

*This version of our report is a free translation from 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.*

**Limited review report on the  
condensed consolidated interim financial statements**

To the Shareholders of Gas Natural SDG, S.A. at the request of the Board of Directors:

We have carried out a limited review of the accompanying condensed consolidated interim financial statements (hereon, the interim financial statements) of Gas Natural SDG, S.A. (hereon, the Parent Company) and its subsidiaries (hereon, the Group), which comprise the balance sheet at 30 June 2010, the income statement, the statement of comprehensive income, the statement of changes in net equity and the statement of cash flows, and the notes to the interim financial statements, all of which have been condensed and consolidated for the six-month period then ended. It is the responsibility of the Parent Company's Directors to prepare said interim financial statements in accordance with the requirements established by International Accounting Standards (IAS) 34, "Interim Financial Reporting", as adopted by the European Union for the preparation of condensed interim financial reports as per article 12 of Royal Decree 1362/2007. Our responsibility is to express a conclusion on these interim financial statements based on our limited review.

Our review was performed in accordance with the International Standard on Review Engagements 2410, "Review of Interim Financial Information performed by the Independent Auditor of the Entity". A limited review of the interim financial statements consists of making inquiries, primarily of personnel responsible for financial and accounting matters, and applying certain analytical and other review procedures. A review is substantially less in scope than an audit, and, therefore, does not enable us to obtain assurance that we have become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion on the accompanying interim financial statements.

As explained in Note 3 of the accompanying interim financial statements, these financial statements do not include all the information that would be required for complete consolidated financial statements prepared in accordance with International Financial Reporting Standards, as adopted by the European Union, and, therefore, the accompanying interim financial statements should be read together with the Group's consolidated annual accounts for the year ended 31 December 2009.

During the course of our review, which under no circumstances can be considered an audit of financial statements, nothing has come to our attention which would lead us to conclude that the accompanying interim financial statements for the six-month period ended 30 June 2010 have not been prepared, in all material respects, in accordance with the requirements established by International Accounting Standard (IAS) 34, "Interim Financial Reporting", as adopted by the European Union in accordance with article 12 of Royal Decree 1362/2007 for the preparation of condensed interim financial statements.



The accompanying consolidated interim Directors' report for the six-month period ended 30 June 2010 contains such explanations as the Gas Natural SDG, S.A.'s Directors consider necessary regarding the important events which occurred during said period and their effect on the interim financial statements, of which it is not an integral part, as well as on the information required in accordance with article 15 of Royal Decree 1362/2007. We have verified that the accounting information included in the above-mentioned report agrees with the interim financial statements for the six-month period ended 30 June 2010. Our work is limited to verifying the Directors' report in accordance with the scope mentioned in this paragraph, and does not include the review of information other than that obtained from the consolidated companies' accounting records.

This report has been prepared at the request of Directors of the Parent Company with regard to the publication of the semi-annual financial report required by article 35 of the Securities Exchange Act 24/1988/ 28 July, by Royal Decree 1362/2007/ 19 October.

PricewaterhouseCoopers Auditores, S.L.

Originally signed by  
Manuel Valls Morató  
Audit Partner

26 July 2010

# **GAS NATURAL FENOSA**

## **Condensed consolidated interim financial statements at 30 June 2010**

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# GAS NATURAL FENOSA

## Consolidated interim balance sheet

(in Million Euros)

	30.06.10	31.12.09
<b>ASSETS</b>		
Intangible assets (Note 5)	11,589	11,434
Goodwill	6,144	6,056
Other intangible assets	5,445	5,378
Property, plant and equipment (Note 5)	23,922	23,388
Investments recorded using the equity method	139	141
Non-current financial assets (Note 6)	513	604
Deferred tax assets	1,003	956
<b>NON-CURRENT ASSETS</b>	<b>37,166</b>	<b>36,523</b>
Non-current assets held for sale (Note 7)	176	1,694
Inventories	787	740
Trade and other receivables	5,100	4,234
Trade receivables for sales and services rendered	4,251	3,454
Other receivables	794	740
Current income tax assets	55	40
Other current financial assets (Note 6)	1,617	1,387
Cash and other cash equivalents	788	589
<b>CURRENT ASSETS</b>	<b>8,468</b>	<b>8,644</b>
<b>TOTAL ASSETS</b>	<b>45,634</b>	<b>45,167</b>
<b>EQUITY AND LIABILITIES</b>		
Share capital	922	922
Share premium	3,331	3,331
Reserves	6,139	5,675
Profit (loss) for the period attributed to the Equity holders of the company	853	1,195
Interim dividend	-	(324)
Adjustments for changes in value	268	(118)
Available-for-sale financial assets	-	19
Hedging operations	(82)	(99)
Cumulative translation adjustments	350	(38)
<b>Capital and reserves attributable to the Company's equity holders</b>	<b>11,513</b>	<b>10,681</b>
<b>Minority interest</b>	<b>1,649</b>	<b>1,496</b>
<b>NET EQUITY (Note 8)</b>	<b>13,162</b>	<b>12,177</b>
Grants	579	520
Non-current provisions (Note 9)	2,020	1,881
Non-current financial liabilities (Note 6)	17,825	18,658
Borrowings	17,417	18,222
Other financial liabilities	408	436
Deferred income tax liabilities	2,800	2,700
Other non-current liabilities	1,099	1,077
<b>NON CURRENT LIABILITIES</b>	<b>24,323</b>	<b>24,836</b>
Liabilities related to available-for-sale non-current assets (Note 7)	-	484
Current provisions (Note 9)	101	128
Current financial liabilities (Note 6)	2,725	2,849
Borrowings	2,389	2,650
Other financial liabilities	336	199
Trade and other payables	4,497	4,013
Trade payables	3,628	3,322
Other payables	500	465
Current tax liabilities	369	226
Other current liabilities	826	680
<b>CURRENT LIABILITIES</b>	<b>8,149</b>	<b>8,154</b>
<b>TOTAL NET EQUITY AND LIABILITIES</b>	<b>45,634</b>	<b>45,167</b>

Notes 1 to 20 form an integral part of the condensed consolidated interim financial statements.



# GAS NATURAL FENOSA

## Consolidated interim income statement

(in Million Euros)

	For the six-month period ended 30 June	
	2010	2009
Sales (Note 10)	9,431	6,425
Procurements (Note 11)	(5,962)	(4,099)
Other operating income	72	27
Personnel costs (Note 12)	(404)	(247)
Other operating expenses (Note 13)	(856)	(551)
Amortisation and depreciation expenses (Note 5)	(817)	(511)
Release of fixed asset grants to income and others	14	16
Other results (Note 7)	358	-
<b>OPERATING PROFIT</b>	<b>1,836</b>	<b>1,060</b>
Financial income (Note 14)	47	36
Financial expenses (Note 14)	(617)	(380)
Variations in fair value of financial instruments (Note 14)	6	29
Net exchange gains/losses (Note 14)	(1)	(3)
Gain on sales of disposals of financial instruments (Note 14)	4	101
<b>NET FINANCIAL INCOME</b>	<b>(561)</b>	<b>(217)</b>
Profit of entities recorded by equity method	4	55
<b>INCOME BEFORE TAX</b>	<b>1,279</b>	<b>898</b>
Income expense tax (Note 15)	(329)	(210)
<b>NET INCOME FROM CONTINUED OPERATIONS</b>	<b>950</b>	<b>688</b>
Net income from discontinued operations net of tax (Note 7)	-	12
<b>CONSOLIDATED NET INCOME FOR THE PERIOD</b>	<b>950</b>	<b>700</b>
Attributable to:		
Equity holders of the Company	853	622
Minority interests	97	78
	<b>950</b>	<b>700</b>
Basic and diluted earnings per share in Euros from continued operations attributable to the equity holders of the parent Company (Note 8)	0.93	0.87
Basic and diluted earnings per share attributable to the equity holders of the parent company (Note 8)	0.93	0.88

Notes 1 to 20 form an integral part of the condensed consolidated interim financial statements.

**GAS NATURAL FENOSA****Consolidated interim statement of comprehensive income (in Million Euros)**

	For the six-month period ended 30 June	
	2010	2009
<b>CONSOLIDATED PROFIT AND LOSS FOR THE PERIOD</b>	<b>950</b>	<b>700</b>
<b>INCOME AND EXPENSES RECOGNISED DIRECTLY IN NET EQUITY</b>	<b>466</b>	<b>82</b>
Valuation of available-for-sale financial assets	(14)	49
Cash flow hedges	(71)	(43)
Cumulate translation adjustments	545	83
Actuarial gains and losses and others adjustments	-	8
Tax effect	6	(15)
<b>RELEASES TO THE INCOME STATEMENT</b>	<b>39</b>	<b>(70)</b>
Valuation of available-for-sale financial assets	(4)	(101)
Cash flow hedges	86	22
Cumulate translation adjustments	(19)	-
Tax effect	(24)	9
<b>OTHER COMPREHENSIVE INCOME FOR THE PERIOD</b>	<b>505</b>	<b>12</b>
<b>TOTAL COMPREHENSIVE INCOME FOR THE PERIOD</b>	<b>1,455</b>	<b>712</b>
Attributable to:		
Equity holders of the Company	1,239	619
Minority interest	216	93

Notes 1 to 20 form an integral part of the condensed consolidated interim financial statements.

# GAS NATURAL FENOSA

## Consolidated interim statement of changes in net equity (in Million Euros)

	Equity attributed to the equity holders of the company				Subtotal	Minority interest	Total Net equity
	Share capital	Share premium and Reserves	Profit for the period	Adjustments for changes in value			
<b>Balance at 1.1.09</b>	<b>448</b>	<b>4,943</b>	<b>1,057</b>	<b>(72)</b>	<b>6,376</b>	<b>345</b>	<b>6,721</b>
Distribution of dividends	-	609	(1,057)	-	(448)	(81)	(529)
Total comprehensive income for the period	-	2	622	(5)	619	93	712
Capital increase	448	2,983	-	-	3,431	-	3,431
Increase/decrease due to business combinations	-	14	-	-	14	2,026	2,040
Other variations	-	(2)	-	-	(2)	1	(1)
<b>Balance at 30.06.09</b>	<b>896</b>	<b>8,549</b>	<b>622</b>	<b>(77)</b>	<b>9,990</b>	<b>2,384</b>	<b>12,374</b>
Distribution of dividends	-	(324)	-	-	(324)	(54)	(378)
Total comprehensive income for the period	-	15	573	(41)	547	228	775
Capital increase	26	462	-	-	488	(488)	-
Increase/decrease due to business combinations	-	-	-	-	-	(80)	(80)
Other variations	-	(20)	-	-	(20)	(494)	(514)
<b>Balance at 31.12.09</b>	<b>922</b>	<b>8,682</b>	<b>1,195</b>	<b>(118)</b>	<b>10,681</b>	<b>1,496</b>	<b>12,177</b>
Distribution of dividends	-	789	(1,195)	-	(406)	(65)	(471)
Total comprehensive income for the period	-	-	853	386	1,239	216	1,455
Other variations	-	(1)	-	-	(1)	2	1
<b>Balance at 30.06.10</b>	<b>922</b>	<b>9,470</b>	<b>853</b>	<b>268</b>	<b>11,513</b>	<b>1,649</b>	<b>13,162</b>

Notes 1 to 20 form an integral part of the condensed consolidated interim financial statements.

# GAS NATURAL FENOSA

## Consolidated interim statement of cash flows

(in Million Euros)

	For the six-month period ended 30 June	
	2010	2009
<b>Income before tax</b>	<b>1,279</b>	<b>898</b>
<b>Adjustments to net income</b>	<b>1,049</b>	<b>774</b>
Amortisation and depreciation of fixed assets	817	511
Other adjustments to net income	232	263
<b>Changes in working capital</b>	<b>(451)</b>	<b>191</b>
<b>Other cash flows generated from operations:</b>	<b>(521)</b>	<b>(344)</b>
Interest paid	(337)	(272)
Income tax paid	(184)	(72)
<b>CASH FLOWS GENERATED FROM OPERATING ACTIVITIES</b>	<b>1,356</b>	<b>1,519</b>
<b>Cash flows into investing activities:</b>	<b>(1,225)</b>	<b>(14,760)</b>
Group companies, associates and business units	-	(13,857)
Property, plant and equipment and intangible assets	(862)	(797)
Other financial assets	(363)	(106)
<b>Proceeds from divestitures:</b>	<b>1,974</b>	<b>254</b>
Group companies, associates and business units	1,793	-
Property, plant and equipment and intangible assets	9	13
Other investments	172	241
<b>Other cash flows from investing activities:</b>	<b>69</b>	<b>110</b>
Proceeds from dividends	3	42
Proceeds from interest	6	5
Other receipts/(payments) from/(of) investing activities	60	63
<b>CASH FLOWS GENERATED FROM INVESTING ACTIVITIES</b>	<b>818</b>	<b>(14,396)</b>
<b>Proceeds and (payments) for equity instruments:</b>	<b>-</b>	<b>3,401</b>
<b>Proceeds and (payments) for financial liability instruments:</b>	<b>(1,622)</b>	<b>9,983</b>
Proceeds from borrowings	9,303	14,339
Repayment of borrowings	(10,925)	(4,356)
<b>Dividends paid</b>	<b>(367)</b>	<b>(254)</b>
<b>Other cash flows from financing activities</b>	<b>(30)</b>	<b>(26)</b>
<b>CASH FLOWS GENERATED FROM FINANCING ACTIVITIES</b>	<b>(2,019)</b>	<b>13,104</b>
<b>Effect of exchange rates on cash and cash equivalent</b>	<b>44</b>	<b>5</b>
<b>VARIATION IN CASH AND CASH EQUIVALENTS</b>	<b>199</b>	<b>232</b>
<b>Cash and cash equivalents at the beginning of the period</b>	<b>589</b>	<b>249</b>
<b>Cash and cash equivalents at the end of the period</b>	<b>788</b>	<b>481</b>

Notes 1 to 20 form an integral part of the condensed consolidated interim financial statements.

## Notes to the condensed consolidated interim financial statements

### Note 1. General Information

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

Gas Natural SDG, S.A. and its subsidiaries (hereon, GAS NATURAL FENOSA) is a group that is primarily engaged in the activities of exploration and production, liquefaction, regassification, transportation, storage, distribution and commercialisation of natural gas, and the generation, distribution and commercialization of electricity.

The acquisition and merger of Unión Fenosa, S.A. in 2009 has represented a significant advance in the development of GAS NATURAL FENOSA and its strategy of becoming an integrated gas and electricity Group.

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

Note 4 includes financial disclosures broken down by business and geographic segments.

### Note 2. Regulatory framework

In respect of the regulatory framework described in the consolidated annual accounts for the year ended 31 December 2009, of special note are the following points relating to the first half of 2010:

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

The Ministry of Tourism and Trade issued Order ITC/1506/2010/8 June, which amended Order ITC/1660/2009/22 June, stipulating that the revisions of the tariff of last resort for natural gas would be made by virtue of the resolution 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 in the fixed and variable returns for the tolls and levies for accessing the system and the waste coefficients in force. The variable term will be revised quarterly, as from the 1<sup>st</sup> day of January, April, July and October of each year, provided that the cost of the raw material has varied more than 2% upward or downward.

On 29 June the Resolution of 25 June 2010 of the General Directorate of Energy Policy and Mines was promulgated in the Official State Gazette, and, accordingly, the tariff of last resort for natural gas was made public as from 1 July 2010.

#### *a) Regulation of the electricity sector in Spain*

On 21 April Royal Decree 437/2010 was published in the Official State Gazette pursuant to the regulation of the regulation of the electricity system tariff deficit securitisation process that was established under Royal Decree-Law 6/2009, the main aspects of which are as follows:

- The following can be assigned to the system's Deficit Securitisation Fund:
  - The debt claims up to Euros 10,000 million generated in 2006 and 2008 that were not assigned to third parties.
  - The 2009 deficit debt claims up to Euros 3,500 million.
  - The deficit debt claims from 2010 to 2012 recognised each year in the Ministerial Order by virtue of which the access tariffs were set for the following year, as from which time the debt claims could be assigned to the Securitisation Fund. The difference between the estimate and actual tariff deficits will be settled during the current year.
- The fund must acquire the debt claims whose commitment of assignment has been communicated to the initial holders, in a maximum period of one year as from said announcement, provided that no exceptional circumstances in the market arise.
- The revision interest rates that will be generated by the outstanding amounts will be:
  - Debt claims for 2006 and 2008: 3-month Euribor.

- Debt claims for 2009: 3-month Euribor plus a Spread of 0.20 basis points.

On 30 June the Official State Gazette published Order ITC/1732/2010/28 June, by virtue of which the access tolls were revised as from 1 July 2010 and the tariffs and premiums for certain facilities under the special regime. The access tariffs remained unchanged under this Order.

On 30 June the Resolution of the General Directorate of Energy Policy and Mines was published establishing the cost of electricity production and the Tariffs of Last Resort to be applied in the third quarter of 2010 were established.

### **Note 3. Basis of presentation, accounting policies and other information**

#### **3.1 Basis of presentation**

The annual accounts of Gas Natural SDG, S.A. and the consolidated annual accounts of GAS NATURAL FENOSA for 2009 were adopted by the General Meeting of Shareholders of 20 April 2010.

The accompanying condensed consolidated interim financial statements at 30 June 2010 of GAS NATURAL FENOSA have been prepared by the Board of Directors on 23 July 2010 in accordance with IAS 34 "Interim Financial Reporting" and must be read together with the consolidated annual accounts for the year ended 31 December 2009, which have been prepared in accordance with Regulation (CE) no, 1606/2002 of the European Parliament and Council (hereon, "IFRS-EU").

Consequently, it has not been necessary to repeat or restate certain notes or estimates included in the aforementioned consolidated annual accounts. Instead, the accompanying explanatory notes to the accounts selected include an explanation of the events or variations that are, as the case may be, significant for the explanation of the changes in the financial position and results of operations, recognised income and expenses, changes in net equity, and the consolidated cash flows of the Group since 31 December 2009, the date on which the consolidated annual accounts mentioned above, until 30 June 2010.

The figures contained in these condensed consolidated interim financial statements are stated in Million Euros, unless expressly indicated otherwise.

#### **3.2 Main risks and uncertainties**

The main risks and uncertainties are those presented in the consolidated annual accounts for the year 2009, without having changed significantly since their disclosure.

The general deterioration of the macro-economic environment has had a significant impact on the basic aggregates of the business. Of special note is the decrease in sales levels of energy, especially relevant in the industrial segment of the gassistic business and to a lesser extent in the electricity business. Furthermore, there has been a slowdown in the growth rates of the customer base. Additionally, the general correction of prices of commodities internationally has created a situation in which margins are especially volatile, leading to a severe adjustment of electricity prices in Spain.

In spite of the deterioration of the economic environment described above, the diversification in the contribution to earnings of the different business units, risk management and control, and the flexibility of the energy balances have allowed the Company to mitigate to a great extent this deterioration. Of special note is the symbiosis between the electricity generation and commercialisation businesses, the gas commercialisation margin protection policies in the energy market, the optimisation of the mixes of electricity generation and gas supply, the regulated nature of businesses with a contribution of 56.7% to operating profit (excluding the account "Other results"), and the drop in financing costs.

GAS NATURAL FENOSA believes that the decline in the macro-economic environment has not caused at 30 June 2010 a significant impact on the main assumptions that could give rise to a deterioration of goodwills and other intangible assets and property, plant and equipment, of the assets relating to pension liabilities or the fair value of its financial assets and liabilities.

#### **3.3 Seasonality**

The demand for natural gas is seasonal, and it is higher with regards to supply and commercialisation in Europe generally in the coldest months from October to March and much lower during the warmest months

from April to September. This seasonality is partially offset by the increase in demand in Latin America and in the demand for natural gas for industrial uses and electricity production, normally more stable throughout the year. Due to this seasonality, the operating gains and earnings are higher in the first and fourth quarters and lower in the second and third quarters. On the other hand, demand for electricity tends to increase during the summer months in Spain, especially in July and August, and, accordingly, operating gains and earnings in the electricity segment are higher in Spain.

### **3.4 Comparability**

As a result of the acquisition of Unión Fenosa, S.A. since 30 April 2009 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 compared the aggregates at 30 June 2010 to those at 30 June 2009. The consolidated interim income statement, the consolidated interim statement of comprehensive income, the consolidated interim statement of changes in net equity and the consolidated interim statement of cash flows at 30 June 2010 include all the operations of UNIÓN FENOSA, which those statements at 2009 include the operations of UNIÓN FENOSA as from 30 April 2009.

At 30 June 2009 no components representing a significant business line had been discontinued. However, after the discontinuation of the Colombian company Empresa de Energía del Pacífico, S.A. (EPSA) as from 17 October 2009 (Note 7), the income and expenses generated by the discontinued operations were reclassified to "Net income from discontinued operations net of tax" in the consolidated interim income statement at 30 June 2009 included for comparative purposes.

Furthermore, IFRIC 12 "Service Concession Arrangements" is applicable as from 1 January 2010. IFRIC 12 affects the service concession arrangements that meet two conditions: a) the grantor controls the services that the concessionaire must provide; b) the grantor controls the significant residual ownership of the facility at the end of the term of the agreement. The facilities under a service concession arrangement will not be recognised as the property, plant and equipment of the concessionaire, and two accounting models are established (financial assets and intangible assets) based on the nature of the economic profits to be received by the concessionaire. GAS NATURAL FENOSA has completed the impact study of this interpretation, considering that the intangible asset model is applicable to the gas distribution business in Argentina, Brazil and Italy. As a result of its application, the consolidated balance sheet at 31 December 2009 presented for comparative purposes includes a reclassification from "Property, plant and equipment" to "Intangible assets" of Euros 1,295 million, as well as a reclassification from "Grants" to a decrease in "Intangible assets" of Euros 185 million. On the other hand, the consolidated interim income statement for the first half of 2009 that is presented for comparative purposes includes a reclassification from "Release of fixed asset grants and others" to "Depreciation and amortisation of fixed assets" of Euros 4 million.

### **3.5 Accounting policies**

The accounting policies used in these condensed consolidated interim financial statements are the same as those used for the consolidated annual accounts for the year ended 31 December 2009.

#### **Coming into force of new accounting standards**

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

- IFRS 3 (revised), "Business Combinations"
- IAS 27 (revised), "Consolidated and Separate Financial Statements"
- IFRS 5 (Amendment), "Non-current Assets Held for Sale and Discontinued operations" (and the related amendment of IFRS 1 "First-time Adoption of IFRS")
- IAS 39 (Amendment), "Items Qualifying as Hedged Items"
- IFRS 1 (Amendment), "Additional Exemptions for First-time Adopters"
- IFRS 2 (Amendment), "Group Transactions with Share-based Payments Settled in Cash"
- IFRIC 12, "Service Concession Agreements"
- IFRIC 15, "Arrangements for the Construction of Real Estate" (in force as from 1 January 2010)
- IFRIC 17, "Distribution of Non-Cash Assets to Owners"
- IFRIC 18, "Transfers of Assets from Customers"

## Improvements in International Financial Reporting Standards

The application of the preceding standards, amendments and interpretations have not had a significant impact on the condensed consolidated interim financial statements, except for IFRIC 12, which is described in Note 3.4.

### 3.6 Consolidation scope

In the first half of 2010 the variations in the consolidation scope relate basically to the disposal of gas distribution assets in the Region of Madrid (Note 7) and generation assets in Mexico (Note 7).

Appendix I includes the variations in the consolidation scope in the first half of 2010 and 2009.

#### **Note 4. Segment reporting**

##### *By business segments*

The business segments of GAS NATURAL FENOSA are:

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

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

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

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

- *Electricity distribution.* Includes the regulated electricity distribution business in Spain, Latin America and Others (Moldova).

The electricity distribution business in Spain includes the regulated electricity distribution business, the network services and other activities related to third party access to the distribution network. Since 1 July 2009 the so-called integrated tariff has disappeared through the creation of the so-called sellers of last resort.

The electricity distribution business in Latin America relates to the regulated electricity distribution business and sale 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 the bundled tariff sale of electricity in both countries.



- *Electricity.* Includes the generation of electricity in Spain, Kenya and Latin America (in the Dominican Republic, Costa Rica and Puerto Rico).

The Electricity Generation business in Spain includes the electricity production business through combined cycle, thermal, nuclear, hydraulic, cogeneration 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 last resort supply as from 1 July 2009).

- *Gas.* Includes the activity arising from gas infrastructure, the supply and commercialisation business and UF Gas.

The infrastructure business includes the gas exploration and production activities from the time of extraction to the liquefaction process. It also includes the value chain activities of Liquefied Natural Gas (LNG) from the time it leaves the exporting countries (liquefaction plants) to the entry points of the end market, including the sea transport of LNG and the regassification process. It also includes the Maghreb-Europe gas pipeline.

The Supply and Commercialisation business includes the supply and commercialisation of natural gas to wholesale and retail customers in the de-regulated Spanish market, as well as the supply of products and services related to retail commercialisation. It also includes the sales of natural gas to customers outside Spain.

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

- *Others.* Includes the exploitation of coal fields of Kangra Coal (Proprietary), Ltd. in South Africa, the activities related to optic fibre and the other non-energy activities.

The net income and investments by segments for the periods indicated are as follows:

Six months ended 30 June 2010	Distribution of Gas				Distribution of Electricity				Electricity				Gas				Others	TOTAL
	Spain	Latin-America	Others	Total	Spain	Latin-America	Others	Total	Spain	Latin-America	Others	Total	Infrastruct ures	Supply and sale	UF GAS	Total		
Total segment sales	644 (73)	1,155	99	1,898	410 (133)	1,108	93	1,611 (133)	2,891 (547)	517	46	3,254 (547)	127 (90)	3,797 (822)	375 (149)	4,299 (1,061)	267 (84)	11,329 (1,898)
Inter segment sales	571	1,155	99	1,825	277	1,108	93	1,478	2,144	517	46	2,707	37	2,975	226	3,238	183	9,431
Consolidated total sales	456	286	33	775	288	191	14	493	558	128	9	695	94	179	115	388	30	2,381
EBITDA (1)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	358	358
Other results	(143)	(55)	(12)	(210)	(105)	(47)	(2)	(154)	(253)	(62)	(3)	(318)	(25)	(7)	(56)	(88)	(47)	(817)
Depreciation and amortisation expense	-	(5)	(2)	(7)	(4)	(54)	-	(58)	(6)	(1)	-	(7)	-	(12)	-	(12)	(2)	(86)
Debtor provisions and other	313	226	19	558	179	90	12	281	299	65	6	370	69	160	59	288	339	1,836
Operating income	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(561)
Net financial expense	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	4
Results of equity method	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Income before tax	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	1,279
Income tax expense	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(329)
Net income from continued operations	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	950
Net income from discontinued operations, net of tax	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Net income for the period	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	950
Investments	82	29	16	127	84	50	6	140	179	85	1	265	-	6	13	19	37	588

Six months ended 30 June 2009	Distribution of Gas				Distribution of Electricity				Electricity				Gas				Others	TOTAL
	Spain	Latin-America	Others	Total	Spain	Latin-America	Others	Total	Spain	Latin-America	Others	Total	Infrastruct ures	Supply and sale	UF GAS	Total		
Total segment sales	686 (79)	956 (7)	118	1,760 (86)	137 (16)	293	26	456 (16)	833 (61)	388 (5)	5	1,226 (66)	144 (116)	3,699 (676)	83 (49)	3,926 (841)	152 (86)	7,520 (1,095)
Inter segment sales	607	949	118	1,674	121	293	26	440	772	383	5	1,160	28	3,023	34	3,085	66	6,425
Consolidated total sales	458	234	30	722	96	55	5	156	249	104	-	353	94	232	25	351	26	1,608
EBITDA (1)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other results	(158)	(44)	(12)	(214)	(32)	(12)	(1)	(45)	(106)	(51)	-	(157)	(28)	(5)	(17)	(50)	(45)	(511)
Depreciation and amortisation expense	3	(5)	-	(2)	(2)	(12)	-	(14)	(4)	-	-	(4)	-	(16)	-	(16)	(1)	(37)
Debtor provisions and other	303	185	18	506	62	31	4	97	139	53	-	192	66	211	8	285	(20)	1,060
Operating income	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(217)
Net financial expense	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	55
Results of equity method	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	898
Income before tax	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(210)
Income tax expense	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	688
Net income from continued operations	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	12
Net income from discontinued operations, net of tax	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	700
Net income for the period	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Investments	152	39	19	210	50	16	4	70	241	32	2	275	15	6	4	25	15	595

(1) INCN relates to net turnover. EBITDA is calculated as Operating profit excluding "Other net income" plus "Amortisation and depreciation" and operating provisions. The investments include property, plant and equipment and intangible assets (Note 5).

### Geographical segments

The registered office of GAS NATURAL FENOSA and its main operations are located in Spain. Its areas of operation mainly cover the rest of Europe (Italy, France and Moldova), Latin America, Africa and others.

The net turnover of GAS NATURAL FENOSA for the six-month period ended in 2010 and 2009 assigned by country of destination has been broken down in the following table:

	2010	2009
Spain	5,625	4,064
Rest of Europe	574	401
Latin America	2,864	1,741
Africa and others	368	219
<b>Total</b>	<b>9,431</b>	<b>6,425</b>

### Note 5. Intangible assets and property, plant and equipment

The movement for the six-month period ended 30 June 2010 in intangible assets and property, plant and equipment is as follows:

	Goodwill	Other intangible assets	Total intangible assets	Property, plant and equipment
<b>Net carrying value a 31.12.09</b>	<b>6,056</b>	<b>5,378</b>	<b>11,434</b>	<b>23,388</b>
Cost, gross	6,056	6,843	12,899	27,558
Accumulated depreciation	-	(1,465)	(1,465)	(4,170)
<b>Net carrying value at 1.1.10</b>	<b>6,056</b>	<b>5,378</b>	<b>11,434</b>	<b>23,388</b>
Investment	-	59	59	529
Divestitures	-	(3)	(3)	(6)
Amortisation and depreciation expense	-	(149)	(149)	(668)
Cumulative translation adjustments	95	232	327	857
Business combinations	-	-	-	-
Reclassifications and others	(7)	(72)	(79)	(178)
<b>Net carrying value at 30.06.10</b>	<b>6,144</b>	<b>5,445</b>	<b>11,589</b>	<b>23,922</b>
Cost, gross	6,144	7,218	13,362	28,997
Accumulated depreciation	-	(1,773)	(1,773)	(5,075)
<b>Net carrying value at 30.06.10</b>	<b>6,144</b>	<b>5,445</b>	<b>11,589</b>	<b>23,922</b>

Note 4 includes the breakdown of investments by business segment including the most significant investments made in:

- The combined cycle plants in Malaga, Puerto de Barcelona and Norte Durango (Mexico) whose start up is expected in the second half of 2010.
- Recurrent investment in planning and development of the gas and electricity distribution network.

GAS NATURAL FENOSA at 30 June 2010 maintains investment commitments totalling Euros 448 million, basically for the construction of combined cycle plants, the construction of wind farms and gas infrastructure projects.

## Note 6. Financial instruments

### a) Financial assets

The breakdown of financial assets, excluding Trade and other receivables and Cash and others cash equivalents, at 30 June 2010 and at 31 December 2009, classified by nature and category is as follows:

At 30 June 2010	Fair value through profit and loss	Available for sale	Loans and other receivables	Investments held to maturity	Hedging derivatives	Total
Equity instruments	-	77	-	-	-	77
Derivatives	-	-	-	-	1	1
Other financial assets	-	-	434	1	-	435
<b>Non-current financial assets</b>	-	77	434	1	1	513
Derivatives	-	-	-	-	8	8
Other financial assets	-	-	1,608	1	-	1,609
<b>Current financial assets</b>	-	-	1,608	1	8	1,617
<b>Total financial assets at 30.06.2010</b>	-	77	2,042	2	9	2,130

At 31 December 2009	Fair value through profit and loss	Available for sale	Loans and other receivables	Investments held to maturity	Hedging derivatives	Total
Equity instruments	-	219	-	-	-	219
Derivatives	-	-	-	-	1	1
Other financial assets	-	-	383	1	-	384
<b>Non-current financial assets</b>	-	219	383	1	1	604
Derivatives	-	-	-	-	-	-
Other financial assets	-	-	1,386	1	-	1,387
<b>Current financial assets</b>	-	-	1,386	1	-	1,387
<b>Total financial assets at 31.12.2009</b>	-	219	1,769	2	1	1,991

In the first half of 2010 the main variation in Available-for-sale financial assets has been the result of the sale in April 2010 of the 5% stake in Indra Sistemas, S.A. for Euros 127 million, which generated a profit before tax of Euros 4 million.

The financing of the deficit for settlements of the regulated electricity business is included in Other financial assets, in accordance with the fact that, under current legislation, there is a right to receive the settlement, which is not subject to future contingent factors. At 30 June 2010 GAS NATURAL FENOSA maintains a right to receive this deficit settlement totalling Euros 1,501 million.

### b) Financial liabilities

The breakdown of the financial liabilities, excluding trade and other payables at 30 June 2010 and at 31 December 2009, classified by nature and category, is as follows:

<b>At 30 June 2010</b>	<b>Financial liabilities held for trading</b>	<b>Other financial liabilities at fair value through profit and loss</b>	<b>Debits and other payables</b>	<b>Hedging derivatives</b>	<b>Total</b>
Bank loans	-	-	9,677	-	9,677
Bonds and other negotiable securities	-	-	7,531	-	7,531
Derivatives	-	26	-	183	209
Other financial liabilities	-	-	408	-	408
<b>Non-current financial liabilities</b>	-	26	17,616	183	17,825
Bank loans	-	-	1,149	-	1,149
Bonds and other negotiable securities	-	-	1,227	-	1,227
Derivatives	-	-	-	13	13
Other financial liabilities	-	-	336	-	336
<b>Non-current financial liabilities</b>	-	-	2,712	13	2,725
<b>Total financial liabilities at 30.06.2010</b>	-	26	20,328	196	20,550

<b>At 31 December 2009</b>	<b>Financial liabilities held for trading</b>	<b>Other financial liabilities at fair value through profit and loss</b>	<b>Debits and other payables</b>	<b>Hedging derivatives</b>	<b>Total</b>
Bank loans	-	-	12,648	-	12,648
Bonds and other negotiable securities	-	-	5,386	-	5,386
Derivatives	-	25	-	163	188
Other financial liabilities	-	-	436	-	436
<b>Non-current financial liabilities</b>	-	25	18,470	163	18,658
Bank loans	-	-	923	-	923
Bonds and other negotiable securities	-	-	1,711	-	1,711
Derivatives	-	-	-	16	16
Other financial liabilities	-	-	199	-	199
<b>Current financial liabilities</b>	-	-	2,833	16	2,849
<b>Total financial liabilities at 31.12.2009</b>	-	25	21,303	179	21,507

During the first half of 2010 and in 2009 the evolution of issues of debt securities has been as follows:

	<b>At 1.1.2010</b>	<b>Issues</b>	<b>Repurchases and redemptions</b>	<b>Business combinations</b>	<b>Exchange rate adjustments and others</b>	<b>At 30.06.2010</b>
Issued in a member state of the European Union requiring the filing of a prospectus	6,439	2,818	(1,268)	-	112	8,101
Issued in a member state of the European Union not requiring the filing of a prospectus	5	-	(5)	-	-	-
Issued outside a member state of the European Union	653	-	-	-	4	657
<b>Total</b>	<b>7,097</b>	<b>2,818</b>	<b>(1,273)</b>	<b>-</b>	<b>116</b>	<b>8,758</b>

	At 1.1.2009	Issues	Repurchases and redemptions	Business combinations	Exchange rate adjustments and others	At 30.06.2009
Issued in a member state of the European Union requiring the filing of a prospectus	754	-	(239)	1,252	(12)	1,755
Issued in a member state of the European Union not requiring the filing of a prospectus	-	-	-	5	-	5
Issued outside a member state of the European Union	28	-	-	731	(11)	748
<b>Total</b>	<b>782</b>	<b>-</b>	<b>(239)</b>	<b>1,988</b>	<b>(23)</b>	<b>2,508</b>

On 14 January 2010 GAS NATURAL FENOSA closed three issues of Bonds under the EMTN program, in three tranches in the Euromarket, maturing at five, eight and ten years, for Euros 650, 700 and 850 million, respectively.

On 23 March 2010 a Euro Commercial Paper (ECP) program of Euros 1,000 million was executed, with the issuer being Unión Fenosa Finance BV.

On 24 March 2010 a Club Deal loan of Euros 4,000 million was entered into with 18 banks. The total loan was divided into an amount of Euros 1,000 million maturing in 3 years and Euros 3,000 million maturing in 5 years.

These financial operations, together with the receipt from the sale of generation assets in Mexico and gas distribution assets in the Region of Madrid has meant that the financing of the acquisition of UNIÓN FENOSA was cancelled on 2 June 2010.

On 11 June 2010 a loan of Euros 450 million was extended by Banco Europeo de Inversiones (BEI) for the Financing of the transmission and distribution of electricity investment plan in Spain over 3 years.

#### **Note 7. Non-current assets and disposable groups of assets held for sale and discontinued operations**

On 17 October 2009, GAS NATURAL FENOSA agreed the sale with Colener, S.A.S., Inversiones Argos S.A. and Banca de Inversión Bancolombia S.A.- Corporación Financiera of its 63.8% stake in the Colombian company Empresa de Energía del Pacífico, S.A. (EPSA). This sale was subject to the authorisation of the Finance Directorate of Colombia (*Superintendencia Financiera de Colombia*) for the launch of a Public Takeover Bid of 66.1% of the shares of EPSA. As from that date these assets were considered non-current assets held-for-sale. Once the respective authorisation was obtained, the sale took place on 9 December for an amount of Euros 690 million, generating a profit before tax of Euros 11 million.

On 19 December 2009, GAS NATURAL FENOSA agreed with Morgan Stanley Infraestructura and Galp Energía SGPS and certain companies in their Groups the sale of the natural gas distribution branch in 38 municipalities of the Region of Madrid, the branch of activities of natural gas and electricity supply to domestic-commercial customers and small and medium-sized companies and the common services branch in said areas. This operation was carried out as part of the plan approved by the Anti-Trust Commission for the acquisition of UNIÓN FENOSA. Since the date of the agreement, these assets have been considered non-current assets held for sale. After the respective authorisations were secured, the sale took place on 30 April 2010 for the amount of Euros 800 million, generating a profit before tax of Euros 380 million, carried under "Other results" in the consolidated interim income statement.

On 24 December 2009, GAS NATURAL FENOSA agreed with Mitsui Group and Tokyo Gas Company on the divestment of the combined cycle electricity production 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. Under this agreement, Mitsui Group and Tokyo Gas Company would hold a 76% stake through a capital increase they would dilute the shareholding of GAS NATURAL FENOSA and then, during 2010, they could exercise a purchase option, and GAS NATURAL FENOSA could exercise a sale option, of 24% of the remaining capital. As from the date of this agreement, these assets have been considered non-current assets held for sale. After the respective authorisations were secured, the transfer of the entire control of 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, carried under "Other results" in the consolidated interim income statement.

On 12 July 2010, GAS NATURAL FENOSA agreed the sale with the Alpiq Group of a 400 MW turbine facility at the combined cycle plant in Plana del Vent for Euros 200 million. Moreover, Alpiq will have a right of exclusive use and operation of another 400 MW turbine facility for a period of 2 years, on which it will be able to exercise, at the end of two years, a purchase right totalling Euros 195 million. This operation is part of the commitments acquired by GAS NATURAL FENOSA before the Anti-Trust Commission for the purchase of UNIÓN FENOSA and is subject to obtaining the necessary authorisations. Since 30 June 2010 the assets of the turbine facility whose sale was agreed have been classified as non-current assets held for sale.

The EPSA-related assets and liabilities are considered discontinued operations, given that they are parts of a significant business line (Latin American Electricity). The other related assets and liabilities do not represent a significant business line or geographic area of operations, and, accordingly, are not considered discontinued operations.

The breakdown by nature of the assets classified as held for sale and related liabilities at 30 June 2010 and 31 December 2009 is as follows:

30 June 2010							31 December 2009		
	Gas distribution in Spain and Rest of Europe (1)	Electricity in Spain and Rest of Europe (2)	Latin American Electricity (3)	Total	Electricity in Spain and Rest of Europe (1)	Electricity in Spain and Rest of Europe (2)	Latin American Electricity (3)	Total	
Intangible assets	-	-	-	-	-	-	91	91	
Property, plant and equipment	-	176	-	176	274	-	900	1,174	
Non-current financial assets	-	-	-	-	7	-	45	52	
Deferred tax assets	-	-	-	-	1	-	68	69	
NON-CURRENT ASSETS	-	176	-	176	282	-	1,104	1,386	
Inventories	-	-	-	-	2	-	18	20	
Trade and other payables	-	-	-	-	88	-	102	190	
Cash and other cash equivalents	-	-	-	-	-	-	98	98	
CURRENT ASSETS	-	-	-	-	90	-	218	308	
TOTAL ASSETS	-	176	-	176	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 financial 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 mentioned above.

(2) Includes Combined Cycle Group in Plana del Vent mentioned above.

(3) Mexican generation assets mentioned above.

The contribution to consolidated comprehensive income of the aforementioned assets is not significant.



The breakdowns by nature of "Net income from discontinued operations net of tax" in the consolidated interim income statement and the cash flows in the statement of consolidated interim cash flows, relating to EPSA are as follows :

	Six-month period ended 30 June 2010	Six-month period ended 30 June 2009 (1)
Sales	-	55
Procurements	-	(19)
Other operating income	-	1
Personnel costs	-	(2)
Other operating expenses	-	(6)
Amortisation and depreciation expenses	-	(6)
<b>OPERATING PROFIT</b>	-	<b>23</b>
Financial income	-	-
Financial expenses	-	(4)
<b>NET FINANCIAL INCOME (EXPENSE)</b>	-	<b>(4)</b>
Results from sale	-	-
<b>INCOME BEFORE TAX</b>	-	<b>19</b>
Income tax	-	(7)
<b>NET INCOME AFTER TAX ON DISCONTINUED OPERATIONS</b>	-	<b>12</b>

	Six-month period ended 30 June 2010	Six-month period ended 30 June 2009 (1)
Cash flows from operations	-	16
Cash flows from investments	-	28
Cash flows from financing	-	(46)

(1) Relates to the period from 30 April 2009 (date of acquisition of UNIÓN FENOSA) until 30 June 2009. The sale was completed on 9 December 2009.

## Note 8. Net Equity

### Share capital and Share premium

During the first half of 2010 and during 2009 there have been no transactions with treasury shares.

### Earnings per share

The basic earnings per share are calculated by dividing the profit attributable to the equity holders of the parent company by the average weighted number of ordinary shares in circulation during the period.

	At 30.06.10	At 30.06.09
Profit attributable to equity holders of the company	853	622
Weighted average number of ordinary shares in circulation (million)	922	707
Earnings per share from continued operations (in Euros):		
- Basic	0.93	0.87
- Diluted	0.93	0.87
Earnings per share from discontinued operations (en Euros):		
- Basic	-	0.01
- Diluted	-	0.01

For the calculation of the average weighted number of ordinary shares in circulation it has been taken into account the shares issued in the capital increases and the adjustment due to the capital increase with preferred subscription rights of 447,776,028 shares made in 2009.

The Company has not issued financial instruments that could dilute its earnings per share.

## Dividends

Set out below is a breakdown of the dividends paid during the six-month period ended 30 June 2010 and 2009:

	30/06/2010			30/06/2009		
	% of nominal	Euros per share	Amount	% of nominal	Euros per share	Amount
Ordinary shares	35%	0.35	324	48%	0.48	215
Other shares (without vote, redeemable, etc.)	-	-	-	-	-	-
<b>Total dividends paid</b>	<b>35%</b>	<b>0.35</b>	<b>324</b>	<b>48%</b>	<b>0.48</b>	<b>215</b>
a) Dividends charged to income statement	35%	0.35	324	48%	0.48	215
b) Dividends charged to reserves or share premium	-	-	-	-	-	-
c) Dividends in kind	-	-	-	-	-	-

The Board of Directors of Gas Natural SDG, S.A. at its meeting of 28 November 2008 agreed to distribute an interim dividend charged to 2008 profit of Euros 0.48 per share, totalling Euros 215 million, paid as from 8 January 2009.

The Board of Directors of Gas Natural SDG, S.A. at its meeting of 27 November 2009 agreed to distribute an interim dividend charged to 2009 profit of Euros 0.35 per share, totalling Euros 324 million, paid as from 8 January 2010.

The resolutions on the distribution of net income for 2009 and 2008 of Gas Natural SDG, S.A. adopted by the General Meetings of Shareholders of 20 April 2010 and 26 June 2009 were as follows:

	2009	2008
<b>Basis for distribution</b>		
Profit and ( loss)	1,077	992
<b>Distribution</b>		
To the legal reserve	95	-
To statutory reserves	21	-
To the Goodwill Reserve	179	-
To voluntary reserves	52	419
To dividends	730	573

The General Meeting of Shareholders of 26 June 2009 agreed to distribute an extraordinary dividend of Euros 0.10 per share totalling Euros 90 million, against voluntary reserves, paid as from 3 July 2009.

The General Meeting of Shareholders of 20 April 2010 agreed to distribute an complementary dividend of Euros 0.44 per share totalling Euros 406 million, paid as from 1 July 2010.

## Note 9. Provisions

The breakdown of the Provisions for the six-month period ended 30 June 2010 and for the year 2009 is as follows:

	At 30.06.10	At 31.12.09
Provisions for employee obligations	665	645
Other provisions	1,355	1,236
<b>Total non-current provisions</b>	<b>2,020</b>	<b>1,881</b>
Other provisions	101	128
<b>Total current provisions</b>	<b>101</b>	<b>128</b>
<b>Total</b>	<b>2,121</b>	<b>2,009</b>

"Other provisions" are stipulated in order to meet obligations arising from the dismantling of facilities, tax claims, and litigation and arbitration underway. The information on the nature of the disputes with third

parties and the position of the company on each is set out in the section "Litigation and arbitration" in Note 19.

#### **Note 10. Sales**

The breakdown of this caption for the six-month period for 2010 and 2009 is as follows:

	For the period ended 30 June	
	2010	2009
Natural gas and third parties access sales	4,754	4,451
Electricity and third parties access sales	3,948	1,421
Installation rental, maintenance and managements services	411	345
Other sales	318	208
<b>Total</b>	<b>9,431</b>	<b>6,425</b>

#### **Note 11. Procurements**

The breakdown of this caption for the six-month period for 2010 and 2009 is as follows:

	For the period ended 30 June	
	2010	2009
Energy purchases	5,062	3,583
Access to transmission networks	697	284
Other purchases and Stock variation	203	232
<b>Total</b>	<b>5,962</b>	<b>4,099</b>

#### **Note 12. Personnel costs**

The breakdown of this caption for the six-month period for 2010 and 2009 is as follows:

	For the period ended 30 June	
	2010	2009
Wages and salaries	335	203
Social Security costs	63	41
Defined contribution plans	16	12
Defined benefit plans	1	1
Capitalized costs	(31)	(33)
Others	20	23
<b>Total</b>	<b>404</b>	<b>247</b>

The average number of employees of GAS NATURAL FENOSA for the six-month period for 2010 and 2009 is as follows:

	For the period ended 30 June	
	2010	2009
Men	13,298	7,978
Women	4,789	3,061
<b>Total</b>	<b>18,087</b>	<b>11,039</b>

For the purposes of calculating the average number of employees for the first half of 2009, the Group has taken into account the fact that the employees of UNION FENOSA have formed part of the GAS NATURAL Group as from 30 April 2009.

### Note 13. Other operating expenses

The breakdown of this caption for the six-month period for 2010 and 2009 is as follows:

	For the period ended 30 June	
	2010	2009
Repairs and maintenance	217	118
Commercial services & advertising	116	86
Local taxes	125	69
Professional services & insurance	93	69
Procurements	41	30
Leases	38	20
Others	226	159
<b>Total</b>	<b>856</b>	<b>551</b>

### Note 14. Net financial income

The breakdown of this caption for the six-month period for 2010 and 2009 is as follows:

	For the period ended 30 June	
	2010	2009
Dividends	4	2
Interest income	9	7
Others	34	27
<b>Total financial income</b>	<b>47</b>	<b>36</b>
Financial expense from borrowings	(478)	(322)
Interest expenses of pension plans and other post-employment benefits	(18)	(10)
Other financial expenses	(121)	(48)
<b>Total financial expenses</b>	<b>(617)</b>	<b>(380)</b>
Variations in fair value of financial derivatives:	6	29
Derivative financial instruments	6	29
Financial assets at fair value through profit and loss	-	-
Net exchange gains/ (losses)	(1)	(3)
Net fair value gains/ (losses) on financial instruments	4	101
<b>Net financial income</b>	<b>(561)</b>	<b>(217)</b>

"Other financial expenses" includes in the period ended 30 June 2010, an amount of Euros 103 million relating to the recognition in the consolidated income statement of the commissions on the loan for the acquisition of UNIÓN FENOSA, which were pending a charge to the income statement, as a result of the cancellation of this loan. The same period in 2009 includes Euros 19 million for this concept.

The results from sales of financial instruments for the period ended 30 June 2010 relate to the gain from the sale of the 5% stake in Indra Sistemas, S.A. (Note 6).

The results from the sale of financial instruments for the period ended 30 June 2009 relates to the gain from sale of the 5% shareholding in Enagás, S.A.

### Note 15. Income tax

The income tax expense breaks down as follows:

	For the period ended 30 June	
	2010	2009
Current tax	280	186
Deferred tax	49	24
<b>Total</b>	<b>329</b>	<b>210</b>

The income tax expense is recognised on the basis of the best estimate of the effective tax rate for the year 2010.

The estimated effective tax rate for the first half of 2010 was 25.7%. The difference between the theoretical tax rate and the actual tax rate is basically due to the tax deductions for reinvestment of extraordinary profit from the transfer of gas distribution assets in the Region of Madrid, made in order to comply with the provisions of anti-trust legislation, as well as the application of different tax regimes of companies whose business takes place in other jurisdictions.

The effective tax rate for the first half of 2009 was 23.4%, as a result of the tax deductions for reinvestment of extraordinary profit from the transfer of the 5% stake in Enagás, S.A, made in order to comply with the provisions of anti-trust legislation, as well as the application of different tax regimes of companies whose business takes place in other jurisdictions and to the effect of the net income of companies consolidated by equity accounting.

#### **Note 16. Business combinations**

During the six-month period ended 30 June 2010, GAS NATURAL FENOSA has not undertaken any significant business combinations. As indicated in Note 3.4, as a result of the acquisition of Unión Fenosa, S.A., since 30 April 2009 UNIÓN FENOSA has been fully consolidated. The final allocation of the acquisition price of UNIÓN FENOSA to the fair value of its assets, liabilities and contingent liabilities culminated in April 2010. This allocation coincided with that used in the preparation of the consolidated annual accounts for 2009.

The consolidated net income for the period contributed by UNIÓN FENOSA from the acquisition date to 30 June 2009 totalled Euros 139 million. If the acquisition had taken place on 1 January 2009, the increase in the six-month period ended 30 June 2009 in consolidated net turnover and consolidated net income would have been Euros 2,223 million and Euros 161 million, respectively.

#### **Note 17. Related-party disclosures**

Related parties are as follows:

- The significant shareholders of GAS NATURAL FENOSA, understood as those who directly or indirectly hold an interest equal to or greater than 5%, as well as the shareholders, who, while not significant, have appointed a member to the Board of Directors.

In line with this definition, the significant shareholders of GAS NATURAL FENOSA are the Criteria CaixaCorp., S.A., and, consequently, Caixa d'Estalvis i Pensions de Barcelona Group ("la Caixa" Group), the Repsol YPF Group, the Gaz de France-Suez Group (GDF-Suez Group), and Caixa d'Estalvis de Catalunya.

- The directors and senior managers of the company and their immediate family. The term "director" means a member of the Board of Directors; "senior manager" means a member of the Management Committee of GAS NATURAL FENOSA. Transactions with directors and senior managers are set out in Note 18.
- The transactions between Group companies or entities form part of its normal business. The balances and transactions not eliminated in the consolidation process are not significant. Furthermore, the transactions with related parties were made at arm's length.

The aggregate amounts of the transactions with significant shareholders are as follows:

Six-month period ended 30 June 2010				
Income and expenses (in Thousand Euros)	"La Caixa" Group	Repsol YPF Group	GDF-Suez Group (*)	Caixa d'Estalvis de Catalunya
Financial expenses	5,215	-	-	72
Leases (1)	1,179	4,468	-	-
Services received	-	28,580	15,211	-
Goods purchases (finished or in progress)	-	281,301	112,255	-
Other expenses (2)	17,928	-	120	37
<b>Total expenses</b>	<b>24,322</b>	<b>314,349</b>	<b>127,586</b>	<b>109</b>
Financial income	172	-	-	-
Leases	-	222	-	-
Services rendered	-	12,281	171	-
Sale of goods (finished or in progress)	-	232,277	165,650	-
Other income	604	-	-	-
<b>Total income</b>	<b>776</b>	<b>244,780</b>	<b>165,821</b>	<b>-</b>

Six-month period ended 30 June 2010				
Other transactions (in Thousand Euros)	"La Caixa" Group	Repsol YPF Group	GDF-Suez Group (*)	Caixa d'Estalvis de Catalunya
Acquisition of Property, Plant and equipment, intangible assets and other assets	-	-	-	-
Financing agreements: loans and capital contributions (lender) (3)	312,374	-	-	15,099
Sale of PPE, intangible assets and other assets	-	-	-	-
Financing agreements: loans and capital contributions (borrower) (4)	591,044	-	-	51,034
Finance leases (lessee)	-	-	-	-
Deposit and guarantees deposits given	-	-	-	-
Deposits and guarantees deposits received	112,500	-	-	60,000
Dividends and others distributed profit	116,862	97,374	16,353	5,244
Other operations (5)	1,342,601	-	-	10

Six-month period ended 30 June 2010				
Income and expenses (in Thousand Euros)	"La Caixa" Group	Repsol YPF Group	GDF-Suez Group (*)	Caixa d'Estalvis de Catalunya
Financial expenses	7,391	-	-	5
Leases (1)	1,669	2,085	-	-
Services received	95	18,920	17,360	-
Goods purchases (finished or in progress)	-	323,749	223,679	-
Other expenses (2)	14,467	-	49	69
<b>Total expenses</b>	<b>23,622</b>	<b>344,754</b>	<b>241,088</b>	<b>74</b>
Financial income	2,253	-	-	2
Leases	-	244	-	-
Provision of services	-	11,627	15,340	-
Sale of goods (finished or in progress)	-	205,075	376,460	-
Other income	1,395	-	-	-
<b>Total income</b>	<b>3,648</b>	<b>216,946</b>	<b>391,800</b>	<b>2</b>

Six-month period ended 30 June 2010				
Other transactions (in Thousand Euros)	"La Caixa" Group	Repsol YPF Group	GDF-Suez Group (*)	Caixa d'Estalvis de Catalunya
Acquisition of Property, Plant and equipment, intangible assets and other assets	-	391	70	-
Financing agreements: loans and capital contributions (lender) (3)	119,275	-	-	101
Sale of PPE, intangible assets and other assets	-	-	-	-
Financing agreements: loans and capital contributions (borrower) (4)	1,907,925	1,080,140	302,472	10,536
Finance leases (lessee)	-	-	-	-
Deposit and guarantees deposits given	-	-	-	-
Deposits and guarantees deposits received	120,586	-	-	60,000
Dividends and others distributed profit	80,589	66,300	18,994	6,504
Other operations (5)	1,324,990	-	-	10,990

- (1) The transactions with the "la Caixa" Group relate to the services for the leasing of vehicles and their maintenance, recorded as operating leases in line with the nature of the lease agreements. The transactions with the Repsol YPF Group relate to the expenses incurred for vessel leases.
- (2) Includes contributions to pension plans, life insurance and collective insurance policies and other expenses. In June 2009 the Pension Plan Control Committee agreed to replace the Pension Fund management and depository company by VidaCaixa, S.A.
- (3) Includes treasury and financial investments.
- (4) At 30 June 2010 the credit facilities with the "la Caixa" Group totalled Euros 236,597 thousand (Euros 198,301 thousand at 30 June 2009) of which Euros 38,197 thousand had been drawn down (Euros 73,775 thousand at 30 June 2009). Additionally, the "la Caixa" Group hold participations in syndicated loans of Euros 300,000 thousand and other loans totalling Euros 252,847 thousand. At 30 June 2010 the credit facilities with Caixa d'Estalvis de Catalunya totalled Euros 50,000 thousand, of which no amount has been drawn down from other loans totalling Euros 51,034 thousand.

With respect to the capital increase in cash made in April 2009 by Gas Natural SDG, S.A., the "la Caixa" Group paid Euros 1,312,924 thousand for its proportional share of the company's capital.

- (5) At 30 June 2009 Other transactions with the "la Caixa" Group include Euros 894,375 thousand for Exchange rate hedges and Euros 666,199 thousand for interest rate hedges (Euros 658,791 thousand at 30 June 2009), while Other transactions with Caixa d'Estalvis de Catalunya include Euros 10 thousand in interest rate hedges (Euros 10,990 thousand at 30 June 2009).

## Note 18. Disclosures regarding members of the Board of Directors and the Management Committee

### Remuneration of the members of the Board of Directors

The breakdown of the remuneration received by the members of the Board of Directors in Thousand Euros is as follows:

Remunerated item	For the six-month period ended 30 June	
	2010	2009
Fixed remuneration	506	423
Variable remuneration	1,423	1,113
Per diems	2,245	2,683
Other	1	1
<b>Total</b>	<b>4,175</b>	<b>4,220</b>
<b>Other benefits</b>		
Pension funds and plans: Contributions	136	303
Life insurance premiums	-	12
<b>Total other benefits</b>	<b>136</b>	<b>315</b>

"Per diems" includes the amount received by the Board of Directors of Gas Natural SDG, S.A. and its various committees, as well as amounts paid to the Boards of Directors of other investee companies totalling Euros 17 thousand at 30 June 2010 (Euros 455 thousand at 30 June 2009).

### Remuneration of the Management Committee

The breakdown of the remuneration received by the members of the Management Committee, excluding the Chief Executive Officer, which is included in Remuneration of members of the Board of Directors in Thousand Euros is as follows:

Remunerated item	For the six-month period ended 30 June	
	2010	2009
Fixed remuneration	2,114	1,610
Variable remuneration	3,441	2,518
Other	28	21
<b>Total</b>	<b>5,583</b>	<b>4,149</b>
<b>Other benefits</b>		
Pension funds and plans: Contributions	813	729
Life insurance premiums	-	23
<b>Total other benefits</b>	<b>813</b>	<b>752</b>

During the period until June 2010 there were 12 persons on the Management Committee (10 during the same period in 2009).

### Transactions with Directors and senior managers

The Directors and senior managers have not during the first half of 2010 and 2009 undertaken any operations that do not form part of the normal business and that have not been carried out under normal market conditions with company or Group companies.

## Note 19. Other information

### Litigation and arbitration

At the date of preparation of these interim financial statements the main litigation and arbitration to which GAS NATURAL FENOSA is a party are as follows:

#### *Gas supply contract with Sonatrach*

After an exchange of correspondence with Sonatrach on certain differences in the interpretation of certain supply contract clauses, Sonatrach filed an arbitration suit in order to modify the contract and, especially, its



pricing formula, soliciting a price increase. GAS NATURAL FENOSA opposed the suit and filed a counter-suit in order to instigate a price decrease. The proceedings are now awaiting the handing down of a decision.

#### *Gas supply contract with Iberdrola*

GAS NATURAL FENOSA filed a request to bring arbitration on discrepancies in the gas supply contract with Iberdrola, after which Iberdrola announces that it would file a counter-suit. The decision has been handed down and Iberdrola has asked the Provincial Court of Madrid to void it.

#### *Tax claims in Spain*

As a result of different tax audits the Tax Authorities questioned the lawfulness of the export deductions, leading to assessments signed in disagreement. The total accumulated amount at 30 June 2010 of these assessments totals Euros 316 million, and are currently being appealed before the Central Tax and Treasury Court, the National High Court and the Supreme Court.

#### *Tax claims in Argentina*

The Argentine tax authorities have made various tax claims totalling Argentine Pesos 241 million, including interest, (Euros 50 million), in relation to the tax treatment of capital gains 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 challenged and a final positive outcome of these challenges is expected. Thus the National Appeals Court in 2007 handed down a decision for the 1993-1997 period voiding the Final Ruling under which the Federal Inland Revenue Administration (AFIP) claimed the allegedly due tax, and also confirmed the voiding of the fines. The decision of the Court has been appealed before the Supreme Court.

#### *Tax claims in Brazil*

In September 2005 the Tax Authorities of Rio de Janeiro voided the recognition that it had previously accepted for the offsetting in April 2003 of the loans for the contributions of sales of PIS and COFINS paid by the company Companhia Distribuidora de Gas do Rio de Janeiro – CEG. The administrative court confirmed this ruling in March 2007, and, accordingly, the company filed a contentious-administrative appeal (with the Federal Court of Rio de Janeiro), which is now underway. Afterwards, on 26 January 2009, a public civil suit against CEG was filed for the same reasons. GAS NATURAL FENOSA believes, along with the legal advisors of the company, that these allegations are unfounded, and, accordingly, the loss of these legal actions is not likely. The net amount of this tax payable being questioned, at 30 June 2010, totals Brazilian Reales 324 million (Euros 147 million).

#### *Unfair competition disciplinary proceedings*

The Anti-Trust Authorities have opened disciplinary proceedings for possible acts of unfair competition. On the other hand, the appeal filed by ENI against the Anti-Trust Commission's permitting the concentration of Gas Natural and Unión Fenosa is still being underway.

GAS NATURAL FENOSA believes that the provisions recorded in these Interim Consolidated Financial Statements sufficiently cover the risks described, and, accordingly, no liabilities in addition to those recorded are expected to arise.

## **Other matters**

In accordance with the commitments proposed and accepted by the *Comisión Nacional de Competencia* (CNC), as a consequence of the acquisition of UNION FENOSA, GAS NATURAL FENOSA must sell 2,000 MW of electricity generated by combined cycle plants. On 12 July 2010 a sale agreement was reached with the Alpiq Group (Note 7) as part of the framework of compliance with these commitments.

At 30 June 2010 actions are being carried out relating to the process of identification of the other assets and divestments as part of the plan adopted by the CNC and the necessary preliminary steps are being taken so that the assets divested can operate independently.

## **Note 20. Subsequent events**

At the date of preparation of these condensed consolidated interim financial statements, no significant additional events that the Company believes could significantly affect them have occurred subsequent to the closing.

## APPENDIX I: VARIATIONS IN THE CONSOLIDATION SCOPE

The main variations in the consolidation scope in the first half of 2010 have been as follows:

Name of the company	Type of transaction	Effective date of the transaction	% of voting rights acquired / disposed of	% of voting rights after the transaction	Consolidation method after the transaction
Gas Natural Servicios Integrales, S.A.S	Incorporation	10 March	100%	100%	Full consolidation
Electrificadora del Caribe, S.A. E.S.P	Acquisition	31 March	4.1%	85.4%	Full consolidation
Madrileña Red de Gas, S.A.	Sale	30 April	100%	-	-
Madrileña Suministro de Gas SUR 2010, S.L.	Sale	30 April	100%	-	-
Madrileña Suministro Gas 2010, S.L.	Sale	30 April	100%	-	-
Madrileña Servicios Comunes, S.L.	Sale	30 April	100%	-	-
Central Anahuac, S.A. de C.V.	Sale	25 May	100%	-	-
Central Lomas del Real, S.A. de C.V.	Sale	25 May	100%	-	-
Central Vallehermoso S.A. de C.V.	Sale	25 May	100%	-	-
Central Saltillo, S.A. de C.V.	Sale	25 May	100%	-	-
Electricidad Águila Altamira, S.A. de C.V.	Sale	25 May	100%	-	-
Gasoducto del Río, S.A. de C.V.	Sale	25 May	100%	-	-
Compañía Mexicana de Gerencia y Operación, S.A. de C.V.	Sale	25 May	100%	-	-

The main variations in the consolidation scope in the first half of 2009 have been as follows:

Name of the company	Type of transaction	Effective date of the transaction	% of voting rights acquired / disposed of	% of voting rights after the transaction	Consolidation method after the transaction
A.E.Hospital Universitario Trias Pujol	Liquidation	1 January	50%	-	-
Gas Natural S.U.R. SDG, S.A.	Incorporation	6 April	100%	100%	Full consolidation
GEM Distribución Gas 1, S.A.	Incorporation	28 April	100%	100%	Full consolidation
Eólicos Singulares 2005, S.A.	Acquisition	30 April	49%	49%	Proportional consolidation
UNIÓN FENOSA	Acquisition	30 April	80.5%	95.2%	Full consolidation
Punta de Lens Eólica Marina, S.L.	Acquisition	1 May	50%	50%	Proportional consolidation
Punta de las Olas Eólica Marina, S.L.	Acquisition	1 May	50%	50%	Proportional consolidation
Andaluza de Energía Solar Primera, S.L.	Acquisition	1 May	30.4%	30.4%	Proportional consolidation
Andaluza de Energía Solar Tercera, S.L.	Acquisition	1 May	30.0%	30.0%	Proportional consolidation
Andaluza de Energía Solar Cuarta, S.L.	Acquisition	1 May	30.4%	30.4%	Proportional consolidation
Andaluza de Energía Solar Quinta, S.L.	Acquisition	1 May	30.0%	30.0%	Proportional consolidation
Energías Especiales de Andalucía, S.L.	Sale	1 May	10%	40%	Proportional consolidation
GN Wind 6, S.L.	Sale	25 May	40%	60%	Full consolidation
Distribuidora de Electricidad del Norte, S.A.	Acquisition	1 June	2.5%	87.7%	Full consolidation
Distribuidora de Electricidad del Sur, S.A.	Acquisition	1 June	2.7%	89%	Full consolidation
Cedifil Cored Wired, S.L.	Incorporation	1 June	98.5%	98.5%	Full consolidation
Unión Fenosa Centro de Tesorería, S.L.	Liquidation	25 June	100%	-	-

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**GAS NATURAL FENOSA**



**Consolidated Director's Report at June 30, 2010**

## **1. Evolution of the business**

### **Analysis of the six-month period ended June 30, 2010.**

Consolidated net income for the period attributable to Equity holders of the Company in the first half of 2010 increased 37.1% with respect to the same period last year to €853 million, driven by the recovery in demand for energy in Spain and, in particular, to earnings on the disposal of gas distribution assets in the Madrid region.

Consolidated EBITDA amounted to €2,381 million, an increase of 48.1% with respect to last year, mainly as a result of the fact that Unión Fenosa was not fully consolidated until 30 April 2009.

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.

GAS NATURAL FENOSA's robust business model and earnings, together with the expeditious divestment of assets which are either non-strategic or whose sale was agreed with Spain's National Competition Commission (CNC), are enabling the company to gradually normalise its leverage (currently 60.0%). The above, together with refinancing of the facility for the Unión Fenosa acquisition, provides GAS NATURAL FENOSA with a financial structure that is flexible, diversified and efficient.

On 14 April 2010, GAS NATURAL FENOSA sold its 5% stake in Indra Systems by means of a private placement.

The Shareholders' Meeting on 20 April 2010 approved a total dividend of €730 million out of 2009 earnings, representing a 61.1% pay-out.

In accordance with GAS NATURAL FENOSA's commitments with the CNC, on 30 April 2010 the company divested certain gas distribution assets in the Madrid region.

On 2 June 2010, GAS NATURAL FENOSA completed repayment of the loan it obtained for the Unión Fenosa acquisition.

On 11 June 2010, GAS NATURAL FENOSA obtained a 3-year €450 million loan from the European Investment bank (EIB) to finance its plan to invest in the electricity transmission and distribution grid in Spain.

On 12 July, the company signed an agreement to sell its Plana del Vent CCGT plant. This agreement is the first step in the company's efforts to divest CCGT generating capacity under the commitment made to the CNC; GAS NATURAL FENOSA is moving forward with its plans in this regard.

## Main financial aggregates

	2010	2009	%
Net sales	9,431	6,425	46.8
EBITDA	2,381	1,608	48.1
Operating profit	1,836	1,060	73.2
Consolidated net income for the period attributable to Equity holders of the Company	853	622	37.1
Investments	875	14,031	-
Net financial debt(a 30/06)	19,751	22,063	(10.5)

## Main physical aggregates

Gas and electricity distribution:			
	2010	2009	%
Gas distribution (GWh):	204,655	207,147	(1.2)
Europe:	112,368	120,147	(6.5)
Tariff gas sales	1,777	1,338	32.8
TPA	110,591	118,809	(6.9)
Latin America	92,287	87,000	6.1
Tariff gas sales	55,256	53,448	3.4
TPA	37,031	33,552	10.4
Electricity distribution (GWh):	27,228	8,801	235.6
Europe:	18,257	5,218	249.9
Tariff electricity sales	1,164	2,256	(48.4)
TPA	17,093	2,962	477.1
Latin America:	8,971	3,583	150.4
Tariff electricity sales	8,449	2,937	187.7
TPA	522	646	(19.2)
Gas distribution connections ('000) (at 30/06):	11,153	11,630	(4.1)
Europe	5,651	6,301	(10.3)
Latin America	5,502	5,329	3.7
Electricity distribution connections ('000) (at 30/06):	9,277	9,336	4.7
Europe	4,504	4,333	3.9
Latin America	4,773	5,003	(4.6)
ICEIT (minutes)	35	9	288.9

## Energy businesses:

	2010	2009	%
Electricity generated (GWh):	29,034	19,328	50.2
Spain:	18,335	9,876	85.7
Hydroelectric	3,107	371	737.5
Nuclear	1,999	698	186.4
Coal	24	376	(93.6)
Oil – gas	36	4	800.0
CCGT	11,840	7,697	53.8
Renewables	1,329	730	82.1
International:	10,699	9,452	13.2
Hydraulic	165	63	161.9
Combined cycle	9,711	9,148	6.2
Fuel	823	241	241.5
Installed capacity (MW):	15,598	17,664	(11.7)
Spain:	13,380	13,270	0.8
Hydroelectric	1,860	1,860	-
Nuclear	589	589	-
Coal	2,048	2,048	-
Oil – gas	617	617	-
CCGT	7,317	7,310	0.1
Renewables	949	846	12.2
International:	2,218	4,377	(49.3)
Hydraulic	84	84	-
Combined cycle	1,824	4,037	(54.8)
Fuel	310	256	21.1
Gas supply (GWh):	150,602	124,078	21.4
Spain	124,249	98,265	26.4
International	26,353	25,813	2.1
UF Gas <sup>(1)</sup> :			
Gas supply in Spain (GWh)	27,682	8,933	209.9
International supply (GWh)	13,390	1,927	594.9
Gas transportation – EMPL (GWh)	60,508	50,692	19.4

(1) Including 100% of company figures.



## **Analysis of consolidated results**

The acquisition of UNION FENOSA and its full consolidation since 30 April 2009 led to significant changes in the comparison between this half-year and the same period last year, and complicates an analysis of the performance of GAS NATURAL FENOSA's businesses.

## **Net sales**

	For the six-month period ended June 30				
	2010	%s/total	2009	%s/total	% 2010/2009
		al			
Gas distribution	1,898	20.1	1,760	27.4	7.8
<i>Spain</i>	644	6.8	686	10.7	(6.1)
<i>Latin America</i>	1,155	12.2	956	14.9	20.8
<i>Rest</i>	99	1.0	118	1.8	(16.1)
Electricity distribution	1,611	17.1	456	7.1	253.3
<i>Spain</i>	410	4.3	137	2.1	199.3
<i>Latin America</i>	1,108	11.7	293	4.6	278.2
<i>Rest</i>	93	1.0	26	0.4	257.7
Electricity	3,254	34.5	1,226	19.1	165.4
<i>Spain</i>	2,691	28.5	833	13.0	223.0
<i>Latin America</i>	517	5.5	388	6.0	33.2
<i>Rest</i>	46	0.5	5	0.1	820.0
Gas	4,299	45.6	3,926	61.1	9.5
<i>Infrastructures</i>	127	1.3	144	2.2	(11.8)
<i>Supply and commercialisation</i>	3,797	40.3	3,699	57.6	2.6
<i>UF Gas</i>	375	4.0	83	1.3	351.8
Others	267	2.8	152	2.4	75.7
Consolidation adjustments	(1,898)	(20.1)	(1,095)	(17.0)	73.3
<b>Total</b>	<b>9,431</b>	<b>100.0</b>	<b>6,425</b>	<b>100.0</b>	<b>46.8</b>

Net sales totalled €9,431 million in the first quarter of 2010, a 46.8% increase over the same period of 2009 due basically to the integration of UNION FENOSA.

## **EBITDA <sup>(1)</sup>**

	For the six-month period ended June 30				
	2010	%s/total	2009	%s/total	% 2010/2009
Gas distribution	775	32.5	722	44.9	7.3
<i>Spain</i>	456	19.2	458	28.5	(0.4)
<i>Latin America</i>	286	12.0	234	14.6	22.2
<i>Rest</i>	33	1.4	30	1.9	10.0
Electricity distribution	493	20.7	156	9.7	216.0
<i>Spain</i>	288	12.1	96	6.0	200.0
<i>Latin America</i>	191	8.0	55	3.4	247.3
<i>Rest</i>	14	0.6	5	0.3	180.0
Electricity	695	29.2	353	22.0	96.9
<i>Spain</i>	558	23.4	249	15.5	124.1
<i>Latin America</i>	128	5.4	104	6.5	23.1
<i>Rest</i>	9	0.4	-	-	-
Gas	388	16.3	351	21.8	10.5
<i>Infrastructures</i>	94	3.9	94	5.8	-
<i>Supply and commercialisation</i>	179	7.5	232	14.4	(22.8)
<i>UF Gas</i>	115	4.8	25	1.6	360.0
Others	30	1.3	26	1.6	15.4
<b>Total</b>	<b>2,381</b>	<b>100.0</b>	<b>1,608</b>	<b>100.0</b>	<b>48.1</b>

(1) EBITDA = Operating income + Depreciation and amortization + Operating provisions

EBITDA amounted to €2,381 million in 2010, a 48.1% increase over the same period last year, mainly as a result of integrating UNION FENOSA.

Distribution of gas and electricity in Spain and other countries accounts for 53.2% of GAS NATURAL FENOSA's EBITDA.

The electricity business in Spain is the main contributor to EBITDA (23.4%).

The Other income item reflects capital gains net of divestments in the period, essentially reflecting the sale of gas distribution connections in the Madrid region.

## **Operating profit**

	For the six-month period ended June 30				
	%s/total	%s/total	%s/total	%s/total	%s/total
Gas distribution	558	30.4	506	47.7	10.3
<i>Spain</i>	313	17.0	303	28.6	3.3
<i>Latin America</i>	226	12.3	185	17.5	22.2
<i>Rest</i>	19	1.0	18	1.7	5.6
Electricity distribution	281	15.3	97	9.2	189.7
<i>Spain</i>	179	9.7	62	5.8	188.7
<i>Latin America</i>	90	4.9	31	2.9	190.3
<i>Rest</i>	12	0.7	4	0.4	200.0
Electricity	370	20.2	192	18.1	92.7
<i>Spain</i>	299	16.3	139	13.1	115.1
<i>Latin America</i>	65	3.5	53	5.0	22.6
<i>Rest</i>	6	0.3	-	-	-

Gas	288	15.7	285	26.9	1.1
<i>Infrastructures</i>	69	3.8	66	6.2	4.5
<i>Supply and commercialisation</i>	160	8.7	211	19.9	(24.2)
<i>UF Gas</i>	59	3.2	8	0.8	637.5
Others	339	18.5	(20)	(1.9)	-
<b>Total</b>	<b>1,836</b>	<b>100.0</b>	<b>1,060</b>	<b>100.0</b>	<b>73.2</b>

Depreciation charges increased by 59.9% while provisions rose from €37 million to €86 million, with the result that operating income amounted to €1,836 million, a 73.2% increase year-on-year.

### **Financial results**

The period ended 30 June 2010 includes €103 million corresponding to the recognition in the consolidated income statement of the fees on the loan for the UNION FENOSA acquisition, which were pending recognition in the income statement, due to the cancellation of that debt. This item totalled €19 million in the same period of 2009.

Income from financial asset disposals in the current year correspond to the sale of 5% of Indra Sistemas, whereas in the first half of 2009 that item corresponded to the sale of the company's 5% stake in Enagás.

The net cost of interest-bearing debt in 2010 was €478 million, significantly higher than the previous year. The increase was due basically to the increase in average gross debt as a result of the debt taken on for the acquisition of UNION FENOSA and of consolidating that company and its subsidiaries.

### **Results of entities accounted for using the equity method**

Income from holdings in associates amounted to €4 million in first half of 2010, compared with €55 million in first half of 2009. This item includes the €47 million contribution from UNION 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 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 income tax expense is recognised based on the effective tax rate envisaged for the year as a whole.

The effective tax rate in the first half of 2010 was 25.7%. 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 the application of different tax systems to companies operating outside Spain.

The effective tax rate for the first half of 2009 was 23.4%, due to tax credits on the reinvestment of extraordinary gains on the sale of the 5% stake in Enagás, S.A., 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 Chiriqui and Electricidad Metro Oeste (Panama) and Kangra Coal (South Africa).

Net income attributed to minority interest in 2010 amounted to €97 million, €19 million more than in the same period the previous year.

### **Investments**

The breakdown of investments by type is as follows:

	2010	2009	%
Investments in property, plant and equipment	529	539	(1.9)
Investments in intangible assets	59	56	5.4
Financial investments	287	13,436	-
<b>Total investments</b>	<b>875</b>	<b>14,031</b>	<b>-</b>

Financial investments in the first six months of 2009 amounted to €13,436 million, due basically to the acquisition of 80.5% of Unión Fenosa.

Capital expenditure (intangible assets and property, plant and equipment) amounted to €588 million, 1.2% less than in the same period of 2009, due primarily to less investment in gas distribution and completion of CCGT construction.

The breakdown of investments by type is as follows:

For the six-month period ended June 30

	2010	2009	%
			7

Gas distribution:	127	210	(39.5)
<i>Spain</i>	82	152	(46.1)
<i>Latin America</i>	29	39	(25.6)
<i>Rest</i>	16	19	(15.8)
Electricity distribution	140	70	100.0
<i>Spain</i>	84	50	68.0
<i>Latin America</i>	50	16	212.5
<i>Rest</i>	6	4	50.0
Electricidad:	265	275	(3.6)
<i>Spain</i>	179	241	(25.7)
<i>Latin America</i>	85	32	165.6
<i>Rest</i>	1	2	(50.0)
Gas	19	25	(24.0)
<i>Infrastructures</i>	-	15	(100.0)
<i>Supply and commercialisation</i>	6	6	-
<i>UF Gas</i>	13	4	225.0
Others	37	15	146.7
<b>Total capital expenditure</b>	<b>588</b>	<b>595</b>	<b>(1.2)</b>

GAS NATURAL FENOSA allocated 30.4% of capital expenditure to the electricity business in Spain and 16.7% to gas distribution in Europe. The main items of construction in progress are the Malaga CCGT plant (nearing completion), and the development of the Barcelona Port CCGT and a number of wind farms.

A total of 13.9% 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 slowdown in new building.

### **Analysis of results by activity**

The acquisition of UNION FENOSA and the full consolidation of its results as from 30 April 2009 has given rise to significant variations compared to last year.

### **Gas distribution in Spain**

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

### **Results**

	2010	2009	%
Net sales	644	686	(6.1)
Purchases	(10)	(26)	(61.5)
Personnel costs, net	(32)	(34)	(5.9)
Other expenses/income	(146)	(168)	(13.1)
<b>EBITDA</b>	<b>456</b>	<b>458</b>	<b>(0.4)</b>
Charge for depreciation and amortisation	(143)	(158)	(9.5)
Variation in operating provisions	-	3	(100.0)
<b>Operating income</b>	<b>313</b>	<b>303</b>	<b>3.3</b>

Net sales in the gas distribution business in Spain totalled €644 million, in line with the same period last year. This is due to the sale of assets in Cantabria, Murcia, Asturias, the Basque Country, and the Region of Madrid which total at 30 June 2009 Euros 36 million. Discounting this effect, the netturnover from the gas business is in line with the same period last year.

EBITDA is Euros 456 million, Euros 2 million below last year, due also to the sale of the assets mentioned above, having an impact on EBITDA of Euros 22 million. Discounting this effect, EBITDA would be Euros 20 million above last year, thanks to the increase in remuneration and the application of cost saving efficiencies.

### **Main aggregates**

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

	2010	2009	%
Gas TPA sales (GWh):	110,238	117,923	(6.5)
Distribution network (km)	43,285	49,831	(13.1)
Change in connections points ('000)	43	54	(20.4)
Connections points (000) (at 30/06)			
Gas TPA sales (GWh):	5,233	5,896	(11.2)

Sales in the regulated gas business in Spain, which includes TPA (third-party access) services and secondary transportation, totalled 110,238 GWh, a decrease of 6.5%. This decrease is related to the sale of assets in Cantabria, Murcia, Asturias, the Basque Country and the Region of Madrid, which, once discounted, represents an increase in residential and industrial market consumption due to a favourable climate in the first half of 2010.

GAS NATURAL FENOSA continues to expand its distribution network, having added 900 km. in the last twelve months and connected another 23 municipalities in 2010. A total of 88,000 distribution connections were added in the last 12 months, and 43,000 in the first six months of the year, 9.1% lower than during the same period last year due to the lower volume of new housing construction and the impact of the recession. Both effects do not take into account the divestments mentioned above.

At 30 June 2010, the gas distribution grid measured 43,285 km, a decrease of 13.1%, and there were a total of 5,233,000 distribution connections, 11.2% lower.

GAS NATURAL FENOSA has complied with the commitments to divest gas distribution assets under the plan of action approved by the 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, S.A.) and Murcia (Gas Natural Murcia SDG, S.A.), which represent 2,611 km of low-pressure distribution network and 256,000 distribution connections, and 3,500 GWh of gas per year; 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 UNION FENOSA acquisition.

On 30 April 2010, GAS NATURAL FENOSA completed the sale of low-pressure gas distribution assets in 38 municipalities in the Madrid region, specifically 507,726 distribution points and 3,491 km of low-pressure distribution networks.

On 31 December 2009, Spain's Ministry of Industry issued Order ITC/3520/2009, which established the tolls and fees for third-party access to gas installations in 2010 and updated certain aspects of the remuneration for regulated gas activities. The order maintained the system for calculating the distribution remuneration as amended the previous year, updating the remuneration for 2010 in accordance with the actual IPH index for 2008.

The initial remuneration recognised for GAS NATURAL FENOSA in 2010 is €1,157 million (not including the €40 million corresponding to Gas Natural Murcia SDG and Gas Natural Cantabria). Moreover, Industry Ministry Order of 11 May 2010 establishes annual gas distribution remuneration for Madrileña Red de Gas at €93 million.

The remuneration for secondary transportation in 2010 amounts to €33 million.

### **Gas distribution in Latin America**

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

	2010	2009	%
Net sales	1,155	956	20.8
Purchases	(734)	(614)	19.5
Personnel costs, net	(39)	(34)	14.7
Other expenses/income	(96)	(74)	29.7
<b>EBITDA</b>	<b>286</b>	<b>234</b>	<b>22.2</b>
	(55)	(44)	25.0
Charge for depreciation and amortisation	(5)	(5)	-
Variation in operating provisions			
<b>Operating income</b>	<b>226</b>	<b>185</b>	<b>22.2</b>

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

Net sales amounted to €1,155 million, a 20.8% increase due to higher sales and to currency fluctuations.

EBITDA amounted to €286 million, 22.2% more than in the same period last year, boosted by appreciation of local currencies by 20% on average.

Brazil and Colombia's contributions were particularly noteworthy: together they accounted for 76.6% of EBITDA.



## Main aggregates

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

	2010	2009	%
Gas activity sales (GWh):	92,287	87,000	6.1
Tariff gas sales	55,256	53,448	3.4
TPA	37,031	33,552	10.4
Distribution network (km)	62,636	61,675	1.6
Change in connections points ('000)	80	77	3.9
Connections points (000) (at 30/06)	5,502	5,329	3.2

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

	Argentina	Brazil	Colombia	México	Total
Gas activity sales (GWh)	35,840	25,061	7,788	23,598	92,287
Change vs. first half 2009 (%)	3.3	5.5	(0.7)	14.0	6.1
Distribution network	22,855	5,954	17,540	16,287	62,636
Change vs. 30/06/2009 (km)	288	53	353	267	961
Connections points ('000 at 30/06)	1,439	805	2,080	1,178	5,502
Change vs. 30/06/2009 ('000)	29	12	101	31	173

There were a total of 5,502 thousand gas distribution points in 2010. High year-on-year growth rates were maintained, and the number of distribution connections increased by 172,616; notably, Colombia added 100,570 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 (third-party access) services, totalled 92,287 GWh, a 6.1% increase with respect to the previous year, basically in the industrial sector and in supply to power plants, which is a sign of economic recovery.

The distribution grid expanded by 961 km (+1.6%) in the last 12 months, to 62,636 km at the end of June 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 refitted in Colombia to burn LNG increased by 5.0%, from 114,694 in June 2009 to 120,480 in June 2010.
- 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% for the distribution companies in Monterrey, Nuevo Laredo, Saltillo and Toluca; the operating losses recovered in the distribution tariff amount to an additional 4%.

### **Gas distribution rest (Italy)**

The business in Italy includes regulated-rate gas sales.

### **Results**

	2010	2009	%
Net sales	99	118	(16.1)
Purchases	(48)	(69)	(30.4)
Personnel costs, net	(7)	(8)	(12.5)
Other expenses/income	(11)	(11)	-
<b>EBITDA</b>	<b>33</b>	<b>30</b>	<b>10.0</b>
Charge for depreciation and amortisation	(12)	(12)	-
Variation in operating provisions	(2)	-	-
<b>Operating income</b>	<b>19</b>	<b>18</b>	<b>5.6</b>

Gas distribution in Italy contributed €33 million in EBITDA, i.e. 10.0% more than last year.

## Main aggregates

GAS NATURAL FENOSA has 418,000 gas distribution points in Italy, a 3.2% increase with respect to 30 June 2009.

	2010	2009	%
Gas activity sales (GWh):	2,130	2,224	(4.2)
Tariff gas sales	1,777	1,932	(8.0)
TPA	353	292	20.9
Distribution network (km)	5,674	5,590	1.5
Connections points (000) (at 30/06)	418	405	3.2

A total of 2,130 GWh of gas were distributed, i.e. 4.2% less than in first half of 2009, mainly as a result of different weather conditions.

The gas distribution network expanded 84 km to 5,674 km at 30 June 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 on that date in Spain.

## Results

	2010	2009	%
Net sales	410	137	199.3
Purchases	(1)	-	-
Personnel costs, net	(56)	(19)	194.7
Other expenses/income	(65)	(22)	195.5
<b>EBITDA</b>	<b>288</b>	<b>96</b>	<b>200.0</b>
	(105)	(32)	228.1
Charge for depreciation and amortisation	(4)	(2)	100.0
Variation in operating provisions			
<b>Operating income</b>	<b>179</b>	<b>62</b>	<b>188.7</b>

Ministerial Order ITC/3519/2009, of 28 December 2009, set out the remuneration for transportation, distribution and supply in the regulated electricity business in Spain. The figures set by the Order are provisional, pending updating and inclusion of information on the reference network model and, in broader terms, the associated regulatory scheme.

Comparison of net sales with last year is distorted by the elimination of the bundled tariff in July 2009, and by the end of energy purchasing at that tariff in the electricity distribution segment in Spain.

The net increase in personnel expenses is attributable to lower capitalisation of these expenses as part of capital investment, since the latter declined this year with respect to last year. But for that, recurrent personnel expenses in Spain would have declined by almost 8%.

The Other expenses/revenues item underlines the ongoing improvement in operating efficiency (in 2009 the company had already noted a significant upturn).

The foregoing (in particular with regard to expenses) enabled EBITDA to exceed last year's figure even though the revenues recognised in the Spanish electricity business are provisional.

### **Main aggregates**

	2010	2009	%
Electric activity sales (GWh):	17,099	4,871	251.0
Tariff electricity sales	6	1,909	(99.7)
TPA	17,093	2,962	477.1
Connections points (000) (at 30/06)	3,693	3,533	4.5
ICEIT (minutes)	35	9	288.9

Energy demand in the markets related to the distribution network have increased by 251%, which, in homogenous terms for the same period for 2009, represents an increase of 4.1%, in line with domestic demand.

The number of distribution points increased slightly due to natural growth in new requests for services in the GAS NATURAL FENOSA electricity distribution territory.

The ICEIT indicator (installed capacity equivalent interrupt time) for the first half of 2010 reflected the impact of storm Xyntia, which was not classified as force majeure. Nevertheless, the ICEIT was just 35 minutes in the half-year, just 6 minutes more than in 2009, when there were no adverse weather events (excluding the effects of

the Klaus cyclone). This evidences the good status of GAS NATURAL FENOSA's facilities as a result of the ongoing investments and preventive maintenance.

### **Electricity distribution in Latin America**

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

### **Results**

	2010	2009	%
Net sales	1,108	293	278.2
Purchases	(809)	(200)	304.5
Personnel costs, net	(27)	(8)	237.5
Other expenses/income	(81)	(30)	170.0
<b>EBITDA</b>	<b>191</b>	<b>55</b>	<b>247.3</b>
Charge for depreciation and amortisation	(47)	(12)	291.7
Variation in operating provisions	(54)	(12)	350.0
<b>Operating income</b>	<b>90</b>	<b>31</b>	<b>190.3</b>

EBITDA from electricity distribution business in Latin America has grown by 247.3% against the same period last year, which in homogeneous terms would be 24.8%, of special note being the increase in sales and the appreciation of the Colombian Peso.

The Colombian distribution business contributed €115 million. This increase was due to the unusual length of the El Niño phenomenon and to economic recovery in Colombia, where industrial activity has started to pick up again.

EBITDA of the distribution companies in Central America amounted to €76 million, due to the increase in demand throughout the region (8.2%), offsetting higher fuel prices (up 25% on average) and the increase in the cost of unrecognised losses.

The increase in provisions is due primarily to the increase in revenues from electricity distribution in Colombia and the addition of the UNIÓN FENOSA companies.

### **Main aggregates**

	2010	2009	%
Electric activity sales (GWh):	8,971	2,895	209.9
Tariff electricity sales	8,449	2,700	212.9
TPA	522	195	167.7

Connections points (000) (at 30/06)	4,773	4,528	5.4
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The sales of electricity have totalled 8,971 GWh, an increase of 150.4%, while customer numbers have increased by 5.4%, of special note being the major increase in Colombia due to the updating of the census of slum-dwellers and, in Nicaragua, due to the greater effectiveness of sales campaigns.

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

	Colombia	Guatemala	Nicaragua	Panamá	Total
Electric activity sales (GWh)	5,027	955	1,209	1,780	8,971
Change vs. 1S09 (%)	211.8	212.1	201.5	209.0	209.9
Connections points ('000)	2,148	1,396	765	464	4,773
Change vs. 1S09 ('000)	124	42	61	18	245
Network loss ratio (%)	18.7	17.5	22.1	10.0	

Energy demand in Central America increased by 8.2%, including a notable 10% increase in distribution in Panama due to the higher temperatures and customers' perception of lower tariffs.

The basic operating indicators in the business, associated with energy management, the power loss index, and the debt collection index remained stable with respect to the previous year, given the delay in commencement of the plans, whose improvement will be visible in the third quarter of 2010.

### **Electricity distribution in Moldova**

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

### **Results**

	2010	2009	%
Net sales	93	26	257.7
Purchases	(70)	(18)	288.9
Personnel costs, net	(3)	(1)	200.0
Other expenses/income	(6)	(2)	200.0
<b>EBITDA</b>	<b>14</b>	<b>5</b>	<b>180.0</b>
Charge for depreciation and amortisation	(2)	(1)	100.0
Variation in operating provisions	-	-	-

Operating income	12	4	200.0
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The current regulatory scheme in Moldova will remain in force until the next tariff period, and will only experience adjustments in the cost of energy, exchange rates and other tariff-related parameters.

The improvement in the energy spark spread and costs sustained (due to the ongoing improvements in productivity) led to a 16.7% improvement in EBITDA compared with last year.

### Main aggregates

	2010	2009	%
Electric activity sales (GWh):	1,158	347	233.7
Tariff electricity sales	1,158	347	233.7
TPA	-	-	-
Connections points (000) (at 30/06)	811	800	1.4

Both demand for energy and the customer base in Moldova increased with respect to 2009, and outlooks suggest that the trend will continue in the second half of 2010. Energy demand in 2009 exceeded the 2008 figures, despite the global economic crisis.

The improvement in operating processes for energy control and investments and operations and maintenance being carried out in Moldavia are leading to an improvement in stopping energy leaks in the distributions networks, which has contributed to an increase in margins on the purchase and sale of energy.

The performance of both the energy leakage and quality indicators, both of which are more positive than last year in spite of adverse climate conditions during the year, throw into relief the fact that the management improvement projects were a success.

### Electricity in Spain

The electricity business in Spain includes the electricity production through combined cycle, nuclear, hydro, cogeneration 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 last resort supply as from 1 July 2009).

### Results

	2010	2009	%
Net sales	2,691	833	223.0
Purchases	(1,872)	(449)	316.9
Personnel costs, net	(61)	(25)	144.0
Other expenses/income	(200)	(110)	81.8

<b>EBITDA</b>	<b>558</b>	<b>249</b>	<b>124.1</b>
Charge for depreciation and amortisation	(253)	(106)	138.7
Variation in operating provisions	(6)	(4)	50.0
<b>Operating income</b>	<b>299</b>	<b>139</b>	<b>115.1</b>

Net sales in the electricity business amounted to €2,691 million in the first half of 2010, 223% higher than last year, due mainly to the addition of UNION FENOSA in spite of the decrease in electricity prices and decreased production.

In terms of EBITDA, the results obtained during the first half of 2010 rose to Euros 558 million, 124.1% higher than last year, due to the reasons mentioned above. With a 3% drop in production against the same period last year, in homogenous terms, and a reduction in Spanish production market prices of 24%, which has not impacted results evenly, due to the effect of hedges provided by forward energy contracts and gas supply contracts with prices pegged to the pool, which in half-yearly terms, for GAS NATURAL FENOSA, provides a hedge against the risk of pool price fluctuations that is close to 100%.

Electricity demand in mainland Spain amounted to 60,932 GWh in the second quarter of 2010, 3.8% more than in the same period of 2009. Overall, demand increased by 4.3% in the first half with respect to the same period of 2009. Correcting for calendar effects and temperatures, the increase was just 3.6%. Therefore, the increase in demand that commenced in the first quarter of 2010 appears to be continuing, after the sharp decline experienced in 2009.

Peak capacity utilisation was lower than in 2009, particularly in the second half of June, when it was nearly 1,000 MW lower than in June 2009.

Net power generation in Spain increased by 4.3% in the second quarter, and by 4.8% in the first half of 2010.

The balance of international power flows was of net exports in physical terms, rising 19.2% in the first half of 2010 with respect to first half of 2009. Exports rose 4.2% y/y in the first half of 2010, to 3.5 TWh.

Generation capacity under the Special Regime has had more moderate growth, increasing by 12.2% against the same period in 2009, due to the increase in the operating capacity of wind farm (103 MW).

Generation under the Ordinary Regime has shown an increase in cumulative aggregates for the first half of the year of 85.7%. All the technologies under the Ordinary Regime have increased their production in the second quarter of 2010 against the same period last year, except for coal.

Producible hydro-electricity in the first six months of the year shows a 13% probability of being exceeded (PSS) in relation to the historical producible average, i.e., statistically speaking, a semester with as much precipitation as this one would only occur 13 out of every 100 years.

Lower pricing pressure from hydroelectric plants (output fell sharply in second quarter of 2010 due to lower precipitation) and the reduction in the contribution by special



regime plants, particularly wind farms pushed pool prices over €40/MWh for the first time this year.

The weighted average price in the electricity pool was €26.9/MWh in the first quarter and €31.1/MWh in the first half of 2010, i.e. €10/MWh (24%) less than in the first half of 2009.

As for other commodities, Brent crude rose from an average of \$76.38/bbl in first quarter 2010 to \$78.24/bbl in the second quarter of 2010 (a 2.4% increase). API 2, Europe's leading coal price indicator, increased by 11.2%, from an average of \$78.3/t in first quarter 2010 to \$81.3/t in second quarter of 2010, while the price of CO<sub>2</sub> emission rights (EUAs on Bluenext) was €15.1/t (maturing in the current year), compared with the average of €13.09/t in first quarter of 2010.

### Main aggregates

The main aggregates in GAS NATURAL FENOSA's electricity business in Spain were as follows:

	2010	2009	%
Installed capacity (MW):	13,380	13,270	0.8
	12,431	12,424	0.1
Ordinary Regime			
Hydroelectric	1,860	1,860	-
Nuclear	589	589	-
Coal	2,048	2,048	-
Oil/gas	617	617	-
CCGT	7,317	7,310	0.1
Special Regime:	949	846	12.2
Electricity generated (GWh):	18,335	9,876	85.7
Ordinary Regime	17,006	9,146	85.9
Hydroelectric	3,107	371	737.5
Nuclear	1,999	698	186.4
Coal	24	376	(93.6)
Oil/gas	36	4	800.0
CCGT	11,840	7,697	53.8
Special Regime:	1,329	730	82.1
Electricity sales (GWh):	20,395	4,255	379.3
Liberalised market	14,932	4,255	250.9
Last resort tariff	5,463	-	-

GAS NATURAL FENOSA generated 18,335 GWh of electricity in mainland Spain in the first half of 2010, i.e. 3.7% less than in the same period of 2009. Of that figure, 17,006 GWh were "ordinary regime", an increase of 85.9%, which in homogeneous terms would be a reduction of 5.4%.

Electricity generation under the Special Regime, which reached 1,329 GWh, has increased by 82.1%, which in homogeneous terms is an increase of 25.8%, as a result of the increased installed power capacity 103 MW.

Hydro-electric production this year reached 3,107 GWh, an increase of 737.5%, which, in homogeneous terms, would be a 62.5% increase, twice as much as in the same semester in 2009, as a result of the hydrological factors in the last few months. This year is classified as a wet year, with an exceedance probability of 35% (i.e. probability that this year's energy capability will be exceeded, based on the historical record of average energy capability). Reservoirs in the watersheds where GAS NATURAL FENOSA operates were at 64% capacity, 19 percentage points higher than at 30 June 2009 (45%).

Nuclear energy production as a whole for the year has increased by 186.4%, which in homogeneous terms is an increase of 11.1%, due to the effect of the programmed stoppages.

The coal-fired and oil-fired plants did not operate in the second quarter of 2010. The company's CCGT output totalled 11,840 GWh, 53.8% higher than the first semester of the preceding period, although in homogeneous terms this is a reduction of 6.4%, compared to a domestic decrease of 16.2%.

GAS NATURAL FENOSA's market share of ordinary regime power generation in the first half of 2010 was 19.7%.

Renewable energy production has been 82.1% higher than the same period in 2009 (1,329GWh vs 730GWh). This is mainly due to an increase in production as a result of the improvements in wind farm efficiency, greater capacity of cogeneration plants and better hydrological conditions at the mini-hydro-electric plants.

In spite of the reduction in the sale price of energy, due to the drop in the pool price by 24% against the same period last year, the increased sales volume and the optimisation of operating costs has led to an increase in margin.

The electricity supply area sold 9,163 GWh in the second quarter of 2010, including supply to the liberalised market and under the social (last-resort) tariff, i.e. 1.8% more than in second quarter of 2009. Sales fell by 0.24% in first half of 2010 with respect to first half of 2009.

Electricity trading transactions maturing in first half of 2010 amounted to over 1,700 GWh and the company traded over 7,700 GWh in the period.

As regards cross-border trading between Spain-France, France-Germany and Germany-Austria, the company participated in the monthly and daily interconnection capacity auctions, trading over 216 GWh in the first half of 2010 and managing power in the various markets in those countries. Additionally, participation in the auction of the price differential between Spain and Portugal enabled the group to enhance price risk management in the Portuguese market and expand and consolidate the trading business's portfolio of arbitrage products (326 GWh in volume).

The company also continued to participate in the French virtual power plants (VPP) as a another mechanism for flexible electricity purchases in France. And it has begun participating in the French grid losses tender, having managed a total of 400 GWh under the two auction formulas.

GAS NATURAL FENOSA's operations in the Portuguese, French, German and Austrian markets are a further step towards expanding its energy trading business into other European markets so as to optimise its position in electricity through a more diversified portfolio of countries and products.

As regards trading of CO<sub>2</sub> emission permits, in first half of 10 the company traded 9.5 Mt in numerous deals involving EUA rights and CER credits, both in organised markets (BLUENEXT, ECX) and with counterparties, in spot, forward and structured products.

GAS NATURAL FENOSA also manages its portfolio of CO<sub>2</sub> emission right hedges on a comprehensive basis for the 2008-2012 and post-Kyoto periods.

Through forward trading, the company actively manages its position and optimises its margins and exposure.

As for other commodities, such as gas and coal, the company arranged arbitrage trades in the second quarter to activate circuits required to be able to begin trading in those markets. This business will expand gradually in the coming months so as to gain a better understanding of the market and be able to seize opportunities, both in trading and within the scope of the group's businesses.

### **Electricity in 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 plant in Veracruz state; and the Saltillo (248 MW) power plant in Coahuila state, also in north-western Mexico.

On 24 December 2009, GAS NATURAL FENOSA reached an agreement to sell Mitsui & Co. and Tokyo Gas Co. part of its power generation business in Mexico. 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 divested 950 MW of installed capacity.

For the purposes of comparison, this section does not include electricity generation assets in Colombia in the period January-June 2009, and it includes only the January-April results in both years of the Mexican assets that were divested.

## Results

	2010	2009	%
Net sales	517	388	33.2
Purchases	(335)	(241)	39.0
Personnel costs, net	(11)	(4)	175.0
Other expenses/income	(43)	(39)	10.3
<b>EBITDA</b>	<b>128</b>	<b>104</b>	<b>23.1</b>
Charge for depreciation and amortisation	(62)	(51)	21.6
Variation in operating provisions	(1)	-	-
<b>Operating income</b>	<b>65</b>	<b>53</b>	<b>22.6</b>

EBITDA for the period totals Euros 128 million, 23.1% higher than last year, due to the addition of Mexico, Costa Rica and the Dominican Republic for two months (May and June) in 2009. After homogenising this effect, EBITDA has decreased by 2.3%, due to the programmed stoppage for maintenance of the Tuxpan plant in Mexico and in spite of an increase in EBITDA in Panama, Puerto Rico and the Dominican Republic.

EBITDA in Panama was higher 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 has increased as a result of higher sale prices.

## Main aggregates

Construction of the Norte CCGT in Durango state was completed on schedule. This 450 MW plant, awarded on 6 March 2007, is scheduled to commence commercial operation in July 2010 after the first firing of the gas turbine on 23 February and first synchronisation on 28 March; it is currently undergoing performance tests.

The main aggregates were as follows:

	2010	2009	%
Capacidad de generación eléctrica (MW):	2,106	4,319	(51.2)
Mexico (CCGT)	1,570	3,783	(58.5)
Puerto Rico (CCGT)	254	254	-
Costa Rica (hydroelectric)	51	51	-
Panamá (hydroelectric and thermal)	33	33	-
Republica dominicana (oil-fired)	198	198	-
Electricity generated (GWh):	10,394	9,392	10.7
Mexico (CCGT)	8,899	8,454	5.3
Puerto Rico (CCGT)	812	694	17.0
Costa Rica (hydroelectric)	116	51	127.5
Panamá (hydroelectric and thermal)	49	12	308.3
Republica dominicana (oil-fired)	518	181	186.2

Power production in the first half of 2010 amounted to 10,394 GWh, with a load factor of 68.4% and 90.4% availability.

### **Rest of Electricity (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 75.3% increase in power production in the first half of 2010, with a year-on-year variation of 820%.

### **Results**

	2010	2009	%
Net sales	46	5	820.0
Purchases	(34)	(4)	750.0
Personnel costs, net	(1)	-	-
Other expenses/income	(2)	(1)	100.0
<b>EBITDA</b>	<b>9</b>	<b>-</b>	<b>-</b>
Charge for depreciation and amortisation	(3)	-	-
Variation in operating provisions	-	-	-
<b>Operating income</b>	<b>6</b>	<b>-</b>	<b>-</b>

EBITDA amounted to €9 million in the first half of 2010, i.e. €7 million more than in the same period of 2009 as a result of the increase in capacity and the high level of availability in the first half of this year (89.6%), which is the factor determining capacity revenues.

### **Main aggregates**

The main aggregates were as follows:

	2010	2009	%
Electric generation capacity (MW):	112	58	93.1
Electric energy production (GWh)	305	60	408.3

In the first half of the year the fuel-fired production in Kenya has increased by 408.3% against the same period last year, and totals 305 GWh. This increase would decrease by 72.2% if we took into account the six months of the first semester of last year. This increase is due to the increase in plant capacity as from the second half of 2009, in which an additional 52MW came into commercial operation. The production has been adversely affected by strong rains in the first six months of the year, which has led to high indices of hydro-energy production.

### **Infrastructures**

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	127	144	(11,8)
Purchases	(7)	(21)	(66,7)
Personnel costs, net	(4)	(3)	33,3
Other expenses/income	(22)	(26)	(15,4)
<b>EBITDA</b>	<b>94</b>	<b>94</b>	<b>-</b>
Charge for depreciation and amortisation	(25)	(28)	(10,7)
Variation in operating provisions	-	-	-
<b>Operating income</b>	<b>69</b>	<b>66</b>	<b>4,5</b>

Net sales in the Infrastructure business totalled €127 million, an 11.8% decline

EBITDA amounted to €94 million in first half of 2010, on par with last year's figures, primarily because greater international transportation revenues and cost containment offset lower margins from maritime transport activity due to higher utilisation of the gas carrier fleet by the company itself, allowing for less sub-chartering.

Gas exploration and production operations are booked using the "successful efforts" method, under which costs prior to drilling are expensed as they are incurred and the costs of the drilling phase are capitalised provisionally as construction in progress until such time as it is determined whether there are proven reserves to justify commercial development.

## Main aggregates

The main aggregates in international gas transportation are as follows:

	2010	2009	%
Gas transportation-EMPL (GWh):	60,508	50,692	19.4
Portugal-Morocco	15,626	12,134	28.8
GAS NATURAL FENOSA	44,882	38,558	16.4

The gas transportation activity conducted in Morocco through companies EMPL and Metragaz represented a total volume of 60,508 GW, i.e. an increase of 19.4%. Of that figure, 44,882 GWh were transported for GAS NATURAL FENOSA through Sagane and 15,626 GWh for Portugal and Morocco. Lower energy demand in the Iberian Peninsula and optimisation of GAS NATURAL FENOSA's supply/demand balance led to a lower volume of gas being shipped and, consequently, lower utilisation of the Maghreb-Europe pipeline.

On 25 March 2010, an auction of underground storage capacity was held in Spain for the period 1 April 2010 to 31 March 2011, for a total of 7,397 GWh. The auction, organised by OMEL (the electricity market operator) under the supervision of the CNE (Spain's National Energy Commission), was conducted via an ascending clock auction method, closing at a price of €1,000/GWh (the closing price of the reserve capacity is €3,923/GWh). GAS NATURAL FENOSA was awarded 27% of the capacity auctioned (2,000 GWh).

In the Tangier-Larache (Morocco) concession, in which GAS NATURAL FENOSA has a 24% stake, a seismic survey is planned in the second quarter of 2010 and the results will be processed and analysed in the coming months.

In the second quarter of 2010, the company continued the public information process, responding to submissions and preparing of environmental impact studies for the five exploration, production and storage projects planned by GAS NATURAL FENOSA for the coming years in the Guadalquivir Valley.

GAS NATURAL's projects to build two regasification plants in Italy (Trieste-Zaule and Taranto) continue to make progress towards obtaining the required permits and

licenses. The Trieste-Zaule project obtained a positive report from the Ministry of Cultural Assets and Activities (MiBAC) in January 2009 and the Environmental Approval Decree in July 2009, culminating the permit process at national level. The process of obtaining permits for the Taranto project, as required under Italian legislation, is continuing.

The permit process for Trieste is expected to conclude this year and Single Authorisation for the construction of the plant will be obtained at the end of 2010.

Both projects are on-shore, located in the port areas of the respective cities, and have a planned regasification capacity of 8 bcm/year; investment per terminal will be approximately €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 of the objectives of the Italian government's energy policy.

### **Supply and commercialisation**

This area includes gas procurement and supply in Spain and other countries, and the supply in Spain of products and services related to supply.

### **Results**

	2010	2009	%
Net sales	3,797	3,699	2.6
Purchases	(3,500)	(3,288)	6.4
Personnel costs, net	(35)	(33)	6.1
Other expenses/income	(83)	(146)	(43.2)
<b>EBITDA</b>	<b>179</b>	<b>232</b>	<b>(22.8)</b>
Charge for depreciation and amortisation	(7)	(5)	40.0
Variation in operating provisions	(12)	(16)	(25.0)
<b>Operating income</b>	<b>160</b>	<b>211</b>	<b>(24.2)</b>

Net turnover has totalled Euros 3,797 million, which is an increase of 2.6% against last year. 2010 EBITDA includes net income of Euros 179 million, which is a decrease of 22.8% against last year, due mainly to the lower volume of gas sold and a different market mix of sales during the semester in the retail area as a result of the price adjustment provided by the last resort tariff

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):	150,602	124,078	21.4
Spain:	124,249	98,265	26.4
GAS NATURAL FENOSA supply <sup>(1)</sup>	96,418	77,034	25.2
Supply to ehird parties	27,831	21,231	31.1
International:	26,353	25,813	2.1
France	10,085	17,707	(43.0)
Other	16,268	8,106	100.7
Multiutility contracts (at 30/06)	1,486,005	2,112,836	(29.7)
Contracts per customer (at 30/06)	1.30	1.39	(6.5)

<sup>(1)</sup> Does not include exchange transactions.

GAS NATURAL FENOSA supplied 96,419 GWh in the Spanish gas market, a 25.2% 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. GAS NATURAL FENOSA sold 27,831 GWh of gas for supply to the Spanish market by other supply companies (a 31.1% increase).

With a view to guaranteeing gas exports from Spain to Portugal, GAS NATURAL FENOSA is using the gas grid connections in Campomaioir (southeast) and Valença do Minho (north).

Gas Natural Europe SAS (the French supply subsidiary) has opened its first two branches in Belgium and Luxembourg with a view to selling gas in both countries in the second half of 2010. To that end, supply licenses have been obtained and the company has operational offices in Brussels and Luxembourg. The French subsidiary also opened a sales office in Toulouse with a view to expanding the business in southern France.

GAS NATURAL was the first Spanish company to form part of the Zeebrugge gas hub in Belgium and, consequently, it has capacity to operate in that country by buying and selling gas in the Belgian wholesale market and to supply gas to the industrial and domestic market in the future.

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; in Spain, it markets this application of natural gas under the "gn auto" brand.

Under the "gn auto" project, 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.

The company has made significant progress in its plan to expand the automotive LNG market in Spain:

- The company has installed 16 new service stations, including 3 in Barcelona with the municipal waste management companies Cepsa, CLD and Urbaser.
- GAS NATURAL FENOSA has been awarded the contract to build and operate the new bus depot for the Madrid municipal bus company (EMT), with a capacity for over 400 buses. This will be the largest facility of its kind in Europe and one of the largest in the world.
- GAS NATURAL FENOSA has signed a new cooperation agreement with TMB to add 204 new LNG-driven buses to the fleet by 2015, introduce high-efficiency filters in diesel vehicles, and research natural gas hybrid vehicles, among other measures.

GAS NATURAL FENOSA is also working on the electric car business model in cooperation with various levels of the Spanish government and with the support of several central government programmes to promote this alternative means of transport.

GAS NATURAL FENOSA continues to actively develop the value-added energy solutions and services business for residential, tertiary and industrial markets. It is working actively to develop the energy efficiency market in line with policies to promote energy efficiency and saving.

GAS NATURAL FENOSA has a total of 1,486,005 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 160 associated firms and connected via an online system, which has enabled it to improve service performance and quality (our customers rate this as our top service).

### UF Gas

This area includes wholesale and retail gas procurement and supply performed by Unión Fenosa Gas, including the liquefaction plant in Damietta (Egypt), the Sagunto regasification plant, and the gas carrier fleet.

### **Results**

Unión Fenosa Gas is owned 50% by GAS NATURAL FENOSA and is proportionately consolidated.

	2010	2009	%
Net sales	375	83	351.8
Purchases	(242)	(53)	356.6
Personnel costs, net	(6)	(2)	200.0
Other expenses/income	(12)	(3)	300.0
<b>EBITDA</b>	<b>115</b>	<b>25</b>	<b>360.0</b>

Charge for depreciation and amortisation	(56)	(17)	229.4
Variation in operating provisions	-	-	-

<b>Operating income</b>	<b>59</b>	<b>8</b>	<b>637.5</b>
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EBITDA in the first half of 2010 totals Euros 115 million, an increase of 360% against the same period last year due to the addition in 2009 for only two months of UF Gas. In homogeneous terms this is a decrease of 1.7%, in spite of the increase in the volume of gas sold in Spain (5.3%) and abroad. This increase has not been impacted total net income due to a decrease in pool prices in the first few months of the year and certain lower benchmark margins due to the current status of International gas prices.

### **Main aggregates**

The gas supplied in the first half of 2010 has increased by 209.9%. In homogeneous terms, this is an increase of 5.3% against the same period last year. Additionally, 13,390 GWh has been managed in international sale operations.

During the period, the gas acquired under long-term contracts with Egypt and Oman covered practically all the gas needs in the Spanish market, and only 16.4% 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.

	2010	2009	%
Gas supply in Spain (GWh)	27,682	8,933	209.9
Trading (GWh)	13,390	1,927	594.9
Liquefaction (GWh)	18,222	9,926	83.6
Regasification (GWh)	28,170	14,400	95.6

The Damietta (Egypt) liquefaction reduced production by 38.3% to 18,222 GWh, due to a lower supply of feed gas in the period; however, a recovery is expected in the coming months. The plant delivered 32 shiploads, of which 20 were for Unión Fenosa Gas, and the remainder for other operators. In June 2010, the plant commenced preparations for the scheduled maintenance shut-down (major inspection).

The Sagunto regasification plant produced 28,170 GWh, i.e. 40 shiploads, of which 16 were for Unión Fenosa Gas (15,052 GWh, i.e. 53.4% of the total).

In May 2010, the dome was successfully placed on the fourth liquefied natural gas 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 m<sup>3</sup>.

The construction of this fourth tank is part, together with the sixth vaporiser, of the second expansion of the Sagunto plant included in the 2008-2016 Electricity and Gas Sector Plan of the Ministry. The raising of the dome has practically been completed at the half-way point of the process and the interior tank will be built in the next few months.

## **2. Risk factors**

### **a) Uncertainty in the macro-economic environment**

In the past few months, the economy and the global financial system have gone through a period of significant turbulence and uncertainty. This uncertainty has severely impacted general liquidity, the availability of credit, and the terms and conditions for obtaining it, which has contributed to the increase of the financial burden of families and industrial customers of GAS NATURAL FENOSA by reducing their purchasing power and adversely affecting demand.

GAS NATURAL FENOSA cannot predict the trend in the business cycle in the next few years or whether there will be an even more severe downturn in the current global economic cycle.

### **b) Regulatory risk**

GAS NATURAL FENOSA and its subsidiary companies must comply with applicable legislation on the natural gas and electricity industries. Gassistic and electricity businesses are especially regulated in most of the countries in which GAS NATURAL FENOSA carries out this activity.

Applicable legislation in the natural gas and electricity sectors in countries in which GAS NATURAL FENOSA operates is typically subject to periodical revision by the competent authorities. The introduction of these modifications could impact the remuneration schemes for regulated business, thus adversely affecting the business, profit, grants and financial situation of GAS NATURAL FENOSA.

The Electricity Act guarantees the sufficiency of the electricity tariffs, which has been reinforced by the commitment under RDL 6/2010 to totally eliminate the deficit by 2012, establishing also annual limits for the possible deficit during the period 2009-2012. As per the aforementioned RDL, any surplus above the deficit limit established for each year will be expressly included in the access tariffs for the following year.

The decision to not increase tariffs in July agreed by the Government and opposition does not so much represent a freeze but a postponement of the decision on their increase, while awaiting for a study of possible measures to reduce the deficit, as part of this agreement.

### **c) Divestments**

The Anti-Trust Commission (*Comisión Nacional de la Competencia - CNC*), by virtue of the resolution of its Council of 11 February 2009, notified GAS NATURAL FENOSA on the following date that it had decided to subject the approval of the transaction involving the exclusive control of UNION FENOSA by GAS NATURAL FENOSA to

compliance with certain commitments filed by GAS NATURAL FENOSA. For his part,, the Second Vice-President of the Government and Minister of the Economy, on 17 February 2009, decided not to bring the decision on the concentration to the Cabinet, and notified GAS NATURAL FENOSA and the CNC of this on that date.

At 30 June 2010 only a few divestments commitments relating to 2,000 MW combined cycle generation capacity were pending materialisation. On 12 July 2010 a sale agreement was reached with the Alpiq Group (Note 7) as part of the Framework of compliance with these commitments.

The sale of assets required is subject to a review by the CNC; and the commitments with 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 sale of assets under unfavourable terms, adverse material effects could impact the business, perspectives, the financial position and earnings.

Given that the gross amounts from any sale will depend on the prevailing market conditions, the competition for the assets amongst buyers, as well as other factors, many of the which are beyond the control of GAS NATURAL FENOSA, the latter cannot ensure the amount of any sale or whether it will reach the market value estimated by GAS NATURAL FENOSA for these assets.

#### **d) Risks related to proceedings, litigation and arbitration**

In the sector in which GAS NATURAL FENOSA operates there has been in the last few years a trend to greater litigation, as a result of the volatility of petroleum prices and greater competition in the deregulated market, amongst other factors. Currently, GAS NATURAL FENOSA and its subsidiaries form part of different administrative, legal, arbitration and regulatory proceedings. The adverse result of one or more of these proceedings (including any out-of-court settlement) could have an adverse material effect on the business, earnings and the financial position of GAS NATURAL FENOSA.

#### **e) Gas and electricity price risks.**

GAS NATURAL FENOSA is exposed to variation in crude oil, natural gas and electricity prices.

Although the prices which GAS NATURAL FENOSA charges for the sale of gas to its customers generally relates to market prices, in highly volatile situations the fluctuations in sale prices may proportionally reflect the fluctuations in the cost of raw materials. In addition to the costs related to the gas business, the increases in the prices of natural gas could lead to an increase in electricity generation costs, given that the combined cycle plants of GAS NATURAL FENOSA are fuel-fired by natural gas.

The variability in the prices of electricity in the electricity generation and commercialisation business is also relevant. The policy of exposure to electricity prices is especially conservative given its intrinsic volatility, and the electricity commercialisation portfolio is sufficiently significant in relative terms in relation to electricity volumes generated. Accordingly, we must emphasise the very stiff

fluctuations in electricity prices could have an adverse effect on the income statement of GAS NATURAL FENOSA.

**f) Gas volume risk**

Most of the purchases of natural gas and liquefied natural gas (LNG) are made through long-term contracts, which include clauses under which GAS NATURAL FENOSA has the obligation to purchase certain annual volumes of gas (known as “take-or-pay” clauses). As per these agreements, in spite of the fact that GAS NATURAL FENOSA does not need to acquire the volume of gas to which it has committed at a certain time, it is contractually obligated to pay the minimum amount under these “take-or-pay” clauses.

These contracts contain certain gas volumes that relate to the estimated needs of GAS NATURAL FENOSA. However, the actual needs may be lower than those foreseen when the contracts were entered into. In the event of significant variations in these estimates, GAS NATURAL FENOSA is obligated to acquire a greater volume of gas than its really needs, or, failing that, pay for the amount of gas to which it is committed, irrespective of the fact that it does not acquire the surplus over its needs, which could adversely and significantly affect its operating costs.

**g) Exchange and interest rate risk**

The variations in interest rates modify the fair value of the financial assets and liabilities that accrue fixed interest, as well as the cash flows from the financial assets and liabilities referenced to a floating interest rate, and, accordingly, affect both equity and earnings, respectively.

On the other hand, GAS NATURAL FENOSA is exposed to the risks related to the variations in exchange rates. These variations could affect, amongst others, the debt of GAS NATURAL FENOSA denominated in non-Euro currencies, the operations that GAS NATURAL FENOSA carries out in other currencies that generate income denominated in other currencies, 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 USD, the currency in which the gas is purchased by GAS NATURAL FENOSA, or to which the purchases are indexed, could also affect earnings and the financial position of GAS NATURAL FENOSA.

In spite of the fact that GAS NATURAL FENOSA carries out proactive policies to manage these risks in order to minimise their impact on its results, in some cases, these policies may be ineffective in mitigating the adverse effects inherent in the fluctuations in interest rates and exchange rates and could adversely and significantly affect the earnings and financial position of GAS NATURAL FENOSA.

#### **h) 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 investments in the region. Amongst the risk factors linked to investment and business in Latin America, of special note are:

- Major influence on the economy of local governments;
- Significant fluctuation in the economic growth rate;
- High inflation;
- Devaluation, depreciation or over-valuation of local currencies;
- Controls or restrictions on the repatriation of profits;
- Changing interest rate environment;
- Changes in financial, economic and fiscal policies;
- Unexpected changes in regulatory frameworks;
- Social tensions; and
- Political and macro-economic instability.

GAS NATURAL FENOSA cannot predict how any future worsening of the political and economic situation in Latin American would take place, or any other changes in legislation in the countries in which it trades.

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