

Annual financial report 31 December 2010

Union Fenosa Finance B.V.

Rotterdam, the Netherlands

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Chamber of Commerce
File number 24.243.533

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UNION FENOSA FINANCE B.V.

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Management Board Report

The Management Board hereby submits its financial statements for the year ended 31 December 2010. 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 2010 and with part 9 of Book 2 of the Netherlands Civil Code, effective as of 31 December 2010.

Overview of activities

The Company, having its legal seat in Rotterdam, the Netherlands, was incorporated on 26 November 1993. The Company is a wholly-owned subsidiary of its ultimate parent company, 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 the ultimate parent company, are referred to as group companies.

Union Fenosa Finance B.V. was incorporated to facilitate the funding of its shareholder 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 1 January 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.

The Company has already signed with the Dutch tax authorities a new advanced pricing agreement for the period 2011-2014. It has been agreed to set the arm's length remuneration for the financing activities over the funds borrowed and lent on at 5.3 basis points.

In March 2010 the Company entered as issuer (Gas Natural SDG, S.A. as guarantor) into a Euro Commercial Paper (ECP) programme for the issuance of notes under which it will be possible to issue notes and have outstanding at any time ECP notes up to a maximum aggregate amount of EUR 1 billion. The Company has signed a revolving cash advance facility agreement with Gas Natural SDG, S.A. to carry out the on-lending of the proceeds raised under the ECP programme, where any advance is subject to the conditions precedent to the issuance of notes by the lender under the ECP programme.

During the year the Company has entered, replacing Gas Natural Finance B.V., into the Euro Medium-Term Notes (EMTN) programme, first established on 29 October 1999 by Gas Natural Capital Markets, S.A. and Gas Natural Finance B.V., both group companies. This EMTN programme, to be update yearly on or around 10 November, allows the issuance, offering and selling of notes up to an aggregate amount of EUR 10 billion, listing on the Official List of the UK Financial Services Authority (FSA) and trading on the Main Market of the London Stock Exchange plc, although the notes may be unlisted or admitted to listing, trading and/or quotation by any other listing authority, stock exchange and/or quotation system. Gas Natural SDG, S.A. is the guarantor. As of December 31 December 2010 the Company has not issued any note.

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On 9 December 2010 the Company repaid the outstanding nominal debt to the amount of EUR 500 million together with the interests. Thus the Company terminated the EUR 2 billion Euro Medium-Term Notes (EMTN) programme. This programme was listed at the Luxembourg Stock Exchange.

In September 2010 the Company signed a new credit facility up to a maximum amount of EUR 10 million with Gas Natural SDG, S.A. The short-term investment agreed between the Company and Clover Financial and Treasury Services Ltd (Dublin, Ireland), a group company, was not renewed.

Principal activities and business review

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

Results for the year

During the year ended 31 December 2010 the Company realized a net profit of EUR 362,992 (2009: EUR 466,838).

Financial position

During the year ended 31 December 2010 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 2010. On 16 February 2010 Mr. Salvador Peñarrubia Sánchez resigned as director and was discharged. Effective as of the same date (16 February 2010) Mr. Alfonso Serrano Méndez, Mr. Juan José Rivero Aranda, Mr. Enrique Berenguer Marsal and Jacob Cornelis Willem van Burg were appointed as directors.

On 26 April 2010 Mr. Alfonso Serrano Méndez and Jacob Cornelis Willem van Burg resigned as directors and were discharged. Effective as of the same date (26 April 2010) Mr. Miguel José García Saiz was appointed as managing director.

Audit committee

As of 26 July 2009 legislation is in place which requires issuers incorporated in the Netherlands to maintain an audit committee. Union Fenosa Finance B.V. 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, Gas Natural SDG, S.A. which is listed on the Spanish stock exchange. In order to minimise the liquidity risk, management monitors the availability of sufficient cash in order to ensure payment of short-term liabilities.

Liquidity risk, fair value risk and cash flow interest risk are mitigated by the back-to-back financing with the ultimate parent company under the same conditions. The shareholder acts as a guarantor for all the borrowings.

There is a significant concentration of credit risk as all borrowings are lent on to the shareholder. This credit risk is monitored on a regular basis by the company.

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Cash flow and financing requirements

The 10 billion Euro Medium-Term Notes (EMTN) programme was supplemented in November 2010 in order to include the Company as an issuer, replacing Gas Natural Finance B.V. On the other hand the Company has entered during the year into a 1 billion Euro Commercial Paper (ECP) programme.

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. Salvador Peñarrubia Sánchez (resigned 16 February 2010)

Mr. Alfonso Serrano Méndez (resigned 26 April 2010)

Mr. Jacob Cornelis Willem van Burg (resigned 26 April 2010)

E. Berenguer Marsal

J.J. Rivero Aranda

M.J. García Saiz

W.P. Ruoff

Equity Trust Co. N.V.

Rotterdam, 28 March 2011

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Statement of Financial Position

(before appropriation of results and expressed in euros)

	Notes	<u>31 December 2010</u>	<u>31 December 2009</u>
Non-current assets			
Loans to Shareholder	5	938,272,660	868,437,292
		938,272,660	868,437,292
Current assets			
Interest receivable	6	6,915,854	7,683,011
Loan to group companies	8	-	2,262,329
Loans to Shareholder	7	357,944,002	498,212,915
Amount due from third parties		-	7,213
Other Receivables		82,269	-
Cash and cash equivalents	9	778,270	127,653
		365,720,395	508,293,121
TOTAL ASSETS		<u>1,303,993,055</u>	<u>1,376,730,413</u>
Current liabilities			
Interest payable to third parties	14	3,317,269	4,576,154
Interest payable to group companies	15	3,030,789	3,030,790
Borrowings - Eurobonds	10	-	498,212,915
Borrowings - ECP papers	11	358,369,850	-
Taxes payable	20	109,503	5,852
Accrued expenses and other payable		83,870	21,290
		364,911,281	505,847,001
Non-current liabilities			
Borrowings from third parties	12	340,543,040	277,586,523
Borrowings from group companies	13	595,929,622	590,850,769
		936,472,662	868,437,292
Shareholder's equity			
Share capital	16	90,756	90,756
Share premium		165,000	165,000
Retained earnings		1,990,364	1,723,526
Result for the year		362,992	466,838
		2,609,112	2,446,120
TOTAL EQUITY AND LIABILITIES		<u>1,303,993,055</u>	<u>1,376,730,413</u>

The notes on pages 8 to 22 are an integral part of these financial statements.

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Statement of Comprehensive Income

(expressed in euros)

	<u>Notes</u>	<u>2010</u>	<u>2009</u>
Interest income / (charges)			
Interest income	17	70,811,418	69,543,338
Interest expenses	18	<u>(70,088,157)</u>	<u>(68,707,711)</u>
		723,261	835,627
General and administrative expenses	19	(249,930)	(253,585)
Exchange result		<u>(836)</u>	<u>(359)</u>
		(250,766)	(253,944)
Result before tax		472,495	581,683
Taxation	20	<u>(109,503)</u>	<u>(114,845)</u>
Profit after tax		362,992	466,838
Other comprehensive income		<u>-</u>	<u>-</u>
Total comprehensive income		<u>362,992</u>	<u>466,838</u>

The results of the Company are attributable to the parent company Gas Natural SDG S.A.
The notes on pages 8 to 22 are an integral part of these financial statements.

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Cash flow statement
(expressed in euros)

	Notes	2010	2009
Result of the year		362,992	466,838
Cash flow from operating activities:			
<i>Adjustments to reconcile net profit to net cash provided by operating activities</i>			
Income tax expense	20	109,503	114,845
<i>Change in operating assets</i>			
- (Increase)/decrease Interest receivable	6	767,157	95,446
- (Increase)/decrease Other receivables		(75,056)	(2,526)
- (Increase)/decrease Loans to group companies, short term	8	2,262,329	371,162
- (Increase)/decrease Loans to shareholder, short term.- Eurobonds	7	500,000,000	-
- (Increase)/decrease Loans to shareholder, short term.- ECP programme	7	(357,944,002)	-
- (Increase)/decrease Loans, long term	5	(1,800,000)	-
<i>Change in operating liabilities</i>			
- Increase/(decrease) Interest payable		(833,037)	(72,037)
- Increase/(decrease) Borrowings, short term.- Eurobonds	10	(500,000,000)	-
- Increase/(decrease) Borrowings, short term.- ECP programme	11	357,944,002	-
- Increase/(decrease) Other payables		62,580	(783,646)
Income tax paid	20	(5,851)	(116,973)
Net cash provided by operating activities		850,617	73,109
Cash flow from financing activities:			
Dividends paid		(200,000)	(150,000)
Net cash used in financing activities		(200,000)	(150,000)
Net increase/(decrease) in Cash and cash equivalents		650,617	(76,891)
Cash and cash equivalents – beginning of the year		127,653	204,544
Cash and cash equivalents – end of the year	9	778,270	127,653

The notes on pages 8 to 22 are an integral part of these financial statements.

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Statement of changes in equity

(expressed in Euros)

	Notes	Share capital	Share premium	Retained earnings	Result for the year	Total
Balance at 1 January 2009		90,756	165,000	1,416,356	457,170	2,129,282
Appropriation of result		-	-	457,170	(457,170)	-
Result for the year		-	-	-	466,838	466,838
Payment of interim dividend		-	-	(150,000)	-	(150,000)
Balance at 31 December 2009	16	90,756	165,000	1,723,526	466,838	2,446,120
Balance at 1 January 2010	16	90,756	165,000	1,723,526	466,838	2,446,120
Appropriation of result		-	-	466,838	(466,838)	-
Result for the year		-	-	-	362,992	362,992
Payment of dividend		-	-	(200,000)	-	(200,000)
Balance at 31 December 2010	16	90,756	165,000	1,990,364	362,992	2,609,112

The results of the Company are attributable to the parent company, Gas Natural SDG S.A.
The notes on pages 8 to 22 are an integral part of these financial statements.

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Notes to the financial statements as of 31 December 2010

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 in 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 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 funding of 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 in 2010 an advanced pricing agreement with the Dutch tax authorities, which applies to the period of 1 January 2011 up to and including 31 December 2014. This agreement, which sets the arm's length criteria, states most of the Company's profit every year, being obliged to apply a 0,053% margin on the interest expense. The agreement also forces the Company to maintain equity in the amount of EUR 2 million.

Financial position

During the year 2009 the Company was required to check these tax 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 borrowing. The Company was required to obtain the approval of the Third Party and there was a meeting of bondholders, approving these changes. Additionally, the Third Party borrowing has some financial covenants which are monitored.

In March 2010 the Company entered as issuer (Gas Natural SDG, S.A. as guarantor) into a Euro Commercial Paper (ECP) programme for the issuance of notes under which it will be possible to issue notes and have outstanding at any time ECP notes up to a maximum aggregate amount of EUR 1 billion. The Company has signed a revolving cash advance facility agreement with Gas Natural SDG, S.A. to carry out the on-lending of the proceeds raised under the ECP programme, where any advance is subject to the conditions precedent to the issuance of notes by the lender under the ECP programme.

In November 2010 the Company entered, replacing Gas Natural Finance B.V., into the Euro Medium-Term Notes (EMTN) programme, first established on 29 October 1999 by Gas Natural Capital Markets, S.A. and Gas Natural Finance B.V, both group companies. This EMTN programme, to be update yearly on or around 10 November, allows the issuance, offering and selling of notes up to an aggregate amount of EUR 10 billion, listing on the Official List of the UK Financial Services Authority (FSA) and trading on the Main Market of the London Stock Exchange plc, although the notes may be unlisted or admitted to listing, trading and/or quotation by any other listing authority, stock exchange and/or quotation system. Gas Natural SDG, S.A. is the guarantor. As of 31 December 2010 the Company has not issued any notes.

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After repaying on 9 December the outstanding nominal debt to the amount of EUR 500 million together with the interests, the Company terminated a EUR 2 billion Euro Medium-Term Notes (EMTN) programme. This programme was listed at the Luxembourg Stock Exchange.

In September 2010 the Company signed a new credit facility up to a maximum amount of EUR 10 million with Gas Natural SDG, S.A. The short-term investment agreed between the Company and Clover Financial and Treasury Services Ltd (Dublin, Ireland), a group company, was not renewed.

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 2010.

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

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

IFRS 1 (Revised), "First-time Adoption of IFRS".
IFRS 1 (Modification), "Additional Exemptions for Companies Adopting IFRS for the First Time".
IFRS 2 (Modification), "Group Operations with Share Based Payments Settled in Cash".
IFRS 3 (Revised), "Business Combinations".
IFRS 5 (modification), "Non-current Assets Held for Sale and Discontinued Activities" (and related modification of IFRS 1 "First-time Adoption of IFRS").
IAS 27 (Revised), "Consolidated and Separate Financial Statements".
IAS 39 (Modification) "Items Qualifying as Hedges".
IFRIC 12 "Service Concession Agreements".
IFRIC 15 "Agreements for the Construction of Real Estate".
IFRIC 16 "Hedges of a Net Foreign Investment".
IFRIC 17 "Distribution of Non-Cash Assets to Owners".
IFRIC 18 "Transfers of Assets from Customers".
Improvements to IFRS.

The application of the above standards, modifications and interpretations have not had a significant impact on the Annual Accounts.

In 2010 the Official Gazette of the European Union published the following new IFRS and IFRIC coming into force for the years beginning 1 January 2011, which have not been adopted in advance:

IFRS 1 (modification) "First-time Adoption of IFRS". Limited exemption of the comparisons of IFRS 7.

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IFRS 7 (modification). "Financial instruments. Information to be Disclosed". Disclosures – Transfer of financial assets.
IAS 24 (Revised) "Related-party Transactions to be Disclosed".
IAS 32 (modification) "Financial Instruments Presentation"
IFRIC 14 (modification) "Prepayments. Minimum Reporting Requirements".
IFRIC 19 "Extinguishing of Financial Liabilities with Equity Instruments".

Furthermore, IFRS 9 "Financial instruments" has been adopted, which has not been adopted by the European Union.

On the basis of the analysis of these new accounting standards and interpretations to be applied in the years beginning 1 January 2011, Union Fenosa Finance B.V. does not expect that their application will have significant effects on these Annual Accounts.

2.3 Use of estimates /judgement

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.

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 recognized in the statement of comprehensive income.

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

2.5 Financial assets

(a) Classification

The Company classifies its financial assets in one of 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. The company has currently classified all its financial assets in the loans and receivables category. 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

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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. The fair value of all financial assets approximates carrying values. Loans are subsequently carried at amortized cost using the effective interest method.

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.

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 reorganization; 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 carrying amount of the asset is reduced and the amount of the loss is recognized in the statement of comprehensive income. If a loan 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 recognized in the statement of comprehensive income.

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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.

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 in the statement of financial position.

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 recognized in the statement of comprehensive income over the period of the borrowings using the effective interest method.

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 prepayment 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 recognized in the statement of comprehensive income.

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

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taking up and granting loans. The present Advanced Pricing Agreement is valid from 1 January 2006 until 31 December 2010.

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.

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 the end of the reporting period (non-adjusting events) are disclosed in the notes to the 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 and liquidity risk.

The Company's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Company's financial performance. All incoming loans and bonds issued are guaranteed by the shareholder. All borrowings are issued under the same conditions to the shareholder including a small interest spread.

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

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Market risk

a) Foreign exchange risk

The Company is exposed to foreign currency risk as it has borrowed in Japanese Yens, 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.

a) Cash flow

The Company is exposed to cash flow risk, but this risk is limited as the payment conditions on the borrowings are exactly the same as the payment conditions on the loans to the shareholder. The shareholder does not have a history of non-compliance with the payment conditions.

b) Fair value interest rate risk

The company is exposed to interest rate risk, but this risk is limited as the interest conditions on the borrowings are the same as the interest conditions on the loans to the shareholder except for a small spread of 0.05%.

Credit risk

There is a significant concentration of credit risk as all borrowings are lent on to the shareholder. This credit risk is monitored on a regular basis by the company.

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.

A sensitivity analysis is not included as all borrowings are lent on back-to-back to the shareholder under the same conditions with a small fixed spread of 0.05%. A change of the market interest rate will have no significant impact on the result for the year, equity and net cashflows of the company.

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.

In connection with the borrowings, the Company pays annually interests on a quarterly basis (19 February, May, August and November) in the case of the loan agreement with Union Fenosa Financial Services USA LLC, (referred to note 13) and on a half-yearly basis in the case of the loan with the American Family Life Assurance Company of Columbus (referred to note 12). The redemption dates for both loans is 20 May 2013 and 14 March 2033.

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.

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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 loans and borrowings has been disclosed on notes 5,7,11, 12 and 13.

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.

5. Loans to shareholder (non-current assets)

	<u>31 December 2010</u>	<u>31 December 2009</u>
Loan - JPY 37,000,000,000	340,543,039	277,586,523
Loan - EUR 609,244,650	595,929,621	590,850,769
Loan – Credit facility up to EUR 10 million	1,800,000	-
	<u>938,272,660</u>	<u>868,437,292</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 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 340,543,039 as of 31 December 2010 (2009: EUR 277,586,523) is the amortized cost of the loan using an effective interest rate of 4.7588%. The deferred fees for this loan were fully recognized in 2010. The external loan as disclosed under note 12 is lent on back-to-back to the shareholder under the same conditions, without having any effect on the income statement of the Company, except for a small fixed interest spread of 0.05%.

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 modified as a borrowing to the current 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 595,929,621 as of 31 December 2010 (2009: EUR 590,850,769) is the amortised cost of the loan using an effective interest rate of 5.43%.

Additionally, as of 22 September 2010 a credit facility up to a maximum amount of EUR 10 million has been agreed between the Company and Gas Natural SDG, S.A. The credit facility bears a nominal interest rate of 3 months Euribor plus a taxable margin of 0.05% in line with the tax ruling with quarterly payments and maturity date 22 September 2013. The lent amount as of 31 December 2010 is EUR 1,800,000.

As per 31 December 2010 the fair value of the loan in amount of JPY 37,000 million is EUR 239.3 million. The fair value of the loan in amount of EUR 609 million is EUR 518.5 million. As

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for the loan in amount of EUR 1.8 million its fair and carrying values match due to the use of a non-fixed interest rate.

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

	2010	2009
Balance – 1 January	868,437,292	293,046,711
Reclassification from Group companies	-	590,850,769
New loan agreement	1,800,000	-
Exchange difference	62,681,808	(15,463,658)
Recognition of deferred fees	5,353,560	3,470
Balance – 31 December	938,272,660	868,437,292

During the year 2010 the company decided to fully recognize the remaining deferred fees on the JPY loan for an amount of EUR 274,696 considering its low impact every year.

6. Interest receivable

	31 December 2010	31 December 2009
Interest due from shareholder	6,915,854	7,657,130
Interest due from group companies	-	25,881
	6,915,854	7,683,011

The interest due from shareholder reflects the accrued interest receivable from the loans to the shareholder of YEN 37,000,000,000, EUR 609,244,650, EUR 1,800,000 (refer to note 5) and EUR 359,744,002 (refer to note 7).

7. Loans to shareholder (current assets)

	31 December 2010	31 December 2009
Loan – EUR 500 million	-	498,212,915
Loan – Revolving cash advance facility	357,944,002	-
	357,944,002	498,212,915

A loan of EUR 500,000,000 was 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 was modified as a borrowing to shareholder. The loan was been repaid at 9 December 2010.

During the year 2010 several loans have been agreed upon in a revolving cash agreement dated 23 March 2010 between the Company and Gas Natural SDG, S.A. This agreement has been signed to carry out the lending of the proceeds raised under the ECP programme up to a maximum amount of EUR 1 billion where any advances to be granted by the Company to the borrower will be subject to the conditions precedent to the issuance of Notes. Thus, the loans have the same maturity date as the ECP issuance which is related to and bear the same

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nominal interest rate plus a taxable margin of 0.05% in line with the tax ruling. The amount of EUR 357,944,002 is the outstanding drawn amount as of 31 December 2010.

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

	Notes	2010	2009
Balance – 1 January		498,212,915	-
Reclassification from group companies	5	-	498,212,915
Recognition of deferred fees		1,787,085	-
Repayment		(500,000,000)	-
Revolving cash advance facility		357,944,002	-
Balance – 31 December		357,944,002	498,212,915

As per 31 December 2010 the fair and carrying values of the loans agreed upon in a revolving cash agreement match due to their short-term length.

8. Loans to group companies

	31 December 2010	31 December 2009
Loan to group companies	-	2,262,329
	-	2,262,329

A short term investment was 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 was 364 days after the agreement date. The loan bore a nominal interest rate of 2.25%.

9. Cash and cash equivalents

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

10. Borrowings – Eurobonds (current liabilities)

	31 December 2010	31 December 2009
Borrowing – Eurobonds, short term	-	498,212,915
	-	498,212,915

The Company had a EUR 2 billion Euro Medium-Term Notes (EMTN) programme of which nominal EUR 500,000,000 outstanding was repaid on 9 December 2010 together with the accrued interest.

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The movement in Borrowings - Eurobonds is as follows:

	2010	2009
Balance – 1 January	498,212,915	498,718,650
Change in accrued interest / deferred fees	1,787,085	(505,735)
Repayment	(500,000,000)	-
Balance - December 31	-	498,212,915

11. Borrowings – ECP program (current liabilities)

	31 December 2010	31 December 2009
ECP programme issuances	357,944,002	-
Accrued interest	425,848	-
	358,369,850	-

On 23 March 2010 the Company entered into a Euro-Commercial Paper Programme (ECP) for the issuance of notes under which the Company may issue and have outstanding at any time ECP notes up to a maximum aggregate amount of EUR 1 billion or its equivalent in alternative currencies. The term of each issuance must not be less than one day nor greater than 364 days from the issue date to the maturity date.

During the year 2010 the Company issued 50 notes to a total nominal value of EUR 919 million of which 17 issues are outstanding as of 31 December 2010. The average annual interest rate agreed for those notes issued during the year has been 0.97% whereas the average length of these notes has been 79 days.

The accrued interest payable for the ECP programme issuances are included as a part of the borrowing, thus reducing the principal amount of EUR 359 million.

As per 31 December 2010 the fair and carrying values of the ECP programme issuances match due to their short-term length.

12. Borrowings from third parties (non-current liabilities)

	31 December 2010	31 December 2009
Borrowing – JPY 37,000,000,000	340,543,040	277,586,523
	340,543,040	277,586,523

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 340,543,040 per 31 December 2010 (2009: EUR 277,586,523) is the amortised cost of the loan using an effective interest rate of 4.7588%. The deferred fees for this loan were fully amortised in 2010.

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As per 31 December 2010 the fair value of the borrowing is EUR 239.3 million.

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

	<u>2010</u>	<u>2009</u>
Balance – 1 January	277,586,523	293,046,711
Exchange difference	62,681,808	(15,463,658)
Amortization of deferred fees	274,709	3,470
Balance – 31 December	<u>340,543,040</u>	<u>277,586,523</u>

During the year 2010 the company decided to fully amortise the remaining deferred fees on the JPY borrowing considering its low impact every year.

13. Borrowings from group companies (non-current liabilities)

	<u>31 December 2010</u>	<u>31 December 2009</u>
Borrowing – EUR 609,244,650	595,929,622	590,850,769
	<u>595,929,622</u>	<u>590,850,769</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 595,929,622 per 31 December 2010 (2009: EUR 590,850,769) is the amortised cost of the loan using an effective interest rate of 5.43%.

As per 31 December 2010 the fair value of the borrowing is EUR 518.5 million.

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

	<u>2010</u>	<u>2009</u>
Balance – 1 January	590,850,769	586,033,569
Accrued interest	5,078,853	4,817,200
Balance – 31 December	<u>595,929,622</u>	<u>590,850,769</u>

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14. Interest payable to third parties

	31 December 2010	31 December 2009
Interest payable – Eurobonds	-	1,527,778
Interest payable – Third party borrowings	3,317,269	3,048,376
	3,317,269	4,576,154

The interest payable to third parties reflects the accrued interest re payable for the borrowings of JPY 37,000,000,000. The accrued interest payable for the borrowings of the ECP programme is included as a part of the borrowing, thus reducing the principal amount of EUR 359 million (refer to note 11).

15. Interest payable to group companies

	31 December 2010	31 December 2009
Interest payable – Group companies	3,030,789	3,030,790
	3,030,789	3,030,790

The interest payable to group companies reflects the accrued interest payable for the borrowings of EUR 609,244,650 from Union 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

	2010	2009
Interest income – Group companies	-	56,681
Interest income – Shareholder	70,811,418	69,486,657
	70,811,418	69,543,338

18. Interest expense

	2010	2009
Interest expense – Eurobonds	25,259,307	26,460,932
Interest expense – ECP programme	1,438,007	-
Interest expense – Group companies	31,690,659	31,688,240
Interest expense – Third parties	11,683,082	10,557,029
Interest expense – Other	17,102	1,510
	70,088,157	68,707,711

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19. General and administrative expenses

	2010	2009
Administrative expenses	57,839	77,054
Audit fees for statutory accounts	23,105	12,000
Other consultants' fees	80,163	104,468
Other general expenses	88,823	60,063
	249,930	253,585

In 2010 the audit fees amounted to EUR 15,000 (2009: EUR 12,000)

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).

The Company signed in 2010 an advanced pricing agreement with the Dutch tax authorities, which applies to the period of 1 January 2011 up to and including 31 December 2014. This agreement, which sets the arm's length criteria, states most of the Company's profit every year, being obliged to apply a 0,053% margin on the interest expense.

	2010	2009
Profit before taxation	472,495	581,683
Corporate income tax (tax ruling)	109,503	114,845
Effective tax rate	23.2%	19.7%
Applicable tax rate	20%-25.5%	20%-25.5%

21. Related-party transactions

		31 December 2010	31 December 2009
Due from related parties, long term	Note 5	938,272,660	868,437,292
Due from related parties, short term	Notes 6-7	364,736,956	508,158,255
		1,303,009,616	1,376,595,547
Due to related parties, long term	Note 13	(595,929,622)	(590,850,769)
Due to related parties, short term	Note 15	(3,030,789)	(3,030,790)
		(598,960,411)	(583,881,559)

All interest income for the years ended 31 December 2010 and 2009 was received from related parties: Gas Natural SDG, S.A. (amounts due from related parties) and Union Fenosa Financial Services (amounts due to related parties).

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22. Directors

The Company has five directors and no supervisory directors. Only one director received remuneration for his services during 2010 as an employee. 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. Berenguer Marsal

J.J. Rivero Aranda

M.J. García Saiz

W.P. Ruoff

Equity Trust Co. N.V.

Rotterdam, 28 March 2011

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Other information to the financial statements at 31 December 2010

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 financial statements. 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.

Proposed appropriation of profit

Management proposes a dividend of EUR 500,000 out of the profit for the year (EUR 362,992) and the retained earnings (EUR 137,008).

Subsequent events

It is expected that the activities of the Company will remain unchanged. No major post-balance sheet events affecting the financial statements herewith presented have occurred to date.

Auditors' Report

Reference is made to the independent auditor's report included hereafter.



Independent auditor's report

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

Report on the financial statements

We have audited the accompanying financial statements 2010 as set out on pages 4 to 22 of Union Fenosa Finance B.V., Amsterdam, which comprise the statement of financial position as at 31 December 2010, the statements of comprehensive income, 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 is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards as adopted by the European Union and with Part 9 of Book 2 of the Dutch Civil Code, and for the preparation of the management board report in accordance with Part 9 of Book 2 of the Dutch Civil Code. Furthermore, management is responsible for such internal control as it determines is necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Dutch law, including the Dutch Standards on Auditing. This requires that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about 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 company'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 company'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 2010, and of its result and its cash flows for the year then

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ended in accordance with International Financial Reporting Standards as adopted by the European Union and with Part 9 of Book 2 of the Dutch Civil Code.

Report on other legal and regulatory requirements

Pursuant to the legal requirement under Section 2: 393 sub 5 at e and f of the Dutch Civil Code, we have no deficiencies to report as a result of our examination whether the management board report, to the extent we can assess, has been prepared in accordance with Part 9 of Book 2 of this Code, and whether the information as required under Section 2: 392 sub 1 at b-h has been annexed. Further we report that the management board report, to the extent we can assess, is consistent with the financial statements as required by Section 2: 391 sub 4 of the Dutch Civil Code.

Rotterdam, 28 March 2011
PricewaterhouseCoopers Accountants N.V.

Original signed by J. van Hoof RA