ENAGÁS, S.A.
and
Subsidiaries

Consolidated Financial Statements at 31 December 2010

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.

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 2010
(Figures in thousands of euros)

Assets	**Notes**	**31.12.2010**	**31.12.2009**
NON-CURRENT ASSETS		**5,228,603**	**4,764,874**
Intangible assets	5	36,629	41,405
Property, plant and equipment	6	5,123,748	4,654,955
Financial assets	8	880	8,084
Other long term financial assets	8	31,932	2,934
Deferred tax assets	22	35,414	57,496
CURRENT ASSETS		**1,600,533**	**1,015,065**
Available-for-sale assets	9	31,336	-
Inventories	10	5,328	4,725
Trade and other receivables	11	366,483	359,669
Other financial assets	8	108,042	8,083
Other assets		2,293	2,064
Cash and cash equivalents	12	1,087,051	640,524
TOTAL ASSETS		**6,829,136**	**5,779,939**

Equity and Liabilities	**Notes**	**31.12.2010**	**31.12.2009**
EQUITY		**1,736,245**	**1,581,255**
CAPITAL AND RESERVES		**1,738,836**	**1,593,429**
Issued Capital	13	358,101	358,101
Reserves	13	1,121,739	1,004,859
Profit for the year		333,481	298,031
Interim dividend	13	(74,485)	(67,562)
NET UNREALISED GAINS (LOSSES) RESERVE	13	**(2,591)**	**(12,174)**
NON-CURRENT LIABILITIES		**4,006,240**	**3,372,581**
Provisions	15	34,352	31,504
Non-current financial liabilities	16	3,678,134	3,090,039
Deferred tax liabilities	22	214,664	166,585
Other liabilities	17	79,090	84,453
CURRENT LIABILITIES		**1,086,651**	**826,103**
Liabilities associated to available-for-sale-assets	9	5,857	-
Current Provisions	15	3,294	-
Current financial liabilities	16	730,847	503,763
Trade and other payables	20	346,653	321,955
Other liabilities		-	385
TOTAL GENERAL		**6,829,136**	**5,779,939**

Notes 1 to 36 set forth in the accompanying financial information are an integral part of the consolidated balance sheet at 31 December 2010

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 2010
(Figures in thousands of euros)

	Notes	Year ended 31/12/10	Year ended 31/12/09
Revenue from regulated activities	23	965,995	866,829
Revenue from liberalised activities	23	15,740	15,429
Other operating income	23	18,830	14,125
Employee benefits expense	24	(67,194)	(60,743)
Other operating costs	24	(151,926)	(139,437)
Depreciation and amortisation		(249,898)	(216,590)
Impairment losses and gains (losses) on disposal of assets		(659)	5,104
OPERATING PROFIT		**530,888**	**484,717**
Finance revenue	25	19,713	12,257
Finance costs	25	(78,314)	(72,715)
Change in fair value of financial instruments	25	-	(779)
PROFIT BEFORE TAX FROM CONTINUING OPERATIONS		**472,287**	**423,480**
Income tax expense	22	(138,806)	(125,449)
PROFIT FOR THE YEAR FROM CONTINUING OPERATIONS		**333,481**	**298,031**
Profit for the year from discontinued operations		**-**	**-**
PROFIT FOR THE YEAR		**333,481**	**298,031**
Attributable to:			
Equity holders of the parent		**333,481**	**298,031**
BASIC EARNINGS PER SHARE	**14**	**1.40**	**1.25**
DILUTED EARNINGS PER SHARE	**14**	**1.40**	**1.25**

Notes 1 to 36 set forth in the accompanying financial information are an integral part of the consolidated balance sheet at 31 December 2010

ENAGÁS, S.A. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF RECOGNISED INCOME AND EXPENSES FOR THE YEAR
(Figures in thousands of euros)

	Year ended 31/12/2010	Year ended 31/12/2009
CONSOLIDATED PROFIT FOR THE YEAR	**333,481**	**298,031**
INCOME AND EXPENSES RECOGNISED IN EQUITY	**(2,794)**	**(18,509)**
Remeasurement of financial instruments		
Available-for-sale financial assets	-	13
Other income/(expense)	-	-
Cash flow hedges	(3,992)	(26,455)
Tax effect	1,198	7,933
INCOME AND EXPENSE RECLASSIFIED TO PROFIT AND LOSS:	**12,377**	**22,049**
Remeasurement of financial instruments		
Available-for-sale financial assets	-	779
Cash flow hedges	17,682	30,772
Tax effect	(5,305)	(9,452)
TOTAL RECOGNISED INCOME/(EXPENSE)	**343,064**	**301,571**
Attributable to equity holders of the parent	343,064	301,571

ENAGÁS S.A. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2008
Figures in thousands of euros

	Issued capital and share premium	Other reserves	Retained earnings	Profit for the year	Interim dividend	Net unrealised gains (losses)	Equity
BALANCE AT 31/12/08	**358,101**	**901,165**		**258,885**	**(62,071)**	**(15,714)**	**1,440,366**
Total recognised income/(expense)	**-**	**-**	**-**	**298,031**	**-**	**3,540**	**301,571**
Transactions with shareholders and owners	**-**	**-**	**-**	**(93,259)**	**(67,562)**	**-**	**(160,821)**
- Capital increase / (decrease)	-	-	-	-	-	-	-
- Conversion of financial liabilities into equity	-	-	-	-	-	-	-
- Dividends paid	-	-	-	(93,259)	(67,562)	-	(160,821)
- Transactions with treasury shares or own equity instruments	-	-	-	-	-	-	-
- Business combinations	-	-	-	-	-	-	-
- Other transactions with shareholders and owners	-	-	-	-	-	-	-
Other changes in equity	**-**	**103,694**	**-**	**(165,626)**	**62,071**	**-**	**139**
- Equity-settled transactions	-	-	-	-	-	-	-
- Transfers between equity accounts	-	-	-	(165,626)	-	-	(165,626)
- Other changes	-	103,694	-	-	62,071	-	165,765
BALANCE AT 31/12/09	**358,101**	**1,004,859**	**-**	**298,031**	**(67,562)**	**(12,174)**	**1,581,255**
Effects of changes in accoounting criteria 2009	-	-	-	-	-	-	**-**
Adjustments for errors 2009	-	-	-	-	-	-	**-**
ADJUSTED BALANCE AT 31/12/08	**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 increase / (decrease)	-	-	-	-	-	-	-
- Conversion of financial liabilities into equity	-	-	-	-	-	-	-
- Dividends paid	-	-	-	(111,256)	(74,485)	-	(185,741)
- Transactions with treasury shares or own equity instruments	-	-	-	-	-	-	-
- Business combinations	-	-	-	-	-	-	-
- Other transactions with shareholders and owners	-	-	-	-	-	-	-
Other changes in equity	**-**	**116,880**	**-**	**(186,775)**	**67,562**	**-**	**(2,333)**
- Equity-settled transactions	-	-	-	-	-	-	-
- Transfers between equity accounts	-	-	-	(186,775)	-	-	(186,775)
- Other changes	-	116,880	-	-	67,562	-	184,442
BALANCE AT 31/12/10	**358,101**	**1,121,739**	**-**	**333,481**	**(74,485)**	**(2,591)**	**1,736,245**

ENAGÁS S.A. AND SUBSIDIARIES
CONSOLIDATED CASH FLOW STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2010
Figures in thousands of euros

	2010	2009
PROFIT BEFORE TAX	**472,287**	**423,480**
Adjustments to profit	**307,901**	**278,617**
Depreciation and amortisation expense	249,898	216,590
Other adjustments to profit	58,003	62,027
Change in working capital	**(25,235)**	**(17,463)**
Inventories	1,131	(776)
Trade and other receivables	(41,817)	118,142
Other current assets	(3,277)	(4,051)
Trade and other payables	18,728	(130,778)
Other cash flows from operating activities	**(126,082)**	**(150,296)**
Interest paid	(104,710)	(89,489)
Interest received	13,685	11,642
Income taxes received (paid)	(29,136)	(65,583)
Other cash inflows/(outflows)	(5,921)	(6,866)
NET CASH FROM OPERATING ACTIVITIES	**628,871**	**534,338**
Payments on investments	**(763,353)**	**(871,980)**
Group subsidiaries and associated companies	(33,601)	-
Property, plant and equipment and investment property	(629,452)	(871,980)
Other financial assets	(100,300)	-
Proceeds from disposals	**1,211**	**22,022**
Group subsidiaries and associated companies	1,000	8,612
Property, plant and equipment and investment property	102	6,978
Other financial assets	109	6,432
NET CASH USED IN INVESTING ACTIVITIES	**(762,142)**	**(849,958)**
Proceeds from/(payments on) financial liabilities	**765,540**	**964,495**
Issues	880,542	2,118,981
Repayments and redemption	(115,002)	(1,154,486)
Dividends paid	**(185,742)**	**(222,893)**
NET CASH FROM FINANCING ACTIVITIES	**579,798**	**741,602**
NET INCREASE IN CASH AND CASH EQUIVALENTS	**446,527**	**425,982**
Cash and cash equivalents at 1 January	640,524	214,542
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	**1,087,051**	**640,524**

Translation of (consolidated, abridged, etc.) 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 a company incorporated in Spain in accordance with Spanish Limited Liability Companies Law. 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 the possibility of participating 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 2010, 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 2010 have been prepared by the directors, at a meeting of the Board of Directors held on 31 January 2011, 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 2010, 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 2010 have been prepared from the accounting records kept by the parent company and by the other entities comprising the Group.

The 2009 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 30 April 2010.

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, are consolidated using 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 2010.

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 2010 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
- Prior years' accounts pending settlement with the government (Note 11)
- Provisions for dismantling/abandonment costs (Note 3.b)

Although these estimates were made on the basis of the best information available at 31 December 2010 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 2010 the following changes in the scope of consolidation of Enagás Group have occurred:

- The acquisition of a 25% shareholding in Bahia de Bizkaia Gas, SL (hereafter BBG) from BP Holdings BV (hereafter BP) for a consideration of 25,125 thousand euros became effective. This acquisition represents the incorporation of Enagas, SA to the partnership agreement governing the BBG Board to date, replacing BP. As a result, BBG is now consolidated within the Enagás Group using proportionate consolidation from 1 April 2010.

- In November the Group announced the acquisition of a 15% shareholding in BBG from Repsol YPF, S.A. for a consideration of 19,208 thousand euros, effective 1 January 2010. As a result, BBG is now consolidated within the Enagás Group using proportionate consolidation from 1 January 2010.

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.

The consolidation is carried out as follows:

a. Proportionate consolidation for joint ventures managed in conjunction with GALP Gas Natural, S.A; Gasoducto Al-Andalus, S.A., and Gasoducto de Extremadura, S.A. and in conjunction with REN Gasoductos, S.A; Gasoduto Campo Maior–Leiria– Braga, S.A. and Gasoduto Braga–Tuy, S.A., (the latter two, Portuguese companies) and in conjunction with Infrastructure Arzak and Ente Vasco de la Energía (EVE) for BBG.

b. Intra-group 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.

c. 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.

d. 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. Therefore, no foreign currency translation is required.

e. 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 2010.

2.5 Comparison of information

The information provided on 2009 is presented solely for comparison purposes with the information for 2010.

2.6 Accounting standards and principles

a. a. Standards, principles and changes effective for the current year.

The accounting policies adopted for the preparation of financial statements for the year ended 31 December, 2010 are the same as those followed for the preparation of the consolidated financial statements for the year 2010, except for the adoption, from 1 January 2010, of the following standards, amendments and principles issued by the IASB and IFRIC (International Financial Reporting Interpretations Committee) and adopted by the European Union for use in Europe:

- Revised IFRS 3 Business Combinations and Amendments to IAS 27 Consolidated and individual financial statements

  The revised IFRS 3 and the amendments to IAS 27 entail very relevant changes in various aspects related to the accounting for business combinations that, generally, place greater emphasis on the use of fair value. Some of the most important changes are the treatment of acquisition costs that will be recognised as expenses instead of the current treatment of considering them a greater cost of the combination; the acquisitions by stages, in which at the time of the takeover the acquirer will remeasure its stake prior to its fair value, or the existence of the option to measure at fair value any acquired minority interests, versus the current single measure of its proportional share of the fair value of net assets acquired. The application of these standards had no impact on the Group's financial position or results.

- Amendment to IAS 39 - Financial instruments: recognition and measurement/items designated as hedged

  This amendment to IAS 39 aims to clarify two specific issues regarding hedge accounting: (a) when inflation can be a hedged risk and (b) in which cases can purchased options be used as hedges. Regarding inflation hedging, the amendment provides that it will only be possible on a contractually identified portion of the cash flows to hedge. On options only their intrinsic value may be used as a hedging instrument, not their time value. The application of these standards had no impact on the Group's financial position or results.

- Amendment to IFRS 2- group share-based payments

  The amendment refers to accounting for share-based payment programmes within a group. The main changes involve the incorporation into IFRS 2 of the contents of IFRIC 8 and IFRIC 11, whereby these principles are repealed as they are incorporated into the main body of the standard. It clarifies that an entity receiving services from employees or suppliers must recognise the transaction regardless of whether another entity within the group pays for them and whether payment is made in cash or shares. Given the nature of this change it had no impact on Group accounts

- Improvements to IFRS (issued in May 2008)

  This document introduces a series of improvements to the 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.

- Improvements to IFRS (issued in May 2009)

  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.

- IFRIC 12 - Services Concession Agreements

  Services concessions are arrangements whereby a government or other state entity grants contracts to private sector operators for the provision of public services, such as roads, airports, water supplies and electricity. The control of the assets remains in government hands, but the private operator is responsible for construction as well as management, operation and maintenance of public infrastructure. IFRIC 12 establishes how concession operators should apply existing IFRS when accounting for the rights and obligations entered into in such agreements, which subject to interpretation may lead to the recognition of financial, intangible assets or both, as defined in each agreement. The application of these standards had no impact on the Group's financial position or results.

- IFRIC 15 – Agreements for the construction of buildings

  This interpretation addresses the accounting for revenues and expenses associated with the construction of buildings, helping to clarify when an agreement for the construction of real estate is within IAS 11 on Construction Contracts or in which cases it falls within the scope of IAS 18 on Revenue, and thus, by virtue of the nature of the agreement, when and how revenue should be recognised. The application of these standards had no impact on the Group's financial position or results.

- IFRIC 16 - Hedges of net investment in a foreign operation

  It addresses three main aspects to this principle; one is that the exchange rate risk derived from the functional currency of the foreign operation vis-à-vis the parent company reporting currency may not be considered a hedged risk, only the risk between the functional currencies of both may be considered a hedged risk. It also clarifies that the hedging instrument of the net investment may be held by any entity within the group, not necessarily by the parent of the foreign operation and, finally, discusses how to determine the amounts to be reclassified from equity to profit when the investment is sold. The application of these standards had no impact on the Group's financial position or results.

- IFRIC 17 - Distributions of non-cash assets to shareholders

This principle addresses the accounting treatment of the distribution of assets other than cash to shareholders ("dividends in kind"), although it does not deal with distributions of assets within the same group or between entities under common control. The principle establishes the requirement to recognise the fair value of assets to distribute and recognise any difference between the book value of assets as income. The application of these standards had no impact on the Group's financial position or results.

- IFRIC 18 - Transfers of assets from customers

This principle addresses the accounting recognition of such arrangements whereby an entity receives an asset from a client for the purpose of using it in turn to give the client access to supplies or provide a service. The principle states that the item of property, plant and equipment is recognised in the financial statements of the company receiving it, if it meets the definition of asset from the point of view of that company, at fair value on the date of the transfer and the corresponding income entry should be recognised when appropriate depending on the service specifically agreed with the customer. The application of these standards had no impact on the Group's financial position or results.

b. **Standards, principles and changes effective for the current year.**

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 their application in the European Union		
Standards, Amendments and Principles	**Content**	**Mandatory Application**
Amendment to IAS 32- Financial instruments: Presentation-Classification of rights issues	Changes the accounting treatment of rights, options and warrants denominated in a currency other than the reporting currency	Annual periods beginning 1 February 2010
Review of IAS 24- Related Party Disclosures	Amends the definition of "related party" and reduces the level of disclosures	Annual periods beginning 1 January 2011
Amendment to IFRIC14- Prepayments of a Minimum Funding Requirement	Entities are permitted to recognise as an asset some voluntary prepayments for minimum funding contributions	Annual periods beginning 1 July 2011
IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments	Treatment for Extinguishing Financial Liabilities with Equity Instruments	Annual periods beginning 1 July 2010

Not approved in the European Union		
Rules, Amendments and Principles	**Content**	**Mandatory Application**
IFRS 9 Financial instruments Classification and measurement (published in November 2009 and October 2010)	Replaces the classification and measurement requirements of financial assets and liabilities of IAS 39	Annual periods beginning 1 January 2013
Improvements to IFRS (published in May 2010)	Amendments to a series of standards	Principally mandatory for the periods beginning 1 January 2011; some are mandatory for the periods beginning 1 July 2010
Amendment to IFRS 7- Financial instruments: disclosures about transfers of financial assets (published in October 2010)	Enhanced derecognition disclosure requirements for transfer transactions of financial assets	Annual periods beginning 1 July 2011

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.

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 1,674 thousand euros in 2010 and 1,152 thousand euros in 2009, 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:

	Amortisation rate	Useful life
Development costs	5%-50%	20-2
Concessions, patents, licences, brands and similar:		
- Port concessions at the Barcelona plant	1.33%-1.28%	75-78
- Port concessions at the Huelva plant	7.60%	13
- Other concessions at the Bilbao Plant	20.00%	5
- Use of the public radioelectric domain	20.00%	5
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 2010, Enagás, S.A. delivered greenhouse gas emission rights equivalent to its emissions in 2009.

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 as the Group presents the assets net of subsidies (see Note 28).

b. **Property, plant and equipment**

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 was 2.83% in 2010 (3.40% in 2009).

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 2010 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.

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
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. **Available-for-sale (AFS) non-current assets**

The Group records as "available-for-sale (AFS) non-current assets" 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 amortised from the moment they are recognised as such.

Available-for-sale non-current assets and liabilities are presented in the Balance Sheet in a single entry called "_Available-for-sale non-current assets" and "Liabilities associated with available-for-sale non-current assets."

At 31 December 2010 the shares that the Enagas, S.A. held in Gasoduto Campo Maior-Leiria-Braga, S.A. and Gasoduto Braga-Tuy, S.A. are considered available-for-sale non-current assets (see Note 9).

g. **Inventories**

Natural gas inventories

In general, natural gas inventories are stated at average cost or net realisable value. Cost is calculated using the weighted average method. Net realisable value is an estimate of the sale price established under prevailing legislation.

Also, the company assesses the net realisable value of inventories at the balance sheet date and makes the appropriate impairment write-down when they are overstated. When the circumstances that that 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.

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 that 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.

During the Board of Directors meeting on 18 January 2008, the Appointments and Remuneration Committee announced the approval of a medium-term incentive scheme (2008-2010) which will be measured at the end of period on the basis of fulfilment of certain targets and which has been paid in the first quarter of 2010.

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 2009 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 2009 the Ministry of Industry, Tourism and Commerce approved Ministerial Order ITC/3520/2009 establishing the tolls and fees for third-party access to gas installations applicable in 2010 as well as the last resort tariff, in addition to updating certain aspects relating to remuneration of regulated gas sector activities.

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
- 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. **Expense recognition**

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

An expense is recognised immediately when a payment does not generate future economic benefits or when the necessary requirements for it to be recorded as an asset are not met.

q. **Income tax expense**

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. **Earnings per share**

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. **Consolidated flow statement**

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

Cash flows: 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.

a) *Revenue from regasification, storage and transport*

In 2008, Royal Decree 326/2008 of 29 February 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.

Additional provision eight of the aforementioned Ministerial Order stipulates amendments to the regulatory framework governing the transit of gas by the Group's Portuguese subsidiaries "Gasoduto Campo Maior – Leiria-Braga" and "Gasoduto Braga – Tuy", specifically in relation to the revenue recognised to cover the costs incurred in providing this transit service to date. Under the Order, this revenue stream is no longer received by the Group, with effect from 1 January 2009.

During 2009, the Group continued to honour its contractual obligations under the ship-or-pay contract covering transit of this gas. However, since the publication of the said Order ITC/3802/2008, due to the change in the regulatory environment for Enagás S.A., the Group initiated negotiations with its Portuguese partners in these companies, in order to adjust its contractual obligations with these subsidiaries to the new regulatory environment. The negotiations were concluded on 17 December with the signing of separation agreements (see Note 9), although final approval of the transaction is pending a suspension clause by the Competition Regulatory Authority in Portugal.

On the other hand, the company filed an administrative appeal against the mentioned Order which is pending before the Supreme Court.

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

In particular, this Order sets out specific compensation values granted to companies operating in the regulated gas sector in 2010 and unit values applicable to investment and management of transportation, regasification and storage facilities.

The unit values for investment and operating expenses applicable to gas transport installations started up after 1 January 2008 were published for years 2008, 2009 and 2010 and reflect the specific value recommendations proposed by the CNE, the Spanish energy systems regulator.

In the case of regasification and storage, unit values for investment and management are those applicable in 2010.

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

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

a.1.1. Remuneration for investment costs comprises:

- Value of recognised assets. 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 2010 was 7.85%.

- 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, a specific fixed operating and maintenance cost is defined for each site.

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 2010, this cost was set at 0.000181 euros per kWh regasified and 0.000217 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.

a.3) Recognised variable cost for injection and extraction in underground storage facilities.

The cost is based on the kWh injected and extracted at each of the storage facilities. The variable costs are as follows:

- Unit costs at the Serrablo facility: Injection: 0.000601 €/kWh; extraction: 0.000110 €/kWh

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 2010, 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 2010 was 11,206,248 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 2010.

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) Revenue for the minimum operating level and minimum linepack of gas pipelines

Article 16 of ITC/3354/2010 Order provides that the minimum level for gas filling of the pipeline transport and regasification plants (gas check) shall be remunerated as a necessary investment for the transport activity, recognising a financial retribution.

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.

For 2010, gas for the minimum operating level and linepack was acquired via a dedicated auction.

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 2010 include:

<u>1. Supranational regulations</u>

Regulation (EU) No. 994/2010 of the European Parliament and the Council of 20 October 2010 on measures to ensure security of gas supply and repealing Directive 2004/67/EC (OJ 12 November 2010).

Regulation 617/2010 of the Council of 24 June 2010 establishing a common framework for communication to the Commission of data and information on investment projects in energy infrastructure in the sectors of oil, natural gas, electricity, including electricity from renewable sources and biofuels, as well as investment projects related to capturing and storing carbon dioxide produced by these sectors.

EC Decision of 10 November 2010, amending Part 3 of Annex I of Regulation (EC) No 715/2009 of the European Parliament and the Council on conditions for access to gas transmission networks which amends Part 3 of Annex I of Regulation (EC) No 715/2009 of the European Parliament and the Council on conditions for access to gas transmission networks.

European Commission Decision of 3 November 2010 laying down the criteria and measures applicable to the financing of commercial demonstration projects for the capture and geological storage of CO_2 in safety to the environment and demonstration projects for innovative renewable energy technologies, under the scheme for greenhouse gases trading emissions in the Community established by Directive 2003/87/EC of the European Parliament and the Council.

2. Spanish regulations

Order ITC/3520/2009 of 28 December 2009, establishing the tolls and fees for third-party access to gas installations, the last-resort tariff, and certain aspects relating to regulated activities in the gas sector.

Order ITC/3837/2008, of 26 December 2008, approving the amounts certain companies are required to contribute to CORES, the corporation entrusted with managing the country's strategic oil product reserves, for 2009.

Resolution of the Directorate General for Energy Policy and Mining of 22 January 2010, which establishes available storage capacity of the basic natural gas network between 1 April 2010 and 31 March 2011.

Royal Decree 104/2010 of 5 February 2010, which establishes the last resort supply in the gas system.

Royal Decree 197/2010 of 26 February 2010, adapting certain provisions relating to the hydrocarbon sector to the provisions of Law 25/2009, of 22 December on the amendment of various laws in order to adapt them to The Free Access to Service Activities Act.

State Secretariat for Energy Resolution of 1 March 2010, which amends **General Secretariat for Energy resolution of 14 March 2010,** detailing matters relating to managing underground storage facilities in the basic network and establishes the rules for auctioning storage capacity.

Directorate General for Energy Policy and Mining Resolution of 2 March 2010, which establishes certain aspects relating to the auction for the allocation of underground storage capacity for the period between 1 April 2010 and 31 March 2011.

Directorate General for Energy Policy and Mining Resolution of 12 March 2010, which establishes **the definitive** available storage capacity of the basic natural gas network for auction between 1 April 2010 and 31 March 2011.

Resolution of the Directorate General for Energy Policy and Mining of 22 March 2010, publishing the natural gas last resort tariff applicable from 1 April 2010.

ITC/734/2010 Order of 24 March 2010, initiating the procedure for the submission of development proposals for the power transmission network, the gas transmission network and storage facilities for strategic reserves of oil products

Order ITC/1053/2010 of 19 April 2010, which regulates the transfer of funds, via a charge to the electricity tariff and tolls paid by third parties for access to gas installations, from the dedicated account of the CNE to the Institute for Diversification and Saving of Energy in 2010, to execute the measures set forth in the action plan for 2008-2012, the energy saving and efficiency strategy for 2004-2012 (E4), and the criteria for executing the measures set forth in that plan**.**

Resolution of the Directorate General for Energy Policy and Mining of 5 May 2010, which establishes the operating rules governing auctions for the acquisition of minimum required operating gas and minimum linepack for the period between 1 July 2010 and 30 June 2011.

Secretary of State for Energy Resolution of 7 May 2010, which establishes certain features of the auction for the acquisition of natural gas for setting the last resort tariff for the period between 1 July 2010 and 30 June 2011.

Resolution of the Directorate General for Energy Policy and Mining of 19 May 2010, which establishes certain parameters for the auction for the acquisition of minimum required operating gas and minimum linepack for the period between 1 July 2010 and 30 June 2011.

Directorate General for Energy Policy and Mining Resolution of 2 June 2010, which establishes the operating rules for conducting the auction for the acquisition of natural gas for setting the last resort tariff for the period between 1 July 2010 and 31 December 2010.

ITC/1506/2010 Order of 8 June 2010, amending ITC/1660/2009 Order of 22 June 2009, which establishes the methodology for calculating the tariff of last resort for gas.

Resolution of the Directorate General for Energy Policy and Mining of 14 June 2009, which establishes certain parameters for the auction of natural gas for setting the last resort tariff for the period between 1 July and 31 December 2010.

Resolution of the Directorate General for Energy Policy and Mining of 25 June 2010, publishing the natural gas last resort tariff applicable from 1 July 2010.

Royal Decree 929/2010 of 23 July 2010, amending Royal Decree 542/2009 of 7 April 2009, which restructures ministerial departments.

ITC/1890/2010 Order of 13 July 2010, regulating certain aspects of third party access and gas system regulated remunerations.

Resolution of the General Directorate of Energy Policy and Mines of 30 July 2010, amending the resolution of 25 July 2006, which regulates allocation conditions and the process of applying supply cut-off in the gas system.

Royal Decree 1226/2010 of 1 October 2010, on the basic organic structure of the Ministry of Industry, Tourism and Trade.

Resolution of the Directorate General for Energy Policy and Mining of 23 September 2010, publishing the natural gas last resort tariff applicable from 1 October 2010.

Resolution of the Directorate General for Energy Policy and Mining of 3 November 2009, calling the coordinated procedure for allocating natural gas interconnection capacity between Spain and France between 1 April 2011 and 31 March 2012 in connection with short-term contracts**.**

ITC/2906/2010 Order of 8 November 2010, approving the annual programme of facilities and exceptional interventions on the electricity transmission and gas transport networks.

Resolution of the Directorate General for Energy Policy and Mining of 11 November, approving the 2010-2011 winter action plan for operation of the gas system.

Royal Decree 1733/2010 of 17 December 2010, providing for the declaration of provisional reserve area on behalf of the State for research and eventual exploitation of resources from section B), underground structures that can be an effective storage of carbon dioxide in the area called "Almacén 3" in the province of Palencia.

Order ITC/3365/2010, of 22 December 2010, approving the amounts certain companies are required to contribute to CORES, the corporation entrusted with managing the country's strategic oil product reserves, for 2011**.**

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

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.

Resolution of the Directorate General for Energy Policy and Mining of 28 December 2010, publishing electricity production costs and gas last resort tariffs applicable in the first quarter of 2011.

Law 40/2010 of 29 December 2010 on the geological storage of carbon dioxide providing the legal framework for the geological storage of carbon dioxide (CO2), in safety to the environment, in order to contribute to the fight against climate change.

5. Intangible assets

The breakdown and movement in intangible assets and amortisation in 2010 and 2009 were as follows:

2010

Cost	Opening balance	Additions	Increase / (decrease) due to transfers	Disposals, derecognition or reversals	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**

Amortisation	Opening balance	Allocations	Increase / (decrease) due to transfers	Disposals, 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 amortisation	**44,809**	**11,777**	**(11,116)**	**(4)**	**45,466**

2009

Cost	Opening balance	Additions	Increase / (decrease) due to transfers	Disposals, derecognition or reversals	Closing balance
Development costs	584	381	-	-	965
Concessions	5,887	-	-	-	5,887
Computer software	36,607	10,468	-	-	47,075
Other intangible assets	30,607	1,680	-	-	32,287
Total cost	**73,685**	**12,529**	**-**	**-**	**86,214**

Amortisation	Opening balance	Allocations	Increase / (decrease) due to transfers	Disposals, derecognition or reversals	Closing balance
Development costs	178	93	-	-	271
Concessions	2,476	211	-	-	2,687
Computer software	21,852	6,685	-	(4)	28,533
Other intangible assets	11,627	1,691	-	-	13,318
Total amortisation	**36,133**	**8,680**	**-**	**(4)**	**44,809**

The additions in "Development costs" in 2010 are mainly related to the electricity generation project in the Huelva Plant Phase I in the amount of 863 thousand euros, the LNG carrier Download project: uncertainty in determining the energy released by an amount of 21 thousand euros and the Power Generation Project in Position 15.09 in the amount of 16 thousand euros.

Key software additions in 2010 include:

- Enagás' SAP resource centre, in the amount of 1,658 thousand euros.
- Software for new infrastructure systems projects, totalling 1,443 thousand euros.
- SIOM System Software, for 3,429 thousand euros.
- Software enabling new functions in corporate systems, for 946 thousand euros.
- Sales and marketing software systems 2010, for 2,123 thousand euros.
- Balances re-engineering software, for 1,148 thousand euros.
- Maintenance management software system 2.0, for 1,086 thousand euros.
- Evolution of corporate jobs Software in the amount of 1,052 thousand euros.
- Infrastructure Extension Software 2010 for an amount of 800 thousand euros.

Also included within these additions are 310 thousand euros under the heading of computer applications and 71 thousand euros in the heading of administrative concessions, related to the BBG shareholding.

At year-end 2010 and 2009, the company was still using the following fully-amortised intangible assets:

2010

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

2009

Item	Carrying amount (gross)
Development costs	132
Computer software	15,769
Other intangible assets	1,856
Total	**17,757**

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 2010 and 2009 were as follows:

2010

Cost	Opening balance	Additions	Increase / (decrease) due to transfers	Disposals, derecognition or reversals	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	Increase / (decrease) due to transfers	Disposals, derecognition or reversals	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 losses	Opening balance	Additions	(decrease) due to transfers	Reversals	Disposals 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**

2009

Cost	Opening balance	Additions	Increase / (decrease) due to transfers	Disposals, derecognition or reversals	Closing balance
Land and buildings	149,939	4,612	885	0	155,436
Plant and machinery	5,172,321	148,073	809,294	(10,472)	6,119,216
Other installations, equipment and furniture	41,224	2,676	-	0	43,900
Prepayments and work in progress	992,389	733,663	(810,179)	(50)	915,823
Government grants	(561,257)		-	-	(561,257)
Total cost	**5,794,616**	**889,024**	**-**	**(10,522)**	**6,673,118**

Impairment losses	Opening balance	Additions	(decrease) due to transfers	Reversals	Disposals or derecognition	Closing balance
Land and buildings	-	-	-	-	-	-
Plant and machinery	15,131	112	-	-	(483)	14,760
Other installations, equipment and furniture	-	-	-	-	-	-
Prepayments and work in progress	-	-	-	-	-	-
Government grants	-	-	-	-	-	-
Total impairment losses	**15,131**	**112**	**-**	**-**	**(483)**	**14,760**

Depreciation	Opening balance	Additions	Increase / (decrease) due to transfers	Disposals, derecognition or reversals	Closing balance
Land and buildings	41,034	2,900	-	0	43,934
Plant and machinery	1,978,601	222,728	-	(8,860)	2,192,469
Other installations, equipment and furniture	34,087	2,730	-	(2)	36,815
Prepayments and work in progress	-	-	-	-	-
Government grants	(249,266)	(20,549)	-	-	(269,815)
Total depreciation	**1,804,456**	**207,809**	**-**	**(8,862)**	**2,003,403**

The transfers in “Plant and machinery” mainly relate to the start-up during 2010 of:

- Duplication of the Castelnou – Tivissa gas pipeline.

- Murcia Workplace.
- DCS upgrade and expansion of control and command room at Barcelona Plant.
- Upgrade of boil-off system at the Huelva plant.
- Replacement of the fire system at the Barcelona Plant.
- A seventh 150,000 m3 tank at the Barcelona Plant.
- P-2003 E/F secondary pumps at the Barcelona Plant.
- A fifth 150,000 m3 tank at the Cartagena Plant.
- Regulating and metering stations at various points on the basic grid
- Expansion work at various points on the basic grid
- A fifth 150,000 m3 tank at the Huelva Plant.
- Civil works at new site on the Huelva Plant.
- Work upgrade to 250,000 m^3 on methane tanker dock at the Barcelona plant.
- High pressure turbine calibration laboratory.
- Montesa compression station

Additions under “Plant and Machinery” include 2,589 thousand euros (2009: 1,974 thousand euros) corresponding to the minimum linepack for system security of the gas pipelines as well as 4,828 thousand euros for the minimum operating levels for the regasification plants (also known as “gas for operation”).

Additions in “Prepayments and work in progress” in 2010 relate mainly to the following installations:

- Denia compression station.
- Villar de Arnedo compression station.
- Chinchilla compression station.
- Duplication of the Tivissa – Paterna gas pipeline.
- Duplication of the Castelnou – Tivissa gas pipeline.
- Martorell – Figueras gas pipeline.
- Triple reinforcement of the Tivissa – Arbós gas pipeline.
- Power generation at the Almendralejo compression station.
- Regasification facilities at the El Musel plant.
- Marine civil engineering works at the El Musel plant.
- LNG storage facilities at the El Musel plant.
- High pressure turbine calibration, phase II.
- Upgrade of boil-off system at the Huelva plant.
- Fifth tank at the Cartagena plant.
- Fifth tank at the Huelva plant.
- Seventh tank at the Barcelona plant.
- Eighth tank at the Barcelona plant.
- Surface installations Yela underground storage facility.
- Wells at Yela underground storage facility.
- Electricity line at the Yela underground storage facility.

Also, included within these additions are 70,471 thousand euros relating to the disbursement made in April 2010 by Enagas, S.A. to acquire 82% of assets associated with the Gaviota underground storage from Repsol Investigaciones Petroliferas and 3,829 thousands of euros related to the disbursement made in July 2010 as a deposit for the acquisition of 18% of the assets associated with that storage from Murphy Spain Oil.

The agreement for the acquisition includes, inter alia, a series of conditions for final closing of the transfer scheduled for 8 April 2011. These conditions include the need to obtain authorisations from the various regulatory bodies involved in the operation.

Write-offs in , property, plant and equipment accumulated during 2010 amounting to 158 thousand euros relate to replaced furniture, and 378 thousand euros related to vehicles sold for an amount of 19 thousand euros. The Transfers entry recognises the movements in work-in-progress assets to property, plant and equipment as projects 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 15,208 thousand euros in the depreciation charge in 2010 (2009: 15,619 thousand euros).

Finance costs accrued during construction of infrastructure projects in 2010 amounted to 25,259 thousand euros (2009: 29,573 thousand euros).

Likewise, own work capitalised increased property, plant and equipment by 16,089 thousand euros in 2010 (2009: 16,115 thousand euros).

The reduction in "Accumulated depreciation" relates mainly to 154 thousand euros for replaced furniture, and 378 thousand euros for vehicles sold.

At year-end 2010 and 2009, the company was still using the following fully-depreciated items of property, plant and equipment:

2010

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

2009

Item	Carrying amount (gross)
Buildings	7,594
Plant and machinery	348,066
Other installations, equipment and furniture	31,404
Total	**387,064**

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 by year-end 2010 relate to investments in gas infrastructure, as follows:

	Thousand of euros		
	Grants received at 31/12/10	**Released to income at 31/12/10**	**Balance at 31/12/10**
Regasification plants	86,225	62,812	23,413
Gas transport infrastructure	480,309	224,622	255,687
Underground storage facilities	17,508	6,225	11,283
Total	**584,042**	**293,659**	**290,383**

The grants were received from the following bodies:

	Thousand of euros		
	Grants received at 31/12/10	**Released to income at 31/12/10**	**Balance at 31/12/10**
EU structural funds	413,074	185,973	227,101
Spanish regional authorities	57,120	22,248	34,872
Spanish state	113,848	85,438	28,410
Total	**584,042**	**293,659**	**290,383**

Government grants to be released to the income statement in 2011 amount to approximately 21,170 thousand euros. The schedule for the release of the outstanding balance at 31 December 2010 is:

	Years		
	<1	**2 to 5**	**>5**
Spanish state grants	3,024	12,096	13,290
Spanish regional authority grants	2,077	8,308	24,487
EU structural funds	16,069	64,276	146,756
Total Grants	**21,170**	**84,680**	**184,533**

7. Interests in joint ventures

During 2010 and 2009, the shareholdings and the balances held by the parent company Enagas, S.A. with the subsidiaries are as follows (see Note 2.4):

	Thousand of Euros		Percentage stakes
	2010	**2009**	
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	3,195	12.00%
Gasoduto Braga - Tuy, S.A. (Portugal)	2,546	2,546	49.00%
Bahía Bizkaia Gas, S.A. (España)	44,333	-	40.00%
Total, gross	**83,550**	**39,217**	-
Less: impairment losses	-	-	-
Total, net	**83,550**	**39,217**	-

At 31 December 2010 the shares that the company Enagas, S.A. held in Gasoduto Campo Maior-Leiria-Braga, S.A. and Gasoduto Braga-Tuy, S.A. are considered available-for-sale non-current assets (see Notes 3.f and 9).

8. Financial assets

8.1 Composition and breakdown

The Group's financial assets at 31 December 2010 and 31 December 2009, broken down by class and category for measurement purposes, were as follows:

Category \ Class	Non-current financial assets							
	Equity instruments		Debt securities		Loans, derivatives and other financial assets		Total	
	2010	2009	2010	2009	2010	2009	2010	2009
Assets at fair value through profit or loss								
- Financial assets held for trading	-	-	-	-	-	-	-	-
- Other non-current financial assets	-	-	-	-	-	-	-	-
Held-to-maturity investments	31	1	-	-	790	712	821	713
Loans and receivables	-	-	-	-	1,340	8,236	1,340	8,236
Available-for-sale financial assets								
- Measured at fair value	-	-	-	-	-	-	-	-
- Measured at cost	-	-	-	-	-	-	-	-
Derivatives	-	-	-	-	30,651	2,069	30,651	2,069.0
Total	**31**	**1**	**-**	**-**	**32,781**	**11,017**	**32,812**	**11,018**

Category \ Class	Current financial assets							
	Equity instruments		Debt securities		Loans, derivatives and other financial assets		Total	
	2010	2009	2010	2009	2010	2009	2010	2009
Assets at fair value through profit or loss								
- Financial assets held for trading	-	-	-	-	-	-	-	-
- Other non-current financial assets	-	-	-	-	-	-	-	-
Held-to-maturity investments	-	-	-	-	-	-	-	-
Loans and receivables	-	-	101,742	-	6,300	8,083	108,042	8,083
Available-for-sale financial assets								
- Measured at fair value	-	-	-	-	-	-	-	-
- Measured at cost	-	-	-	-	-	-	-	-
Derivatives	-	-	-	-	-	-	-	0
Total	**-**	**-**	**101,742**	**-**	**6,300**	**8,083**	**108,042**	**8,083**

The changes in Group financial assets in 2010 and 2009 were as follows:

2010

	Balance at 01/01/10	**Additions or provisions**	**Gain (loss) recognised in equity/income**	**Increase (decrease) due to transfers**	**Disposals, derecognition or reversals**	**Balance at 31/12/10**
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**

Included under "Transfers" are loans from Enagas, S.A. to subsidiaries Gasoduto Campo Maior-Leiria-Braga, SA and Gasoduto Braga-Tuy, SA, after consolidation eliminations, which have been reclassified in 2010 under "Available-for-sale non-current assets" Balance Sheet (see Notes 3.f and 9).

2009

	Balance at 01/01/09	**Additions or provisions**	**Value remeasurement against reserves**	**Disposals, derecognition or reversals**	**Balance at 31/12/09**
Equity instruments	1	-	-	-	1
Debt securities	-	-	-	-	-
Loans, derivatives and others	28,176	596	2,082	(11,754)	19,100
Total	**28,177**	**596**	**2,082**	**(11,754)**	**19,101**

8.2 Impairment losses

In 2010 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	8,084	2.640%	Sept. 2011
Other loans	-	-	-
Current loans:			
Loans to Group companies	8,083	2.640%	Dec. 2009
Balance at 31/12/09	**16,167**		
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 31/12/10	**7,640**		

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., Gasoducto de Extremadura, S.A.

The breakdown is as follows:

Thousands of euros	31/12/2010	31/12/2009
Non-current loans to Group companies:		
Gasod. Al-Andalus, S.A.	-	3,095
Gasod. de Extremadura, S.A.	-	10
Gasod. Campo Maior- Leiria- Braga, S.A.	880	1,996
Gasod. Braga-Tuy, S.A.	-	2,983
Total, non-current	**880**	**8,084**
Current loans to Group companies:		
Gasod. Al-Andalus, S.A.	6,280	3,095
Gasod. de Extremadura, S.A.	20	10
Gasod. Campo Maior- Leiria- Braga, S.A.	-	1,996
Gasod. Braga-Tuy, S.A.	-	2,982
Total, current	**6,300**	**8,083**

9. Available-for-sale (AFS) non-current assets

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. are considered available-for-sale non-current assets.

It follows the contract signed on 17 December between REN Gasoduto, 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 of supplying natural gas to Portugal and Spain.

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

Such separation is subject to prior authorisation from the Portuguese Competition Authority as per Portuguese Law 18/2003, which acts as a condition precedent.

Such condition precedent also affects other aspects of the transaction, such as compensation 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.

Here follows the breakdown of headings "Available-for-sale non-current assets" and "Available-for-sale liabilities related to non-current assets" from the Consolidated Balance Sheet at 31 December 2010:

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 GENERAL	**31,336**

Liabilities and Equity	31/12/2010
NET EQUITY	**-**
NON CURRENT LIABILITIES	**2,036**
Financial liabilities	2,036
CURRENT LIABILITIES	**3,821**
Financial liabilities	2,036
Trade creditors and other payables	294
Other liabilities	1,491
TOTAL GENERAL	**5,857**

10. Inventories

It should be noted that at 31 December 2010, Enagás, S.A., as Technical System Manager, had approximately 850 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 5,328 thousand euros (4,725 thousand euros in 2009) 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:

	31/12/2010	31/12/2009
Trade receivables	46,520	7,732
Receivable from Group companies	1,286	1,670
Other receivables	297,670	312,687
Income tax receivable	21,007	37,580
Shareholders (owners)	-	-
Total	**366,483**	**359,669**

The 1,286 thousand euro "Receivable from Group companies" balance corresponds to 597 thousand euros receivable from Gasoducto Al-Andalus, S.A. and 689 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 2010 for 205,947 thousand euros, and the outstanding balance on the remuneration for technical system management of 1,497 thousand euros, leaving a total outstanding balance of 206,444 thousand euros at the 2010 year-end.

Also during 2010, final settlement has been received by Enagas, SA, recognising a cumulative deviation in that period, amounting to 42,867 thousand euros. Settlement was pending since 2008.

"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 2010, these uncollected amounts totalled 7,088 thousand euros, of which 5,974 thousand euros are subject to a lawsuit filed by certain suppliers. Specifically, 4,984 thousand euros were past due by over one year at 31 December 2010.

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 2010 totalled 39,119 thousand euros, of which 50% (19,559 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 2010.

"Income tax receivable" at 31 December 2010 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 2010 and 2009 is as follows:

	2010	2009
Cash	18,961	7,623
Cash equivalents	1,068,090	632,901
Total	**1,087,051**	**640,524**

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 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 2010, Enagás, S.A.'s share price closed at 14.915 euros, having reached a high for the year of 16.575 euros per share on 1 April.

No company held more than 5% of the company's issued capital at either year-end 2010 or 2009. The most significant shareholdings in Enagás, S.A. at 31 December 2010 are as follows:

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

Cantábrica de Inversiones de Cartera, S.L. and Bancaja Inversiones, S.A. are subsidiaries of Caja de Ahorros de Asturias (Cajastur), and Caja de Ahorros de Valencia, Castellón y Alicante (Bancaja), respectively.

At 31 December 2010, REN, S.A. continued to hold a 1% shareholding in Enagás, S.A.

It should be noted that article 92 of Law 62/2003 on tax, administration and social order measures of 31 December 2003, which amends Law 34/1998 on the hydrocarbon sector, 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 Spanish Limited Liability Companies Law, 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 2010, 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 2010 that Enagás, S.A.'s Board of Directors will propose for approval at the General Shareholders' Meeting is as follows:

	Thousands of euros
Dividend	200,089
Voluntary reserves	126,976
	327,065

At its meeting on 22 November 2010, the Board of Directors of Enagás, S.A. resolved to pay an interim dividend against 2010 profit of 74,485 thousand euros (0.312 euros per share, before tax). The company has prepared the necessary liquidity statement, expressed in thousands of euros, in accordance with article 277 of the Spanish Limited Liability Companies Law.

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 2010 profit, are set forth below:

	Thousands of euros	
	Provisional financial statements at 31 October 2010	Provisional financial statements at 31 October 2009
Consolidated Group profit	284,655	246,161
10% allocation to legal reserve	-	-
Income available for distribution	**284,655**	**246,161**
Forecast interim dividend	**(74,485)**	**(67,562)**
Forecast cash at bank and in hand (Group) between 31 October and 31 December:		
- Cash at bank and in hand	1,033,621	500,958
- Collections forecast for the period	149,000	209,000
- Credit facilities and loans granted by banks	1,005,000	1,136,000
Payments forecast for the period (including interim dividend)	(261,390)	332,800
Forecast cash at bank and in hand	**1,926,231**	**2,178,758**

The aforementioned interim dividend was paid on 21 December 2010.

The proposed before-tax final dividend (0.526 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

Available-for-sale (AFS) financial assets

During the first quarter of 2009, Enagás, S.A. sold all units it held in the fund (Note 8.4).

The movements in these financial assets during the year were as follows:

	Thousands of euros			
	01/01/2010	Change in fair value	Recognised in income	31/12/2010
Available-for-sale (AFS) financial assets	(792)	13	779	-
Tax effect deferred in equity	238	(4)	(234)	-
Total	**(554)**	**9**	**545**	**-**

Hedging transactions

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

The movement in these headings in 2009 and 2008 were as follows:

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)**

2009

	Thousands of euros			
	01/01/2009	Change in fair value	Recognised in income	31/12/2009
Cash flow hedges	(21,657)	(26,455)	30,722	(17,390)
Tax effect deferred in equity	6,497	7,936	(9,217)	5,216
Total	**(15,160)**	**(18,519)**	**21,505**	**(12,174)**

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:

	2010	2009	Change
Profit for the year (thousands of euros)	333,481	298,031	11.89%
Weighted average number of shares outstanding (thousands of shares)	238,734	238,734	-
Basic earnings per share in euros	1.3969	1.2484	11.89%

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 2009 or year-end 2008, 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 2010 were as follows:

Non-current provisions	01/01/2010	Additions	Discounting	Amounts applied	31/12/2010
Long-term incentive plan	2,762	-	-	(2,762)	-
Tax	-	-	-	-	-
Other	5,255	(5)	-	-	5,250
Abandonment costs	23,487	5,500	115	-	29,102
Total non-current provisions	**31,504**	**5,495**	**115**	**(2,762)**	**34,352**

Current provisions	01/01/2010	Additions	Discounting	Amounts applied	31/12/2010
Other	-	3,294	-	-	3,294
Total, current	**-**	**3,294**	**-**	**-**	**3,294**

The most significant items of provisions recorded in 2010 are as follows:

- Personnel obligations. Includes a long-term incentive featuring an annual compensation plan whose perception is linked to the achievement of certain objectives over three years, the beneficiaries of which are the senior management of the company, including executive directors. During 2010 all provisions have been used.

- Other responsibilities. In 2010 Enagas, SA has provisioned 3,294 thousand euros for two lawsuits that the company has with Gas Natural Fenosa and Iberdrola in respect of commercial claims.

- Abandonment costs. Includes the provision of 5,500 thousand euros relating to the allowances made by Bahía de Bizkaia Gas, SL, according to its shareholding, for decommissioning costs of the regasification plant owned by the company. 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 2010:

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

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

- Proceedings with the state tax authorities (AEAT) regarding assessments relating to VAT on imports in 2002 an 2004 (see Note 22.8).

16. Financial liabilities

16.1 Non-current financial liabilities

The breakdown of "Non-current financial liabilities" at year-end 2010 and 2009 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	
	2010	2009	2010	2009	2010	2009	2010	2009
Debts and other payables	2,496,871	1,914,629	1,165,548	1,130,423	14,678	29,289	3,677,097	3,074,341
Liabilities at fair value through profit or loss								
- Held for trading	-	-	-	-	-	-	-	-
- Others	-	-	-	-	-	-	-	-
Derivatives	-	-	-	-	1,037	15,698	1,037	15,698
Total	**2,496,871**	**1,914,629**	**1,165,548**	**1,130,423**	**15,715**	**44,987**	**3,678,134**	**3,090,039**

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

2010

	2012	2013	2014	2015 and thereafter	Total
Bonds and other marketable 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**

2009

	2011	2012	2013	2014 and thereafter	Total
Bonds and other marketable securities	-	498,413	-	632,010	1,130,423
Bank borrowings	244,344	515,714	113,214	1,041,357	1,914,629
Finance leases	-	-	-	-	-
Derivatives	4,491	1,756	-	9,451	15,698
Other	25,663	617	617	2,392	29,289
Total	**274,498**	**1,016,500**	**113,831**	**1,685,210**	**3,090,039**

At 31 December 2010, Enagás, S.A. had undrawn credit facilities amounting to 155 million euros, with a limit of 690 million euros (2009: 121 million euros, with a limit of 406 million euros). The company is currently negotiating renewal of the main facilities maturing in 2011. Undrawn loans granted amount to 725 million euros (2009: 875 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 2010 on Group loans and credit facilities in euros was 2.04% without considering hedges and fees and 2.52% factoring hedges and fees (2.26% and 3.30%, respectively, in 2009).

Current loans and credit facilities of the parent company are denominated in euros and accrued interest at an average annual rate of 1.32% in 2010.

The directors estimate that the change in the fair value of bank borrowings at 31 December 2010, calculated by discounting of future cash flows at market interest rates, amounted to 4,748 million euros. 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:

	Millions of euros	
	Change in interest rates	
	0.25%	**-0.25%**
Change in fair value of borrowings	43.2	-43.8

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

- 5,682 thousand euros corresponding to the adjustments envisaged in the income tax assessment for 1995 to 1998, updated as at 31 December 2010 (2009: 5,523 thousand euros).

- 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 have been re-paid, 2,799 thousand euros are classified as non-current and 168 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 of 2009. At 31 December 2010, 839 thousand euros are long term and 57 thousand euros 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 annuities. During 2009 it disposed of 157 thousand euros from the first annuity and during 2010 it disposed of 422 thousand euros from the second annuity.

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.

- 4,779 thousand euros corresponding to long-term payables to suppliers of property, plant and equipment recognised by the Group in 2010.

Derivatives also include cash flow hedges arranged by Enagás, S.A. for 2008-2010, 2008-2011, 2009-2012, 2010-2013 and 2011-2014 (Note 19).

At 31 December 2010, there were no issuances, repurchases, or repayments of debt securities or other issues guaranteed by Enagás, S.A.

Financing highlights in the year include:

- Renewal/extension of a 200 million euro loan granted by Banco Santander maturing in 2013..
- Renewal/extension of a 100 million euro loan granted by Banco Santander maturing in 2013..
- Signing of a new credit facility of 100 million euros with Intesa San Paolo with a 3 year term and then extending up to 150 million euros.
- Drawdown of 150 million euros on the 500 million euro loan granted by ICO (Spanish State Financial Agency).
- Renewal/extension of a 150 million euro loan granted by BBVA and maturing in 2012.
- Renewal/extension of a 150 million euro loan granted by La Caixa and maturing in 2013.
- Signing of three new loans with Banesto for 100 million euros, with Caixa Galicia Nova for 30 million euros and Mediobanca for 100 million euros.
- Signing of a new credit facility maturing in 2013 amounting to 30 million euros with Caja Madrid.
- Renewal/extension of a loan and revolving credit facility with BBK for 100 and 25 million euro respectively.
- Renewal/extension of a 200 million euro loan granted by La Caixa and maturing in 2014.

16.2 Current financial liabilities

The breakdown of “Current financial liabilities” at year-end 2010 and 2009 was as follows:

Category \ Class	Current financial liabilities							
	Bank borrowings and finance leases		Bonds and other marketable debt securities		Derivatives and other financial liabilities		Total	
	2010	2009	2010	2009	2010	2009	2010	2009
Debts and other payables	687,372	451,960	21,717	20,198	9,853	6,853	718,942	479,011
Liabilities at fair value through profit or loss								
- Held for trading	-	-	-	-	-	-	-	-
- Others	-	-	-	-			-	-
Derivatives	-	-	-	-	11,905	24,752	11,905	24,752
Total	**687,372**	**451,960**	**21,717.0**	**20,198.0**	**21,758**	**31,605**	**730,847**	**503,763**

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

- Interest on borrowings from related-party banks in the amount of 458 thousand euros in 2010 (2009: 830 thousand euros).

- Current borrowings from the General Energy Secretariat for 355 thousand euros (see Note 16.1).

- The current balances on the loans which subsidiaries Gasoducto Al-Andalus, S.A. and Gasoducto de Extremadura, S.A. received from Galp Gas Natural, S.A., amounting to 6,451 thousand euros and 2,465 thousand euros, respectively.

- Other items pending application in the amount of 124 thousand euros (2009: 147 thousand euros).

17. Other non-current liabilities

The changes in 2010 and 2009 in this consolidated balance sheet heading were as follows:

Thousands of euros	Gasoducto de Extremadura, S.A. royalty	Gasoducto Al-Andalus, S.A. royalty	Total
Balance at 1 January 2009	**11,404**	**25,864**	**37,268**
Additions/decreases/recognition in income	(951)	(2,155)	(3,106)
Balance at 31st December 2009	**10,453**	**23,709**	**34,162**
Additions/decreases/recognition in income	(951)	(2,155)	(3,106)
Balance at 31st December 2010	**9,502**	**21,554**	**31,056**

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-m).

The accrual of revenue from connections to the basic network was recognised in 2006. Movement in this item in 2010 is the following:

Thousands of euros	Connections to the basic network
Balance at 31 December 2009	**50,291**
Additions	2,707
Decreases/recognition in income	(4,965)
Balance at 31 December 2010	**48,034**

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

	2010	2009
Percentage of fixed-rate borrowings	70%	60%

Based on the above levels of fixed-rate borrowings and after carrying out an analysis of the company's sensitivity to a one percentage 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 19 million euros.

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 2011.

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 2010 there have been no changes in capital management with respect to 2009. 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 that the credit ratings held by the principle agencies did not change in respect of 2009 (see 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 has entered into the following hedging arrangements.

2010

Instrument	Date written	Notional amount	Cap/Floor	Fixed rate	Start date	Maturity
Interest rate swap	June-10	250,000	-	1.4167	27/08/10	27/08/13
Interest rate swap	September-10	150,000	-	1.65425	23/11/11	24/11/14
Interest rate swap	September-10	200,000	-	1.461	16/05/11	10/04/14
Interest rate swap	September-10	100,000	-	1.397	03/11/10	03/05/13
Interest rate swap	December-10	200,000	-	1.6851	01/01/11	01/01/14
Total		**900,000**				

2009

Instrument	Date written	Notional amount	Fixed rate	Start date	Maturity
Cross Currency Swap	July-2009	147,514	-	15/09/09	15/09/39
Swap	November-2009	250,000	1.98	27/11/09	27/11/12
Total		**397,514**			

The notional amount of the cross currency swap is 20,000 million yen (JPY), corresponding to the 147,514 thousand euro private placement, at a spread to 6-month Euribor (see Note 16.1).

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 2010 and 2009 is as follows:

2010

					Fair value (thousands of euros)	
Instrument	**Clasification**	**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 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.

2009

					Fair value (thousands of euros)	
Instrument	**Clasification**	**Rate**	**Notional amount (thousands of euros)**	**Maturity**	**Assets**	**Liabilities**
Collar	Interest rate hedge	Cap	1,000,000	January-2010	-	6,708
Interest rate swap	Interest rate hedge	Floating to fixed	127,500	June-2011	-	2,907
Interest rate swap	Interest rate hedge	Floating to fixed	200,000	November-2011	-	8,586
Interest rate swap	Interest rate hedge	Floating to fixed	200,000	May-2011	-	7,192
Interest rate swap	Interest rate hedge	Floating to fixed	250,000	November-2012	2,069	2,629
Cross Currency Swap	Interest rate/exchange rate hedge	Floating to fixed	147,514	September-2039	-	12,427
Total			**1,925,014**		**2,069**	**40,449**

In 2009, a loss of 30,722 thousand euros was recognised in the consolidated income statement in connection with remeasurement of the fair value of these hedging instruments.

	31/12/2010	31/12/2009
Payable to Group companies	8,188	2,704
Other trade payables	323,807	304,918
Other suppliers	4,921	4,303
Current tax liabilities (see Note 22.2)	9,737	10,030
Total	**346,653**	**321,955**

20. Trade and other payables

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

"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 enforcement of Law 15/2010, laying down measures to combat late payment in commercial transactions, the Group amended contract conditions in relation to payment terms within their business operations to bring them into line with the new law. Under the heading of trade payables, the amount outstanding to suppliers at the end of 2010 accumulating a delay greater than the maximum legal term of payment amounts to 29,692 thousand euros, although this figure includes 12,287 thousand euros which are blocked by the company, either for not fulfilling certain contractual requirements, either because they relate to withheld guarantees which have not reached maturity or for amounts retained by the courts of justice.

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 2,191 thousand euros in 2010 (2,082 thousand euros in 2009), 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 2009 and 2008 were as follows:

	Thousands of euros	
	2010	**2009**
Tax receivable:		
Value added tax	19,297	15,579
Income tax	1,710	22,001
Total	**21,007**	**37,580**
Taxes payable:		
Income tax	2,740	1,994
Value added tax	-	70
Other	6,997	7,966
Total	**9,737**	**10,030**

In 2010 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 52,832 thousand euros had been paid (22,342 thousand euros in 2009) on account of the final income tax expense payable, of which 48,012 thousand euros related to Enagás, S.A. (17,789 thousand euros in 2009), 2,664 thousand euros to Gasoducto Al-Andalus, S.A. (2,450 thousand euros in 2009), and 2,156 thousand euros to Gasoducto de Extremadura, S.A. (2,103 thousand euros in 2009).

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).

22.3 Reconciliation of profit before tax and taxable income

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

2010

	Thousands of euros		
	Increase	Decrease	Total
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**

2009

	Thousands of euros		
	Increase	Decrease	Total
Profit before tax	**423,480**		**423,480**
Permanent differences:			
Exemption for international double taxation	-	(1,651)	(1,651)
Other items (foreign fines and taxes)	106	-	106
Donations	619	-	619
Temporary differences:			
Arising in 2008			
Accelerated depreciation R.D.L. 3/1993	-	-	-
Accelerated depreciation Law 4/2008	-	(552,334)	(552,334)
Government grants	-	-	-
Long-service fund	13	-	13
Provisions for property, plant and equipment	324	-	324
Provisions for litigation	-	-	-
Provisions for contingencies and expenses	5,250	-	5,250
Other	1,457		1,457
Arising in prior years			
Accelerated depreciation R.D.L. 3/1993	1,073	-	1,073
Accelerated depreciation Law 4/2008	-	-	-
Government grants	-	(359)	(359)
Long-service fund	-	(5,322)	(5,322)
Provisions for property, plant and equipment	-	(2,822)	(2,822)
Provisions for litigation	-	(107)	(107)
Provisions for contingencies and expenses	-	-	-
Other	63	(59)	4
Offset of tax loss carryforwards	-	-	-
Taxable income	**432,385**	**(562,654)**	**(130,269)**

22.4 Income tax recognised in equity

Aside from the income tax charge recognised in the consolidated income statements, in 2010 and 2009 the Group booked the following amounts for the following items in consolidated equity.

2010

	Thousands of euros		
	Increase	Decrease	Total
Current tax:			
Capital increase expenses	-	-	-
Capital reduction expenses	-	-	-
Other	-	-	-
Total current tax	**-**	**-**	**-**
Deferred tax:			
Arising in 2010			
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)**

2009

	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	-	(4)	(4)
Measurement of other financial assets	20,359	(21,641)	(1,282)
Discounting of taxes payable	-	-	-
Arising in prior years			
Available-for-sale financial assets	4	(237)	(233)
Measurement of other financial assets	-	-	-
Discounting of taxes payable	-	-	-
Total deferred tax	**20,363**	**(21,882)**	**(1,519)**
Total taxes recognised directly in equity	**20,363**	**(21,882)**	**(1,519)**

22.5 Reconciliation between profit before tax and income tax expense

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

	2010	2009
Accounting profit, before tax	**472,287**	**423,480**
Tax rate of 30%	141,686	127,044
Impact of permanent differences	**347**	**(277)**
Deductions:		
International double taxation relief	(3,005)	(3,179)
Investments in R&D&I and others	(1,274)	(1,325)
Employee training expense	(16)	(8)
Pension fund contributions	(22)	(42)
Donations	(383)	(217)
Effect of applying different tax rates	**(150)**	**(86)**
Tax effect of consolidation eliminations against equity	**2,935**	**3,539**
Offset of tax loss carryforwards	**(1,312)**	**-**
Total tax expense recognised in the income statement	**138,806**	**125,449**

22.6 Breakdown of income tax expense

The breakdown of “Income tax expense” for 2010 and 2009 is as follows:

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**

2009

	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.
Current tax:					
Continuing operations	(45,672)	2,677	1,885	458	237
Discontinued operations	-	-	-	-	-
Deferred tax					
Continuing operations	165,864	-	-	-	-
Discontinued operations	-	-	-	-	-
Total tax expense	**120,192**	**2,677**	**1,885**	**458**	**237**

22.7 Deferred tax

The breakdown of deferred tax assets and liabilities in 2010 and 2009 is as follows:

	2010	2009
Temporary differences (deferred tax assets)		
Government and other grants	796	904
Long-service fund	3,339	828
Provisions for property, plant and equipment	1,900	336
Provisions for litigation	1,050	-
Derivatives	3,390	5,218
Provisions for contingencies and expenses	1,575	1,575
Other	2,703	2,962
Tax loss carryforwards	**-**	**40,903**
Unused tax credits and other	**20,661**	**4,770**
Total deferred tax assets	**35,414**	**57,496**

	2010	2009
Deferred tax liabilities:		
Accelerated depreciation	427	750
Free depreciation	211,820	165,700
Long-service fund	-	-
Derivatives	2,279	-
Other	138	135
Total deferred tax liabilities	**214,664**	**166,585**

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.

At year-end 2009 Enagás, S.A. recognised the balance of current tax recoverable resulting from the 2009 calculation of income tax. The said balance of current tax recoverable was fully utilised in 2010.

Within deferred tax assets included under "Deductions outstanding and other" are deductions of income tax for 2009 of Enagas, SA amounting to 6,342 thousand euros and deductions for investment in new fixed assets of Bahía de Bizkaia Gas, S.L. which amount to 14,319 thousand euros on a pro-rata basis to the shareholding held.

The Group does not have any unrecognised deferred tax assets.

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

As a result of the above, in 2010 Enagás, S.A. recognised a deferred tax liability in the amount of 71,599 euros (equivalent to an asset base of 238,663 thousand euros), corresponding to capital expenditure capitalised in 2010 (165,700 thousand euros equivalent to an asset base of 552,334 thousand euros in 2009).

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.

In 2010 the authorities finalised a tax inspection in relation to Enagás, S.A.'s income tax filings for 2004 to 2007 and other taxes paid between 2005 and 2007.

As a result of these actions, VAT and Income Tax assessments for the said years were accepted.

As far as income tax is concerned, for 2004, 2005 and 2007, the Group appealed against the proposed adjustments by the tax authorities on the difference of opinion in the booking to income of Capital Grants and accepted the other proposed adjustments (primarily temporary differences), thus resulting in two assessments (one signed by the company under acceptance and one signed under protest) for each of the earlier.

The adjustments related to 2006 show a balance in favour of Enagas, S.A. with the result that only one assessment has been issued by the tax authorities, signed under protest, reflecting all the adjustments (recognition of grants and others).

All amounts included in assessments signed under acceptance have been settled in 2010.

Regarding assessments signed under protest, settlement assessments were issued on 23 December 2010 confirming the adjustments proposed by the tax authorities in relation to which the relevant appeals will be filed in due course. 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
2004	281	86	**367**
2005	196	51	**247**
2006	(1,122)	(226)	**(1,348)**
2007	253	34	**287**

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

At 31 December 2009 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	31/12/2010	31/12/2009
Sales of gas on the regulated market	-	(1,609)
Cost of sales of gas on the regulated market	-	1,609
Net (purchase) / sale of gas on the regulated market	**-**	**-**
Revenue from regulated activities	965,995	866,829
Revenue from liberalised activities	15,740	15,429
Other income	**18,830**	**14,125**
Ancillary and other operating income	18,704	13,999
Government grants	126	126
Total	**1,000,565**	**896,383**

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	31/12/2010	31/12/2009
Regulated activities:		
Enagás, S.A.	945,573	866,829
Bahía de Bizkaia Gas, S.A.	20,422	-
Liberalised activities:		
Gasod. Al-Andalus, S.A.	7,324	7,139
Gasod. de Extremadura, S.A.	5,701	5,575
Gasod. Campo Maior- Leiria- Braga, S.A.	2,540	2,540
Gasod. Braga-Tuy, S.A.	175	175
Total	**981,735**	**882,258**

24. Expenses

An analysis of Group expenses is provided below:

	Thousands of euros	
	31/12/2010	**31/12/2009**
Employee benefits expense	67,194	60,743
Other operating costs	151,926	139,437
Total	**219,120**	**200,180**

24.1 Employee benefits expense

	Thousands of euros	
	31/12/2010	31/12/2009
Wages and salaries	56,991	55,384
Termination benefits	4,632	649
Social security	12,329	11,761
Other employee benefits expense	7,204	6,983
Contributions to external pension funds	2,191	2,081
Own work capitalised	(16,153)	(16,115)
Total	**67,194**	**60,743**

The detail of employee benefits expense is as follows:

At 31 December 2010 the Group had capitalised 16,153 thousand euros for employee benefits expense directly related to ongoing investment projects (16,115 thousand euros at 31 December 2009 - see Note 6).

Job posts were reorganised 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:

Category	2010	2009
Managers	65	66
Technicians	507	485
Administrative staff	128	127
Manual workers	358	353
Total	**1,058**	**1,031**

At 31 December 2010, the Group had 1,047 employees (1,046 in 2009). The breakdown by category and gender is as follows:

	2010		2009	
Category	Men	Women	Men	Women
Managers	53	10	57	9
Technicians	381	128	375	120
Administrative staff	35	91	34	92
Manual workers	337	12	346	13
Total	**806**	**241**	**812**	**234**

24.2 Other operating costs

Details of this heading are as follows:

	Thousands of euros	
	31/12/2010	31/12/2009
External services:		
R&D costs	1,674	1,152
Leases and royalties	37,699	36,063
Repairs and maintenance	31,142	27,262
Professional services	14,074	13,385
Transport	14,407	14,643
Insurance premiums	3,730	3,668
Banking and similar services	103	7
Advertitsing, publicity and PR	2,826	2,016
Supplies	20,601	19,625
Other services	9,092	7,404
External services	**135,348**	**125,225**
Taxes other than income tax	**4,230**	**1,436**
Other expenses	**2**	**(0)**
Other external expenses	**9,052**	**7,909**
Change in trade provisions	**3,294**	**4,867**

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 2010, these expenses amounted to 1,066 thousand euros (918 thousand euros in 2009), as follows:

Category	2010		2009
	Services rendered by the external auditor and related parties	Services rendered by other auditors of the Group	Services rendered by the external auditor and related parties
Audit services (1)	256	7	212
Audit related services (2)	413	-	456
Audit and related services total	**669**	**7**	**668**
Tax advisory services	-	-	-
Other services	390	-	250
Professional services total	**390**	**-**	**250**

(1) Audit services: This column includes services rendered under the remit of the statutory audit of the Group’s annual financial statements in the amount of 202 thousand euros in 2010 (2009: 171 thousand euros), as well as the limited review of the interim consolidated financial statements.

(2) Audit related services: Virtually the entire amount of this balance 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.

25. Net finance cost

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

Thousands of euros	**31/12/2010**	**31/12/2009**
Revenue from group companies and associates	287	503
Third-party revenue	19,426	11,754
Finance revenue	**19,713**	**12,257**
Financing and similar expense	(4,230)	(636)
Loan interest	(74,059)	(72,113)
Revenue attributable to provisions	(25)	34
Finance costs	**(78,314)**	**(72,715)**
Change in fair value of financial instruments	**-**	**(779)**
Net finance cost	**(58,601)**	**(61,237)**

At 31 December 2010 the Group had capitalised 25,259 thousand euros in connection with borrowing costs (29,573 thousand euros at 31 December 2009 - 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 Portugal represent less than 10% of the Group's sales or assets, the limit established by 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 160ºC below zero in liquid form (LNG) and is unloaded at the regasification plants, where it is stored in cryptogenic tanks. At these facilities, the temperature of the LNG is raised through a physical process, generally using saltwater vaporisers, transforming it into gas. The natural gas is then injected into gas pipelines and transported throughout the Spanish mainland.

- **Storage:** Enagás, S.A. operates a single underground storage facility, namely the Serrablo facility, located between the towns of Jaca and Sabiñánigo (Huesca). This facility is owned by the company.

b) Technical system management

In 2010, 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 programme which breaks down the financial statements by activity.

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

Segments disclosure for these activities is provided below:

	Thousands of euros							
	Infrastructure		Technical system management		Liberalised activities + consolidation adjustments		**Group total**	
Income statement	2010	2009	2010	2009	2010	2009	**2010**	**2009**
Revenue	935,704	857,152	11,217	11,216	53,644	28,015	**1,000,565**	**896,383**
Depreciation and amortisation	234,574	209,417	4,070	3,310	11,254	3,863	**249,898**	**216,590**
Operating profit (loss)	515,800	476,276	(5,091)	(3,494)	20,179	11,935	**530,888**	**484,717**
Profit (loss) after tax	327,905	295,403	(3,727)	(2,318)	9,303	4,946	**333,481**	**298,031**
BALANCE SHEET	2010	2009	2010	2009	2010	2009	**2010**	**2009**
Total assets	6,549,829	5,622,135	26,510	19,416	252,797	138,388	**6,829,136**	**5,779,939**
Acquisitions of fixed assets	636,621	898,324	8,947	3,025	127,964	204	**773,532**	**901,553**
Non-current liabilities (**)	286,574	244,455	919	600	40,613	37,487	**328,106**	**282,542**
-Deferred tax liabilities	209,849	162,841	897	572	3,918	3,172	**214,664**	**166,585**
-Provisions	28,691	31,323	22	28	5,639	153	**34,352**	**31,504**
-Other non-current liabilities	48,034	50,291	-	-	31,056	34,162	**79,090**	**84,453**
Current liabilities (**)	284,897	254,423	35,141	35,628	33,026	30,295	**353,064**	**320,346**
-Trade and other payables (***)	284,897	254,423	35,141	35,628	23,875	29,910	**343,913**	**319,961**
-Other current liabilities	-	-	-	-	9,151	385	**9,151**	**385**

(**) Does not include financial liabilities

(***) Does not include income tax payable

27. Environmental information

Enagás Group is aware of the environmental impact of its business activities. Hence, protecting the environment and biodiversity, combating climate change and contributing to the communities within which it operates, are essential elements in the development of its activities.

This line of action consists of a series of environmental management procedures that aim to identify, prevent, minimise, and rectify the environmental impact of the company's activities and facilities. The Group enacts the most stringent measures available possible in order to respect biodiversity and the natural habitat.

The Enagás Group has integrated environmental protection within its political and strategic programs of the Company 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 2010, 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 that area.

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 2010, these environmental activities entailed total capitalised investment of 38,777 thousand euros (35,088 thousand euros in 2009. Environmental expenses incurred by the company in 2010 totalled 1,198 thousand euros (852 thousand euros in 2009) 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 2010, the Group did not receive any grants or revenue relating to environmental activities, except those mentioned below in Note 23.3 detailing greenhouse gas emission rights.

28. Greenhouse gas emission rights

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

In accordance with Order PRE/3420/2007 of 14 November, at its meeting of 2 November 2007, the Spanish cabinet, at the proposal of the Ministries for the Environment, for Finance and for Industry, Tourism and Trade, adopted an agreement approving the individual allocation of greenhouse gas emission rights to plants included in the National Allocation Plan 2008-2012. Accordingly, the total amount of rights definitively and freely assigned to Enagás, S.A.'s plant was 2,300,895 (442,763 for 2008 and 464,533 for each of 2009, 2010, 2011 and 2012**)**, and the rights assigned to Bahía Bizkaia Gas, S.L. were 28,005 (5,601 for each year).

The installations for which these allocations have been received are:

- The Serrablo underground storage facility.

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

The 464,533 rights allocated for 2010 for Enagás, S.A. were valued at 13.3 euros/right, the spot price on the first business day of 2010 of RWE Trading GMBH which implies an addition for the year of 6,178 thousand euros.

In accordance with the provisions of Article 19 of Act 1/2005 of 9 March, which regulates the trading of greenhouse gases 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 allowances for the third group of incumbents to the 2008-2012 plan was announced in the Official State Gazette and posted on the website of the Ministry for the Environment, Rural and Marine Affairs on 25 January 2010.

The facilities for which these allocations have been received are:

- The extended Serrablo underground storage facility.
- Increase in capacity at the Haro Compression Station.
- Lumbier compression station.

The measurement of rights for the third group of incumbents (32,861 rights related to 2009 and 50,431 rights related to 2010) implies additions for the year of 1,180 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). In December 2010, 16,750 EUAs were swapped with BBVA for CERs valued at €24.20/CER and 17,000 EUAs were swapped with Gas Natural SDG, S.A. for CERs valued at €23.75/CER. These transactions resulted in the total recognition of CERs amounting to 8,167 thousand euros in 2010.

In 2010 the Enagás Group recognised 181,989 greenhouse gas emission rights and 121,525 rights in 2009.

At 31 December 2010, total surplus rights in 2010 amounted to 346,559. Valued at 13.3 euros/right (their price on the first business day of 2010), this surplus amounted to 4,609 thousand euros, while based on a reference price of 13.87 euros/right (their price on the last business day of 2010), they have a value of 4,806 thousand euros.

Likewise, total surplus rights in 2009 amounted to 16,920 rights. Valued at 15.5 euros/right, their price on the first business day of 2009, this surplus amounted to 262 thousand euros, while the value of the surplus at 31 December 2009 was 206 thousand euros, based on a reference price of 12.16 euros/right, their price on the last business day of 2009.

In the first quarter of 2010, 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 2010, Enagás, S.A. delivered greenhouse gas emission rights equivalent to the verified emissions in 2009 for all these installations.

In 2010, 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 2010 and 2009, 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.

2010

	Thousands of euros				
	31/12/2010				
Expenses and revenue	Significant shareholders	Directors and senior management	Group persons, companies or entities	Other related parties	Total
Expenses:					
Finance cost	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 income	-	-	-	-	**-**
Total revenue	**1,067**	**-**	**21,200**	**73,199**	**95,466**

2009

	Thousands of euros				
	31/12/2009				
Expenses and revenue	Significant shareholders	Directors and senior management	Group persons, companies or entities	Other related parties	Total
Expenses:					
Finance costs	5,341	-	-	10,817	**16,158**
Management or collaborative agreements	-	-	-	-	**-**
Transfers of R+D and license agreements	-	-	-	-	**-**
Leases	-	-	-	-	**-**
Services received	-	-	32,200	5,007	**37,207**
Purchase of goods (finished or work-in-progress)	-	-		5,427	**5,427**
Impairment provisions for bad or doubtful debt	-	-	-	-	**-**
Losses on derecognition or disposal of assets	-	-	-	-	**-**
Other expenses	-	1,156	-	-	**1,156**
Total expenses	**5,341**	**1,156**	**32,200**	**21,251**	**59,948**
Revenue:					
Finance revenue	806	-	1,136	10,114	**12,056**
Management or collaborative agreements	-	-	-	-	**-**
Transfers of R+D and license agreements	-	-	-	-	**-**
Dividends received	-	-	12,032	-	**12,032**
Leases	-	-	-	-	**-**
Services rendered	-	-	10,668	-	**10,668**
TPA services	-	-	-	56,470	**56,470**
Sale of goods (finished or work-in-progress)	-	-	-	4,260	**4,260**
Profit on derecognition or disposal of assets	-	-	-	-	**-**
Other revenue	-	-	-	-	**-**
Total revenue	**806**	**-**	**23,836**	**70,844**	**95,486**

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 assets, or other	-	-	-	-	-
Financing agreements: loans and capital contributions (lender)	-	-	35,522	-	**35,522**
Finance leases (lessor)	-	-	-	-	-
Repayment or cancellation of loans and finance leases (lessor)	-	-	-	-	-
Sale of property, plant and equipment, intangible assets, or other	-	-	-	-	-
Financing agreements: loans and capital contributions (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	-	-	-	-	-

2009

Other transactions	Thousands of euros 31/12/2009 Significant shareholders	Directors and senior management	Group persons, companies or entities	Other related parties	Total
Purchase of property, plant and equipment, intangible assets, or other	-	-	-	-	-
Financing agreements: loans and capital contributions (lender)	-	-	35,009	-	**35,009**
Finance leases (lessor)	-	-	-	-	-
Repayment or cancellation of loans and finance leases (lessor)	-	-	-	-	-
Sale of property, plant and equipment, intangible assets, or other	-	-	-	-	-
Financing agreements: loans and capital contributions (borrower)	80,000	-	-	525,000	**605,000**
Finance leases (lessee)	-	-	-	-	-
Repayment or cancellation of loans and finance leases (lessee)	-	-	-	-	-
Guarantee commitments extended	-	-	-	58,939	**58,939**
Guarantee commitments received	7,693	-	-	17,998	**25,691**
Commitments assumed	-	-	-	-	-
Cancelled commitments/guarantees	-	-	-	-	-
Dividends and other benefits paid	63,765	-	-	-	**63,765**
Other transactions	-	-	-	-	-

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

30. Director and senior management compensation

30.1 Wages and salaries

The remuneration received in 2010 and 2009 by the members of the Board of Directors and Group senior management, broken down by item, was as follows:

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 remuneration and variable pay are unchanged for 2010. Additionally, in 2010 the Board of 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.

2009

	Salaries[1]	Attendance fees	Other	Pension plans	Insurance premiums	Termination benefits	Equity-settled share-based payments
Directors	1,478	1,155	79	10	68	-	-
Senior management	2,065	-	76	55	85	-	-
Total	**3,543**	**1,155**	**155**	**65**	**153**	**-**	**-**

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

Directors	Thousands of euros 2010	2009
Antonio Llardén Carratalá, (Executive Director) [1]	1,600	1,621
BANCAJA (Proprietary Director)	107	107
Carlos Egea Krauel (Proprietary Director)	-	27
Sagane Inversiones S.L.(Proprietary Director)	76	49
Bilbao Bizkaia Kutxa (Proprietary Director)	76	72
Sociedad Estatal de Participaciones Industriales (Proprietary Director)	76	73
Salvador Gabarró Serra (Proprietary Director)	-	21
Said Al Masoudi (Proprietary Director) [2]	57	23
Peña Rueda S.L. Unipersonal (Proprietary Director)	64	64
Jesús David Álvarez Mezquíriz (Independent Director)	64	64
Dionisio Martínez Martínez (Independent Director)	81	78
José Riva Francos (Independent Director)	70	64
Ramón Pérez Simarro (Independent Director)	76	76
Martí Parellada Sabata (Consejero Independiente)	81	81
Antonio Téllez de Peralta (Independent Director)[3]	28	76
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 [4]	42	-
Total	**2,714**	**2,712**

[1] 1 Additionally, in 2010 Directors have been paid the Multi-Year Incentive Plan (Plan de Incentivos Plurianual) pertaining to prior years, in the amount of 924 thousand euros. Also holds a life insurance policy with a premium of 63 thousand euros and contributions to pension plans of 10 thousand euros in 2010.
[2] From 1 January to 19 December 2010.
[3] From 1 January to 30 April 2010.
4 From 30 April to 31 December 2010.

31. Other director disclosures

In keeping with the provisions of article 227 and following of the Spanish Limited Liability Companies Law, 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 similar or complementary type of activity reported by the Directors to the Group at 31 December 2010 are:

DIRECTOR	COMPANY	No. of SHARES	% SHAREHOLDING
Bancaja Inversiones	Iberdrola, S.A.	301,282,820	5.494%
BBK (Bilbao Bizkaia Kutxa)	Iberdrola, S.A.	359,380,724	6.553%
	Gas Natural, SDG, S.A.	982,134	0.110%
Luis Javier Navarro Vigil	BP, PLC	47,924	0.000%

José Olivas Martínez, a proprietary director representing Bancaja (Caja de Ahorros of Valencia, Castellón y Alicante) on the board of Enagás, S.A., as a private individual holds 32,098 shares of Iberdrola, S.A. (0.001% of share capital), and 18,867 shares of Iberdrola Renovables, S.A. (0.001% of share capital).

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 2010 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

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 Board of EDP Renovables, S.A.

José Luis Olivas Martínez, representing Bancaja on Enagás, S.A.'s Board of Directors, is a director of Iberdrola, S.A. and Chairman of the Consultative Board of Iberdrola in the Valencian Community.

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 2010 the Group had provided guarantees to third parties deriving from its activities for an amount of 109,914 thousand euros (117,202 thousand euros in 2009). It has also extended financial guarantees for a total of 188,629 thousand euros (217,259 thousand euros in 2009) 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

At the General Shareholders' Meeting held on 30 April 2010, the shareholders approved the appointment of Isabel Sánchez García as an independent director for the statutory period of four years.

On 28 June the Enagas, S.A. Board of Directors approved the appointment of independent director José Riva Francos as a member of the Audit and Compliance Committee thus maintaining the number of independent and proprietary Directors in the Committee. In addition, it was agreed to authorise the Chairman of the Appointments, Remunerations and Corporate Responsibility Committee, a position currently held by independent director Dionisio Martínez Martínez, to call a meeting of the Board or to include new items on the agenda of a Board meeting to coordinate and give voice to the concerns of the Directors and to conduct the assessment by the Board of its Chairman.

On 20 July Enagas, S.A. presented its 2010-2014 strategic update given the current economic and energy climate.

On 9 September it was announced that for the third 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 3 November, credit rating agency Moody's reaffirmed Enagás, S.A.'s long-term rating of "A2", its short-term rating with a stable outlook.

On 24 November Enagas, S.A. signed an agreement with Iberdrola, S.A. whereby it acquired all of Iberdrola's gas transportation assets for 12.5 million euros. The acquisition is pending relevant approvals by various regulatory agencies.

On 22 December, credit rating agency Standard & Poor's affirmed its long-term rating of Enagás, S.A., currently "AA-", and its short-term rating of "A-1", with a stable outlook.

34. Joint ventures

Information on the joint ventures in which the company had interests at 31 December 2010 is set out in the table below:

Company	Location	Activity	Consolidation method	%	% of voting rights controlled by Enagás, S.A.	Thousands of euros				
							Investee data			
						Carrying amount	Assets	Liabilities	Equity	Profit for the year (**)
Gasoducto Al-Andalus, S.A.	Spain	Gas transport	PC	67	50	23,744	85,219	85,219	53,268	9,455
Gasoducto de Extremadura, S.A.	Spain	Gas transport	PC	51	50	9,732	38,468	38,468	30,913	7,907
Gasoduto Campo Maior Leiria Braga, S.A. (***)	Portugal	Gas transport	PC	12	50	3,195	99,123	99,123	40,690	9,702
Gasoduto Braga-Tuy, S.A. (***)	Portugal	Gas transport	PC	49	50	2,546	21,514	21,514	7,155	1,312
Bahía de Bizkaia Gas, S.L.	Spain	Storage and regasification	PC	40	33.33%	44,334	253,075	253,075	97,153	12,902

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.
(**) Data for Gasoduto Campo Mayor-Leiria-Braga, S.A. and Gasoduto Braga-Tuy, S.A. are taken at the 30 November 2010 close (see Note 1a).
(***) The shareholding in this company is recognised as Available-For-Sale (AFS) in the Consolidated Balance Sheet (see Notes 3.f and 9s).

35. Events after the balance sheet date

On 25 January 2011 Portugal's Competition Regulatory Authority ruled on the condition precedent clause contained in the separation agreements with Portuguese companies described in notes 3 f, 4a) and 9, considering the transaction acceptable and therefore effective in 2011. The Group shall undertake during the first quarter of 2011 the registration of that corporate transaction and other issues related to the separation agreements.

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 2010

Net profit rose 12% in 2010 to 333,481 thousand euros.

Revenue totalled 981,735 thousand euros.

The Board of Directors of Enagás, S.A. approved investments totalling 820.7 million euros. In 2010 investments totalled 773,532 thousand euros.

At year-end the Enagás Group's capital and reserves stood at 1,738,836 thousand euros while total equity stood at 1,736,245 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 31 December 2009 the Official State Gazette (BOE) published Order ITC/3520/2009 from the Ministry of Industry, Tourism and Trade, which establishes the remuneration of regulated activities in the gas industry for 2010, 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:

- A seventh 150,000 m3 tank at the Barcelona Plant.
- A fifth 150,000 m3 tank at the Huelva and Cartagena Plants.
- Enlargement of the methane tanker dock at the Cartagena Plant to 250,000 m^3
- At the end of 2010 the Enagás Group operated 8,981 km of pipeline designed to function at maximum bar pressures of 72 and 80, compared with 8,884 km in December 2009. This increase helps secure continuity of supply and the development of areas that previously had no access to gas supplies.
- ERMs are included in transportation assets and different pipeline positions have been modified. In addition, the boil-off system at the Huelva plant was upgraded and the Compression Station in Montesa and the Murcia workplace were built. A total of three 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 424.

Overall, at the end of 2010, 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 1,887,000 m^3 in a total of 17 tanks, nine cistern loaders and emission capacity of 4,650,000 m^3(n)/h.

The Serrablo (Huesca) underground storage facility, in operation, with maximum injection of 4.4 Mm^3/day and maximum output of 6.7 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 8,981 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

Enagás Group, S.A. is exposed to various risks inherent to the sector, to 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 Enagás' 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 2010, Enagás qualified its credit or 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

Enagás' 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.

Enagás has identified the following significant operational risks: the impact of incidents on infrastructure, equipment and systems, poor quality or interruption of service, fraud and unauthorized activities and operational risk of suppliers and partners.

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. Reputational risk

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

During 2010, Enagas, S.A. implemented a reputational risk self-assessment procedure through the application of 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 the 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, environmental damage and damage to third parties, incidents, and unavailability of certain infrastructures, equipment and systems, errors and delays in external communication, fraud, health, hygiene and safety at work, 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, 70% of total gross debt was hedged against interest rate increases.

IV.- Outlook

The company has earmarked capital expenditure of 650 million euros for 2011 and plans to bring 650 million euros worth of investments online during the year.

Management expects a 5% year-on-year growth in net profit over 2010. Likewise, the company has reiterated the growth targets set out under its 2010-2014 Strategic Plan.

V.- Events after the balance sheet date

On 25 January 2011 Portugal's Competition Regulatory Authority ruled on the condition precedent clause contained in the separation agreements with Portuguese companies described in notes 3 f, 4a) and 9, considering the transaction acceptable and therefore effective in 2011. The Group shall undertake during the first quarter of 2011 the registration of that corporate transaction and other related issues to the separation agreements.

VI.- Research and development

Technological innovation initiatives carried out by the Group in 2010 were focused on assessing, developing and testing new gas technologies with the aim of increasing and improving the competitiveness of natural gas in various applications, and in particular on projects of strategic value for the company.

The most significant activities carried out in 2010 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. Within this area research has been carried out on the "in situ" generation of nitrogen using semi permeable membranes reducing the consumption of liquid nitrogen acquired externally. Noise maps of the three regasification plants have been prepared.

b) Transport. Work continued on the project to design, build and start-up an electricity generation plant at the Almendralejo compression station. In addition, technical and financial feasibility studies were carried out to gauge the use of micro turbines combined with cogeneration in the supply of power at Enagás, S.A.'s positions. The studies were performed on various network positions or distribution points. Research has been carried out, along with other European companies, on new alternatives for the lining of pipelines. Improvements are being considered in venting installations for transport positions in order to reduce their cost.

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

d) Measurement. The company has initiated a procedure to certify the high pressure gas meter calibration bank. Research is being conducted on rolling out an ongoing monitoring system to oversee measurement variables at the most critical positions from the measurement standpoint. Several improvements to the chromatographic techniques and patterns used have been researched and tested. Research is being conducted, along with several European metrology laboratories, on improving the traceability of the technical measure of the amount of energy exchanged during the unloading of LNG carriers.

e) Projects of general interest. A number of projects were started up in a bid to optimise management of the basic gas transport grid's existing and future operations. The Group is also researching the impact of introducing biogas into the transport networks.

f) Other matters. The company is carrying out a campaign to contact other energy companies with the aim of spearheading the joint development of R&D activities in order to share costs and exchange information.

VII.- Transactions with treasury shares

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

VIII. Additional information

This additional disclosure is included to comply with article 116 bis of Law 24/1988, regarding securities markets.

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 (€)	Number of shares	Number of voting rights
03/05/2002	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.	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
ANTONIO LLARDÉN CARRATALÁ	48,116	0	0.020
BANCAJA (Caja de Ahorros de Valencia, Castellón y Alicante)	0	11,936,713	5.000
BBK (Bilbao Bizkaia Kutxa)	0	11,936,713	5.000
TERESA GARCÍA MILÁ LLOVERAS	1,500	0	0.001
DIONISIO MARTÍNEZ MARTÍNEZ	2,010	0	0.001
LUIS JAVIER NAVARRO VIGIL	10	3,986	0.002
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

(*) Through:

Name or corporate name of the shareholder	Number of direct voting rights	% of total voting rights
BANCAJA INVERSIONES, S.A.	11,936,713	5.000
KARTERA 1, S.L.	11,936,713	5.000
NEWCOMER 2000, S.L.U.	3,986	0.002
Total:	23,877,412	10.002

d) Any restrictions on voting rights

Article 6 bis ("Restrictions on shareholdings and the exercise of voting rights") of the Bylaws was amended at the Extraordinary Shareholders' Meeting held on 31 October 2007 to bring it in line with the provisions of Law 12/2007 of 2 July.

Law 12 of 2 July 2007, amending Law 34/1998 on the Hydrocarbons sector in accordance with Directive 2003/55/EC of the European Parliament and of the Council of 26 June 2003 concerning common rules for the internal market in natural gas, provides new wording for the 20th additional provision of Law 34/1998, which vests in Enagás, S.A. the role of "technical system operator" and sets ceilings on shareholdings in the company. The wording of this additional provision now stands as follows:

> "Additional provision 20. Technical System Manager.
>
> ENAGAS, Sociedad Anónima shall undertake the duties, rights and obligations of technical system operator. (...)
>
> No natural person or corporate body may hold, directly or indirectly, more than 5% of the share capital of the company acting as technical system manager, or exercise more than 3% of the company's 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 in the technical system manager 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%.

> 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".

Transitional provision 6 of Law 12/2007 of 2 July provides that within four months of the law coming into force, Enagás, S.A. shall bring its bylaws in line with additional provision 20 of Law 34/1998 of 7 October. Transitional provision 2 of Law 12/2007 of 2 July, further prescribes:

> "Transitory provision 2. Technical System Manager.
>
> Any voting rights attaching to shares and other securities held by persons with an ownership interest in the share capital of ENAGÁS, Sociedad Anónima, in excess of the ceilings set forth in additional provision 20 of Hydrocarbons Law 34/1998 of 7 October shall be suspended once this provision comes into force.
>
> The National Energy Commission (CNE) shall have the standing to bring legal action to give effect to the restrictions imposed in this provision".

In accordance with the aforementioned legal 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".

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.

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 was 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 managers 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.

ENAGÁS GROUP

On 31 January 2011, the Board of Directors of Enagás, S.A. prepared the annual financial statements and management report for the year ended 31 December 2010, consisting of the accompanying documents, in accordance with article 253 of the Spanish Limited Liability Companies Law and article 37 of the Code of Commerce.

The undersigned directors state that, to the best of their knowledge, the annual financial statements, prepared in accordance with the accounting principles applied, provide a true and fair value 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.

President

D. Antonio Llardén Carratalá

Vice-president

D. José Luis Olivas Martínez
(Director on behalf of Bancaja)

Directors

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.
(Represented by D. Carlos Egea Krauel)

Sociedad Estatal de Participaciones Industriales-SEPI
(Represented by D. Enrique Martínez Robles)

Peña Rueda, S.L. Unipersonal
(Represented by D. Manuel Menéndez Menéndez)

Bilbao Bizkaia Kutxa-BBK
(Represented by D. Joseba Andoni Aurrekoetxea Bergara)

Secretary of the Board

D. Rafael Piqueras Bautista