

**Annual financial report December 31, 2009**

**Union Fenosa Finance B.V.**

**Rotterdam, The Netherlands**

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3012 CL Rotterdam

Chamber of Commerce  
File number 24.243.533

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UNION FENOSA FINANCE B.V.

Contents

*Annual report*

Management Board Report Page 1-2

*Financial statements*

Statement of Financial Position as per 31 December 2009 Page 3

Statement of Comprehensive Income for the year ended 31 December 2009 Page 4

Cash Flow Statement for the year ended 31 December 2009 Page 5

Statement of Changes in Equity for the year ended 31 December 2009 Page 6

Notes to the financial statements Pages 7-21

*Other information*

Supplementary information Page 22

Auditors' opinion Page 23

## UNION FENOSA FINANCE B.V.

### Management Board Report

The Management hereby submits its financial statements for the year ended 31 December 2009. The accounts have been prepared in accordance with the International Financial Reporting Standards (IFRS) as adopted for use in the EU, effective as of 31 December 2009 and with part 9 of Book 2 of the Netherlands Civil Code, effective as of December 31, 2009.

#### **Overview of activities**

The Company, having its legal seat in Rotterdam, the Netherlands, was incorporated on November 26, 1993. The Company is a wholly-owned subsidiary of its ultimate parent, Gas Natural SDG S.A., Barcelona, Spain.

In 2009 Gas Natural SDG S.A. confirmed the merger with Union Fenosa. Gas Natural SDG, S.A. took over Unión Fenosa Generación, S.A. and Unión Fenosa, S.A. (formerly the Shareholder). As a consequence, Gas Natural SDG, S.A. is the shareholder of the Company. The merger represents the culmination of a new international energy operator, with a significant presence in the world throughout the value chain for gas and electricity. The merger of both companies was completed in September 2009. This merger did not have any effect on the capital and reserves of the Company.

As a consequence of the merger, Gas Natural SDG, S.A. has assumed all the obligations of Union Fenosa, S.A. derived from the issuance of the bonds, the AFLAC loan and the intra-group loan with Union Fenosa Financial Services USA LLC.

All subsidiaries of the shareholder, Gas Natural SDG, S.A., which is head of the group, are referred to as group companies.

Union Fenosa Finance B.V. was incorporated to facilitate the raising of finance for its parent company and associated companies. In order to achieve its objectives, Union Fenosa Finance B.V. is authorized to raise funds by issuing negotiable bonds and commercial paper on the capital and money markets.

The Company maintains an Advance Pricing Agreement (APA) with Dutch Tax Authorities approved in 2006 for a period of 5 years as of January 1, 2006, which establishes the Company's remuneration for its intercompany financing activities at 5.0 basis points over the intercompany loans between the Company and group companies. The agreement also requires the Company to maintain an equity position in the amount of EUR 2 million.

#### **Principal activities and business review**

The principal activities of the Company consist of financing of affiliated companies and parent company.

#### **Results for the year**

During the year ending December 31, 2009 the Company realized a net profit of EUR 466,838 (2008: EUR 457,170).

#### **Financial position**

During the year ending December 31, 2009 no substantial changes occurred to the financial position of the Company.

#### **Board of Management**

Several changes occurred in the composition of the management board during 2009 and 2010. On 9 November 2009 Mr. Sergio Gallardo Arroyo resigned as director and was discharged. On 16 February 2010 Mr. Salvador Peñarrubia Sánchez resigned as director and was discharged. Effective per the same date 16 February 2010 were appointed as managing director Mr. Alfonso Serrano Méndez, Mr. Juan José Rivero Aranda, Mr. Enrique Berenguer Marsal and Jacob Cornelis Willen Van Burg.

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## UNION FENOSA FINANCE B.V.

### Audit committee

As of 26 July 2008 legislation is in place which requires issuers incorporated in the Netherlands to maintain an audit committee. Union Fenosa Finance has opted for the exemption in which the parent company's Audit Committee performs the tasks otherwise required from the local Audit Committee. Gas Natural SDG S.A. has an Audit Committee which provides support to the Board of Directors through monitoring action, including supervision of the preparation of Consolidated Financial Information in which is included the information of Union Fenosa Finance B.V.

### Financial Risks

The financial risks of the Company are managed through the matching of interest expenses from its borrowings with interest income from loans to the group companies. All incoming loans and bonds issued are guaranteed by the shareholder. The risk the Company bears is therefore limited to the capital and reserves, which according to the advanced pricing agreements made with the fiscal authorities should be at a minimum of EUR 2 million.

Furthermore the exchange risks are limited as the non-euro loans have similar counter positions. The same applies for the interest, price and collectability risk, as all incoming loans have similar counter positions which are guaranteed by the shareholder. In order to minimize the liquidity risk, management monitors the availability of sufficient cash in order to ensure payment of short-term liabilities.

### Cash flow and financing requirements

The EMTN program has been supplemented on May 2009 in order to include all the new relevant information of the guarantor Gas Natural SDG S.A.

### Future outlook

It is expected that the activities of the Company will remain unchanged.


### Subsequent events

No major post-balance sheet events affecting the financial statements herewith presented have occurred to date.

### The Management Board,

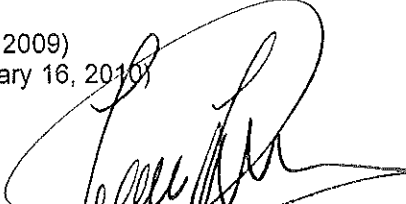
Mr. Sergio Gallardo Arroyo (resigned November 9, 2009)

Mr. Salvador Peñarrubia Sánchez (resigned February 16, 2010)

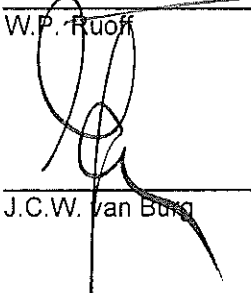
  
E. Berenguer

  
A. Serrano


  
Equity Trust Co. N.V.

  
J.J. Rivero

  
W.P. Ruoff

  
J.C.W. van Burg

Rotterdam, 9 March 2010

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**UNION FENOSA FINANCE B.V.**

**Statement of Financial Position**  
(before appropriation of results and expressed in Euros)

	<u>Notes</u>	<u>31 December 2009</u>	<u>31 December 2008</u>
<b>Non-current assets</b>			
Loans to group companies	5	-	1.084.752.219
Loans to shareholders	6	868.437.292	293.324.877
		<u>868.437.292</u>	<u>1.378.077.096</u>
<b>Current assets</b>			
Interest receivable	7	7.683.011	7.778.457
Loans to group companies	8	2.262.329	2.633.491
Loans to shareholder	9	498.212.915	
Amount due from third parties		7.213	4.687
Cash and cash equivalents	10	127.653	204.544
		<u>508.293.121</u>	<u>10.621.179</u>
<b>TOTAL ASSETS</b>		<u><b>1.376.730.413</b></u>	<u><b>1.388.698.275</b></u>
<b>Current liabilities</b>			
Interest payable to third parties	14	4.576.154	4.573.865
Interest payable to group companies	15	3.030.790	3.105.116
Borrowings - Eurobonds	11	498.212.915	-
Dividend payable		-	752.936
Taxes payable		5.852	7.980
Accrued expenses		21.290	52.000
		<u>505.847.001</u>	<u>8.491.897</u>
<b>Non-current liabilities</b>			
Borrowings - Eurobonds	11	-	498.718.650
Borrowings from third parties	12	277.586.523	293.324.877
Borrowings from group companies	13	590.850.769	586.033.569
		<u>868.437.292</u>	<u>1.378.077.096</u>
<b>Shareholder's equity</b>			
Share capital	16	90.756	90.756
Share premium		165.000	165.000
Retained earnings		1.723.526	1.416.356
Result for the year		466.838	457.170
		<u>2.446.120</u>	<u>2.129.282</u>
<b>TOTAL SHAREHOLDERS EQUITY AND LIABILITIES</b>		<u><b>1.376.730.413</b></u>	<u><b>1.388.698.275</b></u>

The notes on pages 7 to 20 are an integral part of these financial statements.

UNION FENOSA FINANCE B.V.

**Statement of Comprehensive Income**  
(expressed in Euros)

	<u>Notes</u>	<u>31 December 2009</u>	<u>31 December 2008</u>
<b>Interest income / (charges)</b>			
Interest income	17	69.543.338	72.225.662
Interest expenses	18	(68.707.711)	(71.446.696)
		835.627	778.966
General and administrative expenses	19	(253.585)	(296.864)
Exchange result		(359)	64.612
		(253.944)	(232.252)
<b>Result before tax</b>		<b>581.683</b>	<b>546.714</b>
Taxation	20	(114.845)	(89.544)
<b>Profit after tax</b>		<b>466.838</b>	<b>457.170</b>
Other comprehensive income		0	0
<b>Total comprehensive income</b>		<b>466.838</b>	<b>457.170</b>

The results of the Company are attributable to the parent company Gas Natural SDG S.A.  
The notes on pages 7 to 20 are an integral part of these financial statements.

UNION FENOSA FINANCE B.V.

**Cash flow statement**  
(expressed in Euros)

	Notes	31 December 2009	31 December 2008
<b>Cash flow from operating activities</b>	21	<b>190.082</b>	<b>706.314</b>
Tax paid	20	(116.973)	(81.564)
<b>Net cash provided by operating activities</b>		<b>73.109</b>	<b>624.750</b>
<b>Cash flow from financing activities:</b>			
Dividends paid		(150.000)	(480.898)
<b>Net cash used in financing activities</b>		<b>(150.000)</b>	<b>(480.898)</b>
<b>Net increase/(decrease) in Cash and cash equivalents</b>		<b>(76.891)</b>	<b>143.852</b>
Cash and cash equivalents – beginning of the year		204.544	60.692
Cash and cash equivalents – end of the year	10	127.653	204.544

The notes on pages 7 to 20 are an integral part of these financial statements.

UNION FENOSA FINANCE B.V.

**Statement of changes in equity**

*(expressed in Euros)*

	Notes	Share capital	Share premium	Retained earnings	Result for the year	Total
<b>Balance at 1 January 2008</b>		<b>90.756</b>	<b>165.000</b>	<b>1.472.206</b>	<b>425.048</b>	<b>2.153.010</b>
Appropriation of result		-	-	425.048	(425.048)	-
Result of the year		-	-	-	457.170	457.170
Payment of interim dividend		-	-	(480.898)	-	(480.898)
<b>Balance at 31 December 2008</b>	16	<b>90.756</b>	<b>165.000</b>	<b>1.416.356</b>	<b>457.170</b>	<b>2.129.282</b>
<b>Balance at 1 January 2009</b>		<b>90.756</b>	<b>165.000</b>	<b>1.416.356</b>	<b>457.170</b>	<b>2.129.282</b>
Appropriation of result		-	-	457.170	(457.170)	-
Result of the year		-	-	-	466.838	466.838
Payment of interim dividend		-	-	(150.000)	-	(150.000)
<b>Balance at 31 December 2009</b>	16	<b>90.756</b>	<b>165.000</b>	<b>1.723.526</b>	<b>466.838</b>	<b>2.446.120</b>

The results of the Company are attributable to the parent company, Gas Natural SDG S.A.  
The notes on pages 7 to 20 are an integral part of these financial statements.

# UNION FENOSA FINANCE B.V.

## Notes to the financial statements as per 31 December 2009

### 1. General

#### **Company structure**

The Company is a private limited liability company established in Rotterdam on 26 November 1993. The Company acts as a finance company.

On account of the merger last September 2009 between Gas Natural and Unión Fenosa groups, Gas Natural SDG, S.A. took over Unión Fenosa, S.A. (formerly the Shareholder) and Unión Fenosa Generación, S.A. As a consequence, Gas Natural SDG, S.A. is the (ultimate) shareholder of the Company. This merger did not have any effect on the capital and reserves of the Company.

The Company is included in the consolidated financial statements of Gas Natural SDG, S.A. All subsidiaries of the shareholder, Gas Natural SDG, S.A., which is head of the group, are referred to as group companies.

#### **Activities**

Union Fenosa Finance B.V. was incorporated to facilitate the raising of finance for its parent company. In order to achieve its objectives, Union Fenosa Finance B.V. is authorized to raise funds by issuing negotiable bonds and commercial paper on the capital and money markets.

#### **Tax ruling**

The Company signed an advanced pricing agreement with the Dutch tax authorities in 2006, which ends on 31 December 2010. This agreement, which sets the arm's length criteria, states most of the Company's profit every year, being obliged to apply a 0,05% margin on the financial incomes. The agreement forces also the Company to maintain equity in the amount of EUR 2 million.

#### **Financial position**

The financial position of the Company is both backed by the tax ruling agreement requirement and the Shareholder covenants.

During the year 2009 the Company was required to check these covenants as a result of the merger between Gas Natural SDG, S.A. and Union Fenosa S.A. and as a consequence the change of guarantor in the Eurobonds and the Third Party loan. It was required to obtain the approval of the Third Party and there was a meeting of bondholders, approving these changes. Additionally, the Third Party loan has some financial covenants which are monitored.

The Company has a € 2 billion Euro Medium-Term Notes (EMTN) program of which nominal EUR 500 million outstanding at December 31, 2009 was classified as short-term liabilities (2008: long-term liabilities). These notes are listed at the Luxembourg Stock Exchange per December 31, 2009 under ISIN registration number XS0181571364. In 2010 these bonds will be redeemed.

### 2. Summary of principal accounting policies

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

#### **2.1 Basis of preparation**

The accounts have been prepared in accordance with the International Financial Reporting Standards (IFRS) as adopted for use in the EU and with part 9 of Book 2 of the Netherlands Civil Code, effective as of 31 December 2009.

The financial statements are prepared in Euros. Notes to the items of the balance sheet are numbered.

## UNION FENOSA FINANCE B.V.

The financial statements have been prepared under the historical cost convention, as modified by the financial assets and financial liabilities at amortised cost using the effective interest rate method less any impairment.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company's accounting policies.

### 2.2 Changes in accounting policy and disclosures

#### *a) Adoption and effect of new accounting standards*

The Company has adopted the following new and amended IFRSs as of 1 January 2009:

##### **IFRS 7 'Financial instruments – Disclosures' (amendment) – effective 1 January 2009.**

The amendment requires enhanced disclosures about fair value measurement and liquidity risk. In particular, the amendment requires disclosure of fair value measurements by level of a fair value measurement hierarchy. As the change in accounting policy only results in additional disclosures, there is no impact on the earnings.

##### **IAS 1 (revised). 'Presentation of financial statements' – effective 1 January 2009.**

The revised standard prohibits the presentation of items of income and expenses (that is, 'non-owner changes in equity') in the statement of changes in equity, requiring 'non-owner changes in equity' to be presented separately from owner changes in equity in a statement of comprehensive income. As a result the Company presents in the statement of changes in equity all owner changes in equity, whereas all non-owner changes in equity are presented in the statement of comprehensive income. As the change in accounting policy only impacts presentation aspects, there is no impact on earnings.

The Company also adopted other amended IFRSs as of 1 January 2009. Considering their limited impact on the Company these amendments are not described in detail. These amendments are:

- IFRS 2 (amendment), 'Share-based payment' (effective 1 January 2009)
- IFRS 23 (amendment), 'Borrowing costs' (effective 1 January 2009)

#### *b) Standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted by the Company.*

The following standards and amendments to existing standards have been published and are mandatory for the Company's accounting periods beginning on or after 1 January 2010 or later periods, but the Company has not early adopted them:

##### **IAS 1 (amendment), 'Presentation of financial statements'.**

The amendment is part of the IASB's annual improvements project published in April 2009. The amendment provides clarification that the potential settlement of a liability by the issue of equity is not relevant to its classification as current or non-current. By amending the definition of current liability, the amendment permits a liability to be classified as non-current (provided that the entity has an unconditional right to defer settlement by transfer of cash or other assets for at least 12 months after the accounting period) notwithstanding the fact that the entity could be required by the counterparty to settle in shares at any time. The Company will apply IAS 1 (amendment) from 1 January 2010. It is not expected to have a material impact on the Company's financial statements.

There are other standards and amendments to existing standards have been published for accounting periods beginning on or after 1 January 2010 or later periods, which the Company has not early adopted. Considering their limited impact on the Company these new and amended standards are not described in detail. These amendments are:

## UNION FENOSA FINANCE B.V.

- IFRIC 17, 'Distribution of non-cash assets to owners' (effective from 1 July 2009)
- IAS 27 (revised), 'Consolidated and separate financial statements', (effective from 1 July 2009)
- IFRS 3 (revised), 'Business combinations'
- IAS 38 (amendment), 'Intangible Assets'
- IFRS 5 (amendment), 'Measurement of non-current assets (or disposal groups) classified as held-for-sale'
- IFRS 2 (amendment), 'Group cash-settled and share-based payment transactions'

### 2.3 Use of estimates /judgement

No significant estimates and judgments as per IAS 1 paragraph 122 are to be disclosed in these financial statements.

### 2.4 Foreign currency translation

#### *(a) Functional and presentation currency*

Items included in the financial statements are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The financial statements are presented in Euros, which is the Company's functional and presentation currency.

#### *(b) Transactions and balances*

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

Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents are presented in the income statement.

### 2.5 Financial assets

#### *(a) Classification*

The Company classifies its financial assets in the following categories: at fair value through profit or loss, loans and receivables, and available-for-sale. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

#### *(b) Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the end of the reporting period. These are classified as non-current assets.

#### *(c) Recognition and measurement*

Regular purchases and sales of financial assets are recognised on the trade-date – the date on which the Company commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. The fair value of all financial assets approximate carrying values.

Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Company has transferred substantially all risks and rewards of ownership. Loans are subsequently carried at amortised cost using the effective interest method, except for short term loans where the recognition of interest would be immaterial.

## UNION FENOSA FINANCE B.V.

### 2.6 Impairment of financial assets

#### *Assets carried at amortised cost*

The Company assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

The criteria that the Company uses to determine that there is objective evidence of an impairment loss include:

- Significant financial difficulty of the issuer or obligor;
- A breach of contract, such as a default or delinquency in interest or principal payments;
- The Company, for economic or legal reasons relating to the borrower's financial difficulty, granting to the borrower a concession that the lender would not otherwise consider;
- It becomes probable that the borrower will enter bankruptcy or other financial reorganisation;
- The disappearance of an active market for that financial asset because of financial difficulties; or
- Observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the portfolio, including (i) Adverse changes in the payment status of borrowers in the portfolio; and (ii) National or local economic conditions that correlate with defaults on the assets in the portfolio.

The Company first assesses whether objective evidence of impairment exists. The amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The asset's carrying amount of the asset is reduced and the amount of the loss is recognised in the consolidated income statement. If a loan or held-to-maturity investment has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the Company may measure impairment on the basis of an instrument's fair value using an observable market price.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the reversal of the previously recognised impairment loss is recognised in the consolidated income statement.

### 2.7 Other receivables

Other receivables are amounts due from third parties or group companies for services performed in the ordinary course of business. If collection is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as noncurrent assets.

Other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment.

## UNION FENOSA FINANCE B.V.

### 2.8 Cash and cash equivalents

Cash and cash equivalents includes cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities on the balance sheet.

### 2.9 Share capital

Ordinary shares are classified as equity.

### 2.10 Other payables

Other payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Other payables are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

Other payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

### 2.11 Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently carried at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method, except for short term borrowings where the recognition of interest would be immaterial. The fair value of all borrowings approximates carrying values.

Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a pre-payment for liquidity services and amortised over the period of the facility to which it relates.

### 2.12 Current income tax

The tax expense for the period comprises current tax. Tax is recognised in the income statement, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case the tax is also recognised in other comprehensive income or directly in equity, respectively.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the Company operates and generates taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

The taxable profit of the Company is computed on the basis of an Advanced Pricing Agreement with the tax authorities. This requires a minimum taxable income in respect of taking up and granting loans as well as covering any exchange and interest rate risks by way of swap agreements or other hedging procedures. The present Advanced Pricing Agreement is valid from 1 January 2006 until 31 December 2010.

## UNION FENOSA FINANCE B.V.

### 2.13 Interest income and expense recognition

Interest income and expense are recognised using the effective interest method. When a loan and receivable are impaired, the Company reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at the original effective interest rate of the instrument, and continues unwinding the discount as interest income. Interest income on impaired loan and receivables are recognised using the original effective interest rate.

Interest income and expenses are accrued on a time basis, by reference to the principle outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life on the financial asset to that asset's net carrying amount. Other Income and expenses are accounted for under an accrual basis.

### 2.14 Dividend distribution

Dividend distribution to the Company's shareholders is recognised as a liability in the Company's financial statements in the period in which the dividends are approved by the Company's shareholders.

### 2.15 Cash flow statement

The cash flow statement is prepared according to the indirect method. Corporate income taxes, interest received and paid are stated under the cash flow from operating activities as a result of the nature of the Company's activities. Dividends paid are stated under the cash flow from financing activities.

### 2.16 Contingencies

Contingent liabilities are not recognized in the Company's financial statements but are disclosed unless the possibility of an outflow of resources embodying the economic benefit is remote. Contingent assets are not recognized in the Company's financial statements but are disclosed when an inflow of economic benefits is probable.

### 2.17 Events after the reporting period

Post-year-end events that provide additional evidence of conditions that existed at the end of the reporting period (adjusting events) if any are reflected in the financial statements. Post-year-end events that are indicative of conditions that arose after end of the reporting period (non-adjusting events) are disclosed in the notes to Company financial statements, if material.

## 3. Financial instruments

### 3.1 Financial risk factors

The Company's activities might expose it to a variety of financial risks: market risk (including foreign exchange risk and price risk), credit risk, liquidity risk and cash flow and fair value interest rate risk.

The Company's overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Company's financial performance. The financial risks for the Company are limited. All incoming loans and bonds issued are guaranteed by the shareholder. The risk the Company bears is therefore limited to the capital and reserves.

Union Fenosa Finance B.V. does not use any derivative financial instruments to cover certain risk exposures.

## UNION FENOSA FINANCE B.V.

### **Market risk**

#### *a) Foreign exchange risk*

The Company is exposed to foreign currency risk, but these exchange risks are limited as the non-euro loans have similar counter positions.

#### *b) Price risk*

The Company is exposed to price risk and interest risk, but these risks are limited as the loans and borrowings have similar counter positions.

### **Credit risk**

The Company has significant concentrations of credit risk. All of the proceeds of borrowings are on lent to group companies. The collectability risk is considered limited as all incoming loans have similar counter positions which are guaranteed by the shareholder.

### **Cash flow and interest rate risk**

The Company's interest rate risk arises from long-term borrowings. Borrowings issued at variable rates expose the Company to cash flow interest rate risk which is partially offset by similar counter positions which are guaranteed by the shareholder. The Company's income and operating cash flows are dependent on changes in market interest rates for Euribor. The current interest rates of the loans to group entities are set at Euribor plus a fixed margin. These loans expose the Company to cash flow interest rate risk.

### **Liquidity risk**

Cash flow forecasting is performed by the Company. Management monitors rolling forecasts of the Company's liquidity requirements to ensure it has sufficient cash to meet operational needs while maintaining sufficient headroom on its undrawn committed borrowing facilities at all times so that the Company does not breach borrowing limits or covenants (where applicable) on any of its borrowing facilities. Such forecasting takes into consideration the Company's debt financing plans, covenant compliance, compliance with internal balance sheet ratio targets and, if applicable external regulatory or legal requirements.

## **3.2 Capital risk management**

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain the capital structure as required by the agreement with the fiscal authorities, the Company may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

## **3.3 Fair values**

The fair value of the listed debt has been disclosed in note 11.

## **4. Segment information**

The Company has only one principal operating and reportable segment relating to providing loans to the (ultimate) parent and other group companies. Further, all revenue is earned from and long-lived assets reside in a single geographic region, Europe.

As discussed above, the Company derived its revenue from its (ultimate) parent and other group companies, which are related party transactions.

## UNION FENOSA FINANCE B.V.

### 5. Loans to group companies

The loans to group companies of EUR 1.084.752.219 as per December 31, 2008 have been reclassified in the 2009 financial statements. This reclassification can be divided into two parts:

- Reclassification from loans to/from group companies to loans to shareholder. As a consequence of the merger in September 2009, both Unión Fenosa Generación, S.A. and Unión Fenosa, S.A. have been absorbed by Gas Natural SDG, S.A. Subsequently, the EUR 609,244,650 loan has been reclassified to Loans to shareholder;
- Reclassification of the short term nature of the Loans. Considering the maturity of the EUR 500,000,000 in 2010, this loan facility has been also reclassified, to short term Loans to group companies.

The movement in the Loans to group companies is summarised in the table below:

	Notes	31 December 2009
<b>Balance - January 1</b>		<b>1.084.752.219</b>
Amortised interest / deferred fees		4.311.465
<i>Reclassification to:</i>		
Loans to shareholder	6	590.850.769
Loans to shareholder, short term	9	498.212.915
<b>Balance - December 31</b>		<b>-</b>

### 6. Loans to shareholder

	31 December 2009	31 December 2008
Loan - JPY 37.000.000.000	277.586.523	293.324.877
Loan - EUR 609,244,650	590.850.769	-
	<b>868.437.292</b>	<b>293.324.877</b>

A loan of JPY 37.000.000.000 has been agreed upon in a loan agreement dated 14 March 2003 between the Company and Gas Natural SDG, S.A. The repayment date of the loan will be 14 March 2033. The loan bears a nominal interest rate of 4.75% plus a taxable margin of 0,05% in line with the tax ruling. The amount of EUR 277.586.523 per 31 December 2009 (2008: 293.324.877) is the amortised cost of the loan using an effective interest rate of 4,7588%.

A loan of EUR 609,244,650 has been agreed upon in a loan agreement dated 23 March 2006 between the Company and Union Fenosa Generacion, S.A. After the merger with Gas Natural SDG, S.A., the loan has been reclassified as a borrowing to shareholder. The loan bears a nominal interest rate of 3 months Euribor + 0,25% (capped to a range between 4,184% to 6,823%) + 0,184% plus a taxable margin of 0,05% in line with the tax ruling. The repayment date of the loan will be 20 May 2013. The amount of EUR 590.850.769 per 31 December 2009 (2008: 586.033.569) is the amortised cost of the loan using an effective interest rate of 5,3656%.

## UNION FENOSA FINANCE B.V.

The movement in the loans to shareholders is included in the table below:

	Notes	31 December 2009	31 December 2008
<b>Balance - January 1</b>		<b>293.324.877</b>	<b>224.337.598</b>
Reclassification from Group companies	5	590.850.769	-
Exchange difference		(15.463.658)	68.987.279
Consent fees		(278.166)	-
Deferred fees		3.470	-
<b>Balance - December 31</b>		<b>868.437.292</b>	<b>293.324.877</b>

### 7. Interest receivable

	31 December 2009	31 December 2008
Interest due from shareholder	7.657.130	7.678.983
Interest due from group companies	25.881	99.474
	<b>7.683.011</b>	<b>7.778.457</b>

The interest due from shareholder reflects the accrued interest receivable from the loans to the shareholder of YEN 37,000,000,000 and EUR 609,244,650 (refer to note 6).

The interest due from group companies reflects the accrued interest from the loan to Clover Financial and Treasury Services Ltd, a group finance company established in Dublin (Ireland).

### 8. Loans to group companies

	31 December 2009	31 December 2008
Loan to group companies	2.262.329	2.633.491
	<b>2.262.329</b>	<b>2.633.491</b>

A short term investment has been agreed upon in an agreement dated 2 January 2009 between the Company and Clover Financial and Treasury Services Ltd. The repayment date of the loan will be 364 days after the agreement date. The loan bears a nominal interest rate of 2,25%.

### 9. Loans to shareholder

	31 December 2009	31 December 2008
Loans to shareholder	498.212.915	-
	<b>498.212.915</b>	<b>-</b>

## UNION FENOSA FINANCE B.V.

A loan of EUR 500,000,000 has been agreed upon in a loan agreement dated 9 December 2003 between the Company and Union Fenosa Generación, S.A. After the merger with Gas Natural SDG, S.A., the loan has been reclassified as a borrowing to shareholder. Due to the maturity it has been classified as a short-term facility. The repayment date of the loan will be 9 December 2010. The loan bears a nominal interest rate of 5,00% plus a taxable margin of 0,05% in line with the tax ruling. The amount of EUR 498.212.915 per 31 December 2009 (2008: 498.718.650) is the amortised cost of the loan using an effective interest rate of 5,2569% plus a taxable margin of 0,05%

The movement in the loans to shareholders is included in the table below:

	Notes	31 December 2009	31 December 2008
Balance - January 1		-	-
Reclassification from Group companies	5	498.212.915	-
<b>Balance - December 31</b>		<b>498.212.915</b>	<b>-</b>

### 10. Cash and cash equivalents

Cash and cash equivalents consists of current account balances which are available on demand.

### 11. Borrowings - Eurobonds

	31 December 2009	31 December 2008
Borrowing – Eurobonds, short term	498.212.915	-
Borrowing – Eurobonds, long term	-	498.718.650
	<b>498.212.915</b>	<b>498.718.650</b>

The Company has a EUR 2 billion Euro Medium-Term Notes (EMTN) program of which nominal EUR 500,000,000 outstanding at December 31, 2009 was classified as short-term liabilities (2008: long-term liabilities). These notes are listed at the Luxembourg Stock Exchange, with listing code XS0181571364 per December 31, 2009. On 9 December 2010 these bonds will be redeemed.

The Euro Medium-Term Notes program is unconditionally guaranteed by the parent Company. Interest risk is also transferred to the parent company by means of the applied spread between interest expense and interest income, based upon the tax ruling.

Details of these Euro Medium-Term Notes are as follows:

Maturity	Nominal amount	Ccy	Interest rate basis	31 December 2009	31 December 2008
9 December, 2010	500,000,000	EUR	Fixed, 5%	500,000,000	500,000,000
Amortised interest / deferred fees		EUR		(1,787,085)	(1,281,350)
				<b>498.212.915</b>	<b>498.718.650</b>

The market value at 31 December 2009, which equals fair value, was 102,9% (2008: 101,3%). The market value of the loan recognized on the balance sheet was obtained from Bloomberg.

## UNION FENOSA FINANCE B.V.

The balance related to the Eurobonds borrowing of EUR 500,000,000 has been reclassified this year to current liabilities due to its maturity on 9 December 2010.

The movement in Borrowings - Eurobonds is as follows:

	<u>31 December 2009</u>	<u>31 December 2008</u>
<b>Balance - January 1</b>	<b>498.718.650</b>	<b>498.104.047</b>
Change in amortised interest / deferred fees	(505.735)	614.603
<b>Balance - December 31</b>	<b>498.212.915</b>	<b>498.718.650</b>

### 12. Borrowings from third parties

	<u>31 December 2009</u>	<u>31 December 2008</u>
Borrowing – JPY 37,000,000,000	277.586.523	293.324.877
	<u><b>277.586.523</b></u>	<u><b>293.324.877</b></u>

A loan of JPY 37.000.000.000 has been agreed upon in a loan agreement dated 14 March 2003 between the Company and the American Family Life Assurance Company of Columbus. The repayment date of the loan will be 14 March 2033. The loan bears a nominal interest rate of 4.75%. The amount of EUR 277.586.523 per 31 December 2009 (2008: 293.324.877) is the amortised cost of the loan using an effective interest rate of 4,7588%.

The movement in the borrowings to shareholders is included in the table below:

	<u>31 December 2009</u>	<u>31 December 2008</u>
<b>Balance - January 1</b>	<b>293.324.877</b>	<b>224.337.598</b>
Exchange difference	(15.463.658)	68.987.279
Consent fees	(278.166)	-
Deferred fees	3.470	-
<b>Balance - December 31</b>	<b>277.586.523</b>	<b>293.324.877</b>

### 13. Borrowings from group companies

	<u>31 December 2009</u>	<u>31 December 2008</u>
Borrowing – EUR 609,244,650	590.850.769	586.033.569
	<u><b>590.850.769</b></u>	<u><b>586.033.569</b></u>

A loan of EUR 609,244,650 has been agreed upon in a loan agreement dated 20 March 2003 between the Company and Union Fenosa Financial Services USA LLC. The loan bears a nominal interest rate of 3 months Euribor + 0,25% (capped to a range between 4,184% to 6,823%) + 0,184%. The repayment date of the loan will be 20 May 2013. The amount of EUR 590.850.769 per 31 December 2009 (2008: 586.033.569) is the amortised cost of the loan using an effective interest rate of 5,3656%.

## UNION FENOSA FINANCE B.V.

The movement in the borrowings from group companies is included in the table below:

	31 December 2009	31 December 2008
<b>Balance - January 1</b>	586.033.569	580.794.711
Amortised interest / deferred fees	4.817.200	5.238.858
<b>Balance - December 31</b>	590.850.769	586.033.569

### 14. Interest payable to third parties

	31 December 2009	31 December 2008
Interest payable – Eurobonds	1.527.778	1.506.849
Interest payable – Third party borrowings	3.048.376	3.067.016
	4.576.154	4.573.865

The interest payable for the Eurobonds reflects the accrued interest payable for the borrowings of EUR 500,000,000.

The interest payable to third parties reflects the accrued interest re payable for the borrowings of JPY 37,000,000,000.

### 15. Interest payable to group companies

	31 December 2009	31 December 2008
Interest payable – Group companies	3.030.790	3.105.116
	3.030.790	3.105.116

The interest payable to group companies reflects the accrued interest payable for the borrowings of EUR 609,244,650 loan from Unión Fenosa Financial Services LLC.

### 16. Shareholders' equity

The authorised share capital of the Company consists of 200 shares of EUR 453.78 each, amounting to EUR 90,756. As at balance sheet date 200 shares were issued and fully paid-up in cash.

The movements in capital and reserves are provided in the statement of changes in equity. All shares are held by Gas Natural SDG, S.A. Barcelona, Spain.

### 17. Interest income

	31 December 2009	31 December 2008
Interest income – Group companies	56.681	61.877.878
Interest income – Shareholder	69.486.657	10.344.271
Interest income – Other	-	3.513
	69.543.338	72.225.662

## UNION FENOSA FINANCE B.V.

### 18. Interest expense

	31 December 2009	31 December 2008
Interest expense – Eurobonds	26.460.932	25.612.159
Interest expense – Group companies	31.688.240	35.574.980
Interest expense – Third parties	10.557.029	35.574.980
Interest expense – Other	1.510	-
	<b>68.707.711</b>	<b>71.446.696</b>

### 19. General and administrative expenses

	31 December 2009	31 December 2008
Administrative expenses	77.054	73.539
Audit fees	12.000	12.000
Other consultants' fees	104.468	46.323
Other general expenses	60.063	165.002
	<b>253.585</b>	<b>296.864</b>

### 20. Taxation

The taxable profit of the company is computed on the basis of a special ruling with the tax authorities. This requires a minimum taxable income in respect of taking up and granting loans as well as covering any exchange and interest rate risks by way of swap agreements or other hedging procedures. Taxation is based upon a percentage spread of the average amount of all loans (amounts borrowed) outstanding during the year minus the operational costs of the Company (to a certain amount).

	31 December 2009	31 December 2008
Profit before taxation	581.683	546.714
Corporate income tax (tax ruling)	114.845	89.544
Effective tax rate	19,7%	16,4%
Applicable tax rate	20%-25,5%	20%-25,5%

## UNION FENOSA FINANCE B.V.

### 21. Reconciliation of Net profit to cash generated from continuing operations

	31 December 2009	31 December 2008
<b>Net profit for the year</b>	<b>466.838</b>	<b>457.170</b>
<b>Adjustments to reconcile net profit to net cash provided by operating activities:</b>		
Income tax	114.845	89.544
<i>Change in operating assets and liabilities</i>		
- (Increase)/decrease Interest receivable	95.446	1.558.735
- Increase/(decrease) Interest payable	(72.037)	(108.533)
- (Increase)/decrease Other receivables	(2.526)	222.991
- (Increase)/decrease Loans, short term	371.162	(1.964.491)
- Increase/(decrease) Other payables	(783.646)	450.898
<b>Cash flow from operating activities</b>	<b>190.082</b>	<b>706.314</b>

### 22. Related-party transactions

	31 December 2009	31 December 2008
Due from related parties, long term	868.437.292	1.378.077.096
Due from related parties, short term	508.158.255	10.411.948
	<b>1.376.595.547</b>	<b>1.388.489.044</b>
Due to related parties, long term	(590.850.769)	(586.033.569)
Due to related parties, short term	(3.030.790)	(3.858.052)
	<b>(583.881.559)</b>	<b>(582.175.517)</b>

All interest income for the years ended 31 December 2009 and 2008 were received from related parties.

### 23. Staff numbers and employment costs

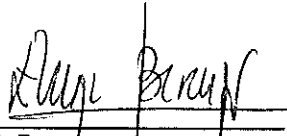
The Company has no employees other than its directors (2008: none).

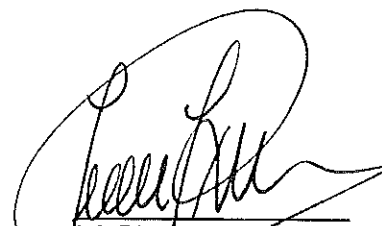
UNION FENOSA FINANCE B.V.

24. Directors

The Company has six directors and no supervisory directors. Only one director received remuneration for his services during 2009. As a result, the remunerations or any other benefits which were paid during the year under review are not disclosed based on sub-section 1, article 383, Book 2 of the Netherlands Civil Code.

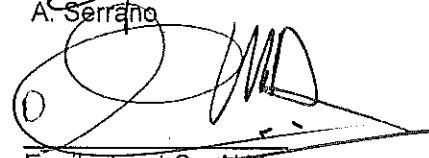
The Board of Managing Directors.

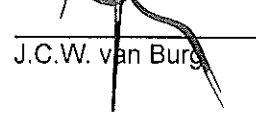
  
E. Berehguer

  
J.J. Rivefo

  
A. Serrano

  
W.P. Ruff

  
Equity Trust Co. N.V.

  
J.C.W. van Burg

Rotterdam, 9 March 2010

## UNION FENOSA FINANCE B.V.

### Other information to the financial statements at 31 December 2009

#### **Retained earnings**

Article 20 of the Articles of Association provides that:

- profits shall be established in accordance with generally accepted accounting standards;
- the General Meeting of Shareholders shall determine whether profits made in any financial year shall be paid out partly or wholly, or added to reserves;
- the General Meeting of Shareholders can only resolve to pay out profits and/or reserves and the Company may only make payments out of profits and/or reserves open to payment, as far as the shareholders' equity of the Company exceeds the amount of the paid-up and claimed part of the capital, increased with reserves, to be kept according to the law or the articles of association;
- dividends shall be made payable within one month after the adoption of the annual account. The General Meeting of Shareholders may determine that dividends shall be paid, wholly or partly, otherwise than in cash;
- the General Meeting of Shareholders or, subject to approval of the board of supervisory directors, the board of managing directors is authorised to make interim payments out of profits and/or reserves with due observance of the above mentioned.

#### **Proposed appropriation of profit**

The management proposes to declare a final dividend of EUR 350,000 out of the retained earnings, which has not been paid as an interim dividend during the year. Furthermore it proposed that the result for the past financial year will be carried forward. This proposal is not yet reflected in the financial statements.

#### **Subsequent events**

The Company has the intention to conduct a commercial paper program in March 2010.

#### **Auditors' Report**

Reference is made to the auditors' report included hereafter.

**PRICEWATERHOUSECOOPERS** 

PricewaterhouseCoopers Accountants N.V.  
For identification purposes only

To: the Board of Directors of  
Union Fenosa Finance B.V.

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Accountants N.V.  
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## Auditor's report

### Report on the financial statements

We have audited the accompanying financial statements 2009 of Union Fenosa Finance B.V., Amsterdam as set out on pages 3 to 21, which comprise the Statement of Financial Position as at 31 December 2009, the Statement of comprehensive income, the changes in equity and cash flows for the year then ended and the notes, comprising a summary of significant accounting policies and other explanatory information.

#### Management's responsibility

Management of the company is responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards as adopted by the European Union and with Part 9 of Book 2 of the Netherlands Civil Code, and for the preparation of the management board report in accordance with Part 9 of Book 2 of the Netherlands Civil Code. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of the financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

#### Auditor's responsibility

Our responsibility is to express an opinion on the financial statements based on our audit. We conducted our audit in accordance with Dutch law. This law requires that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### **Opinion**

In our opinion, the financial statements give a true and fair view of the financial position of Union Fenosa Finance B.V. as at 31 December 2009, and of its result and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union and with Part 9 of Book 2 of the Netherlands Civil Code.

### **Report on other legal and regulatory requirements**

Pursuant to the legal requirement under 2:393 sub 5 part f of the Netherlands Civil Code, we report, to the extent of our competence, that the management board report is consistent with the financial statements as required by 2:391 sub 4 of the Netherlands Civil Code.

Arnhem, 8 March 2010  
PricewaterhouseCoopers Accountants N.V.

J. van Hoof RA

