Deloitte.

Deloitte, S.L.
Plaza Pablo Ruiz Picasso, 1
Torre Picasso
28020 Madrid
España
Tel.: +34 915 14 50 00
Fax: +34 915 14 51 80
www.deloitte.es

Translation of a report originally issued in Spanish based on our work performed in accordance with the audit regulations in force in Spain and of consolidated financial statements originally issued in Spanish and prepared in accordance with the regulatory financial reporting framework applicable to the Group (see Notes 2 and 34). In the event of a discrepancy, the Spanish-language version prevails.

AUDITORS' REPORT ON CONSOLIDATED FINANCIAL STATEMENTS

To the Shareholders of Enagás, S.A.:

1. We have audited the consolidated financial statements of Enagás, S.A. ("the Company") and Subsidiaries ("the Group"), which comprise the consolidated balance sheet at 31 December 2012 and the related consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity, consolidated statement of cash flows and notes to the consolidated financial statements for the year then ended. As indicated in Note 2 to the accompanying consolidated financial statements, the directors are responsible for the preparation of the Group's consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the European Union and the other provisions of the regulatory financial reporting framework applicable to the Group. Our responsibility is to express an opinion on the consolidated financial statements taken as a whole based on our audit work performed in accordance with the audit regulations in force in Spain, which require examination, by means of selective tests, of the evidence supporting the consolidated financial statements and evaluation of whether their presentation, the accounting principles and policies applied and the estimates made comply with the applicable regulatory financial reporting framework.

2. In our opinion, the accompanying consolidated financial statements for 2012 present fairly, in all material respects, the consolidated equity and consolidated financial position of Enagás, S.A. and Subsidiaries at 31 December 2012, and the consolidated results of their operations and their consolidated cash flows for the year then ended, in conformity with International Financial Reporting Standards as adopted by the European Union and the other provisions of the regulatory financial reporting framework applicable to the Group.

3. The accompanying consolidated directors' report for 2012 contains the explanations which the directors of Enagás, S.A. consider appropriate about the Group's situation, the evolution of its business and other matters, but is not an integral part of the consolidated financial statements. We have checked that the accounting information in the consolidated directors' report is consistent with that contained in the consolidated financial statements for 2012. Our work as auditors was confined to checking the consolidated directors' report with the aforementioned scope, and did not include a review of any information other than that drawn from the accounting records of Enagás, S.A. and Subsidiaries.

DELOITTE, S.L.
Registered in ROAC under no. S0692

Oliverio Álvarez Alonso

22 February 2013

Deloitte, S.L. Inscrita en el Registro Mercantil de Madrid, tomo 13.650, sección 8ª, folio 188, hoja M-54414, inscripción 96ª. C.I.F.: B-79104469.
Domicilio social: Plaza Pablo Ruiz Picasso, 1, Torre Picasso, 28020, Madrid.

ENAGÁS, S.A.
and
Subsidiaries

Consolidated Financial Statements
at 31 December 2012

Translation of consolidated financial statements originally issued in Spanish and prepared in accordance with the regulatory financial reporting framework applicable to the Group (see Notes 2 and 34). In the event of a discrepancy, the Spanish-language version prevails.

ENAGÁS, S.A. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEET AT 31 DECEMBER 2012
(Figures in thousands of euros)

Assets	Note	31/12/2012	31/12/2011
NON-CURRENT ASSETS		**5.977.882**	**5.722.581**
Intangible assets	5	74.303	54.815
Goodwill		19.153	-
Other intangible assets		55.150	54.815
Property, plant and equipment	6	5.679.516	5.580.070
Equity-accounted investments	32	152.341	-
Investments in subsidiaries and associates	7	15.688	4.718
Other non-current financial assets	7	14.071	53.573
Deferred tax assets	20	41.963	29.405
CURRENT ASSETS		**2.105.561**	**1.994.818**
Inventories	8	13.829	13.785
Trade and other receivables	9	607.473	545.024
Other current financial assets	7	2.227	6.609
Other current assets		2.385	2.077
Cash and cash equivalents	10	1.479.647	1.427.323
TOTAL ASSETS		**8.083.443**	**7.717.399**

Equity and liabilities	Note	31/12/2012	31/12/2011
EQUITY		**2.004.784**	**1.861.596**
CAPITAL AND RESERVES		**2.014.878**	**1.867.377**
Issued capital	11	358.101	358.101
Reserves	11	1.379.447	1.235.591
Profit for the year		379.508	364.643
Interim dividend	11	(102.178)	(90.958)
NET UNREALISED GAINS (LOSSES) RESERVE	11	**(10.094)**	**(5.781)**
NON-CURRENT LIABILITIES		**5.210.229**	**3.878.061**
Provisions	13	175.389	91.555
Financial liabilities	14	4.538.270	3.323.065
Non-current borrowings from related parties		16	657
Deferred tax liabilities	20	422.014	386.795
Other non-current liabilities	15	74.540	75.989
CURRENT LIABILITIES		**868.430**	**1.977.742**
Financial liabilities	14	575.010	1.606.544
Current borrowings from related parties		-	4.746
Trade and other payables	18	293.420	366.452
TOTAL EQUITY AND LIABILITIES		**8.083.443**	**7.717.399**

Notes 1 to 34 in the accompanying financial information are an integral part of the consolidated balance sheet at 31 December 2012

Translation of consolidated financial statements originally issued in Spanish and prepared in accordance with the regulatory financial reporting framework applicable to the Group (see Notes 2 and 34). In the event of a discrepancy, the Spanish-language version prevails.

ENAGÁS, S.A. AND SUBSIDIARIES

CONSOLIDATED INCOME STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2012

(Figures in thousands of euros)

	Note	2012	2011
Revenue	21	1.180.059	1.118.443
Revenue from regulated activities		1.140.355	1.096.280
Revenue from deregulated activities		39.704	22.163
Other operating income	21	18.349	18.590
Employee benefits expense	22	(78.987)	(66.958)
Other operating costs	22	(185.114)	(202.281)
Depreciation and amortisation		(315.875)	(299.598)
Impairment losses and gains (losses) on disposal of assets		15	17.751
OPERATING PROFIT		**618.447**	**585.947**
Finance revenue	23	37.970	33.974
Finance costs	23	(110.998)	(99.259)
Exchange differences (net)	23	(3.657)	(333)
NET FINANCE COST		**(76.685)**	**(65.618)**
Share of profit of equity-accounted investees	32	969	-
PROFIT BEFORE TAX FROM CONTINUING OPERATIONS		**542.731**	**520.329**
Income tax expense	20	(163.223)	(155.686)
PROFIT FOR THE YEAR FROM CONTINUING OPERATIONS		**379.508**	**364.643**
PROFIT FOR THE YEAR		**379.508**	**364.643**
Attributable to:			
Equity holders of the parent		**379.508**	**364.643**
BASIC EARNINGS PER SHARE	**12**	**1,59**	**1,53**
DILUTED EARNINGS PER SHARE	**12**	**1,59**	**1,53**

Notes 1 to 34 in the accompanying financial information are an integral part of the consolidated income statement for the year ended 31 December 2012

Translation of consolidated financial statements originally issued in Spanish and prepared in accordance with the regulatory financial reporting framework applicable to the Group (see Notes 2 and 34). In the event of a discrepancy, the Spanish-language version prevails.

ENAGÁS, S.A. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF RECOGNISED INCOME AND EXPENSE FOR THE YEAR ENDED 31 DECEMBER 2012
Figures in thousands of euros

	2012	2011
CONSOLIDATED PROFIT FOR THE YEAR	**379.508**	**364.643**
INCOME AND EXPENSE RECOGNISED IN EQUITY:	**(12.716)**	**(9.999)**
Remeasurement of financial instruments		
Available-for-sale financial instruments	-	-
Cash flow hedges	(23.945)	(14.271)
Translation differences	3.585	-
Tax effect	7.644	4.272
INCOME AND EXPENSE RECLASSIFIED TO PROFIT OR LOSS:	**8.403**	**6.809**
Remeasurement of financial instruments		
Available-for-sale financial instruments	-	-
Cash flow hedges	12.005	9.727
Tax effect	(3.602)	(2.918)
TOTAL RECOGNISED INCOME/(EXPENSE)	**375.195**	**361.453**
Attributable to equity holders of the parent	375.195	361.453

Notes 1 to 34 in the accompanying financial information are an integral part of the consolidated statement of recognised income and expense for the year ended 31 December 2012

Translation of consolidated financial statements originally issued in Spanish and prepared in accordance with the regulatory financial reporting framework applicable to the Group (see Notes 2 and 34). In the event of a discrepancy, the Spanish-language version prevails.

ENAGÁS, S.A. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2012

Figures in thousands of euros

	Issued capital	Share premium and reserves	Retained earnings	Profit for the year	Interim dividend	Net unrealised gains (losses)	Total equity
RESTATED BALANCE AT 1 JANUARY 2011	**358.101**	**1.121.739**		**333.481**	**(74.485)**	**(2.591)**	**1.736.245**
Total recognised income and expense	**-**	**-**	**-**	**364.643**	**-**	**(3.190)**	**361.453**
Transactions with shareholders and owners	**-**	**-**	**-**	**(125.604)**	**(90.958)**	**-**	**(216.562)**
- Capital increases / (decreases)	-	-	-	-	-	-	-
- Conversion of financial liabilities into equity	-	-	-	-	-	-	-
- Dividends paid	-	-	-	(125.604)	(90.958)	-	(216.562)
- Transactions with treasury shares (net)	-	-	-	-	-	-	-
- Business combinations	-	-	-	-	-	-	-
- Other transactions with shareholders and owners	-	-	-	-	-	-	-
Other changes in equity	**-**	**113.852**	**-**	**(207.877)**	**74.485**	**-**	**(19.540)**
- Share-based payments	-	-	-	-	-	-	-
- Transfers between equity accounts	-	-	-	(207.877)	-	-	(207.877)
- Other changes	-	113.852	-	-	74.485	-	188.337
BALANCE AT 31 DECEMBER 2011	**358.101**	**1.235.591**	**-**	**364.643**	**(90.958)**	**(5.781)**	**1.861.596**
Restatements for changes in accounting policies in 2011	-	-	-	-	-	-	**-**
Restatements for prior-period errors	-	-	-	-	-	-	**-**
RESTATED BALANCE AT 1 JANUARY 2012	**358.101**	**1.235.591**	**-**	**364.643**	**(90.958)**	**(5.781)**	**1.861.596**
Total recognised income and expense	**-**	**-**	**-**	**379.508**	**-**	**(4.313)**	**375.195**
Transactions with shareholders and owners	**-**	**-**	**-**	**(146.060)**	**(102.178)**	**-**	**(248.238)**
- Capital increases / (decreases)	-	-	-	-	-	-	-
- Conversion of financial liabilities into equity	-	-	-	-	-	-	-
- Dividends paid	-	-	-	(146.060)	(102.178)	-	(248.238)
- Transactions with treasury shares (net)	-	-	-	-	-	-	-
- Business combinations	-	-	-	-	-	-	-
- Other transactions with shareholders and owners	-	-	-	-	-	-	-
Other changes in equity	**-**	**143.856**	**-**	**(218.583)**	**90.958**	**-**	**16.231**
- Share-based payments	-	-	-	-	-	-	-
- Transfers between equity accounts	-	-	-	(218.583)	-	-	(218.583)
- Other changes	-	143.856	-		90.958	-	234.814
BALANCE AT 31 DECEMBER 2012	**358.101**	**1.379.447**	**-**	**379.508**	**(102.178)**	**(10.094)**	**2.004.784**

Notes 1 to 34 in the accompanying financial information are an integral part of the consolidated statement of changes in equity for the year ended 31 December 2012

Translation of consolidated financial statements originally issued in Spanish and prepared in accordance with the regulatory financial reporting framework applicable to the Group (see Notes 2 and 34). In the event of a discrepancy, the Spanish-language version prevails.

ENAGÁS, S.A. AND SUBSIDIARIES
CONSOLIDATED CASH FLOW STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2012
Figures in thousands of euros

	2012	2011
PROFIT BEFORE TAX	**542.731**	**520.329**
Adjustments to profit	**376.516**	**348.756**
Depreciation and amortisation expense	315.785	299.598
Other adjustments to profit	60.731	49.158
Changes in working capital	**(135.834)**	**(175.577)**
Inventories	(44)	347
Trade and other receivables	(62.449)	(185.778)
Other current assets	(308)	(4.689)
Trade and other payables	(73.033)	14.543
Other cash flows used in operating activities	**(200.240)**	**(126.011)**
Interest paid	(117.093)	(113.430)
Interest received	27.793	33.519
Income taxes paid	(110.940)	(46.100)
Other cash inflows (outflows)	-	-
NET CASH FROM OPERATING ACTIVITIES	**583.173**	**567.497**
Payments on investments	**(470.604)**	**(632.885)**
Subsidiaries and associates	(167.059)	(4.718)
Property, plant and equipment and investment property	(302.167)	(583.216)
Other financial assets	(1.378)	(44.951)
Proceeds from disposals	**5.112**	**41.500**
Subsidiaries and associates	5.112	25.400
Property, plant and equipment and investment property	-	15.521
Other financial assets	-	579
NET CASH USED IN INVESTING ACTIVITIES	**(465.492)**	**(591.385)**
Proceeds from financial liabilities	**182.881**	**580.722**
Issues	3.521.336	1.243.289
Repayments and redemptions	(3.338.455)	(662.567)
Dividends paid	**(248.238)**	**(216.562)**
NET CASH (USED IN) FROM FINANCING ACTIVITIES	**(65.357)**	**364.160**
NET INCREASE IN CASH AND CASH EQUIVALENTS	**52.324**	**340.272**
Cash and cash equivalents at 1 January	1.427.323	1.087.051
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	**1.479.647**	**1.427.323**

Notes 1 to 34 in the accompanying financial information are an integral part of the consolidated cash flow statement for the year ended 31 December 2012

Translation of consolidated financial statements originally issued in Spanish and prepared in accordance with the regulatory financial reporting framework applicable to the Group (see Notes 2 and 34). In the event of a discrepancy, the Spanish-language version prevails.

1. Group activity

Enagás, S.A., the parent company (hereinafter, the Company), is incorporated in Spain in accordance with the Corporate Enterprises Act. Its corporate purpose is:

- The regasification, basic and secondary transport and storage of natural gas, by means of or through the corresponding owned or third-party gas infrastructure and facilities, and the performance of ancillary or related activities.
- The design, construction, commissioning, exploitation, operation and maintenance of all manner of gas infrastructure and complementary facilities, including telecommunications and control, including remote control, networks of any kind and electric grids, owned by it or third parties.
- The performance of all the duties related to technical operation of the gas system.
- The transport and storage of carbon dioxide, hydrogen, biogas and other energy-related fluids, by means of or through the corresponding owned or third-party infrastructure, and the design, construction, commissioning, exploitation, operation and maintenance of all manner of complementary infrastructure and facilities required to this end.
- The business of leveraging the heat, cooling and energy properties associated with or deriving from its core businesses.
- The provision of a broad range of services, including engineering, construction, advisory, and consultancy services, in connection with the businesses constituting its corporate purpose and participation in natural gas market management activities to the extent compatible with the business activities vested in the Company under the law.

The foregoing activities may be carried out by the Company itself or through investees with an identical or analogous corporate purpose, subject to the scope and limits laid down in prevailing applicable oil and gas legislation. Under prevailing legislation, the transport and system management duties that are regulated must be performed, respectively, by two wholly-owned subsidiaries. Accordingly, the following activities also form part of the corporate purpose:

- Management of the corporate group comprising the Company's equity investments in the companies constituting that group.
- The provision of assistance or support services to the group companies and investees, to which end the Company may also extend any guarantees and security deemed opportune.

Its registered office is at Paseo de los Olmos, no. 19, 28005 Madrid. The bylaws and other public information about the Company and its group may be consulted on its official website, www.enagas.es, and at its registered office.

Enagás, S.A. is the parent of a group of companies that includes interests in joint ventures and subsidiaries engaged in the gas transport business and which, together with Enagás, S.A., comprise the Enagás Group (hereinafter, the Group). Consequently, Enagás, S.A. is required to prepare consolidated annual financial statements for the Group in addition to its own annual financial statements, which also include information on its interests in joint ventures and subsidiaries.

The consolidated annual financial statements of the Group and those of each of the entities comprising the Group for the financial year 2012, which have served as the basis for the preparation of these consolidated annual financial statements, are pending approval at their respective Annual General Meetings. However, the directors believe these annual financial statements will be approved as presented.

These consolidated annual financial statements are presented in thousands of euros (unless expressly stated otherwise) as this is the functional currency of the principal economic area in which the Enagás Group operates.

2. Basis of presentation of the annual financial statements and consolidation principles

2.1. Accounting principles

The consolidated annual financial statements of the Enagás Group for 2012 were prepared by the directors, at a meeting of the Board of Directors held on 18 February 2013, in accordance with the International Financial Reporting Standards (hereinafter, IFRS), as adopted by the European Union, pursuant to Regulation (EC) No. 1606/2002 of the European Parliament and of the Council.

These consolidated annual financial statements give a true and fair view of the equity and financial position of the Group at 31 December 2012, the results of its operations, and the changes in its equity, cash flows and recognised income and expense during the year then ended.

The Enagás Group's consolidated annual financial statements for 2012 have been prepared from the accounting records kept by the parent company and by the other entities comprising the Group.

The 2011 consolidated annual financial statements included for comparative purposes were also prepared in accordance with the IFRS adopted by the European Union and applied on a basis consistent with those applied in 2010 and 2009. The 2011 consolidated financial statements were approved by the shareholders of Enagás S.A. at its Annual General Meeting on 30 March 2012 and are on deposit at the Madrid Companies' Register.

The financial year end of all the Group companies is December 31, 2012.

Note 3 includes a summary of the most significant accounting principles and measurement bases used in preparing the consolidated financial statements of the Group for 2012.

2.2. Responsibility for the information and estimates made

The information included in the accompanying consolidated financial statements is the responsibility of the Group's directors.

The Group's 2012 consolidated financial statements include estimates made by senior management of the Group and of consolidated entities – subsequently ratified by their directors – regarding the carrying amounts of certain assets, liabilities, revenues, expenses and commitments recognised therein. These estimates related basically to the following:

- The useful life of property, plant and equipment and of intangible assets (Notes 3-b and 3-c)
- The measurement of assets to determine impairment losses (Note 3-d)
- Forecasts for invoices pending issue
- Provisions for impairment of replacement parts for property, plant and equipment (Note 3-d)
- Prior years' accounts pending settlement with the government (Note 3-p)
- Provisions for dismantling/abandonment costs (Note 3-c)

Although these estimates were made on the basis of the best information available at 31 December 2012 regarding the facts analysed, it is possible that future events may require these to be changed (upwards or downwards) in coming years. This would be done prospectively in accordance with the provisions of IAS 8, recognising the effects of the changes in accounting estimates in the corresponding consolidated income statement.

2.3 Changes in scope of consolidation

During 2012 the changes in the scope of consolidation of the Enagás Group were as follows:

- Enagás Financiaciones, S.A.U. was incorporated in April 2012 and Enagás Internacional, S.L.U. was incorporated in May 2012; both are wholly-owned by Enagás, S.A.

- Following the Group's restructuring and hive-downs (Note 2.4), Enagás Transporte, S.A.U. and Enagás GTS, S.A.U., 100%-owned by Enagás. S.A., were incorporated in July 2012.

These companies are fully consolidated in the accompanying consolidated financial statements.

- Enagás S.A. acquired 41.94% of Compañía Transportista de Gas de Canarias, S.A. (hereinafter, Gascan) in March 2012. As a result, this company is now accounted for using the equity method.

- In addition, as a result of the hive-down (Note 2.4), the shareholdings in Bahia de Bizkaia Gas, S.L. (hereinafter, BBG), Gascan, Gasoducto de Escombreras, S.L.U., Gasoducto Extremadura, S.A. and Gasoducto Al-Andalus, S.A. have been transferred from Enagas S.A. to the group company Enagás Transporte S.A.U.

- Enagás S.A. acquired 50% of Gasoductos de Morelos, SAPI de CV, located in Mexico from the Elecnor group in June 2012. As a result, this company is now accounted for using the equity method.

- Enagás Chile I, Spa, Enagás Chile II Limitada and Terminal de Valparaiso S.A. were incorporated in Chile in August 2012. The newly-incorporated companies' equity is 100%-owned by Enagás Internacional S.A. Terminal de Valparaiso S.A. acquired 20% of Chile's GNL Quintero S.A. in September 2012, as a result of which this investment is equity accounted. All of the wholly-owned investees are fully consolidated in the Enagás Group's financial statements.

- Gasoducto de Escombreras, S.L.U., merged into its parent Enagás Transporte S.A. in December 2012. The former was a wholly-owned subsidiary of the latter.

- Enagás Internacional S.L. acquired 50% of Morelos EPC, SAPI de CV in December 2012. As a result, the investment in this company, domiciled in Mexico and formerly owned by the Elecnor group, is now accounted for using the equity method.

2.4 Hive-down

At a meeting held on 21 November 2011, the Board of Directors of Enagás, S.A., based on the recommendations issued to it by its Audit and Compliance and Appointments, Remuneration and Corporate Responsibility Committees, authorised the "Terms of Hive-Down", which was the first formality required to comply with final provision six of Spanish Law 12/2011, of 27 May 2011, concerning civil liability for nuclear damage and damage caused by radioactive materials, which introduced a new additional provision thirty-one to the Spanish Hydrocarbon Act (Law 34/1998, of 7 October 1998). This Law stipulated that:

1. Enagás, S.A. would incorporate two subsidiaries which would hold all the share capital and entitlement to carry out the functions of system manager and transmission company, respectively. This unbundling would be implemented by means of the contribution to these subsidiaries of all of the property, plant and equipment and all staff dedicated to each of the aforementioned activities. Enagás, S.A. was entitled to pass on its registered corporate name to the gas transport subsidiary.

2. The Enagás, S.A. subsidiary so incorporated to act as technical system manager would be bound by all the provisions of the Hydrocarbon Act which regulate the latter activity.

The Enagás, S.A. subsidiary so incorporated to act as a gas transmission company would be bound by all the provisions of the Hydrocarbon Act which regulate the latter activity. Operation of the primary gas pipelines making up the basic grid would be directly attributed to the transport subsidiary for the purposes of the Hydrocarbon Act.

Enagás, S.A. would not be entitled to sell shares in the subsidiaries carrying out regulated activities to third parties.

Elsewhere, the new transitory provision twenty-three of the Hydrocarbon Act stipulated that these subsidiaries be incorporated within one year from entry into force of the aforementioned legislative amendment.

As a result, in order to comply with this legal mandate, the Board of Directors of Enagás, S.A. authorised the corresponding “Terms of Hive-Down”, in keeping with the provisions of articles 71 and 30.1 of Spanish Law 3/2009, of 3 April 2009, regarding Structural Changes to Corporate Undertakings (the “Structural Changes Act”).

With effect from 2 July 2012, the Companies Registry made a record of the hive-down of the regulated gas transmission and technical system operation activities of Enagás, S.A. in favour of, respectively, the newly-incorporated companies, Enagás Transporte, S.A.U. and Enagás GTS, S.A.U., all of which in keeping with the Terms of Hive-Down disclosed by Enagás, S.A. to the market and approved at the Annual General Meeting of 30 March 2012.

Under prevailing regulations, this registration in the Companies Register gives full legal effect to the hive-down and the incorporation of the two subsidiaries which Enagás, S.A. was obliged to set up.

As a result of the above, the unbundling has implied the segregation of two major components of Enagás, S.A.’s asset base, each of which constitutes an autonomous and independent economic unit performing the transmission activities (the “Transmission Economic Unit”), on the one hand, and technical system management (the “TSM Economic Unit”), on the other, and the transfer by universal succession of these economic units to the abovementioned newly-incorporated companies.

Although the hive-down took effect on 1 July 2012, the cut-off for accounting purposes is 1 January 2012, so that all of the assets and liabilities and income and expenses associated with these economic units were spun out to the newly-incorporated companies with effect from 1 January 2012 for accounting purposes.

In contrast, the tax implications of the hive-down are not retroactive. For tax purposes the transaction took place on 1 July 2012, which is why Enagás, S.A. settled the related taxes for the first six months of 2012, while each newly-incorporated company will be the taxpayer from the transaction close date.

2.5 Basis of consolidation

Enagás, S.A.’s direct and indirect investees included in the scope of consolidation are engaged primarily in the transport, storage and regasification of natural gas.

Subsidiaries are the investees which the parent company controls by virtue of holding more than half of the voting rights or, short of this, having the power to govern their financial and operating policies so as to obtain benefits from their activities. Potential voting rights held by the Group or third parties which are exercisable or convertible at year end compute to this end. Appendix I itemises the subsidiaries included in the scope of consolidation.

Jointly controlled entities are those constituting joint ventures. Joint ventures are arrangements in which control is shared with venturers under a contractual agreement by virtue of which financial and operational strategic decisions about the relevant activities require the unanimous consent of the parties sharing control (Note 32).

The consolidation is carried out as follows:

a. The Company's 100%-owned subsidiaries are fully consolidated: Enagás Transporte, S.A. Unipersonal, Enagás GTS, S.A. Unipersonal, Enagás Internacional, S.A. Unipersonal, Enagás Financiaciones, S.A. Unipersonal, Enagás Altamira, S.L.U. and the consolidated financial statements of the Chile subgroup whose parent is Enagás Chile I, Spa.

b. Proportionate consolidation for the jointly controlled entities managed in conjunction with GALP Gas Natural, S.A. in the case of Gasoducto Al-Andalus, S.A. and Gasoducto de Extremadura, S.A., with Infrastructure Arzak and Ente Vasco de la Energía (EVE) in the case of BBG, and with VOPAK in the case of Terminal de LNG de Altamira, S. de RL. de CV.

c. The investments in Gascan, Morelos EPC, SAPI de CV and Gasoductos de Morelos, SAPI de CV are accounted for using the equity method. In addition, within the consolidated subgroup headed up by Enagás Chile I, Spa, the investment in GNL Quintero, S.A. is also accounted for using the equity method.

d. Intra-group transactions: All balances, transactions, income and expenses between fully-consolidated companies are eliminated on consolidation. In the case of companies accounted for using the proportionate method of consolidation, balances, transactions and unrealised gains and losses on transactions with other group companies are eliminated to the extent of the ownership interest consolidated. Unrealised gains and losses on transactions between group companies and equity-accounted investees are eliminated to the extent of the Group's ownership interest in the latter.

e. Consistency: For investees which apply different accounting principles and measurement bases to those of the Group, adjustments have been made on consolidation, provided that the effect is material, in order to present the consolidated financial statements based on consistent measurement bases.

f. Translation of financial statements denominated in foreign currencies: The companies included in the consolidation scope keep their accounting records in euros, with the exception of Enagás Internacional, Altamira LNG, CV, Gasoductos de Morelos, SAPI de CV, Morelos EPC, SAPI de CV and the consolidated Chile subgroup, whose functional currency is the dollar; these companies' financial statements were translated to euros in the process of consolidation into the Enagás Group's financial statements using the following procedures:

- The assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet.
- The income and expenses for each income statement are translated at the average exchange rates for the year in which the transactions were performed.
- The resulting exchange differences are recognised as a separate component of equity, called "Translation differences" within the "Net unrealised gains (losses) reserve".

When a company with a functional currency other than the euro is sold or is derecognised as a result of the loss of control, the translation differences relating to that company recognised in equity are reclassified from equity to profit or loss when the gain or loss on the disposal is recognised.

The average and closing rate of exchange between the dollar, the Group companies' main foreign currency, and the euro in 2012 is shown below:

Currency	Average exchange rate in 2012	Closing exchange rate at 31 December 2012
Dollar	1.2859	1.3197

g. Elimination of dividends: Intra-group dividends are those recognised as revenue for the year by a group company and which have been paid by another Group company.

Dividends received by group companies in respect of prior years' profit are eliminated by treating them as reserves of the receiving company and included under "Reserves".

Note 32 includes the most significant aspects of the Group's joint ventures in existence at the end of 2012.

2.6 Comparison of information

The information provided as at 2011 is presented solely for comparison purposes with the information for 2012.

2.7 Accounting standards and principles

a. Standards, principles and changes in effect for the current year

The accounting policies adopted for the preparation of the financial statements for the year ended 31 December 2012 are the same as those followed for the preparation of the consolidated financial statements for 2011, except for the adoption, from 1 January 2012, of the following standards, amendments and interpretations issued by the IASB (International Accounting Standards Board) and IFRIC (International Financial Reporting Interpretations Committee) and adopted by the European Union for use in Europe:

Amendment to IFRS 7 – Financial instruments: Disclosures – Transfers of financial assets (published in October 2010 and effective for annual periods beginning on or after 1 July 2011)

This amendment reinforces reporting entities' disclosure requirements in respect of financial asset transfers, including transfers in which the assets transferred are not derecognised and, essentially, those that do qualify for derecognition despite the entity's continuing involvement.

This interpretation has not implied any change in the Group's accounting policies.

b. Standards, principles and changes in issue but not effective in the current year

At the time of authorising these financial statements for issue, the following are the most important standards and interpretations published by the IASB but not yet effective, either because their effective date is later than the date of the consolidated financial statements or because they have not yet been adopted by the European Union:

Approved for use in the European Union		
Standards, amendments and interpretations	**Content**	**Mandatorily applicable in annual periods beginning on or after:**
Amendments to IAS 1 – Presentation of items of other comprehensive income (published in June 2011)	Minor amendment related to the presentation of other comprehensive income	Annual periods beginning on or after 1 July 2012
Amendments to IFRS 1 - Severe hyperinflation and removal of fixed dates for first-time adopters	The idea underpinning the changes to IFRS 1 is to introduce a new exemption to the scope of this standard, namely allowing entities that have been subject to severe hyperinflation to use fair value as the deemed cost of their assets and liabilities in their opening statement of financial position under IFRS	Annual periods beginning on or after effectiveness of the regulation (day three after its publication in the Official Journal; we accordingly interpret this to mean annual periods beginning on or after 1 January 2013)
Amendments to IAS 19 – Employee benefits (published in June 2011)	The amendments primarily affect defined benefit plans as one of the main changes relates to the elimination of the so-called "corridor approach".	Annual periods beginning on or after 1 January 2013
Amendments to IAS 12 - Deferred tax on investment property	This amendment introduces an exception to the general tenets of IAS 12 affecting deferred taxes relating to investment properties measured at fair value under IAS 40 Investment property.	Annual periods beginning on or after effectiveness of the regulation (day three after its publication in the Official Journal; we accordingly interpret this to mean annual periods beginning on or after 1 January 2013).

Not yet approved for use in the European Union		
Standards, amendments and interpretations	**Content**	**Mandatorily applicable in annual periods beginning on or after:**
IFRS 9 Financial instruments: Classification and measurement (published in November 2009 and October 2010) and subsequent amendment of IFRS 9 and IFRS 7 regarding the effective date and transition disclosures (published in December 2011)	Replaces the requirements for classifying and measuring financial assets and liabilities and derecognising them under IAS 39	Annual periods beginning on or after 1 January 2013
IFRS 10 Consolidated financial statements (published in May 2011)	Replaces current consolidation requirements under IAS 27	Annual periods beginning on or after 1 January 2014
IFRS 11 Joint arrangements (published in May 2011)	Replaces the current IAS 31 on joint ventures	Annual periods beginning on or after 1 January 2014
IFRS 12 Disclosures of interests in other entities (published in May 2011)	Single standard establishing the disclosure requirements related to interests in subsidiaries, associates, joint arrangements and unconsolidated 'structured entities'	Annual periods beginning on or after 1 January 2014
IFRS 13 Fair value measurement (published in May 2011)	This standard establishes the framework for fair value measurement	Annual periods beginning on or after 1 January 2013
IAS 27 (Revised) Separate financial statements (published in May 2011)	The standard has been revised as, following issuance of IFRS 10, it will now only cover the separate financial statements of reporting entities	Annual periods beginning on or after 1 January 2014
IAS 28 (Revised) Investments in associates and joint ventures (published in May 2011)	This revision is parallel to the issuance of IFRS 11 Joint arrangements	Annual periods beginning on or after 1 January 2014
Amendments to IAS 32 Financial instruments: Presentation - Offsetting financial assets and financial liabilities (published in December 2011)	Additional clarification of the rules for offsetting financial asset and financial liabilities under IAS 32 and the introduction of new disclosure requirements associated with IFRS 7	Annual periods beginning on or after 1 January 2014
Amendments to IFRS 7 - Financial instruments: Disclosures - Offsetting financial assets and financial liabilities (published in December 2011)		Annual periods beginning on or after 1 January 2013
Improvements to IFRSs, 2009-2011 cycle (published in May 2012)	Minor modifications to a series of standards	Annual periods beginning on or after 1 January 2013
Transition guidance: Amendments to IFRS 10, 11 and 12 (published in June 2012)	Clarification of the rules for transitioning to these standards	Annual periods beginning on or after 1 January 2013
Investment entities: Amendments to IFRS 10, IFRS 12 and IAS 27 (published in October 2012)	Exemption from consolidation requirements for parent companies that meet the definition of investment entity	Annual periods beginning on or after 1 January 2014
IFRIC 20: Stripping costs in the production face of a surface mine (published in October 2011)	The IFRS Interpretations Committee addresses the accounting treatment of the costs of eliminating waste materials at surface mines	Annual periods beginning on or after 1 January 2013

The directors have assessed the potential impacts of future application of these rules and consider that their entry into force will not have a significant effect on the consolidated financial statements, except as follows.

- **IFRS 9 Financial instruments: Classification and measurement**

  In the future, IFRS 9 will replace the classification and measurement parts of the current IAS 39. IFRS 9 introduces very significant changes with respect to the current standard in relation to financial assets. For example, it introduces a new classification model based on just two categories, amortised cost and fair value, eliminating the current 'investments held to maturity' and 'available-for-sale financial assets' categories. Impairment testing will only be required for assets carried at amortised cost. It also implies the non-separation of derivatives embedded in financial asset host contracts.

  As for financial liabilities, the classification categories proposed by IFRS 9 are similar to those contemplated by IAS 39, such that adoption of IFRS 9 should not imply significant differences, with the exception of the requirement to recognise changes in fair value related to own credit risk in equity in the case of financial liabilities at fair value.

  The Enagás Group is currently analysing all the potential consequences of adopting this standard. It is not possible to provide a reasonable estimate of its impact until this analysis is complete.

- **IFRS 10 Consolidated financial statements, IFRS 11 Joint arrangements, IFRS 12 Disclosures of interests in other entities, IAS 27 (revised) Separate financial statements and IAS 28 (revised) Investments in associates and joint ventures**

  IFRS 10 changes the current definition of control. The new definition of control requires three elements:

  i. power over the investee;
  ii. exposure or rights to variable returns from investment in the investee; and
  iii. the ability to use this power to affect the amount of such returns.

  The Group is currently analysing how this new definition of control will affect its consolidated entities as a whole, although it can state so far that the quantitative impact will not be material with respect to the accompanying consolidated figures.

  IFRS 11 Joint Arrangements will replace the prevailing IAS 31. The greatest change between IFRS 11 and the standard currently in force is the elimination of the proportionate consolidation option for jointly controlled entities which will now have to be consolidated using the equity method.

  Application of this standard will not have a material impact on the Group as BBG and Altamira LNG, CV are currently the only subsidiaries affected (Note 2.5).

  The amendments to IAS 27 and IAS 28 are parallel to the issuance of the abovementioned new standards.

  Lastly, IFRS 12 is a disclosure standard encompassing the disclosure requirements in respect of interests in other entities, whether subsidiaries, associates, joint arrangements or other unconsolidated structured entities, and introduces new disclosure requirements.

  As a result, its entry into force is likely to entail disclosures in addition to those which the Group is currently required to make regarding its investments in other entities and investment vehicles.

- **IFRS 13 Fair value measurement**

  The Group is currently analysing the impact that application of IFRS 13 from the year started 1 January 2013 will have on the measurement of the credit risk arising from its financial instruments.

3. Measurement bases

The main measurement bases used in the preparation of the accompanying 2012 consolidated annual financial statements are as follows:

a. Goodwill and business combinations

The acquisition by the parent company of control over a subsidiary constitutes a business combination and is accounted for using the acquisition method. In subsequent consolidations, the elimination of the investments in/net assets of these subsidiaries is carried out, as a general rule, on the basis of the amounts resulting from the use of the acquisition method (described below) on the date on which control was obtained.

Business combinations are accounted for using the acquisition method, to which end the acquisition date and cost of the business combination are determined; the identifiable assets acquired and liabilities assumed are recognised at their acquisition-date fair values.

Goodwill or the gain on a bargain purchase is the difference between the recognised acquisition-date fair values of the assets acquired and liabilities assumed and the cost of the business combination.

The cost of the business combination is the sum of:

- the acquisition-date fair values of any assets transferred, liabilities incurred or assumed and equity instruments issued, and

- the fair value of any contingent consideration, i.e., that which depends on future events or the delivery of certain defined milestones.

The cost of the business combination does not include expenses relating to the issuance of equity instruments offered or financial liabilities delivered in exchange for the items acquired.

Goodwill arising upon the acquisition of companies with a functional currency other than the euro is measured in the functional currency of the company acquired, and is translated to euros at the exchange rate prevailing on the balance sheet date.

Goodwill is not amortised. It is subsequently measured at cost less any impairments losses. Goodwill impairment losses are not reversed subsequently.

In the exceptional case of a gain on a bargain purchase, the gain is recognised in profit or loss.

If at the end of the year in which a combination occurs it has not been possible to complete the valuation work needed to apply the acquisition method outlined above, the combination is accounted for provisionally. The provisional amounts can be adjusted during the time interval needed to obtain the required information. This measurement period may not exceed one year from the acquisition date. The effects of any adjustments made during the measurement period are accounted for retroactively, modifying the comparative information if necessary.

Subsequent changes in the fair value of the contingent consideration are recognised in profit or loss, unless the consideration was classified as equity, in which case it is not remeasured.

b. Intangible assets

Intangible assets are measured initially at acquisition or production cost. Subsequently they are measured at cost less accumulated amortisation and impairment losses, if any.

The criteria used to recognise impairment losses on these assets and, where applicable, the reversal of impairment losses recognised in prior years, are similar to those used for property, plant and equipment (Note 3.d).

Development costs are amortised on a straight-line basis over their useful life, as long as the costs are assigned to specific projects, clearly quantified, and relate to assets whose technical and commercial feasibility for sale or use have been established.

The Group expenses all research and development costs whose technical and commercial feasibility cannot be established. Research costs recognised as an expense in the accompanying consolidated income statement amounted to 1,641 thousand euros in 2012 (1,797 thousand euros in 2011).

Service concession arrangements may only be capitalised when a company has acquired the assets for consideration in the case of concessions susceptible to transfer, or for the amount of the expenses incurred in obtaining them directly from the state or relevant public body. If the rights to a concession are lost due to failure to comply with the terms and conditions thereof, its value is fully written off in order to cancel its carrying amount. These concessions are amortised on the basis of their useful lives.

Costs of purchasing and developing basic information technology systems are recognised under “Property, plant and equipment” in the consolidated balance sheet. Maintenance costs related to these systems are recognised with a charge to the consolidated income statement in the year in which they are incurred. Computer software is measured at the amount paid for ownership or the right to use the computer applications, or production cost if developed internally. They are amortised over a period of four years.

Intangible assets with a finite useful life are amortised over that period, which is equivalent to the following amortisation rates:

	Amortisation rate	**Useful life**
Development costs	5%-50%	20-2
Concessions, patents, licences, brands and similar:		
- Port concessions at the Barcelona plant	1.33%-1.28%	75-78
- Port concessions at the Huelva plant	7.60%	13
- Other concessions at the Bilbao plant	20.00%	5
- Use of the public radioelectric domain	20.00%	5
Computer software	25%	4

In 2008, the Environment Ministry published the definitive, free allocation of greenhouse gas emission allowances for Enagás, S.A. plants. This allocation is included in the National Allocation Plan for 2008-2012. In 2012, Enagás, S.A. delivered greenhouse gas emission allowances equivalent to its emissions in 2011.

The Group recognises emission allowances as non-amortisable intangible assets in the same way as its other assets; initially at acquisition cost, then making the pertinent write-down if fair value falls below the aforementioned cost.

Rights received free of charge in accordance with the National Allocation Plan for 2008-2012 are deemed to have zero cost as the Group presents the assets net of subsidies (Note 26).

c. **Property, plant and equipment**

Property, plant and equipment are valued initially at acquisition or production cost, with the exception of revaluations made by Enagás, S.A. in 1996, less accumulated depreciation and any impairment losses, in keeping with the criteria set forth in the following note.

The costs of remodelling, expansion or upgrades leading to increased productivity, capacity or a lengthening of the useful lives of assets are capitalised as an increase in the cost of the related asset. The carrying amount of replaced assets is deducted. In contrast, regular upkeep, repairs and maintenance expenses are expensed currently.

Capitalised costs include:

1. Borrowing costs associated with the financing of infrastructure projects accrued during the construction period if this is over a year. The average capitalisation rate used to calculate the amount of the borrowing costs to be capitalised was 2.47% in 2012 (2.93% in 2011).

2. Employee benefits expense directly related to work in progress. The Group has a “Functional procedure for allocation of Employee Benefits Expense to Investment Projects” which sets out the hypotheses for making this calculation. This procedure establishes that, to calculate own work capitalised, it is necessary to consider both direct employee benefits expense, i.e., the hours worked and assigned to each project based on cost/hour calculated at the beginning of the year, and indirect costs. The amounts capitalised for these items are recognised in the 2012 consolidated income statement as a decrease in employee benefits expense (Note 6).

3. Future payments which the Group will have to make in relation to the requirement to dismantle certain items of property, plant and equipment corresponding to the Serrablo, Yela and Gaviota underground storage facilities and the Barcelona, Huelva and Cartagena regasification plants at the end of their useful lives. The carrying amounts of these assets include an estimate of the present value at the date of acquisition of the costs to the Group of dismantling, with a credit to “Non-current provisions” (Note 13) in the accompanying consolidated balance sheet. In addition, this provision has been adjusted in subsequent periods.

Subsequent to Royal Decree (RD) 1061/2007 of 20 July 2007, which grants Enagás the concession to operate the Yela underground natural gas storage facility, the Group, for the purposes of complying with article 25.3 of Law 34/1998 of 7 October 1998, which establishes a provision of 14.7 million euros for dismantling costs, has recognised the related provision as an increase in the value of the asset. This provision will be discounted to present value each year to reflect the financial impact of a non-current account receivable from the Spanish energy regulator (hereinafter, the CNE for its acronym in Spanish), given that, once the dismantling is approved, the Group can request payments on account against dismantling costs.

The expenses and pertinent discounting for abandoning the Serrablo underground storage facility are reflected in the provision allocated to comply with the requirements of “Order of 6 September 1995 regarding the concession, to Enagás, S.A., for the storage of natural gas in Jaca, Aurín, and Suprajaca, located in Serrablo”, which required that a project for abandoning the Serrablo site be presented and approved prior to engaging in storage activities.

In 2011, in keeping with the provisions of article 25.3 of Law 34/1998, of 7 October 1998, the Group recognised the dismantling provision associated with the Gaviota underground storage facility. Note in respect of this facility that Enagás S.A. reached an agreement with its former owners, Repsol Investigaciones Petrolíferas, S.A. and Murphy Spain Oil, S.A., for its acquisition in 2010; however the Company did not obtain all the required approvals from the regulatory authorities until April 2011, which is when the transaction closed. This is the date from which Enagás, S.A. has accounted for the investment.

The costs of remodelling, expansion or upgrades leading to increased productivity, capacity or a lengthening of the useful lives of assets are capitalised as an increase in the cost of the related asset. The carrying amount of replaced assets is deducted. In contrast, regular upkeep, repairs and maintenance expenses are expensed currently.

Properties in the course of construction for production, rental or administrative purposes, or for purposes not yet determined, are carried at cost, less any recognised impairment loss. Cost includes, for qualifying assets, capitalised borrowing costs and employee benefits expense directly related to work in progress in accordance with the Group’s accounting policy. Depreciation of these assets, on the same basis as other items of property, plant and equipment, commences when the assets are ready for their intended use.

The volume of gas that must remain 'immobilised' in the storage facility to operate natural gas storage facilities (i.e. cushion gas) is recognised as property, plant and equipment and depreciated over the useful life specified by prevailing legislation, or over the lease term, if shorter.

Both the natural gas related to the minimum linepack of the gas pipelines for system security and the minimum operating levels of the regasification plants (also called "*gas talón*") are considered non-depreciable assets as this gas is not available and thereby immobilised under prevailing regulations. It is measured at the auction price under Order ITC/3993/2006 and the Resolution dated 18 April 2007 (Note 6).

Items of property, plant and equipment are depreciated on a straight-line basis over the estimated useful lives of the related assets, using the following annual rates:

	Depreciation rate	Useful life (years)
Buildings	3%-2%	33.33-50
Plant (transport network)	5%-2.50%	20-40
Tanks	5%	20
Underground storage facilities	5-10%	10-20
Cushion gas	5%	20
Other plant and machinery	12%-5%	8.33-20
Tools and equipment	30%	3.33
Other plant and machinery	8%	12.50
Furniture and fixtures	10%	10
Computer equipment	25%	4
Transport equipment	16%	6.25

The Group's directors consider that the carrying amount of property, plant and equipment does not exceed their recoverable value, calculated based on the discounted future cash flows they generate in accordance with the remuneration envisaged in prevailing legislation.

The gain or loss on the disposal or derecognition of an asset is calculated as the difference between the sales price and the carrying amount of the asset and is recognised in the income statement under "Impairment losses and gains (losses) on disposals of assets".

Government grants related to property, plant and equipment are capitalised as a decrease in the cost of the assets and released to the consolidated income statements over the expected useful life of the asset as a decrease in depreciation of the related asset.

d. **Impairment of property, plant and equipment and intangible assets**

At the end of each reporting period in the case of goodwill or assets with indefinite useful lives, or whenever there are indications of impairment for all other assets, the Group analyses the recoverable amounts of its assets to determine whether there is any indication that they may be impaired. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). In the case of identifiable assets which do not generate cash inflows independently, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Recoverable amount is the higher of fair value less costs to sell and value in use, considered to be the present value of the estimated future cash flows. The Group uses value in use in nearly all cases to calculate the recoverable amount of its property, plant and equipment.

To estimate value in use, the Group prepares pre-tax cash flow projections based on the latest budgets approved by the Group's directors. These budgets include the best available estimates of the revenue and expense of cash-generating units based on industry forecasts, past experience and future expectations.

These projections are prepared for a period of five years, with estimates of future flows based on reasonable growth rates, which in no case beyond year five either scale up or exceed prior years' growth rates.

To calculate the present value, the cash flows are discounted at a pre-tax rate that reflects the cost of capital of the business and of the geographical area where business is carried out. The discount rate is based on prevailing interest rates and the risk premiums commonly used by analysts covering the business and the geographical region.

If the recoverable amount of an asset is lower than its carrying amount, an impairment loss is recognised for the difference, with a charge to "Depreciation and amortisation" in the consolidated income statement. The impairment loss is applied by firstly reducing the carrying amount of the goodwill corresponding to the cash-generating unit where the impairment loss is to be recognised. If the impairment charge is greater than the carrying amount of goodwill, the rest of the assets belonging to the cash-generating unit are then reduced, in proportion to their respect carrying amounts, down to the higher of their fair value less costs to sell and their value in use.

A previously recognised impairment loss is reversed if there has been a change in the estimates used to determine the asset's recoverable amount via a credit in the income statement up to the carrying amount that would have been determined had no impairment loss be recognised. Note however, that goodwill impairment losses cannot be reversed subsequently.

The Group's property, plant and equipment consists almost entirely of gas transportation, regasification and storage assets, and those assets needed to carry out its regulated gas sales business and technical system management activities.

e. **Leases**

In operating leases, the ownership of the leased asset and substantially all the risks and rewards incidental thereto remain with the lessor.

When consolidated entities act as lessees, lease payments, including any incentives granted by the lessor, are recognised as an expense in the consolidated income statement on a straight-line basis over the lease term.

The Group was not party to any finance leases at year-end 2012.

f. **Financial assets**

Financial assets are recognised in the consolidated balance sheet when the Group becomes party to the contractual terms of the instrument.

Group companies classify financial assets into the following categories established by IFRS:

- Loans and receivables. These assets are measured at amortised cost, which is basically the cash amount given less repayments of principal plus accrued interest receivable in the case of loans, and the present value of the consideration provided in the case of receivables.

- Held-to-maturity investments. These are assets that the Enagás Group has the positive intent and ability to hold to maturity. They are also recorded at amortised cost.

Held-to-maturity investments and loans and receivables originated by the companies are measured initially at the fair value of the consideration delivered plus directly attributable transaction costs. They are subsequently measured at amortised cost, with accrued interest recognised in the consolidated income statement in accordance with the effective interest rate.

The Group derecognizes financial assets when the contractual rights to the cash flows from the financial asset expire or are transferred, which implies transferring substantially all the risks and rewards of ownership of the financial asset.

Cash and cash equivalents

This heading in the consolidated balance sheet includes cash on hand, sight deposits and other highly liquid current investments that can readily be realised in cash and that are not subject to risk of a change in value.

Trade and other receivables

Receivables are initially measured at fair value in the consolidated balance sheet and subsequently remeasured at amortised cost using the effective interest method.

The Group recognises impairment provisions as required at the difference between the recoverable amount of receivables and their carrying amount. The recoverable amount of receivables is calculated by discounting estimated future cash flows using the effective interest rate at the outset of the transaction.

g. **Inventories**

Natural gas inventories

The only natural gas inventories held by the Enagás Group are those held as cushion gas and linepack gas for the pipelines and regasification facilities it operates; these stocks of gas are classified as property, plant and equipment.

Other inventories

Other inventories unrelated to natural gas are stated at the lower of acquisition or production cost and net realisable value. The carrying amount includes the direct cost of materials and, where appropriate, direct labour and manufacturing overheads, including costs incurred in bringing the products to their present location and condition, at the point of sale.

Also, the Group assesses the net realisable value of inventories at the balance sheet date and makes the appropriate impairment write-down when they are overstated. When the circumstances giving rise to inventory impairment no longer exist or there is clear evidence of an increase in net realisable value because of new economic circumstances, the impairment is reversed.

h. **Equity and financial liabilities**

Capital and other equity instruments issued by the Group are recognised at the proceeds received, net of direct issue costs.

Financial liabilities are classified according to the terms and economic substance of the contractual agreement.

Group companies classify their main financial liabilities as follows:

- Financial liabilities at fair value through profit or loss, mainly financial liabilities held for trading: Financial liabilities associated with available-for-sale financial assets originating from asset transfers where the assigning entity neither substantially transfers nor retains the risks and benefits of said assets.

- Held-to-maturity financial liabilities: Held-to-maturity financial liabilities are measured at amortised cost as defined above.

The liability instruments held by Group companies are:

- *Bank loans:* Interest-bearing loans are carried at the amount received, net of direct issue costs. Finance costs, including premiums payable upon settlement or repayment and direct issue costs, are taken to the consolidated income statement as accrued using the effective interest method and added to the carrying amount of the instrument if not paid during the period in which they accrue.

- *Financial derivative instruments and hedge accounting:* Bank borrowings expose the Group to fluctuations in interest rates. To hedge these risks, the Group uses swaps. The Group does not use derivative instruments for speculative purposes.

In order for these financial instruments to qualify as hedges they are designated as such from the outset and the hedge relationship is documented. In addition, the Group verifies initially and then periodically throughout the life of the hedge (and at least at the end of each reporting period) the hedge's effectiveness. A hedge is effective if it is expected, prospectively, that the changes in the cash flows from the hedged item (attributable to the hedged risk) are almost entirely offset by the changes in the cash flows of the hedging instrument and that, retrospectively, the gains or losses on the hedge have fluctuated within a range of 80% to 125% of gains or losses on the hedged item.

The use of derivatives is governed by the Group's risk management policies approved by the parent company Enagás, S.A. Further details on the use of derivative instruments are disclosed in Note 17.

The Group arranges cash flow and fair value hedges. These hedge arrangements are recognised as follows:

a) Fair value hedges: The hedging instrument and the hedged item are both measured at fair value, and any changes in fair value are recognised in the consolidated income statement as finance cost or revenue.

b) Cash flow hedges: The portion of the gain or loss in fair value of the hedging instrument that is determined to be an effective hedge is recognised, net of the corresponding tax effect, in "Equity – Net unrealised gains (losses) reserve – Cash-flow hedges" in the accompanying consolidated balance sheet. The accumulated gain or loss on the hedging instrument is taken to the consolidated income statement as the hedged item affects profit or loss. The portion of the gain or loss deemed to be an ineffective hedge is recognised directly in the consolidated income statement under finance revenue or cost, as appropriate.

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated, or exercised or no longer qualifies for hedge accounting. Any cumulative gain or loss relating to the hedging instrument deferred in equity at that time remains in equity until the forecast transaction takes place. When a forecast hedged transaction is no longer expected to occur, the cumulative gain or loss that was deferred in equity is recognised immediately in profit or loss.

i. <u>Classification of payables into current and non-current</u>

Payables in the accompanying consolidated balance sheet are classified by maturity, i.e., those maturing in 12 months or less are classified as current, and those maturing in over 12 months as non-current.

j. <u>Pension obligations</u>

The Enagás Group makes contributions, in accordance with the approved pension plan adapted to the provisions of the Law on Pension Plans and Funds, to a defined contribution plan called "Enagás Fondo de Pensiones", whose fund manager is Gestión de Previsión y Pensiones, S.A. and custodian Banco Bilbao Vizcaya Argentaria, S.A., and which covers the Group's obligations with respect to serving employees. The Group recognises certain vested rights for past service and undertakes to make monthly contributions averaging 4.77% of eligible salary. It is a mixed plan covering retirement benefits, disability and death.

The contributions made by the Group each year in this connection are recognised under "Employee benefits expense" in the consolidated income statements. The amounts not yet contributed at each year end are recognised at their present value under "Non-current provisions – Employee benefits expense (non-current)" in the accompanying consolidated balance sheet.

The Group has committed to pay senior management and other top-ranking employees a sum contingent upon continued service and the fulfilment of certain requirements during their employment, normally a bonus based on the remuneration being earned at the time of retirement. This commitment has been outsourced to an insurance provider.

k. **Termination benefits**

Under current Spanish regulations, Spanish consolidated companies and some foreign companies are required to pay severance to employees terminated without just cause. There are no labour force reduction plans warranting recognition of a provision in this connection.

l. **Provisions**

In these consolidated annual financial statements, the directors distinguished between:

- Provisions: Balances payable covering obligations existing at the balance sheet date arising as a result of past events which could give rise to a loss for the companies which is specific in nature but uncertain as to amount and timing.

- Contingent liabilities: Possible obligations as a result of past events whose occurrence depends on the occurrence or non-occurrence of one or more separate future events not within the control of the consolidated entities.

The consolidated annual financial statements of the Group include all significant provisions for which it is more likely than not that the obligation will have to be settled. Contingent liabilities are not recognised in the consolidated annual financial statements, but are disclosed in the notes (Note 13).

Provisions, which are estimated based on the best available information as to the consequences of the events giving rise thereto and which are re-estimated at the balance sheet date, are used to meet the specific and probable obligations for which they were initially recognised and are reversed, totally or partially, whenever these risks disappear or diminish.

The compensation to be received from a third party when an obligation is settled is recognized as a separate asset so long as it is virtually certain that the reimbursement will be received if the obligation is settled, unless the risk has been contractually externalised so that the Group is legally exempt from having to settle, in which case the reimbursement is taken into consideration in estimating the amount of the provision, if any.

At year-end 2012 and 2011, a number of legal proceedings and claims had been filed against consolidated companies in the ordinary course of their businesses. The Group's legal counsel and its directors believe that the resolution of these proceedings and claims will not have a significant effect on the consolidated annual financial statements of the years in which they are resolved.

m. **Deferred revenue**

This is mainly advance payments received for natural gas transport rights assigned to Gasoducto Al-Andalus, S.A. and Gasoducto de Extremadura, S.A., which are taken to profit and loss on a straight-line basis until 2020 when the transport contract expires.

It also includes the accrual of amounts received for making connections from Enagás Transporte, S.A.U.'s basic network to networks owned by distributors, secondary transporters, gas supply companies and eligible customers. This revenue is taken to profit or loss on the basis of the useful life of the assigned installations.

n. **Revenue recognition**

Revenue is measured at the fair value of the consideration received or receivable. It represents the amounts receivable for goods delivered and the services rendered as part of the Group's ordinary course of business, less discounts, VAT, and other sales taxes.

Ordinary revenue from the rendering of services is recognised by reference to the stage of completion of the transaction at the balance sheet date, provided the result of the transaction can be estimated reliably.

Following the publication of rules which affect Enagás, S.A. in the Official State Gazette of 15 February 2002 (applicable as of 19 February 2002), revenue recognition criteria under the new regulations are as follows:

On 15 February 2002, three Ministerial Orders were approved by the Ministry of Economy defining the new remuneration system for regulated natural gas activities in Spain, which came into force on 19 February 2002. In addition to specifying remuneration for regulated gas-related activities, these Orders fixed natural gas prices and tolls and royalties for third-party access to gas installations, stipulating the total payment receivable in 2002 by all companies carrying out gas purchase and sale activities for the tariff market, regasification, gas storage and transportation, technical management of the system and gas distribution activities, in addition to formulae and criteria for restating and establishing the remuneration of these activities in coming years. Subsequently, on an annual basis, new orders have been published that have replaced those of previous years.

On 17 November 2011, the Ministry of Industry, Tourism and Trade passed Order ITC/3128/2011, updating certain aspects of third-party access to gas installations and remuneration of regulated activities.

In accordance with this new legislation, the Group is entitled to remuneration for the following activities:

- Transport
- Regasification, including loading of LNG tanks and the transfer of LNG to tankers
- Storage
- Technical system operation
- Generation of the minimum operating level for LNG tankers and of the minimum linepack for gas pipelines (Note 3-c)
- Own consumption of natural gas
- Sales of condensates at the recently-acquired Gaviota storage facility
- Interest applicable to the remuneration received under the settlement system
- Regasification shrinkage incentive
- Overall incentive for availability

On 31 December 2011, the Ministry of Industry, Energy and Tourism passed Order IET/3587/2011, establishing the tolls and fees for third-party access to gas installations and remuneration of regulated activities.

The most relevant revenue-related aspects of the regulations governing the activity carried out by the Group are described in Note 4 below.

Interest income is recognised using the effective interest method, by reference to the principal outstanding and the applicable effective interest rate, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's carrying amount.

Dividend revenue from investments is recognised when the shareholders' rights to receive payment have been established.

o. Expense recognition

Expenses are recognised in the consolidated income statement when there is a decrease in the future economic benefit related to a reduction in an asset or an increase in a liability that can be measured reliably. This means that the recognition of expenses takes place simultaneously with the recognition of the increase in the liability or the reduction of the asset.

An expense is recognised immediately when a payment does not generate future economic benefits or when the prerequisites for capitalisation as an asset are not met.

p. Income tax expense

Income tax expense is recognised in the consolidated income statement or in equity in the consolidated balance sheet depending on where the gains or losses giving rise to it have been recognised.

Income tax expense represents the sum of the current tax and any changes in deferred tax. Current tax is calculated by applying the tax rate to taxable profit less any deductions, withholdings and payments on account and the use of tax losses carried forward.

Deferred tax expense or income corresponds to the recognition and derecognition of deferred tax assets and liabilities. These include taxable and deductible temporary differences between the carrying amount of an asset or liability in the balance sheet and its tax base, and the carry forward of unused tax credits and unused tax losses. Deferred tax assets and liabilities are measured at the tax rates that are expected to apply when the asset is realised or the liability is settled.

Changes during the year in deferred tax assets or liabilities which do not arise from business combinations are recognised in the consolidated income statement or directly in equity in the consolidated balance sheet, as appropriate.

Deferred tax assets are recognised only when it is probable that taxable profits will be available against which the deductible temporary differences can be utilised. Deferred tax liabilities are recognised for all taxable temporary differences, except to the extent that they arise from the initial recognition of goodwill.

Deductions arising from economic events in the year are deducted from accrued income tax expense unless there are doubts as to whether they will be realised, in which case they are not recognised until they materialise, or they relate to specific tax incentives.

At each year end, the Group reassesses the deferred tax assets recognised, and their carrying amount is reduced if there are any doubts over recoverability. Similarly, at each reporting date, the Group reassesses unrecognised deferred tax assets, recognising a previously unrecognised deferred tax asset to the extent that it has become probable that taxable profit will be available against which the asset can be utilised.

q. Earnings per share

Basic earnings per share is calculated by dividing net profit or loss attributable to equity holders of the parent by the weighted average number of ordinary shares outstanding during the year, excluding the number of parent company shares held as treasury shares by group companies. Basic earnings per share coincides with diluted earnings per share (Note 12).

r. Consolidated cash flow statements

The following terms are used to present the consolidated cash flow statement:

- Cash flows: Inflows and outflows of cash and cash equivalents, which are non-current, highly liquid investments that are subject to an insignificant risk of changes in value.

- Operating activities: The Group's ordinary operating activities and any other activities that cannot be classified as investing or financing activities.

- Investing activities: The acquisition or disposal of non-current assets and other investments not included in cash and cash equivalents.

- Financing activities: Activities that result in changes in the size and composition of equity and liabilities that are not operating activities.

4. Regulation of remuneration

a) Revenue from regasification, storage and transport

The prevailing regulatory framework was established by the Hydrocarbon Act (Law 34/1998 of 7 October) and subsequent enacting regulations.

From the remuneration standpoint, Royal Decree 949/2001 of 3 August stands out. This piece of legislation stipulated, among other things, the remuneration of regulated activities using the following general criteria:

- Asset owners should be able to recoup their investments over the useful lives of their assets.

- Remuneration should provide a reasonable return on the financial resources invested.

- The scheme for remunerating operating costs should be designed to provide an incentive for efficient management and productivity gains, some of which should be passed on to users and consumers.

Notwithstanding the foregoing, the regulations setting forth how the regulated remuneration for gas transport, regasification and storage were to be calculated were not passed until 2002, with the publication of Order ECO/301/2002 of 15 February.

The main general characteristics of the remuneration regime so established were as follows:

- The remuneration regime initially applied to all three regulated activities: transport, regasification and underground storage.

- Remuneration was calculated individually for each facility and accrual began from the date of the definitive commissioning certificate.

- The investment to be remunerated was the result of multiplying certain standard unit investment costs by the technical details of each facility.

- Remuneration consisted of two components: remuneration of (i) investment costs and (ii) operation and maintenance (O&M) costs.

- Remuneration of investment costs in turn consisted of two items: (i) remuneration of depreciation, arrived at by dividing qualifying investments by the asset's useful life; and (ii) financial remuneration, calculated as the product of investment and a rate of return (the 10-year government bond yield plus150 basis points).

- Operating and maintenance costs consisted of a fixed item, specifically the result of multiplying the standard O&M unit costs by the technical details of each facility; and, in the case of regasification activities, a variable item as a function of the amounts regasified each year.

- Annual remuneration was established on the basis of the prior year's remuneration multiplied by a restatement factor - (1 + fj * IPH), where *IPH* (Spanish acronym) the arithmetic average of the consumer price index and industrial price index and *fj* is an efficiency factor of no more than 0.85.

- Once a facility reached the end of its useful life, it ceased to receive any depreciation remuneration and 50% of financial remuneration.

Subsequently, new ministerial orders were published annually updating the unit investment and O&M remuneration values, establishing the remuneration for the year in question.

The most significant regulatory developments occurring since then are as follows:

Ministerial Order ITC/30/2003 of 26 January updated certain aspects of the financial regime governing regulated activities within the gas sector for 2003.

In 2004, Ministerial Order ECO/31/2004 of 15 January was published stipulating that in the event of facility modifications or extensions the amount of investment qualifying for remuneration would be the carrying amount of the assets up to the limit implied by applying the standard unit costs, and also updating certain items of the financial regime.

Order ECO/102/2005 of 28 January updated certain aspects of the financial regime governing regulated activities within the gas sector for 2005.

Order ECO/4099/2005 of 27 December updated certain aspects of the financial regime governing regulated activities within the gas sector for 2006.

Publication of Orders ITC/3994/2006 and ITC/3995/2006 of 29 December marked a substantial change in the regime for remunerating regasification and underground storage activities from 2007. The following changes triggered by these ministerial orders are worth highlighting:

- The remuneration regime is no longer the same for all activities.
- The amount of investment qualifying for remuneration in respect of regasification is one half of the sum of the carrying amount and the standard value resulting from application of the unit investment values, up to the limit of the latter.
- The change affects all regasification and storage facilities.
- Depreciation charges and financial remuneration in respect of regasification and underground storage activities are no longer updated annually.
- Financial remuneration is calculated based on the net value of the investment, rather than the gross value, as before.
- The remuneration rate is calculated on the basis of 10-year government bond yields plus 350 basis points.
- At the end of a facility's regulatory useful life, it is awarded useful life extension costs equal to half of the depreciation charge and financial remuneration in the last year of useful life.

Meanwhile Order ITC/3993/2006 of 29 December updated certain aspects of the financial regime governing regulated activities within the gas sector for 2007.

Order ITC/3863/2007 of 27 December updated certain aspects of the financial regime governing regulated activities within the gas sector for 2008.

In 2008, Royal Decree 326/2008 of 29 February established the remuneration payable for natural gas transportation services applicable to facilities put into service from 1 January 2008, marking the first time the mechanism for calculating this remuneration was set at Royal Decree level.

Adaptation and standardisation of the remuneration framework was intended to provide stability and eliminate uncertainty, thus paving the way for the major investments anticipated during the new infrastructure planning period (2008 to 2016).

This Royal Decree adapted the transport remuneration system to the model which had begun to be defined in late 2006 for regasification and underground storage activities, further reinforcing convergence with the remuneration system for electricity transmission and with the remuneration schemes in place for analogous regulated activities in neighbouring European nations.

The new remuneration calculation formula was similar to those in place for regasification and underground storage. Like those, it was based on net assets, though for transport, investments are still updated at a rate of 2.5% per annum.

Ministerial Order ITC/3802/2008 of 26 December 2008 updated certain aspects of the financial regime governing regulated activities within the gas sector for 2009.

Ministerial Order ITC/3520/2009 of 28 December 2009 updated certain aspects of the financial regime governing regulated activities within the gas sector for 2010.

Order ITC/3354/2010 of 28 December established remuneration of regulated gas sector activities for 2011, as well as the tolls and fees for third-party access to gas installations.

That same year, Order ITC/3128/2011 of 17 November regulated certain aspects of third-party access to gas installations and remuneration of regulated activities.

The following provisions established in this piece of legislation stand out:

- Regulatory development of application of the unit position values, transport facility maintenance centres and the procedure for valuing the expansion of regulated transport infrastructure, clarifying certain practical matters.

- Establishment of an incentive for reducing shrinkage in the gas transport grid via application of a formula similar to that already applied to regasification facilities.

- Publication of new benchmark unit values for investment and O&M costs for regasification facilities, based on the regulator’s proposals, for application from 2012 on.

- Modification of the scheme for remunerating O&M costs for underground natural gas storage facilities. Broadly speaking, the fixed and variable amounts under the old model were replaced by values based on direct and indirect costs in an attempt to better adapt to how these costs are generated and evolve. Establishment of the definitive remuneration for the Serrablo and Gaviota facilities in this respect for 2007 and 2008 and of their provisional remuneration for 2009, 2010 and 2011.

- Clarification of certain aspects of the unit investment and O&M values for transport facilities, separating the cost of lineal work on transport positions and their application for facility expansion work. Specification that the unit values apply to maintenance centres, determining vital parameters for calculation of their remuneration, such as their useful lives.

- Establishment of a daily balancing system for the day after ‘gas day’ based on data provided by the distributors. Introduction of a procedure designed to motivate compliance with the information reporting deadlines.

- Maintenance of the obligation to maintain strategic stocks of natural gas equivalent to 20 days’ supply and adaptation of the capacity allocation mechanism to this new level.

- Recognition of outstanding remuneration for certain installations associated with the Serrablo underground storage facility.

- Addition of a mandate on “Minimum production requirements for regasification plants” requiring the regulator (CNE) to present the Directorate-General of Energy Policy and Mines with a proposal regarding minimum production requirements for each regasification plant and the minimum operating levels within a period of three months. To this end the CNE is mandated to convene the taskforces it deems fit, involving suppliers, regasification plant owners, transporters and the technical system operator. The proposal must in include an analysis of the investment needed to reduce both the minimum production requirements and minimum operating levels for each plant.

Order IET/3587/2011 of 30 December established remuneration of regulated gas sector activities for 2012 and the tolls and fees for third-party access to gas installations.

Royal Decree Law 13/2012 of 30 March, transposing EU Directives on internal electricity and gas markets and electronic communication matters into Spanish law, introduced a series of measures that ultimately affected costs qualifying for remuneration in the gas sector.

The following provisions stand out:

For underground storage facilities:

- The legislation establishes that remuneration for investment costs will accrue from the year after the facility is commissioned and that, as a general rule, the remuneration corresponding to year ‘n’ will be paid in year ‘n+1’ and that remuneration in a given year will not be paid in respect of remuneration accrued in more than one calendar year.

- Notwithstanding the foregoing, a provisional commissioning certificate may be provided for the storage facility as a whole for the purposes of beginning to inject cushion gas, entitling the facility to definitive remuneration from that date on, this remuneration having the consideration of transitory until the definitive commissioning certificate is issued.

- The definitive commissioning certificate will be granted within no more than one month from when the owner accredits that the facility has operated continuously for at least 48 hours in a row exhibiting normal parameters in both injection and extraction mode.

For regasification plants:

- Suspension of processing of all procedures for adjudicating and awarding authorisations for new regasification plants in mainland Spain, including government permits, project execution permits and commissioning certificates.

- Notwithstanding the foregoing, regasification plants in mainland Spain that already had their execution projects approved can continue to build the infrastructure and later apply for the commissioning certificate solely for the purpose of qualifying for transitory remuneration.

- This transitory remuneration will be equal to the financial remuneration in respect of the asset and will be calculated in year ‘n’, applying the remuneration rate in effect for this type of facility to the net carrying amount of the investment.

For gas pipelines and regulation and metering stations:

- Until approval of new infrastructure plans for the natural gas transport network, suspension of permitting of new gas pipelines and regulation and metering stations pending receipt or application of government authorisation and included in the power and gas infrastructure planning document for 2008-2016, as amended by Order ITC/2906/2010 of 8 November, unless they are deemed part of international commitments or are economically profitable for the system due to growth in related demand.

- Notwithstanding the foregoing, as a result of an exceptional Cabinet agreement, these facilities may be individually permitted if it is deemed that not building the facility within a timeframe of three years would pose an imminent risk to supply security or have an adverse economic impact on the gas system or if its construction is considered strategic for the Spanish state as a whole.

- Moreover, the foregoing will not apply to gas pipelines earmarked to supplying an area of influence when the economic viability of the pipelines can be established.

Most of the accounting impacts on the Group of Royal Decree Law 13/2012 cannot be evaluated or recognised until the document updating the mandatory gas infrastructure plans for 2012-2020 is officially published by the Ministry for Industry, Trade and Tourism. However, management does not currently expect the accounting ramifications to have a substantial impact on the Group's financial metrics.

Order IET/849/2012 of 26 April revised the tolls and fees for third-party access to gas installations, increasing those in effect at the time by 5% in general.

In addition, this Order amended the remuneration regime for underground storage facilities established under Order ITC/3995/2006 of 29 December. Specifically, it changed the useful lives of these assets from 10 to 20 years in all instances.

Order IET/2805/2012 of 27 December completed the overhaul of the underground storage facility remuneration regime, enacting the amendments introduced by Royal Decree Law 13/2012 and Order IET/849/2012; the new regime applies to facilities obtaining definitive or provisional commissioning certificates after 1 April 2012.

The main novelty introduced by this last ministerial order is the decision to update the net investment values at an annual rate of 2.5%, bringing the underground storage facility remuneration regime in line with the prevailing transport regime. This update factor applies to all investments made in underground storage facilities, including cushion gas.

Order IET/2812/2012 of 27 December established the tolls and royalties for third-party access to gas installations and remuneration of the regulated activities, establishing the fixed assets entitled to remuneration at each company in relation to their transport, regasification, storage and distribution activities, as well as the parameters for calculating the related variable remuneration.

This Order includes the update factor for unit investment and O&M values applicable to regasification, transport and storage facilities in 2013. The methodologies established in prior ministerial orders were left intact, so that this piece of legislation simply updated remuneration entitlements for 2013.

However, the Order did introduce a novelty in relation to the update of remuneration of transport facilities commissioned prior to 2008 and distribution facilities by applying an efficiency factor of zero, which was tantamount to leaving remuneration at the prior-year levels, except for transport facilities reaching the end of their regulatory useful lives.

This Order increases access tolls and fees by 1% as a general rule, with the exception of certain tolls, such as underground storage and LNG tolls, which were left unchanged year on year.

As in previous years and in keeping with applicable regulations, these Orders stipulate that the cost recognised for transport, regasification and underground storage activities comprises fixed and variable components.

a.1) Recognised fixed cost.

a.1.1. Recognised fixed cost is calculated on the basis of operating assets and compensates investment and operating costs relating to assets used in the gas system.

- Value of recognised assets. For facilities commissioned before 2002, the remuneration is calculated based on the carrying amount of the assets after the revaluation of 1996 (Royal Decree Law 7/1996), less grants received to finance these assets. An annual update rate based on the adjusted average of the consumer price index (CPI) and the industrial price index (IPRI) is applied to the difference.

  For new facilities brought into service since 2002, the standard value of each investment set by the regulator is used, while those investments that entail expansion are measured at actual cost.

  Investments in underground storage are also measured at actual cost because there are no standard values.

  Transport installations brought into service from 2008 are valued at the average of the standard value and actual cost.

  Regasification installations put into service since 2006 are valued at actual cost plus 50% of the difference between standard value and actual cost, up to the amount of standard value.

- Remuneration for depreciation of system assets. The depreciation rate relating to the useful life of the asset is applied to the investment recognised to give the amount of revenue for this item.

  For transport assets put into service after 1 January 2008, depreciation is updated at a rate of 2.5% per annum.

- Financial remuneration for the value of the investment. For transport assets put into service before 2008, this figure is calculated by applying a financial return equal to the annual average yield on 10-year government bonds or a replacement interest rate plus 1.5% to the value of the gross investment value obtained as per the previous section.

  For transport assets put into service after 1 January 2008, this figure is calculated by applying a financial return equal to the annual average yield on 10-year government bonds or a replacement interest rate, plus 3.75%, to the value of the net investment value (net of depreciation) obtained as per the previous section, updated at a rate of 2.5% per annum.

  For regasification and storage assets, this figure is calculated by applying a financial return equal to the annual average yield on 10-year government bonds or a replacement interest rate, based on the date that each facility was put into service, plus 3.5%, to the value of the net investment (net of depreciation) obtained in the previous section. For storage assets put into service after 1 April 2012, the value of the net investment (net of depreciation) is updated at a rate of 2.5% per annum.

  The resulting remuneration rate for transport assets commissioned in 2012 was 9.67%.

- Remuneration of fully depreciated assets. For transport assets put into service before 2008, 50% of the financial remuneration is recognised. For regasification, storage, and transport assets put into service after 1 January 2008, 50% of the depreciation and the financial remuneration of the last year are recognised. With regard to the latter transport assets, remuneration is also updated at a rate of 2.5% per annum.

a.1.2. Remuneration of operating costs relating to regasification and transport assets started up before the end of 2007 is calculated in accordance with the costs authorised in 2000 for gas system installations for gas transport and regasification, standardised by physical and technical units. For transport assets commissioned after 1 January 2008, the standard values applicable are those established in the unit value review proposal put forward by the CNE.

These standard values are updated annually based on the consumer price index and the industrial price index for capital goods, adjusted by certain efficiency factors.

For underground storage facilities, a specific fixed operating and maintenance cost is defined for each site, calculated on the basis of the corresponding direct and indirect costs.

These costs are updated annually based on the consumer price index and the industrial price index for capital goods, adjusted by certain efficiency factors. The direct costs to be ultimately disclosed correspond to half of the prior year direct costs, updated as described above, plus half of the actual cost for the current year, which must be underpinned by a financial audit.

a.1.3. Revenue relating to recognised fixed costs is taken to the consolidated income statement on a straight-line basis. In this way, a month-on-month balance is achieved between revenue (remuneration) and expenses (depreciation).

a.2) Recognised variable cost for regasification and transfer of LNG to tankers.

The recognised variable cost is calculated based on the number of kW/hr actually regasified and loaded in LNG trucks in each period and the variable unit regasification cost for the period in question. For 2012, this cost was set at 0.000152 euros per kWh regasified and 0.000182 euros per kWh loaded in trucks.

For loading LNG onto tankers from regasification plants or the pre-cooling of ships a cost identical to the variable truck loading cost is recognised. For tanker-to-tanker transfers the cost is 80% of this value.

b) Revenue from technical system operation (TSO)

Revenue from this activity is calculated on a yearly basis in accordance with the recognised cost for each year and is used to compensate the Enagás Group for its obligations as Technical System Operator, which include coordinating the development, operation and maintenance of the transport network, supervising the security of the natural gas supply (storage levels and emergency plans), implementing plans for the future development of gas infrastructures and controlling third-party access to the network.

In 2012, the amount earmarked for TSO remuneration, which should be collected by companies that are titleholders of the regasification, transport, storage and gas distribution facilities, as a percentage of invoicing for tolls and fees relating to third-party network access rights, was 0.40%. This amount is deposited by these companies within the deadlines and in the manner established in the settlement procedure in the deposit account kept open by the CNE for these purposes.

The above-mentioned percentage of invoicing is calculated based on the figure obtained by applying maximum tolls and fees to the invoiced amounts, without subtracting possible discounts that could be agreed between the titleholders of the installations and their users.

Notwithstanding the foregoing, the remuneration recognised for acting as Technical System Operator in 2012 was 11,789,434 euros. Any surplus or shortfall between this figure and the amounts received as a result of application of the above calculations will be included by the CNE in the fourteenth settlement of 2012.

This revenue is taken to the consolidated income statement monthly on a straight-line basis.

c) Settlement of tolls relating to third-party access to gas installations

Invoicing and collection of remuneration for regulated activities subject to settlement (third-party access to the network and technical system operation) is carried out in compliance with the settlement procedure established in the Ministerial Order dated 28 October 2002.

d) Settlement system

Ministerial Order ECO/2692/2002 (28 October) was published on 1 November 2002, regulating settlement procedures for remuneration of regulated activities and defining company disclosure requirements.

Additional provision number five of Order ITC/3993/2006 amends section I.5 of appendix II of this settlements order and states that the interest equivalent to applying the average one-year treasury bill yield during 60 days to the amounts to be paid to each transporter or distributor be added to the settlements.

e) Revenue corresponding to the minimum operating level and minimum linepack of gas pipelines

Article 16 of Order IET/3587/2011 stipulates that the minimum operating levels (also called the "*gas talón*") for gas pipelines and regasification plants shall be remunerated as a necessary investment for the transport business, recognising a financial return.

Additionally, article 17 of this Order provides that the financial remuneration for the minimum linepack of transport gas pipelines and regasification plants purchased each year shall be calculated by applying a remuneration rate equal to the average monthly yield on the 10-year Spanish government bond in the twelve months prior to November of the previous year, plus 350 basis points, to acquisition cost. The acquisition cost will be the result of applying the auction price to the quantity purchased.

f) Revenue for gas purchases for internal consumption

From 1 July 2007, gas transporters are responsible for acquiring the amount of gas needed for internal consumption at their facilities. This leads to a reduction in the percentages of shrinkage retained from users.

Gas acquired by transporters is measured at the auction price, with the payments made treated as reimbursable expenses.

g) Developments in the regulatory framework

The main gas industry regulatory developments approved in 2012 include:

1. Supranational regulations

Directive 2012/27/EU of the European Parliament and of the Council of 25 October 2012 on energy efficiency, amending Directives 2009/125/EC and 2010/30/EU and repealing Directives 2004/8/EC and 2006/32/EC.

Communication from the Commission of 15 November 2012, COM(2012) 663 final – Making the internal energy market work. The Communication from the Commission of 15 November 2012 on making the internal energy market work attempts to flag the work that needs to be done to ensure an efficient internal energy market.

Decision No 994/2012/EU of the European Parliament and of the Council of 25 October 2012 establishing an information exchange mechanism with regard to intergovernmental agreements between Member States and third countries in the field of energy.

Commission Decision of 24 August 2012 on amending Annex I to Regulation (EC) No 715/2009 of the European Parliament and of the Council on conditions for access to the natural gas transmission networks, regarding the establishment of a series of congestion-management principles (CMP) which must be implemented as of 1 October 2013.

Commission Opinion (C(2012) 4171 final) of 15 June 2012, pursuant to Article 3(1) of Regulation (EC) No 715/2009 and Article 10(6) of Directive 2009/73/EC - Spain - Certification of ENAGAS, S.A. (gas), regarding the CNE's draft decision on the certification of "ENAGAS S.A. as a Transmission System Operator (TSO) for gas. Pursuant to Article 3(1) Regulation (EC) No 715/2009, the Commission is required to examine the notified draft decision and deliver an opinion to the relevant national regulatory authority as to its compatibility with Article 10(2) and Article 9 of the Gas Directive.

Commission Decision of 19 January 2012 on the setting up of the European Union Offshore Oil and Gas Authorities Group.

2. Spanish regulations

BASIC LEGISLATION

Royal Decree Law 13/2012 of 30 March 2012, transposing the EU Directives on internal electricity and gas markets and electronic communication matters, introducing a series of measures designed to correct deviations as a result of mismatches between costs and income in the electricity and gas industries.

REMUNERATION AND TOLLS:

Resolution of the Secretary of State for Energy of 19 September 2012, publishing the natural gas raw material cost values and base cost for the third quarter of 2012 for the purposes of calculating the efficiency top-up and the remuneration values for co-generation and other facilities under Royal Decree 661/2007 of 25 May 2007, regulating electric power output under the special regime.

Resolution of the Directorate General for Energy Policy and Mining of 17 April 2012, specifying the projects initiated in 2009 and 2010 entitled to specific remuneration.

Order IET/849/2012 of 26 April 2012, updating the tolls and fees for third-party access to gas installations and adopting certain measures designed to restore financial equilibrium in the gas system.

Order IET/2812/2012 of 27 December 2012, establishing the tolls and fees for third-party access to gas installations and remuneration of regulated gas sector activities.

TARIFF OF LAST RESORT

Resolution of the Directorate General for Energy Policy and Mining of 28 December 2012, publishing the natural gas tariff of last resort.

Resolution of the Directorate General for Energy Policy and Mining of 28 June 2012, publishing the natural gas tariff of last resort.

Resolution of the Directorate General for Energy Policy and Mining of 27 April 2012, publishing the natural gas tariff of last resort.

Resolution of the Directorate General for Energy Policy and Mining of 30 December 2011, publishing the natural gas tariff of last resort applicable from 1 January 2012.

SYSTEM OPERATION RULES

Resolution of the Directorate General for Energy Policy and Mining of 5 December 2012, establishing protocol PD-16 “Exchange of operating signals among titleholders of gas system facilities and between these titleholders and the technical system operator”.

Resolution of the Directorate General for Energy Policy and Mining of 17 September 2012, amending technical system operation standards NGTS-01 on “general concepts” and NGTS-04 on "Nominations" and protocol PD-11 "Procedure for delivery to points of entry to the transport network" and approving protocol PD-15 “Nominations, metering and distributions at international gas pipeline connections with Europe.

Resolution of the Directorate General for Energy Policy and Mining of 30 April 2012, establishing protocol PD-14 “Criteria for defining saturation points for regulation and metering stations and metering stations and Procedure for proposing action plans” and amending protocol PD-10 “Calculating facility capacity”.

Resolution of the Directorate General for Energy Policy and Mining of 29 March 2012, establishing protocol PD-13 “Assigning tanker unloading dates at regasification plants” and amending technical system operation standard NGTS-03 “Programming” and protocol PD-07 "Programming and nominations in transport infrastructure".

Resolution of the Directorate General for Energy Policy and Mining of 29 March 2012, amending technical system operation standard NGTS-02 “General conditions regarding usage and capacity of gas system facilities”, establishing PD-12 "Procedures applicable to liquefied natural gas tanks earmarked for satellite plants” and amending PD-01 “Gas metering, quality and odorisation”.

MANDATORY PLANNING AND WINTER PLAN

Resolution of the Directorate General for Energy Policy and Mining of 19 December 2012, adopting and publishing the Spanish gas system’s preventative action and emergency plans.

Resolution of the Directorate General for Energy Policy and Mining of 30 July 2012, publishing the supervisory report on matters concerning supply security in the Spanish gas system, as provided for in article 100.3 of the Hydrocarbon Act (Law 34/1998 of 7 October 1998).

Resolution of the Directorate General for Energy Policy and Mining of 23 November 2011, approving the winter action plan for operation of the gas system.

UNDERGROUND STORAGE

Order IET/2805/2012 of 27 December 2012, amending Order ITC/3995/2006 of 29 December 2006, establishing the remuneration of the underground natural gas storage facilities included in the basic grid.

Resolution of the Secretary of State for Energy of 23 March 2012, adjudicating basic storage capacity for the period between 1 April 2012 and 31 March 2013.

Resolution of the Directorate General for Energy Policy and Mining of 6 March 2012, establishing certain aspects relating to the auction of basic storage capacity for the period between 1 April 2012 and 31 March 2013.

Resolution of the Directorate General for Energy Policy and Mining of 30 January 2012, publishing the capacity allocated and available in the basic natural gas storage facilities for the period between 1 April 2012 and 31 March 2013.

AUCTION FOR THE ACQUISITION OF GAS FOR MINIMUM LINEPACK PURPOSES AND MINIMUM RESERVE LEVELS (*GAS TALÓN*)

Resolution of the Directorate General for Energy Policy and Mining of 25 October 2015, establishing certain parameters for the auction for the acquisition of natural gas for the purpose of setting the tariff of last resort for the period between 1 January and 30 June 2013 (the confidential annex is not included).

Resolution of the Directorate General for Energy Policy and Mining of 27 September 2012, establishing the procedure for conducting the auction for the acquisition of base gas for the purpose of setting the tariff of last resort for the period between 1 January and 30 June 2013.

Resolution of the Directorate General for Energy Policy and Mining of 15 June 2012, establishing certain parameters for the auction for the acquisition of natural gas for the purpose of setting the tariff of last resort for the period between 1 July 2012 and 30 June 2013.

Resolution of the Directorate General for Energy Policy and Mining of 30 May 2012, updating certain parameters for the auction of natural gas earmarked for the minimum linepack of the basic underground storage facilities, Yela and Castor.

Resolution of the Directorate General for Energy Policy and Mining of 24 May 2012, approving certain parameters for the auction for the acquisition of gas to fulfil minimum operating requirements for the period elapsing between 1 July 2012 and 30 June 2013.

Resolution of the Directorate General for Energy Policy and Mining of 17 May 2012, establishing the procedure for conducting the auction for the acquisition of natural gas for setting the tariff of last resort for the period elapsing between 1 July 2012 and 30 June 2013.

Correction of errors in Resolution of the Directorate General for Energy Policy and Mining of 11 May 2012, establishing the rules for conducting the auction for the acquisition in 2012 of natural gas for the minimum linepack of the basic underground storage facilities, Yela and Castor.

Resolution of the Directorate General for Energy Policy and Mining of 11 May 2012, establishing the rules for conducting the auction for the acquisition in 2012 of natural gas for the minimum linepack of the basic underground storage facilities, Yela and Castor.

Resolution of the Directorate General for Energy Policy and Mining of 9 May 2012, establishing the rules for conducting the auction for the acquisition of gas to fulfil minimum operating requirements for the period between 1 July 2012 and 30 June 2013.

Correction of errors in Resolution of the Secretary of State for Energy of 25 April 2012, establishing certain features of the auction for the acquisition of natural gas for setting the tariff of last resort for the period between 1 July 2012 and 30 June 2013.

Resolution of the Secretary of State for Energy of 25 April 2012, establishing certain features of the auction for the acquisition of natural gas for setting the tariff of last resort for the period between 1 July 2012 and 30 June 2013.

Resolution of Secretary of State for Energy of 17 April 2012, establishing the procedure for the auction of natural gas earmarked for the minimum linepack of new underground natural gas storage facilities.

CAPACITY ALLOCATION PROCEDURES

Resolution of the Directorate General for Energy Policy and Mining of 12 November 2012, calling the coordinated procedure for allocating short-term natural gas interconnection capacity between Spain and France for the period between 1 April 2013 and 31 March 2014.

Resolution of the CNE of 28 June 2012, approving the Information Memorandum and the standard contract for the coordinated allocation of natural gas capacity at the Spain-Portugal interconnection to be made available during the period between October 2012 and September 2013.

CNE Circular 2/2012 of 28 June, approving the methodology for the coordinated allocation of natural gas capacity at the Spain-Portugal interconnection.

ESTABLISHMENT OF STRATEGIC RESERVES

Order IET/2813/2012 of 27 December 2012, approving the amounts certain companies are required to contribute to CORES, the corporation entrusted with managing the country's strategic oil product reserves, for 2013.

OTHER PROVISIONS

Law 15/2012 of 27 December 2012, establishing fiscal measures for energy sustainability.

Order IET/2434/2012 of 7 November 2012, determining the facilities within the basic natural gas network that belong to the basic natural gas grid.

Resolution of the Directorate General for Energy Policy and Mining of 20 November 2012, amending the Resolution of 25 July 2006, which regulates allocation conditions and the process of applying supply interruptible gas contracts in the gas system.

Order IET/2424/2012, of 8 November 2012, establishing minimum services in the oil and gas sector in light of the general strike called for 14 November 2012.

Resolution of the Directorate General for Energy Policy and Mining of 22 October 2012, publishing the gasification index by Spanish province on the website of the Ministry for Industry, Energy and Tourism.

Order IET/2020/2012, of 24 September 2012, establishing minimum services in the oil and gas sector in light of the general strike called for 26 September 2012.

CNE Resolution of 26 July 2012 on the request to have ENAGAS certified as technical gas system operator.

Resolution of the Directorate General for Energy Policy and Mining of 11 July 2012, amending the resolution of 24 June 2002, approving the standard application forms and contracts for third-party access to gas facilities.

Ruling 135/2012, of 19 June 2012, regarding anti-constitutional appeal case no. 7745-2007 lodged by the cabinet of the regional government of Madrid with respect to several provisions of Law 12/2007, of 2 July 2007, amending the Hydrocarbon Act with a view to adapting it to the provisions of Directive 2003/55/EC of the European Parliament and of the Council of 26 June 2003, concerning common rules for the internal market in natural gas.

Resolution of the Directorate General for Energy Policy and Mining of 4 May 2012, granting Compañía Transportista de Gas Canarias, SA a government permit to build a plant for the receipt, storage and regasification of liquefied natural gas in the town of Granadilla (Tenerife).

Resolution of the Directorate General for Energy Policy and Mining of 8 March 2012, amending the Resolution of 24 June 2002, approving the standard application forms and contracts for third-party access to gas facilities.

Royal Decree Law 1/2012 of 27 January 2012, suspending the procedures for remuneration pre-registration and eliminating financial incentives for new facilities for the generation of electric power via co-generation and from renewable energy sources and waste.

Royal Decree 1823/2011 of 21 December 2011, restructuring the ministerial departments.

Law 16/2012 of 27 December 2012, adopting several fiscal measures designed to consolidate the state finances and boost economic activity, article 9 of which allows corporate income taxpayers to restate their balances sheets. In the event of restating their balance sheets, the restatement must be based on the figures presented on the balance sheet of 31 December 2012 and must be approved at the Annual General Meeting called within the legal deadline for approving the 2012 financial statements. The restatement would be recognised for accounting purposes in 2013. The restatement would necessarily affect all assets liable for restatement (property, plant and equipment and investment properties) and the corresponding depreciation charges, with the exception of properties, each of which can be restated on an individual basis. Taxpayers availing of this option will be liable for a single levy of 5% of the reserve balance resulting from the restatement.

At the date of authorising the accompanying financial statements for issue, the Company's directors are analysing the impact on each of the group companies to which this law applies with a view to taking a decision, within the legal timeframe, prior to the Annual General Meeting.

5. Intangible assets

The breakdown of and movement in intangible assets and their amortisation in 2012 and 2011 were as follows:

2012

Cost	Opening balance	Additions	Transfers (additions or decreases)	Disposals, derecognition or write-downs	Closing balance
Goodwill	-	19,153	-	-	19,153
Other intangible assets					
Development costs	5,259	4	-	-	5,263
Concessions	5,935	-	-	-	5,935
Computer software	93,796	19,818	-	-	113,614
Other intangible assets	9,855	(489)	-	-	9,366
Total cost	**114,845**	**38,486**	**-**	**-**	**153,331**

Amortisation	Opening balance	Additions	Transfers (additions or decreases)	Disposals, derecognition or write-downs	Closing balance
Other intangible assets					
Development costs	(565)	(417)	-	-	(982)
Concessions	(3,134)	(214)	-	-	(3,348)
Computer software	(51,221)	(17,064)	-	-	(68,285)
Other intangible assets	(5,110)	(1,303)	-	-	(6,413)
Total amortisation	**(60,030)**	**(18,998)**	**-**	**-**	**(79,028)**

Carrying amount	Opening balance	Additions	Transfers (additions or decreases)	Disposals, derecognition or write-downs	Closing balance
Goodwill	-	19,153	-	-	19,153
Other intangible assets	54,815	335	-	-	55,150
Total intangible assets	**54,815**	**19,488**	**-**	**-**	**74,303**

2011

Cost	Opening balance	Additions	Transfers (additions or decreases)	Disposals, derecognition or write-downs	Closing balance
Other intangible assets					
Development costs	1,865	1,577	1,817	-	5,259
Concessions	5,935	-	-	-	5,935
Computer software	67,070	26,726	-	-	93,796
Other intangible assets	7,225	2,630	-	-	9,855
Total cost	**82,095**	**30,933**	**1,817**	**-**	**114,845**

Amortisation	Opening balance	Additions	Transfers (additions or decreases)	Disposals, derecognition or write-downs	Closing balance
Other intangible assets					
Development costs	(359)	(206)	-	-	(565)
Concessions	(2,919)	(215)	-	-	(3,134)
Computer software	(38,135)	(13,086)	-	-	(51,221)
Other intangible assets	(4,053)	(1,057)	-	-	(5,110)
Total amortisation	**(45,466)**	**(14,564)**	**-**	**-**	**(60,030)**

Carrying amount	Opening balance	Additions	Transfers (additions or decreases)	Disposals, derecognition or write-downs	Closing balance
Other intangible assets	36,629	16,369	1,817	-	54,815
Total intangible assets	**36,629**	**16,369**	**1,817**	**-**	**54,815**

a) Goodwill

Goodwill relates to the acquisition of Grupo Altamira CV, an investee in which the Group has joint control (Note 32), having acquired a 40% interest in 2011. Based on information obtained by the Company subsequent to the acquisition date, the goodwill associated with this acquisition was estimated at 19,153 thousand euros.

This goodwill has been allocated to the "Deregulated activities" segment, which includes the Group's international projects (Note 24).

b) Other intangible assets

The additions to "Development costs" in 2012 are mainly related to the Delfos Project concerning near-term demand forecasting for natural gas for the production of electric power, in the amount of 4 thousand euros.

Key software additions in 2012 include the following:

- San Fernando CCR software, for 1,055 thousand euros
- Software Green Data Centre, for 1,480 thousand euros
- SL ATR 2.0, in the amount of 5,120 thousand euros
- Software to expand the system architecture in 2012, for 891 thousand euros
- Maintenance management software 2.0, for 1,062 thousand euros
- ECOFI support software, for 803 thousand euros
- Competence centres software 2011-2012, for 1,417 thousand euros
- Software for enhancing contracting, invoicing and metering systems, for 800 thousand euros
- Financial and corporate system functionality, for 610 thousand euros
- Operating system upgrades and adaptations in 2012, for 660 thousand euros
- Job performance evaluation software, in the amount of 612 thousand euros

At year-end 2012 and 2011, the Group was still using the following fully-amortised intangible assets:

2012

Item	Carrying amount (gross)
Development costs	269
Computer software	36,009
Other intangible assets	2,195
Total	**38,473**

2011

Item	Carrying amount (gross)
Development costs	268
Computer software	29,835
Other intangible assets	2,107
Total	**32,210**

The goods classified within "Other intangible assets" are not mortgaged or subject to any other similar encumbrance.

6. Property, plant and equipment

The breakdown of and movement in property, plant and equipment and accumulated depreciation in 2012 and 2011 were as follows:

2012

Cost	Opening balance	Additions	Transfers (additions or decreases)	Disposals, derecognition or write-downs	Closing balance
Land and buildings	254,637	3,027	(8,439)	-	249,225
Plant and machinery	7,414,397	195,468	554,154	-	8,164,019
Other installations, equipment & furniture	64,408	10,022	-	(150)	74,280
Prepayments and work in progress	1,015,300	207,016	(545,715)	(569)	676,032
Government grants	(584,042)	(18,000)	-	-	(602,042)
Total cost	**8,164,700**	**397,533**	**-**	**(719)**	**8,561,514**

Depreciation	Opening balance	Additions	Transfers (additions or decreases)	Disposals, derecognition or write-downs	Closing balance
Land and buildings	(68,311)	(5,958)	-	-	(74,269)
Plant and machinery	(2,773,722)	(306,770)	-	-	(3,080,492)
Other installations, equipment & furniture	(42,534)	(4,114)	-	109	(46,539)
Government grants	314,911	19,365	-	-	334,276
Total depreciation	**(2,569,656)**	**(297,477)**	**-**	**109**	**(2,867,024)**

Impairment	Opening balance	Additions	Transfers (additions or decreases)	Reversals, write-offs or derecognition	Closing balance
Plant and machinery	(14,974)	-	-	-	(14,974)
Other installations, equipment & furniture	-	-	-	-	-
Government grants	-	-	-	-	-
Total impairment losses	**(14,974)**	**-**	**-**	**-**	**(14,974)**

Carrying amount	Opening balance	Additions	Transfers (additions or decreases)	Disposals, derecognition or write-downs	Closing balance
Land and buildings	186,326	(2,931)	(8,439)	-	174,956
Plant and machinery	4,625,701	(111,302)	554,154	-	5,068,553
Other installations, equipment & furniture	21,874	5,908	-	(41)	27,741
Prepayments and work in progress	1,015,300	207,016	(545,715)	(569)	676,032
Government grants	(269,131)	1,365	-	-	(267,766)
Total property, plant and equipment	**5,580,070**	**100,056**	**-**	**(610)**	**5,679,516**

2011

Cost	Opening balance	Additions	Transfers (additions or decreases)	Disposals, derecognition or write-downs	Closing balance
Land and buildings	216,230	35,663	3,352	(608)	254,637
Plant and machinery	6,677,500	299,771	437,203	(77)	7,414,397
Other installations, equipment & furniture	47,322	1,895	15,374	(183)	64,408
Prepayments and work in progress	1,067,866	413,143	(465,626)	(83)	1,015,300
Government grants	(584,042)	-	-	-	(584,042)
Total cost	**7,424,876**	**750,472**	**(9,697)**	**(951)**	**8,164,700**

Depreciation	Opening balance	Additions	Transfers (additions or decreases)	Disposals, derecognition or write-downs	Closing balance
Land and buildings	(62,925)	(5,763)	-	377	(68,311)
Plant and machinery	(2,476,580)	(297,188)	-	46	(2,773,722)
Other installations, equipment & furniture	(39,709)	(3,006)	-	181	(42,534)
Government grants	293,659	21,252	-	-	314,911
Total depreciation	**(2,285,555)**	**(284,705)**	**-**	**604**	**(2,569,656)**

Impairment	Opening balance	Additions	Transfers (additions or decreases)	Reversals, write-offs or derecognition	Closing balance
Plant and machinery	(15,573)	-	-	599	(14,974)
Other installations, equipment & furniture	-	-	-	-	-
Government grants	-	-	-	-	-
Total impairment losses	**(15,573)**	**-**	**-**	**599**	**(14,974)**

Carrying amount	Opening balance	Additions	Transfers (additions or decreases)	Disposals, derecognition or write-downs	Closing balance
Land and buildings	153,305	29,900	3,352	(231)	186,326
Plant and machinery	4,185,347	2,583	437,203	568	4,625,701
Other installations, equipment & furniture	7,613	(1,111)	15,374	(2)	21,874
Prepayments and work in progress	1,067,866	413,143	(465,626)	(83)	1,015,300
Government grants	(290,383)	21,252	-	-	(269,131)
Total property, plant and equipment	**5,123,748**	**465,767**	**(9,697)**	**252**	**5,580,070**

Additions to “Land and buildings” includes 1,271 thousand euros in respect of head office refurbishment work.

Transfers to “Plant and machinery” mainly relate to the start-up during 2012 of:

- Duplication of the Tivissa- Paterna gas pipeline, central stretch, Castellón province
- Northern stretch of the Yela-El Villar de Arnedo gas pipeline
- Southern stretch, Guadalajara province, of the Yela-El Villar de Arnedo gas pipeline
- Southern stretch, Soria province, of the Yela-El Villar de Arnedo gas pipeline
- Regulating and metering stations at various points of the basic grid
- Expansion work at various points of the basic grid
- Metering stations at various points of the basic grid
- Southern stretch of the Martorell-Figueras gas pipeline
- Duplication of the Almonte-Marismas branch pipeline
- Replacement of internal fireproof mesh at the processing areas of the Barcelona plant
- Installation of a fire system at 17 areas of the Barcelona plant
- The Yela underground storage facility

Additions under “Plant and machinery” include 1,030 thousand euros (2011: 1,421 thousand euros) corresponding to the minimum linepack for the gas pipelines as well as 795 thousand euros (2011: 2,512 thousand euros) to cover the regasification plants’ minimum operating levels (also known as “*gas talón*”); 48,708 thousand euros corresponding to immobilised gas required to operate the Yela underground storage facility; 3,932 thousand euros in connection with the first-time consolidation of the assets of Gasoducto Escombreras, S.L.U. in Enagas Transporte, S.A.U.; and 4,923 thousand euros corresponding to the Ramal-Arcos gas pipeline.

Additions to “Prepayments and work in progress” in 2012 relate mainly to the following installations:

- Regasification facilities at the El Musel plant
- LNG storage facilities at the El Musel plant
- Sixth tank at the Huelva plant
- Fire system upgrades at the Huelva Plant
- Increase in Gaviota stake acquired from Murphy
- Increase in Gaviota stake acquired from RIPSA
- Splitting of the Cartama-Mijas gas pipeline
- Castropodame-Villafranca del Bierzo branch pipeline
- Duplication of the Treto-Llanera gas pipeline
- Zarza de Tajo-Yela gas pipeline
- Martorell- Figueras gas pipeline
- Musel-Llanera gas pipeline
- Duplication of the Villapresente-Burgos gas pipeline
- Tripling of the Tivissa-Arbós gas pipeline

- El Villar de Arnedo-Castelnou gas pipeline
- Metering unit G-6500 at position D-16 in Llanera
- Maritime civil works at Asturias plant
- New data processing centre in Zaragoza
- Tri-generation plant in Zaragoza

Also included within these additions are 18,287 thousand euros corresponding to prepayments and work in progress corresponding to BBG.

The assets derecognised from property, plant and equipment in 2012 ("Disposals, derecognition or write-downs") correspond to installations, furnishings and office equipment which was replaced. The derecognitions from "Prepayments and work in progress" correspond to projects that were ultimately not executed. The "Transfers" entry recognises the movements from work in progress to property, plant and equipment as projects were commissioned during the year.

The revaluation of assets in accordance with the provisions of Royal Decree Law 7/1996 (7 June 1996), increased the 2012 depreciation charge for property, plant and equipment by 14,964 thousand euros (2011: 15,039 thousand euros).

Capitalised borrowing costs accrued during construction of infrastructure projects in 2012 amounted to 20,959 thousand euros (2011: 26,092 thousand euros).

Own work capitalised increased property, plant and equipment by 15,180 thousand euros in 2012 (2011: 15,637 thousand euros).

The decreases in accumulated depreciation (under "Disposals, derecognition or write-downs") correspond to installations, furnishings and office equipment which were derecognised.

At year-end 2012 and 2011, the Enagás Group was still using the following fully-depreciated items of property, plant and equipment:

2012

Item	Carrying amount (gross)
Buildings	10,143
Plant and machinery	551,717
Other installations, equipment & furniture	39,067
Total	**600,927**

2011

Item	Carrying amount (gross)
Buildings	9,905
Plant and machinery	420,614
Other installations, equipment & furniture	37,406
Total	**467,925**

Property, plant and equipment are not mortgaged or subject to any other similar encumbrance.

The Group insures its assets so no significant losses occur, on the basis of best market practice and according to the nature and characteristics of the items of property, plant and equipment.

The Group also has insurance policies against third-party civil liability.

Government grants received at year-end 2012 relate to investments in gas infrastructure, as follows:

	Thousands of euros		
	Grants received at 31/12/2012	**Released to income at 31/12/2012**	**Balance at 31/12/2012**
Regasification plants	86,225	(70,316)	15,909
Gas transport infrastructure	498,309	(255,677)	242,632
Underground storage facilities	17,508	(8,283)	9,225
Total	**602,042**	**(334,276)**	**267,766**

The grants were received from the following bodies:

	Thousands of euros		
	Grants received at 31/12/2012	**Released to income at 31/12/2012**	**Balance at 31/12/2012**
EU structural funds	431,074	(216,516)	214,558
Spanish regional authorities	57,120	(26,403)	30,717
Spanish state	113,848	(91,357)	22,491
Total	**602,042**	**(334,276)**	**267,766**

Government grants to be released to the income statement in 2013 amount to approximately 18,962 thousand euros. The schedule for the release of the outstanding balance at 31 December 2012 is:

	Years		
	<1	**2 to 5**	**>5**
Spanish state grants	2,637	9,420	10,434
Spanish regional authority grants	2,077	8,308	20,332
FEDER grants	14,248	56,992	143,318
Total grants	**18,962**	**74,720**	**174,084**

7. Financial assets

7.1 Composition and breakdown

The Group's financial assets at 31 December 2012 and 31 December 2011, broken down by class and category for measurement purposes, were as follows:

Category \ Class	Non-current financial assets							
	Equity instruments		Debt securities		Loans, derivatives and other		Total	
	2012	2011	2012	2011	2012	2011	2012	2011
Held-to-maturity investments	189	4,749	-	-	717	857	906	5,606
Loans and receivables	-	-	-	-	16,407	614	16,407	614
Available-for-sale financial assets								
- Measured at fair value	-	-	-	-	-	-	-	-
- Measured at cost	-	-	-	-	-	-	-	-
Derivatives	-	-	-	-	12,446	52,071	12,446	52,071
Total	**189**	**4,749**	**-**	**-**	**29,570**	**53,542**	**29,759**	**58,291**

Category \ Class	Current financial assets							
	Equity instruments		Debt securities		Loans, derivatives and other		Total	
	2012	2011	2012	2011	2012	2011	2012	2011
Held-to-maturity investments	-	-	-	-	-	-	-	-
Loans and receivables	-	-	-	-	2,227	6,573	2,227	6,573
Available-for-sale financial assets								
- Measured at fair value	-	-	-	-	-	-	-	-
- Measured at cost	-	-	-	-	-	-	-	-
Derivatives	-	-	-	-	-	36	-	36
Total	**-**	**-**	**-**	**-**	**2,227**	**6,609**	**2,227**	**6,609**

The changes in Group financial assets in 2012 and 2011 were as follows:

2012

	Opening balance	Additions or provisions	Remeasurement against equity/ profit or loss	Transfers	Disposals, derecognition or write-downs	Closing balance
Equity instruments	4,749	158	-	-	(4,718)	189
Debt securities	-	-	-		-	-
Loans, derivatives and other	60,151	16,287	(39,661)	-	(4,980)	31,797
Total	**64,900**	**16,445**	**(39,661)**	**-**	**(9,698)**	**31,986**

2011

	Opening balance	Additions or provisions	Remeasurement against equity/ profit or loss	Transfers	Disposals, derecognition or write-downs	Closing balance
Equity instruments	31	4,719	-	-	(1)	4,749
Debt securities	101,742	-	-	-	(101,742)	-
Loans, derivatives and other	39,081	3,784	21,456	-	(4,170)	60,151
Total	**140,854**	**8,503**	**21,456**	**-**	**(105,913)**	**64,900**

The Group has extended Gasoductos de Morelos, SAPI de CV a loan of 22,202 thousand dollars (15,688 thousand euros at 31 December 2012), on which it accrued interest of 599 thousand euros in 2012; this interest was pending collection at year end.

No financial assets were non-performing at year-end 2012.

The financial assets carried in the accompanying financial statements at fair value break down as follows by fair value calculation methodology:

	Level 1	Level 2	Level 3	Total
Hedging derivatives	-	12,446	-	12,446
Total	**-**	**12,446**	**-**	**12,446**

Level 1 inputs: Quoted prices in active markets for identical assets.

Level 2 inputs: On the basis of quoted prices in active markets for similar financial assets or other valuation techniques using observable market data.

Level 3 inputs: On the basis of inputs other than observable market data.

7.2 Impairment losses

In 2012, there were no changes in provisions for impairment losses on the Group's financial assets.

7.3 Loans and receivables generated by the Group:

Current and non-current loans

The balance of these consolidated balance sheet headings by the nature of the transaction is detailed below:

	Thousands of euros
Non-current loans:	
Other loans	614
Current loans:	
Loans to group companies	3,010
Other loans	3,563
Balance at 31/12/2011	**7,187**
Non-current loans:	
Other loans	719
Loans to group companies	15,688
Current loans:	
Loans to group companies	2,227
Balance at 31/12/2012	**18,634**

Current and non-current loans include long-term loans granted by the parent company to finance the construction of transport infrastructure; they are measured at amortised cost using the effective interest method.

The breakdown is as follows:

Thousands of euros	**Interest rate**	**Maturity**	**31/12/2012**	**31/12/2011**
Non-current loans to group companies (Note 27)			**15,688**	-
Gasoductos de Morelos	7.50%	Sept. 2033	15,688	-
Current loans to group companies (Note 27)			**2,227**	**3,010**
Gasoducto Al-Andalus, S.A.	1.80%	Dec. 2013	1,329	2,976
Gascan	5.34%	Jun. 2013	299	-
Gasoducto de Morelos	7.50%	Sept. 2033	599	-
Grupo Enagás Altamira	2.33%	Dec. 2012	-	34
Total			**17,915**	**3,010**

8. Inventories

It should be noted that at 31 December 2012, the Enagás Group, as technical system manager, had approximately 860 GWh of gas reserves necessary to ensure operation of the gas system, as stipulated in additional provision five of Order ITC/3863/2007 of 28 December 2007. This gas is not recognised as inventory in the financial statements since it belongs to the entire gas system and is not the property of the Enagás Group.

The Group also has 13,829 thousand euros (2011: 13,785 thousand euros) of inventories unrelated to natural gas that include, inter alia, office materials and consumables.

9. Trade and other receivables and current tax assets

The breakdown of “Trade and other receivables” at the consolidated balance sheet date is as follows:

	31/12/2012	31/12/2011
Trade receivables	26,403	35,486
Receivable from group companies (Note 27)	2,152	1,837
Other receivables	520,951	423,995
Income tax receivable (Note 20.2)	57,967	83,706
Total	**607,473**	**545,024**

The 2,152 thousand euro “Receivable from Group companies” balance corresponds mainly to 730 thousand euros receivable from Gasoducto Al-Andalus, S.A. and 801 thousand euros receivable from Gasoducto de Extremadura, S.A. Both balances relate to gas transport services rendered to Galp Gas Natural, S.A. pending collection, which are consolidated using the proportionate method in accordance with the percentage interest of Enagás Transport, S.A. in these companies.

Under “Other receivables”, the Enagás Group includes the unsettled balance relating to remuneration for regulated regasification, transport, and storage activities in 2012 for 254,995 thousand euros, and the outstanding balance on the remuneration for technical system management of 1,784 thousand euros, leaving a total outstanding balance of 256,779 thousand euros at year-end 2012.

In 2012, the government awarded the final settlement amounts in respect of 2010, giving rise to an amount payable to the Enagás Group of 42,539 thousand euros corresponding to that year.

“Other receivables” also includes the uncollected amounts from gas suppliers for the freight tax regulated by article 24 of Law 48/2003. This tax is levied on natural gas shipments which agents unload at the regasification plants, including those of which the Enagás Group is titleholder at the ports of Barcelona, Cartagena, and Huelva. At 31 December 2012, these uncollected amounts totalled 8,524 thousand euros, all of which are subject to a lawsuit filed by certain suppliers. Specifically, 6,861 thousand euros were past due by more than one year at 31 December 2012.

Law 48/2003 modifies the duty on goods unloaded at ports under the concession regime. Title I of this law states that if the concessionaire makes the application within a period of six months, 100% of the duties related to unloading may be passed on to the agent that is titleholder of the merchandise even though payment to the port authority is still the responsibility of the taxpayer, in this case the Enagás Group, as concessionaire under the previous regime. Under the previous regime, only 50% of the duty could be passed on to the titleholder of the merchandise by the titleholder of the concession.

The problem with the suppliers arose from the fact that while Law 43/2003 came into effect on 27 February 2004, Title I of the law related to the pass-through of duties became applicable on 1 January 2004 in accordance with additional provision five of Law 48/2003. Enagás, S.A. submitted the application for the change of regime in July 2004, understanding that the six-month period started on 27 February 2004, when the law took effect. However, the suppliers with which the Group is in litigation understand that the application of Title I from 1 January implies that this period ended on 30 June 2004. Therefore, Enagás, S.A.'s application is past the deadline and therefore, for legal purposes, outside the allotted period.

As a result of this situation, the Enagás Group has filed administrative claims seeking legal jurisdiction for its actions covering the full uncollected amounts. It should be noted that the Enagás Group's claims have been expressly ratified by the Huelva Port Authority via a ruling issued on 3 May 2007, which, in line with the Port Authorities of Cartagena and Barcelona, considers without any reservation that Enagás' election to avail itself of the new economic tax regime established by Law 48/2003 was not outside the allotted period. In addition, all the rulings handed down by the regional economic and administrative courts have upheld the claims lodged by Enagás, S.A. in response to the suppliers' refusal to pay the total amounts invoiced for port duties on merchandise and for general services.

The Group's directors recognise the risk that the rest of the suppliers paying the full tax passed on by the Enagás Group will seek reimbursement of 50% if the court rules against it in the claims in process. The amount paid to the Enagás Group by suppliers with which there is no ongoing litigation at 31 December 2012 totalled 49,281 thousand euros, of which 50% (24,641 thousand euros) would be at risk.

The above notwithstanding, the Group's directors consider that based on the information available to date, the risk of not recovering these amounts is remote, so no provision for this concept has been recognised. However, they will continue to monitor the claims lodged in 2012.

"Income tax receivable" at 31 December 2012 basically includes VAT receivable by the Group, as accrued recoverable VAT is higher than VAT payable, partly because Enagás, S.A. acts as a tax warehouse. This heading also includes corporate income tax withholdings and payments on account settled by the Group, as well as income tax receivable (Note 20).

The directors consider that the carrying amount of trade and other receivables approximates their fair value.

Credit risk

The Group's main financial assets are cash and cash equivalents, trade and other receivables, and investments, which represent the Group's maximum exposure to credit risk in relation to financial assets. The balances include amounts which on the whole are within the stipulated maturity periods and are payable by companies of recognised prestige and solvency.

The Group does not have a significant concentration of credit risk as it operates in a regulated environment under planned scenarios. However, it recognises the impairment provisions deemed necessary to cover the risk of non-payment (Note 16).

10.- Cash and cash equivalents

The breakdown of “Cash and cash equivalents” at 31 December 2012 and 2011 is as follows:

	2012	2011
Cash	85,765	25,074
Cash equivalents	1,393,882	1,402,249
Total	**1,479,647**	**1,427,323**

As a general rule, bank balances accrue interest at a rate that is similar to the market rate for daily deposits. Current deposits mature within less than 12 months and earn interest at market rates for this kind of product. There are no significant restrictions on the availability of cash and bank balances.

11. Equity

11.1 Share capital

The share capital of the parent company, Enagás S.A., amounted to 358,101 thousand euros at both year ends and was represented by 238,734,260 shares, each with a par value of 1.5 euros and all of the same class. The parent company’s shares are fully paid up and trade on the Spanish stock exchange, including the electronic trading platform.

All the shares of the parent company, Enagás, S.A., are listed on the four Spanish stock exchanges and are traded on the electronic trading platform (the continuous market). On 31 December 2012, Enagás, S.A.’s share price closed at 16.14 euros, having marked a high for the year of 16.485 euros per share on 18 December.

No company held more than 5% of Enagás, S.A.’s share capital at either year-end 2012 or 2011.

The most significant shareholdings in Enagás, S.A. at 31 December 2012 are as follows:

Company	Shareholding, %
Oman Oil Company, S.A.O.C.	5.000
Sociedad Estatal de Participaciones Industriales	5.000
Bilbao Bizkaia Kutxa	5.000

Enagás, S.A.’s shareholder structure changed in 2012. Sagane Inversiones S.L and Liberbank, S.A (through its subsidiary Cantábrica de Inversiones de Cartera, S.L.) informed Spain’s securities market regulator (the CNMV for its acronym in Spanish) in September and October, respectively, that they had sold their respective 5% shareholdings in Enagás S.A. by means of accelerated placements among qualified Spanish and international institutional investors.

It should be noted that article 92 of Law 62/2003 on tax, administration and social order measures of 31 December 2003, which amends the Hydrocarbon Act (Law 34/1998), stipulates that “no individual or company may directly or indirectly hold more than 5% of Enagás, S.A.’s ordinary or voting shares”.

Law 12/2007, of 2 July, further limits the exercise of voting rights to 3%, in addition to the ownership cap of 5%. The law also stipulates that natural persons or legal entities that operate in the gas industry and those that, directly or indirectly, hold over 5% of the share capital of these companies may not exercise more than 1% of the voting rights in the Technical System Manager. These restrictions do not apply to direct or indirect shareholdings held by public-sector enterprises.

The Group has no treasury shares.

11.2 Reserves

Legal reserve

Under the Corporate Enterprises Act, 10% of profit for each year must be transferred to the legal reserve until the balance of this reserve reaches at least 20% of share capital.

The legal reserve can be used to increase capital provided that the remaining reserve balance does not fall below 10% of the increased share capital amount. Otherwise, until the legal reserve exceeds 20% of share capital, it can only be used to offset losses, provided that sufficient other reserves are not available for this purpose.

The Group's parent company has appropriated an amount of 71,620 thousand euros to the legal reserve, included under restricted reserves in the accompanying consolidated balance sheet.

11.3 Interim dividend

The distribution of net profit for 2012 that Enagás, S.A.'s Board of Directors will propose for approval at the Annual General Meeting is as follows:

	Thousands of euros
Dividends	21,529
Voluntary reserves	265,656
	287,185

At its meeting on 19 November 2012, the Board of Directors of Enagás, S.A. resolved to pay an interim dividend against 2012 profit of 102,178 thousand euros (0.428 euros per share, before tax). The parent company has prepared the necessary liquidity statement, expressed in thousands of euros, in accordance with article 277 of Spain's Corporate Enterprises Act.

In accordance with legal requirements, the provisional financial statements prepared by the Group's parent company, indicating the existence of sufficient resources to pay the interim dividend against 2012 profit, are set forth below:

Thousands of euros	
	Provisional financial statement at 31 October 2012
Profit	7,840
10% allocation to legal reserve	-
Interim dividend from group companies	280,004
Income available for distribution	**287,844**
Forecast interim dividend	**(102,178)**
Forecast cash at bank and in hand between 31 October and 31 December:	
- Cash at bank and in hand	1,500,882
- Collections forecast for the period	203,390
- Credit facilities and loans granted by financial institutions	50,000
- Payments forecast for the period (including the interim dividend)	(85,000)
Forecast cash at bank and in hand	**1,669,272**

The aforementioned interim dividend was paid on 20 December 2012.

The proposed before-tax final dividend (0.685 euros per share) is subject to shareholder approval and is not recognised as a liability in these financial statements.

11.4 Net unrealised gains (losses) reserve

The amounts recognised by the Group under this reserve heading at 31 December 2012 and 2011 break down as follows:

	31/12/2012	31/12/2011
Translation differences	3,585	-
Cash flow hedges	(13,679)	(5,781)
Total net unrealised gains (losses)	**(10,094)**	**(5,781)**

Hedge transactions

This heading refers to derivatives arranged by the Group and designated as cash-flow hedges (Note 17).

The movement in these headings in 2012 and 2011 were as follows:

2012

	Thousands of euros			
	01/01/2012	Change in fair value	Recognised in profit or loss	31/12/2012
Cash flow hedges	(8,244)	(23,945)	12,005	(19,177)
Taxes recognised in equity	2,463	7,644	(3,602)	6,505
Total	**(5,781)**	**(16,301)**	**8,403**	**(13,679)**

2011

	Thousands of euros			
	01/01/2011	Change in fair value	Recognised in profit or loss	31/12/2011
Cash flow hedges	(3,700)	(14,271)	9,727	(8,244)
Taxes recognised in equity	1,109	4,272	(2,918)	2,463
Total	**(2,591)**	**(9,999)**	**6,809**	**(5,781)**

12. Earnings per share

Basic earnings per share is calculated by dividing the profit for the year attributable to equity holders of the parent by the weighted average number of shares outstanding in the year, excluding the average number of treasury shares held in the year.

Accordingly:

	2012	2011	Change
Net profit for the year (thousands of euros)	379,508	364,643	4.1%
Weighted average number of shares outstanding (thousands of shares)	238,734	238,734	-
Basic earnings per share in euros	1.5897	1.5274	4.1%

Diluted earnings per share is calculated by dividing profit for the period attributable to equity holders of the parent (adjusted for the effect of dilutive potential ordinary shares) by the weighted average number of ordinary shares outstanding during the period adjusted for the weighted average number of ordinary shares that would be issued on the conversion of all the dilutive potential ordinary shares into ordinary shares of the company. As there are no potential ordinary shares at either year-end 2012 or 2011, basic and diluted earnings per share coincide.

13. Provisions and contingent liabilities

13.1 Provisions

The directors of the parent company of the Enagás Group consider that the provisions recorded in the accompanying consolidated balance sheet adequately cover the Group's exposure to the lawsuits, arbitration and other proceedings described in this note, and therefore do not expect these proceedings to give rise to additional liabilities. Given the nature of the risks covered by these provisions, it is not possible to make a reasonable estimate as to the timing of any payments which may arise.

The discounting of provisions is recognised with a charge to "Finance costs" in the accompanying consolidated income statement.

The changes in this consolidated balance sheet heading in 2012 were as follows:

Non-current provisions	01/01/2012	Additions	Discounting	Amounts applied	Reclasificaciones	31/12/2012
Employee benefits	-	668	-	-	-	668
Other liabilities	6,513	774	-	(125)		7,162
Abandonment costs	85,042	80,478	2,039	-	-	167,559
Total non-current provisions	**91,555**	**81,920**	**2,039**	**(125)**	**-**	**175,389**

Employee benefits

This heading corresponds primarily to a provision in the amount of 250 thousand euros in connection with redundancies carried out in December 2012 in order to cover the financial consequences of possible regulatory changes with respect to the age from which early-retirement programmes can be applied. Contractually, this possibility has materialised in 16 of the 29 employees made redundant.

Other liabilities

The most important cases giving rise to additions to provisions for other liabilities in 2012 relate to a lawsuit between Enagás S.A. and Acotel, S.A. over breach of contract (the related provision amounts to 450 thousand euros) and other less significant business claims between Enagás Transporte S.A. and Shell and Iberdrola.

Abandonment costs

The addition in 2012 corresponds primarily to the recognition of 78,787 thousand euros in connection with the ultimate dismantling of the Barcelona, Cartagena and Huelva plants. The effect of discounting the provision for dismantling the Yela, Gaviota and Serrablo underground storage facilities owned by Enagás Transporte S.A. and to dismantle the facilities owned by T.L.A. de Altamira CV and BBG have been included under the column headed "Discounting" (Note 3.c).

13.2 Contingencies

The Group had the following contingent liabilities at 31 December 2012:

- Administrative proceedings with the Chamber of Commerce of Madrid relating to claims on income tax for 2007 and 2008 and a legal dispute relating to claims on income tax for 2006.

- Contentious administrative proceedings with the Town Council of Godella, Valencia regarding the urban planning licence and construction work tax levied by this municipal authority.

- Court case relating to extra-contractual damages caused by the construction of gas pipelines.

14. Financial liabilities

The breakdown of current and non-current financial liabilities at year-end 2012 and 2011 was as follows:

Class / Category	Non-current financial liabilities							
	Bank borrowings and finance leases		Bonds and other marketable securities		Derivatives and other financial liabilities		Total	
	2012	2011	2012	2011	2012	2011	2012	2011
Financial liabilities at amortised cost	2,700,438	2,610,164	1,818,427	695,043	11,224	13,894	4,530,089	3,319,101
Derivatives	-	-	-	-	8,181	3,964	8,181	3,964
Total	**2,700,438**	**2,610,164**	**1,818,427**	**695,043**	**19,405**	**17,858**	**4,538,270**	**3,323,065**

Class / Category	Current financial liabilities							
	Bank borrowings and finance leases		Bonds and other marketable securities		Derivatives and other financial liabilities		Total	
	2012	2011	2012	2011	2012	2011	2012	2011
Financial liabilities at amortised cost	286,884	622,218	270,607	975,767	1,879	3,706	559,370	1,601,691
Derivatives	-	-	-	-	15,640	4,853	15,640	4,853
Total	**286,884**	**622,218**	**270,607**	**975,767**	**17,519**	**8,559**	**575,010**	**1,606,544**

Below is a breakdown, by maturity, of financial liabilities at amortised cost and derivatives:

2012

	2013	**2014**	**2015**	**2016**	**2017 and beyond**	**Total**
Bonds and other marketable securities	270,607	10,000	498,813	399,800	909,814	2,089,034
Bank borrowings	286,884	580,308	497,212	132,283	1,490,635	2,987,322
Derivatives	15,640	4,074	2,593	252	1,262	23,821
Other	1,879	6,307	1,091	1,091	2,735	13,103
Total	**575,010**	**600,689**	**999,709**	**533,426**	**2,404,446**	**5,113,280**

2011

	2012	2013	2014	2015	2016 and beyond	Total
Bonds and other marketable securities	975,767	-	-	498,813	196,230	1,670,810
Bank borrowings	622,218	464,628	455,321	122,211	1,568,004	3,232,382
Derivatives	4,853	3,358	606	-	-	8,817
Other	3,706	8,213	758	1,093	3,830	17,600
Total	**1,606,544**	**476,199**	**456,685**	**622,117**	**1,768,064**	**4,929,609**

The financial liabilities carried at fair value in the accompanying financial statements break down as follows by fair value calculation methodology:

	Level 1	Level 2	Level 3	Total
Hedge derivatives	-	23,821	-	23,821
Total	**-**	**23,821**	**-**	**23,821**

Level 1 inputs: Quoted prices in active markets for identical assets.

Level 2 inputs: On the basis of quoted prices in active markets for similar financial assets or other valuation techniques using observable market data.

Level 3 inputs: On the basis of inputs other than observable market data.

14.1 Non-current financial liabilities

At 31 December 2012, the Group had undrawn credit facilities amounting to 642 million euros, with a limit of 886 million euros (2011: 524 million euros, with a limit of 711 million euros). The Group is currently negotiating renewal of the main facilities maturing in 2013. Undrawn loans granted amount to 110 million euros (2011: 175 million euros).

Management believes that these amounts sufficiently cover potential short-term liquidity requirements based on commitments outstanding at the balance sheet date.

The average annual interest rate on Group loans and bonds was 2.122% in 2012, without considering hedges and transaction fees, and 2.466% factoring in hedges and fees (2.41% and 2.69%, respectively, in 2011).

The Group's current loans and credit facilities are denominated in euros and accrued interest at an average annual rate of 3.16% in 2012.

The directors estimate that the change in the fair value of bank borrowings at 31 December 2012, calculated by discounting future cash flows at market interest rates, amounts to 5,200 thousand euros (5,111 thousand euros in 2011). The interest rate curve used in this calculation takes into account the risks associated with the industry and the Enagás Group's creditworthiness. The sensitivity of the aforementioned fair value to fluctuations in interest rates is as follows:

	Thousands of euros	
	Change in interest rates	
	0.25%	**-0.25%**
Change in fair value of	49.3	(49.9)

Within the "Financial liabilities at amortised cost" category, "Derivatives and other financial liabilities" include 824 thousand euros corresponding to the adjustments envisaged in the income tax assessment for 1995 to 1998, discounted to 31 December 2012.

This heading also includes the loan from the General Energy Secretariat, which forms part of the aid envisaged in the National Energy Programme granted by the Ministry of Industry, Tourism and Trade within the framework of the National Plan for Scientific Research, and Technical Development and Innovation (2004-2007). This loan is associated with the "Project for the electricity generation system at the Almendralejo compression station" being carried out by Enagás Transporte, S.A. The total amount of the loan granted is 3,265 thousand euros, of which 168 thousand euros was repaid in 2010, 467 thousand euros was repaid in 2011 and 466 thousand euros in 2012; 1,698 thousand euros is classified as non-current and 466 thousand euros as current.

Also included is the loan from the General Industry Secretariat, which forms part of the aid envisaged in the aforementioned plan by the Ministry of Industry, Tourism and Trade. This loan is associated with the "Project for design and development of a high pressure gas meter calibration facility" being carried out by Enagás Transporte, S.A.U. The total initial loan granted was 1,100 thousand euros. The Group repaid 204 thousand euros in 2009, at the request of the General Industry Secretariat, in order to adjust the size of the loan to the amount actually invested. A further 57 thousand euros was repaid in 2011 and another 128 thousand euros in 2012; at 31 December 2012, 583 thousand euros was classified as non-current and 128 thousand euros as current.

This heading also includes another loan from the General Energy Secretariat as part of the aid envisaged in the aforementioned plan by the Ministry of Industry, Tourism and Trade. This loan is associated with the "Project for Huelva power generation plant" being carried out by Enagás Transporte, S.A.U. The total initial loan granted was 3,598 thousand euros. The Group repaid 108 thousand euros in 2009, at the request of the General Energy Secretariat, in order to adjust the size of the loan to the amount actually invested. In 2012, it repaid another 13 thousand euros in this same connection. The Group repaid 22 thousand euros in 2012; at 31 December 2012, 3,390 thousand euros was classified as non-current and 65 thousand euros as current.

Both loans are repayable in 10 years, with a three-year grace period and at a cost of 0.25%: the cost of the guarantees provided.

Lastly, derivatives and other financial liabilities classified as financial liabilities at amortised cost include the recognition by Enagás Transporte, S.A.U. in 2012 of 4,727 thousand euros corresponding to non-current payables to fixed asset suppliers.

Derivatives also include cash-flow hedges arranged by the Group for 2010-2015.

Financing highlights in 2012 include:

- Arrangement of 175 million euros of funding corresponding to Tranche E of the one billion euro loan granted by the EIB in the form of a risk-sharing facility
- Arrangement of a 150 million euro loan from Banco Sabadell, due 2015
- Rollover of a 100 million euro loan from Santander to 2014
- Arrangement of a 50 million euro credit facility granted by JP Morgan, due 2014
- Renewal and extension of a 225 million euro loan from Mediobanca, due 2015
- Renewal and extension of a 290 million euro credit facility granted by BBVA, due 2014
- Arrangement of a 75 million euro loan from Societé Generale, due 2014

In addition, Enagás Financiaciones, SAU arranged an EMTN programme for up to 2 billion euros which was listed on the Luxembourg stock exchange on 8 May 2012. In 2012, Enagas Financiaciones concluded the following issues under this shelf programme:

- A 500 million euro, 4.25% five-year bond issue on 5 October 2012 and a 250 million euro tap issue on 22 October 2012, joint and severally secured by Enagas, S.A. and Enagas Transporte, SAU. The proceeds from these two issues will be used to fund Enagas Transporte's regulated business activities by means of intragroup loans to this subsidiary.

- Two two- and four-year private placements on 31 October and 3 December 2012 of 10 million euros and 400 million euros, respectively, secured by Enagas, S.A. The proceeds from these two issues were used to fund Enagas S.A.'s ordinary business activities by means of intragroup loans.

- On 21 December 2012, Enagás Financiaciones, SAU completed a 10 million euro eight-year private placement, secured by Enagas, S.A., the proceeds from which are due for settlement on 15 January 2013. The proceeds from this issue will be used to fund Enagas S.A.'s ordinary business activities by means of intragroup loans.

In addition, in May 2012, Enagás renewed a Euro Commercial Paper (ECP) programme for up to one billion euros which was listed on the Irish Stock Exchange in 2011. Banesto is the programme arranger and will act as dealer along with another nine designated dealer banks. At 31 December 2012, the Group had drawn down 246 million euros under the programme.

14.2 Current financial liabilities

Financing highlights in 2012 include:

- Renewal of a 50 million euro credit facility granted by Banesto, due 2013

- Renewal of credit facilities of 6 million euros and 25 million euros, both due 2013, granted by Banco Sabadell and Kutxabank, respectively

- Arrangement of two credit facilities, both due 2013, for an aggregate 40 million euros, granted by Caixabank

- Renewal of a 100 million euro credit facility granted by Banco Santander, due 2013

Derivatives and other financial liabilities classified as "Financial liabilities at amortised cost" include:

- Interest on borrowings from related-party banks in the amount of 78 thousand euros in 2012 (2011: 227 thousand euros)

- Current borrowings from the General Energy and Industry Secretariats for a combined 660 thousand euros (617 thousand euros at year-end 2011) (Note 14.1)

- The current balance on the loan taken on by Gasoducto Al-Andalus, S.A. from Galp Gas Natural, S.A., amounting to 1,483 thousand euros (3,115 thousand euros in 2011)

- Other items pending application in the amount of (342) thousand euros ((253) thousand euros at year-end 2011)

15. Other non-current liabilities

The changes in this consolidated balance sheet heading in 2012 and 2011:

Thousands of euros	Gasoducto de Extremadura, S.A. royalty	Gasoducto Al-Andalus, S.A. royalty	Connections to the basic network	Total
Balance at 1 January 2011	**9,502**	**21,554**	**48,034**	**79,090**
Additions	-	-	2,501	2,501
Decreases/recognition in profit or loss	(950)	(2,155)	(2,497)	(5,602)
Balance at 31 December 2011	**8,552**	**19,399**	**48,038**	**75,989**
Additions	-	-	3,457	3,457
Decreases/recognition in profit or loss	(950)	(2,156)	(1,800)	(4,906)
Balance at 31 December 2012	**7,602**	**17,243**	**49,695**	**74,540**

Amounts related to the royalties payable by group subsidiaries Gasoducto de Extremadura, S.A. and Gasoducto Al-Andalus, S.A. correspond to balances pending application in respect of "gas transport rights" contracts signed with these subsidiaries. These balances are consolidated proportionally in accordance with the percentage shareholding of Enagás Transporte, S.A.U. in these companies.

Enagás Transporte, S.A.U. recognises and records this revenue on a straight-line basis as accrued until 2020, which is when the transport contract expires (Note 3-n).

The accrual of revenue from connections to the basic grid was recognised in 2006.

16 Risk and capital management policy

16.1 Qualitative information

The Enagás Group is exposed to certain risks, which it manages via risk identification, measurement, limits and oversight systems.

The basic principles defined by the Enagás Group in establishing the policy for managing its most significant risks are as follows:

- Compliance with corporate governance rules
- Strict compliance with the Group's in-house rules
- Each business and corporate area defines:
  - a) Its trading markets and products as a function of its know-how and ability to ensure effective risk management
  - b) Criteria for counterparties
  - c) Authorised brokers
- The businesses and corporate areas establish for each market in which they operate their risk threshold in accordance with the strategy defined
- The limits are approved by the respective risk committees, or in their absence, by the Enagás Risk Committee
- All the transactions of the various businesses and corporate areas are carried out within the approved limits for each case
- The businesses, corporate areas, business lines and companies establish the necessary risk management controls to ensure that market transactions are carried out in accordance with the Group's policies, rules and procedures

The main financial risks to which the Group is exposed are as follows:

Credit risk

The Group has no significant credit risk as the average customer collection period is very short and cash is placed or derivatives written with highly solvent entities.

Interest rate risk

Interest rate fluctuations affect the fair value of assets and liabilities carrying fixed interest rates, and the future flows from assets and liabilities linked to floating interest rates.

The objective of interest rate risk management is to achieve a balanced debt structure that minimises the cost of debt over the long term and mitigates volatility in the consolidated income statement.

In line with its estimates and debt structure targets, the Enagás Group writes derivatives to hedge its risks.

Liquidity risk

The Group's liquidity policy consists of taking out credit facilities and short-term investments to cover requirements for a period consistent with debt and capital market conditions and expectations.

16.2 Quantitative information

a) Interest-rate exposure

	2012	**2011**
Percentage of borrowings benchmarked to fixed/hedged rates	82%	71%

Based on the above levels of fixed-rate borrowings and after carrying out an analysis of the Group's sensitivity to a one percentage point variation in market interest rates, the Group estimates that the impact on its income statement of such a variation in the cost of servicing its floating-rate debt would be approximately:

	Millions of euros	
	Change in interest rates	
	1.00%	**-1.00%**
Change in finance cost	6.55	(6.55)

In addition, and again in relation to its floating-rate debt, management estimates that the impact on equity, as a result of derivatives arranged, of a similar change in market rates would not be significant in 2013.

16.3 Capital management

The Group, which operates in a capital- and investment-intensive business within a regulated market, has a capital management focus at the corporate level aimed at achieving a financial structure that optimises cost in order to maintain strong financial health. To this end, despite not having to rely on external borrowing, it continuously seeks access to financial markets at the most competitive cost possible to finance its investment plan without requiring changes to the Group's dividend policy.

Capital management did not change in 2012 with respect to 2011. Overall, the Group's capital structure consists of equity attributable to the equity holders of the parent (capital, share premium, retained earnings and others), borrowings, cash, and other liquid assets. In this regard, the Group provides quantitative disclosures in Notes 14 to 16 about the financial liabilities which make up its capital structure, together with its policies for managing the related risks. These notes describe the financial position in detail and describe the strength of this position, which the capital management policy mentioned in the first paragraph of this section aims to ensure. Moreover, these notes are rounded out by indicating the leading credit ratings agencies' ratings (Note 31). The Group monitors these ratings for decision-making purposes.

17. Derivative financial instruments

The Enagás Group uses derivatives to hedge its exposure to business, operating and cash flow risks. Specifically, Enagás Transporte S.A.U. arranged certain interest rate swaps on market conditions in the course of 2012 (amounts in thousands of euros):

Instrument	Date arranged	Notional amount	Type	Start date	Maturity
Interest rate swap	March 2012	200,000	Floating to fixed	June 2012	June 2015
Interest rate swap	May 2012	250,000	Floating to fixed	November 2012	August 2013
Total		**450,000**			

The Group has fulfilled the requirements set forth in Note 3.h regarding the measurement bases for classifying financial instruments as hedges. Specifically, they have been formally designated as such, and they have been tested for effectiveness.

The notional and/or contractual amount of the contracts entered into does not represent the real risk assumed by the Enagás Group, as the net position is derived by offsetting and/or grouping these financial instruments.

The fair value of these hedges at 31 December 2012 and 2011 is as follows:

2012

						Fair value (thousands of euros)	
Instrument	**Classification**	**Type**	**Notional amount (thousands of euros)**	**Currency**	**Maturity**	**Assets**	**Liabilities**
Interest rate swap	Cash flow hedge	Floating to fixed	200,000	Euros	June 2015	-	4,294
Cross currency swap	Fair value hedge	Fixed to floating	147,514	Euros	September 2039	12,446	-
Interest rate swap	Cash flow hedge	Floating to fixed	250,000	Euros	August 2013	-	755
Interest rate swap	Cash flow hedge	Floating to fixed	250,000	Euros	August 2013	-	2,350
Interest rate swap	Cash flow hedge	Floating to fixed	130,000	Euros	November 2014	-	3,875
Interest rate swap	Cash flow hedge	Floating to fixed	190,000	Euros	April 2014	-	3,492
Interest rate swap	Cash flow hedge	Floating to fixed	200,000	Euros	January 2014	-	3,822
Interest rate swap	Cash flow hedge	Floating to fixed	150,000	Euros	December 2014	-	3,215
Interest rate swap	Cash flow hedge	Floating to fixed	79,360	Dollars	September 2017	-	202
Interest rate swap	Cash flow hedge	Floating to fixed	133,240	Dollars	September 2021	-	1,816
Total						**12,446**	**23,821**

2011

Instrument	Classification	Type	Notional amount (thousands of euros)	Currency	Maturity	Fair value (thousands of euros) Assets	Liabilities
Interest rate swap	Cash flow hedge	Floating to fixed	250,000	Euros	November 2012	-	1,952
Cross currency swap	Fair value hedge	Fixed to floating	147,514	Euros	September 2039	51,985	-
Interest rate swap	Cash flow hedge	Floating to fixed	250,000	Euros	August 2013	36	1,299
Interest rate swap	Cash flow hedge	Floating to fixed	150,000	Euros	November 2014	-	1,548
Interest rate swap	Cash flow hedge	Floating to fixed	200,000	Euros	April 2014	-	1,411
Interest rate swap	Cash flow hedge	Floating to fixed	200,000	Euros	January 2014	-	2,336
Interest rate swap	Cash flow hedge	Floating to fixed	150,000	Euros	December 2014	86	175
Total						**52,107**	**8,721**

In 2012, the Group recognised a loss of 12,005 thousand euros in the consolidated income statement in connection with restating its interest rate swaps at fair value.

In respect of cash-flow hedges, the table below provides the schedule of years in which the cash flows hedged will occur:

Notional amount (thousands)	Currency	Maturity	Total (thousands of euros)	2013	2014	2015 and beyond
200,000	Euros	June 2015	4,294	1,952	1,713	629
250,000	Euros	August 2013	755	755	-	-
250,000	Euros	August 2013	2,350	2,350	-	-
130,000	Euros	November 2014	3,875	2,110	1,765	-
190,000	Euros	April 2014	3,492	2,399	1,093	-
200,000	Euros	January 2014	3,822	3,822	-	-
150,000	Euros	December 2014	3,215	1,692	1,523	-
79,360	Dollars	September 2017	202	36	72	94
133,240	Dollars	September 2021	1,816	524	469	823
Total			**23,821**	**15,640**	**6,635**	**1,546**

In respect of fair-value hedges, the breakdown of the losses and gains on the hedging instrument and hedged item is as follows (amounts in thousands of euros):

Loss	Gain	Net
39,467	39,467	-

18. Trade and other payables

The breakdown of "Trade and other payables" is as follows:

	31/12/2012	31/12/2011
Payable to group companies	1,053	851
Other trade payables	243,869	341,121
Other payables	5,334	4,741
Current tax liabilities (Note 20.2)	43,164	19,739
Total	**293,420**	**366,452**

"Payable to Group companies" relate to the payables, consolidated proportionately, for the gas transport services the subsidiaries provide to Enagás Transporte, S.A.U.

"Other trade payables" corresponds to amounts owed for the purchase of materials from and services rendered by the various group companies, which are registered primarily in "Other operating costs" and "Non-current assets".

As a result of the passing of Law 15/2010, laying down measures to combat late payment in commercial transactions, the Enagás Group amended contract conditions in relation to payment terms within their business operations to bring them into line with the new law.

The disclosures required under additional provision three of Spanish Law 15/2010 are as follows:

	Payments made and payments outstanding at year end	
	2012	
	Amount	%
Paid within the legal term	395,118	52%
Other	369,598	48%
Total payments for the year	**764,716**	**100%**
Weighted average term by which payments were deferred over the legal period estipulated (days)	12.02	
Late payments which at year end were outstanding by more than the legal limit	7,570	

The figures shown in the table above regarding supplier payments refer to payments of a commercial nature owed to suppliers of goods and services so that they include data relating to the items comprising "Trade and other payables" within current liabilities on the consolidated balance sheet.

The weighted average term by which payments are overdue was calculated by dividing the sum of the products of each of the payments made to suppliers during the year later than the stipulated legal term and the number of days by which this term was surpassed (numerator) and the total amount of payments made during the year later than the stipulated legal term (denominator).

With respect to the heading labelled "Payments outstanding by more than the legally-stipulated term at year end", totalling 7,570 thousand euros (14,376 thousand euros at year-end 2011), note that a sum of 1,034 thousand euros (3,689 thousand euros at year-end 2011) is due to payments blocked by the Group on the basis that the related supplier had failed to meet one or more of their contractual obligations or relating to performance withholdings not due or sums withheld for legal purposes.

The maximum payment term applicable to the Enagás Group companies in 2012 under Spanish Law 3/2004, of 29 December 2004, establishing measures to combat late payments in business transactions, is approximately 60 days. To calculate the sums past due by more than this term, management included all invoices outstanding as per the underlying contractual terms, including those contracts establishing shorter payments terms than the legally-stipulated maximum.

19. Defined contribution plans

The Group operates defined contribution pension plans covering the commitments acquired with respect to qualifying serving employees. The plan assets are held separately from those of the Group in funds under the control of trustees. Where employees leave the plans prior to full vesting of the contributions, the contributions payable by the Group are reduced by the amount of the forfeited contributions.

The contributions made by the Group to the pension plan in this connection amounted to 2,355 thousand euros in 2012 (2,220 thousand euros in 2011), recognised under "Employee benefits expense" in the accompanying consolidated income statement.

20. Taxation

20.1 Tax return

The parent company, Enagás, S.A., and the group companies domiciled in Spain for tax purposes all file individual tax returns.

20.2 Tax receivable and payable

Balances receivable from and payable to public authorities at year-end 2012 and 2011 were as follows:

	Thousands of euros	
	2012	2011
Tax receivable:		
Value added tax	37,393	23,457
Income tax	20,574	60,249
Total	**57,967**	**83,706**
Taxes payable:		
Income tax	16,862	3,863
Value added tax	-	-
Other	26,302	15,876
Total	**43,164**	**19,739**

In 2012, current tax came out as a recoverable balance, which is why the Group had not recognised any payable to the tax authorities in this connection for that year (Notes 20.3 and 20.7).

At year-end 2012, the group taxpayers had paid 110,940 thousand euros (2011: 33,879 thousand euros) on account of the ultimate corporate income tax bill.

The balance receivable from the tax authorities relates mainly to VAT receivable, as well as income tax receivable in 2011.

20.3 Reconciliation of profit before tax and taxable income

The reconciliation of profit before tax and taxable income is as follows:

2012

	Thousands of euros		
	Increases	Decreases	Total
Accounting profit, before tax	**542,731**		**542,731**
Permanent differences:	-	-	-
Exemption for international double taxation	-	-	-
Other items (foreign fines and taxes)	334	-	334
Donations	804	-	804
Temporary differences:	-	-	
Arising in the current year:	-	-	
Accelerated depreciation R.D.L. 3/1993	-	-	-
Accelerated depreciation regimes, Law 4/2008 and 13/2010	-	(159,034)	(159,034)
Government grants	-	-	-
Long-service fund	4,420	-	4,420
Provisions for property, plant and equipment	-	-	-
Provisions for litigation	12,600	-	12,600
Provisions for contingencies and expenses	-	-	-
Other	-	-	-
Arising in prior years:	-	-	
Accelerated depreciation R.D.L. 3/1993	-	-	-
Accelerated depreciation regimes, Law 4/2008 and 13/2010	49,466	-	49,466
Government grants	-	-	-
Long-service fund	-	-	-
Provisions for property, plant and equipment	-	-	-
Provisions for litigation	-	-	-
Provisions for contingencies and expenses	23	(5,050)	(5,027)
Other	-	-	-
Offset of tax loss carryforwards	-	-	-
Taxable income (tax loss)	**610,378**	**(164,084)**	**446,294**

2011

	Thousands of euros		
	Increases	Decreases	Total
Accounting profit, before tax	**520,329**		**520,329**
Permanent differences:			
Exemption for international double taxation	-	-	-
Other items (foreign fines and taxes)	1,030	-	1,030
Donations	1,795	-	1,795
Temporary differences:			
Arising in the current year:			
Accelerated depreciation R.D.L. 3/1993	-	-	-
Accelerated depreciation regimes, Law 4/2008 and 13/2010	-	(462,103)	(462,103)
Government grants	-	-	-
Long-service fund	1,344	-	1,344
Provisions for property, plant and equipment	-	-	-
Provisions for litigation	3,166	-	3,166
Provisions for contingencies and expenses	-	-	-
Other	4,890	-	4,890
Arising in prior years:			
Accelerated depreciation R.D.L. 3/1993	-	-	-
Accelerated depreciation regimes, Law 4/2008 and 13/2010	31,594	-	31,594
Government grants	-	(359)	(359)
Long-service fund	-	-	-
Provisions for property, plant and equipment	-	(696)	(696)
Provisions for litigation	-	-	-
Provisions for contingencies and expenses	-	(5,250)	(5,250)
Other	23	-	23
Offset of tax loss carryforwards	-	-	-
Taxable income (tax loss)	**564,171**	**(468,408)**	**95,763**

20.4 Income tax recognised in equity

Aside from the income tax charge recognised in the consolidated income statements, in 2012 and 2011 the Group recognised the following amounts for the following items in consolidated equity.

2012

	Thousands of euros		
	Increases	Decreases	Total
Current tax:			
Total current tax	**-**	**-**	**-**
Deferred tax:			
Arising in the current year:			
Available-for-sale financial assets	-	-	-
Measurement of other financial assets	20,061	(17,026)	3,035
Discounting of taxes payable	-	-	-
Arising in prior years:			
Available-for-sale financial assets	-	-	-
Measurement of other financial assets			
Discounting of taxes payable	-	-	-
Total deferred tax	**20,061**	**(17,026)**	**3,035**
Total tax recognised directly in equity	**20,061**	**(17,026)**	**3,035**

2011

	Thousands of euros		
	Increases	Decreases	Total
Current tax:			
Total current tax	**-**	**-**	**-**
Deferred tax:			
Arising in the current year:			
Available-for-sale financial assets	-	-	-
Measurement of other financial assets	34,729	(33,375)	1,354
Discounting of taxes payable	-	-	-
Arising in prior years:			
Available-for-sale financial assets	-	-	-
Measurement of other financial assets	-	-	-
Discounting of taxes payable	-	-	-
Total deferred tax	**34,729**	**(33,375)**	**1,354**
Total tax recognised directly in equity	**34,729**	**(33,375)**	**1,354**

20.5 Reconciliation between profit before tax and income tax expense

The reconciliation of profit before tax and income tax expense is as follows:

	2012	2011
Accounting profit, before tax	**542,731**	**520,329**
Tax rate of 30%	162,819	156,099
Impact of permanent differences	**341**	**848**
Deductions:		
International double taxation relief	(87,092)	(3,109)
Investment in R&D and other	(1,584)	(1,392)
Employee training expense	(4)	(19)
Pension fund contributions	-	-
Donations	(250)	(628)
Total deductions	**(88,930)**	**(5,148)**
Effect of applying different tax rates	**369**	**1,026**
Tax effect of consolidation eliminations against equity	**88,643**	**3,039**
Adjustments to income tax	**(19)**	**(178)**
Total tax expense recognised in the income statement	**163,223**	**155,686**

20.6 Breakdown of income tax expense

The breakdown of “Income tax expense” for 2012 and 2012 is as follows:

2012

	Enagás, S.A.	Enagás Transporte S.A.	Enagás GTS S.A.	Enagás Internacional	Enagás Financiaciones S.A.	G.Al-Andalus, S.A.	G. de Extremadura, S.A.	Bahía de Bizkaia Gas, S.L.	Enagás Altamira, S.L.	Altamira Group	Total
Current tax:											
Continuing operations	10,564	(135,356)	1,400	62	32	(1,908)	(3,130)	(1,054)	(235)	(4,345)	**(133,970)**
Discontinued operations	-	-	-	-	-	-	-	-	-	-	**-**
Deferred tax:											
Continuing operations	(10,542)	(18,901)	171	-	-	-	-	-	-	-	**(29,272)**
Discontinued operations	-	-	-	-	-	-	-	-	-	-	**-**
Adjustments to income tax:											
Continuing operations	19	-	-	-	-	-	-	-	-	-	**19**
Discontinued operations	-	-	-	-	-	-	-	-	-	-	**-**
Total tax expense	**41**	**(154,257)**	**1,571**	**62**	**32**	**(1,908)**	**(3,130)**	**(1,054)**	**(235)**	**(4,345)**	**(163,223)**

2011

	Enagás, S.A.	G.Al-Andalus, S.A.	G. de Extremadura, S.A.	Bahía de Bizkaia Gas, S.L.	Enagás Altamira Group	Total
Current tax:						
Continuing operations	(19,254)	(2,954)	(1,999)	(1,091)	(2,323)	**(27,621)**
Discontinued operations	-	-	-	-	-	**-**
Deferred tax:						
Continuing operations	(128,242)	-	-	-	-	**(128,242)**
Discontinued operations	-	-	-	-	-	**-**
Adjustments to income tax:						
Continuing operations	177	-	-	-	-	**177**
Discontinued operations	-	-	-	-	-	**-**
Total tax expense	**(147,319)**	**(2,954)**	**(1,999)**	**(1,091)**	**(2,323)**	**(155,686)**

20.7 Deferred tax

The breakdown of deferred tax assets and liabilities at year-end 2012 and 2011 is as follows:

	2012	2011
Temporary differences (deferred tax assets):		
Government and other grants	1,698	688
Long-service fund	4,883	3,742
Provisions for property, plant and equipment	4,467	2,131
Provisions for litigation	2,239	2,001
Derivatives	9,979	3,325
Other	4,923	3,922
Tax loss carryforwards	**744**	**-**
Unused tax credits and other	**13,030**	**13,596**
Total deferred tax assets	**41,963**	**29,405**

	2012	2011
Deferred tax liabilities:		
Accelerated depreciation	427	427
Free depreciation	403,717	370,847
Derivatives	4,476	889
Other	13,394	14,632
Total deferred tax liabilities	**422,014**	**386,795**

These deferred tax assets were recognised in the consolidated balance sheet since the Group parent's directors consider that, based on the best estimates of future results, including certain tax planning measures, it is likely that these assets will be utilised.

Within deferred tax assets included under "Unused tax credits and other" in the table above are the credits recognised by Bahía de Bizkaia Gas, S.L. for investment in new fixed assets.

The Group does not have any unrecognised deferred tax assets.

In 2009 and 2010, Enagás, S.A. availed of the free depreciation tax incentive tied to headcount maintenance, enacted under Law 4/2008 of 23 December 2008. This measure allows unrestricted accelerated depreciation of certain assets put in use by the taxpayer in 2009 and 2010 providing the availing entity's average headcount remains stable during the 24-month period following the start of the tax period in which the assets acquired are started up, in relation to the average workforce during the preceding 12-month period.

Similarly, in 2012 and 2011, the Enagás Group availed of the unrestricted accelerated depreciation tax incentive provided for in Royal Decree Law 13/2010 of 3 December 2010, extending the accelerated depreciation regime for new investments in fixed assets attached to core business activities and waiving the employment maintenance obligation.

Legislative Royal Decree 12/2012, of 30 March 2012, introduced certain amendments to the abovementioned tax breaks. The Enagás Group has factored these amendments into its calculations of the tax credit deriving from accelerated depreciation charges recognised in 2012.

As a result of the above, in 2012 the Enagás Group recognised a deferred tax liability in the amount of 32,870 thousand euros (equivalent to an asset base of 109,567 thousand euros) (2011: 138,631 thousand euros equivalent to an asset base of 462,103 thousand euros).

20.8 Years open to inspection and tax audits

In accordance with current legislation, tax returns cannot be considered definitive until they have been inspected by the tax authorities or the inspection period of four years has prescribed.

As of 2012, the Enagás Group has open to inspection all applicable tax returns in respect of 2008 to 2012 with the exception of reviews of the import VAT and the common external tariff, for which the returns for 2010, 2011 and 2012 are open to inspection.

The Group parent's directors consider that all applicable taxes have been duly paid so that even in the event of discrepancies in the interpretation of prevailing tax legislation with respect to the treatment applied, the resulting potential tax liabilities, if any, would not have a material impact on the accompanying consolidated financial statements.

21. Revenue

The breakdown of group revenue is analysed below:

Thousands of euros	2012	2011
Revenue	**1,180,059**	**1,118,443**
Revenue from regulated activities	1,140,355	1,096,280
Revenue from liberalised activities	39,704	22,163
Other income	**18,349**	**18,590**
Sales of materials	-	-
Ancillary and other operating income	18,273	18,483
Government grants	76	107
Total	**1,198,408**	**1,137,033**

Revenue from the rendering of services is generated mainly by Enagás Transporte, S.A.U. for regulated activities and by other companies for deregulated activities. The breakdown of services rendered is as follows:

Thousands of euros	2012	2011
Regulated activities:		
Enagás, S.A.	-	1,074,082
Enagás Transporte, S.A.U.	1,106,819	-
Enagás GTS, S.A.U.	11,789	-
Bahía de Bizkaia Gas, S.A.	21,747	22,198
Deregulated activities:		
Enagás, S.A.	617	-
Gasoducto Al-Andalus, S.A.	7,508	7,508
Gasoducto de Extremadura, S.A.	5,845	5,845
Enagás-Altamira, S.L.	209	-
Grupo Altamira C.V.	25,525	8,810
Total	**1,180,059**	**1,118,443**

As indicated in Note 2.4, the Group unbundled the regulated activities formerly conducted by Enagás S.A. in the course of 2012; as a result of the attendant group restructuring and hive-down, these activities were carried out by group companies Enagás Transporte S.A.U. and Enagás GTS, S.A.U. in 2012.

22. Expenses

An analysis of group expenses is provided below:

	Thousands of euros	
	2012	2011
Employee benefits expense	78,987	66,958
Other operating costs	185,114	202,281
Total	**264,101**	**269,239**

22.1 Employee benefits expense

The detail of employee benefits expense is as follows:

	Thousands of euros	
	2012	2011
Wages and salaries	65,157	59,608
Termination benefits	3,166	1,253
Social security	14,098	12,762
Other employee benefits expense	9,391	6,752
Contributions to external pension funds	2,355	2,220
Own work capitalised	(15,180)	(15,637)
Total	**78,987**	**66,958**

At 31 December 2012, the Group had capitalised 15,180 thousand euros for employee benefits expense directly related to ongoing investment projects (15,637 thousand euros at 31 December 2011) (Note 6).

In 2012, the Group restructured its workforce, which resulted in 29 early retirements by employees 62 years of age or older.

The average number of group employees, by category, is as follows:

Category	2012	2011
Managers	68	63
Technicians	568	517
Administrative staff	134	126
Manual workers	424	360
Total	**1,194**	**1,066**

At 31 December 2012, the Group had 1,178 employees (1,126 in 2011). The breakdown by category and gender is as follows:

	2012		2011	
Category	Men	Women	Men	Women
Managers	57	11	55	9
Technicians	417	142	404	135
Administrative staff	33	98	34	95
Manual workers	408	12	380	14
Total	**915**	**263**	**873**	**253**

The average number employees at group companies that had a disability of a severity of 33% or higher in 2012 and 2011 is as follows:

Category	2012	2011
Managers	-	1
Technicians	9	7
Administrative staff	-	-
Manual workers	8	6
Total	**17**	**14**

22.2 Other operating costs

Details of this heading are as follows:

	Thousands of euros	
	2012	**2011**
External services:		
R&D costs	1,641	1,797
Leases and royalties	43,811	38,487
Repairs and maintenance	35,393	33,309
Professional services	18,688	21,535
Transport	10,291	3,770
Insurance premiums	4,203	3,992
Banking and similar services	131	7
Advertising, publicity and PR	2,966	3,955
Supplies	25,118	22,558
Other services	18,301	58,937
External services	**160,543**	**188,347**
Taxes other than income tax	**15,050**	**6,884**
Other external expenses	**9,235**	**9,244**
Change in trade provisions	**286**	**(2,194)**
Total other operating costs	**185,114**	**202,281**

22.3 Other disclosures

"Other operating costs" includes the fees paid by consolidated entities for the audit of their annual financial statements and for other audit and non-audit work. In 2012, these expenses amounted to 1,572 thousand euros (1,783 thousand euros in 2011), as follows:

Category	2012		2011	
	Services provided by the auditor and its related parties	Services provided by other group auditors	Services provided by the auditor and its related parties	Services provided by other group auditors
Audit services (1)	313	71	226	10
Other assurance services (2)	980	-	1,064	-
Total audit and audit-related services	**1,293**	**71**	**1,290**	**10**
Other services	208	-	483	-
Total professional services	**208**	**-**	**483**	**-**

(1) Audit services: This heading includes the services provided to complete the statutory audit of the Group's financial statements in the amount of 272 thousand euros (202 thousand euros in 2011), which encompassed limited reviews of the interim and quarterly consolidated financial statements.

(2) Other assurance services related to the audit: Virtually all of this amount corresponds to the work required to review the effectiveness of the internal control over financial reporting systems and other review work performed in connection with the information to be disclosed to the regulatory bodies, mainly the CNMV (securities markets regulator) and the CNE (energy watchdog) as well as reviews of acquisitions completed by the Enagás Group in 2012, including preparation of the required documentation.

23. Net finance cost

Details of finance revenue and finance cost recognised in the accompanying consolidated income statement is as follows:

	2012	**2011**
Finance revenue from group companies and associates	703	(129)
Finance revenue from third parties	37,267	34,103
Finance revenue	**37,970**	**33,974**
Finance and similar expense	(7,137)	(1,478)
Interest expense	(101,822)	(97,365)
Discounting of provisions	(2,039)	(416)
Finance costs	**(110,998)**	**(99,259)**
Exchange differences	**(3,657)**	**(333)**
Net finance cost	**(76,685)**	**(65,618)**

The Group had capitalised borrowing costs of 20,959 thousand euros at 31 December 2012 (26,092 thousand euros at 31 December 2011) (Note 6).

24. Business and geographical segments

24.1 Segmentation criteria

Segment information is organised according to the Group's various business units (primary reporting segment). The Group identifies its operating segments based on internal reports on the Group's performance which are regularly reviewed, debated and evaluated in the decision-making process.

24.2 Segments by geographical areas

The breakdown of 2012 and 2011 revenue by geographical area is provided in the table below:

Revenue	2012	2011
Europe	1,154,534	1,109,632
South America	25,525	8,811
Total	**1,180,059**	**1,118,443**

24.3 Main business segments

The business areas described below have been established on the basis of the classification included in the Hydrocarbons Act (Law 34/1998 of 7 October 1998) and in accordance with the organisational structure of the Enagás Group, which takes into account the nature of the services and products offered.

a) Infrastructure activity (including gas transport, regasification, and storage):

- **Gas transport**: Core activity which consists of the movement of gas through the Group's transport network, composed of gas pipelines for the primary (with maximum design pressure equal to or higher than 60 bars) and secondary (with maximum design pressure of between 60 and 16 bars) transport of gas to distribution points, as owner of most of the Spanish gas transport network.

- **Regasification:** The gas is transported from producer countries in methane tankers at 160ºC below zero in liquid form (LNG) and is unloaded at the regasification plants, where it is stored in cryptogenic tanks. At these facilities, the temperature of the LNG is raised through a physical process, generally using saltwater vaporisers, transforming it into gas. The natural gas is then injected into gas pipelines and transported throughout the Spanish mainland.

- **Storage:** The Enagás Group operates two underground storage facilities: (i) Serrablo, located between the towns of Jaca and Sabiñánigo (Huesca) and (ii) Gaviota (an off-shore facility) located close to Bermeo (Vizcaya).

b) Technical system management

In 2012, the Enagás Group, as technical system manager, continued to carry out the tasks entrusted to it under Royal Decree Laws 6/2000 of 23 June 2000 and 949/2001 of 3 August 2001, aimed at guaranteeing the continuity and security of gas supply, and the correct coordination of access, storage, transport and distribution points.

c) Deregulated activities

These refer to all deregulated activities and the transactions related to the Group's international investees.

24.4 Bases and methodology for segment reporting

The segment information provided below is based on monthly reports prepared by the corporate Finance Department and generated via a computer programme which breaks down the financial statements by activity.

The structure of this information is designed as if each business line were an independent business, with its own resources, distributed on the basis of the assets assigned to each line in accordance with an internal system of cost allocation by percentages.

Segments disclosure for these activities is provided below:

	Thousands of euros									
	Infrastructure		Technical system operation		Deregulated activities		Adjustments		**Total Group**	
INCOME STATEMENT	2012	2011	2012	2011	2012	2011	2012	2011	**2012**	**2011**
Revenue	1,088,690	1,068,484	4,429	11,455	172,891	57,142	(67,601)	(48)	**1,198,409**	**1,137,033**
Depreciation and amortisation	(292,585)	(281,711)	(2,494)	(4,791)	(20,795)	(13,096)	-	-	**(315,874)**	**(299,598)**
Operating profit (loss)	615,028	550,861	(5,280)	(7,290)	9,560	42,424	(861)	(48)	**618,447**	**585,947**
Finance revenue	3,826	22,495	648	-	37,154	11,479	(3,658)	-	**37,970**	**33,974**
Finance cost	(87,405)	(96,375)	(607)	(903)	(30,301)	(1,981)	3,658	-	**(114,655)**	**(99,259)**
Income tax expense (receivable)	(160,604)	(151,497)	1,570	2,385	(4,446)	(6,589)	258	14	**(163,222)**	**(155,687)**
Profit (loss) after tax	374,503	348,485	(3,670)	(5,807)	9,278	21,999	(603)	(34)	**379,508**	**364,643**
BALANCE SHEET	2012	2011	2012	2011	2012	2011	2012	2011	**2012**	**2011**
Total assets	5,127,365	7,327,998	41,654	28,257	4,899,909	443,358	(1,985,485)	(82,214)	**8,083,443**	**7,717,399**
Capital expenditure	414,167	647,270	5,565	10,275	15,623	123,860	-	-	**435,355**	**781,405**
Non-current liabilities (**)	641,427	496,360	95	1,346	30,421	56,633	-	-	**671,943**	**554,339**
-Deferred tax liabilities	393,877	364,354	-	1,323	28,137	21,118	-	-	**422,014**	**386,795**
-Provisions	173,010	83,967	95	23	2,284	7,565	-	-	**175,389**	**91,555**
-Other non-current liabilities	74,540	48,039	-	-	-	27,950	-	-	**74,540**	**75,989**
Current liabilities (**)	217,771	318,064	47,700	25,116	83,351	19,424	(55,402)	(14)	**293,420**	**362,590**
-Trade and other payables	217,771	318,064	47,700	25,116	83,351	19,424	(55,402)	(14)	**293,420**	**362,590**

(**) Does not include financial liabilities

25. Environmental information

The Group's efforts to protect the environment and its biodiversity, to boost energy efficiency, lower it carbon emissions and promote the responsible use of resources are the key components of its environmental management strategy, designed to mitigate its impact on its surroundings.

This documentation, prepared in accordance with the requirements of UNE EN ISO 14001, is the basis of the Environmental Management System developed and certified by AENOR which ensures compliance with applicable environmental legislation and continual improvement of the environmental record in respect of the LNG storage and regasification plants in Barcelona, Cartagena, and Huelva, the Serrablo underground storage facility, the facilities for the basic gas pipeline network, the technological innovation unit and Project Management in New Infrastructure Developments under the auspices of the General Directorate of Computing and Information and Communication (DGTICO for its acronym in Spanish).

In 2012, AENOR, the Spanish accreditation agency, issued Environmental Management System audit reports with a positive opinion, concluding that the System has a degree of development and maturity that ensures continuous improvement in this field.

One of the targets set out in the Group's environmental protection strategy for 2013-2015 (PEMAP for its acronym in Spanish) is to obtain EMAS (the EU Eco-Management and Audit Scheme) certification, thereby fostering an improved environmental record across the entire organisation. The idea is to prepare for and obtain EMAS certification at the regasification plants in 2013. In parallel, the Environmental Management System at the Gaviota underground storage facility will be adapted to the Enagás Group's SIGMA project and for AENOR certification; in 2013 it will be added to the scope of the Yela underground storage facility's UNE EN ISO 14001 certification.

The Enagás Group goes to continual lengths to identify, classify and minimise the environmental fallout from its activities and installations, assessing risks and promoting eco-efficiency, practicing responsible waste and residue management, minimising its carbon footprint and attempting to help combat climate change.

Furthermore, the Group incorporates environmental criteria into its contractor and supplier dealings, taking environmental issues into consideration when it awards service and product supply contracts.

In 2012, these environmental activities entailed total capitalised investment of 22,342 thousand euros (23,259 thousand euros in 2011). Environmental expenses incurred by the Group in 2012 totalled 922 thousand euros (914 thousand euros in 2011) and are recorded under "Other operating costs".

Potential contingencies, indemnities and other environmental risks to which the Enagás Group is exposed are sufficiently covered by third-party liability insurance policies.

In 2012, the Group did not receive any grants or revenue relating to environmental activities, except those mentioned in Note 26 below regarding greenhouse gas emission allowances.

26. Greenhouse gas emission allowances

Certain Enagás Group installations fall within the scope of Law 1/2006 of 9 March 2006 governing trading in greenhouse gas emission allowances.

In accordance with Order PRE/3420/2007 of 14 November 2007, at its meeting of 2 November 2007, the Spanish cabinet, at the proposal of the Ministries for the Environment, for Finance and for Industry, Tourism and Trade, adopted an agreement approving the individual allocation of greenhouse gas emission allowances to plants included in the National Allocation Plan 2008-2012. Subsequently, and in accordance with the provisions of article 19 of Law 1/2005 of 9 March 2005, which regulates the trading of greenhouse gases emission allowances and provides for the establishment of an emission rights reserve for new facilities and for the expansion of existing facilities, the proposed allocation of allowances for the third group of incumbents to the 2008-2012 plan was announced in the Official State Gazette and posted on the website of the Ministry for the Environment, Rural and Marine Affairs on 25 January 2010. As a result, the definitive number of emission allowances allocated to the Enagás Group, free of charge, totals 2,517,789 (442,763 allowances corresponding to 2008, 497,394 to 2009, 514,964 to 2010 and 2011 and 547,704 to 2012), while the number allocated to Bahía de Bizkaia Gas, S.L. totals 28,005 (5,601 per annum).

The facilities for which these allocations have been received are:

- The Serrablo underground storage facility
- The LNG storage and regasification plants at Barcelona, Cartagena, Huelva and Bilbao
- The compression stations in: Algete, Almendralejo, Almodóvar, Bañeras, Córdoba, Crevillente, Seville, Haro, Paterna, Tivissa, Zamora, Zaragoza, Alcázar de San Juan, Lumbier and Montesa

The 547,704 allowances allocated for 2012 were valued at 7.09 euros/allowance: the spot price on the first business day of 2012 as per RWE Trading GMBH, which implies an addition for the year of 3,883 thousand euros.

In a meeting held on 23 June 2008, the Board of Directors of Enagás, S.A. authorised the staggered sale of surplus emission allowances (European Union Allowances, EUAs) for each year between 2008 and 2012 and the swap of emission allowances for Certified Emission Reductions (CERs). In December 2012, 16,750 EUAs-CERs were swapped with BBVA for CERs valued at 24.20 euros/CER and 17,000 EUAs-CERs were swapped with Gas Natural SDG, S.A. for CERs valued at 23.75 euros/CER.

The Enagás Group consumed 123,383 greenhouse gas emission allowances in 2012 (177,891 in 2011).

The emission allowances received free of charge in 2012 under the umbrella of the 2008-2012 National Allocation Plan are measured at the trading price corresponding to the first business day of 2012, i.e., 7.09 euros/allowance. The emission allowances received free of charge in 2011 were measured at the trading price corresponding to the first business day of 2011, 14.7 euros/allowance.

In the first quarter of 2012, the Enagás Group submitted its emission reports, verified by the accredited agency (AENOR), to the pertinent regional governments, which validated said emissions.

In the second quarter of 2012, the Enagás Group delivered greenhouse gas emission allowances equivalent to the verified emissions in 2011 for all these installations.

In 2012, the Enagás Group did not arrange any futures contracts relating to greenhouse gas emission allowances nor are there any contingencies related to provisional penalties or measures under the terms established by Law 1/2005.

27. Related party transactions

27.1 Related party transactions

The Group considers "related parties" any subsidiary, associate, or jointly controlled entity, as well as key personnel in its management team (members of the Board of Directors, management and their close family members), and entities over which key management personnel could exercise significant or total control.

Below is a detail of the Group's related-party transactions in 2012 and 2011, distinguishing between significant shareholders, board members, executives and other related parties. The terms of transactions with related parties are equivalent to those made on an arm's-length basis, and the corresponding remuneration in kind has been recorded.

2012

	Thousands of euros				
	31/12/2012				
Income and expense	Significant shareholders	Directors and senior management	Group persons, companies or entities	Other related parties	**Total**
Expenses:					
Finance costs	702	-	53	8,314	**9,069**
Management or collaborative agreements	-	-	-	-	**-**
Transfers of R+D and license agreements	-	-	-	-	**-**
Leases	-	-	-	-	**-**
Services received	-	-	9,966	36,403	**46,369**
Purchase of goods (finished or work-in-progress)	-	-		14,200	**14,200**
Impairment provisions for bad or doubtful debt	-	-	-	-	**-**
Losses on derecognition or disposal of assets	-	-	-	-	**-**
Other expenses	-	1,003	-	-	**1,003**
Total expenses	**702**	**1,003**	**10,019**	**58,917**	**70,641**
Income:					
Finance revenue	1,219	-	703	6,216	**8,138**
Management or collaborative agreements	-	-	-	-	**-**
Transfers of R+D and license agreements	-	-	-	-	**-**
Dividends received	-	-		-	**-**
Leases	-	-	-	-	**-**
Services rendered	-	-	18,779	-	**18,779**
TPA services	-	-	-	53,216	**53,216**
Sale of goods (finished or work-in-progress)	-	-	-	-	**-**
Gains on derecognition or disposal of assets	-	-	-	-	**-**
Other revenue	-	-	-	-	**-**
Total revenue	**1,219**	**-**	**19,482**	**59,432**	**80,133**

2011

Income and expense	Significant shareholders	Directors and senior management	Group persons, companies or entities	Other related parties	Total
	Thousands of euros 31/12/2011				
Expenses:					
Finance costs	2,483	-	-	6,986	**9,469**
Management or collaborative agreements	-	-	-	-	**-**
Transfers of R+D and license agreements	-	-	-	-	**-**
Leases	-	-	-	-	**-**
Services received	-	-	25,892	28,875	**54,767**
Purchase of goods (finished or work-in-progress)	-	-		10,679	**10,679**
Impairment provisions for bad or doubtful debt	-	-	-	-	**-**
Losses on derecognition or disposal of assets	-	-	-	-	**-**
Other expenses	-	1,086	-	-	**1,086**
Total expenses	**2,483**	**1,086**	**25,892**	**46,540**	**76,001**
Income:					
Finance revenue	2,589	-	98	5,426	**8,113**
Management or collaborative agreements	-	-	-	-	**-**
Transfers of R+D and license agreements	-	-	-	-	**-**
Dividends received	-	-	10,363	-	**10,363**
Leases	-	-	-	-	**-**
Services rendered	-	-	10,698	-	**10,698**
TPA services	-	-	-	69,902	**69,902**
Sale of goods (finished or work-in-progress)	-	-	-	-	**-**
Gains on derecognition or disposal of assets	-	-	-	-	**-**
Other revenue	-	-	-	-	**-**
Total revenue	**2,589**	**-**	**21,159**	**75,328**	**99,076**

2012

Other transactions	Significant shareholders	Directors and senior management	Group persons, companies or entities	Other related parties	Total
	Thousands of euros 31/12/2012				
Purchase of PPE, intangible assets and other	-	-	-	-	**-**
Financing agreements: loans and capital injections (lender)	-	-	169,286	-	**169,286**
Finance lease agreements (lessor)	-	-	-	-	**-**
Repayment or cancellation of loans and finance leases (lessor)	-	-	-	-	**-**
Sale of PPE, intangible assets and other	-	-	-	-	**-**
Financing agreements: loans and capital injections (borrower)	17	-	16	250,755	**250,788**
Finance lease agreements (lessee)	-	-	-	-	**-**
Repayment or cancellation of loans and finance leases (lessee)	**-**	**-**	**-**	**-**	**-**
Guarantees and sureties extended	-	-	-	-	**-**
Guarantees and sureties received	1,641	-	-	3,709	**5,350**
Commitments assumed	-	-	-	-	**-**
Cancelled commitments/guarantees	-	-	-	-	**-**
Dividends and other profits paid out	37,236	-	-	-	**37,236**
Other transactions	-	-	-	-	**-**

2011

Other transactions	Significant shareholders	Directors and senior management	Group persons, companies or entities	Other related parties	Total
	Thousands of euros 31/12/2011				
Purchase of PPE, intangible assets and other	-	-	-	-	-
Financing agreements: loans and capital injections (lender)	-	-	9,008	-	**9,008**
Finance lease agreements (lessor)	-	-	-	-	-
Repayment or cancellation of loans and finance leases (lessor)	-	-	-	-	-
Sale of PPE, intangible assets and other	-	-	-	-	-
Financing agreements: loans and capital injections (borrower)	100,446	-	-	251,324	**351,770**
Finance lease agreements (lessee)	-	-	-	-	-
Repayment or cancellation of loans and finance leases (lessee)	-	-	-	-	-
Guarantees and sureties extended	-	-	-	-	-
Guarantees and sureties received	3,494	-	-	9,605	**13,099**
Commitments assumed	-	-	-	-	-
Cancelled commitments/guarantees	-	-	-	-	-
Dividends and other profits paid out	54,141	-	-	-	**54,141**
Other transactions	-	-	-	-	-

These transactions include the finance costs deriving from hedging contracts with the financial entities related to the Enagás Group.

28. Director and senior management compensation

28.1 Wages and salaries

The remuneration received in 2012 and 2011 by the members of the Board of Directors and senior group management of Enagás, S.A., broken down by item, was as follows:

2012

	Salaries	Attendance fees	Other	Pension plans	Insurance premiums
Directors	1.622	1,004	67	10	72
Senior management	1,935	-	83	58	98
Total	**3,557**	**1,004**	**150**	**68**	**170**

2011

	Salaries	Attendance fees	Other	Pension plans	Insurance premiums
Directors	1,514	1,086	65	10	34
Senior management	1,966	-	84	60	44
Total	**3,480**	**1,086**	**149**	**70**	**78**

Details of remuneration by board member, excluding insurance premiums and pension plans, are as follows:

DIRECTORS	Thousands of euros 2012	2011
Antonio Llardén Carratalá (Executive Director) (1)	1,667	1,642
BANCAJA	-	20
Marcelino Oreja Arburúa (2)	103	-
Sagane Inversiones S.L. (Proprietary Director)	37	76
Bilbao Bizkaia Kutxa / Kartera 1 (Proprietary Director)	56	76
Sociedad Estatal de Participaciones Industriales (Proprietary Director)	76	76
Sultan Hamed Khamis Al Burtamani	45	53
Peña Rueda S.L. Unipersonal (Proprietary Director)	32	64
Jesús David Álvarez Mezquíriz (Independent Director)	64	64
Dionisio Martínez Martínez (Independent Director)	81	81
José Riva Francos (Independent Director)	81	80
Ramón Pérez Simarro (Independent Director)	76	76
Martí Parellada Sabata (Independent Director)	76	77
Teresa García-Milà Lloveras (Independent Director)	76	76
Miguel Angel Lasheras Merino (Independent Director)	71	64
Luis Javier Navarro Vigil (External Director)	76	76
Isabel Sanchez García (Independent Director)	76	64
Total	**2,693**	**2,665**

[1] In 2012, the Executive Chairman received fixed pay totalling 960 thousand euros and a bonus of 576 thousand euros, as approved by the Board; he additionally received Board attendance fees of 64 thousand euros and other in-kind compensation totalling 67 thousand euros, making for an overall sum of 1,667 thousand euros. He is also the beneficiary of a life insurance policy for which the premium for the year was 72 thousand euros, while 10 thousand euros were contributed to his pension plan. The Group has outsourced its pension obligations vis-à-vis its directors by means of a mixed-benefit insurance policy. In addition to pension commitments, the cover provides benefits in the event of widowhood, death or disability. The Executive Chairman is one of the beneficiaries covered by this policy. The total premium paid during the year in respect of the Executive Chairman was 190 thousand euros.

[2] In 2012, the Chief Executive Officer received fixed pay of 86 thousand euros, as approved by the Board; he also received Board meeting attendance fees totalling 17 thousand euros. The CEO is also part of the group of beneficiaries covered by the mixed-benefit pension plan described above; however, no portion of the premium paid during the year in respect of this plan is attributable to him.

29. Other director disclosures

In keeping with the provisions of article 229 *et seq.* of the Spanish Corporate Enterprises Act, these notes include disclosures relating to the ownership interests and positions held by members of Enagás, S.A.'s Board of Directors in other companies engaging in activities that are similar or complementary to those that constitute its corporate purpose. When preparing this information, companies having a corporate purpose that is similar or complementary to that of Enagás have been considered to be those group companies engaged in the transport, regasification, distribution or supply of natural gas, as regulated by the Hydrocarbon Act (Law 34/1998).

Ownership interests in companies that have the same, similar or complementary corporate purpose that have been reported to Enagás, S.A. by directors at 31 December 2012 are as follows:

DIRECTOR	COMPANY	No. of SHARES	% SHAREHOLDING
Luis Javier Navarro Vigil	BP, PLC	47,972	0.00%

Oman Oil Holdings Spain, S.L.U., the Enagás shareholder which proposed appointing Sultan Hamed Khamis Al Burtamani as proprietary director of Enagás, holds 7.5% of the indirect shareholding in SAGGAS-Planta de Regasificación de Sagunto, S.A. through its direct investee Infraestructura de Gas.

Positions held or duties performed by parent company directors at companies whose corporate purpose is the same, similar or complementary disclosed to Enagás, S.A. at 31 December 2012 are as follows:

DIRECTOR	COMPANY	POSITION
Luis Javier Navarro Vigil	TLA, S. de R.L. de C.V.	Director
Sultan Hamed Khamis Al Burtamani	SAGGAS-Planta de Regasificación de Sagunto, S.A.	Director
	Infraestructuras de Gas	Director
	Oman Oil Company, S.A.O.C.	Director of Business Development
Miguel Ángel Lasheras Merino	Sociedad Promotora Bilbao Gas Hub, S.A.	Managing Director of the Iberian Gas Hub Project

No activities that are the same, similar or complementary to those of Enagás, other than those listed above, are carried out by parent company directors.

Pursuant to energy regulator (CNE) Resolution of 26 July 2012 (published in the Official State Gazette on 17 August 2012), Enagás Transporte S.A.U., a company wholly-owned by law by Enagás, S.A., was certified "transmission system operator" for the purposes of article 63 of the Hydrocarbon Act (Law 34/1998, of 7 October 1998) and Directive 2009/73/EC. As a result of this designation, persons engaged in the supply or production of natural gas cannot sit on the governing body of Enagás, S.A. Given the attendant conflicts of interest, several former directors of Enagás, S.A. stepped down, while Mr. Luis Javier Navarro Vigil certified that he had renounced the positions that were incompatible with sitting on the Board of Enagás, S.A.

30. Guarantee commitments to third parties

At 31 December 2012, the Group had provided guarantees to third parties deriving from its business activities of 77,462 thousand euros (114,493 thousand euros in 2011). It has also extended financial guarantees for a total of 490,000 thousand euros (510,000 thousand euros in 2011) to secure the loans granted by the European Investment Bank.

The group parent company's directors estimate that no significant liabilities will arise in addition to those recognised in the accompanying consolidated balance sheet as a result of the transactions described in this note.

31. Other information

On 17 September 2012, the Board of Directors, at the proposal of its Chairman, agreed to appoint Marcelino Oreja Arburua as CEO of Enagás, S.A. Reporting directly to the Chairman, Mr. Oreja will oversee the Company's everyday operations. Following this appointment, the Company's Chairman remains the chief executive and Chairman of the Board of Directors.

At 31 December 2012, Enagás, S.A.'s long-term credit ratings were BBB (Standard and Poor's) and A- (Fitch Ratings).

32. Joint ventures

Information on the joint ventures in which the Enagás Group had interests at 31 December 2012 is set out in the table below:

Company	Country	Business	%	% of voting rights controlled by the Enagás Group	Thousands of euros							
					Carrying amount	Investee information (1)						
						Assets		Equity	Liabilities		Revenue (2)	Profit (loss) for the year (2)
						N/C	Current		N/C	Current		
Gasoducto Al-Andalus, S.A.	Spain	Gas transport	67	50.00%	23,744	57,778	6,140	54,461	-	9,457	28,958	10,647
Gasoducto de Extremadura, S.A.	Spain	Gas transport	51	50.00%	9,732	25,262	8,120	30,849	-	2,533	19,834	7,843
Bahía de Bizkaia Gas, S.L.	Spain	Storage and regasification	40	33.33%	44,334	237,453	36,965	116,063	108,878	49,477	54,366	9,856
Altamira LNG, C.V. subgroup	Netherlands/ Mexico	Holdco/ Regasification	40	50.00%	41,218	328,598	30,191	111,911	211,463	35,415	63,814	15,371
Gasoducto de Morelos, S.A.P.I. de C.V.	Mexico	Gas transport	50	50.00%	2,041	49,973	894	20,212	-	30,655	-	30
Morelos EPC, S.A.P.I. de C.V.	Mexico	Engineering and construction	50	50.00%	3	-	43,189	3	-	43,186	-	-
GNL Quintero, S.A.	Chile	Regasification	20	20.00%	136,077	857,302	114,399	(39,465)	966,904	44,263	39,022	9,170
Cia. Transporte Gas Canarias, S.A. (Gascan)	Spain	Storage and regasification	41.9	41.94%	3,535	7,985	24	(652)	182	8,479	-	(704)

([1]) The data presented correspond to figures for the individual companies prepared under local GAAP and before the standardisation adjustments made prior to consolidation of the financial statements.

(2) The data corresponding to Gasoducto de Morelos S.A.P.I. de C.V. relate to the second half of 2012, which is when the Enagás Group acquired its ownership interest in the company. The data corresponding to GNL Quintero, S.A. relate to the last quarter of 2012, which is when the Enagás Group acquired its ownership interest in the company. Morelos EPC, S.A.P.I. de C.V. was acquired in December 2012.

33. Events after the balance sheet date

The purchase agreement for the acquisition of 90% of Naturgas Energía Transporte S.A.U by Enagás Transporte S.A.U. from the Naturgas Group for 245 million euros was executed on 15 February 2013. Ente Vasco de la Energía continues to hold a 10% interest in the target. This company will be renamed Enagás Transporte del Norte.

No events having a material impact on the Group's financial statements have occurred between 31 December 2012 and the date of authorising the accompanying consolidated financial statements for issue.

34. Explanation added for translation to English

These financial statements are presented on the basis of the regulatory financial reporting framework applicable to the Group (see Note 2). Certain accounting practices applied by the Group that conform with that regulatory framework may not conform with other generally accepted accounting principles and rules.

Appendix I – Subsidiaries of the Enagás Group at 31 December 2012

Company	Country	Business	%	% of voting rights controlled by the Enagás Group	Share capital
Enagás Transporte, S.A.U.	Spain	Regasification, storage and transport	100	100.00%	300,000,000 euros
Enagás GTS, S.A.U.	Spain	Technical system operation	100	100.00%	10,000,000 euros
Enagás Internacional, S.L.U.	Spain	Holdco	100	100.00%	3,937 dollars
Enagás Financiaciones, S.A.U.	Spain	Financial management	100	100.00%	60,000 euros
Enagás Altamira, S.L.U.	Spain	Holdco	100	100.00%	8,888,273 dollars
Enagás Chile I, S.P.A.	Chile	Holdco	100	100.00%	23,243,152 dollars
Enagás Chile II, Limitada	Chile	Holdco	100	100.00%	184,974,292 dollars
Terminal de Valparaíso, S.A.	Chile	Holdco	100	100.00%	184,976,085 dollars

Translation of a report originally issued in Spanish. In the event of a discrepancy, the Spanish-language version prevails.

MANAGEMENT REPORT OF THE ENAGÁS GROUP

I.- Group performance in 2012

Net profit rose 4.1% in 2012 to 379,508 thousand euros.

Revenue totalled 1,180,059 thousand euros.

The Enagás Group carries out its business operations primarily in Spain, where it develops and operates virtually all of its assets. In 2012, the Group leveraged its extensive track record developing and operating regasification plants and transmission networks around the world to make a number of international business investments in 2012.

In respect of operations in Spain, throughout 2012 the Group maintained the basic natural gas regasification, storage and transmission network, servicing demand at all times.

Demand for natural gas declined by 3% year on-year, driven by a year-on-year drop in consumption of gas at electric power generation stations of 23%.

In contrast, deliveries of gas to the manufacturing and residential segments rose by 6% to 278 TWh – an all-time record. Notably, gas exports in the form of LNG loads virtually tripled to 22.3 TWh.

As in prior years, diversification was high, with the Group importing gas from 11 different source markets. Forty per cent of imports were in the form of natural gas and 60% in the form of LNG via the regasification plants. For the second year in a row, the weight of LNG in the supply mix fell due to the increase in gas from France and Algeria, the latter thanks to the international connection in Almeria, which has been registering volume growth since being added to the network in 2011.

The storage capacity of the Spanish gas system increased from 28,080 GWh in 2011 to 28.956 GWh in 2012 thanks to the addition of the Marismas and Yela facilities. In the specific case of the Yela facility, definitive extraction capacity will cover close to 90% of current demand in central Spain.

Elsewhere, the unified management and contracting of all of the system's underground storage facilities, tasked to Enagás GTS, continued.

Capital expenditure amounted to 761.4 million euros, topping initial guidance for the year, as did the amount of assets commissioned (994.4 million euros), driven mainly by the addition of assets acquired.

Ministry of Industry, Energy and Tourism Order IET/3587/2011, establishing the tolls and fees for third-party access to gas installations and remuneration of regulated activities, was published in the Official State Gazette on 31 December 2011.

Enagás achieved its goal in respect of carbon emissions in 2012, reducing emissions deriving from self-consumption of natural gas at its own facilities by 16%.

The capital and reserves of the Enagás Group stood at 2,014,878 thousand euros at year end, while equity amounted to 2,004,784 thousand euros.

Share capital is represented by 238,734,260 fully paid ordinary bearer shares each with a par value of 1.50 euros.

At 31 December 2012, 96% of net debt was non-current and 82% was fixed-rate, compared to 71% at year-end 2011.

Overall, at the end of 2012, the gas infrastructure of the Enagás Group comprising the basic natural gas grid consisted of the following:

- Over 9,000 kilometres of gas pipelines throughout Spain

- Three underground storage facilities: Serrablo (Huesca), Yela (Guadalajara) and Gaviota (Vizcaya)

- Three regasification plants in Cartagena, Huelva and Barcelona plus a fourth under construction at El Musel (Gijón)

- The Group additionally owns 40% of the BBG regasification plant (Bilbao), 40% of the Altamira regasification plant (Mexico) and 20% of the Bahía de Quintero regasification plant (Chile)

II.- Main business risks

The Enagás Group is exposed to various risks intrinsic to the sector, the market in which it operates and the activities it performs, which could prevent it from achieving its objectives and executing its strategies successfully.

The main risks associated with the Group's business activities are classified as follows:

1. Business risk

Business risk relates to losses caused by external factors such as regulation, economic growth patterns, competition levels, demand trends, structural industry factors, etc., as well as to potential losses resulting from incorrect decision-making in relation to the company's business plans and strategies.

Within business risk, regulatory risk, which relates to the regulatory framework governing the Group's business activities and also refers to certain aspects of local rates, is particularly prominent.

The Group has implemented measures to control and manage its business risk within acceptable risk levels. To this end, it continually monitors risks relating to regulation, the market and the competition.

2. Counterparty risk

Counterparty risk relates to the possibility of losses deriving from a counterparty's failure to comply with its obligations and to uncertainty as to a counterparty's ability to honour its obligations.

In the assessments performed in 2012, the Group qualified its credit and counterparty risk as negligible as it only does business with solvent companies, as corroborated by these companies' external credit ratings.

The pertinent counterparty risk management information is disclosed in Note 16 to the consolidated annual financial statements.

3. Financial risk

Financial risk is an assessment of earnings vulnerability to adverse fluctuations in financial variables such as interest rates, exchange rates, market liquidity conditions and other market drivers.

The financial risk management policy is detailed in Note 16 to the consolidated annual financial statements.

4. Operational risk

The Group's day-to-day operations can give rise to direct or indirect losses on account of inadequate internal processes, technological errors, human error or certain external events.

The Group has identified the following significant operational risks: incidents affecting its infrastructure, equipment and systems, business practices, poor quality or interruption of service, employee conduct, workplace health and safety and operational risks on the part of suppliers and counterparties.

The Enagás Group mitigates these risks by making the necessary investments, applying operation and maintenance procedures and programmes, underpinned by quality systems and planning for a level of adequate training and skill management, combined with an adequate level of insurance coverage.

5. Criminal liability risk

Article 31 *bis* of Organic Law 5/2010 of 22 June 2010, which reforms Spain's Criminal Code, introduces criminal liability on the part of legal entities.

In this regard, the Enagás Group could be held liable in Spain for crimes committed by its officers and staff in the course of their work and in their own interests if the Group is found to have failed to have exercised sufficient control.

To prevent this risk from materialising, the Group has approved a Criminal Liability Risk Model and is in the process of implementing the measures needed to prevent corporate crime.

6. Reputational risk

Reputational risk refers to any action, event or circumstance that could have either a harmful or beneficial effect on Enagás' reputation among its stakeholders.

The Group has implemented a reputational risk self-assessment procedure which uses qualitative measurement techniques.

This process contemplates the potential reputational impact that materialisation of any of the risks listed in the model (operational, business, financial and counterparty) could have as a result of failing to meet stakeholder expectations and as a result of strictly reputational events arising from the action, interest or opinion of a third party.

The Group has identified as relevant any Reputational Risk arising in the aftermath of the materialisation of certain risks: operational (service interruption, bad business practice, errors and/or delays in information disclosure and internal and external communication, damage caused to third party persons and/or assets, etc.), regulatory and liquidity risk.

The management of certain risks strictly defined as reputational stemming from third-party action has also been considered key on account of its significance.

III.- Use of financial instruments

In February 2008, the Board of Directors approved an interest rate hedging policy devised to align the Group's financial cost with the target rate structure set under its Strategic Plan.

In compliance with this policy, the Group entered into a series of interest rate hedges in the course of 2012. As a result, at year end, 82% of total gross debt was hedged against interest rate increases.

IV.- Outlook

The natural gas market is mature. The Spanish gas sector is dependent on the stream of regulations emanating from the European Union. The Enagás Group, which generates most of its revenue from the regulated business in Spain, is committed to Europe's new energy policy objectives. To this end, it is working intensively to help make sure that these regulatory developments prove as effective as possible, factoring in the characteristics of the internal market, and that they are properly integrated into the Spanish framework.

The Group has earmarked capital expenditure of 645 million euros for 2013 and plans to bring 570 million euros worth of assets online during the year.

Management expects to repeat net profit of 380 million euros in 2013. Likewise, the Group has reiterated the growth targets set out under its 2010-2014 Strategic Plan.

V.- Research and development

The technological innovation initiatives carried out by the Group in 2012 comprised assessing, developing and testing new gas technologies with the aim of increasing and improving the competitiveness of natural gas in various applications, focusing particularly on projects of strategic value for the Group.

The most significant activities carried out by area in 2012 area were:

a) **Production (LNG).** Further work was carried out on upgrading and rolling out the "MOLAS" application, aimed at learning about how LNG ages and how its properties change during shipping. Development of a reliability model for plant equipment and installations was completed. In this area, the Group is implementing improvements to its LNG sampling system to more accurately gauge the quality of the LNG unloaded at the regasification plants. It is drawing up the engineering plans for a facility to generate electricity by leveraging the spikes in pressure in the course of gas emission at the Barcelona plant. Work has also begun on a study to learn about new developments in the small-scale LNG distribution field.

b) **Transmission:** Work has begun on a study into the operating repercussions deriving from overall transport of natural gas and moderate amounts of hydrogen in the gas pipelines. The techniques needed to eliminate the iron sludge building up at the Serrablo facility have been studied. As part of a European study, the Group is studying ways to prevent third-party interference with the network using unmanned flights.

c) **Operation.** A logistics planning and optimisation application (SPOL) was implemented that enables centralised management of the network facilities, enhancing system performance in general. A study was begun to determine the quality of the gas transmitted through the gas pipeline network by means of simulation.

d) **Safety.** Work proceeded on various projects and studies related to the analysis of gas pipeline risks.

e) **Metering.** A new system was developed for verifying the metering units and preventing problems deriving from the breakage of metering turbine blades. The characteristics were defined for a new application for the centralised management of metering unit verification, updating and upgrading the related application. A number of initiatives are underway to enhance the chromatographic and metering techniques of various parts of the natural gas system. Work has begun on a number of initiatives for the measurement and determination of the dew points of water and hydrocarbons in natural gas.

f) **Projects of general interest**. Work is ongoing on the tri-generation project at the Zaragoza Technology Centre to enable the supply of heat, cooling and electricity to the various areas of the new data processing centre, control centre, laboratories and offices.

g) **Other matters**: The Group is carrying out a campaign to contact other energy companies and associations with the aim of spearheading the joint development of R&D activities in order to share know-how.

VI.- Transactions with treasury shares

The Group did not buy or sell treasury shares in 2012.

VII.- Additional information

This additional disclosure is included to comply with article 116 bis of Spain's Securities Market Act (Law 24/1988 of 28 July).

a) The structure of capital, including securities which are not admitted to trading on a regulated market in a member state, indicating, where appropriate, the different classes of shares and, for each class of shares, the rights and obligations attaching thereto and the percentage of total share capital represented

Capital structure of the parent company:

Date of last modification	Share capital (€)	Number of shares	Number of voting rights
03-05-02	358,101,390.00	238,734,260	238,734,260

All the shares are of the same class.

b) Restrictions on the transfer of securities

There are no restrictions on the transfer of securities.

c) Significant direct and indirect shareholdings

Significant shareholdings (excluding directors):

Name or company name of the shareholder	Number of direct voting rights	Number of indirect voting rights (*)	% of total voting rights
OMAN OIL COMPANY, S.A.O.C.	0	11,936,702	5
KUTXABANK, S.A.	0	11,936,713	5

(*) Through:

Name or company name of the shareholder	Number of direct voting rights	% of total voting rights
OMAN OIL HOLDINGS ESPAÑA, S.L.U.	11,936,702	5
KARTERA 1, S.L.	11,936,713	5
Total	**23,873,415**	**10**

Significant shareholdings of directors holding voting shares in the parent company:

Name or company name of the shareholder	Number of direct voting rights	Number of indirect voting rights (*)	% of total voting rights
ANTONIO LLARDÉN CARRATALÁ [1]	56,396	0	0.024
MARCELINO OREJA ARBURÚA	10		
TERESA GARCÍA MILÁ LLOVERAS	1,500	0	0.001
SULTAN HAMED KHAMIS AL BURTAMANI	1	0	0
DIONISIO MARTÍNEZ MARTÍNEZ	2,010	0	0.001
LUIS JAVIER NAVARRO VIGIL	10	7,075	0.003
MARTÍ PARELLADA SABATA	910	0	0
RAMÓN PÉREZ SIMARRO	100	0	0
SOCIEDAD ESTATAL DE PARTICIPACIONES INDUSTRIALES (SEPI)	11,936,713	0	5
TOTAL	**11,997,650**	**7,075**	**5.029**

[1] As notified to the CNMV, during the Annual General Meeting of Enagás, S.A. of 30 March 2012, Mr. Llardén was proxy holder for 91,124,560 voting rights, equivalent to 38.170% of total voting rights, representing 5,537 shareholders.

(*) Through:

Name or company name of the shareholder	Number of direct voting rights	% of total voting rights
NEWCOMER 2000, S.L.U.	7,075	0.003
Total	**7,075**	**0.003**

d) Any restrictions on voting rights

Additional provision thirty-one of Spain's Hydrocarbon Act (Law 34/1998, of 7 October 1998), in effect since enactment of Law 12/2011, of 27 May 2011, regarding civil liability for nuclear damage and damage caused by radioactive waste, stipulates that:

> "No natural person or corporate body may hold, directly or indirectly, an interest in the parent company (Enagás, S.A.) representing more than 5% of share capital or exercise more than 3% of its voting rights. Such shares may in no event be syndicated. Parties operating in the gas industry or natural persons or corporate bodies that, directly or indirectly, hold over 5% of the share capital of these companies may not exercise voting rights at the parent company in excess of 1%. These restrictions shall not apply to direct or indirect shareholdings held by public-sector enterprises. The shareholdings may in no event be syndicated.
>
> In addition, the sum of direct and indirect shareholdings held by parties operating in the natural gas industry may not exceed 40%.
>
> To calculate the shareholding, the same individual or legal entity will be attributed, in addition to the shares and other securities held or acquired by companies belonging to its group, as defined in article 4 of the Law 24/1988, of 28 July 1988, regarding securities markets, those whose ownership corresponds to:
>
>> a) Any person acting on his own behalf but on account of the aforesaid, in concert or constituting a decision-making unit. Unless proven otherwise, the members of a governing body shall be presumed to act on account of or in concert with that governing body.

b) Partners with those with which one of them exercises control over a dominant company in accordance with article 4 of Securities Market Law 24/1988.

In any event, regard shall be had to the proprietary ownership of the shares and other securities and the voting rights attached to each.

Breach of the restrictions on interests in share capital prescribed by this article shall be treated as a very serious infringement for the purposes of article 109 of this Law, and liability shall attach to any natural person or body corporate found to be holders of the securities or to any person to whom there may be attributed the excess interest in share capital or voting rights pursuant to the above sub-paragraphs. In any event, the regime of penalties laid down in the law shall be applied".

In accordance with the aforementioned legal provision, article 6 bis ("Limitations on holdings in share capital") of Enagás, S.A.'s bylaws sets forth the following:

"No individual or body corporate may hold a direct or indirect stake of more than 5% in the equity capital of the Company, nor exercise voting rights in such company of over 3%. Under no circumstances may such shareholdings be syndicated. Those parties that operate within the gas sector, including those natural persons or bodies corporate that directly or indirectly possess equity holdings in the former of more than 5%, may not exercise voting rights in the System Technical Manager of over 1%. These restrictions will not apply to direct or indirect equity interests held by public-sector enterprises. Under no circumstances may share capital be syndicated.

Likewise, the combined total of direct or indirect holdings owned by parties that operate within the natural gas sector may not exceed 40%.

For the purposes of calculating the stake in that shareholding structure, the Hydrocarbons Industry Act shall apply.

Enagás may not transfer to third parties shares of the subsidiaries included in its Group that undertake transmission and technical systems management, which are regulated businesses under Hydrocarbons legislation."

Additional provision twenty of Spain's Hydrocarbon Act (Law 34/1998, of 7 October 1998) was amended by Law 12/2011, of 27 May 2011, regarding civil liability for nuclear damage and damage caused by radioactive waste, which establishes the said limitations on shareholdings and on the exercise of voting rights stipulated in the currently prevailing additional provision thirty-one of the Hydrocarbon Act:

e) Agreements between shareholders

There is no record of any agreements among the Company's shareholders.

f) The rules governing the appointment and replacement of board members and the amendment of the articles of association

Bylaw provisions affecting the appointment and replacement of board members:

ARTICLE 35. – COMPOSITION OF THE BOARD.

The Company shall be governed and managed by the Board of Directors, which shall represent the company collegiately, both in and out of court. Its representation shall extend, without any limitation of power, to all acts embodied in the corporate purpose.

The Board of Directors shall be composed of a minimum of six members and a maximum of fifteen, appointed at the General Shareholders' Meeting.

Directors shall be elected by vote. For this purpose, the shares that are voluntarily pooled, to make a share capital that is equal to or greater than the result of dividing the latter by the number of directors, shall be entitled to appoint a number of directors equal to the integer number resulting from that proportion. If this power is exercised, the shares pooled in this fashion shall not take part in the voting for the appointment of the remaining Directors.

A director need not be a shareholder, may step down from office, may have his appointment revoked, and may be re-elected on one or more occasions.

Appointment as director shall take effect upon acceptance of the post.

The following cannot be directors or, if applicable, natural person representatives of a legal person director:

a) Natural or legal persons who hold the post of director in more than 5 (five) companies whose shares are admitted to trading on national or foreign markets.

b) Natural or legal persons whose circumstances render them incompatible or prohibited from serving on the board under any of the general provisions in law, including those persons who in any manner have interests that run contrary to those of the Company or its Group.

ARTICLE 37.- POSTS.

The Board of Directors shall appoint its Chairman.

The Board of Directors may appoint an Independent Director, on the proposal of the Appointments, Remuneration and Corporate Responsibility Committee, to perform the following duties, under the title of Lead Independent Director:

a) To request the Chairman of the Board of Directors to convene that body when said Lead Independent Director deems it appropriate.

b) To request that items be included on the Agenda of the meetings of the Board of Directors.

c) To coordinate and voice the opinions of External Directors.

d) To oversee the Board's evaluation of its Chairman and, where appropriate, the Managing Director.

e) To perform as a Deputy Chairman the functions of the Chairman as regards the Board of Directors if the Chairman is absent, ill or unable to act as Chairman for whatever reason. In the absence of a Lead Independent Director, for the purposes of this section the most senior director in age shall act as Chairman.

The Chairman and the Secretary to the Board of Directors and the Deputy Secretary, if any, if re-elected to the Board by a resolution of the General Meeting, shall continue to perform the offices hitherto held on the Board without need of being freshly elected, subject to the power of revocation of such offices that rests with the Board of Directors.

Provisions of the organisational and operational regulations of the Board of Directors (adopted by the Board of Directors on 20 February 2012):

ARTICLE 3.- QUANTITATIVE AND QUALITATIVE COMPOSITION

1. Within the minimum and maximum limits set forth under article 35 of the Company's current bylaws, notwithstanding the powers of proposal enjoyed by shareholders, the Board of Directors shall propose to the General Shareholders' Meeting the number of directors that at each stage it deems appropriate in the interest of the company. The General Shareholders' Meeting shall decide on the final number.

2. The Board of Directors shall be composed of directors that belong to the categories stated below:

   a) Internal or executive directors: directors who perform senior management functions or are employed by the company or its Group. If a director performs senior management functions and, at the same time, is or represents a significant shareholder or one that is represented on the Board of Directors, he/she shall be considered internal or executive for purposes of the present Regulations.

   No more than 20% of the total number of members of the Board of Directors may belong to this category.

   b) External directors: These directors shall in turn fall into three categories:

   b1) Proprietary directors: directors who hold a shareholding interest equal to or greater than that which is considered significant under the law or have been appointed on account of their status as shareholders, even if their shareholding is less than said amount, as well as those who represent said shareholders.

   b2) Independent directors: directors of acknowledged professional prestige are able to contribute their experience and knowledge to corporate governance and, since they do not belong to either of the two preceding categories, meet the conditions set forth under article 9 of the present Regulations. The number of independent directors shall represent at least one third of all directors.

   b3) Other external directors: external directors who are not proprietary directors and cannot be classified as independent directors in accordance with article 9 of the present Regulations.

In exercising its powers of co-option and proposal to the General Shareholders' Meeting to fill vacancies, the Board of Directors shall endeavour to ensure that, within the composition of the body, independent directors represent a broad majority over executive directors and that among external directors, the relation between proprietary members and independents should match the proportion between the capital represented on the board by proprietary directors and the remainder of the Company's capital.

The following cannot be Directors or, if applicable, natural person representatives of a legal person Director:

a) Natural or legal persons who hold the post of director in more than 5 (five) companies whose shares are admitted to trading on national or foreign markets.

b) Natural or legal persons whose circumstances render them incompatible or prohibited from serving on the board under any of the general provisions in law, including those persons who in any manner have interests that run contrary to those of the Company or its Group.

ARTICLE 8.- APPOINTMENT OF DIRECTORS

1. Directors shall be appointed at the General Shareholders' Meeting or by the Board of Directors in conformity with the provisions contained in the Spanish Corporate Enterprises Act and the Company's Bylaws.

2. Those appointed to directorship must be people who, in addition to meeting the legal and bylaw-stipulated requirements, have acknowledged prestige and the appropriate professional knowledge and experience to perform their tasks efficiently.

   Proposals for the appointment of directors which the Board of Directors submits to the General Shareholders' Meeting, as well as appointments adopted by the Board by virtue of its powers of co-option, must be made subject to a report from the Appointments, Remuneration and Corporate Responsibility Committee. When the Board of Directors does not agree with the Committee's recommendations, it must explain its reasons and duly record them in the minutes.

3. The process of filling board vacancies shall have no implicit bias against women candidates. The Company shall make an effort to include women with the target profile among the candidates for Board positions.

ARTICLE 9.- APPOINTMENT OF INDEPENDENT DIRECTORS.

Independent directors are defined as directors appointed for their personal and professional qualities who are in a position to perform their duties without being influenced by any connection with the company, its significant shareholders or its management. As such, the following shall in no circumstances qualify as independent directors:

a) Past employees or executive directors of Group companies, unless three or five years have elapsed, respectively, from the end of the employment relationship.

b) Those who have received some payment or other form of compensation from the Company or its Group on top of their directors' fees, unless the amount involved is not significant. Payment shall not include for the purposes of the provisions of this article, dividends or pension top-ups paid to the director in connection with his or her former professional or employment relationship, so long as their settlement is unconditional in nature and the Company paying them cannot arbitrarily choose to suspend, modify or revoke their payment, unless the director is in breach of his or her obligations.

c) Partners, now or in the past three years, in the external auditor or the firm responsible for the audit report, during the said period, of Enagás, S.A. or any other within its Group.

d) Executive directors or senior officers of another company where an executive director or senior officer of Enagás, S.A. is an external director.

e) Those having material business dealings with Enagás, S.A. or some other in its Group or who have had such dealings in the preceding year, either on their own account or as the significant shareholder, director or senior officer of a company that has or has had such dealings. Business dealings are considered those with suppliers of goods or services, including financial advisory and consultancy services.

f) Significant shareholders, executive directors or senior officers of an entity that receives significant donations from Enagás, S.A. or its Group, or has done so in the past three years. Mere sponsors of a foundation receiving donations are not included here.

g) Spouses, or partners maintaining an analogous affective relationship, or close relatives of one of the company's executive directors or senior officers.

h) Any person not proposed for appointment or renewal by the Appointments, Remuneration and Corporate Responsibility Committee.

i) Those standing in some of the situations listed in a), e), f) or g) above in relation to a significant shareholder or a shareholder with board representation. In the case of the family relations set out in letter g), the limitation shall apply not only in connection with the shareholder but also with his or her proprietary directors in the investee company. Proprietary directors disqualified as such and obliged to resign due to the disposal of shares by the shareholder they represent may only be re-elected as independents once the said shareholder has sold all remaining shares in the company.

A director with shares in the company may qualify as independent, provided he or she meets all the conditions stated in this article and the holding in question is not significant.

ARTICLE 10.- TENURE AND CO-OPTION

Directors may hold their post for a period of four years, and may be re-elected. Directors appointed by co-option will perform their functions until the date of the next General Shareholders' Meeting.

ARTICLE 11.- RE-APPOINTMENT OF DIRECTORS

The Appointments, Remuneration and Corporate Responsibility Committee, responsible for evaluating the quality of work and dedication to the post of the directors proposed during the previous term of office, shall provide information required to assess proposal for re-appointment of directors presented by the Board of Directors to the General Shareholders' Meeting.

As a general rule, appropriate rotation of independent directors should be endeavoured. For this reason, when one is proposed for re-election, the circumstances making his/her continuity in the post advisable must be justified. Independent directors should not stay on as such for a continuous period of more than 12 years.

ARTICLE 12.- REMOVAL OF DIRECTORS.

1. Directors shall leave their post after the first General Shareholders' Meeting following the end of their tenure and in all other cases in accordance with law, the company's bylaws and the present Regulations.

2. Directors must place their office at the Board of Directors' disposal, and tender, if the Board deems this appropriate, their resignation in the following cases:

   a) When they are involved in any of the legally stipulated circumstances of incompatibility or prohibition.

   b) When they are in serious breach of their obligations as directors.

   c) When they may put the interests of the company at risk or harm its name and reputation. If a director is indicted or an order is issued to initiate a trial against him/her for a crime specified under article 213 of the Spanish Corporate Enterprises Act, the Board shall examine the matter as promptly as possible and, in view of the particular circumstances, decide where or not the director should be called on to resign.

   d) When the circumstances motivating their appointment as directors no longer exist.

   e) When independent directors no longer fulfil the criteria required under article 9.

   f) When the shareholders represented by proprietary directors dispose of their ownership interests. If such shareholders reduce their stakes, thereby losing some of their entitlement to proprietary directors, the latter's number should be reduced proportionately.

   Should the Board of Directors not deem it advisable to have a director tender his/her resignation in the cases specified under letters d), e) and f), the latter must be included in the category that, in accordance with the present Regulations, is most appropriate based on his/her new circumstances.

3.- The Board of Directors should not propose the removal of independent directors before the expiry of their tenure as mandated by the bylaws, except where just cause is found by the board, based on a report from the Appointments and Remuneration Committee.

4.- After a director has been removed from his/her post, he/she may not work for a competitor company for a period of two years, unless the Board of Directors exempts him/her from this obligation or shortens its duration.

Bylaw provisions affecting the amendment of the bylaws:

ARTICLE 26. – SPECIAL QUORUM.

An ordinary or extraordinary General Meeting may validly resolve to increase or reduce capital, make any other alterations to the By-laws, issue bonds, remove or restrict the pre-emptive subscription right for new shares, and restructure, merge or split the company, transfer all the assets and liabilities thereof, or move the registered office to outside Spain, if, at the original date and time specified in the notice of meeting, there are present, in person or by proxy, shareholders representing at least fifty percent of voting subscribed capital.

At second call, attendance of at least twenty-five percent of the paid up voting capital shall be sufficient.

g) The powers of board members and in particular the power to issue or buy back shares

The only members of the Board of Directors who have the power to represent the Company are its Chairman, Antonio Llardén Carratalá (the Board of Directors granted him the powers that appear in the public deed executed on 9 February 2007 before Notary of Madrid Pedro de la Herrán Matorras under number 324 of his protocol and as recorded in the Companies Registry of Madrid, Volume 20,090; Book 0; Folio 172, Section 8; Page M-6113; Record 668) and Chief Executive Officer, Marcelino Oreja Arburúa (in whom the Board has vested the powers listed in the public deed executed on 5 December 2012 before Notary of Madrid Pedro de la Herrán Matorras under number 2,680 of his protocol and as recorded in the Companies Registry of Madrid, Volume 20,601; Book 194; Folio 194, Section 8; Page M-6113; Record 739). Although said powers encompass broad powers of representation, they do not include the ability to issue or buy back shares of the Company.

Regardless of the foregoing, the tenth resolution adopted at the General Shareholders' Meeting held on 30 March 2012 is currently in force. Its terms are:

"To grant the Board of Directors the broadest powers required by law to increase the Company's share capital, once or several times, within a maximum period of five years from the date of the Meeting, under the terms of article 297.b) of the Spanish Corporate Enterprises Act, up to a maximum of 179 million euros, by issuing new shares, with or without voting rights, with or without a share premium, in exchange for cash, and to establish the terms and conditions of the capital increase and the features of the shares, with the possibility of offering freely new shares unsubscribed within the pre-emptive subscription period(s) and determine, if the shares are not fully subscribed, that capital will be increased only by the amount of the subscriptions made and, accordingly, to redraft the article of the Company bylaws regarding share capital."

h) Significant agreements to which the company is a party and which take effect, alter or terminate upon a change of control of the company arising from a takeover bid and the effects thereof except where such disclosure could pose a serious risk to the company. This exception is not applicable when the company is legally obliged to disclose the information.

No agreements of this kind exist.

i) Agreements between the company and its board members or employees providing for compensation if they resign or are made redundant without valid reason or if their employment relation ends following a takeover bid.

The Company has an agreement with the Executive Chairman, the Chief Executive Officer and seven of its officers that include express severance pay clauses.

The clauses in each case are applicable in cases of company termination of the contract, unfair disciplinary dismissal, dismissal for the reasons outlined under article 52 of the Workers' Statute or as decided by the manager citing one of the reasons outlined under article 50 of the Workers' Statute provided the resolution is certified by means of conciliation between the parties, legal judgement, arbitration award, or resolution by a competent administrative body. They are not applicable if the resolution is the result of a unilateral decision made by the manager without just cause.

The termination benefits envisaged for the Chairman are equivalent to three years' pay, while those provided for the Chief Executive Officer are equivalent to two years' pay.

The termination benefits to which the seven officers are entitled depend on their length of service at the Company and their age.

All such contracts have been approved by the Board of Directors.

VIII.- Events after the balance sheet date

The purchase agreement for the acquisition of 90% of Naturgas Energía Transporte S.A.U by Enagás Transporte S.A.U. from the Naturgas Group for 245 million euros was executed on 15 February 2013. Ente Vasco de la Energía continues to hold a 10% interest in the target. This company will be renamed Enagás Transporte del Norte.

No events having a material impact on the Group's financial statements have occurred between 31 December 2012 and the date of authorising the accompanying consolidated financial statements for issue.

APPROVAL OF THE FINANCIAL STATEMENTS FOR ISSUE

On 18 February 2013, the Board of Directors of Enagás, S.A. authorised the annual consolidated financial statements and management report for the year ended 31 December 2012, consisting of the accompanying documents, signed and sealed by the Secretary with the Company's stamp, for issue, in accordance with article 253 of the Spanish Corporate Enterprises Act and article 37 of the Code of Commerce.

DIRECTOR STATEMENT OF RESPONSIBILITY. For the purposes of article 8.1 b) of Spanish Royal Decree 1632/2007, of 19 October 2007, the undersigned directors state that, to the best of their knowledge, the annual consolidated financial statements, prepared in accordance with applicable accounting principles, provide a fair value of the equity, financial position and results of the Group and that the Group's management report includes a fair analysis of the performance and results of the businesses and the situation of the Group, together with the description of the main risks and uncertainties faced. They additionally state that to the best of their knowledge the directors not signing below did not express dissent with respect to the annual consolidated financial statements or management report.

Presidente

D. Antonio Llardén Carratalá

Consejero Delegado

D. Marcelino Oreja Arburúa

Consejeros

Mr. Sultan Al Burtamani

D. Jesús David Álvarez Mezquíriz

Sociedad Estatal de Participaciones Industriales-SEPI
(Representada por D. Federico Ferrer Delso)

Dña. Teresa García-Milá Lloveras

D. Miguel Ángel Lasheras Merino

D. Dionisio Martínez Martínez

D. Luis Javier Navarro Vigil

D. Martí Parellada Sabata

D. Ramón Peréz Simarro

D. José Riva Francos

Dña. Isabel Sánchez García

Secretario del Consejo

D. Rafael Piqueras Bautista