ENAGÁS, S.A.
and
Subsidiaries

Consolidated Financial Statements
at 31 December 2009

ENAGÁS S.A. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEET AT 31 DECEMBER 2009
(Figures in thousands of euros)

Assets	Notes	31/12/2009	31/12/2008
NON-CURRENT ASSETS		**4,764,874**	**4,046,543**
Intangible assets	5	41,405	37,552
Property, plant and equipment	6	4,654,955	3,975,029
Financial assets	8	11,018	19,716
Deferred tax assets	21	57,496	14,246
CURRENT ASSETS		**1,015,065**	**671,283**
Inventories	10	4,725	2,215
Trade and other receivables	9	359,669	444,208
Other financial assets	8	8,083	8,461
Other assets		2,064	1,857
Cash and cash equivalents	11	640,524	214,542
TOTAL ASSETS		**5,779,939**	**4,717,826**

Equity and liabilities	Notes	31/12/2009	31/12/2008
EQUITY		**1,581,255**	**1,440,366**
CAPITAL AND RESERVES		**1,593,429**	**1,456,080**
Issued capital	12	358,101	358,101
Reserves	12	1,004,859	901,165
Profit for the year		298,031	258,885
Interim dividend	12	(67,562)	(62,071)
NET UNREALISED GAINS (LOSSES) RESERVE	12	**(12,174)**	**(15,714)**
NON-CURRENT LIABILITIES		**3,372,581**	**2,259,041**
Provisions	14	31,504	31,523
Non-current financial liabilities	15	3,090,039	2,156,403
Deferred tax liabilities	21	166,585	1,355
Other liabilities	16	84,453	69,760
CURRENT LIABILITIES		**826,103**	**1,018,419**
Current financial liabilities	15	503,763	514,735
Trade and other payables	19	321,955	503,159
Other liabilities		385	525
TOTAL EQUITY AND LIABILITIES		**5,779,939**	**4,717,826**

Notes 1 to 33 set forth in the accompanying financial information are an integral part of the consolidated balance sheet at 31 December 2009

Translation of consolidated financial statements originally issued in Spanish and prepared in accordance with IFRSs, as adopted by the European Union (see Notes 2 and 34). In the event of a discrepancy, the Spanish-language version prevails.

ENAGÁS S.A. AND SUBSIDIARIES

CONSOLIDATED INCOME STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2009

(Figures in thousands of euros)

	Notes	Year ended 31/12/2009	Year ended 31/12/2008
Purchase-sale of gas on regulated market	22	-	7,640
Revenue from regulated activities	22	866,829	813,101
Revenue from liberalised activities	22	15,429	16,186
Other operating income	22	14,125	16,807
Employee benefits expense	23	(60,743)	(68,952)
Other operating costs	23	(139,437)	(155,126)
Depreciation and amortisation		(216,590)	(203,051)
Impairment losses and gains (losses) on disposal of assets		5,104	6,508
OPERATING PROFIT		**484,717**	**433,113**
Finance revenue	24	12,257	13,799
Finance costs	24	(72,715)	(80,910)
Change in fair value of financial instruments	24	(779)	124
PROFIT BEFORE TAX FROM CONTINUING OPERATIONS		**423,480**	**366,126**
Income tax expense	21	(125,449)	(107,241)
PROFIT FOR THE YEAR FROM DISCONTINUED OPERATIONS		**298,031**	**258,885**
Profit for the year from discontinued operations		**-**	**-**
PROFIT FOR THE YEAR		**298,031**	**258,885**
Attributable to:			
Equity holders of the parent		**298,031**	**258,885**
BASIC EARNINGS PER SHARE	**13**	**1.25**	**1.08**
DILUTED EARNINGS PER SHARE	**13**	**1.25**	**1.08**

Notes 1 to 33 set forth in the accompanying financial information are an integral part of the consolidated income statement for the year ended 31 December 2009

Translation of consolidated financial statements originally issued in Spanish and prepared in accordance with IFRSs, as adopted by the European Union (see Notes 2 and 34). In the event of a discrepancy, the Spanish-language version prevails.

ENAGÁS S.A. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF RECOGNISED INCOME AND EXPENSES FOR THE YEAR ENDED 31 DECEMBER 2009

(Figures in thousands of euros)

	Year ended 31/12/2009	Year ended 31/12/2008
PROFIT FOR THE YEAR	**298,031**	**258,885**
INCOME AND EXPENSES RECOGNISED IN EQUITY:	**(18,509)**	**(10,168)**
Remeasurement of financial instruments		
Available-for-sale financial assets	13	(668)
Other income / (expense)	-	2,716
Cash flow hedges	(26,455)	(16,574)
Translation differences	-	-
Tax effect	7,933	4,358
INCOME AND EXPENSE RECLASSIFIED TO PROFIT AND LOSS:	**22,049**	**(4,651)**
Remeasurement of financial instruments		
Available-for-sale financial instruments	779	(124)
Other income / (expense)	-	-
Cash flow hedges	30,722	(6,520)
Translation differences	-	-
Tax effect	(9,452)	1,993
TOTAL RECOGNISED INCOME / (EXPENSE)	**301,571**	**244,066**
Attributable to equity holders of the parent	301,571	244,066

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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 31/12/2007	**358,101**	**805,709**	**-**	**238,286**	**(57,296)**	**(895)**	**1,343,905**
Effect of changes in accounting criteria	-	-	-	-	-	-	-
Adjustments for errors	-	-	-	-	-	-	-
Adjusted balance at 31/12/2007	**358,101**	**805,709**	**-**	**238,286**	**(57,296)**	**(895)**	**1,343,905**
I. Total recognised income / (expense)				**258,885**		**(14,819)**	**244,066**
II. Transactions with shareholders and owners	**-**	**-**	**-**	**(85,676)**	**(62,071)**	**-**	**(147,747)**
Capital increase / (decrease)	-	-	-	-	-	-	-
Conversion of financial liabilities into equity	-	-	-	-	-	-	-
Dividends paid	-	-	-	(85,676)	(62,071)	-	(147,747)
Transactions with treasury shares or own equity instruments	-	-	-	-	-	-	-
Business combinations	-	-	-	-	-	-	-
Other transactions with shareholders and owners	-	-	-	-	-	-	-
III. Other changes in equity	**-**	**95,456**	**-**	**(152,610)**	**57,296**	**-**	**142**
Equity-settled transactions	-	-	-	-	-	-	-
Transfers between equity accounts	-	-	-	(152,610)	-	-	(152,610)
Other changes	-	95,456	-	-	57,296	-	152,752
Balance at 31/12/2008	**358,101**	**901,165**	**-**	**258,885**	**(62,071)**	**(15,714)**	**1,440,366**

Translation of consolidated financial statements originally issued in Spanish and prepared in accordance with IFRSs, as adopted by the European Union (see Notes 2 and 34).
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ENAGÁS S.A. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2009
(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 31/12/2008	**358,101**	**901,165**	**-**	**258,885**	**(62,071)**	**(15,714)**	**1,440,366**
Effect of changes in accounting criteria	-	-	-	-	-	-	-
Adjustments for errors	-	-	-	-	-	-	-
Adjusted balance at 31/12/2008	**358,101**	**901,165**	**-**	**258,885**	**(62,071)**	**(15,714)**	**1,440,366**
I. Total recognised income / (expense)				**298,031**		**3,540**	**301,571**
II. 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	-	-	-	-	-	-	-
III. 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 31/12/2009	**358,101**	**1,004,859**	**-**	**298,031**	**(67,562)**	**(12,174)**	**1,581,255**

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ENAGÁS S.A. AND SUBSIDIARIES
CONSOLIDATED CASH FLOW STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2009
(Figures in thousands of euros)

	2009	2008
PROFIT BEFORE TAX	**423,480**	**366,126**
Adjustments to profit	**278,617**	**269,450**
Depreciation and amortisation expense	216,590	203,051
Other adjustments to profit	62,027	66,399
Impairment of assets	105	921
Change in provisions	6,226	7,449
Recognition of grants	-	(118)
(Gain) / loss on the disposal of assets	(5,209)	(7,429)
(Gain) / loss on the disposal of financial assets	779	(124)
Finance revenue	(12,257)	(13,799)
Finance costs	72,715	80,910
Other adjustments	(332)	(1,411)
Change in working capital	**(17,463)**	**35,897**
Inventories	(776)	1,164
Reclassification of minimum gas for operations	-	-
Trade and other receivables	118,142	45,635
Other current assets	(4,051)	(3,360)
Trade and other payables	(130,778)	(7,542)
Other current liabilities	-	-
Other non-current assets and liabilities	-	-
Other cash flows from operating activities	**(150,296)**	**(200,253)**
Interest paid	(89,489)	(112,328)
Interest received	11,642	11,714
Income taxes received (paid)	(65,583)	(99,639)
Other cash inflows/(outflows)	(6,866)	-
NET CASH FROM OPERATING ACTIVITIES	**534,338**	**471,220**
Payments on investments	**(871,980)**	**(761,069)**
Property, plant and equipment and investment property	(871,980)	(760,339)
Other financial assets	-	(730)
Proceeds from disposals	**22,022**	**9,064**
Property, plant and equipment and investment property	6,978	7,322
Other financial assets	15,044	1,742
Other cash flows from/(used in) investing activities	**-**	**406**
Other cash inflows/(outflows) from investing activities	-	406
NET CASH USED IN INVESTING ACTIVITIES	**(849,958)**	**(751,599)**
Proceeds from/(payments on) equity instruments	**-**	**-**
Proceeds from/(payments on) financial liabilities	**964,495**	**632,638**
Issues	2,118,981	710,500
Repayments and redemption	(1,154,486)	(77,862)
Dividends paid	**(222,893)**	**(142,972)**
NET CASH FROM FINANCING ACTIVITIES	**741,602**	**489,666**
NET INCREASE IN CASH AND CASH EQUIVALENTS	**425,982**	**209,287**
Cash and cash equivalents at 1 January	214,542	5,255
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	**640,524**	**214,542**

Translation of consolidated financial statements originally issued in Spanish and prepared in accordance with IFRSs, as adopted by the European Union (see Notes 2 and 34). In the event of a discrepancy, the Spanish-language version prevails.

1. Group activity

Enagás, S.A., the parent company, is a company incorporated in Spain in accordance with Spanish Public Limited 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. Its registered office is at Paseo de los Olmos, no. 19, 28005 Madrid. The bylaws and other public information about the company and 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 2009, 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 2009 have been prepared by the directors, at a meeting of the Board of Directors held on 1 February 2010, 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 2009, 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 2009 have been prepared from the accounting records kept by the parent company and by the other entities comprising the Group.

The 2008 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 27 March 2009.

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 2009 close.

Note 3 includes the most significant accounting principles and measurement bases used in preparing the consolidated financial statements of the Group for 2009.

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 2009 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 9)
- Provisions for dismantling/abandonment costs (Note 3.b)

Although these estimates were made on the basis of the best information available at 31 December 2009 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 Basis of consolidation

Enagás, S.A.'s investees included in the scope of consolidation are engaged in the transport 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 Transgás, S.A. (Gasoducto Al-Andalus, S.A., and Gasoducto de Extremadura, S.A.) and REN Gasoductos, S.A. (Gasoduto Campo Maior–Leiria– Braga, S.A. and Gasoduto Braga–Tuy, S.A., i.e. the Portuguese companies).

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 33 includes the most significant aspects of the Group's joint ventures in existence at the end of 2009.

2.4 Comparison of information

To facilitate understanding of the information presented in these consolidated financial statements and their comparison with the information submitted to the national securities market regulator (hereinafter, the CNMV, its Spanish acronym), the Group adopted certain accompanying 2008 asset and liability breakdowns to match those laid down in Circular 1/2008 of 15 February 2008.

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 1,152 thousand euros in 2009 and 1,240 thousand euros in 2008, 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 at the amount paid for ownership or the right to use the computer applications, or production cost if internally developed and 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
- 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 2008, Enagás, S.A. delivered greenhouse gas emission rights equivalent to its emissions that year.

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 27).

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 3.40% in 2009 (4.75% in 2008).

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 2009 consolidated income statement 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 14) 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 "Other operating income" or "Other operating costs", respectively.

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. In application of IAS 36, and considering that there were no indications of impairment of the assets recognised on the face of the balance sheet, the Group has considered that no impairment test was necessary for 2009.

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.

  In 2008 available-for-sale investments included a mutual fund to hedge the Group's obligations in respect of long-service bonuses. This fund was measured at fair value in accordance with its market price at each balance sheet date. In 2009 all units in this fund were sold.

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. **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 led to the impairment charge no longer exist or there is clear evidence of an increase in the net realisable value due to a change in financial circumstances, the impairment is reversed.

g. **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 17.

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 that was previously recognised directly in equity 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.

h. Trade and other payables

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

i. 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.

Loans falling due in over 12 months are discounted at an interest rate. The benchmark interest rate used in 2008 was 3.40%.

j. Post-employment benefits

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 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.

k. Termination benefits

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

l. Provisions

At the date of authorising the consolidated annual financial statements for issue, the directors distinguished between:

- <u>Provisions:</u> 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.

- <u>Contingent liabilities</u>: 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 14).

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.

m. **<u>Deferred revenue</u>**

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.

n. **<u>Revenue recognition</u>**

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.

In 2008 the company managed gas purchases and sales with customers in the tariff or regulated market, receiving compensation designed to cover the costs incurred in this activity. The resulting remuneration from regulated management of gas purchases and sales is recognised under "Revenue from regulated activities" in an amount of 4,785 thousand euros. The company only engaged in this activity during the first six months of 2008, in keeping with Law 12/2007 of 2 July (see Note 4.d).

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 26 December 2008 the Ministry of Industry, Tourism and Commerce approved Ministerial Order ITC/3802/2008 establishing the tolls and fees for third-party access to gas installations applicable in 2009 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.

o. Expense recognition

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

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

p. 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.

q. 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 13).

r. Consolidated flow statement

The following terms are used to present the consolidated of 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 January 1, 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.

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 publication of the aforementioned Order and prompted by the impact on Enagás, S.A. of the attendant regulatory change, the Group has initiated the pertinent negotiations with the Portuguese shareholders in these companies, with a view to bringing Enagás' current contractual obligations with these subsidiaries in line with the new regulatory environment laid down in Order ITC/3802/2008. The company has appealed the Order and this appeal is currently pending review by Spain's Supreme Court.

Although Order ITC/3802/2008 abolishes revenue relating to the costs for gas transit with these Portuguese companies, based on the content of the talks in progress with its Portuguese partners, the management of the Enagás Group does not expect that any financial loss for Enagás, S.A. will result from these negotiations.

The specific amount of the remuneration recognised, as well as the unit investment and operating expense values applicable to the regasification and storage installations were laid down in the Resolution of the Directorate General for Energy Policy and Mining of 31 December 2008.

The unit values for investment and operating expenses applicable to gas transport installations started up after 1 January 2008 were published in Ministerial Order ITC/3520/2009 of 28 December 2009 and reflect the specific value recommendations proposed by the CNE, the Spanish energy systems regulator.

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 assets 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 2009 was 7.80%.

- 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 2009, this cost was set at 0.000160 euros per kWh regasified and 0.000192 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.

a.3.1. 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: 0.000531 €/kWh; extraction: 0.000097 €/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 2009, 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 2009 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 2009.

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) Regulated services for the tariff market

The obligation to supply gas to the tariff market was revoked on 1 July 2008, pursuant to article 2 of Order ITC/2309/2007, of 30 July 2007. As a result, the Group did not recognise any revenue in this respect in 2009.

e) 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.

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

The second transitional provision of Order ITC/4099/2005 stipulates that transport companies that are titleholders of the regasification plants acquire the natural gas necessary for the minimum linepack of the gas pipelines of the transport network and for the minimum operating level of regasification plants.

For 2009, gas for the minimum operating level and linepack was acquired via a dedicated auction, with the gas valued at the final auction price. The gas acquired for this purpose is entitled to a return based on the investment made, valued according to the average semi-annual yield on 10-year government bonds plus 3.5%.

g) 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.

h) Developments in the Regulatory Framework

The main gas industry regulatory developments approved in 2009 include:

1. European directives and regulations

Directive (EC) No. 2009/73 of the European Parliament and of the Council of 13 July 2009 concerning common rules for the internal market in natural gas and repealing Directive 2003/55/EC. Noteworthy developments include the establishment of measures for the effective unbundling of supply and production activities from network operations and strengthening of the independence and powers of national energy regulators.

Regulation (EC) No. 715/2009 of the European Parliament and of the Council of 13 July 2009 on conditions for access to the natural gas transmission networks and repealing Regulation (EC) No 1775/2005. The main legislative novelties include: creation of a European Network of Transmission System Operators for Gas (the ENTSO for gas), establishment of third-party access services, capacity allocation mechanisms and procedures for managing congestion as well as transparency rules at LNG and underground storage plants.

Directive (EC) No. 713/2009 of the European Parliament and of the Council of 13 July 2009 establishing an Agency for the Cooperation of Energy Regulators (ACER). The main purpose of the ACER is to ensure that regulatory functions performed by the national regulatory authorities are properly coordinated and, where necessary, completed at the Community level.

2. Spanish regulations

Order ITC/3802/2008 of 26 December 2008, 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 31 December 2008, which establishes the remuneration for regulated activities, connection fees, and tariffs for rental of meters and telemetering equipment for 2009.

Resolution of the Directorate General for Energy Policy and Mining of 23 February 2009, which establishes available underground storage capacity of the basic natural gas network between 1 April 2009 and 31 March 2010.

Resolution of the Directorate General for Energy Policy and Mining of 9 March 2009, which establishes certain aspects relating to auction for the allocation of underground storage capacity for the period between 1 April 2009 and 31 March 2010.

Resolution of the Directorate General for Energy Policy and Mining of 30 March 2009 stipulating that CORES publish on its website the minimum security reserve obligation assumed by virtue of Royal Decree 1716/2004, of 23 July 2004, so that the entities bound to maintain minimum security stocks of oil products are aware at all times of the volume of their obligations.

Order ITC/863/2009 of 2 April 2009, establishing the auction procedure for the acquisition by last resort suppliers of specific amounts of natural gas for supply to consumers entitled to avail of the last resort tariff.

Order ITC/885/2009 of 2 April 2009, which regulates the transfer of funds, with a charge to 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 2009, 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 3 April 2009, publishing the natural gas last resort tariff applicable from 12 April 2009.

Royal Decree-Law 6/2009 of 20 April 2009, designating Enagás, in its capacity as technical system manager and independent transport provider, as sole transport provider for the gas pipelines making up the «grid network».

Resolution of the Directorate General for Energy Policy and Mining of 30 April 2009, which establishes the operating rules governing auctions for the acquisition of minimum required operating gas and minimum linepack for the period between 1 July 2009 and 30 June 2010.

Secretary of State for Energy Resolution of 4 May 2009, 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 2009 and 30 June 2010.

Order ITC/1251/2009, of 14 May 2009, publishing the cabinet agreement taken on 3 April 2009, which stipulates that from 1 July 2009 only consumers connected to gas pipelines with pressure of equal to or under 4 bar and whose annual usage is less than 50,000 kWh may avail of the last resort tariff.

Secretary of State for Energy Resolution of 19 May 2009, 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 2009 and 30 June 2010.

Resolution of the Directorate General for Energy Policy and Mining of 9 June 2009, which establishes certain parameters for the auction for the acquisition of minimum required operating gas for the period between 1 July 2009 and 30 June 2010.

Resolution of the Directorate General for Energy Policy and Mining of 10 June 2009, which establishes certain parameters for the auction for the acquisition of natural gas for setting the last resort tariff for the period between 1 July 2009 and 30 June 2010.

Royal Decree 1011/2009 of 19 June 2009, governing the Office of Supplier Switches.

Order ITC/1660/2009 of 22 June 2009, establishing the methodology for calculating the natural gas last resort tariff, incorporating the results of the auction for the purchase of this natural gas and international gas supply cost benchmarks.

Order ITC/1724/2009 of 26 June 2009, revising the tolls and fees for third-party access to gas installations from 1 July 2009.

Resolution of the Directorate General for Energy Policy and Mining of 29 June 2009, publishing the natural gas last resort tariff applicable from 1 July 2009.

Resolution of the General Directorate of Energy Policy and Mines of 15 July 2009, amending the resolution of 25 July 2006, which regulates allocation conditions and the process of applying supply cut-off in the gas system.

Resolution of the Directorate General for Energy Policy and Mining of 24 July 2009, calling for the coordinated procedure for allocating natural gas interconnection capacity between Spain and France available from 2013 via the interconnection points at Larrau and Biriatou.

Resolution of the Directorate General for Energy Policy and Mining of 29 September 2009, publishing the natural gas last resort tariff applicable from 1 October 2009.

Resolution of the Directorate General for Energy Policy and Mining of 13 October 2009, calling the coordinated procedure for allocating natural gas interconnection capacity between Spain and France between 1 April 2010 and 31 March 2011 in connection with short-term contracts.

Resolution of the Directorate General for Energy Policy and Mining of 30 November 2009, approving the 2009-2010 winter action plan for operation of the gas system.

Law 25/2009, of 22 December 2009, amending several laws to bring them in line with the law on free access to services and free exercise of service activities, modifying certain aspects of Hydrocarbon Act 34/1998.

Order ITC/3520/2009 of 28 December 2009, establishing remuneration of regulated gas sector activities for 2010 and the tolls and fees for third-party access to gas installations.

5. Intangible assets

The breakdown and movement in intangible assets and amortisation in 2009 and 2008 were as follows:

2009

Cost	Opening balance	Additions	Increase / (decrease) due to	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**

2008

Cost	Opening balance	Additions	Increase / (decrease) due to	Disposals, derecognition or reversals	Closing balance
Development costs	441	143	-	-	584
Concessions	5,887	0	-	-	5,887
Computer software	29,572	7,035	-	-	36,607
Other intangible assets	27,491	3,116	-	-	30,607
Total cost	**63,391**	**10,294**	**-**	**-**	**73,685**

Amortisation	Opening balance	Allocations	Increase / (decrease) due to transfers	Disposals, derecognition or reversals	Closing balance
Development costs	100	78	-	-	178
Concessions	2,264	212	-	-	2,476
Computer software	16,417	5,435	-	-	21,852
Other intangible assets	10,568	1,059	-	-	11,627
Total amortisation	**29,349**	**6,784**	**-**	**-**	**36,133**

The increases in "Development costs" in 2009 relate mainly to phase 1 of the power generation project for the Huelva plant, in the amount of 300 thousand euros, and the power generation project at Position 15.09, in the amount of 65 thousand euros.

Key software additions in 2009 include:

- Enagás' SAP resource centre, in the amount of 3,905 thousand euros
- Software for new infrastructure systems projects, totalling 1,856 euros
- Facility maintenance and operation systems, for 1,187 thousand euros

- Software enabling new functions in corporate systems, for 816 thousand euros
- Automation of the travel expense reimbursement process, amounting to 562 thousand euros
- Purchasing system software, for 545 thousand euros
- Software enabling new functions in the economic-financial system, for 417 thousand euros
- Workstation back-up management software, totalling 334 euros

At year end 2009 and 2008, the company was still using the following fully-amortised intangible assets:

2009

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

2008

Item	Carrying amount (gross)
Development costs	46
Computer software	12,618
Other intangible assets	1,708
Total	**14,372**

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 2009 and 2008 were as follows:

2009

Cost	Opening balance	Additions	Increase / (decrease) due to transfers	Disposals, derecognition or reversals	Closing balance
Land and buildings	149,939	4,612	885	-	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	-	-	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**

Depreciation	Opening balance	Allocations	Increase / (decrease) due to transfers	Disposals, derecognition or reversals	Closing balance
Land and buildings	41,034	2,900	-	-	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**

Impairment losses	Opening balance	Allocations	Increase / (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**

2008

Cost	Opening balance	Additions	Increase / (decrease) due to transfers	Disposals, derecognition or reversals	Closing balance
Land and buildings	143,839	3,290	2,866	(56)	149,939
Plant and machinery	4,609,104	62,912	505,207	(4,902)	5,172,321
Other installations, equipment and furniture	39,453	2,408	-	(637)	41,224
Prepayments and work in progress	791,246	712,392	(508,073)	(3,176)	992,389
Government grants	(560,851)	(406)	-	-	(561,257)
Total cost	**5,022,791**	**780,596**	**-**	**(8,771)**	**5,794,616**

Depreciation	Opening balance	Allocations	Increase / (decrease) due to transfers	Disposals, derecognition or reversals	Closing balance
Land and buildings	38,353	2,719	-	(38)	41,034
Plant and machinery	1,771,210	212,258	-	(4,867)	1,978,601
Other installations, equipment and furniture	32,450	2,274	-	(637)	34,087
Prepayments and work in progress	-	-	-	-	-
Government grants	(228,138)	(21,128)	-	-	(249,266)
Total depreciation	**1,613,875**	**196,123**	**-**	**(5,542)**	**1,804,456**

Impairment losses	Opening balance	Allocations	Increase / (decrease) due to transfers	Reversals	Disposals or derecognition	Closing balance
Land and buildings	-	-	-	-	-	-
Plant and machinery	18,189	920	-	-	(3,978)	15,131
Other installations, equipment and furniture	-	-	-	-	-	-
Prepayments and work in progress	-	-	-	-	-	-
Government grants	-	-	-	-	-	-
Total impairment losses	**18,189**	**920**	**-**	**-**	**(3,978)**	**15,131**

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

- Lemona–Haro gas pipeline, first and second section
- Link to Castellón gas pipeline
- Almería-Lorca gas pipeline
- Montesa-Denia gas pipeline, Villalonga-Denia stretch and regulating and metering stations
- Connection between Lorca and the Almería-Chinchilla gas pipeline
- Lorca-Chinchilla gas pipeline, northern and southern sections
- Pipeline to Gibraltar gas field, phase III
- The Denia-Ibiza-Mallorca underwater gas pipeline and regulating and metering stations
- Regulating and metering stations at various points on the basic grid
- Expansion work at various points on the basic grid
- Increase in the emission capacity of the Barcelona plant to 1,800,000 Nm^3
- Increase in the emission capacity of the Barcelona plant to 1,950,000 Nm^3
- Work on methane tanker dock at the Cartagena plant, 250,000 m^3

- Structural reinforcement of the tubing rack at the Cartagena plant
- Lumbier compression station
- Expansion of Haro compression station
- Installation of regulating, metering and odorant facilities at the Almería-Lorca gas pipeline
- Replacement of compressor unit at J-17 well
- New thermal station in León
- Thermal station in Antas, Almería
- Dust system at P-5 pumps at Barcelona plant

Additions under "Plant and machinery" include 1,974 thousand euros (2008: 2,318 thousand euros) corresponding to the minimum linepack for system security of the gas pipelines.

Additions in "Prepayments and work in progress" in 2009 relate mainly to the following installations:

- Montesa compression station
- 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

Decreases in property, plant and equipment in 2009 reflect the derecognition, in the amount of 10,472 thousand euros, of three turbo compressors sold to Solar Turbines Europe for €2,300 thousand euros as a result of the capacity expansion work conducted at the Haro compression station, and the derecognition of work in progress capitalised at 50 thousand euros, for which provision had been fully made.

The revaluation of property, plant and equipment 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 15,619 thousand euros in the depreciation charge in 2009 (2008: 16,166 thousand euros).

Capitalised finance costs accrued during construction of infrastructure projects in 2009 amounted to 29,573 thousand euros (2008: 30,145 thousand euros).

Likewise, own work capitalised increased property, plant and equipment by 16,115 thousand euros in 2009 (2008: 11,555 thousand euros).

The reduction in "Accumulated depreciation" relates mainly to derecognition of the turbo compressors at the Haro compression station in the amount of 8,826 thousand euros.

At year end 2009 and 2008, the company was still using the following fully-depreciated items of property, plant and equipment:

2009

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

2008

Item	Carrying amount (gross)
Buildings	7,437
Plant and machinery	321,048
Other installations, equipment and furniture	30,353
Total	**358,838**

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 2009 relate to investments in gas infrastructure, as follows:

	Thousands of euros		
	Grants received at 31/12/2009	**Released to income at 31/12/2009**	**Balance at 31/12/2009**
Regasification plants	76,940	55,411	21,529
Gas transport infrastructure	466,809	209,208	257,601
Underground storage facilities	17,508	5,196	12,312
Total	**561,257**	**269,815**	**291,442**

The grants were received from the following bodies:

	Thousands of euros		
	Grants received at 31/12/2009	**Released to income at 31/12/2009**	**Balance at 31/12/2009**
EU structural funds	399,574	169,903	229,671
Spanish regional authorities	47,835	17,498	30,337
Spanish state	113,848	82,414	31,434
Total	**561,257**	**269,815**	**291,442**

Government grants to be released to the income statement in 2010 amount to approximately 20,548 thousand euros. The schedule for the release of the outstanding balance at 31 December 2009 is:

	Years		
	<1	2 to 5	>5
Spanish state grants	3,024	12,095	16,314
Spanish regional authority grants	1,588	6,351	22,399
EU structural funds	15,936	63,744	149,991
Total grants	**20,548**	**82,190**	**188,704**

7. Interests in joint ventures

There were no changes to shareholdings in subsidiaries in 2009 and 2008 so the percentage stakes and balances held by the parent company Enagás, S.A. remain as follows:

	Thousands of euros		Percentage stakes
	2009	2008	
Gasoducto Al-Andalus, S.A. (Spain)	23,744	23,744	66.96%
Gasoducto de Extremadura, S.A. (Spain)	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%
Total, gross	**39,217**	**39,217**	-
Less: impairment losses	-	-	-
Total, net	**39,217**	**39,217**	-

8. Financial assets

8.1 Composition and breakdown

The Group's financial assets at 31 December 2009 and 31 December 2008, broken down by class and category for measurement purposes, were as follows:

Class / Category	Non-current financial assets							
	Equity instruments		Debt securities		Loans, derivatives and other financial assets		Total	
	2009	2008	2009	2008	2009	2008	2009	2008
Assets at fair value through profit or loss								
- Financial assets held for trading	-	-	-	-	-	-	-	-
- Other non-current financial assets	-	-	-	-	-	-	-	-
Held-to-maturity investments	1	1	-	-	712	711	713	712
Loans and receivables	-	-	-	-	8,236	12,584	8,236	12,584
Available-for-sale financial assets								
- Measured at fair value	-	-	-	6,420	-	-	-	6,420
- Measured at cost	-	-	-	-	-	-	-	-
Derivatives	-	-	-	-	2,069	-	2,069	-
Total	**1**	**1**	**-**	**6,420**	**11,017**	**13,295**	**11,018**	**19,716**

Category \ Class	Current financial assets							
	Equity instruments		Debt securities		Loans, derivatives and other financial assets		Total	
	2009	2008	2009	2008	2009	2008	2009	2008
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	-	-	-	-	8,083	6,292	8,083	6,292
Available-for-sale financial assets								
- Measured at fair value	-	-	-	-	-	-	-	-
- Measured at cost	-	-	-	-	-	-	-	-
Derivatives	-	-	-	-	-	2,169	-	2,169
Total	**-**	**-**	**-**	**-**	**8,083**	**8,461**	**8,083**	**8,461**

The changes in Group financial assets in 2009 and 2008 were as follows:

	Thousands of euros				
	Balance at 01/01/2009	**Additions or provisions**	**Gain (loss) recognised in equity/ income**	**Disposals, derecognition or reversals**	**Balance at 31/12/2009**
Held-to-maturity investments	712	5	-	(4)	713
Loans and receivables	18,876	591	-	(3,148)	16,319
Available-for-sale financial assets	6,420	-	13	(6,433)	-
Derivatives	2,169	-	2,069	(2,169)	2,069
Total, gross	**28,177**	**596**	**2,082**	**(11,754)**	**19,101**
Impairment losses	-	-	-	-	-
Total, net	**28,177**	**596**	**2,082**	**(11,754)**	**19,101**

	Thousands of euros				
	Balance at 01/01/2008	**Additions or provisions**	**Gain (loss) recognised in equity/ income**	**Disposals, derecognition or reversals**	**Balance at 31/12/2008**
Held-to-maturity investments	698	19	-	(5)	712
Loans and receivables	21,531	3,093	-	(5,748)	18,876
Available-for-sale financial assets	8,100	730	(668)	(1,742)	6,420
Derivatives	2,928	-	5,168	(5,927)	2,169
Total, gross	**33,257**	**3,842**	**4,500**	**(13,422)**	**28,177**
Impairment losses	-	-	-	-	-
Total, net	**33,257**	**3,842**	**4,500**	**(13,422)**	**28,177**

8.2 Impairment losses

In 2009 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	12,584	5.760%	Sept 2011
Other loans	-	-	-
Current loans:			
Loans to Group companies	6,292	5.760%	Dec 2009
Balance at 31/12/2008	**18,876**		
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 2010
Balance at 31/12/2009	**16,167**		

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., Gasoduto Campo Mayor-Leiria-Braga, S.A. and Gasoduto Braga-Tuy, S.A.

The breakdown is as follows:

Thousands of euros	31/12/2009	31/12/2008
Non-current loans to Group companies:		
Gasod. Al-Andalus, S.A.	3,095	5,487
Gasod. de Extremadura, S.A.	10	620
Gasod. Campo Maior- Leiria- Braga, S.A.	1,996	2,597
Gasod. Braga-Tuy, S.A.	2,983	3,880
Total, non-current	**8,084**	**12,584**
Current loans to Group companies:		
Gasod. Al-Andalus, S.A.	3,095	2,743
Gasod. de Extremadura, S.A.	10	310
Gasod. Campo Maior- Leiria- Braga, S.A.	1,996	1,299
Gasod. Braga-Tuy, S.A.	2,982	1,940
Total, current	**8,083**	**6,292**

8.4 Available-for-sale financial assets:

Long-term securities portfolio

The financial assets included under this consolidated balance sheet heading at year-end 2008 mainly related to a BBVA mutual fund.

This fund was carried at fair value in accordance with its market price at each balance sheet date. As this fund was created to hedge a provision for long-service bonuses, changes in the fair value of the fund imply changes for the same amount in the related provision.

The carrying value of this 100%-owned fund at 31 December 2008 was 6,420 thousand euros.

During the first quarter of 2009 the Group sold all units it held in the fund. At the date of sale, the fund was valued at 6,432 thousand euros.

9. Trade and other receivables and current tax assets

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

	2009	2008
Trade and other receivables:		
Trade receivables	7,732	29,860
Receivable from Group companies	1,670	1,815
Other receivables	312,687	366,237
Income tax receivable	37,580	46,296
Total	**359,669**	**444,208**

The 1,670 thousand euro “Receivable from Group companies” balance corresponds to 715 thousand euros receivable from Gasoducto Al-Andalus, S.A. and 955 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 2009 for 182,091 thousand euros, and the outstanding balance on the remuneration for technical system management of 1,898 thousand euros, leaving a total outstanding balance of 183,979 thousand euros at the 2009 year end.

Also in 2009, the Group received the definitive settlement pending for 2006 and 2007, closing the settlement process for 2004 through 2007 (the process for 2002 and 2003 was closed in prior years). As a result, a balance of 28,190 thousand euros receivable by Enagás, S.A. was recognised in connection with settlement deviations accumulated during that period.

“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 2009, these uncollected amounts totalled 6,395 thousand euros, of which 5,484 thousand euros are subject to a lawsuit filed by certain suppliers. Specifically, 4,281 thousand euros were past due by over one year at 31 December 2009.

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 2009 totalled 10,479 thousand euros, of which 50% (5,240 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 2009.

"Income tax receivable" at 31 December 2009 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 21).

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.

10. Inventories

As indicated in Note 4.d, Law 12/2007 of 2 July meant that the parent company stopped supplying natural gas to the regulated market. In keeping with that legislation, supplies were discontinued on 1 July 2008, though the process of settling transactions, which makes it possible to know how much gas the suppliers have provided to tariff customers, how much has been consumed, and consequently, how much of the gas which Enagás made available to suppliers was left over, has continued until 31 December.

Given the above, the discontinuation of the regulated market nullified Enagás, S.A.'s legal obligation to supply this market and, likewise, nullified the contract of 21 August 2001 by which Enagás, S.A. acquired natural gas and liquid natural gas from Gas Natural SDG, S.A.

To regulate the impact of this discontinuation, and determine how the excess gas (acquired by Enagás for the regulated market but not consumed) will be used, on 1 December 2008 the parties signed an agreement whereby Enagás will make 751 GWh available to Gas Natural Aprovisionamientos SDG SA, an amount which was invoiced at 31 December 2008.

Having established the definitive December 2008 balance, the 69 GWh resulting from the adjustment was invoiced in April 2009, thereby settling that contract.

Since then, Enagás, S.A. carried no gas inventories.

It should be noted that at 31 December 2009, Enagás, S.A., as Technical System Manager, had approximately 950 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 4,725 thousand euros (2,215 thousand euros in 2008) of inventories unrelated to natural gas that include, inter alia, office materials and consumables.

11. Cash and cash equivalents

The breakdown of "Cash and cash equivalents" at 31 December 2009 and 2008 is as follows:

	2009	2008
Cash	7,623	7,868
Cash equivalents	632,901	206,674
Total	**640,524**	**214,542**

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.

12. Equity

12.1 Issued capital

At 31 December 2009 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 2009, Enagás, S.A.'s share price closed at 15.425 euros, having reached a high for the year of 15.77 euros per share on 6 January.

No company held more than 5% of the company's issued capital at either year-end 2009 or 2008. The most significant shareholdings in Enagás, S.A. at 31 December 2009 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.

In June 2009, as a result of a ruling handed down by the anti-trust authority (Spanish acronym: CNC) in respect of the merger of Gas Natural SDG, S.A. and Unión Fenosa, S.A., Gas Natural SDG, S.A. informed the CNMV that it had sold its 5% equity interest in Enagás, S.A. to Omán Oil Company, S.A.O.C., a company managed by the government of the Sultanate of Oman.

At 31 December 2009, 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.

12.2 Reserves

<u>Legal reserve</u>

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

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

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

In 2009, Gasoducto Al-Andalus, S.A. and Gasoducto de Extremadura, S.A. had also appropriated to their respective legal reserves the full required amount.

12.3 Interim dividend

The distribution of net profit for 2009 that Enagás, S.A.’s Board of Directors will propose for approval at the General Shareholders' Meeting is as follows:

Thousands of euros	
Dividend	178,818
Voluntary reserves	118,453
	297,271

At its meeting on 30 November 2009, the Board of Directors of Enagás, S.A. resolved to pay an interim dividend against 2009 profit of 67,562 thousand euros (0.283 euros per share, before tax). The company has prepared the necessary liquidity statement, expressed in thousands of euros, in accordance with article 216 of Royal Decree Law 1564/1989 (22 December), approving the revised text of the Spanish Companies Act.
In accordance with legal requirements, the provisional financial statements prepared by the Group, which showed that there were sufficient resources to pay the interim dividend against 2009 profit, are set forth below:

	Thousands of euros	
	Provisional financial statements at 31 October 2009	Provisional financial statements at 31 October 2008
Consolidated Group profit	246,161	221,102
10% allocation to legal reserve	-	-
Income available for distribution	**246,161**	**221,102**
Forecast interim dividend	**(67,562)**	**(62,071)**
Forecast cash at bank and in hand (Group) between 31 October and 31 December:		
- Cash at bank and in hand	500,958	297,270
- Collections forecast for the period	209,000	125,000
- Credit facilities and loans granted by banks	1,136,000	200,000
- Payments forecast for the period (including interim dividend)	332,800	(158,000)
Forecast cash at bank and in hand	**2,178,758**	**464,270**

The aforementioned interim dividend was paid on 22 December 2009.

The proposed before-tax final dividend (0.466 euros per share) is subject to shareholder approval and is not recognised as a liability in these financial statements.

12.4 Net unrealised gains (losses) reserve

Available-for-sale (AFS) financial assets

In 2008, the Group recognised its investment in the BBVA mutual fund in equity. This fund is carried at fair value in accordance with its market price at each balance sheet date.

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

The movement in these financial assets during 2009 and 2008 were as follows:

	Thousands of euros			
	01/01/2009	Change in fair value	Recognised in income	31/12/2009
Available-for-sale (AFS) financial assets	(792)	13	779	-
Tax effect deferred in equity	238	(4)	(234)	-
Total	**(554)**	**9**	**545**	**-**

	Thousands of euros			
	01/01/2008	Change in fair value	Recognised in income	31/12/2008
Available-for-sale (AFS) financial assets	-	(668)	(124)	(792)
Tax effect deferred in equity	-	200	38	238
Total	**-**	**(468)**	**(86)**	**(554)**

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:

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)**

2008

	Thousands of euros			
	01/01/2008	Change in fair value	Recognised in income	31/12/2008
Cash flow hedges	1,437	(16,574)	(6,520)	(21,657)
Tax effect deferred in equity	(431)	4,972	1,956	6,497
Total	**1,006**	**(11,602)**	**(4,564)**	**(15,160)**

13. 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:

	2009	2008	Change
Profit for the year (thousands of euros)	298,031	258,885	15.12%
Weighted average number of shares outstanding (thousands of shares)	238,734	238,734	-
Basic earnings per share in euros	1.2484	1.0844	15.12%

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.

14. Provisions and contingent liabilities

14.1 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 2009 were as follows:

Non-current provisions	01/01/2009	Additions	Discounting	Amounts applied	31/12/2009
Litigation	107	(41)	-	(66)	-
Long-service bonus	6,430	(10)	12	(6,432)	-
Long-term incentive plan	1,362	1,400	-	-	2,762
Abandonment costs	23,619	-	(132)	-	23,487
Other	5	5,250	-	-	5,255
Total non-current provisions	**31,523**	**6,599**	**(120)**	**(6,498)**	**31,504**

The most significant items of provisions recorded in 2009 are as follows:

- Litigation. Litigation includes the lawsuit filed by Fibracolor, S.A. due to interruptions in the gas supply in March 2005 caused by lack of gas inventories. The ruling handed down fined Enagás, S.A. 66 thousand euros for damages.

- Long-service bonus. This relates to non-statutory compensation to reward management and executive directors for their length of service to the company. In 2009, 6,432 thousand euros of the provision was used in connection with the sale of all units held in the fund (Notes 8.4 and 12.4).

- Long-term incentive plan. This multiannual remuneration plan offers a long-term incentive for achieving certain objectives over the course of three years. Top management of the company, including executive directors, are possible beneficiaries of this remuneration scheme which concludes in June 2010.

- Abandonment costs. The effect of discounting the costs to dismantle the Yela and Serrablo underground storage facilities have been included under the column headed "Discounting" (Note 3.b).

- Other. The company has recognised a provision of 5,250 thousand in order to mitigate the risks associated with the provisional nature of certain regulatory aspects which at the balance sheet date were still pending definitive official publication.

14.2 Contingencies

The Group had the following contingent liabilities at 31 December 2009:

- Uncollected amounts from gas suppliers for the freight tax regulated by article 24 of Law 48/2003 (see Note 9).

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

- Proceedings with the state tax authorities (AEAT) regarding assessments relating to VAT on imports in 2004 and 2005 (see Note 21.8).

15. Financial liabilities

15.1 Non-current financial liabilities

The breakdown of "Non-current financial liabilities" at year-end 2009 and 2008 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	
	2009	2008	2009	2008	2009	2008	2009	2008
Debts and other payables	1,914,629	2,114,198	1,130,423	-	29,289	36,094	3,074,341	2,150,292
Liabilities at fair value through profit or loss								
- Held for trading	-	-	-	-	-	-	-	-
- Other	-	-	-	-	-	-	-	-
Derivatives	-	-	-	-	15,698	6,111	15,698	6,111
Total	**1,914,629**	**2,114,198**	**1,130,423**	**-**	**44,987**	**42,205**	**3,090,039**	**2,156,403**

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

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	-	9,451.0	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**

2008

	2010	2011	2012	2013 and thereafter	Total
Bank borrowings	1,124,174	244,174	115,548	630,302	2,114,198
Finance leases	-	-	-	-	-
Derivatives	4,674	1,437	-	-	6,111
Other	26,548	5,904	624	3,018	36,094
Total	**1,155,396**	**251,515**	**116,172**	**633,320**	**2,156,403**

At 31 December 2009, Enagás, S.A. had undrawn credit facilities amounting to 121 million euros, with a limit of 406 million euros (2008: 292 million euros, with a limit of 331 million euros). The company is currently negotiating renewal of the main facilities maturing in 2010. Undrawn loans granted amount to 875 million euros (2008: 1,450 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 2009 on Group loans and credit facilities in euros was 2.26% without considering hedges and fees and 3.30% factoring in hedges and fees (4.98% and 4.74%, respectively, in 2008).

Current loans and credit facilities of the parent company are denominated in euros and accrued interest at an average annual rate of 3.20% in 2009.

The directors estimate that the change in the fair value of bank borrowings at 31 December 2009, calculated by discounting of future cash flows at market interest rates, amounted to 3,915 thousand 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:

	Thousands of euros	
	Change in interest rates	
	0.25%	-0.25%
Change in fair value of borrowings	39.8	-40.4

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

- 5,523 thousand euros corresponding to the adjustments envisaged in the income tax assessment for 1995 through 1998, discounted to 31 December 2009 (2008: 5,304 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 the total, 3,097 thousand euros are classified as non-current and the remaining 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 balance was repaid in October 2009.

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. In 2009 the company drew down 157 thousand euros corresponding to the first annuity.

Both loans are repayable in 10 years, with a 3-year grace period and at cost of 0.25%, the cost of the guarantees provided.

- 12,580 thousand euros corresponding to long-term payables to suppliers of property, plant and equipment recognised by the Group in 2009.

- The loans which the subsidiaries Gasoducto Al-Andalus, S.A. and Gasoducto de Extremadura, S.A. received from Portuguese company Galp Gas Natural, S.A. amounting to 3,170 thousand euros and 1,211 thousand euros, respectively, as well as those received by the subsidiary Gasoducto Campo Mayor Leiria Braga, S.A. from Portuguese company REN, S.A. amounting to 2,655 thousand euros.

These loans bear interest at floating market rates, fall due in 2011, and are repaid in accordance with the schedule envisaged in the contracts and the availability of cash of each company.

Lastly, derivatives and other financial liabilities classified as debts and other payables include 12,580 thousand euros corresponding to long-term payables to suppliers of property, plant and equipment, recognised by Enagás, S.A. in 2009.

Derivatives also include the cash flow hedges arranged by Enagás, S.A. for 2008-2010, 2008-2011 and 2009-2012, (Note 18).

On 6 July 2009, Enagás, S.A. completed a 1,000 million euro bond issue. The three-year tranche bears an annual coupon payment of 3.25% while the six-year bonds carry an annual coupon of 4.375%. The proceeds were used in their entirety for the early repayment of a syndicated loan due January 2010.

Effective 15 September 2009, the company raised 20,000 million Japanese yen (147.5 million euros) in a private placement with the investor AFLAC. The bonds carry interest at a floating rate tied to 6-month Euribor. The proceeds were used to fund the company’s capital expenditure. The fair value of this financial instrument at 31 December 2009 was 134.9 million euros.

At 31 December 2009, 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 of a 100 million euro loan granted by BBVA.
- Renewal/extension of a 150 million euro loan granted by Banco Santander.
- A 150 million euro loan granted by Banco Sabadell.
- Renewal/extension of the credit facilities granted by La Caixa (100 million euros), BBVA (140 million euros) and Banco Santander (60 million).
- Drawdown of tranches B (175 million euros) and C (100 million euros) of the 1,000 million euro loan granted by the financial intermediary EIB.
- Drawdown of 250 million euros on the 500 million euro loan granted by ICO (Spanish State Financial Agency).
- Drawdown of 150 million euros on the loan granted by Banco Sabadell.

15.2 Current financial liabilities

The breakdown of “Current financial liabilities” at year-end 2009 and 2008 was as follows:

Category \ Class	Current financial liabilities							
	Bank borrowings and finance leases		Bonds and other marketable securities		Derivatives and other financial liabilities		Total	
	2009	2008	2009	2008	2009	2008	2009	2008
Debts and other payables	472,158	430,428	-	-	6,853	68,299	479,011	498,727
Liabilities at fair value through profit or loss								
- Held for trading	-	-	-	-	-	-	-	-
- Other	-	-	-	-			-	-
Derivatives	-	-	-	-	24,752	16,008	24,752	16,008
Total	**472,158**	**430,428**	**-**	**-**	**31,605**	**84,307**	**503,763**	**514,735**

In 2008 the Group recognised the interim dividend against 2008 earnings amounting to 62,071 thousand euros in "Derivatives and other financial liabilities", as debts and other payables.

This heading also includes:

- Interest on borrowings from related-party banks in the amount of 830 thousand euros in 2009 (2008: 912 thousand euros).

- Current borrowings from the General Energy Secretariat for 168 thousand euros (see Note 15.1).

- 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 3,170 thousand euros and 1,211 thousand euros, respectively, as well as those received by subsidiary Gasoducto Campo Mayor Leiria Braga, S.A. from REN, S.A. amounting to 1,327 thousand euros.

- Other items pending application in the amount of 147 thousand euros (2008: 39 thousand euros).

16. Other non-current liabilities

The changes in 2009 and 2008 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 2008	**12,354**	**28,019**	**40,373**
Additions/decreases/recognition in income	(950)	(2,155)	(3,105)
Balance at 31 December 2008	**11,404**	**25,864**	**37,268**
Additions/decreases/recognition in income	(951)	(2,155)	(3,106)
Balance at 31 December 2009	**10,453**	**23,709**	**34,162**

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 2009 is the following:

Thousands of euros	**Connections to the basic network**
Balance at 31 December 2008	**32,492**
Additions	19,129
Decreases/recognition in income	(1,330)
Balance at 31 December 2009	**50,291**

17. Risk and capital management policy

17.1 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.

17.2 Quantitative information

a) Interest-rate exposure

	2009	2008
Percentage of borrowings at fixed or hedged rates	60%	59%

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 10 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 2010.

17.3 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.

Capital management at the Group did not change between 2008 and 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 2009 (see Note 32). The company monitors these ratings for decision-making purposes.

18. 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.

2009

Instrument	Date written	Notional amount	Fixed rate	Start date	Maturity
Cross currency swap	July 2009	147,514	-	15/09/2009	15/09/2039
Swap	November 2009	250,000	1.98	27/11/2009	27/11/2012
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 15.1).

2008

Instrument	Date written	Notional amount	Cap/Floor	Fixed rate	Start date	Maturity
Collar	March 2008	350,000	3.90/3.35	-	10/04/2008	11/01/2010
Collar	October 2008	650,000	3.90/3.42	-	12/01/2009	11/01/2010
Swap	March 2008	67,500	-	3.67	16/06/2008	16/06/2011
Swap	October 2008	60,000	-	3.95	16/12/2008	16/06/2011
Swap	October 2008	200,000	-	3.99	23/10/2008	23/11/2011
Swap	March 2008	200,000	-	3.64	16/05/2008	16/05/2011
Total		**1,527,500**				

The company has fulfilled the requirements set forth in Note 3.g 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 2009 and 2008 is as follows:

2009

					Fair value (thousands of euros)	
Instrument	**Classification**	**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	Fixed to floating	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.

2008

					Fair value (thousands of euros)	
Instrument	**Classification**	**Rate**	**Notional amount (thousands of euros)**	**Maturity**	**Assets**	**Liabilities**
Collar	Interest rate hedge	Cap	1,000,000	January 2010	1,364	9,195
Interest rate swap	Interest rate hedge	Floating to fixed	127,500	March 2011	-	2,563
Interest rate swap	Interest rate hedge	Floating to fixed	200,000	November 2011	500	5,780
Interest rate swap	Interest rate hedge	Floating to fixed	200,000	May 2011	305	4,581
Total			**1,527,500**		**2,169**	**22,119**

In 2008, a gain of 6,520 thousand euros was recognised in the consolidated income statement in connection with remeasurement of the fair value of these hedging instruments.

19. Trade and other payables

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

	2009	2008
Trade and other payables:		
Payable to Group companies	2,704	2,414
Other trade payables	304,918	448,391
Other suppliers	4,303	3,693
Current tax liabilities (Note 21.2)	10,030	48,661
Total	**321,955**	**503,159**

"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".

20. 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 2,082 thousand euros in 2009 (2,091 thousand in 2008), recognised under "Personnel benefits expense" in the accompanying consolidated income statement.

21. Taxation

21.1 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.

21.2 Tax receivable and payable

Balances receivable from and payable to public authorities at year end 2009 and 2008 were as follows:

	Thousands of euros	
	2009	**2008**
Tax receivable:		
Value added tax	15,579	46,296
Income tax	22,001	-
Total	**37,580**	**46,296**
Taxes payable:		
Income tax	1,994	43,502
Value added tax	70	70
Other	7,966	5,089
Total	**10,030**	**48,661**

In 2009 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 21.3 and 21.7).

At year end, 22,342 thousand euros had been paid (61,507 thousand euros in 2008) on account of the final income tax expense payable, of which 17,789 thousand euros related to Enagás, S.A. (57,655 thousand euros in 2008), 2,450 thousand euros to Gasoducto Al-Andalus, S.A. (2,033 thousand euros in 2008), and 2,103 thousand euros to Gasoducto de Extremadura, S.A. (1,819 thousand euros in 2008).

At year end 2009 Enagás, S.A. was also due recoverable income tax in relation to the 2008 return from the Guipuzcoa, Vizcaya and Alava tax authorities in the amount of 2,133 thousand euros.

21.3 Reconciliation of profit before tax and taxable income

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

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 RDL 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 HCP	-	-	-
Provisions for contingencies and expenses	5,250	-	5,250
Other	1,457		1,457
Arising in prior years			
Accelerated depreciation RDL 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 HCP	-	-	-
Provisions for contingencies and expenses	-	-	-
Other	63	(59)	4
Offset of tax loss carryforwards	-	-	-
Taxable income	**432,385**	**(562,654)**	**(130,269)**

2008

	Thousands of euros		
	Increase	Decrease	Total
Profit before tax	**366,126**		**366,126**
Permanent differences:			
Exemption for international double taxation	-	(1,452)	(1,452)
Other items (foreign fines and taxes)	190	-	190
Temporary differences:			
Arising in 2008			
Accelerated depreciation RDL 3/1993	-	-	-
Government grants	-	-	-
Long-service fund	730	(668)	62
Provisions for property, plant and equipment	606		606
Provisions for litigation	76	(76)	-
Provisions for HCP	-	-	-
Other	1,425		1,425
Arising in prior years			
Accelerated depreciation RDL 3/1993	1,045		1,045
Government grants	-	(359)	(359)
Long-service fund	1,019	(2,761)	(1,742)
Provisions for property, plant and equipment	-	(2,768)	(2,768)
Provisions for litigation	-	(760)	(760)
Provisions for HCP	-	(1,984)	(1,984)
Other	118	(708)	(590)
Offset of tax loss carryforwards	-	-	-
Taxable income	**371,335**	**(11,536)**	**359,799**

21.4 Income tax recognised in equity

Aside from the income tax recognised in the consolidated income statements, in 2009 and 2008 the Group recognised the following tax effects in consolidated equity.

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)**

2008

	Thousands of euros		
	Increase	Decrease	Total
Current tax:			
Capital increase expenses	-	-	-
Capital reduction expenses	-	-	-
Other	-	-	-
Total current tax	**-**	**-**	**-**
Deferred tax:			
Arising in 2008			
Available-for-sale financial assets	348	(110)	238
Measurement of other financial assets	15,575	(9,009)	6,566
Discounting of taxes payable	-	-	-
Arising in prior years			
Available-for-sale financial assets	-	-	-
Measurement of other financial assets	362	-	362
Discounting of taxes payable	-	(815)	(815)
Total deferred tax	**16,285**	**(9,934)**	**6,351**
Total taxes recognised directly in equity	**16,285**	**(9,934)**	**6,351**

21.5 Reconciliation between profit before tax and income tax expense

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

	2009	2008
Accounting profit, before tax	**423,480**	**366,126**
Tax rate of 30%	127,044	109,838
Impact of temporary differences	**(277)**	**(378)**
Deductions:		
International double taxation relief	(3,179)	(2,545)
Investments in R&D&I and others	(1,325)	(2,301)
Employee training expense	(8)	(15)
Pension fund contributions	(42)	(64)
Donations	(217)	-
Effect of applying different tax rates	**(86)**	**(81)**
Tax effect of consolidation eliminations against equity	**3,539**	**2,787**
Offset of tax loss carryforwards	**-**	**-**
Total tax expense recognised in the income statement	**125,449**	**107,241**

21.6 Breakdown of income tax expense

The breakdown of income tax expense for 2009 and 2008 is as follows:

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**

2008

	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	92,485	2,830	1,917	417	205
Discontinued operations	-	-	-	-	-
Deferred tax:					
Continuing operations	9,387	-	-	-	-
Discontinued operations	-	-	-	-	-
Total tax expense	**101,872**	**2,830**	**1,917**	**417**	**205**

21.7 Deferred tax

The breakdown of deferred tax assets and liabilities in 2009 and 2008 is as follows:

	2009	2008
Temporary differences (deferred tax assets)		
Government and other grants	904	1,012
Long-service fund	828	2,238
Provisions for property, plant and equipment	336	996
Provisions for litigation	-	122
Provisions for HCP	-	-
Derivatives	5,218	6,627
Provisions for contingencies and expenses	1,575	-
Other	2,962	3,251
Tax loss carryforwards	**45,673**	**-**
Unused tax credits and other	**-**	**-**
Total deferred tax assets	**57,496**	**14,246**

	2009	2008
Deferred tax liabilities:		
Accelerated depreciation	750	1,072
Accelerated depreciation	165,700	-
Long-service fund	-	-
Derivatives	-	130
Other	135	153
Total deferred tax liabilities	**166,585**	**1,355**

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 as a tax loss carryforward.

The Group does not have any unrecognised deferred tax assets.

In 2009 Enagás, S.A. availed of the accelerated 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 2009 Enagás, S.A. recognised a deferred tax liability in the amount of 165,700 euros (equivalent to an asset base of 552,334 thousand euros), corresponding to capital expenditure capitalised in 2009.

21.8 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 2009 the authorities initiated 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. Although the inspection is not yet complete, its definitive resolution is not expected to give rise to significant tax liabilities.

At year end 2009 Enagás, S.A. has open to inspection all applicable tax returns in respect of 2008 and 2009 while its Spanish and Portuguese subsidiaries have open to inspection taxes for all years of the statutory inspection period. The inspection of VAT on imports and foreign trade is still pending for 2008 and 2009 for Enagás, S.A.

At 31 December 2009, Enagás, S.A. had tax assessments issued in respect of VAT on imports for 2002 and 2004. 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, the assessments had been signed under protest and appealed by the company.

At the end of 2009 the company contested an assessment on "VAT on imports for 2007" amounting to 787 thousand euros, in relation to which appeal has been filed before the Chief Inspector.

22. Revenue

The breakdown of Group revenue is analysed below:

	2009	2008
Sales of gas on the regulated market	(1,609)	377,019
Cost of sales of gas on the regulated market	1,609	(369,379)
Net (purchase)/sale of gas on regulated	**-**	**7,640**
Revenue from regulated activities	866,829	813,101
Revenue from liberalised activities	15,429	16,186
Other income	14,125	16,807
Sales of materials	-	76
Ancillary and other operating income	13,999	16,613
Government grants	126	118
Total	**896,383**	**853,734**

Gas sales were made exclusively by Enagás, S.A. As indicated in Note 4.d, since 1 July 2008 the tariff market is no longer in existence; accordingly, in 2009 no gas was sold or purchased subject to tariffs.

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:

	2009	2008
Regulated activities:		
Enagás, S.A.	866,829	813,101
Liberalised activities:		
Gasoducto Al - Andalus, S.A.	7,139	7,602
Gasoducto Extremadura, S.A.	5,575	5,875
Gasoduto Campo Maior - Leiria - Braga, S.A.	2,540	2,534
Gasoduto Braga - Tuy, S.A.	175	175
Total	**882,258**	**829,287**

23. Expenses

An analysis of Group expenses is provided below:

	Thousands of euros	
	31/12/2009	31/12/2008
Employee benefits expense	60,743	68,952
Other operating costs	139,437	155,126
	200,180	**224,078**

23.1 Employee benefits expense

The detail of employee benefits expense is as follows:

	Thousands of euros	
	31/12/2009	31/12/2008
Wages and salaries	55,384	54,445
Termination benefits	649	6,910
Social security	11,761	11,463
Other employee benefits expense	6,983	5,598
Contributions to external pension funds	2,081	2,091
Own work capitalised	(16,115)	(11,555)
	60,743	**68,952**

At 31 December 2009 the Group had capitalised 16,115 thousand euros for employee benefits expense directly related to ongoing investment projects (11,555 thousand euros at 31 December 2008 - see Note 6).

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

	Average number of employees	
	2009	2008
Managers	66	70
Technicians	485	467
Administrative staff	127	130
Labourers	353	350
Total	**1,031**	**1,017**

At 31 December 2009, the Group had 1,046 employees (1,008 in 2008). The breakdown by category and gender is as follows:

	2009		2008	
Category	Men	Women	Men	Women
Managers	57	9	57	9
Technicians	375	120	363	109
Administrative staff	34	92	36	90
Labourers	346	13	334	10
Total	**812**	**234**	**790**	**218**

23.2 Other operating costs

Details of this heading are as follows:

	Thousands of euros	
	31.12.2009	**31.12.2008**
External services:		
R&D costs	1,152	1,240
Leases and royalties	36,063	36,446
Repairs and maintenance	27,262	27,182
Professional services	13,385	13,436
Transport	14,643	14,785
Insurance premiums	3,668	2,981
Banking and similar services	7	5
Advertising, publicity and PR	2,016	2,321
Supplies	19,625	20,936
Other services	7,404	13,757
External services	**125,225**	**133,089**
Taxes other than income tax	**1,436**	**5,527**
Other external expenses	**7,909**	**9,061**
Change in trade provisions	**4,867**	**7,449**

23.3 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 2009, these expenses amounted to 925 thousand euros (1,557 thousand euros in 2008), as follows:

2009

Firm	**Audit services (1)**	**Audit-related services (2)**	**Other services**
Deloitte, S.L.	660	15	1
Deloitte Consulting S.L.	-	-	249
Other	-	-	-
Total	**660**	**15**	**250**

2008

Firm	Audit services (1)	Audit-related services (2)	Other services
Deloitte, S.L.	1,149	259	30
Deloitte Consulting S.L.	-	-	117
Other	2	-	-
Total	**1,151**	**259**	**147**

(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 171 thousand euros (2008: 165 thousand euros), as well as the limited review of the interim consolidated financial statements, 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.

(2) Audit related services: Virtually the entire amount of this balance in both 2009 and 2008 corresponds to work commissioned by the internal audit department as part of the Group's project to review its corporate risk identification, assessment and measurement systems.

24. Net finance cost

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

Thousands of euros	31/12/2009	31/12/2008
Revenue from non-current loans	503	1,221
Other interest and finance revenue	11,754	12,578
Finance revenue	**12,257**	**13,799**
Financing and similar expense	(636)	(823)
Loan interest	(72,113)	(82,103)
Revenue attributable to provisions	34	2,016
Finance costs	**(72,715)**	**(80,910)**
Change in fair value of financial instruments	**(779)**	**124**
Impairment and gains (loss) on disposal of financial instruments	**-**	**-**
Net finance cost	**(61,237)**	**(66,987)**

At 31 December 2009 the Group had capitalised 29,573 thousand euros in connection with borrowing costs (30,145 thousand euros at 31 December 2008 - see Note 6).

25. Business and geographical segments

25.1 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.

25.2 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 2009, 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) Purchase-sale of gas on the regulated market

Enagás, S.A. continued to satisfy the needs of the tariff market in accordance with the provisions of the Hydrocarbons Law 34/1998 of 7 October, until 30 June 2008.

d) Liberalised activities

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

25.3 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		Purchase-sale of gas		Technical system management		Liberalised activities + consolidation adjustments		**Total Group**	
INCOME STATEMENT	2009	2008	2009	2008	2009	2008	2009	2008	**2009**	**2008**
Revenue	857,152	800,726	-	12,405	11,216	9,141	28,015	31,462	**896,383**	**853,734**
Depreciation and amortisation	209,417	196,324	-	1	3,310	2,856	3,863	3,870	**216,590**	**203,051**
Operating profit (loss)	476,276	427,926	-	9,814	(3,494)	(17,685)	11,935	13,058	**484,717**	**433,113**
Profit (loss) after tax	295,403	258,539	-	6,923	(2,318)	(13,032)	4,946	6,455	**298,031**	**258,885**
BALANCE SHEET	2009	2008	2009	2008	2009	2008	2009	2008	**2009**	**2008**
Total assets	5,622,135	4,557,052	-	22	19,416	17,990	138,388	142,762	**5,779,939**	**4,717,826**
Acquisitions of fixed assets (*)	898,324	787,287	-	2	3,025	3,412	204	189	**901,553**	**790,890**
Non-current liabilities (**)	244,455	65,136	-	-	600	35	37,487	37,467	**282,542**	**102,638**
-Deferred tax liabilities	162,841	1,322	-	-	572	5	3,172	28	**166,585**	**1,355**
-Provisions	31,323	31,321	-	-	28	30	153	172	**31,504**	**31,523**
-Other non-current liabilities	50,291	32,493	-	-	-	-	34,162	37,267	**84,453**	**69,760**
Current liabilities (**)	254,423	421,180	-	235	35,628	16,151	30,295	22,616	**320,346**	**460,182**
-Trade and other payables (***)	254,423	421,180	-	235	35,628	16,151	29,910	22,091	**319,961**	**459,657**
-Other current liabilities	-	-	-	-	-	-	385	525	**385**	**525**

(*) Acquisitions of assets include the change in inventories of replacement parts and in material stored for the construction of new infrastructure, as well as grants

(**) Does not include financial liabilities

(***) Does not include income tax payable

26. Environmental information

Environmental conservation and protection is a priority for the Enagás Group. This commitment pervades all business decisions. The overriding goal is to attempt to reconcile economic and industrial progress with respect for and protection of the environment.

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.

This documentation, prepared in accordance with the requirements of UNE EN ISO 14001, is the basis of the Environmental Management System developed and certified by AENOR which ensures compliance with applicable environmental legislation and continual improvement of the environmental record in respect of the LNG storage and regasification plants in Barcelona, Cartagena, and Huelva, the Serrablo underground storage facility, the facilities for the basic gas pipeline network, and the technological innovation unit.

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.

The Group pays careful attention to the design and execution of all its projects with the overriding aim of fully identifying the environmental limits and impact of projects in every phase, monitoring the environmental impact during the construction phase, and finally integrating the facilities built within the EMS.

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 2009, these environmental activities entailed total capitalised investment of 35,088 thousand euros (54,644 thousand euros in 2008). Environmental expenses incurred by the company in 2009 totalled 852 thousand euros (749 thousand euros in 2008) 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 2009, the Group did not receive any grants or revenue relating to environmental activities, except those mentioned below in Note 27 detailing greenhouse gas emission rights.

27. Greenhouse gas emission rights

Certain Enagás, S.A. 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)**.**

The installations for which these allocations have been received are:

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

The 452,093 rights allocated for 2009 were valued at 15.50 euros/right, the spot price on the first business day of 2008 of RWE Trading GMBH.

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 2009, 32,500 EUAs were swapped with BBVA for CERs valued at €24.20/CER and 35,000 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 8,818 thousand euros in 2009.

The Enagás Group recognised the consumption of 121,525 greenhouse gas emission rights up to November 2009 in the consolidated income statement (first 11 months of 2008: 149,348 rights).

In early 2010, the Enagás Group recognised the consumption of 16,758 emission rights in December 2009 (6,880 in December 2008) in the consolidated income statement, bringing total rights consumed in 2009 at 138,283 (156,228 in 2008).

In 2009, the Group sold 300,000 of the gas emission rights allocated for the year for 4,650 thousand euros. In addition, as a result of the EUA/CER swaps, the Group derecognised a total of 67,500 allowances equivalent to 1,046 thousand euros.

As a result, total surplus rights in 2009 amounted to 16,920 allowances. Valued at 15.50 euros/right (their price on the first business day of 2009), this surplus amounted to 262 thousand euros, while based on a reference price of 12.16 euros/right (their price on the last business day of 2009), they have a value of 206 thousand euros.

Likewise, total surplus rights in 2008 amounted to 5,865 rights. Valued at 23 euros/right, their price on the first business day of 2008, this surplus amounted to 135 thousand euros, while the value of the surplus at 31 December 2008 was 89 thousand euros, based on a reference price of 15.26 euros/right, their price on the last business day of 2008.

In the first quarter of 2009, 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 2009, Enagás, S.A. delivered greenhouse gas emission allowances equivalent to the verified emissions in 2008 for all these installations.

In 2009, 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.

28. Related party transactions

28.1 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 2009 and 2008, 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.

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 cost	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	-	-	-	921	**921**
Sale of goods (finished or work-in-progress)	-	-	-	4,260	**4,260**
Profits on derecognition or disposal of assets	-	-	-	-	**-**
Other income	-	-	-	-	**-**
Total revenues	**806**	**-**	**23,836**	**15,295**	**39,937**

2008

Expenses and revenue	Thousands of euros 31/12/2008 Significant shareholders	Directors and senior management	Group persons, companies or entities	Other related parties	Total
Expenses:					
Finance cost	5,680	-	-	6,729	**12,409**
Management or collaborative agreements	-	-	-	-	**-**
Transfers of R+D and license agreements	-	-	-	-	**-**
Leases	-	-	-	-	**-**
Services received	25,908	-	32,496	11,254	**69,658**
Purchase of goods (finished or work-in-progress)	390,854	-		5,894	**396,748**
Impairment provisions for bad or doubtful debt	-	-	-	-	**-**
Losses on derecognition or disposal of assets	-	-	-	-	**-**
Other expenses	-	1,177	-	-	**1,177**
Total expenses	**422,442**	**1,177**	**32,496**	**23,877**	**479,992**
Revenue:					
Finance revenue	3,993	-	2,765	3,941	**10,699**
Management or collaborative agreements	-	-	-	-	**-**
Transfers of R+D and license agreements	-	-	-	-	**-**
Dividends received	-	-	9,530	-	**9,530**
Leases	-	-	-	-	**-**
Services rendered	22,572	-	9,471	-	**32,043**
TPA services	185,472	-	-	50,673	**236,145**
Sale of goods (finished or work-in-progress)	329,547	-	-	2,940	**332,487**
Gains on derecognition or disposal of assets	-	-	-	-	**-**
Other revenue	-	-	-	-	**-**
Total revenue	**541,584**	**-**	**21,766**	**57,554**	**620,904**

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	-	-	-	-	**-**

2008

	Thousands of euros				
	31/12/2008				
Other transactions	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)	-	-	42,648	-	**42,648**
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)	145,868	-	-	215,095	**360,963**
Finance leases (lessee)	-	-	-	-	**-**
Repayment or cancellation of loans and finance leases (lessee)	-	-	-	-	**-**
Guarantee commitments extended	-	-	-	61,500	**61,500**
Guarantee commitments received	13,475	-	-	23,515	**36,990**
Commitments assumed	-	-	-	-	**-**
Cancelled commitments/guarantees	-	-	-	-	**-**
Dividends and other benefits paid	42,892	-	-	2,880	**45,772**
Other transactions	-	-	-	-	**-**

29. Director and senior management compensation

29.1 Wages and salaries

The remuneration received in 2009 and 2008 by the members of the Board of Directors and senior Group management, broken down by item, was as follows:

2009

	Salaries	**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**	**-**	**-**

2008

	Salaries	**Attendance fees**	**Other**	**Pension plans**	**Insurance premiums**	**Termination benefits**	**Equity-settled share-based payments**
Directors	1,278	1,177	78	-	57	-	-
Senior management	1,954	-	86	47	85	-	-
Total	**3,232**	**1,177**	**164**	**47**	**142**	**-**	**-**

At 31 December 2009, the company had extended advances or loans to members of the board and the Group's senior management team totalling 3 thousand euros.

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

	Thousands of euros	
DIRECTORS	**2009**	**2008**
Antonio Llardén Carratalá (Executive Director) [1]	1,621	1,420
BANCAJA (Proprietary Director)	107	107
Carlos Egea Krauel (Proprietary Director) [2]	27	76
Sagane Inversiones S.L. (Proprietary Director) [3]	49	-
Bilbao Bizkaia Kutxa (Proprietary Director)	72	64
Sociedad Estatal de Participaciones Industriales (Proprietary Director)	73	42
Salvador Gabarró Serra (Proprietary Director) [4]	21	81
D. Said Al Masoudi (Proprietary Director) [5]	23	-
Peña Rueda S.L. Unipersonal (Proprietary Director)	64	64
Jesús David Álvarez Mezquíriz (Independent Director)	64	64
Dionisio Martínez Martínez (Independent Director)	78	76
José Riva Francos (Independent Director)	64	64
Ramón Perez Simarro (Independent Director)	76	76
Martí Parellada Sabata (Independent Director)	81	81
Antonio Téllez de Peralta (Independent Director)	76	76
Teresa García-Milà Lloveras (Independent Director)	76	76
Miguel Ángel Lasheras Merino (Independent Director)	64	64
Luis Javier Navarro Vigil (External Director)	76	76
Caja de Ahorros del Mediterráneo (Proprietary Director)	-	25
Total	**2,712**	**2,532**

[1] Also holds a life insurance policy w ith a premium of 68 thousand euros in 2009. During the year contributions to his pension plan totalled 10 thousand euros.
[2] Betw een 1 January and 27 April, 2009.
[3] Betw een 27 April and 31 December, 2009.
[4] Betw een 1 January and 7 April, 2009.
[5] Betw een 27 July and 31 December, 2009.

30. Other director disclosures

In keeping with the provisions of article 127 ter of the Spanish Companies Act, these notes include information relating to the ownership interests and positions held by members of Enagás, S.A.'s Board of Directors in other companies engaging in activities that are similar or complementary to those that constitute its corporate purpose. When preparing this information, companies having a corporate purpose that is similar or complementary to that of Enagás have been considered to be those that independently engage in the transport, regasification, distribution or supply of natural gas, as regulated by Law 34/1998 on the Hydrocarbon Industry.

Ownership interests in companies that have the same, similar or complementary corporate purpose that have been reported to the Group by directors at 31 December 2009 are as follows:

DIRECTOR	COMPANY	No. of SHARES	% SHAREHOLDING
Bancaja Inversiones	Iberdrola, S.A.	301,282,820	5.736%
BBK (Bilbao Bizkaia Kutxa)	Iberdrola, S.A.	359,380,724	6.842%
	Gas Natural, SDG, S.A.	982,134	0.110%
Luis Javier Navarro Vigil	BP, PLC	63,853	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 10,357 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 2009 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 general and supervisory board of EDP-Energías de Portugal, 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 Advisory Council of Iberdrola, S.A. in Valencia.

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

31. Guarantee commitments to third parties

At 31 December 2009 the Group had provided guarantees to third parties deriving from its activities for an amount of 117,202 thousand euros (100,602 thousand euros in 2008). It has also extended financial guarantees for a total of 217,259 thousand euros (214,286 thousand euros in 2008) to secure the 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.

32. Other information

In general meeting on 27 March 2009, the company's shareholders approved the reappointment to the Board of Directors for the statutory four-year term of Salvador Gabarró Serra (proprietary director at the request of shareholder Gas Natural SDG, S.A.) and Ramón Pérez Simarro and Martí Parellada Sabata (both independent directors).

On 7 April 2009, Salvador Gabarró Serra presented his resignation as proprietary director, a move that also implied stepping down as chair and member of the Board's Appointments and Remuneration Committee.

On 8 June 2009, credit rating agency Moody's reaffirmed Enagás, S.A.'s long-term rating of "A2", with stable outlook.

On 27 July the Board of Directors of Enagás, S.A. approved the directorship of Said Masoudi at the proposal of Omán Oil Company, S.A.O.C. In addition, the directors approved the substitution on the Board of Xabier de Irala for Joseba Andoni Aurrekoetxea, in representation of Bilbao Bizkaia Kutxa (BBK). The Board also resolved to name Dionisio Martínez as chair of the Appointments and Remuneration Committee.

On 3 September 2009, Enagás, S.A. signed an agreement with BP for the acquisition of the latter's 25% stake in the Bahía de Bizkaia Gas (BBG) regasification plant, for 65 million euros. This transaction is pending anti-trust approval.

In September 2009, Enagás, S.A. was awarded the EFQM 300+ excellence seal. The company also obtained ISO 9000 certification for its third-party grid access management process (TPA) and was once again included in the select Dow Jones Sustainability World Index.

On 26 November 2009, 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 stable outlook.

33. Joint ventures

Information on the joint ventures in which the company had interests at 31 December 2009 is set out in the table below:

Company	Location	Activity	Consolidation method	%	% of voting rights controlled by Enagás, S.A.	Thousands of euros				
						Carrying amount	Investee data (*)			
							Assets	Liabilities	Equity	Profit for the year (**)
Gasoducto Al-Andalus, S.A.	Madrid	Gas transport	PC	66.96	50	23,744	85,088	85,088	52,885	9,071
Gasoducto de Extremadura, S.A.	Madrid	Gas transport	PC	51	50	9,732	38,740	38,740	30,741	7,735
Gasoduto Campo Maior Leiria Braga, S.A.	Portugal	Gas transport	PC	12	50	3,195	83,922	83,922	40,178	9,721
Gasoduto Braga - Tuy, S.A.	Portugal	Gas transport	PC	49	50	2,546	19,207	19,207	6,995	1,219
Total										

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 2009 close (see Note 1a).

34. Explanation added for translation to English

These consolidated financial statements are presented on the basis of IFRSs, as adopted by the European Union. Certain accounting practices applied by the Company that conform with IFRSs may not conform with other generally accepted accounting principles.

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 2009

Net profit rose 15.1% in 2009 to 298,031 thousand euros.

Revenue totalled 882,258 thousand euros.

The parent company invested 901,553 thousand euros in 2009.

At year-end the Enagás Group's capital and reserves stood at 1,593,429 thousand euros while total equity stood at 1,581,255 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 16 January 2009, the Official State Gazette (BOE) carried notice the Resolution of the Directorate General for Energy Policy and Mining of 31 December 2008, establishing remuneration for regulated activities, connection fees, and tariffs for rental of meters and telemetering equipment for 2009.

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:

- Increase in the emission capacity of the Barcelona Plant to 1,950,000 m^3(n)/h

- Extension of the methane tanker dock at the Cartagena Plant to 250,000 m^3

- At the end of 2009 the Enagás Group operated 8,884 km of pipeline designed to function at maximum bar pressures of 72 and 80, compared with 8,134 km in December 2008. This increase helps secure continuity of supply and the development of areas that previously had no access to natural gas supplies.

- The main transport assets coming on stream in 2009 were the underwater gas pipeline connecting up Denia-Ibiza-Mallorca, the Almería-Lorca pipeline, the northern and southern sections of the Lorca-Chinchilla pipeline, the first and second sections of the Lemona-Haro pipeline. The company also incorporated regulating and metering stations and modified certain gas pipeline positions. In addition, the tubing rack at the Cartagena plant was structurally reinforced, and the Lumbier compression station and work centres in León and Antas (Almeria) were built. A total of 18 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 421.

Overall, at the end of 2009, 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 1,437,000 m^3 in a total of 14 tanks, 9 cistern loaders and emission capacity of 4,650,000 m^3(n)/h, 300,000 m^3(n)/h higher than the 4,350,000 m^3(n)/h at the end of 2008.

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 8,884 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 has established a comprehensive risk management system (inspired by the Committee of Sponsoring Organizations guidance – COSO II) which enables the company to identify potential events that could affect its business, to manage its risks within acceptable exposure limits and to guarantee reasonable assurance as to the delivery of targets.

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 2009, 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.

To manage this risk, Enagás aims to minimising its risk profile by using quantitative models to manage the credit grant process in each business unit. Enagás has reduced existing counterparty risk stemming from its financial investments by moving some of its investment assets to higher-rated institutions.

The pertinent counterparty risk management information is disclosed in Note 9 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 17 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: operational risk relating to infrastructure, equipment and systems; delivery of poor service or service supply interruptions; process and operations execution risk as a result of the Group's concern with raising business efficiency and effectiveness; risk of fraud and other unauthorised activities; and operational risk at suppliers and counterparties.

Enagás' goal in relation to operational risk is to minimise the cost impact that these risks could have on the company's financial statements via efficient and effective management of its infrastructure and processes.

Enagás manages operational risk by implementing a series of controls, primarily the application of principles, programmes and procedures that are underpinned by quality certifications, process automation, 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.

This risk arises when an event creates the perception that an organisation is not acting in line with stakeholders' expectations. As this risk factor is not wholly within the company's control but also depends on external opinions, it is hard to predict its potential impact on the company in quantitative terms.

Reputational risk may stem from:

- Any of the risk factors identified above, i.e., operational, business, counterparty or financial.
- Other external circumstances or events that may affect the firm's reputation.

Enagás sees management of its reputational risk as one of its greatest opportunities for creating and safeguarding value.

The Group has put in place measures to control and manage reputational risk. These measures entail ongoing monitoring of the sources of this risk and efforts to bring internal practices in line with stakeholders' expectations (in so far as the stakeholders expect desirable behaviour) and the company's strategic targets.

Enagás has drafted a "Crisis Communications Manual", which will be a key instrument for successfully managing a potential reputational crisis. This manual establishes a communications policy and strategy that seeks to mitigate any damage to the company's reputation.

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, 60% of total gross debt was hedged against interest rate increases.

IV.- Outlook

The company has earmarked capital expenditure of 700 million euros for 2010 and plans to bring 500 million euros worth of investments online during the year.

Management expects double digit year-on-year growth in net profit in 2010. Likewise, the company has reiterated the growth targets set out under its 2008-2012 Strategic Plan.

V.- Events after the balance sheet date

Relevant facts have not taken place between December 31, 2009 and the date of formulation of these accounts.

VI.- Research and development

Technological innovation initiatives carried out by the company in 2009 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 2009 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. In this area, the company researched application of the findings of the LNG sampling project to the rest of Enagás' facilities, in order more accurately gauge the quality of the LNG unloaded at regasification plants. Technology was also developed to ascertain measurement uncertainties when unloading methane tankers.

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. The company participated in a European project to evaluate a series of techniques for detecting third-party interference with transport networks.

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

d) **Measurement.** Construction of the high pressure gas meter calibration bank was completed. Research is being conducted on implementation of an ongoing monitoring system to oversee measurement variables at the most critical positions from the measurement standpoint.

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	11,936,703	5.000
ATALAYA INVERSIONES, SRL	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 direct owner of the shareholding	Number of direct voting rights	% of total voting rights
OMAN OIL HOLDINGS ESPAÑA, S.L.U.	11,936,703	5.000
SAGANE INVERSIONES S.L.	11,936,714	5.000
CANTÁBRICA DE INVERSIONES DE CARTERA, S.L.	11,937,395	5.000
Total:	35,810,812	15.000

Name or corporate name of the director	Number of direct voting rights	Number of indirect voting rights (*)	% of total voting rights
SAGANE INVERSIONES, S.L.	11,936,714	0	5.000
SEPI (SOCIEDAD ESTATAL DE PARTICIPACIONES INDUSTRIALES)	11,936,703	0	5.000
ANTONIO LLARDÉN CARRATALÁ	38,316	0	0.016
BANCAJA (CAJA DE AHORROS DE VALENCIA, CASTELLÓN Y ALICANTE)	0	11,936,713	5.000
BBK (BILBAO BIZKAIA	0	11,936,713	5.000

KUTXA)			
TERESA GARCÍA-MILÁ LLOVERAS	1,500	0	0.000
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
ANTONIO TÉLLEZ DE PERALTA	400	0	0.000

(*) Through:

Name or corporate name of the direct owner of the shareholding	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 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 body corporate 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 3 or 5 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 on the past 3 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 3 years. Here mere sponsors of a foundation receiving donations are not included.

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 long 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 eight 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 the Workers' Statute provided the resolution is certified by means of conciliation between the parties, legal judgment, arbitration award, or resolution by a competent administrative body. They are not applicable if the resolution is the result of a unilateral decision made by the manager without just cause.

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

ENAGÁS GROUP

On 1 February 2010, the Board of Directors of Enagás, S.A. prepared the annual financial statements and management report for the year ended 31 December 2009, consisting of the accompanying documents, in accordance with article 171 of the Spanish Companies Act 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.

Presidente

D. Antonio Llardén Carratalá

Vicepresidente

D. José Luis Olivas Martínez
Consejero Dominical representante de Bancaja

Consejeros

D. Jesús David Álvarez Mezquíriz

D. Miguel Ángel Lasheras Merino

D. Antonio Téllez de Peralta

D. Martí Parellada Sabata

Dña. Teresa García-Milá Lloveras

Mr. Said Al Masoudi

D. Dionisio Martínez Martínez

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

D. Luis Javier Navarro Vigil

Sociedad Estatal de Participaciones Industriales-SEPI
(Representada por D. Enrique Martínez Robles)

D. Ramón Peréz Simarro

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

D. José Riva Francos

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

Secretario del Consejo

D. Rafael Piqueras Bautista