

**Gas Natural Capital Markets, S.A.**



**2010 Annual Report**

## **ANNUAL ACCOUNTS**

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

## AUDITOR´S REPORT ON THE ANNUAL ACCOUNTS

To the Shareholders of Gas Natural Capital Markets, S.A.

We have audited the annual accounts of Gas Natural Capital Markets, S.A., consisting of the balance sheet at 31 December 2010, the income statement, the statement of changes in equity, the cash flow statement and related notes for the year then ended. The company's Directors are responsible for the preparation of these annual accounts in accordance with the financial reporting framework applicable to the entity (as identified in Note 2 to the accompanying annual accounts), and in particular, with the accounting principles and criteria included therein. Our responsibility is to express an opinion on the annual accounts taken as a whole, based on the work performed in accordance with legislation governing the audit practice in Spain, which requires the examination, on a test basis, of evidence supporting the annual accounts and an evaluation of whether their overall presentation, the accounting principles and criteria applied and the estimates made are in accordance with the applicable financial reporting framework.

In our opinion, the accompanying annual accounts for 2010 present fairly, in all material respects, the financial position of Gas Natural Capital Markets, S.A. at 31 December 2010 and the results of its operations and cash flows for the year then ended in accordance with the applicable financial reporting framework, and in particular, with the accounting principles and criteria included therein.

The accompanying Directors' Report for 2010 contains the explanations which the Directors consider appropriate regarding the Company's situation, the development of its business and other matters and does not form an integral part of the annual accounts. We have verified that the accounting information contained in the Directors' Report is in agreement with that of the annual accounts for 2010. Our work as auditors is limited to checking the Directors' Report in accordance with the scope mentioned in this paragraph and does not include a review of information other than that obtained from the Company's accounting records.

PricewaterhouseCoopers Auditores, S.L.

Originally signed by  
Iñaki Goiriena Basualdu  
Partner

28 april 2011

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*PricewaterhouseCoopers Auditores, S.L., Avinguda Diagonal, 640, 08017 Barcelona , España  
T: +34 932 532 700 F: +34 934 059 032, [www.pwc.com/es](http://www.pwc.com/es)*

**BALANCE SHEET OF GAS NATURAL CAPITAL MARKETS S.A.****(thousands of euros)**

	<b>31.12.2010</b>	<b>31.12.2009</b>
<b>NON-CURRENT ASSETS</b>	<b>6,904,280</b>	<b>4,800,592</b>
<b>Long-term investments in group companies and associates</b> (Note 4)	6,904,280	4,800,592
Loans to companies	6,904,280	4,800,592
<b>CURRENT ASSETS</b>	<b>176,533</b>	<b>160</b>
<b>Trade and other receivables</b> (Note 5)	<b>76</b>	<b>2</b>
Trade receivables	--	2
Trade receivables, group companies and associates	76	--
<b>Short-term investments in group companies and associates</b> (Note 4)	<b>176,427</b>	<b>158</b>
Loans to companies	176,427	158
<b>Short-term prepayments and accrued income</b>	<b>30</b>	<b>--</b>
<b>TOTAL ASSETS</b>	<b>7,080,813</b>	<b>4,800,752</b>
<b>NET EQUITY</b> (Note 6)	<b>7,296</b>	<b>1,983</b>
<b>SHAREHOLDERS' EQUITY</b>	<b>7,296</b>	<b>1,983</b>
Capital	100	100
Reserves	184	183
Legal and statutory	20	19
Other reserves	164	164
Profit for the year	7,012	1,700
<b>NON-CURRENT LIABILITIES</b>	<b>6,904,315</b>	<b>4,798,326</b>
Long-term borrowings (Note 7)	<b>6,904,315</b>	<b>4,798,326</b>
Negotiable securities and other financial instruments	6,904,315	4,798,326
<b>CURRENT LIABILITIES</b>	<b>169,202</b>	<b>443</b>
Short-term borrowings (Note 7)	<b>164,797</b>	<b>--</b>
Negotiable securities and other financial instruments	164,797	--
Trade and other payables (Note 8)	<b>4,405</b>	<b>443</b>
Trade payables	305	88
Payables with group companies and associates	1,390	1
Current income tax liabilities	1,077	338
Other taxes payables	1,633	16
<b>TOTAL NET EQUITY AND LIABILITIES</b>	<b>7,080,813</b>	<b>4,800,752</b>

Notes 1 to 18 form an integral part of these annual accounts.

**INCOME STATEMENT OF GAS NATURAL CAPITAL MARKETS S.A.****(thousands of euros)**

	<b>2010</b>	<b>2009</b>
<b>Other operating expenses</b> (Note 11)	<b>(206)</b>	<b>(21)</b>
External services	(145)	(12)
Sundry expenses	(61)	(9)
<b>OPERATING PROFIT</b>	<b>(206)</b>	<b>(21)</b>
<b>Financial income</b>	<b>336,356</b>	<b>86,706</b>
Negotiable securities and other financial instruments	336,356	86,706
- From Group companies and associates	336,356	86,535
- From Third parties	--	171
<b>Financial expenses</b>	<b>(326,133)</b>	<b>(84,256)</b>
- Borrowings from group companies and associates	(45)	--
- Borrowings from third parties	(326,088)	(84,256)
<b>NET FINANCIAL INCOME</b>	<b>10,223</b>	<b>2,450</b>
<b>PROFIT BEFORE TAX</b>	<b>10,017</b>	<b>2,429</b>
Income tax (Note 10)	(3,005)	(729)
<b>PROFIT FOR THE YEAR</b>	<b>7,012</b>	<b>1,700</b>

*Notes 1 to 18 form an integral part of these annual accounts.*

**STATEMENT OF CHANGES IN NET EQUITY OF GAS NATURAL CAPITAL MARKETS S.A.****A) STATEMENT OF INCOME AND EXPENSE RECOGNISED (thousands of euros)**

	2010	2009
<b>PROFIT FOR THE YEAR</b>	<b>7,012</b>	<b>1,700</b>
<b>INCOME AND EXPENSE RECOGNISED DIRECTLY IN NET EQUITY</b>	<b>--</b>	<b>(217)</b>
Cash flow hedges	--	(310)
Tax effect	--	93
<b>RELEASES TO INCOME STATEMENT</b>	<b>--</b>	<b>235</b>
Cash flow hedges	--	335
Tax effect	--	(101)
<b>TOTAL INCOME AND EXPENSE RECOGNISED FOR THE YEAR</b>	<b>7,012</b>	<b>1,718</b>

Notes 1 to 18 form an integral part of these annual accounts.

**B) STATEMENT OF TOTAL CHANGES IN NET EQUITY (thousands of euros)**

	Share capital	Reserves	Profits/(losses) brought forward	Profit for the year	Adjustments for changes in value	TOTAL
<b>Balance at 31.12.2008</b>	<b>100</b>	<b>99</b>	<b>--</b>	<b>84</b>	<b>(18)</b>	<b>265</b>
Total income and expense recognised	--	--	--	1,700	18	1,718
Operations with partners or owners						
- Distribution of dividends	--	--	--	--	--	--
Other variances in net equity	--	84	--	(84)	--	--
<b>Balance at 31.12.2009</b>	<b>100</b>	<b>183</b>	<b>--</b>	<b>1,700</b>	<b>--</b>	<b>1,983</b>
Total income and expense recognised	--	--	--	7,012	--	7,012
Operations with partners or owners						
- Distribution of dividends	--	--	(1,699)	--	--	(1,699)
Other variances in net equity	--	1	1,699	(1,700)	--	--
<b>Balance at 31.12.2010</b>	<b>100</b>	<b>184</b>	<b>-</b>	<b>7,012</b>	<b>--</b>	<b>7,296</b>

Notes 1 to 18 form an integral part of these annual accounts.

**CASH FLOW STATEMENTS OF GAS NATURAL CAPITAL MARKETS S.A. (thousands of euros)**

	2010	2009
<b>Profit for the year before tax</b>	<b>10,017</b>	<b>2,429</b>
<b>Adjustments to net income</b>	<b>(10,223)</b>	<b>(2,469)</b>
Financial income	(336,356)	(86,706)
Financial expense	326,133	84,256
Other income and expenses	--	(19)
<b>Changes in working capital</b>	<b>3,119</b>	<b>92</b>
Trade and other receivables	(74)	--
Other current assets	(30)	--
Trade and other payables	3,223	92
<b>Other cash generated from operations</b>	<b>4,785</b>	<b>(135)</b>
Interest paid	(242,771)	(3,903)
Interest received	249,822	4,178
Income tax refunded (paid)	(2,266)	(410)
<b>Cash generated from operating activities</b>	<b>7,698</b>	<b>(83)</b>
<b>Payments for investments</b>	<b>(2,187,390)</b>	<b>(4,685,926)</b>
Group companies and associates	(2,187,390)	(4,685,926)
<b>Receipts from investments</b>	<b>--</b>	<b>200,083</b>
Group companies and associates	--	200,083
<b>Cash flows from investments activities</b>	<b>(2,187,390)</b>	<b>(4,485,843)</b>
<b>Receipts and payments for financial liability instruments</b>	<b>2,181,391</b>	<b>4,485,926</b>
Issue	2,181,391	4,485,926
Due to group companies and associates - short-term	2,181,391	4,485,926
Repayment and redemption of	--	(200.000)
Borrowings from group companies and associates	--	(200.000)
<b>Dividend payments and returns on other equity instruments</b>	<b>(1,699)</b>	<b>--</b>
<b>Equity</b>		
Dividends	(1,699)	--
<b>Cash received from financing activities</b>	<b>2,179,692</b>	<b>4,485,926</b>
<b>NET INCREASE/DECREASE IN CASH AND CASH EQUIVALENTS</b>	<b>--</b>	<b>--</b>
Cash and cash equivalents at the beginning of the year	--	--
Cash and cash equivalents at the year end	--	--

Notes 1 to 18 form an integral part of these annual accounts.

## **NOTES TO ANNUAL ACCOUNTS OF GAS NATURAL CAPITAL MARKETS, S.A. FOR THE YEAR ENDED 31 DECEMBER 2010**

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

Gas Natural Capital Markets, S.A. (hereon, the Company) is a public limited company that was incorporated in 2005 and has its registered office in Plaça del Gas, number 1, Barcelona.

The Company is mainly engaged in the issuing of preference shares and/or other financial debt instruments, with the guarantee of Gas Natural SDG, S.A., as per Additional Provision Three of Law 19/2003/4 July.

The Company is part of the GAS NATURAL Group, whose parent Company is Gas Natural SDG, S.A., with registered office in Plaça del Gas number 1, Barcelona. The consolidated annual accounts of the GAS NATURAL group for 2009 were adopted by the General Meeting of Shareholders of 19 April 2010 and filed with the Mercantile Registry of Barcelona.

### **Note 2. Basis of presentation**

The annual accounts of the Company for 2009 were approved by the General Meeting of Shareholders of April 19, 2010.

The accompanying annual accounts have been obtained from the Company's accounting records and are presented in accordance with Spanish legislation, the Chart of Accounts introduced by Royal Decree 1514/2007/16 November and the amendments brought into the Chart of Accounts by Royal Decree 1159/2010, so that they reflect a true and fair view of the Company's net equity, financial situation at December 31, 2010 and results of the Company, of the changes in the statement of income and expenses recognised and the cash flows generated by the Company in the year ended on that date.

The changes to the Chart of Accounts (Royal Decree 1514/2007, 16 November) introduced by Royal Decree 1159/2010 (17 September) are applicable to financial years commencing as from 1 January 2010. In accordance with Transitional Provision Five of Royal Decree 1159/2010, the Company has opted to treat 1 January 2010 as the transition date and therefore the comparative figures for 2009 have not been brought into line with the new standards. Nonetheless, as the application of these new standards has no significant impact on equity or results for 2009, the figures set out in the 2010 annual accounts are comparable with the figures for 2009.

The accompanying annual accounts, which have been drawn up by the Directors of the Company, will be submitted to the approval of the General Meeting of Shareholders and are expected to be approved without modification.

The magnitudes in the balance sheet, income statement, statement of income and expense recognised, the statement of total changes in net equity, the statement of cash

flows and in these Notes to the Accounts are stated in Euros, unless otherwise expressly indicated in another unit.

### **Note 3. Accounting policies**

The main accounting policies used by the Company when preparing its annual accounts for the year 2010, in accordance with the provisions of the Chart of Accounts introduced by RD 1514/2007/16 November and with the amendments brought into the Chart of Accounts by RD 1159/2010, are described below.

#### **3.1 Financial assets and liabilities.**

##### Investments

Purchases and sales of investments are recognized on trade-date, which is the date on which the Company 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, that are not listed on 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 the Company plans to and can hold until maturity. The valuation criteria for these investments are the same as those for loans and financial receivables.

c) Financial assets and other financial assets at fair value 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 reserve 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, the Company 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 the discounting of cash flows. If none of these techniques may be use to establish fair value, investments are recognised at acquisition cost net of any impairment losses.

Financial assets are written off when the contractual rights to the cash flows from the assets have matured or have been transferred; it is also necessary that the risk and rewards inherent in their ownership have been 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.

#### e) Cash and cash equivalents

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

#### Borrowings

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

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

#### Trade and other payables

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

### **3.2 Financial derivatives and hedge accounting**

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.

The Company 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%.

- Cash flow hedge

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are recognized in equity. They are charged to the income statement in the years in which the hedged operation projected impacts profit and loss, unless the hedge covers an expected transaction that ends in the recognition of a non-financial asset or liability, in which case the amounts recorded in net equity are included in the cost of the asset when it is acquired or when the liability is borne.

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

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.

During 2010 the Company did not contract any derivatives. Although derivatives were contracted in 2009, the year-end balance was zero.

### **3.3 Share capital**

Share capital is made up exclusively of ordinary shares.

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

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

### **3.4 Provisions**

Provisions are recognized when the Company 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 measured at the present value of the Company'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.

### **3.5 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 annual accounts used the tax rates that are expected to be in force when the assets and liabilities are realised.

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

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

### **3.6 Income and expenses**

Income and expenses are charged in the period in which the income or expense deriving from the goods or services in question is earned or incurred rather than the period in which the cash is actually received or disbursed and stated at fair value. Taxes, discounts and the amount received on behalf of third parties do not form part of income.

The Company recognises income when it can be reliably valued, that is, when it is probable that future profits will flow to the Company.

Interest income is recognized using the effective interest method.

### **3.7 Transactions between related parties**

In general, transactions between related parties are recorded initially at their fair value. If

the agreed price differs from its fair value, the difference is recorded taking into account the economic reality of the operation. The later valuation is made in accordance with the provisions of the respective rule.

### **3.8 Cash flow Statement**

The 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 revenues, as well as other activities that cannot be qualified as investment or financing.
- b) Investment activities: acquisition, sale or disposal and 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.

Collections and payments on assets and liabilities showing high turnover, where the acquisition and maturity period is shorter than six months, are recognised net in the cash flow statement.

### **3.9 Significant accounting estimates and judgments**

The preparation of financial statements requires the formulation of estimates and judgments.

The valuation standards that require a large number of estimates are set out below:

- Income tax and deferred income tax assets

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

The Company 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 the Company to generate sufficient tax profits during the periods in which these deferred taxes are deductible.

- 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 Company 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 carrying value less impairment provision of trade receivables and payables are 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 the Company for similar financial instruments.

#### **Note 4. Investments in group companies and associates**

The breakdown of investments in Group companies and associates is as follows:

	<b>2010</b>	<b>2009</b>
Loans to Group companies	6,904,280	4,800,592
<b>Non-current</b>	<b>6,904,280</b>	<b>4,800,592</b>
Loans to Group companies	176,427	158
<b>Current</b>	<b>176,427</b>	<b>158</b>

#### Non-current investments in group companies and associates

Movements during the year in the items under Non-current investments in group companies and associates are as follows:

	<b>Loans to Group companies</b>
<b>Balance at 1.1.2009</b>	<b>--</b>
Increases	4,800,592
<b>Balance at 31.12.2009</b>	<b>4,800,592</b>
Additions	2,187,389
Reclassification to current assets	(83,701)
<b>Balance at 31.12.2010</b>	<b>6,904,280</b>

The non-current item Loans to group companies and associates includes the loans granted to Gas Natural SDG, S.A. for the same amounts and maturities as the bonds issued by the Company (nominal amount of € 6,950 million) under the Euro Medium-Term Note programme, which mature from 2012 to 2021 in accordance with the bond redemption schedule (Note 7). The interest rate is based on the rate applied to the bonds under the Euro Medium-Term Note programme, plus a spread.

## Current investments in group companies and associates

Movements during the year in the items under current investments in group companies and associates are as follows:

<b>Loans to Group companies</b>	
<b>Balance at 1.1.2009</b>	<b>201,414</b>
Divestments	<b>(201,256)</b>
<b>Balance at 31.12.2009</b>	<b>158</b>
Additions	176,427
Reclassification to non-current assets	(83,701)
Collections	6,904,280
<b>Balance at 31.12.2010</b>	<b>6,904,280</b>

This caption includes accrued unmatured interest on the loans granted to Gas Natural SDG, S.A. in the amount of € 170,225 thousand (2009: € 83,701 thousand, classified in Non-current investments in group companies and associates). The average interest rate on these loans in 2010 was 4.68% (2009: 5.09%).

Additionally, at 31 December 2010 the Company records a balance of € 6,192 thousand (2009: € 158 thousand) relating to a cash pooling agreement with Gas Natural SDG, S.A., bearing interest at the annual EURIBOR rate. At 31 December 2010 accrued unmatured interest amounts to € 10 thousand (2009: € 0 thousand).

The carrying amounts and fair values of non-current assets in 2010 and 2009 are analysed below:

	<b>2010</b>			<b>2009</b>		
	<b>Nominal value</b>	<b>Discount</b>	<b>Fair value</b>	<b>Nominal value</b>	<b>Discount</b>	<b>Fair value</b>
Less than 1 year	--	--	--	--	--	--
Between 1 and 5 years	4,150	(49)	4,101	3,000	211	3,211
More than 5 years	2,800	(271)	2,529	1,750	21	1,771
<b>Total</b>	<b>6,950</b>	<b>(320)</b>	<b>6,630</b>	<b>4,750</b>	<b>232</b>	<b>4,982</b>

## Note 5. Trade and other receivables

This caption breaks down as follows:

	2010	2009
Trade receivables, sales and services rendered	--	2
Trade receivables, Group companies and associates	76	--
<b>Total</b>	<b>76</b>	<b>2</b>

## Note 6. Net equity

### Share capital

At 31 December 2010 and 2009, share capital is made up of 1,000 fully paid registered shares with a par value of € 100 each, all with the same economic and voting rights.

No transactions were carried out with treasury shares in 2010 and 2009.

The holders of the Company's share capital are:

	Shareholding %
Gas Natural SDG, S.A.	99.9
La Propagadora del Gas, S.A.	0.1

### Reserves

"Reserves" breaks down as follows:

	2010	2009
Legal reserve (a)	20	19
Voluntary reserve (b)	164	164
	<b>184</b>	<b>183</b>

#### a) Legal reserve

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

Except for that purpose, and while it does not exceed 20% of share capital, the legal reserve can only be used to offset losses in the event of no other reserves being

available.

At 31 December 2010, this reserve is fully provisioned in accordance with prevailing legislation.

#### b) Voluntary reserves

The Company's voluntary reserves total Euros 164,179.26 and are freely available for distribution.

### Results for the year

The proposed distribution of results for 2010 to be presented by Board of Directors to the General Meeting of Shareholders is as follows:

<b>Basis of distribution</b>	
Profit and loss	7,012
<b>Distribution</b>	
To the legal reserve	12
To dividends	7,000
	<hr/>
	7,012

### Note 7. Borrowings

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

	2010	2009
Issues of bonds and other negotiable securities	6,904,315	4,798,326
<b>Non-current borrowings</b>	<b>6,904,315</b>	<b>4,798,326</b>
Issues of bonds and other negotiable securities	164,797	--
<b>Current borrowings</b>	<b>164,797</b>	<b>--</b>
<b>Total</b>	<b>7,069,112</b>	<b>4,798,326</b>

### Bonds and other negotiable securities

The Company is one of the issuing vehicles for the Euro Medium-Term Notes Program bearing an irrevocable guarantee from Gas Natural SDG, S.A. The limit of the principal that can be issued was initially set at Euros 2,000 million. On 27 December 2007, this program was increased to Euros 4,000 million, and on 2 December 2008 it was increased to Euros 8,000 million, and on 15 December 2009 it was increased once again to Euros 10,000 million. At 31 December 2010 the total principal drawn down was Euros 6,950 million through issues made until 2010 at fixed interest (Euros 4,750 million at 31 December 2009), leaving an outstanding principal to be issued of Euros 3,050 million.

The breakdown of the nominal balance issued is as follows:

Principal (million euros)	Maturity	Interest rate	Currency
500	2012	3.125%	Euro
2,000	2014	5.250%	Euro
650	2015	3.375%	Euro
1,000	2016	4.375%	Euro
700	2018	4.125%	Euro
500	2019	6.375%	Euro
850	2020	4.500%	Euro
750	2021	5.125%	Euro
<b>Total</b>	<b>4,750</b>		

This balance includes interest accrued not due totalling € 164,797 thousand (2009: € 81,435 thousand, recognised in Non-current borrowings). For the execution of these issues, the Company has incurred certain issuance costs that have been deducted from the principal in order to determine the amortised cost of the bonds.

The bonds mentioned above are listed on the London Stock Exchange.

The carrying amounts and fair values of non-current financial assets in 2010 and 2009 are as follows:

	2010			2009		
	Nominal value	Discount	Fair value	Nominal value	Discount	Fair value
Less than 1 year	--	--	--	--	--	--
Between 1 and 5 years	4,150	(49)	4,101	3,000	211	3,211
More than 5 years	2,800	(271)	2,529	1,750	21	1,771
<b>Total</b>	<b>6,950</b>	<b>(320)</b>	<b>6,630</b>	<b>4,750</b>	<b>232</b>	<b>4,982</b>

## Note 8. Trade and other payables

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

	2010	2009
Trade payables	305	88
Trade payables with group companies and associates	1,390	1
Current tax liabilities (Note 10)	1,077	338
Other tax payable	1,633	16
<b>Total</b>	<b>4,405</b>	<b>443</b>

Most of the accounts payable do not accrue interest and have a contractual due date between 30 and 90 days.

Information on the deferral of payments to suppliers. Additional Provision 3 “Duty of information” of Law 15/2010 (5 July).

At 31 December 2010, the balance payable to suppliers deferred at 31 December 2010 beyond the legal maximum payment period stipulated in Law 15/2010 (5 July), whereby measures were implemented to combat payment default in commercial transactions, amounted to € 305 thousand.

## **Note 9. Risk management of derivative financial instruments**

### **Risk management**

Company activity is exposed to various risks. Within the framework of the risk management policies of the GAS NATURAL group, the Company has a series of standards, procedures and systems for identifying, measuring and managing the different categories of risk in order to ensure that the most relevant risks are correctly identified, evaluated, and managed and to ensure that the level of risk exposure borne is consistent with the overall risk profile of the Company and the achievement of its annual, strategic objectives.

### **Interest rate risk**

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

The objective of interest rate risk management is to maintain a balance between the floating and fixed debt in order to reduce the costs of financial debt within the established risk parameters, and to guarantee the efficiency and congruency of the leveraging used in terms of the financial assets.

The Company uses financial swaps to manage its exposure to fluctuations in interest rates.

The interest rate on total borrowings at 31 December 2010 is fixed.

### **Liquidity risk**

The Company has liquidity risk policies that ensure compliance with the payment commitments acquired, by diversify the coverage of financing needs and the due dates of payables. Prudent liquidity risk management involves maintaining sufficient cash and realisable assets and the availability of sufficient funds to cover credit obligations.

The Company manages liquidity risk by matching the terms of its deposits to the maturities of its bond issues, and collections of deposit yields to the dates on which the relevant coupons fall due for payment.

## Credit risk

The Company has deposits with companies of the GAS NATURAL FENOSA Group.

## Note 10. Tax situation

### Income tax and tax situation

The Company files consolidated tax returns as a subsidiary of Tax Group No. 59/93, parented by Gas Natural SDG, S.A.

In 2010, Tax Group No. 59/93 is formed by the parent Gas Natural SDG, S.A. and the following companies:

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Gas Natural SDG, S.A.	Gas Natural Transporte SDG, S.L.
Aplicaciones y Proyectos Energéticos, S.A.	Fenosa Renovables, S.L.
Aplicaciones y Desarrollos Profesionales Nuevo Milenio, S.L.	Gas Natural Wind 2, S.L.
Boreas Eólica 2, S.A.	Gas Natural Wind 3, S.L.
BIS Distribución de Gas, S.A.	Gas Natural Wind 4, S.L.
BIS Suministro de Gas, S.L.	Fenosa Wind, S.L.
BIS Suministro de Gas SUR, S.L.	Gas Natural Wind Canarias, S.L.
Compañía Auxiliar de Industrias Varias, S.A.	Gas Navarra, S.A.
Compañía Española de Industrias Electroquímicas, S.A.	General de Edificios y Solares, S.L.
Cedifil Cored Wire, S.L.	Generación Peninsular, S.L.U.
Gas Natural Fenosa Telecomunicaciones, S.A.	Hidroeléctrica Nuestra Señora de la Soledad de Tendilla y Lupiana, S.L.U.
Distribuidora Eléctrica Navasfrías, S.L.	Hotel de Naturaleza Tambre, S.L.
Electra de Abusejo, S.L.	Holder Gas Natural, S.A.
Electra de Jallas, S.A.	La Energía, S.A.
Gas Natural Andalucía, S.A.	La Propagadora del Gas, S.A.
Gas Natural Aprovisionamientos SDG, S.A.	Lignitos de Meirama, S.A.
Gas Natural Capital Markets, S.A.	M&D Energy Market, S.L.
Gas Natural Castilla La Mancha, S.A.	M&D Generación 1, S.L.
Gas Natural Castilla y León, S.A.	Operación y Mantenimiento Energy, S.A.
Gas Natural Cegas, S.A.	Pizarras Mahide, S.L.
Gas Natural Comercial SDG, S.L.	Portal del Instalador, S.A.
Gas Natural Comercializadora, S.A.	Sagane, S.A.
Gas Natural Fenosa Renovables, S.L.U.	Sociedad de Tratamiento Almazán, S.L.
Gas Natural Distribución Eléctrica, S.A.	Sociedad de Tratamiento Hornillos, S.L.
Gas Natural Distribución SDG, S.A.	Socoin Ingeniería y Construcción Industrial, S.L.U.
Gas Natural Electricidad SDG, S.A.	Tratamiento Cinca Medio, S.L.
Gas Natural Energy Canarias, S.L.	Unión Fenosa Comercial, S.L.
Gas Natural Exploración, S.L.	Unión Fenosa Distribución, S.A.
Gas Natural Informática, S.A.	Unión Fenosa Financiación, S.A.
Gas Natural Internacional SDG, S.A.	Unión Fenosa Internacional, S.A.
Gas Natural Rioja, S.A.	Unión Fenosa Minería, S.A.
Gas Natural Servicios SDG, S.A.	Unión Fenosa Preferentes, S.A.U.
Gas Natural S.U.R. SDG, S.A.	Unión Fenosa Redes de Telecomunicación, S.L.

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The corporate income tax is based on accounting profit calculated using generally accepted accounting principles, which may not necessarily coincide with tax profits, which is the taxable income.

Accounting profit coincides with the taxable income for corporate income tax purposes.

The current corporate income tax is the result of multiplying taxable income by the tax rate of 30%. No deductions from tax payable were applied in 2010 or 2009.

At year-end 2010, € 1,928 thousand had been paid on account of corporate income tax (2009: € 360 thousand).

At 31 December 2010 and 2009 there were no tax-loss carryforwards or deductions pending application.

Income tax expense is as follows:

	<b>2010</b>	<b>2009</b>
Current tax	3,005	729
<b>Total</b>	<b>3,005</b>	<b>729</b>

There are no deductions or tax loss carryforwards available for offset.

The Company is open to inspection by the tax authorities for the last four financial years and all the taxes to which it is subject (five years for corporate income tax).

As a result, amongst other things, of the different interpretations to which Spanish tax legislation lends itself, additional tax assessments may be raised in the event of a tax inspection. The Directors consider, however, that any additional assessments that might be made would not significantly affect these accounts.

Set out below is a breakdown of current tax liabilities at 31 December 2010:

	<b>2010</b>
- Current income tax expense	3,005
- Interim payments	1,928
<b>Net deferred tax</b>	<b>1,077</b>

### **Note 11. Other operating expenses**

The breakdown Other operating expenses in the Income Statement for 2010 and 2009 is as follows:

	<b>2010</b>	<b>2009</b>
Professional services and insurance	111	7
Local taxes	61	9
Other services	34	5
<b>Total</b>	<b>206</b>	<b>21</b>

## Note 12. Net financial income and expense

The breakdown of this account in the income statement for 2010 and 2009 is as follows:

	2010	2009
Interests	336,356	86,535
Other	--	171
<b>Total financial income</b>	<b>336,356</b>	<b>86,709</b>
Financial debt costs	(326,133)	(84,256)
<b>Total financial expenses</b>	<b>(326,133)</b>	<b>(84,256)</b>
<b>Net financial income (expense)</b>	<b>10,223</b>	<b>2,450</b>

Financial earnings at 31 December 2010 and 2009 relate basically to earnings from revenues on the loans granted to Gas Natural SDG, S.A. (Note 4) and the expenses borne from the bonds related to the Euro Medium-Term Notes program (Note 7).

## Note 13. Environment

In view of the Company's business activity, it has no environmental liabilities, costs, assets, provisions or contingencies that could be significant in relation to its equity, financial situation and results. No specific breakdowns of environmental information are therefore included in these notes to the annual accounts.

On 27 August 2004, Royal Decree-Law 5/2004 was approved, regulating trade in greenhouse gas emission rights, the purpose being to contribute towards compliance with the obligations arising from the Kyoto Convention and Protocol.

The Company has no CO<sub>2</sub> emission allocations or expenses derived from the consumption of emission rights. Company management does not envisage any type of penalty or contingency due to the failure to comply with Law 1/2005.

## Note 14. Information on operations with related parties

Related parties are the following:

- The significant shareholders of Gas Natural Capital Markets, S.A are understood as those who directly or indirectly hold an interest equal to or greater than 5%, as well as the shareholders who, without being significant, have exercised the power to put forward appointments of a member of the Board of Directors.

In line with this definition, the significant shareholders of the Company are Gas Natural SDG, S.A. and through the parent company, Gas Natural SDG, S.A., the Caixa d'Estalvis i Pensions de Barcelona Group ("la Caixa" Group), the Repsol YPF Group, and Caixa Catalunya.

- The Directors and executives of the Company and their immediate families. The term

“director” means a member of the Board of Directors; “executive” means a member of the Management Committee of Gas Natural SDG, S.A. The actual management of the Company is carried out through decisions of the Management Committee of Gas Natural SDG, S.A., and the members of said committee have not received any remuneration whatsoever from Gas Natural Capital Markets, S.A.

– The Group companies or entities.

The aggregates for operations with Group companies and associates are as follows (Note 4 and 12):

	2010		2009	
	Parent company	Group companies	Parent company	Group companies
<b>Income and expenses</b>				
Financial expenses	45	-	-	-
Services received	33	-	7	-
<b>Total expenses</b>	<b>78</b>	<b>-</b>	<b>7</b>	<b>-</b>
Financial income	336,356	-	86,535	-
<b>Total income</b>	<b>336,356</b>	<b>-</b>	<b>86,535</b>	<b>-</b>

## Note 15. Information on members of the Board of Directors

The members of the Board of Directors of the Company have not received any remuneration whatsoever in 2009 and have not received any loans or advances.

The Company has not contracted any liabilities for pensions or life insurance for members of the Board of Directors.

Set out below is information on Directors' shareholdings and offices in companies engaged in activities that are the same as or similar or complementary to the Company's objects, for the purposes of Articles 229 and 231 of the Spanish Companies Act 2010:

DIRECTORS AND OFFICES IN OTHER COMPANIES WITH SIMILAR OR COMPLEMENTARY ACTIVITIES	OFFICE IN GAS NATURAL CAPITAL MARKETS, S.A	Number of shares and % shareholding:		
		Endesa,S.A.	Iberdrola S.A.	Iberdrola Renovables S.A.
Mr. Enrique Berenguer Marsal  Economic-Financial General Director Gas Natural SDG, S.A. Director and Chairman of Gas Natural Finance BV Director of Unión Fenosa Preferentes, S.A.U. Director of Clover Financial and Treasury Services Limited Director of Buenergia Gas & Power Ltd. Director of Al Andalusia LNG, SPA Director of Gas Natural Rigassificazione Italia, S.p.A. Director of Gas Galicia Sociedad para el Desarrollo del Gas, S.A. Director of Gas Natural Cantabria SDG, S.A. Director of Gas Natural Distribución SDG, S.A. Director of Gas Natural Servicios SDG, S.A. Director of Gas Natural Transporte SDG, S.L. Director of Unión Fenosa Financiación, S.A. Director of Geral de Edificios y Solares S.L. Several Administrator of Pizarras Mahide, S.L. Director of Generación Peninsular, S.L. Director of Central Térmica de Anllares, A.I.E.	Chairman	--	--	--
Mr. Jesús Marcos Caño  Head of Financial Management of investee companies, financial and Special Purpose Companies in Gas Natural SDG, S.A. Director of Unión Fenosa Financial Services LLC. Director of UFACEX UK Holding Ltd. Director of Sociedad Galega do Medio Ambiente S.A.	Director	150 (0,000)	500 (0,000)	600 (0,000)
Mrs. Hila Barcas Lewkowicz  Assistant Director of Financing and Capital Markets of Gas Natural SDG S.A. Director of Unión Fenosa Preferentes, S.A. Director of Unión Fenosa Financiación, S.A.	Director	--	--	--

The Directors have not carried out any operations in 2010 and 2009 outside the ordinary business of the Company or carried out any that were not undertaken under normal market conditions with the Company or Group companies.

#### **Note 16. Application of international accounting standards**

Article 107 of the Tax, Administrative and Corporate Measures Act, Law 62/2003/30 December, added a new point, 16, to article 200 of the Spanish Companies Act, stipulating that companies that have issued listed securities on an official market in any member State of the European Union, and which, in accordance with current legislation, only file individual annual accounts, will be obligated to disclose in their notes to the accounts the main variations that would have arisen in equity and income statement had they applied the international accounting standards adopted by the Regulations of the European Commission (IFRS-EU). In this respect, there are no differences in net equity and in the income statement in relation to IFRS-EU at December 2009, or at 31 December 2008.

#### **Note 17. Other information**

##### **Auditors' fees**

The fees received during the year by PricewaterhouseCoopers Auditores, S.L. for auditing services totalled Euros 4 thousand (Euros 5 thousand in 2009).

No fees accrued during the year to other companies using the PwC trademark.

#### **Note 18. Subsequent events**

On 26 January 2011, the Company issued six-month bonds in the Euromarket in the amount of € 600 million, maturing after six years. The bonds bear an annual coupon of 5.625% and the issue price was equal to 99.652% of their nominal value. The issue was effected as part of the Euro Medium-Term Notes (EMTN) programme, which the Company renewed in November 2010.

## **GAS NATURAL CAPITAL MARKETS, S.A.**

DECLARATION: The Secretary of the Board of Directors MS. MARÍA MERCEDES GÚRPIDE HERMOSILLA declares that the Board of Directors on 31 March 2011 formulated the Annual Accounts comprising the Balance Sheet, Income Statement, Statement of Recognised Income and Expenses, Statement of Total Changes in Net Equity, Statement of Cash Flows and the Notes to the Accounts, all pages of which bear the seal of the Company and the signature of the undersigned for identification purposes, set out on 22 pages numbered 1 to 22, both inclusive.

The members of the Board of Directors of the Company attending the meeting of the same sign the aforementioned documents by signing this page number 23, which is attached as an appendix to the Annual Accounts of the Company for 2010.

Mr. Enrique Berenguer Marsal  
Chairman

Ms. Hila Barcas Lewkowicz  
Director

Mr. Jesús Marcos Caño  
Director

Ms. María Mercedes Gúrpide Hermosilla  
Secretary