GAS NATURAL

2008 Annual Report

CONSOLIDATED ANNUAL ACCOUNTS

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GAS NATURAL
Consolidated Balance Sheet **(Million Euros)**

	31.12.08	31.12.07
ASSETS		
Intangible assets *(Note 5)*	1,617	1,636
Goodwill	546	541
Other intangible assets	1,071	1,095
Property, plant and equipment *(Note 6)*	9,988	9,705
Investments recorded using the equity method *(Note 7)*	42	38
Non-current financial assets *(Note 8)*	2,820	719
Deferred income tax assets *(Note 20)*	339	274
NON-CURRENT ASSETS	**14,806**	**12,372**
Non-current assets held for sale	5	2
Inventories *(Note 9)*	560	462
Trade and other receivables *(Note 10)*	2,785	2,372
Trade receivables	2,370	2,077
Other receivables	398	282
Current deferred income tax assets	17	13
Other current financial assets *(Note 8)*	360	60
Cash and cash equivalents *(Note 11)*	249	152
CURRENT ASSETS	**3,959**	**3,048**
TOTAL ASSSETS	**18,765**	**15,420**
NET EQUITY AND LIABILITIES		
Share capital	448	448
Reserves	5,158	4,716
Profit for the year attributed to the Equity holders of the Company	1,057	959
Interim dividend	(215)	(192)
Adjustments for changes in value	(72)	139
Available-for-sale financial assets	57	155
Hedging operations	(78)	(3)
Cumulative translation adjustments	(51)	(13)
Capital and reserves attributable to the Company's equity holders	**6,376**	**6,070**
Minority interests	**345**	**357**
TOTAL NET EQUITY *(Note 12)*	**6,721**	**6,427**
Grants *(Note 13)*	606	543
Non-current provisions *(Note 14)*	625	465
Non-current financial liabilities *(Note 15)*	4,451	3,075
Borrowings	4,449	3,072
Other financial liabilities	2	3
Deferred income tax liability *(Note 20)*	526	495
Other non-current liabilities *(Note 17)*	706	599
NON-CURRENT LIABILITIES	**6,914**	**5,177**
Current provisions *(Note 14)*	146	65
Current financial liabilities *(Note 15)*	934	1,004
Borrowings	924	996
Other financial liabilities	10	8
Trade and other payables *(Note 18)*	2,865	2,357
Trade payables	2,345	1,926
Other payables	311	261
Current deferred income tax liabilities	209	170
Other current liabilities *(Note 19)*	1,185	390
CURRENT LIABILITIES	**5,130**	**3,816**
TOTAL NET EQUITY AND LIABILITIES	**18,765**	**15,420**

Notes 1 to 35 form an integral part of these consolidated annual accounts

GAS NATURAL
Consolidated Income Statement **(Million Euros)**

	2008	2007
Sales *(Note 21)*	13,544	10,093
Procurements *(Note 23)*	(9,796)	(6,747)
Other operating income *(Note 22)*	58	51
Personnel cost *(Note 24)*	(338)	(308)
Other operating expenses *(Note 25)*	(985)	(901)
Depreciation and amortisation expenses *(Notes 5 and 6)*	(726)	(651)
Release of fixed assets grants to income and others *(Note 13)*	37	30
OPERATING INCOME	**1,794**	**1,567**
Net financial income	132	72
Net finance expense	(419)	(295)
Variations in fair value of financial instruments	17	1
Net exchange gains/losses	7	(2)
Gain on sales of financial instruments	14	64
NET FINANCIAL INCOME *(Note 26)*	**(249)**	**(160)**
Profit of entities recorded by equity method *(Note 7)*	6	8
INCOME BEFORE TAXES	**1,551**	**1,415**
Income tax expense *(Note 20)*	(379)	(359)
CONSOLIDATED NET INCOME FOR THE PERIOD	**1,172**	**1,056**
Attributable to:		
Equity holders of the Company	1,057	959
Minority interests	115	97
	1,172	**1,056**
Earnings per share attributable to the equity holders of the Company – basic and diluted *(Note 12)*	2.36	2.14

Notes 1 to 35 form an integral part of these consolidated annual accounts

GAS NATURAL
Consolidated Statement of Income and Expense Recognised **(Million Euros)**

	2008	2007
CONSOLIDATED INCOME FOR THE YEAR	**1,172**	**1,056**
INCOME AND EXPENSE RECOGNISED DIRECTLY IN EQUITY	**(275)**	**(69)**
Valuation of available-for-sale financial assets	(126)	51
Cash flow hedges	(121)	(62)
Cumulate translation adjustment	(99)	(75)
Actuarial gains and loss and other adjustments	(15)	1
Tax effect	86	16
RELEASES TO INCOME STATEMENT	**11**	**(10)**
Valuation of available-for-sale financial assets	(4)	(80)
Cash flow hedges	17	82
Tax effect	(2)	(12)
TOTAL INCOME AND EXPENSE RECOGNISED FOR THE YEAR	**908**	**977**
Attributable to:		
Equity holders of the Company	839	883
Minority interests	69	94

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GAS NATURAL
Consolidated Cash Flow Statements **(Million Euros)**

	2008	2007
Net income before tax	**1,551**	**1,415**
Adjustments to net income:	**1,110**	**850**
Amortisation and depreciation of fixed assets	726	651
Other adjustments to net income	384	199
Changes in working capital	**(115)**	**114**
Other cash generated from operations:	**(523)**	**(550)**
Interest paid	(306)	(222)
Income tax paid	(217)	(328)
NET CASH GENERATED FROM OPERATING ACTIVITIES	**2,023**	**1,829**
Cash flows into investing activities:	**(2,829)**	**(2,176)**
Group companies, associates and business units	(28)	(1,015)
Purchases of Property, plant and equipment and intangible assets	(1,088)	(1,135)
Other financial assets	(1,713)	(26)
Proceeds from divestitures:	**66**	**176**
Sales of Property, plant and equipment and intangible assets	19	13
Other investments	47	163
Other cash flows from investing activities:	**111**	**111**
Proceeds from dividends	11	17
Proceeds from interest	20	18
Other proceeds/(payments) from/(of) investing activities (Note 13)	80	76
NET CASH RECEIVED FROM INVESTING ACTIVITIES	**(2,652)**	**(1,889)**
Cash flows from financing activities:	**1,286**	**730**
Proceeds from borrowings	2,865	1,270
Repayment of borrowings	(1,579)	(540)
Dividends paid	**(580)**	**(521)**
Other cash flows from financing activities	**32**	**(112)**
NET CASH RECEIVED FROM FINANCING ACTIVITIES	**738**	**97**
Effect of exchange rates on cash and cash equivalent	**(12)**	**(12)**
VARIATION IN CASH AND CASH EQUIVALENTS	**97**	**25**
Cash and cash equivalents at beginning of the year	152	127
Cash and cash equivalents at year end	249	152

Notes 1 to 35 form an integral part of these consolidated annual accounts

GAS NATURAL, SDG, S.A. AND ITS SUBSIDIARIES

NOTES TO THE CONSOLIDATED ANNUAL ACCOUNTS CORRESPONDING TO 2008

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NOTES TO THE CONSOLIDATED ANNUAL ACCOUNTS OF GAS NATURAL FOR 2008

Note 1. General information

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

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

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

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

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

The annual accounts of Gas Natural SDG, S.A. and the consolidated annual accounts of GAS NATURAL for the year ended 2007 were approved by the General Meeting of Shareholders of May 21, 2008.

The consolidated annual accounts for 2008, which have been formulated by the Board of Directors on January 30, 2009, will be submitted, as will be those of the investee companies, for approval by the respective General Meetings of Shareholders. It is expected that they will be approved without any modification.

The figures set down in these consolidated annual accounts are expressed in millions of Euros, except for the figure of earnings per share, which is expressed in Euros per share and shares issued, which are presented in millions of shares, while information on operations with related parties, remuneration of members of the Board of Directors and Management Committee and Auditors' Fees are presented in thousands of Euros, except when otherwise indicated.

Note 2. Summary of significant accounting policies

2.1 Basis of preparation

The accompanying consolidated annual accounts of GAS NATURAL for 2008 have been prepared in accordance with International Financial Reporting Standards adopted by the European Union (IFRS–EU), in accordance with Regulation (CE) no. 1606/2002 of the European Parliament and Council.

The consolidated annual accounts present a true and fair view of the consolidated equity and consolidated financial position of GAS NATURAL at December 31, 2008, as well as the consolidated results of its operations, the variations in the statements of income and expenses recognised and consolidated cash flows, which have occurred in GAS NATURAL in the year ended on said date. The consolidated annual accounts have been prepared under the historical cost convention, although modified by the revaluation of financial instruments, which, as per financial instrument standards, are stated at fair value and taking into account the criteria for recording business combinations.

The consolidated annual accounts for 2008 of GAS NATURAL have been prepared on the basis of the accounting records of Gas Natural SDG, S.A. and the other entities forming part of the Group. Each company prepares its annual accounts following the accounting principles and criteria of the country in which they carry out their operations, and accordingly, the adjustments and reclassifications necessary to homogenize said principles and criteria in order to adapt them to IFRS-EU have been introduced. The accounting principles of the consolidated Companies have been modified where necessary in order to assure that they are consistent with the accounting policies adopted by GAS NATURAL.

For the purposes of coming into line with Circular 1/2008/30 January of the Comisión Nacional del Mercado de Valores (Spanish Securites Exchange Commission, or CNMV), the structure of the consolidated balance sheet, consolidated income statement, consolidated statement of income and expenses recognised, and the consolidated cash flow statements, differs in relation to that presented in the consolidated annual accounts for 2007 in respect of some of the line items.

The line items carried on the balance sheet pertaining to Derivative financial instruments have been aggregated to Non-current financial assets, Trade and other receivables, Other current financial assets, Non-current and current financial liabilities and Trade and other payables.

Net financial cost has been separated under Net financial income, Net financial expense, Variations in fair value of financial instruments and Net exchange gains/(losses). Gain on sales of non current assets are presented under Gain on sales of financial instruments. The line items Release of fixed assets grants to income and others has been separated from Other income.

The differences in the presentation of these accounts are not relevant for a proper interpretation and understanding of these consolidated annual accounts.

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

2.2 Consolidation

(a) Subsidiaries

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

The purchase method is used for recording the acquisition of subsidiaries. The cost of acquisition is the fair value of the assets handed over, plus the equity instruments issued and the liabilities incurred or borne on the transaction date, as well as the fair value of any additional consideration that depends on future events (provided that it is probable and can be reliably valued) plus the costs directly attributable to the acquisition.

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

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

The interest of minority shareholders in net equity and results of the subsidiaries is presented under Minority interests in the balance sheet and under Profit attributable to minority interests in the income statement. In the case of acquisitions of minority interests, the difference between the price paid and the net book value is recognised as goodwill.

The sale options granted to minority interests in subsidiary companies for their shareholdings in these companies are stated at their current redemption value, i.e., their execution price, and are stated under Other liabilities.

(b) Joint Ventures

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

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

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

c) Associates

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

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

(d) Consolidation scope

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

The main changes in the consolidation scope in 2008 have been as follows (see Note 28):

Registered name of the entity	**Operation category**	**Effective date of the operation**	**% of voting rights acquired / eliminated**	**% of voting rights after the operation**	**Consolidation method after the operation**
Biogás Doña Juana, S.A. ESP	Incorporation	February 5	50%	50%	Proportional
Gas Natural West África, S.L.	Disposal	February 29	60%	40%	Proportional
Administración y Servicios ECAP, S.A.	Incorporation	March 14	100%	100%	Full consolidation
Dawn Energy - Produção de Energia, Unipessoal Lda.	Acquisition	April 4	100%	100%	Full consolidation
Cetraro Distribuzione Gas S.r.l.	Incorporation	April 28	60%	60%	Full consolidation
O Novo Aquilón, S.L.	Acquisition	June 6	60%	60%	Proportional
Gas Natural Servicios, Ltd	Incorporation	June 9	100%	100%	Full consolidation
Parques Eólicos 2008-2012, S.L.	Acquisition	June 17	54%	54%	Proportional
Oficina de Cambios de Suministrador, S.A. (OCSUM)	Acquisition	June 20	20%	20%	Equity method
Pitta Construzioni S.p.A.	Acquisition	July 3	100%	100%	Full consolidation
Sociedad de Tratamiento la Andaya, S.L.	Acquisition	July 9	15%	60%	Full consolidation
Sociedad de Tratamiento Hornillos. S.L.	Acquisition	July 9	14%	94%	Full consolidation
Portal del Instalador, S.A.	Acquisition	July 9	10%	85%	Full consolidation

On the other hand, in 2008, the following corporate transactions were undertaken between Group companies:

- In July there was a takeover merger of Invergas Puerto Rico, S.A. by Gas Natural Electricidad SDG, S.A.

- In November there was a takeover merger of Gas Natural Corporación Eólica, S.L. by Gas Natural Eólica, S.A. and DER Castilla la Mancha, S.A. by Desarrollo de Energías Renovables, S.A.

- On December 22, 2008 the takeover merger of Gas Natural La Coruña, S.A. by Gas Galicia, S.A. was adopted. After the merger, foreseen for 2009, the shareholding of GAS NATURAL will be 61.6%.

The main variations in the consolidation scope in 2007 were as follows (see Note 28):

Registered name of the entity	Operation category	Effective date of the operation	% of voting rights acquired / eliminated	% of voting rights after the operation	Consolidation method after the operation
Burgalesa de Generación Eólica, S.A.	Disposal	February 9	24%	-	-
Gas Natural Vehicular del Norte, Asociación en Participación	Incorporation	February 14	51%	51%	Proportional
Eastern España, S.A.U,	Acquisition	February 21	100%	100%	Full consolidation
Invergas, S.A.	Acquisition	June 15	28%	100%	Full consolidation
Gas Natural SDG Argentina, S.A.	Acquisition	June 15	28%	100%	Full consolidation
Natural Energy, S.A.	Acquisition	June 15	28%	100%	Full consolidation
Natural Servicios, S.A.	Acquisition	June 15	28%	100%	Full consolidation
Tratamiento Cinca Medio, S.L.	Acquisition	August 1	80%	80%	Full consolidation
Subgrupo sociedades eólicas Canarias (1)	Incorporation	August 1	100%	100%	Full consolidation
Energías Eólicas de Lanzarote, S.L.	Acquisition	September 7	50%	50%	Proportional
Energías Eólicas de Fuerteventura, S.L.	Acquisition	September 7	50%	50%	Proportional
Alas Capital & Gas Natural, S.A.	Acquisition	September 11	40%	40%	Proportional
Gas Natural West Africa, S.L.	Incorporation	October 26	100%	100%	Full consolidation
Agrupación Energética C.S.U. Bellvitge, AIE	Liquidation	November 20	50%	--	--
ITAL.ME.CO, S.R.L.	Acquisition	December 17	100%	100%	Full consolidation
Calgas, S.c.a.r.	Acquisition	December 17	100%	100%	Full consolidation
Mecogas, S.r.l.	Acquisition	December 17	100%	100%	Full consolidation
Subgrupo Generación México (2).	Acquisition	December 27	100%	100%	Full consolidation
Iradia Climatización, A.I.E	Liquidation	December 31	100%	--	--

(1) The sub-group of Canary Island wind farm Companies includes: Gas Natural Wind Canarias, S.L., Gas Natural Wind, S.L., Gas Natural Wind 2, S.L., Gas Natural Wind 3, S.L., Gas Natural Wind 4, S.L., Gas Natural Wind 5, S.L., Gas Natural Wind 6, S.L. and Gas Natural Energy Canarias, S.L.

(2) The sub-group Generación México includes the following companies: Central de Anáhuac, S.A. de C.V., Central Lomas del Real, S.A. de C.V., Central Valle Hermoso, S.A. de C.V., Central Saltillo, S.A. de C.V., Electricidad Águila de Altamira, Gasoducto del Río, S.A. de C.V. y Compañía Mexicana de Gerencia y Operación, S.A. de C.V., Controladora del Golfo, S.A. de C.V. (Note 28).

(3) Through the purchase of ITALMECO, S.R.L. the companies Calgas, s.r.l. and Mecogas, s.r.l. were acquired. (Note 28).

On the other hand, in 2007 the following corporate operations between Group companies took place:

- On June 20 there was a takeover merger of Eastern España, S.A.U. by Petroleum Oil & Gas, S.A.U

- On July 20 there was a takeover merger Portal Gas Natural, S.A. by Gas Natural Informática, S.A.

- On December 21 there was a takeover merger of S.C.M., S.r.L. and Nettis Gestioni, S.r.L. by Gas Natural Distribuzione Italia, S.p.A.

e) Acquisition of Unión Fenosa, S.A.

In July GAS NATURAL announced its resolution to acquire the 45.306% shareholding of ACS, S.A. in Unión Fenosa, S.A. The purchase of Unión Fenosa, S.A. will represent a significant step forward in the development of GAS NATURAL and its strategy to become a leading integrated gas and electricity Group.

In respect of the acquisition of Unión Fenosa, S.A., GAS NATURAL has entered into the following agreements:

Sale and purchase agreement of shares entered into with ACS

On July 30, 2008, GAS NATURAL and ACS, S.A., Actividades de Construcción y Servicios, S.A., PR Pisa, S.A., Roperfeli, S.L., Villa Áurea, S.L., and Villanova, S.A. (jointly, ACS) entered into a sale and purchase agreement for the acquisition by GAS NATURAL of the entire stake held by ACS in the share capital of Unión Fenosa, S.A., i.e., 414,108,015 shares, representing 45.306% of its voting rights, for an effective price of Euros 18.33 per share.

Under the provisions of the agreement, the transfer of ownership of 91,403,796 shares, representing 9.99% of the voting rights of Unión Fenosa, S.A. took place over the following 5 business days for an amount of Euros 1,676 million.

The acquisition of the remaining 322,704,219 shares was subject to the following conditions: 1) the receipt by GAS NATURAL of the respective authorisation from the Comisión Nacional de la Energía (National Energy Commission, “CNE”), or express confirmation from the latter that its authorisation is not necessary; and 2) receipt of the final administrative resolution from the competent anti-trust authorities authorising the transfer of the aforementioned shares.

On September 18, 2008, the CNE ruled that its authorisation was not required for the acquisition by GAS NATURAL of the remaining 35.316% of the voting rights in Unión Fenosa owned by ACS, and thus the first of the above-mentioned conditions was met.

At the date of formulation of these consolidated annual accounts, the ruling of the Anti-trust Authorities is still pending, and, accordingly, the acquisition of the 35.316% mentioned above has still not take place.

After acquiring title of the shares held by ACS and given that GAS NATURAL will have obtained, consequently, more than 30% of the voting rights in Unión Fenosa, S.A., GAS NATURAL will be obligated to file a take-over bid for all the shares of Unión Fenosa, S.A. that it does not own within one month, until which time its voting rights will be limited to 30%. The price offered to the shareholders of Unión Fenosa, S.A. must be at least equal to the fair price as defined in legislation on Public Takeover Bids, which, at the date of formulation of these consolidated annual accounts is expected to be equal to the price per share paid to ACS, minus the gross amount of any dividends or other payouts made to the shareholders of Unión Fenosa, S.A. prior to the acquisition.

As a result of the resolution adopted on December 16, 2008 by the Board of Directors of Unión Fenosa, S.A. on the distribution on January 2, 2009 of an interim dividend against 2008 profit of Euros 0.28 gross per share, and as covenanted in the aforementioned agreement and stated in the announcement on the same published by GAS NATURAL, the price of the 322,704,219 shares of ACS pending transfer and consideration for the take-over bid, initially set at Euros 18.33 per share, has been reduced by the gross dividend paid out to Euros 18.05 per share.

The 9.99% shareholding that has already been transferred has been recorded under the line item available-for-sale financial assets (Note 8).

In relation to the shareholding representing 35.316% that is pending acquisition and included in the same agreement by virtue of which 9.99% of the shares mentioned above were acquired, it is believed that this acquisition, together with the shares that will be acquired through the settlement of the obligatory takeover bid mentioned above, will give rise to the business combination of Unión Fenosa, S.A. in the future. Consequently, the acquisition mentioned above of 35.316% of the shares is outside the scope of IAS 39 and has not been recorded as a financial instrument on the balance sheet at December 31, 2008.

Purchase-sale agreement entered into with Caixanova

On December 12, 2008, GAS NATURAL, on the one hand, and Caixa de Ahorros de Vigo, Ourense e Pontevedra (Caixanova), on the other, entered into a sale and purchase agreement for the acquisition by GAS NATURAL of 43,106,409 shares of Unión Fenosa, S.A. representing 4.72% of its voting rights, which were transferred on that date at an effective price of Euros 18 per share, which represents an amount of Euros 776 million, with deferred payment, which will be paid as follows: 1) Euros 200 million will be paid on the same date on which GAS NATURAL pays ACS for its 35.316% of the shares of Unión Fenosa, S.A.; and 2) Euros 576 million will be paid on the third trading day following the date of publication of the result of the takeover bid of Unión Fenosa or April 30, 2009, whichever date comes first.

These shareholdings have been recorded under the line item available-for-sale financial assets (Note 8).

Equity Swap entered into with UBS Limited

On August 14, 2008, GAS NATURAL signed an Equity Swap agreement with the financial entity UBS Limited, with 47,070,000 shares of Unión Fenosa, S.A. representing 5.15% of its voting rights, as the underlying asset, which will allow GAS NATURAL to realize the operation, either by differences (Cash Settlement) or through the acquisition of the aforementioned shares (Physical Settlement) once the necessary authorisations to do so are obtained. The settlement period, as the case may be, by means of a physical settlement of shares, which began September 19, 2008, will end on April 27, 2009 (i.e., 3 trading days before the date of maturity, set for April 30, 2009). GAS NATURAL can opt for early cancellation of the Equity Swap, subject to advance notice of 15 trading days, in which case it will end on the date set out in the notification.

Equity Swap entered into with ING Belgium, Sucursal en España

On September 24, 2008, GAS NATURAL entered into a new Equity Swap agreement with the financial entity ING Belgium, S.A., Sucursal en España, on 27,421,139 shares of Unión Fenosa, S.A., as the underlying asset, representing approximately 3% of its voting rights. GAS NATURAL has the option of settling the Equity Swap, either through differences (Cash Settlement), or through the physical delivery of the aforementioned shares (Physical Settlement). The period during the year for the settlement, as the case may be, by physical settlement of the shares, began on October 14, 2008 and will end on April 27, 2009 (i.e., 3 trading days before the expiry date, set for April 30, 2009). GAS NATURAL has the option of early termination of the Equity Swap by providing prior notification of 5 trading days, in which case the swap will be cancelled on the date stated on the notification.

Equity Swap entered into with Société Générale, Sucursal en España

GAS NATURAL entered into an *Equity Swap* on November 3, 2008, which was amended on December 24, 2008, with Societé Génerale, Sucursal en España, up to a maximum of 11,395,623 shares of Unión Fenosa, S.A., as the underlying asset, representing 1.25% of the voting rights. GAS NATURAL has the option of settlement through differences (cash settlement) or physical hand over of shares (physical settlement), the latter being subject to the authorisations necessary to do so. The settlement will be a cash settlement, unless GAS NATURAL provides notification prior to March 23, 2009 (i.e. 26 trading days prior to the date of expiry, set for April 30, 2009) of its intention to carry out a physical settlement. GAS NATURAL has the option of early termination of the Equity Swap by providing prior notification on or prior to March 29, 2009, indicating the settlement method chosen, in which case the settlement will take place on the third trading day after the notification of early termination.

Purchase-sale agreement entered into with Caja Navarra

On September 24, 2008 GAS NATURAL entered into an Agreement with Caja de Ahorros y Monte de Piedad de Navarra (Caja Navarra), for its acquisition of 2,721,000 shares of Unión Fenosa, S.A., representing 0.297% of the latter's voting rights, which are owned by Caja Navarra. The settlement of the transfer, i.e., the hand over of the shares and the payment of the purchase price will take place at the earliest of the following dates: 1) the third trading day after that on which the settlement is concluded of the Takeover Bid for the shares of Unión Fenosa, S.A. that GAS NATURAL plans to file; 2) December 31, 2009 or the immediately preceding trading day, in the event that the settlement of the Bid has not occurred prior to said date or is not scheduled for said date, or 3) the fifth trading day following the date on which GAS NATURAL announces its decision not to file the Bid or to withdraw the Bid once filed, said announcement having to take place within 24 hours after said decision has been adopted.

The aforementioned *Equity Swaps* and the Share sale and purchase Agreement entered into with Caja Navarra give GAS NATURAL the right to acquire a total of 88,607,762 shares, representing 9.69% of the voting rights in Unión Fenosa, S.A.

If the aforementioned financial instruments, and as the case may be, the aforementioned sale and purchase of shares, are not settled physically, the voting rights inherent in the shares will pertain to the holders of the shares.

The aforementioned Equity Swaps and the Share Purchase-Sale Agreement entered into with Caja Navarra, which has an average price of Euros 17.33 per share, have been classified as financial derivatives and recorded as fair value financial assets impacting the income statement (Note 8).

2.3 Foreign currency translation

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

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

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

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

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

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

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

The exchange rates against the Euro (EUR) of the main currencies of the companies in GAS NATURAL at December 31, 2008 and 2007 have been:

	December 31, 2008		December 31, 2007	
	Closing Rate	Average Accumulated Rate	Closing Rate	Average Accumulated Rate
United States Dollar (USD)	1.39	1.47	1.47	1.37
Argentinean Peso (ARS)	4.78	4.61	4.61	4.24
Brazilian Real (BRL)	3.25	2.67	2.61	2.66
Mexican Peso (MXU)	19.17	16.29	16.05	14.97
Colombian Peso (COP)	3,122	2,874	2,966	2,842

2.4 Segment reporting

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

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

2.5 Intangible assets

(a) Goodwill

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

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

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

(b) Concessions and other rights to use

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

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

(c) Computer software applications

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

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

(d) Research costs

Research activities are expensed as incurred.

(e) Other intangible assets.

Other intangible assets mainly include the following:

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

- The projects in development for new wind farms that have still not been brought into use, which will be amortized on a straight-line basis over their useful lives (20 years).

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

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

2.6 Property, plant and equipment

(a) Cost

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

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

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

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

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

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

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

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

(b) Depreciation

Assets are depreciated using the straight-line method, over their estimated useful life or, if lower, over the time of the concession agreement (see Note 5). Estimated useful lives are as follows:

	Years of estimated useful life
Buildings	33-50
Liquefied natural gas (LNG) transport gas tankers	25-30
Technical installations (pipeline network and transport)	20-40
Technical installations (combined cycle gas turbine: CCGT)	25
Technical installations (wind farms)	20
Other technical installations and machinery	8-20
Tooling and equipment	3
Furniture and fittings	10
Computer equipment	4
Vehicles	6

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

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

c) Exploration operations and production of gas

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

- Explorations costs

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

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

- Investments in areas with reserves

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

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

2.7 Impairment of assets

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

An impairment loss is recognized through profit and loss for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (CGU). When evaluating value in use, the estimated future cash flows are calculated at their current value. Thus, the assets and goodwills are assigned to Cash Generating Units (CGUs). Each CGU represents the investment of GAS NATURAL in each business segment in each country in which it trades.

If there is impairment, reviews are made at each balance sheet date in the event that losses are reversed.

The calculation of recoverable value uses cash flow projections based on approved budgets that cover a period of five years based on past results and market forecasts in accordance with the sector forecasts available. The most sensitive aspects that are included in the projections used in all the CGUs are purchase and sale prices of gas and/or electricity, inflation, staff costs and investments. The cash flows generated after the five-year period are extrapolated using the estimated growth rates from 0.0% to 1.0%. The growth rates do not exceed the average long-term growth rate for the business in which the CGU operates. The discount rates are determined on the basis of market data and in 2008 fluctuated between 6% and 18% for the CGUs.

2.8 Financial assets and liabilities

Investments

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

a) Loans and financial receivables

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

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

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

b) Held-to-maturity financial assets

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

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

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

(d) Available-for-sale financial assets

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

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

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

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

<u>Cash and cash equivalents</u>

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

<u>Borrowings</u>

Borrowings are initially recognised at their fair value, net of the transaction costs that they may have incurred. Any difference between the amount received and the repayment value is recognised in the income statement during the period of repayment using the effective interest rate method.

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

Trade and other payables

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

2.9 Accounting for derivative financial instruments and hedging activities

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

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

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

For accounting purposes, the operations are classified as follows:

a) Fair value hedge

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

b) Cash flow hedge

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

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

c) Derivatives that do not qualify for hedge accounting

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

d) Gas purchase and sale agreements

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

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

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

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

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

2.10 Inventories

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

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

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

2.11 Held-for-sale assets

GAS NATURAL classifies as held-for-sale assets those assets for which at the relevant year end initiatives have been initiated for their sale, which is estimated to take place within the next twelve months. These assets are stated at the lower of their carrying value and fair value, less the costs necessary for their sale and are not subject to depreciation.

2.12 Share capital

Share capital is made up exclusively of ordinary shares.

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

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

2.13 Capital grants and deferred Income

GAS NATURAL receives compensation for amounts paid for the construction or acquisition of certain plant.

Capital grants and deferred income relates primarily to:

- Capital grants relating basically to Agreements with the Regional Governments for the gasification of municipalities and other investments in gas infraestructure, for which GAS NATURAL has met all the conditions established, are stated at the amount granted.

- Income in consideration for new connections and branch lines due to the activity required to provide new supply needs to expand those already existing.

- Income from the extension of the pipeline network that will be financed by third parties.

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

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

2.14 Provisions for employee obligations

(a) Post-employment pension obligations and the like

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

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

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

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

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

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

(b) Other post-employment benefit obligations

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

(c) Termination benefits

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

2.15 Provisions

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

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

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

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

2.16 Leases

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

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

2.17 Income tax

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

Deferred taxes are recorded by comparing the temporary differences that arise between the taxable income on assets and liabilities and their respective accounting figures in the consolidated annual accounts used the tax rates that are expected to be in force when the assets and liabilities are realised. No deferred tax liabilities are recognised for profits not distributed from the subsidiaries when GAS NATURAL can control the reversal of the timing differences and it is likely that they will not reverse in the foreseeable future.

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

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

2.18 Revenue and expenses recognition

Sales are recognized when products are delivered to and have been accepted by the client, even if they have not been invoiced, or if applicable, services are rendered, and it is probable that the economic benefits associated with the transaction will flow to the entity. The expenses are recognised on an accruals basis, immediately in the case of disbursements that are not going to generate future economic profits or when the requirements for recording them as assets are not met.

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

Note 3 describes the basic features of the applicable regulations by sector.

Sales for the year include the estimate of electricity supplied which has not been billed.

The legal framework governing the regulated activities in the gas industry in Spain (Note 3), regulates the payment procedure to be applied among entities of the gas industry for the redistribution of the amounts received from tolls, levies and tariffs net of quotas for specific destinations, costs of acquisition of gas and remuneration of the bundled tariff activity, so that each company will finally collect the amounts based on its regulated activities.

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

The remuneration of the bundled tariff is calculated and recorded as income using the variables and rates of the formula laid down in the Ministerial Order that establishes remuneration for the year, bearing in mind the energy supplied. As from July 1, 2008 the bundled tariff is no longer a distribution activity.

The Ministerial Order of October 28, 2002, which regulates the settlement procedures for the deviations arising from the application of the settlement procedure between final net settlement income and the remuneration accredited each year, will be taken into account in the calculation of the tariffs, tolls and levies for the following years. At the date of formulation of these consolidated annual accounts, no final settlements have been published for 2006 and 2007, but the provisional deviations for these years have been considered in order to calculate the tariffs, tolls and levies for 2007 to 2009. No final settlements are expected to give rise to significant differences in respect of the estimates made.

Income includes the amount of both regulated sales and sales in the deregulated market, since both the bundled tariff distributor and the free-market seller are considered principal agents and not commission agents for the supplies delivered.

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

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

Electricity sales based on industry regulation (Note 3) are accounted for according to actual consumption.

GAS NATURAL has electricity generating capacity assignment agreements without purchase options for its combined cycle plants in Mexico and Puerto Rico. Under these agreements, GAS NATURAL obtains fixed revenues for capacity and operation of the combined cycle plants over the term of the agreements. These fixed revenues are recognised as operating lease revenues on a straight-line basis in each year of the term of the agreement as these agreements are classified as operating lease, irrespective of the agreed billing schedule.

Interest income is recognized using the effective interest method.

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

2.19 Cash flow Statements

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

a) operating activities: activities that constitute ordinary Group revenues, as well as other activities that cannot be qualified as investment or financing.

b) investment activities: acquisition, sale or disposal by other means of assets in the long-term and other investments not included in cash and cash equivalents.

c) financing activities: activities that generate changes in the size and composition of net equity and liabilities that do not form part of operating activities.

2.20 New accounting standards IFRS-EU and IFRIC interpretations

Certain new accounting standards (IFRS-EU) and IFRIC interpretations have been adopted and promulgated that are mandatory for accounting periods beginning on or after January 1, 2008 and have been adopted by GAS NATURAL:

a) IFRIC 11, "Group and Treasury Shares Transactions", which provides guidance on the way in which IFRS 2 "Share-based payments" must be applied.

b) IFRIC 14, "IAS 19 The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction."

Furthermore, GAS NATURAL has adopted IAS 39 and IFRS 7 (Amendments), "Reclassification of Financial Assets - Efective Date and Transition", issued by the IASB in October 2008 and adopted by the European Union for application as from July 1, 2008, and it has availed itself of early adoption of IFRS 8, "Operating Segments", which substitutes IAS 14 and stipulates that segment reporting must be based on internal management information.

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

The following new IFRS and IFRIC coming into force no later than January 1, 2009 have also been approved and published:

- IAS 1 "Presentation of Financial Statements"
- IAS 23 (Amendment) "Borrowing Costs"
- IFRS 2 (Amendment) "Share-based payments"
- IFRIC 13 "Customer Loyalty Programmes"

- IFRS 1 “First-time Adoption of IFRS” and IAS 27 “Consolidated and Separate Financial Statements”
- Improvements to International Financial Reporting Standards
- IAS 32 (Amendment) “Financial Instruments: Presentation” and IAS 1 (Amendment) “Presentation of Financial Statements”

On the basis of an analysis of these new accounting standards and interpretations to be applied to fiscal years beginning January 1, 2009, GAS NATURAL does not expect that its application will have significant effects on the consolidated annual accounts.

On the other hand, two other interpretations of IFRS have come into force that were issued by the IASB (IFRIC 12 “Service Concession Arrangements), which have not been applied given that they have not been adopted by the European Union at the date of formulation of these annual accounts. GAS NATURAL has not assessed the impact of their application on the annual accounts.

2.21 Significant accounting estimates and judgments

The preparation of consolidated financial statements requires the formulation of estimates and judgements. The valuation standards that require a large number of estimates are set out below:

a) *Provisions*

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

b) *Income tax and deferred income tax assets*

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

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

c) *Revenue and expenses recognition*

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

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

Sector regulation stipulates the obligation to subtract from energy generation revenues the amount equivalent to the assigned emission rights (Note 3). The result of the application of this legislation has not led GAS NATURAL to recording significant amounts for the estimates made.

d) Goodwill

Goodwill is subject to impairment tests annually.

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

GAS NATURAL believes that, based on current knowledge, the changes expected in the key assumptions on which the determination of the recoverable amounts are based would not result in the carrying values of the CGUs exceeding the recoverable amounts. It has been carried out a sensitivity analysis in relation to the used estimate discount rate concluding that if it was 1% higher, holding constant the other scenarios, it would not impact on the possible recovery of the recorded goodwill.

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

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

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

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

Note 3. Regulatory framework

a) Regulation of the natural gas industry in Spain

<u>Main characteristics of the natural gas industry in Spain</u>

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

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

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

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

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

Regulation of natural gas activities in Spain

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

1. Regulated activities

Regulated activities are characterised by:

- *Need for prior government authorisation*: The undertaking of regulated activities requires prior regulated administrative authorisation. In order to obtain this authorisation the applicant must basically demonstrate its legal, technical and economic capacity to exercise this activity. The above mentioned authorisation concedes a legal monopoly in a given territory.

- *Remuneration established by legislation*: The general directives that set the remuneration for these activities are governed by Royal Decree 949/2001, while the specific remuneration to be received is updated annually by ministerial order.

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

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

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

  Regulation stipulates the obligation of transport and distribution companies to maintain a legal separation of the regulated and unregulated activities, which must be carried out by different companies as well as the separation of the accounting for the regulated activities in order to avoid cross-subsidisation and to increase the transparency in the calculation of rates, tolls and levies .

1.1. Transport

The transport activity includes regasification, storage and transport of gas in the strict sense through the basic high pressure gas pipeline network. We describe these activities concisely below, along with the main obligations of the transport companies:

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

  The transport network is owned mainly by Enagás, S.A., although certain GAS NATURAL companies own a small proportion of it.
- *Storage:* the storage facilities are made up basically of underground storage tanks required to ensure the constant supply of natural gas and that supply will

not be affected by seasonal changes and other demand peaks. These facilities are also used to comply with the obligation laid down in Royal Decree 1766/2007 of December 28, to maintain certain minimum security stocks. Part of the underground storage facilities is exempt from the obligation to allow access of third parties.

1.2. Distribution:

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

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

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

The Resolution of December 31, 2008 of the Directorate of Energy and Mining Policy set out the remuneration for 2009 distribution in application of the Ministerial Order 3802/2008. Specifically, the initial remuneration for Gas Natural for 2009 totals Euros 1,206 million.

2. Unregulated activities:

2.1. Supplies (import of natural gas):

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

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

2.2. Commercialisation:

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

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

Under successive ministerial orders the criteria have been regulated for the establishment of the last resort tariff, its functioning and the setting of the specific amounts. Concretely, for the calculation of this tariff, which is updated quarterly, the cost of raw materials, the respective access tolls, the commercialisation costs and the supply security costs are all taken into account.

b) Regulation of the natural gas industry in Latin American

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

In Mexico, PEMEX is the dominant operator.

Brazil Petrobras is the dominant operator.

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

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

c) Regulation of the natural gas industry in Italy

In Italy, natural gas activity has been fully liberalised since January 1, 2003. However, the natural gas supply price is still being set by the *Autorità per Energia Elettrica e il Gas* (the Italian National Energy Commission, *AEEG*) for residential customers (customers that do not surpass the consumption threshold 200,000 m^3 per year), who have not opted for a new provider. On the other hand, for residential customers that have opted for a new natural gas provider in the market, the AEEG has established, on the basis of effective service costs, reference tariffs that the supply companies, as part of their public service obligations, must include in their commercial offering.

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

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

d) Electricity Sector in Spain

Main characteristics of the electricity sector in Spain

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

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

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

Generally, the electricity industry has the following main features:

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

- Following the directives set out in EU legislation (Directives 2003/54/CE of June 26, and 96/30/CE of June 22), the supply of electricity in Spain is totally deregulated, and all Spanish consumers and can freely choose their electricity provider as from January 1, 2003. Under Law 17/2007, and, as in the gas industry, as from January 1, 2009, the bundled tariff should have disappeared and all consumers would have been obligated to participate in the deregulated market. However, this reform has been delayed by the failure to publish the regulations pursuant to Law 12/2007, which will regulate the practical functioning of the last resort tariff.

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

- Since July 1, 2007 the Iberian Electricity Market (MIBEL) has begun to operate effectively between Spain and Portugal, which has involved the integration of the electricity systems of both countries (although this integration is still not perfect).

- The electricity system is not self-sufficient and its maintenance generates an annual deficit.

<u>The regulation of electricity activities in Spain</u>

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

<u>1. Regulated activities</u>

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

- *Need for prior government authorisation*: The undertaking of regulated activities requires prior regulated administrative authorisation. In order to obtain this authorisation the applicant must basically demonstrate its legal, technical and economic capacity to exercise this activity. The abovementioned authorisation grants a legal monopoly in a given territory.

- *Remuneration established by legislation*: The general directives that set the remuneration for these activities are governed by Royal Decree 2819/1998 of December 23, for transport, and by Royal Decree 222/2008 of February 15, for distribution, and are designed to ensure proper remuneration for these activities. The remuneration to be received is updated annually by ministerial order.

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

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

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

1.1. Transport

The transport of electricity connects the generation plants with the distribution grids and specific final customers. The grid is owned mainly by REE.

1.2. Distribution

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

However, as in the gas sector, it was expected that as from January 1, 2009 the distributors would be restricted to the management of the distribution grids, and, as the case may be, the commercialisers of each group would be in charge of last resort supply. The enactment of this reform has been delayed due to the failure to publish the regulations on the last resort electricity rate.

2. Unregulated activities:

2.1. Electricity generation:

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

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

The remuneration of the ordinary plants is based on electricity market prices. Royal Decree 661/2007 provides a specific economic system for electricity plants under the special regime, which includes rates, premiums and specific incentives for each type of technology (except for solar energy plants after September 29, 2008).

Since 2006 legislation stipulates the obligation of generators to subtract from energy generation revenue an amount equal to the value of the greenhouse gas emission rights assigned previously and free of charge.

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

2.2. The commercialisation of electricity:

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

As mentioned above, as from 1 January 2009, the regulated market would have been reduced to small consumers (last resort tariff) and this activity would have been carried out by bundled commercialisers. However, the coming into force of this reform has been delayed, although it is expected that the new regime will begin on July 1, 2009.

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

e) Regulation of the electricity sector in Puerto Rico

The Electricity sector in Puerto Rico is controlled by the Electricity Authorities (*Autoridad de Energía Eléctrica* - *AEE* or *PREPA*), a public corporation and government agency founded in 1941. Its mission is to provide electricity to its customers as efficiently, economically and safely as possible, in harmony with the environment.

At this time it generates, transports and distributes practically all the electricity consumed in Puerto Rico and is one of the largest public electrical utilities in the USA. PREPA has broad powers under Puerto Rican legislation and is self-regulated in terms of rates and service quality standards.

There are some independent generators that sell energy to PREPA, including Ecoeléctrica, an investee company of GAS NATURAL.

f) Regulation of the electric sector in Mexico

The electricity sector in Mexico is controlled by two government companies that monopolise the industry: the Federal Electricity Commission (*Comisión Federal de Electricidad* – ***CFE***) and the Light and Power Centre. The latter company operates in the centre of the country, mainly Mexico City, while the former operates in the rest of the country. The two utilities are vertically integrated in terms of generation, transmission and distribution.

The amendments to the Public Electrical Utilities Act in 1992, allowed the private sector to participate in the generation of electricity in Mexico as external producers of energy, self-supply, cogeneration, import and export.

Until December 2008, the Energy Regulatory Commission had given 22 licences for independent production, with an authorised capacity of 11,958 MW using combined cycle plants. The independent producers sell their electricity exclusively to CFE, in accordance with long-term capacity and electricity contracts.

Note 4. Segment reporting

a) Primary segment reporting format-business segment

GAS NATURAL's reportable segments are as follows:

- *Gas distribution*. Gas distribution includes regulated gas activity, the remunerated gas distribution and transport activity, the services for access of third parties to the pipeline grid, and activities related to distribution. Until June 30, 2008 it also includes the bundled tariff supply, which, as indicated in note 3.a), has come to be supplied through the de-regulated market as the supply of last resort.

  Gas distribution includes all of our sales to regulated customers in Spain (until June 30, 2008), Latin America and Italy at regulated prices. Regulated customers are customers in jurisdictions where the natural gas market has not been liberalized, such as Latin America, or customers in jurisdictions where the natural gas market has been liberalized but who have chosen to remain in the regulated market.

- *Electricity*. Our electricity operations include the generation of electricity through combined cycle generation plants, cogeneration projects and wind farms in Spain, Puerto Rico and Mexico (as a result of the business combinations carried out on December 27, 2007) and the commercialization of electricity in Spain to customers in the liberalized market.

- *Upstream & Midstream (UP & MID):*

  Upstream. Upstream activities include gas exploration and production activities, gas transportation from the moment gas is extracted until it reaches the liquefaction plant and the liquefaction process.

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

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

- *Wholesale & Retail (W&R).* Wholesale & Retail activities include commercialization of natural gas to wholesale & retail customers in the liberalized market in Spain (including the last resort supply as from July 1, 2008), as well as the provision of gas related products and services in Spain. In addition, they include the sales of natural gas to wholesalers outside of Spain.

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

2008	Gas distribution				Electricity				W&R	UP&MID	Other	TOTAL
	Spain	Latin America	Italy	Total	Spain	Mexico	P.Rico	Total				
Total segment sales (*)	1,711	2,531	164	**4,406**	1,898	671	149	**2,718**	8,220	284	167	**15,795**
Inter segment sales (*)	(993)	-	-	**(993)**	(461)	-	-	**(461)**	(504)	(157)	(136)	**(2,251)**
Consolidated total sales (*)	718	2,531	164	**3,413**	1,437	671	149	**2,257**	7,716	127	31	**13,544**
EBITDA (*)	886	467	36	**1389**	366	97	53	**516**	465	185	9	**2,564**
Depreciation and amortization expenses	(303)	(94)	(27)	(424)	(98)	(63)	(18)	(179)	(8)	(49)	(66)	**(726)**
Debtors provisions and others	(10)	(10)	(1)	(21)	(6)	-	-	(6)	(19)	-	2	**(44)**
Operating income	573	363	8	944	262	34	35	331	438	136	(55)	**1,794**
Net finance cost	-	-	-	-	-	-	-	-	-	-	-	**(249)**
Share of profit of associates	5	-	-	**5**	1	-	-	**1**	-	-	-	**6**
Income before taxes	-	-	-	-	-	-	-	-	-	-	-	**1,551**
Income tax expense	-	-	-	-	-	-	-	-	-	-	-	**(379)**
Net income for the period	-	-	-	-	-	-	-	-	-	-	-	**1,172**

2007	Gas distribution				Electricity				W&R	UP&MID	Other	TOTAL
	Spain	Latin America	Italy	Total	Spain	Mexico	P.Rico	Total				
Total segment sales (*)	2,116	1,766	151	4,033	1,127	-	144	1,271	6,037	259	154	**11,754**
Inter segment sales (*)	(541)	-	-	(541)	(87)	-	-	(87)	(756)	(151)	(126)	**(1,661)**
Consolidated total sales (*)	1,575	1,766	151	3,492	1,040	-	144	1,184	5,281	108	28	**10,093**
EBITDA (*)	863	425	35	1,323	279	-	59	338	446	158	12	**2,277**
Depreciation and amortization expenses	(285)	(94)	(24)	(403)	(79)	-	(18)	(97)	(8)	(46)	(97)	**(651)**
Debtors provisions and others	(6)	(18)	(9)	(33)	(5)	-	-	(5)	(10)	(6)	(5)	**(59)**
Operating income	572	313	2	887	195	-	41	236	428	106	(90)	**1,567**
Net finance cost	-	-	-	-	-	-	-	-	-	-	-	**(160)**
Share of profit of associates	6	-	-	6	2	-	-	2	-	-	-	**8**
Income before taxes	-	-	-	-	-	-	-	-	-	-	-	**1,415**
Income tax expense	-	-	-	-	-	-	-	-	-	-	-	**(359)**
Net income for the period	-	-	-	-	-	-	-	-	-	-	-	**1,056**

(*) Total sales relates to the net turnover. EBITDA is calculated as operating income, plus depreciation and amortization and operating provisions.

The assets and investments recorded under equity accounting, liabilities and investments, including additions for business combinations, by segments, are as follows:

	Assets	Investments under equity method	Liabilities	Capital expenditure / business combinations
At 31.12.08				
Gas Distribution	7,103	36	(1,631)	722
Spain	4,443	36	(982)	461
Latin America	1,948	-	(393)	141
Italy	712	-	(256)	120
Electricity	4,229	6	(504)	420
Spain	2,881	6	(264)	377
Mexico	1,126	-	(175)	36
Puerto Rico	222	-	(65)	7
Wholesale & Retail	2,339	-	(2,387)	13
Upstream & Midstream	1,070	-	(61)	29
Others	431	-	(484)	81
Total	**15,172**	**42**	**(5,067)**	**1,265**

	Assets	Investments under equity method	Liabilities	Capital expenditure / business combinations
At 31.12.07				
Gas Distribution	6,960	32	(1,642)	688
Spain	4,249	32	(1,083)	451
Latin America	2,074	-	(322)	124
Italy	637	-	(237)	113
Electricity	3,842	6	(487)	1,369
Spain	2,530	6	(236)	331
Mexico	1,095	-	(180)	1,030
Puerto Rico	217	-	(71)	8
Wholesale & Retail	1,762	-	(1,159)	15
Upstream & Midstream	1,061	-	(121)	159
Others	410	-	(463)	71
Total	**14,035**	**38**	**(3,872)**	**2,302**

Segment assets consist primarily of property, plant and equipment, intangible assets, inventories, derivatives designated as hedges of future commercial transactions, receivables, debtors and cash and cash equivalents. They exclude tax refundable, investments and derivatives held for trading or designated as hedges of borrowings. The assets excluded total Euros 3,551 million at December 31, 2008 and Euros 1,347 million at December 31, 2007.

Segment liabilities comprise operating liabilities (including derivatives designated as hedges of future transactions). They exclude items such as tax payable and corporate borrowings and related hedging derivatives. The liabilities excluded total Euros 6,956 million at December 2008 and Euros 5,121 million at December 2007.

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

b) Secondary segment reporting format—geographical segments

The home-country of GAS NATURAL —which is also the main operating company—is Spain. The areas of operation are principally Rest of Europe (Italy and France), Latin America, Puerto Rico, the USA and the Maghreb.

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

	2008	2007
Spain	8,578	7,160
Rest of Europe	419	314
Latin America	3,201	1,797
Puerto Rico	149	144
USA	728	590
Other	469	88
Total	**13,544**	**10,093**

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

	At 31.12.08	At 31.12.07
Spain	10,712	9,511
Rest of Europe	858	731
Latin America	3,074	3,169
Puerto Rico	223	217
Maghreb	377	445
Total	**15,244**	**14,073**

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

	At 31.12.08	At 31.12.07
Spain	936	888
Rest of Europe	69	58
Latin America	178	124
Puerto Rico	7	8
Maghreb	19	133
Total	**1,209**	**1,211**

Note 5. Intangible assets

The movement during 2008 and 2007 related to intangible assets was as follows:

	Concession and other rights to use	Computer software	Other intangible assets	Subtotal	Goodwill	Total
Cost, gross	1,164	355	241	**1,760**	441	**2,201**
Accumulated depreciation	(323)	(229)	(20)	**(572)**	-	**(572)**
Net carrying value at 1.1.07	**841**	**126**	**221**	**1,188**	**441**	**1,629**
Investment	3	55	5	**63**	-	**63**
Divestitures	-	-	(1)	**(1)**	-	**(1)**
Depreciation charge	(49)	(45)	(18)	**(112)**	**-**	**(112)**
Cumulative translation adjustment	(16)	-	-	**(16)**	(22)	**(38)**
Business combination (Note 28)	-	-	-	**-**	122	**122**
Reclassifications and others	**-**	-	(27)	**(27)**	-	**(27)**
Closing net carrying value at 31.12.07	**779**	**136**	**180**	**1,095**	**541**	**1,636**
Cost gross	1,126	409	205	**1,740**	541	**2,281**
Accumulated depreciation	(347)	(273)	(25)	**(645)**	-	**(645)**
Net carrying value at 1.1.08	**779**	**136**	**180**	**1,095**	**541**	**1,636**
Investment	4	69	68	**141**	-	**141**
Divestitures	-	(1)	-	**(1)**	-	**(1)**
Depreciation charge	(49)	(49)	(6)	**(104)**	**-**	**(104)**
Cumulative translation adjustment	(61)	(2)	-	**(63)**	2	**(61)**
Business combination (Note 28)	-	-	-	**-**	3	**3**
Reclassifications and others	3	1	(1)	**3**	-	**3**
Net carrying value at 31.12.08	**676**	**154**	**241**	**1,071**	**546**	**1,617**
Cost, gross	1,071	434	271	**1,776**	546	**2,322**
Accumulated depreciation	(395)	(280)	(30)	**(705)**	-	**(705)**
Net carrying value at 31.12.08	**676**	**154**	**241**	**1,071**	**546**	**1,617**

Concessions and other rights to use includes:

- The right to use the Maghreb-Europe pipeline, through which GAS NATURAL has an exclusive right to use the pipeline and the obligation to maintain and improve it when necessary. The net carrying value of this right totals Euros 357 million at December 31, 2008 (Euros 362 million at December 31, 2007). This right will terminate in 2021 and can be renewed.

- Concession agreements by virtue of which GAS NATURAL operates in the distribution of natural gas in Latin America, generally with extendable terms longer than 30 years. These agreements contemplate provisions for the use of public thoroughfares for the direct supply of gas to end users. There are also branch line connection obligations under current legislation. Upon termination of the concession agreements, there is a legal obligation to transfer ownership of the pipeline network for appropriate consideration. The following concession agreements are of special note :

  a) Gas distribution concession in the metropolitan area of Rio de Janeiro, which totals Euros 158 million at December 31, 2008 (Euros 210 million at December 31, 2007). The concession will expire in 2027 and can be renewed.

  b) Gas distribution concession in the south of the state of Sao Paulo, which totals Euros 125 million at December 31, 2008 (Euros 162 million at December 31, 2007). The concession will expire in 2030 and can be renewed.

Other intangible assets mainly includes projects underway for new wind farms totalling Euros 79 million at December 31, 2008 (Euros 81 million at December 31, 2007), the cost of the acquisition of the exclusive regasification rights in Puerto Rico, which total Euros 61 million at December 31, 2008 (Euros 65 million at December 31, 2007) and the acquired emission allowances for Euros 60 million (Euros 1 million at December 31, 2007).

The main movements in goodwill in 2008 and 2007 are described in Note 28. In 2007 the Group acquired 28% of the share capital of the subsidiaries Invergás, S.A., Gas Natural SDG Argentina, S.A., Natural Energy, S.A. and Natural Servicios, S.A., which gave rise to goodwill of Euros 27 million.

The goodwill is assigned to the Cash Generating Units (CGUs) of GAS NATURAL, identified by country of operation and business trading segment. Set out below is a summary of goodwill assignment by segment.

	At 31.12.08				A 31.12.07			
	Gas distribution	**Electricity**	**UP&MID**	**Total**	**Gas distribution**	**Electricity**	**UP&MID**	**Total**
Spain	-	118	2	120	-	118	2	120
Italy	143	-	-	143	140	-	-	140
Argentina	26	-	-	26	27	-	-	27
Puerto Rico	-	122	-	122	-	115	-	115
Mexico	25	89	-	114	30	84	-	114
Brazil	21	-	-	21	25	-	-	25
	215	**329**	**2**	**546**	**222**	**317**	**2**	**541**

The impairment tests have been carried out at December 31, 2008 and 2007. On the basis of the goodwill impairment analysis it cannot be deduced that impairment will probably arise in the future.

Note 6. Property, plant and equipment

The movements in the accounts in 2008 and 2007 under property, plant and equipment and their respective accumulated amortisation and provisions have been as follows:

	Land and buildings	Gas transport tankers under finance lease	Gas installations	Combined cycle plants	Wind farms	Exploration and development	Other PPE	PPE under construction	Total
Cost, gross	220	352	8,164	1,492	379	116	486	623	**11,832**
Accumulated amortisation	(62)	(39)	(3,110)	(170)	(54)	(37)	(254)	-	**(3,726)**
Net carrying value at 1.1.07	**158**	**313**	**5,054**	**1,322**	**325**	**79**	**232**	**623**	**8,106**
Investment	18	81	527	55	13	62	26	366	**1,148**
Divestitures	(1)	-	(7)	(2)	-	(2)	(29)	-	**(41)**
Amortisation	(7)	(12)	(375)	(72)	(18)	(5)	(50)	-	**(539)**
Cumulative translation adjustment	(3)	-	(33)	(45)	-	(6)	(8)	(3)	**(98)**
Business combinations (Note 28)	13	-	56	1,015	-	4	2	1	**1,091**
Reclassifications and others	3	-	84	374	25	(62)	140	(526)	**38**
Net carrying value at 31.12.07	**181**	**382**	**5,306**	**2,647**	**345**	**70**	**313**	**461**	**9,705**
Cost, gross	249	433	8,760	2,873	416	112	594	461	**13,898**
Accumulated amortisation	(68)	(51)	(3,454)	(226)	(71)	(42)	(281)	-	**(4,193)**
Net carrying value at 1.1.08	**181**	**382**	**5,306**	**2,647**	**345**	**70**	**313**	**461**	**9,705**
Investment	10	-	560	48	2	14	21	413	**1,068**
Divestitures	(2)	-	(12)	-	(1)	-	(2)	(1)	**(18)**
Amortisation	(8)	(15)	(395)	(145)	(22)	(4)	(33)	-	**(622)**
Cumulative translation adjustment	(1)	-	(177)	60	-	1	-	(10)	**(127)**
Business combinations (Note 28)	-	-	56	-	-	-	-	-	**56**
Reclassifications and others	(3)	-	113	3	5	(4)	(88)	(100)	**(74)**
Net carrying value at 31.12.08	**177**	**367**	**5,451**	**2,613**	**329**	**77**	**211**	**763**	**9,988**
Cost, gross	248	433	9,208	3,001	429	123	475	763	**14,680**
Accumulated amortisation	(71)	(66)	(3,757)	(388)	(100)	(46)	(264)	-	**(4,692)**
Net carrying value at 31.12.08	**177**	**367**	**5,451**	**2,613**	**329**	**77**	**211**	**763**	**9,988**

LNG transport gas tankers for the transport of liquefied natural gas were acquired under finance lease agreements (see Note 17). In December 2007 a 138,000 m3 tank was acquired through a 25-year time-charter lease, extendible for consecutive periods of 5 years, and which represents a joint investment of Euros 162 million relating to the current value of the payments to which Repsol YPF (50%) and GAS NATURAL (50%) are committed.

Exploration and development at December 31, 2008 includes the net carrying value of investments in zones with reserves of Euros 31 million and exploration costs of Euros 46 million.

PPE under construction at December 31, 2008 includes investment in combined cycle plants in Malaga that are expected to come into operation in 2009, and at the Barcelona Harbour, to be operating in 2010, and totals Euros 522 million (Euros 298 million at December 31, 2007). In July 2007 commercial operations began for the combined cycle power plant in Plana del Vent (Tarragona).

The borrowing costs capitalised for the year ended December 31, 2008 to plant projects during their construction total Euros 25 million (Euros 17 million at December 31, 2007). The borrowing costs in 2008 represent 8.2% of total net debt (8.5% for the period corresponding to December 31, 2007).

GAS NATURAL has investment commitments of Euros 316 million at December 31, 2008, basically for the construction of combined cycle electricity plants and Upstream projects. Furthermore, it has a joint commitment with Repsol YPF, S.A. for contracting an LNG transport gas tanker with a capacity of 138,000 m^3 that is expected to be operative in 2009.

At December 31, 2008 GAS NATURAL did not have any real estate investment.

Property, plant and equipment includes fully depreciated assets totalling Euros 716 million.

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

Note 7. Investments recorded using the equity method accounting

The movement in 2008 and 2007 in associates is as follows:

	2008	2007
Opening balance	**38**	**34**
Share of loss/profit	6	8
Dividends received	(1)	(2)
Divestitures	-	(2)
Others	(1)	-
Closing Balance	**42**	**38**

In February 2007 the 24.2% interest in Burgalesa de Generación Eólica, S.A. was sold.

The most significant information on associates consolidated using the equity method (which none of them are listed in a stock market) are as follows:

	Country	Assets	Liabilities	Income	Profit	% Interest held
2008						
Enervent, S.A.	Spain	22	16	7	2	26.0%
Gas Aragón, S.A	Spain	131	67	55	10	35.0%
Kromschroeder, S.A.	Spain	16	4	18	-	42.5%
Oficina de Cambios de Suministrador, S.A.	Spain	-	-	-	-	20.0%
Sistemas Energéticos La Muela, S.A.	Spain	11	2	5	2	20.0%
Sistemas Energéticos Mas Garullo, S.A. (1)	Spain	10	6	4	2	18.0%
Torre Marenostrum, S.L	Spain	77	57	6	-	45.0%
2007	Spain					
Enervent, S.A.	Spain	24	18	6	2	26.0%
Gas Aragón, S.A	Spain	123	82	74	17	35.0%
Kromschroeder, S.A.	Spain	19	6	25	1	42.5%
Sistemas Energéticos La Muela, S.A.	Spain	11	4	3	3	20.0%
Sistemas Energéticos Mas Garullo, S.A. (1)	Spain	11	8	2	2	18.0%
Torre Marenostrum, S.L	Spain	78	58	6	-	45.0%

(1 Consolidated by equity method in spite of the fact that the shareholding percentage is below 20%, since GAS NATURAL has a significant representation in the company's management.

Note 8. Financial assets

The breakdown of financial assets, excluding Trade and other receivables (Note 10) and Cash and cash equivalents (Note 11) at December 31, 2008 and 2007, is as follows:

At December 31, 2008	**Fair value through profit for the year**	**Available for sale**	**Loans and other receivables**	**Investments held to maturity**	**Hedging derivatives**	**Total**
Equity instruments	-	2,599	-	-	-	**2,599**
Derivatives (Note 16)	-	-	-	-	4	**4**
Other financial assets	-	-	215	2	-	**217**
Non-current financial assets	**-**	**2,599**	**215**	**2**	**4**	**2,820**
Derivatives (Note 16)	36	-	-	-	7	**43**
Other financial assets	169	-	95	53	-	**317**
Current financial assets	**205**	**-**	**95**	**53**	**7**	**360**
Total financial assets at December 31, 2008	**205**	**2,599**	**310**	**55**	**11**	**3,180**

At December 31, 2007	**Fair value through profit for the year**	**Available for sale**	**Loans and other receivables**	**Investments held to maturity**	**Hedging derivatives**	**Total**
Equity instruments	-	298	-	-	-	**298**
Derivatives (Note 16)	-	-	-	-	33	**33**
Other financial assets	150	-	186	52	-	**388**
Non-current financial assets	**150**	**298**	**186**	**52**	**33**	**719**
Derivatives (Note 16)	-	-	-	-	6	**6**
Other financial assets	-	-	54	-	-	**54**
Current financial assets	**-**	**-**	**54**	**-**	**6**	**60**
Total financial assets at December 31, 2007	**150**	**298**	**240**	**52**	**39**	**779**

Fair value financial assets through profit and loss

Fair value financial instruments through profit and loss include financial deposits maturing in 2009 totalling Euros 158 million accruing interest of 2.57%. No changes in fair value have been identified in these deposits arising from instrument-related credit risk.

It also includes the fair value valuation of the Equity Swap contracts on 85,886,762 shares of Unión Fenosa, S.A., representing 9.40% of share capital, and the forward fixed-price sale and purchase agreement entered into with Caja Navarra for 2,721,000 shares of Unión Fenosa, S.A., representing 0.297% of share capital, all of which have been mentioned in Note 2.2.e), which have been carried in the income statement, under Variations in fair value of financial instruments (Note 26).

Available-for-sale financial assets

The investment of Available-for-sale financial assets for 2008 and 2007 is as follows:

	2008	2007
Opening balance	**298**	**368**
Increases	2,459	4
Divestitures	(32)	(124)
Fair value adjustment	(126)	51
Conversion differences	(1)	-
Others	1	(1)
Closing balance	**2,599**	**298**

Available-for-sale financial assets include the following:

	At 31.12.08	At 31.12.07
—Listed equity securities	2,571	239
—Unlisted equity securities	28	31
—Investment fund	-	28
	2,599	**298**

The main variation in 2008 is the result of the purchase of 14.72% of Unión Fenosa, S.A. (see Note 2.2.e) in the amount of Euros 2,457 million. This stake has been adjusted to the quotation value at the year end (Euros 17.73 per share) impacting Adjustments for changes in value in equity totalling Euros 72 million before the tax effect (net of taxes it totals Euros 51 million). It was not considered necessary to record an impairment loss for this investment against the income statement since there were tacit gains at the time of the purchase that subsist at the balance sheet date and at the date of formulation of the consolidated annual accounts.

On July 30, 2008, the 14.77% shareholding in Transportadora Colombiana de Gas S.A., ESP was sold for Euros 11 million, which generated a net profit of Euros 8 million.

At December 31, 2008 the shareholding of GAS NATURAL in Enagás, S.A. was 5%, in accordance with the provisions of the Tax, Administrative and Labour Measures Act, Law 62/2003/December 30, which states that no natural or legal person can hold a direct or indirect share in this entity above 5% of its share capital. Under the provisions of Law 12/2007/July 2, any natural or legal persons undertaking activities in the gas industry cannot exercise voting rights in the System Technical Regulatory Body (*Gestor Técnico del Sistema*), which is a feature of Enagás, S.A., if its share exceeds 1%. Given that the quotation of Enagás, S.A. at December 31, 2008 was Euros 15.56 per share (Euros 19.99 per share at December 31, 2007), the valuation of the shareholding totals Euros 186 million (Euros 239 million at December 31, 2007).

On May 17, 2007 the 9.38% shareholding in Naturgas Energía Grupo, S.A. was sold for Euros 122 million, generating a net profit of Euros 65 million, reducing Adjustments for change in value.

Loans and other financial assets

The breakdown at December 31, 2008 and 2007 is as follows:

	At 31.12.08	**At 31.12.07**
Commercial loans	89	81
Deposits and guarantee deposits	53	52
Debtors for levelling of capacity income	57	50
Other loans	16	3
Loans and Other non-current financial assets	**215**	**186**
Commercial loans	47	47
Dividend receivable	41	3
Others loans	7	4
Loan and Other current financial assets	95	54
Total	**310**	**240**

The breakdown by maturities at December 2008 and 2007 is as follows:

Maturities	**At 31.12.08**	**At 31.12.07**
No later than 1 year	95	54
Between 1 year and 5 years	127	58
Later than 5 years	88	128
Total Other financial assets	**310**	**240**

Commercial loans include mainly loans for the sale of heating and gas installations financed over the long term.

The corresponding interest rates (7.75% to 9% for loans between 1 to 5 years) are in line with market interest rates for loans of such kind and duration. Therefore, their carrying value approximates to their fair value.

Debtors for levelling of capacity income includes the income pending to be invoiced recognised through the levelling revenues over the entire term of the power purchase agreement (PPA) in Mexico and Puerto Rico.

Other loans include the current and non-current value of the deferred amounts pending receipt for the sale of shareholdings mentioned in Note 17 to Chemo España, S.L. for USD 22 million maturing between 2009 and 2013.

Investments held to maturity

Financial instruments held to maturity include financial investments totalling Euros 54 million, of which Euros 53 million mature in 2009, that have accrued interest of 4.76%.

Hedging derivatives

Note 16 includes the breakdown of derivative financial instruments.

Note 9. Inventories

The breakdown of Inventories is as follows:

	At 31.12.08	At 31.12.07
Natural gas and liquefied gas	480	376
Raw materials and other inventories	80	86
Total inventories	**560**	**462**

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

Note 10. Trade and other receivables

The breakdown of this account is as follows:

	At 31.12.08	At 31.12.07
Trade receivables	2,464	2,172
Receivables with related companies (1)	89	80
Provision for depreciation of receivables	(183)	(175)
Trade receivables	2,370	2,077
Public Administrations	78	92
Prepayments	62	47
Derivative financial instruments (see Note 16)	60	5
Sundry receivables	198	138
Other receivables	398	282
Current deferred income tax assets	17	13
Total	**2,785**	**2,372**

(1) Repsol YPF Group, Suez Group (GDF-Suez at 31.12.08)

The movement in the impairment of receivables is as follows:

	2008	2007
Opening balance	**(175)**	**(153)**
Net charge for the year	(41)	(42)
Disposals	18	18
Cumulative translation adjustments and others	15	2
Closing balance	**(183)**	**(175)**

In general, the outstanding invoices do not accrue interest as they fall due in an average period of 15 days.