# ENAGÁS, S.A.
# and
# Subsidiaries

# Consolidated Financial Statements
# at 31 December 2011

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

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 36). 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 2011 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 2011 present fairly, in all material respects, the consolidated equity and consolidated financial position of Enagás, S.A. and Subsidiaries at 31 December 2011, 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 2011 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 2011. 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

Jesús María Navarro
16 February 2012

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.

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

**ENAGÁS S.A. AND SUBSIDIARIES**
**CONSOLIDATED BALANCE SHEET AT 31 DECEMBER 2011**
**(Figures in thousands of euros)**

| Assets | Note | 31/12/2011 | 31/12/2010 |
|---|---|---|---|
| NON-CURRENT ASSETS | | 5,722,581 | 5,228,603 |
| Intangible assets | 5 | 54,815 | 36,629 |
| Property, plant and equipment | 6 | 5,580,070 | 5,123,748 |
| Investments in subsidiaries and associates | 8 | 4,718 | 880 |
| Other non-current financial assets | 8 | 53,573 | 31,932 |
| Deferred tax assets | 22 | 29,405 | 35,414 |
| CURRENT ASSETS | | 1,994,818 | 1,600,533 |
| Non-current assets held for sale | 9 | - | 31,336 |
| Inventories | 10 | 13,785 | 5,328 |
| Trade and other receivables | 11 | 545,024 | 366,483 |
| Other current financial assets | 8 | 6,609 | 108,042 |
| Other current assets | | 2,077 | 2,293 |
| Cash and cash equivalents | 12 | 1,427,323 | 1,087,051 |
| TOTAL ASSETS | | 7,717,399 | 6,829,136 |

| Liabilities | Note | 31/12/2011 | 31/12/2010 |
|---|---|---|---|
| EQUITY | | 1,861,596 | 1,736,245 |
| CAPITAL AND RESERVES | | **1,867,377** | **1,738,836** |
| Issued capital | 13 | 358,101 | 358,101 |
| Reserves | 13 | 1,235,591 | 1,121,739 |
| Profit for the year | | 364,643 | 333,481 |
| Interim dividend | 13 | (90,958) | (74,485) |
| NET UNREALISED GAINS (LOSSES) RESERVE | 13 | **(5,781)** | **(2,591)** |
| NON-CURRENT LIABILITIES | | 3,878,061 | 4,006,240 |
| Non-current provisions | 15 | 91,555 | 34,352 |
| Non-current financial liabilities | 16 | 3,323,065 | 3,678,134 |
| Non-current borrowings from related parties | 16 | 657 | - |
| Deferred tax liabilities | 22 | 386,795 | 214,664 |
| Other non-current liabilities | 17 | 75,989 | 79,090 |
| CURRENT LIABILITIES | | 1,977,742 | 1,086,651 |
| Liabilities associated with non-current assets held for sale | 9 | - | 5,857 |
| Current provisions | 15 | - | 3,294 |
| Current financial liabilities | 16 | 1,606,544 | 730,847 |
| Current borrowings from related parties | 16 | 4,746 | - |
| Trade and other payables | 20 | 366,452 | 346,653 |
| TOTAL EQUITY AND LIABILITIES | | 7,717,399 | 6,829,136 |

Notes 1 to 36 set forth in the accompanying financial information are an integral part of the consolidated balance sheet at 31 December 2011

*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 36). 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 2011

### (Figures in thousands of euros)

| | Notes | Year ended 31/12/2011 | Year ended 31/12/2010 |
|---|---|---|---|
| Revenue from regulated activities | 23 | 1,096,280 | 965,995 |
| Revenue from liberalised activities | 23 | 22,163 | 15,740 |
| Other operating income | 23 | 18,590 | 18,830 |
| Employee benefits expense | 24 | (66,958) | (67,194) |
| Other operating costs | 24 | (202,281) | (151,926) |
| Depreciation and amortisation | | (299,598) | (249,898) |
| Impairment losses and gains (losses) on disposal of assets | | 17,751 | (659) |
| **OPERATING PROFIT** | | **585,947** | **530,888** |
| Finance revenue | 25 | 33,974 | 19,713 |
| Finance costs | 25 | (99,259) | (78,314) |
| Exchange differences (net) | 25 | (333) | - |
| **PROFIT BEFORE TAX FROM CONTINUING OPERATIONS** | | **520,329** | **472,287** |
| Income tax expense | 22 | (155,686) | (138,806) |
| **PROFIT FOR THE YEAR FROM CONTINUING OPERATIONS** | | **364,643** | **333,481** |
| **PROFIT FOR THE YEAR** | | **364,643** | **333,481** |
| Attributable to: | | | |
| **Equity holders of the parent** | | **364,643** | **333,481** |
| **BASIC EARNINGS PER SHARE** | 14 | **1.53** | **1.40** |
| **DILUTED EARNINGS PER SHARE** | 14 | **1.53** | **1.40** |

Notes 1 to 36 set forth in the accompanying financial information are an integral part of the consolidated profit income statement for the year ended 31 December 2011

*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 36). 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 2011

**Figures in thousands of euros**

| | Year ended 31/12/2011 | Year ended 31/12/2010 |
|---|---|---|
| **CONSOLIDATED PROFIT FOR THE YEAR** | **364,643** | **333,481** |
| **INCOME AND EXPENSE RECOGNISED DIRECTLY IN EQUITY:** | **(9,999)** | **(2,794)** |
| Remeasurement of financial instruments | | |
| Available-for-sale financial assets | - | - |
| Cash flow hedges | (14,271) | (3,992) |
| Tax effect | 4,272 | 1,198 |
| **INCOME AND EXPENSE RECLASSIFIED TO PROFIT AND LOSS:** | **6,809** | **12,377** |
| Remeasurement of financial instruments | | |
| Available-for-sale financial assets | - | - |
| Cash flow hedges | 9,727 | 17,682 |
| Tax effect | (2,918) | (5,305) |
| **TOTAL RECOGNISED INCOME/(EXPENSE)** | **361,453** | **343,064** |
| Attributable to equity holders of the parent | 361,453 | 343,064 |

*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 36). 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 2011
### Figures in thousands of euros

| | Issued capital | Share premium | Retained earnings | Profit for the year | Interim dividend | Net unrealised gains (losses) | Equity |
|---|---|---|---|---|---|---|---|
| **BALANCE AT 1 JANUARY 2010** | **358,101** | **1,004,859** | | **298,031** | **(67,562)** | **(12,174)** | **1,581,255** |
| **Total recognised income/(expense)** | - | - | - | **333,481** | - | **9,583** | **343,064** |
| **Transactions with shareholders and owners** | - | - | - | **(111,256)** | **(74,485)** | - | **(185,741)** |
| - Capital increases/(decreases) | - | - | - | - | - | - | - |
| - Conversion of financial liabilities into equity | - | - | - | - | - | - | - |
| - Dividends paid | - | - | - | (111,256) | (74,485) | - | (185,741) |
| - Transactions with treasury shares (net) | - | - | - | - | - | - | - |
| - Business combinations | - | - | - | - | - | - | - |
| - Other transactions with shareholders and owners | - | - | - | - | - | - | - |
| **Other changes in equity** | - | **116,880** | - | **(186,775)** | **67,562** | - | **(2,333)** |
| - Share-based payments | - | - | - | - | - | - | - |
| - Transfers between equity accounts | - | - | - | (186,775) | - | - | (186,775) |
| - Other changes | - | 116,880 | - | - | 67,562 | - | 184,442 |
| **BALANCE AT 31 DECEMBER 2010** | **358,101** | **1,121,739** | - | **333,481** | **(74,485)** | **(2,591)** | **1,736,245** |
| Restatements for changes in accounting policies in 2010 | - | - | - | - | - | - | - |
| Restatements for prior-period errors | - | - | - | - | - | - | - |
| **RESTATED BALANCE AT 1 JANUARY 2011** | **358,101** | **1,121,739** | - | **333,481** | **(74,485)** | **(2,591)** | **1,736,245** |
| **Total recognised income/(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** |

## ENAGÁS, S.A. AND SUBSIDIARIES
## CONSOLIDATED CASH FLOW STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2011
### Figures in thousands of euros

| | 2011 | 2010 |
|---|---|---|
| **PROFIT BEFORE TAX** | **520,329** | **472,287** |
| **Adjustments to profit** | **348,756** | **307,901** |
| Depreciation and amortisation expense | 299,598 | 249,898 |
| Other adjustments to profit | 49,158 | 58,003 |
| **Changes in working capital** | **(175,577)** | **(25,235)** |
| Inventories | 347 | 1,131 |
| Trade and other receivables | (185,778) | (41,817) |
| Other current assets | (4,689) | (3,277) |
| Trade and other payables | 14,543 | 18,728 |
| **Other cash flows used in operating activities** | **(126,011)** | **(126,082)** |
| Interest paid | (113,430) | (104,710) |
| Interest received | 33,519 | 13,685 |
| Income tax received (paid) | (46,100) | (29,136) |
| Other cash inflows (outflows) | - | (5,921) |
| **NET CASH FROM OPERATING ACTIVITIES** | **567,497** | **628,871** |
| **Payments on investments** | **(632,885)** | **(763,353)** |
| Subsidiaries and associates | (4,718) | (33,601) |
| Property, plant and equipment and investment property | (583,216) | (629,452) |
| Other financial assets | (44,951) | (100,300) |
| **Proceeds from disposals** | **41,500** | **1,211** |
| Subsidiaries and associates | 25,400 | 1,000 |
| Property, plant and equipment and investment property | 15,521 | 102 |
| Other financial assets | 579 | 109 |
| **NET CASH USED IN INVESTING ACTIVITIES** | **(591,385)** | **(762,142)** |
| **Proceeds from (payments on) financial liabilities** | **580,722** | **765,540** |
| Issues | 1,243,289 | 880,542 |
| Repayments and redemptions | (662,567) | (115,002) |
| **Dividends paid** | **(216,562)** | **(185,742)** |
| **NET CASH FROM FINANCING ACTIVITIES** | **364,160** | **579,798** |
| **NET INCREASE IN CASH AND CASH EQUIVALENTS** | **340,272** | **446,527** |
| Cash and cash equivalents at 1 January | 1,087,051 | 640,524 |
| **CASH AND CASH EQUIVALENTS AT 31 DECEMBER** | **1,427,323** | **1,087,051** |

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

## 1. Group activity

Enagás, S.A., the parent company, is incorporated in Spain in accordance with the Spanish Corporate Enterprises Act. Its corporate purpose is the import, acquisition and sale of natural gas on the regulated domestic market, and its regasification, storage and transport both for the regulated and the liberalised market, the transportation and storage of carbon dioxide, hydrogen, biogas and other energy-related fluids, the exploitation of heat, cold and energy associated with its main activities or results thereof and potential participation in activities related to the management of natural gas markets. Its registered office is at Paseo de los Olmos, no. 19, 28005 Madrid. The company's Bylaws and other public information about the Group may be consulted on its official website, www.enagas.es, and at its registered office.

In addition to the operations it carries out directly, Enagás, S.A. is the head of a group of companies that includes interests in joint ventures 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 joint ventures and investments in associates.

The consolidated annual financial statements of the Group and those of each of the entities comprising the Group for the financial year 2011, which have served as the basis for the preparation of these consolidated annual financial statements, are pending the approval at their respective Shareholders' 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 2011 have been prepared by the directors, at a meeting of the Board of Directors held on 6 February 2012, 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 annual financial statements give a true and fair view of the equity and financial position of the Group at 31 December 2011, 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 2011 have been prepared from the accounting records kept by the parent company and by the other entities comprising the Group.

The 2010 consolidated annual financial statements included for comparative purposes have also been prepared in accordance with the IFRS adopted by the European Union and applied on a basis consistent with those applied in 2009. The 2008 financial statements were approved by the parent company's shareholders in general meeting on 25 March 2011.

The financial year for the companies comprising the Group ends on 31 December. These companies' financial statements as of that date are used for consolidation purposes, except for Gasoduto Braga-Tuy, S.A. and Gasoduto Campo Maior–Leiria-Braga, S.A. which, because of the date on which their annual financial statements are approved and their scant materiality, were consolidated in the 2010 consolidated financial statements on the basis of their 30 November 2010 close.

Note 3 includes the most significant accounting principles and measurement bases used in preparing the consolidated financial statements of the Group for 2011.

### 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 2011 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-a and 3-b)
- The measurement of assets to determine impairment losses (Note 3-c)
- Forecasts for invoices pending issue
- Provisions for impairment of replacement parts for property, plant and equipment (Note 3-c)
- Prior years' accounts pending settlement with the government (Note 3-q)
- Provisions for dismantling/abandonment costs (Note 3.b)

Although these estimates were made on the basis of the best information available at 31 December 2011 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 2011 the following changes in the scope of consolidation of Enagás Group have occurred:

· In January, the agreements severing ties with Gasoduto Campo Maior-Leiria Braga, S.A. and Gasoducto Braga-Tuy, S.A. took effect.

· The acquisition of 100% of Iberdrola Infraestructuras Gasistas, S.L.U. from Iberdrola, S.A. closed in April. The acquiree's registered business name was changed to "Gasoducto de Escombreras, S.L.U." on 6 May 2011. This investee's financial metrics have not been included in the accompanying financial statements as its contribution to the Group is not material.

· In July, Enagás, S.A. incorporated Enagás Altamira, S.L.U. as a wholly-owned subsidiary. As a result, this company is now fully consolidated within Enagás Group.

· Enagás Altamira, S.L.U. acquired 40% of Terminal de LNG de Altamira, S. de R.L. de CV. in September through Altamira LNG, CV. As a result, this company has been consolidated by Enagás Group since 13 September 2011 using the proportionate method of consolidation.

### 2.4 Basis of consolidation

Enagás, S.A.'s investees included in the scope of consolidation are engaged in the transport and regasification of gas.

The annual financial statements of joint ventures are consolidated using proportionate consolidation, combining the balances and subsequent eliminations in proportion to the Group's interest in these companies' share capital.

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 its activities. Potential voting rights held by the Group which are exercisable or convertible at year-end compute to this end.

Jointly-controlled entities are those in which control, as defined in the last paragraph, is shared with other shareholders (venturers) under a contractual arrangement.

The consolidation is carried out as follows:

a. The proportionate method of consolidation was used to consolidate the jointly-controlled entities managed jointly 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.

b. The wholly-owned subsidiary Enagás Altamira, S.L.U. was fully consolidated.

c. Intragroup transactions: All credits, debits, income, expenses and results from transactions with other Group companies are eliminated on consolidation in proportion to Enagás, S.A.'s interest in the companies' share capital.

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

e. Translation of financial statements denominated in foreign currencies: The individual financial statements of all Companies included in the scope of consolidation are presented in euros, except for Altamira LNG, CV and Terminal de LNG de Altamira, S. de RL. de CV, both of which keep their accounts in US dollars. These companies' financial statements were translated into euros as part of Enagás Group's consolidation process.

f. Elimination of dividends: Internal 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' distributed profit are eliminated by treating them as reserves of the receiving company and included under "Reserves".

Note 34 includes the most significant aspects of the Group's joint ventures in existence at the end of 2011.

### 2.5 Comparison of information

The information provided on 2010 is presented solely for comparison purposes with the information for 2011.

### 2.6 Accounting standards and principles

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

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

- **Revised IAS 24 Related Party Disclosures**

  The revision of IAS 24 provides for partial exemption from certain disclosures when the relationship is between state-owned or government-related entities (or similar government institution) and revises the scope of disclosure required, following the incorporation of the definition of related party to clarify the relationship between companies under joint control and associated with a single investor that were not previously explicit in the standard.

Effectiveness of this standard has not changed the definition of the Group's related parties in any way.

- **IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments**

  This interpretation clarifies how a debtor should recognise the settlement, in full or in part, of a financial liability using equity instruments issued to the creditor. The interpretation does not apply in this type of transaction when the counterparties in question are shareholders or related parties and act as such, or when the exchange of debt for equity instruments was already envisaged in the terms of the original contract. In all other instances, the issue of equity instruments will be measured at their fair value at the date of extinguishment of the liability and any difference between this value and the carrying amount of the liability will be recognised in profit or loss.

  This interpretation has not implied any change in the Group's accounting policies since it has treated transactions of this nature in the past in keeping with this new IFRIC. Moreover, the Group has not performed any transactions of this type in 2011.

- **Amendment to IAS 32 – Classification of Rights Issues**

  This amendment addresses the accounting for rights issues (rights, options or warrants) that are denominated in a foreign currency. This amendment establishes that shareholder rights to acquire a fixed number of rights issues for a fixed price must be treated as equity instruments, irrespective of the currency in which this fixed price is denominated, provided other requirements of the standard are met.

  This amendment has not had any impact on the classification of rights over shares as the Group does not have any of these instruments.

- **Improvements to IFRS (issued in May 2010)**

  This document introduces a series of improvements to IFRS standards currently in force, essentially to eliminate inconsistencies and clarify the wording of some of these rules. The application of these standards had no impact on the Group's financial position or results.

- **Amendment to IFRIC 14 - Prepayments of a Minimum Funding Requirement**

  The amendment to this interpretation of employee benefit plans applies in the limited circumstances when an entity is subject to minimum funding requirements and makes an early payment of contributions to cover those requirements. The amendment permits such an entity to treat the benefit of such an early payment as an asset.

  This amendment has not implied any change in how the Group's minimum funding requirements are recognised.

### b. Standards, principles and changes in issue but not effective in 2011

At the time of preparation of these financial statements, the following are the most important standards and principles that had been published by the IASB but had not yet entered into force, 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** | **Mandatory application for annual periods beginning on or after:** |
| Amendments to IFRS 7 – Financial Instruments: Disclosures – Transfers of Financial Assets (released October 2010) | Expands and reinforces disclosures on financial asset transfers. | Annual periods beginning on or after 01 July 2011 |

| Not yet approved for use in the European Union | | |
|---|---|---|
| **Standards, amendments and interpretations** | **Content** | **Mandatory application for annual periods beginning on or after:** |
| IFRS 9 Financial Instruments: Classification and Measurement (released November 2009 and October 2010) | Replaces the requirements for classifying, measuring and derecognising financial assets and liabilities under IAS 39 | Annual periods beginning on or after 01 January 2015 |
| Amendments to IAS 12 - Income Taxes - Deferred tax on investment properties (issued in December 2010) | Stipulates that deferred taxes on investment properties be calculated in accordance with the IAS 40 fair value model | Annual periods beginning on or after 01 January 2012 |
| IFRS 10 Consolidated Financial Statements (issued in May 2011) | Replaces the current consolidation requirements under IAS 27 | Annual periods beginning on or after 1 January 2013 |
| IFRS 11 Joint Arrangements (issued in May 2011) | Replaces the current IAS 31 Interests in Joint Ventures | Annual periods beginning on or after 1 January 2013 |
| IFRS 12 Disclosures of Interests in Other Entities (issued in May 2011) | A single standard encompassing the disclosures required with respect to investments in subsidiaries, associates, joint ventures and non-consolidated entities | Annual periods beginning on or after 1 January 2013 |
| IFRS 13 Fair Value Measurement (issued in May 2011) | Provides the framework for fair value measurements | Annual periods beginning on or after 1 January 2013 |
| IAS 27 (Revised) Separate Financial Statements (issued in May 2011) | This standard is revised to reflect the fact that the newly-issued IFRS 10 will only prescribe how an entity should prepare its consolidated financial statements | Annual periods beginning on or after 1 January 2013 |
| IAS 28 (Revised) Investments in Associates and Joint Ventures (issued in May 2011) | This revision is parallel to the issuance of IFRS 11 Joint Arrangements | Annual periods beginning on or after 1 January 2013 |
| Amendments to IAS 1 Presentation of Items of Other Comprehensive Income (issued in June 2011) | Minor amendments with respect to the presentation of 'other comprehensive income' | Annual periods beginning on or after 01 January 2012 |
| Amendments to IAS 19 Employee Benefits (issued in June 2011) | The changes primarily affect defined benefit plans as one of the biggest changes is the elimination of the 'corridor method' | Annual periods beginning on or after 1 January 2013 |
| Amendments to IFRS 9 and IFRS 7 - Mandatory effective date and transition disclosures (issued in December 2011) | These amendments move the mandatory effective date of IFRS 9 back, change disclosure and transition requirements | N/A |
| Amendments to IAS 32 Offsetting Financial Assets and Financial Liabilities (issued in December 2011) | These amendments provide additional clarification on the rules for offsetting financial assets and liabilities under IAS 32 and introduce new disclosures requirements related to IFRS 7 | Annual periods beginning on or after 01 January 2014 |
| Amendments to IFRS 7 Offsetting Financial Assets and Financial Liabilities (issued in December 2011) | | Annual periods beginning on or after 1 January 2013 |
| IFRIC 20: Stripping Costs in the Production Phase of a Surface Mine (released October 2011) | The IFRS interpretation committee addresses the accounting treatment of the costs of eliminating waste material in 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**

  IFRS 9 will replace the classification and measurement sections of the current IAS 39. The new standard will introduce material differences with respect to the prevailing standard in relation to financial assets, including the approval of a new classification method based on just two categories: amortised cost and fair value; the elimination of the current categories "Held-to-maturity investments" and "Available-for-sale financial assets"; impairment testing solely for financial assets carried at amortised cost; and removal of the requirement to separate embedded derivatives from financial asset hosts.

  In relation to financial liabilities, the classification categories proposed under IFRS 9 are similar to those in existence under IAS 39, so that application of the new standard should not imply material departures in this respect other than the requirement to recognise changes in fair value arising from changes in own credit risk in equity in the case of financial liabilities using the fair value option.

  Management has yet to assess the implications of adopting of this standard.

- **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 amends the current definition of control. The new definition of control comprises three requirements which must be met:

  i. Power over the investee
  ii. Exposure, or rights, to variable returns from its involvement with the investee, and
  iii. Ability to use its power over the investee to affect the amount of the returns to the asset manager

  The Group is in the process of analysing how this new definition of control will affect its scope of consolidation. To date, the analysis shows that the quantitative impact will not be material in respect of 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 not have to be consolidated using the equity method.

  This new standard will affect, albeit not materially so, the Group's consolidated financial statements: to date, the Group has been consolidating its jointly controlled entities in its financial statements using the proportionate method of consolidation (Note 2.4). The impact of consolidating the jointly controlled entities described in Note 2.4 using the equity method instead of the proportionate method would be to reduce total assets by approximately 150 million euros and operating profit by 7 million euros, all calculated on the basis of the Group's current figures.

  The amendments to IAS 27 and IAS 28 are parallel to the issue of the new standards outlined above.

  Their application by the Group will not have any implications other than those already indicated above.

  Lastly, IFRS 12 lists the disclosure requirements for investments held in other entities (be they subsidiaries, associates, joint ventures or other investments) 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.

## 3. Measurement bases

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

### a. Intangible assets

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

The criteria used to recognise the 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 (see note 3c).

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 recognises as expenses in the consolidated income statement all research and development costs whose technical and commercial feasibility cannot be established. Research and development costs recognised as expenses in the accompanying consolidated income statement amounted to 1,797 thousand euros in 2011 and 1,674 thousand euros in 2010, and related entirely to research.

Service concession arrangements may only be capitalised when the 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 computer systems are recognised under "Property, plant and equipment" in the consolidated balance sheet. Maintenance costs related to the computer systems are recognised with a charge to the consolidated income statement in the year in which they are incurred. Computer software is measured in the amount paid for ownership or the right to use the computer applications, or production cost if internally developed. 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:

| | Depreciation 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 |
| Software | 25% | 4 |

In 2008, the Environment Ministry published the definitive, free allocation of greenhouse gas emission rights to Enagás, S.A. plants. This allocation is included in the National Allocation Plan for 2008-2012. In 2011, Enagás, S.A. delivered greenhouse gas emission rights equivalent to its emissions in 2010.

The Group recognises emission rights as non-amortisable intangible assets in the same way as its other assets; initially at acquisition cost, then making the pertinent write-down where fair value is lower than the aforementioned cost.

Rights received free of charge in accordance with the National Allocation Plan for 2008-2012 are deemed to have zero cost since the Group presents the assets net of the subsidies (see Note 28).

**b. <u>Property, plant and equipment</u>**

Property, plant and equipment are valued initially at acquisition price 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 criterion 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 net carrying amount of replaced assets is deducted. In contrast, regular upkeep, repairs and maintenance expenses are expensed currently.

Capitalised costs include:

1. Finance 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 is 2.93% in 2011 (2.83% in 2010).

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 accompanying 2011 consolidated income statement for 2010 as a decrease in employee benefits expense (see 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 and the Yela underground storage facilities 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 "Provisions" (Note 15) in the accompanying consolidated balance sheet. In addition, this provision has been adjusted for discounting in subsequent periods.

Subsequent to RD 1061/2007 of 20 July 2007, which grants Enagás the concession to operate the Yela underground natural gas storage facility in compliance with article 25.3 of Law 34/1998 of 7 October, which establishes a provision of 14.7 million euros for dismantling costs, this amount was recorded as an increase in the value of the asset. This provision will be discounted each year to reflect the financial impact of a long-term account receivable from the National Energy Commission (the Spanish energy regulator, hereinafter the "CNE" for its initials in Spanish), given that, once the dismantling is approved, the company may 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 addition, in keeping with article 25.3 of Law 34/1998, of 7 October 1998, the Company has recognised the provision for dismantling work at the "Gaviota" underground storage facility. Note that the Company reached an agreement with Repsol Investigaciones Petrolíferas, S.A. and Murphy Spain Oil, S.A., this facility's former owners, to acquire Gaviota in 2010. However, it did not obtain all the required regulatory approvals until April 2011, which is the date on which Enagás, S.A. recognised the related provision.

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 net 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 period if shorter.

Both natural gas related to the minimum linepack for system security of the gas pipelines and the minimum LNG stock level of the regasification plants (also called the "gas talón") were 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 (see 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 | 10% | 10 |
| 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 amount of the sale and the carrying amount of the asset and is recognised in the income statement under "Impairment loss or gain on disposals of non-current 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.

### c. Impairment of property, plant and equipment and intangible assets

At each balance sheet date, or when deemed necessary, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. 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 present value of the estimated future cash flows. The Group uses value in use in nearly all cases to calculate the recoverable value 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 current 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 expense" in the consolidated income statement.

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.

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.

## d. Operating 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.

## e. Financial assets

Financial assets are recognised in the consolidated balance sheet when the Group becomes one of the parties 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.

- Available-for-sale financial assets. These are all other assets not classified in any of the preceding categories. These investments are presented in the consolidated balance sheet at fair value, when this can be determined reliably. Gains and losses arising from changes in fair value, net of tax, are recognised directly in "Equity - net unrealised gains (losses) reserve" in the consolidated balance sheet until this investment is disposed of, at which time the cumulative gain or loss previously recognised in the revaluation reserve is recognised in the consolidated income statement. If fair value is lower than cost, the difference is recognised directly in the consolidated income statement.

Held-to-maturity investments and loans and receivables originated by the companies are measured at amortised cost, with accrued interest recognised in the income statement in accordance with the effective interest rate.

Cash and cash equivalents

This heading in the consolidated balance sheet includes cash on hand, sight deposits and other highly liquid short-term 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 records the corresponding impairment provisions for 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.

## f. Non-current assets held for sale

The Group records as "Non-current assets held for sale" intangible assets, plant, property and equipment, or those assets included under "Investments accounted for using the equity method" and assets subject to disposal (group of assets that are to be disposed of along with their directly associated liabilities) for which, at the closing date of the consolidated balance sheet, active negotiations have begun for their sale and it is estimated that it will take place within twelve months from that date.

These assets are measured at the lower of the carrying amount or estimated sale value less the costs necessary to carry out their sale, and are no longer depreciated from the moment they are recognised as such.

Non-current assets held for sale and the associated liabilities are presented in the balance sheet under "Non-current assets held for sale" and "Liabilities associated with non-current assets held for sale."

At 31 December 2010, Enagás, S.A.'s investments in Gasoduto Campo Maior-Leiria-Braga, S.A. and Gasoduto Braga-Tuy, S.A. were classified as non-current assets held for sale (Note 9).

## g. Inventories

Natural gas inventories

The only natural gas inventories held by Enagás, S.A. are those held as 'cushion' gas and line-pack 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 cost of direct 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.

In addition, the company assesses the net realisable value of inventories at the balance sheet date and recognises any necessary impairment charges. When the circumstances that had previously caused inventories to be written down 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.

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 18.

The Company 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 on 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 – Hedges" in the accompanying consolidated balance sheet. The accumulated gain or loss on the hedging instrument is taken to the 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 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.

Derivatives embedded in other financial instruments or host contracts are treated as separate derivatives when their risks and characteristics are not closely related to those of the host contracts and the host contracts are not measured at fair value with changes in fair value recognised in profit or loss.

### i. Trade and other payables

Trade payables are non-interest bearing and are stated at nominal value.

### j. Classification of payables into current and non-current

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.

### k. Pension obligations

Enagás 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 its custodian Banco Bilbao Vizcaya Argentaria, S.A., and which covers the company's obligations with respect to serving employees. The company recognises certain vested rights for past service and undertakes to make monthly contributions averaging 6.8% of eligible salary. It is a mixed plan covering retirement benefits, disability and death.

The contributions made each year by the company 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 "Provisions – Provisions for pensions and similar obligations" in the consolidated balance sheet.

The company has committed to pay senior management and other top-ranking employees a variable sum as a bonus for fulfilling certain requirements during their time with the company, normally an amount based on the remuneration being earned at the moment of retirement.

### l. 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.

### m. Provisions

The Group makes a distinction 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 financial statements of the Group include all significant provisions where 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 (see Note 15).

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.

At year-end 2011 a number of legal proceedings and claims had been filed against consolidated companies in connection with the ordinary course of their business. 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 annual financial statements of the years in which they are resolved.

### n. 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, S.A.'s basic network to networks owned by distributors, secondary transporters, gas supply companies and eligible customers. This revenue is taken to profit and loss on the basis of the useful life of the assigned installations.

### o. 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 company'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 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 28 December 2010, the Ministry of Industry, Tourism and Commerce published the Order (ITC/3354/2010) establishing the tolls and royalties applicable to third-party access to gas installations applicable in 2011 as well as the last resort tariff, in addition to updating certain aspects relating to remuneration of regulated gas sector activities.

On 17 November 2011, the Ministry of Industry, Tourism and Commerce published an Order (ITC/3128/2011) updating certain aspects relating to third-party access to gas installations and how regulated activities are remunerated.

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

- Transport
- Regasification, including loading of LNG tank and the transfer of LNG to tankers
- Storage
- Technical system management
- Generation of the minimum operating level for LNG ships and of the minimum linepack for gas pipelines (see Note 3-b)
- Own consumption of natural gas
- Sales of condensates at the recently acquired Gaviota storage facility
- Interest applicable to the remuneration received from the settlement system

- Regasification shrinkage incentive
- Overall incentive for availability

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

Interest revenue is accrued on a time proportion basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

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

**p. <u>Expense recognition</u>**

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 necessary requirements for it to be recorded as an asset are not met.

**q. <u>Income tax expense</u>**

Income tax expense is recognised in the consolidated income statement or in equity accounts in the consolidated balance sheet depending on where the gains or losses giving rise to it have been recognised. Deferred tax assets and liabilities are recognised on differences between the carrying amounts of assets and liabilities and the corresponding tax bases and are calculated using the tax rates that are expected to apply when the assets are realised or the liabilities 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 accounts 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.

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.

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.

**r. <u>Earnings per share</u>**

Basic earnings per share is calculated by dividing profit or loss attributable to owners 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 14).

**s. <u>Consolidated cash flow statement</u>**

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

<u>Cash flows</u>: inflows and outflows of cash and cash equivalents, defined as highly liquid, short-term investments with low risk of experiencing significant fluctuations in the value.

Operating activities: the entity's ordinary operating activities and any other activities that cannot be classified as investing or financing activities.

Investing activities: the acquisition and 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

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

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

This Royal Decree adapts the transport remuneration system to the model which began to be defined in late 2006, further reinforcing convergence with the compensation system for electricity transmission, and with the remuneration schemes in place for analogous regulated activities in neighbouring European nations.

The remuneration calculation formula is similar to those for regasification and underground storage. Like those, it is based on net assets, though for transport, investments are updated annually at a rate of 2.5%.

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.

Ministerial Order ITC/3354/2010 of 28 December 2010 established remuneration for regulated activities within the gas sector for 2011 and the tolls and royalties applicable to third-party access to the gas installations.

Ministerial Order ITC/3128/2011 of 17 December 2011 regulates certain aspects of third-party access to the gas installations as well as remuneration of regulated activities in the natural gas system.

The following provisions stand out:

- The legislation enacts the application of unit position values, transport facility maintenance centres and the procedure to be used to appraise extensions to transport infrastructure used for regulated activities, clarifying certain practical implementation aspects.

- Introduction of an incentive for reducing shrinkage in the transport system by means of application of a formula similar to that already applied at the regasification facilities.

- Publication of the new benchmark unit values for investment and operating and maintenance costs for regasification facilities, in keeping with the CNE's proposal, applicable from 2012.

- Modification of the regime for remunerating operating and maintenance costs at the natural gas storage facilities. Broadly speaking, the fixed and variable benchmarks of the old model have been replaced by a series of direct and indirect costs in an attempt to better reflect these costs as they occur and evolve. Establishment of the definitive remuneration for the Serrablo and Gaviota underground storage facilities in this respect for 2007 and 2008 and of the related provisional remuneration for 2009, 2010 and 2011.

• Clarification of specific points concerning the benchmark investment and maintenance unit values for the transport facilities, separating the cost of linear works from work on the position points and extending application to facility extension work. Specific reference to the application of the unit values to the maintenance centres, establishing certain parameters which are vital to calculating the remuneration on these assets, such as their useful lives.

• Establishment of a daily balancing system for the day following the "gas day" on the basis of data provided by distributors. Introduction of a procedure intended to provide an incentive to furnish the required information on time.

• Maintenance of the obligation to maintain minimum natural gas inventories at the higher level of 20 days for strategic purposes, adapting the capacity allocation mechanisms to this new level.

• Award of the outstanding remuneration for certain installations associated with the Serrablo underground storage facility.

• Introduction of a mandate regarding "*Minimum technical specifications for operating the regasification facilities*" by virtue of which the CNE will have three months to present a proposal to the Directorate General for Energy Policy and Mining stipulating the minimum technical requirements for each regasification facility and the minimum non-transportable areas from the transportation grid. To this end, the CNE shall form the taskforces it deems appropriate, including representatives from gas suppliers, regasification plant owners, transporters and the Technical System Manager. The proposal must include an analysis of the investments needed to reduce each facility's minimum operating requirements as well as the minimum non-transportable areas.

Order IET/3587/2011 of 30 December 2011, establishing 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 updated unit investment and operating expense values applicable to the regasification, transport and storage installations for 2012. The methodology established in earlier years was left intact and only the remuneration granted for 2012 was updated.

The tolls and royalties for third-party access to the gas installations established in this Order imply an average increase of 4.35% (vs. 4% the prior year). The underground storage royalty was left unchanged year-on-year.

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

**a.1) Recognised fixed cost.** 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.

- <u>Value of recognised assets</u>. For installations put into service before 2002, the remuneration is calculated based on the book value of the assets after the revaluation of 1996 (Royal Decree Law 7/1996), less grants received to finance these assets. An annual restatement 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 installations 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 annually at a rate of 2.5%.

- 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 IRR 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 paragraph.

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

  For regasification and storage assets, this figure is calculated by applying a financial return equal to the annual average IRR 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 (after depreciation) obtained in the previous paragraph.

  The resulting remuneration rate for transport assets started up in 2011 was 9.01%.

- 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 from 1 January 2008, 50% of the depreciation and the financial remuneration of the last year is recognised. With regard to the latter transport assets, remuneration is also updated annually at a rate of 2.5%.

**a.1.2.** Compensation for 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 unit. 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 consumer price index and the industrial price index (IPRI) 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 authorised 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 justified by a financial audit.

a.1.3. Revenue relating to the fixed authorised cost 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.**

**a.2.1.** The recognised variable cost is calculated based on the number of kW/hr actually regasified and loaded in LNG cisterns in each period and the variable unit regasification cost for the period in question. For 2011, this cost was set at 0.000167 euros per kWh regasified and 0.000201 euros per kWh loaded in cisterns.

**a.2.2** For loading LNG onto ships from regasification plants or the pre-cooling of ships a cost identical to the variable cistern loading cost is recognised. For ship-to-ship transfers the cost is 80% of this value.

***b) Revenue from technical system management (TSM)***

Revenue from this activity is calculated on a yearly basis in accordance with the recognised cost for each year and is used to compensate Enagás, S.A.'s for its obligations as Technical System Manager, which include coordinating the development, operation and maintenance the transport network, supervising the security of 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 2011, the amount earmarked for TSM 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 0.42%. 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 manager in 2011 was 11,444,941 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 2011.

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 management) is carried out in compliance with the settlement procedure established in the Ministerial Order dated 28 October 2002.

***d) Settlement system***

On 1 November 2002, Ministerial Order ECO/2692/2002 (28 October) was published, 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 1-year treasury bill yield during 60 days to the amounts to be paid to each transporter or distributor be added to the settlements.

*e)* ***Remuneration of the minimum operating level and minimum linepack of gas pipelines***

Article 16 of Order IET/3587/2011 provides that the minimum level for gas filling of the pipeline transport and regasification plants (gas cheque) shall be remunerated as a necessary investment for the transport activity, recognising a financial return.

Additionally, Article 17 of this Order provides that the financial retribution for the filling gas purchased for the minimum of transport pipelines and regasification plants purchased each year shall be calculated by applying to cost a remuneration rate equal to the average monthly rate of the 10 year Spanish government bond in the twelve months prior to November last year, plus 350 basis points. 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)* ***Development of the Regulatory Framework***

The main gas industry regulatory developments approved in 2011 include:

**1. Supranational regulations**

**European Commission Communication of 19 October 2011 (COM(2011) 676 of 19 October 2011).** This Communication encompasses several specific regulatory proposals for the infrastructure segment, including the proposed Regulation earmarking 1 trillion euros to investment in transport, energy and fast broadband sectors for the period up to 2020.

**European Commission Proposal for Regulation of 19 October 2011 (COM(2011) 658 2011/0300 (COD) of 19 October 2011)** on guidelines for trans-European energy infrastructure and repealing Decision No 1364/2006/EC, intended to establish the energy infrastructure priorities in the European Union for 2020 and beyond in order to achieve an internal energy market.

**European Commission Proposal for Regulation of 19 October 2011 (COM(2011) 665 2011/0302 (COD) of 19 October 2011**, establishing the Connecting Europe Facility (CEF) and determining how the interventions to accelerate development of priority infrastructure projects within the CEF will be financed under the umbrella of the sector specific targets for transport, telecommunications and energy.

**European Commission Communication of 8 March 2011 (COM(2011) 112 final)** - A Roadmap for moving to a competitive low carbon economy in 2050, commonly known as the "Roadmap 2050", was adopted by the European Commission on 8 March 2011.

**European Commission Communication COM(2011) 885/2** – The European Commission published its "Energy Roadmap 2050" on 15 December 2011.

**Regulation (EU) No 1227/2011 of the European Parliament and of the Council of 25 October 2011 on wholesale energy market integrity and transparency** providing the rules governing the wholesale gas and electricity trade, including establishment of a mechanism for detecting market abuse and imposing penalties in the event of regulatory breach.

## 2. Spanish regulations

- Remuneration and tolls:

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

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

**Order IET/3587/201 of 30 December 2011,** establishing the tolls and fees for third-party access to gas installations and remuneration of regulated gas sector activities for 2012.

- Tariff of last resort:

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

**Resolution of the Directorate General for Energy Policy and Mining of 21 September 2011,** publishing the natural gas last resort tariff applicable from 1 October 2011.

**Resolution of the Directorate General for Energy Policy and Mining of 22 June 2011,** publishing the natural gas last resort tariff applicable from 1 July 2011.

**Resolution of the Directorate General for Energy Policy and Mining of 22 March 2011,** publishing the natural gas last resort tariff applicable from 1 April 2011.

**Resolution of the Directorate General for Energy Policy and Mining of 28 December 2010,** publishing the natural gas last resort tariff applicable from 1 January 2011.

- System Management Rules:

**Resolution of the Directorate General for Energy Policy and Mining of 22 September 2011,** amending the so-called measurement protocol (PD-01) within the gas system operation rules (Spanish Official State Gazette (BOE) of 3 October 2011).

**Resolution of the Directorate General for Energy Policy and Mining of 22 March 2011,** amending the protocol (PD-05) called "Procedure for determining the amount of energy offloaded by methane tankers" (Spanish Official State Gazette (BOE) of 1 April 2011).

- Mandatory Planning and Winter Plan:

**Announcement dated 31 August 2011 by the Secretary of State for Energy** officially requesting public consultation regarding the Environmental Sustainability Report and issuing the preliminary draft of the Electricity and Gas Sector Infrastructure Plans for 2012-2020.

**Announcement dated 27 July 2011 by the Secretary of State for Energy** making the Indicative Energy Plan for 2012-2020 document available to the public.

**Resolution dated 31 January 2011 by the Directorate General for Environmental Quality and Assessment** initiating consultation with the affected authorities and general public concerned with the strategic environmental evaluation of the 'Electricity and Gas Sector Infrastructure Plans for 2012-2020', resolving that the same should be published on public interest and administrative efficiency grounds.

**Correction of errors in the Resolution of the Directorate General for Energy Policy and Mining of 23 November 2011,** approving the Winter Action Plan for gas system operations.

**Resolution of the Directorate General for Energy Policy and Mining of 23 November 2011,** approving the 2010-2011 Winter Action Plan for gas system operations, establishing the transitional operating requirements required for the 2011-2012 winter season.

- Underground storage:

**Rotal Decree 1383/2011, of 7 October 2011,** amending Royal Decree 855/2008, of 16 May 2008, granting Escal UGS, S.L. a concession to operate the underground natural gas storage facility called "Castor".

**Basque Regional Coastal Planning Resolution issued by the Ministry for the Environment, Rural and Marine Affairs on 15 September 2011,** authorising the transfer to ENAGAS, SA of the rights deriving from the concession arrangement initially granted to Repsol Investigaciones Petrolíferas, SA by virtue of Ministerial Order 13/06/1997 which legalised the facilities at 105 gas fields at Gaviota I and Gaviota II in the town and maritime district of Bermeo (Vizcaya).

**Royal Decree 1088/2011 of 15 July 2011** adapting the basis of the operating concession at the hydrocarbon fields called "Marismas B-1", "Marismas C-2" and "Marismas A" to that of an underground natural gas storage facility operating concession.

**Order ITC/1767/2011, of 22 June 2011,** authorising the transfer of the concession to operate the Gaviota underground storage facility to Enagas, SA.

**Directorate General for Energy Policy and Mining Resolution of 25 March 2011** establishing some of the parameters for the auction to allocate basic storage capacity for the period elapsing between 1 April 2011 and 31 March 2012.

**Directorate General for Energy Policy and Mining Resolution of 14 March 2011** establishing definitive capacity and the minimum starting price for the auction for basic underground storage capacity for the period elapsing between 1 April 2011 and 31 March 2012.

**Directorate General for Energy Policy and Mining Resolution of 25 February 2011** establishing certain aspects relating to the auction to allocate basic storage capacity for the period elapsing between 1 April 2011 and 31 March 2012.

**Directorate General for Energy Policy and Mining Resolution of 31 January 2011,** publishing the capacity available in the basic natural gas storage facilities for the period elapsing between 1 April 2011 and 31 March 2012.

- Auction for the acquisition of gas for minimum linepack purposes and minimum operating levels (*gas talón*):

**Resolution of the Directorate General for Energy Policy and Mining of 19 October 2011,** 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 2012.

**Resolution of the Directorate General for Energy Policy and Mining of 29 September 2011,** establishing the rules for conducting 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 2012.

**Resolution of the Directorate General for Energy Policy and Mining of 9 June 2011,** 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 2011 and 30 June 2012.

**Resolution of the Directorate General for Energy Policy and Mining of 18 May 2011,** approving certain parameters for the auction for the acquisition of gas to fulfil minimum operating requirements for the period between 1 July 2011 and 30 June 2011.

**Resolution of the Directorate General for Energy Policy and Mining of 18 May 2011,** establishing the rules for conducting the auction for the acquisition of natural gas for the purpose of setting the tariff of last resort for the period between 1 July 2011 and 30 June 2012.

**Resolution of the Directorate General for Energy Policy and Mining of 6 May 2011,** establishing the rules for conducting the auction for the acquisition of gas to fulfil minimum operating requirements for the period between 1 July 2011 and 30 June 2012.

- Capacity allocation procedures:

**Resolution of the Directorate General for Energy Policy and Mining of 3 November 2010,** calling the coordinated procedure for allocating natural gas interconnection capacity between Spain and France for the period between 1 April 2011 and 31 March 2012 in relation to short-term contracts.

**Resolution of the Directorate General of Energy Policy and Mining of 29 August 2011,** amending that of 25 July 2006, which regulates allocation terms and conditions and the process of applying supply cut-off in the gas system.

- Strategic reserves corporation (CORES):

**Order ITC/3486/2011, of 14 December 2011,** approving the amounts certain companies are required to contribute to CORES, the corporation entrusted with managing the country's strategic oil product reserves, for 2012.

- Other provisions:

**Law 12/2011, of 27 May 2011,** regarding civil liability for nuclear damage or damage produced by radioactive materials. Final provision six of this piece of legislation amends the Hydrocarbon Act (Law 34/1998, of 7 October 1998). ENAGÁS, S.A. must incorporate the required subsidiaries within one year from when this law takes effect (namely the day after its publication in the Official State Gazette (BOE) in respect of this provision).

**Royal Decree 1887/2011 of 30 December 2011,** establishing the organisational structure for the ministerial departments.

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

**Royal Decree 1826/2011 of 21 December 2011,** that appoints the Ministers of the Government.

**Royal Decree 1152/2011 of 29 July 2011,** amending Royal Decree 1226/2010 of 1 October 2010, enacting **the basic organic structure of the Ministry of Industry, Tourism and Trade.**

**Resolution of the Directorate General for Energy Policy and Mining of 19 July 2011,** determining certain disclosure requirements with respect to the gas system.

**Royal Decree 2/2011 of 5 September 2011,** establishing the Consolidated Text of the State Ports and Merchant Navy Act.

**The Sustainable Economy Act (Law 2/2011, of 4 March 2011),** establishing principles of best practice with respect to regulatory initiatives and mechanisms for enhancing existing regulations, such as the reform of regulatory bodies, among other reforms.

**CNE Resolution of 10 February 2011** establishing and publishing (in keeping with additional provision three of Royal Decree Law 6/2000, of 23 June 2000), the relations between dominant players in the energy sectors (BOE 27/04/2011).

**CNE Resolution of 10 February 2011** establishing and publishing (in keeping with article 34 of Royal Decree Law 6/2000, of 23 June 2000), the relations between key players in the energy sectors (BOE 27/04/2011).

**Resolution of the Directorate General for Energy Policy and Mining of 12 April 2011,** approving the framework procedure for contracting natural gas services by telephone or electronic or other remote means (BOE 20/04/2011).

**Decision of the Spanish Cabinet of 11 November 2011** approving the Renewable Energy Plan for Spain for 2011-2020, establishing targets in keeping with those set down in Directive 2009/28/EC of the European Parliament and Council of 23 April 2009 on the promotion of the use of energy from renewable sources, and enacting the mandates laid down in Spanish Royal Decree 661/2007, which regulates energy generation under the 'special regime' and the Spanish Sustainable Economy Act (Law 2/2011, of 4 March 2011).

**Royal Decree 704/2011 of 20 May 2011,** enacting the Regulations for protecting critical infrastructure.

## 5. Intangible assets

The breakdown and movement in intangible assets and their amortisation in 2011 and 2010 were as follows:

***2011***

| Cost | Opening balance | Additions | Transfers (additions or decreases) | Disposals, derecognitio n or | Closing balance |
|---|---|---|---|---|---|
| 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** |

| Depreciation | Opening balance | Additions | Transfers (additions or decreases) | derecognitio n or reversals | Closing balance |
|---|---|---|---|---|---|
| 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 depreciation** | **45,466** | **14,564** | **-** | **-** | **60,030** |

***2010***

| Cost | Opening balance | Additions | Transfers (additions or decreases) | Disposals, derecognition or | Closing balance |
|---|---|---|---|---|---|
| Development costs | 965 | 900 | - | - | 1,865 |
| Concessions | 5,887 | 71 | - | (23) | 5,935 |
| Computer software | 47,075 | 19,995 | - | - | 67,070 |
| Other intangible assets | 32,287 | 257 | (25,319) | - | 7,225 |
| **Total cost** | **86,214** | **21,223** | **(25,319)** | **(23)** | **82,095** |

| Depreciation | Opening balance | Additions | Transfers (additions or decreases) | derecognition or reversals | Closing balance |
|---|---|---|---|---|---|
| Development costs | 271 | 88 | - | - | 359 |
| Concessions | 2,687 | 236 | - | (4) | 2,919 |
| Computer software | 28,533 | 9,602 | - | - | 38,135 |
| Other intangible assets | 13,318 | 1,851 | (11,116) | - | 4,053 |
| **Total depreciation** | **44,809** | **11,777** | **(11,116)** | **(4)** | **45,466** |

The increases in "Development costs" in 2011 relate mainly to phase 1 of the power generation project for the Huelva plant, in the amount of 1,156 thousand euros, the Delfos project relating to demand for natural gas for short term power production in the amount of 349 thousand euros, and the Proteo Project relating to long-term demand, for 72 thousand euros.

Key software additions in 2011 include:

- SW SIOM Platform, for 2,894 thousand euros.
- San Fernando CCR software, for 2,368 thousand euros.
- SL ATR 2.0, in the amount of 2,253 thousand euros.
- Software to expand the system architecture in 2011, for 2,221 thousand euros.
- Maintenance management software 2.0, for 2,042 thousand euros.
- Sales and marketing software systems 2011, for 1,830 thousand euros.
- Competence centres software 2011-2012, for 1,265 thousand euros.
- Job performance evaluation software, in the amount of 1,090 thousand euros.
- Financial and corporate system functionality, amounting to 2,090 thousand euros.

Also included within these additions are 21 thousand euros corresponding to BBG and 155 thousand euros corresponding to TLA, while "Other intangible assets" in the table above include 2,396 thousand euros corresponding to TLA.

At year-end 2011 and 2010, the Company was still using the following fully-amortised intangible assets:

***2011***

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

***2010***

| Item | Carrying amount (gross) |
|---|---|
| Development costs | 205 |
| Computer software | 22,630 |
| Other intangible assets | 1,923 |
| **Total** | **24,758** |

Intangible assets are not mortgaged or subject to any other similar encumbrance.

## 6. Property, plant and equipment

The breakdown and movement in property, plant and equipment and accumulated depreciation in 2011 and 2010 were as follows:

***2011***

| Cost | Opening balance | Additions | Transfers (additions or decreases) | Disposals, derecognition or | 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 and 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 | 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 and furniture | 39,709 | 3,006 | - | (181) | 42,534 |
| Prepayments and work in progress | - | - | - | - | - |
| 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-off or derecognition | Closing balance |
|---|---|---|---|---|---|---|
| Land and buildings | - | - | - | - | - | - |
| Plant and machinery | 15,573 | - | - | (114) | (485) | 14,974 |
| Other installations, equipment and furniture | - | - | - | - | - | - |
| Prepayments and work in progress | - | - | - | - | - | - |
| Government grants | - | - | - | - | - | - |
| **Total impairment losses** | **15,573** | **-** | **-** | **(114)** | **(485)** | **14,974** |

*2010*

| Cost | Opening balance | Additions | Transfers (additions or decreases) | Disposals, derecognition or | Closing balance |
|---|---|---|---|---|---|
| Land and buildings | 155,436 | 57,712 | 3,088 | (6) | 216,230 |
| Plant and machinery | 6,119,216 | 153,626 | 404,659 | (1) | 6,677,500 |
| Other installations, equipment and furniture | 43,900 | 3,957 | - | (535) | 47,322 |
| Prepayments and work in progress | 915,823 | 559,800 | (407,747) | (10) | 1,067,866 |
| Government grants | (561,257) | (22,785) | - | - | (584,042) |
| **Total cost** | **6,673,118** | **752,310** | - | **(552)** | **7,424,876** |

| Depreciation | Opening balance | Additions | Transfers (additions or decreases) | Disposals, derecognition or | Closing balance |
|---|---|---|---|---|---|
| Land and buildings | 43,934 | 18,992 | - | (1) | 62,925 |
| Plant and machinery | 2,192,469 | 284,112 | - | (1) | 2,476,580 |
| Other installations, equipment and furniture | 36,815 | 3,425 | - | (531) | 39,709 |
| Prepayments and work in progress | - | - | - | - | - |
| Government grants | (269,815) | (23,844) | - | - | (293,659) |
| **Total depreciation** | **2,003,403** | **282,685** | - | **(533)** | **2,285,555** |

| Impairment | Opening balance | Additions | Transfers (additions or decreases) | Reversals | Write-off or derecognition | Closing balance |
|---|---|---|---|---|---|---|
| Land and buildings | - | - | - | - | - | - |
| Plant and machinery | 14,760 | 813 | - | - | - | 15,573 |
| Other installations, equipment and furniture | - | - | - | - | - | - |
| Prepayments and work in progress | - | - | - | - | - | - |
| Government grants | - | - | - | - | - | - |
| **Total impairment losses** | **14,760** | **813** | - | - | - | **15,573** |

"Land and buildings" include 22,643 thousand euros corresponding to TLA and 7,397 thousand euros to land at the Denia compression station.

The transfers in "Plant and machinery" mainly relate to the start-up during 2011 of:

- Duplication of the Tivissa – Paterna gas pipeline, stretches 1, 2, 3 and *Sur*.
- Secondary pumps related to the eighth tank at the Barcelona plant.
- An eighth 150,000m$^3$ LNG tank at the Barcelona plant.
- Regulating and metering stations at various points on the basic grid.
- Expansion work at various points on the basic grid.
- Metering stations at various points on the basic grid.
- The Villar de Arnedo, Chinchilla de Montearagón and Denia compression stations.
- The Algete-Yela gas pipeline (Madrid - Guadalajara).
- Pipeline to connect the Castor underground storage facility up.
- Gas pipeline branch to Besós.
- 3,825 KW co-generation stations in Almendralejo.
- Power generation station for the Huelva plant.
- Gaviota underground storage facility.

Additions under "Plant and machinery" include 1,421 thousand euros (2010: 2,589 thousand euros) corresponding to the minimum linepack for system security of the gas pipelines as well as 2,512 thousand euros (2010: 4,828 thousand euros) to cover the regasification plants' minimum operating levels (also known as "gas for operation"). 90,000 thousand euros of assets under this heading correspond to TLA.

These assets also include approximately 106 million euros corresponding to the payment made by Enagás, S.A. for the acquisition of assets associated with the Gaviota underground storage facility from Repsol Investigaciones Petrolíferas, S.A. and Murphy Spain Oil.

On 24 November 2010, Enagás, S.A. reached an agreement with Iberdrola Generación S.A.U. for the acquisition of the gas pipeline to Arcos. At the date of preparation of the accompanying financial statements, this transaction was still pending final regulatory approval.

Additions to "Prepayments and work in progress" in 2011 relate mainly to the following installations:

- Denia compression station.
- Villar de Arnedo compression station.
- Chinchilla compression station.
- Duplication of the Tivissa – Paterna gas pipeline.
- Regasification facilities at the El Musel plant.
- Martorell – Figueras gas pipeline.
- LNG storage facilities at the El Musel plant.
- Regasification facilities at the El Musel Plant.
- Eighth tank at the Barcelona plant.
- Surface installations Yela underground storage facility.
- Wells at Yela underground storage facility.
- Yela - El Villar de Arnedo gas pipeline.
- Increase in Gaviota stake acquired from RIPSA.
- Increase in Gaviota stake acquired from Murphy.
- Gas pipeline to Besós.
- Algete - Yela gas pipeline.
- Power generation station for the Huelva plant.
- Pipeline to connect the Castor underground storage facility up.
- Castor pipeline mountain rescue unit.
- Replacement of internal fireproof mesh at the Barcelona plant.
- Installation of the fire safety system in 17 areas of the Barcelona plant.
- Metering unit at position G-02 of the Larrau – Villar de Arnedo pipeline.
- Maritime civil works at the Asturias plant.

Also included within these additions are 6,172 thousand euros corresponding to prepayment and work in progress at BBG and 2,203 thousand corresponding to prepayment and work in progress at TLA.

Write-offs from property, plant and equipment in 2011 correspond to installations, furnishings and office equipment which was replaced. The "Transfers" entry recognises the movements from work-in-progress to property, plant and equipment as projects were brought into operation in the year.

The revaluation of assets by Enagás, S.A., in accordance with the provisions of Royal Decree Law 7/1996 (7 June) regarding the revaluation of assets, resulted in an increase of 15,309 thousand euros in the depreciation charge in 2011 (2010: 15,208 thousand euros).

Finance costs accrued during construction of infrastructure projects in 2011 amounted to 26,092 thousand euros (2010: 25,259 thousand euros).

Likewise, own work capitalised increased property, plant and equipment by 15,637 thousand euros in 2011 (2010: 16,089 thousand euros).

The reduction in "Accumulated depreciation" relates mainly to installations, furnishings and office equipment which were derecognised.

At year-end 2011 and 2010, the company was still using the following fully depreciated items of property, plant and equipment:

***2011***

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

***2010***

| Item | Carrying amount (gross) |
|---|---|
| Buildings | 8,197 |
| Plant and machinery | 366,273 |
| Other installations, equipment and furniture | 32,361 |
| **Total** | **406,831** |

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 2011 relate to investments in gas infrastructure, as follows:

| | Thousands of euros | | |
|---|---|---|---|
| | **Grants received at 31/12/2011** | **Released to income at 31/12/2011** | **Balance at 31/12/2011** |
| Regasification plants | 86,225 | 67,569 | 18,656 |
| Gas transport infrastructure | 480,309 | 240,088 | 240,221 |
| Underground storage facilities | 17,508 | 7,254 | 10,254 |
| **Total** | **584,042** | **314,911** | **269,131** |

The grants were received from the following bodies:

| | Thousands of euros | | |
|---|---|---|---|
| | **Grants received at 31/12/2011** | **Released to income at 31/12/2011** | **Balance at 31/12/2011** |
| EU structural funds | 413,074 | 202,095 | 210,979 |
| Spanish regional authorities | 57,120 | 24,354 | 32,766 |
| Spanish state | 113,848 | 88,462 | 25,386 |
| **Total** | **584,042** | **314,911** | **269,131** |

Government grants to be released to the income statement in 2012 amount to approximately 19,281 thousand euros. The schedule for the release of the outstanding balance at 31 December 2011 is:

| | Years | | |
|---|---|---|---|
| | <1 | 2 to 5 | >5 |
| Spanish state grants | 2,895 | 10,548 | 11,943 |
| Spanish regional authority grants | 2,077 | 8,308 | 22,381 |
| EU structural funds | 14,309 | 55,412 | 141,258 |
| **Total grants** | **19,281** | **74,268** | **175,582** |

## 7. Interests in joint ventures

During 2011 and 2010, the shareholdings and the balances held by the parent company Enagás, S.A. with subsidiaries are as follows (see Note 2.4):

| | Thousands of euros | | Percentage stakes |
|---|---|---|---|
| | 2011 | 2010 | |
| Gasoducto Al-Andalus, S.A. (España) | 23,744 | 23,744 | 66.96% |
| Gasoducto de Extremadura, S.A. (España) | 9,732 | 9,732 | 51.00% |
| Gasoduto Campo Maior - Leiria - Braga, S.A. (Portugal) | - | 3,195 | 12.00% |
| Gasoduto Braga - Tuy, S.A. (Portugal) | - | 2,546 | 49.00% |
| Bahía Bizkaia Gas, S.A. (España) | 44,333 | 44,333 | 40.00% |
| Enagás-Altamira, S.L.U. | 41,218 | - | 100.00% |
| Gasoducto de Escombreras S.L.U. | 4,357 | - | 100.00% |
| **Total, gross** | **123,384** | **83,550** | - |
| Less: impairment losses | - | - | - |
| **Total, net** | **123,384** | **83,550** | - |

At 31 December 2010 the shares that the company Enagás, S.A. held in Gasoducto Campo Maior-Leiria-Braga, S.A. and Gasoduto Braga-Tuy, S.A. were classified as non-current assets held for sale during that year (Notes 3.f and Note 9).

## 8. Financial assets

### *8.1 Composition and breakdown*

The Group's financial assets at 31 December 2011 and 31 December 2010, broken down by class and category for measurement purposes, were as follows:

| Category \ Class | Non-current financial liabilities | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Equity instruments | | Debt securities | | Loans, derivatives and others | | Total | |
| | 2011 | 2010 | 2011 | 2010 | 2011 | 2010 | 2011 | 2010 |
| **Assets at fair value through profit or loss** | | | | | | | | |
| - Held for trading | - | - | - | - | - | - | - | - |
| - Others | - | - | - | - | - | - | - | - |
| **Held-to-maturity investments** | 4,749 | 31 | - | - | 857 | 790 | 5,606 | 821 |
| **Loans and receivables** | - | - | - | - | 614 | 1,340 | 614 | 1,340 |
| **Available-for-sale financial assets** | | | | | | | | |
| - Measured at fair value | - | - | - | - | - | - | - | - |
| - Measured at cost | - | - | - | - | - | - | - | - |
| **Derivatives** | - | - | - | - | 52,071 | 30,651 | 52,071 | 30,651 |
| Total | **4,749** | **31** | - | - | **53,542** | **32,781** | **58,291** | **32,812** |

| Category \ Class | Current financial liabilities | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Equity instruments | | Debt securities | | Loans, derivatives and others | | Total | |
| | 2001 | 2010 | 2011 | 2010 | 2011 | 2010 | 2011 | 2010 |
| **Assets at fair value through profit or loss** | | | | | | | | |
| - Held for trading | - | - | - | - | - | - | - | - |
| - Others | - | - | - | - | - | - | - | - |
| **Held-to-maturity investments** | - | - | - | - | - | - | - | - |
| **Loans and receivables** | - | - | - | 101,742 | 6,573 | 6,300 | 6,573 | 108,042 |
| **Available-for-sale financial assets** | | | | | | | | |
| - Measured at fair value | - | - | - | - | - | - | - | - |
| - Measured at cost | - | - | - | - | - | - | - | - |
| **Derivatives** | - | - | - | - | 36 | - | 36 | - |
| **Total** | - | - | - | **101,742** | **6,609** | **6,300** | **6,609** | **108,042** |

The changes in Group financial assets in 2011 and 2010 were as follows:

***2011***

| | Balance at 01/01/09 | Additions or provisions | Value remeasurement against reserves | Increase (decrease) due to transfers | Disposals, derecognition or reversals | Closing balance |
|---|---|---|---|---|---|---|
| Equity instruments | 31 | 4,719 | - | - | (1) | 4,749 |
| Debt securities | 101,742 | - | - | - | (101,742) | - |
| Loans, derivatives and others | 39,081 | 3,784 | 21,456 | - | (4,170) | 60,151 |
| **Total** | **140,854** | **8,503** | **21,456** | - | **(105,913)** | **64,900** |

***2010***

| | Balance at 01/01/09 | Additions or provisions | Value remeasurement against reserves | Increase (decrease) due to transfers | Disposals, derecognition or reversals | Closing balance |
|---|---|---|---|---|---|---|
| Equity instruments | 1 | 30 | - | - | - | 31 |
| Debt securities | - | 101,742 | - | - | - | 101,742 |
| Loans, derivatives and others | 19,100 | 2,243 | 28,582 | (9,606) | (1,238) | 39,081 |
| **Total** | **19,101** | **104,015** | **28,582** | **(9,606)** | **(1,238)** | **140,854** |

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 | - | 52,107 | - | 52,107 |
| **Total** | - | **52,107** | - | **52,107** |

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.

### *8.2 Impairment losses*

In 2011 there were no changes in provisions for impairment losses on the Group's financial assets.

### 8.3 Loans and receivables generated by the company:

***Current and non-current loans***

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

| | Thousands of euros | Interest rate | Maturity |
|---|---|---|---|
| **Non-current loans:** | | | |
| Loans to Group companies | 880 | 4.130% | Dec. 2012 |
| Other loans | 460 | 3.330% | - |
| **Current loans:** | | | |
| Loans to Group companies | 6,300 | 4.130% | Dec. 2010 |
| **Balance at 31/12/2010** | **7,640** | | |
| **Non-current loans:** | | | |
| Other loans | 614 | 3.950% | - |
| **Current loans:** | | | |
| Loans to Group companies | 3,010 | 2.330% | Dec. 2012 |
| Other loans | 3,563 | 2.496% | Dec. 2012 |
| **Balance at 31/12/2011** | **7,187** | | |

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. These loans accrue interest at variable rates referenced to the EIB rate plus a 90bp spread for Gasoducto Al-Andalus, S.A.

The breakdown is as follows:

| Thousands of euros | 31.12.2011 | 31.12.2010 |
|---|---|---|
| **Current loans to Group companies:** | | |
| Gasod. Al-Andalus, S.A. | 2,976 | 6,280 |
| Gasod. de Extremadura, S.A. | - | 20 |
| Enagás Altamira Group | 34 | - |
| **Total, current** | **3,010** | **6,300** |

## 9. Non-current assets held for sale

As indicated in Note 3.f, the shares held by Enagas, S.A. in Gasoduto Campo Maior-Leiria-Braga, S.A. and Gasoduto Braga-Tuy, S.A. were classified as non-current assets held for sale in 2010.

This was the result of the contract signed on 17 December 2010 between REN Gasodutos, S.A., Enagas, S.A., Gasoduto Campo Maior-Leiria-Braga, S.A. and Gasoduto Braga-Tuy, S.A. on the separation of Enagas, S.A. from the Portuguese dimension of the joint project for supplying natural gas to Portugal and Spain.

This agreement provided that Enagas S.A. would acquire transport capacity from its Portuguese subsidiaries and then transfer that capacity to REN Gasodutos, S.A. with effect from 1 January 2010.

Such separation was subject to prior authorisation from the Portuguese anti-trust authority as per Portuguese Law 18/2003, which operated as a condition precedent.

Such condition precedent also affected other aspects of the transaction, such as the offset of claims between the Portuguese subsidiaries and Enagas S.A., repayment of shareholder loans, the redemption of the shares and the transfer of the relationship between Enagas, S.A. and Gasoduto Campo Maior-Leiria-Braga, S.A. and Gasoduto Braga-Tuy, S.A.

The breakdown by nature of the items comprising "Non-current assets held for sale" and "Liabilities associated with non-current assets held for sale" in the consolidated balance sheet at 31 December 2010 is as follows:

| Assets | 31.12.2010 |
|---|---|
| **NON-CURRENT ASSETS** | **14,202** |
| Intangible assets | 14,202 |
| **CURRENT ASSETS** | **17,134** |
| Other financial assets | 9,606 |
| Other assets | 4,536 |
| Cash and cash equivalents | 2,992 |
| **TOTAL** | **31,336** |

| Liabilities | 31.12.2010 |
|---|---|
| **EQUITY** | **-** |
| **NON-CURRENT LIABILITIES** | **2,036** |
| Non-current financial liabilities | 2,036 |
| **CURRENT LIABILITIES** | **3,821** |
| Financial liabilities | 2,036 |
| Trade trade and other payables | 294 |
| Other liabilities | 1,491 |
| **TOTAL** | **5,857** |

It is worth noting that on 25 January 2011 Portugal's competition authority ruled on the condition precedent clause contained in the separation agreements with the Portuguese companies described above, ruling in favour of the transaction, which therefore closed in 2011. As a result, Enagás, S.A. recognised the transaction during the first quarter of 2011, along with all the other accounting issues deriving from the agreements.

## 10. Inventories

It should be noted that at 31 December 2011, Enagás, S.A., as Technical System Manager, had approximately 667 GWh of operational gas necessary to ensure operation of the gas system, as stipulated in the fifth additional provision 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 Enagás, S.A.

The Group also has 13,785 thousand euros (5,328 thousand euros in 2010) of inventories unrelated to natural gas that include, inter alia, office materials and consumables.

## 11. Trade and other receivables and current tax assets

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

| | 31.12.2011 | 31.12.2010 |
|---|---|---|
| Trade receivables | 35,486 | 46,520 |
| Receivable from Group companies | 1,837 | 1,286 |
| Other receivables | 423,995 | 297,670 |
| Income tax receivable | 83,706 | 21,007 |
| **Total** | **545,024** | **366,483** |

The 1,837 thousand euro "Receivable from Group companies" balance corresponds mainly to 741 thousand euros receivable from Gasoducto Al-Andalus, S.A. and 884 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, S.A. in these companies.

Under "Other receivables", the Group includes the unsettled balance relating to remuneration for regulated regasification, transport, and storage activities in 2011 of 271,343 thousand euros, and the outstanding balance on remuneration for technical system management of 1,605 thousand euros, for a total outstanding balance of 272,948 thousand euros at year-end 2011.

In 2011, final settlement has been received by Enagás, S.A., recognizing a cumulative deviation in that period amounting to of 57,094 thousand euros. Settlement was pending since 2009.

"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 Enagás, S.A. is titleholder at the ports of Barcelona, Cartagena, and Huelva. At 31 December 2011, these uncollected amounts total 8,029 thousand euros, of which 7,573 thousand euros are subject to a lawsuit filed by certain suppliers. Specifically, 6,195 thousand euros were past due by over one year at 31 December 2011.

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 Enagás, as concessionaire under the previous regime. Under the previous regime, only 50% of the duty could be passed on to the titleholder of the goods 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 the fifth additional provision 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 company is in litigation understand that the application from 1 January of Title I 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, Enagás, S.A. has filed administrative claims seeking legal jurisdiction for its actions covering the full uncollected amounts. It should be noted that Enagás, S.A.'s claims have been expressly ratified by the Huelva Port Authority via ruling issued 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 Enagás, S.A. will seek reimbursement of 50% if the court rules against Enagás, S.A. in the claims in process. The amount paid to Enagás, S.A. by suppliers with which there is no ongoing litigation at 31 December 2011 totals 44,670 thousand euros, of which 50% (22,335 thousand euros) would be at risk.

The above notwithstanding, the Group's directors consider that based on the information available at that date, the risk of not recovering these amounts is remote, so no provision for this concept has been recorded. However, it will continue to monitor the claims lodged in 2011.

"Income tax receivable" at 31 December 2011 basically includes VAT receivable by parent company Enagás, S.A., 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 paid by the company (Note 22).

The directors consider that the carrying amount of trade and other receivables is similar to 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 takes the impairment provisions deemed necessary to cover bad debt risks.

## 12.- Cash and cash equivalents

The breakdown of "Cash and cash equivalents" at 31 December 2011 and 2010 is as follows:

| | 2011 | 2010 |
|---|---|---|
| Cash | 25,074 | 18,961 |
| Cash equivalents | 1,402,249 | 1,068,090 |
| **Total** | **1,427,323** | **1,087,051** |

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 three 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.

## 13. Equity

### 13.1 Issued capital

At 31 December 2011 and 2010 the share capital of the parent company amounted to 358,101 thousand euros, represented by 238,734,260 ordinary bearer shares, all of the same class and series, with a par value of 1.50 euros each and fully paid up.

All shares of parent company Enagás, S.A. are listed on the four Spanish stock exchanges and are traded on the electronic trading platform (the continuous market). At 30 December 2011, Enagás, S.A.'s share price closed at 14.29 euros, having reached a high for the year of 16.83 euros per share on 2 May.

No company held more than 5% of the company's issued capital at either year-end 2011 or 2010. The most significant shareholdings in Enagás, S.A. at 31 December 2011 are as follows:

| Company | %shareholding |
|---|---|
| Omán Oil Company, S.A.O.C. | 5.000 |
| Sagane Inversiones, S.L. | 5.000 |
| Cantábrica de Inversiones de Cartera, S.L. | 5.000 |
| Sociedad Estatal de Participaciones Industriales | 5.000 |
| Bilbao Bizkaia Kutxa | 5.000 |

Cantábrica Inversiones de Cartera S.L. is a subsidiary of Caja de Ahorros de Asturias (Cajastur).

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), establishes 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 2007, further limits the exercise of voting rights to 3%, in addition to the ownership cap of 5%. The law also stipulates the 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 shall not apply to direct or indirect shareholdings held by public-sector enterprises.

The Group has no treasury shares.

### 13.2 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 parent company of the Group has appropriated to the legal reserve an amount of 71,620 thousand euros, included under "Restricted reserves" in the accompanying consolidated balance sheet.

In 2011, Gasoducto Al-Andalus, S.A. and Gasoducto de Extremadura, S.A. had also appropriated to their respective legal reserves the full required amount.

### 13.3 Interim dividend

The distribution of net profit for 2011 that Enagás, S.A.'s Board of Directors will propose for approval at the General Shareholders' Meeting is as follows:

| | Thousands of euros |
|---|---|
| Dividend | 237,018 |
| Voluntary reserves | 121,657 |
| | **358,675** |

At its meeting on 21 November 2011, the Board of Directors of Enagás, S.A. resolved to pay an interim dividend against 2011 profit of 90,958 thousand euros (0.381 euros per share, before tax). The 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, which showed that there were sufficient resources to pay the interim dividend against 2011 profit, are set forth below:

| | Thousands of euros | |
|---|---|---|
| | Provisional financial statements at 31 October 2011 | Provisional financial statements at 31 October 2010 |
| Consolidated Group profit | 301,689 | 284,655 |
| 10% allocation to legal reserve | - | - |
| **Income available for distribution** | **301,689** | **284,655** |
| **Forecast interim dividend** | **(90,958)** | **(74,485)** |
| Forecast cash at bank and in hand (Group) between 31 October and 31 December: | | |
| - Cash at bank and in hand | 1,437,720 | 1,033,621 |
| - Collections forecast for the period | 139,000 | 149,000 |
| - Credit facilities and loans granted by financial institutions | 609,000 | 1,005,000 |
| - Payments forecast for the period (Including the interim dividend) | (269,030) | (261,390) |
| **Forecast cash at bank and in hand** | **1,916,690** | **1,926,231** |

The aforementioned interim dividend was paid on 21 December 2011.

The proposed before-tax final dividend (0.612 euros per share) is subject to shareholder approval and is not recognised as a liability in these financial statements.

**13.4 Net unrealised gains (losses) reserve**

***Hedging transactions***

This heading refers to derivatives which the company designated as cash-flow hedges (see Note 19).

The movements in these headings in 2011 and 2010 were as follows:

***2011***

| | Thousands of euros | | | |
|---|---|---|---|---|
| | **01.01.2011** | **Change in fair value** | **Recognised in income** | **31.12.2011** |
| **Cash flow hedges** | (3,700) | (14,271) | 9,727 | (8,244) |
| **Tax effect deferred in equity** | 1,109 | 4,272 | (2,918) | 2,463 |
| **Total** | **(2,591)** | **(9,999)** | **6,809** | **(5,781)** |

*2010*

| | Thousands of euros | | | |
|---|---|---|---|---|
| | 01.01.2010 | Change in fair value | Recognised in income | 31.12.2010 |
| **Cash flow hedges** | (17,390) | (3,992) | 17,682 | (3,700) |
| **Tax effect deferred in equity** | 5,216 | 1,198 | (5,305) | 1,109 |
| **Total** | **(12,174)** | **(2,794)** | **12,377** | **(2,591)** |

## 14. 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:

| | 2011 | 2010 | Change |
|---|---|---|---|
| Profit for the year (thousands of euros) | 364,574 | 333,481 | 9.34% |
| Weighted average number of shares outstanding (thousands of shares) | 238,734 | 238,734 | - |
| **Basic earnings per share in euros** | 1.5274 | 1.3969 | 9.34% |

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 2011 or 2010, basic and diluted earnings per share are the same.

## 15. Provisions and contingent liabilities

### 15.1 Provisions

The directors of the Enagás Group consider that the provisions recorded in the accompanying consolidated balance sheet adequately cover risks from 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 risk 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 balance sheet heading in 2011 were as follows:

| Non-current provisions | 01.01.2011 | Additions | Discounting | Amounts applied | Reclassifications | 31.12.2011 |
|---|---|---|---|---|---|---|
| Other liabilities | 5,250 | 3,166 | - | (5,250) | 3,294 | 6,460 |
| Abandonment costs | 29,102 | 55,114 | 826 | - | - | 85,042 |
| **Total non-current provisions** | **34,352** | **58,280** | **826** | **(5,250)** | **3,294** | **91,502** |

| Current provisions | 01.01.2011 | Additions | Discounting | Amounts applied | Reclassifications | 31.12.2011 |
|---|---|---|---|---|---|---|
| Other liabilities | 3,294 | - | - | - | (3,294) | - |
| **Total, current** | **3,294** | **-** | **-** | **-** | **(3,294)** | **-** |

The most significant provisions recorded in 2011 are as follows:

- Other responsibilities. In 2011 Enagas, S.A. provisioned 3,294 thousand euros for two lawsuits ongoing between the company and Iberdrola, Shell, Unión Fenosa, Cepsa and GDF Suez in respect of commercial claims.

- Abandonment costs. Here it is worth noting the charge of 53,380 thousand euros relating to Gaviota underground storage facility dismantling provision, as well as a 1,574 thousand euro provision recognised by TLA, stated at the amount of the Group's percentage interest, corresponding to its regasification plant dismantling obligations. The effect of discounting the costs to dismantle the Yela and Serrablo underground storage facilities and to dismantle the BBG regasification plant have been included under the column headed "Discounting" (Note 3.b).

**15.2 Contingencies**

The Group had the following contingent liabilities at 31 December 2011:

- Uncollected amounts from gas suppliers for the freight tax regulated by article 24 of Law 48/2003 (Note 11).

- Administrative proceedings with the Chamber of Commerce of Madrid relating to claims on income tax for 2007 and 2008 and contentious-administrative proceedings relating to the Chamber's claims on income tax for 2005 and 2006.

- Contentious-administrative proceedings with the state tax authorities (AEAT) regarding assessments relating to VAT on imports in 2004 and 2005 (see Note 22.8).

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

- Administrative proceedings with the Town Council of Yela, Guadalajara regarding the urban planning licence fee and construction work tax levied by this municipal authority.

## 16. Financial liabilities

### 16.1 Non-current financial liabilities

The breakdown of "Non-current financial liabilities" at year-end 2011 and 2010 was as follows:

| Class / Category | Non-current financial liabilities | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Bank borrowings and finance leases | | Bonds and other marketable debt securities | | Derivatives and other financial liabilities | | Total | |
| | 2011 | 2010 | 2011 | 2010 | 2011 | 2010 | 2011 | 2010 |
| Financial liabilities at amortised cost | 2,610,164 | 2,496,871 | 695,043 | 1,165,548 | 13,894 | 14,678 | 3,319,101 | 3,677,097 |
| Liabilities at fair value through profit or loss | | | | | | | | |
| - Held for trading | - | - | - | - | - | - | - | - |
| - Others | - | - | - | - | - | - | - | - |
| Derivatives | - | - | - | - | 3,964 | 1,037 | 3,964 | 1,037 |
| Total | 2,610,164 | 2,496,871 | 695,043 | 1,165,548 | 17,858 | 15,715 | 3,323,065 | 3,678,134 |

Below is a breakdown, by maturity, of "Bank borrowings and finance leases" and "Derivatives and other financial liabilities":

***2011***

| | 2013 | 2014 | 2015 | 2016 and beyond | Total |
|---|---|---|---|---|---|
| **Bonds and other marketable debt** | - | - | 498,813 | 196,230 | 695,043 |
| **Bank borrowings** | 464,628 | 455,321 | 122,211 | 1,568,004 | 2,610,164 |
| **Finance leases** | - | - | - | - | - |
| **Derivatives** | 3,358 | 606 | - | - | 3,964 |
| **Other** | 8,213 | 758 | 1,093 | 3,830 | 13,894 |
| **Total** | **476,199** | **456,685** | **622,117** | **1,768,064** | **3,323,065** |

***2010***

| | 2012 | 2013 | 2014 | 2015 and beyond | Total |
|---|---|---|---|---|---|
| **Bonds and other marketable debt securities** | 499,028 | - | - | 666,520 | 1,165,548 |
| **Bank borrowings** | 421,074 | 656,394 | 348,162 | 1,071,241 | 2,496,871 |
| **Finance leases** | - | - | - | - | - |
| **Derivatives** | 1,037 | - | - | - | 1,037 |
| **Other** | 11,245 | 677 | 677 | 2,079 | 14,678 |
| **Total** | **932,384** | **657,071** | **348,839** | **1,739,840** | **3,678,134** |

The financial liabilities 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 | - | 8,721 | - | 8,721 |
| **Total** | - | **8,721** | - | **8,721** |

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.

At 31 December 2011, Enagás, S.A. had undrawn credit facilities amounting to 524 million euros, with a limit of 711 million euros (2010: 155 million euros, with a limit of 690 million euros). The company is currently negotiating renewal of the main facilities maturing in 2012. Undrawn loans granted amount to 175 million euros (2010: 725 million euros).

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

Average annual interest in 2011 on Group loans and bonds was 2.41% without considering hedges and fees and 2.69% factoring in hedges and fees (2.04% and 2.52%, respectively, in 2010).

Current loans and credit facilities of the parent company are denominated in euros and accrued interest at an average annual rate of 1.91% in 2011 without considering hedges and fees and 2.27% factoring in hedges and fees.

The directors estimate that the change in the fair value of bank borrowings at 31 December 2011, calculated by discounting future cash flows at market interest rates, amounted to 5,111 million euros (4,748 million euros at year-end 2010 and 3,915 million euros at year-end 2009). The interest rate curve used in this calculation takes into account the risks associated with the industry and Enagás, S.A.'s creditworthiness. The sensitivity of the aforementioned fair value to fluctuations in foreign currency exchange rates and interest rates is as follows:

| | **Thousands of euros** | |
|---|---|---|
| | **Change in interest rates** | |
| | **0.25%** | **-0.25%** |
| Change in fair value of borrowings | 45.8 | -46.4 |

"Financial liabilities at amortised cost – Derivatives and other financial liabilities" include 5,837 thousand euros corresponding to the adjustments envisaged in the income tax assessment for 1995 to 1998, discounted to 31 December 2010 (2010: 5,682 thousand euros).

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, S.A. The total amount of the loan granted is 3,265 thousand euros, of which 168 thousand euros was repaid in 2010 and 467 thousand euros was repaid in December 2011; 2,164 thousand euros of the loan amount 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, S.A. The total amount of the loan is 1,100 thousand euros, with 600 thousand euros allocated in 2007 and 500 thousand euros in 2008. The financing granted for each year was drawn down in December 2007 and 2008. In May 2009 the General Industry Secretariat notified Enagás, S.A. of its obligation to repay 204 thousand euros in connection with the loan received in 2007 to bring the amount received in line with the actual amount invested. The repayment was made in October 2009. In 2011, a further 57 thousand euros was repaid and at 31 December 2011, 711 thousand euros was classified as long term and 128 thousand euros as short term.

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. Specifically, this loan is associated with the "Project for Huelva power generation plant" being carried out by Enagás, S.A. The total amount of the loan granted is 3,598 thousand euros to be received in four annual amounts. In 2009 and

2010 the Company drew down 1,256 million euros corresponding to the first three annual amounts (2008+2010). In November 2010, the General Energy Secretariat notified Enagás, S.A. of its obligation to repay 108 thousand euros in connection with the loan received in 2009 to bring the amount received in line with the actual amount invested. The repayment was made in April 2011. In December 2011, the Company drew down the last annual amount for a total of 2,342 thousand euros. At 31 December 2011, 22 thousand euros of this loan was classified as short term and 3,468 thousand euros as long term.

Both loans are repayable in 10 years, with a 3-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, S.A. in 2009 of 1,714 thousand euros corresponding to long-term payables to suppliers of property, plant and equipment.

Derivatives also include cash flow hedges arranged by Enagás, S.A. for 2009-2012, 2010-2013 and 2011-2014 (Note 19).

At 31 December 2011, there were no issuances, repurchases, or repayments of debt securities or other issues guaranteed by Enagás, S.A.

Financing highlights in the year include:

- The drawdown of 350 million euros corresponding to Tranche A of the one billion euro loan granted by the EIB in the form of a bank guarantee.
- Renewal of a 150 million euro credit facility granted by Caixabank, now maturing in 2014.
- The drawdown of 200 million euros corresponding to Tranche D of the one billion euro loan granted by the EIB in the form of a risk-sharing facility.
- Renewal and extension of a 75 million euro credit facility granted by Banesto.
- Renewal of a 25 million euro credit facility and 100 million loan provided by BBK, now maturing in 2014.

In addition, in May 2011, Enagás registered a Euro Commercial Paper (ECP) programme for up to 1 billion euros which is listed on the Irish Stock Exchange. Banesto is the programme arranger and will act as dealer along with another 10 designated dealer banks. At 31 December 2011, the Company had drawn down 455 million euros under the programme.

### 16.2 Current financial liabilities

The breakdown of "Current financial liabilities" at year-end 2011 and 2010 was as follows:

| Class / Category | Current financial liabilities | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Bank borrowings and finance leases | | Bonds and other marketable debt securities | | Derivatives and other financial liabilities | | Total | |
| | 2011 | 2010 | 2011 | 2010 | 2011 | 2010 | 2011 | 2010 |
| Financial liabilities at amortised cost | 622,218 | 687,372 | 975,767 | 21,717 | 3,706 | 9,853 | 1,601,691 | 718,942 |
| Liabilities at fair value through profit or loss | | | | | | | | |
| - Held for trading | - | - | - | - | - | - | - | - |
| - Others | - | - | - | - | | | - | - |
| Derivatives | - | - | - | - | 4,853 | 11,905 | 4,853 | 11,905 |
| Total | 622,218 | 687,372 | 975,767 | 21,717 | 8,559 | 21,758 | 1,606,544 | 730,847 |

Derivatives and other financial liabilities classified as debts and other payables include:

- Interest on borrowings from related-party banks in the amount of 227 thousand euros in 2011 (2010: 458 thousand euros).

- Current borrowings from the General Energy and Industry Secretariats for a combined 617 thousand euros (Note 16.1).

- The current balance on the loan which Gasoducto Al-Andalus, S.A. received from Galp Gas Natural, S.A., amounting to 3,115 thousand euros. Note that Gasoducto de Extremadura, S.A. repaid the loan it received from Galp Gas Natural in 2011.

- Other items pending application in the amount of -253 thousand euros (2010: 124 thousand euros).

### 16.3 Borrowings from related parties

"Non-current borrowings from related parties" in the amount of 657 thousand euros corresponds to the Group's proportionate share of the loan extended to the Enagás Altamira Group. The 4,746 thousand euro balance included under "Current borrowings from related parties" corresponds to the loan granted by Gasoducto Escombreras, S.L.U. to Enagás, S.A.

## 17. Other non-current liabilities

The changes in this consolidated balance sheet heading in 2011 and 2010 were as follows:

| Thousands of euros | Gasoducto de Extremadura, S.A. royalty | Gasoducto Al-Andalus, S.A. royalty | Total |
|---|---|---|---|
| **Balance at 1 January 2010** | **10,453** | **23,709** | **34,162** |
| Additions/decreases/recognition in incom | (951) | (2,155) | (3,106) |
| **Balance at 31 December 2010** | **9,502** | **21,554** | **31,056** |
| Additions/decreases/recognition in incom | (950) | (2,155) | (3,105) |
| **Balance at 31 December 2011** | 8,552 | 19,399 | 27,951 |

Amounts related to the royalty of the 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, S.A. in these companies.

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

The accrual of revenue from connections to the basic network was recognised in 2006. Movement in this item in 2011 is the following:

| Thousands of euros | Connections to the basic network |
|---|---|
| **Balance at 31 December 2010** | 48,034 |
| Additions | 2,501 |
| Decreases/recognition in income | (2,497) |
| **Balance at 31 December 2011** | 48,038 |

## 18. Risk and capital management policy

### 18.1 Qualitative information

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

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 where it has sufficient knowledge and capacity 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.

**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.

**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.

### 18.2 Quantitative information

a) Interest-rate exposure

| | 2011 | 2010 |
|---|---|---|
| Percentage of fixed-rate borrowings | 71% | 70% |

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

| | Millions of euros | |
|---|---|---|
| | Change in interest rates | |
| | 1.00% | -1.00% |
| Change in interest expense | 26.2 | -26.2 |

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 2012.

### 18.3 Capital management

The Group, and specifically its parent company Enagás, S.A., as 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.

During 2011 there have been no changes in capital management with respect to 2010. 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 15 to 17 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 indicate the ratings assigned by the leading credit rating agencies (Note 33). The company monitors these ratings for decision-making purposes.

## 19. Derivative financial instruments

The company uses derivatives to hedge its exposure to business, operating and cash flow risks. Specifically, the company arranged certain interest rate swaps (IRS) on market conditions in the course of 2011.

The company 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 Enagás, S.A., as the net position is derived by offsetting and/or grouping these financial instruments.

The fair value of these hedges at 31 December 2011 and 2010 is as follows:

***2011***

| | | | | | Fair value (thousands of euros) | |
|---|---|---|---|---|---|---|
| **Instrument** | **Classification** | **Rate** | **Notional amount (thousands of euros)** | **Maturity** | **Assets** | **Liabilities** |
| Interest rate swap | Interest rate hedge | Floating to fixed | 250,000 | November-2012 | - | 1,952 |
| Cross Currency Swap | Interest rate/exchange rate hedge | Floating to fixed | 147,514 | September-2039 | 51,985 | - |
| Interest rate swap | Interest rate hedge | Floating to fixed | 250,000 | August-2013 | 36 | 1,299 |
| Interest rate swap | Interest rate hedge | Floating to fixed | 150,000 | November-2014 | - | 1,548 |
| Interest rate swap | Interest rate hedge | Floating to fixed | 200,000 | April-2014 | - | 1,411 |
| Interest rate swap | Interest rate hedge | Floating to fixed | 200,000 | January-2014 | - | 2,336 |
| Interest rate swap | Interest rate hedge | Floating to fixed | 150,000 | December2014 | 86 | 175 |
| Total | | | **1,347,514** | | **52,107** | **8,721** |

In 2011, the Group recognised a loss of 9,727 thousand euros in the consolidated income statement in connection with remeasurement of its interest rate swaps at fair value.

***2010***

| | | | | | Fair value (thousands of euros) | |
|---|---|---|---|---|---|---|
| **Instrument** | **Classification** | **Rate** | **Notional amount (thousands of euros)** | **Maturity** | **Assets** | **Liabilities** |
| Interest rate swap | Interest rate hedge | Floating to fixed | 60,000 | June-2011 | - | 828 |
| Interest rate swap | Interest rate hedge | Floating to fixed | 170,000 | November-2011 | - | 4,585 |
| Interest rate swap | Interest rate hedge | Floating to fixed | 200,000 | May-2011 | - | 2,564 |
| Interest rate swap | Interest rate hedge | Floating to fixed | 250,000 | November-2012 | - | 3,027 |
| Cross Currency Swap | Interest rate/exchange rate hedge | Floating to fixed | 147,514 | September-2039 | 23,054 | - |
| Interest rate swap | Interest rate hedge | Floating to fixed | 250,000 | August-2013 | 2,364 | 578 |
| Interest rate swap | Interest rate | Floating | 150,000 | November-2014 | 1,705 | - |
| Interest rate swap | Interest rate hedge | Floating to fixed | 200,000 | April-2014 | 2,115 | 150 |
| Interest rate swap | Interest rate hedge | Floating to fixed | 100,000 | May-2013 | 411 | 215 |
| Interest rate swap | Interest rate hedge | Floating to fixed | 200,000 | December-2013 | 1,002 | 995 |
| Total | | | **1,727,514** | | **30,651** | **12,942** |

In 2010, a loss of 17,682 thousand euros was recognised in the consolidated income statement in connection with remeasurement of the fair value of these hedging instruments.

## 20. Trade and other payables

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

| | 31.12.2011 | 31.12.2010 |
|---|---|---|
| Payable to Group companies | 851 | 8,188 |
| Other trade payables | 341,121 | 323,807 |
| Other suppliers | 4,741 | 4,921 |
| Current tax liabilities (see Note 20.2) | 19,739 | 9,737 |
| **Total** | **366,452** | **346,653** |

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

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

As a result of the entry into force of Law 15/2010, laying down measures to combat late payment in commercial transactions, Enagás SA amended the 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 Law 15/2010 are as follows:

| | Payments made and outstanding at year-end | |
|---|---|---|
| | 2011 | |
| | Amount | % |
| Paid within the legal term | 563,362 | 65.48 |
| Other | 296,988 | 34.52 |
| **Total payments for the year** | **860,350** | **100%** |
| Weighted average payment days | 9.78 | |
| Late payments which at year-end were outstanding by more than the legal limit | 14,376 | |

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 relevant statutory 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 statutory term (denominator).

With respect to the heading labelled "Payments outstanding by more than the statutory term at year-end", totalling 14,376 thousand euros (29,692 thousand euros at year-end 2010), note that a sum of 3,689 thousand euros (12,287 thousand euros at year-end 2010) is due to payments blocked by the company because the related supplier had failed to meet one or more of its contractual obligations or on account of performance withholdings not due or sums withheld by court order.

The maximum payment term applicable to Enagás, S.A. in 2011 under Law 3/2004, of 29 December 2004, establishing measures to combat late payments in business transactions, is approximately 85 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 statutory maximum.

## 21. Defined contribution plans

The Group operates defined contribution pension plans covering the commitments acquired by the company with respect to qualifying serving employees. The assets of the plans 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 company to the pension plan in this connection amounted to 2,220 thousand euros in 2011 (2,191 thousand euros in 2010), recognised under "Personnel benefits expense" in the accompanying consolidated income statement.

## 22. Taxation

### 22.1 Tax return

The parent company, Enagás, S.A., and the Gasoducto Al-Andalus, S.A., Gasoducto de Extremadura, S.A., Gasoduto Campo Maior-Leiria-Braga, S.A. and Gasoduto Braga-Tuy, S.A. subsidiaries all file individual tax returns.

### 22.2 Tax receivable and payable

Balances receivable from and payable to public authorities at year-end 2011 and 2010 were as follows:

| | Thousands of euros | |
|---|---|---|
| | **2011** | **2010** |
| **Tax receivable:** | | |
| Value added tax | 23,457 | 19,297 |
| Income tax | 60,249 | 1,710 |
| **Total** | **83,706** | **21,007** |
| **Taxes payable:** | | |
| Income tax | 3,863 | 2,740 |
| Value added tax | - | - |
| Other | 15,876 | 6,997 |
| **Total** | **19,739** | **9,737** |

In 2011 Enagás, S.A.'s current tax came out as a recoverable balance, which is why it had not recognised any payable to the tax authorities in this connection for that year (see Notes 22.3 and 22.7).

At year end, 33,879 thousand euros had been paid (52,832 thousand euros in 2010) on account of the final income tax expense payable, of which 28,409 thousand euros related to Enagás, S.A. (48,012 thousand euros in 2010), 3,203 thousand euros to Gasoducto Al-Andalus, S.A. (2,664 thousand euros in 2010) and 2,267 thousand euros to Gasoducto de Extremadura, S.A. (2,156 thousand euros in 2010).

Likewise, the outstanding balance under Income Taxes relates mainly to the balance due for corporate income tax for 2006 resulting from that year's Tax Inspection on Enagas, S.A. (see Note 22.8) as well as the income tax receivable in respect of 2010.

## 22.3 Reconciliation of profit before tax and taxable income

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

***2011***

| | Thousands of euros | | |
|---|---|---|---|
| | Increase | Decrease | 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 2009 | | | |
| Accelerated depreciation R.D.L. 3/1993 | - | - | - |
| Accelerated depreciation regimes, Law 4/2008 & Law 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 & Law 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** | **564,171** | **(468,408)** | **95,763** |

***2010***

| | Thousands of euros | | |
|---|---|---|---|
| | Increase | Decrease | Total |
| **Accounting profit, before tax** | **472,287** | | **472,287** |
| **Permanent differences:** | | | |
| Exemption for international double taxation | - | - | - |
| Other items (foreign fines and taxes) | 64 | - | 64 |
| Donations | 1,093 | - | 1,093 |
| **Temporary differences:** | | | |
| Arising in 2009 | | | |
| Accelerated depreciation R.D.L. 3/1993 | - | - | - |
| Accelerated depreciation Law 4/2008 | - | (238,663) | (238,663) |
| Government grants | - | - | - |
| Long-service fund | 2,180 | - | 2,180 |
| Provisions for property, plant and equipment | 944 | - | 944 |
| Provisions for litigation | 3,500 | - | 3,500 |
| Provisions for contingencies and expenses | - | - | - |
| Other | 83 | - | 83 |
| Arising in prior years | | | |
| Accelerated depreciation R.D.L. 3/1993 | 1,077 | - | 1,077 |
| Accelerated depreciation Law 4/2008 | 30,067 | - | 30,067 |
| Government grants | - | (359) | (359) |
| Long-service fund | - | - | - |
| Provisions for property, plant and equipment | - | (248) | (248) |
| Provisions for litigation | - | - | - |
| Provisions for contingencies and expenses | - | - | - |
| Other | 63 | (2,763) | (2,700) |
| Offset of tax loss carryforwards | - | (72,321) | (72,321) |
| **Taxable income** | **511,358** | **(314,354)** | **197,004** |

### 22.4 Income tax recognised in equity

Aside from the income tax charge recognised in the consolidated income statements, in 2011 and 2010 the Group booked the following amounts for the following items in consolidated equity.

***2011***

| | Thousands of euros | | |
|---|---|---|---|
| | Increase | Decrease | Total |
| **Current tax:** | | | |
| Capital increase expenses | - | - | - |
| Capital reduction expenses | - | - | - |
| *Other* | - | - | - |
| **Total current tax** | - | - | - |
| **Deferred tax:** | | | |
| Arising in 2009 | | | |
| 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 taxes recognised directly in equity** | **34,729** | **(33,375)** | **1,354** |

***2010***

| | Thousands of euros | | |
|---|---|---|---|
| | Increase | Decrease | Total |
| **Current tax:** | | | |
| Capital increase expenses | - | - | - |
| Capital reduction expenses | - | - | - |
| *Other* | - | - | - |
| **Total current tax** | - | - | - |
| **Deferred tax:** | | | |
| Arising in 2009 | | | |
| Available-for-sale financial assets | - | - | - |
| Measurement of other financial assets | 10,897 | (15,004) | (4,107) |
| 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** | **10,897** | **(15,004)** | **(4,107)** |
| **Total taxes recognised directly in equity** | **10,897** | **(15,004)** | **(4,107)** |

### 22.5 Reconciliation between profit before tax and income tax expense

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

| | 2011 | 2010 |
|---|---|---|
| **Before-tax accounting profit** | **520,329** | **472,287** |
| Tax rate of 30% | 156,099 | 141,686 |
| **Impact of permanent differences** | **848** | **347** |
| **Deductions:** | | |
| International double taxation relief | (3,109) | (3,005) |
| Investments in R&D&I and others | (1,392) | (1,274) |
| Employee training expense | (19) | (16) |
| Pension fund contributions | - | (22) |
| Donations | (628) | (383) |
| **Effect of applying different tax rates** | **1,026** | **(150)** |
| **Tax effect of consolidation eliminations against equity** | **3,039** | **2,935** |
| **Adjustments to income tax** | **(178)** | **(1,312)** |
| **Total tax expense recognised in the income statement** | **155,686** | **138,806** |

### 22.6 Breakdown of income tax expense

The breakdown of "Income tax expense" for 2011 and 2010 is as follows:

***2011***

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

***2010***

| | Enagás, S.A. | G.Al-Andalus, S.A. | G. de Extremadura, S.A. | G. Campo Maior Leiria Braga, S.A. | G. Braga Tuy, S.A. | Bahía de Bizkaia Gas, S.L. |
|---|---|---|---|---|---|---|
| **Current tax:** | | | | | | |
| Continuing operations | 50,434 | 2,788 | 1,922 | 506 | 252 | 1,267 |
| Discontinued operations | - | - | - | - | - | |
| **Deferred tax** | | | | | | |
| Continuing operations | 82,949 | - | - | - | - | |
| Discontinued operations | - | - | - | - | - | |
| **Adjustments to income tax** | | | | | | |
| Continuing operations | (1,312) | - | - | - | - | |
| Discontinued operations | - | - | - | - | - | |
| **Total tax expense** | **132,071** | **2,788** | **1,922** | **506** | **252** | **1,267** |

### 22.7 Deferred tax

The breakdown of deferred tax assets and liabilities in 2011 and 2010 is as follows:

| | 2011 | 2010 |
|---|---|---|
| **Temporary differences (deferred tax assets)** | | |
| Government and other grants | 688 | 796 |
| Long-service fund | 3,742 | 3,339 |
| Provisions for property, plant and equipment | 2,131 | 1,900 |
| Provisions for litigation | 2,001 | 1,050 |
| Derivatives | 3,325 | 3,390 |
| Provisions for contingencies and expenses | - | 1,575 |
| Other | 3,922 | 2,703 |
| **Tax loss carryforwards** | - | - |
| **Unused tax credits and other** | **13,596** | **20,661** |
| **Total deferred tax assets** | **29,405** | **35,414** |

| | 2011 | 2010 |
|---|---|---|
| **Deferred tax liabilities:** | | |
| Accelerated depreciation | 427 | 427 |
| Free depreciation | 370,847 | 211,820 |
| Derivatives | 889 | 2,279 |
| Other | 14,632 | 138 |
| **Total deferred tax liabilities** | **386,795** | **214,664** |

These deferred tax assets were recognised in the balance sheet since the Group'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 "Deductions outstanding and other" are the deductions 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 unrestricted 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 2011 Enagás, S.A. availed of the unrestricted 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. The timeline for applying this tax break was extended until 2015.

As a result of the above, in 2011 Enagás, S.A. recognised a deferred tax liability in the amount of 138,631 thousand euros, equivalent to an asset base of 462,103 thousand euros (71,599 thousand euros equivalent to an asset base of 238,663 thousand euros in 2010).

### 22.8 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 2011, Enagás, S.A. has open to inspection all applicable tax returns in respect of 2008 to 2011 with the exception of reviews of the import VAT and the common external tariff, for which the returns for 2010 and 2011 are open to inspection.

Specifically in respect of income tax, Enagás, S.A. has been issued the following tax assessments (in thousands of euros) for 2004, 2005, 2006 and 2007, which it signed under protest:

| Year | VAT charge | Interest | Total |
|---|---|---|---|
| 2004 | 281 | 86 | **367** |
| 2005 | 196 | 51 | **247** |
| 2006 | (1,122) | (226) | **(1,348)** |
| 2007 | 253 | 34 | **287** |

It has lodged the corresponding appeals against these assessments.

At year-end 2011, Enagás, S.A. has open to inspection all applicable tax returns in respect of 2008, 2009, 2010 and 2011, while its Spanish subsidiaries have open to inspection taxes for all years of the statutory inspection period.

At 31 December 2011, the state tax authorities (AEAT) had opened assessments relating to VAT on imports in 2002 and 2004, signed under protest. The assessed amounts, in thousands of euros and broken down between tax due (deductible VAT) and late-payment interest, are as follows:

| Year | VAT charge | Interest | Total |
|---|---|---|---|
| 2002 | 2,358 | 326 | **2,684** |
| 2004 | 410 | 100 | **510** |

At the date of authorising these financial statements for issue, appeals have been filed before the Chief Inspector.

## 23. Revenue

The breakdown of Group revenue is analysed below:

| Thousands of euros | 31.12.2011 | 31.12.2010 |
|---|---|---|
| Revenue from regulated activities | 1,096,280 | 965,995 |
| Revenue from liberalised activities | 22,163 | 15,740 |
| **Other income** | **18,590** | **18,830** |
| Ancillary and other operating income | 18,483 | 18,704 |
| Government grants | 107 | 126 |
| **Total** | **1,137,033** | **1,000,565** |

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

| Thousands of euros | 31.12.2011 | 31.12.2010 |
|---|---|---|
| **Regulated activities:** | | |
| Enagás, S.A. | 1,074,082 | 945,573 |
| Bahía de Bizkaia Gas, S.A. | 22,198 | 20,422 |
| **Liberalised activities:** | | |
| Gasod. Al-Andalus, S.A. | 7,508 | 7,324 |
| Gasod. de Extremadura, S.A. | 5,845 | 5,701 |
| Enagás Altamira Group | 8,810 | - |
| Gasod. Campo Maior- Leiria- Braga, S.A. | - | 2,540 |
| Gasod. Braga-Tuy, S.A. | - | 175 |
| **Total** | **1,118,443** | **981,735** |

## 24. Expenses

An analysis of Group expenses is provided below:

| | Thousands of euros | |
|---|---|---|
| | 31.12.2011 | 31.12.2010 |
| Employee benefits expense | 66,958 | 67,194 |
| Other operating costs | 202,281 | 151,926 |
| **Total** | **269,239** | **219,120** |

### 24.1 Employee benefits expense

The detail of employee benefits expense is as follows:

| | Thousands of euros | |
|---|---|---|
| | 31.12.2011 | 31.12.2010 |
| Wages and salaries | 59,608 | 56,991 |
| Termination benefits | 1,253 | 4,632 |
| Social security | 12,762 | 12,329 |
| Other employee benefits expense | 6,752 | 7,204 |
| Contributions to external pension funds | 2,220 | 2,191 |
| Own work capitalised | (15,637) | (16,153) |
| **Total** | **66,958** | **67,194** |

At 31 December 2011 the Group had capitalised 15,637 thousand euros of employee benefits expense directly related to ongoing investment projects (16,153 thousand euros at 31 December 2010 – see Note 6).

Job posts were reorganized in 2010. This resulted in 29 early retirements from among employees 62 years of age or older.

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

| Categories | 2011 | 2010 |
|---|---|---|
| Managers | 63 | 65 |
| Technicians | 517 | 507 |
| Administrative staff | 126 | 128 |
| Manual workers | 360 | 358 |
| **Total** | **1,066** | **1,058** |

At 31 December 2011, the Group had 1,126 employees (1,047 at year-end 2010). The breakdown by category and gender is as follows:

| | 2011 | | 2010 | |
|---|---|---|---|---|
| **Categories** | Men | Women | Men | Women |
| Managers | 55 | 9 | 53 | 10 |
| Technicians | 404 | 135 | 381 | 128 |
| Administrative staff | 34 | 95 | 35 | 91 |
| Manual workers | 380 | 14 | 337 | 12 |
| **Total** | **873** | **253** | **806** | **241** |

### 24.2 Other operating costs

Details of this heading are as follows:

| | Thousands of euros | |
|---|---|---|
| | 31.12.2011 | 31.12.2010 |
| External services: | | |
| R&D costs | 1,797 | 1,674 |
| Leases and royalties | 38,487 | 37,699 |
| Repairs and maintenance | 33,309 | 31,142 |
| Professional services | 21,535 | 14,074 |
| Transport | 3,770 | 14,407 |
| Insurance premiums | 3,992 | 3,730 |
| Banking and similar services | 7 | 103 |
| Advertising, publicity and PR | 3,955 | 2,826 |
| Supplies | 22,558 | 20,601 |
| Other services | 58,937 | 9,092 |
| **External services** | **188,347** | **135,348** |
| **Taxes other than income tax** | **6,884** | **4,230** |
| **Other expenses** | **-** | **2** |
| **Other external expenses** | **9,244** | **9,052** |
| **Change in trade provisions** | **(2,194)** | **3,294** |

### 24.3 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 2011, these expenses amounted to 1,783 thousand euros (1,066 thousand euros in 2010), as follows:

| Categories | 2011 | | 2010 | |
|---|---|---|---|---|
| | Services provided by the auditor and its related parties | Services provided by other auditors of the Group | Services provided by the auditor and its related parties | Services provided by other auditors of the Group |
| Audit services (1) | 226 | 10 | 256 | 7 |
| Other assurance services (2) | 1,064 | - | 413 | - |
| **Total audit and audit-related services** | **1,290** | **10** | **669** | **7** |
| Other services | 483 | - | 390 | - |
| **Total professional services** | **483** | **-** | **390** | **-** |

**(1) Audit services:** This column includes services rendered to complete the bylaw-stipulated audit of the Group's financial statements in the amount of 202 thousand euros (202 thousand in 2010), as well as the limited review of the interim and quarterly consolidated financial statements.

**(2) Other assurance services related to the audit:** Virtually the entire amount of this item corresponds to the work necessary to verify the adequacy of the internal control systems and other review work in connection with disclosures reported to the regulators, mainly the CNMV and the CNE and also to audit the balance sheet used for the hive-down of Enagás, S.A. and prepare all the documentation related to that transaction.

## 25. Net finance cost

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

| | 31.12.2011 | 31.12.2010 |
|---|---|---|
| Revenue from Group companies and associates | (129) | 287 |
| Third-party revenue | 34,103 | 19,426 |
| **Finance revenue** | **33,974** | **19,713** |
| Finance and similar expense | (1,478) | (4,230) |
| Interest expense | (97,365) | (74,059) |
| Discounting of provisions | (416) | (25) |
| **Finance costs** | **(99,259)** | **(78,314)** |
| **Exchange differences** | **(333)** | **-** |
| **Net finance cost** | **(65,618)** | **(58,601)** |

At 31 December 2011 the company had capitalised 26,092 thousand euros of borrowing costs (25,259 thousand euros at 31 December 2010 – see Note 6).

## 26. Business and geographical segments

### 26.1 Segmentation criteria

Segment information is organised according to the Group's various business units (primary reporting segment).

Secondary information (geographical segments) is not detailed in this note because Enagás, S.A., the group's parent company, carries out its activities within Spain, where all regions are subject to similar risks and returns, with no characteristics existing among the various regions which could lead to different results from those obtained. In addition, Enagás, S.A. is by far the biggest contributor of assets, liabilities, revenue and expenses to the Group's consolidated financial statements. Operations involving companies based in Europe and Central America, combined, represent less than 0.75% of the Group's revenue and less than

1.5% of its assets, the thresholds established under IFRS for the disclosure of secondary segment information.

### 26.2 Main business segments

The business areas described below have been established on the basis of the classification included in the Hydrocarbons Law 34/1998 of 7 October and in accordance with the organisational structure of Enagás, S.A., 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 company'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 160°C 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:** Enagás, S.A. 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 2011, Enagás, S.A. as technical system manager, continued to carry out the tasks entrusted to it under Royal Decree Laws 6/2000 of 23 June and 949/2001 of 3 August, aimed at guaranteeing the continuity and security of gas supply, and the correct coordination of access, storage, transport and distribution points.

**c) Liberalised activities**

These refer to all liberalised activities and transactions related to Group companies.

### 26.3 Basis and methodology for segment reporting

The segment information provided below is based on monthly reports prepared by the Finance Department and generated via a computer program 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 management | | Liberalised activities + consolidation adjustments | | Group total | |
| **Income statement** | 2011 | 2010 | 2011 | 2010 | 2011 | 2010 | 2011 | 2010 |
| Revenue | 1,068,436 | 935,704 | 11,455 | 11,217 | 57,142 | 53,644 | 1,137,033 | 1,000,565 |
| Depreciation and amortisation | 281,711 | 234,574 | 4,791 | 4,070 | 13,096 | 11,254 | 299,598 | 249,898 |
| Operating profit (loss) | 550,813 | 515,800 | (7,290) | (5,091) | 42,424 | 20,179 | 585,947 | 530,888 |
| Profit (loss) after tax | 348,451 | 327,905 | (5,807) | (3,727) | 21,999 | 9,303 | 364,643 | 333,481 |
| **BALANCE SHEET** | 2011 | 2010 | 2011 | 2010 | 2011 | 2010 | 2011 | 2010 |
| **Total assets** | 7,327,950 | 6,549,829 | 28,257 | 26,510 | 361,192 | 252,797 | 7,717,399 | 6,829,136 |
| Capital expenditure | 647,270 | 636,621 | 10,275 | 8,947 | 123,860 | 127,964 | 781,405 | 773,532 |
| Non-current liabilities (**) | 496,360 | 286,574 | 1,346 | 919 | 56,633 | 40,613 | 554,339 | 328,106 |
| -Deferred tax liabilities | 364,354 | 209,849 | 1,323 | 897 | 21,118 | 3,918 | 386,795 | 214,664 |
| -Provisions | 83,967 | 28,691 | 23 | 22 | 7,565 | 5,639 | 91,555 | 34,352 |
| -Other non-current liabilities | 48,039 | 48,034 | - | - | 27,950 | 31,056 | 75,989 | 79,090 |
| Current liabilities (**) | 318,050 | 284,897 | 25,116 | 35,141 | 19,424 | 33,026 | 362,590 | 353,064 |
| -Trade and other payables (***) | 318,050 | 284,897 | 25,116 | 35,141 | 19,424 | 23,875 | 362,590 | 343,913 |
| -Other current liabilities | - | - | - | - | - | 9,151 | - | 9,151 |

(**) Does not include financial liabilities
(***) Does not include income tax payable

## 27. Environmental information

The Group's efforts to protect the environment and its biodiversity, to boost energy efficiency, lower its 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.

The Enagás Group has integrated environmental protection within its strategic policies and initiatives through the implementation of the Environmental Management System developed and certified by AENOR and prepared in accordance with the requirements of UNE EN ISO 14001, 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, Huelva, and Bilbao, the Serrablo underground storage facility, the facilities for the basic gas pipeline network, and the technological innovation unit. In 2011 the Group obtained UNE EN ISO 14001 certification for Project Management in New Infrastructure Developments in the framework of the DGTICO.

In 2011, AENOR, the Spanish accreditation company, 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 (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 in 2012 and 2013.

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 mitigate any negative contribution to climate change.

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

In 2011, these environmental activities entailed capitalised investments totalling 23,259 thousand euros (38,777 thousand euros in 2010). Environmental expenses incurred by the Company in 2011 totalled 914 thousand euros (1,198 thousand euros in 2010) 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 the third-party liability insurance policies.

In 2011, the Group did not receive any grants or revenue relating to environmental activities, except as mentioned below in Note 28 regarding greenhouse gas emission rights.

## 28. Greenhouse gas emission rights

Certain installations owned by Enagás, S.A. and Group company Bahía de Bizkaia Gas, S.L. fall within the scope of Law 1/2006 of 9 March 2006 governing trading in greenhouse gas emission rights.

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 a resolution approving the individual allocation of greenhouse gas emission rights 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 gas emission rights and provides for the establishment of an emission rights reserve for new facilities and for the expansion of existing facilities, the proposed allocation of rights 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. Accordingly, the definitive number of emission rights allocated to Enagás, S.A., free of charge, totals 2,485,049, (442,763 rights corresponding to 2008, 497,394 to 2009 and 514,964 to 2010, 2011 & 2012), while the number allocated to Bahía de Bizkaia Gas, S.L. totals 28,005 (5,601 each year).

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, Sevilla, Haro, Paterna, Tivissa, Zamora, Zaragoza, Alcázar de San Juan and Lumbier.

At the Group, the 514,964 rights allocated to Enagás, S.A. for 2011 were valued at 14.7 euros/right, the spot price on the first business day of 2011 as per RWE Trading GMBH, which implies an addition for the year of 7,570 thousand euros.

In a meeting held on 23 June 2008 the Board of Directors of Enagás, S.A. authorised the scaled sale of surplus emission allowances (European Union Allowance, EUAs) for each year between 2008 and 2012 and the swap of emission allowances for Certified Emission Reductions (CERs). The forward sale arranged in June 2010 of 150,000 EAUs to Gas Natural for 2,400 thousand euros materialised in March 2011. The sales of 100,000 EUAs to BBVA and of 350,000 EUAs to Gas Natural arranged in April 2011 for 1,699 and 5,950 thousand euros, respectively, materialised in December 2011; 16,750 EUAs were swapped with BBVA for CERs valued at 24.20 euros/CER and 17,000 EUAs were swapped with Gas Natural SDG, S.A. for CERs valued at 23.75 euros/CER.

The Enagás Group consumed 177,891 greenhouse gas emission rights in 2011 (181,989 in 2010).

The emission allowances received free of charge in 2011 under the umbrella of the 2008-2012 National Allocation Plan have been measured at the trading price corresponding to the first business day of 2011, i.e., 14.7 euros/allowance. The emission allowances received free of charge in 2010 were measured at the trading price corresponding to the first business day of 2010, 13.3 euros/allowance.

In the first quarter of 2011, Enagás, S.A. submitted its emission reports, verified by the accredited DOE (AENOR), to the pertinent regional governments, which validated said emissions.

In the second quarter of 2011, Enagás, S.A. delivered greenhouse gas emission allowances equivalent to verified emissions for 2010 for all these installations.

In 2011, Enagás, S.A. did not arrange any futures contracts relating to greenhouse gas emission rights nor are there any contingencies related to provisional penalties or measures under the terms established by Law 1/2005.

## 29. Related party transactions

### 29.1 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 2011 and 2010, 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.

***2011***

| | Thousands of euros | | | | |
|---|---|---|---|---|---|
| | 31-12-2011 | | | | |
| Expenses and revenue | Significant shareholders | Directors and senior management | Group persons, companies or entities | Other related parties | **Total** |
| **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** |
| **Revenue:** | | | | | |
| 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) | - | - | - | - | **-** |
| Profit on derecognition or disposal of assets | - | - | - | - | **-** |
| Other revenue | - | - | - | - | **-** |
| **Total revenue** | **2,589** | **-** | **21,159** | **75,328** | **99,076** |

***2010***

| Expenses and revenue | Thousands of euros 31-12-2010 Significant shareholders | Directors and senior management | Group persons, companies or entities | Other related parties | Total |
|---|---|---|---|---|---|
| **Expenses:** | | | | | |
| Finance costs | 1,587 | - | - | 5,880 | **7,467** |
| Management or collaborative agreements | - | - | - | - | **-** |
| Transfers of R+D and license agreements | - | - | - | - | **-** |
| Leases | - | - | - | - | **-** |
| Services received | - | - | 31,506 | 3,798 | **35,304** |
| Purchase of goods (finished or work-in-progress) | - | - | | 5,081 | **5,081** |
| Impairment provisions for bad or doubtful debt | - | - | - | - | **-** |
| Losses on derecognition or disposal of assets | - | - | - | - | **-** |
| Other expenses | - | 1,200 | - | - | **1,200** |
| **Total expenses** | **1,587** | **1,200** | **31,506** | **14,759** | **49,052** |
| **Revenue:** | | | | | |
| Finance revenue | 1,067 | - | 619 | 4,969 | **6,655** |
| Management or collaborative agreements | - | - | - | - | **-** |
| Transfers of R+D and license agreements | - | - | - | - | **-** |
| Dividends received | - | - | 10,019 | - | **10,019** |
| Leases | - | - | - | - | **-** |
| Services rendered | - | - | 10,562 | - | **10,562** |
| TPA services | - | - | - | 68,230 | **68,230** |
| Sale of goods (finished or work-in-progress) | - | - | - | - | **-** |
| Profit on derecognition or disposal of assets | - | - | - | - | **-** |
| Other revenue | - | - | - | - | **-** |
| **Total revenue** | **1,067** | **-** | **21,200** | **73,199** | **95,466** |

***2011***

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

*2010*

| Other transactions | Thousands of euros 31-12-2010 Significant shareholders | Directors and senior management | Group persons, companies or entities | Other related parties | Total |
|---|---|---|---|---|---|
| Purchase of property, plant and equipment, intangible | - | - | - | - | - |
| Financing agreements: loans and capital injections (lender) | - | - | 35,522 | - | 35,522 |
| Finance leases (lessor) | - | - | - | - | - |
| Repayment or cancellation of loans and finance leases (lessor) | - | - | - | - | - |
| Sale of property, plant and equipment, intangible | - | - | - | - | - |
| Financing agreements: loans and capital injections (borrower) | 141,107 | - | - | 260,093 | 401,200 |
| Finance leases (lessee) | - | - | - | - | - |
| Repayment or cancellation of loans and finance leases (lessee) | - | - | - | - | - |
| Guarantee commitments extended | - | - | - | - | - |
| Guarantee commitments received | 3,100 | - | - | 9,605 | 12,705 |
| Commitments assumed | - | - | - | - | - |
| Cancelled commitments/guarantees | - | - | - | - | - |
| Dividends and other benefits paid | 55,723 | - | - | - | 55,723 |
| Other transactions | - | - | - | - | - |

These transactions include the financial costs resulting from hedging contracts with Enagás Group financial-entity related parties.

## 30. Director and senior management compensation

### 30.1 Wages and salaries

The remuneration received in 2011 and 2010 by the members of the Board of Directors and senior Group management, broken down by item, was as follows:

*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 |

*2010*

| | Salaries[1] | Attendance fees | Other | Pension plans | Insurance premiums | Termination benefits |
|---|---|---|---|---|---|---|
| Directors | 1,478 | 1,178 | 58 | 10 | 63 | - |
| Senior management | 2,180 | - | 77 | 62 | 93 | 1,074 |
| Total | 3,658 | 1,178 | 135 | 72 | 156 | 1,074 |

[1] Fixed and performance-based pay did not change w ith respect to 2009. In addition, under a multi-year scheme accrued during several years, the Directors and Senior Management have been paid the Multi-Year Incentive Plan (Plan de Incentivos Plurianual) pertaining to prior years, in the amounts of 924 and 1,103 thousand euros.

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

| | Thousands of euros | |
|---|---|---|
| **Directors** | **2011** | **2010** |
| Antonio Llardén Carratalá, (Executive Director) [1] | 1,642 | 1,600 |
| BANCAJA (Proprietary Director) [2] | 20 | 107 |
| Sagane Inversiones S.L.(Proprietary Director) | 76 | 76 |
| Bilbao Bizkaia Kutxa (Proprietary Director) | 76 | 76 |
| Sociedad Estatal de Participaciones Industriales (Proprietary Director) | 76 | 76 |
| Mr. Sultan Hamed Khamis Al Burtamani | 53 | - |
| Said Al Masoudi (Proprietary Director) | - | 57 |
| Peña Rueda S.L. Unipersonal (Proprietary Director) | 64 | 64 |
| Jesús David Álvarez Mezquíriz (Independent Director) | 64 | 64 |
| Dionisio Martínez Martínez (Independent Director) | 81 | 81 |
| José Riva Francos (Independent Director) | 80 | 70 |
| Ramón Pérez Simarro (Independent Director) | 76 | 76 |
| Martí Parellada Sabata (Independent Director) | 77 | 81 |
| Antonio Téllez de Peralta (Independent Director) | - | 28 |
| Teresa García-Milà Lloveras (Independent Director) | 76 | 76 |
| Miguel Angel Lasheras Merino (Independent Director) | 64 | 64 |
| Luis Javier Navarro Vigil (External Director) | 76 | 76 |
| Isabel Sanchez García (Independent Director) | 64 | 42 |
| **Total** | **2,665** | **2,714** |

[1] In 2011, the Executive Director received fixed pay totalling 960 thousand euros and a bonus of 554 thousand euros, as approved by the Board; he additionally received Board attendance fees of 64 thousand euros and other in-kind compensation totalling 65 thousand euros, making for an overall sum of 1,642 thousand euros. He is also the beneficiary of a life insurance policy for which the premium for the year was 34 thousand euros, while 10 thousand euros were contributed to his pension plan.
In 2010, the Executive Director's annual fixed pay and bonus did not change with respect to 2009. Under a multi-year remuneration scheme accrued over several years, he received 924 thousand euros; he also benefited from a life insurance policy with a premium for the year of 63 thousand euros, while the Group paid 10 thousand euros into his pension plan.

[2] From 1 January to 21 February 2011.

## 31. Other director disclosures

In keeping with the provisions of article 229 *et seq.* of the Spanish Corporate Enterprises Act, these notes include information 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 that independently engage in the transport, regasification, distribution or supply of natural gas, as regulated by Law 34/1998 on the Hydrocarbon Industry.

Thus, shareholdings in the capital of companies with a similar or complementary type of activity reported by the Directors to the Group at 31 December 2011 are:

| DIRECTOR | COMPANY | No. of SHARES | % SHAREHOLDING |
|---|---|---|---|
| BBK (Bilbao Bizkaia Kutxa) | Iberdrola, S.A | 312,380,724 | 5.000% |
| | Gas Natural, SDG-Unión Fenosa | 982,134 | 0.110% |
| Luis Javier Navarro Vigil | BP, PLC | 45,882 | 0.000% |

Note that Joseba Andoni Aurrekoetxea Bergara, who represents BBK on the Board of Enagás, holds 107 Repsol shares.

Carlos Egea Krauel, who represents Sagane Inversiones S.L. on the Board of Enagás, holds 9,971 shares of Iberdrola, S.A. and 4,857 shares of Gas Natural SDG-Unión Fenosa.

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 member Infraestructuras de Gas.

Positions held or duties performed by company directors at companies whose corporate purposes is the same, similar or complementary disclosed to Enagás, S.A. at 31 December 2011 are as follows:

| DIRECTOR | COMPANY | POSITION |
|---|---|---|
| Luis Javier Navarro Vigil | BP España SAU. | Director |
| | E.ON España | Director |
| | E.ON Renovables S.L.U. | Director |
| | TLA, S. de R.L. de C.V. | Director |
| Mr. 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 |

Note that Joseba Andoni Aurrekoetxea Bergara, who represents BBK on the Board of Enagás, is also a director of Bahía Bizkaia Gas, S.L.

Manuel Menéndez Menéndez, the representative of Peña Rueda, S.L. on Enagás, S.A.'s Board of Directors, holds as a private individual the positions of Chairman of the Board of Directors of Hidroeléctrica del Cantábrico, S.A. (H.C.),Chairman of the Board of Naturgas Energía Grupo, S.A. and member of the general and supervisory board of EDP RENOVABLES, S.A.

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

## 32. Guarantee commitments to third parties

At 31 December 2011 the Group had provided guarantees to third parties deriving from its activities for an amount of 110,847 thousand euros (109,914 thousand euros in 2010). It has also extended financial guarantees for a total of 510,000 thousand euros (188,629 thousand euros at year-end 2010) to secure loans granted by the European Investment Bank.

The Group'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.

## 33. Other information

On 18 February 2011, Bancaja Inversiones, S.A. sold down its entire 5% shareholding in Enagás, S.A., presenting its resignation from the Board at the meeting held on 21 February. This resignation also meant that Bancaja stepped down as Vice-Chairman of the Board of Directors and as member of the Company's Audit and Compliance Committee.

On 18 April 2011, José Riva Francos, an independent director, was appointed to chair the Audit and Compliance Committee, replacing Martí Parellada Sabata, whose term of office had finished.

On 18 July 2011, the Board of Directors of Enagás, S.A. approved an enhanced dividend policy consisting of a payout of 65% of profit for 2011 and of 70% between 2012 and 2014. The higher payouts agreed are subject to shareholder approval at the upcoming General Meeting.

On 18 July 2011, it was announced that for the fourth consecutive year Enagás has been included in the Dow Jones Sustainability World Index (DJSI World), which includes companies with the best practices in sustainability and corporate responsibility.

On 21 November 2011, the Board of Directors of Enagás, S.A. resolved to appoint Isabel Sánchez García as one of its independent directors and as a member of its Audit and Compliance Committee.

At 31 December 2011, Enagás, S.A.'s long-term credit ratings were still "A2" and "AA-".

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 "Draft Terms of Hive-Down", which is the first formality required to comply with final provision six of 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 Hydrocarbon Act (Law 34/1998, of 7 October 1998). As a result:

1. Enagás, S.A. will incorporate two subsidiaries which will hold all the share capital and entitlement to carry out the functions of technical system operator and gas transmission company, respectively. This unbundling will 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. is entitled to pass on its corporate name to the transmission subsidiary.

2. The Enagás, S.A. subsidiary so incorporated which acts as technical system operator will be bound by all the provisions of the Hydrocarbon Act which regulate the latter activity.

The Enagás, S.A. subsidiary so incorporated which acts as gas transmission company will 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 will be directly attributed to the transmission subsidiary for the purposes of the Hydrocarbon Act [...].

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

The new transitional provision twenty-three of the Hydrocarbon Act stipulates that these subsidiaries must be incorporated within one year from entry into force of the aforementioned legislative amendment.

As a result, in order to comply with this statutory mandate, the Board of Directors of Enagás, S.A. has issued the corresponding "Draft Terms of Hive-Down", in keeping with the provisions of articles 71 and 30.1 of Law 3/2009, of 3 April 2009, regarding Structural Changes to Corporate Enterprises (the "Structural Changes Act").

Subject to the formalities and administrative approvals which may be required, the planned unbundling will imply the hive-down of two major components of the Company's asset base, each of which will constitute an autonomous and independent economic unit performing the Group's transmission activities (the "Transmission Economic Unit"), on the one hand, and the technical management of the gas system (the "TMS Economic Unit"), on the other. These units will be transferred *en bloc* to two newly formed companies to be called Enagás Transporte, S.A. (the "Newly Formed Transmission Beneficiary Company") and Enagás GTS, S.A. (the "Newly Formed TMS Beneficiary Company"), or such other corporate names as may arise from certification in the negative by Spain's Central Companies Registry.

Under the planned hive-down, the Newly Formed Transmission Beneficiary Company will acquire the Transmission Economic Unit by means of universal succession, just as the Newly Formed TMS Beneficiary Company will acquire the TMS Economic Unit.

The hive-down transaction is subject to the formalities stipulated in the Structural Changes Act, which include shareholder approval in general meeting. It is also subject to award of the pertinent approvals from the authorities.

## 34. Joint ventures

Information on the joint ventures in which the company had interests at 31 December 2011 is set out in the table below:

| Company | Location | Activity | Consolidation method | % | % of voting rights controlled by Enagas, S.A. | Thousands of euros | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | | | Investee data | | | |
| | | | | | | Carrying amount | Assets | Equity | Revenue (**) | Profit for the year (**) |
| Gasoducto Al-Andalus, S.A. | Spain | Gas transport | PC | 67 | 50.00% | 23,744 | 70,949 | 53,849 | 28,207 | 10,036 |
| Gasoducto de Extremadura, S.A. | Spain | Gas transport | PC | 51 | 50.00% | 9,732 | 34,367 | 31,268 | 20,358 | 8,262 |
| Bahía de Bizkaia Gas, S.L. | Spain | Storage and regasification | PC | 40 | 33.33% | 44,334 | 270,109 | 106,673 | 55,495 | 10,087 |
| Subgrupo Altamira LNG, CV. | Netherlands/Mexico | Holdco/ Regasification | PC | 40 | 50.00% | 35,511 | 330,675 | 53,750 | 22,025 | 4,430 |

I.P.: PC: Proportionate consolidation.
(*) 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.
(**) The data corresponding to subgroup Altamira LNG, CV. refer to the last quarter of 2011, which is when this subgroup was consolidated by the Enagás Group for the first time.

## 35. Events after the balance sheet date

On 4 January 2012, Bilbao Bizkaia Kutxa (BBK) notified the CNMV of the sale of all the shares it held in Enagás, S.A. through Kartera 1, S.L. This sale took place off-market as part of a corporate restructuring process. BBK also changed its name to Kutxa Bank following the merger of three Basque savings banks (Kutxa, BBK and Vital).

On 27 January 2012, Carlos Egea Krauel, who represents Sagane Inversiones, S.L. on the Board of Enagás, S.A., informed the Company that Banco Mare Nostrum, S.A. holds an indirect shareholding in Enagás, S.A. equivalent to 2.79% of share capital, deriving from ownership of 42,550,080 shares in Sagane Inversiones, S.L., giving it a 54.9% interest in the latter.

On 27 January 2012, Fitch Ratings lowered its Spanish sovereign rating from AA- to A-. As a direct result, on 30 January 2012, the rating assigned by Fitch to Enagás' senior debt was lowered from AA- to A+. Enagás' other ratings remain intact (Long-term IDR: A+ Outlook Stable and Short-term IDR F1).

On 1 February 2012, Peña Rueda, S.L.U. (a company director) announced that Cantábrica de Inversiones de Cartera, S.L. (CIC, S.L.) continues to directly hold 11,937,395 shares in Enagás, S.A. and that the shares in CIC, S.L. have been transferred to Liberbank, S.A. as a result of the spin-off of the assets and liabilities and auxiliary items comprising its banking business and the transfer *en bloc* and by means of universal succession of this banking business to Cajastur. As a result, Liberbank, S.A. indirectly owns a 5% equity interest in Enagás (as indirect owner of 11,937,395 Enagás shares).

## 36. 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.

*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.-Performance of the Group in 2011

Net profit rose 9.3% year-on-year to 364,643 thousand euros in 2011.

Revenue totalled 1,118,443 thousand euros.

At year-end the Enagás Group's capital and reserves stood at 1,867,377 thousand euros while total equity stood at 1861,596 thousand euros.

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

On 28 December 2010 the Official State Gazette (BOE) published Order ITC/3354/2009 of the Ministry of Industry, Tourism and Trade, which establishes the remuneration of regulated activities in the gas industry for 2011, and updated certain aspects relating to the remuneration of regulated activities in the gas industry.

Throughout the year the Group continued to enlarge and enhance its regasification, transport and storage installations to bring them in line with the outlook for demand going forward. In this respect, the main actions carried out were:

- An eighth 150,000m$^3$ tank at the Barcelona plant
- Duplication of the Tivissa – Paterna gas pipeline
- Algete - Yela gas pipeline
- At the end of 2011 the Enagás Group operated 9,280 km of pipeline designed to function at maximum bar pressures of 72 and 80, compared with 8,981 km in December 2010. This increase helps secure continuity of supply and the development of areas that previously had no access to natural gas supplies.
- Regulation and metering stations were added to transportation assets and different pipeline positions were modified. The Group also built the Villar de Arnedo compression station. A total of 12 new regulating and metering stations were brought into service in the course of the year, taking the total number in operation at year-end to 436.

Overall, at the end of 2011, the gas infrastructure of the Enagás Group comprising the basic natural gas grid was as follows:

The Barcelona, Huelva and Cartagena regasification plants, with total combined LNG storage capacity of 2,037,000 m$^3$ in a total of 18 tanks, nine cistern loaders and emission capacity of 4,650,000 m$^3$(n)/h.

The Serrablo (Huesca) underground storage facility and the Gaviota offshore underground storage facility, in operation with maximum injection of 8.9 Mm$^3$/day and maximum output of 12.4 Mm$^3$/day, and the concession for the Yela (Guadalajara) storage facility in accordance with the provisions of Royal Decree 1061 of 20 July 2007.

A gas pipeline network with a total length of 9,280 km, consisting of the following main lines:

- **Central line**: Huelva-Córdoba-Madrid-Burgos-Cantabria-Basque Country (with the Huelva-Seville-Córdoba-Madrid duplicated)

- **Eastern line**: Barcelona-Valencia-Alicante-Murcia-Cartagena

- **Western line**: Almendralejo-Cáceres-Salamanca-Zamora-León-Oviedo

- **Spain-Portugal western line**: Córdoba-Badajoz-Portugal (Campo Maior-Leiria-Braga)-Tuy-Pontevedra-A Coruña-Oviedo

- **Ebro line**: Tivisa-Zaragoza-Logroño-Calahorra-Haro

- **Transverse line**: Alcazar de San Juan-Villarrobledo-Albacete-Montesa

- **Balearic line**: Montesa-Denia-S. Antoni de Portmany- S. Juan de Dios

The following gas pipeline entry points to the gas system:

North: the Calahorra-Lac Spain-France pipeline connecting Spain and Portugal with the European gas pipeline network.

South: The Maghreb-Europe pipeline and connection to the Marismas-Palancares gas fields in the Guadalquivir valley.

**II.-Main business risks**

The Enagás Group is exposed to various risks intrinsic to the sector, the market in which it operates and to the activities it performs, which may 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 those 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 company's business activities and also refers to certain aspects of local rates, is particularly prominent.

Enagás 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 2011, 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 18 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: the impact of incidents on infrastructure, equipment and systems, business practices, poor quality or interruption of service, employee conduct, workplace health and safety and operational risk of suppliers and counterparties.

The Enagás Group mitigates these risks by making the necessary investments, applying procedures and operation and maintenance programmes and procedures that are underpinned by quality systems and planning for an adequate training and skill management plus 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.

Against this backdrop, 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 to the extent that the Group is found to have failed to exercise 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.

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

This process contemplates the potential reputational effect that any of the risks listed in the model (operational, business, financial and counterparty) may have when their materialisation does not meet expectations of stakeholders and strictly reputational events arising from the action, interest or opinion of a third party.

The Group has identified as relevant any reputational risk that derives from 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.

Also considered key, because of its relevance, is the management of certain risks strictly defined as reputational, stemming from the action of a third party.

## III.- Use of financial instruments

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

In compliance with this policy, the company entered into a series of interest rate hedges during the year. As a result, at year-end, 71% of total gross debt was hedged against interest rate increases.

## IV.- Outlook

The company has earmarked capital expenditure of 550 million euros for 2012 and plans to bring 750 million euros' worth of investments online during the year.

Management expects to repeat net profit of 365 million euros in 2012. Likewise, the Company has reiterated the growth targets set out under its 2010-2014 Strategic Plan.

## V.- Research and development

Technological innovation initiatives carried out by Enagás Group in 2011 focused on assessing, developing and testing new gas technologies with the aim of increasing and improving the company's competitiveness, and in particular on projects of strategic value for the company.

The most significant activities carried out in 2011 by area were:

a) **Production (LNG).** The Company continued to develop new phases of its project for designing a reliability model for plant equipment and installations. The Group researched how to improve sampling at LNG tank loaders and is in the process of assessing the impact of global uncertainty on the plants as a whole. It is evaluating the possibility of installing turboexpanders at the Barcelona plant to harness spikes in outflow pressure to generate electricity. Lastly, the Group is working with other European companies on a project to develop the first standard densimeter to measure LNG density.

b) **Transport.** The project to design, build and start up an electricity generation plant at the Almendralejo compression station was completed during the year. The Group is evaluating the implementation of a logistics planning and optimisation system for the grid which would allow optimal distribution of gas flows throughout the system in response to the operating needs and sales demands voiced by the various sector agents.

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

d) **Measurement.** The high pressure gas meter calibration bank was started up during the year. A monitoring system designed to oversee variables at the most critical positions from the measurement standpoint was satisfactorily rolled out. Several improvements to the chromatographic techniques and patterns used have been researched and tested. The Group is evaluating the implementation of a system for allocating gas grades by means of simulation, availing itself of tools already available in the CPC (ASTRA model), and for analysing gas obtained at critical junctures of the grid.

e) **Projects of general interest.** The Group is also researching the impact on the gas system of introducing biogas into the transport networks from several standpoints and the impact of a new European Union directive on cross-border gas exchanges.

f) **Other matters.** The Group's IT teams are working on the design and construction of an energy-efficient data processing unit (Green Data Center) at the Zaragoza plant, equipped with trigeneration facilities capable of meeting the facility's energy requirements with a lower environmental impact.

## VI.- Transactions with treasury shares

The company did not carry out any transactions involving treasury shares during the year.

## VII. Additional information

***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 to it and the percentage of total share capital that it represents***

The capital structure of the company:

| Date of last modification | Share capital (euros) | 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***

| Name or corporate 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 | 5.000 |
| ATALAYA INVERSIONES, S.R.L. | 0 | 11,936,714 | 5.000 |
| CAJASTUR (Caja de Ahorros de Asturias) | 0 | 11,937,395 | 5.000 |

(*) Through:

| Name or corporate name of the shareholder | Number of direct voting rights | % of total voting rights |
|---|---|---|
| OMAN OIL HOLDINGS ESPAÑA, S.L.U. | 11,936,702 | 5.000 |
| SAGANE INVERSIONES, S.L. | 11,936,714 | 5.000 |
| CANTÁBRICA DE INVERSIONES DE CARTERA, S.L. (CIC, S.L.) | 11,937,395 | 5.000 |
| Total: | 35,810,811 | 15.000 |

| Name or corporate name of the shareholder | Number of direct voting rights | Number of indirect voting rights (*) | % of total voting rights |
|---|---|---|---|
| DON ANTONIO LLARDÉN CARRATALÁ [1] | 56,396 | 0 | 0.024 |
| BBK (Bilbao Bizkaia Kutxa) | 0 | 11,936,713 | 5.000 |
| TERESA GARCÍA MILÁ LLOVERAS | 1,500 | 0 | 0.001 |
| MR. SULTAN HAMED KHAMIS AL BURTAMANI | 1 | 0 | 0.000 |
| DIONISIO MARTÍNEZ MARTÍNEZ | 2,010 | 0 | 0.001 |
| LUIS JAVIER NAVARRO VIGIL | 10 | 7,075 | 0.003 |
| MARTÍ PARELLADA SABATA | 910 | 0 | 0.000 |
| RAMÓN PÉREZ SIMARRO | 100 | 0 | 0.000 |
| SAGANE INVERSIONES, S.L. | 11,936,714 | 0 | 5.000 |
| SOCIEDAD ESTATAL DE PARTICIPACIONES INDUSTRIALES (SEPI) | 11,936,713 | 0 | 5.000 |

[1] Notified to the CNMV during Enagás, S.A.'s General Shareholders'Meeting. On 25 March 2011, he held 13,338,775 indirect voting rights equivalent to 5.587% of the total voting rights comprising the Company's share capital in representation of 5,036 shareholders.

(*) Through:

| Name or corporate name of the shareholder | Number of direct voting rights | % of total voting rights |
|---|---|---|
| KARTERA 1, S.L. | 11,936,713 | 5.000 |
| NEWCOMER 2000, S.L.U. | 7,075 | 0.003 |
| Total: | 11,943,788 | 5.003 |

### d) *Any restrictions on voting rights*

Section two of additional provision thirty-one of Spain's Hydrocarbon Act (Law 34/1998, of 7 October 1998), in effect since the entry into force of Law 12/2011, of 27 May 2011, regarding civil liability for nuclear damage and damage caused by radioactive waste, provides as follows:

> "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, 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 statutory provision, article 6a ("Limitation on shareholdings and exercise of voting rights") of Enagás, S.A.'s bylaws sets forth the following:

> "No natural person or corporate body may hold, directly or indirectly, an interest in the company 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 above 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%.
>
> For the purposes of computing holdings in the share capital of the company, additional provision 20 of the Hydrocarbons Law 34/1998 of 7 October shall apply".

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 prescribed in the now prevailing additional provision thirty-one of the Hydrocarbon Act.

### *e) Agreements between shareholders*

There are no records 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 seventeen, appointed at the General Shareholders' Meeting.

The Board members shall be elected by means of a vote. For this purpose, the shares that are voluntarily pooled, up to a total in share capital that is equal to or greater than the result of dividing the latter by the number of Board members, shall be entitled to appoint those who, exceeding whole fractions, are deducted from the corresponding proportion. If this power is exercised, the shares pooled in this fashion shall not take part in the appointment of the remaining members of the Board.

The post of director, for those for which shareholder status is not required, may be waived, revoked and eligible for re-election to one or more terms.

An appointment as director shall take effect upon acceptance thereof.

Any person found in any of the situations referred to under article 124 of the revised Spanish Companies Act may not be a director.

ARTICLE 37.- POSTS.

The Board of Directors shall appoint a Chairman, and if applicable, a Deputy Chairman, who in the Chairman's absence shall act as Chairman. In lieu of a Deputy Chairman, the most senior director in age shall substitute the Chairman.

The appointment of a Secretary is also incumbent on the Board of Directors, which may appoint, in addition to a Deputy Secretary, who in the Secretary's absence shall act as Secretary, persons who are not directors. In lieu of a Deputy Secretary, the most senior director in age shall substitute the Secretary.

The persons holding the positions of Chairman, Deputy Chairman to the extent there is one, Board Secretary and Deputy Secretary to the extent there is one, who are re-elected as members of the Board by the Company's shareholders in general meeting shall continue to discharge the duties they had been carrying on within the Board without having to be specifically re-elected to these positions, notwithstanding the Board of Director's power to revoke such appointments.

Provisions of the organisational and operational regulations of the Board of Directors (adopted by the Board of Directors on 29 March 2007):

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.

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 Companies 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 and Remuneration 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 and Remuneration 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 and Remuneration 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 124 of the Spanish Companies 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.

In the event the Ordinary or Extraordinary General Shareholders' Meeting at first call wishes to validly ratify the issue of bonds, the increase or reduction of share capital, the transformation, merger or spin-off of the company, and in general, to amend the company bylaws, shareholders possessing at least fifty percent of paid up voting capital must be present or represented.

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 member of the Board of Directors who has the power to represent the company is 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 Mercantile Registry of Madrid, Volume 20,090; Book 0; Folio 172, Section 8; Page M-6113; Record 668. 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 by the General Shareholders' Meeting held on 11 May 2007 with the following terms is now in force:

"To grant the Board of Directors the broadest powers required by law to increase the company's share capital, at one or several times, within a maximum period of five years from the date, under the terms of article 153.b) of the Spanish Companies 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. The Board of Directors is also empowered to waive pre-emptive subscription rights under the terms of article 159 of the Spanish Companies Act."

***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 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 Workers' Statute provided the resolution is certified by means of conciliation between the parties, legal judgment, arbitration award or 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.

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

## VIII.- Events after the balance sheet date

On 4 January 2012, Bilbao Bizkaia Kutxa (BBK) notified the CNMV of the sale of all the shares it held in Enagás, S.A. through Kartera 1, S.L. This sale took place off-market as part of a corporate restructuring process. BBK also changed its name to Kutxa Bank following the merger of three Basque savings banks (Kutxa, BBK and Vital).

On 27 January 2012, Carlos Egea Krauel, who represents Sagane Inversiones, S.L. on the Board of Enagás, S.A., informed the Company that Banco Mare Nostrum, S.A. holds an indirect shareholding in Enagás, S.A. equivalent to 2.79% of share capital, deriving from ownership of 42,550,080 shares in Sagane Inversiones, S.L., giving it a 54.9% interest in the latter.

On 27 January 2012, Fitch Ratings lowered its Spanish sovereign rating from AA- to A-. As a direct result, on 30 January 2012, the rating assigned by Fitch to Enagás' senior debt was lowered from AA- to A+. Enagás' other ratings remain intact (Long-term IDR: A+ Outlook Stable and Short-term IDR F1).

On 1 February 2012, Peña Rueda, S.L.U. (a Company director) announced that Cantábrica de Inversiones de Cartera, S.L. (CIC, S.L.) continues to directly hold 11,937,395 shares in Enagás, S.A. and that the shares in CIC, S.L. have been transferred to Liberbank, S.A. as a result of the spin-off of the assets and liabilities and auxiliary items comprising its banking business and the transfer *en bloc* and by means of universal succession of this banking business to Cajastur. As a result, Liberbank, S.A. indirectly owns a 5% equity interest in Enagás (as indirect owner of 11,937,395 Enagás shares).

## ENAGÁS GROUP

On 6 February 2012, the Board of Directors of Enagás, S.A. authorised the annual financial statements and management report for the year ended 31 December 2011, 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 RESPONSIBILTY. 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 financial statements, prepared in accordance with applicable accounting principles, provide a true and fair view of the equity, financial position and results of the company and of the companies included in the consolidation scope, taken as a whole, and that the management report includes a fair analysis of the evolution and results of the businesses and the position of the company and the companies included in consolidation, taken as a whole, together with the description of the main risks and uncertainties faced. They additionally state that to the best of their knowledge the director not signing these presents has expressed no dissent from the annual financial statements or the management report.

**Presidente**

D. Antonio Llardén Carratalá

**Consejeros**

D. Jesús David Álvarez Mezquíriz

Dña. Isabel Sánchez García

Dña. Teresa García-Milá Lloveras

D. Dionisio Martínez Martínez

D. Luis Javier Navarro Vigil

D. Ramón Peréz Simarro

D. José Riva Francos

D. Miguel Ángel Lasheras Merino

D. Martí Parellada Sabata

Mr. Sultan Al Burtamani

Sagane Inversiones, S.L.
(Representada por D. Carlos Egea Krauel)

Sociedad Estatal de Participaciones Industriales-SEPI
(Representada por D. Ramón Aguirre Rodríguez)

Peña Rueda, S.L. Unipersonal
(Representada por D. Manuel Menéndez Menéndez)

Bilbao Bizkaia Kutxa-BBK
(Representado por D. Joseba Andoni Aurrekoetxea Bergara)

**Secretario del Consejo**

D. Rafael Piqueras Bautista