

	<p style="text-align: center;">Appendix to the Annual Corporate Governance Report</p>	<p style="text-align: center;">2011</p>
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ADDITIONAL INFORMATION TO THE PREVAILING ACGR.

Pursuant to final provision five of the 2011 Sustainable Economy Law which adds a new Chapter VI to Recital IV of the Securities Market Act (Law 24/1988) (LMV for its initials in Spanish), the following additional information is attached to this Report:

I. Information on the capital structure, including securities that are not traded on an EU-regulated market, noting, if applicable, the various share classes held and, for each class, the rights and obligations conferred and the percentage of share capital represented (article 61 bis 4, a, 3 LMV).

No information available.

II. Information regarding applicable legislation concerning amendments to the company's articles of association (article 61 bis 4, a, 4 LMV).

Provisions of the Articles of Association affecting amendments to the Articles of Association:

ARTICLE 26. - SPECIAL QUORUM.

An ordinary or extraordinary General Meeting may validly resolve to increase or reduce capital, make any other alterations to the Articles of Association, 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 the adjourned date and time specified in the notice of meeting, the presence of twenty-five percent of voting subscribed capital shall suffice.


III. Any restrictions on the transfer of securities and any restrictions on voting rights (article 61 bis 4, b LMV).

There are no restrictions on the transfer of shares.

Restrictions on voting rights:

Additional Provision 31 of Law 34/1998, of 7 October, on the Hydrocarbons Sector, in force since the enactment of Law 12/2011, of 27 May, governing civil liability for nuclear damage or damage caused by radioactive materials, specifies in section 2 that:

No individual or body corporate may hold a direct or indirect stake of more than 5% in the equity capital of the parent company (ENAGÁS), nor may they 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 natural persons or bodies corporate that directly or indirectly possess equity holdings in the former of more than 5%, may not exercise voting rights of over 1%. These restrictions will not apply to direct or indirect interests held by public sector enterprises. Under no circumstances may share capital be syndicated.

	Appendix to the Annual Corporate Governance Report	2011
---	---	------

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 computing holdings in share capital, one and the same natural person or body corporate shall be deemed to hold the shares and other securities held or acquired by entities of its same "group", within the meaning of [article 4](#) of Law 24 of 28 July 1988, the Securities Market Act, in addition to those shares held by:

a) Those parties who act in their own name but on behalf of that individual or body corporate in a concerted fashion or forming a decision-making unit with them. Unless proven otherwise, it shall be deemed that the members of the Board of Directors of a body corporate act on its behalf or in a concerted fashion with it.

(b) Any partner with whom the aforesaid exercises control over a subsidiary entity, pursuant to [article 4](#) of the Securities Market Act.

In all cases, both the actual ownership of the shares and other securities and also the voting rights held through any certificate shall be taken into account.

Non-compliance with the limitation on a stake in the capital referred to in this article shall be deemed a very serious breach in accordance with the terms set out in article 109 of this Act. Responsibility shall lie with the individuals or bodies corporate that end up as owners of the securities or whoever the excess stake in the capital or in the voting rights can be attributed to, pursuant to the provisions of the preceding paragraphs. At all events, there shall apply the system of penalties set out in the Act."

In accordance with the aforementioned legal provision, article 6 bis ("Limitation of interest in share capital and of the exercise of voting rights") of Enagás, S.A.'s Articles of Association stipulates 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 holdings in the Company's share capital, the provisions of Additional Provision Twenty of the Spanish Hydrocarbons Industry Act 34/1998 of 7 October shall apply".

Additional Provision Twenty of the Spanish Hydrocarbons Industry Act 34/1998, of 7 October, was modified by Law 12/2011, of 27 May, governing civil liability for nuclear damage or damage caused by radioactive materials. It establishes the same limitations on interest in share capital and the exercise of voting rights as specified in Additional Provision Thirty-one of Act 34/1998, governing the hydrocarbons industry.

	<p align="center">Appendix to the Annual Corporate Governance Report</p>	<p align="center">2011</p>
---	---	----------------------------

IV. The powers of members of the Board of Directors, and, in particular, those relating to the ability to issue or buy back shares (article 61 bis 4, c, 3 LMV).

The only member of the Board of Directors who has the power to represent the Company is its Chairman, Antonio Llardén Carratalá. The Board of Directors granted him the powers that appear in the deed executed on 9 February 2007 before the Madrid Notary Pedro de la Herrán Matorras under number 324 of his protocol and as filed with the Madrid registrar of companies in Volume 20,090, Book 0, Folio 172, Section 8, Page M-6113, entry 668. Although such powers encompass broad authorisations of representation, they do not include the ability to issue or buy back shares of the Company.

Notwithstanding the above, resolution 10 adopted by the General Shareholders' Meeting held on 11 May 2007 is now in effect under the following terms:

"To empower the Board of Directors, as broadly as is legally necessary, so that, in accordance with article 153 b) of the Spanish Companies Act, it may, at any time, increase share capital one or more times within a period of five years as of the date of this General Meeting, by a maximum amount of €179 million through the issuance of new shares, with or without voting rights or issue premium, and with consideration for such new shares being monetary contributions. The Board is entitled to set the terms and conditions of the capital increase and the characteristics of the shares; freely offer the new unsubscribed shares with a period or periods of preferred subscription; establish that, in the event of incomplete subscription, the capital shall be increased only in the amount of the subscriptions made; and provide new wording for the article of the Company's Articles of Association governing share capital. The Board of Directors is also empowered to exclude the pre-emptive subscription right under the terms of article 159 of the Spanish Companies Act."

V. Any significant agreements that have been entered into by the Company, that come into force, have been modified or terminate in the event of a change in control of the Company due to a public tender offer, and the effects thereof, except when disclosure thereof is seriously detrimental to the Company. This exception shall not apply if the company is legally required to publish this information (article 61, bis, 4, c, 4 LMV).


No agreements of this kind exist.

VI. Any agreements between the Company and its directors and managers or employees that provide for severance pay should they resign or be unfairly dismissed or if the employment relationship concludes on account of a public tender offer (article 61, bis, 4, c, 5 LMV).

The Company has an agreement with the Executive Chairman and seven of its managers that include express severance pay clauses.

The clauses in each case are applicable in cases of 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 declared justified by means of conciliation between the parties, legal judgment, arbitration award, or resolution by a competent administrative body. The clauses are not applicable if termination is due to a unilateral decision of the executive employee for no stated reason.

All such contracts have been approved by the Board of Directors.

	Appendix to the Annual Corporate Governance Report	2011
---	---	------

VII. Description of the main features of the internal control over financial reporting and risk management systems (article 61 bis. 4, h LMV).

1. Introduction

As part of its internal control systems the Enagás Group has in place an internal control over financial reporting (ICFR) system to ensure the implementation of best practices with regard to the reliability and transparency of the financial reporting process.

The Group's ICFR system involves the whole organisation and entails the implementation and periodic monitoring of the various control mechanisms in the financial reporting process.

The ICFR system currently in force at the Enagás Group stems from a voluntary improvement initiative. The resulting ICFR system, with its updated control mechanisms, has been reviewed by an independent third party since 2008.

The ICFR system is aligned with applicable internal control regulatory benchmarks (including the COSO framework). An effective ICFR system allows the Group to ensure that:

- i. Transactions, facts and other events presented in the financial information exist in reality and were recorded at the right time.
- ii. The information includes all transactions, facts and other events in which the entity is the affected party.
- iii. Transactions, facts and other events are recorded and valued in accordance with applicable standards.
- iv. Transactions, facts and other events are classified, presented and disclosed in the financial information in accordance with applicable standards.
- v. Financial information shows, at the corresponding date, the entity's rights and obligations through the corresponding assets and liabilities, in accordance with applicable standards.

The system formed by these interlinked controls should provide reasonable assurance as to the reliability of the financial information disclosed to the markets.

In addition to the above, we would note that significant progress has been made in Spain in the area of internal control and would highlight the recommendations contained in the report on "Internal Control over Financial Reporting" prepared by the Internal Control Working Group on the financial reporting of listed companies (ICWG) set up by the Spanish stock market regulator (CNMV) and based on COSO standards, which defines a series of principles and good practices grouped into 16 indicators across 5 areas.

2. Description of the ICFR system

The basic structure of the ICFR system at Enagás, S.A. is formally documented in the "ICFR Manual". The main features of the ICFR system are (for further information please see section 2.3.1):

- General controls: interlinked controls throughout the organisation, specifically affecting the ICFR system.

	Appendix to the Annual Corporate Governance Report	2011
---	---	------

- Process controls: specific controls over each process which has a relevant impact on the preparation of financial information which are rolled out by:
 - Areas affected by the ICFR system:
 - Acquisitions
 - Fixed assets
 - Inventories
 - Revenue
 - Payroll and personnel
 - Financial management
 - Support services
 - Financial reporting
 - 29 formally-documented cycles.
 - 69 formally-documented sub cycles.

These areas, cycles and sub cycles are formally documented in an IT tool.

The main points of this model can be summarised as follows:

- 297 control activities (approximately 12% are automated).
- 790 operating activities (approximately 12% are automated).

Below is more detailed information on the ICFR system model in place at Enagás, S.A.


2.1. The entity's control environment

2.1.1. Bodies and/or functions responsible for: (i) the existence and regular updating of a suitable, effective ICFR; (ii) its implementation; and (iii) its monitoring.

The control environment at Enagás, S.A. is based on specific mechanisms deployed in order to maintain an internal control environment conducive to comprehensive, reliable and timely financial reporting, and which acknowledges the possible existence of failures or irregularities which must be detected or corrected. In this regard, there are various departments, governing bodies and organisational units which develop, maintain and oversee all matters concerning the model and the preparation of financial information.

More specifically, according to article 5, section c of the "Rules and Regulations of the organisation and functioning of the Board of Directors of Enagás, S.A.", one of the Board of Directors' duties is "to frame policy on risk control and management, and the periodic monitoring of internal information and control systems".

According to section 2.1.2., there are various organisational levels within Enagás in charge of maintaining, implementing and overseeing the ICFR system. In this regard, we would note the responsibility of the Finance Department, as part of senior management, in designing, implementing and ensuring that there is an up-to-date and efficient ICFR system. The Internal Audit area, which reports functionally to the Audit and Compliance Committee of Enagás, S.A., in its annual action

	Appendix to the Annual Corporate Governance Report	2011
---	---	------

plan, helps assess the efficiency of the ICFR system and reports periodically to the Committee on any weaknesses detected (see section 2.5.2).

Likewise, the various organisational units are responsible for the controls defined in their areas of responsibility.

2.1.2. The departments and/or mechanisms in charge of: (i) the design and review of the organisational structure; (ii) defining clear lines of responsibility and authority, with an appropriate distribution of tasks and functions; and (iii) deploying procedures so this structure is communicated effectively throughout the company, with particular regard to the financial reporting process.

At Enagás, S.A., the Resources and Corporate Social Responsibility Department is responsible for designing, implementing, reviewing and updating the organisational structure of Enagás in general. In this regard, we would note the guidelines defined in the "General Regulations Governing Management by Objectives", "Job Analysis AND Description Sheets" and the "Human Resources Development Procedure", which, among other issues, determine the framework around which the general organisational structure is designed, including functions and responsibilities. In addition to these internal regulations, the "ICFR System Manual" attributes all ICFR duties.

More specifically, in addition to the lines of responsibility and authority mentioned above, there are other regulations and procedures in place within the company's main governing bodies and senior management and there are also mandatory procedures for the preparation, review and approval of the financial statements for Enagás Group companies.

We would highlight here the "Internal Code of Conduct in matters relating to Stock Markets" and the "Enagás, S.A. Business Principles", referred to in section 2.1.3.

The "Corporate Governance Policy" is also important for corporate governance best practices which must be adhered to by senior management and the Board of Directors.


ICFR at Enagás, S.A. also has two different hierarchical pillars:

- Functional responsibility - Level 1:
 - Audit and Compliance Committee
- Functional responsibility - Level 2:
 - Internal Audit.
 - Internal control over financial reporting.
 - Persons responsible for ICFR system management.

At Level 1, the Audit and Compliance Committee, which reports to the Board of Directors, has its own regulations ("Rules and Regulations of the Organisation and Functioning of the Audit and Compliance Committee of the Board of Directors of Enagás, S.A.") setting out the rules of organisation and functioning, specifically referring to ICFR supervision. Its responsibilities have been delegated by the Board of Directors and the Committee has in turn passed on specific review functions to the Internal Audit area.

Within "Level 2" and with regard to ICFR, the Internal Audit area shall:

- Carry out periodic reviews, on a selective basis, to guarantee that all information is up-to-date in accordance with the Annual Audit Plan.

	Appendix to the Annual Corporate Governance Report	2011
---	---	------

- Design and carry out a Test Plan on (i) general controls; (ii) control for the area, cycle and sub cycle; and (iii) established procedures which complement the self-assessments carried out by the people in charge.
- Verify, on a selective basis, compliance with the flowcharts designed.
- Draw up and issue reports on ICFR audits in accordance with the Annual Audit Plan.
- Verify the correct implementation of corrective action concerning ICFR in accordance with the Annual Audit Plan.

The ICFR Unit is also key to ICFR management. Its main tasks are:

- Manage the self-assessment of the ICFR system and monitor the results.
- Coordinate the ICFR risk assessment and ensure that the Enagás ICFR risk map is updated periodically.
- Carry out an annual evaluation of the requirements to update the document attributing the accounts to ICFR areas, in order to maintain the required standard of financial reporting.
- Draw up and update the Enagás Internal Control over Financial Reporting System Manual ("ICFRS Manual").
- Update and disseminate applicable ICFR regulations, both internal and external.
- Identify the training needs and organisational/execution needs for courses relating to ICFR or other related issues (these are channelled via the "Training School" programme included in the Training Plan and applicable internal procedures).
- Monitor and update the model for defining scopes.
- Monitor the updating and documentation of the sub cycles/processes which affect the preparation of financial information (carried out by the people in charge of the sub cycles/processes).
- Collaborate with the Internal Audit area concerning any pertinent clarification.
- Collaborate in classifying any flaws detected in the ICFR process (material weaknesses, significant flaws, insignificant flaws).
- Collaborate in implementing corrective measures detected in the external audit.
- Guarantee the coherence of ICFR at Enagás, S.A.
- Oversee the updating and maintenance of the tools used to manage the model.

Finally, the people responsible for ICFR management, as the primary owners of the processes, have been attributed the following duties:

- Supervise the actions and evaluations carried out for each of the processes for the cycles in the Areas, with the possibility of eventually carrying out tests to confirm the results of specific controls.

	Appendix to the Annual Corporate Governance Report	2011
---	---	------

- Establish, monitor and evaluate the effectiveness of the control activities within the cycles/sub cycles, mainly concerning communication, allocating responsibilities, delegating competences, segregating functions and managing access to information and other critical resources, developing and modifying the processes (both operational and control) and support systems.
- Coordinate the design, documentation and implementation of ICFR processes, ensuring objectives to manage all processes in the sub cycle in question are met.
- Ensure that all documentation concerning the process is kept up-to-date (who, what, how, rules, proof, etc.) as well as that concerning the ICFR control and risk objectives.
- In the case of amendments or updates to regulations, procedures, instructions etc., the owner of the process shall notify ICFR.
- Report, formally and periodically on the outcome of the self-assessments carried out.
- Collaborate in identifying qualitative factors which may affect the inclusion of this process in the general ICFR model.
- Implement and promote the implementation of corrective action in the area of ICFR.

2.1.3. Code of conduct, approving body, dissemination and instruction, principles and values covered, body in charge of investigating breaches and proposing corrective or disciplinary action.

At this level we would note the "Internal Code of Conduct in Matters Relating to Stock Markets" and the "Enagás, S.A. Business Principles", which determine the Company's ethical values in matters relating to the securities markets and the behaviour of employees both within the company and with stakeholders. Point 6.3 of the "Enagás, S.A. Business Principles" describes the conduct with regard to internal control and fraud prevention, in addition to conflicts of interest, which determine the general lines of action for ICFR.

At this level, and in order to ensure maximum discipline among employees, an "Ethics Channel", which is fully confidential and anonymous, has been put in place, to alert senior management of the existence of any malpractice, including any irregularities of a financial nature.

We would also note the internal regulations of the **Sustainability Committee**, whose aim is to integrate the expectations of all stakeholders and manage the risks to which Enagás is exposed. There is also the **Business Principles Supervisory Committee**, whose members are chosen by the Enagás Executive Committee and which is responsible for various internal audit duties, legal advisory services, external relations, human resources and corporate social responsibility.

2.1.4. 'Whistle-blowing' channel, for the reporting to the audit committee of any irregularities of a financial or accounting nature, as well as breaches of the code of conduct and malpractice within the organisation, stating whether reports made through this channel are confidential.

The Company has in place an "Ethics Channel" which governs the management process for queries and reporting behaviour that does not comply with the Company's values (see above). Should this process be rolled out, confidentiality is fully guaranteed.

	Appendix to the Annual Corporate Governance Report	2011
---	---	------

2.1.5. Training and refresher courses for personnel involved in preparing and reviewing financial information or evaluating ICFR, which address, at least, accounting rules, auditing, internal control and risk management.

The "Enagás, S.A. Training School" which is part of the Resources and Corporate Social Responsibility Department, manages and plans all the training programmes and other instruction initiatives for all Enagás, S.A. employees. Specific training in accounting, internal control and risk management is offered to all Internal Control and Internal Audit staff, with the general lines of the programmes being planned and approved one year before the new financial year commences. We would also note the training initiatives for all personnel involved in preparing financial information.

Each department and employee is subject to control, with the number of hours of training accumulated throughout the year being assessed.

Here we would highlight attendance at various seminars concerning management of fraud risk, accounting courses specific to the Enagás Group, tax accounting, the new corporate income tax regulations, and IFRS amendments.


2.2. Risk assessment in financial reporting

2.2.1. The main characteristics of the risk identification process, including risks of error or fraud.

Identifying risk is one of the core fundamentals in risk analysis with regards to the preparation of financial information. The "Enagás risk policy" document acts as a reference in the area of risk identification, as it states the company's policies on how to deal effectively with uncertainty, risks and the associated opportunities, thereby improving its capacity to generate value in order to achieve the aims of the organisation, which include reliable financial reporting.

The "Integrated Risk Management Procedure" establishes a framework for Integrated Risk Management, identifying the factors involved and the role to be played by each part of the Company. The Internal Audit Unit is charged with identifying risks, including those specific to ICFR. Any identified risk is immediately communicated to senior management and the Sustainability Committee. The following are among the main risks that have been defined:

- **Counterparty or credit risk:** Possible loss due to breach of contract by a counterparty or a more general reason, due to uncertainty over the ability or willingness of a counterparty to fulfil their obligations.
- **Financial Risk:** Possible financial profit or loss due to exposure to market fluctuations in variables and prices.
- **Business Risk:** Inherent in the gas sector, this includes demand and competition risk, regulatory risk and strategic risk.
- **Operational Risk:** Possible loss of value or earnings as a result of events caused by inadequacies or failures in processes, human resources, business teams and IT systems, or due to external factors.
- **Reputational Risk:** Any action, event or circumstance that may adversely or favourably affect stakeholders' perceptions and opinions of the company.

	<p style="text-align: center;">Appendix to the Annual Corporate Governance Report</p>	<p style="text-align: center;">2011</p>
---	--	---

- **Criminal Responsibility Risk:** Risk of the Company being held criminally responsible for the crimes defined in Organic Law 5/2010 of 22 June, reforming the Criminal Code, which may be committed by its managers or employees in the exercise of their duties and in its interests, in the event the Company is deemed to have failed to exercise due control.

Analysing these risks together meets the ICFR definition of the different control processes that must be applied in preparing financial information in order that it is sufficiently transparent and accurate. These control processes, both by design and in practice, aim to sufficiently cover the following specific risks as per the ICFR recommendations:

- **Integrity Risk:** to ensure that all transactions are registered.
- **Validity Risk:** that transactions made are not valid.
- **Registry Risk:** that transactions are incorrectly registered.
- **Cut off Risk:** that transactions are not fully registered within the accrual period.
- **Valuation Risk:** that transactions are incorrectly valued.
- **Presentation Risk:** that transactions are presented in a confusing manner, or do not fully meet current regulatory requirements.

At least once a quarter the Internal Control Unit on Financial Information fully evaluates all control processes and corresponding specific risks measures in place, and at the same time, evaluates if new risks need to be added, as was the case in the last review in 2011, with respect to the risk of fraud associated with financial information. This new measure, which comes within the framework of defined operating risks at a Group level, has meant, among other things, changing certain procedures related to the control process when necessary.

2.3. Control activities

Enagás, S.A. has a wide range of specific “**Control activities**” to mitigate the risks of errors or irregularities that can be caused by the process of preparing financial information at all levels.

2.3.1. Procedures for reviewing and authorising financial information and the description of the ICFR to be disclosed to the market, indicating the corresponding lines of responsibility, as well as documentation and flow charts of activities and controls (including those addressing the risk of fraud) for each type of transaction that may materially affect the financial statements, including procedures for the closing of accounts and for the separate review of critical judgements, estimates, evaluations and projections.

Having “**Control Activities**” for reference is without doubt a key element in creating an effective ICFR, which must be well designed and operated.

The ICFR model states a number of key control **objectives** which, if fully implemented, allow reliability and transparency in the preparation of financial statements. Implementation of these objectives is intrinsically tied to the effectiveness of "Control activities" at each stage of their execution.

	Appendix to the Annual Corporate Governance Report	2011
---	---	------

In this context, there are two specifically designated categories in the ICFR "Control activities" structure:

- General controls
- Controls process

The **General Controls**, or tags, form the basis of the ICFR model. They are interlinked controls that directly affect Engás S.A.'s organisational structure and procedures. At the end of 2011, there were 33 ICFR general controls in operation. Senior Management is responsible for overseeing these controls, and they are split between the following divisions:

- Finance Department
- Resources and Corporate Social Responsibility Department
- General Secretariat
- Investor Relations Department

The relevance of information systems in relation to ICFR control fall within this bracket; this issue is covered in section 2.3.2.


Process Controls are part of each of the main Enagás S.A. cycles and sub cycles that conform to ICFR procedures, guaranteeing the reliability and transparency of Enagás S.A.'s financial reporting, and at the same time allowing for mitigating factors associated with risks in the preparation process of the previously mentioned financial reports. These control activities are used throughout all the following areas of the ICFR model, down to the smallest detail, in each and every one of the sub cycles that are part of the ICFR.

These control processes can be classified with the following different characteristic attributes:

- According to their **nature**:
 - Preventative: prevent financial risks arising.
 - Detective: identify errors once they have been made.
 - Corrective: rectify errors once they have been made.
 - Directive (Policy): controls based on the policies, procedures and instructions of the company; such controls normally require signing or formal approval.
- According to their level of **automation**:
 - Manually: control mechanisms directly executed by people.
 - Semi-automated: control mechanisms executed by people and validated by "IT support"¹, or vice-versa.
 - Automated: control mechanisms "supported by IT".

Among the main procedures that aim to guarantee reliability and transparency in the preparation of financial information, the following are highlighted:

¹IT (Information Technology): Information Technology.

	Appendix to the Annual Corporate Governance Report	2011
---	---	------

- Review of estimates and provisions processes (at income and expense level).
- Review of impairment of recognised company assets.
- Review of the commissioning of assets and associated valuation procedures (items qualifying for capitalisation, monitoring of administrative approvals, technical conditions for commissioning, etc.).
- Review mechanism for mandatory procedures and/or for specific instructions with respect to:
 - Records and/or manual account entries.
 - One-off transactions of significance.
 - The process of closing the Financial Statements, and preparation of the individual and consolidated Financial Statements. The internal regulations guide that regulates these aspects can be found in:
 - i. the "Manual of Accounting Policies" (which sets out Enagás S.A.'s governing accounting policies for performing accounting estimates and preparing the company's Financial Statements and accompanying notes, to ensure that these provide a true and fair view of the company's equity, financial position, results of operations, changes in net equity and cash flows)
 - ii. the "Period-end procedures and closing of accounts procedure for the Individual Financial Statements and Accompanying Notes"
 - iii. the "Period-end procedures and closing of accounts procedure for the Consolidated Financial Statements and Accompanying Notes".
 - The preparation and publication of financial information (including aspects associated with the preparation and approval of the Annual Corporate Governance Report, Annual Accounts, Annual Report, CNMV communications, official communications, etc.). The main internal regulations that regulate these aspects can be found in:
 - i. Procedure on the provision of Regular Reports to Securities Market Regulators
 - ii. the "Period-end procedures and closing of accounts procedure for the Individual Financial Statements and Accompanying Notes"
 - iii. the "Period-end procedures and closing of accounts procedure for the Consolidated Financial Statements and Accompanying Notes".

The Investor Relations Department, the Finance Department, the General Secretariat, the Board of Directors and the Chairman of the Board all play a key role in the process of closing the accounts and, as warranted, their subsequent publication.

2.3.2. Internal control policies and procedures for IT systems (including secure access, control of changes, system operation, continuity and segregation of duties) giving support to key company processes regarding the preparation and publication of financial information.

IT systems play an important role in business cycles, given that at a certain level, they are a key medium used in the preparation of financial reports.

Elements such as **General computer controls** provide a control framework designed to provide a reasonable level of security in IT systems used for financial reports, guaranteeing, to the greatest degree possible, that the information is confidential, available and complete.

	<p align="center">Appendix to the Annual Corporate Governance Report</p>	<p align="center">2011</p>
---	---	----------------------------

The objectives established within the framework of General Computer Controls help achieve control objectives related to the processing of computer generated information, through the defining, development, implementation and reviewing of control activities such as user and authorisation management, administrator management, access control, incident management, change management, operative continuity, information storage and recovery, operations monitoring, etc.

All rules for actions related to IT systems are explained in the "Information Security Policy", which states all the principles which must be followed to ensure the security of information handled by Enagás, S.A.'s IT systems is properly managed.

The "Information Security Policy" led to the creation of a "security policy framework", which highlights the "General Rules for Management of IT Systems", which establishes responsibilities and defines the relationships between the requesting units and the Information Systems Department with regard to the management of Enagás, S.A.'s IT systems.

Integral to the objectives of control of IT systems, is the need to establish an appropriate segregation of duties, which is a prerequisite in order that an ICFR of the kind that Enagás, S.A. has can function efficiently and effectively. It is of vital importance that there is a clear distinction between who has to execute actions related to the treatment of financial information, and who has to review and/or approve them. For this reason, correctly allocating profiles, both in IT systems, as well as positions and functions, are key to the success of the process.

2.3.3. Internal control policies to oversee the monitoring of activities outsourced to third parties, and of the appraisal, calculation or valuation services commissioned from independent experts, when these may materially affect the financial statements.

Enagás S.A. is particularly vigilant about activities carried out by third parties (with the aim of ensuring that there is maximum control over key procedures that may be outsourced, so that they are conducted at the standard that Enagás, S.A. requires). The internal rules that regulate this can be found in "Identification and Treatment Procedures for Service Organizations".

2.4. Information and communication.

Information and communication work relating to the preparation of financial reports are very important in the Enagás, S.A. ICFR, as it involves conveying the applicable control directives to the staff engaged in drawing up financial information, as well as the information systems used in such processes.

2.4.1. There is a specific unit in charge of defining and maintaining accounting policies and settling doubts or disputes over their interpretation, which is in regular communication with the team in charge of operations, as well as a manual of accounting policies that is regularly updated and communicated to all the company's operating units.

Enagás S.A has an "Manual of Accounting Policies" (see section 2.3.1). This document, with the correct level of communication from the Finance Department to the employees to whom it applies, acts as a guideline for accounting records procedures.

The Administration and Accounting Unit, which is part of the Finance Department is responsible for keeping this manual up to date.

	<p align="center">Appendix to the Annual Corporate Governance Report</p>	<p align="center">2011</p>
---	---	----------------------------

2.4.2. Mechanisms in standard format for the capture and preparation of financial information, which are applied and used in all units within the entity or group, and support its main financial statements and accompanying notes as well as disclosures concerning ICFR.

Enagás, S.A. has the following mechanisms:

Internal:

- Enagás, S.A. has a number of formal processes related to the closure and preparation of information related to financial statements and the accompanying notes. In both cases, there are procedural and supervision guides that have to be followed in the process for the closing of financial statements and the preparation of annual accounts.
- Furthermore there is a specific mechanism for the process of formulating the financial statements and accompanying notes, where the Audit and Compliance Committee takes on a special relevance (as part of the remit of the Board of Directors), overseeing this process (it involves, among other things, monitoring the supervision work of the Internal Audit unit as well as that done by the external auditor) before the financial statements are certified by the Board of Directors. The "Regulations on the organisation and duties of the Audit and Compliance Committee of the Board of Directors of Enagás, S.A." regulate all these matters.

External

- The aim of the current mechanism is to supply true and reliable information about Enagás S.A., to external agents. To do this, the "Procedure on the provision of Regular Reports to Securities Market Regulators" regulates all aspects, both in communications to supervisory and/or regulatory organisations, as well as press releases. Web content is regulated by "Procedure for the development, inclusion and maintenance of content on the Enagás web site".

2.5. Monitoring and system functionality

Monitoring and system functionality comprises the prevention phase, through reviews and analyses and, if necessary, correction of design faults and/or system problems. The "ICFR Manual" explains the general guidelines for the supervision and functionality of the ICFR.

2.5.1. Describe the ICFR monitoring activities performed by the Audit Committee, including an indication of whether the entity has an internal audit function whose competencies include supporting the audit committee in its role of monitoring the internal control system, including ICFR.

In this context, one of Enagás, S.A.'s top priorities is to take a proactive, and thereby preventative role during a phase of constantly overseeing the model, to ensure that the model is updated and aligned with both the business and best regulatory practices.

	Appendix to the Annual Corporate Governance Report	2011
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Constant analysis of and following up of the ICFR, detecting possible flaws and making the corresponding improvements and adjustments are achieved by taking the following measures:

- A periodic evaluation of the design and effectiveness of current programmes and anti-fraud controls. Its scope and frequency depends on the importance of the associated risk and the demonstrated effectiveness of the controls in place.
- The participation of Internal Audit, through the supervision functions attributed by the ICFR model from the "General Internal Audit Regulations", the "ICFR Manual" and the "Rules Governing the Organisation and Operation of the Audit and Compliance Committee of the Enagás, S.A. Board of Directors".
- Effective supervision by the Audit and Compliance Committee, relative to overall control of the ICFR model, delegated by the Board of Directors, and instrumented by Internal Audit.
- Report on flaws found, taking corrective measures to solve them, establishing mechanisms to track them and assigning the necessary resources to achieve them, according to the instructions in the "ICFR Manual".
- In the last instance, once finalised, and subsequent to the implementation of the proposed measures, a design and final validation process will be undertaken, which will eventually be incorporated into the ICFR model.

The role of Internal Audit is crucial in the supervision process. Its main objectives are:

- To ensure that all potential risks to the Company are identified, measured and controlled by the relevant departments.
- To ensure and improve the Company's established internal control system.
- To monitor that work schemes and business activities are consistent with the organisation's values.

In order to ensure that these objectives are met, there is an "Annual Internal Audit Plan", which is overseen and approved by the Audit and Compliance Committee, and has, among other things:

- A risk assessment document for each of the Departments that make up the Management Committee.
- The key processes that need revising and their relationship with the Company's strategic objectives (including a specific relationship with the actions to be taken in terms of the ICFR).

2.5.2. A discussion procedure whereby the auditor, the internal audit function and other experts can report any significant internal control weaknesses encountered during their review of the financial statements or other assignments, to the company's senior management and its audit committee or board of directors.

	<p align="center">Appendix to the Annual Corporate Governance Report</p>	<p align="center">2011</p>
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With respect to the Audit and Compliance Committee of the Enagás Board of Directors regarding the monitoring of the System, among its objectives it has to ensure that the auditor, the Internal Audit function and other experts can inform Senior Management and the Board of Directors of any significant internal control weaknesses encountered during their review of the financial statements or other assignments. These reports are made after each review task has been completed.

They also state whether the entity has an action plan to correct or mitigate the weaknesses found. They also are in charge of supervising compliance with internal codes of conduct with relation to Stock Market matters. The reports on the activities of the Audit and Compliance Committee contain important information about communication procedures.

2.6. Other relevant information

Enagás S.A, has voluntarily subjected its ICFR to review since 2008. All reviews have been carried out by Deloitte, S.L., auditor of Enagás, S.A. and the Enagás Group.

2.7. External auditor's report

	Appendix to the Annual Corporate Governance Report	2011
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Appendix to the Annual Corporate Governance Report

2011



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. In the event of a discrepancy, the Spanish-language version prevails.

AUDITORS' REPORT ON THE INFORMATION RELATING TO THE SYSTEM OF INTERNAL CONTROL OVER FINANCIAL REPORTING (ICFR)

To the Board of Directors of Enagás, S.A.:

We have examined the accompanying information relating to the system of Internal Control over Financial Reporting (ICFR) of Enagás, S.A. and Subsidiaries ("the Group"). This examination includes an evaluation of the effectiveness of the system of ICFR in relation to the financial information contained in the Group's consolidated financial statements at 31 December 2011, prepared 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. The objective of this system is to contribute to the transactions performed being presented fairly under the aforementioned accounting framework and to provide reasonable assurance in relation to the prevention or detection of any errors that might have a material effect on the consolidated financial statements. The aforementioned system is based on the rules and policies defined by Group management in accordance with the guidelines established by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in its report "Internal Control-Integrated Framework".

A system of internal control over financial reporting is a process designed to provide reasonable assurance on the reliability of financial information in accordance with the accounting principles and standards applicable to it. A system of internal control over financial reporting includes policies and procedures that: (i) enable the records reflecting the transactions performed to be kept accurately and with a reasonable level of detail; (ii) guarantee that these transactions are only performed in accordance with the authorisations established; (iii) provide reasonable assurance as to the proper recognition of transactions to make it possible to prepare the financial information in accordance with the accounting principles and standards applicable to it; and (iv) provide reasonable assurance in relation to the prevention or timely detection of unauthorised acquisitions, use or sale of assets of a company which could have a material effect on the financial information. The limitations inherent to any system of internal control over financial reporting might give rise to errors, irregularities or fraud that might not be detected. Also, the projection to future periods of an evaluation of internal control is subject to risks, including the risk that the internal controls are rendered inadequate as a result of future changes in the applicable conditions or that there is a reduction in the future in the degree of compliance with the policies or procedures established.

Group management is responsible for maintaining the system of internal control over the financial information included in the consolidated financial statements and for evaluating its effectiveness. Our responsibility is limited to expressing an opinion on its effectiveness, based on the work performed by us in accordance with the requirements established in Standard ISAE 3000: "Assurance Engagements Other than Audits or Reviews of Historical Financial Information" issued by the International Auditing and Assurance Standards Board (IAASB) of the International Federation of Accountants (IFAC) for the issuance of reasonable assurance reports.

	<p align="center">Appendix to the Annual Corporate Governance Report</p>	<p align="center">2011</p>
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A reasonable assurance engagement includes understanding the system of internal control over the financial information contained in the consolidated financial statements, evaluating the risk of there being material errors therein, performing tests and evaluations of the design and operating effectiveness of the system, and performing such other procedures as we consider appropriate. We consider that our examination provides a reasonable basis for our opinion.

In our opinion, at 31 December 2011, the Group maintained, in all material respects, an effective system of internal control over the financial information contained in its consolidated financial statements, and this internal control system is based on the rules and policies defined by Group management in accordance with the guidance established by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in its report "Internal Control-Integrated Framework". Also, the disclosures contained in the information relating to the system of ICFR which is included in the Group's Annual Corporate Governance Report at 31 December 2011 are in accordance, in all material respects, with the requirements established by Securities Market Law 24/1988, of 28 July, as amended by Sustainable Economy Law 2/2011, of 4 March, and other legislation in force.

This examination does not constitute an audit of financial statements and is not subject to the Consolidated Audit Law approved by Legislative Royal Decree 1/2011, of 1 July, and, therefore, we do not express an audit opinion under the terms of the aforementioned legislation. However, we have audited, in accordance with the audit regulations in force in Spain, the consolidated financial statements of Enagás, S.A. and Subsidiaries prepared by the directors of Enagás, S.A. 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, and our report dated 16 February 2012 expresses an unqualified opinion on the aforementioned consolidated financial statements.

DELOITTE, S.L.



Jesús María Navarro

16 February 2012

	Appendix to the Annual Corporate Governance Report	2011
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