	-	-	-	-	175	
Commodity price derivatives (USD)	(6)	85	-	-	-	-	-	85	

**OTHERS:**

Other commodities (USD)	(2)	2	-	-	-	-	-	2
Financial swaps (JPY)	(19)	-	-	-	-	-	220	220
Financial swaps (EUR)	(7)	105	-	-	-	-	-	105
Collars (EUR)	-	17	-	-	-	-	-	17
Commodity price derivatives (EUR)	-	2	-	-	-	-	-	2
<b>TOTAL</b>	<b>(64)</b>	<b>4,485</b>	<b>434</b>	<b>57</b>	<b>36</b>	<b>30</b>	<b>409</b>	<b>5,451</b>

	Fair Value	31.12.09						
		Notional value (in million of Euros)						
		2010	2011	2012	2013	2014	Beyond	Total
<b>Interest rate swap contracts:</b>								
Cash flow hedges:								
Financial swaps (EUR)	(141)	2,209	2,586	212	21	14	124	5,166
Financial swaps (USD)	(29)	49	19	179	22	23	173	465
Financial swaps (ARS)	-	6	-	-	-	-	-	6
Collars (EUR)	(1)	6	4	13	3	3	3	32
Fair value hedge:								
Financial swaps (EUR)	(1)	4	5	3	3	25	-	40
<b>EXCHANGE RATE HEDGE:</b>								
Cash flow hedge:								
Financial swaps (USD)	2	2,290	-	4	-	-	-	2,294
Fair value hedge:								
Financial swaps (BRL)	-	5	5	2	-	-	-	12
Foreign exchange fluctuation insurance (USD)	10	538	-	-	-	-	-	538
Foreign exchange fluctuation insurance (DHN)	-	5	-	-	-	-	-	5
<b>COMMODITY HEDGE:</b>								
Cash flow hedge:								
Commodity price derivatives (EUR)	(10)	147	-	-	-	-	-	147
Commodity price derivatives (USD)	(2)	35	-	-	-	-	-	35
Fair value hedge:								
Commodity price derivatives (USD)	(2)	4	-	-	-	-	-	4
<b>OTHERS:</b>								
Financial swaps (JPY)	(25)	-	-	-	-	-	278	278
Commodity price derivatives (USD)	(3)	8	-	-	-	-	-	8
Commodity price derivatives (EUR)	(1)	-	-	-	-	-	-	-
<b>TOTAL</b>	<b>(203)</b>	<b>5,306</b>	<b>2,619</b>	<b>413</b>	<b>49</b>	<b>65</b>	<b>578</b>	<b>9,030</b>

## Note 18. Other non-current liabilities

The breakdown of this account at 31 December 2010 and 2009 is as follows:

	At 31.12.10	At 31.12.09
Finance lease liabilities (1)	582	578
Payables for levelling of capacity income (2)	55	70
Deposits and guarantee deposits	212	197
Other liabilities (3)	191	232
<b>Total</b>	<b>1,040</b>	<b>1,077</b>

There are no significant differences between the carrying values and the fair values of the items in the account "Other non-current liabilities".

### (1) Finance lease liabilities

In 2003 GAS NATURAL FENOSA acquired two gas transport tankers to transport liquefied natural gas with a capacity of 276,000 m<sup>3</sup> through finance lease agreements. The duration of the contracts is 20 years, maturing in 2023.

In July 2004 Unión Fenosa Gas acquired two gas tankers for the transport of liquefied natural gas with capacities of 138,000 m<sup>3</sup> and 140,500 m<sup>3</sup> through 25-year time-charter contracts, extendible to 30 years

In December 2007 a 138,000 m<sup>3</sup> gas tanker was acquired through a 25-year time-charter lease maturing 2032, extendible for consecutive periods of 5 years, and which represents a joint investment of Euros 162 million relating to the current value of the payments to which Repsol YPF (50%) and GAS NATURAL FENOSA (50%) are committed.

In 2009 a 138,000 m<sup>3</sup> capacity gas tanker was acquired through a 25-year time-charter contract, extendible for consecutive periods of 5 years, which involved a joint investment of Euros 142 million, corresponding to the current value of the payments committed by Repsol YPF (50%) and GAS NATURAL FENOSA (50%).

Minimum lease payments are as follows:

	At 31.12.10			At 31.12.09		
	Nominal	Discount	Present value	Nominal	Discount	Present value
Less than 1 year	57	(3)	54	55	(3)	52
Between 1 and 5 years	227	(42)	185	221	(43)	178
More than 5 years	820	(423)	397	874	(474)	400
<b>Total</b>	<b>1,104</b>	<b>(468)</b>	<b>636</b>	<b>1,150</b>	<b>(520)</b>	<b>630</b>

The effective average interest rate on the liabilities for finance lease agreements at 31 December 2010 is 6.7% (6.8% at 31 December 2009).

## (2) Payable for levelling of capacity income

This account includes the revenues invoiced for the assignment of electricity generating capacity pending recognition as income, for the levelling of the revenues over the term of the contracts in Mexico.

## (3) Other liabilities

These basically include the repurchase obligations of preference shares of Buenergia Gas & Power, Ltd. (company holding 47.5% of EcoEléctrica L.P.), which is 95% owned by GAS NATURAL FENOSA 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 Buenergia, which gives it a preference right over the dividends of this company, which must be repurchased by Buenergia as the company distributes profit, in line with the following schedule:

	US Dollars million
2011 <sup>(1)</sup>	14
2012	6
2013	6
<b>Total</b>	<b>26</b>

(1) Includes the short-term part of Other current liabilities (Note 19).

Also included is the purchase commitment without premium granted to Sinca Inbursa, S.A. de C.V. (Inbursa). On 22 September 2008 15% of Gas Natural Mexico, S.A. de C.V. and Sistemas de Administración, S.A. de C.V. was sold to Inbursa for Mexican Pesos 761 million (Euros 49 million), and a commitment was made to repurchase these shares. Until 22 May 2013 Inbursa can offer all the shares it holds at that time to GAS NATURAL FENOSA, who will be obligated to acquire them. The acquisition price will be set at the greater of the market valuation of each share, based on the results of the investee company, or the capital invested adjusted for financial interest. As a result of this commitment, a deferred payment has been booked, and, accordingly, the aforementioned percentage of interest is still assigned to the parent Company. The

liability booked at 31 December 2010 totals Mexican Pesos 917 million (Mexican Pesos 853 million at 31 December 2009) and equals the current value of the amount payable.

Also included is the purchase commitment without premium granted to Chemo España, S.L. On 16 December 2008 28% of Invergas, S.A. and Gas Natural SDG Argentina, S.A. which represents an interest of 19.6% of Gas Natural BAN, S.A., Natural Energy, S.A. and Natural Servicios, S.A., was sold to Chemo España, S.L. for USD 56 million (Euros 38 million) through an initial receipt of USD 28.5 million, with the rest of the receipts being deferred (see Note 8), and a commitment was made to repurchase these shares. Chemo España, S.L. will be able to offer during September 2013 all the shares it has at that time to GAS NATURAL FENOSA, who will be obligated to acquire them. The acquisition price will be set at the capital invested. As a result of this commitment, a deferred payment has been booked, and, accordingly, the aforementioned percentages of interest are still assigned to the parent Company. The liability booked at 31 December 2010 totals USD 53 million and equals the current value of the amount payable (USD 51 million at 31 December 2009).

#### **Note 19. Trade and other payables**

The breakdown at 31 December 2010 and 2009 is as follows:

	<b>At 31.12.10</b>	<b>At 31.12.09</b>
Trade payables	2,928	3,232
Trade payables with related parties (Note 32)	36	62
Amounts due to associates	41	28
<b>Trade payables</b>	<b>3,005</b>	<b>3,322</b>
 Social security and other taxes	 357	 354
Derivative financial instruments (see Note 17)	22	30
Amounts due to employees	89	81
 Other payables	 468	 465
Current tax liabilities	185	226
<b>Total</b>	<b>3,658</b>	<b>4,013</b>

Disclosure of deferrals of payment to suppliers. D.A 3<sup>a</sup> “Duty of disclosure” of Law 15/2010/5 July

The outstanding trade payable balance with an accumulated deferral of payment at 31 December 2010 longer than the maximum legal limit under Law 15/2010/5 July, which laid down measures against slow payers, accounts for Euros 1 million of the total outstanding balance of trade payables.

#### **Note 20. Other current liabilities**

The breakdown of Other current liabilities at 31 December 2010 and 2009 is as follows:

	<b>At 31.12.10</b>	<b>At 31.12.09</b>
Dividend payable	351	374
Expenses accrued pending payment	154	108
Finance lease liabilities (Note 18)	54	52
Other liabilities	103	146
<b>Total</b>	<b>662</b>	<b>680</b>

## **Note 21. 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 the re-written Income tax Act which involves the joint determination of taxable income of GAS NATURAL FENOSA and the deductions and allowances on the tax payable.

On 1 September 2009 the takeover merger of Unión Fenosa, S.A. and Unión Fenosa Generación, S.A (Note 3.4.1.e) was inscribed in the Mercantile Registry. The winding up of Unión Fenosa S.A. due to its takeover by Gas Natural SDG, S.A. led to the termination of the Unión Fenosa Tax Group and the inclusion in the Gas Natural Group of the companies in said defunct Tax Group. The merger availed itself of the Special Tax Neutrality Regime as per Chapter VIII, Section VII of the Spanish Corporate Income Tax Act. The merger balance sheets and other disclosures required by said act are presented in the individual annual accounts. The Consolidated Tax Group for 2010 is set out in Appendix III.

Other companies resident in Spain which are not in the Tax Group are taxed individually

On the other hand, different Group companies in Italy are taxed under the consolidation tax regime.

The other companies of GAS NATURAL FENOSA are taxed in each country in which they trade at the rate in force for corporate income tax on profit for the year. In some countries additional taxes are recorded, such as the Minimum Presumed Profit tax, which are generally recoverable in the following ten years, or taxes that substitute the Single Rate Business Tax, which taxes the flow of cash and which settlements are not recoverable through future tax profits.

The reconciliation of the applicable tax rate to the effective tax rate and the breakdown of the income tax expense for 2010 and 2009 are as follows:

	<b>2010</b>	<b>%</b>	<b>2009</b>	<b>%</b>
<b>Profit before tax</b>	<b>1,883</b>		<b>1,791</b>	
<b>Statutory tax</b>	<b>565</b>	<b>30.0</b>	<b>537</b>	<b>30.0</b>
Tax rates for foreign companies	(39)	(2.1)	(35)	(2.0)
Reinvestment tax deductions	(53)	(2.8)	(23)	(1.3)
Other tax deductions	(8)	(0.4)	(15)	(0.8)
Effect of net profit under equity accounting	(1)	(0.1)	(18)	(1.0)
Tax differences against prior years and others	4	0.2	(6)	(0.3)
<b>Income tax</b>	<b>468</b>	<b>24.9</b>	<b>440</b>	<b>24.6</b>

Breakdown of current/deferred expense:

Current tax	370	308
Deferred tax	98	132
<b>Accrued Corporate income tax</b>	<b>468</b>	<b>440</b>

The tax deductions for the reinvestment of extraordinary profit for 2010 relate basically to the sale of gas distribution assets in the Region of Madrid, which took place in compliance with the provision of anti-trust legislation (Note 9), and to the transfer of the 35% stake in Gas Aragón, S.A. (Note 7).

The tax deductions for reinvestment of extraordinary profit relate mainly to the disposal of the 5% shareholding in Enagás, S.A. (Note 8) and different companies and gas distribution and supply assets (Note 9), made in compliance with the provisions of current anti-trust legislation.

The income under the deduction for reinvestment of extraordinary profit as per article 42 of the Corporate Income Tax Act, and the investments in which they have materialised in prior years is disclosed in the annual accounts for said years. The breakdown relating to the last five years, together with that for 2010, are as follows:

Year of sale	Amount generated from sale	Amount reinvested
2005	3,074	3,074
2006	323	323
2007	1,439	1,439
2008	304	304
2009	485	485
2010	882	882
<b>Total</b>	<b>6,507</b>	<b>6,507</b>

The reinvestment has been made in fixed assets related to economic activities, carried out by Gas Natural SDG, S.A. or any other company included in the Consolidated Tax Group, by virtue of the provisions of article 75 of the Corporate Income Tax Act.

The breakdown of the tax effect relating to each component of Other comprehensive income for the year is as follows:

	At 31.12.10			At 31.12.09		
	Gross	Tax effect	Net	Gross	Tax effect	Net
Measurement of available-for-sale financial assets	(24)	7	(17)	(34)	(4)	(38)
Cash flow hedges	74	(21)	53	(36)	13	(23)
Cumulative translation adjustments	291	(14)	277	154	(19)	135
Actuarial gains and loss and other adjustments	(45)	12	(33)	30	(8)	22
Companies measured by equity accounting	-	-	-	1	-	1
<b>Total</b>	<b>296</b>	<b>(16)</b>	<b>280</b>	<b>115</b>	<b>(18)</b>	<b>97</b>

The breakdown of the deferred tax is as follows:

	At 31.12.10	At 31.12.09
Deferred income tax assets:		
—Non-current	957	941
—Current	-	15
<b>Total</b>	<b>957</b>	<b>956</b>
Deferred income tax liabilities:		
—Non current		
—Current	(2,704)	(2,700)
<b>Total</b>	<b>-</b>	<b>-</b>
Deferred income tax assets:		
	(2,704)	(2,700)
<b>Net deferred income tax</b>	<b>(1,747)</b>	<b>(1,744)</b>

The breakdown and movement of deferred taxes is as follows:

Deferred tax assets	Provisions for employee benefit obligations	Accruals	Tax losses carried forward	Amortization differences	Financial instruments valuation	Other	Total
<b>At 1.1.09</b>	<b>22</b>	<b>63</b>	<b>43</b>	<b>78</b>	<b>68</b>	<b>65</b>	<b>339</b>
Charged/(credited) to income statement	(33)	(63)	(54)	12	-	41	(97)
Business combinations	248	310	96	62	5	105	826
Charged to equity	(3)	-	-	-	(22)	-	(25)
Cumulative translation adjustments	2	3	(1)	9	-	3	16
Others	4	(21)	(33)	(68)	-	15	(103)
<b>At 31.12.09</b>	<b>240</b>	<b>292</b>	<b>51</b>	<b>93</b>	<b>51</b>	<b>229</b>	<b>956</b>
Charged/(credited) to income statement	(38)	(49)	(5)	(33)	16	67	(42)
Business combinations	-	-	-	-	-	-	-
Charged to equity	12	-	-	-	(19)	-	(7)
Cumulative translation adjustments	5	20	4	19	1	3	52
Others	9	(4)	26	33	3	(69)	(2)
<b>At 31.12.10</b>	<b>228</b>	<b>259</b>	<b>76</b>	<b>112</b>	<b>52</b>	<b>230</b>	<b>957</b>
Deferred tax liabilities	Amortization differences	Reinvestment capital gains	Fair value business combination	Financial instruments valuation	Other	Total	
<b>At 1.1.09</b>	<b>142</b>	<b>123</b>	<b>193</b>	<b>42</b>	<b>26</b>	<b>526</b>	
Charged/(credited) to income statement	13	13	(17)	-	26	35	
Business combinations	284	27	2,102	11	122	2,546	
Charged to equity	-	-	-	(30)	-	(30)	
Cumulative translation adjustments	(4)	-	12	-	(8)	-	
Others	(177)	-	(207)	-	7	(377)	
<b>At 31.12.09</b>	<b>258</b>	<b>163</b>	<b>2,083</b>	<b>23</b>	<b>173</b>	<b>2,700</b>	
Charged/(credited) to income statement	5	68	(72)	(15)	70	56	
Business combinations	-	-	-	-	-	-	
Charged to equity	-	-	-	(5)	-	(5)	
Cumulative translation adjustments	18	-	2	-	5	25	
Others	15	-	(35)	3	(55)	(72)	
<b>At 31.12.10</b>	<b>296</b>	<b>231</b>	<b>1,978</b>	<b>6</b>	<b>193</b>	<b>2,704</b>	

The movement in 2010 and 2009 in “Others” basically includes the transfer to “Non-current assets held for sale” and “Liabilities linked to non-current assets held for sale” (Note 9).

As a result of the aforementioned merger discussed in Notes 3.4.1.e and 13, a merger difference has arisen between the price of acquisition of the shareholding in Unión Fenosa, S.A. and its equity, determined at the time of the sale, which, as per article 89 of the Corporate Income Tax Act, will be charged, first of all, to the acquired assets and rights, and, the part of the difference not charged will be tax deductible, capped at an annual maximum of one-twentieth of its amount, provided that the conditions set down in letters a) and b) of the aforementioned provision are met. “Valuation of business combinations” under “Deferred tax liabilities” carries the tax effect of the part of the restatements of the net assets acquired in the combination process of UNIÓN FENOSA, which is estimated not to have a tax effect, and the amount of the tax deduction applied of the part of the merger difference not assigned to net assets acquired.

At 31 December 2010 the tax credits that have not been recorded totalled Euros 25 million (Euros 20 million at 31 December 2009).

In 2010 the tax audits of Gas Natural SDG, S.A. and Gas Natural Internacional SDG, S.A. for Corporate Income Tax (2003 to 2005) and other taxes (2004 and 2005) terminated without any significant matter coming to light except in relation to export deductions, which have not had an impact on the income statement since they were provided for in full (Note 35). The Tax Group of Gas Natural is open to inspection for the years from 2006 to 2010 for applicable taxes while the legacy companies of the Unión Fenosa Tax Group are open to inspection for the years 2002 and beyond for Corporate income tax and 2006 and beyond for the other applicable taxes.

The information on the main actions of the Tax Authorities and the position of the entity in each are discussed in the section on "Litigation and arbitration" in Note 35.

## **Note 22. Sales**

The breakdown of this account for 2010 and 2009 is as follows:

	<b>2010</b>	<b>2009 (1)</b>
Sales of gas and connections to distribution networks	10,033	8,350
Sales of electricity and access to distribution networks	8,103	5,216
Rental of facilities, maintenance and other services	1,333	1,236
Other sales	161	71
<b>Total</b>	<b>19,630</b>	<b>14,873</b>

(1) Balances restated at 31 December 2009 under the application of IFRIC 12 (Note 32).

## **Note 23. Procurements**

The breakdown of this account for 2010 and 2009 is as follows:

	<b>2010</b>	<b>2009</b>
Energy purchases	11,079	7,718
Access to transmission networks	1,448	920
Other purchases and Stock variation	443	495
<b>Total</b>	<b>12,970</b>	<b>9,133</b>

## **Note 24. Other operating income**

The breakdown of this account for 2010 and 2009 is as follows:

	<b>2010</b>	<b>2009 (1)</b>
Other management income	251	198
Operating grants	7	2
<b>Total</b>	<b>258</b>	<b>200</b>

(1) Balances restated at 31 December 2009 under the application of IFRIC 12 (Note 32).

## Note 25. Staff costs

The breakdown of this account for 2010 and 2009 is as follows:

	2010	2009
Wages and salaries	643	501
Social security costs	125	103
Defined contribution plans	33	28
Defined benefit plans	6	5
Own work capitalised	(82)	(102)
Others	73	65
<b>Total</b>	<b>798</b>	<b>600</b>

The average number of employees of GAS NATURAL FENOSA in 2010 has been 17,773 and 15,354 in 2009.

Under Law 3/2007/22 March, on gender equality, published in the Official State Gazette on 23 March 2007, the number of employees of GAS NATURAL FENOSA at the end of 2010 broken down by category and gender is as follows:

	2010		2009	
	Male	Female	Male	Female
Executives	821	224	809	221
Middle management	2,311	534	2,686	621
Specialized technicians	2,554	1,392	2,471	1,347
Workers	7,141	2,370	7,540	2,619
<b>Total</b>	<b>12,827</b>	<b>4,520</b>	<b>13,506</b>	<b>4,808</b>

  

	2010		2009	
	Male	Female	Male	Female
Spain			8,243	8,712
Rest of Europe			1,566	1,612
Latin American			6,406	6,919
Others			1,132	1,071
<b>Total</b>			<b>17,347</b>	<b>18,314</b>

## Note 26. Other operating expenses

The breakdown of this account for 2010 and 2009 is as follows:

	2010	2009 (1)
Repairs and maintenance	438	344
Commercial services & advertising	316	255
Professional services & insurance	184	218
Local taxes	261	189
Leases	67	53
Procurements	86	74
Bad debt provisio (Note 11)	238	138
Others	322	323
<b>Total</b>	<b>1,912</b>	<b>1,594</b>

(1) Balances restated at 31 December 2009 under the application of IFRIC 12 (Note 32).

In November 2009 an arbitration ruling was handed down on the termination of the integrated Gassi Touil project. The Arbitration Court declared that the aforementioned contract was terminated in accordance with its clauses, without forcing either party to indemnify the other as a result. The ruling also ordered Sonatrach to purchase the shareholding of GAS NATURAL FENOSA and Repsol in the joint venture in charge of the liquefaction phase in the Gassi Touil project and to pay an amount equal to the treasury balance. The ruling did not include the restitution of the investments, and, accordingly, GAS NATURAL FENOSA wrote off the related loans of Euros 60 million

with a counter-entry in "Other operating expenses" on the Consolidated income statement.

#### **Note 27. Other results**

In 2010 relates basically to the gain from the sale of different companies and gas distribution and supply assets in Madrid totalling Euros 380 million (Note 9) and the gain from the sale of electricity transport assets totalling Euros 5 million (Note 9).

Also includes the loss from the sale of electricity generation assets in Mexico totalling Euros 4 million (Note 9).

In 2009, relates to a capital gain from the sale of different group companies and gas supply and distribution assets in Cantabria, Murcia and the Basque Country totalling Euros 50 million (Note 9).

#### **Note 28. Net financial income**

The breakdown of this account for 2010 and 2009 is as follows:

	2010	2009 (1)
Dividends	4	12
Interest income	54	52
Others	60	21
<b>Total financial income</b>	<b>118</b>	<b>85</b>
Financial expense from borrowings	(924)	(810)
Interest expenses of pension plans and other post-employment benefits	(40)	(38)
Other financial expenses	(201)	(77)
<b>Total financial expenses</b>	<b>(1,165)</b>	<b>(925)</b>
Variations in the fair value of derivate financial instruments (Note 17)	(6)	25
Net exchange gains/losses	(6)	1
Gain on sales of financial instruments	44	101
<b>Net financial income</b>	<b>(1,015)</b>	<b>(713)</b>

(1) Balances restated at 31 December 2009 under the application of IFRIC 12 (Note 32).

"Other financial expenses" includes, in 2010, Euros 103 million relating to the recognition in the la Consolidated Income Statement of the commissions on the loan for the acquisition of UNIÓN FENOSA, which had yet to be charged to the Consolidated Income Statement, as a result of the cancellation of this loan. In 2009 the amount of Euros 42 million was included for this item.

“Variations in fair value of derivative financial instruments” basically includes the effect of the Equity Swap contracts mentioned in Note 8, giving a positive result of Euros 35 million.

The results from the sale of financial instruments for 2010 relate to the gain for the sale of the 35% stake in Gas Aragón, S.A. (Note 7) totalling Euros 40 million and for the sale of the 5% stake in Indra Sistemas, S.A. for Euros 4 million (Note 8).

The results of the sale of financial instruments in 2009 relate to the gain from the sale of the 5% shareholding in Enagás, S.A. (Note 8).

#### **Note 29. Cash generated from operating activities**

The breakdown of cash generated from operations in 2010 and 2009 is as follows:

	<b>2010</b>	<b>2009</b>
<b>Net income before tax</b>	<b>1,883</b>	<b>1,791</b>
<b>Adjustments to net income:</b>		
Depreciation and amortisation of fixed assets (Note 5 and 6)	1,716	1,404
Other adjustments to net income:		
Net financial income (Note 28)	1,015	713
Net income for the year from discontinued operations net of tax (Note 9)	-	39
Profit of entities recorded by equity method (Note 7)	(5)	(59)
Release of fixed assets grants to income (Note 14)	(31)	(38)
Other results (Note 27)	(370)	(50)
Net variation in Provisions (Note 15)	532	34
Other adjustments	-	51
<b>Changes in working capital (excluding the effects on the consolidation scope and cumulative translation adjustments)</b>	<b>(729)</b>	<b>(362)</b>
Inventories	(11)	90
Trade and other accounts receivable	(373)	534
Trade and other accounts payable	(345)	(986)
<b>Other cash flows generated from operations:</b>	<b>(1,274)</b>	<b>(1,011)</b>
Interest received	(798)	(649)
Income tax payments	(476)	(362)
<b>CASH FLOWS GENERATED FROM OPERATING ACTIVITIES</b>	<b>2,737</b>	<b>2,512</b>

#### **Note 30. Business combinations**

##### **2010**

In 2010, GAS NATURAL FENOSA did not carry out significant business combinations. The final allocation of the acquisition price of UNIÓN FENOSA at the fair value of its assets, liabilities and contingent liabilities culminated in April 2010. This allocation coincides with the one used in the preparation of the Consolidated Annual Accounts for 2010.

##### **2009**

As indicated in Note 3.4.1.e, the control UNIÓN FENOSA has been obtained through various acquisitions, and, accordingly, it has been recorded as per IFRS 3 for business combinations made by stages. Accordingly, the total cost of the combination is the sum of the costs of the individual transactions and totals Euros 15,799 million relating to the acquisition of 95.2% of the share capital of Unión Fenosa, S.A. The goodwill has been calculated as the difference between the cost and the participation in the fair value of the identifiable assets and liabilities on the date of each transaction. The first consolidation difference is made up of the sum of the goodwills calculated in each partial purchase and totals Euros 5,670 million. On the date that control was taken, the changes in equity have been recorded as a revaluation of reserves and has totalled Euros 14 million.

The breakdown of the net assets acquired at 30 April 2009 and the goodwill is as follows:

Purchase price:		
Cost of acquisition		15,733
Acquisition expenses		66
Total purchase price		<u>15,799</u>
Fair value of the net assets acquired		10,129
<b>Goodwill (Note 5)</b>		<b>5,670</b>

	<b>Fair value</b>	<b>Carrying value</b>
Goodwill	-	219
Other intangible assets	3,310	238
Property, plant and equipment	16,883	12,822
Non-current financial assets	1,446	1,479
Deferred income tax assets	826	811
Other current assets	3,583	3,583
Cash and other cash equivalents	213	213
<b>TOTAL ASSETS</b>	<b>26,261</b>	<b>19,365</b>
Minority interests	1,458	1,258
Grants	-	872
Non-current financial liabilities	5,573	5,600
Other non-current liabilities	1,742	1,586
Deferred income tax liabilities	2,546	572
Other current liabilities	4,311	4,283
<b>TOTAL LIABILITIES</b>	<b>15,630</b>	<b>14,171</b>
<b>Net assets acquired</b>	<b>10,631</b>	<b>5,194</b>
<b>Equity variations until control date</b>	<b>(14)</b>	
<b>Minority interest</b>	<b>(488)</b>	
<b>Fair value of the net assets acquired</b>	<b>10,129</b>	
<b>Purchase price</b>	<b>15,799</b>	
Cash and cash equivalents of the subsidiary acquired	213	
<b>Net purchase price</b>	<b>15,586</b>	

The amount of the net consolidated income for the period contributed as from the date of acquisition has totalled Euros 396 million. If the acquisition had taken place on January 1, 2009, the increase in consolidated net turnover and consolidated net income for the period would have been Euros 2,223 million and Euros 161 million, respectively.

The recording of this business combination has been provisionally determined, given that at the date of adoption of these consolidated annual accounts the valuation of the assets acquired and liabilities borne has still not been completed, and the period of twelve months as from the acquisition of UNIÓN FENOSA as per IFRS 3 has still not lapsed. In this provisional measurement process independent experts have been used who have applied generally accepted measurement criteria.

As a result of the purchase price allocation process, and in relation to the carrying value of UNIÓN FENOSA at the purchase date, the main assets and liabilities identified at fair value are as follows:

- Intangible assets relating basically to the electricity distribution concessions in Spain and Latin America, to the CO<sub>2</sub> emission rights, to the gas supply contracts and other contractual rights (Note 5).
- Property, plant and equipment relating to the combined cycle, nuclear energy, hydro-electric and thermal plants and to wind farms, electricity generation networks and coal fields and other facilities (Note 6).
- Deferred tax liabilities for the revaluations mentioned above for the part that is estimated that will finally be non-tax deductible (Note 21).

The provisional goodwill resulting from this business combination is attributable to the high profitability of the business acquired and the benefits and synergies that are expected as a result of the acquisition and integration in GAS NATURAL FENOSA.

### **Note 31. Joint Ventures**

GAS NATURAL FENOSA participates in different joint ventures that meet the conditions indicated in Note 3.4.1.b) and which are described in Appendix I. The relevant shareholdings in joint ventures at 31 December 2010 and 2009 are as follows:

	2010	2009		2010	2009
Barras Eléctricas Galaico Asturianas, S.A.	44.9%	44.9%	Eléctrica Conquense, S.A.	46.4%	46.4%
Barras Eléctricas Generación, S.L.	45.0%	45.0%	Eléctrica Conquense Distribución, S.A.	46.4%	46.4%
Centrales Nucleares Almaraz-Trillo, A.I.E	19.3%	19.3%	Gas Natural West Africa, S.L.	40.0%	40.0%
Comunidad de Bienes Central Nuclear de Almaraz	11.3%	11.3%	Nueva Generadora del Sur, S.A.	50.0%	50.0%
Comunidad de Bienes Central Nuclear de Trillo	34.5%	34.5%	Repsol - Gas Natural LNG, S.L.	50.0%	50.0%
Comunidad de Bienes Central Térmica de Aceca	50.0%	50.0%	Subgrupo EUFER	50.0%	50.0%
Comunidad de Bienes Central Térmica de Anllares	66.7%	66.7%	Subgrupo Unión Fenosa Gas	50.0%	50.0%
EcoEléctrica Holding Ltd and dependientes	50.0%	50.0%			

The following amounts represent GAS NATURAL FENOSA's interest share of assets and liabilities, and sales and results of the joint ventures:

	At 31.12.10	At 31.12.09
Non-current assets	4,810	5,328
Current assets	1,006	440
<b>Assets</b>	<b>5,816</b>	<b>5,768</b>
Non-current liabilities	1,655	2,054
Current liabilities	993	485

<b>Liabilities</b>	2,648	2,539
<b>Net assets</b>	<b>3,168</b>	<b>3,229</b>
<hr/>		
	<b>2010</b>	<b>2009</b>
Income	1,159	837
Expenses	1,131	769
Profit after income tax	28	68

There are no contingent liabilities on the holdings in joint ventures. The disclosure on contractual commitments in Note 34 include the commitments for gas purchases of Unión Fenosa Gas and EcoEléctrica LP totalling Euros 11,353 million at 31 December 2010 (Euros 10,540 million at 31 December 2009), the commitments for the purchase of nuclear fuel totalling Euros 49 million at 31 December 2010 (Euros 47 million at 31 December 2009) and the commitments for operating lease payments for the gas transport vessels of Unión Fenosa Gas totalling Euros 91 million at 31 December 2010 (Euros 97 million at 31 December 2009).

### Note 32. Service Concession Agreements

GAS NATURAL FENOSA manages various concessions that include provisions for the construction, operation and maintenance of facilities, as well as connection and energy supply obligations during the concession period, in accordance with applicable legislation (Note 2). Set out below please find a breakdown of the remainder of the period until expiry of the concessions that are no indefinite:

Company	Activity	Country	Concession period	Initial remaining period
Gas Natural BAN, S.A.	Gas distribution	Argentina	35 (extendible 10)	17
Companhia Distribuidora de Gás do Rio de Janeiro, S.A., Ceg Rio, S.A. and Gas Natural Sao Paulo Sul, S.A.	Gas distribution	Brazil	30 (extendible 20/30)	17-20
Gas Natural, S.A. ESP, Gas Natural del Oriente S.A. ESP, Gas Natural Cundiboyacense S.A. ESP and Gas Natural del Cesar S.A. ESP.	Gas distribution	Colombia	15-50	4-37
Unión Fenosa Generadora La Joya, S.A. and Unión Fenosa Generadora Torito, S.A.	Electricity generation	Costa Rica	20	12-20
Gas Natural SDG, S.A. and Generación Peninsular, S.L.	Hydro-electricity generation	Spain	14-100	2-53
Distribuidora de Electricidad de Occidente, S.A., Distribuidora de Electricidad de Oriente, S.A. and Redes Eléctricas de Centroamérica, S.A.	Electricity distribution	Guatemala	50	38-47
Gas Natural Distribuzione SpA and Cilento Reti Gas, SRL	Gas distribution	Italy	11-30	1-28
Gas Natural México S.A. de C.V. and Comercializadora Metrogas S.A. de C.V.	Gas distribution	Mexico	30 (extendible 15)	17-28
Red Unión Fenosa, S.A.	Electricity distribution	Moldavia	25 (extendible)	15
Distribuidora de Electricidad del Norte, S.A. and Distribuidora de Electricidad del Sur, S.A.	Electricity distribution	Nicaragua	30	20
Empresa Distribuidora de Electricidad Metro Oeste, S.A. and Empresa Distribuidora de Electricidad Chiriquí, S.A.	Electricity distribution	Panama	15	3

As indicated in Note 3.3, on 1 January 2010 GAS NATURAL FENOSA applied IFRIC 12 "Service Concession Agreements" retrospectively, restating its financial statements for 2009 for comparative purposes, considering that the intangible assets model is basically applicable to the gas distribution activities in Argentina, Brazil and Italy and the financial asset model of electricity generation in Costa Rica.

The hydro-electric station concessions in Spain are beyond the scope of IFRIC 12, as a result, amongst other reasons, of the fact that the sale prices of energy are set by the market. The other concessions internationally are outside the scope of IFRIC 12 as a result of the fact that the Licensor does not control the significant residual holding in the infrastructure at the end of the concession agreement. The assets related to these concessions are still booked as "Property, plant and equipment".

As a result of its application in the aforementioned sphere, there has been a reclassification in the consolidated balance sheet at 31 December 2009 from "Property, plant and equipment" to "Intangible assets" of Euros 1,247 million (Euros 1,065 million at 1 January 2009) and to "Long-term financial assets" of Euros 66 million, as well as a reclassification from "Grants" to a decrease of "Intangible assets" of Euros 185 million (Euros 182 million at 1 January 2009). On the other hand, the Consolidated Income Statement for 2009 has recognised income and costs incurred in the construction phase totalling Euros 76 million under "Other operating expenses" and "Other operating income" and there has been a reclassification from "Charge of fixed asset grants and others" to "Fixed asset depreciation" totalling Euros 8 million. Also, Euros 6 million has been reclassified to "Financial income", from "Net turnover" and Euros 3 million from "Fixed asset depreciation". In 2010 income and costs incurred in the construction phase totalling Euros 71 million have been recognised under "Other operating income" and "Other operating expenses".

Set out below please find the effects of the first application of IFRIC 12 "Service Concession Agreements" on the Consolidated Balance Sheet at 31 December 2009 and 1 January 2009 and the Consolidated Income Statement for 2009.

	31.12.09 restated	Applicatio n IFRIC 12	31.12.09
<b>ASSETS</b>			
Intangible assets	11,386	1,062	10,324
Property, plant and equipment	23,370	(1,313)	24,683
Investments recorded using the equity method	141	-	141
Non-current financial assets	670	66	604
Deferred income tax assets	956	-	956
<b>NON-CURRENT ASSETS</b>	<b>36,523</b>	<b>(185)</b>	<b>36,708</b>
Non-current assets held for sale	1,694	-	1,694
Inventories	740	-	740
Trade and other receivables	4,232	(2)	4,234
Other current financial assets	1,389	2	1,387
Cash and cash equivalents	589	-	589
<b>CURRENT ASSETS</b>	<b>8,644</b>	<b>-</b>	<b>8,644</b>
<b>TOTAL ASSETS</b>	<b>45,167</b>	<b>(185)</b>	<b>45,352</b>
<b>NET EQUITY AND LIABILITIES</b>			
<b>NET EQUITY</b>	<b>12,177</b>	<b>-</b>	<b>12,177</b>
Grants	520	(185)	705
Non-current provisions	1,881	-	1,881
Non-current financial liabilities	18,658	-	18,658
Deferred income tax liability	2,700	-	2,700
Other non-current liabilities	1,077	-	1,077
<b>NON-CURRENT LIABILITIES</b>	<b>24,836</b>	<b>(185)</b>	<b>25,021</b>
Liabilities linked to non-current assets held for sale	484	-	484
Current provisions	128	-	128
Current financial liabilities	2,849	-	2,849
Trade and other payables	4,013	-	4,013
Other current liabilities	680	-	680
<b>CURRENT LIABILITIES</b>	<b>8,154</b>	<b>-</b>	<b>8,154</b>
<b>TOTAL NET EQUITY AND LIABILITIES</b>	<b>45,167</b>	<b>(185)</b>	<b>45,352</b>

	01.01.09 restated	Application IFRIC 12	01.01.09
<b>ASSETS</b>			
Intangible assets	2,500	883	1,617
Property, plant and equipment	8,923	(1,065)	9,988
Investments recorded using the equity method	42	-	42
Non-current financial assets	2,820	-	2,820
Deferred income tax assets	339	-	339
<b>NON-CURRENT ASSETS</b>	<b>14,624</b>	<b>(182)</b>	<b>14,806</b>
Non-current assets held for sale	5	-	5
Inventories (Note 10)	560	-	560
Trade and other receivables (Note 11)	2,785	-	2,785
Other current financial assets (Note 8)	360	-	360
Cash and cash equivalents (Note 12)	249	-	249
<b>CURRENT ASSETS</b>	<b>3,959</b>	<b>-</b>	<b>3,959</b>
<b>TOTAL ASSETS</b>	<b>18,583</b>	<b>(182)</b>	<b>18,765</b>
<b>NET EQUITY AND LIABILITIES</b>			
<b>NET EQUITY</b>	<b>6,721</b>	<b>-</b>	<b>6,721</b>
Grants	424	(182)	606
Non-current provisions	625	-	625
Non-current financial liabilities	4,451	-	4,451
Deferred income tax liability	526	-	526
Other non-current liabilities	706	-	706
<b>NON-CURRENT LIABILITIES</b>	<b>6,732</b>	<b>(182)</b>	<b>6,914</b>
Liabilities linked to non-current assets held for sale	-	-	-
Current provisions	146	-	146
Current financial liabilities	934	-	934
Trade and other payables	2,865	-	2,865
Other current liabilities	1,185	-	1,185
<b>CURRENT LIABILITIES</b>	<b>5,130</b>	<b>-</b>	<b>5,130</b>
<b>TOTAL NET EQUITY AND LIABILITIES</b>	<b>18,583</b>	<b>(182)</b>	<b>18,765</b>

	2009 restated	Application IFRIC 12	2009
Sales	14,873	(6)	14,879
Procurements	(9,133)	-	(9,133)
Other operating income	200	76	124
Personnel cost	(600)	-	(600)
Other operating expenses	(1,594)	(76)	(1,518)
Depreciation and amortisation expenses	(1,389)	11	(1,400)
Release of fixed assets grants to income and others	38	(8)	46
Other results	50	-	50
<b>OPERATING INCOME</b>	<b>2,445</b>	<b>(3)</b>	<b>2,448</b>
<b>NET FINANCIAL INCOME</b>	<b>(713)</b>	<b>3</b>	<b>(716)</b>
Profit of entities recorded by equity method	59	-	59
<b>INCOME BEFORE TAXES</b>	<b>1,791</b>	<b>-</b>	<b>1,791</b>
Income tax expense	(440)	-	(440)
<b>NET INCOME FOR THE YEAR FROM CONTINUING OPERATIONS</b>	<b>1,351</b>	<b>-</b>	<b>1,351</b>
Net income for the year from discontinued operations net of tax	39	-	39
<b>CONSOLIDATED NET INCOME FOR THE YEAR</b>	<b>1,390</b>	<b>-</b>	<b>1,390</b>

### Note 33. Related-parties disclosures

Related persons are as follows:

- Significant shareholders of GAS NATURAL FENOSA, i.e. those directly or indirectly owning 5% or more, and those who, though not significant, have exercised the power to appoint a member of the Board of Directors.

On the basis of this definition, the significant shareholders of GAS NATURAL FENOSA are Criteria CaixaCorp, S.A., and consequently, Caixa d'Estalvis i Pensions de Barcelona Group ("la Caixa" Group), Repsol YPF Group, Caixa d'Estalvis de Catalunya.

Until 9 September 2010 the Gaz de France Suez Group (GDF Suez Group) was also considered a significant shareholder. On that date the GDF Suez Group sold, through a private placement, 5.01% of its stake in the share capital of Gas Natural SDG, S.A.

- Directors and executives of the company, and their immediate families. The term "director" means a member of the Board of Directors; "executive" means a member of the Management Committee of GAS NATURAL FENOSA. The operations with directors and executives are disclosed in Note 34.
- Operations between Group companies or entities for part of normal trade. The balances and transactions that are not eliminated in the consolidation process are not significant. Furthermore, the transactions with related parties have been made at arm's length.

The main aggregates for operations with significant shareholders are as follows:

<b>2010</b>				
<b>Income and expenses (Thousand Euros)</b>	<b>Grupo "la Caixa"</b>	<b>Grupo Repsol YPF</b>	<b>Grupo GDF-Suez (*)</b>	<b>Catalunya Caixa</b>
Financial expense	10,562	-	-	156
Leases (1)	2,499	9,279	-	-
Services received	-	57,992	8,530	-
Goods purchased (finished or in progress)	-	592,697	142,475	-
Other expenses (2)	21,259	-	129	111
<b>Total expenses</b>	<b>34,320</b>	<b>659,968</b>	<b>151,134</b>	<b>267</b>
Financial income	433	5	-	33
Leases	-	1,114	-	-
Provision of services	-	21,766	1,054	-
Sale of goods (finished or in progress)	-	479,279	257,053	-
Other income	688	-	1	-
<b>Total income</b>	<b>1,121</b>	<b>502,164</b>	<b>258,108</b>	<b>33</b>
<b>Other transactions (Thousand Euros)</b>				
<b>Other transactions (Thousand Euros)</b>	<b>Grupo "la Caixa"</b>	<b>Grupo Repsol YPF</b>	<b>Grupo GDF-Suez (*)</b>	<b>Catalunya Caixa</b>
Acquisition of property, plant and equipment, intangible assets or other assets	-	6,202	-	-
Financing agreements: loans and capital contributions (lender) (3)	452,826	-	-	40,208
Sale of property, plant and equipment, intangible assets or other assets (4)	175,507	27	-	-
Financing agreements: loans and capital contributions (borrower) (5)	574,132	-	-	50,987
Deposits and guarantees deposits given	-	-	-	-
Deposits and guarantees deposits received	112,500	-	-	70,000
Dividends and other distributed profit	261,528	219,092	36,670	11,799
Other operations (6)	1,702,046	-	-	9
<b>Trade debtors and creditors (in thousand Euros)</b>				
<b>Trade debtors and creditors (in thousand Euros)</b>	<b>Grupo "la Caixa"</b>	<b>Grupo Repsol YPF</b>	<b>Grupo GDF-Suez (*)</b>	<b>Catalunya Caixa</b>
Trade and other receivables	-	62,400	-	-
Trade and other payables	-	35,600	-	-
<b>2009</b>				
<b>Income and expenses (Thousand Euros)</b>	<b>Grupo "la Caixa"</b>	<b>Grupo Repsol YPF</b>	<b>Grupo GDF-Suez (*)</b>	<b>Catalunya Caixa</b>
Financial expense	14,563	-	-	518
Leases (1)	3,344	7,439	-	-
Services received	243	47,253	39,083	-
Goods purchased (finished or in progress)	-	524,066	347,782	-
Other expenses (2)	25,299	4	125	98
<b>Total expenses</b>	<b>43,449</b>	<b>578,762</b>	<b>386,990</b>	<b>616</b>
Financial income	2,223	-	-	2
Leases	-	493	-	-
Provision of services	-	30,856	18,060	-
Sale of goods (finished or in progress)	-	365,409	590,163	-
Other income	2,231	-	-	-
<b>Total income</b>	<b>4,454</b>	<b>396,758</b>	<b>608,223</b>	<b>2</b>

<b>Other transactions (Thousand Euros)</b>	<b>Grupo “la Caixa”</b>	<b>Grupo Repsol YPF</b>	<b>Grupo GDF-Suez (*)</b>	<b>Catalunya Caixa</b>
Acquisition of property, plant and equipment, intangible assets or other assets	-	1,265	256	-
Financing agreements: loans and capital contributions (lender) (3)	222,845	-	-	83
Sale of property, plant and equipment, intangible assets or other assets (4)	-	-	-	-
Financing agreements: loans and capital contributions (borrower) (5)	1,845,724	1,080,140	302,472	107,404
Deposits and guarantees deposits given	-	-	-	-
Deposits and guarantees deposits received	164,102	-	-	60,000
Dividends and other distributed profit	248,482	204,616	55,623	13,953
Other operations (6)	3,099,712	-	-	10,504

<b>Trade debtors and creditors (in thousand Euros)</b>	<b>Grupo “la Caixa”</b>	<b>Grupo Repsol YPF</b>	<b>Grupo GDF-Suez (*)</b>	<b>Catalunya Caixa</b>
Trade and other receivables	-	8,400	76,093	-
Trade and other payables	-	21,000	31,032	-

(\*) Until September 9, 2010.

- (1) The operations with the “la Caixa” Group relate mainly to the vehicle leasing and maintenance services, recorded as operating leases in accordance with the features of the contracts.
- (2) Includes contributions to pension plans, collective insurance policies, life insurance policies, and other expenses.
- (3) Includes treasury and financial investments.
- (4) Includes basically the assignment of debt claims (factoring without recourse) to the “la Caixa” Group.
- (5) At 31 December 2010 the credit facilities extended by the “la Caixa” Group totalled Euros 483,936 thousand (Euros 221,776 thousand at 31 December 2009), of which Euros 36,316 thousand had been drawn down (Euros 27,463 thousand at 31 December 2009). Additionally, the “la Caixa” Group has stakes in syndicated loans of Euros 300,000 thousand (Euros 505,337 thousand at 31 December 2009) and other loans totalling Euros 237,816 thousand. At 31 December 2010 the credit facilities extended by Catalunya Caixa totalled Euros 100,000 thousand (Euros 100,000 thousand at 31 December 2009), of which no amount has been drawn down (Euros 95,793 thousand at 31 December 2009) and other loans totalling Euros 50,987 thousand.

In relation to the capital increase in cash of April 2009 carried out by Gas Natural SDG, S.A., the “la Caixa” Group paid an amount of Euros 1,312,924 thousand for its proportional part of the company’s share capital.

- (6) At December 31, 2010 “Other operations” with the “la Caixa” Group include Euros 1,249,800 thousand for exchange rate hedges (Euros 2,451,815 thousand at December 31, 2009) and Euros 452,246 thousand for interest rate hedges (Euros 647,897 thousand at December 31, 2009). This same account includes a balance of Euros 9 thousand with Catalunya Caixa for interest rate hedges (Euros 10,504 thousand at 31 December 2009).

**Note 34. Disclosures regarding members of the Board of Directors and the Management Committee**

**Remuneration of the members of the Board of Directors**

In accordance with the provisions of the Articles of Association, the Company can allocate each year an amount of 10% of liquid profits to remuneration of the members of the Board of Directors, which can only be drawn once the legal reserve and any other obligatory reserves have been covered, and if the shareholders have recognised a dividend of at least 4% of its nominal value.

The breakdown of the remuneration received by the members of the Board of Directors, in thousand Euros, is as follows:

	2010	2009
<b>Remuneration items</b>		
Fixed remuneration	1,012	1,258
Variable remuneration	1,423	1,113
Per diems	4,163	4,834
Others	3	3
<b>Total</b>	<b>6,601</b>	<b>7,208</b>
 <b>Other benefits</b>		
Pension funds and plans: Contributions	262	414
Life insurance premiums	-	33
<b>Total other benefits</b>	<b>262</b>	<b>447</b>

“Fixed remuneration” includes both the amount received by members of the Board of Directors that have carried out their executive duties for Gas Natural SDG, S.A. and, in 2009, the remuneration for their executive duties carried out for Unión Fenosa, S.A. as a result of the acquisition of UNIÓN FENOSA, SA.

“Per diems” includes both the amount relating to membership of the Board of Directors of Gas Natural SDG, S.A. and its different Committees, and the respective Boards of Directors of the other investee companies totalled Euros 78 thousand (Euros 749 thousand at December 31, 2009). The difference between both periods is due, as a result of the acquisition of UNIÓN FENOSA, to the inclusion in “Per diems” of the amounts received for sitting on the Board of Directors of Unión Fenosa, S.A.

The amount accrued by the members the Board of Directors of Gas Natural SDG, S.A., for belonging to the Board of Directors, Executive Committee, Audit and Control Committee (CAandC) and Appointments and Remuneration Committee (CNandR), totalled Euros 4,085 thousand (Euros 4,085 thousand in 2009), broken down as follows in euros:

	Office	Board	Executive Committee	ACC	ARC	Total
Mr. Salvador Gabarró Serra	Chairman	550,000	550,000	-	-	1,100,000
Mr. Antonio Brufau Niubó	Vice-Chairman	126,500	126,500	-	12,650	265,650
Mr. Rafael Villaseca Marco	CEO	126,500	126,500	-	-	253,000
Mr. Enrique Alcántara-García Irazoqui	Director	126,500	-	-	-	126,500
Mr. Carlos Kinder Espinosa	Director	126,500	126,500	12,650	-	265,650
Mr. Juan María Nin Génova	Director	126,500	126,500	-	-	253,000
Mr. Juan Rosell Lastortras	Director	126,500	-	-	-	126,500
Mr. Demetrio Carceller Arce	Director	126,500	126,500	-	-	253,000
Mr. Enrique Locutura Rupérez (1)	Director	23,000	-	-	-	23,000
Mr. Fernando Ramírez Mazarredo	Director	126,500	-	12,650	-	139,150
Mr. Luis Suárez de Lezo Mantilla(1)	Director	103,500	-	-	-	103,500
Mr. Narcís Serra Serra	Director	126,500	-	-	-	126,500
Mr. Ramón Adell Ramón (2)	Director	57,500	-	-	-	57,500
Mr. José Arcas Romeu (3)	Director	115,000	-	-	12,650	127,650
Mr. Santiago Cobo Cobo	Director	126,500	69,000	-	-	195,500
Mr. Felipe González Márquez (3)	Director	11,500	-	-	-	11,500
Mr. Emilián López Achurra	Director	126,500	57,500	-	-	184,000
Mr. Carlos Losada Marrodán	Director	126,500	126,500	-	-	253,000
Mr. Miguel Valls Maseda	Director	126,500	-	12,650	12,650	151,800
Mr. Jaime Vega de Seoane Azpilicueta (2)	Director	69,000	-	-	-	69,000
		<b>2,574,000</b>	<b>1,435,500</b>	<b>37,950</b>	<b>37,950</b>	<b>4,085,400</b>

(1) Mr. Luis Suárez de Lezo Mantilla has sat on the Board of Directors since 26/2/2010, replacing Mr. Enrique Locutura Rupérez.

(2) Mr. Ramón Adell Ramón has sat on the Board of Directors since 18/6/2010, replacing Mr. Jaime Vega de Seoane Azpilicueta

(3) Mr. Felipe González Márquez has sat on the Board of Directors since 17/12/2010, replacing Mr. José Arcas Romeu.

**“Pension Funds and Plans: Contributions”, the contributions to pension plans and collective insurance policies.**

The members the Board of Directors of the Company have not received remuneration from profit sharing, bonuses or indemnities, and have not been given loans or advances. Neither have they received shares or share options during the year, nor have they exercised options or have options to be exercised.

The contract of the Chief Executive Officer contains a clause that stipulates an indemnity that trebles his annual compensation in certain cases of termination of contract and an indemnity equivalent to one year's pay for the one-year post-employment non-compete clause.

### **Transactions with Directors**

We disclose below the holdings and offices of the Directors in the share capital of companies with the same, analogous or complementary activity as that which constitutes the corporate purposes of GAS NATURAL FENOSA.

DIRECTORS AND OFFICES IN OTHER COMPANIES WITH SIMILAR OR COMPLEMENTARY ACTIVITIES	OFFICE IN GAS NATURAL SDG S.A.	Number of shares and % shareholding:					
		Gas Natural Fenosa	Enagás	Repsol YPF	Endesa	Red Eléctrica	Iberdrola
Mr. Salvador Gabarró Serra Vicechairman of "la Caixa" Director of Criteria CaixaCorp, S.A.	Chairman	3,000	14,371 (0.006)	-	-	10,502 (0.008)	74,358 (0.001)
Mr. Antonio Brufau Niubó Chairman of Repsol YPF, S.A. President of YPF, S.A.	Vicechairman	74,612	-	205,621 (0.017) 109,240 (0.009) (1)	-	-	-
Mr. Rafael Villaseca Marco Chairman of Repsol-Gas Natural LNG, S.L. Chairman of GN Aprovisionamientos SDG,	Chief Executive	12,006	356 (0.000)	646 (0.000)	859 (0.000)	-	2,614 (0.000)
Mr. Juan María Nin Génova Director of Criteria CaixaCorp, S.A. Director of Repsol YPF, S.A. Manager Director of "La Caixa"	Director	144 (0.000)	-	242 (0.000)	-	-	-
Mr. Santiago Cobo Cobo 1,856	Director	630 (0.000)	-	500 (0.000)	-	-	-
Mr. Carlos Losada Marrodán 17,530	Director	12,108 (0.001) (1)	-	1,098 (0.000) (1)	-	-	-
Mr. Luis Suárez de Lezo Mantilla General Secretary and Director of Repsol YPF, S.A. Director of YPF, S.A. Director of Repsol – Gas Natural LNG, S.L. Vicechairman of Fundación Repsol Member of Comisión de Medioambiente y Energía de la Cámara de Comercio Internacional (ICC)	Director	964 (0.000)	-	1,665 (0.000) 386 (0.000) (1)	-	-	365 (0.000) (1)
Mr. Carlos Kinder Espinosa 7,669	Director	5,206	-	-	-	-	-
Mr. Enrique Alcántara-García Irazoqui 20,000	Director	20,000	-	-	-	-	7,459 (0.000)
Mr. Narcís Serra Serra 1,010	Director	26 (0.000)	-	-	-	-	-
Mr. Emiliano López Achurra 6,306	Director	1,010	-	-	-	-	-
Mr. Miguel Valls Maseda 1,750	Director	6,306	-	-	-	-	-
Mr. Felipe González Márquez 2,000	Director	1,750	-	-	-	-	-
Mr. Juan Rosell Lastortras Director of Criteria CaixaCorp, S.A.	Director	2,000	-	-	-	-	-
Mr. Demetrio Carceller Arce 2,600	Director	2,600	-	-	-	-	-
Mr. Ramón Adell Ramón 100 (0.000)	Director	100 (0.000)	-	-	-	-	-

(1) Number of shares held by related persons.

In the operations with related parties (significant shareholders) that have been submitted for approval by the Board, subject to a favourable report of the Appointments and Remuneration Committee, the Directors representing the related party involved have abstained from voting.

## Remuneration of the Management Committee

The breakdown of the remuneration received by the members of the Management Committee, excluding the Chief Executive Officers included in the section on the Remuneration of the members the Board of Directors, in thousand Euros, is as follows:

Item	2010	2009
Fixed remuneration	4,210	3,407
Variable remuneration	3,441	2,516
Others	64	53
<b>Total</b>	<b>7,715</b>	<b>5,976</b>

### Other benefits

Pension funds and plans: Contributions	1,745	1,458
Life insurance premiums	-	57

<b>Total other benefits</b>	<b>1,745</b>	<b>1,515</b>
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In order to compare the 2010 aggregates with those of 2009 it must be borne in mind that, as a result of the acquisition and integration of UNIÓN FENOSA, the Management Committee, excluding the Chief Executive Officer, has risen from 10 to 12 members in 2009.

“Pension funds and plans: contributions” includes the contributions to pension plans and collective insurance policies.

The members the Executive Committee of the Company have not received remuneration from profit sharing, bonuses or indemnities, and have not been given loans or advances. Neither have they received shares or share options during the year, nor have they exercised options or have options to be exercised. In 2010 the indemnities received for termination of contract and other items have totalled Euros 1,853 thousand.

The contracts of the members of the Executive Committee contain a clause that stipulates a minimum indemnity of two years pay in certain cases of termination of contract and an indemnity equivalent to one year's fixed remuneration for the post-employment non-compete clause for a period of two years.

### **Transactions with Directors and executives**

The Directors and executives have not carried out any operations outside ordinary business in 2010 and 2009 or any operations not carried out at arm's length with the company or the Group companies.

### **Note 35. Commitments and contingent liabilities**

#### **Guarantees**

At 31 December 2010 GAS NATURAL FENOSA has given guarantees to third parties for activities totalling Euros 1,104 million.

On the other hand, financial guarantees have also been given totalling Euros 568 million, of which Euros 270 million relate to the guarantee for compliance with the obligations on the loan received by investee companies.

GAS NATURAL FENOSA estimates that the liabilities not foreseen at 31 December 2010, if any, that could given arise from the guarantees given, would not be significant.

## Contractual commitments

The following tables present the contractual commitments for purchases and sales at 31 December 2010:

Purchase	Total	At 31 December 2010					
		2011	2012	2013	2014	2015	And beyond
Commitments for operating leases (1)	733	72	72	46	47	47	449
Commitments for purchases of natural gas (2)	76,868	7,339	7,541	7,359	6,733	5,212	42,684
Commitments for purchases of nuclear fuel	49	23	26	-	-	-	-
Commitments for transport of natural gas (3)	4,047	247	286	289	291	254	2,680
Commitments for investments (4)	426	405	21	-	-	-	-
<b>Total contractual obligations</b>	<b>82,123</b>	<b>8,086</b>	<b>7,946</b>	<b>7,694</b>	<b>7,071</b>	<b>5,513</b>	<b>45,813</b>

Sales	Total	At 31 December 2010					
		2011	2012	2013	2014	2015	And beyond
Commitments for assignment of combined cycle capacity (5)	4,880	260	227	235	228	217	3,713
Commitments for sales of natural gas (6)	24,040	3,676	3,752	3,699	3,537	1,342	8,034
<b>Total contractual obligations</b>	<b>28,920</b>	<b>3,936</b>	<b>3,979</b>	<b>3,934</b>	<b>3,765</b>	<b>1,559</b>	<b>11,747</b>

- 1) Basically reflects the payments foreseen for the operating lease of the three liquefied natural gas transport tankers which terminate in the period 2011-2012 and the operating costs related to the tanker fleet contracts under finance leases indicated in Note 18. Also included is the rent of the "Torre del Gas" building owned by Torre Marenostrum, S.L., for which GAS NATURAL FENOSA has an operating lease without a purchase option for a period of ten years as from March 2006, extendible at market value for successive periods of three years, which is discretionary for GAS NATURAL FENOSA and obligatory for Torre Marenostrum, S.L.
- 2) Basically reflects the long-term commitments for natural gas purchases under gas supply contracts with *take or pay* clauses negotiated and held for "own use" (Note 3.4.7.3). Normally, these contracts are for 20-25 years, a minimum amount of gas to be purchased and revision mechanisms for prices indexed to international natural gas prices and regulated prices of natural gas in the countries of origin. The commitments according to these contracts have been calculated on the basis of natural gas prices at 31 December 2010.
- 3) Reflects the long-term commitments (20 to 25 years) for gas transport calculated on the basis of prices at 31 December 2010.
- 4) Basically reflects the commitments for payments for upstream projects and the construction of the connexion network of the regasification plant in Trieste (Italy).
- 5) Reflects the commitments as per the long-term contracts (25 years) of assignment of electricity generation capacity in Mexico and Puerto Rico without a purchase option, classified as operating leases (Note 3.4.16). The commitments under these contracts have been calculated on the basis of prices at 31 December 2010.
- 6) Reflects the long-term commitment to sell natural gas under gas sale contracts with *take or pay* clauses negotiated and maintained for "own use" (Note 3.4.7.3). Calculated on the basis of natural gas prices at 31 December 2010.

## **Litigation and arbitration**

At the date of formulation of these consolidated annual accounts the main litigation or arbitration to which GAS NATURAL FENOSA is a party are as follows:

### *Gas supply contract with Sonatrach*

With regards to the dispute of GAS NATURAL FENOSA and Sonatrach on the price revision of the supply contracts for gas from Algeria through the Maghreb-Europe pipeline, in August 2010 a ruling was handed down that terminated the arbitration proceedings. The arbitration court decided Sonatrach had the right to a price increase as from 2007. The maximum retroactive bills invoiced by Sonatrach would total USD 1,970 million for the period until July 2010. The ruling was appealed by GAS NATURAL FENOSA before the Swiss Federal Court. Furthermore, GAS NATURAL FENOSA has petitioned for the commencement of the price revision process for these contracts in order to bear in mind the severe changes that have taken place, as well as the current situation in the world markets, especially the Spanish market, all of which is set forth in the respective contracts.

In November 2010 the Swiss Federal Court granted a cautionary injunction in relation to the arbitration ruling, suspending it until this Court decides on the appeal filed by GAS NATURAL FENOSA.

GAS NATURAL FENOSA and Sonatrach are in negotiations on the price revisions laid down in these contracts, and hopefully the result of which will be beneficial to both parties and will finally put an end to the dispute.

In the event that none of the measures taken in relation to the above-mentioned ruling prosper, a part of the price increase will be passed on to customers, in accordance with contractual terms. In particular, article 15 of Royal Decree Law 6/2000/23 June contains that the holder of the contract for the supply of natural gas from Algeria, supplied through the Maghreb pipeline, has the obligation to supply it preferentially at the bundled tariff.

At 31 December 2010, the Consolidated balance sheet of GAS NATURAL FENOSA includes a provision for the risks arising from the litigation with Sonatrach, according to the best estimate made based on the information available at the date of formulation of these Consolidated Annual Accounts on the evolution of the litigation, the negotiations underway and the amounts to be passed on, which adequately cover the risks described both for the retroactive period and for the additional period until 31 December 2010, the total amount of which is not broken down, in accordance with the provisions of paragraph 92 of IAS 37, given that it could seriously prejudice the position of GAS NATURAL FENOSA.

### *Tax claims in Spain*

As a result of the different tax audits on the fiscal years from 1998 to 2005, the Inspectors have questioned the applicability of the export deduction used by GAS NATURAL FENOSA, and assessments were signed in disagreement, which are now being appealed before the Central Economic and Treasury Court, the National High Court and the Supreme Court. The total amount, including interest, at 31 December 2010 involved in these assessments totals Euros 319 million, which is fully provided for.

### *Tax claims in Argentina*

The Argentine tax authorities made several tax claims totalling ARS 244 million including accrued interest (Euros 46 million) for the tax treatment of capital gains in the period from 1993 to 2001, arising from the transfer of distribution networks by third parties to Gas Natural BAN, S.A. All the claims have been opposed and it was estimated that a final judgment favourable to the company would be handed down. Thus, the National Appellate Court finally ruled in 2007, for the period 1993-1997, voiding the Judgement of the Federal Public Administration Treasury (*Administración Federal de Ingresos Pùblicos - AFIP*), which had claimed the tax alleged due, and confirming moreover, the voiding of the fines. The decision of the Appellate Court has been appealed to the Supreme Court.

### *Tax claims in Brazil*

In September 2005 the Administrative Court of Río de Janeiro voided the claim that had been filed previously in April 2003 against offsetting the tax credits for the contributions on sales of PIS and COFINS paid by Companhia Distribuidora de Gás do Rio de Janeiro - CEG. The administrative court confirmed this judgement in March 2007, and, accordingly, the company filed an appeal before the contentious-administrative court, (Justicia Federal do Rio de Janeiro), an appeal which is now being heard. Subsequently, on 26 January 2009 notice was given of a public civil suit against CEG for the same events. GAS NATURAL FENOSA and the legal advisors of the company believe that the actions mentioned above are baseless, and, accordingly, it is not likely that losses will arise from this litigation. The amount of the tax payable in question, actualised at 31 December 2010, totals BR 331 million (Euros 148 million).

### *Claim against Edemet - Edechi (Panama)*

In December 2010 notification was given of the judgement of the court of first instance by virtue of which the Group companies Edemet and Edechi were sentenced to pay the claimant amounts to be determined by the experts up to a maximum of USD 84 million (Euros 63 million). Edemet, Edechi and the claimant have appealed this judgement. The damages claimed arise from a public tender to purchase energy en bloc called by the Public Service Authorities and which was tendered out to the claimant, which finally was not capable of meeting the terms of the contract for not having given the guarantees required in the bidding terms.

#### *Anti-trust*

The Anti-Trust Authorities have initiated various penalty proceedings in Spain for possible infringements of anti-trust legislation.

GAS NATURAL FENOSA believes that the provisions recorded in these consolidated annual accounts adequately cover the risks described in this Note, and, accordingly, it is not expected that liabilities will arise in addition to the ones recorded.

#### **Other matters**

In accordance with the commitments proposed and accepted by the Anti-Trust Commission (*Comisión Nacional de la Competencia - CNC*), as a result of the acquisition of UNIÓN FENOSA, GAS NATURAL FENOSA was obligated to sell 2.000 MW electricity production capacity of its combined cycle plants. On 12 July 2010 an agreement was reached on the sale to the Alpiq Group (Note 9) as part of compliance with these commitments.

At 31 December 2010, general steps have been taken in identifying the other assets and divestments and the preliminary steps necessary are being taken so that the assets involved in the divestment can operate independently.

#### **Note 36. Auditors fees**

The fees accrued in thousand Euros by the different companies trading under the PricewaterhouseCoopers mark are:

	<b>Thousand Euros</b>	
	<b>2010</b>	<b>2009</b>
Auditing and related services	4,235	4,986
Other services	1,847	1,294
<b>Total fees</b>	<b>6,082</b>	<b>6,280</b>

Additionally, in 2010, other audit firms have rendered the following services to Group companies:

	<b>Thousand Euros</b>	
	<b>2010</b>	<b>2009</b>
Auditing and related services	351	346
Other services	37	37
<b>Total fees</b>	<b>388</b>	<b>383</b>

## **Note 37. Environment**

### **Main environmental actions**

The main actions of GAS NATURAL FENOSA in 2010 formed part of its corporate environmental values. These actions have been aimed basically at ensuring compliance with legislation, and a tight environmental control of activities and facilities.

Measures have been adopted to combine the indispensable development of energy and the protection of the environment, and, in particular, the fight against the effects of climate change and the efficient use of resources. We have reduced the environmental impact of our activities, and conserved the bio-diversity of the environment and we have boosted continuous improvements by updating and reviewing environmental management, involving suppliers and fostering the responsible use of energy by our customers.

GAS NATURAL FENOSA has certified, under environmental Standard UNE-EN ISO 14001, 12.444 MW of electricity generation, 89% of its installed capacity of total electricity generation. Moreover, the environmental management certification has been received for the liquefaction plant in Damietta (Egypt) plant, the electricity distribution in Spain and Panama, the distribution and commercialsation of gas in Spain and Mexico, Unión Fenosa Gas, Metragaz (Morocco), and the main work centres of the company. All these facilities are audited annually both internally and externally.

On the other hand, the coal-fired thermal energy plants, the Sabón thermal energy plant, the combined cycle plants in Palos de la Frontera and Nueva Generadora del Sur and the Sector Hidráulico de Tambre-Ulla in Galicia are still in the European EMAS system.

The main investments in 2010 have been centred on the development of new ecological flow mini-hydro-electric stations, the maintenance and improvement of emission and immission control equipment and the coal plants, the installation of refrigeration towers at the Almaraz plant, the improvements to the water and waste treatment plants at various thermal energy plants, the completion of the wet desulphurisation plants at the Narcea and La Robla plants, the adjustment and optimization of smoke stack control, the change in wheels at plants and noise reduction. There has also been investment in offsetting the emissions of NOx from the combined cycle plant in the Barcelona Harbour, specifically, in natural gas buses of the TMB and the electrification of the harbour docks.

Additionally, GAS NATURAL FENOSA has made environmental investments to prevent pollution, protect the atmosphere, manage water resources and waste and soil quality and prepare environmental impact studies and environmental oversight plans.

All these environmental actions carried out in 2010 have cost a total of Euros 71 million, of which Euros 40 million related to investments and the rest, i.e., Euros 31 million, to expenses incurred in environmental management. The Consolidated balance sheet at 31 December 2010 includes accumulated environmental assets amounting to Euros 997 million depreciated in Euros 185 million.

The possible contingencies, indemnities and other environment-related risk in which GAS NATURAL FENOSA could incur are adequately covered by civil liability insurance policies that it has taken out.

### **Emissions**

The Council of Ministers on 14 November 2007 adopted the individual assignments of greenhouse gas emission rights for the 2008-2012 period. The assignment given to GAS NATURAL FENOSA totals Euros 49.1 million tonnes of CO<sub>2</sub>, broken down as follows:

(mtCO <sub>2</sub> )	2008	2009 (*)	2010	2011	2012
Assigned emission allowances	2,884	11,447	11,312	11,744	11,701

(\*) As from the year 2009 the emission allowances assigned to UNIÓN FENOSA are included.

In 2010 the emissions of CO<sub>2</sub> from the Group's thermal energy plants have totalled 10.5 million tonnes (12.2 million tonnes of CO<sub>2</sub> in 2009). This reduction is in line with the objectives of the "MENOS GEI" initiative.

The GAS NATURAL FENOSA Group acquired emissions rights from the Clean Development Mechanisms (Mecanismos de Desarrollo Limpio - MDL) and Joint Application projects (*Aplicación Conjunta* - AC) through its participation in various carbon funds in which it has a committed investment of approximately Euros 60 million. To these we must add the bi-lateral purchase contracts for the emissions rights from primary projects in various sectors. Furthermore, the GAS NATURAL FENOSA Group has registered 8 MDL projects with the United Nations. Moreover, there are other MDL projects for validation at different degrees of progress based on generation using renewable sources, the implementation of cogeneration systems, the reduction of emissions of gas networks or in the replacement of fuels by other less carbon intensive ones.

### **Note 38. Subsequent events**

On 11 January 2011 the first issue of the Securitisation Fund for the Electricity System Deficit of approximately Euros 2,000 million took place, and the date of payment was 25 January 2011. Since the amount issued for this Fund is less than all the debt claims on which there is an assignment commitment, the Securitisation Fund Manager has prorated the debt claims whose commitment to assign the debt claims was notified by the original holders. The prorated amount corresponding to GAS NATURAL FENOSA totals Euros 224 million.

On 26 January 2011 GAS NATURAL FENOSA issued bonds on the Euromarket maturing in six years totalling Euros 600 million. The annual interest rate is 5.625% and the emission price of the new bonds is 99.652% of their nominal value. The issue was made under the Euro Medium Term Notes (EMTN) program, which the company renewed last November.

On 28 January 2010, the Board of Directors of Gas Natural SDG, S.A. resolved, through the co-optation system, to appoint Mr. Nemesio Fernández-Cuesta Luca de Tena as a significant shareholder, upon the proposal of Repsol YPF Group, replacing Mr. Fernando Ramírez Mazarredo, significant Shareholder appointed upon the proposals of the Repsol YPF Group, who sat on the Board of Directors until 30 December 2010.

In accordance with the provisions of the Capital Companies Act, adopted by virtue of Royal Legislative Decree 1/2010, please find below the names of the new Directors and their shareholdings in companies with the same, analogous or complementary activity as the Company, as well as their offices and duties therein:

Directors and office in other companies with analogous	Office in Gas	Number of shares and percentage
--	---------------	---------------------------------

or complementary activity	Natural SDG, S.A.	Gas Natural Fenosa	Repsol YPF
Mr. Nemesio Fernández-Cuesta Luca de Tena	Member	1 (0.000)	11,368 (0.001)

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## APPENDIX I GROUP COMPANIES OF GAS NATURAL FENOSA

### 1. Subsidiary companies

Company	Country	Activity	Method	Shareholding			Net equity*	
				%			Profit	Interim
				Total	Capital	Reserves	2010	dividend
Gas Natural Aprovisionamientos SDG, S.A.	Spain	Gas supply	I.G.	100.0	1	19	48	-
Sagane, S.A.	Spain	Gas supply	I.G.	100.0	95	24	(40)	-
Comercializadora Guatemalteca Mayorista de Electricidad, S.A.	Guatemala	Electricity commercialisation	I.G.	100.0	-	1	1	-
Energía Empresarial de la Costa, S.A., E.S.P.	Colombia	Electricity commercialisation	I.G.	81.3	-	3	2	-
Energía Social de la Costa S.A. E.S.P.	Colombia	Electricity commercialisation	I.G.	81.3	2	(2)	(7)	-
Cetraro Distribuzione Gas, S.R.L.	Italy	Gas commercialisation	I.G.	60.0	-	-	-	-
Gas Natural Europe, S.A.S.	France	Gas commercialisation	I.G.	100.0	-	3	(5)	-
Gas Natural Vendita Italia, SpA	Italy	Gas commercialisation	I.G.	100.0	2	7	3	-
Natural Energy, S.A. (1)	Argentina	Gas commercialisation	I.G.	100.0	-	-	2	-
BIS Suministro de Gas Sur, S.L.	Spain	Gas and Electricity commercialisation	I.G.	100.0	-	-	-	-
BIS Suministro de Gas, S.L.	Spain	Gas and Electricity commercialisation	I.G.	100.0	-	-	-	-
Gas Natural Comercial SDG, S.L.	Spain	Gas and Electricity commercialisation	I.G.	100.0	4	6	14	-
Gas Natural Comercializadora, S.A.	Spain	Gas and Electricity commercialisation	I.G.	100.0	2	31	57	-
Gas Natural S.U.R. SDG, S.A.	Spain	Gas and Electricity commercialisation	I.G.	100.0	2	5	1	-
Gas Natural Servicios SDG, S.A.	Spain	Gas and Electricity commercialisation	I.G.	100.0	2	17	(28)	-
Unión Fenosa Comercial, S.L.	Spain	Gas and Electricity commercialisation	I.G.	100.0	10	101	190	(150)
Distribuidora de Electricidad de Occidente, S.A.	Guatemala	Electricity distribution	I.G.	90.8	8	-	12	-
Distribuidora de Electricidad de Oriente, S.A.	Guatemala	Electricity distribution	I.G.	92.8	14	(3)	7	-
Distribuidora de Electricidad del Norte, S.A.	Nicaragua	Electricity distribution	I.G.	88.3	74	(42)	3	-
Distribuidora de Electricidad del Sur, S.A.	Nicaragua	Electricity distribution	I.G.	89.7	60	(54)	-	-
Distribuidora Eléctrica Navasfrías, S.L.	Spain	Electricity distribution	I.G.	100.0	3	1	1	-

Electra de Abusejo, S.L.	Spain	Electricity distribution	I.G.	100.0	1	-	(1)	-
Electra del Jallas, S.A.	Spain	Electricity distribution	I.G.	99.9	-	40	6	(4)
Electricaribe Mipymes de Energía, S.A. E.S.P.	Colombia	Electricity distribution	I.G.	81.3	2	(1)	(9)	-
Electrificadora del Caribe S.A, E.S.P.	Colombia	Electricity distribution	I.G.	85.4	964	(195)	39	-
Empresa Distribuidora de Electricidad Chiriquí, S.A.	Panama	Electricity distribution	I.G.	51.0	18	(3)	9	-
Empresa Distribuidora de Electricidad Metro Oeste, S.A.	Panama	Electricity distribution	I.G.	51.0	71	(6)	23	-
Energía y Servicios de Panamá, S.A.	Panama	Electricity distribution	I.G.	51.0	9	1	5	-
Generación Limpia Guatemala, S.A.	Guatemala	Electricity distribution	I.G.	100.0	6	-	-	-
Red Unión Fenosa, S.A.	Moldova	Electricity distribution	I.G.	93.9	7	118	21	-
Redes Eléctricas de Centroamérica, S.A.	Guatemala	Electricity distribution	I.G.	100.0	2	1	-	-
Unión Fenosa Distribución, S.A.	Spain	Electricity distribution	I.G.	100.0	833	1.814	305	(351)
BIS Distribución de gas, S.A.	Spain	Gas distribution	I.G.	100.0	-	-	-	-
Ceg Río, S.A.	Brazil	Gas distribution	I.G.	59.6	41	73	35	(37)
Comercializadora Metrogas, S.A. de CV	Mexico	Gas distribution	I.G.	86.8	128	(65)	10	-
Companhia Distribuidora de Gás do Rio de Janeiro, S.A.	Brazil	Gas distribution	I.G.	54.2	212	223	103	(86)
Gas Galicia SDG, S.A.	Spain	Gas distribution	I.G.	62.0	33	10	6	-
Gas Natural Andalucía, S.A.	Spain	Gas distribution	I.G.	100.0	12	41	19	-
Gas Natural BAN, S.A. (1)	Argentina	Gas distribution	I.G.	70.0	215	(130)	11	(13)
Gas Natural Castilla La-Mancha, S.A.	Spain	Gas distribution	I.G.	95.0	27	19	10	-
Gas Natural Castilla y León, S.A.	Spain	Gas distribution	I.G.	90.1	6	79	25	-
Gas Natural Cegas, S.A.	Spain	Gas distribution	I.G.	99.7	25	68	30	-
Gas Natural Cundiboyacense, S.A. ESP	Colombia	Gas distribution	I.G.	45.8	1	12	7	-
Gas Natural de Sao Paulo Sul, S.A.	Brazil	Gas distribution	I.G.	100.0	370	(98)	36	(1)
Gas Natural del Cesar, S.A. ESP	Colombia	Gas distribution	I.G.	66.2	3	5	2	-
Gas Natural del Oriente, S.A. ESP	Colombia	Gas distribution	I.G.	32.2	9	30	12	(9)
Gas Natural Distribución SDG, S.A.	Spain	Gas distribution	I.G.	100.0	86	869	299	(175)
Gas Natural Distribuzione S.p.A.	Italy	Gas distribution	I.G.	100.0	33	158	22	-
Gas Natural México, S.A. de CV (1)	Mexico	Gas distribution	I.G.	86.8	471	(151)	34	-

Gas Natural Rioja, S.A.	Spain	Gas distribution	I.G.	87.5	3	9	5	-
Gas Natural Transporte SDG, S.L.	Spain	Gas distribution	I.G.	100.0	15	46	10	-
Gas Natural, S.A. ESP	Colombia	Gas distribution	I.G.	59.1	11	64	96	-
Gas Navarra, S.A.	Spain	Gas distribution	I.G.	90.0	4	27	9	-
Berrybank development Pty, Ltd	Australia	Energy	I.G.	91.4	-	-	-	-
Crookwell development Pty, Ltd	Australia	Energy	I.G.	91.4	3	1	-	-
Hawkesdale development Pty, Ltd	Australia	Energy	I.G.	91.4	1	-	-	-
Ryan Corner development Pty, Ltd	Australia	Energy	I.G.	91.4	2	1	-	-
Gas Natural Exploración, S.L.	Spain	Hydrocarbon research and exploration	I.G.	100.0	9	(5)	-	-
Petroleum Oil & Gas España, S.A.	Spain	Hydrocarbon research and exploration	I.G.	100.0	4	46	(3)	-
Clover Financial and Treasury Services, Ltd.	Ireland	Finance	I.G.	100.0	-	720	46	(62)
Gas Natural Capital Markets, S.A.	Spain	Finance	I.G.	100.0	-	-	7	-
Gas Natural Finance, BV	Holland	Finance	I.G.	100.0	-	-	-	-
Gas Natural International, Ltd.	Ireland	Finance	I.G.	100.0	6	9	-	(7)
Ufacing Uk Holdings, Ltd.	United Kingdom	Finance	I.G.	100.0	19	(19)	-	-
Unión Fenosa Finance B.V.	Netherlands	Finance	I.G.	100.0	-	-	-	-
Unión Fenosa Financiación S.A.	Spain	Finance	I.G.	100.0	1	3	(2)	-
Unión Fenosa Financial Services USA, Llc.	United States	Finance	I.G.	100.0	-	-	-	-
Unión Fenosa Preferentes, S.A.	Spain	Finance	I.G.	100.0	-	731	15	(11)
Aplicaciones y Proyectos energéticos, S.A.	Spain	Electricity generation	I.G.	100.0	-	-	-	-
Boreas Eólica 2, S.A.	Spain	Electricity generation	I.G.	89.6	3	5	2	-
Controladora del Golfo, S.A. de C.V.	Mexico	Electricity generation	I.G.	100.0	32	(81)	(4)	-
Corporación Eólica de Zaragoza, S.L	Spain	Electricity generation	I.G.	68.0	3	1	1	-
Dawn Energy - Produção de Energia, Unipessoal Lda.	Portugal	Electricity generation	I.G.	100.0	-	-	-	-
Energy Way Produção de Energia Lda	Portugal	Electricity generation	I.G.	100.0	-	-	-	-
Fenosa Wind , S.L.	Spain	Electricity generation	I.G.	100.0	-	-	-	-
Fenosa Renovables, S.L.U.	Spain	Electricity generation	I.G.	100.0	-	-	-	-
Fuerza y Energía BII Hioxo, S.A. DE C.V.	Mexico	Electricity generation	I.G.	100.0	38	(11)	-	-

Fuerza y Energía de Hermosillo, S.A. de C.V.	Mexico	Electricity generation	I.G.	100.0	49	(1)	6	-
Fuerza y Energía de Naco Nogales, S.A. de C.V.	Mexico	Electricity generation	I.G.	100.0	131	(43)	11	-
Fuerza y Energía de Norte Durango, S.A de C.V	Mexico	Electricity generation	I.G.	100.0	54	(9)	(2)	-
Fuerza y Energía de Tuxpan, S.A. de C.V.	Mexico	Electricity generation	I.G.	100.0	156	(3)	33	-
Gas Natural Electricidad SDG, S.A.	Spain	Electricity generation	I.G.	100.0	4	(1)	16	-
Gas Natural Energy Canarias, S.L.	Spain	Electricity generation	I.G.	100.0	-	-	-	-
Gas Natural Fenosa Renovables, S.L.U.	Spain	Electricity generation	I.G.	100.0	90	327	11	-
Gas Natural Wind 2, S.L.	Spain	Electricity generation	I.G.	100.0	-	-	-	-
Gas Natural Wind 3, S.L.	Spain	Electricity generation	I.G.	100.0	-	-	-	-
Gas Natural Wind 4, S.L.	Spain	Electricity generation	I.G.	100.0	-	-	-	-
Gas Natural Wind 6, S.L.	Spain	Electricity generation	I.G.	60.0	-	-	-	-
Gas Natural Wind Canarias, S.L.	Spain	Electricity generation	I.G.	100.0	-	-	-	-
Generación Peninsular, S.L.	Spain	Electricity generation	I.G.	100.0	4	34	11	-
Generadora Palamara La Vega, S.A.	Dominican Republic	Electricity generation	I.G.	100.0	4	66	14	-
Iberáfrica Power Ltd.	Kenya	Electricity generation	I.G.	71.7	16	1	1	-
Lantarón Energía, S.L.	Spain	Electricity generation	I.G.	100.0	-	-	-	-
M&D Generación 1, S.L.U.	Spain	Electricity generation	I.G.	100.0	-	-	-	-
Molinos de Valdebezana, S.A.	Spain	Electricity generation	I.G.	100.0	-	-	-	-
Sociedad de Tratamiento Hornillos , S.L.	Spain	Electricity generation	I.G.	94.4	1	2	1	-
Sociedad de Tratamiento La Andaya, S.L.	Spain	Electricity generation	I.G.	60.0	1	3	1	-
Tratamiento Integral de Almazán, S.L.	Spain	Electricity generation	I.G.	90.0	3	2	2	-
Tratamiento Cinca Medio, S.L.	Spain	Electricity generation	I.G.	80.0	2	1	-	-
Unión Fenosa Energías Renovables Chile, S.A.	Chile	Electricity generation	I.G.	80.0	1	1	(1)	-
Unión Fenosa Generación Panama, S.A.	Panama	Electricity generation	I.G.	100.0	-	-	-	-
Unión Fenosa Generadora La Joya, S.A.	Costa Rica	Electricity generation	I.G.	65.0	25	(3)	5	-
Unión Fenosa Generadora Torito, S.A.	Costa Rica	Electricity generation	I.G.	65.0	-	4	-	-
UTE La Energía Gas Natural Electricidad	Spain	Electricity generation	I.G.	100.0	3	-	1	-
Zemer Energía, S.A. de C.V.	Mexico	Electricity generation	I.G.	50.0	-	(1)	-	-

Hispanogalaica de Extracciones, S.L.	Spain	Mining	I.G.	100.0	-	-	-	-
Kangra Coal (Proprietary), Ltd.	South Africa	Mining	I.G.	70.0	-	68	43	-
Lignitos de Meirama, S.A.	Spain	Mining	I.G.	100.0	23	15	2	-
Pizarras Mahide, S.L.	Spain	Mining	I.G.	100.0	1	-	-	-
Unión Fenosa Minería, S.A.	Spain	Mining	I.G.	100.0	11	175	2	-
Gas Natural Rigassificazione Italia, S.P.A.	Italy	Gas regassification	I.G.	100.0	11	-	(1)	-
Natural Re, S.A.	Luxemburg	Insurance	I.G.	100.0	3	21	6	-
Administración de Servicios de Energía México, S.A. de CV	Mexico	Services	I.G.	86.8	-	-	-	-
Administración y Servicios ECAP, S.A. de C.V.	Mexico	Services	I.G.	100.0	-	-	-	-
Almar Ccs, S.A.	Costa Rica	Services	I.G.	100.0	-	-	-	-
Arte Contemporáneo y Energía, A.I.E.	Spain	Services	I.G.	100.0	-	-	-	-
Cedifil Cored Wire, S.L.	Spain	Services	I.G.	98.5	4	-	1	-
Compañía Española de Industrias Electroquímicas, S.A.	Spain	Services	I.G.	98.5	3	8	-	-
Energía y Confort Administración de Personal, S.A. de C.V.	Mexico	Services	I.G.	87.0	-	1	-	-
Gas Natural Servicios Colombia Ltda.	Colombia	Services	I.G.	100.0	-	2	(2)	-
Gas Natural Servicios Integrales, S.A.S.	Colombia	Services	I.G.	100.0	-	-	-	-
Gas Natural Servicios, S.A. de C.V.	Mexico	Services	I.G.	86.8	6	2	1	-
Gas Natural Serviços, S.A.	Brazil	Services	I.G.	100.0	2	4	(1)	-
General de Edificios y Solares, S.L.	Spain	Services	I.G.	100.0	34	54	3	-
Investments Hermill, S.A.	Dominicana Republic	Services	I.G.	100.0	1	-	-	-
Natural Servicios, S.A. (1)	Argentina	Services	I.G.	100.0	2	(1)	-	-
Serviconfort Colombia, S.A.	Colombia	Services	I.G.	100.0	-	-	-	-
Sistemas de Administración y Servicios, S.A. de C.V. (1)	Mexico	Services	I.G.	87.0	-	-	-	-
Unión Fenosa Generación México, S.A. de C.V.	Mexico	Services	I.G.	100.0	-	-	-	-
Gas Natural Informática, S.A.	Spain	Professional services	I.G.	100.0	20	(1)	8	-
M&D Energy Market, S.L.U.	Spain	Professional services	I.G.	100.0	-	-	-	-
Operación y Mantenimiento Energy Costa Rica, S.A.	Costa Rica	Professional services	I.G.	100.0	-	-	-	-
Operación y Mantenimiento Energy Madagascar, S.A.R.L.U.	Madagascar	Professional services	I.G.	100.0	-	-	-	-

Operación y Mantenimiento Energy, S.A.	Spain	Professional services	I.G.	100.0	-	7	1	-
Socoin , S.A (Guatemala)	Guatemala	Professional services	I.G.	100.0	-	-	-	-
Socoin Colombia, SAU	Colombia	Professional services	I.G.	100.0	-	-	-	-
Socoin Ingeniería y Construcción Industrial, S.L.U.	Spain	Professional services	I.G.	100.0	1	39	4	-
Socoin México, S.A. de C.V.	Mexico	Professional services	I.G.	100.0	8	(2)	(4)	-
Socoin, S.A (Panamá)	Panama	Professional services	I.G.	100.0	-	1	-	-
Socoinve, C.A	Venezuela	Professional services	I.G.	100.0	-	-	-	-
Soluziona Technical Services, Llc.	Egypt	Professional services	I.G.	100.0	-	-	-	-
Soluziona, S.A. (Bolivia)	Bolivia	Professional services	I.G.	100.0	-	-	-	-
Unión Fenosa Operación México S.A. de C.V.	Mexico	Professional services	I.G.	100.0	-	1	-	-
United Saudi Spanish Power and Gas Services, LLC	Saudi Arabia	Professional services	I.G.	100.0	-	-	-	-
Aplicaciones y Desarrollos Profesionales Nuevo Milenio, S.L.	Spain	Holding company	I.G.	100.0	32	1	-	-
Buenergía Gas & Power, Ltd.	Cayman I.	Holding company	I.G.	95.0	-	(35)	32	-
Caribe Capital B.V.	Netherlands	Holding company	I.G.	100.0	-	262	14	(22)
Compañía Auxiliar de Industrias Varias, S.A.	Spain	Holding company	I.G.	100.0	-	-	-	-
Distribuidora Eléctrica de Caribe, S.A. (Panama)	Panama	Holding company	I.G.	100.0	110	(28)	15	(13)
First Independent Power (Kenya), Ltd.	Kenya	Holding company	I.G.	89.6	-	10	-	-
Gas Natural Argentina SDG, S.A.	Argentina	Holding company	I.G.	100.0	105	(24)	1	-
Gas Natural do Brasil, S.A.	Brazil	Holding company	I.G.	100.0	3	(3)	-	-
Gas Natural Fenosa Renovables, S.L.U.	Spain	Holding company	I.G.	100.0	90	327	11	-
Gas Natural Internacional SDG, S.A.	Spain	Holding company	I.G.	100.0	350	149	186	(100)
Gas Natural Italia SpA	Italy	Holding company	I.G.	100.0	-	-	-	-
Gas Natural Puerto Rico, Inc	Puerto Rico	Holding company	I.G.	100.0	1	(1)	-	-
Holding Gas Natural, S.A.	Spain	Holding company	I.G.	100.0	-	-	-	-
Invergás, S.A. (1)	Argentina	Holding company	I.G.	100.0	49	59	2	-
La Energía, S.A.	Spain	Holding company	I.G.	100.0	11	3	9	-
La Propagadora del Gas, S.A.	Spain	Holding company	I.G.	100.0	-	2	-	-
Unión Fenosa Chile Limitada	Chile	Holding company	I.G.	100.0	4	-	-	-

Unión Fenosa Renovables Limitada (Chile)	Chile	Holding company	I.G.	100.0	4	-	-	-
Unión Fenosa Internacional, S.A.	Spain	Holding company	I.G.	100.0	174	212	118	-
Unión Fenosa International B.V.	Netherlands	Holding company	I.G.	100.0	-	17	-	-
Unión Fenosa México, B.V.	Netherlands	Holding company	I.G.	100.0	128	155	-	(1)
Unión Fenosa México, S.A. de C.V.	Mexico	Holding company	I.G.	100.0	321	(188)	(3)	-
Unión Fenosa Minería B.V.	Netherlands	Holding company	I.G.	100.0	-	143	6	(6)
Unión Fenosa South Africa Coal (Proprietary), LTD	South Africa	Holding company	I.G.	100.0	-	52	15	(6)
Unión Fenosa Wind Australia Pty, Ltd.	Australia	Holding company	I.G.	91.4	11	2	-	-
Gas Natural Fenosa Telecomunicaciones, S.A.	Spain	Telecommunications	I.G.	100.0	21	26	22	-
Unión Fenosa Redes de Telecommunicación, S.A. (Colombia)	Colombia	Telecommunications	I.G.	87.8	1	2	1	-
Unión Fenosa Redes de Telecommunicación, S.A. (Guatemala)	Guatemala	Telecommunications	I.G.	100.0	-	4	2	-
Unión Fenosa Redes de Telecommunicación, S.A. (Nicaragua)	Nicaragua	Telecommunications	I.G.	100.0	-	1	1	-
Unión Fenosa Redes de Telecommunicación, S.A. (Panamá)	Panama	Telecommunications	I.G.	90.2	2	3	3	-
Europe Maghreb Pipeline, Ltd.	United Kingdom	Gas transportation	I.G.	72.6	-	144	158	(43)
Metragaz, S.A.	Morocco	Gas transportation	I.G.	72.3	3	1	1	-

<sup>(1)</sup> The percentage of the shareholding corresponds to the legally held shares. Additionally, there is a share re-purchase commitment for the percentages indicated in Note 18, which are also assigned to the parent Company.

## 2. Joint ventures

Company	Country	Activity	Method	Consolidation				Shareholding			Profit	Interim
								%				
				Total	Capital	Reserves	2010	dividend				
<b>Net equity*</b>												
Repsol-Gas Natural LNG, S.L.	Spain	Gas supply and transportation	I.P.	50.0	2	-	-	-				
Central Térmica La Torrecilla, S.A.	Spain	Cogeneration	I.P.	50.0	1	-	(1)	-				
CH4 Energía S.A. de C.V.	Mexico	Gas commercialisation and transportation	I.P.	43.4	1	4	3	(20)				
Transnatural S.R.L. de C.V.	Mexico	Gas commercialisation and transportation	I.P.	43.4	10	(31)	(5)	-				
Albidona Distribuzione Gas, S.R.L.	Italy	Gas distribution	I.P.	60.0	-	-	-	-				
Cilento Reti Gas, S.R.L.	Italy	Gas distribution	I.P.	60.0	4	-	-	-				
		Gas distribution	I.P.	44.3	1	-	-	-				
Gas Natural Vehicular del Norte Asociación en Participación	Mexico	Hydrocarbon exploration and production	I.P.	40.0	14	-	-	-				
Gas Natural West África, S.L.	Spain	Hydrocarbon exploration and production	I.P.	37.0	-	-	-	-				
Palencia 3 Investigación Desarrollo y Explotación, S.L.	Spain	Gas	I.P.	30.0	7	3	(2)	-				
Gas Directo, S.A.	Spain	Gas	I.P.	45.0	2	8	2	-				
Gasifica, S.A.	Spain	Gas	I.P.	42.5	-	-	19	(11)				
Infraestructura de Gas SA	Spain	Gas	I.P.	50.0	9	(3)	(2)	-				
Nueva Electricidad del Gas, S.A.U.	Spain	Gas	I.P.	50.0	-	5	-	-				
Palawan Sulu Sea Gas, Inc.	Philippines	Gas	I.P.	25.0	2	5	18	(12)				
Planta de Regasificación de Sagunto, S.A.	Spain	Gas	I.P.	39.7	1	-	-	-				
Segas Services, S.A.E.	Egypt	Gas	I.P.	40.0	336	4	28	-				
Spanish Egiprian Gas Company, S.A.E.	Egypt	Gas	I.P.	50.0	-	-	(1)	-				
Unión Fenosa Gas Exploración y Producción, S.A.	Spain	Gas	I.P.	50.0	2	1	36	(23)				
Unión Fenosa Gas Comercializadora, S.A.	Spain	Gas	I.P.	50.0	-	5	-	-				
Unión Fenosa Gas Infraestructures, B.V.	Netherlands	Gas	I.P.	50.0	33	464	210	(171)				
Unión Fenosa Gas, S.A.	Spain	Gas	I.P.	40.0	-	-	-	-				
Alas Capital & Gas Natural S.A.	Spain	Electriciy generation	I.P.	30.4	-	-	-	-				
Andaluza de Energía Solar Cuarta, S.L.	Spain	Electriciy generation	I.P.	30.4	-	-	-	-				
Andaluza de Energía Solar Primera, S.L.	Spain	Electriciy generation	I.P.	30.4	-	-	-	-				

Andaluza de Energía Solar Quinta, S.L.	Spain	Electricity generation	I.P.	30.0	-	-	-	-
Andaluza de Energía Solar Tercera, S.L.	Spain	Electricity generation	I.P.	30.0	-	-	-	-
Aprovechamientos Eléctricos, S.A.	Spain	Electricity generation	I.P.	50.0	-	-	-	-
Áridos Energías Especiales, S.L.	Spain	Electricity generation	I.P.	20.5	1	-	2	(2)
Azucarera Energías, S.A.	Spain	Electricity generation	I.P.	20.0	1	2	(1)	-
Barba, S.A.	Spain	Electricity generation	I.P.	50.0	-	1	-	-
Barras Eléctricas Galaico Asturianas, S.A.	Spain	Electricity generation	I.P.	44.9	16	53	-	-
Barras Eléctricas Generación, S.L.	Spain	Electricity generation	I.P.	44.9	1	2	-	-
Boiro Energía, S.A.	Spain	Electricity generation	I.P.	20.0	1	4	2	-
Centrales Nucleares Almaraz-Trillo, A.I.E.	Spain	Electricity generation	I.P.	19.3	-	-	-	-
Cogeneración del Noroeste, S.L.	Spain	Electricity generation	I.P.	20.0	5	1	5	-
Depuración, destilación y reciclaje, S.L.	Spain	Electricity generation	I.P.	20.0	1	1	1	(1)
Desarrollo de Energías Renovables de la Rioja, S.A.	Spain	Electricity generation	I.P.	36.3	17	3	6	-
Desarrollo de Energías Renovables de Navarra, S.A.	Spain	Electricity generation	I.P.	50.0	10	29	14	-
EcoEléctrica, L.P.	Puerto Rico	Electricity generation	I.P.	47.5	1	-	-	-
Electrica Conquense, S.A.	Spain	Electricity generation	I.P.	46.4	3	3	16	-
Enel Unión Fenosa Renovables, S.A.	Spain	Electricity generation	I.P.	50.0	33	127	22	-
Energía Termosolar de los Monegros, S.L.	Spain	Electricity generation	I.P.	45.0	1	-	-	-
Energías Ambientales de Novo, S.A.	Spain	Electricity generation	I.P.	16.7	1	1	-	-
Energías Ambientales de Somozas, S.A.	Spain	Electricity generation	I.P.	22.6	1	2	1	-
Energías Ambientales de Vimianzo, S.A.	Spain	Electricity generation	I.P.	16.7	5	2	2	-
Energías Ambientales, S.A.	Spain	Electricity generation	I.P.	16.7	15	4	-	-
Energías Eólicas de Fuerteventura, S.L.	Spain	Electricity generation	I.P.	50.0	-	-	-	-
Energías Eólicas de Lanzarote, S.L.	Spain	Electricity generation	I.P.	50.0	-	-	-	-
Energías Especiales Alcoholes, S.A.	Spain	Electricity generation	I.P.	41.2	-	(2)	2	-
Energías Especiales Alto Ulla, S.A.	Spain	Electricity generation	I.P.	50.0	10	-	(11)	-
Energías Especiales Andalucía, S.L.	Spain	Electricity generation	I.P.	42.5	1	-	-	-
Energías Especiales de Careón, S.A.	Spain	Electricity generation	I.P.	38.5	-	-	1	-
Energías Especiales de Extremadura, S.L.	Spain	Electricity generation	I.P.	39.2	-	-	-	-
Energías Especiales de Gata, S.L.	Spain	Electricity generation	I.P.	50.0	-	-	-	-
Energías Especiales de Padul, S.L.U.	Spain	Electricity generation	I.P.	50.0	-	-	-	-
Energías Especiales del Bierzo, S.A.	Spain	Electricity generation	I.P.	25.0	2	1	2	-
Energías Especiales Espina, S.L.U.	Spain	Electricity generation	I.P.	50.0	2	-	-	-

Energías Especiales Montes Castellanos, S.L.U.	Spain	Electricity generation	I.P.	50.0	7	-	(2)	-
Energías Especiales Montes de Andalucía, S.L.	Spain	Electricity generation	I.P.	50.0	-	-	-	-
Energías Especiales Noroeste, S.A.U.	Spain	Electricity generation	I.P.	50.0	7	2	4	-
Energías Especiales Peña Armada, S.A.	Spain	Electricity generation	I.P.	40.0	1	-	1	-
Energías Especiales Santa Bárbara, S.L.	Spain	Electricity generation	I.P.	50.0	-	-	-	-
Energías Especiales Valencianas, S.L.	Spain	Electricity generation	I.P.	50.0	-	-	-	-
Energías Renovables Montes de San Sebastián, S.L.	Spain	Electricity generation	I.P.	50.0	3	-	-	-
Eólica del Cordal de Montouto, S.L.	Spain	Electricity generation	I.P.	50.0	1	-	-	-
Eólica Galáico Asturiana, S.A.	Spain	Electricity generation	I.P.	50.0	-	-	-	-
Eólicos Singulares 2005, S.A.	Spain	Electricity generation	I.P.	49.0	-	-	-	-
Eólica Tramuntana 12, S.L.	Spain	Electricity generation	I.P.	60.0	-	-	-	-
Eólica Tramuntana 13, S.L.	Spain	Electricity generation	I.P.	60.0	-	-	-	-
Eólica Tramuntana 14, S.L.	Spain	Electricity generation	I.P.	60.0	-	-	-	-
Eólica Tramuntana 15, S.L.	Spain	Electricity generation	I.P.	60.0	-	-	-	-
Eólica Tramuntana 16, S.L.	Spain	Electricity generation	I.P.	60.0	-	-	-	-
Eólica Tramuntana 21, S.L.	Spain	Electricity generation	I.P.	60.0	-	-	-	-
Eólica Tramuntana 22, S.L.	Spain	Electricity generation	I.P.	60.0	-	-	-	-
Eólica Tramuntana 23, S.L.	Spain	Electricity generation	I.P.	60.0	-	-	-	-
Eólica Tramuntana 24, S.L.	Spain	Electricity generation	I.P.	60.0	-	-	-	-
Eólica Tramuntana 71, S.L.	Spain	Electricity generation	I.P.	60.0	-	-	-	-
Eólica Tramuntana 72, S.L.	Spain	Electricity generation	I.P.	60.0	-	-	-	-
Eólica Tramuntana 73, S.L.	Spain	Electricity generation	I.P.	60.0	-	-	-	-
Eólica Tramuntana, S.L.	Spain	Electricity generation	I.P.	60.0	-	-	-	-
Eufer Operación, S.L.	Spain	Electricity generation	I.P.	50.0	-	-	-	-
Eufer Energías Especiales de Portugal, Unipessoal Lda	Spain	Electricity generation	I.P.	50.0	-	-	-	-
Eufer Renovables Ibéricas 2004, S.A.	Spain	Electricity generation	I.P.	50.0	16	2	1	-
Explotaciones Eólicas Sierra de Utrera, S.L.	Spain	Electricity generation	I.P.	50.0	3	6	3	-
Los Castrios, S.A.	Spain	Electricity generation	I.P.	33.1	2	1	1	-
Molinos de la Rioja, S.A.	Spain	Electricity generation	I.P.	33.3	3	2	3	-
Molinos de Linares, S.A.	Spain	Electricity generation	I.P.	25.0	-	-	-	-
Molinos del Cidacos, S.A.	Spain	Electricity generation	I.P.	50.0	10	8	10	-
Montouto 2000, S.A.	Spain	Electricity generation	I.P.	49.0	6	4	2	-
Nueva Generadora del Sur, S.A.	Spain	Electricity generation	I.P.	50.0	96	54	(7)	-

O Novo Aquilón, S.L.	Spain	Electricity generation	I.P.	60.0	-	-	-	-
Parque Eólico Belmonte, S.A.	Spain	Electricity generation	I.P.	25.1	-	-	-	-
Parque Eólico Cabo Vilano, S.L.	Spain	Electricity generation	I.P.	50.0	7	1	(14)	-
Parque Eólico de Capelada, A.I.E.	Spain	Electricity generation	I.P.	25.0	6	1	1	-
Parque Eólico de Corullón, S.L.	Spain	Electricity generation	I.P.	50.0	-	-	-	-
Parque Eólico de San Andrés, S.A.	Spain	Electricity generation	I.P.	41.0	1	-	3	-
Parque Eólico Malpica, S.A.	Spain	Electricity generation	I.P.	17.7	1	-	-	-
Parque Eólico Montes de las Navas, S.A.	Spain	Electricity generation	I.P.	10.0	7	2	3	-
Parque Eólico Sierra del Merengue, S.L.	Spain	Electricity generation	I.P.	25.0	-	-	-	-
Parques Eólicos 2008-2012, S.L.	Spain	Electricity generation	I.P.	54.0	-	-	-	-
Prius Enerólica, S.L.	Spain	Electricity generation	I.P.	50.0	-	-	-	-
Promociones Energéticas del Bierzo, S.L.	Spain	Electricity generation	I.P.	50.0	-	-	(1)	-
Proyectos Universitarios Energías Renovables, S.L.	Spain	Electricity generation	I.P.	16.7	-	-	-	-
Punta de las Olas Eólica Marina, S.L.	Spain	Electricity generation	I.P.	50.0	-	-	-	-
Punta de Lens Eólica Marina, S.L.	Spain	Electricity generation	I.P.	50.0	-	-	-	-
Sistemas Energéticos Mañón Ortigueira, S.A.	Spain	Electricity generation	I.P.	48.0	2	2	-	-
Societat Eòlica de l'Enderrocada, S.A.	Spain	Electricity generation	I.P.	13.3	6	1	1	-
Toledo PV, A.E.I.E.	Spain	Electricity generation	I.P.	33.3	-	-	-	-
Ufefys, S.L.	Spain	Electricity generation	I.P.	20.0	-	-	1	-
Vientos del Noroeste, S.A.	Spain	Electricity generation	I.P.	49.9	5	-	(3)	-
Ghesa Ingeniería y Tecnología, S.A.	Spain	Professional services	I.P.	41.2	4	16	5	-
EcoEléctrica Holding, Ltd.	Cayman Is.	Holding company	I.P.	47.5	63	20	-	-
EcoEléctrica Limited	Cayman Is.	Holding company	I.P.	47.5	63	19	69	(12)
Alliance, S.A.	Nicaragua	Telecommunications	I.P.	49.9	-	-	-	-
Biogás Doña Juana, S.A. ESP	Colombia	Biogas treatment and use	I.P.	49.8	2	1	-	-

### 3. Jointly controlled assets and operations

Company	Country	Activity	% Shareholding Total
Boquerón	Spain	Exploration and production	4.5%
Casablanca	Spain	Exploration and production	9.5%
Chiperón	Spain	Exploration and production	2.0%
Montanazo	Spain	Exploration and production	17.1%
Morcín – 1	Spain	Exploration	20%
Villaviciosa	Spain	Exploration	70%
Bezana / Beguenzo	Spain	Exploration	60%
Murcia-Siroco	Spain	Exploration	40.0%
Rodaballo	Spain	Exploration and production	4.0%
Sestao Knutsen	Spain	LNG Transportation	50.0%
Ibérica Knutsen	Spain	LNG Transportation	50.0%
Comunidad de bienes Central Nuclear de Trillo (Grupo I)	Spain	Electricity generation	34.5%
Comunidad de bienes Central Nuclear de Almaraz (Grupo I y II)	Spain	Electricity generation	11.3%
Comunidad de bienes Central Térmica de Anllares	Spain	Electricity generation	66.7%
Comunidad de bienes Central Térmica de Aceca	Spain	Electricity generation	50.0%
Gassi-Chergui	Argelia	Exploration	30.0%
Tánger Larrache	Morocco	Exploration	40.0%

#### 4. Associates

Company	Country	Activity	Method	Total	Capital	Company	Country	Activity	Net equity*	
									% Consolidation	
									Consolidation	Shareholdin g
Kromschroeder, S.A.	Spain	Meters	P.E.	42.5	1	10	(1)	-		
Enerlasa, S.A.	Spain	Energy	P.E.	22.5	1	(1)	1	-		
Energías de Villarubia, S.L.	Spain	Energy	P.E.	10.0	-	1	4	-		
Sotavento Galicia, S.A.	Spain	Energy	P.E.	9.0	1	4	(1)	-		
Tirmadrid, S.A.	Spain	Energy	P.E.	9.0	17	4	7	-		
Qalhat LNG S.A.O.C.	Omán	Gas	P.E.	3.7	55	18	7	-		
Regasificadora del Noroeste, S.A.	Spain	Gas	P.E.	10.5	48	(1)	3	-		
Enervent, S.A.	Spain	Electricity generation	P.E.	26.0	2	6	1	(1)		
Sistemas Energéticos La Muela, S.A.	Spain	Electricity generation	P.E.	20.0	3	4	1	-		
Sistemas Energéticos Mas Garullo, S.A.	Spain	Electricity generation	P.E.	18.0	2	2	1	-		
Sociedad Gallega do Medio Ambiente, S.A.	Spain	Waste management	P.E.	49.0	32	11	(4)	-		
Ensafeca Holding Empresarial, S.L.	Spain	Holding company	P.E.	18.5	8	2	(2)	-		
Torre Marenostrum, S.L.	Spain	Real Estate	P.E.	45.0	5	13	-	-		
Bluemobility System, S.L.	Spain	Services	P.E.	20.0	-	1	-	-		
Oficina de cambios de suministrador, S.A.	Spain	Services	P.E.	29.0	-	-	-	-		

## APPENDIX II VARIATIONS IN CONSOLIDATION SCOPE

The main changes in the consolidation scope in 2010 have been as follows:

Registered name of the entity	Operation category	Effective date of the operation	% of voting rights acquired / eliminated	% of voting rights after the operation	Consolidation method after the operation
Gas Natural Servicios Integrales, S.A.S	Incorporation	March 10	100%	100%	Global
Electrificadora del Caribe, S.A. E.S.P	Acquisition	March 31	4.1%	85.4%	Global
Madrileña Red de Gas, S.A.	Disposal	April 30	100%	-	-
Madrileña Suministro de Gas SUR 2010, S.L.	Disposal	April 30	100%	-	-
Madrileña Suministro Gas 2010, S.L.	Disposal	April 30	100%	-	-
Madrileña Servicios Comunes, S.L.	Disposal	April 30	100%	-	-
Central Anahuac, S.A. de C.V.	Disposal	May 25	100%	-	-
Central Lomas del Real, S.A. de C.V.	Disposal	May 25	100%	-	-
Central Vallehermoso S.A. de C.V.	Disposal	May 25	100%	-	-
Central Saltillo, S.A. de C.V.	Disposal	May 25	100%	-	-
Electricidad Águila Altamira, S.A. de C.V.	Disposal	May 25	100%	-	-
Gasoducto del Río, S.A. de C.V.	Disposal	May 25	100%	-	-
Compañía Mexicana de Gerencia y Operación, S.A. de C.V.	Disposal	May 25	100%	-	-
Palencia 3 Investigación Desarrollo y Explotación, S.L.	Incorporation	Juny 24	37%	37%	Proportional
Hispano Galaica de Extracciones, S.L.	Incorporation	Juny 30	100%	100%	Global
Eólica Tramuntana, S.L.	Incorporation	July 5	60%	60%	Proportional
Energía Termosolar los Monegros, S.L.	Acquisition	July 14	40%	45%	Proportional
Sistema Eléctrico de conexión Valcaire, S.L.	Incorporation	July 17	10.6%	10.6%	Proportional
Hotel Naturaleza Tambre, S.L.	Liquidation	July 19	100%	-	-
M&D Generación 1, S.L.U.	Incorporation	July 21	100%	100%	Global
M&D Energy Market, S.L.U.	Incorporation	July 21	100%	100%	Global
Promociones Energéticas del Bierzo, S.L.	Acquisition	July 30	25%	50%	Proportional
Gas Natural del Cesar, S.A. ESP	Acquisition	September 14	16%	62%	Global
Berrybank Development Pty Ltd	Incorporation	September 21	91%	91.4%	Global
Cilento Reti Gas, S.r.l.	Incorporation	October 13	60%	60%	Proportional
Unión Fenosa Wind Australia PtY, Ltd	Acquisition	October 18	80%	91.4%	Global
Crookwell Developmet PtY, Ltd	Acquisition	October 18	80%	91.4%	Global
Hawkesdale Development Pty Ltd	Acquisition	October 18	80%	91.4%	Global
Ryan Corner Development Pty Ltd	Acquisition	October 18	80%	91.4%	Global
Limeisa International Coal, B.V.	Liquidation	October 28	100%	-	-
Gas Natural Wind 6, S.L.	Disposal	October 28	40%	60%	Global
Portal del Instalador, S.A.	Liquidation	November 2	100%	-	-
Eólica Tramuntana 12, S.L.	Incorporation	December 3	60%	60%	Proportional
Eólica Tramuntana 13, S.L.	Incorporation	December 3	60%	60%	Proportional
Eólica Tramuntana 14, S.L.	Incorporation	December 3	60%	60%	Proportional
Eólica Tramuntana 15, S.L.	Incorporation	December 3	60%	60%	Proportional
Eólica Tramuntana 16, S.L.	Incorporation	December 3	60%	60%	Proportional
Eólica Tramuntana 21, S.L.	Incorporation	December 3	60%	60%	Proportional
Eólica Tramuntana 22, S.L.	Incorporation	December 3	60%	60%	Proportional
Eólica Tramuntana 23, S.L.	Incorporation	December 3	60%	60%	Proportional
Eólica Tramuntana 24, S.L.	Incorporation	December 3	60%	60%	Proportional
Eólica Tramuntana 71, S.L.	Incorporation	December 3	60%	60%	Proportional
Eólica Tramuntana 72, S.L.	Incorporation	December 3	60%	60%	Proportional
Eólica Tramuntana 73, S.L.	Incorporation	December 3	60%	60%	Proportional
BIS Distribución de Gas, S.A.	Incorporation	December 3	100%	100%	Global
BIS Suministro de Gas, S.A	Incorporation	December 3	100%	100%	Global
BIS Suministro de Gas SUR, S.A	Incorporation	December 3	100%	100%	Global
Bluemobility System, S.L	Incorporation	December 15	20%	20%	Equity method
Molinos de Valdebezana, S.A.	Acquisition	December 17	60%	100%	Full consolidation
Gas Aragón, S.A	Disposal	December 17	35%	-	-
Unión Fenosa Distribución Colombia, BV	Liquidation	December 21	100%	-	-

ElectroCosta Mipymes de Energía, S.A. ESP	Liquidation	December 28	100%	-	-
UTE GNS-Dalkia Energía y Servicios	Liquidation	December 31	50%	-	-

The main variations in the consolidation scope in 2009 were as follows:

Registered name of the entity	Operation category	Effective date of the operation	% of voting rights acquired / eliminated	% of voting rights after the operation	Consolidation method after the operation
A.E.Hospital Universitario Trias Pujol	Liquidation	January 1	50%	-	-
Gas Natural S.U.R. SDG, S.A.	Incorporation	April 6	100%	100%	Full consolidation
GEM Distribución Gas 1, S.A.	Incorporation	April 28	100%	100%	Full consolidation
Eólicos Singulares 2005, S.A.	Acquisition	April 30	49%	49%	Proportional
UNIÓN FENOSA	Acquisition	April 30	80.5%	95.2%	Full consolidation
Punta de Lens Eólica Marina, S.L.	Acquisition	May 1	50%	50%	Proportional
Punta de las Olas Eólica Marina, S.L.	Acquisition	May 1	50%	50%	Proportional
Andaluza de Energía Solar Primera, S.L.	Acquisition	May 1	30.4%	30.4%	Proportional
Andaluza de Energía Solar Tercera, S.L.	Acquisition	May 1	30.4%	30.4%	Proportional
Andaluza de Energía Solar Cuarta, S.L.	Acquisition	May 1	30.4%	30.4%	Proportional
Andaluza de Energía Solar Quinta, S.L.	Acquisition	May 1	30.4%	30.4%	Proportional
Energías Especiales de Andalucía, S.L.	Disposal	May 1	10%	40%	Proportional
GN Wind 6, S.L.	Disposal	May 25	40%	60%	Full consolidation
Distribuidora de Electricidad de Norte, S.A.	Acquisition	Juny 1	2.5%	87.7%	Full consolidation
Distribuidora de Electricidad de Sur, S.A.	Acquisition	Juny 1	2.7%	89%	Full consolidation
Cedifil Cored Wired, S.L.	Incorporation	Juny 1	98.5%	98.5%	Full consolidation
Gas Energía Suministro Sur, S.L.	Incorporation	Juny 11	100%	100%	Full consolidation
Gas Energía Suministro, S.L.	Incorporation	Juny 11	100%	100%	Full consolidation
Gas Energía Servicios Comunes, S.L.	Incorporation	Juny 11	100%	100%	Full consolidation
Unión Fenosa Centro de Tesorería, S.L.	Liquidation	Juny 25	100%	-	-
Energías Especiales de Portugal, U.Ltda.	Incorporation	Juny 26	50%	50%	Proportional
Empresa de Energía del Pacífico, S.A.E.	Acquisition	July 1	0%	64%	Full consolidation
Compañía de Electricidad de Tuluá S.A.	Acquisition	July 1	1%	55%	Full consolidation
Indra Sistemas, S.A.	Disposal	July 2	13%	5%	-
GEM Suministro SUR 2, S.L.	Incorporation	July 3	100%	100%	Full consolidation
GEM Suministro GAS 2, S.L.	Incorporation	July 3	100%	100%	Full consolidation
GEM Servicios Comunes 2, S.L.	Incorporation	July 3	100%	100%	Full consolidation
Kangra Coal, S.A.	Acquisition	July 15	6%	70%	Full consolidation
Albidona Distribuzione Gas SRL	Incorporation	July 20	60%	60%	Proportional
Planificación e Inversión estratégica, S.A.	Wound up	July 20	61%	-	-
UNIÓN FENOSA	Acquisition	September 1	4.8%	100%	Full consolidation
Energías Especiales de Padul, S.L.U.	Incorporation	September 8	50%	50%	Proportional
Distribuidora de Electricidad de Norte, S.A.	Acquisition	October 8	1.0%	87.7%	Full consolidation
Distribuidora de Electricidad de Sur, S.A.	Acquisition	October 8	1.0%	90.0%	Full consolidation
Unión Fenosa Colombia, S.A.	Disposal	November 1	100%	-	-
Compañía de Electricidad de Tuluá S.A.	Disposal	December 7	55.1%	-	-
Empresa de Energía del Pacífico S.A.	Disposal	December 9	63.8%	-	-
Gas Energía Suministro Sur, S.L.	Disposal	December 31	100%	-	-
Gas Energía Suministro, S.L.	Disposal	December 31	100%	-	-
Gas Energía Servicios Comunes, S.L.	Disposal	December 31	100%	-	-
Gas Natural Cantabria S.A.	Disposal	December 31	100%	-	-
Gas Natural Murcia S.A.	Disposal	December 31	100%	-	-

Unión Fenosa Emisiones, S.A.	Liquidation	December 31	100%	-	-
Unión Fenosa Uninver, S.L.	Liquidation	December 31	100%	-	-

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### APPENDIX III GAS NATURAL TAX GROUP COMPANIES

The GAS NATURAL Tax group at 31 December 2010 is as follows:

Gas Natural SDG, S.A.	Gas Natural Transporte SDG, S.L.
Aplicaciones y Proyectos Energéticos, S.A.	Fenosa Renovables, S.L.
Aplicaciones y Desarrollos Profesionales Nuevo Milenio, S.L.	Gas Natural Wind 2, S.L.
Boreas Eólica 2, S.A.	Gas Natural Wind 3, S.L.
Bis Distribución de Gas, S.A.	Gas Natural Wind 4, S.L.
Bis Suministro de Gas, S.L.	Fenosa Wind, S.L.
Bis Suministro de Gas SUR, S.L.	Gas Natural Wind Canarias, S.L.
Compañía Auxiliar de Industrias Varias, S.A.	Gas Navarra, S.A.
Compañía Española de Industrias Electroquímicas, S.A.	General de Edificios y Solares, S.L.
Cedifil Cored Wire, S.L.	Generación Peninsular, S.L.
Gas Natural Fenosa Telecomunicaciones, S.A.	Hidroeléctrica Nuestra Señora de la Soledad de Tendilla y Lupiana, S.L.
Distribuidora Eléctrica Navasfrías, S.L.	Holding Gas Natural, S.A.
Electra de Abusejo, S.L.	Hotel de Naturaleza Tambre, S.L.
Electra de Jallas, S.A.	La Energía, S.A.
Gas Natural Andalucía, S.A.	La Propagadora del Gas, S.A.
Gas Natural Aprovisionamientos SDG, S.A.	Lignitos de Meirama, S.A.
Gas Natural Capital Markets, S.A.	M&D Energy Market, S.L.
Gas Natural Castilla La-Mancha, S.A.	M&D Generación1, S.L.
Gas Natural Castilla y León, S.A.	Operación y Mantenimiento Energy, S.A.
Gas Natural Cegás, S.A	Pizarras Mahide, S.L.
Gas Natural Comercial SDG, S.L.	Portal del Instalador, S.A.
Gas Natural Comercializadora, S.A.	Sagane, S.A.
Gas Natural Fenosa Renovables, S.L.	Sociedad de Tratamiento Almazán, S.L.
Gas Natural Distribución Eléctrica, S.A.	Sociedad de Tratamiento Hornillos, S.L.
Gas Natural Distribución SDG, S.A.	Socoin Ingeniería y Construcción Industrial, S.L.
Gas Natural Electricidad SDG, S.A.	Tratamiento Cinca Medio, S.L.
Gas Natural Energy Canarias, S.L.	Unión Fenosa Comercial, S.L.
Gas Natural Exploración, S.L.	Unión Fenosa Distribución, S.A.
Gas Natural Informática, S.A.	Unión Fenosa Financiación, S.A.
Gas Natural Internacional SDG, S.A.	Unión Fenosa Internacional, S.A.
Gas Natural Rioja S.A.	Unión Fenosa Minería, S.A.
Gas Natural Servicios SDG, S.A.	Unión Fenosa Preferentes, S.A.
Gas Natural S.U.R. SDG, S.A.	Unión Fenosa Redes de Telecomunicación, S.L.

## GRUPO GAS NATURAL FENOSA

The Consolidated Annual Accounts – Consolidated Balance Sheet, Consolidated Income Statement, Consolidated Statement of Comprehensive Income, Consolidated Statement of Changes in Net Equity, Consolidated Statement of Cash Flows and the Notes to the Consolidated Annual Accounts – for 2010 of Gas Natural SDG, S.A. and Subsidiary Companies, which are set forth in this document, were formulated by the Board of Directors of Gas Natural SDG, S.A. on 28 January 2011 and signed below in agreement by all the Directors, in compliance with article 253 of the Spanish Capital Companies Act.

Mr. Salvador Gabarró Serra  
Chairman

Mr. Antonio Brufau Niubó  
Vice-Chairman

Mr. Rafael Villaseca Marco  
Chief Executive Officer

Mr. Ramón Adell Ramón  
Director

Mr. Enrique Alcántara-García Irazoqui  
Director

Mr. Demetrio Carceller Arce  
Director

Mr. Santiago Cobo Cobo  
Director

Mr. Nemesio Fernández-Cuesta Luca de Tena  
Director

Mr. Felipe González Márquez  
Director

Mr. Carlos Kinder Espinosa  
Director

Mr. Emiliano López Achurra  
Director

Mr. Carlos Losada Marrodán  
Director

Mr. Juan María Nin Génova  
Director

Mr. Juan Rosell Lastortras  
Director

Mr. Narcís Serra Serra  
Director

Mr. Luís Suárez de Lezo Mantilla  
Director

Mr. Miguel Valls Maseda  
Director