



2010
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annual report



gasNatural
fenosa



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Basic Figures

Borrowing^(*)

2010	59.6%
2009	63.2%

Ebitda/Net financial results

	4.4x
	5.5x

Net financial debt/Ebitda

	4.3x
	5.3x

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

Operation

Operation	2010	2009	%
Gas distribution (GWh)	411,556	402,692	2.2
Electricity distribution (GWh)	54,833	34,973	56.8
Gas supply points, in thousands (as at 31/12)	11,361	11,534	(1.5)
Electricity supply points, in thousands (as at 31/12)	9,436	9,136	3.3

2010 2009 %

Electricity generated (GWh)	58,389	52,752	10.6
Spain	38,338	28,728	33.5
International	20,051	24,024	(16.5)
Power generation capacity (MW)	17,305	17,825	(2.9)
Spain	14,637	13,374	9.4
International	2,668	4,451	(40.1)
Gas supply (GWh)	305,704	286,152	6.8
Spain	250,885	234,230	7.1
Others	54,819	51,922	5.6
Unión Fenosa Gas ^(*)			
Gas commercialisation in Spain (GWh)	59,518	34,854	70.8
Other gas sales (GWh)	27,774	10,785	-
Gas transportation-EMPL (GWh)	109,792	109,230	0.5

(*) Figures at 100%



Personnel	2010	2009	%
No. of employees	18,778	19,803	(5,2)

Financial ratios (millions of euros)	2010	2009
Net turnover	19,630	14,873
Gross operating profit. Ebitda	4,477	3,923
Total investments	1,553	15,243
Net profit	1,201	1,195
Dividend	737	730

Shares	2010	2009
Share prices at 31/12 (euros)	11.49	15.09
Profit per share (euros)	1.30	1.48 ^(*)
Capitalisation-profit ratio	9.5	11.6
Share capital (No. of shares as at 31/12)	921,756,951	921,756,951
Stock market capitalisation (millions of euros)	10,591	13,905

(*) Considering the average number of shares for the year.

Letter from the Chairman

Dear shareholders,



For another year, it is my pleasure to present you with the results for 2010, which was a decisive year for Gas Natural Fenosa. In addition to launching the 2010-2014 Strategic Plan, we consolidated the integration of the companies after the merger of 2009 and defined processes for optimising the management of the new group. We also achieved the proposed synergies and successfully fulfilled disinvestment and debt refinancing commitments, despite the unfavourable economic and financial climate.

The results reinforce us and the path we have taken and maintain the upward trend of recent years. Consolidated Ebitda amounted to 4.477 billion euros, an increase of 14.1% on 2009. Net profit came to 1.201 billion euros. On the other hand, the speed with which the disposal of non-strategic assets, agreed to with the National Competition Commission, is taking place has made possible the regulation of debt levels, standing at 57% at the year's end.

Our generation capacity on 31 December was 17.3 GW, of which 14.6 was in Spain and 2.7 internationally. The diversified and efficient energy mix is managed effectively through our group's proven experience in all electricity production technologies.

Our customers are equally distributed between Europe and Latin America, with 10.2 and 10.6 million supply points, respectively. Of the energy supplied, there were 11.4 million gas customers and 9.4 electricity customers.

These figures once again demonstrate the fundamentals of the Gas Natural Fenosa business model, which is based on a suitable balance between regulated and liberalised businesses in the gas and electricity markets, with a growing and diversified contribution from our international presence.

Shareholder remuneration for 2010 will be a maximum amount equivalent to 0.80 euro per share, representing 1% more than the previous year's dividend and a payout of 61.4%. These figures make growing shareholder returns compatible with the evolution of operations and regulation of the group's leverage under very demanding macroeconomic, energy-related and financial conditions.

Among the most notable aspects, special mention should be made of our growing international presence. Once again, Latin America was a key region, contributing 30.4% of the group's Ebitda. The better behaviour

of this region during the crisis allows us to be optimistic about the growth in its energy demand and supports our strategy for investment in this market. I would also like to draw your attention to our entry into Belgium and Luxembourg as a step ahead in our European marketing strategy, which now gives us a presence in 25 different countries.

I would also like to say a few words about our wholehearted commitment to renewable energies, particularly wind energy, which is a source of clean and mature power generation. In this respect, we have grouped together our renewable and special regime assets in Gas Natural Fenosa Renovables. This company manages a portfolio of some 1,000 MW of power, with a yearly production of 2,400 GWh. It has also been awarded important wind farm projects in Catalonia, Galicia and the Canary Islands to produce an additional 900 MW.

I would also like to include in this review of 2010 the situation regarding the arbitration award with Sonatrach, which we have appealed. At the same time, we have requested the opening of a new price review process. The impact of the award is still uncertain and non-definitive, but we have included an estimate in the year's accounts, which complements the forecasts made prior to it. We are making every effort to exhaust every legal and commercial means in order to minimise its effect on the company's activity and results.

The Spanish energy sector is entering a crucial stage. It is particularly important for us to advance on two fronts that bring uncertainty to the

market, affect company management and impact the competitiveness of the economy. It is necessary to define a new energy model with a framework of stable policies, while it is important to find a solution to the growing deficit caused by regulated rates, created because system costs are not reflected in the final electricity price. While we are aware of these challenges, Gas Natural Fenosa continues to work intensely with all involved parties to find solutions that work to the benefit of our organisation.

The course our company has taken, made with rigour, ethics and integrity, has allowed Gas Natural Fenosa to be listed on the world's two most prestigious sustainability indices: the Dow Jones Sustainability Index and the FTSE4Good. We have been on the DSJI World for six years and on the DJSI Europe for five years, consecutively for the last three. Last year we led the gas sector for the second year in a row and, for the first time, we are ahead of all water, gas and electricity companies. We have remained on the FTSE4Good for the ninth consecutive year and we are one of the two Spanish companies listed there since its creation.

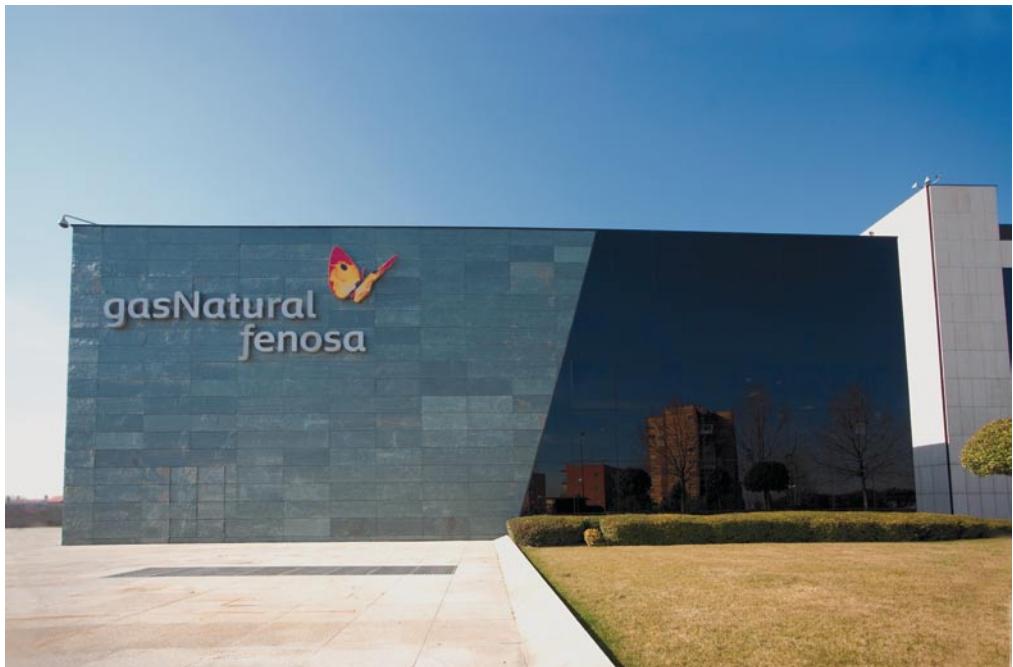
Gas Natural Fenosa is now a global energy company, and it is the largest integrated gas and electricity company in Spain and Latin America. We lead in sales of gas on the Iberian Peninsula and are the leading natural gas distributor in Latin America. We are also one of the foremost operators in international LNG markets.

For all these reasons, dear shareholders, I wish to offer thanks for the trust you continue to place in our company and, especially, for the support of our main shareholders, "la Caixa" and Repsol YPF. Your continued stimulus has made it possible to build the solid reality that is Gas Natural Fenosa today and has led to our recognition as a leading operator in the world energy sector. On behalf of the Board of Directors and my own, I would also like to express our thanks to the group's employees. Without their motivation and professionalism, we would not have achieved the results we are presenting to you for yet another year, which allow us to continue to drive the growth that we envisage for our company.



Salvador Gabarró Serra
Chairman of the Board of Directors

Milestones 2010



The birth of an energy giant

The Ordinary General Meeting of Shareholders of 20 April 2010 was the first to be held following completion of the merger between Gas Natural and Unión Fenosa. The Chairman of Gas Natural Fenosa, Salvador Gabarró, and the CEO, Rafael Villaseca, presented excellent results in 2009, a year shaped by the adverse economic and energy context.

The multinational's new brand, presented in the Shareholders Meeting, symbolises the union between the core values of the two companies. It is focused on distinguishing the energy group within the sector and strengthening its intrinsic qualities of accomplishment, commitment, integrity, teamwork and proximity. All within a context of solidity reflecting the track record of the two companies.

In July 2010, Gas Natural Fenosa published its first Strategic Plan, a plan which stands out due to the strength and differentiation of the energy multinational's business profile, and which sets out the group's operating and financial targets with the goal of greater growth from 2012 onwards.

A year of awards

Gas Natural Fenosa received many public prizes and awards in 2010. In the World's Most Admired Companies ranking, prepared by the US Fortune magazine, the company was the ninth most admired energy company worldwide. It was also distinguished as a leader in the gas distribution sector in the Dow Jones Sustainability Index (DJSI), which assesses economic, environmental and social dimensions of utilities companies.

Another noteworthy award was that given by MERCO (Spanish Corporate Reputation Monitor), ranking Gas Natural BAN as the most reputed utilities company in Argentina, and putting Gas Natural ESP in 54th place on the 100 most reputed companies ranking in Colombia.

Furthermore, Gas Natural Fenosa maintained its position as one of the only two Spanish companies on the Financial Times Stock Exchange (FTSE4Good) index. This prestigious index, created in 2001, is followed by investors seeking companies with a strong social responsibility policy.

In the executive field, it is important to mention the awards received by the Chairman, Salvador Gabarró, who was given the Cross of Saint Jordi, one of the most important awards given by the Generalitat of Catalonia Regional Government, and the CEO, Rafael Villaseca, who was chosen as best CEO of the year in the 2010 Platts Global Energy Awards in New York.

Commitment to sustainability

In 2010, as an essential part of its social responsibility policy, Gas Natural Fenosa's approach and support geared towards best practices was rewarded in many prestigious forums. The Spain Reputation Pulse 2010 Report, presented by the Reputation Institute, establishes a ranking with the 100 top companies in this field. Gas Natural Fenosa was chosen by consumers as the company with the best reputation in Spain.

The prestigious Dow Jones Sustainability World Index (DJSI World) put the company in first place of all the companies in the gas, water and electricity sectors, while the US Chamber of Commerce in Argentina (AmCham) ranked the subsidiary Gas Natural BAN as one of the ten companies which are most committed to sustainable development in that country. The Mexican subsidiary obtained the same recognition in the ranking of the 50 best companies in terms of Corporate Social Responsibility programmes and practices, drawn up by Mundo Ejecutivo magazine.

These types of awards has also been given for the Corporate Social Responsibility (CSR) reports drawn up by Gas Natural Fenosa and Gas Natural BAN, which have received the highest possible rating (A+) making the Argentinian subsidiary the first utilities and energy company in the country to achieve this score, and the first group company to do so outside Spain. Likewise, the Gas Natural BAN report also received the GRI Reader's Choice Awards, as one of the five most efficient sustainability reports worldwide.

Lastly, in Moldova the company received the Gold Mercury Award for its work in social responsibility. This was part of the 7th edition of "Trademark of the Year" organised by the Chamber of Commerce and Industry in collaboration with the Intellectual Property Office.

Relevant transactions

- **Investments.** The electricity transmission and distribution network investment plan in Spain will receive investment of 450 million euros over the next three years. To cover this financing, Gas Natural Fenosa signed a credit for this amount with the European Investment Bank (EIB).
- **Purchase and sale of assets.** Last year, the group concluded several significant asset purchase and sale transactions for its business. Within the commitments made with the National Competition Commission (CNC), we may highlight the sale of various natural gas commercialisation and distribution assets in 38 municipalities of the Community of Madrid. It also sold the Plana del Vent combined-cycle plant (two 400-MW modules in Tarragona) to a European energy group. It also made an agreement with Red Eléctrica de España (REE) to sell assets amounting to 47 million euros from its electricity transmission network. Furthermore, Gas Natural Fenosa acquired gas distribution assets in Toledo and Granada for 26.9 million euros.



- **Acquisitions.** 2010 was also a year of important M&A transactions. In Colombia, the company acquired Gasnacer S.A., ESP (Gas Natural del Cesar) in which it had a direct stake of 6.3%, and an indirect one of 55.9%, via the company Gas Natural del Oriente S.A., ESP.

International growth

In the international arena, 2010 brought numerous major new developments for the group:

- **Italy.** One of the most important achievements in the Italian market was to exceed ten deliveries in the Panigaglia (La Spezia) regasification plant. Furthermore, after setting up a joint venture with Bonatti Spa, the company was awarded the concession for the development and management of the natural gas distribution system in 29 municipalities of Salerno province, in southern Italy. The project, in which Gas Natural Fenosa will invest 93 million euros, will enable to supply gas to 25,000 new users by building a 478-km network.

- **Portugal.** The subsidiary Gas Natural Comercializadora consolidated its position as the leading independent operator in the Portuguese natural gas market, with sales of 2,200,000 MWh.
- **France.** Through its Gas Natural Europe subsidiary - used to commercialise natural gas in France - the group opened its first branches in Belgium and Luxembourg. Before the end of the year, contracts were closed with the first gas wholesale customers in both countries.

- **Mexico.** The Norte Durango combined-cycle plant began its commercial activity, on an independent production basis, and with contracted capacity of 450 MW.
- **Guatemala.** The group subsidiary obtained the Aenor ISO 9001:2008 and ISO 14001:2004 certifications.
- **Panama.** The company successfully concluded the integral audit of the ISO 14001-2004 Environmental Management and ISO 9001-2008 Quality Management Systems in the Los Algarrobos and Dolega hydraulic power plants. The Panamese subsidiary continued with the steps required for obtaining the Carbon Certificates of the Clean Development Mechanism Projects of the Macho de Monte and Dolega hydraulic plants with Aenor.

Commitment to energy efficiency

Promoting energy efficiency is an essential part of the company's culture and values, and as such it is playing an increasingly more relevant role in all types of initiatives. Here the company also carried out a campaign in fifteen educational centres in Guatemala to promote efficient energy use. In Spain, the company also rolled out the First Park with Energy programme, where the idea is to create a public leisure park in an area where the company offers the electrical distribution service.



In Madrid, the new vehicular natural gas filling station began operations, for the strong fleet of buses belonging to the Madrid Municipal Transport company (EMT)



In Colombia, energy efficiency was promoted through a newspaper award, Safe Homes (Viviendas Seguras), which was held for the second time in the electricity segment and the first time in gas. The company carried out this initiative in conjunction with Electricaribe.

In Spain, the company expanded its solar cooling plant of ETSI Seville (Higher Technical School of Industrial Engineers) so as to increase the use of solar energy in this centre's air conditioning. Gas Natural Fenosa received approval for its 2009 Environmental Declarations on eight electrical generation facilities nationwide.

One of the most important milestones in 2010 was the creation of Gas Natural Fenosa Renovables, a new brand which accounts for all the group's assets in this segment. In conjunction with Almstom Wind, Gas Natural Fenosa also set up a company to develop projects secured through Catalonia's wind energy tender process.

Also in Spain, the company set up ServiElectric, an electrical maintenance service which allows users to resolve incidents arising at their home, available 24 hours a day, 365 days a year, and which will make their equipment more efficient.

In Madrid, the new vehicular natural gas filling station began operations, for the close to 400-strong fleet of buses belonging to the Madrid Municipal Transport company (EMT) in its new Sanchinarro operations centre. The company also signed an agreement with the RACC Automóvil Club to foster use of electric cars and promote natural gas as a fuel for vehicle fleets in Spain. It also signed an agreement with IREC (the Catalan Institute for Energy Research) for the development and installation of the ZEFIR Test Station, an international research platform to test off-shore wind turbines. And in Brazil, the company stepped up its commitment towards the use of vehicular natural gas in three new Brazilian cities: Araruama, Vassouras and Tres Rios, and started to supply gas in Laranjal Paulista (SP) and Paraíba do Sul (RJ).

Another important milestone was the synchronisation of the first combined-cycle generation unit, of 425 MW, built in the Port of Barcelona, on the Spanish national electricity grid.



Important appointments in the Board

The Board of Directors of the group appointed Manuel García Cobaleda as the secretary of both the Board and the Executive Committee; he also continues to hold the position of Managing Director General Counsel of Legal Services. Felipe González Márquez, former Prime Minister of Spain, became one of the company's independent Board members.

Illustrious visitors

The Chairman, Salvador Gabarró, received the Argentine President, Cristina Fernández de Kirchner, at the head offices in Barcelona.

His Royal Highness the Prince of Asturias chaired the centenary of the Bolarque I hydraulic plant, in Guadalajara.

The mayor of Madrid, Alberto Ruiz-Gallardón, visited the Network Operations Centre (COR) and the Puente Princesa electricity substation.

The President of the Republic of Colombia, Juan Manuel Santos, received Salvador Gabarró in his government buildings. This was the first meeting with the new Colombian leader following his election.

Sponsorships focused on research and innovation

The group's sponsorship policy was particularly focused on the fields of innovation and research. One of the most significant actions which took place in 2010 was the support given to the 7th Duran Farell Award for Technological Research, which was given to a Technical University of Catalonia (UPC) project on the application of new sensors for measuring certain land and ocean variables.

The Gas Natural Fenosa Contemporary Art Museum handed over the prizes to the winners of the 11th edition of the biennial art competition, La Mostra Internacional Gas Natural Fenosa. The exhibition, officially sponsored by Xacobeo 2010, was made up of 40 unexhibited works selected by the competition jury, from over 500 works presented.

Within the framework of the group's commitment to innovation, a collaboration got under way with the Cinesa 3D cinema network in Spain to promote the launch of the new brand. Indeed, the company presented an advert filmed using this innovative technique which was premiered within the framework of the Catalonia Fantasy Film Festival.

Lastly, the company sponsored the first International Corporate Universities Forum in Barcelona. During the conference, whose object was to debate the strategic role of corporate universities, Gas Natural Fenosa



brought its broad expertise in this field, given that it is the most longstanding corporate university in Spain.

Employees in the limelight

Gas Natural Fenosa's staff is not only one of the cornerstones of the group, but it is also fully involved in social initiatives. Given that 2010 was a Holy Year (Xacobeo), Saint James's Way played an active role in the team activities which got under way. Over 3,000 employees and relatives did the Saint James's Way, with different stages of between 15 and 35 km, through the autonomous regions of Navarre, La Rioja, Castilla y León and Galicia. This took place from 27 March until 4 July.

And this was not the only initiative carried out by the company's professionals. Solidarity Day, created by the company's staff to promote

cooperation with development, was declared as being of public utility by the Spanish Home Office. Gas Natural Fenosa also carried out a campaign to disseminate its Code of Ethics, which is designed to implement transparency, rectitude, dignity and ethics in all employees' daily work.

Corporate Governance

Management Committee



Chief Executive Officer
Mr Rafael Villaseca Marco



Chief Financial Officer
Mr Carlos J. Álvarez Fernández



Managing Director of
Latin America
Mr Sergio
Aranda Moreno



Managing Director
Strategy and
Development
Mr Antonio
Solas Tena



Managing Director of
Regulated Electricity
Business
Mr José Antonio
Couso López

Managing Director of
Energy Planning
Mr José M. Egea Krause



Managing Director of
Wholesale Energy
Business
Mr Manue
Fernández Álvarez



Managing Director of
Power Generation
Mr José Javier
Fernández Martínez



Chief Corporate
Office
Mr Antoni
Gallart Gabà



Managing Director
General Counsel of
Legal Services
Mr Manuel
García Cobaleda



Managing Director of
Communications and
Chairman's Office
Mr Jordi
García Tabernero



Managing Director
of Retail Energy
Business
Mr Daniel López Jordà



Managing Director
of Regulated Gas
Business
Mr Antoni
Peris Mingot

The Gas Natural Fenosa's priorities include guaranteeing transparency and the effectiveness of the way in which its bodies of government operate and, therefore, it assumes advanced practices in the area of corporate governance.

After the amendments of the Organisation and Operation Regulations of the Board of Directors and its committees, the company can be said to fulfil most of the recommendations for the good corporate governance of listed companies.

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

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

information is available to the public on the group's website at www.gasnaturalfenosa.com.

The General Meeting of Shareholders, the highest decision-taking body in the company takes part in the development of corporate governance practices, as does the Board of Directors and its committees: the Executive Committee, the Appointments and Remuneration Committee and the Audit and Control Committee. The Management Committee also plays a relevant role from the viewpoint of management.

In 2010, the different bodies of government met as follows:

- Board of Directors: eleven meetings.
- Executive Committee: ten meetings.
- Appointments and Remuneration Committee: ten meetings.
- Audit and Control Committee: six meetings.
- Management Committee: monthly meetings.

The Board of Directors, its Committees and the Management Committee operated as expected during 2010, fully exercising their competencies without interference and in full observance of current legislation and the applicable standards for the operation of the Organisation and Operation Regulations of the Board of Directors and its committees.

As far as the diversity of the Board of Directors is concerned, 31% of the Directors are under 55 years of age, 19% are between 55 and 60 and the remaining 50% are over 60.

Composition of the Board of Directors and Committees (at 31 December 2010)

	Board of Directors	Executive Committee	Audit and Control Committee	Appointments and Remuneration Committee	Type of Director
Chairman	Mr Salvador Gabarró Serra	Chairman			Executive
Deputy Chairman	Mr Antonio Brufau Niubó	Board member		Board member	Proprietary member
Chief Executive Officer	Mr Rafael Villaseca Marco	Board member			Executive
Board member	Mr Ramon Adell Ramon ⁽¹⁾				Independent
Board member	Mr Enrique Alcántara-García Irazoqui				Proprietary member
Board member	Mr Demetrio Carceller Arce	Board member			Proprietary member
Board member	Mr Santiago Cobo Cobo ⁽²⁾			Board member	Independent
Board member	Mr Felipe González Márquez ⁽⁷⁾				Independent
Board member	Mr Carlos Kinder Espinosa	Board member	Board member		Proprietary member
Board member	Mr Emiliano López Achurra ⁽³⁾	Board member			Independent
Board member	Mr Carlos Losada Marrodán ⁽⁵⁾	Board member	Chairman		Independent
Board member	Mr Juan María Nin Génova	Board member			Proprietary member
Board member	Mr Juan Rosell Lastortras				Proprietary member
Board member	Mr Narcís Serra Serra				Proprietary member
Board member	Mr Luis Suarez de Lezo Mantilla ⁽⁴⁾				Proprietary member
Board member	Mr Miquel Valls i Maseda ⁽⁶⁾			Chairman	Independent
Non-director Secretary	Mr Manuel García Cobaleda ⁽⁸⁾	Secretary	Secretary	Secretary	

(1) Mr Ramon Adell Ramon joined the Board of Directors on 18 June 2010, replacing Mr Jaime Vega de Seoane Azpilicueta.

(2) Mr Santiago Cobo Cobo stepped down as a member of the Executive Committee on 18 June 2010. He was appointed as a member of the Appointments and Remuneration Committee on 17 December 2010.

(3) Mr Emiliano López Achurra became a member of the Executive Committee on 18 June 2010, replacing Mr Santiago Cobo Cobo.

(4) Mr Luis Suarez de Lezo Mantilla joined the Board of Directors on 26 February 2010, replacing Mr Enrique Locutura Rupérez.

(5) Mr Carlos Losada Marrodán was appointed Chairman of the Audit and Control Committee on 17 December 2010.

(6) Mr Miquel Valls i Maseda stepped down as Chairman of the Audit and Control Committee and was appointed Chairman of the Appointments and Remuneration Committee on 17 December 2010.

(7) Mr Felipe González Márquez joined the Board of Directors on 17 December 2010, replacing Mr José Arcas Romeu.

(8) Mr Manuel García Cobaleda was appointed Secretary of the Board of Directors on 29 October 2010. Mr Felipe Cañellas Vilalta stepped down as Assistant Secretary on 24 December 2010.

• On 30 December 2010, Mr Fernando Ramírez Mazarredo handed in his resignation from his posts of Member of the Board of Directors and Member of the Audit and Control Committee.



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Corporate Management

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Human Resources



18,778 employees work in Gas Natural Fenosa, in 22 countries, all integrated within a joint project.

49.3% of them carry out their activity outside Spain, in the following countries: Argentina, Australia, Brazil, Colombia, Costa Rica, Chile, Egypt, France, Guatemala, Ireland, Italy, Kenya, Madagascar, Morocco, Mexico, Moldova, Nicaragua, Panama, Puerto Rico, Dominican Republic and South Africa.

The average age of the staff is 42.7; the average seniority in the group is around 14.5 years. 73% of employees are men and 27% women. In 2010, 15,716 people were directly employed by Gas Natural Fenosa.

The company's human resources strategy is part of its mission to contribute to the development and well-being of all countries where Gas Natural Fenosa operates through energy management that is sustainable, efficient, safe and environmentally-friendly, while actively promoting respect for human rights.

This strategy seeks to promote a working environment that is respectful to employees and committed to their training and professional development, creating opportunities for growth and encouraging commitment, a plurality of opinions, perspectives, cultures, ages and gender in the company, as well as developing talent. Managing talent is an important challenge for the group, and for that reason, the company is developing new plans for improving this management.

After completing the merger between Gas Natural and Unión Fenosa, we have capitalised on the best practices in people management, while daily operations have been managed without altering the company's evolution, and the process of optimising the organisation has become easier following the merger.

In the present context, human resources must be flexible and adaptable, be able to bring about changes and also respond quickly and efficiently to business needs and priorities. During 2010, a human resources model has been consolidated and strengthened based on the figure of the business partner as a strategic advisor for the business in the implementation and adaptation of policies and models in the businesses and countries, and also in the governance and service units which define human resources policies and models and service the business partners.

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

The Gas Natural Fenosa's commitment to equal opportunities and social integration goes beyond compliance with legislation. It resorts to responsible purchasing policies with

Human resources. Main indicators	2010
Staff rate. No. of employees	18,778
Staff directly employed by Gas Natural Fenosa. No. of employees	15,716
Men/women (%)	73/27
Women in management posts (%)	21.7
Personnel costs (millions of euros)	(798)
Training hours per employee	47.8
Annual investment in training (euros)	8,057,570

suppliers that employ disabled individuals and directly contracts individuals with disabilities.

Remuneration is an essential tool for employee satisfaction, together with the attraction and retention of talent. Gas Natural Fenosa's remuneration policy is governed by equity on an internal scale and competitiveness from the external market point of view. In order to assess the competitiveness of its remuneration policy, the company carries out regular studies.

At group level, a variable remuneration policy is applied to 62.4% of the people directly employed by Gas Natural Fenosa; this policy is based on meeting the annual targets set by the company and the business unit, as well as assessing each employee's individual performance. Planning and monitoring of results in the deployment of targets is carried out through the Management by Objectives (MbO) system and the Performance Management (PM) system. The aforesaid objectives are in line with business targets and help to increase people's commitment in executing the strategy.

During 2010, these two systems have been joined together in a single management application which enables the company both to plan targets and to monitor and assess them. It offers a single set of objectives for

the whole business group as a result of the integration process performed. Employees have been informed of these actions and training has been carried out in this area.

Flexibility in working conditions is an important factor for employees to be able to make their family life compatible with their professional responsibilities.

The company allows its employees a number of professional benefits further to those laid down in legislation. Depending on each agreement, employees have the possibility of working a continuous timetable while certain other groups of employees can manage their own timetables. Furthermore, under this system the legal entitlements to reduce the number of daily hours worked and the time limit thereof are extended.



The Gas Natural Fenosa's flexibility policy includes breast-feeding permits, and in certain cases the periods counted for accumulating hours are extended. Similarly, women employees can avoid travel that involves their moving away from their home during pregnancy or breastfeeding. In addition, employees who are looking after families under various circumstances can apply for the policies that stand for bringing their place of work closer to their home.

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

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

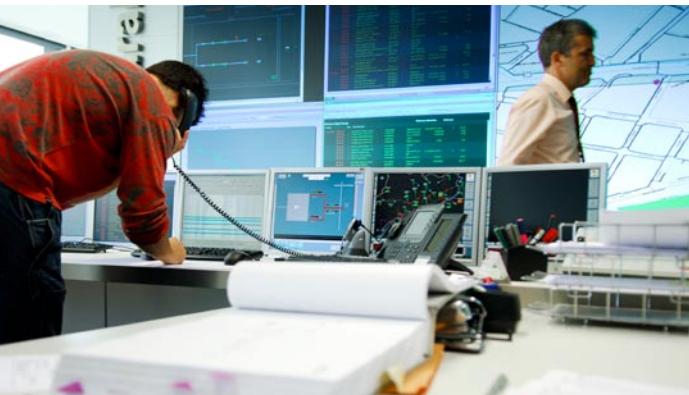
Opportunities for professional development are a basic part of employee satisfaction. In this respect, the group has designed tools that have been adapted to the different profiles and aimed at professional development.

For the employees included in the collective bargaining agreement, the Professional Development Programme (PDP) and the Competence Management Model are tools for professional development. Both programmes have the same objectives of favouring mobility and allowing vacancies to be covered through internal promotion.

In 2009, the Management Committee approved a new Internal Mobility Procedure for the group, which promotes and facilitates the voluntary movement of employees between units to foster the development of their professional careers, talent management and improve suitability of people to posts.

This procedure, which was set up in December 2009 and managed by the Human Resources Department, provides all the information available on vacancies in the group, and employees are able to choose those which they consider to be of interest. Furthermore, candidates showing interest in a particular job are assessed and supported, so that candidates are able to take their decisions totally independently.

412 vacant job posts were covered in Spain in 2010, 284 of them through this new internal mobility procedure, in which 980 candidates took part over the year. On an international scale, 237



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

posts have been covered with it, with applications from 1,279 candidates.

Talent is the basis for the Human Resources Development Model of Gas Natural Fenosa. The company has a Talent Management programme to introduce measures to attract it, retain it and develop it, helping to improve professional performance. The programme has two talent management systems:

- Executive Talent, which applies to the group's entire executive team and enables strategic planning.

review processes were set up for the system for 2011 - in countries where they already had assessments from 2009 - and a methodology has been taught in the new countries which have been included within the sphere of Gas Natural Fenosa, also with a view to assessments in 2011.

Furthermore, in the last quarter of 2010, the group's Talent Management Model has been analysed and guidelines drawn for it to be implemented in 2011. These lines are designed to optimise the model, structuring it in accordance with

leadership skills) and a technical institute (knowledge in technical fields necessary for different company areas).

Talent is the basis for the Human Resources Development Model of Gas Natural Fenosa

- Professional Talent, applicable to intermediate positions, technicians and operators. This initiative complements executive talent management. It aims to develop talent among other non-executive employees, and create a pool of people who could possibly be promoted to positions of greater responsibility.

In 2010, the talent assessment of 900 group executives was updated in the Executive Talent system. With regard to the Professional Talent system, 820 employees were assessed in Spain,



operating and strategic needs for covering works posts, seeking to adopt a proactive and transversal approach with a higher degree of involvement by senior management, and structuring development actions in accordance with target work post/employee segments.

In 2010, the company decided to modify the Corporate University model and its governing bodies, in order to guarantee excellence in training, through a leading institution (developing management and



The Corporate University forms part of various international business training networks

The Corporate University, whose mission is to help to develop professionals who can make Gas Natural Fenosa's vision a reality, continued its professional and personal training and growth for all employees of the new integrated group in 2010. After more than a decade of work and experience, its field of action is now much broader and it is seen as an essential strategic tool for cementing our group's culture, for facilitating changes, unifying policies, processes and styles.

Objectives include promoting the values and the corporate culture of the company, sharing the strategic vision, transmitting leadership and work styles, developing a feeling of pride at belonging to the group, guaranteeing that employees have the technical know-how and necessary skills to reach the group's strategic objectives, conveying and sharing the experience and best practices existing within the group and being a multi-national and multi-disciplinary meeting point for employees in which to foster internal relations on a day-to-day level and the focus on common targets.

With these goals, the Corporate University, at all levels and fields of

the organisation, identifies training needs derived from business plans, through its managers, and designs training and knowledge management programmes set out in its Annual Plan. For that purpose it can depend on the commitment of the managers, who are many times the teachers in each field of knowledge.

It also measures the results obtained in order to ensure the quality and the practical results of the activities carried out and to establish continuous improvement plans.

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

Our training centres are the starting point and the means for bringing about the transfer of knowledge and the culture of the new group. In Spain, these include the Puente Nuevo Campus (Ávila), the head office-



Gas Natural Fenosa training indicators	2010	2009	2008
Annual investment in training (euros)	8,057,570	8,505,000	3,480,300
Investment in training per person (euros)	484.9	506.9	508.67
Satisfaction with training	8.4	8.4	–
Training hours per employee	47.8	42.2	44.52
Staff trained (%)	81.8	85.4	–
Total course hours	794,769	707,219	304,595
Attendees	53,475	57,632	25,874
Users of online training schemes over total staff (%)	22.6	36.5	42.66

training centre (Barcelona), the Puente Princesa training centre (Madrid) and the centre in Bens (A Coruña). It also has academic areas in ten other countries.

It also has a Virtual Campus, offering flexible access to training contents. This year the company has worked towards migrating the platform towards a web 2.0-based cooperation, more efficient for learning.

The Environment



The company tackles new challenges using a preventive approach, integrating environmental criteria in business activities and processes

The environmental performance of Gas Natural Fenosa has evolved from the time of its first statements on environmental principles and putting them in practice, to the point of implementing proactive sustainable development policies. Vectors such as eco-efficiency, the rational use of natural and energy resources, minimising environmental impact, encouraging innovation and using the best technologies and optimised processes, are used to address efficient and responsible use of resources and appropriate management of waste, emissions and dumping.

The new environmental challenges require responsibility to be taken for environmental externalities, as well as greater involvement to drive the development and dissemination of new technologies that are more efficient and with a reduced environmental impact. Throughout 2010, the company tackled these challenges using a preventive approach, integrating environmental criteria in business activities and processes, and taking into account environmental aspects, from the outset of new projects, activities, products and services, and in selecting and assessing suppliers.

In accordance with the environmental principles set out in the Corporate Responsibility Policy, the main lines of action have been focused on guaranteeing compliance with legislation, reducing environmental impact, mitigating climate change, preserving the biodiversity of the environment, preventing pollution and driving ongoing improvement, by means of reviewing environmental management.

Environmental management

Thanks to employees' commitment towards proceeding, at all times, in accordance with respect and sustainability criteria, and towards adopting habits and conducts relating to good environmental practices, a coordinated and homogenous response is provided for the development of activities, processes and procedures with environmental repercussions and the optimisation of environmental management. In their dealings with contractors, suppliers and collaborating companies, employees convey these principles.

At the close of 2010, Gas Natural Fenosa had certified 15,467 MW of electricity in Spain, Mexico, Puerto Rico, Kenya, Dominican Republic, Costa Rica and Panama, in accordance with the UNE-EN ISO 14001 environmental management standard. This amounts for 89% of the group's total installed power.

The company has also environmental certification for the supply of natural gas and electricity to major customers through access to third-party installations, and the commercial management thereof (Gas Natural Comercializadora and Unión Fenosa Comercial); the commercialisation, procurement and provision of the maintenance service for installations and gas equipment, customer service, billing, collection and sale of energy services (Gas Natural Servicios and Gas Natural Comercial), natural gas distribution and project management, works and maintenance in electrical transmission and distribution in Spain, engineering services (SOCOIN) and the company's main work centres.

In the international arena, it has certified the distribution and commercialisation of natural gas in Mexico (Gas Natural México and Metrogas), electricity distribution and commercialisation in Panama (Edemet-Edechi), electricity distribution and regulated electricity supply in Moldova (Red Unión Fenosa), the design, development, maintenance and operation of medium- and low-voltage electricity grid and energy commercialisation in Guatemala (Deocsa-Deorsa), liquefied natural gas production in Damietta, Egypt (Unión Fenosa Gas), the Sagunto regasification plant, the operation, maintenance and surveillance of the Moroccan section of the Maghreb-Europe gas pipeline (Metragaz) and the professional services company (O&M Energy).

Furthermore, the coal power plants, the Sabón power station, the combined-cycles plants of Palos de la Frontera and Nueva Generadora del Sur and the hydroelectric sector of Tambre-Ulla in Galicia are still registered with the EMAS European system. This puts Gas Natural Fenosa at the top of the ranking of energy companies with regard to the number of verified centres, in accordance with this demanding European environmental standard.

Gas Natural Fenosa has management tools used to control environmental matters. In 2010, the information of the Environmental Electricity Distribution System (SMD) was updated, incorporating the new protected areas (natural areas, SCIs, SPAs, etc.) published over the last year by different public administrations to give support to the other units in Unión Fenosa



Distribución. Seasonal monitoring has been incorporated on eight significant lines in the Aviary Fauna Risk Control System (CRA), including an inventory of electrocutions and collisions. Furthermore, eleven new substations have been added in Spain to the Environmental Risk Assessment System (SERA) and part of the database has been updated. The System for the Identification and Assessment of Legal Environmental Requirements (NorMA), assessment of environmental issues (UMAS), the Environmental Information System (SIA-ENABLON) and the Environmental Planning System (SPA-ENABLON) have been developed for all processes, businesses and countries.

The environmental commitments of Gas Natural Fenosa not only have an impact on the constituent companies, but also on its value chain. 84% of its main distribution works and infrastructure contractors, and 100% of works inspection services and suppliers, have voluntarily joined the

Good Environmental Practices in Distribution Network Construction. In 2010, the company established a project to encourage new suppliers of electricity distribution works and services to subscribe the good practices document. As of today, 62% of them have subscribed.

Natural gas is the fossil fuel with the lowest carbon content and lowest emissions of CO₂



Environmental parameters

In 2010, there was a significant improvement in the most important environmental indicators, due to lower electrical generation with coal plants, their replacement with clean energies, such as natural gas or renewable energies, applying better technologies, such as the environmental adaptation of the Meirama boiler, the wet desulphurisation plants of combustion gases at La Robla and Narcea power stations, changing to low NO_x emission burners, the improvements in the control and performances of electrostatic particle precipitators, and the installation of SO₃ injectors for particle reduction.

The company's absolute emissions amounted to 6.87 kt SO₂, 2730 kt NO_x and 1.08 kt of particles, obtaining reductions of 32%, 16% and 31%, respectively, compared with 2009.

With regard to the Polychlorinated Biphenyl (PCBs) Elimination Plan, the elimination thereof has increased during 2010, especially those with a concentration of above 500 ppm, with a total of 844 tons, in order to comply with RD 228/2006, modifying RD 1378/1999 of 27 August, establishing measures for eliminating and managing PCBs and equipment containing this substance. The company also continued with the process of certification of the dielectric (non-conducting) oil from the medium-voltage transformers of Unión Fenosa Distribución by the Authorised Control Body, and 162 analyses were carried out.

Also in the international area, inventories were drawn up for the appropriate removal and storage of

dielectric oil, significantly reducing the risk of contamination at installations through dumping this waste.

Ash generation was reduced by 82% against 2009, and the amount of recycled ash increased significantly, reaching 100% of the total generated in 2010. Besides, 81,193 t have been extracted from the waste tip at the Anllares station.

Furthermore, the Waste Reuse, Reduction, Recycling and Energy Recovery Plan (PRE3VER) has set out the prevention principles in the production of waste, promotion of the recycling thereof, management near to the generation site, coordination of different agents involved and environmental protection in its management. Quantifiable objectives have also been defined to reduce hazardous waste and for energy recycling and recovery for management purposes.

For yet another year, we must highlight the excellent performance of the waste treatment plant equipment and systems, which have enabled the installations to comply with the dumping authorisations. Consumption of water and raw materials has also fallen, due to the lower use of thermal power plants and need for water evaporation in the cooling towers.

In order to ascertain the legal compliance of the installations in service, respond to complaints and claims and register new installations, sound emission has been measured and controlled in power plants, substations and power transformation centres, and natural gas regulation and measurement stations, where each type of constructive element has been redesigned and made uniform.

Climate change

Gas Natural Fenosa's positioning with respect to climate change is based on reducing it through low-carbon content power generation, by promoting renewable energies and energy saving and efficiency in transporting, generation, distribution and gas and electricity consumption.

The company views climate change as a new challenge, identifying potential business opportunities, options and solutions for identifying greenhouse gases and minimising risks arising from regulatory restrictions in this field. Natural gas is the fossil fuel with the lowest carbon content and lowest emissions of CO₂, making it one of the best solutions for reducing emissions, a decisive vector in the energy balance in coming years and the energy of reference in the transition to a low-carbon economy.

Positioning towards climate change

With the Less Greenhouse Gases initiative, Gas Natural Fenosa is committed towards:

- Maintaining energy strategies and policies in keeping with security of supply, competitiveness and environmental sustainability.
- Establishing quantifiable objectives for reducing greenhouse gas emissions.
- Levelling the balance of social, environmental and economic aspects to contribute to a low-carbon economy.
- Optimising and promoting energy saving and efficiency in its installations and those of its customers, as the most efficient way of fighting against global warming.
- Being active in coal markets and supporting their globalisation so that energy production and consumption trends can be sustainable.
- Guiding the company's actions in order to raise awareness in society in general regarding the global solution for climate change.
- Establishing specific measures to ensure fair and sustainable commitments on reducing global emissions are met.
- Driving the execution of greenhouse gas reduction projects on a global scale, paying special attention to developing countries.





The group is now one of the leading combined-cycle operators worldwide, with 10,863 MW of installed power, and a pioneer in the introduction of natural gas as an automobile fuel in Spain.

Gas Natural Fenosa has calculated the CO₂ footprint through the inventory, control and verification of greenhouse gas emissions (GHG) arising from all the company's activities in all the countries in which it operates. In 2010, the group's total emissions came to 19.37 MtCO_{2eq} (direct emissions), 25% lower than the previous year, and the emission factor of the generation energy mix was 314 g CO₂/kWh.

Initiatives have been taken, inter alia, in the field of eco-efficiency: such as the improved performance in installations and the promotion of renewable energies, with 2,891 MW installed, and 10,863 MW in combined-cycle plants, spelling a 75% reduction of CO₂ from carbon against 2009, going from 3.06 MtCO₂ to 0.77 MtCO₂ in 2010.

By using the best materials, renewing piping and connections in the group's gas distributors, the company has been able to reduce its CH₄ emissions for each network length unit by 29% against 2006. Rationalising energy consumption is one of the group's priorities. The Company supervises and submits all its processes to strict controls, consolidating its goal of seeking maximum efficiency.

In 2010, Gas Natural Fenosa prevented over 17 MtCO₂ from being emitted to the atmosphere, due to its low-carbon content energy generation activities, the use of renewable energies, its energy management, the conversion of coal and fuel oil industrial and residential installations into others based on natural gas, use of gas-propelled vehicles, the start-up of Clean Development Mechanism (CDM) projects and other reduction initiatives.

Gas Natural Fenosa is committed to reducing greenhouse gas emissions in developing countries through flexibility mechanisms. The company takes part in several carbon funds and registered eight CDM projects at the United Nations: the hydroelectric

power plants of Los Algarrobos, Macho de Monte and Dolega in Panamá, that of La Joya in Costa Rica and that of Amaime in Colombia; the use of biogas for energy Doña Juana Landfill in Bogotá (Colombia); the Sombrilla project also in Bogotá, and the Quimvale project in Rio de Janeiro (Brazil), in both of which fuel oil has been replaced with natural gas.

In the field of environmental sustainability, Gas Natural Fenosa has raised its customers' awareness regarding efficient energy use. Through the Natural Commitment project, the company sponsors art galleries so that they can improve their lighting systems by replacing conventional equipment with others with a better energy class; it has also held seminars with customers, where environmental and energy questions are addressed. Gas Natural Fenosa also promotes rational and sustainable consumption of energy among its customers. The group's webpage has put the sections www.hogareficiente.com and www.empresaeeficiente.com at the disposal of its customers; these sites offer energy saving and efficiency recommendations in the home, enabling customers to carry out a complete self-diagnosis free of charge.

Besides, the company still participates in the Caring for Climate programme, the Business Leadership Platform, a platform of business leaders taking part in the UN Global Compact, whose goal is to fight against the effects of climate change by improving efficiency and reducing greenhouse gas emissions.

In 2010, Gas Natural Fenosa prevented over 17 MtCO₂ from being emitted to the atmosphere



Sustainability and biodiversity

The company has addressed the present challenges of society with even more force in 2010, which is International Year of Biodiversity, aware that its main contribution to development and well-being lies in supplying energy in a sustainable, efficient and safe way.

Coinciding with the declaration, by the UN Assembly, to make 2010 the International Year of Biodiversity, Gas Natural Fenosa submitted its first Biodiversity Report. In this way, it underlined its commitment towards sustainability as a strategic factor for carrying out its activities. This has been materialised through setting targets and defining strategies.

Gas Natural Fenosa is fully aware of the environmental impact associated with its activities and processes, and places increasing importance on other aspects relating to preserving biodiversity, such as the impact on ecosystems, landscapes and the pollution of soils and aquifers. Accordingly, the company has included the Commitment to Biodiversity Conservation in its environmental management systems. This Commitment seeks to minimise

adverse effects on ecosystems, fostering the conservation of biodiversity and contributing to the sustainable development process with the resources necessary so that activities are carried out respecting the environment in which they are carried out to the utmost.

Commitment to Biodiversity Conservation

- Complying with nature protection laws and regulations.
- Promoting and cooperating in preserving biodiversity in the area surrounding its installations, paying special attention to protected spaces.
- Studying the environmental impact of its activities and projects, their effects on ecosystems and biological diversity, taking into account its stakeholders.
- Adopting measures to prevent and minimise possible adverse effects on biodiversity, restoring damaged areas and soils.
- Respecting the traditional ways of life of the indigenous communities to favour the preservation and sustainable use of the environment.

In order to successfully address these commitments, Gas Natural Fenosa first draws up exhaustive inventories of the different biodiversity components and the ecological systems of the environments where it operates, taking into account extremely diverse ecosystems and habitats, a great number of endemic species, species in danger of extinction, or threatened species, and species of economic, social, scientific or cultural importance.

Second, in order to achieve environmental sustainability, the company works on different fronts, such as minimising environmental impact, maintaining natural capital and mitigating climate change.



Lastly, the company's biodiversity strategy includes *in situ* conservation measures of the natural ecosystems and habitats, and the maintenance and recovery of viable populations of species in their natural environments.

Gas Natural Fenosa quantifies the global environmental impact over time of its different processes and facilities, applying assessment criteria based on the Life Cycle Analysis (LCA) methodology, pursuant to ISO 14040 international standards: classification, characterisation, normalisation and assessment. For this purpose, it has developed its own application called UMAS (environmental units). In addition to quantifying the global environmental impact through the UMAS tool and the list of economic studies, Gas Natural Fenosa also calculates and measures changes over time of its sustainability in the form of the ecological footprint, a global indicator which converts the impacts generated on surface areas necessary to produce the resources consumed and to assimilate the waste generated.

In 2010, 32 soil quality studies were carried out, all of them complying with RD 9/2005 establishing the list of potential activities which could contaminate the soil and criteria and standards for the polluted soil declaration. In accordance with the regulation, six preliminary reports on the soils of electrical substations were sent to different autonomous regions. Soils at four substations were adapted.

The group sponsors different scientific and conservation organisations to assist their nature defence initiatives. Gas Natural Fenosa is committed to activities designed to preserve the Cantabrian brown bear and in partnership with the Oso Pardo Foundation, it promotes environmental education initiatives with the aim of bringing about changes of attitude and social support in preserving brown bear populations.

It also cooperates with the Spanish Ornithology Society in the Birds and Climate programme with the aim of raising awareness through birds of the effects of climate change and to obtain data on the phenology of birds as a method to see how climate change can alter their biological cycle, and to assess the possible consequences.

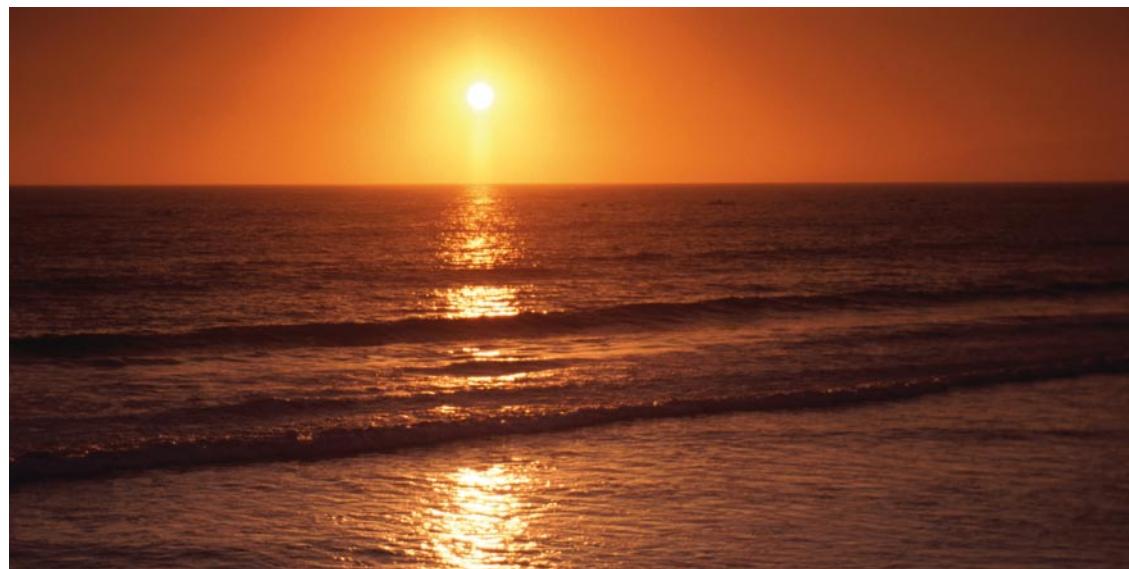
In relation to tree conservation, the power stations at Sabón (A Coruña) and La Robla (León) celebrated Tree Day, where schoolchildren attended talks regarding tree protection, and each of them planted one, leaving their name and planting date, in the installation area.

In Brazil, Gas Natural Fenosa has organised several events: Water Day, to raise awareness among

group employees of the importance of water use; the Environmental Month, with a biodiversity campaign focused on increasing collaborators' perception of the importance of recognising, preserving and integrating biodiversity in daily tasks. Furthermore, taking advantage of World Biodiversity Day, the company presented part of the flora and non-indigenous species making up Brazil's current biodiversity. Lastly, on 22 December, the World Car-free Day was held in order to raise awareness on excess pollution caused by excessive use of cars.

Gas Natural Fenosa played a relevant role in CONAMA 10, with a stand in the fair and with environmental managers taking part in different work groups, round tables, etc. Furthermore, as the event's sponsor, it had a dynamic room where it presented the Low-Carbon Space, the main feature of which was the corporate calculation tool to measure the CO₂ footprint. Every year, several different competitions are held for final-year students at the Mining Engineering School in Oviedo and the Civil Engineering School in Madrid, for degree projects on the subject of energy and the environment, simultaneously allowing students to carry out work experience at its facilities.

Gas Natural Fenosa's commitment towards the environment and sustainability was recognised once again in 2010, when its position in the Dow Jones Sustainability World Index was renewed for the sixth successive year, making it the leader of all companies in the gas, water and electricity sectors. It is the only company in the gas distribution sector which is also



included in the European offshoot, the Dow Jones Sustainability STOXX Index. The company was also included for the ninth year in a row in the FTSE4Good sustainability indices series.

Gas Natural Fenosa reflects its commitment to sustainability by reducing the ecological footprint and preserving biodiversity

Innovation

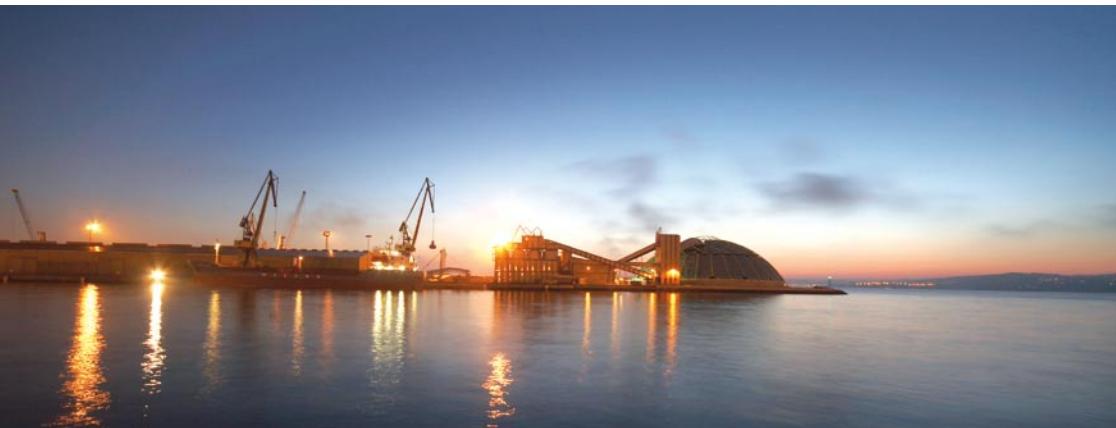
During 2010, in an adverse economic setting, innovation has been acknowledged to be one of the main ways of creating value and greater competitiveness, and so improve the global situation faced by our company.

These major challenges for technological development, which affect the entire energy chain, had meant that the energy world, which has always been innovative, had

In 2010 greater emphasis has been placed on actions with short-term results, without overlooking the main challenges with a broader time frame. In this regard, Europe has one eye on the objectives established for 2020 in terms of reducing emissions, greater energy efficiency and higher contribution to renewable energies. It is this which will set the tone of the new developments. The Strategic Energy Technology Plan (SET-Plan) is

all the actions needed for innovation to be carried out systematically and for it to involve all areas, ranging from support activities to executing innovation projects.

As part of the support activities, technological surveillance and transfer provide excellent knowledge on technological advances and enables good use to be made of them. In 2010, the company updated its IT



already had to work more intensely on this front - and before this new setting appeared.

used as a viewpoint for a series of initiatives at different levels, whose development support mechanisms are reinforced. In Spain, the importance already given to energy and climate change - considered to be a strategic action in the RD&I 2008-2011 National Plan - has confirmed this trend.

In Gas Natural Fenosa, the way in which the company changes or is modified is vital for it to meet its objectives. Developing its own innovation culture also enables the group to have a greater capacity to anticipate and respond to changes and the evolution around us. In this respect, the company follows a management model which integrates

Gas Natural Fenosa follows a management model which integrates all the actions needed for innovation to be carried out systematically and for it to involve all areas

technological surveillance system, which provides relevant information to the surveillance group specialists acting in the different fields of interest for the company.

In technological transfer, we may highlight the higher degree of systematisation of the support received from the Institute of Electrical and Electronics Engineers (IEEE), a globally renowned non-profit-making entity, whose work consists of promoting RD&I and technology dissemination, especially in the fields of electricity, electronics and telecommunications. Gas Natural Fenosa was also given the IEEE Award: a special prize to commemorate the 125th anniversary of

this body, which the group won due to the ongoing efforts that group personnel have made with their participation in the IEEE.

The group also continued to work closely with the Electric Power Research Institute (EPRI) in the United States, structuring its participation into programmes with the highest value for our company. Surveillance and transfer tasks have been completed, with the

part. Gas Natural Fenosa is one of the full members of this initiative, which, within the geographical sphere of Spain and Portugal, is instrumented through what is called the Co-location Centre Iberia, based in Barcelona, and thematically focused on renewable energies and industrial efficiency. The goal of this initiative is to boost education, technological development and the creation of new innovative businesses in the energy sector,

As part of the support activities, technological surveillance and transfer provide excellent knowledge on technological advances and enables good use to be made of them.



company performing a very active role in energy technological platforms and other decision-taking forums, both in Spain and in Europe, where the technological itineraries to be followed in this decade are being designed and agreed.

Special mention must be made of the participation in KIC Innoenergy, the energy knowledge community promoted by the European Commission through the European Innovation and Technology Institute (EIT). This year, KIC SE has been set up: a European company in which leading European universities and technological centres, and leading companies in the energy sector, take

through an innovative collaboration system between the companies taking part. 2010 has been the start-up year, although the company has also identified and established several very interesting projects with wind energy, solar energy and efficiency.

Some of the most significant projects are outlined as follows, taking into account the line they cover.

In energy storage, we may highlight the integration of a thermal accumulation system to improve the harnessing of solar energy captured at the Fresnel

knowledge will be applicable to energy storage in the new solar thermoelectric generation plants, enabling better management of energy production, and therefore a greater optimisation of its use.

With regard to the treatment of CO₂, the group continues to play a very active part in the most relevant decision-making forums such as the Spanish CO₂ Technological Platform, the Spanish CO₂ Association and Zero Emission Plants Platform (ZEP) in order to foresee the progress made in technological development itineraries which have to be adopted in electrical thermal generation plants and also in large concentrated emission industries. The general aim is to be able to secure commercial technology for the capture, transport and storage of CO₂ by 2020, as this is considered to be a vital way of bringing about an effective reduction in carbon dioxide emissions, thereby helping to mitigate climate change. The group takes part in the ZEP Rector Group and they currently holds the Deputy Chairman positions in the aforementioned Spanish platform and association. They are also a founding patron of the Petro Physical Institute, which is focused on the technological support to CO₂ storage to be developed in Spain.

solar thermal pilot plant situated in the Seville ETSII (Higher Technical School of Industrial Engineers). Having carried out studies on the most ideal phase change materials for the range of working temperatures and the working cycles in the laboratory, the company has made an optimised design of the tank and defined the loading and operating procedures, as well as also completing the programming of the control system for the next phase, which consists of real operation and analysis of its functioning.

In this same area, the company is also studying the corrosion processes by thermal accumulation in molten saline solutions for different structural materials of the tanks and heat exchangers, in conjunction with other companies and CIEMAT (public research agency for excellence in energy and environment). This



plant is being finished in the La Robla power station as part of a new project called LessCO₂, therefore enabling the experimental CO₂ capture programme to be completed and explored in greater depth in order to obtain the decisive results so as to know the real viability of this technology.

Gas Natural Fenosa is also taking part in an industrial project coordinated by EPRI, consisting of the design, construction and experimentation of two pilot plants with CO₂ post-combustion capture technologies and storage in different geological formations. The idea is to test two capture concepts using post-combustion, one based on amines and the other on cooled ammonia. The ammonia plant has begun to operate in 2010 and has already furnished the first results of this process capturing CO₂ from a commercial power station, with subsequent storing of CO₂ in a geological formation.

In the smart reading infrastructures line, and solutions supported therein, the company has continued with the electrical meter deployment plan, and is also looking at new innovative projects. The KSI-ZIGAMIT project, a bilateral programme for cooperation and technological transfer between South Korea and Spain, is in progress. The object of this project is to spearhead an open protocol and standard remote reading infrastructure, and to make progress in developing new useful functionalities for customers, both in the private sector and in the field of public administrations. Gas Natural Fenosa is also heading a European project under the European Union ARTEMIS programme. Together with European utilities companies and

meter manufacturers, the company is working on the evolution of the current gas meter, implementing an electronic index and remote management of a cut-off valve, as well as the communications module, on the traditional concept of the volumetric meter.

The company has also been involved in developing residential solutions; in fact, it started a three-year European project which will study the effect of applying information technology for managing user demand, with software that can be applied to public housing. The European 3e-Houses project, led by Gas Natural Fenosa, has made progress in defining methodologies for measuring and assessing electric, heat and water supplies, the technical remote reading solution and managing information and communication to users and the awareness and incentive campaigns for energy saving and shifting of demand. Several European pilots will be developed; the town chosen for the Spanish demonstration is Sant Cugat del Vallés, in Barcelona.

The CENIT CETICA project was completed, referring to energy efficiency for end users. This project analysed the viability of cogeneration in urban environments, developing a technical guide for systems and application equipment, and the most appropriate set-up options for urban environments. Tools were developed to analyse building needs and basic dimensioning of cogeneration installations, optimising their energy efficiency, incorporation of renewable energies or use of residual energies.





Mention must be made of Gas Natural Fenosa's participation in the MOVELE project, an initiative promoted by IDAE (the Spanish Institute for Energy Diversification and Saving)

In 2010 actions got under way for creating the model and tools for the smart grid. The ultimate aim of this grid will be to efficiently integrate the performance and actions of all users connected to the grid (consumers, generators, users and producers), assuring the safety and sustainability (technical and economical) of the electrical system. For that purpose, the CENIT ENERGOS project is focused on investigating the basic elements which can be used to create a smart grid able to carry out real time management of all the multi-directional flows arising in the new electrical grid model. This will imply mass inclusion of renewable energy sources at different levels in the grid, higher participation by end customers in their energy management, greater efficiency levels, and taking advantage of the bi-directional flows created due to the addition of electric vehicles.

The REDES 2025 project, meanwhile, concerns the development of technical solutions enabling the distribution system to be optimised through integration of the energy resources distributed: generation, accumulation and consumption distributed. And the IMPONET project is focused on the design and construction of a

flexible and scalable software platform which could be used as framework of reference for the development of future software infrastructures for electricity grids; in such a way that it can be used as both a demonstrator and a test bank.

As far as the search for advanced power plant and major facility technologies is concerned, particularly worthy of note is Gas Natural Fenosa's participation in the CAPWA project, which concerns new systems for capturing water generated through combustion in power stations. This project has been approved by the European Commission and got under way in 2010.

In the field of mobility and sustainable transport, various studies and tests got under way in 2010, with the purpose of assessing the effect of electric vehicles on the grid, and associated models of use. The aim here is to seek solutions which, in the short-term, could enable this new technology to be optimally integrated in the current grid, and, in the mid-long term, could become another smart grid component. Here we may highlight Gas Natural Fenosa's participation in the MOVELE project, an initiative promoted by IDAE (the Spanish Institute for Energy Diversification and Saving) and geared towards demonstrating the technical, economic and energy viability of electrical mobility in urban and peri-urban environments, through introducing 2,000 different electric vehicles, with different categories, features and technologies, within a broad collective of companies, institutions and individuals, and also the installation of 500 recharge points for these vehicles in Madrid, Barcelona and Seville.

It is also important to note the DOMOCELL projects, whose aim is to create a system for recharging electric vehicles through which each vehicle's consumption can be discriminated, and CITYELEC, focused on research into propulsion system components and infrastructure necessary for implementing electric vehicles. Lastly, we close this chapter with the recent approval by the Centre for the Development of Industrial Technology (CDTI) of the RIRVE project, in which Gas Natural Fenosa also participates, and which has the aim of developing, in this case, the complete chain of recharge points and concentration and data management systems.

With the same focus on providing greater sustainability to mobility and vehicular transport, it is important to consider actions concerning compressed natural gas in light vehicles. The company has therefore begun to develop a standard station module, following the targets of low-investment costs and reduced operating expenses, so that it can be feasible to create a network of filling stations with this kind of fuel. For that purpose, the company has looked closely at the design of the vehicle's storage and filling system in order to maximise its range, and the automation and control of the operation, and commercial management of its supplies.

Lastly, within the field of renewable energies and energy vectors, the CENIT SPHERA project, spearheaded by Gas Natural Fenosa, has completed the studies phase for all members of the consortium which have explored hydrogen production, transport, storage and use techniques



for the last four years, and specifically how hydrogen is obtained by biomass gasification, the Red-Ox separation of synthesis gases and the methane thermocatalytic decomposition process. The company also completed the utilisation study of gaseous mixtures of different compositions in electrical generation turbines.

Also in this same area, the company has completed a new phase of tests to characterise equipment in the experimental hydrogen production and storage facility based on excess electricity from the Sotavento wind farm, which will provide necessary data on the efficiency and useful life of this kind of storage system, and show the technological improvements needed for the feasibility of this kind of application and determine the operation strategies for an optimum management of energy associated with renewable sources.

Another significant initiative has been signing an agreement with IREC (the Catalan Institute for Energy Research) to cooperate in developing the ZEFIR experimental off-shore marine wind power platform, a step which will put Gas Natural Fenosa, in particular, and

Spain in general, at the forefront in key developments in this technology in coming years.

Quality



Customer satisfaction through service quality

Gas Natural Fenosa considers the customer to be the cornerstone of its business. This is why we are constantly preoccupied with monitoring customer satisfaction and gaining an insight into aspects that influence it.

During 2010, the efforts were centred on maintaining steady levels of service quality and on continuing to lead the sector in this field. A priority project was to achieve the integration of processes, taking advantage of the best practices and always with the object of maintaining service levels. Accordingly, one of the first homogenised processes was to measure the customer service on the telephone, given that this year gas and electricity customers have been integrated.

Company's objective was to establish a model for measuring the quality perceived by customers, a model which would integrate all the company's businesses and countries. For that purpose, the different measuring models have been merged and references have been included to the main rivals, thus obtaining uniform and comparable indices on the main electrical and gas indicators, and also a benchmarking tool, enabling the company to have a global vision not only of its own processes, but also but also customers' perception of rivals.

With this goal in mind, the measuring model has included electricity customers in Spain, Guatemala and Colombia, where pilot projects have been carried out in order to consolidate the process by which it will be possible to monitor customer satisfaction.

The overall satisfaction index of Gas Natural Fenosa - in other words, customers who were satisfied or very satisfied - stood at 81.7% in 2010. And the indicator is 78.1% when referring to Spain, making it the leader in its sector, and with this figure including electricity customers.

In the wholesale business segment, the figure stands at 62.6%, according to the study performed in 2010, and also including gas and electricity customers.

As far as the initiatives taken to improve customer service quality carried out in Spain in 2010 are concerned, we may highlight the positive performance in resolving claims. This is largely due to the improvements carried out in the quality controls of the main final processes affecting the customer. The company has also implemented the measurement of customer perception in the tertiary market and energy solutions.

In Italy's case, various initiatives have been carried out to improve key end customer processes. The style of the bills has been improved in terms of clarity and transparency, times have been reduced and quality in replies to written claims improved. The company has also improved the online customer service (lo Sportello Online) in order to help manage contacts with the customer.

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

In Colombia, the entire organisation has continued with its commitment towards service quality and customer satisfaction, putting forward a permanent task force to promote and spearhead quality initiatives. The company has also standardised customer satisfaction measurements in both the gas and electricity fields.

In Mexico, it has promoted the "Let's get to know our customer" project, whose main purpose is to involve the management, suppliers, employees, customer and non-customers, with

the object of getting to know the main drivers behind satisfaction and dissatisfaction. Work has also continued on improving customer service.

Six new customer service centres have been opened in Mexico D.F., Saltillo and Monterrey; direct Red Line telephones communicating directly with the call centre have been installed; and capacity has been improved to offer services 24 hours a day, seven days a week. At telephone service level, the implementation of mobility technology allows customers to be informed in real time concerning the cut-off and reconnection works affecting them and they even have the possibility of paying their bills by credit card.

In Brazil, efforts at improvement have been focused on the claims process, trying to keep customers informed at all times, from registration through to resolution. In association with this project, the role of internal customer care staff has been strengthened through the VIP concept, which attempts to raise each collaborators' awareness with regard to the importance of their work in improving customer perception. These actions have prompted a significant increase in satisfaction indices, of above 19.2 percentage points, in the claims management process. It is also important to note that CEG was one of the winning companies at the 10th ABT award, in the Customer Service category.

Lastly, important initiatives have been carried out geared towards improving customer service in Guatemala. On the one hand, the telephone customer



service has been implemented in the three most important languages in Guatemala, and the number of centres where customers can carry out payments has risen 33% against 2009. On the other, the mobile reading project has got under way, which has improved reading quality and reduced the number of associated claims. And, lastly, the Customer Service Guarantee unit has been created, with three basic pillars: inter-institutional relations (customers' representatives and dialogue panels), solution to critical claims and improvement of customer service processes.

During 2010, our efforts were centred on maintaining steady levels of service quality and on continuing to lead the sector in this field



Stimulating ongoing improvement processes within the framework of the new Strategic Plan

Over the 2010 year, the company has continued its efforts to promote continuous improvement in processes as a lever of the group's new Strategic Plan as far as operating efficiency is concerned. Accordingly, it has continued to train both sponsors (Champion) and experts (Green Belts) in the Lean Six Sigma methodology mainly in Spain, Colombia, Brazil, Panama and Guatemala. As a result of this consolidation, in 2010 over 50 projects were started, whose common goal is to improve the efficacy and efficiency of the different process in the group business. Within these processes, we may highlight the following:

In Spain, the company has continued to consolidate the ongoing improvement in gas distribution processes, where we may highlight the projects to reduce service times for new customers and the optimisation of the works construction process. For the electricity business, new sampling criteria have been defined for the inspections of works and projects, and for the management of certain registrations (measurements laboratory) and data verification (Installations Database), while the logistical management of certain key materials has improved.

In Italy, a number of continuous improvement initiatives have been carried out: particularly noteworthy are those carried out in maintenance processes for regulation stations, managing verbal contacts in the field of commercialisation, and reducing times in the start-up of new customers.

In Morocco, the company completed an efficiency improvement project, whose purpose is to reduce self-consumption in the natural gas transportation system of the Maghreb-Europe gas pipeline.

Several improvement initiatives have been carried out in Latin America, applying the Lean Six Sigma methodology:

For example, we may highlight those carried out in Brazil, both in technical processes, improving leakage detection capacity, and also optimising the recovery of meters. In the field of customer service, efficiency has been improved in reading notifications and in sending non-payment and cut-off notices.

In Argentina, several improvement initiatives have been completed in all fields; particularly worthy of note is the one carried out in the economic-financial field, regarding the improvement in the accounting registration of works in progress, which, with the new tariff framework, will imply significant improvements in the return on assets.

In Mexico, two projects have been completed in the customer service area. In these projects, different techniques of the methodology have been successfully used, applied in the improvement of the new customer service-operating model in gas centres and in optimising reconnection processes.

In the second half of the year, Guatemala began to deploy the ongoing improvement in several projects, and successfully completed two of them: one in the technical area, perfecting leakage detection in auxiliary substation services, and another in the financial sphere, optimising collections of bank remittances.

Lastly, in both Colombia and Panama, the formal implementation of the continuous improvement process got under way, with training and raising of awareness in the method of the different roles within the organisation, and starting the first initiatives in different fields such as customer service, distribution and gas measuring centres, *inter alia*.

Progress in quality management

2010 was a key year in terms of quality management, involving the establishment of an international project for integrating quality management, environmental protection and occupational risk prevention systems into a single group-wide system.

For this purpose, a review was made of the quality, environmental and risk prevention policies, incorporating them into the company's social responsibility policy. Additionally, the Integrated Management System Manual was approved together with the eight general procedures that give form to the system and which are applicable to every business in each of the countries.

A plan was drawn up in order to reach the objective over a two-year timeframe and include all businesses and activities which currently do not have an integrated management system within this global scope.

All certifications for quality and environmental systems, certified in accordance with the ISO 9001 and ISO 14001 standards in previous years, were renewed after the pertinent audits were performed by authorised certification agencies. During 2010, quality certification was also obtained for new processes such as commercialisation of electricity by Red Unión Fenosa in Moldova. Meanwhile, the company completed the integration of the electrical regulated business quality certifications in Spain.

Technical audits/inspections have also been carried out on different processes: regular inspection, domestic operations, building of gas distribution networks in Spain and the commissioning of installations in Brazil.

In addition, the Madrid Excelente brand was renewed, having exceeded the standards of management excellence required.

ISO 17025 certification was maintained for laboratories in Brazil, Panama and Argentina, and work was carried out on the implementation of the gas distribution quality management system in Colombia.

In keeping with Gas Natural Fenosa's commitment to quality, the company is a member of the Spanish Association for Quality and participates actively on its Energy Industries Committee, Six Sigma Committee and on the CERPER Certification Committee. Likewise, representatives of the group also form part of the Governing Board of AENOR, of the Governing Committee of Club Excelencia en Gestión and the Executive Committee of Fundibeq (Latin American Quality Foundation).

Implication of the value chain in the commitment to quality

2010 saw continued implementation and consolidation of the authorisation model for suppliers and products, extending it to Panama, Guatemala, Nicaragua, Morocco and Moldova, in addition to Argentina, Brazil, Colombia, Mexico and Italy, where it has already been implemented. It also extended the model to the electricity distribution and generation business in Spain. The aim of this process is to contribute to the selection of the best suppliers and most suitable products for the most critical activities of the business.

In the field of gas distribution, the project management model was consolidated and a new quality assurance model was implemented for infrastructure construction projects and for operations carried out at supply points.

Commitment to Society



Gas Natural Fenosa assumes its commitment towards society, contributing to the economic and social development of the countries where it operates, providing knowledge and management capacity, giving over part of its profits to social investment and maintaining a continuous dialogue with society in order to know its needs and to ensure it is satisfied.

The company creates wealth and employment in the countries in which it is present and contributes to the development of communities by providing the energy the society needs in a sustainable, efficient and safe way.

The group looks to integrate positively in society and, accordingly, assesses the social impact of its activities and respects the culture, laws and environments of the communities in which it operates.

The creation of value shared through the activity itself is the basis on which the company builds its social investment strategy, implementing initiatives in collaboration with NGOs, the community itself and other social players.

Gas Natural Fenosa, within the framework of the UN Global Compact, develops initiatives geared towards promoting education, cultural diversity and inclusion of the most underprivileged groups.

Positive integration in society

The company is aware of the importance of education for social cohesion and progress. Universal primary education is one of the fundamental rights enshrined in the Universal Declaration of Human Rights and is of critical importance for progress in issues such as equal opportunities and gender equality.

Accordingly, Gas Natural Fenosa allocates part of its resources and efforts to supporting and fostering educational and cultural initiatives.

In recent years, issues related to the climate change and sustainable development have been included in the company's social agenda.

The group considers its social investment programmes within the framework of its business development strategy. The aim is to generate a higher level of commitment by the company to the society of which it forms a part. Given its priority, the group has tools for measuring the reputational impact of the social programmes it develops.

Educational initiatives

The educational activities for young people remain as one of the main lines developed by Gas Natural Fenosa for the correct use of energy and sustainable development. Special mention must be made of the initiatives implemented as part of the Natural Gas and the Environment programme, with a total of 100,059 Spanish students attending the conferences given by specialists in the subject. 1,253 school groups took part in the Natural Gas, the 21st Century Energy online activity.

In Spain, the company continued its participation with the Príncipe de Girona Foundation, whose purpose

includes the professional, academic and research training of young people, and with the Carolina Foundation, which provides training fellowships in journalism and energy efficiency. Similarly, it continued its collaboration with ESADE through the Vicens-Vives Programme for Leadership and Civic Commitment.

In 2010, Moldova took part in social actions that provided support for education and youth with the second edition of the Student Technologies Festival.

Furthermore, collaboration work continued in Latin America to foster education. Other actions include the support given in Colombia to the Empresarios por la Educación Foundation and the collaboration with the Maloka Interactive Centre, which focuses on creating spaces for learning for children in vulnerable areas.

In Guatemala, the San Carlos University created the 23rd National Science Olympics, designed to encourage research and development in the sciences.

The Cidade Viva Institute in Brazil organised the Rio Socio Cultural Award, which offers prizes to the ten best social and economic development initiatives, sponsored by Gas Natural Fenosa.

For further information, visit the Educational Activities and Exhibitions section of Gas Natural Fenosa's website at www.gasnaturalfenosa.com.



Social action focused on underprivileged groups

Gas Natural Fenosa strengthens and supports projects that promote the reduction of problems arising from social exclusion and those that ensure the integration of more vulnerable social groups.

In Spain, the company collaborates actively with foundations that carry out humanitarian actions, such as the provision of blankets and food to the homeless and the construction of places for personal hygiene and shelter.

Accordingly, the Mambré Foundation, which focuses on the social integration of the homeless, was chosen in 2010 to receive the amount the company spends each year on Christmas cards.

Furthermore, in Italy in 2010, the company has collaborated on various projects to accompany the elderly to territorial medical services and has participated in congresses on senile disease. In Moldova, the Help Flood

Victims organisation provided support for the victims of the summer 2010 floods, with contributions from the company.

In Latin America, the company collaborates with the Argentinian Michael Ham Memorial College Foundation, which provides meals for the young underprivileged. In Guatemala, the company shared out bags with basic articles to the families affected by tropical storm Agatha. And in Mexico, it continued to support the Un Kilo de Ayuda Foundation and the Mexican Red Cross. It also made donations to those affected by hurricane Karl in the state of Vera Cruz.

For further information on the social action programmes in the subsidiaries of Gas Natural Fenosa, please see each country's corporate responsibility reports available at www.gasnaturalfenosa.com.

Promotion of health and research

Gas Natural Fenosa cooperates with different programmes to promote the preservation and rehabilitation of cultural heritage, environment friendliness and the creation of new more ecological action scenarios.

The company also collaborated with the Alcalá Natura 21 programmes, which focus on children's training and awareness of the environment. Furthermore, it agreed to collaborate with the Hotel Technological Institute (ITH) to foster energy efficiency in the sector.

In Nicaragua, the group supported the Teletón organisation in its annual collection for providing specialised medical care for children and young people with various disabilities.

For further details of programmes in the group's Latin American subsidiaries geared towards research



The collaboration with the CONAMA Foundation, in Spain, is a good example. This Foundation organised the National Environmental Congress, where the environmental situation in Spain was discussed and studied.

The group also supports research designed to improve the quality of life of ill people and their family members. Accordingly, the collaboration with the Down Syndrome Foundation has produced tools that help those affected by the syndrome to live more independent lives. It has also supported the Aleph-Tea Association and helped improve the quality of life of those affected by development disorders and other associated disorders or autism and their families.

In Latin America, Argentina collaborated with the Vidal Silvestre Foundation to foster life diversity and respect for the environment and with the Mundo Sano Foundation to organise an encounter on forgotten or unattended diseases that appear mainly in rural and poor areas.

As part of the support activities, technological surveillance and transfer provide excellent knowledge on technological advances and enables good use to be made of them

and conserving health, please see the Corporate Responsibility Reports available at www.gasnaturalfenosa.com

Corporate volunteers

Employees are a key part of Gas Natural Fenosa focus on corporate responsibility. Their efforts help to make the company's commitment to the society and the communities in which it operates a reality. An example of this is Solidarity Day, an initiative created

In 2010, approximately 350,000 euros were collected. They will be used for two education projects in Argentina, the training of 30 young people in Agricultural Administration and finance for degrees in engineering for twelve young people at one of the country's best universities. All the beneficiaries of the fellowship

Similarly, Mexico has continued the corporate volunteer actions it has carried out since 2005 as part of the spirit of solidarity and commitment to the communities in which it operates. In 2010, the actions carried out include collections for those affected by the earthquake in Haiti and hurricane Alex, visits to homes for children and the



and managed by employees, who give up one day of their yearly salary for the execution of a social project in a certain country. Furthermore, every year the company donates a sum equal to that collected by employees to Solidarity Day, and also bears the association's administration fees.

The Solidarity Day Association began in 1997 and has become the commitment to solidarity for almost 2,000 people and collected more than 2 million euros, which have been used to promote training for children and young people and for social projects in Mexico, Colombia, Nicaragua, Guatemala, Panama, Mozambique, Kenya, Bolivia, Philippines, Dominican Republic and Moldova.

programmes are young people with low-level economic resources and high academic merit.

In Argentina, with the support of the Gas Natural Fenosa Foundation, the group continued with its corporate volunteer plan started up in 2002. The Social Entrepreneurs programme offers employees the possibility of collaborating with community initiatives and social projects. In 2010, the Foundation financed seven projects, instrumented through collaboration agreements with social organisations and connected with improving living conditions, overcoming poverty and community development.

elderly, the participation of volunteers in the Live Earth race for water, the liberation of a protected species of turtle and support in the form of food and clothes for immigrants.



Promotion of music, theatre and films

For the Jubilee Year of Santiago de Compostela in 2010, a cultural and leisure project has been implemented, with events involving approximately 250,000 people. Accordingly, during the Xacobeo 2010, there has been an extensive programme of cultural events, such as exhibitions, which have received more than 372,245 visits, various congresses, involving 10,700 attendees, and audiovisual shows designed to attract national and international attention, with the attendance of almost 31,000 people.

The group also sponsored musical cycles and seasons in different Spanish cities. Among others, special mention must be given to the collaboration with the Gran Teatre del Liceu (Barcelona) and the Teatro Real (Madrid). The company also financed the Granada International Festival of Music and Dance, and the Porta Ferrada International Festival (Girona). It also collaborated with the Castell de Peralada International Music Festival, the Granada International Festival of Music and Dance and the Murcia Symphony Orchestra, among others.

Furthermore, the company continued its promotion of film culture with the sponsorship of 32 Cinesa 3-D cinemas, in collaboration with the Sitges Film Festival, support for the 39th Cartagena International Film Festival and the 2010 Malaga Free Film Festival.

The subsidiaries in Latin America also supported the promotion of music and theatre through the 12th Ibero-American Theatre Festival 2010 in Colombia and the concert seasons in Argentina. The latter present children with the different musical genres of artistic expression and are promoted by the Ministry of Culture of the Government of the City of Buenos Aires and the Secretariat of Culture of the Nation and the Scholarship Fund.

For further information relating to this subject, please consult the Sponsorship and Social Action section of the Gas Natural Fenosa corporate website, at www.gasnaturalfenosa.com.

Patronage and sponsorship

An important part of the group's cultural investment is carried out through the Gas Natural Fenosa Contemporary Art Museum. This museum, which was opened in A Coruña ten years ago, reflects the group's interest in fostering and disseminating artistic creation in any of its forms. The museum puts on exhibitions and drama, and carries out educational and leisure activities. In 2010, it attracted 36,817 visitors, which represents an increase of 19% in comparison with the previous year. Furthermore, the website received more than 172,000 visits in 2010 in comparison with the 38,000 of 2006.

In 2010, the museum put on several exhibitions, of which we may highlight: In particular, "Fiat Lux. Creación e Iluminación" (Fiat Lux. Creation and Lighting), with top-level international artists that use light as a creative element; "Mentiras Verdaderas" (True Lies), by the photographer Rosa Muñoz; "Sinergias. Arte latinoamericano actual en España" (Synergies. Current Latin American Art in Spain); and "Arte y salud. Artistas de la colección DKV" (Art and Health. Artists from the DKV Collection). Together with its permanent collection, it also held the 11th edition of the Contemporary Art Biennial Show ("La Mostra Internacional Gas Natural Fenosa"), one of the museum's signs of identity that involved more than 500 artists from 40 different countries.

In 2010, over 6,000 students from 77 schools took part in the activities for the dissemination of contemporary art organised.

The museum does not only engage in art-related activities; it also takes part in activities to promote healthy leisure

and to enhance the social integration of persons with any form of handicap. In 2010, it extended these initiatives to other centres in Galicia through an agreement with the provincial delegation of A Coruña.

Fostering cultural enrichment

Gas Natural Fenosa's commitment to the area of culture has led to collaboration on prizes designed to encourage and motivate new ideas. In particular, it forms part of the Duran Farell Award of the Technical University of Catalonia (UPC), which is given for research in the field of technology, and the prize of the Spanish Ceramic Tile Manufacturers' Association (ASCE), which is given for the use of ceramics in architectural works and interior design in Spain and abroad.

The company's support for other cultural institutions, such as MNAC (National Art Museum of Catalonia), MACBA (Contemporary Art Museum of Barcelona), the Valladolid Science Museum and the Thyssen Bornemisza Foundation, an organisation with which it has an agreement for improving its energy installations, is an example of its interest in their development.

In Italy, the company collaborated on the annual assembly of Anci Expo, which seeks to encourage culture in the municipalities of Italy and strengthen communication between them and central government.

In Moldova, with the local Global Compact network, the 4th International Conference on Corporate Social Responsibility, Integration of Corporate Social Responsibility in your Business

was held to foster the concept in the business community, civil society and government.

Investments have also been made in the promotion of new know-how in Latin America. Among others, mention must be made of the support given to the Soumaya Museum in Mexico and the collaboration with the private entity Backstage of Brazil, which has a programme of visits to historical buildings.

Initiatives in keeping with business

In 2010, Gas Natural Fenosa continued to develop projects to fight against energy poverty and grant access to basic services by the collectives most in need.

These programmes are based on creating a new social management model in which residents, local collectives, non-profit organisations and enterprises join forces to build a system to access energy in low-income bracket communities.

One of these initiatives is Energía Social, a commercialisation company which since 2004 has provided disadvantaged areas on the Caribbean coast of Colombia with secure access to electricity; these areas are formed by human settlements caused by the armed conflict in the country. Since it was set up, this initiative has carried out 96 electrical normalisation projects, has another 148 under execution, while a further 167 are still to be launched. Together they have provided jobs for 3,500 skilled persons and have allowed more than 58,801 households to have safe access to electricity.



Also in Colombia, the Ráquira Project: Clean and Productive Industry has been continued. The initiative began in 2007 and has been implemented by the Colombian municipality of Ráquira, where the company has promoted the replacement of 60 coal ovens with natural gas ovens for the production of craft work. In 2010, the company donated 12,000 trees to the municipality to compensate the emissions generated.

In Argentina, the Cuartel V initiative also forms part of this area and is designed to provide natural gas to an underprivileged area of the province of Buenos Aires. Cuartel V was the pioneer project which, in 2003, enabled the extension of gas networks to low-resource quarters using a new finance mechanism and involving the locals in the project. At the present time, more than half the population of this and other quarters benefit from a natural gas supply. To date, more than 84 km of network have been built and the service has been extended to other similar quarters.



One example of a project for the promotion of self-employment is the Impulse for your Business programme in Mexico, which, in 2010 has continued to train natural gas fitters who are then certified by the Mexican Natural Gas Association. In its third year, this programme looks for professionals that can form part of the business through their incorporation as collaborator companies or service providers. The programme also seeks to promote self-employment and supply business methods and know-how that provide value added across the company's process.

In 2010, they involved the participation of 208 people and 152 were certified in Mexico, more specifically in Mexico D.F., Monterrey, Nuevo León, Celaya and Guanajuato.

Thanks to this programme, Gas Natural Fenosa has achieved sixth place in the ranking of the top 50 companies with the highest level of social responsibility in Mexico, drawn up by the Mundo Ejecutivo magazine in 2010.

In the area of project for the promotion of safety, Gas Natural México worked with primary school students, who receive visits by the Natural Gas at School programme and the Careful with Carbon Monoxide campaign. This action has been taken to almost 57,000 students in Mexico D.F., Monterrey and the metropolitan area, León, Celaya, Salamanca and San Luis Potosí.

The company also continued to develop safety programmes with the authorities responsible for dealing

with emergencies. The exchange days on safety and the management of incidents involving natural gas have taken place since 2005 and involved the fire service, rescue services and public safety.

The projects carried out to improve the environment include the Friends of the Air initiative in Colombia. In connection with this project, a plan for reducing greenhouse gases was created and registered with the Ministry of the Environment of Colombia to bring together criteria for measuring the reduction obtained with each conversion of a vehicle to natural gas. This will affect the transaction of carbon vouchers on the international market. One tree will be donated for each conversion. To launch the project, 550 trees were planted in Altos de Cazucá, a depressed area of the Colombian municipality of Soacha. The project is to be consolidated and publicised in 2011.

Institutional commitment

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

These include the International Chamber of Commerce, The Conference Board and the business federations for the gas and electricity sectors, Unesa and Sedigas, respectively. It also plays an active role in the Spanish Energy Club, the World Energy Council, Eurogas, the International Gas Union (IGU), the Mediterranean Energy Observatory (OME) and the Florence School of Regulation. Gas Natural Fenosa is also

a member of CEOE and of the Catalan employers' association Foment del Treball Nacional.

In the field of corporate responsibility, the Company is a member of Forética, an ethical management association, and of the Spanish Association for the UN Global Compact, which promotes ten principles on human rights, labour rights, environmental improvement and the fight against corruption.

In 2010, Gas Natural Fenosa forms part of the governing bodies of both associations.

From the time it was founded, Gas Natural Fenosa has also been one of the members of the Corporate Reputation Forum. This organisation promotes the measuring and improvement of assessment of reputation and corporate social responsibility.

In the environmental field, Gas Natural Fenosa has been a member of the Spanish CO₂ Association and of CEMA (the Spanish Environment Club).

No. of sponsorship and social action activities	2010	2009
No. of activities	388	325

Motivation for initiatives (%)^(*)	2010	2009
Social investment	63.7	54.7
Specific contribution	31.1	16.9
Business-related initiatives	5.2	28.4

(*) London Benchmarking Group methodology (LBG).

Area of action (%)^(*)	2010	2009
Humanitarian assistance	0.3	0.03
Health	3.8	1.26
Education and youth	3.8	3.57
Economic development	42.0	50.13
Social welfare	10.1	7.55
The environment	11.4	18.15
Art and culture	26.9	17.34
Sports	1.2	1.34
Research	0.5	-

(*) LBG methodology.

Total participation of students in the Natural Gas and the Environment educational programme. Spain	2010	2009
No. of student	100,059	72,646

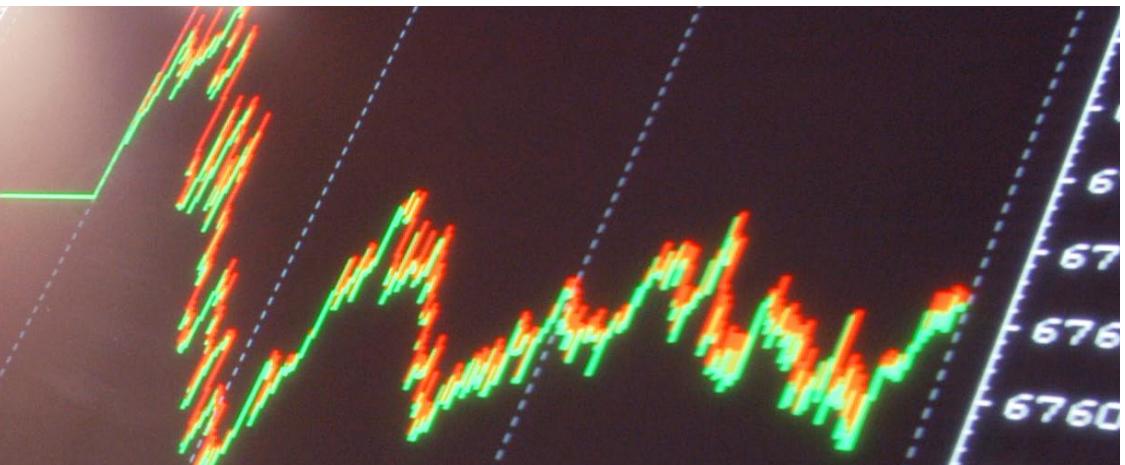


Financial-Economic Management

In 2010, integration has continued with the Spanish companies from Unión Fenosa in the economic-financial IT system. The companies include SOCOIN, Nueva Generadora del Sur and those of Colombia.

As a result, as from January 2011, all the Spanish, Mexican and Colombian companies of Gas Natural Fenosa will have one single economic-financial model, as well as one single IT system providing support. Furthermore, said companies have joined the administrative and accounting

finance are processed consistently, which achieves the optimisation of practices, structures and dimensions. It also allows the co-ordinated maximisation of capital return flows and the setting of optimal debt levels.



The project for optimising processes and systems related to operations for accounts payable and the administration of the cash account have progressed with the inclusion of new functionalities in electronic billing and the promotion of workflow processes for electronic payment requests and invoices. In this section, special mention must be made of the implementation of an electronic self-invoicing solution for all the energy producers on the special regime, with more than 52,000 electronic auto-bills booked, as well as the launch of a function for the selection of delivery notes pending invoicing, which enables the group's suppliers to query the work that has been carried out and not yet invoiced.

management system of the Financial-Economic Shared Services Centre of their respective countries: Spain, Mexico and Colombia. Accordingly, the economic and administrative processes and circuits have been unified and optimised for all these companies and the synergies that were announced and undertaken have been achieved.

Furthermore, in 2010, the branch offices in Belgium and Luxembourg have also joined the European Financial-Economic Shared Services Centre.

The centralised management of all the economic-financial units of the companies of Gas Natural Fenosa, on an international scale, has made it possible to guarantee that all the similar processes in the area of

As part of its vocation to leadership in the intensive use of new technologies, in the last quarter of the year Gas Natural Fenosa centralised its contract management on the Supplier Portal in the Economic-Financial Area. The aim is to provide suppliers with procedures for a more efficient and higher-quality management of their relationship with Gas Natural Fenosa, placing particular emphasis on improving the tools required to speed up administrative procedures related to the emission, sending, querying of the status of the procedure and the collection of bills.

Throughout 2010, the operations for restructuring Gas Natural Fenosa that began in 2009 have continued to adapt the corporate map to its

businesses and simplify its structure. Said transactions have been designed, in the case of Spain, so that they can apply the tax system provided in Chapter VIII of Title VII of Legislative Royal Decree 4/2004, dated 5 March.

In its meeting of 17 September 2010, the Board of Directors of Gas Natural SDG agreed the company's adhesion to the Code of Good Tax Practices (CBPT) and the actions required for the implementation of said practices have begun. This code is the result of the collaboration between the Spanish Tax Administration and a representation of large Spanish enterprises through the Foro de Grandes Empresas (Large Companies Forum).

The aim of said code is to promote a reciprocally cooperative relationship with the tax authorities based on the principles of transparency and mutual trust, giving rise to its development in accordance with the principles of good faith and loyalty, which will increase the effectiveness of the tax authorities' inspections, reduce the legal uncertainty of the companies in the group and the litigations between both parties.

Adhesion to the code implies the obligation to informing the Board of Directors of the fiscal policies applied by the company and, in particular, of the relevant consequences in this area regarding the operations that must be submitted to the Board before the preparation of the annual accounts and the submission of the Corporate Income Tax assessment.

In 2010, the integration has been completed in transfer pricing through the preparation of a unique Gas Natural



Fenosa master file in compliance with Spanish legislation as provided in the revised bill of the Spanish Companies Act.

Transversal activities have been developed in conjunction with the Human Resources area to strengthen Gas Natural Fenosa's internationalisation by using the mechanisms provided in Spanish personal income tax legislation, in favour of employees who are non-residents in Spain and provide high value-added services to Gas Natural Fenosa's companies.

Finally, in 2010, the units responsible for Gas Natural Fenosa's tax management in Spain, on a state, local and regional scale, have centralised all the tax payment and settlement processes.



Furthermore, in the scope of the municipal agreement policy, the subjective scope of the tax agreements that are to be reached with the local corporations has been extended to favour tax management through the reduction of indirect charges and the recovery of municipal debts for the consumption of gas and electricity. Accordingly, special mention must be made, among others, of the convention with the Federation of Municipalities of Navarre, to which more than 400 local authorities have subscribed.

In the area of internal control, the actions have been launched to implement an Internal Financial Information Control System (SCIIF) in accordance with the recommendations and good practices put in place by the National Securities Market Commission (CNMV).

In addition, on an international scale, an internal control project specific to each country is being developed to reduce the probability of material error in financial information and increase control over economic-administrative operations. At the present time, the work has been carried out in Colombia, Panama and Nicaragua.

In 2010, the work has been carried out for the appropriate documentation of the various economic, administrative and accounting processes that are directly related to the administration of Gas Natural Fenosa.

In 2010, the company cancelled the outstanding finance balance for the acquisition of Unión Fenosa. Said finance was formalised in July 2007

and totalled 19,000 million euros in different terms of between one and five years. For its cancellation, the organised bank market has been used via Club Deal finance and the bank risk diversification policy has been continued through bond issues on the capital market (2,200 million euros).

The integration process in the area of financial transactions has been completed during the year by simplifying the finance structure, unifying bank risks that held dual positions with Gas Natural and Unión Fenosa. Accordingly, the finance contracts have been homogenised to level off the corresponding bank demands.

In the area of international finance, the process for diversifying transactions on the various markets has continued and the company has been particularly active on the capital markets in Argentina (issue of negotiable securities) and Panama (issue of negotiable trade securities), which has made it possible to consolidate the bank disintermediation process in said countries.

Furthermore, transactions have been formalised with multilateral organisations, such as the BNDES in Brazil, which obtained advantageous terms of finance and the optimisation of financial costs. The relative stability of the Latin American markets in comparison with the other developed markets has enabled the continuity of our policy for increasing terms and reducing margins in certain countries, especially Colombia and Panama.

Furthermore, in relation to cash account management, the funds have been managed in a completely centralised way since the beginning of 2010 (for the eurozone and dollar). This operation has made it possible to optimise the company's liquidity and simplify the bank structure. The exchange risk management has also been centralised with new businesses and countries.

In December 2010, a project was launched to improve liquidity management to maximise efficiency.

In the scope of the reporting of debt positions and the administration of financial transactions, the year 2010 saw the completion of the implementation of the systems for obtaining detailed and systematic information about Gas Natural Fenosa and, in the subsidiaries that remain pending, the process has begun for implementing the corporate SAP module for the administration of financial transactions and their transfer to the economic-financial information systems. All this has made it possible to improve and automate processes for obtaining management information about Gas Natural Fenosa's debts in an integrated environment.



With regard to the market risk, special mention must be made of the progress in the preparation of the report for the quantification of the short- and mid-term price risk, making it possible to anticipate forecasts of basic economic-financial figures on the time horizon of the budget and the Strategic Plan.

In terms of the insurable operational risk, special mention must be made of the progress in the modelling of the exposure to said risk as a support instrument for the design of optimum insurance programmes. Accordingly, the company defined the concept of total risk cost associated with a certain cover policy. The total risk cost consists of applying the concept of relevant costs not only to the premium associated with an insurance programme, but also to the anticipated and unanticipated cost associated with the costs retained by the company for a certain level of trust.

The process has begun for implementing the corporate SAP module for the administration of financial transactions

Gas Natural Fenosa has developed a system based on simulation instruments that make it possible to calculate said total risk cost, facilitating the setting of optimal risk retention levels and desirable covers in view of the alternatives for the reinsurance market in the renewal of the insurance programme.

The selection of the frequency probability and loss severity distributions for adapting to the risk profile of each branch has been particularly important given the abnormality of the behaviour of these risk types, which hinders their modelling.

models. In this case, the definition of the risk profile and objective anticipated loss has required a detailed analysis in view of the heterogeneity of the customer segments to propose risk management policies that consisted of the intrinsic characteristics and particularities of said segments.



They held meetings with a total of 73 investors in the main financial cities of Europe (London, Paris, Frankfurt, Madrid and Barcelona) and the United States (New York, Boston, Los Angeles, San Diego and San Francisco)

With regard to credit risk, special mention must be made of the progress in the definition of the risk profile, specified through the definition of coherent power structures with the characteristics of the different businesses.

In particular, with regard to the credit risk of the Energy Wholesale Business Area, the risk management policy for the gas and electricity businesses has been homogenised through the definition of a unique and consistent power structure, together with the required strategic positioning.

Furthermore, significant progress has been made in the Retail Energy Business Area through the implementation of credit classification

In 2010, with regard to management control, the information integration process for the different businesses has been consolidated and a model has been developed that guarantees its efficiency and enables the decision-taking process.

During the first half of the year, after the successful merger with Unión Fenosa, the reflection process was carried out for the preparation and integration of the new Strategic Plan for 2010-2014.

On 27 July 2010, with the publication of the results for the first half of 2010, the Chairman and CEO of Gas Natural Fenosa, together with other members of senior management, presented the new Strategic Plan, which was

broadcast over the Internet to the entire financial community and to Gas Natural Fenosa's personnel. Almost 300 people, including investors and financial analysts, followed the presentation.

The plan has two different stages: one until 2012, which focuses on strengthening the balance sheets,

financial cities of Europe (London, Paris, Frankfurt, Madrid and Barcelona) and the United States (New York, Boston, Los Angeles, San Diego and San Francisco).

Gas Natural Fenosa also developed different channels to provide consistent information to

In 2010, representatives from the management team and the Investor Relations Unit held a total of 170 meetings with institutional investors in the leading financial locations of Europe and North America.



optimising to achieve synergies and organic growth; and another until 2014, which focuses on making investments depending on the environment to make use of opportunities for growth on key markets and in key businesses to maintain financial strength.

Various actions were then carried out, basically with financial analysts, to implement said plan and update its assessment models.

Finally and to coincide with the publication of results for the third quarter, an intensive road show took place over two weeks with the participation of two teams: one led by the CEO; and another led by the Chief Financial Officer. They held meetings with a total of 73 investors in the main

institutional and minority investors in accordance with the principles of equal treatment and simultaneous diffusion. The purpose is to satisfy the commitments assumed in the corporate responsibility policy and to give special attention to minority shareholders.

Finally, Gas Natural Fenosa continued its communication programme with analysts and investors, strengthening and providing more transparent economic-financial information to enable them to monitor the company's business project.

Internal Audit

Gas Natural Fenosa carries out internal audit activities as a means of independent and objective assessment. The Internal Audit Area reports in turn to the Audit and Control Committee, the Chairman and the Chief Executive Officer of Gas Natural SDG.

It is responsible for guaranteeing the supervision and continuous assessment of the effectiveness of the Internal Control System in every area of Gas Natural Fenosa, providing a methodical and rigorous approach for process monitoring and improvement

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

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

The Internal Audit Area established a methodology for the assessment of operational risks in keeping with best corporate governance practices and based on the conceptual framework of the COSO Report, and on the basis of the types of risks defined in the Corporate Risk Map of Gas Natural Fenosa.

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



and for the assessment of operational risks and controls relating thereto. All of the foregoing is designed to achieve compliance with the strategic objectives of the group: profitability, growth and quality, and to assist the Audit and Control Committee and the senior management, control and corporate governance.

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

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

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

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



The 2010 Internal Audit Plan for Gas Natural Fenosa was approved by the Audit and Control Committee in its meeting held on 28 January 2010.

Pursuant to the plan, during the period between 1 January 2010 and 28 January 2011 (date of drawing up of the 2010 Annual Accounts), internal audit directors took part in seven meetings of the Audit and Control Committee to present the degree of execution of the Internal Audit Plan and the main conclusions, control and risk assessments and recommendations included in the Internal Audit Reports.

In addition, these reports reported on the level of implementation by the units of the corrective measures arising from the auditor's reports, in particular those proposed by the committee.

The functions of the Audit and Control Committee and its main activities during 2010 were included in the Annual Report on the Activities of the Audit and Control Committee, which is part of the documentation to be presented by the Board of Directors of Gas Natural SDG, S.A. at the General Meeting of Shareholders. It is also available on Gas Natural Fenosa website www.gasnaturalfenosa.com.



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

The year 2010 has also seen the commencement of a project led by the Financial Area and the Internal Audit Area. The purpose of the project is to improve Gas Natural Fenosa's Internal Financial Information Control System (SCIIF) and its supervision by the Audit and Control Committee. It incorporates the recommendations for the SCIIF published by the National Securities Market Commission (CNMV) in June 2010, which are pending implementation or under development in the group. The definitive implementation of the aforementioned improvements is scheduled for 2011.

The main processes revised by the Internal Audit Area in 2010 were those concerning:

- Business processes:
 - Gas distribution: distribution network construction, start-up, receiver facilities management, reading and metering.
 - Electricity distribution: development of medium- and low-voltage, logistics and domestic operations.
 - Customer service: payment, billing, arrears management and financing.
 - Wholesale and retail commercialisation: arrears management, recruitment and contracting, and customer management.
 - Generation and supply.
 - Exploration and production.
 - Energy management: CO₂ markets, electricity purchases and sales.



- Support processes:
 - Management of information systems.
 - Management of financial and physical resources: purchasing management and service procurement, warehouse management, accounting, supplier monitoring and certification.
 - Human Resources management: HR process and service management.
 - Monitoring undertakings to improvements in process auditing.
 - Review of the group's regulatory system.
 - Review of 2009 Corporate Responsibility Report.
 - Review of the assessment and achievement of integration synergies.

What is more, given the organisational position of independence and the field of transversal action of the internal audit function, this area also led or took part in other cooperation, research or consulting projects. In this regard, the Internal Audit Area chairs the Code of Ethics Committee, which is responsible for promoting the dissemination, awareness and compliance with Gas Natural Fenosa's Code of Ethics on all levels, and for processing the communications received over the various communication channels created for all the group employees, suppliers and collaborating companies to query or report breaches of the said code. Notifications concerning fraud, auditing or faults in accounting or internal control processes are likewise sent directly to the Audit and Control Committee.

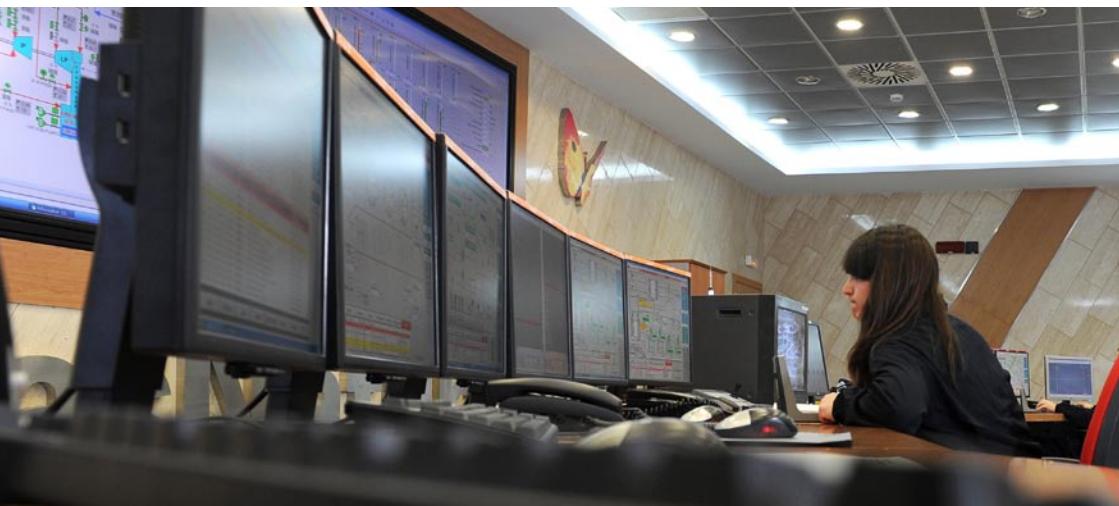
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Consolidated Economic Analysis



Changes to the consolidation perimeter

The main changes to the consolidation perimeter in 2010 in comparison with the previous year were as follows:

- On 28 February 2009, Unión Fenosa began consolidated reporting by means of the equity method.
- On 30 April 2009, as a result of the effective merger of Unión Fenosa, the company began consolidated reporting by means of global integration. In September 2009, the merger by absorption of Unión Fenosa and Unión Fenosa Generación by Gas Natural SDG took place.
- In December 2009, Empresa de Energía del Pacífico (EPSA), a Colombian company that had joined the perimeter as a result of the acquisition of Unión Fenosa, was transferred.
- In December 2009, various companies and gas supply and distribution assets were transferred in Cantabria, Murcia and the Basque Country.
- In April 2010, the companies Madrileña Red de Gas, Madrileña Suministro Gas SUR 2010, Madrileña Suministro Gas 2010 and Madrileña Servicios Comunes were transferred.
- In May 2010, Central de Anahuac, Central Lomas del Real, Central Vallhermoso, Central Saltillo, Electricidad Aguila de Altamira, Gasoducto del Río and Compañía Mexicana de Gerencia y Operación were transferred.
- In October 2010, the Italian company Cilento Reti Gas was included by means of the global integration method.

Analysis of results

The acquisition of Unión Fenosa and its inclusion into the consolidated results by global integration starting on 30 April 2009 gave rise to significant changes in the comparison of 2010 results with those of 2009 and did not allow the corresponding analysis of the business development of Gas Natural Fenosa.

Furthermore, on 1 January 2010, Gas Natural Fenosa applied the IFRIC 12 "Service Concession Arrangements" retrospectively, reformulating the financial statements for the year 2009. In the cases in which the licensor controls the services that the operator (Gas Natural Fenosa) has to provide, as well as the significant residual participation in the infrastructure on the termination of the agreement, the infrastructures will not be recognised as tangible fixed assets, with the establishment of two accounting models (financial assets or intangible assets) depending on the nature of the economic benefits that are to be received by the operator.

Gas Natural Fenosa completed the assessment of the impact of this interpretation, considering that the intangible assets model is basically applicable to the gas distribution activities in Argentina, Brazil and Italy and the financial assets model to the electricity generation activity in Costa Rica.

As a result of their application, the following reclassifications were made in the consolidated balance sheet at 31 December 2009 and the consolidated profit and loss account for the year 2009. From the Tangible fixed assets to Intangible fixed assets section, for the amount

of 1,247 million euros, and to the Long-term financial assets section, for the amount of 66 million euros, as well as a reclassification from the Subsidies to a reduction section of the Intangible fixed assets section, for the amount of 185 million euros. Furthermore, the Consolidated Profit and Loss Account for the year 2009 recognised income and costs arising during the construction phase for the amount of 76 million euros, in the Other operating expenses and Other operating income sections, and a reclassification was made from the Allocation of intangible subsidies and others section to the Amortisation of fixed assets section, for the amount of 8 million euros. The amounts of 6 million euros from Net turnover and 3 million euros from Amortisation of fixed assets were also reclassified to Financial income.

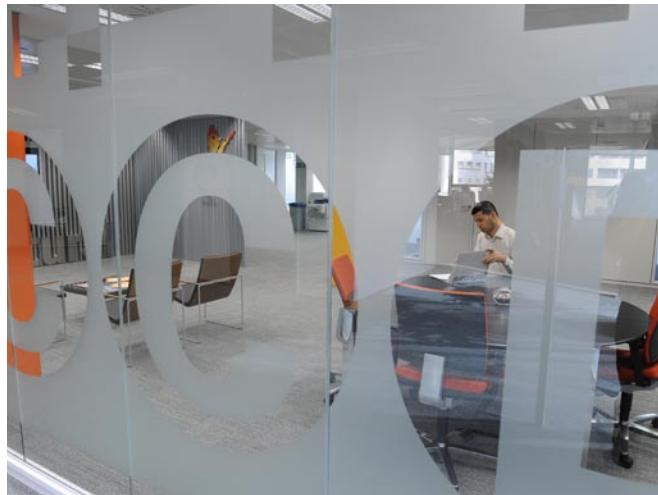
In relation to the dispute Gas Natural Fenosa had with Sonatrach regarding the price review of the supply agreements for the gas received from Algeria through the Maghreb-Europe gas pipeline, the award that brought the arbitration proceedings to an end was notified in August 2010. The court of arbitration awarded Sonatrach the right to increase prices as from 2007. The maximum retroactive effects invoiced by Sonatrach would total 1,970 million euros for the period up to July 2010. The award was challenged by Gas Natural Fenosa in the Federal Court of Switzerland. Gas Natural Fenosa also applied for the opening of the price review process for said agreements to consider the significant changes that took place, as well as the current situation of the world markets and, in particular, the Spanish market, all as provided in the corresponding agreements.

In November 2010, the Federal Court of Switzerland granted a preliminary injunction with regard to the arbitration award, suspending it until said court decides on the challenge submitted by Gas Natural Fenosa.

Gas Natural Fenosa and Sonatrach are maintaining negotiations on the price reviews laid down in the contract, and a beneficial result for both parties is expected, which will definitively end the dispute.

Should none of the measures taken in relation to the aforementioned award prosper, one part of the price increase would be passed on to certain customers, in accordance with the contractual terms.

At 31 December 2010, the Consolidated Balance Sheet of Gas Natural Fenosa included a provision for risks arising from the dispute with Sonatrach, according to the best estimate made with the information available about the progress of the dispute, the negotiations in progress and the amounts to be charged at the date on which the Consolidated Annual Accounts were prepared, which adequately covers the risks described for the retroactive period and for the additional period until 31 December 2010.



Net turnover

The net turnover up to 31 December 2010 totalled 19,630 million euros, up 32% on the previous year, mainly due to the incorporation of Unión Fenosa as from 1 May 2009 for the previous year and as from 1 January 2010 for the year 2010.

Ebitda and operating profits

The consolidated Ebitda for the year 2010 totalled 4,477 million euros, up 14.1% on the previous year, mainly due to the incorporation of Unión Fenosa in a full year in comparison with the previous year.

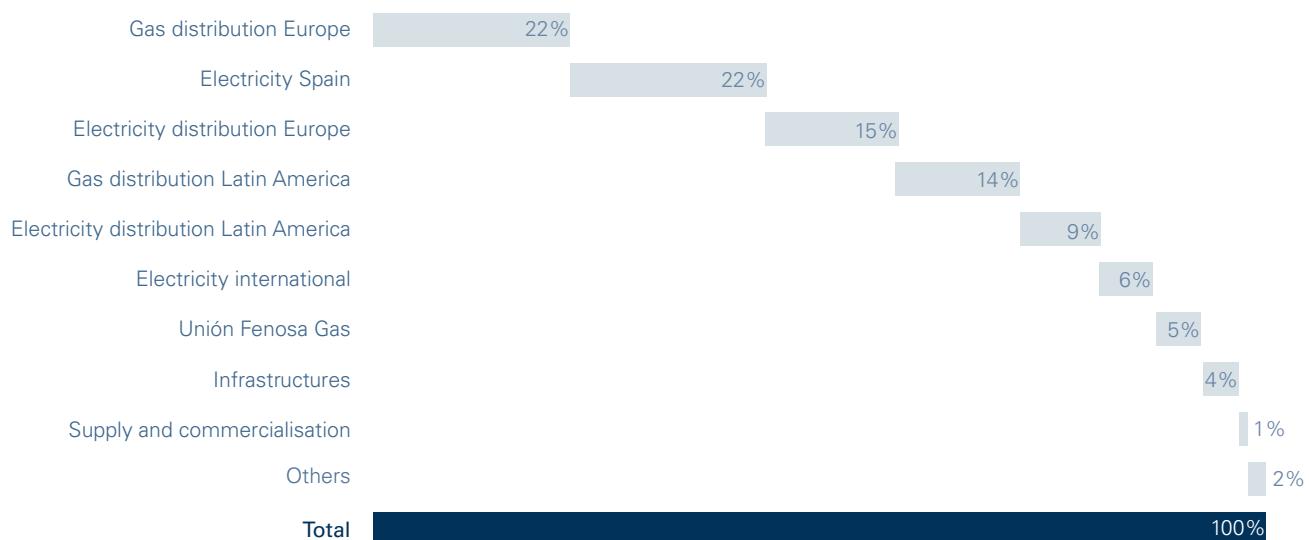
Gas and electricity distribution activities in Spain and abroad accounted for a total of 59.9% of Gas Natural Fenosa's Ebitda.

The highest contribution by activity corresponded to electricity in Spain, which accounted for 21.8% of the consolidated Ebitda.

The Other results item included the net gains of the disinvestments made in the period and corresponded fundamentally to the sale of gas distribution points in the Community of Madrid.

The allocations to amortisation increased by 23.5%, whereas the allocations to provisions increased from 138 million euros to 238 million euros, taking the operating profits to 2,893 million euros, up 18.3%.

In pro forma terms, the Ebitda was 6.2% up on the previous year, despite the current economic context, showing the strength of Gas Natural Fenosa's business mix.



Financial profit/loss

The breakdown of the financial results is as follows:

Financial results (in millions of euros)	2010	2009
Financial income	118	85
Cost of financial debt	(924)	(810)
Other financial expenses	(138)	(73)
Credit charges acquisition Unión Fenosa	(103)	(42)
Reasonable value of derivatives	(6)	25
Exchange differences, net	(6)	1
Result transfer financial instruments	44	101
Financial profit/loss	(1,015)	(713)

The cost of the financial debt in 2010 was 924 million euros, higher than the previous year due to the increase in the average gross debt as a result of the financial debt assumed for the acquisition of Unión Fenosa and the incorporation of the aforementioned company and its group of companies into the consolidation perimeter.

The year 2010 included an amount for 103 million euros corresponding to the recognition in the consolidated profit and loss account of the credit charges for the acquisition of Unión Fenosa, which were pending allocation to the results account, as a result of the cancellation of said credit. In the year 2009, 42 million euros were included for this item.

The results of the transfer of financial instruments in the current year corresponded to the sale of 5% of Indra Sistemas and the 35% holding in Gas Aragón, whereas, in 2009, they corresponded to the sale of the 5% holding in Enagás.

Profit/(loss) of companies accounted for using the equity method

The result corresponding to the participation in results in associate companies in the year 2010 was 5 million euros, in comparison with 59 million euros in 2009. This chapter includes, for the previous year, the contribution of Unión Fenosa through its consolidation by the equity method from 28 February 2009 to 30 April 2009, for the amount of 46 million euros.

Profit tax

Gas Natural Fenosa pays taxes in Spain under the fiscal consolidation system, where the fiscal group is considered as the taxpayer, and its taxable amount is determined by the aggregation of the taxable amounts corresponding to the companies in the group. On 1 September 2009, as a result of the merger with Unión Fenosa being filed

with the Mercantile Register, the fiscal group of Unión Fenosa expired and the companies belonging to the expired fiscal group were incorporated into the Gas Natural group. The merger operation was subject to the special system for tax neutrality provided in Chapter VIII of Title VII of the revised bill of the Spanish Companies Act.



The other resident companies in Spain, which do not form part of the special system, pay taxes independently and the non-resident companies pay taxes in each of the countries in which they operate, where the current corporate tax rate (or the equivalent tax) is applied to the profits for the period.

The effective tax rate for the year 2010 was 24.9%. The difference between the theoretical tax rate and the effective tax rate corresponded basically to the consideration of tax deductions for the reinvestment of extraordinary profits from the transfer of gas distribution assets in the Community of Madrid, made in accordance with legislative provisions on the defence of competition, and from the transfer of the 35% holding in Gas Aragón, as well as the application of various tax systems for companies whose activities were carried out in other areas.

The effective tax rate in 2009 was 24.6% as a result of the consideration of tax deductions for the reinvestment of extraordinary profits from the transfer of the 5% holding in Enagás, made in accordance with legislative provisions on the defence of competition, as well as the application of various tax systems for companies whose activities were carried out in other areas and for the intents and purposes of the net results integrated by the equity method.

Minority interests

The main items in this chapter correspond fundamentally to the following: the results of the minority interests in EMPL, the subgroup of investee companies in Gas Natural ESP in Colombia, the gas distribution companies in Brazil, Electricidad Chiriquí and Electricidad Metro Oeste, in Panama and the company Kangra Coal, in South Africa.

The result allocated to the minority interests in 2010 totaled 214 million euros, up 19 million euros on the previous year.

Balance sheet

Investments

The breakdown of investments by type is as follows:

Breakdown of investments by type (in millions of euros)	2010	2009	%
Tangible investment	1,394	1,721	(19.0)
Investments in intangible assets	149	152	(2.0)
Financial investment	10	13,370	–
Total investment	1,553	15,243	(89.8)

As a result of the application of the IFRIC 12, the investments made in Argentina, Brazil and Italy are presented in intangible assets.

The tangible and intangible assets for the year totalled 1,543 million euros, down 17.6% on the previous year,

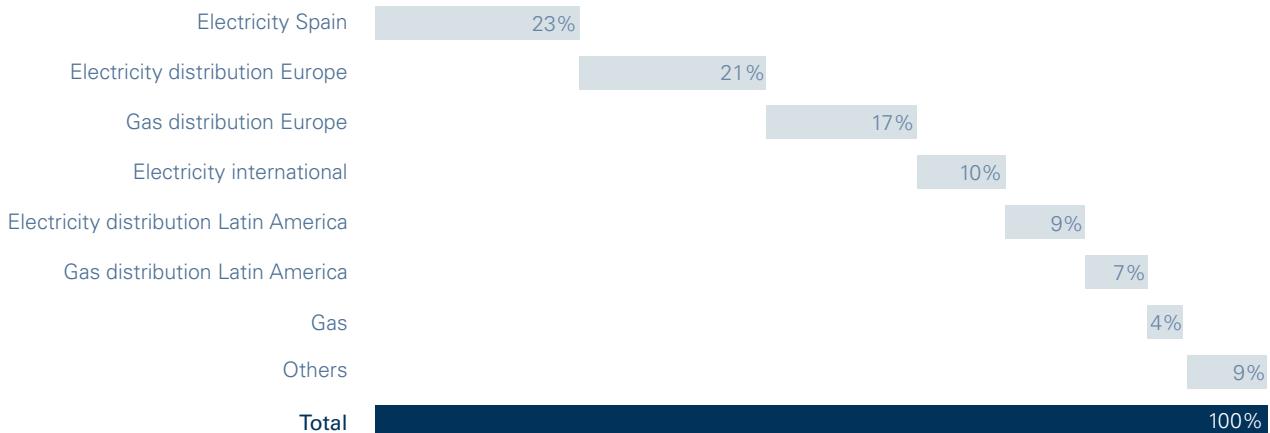
fundamentally due to the termination of the programme for the construction of combined-cycle power plants.

Financial investments in 2009, for 13,370 million euros, were mainly due to the acquisition of 80.5% of Unión Fenosa.

The breakdown by tangible and intangible investments is as follows:

Tangible and intangible investments (in millions of euros)	2010	2009	%
Gas distribution	367	498	(26.3)
Spain	221	358	(38.3)
Latin America	108	105	2.9
Italy	38	35	8.6
Electricity distribution	466	323	44.3
Spain	313	236	32.6
Latin America	137	78	75.6
Moldova	16	9	77.8
Electricity	512	779	(34.3)
Spain	361	620	(41.8)
International	151	159	(5.0)
Gas	67	176	(61.9)
Infrastructures	22	143	(84.6)
Supply and commercialisation	19	18	5.6
Unión Fenosa Gas	26	15	73.3
Others	131	97	35.1
Total tangible and intangible investments	1,543	1,873	(17.6)

Tangible and intangible investments by activity



Gas Natural Fenosa allocated 23.4% of its investments to electricity activities in Spain and 21.3% to electricity distribution activities in Europe.

14.3% of the investments in the period corresponded to the gas distribution activity in Spain, which maintained a considerable rate regarding the obtaining of new supply points, despite the slowing down of the country's economy.

Debt

At 31 December 2010, net financial debt totalled 19,102 million euros, equivalent to a borrowing ratio of 59.6%.

If we deduct the rate deficit (1,747 million euros), the amount corresponding to the disinvestments planned and undertaken at 31 December 2010 (200 million euros) and add the book effect of transferring to assets and liabilities maintained for sale 50% of the Eufer debt attributable to Gas Natural

Fenosa, the adjusted net debt would be 17,412 million euros, which gives a debt ratio of 57.3%.

The Adjusted net debt/Ebitda and Ebitda/Financial profit/(loss) ratios were 3.9x at 31 December 2010 (4.3x if we consider the net debt without adjustment) and 4.4x, respectively.

On 11 January 2011, the Electricity Deficit Amortisation Fund (FADE) completed the opening issue of bonds for the amount of 2,000 million euros, backed by the assigned rights of the electricity system, where Gas Natural Fenosa received the corresponding part for the amount of 224 million euros at the end of January 2011.

On 15 February 2011, FADE completed a second issue of bonds for the amount of 2,000 million euros, where Gas Natural Fenosa will receive the corresponding part for the amount of 224 million euros at the end of February 2011.

The attached graph shows the schedule of repayments of the adjusted gross debt including the issue of debentures carried out in January 2011 (600 million euros).

71.8% of the gross financial debt is at a fixed interest rate and the remaining 28.2% is at a floating rate. 6.2% of the financial debt matures in the short term and the remaining 93.8% matures in the long term.

Maturity of the adjusted gross debt

in millions of euros

After 2014	10,715
2014	2,303
2013	2,522
2012	1,925
2011	1,151

At 31 December 2010, the cash account and other equivalent liquid assets totalled 1,204 million euros (including derivatives from assets and other impositions) which, together with the available bank finance, gave a level of liquidity that covers maturities of more than 24 months.

In addition, the financial instruments available on the capitals market at 31 December 2010 totalled 4,575 million euros and included the Euro Medium Terms Notes programme (EMTN) for the amount of 3,050 million euros, the Euro Commercial Paper Programme (ECP) for the amount of 642 million euros and the commercial promissory notes programme for the amount of 883 million euros.

54.3% of the adjusted gross financial debt became payable after 2015; the average life of the adjusted gross debt was in excess of 4.6 years.

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

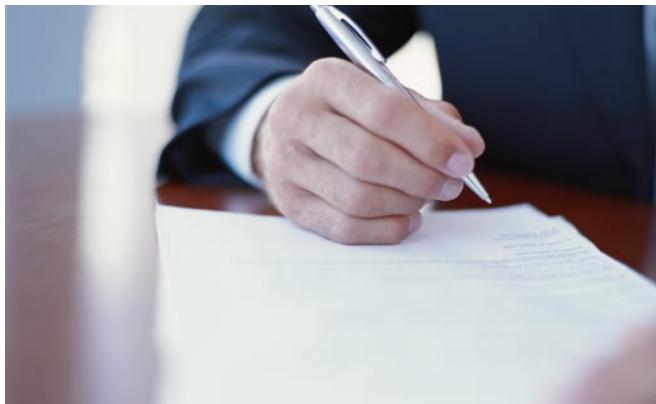
In March 2010, the aforementioned ECP programme was renewed for the amount of 1,000 million euros, with Unión Fenosa Finance as the group company authorised to make issues under this programme. In addition, in July 2010, the programme for the

issue of Gas Natural SDG promissory notes was renewed for the amount of 1,000 million euros.

On 25 March 2010, a loan for the amount of 4,000 million euros was signed under the Club Deal arrangement with a total of 18 banks. The total amount of the loan is divided into 1,000 million euros, maturing over three years and 3,000 million maturing over five years. The amount of the loans was used for the partial repayment of the loan balance for the acquisition of Unión Fenosa, maturing in 2011 and 2013, together with other corporate finance maturing in 2011. On 2 June 2010, the initial loan for the acquisition of Unión Fenosa for the amount of 19,000 million euros was fully repaid.

On 10 June 2010, a loan awarded by the European Investment Bank (EIB) was formalised for a total amount of 450 million euros in two tranches of 300 million and 150 million euros, maturing at ten and fifteen years, respectively.

In January 2011, a bond issue was closed on the capital markets at six years for an amount of 600 million euros with an annual coupon of 5.625%.



The breakdown by currencies of the adjusted net financial debt at 31 December 2010 and its relative weight regarding the total is as follows:

Adjusted net financial debt (in millions of euros)	31.12.10	%
EUR	14,087	81.0
US\$	1,896	10.9
COP	528	3.0
BRL	284	1.6
MXN	300	1.7
JPY	243	1.4
ARS	25	0.1
Others	49	0.3
Total adjusted net financial debt	17,412	100

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

Agency	I/p	c/p
Moody's	Baa2	P-2
Standard & Poor's	BBB	A-2
Fitch	A-	F2

Goodwill

During the period ending at 31 December 2010, Gas Natural Fenosa did not carry out any business combinations. As a result of the acquisition of Unión Fenosa, said company is consolidated by global integration as from 30 April 2009.

The definitive allocation of the acquisition price of Unión Fenosa at the reasonable value of its assets, liabilities and contingent liabilities

culminated in April 2010. Said allocation coincides with that used to prepare the Consolidated Annual Accounts for the year 2009.

Net worth

Gas Natural SDG increased its share capital with a preferential subscription right from 14-28 March 2009, by issuing 447,776,028 new shares of the same class and series, and with the same voting and economic rights as outstanding shares. The new shares were issued at a par value of one euro plus an issue premium of 6.82 euros, totalling an issue rate of 7.82 euros per share and a total cash amount of 3,502 million euros. The share capital increase was fully subscribed and paid-up with the Mercantile Register on 2 April 2009.

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

The distribution of results for the year 2009, adopted by the Ordinary General Meeting of Shareholders, allocated 730 million euros to dividends and one dividend per share of 0.792 euros, representing a payout of 61.1% and a dividend profitability of 6.9%, taking as a reference the list price of 11.49 euros per share at 31 December 2010.

The proposal for the application of results made by the Board of Directors for approval at the General Meeting of Shareholders includes the payment of a dividend of 324,458,446.75 euros (equivalent to the amount paid out in dividends for 2010, made effective on 7 January 2011) and an increase in paid-up capital by means of the issuing of new ordinary shares to a maximum market value of 412,947,114.05 euros.

This capital increase would offer shareholders the chance to receive ordinary shares in the company in lieu of what they would have received in July 2011 as the complementary dividend for 2010, and includes the establishment by the company of mechanisms to guarantee those shareholders so wishing to receive this amount in cash.

At 31 December 2010, the net worth of Gas Natural Fenosa was 12,974 million euros. Of these assets, the figure of 11,384 million euros can be attributed to the Gas Natural Fenosa, with an increase of 6.6% in comparison with the close of 2009.

At 31 December 2010, according to the public information that is available, the main holdings in Gas Natural SDG's share capital are as follows:

	% holding
Criteria Caixa Corp	36.6
Grupo Repsol	30.0
Catalunya Caixa	1.6



Stock Market Information

For the stock market, the year 2010 has been characterised as one with many contrasts on a world scale, highlighting the dynamism of the American markets and emerging countries in contrast to the problems affecting Europe, with the Spanish stock exchange being one of the ones that have suffered most.

The Ibex 35, the primary Spanish stock market index, closed the year with a decrease of 17.40% against 2009, closing 2010 at 9,859.1 points and recording an annual high of 12,240.5 and an annual low of 8,563.6 on 5 January and 8 June, respectively.

At year end, shares of Gas Natural Fenosa stood at 11.490 euros, with a loss of 23.8% in comparison with the close of the previous year. The annual high of 15.67 euros was recorded on 6 January, and the annual low of 10.07 euros on 12 October.

The volume of shares traded over 2010 was 1,064 million shares, 44.4% up on the previous year. Of the total number of shares traded, 99.2% corresponded to the continuous market, although 28.4% of this percentage was contracted through so-called block transactions. The remaining 0.8% was traded through special transactions. The daily average of shares traded stood at 4.1 million.

The effective volume traded amounted to 13,258 million euros, 35.6% up on the previous year. The daily average of shares traded stood at 52 million euros. Gas Natural



For the third year running, Gas Natural Fenosa remained on the FTSE4Good IBEX index, made up of Spanish companies listed on the Bolsas y Mercados Españoles (BME)

Fenosa was the eighth most highly traded stock on the continuous market in 2010.

At 31 December 2010, the stock market capitalisation of Gas Natural Fenosa stood at 10,591 million euros, lying fourteenth in the Ibex 35 ranking with a weighting of 1.2%.

In accordance with stock market regulations, the Technical Advisory Committee of the Ibex 35 notified on 9 December 2010 that, as a consequence of changes in the non-circulating capital, the participation of Gas Natural Fenosa on that stock market index would rise from 40% to 60% of capitalisation with effect from 3 January 2011.

For the third year running, Gas Natural Fenosa remained on the FTSE4Good IBEX index, made up of Spanish companies listed on the Bolsas y Mercados Españoles (BME) and which engage in socially responsible

that have been on it since its creation in 2001. This index provides increasingly stringent conditions for inclusion that refer to environmental sustainability, the development of positive relations with stakeholders, respect and promotion of human rights, the assurance of good standards in value chain management and the fight against corruption.

In 2010, the Dow Jones Sustainability Index (DJSI) recognised Gas Natural Fenosa as the world leader from among the utilities sector (water, gas and electricity). In the gas distribution sector, the company positioned itself

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



business practices. This index was created in 2008 by Bolsas y Mercados Españoles (BME) and the FTSE Group in Spain.

Likewise, for the ninth year running, Gas Natural Fenosa was included in the FTSE4Good sustainability indices following a new assessment of this tool geared towards socially responsible investors. The company is one of only two Spanish companies

for the second year running as a leading company with a score of 85 points, 2% up on 2009. Gas Natural Fenosa has also been included in the selective DJSI Europe, becoming the only company in its sector to



Furthermore, the shares of Gas Natural BAN, the distribution company for the group in Argentina, stood at 3.2 pesos at year-end, reporting an increase of 114.8%. The annual maximum and minimum reached 3.20 pesos and 1.39 pesos, respectively, and the number of shares traded in 2010 was 1.7 million. The Merval Index of the Buenos Aires Stock Market closed the year with an increase of 66.54%.

At 31 December 2010, and taking the best available information into account, it is estimated that there are around 80,000 shareholders of Gas Natural SDG.

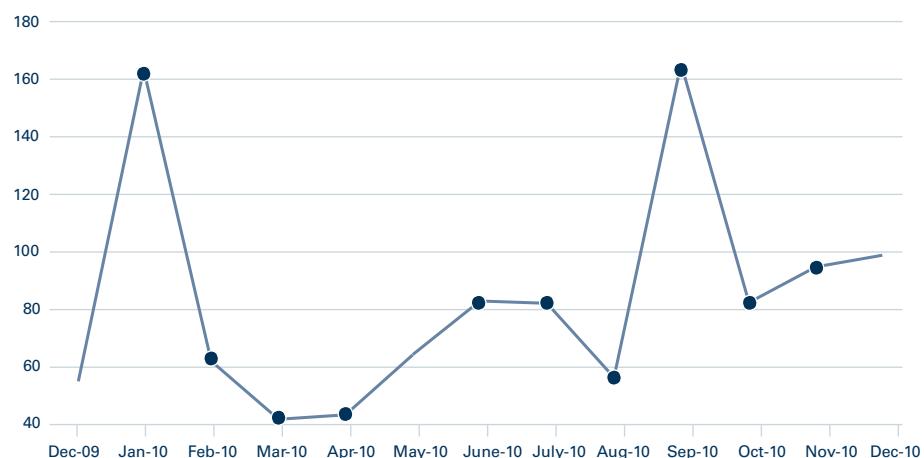
Gas Natural SDG: shareholder structure



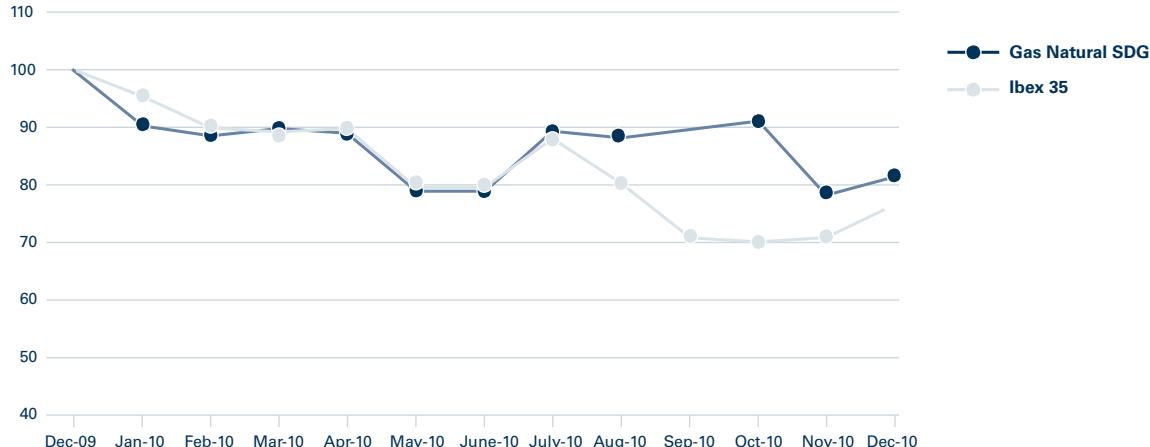
(*) At 31 December 2010.

Number of shares traded

(Monthly data in millions)



Performance of Gas Natural SDG and Ibex 35



Share prices of Gas Natural SDG

(Monthly close in euros)



2019
air



Audit Report, Consolidated Annual Accounts and Consolidated Directors' Report of Gas Natural Fenosa

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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.

Manuel Valls Morató
Partner

7 february 2011

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Consolidated Balance Sheet

(Million Euros)	31.12.10	31.12.09 ⁽¹⁾	01.01.09 ⁽¹⁾
Assets			
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
Non-current assets	36,185	36,523	14,624
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
Current assets	9,158	8,644	3,959
Total assets	45,343	45,167	18,583
Net equity and liabilities			
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)
Net equity attributable to the Company's equity holders	11,384	10,681	6,376
Minority interests	1,590	1,496	345
Total net equity (Note 13)	12,974	12,177	6,721
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
Non-current liabilities	25,442	24,836	6,732
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
Current liabilities	6,927	8,154	5,130
Total net equity and liabilities	45,343	45,167	18,583

(1) On 1 January 2010 GAS NATURAL FENOSA has applied IFRIC 12 "Service concession arrangements" 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.

Consolidated Income Statement

(Million Euros)	2010	2009 ⁽¹⁾
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
Operating income	2,893	2,445
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
Net financial income (Note 28)	(1,015)	(713)
Profit of entities recorded by equity method (Note 7)	5	59
Income before taxes	1,883	1,791
Income tax expense (Note 21)	(468)	(440)
Net income for the year from continuing operations	1,415	1,351
Net income for the year from discontinued operations net of tax (Note 9)	–	39
Consolidated net income for the year	1,415	1,390
Attributable to:		
Equity holders of the Company	1,201	1,195
Minority interests	214	195
	1,415	1,390
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 arrangements" 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.

Consolidated Statement of Comprehensive Income

(Million Euros)	2010	2009
Consolidated income for the year	1,415	1,390
Other comprehensive income recognised directly in net equity	185	133
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)
Releases to income statement	95	(36)
Valuation of available-for-sale financial assets	(4)	(101)
Cash flow hedges	166	87
Cumulate translation adjustment	(19)	(12)
Tax effect	(48)	(10)
Other comprehensive income for the year	280	97
Total comprehensive income for the year	1,695	1,487
Attributable to:		
Equity holders of the Company	1,444	1,166
Minority interests	251	321

Statement of changes in consolidated net equity

(Million Euros)	Net equity attributable to the Company's equity holders						
	Share Capital	Share premium and Reserves	Profit for the year	Adjustments for change in value	Subtotal	Minority interests	Net Equity
Balance at 01.01.09	448	4,943	1,057	(72)	6,376	345	6,721
Total comprehensive income for the year	–	17	1,195	(46)	1,166	321	1,487
Dividends distribution	–	285	(1,057)	–	(772)	(135)	(907)
Capital increase (Note 13)	474	3,445	–	–	3,919	(488)	3,431
Increase/decrease for business Combinations (Note 30)	–	14	–	–	14	1,946	1,960
Other variations	–	(22)	–	–	(22)	(493)	(515)
Balance at 31.12.09	922	8,682	1,195	(118)	10,681	1,496	12,177
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)
Balance at 31.12.10	922	9,113	1,201	148	11,384	1,590	12,974

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

Consolidated cash flow Statement

(Million Euros)	2010	2009 ⁽¹⁾
Net income before tax	1,883	1,791
Adjustments to net income:	2,857	2,094
Amortisation and depreciation of fixed assets	1,716	1,404
Other adjustments to net income	1,141	690
Changes in working capital	(729)	(362)
Other cash generated from operations:	(1,274)	(1,011)
Interest paid	(798)	(649)
Income tax paid	(476)	(362)
Net cash generated from operating activities (Note 29)	2,737	2,512
Cash flows into investing activities:	(2,333)	(16,154)
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)
Proceeds from divestitures:	2,216	2,068
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
Other cash flows from investing activities:	162	271
Proceeds from dividends	5	67
Proceeds from interest	9	14
Other proceeds/(payments) from/(of) investing activities (Note 14)	148	190
Net cash received from investing activities	45	(13,815)
Receipts/(payments) for equity instruments:	–	3,401
Issue	–	3,401
Cash flows from financing activities:	(1,272)	9,039
Proceeds from borrowings	11,375	21,510
Repayment of borrowings	(12,647)	(12,471)
Dividends paid	(858)	(756)
Other cash flows from financing activities	(69)	(54)
Net cash received from financing activities	(2,199)	11,630
Effect of exchange rates on cash and cash equivalents	31	13
Variation in cash and cash equivalents	614	340
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 Arrangements" retrospectively, restating the 2009 consolidated statement of cash flows 2009 for comparative purposes (Note 32).

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

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, liquefaction, regasification, transport, storage, distribution and commercialisation of natural gas, as well as the generation, distribution and commercialisation of electricity.

The acquisition and merger of Unión Fenosa, S.A. in 2009 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 Comisión Nacional de la Energía (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 in the strict sense) and natural gas distribution; and 2) non-regulated activities: production, supply and commercialisation of natural gas.

1. Regulated activities

Regulated activities are characterised by:

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

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

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

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

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

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

1.1. Transport

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

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

The transport network is owned mainly by Enagás, S.A., although certain GAS NATURAL 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 pipeline transport network to the final consumer through the medium and lower pressure pipeline transport 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, the remuneration recognised for GAS NATURAL FENOSA for 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 of June 8, which modifies Order ITC/1660/2009 of June 22, 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 1st 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, the holding that transport companies can have in companies engaged in the production, commercialization or distribution of gas (and vice-versa) is limited to 25%.

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 l'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 Comisión Nacional de la Energía (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 of June 26, and 96/92/CE of June 22), 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 network, 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 networks 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 subject 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 transport network to the final consumer. At this time the distributors are also the owners of the distribution facilities, managers of the low tension network 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 of December 28 set the remuneration of the regulated activities for the electricity industry for 2011. Specifically, the initial remuneration recognised for GAS NATURAL FENOSA for 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.

From 2006 to 1 July, 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 of April 30 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 domestic coal, contemplating a regulated price for remunerating this energy.

On 24 December 2010 Royal Decree-Law 14/2010 of December 23 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 voulmer" 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 adjustment 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 chose their supplier. As for the unregulated customers that choose to purchase electricity from another supplier, they must pay the regulated distribution toll for the use of the networks.

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

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

Note 3. Basis of presentation and accounting policies

3.1 Basis of presentation

The 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 nº 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 (Amedments), "Additional Exemptions for first-time adopters".
- IFRS 2 (Amedments), "Group cash-settled share- based payment transactions".
- IFRS 3 (Revised), "Business Combinations".
- IFRS 5 (Amedments), "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 (Amedments) "Items Qualifying as Hedges".
- IFRIC 12 "Service Concession Arrangements".

- IFRIC 15 "Agreements for the Construction of Real Estate".
- IFRIC 16 "Hedges of a Net in a foreign operation Investment".
- IFRIC 17 "Distributions 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 (amendments) "First-time Adoption of IFRS". Limited exemption of the comparisons of IFRS 7.
- IFRS 7 (amendments). "Financial instruments: Disclosures". Disclosures – Transfers of financial assets.
- IAS 24 (Revised) "related party disclosures".
- IAS 32 (amendments) "Financial Instruments Presentation"
- IFRIC 14 (modification) "Prepayments of a minimum funding requirement"
- IFRIC 19 "Extinguishing 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 Statement of Changes in consolidated 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 Arrangements" retrospectively, restating, for comparative purposes, the Consolidated Balance Sheet at 1 January 2009 and 31 December 2009, the Consolidated Income Statement and the Consolidated Cash Flow Statement 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 acquisition cost 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 País Vasco (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 consolidated 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:

	31.12.10	31.12.09		
	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 other rights to use

The “concessions and other rights to use” 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 Arrangements”, 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

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 from 2 to 6 years) while minor maintenance is expensed as incurred.

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

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 consolidated 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 goodwills 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 electricity 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	1.0	1.0
Distribution of electricity Spain	0.8	0.8
Distribution of electricity rest	1.8	1.5
Distribution of electricity Latin America	1.2-3.0	1.2-3.2
Electricity Spain	1.8	1.8
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	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
Electricity Spain	8.9	9-10
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 of 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 CO₂ 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 Grants and deferred Income

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

- 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 results systematically on the basis of the useful life of the corresponding asset, thus offsetting the depreciation expense.

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

3.4.14 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

Sales are recognised when they have been delivered to the client and the client 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 have been taken into account in order to calculate the tariffs, tolls and levies for 2009 and 2010. It is not expected that the final payments will lead to significant differences in relation to the estimates made.

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

The exchanges of gas that do not have a different value and do not include costs that cause 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

2010	Gas Distribution				Electricity Distribution				Electricity				Gas					
	Spain	Latin America	Others	Total	Spain	Latin America	Others	Total	Spain	Latin America	Others	Total	Infrastructure	Supp. and Commerc.	Unión Fenosa Gas	Total	Other	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	–	(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

2009	Gas Distribution				Electricity Distribution				Electricity				Gas					
	Spain	Latin America	Others	Total	Spain	Latin America	Others	Total	Spain	Latin America	Others	Total	Infrastructure	Supp. and Commerc.	Unión Fenosa Gas	Total	Other	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

2010	Gas Distribution				Electricity Distribution				Electricity				Gas					
	Spain	Latin America	Others	Total	Spain	Latin America	Others	Total	Spain	Latin America	Others	Total	Infrastructure	Supp. and Commerc.	Unión Fenosa Gas	Total	Other	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⁾ / business combinations	221	108	38	367	313	137	16	466	361	149	2	512	22	19	26	67	131	1,543

2009	Gas Distribution				Electricity Distribution				Electricity				Gas					
	Spain	Latin America	Others	Total	Spain	Latin America	Others	Total	Spain	Latin America	Others	Total	Infrastructure	Supp. and Commerc.	Unión Fenosa Gas	Total	Other	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⁾ / business combinations	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:

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

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:

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

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:

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

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)
Net carrying value at 01.01.09⁽¹⁾	1,559	154	241	1,954	546	2,500
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)
Net carrying value at 31.12.09⁽¹⁾	2,591	190	2,549	5,330	6,056	11,386

	Concession and other rights to use	Computer software	Other intangible assets	Subtotal	Goodwill	Total
Cost, gross	3,614	561	2,620	6,795	6,056	12,851
Accumulated depreciation	(1,023)	(371)	(71)	(1,465)	–	(1,465)
Net carrying value at 01.01.10⁽¹⁾	2,591	190	2,549	5,330	6,056	11,386
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 <i>(Note 30)</i>	–	–	–	–	–	–
Reclassifications and others ⁽³⁾	57	4	(100)	(39)	(74)	(113)
Net carrying value at 31.12.10	2,731	203	2,287	5,221	6,002	11,223
Cost, gross	3,902	588	2,521	7,011	6,002	13,013
Accumulated depreciation	(1,171)	(385)	(234)	(1,790)	–	(1,790)
Net carrying value at 31.12.10	2,731	203	2,287	5,221	6,002	11,223

(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 other rights to use" includes the value of the concessions that are considered intangible assets in accordance with IFRIC 12 "Service Concession Arrangements" (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 CO₂ 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:

	31.12.10					
	Gas Distribution	Electricity Distribution	Electricity	Unión Fenosa Gas	Other	Total
Spain	–	1,133	2,948	891	–	4,972
Latin America	81	206	534	–	–	821
Others	143	14	16	–	36	209
	224	1,353	3,498	891	36	6,002

	31.12.09					
	Gas Distribution	Electricity Distribution	Electricity	Unión Fenosa Gas	Other	Total
Spain	–	1,133	3,015	891	–	5,039
Latin America	74	205	529	–	–	808
Others	143	15	16	–	35	209
	217	1,353	3,560	891	35	6,056

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)
Net carrying value at 01.01.09⁽¹⁾	177	4,391	2,942	–	367	283	763	8,923
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)
Net carrying value at 31.12.09⁽¹⁾	513	4,410	9,747	5,295	575	827	2,003	23,370
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)
Net carrying value at 01.01.10⁽¹⁾	513	4,410	9,747	5,295	575	827	2,003	23,370
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)
Net carrying value at 31.12.10	560	4,424	10,255	5,664	551	815	937	23,206
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)
Net carrying value at 31.12.10	560	4,424	10,255	5,664	551	815	937	23,206

(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 m³ tank was acquired through a 20-year finance lease, extendible for consecutive periods of 5 years, involving a joint investment of Euros 142 million corresponding to the current value of the payments committed by Repsol YPF (50%) and GAS NATURAL 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 desulphurisation 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
At January 1	141	42
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)
At December 31	105	141

Year 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).

Year 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 of 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
2010						
Bluemobility Systems, S.L.	Spain	1	–	–	–	20.0
Enervent, S.A.	Spain	5	2	1	–	26.0
Ensaferca Holding Empresarial, S.L. ⁽¹⁾	Spain	2	–	–	–	18.5
Gas Aragón, S.A. ⁽³⁾	Spain	–	–	9	3	–
Kromschoeder, S.A.	Spain	7	2	6	–	42.5
Sistemas Energéticos La Muela, S.A.	Spain	2	–	1	–	20.0
Sistemas Energéticos Mas Garullo, S.A. ⁽¹⁾	Spain	2	1	1	–	18.0
Sociedade Galega do Medio Ambiente, S.A.	Spain	116	97	41	(2)	49.0
Subgrupo Eufer ⁽¹⁾	Spain	9	4	–	1	9.0-22.5
Subgrupo Unión Fenosa Gas ⁽¹⁻²⁾	Spain/Oman	117	58	27	3	3.7-10.5
Torre Marenstrum, S.L.	Spain	33	25	3	–	45.0
2009						
Enervent, S.A.	Spain	5	3	1	–	26.0
Ensaferca Holding Empresarial, S.L. ⁽¹⁾	Spain	2	–	–	–	18.5
Gas Aragón, S.A.	Spain	48	22	11	4	35.0
Kromschoeder, S.A.	Spain	7	2	6	–	42.5
Sistemas Energéticos La Muela, S.A.	Spain	2	–	1	–	20.0
Sistemas Energéticos Mas Garullo, S.A. ⁽¹⁾	Spain	2	1	1	–	18.0
Sociedade Galega do Medio Ambiente, S.A.	Spain	121	100	–	–	49.0
Subgrupo Eufer ⁽¹⁾	Spain	18	8	7	1	9.0-22.5
Subgrupo Unión Fenosa Gas ⁽¹⁻²⁾	Spain/Oman	125	62	38	3	3.7-11.6
Torre Marenstrum, S.L.	Spain	34	25	3	–	45.0

(1) 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.

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

(3) 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 11), 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
Non-current financial assets	90	603	1	–	694
Other financial assets	–	1,901	–	–	1,901
Current financial assets	–	1,901	–	–	1,901
Total	90	2,504	1	–	2,595

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
Non-current financial assets	219	449	1	1	670
Other financial assets	–	1,388	1	–	1,389
Current financial assets	–	1,388	1	–	1,389
Total⁽¹⁾	219	1,837	2	1	2,059

(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
At 1 January	141	–	78	219	2,571	–	28	2,599
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
At 31 December	–	–	90	90	141	–	78	219

Year 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).

Year 2009

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

- The transfer of the equity investment in UNIÓN FENOSA, after derecognition of the value adjustments in order to valuate it at historical cost, totalling Euros 2,457 million, to "Investments measured by equity accounting" as a result of consolidation as from 28 February 2009 (Note 7).
- The partial sales in May and July 2009 of the shareholding of 1% of Isagen S.A. E.S.P. by UNIÓN FENOSA totalling Euros 63 million, with no impact on the Consolidated income statement, given that the sale value of this shareholding was the fair value at the date of acquisition of UNIÓN FENOSA (Note 30).
- The sale in May 2009 of the 1% shareholding in Red Eléctrica Corporación, S.A. by UNIÓN FENOSA totalling Euros 43 million, with no impact on the Consolidated income statement, given that the sale value of this shareholding was the fair value at the date of acquisition of UNIÓN FENOSA (Note 30).
- The sale in June 2009 of the 5% shareholding in Enagás, S.A. by Gas Natural SDG, S.A., totalling Euros 155 million, which generated a profit before tax of Euros 101 million, reduced reserves due to value adjustments (Note 28).
- The transfer in June 2009 of the 5% shareholding in Indra Sistemas, S.A. as an available-for-sale financial asset (Note 7), which value is in line with the share price at 31 December 2009 totalling Euros 141 million.

Loans and other receivables

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

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

(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:

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

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 Arrangements" (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:

	31.12.10			
	Gas distribution in Spain ⁽¹⁾	Electricity Spain ⁽²⁾	Electricity Latin America ⁽³⁾	Total
Intangible assets	–	71	–	71
Property, plant and equipment	–	587	–	587
Non-current financial assets	–	7	–	7
Deferred tax asset	–	2	–	2
Non-current assets	–	667	–	667
Inventories	–	1	–	1
Trade and other receivables	–	22	–	22
Cash and cash equivalents	–	17	–	17
Current assets	–	40	–	40
Total assets	–	707	–	707
Grants	–	–	–	–
Non-current provisions	–	–	–	–
Non-current financial liabilities	–	12	–	12
Deferred tax liabilities	–	34	–	34
Other non-current liabilities	–	3	–	3
Non-current liabilities	–	49	–	49

	31.12.10			
	Gas distribution in Spain ⁽¹⁾	Electricity Spain ⁽²⁾	Electricity Latin America ⁽³⁾	Total
Current provisions	–	–	–	–
Current income tax liabilities	–	262	–	262
Trade and other payables	–	36	–	36
Other current liabilities	–	3	–	3
Current liabilities	–	301	–	301
Total liabilities	–	350	–	350
	31.12.09			
	Gas distribution in Spain ⁽¹⁾	Electricity Spain ⁽²⁾	Electricity Latin America ⁽³⁾	Total
Intangible assets	–	–	91	91
Property, plant and equipment	274	–	900	1.174
Non-current financial assets	7	–	45	52
Deferred tax asset	1	–	68	69
Non-current assets	282	–	1.104	1.386
Inventories	2	–	18	20
Trade and other receivables	88	–	102	190
Cash and cash equivalents	–	–	98	98
Current assets	90	–	218	308
Total assets	372	–	1.322	1.694
Grants	23	–	–	23
Non-current provisions	1	–	28	29
Non-current financial liabilities	–	–	3	3
Deferred tax liabilities	12	–	162	174
Other non-current liabilities	3	–	186	189
Non-current liabilities	39	–	379	418
Current provisions	–	–	1	1
Current income tax liabilities	–	–	3	3
Trade and other payables	29	–	28	57
Other current liabilities	–	–	5	5
Current liabilities	29	–	37	66
Total liabilities	68	–	416	484

(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).

Discontinued 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 not 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:

	31.12.10	31.12.09⁽¹⁾
Sales	–	188
Procurements	–	(80)
Other operating income	–	2
Personnel costs	–	(9)
Other operating expenses	–	(2)
Depreciation and amortisation expenses	–	(15)
Operating income	–	84
Financial income	–	12
Financial expenses	–	(10)
Net financial income (expense)	–	2

	31.12.10	31.12.09⁽¹⁾
Results of sale of assets	–	11
Net income before tax	–	97
Income tax expense	–	(58)
Net income for the year from discontinued activities net of tax	–	39
	31.12.10	31.12.09⁽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
Total	755	740

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 (Note 17)	93	30
Sundry receivables	187	543
Others receivables	534	740
Current deferred income tax assets	112	40
Total	4,592	4,232

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

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
Total	1,203	589

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
At 01.01.09	447,776	448	–	448
Capital increase	473,981	474	3,331	3,805
- in cash	447,776	448	2,983	3,431
- in swap	26,205	26	348	374
At 31.12.09	921,757	922	3,331	4,253
Variation	–	–	–	–
At 31.12.10	921,757	922	3,331	4,253

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 %
"la Caixa" group (Criteria CaixaCorp, S.A.)	36.6
Repsol YPF group	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
	6,106	5,675

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.

	A 31.12.10	A 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:

	31.12.10			31.12.09		
	% 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.)	–	–	–	–	–	–
Total dividends paid	79	0.79	730	98	0.98	663
a) Dividends charged to income statement	79	0.79	730	88	0.88	573
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 the 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
Total liquidity	9,509

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:

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

The proposal made by the General Meeting of Shareholders for the application of results includes the payment of a dividend of 324 million euros (equivalent to the amount paid out in dividends for 2010, to be made effective as of 7 January 2011) and an increase in paid-up capital by means of the issuing of new ordinary shares to a maximum market value of 413 million euros.

This capital increase would offer shareholders the chance to receive ordinary shares in Gas Natural SDG, S.A. in lieu of what they would have received in July 2011 as the complementary dividend for 2010, and includes the establishment by Gas Natural SDG, S.A. of mechanisms to guarantee those shareholders so wishing to receive this 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
At 01.01.09⁽¹⁾	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)
At 31.12.09⁽¹⁾	168	192	111	49	520
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)
At 31.12.10	160	347	117	33	657

(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
Non-current provisions	2.865	1.881
Current provisions	127	128
Total	2.992	2.009

Provisions for employee obligations

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

At 01.01.09	Post-employment pension obligations	Other employee obligations	Total
At 31.12.09	69	–	69
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)
At 31.12.09	645	–	645
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)
At 31.12.10	698	–	698

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 01.01.09
Spain ⁽¹⁾	362	389	33
Colombia ⁽²⁾	268	222	—
Brazil ⁽³⁾	57	25	33
Others	11	9	3
Total	698	645	69

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
Current value of the obligations						
As at 1 January	1,204	222	117	191	–	95
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)	–	–	–	–	–
As at 31 December	1,200	268	171	1,204	222	117

	2010			2009		
	Spain	Colombia	Brazil	Spain	Colombia	Brazil
Fair value of plan assets						
As at 1 January	815	–	92	158	–	62
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
As at 31 December	838	–	114	815	–	92
Provisions for post-employment pension obligations	362	268	57	389	222	25

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)
Total income statement charge	21	21	4	19	20	4

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

	2010			2009		
	Spain	Colombia	Brazil	Spain	Colombia	Brazil
As at January 1						
As at January 1	389	222	25	33	–	33
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)	–	–	–	–	–
As at 31 December	362	268	57	389	222	25

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	España	Colombia	Brasil
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 5.0	8.0	6.8	2.3 a 5.0	8.4	10.8
Expected return on plan assets ⁽¹⁾ (%)	2.5 a 5.0	8.0	6.8	2.3 a 5.0	8.4	10.8
Future salary increases ⁽¹⁾ (%)	3.0	2.7	6.6	3.0	3.0	6.5
Future pension increases ⁽¹⁾ (%)	2.5	2.7	0.0	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
As at 1 January	1,236	128	556	146
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
As at 31 December	2,167	127	1,236	128

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 CO2 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
Non-current borrowings	18,176	18,658
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
Current borrowings	2,130	2,849
Total	20,306	21,507

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

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
At 31.12.10:							
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
Total Fixed	976	1,038	1,643	2,200	2,275	5,264	13,396
Total Floating	1,154	1,244	1,550	102	2,058	802	6,910
Total	2,130	2,282	3,193	2,302	4,333	6,066	20,306

	2010	2011	2012	2013	2014	2015 and beyond	Total
At 31.12.09:							
Marketable Debt							
Fixed	985	–	505	–	2,000	2,294	5,784
Floating	702	18	–	593	–	–	1,313
Institutional Banks and other financial companies							
Fixed	88	73	118	114	117	814	1,324
Floating	69	29	25	32	7	197	359
Commercial Banks and other financial liabilities							
Fixed	330	4,518	822	54	90	631	6,445
Floating	675	1,614	585	3,171	149	88	6,282
Total Fixed	1,403	4,591	1,445	168	2,207	3,739	13,553
Total Fixed	1,446	1,661	610	3,796	156	285	7,954
Total Floating	2,849	6,252	2,055	3,964	2,363	4,024	21,507

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
At 31.12.10:							
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
Total	2,130	2,282	3,485	2,302	4,333	5,774	20,306

	2010	2011	2012	2013	2014	2015 and beyond	Total
At 31.12.09:							
Euro Debt	2,152	5,752	1,355	3,538	2,194	3,310	18,301
Foreign Currency Debt:							
US Dollar	352	270	393	384	105	519	2,023
Mexican peso	5	98	80	–	–	–	183
Brazilian real	147	20	117	42	63	–	389
Colombian peso	145	93	110	–	1	–	349
Argentinean peso	25	19	–	–	–	–	44
Rest	23	–	–	–	–	195	218
Total	2,849	6,252	2,055	3,964	2,363	4,024	21,507

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 01.01.10	Issues	Buy backs or reimbursements	Business combinations	Exchange rate adjustments and others	At 31.12.10
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
Total	7,097	3,675	(2,680)	–	27	8,119

	At 01.01.09	Issues	Buy backs or reimbursements	Business combinations	Exchange rate adjustments and others	At 31.12.09
Issued in a member state of the European Union which required the filing of a prospectus	754	5,945	(1,512)	1,252	–	6,439
Issued in a member state of the European Union which did not required the filing of a prospectus	–	–	–	5	–	5
Issued outside a member state of the European Union	28	41	(9)	731	(138)	653
Total	782	5,986	(1,521)	1,988	(138)	7,097

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 it 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.
Total	6,950		

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
Total	500	(68)	432	585	(90)	495

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:

	At 31.12.10	At 31.12.09
Fixed interest rate	13,396	13,553
Floating interest rate	6,910	7,954
Total	20,306	21,507

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 CO2 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 ₂ 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 31.12.10	At 31.12.09
Less than 90 days	268	90
90–180 days	77	44
More than 180	6	11
Total	351	145

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
At 31.12.10							
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)
Total⁽¹⁾	(6,686)	(3,066)	(4,263)	(2,864)	(4,777)	(8,078)	(29,734)

	2010	2011	2012	2013	2014	2015 and beyond	Total
At 31.12.09:							
Trade and other payables	(4,013)	–	–	–	–	–	(4,013)
Loans and other financial payables	(3,537)	(6,781)	(2,515)	(4,387)	(2,660)	(5,749)	(25,629)
Financial derivatives	(100)	(50)	(10)	(7)	(7)	(35)	(209)
Other liabilities	(69)	(65)	(59)	(147)	(55)	(875)	(1,270)
Total⁽¹⁾	(7,719)	(6,896)	(2,584)	(4,541)	(2,722)	(6,659)	(31,121)

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

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:

	31.12.10		31.12.09	
	Assets	Liabilities	Assets	Liabilities
Derivatives qualifying for hedge accounting	–	56	1	163
Cash flow hedges				
- Interest rate	–	56	–	162
Fair value hedge				
- Interest rate and exchange rate	–	–	1	–
- Interest rate	–	–	–	1
Other financial instruments	–	19	–	25
- Interest rate	–	19	–	25
Derivative financial instruments–non current	–	75	1	188
Derivatives qualifying for hedge accounting	91	71	30	42
Cash flow hedges				
- Interest rate	–	54	–	11
- Exchange rate	7	1	6	4
- Commodity prices	7	16	7	19
Fair value hedge				
- Interest rate and exchange rate	–	–	–	1
- Exchange rate	77	–	17	5
- Commodity prices	–	–	–	2
Other financial instruments	2	11	–	4
- Commodity prices	2	4	–	4
- Interest rate	–	7	–	–
- Equity swap	–	–	–	–
Derivative financial instruments–current	93	82	30	46
Total	93	157	31	234

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
Total	(9)	(141)	1	(92)

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:

	31.12.10 Notional value (in million of Euros)							
	Fair Value	2011	2012	2013	2014	2015	Beyond	Total
Interest rate swap contracts:								
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
Exchange rate hedge:								
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)	–	32	–	–	–	–	–	32
Foreign exchange fluctuation insurance (USD)	77	1,156	–	–	–	–	–	1,156
Foreign exchange fluctuation insurance (DHN)	–	7	–	–	–	–	–	7
Commodity hedge:								
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
Total	(64)	4,485	434	57	36	30	409	5,451

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

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
Total	1,040	1,077

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 m³ 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 m³ and 140,500 m³ through 25-year time-charter contracts, extendible to 30 years

In December 2007 a 138,000 m³ 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 m³ 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
Total	1,104	(468)	636	1,150	(520)	630

The effective average interest rate on the liabilities for finance lease agreements at 31 December 2010 is 6.7% (6.6% 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 ⁽¹⁾	14
2012	6
2013	6
Total	26

(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:

	At 31.12.10	At 31.12.09
Trade payables	2,928	3,232
Trade payables with related parties (Note 32)	36	62
Amounts due to associates	41	28
Trade payables	3,005	3,322
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
Total	3,658	4,013

Disclosure of deferrals of payment to suppliers. D.A 3^a "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:

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

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:

	2010	%	2009	%
Profit before tax	1,883	—	1,791	—
Statutory tax	565	30.0	537	30.0
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)
Income tax	468	24.9	440	24.6
Breakdown of current/deferred expense:				
Current tax	370	—	308	—
Deferred tax	98	—	132	—
Accrued Corporate income tax	468	—	440	—

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
Total	6,507	6,507

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
Total	296	(16)	280	115	(18)	97

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
Total	957	956
Deferred income tax liabilities:		
- Non current	(2,704)	(2,700)
- Current	–	–
Total	(2,704)	(2,700)
Net deferred income tax	(1,747)	(1,744)

The breakdown and movement of deferred taxes is as follows:

Deferred tax assets	Provisions for employee benefit obligations	Tax losses carried forward			Amortization differences	Financial instruments valuation		Other	Total
		Accruals	forward						
At 01.01.09	22	63	43		78	68	65	339	
Charged/(credited) to income statement	(33)	(63)	(54)		12	–	41	(97)	
Business combinations	248	310	96		62	5	105	826	
Charged to equity	(3)	–	–		–	(22)	–	(25)	
Cumulative translation adjustments	2	3	(1)		9	–	3	16	
Others	4	(21)	(33)		(68)	–	15	(103)	
At 31.12.09	240	292	51		93	51	229	956	
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)	
At 31.12.10	228	259	76		112	52	230	957	

Deferred tax liabilities	Amortization differences	Reinvestment capital gains	Fair value business combination	Financial instruments valuation	Other	Total
At 01.01.09	142	123	193	42	26	526
Charged/(credited) to income statement	13	13	(17)	–	26	35
Business combinations	284	27	2,102	11	122	2,546
Charged to equity	–	–	–	(30)	–	(30)
Cumulative translation adjustments	(4)	–	12	–	(8)	–
Others	(177)	–	(207)	–	7	(377)
At 31.12.09	258	163	2,083	23	173	2,700
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)
At 31.12.10	296	231	1,978	6	193	2,704

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:

	2010	2009 ⁽¹⁾
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
Total	19,630	14,873

(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:

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

Note 24. Other operating income

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

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

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

Note 25. Personnel cost

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
Capitalized cost	(82)	(102)
Others	73	65
Total	798	600

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, gender and geographical areas is as follows:

	2010		2009	
	Men	Women	Men	Women
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
Total	12,827	4,520	13,506	4,808

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

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
Provision for depreciation of receivables (Note 11)	238	138
Others	322	323
Total	1,912	1,594

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

(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:

	2010	2009
Net income before tax	1,883	1,791
Adjustments to net income:	2,857	2,094
Depreciation and amortisation of fixed assets (Note 5 and 6)	1,716	1,404
Other adjustments to net income:	1,141	690
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
Changes in working capital (excluding the effects on the consolidation scope and cumulative translation adjustments):	(729)	(362)
Inventories	(11)	90
Trade and other accounts receivable	(373)	534
Trade and other accounts payable	(345)	(986)
Other cash flows generated from operations:	(1,274)	(1,011)
Interest received	(798)	(649)
Income tax payments	(476)	(362)
Cash flows generated from operating activities	2,737	2,512

Note 30. Business combinations

Year 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.

Year 2009

As indicated in Note 3.4.1.e, the control UNIÓN FENOSA has been obtained through various acquisitions, and, accordingly, it has been recorded as per IFRS 3 for business combinations made by stages. Accordingly, the total cost of the combination is the sum of the costs of the individual transactions and totals Euros 15,799 million relating to the acquisition of 95.2% of the share capital of Unión Fenosa, S.A. The goodwill has been calculated as the difference between the cost and the participation in the fair value of the identifiable assets and liabilities on the date of each

transaction. The first consolidation difference is made up of the sum of the goodwills calculated in each partial purchase and totals Euros 5,670 million. On the date that control was taken, the changes in equity have been recorded as a revaluation of reserves and has totalled Euros 14 million.

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

Purchase price:

Cost of acquisition	15,733
Acquisition expenses	66
Total purchase price	15,799
Fair value of the net assets acquired	10,129
Goodwill (Note 5)	5,670

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

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

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

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

- Intangible assets relating basically to the electricity distribution concessions in Spain and Latin America, to the CO₂ 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 y 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
Assets	5,816	5,768
Non-current liabilities	1,655	2,054
Current liabilities	993	485
Liabilities	2,648	2,539
Net assets	3,168	3,229
	2010	2009
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 Arrangement

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 Río de Janeiro, S.A, Ceg Rio, S.A. y 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 y Gas Natural del Cesar S.A. ESP	Gas distribution	Colombia	15-50	4-37

Company	Activity	Country	Concession period	Initial remaining Period
Unión Fenosa Generadora La Joya, S.A.y Unión Fenosa Generadora Torito, S.A.	Electricity generation	Costa Rica	20	12-20
Gas Natural SDG, S.A. y 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. y Redes Eléctricas de Centroamérica, S.A.	Electricity distribution	Guatemala	50	38-47
Gas Natural Distribuzione SpA y Cilento Reti Gas, SRL	Gas distribution	Italy	11-30	1-28
Gas Natural México S.A. de C.V. y 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. y Distribuidora de Electricidad del Sur, S.A.	Electricity distribution	Nicaragua	30	20
Empresa Distribuidora de Electricidad Metro Oeste, S.A. y 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 Arrangements" 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 Arrangements" on the Consolidated Balance Sheet at 31 December 2009 and 1 January 2009 and the Consolidated Income Statement for 2009.

	31.12.09 restated	Application IFRIC 12	31.12.09
Assets			
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
Non-current assets	36,523	(185)	36,708
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
Current assets	8,644	–	8,644
Total assets	45,167	(185)	45,352
Net equity and liabilities			
Net equity	12,177	–	12,177
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
Non-current liabilities	24,836	(185)	25,021
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
Current liabilities	8,154	–	8,154
Total net equity and liabilities	45,167	(185)	45,352

	01.01.09 restated	Application IFRIC 12	01.01.09
Assets			
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
Non-current assets	14,624	(182)	14,806
Non-current assets held for sale	5	–	5
Inventories	560	–	560
Trade and other receivables	2,785	–	2,785
Other current financial assets	360	–	360
Cash and cash equivalents	249	–	249
Current assets	3,959	–	3,959
Total assets	18,583	(182)	18,765
Net equity and liabilities			
Net equity	6,721	–	6,721
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
Non-current liabilities	6,732	(182)	6,914
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
CURRENT LIABILITIES	5,130	–	5,130
Total net equity and liabilities	18,583	(182)	18,765

	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
Operating income	2,445	(3)	2,448
Net financial income	(713)	3	(716)
Profit of entities recorded by equity method	59	–	59
Income before taxes	1,791	–	1,791
Income tax expense	(440)	–	(440)
Net income for the year from continuing operations	1,351	–	1,351
Net income for the year from discontinued operations net of tax	39	–	39
Consolidated net income for the year	1,390	–	1,390

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 and Catalunya Caixa.

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:

2010		"la Caixa" Group	Repsol YPF Group	GDF-Suez Group^(*)	Catalunya Caixa
Income and expenses (Thousand Euros)					
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	–
Total expenses	34,320	659,968	151,134	267	
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	–	–
Total income	1,121	502,164	258,108	33	
2010		"la Caixa" Group	Repsol YPF Group	GDF-Suez Group^(*)	Catalunya Caixa
Other transactions (Thousand Euros)					
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	–
2010		"la Caixa" Group	Repsol YPF Group	GDF-Suez Group^(*)	Catalunya Caixa
Trade debtors and creditors (Thousand Euros)					
Trade and other receivables	–	62,400	–	–	–
Trade and other payables	–	35,600	–	–	–

2009		"la Caixa" Group	Repsol YPF Group	GDF-Suez Group ^(*)	Catalunya Caixa
Income and expenses (Thousand Euros)					
Financial expense	14,563	–	–	–	518
Leases ⁽¹⁾	3,344	7,439	–	–	–
Services received	243	47,253	39,083	–	–
Goods purchased (finished or in progress)	–	524,066	347,782	–	–
Other expenses ⁽²⁾	25,299	4	125	98	–
Total expenses	43,449	578,762	386,990	616	
Financial income	2,223	–	–	–	2
Leases	–	493	–	–	–
Provision of services	–	30,856	18,060	–	–
Sale of goods (finished or in progress)	–	365,409	590,163	–	–
Other income	2,231	–	–	–	–
Total income	4,454	396,758	608,223	2	

2009		"la Caixa" Group	Repsol YPF Group	GDF-Suez Group ^(*)	Catalunya Caixa
Other transactions (Thousand Euros)					
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

2009		"la Caixa" Group	Repsol YPF Group	GDF-Suez Group ^(*)	Catalunya Caixa
Trade debtors and creditors (Thousand Euros)					
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
Remuneration items		
Fixed remuneration	1,012	1,258
Variable remuneration	1,423	1,113
Per diems	4,163	4,834
Others	3	3
Total	6,601	7,208
Other benefits		
Pension funds and plans: Contributions	262	414
Life insurance premiums	–	33
Total other benefits	262	447

In 2009 "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, 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 (ACC) and Appointments and Remuneration Committee (ARC), 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 Ramon Adell Ramon ⁽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 Emiliano López Achurra	Director	126,500	57,500	–	–	184,000
Mr Carlos Losada Marrodán	Director	126,500	126,500	–	–	253,000
Mr Miquel Valls i Maseda	Director	126,500	–	12,650	12,650	151,800
Mr Jaime Vega de Seoane Azpilicueta ⁽²⁾	Director	69,000	–	–	–	69,000
		2,574,000	1,435,500	37,950	37,950	4,085,400

(1) Mr. Luis Suarez de Lezo Mantilla has sat on the Board of Directors since 26/2/2010, replacing Mr. Enrique Locutura Ruperez.

(2) Mr. Ramon 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	Enagás	Repsol YPF	Endesa	Red Eléctrica	Iberdrola
Mr Salvador Gabarró Serra Vicechairman of "la Caixa" Director of Criteria CaixaCorp, S.A.	Chairman	3,000 (0.000)	14,371 (0.006)	–	–	10,502 (0.008)	74,358 (0.001)
Mr Antonio Brufau Niubó Chairman of Repsol YPF, S.A. Chairman of YPF, S.A.	Vicechairman	74,612 (0.008)	–	205,621 (0.017) 109,240 (0.009) ⁽¹⁾	–	–	–
Mr Rafael Villaseca Marco Chairman of Repsol-Gas Natural LNG, S.L. President of GN Aprovisionamientos SDG, S.A.	Chief Executive	12,006 (0.001)	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	Director	630 (0.000)	–	500 (0.000)	–	–	–
Mr Carlos Losada Marrodán	Director	1,856 (0.000) 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	17,530 (0.002) 964 (0.000) ⁽¹⁾	–	1,665 (0.000) 386 (0.000) ⁽¹⁾	–	–	365 (0.000) ⁽¹⁾
Mr Carlos Kinder Espinosa	Director	5,206 (0.001)	–	–	–	–	–
Mr Enrique Alcántara-García Irazoqui	Director	7,669 (0.001) 20,000 (0.002) ⁽¹⁾	–	–	–	–	7,459 (0.000)
Mr Narcís Serra Serra	Director	26 (0.000)	–	–	–	–	–
Mr Emiliano López Achurra	Director	1,010 (0.000)	–	–	–	–	–
Mr Miquel Valls i Maseda	Director	6,306 (0.001)	–	–	–	–	–
Mr Felipe González Márquez	Director	1,750 (0.000)	–	–	–	–	–
Mr Juan Rosell Lastortras Director of Criteria CaixaCorp, S.A.	Director	2,000 (0.000) ⁽¹⁾	–	–	–	–	–
Mr Demetrio Carceller Arce	Director	2,600 (0.000)	–	–	–	–	–
Mr Ramon Adell Ramon	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:

	2010	2009
Item		
Fixed remuneration	4,210	3,407
Variable remuneration	3,441	2,516
Others	64	53
Total	7,715	5,976
Other benefits		
Pension funds and plans: Contributions	1,745	1,458
Life insurance premiums	–	57
Total other benefits	1,745	1,515

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 of them have received shares or share options during the year, they have not 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 give 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	At 31.12.10						
	Total	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	–	–	–	–
Total contractual obligations	82,123	8,086	7,946	7,694	7,071	5,513	45,813

Sales	At 31.12.10						
	Total	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
Total contractual obligations	28,920	3,936	3,979	3,934	3,765	1,559	11,747

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 provisioned 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 Rio 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 instigated various penalty proceedings mainly 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 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 vestments 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:

(Thousand Euros)	2010	2009
Auditing and related services	4,235	4,986
Other services	1,847	1,294
Total fees	6,082	6,280

Additionally, in 2010, other audit firms have rendered the following services to varius Group companies:

(Thousand Euros)	2010	2009
Auditing and related services	351	346
Other services	37	37
Total fees	388	383

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, with 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. We have reduced the environmental impact of our activities, 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 environmental management, 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 commercialisation of gas in Spain and Mexico, Unión Fenosa Gas, Metragaz (Morocco), and the main work centres of the company. All these facilities are annually audited 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 for the TMB and the electrification of the harbour docks.

Additionally, GAS NATURAL FENOSA has made environmental disbursements related to pollution prevention atmosphere protection, water management, waste management and soil quality and preparation of 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 environmental investments and the Euros 31 million, to expenses incurred in environmental management. The Consolidated balance sheet at 31 December 2010 includes accumulated environmental investments 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 CO₂, broken down as follows:

(mtCO ₂)	2008	2009 ^(*)	2010	2011	2012	2015
Assigned emission allowances	2.884	11.447	11.312	11.744	11.701	217

(*) As from the year 2009 the emission allowances assigned to UNIÓN FENOSA are included.

In 2010 the emissions of CO₂ from the Group's thermal energy plants have totalled 10.5 million tonnes (12.2 million tonnes of CO₂ in 2009). This reduction is in line with the objectives of the "MENOS GEI" initiative.

The GAS NATURAL FENOSA acquires 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 or complementary activity	Office in Gas Natural SDG, S.A.	Number of shares and percentage	
		Gas Natural Fenosa	Repsol YPF
Mr Nemesio Fernández-Cuesta Luca de Tena	Member	1 (0.000)	11,368 (0.001)

Appendix I. Group companies of Gas Natural Fenosa

1. Subsidiary companies

Company	Country	Activity
Gas Natural Aprovisionamientos SDG, S.A.	Spain	Gas supply
Sagane, S.A.	Spain	Gas supply
Comercializadora Guatimalteca Mayorista de Electricidad, S.A.	Guatemala	Electricity commercialisation
Energía Empresarial de la Costa, S.A., E.S.P.	Colombia	Electricity commercialisation
Energía Social de la Costa S.A. E.S.P.	Colombia	Electricity commercialisation
Cetraro Distribuzione Gas, S.R.L.	Italy	Gas commercialisation
Gas Natural Europe, S.A.S.	France	Gas commercialisation
Gas Natural Vendita Italia, S.P.A.	Italy	Gas commercialisation
Natural Energy, S.A. ⁽¹⁾	Argentina	Gas commercialisation
BIS Suministro de Gas Sur, S.L.	Spain	Gas and Electricity commercialisation
BIS Suministro de Gas, S.L.	Spain	Gas and Electricity commercialisation
Gas Natural Comercial SDG, S.L.	Spain	Gas and Electricity commercialisation
Gas Natural Comercializadora, S.A.	Spain	Gas and Electricity commercialisation
Gas Natural S.U.R. SDG, S.A.	Spain	Gas and Electricity commercialisation
Gas Natural Servicios SDG, S.A.	Spain	Gas and Electricity commercialisation
Unión Fenosa Comercial, S.L.	Spain	Gas and Electricity commercialisation
Distribuidora de Electricidad de Occidente, S.A.	Guatemala	Electricity distribution
Distribuidora de Electricidad de Oriente, S.A.	Guatemala	Electricity distribution
Distribuidora de Electricidad del Norte, S.A.	Nicaragua	Electricity distribution
Distribuidora de Electricidad del Sur, S.A.	Nicaragua	Electricity distribution
Distribuidora Eléctrica Navasfrías, S.L.	Spain	Electricity distribution
Electra de Abusejo, S.L.	Spain	Electricity distribution
Electra del Jallas, S.A.	Spain	Electricity distribution
Electricaribe Mipymes de Energía, S.A., E.S.P.	Colombia	Electricity distribution
Electrificadora del Caribe S.A., E.S.P.	Colombia	Electricity distribution
Empresa Distribuidora de Electricidad Chiriquí, S.A.	Panama	Electricity distribution
Empresa Distribuidora de Electricidad Metro Oeste, S.A.	Panama	Electricity distribution
Energía y Servicios de Panamá, S.A.	Panama	Electricity distribution
Generación Limpia Guatemala, S.A.	Guatemala	Electricity distribution
Red Unión Fenosa, S.A.	Moldova	Electricity distribution
Redes Eléctricas de Centroamérica, S.A.	Guatemala	Electricity distribution

Consolidation method	Shareholding total	Net equity			
		Capital	Reserves	Profit 2010	Interim dividend
F.C.	100.0	1	19	48	–
F.C.	100.0	95	24	(40)	–
F.C.	100.0	–	1	1	–
F.C.	81.3	–	3	2	–
F.C.	81.3	2	(2)	(7)	–
F.C.	60.0	–	–	–	–
F.C.	100.0	–	3	(5)	–
F.C.	100.0	2	7	3	–
F.C.	100.0	–	–	2	–
F.C.	100.0	–	–	–	–
F.C.	100.0	–	–	–	–
F.C.	100.0	4	6	14	–
F.C.	100.0	2	31	57	–
F.C.	100.0	2	5	1	–
F.C.	100.0	2	17	(28)	–
F.C.	100.0	10	101	190	(150)
F.C.	90.8	8	–	12	–
F.C.	92.8	14	(3)	7	–
F.C.	88.3	74	(42)	3	–
F.C.	89.7	60	(54)	–	–
F.C.	100.0	3	1	1	–
F.C.	100.0	1	–	(1)	–
F.C.	99.9	–	40	6	(4)
F.C.	81.3	2	(1)	(9)	–
F.C.	85.4	964	(195)	39	–
F.C.	51.0	18	(3)	9	–
F.C.	51.0	71	(6)	23	–
F.C.	51.0	9	1	5	–
F.C.	100.0	6	–	–	–
F.C.	93.9	7	118	21	–
F.C.	100.0	2	1	–	–

1. Subsidiary companies (continued)

Company	Country	Activity
Unión Fenosa Distribución, S.A.	Spain	Electricity distribution
BIS Distribución de gas, S.A.	Spain	Gas distribution
Ceg Río, S.A.	Brazil	Gas distribution
Comercializadora Metrogas, S.A. de CV	Mexico	Gas distribution
Companhia Distribuidora de Gás do Río de Janeiro, S.A.	Brazil	Gas distribution
Gas Galicia SDG, S.A.	Spain	Gas distribution
Gas Natural Andalucía, S.A.	Spain	Gas distribution
Gas Natural BAN, S.A. ⁽¹⁾	Argentina	Gas distribution
Gas Natural Castilla-La Mancha, S.A.	Spain	Gas distribution
Gas Natural Castilla y León, S.A.	Spain	Gas distribution
Gas Natural Cegas, S.A.	Spain	Gas distribution
Gas Natural Cundiboyacense, S.A., ESP	Colombia	Gas distribution
Gas Natural de Sao Paulo Sul, S.A.	Brazil	Gas distribution
Gas Natural del Cesar, S.A., ESP	Colombia	Gas distribution
Gas Natural del Oriente, S.A., ESP	Colombia	Gas distribution
Gas Natural Distribución SDG, S.A.	Spain	Gas distribution
Gas Natural Distribuzione S. P. A.	Italy	Gas distribution
Gas Natural México, S.A. de CV ⁽¹⁾	Mexico	Gas distribution
Gas Natural Rioja, S.A.	Spain	Gas distribution
Gas Natural Transporte SDG, S.L.	Spain	Gas distribution
Gas Natural, S.A. ESP	Colombia	Gas distribution
Gas Navarra, S.A.	Spain	Gas distribution
Berrybank development Pty, Ltd.	Australia	Energy
Crookwell development Pty, Ltd.	Australia	Energy
Hawkesdale development Pty, Ltd.	Australia	Energy
Ryan Corner development Pty, Ltd.	Australia	Energy
Gas Natural Exploración, S.L.	Spain	Hydrocarbon research and exploration
Petroleum Oil & Gas España, S.A.	Spain	Hydrocarbon research and exploration
Clover Financial and Treasury Services, Ltd.	Ireland	Finance
Gas Natural Capital Markets, S.A.	Spain	Finance
Gas Natural Finance, B.V.	Holland	Finance
Gas Natural International, Ltd.	Ireland	Finance
Ufacex Uk Holdings, Ltd.	United Kingdom	Finance

Consolidation method	Shareholding total %	Net equity			
		Capital	Reserves	Profit 2010	Interim dividend
F.C.	100.0	833	1.814	305	(351)
F.C.	100.0	–	–	–	–
F.C.	59.6	41	73	35	(37)
F.C.	86.8	128	(65)	10	–
F.C.	54.2	212	223	103	(86)
F.C.	62.0	33	10	6	–
F.C.	100.0	12	41	19	–
F.C.	70.0	215	(130)	11	(13)
F.C.	95.0	27	19	10	–
F.C.	90.1	6	79	25	–
F.C.	99.7	25	68	30	–
F.C.	45.8	1	12	7	–
F.C.	100.0	370	(98)	36	(1)
F.C.	66.2	3	5	2	–
F.C.	32.2	9	30	12	(9)
F.C.	100.0	86	869	299	(175)
F.C.	100.0	33	158	22	–
F.C.	86.8	471	(151)	34	–
F.C.	87.5	3	9	5	–
F.C.	100.0	15	46	10	–
F.C.	59.1	11	64	96	–
F.C.	90.0	4	27	9	–
F.C.	91.4	–	–	–	–
F.C.	91.4	3	1	–	–
F.C.	91.4	1	–	–	–
F.C.	91.4	2	1	–	–
F.C.	100.0	9	(5)	–	–
F.C.	100.0	4	46	(3)	–
F.C.	100.0	–	720	46	(62)
F.C.	100.0	–	–	7	–
F.C.	100.0	–	–	–	–
F.C.	100.0	6	9	–	(7)
F.C.	100.0	19	(19)	–	–

1. Subsidiary companies (continued)

Company	Country	Activity
Unión Fenosa Finance B.V.	Netherlands	Finance
Unión Fenosa Financiación S.A.	Spain	Finance
Unión Fenosa Financial Services USA, Llc.	United States	Finance
Unión Fenosa Preferentes, S.A.	Spain	Finance
Aplicaciones y Proyectos energéticos, S.A.	Spain	Electricity generation
Boreas Eólica 2, S.A.	Spain	Electricity generation
Controladora del Golfo, S.A. de C.V.	Mexico	Electricity generation
Corporación Eólica de Zaragoza, S.L.	Spain	Electricity generation
Dawn Energy - Produção de Energia, Unipessoal Lda.	Portugal	Electricity generation
Energy Way Produçao de Energía Lda	Portugal	Electricity generation
Fenosa Wind , S.L.	Spain	Electricity generation
Fenosa Renovables, S.L.U.	Spain	Electricity generation
Fuerza y Energía BII Hioxo, S.A. DE C.V.	Mexico	Electricity generation
Fuerza y Energía de Hermosillo, S.A. de C.V.	Mexico	Electricity generation
Fuerza y Energía de Naco Nogales, S.A. de C.V.	Mexico	Electricity generation
Fuerza y Energía de Norte Durango, S.A de C.V.	Mexico	Electricity generation
Fuerza y Energía de Tuxpan, S.A. de C.V.	Mexico	Electricity generation
Gas Natural Electricidad SDG, S.A.	Spain	Electricity generation
Gas Natural Energy Canarias, S.L.	Spain	Electricity generation
Gas Natural Fenosa Renovables, S.L.U.	Spain	Electricity generation
Gas Natural Wind 2, S.L.	Spain	Electricity generation
Gas Natural Wind 3, S.L.	Spain	Electricity generation
Gas Natural Wind 4, S.L.	Spain	Electricity generation
Gas Natural Wind 6, S.L.	Spain	Electricity generation
Gas Natural Wind Canarias, S.L.	Spain	Electricity generation
Generación Peninsular, S.L.	Spain	Electricity generation
Generadora Palamara La Vega, S.A.	Dominican Republic	Electricity generation
Iberáfrica Power Ltd.	Kenya	Electricity generation
Lantarón Energía, S.L.	Spain	Electricity generation
M&D Generación 1, S.L.U.	Spain	Electricity generation
Molinos de Valdebezana, S.A.	Spain	Electricity generation
Sociedad de Tratamiento Hornillos, S.L.	Spain	Electricity generation
Sociedad de Tratamiento La Andaya, S.L.	Spain	Electricity generation

Consolidation method	Shareholding total %	Net equity			Profit 2010	Interim dividend
		Capital	Reserves			
F.C.	100.0	–	–		–	–
F.C.	100.0	1	3		(2)	–
F.C.	100.0	–	–		–	–
F.C.	100.0	–	731		15	(11)
F.C.	100.0	–	–		–	–
F.C.	89,6	3	5		2	–
F.C.	100.0	32	(81)		(4)	–
F.C.	68,0	3	1		1	–
F.C.	100.0	–	–		–	–
F.C.	100.0	–	–		–	–
F.C.	100.0	–	–		–	–
F.C.	100.0	–	–		–	–
F.C.	100.0	38	(11)		–	–
F.C.	100.0	49	(1)		6	–
F.C.	100.0	131	(43)		11	–
F.C.	100.0	54	(9)		(2)	–
F.C.	100.0	156	(3)		33	–
F.C.	100.0	4	(1)		16	–
F.C.	100.0	–	–		–	–
F.C.	100.0	90	327		11	–
F.C.	100.0	–	–		–	–
F.C.	100,0	–	–		–	–
F.C.	100,0	–	–		–	–
F.C.	60,0	–	–		–	–
F.C.	100,0	–	–		–	–
F.C.	100,0	4	34		11	–
F.C.	100,0	4	66		14	–
F.C.	71,7	16	1		1	–
F.C.	100,0	–	–		–	–
F.C.	100,0	–	–		–	–
F.C.	100,0	–	–		–	–
F.C.	94,4	1	2		1	–
F.C.	60,0	1	3		1	–

1. Subsidiary companies (continued)

Company	Country	Activity
Tratamiento Integral de Almazán, S.L.	Spain	Electricity generation
Tratamiento Cinca Medio, S.L.	Spain	Electricity generation
Unión Fenosa Energías Renovables Chile, S.A.	Chile	Electricity generation
Unión Fenosa Generación Panamá, S.A.	Panama	Electricity generation
Unión Fenosa Generadora La Joya, S.A.	Costa Rica	Electricity generation
Unión Fenosa Generadora Torito, S.A.	Costa Rica	Electricity generation
UTE La Energía Gas Natural Electricidad	Spain	Electricity generation
Zemer Energía, S.A. de C.V.	Mexico	Electricity generation
Hispanogalaica de Extracciones, S.L.	Spain	Mining
Kangra Coal (Proprietary), Ltd.	South Africa	Mining
Lignitos de Meirama, S.A.	Spain	Mining
Pizarras Mahide, S.L.	Spain	Mining
Unión Fenosa Minería, S.A.	Spain	Mining
Gas Natural Rigassificazione Italia, S.P.A.	Italy	Gas regassification
Natural Re, S.A.	Luxemburg	Insurance
Administración de Servicios de Energía México, S.A. de C.V.	Mexico	Services
Administración y Servicios ECAP, S.A. de C.V.	Mexico	Services
Almar Ccs, S.A.	Costa Rica	Services
Arte Contemporáneo y Energía, A.I.E.	Spain	Services
Cedifil Cored Wire, S.L.	Spain	Services
Compañía Española de Industrias Electroquímicas, S.A.	Spain	Services
Energía y Confort Administración de Personal, S.A. de C.V.	Mexico	Services
Gas Natural Servicios Colombia Ltda.	Colombia	Services
Gas Natural Servicios Integrales, S.A.S.	Colombia	Services
Gas Natural Servicios, S.A. de C.V.	Mexico	Services
Gas Natural Serviços, S.A.	Brazil	Services
General de Edificios y Solares, S.L.	Spain	Services
Inversiones Hermill, S.A.	Dominican Republic	Services
Natural Servicios, S.A. ⁽¹⁾	Argentina	Services
Serviconfort Colombia, S.A.	Colombia	Services
Sistemas de Administración y Servicios, S.A. de C.V. ⁽¹⁾	Mexico	Services
Unión Fenosa Generación México, S.A. de C.V.	Mexico	Services
Gas Natural Informática, S.A.	Spain	Professional services

Consolidation method	Shareholding total %	Net equity			Profit 2010	Interim dividend
		Capital	Reserves			
F.G.	90.0	3	2		2	–
F.C.	80.0	2	1		–	–
F.C.	80.0	1	1		(1)	–
F.C.	100.0	–	–		–	–
F.C.	65.0	25	(3)		5	–
F.C.	65.0	–	4		–	–
F.C.	100.0	3	–		1	–
F.C.	50.0	–	(1)		–	–
F.C.	100.0	–	–		–	–
F.C.	70.0	–	68		43	–
F.C.	100.0	23	15		2	–
F.C.	100.0	1	–		–	–
F.C.	100.0	11	175		2	–
F.C.	100.0	11	–		(1)	–
F.C.	100.0	3	21		6	–
F.C.	86.8	–	–		–	–
F.C.	100.0	–	–		–	–
F.C.	100.0	–	–		–	–
F.C.	100.0	–	–		–	–
F.C.	98.5	4	–		1	–
F.C.	98.5	3	8		–	–
F.C.	87.0	–	1		–	–
F.C.	100.0	–	2		(2)	–
F.C.	100.0	–	–		–	–
F.C.	86.8	6	2		1	–
F.C.	100.0	2	4		(1)	–
F.C.	100.0	34	54		3	–
F.C.	100.0	1	–		–	–
F.C.	100.0	2	(1)		–	–
F.C.	100.0	–	–		–	–
F.C.	87.0	–	–		–	–
F.C.	100.0	–	–		–	–
F.C.	100.0	20	(1)		8	–

1. Subsidiary companies (continued)

Company	Country	Activity
M&D Energy Market, S.L.U.	Spain	Professional services
Operación y Mantenimiento Energy Costa Rica, S.A.	Costa Rica	Professional services
Operación y Mantenimiento Energy Madagascar, S.A.R.L.U.	Madagascar	Professional services
Operación y Mantenimiento Energy, S.A.	Spain	Professional services
Socoin, S.A (Guatemala)	Guatemala	Professional services
Socoin Colombia, S.A.U.	Colombia	Professional services
Socoin Ingeniería y Construcción Industrial, S.L.U.	Spain	Professional services
Socoin México, S.A. de C.V.	Mexico	Professional services
Socoin, S.A. (Panamá)	Panama	Professional services
Socoinve, C.A.	Venezuela	Professional services
Soluziona Technical Services, Llc.	Egypt	Professional services
Soluziona, S.A. (Bolivia)	Bolivia	Professional services
Unión Fenosa Operación México S.A. de C.V.	Mexico	Professional services
United Saudi Spanish Power and Gas Services, Llc	Saudi Arabia	Professional services
Aplicaciones y Desarrollos Profesionales Nuevo Milenio, S.L.	Spain	Holding company
Buenergía Gas & Power, Ltd.	Cayman I.	Holding company
Caribe Capital B.V.	Netherlands	Holding company
Compañía Auxiliar de Industrias Varias, S.A.	Spain	Holding company
Distribuidora Eléctrica de Caribe, S.A. (Panamá)	Panama	Holding company
First Independent Power (Kenya), Ltd.	Kenya	Holding company
Gas Natural Argentina SDG, S.A.	Argentina	Holding company
Gas Natural do Brasil, S.A.	Brazil	Holding company
Gas Natural Internacional SDG, S.A.	Spain	Holding company
Gas Natural Italia S.P.A.	Italy	Holding company
Gas Natural Puerto Rico, Inc.	Puerto Rico	Holding company
Holding Gas Natural, S.A.	Spain	Holding company
Invergás, S.A. ⁽¹⁾	Argentina	Holding company
La Energía, S.A.	Spain	Holding company
La Propagadora del Gas, S.A.	Spain	Holding company
Unión Fenosa Chile Limitada	Chile	Holding company
Unión Fenosa Renovables Limitada (Chile)	Chile	Holding company
Unión Fenosa Internacional, S.A.	Spain	Holding company
Unión Fenosa International B.V.	Netherlands	Holding company

Consolidation method	Shareholding total %	Net equity			Profit 2010	Interim dividend
		Capital	Reserves			
F.C.	100.0	–	–		–	–
F.C.	100.0	–	–		–	–
F.C.	100.0	–	–		–	–
F.C.	100.0	–	7		1	–
F.C.	100.0	–	–		–	–
F.C.	100.0	–	–		–	–
F.C.	100.0	1	39		4	–
F.C.	100.0	8	(2)		(4)	–
F.C.	100.0	–	1		–	–
F.C.	100.0	–	–		–	–
F.C.	100.0	–	–		–	–
F.C.	100.0	–	–		–	–
F.C.	100.0	–	–		–	–
F.C.	100.0	–	1		–	–
F.C.	100.0	–	–		–	–
F.C.	100.0	32	1		–	–
F.C.	95.0	–	(35)		32	–
F.C.	100.0	–	262		14	(22)
F.C.	100.0	–	–		–	–
F.C.	100.0	110	(28)		15	(13)
F.C.	89.6	–	10		–	–
F.C.	100.0	105	(24)		1	–
F.C.	100.0	3	(3)		–	–
F.C.	100.0	350	149		186	(100)
F.C.	100.0	–	–		–	–
F.C.	100.0	1	(1)		–	–
F.C.	100.0	–	–		–	–
F.C.	100.0	49	59		2	–
F.C.	100.0	11	3		9	–
F.C.	100.0	–	2		–	–
F.C.	100.0	4	–		–	–
F.C.	100.0	4	–		–	–
F.C.	100.0	174	212		118	–
F.C.	100.0	–	17		–	–

1. Subsidiary companies (continued)

Company	Country	Activity
Unión Fenosa México, B.V.	Netherlands	Holding company
Unión Fenosa México, S.A. de C.V.	Mexico	Holding company
Unión Fenosa Minería B.V.	Netherlands	Holding company
Unión Fenosa South Africa Coal (Proprietary), LTD	South Africa	Holding company
Unión Fenosa Wind Australia Pty, Ltd.	Australia	Holding company
Gas Natural Fenosa Telecomunicaciones, S.A.	Spain	Telecommunications
Unión Fenosa Redes de Telecomunicación, S.A. (Colombia)	Colombia	Telecommunications
Unión Fenosa Redes de Telecomunicación, S.A. (Guatemala)	Guatemala	Telecommunications
Unión Fenosa Redes de Telecomunicación, S.A. (Nicaragua)	Nicaragua	Telecommunications
Unión Fenosa Redes de Telecomunicación, S.A. (Panamá)	Panama	Telecommunications
Europe Maghreb Pipeline, Ltd.	United Kingdom	Gas transportation
Metragaz, S.A.	Morocco	Gas transportation

(1) The percentage of the shareholding corresponds to the legally held shares. Additionally, there is a share re-purchase commitment for the percentages indicated in Note 18, which are also assigned to the parent Company.

Consolidation method	Shareholding total %	Net equity			Profit 2010	Interim dividend
		Capital	Reserves			
F.C.	100,0	128	155		–	(1)
F.C.	100,0	321	(188)		(3)	–
F.C.	100,0	–	143		6	(6)
F.C.	100,0	–	52		15	(6)
F.C.	91,4	11	2		–	–
F.C.	100,0	21	26		22	–
F.C.	87,8	1	2		1	–
F.C.	100,0	–	4		2	–
F.C.	100,0	–	1		1	–
F.C.	90,2	2	3		3	–
F.C.	72,6	–	144		158	(43)
F.C.	72,3	3	1		1	–

2. Joint ventures

Company	Country	Activity
Repsol-Gas Natural LNG, S.L.	Spain	Gas supply and transportation
Central Térmica La Torrecilla, S.A.	Spain	Cogeneration
CH4 Energía S.A. de C.V.	Mexico	Gas commercialisation and transportation
Transnatural S.R.L. de C.V.	Mexico	Gas commercialisation and transportation
Albidona Distribuzione Gas, S.R.L.	Italy	Gas distribution
Cilento Reti Gas, S.R.L.	Italy	Gas distribution
Gas Natural Vehicular del Norte Asociación en Participación	Mexico	Gas distribution
Gas Natural West África, S.L.	Spain	Hydrocarbon exploration and production
Palencia 3 Investigación Desarrollo y Explotación, S.L.	Spain	Hydrocarbon exploration and production
Gas Directo, S.A.	Spain	Gas
Gasifica, S.A.	Spain	Gas
Infraestructura de Gas S.A.	Spain	Gas
Nueva Electricidad del Gas, S.A.U.	Spain	Gas
Palawan Sulu Sea Gas, Inc.	Philippines	Gas
Planta de Regasificación de Sagunto, S.A.	Spain	Gas
Segas Services, S.A.E.	Egypt	Gas
Spanish Egiptian Gas Company, S.A.E.	Egypt	Gas
Unión Fenosa Gas Exploración y Producción. S.A.	Spain	Gas
Unión Fenosa Gas Comercializadora, S.A.	Spain	Gas
Unión Fenosa Gas Infraestructures, B.V.	Netherlands	Gas
Unión Fenosa Gas, S.A.	Spain	Gas
Alas Capital & Gas Natural S.A.	Spain	Electricity generation
Andaluza de Energía Solar Cuarta, S.L.	Spain	Electricity generation
Andaluza de Energía Solar Primera, S.L.	Spain	Electricity generation
Andaluza de Energía Solar Quinta, S.L.	Spain	Electricity generation
Andaluza de Energía Solar Tercera, S.L.	Spain	Electricity generation
Aprovechamientos Eléctricos, S.A.	Spain	Electricity generation
Áridos Energías Especiales, S.L.	Spain	Electricity generation
Azucarera Energías, S.A.	Spain	Electricity generation
Barbao, S.A.	Spain	Electricity generation
Barras Eléctricas Galaico Asturianas, S.A.	Spain	Electricity generation
Barras Eléctricas Generación, S.L.	Spain	Electricity generation
Boiro Energía, S.A.	Spain	Electricity generation

Consolidation method	Shareholding total %	Net equity			Profit 2010	Interim dividend
		Capital	Reserves			
P.C.	50.0	2	–		–	–
P.C.	50.0	1	–		(1)	–
P.C.	43.4	1	4		3	(20)
P.C.	43.4	10	(31)		(5)	–
P.C.	60.0	–	–		–	–
P.C.	60.0	4	–		–	–
P.C.	44.3	1	–		–	–
P.C.	40.0	14	(2)		(6)	–
P.C.	37.0	–	–		–	–
P.C.	30.0	7	3		(2)	–
P.C.	45.0	2	8		2	–
P.C.	42.5	–	–		19	(11)
P.C.	50.0	9	(3)		(2)	–
P.C.	50.0	–	5		–	–
P.C.	25.0	2	5		18	(12)
P.C.	39.7	1	–		–	–
P.C.	40.0	336	4		28	–
P.C.	50.0	–	–		(1)	–
P.C.	50.0	2	1		36	(23)
P.C.	50.0	–	5		–	–
P.C.	50.0	33	464		210	(171)
P.C.	40.0	–	–		–	–
P.C.	30.4	–	–		–	–
P.C.	30.4	–	–		–	–
P.C.	30.0	–	–		–	–
P.C.	30.0	–	–		–	–
P.C.	50.0	–	–		–	–
P.C.	20.5	1	–		2	(2)
P.C.	20.0	1	2		(1)	–
P.C.	50.0	–	1		–	–
P.C.	44.9	16	53		–	–
P.C.	44.9	1	2		–	–
P.C.	20.0	1	4		2	–

2. Joint ventures (continued)

Company	Country	Activity
Centrales Nucleares Almaraz-Trillo, A.I.E.	Spain	Electricity generation
Cogeneración del Noroeste, S.L.	Spain	Electricity generation
Depuración, destilación y reciclaje, S.L.	Spain	Electricity generation
Desarrollo de Energías Renovables de la Rioja, S.A.	Spain	Electricity generation
Desarrollo de Energías Renovables de Navarra, S.A.	Spain	Electricity generation
EcoEléctrica, L.P.	Puerto Rico	Electricity generation
Electrica Conquense, S.A.	Spain	Electricity generation
Enel Unión Fenosa Renovables, S.A.	Spain	Electricity generation
Energía Termosolar de los Monegros, S.L.	Spain	Electricity generation
Energías Ambientales de Novo, S.A.	Spain	Electricity generation
Energías Ambientales de Somozas, S.A.	Spain	Electricity generation
Energías Ambientales de Vimianzo, S.A.	Spain	Electricity generation
Energías Ambientales, S.A.	Spain	Electricity generation
Energías Eólicas de Fuerteventura, S.L.	Spain	Electricity generation
Energías Eólicas de Lanzarote, S.L.	Spain	Electricity generation
Energías Especiales Alcoholes, S.A.	Spain	Electricity generation
Energías Especiales Alto Ulla, S.A.	Spain	Electricity generation
Energías Especiales Andalucía, S.L.	Spain	Electricity generation
Energías Especiales de Careón, S.A.	Spain	Electricity generation
Energías Especiales de Extremadura, S.L.	Spain	Electricity generation
Energías Especiales de Gata, S.L.	Spain	Electricity generation
Energías Especiales de Padul, S.L.U.	Spain	Electricity generation
Energías Especiales del Bierzo, S.A.	Spain	Electricity generation
Energías Especiales Espina, S.L.U.	Spain	Electricity generation
Energías Especiales Montes Castellanos, S.L.U.	Spain	Electricity generation
Energías Especiales Montes de Andalucía, S.L.	Spain	Electricity generation
Energías Especiales Noroeste, S.A.U.	Spain	Electricity generation
Energías Especiales Peña Armada, S.A.	Spain	Electricity generation
Energías Especiales Santa Bárbara, S.L.	Spain	Electricity generation
Energías Especiales Valencianas, S.L.	Spain	Electricity generation
Energías Renovables Montes de San Sebastián, S.L.	Spain	Electricity generation
Eólica del Cordal de Montouto, S.L.	Spain	Electricity generation
Eólica Galaico Asturiana, S.A.	Spain	Electricity generation

Consolidation method	Shareholding total %	Net equity			Profit 2010	Interim dividend
		Capital	Reserves			
F.C.	19.3	–	–		–	–
P.C.	20.0	5	1		5	–
P.C.	20.0	1	1		1	(1)
P.C.	36.3	17	3		6	–
P.C.	50.0	10	29		14	–
P.C.	47.5	1	–		–	–
P.C.	46.4	3	3		16	–
P.C.	50.0	33	127		22	–
P.C.	45.0	1	–		–	–
P.C.	16.7	1	1		–	–
P.C.	22.6	1	2		1	–
P.C.	16.7	5	2		2	–
P.C.	16.7	15	4		–	–
P.C.	50.0	–	–		–	–
P.C.	50.0	–	–		–	–
P.C.	41.2	–	(2)		2	–
P.C.	50.0	10	–		(11)	–
P.C.	42.5	1	–		–	–
P.C.	38.5	–	–		1	–
P.C.	39.2	–	–		–	–
P.C.	50.0	–	–		–	–
P.C.	50.0	–	–		–	–
P.C.	25.0	2	1		2	–
P.C.	50.0	2	–		–	–
P.C.	50.0	7	–		(2)	–
P.C.	50.0	–	–		–	–
P.C.	50.0	7	2		4	–
P.C.	40.0	1	–		1	–
P.C.	50.0	–	–		–	–
P.C.	50.0	–	–		–	–
P.C.	50.0	3	–		–	–
P.C.	50.0	1	–		–	–
P.C.	50.0	–	–		–	–

2. Joint ventures (continued)

Company	Country	Activity
Eólicos Singulares 2005, S.A.	Spain	Electricity generation
Eólica Tramuntana 12, S.L.	Spain	Electricity generation
Eólica Tramuntana 13, S.L.	Spain	Electricity generation
Eólica Tramuntana 14, S.L.	Spain	Electricity generation
Eólica Tramuntana 15, S.L.	Spain	Electricity generation
Eólica Tramuntana 16, S.L.	Spain	Electricity generation
Eólica Tramuntana 21, S.L.	Spain	Electricity generation
Eólica Tramuntana 22, S.L.	Spain	Electricity generation
Eólica Tramuntana 23, S.L.	Spain	Electricity generation
Eólica Tramuntana 24, S.L.	Spain	Electricity generation
Eólica Tramuntana 71, S.L.	Spain	Electricity generation
Eólica Tramuntana 72, S.L.	Spain	Electricity generation
Eólica Tramuntana 73, S.L.	Spain	Electricity generation
Eólica Tramuntana, S.L.	Spain	Electricity generation
Eufer Operación, S.L.	Spain	Electricity generation
Eufer Energías Especiales de Portugal, Unipessoal Lda.	Spain	Electricity generation
Eufer Renovables Ibéricas 2004, S.A.	Spain	Electricity generation
Explotaciones Eólicas Sierra de Utrera, S.L.	Spain	Electricity generation
Los Castrios, S.A.	Spain	Electricity generation
Molinos de la Rioja, S.A.	Spain	Electricity generation
Molinos de Linares, S.A.	Spain	Electricity generation
Molinos del Cidacos, S.A.	Spain	Electricity generation
Montouto 2000, S.A.	Spain	Electricity generation
Nueva Generadora del Sur, S.A.	Spain	Electricity generation
O Novo Aquilón, S.L.	Spain	Electricity generation
Parque Eólico Belmonte, S.A.	Spain	Electricity generation
Parque Eólico Cabo Vilano, S.L.	Spain	Electricity generation
Parque Eólico de Capelada, A.I.E.	Spain	Electricity generation
Parque Eólico de Corullón, S.L.	Spain	Electricity generation
Parque Eólico de San Andrés, S.A.	Spain	Electricity generation
Parque Eólico Malpica, S.A.	Spain	Electricity generation
Parque Eólico Montes de las Navas, S.A.	Spain	Electricity generation
Parque Eólico Sierra del Merengue, S.L.	Spain	Electricity generation

Consolidation method	Shareholding total	Net equity			Profit 2010	Interim dividend
		Capital	Reserves			
P.C.	49.0	–	–		–	–
P.C.	60.0	–	–		–	–
P.C.	60.0	–	–		–	–
P.C.	60.0	–	–		–	–
P.C.	60.0	–	–		–	–
P.C.	60.0	–	–		–	–
P.C.	60.0	–	–		–	–
P.C.	60.0	–	–		–	–
P.C.	60.0	–	–		–	–
P.C.	60.0	–	–		–	–
P.C.	60.0	–	–		–	–
P.C.	60.0	–	–		–	–
P.C.	60.0	–	–		–	–
P.C.	60.0	–	–		–	–
P.C.	60.0	–	–		–	–
P.C.	60.0	–	–		–	–
P.C.	50.0	–	–		–	–
P.C.	50.0	–	–		–	–
P.C.	50.0	16	2		1	–
P.C.	50.0	3	6		3	–
P.C.	33.1	2	1		1	–
P.C.	33.3	3	2		3	–
P.C.	25.0	–	–		–	–
P.C.	50.0	10	8		10	–
P.C.	49.0	6	4		2	–
P.C.	50.0	96	54		(7)	–
P.C.	60.0	–	–		–	–
P.C.	25.1	–	–		–	–
P.C.	50.0	7	1		(14)	–
P.C.	25.0	6	1		1	–
P.C.	50.0	–	–		–	–
P.C.	41.0	1	–		3	–
P.C.	17.7	1	–		–	–
P.C.	10.0	7	2		3	–
P.C.	25.0	–	–		–	–

2. Joint ventures (continued)

Company	Country	Activity
Parques Eólicos 2008-2012, S.L.	Spain	Electricity generation
Prius Enerólica, S.L.	Spain	Electricity generation
Promociones Energéticas del Bierzo, S.L.	Spain	Electricity generation
Proyectos Universitarios Energías Renovables, S.L.	Spain	Electricity generation
Punta de las Olas Eólica Marina, S.L.	Spain	Electricity generation
Punta de Lens Eólica Marina, S.L.	Spain	Electricity generation
Sistemas Energéticos Mañón Ortigueira, S.A.	Spain	Electricity generation
Societat Eòlica de l'Enderrocada, S.A.	Spain	Electricity generation
Toledo PV, A.E.I.E.	Spain	Electricity generation
Ufefys, S.L.	Spain	Electricity generation
Vientos del Noroeste, S.A.	Spain	Electricity generation
Ghesa Ingeniería y Tecnología, S.A.	Spain	Professional services
EcoEléctrica Holding, Ltd.	Cayman Is.	Holding company
EcoEléctrica Limited	Cayman Is.	Holding company
Alliance, S.A.	Nicaragua	Telecommunications
Biogás Doña Juana, S.A. E.S.P.	Colombia	Biogas treatment and use

Consolidation method	Shareholding total %	Net equity			Profit 2010	Interim dividend
		Capital	Reserves			
P.C.	54.0	–	–		–	–
P.C.	50.0	–	–		–	–
P.C.	50.0	–	–		(1)	–
P.C.	16.7	–	–		–	–
P.C.	50.0	–	–		–	–
P.C.	50.0	–	–		–	–
P.C.	48.0	2	2		–	–
P.C.	13.3	6	1		1	–
P.C.	33.3	–	–		–	–
P.C.	20.0	–	–		1	–
P.C.	49.9	5	–		(3)	–
P.C.	41.2	4	16		5	–
P.C.	47.5	63	20		–	–
P.C.	47.5	63	19		69	(12)
P.C.	49.9	–	–		–	–
P.C.	49.8	2	1		–	–

3. Jointly controlled assets and operations

Company	Country	Activity
Boquerón	Spain	Exploration and production
Casablanca	Spain	Exploration and production
Chipirón	Spain	Exploration and production
Montanazo	Spain	Exploration and production
Morcín-1	Spain	Exploration
Villaviciosa	Spain	Exploration
Bezana / Beguenzo	Spain	Exploration
Murcia-Siroco	Spain	Exploration
Rodaballos	Spain	Exploration and production
Sestao Knutsen	Spain	LNG Transportation
Ibérica Knutsen	Spain	LNG Transportation
Comunidad de bienes Central Nuclear de Trillo (Grupo I)	Spain	Electricity generation
Comunidad de bienes Central Nuclear de Almaraz (Grupo I y II)	Spain	Electricity generation
Comunidad de bienes Central Térmica de Anllares	Spain	Electricity generation
Comunidad de bienes Central Térmica de Aceca	Spain	Electricity generation
Gassi-Chergui	Argelia	Exploration
Tánger Larrache	Morocco	Exploration

4. Associates

Company	Country	Activity
Kromschroeder, S.A.	Spain	Meters
Enerlasa, S.A.	Spain	Energy
Energías de Villarubia, S.L.	Spain	Energy
Sotavento Galicia, S.A.	Spain	Energy
Tirmadrid, S.A.	Spain	Energy
Qalhat LNG S.A.O.C.	Omán	Gas
Regasificadora del Noroeste, S.A.	Spain	Gas
Enervent, S.A.	Spain	Electricity generation
Sistemas Energéticos La Muela, S.A.	Spain	Electricity generation
Sistemas Energéticos Mas Garullo, S.A.	Spain	Electricity generation
Sociedad Gallega do Medio Ambiente, S.A.	Spain	Waste management
Ensafeca Holding Empresarial, S.L.	Spain	Holding company
Torre Marenostrum, S.L.	Spain	Real Estate
Bluemobility System, S.L.	Spain	Services
Oficina de cambios de suministrador, S.A.	Spain	Services

Shareholding total		%
	4.5	
	9.5	
	2.0	
	17.1	
	20.0	
	70.0	
	60.0	
	40.0	
	4.0	
	50.0	
	50.0	
	34.5	
	11.3	
	66.7	
	50.0	
	30.0	
	40.0	

Consolidation method	Shareholding total	Net equity			Profit 2010	Interim dividend
		Capital	Reserves			
M.E.	42.5	1	10		(1)	–
M.E.	22.5	1	(1)		1	–
M.E.	10.0	–	1		4	–
M.E.	9.0	1	4		(1)	–
M.E.	9.0	17	4		7	–
M.E.	3.7	55	18		7	–
M.E.	10.5	48	(1)		3	–
M.E.	26.0	2	6		1	(1)
M.E.	20.0	3	4		1	–
M.E.	18.0	2	2		1	–
M.E.	49.0	32	11		(4)	–
M.E.	18.5	8	2		(2)	–
M.E.	45.0	5	13		–	–
M.E.	20.0	–	1		–	–
M.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	100,0	100,0	Full consolidation
Electrificadora del Caribe, S.A., E.S.P	Acquisition	March 31	4,1	85,4	Full consolidation
Madrileña Red de Gas, S.A.	Disposal	April 30	100,0	–	–
Madrileña Suministro de Gas SUR 2010, S.L.	Disposal	April 30	100,0	–	–
Madrileña Suministro Gas 2010, S.L.	Disposal	April 30	100,0	–	–
Madrileña Servicios Comunes, S.L.	Disposal	April 30	100,0	–	–
Central Anahuac, S.A. de C.V.	Disposal	May 25	100,0	–	–
Central Lomas del Real, S.A. de C.V.	Disposal	May 25	100,0	–	–
Central Vallehermoso S.A. de C.V.	Disposal	May 25	100,0	–	–
Central Saltillo, S.A. de C.V.	Disposal	May 25	100,0	–	–
Electricidad Águila Altamira, S.A. de C.V.	Disposal	May 25	100,0	–	–
Gasoducto del Río, S.A. de C.V.	Disposal	May 25	100,0	–	–
Compañía Mexicana de Gerencia y Operación, S.A. de C.V.	Disposal	May 25	100,0	–	–
Palencia 3 Investigación Desarrollo y Explotación, S.L.	Incorporation	Juny 24	37,0	37,0	Proportional
Hispano Galaica de Extracciones, S.L.	Incorporation	Juny 30	100,0	100,0	Full consolidation
Eólica Tramuntana, S.L.	Incorporation	July 5	60,0	60,0	Proportional
Energía Termosolar los Monegros, S.L.	Acquisition	July 14	40,0	45,0	Proportional
Sistema Eléctrico de conexión Valcaire, S.L.	Incorporation	July 17	10,6	10,6	Proportional
Hotel Naturaleza Tambre, S.L.	Liquidation	July 19	100,0	–	–
M&D Generación 1, S.L.U.	Incorporation	July 21	100,0	100,0	Full consolidation
M&D Energy Market, S.L.U.	Incorporation	July 21	100,0	100,0	Full consolidation
Promociones Energéticas del Bierzo, S.L.	Acquisition	July 30	25,0	50,0	Proportional
Gas Natural del Cesar, S.A. E.S.P	Acquisition	September 14	16,0	62,0	Full consolidation
Berrybank Development Pty Ltd.	Incorporation	September 21	91,0	91,4	Full consolidation
Cilento Reti Gas, S.R.L.	Incorporation	October 13	60,0	60,0	Proportional
Unión Fenosa Wind Australia Pty, Ltd	Acquisition	October 18	80,0	91,4	Full consolidation
Crookwell Developmet PtY, Ltd	Acquisition	October 18	80,0	91,4	Full consolidation
Hawkesdale Development Pty Ltd	Acquisition	October 18	80,0	91,4	Full consolidation
Ryan Corner Development Pty Ltd	Acquisition	October 18	80,0	91,4	Full consolidation
Limeisa International Coal, B.V.	Liquidation	October 28	100,0	–	–
Portal del Instalador, S.A.	Liquidation	November 2	100,0	–	–

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
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	Full consolidation
BIS Suministro de Gas, S.A.	Incorporation	December 3	100	100	Full consolidation
BIS Suministro de Gas SUR, S.A.	Incorporation	December 3	100	100	Full consolidation
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, B.V.	Liquidation	December 21	100	–	–
ElectroCosta Mipymes de Energía, S.A., E.S.P.	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	50,0	–	–
Gas Natural S.U.R. SDG, S.A.	Incorporation	April 6	100,0	100,0	Full consolidation
GEM Distribución Gas 1, S.A.	Incorporation	April 28	100,0	100,0	Full consolidation
Eólicos Singulares 2005, S.A.	Acquisition	April 30	49,0	49,0	Proportional
UNIÓN FENOSA	Acquisition	April 30	80,5	95,2	Full consolidation
Punta de Lens Eólica Marina, S.L.	Acquisition	May 1	50,0	50,0	Proportional
Punta de las Olas Eólica Marina, S.L.	Acquisition	May 1	50,0	50,0	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	10,0	40,0	Proportional
GN Wind 6, S.L.	Disposal	May 25	40,0	60,0	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	89,0	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	100,0	100,0	Full consolidation
Gas Energía Suministro, S.L.	Incorporation	Juny 11	100,0	100,0	Full consolidation
Gas Energía Servicios Comunes, S.L.	Incorporation	Juny 11	100,0	100,0	Full consolidation
Unión Fenosa Centro de Tesorería, S.L.	Liquidation	Juny 25	100,0	–	–
Energías Especiales de Portugal, U. Ltda.	Incorporation	Juny 26	50,0	50,0	Proportional
Empresa de Energía del Pacífico, S.A.E.	Acquisition	July 1	0,0	64,0	Full consolidation
Compañía de Electricidad de Tulua, S.A.	Acquisition	July 1	1,0	55,0	Full consolidation
Indra Sistemas, S.A.	Disposal	July 2	13,0	5,0	–
GEM Suministro SUR 2, S.L.	Incorporation	July 3	100,0	100,0	Full consolidation
GEM Suministro GAS 2, S.L.	Incorporation	July 3	100,0	100,0	Full consolidation
GEM Servicios Comunes 2, S.L.	Incorporation	July 3	100,0	100,0	Full consolidation
Kangra Coal, S.A.	Acquisition	July 15	6,0	70,0	Full consolidation
Albidona Distribuzione Gas S.R.L.	Incorporation	July 20	60,0	60,0	Proportional
Planificación e Inversión estratégica, S.A.	Wound up	July 20	61,0	–	–
UNIÓN FENOSA	Acquisition	September 1	4,8	100,0	Full consolidation
Energías Especiales de Padul, S.L.U.	Incorporation	September 8	50,0	50,0	Proportional
Distribuidora de Electricidad de Norte, S.A.	Acquisition	October 8	1,0	87,7	Full consolidation

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
Distribuidora de Electricidad de Sur, S.A.	Acquisition	October 8	1,0	90,0	Full consolidation
Unión Fenosa Colombia, S.A.	Disposal	November 1	100,0	–	–
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	100,0	–	–
Gas Energía Suministro, S.L.	Disposal	December 31	100,0	–	–
Gas Energía Servicios Comunes, S.L.	Disposal	December 31	100,0	–	–
Gas Natural Cantabria S.A.	Disposal	December 31	100,0	–	–
Gas Natural Murcia S.A.	Disposal	December 31	100,0	–	–
Unión Fenosa Emisiones, S.A.	Liquidation	December 31	100,0	–	–
Unión Fenosa Uninver, S.L.	Liquidation	December 31	100,0	–	–

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.



Consolidated Directors' Report

1. Business performance

2010 Analysis

Net profit amounted to €1,201 million in 2010, an increase of 0.5% with respect to last year. The additional provision allocated for risks arising from the dispute with Sonatrach impacted the year's earnings, which were supported nevertheless by the incipient recovery in energy demand in Spain, the growing contribution from the company's international businesses, and the income from the disposal of gas distribution assets in the Madrid region.

The provision booked according to the best estimate made based on the information available on the evolution of the litigation with Sonatrach, the negotiations underway, and the amounts to be passed on, and adequately covers the risks described, both for the retroactive period and for the additional period until 31 December 2010.

GAS NATURAL FENOSA has appealed the ruling on its dispute with Sonatrach before the Federal Swiss Court, which granted precautionary measures including the suspension of execution until the Court can decide on the appeal filed by GAS NATURAL FENOSA.

Consolidated EBITDA amounted to €4,477 million, an increase of 14.1% with respect to last year, mainly as a result of the fact that Unión Fenosa was not fully consolidated until 30 April 2009. EBITDA was able to offset the additional provision for risks related to the dispute with Sonatrach and was supported by the growth in earnings from regulated activities, which were boosted by the growing contribution from those activities outside Spain and by improved operating efficiency. It is also worth noting the management of the global energy supply portfolio, against a backdrop of significant volatility, which stabilised its contribution to earnings.

The results obtained in this context highlight the fundamental value of GAS NATURAL FENOSA's business model, which is based on an appropriate balance of regulated and liberalised gas and electricity businesses, including a growing, diversified international presence.

The expanding contribution from GAS NATURAL FENOSA's international activity, primarily through regulated or quasi-regulated activities in Latin America, evidences the robustness of the business model, contributing to 28.8% of EBITDA.

The company's expeditious divestment of assets which are either non-strategic or whose sale was agreed with Spain's National Competition Commission (CNC) is enabling the company to gradually normalise its leverage (59.6% at 31 December 2010).

Main financial aggregates

	2010	2009	%
Net sales	19,630	14,873	32.0
EBITDA	4,477	3,923	14.1
Operating income	2,893	2,445	18.3
Net income attributable to parent Company	1,201	1,195	0.5
Investments	1,553	15,243	-
Net financial debt (at 31/12)	19,102	20,916	(8.7)

Main physical aggregates

Gas and electricity distribution:

	2010	2009	%
Gas distribution (GWh):	411,556	402,692	2.2
Europe:	210,561	233,080	(9.7)
Tariff gas sales	2,741	3,000	(8.6)
TPA (third parties access)	207,820	230,080	(9.7)
Latin America:	200,995	169,612	18.5
Tariff gas sales	128,141	107,197	19.5
TPA	72,854	62,415	16.7
Electricity distribution (GWh):	54,833	34,973	56.8
Europe:	36,831	22,919	60.7
Tariff electricity sales	2,372	3,521	(32.6)
TPA	34,459	19,398	77.6
Latin America:	18,002	12,054	49.3
Tariff electricity sales	16,979	11,314	50.1
TPA	1,023	740	38.2
Gas distribution connections, ('000) (at 31/12):	11,361	11,534	(1.5)
Europe	5,696	6,112	(6.8)
Latin America	5,665	5,422	4.5
Electricity distribution connections ('000) (at 31/12):	9,436	9,144	3.2
Europe	4,535	4,505	0.7
Latin America	4,901	4,639	5.6
ICEIT (installed capacity equivalent interrupt time) (minutes)	61	59	3.4

Energy businesses:

	2010	2009	%
Electricity generated (GWh):	58,130	52,553	10.6
Spain:	38,338	28,728	33.5
Hydroelectric	4,752	1,849	157.0
Nuclear	4,325	2,908	48.7
Coal	772	741	4.2
Oil/gas	32	4	700.0
CCGT (Combined cycle gas turbine)	25,928	21,192	22.3
Renewables	2,529	2,034	24.3
International:	19,792	23,825	(16.9)
Hydroelectric	132	61	116.4
CCGT	17,985	22,638	(20.6)
Oil-fired	1,675	1,126	48.8
Installed capacity (MW):	17,254	17,810	(3.1)
Spain:	14,637	13,410	9.1
Hydroelectric	1,860	1,860	–
Nuclear	589	589	–
Coal	2,048	2,048	–
Oil/gas	617	617	–
CCGT	8,565	7,322	17.0
Renewables	958	974	(1.6)
International:	2,617	4,400	(40.5)
Hydroelectric	33	33	–
CCGT	2,274	4,057	(43.9)
Oil-fired	310	310	–
Gas supply (GWh):	305,704	286,152	6.8
Spain	250,885	234,230	7.1
Rest	54,819	51,922	5.6
Unión Fenosa Gas ⁽¹⁾ :			
Gas supply in Spain (GWh)	59,518	34,854	70.8
Rest (GWh)	27,774	10,785	157.5
Gas transportation – EMPL (GWh)	109,792	109,230	0.5

(1) Aggregates at 100%.

Analysis of consolidated earnings

The acquisition of UNION FENOSA and its full consolidation in the consolidated net income from 30 April 2009 has given rise to significant variations against last year and does not permit an appropriate analysis of the business of GAS NATURAL FENOSA.

Net sales

	2010	%s/total	2009	%s/total	% 2010/2009
Gas distribution	4,154	21.2	3,502	23.5	18.6
Spain	1,299	6.6	1,360	9.1	(4.5)
Latin America	2,645	13.5	1,959	13.2	35.0
Rest	210	1.1	183	1.2	14.8
Electricity distribution	3,272	16.7	1,863	12.5	76.5
Spain	884	4.5	523	3.5	69.0
Latin America	2,200	11.2	1,231	8.3	78.7
Rest	188	1.0	109	0.7	72.5
Electricity	6,470	33.0	4,447	29.9	45.5
Spain	5,420	27.6	3,476	23.4	55.9
Latin America	954	4.9	929	6.2	2.7
Rest	96	0.5	42	0.3	128.6
Gas	8,791	44.8	7,477	50.3	17.6
Infrastructure	264	1.3	276	1.9	(4.3)
Supply and commercialisation	7,678	39.1	6,853	46.1	12.0
Unión Fenosa Gas	849	4.3	348	2.3	144.0
Other activities	584	3.0	425	2.9	37.4
Consolidation adjustments	(3,641)	(18.5)	(2,841)	(19.1)	28.2
Total	19,630	100.0	14,873	100.0	32.0

Net turnover for 2010 totals Euros 19,630 million, an increase of 32.0% against last year, mainly as a result of the addition of UNION FENOSA as from 30 April 2009 last year and from 1 January 2010 this year.

Ebitda⁽¹⁾

	2010	%s/total	2009	%s/total	% 2010/2009
Gas distribution	1.620	36,2	1.485	37,9	9,1
Spain	915	20,4	927	23,6	(1,3)
Latin America	635	14,2	510	13,0	24,5
Others	70	1,6	48	1,2	45,8
Electricity distribution	1.062	23,7	637	16,2	66,7
Spain	645	14,4	385	9,8	67,5
Latin America	390	8,7	236	6,0	65,3
Others	27	0,6	16	0,4	68,8
Electricity	1.252	28,0	1.052	26,8	19,0
Spain	974	21,8	806	20,5	20,8
Latin America	263	5,9	242	6,2	8,7
Others	15	0,3	4	0,1	–
Gas	472	10,5	699	17,8	(32,5)
Infrastructures	191	4,3	181	4,6	5,5
Supply and commercialisation	57	1,3	396	10,1	(85,6)
Unión Fenosa Gas	224	5,0	122	3,1	83,6
Other activities	71	1,6	50	1,3	42,0
Total	4.477	100,0	3.923	100,0	14,1

(1) Ebitda=Operating profit+Depreciation+Operating provisions-Other income

Consolidated EBITDA for 2010 has totalled Euros 4,477 million, an increase of 14.1% against last year, mainly due to the addition of UNION FENOSA in a full year compared with last year.

The gas and electricity distribution activities in Spain and internationally represent 59.9% of the EBITDA of GAS NATURAL FENOSA.

The greatest contribution relates to the electricity activity in Spain, which accounts for 21.8% of consolidated EBITDA.

Other income includes the net gains from the divestments for the year, basically the sale of gas distribution points in the Region of Madrid.

Operating income

	2010	%s/total	2009	%s/total	% 2010/2009
Gas distribution:	1,184	40.9	1,047	42.8	13.1
Spain	626	21.6	615	25.2	1.8
Latin America	516	17.8	407	16.6	26.8
Other	42	1.5	25	1.0	68.0
Electricity distribution:	618	21.4	399	16.3	54.9
Spain	420	14.5	262	10.7	60.3
Latin America	177	6.1	125	5.1	41.6
Other	21	0.7	12	0.5	75.0
Electricity	550	19.0	512	20.9	7.4
Spain	387	13.4	432	17.7	(10.4)
Latin America	154	5.3	78	3.2	97.4
Other	9	0.3	2	0.1	350.0
Gas	231	8.0	524	21.4	(55.9)
Infrastructures	141	4.9	133	5.4	6.0
Supply and commercialisation	12	0.4	339	13.9	(96.5)
Unión Fenosa Gas	78	2.7	52	2.1	50.0
Other activities	310	10.7	(37)	(1.5)	–
Total	2,893	100.0	2,445	100.0	18.3

The depreciation allowances have increased by 23.5% while provisions have increased from Euros 139 million to Euros 238 million, and, accordingly, operating profit totals Euros 2,893 million, an increase of 18.3%.

Financial results

The cost of financial debt in 2010 was €924 million, i.e. higher than in 2009 due to the increase in average gross debt as a result of the debt taken on for the acquisition of UNIÓN FENOSA and of consolidating that company and its subsidiaries.

The 2010 figure includes €103 million corresponding to the recognition in the consolidated income statement of the fees on the loan for the UNIÓN FENOSA acquisition, which were pending recognition in the income statement, due to the cancellation of that debt. This item totalled €42 million in 2009.

Income from financial asset disposals in the current year corresponds to the sale of 5% of Indra Sistemas and the 35% stake in Gas Aragón, whereas in 2009 that item corresponded to the sale of the company's 5% stake in Enagás.

Results of entities accounted for using the equity method

Income from holdings in entities accounted for using the equity method amounted to €5 million in 2010, compared with €59 million in 2009. This item includes €46 million contribution from UNIÓN FENOSA while it was equity-accounted from 28 February 2009 to 30 April 2009.

Corporate Income tax

GAS NATURAL FENOSA is taxed in Spain under the consolidated taxation system, in which the tax group is viewed as the taxpayer and its tax base is determined by aggregating the tax bases of its component companies. On 1 September 2009, as a result of the registration of the merger with Unión Fenosa, S.A. and Unión Fenosa Generación, S.A. in the Mercantile Register, the Unión Fenosa Tax Group ceased to exist and its component companies joined the Gas Natural Tax Group. The merger adopted the special tax-neutral regime established under Chapter VIII of Title VII of the Consolidated Text of the Corporate Income Tax Law.

The other Spanish-resident companies that are not part of the tax group file individual returns, and those not resident in Spain are taxed in their respective countries; the tax rate on company income (or the equivalent tax) that is in force is applied to income for the period.

The effective tax rate in 2010 was 24.9%. The difference between the theoretical tax rate and the effective tax rate was due to tax credits from reinvestment of extraordinary gains on the sale of gas distribution assets in the Madrid region, in compliance with competition rules, and to the application of different tax systems to companies operating outside Spain.

The effective tax rate for 2009 was 24.6%, due to tax deductions on the reinvestment of extraordinary gains on the sale of the 5% stake in Enagás, in compliance with competition rules, the application of different tax systems to companies operating outside Spain and the effect of net income from equity-accounted affiliates.

Minority interest

The main items in this account are the minority shareholders of EMPL, the subgroup of subsidiaries in Gas Natural ESP (Colombia), gas distribution companies in Brazil, Electricidad Chiriquí and Electricidad Metro Oeste (Panama) and Kangra Coal (South Africa).

Income attributed to minority interest in 2010 amounted to €214 million, €19 million more than in the previous year.

Investments

The breakdown of investments by type is as follows:

	2010	2009	%
Investments in Property, plant and equipment	1,394	1,721	(19.0)
Investments in intangible assets	149	152	(2.0)
Financial investments	10	13,370	—
Total investments	1,553	15,243	—

Due to IFRIC 12 adoption, investments in Argentina, Brazil and Italy are recorded as intangible assets.

Capital expenditure (intangible assets and property, plant and equipment) amounted to €1,543 million, 17.6% less than in 2009, due primarily to the completion of Combined cycle gas turbines (CCGT) construction.

Financial investments in 2009 amounted to €13,370 million, due basically to the acquisition of 80.5% of UNIÓN FENOSA.

The breakdown of capital expenditure by line of business is as follows:

	2010	2009	%
Gas distribution:	367	498	(26.3)
Spain	221	358	(38.3)
Latin America	108	105	2.9
Other	38	35	8.6
Electricity distribution:	466	323	44.3
Spain	313	236	32.6
Latin America	137	78	75.6
Other	16	9	77.8
Electricity:	512	779	(34.3)
Spain	361	620	(41.8)
Latin America	149	146	2.1
Other	2	13	(84.6)
Gas:	67	176	(61.9)
Infrastructures	22	143	(84.6)
Procurement & supply	19	18	5.6
Unión Fenosa Gas	26	15	73.3
Other activities	131	97	35.1
Total capital expenditure	1,543	1,873	(17.6)

GAS NATURAL FENOSA allocated 23.4% of capital expenditure to the electricity business in Spain and 21.3% to electricity distribution in Spain.

The main investment projects in 2010 include the completion of the combined cycle plants in Malaga and the Barcelona Harbour and the roll out of wind farm projects.

A total of 14.3% of capital expenditure was allocated to gas distribution in Spain, which will enable the company to sustain a rapid pace of growth in distribution connections despite the economic slowdown in Spain.

Analysis of results by activity

The acquisition of UNION FENOSA and its full consolidation in consolidated net income from 30 April 2009 gives rise to significant variations compared to last year.

Gas distribution in Spain

This area includes regulated gas distribution, third-party access and secondary transportation, as well as the distribution activities that are charged for outside the regulated remuneration (meter rentals, customer connections, etc.) in Spain.

Results

	2010	2009	%
Net sales	1,299	1,360	(4.5)
Purchases	(18)	(49)	(63.3)
Personnel costs, net	(67)	(62)	8.1
Other expense/income	(299)	(322)	(7.1)
Ebitda	915	927	(1.3)
Depreciation and amortisation	(289)	(315)	(8.3)
Change in operating provisions	–	3	–
Operating income	626	615	1.8

Net sales in the gas distribution business in Spain totalled €1,299 million, 4.5% more than in the same period of 2009. This is mainly caused by the sales of gas distribution assets in December 2009 in Cantabria, Murcia, Asturias and Basque Country and the sale of gas distribution assets in Madrid Region in April 2010. If this effect would have not been considered, net sales would have increased by 3.3%

EBITDA in 2010 amounted to €915 million, €12 million less than in 2009 due to the sale of the aforementioned assets with an impact on EBITDA of €67 million. If this effect would have not been considered, EBITDA would have increased by €55 million, mainly due to increase in regulated retribution.

Main aggregates

The main aggregates in gas distribution in Spain were as follows:

	2010	2009	%
Gas TPA sales (GWh)	207,174	229,585	(9.8)
Distribution network (Km)	44,931	47,597	(5.6)
Change in connections points ('000)	84	101	(16.8)
Conection points (at 31/12)	5,274	5,698	(7.4)

Sales in the regulated gas business in Spain, which includes TPA services and secondary transportation, totalled 207,174 GWh, a 9.8% decrease year-on-year. This decrease was due basically to the sale of gas distribution assets in Cantabria, Murcia, Asturias, Basque Country and Madrid. If these sales are not considered, sales increase by 3.9% due to growth in residential consumption, driven by cold weather conditions, and a slight recovery in industrial consumption.

GAS NATURAL FENOSA continues to expand its distribution network, having added 1,152 km. in the last twelve months and connected another 33 municipalities in 2010. A total of 84,000 distribution connections were added in 2010, i.e. 16.8% less than in the same period of 2009, basically because of the impact of the economic crisis, although a recovery is visible in the fourth quarter of 2010. Both effects, not considering the aforementioned divestitures.

At 2010 year-end, the gas distribution grid measured 44,931 km., having decreased by 5.6%, and there were a total of 5,274,000 distribution connections, i.e. an decrease of 7.4%.

GAS NATURAL FENOSA has complied with the commitments to divest certain gas distribution assets under the plan of action approved by the National Competition Commission (CNC) in connection with the acquisition of Unión Fenosa.

On 31 December 2009, the company completed the sale of the low-pressure gas distribution assets in the Autonomous Regions of Cantabria (Gas Natural Cantabria, SDG) and Murcia (Gas Natural Murcia SDG), which represent 2,611 km of low-pressure distribution network, 256,000 distribution connections, and 3,500 GWh of gas per year; the bulk of the high-pressure distribution networks in the Principality of Asturias, Cantabria and the Basque Country (489 km, which carry 7,500 GWh of gas per year); and the business of supplying gas, electricity and services to households and SMEs in those regions (approximately 210,000 gas customers, 4,000 electricity customers and 67,000 energy service contracts).

On 31 March 2010, the distribution assets in the municipalities of the Madrid region were spun off into a company called Madrileña Red de Gas, in accordance with the plan approved by the National Competition Commission regarding the Unión Fenosa acquisition. On 30 April 2010, the company completed the sale of low-pressure gas distribution assets in 38 municipalities in the Madrid region, i.e. 507,726 distribution points and 3,491 km of low-pressure distribution networks.

On 29 December 2010, Spain's Ministry of Industry issued Order ITC/3354/2010, which established the tolls and fees for third-party access to gas installations in 2011 and updated certain aspects of the remuneration for regulated gas activities. The order maintained the system for calculating the distribution remuneration as amended the previous year, updating the remuneration for 2011 in accordance with the actual IPH index for 2009. The initial remuneration recognised for GAS NATURAL FENOSA in 2011 is €1,098 million.

The remuneration recognised for secondary transportation in 2011 amounts to €31 million.

Gas distribution in Latin America

This division involves gas distribution in Argentina, Brazil, Colombia and Mexico.

	2010	2009	%
Net sales	2,645	1,959	35.0
Purchases	(1,748)	(1,217)	43.6
Personnel costs, net	(81)	(67)	20.9
Other expense/income	(181)	(165)	9.7
Ebitda	635	510	24.5
Depreciation and amortization	(112)	(92)	21.7
Change in operating provisions	(7)	(11)	(36.4)
Operating profit	516	407	26.8

Gas distribution results in Latin America improved in 2010 due to good business performance and favourable currency performance.

Net sales amounted to €2,645 million, a 35.0% increase due to higher sales and to currency fluctuations.

EBITDA amounted to €635 million, 24.5% more than in the same period in 2009, boosted by appreciation of local currencies (+13.5% on average). If currencies appreciation is not considered, EBITDA increases 6.6%.

Brazil and Colombia's contributions were particularly noteworthy: together they accounted for 79.2% of EBITDA.

Main aggregates

The main physical aggregates in gas distribution in Latin America are as follows:

	2010	2009	%
Gas activity sales (GWh):	200,995	169,612	18.5
Tariff gas sales	128,141	107,197	19.5
TPA	72,854	62,415	16.7
Distribution network (Km)	64,492	62,315	3.5
Change in connections points ('000)	243	169	43.8
Connection points (000) (at 31/12)	5,665	5,422	4.5

The key physical aggregates by country in 2010 are as follows:

	Argentina	Brazil	Colombia	Mexico	Total
Gas activity sales (GWh)	74,621	64,212	16,160	46,002	200.995
Change vs. 2009 (%)	9.7	50.5	0.5	7.4	18,5
Distribution network	23,005	6,006	19,010	16,471	64.492
Change vs. 31/12/2009 (km)	269	74	1.559	275	2.177
Connections points ('000 at 31/12)	1,458	817	2,183	1,207	5.665
Change vs. 31/12/2009 ('000)	33	15	152	43	243

There were a total of 5,665,000 gas distribution connections in 2010. High year-on-year growth rates were maintained, and the number of distribution connections increased by 243,000; notably, Colombia added 152,000 distribution connections and exceeded 2 million customers due to a faster rate of customer acquisition in Bogotá and the Altiplano Cundiboyacense area.

Sales in the gas activity in Latin America, which include both gas sales and TPA services, totalled 200,995 GWh, an 18.5% increase with respect to the previous year, basically in the industrial sector and in supply to power plants in Brazil.

The distribution grid expanded by 2,177 km (+3.5%) in the last 12 months, to 64,492 km at the end of December 2010.

Highlights of activities in Latin America:

- In Argentina, negotiations with the government on the application of the new tariff framework are continuing.
- Sales to industry and power generation in Brazil increased (in the latter case, because of demand driven by intense heat in the south-east and south of the country).
- The number of vehicles in Colombia fitted to burn LNG increased by 5.5%, from 117,872 in December 2009 to 124,301 in December 2010. Gas Nacer, a gas distribution company present in 22 municipalities and with 50,000 customers, has been incorporated to consolidation scope in 2009
- On 8 February 2010, Comercializadora Metrogas (the distribution company in Mexico City) published the authorised tariffs in the Official Gazette of the Federation, which include a 30.5% increase in the third five-year period, effective 15 February 2010.

Also, on that same date, the Mexican government issued permission for all of Gas Natural Mexico's distribution companies to recover the gas hedging price via the distribution tariff, i.e. an additional 11% of the distribution tariff; for the distribution companies in Monterrey, Nuevo Laredo, Saltillo and Toluca, recovery of operating losses amounts to an additional 4% of the distribution tariff.

Gas distribution Other (Italy)

The business in Italy also includes gas sales at the regulated tariff.

Results

	2010	2009	%
Net sales	210	183	14,8
Purchases	(103)	(96)	7,3
Personnel costs, net	(15)	(15)	–
Other expenses/income	(22)	(24)	(8,3)
Ebitda	70	48	45,8
Depreciation and amortization	(22)	(21)	4,8
Change in operating provisions	(6)	(2)	200,0
Operating income	42	25	68,0

Gas distribution in Italy contributed €70 million in EBITDA, i.e. 45.8% more than in 2009.

The greater contribution to EBITDA is due to remuneration from regulated gas distribution which amounts to €19 million, which includes €3 million from 2009, in accordance with the regulator's resolution of November 2010.

On 28 December 2010, Gas Natural Distribuzione Italia acquired assets in the Sapri and Camerota municipalities via wholly-owned company Cilento Reti Gas Srl, commencing the Cilento project in the Campania region in southwest Italy. The project covers 29 municipalities with potential for 50,000 distribution connections.

In the last quarter of 2010, GAS NATURAL FENOSA was supplying gas in Italy under contract, and two shiploads of LNG (880 GWh) were regassified at the Panigaglia plant.

Main aggregates

	2010	2009	%
Gas activity sales (GWh):	3,387	3,495	(3,1)
Tariff gas sales	2,741	2,974	(7,8)
TPA	646	521	24,0
Distribution network (km)	5,849	5,645	3,6
Connections points ('000) (at 31/12)	422	414	1,9

GAS NATURAL FENOSA in Italia now has 422,000 supply points in the gas distribution business, an increase against 31 December 2009 of 1.9%.

A total of 3,387 GWh of gas were distributed, i.e. 3.1% less than in 2009, mainly as a result of different weather conditions.

The gas distribution network expanded 204 km to 5,849 km at 31 December 2010.

Electricity distribution in Spain

The electricity distribution business in Spain includes regulated distribution of electricity and network services for customers, basically connections and hook-ups, metering and other actions associated with third-party access to GAS NATURAL FENOSA's distribution network.

The bundled electricity tariff was abolished and the "last-resort" supply companies were designated on 1 July 2009; as a result, the distribution business ceased selling electricity in Spain on that date.

Results

	2010	2009	%
Net sales	884	523	69,0
Purchases	–	–	–
Personnel costs, net	(108)	(71)	52,1
Other expenses/ income	(131)	(67)	95,5
Ebitda	645	385	67,5
Depreciation and amortization	(213)	(118)	80,5
Change in operating provisions	(12)	(5)	140,0
Beneficios de explotación	420	262	60,3

On 29 December 2010, Ministerial Order ITC/3353/2010 was published in the Official State Gazette, establishing tolls for third-party access as from 1 January 2011 and tariffs and premiums for special regime facilities.

The Order includes the definitive values for distribution remuneration for 2009 and 2010, which had been considered provisional to date. It also establishes the provisional remuneration for 2011. Specifically, the initial remuneration recognised for GAS NATURAL FENOSA in 2011 is €837 million for distribution and €51 million for transportation.

The revision entails booking, in 2010, the updated remuneration for 2009, which was approximately €35 million more than the amount initially booked. This, together with improvements in efficiency in the regulated business, provided EBITDA of €645 million, i.e. 67,5% with respect to 2009, and 11,8% in homogeneous terms.

A comparison of net turnover against last year is conditioned by the fact that 2009 only included the months from May to December, as opposed to the twelve months in 2010.

Main aggregates

	2010	2009	%
Electric activity sales (GWh):	34,465	21,435	60.8
Tariff electricity sales	6	2,037	(99.7)
TPA	34,459	19,398	77.6
Connection points (000) (at 31/12)	3,719	3,698	0.6
ICEIT (minutes)	61	59	3.4

The company reached a record in 2009 in terms of quality of supply, measured by the ICEIT indicator (installed capacity equivalent interrupt time), which was slightly over 59 minutes (excluding force majeure). These figures were maintained in 2010, when the ICEIT indicator was 61 minutes.

GAS NATURAL FENOSA is committed to quality, proof of which lies in its capital expenditure plans and the operation and maintenance of the installations which are steadily being commissioned in all areas where it operates. In this regard, the ICEIT indicator has improved by 34 minutes since 2006 and is among the best in the industry.

The number of electricity supply points increased slightly in 2010 (+0.6%). Energy supply expanded by 60.8% which in homogeneous terms means 4.1%. Regulated-rate electricity sales in 2010 correspond to adjustments since, as of July 2009, energy is supplied only at the TPA tariff.

Electricity distribution in Latin America

This division involves gas distribution in Colombia, Guatemala, Nicaragua and Panama.

Results

	2010	2009	%
Net sales	2,200	1,231	78.7
Purchases	(1.580)	(861)	83.5
Personnel costs, net	(54)	(31)	74.2
Other expenses/income	(176)	(103)	70.9
Ebitda	390	236	65.3
Depreciation and amortization	(89)	(44)	102.3
Change in operating provisions	(124)	(67)	85.1
Operating income	177	125	41.6

EBITDA in the distribution business in Latin America increased by 65.3% with respect to 2009 which in homogeneous terms equals to 17.8%; of special note was the increase in revenues due to a significant rise in demand in the region and appreciation of the Colombian peso. Excluding the currency effect, EBITDA expanded 4.8% with respect to 2009.

The Colombian distribution business contributed €227 million, a significant increase. This increase was due to the unusual length of the El Niño phenomenon and to incipient economic recovery in Colombia, where industrial activity has started to pick up again.

EBITDA of the distribution companies in Central America amounted to €163 million due to the increase in demand throughout the region (6.6%), offsetting higher fuel prices (up 20% on average) and the increase in the cost of unrecognised losses.

The increase in provisions is due primarily to the increase in sales in disadvantaged areas in Colombia where it is difficult to manage the electricity distribution business and the incorporation of UNIÓN FENOSA's subsidiaries.

Main aggregates

	2010	2009	%
Electric activity sales (GWh):	18,002	12,054	49.3
Tariff electricity sales	16,979	11,314	50.1
TPA	1,023	740	38.2
Connection points (000) (at 31/12)	4,901	4,639	5.6

Electricity sales totalled 18,002 GWh, a 49.3% increase, and customer numbers increased by 5.6%, most notably in Colombia (due to updated censuses in disadvantaged neighbourhoods) and in Nicaragua (due to more effective campaigns to sign new customers).

The key physical aggregates by country in 2010 are as follows:

	Colombia	Guatemala	Nicaragua	Panama	Total
Electric activity sales (GWh)	10,099	1,934	2,424	3,545	18,002
Change vs. 2009 (%)	45.0	57.4	55.2	54.3	49.3
Connections points ('000 at 31/12)	2,198	1,422	808	473	4,901
Change vs. 31/12/2009 ('000)	104	50	88	19	261
Network loss ratio (%)	18	17	21.8	9.8	—

Energy demand in Central America increased by 5.7%, including a notable 6.1% increase in distribution in Panama due to the higher temperatures and customers' perception of lower tariffs, considering, in homogeneous terms the whole year instead of the may-december period.

The basic operating indicators in the business—the power loss ratio, and the debt collection index—remained stable with respect to the previous year despite delays with the plans to reduce losses and to cut off consumers for non-payment.

Electricity distribution other (Moldova)

The business in Moldova consists of regulated distribution of electricity and the supply of electricity at the bundled tariff in the capital city and the central and southern regions.

Results

	2010	2009	%
Net sales	188	109	72,5
Purchases	(143)	(82)	74,4
Personnel costs, net	(7)	(5)	40,0
Other expenses/income	(11)	(6)	83,3
Ebitda	27	16	68,8
Depreciation and amortization	(5)	(5)	–
Change in operating provisions	(1)	1	200,0
Operating profit	21	12	75,0

The current regulatory framework in Moldova, which includes explicit recognition of the capex plan and operation and maintenance at facilities, together with positive results obtained from boosting the energy efficiency of the distribution network, improved the margin on electricity by approximately 18% in the local currency compared with 2009.

Projects to improve operations, in both facility and customer management, are providing significant improvements in efficiency, measured in terms of operating expenses/electricity margin, which improved by almost 4 percentage points in local currency terms, in homogeneous terms.

This improved EBITDA by almost 21% in local currency terms; including the currency effect, EBITDA improved by 12.5% compared with 2009, in homogeneous terms.

These comparisons have been made in homogeneous terms, using a full year for 2009 instead of only the period from May to December included as a whole in consolidated earnings for 2009.

Main aggregates

	2010	2009	%
Electric activity sales (GWh):	2,366	1,484	59.4
Tariff electricity sales:	2,366	1,484	59.4
TPA	–	–	–
Connection points (000) (at 31/12)	816	807	1.1

Against the backdrop of the economic slowdown, energy demand in Moldova expanded by 3.4% with respect to 2009, and the customer base grew by 1.1%. The impact of this growth is also visible in earnings as the power loss ratio continues to improve (now around 14%), while debt collection ratio is close to 100%.

The solid results are attributable to the good performance of leading operating parameters and the fact that supply quality figures are on target.

Electricity in Spain

This area basically includes power generation in Spain, wholesale and retail electricity supply in the liberalised market in Spain, electricity supply at the last-resort tariff and wholesale electricity trading.

Results

	2010	2009	%
Net sales	5,420	3,476	55.9
Purchases	(3,909)	(2,317)	68.7
Personnel costs, net	(130)	(86)	51.2
Other expenses/income	(407)	(267)	52.4
Ebitda	974	806	20.8
Depreciation and amortization	(537)	(360)	49.2
Change in operating provisions	(50)	(14)	257.1
Operating Income	387	432	(10.4)

The net turnover from electricity activity in 2010 totals Euros 5,420 million, an increase of 55.9% over last year, basically due to the addition of UNION FENOSA.

EBITDA amounted to €974 million in 2010, a 20.8% increase year-on-year, considering the abovementioned reasons.

Electricity demand in mainland Spain increased by 3.4% in 2010 with respect to 2009. Correcting for calendar effects and temperatures, demand increased by 2.9%, returning to the upward trend in demand that began in the first half of 2010, following the sharp decline in 2009.

Net power generation in Spain accumulated increase in the year was 3.6%. The balance of international power flows was of net exports in physical terms, although the figure was 6.4 percentage points lower than in 2009. Exports rose 2.9% y/y in 2010, exceeding 8.3 TWh.

Special regime power generation declined by 3 points to 13.8% in 2010. Despite that, Special regime power generation reaches 34.8% of mainland electricity demand coverage, 3 percentage points more than 2009.

However, ordinary regime power output fell just by 0.7% in the full year.

Producible hydro-electricity in 2010 may exceed (PSS ratio), with respect to the historical average, 15%, i.e., statistically, only in 15 of every 100 years will there be as much precipitation as this year.

Nuclear output increased by 17.1% in the year; this figure was affected by changes in the dates of scheduled shutdowns.

Demand in 2010 exceeded 2009 by 8.7 TWh, i.e. barely a quarter of the 34 TWh increase in output by special regime facilities (due to added capacity), hydroelectric plants (greater precipitation) and nuclear plants (less maintenance down-time) compared with 2009. The thermal gap declined by 12 percentage points with respect to 2009, comprised basically of coal and CCGTs, which absorbed the downward adjustment between demand and generation.

Coal-fired output declined by 34.8% with respect to 2009, when it fell a notable 27% with respect to 2008.

Oil-fired output fell by 12.2% in the year, although it barely contributed half of one per cent of demand.

CCGT output fell by 17.3% in the full year; CCGTs contributed 24.4% of demand in the full year, six points less than in 2009.

In the fourth quarter of 2010, higher output by hydroelectric plants (due to greater precipitation) and special regime plants, especially wind failed to offset the effect of higher commodity prices and, therefore, production costs; consequently, the price increase continued, reaching €45.0/MWh in the year end, and some days exceeding €50/MWh (reaching the highest level for the year, €57.2/MWh, on 1 December).

The weighted daily average price in the electricity pool was €38.0/MWh in 2010, i.e. practically the same as in 2009.

As for other commodities, Brent crude rose to \$86.46/bbl in the fourth quarter of 2010. API 2, Europe's leading coal price indicator, increased to \$108.64/t in 4Q10, while the price of CO₂ emission rights (EUAs on Bluenext) was €14.74/t (maturing in the current year).

Main aggregates

The main aggregates in GAS NATURAL FENOSA's electricity business in Spain were as follows:

	2010	2009	%
Installed capacity (MW):			
Ordinary Regime	14,637	13,410	9.1
Hydroelectric	13,679	12,436	10.0
Nuclear	1,860	1,860	—
Coal	589	589	—
Oil/gas	2,048	2,048	—
CCGT	617	617	—
Special Regime	8,565	7,322	17.0
Electricity generated (GWh):			
Ordinary Regime:	38,338	28,728	33.5
Hydroelectric	35,809	26,694	34.1
Nuclear	4,752	1,849	157.0
Coal	4,325	2,908	48.7
Oil/gas	772	741	4.2
CCGT	32	4	700.0
Special Regime	25,928	21,192	22.3
Electricity sales (GWh):			
Liberalised market	2,529	2,034	24.3
Last resort tariff / regulated	40,559	26,520	52.9
	30,179	17,297	74.5
	10,380	9,223	12.5

Electricity production on the peninsula of GAS NATURAL FENOSA totalled 38.338 GWh in 2010, 33.5% higher than in 2009. Bearing in mind homogeneous values for 2009, this would be an increase of 1.4%. Of this figure, 35.809 GWh were generated under the Ordinary Regime, increasing by 34.1%, which in homogeneous terms is an increase of 0.7%. Generation under the Special Regime, which totalled 2.529 GWh, has increased by 24.3% (12.1% in homogeneous terms), a reduction of 1.6% in installed power, which in homogeneous terms represents an increase of 2.0%.

Hydro-electricity production during the year totals 4.752 GWh, an increase of 157.0%, which, taking into account the homogeneous aggregates, would be 40.3%, as a result of the hydrological characteristics of the beginning of the year. The year began with high precipitation in the first semester, turned average in the third quarter, and ended with a PSS average of 38%. The level of energy reserves in the water basins of GAS NATURAL FENOSA is 49% of full capacity.

Nuclear energy production has increased as a whole for the year by 48.7%, which in homogeneous terms is an increase of 7.9%, which has been due to the effect of the postponement of the programmed stoppages.

Most of the coal and fuel oil-fired thermal power stations ended 2010 with an increase in coal-fired production of 4.2% and an increase in fuel oil production of 700%, which is not very significant given their slight contribution to total production.

The company's CCGT output in 2010 totalled 25,928 GWh, a 22.3% increase with respect to 2009 but in homogeneous terms means a 1.0% decrease, contrasting with the 17.3% decline nationwide. This fact underlines the operating advantages of GAS NATURAL FENOSA's CCGTs.

In the last quarter of 2010, two CCGT units in Barcelona Port came on stream, the first with a gross capacity of 412.6 MW, and the second with 426.1 MW. These, together with the entry into service in July 2010 of the CCGT in Malaga (409 MW) brings the total ordinary regime installed capacity of GAS NATURAL FENOSA to 13,679 MW, i.e. up 10.0% with respect to 2009.

GAS NATURAL FENOSA's market share of ordinary regime power generation was 20.2% in December 2010, i.e. slightly higher than in 2009.

In electricity commercialisation, including the commercialisation of the deregulated market and last resort (last-resort tariff or TUR) market, sales have increased by 52.9% during the year, which in homogeneous terms is a decrease of 1.5% against the aggregates for last year.

Total emissions of CO₂ from thermal power plants and CCGTs affected by the regulation governing greenhouse gas emission trading was 9.8 million tonnes. GAS NATURAL FENOSA acquired the emission rights needed to cover its shortfall through the secondary market, primary projects and carbon funds, thereby managing its CO₂ emission right hedges for the 2008-2012 and post-Kyoto periods.

The company traded over 15,000 GWh in the Iberian electricity market in 2010.

Energy trading in the French and German electricity markets in 2010 was performed via Virtual Power Plant (VPP) auctions, energy sales in grid loss auctions in France, and sales in organised markets and OTC; the company managed more than 3,000 GWh.

As regards crossborder trading between Spain-France and Germany-France, GAS NATURAL FENOSA optimised and diversified its position, participating in the organised markets in those countries and buying interconnection capacity in short- and medium-term auctions, trading over 300 GWh in 2010.

Electricity Latin America

This section includes electricity generation in Mexico, Puerto Rico, Costa Rica, Panama and the Dominican Republic.

Currently operational assets in Mexico are the Hermosillo (270 MW) and Naco Nogales (300 MW) power plants in Sonora state; the Tuxpan III and IV (1,000 MW) power plants in Veracruz state; and the Saltillo (284 MW) plant in the Coahuila state and the Norte Durango (450 MW) plant in the state of Durango, also in north-western Mexico.

On 24 December 2009, GAS NATURAL FENOSA reached an agreement to sell part of its power generation business in Mexico to Mitsui & Co. and Tokyo Gas Co. This transaction is part of the divestment plan, which will enable the company to attain a more balanced exposure to Mexico. The sale was completed on 3 June 2010.

The following assets were sold: the Anahuac, Lomas del Real, Valle Hermoso, Águila de Altamira and Saltillo power plants, as well as the Río gas pipeline and Compañía Mexicana de Gerencia y Operación, S.A. de C.V. (i.e. a total of 2,233 MW of installed capacity).

On 17 October 2009, GAS NATURAL FENOSA signed a draft agreement with Colener, Inversiones Argos and Bancolombia Corporación Financiera for the sale of its indirect stake in Colombian company Empresa de Energía de Pacífico (EPSA). On 9 December 2009, the Colombian Stock Exchange completed the transaction by transferring the shares. As a result, GAS NATURAL FENOSA divested 950 MW of installed capacity.

Results

	2010	2009	%
Net sales	954	929	2.7
Purchases	(607)	(600)	1.2
Personnel costs. net	(19)	(14)	35.7
Other expense/income	(65)	(73)	(11.0)
Ebitda	263	242	8.7
Depreciation and amortization	(105)	(163)	(35.6)
Change in operating provisions	(4)	(1)	300.0
Operating income	154	78	97.4

EBITDA for the period totals Euros 263 million, 8.7% higher than last year, due to the inclusion of Mexico, the Dominican Republic and Panama for only 8 months in 2009 (May to December). After discounting in 2009 the sale of the business sold in Colombia and Mexico, EBITDA has increased by 20.1%, due mainly to the commercial start up of the Norte Durango plant, and the positive technical performance of the other plants in the area. Excluding the effect of the exchange rate, EBITDA has risen by 19.0%.

EBITDA in Panama was 61.7% higher than in the previous year as a result of power plants being dispatched to manage the water in the country's reservoirs.

EBITDA from the power plants in Puerto Rico and the Dominican Republic increased by 9.5% and 24.9%, respectively, due to higher sale prices and a higher level of dispatching.

Main aggregates

Construction of the Norte CCGT in Durango state was completed on schedule. This 450 MW plant was awarded on 6 March 2007. Following the first firing of the gas turbine on 23 February 2010, the first synchronisation on 28 March, and performance tests, it commenced commercial operation on 7 August 2010.

The main figures in the activity are:

	2010	2009	%
Installed capacity (MW):			
Mexico (CCGT)	2,505	4,288	(41.6)
Puerto Rico (CCGT)	2,020	3,803	(46.9)
Panama (hydroelectric and thermal)	254	254	–
Dominican Republic (oil-fired)	33	33	–
Electricity generated (GWh):			
Mexico (CCGT)	19,147	23,471	(18.4)
Puerto Rico (CCGT)	16,182	20,921	(22.7)
Panama (hydroelectric and thermal)	1,803	1,717	5.0
Dominican Republic (oil-fired)	132	61	116.4
	1,030	772	33.4

Power production in 2010 amounted to 19,147 GWh, with a load factor of 75.4% and 92.9% availability.

Electricity Other (Kenya)

This area refers to power generation in Kenya.

The entry into service of seven diesel generators (52 MW) in Kenya in the third quarter of 2009 led to a notable increase in power production.

Results

	2010	2009	%
Net sales	96	42	128.6
Purchases	(71)	(33)	115.2
Personnel costs, net	(2)	(1)	100.0
Other expenses/income	(8)	(4)	100.0
Ebitda	15	4	275.0
Depreciation and amortization	(6)	(2)	200.0
Change in operating provisions	–	–	–
Operating profit	9	2	350.0

EBITDA has totalled Euros 15 million in 2010, an increase of Euros 11 million against the same period last year. Taking 2009 as a whole, the increase in EBITDA would total Euros 9 million, as a result of the increase in capacity mentioned above and the high level of availability during this period (91.4%), as a determining indicator of the revenues for capacity.

Main Aggregates

The main aggregates of the activity are the following:

	2010	2009	%
Electric generation capacity (MW)	112	112	–
Electric energy production (GWh/year)	645	354	82.2

This year fuel-fired production in Kenya has increased by 82.2% against the period from May to December last year, reaching 645 GWh. This increase would be cut to 36.9% if we took the year as a whole. This increase has been due to the increase in capacity of the plant in the third quarter of 2009, in which 52 additional MW came on line commercially. Nevertheless, production has been negative impacted by the heavy rains in the country in the first few months of the year, which led to high levels of hydro-electric production.

Infrastructure

This area includes the development of integrated liquefied natural gas (LNG) projects, hydrocarbon exploration, development and production, maritime transportation, and the operation of the Maghreb-Europe gas pipeline.

Results

	2010	2009	%
Net sales	264	276	(4.3)
Purchases	(12)	(37)	(67.6)
Personnel costs, net	(6)	(7)	(14.3)
Other expense/income	(55)	(51)	7.8
Ebitda	191	181	5.5
Depreciation and amortization	(50)	(48)	(4.2)
Change in operating provisions	–	–	–
Operating profit	141	133	6.0

Net turnover from infrastructure activity has totalled Euros 264 million, a decrease of 4.3%.

EBITDA for 2010 totals Euros 191 million, 5.5% higher than last year. This increase is mainly due to the fact that the increased international transport revenues and cost containment have been partially offset by a lower margin on the sea transport business due to a greater level of occupancy of the fleet allocated to company transport, which involves less sub-chartering.

Main aggregates

The main aggregates in international gas transportation are as follows:

	2010	2009	%
Gas transportation-EMPL (GWh):	109,792	109,230	0.5
Portugal-Morocco	29,052	28,705	1.2
GAS NATURAL FENOSA	80,740	80,525	0.3

The gas transportation activity conducted in Morocco through companies EMPL and Metragaz represented a total volume of 109,792 GWh, on par with the same period last year. Of that figure, 80,740 GWh were transported for GAS NATURAL FENOSA through Sagane and 29,052 GWh for Portugal and Morocco.

In the gas exploration and production area, a seismic survey was carried out in the second quarter of 2010 in the Tangier-Larache (Morocco) concession, in which GAS NATURAL FENOSA has a 24% stake, and the results have been processed and analysed in preparation for drilling in 2011.

In the integrated project being developed in Angola by GAS NATURAL FENOSA with Repsol (20%), drilling work continued in the Garoupa II block and a range of geological and geophysical surveys were conducted in that area.

On the other hand, public disclosure, filing of allegations and the preparation of environmental impact studies for the five projects that make up the exploration, production and storage that GAS NATURAL FENOSA is planning for the next few years in the Guadalquivir Valley has continued. On 30 September 2010 the Environmental Impact Declaration for the first of the five projects was obtained. Thereafter, on 15 November 2010 the Government of Andalusia issued the Unified Environmental Authorization for this project, the step prior to its approval by the Ministry of Industry, Tourism and Trade.

GAS NATURAL FENOSA's projects to build two regasification plants in Italy (Trieste-Zaule and Taranto) continue to make progress towards obtaining the required permits and licenses. The Trieste-Zaule project obtained a positive report from the Ministry of Cultural Assets and Activities (MiBAC) in January 2009 and the Environmental Approval Decree in July 2009, culminating the permit process at national level. The process of obtaining permits for the Taranto project, as required under Italian legislation, is continuing. The permit process for Trieste is expected to conclude with the obtainment of the Single Authorisation for construction of the plant during 2011.

Both projects are on-shore, located in the port areas of the respective cities, and have a planned regasification capacity of 8 bcm/year; investment per terminal will be approximately €500 million. These plants will enable the company to diversify its sources of natural gas supply in Italy and provide continuity in this energy supply, in line with the objectives of the Italian government's energy policy.

Procurement and supply

This area includes gas procurement and supply (wholesale and retail) in Spain and other countries, the supply in Spain of products and services related to supply, and supply of gas at the last-resort tariff in Spain.

Results

	2010	2009	%
Net sales	7,678	6,853	12.0
Purchases	(7,345)	(6,044)	21.5
Personnel costs, net	(64)	(62)	3.2
Other expenses/income	(212)	(351)	(39.6)
Ebitda	57	396	(85.6)
Depreciation and amortization	(14)	(11)	27.3
Change in operating provisions	(31)	(46)	(32.6)
Operating profit	12	339	(96.5)

2010 includes the net effect of various non-recurrent items totalling Euros 305 million, including of special note, amongst others, the provision to the one already booked to date for the risks arising from litigation with Sonatrach.

Net sales amounted to €7,678 million, 12.0% more than last year. EBITDA in 2010 totalled €57 million, down 85.6% against last year, due primarily to the non-recurrent items mentioned above, and to a different market sales mix during the year, conditioned by the retail commercialisation area as a result of the adjustment of prices under the tariff of last resort.

Additionally, it must be also pointed the effect of the divestments made in December 2009 in the Region of Cantabria (Gas Natural Cantabria SDG) and the Region of Murcia (Gas Natural Murcia SDG), and the sales made in April 2010 of different natural gas commercialisation assets in the Region of Madrid.

Diversification of the portfolio of commodities and combined management of the commodity and dollar risks mitigated the decline in EBITDA in a context of significant volatility in the energy and currency markets.

Main aggregates

The main aggregates in the gas procurement and supply activity are as follows:

	2010	2009	%
Gas supply (GWh)	305,704	286,152	6.8
Spain:	250,885	234,230	7.1
GAS NATURAL FENOSA supply ⁽¹⁾	184,744	182,299	1.3
Supply to third parties	66,141	51,931	27.4
International:	54,819	51,922	5.6
France	21,122	15,627	35.2
Other	33,697	36,295	(7.2)
Multiutility contracts (at 31/12)	1,520,758	2,125,270	(28.4)
Contracts per customer (at 31/12)	1.32	1.39	(5.0)

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

GAS NATURAL FENOSA supplied 184,744 GWh in the Spanish gas market, a 1.3% increase with respect to the same period last year, primarily due to greater gas consumption by residential and industrial customers, while sales to CCGT plants remained flat.. The company sold 66,141 GWh of gas to third parties for supply to the Spanish market, a 27.4% increase.

With a view to guaranteeing gas exports from Spain to Portugal, GAS NATURAL FENOSA is using the gas grid connections in Campomaior (south-east) and Valen a do Minho (north).

Gas Natural Europe (the French supply subsidiary) has obtained its first customers in Belgium and Luxembourg, representing a contracted portfolio of over 200 million kWh in 2011. The company, which recently opened its first branches in Belgium and Luxembourg so as to extend its gas supply activities in Europe, is also considering an entry into other central European markets in the medium term by offering the combination of customised energy consulting with the advantage of a diversified, secure supply.

The French subsidiary, which has been supplying gas in the French market since 2005 and currently has 211 customers there (ranging from chemical, paper and other industrial companies to local government and the public sector), has opened a commercial office in Toulouse with a view to expanding in the south of France.

From the Paris office, GAS NATURAL FENOSA coordinates the revival of the wholesale gas business in Italy, where the company has obtained new customers. The portfolio under contract in Italy amounts to 2,200 GWh per year and Italian subsidiary Gas Natural Vendita also supplies energy to residential customers.

As for expansion in Europe, GAS NATURAL FENOSA was the first Spanish company to form part of the Zeebrugge gas hub in Belgium; it has just begun to make use of the resulting capacity to operate in that country by buying and selling gas in the Belgian wholesale market and to supply gas to the industrial and domestic market.

GAS NATURAL FENOSA continues to take steps to develop energy options for vehicles in Spain, in both the public and private sectors. GAS NATURAL FENOSA is an expert in automotive LNG, a business which it already conducts in several Latin American countries and Italy, where automotive natural gas is widely used.

GAS NATURAL FENOSA undertakes end-to-end management of the process, from construction of service stations (capital cost and subsequent operation and maintenance) to the supply of compressed natural gas, thereby ensuring maximum availability of the facilities. GAS NATURAL FENOSA has 17 service stations and sold 299 GWh in 2010; it also has 5 customers in the pipeline which represent an additional 69 GWh/year of potential consumption.

During 2010, the company made significant progress in expanding the automotive gas market in Spain, including notably the new bus depot in Sanchinarro (Madrid) for the Madrid Municipal Bus Service, serving a fleet of approximately 400 buses. This is the largest automotive LNG installation in Europe in terms of both fleet size and compression capacity. The depot is estimated to reduce annual emissions of nitrogen oxides by 54 tonnes and particulate emissions by almost 4 tonnes, which will help attenuate Madrid's air quality problems.

GAS NATURAL FENOSA is also working on actions to foster energy efficiency and the rational use of energy in the field of mobility. In November 2010, GAS NATURAL FENOSA signed an agreement with Castrosua, a manufacturer of bus chassis, to cooperate on R&D for the development of hybrid compressed natural gas (CNG)/electric vehicles. GAS NATURAL FENOSA is also developing engines to allow the use of liquefied natural gas (LNG) in long-distance buses.

In the area of energy efficiency, GAS NATURAL FENOSA continues to work on projects in the residential, tertiary and industrial markets and actively promotes energy efficiency and saving. It has signed agreements with federations and associations of restaurants, services and shops in Tenerife, Las Palmas de Gran Canaria and Malaga to establish a framework for cooperation in energy efficiency actions as a basic principle for energy management by their members.

In 2010, GAS NATURAL FENOSA launched ServiElectric, a new nationwide service which provides corrective maintenance of electrical installations as a means of increasing the portfolio of value-added services for customers. This is a pioneering initiative in terms of the level of service and it obtained 22,000 contracts in 2010.

GAS NATURAL FENOSA continues to focus on adding features and signing up users for its on-line office; in 2010, the site logged 3.5 million transactions and a total of 740,000 customers registered as site users.

Also in 2010, GAS NATURAL FENOSA began marketing all its products and services throughout Spain and stepped up the pace of recovery in the residential market, tripling the number of customers who returned to GAS NATURAL FENOSA with respect to 2009.

GAS NATURAL FENOSA has a total of 1,520,758 contracts to maintain gas facilities and appliances for residential customers (in May the company divested 144,207 contracts in the Madrid region) based on its own operating platform consisting of over 149 associated firms connected via an wireless on-line system, which has enabled it to improve service performance and quality (our customers rate this as our top service).

Unión Fenosa Gas

This area includes wholesale and retail gas procurement and supply performed by Unión Fenosa Gas, including the liquefaction plant in Damietta (Egypt), the Sagunto regasification plant, and the LNG tankers fleet.

Results

Unión Fenosa Gas is owned 50% by GAS NATURAL FENOSA and is proportionately consolidated.

	2010	2009	%
Net sales	849	348	144.0
Purchases	(580)	(208)	178.8
Personnel costs, net	(12)	(8)	50.0
Other expenses/income	(33)	(10)	230.0
Ebitda	224	122	83.6
Depreciation and amortization	(146)	(70)	108.6
Change in operating provisions	—	—	—
Operating profit	78	52	50.0

EBITDA amounted to €224 million in 2010, which is an increase of 83.6% against last year, due to the addition in 2009 only of the period from May to December. In homogenous terms this is an increase of 4.7%, thanks to the economic boost recorded in the second half of the year. The good second-half performance was due to higher sales volumes in the Spanish market (gas sales rose 14% year-on-year) and favourable energy prices (Brent, the Spanish electricity pool, and coal).

Main aggregates

The main aggregates for the Unión Fenosa Gas business are as follows:

	2010	2009	%
Gas supply in Spain (GWh)	59,518	34,854	70.8
Gas supply in International (GWh)	27,774	10,785	157.5
Liquefaction (GWh)	35,851	31,385	14.2
Regasification (GWh)	56,092	53,735	4.4

The gas supplied in 2010 has increased by 70.8% and totals 59,518 GWh. In homogeneous terms, this is an increase of 14% against the same period last year. The sales to industrial customers and combined cycle plants have increased by 8.9% and 12.6%, respectively, while the sales to commercialisers have fallen by 1.8%

A total of 27,774 GWh of energy was traded in international transactions.

During the period, the gas acquired under long-term contracts with Egypt and Oman covered most of the gas needs in the Spanish market; 25.7% of total gas needed to be obtained from other sources.

The main gas infrastructure (liquefaction, sea transport and regasification) maintained levels of availability and efficiency, in line with the same period last year.

At the end of July 2010, the Damietta (Egypt) liquefaction plant completed the work related to the first major inspection, in accordance with the maintenance plan, and it became available again at full efficiency in early August 2010.

The plant delivered 39 shiploads, of which 23 were for Unión Fenosa Gas, and the remainder for other operators.

The Sagunto regasification plant produced 56,092 GWh, i.e. 76 shiploads, of which 31 were for Unión Fenosa Gas (28,930 GWh, i.e. 51.6% of the total).

In May 2010, the dome was successfully placed on the fourth liquefied natural gas (LNG) storage tank at the Sagunto regasification plant. The new tank is scheduled to become operational in the first quarter of 2012 and will increase capacity by 150,000 m³.

On 6 September 2010, for the first time since becoming operational, the Sagunto plant took delivery of gas from Qatar in a Q-Max class LNG tanker, one of the largest in the world. The ship discharged almost all of its liquefied natural gas capacity in Sagunto. The Al Dafna, registered in Qatar, can transport 266,000 m³ of LNG. A Q-Max LNG tanker can carry 80% more LNG than a conventional LNG tanker while consuming 40% less energy.

This was the largest LNG unloading operation in Spain to date. Sagunto has a dock to receive Q-Max methane vessels, although none have docked to date.

2. Risk factors related to the activity of GAS NATURAL FENOSA

a) Uncertainty of the macro-economic environment

In the last few months the international economy and financial system have gone through a period of considerable turbulence and uncertainty, especially in the financial markets, which began in August 2007 and which has deteriorated substantially since September 2008. This uncertainty has severely impacted the general levels of liquidity and credit available, as well as the terms and conditions for the same, which has contributed to an increase in the financial burden of homes and industrial customers of GAS NATURAL FENOSA, thus reducing their purchasing power and affecting demand adversely.

GAS NATURAL FENOSA cannot predict the trend in the economic cycle in the next few years nor whether the current recession in the international economic cycle will take a turn for the worse.

b) GAS NATURAL FENOSA may not be successful in the roll out of its business strategy.

Given the risks to which it is exposed and the uncertainties inherent in its business, GAS NATURAL FENOSA cannot ensure that it will be able to successfully implement its business strategy. The scope of and compliance with its strategic objectives are subject, amongst others risk factors, to:

- the lack of an increase in the number of supply points in Europe and Latin America, due to the fact that GAS NATURAL FENOSA cannot expand the distribution network;
- a failure to increase in the number of customers due to the lack of success of the marketing campaigns for liberalized market consumers;
- the enabling of take or pay clauses in supply contracts, which would involve the obligation to pay for a volume of gas exceeding the needs of GAS NATURAL FENOSA;
- the lack of success in the consolidation of the electricity production business in Spain conditioned by subsidised technology incentives;
- the incapacity to consolidate the multi-service business strategy or to increase the number of multi-product contracts per customer.

c) Regulatory risk

GAS NATURAL FENOSA and its subsidiaries are obligated to comply with the legislation in the natural gas and electricity sectors. Especially, the gas and electricity distribution business is regulated in most of the countries in which GAS NATURAL FENOSA carries out this business.

The applicable legislation to the natural gas and electricity sectors in the countries in which the GAS NATURAL FENOSA Group operates is typically subject to periodical revision by the competent authorities. The introduction of modifications could impact the remuneration of the regulated activity, adversely affecting the business, profits, grants and the financial position of GAS NATURAL FENOSA.

In the event that public or private entities interpret or apply criteria other than those of GAS NATURAL FENOSA, its compliance would be questioned or challenged, and, if any non-compliance were proven, this could adversely affect the business, outlook, profits, grants and financial position of GAS NATURAL FENOSA.

Level of competitiveness in the commercialisation in the gas and electricity markets.

GAS NATURAL FENOSA operates in a stiffly competitive environment in relation to its positioning in the gas and electricity markets in the different countries in which it is present. In particular, the processes of energy market deregulation both in Spain and in major markets has negatively impacted the energy price levels and the market share of end customer sales, especially in the gassistic area. A new loss of market share could adversely and significantly affect the turnover of GAS NATURAL FENOSA.

Divestments

The National Anti-Trust Commission (CNC, Spanish acronym), by virtue of a resolution of its Board dated 11 February 2009, notified GAS NATURAL FENOSA on the following day that it had decided to subordinate the approval of the takeover of control of UNION FENOSA by GAS NATURAL to compliance by the latter to certain commitments agreed by GAS NATURAL FENOSA. For its part, the Second Vice-President of the Government and Minister of the Economy and the Treasury decided on 17 February 2009 not to refer the issue of this business concentration to the Council of Ministers, and notified GAS NATURAL FENOSA and the CNC of that decision on that date. Amongst the outstanding commitment mentioned above of special note is the divestment of 2.000 MW of electricity capacity through combined cycle technology, of which GAS NATURAL FENOSA on 12 July 2010 agreed to sell to a 400MW generator from the combined cycle plant in Plana del Vent to a Spanish subsidiary of the Alpiq Group, while giving it the right to exclusive use and operation of another 400 MW generator for a period of two years, on which it will be able to exercise a purchase option at the end of this period.

The sale of the assets required is subject to the review of the CNC, and the commitments to the CNC can be appealed by the competitors of GAS NATURAL FENOSA and by third parties with legitimate interests. In the event of a breach by GAS NATURAL FENOSA, or if there is a sale of assets under unfavourable terms, adverse material effects could impact the business, prospects, financial position and results of the Company.

Given that the gross amounts obtained from any sale will depend on the reigning market conditions, the competition for assets between buyers and other factors, many of which are beyond the control of GAS NATURAL FENOSA, the latter cannot ensure the amount of any sale or that it will be able to obtain the estimated market value of these assets.

d) Operational risk

GAS NATURAL FENOSA activities are exposed to different operational risks, such as breakdowns in the distribution network, electricity generation facilities and the gas tankers, explosions, polluting emissions, toxic spills, fire, adverse meteorological conditions, contractual breaches, sabotage or accidents affecting the gas distribution network or electricity generation assets, as well as defects and force majeur that could result in personal and/or material damages, impairment of facilities or property of GAS NATURAL FENOSA or their destruction. Events such as these, or the like, are unpredictable and can cause interruptions in the supply of gas and the production of electricity. In situations of this type, in spite of the existence of the pertinent coverage through risk insurance policies, insurance on potential loss of profit and damages, the financial position and results of GAS NATURAL FENOSA may be affected to the extent that these losses are not insured, or coverage is insufficient, or economic losses are generated as a result of the limitation of coverage or deductibles borne, as well as for potential increases of the prices of the premiums paid in the insurance market.

We should also mention that GAS NATURAL FENOSA could be subject to civil liability claims for personal and/or other damages caused during the ordinary course of its business. The filing of these claims could lead to the payment of indemnities under applicable legislation in those countries in which GAS NATURAL FENOSA operates, which could give rise, to the extent that these civil liability insurance policies do not cover the indemnities, to an adverse material effect on the business, outlook, financial position and results.

e) Risks related to litigation and arbitration

In the sector in which the GAS NATURAL FENOSA operates there has been in the last few years a trend to greater litigation, as a result of the volatility of oil prices and the increased competition in the liberalized market, amongst other factors. At this time GAS NATURAL FENOSA and its subsidiaries are parties to various legal proceedings, arbitration and regulatory actions. The adverse results of one or more of these proceedings (including any out-of-court settlements) could have an adverse material effect on the business, results and financial situation of GAS NATURAL FENOSA.

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 amount of which is not disclosed, in accordance with the provisions of paragraph 92 of IAS 37, given that it could seriously prejudice the position of GAS NATURAL FENOSA.

f) Gas and electricity price risks.

GAS NATURAL FENOSA is exposed to variations in crude oil, natural gas and electricity prices.

A major part of the operating expenses of GAS NATURAL FENOSA is linked to the purchase of natural gas and liquefied natural gas (LNG) for commercialisation on the deregulated market and to supply regulated markets. Likewise, its combined cycle plants use natural gas as fuel.

Although the prices that GAS NATURAL FENOSA applies to the sale of gas to its customers corresponds generally to market prices, in very volatile environments, the fluctuations in sale prices may not reflect the proportional fluctuations in the cost of raw materials. In addition to the costs related to the gas business, the rises in the prices of natural gas could lead to an increase in the costs of electricity production, given that the combined cycle plants of GAS NATURAL FENOSA use natural gas as fuel.

The GAS NATURAL FENOSA business includes, amongst other activities, the wholesale commercialisation of natural gas to electricity generators and other customers. With respect to these operations, the income and results of GAS NATURAL FENOSA usually depend to a great extent on the market prices in the regional markets in which it operates and in other competitive markets. As a result, the wholesale commercialisation of natural gas is exposed to the risk of fluctuation in raw material prices and the price of electricity.

The variations in the price of raw materials could adversely affect the results of GAS NATURAL FENOSA if the increase in generation costs is not recouped through sale prices of electricity, or in general, in the gasistic area, if we cannot attain a degree of efficiency in the management of the customer portfolio to permit a recovery through the commercialisation of the fluctuations in the energy scene.

g) Gas Volume risk

Most of the purchase of natural gas and liquefied natural gas (LNG) are made through long-term contracts that include clauses under which GAS NATURAL FENOSA has the obligation to make annual purchases for certain volumes of gas (known as "take or pay" clauses). Under these contracts, in spite of the fact that GAS NATURAL FENOSA does not need to acquire the gas volume agreed at a specific time, it will be contractually obligated to pay the minimum amount agreed under these "take-or-pay" clauses.

The aforementioned contracts contain certain gas volumes that relate to the estimated needs of GAS NATURAL FENOSA. However, the real needs may be lower than those forecasts at the time the contracts were signed. If there are significant variations in these estimates, GAS NATURAL FENOSA will be obligated to acquire a greater volume of gas than it actually needs, or failing this, to pay for a minimum amount of gas agreed, irrespective of whether it acquires the surplus over its needs, which could have an adverse, significant impact on the operating costs of GAS NATURAL FENOSA.

h) Environmental requirements

The activities of GAS NATURAL FENOSA are subject to compliance with extensive legislation on environmental protection.

GAS NATURAL FENOSA and its subsidiaries are subject to strict compliance with extensive legislation on environmental protection that requires, amongst other points, the preparation of environmental impact evaluation studies, obtaining the pertinent authorisations, licences and permits, as well as compliance with certain requirements, including, amongst others, the fact that:

- the environmental authorisations and licenses may not be granted or may be revoked due to non-compliance with the conditions that are imposed thereunder.
- the regulatory framework or its interpretation by the authorities could be modified or changed, which could lead to an increase in costs or deadlines in order to comply with the new regulatory framework.

i) Interest and exchanges rate risk

Variations in interest rates modify the fair value of the financial assets and liabilities that accrue a fixed interest rate, as well as the cash flows from financial assets and liabilities indexed to a floating interest rate, and, accordingly, they affect both equity and net incomes, respectively.

On the other hand, GAS NATURAL FENOSA is exposed to the risk related to the variation in currency exchange rates. These variations could affect, amongst other things, the debt of GAS NATURAL FENOSA denominated in non-euro currencies, to the operations that GAS NATURAL FENOSA carries out in other currencies that generate income denominated in another currency, as well as the counter-value of the cash flows related to the purchase and sale of raw materials denominated in non-euro currencies. The fluctuations in the exchange rate between the Euro and the US Dollar, the currency in which gas purchases are made by GAS NATURAL FENOSA are denominated in or pegged to, could also affect the results and financial position of GAS NATURAL FENOSA.

In spite of the fact that GAS NATURAL FENOSA has proactive management policies for the risks mentioned above in order to minimise their impact on its net income, in some cases these policies may be ineffective in mitigating the adverse effects inherent in the fluctuation in interest rates and exchange rates, and could adversely and significantly affect net income and the financial position of GAS NATURAL FENOSA.

j) Impact of meteorological conditions

Electricity and natural gas demand is linked to climate. A major part of gas consumption during the winter depends on the production of electricity and its use for heating, while during the summer months consumption depends on the production of electricity for air conditioning, basically. The income and net income of GAS NATURAL FENOSA from the distribution and commercialisation of natural gas could be affected adversely by warm falls or mild winters. Likewise, the demand for electricity could decline if summers are not hot, due to less demand for air conditioning. Furthermore, the occupancy degree of hydro-electric plants depends on the level of precipitation where these installations are located, which can be affected by periods of drought.

The development of the electricity business of GAS NATURAL FENOSA is subject to different factors beyond the control of GAS NATURAL FENOSA, which are the following

- increases in the cost of generation, including the increases in the fuel price;
- loss of competitiveness with other technologies, due to the increase in the cost of generation using natural gas;
- a possible decrease in the growth rate of electricity consumption due to different factors, such as economic conditions or the implementation of energy savings programs;
- inherent risks in the operation and maintenance of electricity plants;
- the growing volatility in price due to the deregulation of the sector and changes in the market;
- a overcapacity situation of electricity production or in the markets in which GAS NATURAL FENOSA is the owner of generation plants or has an interest in them;
- the appearance of alternative energy sources due to the new technologies and growing interest in renewable energy and cogeneration.

k) Exposure in Latin America

A major portion of operating profit of GAS NATURAL FENOSA is generated by its Latin American subsidiaries. The operations in Latin America are exposed to different risks inherent in investment in that region. Amongst the risks factors linked to the investment and business in Latin America are:

- major influence on the economy by local governments;
- Significant fluctuation in the economic growth rate;
- High inflation rates
- Devaluation, depreciation or overvaluation of local currencies;

- Controls or restrictions on the repatriation of profits;
- Changing environment for interest rates;
- Changes in financial economic and tax policies;
- Unexpected changes in regulatory frameworks;
- Social tensions;
- Political and macro-economic instability.

GAS NATURAL FENOSA cannot predict the way in which any future worsening of the political and economic situation in Latin American could take place or any other changes in legislation in the countries in which it operates.

3. Information under article 116 b of the Spanish Securities Exchange Act

In accordance with the provisions of article 116 b of the Spanish Securities Exchange Act, Law 24/1988/28 July, enacted by Law 6/2007/12 April, the Board of Directors of Gas Natural SDG, S.A. adopted a resolution at its meeting of 29 January 2011 to approve this Report on the matters which, in compliance with the aforementioned provision, have been included in the Management Report for 2010.

a) The capital structure including securities that are not negotiated on regulated community markets, indicating, as the case may be, the different classes of shares and, for each class of shares, the rights and obligations they provide and the percentage of share capital represented:

Under articles 5 and 6 of the Articles of Association, the share capital of Gas Natural SDG, S.A. totals that are fully subscribed and paid. The share capital is made up of euro NINE HUNDRED TWENTY ONE MILLION SEVEN HUNDRED FIFTY SIX THOUSAND NINE HUNDRED FIFTY ONE (Euros 921,756,951) shares with a par value of Euro 1 each, represented by accounting entries and of the same class.

All the shares have the same economic and voting rights.

Furthermore, under article 33, paragraph one, of the Articles of Association, and under article 9, paragraph one, of the General Meeting Regulations the shareholders who individually or grouped hold 100 shares can attend the General Meeting of Shareholders, provided that they are inscribed in the respective accounting register five days prior to the meeting, and have the respective attendance card accrediting their compliance with the aforementioned requirements, which will be expedited to the bearer by the entities legally entitled to do so.

b) Restrictions on the transfer of securities:

There are no restrictions on the transfer of securities. According to article 11 of the Articles of Association of Gas Natural SDG, S.A. the shares are transferable in the manner set down by current provisions in force. Notwithstanding the application of certain norms, which are set out below.

As a listed company, the acquisition of significant shareholdings is subject to notification of the issuer and the Spanish Securities Exchange Commission (Comisión Nacional del Mercado de Valores – CNMV) under article 53 of the Securities Exchange Act, Law 24/1988, article 23.1 of Royal Decree 1362/2007/19 October and Circular 2/2007/19 December of the CNMV, which sets the first notification threshold at 3% of share capital or voting rights.

Furthermore, as a listed company, and except of the exemption under the First Additional Provision of Royal Decree 1066/2007 the acquisition of 30% or more of share capital or voting rights of the Company requires the filing of a takeover bid under the terms set down in article 60 of the Securities Exchange Act, Law 24/1988.

c) The significant direct or indirect shareholdings in the share capital

At the 2010 year end the shareholders inscribed as significant shareholders were as follows:

Name or registered name of the shareholders	Number of direct voting rights	Number of indirect voting rights^(*)	% of the total voting rights
Caja de Ahorros y Pensiones de Barcelona ("la Caixa")	200	337,740,277	36.641
Repsol YPF, S.A.	217,363,341	59,255,920	30.010
Caixa D'Estalvis de Catalunya, Tarragona i Manresa	14,932,463	–	1.620

(*) Through:

Name or registered name of the indirect owner of the shareholding	Through: Name or registered name of the direct owner of the shareholding^(*)	Number of direct voting rights	% of the total voting rights
Caja de Ahorros y Pensiones de Barcelona ("la Caixa")	Criteria CaixaCorp, S.A.	337,740,277	36.641
Repsol YPF, S.A.	Repsol Petróleo, S.A.	44,121,920	4.787
Repsol YPF, S.A.	Repsol Exploración, S.A.	15,134,000	1.642

d) Restrictions on voting rights:

There are no restrictions on voting rights.

e) Corporate agreements:

The Company is aware that the key shareholders, "la Caixa" and Repsol YPF, S.A. have entered into the following corporate agreements:

- Agreement of 11 January 2000.
- Novation of 16 May 2002.
- Addendum of 16 December 2002.
- Addendum of 20 June 2003.

Based on these agreements, LA CAIXA and REPSOL YPF, S.A. jointly hold a controlling position over Gas Natural SDG, S.A. for regulatory and anti-trust purposes, and jointly hold a shareholding in the company over 50%, and have appointed from amongst themselves more than half of the members of its governing body.

As a result of the filing of the prospectus for the takeover bid of the shares of Unión Fenosa, S.A. with the CNMV on 3 March 2009, which was approved on 18 March 2009, the CNMV indicated that the agreements mentioned above, with their contents as from the last novation in 2003, include elements of common management policy, relevant influence on the company and regulation of the voting rights which, as per current legislation in force, indicate the notion of concertation and grounds for the legal presumption of concertation as per article 5.1.b of RD 1066/2007. Consequently, according to the criteria of the CNMV, the joint control arising from the agreements, which materially remains unaltered, has been reclassified as a situation of concertation of both entities.

f) The regulations governing the appointment and replacement of the members of the governing body and the modification the articles of association of the company:

f.1. The appointment and replacement of the members of the governing body is regulated by articles 41 and 42 of the Articles of Association and 11 to 15 of the Regulations on the Organisation and Functioning of the Board of Directors and its Committees.

Board of Directors.

- The administration of the company is entrusted to the Board of Directors, which will be made up of at least ten Members and a maximum of twenty.
- The General Meeting of Shareholders has the power to determine its number and the appointment and removal of Board Members.
- The office of Board Member can be renounced, revoked and re-elected.
- Those persons who have been declared to be incompatible to the extent and under the conditions set down by Law 12/1995/11 May and those who are subject to the prohibitions of article 124 of the Spanish Companies Act (art. 41 Articles of Association) cannot occupy offices in the Company and, as the case may be, exercise them.

Appointment of Board Members

- Board Members will be designated by the General Meeting of Shareholders or by the Board of Directors, in accordance with the provisions of the Spanish Companies Act and in the Articles of Association.
- The appointment will be of persons who, in addition to meeting the legal and statutory requirements are widely renowned and have the professional knowledge and experience to exercise their functions. The appointments proposed of Board Members to be submitted by the Board of Directors to the decision of the General Meeting of Shareholders and the appointments adopted by said body by virtue of their powers of co-optation legally attributed to them must be preceded by the respective report of the Appointments and Remuneration Committee. When the Board differs from the recommendations of this Committee it will have to motivate them and record in the minutes the reasons for its actions.
- An updated professional and biographical profile of all the Board Members will be posted on the website of the Company, as well as the other Boards of Directors on which they sit, whether of listed companies or not, indicating the type of Board Member, and, in the case of Members representing key shareholders, the shareholder they represent or with who they are related, the date of the first appointment as Board Member of the Company and their appointments thereafter and the shares in the Company and share holds they hold (art. 11 Regulations of the Board).

Duration and co-optation

- The duration of the office of Board Member is three years. At the end of this term for which they were designated, the Board Members can be re-elected.
- For the purposes of this article it shall be understood that the appointment will expire when, once the term is completed the following General Meeting of Shareholders has been held or the legal term for the convening of the following Ordinary General Meeting of Shareholders has elapsed.
- If during the term for which the Directors were appointed vacancies appear, the Board can designate from amongst the shareholders those persons that will occupy these offices under the next General Meeting of Shareholders (art. 42 Articles of Association).
- Board Members will exercise their office during a maximum term of three years, and can be re-elected. In no case shall the Independent External Board Members remain in their office as such for a period exceeding twelve years. The Board Members designated by co-optation shall exercise their office until the date of the next General Meeting of Shareholders (art. 13 Regulations of the Board).

Designation of Independent External Board Members

- Persons cannot be proposed or designated as Independent External Board Members who:
 - a) Have been employees or Executive Officers of companies in the GAS NATURAL FENOSA Group, unless 3 or 5 years have elapsed, respectively, since the termination of their former relationship.
 - b) Receive from the company, or GAS NATURAL Group, any amount or benefit for items other than remuneration as Board Member, unless it is not significant.

For the purposes of this section, the dividends and pension supplements received by Board Members for their former professional or labour relationship are excluded, provided that said supplements are unconditional and, consequently, the company that pays them cannot on its own account, without a breach of obligations, suspend, modify or revoke their accrual.
- c) Be or have been for the last 3 years an external audit partner or responsible for the audit report, either of the Company or any Company in the GAS NATURAL FENOSA Group.
- d) Be Executive Officers or top managers of a different company in which an Executive Officer or Top Manager of Gas Natural SDG, S.A. is an External Board Member.
- e) Maintain or have maintained during the past year a major business relationship with the Company or any Company of the GAS NATURAL FENOSA Group, either on his own behalf or as a significant shareholder, Board Member or top manager of an entity that maintains or has maintained said relationship. Business relationships are defined as providing goods or services, including financial, advisory or consulting services.
- f) Be significant shareholders, Executive Officers or top managers of an entity that receives or has received in the last 3 years significant donations from any of the companies in the GAS NATURAL FENOSA Group, excluding those who are mere trustees of a Foundation that receives donations.
- g) Be spouses or persons bound by an analogous relationship of affectivity or consanguinity up to the second degree of an Executive Officer or Top Manager of the company.

- h) Has not been proposed either by appointment or renewal by the Appointments and Remuneration Committee.
- i) Are defined, in respect of a significant shareholder or represented on the Board, in any of the cases set out in letters a), e), f) or g) of this section. In the case of relatives under letter g), the limitation will be applied not only in relation to the shareholder but also in relation to its Board Members representing a key shareholder in the investee company.
- Board Members representing a key shareholder that are no longer such as a consequence of the sale of their shareholding by the shareholder they represented can only be re-elected as Independent Board Members when the shareholder they represented until that time has sold all their shares in the Company.
- A Board Member that holds an interest in the Company can be an Independent, provided that he meets all the conditions set out in this article and, moreover, his shareholding is not significant (art. 12 Regulations of the Board).

Re-election of Board Members

- The Appointments and Remuneration Committee, in charge of evaluating the quality of the work and dedication to the office of the Board Members proposed during the preceding mandate, must report on the proposal to re-elect Board Members that the Board of Directors decide to nominate at the General Meeting of Shareholders (art. 14 Regulations of the Board).

Removal of Board Members

- Board Members will be removed from their office when the period for which they were appointed elapses and in all other cases set forth by current legislation, the Articles of Association and the Regulations in force.
- Board Members must submit their resignation to the Board of Directors and formalize, if the latter finds it appropriate, their respective resignation in the following cases:
 - a) When Internal Board Members resign from executive offices outside the Board to which their appointment was attached as Board Members.
 - b) When they meet the grounds of incompatibility or are prohibited under the Law, the Articles of Association or these Regulations.
 - c) When they seriously breach their obligations as Board Members, place the interests of the Company at risk.
 - d) When the reason for which they were appointed as Independent Board Members, Executives or Board Members representing a key shareholder disappears (art. 15 Regulations of the Board).
- After the removal from office, he will not be able to render services to a competing entity for a period of two years, unless the Board of Directors exempts him from this obligation or reduces its duration.
- When an independent Board Member resigns from office prior to the termination of his mandate for which he was elected, the reasons must be explained in a letter addressed to the other Board Members. The resignation will be reported as a relevant event. (art. 15 Regulations of the Board).

f.2 In respect of the modification of the Articles of Association, articles 24, 32 and 68 of the Articles of Association and Article 2 of the Regulations of the General Meeting of Shareholders stipulate.

General Meeting of Shareholders

- The shareholders convened in a duly called General Meeting of Shareholders, will decide by a majority vote the issues that fall within the jurisdiction of the General Meeting of Shareholders.
- All the shareholders, including the opponents and those who have not participated in the meeting, are subject to the resolutions of the General Meeting of Shareholders (art. 24 Articles of Association).

Special resolutions and majorities. Constitution

- In order for the Ordinary or Extraordinary General Meeting of Shareholders to legally agree to the issue of bonds, increase or decrease of share capital, suppress or limit preferred subscription rights to new shares or convertible bonds, or adopt a resolution in favour of the transformation, merger, demerger or total assignment of assets and liabilities, the transfer of registered office abroad, and, in general, make any modifications to the Articles of Association, the presence of shareholders or their proxies holding at least fifty percent (50%) of the share capital with voting rights will be required on first call. On second call, the attendance of twenty-five percent (25%) of said capital will be sufficient. (art. 32 of the Articles of Association).

Modification of the Articles of association

- The modification of the Articles of Association must be adopted at the General Meeting of Shareholders and requires the concurrence of the following requirements:
 - 1) The Board of Directors or, as the case may be, the shareholders proposing the resolution must present a written report justifying the modification.
 - 2) They must clearly explain at the meeting the points they wish to modify and the right of all the shareholders to examine, at the registered office, the full text of the modification proposed and the report on the same and to request that said documents be delivered to them free of charge.
 - 3) The resolution must be adopted by the General Meeting of Shareholders, in accordance with the provisions of the Articles of Association.
 - 4) In any case, the resolution will be recorded in a public deed, which will be inscribed in the Mercantile Register and published in its Official Gazette (art. 68 Articles of Association).

Powers of the General Meeting of Shareholders

- The General Meeting of Shareholders, as the maximum decision-making body of the Company, has the power to adopt all types of resolutions regarding the Company, and, in particular:
 - I. Approve, as the case may be, the annual accounts of the Company and decide on the application of results, and approve, as the case may be, the consolidated annual accounts.
 - II. Appoint and remove the member of the Board of Directors, and, ratify or revoke the appointments made by cooptation by the Board and approve their management.

- III. Appoint, as the case may be, or re-appointment, the Accounts Auditors.
 - IV. Agree on the issue of bonds, the increase or reduction in capital, the transformation, merger, demerger or winding up of the Company, and, in general, any modifications to the Articles of Association.
 - V. Authorise the Board of Directors to increase share capital, in accordance with the provisions of article 153.1b) of the Spanish Public Limited Companies Act.
 - VI. Authorise the derivative acquisition of treasury shares of the Company under the legal terms in force.
 - VII. Confer upon the Board of Directors the powers which, for cases not foreseen, it deems necessary.
 - VIII. Decide on the affairs that will be submitted to resolution by the Board of Directors.
 - IX. Decide on the application of the remuneration systems consisting of the payment of shares or share options, and any other remuneration system that the value of the shares is indexed to, irrespective of who the beneficiary of said remuneration systems is.
 - X. Decide on what is licit, especially in relation to the issues that are not especially regulated by the Articles of Association and are not exclusively the competence of the Board of Directors (art. 2 of the Regulations of the General Meeting of Shareholders).
- g) The powers of the members of the Board of Directors and, in particular, those relating to the possibility of issuing or repurchasing shares:

The Company has conferred on the Chairman of the Board of Directors and the Chief Executive Officer broad powers of representation and management, which allows them to deal with the ordinary matters faced by the company, except those that cannot be delegated by Law, or by Articles of Association or Regulations that pertain to the General Meeting of Shareholders, the Board of Directors or its Committees.

In order to execute certain resolutions which, for various issues, require a specific mandate, the Board of Directors or the Executive Committee has conferred special powers upon the Chairman or the Chief Executive Officer, which expire after they are executed, in one single act.

The Board of Directors of the Company, by virtue of a resolution of the General Meeting of Shareholders of 20 April 2010, was authorised to increase capital by EUR FOUR HUNDRED AND SIXTY MILLION EIGHT HUNDRED AND SEVENTY EIGHT THOUSAND FOUR HUNDRED AND SEVENTY FIVE (Euros 460,878,475) within a period of five years, through a cash disbursement or in one or several instalments, at the time and in the amount that the Board decides, by issuing ordinary, preferred or redeemable shares, with or without voting rights or premium, and without new authorization from the General Meeting, with the possibility of agreeing, as the case may be, to the full or partial exclusion of the preferred subscription right, as well as to modify the Articles of Association as required by the capital increase or increases under said authorization, if subscription falls short, in accordance with the provisions of article 153.1.b of the Spanish Public Limited Companies Act, thus voiding the authorisation adopted by the General Meeting of Shareholders of 26 June 2009.

The Board of Directors have not made use of the power conferred by the General Meeting of Shareholders of 20 April 2010.

Furthermore, the General Meeting of Shareholders of 20 April 2010, voiding the authorisation conferred upon the Board of Directors by the General Meeting of Shareholders of 26 June 2009, authorized the Board so that, within a period no greater than 5 years in one time or more, up to a maximum of 10% of the share capital or the maximum number resulting from the application under current legislation at the time of acquisition of shares of the Company that are fully

paid, without exceeding, amongst the shares acquired by the Company, and those held by the investee companies, the percentage mentioned above, or any other that is legally established. The minimum and maximum price of acquisition will be the quotation price on the "Mercado Continuo" of the Spanish stock exchanges, within an oscillation of more or less 5%. In the event that the shares are not listed, the maximum and minimum price of acquisition will be established at one and a half and two times the carrying value of the shares, according to the last audited consolidated balance sheet. The Board of Directors is empowered to delegate this authorisation to the person or persons it deems suitable. This authorisation is understood to cover the acquisition of shares of the Company by investee companies.

The Board of Directors has not made use of this power conferred by the General Meeting of Shareholders.

- h) The significant resolutions that have been executed by the Company and which come into force, are modified or conclude in the event of a change in control the company due to take over bid, and its effects, except when disclosure would be seriously damaging to the Company. This exception will not be applied when the company is legally obligated to divulge this information:

The Industrial Action Agreement entered into by REPSOL YPF and GAS NATURAL SDG, S.A., which constituted a relevant event, of which the Spanish Securities and Exchange Commission (Comisión Nacional del Mercado de Valores) was notified on 29 April 2005, as well as the Shareholders Agreement entered into by REPSOL YPF, S.A. and GAS NATURAL SDG, S.A. relating to REPSOL-GAS NATURAL LNG, S.L., include the change in control of the governing structure of either party to be cause for termination.

Likewise, the financing agreement entered into for the acquisition of Unión Fenosa, S.A. contemplates certain consequences, including termination, in the event of a change in control.

- i) Agreements between the Company and its officers, management or employees who are entitled to indemnities when they resign or are dismissed unlawfully or if the labour relationship terminates as a result of a takeover bid:

The contract of the Chief Executive Officer contains a clause stipulating an indemnity that trebles his or her annual compensation in certain cases of termination of the relationship, and an indemnity of one year's remuneration in consideration for the post-contractual non-compete clauses for a period of one year.

The contracts entered into with the members of the Management Committee contain a clause that stipulates the minimum indemnity of two yearly pays of remuneration in certain cases of termination of contract and an indemnity equivalent to one yearly pay of fixed remuneration for the two-year post-contract non-compete clause.

Additionally, there are indemnity agreements with twenty-three Executives, which amounts give them the right to receive a minimum indemnity in certain cases of termination of contract consisting of one year's pay. Furthermore, an indemnity is established equivalent to one year's pay of fixed remuneration a for post-contractual non-compete clause (non-compete and non-solicitation clause) for a period of two years as from the termination of the labour relationship.

4. Environment and technological innovation

Information on the environment is set out in Note 37 to the Annual Accounts.

GAS NATURAL FENOSA allocates a major portion of its resources and efforts to R+D+i, in order to optimise resources, develop new technologies and keep abreast of the technological advances in the sectors in which it operates.

GAS NATURAL FENOSA participates in domestic and international sectorial and business organisation. The collaboration in institutions of this type allows the Company to remain in the lead of sectorial knowledge and permits it to be identified as a benchmark in its various areas of activity.

5. Outlook

On 27 July 2010 GAS NATURAL FENOSA issued its new 2010-2014 Strategic Plan, which replaced the 2008-2012 Strategic Plan of GAS NATURAL and the Bigger Plan of UNIÓN FENOSA.

Under the heading 'grow by integrating markets', the four basic axes on which the new Strategic Plan is based are to consolidate the current position of GAS NATURAL FENOSA in Spain and Latin America, vertically integrating up and midstream, entering new markets by replicating its business model in Spain, especially in markets in the Atlantic and Mediterranean basins, and, finally, opting decisively for continued emphasis on efficiency.

This Strategic Plan will allow GAS NATURAL FENOSA to position itself as a leading world company in gas distribution, a leader in efficiency in the Iberian Peninsula and Latin America, the third largest utility company in the Iberian Peninsula, the third largest LGN operator in the world and the third largest combined cycle operator in the world.

The acquisition of Unión Fenosa, S.A. by Gas Natural SDG, S.A. was adopted by the Spanish Anti-Trust Commission Council (Consejo de la Comisión Nacional de la Competencia - CNC) on 11 February 2009, subject to various commitments. Since then, GAS NATURAL FENOSA has carried out different transactions and agreements thanks to which it will meet most of the commitments imposed by the CNC:

- On 30 April 2010 GAS NATURAL FENOSA sold different natural gas commercialisation and distribution assets in the Region of Madrid.
- On 12 July 2010 GAS NATURAL FENOSA reached an agreement on the sale of the combined cycle plant in Plana del Vent to a Spanish company in the Swiss Alpiq energy group. This agreement represents the first step in the process of divestment of generation capacity through combined cycle plants, as imposed by the CNC and in which GAS NATURAL FENOSA continue working.

In addition to the divestments required to meet the obligations imposed by the CNC, throughout 2010 different agreements were reached on the sale of other assets:

- On 14 April 2010 GAS NATURAL FENOSA announced the completion of the private placement of its 5% stake in Indra Sistemas, S.A. (INDRA) and its final sale.
- On 3 June 2010 GAS NATURAL FENOSA completed the divestment of part of its electricity generation business in Mexico.

- On 2 August 2010, GAS NATURAL FENOSA and Enel Green Power agreed to terminate collaboration on renewable energies which until that date were carried out through Enel Unión Fenosa Renovables, S.A. (EUFER), the company in which company held a 50% stake. After the operation, each shareholder will receive approximately half the assets of EUFER. The transaction was approved in 10 November 2010 by the anti-trust authorities, and the parties are pending receipt of the regulatory and administrative authorisations required.
- On 30 November 2010 GAS NATURAL FENOSA sold certain assets that make up the electricity transport network to Red Eléctrica de España for Euros 47 million.
- On 17 December 2010 GAS NATURAL FENOSA sold its 35% interest in Gas Aragón, S.A. to Endesa Gas, S.A.U. The sale totaled Euros 75 million and generated gross gains of approximately Euros 40 million.

The combination of GAS NATURAL and UNION FENOSA permitted the identification of major operating and tax synergies. On 31 July 2008 operating synergies of Euros 300 million/year as from 2011 were announced.

Throughout 2009 these initial estimates and the final forecasts announced in November 2009 improved the following synergies:

- Euros 350 million in annual operating synergies, of which Euros 260 million will be cost savings and Euros 90 million in income through synergies.
- Euros 200 million in CAPEX synergies.

Throughout 2010 these estimates have improved and the latest projections issued in November 2010 contemplate the following synergies:

- Euros 475 million in annual operating synergies, of which Euros 343 million would be cost savings and Euros 132 million revenues from synergies.
- Euros 275 million in CAPEX synergies.

Detailed action plans have been prepared and put into motion in order to reach the 2011 synergy target.

The organic growth and integration and use of operating synergies based on the integration of the assets of GAS NATURAL and UNION FENOSA, a balanced, moderate risk management, optimisation of the joint investment plan, and a decrease in the risk of execution of the growth strategy of the resulting group, should generate value for the shareholders of both companies.

With respect to financial discipline, GAS NATURAL FENOSA has the intention of optimizing its financial structure and maintaining a solid balance. GAS NATURAL FENOSA is reducing its debt thanks to divestments and cash generation from the businesses and expects that the leveraging will continue to diminish. In order to maximize the financial structure various bonds were issued in 2009 and 2010 totalling Euros 6,950 million. Also in January 2011 a 6-year bond issue was closed totalling Euros 600 million. GAS NATURAL FENOSA will continue to seek to optimize its financial structure in the financial markets.

6. Annual Corporate Governance Report

Attached hereto as an Appendix to this Directors' Report, and forming an integral part of the same, is the Annual Corporate Governance Report for 2010, as required under article 526 of the Spanish Capital Companies Act.¹⁶

A. Capital Structure

A.1 Complete the following table on the Company's share capital:

Date of last modification	Share capital (euros)	Number of shares	Number of voting rights
04-09-2009	921,756,951	921,756,951	921,756,951

Please indicate whether or not there are different types of shares with different rights associated:

Yes No

Type	Number of shares	Face value	Number of voting rights	Different rights
-	-	-	-	-

A.2 Provide details of the direct and indirect owners of significant stakes in your company at year end, excluding Directors:

Name or company name of shareholder	Number of direct voting rights	Number of indirect voting rights (*)	% of total voting rights
Caja de Ahorros y Pensiones de Barcelona	200	337,740,077	36.641
Repsol YPF, S.A.	217,363,341	59,255,920	30.010
Caixa D'Estalvis de Catalunya, Tarragona i Manresa	14,932,463	0	1.620

(*)Through:

Name or company name of the indirect holder of the stake	Name or company name of the direct holder of the stake	Number of direct voting rights	% of total voting rights
Caja de Ahorros y Pensiones de Barcelona	Criteria CaixaCorp, S.A.	337,740,077	36.641
Repsol YPF, S.A.	Repsol Exploración, S.A.	15,134,000	1.642
Repsol YPF, S.A.	Repsol Petróleo, S.A.	44,121,920	4.787

Indicate the most significant changes in the shareholder structure occurred during the year:

Name or company name of shareholder	Date of the transaction	Description of the transaction
GDF Suez, S.A.	10/09/2010	Equity below 3% of share capital

A.3 Complete the following tables regarding the members of the Company's Board of Directors who hold voting rights over the Company shares:

Name or company name of Director	Number of direct voting rights	Number of indirect voting rights (*)	% of total voting rights
Mr Salvador Gabarró Serra	3,000	0	0.000
Mr Antonio Brufau Niubó	74,612	0	0.008
Mr Rafael Villaseca Marco	12,006	0	0.001
Mr Carlos Kinder Espinosa	5,206	0	0.001
Mr Carlos Losada Morradán	1,856	12,108	0.002
Mr Demetrio Carceller Arce	2,600	0	0.000
Mr Emiliiano López Achurra	60	0	0.000
Mr Enrique Alcántara-García Irazoqui	7,669	20,000	0.003
Mr Felipe González Márquez	1,750	0	0.000
Mr Juan María Nín Génova	144	0	0.000
Mr Juan Rosell Lastortras	0	2,000	0.000
Mr Luis Suárez de Lezo Mantilla	17,530	0	0.002
Mr Miquel Valls i Maseda	6,306	0	0.001
Mr Narcís Serra Serra	26	0	0.000
Mr Ramon Adell Ramon	100	0	0.000
Mr Santiago Cobo Cobo	630	0	0.000

Name or company name of the indirect holder of the stake	Through: Name or company name of the direct holder of the stake	Number of direct voting rights	% of total voting rights
Mr Enrique Alcántara-García Irazoqui	Bufete Alcántara SLP	20,000	0.002
Mr Carlos Losada Morradán	Mrs Mercedes Cavestany de Dalmases	12,108	0.001
Mr Juan Rosell Lastortras	Mr Juan Rosell Codinachs	2,000	0.000
% total voting rights in possession of the Board of Directors			0.018

Fill in the following tables regarding the members of the Company's Board of Directors who own stock options in the Company:

A.4 Indicate, where applicable, the family, commercial, contractual or corporate relations which could exist between the owners of significant stakes, provided they are known by the Company, unless they are irrelevant or arise from normal trading activities:

Relationship type:

COM CON COR

Brief outline:

Details of commercial, contractual or corporate relations between la Caixa and Repsol YPF, S.A. are provided in the information prepared by said groups. See also parallel shareholders agreements, section A.6.

Name or company name of related parties

Repsol YPF, S.A.

Caja de Ahorros y Pensiones de Barcelona

A.5 Indicate, where applicable, the commercial, contractual or corporate relations which could exist between the holders of significant shares and the company and/or its group, unless they are irrelevant or arise from normal trading activities:

Relationship type:

Commercial

Brief outline:

Normal trading operations.

Name or company name of related parties

Caja de Ahorros y Pensiones de Barcelona

Repsol YPF, S.A.

Caixa d'Estalvis de Catalunya, Tarragona i Manresa

A.6 Specify whether any shareholders' agreements have been notified to the Company that affect it in accordance with the provisions set forth in Article 112 of the Securities Market Act. Where applicable, give a brief description and list the shareholders associated with the agreement:

Yes

No

% of share capital affected:

66.651

Brief outline of agreement:

Agreement of 11 January 2000, novation of 16 May 2002 and addenda of 16 December 2002 and 20 June 2003. (i) Repsol YPF and la Caixa shall preserve at all times the principles of transparency, independence and professionalism in the management of Gas Natural through maintaining full control of said Company. (ii) The Board shall comprise seventeen (17) members, five (5) appointed by Repsol YPF, five (5) appointed by la Caixa, one (1) Director representing Caixa Catalunya and six (6) Independent Directors jointly nominated by la Caixa and Repsol YPF. Repsol YPF and la Caixa shall vote in favour of the appointments put forward by the other party. (iii) Among the Directors nominated by each of the parties, la Caixa shall propose who should hold the position of Chairman of the Board and Repsol YPF to the Chief Executive Officer. The Repsol YPF and la Caixa Directors shall vote in favour of the proposed appointments for each of the positions. iv) The Executive Committee shall be comprised by eight (8) members, of which three (3) shall be elected from among the Directors nominated by Repsol YPF, including the CEO, three (3) from among those proposed by la Caixa, including the Chairman, and two (2) from among the Independent Directors. (v) In accordance with the principles outlined in section (i) above, the parties in good faith and in the sole interest of Gas Natural, shall reach a consensus on the Gas Natural Strategic Plan, prior to its submission to the Board of Directors, which shall include all decisions affecting the basic outlines of the Company's strategy: its organisational structure, annual budget, operations of concentration, transfer and the acquisition of assets that are essential in the strategic development of Gas Natural.

Parties to parallel shareholders agreements

Repsol YPF, S.A.

Caja de Ahorros y Pensiones de Barcelona

Indicate whether or not the company is aware of the existence of concerted actions among its shareholders. If so, briefly describe them:

Yes No

% of share capital affected:

36.641

Brief description of the concerted action:

Agreement of 11 January 2000, novation of 16 May 2002 and addenda of 16 December 2002 and 20 June 2003. By virtue of the agreements referred to in the previous section, "la Caixa" and Repsol YPF, which separately each have a controlling interest in accordance with the rules of takeover bids, have joint control of Gas Natural owing to regulatory requirements and for competition purposes. They jointly have a share in the company of over 50% and have appointed more than half of the governing body. In accordance with current regulations, said pacts give rise to a concerted action between "la Caixa" and Repsol in Gas Natural.

Parties to concerted action

Caja de Ahorros y Pensiones de Barcelona

% of share capital affected:

30.010

Brief description of the concerted action:

Agreement of 11 January 2000, novation of 16 May 2002 and addenda of 16 December 2002 and 20 June 2003. By virtue of the agreements referred to in the previous section, "la Caixa" and Repsol YPF, which separately each have a controlling interest in accordance with the rules of takeover bids, have joint control of Gas Natural owing to regulatory requirements and for competition purposes. They jointly have a share in the company of over 50% and have appointed more than half of the governing body. In accordance with current regulations, said pacts give rise to a concerted action between "la Caixa" and Repsol in Gas Natural.

Parties to concerted action

Repsol YPF, S.A.

If any modification or cancellation of said agreements or concerted actions has taken place during the year, please make express mention of this.

A.7 Indicate if there is any individual person or legal entity that exercises or who might exercise control of the Company pursuant to Article 4 of the Securities Market Act. Respond, where applicable:

Yes No

A.8 Complete the following tables concerning the company's treasury stock:

At year end:

Number of direct shares	Number of indirect shares (*)	% of share capital
0	0	0.000

(*) Through:

Total	0
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Provide details of the significant changes occurring during the year pursuant to Royal Decree 1362/2007:

Unrealised gains/(Losses) of treasury stock disposed of over the period (in thousands of euros)	0
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A.9 Give details of the terms and conditions corresponding to the General Meeting of Shareholders' current mandate to the Board of Directors for acquiring or assigning own shares.

Point eight of the agenda of the General Meeting of Shareholders of 20 April 2010 agreed the following:

Eight.- Authorisation to the Board of Directors for the derivative acquisition of own shares, either directly or through companies of Gas Natural group, in the terms agreed by the General Meeting and with the legally established restrictions, thus cancelling the authorisation agreed by the Ordinary General Meeting of 26 June 2009.

Eight one.- To cancel the authorisation granted to the Board of Directors by the General Meeting held on 26 June 2009 to acquire company shares for good and valuable consideration.

Eight two.- To authorise the Board of Directors to acquire, on a payment basis, and in a term of no longer than five years, on one or more occasions, up to a maximum of 10% of share capital, or the maximum figure that is the result of the application in accordance with the legislation in force at the time of acquisition, company shares which are completely paid in provided that the aforesaid percentage between the shares acquired by the company and those held by the subsidiaries is never exceeded. The minimum and maximum acquisition price shall be the share price on the Continuous Market of the Spanish Stock Exchange, with an upward or downward variation of 5%. If the shares are not listed, the maximum and minimum acquisition price shall be established at between one and a half times and twice the book value of the shares, as per the latest audited consolidated balance sheet. The Board of Directors is authorised to delegate this authorisation in the person or persons it considers appropriate. This authorisation is understood as applicable to the acquisition of the company's shares by owned companies.

A.10 Indicate, where applicable, the legal and statutory requirements in the Articles of Association regarding the use of voting rights, and legal restrictions on the acquisition or sale of holdings in the share capital. Indicate whether or not there are legal restrictions to exercising voting rights:

Yes No

Maximum percentage of voting rights that can be exercised by a shareholder in accordance with legal restrictions **0**

Indicate whether or not there are statutory restrictions to exercising voting rights:

Yes No

Maximum percentage of voting rights that can be exercised by a shareholder in accordance with statutory restrictions **0**

Indicate whether or not there are legal restrictions to the acquisition or assignment of shares in the company's capital:

Yes No

A.11 Specify whether the General Meeting has agreed to take up measures of neutralisation against a takeover bid by virtue of provisions set forth in Law 6/2007.

Yes No

If appropriate, explain the measures approved and the terms under which the restrictions would not be enforceable:

B. Structure of the Management of the Company

B.1 Board of Directors

B.1.1 Describe the maximum and minimum number of Directors set forth in the Articles of Association:

Maximum number of Directors	20
Minimum number of Directors	10

B.1.2 Complete the following table with the members of the Board:

Name or company name of Director	Representative	Position on Board	Date first appointment	Date last appointment	Election procedure
Mr Salvador Gabarró Serra	–	Chairman	23-06-2003	26-06-2009	Vote at General Meeting
Mr Antonio Brufau Niubó	–	Deputy chairman	16-06-1989	20-04-2010	Vote at General Meeting
Mr Rafael Villaseca Marco	–	Chief Executive Officer	20-04-2005	21-05-2008	Vote at General Meeting
Mr Carlos Kinder Espinosa	–	Director	20-04-2005	21-05-2008	Vote at General Meeting
Mr Carlos Losada Marrodán	–	Director	16-12-2002	21-05-2008	Vote at General Meeting
Mr Demetrio Carceller Arce	–	Director	21-05-2008	21-05-2008	Vote at General Meeting
Mr Emiliano López Achurra	–	Director	23-06-2003	26-06-2009	Vote at General Meeting
Mr Enrique Alcántara-García Irazoqui	–	Director	27-06-1991	20-04-2010	Vote at General Meeting
Mr Felipe González Márquez	–	Director	17-12-2010	17-12-2010	Cooptation
Mr Juan María Nin Génova	–	Director	21-05-2008	21-05-2008	Vote at General Meeting
Mr Juan Rosell Lastortras	–	Director	26-06-2009	26-06-2009	Vote at General Meeting
Mr Luis Suárez de Lezo Mantilla	–	Director	20-04-2010	20-04-2010	Vote at General Meeting
Mr Miquel Valls i Maseda	–	Director	20-04-2005	21-05-2008	Vote at General Meeting
Mr Narcís Serra Serra	–	Director	10-03-2009	10-03-2009	Vote at General Meeting
Mr Ramon Adell Ramon	–	Director	18-06-2010	18-06-2010	Cooptation
Mr Santiago Cobo Cobo	–	Director	16-12-2002	21-05-2008	Vote at General Meeting
Número total de consejeros					16

Indicate the replacements occurring in the Board of Directors during the period:

Name or company name of Director	Condition member of the Board at the time of replacement	Replacement date
Mr Enrique Locutura Rupérez	Proprietary member	26-02-2010
Mr Jaime Vega de Seoane Azpilicueta	Independent	18-06-2010
Mr José Arcas Romeu	Independent	17-12-2010
Mr Fernando Ramírez Mazarredo	Proprietary member	30-12-2010

B.1.3 Complete the following tables regarding the members of the Board of Directors and their different status:

Executive Directors

Name or company name of Director	Committee which proposed appointment	Position in the Company's management structure
Mr Salvador Gabarró Serra	Appointments and Remuneration Committee	Chairman
Mr Rafael Villaseca Marco	Appointments and Remuneration Committee	Chief Executive Officer
Total number of Executive Directors		2
% total of the Board		12.500

External Proprietary Directors

Name or company name of Director	Committee which proposed appointment	Name or title of significant shareholder he/she represents or who proposed appointment
Mr Antonio Brufau Niubó	--	Repsol YPF, S.A.
Mr Carlos Kinder Espinosa	Appointments and Remuneration Committee	Criteria CaixaCorp, S.A.
Mr Demetrio Carceller Arce	Appointments and Remuneration Committee	Repsol YPF, S.A.
Mr Enrique Alcántara-García Irazoqui	--	Criteria CaixaCorp, S.A.
Mr Juan María Nín Génova	Appointments and Remuneration Committee	Criteria CaixaCorp, S.A.
Mr Juan Rosell Lastortras	Appointments and Remuneration Committee	Criteria CaixaCorp, S.A.
Mr Luis Suarez de Lezo Mantilla	Appointments and Remuneration Committee	Repsol YPF, S.A.
Mr Narcís Serra Serra	Appointments and Remuneration Committee	Caixa d'Estalvis de Catalunya, Tarragona i Manresa
Total number of Proprietary Directors		8
% total of the Board		50.000

External independent directors

Name or company name of Director	Profile
Mr Carlos Losada Marrodán	Managing Director of ESADE. Academic. Law Graduate and Doctorate in Business Administration.
Mr Emilio López Achurra	Lawyer. Diploma in International Studies (I.E.P.). Diploma in European Community Law (Colegio de Europa).
Mr Felipe González Márquez	Lawyer. President of the Government of Spain 1982-1996.
Mr Miquel Valls i Maseda	Business Studies Graduate, Master's Degree from EADA and Business Administration Diploma from IESE.
Mr Ramon Adell Ramon	Professor of Financial Economics and Accounting at the University of Barcelona.
Mr Santiago Cobo Cobo	Entrepreneur. Business Administration Graduate.
Total number of Independent Directors	6
% total of the Board	37.500

Other External Directors

Detail the reasons why they cannot be considered as proprietary or independent and their relationships, either with the Company or its executives or with its shareholders.

Indicate the changes, if any, in the type of Director during the period:

B.1.4 Explain, if appropriate, the reasons why Proprietary Directors have been appointed at the request of shareholders whose shareholding is less than 5% of the share capital:

Name or company name of shareholder	Explanation
Caixa d'Estalvis de Catalunya, Tarragona i Manresa	Institution of recognised prestige.

Indicate whether or not formal requests have been accepted for presence on the Board from shareholders whose holding is equal to or higher than that of others for whom Proprietary Directors have been appointed. If appropriate, explain the reasons why these have not been dealt with:

Yes No

B.1.5 Indicate whether or not a Director has resigned from his/her post before the conclusion of his/her term of office, whether or not he/she has provided the Board with reasons and through which medium and, if he/she has done so in writing to the entire Board, explain at least the reasons given:

Yes No

Director's name	Reason for resignation
Mr Enrique Locutura Rupérez	Repsol YPF, S.A. internal organisation.
Mr Fernando Ramírez Mazarredo	Professional reasons.
Mr Jaime Vega De Seoane Azpilicueta	Professional reasons.
Mr José Arcas Romeu	Personal reasons.

B.1.6 Indicate, where applicable, the powers delegated to the Managing Director(s):

Name or company name of Director	Brief outline
Mr Rafael Villaseca Marco	He has delegated extensive powers of representation and administration in accordance with the nature and requirements of the Chief Executive Officer.

B.1.7 Indicate, where applicable, the Board members holding positions of administrators or executives in other companies forming part of the group of the listed company:

Name or company name of Director	Company name of group company	Position
Mr Rafael Villaseca Marco	Gas Natural Aprovisionamientos SDG, S.A.	Chairman
Mr Rafael Villaseca Marco	Repsol-Gas Natural LNG, S.L.	Chairman
Mr Luis Suarez De Lezo Mantilla	Repsol-Gas Natural LNG, S.L.	Director

B.1.8 Identify, if applicable, the Directors of your company who are members of the Board of Directors of other companies listed on official stock exchanges in Spain other than those of your group, that have been reported to the Company:

Name or company name of Director	Corporate name of the listed company	Position
Mr Salvador Gabarró Serra	Criteria CaixaCorp, S.A.	Director
Mr Antonio Brufau Niubó	Repsol YPF, S.A.	Chairman
Mr Demetrio Carceller Arce	Compañía Logística de Hidrocarburos, CLH, S.A.	Director
Mr Demetrio Carceller Arce	Sacyr-Vallehermoso, S.A.	Director
Mr Demetrio Carceller Arce	Sociedad Anónima Damm	Chairman
Mr Juan María Nín Génova	Repsol YPF, S.A.	Director
Mr Juan María Nín Génova	Criteria CaixaCorp, S.A.	Deputy Chairman
Mr Juan Rosell Lastortras	Criteria CaixaCorp, S.A.	Director
Mr Luis Suarez de Lezo Mantilla	Repsol YPF, S.A.	Voting Secretary

B.1.9 Indicate and, where applicable, explain whether or not the Company has laid down rules on the number of Boards on which its Directors can sit:

Yes No

B.1.10 With regard to Recommendation No. 8 of the Unified Code, indicate the general policies and strategies of the Company that the plenary Board has reserved the right to approve:

	Yes	No
The investment and finance policy	X	
The definition of the structure of the group of companies	X	
The corporate governance policy	X	
The corporate social responsibility policy	X	
Strategic or Business Plan, as well as the management aims and annual budgets	X	
The remuneration policy and appraisal of senior management performance		X
Risk control and management policy, as well as periodic monitoring of the internal information and control system	X	
The dividend policy, as well as the treasury stock policy, with special focus on their limits	X	

B.1.11 Fill in the following tables regarding the total remuneration of the Directors earned over the year:

a) In the company which is the object of this report:

Remuneration concept	Data in thousands of euros
Fixed remuneration	1,012
Variable remuneration	1,423
Expenses	4,085
Established in Articles of Association	0
Stock options and/or other financial instruments	0
Others	3
Total	6,523

Other benefits	Data in thousands of euros
Advances	0
Credits granted	0
Pension plans and funds: contributions	262
Pension plans and funds: obligations	0
Life insurance premiums	0
Guarantees made by the company to Directors	0

b) Through company Directors belonging to other Boards of Directors and/or the senior management of group companies:

Remuneration concept	Data in thousands of euros
Fixed remuneration	0
Variable remuneration	0
Expenses	78
Established in Articles of Association	0
Stock options and/or other financial instruments	0
Others	0
Total	78

Other benefits	Data in thousands of euros
Advances	0
Credits granted	0
Pension plans and funds: contributions	0
Pension plans and funds: obligations	0
Life insurance premiums	0
Guarantees made by the company to Directors	0

c) Total remuneration by type of Director:

Director type	By company	By group
Executives	3,791	0
External Proprietary	1,683	78
External Independent	1,049	0
Other External	0	0
Total	6,523	78

d) As a percentage of the profits attributable to the controlling company:

Total remuneration of Directors (in thousands of euros)	6,601
Directors' total remuneration/(net) profit attributed to the parent company (%)	0.6

B.1.12 Identify members of senior management who are not also Executive Directors, and indicate the total remuneration they earned during the year:

Name or company name	Position
Mr Manuel Fernández Álvarez	Managing Director of Wholesale Energy Businesses
Mr José María Egea Krauel	Managing Director of Energy Planning
Mr José Antonio Couso López	Managing Director of Regulated Electricity Businesses
Mr José Javier Fernández Martínez	Managing Director of Power Generation
Mr Antoni Peris Mingot	Managing Director of Regulated Gas Businesses
Mr Sergio Aranda Moreno	Managing Director of Latin America
Mr Antonio Basolas Tena	Managing Director of Strategy and Development
Mr Antonio Gallart Gabás	Chief Corporate Officer
Mr Jordi Garcia Tabernero	Managing Director of Communications and the Chairman's Office
Mr Carlos Javier Álvarez Fernández	Chief Financial Officer
Mr Manuel García Cobaleda	Managing Director General Counsel of Legal Services
Mr Daniel López Jordà	Managing Director of Retail Energy Businesses
Total remuneration of senior management (in thousands of euros)	7,715

B.1.13 Indicate if there are guarantee or ironclad clauses for cases of dismissal or control changes in favour of members of senior management, including Executive Directors of the company or its group. Indicate if these contracts must be notified and/or approved by the bodies of the company or its group:

Number of beneficiaries	13	
	Board of Directors	General Meeting
Body that authorises the clauses	No	No
Is the General Meeting informed of the clauses?	Yes	No

B.1.14 Indicate the process for establishing the remuneration of the members of the Board of Directors and the relevant clauses of the Articles of Association in that respect:

Procedure to establish the remuneration of members of the Board of Directors and the statutory clauses

Article 22 of the Regulations of the Board of Directors states the following:

"1. The position of Director of Gas Natural SDG, S.A. shall be remunerated in the form set out in the Articles of Association, in the light of the report issued by the Appointments and Remuneration Committee, pursuant to Article 31 of these Regulations.

The Appointments and Remuneration Committee shall propose to the General Meeting of Shareholders the criteria it deems appropriate to assure compliance with the purposes of this article, and the Board shall be responsible for its approval and the final distribution of the total sum, within the limits set out in the Articles of Association for that purpose. Each year, whenever it deems appropriate, the Board of Directors shall be entitled to approve payments of the amounts pertaining to each Director for the activities performed during that period.

2. The Board shall define the payment policy for its Directors, determining (i) the amounts corresponding to the fixed components, with a breakdown of those that correspond to the participation in the Board and its Committees and (ii) the variable concepts, where applicable, specifying their relative importance with regard to the fixed components. Except for just cause, remuneration through the delivery of shares, stock options or instruments referenced to the share value shall be limited to Executive Directors.

3. Remuneration of the Directors shall be transparent. The Annual Report, which is an essential part of the Annual Accounts, shall contain any information deemed appropriate concerning the remuneration received by the members of the Board of Directors."

Complementing the foregoing, section 2 of Article 31 expressly states: "The Committee (Appointments and Remuneration Committee) has powers to examine and submit the following matters: putting forward criteria for the remuneration of the Company's Directors and to assure transparency in remunerations...."

Furthermore, Article 44 of the revised text of the Articles of Association, in accordance with the agreements adopted in the General Meeting of Shareholders of 23 June 2003, specifically states:

"The remuneration of the Board of Directors shall consist of a maximum of 10% of annual net profit, the sum within this limit being determined in proportion with the number of active Directors.

The said remuneration can be subtracted from net profit only after the legal and statutory reserves have been covered and having paid ordinary shares a dividend of no less than 4 per cent of their face value.

The Board of Directors shall share out the remuneration as they see fit.

Directors can also receive additional remuneration by receiving company shares, stock options or other securities offering entitlement to shares, or through remuneration systems correlated with share prices. The application of such systems shall have to be approved by the General Meeting of Shareholders, which shall establish the value of shares taken as reference, the number of shares to be delivered to each Director, the strike price of the stock options, the duration of the agreed system and any other terms deemed pertinent.

The Board of Directors shall be entitled to implement incentive plans consisting of the delivery of company shares, stock options, other securities offering entitlement to shares, or pegged to the share price, to remunerate company personnel or the personnel members it deems appropriate, complying at all times with the requirements set out in the Spanish Companies Act (LSA), the Securities Market Act and other regulations applying to these cases, in particular prior approval of the General Meeting of Shareholders when mandatory.

Remunerations set out in this Article shall be compatible and independent from salaries, wages, compensations, pensions, stock options or compensations of any kind determined with a general or singular character for members of the Board of Directors performing executive duties, no matter what their relationship with the company may be, whether labour —common or senior management— mercantile or rendering of services, relationships which shall be compatible with the status of member of the Board of Directors."

Indicate whether or not the Board in its plenary session has reserved the right to adopt the following decisions:

	Yes	No
At the proposal of the chief executive of the company, the appointment and possible resignation of senior executives, as well as their compensation clauses.	X	
The remuneration of Directors, as well as, in the case of executives, the additional remuneration through their executive duties and other conditions that their contracts must include.	X	

B.1.15 Indicate whether or not the Board of Directors adopts a detailed payments policy and specify the matters on which it pronounces:

Yes No

	Yes	No
Amount of the fixed elements, with a breakdown if applicable of the allowances for participation on the Board and its Committees, and an estimate of the annual fixed remuneration to which they are entitled.	X	
Variable payment concepts.	X	
Main characteristics of the social benefits systems, with an estimate of the equivalent annual cost or amount.	X	
Conditions to be observed in the contracts of those who exercise senior management functions as Executive Directors.	X	

B.1.16 Specify whether the Board submits a report on the remuneration policy for Directors to voting at the General Meeting as a separate item of the agenda. Where applicable, explain the aspects of the report regarding the salary policy adopted by the Board for future years, the most significant changes in the said policies with regard to that applied during the year, and the global summary of how the remuneration policy was applied during the year. Give details of the role played by the Remuneration Committee and, if external consultancy services have been used, the identity of the external consultants that have provided the service:

Yes No

	Yes	No
Have external consultancy services been used?	X	
Identity of the external consultants	X	

B.1.17 Indicate, where applicable, the identity of Board members who are also members of the Boards of Directors, Directors or employees of companies that hold significant stakes in the listed company and/or companies of your group:

Name or company name of Director	Company name of significant shareholder	Position
Mr Salvador Gabarró Serra	Criteria CaixaCorp, S.A.	Director
Mr Antonio Brufau Niubó	Repsol YPF, S.A.	Executive Chairman
Mr Juan María Nín Génova	Repsol YPF, S.A.	Director
Mr Juan María Nín Génova	Criteria CaixaCorp, S.A.	Deputy Chairman
Mr Juan Rosell Lastortras	Criteria CaixaCorp, S.A.	Director
Mr Luis Suarez de Lezo Mantilla	Repsol YPF, S.A.	Voting Secretary

Provide details, if appropriate, of the relevant relationships other than those included in the previous heading, of the members of the Board of Directors with the significant shareholders and/or in entities of its group:

B.1.18 Indicate whether or not there has been any modification to the regulations of the Board during the year:

Sí No

Description of modifications**B.1.19** Indicate the procedures for the appointment, re-election, assessment and removal of Directors. Provide details of the competent bodies, the procedures to be followed and the criteria applicable in each procedure.

Procedures for the appointment, re-election, assessment and removal of Directors are set out in Articles 41 and 42 of the Articles of Association and in Articles 11 to 14, 16 and 31 of the Board of Directors' Regulations.

1. Appointment, re-election or ratification:

The General Meeting of Shareholders is competent for appointing Directors and establishing the number thereof, subject to the limits stipulated in Article 41 of the Articles of Association.

If vacancies were to arise during the term for which the Directors were appointed, the Board shall be entitled to designate, using the cooption system, among the shareholders, the persons to occupy these vacancies until the next General Meeting of Shareholders is held.

A person does not have to be a shareholder to be appointed as a Director, except in the event of the aforementioned appointment by cooption.

Persons subject to prohibition or professional incompatibility as established by law cannot be appointed as Administrator.

It will be necessary to appoint persons who not only satisfy legal provisions and those laid down in the Articles of Association for the position, but who have a prestigious position and are equipped with the professional skills and expertise required to perform their duties.

Directors are appointed and re-elected in accordance with a formal and transparent procedure, following a report from the Appointments and Remuneration Committee.

All the proposals for the appointment of Directors submitted by the Board of Directors to the General Meeting of Shareholders and the approved appointment decisions by cooption shall have to be notified previously by the Appointments and Remuneration Committee. When the Board does not follow the recommendations of said Committee, it will have to explain the reasons and record the said reasons in the minutes. Directors affected by appointment, re-election or replacement proposals shall refrain from attending or taking part in the deliberations and votes of the Board of Directors or of the Committee dealing with said proposals.

Pursuant to the Regulations of the Board of Directors, the following persons cannot be proposed or designated as External Independent Directors:

a) Those who have been employees or Executive Directors of companies in the Gas Natural Group, unless three or five years, respectively, have lapsed since the said relationship.

b) Those who receive from the Company or the Gas Natural group whatsoever amount or benefit for a concept other than the Director's remuneration, unless it is not significant.

For the intents and purposes of the provisions laid down in this section, consideration shall not be given to the dividends or pension complements received by the Director as a result of his/her previous professional or labour relationship, as long as the said complements are unconditional and, consequently, the company paying them cannot suspend, modify or revoke their accrual at its discretion without a breach of obligations.

- c) Those who are or have been during the last three years a partner of the external auditor or the party responsible for the auditor's report for the audit during the said period of the Company or any other company in the Gas Natural group.
- d) Those who are Executive Directors or senior executives of another company in which any Executive Director or senior executive of Gas Natural SDG, S.A. is an External Director.
- e) Those who maintain or have maintained during the last year an important business relationship with the company or with any company in the Gas Natural group either on their own behalf or as a majority shareholder, Director or senior executive of an institution that maintains or would have maintained the said relationship.

The consideration of business relation shall apply to that of goods or services supplier, including financial, advisory or consultancy services.

- f) Those who are majority shareholders, Executive Directors or senior executives of an institution that receives or has received during the last three years significant donations from any of the companies in the Gas Natural group.

This shall not include those who are mere patrons of a foundation that receives donations.

- g) Those who are spouses, individuals bound by a similar kinship or second-degree relatives of an Executive Director or senior executive of the company.
- h) Those who have not been proposed for either appointment or renovation by the Appointments and Remuneration Committee.
- i) Those who are in any of the cases indicated in paragraphs a), e), f) or g) of this section with regard to any majority shareholder or shareholder represented on the Board. In the case of kinship as per paragraph g), the limitation shall apply not only to the shareholder but also to its Proprietary Directors in the investee company.

Proprietary Directors who lose such status due to the sale of their holding by the shareholder who they represent may only be reappointed as Independent Directors when the shareholder he/she represented until then has sold all of his/her shares in the company.

A Director who has a shareholding in the Company may have an independent status, provided he/she satisfies all conditions set forth in this article and also his/her holding is not significant.

Directors shall be appointed to their position for a term of three (3) years, although outgoing Directors can be re-elected once or several times. Under no circumstances shall the Independent Directors remain in their post as such for a period of more than 12 years.

2. Replacement or removal:

Directors shall be replaced in their position for the length of the term for which they were appointed, unless they are re-elected, and when so determined by the General Meeting of Shareholders by virtue of the powers granted thereto. Likewise, Directors shall be replaced in all other circumstances where applicable pursuant to the Law, the Articles of Association and Regulations of the Board of Directors.

According to Article 15.4 of the Regulations of the Board of Directors, when an Independent Director resigns from his/her post prior to the completion of his/her mandate, he/she shall explain the reasons in a letter addressed to the other Directors. The resignation shall be notified as relevant information.

B.1.20 Indicate cases in which Directors are compelled to resign.

Besides the cases of professional incompatibility or prohibition applicable by law, Article 15 of the Regulations of the Board of Directors states:

"... 2. Directors shall be compelled to tender their resignation to the Board of Directors and proceed with the pertinent resignation, if the latter deemed it appropriate, in the following cases:

- a) When Internal Directors leave the executive positions outside the Board and which were associated with their appointment as Director.
- b) When they are subject to any of the conditions of professional prohibition or incompatibility pursuant to applicable laws, the Articles of Association or these regulations.
- c) When they commit a serious breach of their obligations as Directors, jeopardising the interests of the company.
- d) When the reason why they were appointed as Independent, Executive or Proprietary Directors is no longer applicable.

3. Once a Director has been relieved of his/her duties, he/she shall not be permitted to offer his/her services in a rival company for two years, unless the Board of Directors exempts him/her from this obligation or shortens the duration thereof."

B.1.21 Explain whether the duties of the chief executive of the company correspond to the position of Chairman of the Board. If this is the case, indicate the measures which have been taken to limit the risks of accumulation of powers in a single person:

Yes No

Indicate and, where applicable, explain whether or not rules have been laid down to empower one of the Independent Directors to request the call of a Board meeting or the inclusion of new matters on the agenda to coordinate and report the concerns of the External Directors and direct the assessment by the Board of Directors.

Yes No

B.1.22 Are reinforced majorities other than those applicable by law required for any type of decision?

Yes No

Indicate how decisions are taken in the Board of Directors, specifying at least the minimum quorum and the type of majorities for approving decisions:

Description of decision:	Quorum	%	Type of majority	%
Various corporate decisions.	Article 47 of Articles of Association and Article 10 of Board Regulations. Half plus one of the members in attendance or represented.	52.94	Articles 49 and 50 of the Articles of Association and 10 of the Board Regulations. Absolute majority of those in attendance or represented. Two-thirds majority for the delegation of powers.	52.94

B.1.23 Indicate if there are specific requirements other than those relating to Directors in order to be appointed as Chairman.

Yes No

B.1.24 Indicate whether the Chairman has a casting vote:

Yes No

B.1.25 Indicate whether the Articles of Association or the Board Regulations establish any age limit for Directors:

Yes No

Age limit for Chairman	0
Age limit for CEO	0
Age limit for Directors	0

B.1.26 Indicate whether the Articles of Association or the Board Regulations establish a limited mandate for Independent Directors:

Yes No

Maximum number of years of mandate	12
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B.1.27 If there are few or no female Directors, explain the reasons or the initiatives adopted to correct this situation.**Explanation of the reasons and the initiatives**

Cf. Section F. Recommendation 15.

In particular, indicate whether or not the Appointments and Remuneration Committee has laid down procedures to ensure that the selection processes are not subject to implicit bias that prevents the selection of female Directors and deliberately look for female candidates with the required profile:

Yes No

Indicate the main procedures

Article 31.2 of the Regulations of the Board of Directors lays down the Appointments and Remuneration Committee obligation to ensure that "...when covering new vacancies, selection processes shall apply that are not subject to implicit bias that prevents the selection of female Directors, where the potential candidates shall include, under the same conditions, women that meet the professional profile being sought".

B.1.28 Indicate if there are formal processes for delegation of votes in the Board of Directors. If so, describe them briefly.

According to Article 47 of the Articles of Association: "...The Directors who are unable to attend shall be entitled to confer their representation to another Director, there being no limit on the number of representations that each Director can have. The representation shall have to be granted by means of any written document, and also by telegram, telex or telefax".

In addition, Article 10.3 of the Regulations of the Board lays down the following: "Each Director shall be entitled to confer his/her representation to another Director, there being no limit on the number of representations held by each member for attending the Board meeting. Absent Directors' representations can be conferred by means of any written document, and by telegram, email, telex or telefax addressed to the Chairman's Office or the Board Secretary sufficiently in advance".

B.1.29 Indicate the number of meetings that the Board of Directors has held over the year. Also indicate, where applicable, how many times the Board has met without the Chairman being present:

Number of meetings of the Board	11
Number of Board meetings without the Chairman attending	0

Indicate the number of meetings held by the different Board committees over the year:

Number of meetings of the Executive or Delegated Committee	10
Number of meetings of the Audit Committee	6
Number of meetings of the Appointments and Remuneration Committee	10
Number of meetings of the Appointments Committee	0
Number of meetings of the Remuneration Committee	0

B.1.30 Indicate the number of meetings held by the Board of Directors during the year without the attendance of all its members. When calculating the number, representations made without specific instructions shall be considered as non-attendance:

Number of non-attendances of Directors during the year	11
% of non-attendances over the total number of votes during the year	5.882

B.1.31 Indicate if the Individual and Consolidated Annual Accounts submitted for approval by the Board are certified previously:

Yes No

Identify, where applicable, the person(s) who has/have certified the company's Individual and Consolidated Annual Accounts in order to be drawn up by the Board:

Name	Position
Mr Carlos Javier Álvarez Fernández	Chief Financial Officer

B.1.32 Explain, where applicable, the mechanisms established by the Board of Directors to prevent the individual and consolidated annual accounts it draws up from being submitted to the General Meeting of Shareholders with qualifications in the auditor's report.

In accordance with Article 7 of the Regulations of the Board: "

- Once it has received the reports issued by the Financial-Economic Department and by the Audit and Control Committee, and following pertinent clarifications, the Board of Directors shall draw up the individual and consolidated Annual Accounts and the Management Report, in clear and precise terms which render their content easily intelligible. The Board of Directors shall ensure that said accounts provide a true and fair view of the assets, financial position and the results of the company, pursuant to laws applicable.

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2. Unless expressly stated otherwise in the minutes, it will be understood that before signing the formulation of the Annual Accounts required by Law, the Board of Directors and each one of its members has been provided with the information necessary to perform this deed, and may record the exceptions it deems pertinent, where applicable.
 3. The Board of Directors shall endeavour to prepare the accounts in such a way that the auditor of the company's accounts shall be unable to record qualifications. Nevertheless, if the Board of Directors considers that its criterion must be maintained, it will publicly explain the content and extent of the discrepancy".

Article 32 of the Regulations of the Board of Directors regulates the duties of the Audit and Control Committee, and certain powers and functions it assigns to said Committee pertain to the auditing process.

B.1.33 Is the Secretary of the Board a Director?

Yes No

B.1.34 Explain the procedures for appointing and dismissing the Secretary of the Board, indicating whether or not his/her appointment and dismissal have been reported by the Appointments Committee and adopted by the Board in its plenary session.

Appointments and dismissal procedure

Article 26 of the Regulations of the Board of Directors states the following:

"The Secretary of the Board shall be appointed and dismissed by the latter after a report issued by the Appointments and Remuneration Committee and shall not necessarily have to be Director. He/She shall be responsible for exercising the functions attributed to his/her status by mercantile legislation and these Regulations".

	Yes	No
Does the Appointments Committee report the appointment?	X	
Does the Appointments Committee report the dismissal?	X	
Does the plenary session of the Board adopt the appointment?	X	
Does the plenary session of the Board adopt the dismissal?	X	

Is the Board Secretary commissioned with the duty of especially supervising the good governance recommendations?

Yes No

Observations

Article 26 of the Regulations of the Board of Directors states in its point three the following:

"The Secretary of the Board shall be responsible for the formal and material legality of the Board's actions at all times, ensuring that their procedures and governing rules are regularly reviewed".

B.1.35 Indicate, where applicable, the mechanisms established by the company to safeguard the independence of the auditor, financial analysts, investment banks and rating agencies.

In accordance with Art. 32.2 of the Board Regulations, the Audit and Control Committee is responsible for "maintaining necessary relations with the external auditors to receive information on any questions which could jeopardise their independence, and any other matters relating to the progress of the audit, as well as any communications required pursuant to legislation governing auditing and technical auditing standards".

In addition, the Board of Directors is bound by its own regulations (Article 6.4) to hold direct relations with the members of the company's top-tier management and the auditors. The objective, professional and continuous nature of this relationship shall respect the independence of the auditors to the utmost.

The company's relations with financial analysts and investment banks are based on the principles of transparency, simultaneity and non-discrimination, as well as the existence of specific and different agents for each collective.

In addition, the company shall take special care not to compromise or interfere with the independence of the financial analysts in respect of the services offered by investment banks, in accordance with the internal codes of conduct established by them and designed to separate their analysis and assessment services.

B.1.36 Specify whether the company has changed of external auditor over the year. If appropriate, identify the incoming and outgoing auditors:

Yes No

Outgoing auditor

Incoming auditor

In the case of disagreements with the outgoing auditor, explain the content of the said disagreements:

Yes No

Explanation of the disagreements

B.1.37 Indicate if the audit company performs other tasks for the company and/or its group other than auditing activities, and if so, state the amount of the fees received for said activities and the percentage of the fees billed to the company and/or its group:

Yes No

	Society	Group	Total
Amount of tasks other than auditing activities (in thousands of euros)	1,727	120	1,847
Amount of tasks other than auditing/Total amount billed by the audit company (%)	71.130	3.280	30.350

B.1.38 Specify whether the Auditor's Report on the Annual Accounts from the previous year includes any reservations or exceptions. Where applicable, indicate the reasons given by the Chairman of the Audit Committee to explain the content and scope of the said reservations or exceptions.

Yes No

B.1.39 Indicate how many years the current audit company has been auditing, without interruption, the annual accounts of the company and/or its group. Also indicate the percentage of the number of years audited by the current audit company over the total number of years that the annual accounts have been audited:

	Society	Group
Number of years without interruption	20	20
Number of years audited by the current audit company /Number of years the company has been audited (%)	100.0	100.0

B.1.40 Indicate the holdings of the members of the Board of Directors in the capital of companies which have the same, similar or complementary type of activity that constitutes the business purpose of the company and of its group, and of which the company has been informed. Also indicate the positions or duties that they perform in these companies:

Name or company name of Director	Name of object company	% holding	Position or duties
Mr Salvador Gabarró Serra	Red Eléctrica Corporación, S.A.	0.008	–
Mr Salvador Gabarró Serra	Enagás, S.A.	0.006	–
Mr Salvador Gabarró Serra	Iberdrola, S.A.	0.001	–
Mr Antonio Brufau Niubó	Repsol YPF, S.A.	0.017	Executive Chairman
Mr Rafael Villaseca Marco	Endesa, S.A.	0.000	–
Mr Rafael Villaseca Marco	Iberdrola, S.A.	0.000	–
Mr Rafael Villaseca Marco	Enagás, S.A.	0.000	–
Mr Rafael Villaseca Marco	Repsol YPF, S.A.	0.000	–
Mr Juan María Nín Génova	Repsol YPF, S.A.	0.000	Director
Mr Luis Suárez de Lezo Mantilla	Repsol YPF, S.A.	0.000	Voting Secretary

B.1.41 Indicate and, where applicable, provide details of whether there is a procedure whereby Directors can have external assessment:

Yes No

Details of the procedure

In accordance with internal regulations, Directors are entitled to propose to the Board, via the Secretary and by means of a notification directed to the Chairman, that external advisors be hired at the company's expense (legal, accounting, technical, financial, commercial advisors or of any other kind), advisors they consider necessary for the company's interests, to provide assistance in their duties when faced with specific problems of some relevance and complexity associated with their duties. (Article 21.2 of the Regulations of the Board and first paragraph of Article 21.3).

The Board of Directors shall be entitled to veto the approval of the proposal if considered unnecessary, in view of the amount involved, or if it considers that the said assessment can be provided by the company's own specialists and technicians. (Article 21.3 of the Regulations of the Board).

B.1.42 Indicate and, where applicable, provide details of whether there is a procedure whereby Directors can have the information necessary to prepare the meetings of the Boards of Directors with sufficient time:

Yes No

Details of the procedure

Article 9.2 of the Regulations of the Board of Directors states:

"2. Ordinary meetings shall be convened by the Chairman, or by the Secretary or Assistant Secretary following the order of the Chairman, through any of the channels set out in the Articles of Association, including by email, provided the recipient Director has given his/her address in said mail. The notification shall include the place and the agenda of said meeting and shall be issued, barring exceptional cases, at least 48 hours before the meeting is to be held. Prior to each meeting, the Directors shall be furnished with the information and documentation considered to be pertinent or relevant regarding the subjects to be addressed in the Board meeting. Directors shall also be furnished with the minutes of the previous meeting, regardless of whether said minutes have been approved or not. (...)"

The Board meeting shall have a quorum, without being previously convoked, if all the Directors are present or represented and unanimously accept that the Board meeting be held".

However, according to Article 2.3 of the Regulations of the Board, when the agreement to be adopted is the modification of the Regulations of the Board of Directors, "the Chairman of the Board, the Audit and Control Committee or at least four Directors may propose the said modifications to the Board when circumstances arise which, in their opinion, make it appropriate or necessary, attaching a report explaining the reasons and scope of the modification being proposed, where applicable. The Board shall be called by means of individual notice sent to each of the members with more than 15 days' notice of the date of the meeting".

Articles 21.1 and 3 of the aforementioned regulations state the following concerning the right of information of Directors:

- "1. Directors shall have access, through the Chairman, and, as the case may be, through the Secretary, to all the company's services, and shall be entitled to collect, with unlimited powers, any information or assessment they may require regarding any aspect of the company. The right of information also applies to the subsidiaries and shall be channelled through the Chairman or the Secretary of the Board of Directors or of the pertinent Committees of the Board, furnishing him/her with the information directly, offering him/her the appropriate agents or taking any measures required for the requested analysis.
 (...)
3. The Chairman of the company shall have to be notified of the request for access and the proposal referred to in numbers 1 and 2 of this article through the Secretary of the Board of Directors".

It is usual practice to send the members of the Board of Directors, together with the call to the meeting, all the information that may be useful for learning the matters on the agenda for the Board meeting. In our opinion, the information given is considered complete and sufficient for the members of the Board of Directors to reach an opinion and form criteria.

Likewise, during and following the meeting, Directors shall be furnished with any information or clarifications they deem appropriate in respect of the points included in the agenda, or points which were not included but which were addressed in the same meeting.

B.1.43 Indicate and, where applicable, give details of whether or not the company has laid down rules that oblige the Directors to report and, in cases that damage the company's credit and reputation, resign:

Yes No

Explain the rules

Article 15.2 of the Regulations of the Board of Directors states the following:

"Directors shall be compelled to tender their resignation to the Board of Directors and proceed with the pertinent resignation, if the latter deemed it appropriate, in the following cases:

- a) When Internal Directors leave the executive positions outside the Board and which were associated with their appointment as Directors.
 - b) When they are subject to any of the conditions of professional prohibition or incompatibility pursuant to applicable laws, the Articles of Association or these regulations.
 - c) When they commit a serious breach of their obligations as Directors, jeopardising the interests of the company.
 - d) When the reason why they were appointed as Independent, Executive or Proprietary Directors is no longer applicable".
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B.1.44 Indicate whether or not any member of the Board of Directors has informed the company that he/she has been prosecuted or hearings against him/her have been opened for any of the offences laid down in Article 124 of the Spanish Companies Act:

Yes No

Indicate whether or not the Board of Directors has analysed the case. If the answer is affirmative, give a reasoned explanation of the decision taken as to whether or not the Director remains in his/her post.

Yes No

Decision taken

Reasoned explanation

B.2 Committees of the Board of Directors

B.2.1 Provide details of all the committees of the Board of Directors and their members:

Executive Committee

Name	Position	Type
Mr Salvador Gabarró Serra	Chairman	Executive
Mr Antonio Brufau Niubó	Board member	Proprietary member
Mr Carlos Kinder Espinosa	Board member	Proprietary member
Mr Carlos Losada Marrodán	Board member	Independent
Mr Demetrio Carceller Arce	Board member	Proprietary member
Mr Emiliiano López Achurra	Board member	Independent
Mr Juan María Nin Génova	Board member	Proprietary member
Mr Rafael Villaseca Marco	Chief Executive Officer	Executive

Audit and Control Committee

Name	Position	Type
Mr Carlos Losada Marrodán	Chairman	Independent
Mr Carlos Kinder Espinosa	Board member	Proprietary member

Appointments and Remuneration Committee

Name	Position	Type
Mr Miquel Valls i Maseda	Chairman	Independent
Mr Antonio Brufau Niubó	Board member	Proprietary member
Mr Santiago Cobo Cobo	Board member	Independent

B.2.2 Specify whether the Audit Committee is responsible for the following:

	Yes	No
Supervising the preparation process and integrity of the financial information related to the company and, where applicable, the group, reviewing compliance with the standard requirements, the appropriate definition of the consolidation perimeter and the correct application of the bookkeeping criteria.	X	
Regularly reviewing the internal control and risk management systems so that the main risks can be identified, processed and appropriately publicised.	X	

	Yes	No
Ensuring the independence and effectiveness of the internal audit duty; propose the selection, appointment, re-election and dismissal of the person in charge of the internal audit service; forward the budget for this service; receive periodic information on its activities, and verify that senior management considers the conclusions and recommendations in its reports.	X	
Setting up and supervising a mechanism that enables employees to communicate any significant irregularities, especially those related to finance and bookkeeping, and to do so in a confidential manner.	X	
Raising the selection, appointment, re-election and substitution proposals concerning the external auditor to the Board, as well as the terms and conditions of his/her contract.	X	
Likewise, receiving information from the external auditor on the audit plan and the results of carrying it out and checking that senior management take its recommendations into account.	X	
Guaranteeing the independence of the external auditor.	X	
In the event of groups, to see that the group auditor accepts liability for the audits of the companies that make up the group.	X	

B.2.3 Describe the organisational and operational rules and the responsibilities attributable to each of the Board's committees.

Committee name	Brief outline
Appointments and Remuneration Committee	<p>Appointments and Remuneration Committee (Article 31 of the Regulations of the Board).</p> <p>1.1. Duties:</p> <p>The Committee carries out research and makes proposals to the Board for the following issues:</p> <ul style="list-style-type: none"> • Putting forward criteria for the remuneration of the company's Directors and to assure transparency in remunerations. • Putting forward the general policy for remuneration of the member of the Gas Natural group Board of Directors. • Putting forward the guidelines for appointments, selection, careers, promotion and dismissal of senior management, in order to ensure that the group always has highly qualified personnel, suitable for the management of its activities. • Reviewing the structure and composition of the Board of Directors, the criteria that should be applied to the statutory renewal of the Directors, the aptitudes required of the candidates to cover each vacancy, the fulfilment of the requirements for each category of Director and the process for the incorporation of new members, raising the corresponding reports to the Board as applicable. For covering new vacancies, selection processes shall be guaranteed that are not subject to implicit bias that prevents the selection of female Directors, including, under the same conditions and among potential candidates, women who meet the professional profile being sought.

- Issuing a report on the transactions that involve or may involve conflicts of interests and, in particular, transactions with associated parties submitted to the Board.
- Issuing a report on the appointments and dismissals of the members of top-tier management.

1.2. Organisation and operation:

The Appointments and Remuneration Committee shall comprise a minimum of three and a maximum of five Directors, designated by the Board of Directors from among the External Directors, bearing in mind their experience and aptitudes. Its members shall leave their post when they do so in their capacity as Directors, when agreed by the Board of Directors, or after a period of three years from their appointment. They can be re-elected.

The Board of Directors shall elect the Chairman from among the members of the Committee; the Chairman shall not have the casting vote. The Secretary of the Committee shall be the same as the Secretary of Board of Directors.

The Committee shall hold meetings whenever necessary to issue its reports, when considered necessary by the Chairman or upon request from its members. At least four meetings per year must be held. They shall be called by the Chairman with prior notice of at least two days before the meeting date, except in certain defined circumstances. Notification for the meeting shall include the agenda together with the pertinent documents to aid proceedings. The meetings shall normally take place at the registered office.

Committee name	Brief outline
Executive Committee	<p>Executive Committee (Articles 50 and 51 of the Articles of Association and Article 30 of the Board Regulations):</p> <p>1.1. Powers.</p> <p>The Board of Directors may designate one or more Executive Committees and appoint one or more Chief Executive Officers and delegate them, temporarily or permanently, any or all of the functions, except those that legally or by agreement of the General Meeting, were within the exclusive jurisdiction thereof, or that may not be delegated by the Board.</p>

By agreement of the Board of Directors on 20 February 1992, the following powers were delegated to the Executive Committee:

- Organising, directing and inspecting all services and facilities of the company.
 - Appointing, suspending and dismissing employees and workers of the company and establishing salaries, as well as providing guarantees to those employees with whom the Company has an agreement to provide.
 - Establishing the salary that should be paid for extra services.
 - Auditing the Company's funds.
 - Receiving, directing and answering private requests and advocating the drawing up of minutes of all kinds.
 - Issuing, endorsing, accepting, collecting and discounting bills of exchange and other draft documents, drawing up re-accounts and summoning protests for non-acceptance or non-payment.
 - Monitoring, opening, cancelling in the Banco de España, in any locality, or any other bank, savings bank or establishment, current and credit accounts signing, for this purpose, cheques, orders, policies and other documents; and requesting, agreeing to or rejecting statements and account balances.
 - Making payments and collections for any security and quantity and even making payment orders for the State, autonomous regions, provinces or municipalities, signing receipts and official receipts.
 - Collecting letters, certificates, dispatches, parcels, money orders and goods with declared monetary value from Post Offices, rail and shipping companies and in general all transport companies, customs and agencies, as well as sent merchandise and stock, and making objections and complaints, and the refusal and abandonment of goods.
 - Opening, replying to and signing correspondence and updating the accounting books in accordance with the law.
 - Contracting insurance of all kinds, signing policies and related documents and receiving indemnities where appropriate.
 - Representing the Company in acquaintances and grace intervals, insolvencies, defaults, bankruptcy of debtors, attending General Meetings, appointing trustees and administrators, accepting or rejecting the proposals of the debtor and carrying out all the paperwork until the end of the procedure.
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- Buying, selling, leasing, reducing, or conditionally or simply exchanging, with the declared price, deferred or paid in cash, all kinds of movable and immovable assets, in rem and personal rights, carrying out planting and building declarations, surveys and marking of boundaries, consolidations and severances and granting contracts of all kinds.
 - Establishing, accepting, modifying, acquiring, disposing of, postponing and cancelling, wholly or partially before or after maturity, whether or not the insured security has been fulfilled, mortgages, liens, prohibitions, conditions and all kinds of limitations or guarantees, as well as easements and other in rem rights.
 - Establishing, merging, transforming, dissolving and liquidating all types of companies, associations, economic interest groups, European economic interest groups and joint ventures, assisting or intervening in all types of Boards, providing companies all kinds of goods, receiving in return holdings, fees, rights and actions that may apply and, in case of dissolution, the appropriate assets.
 - Participating in tenders and auctions, submitting proposals and accepting awards.
 - Buying, selling, trading and pledging securities and receiving interest, dividend and amortisation payments from them.
 - Modifying, transferring, cancelling, withdrawing and establishing interim or definite deposits of cash and/or securities.
 - Coordinating and arranging bank loans with personal guarantees or pledged securities, with banks, savings banks and credit institutions, including the Banco de España, signing policies and related documents.
 - Advocating all kinds of notarial deeds, organising and keeping records of the ownership and release of liens, requesting entries in the Mercantile and Property Registers.
 - Appearing in name and representation of the company before centres and organisations of the State; autonomous regions, provinces and municipalities of Spain; judges, courts and judiciary, attorneys, unions, delegations, committees, Boards, juries and commissions and, in general, any individual person or legal entity or public or private entity. And before these parties, requesting, monitoring and terminating as the plaintiff, defendant or for any other concept, all manner of processes, procedures, hearings and actions and administrative and of a tax nature; trials and civil and commercial procedures; criminal trials and hearings; contentious-administrative trials; governmental; labour hearings of all levels, jurisdictions and ranks; lodging petitions, carrying out actions and exceptions at whatsoever procedures, formalities and appeals; including annulments and reviews and other extraordinary appeals and providing personal ratification whenever required, acquitting positions and legally acquiescing.
 - Appointing trustees and granting them the pertinent powers, both generally and for a specific occasion or event, as well as revoking the powers granted at any time.
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Similarly, Article 5 of the Regulations of the Board states that the agreements laid down in points five to eight, ten to thirteen and sixteen can be adopted, without distinction, by the Board of Directors or the Executive Committee. See Article 5 of the Board Regulations.

Likewise, Article 30.4 of the Regulations of the Board states that the continued monitoring of management by the Company's top-tier level is a specific responsibility of the Executive Committee, as is any other of its functions pursuant to the Articles of Association or these regulations or assigned to it by the Board of Directors.

1.2 Organisation and operation:

- The Executive Committee shall be comprised by the Chairman of the Board of Directors and a maximum of another seven Directors, belonging to the groups envisaged in Article 3 of the regulations and in the same proportion as exists in the Board of Directors. The appointment of the members of the Executive Committee shall require an affirmative vote from at least two thirds of the Board members with existing appointments.
- The Chairman of the Board of Directors will act as Chairman of the Executive Committee and the Secretary of the Board of Directors will undertake the secretariat and may be assisted by the Assistant Secretary.
- The Executive Committee shall be understood to be validly constituted when more than half of its members attend the meeting in person or by representative.
- The members of the Executive Committee shall leave their post when they do so in their capacity as Directors or as agreed by the Board. The positions that become available shall be covered promptly by the Board of Directors.
- The Executive Committee shall hold its ordinary meetings at least once a month. The Secretary will take the minutes of the agreements adopted in the meeting and these will be outlined in the following plenary meeting of the Board of Directors.
- For cases in which, in the view of the Chairman or of the majority of members of the Executive Committee, the importance of the issue so requires, the agreements adopted by the Committee shall be submitted for ratification from the plenary Board meeting.

The same shall be applicable in relation to issues the Board has submitted for examination to the Executive Committee and the Board has the final decision.

In any other case, the agreements adopted by the Executive Committee shall be valid and binding, without the need for subsequent ratification from the full Board meeting.

- The provisions in the regulations for the operation of the Board of Directors shall be applicable to the Executive Committee.
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Committee name	Brief outline
Audit Committee	<p>Audit And Control Committee (Article 51 Bis of the Articles of Association and Article 32 of the Board Regulations).</p> <p>Duties:</p> <ul style="list-style-type: none"> • Reporting to the General Meeting of Shareholders on questions raised by shareholders with respect to matters within their competence. • Proposing to the Board of Directors, for submission to the General Meeting of Shareholders, the appointment of external auditors, pursuant to Article 204 of the revised Spanish Companies Act approved by Royal Decree 1564/1989 of 22 December. • Supervising the internal audit services, guaranteeing their independence and proposing the appointment, re-election and dismissal of the person responsible. Accordingly, the person responsible for the internal audit function shall present an annual work plan, report on the relevant incidents occurring during its development and submit a report on its activities at the end of the year. • Monitoring and supervising the preparation of financial information, guaranteeing the correct application of the accounting principles and the inclusion of all the companies that are to be included in the consolidation perimeter. • Monitoring and supervising the company's risk management and internal control systems, guaranteeing that they identify the types of risk the company faces and the measures considered for reducing them and dealing with them in the event of effective damage. • Raising the selection, appointment, re-election and substitution proposals concerning the external auditor to the Board, as well as the terms and conditions of his/her contract. • Liaising with external auditors to receive information on any questions which could jeopardise their independence and any other matters relating to the progress of the audit, as well as any communications required pursuant to legislation governing auditing and technical auditing standards. • Monitoring the development of the annual auditing. • Acting as a communication channel between the Board of Directors and the external auditors and assessing the results of each audit. • Reviewing the information on the company's activities and results which is compiled periodically in compliance with current stock market regulations, making sure that it is prepared in accordance with the same accounting criteria as the Annual Accounts and ensuring the transparency and accuracy of this information.

-
- Measures it considers appropriate in the auditing activity, internal financial control system, and compliance with legal regulations in matters of provision of information to markets and the transparency and accuracy thereof.
 - Checking compliance with the Internal Code of Conduct for Securities Markets current at any time and in general with the rules governing the company and making any necessary proposals for their improvement.
 - Providing information during the first quarter of the year and whenever the Board of Directors so requests, on compliance with these regulations.
 - Setting up and supervising a mechanism that enables employees to communicate any significant irregularities, especially those related to finance and bookkeeping, and to do so in a confidential manner.

1.1 Organisation and operation:

The Audit and Control Committee shall comprise a minimum of three and a maximum of five Directors appointed by the Board of Directors from among the External Directors, taking into account their knowledge and experience in issues of accountancy, audit and risk management. Its members shall leave their post when they do so in their capacity as Directors, when agreed by the Board of Directors, or after a period of three years from their appointment. They can be re-elected.

The Board of Directors shall elect the Chairman of the Committee, who shall not have a casting vote and shall be replaced in accordance with the Articles of Association (Article 51 bis) and legislation. He/she may be re-elected following the term of one year after his/her dismissal. The Secretary of the Committee shall be the same as the Secretary of Board of Directors.

The Committee shall hold meetings whenever necessary in order to issue its reports, and will be convened by its Chairman on his own initiative or upon request of two of its members. At least four meetings per year must be held. The notification for the meeting shall include the agenda together with the relevant documents to facilitate proceedings, and must be made at least two days in advance, except in certain defined circumstances, in writing. The meetings shall normally take place at the registered office. The Committee may invite to its meetings any executive or employee it deems appropriate.

B.2.4 Indicate the faculties for advising, consultancy and, if relevant, appointments, for each of the committees:

Committee name	Brief outline
Appointments and Remuneration Committee	Already detailed in section B.2.3 in this report.
Executive Committee	Already detailed in section B.2.3 in this report.
Audit Committee	Already detailed in section B.2.3 in this report.

B.2.5 Indicate, where applicable, the existence of Committee regulations, the location at which they are available for consultation and the modifications that have been made during the financial year. Also indicate whether any annual report on each Committee's activities has been voluntarily drafted.

Committee name	Brief outline
Appointments and Remuneration Committee	No regulations corresponding to the Board Committees have been approved. They are regulated by the Organisation and Operation Regulations of the Board of Directors and its Committees, which are available on the company's website. These regulations were not modified in 2010. Mention must be made of the fact that the Regulations of the Board of Directors are duly registered in the Mercantile Register of Barcelona.
Executive Committee	No regulations corresponding to the Board Committees have been approved. They are regulated by the Organisation and Operation Regulations of the Board of Directors and its Committees, which are available on the company's website. These regulations were not modified in 2010. Mention must be made of the fact that the Regulations of the Board of Directors are duly registered in the Mercantile Register of Barcelona.
Audit Committee	No regulations corresponding to the Board Committees have been approved. They are regulated by the Organisation and Operation Regulations of the Board of Directors and its Committees, which are available on the company's website. These regulations were not modified in 2010. Mention must be made of the fact that the Regulations of the Board of Directors are duly registered in the Mercantile Register of Barcelona. Furthermore, the Audit and Control Committee drafts an annual report on its own activities which is placed at the disposal of the shareholders before the Ordinary General Meeting and published on the company website.

B.2.6 Indicate whether the makeup of the Executive Committee reflects the participation in the Board by the various Directors depending on status:Yes No

C. Related-Party Transactions

C.1 Indicate whether the plenary Board has reserved the power to approve the operations that the company carries out with Directors, with major shareholders or shareholders represented on the Board, or with individuals related to these, following a favourable report from the Audit Committee or any other Committee commissioned with this duty:

Yes No

C.2 Detail the significant operations that imply a transferral of resources or obligations between the company and entities within its group and the significant shareholders of the company:

Name or company name of significant shareholder	Name or company name of the company or entity of the group	Nature of the relationship	Type of operation	Amount (thousands of euros)
Caja de Ahorros y Pensiones de Barcelona	Gas Natural SDG, S.A.	Commercial	Other costs	21,259
Caja de Ahorros y Pensiones de Barcelona	Gas Natural SDG, S.A.	Commercial	Financial income	433
Caja de Ahorros y Pensiones de Barcelona	Gas Natural SDG, S.A.	Commercial	Other income	688
Caja de Ahorros y Pensiones de Barcelona	Gas Natural SDG, S.A.	Commercial	Collaboration or management contracts	1,702,046
Caja de Ahorros y Pensiones de Barcelona	Gas Natural SDG, S.A.	Commercial	Financing agreements: credits and provisions of capital (borrower)	574,132
Caja de Ahorros y Pensiones de Barcelona	Gas Natural SDG, S.A.	Commercial	Guarantees received	112,500
Caja de Ahorros y Pensiones de Barcelona	Gas Natural SDG, S.A.	Commercial	Financial expenses	10,562
Caja de Ahorros y Pensiones de Barcelona	Gas Natural SDG, S.A.	Commercial	Leases	2,499
Caja de Ahorros y Pensiones de Barcelona	Gas Natural SDG, S.A.	Commercial	Dividends and other distributed earnings	261,528
Caja de Ahorros y Pensiones de Barcelona	Gas Natural SDG, S.A.	Commercial	Sale of tangible assets, intangible assets and other assets	175,507
Caja de Ahorros y Pensiones de Barcelona	Gas Natural SDG, S.A.	Commercial	Financing agreements: credits and provisions of capital (lender)	452,826
Repsol YPF, S.A.	Gas Natural SDG, S.A.	Commercial	Provision of services	21,766

Repsol YPF, S.A.	Gas Natural SDG, S.A.	Commercial	Leases	8,165
Repsol YPF, S.A.	Gas Natural SDG, S.A.	Commercial	Dividends and other distributed earnings	219,092
Repsol YPF, S.A.	Gas Natural SDG, S.A.	Commercial	Purchase of tangible assets, intangible assets and other assets	6,202
Repsol YPF, S.A.	Gas Natural SDG, S.A.	Commercial	Reception of services	57,992
Repsol YPF, S.A.	Gas Natural SDG, S.A.	Commercial	Sales of goods (manufactured or not)	479,279
Repsol YPF, S.A.	Gas Natural SDG, S.A.	Commercial	Purchase of goods (manufactured or not)	592,697
Repsol YPF, S.A.	Gas Natural SDG, S.A.	Commercial	Sale of tangible assets, intangible assets and other assets	27
Repsol YPF, S.A.	Gas Natural SDG, S.A.	Commercial	Financial income	5
Caixa d'Estalvis de Catalunya, Tarragona i Manresa	Gas Natural SDG, S.A.	Commercial	Financing agreements: credits and provisions of capital (lender)	40,208
Caixa d'Estalvis de Catalunya, Tarragona i Manresa	Gas Natural SDG, S.A.	Commercial	Dividends and other distributed earnings	11,799
Caixa d'Estalvis de Catalunya, Tarragona i Manresa	Gas Natural SDG, S.A.	Commercial	Financial expenses	156
Caixa d'Estalvis de Catalunya, Tarragona i Manresa	Gas Natural SDG, S.A.	Commercial	Collaboration or management contracts	9
Caixa d'Estalvis de Catalunya, Tarragona i Manresa	Gas Natural SDG, S.A.	Commercial	Other costs	111
Caixa d'Estalvis de Catalunya, Tarragona i Manresa	Gas Natural SDG, S.A.	Commercial	Financing agreements: credits and provisions of capital (borrower)	50,987
Caixa d'Estalvis de Catalunya, Tarragona i Manresa	Gas Natural SDG, S.A.	Commercial	Financial income	33

Caixa d'Estalvis de Catalunya, Tarragona i Manresa	Gas Natural SDG, S.A.	Commercial	Guarantees received	70.000
GDF Suez, S.A.	Gas Natural SDG, S.A.	Commercial	Reception of services	8,530
GDF Suez, S.A.	Gas Natural SDG, S.A.	Commercial	Purchase of goods (manufactured or not)	142,475
GDF Suez, S.A.	Gas Natural SDG, S.A.	Commercial	Sales of goods (manufactured or not)	257,053
GDF Suez, S.A.	Gas Natural SDG, S.A.	Commercial	Dividends and other distributed earnings	36,670
GDF Suez, S.A.	Gas Natural SDG, S.A.	Commercial	Other costs	129
GDF Suez, S.A.	Gas Natural SDG, S.A.	Commercial	Other income	1
GDF Suez, S.A.	Gas Natural SDG, S.A.	Commercial	Provision of services	1,054

C.3 Detail the significant operations that imply a transferral of resources or obligations between the company or entities within its group and the Administrators or Executives of the company:

C.4 Detail the important operations carried out by the company with other companies belonging to the same group, provided that they are not eliminated in the process of drafting the Consolidated Financial Statements and are not part of the company's usual trading in terms of its purpose and conditions:

C.5 Indicate whether the members of the Board of Directors have been affected by any conflicts of interest over the year, in accordance with the provisions set forth in Article 127 ter of the Spanish Companies Act.

Yes No

Name or company name of Director	Description of the conflict of interest
Mr Antonio Brufau Niubó	In related party transactions that have been submitted for approval by the Board, following a favourable report from the Appointments and Remuneration Committee, those Directors representing the involved related party have abstained from voting. See section C.2.
Mr Carlos Kinder Espinosa	
Mr Demetrio Carceller Arce	
Mr Enrique Alcántara-García Irazoqui	
Mr Juan Rosell Lastortras	
Mr Juan María Nin Génova	
Mr Luis Suárez De Lezo Mantilla	
Mr Narcís Serra Serra	

C.6 Detail the mechanisms established to detect, determine and resolve possible conflicts of interest between the company and/or its group, and its Directors, Executives or significant shareholders.

1. Directors:

The conflicts of interest are regulated by Article 16 of the Regulations of the Board of Directors, which states the following:

- The Director must abstain from intervening in deliberations and voting on issues in which he/she has a direct or indirect interest and would give rise to a conflict of interests.
- The Director shall be considered to have an interest when the issue affects a member of his/her family, or a company, entity or their respective groups, not belonging to the Gas Natural Fenosa, in which the Director acts as representative, manager or adviser, or has a majority holding in their capital or has been put forward by those entities as a Proprietary Director in Gas Natural Fenosa.
- Directors must report their personal situations to the Board, as well as those of their closest family members and also the companies controlled by them. Specifically, Directors must report aspects relating to holdings, positions held and activities, syndication agreements and, in general, any fact, situation or link that may influence their loyal conduct as Administrators of the company. Likewise, Proprietary Directors must inform the Board of any conflict of interest between the company and the shareholder that proposed their appointment, or which could compromise their duty to be loyal.
- The Director cannot carry out direct or indirect professional or commercial transactions with the company or companies in the group, unless he/she has previously reported the situation of conflict of interests, and the Board, subject to a report from the Appointments and Remuneration Committee, has approved the transaction. For ordinary operations, the generic authorisation for the operation type and its implementation procedure shall be sufficient. In all cases, any conflicts of interest of the company's Administrators shall be reported in the Annual Corporate Governance Report.
- In his/her capacity as loyal representative of the company, the Director must inform the company of shares in the company he/she holds, directly or through companies in which he/she has a majority holding, following the procedure and other processes that are established for investment in Gas Natural SDG, S.A. and investee companies.
- Votes on proposals for appointments, re-election or dismissal of Directors shall be secret, and the affected Directors must abstain from taking part in these votes and their deliberations.

- The Director must notify the company of significant changes to their professional circumstances and changes which affect the nature or capacity by virtue of which he/she was appointed as Director.
- The Director shall inform the company of any kind of legal or administrative claim or any claim of any nature in which he/she is involved which, due to its significance, could have a serious bearing on the reputation of the company. The Board shall examine the matter and adopt the appropriate measures in the company's interest and with the required urgency.
- The Board of Directors shall endeavour, at all times, to prevent Proprietary Directors from using their position to obtain asset benefits without adequate compensation, to the advantage of the shareholder that put them forward for the position.

2. Directors and executives:

Section 6 of the Internal Code of Conduct, for issues relating to the Securities Markets of Gas Natural SDG, S.A., contains the information that the Directors and Executives of the entity must provide concerning conflicts of interest:

"6.1 The persons included in the subjective scope of this internal Code of Conduct shall be obliged to inform the Secretary of the Board of Directors of Gas Natural SDG, S.A. of any possible conflicts of interest that may emerge with the corporate relationships in which they hold an interest or with the ownership of their personal or family assets or any other cause that may interfere in the fulfilment of activities which are the object of these regulations.

In the case of there being a doubt over the existence of a conflict of interest, the obliged persons must consult the Secretary of the Board of Directors of Gas Natural SDG, S.A. who shall resolve the issue in writing. The Secretary may take the matter to the Appointments and Remuneration Committee if he/she considers it to be of particular significance.

The persons affected by potential conflicts of interest must keep the information up to date, reporting any modification or closure of the previously communicated situations.

6.2 The affected persons must abstain from participating in the adoption of any kind of decision that could be affected by the conflict of interests with the company..." .

3. Significant shareholders:

With regard to this section, Article 16, *in fine*, of the Board Regulations establishes:

"Accordingly, any direct or indirect transaction between the company and a significant shareholder must be submitted for approval by the Board of Directors, subject to a ruling from the Appointments and Remuneration Committee of the Board. The Committee must assess the transaction in terms of equal treatment and fair market conditions. The affected Proprietary Directors must abstain from taking part in the Board deliberations and voting. For ordinary operations, a generic authorisation may be granted for the operation type and its implementation procedure."

Article 31 of the Board Regulations envisages, among the functions entrusted to the Appointments and Remuneration Committee, the task of informing the Board of transactions that imply or may imply conflicts of interest and, in particular, transactions with associated parties submitted to the Board.

Finally, Article 6.5 of the aforementioned regulations obliges the Board of Directors to include, in the Annual Report and the Annual Corporate Governance Report, information on the transactions completed with significant shareholders (overall volume of the transactions and the nature of the most significant), so that other shareholders may be informed of their scope and importance.

C.7 Is there more than one listed company in the group in Spain?

Yes No

Identify the subsidiary companies that are listed:

D. Risk Control Systems

D.1 General description of the risk policies of the company and/or its group, detailing and assessing the risks covered by the system, together with justification for the adaptation of the system to the profile of each risk type.

Gas Natural Fenosa's strategy is based on the basic principles of growth, integration, profitability and quality, which are transmitted repeatedly to its interest groups in the reports issued. These include annual reports, quarterly earnings reports and various reports of a strategic nature.

The said strategy basically covers the exploration and production of gas reserves, the gas supply and transportation, the wholesale and retail commercialisation of gas and electricity, the generation of electricity and the distribution of gas and electricity.

All with presence in both Spain and in other countries of Europe, Africa and America. This places Gas Natural Fenosa in a context which is subject to several types of risk factors that are inherent to its activity.

The general risk policy is aimed at safeguarding Gas Natural Fenosa's assets and is consolidated by the following aspects:

- Controlled expansion of activities ensuring the fulfilment of quality standards.
- Profitable growth risk guidelines established by the governing bodies.
- Quick response to changes in the environment.
- High level of professionalism of members of the Board of Directors and other members of the organisation.
- Dynamic decision-making processes.
- Flexibility, objective-based organisational structure.
- Standard structure aimed at ensuring proper operation of critical processes and sub-processes for Gas Natural Fenosa, guaranteeing their efficiency and effectiveness and the appropriate control of transactional risks.

Gas Natural Fenosa takes the view that the risks that require a greater degree of proactive management are those that, given the severity of the risk occurring, could have a negative bearing on the fulfilment of the Strategic Plan and/or on the company's financial soundness in the short, medium and long term. Although Gas Natural Fenosa administers its business with prudence and diligence, many of the risks are inherent to the management of its activities, and are therefore beyond its control on certain occasions, and foreseeing and/or avoiding their consequences is unfeasible.

Gas Natural Fenosa's broad experience in understanding and controlling risks can be seen in their integrated management. The main aim of global risk management is to guarantee the correct identification, assessment and management of the most important risks by the various business units. All with the aim of guaranteeing that the level of exposure to the risk assumed by Gas Natural Fenosa in the development of its business is consistent with its global target risk profile. The said risk profile responds to the level of uncertainty that must be assumed to achieve the strategic annual targets set by its governing bodies. The target risk profile is laid down in the different levels of uncertainty in accordance with the relevant risk category, as approved by the corresponding governing bodies.

Monitoring and assessing risk exposure in an integrated approach, and controlling overall exposure to it, allows efficiency in decision-making to be underpinned, making it possible to optimise the risk-return binomial and guaranteeing that the achievement of the credit rating levels is always in line with the strategic positioning of Gas Natural Fenosa and committed to its stakeholders.

The Corporate Risk Map of Gas Natural Fenosa

The process of identifying and assessing Gas Natural Fenosa's risks is governed by the Corporate Risk Map. The preparation and updating of the said map is the responsibility of the Financial Area in close collaboration with the Internal Audit Department and the business units.

It is an instrument which is designed to identify and assess the main risk categories that affect Gas Natural Fenosa. In a schematic form these are:

a) Business risks.

- a.1) Price.
- a.2) Volume.
- a.3) Regulatory.
- a.4) Strategic.

b) Financial risk.

- b.1) Exchange rate.
- b.2) Interest rate.
- b.3) Liquidity.

c) Credit risk.

- c.1) Retail.
- c.2) Wholesale.

d) Operational risk.

- d.1) Legal/Contractual.
- d.2) Human resources.
- d.3) Fraud.
- d.4) Processes.
- d.5) Information systems.

The aim of the preparation of the Risk Map is to analyse the effects of the various risk categories on each of Gas Natural Fenosa's basic processes/activities. Accordingly, the following is taken into account:

- a) Definition of the general risk policy and profile.
- b) Provision of organisational resources.
- c) Internal policies, procedures and regulations of various types.
- d) Adequate controls and measurement methodologies.
- e) Technological infrastructure and information systems.

These foundations are set up through a process of continuous improvement, and their implementation is permanently regulated in cooperation among the various Committees, Governing Bodies and Departments of Gas Natural Fenosa, as well as by the Internal Audit Area.

Comprehensive Risk Control and Management System

Gas Natural Fenosa has established a Comprehensive Risk Control and Management System that identifies, assesses and controls the risks to which the company is exposed. The foundations for this system are:

- a) Definition of the general risk policy and profile.
- b) Provision of organisational resources.
- c) Internal policies, procedures and regulations of various types.
- d) Adequate controls and measurement methodologies.
- e) Technological infrastructure and information systems.

These foundations are set up through a process of continuous improvement, and their implementation is permanently regulated in cooperation among the various Committees, Governing Bodies and Departments of Gas Natural Fenosa, as well as by the Internal Audit Area.

With regard to regulations, special mention must be made of the General Risk Standard, whose main aim is to lay down the general principles and behaviour guidelines to guarantee the appropriate identification, information, assessment and management of Gas Natural Fenosa's exposure to risk. The aim of the General Risk Standard is to guarantee that the entire organisation understands and accepts its responsibility in identifying, appraising and managing the most significant risks. Accordingly, it establishes various managers for the management, measurement, control and laying-down of limits for each of the typified risk categories.

The fundamental principle on which Gas Natural Fenosa is based in order to assess, mitigate and reduce the principal existing risks is that of reasoned business prudence in all of its actions, with strict and faithful compliance of the legislation in force.

As an integral part of the Comprehensive Control and Management System, particular mention must be made of the Risk Measurement System. The purpose of the system is to quantify the risk assumed globally and by each of the relevant businesses on a recurring base of probability, regarding risk factors related to variations in market prices.

D.2 Indicate whether or not any of the various types of risk (operative, technological, financial, legal, reputational, fiscal, etc.) that affect the company and/or its group have arisen during the year:

Yes No

If the answer is affirmative, indicate the circumstances that caused them and whether or not the established control systems worked.

Risks occurred during the year	Causes of risks	Operation of control systems
The risks have evolved without significant impact on the Consolidated Annual Accounts.	All the causes of the risks are external and inherent to the activities carried out by Gas Natural Fenosa.	The internal control systems have worked appropriately.

D.3 Indicate whether there is a committee or governing body that is responsible for establishing and supervising these control devices:

Yes No

If the answer is affirmative, describe its functions.

Name of the Committee or body	Description of duties
Internal Audit Area	<p>The main purpose of the Internal Audit Area is to ensure the supervision and continuous assessment of the effectiveness of the Internal Control System in all fields of Gas Natural Fenosa, providing a systematic and stringent approach for process monitoring and improvement, and for the assessment of operational risks and controls relating thereto. All of the foregoing is designed to achieve compliance with the strategic objectives of Gas Natural Fenosa and to assist the Audit and Control Committee and the top-tier management of Gas Natural group, in the fields of management, control and corporate governance. In order to achieve these aims, the Internal Audit Area, which answers to the Audit and Control Committee and which in turn reports to the Chairman and Chief Executive Officer of Gas Natural Fenosa, draws up and executes a Strategic Audit Plan and Annual Internal Audit Plans, in accordance with a method of assessment of operational risks, based on the conceptual framework of the COSO Report (the Committee of Sponsoring Organisations of the Treadway Commission) and taking as a basis the type of risks defined in the Corporate Risk Map of Gas Natural Fenosa.</p> <p>In accordance with the aforementioned methodology, the operational risks associated with the processes are prioritised by assessing their impact, relative importance and degree of control. Based on the results obtained in the aforementioned assessment, an action plan is designed with a view to implementing corrective measures which shall mitigate residual risks identified as having greater potential impact than the established tolerable or accepted risks.</p> <p>Finally, it should be pointed out that the functions and activities of the Internal Audit Area are provided in Annual Report on the Activities of the Audit and Control Committee.</p>
Resources Area	<p>This area is responsible for the overall management of the common services in fields such as Information, Purchases, Engineering and Technology, Quality, Health & Safety and Environment Systems. The role played by these units is fundamental for the management and mitigation of risks of an operational nature. Specifically:</p> <p>The Information Systems Unit is responsible for the integrated management of the group's Information System, defining the technological strategy and planning, ensuring the quality of services, cost and safety required by the Group. Of particular significance is the Methodology, Policies and Risk Unit, which is responsible for the definition of the methodologies, policies, tools and the System's Risk Map.</p> <p>The Purchasing Unit is responsible for the definition, planning and implementation of the policies for the purchases of goods and services. This unit is also responsible for the management, bidding, awarding and contracting of suppliers, and the standardisation and certification of equipment and material.</p>

The Engineering and Technology Unit is responsible for the development and introduction of technological solutions that improve the efficiency, quality and safety of the group's processes.

The Quality, Health & Safety, Environment and General Services Unit is responsible for the planning and management of the quality, safety, protection of the health and the environment. Likewise, this unit manages the personal, patrimonial and industrial safety.

Financial Area

The Financial Area assumes the global responsibility on risks, finance, fiscal, accounting and administration policies, as well as controlling the management and the relationships with investors. The Risk Unit is responsible for the conceptual determination of inherent risk for the group's businesses as well as the assessment of the group's global risk profile and its monitoring. This unit develops the regulations, policies and tools for the management and monitoring of risk and the proposal of levels of authorisation, responsibilities and operational limits. It is also responsible for assessing the potential risks of material damage, civil liability and loss of profit, as well as contracting and administering industrial and vehicle insurance policies. Additionally, it administers incident management.

The Finance Unit is responsible for conducting the group's short, medium and long-term financial management as well as proposing the group's financial policy in terms of distribution of results, levels of leverage, financial criteria on interest rates and the financial structure of companies.

Energy Planning Area

The Balance Unit is responsible for the consolidation of the group's integrated energy balance and proposes indicators to improve the allocation of energy.

Legal Services Area

The Legal Services Area is responsible for giving advice on the legal issues and manages the civil, penal and administrative matters in the different areas of the group. In particular, importance must be given to the Compliance Unit as responsible for monitoring the legislation that is applicable to the Group and for fostering good corporate governance. Accordingly, the Corporate Governance Matters Unit, attached to Compliance, is responsible for defining the basic issues of corporate governance on a group scale, as well as for collaborating on the preparation of internal regulations that reflect said issues and for ensuring the fulfilment of the Corporate Governance Principles.

Audit and Control Committee

The responsibilities of the Audit and Control Committee are established in the Articles of Association and the Regulations of the Board of Directors. Among these are the functions of researching, reporting, supporting and making proposals to the Board of Directors in relation to their monitoring tasks, by means of a periodic review of compliance with the procedure for drafting business and financial information, the procedure for the identification and assessment of the risks included in the Corporate Risk Map, the Internal Control System of the company (regulations, laws, policies, codes, accounting and internal control procedures, etc.) of the auditing procedure and independence of the external auditor, and compliance with established policies in matters of corporate governance. The Committee has also been assigned with the responsibilities of setting up and supervising a mechanism that enables employees to communicate any irregularities of importance, especially those of a financial and bookkeeping nature, and to do so in a confidential manner.

The main activities of the Committee in 2010 concerning the review of the internal control and risk management systems of Gas Natural Fenosa are set forth, *inter alia*, in the Annual Report on the Activities of the Audit and Control Committee.

Executive Committee

The Executive Committee, in its capacity as appointed body of the Board of Directors, likewise gathers the necessary reports and advice for each case; it examines and authorises all significant operations which, due to their habitual occurrence in the Company or their financial magnitude, are not authorised by the Board. The Executive Committee usually informs the Board of the decisions taken and requests, where applicable, their ratification or approval from the highest governing body.

The Executive Committee is also responsible for proposing the Strategic Plan, the group's Objectives and the Annual Budget to the Board of Directors.

Quality Committee

Its main objectives are to submit the Strategic Quality Plan for approval from the senior management but it is also responsible for coordinating and driving the introduction of the provisions in the Plan in each of the affected organisational units, these units being ultimately responsible for their introduction. Likewise, through the Quality, Health & Safety, Environment and General Services Unit, it reports on the development of the measurements taken recurrently and systematically of Gas Natural Fenosa's customer satisfaction and the alignment between the quality objectives and intrinsic business risks.

Management Committee

The Management Committee, comprising senior executives (specifically the Chief Executive Officer, the General Managers and the remaining Directors, as shown in the table of foregoing section B.1.9), is the body that coordinates the business and corporate departments. Its main functions include researching and proposing the Objectives, the Strategic Plan and the Annual Budget, as well as forwarding the proposals for actions that may affect the securing of the company's Strategic Plan to the governing bodies.

All of the members of the Management Committee also participate in the drafting of the Corporate Risk Map through technical meetings at which they contribute their views on the principal uncertainties and possible effects on the business.

Data Protection Committee

Its objective is to instigate, coordinate and drive the introduction of organisational and technical measures in all of the group's companies, which ensure the security and confidentiality of the personal data provided by customers, suppliers or employees, fulfilling, in turn, the provisions set forth in the Personal Data Protection Act and its Security Regulations. It must ensure coverage for the risks that are inherent to its scope of operation.

Regulation Committee

Its objective is the definition of the carrying out of Gas Natural Fenosa's integrated regulation strategy, ensuring that the uncertainty associated with the regulatory sphere is properly managed.

Risk Committee

This Committee is responsible for guaranteeing the correct determination and review of Gas Natural Fenosa target risk profile, ensuring that the entire organisation understands and accepts its responsibility in the identification, assessment and management of the most relevant risks. The permanent members of the said Committee include the Financial Area, the Energy Planning Area, the Wholesale Energy Business Area, the Retail Energy Business Area and the Internal Audit Area. In addition, the other members of the Management Committee can take part in the Committee as non-permanent members for dealing with specific cases. The risk management strategy designed by the Committee is applied by the Risk Subcommittee.

Chief Executive Officer

The Chief Executive Officer authorises those operations that, due to their financial cost or nature, are directly submitted to his/her jurisdiction and have been proposed by the Company's Executive Directors in the necessary reports. In the event that the operations exceed the pre-established limits, they are submitted by the Chief Executive Officer to the Executive Committee or the Board of Directors, as appropriate.

As a fundamental and principal function, the Chief Executive Officer is responsible for the execution and implementation of the agreements adopted by the Board of Directors and the Executive Committee, and can give authority to the company Executives which are most suitable in each case, in accordance with the nature and significance of the matter.

The participation of the Chief Executive Officer in the discussion of the most pertinent conclusions of the Corporate Risk Map is also significant. The conclusions complement and contextualise the decision-making process in terms of the risks assumed by Gas Natural Fenosa.

Board of Directors

Gas Natural Fenosa practises a business policy in which the analysis and management of risks plays a key role in decision-making processes. The established risk management control systems are configured at the following levels:

Board of Directors: The Board of Directors is responsible for carrying out whatsoever action that may be necessary for the fulfilment of the corporate purpose laid down in the Articles of Association. At any given time, the governing criterion is the sustained maximisation of the company's value. Accordingly, it shall be competent to determine Gas Natural Fenosa's strategic focuses and economic targets, the supervision and verification of the fulfilment of the said strategy and targets by senior management in accordance with the company's purpose and interests. All guaranteeing the future viability of Gas Natural Fenosa and its competitiveness in the development of the business activity expressly under its control.

When carrying out its functions, the Board of Directors shall establish as many supervision systems as required to guarantee control over its members' decisions.

In order to carry out the aforementioned functions, the Board of Directors has the following powers, particularly relevant in the area of risk management and control.

- Adoption of Gas Natural Fenosa Strategic Plan, the Annual Budgets, the Annual Financial Plan and the investments and finance policy.
 - Adoption of the risk management and control policy and regular monitoring of the indicators and internal control systems.
 - Adoption of the corporate governance and corporate social responsibility policies.
 - Adoption of the policy on dividends and treasury stocks.
-

Secretary of the Board
of Directors

In accordance with Article 26 of the Regulations of the Board of Directors, the Secretary of the Board, via the Secretary or, where applicable, via the Assistant Secretary, is responsible for assisting the Chairman in his/her tasks, and especially for providing the Board Members with advice and information required, looking after the company documentation, as well as keeping the minutes of the sessions and attesting to the agreements of the company's governing bodies.

The Secretary of the Board shall be responsible for the formal and material legality of the Board's actions at all times, as well as those of other Committees, ensuring that their procedures and governing rules are regularly reviewed, thus minimising the existing company risks.

D.4 Identification and description of the procedures for compliance with the different regulations affecting the company and/or its group.

Gas Natural Fenosa activities are significantly conditioned by the application of various relevant regulations related to gas, electricity and environmental activities in all the countries in which Gas Natural Fenosa operates. In order to guarantee compliance with the said regulations, there is an appropriate allocation of responsibilities in each of the business units, aimed at guaranteeing observance of and compliance with relevant legislative issues. In addition, as laid down in section D.3, the Regulation Committee, especially with regard to environmental issues and in collaboration with the Resources Area through the Quality, Health & Safety, Environment and General Services Unit, is responsible for implementing a global and integrated control of compliance with legislative requirements in order to avoid risks in the said area. Finally, it is important to reiterate the function of the Legal Services Area, especially through the Compliance Unit, as responsible for and supervisor of compliance with the legislation applicable to the group.

E. General Meeting

E.1 Indicate and, where applicable, give details of whether or not there are differences between the quorum system laid down in the Spanish Companies Act and the quorum for constituting the General Meeting of Shareholders.

Yes No

	% of quorum different to the provisions set forth in Article 102 LSA for general cases	% of quorum different to the provisions set forth in Article 103 LSA for these special cases set forth in Article 103
Quorum required for the first call to meeting	0	0
Quorum required for the second call to meeting	0	0

E.2 Indicate and, where applicable, give details of whether or not there are differences between the system laid down in the Spanish Companies Act and the system for adopting corporate agreements:

Yes No

Describe how the system differs from that of the LSA.

E.3 List the shareholders' rights in relation to General Meetings which differ from those of the LSA.

Shareholders' rights in respect of General Meetings are those established by the Corporate Enterprises Act (LSC) and other applicable legal regulations:

- Right to information
- Right of attendance
- Right of representation
- Right to vote

In accordance with the right to attendance, the General Meeting may be attended by those shareholders who, either individually or grouped with others, hold a minimum of 100 shares, provided that they are recorded in the corresponding accounting register five days prior to the meeting, and that they possess, as indicated in the meeting announcement, the corresponding attendance card attesting to compliance with the aforementioned requirements, which shall be issued in the name of the entities to whom it legally corresponds (Article 33 of the Articles of Association).

E.4 Indicate, where applicable, the measures adopted to encourage participation of the shareholders in General Meetings.

The most notable measure is the meeting's approval of its regulations since, as indicated in its introduction, the regulations constitute an obligatory reference for improving the information provided to shareholders on the content of the decisions to be taken and in achieving their active participation in the General Meetings.

The regulations were approved by the Ordinary General Meeting held on 14 April 2004 and modified in June 2006.

Special mention must be made of the fact that, in 2007 and 2008, the option for electronic votes was implemented on the company's website with a view to reaching the highest possible level of compliance with the proposals on corporate governance. However, owing to the notable lack of proportion between the effective use of the tool (5 shareholders in 2007 and 7 shareholders in 2008) and the economic cost of its implementation, it was not implemented in 2009 or 2010. As a conclusion, the limited use of the electronic vote does not justify the economic cost of its introduction.

If circumstances change in the future, its reinstatement will be analysed.

From the date of publication of the announcement of the General Meeting, the company shall place on its website all the proposals for decisions formulated by the Board of Directors in respect to the items on the agenda, unless since the proposals are not legally or statutorily required to be made available to the shareholders from the date of the meeting announcement, the Board deems that there is a justifiable reason for not doing so.

In addition, from the date of the announcement of the meeting, any other information which is considered appropriate for facilitating the attendance of the shareholders at the meeting and their active participation therein shall be published on the company website including:

- i) Information on the meeting venue, indicating, where applicable, access to the room designated for this purpose.
- ii) Sample of an attendance card and the document for vote delegation indicating the procedure for obtaining the originals.
- iii) A description of the delegation or electronic voting systems which may be used.
- iv) Information, where applicable, on the systems and procedures which facilitate monitoring of the meeting (simultaneous translation or diffusion via audiovisual media).

Likewise, shareholders may, prior to the General Meeting, request in writing from the Board of Directors any reports or clarifications they deem appropriate regarding matters included in the agenda. The Board of Directors, except in specific cases (detrimental to company interests, matters not included in the agenda or irrelevant information) is obliged to provide that information.

When the meeting is held, the Chairman shall invite the shareholders who wish to intervene to identify themselves to the meeting Secretary. Having given the reports that the Chair deems appropriate, and prior to voting having addressed all the items in the agenda, the shareholders may take the floor. During this part of the meeting, shareholders may verbally request any reports or clarifications deemed appropriate regarding items in the agenda. Except for the cases provided in the foregoing paragraph or when the requested information is not available at the meeting, the Administrators are responsible for providing the requested information. This information shall be provided by the Chairman or, where applicable, as he/she indicates, by the Chairman of the Audit and Control Committee, or any other Board Committee competent in the matter in question, the Secretary, an Administrator, or if advisable, any employee or expert in the matter in hand.

E.5 Indicate whether the position of Chairman of the General Meeting coincides with that of Chairman of the Board of Directors. Indicate, where applicable, the measures adopted to encourage independence and effective operation of the General Meeting:

Yes No

Details of measures

The General Meeting Regulations, which contain full details of the measures for ensuring independence and effective operation of the meeting, may be consulted on the company website.

The most significant measures adopted are as follows:

- More announcements for the General Meetings are published (ordinary and extraordinary) than those legally required.
- Attendance cards are issued to make the voting process for shareholder easier.
- The General Meeting may be attended by those shareholders who either individually or in a group with others hold a minimum of 100 shares, provided that they are recorded in the corresponding accounting register five days prior to the meeting, and that they possess, as indicated in the meeting announcement, the corresponding attendance card attesting to compliance with the aforementioned requirements, which shall be issued in the name of the entities to whom it legally corresponds.
- As a general rule, the media is allowed access to the meeting in order to make public the progress of the meeting and the decisions taken.
- In addition, a video of the meeting is available for subsequent dissemination.
- In order to ensure the security of those attending and the good order and progress of the General Meeting, sufficient surveillance, protective measures as well as access control are adopted.
- As a general rule, the necessary requirements for simultaneous translation of the speakers at the meeting shall be made available.
- Prior to the meeting and following publication of the call to meeting, the shareholders that represent the least 5% of the share capital may request that a complement to the call to meeting be published, including one or more points of the agenda. The exercise of this right must be carried out through notification requiring acknowledgement of receipt received at the company's registered office within five days following publication of the call to meeting.
- Shareholders have the right to intervene in the General Meeting and to request the information and clarifications they deem appropriate, and the Chairman of the meeting in the exercise of his/her powers and without prejudice to any other actions may:

-
- i) Request that speakers clarify questions which have not been understood or which have not been sufficiently explained.
 - ii) Call the other shareholders to order so that they confine their comments to matters relating to the meeting and refrain from making inappropriate statements or exercising their rights in an abusive or obstructive manner.
 - iii) Announce to those wishing to speak that the time allotted to them is coming to an end and that they should adjust their speech accordingly, and if they persist in the conduct described in the preceding paragraph, their right to speak shall be withdrawn; and
 - iv) If it is considered that their contribution disrupts or may disrupt the normal course of the meeting, they may be required to leave the premises and, where applicable, the necessary measures may be taken to ensure that they are ejected.
- Mention must be made of the fact that, without prejudice to the possibility of presenting a complement to the call in accordance with Article 97 of the LSA (currently 176 LSC) and proposals for agreements in accordance with Article 100 of the LSA (currently 168 LSC), prior to the announcement of the General Meeting, when the floor is open to speakers, the shareholders may formulate proposals for decisions to the General Meeting on matters in the agenda which do not legally need to be made available to the shareholders when the meeting is announced, and on those issues on which the meeting may deliberate without their being included in the agenda.
-

E.6 Indicate, where applicable, the amendments made during the financial year to the General Meeting Regulations.

The regulations of the General Meeting of Shareholders were not modified in 2010.

E.7 Indicate the attendance data of the General Meetings held during the financial year to which this report refers:

Attendance data

Date of General Meeting	% physical presence	% represented	% remote voting		
			Electronic vote	Others	Total
20/04/2010	67.700	1.700	0.000	0.000	69.400

E.8 Indicate briefly any decisions taken in the General Meetings held during the financial year to which this report refers, and the percentage of votes in the case of each decision.

During 2010, Gas Natural SDG, S.A. held one Ordinary General Meeting on 20 April 2010. The decisions adopted and the percentage of votes accorded to each are indicated below, as well as the share capital present and represented.

Ordinary General Meeting of Gas Natural Sdg, S.A. held on 20 April 2010.

One. Analysis and approval, where applicable, of the Annual Accounts and of the Management Report for Gas Natural SDG, S.A. pertaining to the year ended on 31 December 2009.

Votes against: 0%.

Abstentions: 0.0004%.

Votes in favour: 99.9996%.

Two. Analysis and approval, where applicable, of the Consolidated Annual Accounts and of the Consolidated Management Report for Gas Natural SDG, S.A. pertaining to the year ended on 31 December 2009.

Votes against: 0%.

Abstentions: 0.0004%.

Votes in favour: 99.9996%.

Three. Examination and approval, where applicable, of the proposed application of the results of the 2009 financial year and share-out of dividends.

Votes against: 0%.

Abstentions: 0.0018%.

Votes in favour: 99.9982%.

Four. Examination and approval, where applicable, of the Board of Directors' actions during the 2009 financial year.

Votes against: 0%.

Abstentions: 0.0023%.

Votes in favour: 99.9977%.

Five. Re-election of the auditors of the Company and its consolidated group for the year 2010.

Votes against: 0%.

Abstentions: 0.0020%.

Votes in favour: 99.998%.

Six. Re-election, ratification and, where applicable, appointment of members of the Board of Directors.

6.1. Re-election and, where applicable, appointment for the statutory term of three (3) years of Antonio Brufau Niubó as a company Director.

Votes against: 0.0015%.

Abstentions: 0.0017%.

Votes in favour: 99.9968%.

6.2. Re-election and, where applicable, appointment for the statutory term of three (3) years of Enrique Alcántara-García Irazoqui as a company Director.

Votes against: 0.0007%.

Abstentions: 0.0023%.

Votes in favour: 99.997%.

6.3. Appointment for the statutory term of three (3) years of Luis Suárez de Lezo Mantilla as a Company Director.

Votes against: 0.0007%.

Abstentions: 0.0023%.

Votes in favour: 99.997%.

SEVEN. Authorisation to the Board of Directors for the issue of debentures, bonds or similar securities, whether simple or guaranteed, not convertible into shares, together with preferential shares, in the way and for the amount lawfully decided by the meeting, with the authorisation agreed by the General Meeting, of 16 May 2007, rendered null and void as well as the authorisation for the company to guarantee the new issues of preferential shares made by its subsidiaries.

Votes against: 0.00007%.

Abstentions: 0.0005%.

Votes in favour: 99.9994%.

EIGHT. Authorisation to the Board of Directors for the derivative acquisition of own shares, either directly or through group companies of Gas Natural SDG, S.A., in the terms agreed by the General Meeting and with the legally established restrictions, thus cancelling the authorisation agreed by the Ordinary General Meeting of 26 June 2009.

Votes against: 0.0010%.

Abstentions: 0.0004%.

Votes in favour: 99.9986%.

NINE. Authorisation for the Board of Directors, in accordance with the provisions laid down in Article 153.1 1. b) of the Spanish Companies Act, so that, within the maximum term of five (5) years, if it considers it appropriate, it can increase the share capital, to the maximum quantity corresponding to 50% of the social capital of the company, with the possibility of incomplete subscription, on the date of the authorisation issuing shares with or without the right to vote, with or without a premium, up to half the share capital, in one or more times and on the occasions and to the amount it considers appropriate, rewriting the temporary Article of the Articles of Association, thus cancelling the authorisation agreed by the Ordinary General Meeting of 26 June 2009.

Votes against: 0.0228%.

Abstentions: 0.0003%.

Votes in favour: 99.9769%.

TEN. Delegation of powers of attorney to supplement, develop, execute, remedy and formalise the decisions taken by the General Meeting.

Votes against: 0.0001%.

Abstentions: 0.0002%.

Votes in favour: 99.9997%.

E.9 Indicate whether or not there is a statutory restriction to the minimum number of shares required to attend the General Meeting:

Yes

No

Number of shares required to attend the General Meeting

100

E.10 Indicate and justify the company's policies with regard to delegation of votes at the General Meeting.

Pursuant to Article 34 of the Articles of Association, any shareholder with right of attendance may be represented at the General Meeting by another person who must be a shareholder, with the equal right of attendance, informing the Company of the representation at least three days before the meeting is held.

The representation must be conferred in writing for each General Meeting, except the provisions set forth in Article 187 of the Corporate Enterprises Act. Representation may be revoked at any time. Personal attendance at the General Meeting of the person represented may be revoked.

Likewise, Article 8 of the Regulations of the General Meeting indicates that the right to attend the General Meeting may be delegated in favour of another shareholder who also has the right of attendance.

The representation should be stated in writing or by any means of remote communication such as postal correspondence, telephone, email, sms or any other electronic means of communication supported by the company for this purpose.

The company will report on the corporate website and in any other media it deems appropriate on the representation system by remote media and on the guarantees that it requires with regard to the identity and authenticity of the shareholder granting the representation and the security and integrity of the content of the remote communication. Accordingly, the company may require the use of a recognised electronic signature or any other system that, in the sole judgement of the Board of Directors or the body or persons who the Board delegates this power of attorney, is deemed to satisfy the sufficient security guarantees.

Natural persons who are shareholders and who are not in full possession of their civil rights and legal persons who are shareholders may be represented by duly accredited legal agents.

Representation which cannot be demonstrated according to Law shall not be deemed valid or effective. Representation may be revoked at any time. Personal attendance at the General Meeting of the person represented may be revoked.

In cases where the Administrators of the company represent any shareholder, the document authorising that delegation should contain the agenda of the meeting as well as instructions for exercising the right to vote. If there are no such instructions, a favourable vote shall be assumed in respect of the proposals of the Board of Directors.

E.11 Indicate whether the company is aware of the institutional investors' policy of participating or not in the company decisions:

Yes No

E.12 Indicate the address and means of access to corporate governance content on the website.

All the information required may be found on the website www.gasnaturalfenosa.com. The Corporate Governance information can be accessed through the section Information for Shareholders and Investors.

F. Degree of Compliance with Corporate Governance Recommendations

Indicate the company's degree of compliance with the recommendations given in the Unified Code of Good Governance.

In the event of failure to comply with any such recommendations, explain the recommendation, standards, practices or criteria in question applied by the company.

1. The Articles of Association of listed companies should not limit the maximum number of votes that can be issued by the same shareholder or contain other restrictions that prevent the company from being taken over through the purchase of its shares on the market.

See epigraphs: A.9, B.1.22, B.1.23 and E.1, E.2.

Complies

2. When the parent company and the subsidiary are listed, they must both publicly define the following in detail:

- a) The respective areas of activity and possible business relationships between them, as well as those of the dependent listed company with the remaining group companies;
- b) The mechanisms in place to solve possible conflicts of interest that may occur.

See epigraphs: C.4 and C.7.

Not applicable

3. Although it is not expressly required in mercantile legislation, they should submit the transactions that involve a modification to the company's structure for approval by the General Meeting of Shareholders, especially the following:

- a) The transformation of listed companies into holding companies through the creation of subsidiaries or the incorporation of essential activities into dependent enterprises that hitherto had been carried out by the company itself, even though this party holds full domain over the former;
- b) The acquisition or disposal of essential operating assets, when this involves an effective modification of the corporate purpose;
- c) Operations that have the same affect as liquidation of the company.

Complies

4. The detailed proposals of the agreements to be adopted by the General Meeting of Shareholders, including the information referred to in Recommendation 28, should be published with the publication of the announcement of the call to the meeting.

Complies

5. In the General Meeting of Shareholders, the matters that are substantially independent must be voted separately so that shareholders can exercise their voting preferences separately. And the said rule should be applied, in particular:

- a) To the appointment or ratification of Directors, which must be voted on separately;
- b) In the event of amendments to the Articles of Association, to each article or group of articles that are substantially independent.

See epigraph: E.8.

Complies

6. The companies should allow the division of the vote so that the financial brokers legitimated as shareholders but acting on behalf of different customers can issue their votes in accordance with the instructions given by the said customers.

See epigraph: E.4.

Complies

7. The Board should carry out its functions on the basis of a unified purpose and independence, giving the same treatment to all the shareholders and following the company's interest, understood as maximising the company's economic value in a sustained manner.

It should also ensure that, in its relations with the stakeholders, the company observes legislation and regulations; fulfils its duties and contracts in good faith; observes the uses and good practices of the sectors and territories in which it operates; and observes the additional principles of social responsibility it has voluntarily accepted.

Complies

8. As the core of its mission, the Board should adopt the Company's strategy and the organisation required for its implementation, as well as supervising and controlling the management's fulfilment of targets and observance of the company's corporate interest and purpose. Accordingly, in its plenary session, the Board reserves the competency for adopting the following:

- a) The general policies and strategies of the company, and more specifically:

 i) The Strategic or Business Plan, as well as the management aims and annual budgets;

 ii) The investment and finance policy;

 iii) The definition of the group companies structure;

 iv) The corporate governance policy;

 v) The corporate social responsibility policy;

- vi) The remuneration policies and assessment of performance of senior management;
- vii) The policy for control and management of risks, as well as periodic monitoring of the internal information and control systems;
- viii) The dividend policy, as well as the treasury stock policy, with special focus on their limits.

See epigraphs: B.1.10, B.1.13, B.1.14 and D.3.

b) The following decisions:

- i) At the proposal of the chief executive of the company, the appointment and possible resignation of senior executives, as well as their compensation clauses.

See epigraph: B.1.14.

- ii) The remuneration of Directors, as well as, in the case of executives, the additional remuneration through their executive duties and other conditions that their contracts must include.

See epigraph: B.1.14.

- iii) The financial information that must be published periodically, given its status as a listed company,
- iv) All kinds of investment or operations which, due to the amount or special characteristics, are of a strategic nature, unless approval falls to the General Meeting;
- v) The creation or acquisition of shareholdings in special purpose enterprises or enterprises with registered offices in countries or territories considered as tax havens, as well as any other transactions or operations of a similar nature which, due to their complexity, could hamper the group's transparency.

c) The operations that the company carries out with Directors, with major shareholders or shareholders represented on the Board, or with related parties ("related-party transactions").

However, this authorisation by the Board should not be considered necessary for the related-party transactions that meet the following three conditions:

1. They are carried out by virtue of contracts whose terms and conditions are standardised and applied generally to many customers;
2. They are carried out at prices or rates generally established by the person acting as the supplier of the good or service in question;

3. Their amount does not exceed 1% of the company's annual revenue.

It is recommended that the Board should approve the associated transactions after a favourable report has been issued by the Audit Committee or, where applicable, any other party to which that function has been commissioned; and, besides not exercising or delegating their right to vote, the members of the Board who are affected should leave the meeting room while the Board deliberates and votes on the matter.

It is recommended that the competencies attributed to the Board here should be non-delegable, with the exception of those mentioned in paragraphs b) and c), which may be adopted in emergencies by the Executive Committee and subsequently ratified by the Board in its plenary session.

See epigraphs: C.1 and C.6.

Complies partially

The degree of fulfilment is very high as a result of the following:

In accordance with Article 4 of the Regulations of the Board of Directors:

1. The Board of Directors is responsible for carrying out whatsoever action that may be necessary for the fulfilment of the corporate purpose laid down in the Articles of Association. At any given time, the criterion governing the actions taken by the Board of Directors is the sustained maximisation of the company's value. In particular, it shall be competent for the following:

- Determining the company's strategic orientation and financial objectives and agreeing, at the proposal of senior management, the appropriate measures for their achievement.
- Supervising and verifying that the members of senior management comply with the strategy and meet the targets set and observe the corporate purpose and interest.
- Ensuring the company's future viability and its competitiveness, as well as the existence of appropriate leadership and management, where the company's activity is expressly submitted to its control.
- Adopting the company's codes of conduct and exercising the powers laid down in Article 5 of these regulations.

When carrying out its functions, the Board of Directors shall establish all the supervision systems required to guarantee the control of its members' decisions, in accordance with its corporate interest and the interests of the minority shareholders.

2. The Board of Directors shall be responsible for whatsoever management, representation and control activities necessary or appropriate for achieving the corporate purpose as laid down in the Articles of Association. It shall respond for this obligation to the General Meeting. The bestowing of powers in favour of one or more members of the Board does not deprive the latter of the organic competency laid down in the Spanish Companies Act and Articles of Association.

3. The Board of Directors is authorised, within the legal and statutory limits or those expressly laid down in these regulations, for the following:

- Appointing one or more Directors, in the case of vacancies, by means of the cooptation system until the first General Meeting is held.

- Accepting Directors' resignations, where applicable.
 - Appointing and dismissing the Chairman, Deputy Chairman, Chief Executive Officers, Secretary and Assistant Secretary of the Board of Directors.
 - Delegating functions to any of its members under the terms and conditions laid down in law and the Articles of Association, as well as their revocation.
 - Appointing the Directors to the various Committees laid down in these regulations and revoking their mandates.
 - Preparing the Annual Accounts and the Management Report.
 - Presenting the reports and agreement proposals which, in accordance with the provisions laid down in law and the Articles of Association, are to be prepared by the Board of Directors to be heard and adopted, where applicable, by the General Meeting, including the Annual Corporate Governance Report.
 - Establishing the company's economic targets and adopting, when so proposed by senior management, the strategies, plans and policies aimed at achieving the said targets, where the fulfilment of the said activities is subject to its control.
 - Adopting the acquisitions and transfers of the company's assets or those of its subsidiary companies which, as a result of whatsoever circumstance, are of particular significance.
 - Establishing its own organisation and operation, and as well as that of the company's senior management, and, in particular, modifying these regulations.
 - Exercising the powers awarded to the Board of Directors by the General Meeting, which may only be delegated if so laid down expressly by agreement of the General Meeting, as well as the other powers bestowed by virtue of these regulations.
4. The Board of Directors is also the Company's organic representative under the legal terms and conditions laid down in the Articles of Association. The delegation or bestowing of such a power of representation in favour of one or more Directors implies an obligation for the latter to notify the Board of whatsoever documents they sign in the exercise of the said power and which go beyond ordinary administrative requirements.
5. The Board of Directors shall regularly assess its own operations and that of its Committees."

Similarly, Article 5 of the said regulations on the powers reserved expressly for the Board of Directors lays down the following:

"Notwithstanding the powers of representation and execution awarded by the Articles of Association to the Chairman and the Chief Executive Officers, as well as the effects of the powers or delegations bestowed to third parties directly by the company, with regard to the legal independence of the governing bodies of the companies in the group, a prior decision by the Board of Directors of Gas Natural SDG, S.A. shall be required in the following cases:

1. Presentation to the Ordinary General Meeting of the Annual Accounts and the Management Report of Gas Natural SDG, S.A. and the consolidated accounts, as well as any other proposals legally required of the Administrators of the company.
2. Adoption of the Group's Strategic Plan, the Annual Budgets, the Annual Financial Plan and the investments and finance policy.

3. Definition of the capital ownership structure and the structure for delegations and powers.
4. Adoption of the corporate governance and corporate social responsibility policies.
5. The incorporation of new companies or entities, or participation in already existing companies when this presupposes an investment exceeding ten million euros of a stable nature for the Gas Natural group, or is removed from the main company activity.
6. Adoption of merger, absorption, spin-off, concentration and dissolution transactions with or without liquidation, in which any of the companies in the Gas Natural group is involved and which are relevant for the said group. Whatever the case, the transactions involving companies with shareholders external to the Gas Natural group shall be understood as transactions of relevance.
7. Transfer of shares in the capital of companies or other fixed assets by any company in the Gas Natural group which, owing to their quantum or nature, are relevant for the said group. Whatever the case, the transactions involving quanta of more than ten million euros shall be understood as relevant.
8. Adoption of investment projects to be carried out by any company in the Gas Natural group which, owing to their quantum or nature, are relevant for the said group. Whatever the case, the transactions involving quanta of more than 15 million euros shall be understood as relevant.
9. Adoption of programmes for the issue and renewal of serial commercial papers, debentures or similar securities by Gas Natural SDG, S.A. or its major investee or controlled holdings.
10. Adoption of financial transactions to be carried out by any company in the Gas Natural group which, owing to their quantum or nature, are of relevance for the said group and are not included in the Annual Financial Plan. Whatever the case, whatsoever positioning of surpluses for a term of more than one year or financing at any term for quanta of over ten million euros shall be considered relevant.
11. Awarding of guarantees by companies belonging to the Gas Natural group to guarantee the obligations of entities that do not belong to the said group or which, belonging to the said group, have external shareholders.
12. Transfer of rights over the trade name and brands as well as patents, technology and any other type of industrial property belonging to Gas Natural SDG, S.A. or group companies, and which have financial relevance.
13. Adoption or ratification of the appointment and dismissal of members of senior management and the administrators of the various companies in the Gas Natural group.
14. Adoption of the appointment and dismissal of the patrons and posts held in the Gas Natural Foundation, of the individual representatives of Gas Natural SDG, S.A. in the cases in which the said Company holds the post of administrator in another company, and administrators of part-owned companies that do not belong to the Gas Natural group when the company has the power for proposing the said appointment.
15. Creation, investment and supervision of the management of personnel pension plans and any other undertakings involving personnel which imply long-term financial liabilities for the company.
16. The signing of commercial, industrial or financial agreements of relevant or strategic importance for the Gas Natural group that represent a modification, change or review of the current Strategic Plan or Annual Budget.
17. Approval of any company transaction with a significant shareholder pursuant to the terms of Article 19.

18. Adoption of the financial information that corresponds according to legislation.
19. Adoption of the risk management and control policy and regular monitoring of the indicators and internal control systems.
20. Adoption of the policy on dividends and treasury stocks.

The agreements laid down in paragraphs five to eight, ten to thirteen and sixteen can be adopted without distinction by the Board of Directors or the Executive Committee.

The Chairman, the Chief Executive Officer(s) or the Secretary shall execute the decisions taken by the Board of Directors pursuant to this article and shall notify the authorisation or approval in the appropriate manner, or shall issue instructions to act as required".

Consequently, there are certain competencies which, owing to urgency, effectiveness and operability, have been awarded without distinction to the Board of Directors and to the Executive Committee.

9. The Board should have the necessary size for effective, participatory operation, which means that it should not have fewer than five or more than 15 members.

See epigraph: B.1.1.

Explain

At present, the Board of Directors of Gas Natural SDG, S.A., within the minimum number of 10 members and a maximum of 20 members laid down in Article 41 of the Articles of Association, by virtue of the agreement adopted by the General Meeting of Shareholders held on 23 June 2003, comprises 17 members. The said number exceeds by two that of Recommendation 9 of the Unified Code of Good Governance; however, the company understands that the current size of the Board is appropriate and necessary for the correct management and supervision of the company, where the said number does not prevent, limit or restrict in whatsoever way the effective and participatory operation of the said governing body.

10. The External Proprietary and Independent Directors should represent a broad majority of the Board and the number of Executive Directors should be the required minimum, taking into account the complexity of the corporate group and the percentage of participation of the Executive Directors in the company's capital.

See epigraphs: A.2, A.3, B.1.3 and B.1.14.

Complies

11. If there is an External Director who cannot be considered as either a Proprietary or Independent, the company should explain the said circumstance and his/her association either with the Company or its executives, as well as with its shareholders.

See epigraph: B.1.3.

Not applicable

12. Among the external Directors, the ratio between the number of Proprietary Directors and the Independent Directors should reflect the proportion between the company's share capital represented by the Proprietary Directors and the rest of the share capital.

This criterion of strict proportionality could be reduced as the weight of the Proprietary Directors is greater than that which would correspond to the total percentage of the share capital they represent:

1. In companies with high capitalisation in which the shareholdings legally considered as majority are very few or non-existent, but there are shareholders with stock that has an absolute high value.
2. When these are companies that do not have a plurality of shareholders represented on the Board, and there are no related-parties between the shareholders.

See epigraphs: B.1.3, A.2 and A.3.

Complies

13. The number of Independent Directors should represent at least one third of the total number of Directors.

See epigraph: B.1.3.

Complies

14. The character of each Director must be declared by the Board before the General Meeting of Shareholders, which shall effect or ratify their appointment, an appointment that shall be confirmed or reviewed annually, as appropriate, in the Annual Corporate Governance Report, with prior confirmation by the Appointments Committee. The said report should also explain the reasons why Proprietary Directors have been appointed at the request of shareholders whose holding is less than 5% of the share capital; and reasons should be given for the rejection, where applicable, of formal requests for presence on the Board from shareholders whose holding is equal to or higher than that of others at whose request Proprietary Directors have been appointed.

See epigraphs: B.1.3 and B.1.4.

Complies

15. When the number of female Directors is very low or non-existent, the Board should explain the reasons and the initiatives adopted to correct this situation; and, more specifically, the Appointments Committee should ensure that when new seats on the Board are available:

- a) The selection procedures are not affected by an implicit bias that prevents female Directors from being selected;

b) The company purposefully seeks women that satisfy the professional profile, including among them potential candidates.

See epigraphs: B.1.2, B.1.27 and B.2.3.

Complies partially

Article 31 of the regulations for the organisation and operation of the Board of Directors and its Committees lays down that the Appointments and Remuneration Committee shall review the necessary aptitudes in the candidates that are to cover each vacancy, the fulfilment of the requirements for each category of Director and the process for incorporating new members, raising the corresponding reports to the Board as required. For covering new vacancies, selection processes shall be guaranteed that are not subject to implicit bias that prevents the selection of female Directors, including, under the same conditions and among potential candidates, women who meet the professional profile being sought.

At present, the number of female Directors on the Board is zero, although Gas Natural SDG, S.A. has had female Directors in the past. On no occasion has the company limited, vetoed or restricted the possible appointment of a Director on the basis of gender, a circumstance which has never been taken into account.

16. The Chairman, as the person responsible for the effective performance of the Board, should ensure that the Directors receive sufficient information beforehand; stimulate the debate and active participation of Directors during the Board sessions, safeguarding their right to take their own position and express their own opinion; and organise and coordinate the periodic assessment of the Board together with the chairmen of the relevant Committees as well as, if appropriate, that of the Managing Director or chief executive.

See epigraph: B.1.42.

Complies

17. When the Chairman of the Board is also the company's chief executive, one of the Independent Directors should be empowered to request the call to meeting of the Board or the inclusion of new matters on the agenda; coordinate and echo the concerns of the External Directors; and direct the Board's assessment of its Chairman.

See epigraph: B.1.21.

Not applicable

18. The Secretary of the Board must be particularly sure that the Board's actions:

- a) Comply with the content and spirit of the laws and their regulations, including those approved by the regulating bodies;
- b) Are in accordance with the Articles of Association of the company and with the meeting rules and regulations, those of the Board and any others that the company has;

- c) Take into consideration recommendations concerning good governance set forth in this Unified Code which the company has accepted.

And, in order to safeguard the Secretary's independence, impartiality and professionalism, his/her appointment and dismissal must be reported by the Appointments Committee and approved by the Board in its plenary session; and the said appointment and dismissal procedure must be laid down in the Board Regulations.

See epigraph: B.1.34.

Complies

- 19.** The Board should meet as regularly as necessary to carry out its functions effectively, following the schedule of dates and business laid down at the beginning of the year, where each Director may propose other business for the agenda not considered initially.

See epigraph: B.1.29.

Complies

- 20.** The non-attendance of the Directors should be reduced to essential cases and quantified in the Annual Corporate Governance Report. And if representation is essential, it must be designated with instructions.

See epigraphs: B.1.28 and B.1.30.

Complies

- 21.** When the Directors or the Secretary express concern for any proposal or, in the case of the Directors, for the Company's progress and the said concern is not resolved by the Board, it should be recorded in the minutes of the meeting at the request of the person expressing the said concern.

Complies

- 22.** In its plenary session, the Board should assess the following once a year:

- a) The quality and effectiveness of the Board's performance;
- b) Based on the report prepared by the Appointments Committee, the performance of the Chairman of the Board and the chief executive of the company;
- c) The operation of its Committees, based on the report prepared by these.

See epigraph: B.1.19.

Complies

23. All the Directors should be able to exercise the right to gather the additional information they consider necessary on business that falls within the competency of the Board. And, unless the Articles of Association or the Regulations of the Board lay down otherwise, they should address their requirement to the Chairman or Secretary of the Board.

See epigraph: B.1.42.

Complies

24. All the Directors should have the right to obtain the advice they need for the fulfilment of their functions from the company. The company should lay down the appropriate ways of exercising this right, which, under special circumstances, could include external advisory services on the company's account.

See epigraph: B.1.41.

Complies

25. The companies should establish a guidance programme to provide new Directors with rapid and sufficient knowledge of the company, as well as its rules on corporate governance. And they should also offer Directors updated awareness programmes whenever circumstances deem such action advisable.

Complies

26. The companies should require the Directors to devote the time and effort necessary for carrying out their function effectively and, consequently:

a) The Directors should notify the Appointments Committee of the other professional obligations in case these could interfere with the dedication required;

b) The companies should establish rules on the number of Boards of which their Directors can form part.

See epigraphs: B.1.8, B.1.9 and B.1.17.

Complies partially

Owing to the high level of participation and attendance at the sessions of the governing bodies by the members of the Board, to date the Company has not established any rules on the number of Boards on which the said Directors can sit; however, Article 18 of the Regulations of the Board expressly lays down the duty to non-competition.

Article 18 of the Regulations of the Board states:

"Directors may not hold, themselves or by means of a representative, posts of whatsoever kind in companies or enterprises that compete with Gas Natural SDG S.A. or any company in its group, or provide the same services of representation or consultancy in favour thereof. A company shall be considered as a competitor of Gas Natural SDG, S.A. when, directly or indirectly, or through companies in its group, it is devoted to any of the activities included in the corporate purpose of Gas Natural SDG, S.A."

The Board of Directors, on the basis of report from the Appointments and Remuneration Committee, may excuse the fulfilment of this obligation when there is justified cause and it does not have a negative effect on the company's interests".

27. The proposal for the appointment or re-election of Directors raised by the Board to the General Meeting of Shareholders, as well as their provisional appointment by co-optation, should be approved by the Board:

- a) At the proposal of the Appointments Committee, in the event of Independent Directors.
- b) Following a report from the Appointments Committee, in the event of remaining Directors.

See epigraph: B.1.2.

Complies

28. The companies should publish the following information about their Directors on their website and keep the said information up-to-date:

- a) Professional and biographical profile;
- b) Other Boards of Directors to which they belong, whether or not these are listed companies;
- c) An indication of the classification of Director to which they belong, specifying, in the event of Proprietary Directors, the shareholder they represent or with whom they are linked;
- d) Date of the first appointment as Director of the company, as well as subsequent appointments; and
- e) Company shares and stock options of which they are the holder.

Complies

29. The Independent Directors should not remain as such for a continued term of more than 12 years.

See epigraph: B.1.2.

Complies

- 30.** The Proprietary Directors should present their resignation when the shareholder they represent sells all his/her shares in the company. They should also present their resignation, in the corresponding number, when the said shareholder lowers his/her shares in the company to a level that requires a reduction in the number of his/her Proprietary Directors.

See epigraphs: A.2, A.3 and B.1.2.

Complies

- 31.** The Board of Directors should not propose the standing down of any Independent Director prior to compliance with the statutory period for which they were appointed, unless there are good reasons observed by the Board following a report from the Appointments Committee. More specifically, justified reason shall be understood to exist when the Director has breached the duties that are inherent to their post or incurs any of the circumstances described in heading 5 of section 3 of definitions of this code.

The dismissal of Independent Directors resulting from takeover bids, mergers or other similar corporate transactions that represent a change to the company's share capital structure could be proposed when the said changes to the structure of the Board are brought about by the criterion of proportionality indicated in Recommendation 12.

See epigraphs: B.1.2, B.1.5 and B.1.26.

Complies

- 32.** The companies should establish rules that oblige the Directors to report and, where applicable, resign in cases that could damage the company's reputation and credit and, in particular, oblige them to inform the Board of the criminal cases in which they appear as an accused party, as well as their subsequent procedural events.

If a Director is tried or a sentence is issued against him/her for the commencement of a hearing for any of the crimes laid down in Article 124 of the Spanish Companies Act, the Board should examine the case as soon as possible and, in view of the specific circumstances, decide whether or not it is fitting for the Director to continue in his/her post. The Board should give a reasoned account of all the events in the Annual Corporate Governance Report.

See epigraphs: B.1.43 and B.1.44.

Complies

- 33.** All the Directors should clearly express their opposition when they consider that any proposed decision submitted to the Board may be contrary to the company's interests. And this should apply especially to the Independent Directors and other Directors not affected by the potential conflict of interest in the case of decisions that may damage the shareholders not represented on the Board.

When the Board adopts significant or reiterated decisions on which the Director has formulated serious reservations, the said Director should draw the corresponding conclusions and, if he/she decides to resign, explain the reasons in the letter referred to in the following Recommendation.

The scope of this Recommendation also includes the Secretary of the Board, even though he/she does not have the status of Director.

Complies

34. When, either due to resignation or any other reason, a Director abandons his/her post before the end of his/her mandate, he/she should explain the reasons in a letter sent to all the members of the Board. And, without prejudice to the said resignation being notified as a relevant event, the reason for the resignation should be accounted for in the Annual Corporate Governance Report.

See epigraph: B.1.5.

Complies partially

The Recommendation does not apply to the Proprietary Directors or Executive Directors insofar as they access the Board in a different manner from the Independent Directors. The former are appointed by means of a proposal put forward by a holder of significant stable shares in the company's share capital; the latter access the Board of Directors by virtue of their executive skills or senior management functions and the Independent Directors are appointed by virtue of their personal and professional conditions, since they exercise their functions without being conditioned by relations with the company, its majority shareholders or executives. Accordingly, only these Directors are asked to explain the reasons for their resignation to the other Directors when, for whatsoever reason, they leave their post before the completion of their mandate.

35. The remuneration policy approved by the Board should indicate at least the following:

a) Amount of the fixed elements, with a breakdown if applicable of the allowances for participation on the Board and its Committees and an estimate of the annual fixed remuneration to which they are entitled;

b) Variable payment, specifically including:

i) Classification of Directors that apply, as well as an explanation of the relative importance of the variable items with regard to the fixed items;

ii) Criteria for assessing results on which any rights to payment through shares, stock options or any variable component are based;

iii) Fundamental parameters and basis of any annual premium system (bonus) or other benefits not paid in cash; and

iv) An estimate of the total amount of variable payments to which the proposed remuneration plan shall lead, in accordance with the degree of compliance with the targets or hypotheses on which it is based.

- c) Key features of the complementary pensions, life-assurance policies and similar, with an estimate of the annual equivalent amount or cost.
- d) Conditions to be observed in the contracts of those who exercise senior management functions as Executive Directors including:
 - i) Duration;
 - ii) Periods of notice; and
 - iii) Any other clauses concerning joining bonuses, as well as compensation or golden parachute clauses through early termination or termination of the contractual relationship between the company and the Executive Director.

See epigraph: B.1.15.

Complies

- 36. The remuneration made through shares in the company or companies in the group, options over shares or instruments referenced to the value of the share, variable remuneration associated with the company's performance or social security systems should be limited to the Executive Directors.**

This Recommendation will not cover the provision of shares when it is conditioned to the Directors maintaining them until their resignation as a Director.

See epigraphs: A.3, and B.1.3.

Complies

- 37. The remuneration of the External Directors should be the amount necessary for compensating the devotion, qualification and responsibility required by the post; but not so high as to compromise their independence.**

Complies

- 38. The remuneration related to the company's results should take into account the possible exceptions included in the external auditor's report, which may reduce the said results.**

Not applicable

- 39. In the case of variable remuneration, the remuneration policies should incorporate the necessary technical precautionary measures to ensure that the said remuneration is related to the professional devotion of the beneficiaries and do not result simply from the general evolution of the markets or the company's activity sector or other similar circumstances.**

Complies

- 40. The Board should submit a report on the Directors' remuneration policy to vote at the General Meeting of Shareholders, as a separate, consultative matter on the agenda. The said report should be made available to the shareholders either separately or in any other way the company considers appropriate.**

The said report should focus particularly on the remuneration policy approved by the Board for the present year, as well as, where applicable, the policies anticipated for future years. It shall include all the matters referred to in Recommendation 35, except for circumstances that may suppose the revelation of sensitive commercial information. It shall underline the most significant changes in the said policies with regard to that applied during the past year to which the General Meeting refers. It shall also include an overall summary of how the remuneration policy was applied during the past year.

The Board should also report on the role played by the Remuneration Committee in the preparation of the remuneration policy and, if external consultancy services are used, on the identity of the external consultants providing the service.

See epigraph: B.1.16.

Explain

Article 44 of the Articles of Association of Gas Natural SDG, S.A. lays down a limit to Directors' remuneration. The aforementioned article points out that "the remuneration of the Board of Directors shall consist of a maximum of 10% of annual net profit, the sum within this limit being determined in proportion with the number of active Directors.

The said remuneration can be subtracted from net profit only after the legal and statutory reserves have been covered and having paid ordinary shares a dividend of no less than 4% of their face value".

Furthermore, the report gives details of the remuneration of the Directors, for the shareholders to be fully aware of the Directors' remuneration.

- 41. The report should give details of the individual remuneration paid to Directors during the year, and include:**

a) The individualised breakdown of payment to each Director, which shall include, if appropriate:

- i) The attendance allowances and other fixed remuneration as Director;
- ii) Additional payments as chairman or member of any of the Board's Committees;
- iii) Any payment as profit share or bonuses, and the reason why these were given;
- iv) Defined contributions to pension schemes in favour of the Director; for the increase of the Director's consolidated rights, when these are contributions to defined payment plans;
- v) Any agreed or paid compensation in the event of termination of their duties;

- vi) Remuneration received as Director of other group companies;
 - vii) Payments for the performance of senior management duties carried out by Executive Directors;
 - viii) Any other payment item other than the foregoing, regardless of their nature or the group company that pays them, especially when it is considered as a related-party operation or leaving it out would distort the true image of total payments received by the Director.
- b) The individualised breakdown of any shares of stock options given to Directors, or any other instrument pegged to the share value, with a breakdown of:
- i) Number of shares or options granted over the year and the conditions for the exercise of these;
 - ii) Number of options exercised over the year with an indication of the number of shares affected and the price;
 - iii) Number of options pending exercise at the year-end, an indication of their price, date and other requirements to exercise these;
 - iv) Any modification over the year of the terms for exercising the options already granted.
- c) Information on the ratio, the previous year, between the remuneration obtained by Executive Directors and the profits or other performance indicators of the company.

Complies partially

The report on the Annual Accounts individualises the amounts received by the members of the Board of Directors for belonging to said body of governance, the Executive Committee, the Audit and Control Committee and the Appointments and Remunerations Committee of the company, where the other remunerations are given in aggregate format with a breakdown of the various payment concepts.

42. When there is a Delegated or Executive Committee (hereinafter called "Executive Committee"), the participation structure of the various categories of Directors should be similar to that of the Board itself and its Secretary should be the Secretary of the Board.

See epigraphs: B.2.1 and B.2.6.

Complies

43. The Board should always be aware of the matters dealt with and the decisions adopted by the Executive Committee and all the members of the Board should receive a copy of the minutes of the sessions of the Executive Committee.

Explain

The Chairman of the Board, also Chairman of the Executive Committee of the company, informs the members of the Board of Directors of the matters dealt with in the Committee that are not recurrent, ordinary or usual. In addition, when the Executive Committee, in the full exercise of its competencies, considers that a certain matter submitted to its consideration as a result of its strategic, quantitative or qualitative importance must be reported to the Board of Directors or known thereby, it raises the said matter to the Board for the corresponding decision to be taken.

44. In addition to the Audit Committee required through the Securities Market Act, the Board of Directors should also constitute one Committee, or two separate Committees, for Appointments and Remuneration.

The rules governing the make-up and operation of the Audit Committee and the Appointments and Remuneration Committee or Committees should be given in the Regulations of the Board and include the following:

- a) The Board should designate the members of these Committees in accordance with the knowledge, skills and experience of the Directors and the duties of each Committee; deliberate on the proposals and reports; and report on the activity and the work carried out at the first plenary Board meeting following the Committee meetings;
- b) These Committees should be made up exclusively of External Directors, with a minimum of three. The above is understood as without prejudice to the attendance of Executive Directors or senior executives when so agreed expressly by the members of the Committee.
- c) Their chairmen should be Independent Directors.
- d) Outsourced consultancy should be used whenever deemed necessary for the performance of their duties.
- e) Minutes of their meetings should be taken, with a copy sent to all Board members.

See epigraphs: B.2.1 and B.2.3.

Complies partially

The Chairmen and members of the various Committees form part of the Board of Directors and, in turn and in the exercise of their competencies, they make various proposals and submit reports which are then submitted to the Board, which, together with the aim of avoiding the sending of duplicated documentation, is why the minutes of the Committees are not sent.

45. The supervision of compliance with the internal codes of conduct and the rules of corporate governance should be attributed to the Audit Committee, to the Appointments Committee or, if these are separate, to the Compliance or Corporate Governance Committee.

Complies

46. The members of the Audit Committee and, in particular, its Chairman should be appointed on the basis of their know-how and experience in bookkeeping, audits and risk management.

Complies

47. The listed companies should have an internal audit function which, under the supervision of the Audit Committee, should monitor the correct functioning of the internal control and information systems.

Complies

48. The person responsible for the internal audit function should present his/her annual work plan to the Audit Committee; he/she should inform it directly of the incidents occurring during its development; and, at the end of each year, submit an activities report.

Complies

49. The risk control and management policies should identify at least:

- a) The different kinds of risk (operational, technological, financial, legal, those affecting the corporate reputation, etc.) which are faced by the company and which include - as part of the financial or economic risks - contingent liabilities and other off-balance sheet risks;
- b) The setting of the risk level that the company believes is acceptable;
- c) The mechanisms to mitigate the impact of the risks identified, in the event that they materialise;
- d) Internal control and information systems which shall be used to control and manage the foregoing risks, including the contingent liabilities or off-balance sheet risks.

See epigraph: D.

Complies

50. The Audit Committee should be responsible for the following:

1º In relation to the internal control and information systems:

- a) Supervising the preparation and completeness of the financial information concerning the company and, if appropriate, the group, checking due compliance with the governing regulations, the proper delimitation of the consolidation criteria and the correct application of accounting criteria.
- b) Periodically checking the internal control systems and risk management, to identify, manage and notify the key risks properly.
- c) Ensuring the independence and effectiveness of the internal audit function; proposing the selection, appointment, re-election and dismissal of the person in charge of the internal audit service; forwarding the budget for this service; receiving periodic information on its activities, and verifying that senior management considers the conclusions and recommendations in its reports.
- d) Setting up and supervising a mechanism that enables employees to communicate any irregularities of importance, especially those of a financial and bookkeeping nature, and to do so in a confidential manner.

2º In relation to the external auditor:

- a) Presenting the Board with proposals for selection, appointment, re-election and replacement of the external auditor, as well as their contractual terms.

b) Receiving regular information from the external auditor on the audit plan and the results of carrying it out, and checking that senior management take its recommendations into account.

c) Ensuring the independence of the external auditor and, to this end:

i) The company should notify the change of auditor to the CNMV as a relevant event and attach a declaration on the possible existence of disagreements with the outgoing auditor and, if there are any disagreement, the content thereof.

ii) The company and the auditor should be seen to respect the current rules governing the provision of services other than audit services, the limits on business concentration of the auditor and, in general, the other norms established to ensure independence of auditors.

iii) In the case of the resignation of the external auditor, it should examine the circumstances leading to the said resignation.

d) In the event of groups, to see that the group auditor accepts liability for the audits of the companies that make up the group.

See epigraphs: B.1.35, B.2.2, B.2.3 and D.3.

Complies

51. The Audit Committee should be able to call any of the Company's employee or manager, and also have them appear without the presence of any other executive.

Complies

52. The Audit Committee should report to the Board before the Board adopts the corresponding decisions on the following matters indicated in Recommendation 8:

a) The financial information that must be published periodically, given its status as a listed company. The Committee should ensure that the intermediate accounts are prepared under the same bookkeeping criteria as the annual accounts and, accordingly, consider the appropriateness of a limited review by the external auditor.

b) The creation or acquisition of shareholdings in special purpose enterprises or enterprises with registered offices in countries or territories considered as tax havens, as well as any other transactions or operations of a similar nature which, due to their complexity, could hamper the group's transparency.

c) The related-party transactions, unless that preliminary report function has been attributed to another of the supervision and control committees.

See epigraphs: B.2.2 and B.2.3.

Complies

53. The Board of Directors should seek to present the accounts to the General Meeting without reservation or exception in the auditors' report and, in whatever exceptional case, both the Chairman of the Audit Committee and the auditors should clearly explain to shareholders the content and scope of the said reservations or exceptions.

See epigraph: B.1.38.

Complies

54. Most of the members of the Appointments Committee (or the Appointments and Remuneration Committee, if there is only one Committee) should be Independent Directors.

See epigraph: B.2.1

Complies

55. Besides the functions indicated in the above recommendations, the following responsibilities should correspond to the Appointments Committee:

- a) Assessing the skills, knowledge and experience required on the Board, subsequently defining the duties and aptitudes required by the candidates to cover each vacancy, and assessing the time and dedication required to correctly perform their duties.
- b) Properly examining and organising the succession of the Chairman and chief executive and, if appropriate, making proposals to the Board to enable the foregoing succession to occur in an organised and well planned manner.
- c) Reporting the appointments and resignations of senior executives proposed to the Board by the chief executive.
- d) Notifying the Board on the gender diversity issues shown in Recommendation 14 of this code.

See epigraph: B.2.3.

Complies partially

The only matter to be considered under this epigraph would be gender diversity, for which the Appointments and Remuneration Committee is responsible for reviewing the necessary aptitudes in the candidates that are to cover each vacancy, the fulfilment of the requirements for each category of Director and the process for incorporating new members, raising the corresponding reports to the Board as required. For covering new vacancies, selection processes shall be guaranteed that are not subject to implicit bias that prevents the selection of female Directors, including, under the same conditions and among potential candidates, women who meet the professional profile being sought. The said obligation is laid down in Article 31.2 of the Regulations of the Board of Directors.

56. The Appointments Committee should consult the company's Chairman and chief executive, especially with regard to business concerning the Executive Directors.

Any Director should be able to request the Appointments Committee to consider potential candidates they deem ideal to cover vacancies.

Complies

57. Besides the functions indicated in the above Recommendations, the following responsibilities should correspond to the Remuneration Committee:

a) Proposing to the Board of Directors:

- i) The remuneration policy for Directors and senior executives;
- ii) Individual remuneration of Executive Directors and the other conditions of their contracts.
- iii) The basic contractual conditions of senior executives.

b) Ensuring the observance of the remuneration policy laid down by the company.

See epigraphs: B.1.14 and B.2.3.

Complies

58. The Remuneration Committee should consult the company's Chairman and chief executive, especially with regard to business concerning the Executive Directors and senior executives.

Complies

G. Other Information of Interest

If you consider that there is any important principle or aspect regarding the corporate governance practices applied by your company, which have not been covered in this report, please explain below.

Clarification of section B.1.2

On 30 December 2010, Fernando Ramírez Mazarredo handed in his resignation from the posts of Member of the Board of Directors and member of the Audit and Control Committee.

Clarification of section B.1.10

In relation to the remunerations policy, the Appointments and Remuneration Committee is competent, by virtue of Article 31.2 of the Regulations of the Board of Directors, for proposing the general policy for senior executives of the Gas Natural group, where the specific execution corresponds to the Chairman and Chief Executive Officer of the company.

Clarification of section B.1.30

Number 11 in the above table indicates the number of times Board member did not attend the 11 sessions held by the Board of Directors in 2010, in accordance with the definition given in the final paragraph of this section.

Note on the Code of Good Tax Practices.

At the meeting of the Board of Directors of 17 September 2010, the resolution was adopted to subscribe to the Code of Good Tax Practices and the actions required for the implementation of said practices have now begun.

In this section, you may include any information or clarification with regard to the previous sections of this report to the extent that they are relevant and non-repetitive.

More specifically, indicate whether your company is subject to any corporate governance legislation other than Spanish law, and if so, include any information that is mandatory and different from that requested herein.

Binding definition of Independent Director:

Indicate whether or not any of the Independent Directors has or has had any relationship with the company, its significant shareholders or executives which, if sufficiently significant or important, would have meant that the Director could not be considered as independent in accordance with the definition laid down in section 5 of the Unified Code of Good Governance:

Yes No

This Annual Corporate Governance Report has been adopted by the Board of Directors of the company in its session held on

28/01/2011

Indicate whether or not there have been Directors who voted against or abstained from voting on the adoption of this report.

Yes No

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Operating statistics

	2010	2009	2008	2007	2006
Gas supply (GWh)	411,556	402,691	481,414	453,172	432,956
Spain	207,174	229,586	270,073	271,058	258,758
Regulated gas sales	-	26	14,177	38,288	44,660
TPA	207,174	229,559	255,896	232,770	214,098
Latin America	200,995	169,612	208,408	179,314	171,750
Regulated gas sales	128,141	107,196	144,065	115,132	106,849
TPA	72,854	62,416	64,343	64,182	64,901
Italy	3,387	3,494	2,933	2,800	2,448
Regulated gas sales	2,741	2,974	2,632	2,635	2,347
TPA	646	521	301	165	101
Gas supply (GWh)	305,704	286,152	292,629	292,730	294,451
Spain ⁽¹⁾	250,885	234,230	239,090	245,566	251,410
International	54,819	51,922	53,539	47,164	43,041
Unión Fenosa Gas (GWh) ⁽²⁾					
Commercialisation	59,518	34,854	-	-	-
Trading	27,774	10,785	-	-	-
Gas transportation/EMPL (GWh)	109,792	109,230	133,497	124,150	129,499
Gas distribution network (km)	115,272	118,658	115,295	109,759	104,528
Spain	44,931	50,697	48,578	45,429	42,364
Latin America	64,492	62,315	61,196	59,555	58,152
Italy	5,849	5,645	5,521	4,775	4,012
Increase in gas distribution points (thousands)	335	298	377	453	483
Spain	84	112	161	246	301
Latin America	243	169	176	170	150
Italy	8	17	40	37	32
Gas distribution points (thousands) as at 31/12	11,361	11,790	11,492	11,115	10,662
Spain	5,274	5,954	5,842	5,681	5,435
Latin America	5,665	5,422	5,253	5,077	4,907
Italy	422	414	397	357	320
Contracts per customer in Spain as at 31/12	1.3	1.4	1.4	1.4	1.4
Employees as at 31/12	18,778	19,346	6,842	6,953	6,686
Electricity generated (GWh)	58,389	52,752	31,451	18,700	-
Spain	38,338	28,728	18,130	16,975	-
International	20,051	24,024	13,321	1,725	-
Electricity distribution (GWh)	54,833	34,973	-	-	-
Europe	36,831	22,919	-	-	-
International	18,002	12,054	-	-	-
Electricity distribution points (thousands) as at 31/12	9,436	9,136	-	-	-
Europe	4,535	4,497	-	-	-
International	4,901	4,639	-	-	-

(1) Does not include exchange transactions.

(2) Figures at 100%.

Financial statistics

Balance Sheet Figures	2010	2009 (*)	2008 (*)	2007	2006
(in millions of euros)					
Gross property, plant and equipment and intangible fixed assets	36,194	34,320	16,274	15,638	13,592
Consolidation goodwill	6,002	6,056	546	541	441
Provisions and accumulated depreciation	(7,767)	(5,620)	(5,397)	(4,838)	(4,298)
Net property, plant and equipment and intangible fixed assets	34,429	34,756	11,423	11,341	9,735
Financial investments	799	811	2,862	757	560
Net equity attributed to the parent company	11,384	10,681	6,376	6,070	5,652
Minority interests	1,590	1,496	345	357	344
Grants	657	520	424	543	478
Non-current financial liabilities	18,176	18,658	4,451	3,075	2,590
Current financial liabilities	2,130	2,849	934	1,004	628

(*) On 1 January 2010 Gas Natural Fenosa applied the IFRIC 12 "Service Concession Arrangements" retroactively, reformulating the Consolidated Balance Sheets at 1 January 2009 and 31 December 2009 for the intents and purposes of comparison.

Profit and Loss Account Figures	2010	2009 (*)	2008	2007	2006
(in millions of euros)					
Sales	19,630	14,873	13,544	10,093	10,348
Other operating income and release of fixed assets to income	289	238	95	81	124
Operating income	19,919	15,111	13,639	10,174	10,472
Gross operating profit	4,477	3,923	2,564	2,277	1,912
Net operating profit	2,893	2,445	1,794	1,567	1,263
Financial expenses and income, fair value variations in financial instruments and net exchange differences	(1,059)	(814)	(263)	(224)	(267)
Gain on sales on financial instruments	44	101	14	64	230
Financial profit/loss	(1,015)	(713)	(249)	(160)	(37)
Income before taxes	1,883	1,791	1,551	1,415	1,231
Consolidated net income for the year	1,415	1,351	1,172	1,056	929
Consolidated net income for the year attributed to the parent company	1,201	1,195	1,057	959	855

(*) On 1 January 2010, Gas Natural Fenosa applied the IFRIC 12 "Service Concession Arrangements" retroactively, reformulating the Consolidated Profit and Loss Account for 2009 for the intents and purposes of comparison.

Cash Flow Statement Figures	2010	2009	2008	2007	2006
(in millions of euros)					
Net cash generated from operating activities	2,737	2,512	2,023	1,829	1,454
Payments for purchases of Property, plant and equipment and intangible fixed assets	1,545	1,792	1,088	1,135	1,159
Payments for other investments	788	14,362	1,741	1,041	46
Proceeds for divestitures	2,216	2,068	66	176	358
Dividends paid	858	756	580	521	451
Proceeds/Prepayment of borrowings	(1,272)	9,039	1,286	730	(451)

Stock market statistics

	2010	2009	2008	2007	2006
Number of shares traded (millions))	1,064	737	376	407	309
Funds traded (millions of euros)	13,258	9,777	11,833	15,649	8,019
Final share price (euros)	11.49	15.09	19.29	40.02	29.99
Final adjusted share price (euros) ⁽¹⁾	-	-	16.43	34.08	25.54
Maximum (euros)	15.67	22.28	42.45	45.76	32.88
Maximum adjusted (euros) ⁽¹⁾	-	18.97	36.15	38.97	28.00
Minimum (euros)	10.07	8.39	18.51	29.00	21.74
Minimum adjusted (euros) ⁽¹⁾	-	7.14	15.76	24.70	18.51
Book value per share (euros)	14.08	15.04 ⁽²⁾	15.01	14.35	13.39
EBITDA per share (euros)	4.86	4.85 ⁽²⁾	5.73	5.09	4.27
Net profit per share (euros)	1.30	1.48 ⁽²⁾	2.36	2.14	1.91
Stock market capitalisation-book value ratio	0.8	1.1	1.3	2.8	2.2
Enterprise value-EBITDA ratio	6.6	8.9	5.3	9.5	8.6
Stock market capitalisation-profit ratio	9.5	11.6	8.2	18.7	15.7
Dividend-stock market capitalisation ratio (%)	7.0	5.3	7.7	2.8	3.3
Dividend-profit ratio (%)	61.4 ⁽³⁾	61.1	62.7	53.2	51.3
Share capital (number of shares as at 31/12)	921,756,951	447,776,028	447,776,028	447,776,028	447,776,028
Average number of shares	921,756,951	809,485,236	447,776,028	447,776,028	447,776,028
Stock market capitalisation (in millions of euros)	10,591	13,905	8,638	17,920	13,429
Dividend (in millions of euros)	737 ⁽³⁾	730	663	510	439

(1) Considering adjustments arising from the capital increase with preferential subscription rights carried out in March 2009.

(2) Considering the average number of shares for the year.

(3) Considering the total equivalent amount allocated to shareholders remuneration.

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