enagas

2008 Annual Report

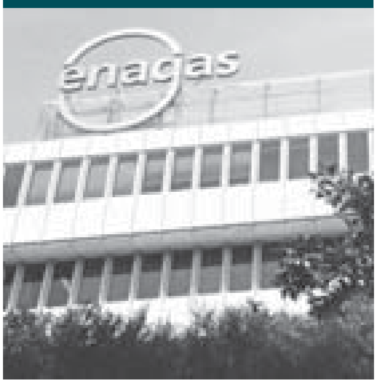
FTSE4Good

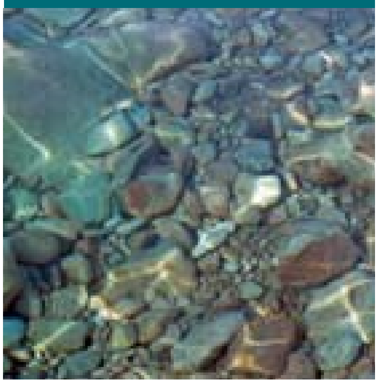
Dow Jones Sustainability Indexes

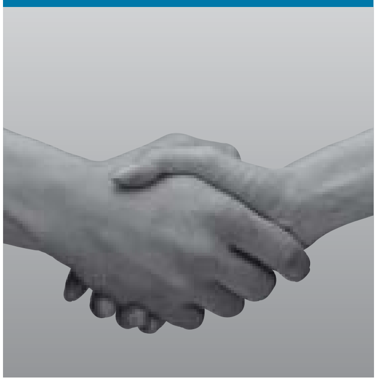
efr empresa familiarmente responsable

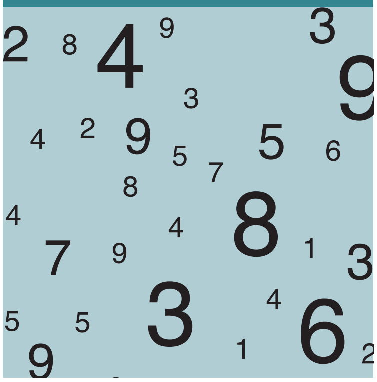
A+ GRI REPORT GRI CHECKED

Summary









LETTER FROM THE CHAIRMAN (1.1)

Dear Shareholders,

It is a pleasure for me to address you once again, taking the opportunity of the publication of this Annual Report for 2008.

2008 was the second year of the 2007-2012 Strategic Plan. I am pleased to report that, for the second year running, we achieved the targets set in the Plan, which means a considerable advance towards complying with the overall objectives on the Strategic Plan. Looking ahead to 2009, considering the work underway Enagás is on track to meeting this year's targets, despite the tough economic environment.

There are three key factors underpinning our optimism vis-à-vis the year ahead. Firstly, in 2008 regulatory bodies confirmed their willingness to shore up a stable regulatory framework in order to secure an adequate return on assets, which is essential for a Company with a long-term investment plan. Secondly, we made further advances in our drive to streamline the authorisation process for our sizeable project portfolio, in conjunction with all the necessary administrations. Thirdly, in the course of the year, we sealed various agreements under favourable terms with financial institutions that guarantee us the funding necessary to proceed with most of the investments envisaged.

LETTER FROM THE CHAIRMAN

For the second year running, we achieved the targets set in the plan wich means a considerable advance towards complying with the overall objetives on the Strategic Plan

Stock market performance

As you are aware, 2008 was a dismal year for equity markets. In this setting, Enagás' share price significantly outperformed the Spanish market as a whole, but we do not want to stop there. I would like to stress that one of the strategic priorities of our Company is to sustain investor confidence in our shares, as this will allow us to continue enjoying sustained price increases in the future, in line with the growth we anticipate for the business, as explained in our Strategic Plan.

Operating environment

Demand for gas transported in the system rose by 10% in 2008, considerably outstripping initial forecasts. This increase was due primarily to the increase in demand for gas for power generation. This was up 32%, representing 42% of total demand, compared with 34% in the same period last year. Increasing used of combined cycle plants on the part of electricity generators, and a parallel fall in the use of other technologies, are the main reason for this sharp increase. This changing pattern is giving natural gas an increasingly important supporting role in electricity generation, especially at a time of rapidly developing use of renewable energy sources. Once again I would like to stress the importance of the investments Enagás is making, which are absolutely necessary to guarantee the security of natural gas supply, but also to maintain this balance between the different technologies used for electricity generation.

I would also like to highlight the efficiency of the system's operation in 2008, which ensured we were able to adequately respond to the sharp increase in demand registered in the year. On this point I would highlight the contribution of our solid asset base, the quality of Enagás' technical and human resources, and the key role played by the Technical System Operator.

Earnings performance, investments and financial position

The Company posted a net profit of €258.9Mn for 2008, representing a 8.6% advance on the previous year and in line with the target we set at the start of the year. This profit will allow us to propose the distribution of a gross dividend of €0.65 per share for approval at the General Shareholders Meeting, compared with a €0.6 dividend last year, an increase in line with our earnings growth.

On the investment front, we exceeded our target of €750Mn, achieving total investments of €777Mn, a new record high for the Company. The value assets brought into service reached €591Mn, a new record.

As a result of our major investment drive, at the year-end our net debt was €2.351Bn, equivalent to 49.8% of our total assets, a figure we believe reflects the Company's robust financial position and confirms its ability to bring our ambitious long-term investment plan to fruition. On this point, we should highlight that Enagás has maintained the credit ratings given by the main agencies, Standard & Poor's and Moody's, for yet another year.

Advances in the long-term strategic plan (2007-2012)

In 2008 we made considerable progress in the implementation of our 2007-2012 strategic plan. I would like to focus on three factors that have been key to this achievement.

Firstly, the process of obtaining new permits is becoming quicker and easier, and this will allow us to continue increasing our investments and earnings in future years and thus meet our long-term strategic targets. Accordingly, in 2008 we made significant advances in projects, which represent a total investment of around €2.415Bn.

Secondly, we made considerable progress in securing the financial resources we need to bring the investment plan to fruition, obtaining reasonable financing terms that are in line with our forecasts. By the year-end we already had liquidity of almost €2Bn available to us thanks to the EIB's undertaking to provide long-term finance of €1Bn. The first tranche of this loan, for an amount of €350Mn, was signed in December.

In short, with regards to financing needs, we can state that we have the financial resources necessary to at least cover planned investments in the next two years.

The issue of financial costs and debt structure is the other major issue falling under this heading. The most important achievement on this point is that we managed to arrange hedges which combined covered 65% of net debt at the end of 2008 at a finance cost of around 4%. This will allow us to largely meet the financial cost targets we set in our 2007-2012 Strategic Plan, which average out at at around 4.5% for the entire period.

Corporate responsibility

As you are aware, corporate responsibility has been pivotal to Enagás' strategy for some years now. The effort in this area made by all parts of the Company bore fruit in the course of 2008 when our Company earned a place in the prestigious Dow Jones Sustainability Index (DJSI), as well as confirmation of our membership of the prestigious FTSE4Good index for the second year running, and of the Global Compact, which we have been a part of since 2003. The accompanying annual report includes the main work carried out by Enagás in this area.

We are particularly proud of these achievements, which inspire us to continue our efforts to further develop our sustainability policy. On this point I am pleased to be able to report that we have been awarded the top A+ rating for this Annual Report - a considerable achievement bearing in mind that this is the first year we have applied the GRI (Global Reporting Initiative) guidelines.

With regards to the pursuit of quality in all our processes, the highlight in 2008 was the award of ISO 9001:2000 certification for Technical Operation of the Spanish Gas System. This certification constitutes a further endorsement of the Technical System Operator's transparency and impartiality in its dealings with all Gas System agents.

Meanwhile, our statutory auditors have performed an assessment on Enagás internal financial reporting system, in order to adapt it voluntarily to the international gold standard in this area, specifically the Sarbanes-Oxley Act. During this process, our auditors concluded that at 31 December 2008, in all material aspects Enagás had an effective internal control system for the generation of financial information, which was based on the criteria and policies defined by the company's management.

Lastly, I would like to mention our commitment to excellence in management, which at the end of 2007 led us to adopt a system of self assessment under the EFQM excellence model that has improved our management model and in 2008 secured us a European Excellence grading of 300+.

We are able to achieve all these objectives thanks to the commitment and involvement of Enagás employees, who did an excellent job, encouraging us to meet the challenges facing the Company in the medium and long term.

Conclusion

In conclusion, I would like to summarise what I consider to be the key factors for Enagás.

Firstly, we have a clear, rigorous and realistic business plan until 2012 whose targets we met in 2007 and 2008 and we expect to meet in the coming years.

Our business has three key points and we are on target in all of these: 1) we have shortened the authorisation process; 2) we have the proven capacity to successfully develop projects and, 3) we have the financial resources necessary to carry them out.

We continue working to create long-term sustainable value for our shareholders

LETTER FROM THE CHAIRMAN

As for regulatory issues, the regulatory framework remains stable and we continue to work on finalising the gas sector model. This is an issue that affects not just Spain, but the entire European Union, as the recent dispute between Russia and the Ukraine demonstrates. Work is being done at European level to achieve a more standardised regulatory framework for all countries.

In short, Enagás is a company with a stable outlook in the short and long term which has been striving to enhance efficiency and rein in costs. It will continue to improve its results in line with the objectives set out in the Strategic Plan.

Lastly, both personally and on behalf of the Board of Directors, I would like to thank all the Company's employees for their hard work in the year as well as you, our valued shareholders, for your trust. I would also like to stress once again that we continue working on your behalf to create long-term sustainable value.

With my very best wishes,

Antonio Llardén Carratalá
Chairman

ENAGÁS IN 2008

KEY FIGURES

2.1. Key Figures (EC1, 2.8)

Consolidated financial data (€Mns)	2002	2003	2004	2005	2006	2007	2008
Operating cash flow	333.7	383.0	399.1	478.4	563.6	595.5	636.2
EBIT	207.2	249.5	275.1	332.8	378.7	408.3	433.1
Net profit	110.1	142.0	158.1	191.0	216.4	238.3	258.9
Dividends	55.0	71.0	79.1	95.5	112.6	143.0	155.3
Pay-out	50%	50%	50%	50%	52%	60%	60%
Investments	192.3	426.3	462.9	358.7	430.6	508.6	776.9
Net debt	1,253.0	1,278.7	1,421.0	1,546.5	1,779.2	1,942.7	2,351.3
Shareholders' equity	852.4	932.4	997.8	1,110.4	1,235.2	1,344.8	1,456.1
Assets	2,895.7	3,093.0	3,101.4	3,225.6	3,626.2	3,976.0	4,717.8
Net debt/EBITDA	3.8x	3.3x	3.6x	3.2x	3.2x	3.3x	3.7x
Interest cover (EBITDA/interest)	8.5x	12.1x	12.3x	11.1x	11.1x	9.8x	7.9x
Net debt/total assets	43.3%	41.3%	45.8%	47.9%	49.1%	48.9%	49.8%
Net debt/Net debt+shareholders' equity	59.5%	57.8%	58.7%	58.2%	59.0%	59.1%	61.8%
Average cost of debt	3.9%	2.9%	3.0%	3.4%	3.6%	4.3%	4.7%
ROE ddi (*)	13.4%	15.9%	16.4%	18.1%	18.5%	18.5%	18.5%
ROCE ddi (**)	6.9%	7.5%	7.7%	8.5%	8.7%	8.8%	8.5%
Headcount (31 December)	884	878	904	907	944	985	1,008

(*) Net profit/Average shareholders' equity
(**) EBIT/(Average net debt average shareholders' equity)
NOTE: Investments in 2008 refer to remunerated capital investment

Financial ratings	2002	2003	2004	2005	2006	2007	2008
Standard & Poor's	A+	A+	AA-	AA-	AA-	AA-	AA-
Moody's	A2	A2	A2	A2	A2	A2	A2

Stock market data (euros)							
	2002	2003	2004	2005	2006	2007	2008
Share price (Dec 31)	5.80	8.60	12.20	15.80	17.62	19.99	15.56
Dividend	0.23	0.30	0.33	0.40	0.47	0.60	0.65
Capitalisation (Mns)	1,384.5	2,052.8	2,912.1	3,771.5	4,205.9	4,771.6	3,714.7
No. of shares (Mns)	238.7	238.7	238.7	238.7	238.7	238.7	238.7

The financial statements for 2004, 2005, 2006, 2007 and 2008 were prepared under IFRS.

Sustainability indices and certifications							
	2002	2003	2004	2005	2006	2007	2008
Dow Jones Sustainability Index	–	–	–	–	–	–	✓
FTSE4Good Index	–	–	–	–	✓	✓	✓
Global Compact		✓	✓	✓	✓	✓	✓
GRI annual report						Self-assessment B	GRI assessment A+
Quality: ISO 9001	–	–	–	–	Measurement	–	System Technical Management
Excellence: EFQM							Obtained European Excellence 300 + / Recognised for Excellence 3 Stars (+3000)
Environment: ISO 14001(*)	✓	✓	✓	✓	✓	✓	✓
Occupational health and safety: OHSAS 18001							LNG production and storage. Barcelona, Cartagena and Huelva plants

(*) The Huelva and Barcelona plants, the Transportation Department and the Serrablo underground storage facility obtained ISO 14001 certification in 2000 and the Cartagena plant in 2001.

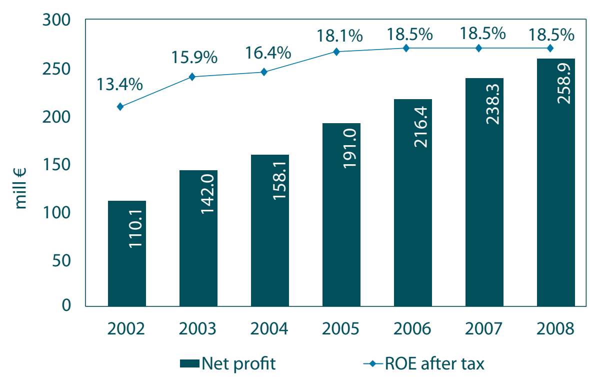
Transported gas demand (GWh)	2002	2003	2004	2005	2006	2007	2008
Tariff market	109,846	80,703	61,866	61,463	55,218	46,072	17,151
Liberalised market	133,192	194,535	257,734	314,431	336,217	362,359	432,232
Total demand	243,038	275,238	319,600	375,894	391,435	408,431	449,383

Infrastructure	2002	2003	2004	2005	2006	2007	2008
Transportation							
Km. of gas pipeline	6,383	6,522	7,158	7,538	7,609	7,655	8,134
Regasification plants							
LNG storage capacity (m^3)	560,000	560,000	710,000	987,000	1,287,000	1,287,000	1,437,000
Vaporisation capacity (m^3(n)/h)	2,100,000	2,250,000	2,700,000	3,450,000	4,050,000	4,200,000	4,350,000
Underground storage facilities (*)							
Extraction capacity (m^3(n)/h))	10.3	12.5	12.5	12.5	12.5	12.5	6.9
Injection capacity (m^3(n)/day)	8.4	8.4	8.4	8.4	8.4	8.4	4

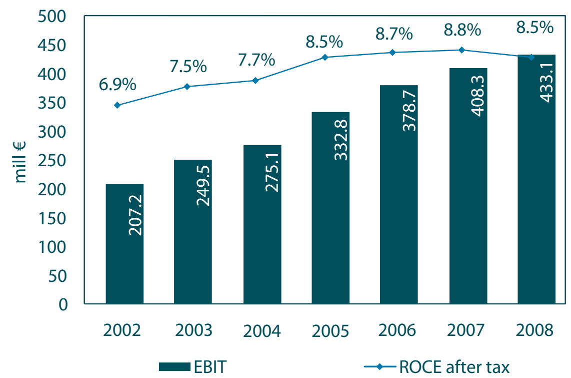
(*) The Gaviota underground storage facility is not taken into account in 2008.

KEY FIGURES

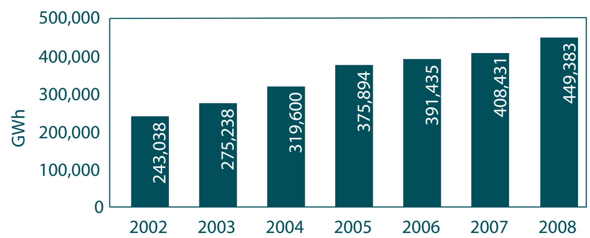
Net Profit



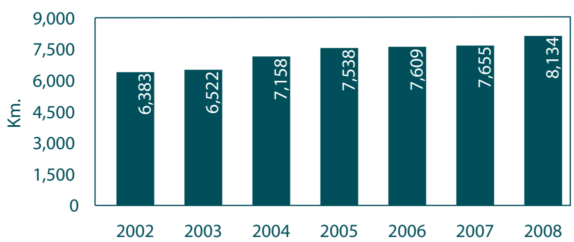
EBIT



Demand evolution



Km of pipeline



Enagás infrastructure at 12/31/2008

2.2. Enagás' activities in 2008

2.2.1. Company profile

History of Enagás (2.1, 2.2, 2.6)

Enagás, S.A. is Spain's leading natural gas transportation, regasification and storage company and is also the Technical System Operator.

Following a significant rise in energy consumption in Spain and in light of forecasts for future consumption, in the early 1970s the authorities resolved to extend the use of natural gas to all parts of Spain.

Thus, on 23 March 1972, with the aim of creating a gas pipeline network catering for the entire Peninsula, the Ministry for Industry passed a Decree creating the National Gas Company *(Empresa Nacional del Gas, or Enagás, S.A.).*

The Government deemed it important that the State have an interest in the Company via the National Industry Institute (Instituto Nacional de Industria, or INI).

In its early years, Enagás focused on analysing plans and carrying out the technical studies necessary to the development of gas infrastructures.

Drawing on these strategic analyses, on 31 November 1975 a Decree published in the Official State Gazette (BOE) laid out the first Gasification Plan and awarded Enagás the first administrative concession for the construction of Spain's Gas Pipeline Network.

In 1981 Enagás became part of the National Hydrocarbons Institute (Instituto Nacional de Hidrocarburos, or INH).

In June 1994 the INH sold 91% of Enagás' capital to Gas Natural SDG and in October 1998 it sold the remaining 9% as well.

In June 2002, following an IPO launched by Gas Natural, Enagás was admitted for trading on all four Spanish securities exchanges.

Law 12/2007 of 3 July amended Law 34/1998 governing the Hydrocarbons Sector to adapt it to 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.

In addition to the current 5% maximum limit on percentage ownership interests in Enagás' share capital, this Law introduced a limit of 3% on the exercise of voting rights. Accordingly, individuals and legal entities operating in the gas industry and those

which directly or indirectly hold over 5% of the share capital of such companies are not permitted to exercise voting rights in the Technical System Operator in excess of 1%. These restrictions do not apply to direct or indirect interests held by public-sector enterprises.

In addition, to reinforce its autonomy as Technical System Operator, the Company segregated the activities it performs as System Operator from those it performs as gas transporter and manager of its own network. To do this, Enagás created a dedicated internal unit to take charge of the technical management of the gas system.

Enagás today (2.5, 2.7)

Enagás' assets include more than 8,000km of high pressure gas pipelines and three regasification plants, in Barcelona, Cartagena and Huelva, with a total LNG emission capacity of 4,350,000m³/h and total LNG storage capacity of 1,437,000m³. The Company also owns an underground storage facility in Serrablo, Huesca.

In addition Enagás was made the Technical Operator of the Gas System pursuant to Royal Decree-Law 6/2000 of 23 June. Its core remits in this role include guaranteeing continuity and security of

Enagás, S.A. is Spain's leading natural gas transportation, regasification and storage company and is also the Technical System Operator.
At 31 December 2008, Enagás had a market capitalisation of €3,715 Mn, was listed on all four Spanish exchanges and was a member of the Ibex 35, Dow Jones Sustainability Index and FTSE4Good Index

supply and efficient coordination between access points, storage facilities, and transportation and distribution networks. This coordination must be performed in a transparent, objective and independent manner.

At the close of 2008, Enagás had a total of 1,008 employees, 21% of them women.

In the course of 2008 Enagás invested €777 Mn to guarantee the infrastructure necessary to ensure the security of the Spanish gas supply system and brought into service investment projects worth more than €591Mn, a record figure for the Company. Net profit for the year was €258.9Mn, representing a 8.6% advance on the previous year and in line with the target set by the Company in the update of the strategic plan presented by Chairman Antonio Llardén in May 2008.

At 31 December 2008, Enagás had a market capitalisation of €3,715 Mn, was listed on all four Spanish exchanges and was a member of the Ibex35, Dow Jones Sustainability Index and FTSE4Good Index.

ENAGÁS GOVERNANCE BODIES

(2.3, LA13)

Board of Directors (LA13)

Name of Director	Seat on the Board	Type of Director	Audit and compliance committee	Appointments and remunerations commitee
Antonio Llardén Carratalá	Chairman	Executive	–	–
Bancaja (represented by Mr. José Luis Olivas Martínez)	Deputy Chairman and	Proprietary (Bancaja)	Member	–
Jesús David Álvarez Mezquíriz	Director	Independent	–	–
Bilbao Bizkaia Kutxa (represented by Xabier de Irala Estévez)	Director	Proprietary (BBK)	–	–
Carlos Egea Krauel	Director	Proprietary (Sagane Inversiones, S.L.)	Member	–
Salvador Gabarró Serra	Director	Proprietary (Gas Natural SDG S.A.)	–	Chairman
Teresa García-Milá Lloveras	Director	Independent	–	Member
Miguel Ángel Lasheras Merino	Director	Independent	–	–
Dionisio Martínez Martínez	Director	Independent	–	Member
Luis Javier Navarro Vigil	Director	External	Member	–
Martí Parellada Sabata	Director	Independent	Chairman	–
Peña Rueda, S.L.U (represented by Manuel Menéndez Menéndez)	Director	Proprietary (CIC, SL, Cajastur)	–	–
Ramón Pérez Simarro	Director	Independent	–	Member
José Riva Francos	Director	Independent	–	–
SEPI (Spanish State Holding Company)	Director	Proprietary (SEPI)	–	–
Antonio Téllez de Peralta	Director	Independent	Member	–
Rafael Piqueras Bautista	Secretary	–	Secretary	Secretary

Management Committee

Antonio Llardén Carratalá (Chairman)

Juan Pons Guardia (Strategy and Regulation Department)

Ramón Sánchez Valera (Infrastructures and TPA Department)

Antonio García Mateo (Technology, Engineering and Procurement Department)

Diego de Reina (Finance Department)

Erundino Neira Quintas (Human Resources Department)

Rafael Piqueras Bautista (General Secretariat)

STM

Javier González Juliá (System Operations and Technical Management Department)

2.2.2. Report on activities

System Technical Management

As Technical System Operator, Enagás is responsible for guaranteying continuity and security of supply and ensuring proper co-ordination between points of access, storage, transportation and distribution. This coordination must be performed in a transparent, objective and independent manner.

Remits:

- To ensure that short/medium term supply is guaranteed at all times.
- To estimate short/medium-term usage of system facilities and gas reserves, based on demand forecasts.
- To issue the instructions necessary to the operation of the natural gas system and to the safe and efficient transportation of natural gas.
- To co-ordinate and modify, as necessary, plans for facilities maintenance.
- To establish and monitor system efficiency measures and action plans for service reinstatement in the event of general failures in natural gas supply.
- To issue operating instructions for transportation facilities and international connections.
- To make proposals to the Ministry for Industry, Tourism and Trade for the development of the basic network and the extension and/or increase of storage facilities.
- To propose to the Ministry for Industry, Tourism and Trade the emergency plans it considers necessary.
- To issue the orders needed to ensure that owners of transportation networks and storage facilities operate their assets in a manner that guarantees supply in appropriate conditions.
- To manage gas entries at international connections and gas exits at regasification plants, gas fields and storage facilities.
- To monitor natural gas exits to qualified consumers and distribution companies.
- To monitor storage facilities.
- To calculate the daily balance of each operator using the gas network, including operating and strategic inventories.

Demand

In 2008, demand on the Spanish market totalled 449,389 GWh, up 10% on 2007. This growth reflects the increase in gas deliveries for electricity generation; conventional demand was actually slightly down on the previous year.

Demand from traditional consumption sectors, which include domestic-commercial and industrial consumption, totalled

Transported gas Follow-up

		2007	2008	Var %
tariff	Conventional	46,449	16,704	-64.0%
	Electricity generation	–	–	–
	Tariff Market	**46,449**	**16,704**	**-64.0%**
TPA	Conventional	219,924	245,217	+11.5%
	Electricity generation	142,059	187,468	+32.0%
	TPA National demand	**361,982**	**432,685**	**+19.5%**
	Total Domestic Demand	**408,431**	**449,389**	**+10.0%**
	– Conventional domestic	266,372	261,921	-1.7%
	– Electricity generation	142,059	187,468	+32.0%
	International Exits	1,857	2,145	+15.5%
	Guadalquivir Valley Exit	1,321	1,441	+9.1%
	Transit to Portugal	22,389	28,318	+26.5%
	Total Exits	**433,998**	**481,294**	**+10.9%**

261,921 GWh in 2008, down 1.7% on the prior-year figure in part due to the decline in industrial activity that became apparent from May onwards.

Rainfall was low in the first half of 2008, and this, coupled with the rising price of CO^2 emission rights, higher international prices for coal and the unavailability of nuclear groups, resulted in high volumes of combined cycle generation.

Gas deliveries for electricity generation increased significantly, with approximately 32% of total electricity generated in Spain being produced by natural gas combined cycle plants. To achieve this figure, it was necessary to transport a total of 184,605 GWh, which, coupled with the 2,863 GWh consumed by biofuel-fired thermal plants, gives a total of 187,468 GWh transported for electricity generation using natural gas, 32% more than in 2007.

In 2008, demand on the Spanish market totalled 449,389 GWh, up 10% on 2007. Gas deliveries for electricity generation increased significantly, with approximately 32% of total electricity generated in Spain being produced by natural gas combined cycle plants

This consumption represented 42% of total Spanish demand for natural gas and attests to its increasingly pivotal role in the development of the sector and its infrastructures.

The annual utilisation factor for CCGTs in 2008 was 52%, confirming gas' position as the main contributor to the electricity generation basket. The monthly record for deliveries was registered in August, at 18.476 GWh.

Demand from combined cycle plants makes daily demand in the Gas System hugely variable, since to a great extent these plants' function in the electricity system is to supplement wind generation.

Just one new combined cycle plant was brought into service in 2008, taking the year-end total to 54 groups in operation.

Demand peaks

Demand for natural gas reached a new summer record of 1,403 GWh on 20 June. This marked a 13% increase on the previous summer record of 1,239 GWh recorded on 19 July 2007.

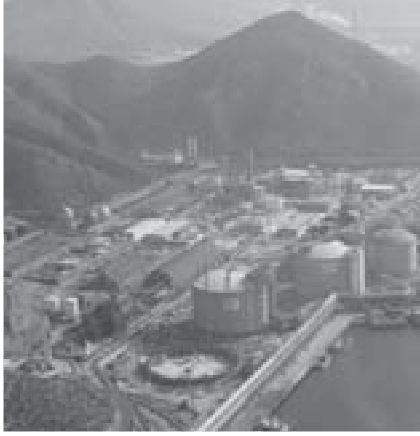
On this same day, demand for natural gas for electricity generation also reached a new record of 754 GWh, 2% higher than the previous record of 742 GWh set on 14 December 2007.

Supply

A total of 458,901 GWh of natural gas was supplied in 2008, up approximately 12% on 2007. Of this total, 72% arrived in the form of liquefied natural gas (LNG) while 28% was supplied in the form of natural gas imported via the international connections in Larrau, Tarifa and Badajoz.

Sources of LNG imports were extended in 2008 to include Norway, from the Snovit liquefaction plant, and Equatorial Guinea, from the Punta Europa terminal. Nigeria accounts for a large part of LNG imports, followed by Algeria, Egypt, Qatar and Trinidad and Tobago, imports from the latter having risen significantly in the past year.

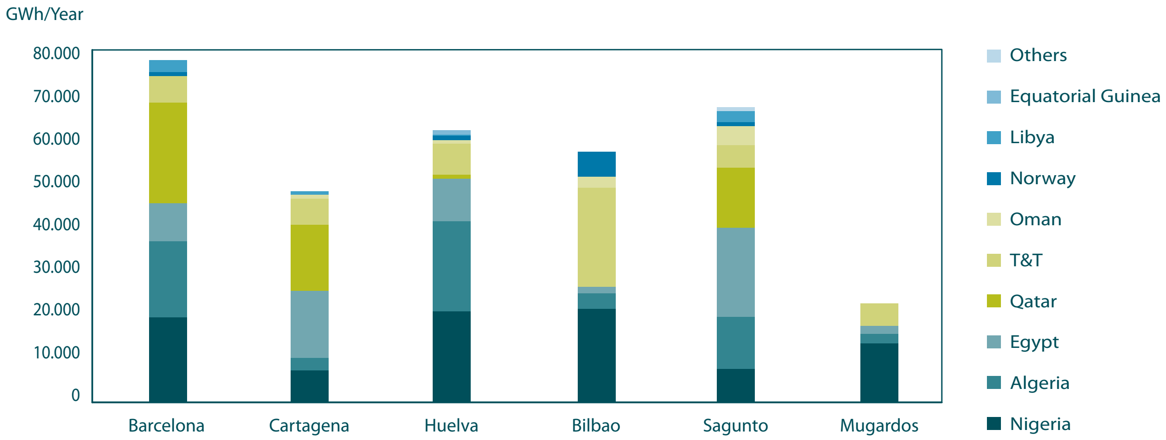
Gas from Nigeria and Algeria was pumped to all Spanish plants, while shipments from Egypt and Qatar were concentrated on Mediterranean plants. The preferred destination terminal for gas from T&T was the Bilbao plant.



Source of supply

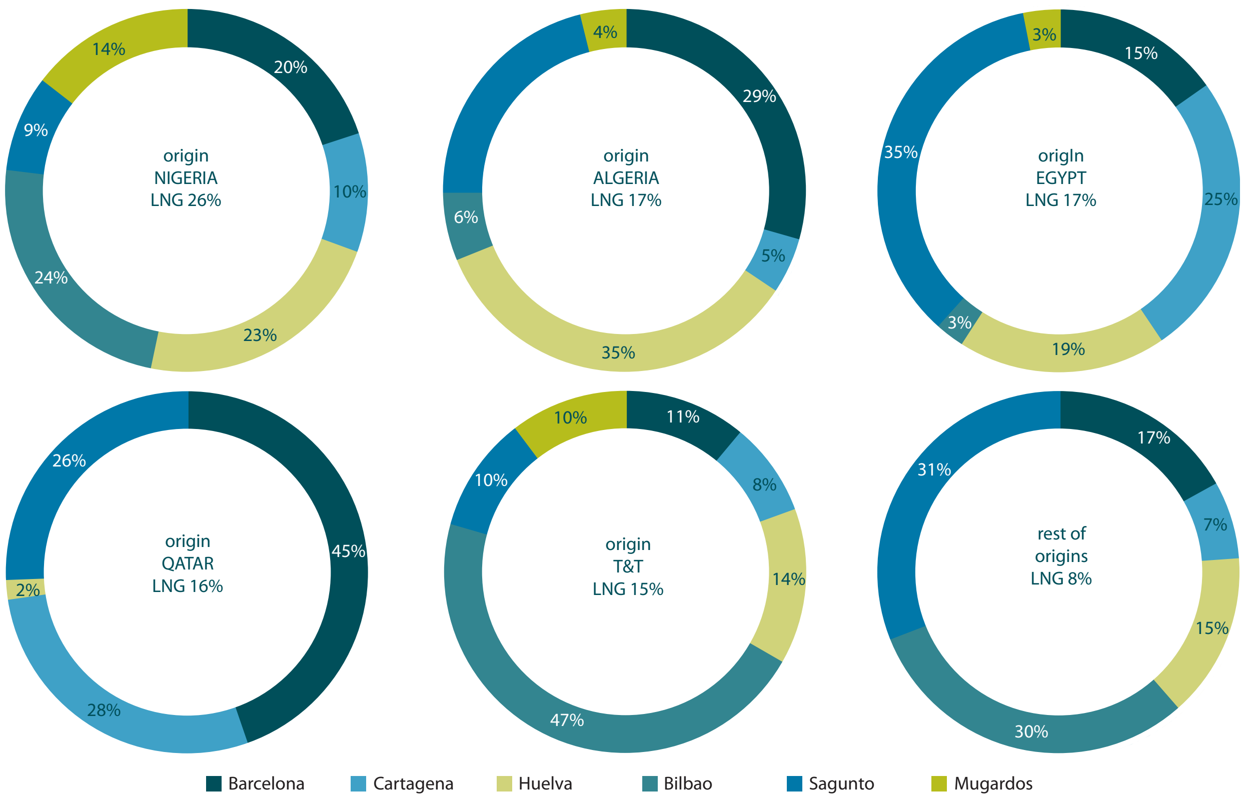
Unit: GWh	2007	2008	Var %
Algeria NG	102,243	103,691	35%
Algeria LNG	50,178	56,814	
Qatar LNG	50,445	53,611	12%
Oman LNG	2,704	7,820	2%
Nigeria LNG	96,871	86,676	19%
Egypt LNG	46,960	56,986	12%
Norway NG	25,257	20,807	7%
Norway LNG	–	11,478	
France NG	1,049	1,489	0.3%
Libya LNG	8,760	6,090	1%
T&T LNG	24,440	50,053	11%
Equatorial Guinea LNG	–	945	0%
Others LNG	–	1,107	0%
National NG	1,040	1,334	0.3%
TOTAL	**409,947**	**458,901**	**100%**

Source of supply comparative in the regasification plants



ENAGÁS IN 2008

Main suppliers at regasification terminals destination



A total of 494 tankers were unloaded into the Spanish system in 2008, up from 425 in 2007. On 7 April the Duhail, a Q-Flex tanker with LNG capacity of 210,000m^3 chartered by Qatargas for Gas Natural, arrived at Enagás' Cartagena plant, becoming the largest methane gas tanker ever to dock at a European gas terminal.

2008 unloads by origin

	Nigeria	Algeria	Egypt	Qatar	T&T	Omán	Norway	Libya	Equatorial Guinea	Others	Total
Barcelona	19	53	10	33	7		2	10		1	**135**
Cartagena	10	9	18	19	5	1		4			**66**
Huelva	22	54	12	2	8		3	1	1		**103**
Bilbao	23	5	2		27	3	7				**67**
Sagunto	9	27	22	16	6	5	1	10		1	**97**
Mugardos	15	3	2		6						**26**
Total	**98**	**151**	**66**	**70**	**59**	**9**	**13**	**25**	**1**	**2**	**494**

Entries to the system

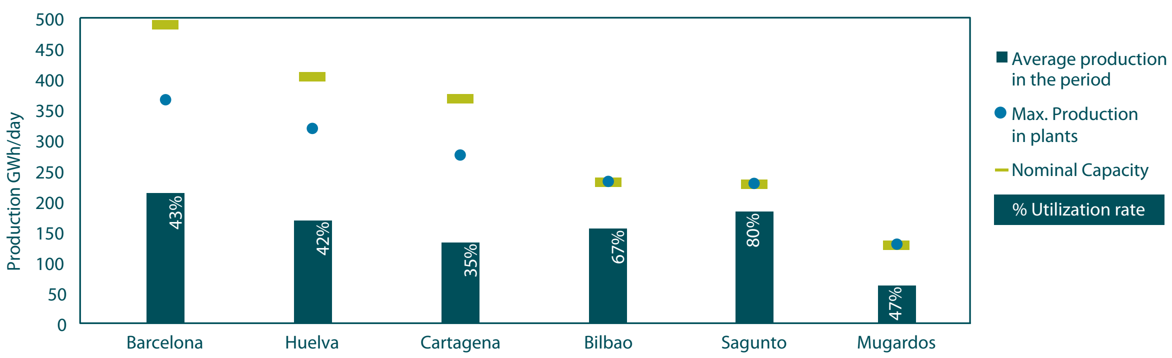
	Units: GWh	2007	2008	Var %
NG	Tarifa	95,743	98,275	+2.6%
	Larrau	26,306	22,296	-15.2%
	National	1,040	1,334	+28.3%
	Tuy	–	–	–
	Badajoz	6,500	5,415	-16.7%
	Total NG	**129,589**	**127,321**	**-1.7%**
LNG	Plant Barcelona	70,216	77,100	+9.8%
	Plant Cartagena	38,479	47,316	+23.0%
	Plant Huelva	58,312	61,906	+6.2%
	Plant Bilbao	44,800	56,811	+26.8%
	Plant Sagunto	58,911	66,915	+13.6%
	Plant Mugardos	9,641	21,624	+124.3%
	Total LNG	**280,358**	**331,580**	**+18.3%**
	Total supply	**409,947**	**458,901**	**+11.9%**

Natural gas import volumes were 1.7% lower in 2008 than in 2007, though the decline in gas imports via the international connections at Larrau and Badajoz was offset by increasing imports through the Tarifa international connection.

Regasification evolution

Units: GWh	2007	2008	Var %
Barcelona	70,013	77,601	+10.8%
Huelva	58,468	61,101	+4.5%
Cartagena	38,122	47,323	+24.1%
Enagás Total Plants	**166,603**	**186,025**	**+11.7%**
Bilbao	45,532	56,278	+23.6%
Sagunto	59,035	66,586	+12.8%
Mugardos	8,909	21,749	+144.1%
TOTAL	**280,079**	**330,638**	**+18.1%**

Regasification plants activity



Note: Tanker truks loadings are included

Total output at the plants in the Spanish System was 18.1% higher than in 2007. The biggest increase was at the Mugardos plant, which was brought into service in May 2007. Regasification capacity utilisation at the BBG and Saggas plants was significantly higher than at the Enagás and Reganosa plants.

Development of the transportation system

Pipeline transportation

As the principal transportation company in Spain, in 2008 Enagás continued its drive to extend the gas pipeline network, such that, by the year-end, its transport network consisted of 8,134km of pipelines designed to be operated at maximum pressures of 72 and 80 bar.

At the end of 2008, Enagás transport network consisted of 8,134 Km of pipelines. The largest infrastructures brought into service by Enagás last year were the 265-km long, 36-inch diameter Transversal Axis and the Alcázar de San Juan compressor station

The largest infrastructures brought into service by Enagás last year were the 265-km long, 36-inch diameter Transversal Axis and the Alcázar de San Juan compressor station. The aforementioned gas pipeline connects the centre of the country with the Levante Axis, allowing for fuller use of the extended vaporisation capacity at the Cartagena and Sagunto regasification plants and reducing congestion on the Levante Axis. The Transversal Axis will also serve as a back-up source of supply for the central region at times of extreme temperatures and will eliminate the system's vulnerability to possible deficiencies in the Maghreb-Europe pipeline or the Huelva regasification plant. In short, the market will no longer be affected by transportation problems.

Another key infrastructure, brought on-stream by the Company in August 2008, was the 36-inch duplicate Arbós-Papiol pipeline, supplemented in December by the last stretch of the duplicate pipeline running from Papiol to Barcelona, so completing the 72-km long Barcelona-Arbós split pipeline. Together with the replication of the Arbós-Tivissa stretch and the expansion of the Arbós and Tivissa compressor stations, this pipeline puts an end to the regional transportation limitations hampering distribution of the nominal regasification capacity at the Barcelona Plant (1,650,000Nm³/h at end-2008, rising to 1,800,0000Nm³/h after a further extension in 2009).

Other infrastructures brought on stream by Enagás in 2008 included:

- In May, the 15km, 16-inch diameter split of the Campo de Gibraltar branch (Phase III).
- In August, the Alpedrete-Griñón stretch, following which the "Madrid Ring" pipeline was closed.
- In December, certification renewal tests were concluded for the 45 to 51 bar Sea-Line in Barcelona, which should improve quality of supply to the 45-bar network in Barcelona from the Barcelona plant.

Compressor stations

Compressors installed at these facilities raise the pressure of gas transported to 72/80 bar so as to maximise pipeline transportation capacity.

Enagás currently has three compressor stations with total installed power capacity of 440,567 HP. In 2008, the following facilities were brought into service:

- In January, the Zaragoza compressor station, which has two turbocompressors and capacity of 18,828 HP, allowing for:
  - Greater gas pressure on arrival at the Serrablo underground storage facility during the injection period.
  - Greater transportation capacity and flexibility in the Valle del Ebro, facilitating continued operation in the event of failure of one of the Mediterranean plants.
  - Greater exports via Larrau, in line with the forecasts set under the South Gas Regional Initiative (SGRI).

- In June, the Alcázar de San Juan compressor station, which has two turbocompressors and capacity of 61,570 HP.

Regasification

Enagás further expanded its regasification plants in 2008, both to strengthen supply infrastructures in the Iberian peninsula and to ensure it was able to continue diversifying supply sources.

The biggest investments in regasification made in 2008 were at the Cartagena plant, where storage capacity was increased via the addition of a new 150,000m3 LNG tank and nominal regasification capacity was raised to 1,350,000m^3(n)/h.

The commissioning of these new Enagás infrastructures and of those of other transportation companies meant that clearance in terms of market coverage had risen by the year-end, with the

LNG storage capacity (m^3 LNG)

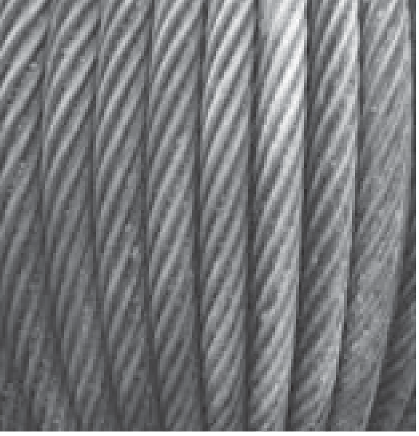
		2007	2008	incorporation date	m^3 LNG	Var %
TANKS	Barcelona	540,000	540,000		–	–
	Cartagena	287,000	437,000	sep-08	150,000	+52%
	Huelva	469,500	469,500		–	–
	Enagás tanks total	**1,296,500**	**1,446,500**		**150,000**	**+12%**
	Bilbao	300,000	300,000		–	–
	Sagunto	300,000	300,000		–	–
	Reganosa	300,000	300,000			
	Total tanks	**2,196,500**	**2,346,500**		**150,000**	**+7%**

Emission capacity Nm^3

		2007	2008	incorporation date	Nm^3	Var %
VAPORIZATORS	Barcelona	1,650,000	1,650,000		–	–
	Cartagena	1,200,000	1,350,000	nov-08	150,000	+13%
	Huelva	1,350,000	1,350,000		–	–
	Total tanks Enagás	**4,200,000**	**4,350,000**		**150,000**	**+4%**
	Bilbao	800,000	800,000		–	–
	Sagunto	800,000	1,000,000	dic-08	200,000	+25%
	Reganosa	412,800	412,800		–	–
	Total tanks	**6,212,800**	**6,562,800**		**350,000**	**+6%**

Security of supply margin

GWh/day	winter 02-03	winter 03-04	winter 04-05	winter 05-06	winter 06-07	winter 07-08	winter 08-09 (forecast)
Capacity	1,063	1,244	1,618	1,757	1,985	2,150	2,255
Transport máx.	1,148	1,247	1,503	1,552	1,665	1,863	1,975
Security of supply margin	**-85** **-8%**	**-3** **0%**	**+115** **7%**	**+205** **12%**	**+320** **16%**	**+286** **13%**	**+280** **12%**



average system load factor at 52% and the maximum load factor for winter 2008-2009 forecast at 88%.

Clearance in the Gas System –i.e. the difference between system capacity and its maximum load factor in terms of gas transported– thus remains on the rising trend of past years. At the point of peak demand forecast for winter 2008-2009, clearance is calculated at 12%.

Underground storage

To align supply with demand and provide for the consumptions peaks caused by seasonal fluctuations in demand, supply shutdowns, etc, it is essential that the system is able to store large volumes of gas.

In the case of underground storage facilities, gas is either stored underground in former gas fields or injected into deep aquifers or cavities hollowed out in saline formations.

Enagás is the owner of an underground storage facility at Serrablo, a now depleted natural gas field located between the municipalities of Jaca and Sabiñánigo (Huesca).

In 2008, cumulative extraction from the underground storage facilities (Serrablo and Gaviota) was 10,952 GWh while total injection was 13,601 GWh, giving a provisional year-end stored inventory balance of 2,649 GWh, which is higher than total inventories at the start of the year.

On 10 April 2008 OMEL carried out the first auction of underground storage capacity rights, in accordance with section two of Chapter II of Order ITC 3862/2007 of 28 December, for the period running from 1 April 2008 to 31 March 2009. The process was unbiased, competitive and non-discriminatory and OMEL announced the quantity of rights assigned and the acquisition price in accordance with the Resolution of 27 March.

The injection period began on 2 April and ended on 17 October, by which time the storage facilities were completely full.

In contrast to the 2007-2008 Plan, the 2008-2009 Winter Action Plan imposed no restrictions on extraction from underground storage facilities. However, in application of rule 3 of the aforementioned plan ("Cold Spells"), the distribution companies responsible for supplying Group 3 customers organised an extraction reserve to cover cold spells, among other measures.

During November and December, the volume of inventories at Serrablo and Gaviota was published every day on the Enagás website. In addition, the maximum daily extraction capacity parameters for the rest of the month were updated every week.

Liberalisation

The natural gas tariff market came to an end on 1 July 2008, concluding 100% of the process of liberalisation that begun with Law 34/1998 governing the Hydrocarbons Sector, eight years after the first distribution company came into operation.

In 2008 gas tariff market came to an end, concluding 100% of the process of liberalisation process started in 2000

To guarantee supply for small-scale consumers (small companies, plus domestic and commercial consumers), a "last resort" tariff has been created for those consumers that do not choose a supplier on the open market (Order ITC/3861/2007 of 28 December).

A Change of Supplier Office has also been created to guarantee the transparency and efficiency of the mechanism for transferring customers from the tariff market to the last-resort gas supply service.

Underground gas storage activity in 2008

	Capacity Mm³(n)/h	Injection Capacity Mm³(n)/h	Extraction Capacity Mm³(n)/h	Injection campaign Mm³(n)	Accumulated Extraction Mm³(n)
Gaviota	2,681	4.5	5.7	672.5	553.6
Serrablo	1,100	3.9	6.8	474.3	394.8
Total	**3,781**	**8.4**	**12.5**	**1,146.8**	**948.4**

Innovation and technological development (EC9)

Innovation and technological development are crucial for a Company that seeks to retain its leadership position in the sector. Accordingly, Enagas capitalises on any and all opportunities to generate value and to contribute to economic development that technological advances may afford, generating and sharing knowledge and experience between economic agents *–EC9–*.

In 2008 Enagás kept up its intensive innovation and development drive, pursuing results primarily in the following fields:

- Optimising energy, economic and technical efficiency.
- Achieving greater safety and reliability both in the design and construction of its own infrastructure and in their subsequent operation.
- Respecting the environment in all the Company's actions.

Enagás' main innovation and development initiatives in 2008 were the following:

Energy, economic and technical efficiency.

1. Using the heat contained in the exhaust gases emitted by turbocompressors at compressors stations to generate electricity.
2. Using the thermal jump produced during liquid natural gas (LNG) pressurisation and vaporisation to generate electricity.
3. Using the energy released during natural gas expansion at pressure regulating stations and/or valve positions to generate electricity.
4. Reducing electricity consumption in rotating equipment at LNG storage and regasification plants by using frequency convertors.
5. Using S/W programmes to predict gas demand and simulate the operation of the Gas System with a view to optimising energy consumption in the latter's operation.

Safety and reliability

1. Developing tools for simulating events and calculating their outcomes, with the aim of reducing, during the engineering phase, the risks associated with the various design possibilities for gas installations.
2. Updating design guidelines and specifications for gas infrastructures, to incorporate new technological knowledge acquired, with a view to enhancing safety and reliability.
3. Carrying out comparative studies and drawing up and implementing new action plans, with a view to further minimising operational risks.
4. Developing IT tools to enhance predictive maintenance at plants and optimise availability.
5. Carrying out pilot projects to improve the accuracy and reliability of measurements of energy transferred at gas entry and exit points.
6. Carrying out programmes, with differing time scales, to quantify forecasts for gas entries and exits to/from the system and to take the actions necessary to guarantee supply.

Respect for the environment

1. Studying, identifying and implementing new technological solutions that allow for better environmental protection during the construction of gas infrastructures.
2. Identifying, assessing and employing new more environmentally-friendly alternatives when commissioning new installations (chemical cleaning of pipelines, dry air or vacuum drying of the same, etc.)
3. Eliminating emissions by replacing natural gas-powered equipment with new components powered by electrical engines (remote-controlled valve operators, turbine starter motors, etc.).
4. Developing and deploying IT tools for analysing noise generated during the operation of installations and minimising both its intensity and its transmission to the exterior.
5. Europe-wide research to assess the implications and opportunities associated with the use of biogas in natural gas transport networks.

2.3. Consolidated Management Report

Millions of euros	Jan-Dec. 2007	Jan-Dec. 2008	% change
Gross margin (*)	-12.2	7.6	162.9%
Revenues from regulated activities	792.0	813.1	2.7%
Other operating revenues	36.7	39.5	7.7%
Total revenues	**816.6**	**860.2**	**5.4%**
Personnel expenses	-62.0	-69.0	11.2%
Other operating expenses	-159.1	-155.1	-2.5%
Operating cash flow (EBITDA)	**595.5**	**636.2**	**6.8%**
Provisions for fixed asset depreciation/amortisation	-187.2	-203.1	8.5%
Operating profit (EBIT)	**408.3**	**433.1**	**6.1%**
Financial result	-57.6	-67.0	16.2%
Profit before tax	**350.7**	**366.1**	**4.4%**
Company income tax	-112.4	-107.2	-4.6%
Net profit for the period	**238.3**	**258.9**	**8.6%**

(*) Gas sales-Cost of sales (supplies)

Financial highlights (Millions of euros)	2007	2008
Investments	508.6	776.9
Net debt	1,942.7	2,351.3
Shareholders' equity	1,343.9	1,456.1
Assets	3,976.0	4,717.8
Net debt/EBITDA	3.3x	3.7x
Interest cover (EBITDA/interest)	9.8x	7.9x
Net debt/total assets	48.9%	49.8%
Net debt/Net debt+ shareholders' equity	59.1%	61.8%
Average cost of debt	4.3%	4.7%
ROE ddi (*)	18.5%	18.5%
ROE ddi (**)	8.8%	8.5%

(*) Net profit/Average shareholders' equity
(*) EBIT/(Average net debt+average shareholders' equity)

Results for full-year 2008

Net profit for the year came in at €258.9Mn, an increase of 8.6% over 2007.

This positive earnings performance was attributable mainly to higher revenues achieved on the back of an only modest rise in operating costs.

Revenues evolution

Revenues generated by regulated activities came to €813.1Mn in 2008, which is 6.5% higher than the 2007 figure in like-for-like terms.

In 2008 the Company netted the self-supply revenues that were recognised as regulated revenues and the costs associated with these revenues reflected in the gross gas trading margin. The result of the reclassification of these two items amounted to €27Mn.

In addition, in 2008, the Company lost revenues of €29.3Mn generated by the operation, under lease, of the Gaviota storage facility, though this decline was offset by a related reduction in expenses of a very similar amount.

The Company also generated a positive difference of €7.6Mn on the gas trading transactions necessary to supply the tariff market. The entry into force of Law 12/2007 on 2 July meant an end to Enagás' natural gas supplies to the regulated market. Pursuant to the implementing regulations of the aforesaid Law, this activity ceased on 1 July 2008.

Revenues from non-regulated activities amounted to €16.2Mn, while other operating revenues for the year totalled €16.8Mn.

Operating costs

Enagás recorded operating costs of €224.1Mn in 2008, 1.4% higher than the 2008 figure.

The breakdown of the two main operating expenses in 2008 was as follows:

- Personnel expenses were up 11.2%. However, at the year-end, the Company recognised a one-off expense of €6.6Mn for early retirement payments.
- Other operating expenses were down 2.5%, mainly as a result of the cost containment plan implemented across the Company.

Also in 2008, provisions were established for a number of settlements pending from earlier years, including amounts corresponding to the Company's role as Technical System Operator.

Operating cash flow (EBITDA)

EBITDA was 6.8% higher than the prior-year level at €636.2Mn. EBITDA as a percentage of regulated revenues was 78.2%, up from 75.2% in 2007.

Operating profit (EBIT)

Depreciation and amortisation charges for the year came to €203.1Mn, up 8.5%. This increase is attributable to the upturn in the number of new projects brought into service in 2008. As a result, EBIT rose by 6.1% in the year to €433.1Mn.

Financial result

Financial expenses rose 16.2% on the back of higher debt levels and an increase in the average cost of debt to 4.70%, up from 4.28% in the previous year.

Investments

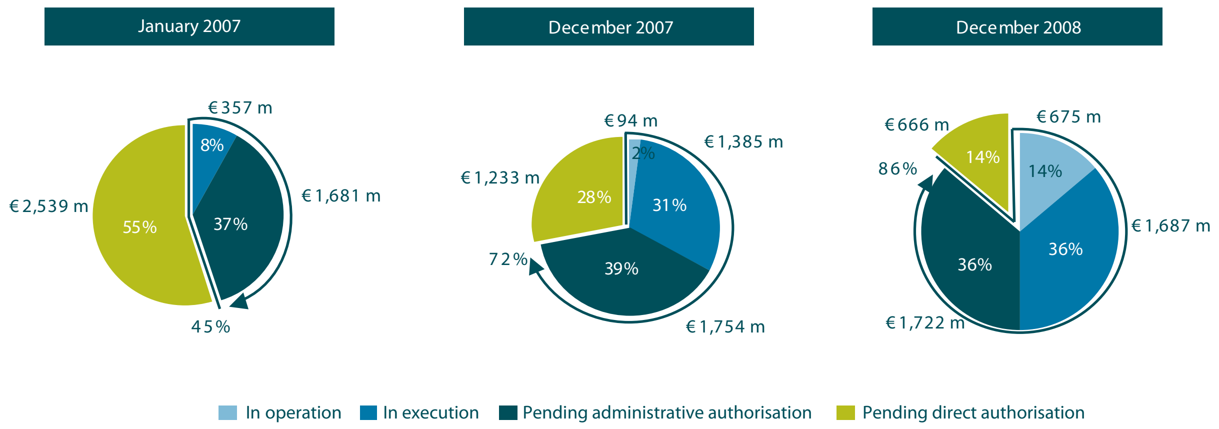
Investments made in 2008 totalled €776.9Mn, a 52.8% advance on the 2007 capex figure of €508.6Mn and a record high for Enagás for the second year running.

As a result of this heavy investment, the total value of assets brought into service in 2008 was €591.2Mn, compared with €94.28Mn in 2007.

In addition, in 2008, Enagás' Board of Directors approved €820.7Mn of new investment projects, a figure that will ensure an upturn in the pace of investment over the next few years.

In addition to the €591.2Mn in projects brought on stream in 2008, progress continued towards obtaining authorisation for projects worth approximately €2.415Bn.

Authorisations Advances



In fact, between January 2007 and the end of December 2008, projects for which Enagás was working to obtain approval accounted for investments of around €6.137Bn.

Of this total amount, €1.971Bn is linked to projects with the corresponding official authorisation, €2.275Bn euros to projects that already have an Environmental Impact Statement and €1,891Bn to projects that have already been authorised directly by the Ministry for Industry, Tourism and Commerce.

Financing (EC4)

Operating cash flows adjusted for changes in working capital totalled €493.8Mn, which was 5.8% higher than the 2007 figure of €466.8Mn.

The cash flows generated were used mainly to finance investments (€776.9Mn) and pay dividends (€143Mn).

Accordingly, at 31 December 2008, the Company's net debt was €2.351Bn, up from €1.943Bn at year-end 2007. At the financial year close, fixed-rate debt accounted for 65% of the total and 83% was long-term.

Hedging derivatives were contracted in 2008 that set a fixed rate of 4% applicable to €1.52Bn of this debt and end in 2011.

Gearing (net financial debt/total assets) was 49.8% at the year-end, little changed from the previous year's 48.9%.

The average cost of the Company's debt in 2008 was 4.7%, compared with 4.28% in 2007, reflecting rising rates in the credit markets, especially in terms of spreads on base rates, which raised the cost of floating-rate debt.

Capital grants recognised in income in 2008 came to €21.1Mn and correspond essentially to the EU structural funds assigned to the Gas Infrastructure Operational Programme *–EC4–*.

Details of the temporary recognition of the balance pending application at 31 December 2008 are given in note 7 of the Group's annual financial statements.

Liquidity, in terms of untapped available financing, was €1.93Mn at year-end, which will allow us to finance our investment needs for the next two years without the need to tap the capital markets.

Investments and assets put into operation reached historical record highs for Enagás

Update of the 2007-2012 Strategic Plan

On 7 May 2008 Enagás Chairman Antonio Llardén Carratalá unveiled the Company's updated strategic plan for 2007-2012 at the Madrid Securities Exchange. The main changes relative to the original plan unveiled in April 2007 are the following:

- Enagás now plans to make investments of €5Bn between 2007 and 2012, which is a very significant increase on the figure of €4Bn set for the same period a year earlier.
- As regards financial objectives, the Company has set a new target CAGR for net profit between 2007 and 2012 of 12%, up from 10% previously. This increase is mainly a reflection of the higher revenues that should result from the greater investments now planned, and also of the implementation of a long-term cost control plan.
- The investment plan will be funded from cash flows and new debt, in very similar percentages. As a result of the increase in investments envisaged under the updated plan, the EBITDA/debt ratio is expected to be 4.3x in 2012, instead of the 3.8x forecast a year earlier.

Rating agencies

The main ratings agencies all confirmed Enagás' credit ratings in 2008. Standard & Poor's performed an in-depth study of Enagás' Strategic Plan for 2007-2012 and confirmed the company's rating and ratings outlook.

In its report, Standard & Poor's highlights the limited regulatory risk to which Enagás is exposed, as well as the importance of its investment plan to the development of the country's energy sector and the Company's conservative financial policy. The agency also notes that Enagás should maintain a robust financial and operational profile despite the sharp increase in the volume of investments planned for the coming years.

Standard & Poor's ("AA-" long-term and "A-1+" short-term) and Moody's ("A2" long-term and "Prime-1" short-term) once again rate Enagás as one of the safest and financially strongest companies in the Spanish energy sector and highlight the high security and low-risk nature of the Company's strategy.

2.4. Risk Control and Management

Integrated Risk Management System (1.2, 4.10, 4.11)

Enagás' Integrated Risk Management Model (based on the integrated framework defined by the Committee of Sponsoring Organizations - COSO) is a dynamic process designed to identify and measure the risks that may impact on the Company's targets with a view to ensuring these targets are met. Use of this model gives the Company the ability:

- To propose measures that enhance the value of the Company by minimising the impact of risks identified and assessed.
- To provide senior management with adequate, valid, up-to-date information on risk assessments carried out, measures proposed and results achieved.
- To improve the organisation's control environment.
- To quantify the cost/benefit ratio, which is extremely useful for taking decisions on the allocation of financial resources.
- To potentially reduce costs due to losses (by reducing the frequency and/or financial impact of risk) and to optimise cover (e.g. insurance).
- To secure and strengthen the confidence of market, clients and shareholders (e.g. impact on credit rating).

Enagás uses advanced risk management techniques involving the financial quantification of risks based on each department's self assessment of the areas under its authority.

Risks are defined in terms of the following variables: events, factors, effects, controls and business areas or processes.

If the available risk data are inadequate or inconclusive, Enagás applies the precautionary principle, attempting to gain a better understanding of the risks associated with an activity and comparing the various options for prevention of the same.

Taking into account the different risk measurement methodologies it uses, Enagás has defined the following risk categories: operational risks, credit risks, financial risks and business risks.

In relation to operational risk, the Company has decided to include expected losses in its financial statements and annual budgets. For this reason, in accordance with the techniques indicated, this risk is assessed in terms of the unexpected loss that potential risk events could cause, this being understood as the loss that could occur in the worst-case scenario.

OPERATIONAL RISK
1. Infrastructures, equipment and systems
2. Damages to the environment or third parties
3. Bad quality or interruption of services.
4. Suppliers, counter parties, out sourcing and other agents
5. Process execution and operations
6. Business practices
7. Labour, health and safety practices
8. Fraud and unauthorised activities

BUSINESS RISK
1. Market and Competition
2. Regulatory and legal
3. Strategic

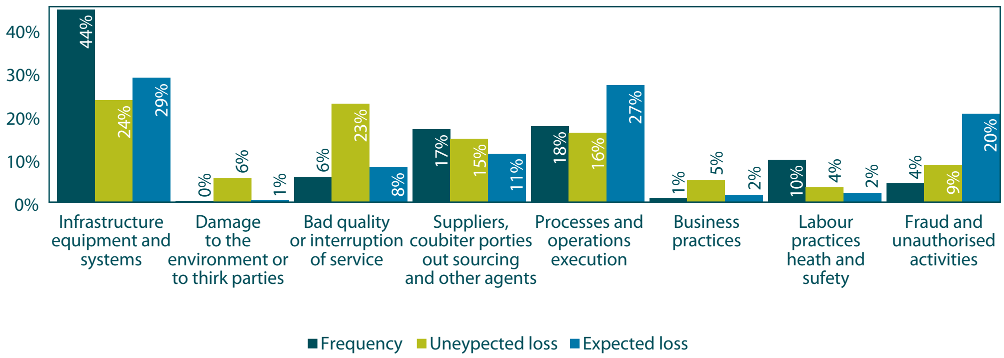
FINANCIAL RISK
1. Liquidity
2. Interest rate
3. Exchange rate

CREDIT RISK
1. Accounts Receivable
2. ST Securities
3. Derivatives
4. Advances

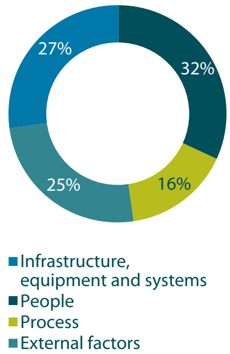
Charts A and B below show the results of the assessment of operational risk carried out in 2008 in terms of its potential impact on the income statement and balance sheet (in relation to investments), reflecting the relative weighting of the estimated losses and their frequency (probability of occurrence) and the type of causes or factors behind the operational risks assessed.

As evidenced in chart A, which shows the different risks that impact on the income statement, because of the volume of facilities the Company manages and builds, the principal operational risk is infrastructure, equipment and system risk. This is followed by the risk associated with poor service quality or service interruption, given the need to continually improve customer service, the risk inherent in the execution of processes and operations, due to the need to improve the efficiency and effectiveness of activities, and the risk associated with fraud and unauthorised activities, given Enagás' need to optimise decision-making and prevent unnecessary duplication of effort in storage, maintenance, etc.

Graphic A: Risks that impact on the income statement results

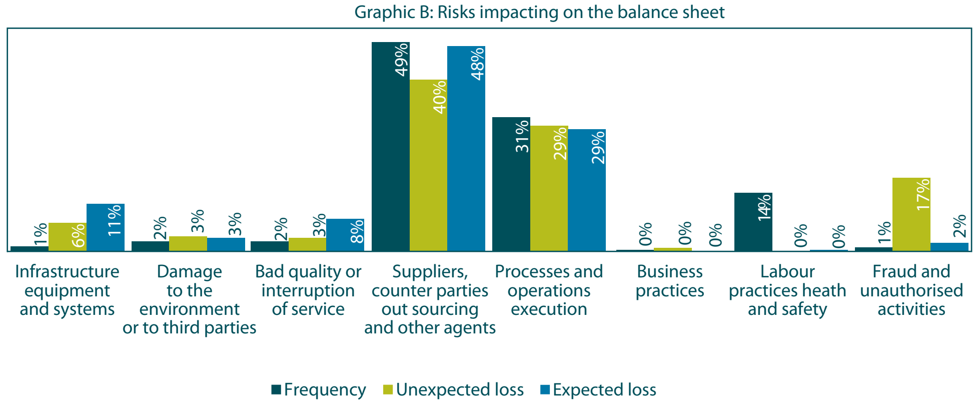


Results by factor

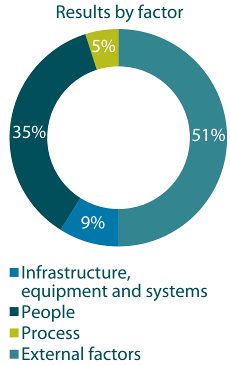


As evidenced in chart B, which shows the different risks impacting on the Company's balance sheet, due to the huge volume of investments Enagás is making the principal operational risk here is supplier and counterparty risk. This is followed by the execution risk associated with processes and operations, given the Company's commitment to improving internal processes and controls, and lastly, the risk of fraud and unauthorised activities, given Enagás' ongoing drive to monitor the volume of work carried out and the costs of such work.

Graphic B: Risks impacting on the balance sheet



Results by factor



The principal business risks assessed were regulatory risk and its possible impact on the income statement, and market and competition risk and its possible impact on the balance sheet.

In its 2008 risk assessment, Enagás classified its credit and counterparty risk as not material, given that it engages in transactions only with companies recognised as solvent according to the ratings of the major rating agencies.

Lastly, as regards financial risks Enagás classifies interest rate and liquidity risks as material, in view of current market volatility and the volume of investments planned for the years ahead.

Enagás uses various tools, based on statistical models, to assess the different types of risk to which it is exposed (see details of models in Risk Management section II of the notes to Enagás' financial statements for the year ended 31 December 2008).

Enagás has categorised some of the sustainability-related risks to which it is exposed as operational, business, credit and financial risks of the following types:

- Incidents and unavailability of infrastructures, equipment and systems.
- Damage to the environment, to third parties or to society.
- Bad quality or interruption of any service provided by the Company.
- Non-performance and bad quality of third-party services and products that can cause losses for the Company.
- Acts in breach of labour, health and safety laws or agreements.
- Fraud and unauthorised activity.
- Market and competition.
- Legal and regulatory risk.
- Credit risk.
- Interest rate risk
- Liquidity risk.

Sustainability-related risks (4.10)

The main risks and opportunities on the Enagás map of risks associated with its corporate responsibility policy and its commitment to sustainable development are described below.

Environmental dimension

Enagás' action plans are shaped by its commitment to protecting the environment, and its risk models therefore consider environmental risks as operational risks of the event type: damage to the environment or to third parties. This risk includes damage caused to the environment or to third parties as a result of accidents that take place on Company premises or at Company assets.

In its global measurement of the 2008 risk map, Enagás classifies this type of environmental event as a major risk for the Company, based on the risk thresholds defined by each of its Divisions and a quantitative measurement of the risks.

In this measurement exercise, the main risk quantified is the risk of environmental damage caused by problems sourced to the Company's infrastructures (exhaust gases, effluents, noise pollution, forest fires caused by pipelines, etc.)

The environmental management systems in place at Enagás use a risk management approach that entails the development and execution of various controls and actions to minimise the probability of occurrence of each risk. The main action plans drawn up by Enagás are as follows:

Type of event	Action plan
Environmental	• Training and development plans for employees working with Company equipment and infrastructures. • Performance and update of simulations. • Assessment of the operation of control systems and security alarms.

Social dimension

Enagás considers the social dimension of sustainability an important factor in strategic management and includes two categories of such risks in its map of operational risks. The first of these groups together all events related to occupational health, hygiene and safety, including issues such as employee illness and injury, prevention, relations between employees, discrimination, breach of labour laws, contracts and/or collective agreements by either party. The second groups together all events related to unethical business practices and legal and regulatory violations.

In the measurement exercise, the main risk quantified is the risk associated with business practices that could result in occupational illnesses or injuries or jeopardise occupational safety and with unethical business practices or legal and regulatory violations.

The main action plans Enagás has defined for minimising these risks are as follows:

Type of event	Action plan
Social	• Monitor employee motivation and morale • Update the data base of applicable laws and regulations • Specific training programmes on the application of laws and regulatory standards.

Lastly, the Enagás Risk Model classifies impact on reputation as a possible effect of any of the risks included in the risk map.

Financial dimension

As indicated above, the risk assessment in respect of the financial dimension of sustainability generally focuses on the impact of each risk on the Company's financial statements, as well as other non-financial impacts including impact on reputation.

The following risk events are quantified in the measurement exercise:

- Operational risk: Interruption of storage, transport or regasification services or of Technical System Management, poor quality or delay in services provided by Enagás, investment in R+D+i.
- Business risk: Primarily market and competition risk and legal and regulatory risk.
- Credit or counterparty risk: Risk of losses deriving from non-fulfilment of duties or obligations on the part of clients, suppliers in receipt of advance payments, group companies, financial institutions, etc.
- Financial risk: Essentially interest rate and liquidity risks.

In its global measurement of the 2008 risk map, Enagás classified the financial dimension of this event type as a key risk for the Company, based on the risk thresholds defined by each of its Divisions, the quantitative measurement of the risks, and the efficacy of existing controls.

The main action plans Enagás has defined for minimising these risks are as follows:

Type of event	Action plan
Financial	• ISO 9001:2000 quality certification of certain critical activities involved in: Technical System Management, third-party access, etc. • Review of internal controls of the financial reporting system • Installation of more advanced tools for financial risk measurement and management, and subsequent reporting of the same to senior management and the Enagás integrated risk model.

Duties of the various bodies involved in risk management (4.9, 4.10.)

The governance bodies involved in the risk management process, either in the identification, management or supervision stages, are the following:

- The Board of Directors, to which the Audit and Compliance Committee regularly reports.
- The Audit and Compliance Committee, which meets each quarter to analyse risks and their management. This Committee also approves the Annual Audit Plan and analyses reports relating to the level of control of each process.
- The General Secretariat, which is in charge of Risk Management and Internal Audit.
- The heads of each Enagás division identify, assess and define the controls and actions plans necessary to keep risks beneath the risk threshold established.
- Internal Audit, which evaluates the level and operability of the various controls. Audits are performed in accordance with the *Professional Practices Framework for Internal Auditing* published by the Institute of Internal Auditors.

Most of the action plans established in the self assessments performed by each of the Company's divisional or unit heads and in the recommendations issued by the Internal Audit team as a result of its audits are incorporated into annual targets that must be approved by the Board of Directors. Subsequent achievement of these targets is monitored and approved by the Management Committee.

The main risks and opportunities associated with Enagás corporate responsibility policy and its commitment to sustainable development are stated on the Company's map of risks

The Audit and Compliance Committee also follows up the action plans agreed between each division or unit and Internal Audit to verify that they have been executed in a timely and correct manner.

Risk related to corruption and fraud (SO2, SO4)

Within its Integrated Risk Model, Enagás classifies and quantifies risks related with corruption under the fraud and unauthorised activities heading. This risk has therefore been analysed in all Enagás units *–SO2–*.

Following the 2008 measurement exercise, the potential risk related with corruption was assessed from the point of view of both internal and external fraud and, although no fraud was detected, the controls necessary to enable Enagás to optimise decision making, prevent unnecessary duplication of effort in storage, maintenance, etc. and provide for the constant need to monitor the volume or work underway and its costs were established *–SO4–*.

Enagás has adopted a preventive approach to fraud, establishing business principles and a consultation and notification procedure and creating a supervision and control committee to ensure its efficient operation and protect the identity of informants (for more information see section 3.3: The Enagás Position on Corporate Responsibility, sub-section Enagás Business Principles) *–SO4–*.

Enagás has also drawn up a number of action plans designed to minimise the probability of occurrence of this risk and extend the scope of all related policies and practices:

Type of event	Action plan
Fraud and unauthorised activity	• Ongoing adherence to the code of conduct • Rotation of employees in certain critical posts • Specific internal audits of principal activities performed. • Development of an ethical channel.

2.5. The Enagás share

Performance in 2008

Last year was one of generalised falls in equity markets throughout the world, attributable mainly to severe liquidity problems in the credit markets and an economic backdrop of international recession. In Spain, the Ibex 35 closed 2008 down 39.43%, at 9,196 points, in line with the negative performance of other European markets. The general index of the Madrid securities exchange shed 40.56% in the year.

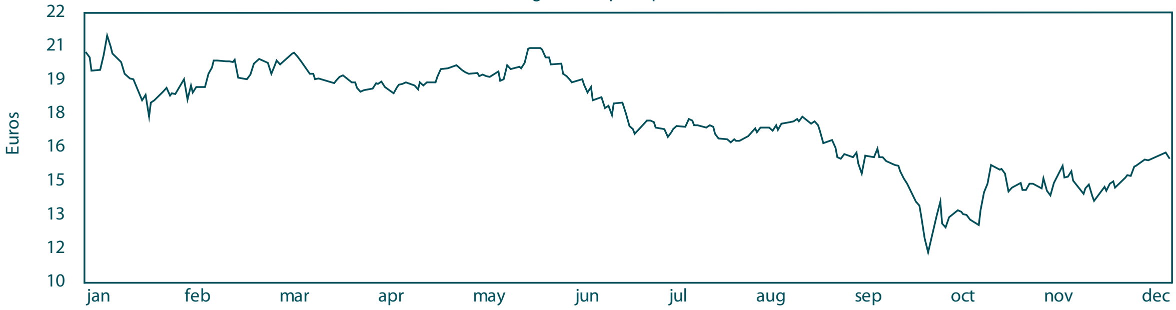
In this gloomy scenario of across-the-board market losses, the Enagás share lost 22.16% of its value in 2008 – a considerable decline but a loss significantly smaller than the market's as a whole, reflecting the safe haven status accorded by the share's lesser exposure to the economic cycle.

This share price slippage ended six years of consecutive stock market gains for Enagás, although the share has still rerated 139.38% since its first listing in June 2002. At the close of 2008, the share was trading at €15.56, equivalent to a year-end market capitalisation of €3,715Bn. The share reached its highest closing price for the year (€21.01) on 9 January and its lowest closing price (€11.35) on 10 October. The average share price in 2008 was €17.26.

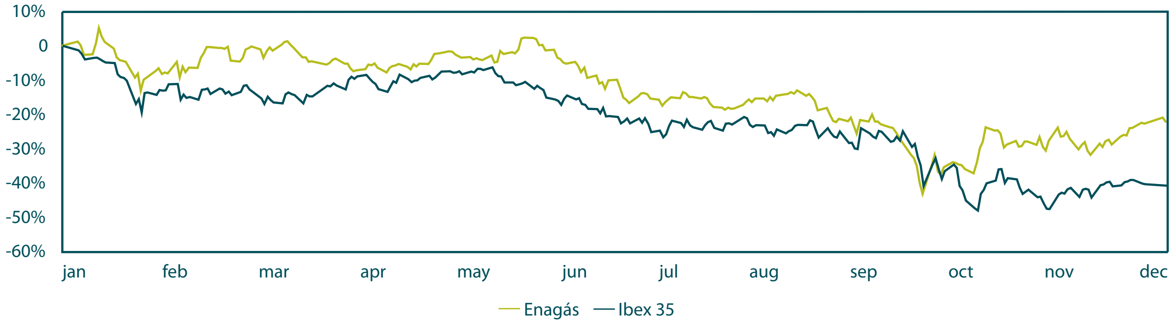
As regards volume turnover, a total of 548.8 million shares changed hands in 2008 (a daily average of 1.8 million shares), representing a 28.84% decline on 2007 trading volumes that reflects reduced investor interest in equities in a particularly difficult stock market scenario. Even so, at 31 December, Enagás ranked 16th among the most actively traded shares on the Spanish stock exchange, a slight decline from the 13th position of 2007.

Enagás share price ended 2008 with a loss significantly smaller than the market, reflecting the safe haven status of the share and less exposure to the economic cycle

Enagás share price performance in 2008



Enagás vs. Ibex 35 in 2008



ENAGÁS IN 2008

STOCK MARKET AND FINANCIAL VARIABLES PER SHARE	2002	2003	2004	2005	2006	2007	2008
Nº of shares (millions)	238.7	238.7	238.7	238.7	238.7	238.7	238.7
Capitalisation (€millions)	1,384.5	2,053.1	2,912.6	3,771.5	4,206.5	4,771.6	3,714.2
Price at 31 December	5.80	8.60	12.20	15.80	17.62	19.99	15.56
High	6.49	8.68	12.20	16.00	21.14	21.67	21.25
Low	5.11	5.79	8.19	11.46	15.16	15.86	10.32
Average	5.73	7.13	9.44	13.66	17.42	18.27	17.28
Days quoted	128	250	250	256	254	253	255
Share volume (millions)	304.5	223.3	255.7	425.8	443.6	771.2	548.8
Turnover (millions euros)	1,903.5	1,574.5	2,416.2	5,710.8	7,742.4	13,950.3	9,719.4
Net earnings per share (EPS)*	0.46	0.59	0.66	0.80	0.91	1.00	1.08
Dividend per share (DPS)	0.23	0.30	0.33	0.40	0.47	0.60	0.65**
P/E (Price/earnings ratio)*	12.61	14.58	18.42	19.75	19.36	20.03	14.36

* Data at 31 December
** Subject to approval of final dividend distribution at the General Shareholders' Meeting
The figures for 2004, 2005, 2006, 2007 and 2008 were drawn up under IFRS

Share capital and shareholder structure (2.9)

At 31 December 2008, Enagás had fully subscribed, paid-in share capital totalling €358,101,390.

This capital was represented by 238,734,260 ordinary shares, each with a nominal value of €1.5, included on the official list of all four Spanish securities exchanges and also admitted for trading on the continuous market.

The share capital of Enagás is represented by book entries, with Iberclear and its member companies responsible for keeping the accounting register of the Company's shares.

Law 12/2007, of 2 July introduced a 5% maximum limit on direct or indirect ownership interests in Enagás' capital for individuals and legal entities alike, as well as a 3% limit on the exercise of voting rights in the Company.

In addition, companies active in the gas industry and those which directly or indirectly hold over 5% of the share capital of such companies are not permitted to exercise voting rights in the Technical System Operator in excess of 1%. These restrictions does not apply to direct or indirect interests held by public-sector enterprises.

There was just one change in the structure of significant shareholdings in Enagás' capital in 2008.

In the course of May Inversiones Cotizadas del Mediterráneo, S.L. (Caja de Ahorros del Mediterráneo) informed the CNMV that it had sold its 5% interest in Enagás' share capital by placing the shares with institutional investors.

The shareholdings of all other significant shareholders with a presence on the Board were unchanged from 31 December 2007, with Bancaja Inversiones S.A, Cantábrica de Inversiones de Cartera, S.L., (Cajastur), Sagane Inversiones S.L., Bilbao Bizkaia Kutxa (BBK), la Sociedad Estatal de Participaciones Industriales (SEPI) and Gas Natural SDG S.A. each holding a 5% interest in the Company's share capital at 31 December 2008.

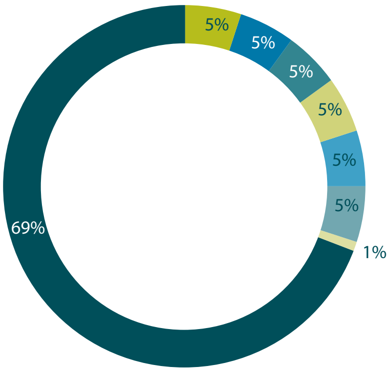
At the end of 2007, the Spanish State Holding Company (SEPI) informed Enagás that it had acquired a 5% stake in the Company. SEPI now holds the same stake as the Company's other main institutional shareholders. Enagás views this presence positively as it strengthens the institutional presence in the Company's shareholder structure and demonstrates SEPI's confidence in its Strategic Plan.

ENAGÁS IN 2008

The appointment of Sociedad Estatal de Participaciones Industriales (SEPI) as proprietary shareholder for a by-law stipulated period of four years was approved by shareholders at the General Meeting held on 25 April 2008.

In addition, in March 2008 REN (Redes Energeticas Nacionais) announced that it had purchased 1% of Enagás' share capital.

After the exit of Caja de Ahorros del Mediterráneo, the Company had free float of 69% at 31 December 2008. On the basis of information available to the Company, approximately 20% of free float is held by Spanish investors, while the remainder is owned by international investors located principally in the United Kingdom, the United States and continental Europe.



Dividends

At the 2007 Annual General Meeting shareholders resolved to increase the percentage of net profit assigned to the distribution of dividends to 60%, up from 52% in 2006. This move is a testament to Enagás' commitment to maximising value for its shareholders.

The results achieved by Enagás in 2008 mean that the Company is able to propose the distribution of a gross dividend of €0.65 per share at the General Meeting, which, if accepted, will represent an 8.6% increase on the previous year's dividend, which is in line with growth in net profit.

On January 12, 2009 a gross dividend of €0.26 per share was paid from Enagás' 2008 earnings. This means that the Company is proposing to pay an extraordinary gross dividend of €0.39 euros for 2008 if approved.

The Company's dividend yield was 4.18% of its share price at 31 December 2008.

Dividends

	2002	2003	2004	2005	2006	2007	2008
Total amount (€ millions)	55.04	71.01	79.06	95.48	112.64	142.97	155.18
Interim	21.49	28.65	31.04	38.20	45.36	57.30	62.07
Additional	33.55	42.36	48.03	57.28	67.28	85.68	93.11
Gross dividend per share (€)	0.23	0.30	0.33	0.40	0.47	0.60	0.65**
Interim	0.09	0.12	0.13	0.16	0.19	0.24	0.26
Additional	0.14	0.18	0.20	0.24	0.28	0.36	0.39
% of nominal	15.30%	20.00%	22.10%	26.60%	31.33%	39.92%	43.33%
Dividend yield*	4.00%	3.50%	2.70%	2.53%	2.67%	3.00%	4.18%
Pay-out (%)***	50%	50%	50%	50%	52%	60%	60%

(*) Data at 31 December.
(**) Subject to approval of final dividend distribution at the General Shareholders' Meeting.
(***) Percentage of Net Profit assigned to the distribution of dividends.

2.6. 2008 Highlights

10 January
2007 interim dividend paid

Enagás paid a gross dividend of €0.24 per share from 2007 earnings.

6 February
Natural gas becomes the main source of energy for electricity production

Natural gas has become the main source of energy used for electricity production in Spain. As of 6 February 2008, based on total consumption in the preceding 365 days, deliveries of natural gas to the electricity sector became the number one source in the electricity generation basket, up from sixth place in 2002.

7 April
Enagás' Cartagena Regasification Plant welcomed the largest methane gas tanker ever to dock at a European terminal.

The methane gas tanker *Duhail-HN 2247,* the largest ship of its type ever to dock at a European gas terminal, delivered its cargo to Enagás' Cartagena plant.

A new generation Q-Flex tanker, the *Duhail* can transport 210,133 m^3 of natural gas - a considerable increase on previous natural gas transportation capacity per vessel. Until this date, the capacity of tankers docking in Spain had been no more than 140,000m^3.

This newly-built tanker, along with the others in the series, is currently the largest in the world. It is 315 metres long and has five liquefied natural gas (LNG) storage tanks with temperatures of below -160º.

Chartered by Qatargas for Gas Natural, the *Duhail* filled up in Ras Laffan (Qatar) on 20 March and made its first delivery to Enagás' facilities in the port of Escombreras on 7 April.

10 April
First auction for underground natural gas storage capacity

The first auction for natural gas underground storage capacity, in accordance with Order ITC 3862/2007 of 28 December, was held in April 2008.

The auction was organised by OMEL and supervised by the National Energy Commission (CNE).

The amount auctioned for the period running from 1 April 2008 to 31 March 2009 was 1,518 GWh. This capacity was awarded at a price of €2,588/GWh in an auction that began at 9:30am and ended at 5:30pm.

15 April
Enagás took out a €500Mn with the Instituto de Crédito Oficial (ICO) to finance new gas infrastructures

This loan was in addition to the three previous loans granted to Enagás by the same institution in 2002, 2004 and 2007, together worth a total of €550Mn. As institutional financing remains its preferred policy, Enagás asked the ICO to extend the existing loan and the institution thus agreed to grant a new loan of €500Mn.

The loan agreed with the ICO must be repaid within 15 years and has a grace period of up to five years.

25 April
2008 General Shareholders' Meeting

Shareholders approved all resolutions on the agenda, including the appointment of Sociedad Estatal de Participaciones Industriales (SEPI) as proprietary shareholder for the by-law stipulated period of four years. The amendment of article 35 of the Company's by-laws governing the composition of the Board of Directors to raise the maximum number of Board members to 17 was also approved.

At the meeting, shareholders also resolved to ratify Bilbao Bizkaia Kutxa (BBK)'s appointment as proprietary director for the by-law stipulated period of four years and Peña Rueda S.L. Unipersonal was re-elected as proprietary director for the same period on the proposal of shareholder Inversiones de Cartera S.L. (CAJASTUR).

28 April
Leadership Award

In April 2008 Enagás was awarded *Ejecutivos* Magazine's Leadership Award in recognition of its success in reconciling its important work as a natural gas transporter in Spain with its commitment to sustainable development.

7 May
Update of the 2007-2012 Strategic Plan

Enagás Chairman Antonio Llardén unveiled the Company's updated 2007-2012 Strategic Plan in May. In the updated version, planned investment for the period is 25% higher than in the plan announced in April 2007, rising from €4Bn to €5Bn. Of this amount, Enagás invested a record €777Mn in 2008.

20 May
Caja de Ahorros del Mediterráneo exited the Enagás' shareholder base

CAM resigned as proprietary director of Enagás after the sale of the 5% interest in the Company's share capital held by its 100%-owned subsidiary Inversiones Cotizadas del Mediterráneo, S.L.

30 May
Spanish Gas and Electricity Infrastructure Plan 2008-2016

The Spanish Cabinet approved the Spanish Gas and Electricity Infrastructure Plan for 2008-2016

20 June
New summer record for gas demand

Demand for natural gas reached a new summer record of 1,403 GWh in June 2008. This marked a 13% increase on the previous summer record of 1,239 GWh recorded on 19 July 2007.

In addition, on this same day, demand for natural gas for electricity generation reached a new record of 754 GWh, 2% more than the previous record of 742 GWh set on 14 December 2007.

3 July
2007 final dividend

Enagás paid a gross dividend per share of €0.358874 in addition to the interim dividend paid in January 2008, also out of 2007 net profit. As a result, the total gross dividend for 2007 was €0.598874 per share, equal to a pay-out of 60%.

30 July
Enagás is named a Top 250 Global Energy Company

In July 2008, Enagás was included in the Top 250 Global Energy Company rankings published by Platts, a leading provider of economic information, in recognition of its outstanding financial performance in 2008. Enagás is positioned at number 229 in the global rankings and at number 15 in the gas utilities rankings.

Enagás earned a place in the Dow Jones Sustainability World Index (DJSI) and European Dow Jones STOXX Sustainability Index, which include all companies involved in setting the benchmarks in best sustainability practices worldwide

1 August
Standard & Poor's confirmed its long-term debt rating for Enagás

The credit rating agency Standard & Poor's confirmed its "AA-" long-term rating for the Company and its stable outlook after the presentation of the new Enagás Strategic Plan.

22 September
Enagás joined Dow Jones Sustainability Index

Enagás earned a place in the Dow Jones Sustainability World Index (DJSI) and European Dow Jones STOXX Sustainability Index, which include all companies involved in setting the benchmarks in best sustainability practices worldwide.

Enagás was the top-ranked company within its sector worldwide.

24 November
Mainland – Baleares gas pipeline

Work commenced on laying the new gas pipeline that will connect the Balearic Islands with mainland Spain, running from Denia to Sant Antoni in Ibiza and then on to Mallorca, on 24 November 2008. The pipeline, which will supply gas to the entire archipelago, will be 270-km long and have a maximum depth of 997 metres in the stretch running from the mainland to Ibiza and 720 metres in the stretch linking Ibiza and Mallorca. The new pipeline is expected to be brought into service in July 2009.

4 December
Award for workforce integration from FEAPS Murcia

The federation of organisations working for people with learning disabilities and cerebral palsy in the region of Murcia (FEAPS) awarded one of its garlands to Enagás in recognition of its efforts to promote workforce integration.

Enagás' earned the award for supporting employee training, for having helped fit out the occupational centre at one of the FEAPS associations, Asido Cartagena, and having contracted the centre to provide a decorative mosaic for its Cartagena Plant.

9 December
Cooperation agreement with IESE business school

Under the terms of this agreement, Enagás will help IESE consolidate its training remit and take on projects including the training of young teachers, the promotion of research, investment in new technologies and the launch of new study programmes.

22 December
ISO 9001:2000 certification for Technical Management of the Spanish Gas System

Enagás obtained ISO 9001:2000 certification for its Technical Management of the Spanish Gas System. This certification constitutes a further endorsement of the Technical System Operator's transparency and impartiality in its dealings with all Gas System agents.

24 December
Enagás obtained European Excellence 300+/Recognised for Excellence 3 Stars (+300)

Enagás performed a self-assessment based on the EFQM model that has been accredited by the licensor in confirmation that the processes performed in the self assessment were carried out in accordance with the methodology and are in line, and in some cases exceed, the standard proposed by the Excellence in Management Club, earning the licensor's recognition for exceeding 300 points under the EFQM.

2.7. Regulatory Developments in 2008

International connections

The European Commission launched a series of Regional Initiatives in 2008 to further progress towards the establishment of a Single European Energy Market. For the purpose of these initiatives, Europe has been divided up into three regional gas markets - North East, South-South East and South – with the overall aim of facilitating and integrating markets, eliminating barriers to trade, increasing competition and contributing to security of supply.

Under this initiative, the Spanish gas system has been grouped together with the French and Portuguese systems to form the South Region (South Gas Regional Initiative-SGRI). The implementation of the SGRI is being coordinated by the National Energy Commission, with the support of all agents involved in the respective gas markets – i.e. regulatory bodies, transport companies, distribution companies, major consumers, etc.

Interconnections between France and Spain

Work on this group of interconnections, which began at the end of 2006, moved up a gear in 2008, culminating in the launch of an Open Subscription Period (OSP) and public consultation. Transport companies active in France (GRTgaz and TIGF) and Spain (Enagás and Naturgas) together analysed the capacity of the international connections and carried out an exhaustive review of the infrastructure plan associated with the increase in the capacity of the two axes - West-Guyenne and East-Rhone.

The plan agreed defines the increases in the capacity of the existing interconnection, as well as the infrastructures necessary to allow for these increases, together with a timetable for their execution. The study also envisages the construction of a new connection with France via Catalonia, named the "Midcat" Project.

These joint studies resulted in definition of the new capacity of the international connection via Larrau, which come about as a consequence of the incorporation of the infrastructures in the Spanish Gas System.

In order to allocate the expansion capacity among market agents as transparently and openly as possible, in the course of 2007 and 2008 the Spanish regulations were amended to facilitate the process, and in October 2008 Enagás and TIGF together launched an OSP (Open Subscription Period) during which all available ca-

pacity was allocated. The result of this process indicated that it is in the market's interest to develop new interconnection capacity between the two countries.

In Spain, all investments defined as necessary by the transport companies have been approved by the Government and included in its Obligatory Planning document (revised 2005-2011 document and 2008-2016 document). Many of these investments, which will help strengthen the Spanish gas system as a whole, are already decided and in the process of implementation, while a small proportion are linked to the development of infrastructures on the French side.

The Spanish and French regulators have decided to carry out a preliminary market consultation to identify the needs of system agents. Subsequently, drawing on the results of this consultation process, the open season procedures that will enable the French transport companies to come to a decision on the infrastructures required will be carried out.

Detailed analysis of the technical connection capacity available in the different regions, from Spain to the north of France, is now underway. This analysis will identify existing points of congestion and the new infrastructures that will be needed to secure the transit of gas through both gas systems, from the south of the Spanish system to the north of France and vice versa.

These corridors will increase security and diversity of supply in both Spain and France, as well as in all other European countries, allowing for gas sourced from Africa to be carried across Spain and France to the centre of Europe, as well as introducing the

Infrastructures that increase interconnection capacity

MAIN TRANSPORT AXIS
In operation at september-2008
Projets included in 2008-2016 Planning: under construction or in authorisation process
In operation at sep.-2008
Under construction
Pending of administrative authorisation
Linked to infrastructures developments in France

possibility of gas from the large Norwegian and Russian fields being transported to Spain and Portugal.

Interconnections between Spain and Portugal. Creation of MIBGAS

On 8 March 2007, Spain's Minister for Industry, Tourism and Trade and Portugal's Minister for the Economy and Innovation signed a plan to harmonise energy sector regulation in Spain and Portugal.

In this document, the two governments resolved to establish various working groups to supervise the creation and development of the Iberian natural gas market (MIBGAS) and, in view of the considerable weighting of Spain and Portugal's LNG import capacity relative to the total for Europe and the world, prepare for the creation of an Iberian market of international standing.

The integration of the Spanish and Portuguese gas systems is considered beneficial for consumers in both countries as it will give all customers in the Iberian market access to natural gas on equal, transparent and objective terms.

The objectives pursued in creating MIBGAS are as follows:

- To increase security of supply via market integration, the coordination of the two systems and the extension of interconnections.
- To increase the level of competition by increasing the size of the market and the number of participants.
- To harmonise, and as far as possible simplify, the regulatory framework of the two countries.
- To offer incentives for efficiency in both regulated and liberalised activities, and for market transparency.

To help achieve these objectives, the ENS and ERSE have approved the final document "Proposal for the organisation and operating principles of MIBGAS".

Before drawing up this document, a public consultation exercise was carried out to ascertain the various interested parties' opinions on the Iberian gas market model.

The public consultation process garnered responses and suggestions from 17 different market agents, including REN (the Portuguese carrier) and Enagás. The main finding of the public consultation was that the model is rated very highly by all agents, and that the development of an Iberian Gas Market is supported by and in the interests of all.

Within the framework of the South Regional Gas Initiative (SGRI), and as a result of the corresponding analysis of existing interconnections between Spain and Portugal, REN and Enagás have published their technical capacities for the 2007-2015 period on their respective websites.

Currently, REN and Enagás continue to cooperate in analysing the possible development of a new international connection that would integrate the Portuguese storage facilities in Carriço within the Iberian market and harmonise processes and procedures, including viability management, contractual terms and conditions, programming, coordinated operation, gas measurement and quality, distribution, balances, tariffs/billing, etc.

Order ITC/2607/2008

Order ITC/2607/2008, of 11 September, established the regulations governing the allocation of transport capacity at international connections with France.

This Order applies to both available transport capacity and expansion capacity that will be provided by infrastructures currently under construction or already benefitting from a firm construction undertaking from both countries (Open Subscription Period, OSP) as well as to any capacity that may be provided by new infrastructures pending confirmation at the time of the Open Season (OS).

The Order established the following basic rules for processes of this type:

- The capacity allocation procedure must include objective rules for setting bid order priorities and a mechanism for allocating capacity between bids of equal priority, which shall be either allocation on transparent, objective, and non-discriminatory criteria or allocation by auction.
- The capacity offered shall be split between long-term capacity bookings (terms in excess of one year) and short-term bookings, to guarantee that a minimum 20% of total capacity at the point of connection is allocated to short-term bookings and take account of the economic viability of the infrastructures.
- Each open season procedure must be approved by resolution of the Directorate-General of Energy Policy and Mines, which shall notify the transport companies involved of its decision.
- The total capacity bid by each company or companies of the same group may be no more than the total capacity offered in each open season.
- Capacity must be distributed equally between transport companies on either side of the border.
- Users allocated interconnection capacity and transport companies must conclude the corresponding contracts pursuant to the provisions of Royal Decree 949/2001.
- Execution of the capacity allocation procedure will be supervised by the National Energy Commission.

Resolution of the Directorate-General of Energy Policy and Mines of 6 October.

This Resolution called the first open season procedure for the coordinated allocation of natural gas interconnection capacity between Spain and France for the period running from 1 April 2009 to 31 March 2013, for long-term bookings, and from 1 April 2009 to 31 March 2010, for short-term bookings.

The resolutions validated the rules established in the document drawn up jointly by Enagás and TIGF, which detailed the format, content and period for the submission of bids, the capacity to be offered, the rules for determining bid order priorities, the mechanisms used to allocate capacity between bids accorded the same level of priority and all other terms and conditions necessary to the correct execution of the procedure.

Remuneration, tariffs and tolls

Royal Decree 326/2008

At the end of 2006, four years after the remuneration system applicable to Enagás' assets was defined, Ministerial Orders ITC/3994/2006 and ITC/3995/2006, updating the remuneration system applicable to regasification and underground storage activities, were published. These two orders included amendments to methodological criteria that meant financial remuneration would henceforth be calculated on the basis of net assets. The complexity of the financial system in place in the gas sector prevented the concomitant modification of the remuneration system for transportation activities.

Royal Decree 326/2008, of 29 February, established the remuneration system for natural gas transportation activities applicable to facilities brought into service on or after 1 January 2008, adapting the transportation remuneration system to the model the authorities began defining for regasification and storage activities at the end of 2006. The new Royal Decree also increased the degree of convergence with the new electricity transportation remuneration system, also established and approved by Royal Decree 325/2008, of 29 February, and with the remuneration systems for these regulated activities existing in neighbouring EU states.

The model previously existing will continue to be applied to assets brought into service before 1 January 2008.

The adjustment and standardisation of the approved remuneration framework was a necessary condition precedent to the start of the ten years of major investment in transportation facilities envisaged in the proposals set out in the Spanish Electricity and Gas Infrastructure Plan for 2008-2016. As stated in the recitals to the Decree, this remuneration framework provides the conditions of stability and absence of uncertainty needed to efficiently secure financial resources.

In short, in order to compete effectively to secure resources and obtain the returns sought, the remuneration framework defined in the New Royal Decree is built around an incentives- and costs-based regulatory model that is adapted to standard regulatory practices and to levels of return on activities similar to those in place in neighbouring EU countries.

The main revisions made to the transportation remuneration system are as follows:

- The rate of return established is equal to the average 12-month Treasury bond yield at the time the facility is brought into service, plus 375 basis points. This rate allows for standardisation with those established for other regulated activities and is consistent with the risk/reward objectives set for the same.
- In each annual return, the regulated asset base is valued in accordance with the discounted net value of the assets. Net value is discounted at a constant rate of 2.5% over the useful life of the assets. In line with the foregoing, depreciation of regulated assets is discounted at the same rate.
- The useful life over which regulated pipelines are depreciated is set at 40 years, while the useful lives of compressor stations (20 years) and regulating and metering stations (30 years) are unchanged. Remuneration due to an extension of the useful life of an asset will be equal to 50% of the sum of the depreciation and financial return in the final year, discounted annually at a rate of 2.5%, plus 100% of the remuneration due for operating and maintenance costs.
- A new method of calculating the definitive recognised value of the investments has been established, consisting of the sum of the real, duly audited value of the investment made plus 50% of the difference between the value resulting from application of benchmark unit values and the aforesaid real value. This calculation will be made irrespective of whether the difference is positive or negative.
- A new global incentive to availability has been introduced. This incentive, which affects all installations of the facility owner, has yet to be defined prior to its application by order of the Ministry of Industry, Tourism and Trade. The amount that may be applied as an incentive for availability is limited to ±2% of the annual revenues received by the transportation Company by way of remuneration for investment costs.

Lastly, the Royal Decree gives the National Energy Commission (CNE) an express mandate to draw up a proposal for the benchmark unit values for investment costs and the cost of operating and maintaining transportation facilities that will be applied to facilities brought into service on or after 1 January 2008. The revision of these parameters should guarantee the target returns established in the regulations. Within the same period, the CNE must present a proposal for remuneration incentives payable to the Technical System Operator with a view to encouraging efficiency in the management of the entire gas system.

Order ITC/2857/2008

This Order established the new maximum prices applicable as of 12 October 2008, and in accordance with the provisions of Order ITC/3861/2007, of 28 December, set a new methodology for reviewing the maximum prices at which last resort suppliers may supply users entitled to acquire gas under the last resort system.

Order ITC/676/2008

This Order established the mechanisms to be used in 2008 for transferring funds to finance the actions envisaged in the 2008-2010 Action Plan for Energy Saving and Efficiency Strategy in Spain 2004-2012 from the CNE to the Institute for Energy Diversification and Saving. It also established the amount of the aforesaid funds and how they should be used, as well as the mechanisms and criteria applying for the execution of the measures set out in the aforesaid Action Plan.

The amount assigned to the actions provided for under the Plan for 2008, which is charged against third-party access tolls for gas installations, was set at €57Mn.

Order ITC/3802/2008

Order ITC/3802/2007, of 26 December, established the tolls and fees for third-party access to gas facilities in 2009, the last-resort tariff and certain other aspects of regulated gas sector activities.

Inter alia, the Order established:

- The amounts and conditions for the application of the tolls and fees charged for use of basic network, secondary transport and gas distribution facilities.
- The amount set aside for the remuneration of the Technical System Operator and for the CNE, the fixed and variable terms for the last-resort tariffs applicable from 1 January 2009.
- The amount drawn from third-party access tolls for gas installations to be used to finance the 2008-2012 Action Plan.
- The shrinkage in the transport installation of the basic network, and the definitive incorporation in the remuneration system of certain facilities used in underground storage activities.

In relation to the tolls charged for third-party access to the system's regasification services, the Order eliminated the right to store LNG in tanks included in the regasification toll and equivalent to five days of contracted annual capacity.

The Order also clarified the tolls accrued, and the responsibility for its billing, in cases of transport operation from the storage facility for the commercial operation of the AOC transport network to any international connection.

The remuneration for transport infrastructures currently in service, and those due to come on stream in 2009 accounts for only 8% of the total costs of the Spanish natural gas system.

Resolution of the Directorate-General for Energy Policy and Mines of 31 December 2008.

The fourth additional provision of Order ITC/3802/2008, of 26 December, delegated to the Directorate-General of Energy Policy and Mines the authority to set the fixed remuneration and the specific parameters used to determine the variable remuneration for the regulated natural gas sector activities referred to in articles 16.5 and 20.5 of Royal Decree 949/2001.

The Resolution of 31 December 2008 of the Directorate-General for Energy Policy and Mines, publishing the remuneration of regulated activities, connection charges and lease rates for meters and telemetering equipment for 2009, sets, with regards to the activities carried on by Enagás:

- Remuneration to cover the depreciation, financial return and fixed operating and maintenance costs of companies owning transportation assets brought into service before 1 January 2008.
- Remuneration to cover the depreciation, financial return and fixed operating and maintenance costs of companies owning regasification assets.
- Final remuneration for depreciation and financial return of assets used in underground storage activities in 2009, and those corresponding to 2007 and 2008, as well as the remuneration for transportation facilities brought into service after 1 January 2008.

It also establishes the unit values for investment costs and the cost of operating and maintaining regasification facilities, and provisional unit values for the cost of operating and maintaining underground storage facilities for 2009.

Underground storage facilities

Resolution of the Directorate-General of Energy Policy and Mines of 14 March 2008.

This Resolution detailed, in accordance with the provisions of Order ITC/3862/2007, of 28 December, the regulations governing storage capacity allocation by auction, including in the description of the process, the restrictions that may be applied to gas injections and extractions throughout the capacity allocation period.

It also established the method for determining injection and extraction rights in respect of storage facilities, clarifying certain elements relating to access contracts in order to facilitate the allocation and subsequent trading of storage usage rights. The resolution also takes already allocated storage capacity into account and thus establishes mechanisms that will foster efficient usage and restrictions that may apply pursuant to the Technical System Management Regulations and their implementation regulations.

The resolution also clarified the manner in which the storage fees defined in Royal Decree 949/2001, of 3 August, would be used.

Resolution of the Directorate-General of Energy Policy and Mines of 27 March 2008.

This Resolution established the amount of storage capacity to be auctioned for the period running from 1 April 2008 to 31 March 2009, the operating instructions to be adhered to in the auction, and the date of the auction.

System Technical Management

Resolution of the Directorate-General of Energy Policy and Mines of 19 May 2008.

This Resolution governs the auction procedure for acquiring the natural gas allocated to the operation of transport, storage and regasification facilities, and the minimum levels that must be maintained in regasification plants, transport network pipelines and underground storage facilities for annual periods running from 1 July each year until 30 June of the following year.

Resolution of the Directorate-General of Energy Policy and Mines of 04 July 2008.

This Resolution modified Technical System Management Regulations NGTS-06 "Distribution", NGTS-07 "Balance", detailed protocol PD-02 "General criteria for the definition of distribution procedures" and detailed protocol PD-11 "Procedure for distribution at transport network entry points".

Resolution of the Directorate-General of Energy Policy and Mines of 8 September 2008.

This Resolution modified the resolution of 25 July 2005 regulating allocation terms and conditions and the procedure for interrupting gas availability. The resolution defined the maximum interruptible capacity requirements for the period running from 1 October 2008 to 30 September 2009; it also stipulates that where pipelines are structurally saturated, the Technical System Operator may sign agreements to interrupt availability that provide for interruptions for periods in excess of ten days, the length of which period will be specified in the agreement in question.

Resolution of the Directorate-General for Energy Policy and Mines of 23 October 2008.

This Resolution modified Technical System Management Regulations NGTS-06 "Distribution", adding a new section "Distribution at connection points of the transport pipelines of two different owners (PCTT)", detailed protocol PD-07 "Programming and nominations in transport infrastructures" and detailed protocol PD-08 "Programming and nominations in distribution infrastructures".

Resolution of the Directorate-General for Energy Policy and Mines of 11 November 2008.

This Resolution approved the 2008-2009 Winter Action Plan for the operation of the gas system, establishing the exceptional operating terms and conditions set for the 2008-2009 winter months with a view to guaranteeing supply before the increase in demand associated with the seasonal nature of the domestic and commercial market and any sudden cold spells. Some of the measures envisaged entail possible restrictions on exports, the extraction of underground storage, and the maintenance of minimum liquid natural gas (LNG) inventories in plants.

Obligatory Planning 2008-2016

In order to guarantee the availability of reliable, high-quality energy services, adequate supporting infrastructures are essential. The development of such infrastructures – from identification of the need until the plant is commissioned – takes a long time. Anticipating and constantly adjusting forecasts to the actual situation is essential to the definition of all countries' energy policies.

As Spain's largest gas carrier and the Technical System Operator, throughout the planning process Enagás actively assists the Ministry for Industry, Tourism and Commerce and the Autonomous Communities in analysing and defining the structure of the Gas System and the new infrastructures needed to guarantee quality and security of supply in the new forecast demand scenario. The process was brought to a close on 30 May 2009 when the Spanish Cabinet approved the Spanish Electricity and Gas Infrastructure Plan for 2008-2016, the document setting out the framework for the development of the natural gas and electricity transport networks in the year ahead.

On the 2016 horizon, the key elements of the new plan are:

- The need to increase storage capacity to help guarantee supply.

- Initiatives to increase international connection capacity.
- A focus on financial criteria to ensure that new investments are justified by reasonable returns.

Ensuring adequate infrastructures requires planning entry, transport and storage capacity sufficient to guarantee cover of conventional demand at annual consumption peaks as well as ensuring the availability of all combined cycle plants necessary to satisfy electricity demand. In addition, the infrastructures must be planned in such as way as to guarantee, in the event of total failure of any entry point, that 100% of conventional demand on a business day in winter is satisfied and a minimum of 90% of the CCGTs in operation in Spain receive adequate gas supplies.

Additionally, by way of safety margin, surplus capacity of around 10% should be available to ensure demand can be met in the event of peak gas demand growing at a rate higher than forecast over a period of several years. This planned surplus capacity must also be sufficient to cover any potential delays that may occur in the authorisation and construction process before the infrastructures are brought into service.

According to the forecasts set out in the Plan, current gas demand will grow throughout the forecast period (2008-2016) at a compound annual growth rate that could be as high as 5%.

At present, based on forecast growth, and essentially as a result of the commissioning of new combined cycle plants, the winter demand peak for gas is expected to increase by approximately 80% relative to the last record registered on 17 December 2007.

It is this sharp increase in peak winter demand that guides and defines the development of new infrastructures: entry and transport capacity must be sufficient to guarantee peak demand can be satisfied. Demand peaks in the traditional consumption sector (i.e. domestic and industrial) occur as a result of low winter temperatures, and are coincident with increased electricity demand and, by extension, increased consumption at power stations that generate electricity using gas which, given its high level of availability, serves as a back-up for renewable energy sources.

Gas infrastructures are designed to have sufficient capacity to ensure that, in the event of a shortage of renewable generation sources, electricity demand can be satisfied from generation using manageable technologies, i.e. specifically combined cycle plants.

To meet forecast growth in demand, the gas system's intake capacity must be increased very significantly in the 2008-2016 period. Of great significance in this regard are the new Medgaz international connection with Algeria, expected to come on-stream in 2009, the new El Musel regasification plant, scheduled for commissioning in 2011, and the start-up of the two new underground storage facilities in Yela and Castor.

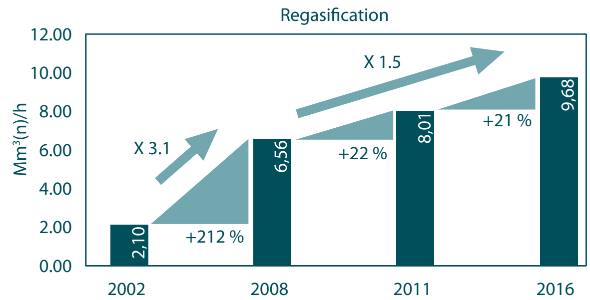
The Plan also envisages increased international connection capacity with France. The new connection via Catalonia, called the Midcat project, which is dependent upon the development of the required infrastructures in France, is particularly important from the capacity point of view.

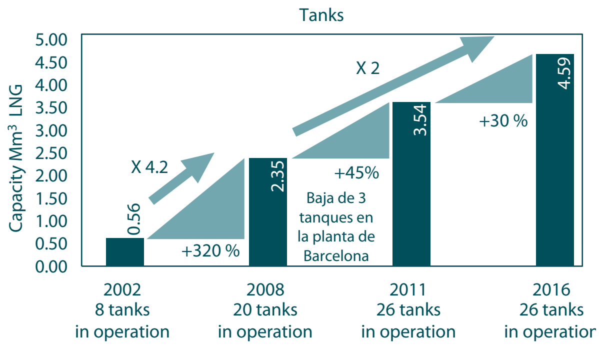
Given the situation existing in Spain, where virtually 100% of natural gas is imported, the availability of sufficient storage capacity, either in the form of LNG tanks or underground facilities is vitally important.

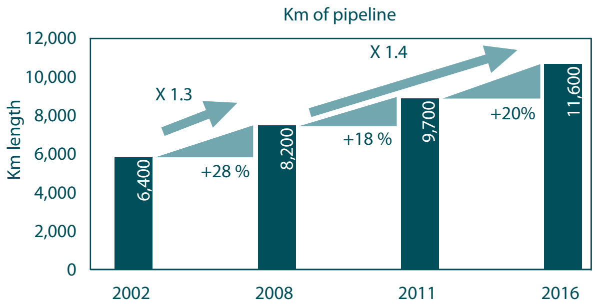
The storage capacity included in the Plan is intended to guarantee operability, flexibility and availability of the minimum security inventories needed for the Gas System as a whole to function correctly.

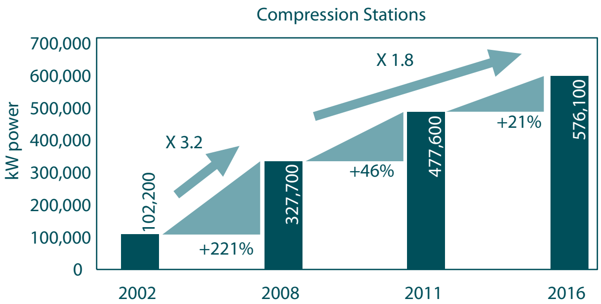
A 200% increase in the LNG storage capacity currently available is planned for the period, taking the total to more than 4.5 million m3. This will give each plant between 9 and 11 days of autonomy, significantly enhancing the security of system supply and rendering the main suppliers more flexible from an operational standpoint.

To integrate entry capacity with increases in international connections and underground storage capacity, a central element of the new Plan is that the new gas system will have as its backbone three major transport axes running from north to south (Ruta de la Plata, Central Axis and the Levante Axis), that are interconnected by another three axes running east to west (Ebro Axis, Zamora-Algete Axis and the Transversal Axis), between them providing a direct route to the centre of the country where they interconnect, with the Yela underground storage









facility providing an ideal location in which to offset demand fluctuations. The new structure will also connect the Reganosa plant directly with central Spain.

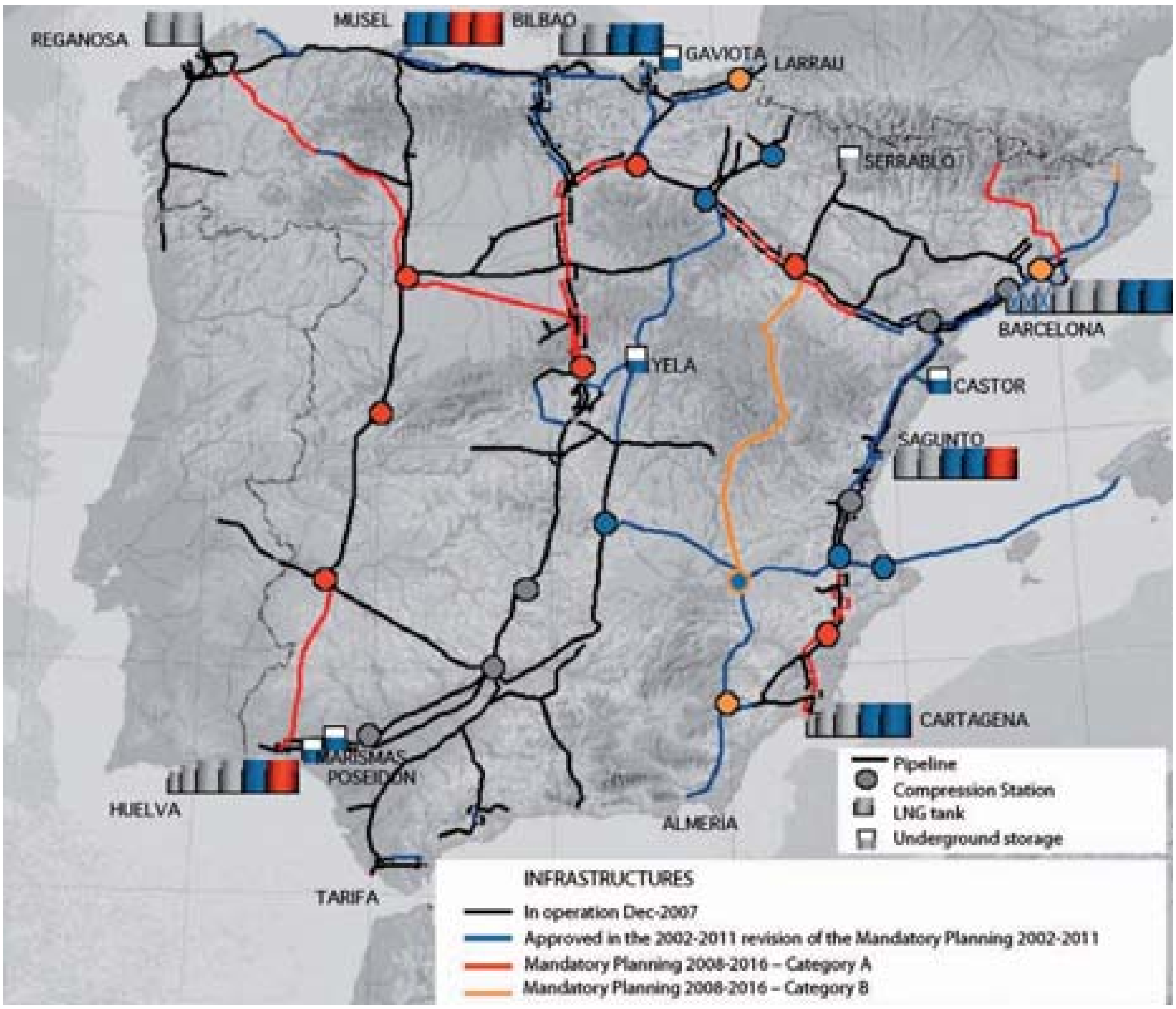
Spain will thus be endowed with a system of radial pipelines very well suited to the characteristics of the Iberian peninsula: gas will enter the system via regasification plants located on the coast that are interconnected with the central region, linking the various production areas and providing operational flexibility and guaranteed security of supply.

All these new infrastructures require total planned investment of €10.221Bn, breaking down as follows:

- Transport pipelines: €4.584Bn.
- Regasification plants: €3.421Bn.
- Compressor stations: €642Mn.
- Underground storage facilities: €1.575Bn.

Overall, this planned expansion of regasification, transport and storage infrastructures represents a cost of less than 10% of the price of gas for end consumers.

The new projects envisaged in the Plan will require investments on Enagás' part of between €2.2Bn and 3Bn between 2013 and 2016, depending on the proportion of the investments ultimately assigned to the development of planned new storage facilities. These new investments are in addition to the €5Bn already envisaged in the Company's 2007-2012 Strategic Plan and will enable the operators to provide an excellent service to the whole country and guarantee continuity and security of the supply at all times.



2.8. Membership of industry bodies and associations

Membership of industry bodies and associations (4.13, EC9, SO5, LA6, PR1)

Enagás ranks among the companies that set the international benchmarks in natural gas transport, regasification and storage. Accordingly, with the aim of sharing experience on the gas industry, the Company makes cooperation with other companies and bodies, contributing to national and international organisations and associations, and attending conferences and forums a top priority *–EC9, SO5–*.

National associations and bodies	Remits
SEDIGAS (Asociación Española del Gas)	The Spanish Gas Association (Asociación Española del Gas, or SEDIGAS) is involved in standardisation, training, professional accreditation, and publishing activities and is authorised to represent the Spanish gas industry in dealings with the public authorities, standardisation and accreditation bodies, professional associations and other national energy sector agents. As Spain's largest gas carrier and the Technical System Operator, Enagás chairs the Committee of Gas Transporters and is also a member of the Executive Committee and Standing Committee.
ENERCLUB	ENERCLUB works on the national and international stage to promote reflection, debate, and training, and to raise awareness in all aspects of energy knowledge. ENERCLUB also works to disseminate knowledge of energy-related issues and to defend and promote the interests of all actively involved in the energy sector. Enagás is an active member of the Board of Directors and Executive Committee of ENERCLUB, and of its Hydrocarbons Chapter. Enagás also contributes to its various information days, seminars, courses, etc, by sending top-level representatives to share their years of experience and their knowledge of the gas sector with delegates attending such events.
International associations and bodies	**Remits**
GIE (Gas Infrastructure Europe)	GIE (Gas Infrastructure Europe) is a European association of 57 companies that own and/or operate basic gas infrastructures (transport networks, regasification plants and underground storage facilities) in 27 European countries. GIE represents and defends the interests of infrastructure operators in dealing with European institutions. As a result of this work, it is establishing itself as the main counterparty to the European regulators (ERGEG) and the European Commission. GIE is actively contributing to the creation of the single European market by fostering cooperation between Europe's regulatory bodies and other sector associations and helping draft new European legislative and regulatory developments. It also carries out individual actions and initiatives designed to encourage and increase not only the development of the infrastructures needed to guarantee security and diversity of supply but also liquidity and interconnections between national markets and, in short, to accelerate the liberalisation of the European market.

International associations and bodies	Remits
GIE (Gas Infrastructure Europe)	GIE is composed of three associations: GTE (Gas Transmission Europe), GSE (Gas Storage Europe) and GLE (Gas LNG Europe), grouping together, respectively, transport network operators and/or owners, storage providers and LNG plants. As an operator involved in all three areas, Enagás is a full and active member of all three sections of GIE and a proactive contributor to the association's various working groups. As the leading player in the European LNG industry and one of Europe's largest transport network operators, Enagás also chairs GIE's association of European LNG plant operators (GLE) and is a member of the Executive Committee of GTE. Enagás is also one of the 12 members of the Executive Board of GIE. Last year saw the start-up of GTE+, a dedicated working group within GTE set up to work proactively towards creating the European Network of Transmission System Operators for Gas (ENTSOG) and perform the tasks envisaged under the new directive and the European regulations currently under development. GTE+ works in cooperation with all market agents, regulators and the European Commission.
ERGEG (European Energy Regulators)	In 2006, under the supervision of the European Commission, ERGEG (European Energy Regulators) launched the Regional Initiatives constituting the first step towards creating the single European energy market. Three regional gas markets were defined and seven regional electricity markets. The South Gas Regional Initiative (SGRI), of which Enagás is an active member, is made up of all stakeholders in France, Spain and Portugal and is led by the Spanish National Energy Commission (CNE). The following priorities have been identified for SGRI: interconnection capacity, interoperability, transparency and hubs (MIBGAS). In 2008 SGRI's activities were focussed primarily on increasing interconnection capacity between France and Spain. Work on this priority area included carrying out an OSP (Open Subscription Period) for the allocation, on a coordinated basis between Enagás and TIGF, of existing and committed international connection capacity at Larrau for the period running from 1 April 2009 to 31 March 2013. The auction was extremely well received among suppliers and demand outstripped the capacity offered by more than 300%. The success of the procedure confirmed the need to continue working to increase interconnection capacity between France and Spain. The SGRI also plans to run an OS (Open Season) in 2009. The aim of this procedure will be to evaluate, based on suppliers' contributions, the need to increase interconnection capacity between 2013 and 2015 in the following areas: Enagás – TIGF, Naturgas - TIGF, TIGF - GRTgazSur, GRTgazSur – GRTgazNorte. As part of this process, and as a first step towards running the OS, at the end of 2008 the CNE and French Energy Regulation Commission (Commission de Régulation de l'Énergie, or CRE) launched a public consultation process to obtain a preliminary overview of the capacity products that could be offered in the OS.

International associations and bodies	Remits
EASEE-gas	This association has 84 full members and 25 associate members. EASEE-gas promotes Common Business Practices, or CBPs, with a view to simplifying and unifying the processes associated with gas transactions between its members and thereby achieving an efficient and effective gas market.
GIIGNL (Grupo Internacional de Importadores de GNL)	GIIGNL (Grupo Internacional de Importadores de GNL) fosters the development of LNG-related activities including purchases, imports, maritime transportation, regasification, etc. In 2008 Enagás produced an update of the study into access conditions for all plants in Europe it produced in 2007 (including an updated comparison of the corresponding tariffs and tolls). The members of GIIGNL were pleased to have this document and again congratulated Enagás on the high quality of its work.
IGU (International Gas Union)	The IGU (International Gas Union) is composed of the gas associations representing the national industries of 68 countries. The Union looks into problems associated with the gas industry with a view to fostering its expansion, from the technical, economic and regulatory points of view alike. It also promotes cooperation and knowledge sharing between gas technicians working in its member countries. Via SEDIGAS, Enagás actively contributes to and promotes IGU initiatives under the PGC B (Strategy, Economics and Regulation) and also contributes to the PGC D (LNG), WOC 2 (underground storage facilities) and WOC 3 (transportation).
UNECE	UNECE works in and contributes to various areas specific to the gas industry. UNECE is composed of government representatives from the more than 56 nations forming part of the United Nations Economic Commission for Europe (UNECE). In 2008 Enagás took part in the UNECE Working Gas Party, presenting and promoting the Company, as well as the Spanish LNG market and gas industry in general. Enagás currently leads, in conjunction with UNECE, an international group of experts working to produce a study on the current situation and development outlook for LNG in the UNECE region, and the implications of this development for existing national regulatory frameworks.
19th World Petroleum Congress	Enagás was the official sponsor of the 19th World Petroleum Congress that took place in Madrid between 29 June and 3 July 2008. As a member of the Congress' Organising Committee, Enagás also had a key role in the event's organisation.
GERG	The core remits of the GERG are to coordinate research and technological development in the gas sector, guarantee gas supply, protect the environment, increase energy efficiency and security and reduce production, transportation, storage, distribution and usage costs. Enagás is a member of the Executive Board of this association. Enagás is currently overseeing the execution of a project investigating the change in the characteristics of LNG during carriage in methane tankers.
Marcogaz	Marcogaz is involved in drafting European legislation, standards and accreditations relating to safety, responsible use of energy and protection of persons and the environment in the fields of gas transportation, distribution and utilisation. Enagás is a member of the Marcogaz Standing Committee for Gas Infrastructures.

International associations and bodies	Remits
AIE (Agencia Internacional de la Energía)	The International Energy Agency (IEA) is an intergovernmental organisation that acts as energy policy advisor to 28 OECD countries with the aim of ensuring reliable, sustainable and affordable energy for all their citizens. Enagás contributes to the Agency's work via the regular provision of information, participating in conferences and seminars and assisting the national regulatory authorities in implementing, monitoring and assessing the IEA's energy policy suggestions for the Spanish gas system.
EGIG (European Gas pipeline Incident data Group)	The European Gas pipeline Incident data Group (EGIG) is composed of 15 of Europe's largest gas carriers (www.egig.nl). Its remit is to extend and enhance knowledge of the causes and circumstances in which incidents occur on gas transport lines with a view, wherever possible, to improving safety levels. Enagás contributes by bringing in-depth knowledge of this field and assisting in the definition of risk reduction recommendations.
PSG (Pipeline Safety Group)	The Pipeline Safety Group (PSG) is composed of 15 gas transport companies from throughout the world. Its remit is to exchange information on developments in the requirements of each country in relation to the safety of gas transport pipelines and carry out R+D+i projects in this field. Enagás is an active contributor to the group, providing information on changes in Spanish legislation and actively participating in the R+D+i projects sponsored by the Group.
ESPLA (Asociación Española Servicios Prevención Laboral)	The Spanish Association for Occupational Prevention Services (ESPLA) works to improve the management of Occupational Prevention Services, performing inter alia the following activities: a) sharing experience in the field of workplace prevention. b) participating in forums analysing the management and operation of prevention services. c) studying the application of legal requirements in this area. d) presenting proposals and providing consultancy to the Spanish Authorities.

Besides participating in the above associations and bodies, Enagás regularly hosts visits to its facilities as another means of sharing experience with other sector agents.

In 2008, the key activities in which Enagás was involved in the various areas affected by its activities were the following:

Regulatory backdrop

- In March 2008, in conjunction with Gas Natural, Enagás organised one of the two twice-yearly meetings of the CSG Group of GIIGNL. The meeting took place in Seville and included a technical visit to Enagás' LNG plant in Huelva. More than 30 delegates, representing the main companies in the international LNG business, attended the event. Enagás used the visit to the LNG plant as an opportunity to satisfy a request from Greek company DESFA (operator of the transport network and LNG plant), which was interested in visiting an Enagás plant and obtaining information on the Spanish market, the prevailing regulatory framework, and more detail on various technical-commercial aspects of Enagás' operation.

- In April 2008, Enagás received a visit from representatives of the Moroccan Ministry for Industry, Commerce and New Technologies as part of a series of events planned under the European Commission's TAIEX programme. During the visit, Enagás presented a history of the Spanish gas industry to the Moroccan delegation, including a comprehensive overview of the current regulatory framework for the Spanish gas system, a description of the Spanish market liberalisation process, and, to conclude, a general overview of the main regulatory and legislative developments underway at European level.
- In April 2008, the Polish Agency for Energy Regulation visited Enagás' offices. The purpose of this visit was to extend the Polish regulator's knowledge of the Spanish regulatory framework and of the Company. Enagás also shared the experiences it acquired in the liberalisation process and the benefits that LNG was bringing to the Spanish market.
- In August 2008, the Turkish Agency for Energy Market Regulation (EMRA) visited Enagás' underground storage facility in Serrablo. In the course of this guided visit, Enagás gave a presentation about the Company and the Spanish regulatory framework and a more detailed account of the latest regulatory updates related to the development and the technical-commercial operation of underground storage facilities in Spain.
- In November 2008, in conjunction with the Ministry for Industry, Tourism and Commerce, CORES and CLH, Enagás organised a visit from a broad delegation of various Finnish oil and gas industry bodies, associations and companies. The Finnish delegation's main objective was to gain a better understanding of the Spanish regulatory framework in terms of the policies and measures currently in place to guarantee adequate security of supply to the Spanish market (strategic reserves, gas and oil network planning, etc). The visit included a technical visit to the Enagás regasification plant in Barcelona and to the underground storage facility in Serrablo (Huesca), also owned by Enagás.
- In November 2008, Enagás welcomed a delegation from Mexican company PEMEX (Petróleos Mexicanos) to its head office. During this visit, Enagás gave a series of presentations providing a general overview of the Spanish gas sector, the regulatory framework, the gas pipeline network and various aspects of the prevention and security procedures in place at the Company. The visit also included a visit to the Principal Control Centre.

Through the collaboration with other companies and bodies, the participation in associations and organizations at the domestic and international levels, Enagás shares its broad experience in the gas industry

R+D+i activities

In 2008, Enagás' technology and innovation division devoted considerable energies to increasing opportunities for cooperation with other energy companies, reflecting its firm belief in the importance of finding common areas of interest that make the joint execution of R+D+i projects viable.

Its programme of cooperation with technological universities and institutes was extended in 2008 and now includes a number of R+D+i projects in various stages of development, in which it is working with the polytechnic universities of Zaragoza, Cartagena and Madrid, the Technology Institutes of Aragón, the UNED, Madrid's Complutense University and the Spanish Council for Scientific Research (CSIC).

From the increasingly broad range of forums and conferences organised throughout the world to consider and debate energy-related issues in general and the natural gas sector in particular, in 2008 Enagás choice those likely to prove most helpful to its technology and innovation division in fulfilling its assigned remit of "Technological Observatory". These forums are an excellent opportunity to find out about technological trends and the solutions most likely to become tomorrow's reality, and an essential event for gas industry technicians. Attendance at such events is also an opportunity to present the advances and results Enagás has achieved in the technological field.

Occupational health and safety and prevention of environmental impacts (LA6, PR1)

Enagás is a member of the Technical Association of the European Natural Gas Industry (MARCOGAZ). This association is a source of EU-wide reference in the above field and an active contributor to the development of guidelines, standards and accreditations related to security, environmental protection and responsible use of energy, inter alia *–LA6, PR1–*.

Enagás is a leading proponent of this organisation and since 2006 has chaired the Gas Infrastructure Standing Committee besides being a member the Joint Environment, Health and Safety Group, which deals with safety and environment-related aspects of the gas sector via various working groups.

Together with MARCOGAZ and GIE (Gas Infrastructure Europe), Enagás also forms part of the SECURITY STUDY GROUP *–LA6, PR1–*.

The main environmental and health-related issues on the agenda in 2008 were:

- The development of guidelines and developmental indicators.
- The study of climate change and related problems.
- The reduction of methane emissions.
- Reviewing the health and safety-related problems and regulations potentially impacting on gas systems and components (e.g. PED, CPD, ATEX directives, etc)
- Analysis of product life cycles.

The Company's involvement in the above associations ensure that it is always up to date on developments in the natural gas industry at European level, able to exchange opinions with other companies in the sector, which may give us advance notice of future directives, and make our contributions to the same.

At national level, Enagás is a member of the Spanish Association for Occupational Prevention Services (ESPLA), which works to improve the management of Occupational Prevention Services, performing inter alia the following activities *–LA6, PR1–:*

- Sharing experience in the field of occupational prevention.
- Participating in forums analysing the management and operation of prevention services.
- Studying the application of legal requirements in this area.
- Presenting proposals and providing consultancy to the Spanish Authorities.

ENAGÁS IN 2008

SUSTAINABILITY AT ENAGÁS

3. Sustainability at Enagás

Corporate responsibility is pivotal to Enagás' strategy. As a result of our efforts in this area, in 2008 the Company made considerable advances in sustainability that demonstrate our firm commitment to this goal.

Enagás is aware that to achieve business success the Company needs to find a balance between economic growth, social cohesion and environmental protection while at the same time taking its stakeholders' expectations into account. Enagás aims to be the benchmark in the energy sector in both areas.

Integrated Management Model (4.8)

Enagás has incorporated sustainability into its Management Model, which is built around three key pillars - Quality, Excellence and Sustainability.

This integrated model is the result of a shared focus on ongoing improvements to the foregoing areas that enables the Company to simultaneously address the different key elements in the management model - leadership, policy and strategy, personnel management, customer satisfaction, social impact, etc.- and thus maximise the global impact.

For Enagás, Corporate Responsibility is a responsible manner of approaching the future with optimism and confidence. A necessary prerequisite for the business success the Company seeks is an ability to come up with fresh and effective responses to the sustainable design that society is pursuing for the future

Enagás has incorporated sustainability into its Management Model, wich is built around three key pillars: Quality, Excellence and Sustainability

	SITUATION REVISION: Tools	SITUATION REVISION: Results	PLANIFICATION/PRIORITY		IMPLEMENTATION AND MONITORING		
Q (Quality)	INT / EXT AUDIT (ISO 9000)	NON COMPLIANCE / COMMENTS	Corrective or preventive measures	INTEGRATED PLAN	Implement Q	INTEGRATED	MONITORING
E (Excellence)	SELF ASSESSMENT EFQM	strengths, areas of improvement and assessment by criteria / subcriteria and global	Action plan in priority areas of improvement		Implement E		
S (Sustainability)	DJSI ANG GRI ASSESSMENT	Assesstment and not covered items by dimension (2007:77 points)	Action plan by dimension (economic, social and environmental)		Implement S		
	GLOBAL SITUATION ON CERTAIN MODELS / REFERENCE SYSTEMS		LAUNCHING OF JOINT INITIATIVES		COORDINATED GLOBAL MONITORING		

Sustainability is pivotal to Enagás strategy, therefore sustainable development was included by the Chairman and the senior management as one of our prime objetives

2008 accolades

The Management Model developed by the Company brought it the following accolades in 2008:

- Inclusion, as a world leader in its category, in the Dow Jones Sustainability World index (DJSI) and European Dow Jones Stoxx Sustainability index, two indices that rank companies providing international examples of best practice in sustainability and corporate social responsibility. Enagás also obtained the highest scores in its sector for the social and environmental dimensions.
- Confirmation of its long-term inclusion in the FTSE4Good index, another of the world's most prestigious sustainability indicators. The criteria used by the FTSE to determine which companies should be admitted to this index, which Enagás joined in 2006, cover social responsibility, the envi-

In 2008 Enagás has achieved significant recognitions in the field of sustainability, highlighting its inclusion as a world leader in gas distribution sector in the Dow Jones Sustainability Index World (DJSI)

ronment, relations with shareholders, employees, clients and suppliers, and respect and support for human rights.

- Renewal of its commitment under the United Nations Global Compact, of which Enagás has been a member since 2003. The Global Compact is an ethical commitment initiative that encourages companies worldwide to incorporate within their strategy and operations ten universal principles concerning human rights, work, the environment and the fight against corruption. Enagás provides a public and transparent record of the progress it has made in this field in an annual report published on the Global Compact website at www.pactomundial.org.

- Confirmation of its Family-Responsible Company Certificate, an accreditation that attests to the Company's application of policies that foster work-life balance among its employees.

- Award of 300+ points under the EFQM (European Excellence) model, a model for the development of excellence in management.

- Improvements in management quality resulting in the award of further ISO 9001:2000 certifications for its Technical Management of the Spanish Gas System that constitute a further endorsement of Enagás' transparency and impartiality, and start of the certification process for infrastructure management and third-party network access, which will be concluded in 2009.

- OHSAS 18001 accreditation for all regasification plants reflecting the Company's commitment to occupational prevention and environmental protection.

- Preparation of the 2008 Annual Report according to the principles and content guidelines established in the Global Reporting Initiative (GRI).

Enagás achieved these significant advances in the field of sustainability after implementing an ambitious 2008 Action Plan built around the following initiatives:

- Board approval of a Position on Corporate Responsibility, which underlines the Company's commitment to including corporate responsibility principles and practices in its management system. This statement of the principles of Enagás' senior management was further endorsed by the approval of Enagás statements of position and commitment on Biodiversity, Climate Change, Equality and Community Contribution.

- Issue of a set of Business Principles, which constitute a conduct guideline for ensuring correct professional conduct on the part of employees.

- Development of the Enagás Stakeholder Map and channels of communication and interaction with the same, for the purpose of assessing their needs and expectations and incorporating these within the Enagás strategy.

- Preparation and implementation of the 2009-2012 Corporate Responsibility Master Plan, which sets out Enagás' commit-

SUSTAINABILITY AT ENAGÁS

ment to establishing the Company as the benchmark in the energy sector in terms of social trust on the strength of its sustainability practices and its recognition of stakeholders.

- Implementation of this plan will be supervised and coordinated by the Sustainability Committee created in 2008 to enable senior management to oversee all Enagás initiatives in the sustainability area.

Enagás' strategy is now fully aligned with sustainable development principles, as is confirmed in the Company's mission statement:

"Enagás' mission, in its role as carrier and technical operator, is to ensure that the Spanish Gas System works correctly, to guarantee the security of supply and to encourage competition in a transparent and non-discriminatory manner.

Enagás optimises the way the Gas System works by coordinating the different agents and proposing measures for improvement. It develops the transport network and manages its infrastructure in a secure, efficient, profitable and environmentally-friendly manner. These functions are performed exclusively and independently.

All the above is carried out in cooperation with the regulators, providing a quality service for customers, creating value for shareholders and contributing to the sustainable development of society."

2008 Sustainability Action Plan has included the following initiatives: issue of a set of bussines principles, stakeholders Map definition and the implementation of the 2009-2012 Corporate Responsibility Master Plan

3.1. Enagás' position on corporate responsibility

Position on Corporate Responsibility (4.8)

For Enagás, Corporate Responsibility is a responsible manner of approaching the future with optimism and confidence. A necessary prerequisite for the business success the Company seeks is an ability to come up with fresh and effective responses to the sustainable design that society is pursuing for the future.

Thus Enagás cemented its commitment to Corporate Responsibility in 2008 when the Board of Directors approved the **Enagás Position on Corporate Responsibility,** so underlining the Company's commitment to incorporating corporate responsibility principles and practices in its Management System. As this position indicates, Enagás will build its future strategy around the following corporate challenges:

- Service, reliability and accessibility.
- Transparency, ethics and integrity, the *Enagás Business Principles* having been approved in 2008.
- Human capital development, the *Enagás Position on Equality* having been approved in 2008.
- Safety, an *Enagás Prevention Policy* already existing.
- Biodiversity, the *Enagás Position on Biodiversity* having been approved in 2008.
- Climate change, the *Enagás Position on Climate Change* having been approved in 2008.
- Helping the community, the *Enagás Position on Community Contribution* having been approved in 2008.

The Corporate Responsibility strategy in Enagás was reinforced by the approval by the Board of Directors

3.2. Enagás' Business Principles

Enagás' Business Principles (HR3, HR8, SO3)

Enagás is aware that the trust of its shareholders, customers, providers and external partners, as well as the social environment in the areas where it is active, is dependent on the integrity and responsibility exercised by each of its employees in the performance of their day-to-day activities.

It has therefore drawn up a set of **Business Principals,** which constitute a conduct guideline designed to guarantee correct professional conduct on the part of employees in relation to:

- Compliance with and ongoing adjustment to applicable regulations.
- Conflicts of interest and loyalty to the Company.
- Internal control and prevention of fraud, encompassing three main categories:
  - Use and care of assets and resources.
  - Accuracy of information and control of records.
  - Corruption and bribery.
- Commitment to persons, with three main dimensions:
  - Respect, integrity and cooperation.
  - Equal opportunities and personal development.
  - Health and safety.
- Relations with business partners, embracing three main areas:
  - Cooperation with regulators, public sector authorities and political neutrality.
  - Customer service.
  - Relations with contractors and suppliers.
- Commitment to society and the environment, comprising two areas:
  - Commitment to society.
  - The environment.
- Communication, community involvement and corporate image.

Enagás has also approved a **consultation and notification procedure that will allow employees to report actions and/or conduct they believe to violate the Business Principles,** establishing in addition a **Supervisory Committee** to monitor the correct operation of the same.

Furthermore, to ensure efficient implementation of the Enagás Business Principals and the associated management procedures, various initiatives for communicating them to **employees** have been undertaken *–HR3, HR8, SO3–:*

- Intranet publication of the Enagás Business Principals and associated management procedures.
- E-mail distribution of information on principles, procedures, communication channels and the Sustainability Committee, sent to all employees by the Director of Resources.
- Establishment of the necessary communication channels: e-mail, fax, internet forms.

In addition, to ensure access and information for all **shareholders, customers, providers and external partners,** the Business Principles can also be consulted on the internet, where an email box is available for submitting queries and notifications (canal.etico@enagas.es).

Also, to encourage the involvement of Enagás' suppliers in the Company's sustainability policy, **supplier contracts include a clause** stipulating that the contractor or supplier recognises and agrees to comply with Enagás' corporate responsibility policy and to respect the principles of the United Nations Global Compact and the Universal Declaration of Human Rights in the performance of its activities, whether these be carried out by its own personnel or by contracted parties. This clause also authorises Enagás to carry out audits to verify the degree of compliance with these corporate responsibility requirements, with the supplier accepting any corrective or preventive measures that may be imposed".

Enagás' Business Principles constitute a conduct guideline designed to guarantee correct professional conduct on the part of employees in relation to the commitment to the stakeholders

3.3. Stakeholder groups

Relations with stakeholder groups (4.14, 4.15, 4.16, 4.17, EC1)

Enagás includes among its priorities the need to forge close links with its stakeholders with a view to fostering mutually-beneficial relationships on the medium- to long-term horizon.

For this reason, in 2008 it embarked on an ambitious project to draw up a Map of Stakeholder Groups, with the aim of identifying Enagás' main stakeholder groups and establishing channels of communication and interaction with them.

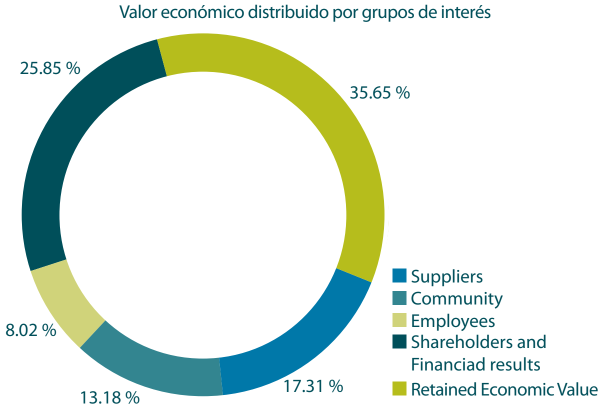
The heads of all organisational units were required to contribute to this Project, each being called on to define its specific internal and external stakeholder groups and incorporate them in the global map. This exercise resulted in identification of the following categories and the assignment of related levels of priority:

GROUP / SUBGROUP	PRIORITY (1–5)
SHAREHOLDERS	5
PUBLIC SECTOR	5
CNE	5
Ministry for Industry, Tourism and Commerce	5
Ministry for the Environment and the Rural and Marine Environment	5
Other Ministries	3
Regional government (Autonomous Communities)	4
Local government	4
European organisations	4
FINANCIAL ANALYSTS	3
Equity analysts	3
Rating agencies	4
BANKS AND INSURANCE PROVIDERS	4
SUPPLIERS	3
Gas suppliers	3
Engineering companies	4
Construction contractors	3
Goods and services	2
Auditors	3
Consultancies	3
Inspection services	3
COMMUNICATION MEDIA	4
National media	4
Local and regional media	4
International media	3
EMPLOYEES	5
Employees	5
Trade unions	4
CUSTOMERS	5
Carriers	5
Distributors	4
Suppliers	5
SOCIETY	3
NGOs and foundations	3
Local associations	3
Centres of education and research	3
Ecological groups	3

1 – Low priority, 5 – High priority

Economic value distributed –EC1–

Millions of euros	2006	2007	2008
Economic value generated			
Net sales	744.4	779.9	820.7
Other revenues	33.6	36.7	39.5
Total EVG	**778.0**	**816.6**	**860.2**
Economic value distributed			
Suppliers: Other operating expenses	**157.5**	**155.3**	**148.8**
Payments to suppliers	34.1	40.3	45.5
Lease and ownership expenses	70.6	64	36.4
Other	52.8	51.0	66.9
Society	**117.8**	**116.2**	**113.4**
Taxes	117.6	115.9	112.8
Investment in social action	0.2	0.3	0.6
Employees: Personnel expenses	**54.3**	**62.0**	**69.0**
Wages, salaries and similar remuneration	46.1	53.5	61.4
Pension contributions and provisions	1.8	2.0	2.1
Other social security expenses	13.4	14.2	14.2
Healthcare insurance	1.4	1.5	1.4
Canteen services/subsidised food	1.1	1.3	1.5
Capital expenditure	-9.5	-10.5	-11.6
Capital providers	**159.6**	**200.6**	**222.3**
Dividends paid to shareholders	112.6	143.0	155.3
Financial expense	47.0	57.6	67.0
Total ECD	**489.2**	**534.1**	**553.4**
Economic value retained			
Reserves	103.8	95.3	103.6
Depreciation and amortisation	184.9	187.2	203.1
Total EVR	**288.7**	**282.5**	**306.7**
Other indicators			
Investments	430.6	508.6	776.9
Suppliers (orders)	3,798	4,188	4,336



In addition, in 2008 Enagás carried out a **Corporate Responsibility survey** among the stakeholder groups identified to find out their views on various issues, including Enagás' commitment to corporate responsibility, including in comparison with other companies, the areas of corporate responsibility on which the Company should focus, assessment of the Company's image, etc.

The most significant survey findings were:

- Enagás is recognised for guarantying security of natural gas supply, developing the transport network and managing its infrastructures and the Spanish Gas System in general.
- Enagás is rated highly for operating in a safe, diligent and impartial manner, making it also a good company to work for.
- The need to prioritise safety in all its activities, good employment practices, the preservation of natural resources and biodiversity, and R+D+i were identified as the key elements of corporate responsibility to be developed at Enagás.
- Enagás' commitment to corporate responsibility and the communication of relevant information in this field was highly rated.

The survey results served as the basis for selecting those elements of most interest to stakeholders for inclusion in this 2008 Annual Report and for drawing up the Corporate Responsibility Master Plan.

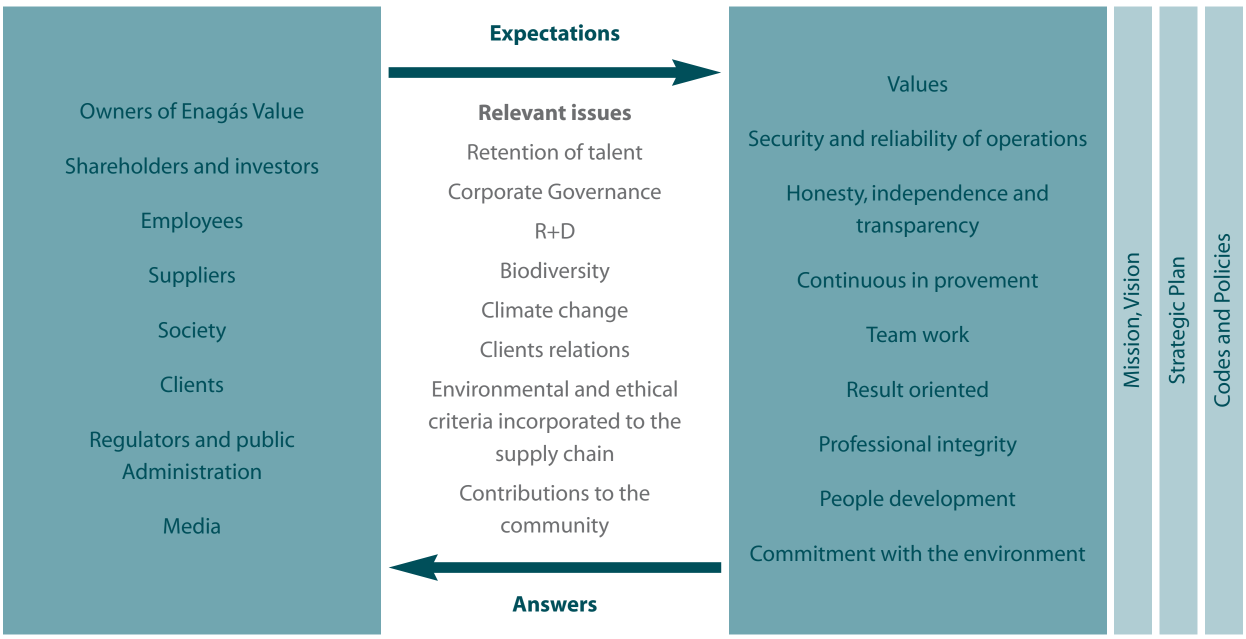
Enagás has established as one of the main priorities to strengthen the relations with the different stakeholders in a medium to long-term horizon

3.4. Corporate responsibility master plan

The 2009-2012 Corporate Responsibility Master Plan sets out Enagás' commitment to establishing the Company as a benchmark in its sector in terms of social trust, based on its corporate responsibility practices and recognition of stakeholders.

The purpose of the plan is to lay the foundations from which Enagás will be able to transform its corporate responsibility commitments into a tool generating specific capabilities and inimitable benefits, a tool that fosters trust between stakeholders and supports the development of the business while helping the Company achieve its medium– and long-term objectives.

In drawing up the plan, Enagás took account of the demands and expectations of its stakeholders and the Company's mission, values and strategy, which together served as the basis for deciding which material issues the plan should encompass.



The Corporate Responsibility Master Plan of Enagás sets out Enagás' commitment to establishing the Company as a benchmark in its sector in terms of social trust, based on its sustainability practices and the promotion of a corporate culture of excellence

To further assist in determining the material issues the plan should cover, the following actions were also carried out in 2008:

- Materiality analysis: identification of the corporate responsibility issues that are material for leading companies and organisations active in Enagás' sector, and which are therefore material for Enagás' approach to corporate responsibility.

Material issues in the sector according to Materiality Analysis

Note: The relevance is estimated according to the importance given by the stakeholders

- Review of the critical issues defined in the Action Plan produced as a result of the 2007 DJSI evaluation, which constitutes the basis for maintaining the lead in this index.

2008 Enagás assessment according to Dow Jones Sustainability Index (DJSI) evaluation criteria

	Company Score (%)	Average Score (%)	Best Score (%)	Lowest Score DJSI World (%)	Lowest Score DJSI STOXX (%)	Lowest Score DJSI North America (%)	Weighting in Total Score (%)
Economic Dimension	72	64	80	71	71	72	39.3
Environmental Dimension	82	56	82	73	63	41	29.2
Social Dimension	79	60	79	76	76	51	31.5

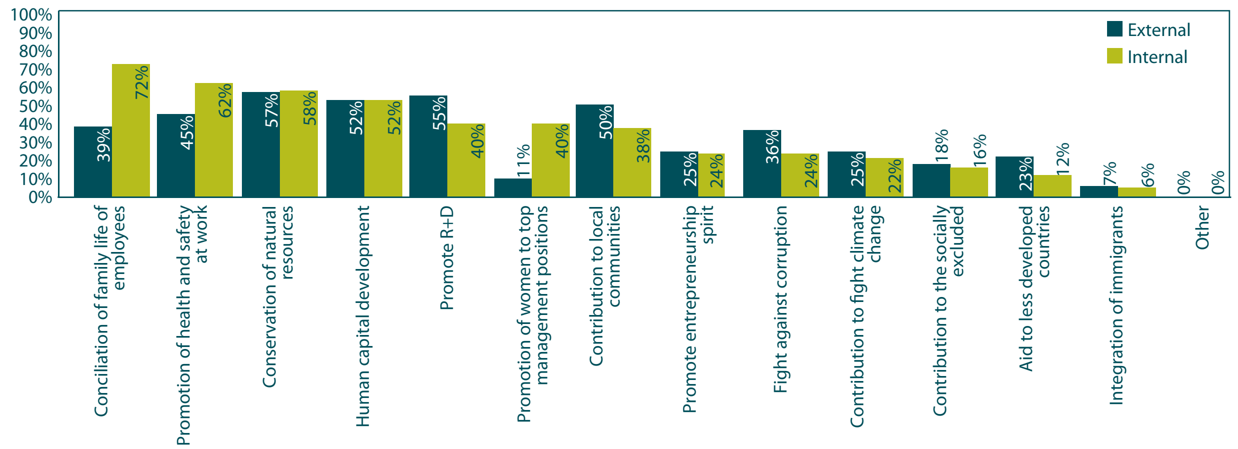
Economic dimension
- Corporate Governance
- Risk & Crisis Management
- Codes of Conduct / Compliance / Corruption Bribery
- Customer Relationship Management (IS)
- Market Opportunities (IS)
- Price Risk management (IS)
- Scorecards / Measurement Systems

Environmental dimension
- Envionronmental Reporting
- Envionronmental Policy/Management System (IS)
- Operational Eco-efficiency (IS)
- Storage, Transportation & Distribution Infrastructure (IS)
- Manufactured Gas Plants (IS)
- Climate Strategy (IS)
- Biodiversity (IS)

Social dimension
- Labor Practice Indicators
- Human Capital Development
- Talent Attraction & Retention
- Corporate Citizenship / Philanthropy
- Social Reporting
- Stakeholder engagement (IS)
- Occupational Health & Safety (IS)

- On-line surveys with internal stakeholders (employees) and external stakeholders (regulators, clients, shareholders, etc) to ascertain their views on the various elements of corporate responsibility. Survey results should be borne in mind, given that they could constitute a risk to the reputation and social trust in the Company.

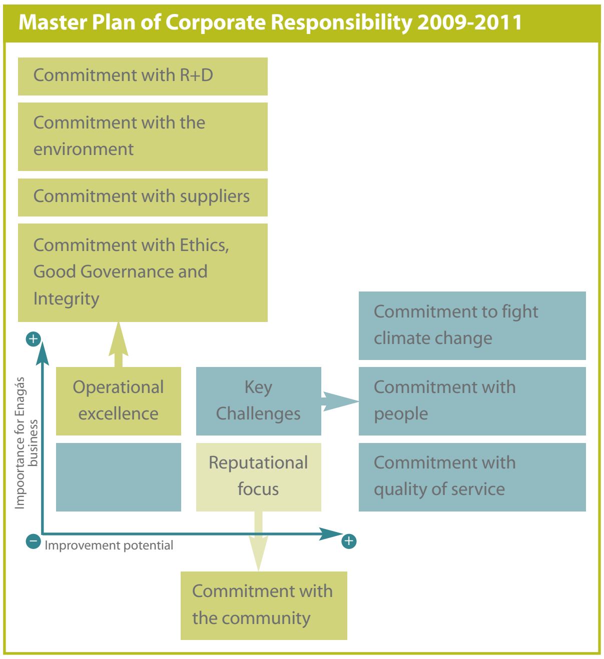
Main social concerns where Enagás should get involved



As a result of this analysis, the corporate responsibility master plan has been structured around eight key commitments between them encompassing three different areas of action.

Methodology

Actions	Results
1. Diagnosis 1. Materiality study 2. Revision of DJSI 2007 Plan 3. On-line survey with employees 4. On-line survey with stakeholders	**Vision** 1. What do we pretend with this effort? **Context** 2. What are the material issues in CR for Enagás
2. Identification of Commitment 5. Identification of priority issues 6. Identification of challenges	**Commitments** 3. What are the commitments that Enagás should assume with stakeholders? **Strategic objectives** 4. What objectives should be reached?
3. Identification of tools 7. Definition of action programs	**Tools** 5. What tools should be used and develop over time?



These commitments and the Company's responses to them are addressed via strategic objectives and lines of actions that involve establishing tracking indicators to measure fulfilment and designating specific units to assume responsibility for checking, following up and communicating the results.

OUR COMMITMENTS

In this section, Enagás gives an overview of the principal initiatives and action plans set in motion in 2008, with details of the commitments established in respect of its principal stakeholder groups: persons, customers, suppliers, regulatory bodies and public sector authorities, shareholders, the communication media, society and the environment.

4.1. Commitment to persons

Human capital is essential to the efficient exercise of Enagás' activities and the Company views the professional development of its employees as one of the key elements underpinning its operations and results.

Enagás aims to foster work-life balance among its employees, encouraging their personal growth and development via various initiatives that enable it to further develop the Family-Responsible Company model (a model that earned it Fundación+Familia certification in 2007).

In addition, with a view to encouraging further employee training and development, Enagás recently entered into an ongoing cooperation agreement with the prestigious IESE business school, by virtue of which it became one of the school's corporate sponsors and will be able to avail itself of its services.

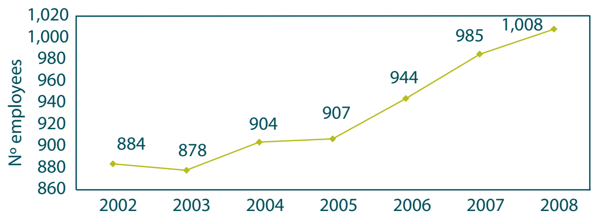
Enagás also continues to maintain the usual channels of dialogue with its employees' representatives, which dialogue was stepped up a gear in 2008 for negotiation of the next Enagás collective wage agreement.

4.1.1. Human resources

Workforce growth (LA1)

Enagás gained a net 23 new employees in 2008, taking the year-end headcount to 1,008, up 2% on the end-2007 figure –*LA1*–.

Workforce evolution



The sustained growth in the workforce over the past four years is essentially the result of two factors:

- The adjustment of the organisational model to segregate the Company's activities as Technical System Operator from its transportation activities, as necessary following the entry into force of Law 12/2007.
- The ambitious investment plan set out in the Enagás 2007-2012 strategic plan.

In this same period, the Company has also made significant efforts to increase the number of women it employs, such that by 31 December 2008 women made up more than 21% of the workforce. The percentage of female employees has grown steadily for the past three years, with a particularly significant increase of 9% in 2008, compared with a 2% overall expansion in the workforce. *–LA1–.*

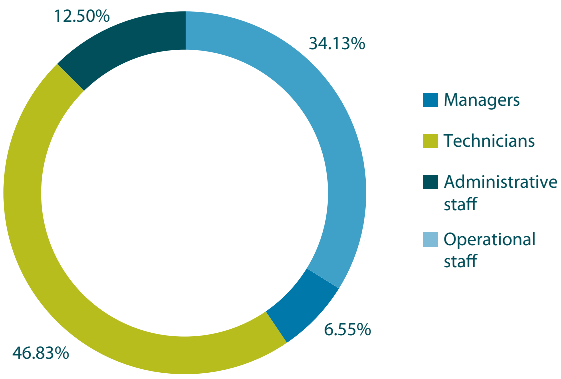
Women evolution in the workforce %

The distribution of staff by organisational unit reveals that the greatest percentage of workers are attached to the General Directorate for Infrastructures and Third-Party Access, the department including all employees involved in the development and maintenance of Enagás infrastructures *–LA1–.*

Professional profile (LA1, LA2, LA13)

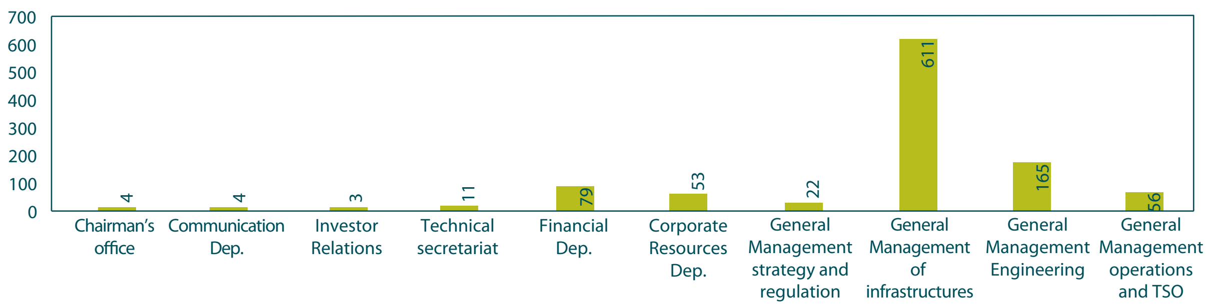
Technicians make up the largest professional category in Enagás, accounting for 46.83% of the total workforce at the end of 2008. This situation confirms the success of the drive to increase the level of technical qualification and expertise among staff that Enagás begun a few years ago and stepped up a gear in 2008, with a near 9% expansion in its technical workforce relative to end-2007.

Nº of employees by professional category



The increasingly technical profile of the workforce is also reflected in the **average level of staff qualification.** The professional category that saw the greatest increase in number of employees as a percentage of the total workforce was Senior Engineers, while the percentage of employees with primary educational qualifications only decreased.

Number of employees in each organizational unit



Workforce growth by qualification (LA1)

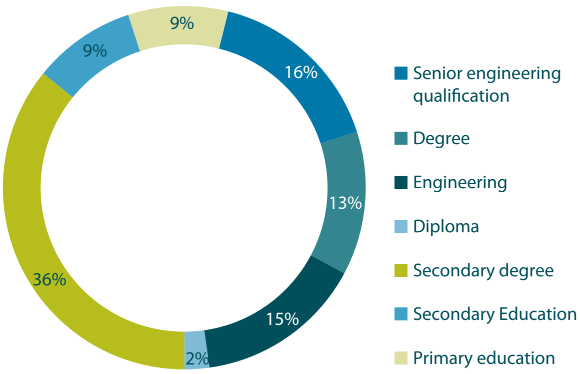
Qualification	2006		2007		2008	
	No. employees	%	No. employees	%	No. employees	%
Senior engineering qualification	126	13%	142	14%	158	16%
Degree	116	12%	129	13%	136	13%
Engineering	150	16%	148	15%	153	15%
Diploma	23	2%	23	2%	23	2%
Vocational training	344	36%	354	36%	361	36%
Secondary education	87	9%	88	9%	91	9%
Primary education	98	10%	101	10%	86	9%
Total	**944**	**100%**	**985**	**100%**	**1008**	**100%**

The number of women in Enagás has grown 9% during 2008, compared with a 2% overall expansion in the workforce, showing the company's commitment towards equality

At 31 December 2008, women were best represented in the administrative professional category and less well represented among operational staff, although it is among technicians and in management that female representation has increased most in recent years.

The **average age** of Enagás' workforce has not changed in the past three years, being still around 44 years at the end of 2008. The human resources department monitors this average across the different departments and different levels in the Company on an ongoing basis and endeavours to create a constant balance between succession plan reviews, internal career progression plans and recruitment needs.

Workforce by qualification



Change in male/female ratio by professional category –LA13–

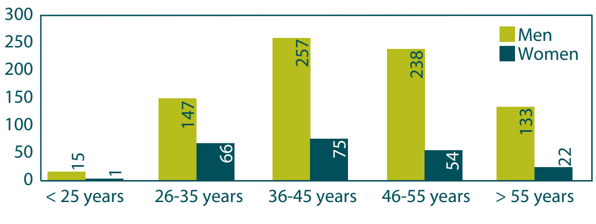
Professional category	2006	2007	2008
Management	6.56%	10.00%	13.64%
Technicians	20.67%	20.82%	23.09%
Administrative staff	70.40%	70.54%	71.43%
Operational staff	3.51%	3.15%	2.91%
Total	**20.13%**	**20.30%**	**21.63%**

Breakdown of employees by professional category, age and gender –LA2, LA13–

	MANAGEMENT		TECHNICIANS		ADMINISTRATIVE STAFF		OPERATIONAL STAFF	
Rango Edad	Men	Women	Men	Women	Men	Women	Men	Women
< 25 years			1	1			14	
26-35 years	2	1	83	51	1	9	61	5
36-45 years	15	4	107	40	7	29	128	2
46-55 years	18	2	105	12	19	37	96	3
> 55 years	22	2	67	5	9	15	35	
	86%	14%	77%	23%	29%	71%	97%	3%

Enagás tendency among the workforce to become more technically qualified continued in 2008, technicians make up the largests professional Category accounting for more than 46% with a 9% expansion relative to end-2007

Break down of employees by age and gender



Employee turnover, rate of absenteeism and average length of service –LA2–

Year	Employee turnover	Rate of absenteeism	Average length of service
2006	2.97%	4.19%	15.9
2007	2.84%	5.31%	16
2008	6.15%	5.49%	15.5

NOTE: The employee turnover figure includes all staff departures, including those due to temporary incapacity, leaves of absence, maternity leave, etc. The figure is not therefore comparable with the information included in the 2007 Annual Report. In addition, the total turnover figure rose significantly in 2008, to 6.15%, due to the termination of employment of a group of 28 employees aged 61 or over.

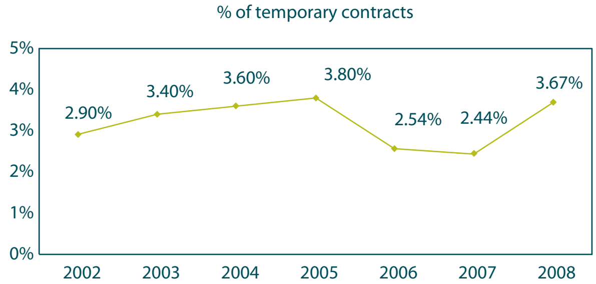
4.1.2. Stable, quality employment (LA1, LA2)

Enagás aims to offer stable, quality employment, and this has direct repercussions on staff loyalty, as evidenced by its staff's high average length of service (15.5 years) and its low employee turnover (1.47%) in 2008.

The **rate of absenteeism** (5.49%) has risen in recent years due to the length of a few particular cases of temporary incapacity, which ended either in early retirement due to permanent disability or a return to work.

The above results also reflect Enagás' commitment to providing permanent employment. The uptick in the percentage of staff on temporary contracts (3.67%) registered in 2008 is linked to a significant intake of new staff on work-placement contracts that will subsequently be converted into permanent contracts *–LA1–*.

Staff loyalty is evidenced by its employees high avegage length of service (15.5 years) and its low employee turnover (1.47%) in 2008



Enagás promotes professional and human development among employees, offering safety, quality of life, training and improvement opportunities

4.1.3. The Enagás HR management and development model

Performance and career development reviews (LA12, LA14, EC5)

Over the past few years Enagás has made ongoing adjustments to its human resources management model, which is designed to facilitate fulfilment of the Company's objectives while at the same time fostering work-life balance, job satisfaction and professional development among employees.

To this end, Enagás has introduced a performance review system for staff not covered by collective agreements who occupy senior or middle management positions (43.07% of staff not covered by agreements) that is a key determinant of their career advancement and fixed remuneration *–LA12–.*

For staff covered by collective wage agreements, it has introduced an annual review system linked to career development that encourages personal development and provides incentives for personal effort and contributions to the Company's goals. At the end of 2008, 78.92% of staff covered by collective agreements were included in this appraisal system *–LA12–.*

Thus, overall, at the year-end, 66.87% of the Enagás workforce was covered by one of the performance review systems, a percentage little changed from the prior-year level of 67.27% *–LA12–.*

Enagás has also introduced a management-by-objectives model that enables it to align its employees' performance targets with the challenges faced by the Company by setting Company objectives that are applicable at both departmental and individual level.

The Human Resources Department coordinates and supervises implementation of the management-by-objectives model throughout the Company, where it is applied to all personnel not covered by collective agreements and has a direct bearing on the variable components of their salary.

The Enagás remuneration model as a whole takes account of equality and non-discrimination considerations, such that any differences between salaries in the different employee categories are due solely to differences between staff positions in the organisation, levels of experience, length of service and creation of value.

In 2008, the difference between the average salary of men and women at Enagás was due solely to the low level of female representation in the management (14%) and operational (3%) categories and to the fact that new female recruits tend to join the company at middle management level and are not yet represented on the Management Committee *–LA14–.*

Change in average male/female salary ratio by professional category, in € thousands –LA14–

Professional category	2006	2007	2008
	afs/ams	afs/ams	afs/ams
Management	0.64	0.60	0.59
Technicians	0.99	0.99	0.95
Administrative staff	0.96	0.97	0.95
Operational staff	0.89	0.77	0.84

ams: average male salary; afs: average female salary

NOTE: these figures are not comparable with those included in the 2007 Annual Report, since for the latter the Company decided to include only those professional categories in which women were represented so as not to distort the comparison.

Enagás has also introduced a management-by-objectives model that enables it to align its employees' performance targets with the challenges faced by the Company by setting Company objetives that are applicable at both departmental and individual level

In 2008, the standard entry level wage of an Enagás employee was twice the minimum cross-profession wage in Spain. There has been no significant change in this ratio in the past three years *–EC5–*.

Work climate

Enagás' commitment to providing employee satisfaction has been reflected in various initiatives over the past few years. In 2004, it carried out a qualitative research survey assessing employee perceptions of the company's position, which resulted, inter alia, in the development of a Performance Improvement Plan.

Furthering this same line of action, in 2008 it carried out an **employee satisfaction survey** to ascertain the Company's strengths as perceived by its employees and identify areas for possible improvement. The survey results were used to develop people management initiatives in which the Company's priorities are balanced against employee expectations and needs.

As the survey response rate was good (67% of employees), the findings can be considered a reliable reflection of the opinions of the workforce. The key findings were as follows:

- The overall rate of satisfaction is good, with 48% of employees satisfied and only 22% dissatisfied.
- Factors related to job content, line management and work organisation were the most highly rated.
- Aspects relating to encouraging innovation and creativity, generating ideas and suggestions and performance appraisal criteria were those worst rated by employees.

The survey results will enable Enagás to focus its human resources policies on improving levels of employee satisfaction and place a particular emphasis on those areas currently worst rated.

Internal communication

In 2008, Enagás embarked on a campaign to improve intra-organisational communication after identifying a need for improvement in this area.

To help establish the open, fluid, comprehensive and regular system of communication sought, in May 2008 it created a new unit dedicated specifically to internal communication. In sub-

sequent months, this unit carried out a detailed analysis of levels, channels and patterns of communication within the organisation and made an inventory of employees' needs and suggestions. This analysis was then used as a basis for one-to-one interviews involving open-ended questions with a group of employees representing most professional profiles and levels of seniority within the organisation. The key aspects analysed were:

- Levels of general knowledge about the business/the Company.
- Down-up, up-down, horizontal and cross-functional communication patterns.
- Use and opinion of existing communication tools.
- Specific needs.
- Employee perceptions and expectations regarding communications.

Drawing on the information obtained, at the end of 2008 the Company put together an Internal Communication Strategy and Plan fully aligned with its profile that will satisfy the communication needs of all people within the organisation and provide support for its main initiatives.

Enagás' commitment towards development of their employees has been reflected in various initiatives along 2008, as the employee satisfaction survey, the internal communication plan and the talent management project

Talent management

A key element of Enagás' human resources strategy, which is reflected in its Mission and Values statement, is that personal development is a strategic factor that must be respected and fostered within the organisation.

Pursuant to this strategic commitment, in 2008 the Company embarked on a project to identify employees showing particular short-, medium- and long-term potential with a view to improving talent retention, generational succession and the professional development of employees.

This initiative is operational at all levels of the organisation, although particular attention has been given to posts identified as critical within the Company. The initial phase of the project, which entailing reviewing and updating the list of critical positions in the Company and identifying the groups that would take part in the employee potential evaluation exercise to be carried out in 2009, was completed in 2008. The results of the evaluation exercise to identify short-, medium- and long-term potential will be used to review and update Enagás' staff development and succession plans.

Operating efficiency

In 2008, the substantial infrastructure investment drive carried out in application of the Strategic Plan (€776.9Mn) coupled with the low rate of workforce expansion (2%) gave rise to a significant improvement in all operational efficiency ratios relative to 2007 (7.6% improvement in demand for gas transported, 4.3% in operating cash flows, 3.8% in km of pipeline, all per employee).

Transported natural gas demand by employee

Operating cash flow by employee

Km of pipeline by employee

4.1.4. Training (LA10, LA11)

The training drive of previous years continued in 2008, with the Company arranging a total of 166 courses involving 38,404 hours of training benefitting 64% of Enagás employees *–LA10–*.

As a result, total hours of training provided in the year rose more than 8%, average hours of training per employee rose more than 4% and investment per employee was up more than 2% relative to 2007.

In 2007, as a consequence of the audits performed and certifications achieved, the main focus of the training programme was environmental issues. In 2008, the main focuses were language training, management development and technical skills *–LA10–*.

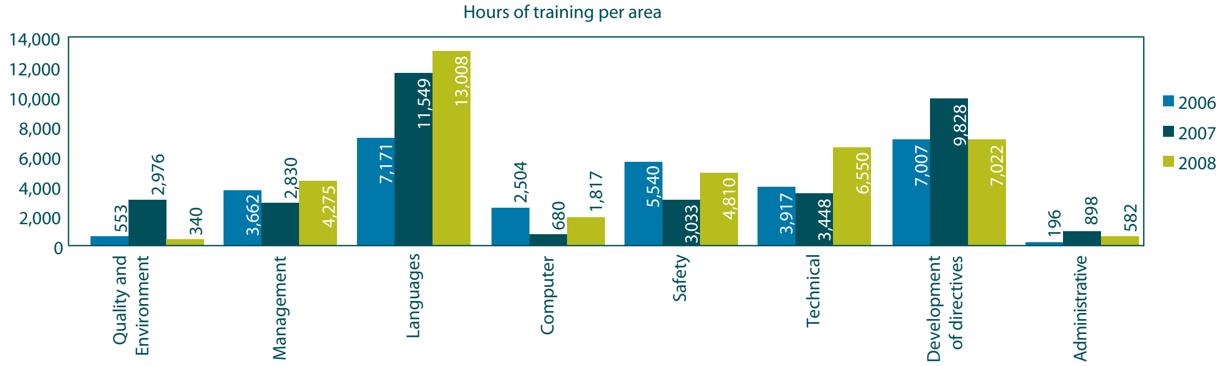
Enagás also remains firmly committed to its **skills management** programmes, which foster personal and professional skills development through management training programmes (coaching, post-graduate courses, etc), skills development, team-working initiatives, outdoor days, etc. *–LA11–*.

Enagás efforts in training improvements was materialised in the increase of average hours of training by employee, investment per employee, and the skills management programmes

Training hours by professional category –LA10–

	2006	2007	2008
Training hours per employee	33.24	36.09	37.75
Investment per employee (€)	400.10	384.24	394.14
Number of courses	212	216	166
Number of beneficiaries	1,327	1,618	1,228
Total Investment (€)	367,726	375,255	400,997
Total training hours	**30,550**	**35,242**	**38,404**

NOTE: The "total investment" figure includes only investment made by the Company, after deduction of allowances granted by the Tripartite Foundation. As a result, the data are not comparable with those included in the 2007 Annual Report. Also, average hours of training per employee are calculated on the basis of the average headcount.

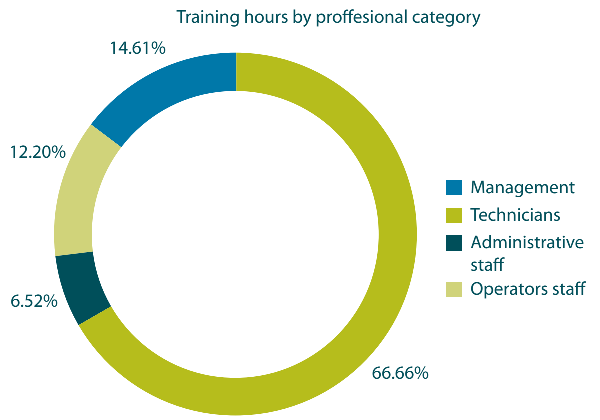


Overall in 2008, training hours provided in the technical and management professional categories rose relative to 2007, there was no significant change in training hours for employees in administrative positions, and fewer training hours were arranged for operational staff.

Training hours by professional category –LA10–

Professional category	2006			2007			2008		
	Average headcount	training hours	hours / headcount	Average headcount	training hours	hours / headcount	Average headcount	training hours	hours / headcount
Management	59	6,845	116.47	62	4,229	68.04	70	5,612	80.35
Technicians	399	17,183	43.04	435	21,850	50.25	467	25,601	54.78
Administrative staff	115	1,892	16.49	129	2,467	19.16	130	2,504	19.31
Operational staff	346	4,630	13.37	351	6,696	19.09	350	4,687	13.37
TOTAL	**919**	**30,550**	**33.24**	**977**	**35,242**	**36.09**	**1,017**	**38,404**	**37.75**

NOTE: The figures for training hours per employee are based on the average headcount, and are not therefore comparable with those given in the 2007 Annual Report.



As regards type of training, in-house training at Enagás continues to account for the majority of annual training hours (80% in 2008 vs. 69% in 2007) and costs (66% in 2008 vs. 54% in 2007) *–LA10–*.

As regards external training, in 2008 Enagás entered into an ongoing cooperation agreement with the prestigious IESE business school by virtue of which it became one of the school's corporate sponsors and will be able to avail itself of the following services: permanent training programmes for senior executives, continuity programmes, seminars, sector-specific meetings, access to research and documentation, consultations with professors, and use of facilities, including library and other services.

Also as of 2008, to increase use of the internet as a means of accessing training, it is now possible to view the Company's Training Programme, consult course curriculi, complete evaluation questionnaires and even follow courses on-line (technical training for compressor stations, gas technology, occupational risk prevention, etc.)

4.1.5. Work-life balance

Enagás as a Family-Responsible Company (LA3, LA8)

In 2007, Enagás obtained the Family-Responsible Company Certificate awarded by the Fundación +Familia in recognition of its commitment to policies that foster a work-life balance among employees.

A year after obtaining the certificate, Enagás performed an external audit of the model in place, which confirmed the good results achieved.

A total of 47 measures to promote work-life balance are currently in place at Enagás, embracing the following areas *– LA3, LA8–:*

- Stable employment
- Flexible working hours
- Support for employees' families
- Professional development and skills training
- Equal opportunities
- Workplace health and safety
- Other family-responsible measures

Enagás also offers a family support programme providing for the social and care needs of employees and their immediate families –i.e. parents, spouses and children, whether or not they live at the same address– and available throughout Spain. The services provided under this programme are in increasingly high demand from employees and their use grew significantly in 2008 *–LA3, LA8–*.

Use of family support services by employees –LA3, LA8–

	2007	2008
Support worker selection	0.51%	1.09%
Tele-care	1.33%	2.38%
Homecare services*	4.39%	7.84%
Tele-counselling	13.88%	43.35%

* Homecare services include specialist treatment services, which in the 2007 Annual Report were detailed separately.

Enagás has also entered into a cooperation agreement with the Juan XXIII Foundation under which the Foundation shares with Enagás the benefits of its knowledge in the field of learning disabilities by assisting and advising workers who have persons with disabilities under their care through its Family Support and Family Respite Programmes.

A year after obtaining the certificate, as Family-Responsible company (EFR) awarded by the Fundacion +Familia, Enagás performed 47 measures to promote work-life balance in different areas



4.1.6. Social benefits

The main social benefits offered by Enagás, which are available to all employees irrespective of their working hours (full or part-time) and contract type (permanent or temporary), are the following *–LA3–:*

- Pension plans: for all employees with at least two years' service at the Company.
- Health care insurance for employees and dependent family members.
- Canteen services (Barcelona and Huelva plants).
- Meal subsidies (financial assistance and luncheon vouchers).
- Temporary incapacity supplement of 100% of salary.
- Loans on preferential terms.
- Three months interest free loans, salary advances and extraordinary payments.
- Medical service and preventative healthcare campaigns.
- Family healthcare plan.
- Group insurance providing cover in the event of death or disability: for all employees years with at least two years' service at the Company.
- Study grants.

Breakdown of costs associated with social benefits provided by the Company –EC3–

Social benefit	Total amount (€ millions)	Costs met by the Company (%)	Costs met by the employee (%)	Costs met by third parties (%)
Pension plans	2.15	98.02%	1.98%	
Health care insurance for employees and dependent family members	1.18	88.48%	11.52%	
Canteen services (Barcelona and Huelva plants)	0.32	83%	17%	
Meal subsidies (financial assistance and luncheon vouchers)	1.14	100%		
Temporary incapacity supplement 100% salary	0.34	100%		
Loans on preferential terms				
Three months interest free loans, salary advances and extraordinary payments	0.01	100%		
Medical service and preventative healthcare campaigns	0.17	100%		
Family healthcare plan	0.04	100%		
Group insurance cover death and disability	0.34	100%		
Study grants	0.16	100%		

Enagás offers many social benefits which help improve employees satisfaction

4.1.7. Labour relations

Collective wage agreements and trade union representation (HR5, LA4, LA5)

Enagás' employees are free to exercise their right to affiliate themselves with a trade union promoting and protecting their financial and social interests (article 1 of the Organic Law on Trade Union Freedom, or LOLS) *–HR5–*.

Trade union membership and participation in union activities will not result in discrimination at work or in working conditions. To this end, the Enagás Collective Agreement establishes that any company agreement or resolution that contravenes this right shall be null and void (article 64) *–HR5–*.

The terms and conditions of employment agreed in the Collective Agreement have force of law and apply to all Enagás employees, irrespective of contract type. Expressly excluded from the scope of application of the Collective Agreement, however, are all members of senior management, directors, heads of unit, plant managers, project managers and all employees belonging to the technical professional category who have agreed to such exclusion on the proposal of senior management (article 1) *–HR5–*.

Workers excluded from the agreement may be re-included under its scope at a future date. The decision on re-inclusion may be adopted unilaterally by the worker him/herself or by the Company *–HR5–*.

In addition, Enagás' Business Principles establish the general framework of action necessary in the event of conduct that could jeopardise employees' rights.

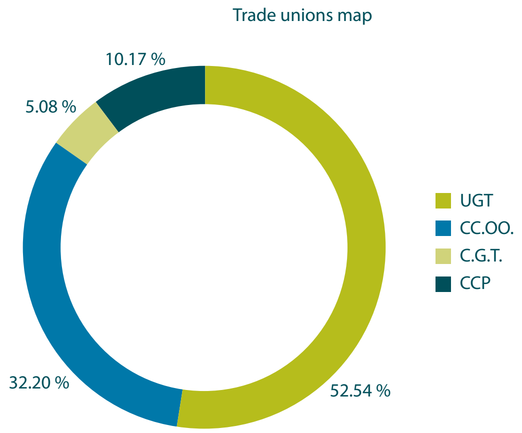
At the end of 2008, 66.37% of Enagás staff contracts were subject to the 14th Enagás collective wage agreement which was signed in 2005 by all the major trade unions represented at the Company and has a term of four years (2005-2008). The slight decline in the percentage of staff covered by the agreement in recent years is primarily due to the increasingly technical profile of the workforce, which dictates the recruitment of experienced technical staff excluded from the agreement *–LA4–*.

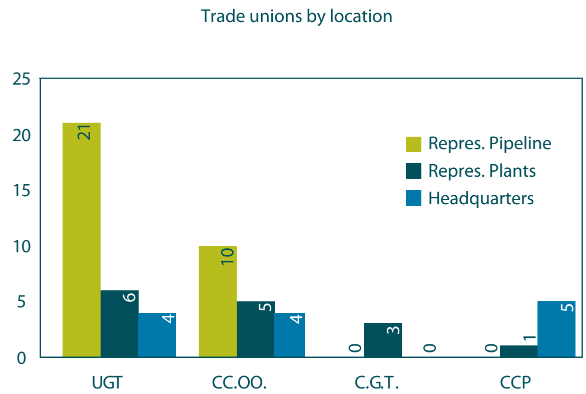
Change in staff covered by the collective wage agreement –LA4–

EMPLOYEES COVERED BY COLLECTIVE AGREEMENTS	2006			2007			2008		
	Total workforce	Agreement	% covered by agreement	Total workforce	Agreement	% covered by agreement	Total	Agreement	% covered by agreement
Management	61			70			66		
Technicians	416	207	21.93	437	203	20.61	472	201	19.94
Administrative staff	125	124	13.14	129	127	12.89	126	124	12.30
Operational staff	342	342	36.23	349	349	35.43	344	344	34.13
Total	**944**	**673**	**71.29**	**985**	**679**	**68.93**	**1,008**	**669**	**66.37**

The Joint Committees provided for in collective agreements through which employee representatives contribute to the various issues falling under their respective areas of responsibility met several times in 2008.

In addition, union elections were held at the transportation centres in Alcázar de San Juan, Almendralejo, Burgos, Zamora and Zaragoza, taking total representation at the Company to 59 trade union representatives.





The collective wage agreement currently in force gives representatives of the trade unions with representation at Enagás of more than 10% the right to take part in meetings of joint management-worker occupational health and safety bodies and meetings of the Joint Committees established to address such issues, as well as the right to receive information, prior to execution, on any corporate plan that could materially affect employee interests, although no minimum notice period is specified for the Company (article 5) *–LA5–*.

Health and Safety Committees (LA6, LA9)

For the exercise of the employee rights of consultation and participation established in section V of the Spanish Law on Occupational Risk Presentation, the representatives of Enagás employees have appointed dedicated risk prevention officers in the manner and number established in article 35 of the aforesaid law. These officers are given the basic training in risk prevention (50 hours) necessary to enable them to exercise the duties and powers accorded them under the aforesaid law *–LA6–*.

Enagás also has an Intercentre Health and Safety Committee, a regional body to which the risk prevention officers and health and safety committees at each individual Enagás work centre report. This Intercentre Committee has the same duties, responsibilities and powers as those assigned to officers and committees under the Law on Occupational Risk Prevention in respect of issues with a regional or functional scope of application extending beyond the areas of operation of the aforesaid officers and committees *–LA6–*.

The Intercentre Health and Safety Committee is composed of six risk prevention officers (two representing regasifaction plants, three representing gas pipeline work centres and one representing the Head Office) appointed by the trade unions with the greatest representation in the workforce, and six representatives of senior management. The Committee meets every two months and whenever a meeting is requested, with due reason, by any of the parties.

Regular health and safety meetings are also held at local level in the Transportation Department's work centres. At these meetings, area heads and risk prevention and environmental technicians get together with their respective risk prevention representatives to discuss risk prevention measures in their area of operation. Those Enagás' transportation centres that meet the terms set out in the aforementioned Law on Occupational Risk Prevention also have a dedicated risk prevention officer.

Management-worker health and safety committees also exist at all of the Company's regasification plants and meet regularly to consider risk prevention measures and actions. As stipulated by law, these committees are composed of two risk prevention officers and two management representatives, and provide technical advice and assistance to the Head of the Risk Prevention Unit. The health and safety committees of each individual plant deal with risk prevention issues affecting their particular plant and issues submitted to them by the plant's respective risk prevention officers *–LA6–*.

Enagás' Head Office also has its own Health and Safety Committee composed of three risk prevention officers and three management representatives, which meets on a quarterly basis. This Committee deals with risk prevention issues likely to affect workers at the Head Office *–LA6–*.

Total percentage of employees represented on Health and Safety Committees –LA6–

	2006	2007	2008
Total number of employees (A)	944	985	1,008
Number of employees represented on joint health and safety committees (B)	944	985	1,008
Total number of employees represented on joint health and safety committees (B/A)	100%	100%	100%

As a result of the various meetings held in the various Enagás work centres as part of the Risk Prevention Management System, agreements are reached between management and workers that are formalised in written minutes reflecting the consensus of both parties *–LA9–*.

The risk prevention officers at the various work centres are involved in risk prevention activities (accessing prevention documentation, visiting sites to perform safety inspections, accompanying technicians on risk assessments, reporting workplace accidents, etc.) and are generally kept up to date on all issues established in section V of the Law on Occupational Risk Prevention (information on the procedure to follow when making risk assessments, prevention planning, designation of staff to take charge of emergency measures, etc).

The main agreement reached in 2008 related to operational training in the field of transportation/communications and the risk prevention measures implemented in the Transportation Department. The aim of the agreement is to facilitate the process of updating and educating the Department's human resources on organisational and technological changes designed to improve their performance and the provision of basic occupational risk prevention courses that will facilitate their work with regards to risk prevention *–LA9–*.

4.1.8. Ethical commitment to persons

Enagás has demonstrated its ethical commitment to persons via various actions in recent years, particularly 2008. Foremost among these are the following:

- Approval of the Enagás Business Principles and associated management procedures.
- Renewal of Enagás' commitment to the ten principles of the Global Compact and inclusion in this Annual Report of information on the 2008 Progress Report (for more information see section 7.4. - Contents of the Global Compact).
- Extension and development of the Family-Responsible Company model, improving on the accreditation achieved in 2007.
- Negotiation of the new Enagás collective wage agreement.

4.1.9. Workplace health and safety

Occupational Risk Prevention Management System (LA7)

Enagás has an Occupational Risk Prevention policy that has been endorsed by its Chairman. To fulfil the objectives set out in the policy, an Occupational Risk Prevention Management System has been established that includes a manual setting out the procedures and standards for system operation *–LA7–*.

The legally-required audit of the risk prevention measures applied in the Company's overall business activities that commenced in 2007 was successfully concluded in July 2008,

ENAGÁS, S.A.'S PREVENTION POLICY

For Enagás, workplace efficiency and safety, the health of its employees and respect for its environment are strategic management factors compatible with, if not essential to achieving its financial and social objectives.

Each and every employee shares in the responsibility for preventing risks in their own particular area, although responsibility for ensuring adequate risk management lies with directors and line managers.

Health and safety in the workplace is understood to be not only the right of every employee but also an obligation that the Company assumes in addition to complying with minimum legal prerequisites. The Company works on the basic principle that all accidents can be prevented.

Enagás aspires to be recognised by its employees, customers and suppliers, the public authorities and the public in general as one of the leading companies in risk prevention.

The principles underpinning its risk prevention action plans are subject to continuous improvement and regular revision, in order to guarantee optimum efficiency.

In line with the principles of its risk prevention policy, Enagás has assumed the following undertakings:

- To comply with the legal requirements established in the area of occupational health and safety.
- To manage the technical, human and material resources necessary to fulfilment of its objectives in a responsible manner.
- To make risk management a central element of the Company's policies that is of equal importance to all others.
- To indentify, measure and manage the risks deriving from its activities, so as to guarantee, as far as reasonably possible, the protection of people and property.
- To establish self-protection plans that guarantee the prevention and control of risks to people and property and provide appropriate responses to potential emergency situations.
- To provide all staff in its employment with regular health checks in respect of the risks inherent in their jobs.
- To adopt the best technologies available and equip the units responsible for implementing the Risk Management System with the technical and human resources necessary and economically viable to fulfilment of the targets set for them.
- To foster a policy of communication, dialogue and consultation between workers at all levels, as well as through their representatives, in pursuit of maximum possible transparency.
- To train all employees in and keep them regularly updated, through the established reporting lines, on the safe handling of installations and equipment as well as on emergency procedures.
- To develop the Risk Prevention Management System into a tool for structured, logical preventive action that is the fruit of a concerted planning effort.
- To correctly inform all employees and authorities of the risks at all industrial plants and the technological safety measures available.
- To make all management teams responsible for the fulfilment of risk prevention objectives, requiring them to take corrective action when established programmes are not observed or results achieved are inadequate.
- In addition, in accordance with prevailing legislation, Enagás has established a specific policy for dealing with serious accidents.

Fdo. Antonio Llardén Carratalá
CHAIRMAN

pursuant to Law 31/95 and Royal Decree 39/97 on Occupational Risk Prevention. The process of obtaining OHSAS 18001 (Occupational Health and Safety Assessment Series) certification for the Group's three regasification plants was also concluded at the same time. OHSAS 18001 certification is equivalent to UNE-EN-ISO 14001, the Spanish Environmental Management and Quality standard.

Both processes entailed a series of visits to Enagás facilities between July and December 2007. The six-month period for working on non-conformities detected, after which the auditing body would decide on whether or not to award the certificate, began in January. The remedial work was satisfactorily concluded in July 2008, after four further visits to the facilities and a meeting to carry out final checks. The process was officially concluded on 28 July at a meeting with the Director of Human Resources, the person ultimately responsible for general risk prevention at Enagás.

As from 2009, annual follow-up visits will be made to a sample of facilities selected by the auditing body to check that the requirements for certification continue to be met.

CERTIFICADO DE EMPRESA AUDITADA
AUDITED FIRM CERTIFICATE
AR - 1065

AUDELCO, Auditoría de Riesgos Laborales, S.A. certifica que el Sistema de Prevención de Riesgos Laborales de la empresa:

ENAGÁS, S.A.

ha sido auditada por AUDELCO conforme a lo establecido en el artículo 30 del Real Decreto 39/1997, de 17 de enero, habiéndose emitido opinión favorable en informe de fecha 30/07/2008, Ref. E-7068-03

El presente certificado es válido durante el periodo abajo indicado, sujeto a las condiciones establecidas en el artículo 29.2 del Real Decreto 39/1997, de 17 de enero.

Fecha de emisión: 30/07/2008
Fecha de caducidad: 29/07/2010

AUDELCO

CERTIFICADO DE PREVENCIÓN DE RIESGOS LABORALES
OCCUPATIONAL HEALTH AND SAFETY CERTIFICATE
SPRL – 074/08

AUDELCO, Auditoría de Riesgos Laborales, S.A. certifica que el Sistema de Gestión de la Prevención de Riesgos Laborales seguido por:

ENAGÁS, S.A.

en sus centros de trabajo de:

para la/s actividad/es de:

ALMACENAMIENTO Y REGASIFICACIÓN DE GAS NATURAL LICUADO (GNL).

es conforme con los requisitos establecidos en la especificación OHSAS 18001:2007.

El presente certificado es válido durante el periodo abajo indicado, salvo suspensión o retirada notificada en tiempo por AUDELCO.

Fecha de emisión: 30/07/2008
Fecha de caducidad: 30/07/2011

AUDELCO

Treatment of accidents/incidents (LA7)

The procedures set out in the Manual for the Occupational Risk Prevention Management System include those that must be adopted for reporting, investigating and analysing incidents and accidents that occur at Enagás work centres and sites *–LA7–*.

These procedures constitute the basis for various guidelines relating to action to be taken in the event of incident/accident, reporting and investigating such incidents/accidents and keeping statistical records of accident rates.

Number of fatal accidents at the Company –LA7–

	2006	2007	2008
Own staff	0	0	0
Contract staff	0	1	0
Total	0	1	0

Frequency index –LA 7–

	2006	2007	2008
Frequency of accidents resulting in sick leave for own staff	8.52	12	9.61
Frequency of accidents resulting in sick leave for contract staff*	5.75	4.54	6.10
Overall frequency of accidents resulting in sick leave (Enagas staff and contract staff)*	7.12	8.27	6.94

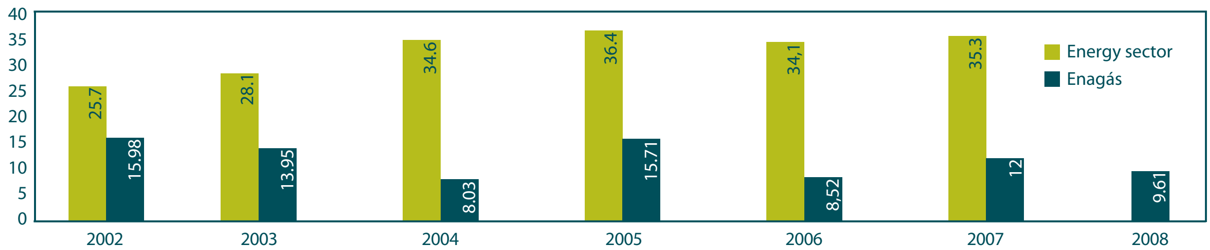
NOTE: The frequency index is calculated using the following formula:

$$\frac{\text{Nº of accidents resulting in sick leave} \times 10^6}{\text{Nº hours worked}}$$

*Number of accidents suffered by construction contractors

There were 15% fewer accidents in 2008 than in 2007, bringing the overall number back close to 2006 levels similar. However, the number of construction accidents rose relative to the previous year, reflecting a parallel rise in pipeline engineering work. Nonetheless, overall accident rates are still well below the averages for the energy sector.

Frequency indices comparison



Severity index –LA7–

	2007	2008
Severity of accidents resulting in sick leave for own staff	0.49	0.30
Severity of accidents resulting in sick leave for contract staff*	2.33	0.06
Overall severity of accidents resulting in sick leave for contract staff*	1.34	0.12

NOTE: The severity index is calculated using the following formula:

$$\frac{\text{Nº of lost days x } 10^3}{\text{Nº hours worked}}$$

*Number of accidents suffered by construction contractors

Enagás has an occupational Risk Prevention Policy that has been endorsed by its Chairman. To fulfill the objectives set out in the Policy, an Occupational Risk prevention management System was set, allowing the company to succesfully conclude in 2008 the legally required audit of prevention and getting the OHSAS 18001 certification for the company's three regasification plants

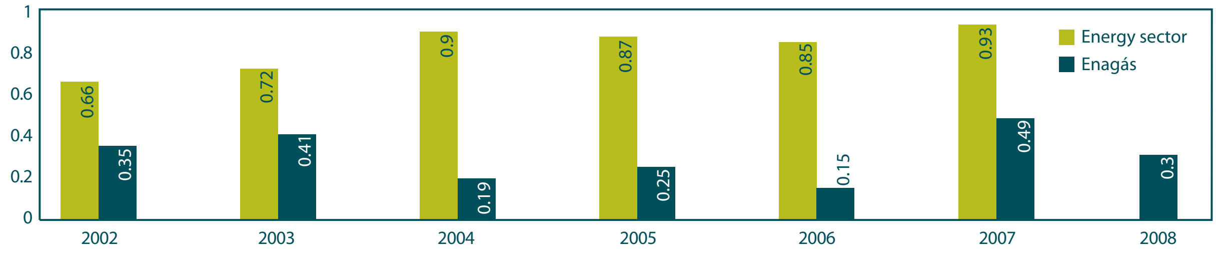
The 2006 severity index has not been included, because as of 2007 lost days have been counted on the basis of calendar days, in accordance with the methodology for European statistics on accidents at work (ESAW).

The 2008 severity index was lower than the 2007 figure, reflecting a 36% decline in lost days.

The severity indices for contract staff show a sharp decline in 2008 that reflects a fatal accident that occurred in 2007, causing a pronounced rise in that year. The scale used by the Spanish Autonomous Commission for Safety and Hygiene at work in Chemical and Related Industries (COASHIQ) was used to calculate lost days.

Despite the uptrend in severity indices, the figures remain well below the averages for the energy sector, as illustrated in the chart below.

Severity indices comparison



Rate of occupational diseases and lost days –LA7–

	2006	2007	2008
Rate of occupational diseases	0	0	0
Rate of lost days	30,5*	69,6*	59,6**

*In 2006 and 2007 lost days included only business days, with the number of absentee days being counted from the day after the accident.

*For 2008 lost days were counted on the basis of calendar days, with the number of absentee days being counted from the day after the accident. This methodology will continue to be used in future.

Safety culture in the workplace (LA7, PR1)

The Occupational Risk Prevention Management System provides for regular safety inspections to ensure that potential hazards in workplaces, plant and facilities and any unsafe practices that could cause loss and/or damage to persons or property are indentified. These inspections also enable the Group to identify any system non-conformities and take the preventative and/or corrective action necessary to prevent such loss or damage *–LA7–*.

The inspections include planned observations –a method consisting of breaking work practices down into phases, each of which is assessed and examined to identify hazards and unsafe practices– that enable the Group to adopt the required control measures.

They also include site visits to analyse safety by direct observation of processes and installations that allows for potential workplace hazards to be identified.

To further ensure compliance with legal requirements, internal audits are also performed. Three internal audits were carried out in 2008 - one at each of the three transportation units - in addition to those performed at the regasification plants. The aim of these audits was to ensure compliance with legislation and the Occupational Risk Prevention Management System. As required under the Royal Decree relating to Workplace Safety, safety inspections were performed at both transportation centres and at the Head Office *–LA7–*.

As a result of its efforts in 2008, Enagás once again passed the compulsory inspections carried out at its LNG regasification plants in application of the regulatory framework established in the European Union's Serious Accident Directives (CORAG/SEVESO) *–LA7–*.

Enagás also made significant advances in respect of the controls needed to protect the health and safety of employees exposed to the risks associated with the existence of explosive atmospheres in the workplace. Enagás has drafted internal regulations that will facilitate preparation of the Protection Against Explosions Documents (DPCE) required by law for all new facilities, as well as a definitive methodology for its gas pipeline positions (in 2007 the focus was compressor stations) that will improve the quality of the processes used to measure the risks to which employees working in the presence of explosive atmospheres are exposed. At the same time, it continued to adapt those facilities already in service before the aforesaid law took effect and to implement the corresponding corrective measures *–LA7–*.

The Enagás Risk Prevention Management System covers not only the safety of its employees but also extends to contractors working for the Company. Accordingly, Enagás requires all contractors to provide documentation attesting to their compliance with legislation pertaining to occupational risk prevention and the environment, and with the internal regulations defined by the Company, from the time invitations to tenders and contracts are issued until the work to be carried out is actually executed *–PR1–*.

In 2008 expenses specifically associated with risk prevention came to €3.8Mn, which represents a reduction of approximately 12% on the previous year (€4.3Mn in 2007). This decrease is due mainly to the reduced costs of revisions resulting from the introduction of legislation governing explosive atmospheres in 2007 *–PR1–*.

Emergency self protection plans and practice drills (LA7)

The Company's self protection plans are designed to ensure swift, systematic decision making and action in emergency situations. The plans have been put into practice and are subject to annual review in the form of practice drills in which the competent authorities participate. The results of the drills performed in 2008 were satisfactory and will enable the Company to make ongoing improvements to the emergency measures that will be adopted as and when needed. Self-protection plans were also introduced at compressor stations in 2008. Three practice drills were satisfactorily concluded at selected stations and relevant staff training was provided. In 2009 the group aims to carry out practice drills at all compressor stations besides continuing its training initiative. Given the specific characteristics of pipeline installations and the existing protection measures, self protection plans will in this case be used as supplementary procedures only to the General Emergency Plan for Gas Pipelines *–LA7–*.

Health and safety training (LA7, LA8)

As part of Enagás' commitment to ongoing health and safety staff training, in 2008 the Company continued the training initiatives defined in its Training Plan, as described above in section 4.1.4 on Training *–LA7–*.

In addition, in 2008 the Group continued to run its usual training courses on occupational risk prevention management, fire prevention and protection, emergency situations, first aid and safe working at heights, etc.

The following courses were held in 2008:

- General hygiene and ergonomics course
- General safety course
- Course on office risks
- Training in using and understanding the management system
- Training for emergencies

These initiatives are managed by the Human Resources Department in conjunction with the Risk Prevention Department, by means of an Annual Training Plan. The Company also aims to run a series of courses on occupational risk prevention that will cover the needs of all personnel and be tailored to their specific position in the company *–LA8–*.

Raising health awareness at the Company (LA8)

The role of the Enagás Medical Service is to safeguard and improve levels of employee health within the context of occupational risk prevention and in accordance with prevailing legislation.

In 2008, a total of 2,035 medical consultations were performed (vs. 2,100 in 2007). In addition, a total of 282 jabs were given under various vaccination programmes (flu and tetanus), compared with 333 in 2007, and assistance given to a further 12 employees under preventative campaigns *–LA8–*.

Main medical service initiatives–LA8–

Main medical service initiatives	2008
Assistance programme	
Nº consultations	2,035
Vaccination campaigns	
Flu vaccination	253
Tetanus vaccination	29
Preventative campaigns	
Individual help to stop smoking	12
Cardiovascular risk prevention	
Health protection	
Medical check-ups	
Head Office and Gasometer	Campaign begun in December 2008 (200 confirmed employee members)
Plants and transportation centres	518
Ergonomic assessments	1

Enagás has made a considerable effort to raise its employees' awareness of the various issues surrounding occupational health. Prime examples of its efforts in 2008 were its information campaigns relating to cardiovascular risk prevention, giving up smoking, legionella, protection from the sun, heat stroke, first aid, etc. *–LA8–.*

Compliance with prevailing occupational health and safety legislation (PR1, PR2)

The Enagás Risk Prevention Management System includes a procedure that sets out the work needing to be carried out to identify the legal prerequisites and technical standards applicable to the Company's activities. The Risk Prevention unit also records these prerequisites in an IT system. The Group also checks compliance with legal prerequisites at its OHSAS 18001–certified regasification plants using this same IT system *–PR1–.*

At the end of 2007 Enagás made an organisational change that meant an increase in the number of complaints submitted to the authorities in 2008. However, as the above table shows, only four incidents in 2007 and five in 2008 resulted in penalties or fines, and the Group has lodged appeals against some of these *–PR2–.*

Total number of incidents of non-compliance with regulations and voluntary codes concerning health and safety impacts of products and services –PR2–

	Total no. of incidents of non-compliance 2007	Total no. of incidents of non-compliance 2008
Incidents of non-compliance that resulted in payment of a fine or penalty	4	5
Incidents of non-compliance that resulted in alerts/warnings	8	20
Incidents of non-compliance with voluntary codes	0	0
Total	12	25

As regards the new Regulations of the European Parliament and of Council concerning the Registration, Evaluation, Authorisation and Restriction of Chemicals (REACH), pursuant to Commission Regulation (EC) No. 987/2008, of 8 October 2008, "amending Regulation (EC) No 1907/2006 of the European Parliament and of the Council on the Registration, Evaluation, Authorisation and Restriction of Chemicals (REACH) as regards Annexes IV and V", natural gas and biogas are exempted from the obligation to register (annex V, paragraph 7 and 12) *–PR1–.*

Assessment of health and safety impact of services (PR1)

The Enagás Prevention Management System also includes procedures and guidelines for identifying and evaluating risks in all life cycle stages of its facilities (planning, commissioning, emergency shutdowns, maintenance and decommissioning), as well as external risks of a technological or natural type *–PR1–.*

These procedures and guidelines establish the system to be used to evaluate risk that should subsequently enable the Group to draw up preventative actions plans, provided sufficient information is available on risk detection and measurement, causes, order of priority for corrective actions and improvements, regular monitoring activities and identification of training and information needs *–PR1–.*

This system is based on Spanish and/or EU legislation, UNE-EN standards, guidelines issued by the Spanish Institute for Health and Safety at Work, protocols and guidelines published by the Ministry of Health and Consumer Affairs, the competent authorities in the autonomous communities, guidelines issued by other institutions with an established reputation in the area, and other professional methodologies and criteria that provide an equivalent degree of confidence.

Enagás updated all its risk assessments in 2008 such that at the year-end none of its centres had assessments dating from more than five years ago.

Risk assessments were also performed at workplaces and visits and planned observations carried out on the transportation network.

Information provided to customers and end users (PR3)

Enagás has specific procedures for the provision of information on all the activities it carries on. By way of example, as required under the regulations governing gas fuel networks and connections, the route of gas pipelines must be clearly signalled by signposts or other similar method. To comply with the aforementioned regulation, Enagás has drawn up general internal specifications defining the details to be included in the signalling system. These must necessarily include the source of the pipeline, its diameter, the kilometre point at which the post is located, and a contact telephone number.

The signposts are placed at regular, predetermined intervals, such that the route of the pipeline can be tracked along its entire length *–PR3–*.

The routes of the Company's pipelines are also marked by underground tape warning of their presence, which tape also conforms to general specifications *–PR3–*.

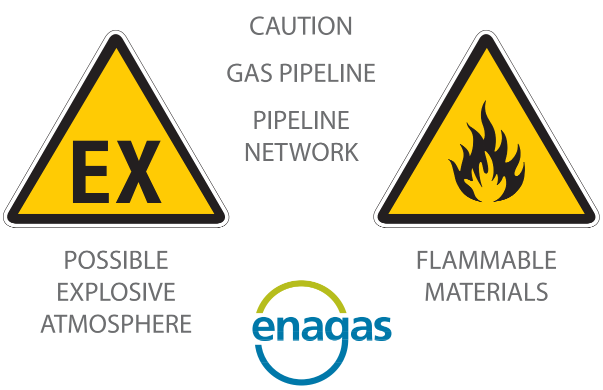
As Technical System Operator, Enagás has also rolled out a quality management system based on ISO 9001 that incorporates procedures for disclosing information to customers and end users. In addition, the TPA Management Department also includes disclosure procedures in its measurement activities.

The following table details the information to be provided to distributors *–PR3–:*

PRODUCT INFORMATION	YES	NO
The source of the components of the product or service.	X	
Content, particularly in terms of substances that may have an environmental or social impact	X	
Safe use of the product or service	X	
Elimination of the product and social/environmental impact	X	

When gas is transported in tankers, the provisions of the Royal Decree on hazardous goods apply. These require an exchange of information between the carrier and Enagás, entailing presentation of consignment notes, product safety sheets, etc.

Enagás is also required to draw up monthly balance statements for all distributors that include daily-level detail. For this purpose, its information systems must be always up-to-date in terms of distributors' gas inventories, balances, etc.



4.2. Commitment to customers

The Company's commitment to current and future clients is predicated on two key undertakings:

- To improve customer satisfaction. Enagás uses various methods (regular meetings, satisfaction surveys, etc) to gauge opinions on its services and bases its action plans on the results thus obtained.
- To improve transparency and impartiality in all its activities, via implementation of an ISO 9000 quality management model that in 2008 culminated in the accreditation of its Technical System Management functions and the start of the management certification process for infrastructures and third-party network access, which will be accredited in 2009. The information relating to gas transportation and Technical System Management that is available on the Enagás website has also been extended.

Customers

Enagás' customers are the main energy companies: BP Gas España S.A., Carboex S.A, Céntrica Energía SLU, Cepsa Gas Comercializadoras, S.A, E-ON Generación S.L., Electrabel España S.A., Endesa Energía S.A., Galp Energía España S.A.U, Gas Natural Comercializadora S.A., Gas Natural Servicios SDG, GDF SUEZ Comercializadora S.A., Hidrocantábrico Energía S.A.U., Iberdrola S.A., Ingeniería y comercialización de gas S.A., Naturgas Energía Comercializadora SAU, Nexus Energía S.A., Shell España S.A., Unión Fenosa Gas Comercializadora S.A. and Unión Fenosa Comercial.

The following companies also joined the customer base in 2008: EDF Trading Limited, Elektrizitäts-Gesellschaft Launfenburg España S.L., Eléctrica de la Ribera del Ebro, Essent Energy Trading Iberia, S.L. and Sonatrach Gas Comercializadora S.A.U.

Product and service catalogue

As established in prevailing regulations, Enagás provides the following third-party network access services, grouped by infrastructure (for more detail on these services, please consult the Company's website):

Regasification plants

- Unloading Tankers
- Regasification
- LNG Tankers
- LNG Tanker trucks loadings
- LNG loadings tankers

Pipelines

- Natural gas transport
- International transit of naturalgas

Underground storages

- Underground storages facilities

Conections to the network

- Delivery points to distribution networks and other transport networks

Customer satisfaction (PR5)

Enagás uses various methodologies to measure customer satisfaction with the services it provides, whether as Technical System Manager or as carrier, and uses the results obtained to develop actions plans and identify areas where improvement is needed.

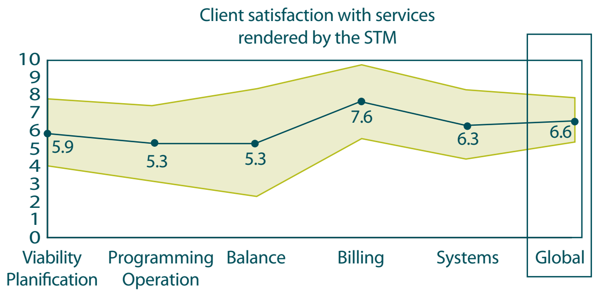
- **Annual surveys:** questionnaires are designed to cover all issues necessary to analyse customer satisfaction and then sent out to customers to ascertain their opinions.
- **Regular meetings:** the aim of these is to facilitate direct communication with customers, providing a forum for submitting any suggestions for service improvements.

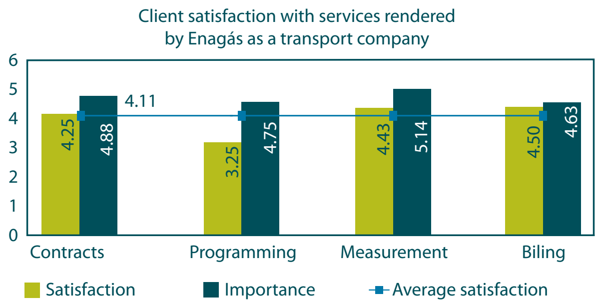
In October 2008, the Group conducted a survey among main System agents that, combined with subsequent one-to-one meetings, enabled it to gain a precise measure of their opinions on its activities as Technical System Operator. The survey results revealed particularly strong ratings for management transparency and human resources *–PR5–*.

Based on the findings of these meetings and surveys, Enagás, as Technical System Operator, has drawn up a programme of improvements to be made in the course of 2009, which has been presented to customers to check it meets their expectations. The main areas covered are:

- Greater transparency in resolving congestion.

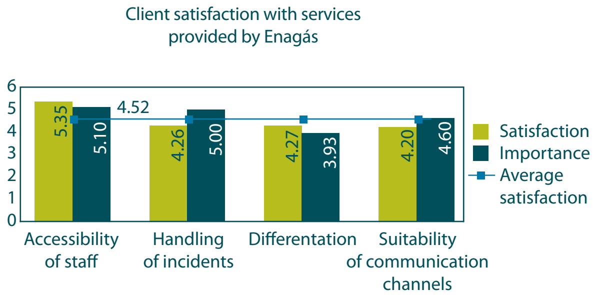
OUR COMMITMENTS





- Disclosure of criteria associated with viability responses.
- Accessibility of consultations on monthly programming.
- Increase in and improved accessibility to information published on the website, with access restricted to the gas sector.
- Technological improvements to IT systems.

In early 2008, Enagás also obtained the findings of its survey of customers of its transportation business, which revealed the following *–PR5–*.



Level of satisfaction
6 Excellent
5 Very good
4 Good
3 Acceptable
2 Poor
1 Very poor

Importance of service
6 Critica
5 Extremely important
4 Very important
3 Important
2 Not very important
1 Not at all important

The average rating for customer support was good (4.52), with accessibility of staff being particularly highly rated, although the results also revealed that, although rated more than acceptable, the Company's handling of incidents and channels of communication need to be improved further.

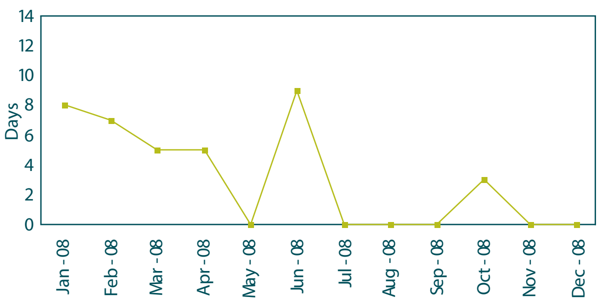
With regards to services provided, the key finding was that services are rated as good (4.11), with the greatest differential between importance and satisfaction ratings being found in the area of programming. In addition, each service was rated on four specific aspects (Reliability, Transparency, Accessibility and Flexibility), with transparency coming out as the most important element.

Based on these findings, and after reviewing them with customers, Enagás, as gas carrier, has drawn up a programme of improvements consisting of the following lines of action:

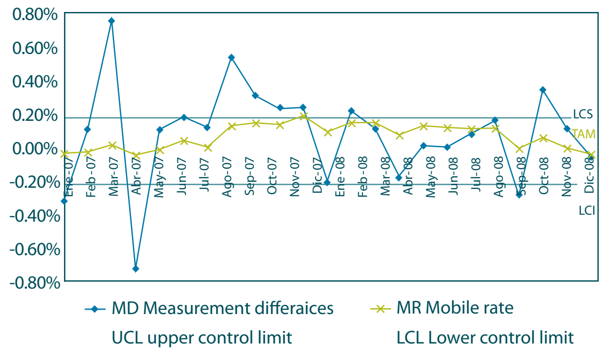
- Support for distributors:
  - Rollout of new customer account management model.
  - Improvement of information available on the Enagás transportation business portal, performing an exhaustive update of the data contained on the site that renders the information on infrastructures and services more transparent and accurate and thus facilitates decision making for distributors on contract applications and programming.
  - Ongoing improvement and optimisation of channels of communications, in particular via the thrice–yearly meetings established in the customer support guidelines.
  - Adjustment of Enagás' management systems (especially SL-MS-TPA) to the needs of distribution companies, so as to improve the speed and accessibility of information.

- Improved incident management:
  - Definition and rollout of a specific procedure for incident management that ensures distribution companies are at all times up-to-date on progress towards a resolution.
- Services provided:
  - Programming: improved coordination with distribution companies to adjust their programming to expected requirements, so facilitating use of the Company's infrastructures by all distributors (unloading tankers). Progress in this sphere in 2008 enabled the Company to improve and meet its target programming service quality index (forecast vs. actual days' delay in programming).
  - Measurement: Maintenance and development of the quality of current measurement systems so as to minimise shrinkage at regasification plants and in the transportation system. Progress in this area in 2008 helped improve the annual coefficient for global measurement differences from 0.13% to 0.04%.

Days of delay in monthly programming



Global measurement differences



Enagás aims to promote its commitment to clients, improving transparency and reliability of its activities. In 2008 Enagás has done satisfaction surveys to major clients and has defined and implemented plans on the results thus obtained

The cumulative figure for global measurement differences at Enagás entry points in 2008 was 180GWh, which represents a significant decline on the 2007 level of 512 GWh.

The Group is also looking to optimise the measurement process by:

- Improving the flow of information to system participants on quantities measured, thereby preventing discrepancies in billing services provided.
- Inviting distribution companies to be present at metrological confirmation processes for measurement units.

– Billing: maintaining the current high level of accuracy and transparency in billing attested to in the opinion survey conducted among distributors, so preventing unnecessary re-billings. Analysing the viability of introducing e-billing. Key achievements in this area in 2008 include a reduction of more than 38.3% in the volume of discrepancies (TPA trade payables).

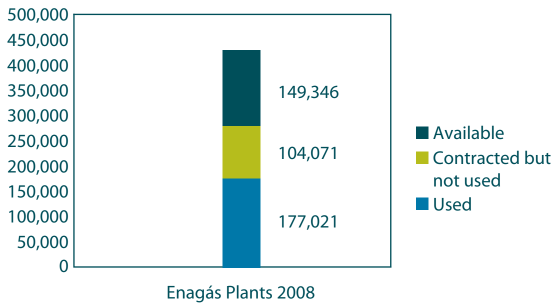
Contracted and available capacity

At the end of 2008, around two-thirds of the capacity available at Enagás entry points was contracted.

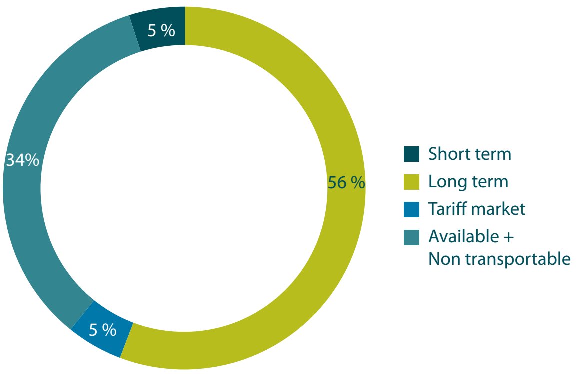
More than 50% of capacity at the Company's facilities is contracted under long-term bookings and just 5% under short-term bookings (less than two years). The market for short-term bookings was extremely buoyant in 2008, with a total of 220 contracts concluded, accounting for 81% of the total.

The tariff market has been progressively losing market share since the liberalisation process began and finally disappeared in 1 July 2008 when the last-resort system came into operation.

Contracts / Regasification plants utilization rate in 2008



Enagás Total System Contracts



Capacity used at Enagás plants in 2008 was 62% of contracted capacity. Capacity available at Enagás plants in 2008 was 53% of total capacity offered.

Daily updates of nominal, contracted and available capacity, broken down by entry points, regasification facilities, transportation facilities and underground storage, can be consulted on the Company's website.

4.3. Commitment to suppliers

Commitment to suppliers (EC6, EC9)

Contractors, suppliers and partner companies in general are indispensable to the exercise of Enagás' activities and the achievement of its business objectives. For this reason, Enagás strives to develop and maintain mutually beneficial supplier relationships built on long-term trust.

In the selection of its contractors, suppliers and external partners, pursuant to its Business Principles, Enagás guarantees impartiality and objectivity, applying transparent criteria aligned with the relevant internal regulations.

Enagás achieved a new investment record in 2008, investing a total of €777Mn, and its Strategic Plan envisages investment of around €4.5Bn between 2008 and 2012. Thus, given the volume of purchases to be made in this period, procurement practices will become a key factor in wealth generation and economic development *–EC9–.*

In 2008, spending on the acquisition of goods and services exceeded €1.239Bn, distributed across a total of 4,336 orders.

In the case of Construction Work and Services, most of the contracts awarded by Enagás went to Spanish suppliers (94.1%), mainly because all construction projects undertaken by Enagás are located in Spain. This means it is more difficult for foreign suppliers without offices in Spain to take part in the processes necessary for the execution of such works and services due to the greater relocation and travel costs involved *–EC6–.*

In the case of supplies, 72.2% of purchases were also made on the Spanish market *–EC6–.*

The biggest project for Enagás in the 2006-2010 period will be the construction of the Denia-Ibiza underground pipeline that will form part of the natural gas supply system for the Balearic Islands. This project embraces the Montesa-Oliva gas pipeline, the Oliva compressor station, the Oliva-Ibiza-Mallorca underground pipeline and the overland stretch in Mallorca. This project accounts for 17.4% of the total volume of purchases made by Enagás since 2006.

Enagás has incorporated a corporate responsability clause in all contracts with suppliers, by which the contractor recognises and agrees to comply with United Nations Global Compact and the Universal Declaration of Human Rights in the performance of its activities, accepting Enagás monitoring of its compliance

Supplier accreditation and transparency (HR1, HR2)

Enagás has an approval process that suppliers must satisfy before they may take part in procurement processes and respond to invitations to tender. To be approved as an Enagás supplier, they must submit to an evaluation process, which looks at, inter alia:

- Whether the candidate company is able to satisfy the established technical, quality, environmental and safety requirements.
- Whether the candidate company has sufficient resources to supply the quantities stipulated in orders and to conclude the projects, works or contracted services within the delivery period or stipulated time frame.
- Whether these requirements have been maintained within parameters considered acceptable by Enagás for an extended period of time.
- Whether the candidate company respects the principles of the United Nations Global Compact and the Universal Declaration of Human Rights *–HR1, HR2–.*

Based on the above criteria, at 31 December 2008, Enagás had a total of 2,056 registered and approved suppliers, spanning 127 different categories of goods and services. Of these suppliers, around 1,000 received orders in the course of 2008.

Enagás' contracting processes include prior selection of suppliers based on their technical capacity to undertake the work required and their quality standards.

Once submitted, bids are assessed, firstly, to establish the best technical solution, and, subsequently, to identify the most advantageous financial offer, the two assessments combined them forming the basis for the award.

Enagás updated its website in 2008 to include a Suppliers area to facilitate communication between the Company and its suppliers.

The Suppliers area includes information relating to:

- Pre-accreditation questionnaire: once a candidate company has completed this preliminary questionnaire, Enagás performs an initial assessment and, where appropriate, commences the process of supplier accreditation.
- Contracting terms and conditions: as a general rule, all Enagás orders are governed by the general terms and conditions of contracting, a constantly updated version of which is available in this area of the website.
- Supplier support: the Company's suppliers can submit queries regarding the status of their invoices or orders in this section, which includes a special form for streamlining communications.

Suppliers and corporate responsibility (HR1, HR2, HR8)

At Enagás, all negotiations with contractors must respect human rights and public liberties and be carried out in accordance with internationally recognised standards of conduct. These include, inter alia, the Universal Declaration of Human Rights, the ILO Tripartite Declaration, the OECD Guidelines for Multinational Enterprises and the United Nations Global Compact.

Enagás also encourages and promotes cooperation, on equal terms, with those suppliers and contractors that conform to the most rigorous social, environmental and ethical standards.

Given Enagás' commitment to corporate responsibility, and with the aim of applying this policy to all suppliers, in November 2008 the following corporate responsibility clause was incorporated into all commercial contracts as well as into the Companies' General Terms and Conditions of Contracting *–HR1, HR2, HR8–:*

"The Contractor/Supplier recognises and agrees to comply with Enagás' corporate responsibility policy and to respect the principles of the United Nations Global Compact and the Universal Declaration of Human Rights in the performance of its activities, whether these be carried out by its own personnel or by contracted parties. Furthermore, for the duration of the contract, the Contractor/Supplier agrees to allow Enagás to monitor the degree of compliance with these corporate responsibility requirements, accepting any corrective or preventative measures that may be imposed".

Since November 2008, all contracts concluded (252) with suppliers (150) include the new corporate responsibility clause *–HR1, HR2–*.

Enagás is also aware of the importance of its suppliers and contractors to the development of its activities and endeavours to make them share in its environmental undertakings. When contracting out a service, the Company expressly informs each potential supplier of the main General Environmental Requirements that must be taken into account when working on a project with Enagás in the early stages of the contracting process.

In addition, at those facilities where, because of ongoing improvements and extensions, a particularly large number of contractors and suppliers are engaged, Enagás organises information days at which it shares information on waste management and preventative measures to consider with its co-workers.

4.4. Commitment to regulatory bodies and public sector authorities

As a Company that works almost exclusively in regulated areas of activity, Enagás works closely with the regulatory bodies. Accordingly, many of the initiatives developed by the Company are focussed on providing support to these bodies and identifying the needs and expectations that will help improve the efficiency and quality of services provided.

Ministry for Industry, Tourism and Trade

The Ministry for Industry, Tourism and Trade is the regulator responsible for approving remuneration recognised for regulated activities, tariffs, tolls and duties, and access terms and conditions for users of gas infrastructures, and for drawing up the Spanish Electricity and Gas Infrastructure Plans.

Enagás maintains close, regular contact with the Ministry. Principal activities include numerous meetings with the Directorate-General for Energy Policy and Mines attached to the Ministry for Industry, Tourism and Trade and with the National Energy Commission at which it provides systematic updates on developments in the year as well as general information and opinions on various issues, as and when required. It also files regular information on gas movements and inventories, the registration of facilities, financial information on the Company segmented by activity, and the information needed to draw up the remuneration and tariff model.

Additionally, Enagás contributes, as and when required, to the drafting of new regulations and comments on the various proposals issuing from the Ministry. With regards to European regulatory developments, Enagás works with the Ministry to facilitate coordinated action in their respective areas of responsibility.

National Energy Commission

The Spanish National Energy Commission (CNE) is an independent regulatory body whose remit is to ensure effective competition in the energy system and the objectivity and transparency of its operation, for the benefit of all companies operating in the system as well as for the benefit of consumers. The CNE acts as a consultative body for the government, contributes to regulatory developments and the authorisation of new facilities, and serves as binding arbitrator in disputes between the various energy system participants.

Enagás has a seat on the Hydrocarbons Consultative Committee, a CNE advisory body, both directly as Technical System Operator and indirectly as representative of the Sedigas Committee of Gas Transporters.

The Company actively cooperates with the CNE, filing various regular reports on infrastructure investment, the operation of the gas system and financial information on its activities.

With regards to the settlement of remuneration payable for regulated natural gas sector activities, which is an area falling under the CNE's remit, Enagás helps finalise the forms used to collect information and regularly submits the information necessary to their formulation. It is also an active participant in inspection processes.

Enagás also takes part in the various public consultation processes launched by the CNE that affect its activities. For example, in 2008, it contributed to the CNE consultation process organised in conjunction with the French Energy Regulation Commission (*Commission de Régulation de l'Énergie,* or CRE) for the development of new interconnection capacity between Spain and France.

With a view to extending and enhancing its contributions to regulatory developments at European level, Enagás also maintains regular contact with various departments of the regulatory body to facilitate exchange of information and coordinated action in their respective areas of responsibility.

Gas System Monitoring Committee

The Gas System Monitoring Committee was established, pursuant to section 9.7 of the Technical System Management Regulations, as the body responsible for monitoring the operation of the gas system, coordinating the actions of the various system participants, and producing reports on operational plans of a temporary nature and any other areas of interest for system monitoring.

The Committee, which meets every two months, is chaired and coordinated by Enagás, as Technical System Operator, and composed of representatives of all Gas System operators, the Directorate-General of Energy Policy and Mines attached to the Ministry for Industry, Tourism and Trade, the National Energy Commission and the Electricity System Operator.

Average attendance at these meetings is around 72 and items on the agenda, published on the Enagás website, typically include:

- New legislation.
- Gas System Operation.
- Gas System Management.
- Specific issues of actuality in the sector (underground storage facilities, wind generation, maritime LNG transportation, etc.).

As the Technical System Operator, Enagás also coordinates the specific working group of the Gas System Monitoring Committee that meets monthly to update, review and modify the Technical System Management regulations and protocols.

In 2008, the working group oversaw the creation of seven subgroups to take charge of analysing proposals and issuing opinions. It also drew up six proposals for amendments to the regulations and three new protocols, all of which were submitted to the Directorate-General of Energy Policy and Mines attached to the Ministry for Industry, Tourism and Trade for approval and publication in the BOE (Official State Gazette), subject to prior approval of the National Energy Commission. Four of the proposed amendments to the regulations were approved, as well as three protocol amendments and one new protocol (PD-11).

As required under Technical System Management Regulations NGTS-10, in 2008 the Technical System Operator also coordinated an operational group established to study the possible integration of the international connection in Almeria within the MEDGAZ project. The group presented its conclusions to all system agents, the Directorate-General of Energy Policy and Mines attached to the Ministry for Industry, Tourism and Trade and the National Energy Commission on 14 July 2008. These conclusions were ratified in the form of a proposed protocol for gas pipeline congestion, which was submitted to the working group of the Gas System Monitoring Committee for processing in December.

Enagás works closely with the regulatory bodies, providing support to these bodies in the development of the regulatory frameworks at domestic and European levels

European Commission

The European Commission is the executive body of the European Union responsible for safeguarding EU treaties, submitting legislative proposals to the Council of the European Union and to the Parliament and applying the resultant resolutions.

In 2007, the Commission proposed and promoted a third package of electricity and gas sector measures designed to give new stimuli to the liberalisation of the energy sector and the creation of an internal energy market. The package provides, inter alia, for greater harmonisation, efficiency and transparency in the terms and conditions of access to basic gas infrastructures, the creation of an Agency for Cooperation of Energy Regulators (ACER) and establishment of a European Network of Transmission System Operators for Gas (ENTSOG) that will have an active role in the development of new codes. In November 2008, the European Commission presented the second Strategic Review of the Energy Sector, which includes proposals for security, solidarity and energy efficiency.

Enagás maintains regular contact and regularly works with various members of the European Commission, in particular those attached to the Directorate General for Transport and Energy. In addition, Enagás frequently works with the European Commission, either directly or through the industry associations of which it is a member, foremost among them GIE.

European Parliament

The European Parliament shares with the Council the legislative function of the European Union and has an increasingly important role in the adoption of directives, regulations and other EU resolutions. In addition to its legislative function (joint power to reject new members and powers of censorship), the Parliament has budget control and supervisory functions.

There are at present 785 euro MPs, each elected for five years, and 20 working committees between which the MPs are assigned. Of these committees, the Committee on Industry, Research and Energy is the one with the most influence over Enagás' activities.

Given the importance of directives, regulations and other EU resolutions to the exercise of its activities, Enagás contributes both directly and indirectly, through the associations of which it is a member, to the development of EU regulations and cooperates at various different levels of the parliamentary structure.

European Gas Regulation Forum (Madrid Forum)

The European Gas Regulation Forum (the "Madrid Forum") was set up by the European Commission in 1999 to propose, debate and foster regulatory developments that would help establish a fully competitive single market in Europe.

The Madrid Forum debated various issues in 2008, including the third package of electricity and gas sector measures, the introduction of new guidelines for good practice by the ERGEG and the results of existing guideline monitoring. In addition, it continued to closely monitor the activities of the Regional Initiatives, the development, on the part of the European Commission and the ERGEG, of interpretations and guidelines for granting exemptions under article 22 of Directive 2003/55/EC, and the possibility of the EC establishing an action plan for the LNG sector.

The Madrid Forum generally meets twice a year in the offices of the National Energy Commission. Meetings are attended by representatives of bodies with regulatory responsibilities (European Commission, member states and third countries, national regulators and regulatory associations), transportation companies (Gas Infrastructure Europe - GIE), and associations representing system users (distribution companies, traders, consumers and other stakeholder groups).

Enagás makes a particular contribution to the Madrid Forum via membership of its working groups, which are structured, according to the three associations within GIE, to represent the three types of basic infrastructure (pipeline transportation, LNG regasification plants and underground storage facilities), having a direct role in LNG-related matters as the current chair of GIE's association of European LNG plant operators (GLE).

4.5. Commitment to shareholders

As has been standard practice since the Company's listing in 2002, Enagás is actively committed to transparency in all communications with the financial markets. To fulfil this commitment, it makes use of all communications channels through which relationships between the Company, its shareholders (whether retail or institutional investors) and financial analysts are established and maintained.

For private investors, Enagás has established a Shareholder Information Office to respond to all information needs its shareholders may have. The various communication channels available include a freephone shareholder support line (900 100 399), a dedicated e-mail address (accionistas@enagas.es), and a fax number (91 709 93 28).

In addition, Enagás continued to provide intuitional investors and financial analysts with information with ever increasing transparency and frequency throughout 2008. The channels of communication most frequently used were presentations at meetings, forums and conferences, themed seminars, roadshows in the main financial marketplaces, and the Company's corporate website (www.enagas.es). The Company's senior management has also demonstrated an increasing commitment to investor communication strategies that is very highly regarded by the financial markets.

In addition, the Company dealt with numerous enquiries and requests for information from shareholders via its Investor Relations' Department (investors@enagas.es Tel: 91.709.93.30). In 2008 the Company responded to more than 950 e-mails and approximately 2,900 telephone calls and sent numerous documents to shareholders via these communications media.

Thus, in 2008 it maintained contact with more than 300 institutional investors and analysts and held roadshows in London, the US (New York and Boston), Zurich, Edinburgh, Geneva, Paris, Frankfurt, Milan, Dublin, Amsterdam, Madrid and Barcelona.

It also conducted four webcasts via its corporate website www.enagas.es to present its quarterly results and the update of its 2007-2012 Strategic Plan.

The Company's performance is tracked by a total of 31 investment analysts who, like the rest of the market, are provided with detailed, up-to-date information on its activities. Up-to-date analysts' opinions and forecasts relating to Enagás can be consulted in the Shareholders and Investors section of the Company website (www.enagas.es). The analyst consensus resulted in 26 buy, four hold and one sell recommendations in the course of the year and an average target price of €21.16 per share.

During 2008, Enagás maintained contact with more than 300 institutional investors and analysts and held roadshows in the main international financial centers

4.6. Commitment to the media

Enagás views the media as a stakeholder group in its own right, a group with which it maintains a fluid relationship based on transparency of information and trust as well as availability and cooperation on any issue relating to the gas sector.

It has therefore developed various channels of communication with the media, including a dedicated email address, telephone hotline, a specific media section of its website www.enagas.es, press releases, press conferences and other information meetings, etc.

In April 2008, the presentation of the Company's 2007-2012 Strategic Plan provided the occasion for a press conference organised by the Spanish Association of Economic Journalists (APIE) at which Enagás' Chairman met with 30 journalists and personally explained to them the Company's investment plan for the year ahead.

The Chairman also held various meetings throughout the year with leading journalists specialising in the energy sector so that information on the Company could be relayed to stakeholders via the various communications media.

In the course of the year a total of 18 press releases were issued and sent to an updated database containing more than 400 contacts, providing information on key events affecting the Company.

In addition, every day staff working in the Communications Department responded to numerous phone enquiries from the media requesting information of all kinds on the Company, its infrastructure investments, projects, current progress, corporate strategy, etc.

In 2008 Enagás also significantly strengthened its relationship with the written medium by helping draft natural gas-related articles and reports for various Spanish and European titles. The Company's Communications Department assisted with almost 60 articles and interviews in the course of 2008, double the number handled in 2007.

Also in the course of the year Enagás continued to fund institutional advertising pursuing non-commercial objectives, launching a new creative campaign based on the concept of natural gas as a source of energy that will allow for the development of renewable energies.

Finally, Enagás is a member of the Spanish Association of Directors of Communication (DIRCOM), which, inter alia, promotes ethical communications practices.

Enagás web portal

The Enagás web portal is one of the Company's main channels of communication with its stakeholders. The portal is designed to provide the various stakeholder groups with information that is as comprehensive and up-to-date as possible on Enagás' activities as gas transporter and as Technical System Operator.

Reflecting the Company's commitment to ongoing improvement, a number of new features and sections were added to the portal in 2008.

As regards content, the corporate responsibility menu has been extended to include for the first time information on the Company's position on sustainability and its Business Principles for employees.

Another new addition is a dedicated section for Suppliers, designed to facilitate supplier management, which includes details of the prerequisites for supplier accreditation, a pre-accreditation questionnaire, the general terms and conditions of contracting and a Supplier Support section.

Another important new initiative was the launch of the employment portal, through which interested parties can access details of job vacancies and submit their CVs.

In addition, to keep up with the latest trends in web design, the Enagás website has been converted to 1024x768 format and RSS feeds have been incorporated. This technology gives users immediate and automatic access to updates of the web content to which they subscribe.

Additionally, to incorporate the latest recommendations on accessibility, the design of certain content, including the Gas Demand Curve and the Map of Infrastructures, has been adapted so that all persons, irrespective of any disability they may have, can access the Enagás website.

OUR COMMITMENTS

With the aim of progressively establishing its site as the benchmark portal for the Spanish gas sector, Enagás is introducing new content designed to add value, including, for example, a weather section where users can consult weather forecasts for all major Spanish cities.

In 2008, the Company website registered more than 22 million visits and users browsed more than nine million pages of the site. This equates to a daily average of 25,000 page visits.

In addition, the Communications Department responded to more than 1,000 e-mails sent through the Enagás web mailbox, (contacta@enagas.es), including questions on the Company's activities and the gas sector in general, sponsorship and patronage proposals, requests from energy companies, associations and universities, etc. All these queries were quickly processed to ensure users enjoyed the best possible support.

4.7. Commitment to society

Community action (4.12, EC8, SO1)

Enagás re-affirmed its commitment to corporate responsibility in 2008. In addition to defining a global Company position on corporate responsibility, it issued statements of position on Community Contribution, Equality, Biodiversity and Climate Change.

The statement of position on Community Contribution sets out the basic principles that guide its relationships with the communities in which it has offices or industrial facilities.

Due to the nature of its activities and their impact on the landscape in the regions where it is present, Enagás regards cooperation and communication with local communities as a strategic variable of primary importance in the development of its business plans. For this reason, the Company pays particular attention to those communities in which it has offices or industrial facilities, supporting community projects that benefit underprivileged groups including the elderly, the disabled and children.

Accordingly, Enagás' community contributions are assessed on the basis of the following criteria:

- Location: Enagás' priority is to support or contribute to programmes or initiatives developed in regions where Enagás has or expects to have a direct, ongoing impact, whether though existing plant or facilities planned for the future.
- Social concern: As regards type of project, priority is given to activities benefitting people, whether children, the elderly, people with disabilities, etc. This criteria may include initiatives involving research, biomedical development, education, etc. that will have a direct impact on society, and thus on the quality of life of citizens.

All applications received are assessed on the basis of the degree to which they satisfy the criteria thus defined. Where necessary, applications are also submitted to the Sustainability Committee for approval.

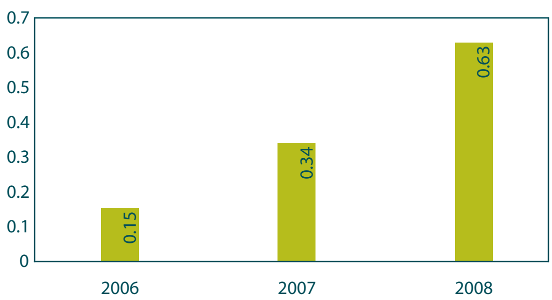
Additionally, to ensure that its community initiatives focus on urgent needs within the community, Enagás strives to identify in advance and, by consulting the various public sector organisations in the regions where it works, to perform prior assessments of projects considered priorities.

Enagás also follows up on donations made and actions performed to ensure due and proper use and application and has included in its Corporate Responsibility Master Plan a line of action envisaging the development of systems and procedures that will help it to identify and update the principal impacts on communities *–SO1–*.

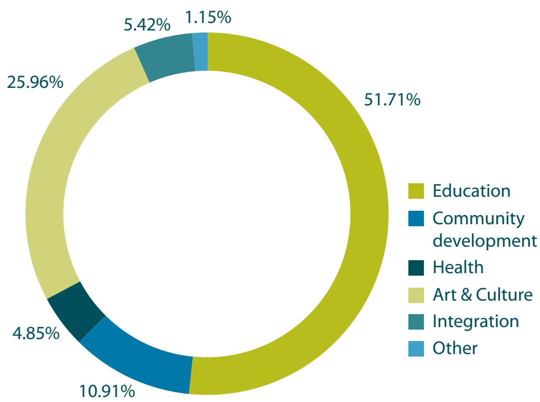
Another line of action set out in the plan is an ongoing commitment to increasing the quantity of funds assigned to community and cultural projects, confirming the importance Enagás accords to this area (85.5% growth in funding relative to 2007) *–EC8–*.

In 2008, Enagás' charitable contributions were focused on the following areas *–EC8–:*

Evolution of community contributions
(in Euro millions)



Community contributions by area 2008



Education and training

Sponsorship for education and training is primarily aimed at energy sector professionals and recent graduates, via contributions to sector forums and conferences and the organisation of visits to Company installations. Key initiatives in 2008 included Enagás' sponsorship of the 19th World Petroleum Congress that took place in Madrid, plus support for various other institutions including the Institute of Business (*Instituto de Empresa*), the Spanish Energy Club (*Club Español de la Energía),* and the New Economic Forum.

Other 2008 initiatives in the field of education included support for the Spanish Chapter of United World Colleges, an NGO that fosters international understanding by providing Spanish students with scholarships to study at colleges belonging to the international association.

In addition, as part of the Company's commitment to education and training, numerous employees contribute to various energy forums during working hours without receiving financial recompense. Thus, in 2008, Enagás' staff shared their knowledge and experience of the natural gas sector at events and forums and by hosting visits to Enagás' facilities.

Enagás also helps extend access to new information technologies by donating IT equipment to various educational institutions.

Business and Parliament Programme

In 2008, Enagás joined the Spanish Business and Parliament Programme (Programa Empresas-Parlamentarios, or PEP). Organised by the Spanish Circle of Businessmen (Círculo de Empresarios), the programme is designed to increase knowledge of the Company and its activities among MPs, senators and Spanish euro MPs. Under the programme, MPs spend approximately five days at the company over the course of a year, gaining first-hand knowledge of the operation of the different organisational units and of the Company's principal projects.

Due to the nature of its activities, Enagás considers the relations with the local communities as strategic for the development of our business plan

Social inclusion

Enagás' also prioritises projects that foster social inclusion. Support provided in this area is targeted at disadvantaged groups (children, the elderly, persons with disabilities, etc) in those communities where the Company has offices or industrial facilities.

In 2008, Enagás once again provided ten "in total support of education" grants for children aged six to 18 who have Down's Syndrome and special needs due to other disabilities, in conjunction with the Madrid Down's Syndrome Foundation. The grants help these young people, throughout their educational life, to become fully integrated into all aspects of home, school, work and social life.

In recognition of its support for the training of workers with disabilities, Enagás earned an award for workplace integration from the federation of organisations working for people with learning disabilities and cerebral palsy in the region of Murcia (FEAPS). In particular, the Federation, on the proposal of one of its members, the Cartagena Association for the comprehensive support of persons with Down's Syndrome (Asido), was rewarding Enagás for it work fitting out Asido's occupational therapy centre and for commissioning the centre to provide a decorative mosaic for the Company's regasification plant in Valle de Escombreras, Cartagena.

Art and culture

Once again in 2008, Enagás worked to promote and disseminate culture by sponsoring a number of events and activities organised by prestigious cultural institutions including Madrid's Lyric Theatre Foundation and Barcelona' Gran Teatre del Liceu Foundation, two foundations that aim to foster the free creation and representation of lyrical and musical art and choreography and promote research into Spain's lyrical and musical heritage.

In the course of the year, it contributed to various cultural initiatives in the communities where it has operations, including the XXXVII Cadaqués Music Festival and the I International Showcase of Documentary Cinema in Montaverner (Valencia).

Community development

The focus of Enagás' social action policy is to provide urgently-needed assistance in regions in which the Company has infrastructures or will have in the near future.

Specifically, in Yela (Guadalajara), where Enagás will shortly commission a new natural gas underground storage facility, the Company helped organise various cultural events as part of its work to support popular culture. The Company also provided assistance in the restoration of the Vera Cruz Chapel in Brihuega, Guadalajara, one of the buildings of greatest historical and cultural significance in the region.

Enagás also provides sports sponsorship for teams that have insufficient funds to sustain their activities in those communities where it has operations.

Health

The main initiatives supported by Enagás in this area are those that prioritise medical research. In 2008, it worked with two organisations working to combat leukaemia, the Leukaemia and Lymphoma Foundation and the International Josep Carreras Foundation.

Given the nature of its activities, Enagás also gives priority to projects of an environmental nature and in 2008 once again provided support for Adenex, the association for the protection of nature and natural resources in Extremadura.


4.8. Environmental commitment

4.8.1. Climate change, a global challenge

The use of fossil fuels entails the emission of greenhouse gases that could be reduced by more responsible energy consumption and efficiency improvements in energy generation, transportation and end usage.

Using renewable energy sources and replacing fuels with others having a lower carbon dioxide content are two important lines of action. In the execution of its activities, Enagás is committed to combating climate change by ensuring the supply of natural gas throughout Spain and promoting energy efficiency at its facilities and in its transportation activities.

4.8.1.1. Energy consumption (EN3, EN4, EN29)

The natural gas used to fuel the various plant at the Company's transportation and generation facilities accounts for the majority of Enagás' energy consumption.

The rise in natural gas consumption at its plants in 2008 is principally a reflection of the more intensive operation of the injection turbines at the Serrablo underground storage facility. Natural gas consumption at this facility rose from 78.3 GWh in 2007 to 130.4 GWh in 2008.

Volumes of fuel consumed by the Company's fleet of leased vehicles and gasoil consumed by the generating units of emergency generators in 2008 were relatively immaterial.

Indirect energy consumption consists of the electricity used at buildings and installations.

The rise in electricity consumption in 2008 reflects the extension of existing facilities and the increase in new ones. Foremost among these were the expansions at the regasification plants in Barcelona, Huelva and Cartagena and the use of electric starter motors at the new compressor stations in Alcázar de San Juan and Zaragoza.

Consumption of natural gas –EN3, EN29–

	2006	2007	2008
Consumption of natural gas (GWh)	998.56	818.63	1,009.73
Consumption of natural gas (GJ, 1GWh=3.600 GJ)	$3.59{,}10^6$	$2.94{,}10^6$	$3.63{,}10^6$

Consumption of natural gas –EN3, EN29–

	2006	2007	2008
Consumption of gasoil generating units (litres)	33,389	59,772	89,991
Consumption of gasoil vehicle fleet (litres)	663,090	685,294	697,789
Total consumption of gasoil (Gj) (Gj, 1 m^3 gasoil=36.464 Gj)	25,396 (*)	27,168 (*)	28,725

(*) Data corrected since publication of the 2007 Report due to a calculation error

Consumption of electricity –EN4, EN29–

	2006	2007	2008
Total consumption of electricity (GWh)	219.41	195.74	208.7
Total consumption of electricity (GJ, 1GWh=3.600GJ)	$0.789*10^6$	$0.704*10^6$	$0.751*10^6$

4.8.1.2. Energy efficiency (EN5, EN6, EN7)

As part of the drive to improve energy efficiency, in 2008 the Transportation Department set specific targets for reducing natural gas consumption in its regulation and metering stations (ERMs) via the adoption of various measures, including a reduction in the temperature required on the exit of regulated natural gas and the installation of programmable logic controllers (PLCs) to monitor and adjust this temperature. These have brought progressive reductions in natural gas consumed by the Company's boilers *–EN5–*.

New projects launched in 2008 for improving energy efficiency at Enagás facilities included a project to generate electricity from residual thermal energy that began with a pilot test at the Almendralejo compressor station and is scheduled to come on stream in the course of 2009. *–EN6–*.

Natural gas consumed at facilities (%) –EN5–

	2006	2007	2008
ERM boilers	0.035	0.032	0.028

Also in 2008, the Company drew up a plan to implement the UNE 216301 Energy Management Systems standard at the Cartagena plant, where an energy audit is also scheduled for 2009 *–EN6–*.

Meanwhile, Enagás is striving to reduce indirect energy consumption by adopting best environmental practices and communicating these to all staff through the corporate intranet. For 2009, portable videoconferencing equipment will be introduced that will allow for simultaneous communication between regasification plants and the Head Office and should thus help reduce the number of work-related journeys *–EN7–*.

4.8.1.3. Greenhouse gas emissions

Since the European Directive on emission rights trading came into force, companies included in its scope of application, as is Enagás' case, must submit emission rights equivalent to their actual emissions at the end of each year.

The Enagás facilities covered by this scheme are its compressor stations, regasification plants and the Serrablo storage facility. Each year these facilities must undergo a CO_2 emissions check carried out by an accredited verifying body *–EN16–*.

Carbon dioxide (CO_2) emissions (EN16, EN18, EN29)

Direct carbon dioxide emissions are the result of combustion in the following existing points of combustion: boilers (type C points of combustion), turbocompressors and evaporators (type B points of combustion). All these points of combustion use natural gas as their fuel.

Direct carbon dioxide (CO_2) emissions from combustion –EN16, EN29–

	2006	2007	2008
CO_2 (t) emissions from industrial combustion points (*)	208,903*	154,190	173,876

(*) The figure differs from that published in the 2006 environmental report because the report did not take account of emissions corresponding to gas burnt in flaring operations at regasification plants.

The reduction in carbon dioxide emissions resulting from combustion reflects less intensive use of turbines, the main combustion points in compressor stations that use natural gas as their fuel, since 2005. The reduction has been achieved by using operating procedures that optimise the situation in which turbocompressors are brought into operation *–EN18–*.

The reduction in combustion gases has also been influenced by the installation of sea water evaporators in successive capacity expansions at regasification plants that have allowed for reduced use of submerged combustion evaporators *–EN18–*.

The ongoing downtrend was interrupted in 2008 because of increased operation of the injection turbines at the Serrablo underground storage facility, which resulted in increased combustion and thus increased CO_2 emissions.

Methane (CH_4) emissions (EN16, EN18)

Due to the nature of its industrial activities, Enagás' direct greenhouse gas emissions include methane emissions (CH_4) as well as carbon dioxide emissions.

The data for these emissions are calculated on the basis of natural gas emissions produced in the venting necessary to operate certain plant and when new stretches of pipeline are brought into service.

The reduction in natural gas emissions achieved since 2005 is essentially due to the installation, in April 2006, of a safety flare, reliquefier and compressor at the Barcelona plant that have made it possible to reduce emissions from venting. The benefits of these additions were already evident in the first few months of 2007 *–EN18–*.

There was a slight reversal in the downtrend in 2008, mainly because of an incident that occurred at the Barcelona plant that necessitated emergency venting of 713 thousand m^3 of natural gas.

Indirect emissions from electricity consumption (EN16)

Indirect greenhouse gas emissions –EN16–

	2006	2007	2008
Emissions from electricity consumption (t CO_2 equivalent) (*)	34,126	83,970	89,493

(*) Calculated on the basis of the emission factor published by the International Energy Agency for Spain in 2006.

Emissions from venting

	2006	2007	2008
Natural gas emissions (thousands of mm^3)	7,893	2,934	3,368

Methane emissions from venting –EN16–

	2006	2007	2008
Methane emissions CH_4 (t)	5,021	1,866	2,142
Methane emissions CH_4 (t CO_2 equivalent)	105,452	39,203	45,000

Fleet vehicle emissions (EN16, EN17)

Vehicle emissions vary according to the type of fleet and the associated usage needs.

Emissions due to vehicle use –EN16, EN17–

	2006	2007	2008
CO_2 (t) emissions from fleet vehicles (**)	1,765	1,824	1,857

(**) Calculated on the basis of the data published in the 1990-2005 National Inventory of greenhouse gas emissions, as revised in March 2007.

Enagás has the commitment to fight the climate change, promoting the energy efficiency in its transport and production operations. Likewise, Enagás has implemented a system to control and measure the greenhouse gas emissions

Total greenhouse gas emissions (EN16)

Total (i.e. direct and indirect) greenhouse gas emissions include carbon dioxide emissions released in combustion, emissions from electricity consumption, methane emissions from venting and emissions due to vehicle use.

Total (direct and indirect) greenhouse gas emissions –EN16–

	2006	2007	2008
Direct and indirect greenhouse gas emissions (t CO_2 equivalent)	350,246	279,187	310,226

Emission rights trading system (EN16)

Enagás has established an emissions monitoring and verification system in order to comply with the Kyoto Protocol and qualify for the National Allocation Plan (NAP) for emission rights.

All installations with installed thermal power capacity in excess of 20MW are affected. For each of these facilities, an annual emissions report is drawn up, verified by an accredited body, and filed with the competent autonomous community body before 28 February each year.

Emissions verified (t CO_2 equivalent)–EN16–

	2006	2007	2008
Serrablo underground storage facility	15,562	13,101	22,245
Barcelona LNG regasification plant	1,683	1,666	1,895
Cartagena LNG regasification plant	10,406	626	151
Huelva LNG regasification plant	2,820	1,059	743
Algete compressor station	11,121	6,595	9,895
Almendralejo compressor station	45,590	39,155	44,858
Almodóvar compressor station	11,761	10,661	15,529
Bañeras compressor station	4,206	3,500	8,655
Córdoba compressor station	4,991	1,196	542
Crevillente compressor station	5,346	109	116
Dos Hermanas compressor station	2,025	862	207
Haro compressor station	7,410	10,757	19,494
Paterna compressor station	8,482	273	136
Tivissa compressor station	20,400	14,590	11,830
Zamora compressor station	7,063	17,545	9,357
Zaragoza compressor Station	0	0	2,893
Alcázar de San Juan compressor station	0	0	7,502

4.8.2. Protecting biodiversity in the vicinity of facilities

The measures adopted by Enagás to protect biodiversity are designed to achieve the following objectives:

- To prevent and minimise impacts in the areas affected by facilities and activities.
- To achieve advances in the search for technical solutions and innovative management techniques and in understanding the environments of the Company's facilities and operating locations.
- To raise the profile of biodiversity protection such that it constitutes a variable of strategic importance in the Company's decision-making processes.
- To participate in conservation, education and awareness projects.

4.8.2.1. Impacts of Enagás' activities (EN12)

Enagás' environmental protection measures may be grouped, depending on the unit responsible for them, into those related to engineering and construction activities and those specific to regasification, storage and natural gas transportation activities.

In accordance with the Company's environmental policy and the regulations governing environmental impact assessments, at the start-up stage of all projects an environmental impact study is produced that is used to identify the best possible location for the planned installation, with a view to reducing and minimising the environmental impacts of the work and the facility's subsequent operation.

In 2008 the Company obtained authorisation from the competent environmental authority to begin construction work at the following installations:

Projects which the Company resolved not to submit to environmental impact assessment in 2008
Besós gas pipeline
Musel – Llanera gas pipeline
Duplication of Castellón branch
Villar de Arrendó compressor station

Projects for which Environmental Impact Statements were issued in 2008
Barcelona plant: 7^{th} and 8^{th} 150,0000 m^3 LNG storage tanks
Barcelona plant, increase of emission capacity to 1,800,000 m^3(n)/h
Barcelona plant, increase of emission capacity to 1,950,000 m^3(n)/h
Cartagena plant, 5th 150,000 m^3 LNG storage tank
Huelva plant, 5^{th} 150,000 m^3 LNG storage tank
El Musel regasification plant
Duplication of Castellón branch
Splitting of the Campo de Gibraltar branch (Phase III)
Gas pipeline connection with Lorca
Yela underground storage facility

Installations with installed power capacity in excess of 20 MW – a group that includes the Barcelona, Huelva and Cartagena regasification plants, the Serrablo underground storage facility and some of the compressor stations on the basic gas pipeline network - are subject to the IPPC Act, which establishes integrated environmental permits as a means for defining and enforcing the environmental standards that installations must satisfy whilst in operation.

In 2008 the following integrated environmental permits applied for in 2007 were issued for all installations affected by the IPPC Act:

Integrated environmental permits issued in 2008
Barcelona plant (extension work)
Huelva plant (extension work)
Tivissa compressor station (extension work)
Villar de Arnedo compressor station (new facility)
Montesa compressor station (new facility)
Crevillente compressor station (extension work)
Denia compressor station

The principal environmental impacts of construction work at the above installations identified in the environmental impact studies were the following:

Main impacts of construction work on biodiversity–EN12–
Impact on vegetation of opening up pipeline route
Impact on wildlife due to development and destruction of habitats
Soil damage and pollution due to movement of earth
Water damage and pollution where pipelines cross water courses
Atmospheric impact of emissions of solid particles and noise

4.8.2.2. Protective and corrective measures (EN11, EN13, EN14, EN15)

All protective and corrective measures identified as being needed in the planning phase are implemented during the construction phase. To this end, the Company establishes Environmental Monitoring Programmes that provide a time schedule for the aforesaid corrective measures and are implemented under the on-site supervision of an environment specialist.

Protective measures –EN14–
Course of existing infrastructures followed to avoid deforestation and land clearance
Water course crossing points chosen that have minimal impact on vegetation and wildlife
Topsoil stored and preserved
Routes redirected or narrowed to avoid having to cut down trees
Trunks of ancient tree species protected
Timetable for execution of work altered to avoid affecting wildlife
Corrective measures –EN13–
Earth surface restored via decompaction and replacement of topsoil
Restoration of affected water courses
Replantation of affected land by sowing herbaceous species and planting trees and shrubs
Restoration of banks and slopes

In 2008 the following environmental audits were performed in relation to projects in the execution stages, in order to guarantees compliance with the environmental requirements applicable in each case:

Environmental audits of projects in 2008	Kilometres	Nº audits
Villarobledo - Albacete gas pipeline	72.5	1
Alcázar de San Juan- Villarobledo gas pipeline	62	1
Albacete - Montesa gas pipeline	130	1
Semicircle pipeline (Phase II) in southwest Madrid	73	1
Arbós – Barcelona pipeline (Phase II)	72	1
Montesa – Denia gas pipeline	65.2	1
Almería – Lorca gas pipeline	126	1
Lemona – Haro gas pipeline	91.2	1
Lorca – Chinchilla gas pipeline	167	1
Splitting of Aceca branch	6	1
Alcázar de San Juan compressor station	0	1
Navarra compressor station	0	1
Increase of capacity at Haro compressor station	0	1
Montesa compressor station	0	1
Increase of capacity at Barcelona plant	0	2
Increase of capacity at Cartagena plant	0	1
Increase of capacity at Huelva plant	0	1
Total	864.9	17

The environmental policy of Enagás is applied in all the stages of the projects developed. The adoption of preventive and corrective measures assures minimum environmental impact in our activities

The environmental monitoring programme continues in the years after the work is completed, the earth restored to its original state and the land affected replanted, in order to ensure the success of the corrective measures taken.

Restoration of habitats –EN13–

	2006	2007	2008
Surface area replanted (m^2)	871,008	40,494	0
Surface area restored (m^2)	1,598,452	1,408,016	9,738,309

No replanting was undertaken in 2008; however, given current progress of construction works, the replanting planned will be carried out in 2009.

For all pipelines, the shortest possible route that avoids adverse impacts on habitats and protected areas is selected. Where this is not possible, minimising and corrective measures to reduce adverse impacts on the areas are implemented.

When it is impossible to prevent such impacts, the route of the pipeline may cross protected areas provided the aforementioned protective and corrective measures for minimising affects are rigorously applied.

Surface area (m^2) occupied by Enagás installations in protected areas forming part of the 2000 Nature Network –EN11–

Type of installation	Cumulative total to 2006	2007	2008
Gas pipelines	4,026,448	32,952	308,376
Concentrated installations	75,091	0	2,800
TOTAL	4,101,539	32,952	311,176

Once the pipeline has been sunk and the affected land restored, no environmental impacts or other evidence of the construction work remain other than the valve positions and regulation and metering stations sited along the length of the pipeline.

The following specific actions for managing impacts on biodiversity were carried out in 2008 *–EN14–.*

- A survey and study of the distribution of breeding populations of steppe birds in the Special Protected Area for Birds (SPA) east of Albacete was carried out in connection with the construction of the Albacete – Montesa gas pipeline. The colony of lesser kestrels (Falco naumanni) in the vicinity of Almansa (Albacete) was also monitored.
- In connection with the construction of the Alcázar de San Juan –Villarobledo gas pipeline, the Company built a nesting box to encourage various bird species to nest, and in particular to foster the recovery of the lesser kestrel.
- •In relation to the construction of the Almería – Central Axis gas pipeline, in conjunction with the competent environmental authority the Company has taken steps to minimise adverse impacts on the Greek Tortoise (*Testudo graeca*) *–EN15–*. Measures adopted included daily inspections of the route prior to digging, capture of animals found and their re-release in similar areas at least 300 metres from the route of the pipeline.

  During these construction works, when passing through sites of community importance (LICs) in Sierra de Cabrera-Bédar and Ramblas del Jerga, Tabernas and Sur de Sierra Alhamilla, the Company took steps to protect species of flora including salsola papillosa *–EN15–*. The route was adjusted where needed, access routes were restricted and specimens found on the edge of worksites were protected. Seeds were also collected for use in the Environmental Restoration Project carried out once the construction work is complete. Similar measures were adopted to protect specimens of green-flowered narcissus (Narcissus viridiflorus) during the pipeline splitting works on the Campo de Gibraltar branch (Phase III) where the route passes through the Alcornocales Natural Park *–EN15–.*
- In the closing months of 2008, work began on the construction of the Denia-Ibiza-Mallorca underwater gas pipeline. The environmental impact study for this project sets out the measures to be adopted to prevent adverse impacts on marine species including posidonia oceanica. These include running the pipeline at least two kilometres away from posidonia fields for its entire length and monitoring water turbidity by installing screens in selected sites where posidonia is found so that any changes during the two-year period of the construction work can be monitored.

  As a further measure to protect biodiversity during the construction of the underwater pipeline, the Company has appointed a specialist technician to control and monitor the population of cetaceans and loggerhead sea turtles (*Caretta caretta*), tracking the behaviour of these sea mammals to ensure that any potential disruption to their habitats is detected.

4.8.3. Performance in environmental management

Enagás incorporates the principles of environmental protection and preservation in all its industrial and economic development activities with a view to guaranteeing sustainable development.

In line with this undertaking and the provisions of its environmental policy, Enagás has implemented an environmental management system certified under quality standard UNE-EN-ISO 14001 at the following facilities:

- Huelva regasification plant. Certified since May 2000.
- Barcelona Regasification plant. Certified since December 2000.
- Serrablo underground storage facility. Certified since December 2000.
- Gas transportation department. Certified since December 2000.
- Cartagena regasification plant. Certified since July 2001.
- Technology unit. Certified since August 2002.

Enagás' environmental unit consists of:

- The Environmental Committee formed of the Company's senior management, which establishes environmental policies.
- The environmental groups responsible for implementing management guidelines.
- The Risk Prevention and Environment Unit, which coordinates and supports the organisational units in the development of environmental action plans.

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Environmental policy

Conservation and commitment to the environment are priority objectives for Enagás and all its workers. Protecting the environment is a factor in all business decisions, with the Company striving to balance industrial and economic progress with respect for the environment and so contribute towards sustainable development. To this end Enagás has pledged and assumed the following environmental principles and commitments:

- **Sustainable development.** To carry out its activities in an environmentally-friendly manner, ensuring future resources while also paying particular attention to energy efficiency, the fight against climate change and protecting the environment and its citizens in general.
- **Ongoing adaptation to applicable regulations.** To comply with the environmental legislation applicable to its facilities and activities. To take international standards and legislation trends into account when planning actions that may have a significant environmental impact, especially in those areas in which no applicable legislation currently exists.
- **Preventing pollution and assessing potential risks.** To apply the basic principle of pollution prevention and potential risk assessment from the planning and decision making stages through to the execution and implementation of new projects.
- **Continual improvement.** To ensure continual improvement by designing environmental objectives and targets for those environmental issues which need improving and which have been highlighted using a systemic and periodical evaluation of the environmental management system. Basic tools include audits and the use of environmental indicators when assessing the performance made in this field.
- **Minimising impact.** To constantly strive to identify, understand and improve environmental impacts caused by the Company's activities and facilities, and endeavour to achieve more efficient use of them, from their inception through to the end of their useful lives, paying special attention to those used in particularly sensitive areas.
- **Inclusion of environmental criteria in relationships with contractors.** To factor environmental criteria into decisions on the award of contracts for services and products and to inform contractors working with Enagás of the applicable environmental procedures and requirements.
- **Environmental cooperation.** To cooperate whenever required with authorities, NGOs and other public or private organisations in seeking solutions to any environmental problems that may arise.
- **Environmental communication and information.** To encourage in-house and external environmental communications with criteria of transparency, informing employees and the general public of goals attained and work in progress regarding the control of environmental issues and guaranteeing the traceability of all environmental data and information used.
- **Employee training, motivation and involvement.** To ensure the correct training of employees depending on their activity and to encourage participation from all employees in order to achieve a continual improvement in environmental performance.

September 2007

Chairman of Enagás

4.8.3.1. Consumption management

Consumption of auxiliary materials (EN1, EN2)

Since Enagás' activities do not involve productive processes per se, no raw materials are deemed to be consumed *–EN1–*.

In accordance with its environmental principles, reducing consumption is a priority for Enagás when planning its activities.

Consumption of tetrahydrothiophene as a natural gas odorisant is largely determined by the obligatory concentration defined for this product in prevailing legislation applicable to gas transportation activities.

Methanol is also used as a desiccant when new pipeline sections are brought into operation but its use has been considerably reduced by the adoption of alternative systems, such as dry air, when conditions allow.

At the Serrablo underground storage facility, use of methanol prevents hydrates from forming during transportation of the gas extracted from the facility until its subsequent processing. To reduce methanol consumption, in the course of 2008 the Company installed a methanol recovery unit. By using this system, the Company hopes to be able to recycle 99% of the methanol contained in water outputs, although the methanol content of this water depends on processing conditions and the characteristics of the gas *–EN2–*.

With regards to consumption of triethylene glycol at the Serrablo storage facility, a regeneration system that makes it possible to keep redeploying this substance until its properties are exhausted has been in operation since the facility was brought into service.

Consumption of auxiliary materials –EN1–

Consumption of auxiliary materials	2007	2008
Consumption of tetrahydrothiophene (THT) (kg)	405,000	489,082
Consumption of methanol (litres)	330,400	363,668
Consumption of sodium hypochlorite (kg)	1,471,510	1,485,299
Consumption of triethylene glycol (TEG) (kg)	27,900 (*)	27,795
Consumption of oil (litres)	20,215 (*)	35,888

(*) Data corrected since publication of the 2007 Report due to a calculation error.

Consumption of water (EN8, EN9)

The water used at Enagás installations is drawn from the municipal network and authorised wells.

Total water consumption by source–EN8–

	2006	2007	2008
Consumption of water from municipal network (m^3)	55,125(*)	54,365(*)	61,572
Consumption of water from wells (m^3)	22,444	23,783	16,207

(*) This figure differs from that published in the 2007 Report due to a printing error

The limits assigned each year for water withdrawn from wells were exceeded at the following facilities in 2008:

Facilities at which well water withdrawal limits were exceeded –EN9–

	Consumo agua (m^3)	Límite concesión (m^3)	Superación (%)
Algete CS	1170	1153	1,4
Almodovar TP/CS	1966	1700	15.6

The programme of objectives and targets set for the Transportation Department for 2010 includes a target 10% reduction in water consumption across all its facilities relative to average annual water consumption over the past five years *–EN8, EN9–*.

4.8.3.2. Atmospheric emissions of other non-greenhouse gases

Emissions of potentially ozone-depleting substances (EN19)

The only emissions of this type released by Enagás are those resulting from possible gas escapes from air-conditioning equipment that uses the coolant R-22.

In 2007, the Company began a drive to withdraw from its regulation stations all equipment that contained this coolant and replace it with equipment that uses R410 (which does not deplete the ozone layer). In 2008 a total of seven R-22-based systems were withdrawn from service at Transpiration Department sites and a total of 17 systems were withdrawn at regasification plants. A further 82 systems were also replaced at workplace sites. The total volume of R-22 coolant withdrawn in 2008 was 357.8kg *–EN19–*.

In all cases, the obsolete systems were disposed of in accordance with legislation on hazardous waste and electrical and electronic waste.

Atmospheric emissions of other gases (EN20)

The combustion of natural gas in the combustion points mentioned above also produces other pollutant gases - specifically carbon monoxide (CO) and nitrogen oxide (NOx).

Atmospheric emissions of other gases –EN20–

	2006	2007	2008
Carbon monoxide emissions. CO (t)	49	36	21
Nitrogen monoxide emissions, NOx (t)	35	40	61

CO emission levels have been reduced as a result of maintenance work to improve combustion conditions. NOx emission levels have risen due to the increase in the number of compressor stations using turbocompressors, which, despite inbuilt NOx emission reduction systems, are a type of equipment that necessarily releases greater emissions of this pollutant.

To monitor emissions of pollutant gases produced in combustion, each year Enagás draws up an Environmental Monitoring Programme that entails execution of a series of mandatory and voluntary environmental controls applied at all points of combustion *–EN20–*.

In 2008, atmospheric controls were carried out at 800 points of combustion on the basic gas pipeline network, 15 combustion points at plants and 12 combustion points at Serrablo.

4.8.3.3. Noise generation and emissions (EN29)

Noise is generated by the operation of regulators at regulation stations and compressors and other equipment at compressor stations, plants and storage facilities.

Assessment of noise levels at facilities is key to controlling the installations' noise impact on the environment. It also enables the Company to identify those facilities at which noise reduction measures need to be implemented.

In 2008 noise generated was measured at 111 facilities, with a high degree of compliance with the limits established in applicable legislation being verified. Nonetheless, a total of 42 historical noise measurements across all facilities surpassed the legal limits.

Most of these incidents of non-compliance with noise emission limits were recorded at regulation and metering stations sited in remote locations where noise is generated by gas passing through the regulators *–EN29–*.

To reduce noise at regulation and metering stations - both those where legal limits are exceeded and those where noise levels are close to the limits - in 2008 the Company initiated a programme of noise abatement measures at regulation and metering stations entailing the installation of silencers on regulation lines and the insulation of doors and grates.

Adjustments were made at a total of 46 facilities identified as priorities, either because of particularly high noise generation levels or because they are located in places especially sensitive to noise impacts.

In respect of noise generated at compressor stations, in 2008 the Group began research to identify the best possible noise abatement measures to implement at these facilities. The relevant conclusions will be available in the course of 2009.

4.8.3.4. Wastewater discharge

Control of wastewater discharge (EN25, EN21)

Enagás generates two types of waste water - wastewater from sanitary use in plants, storage facilities, maintenance centres and compressor stations, and the seawater used in evaporators at regasification plants, which is returned to the sea with its properties unaltered, the only change being a reduction in its temperature relative to the temperature of water captured for consumption. Enagás does not discharge wastewater into water courses located in protected areas or considered to be of particular ecological value. *–EN25–*.

The total volume of seawater used at regasification plants discharged in 2008 was 389 Hm^3. *–EN21–*.

Total volume of seawater used at regasification plants discharged in 2008 –EN21–

	2006	2007	2008
Barcelona plant (Hm^3)	210	246	184
Cartagena plant (Hm^3)	96.4	69.5	79
Huelva plant (Hm^3)	198	118.5	126
Total (Hm^3)	504.4	434	389

The reduction in discharge volumes is due to less intensive use of seawater evaporators.

Wastewater from sanitary use is discharged into municipal sewerage networks or purification plants at a total of 25 installations and into authorised septic tanks at 19.

As a result of the monitoring programmes established in 2008, 16 analyses of discharge at 11 transportation network sites were carried out, and checks were performed on sanitary water and cooling-unit water used at regasification plants, in order to comply with the requirements of the relevant effluent permits.

4.8.3.5. Spills and waste management

Spills and soil pollution (EN23)

Enagás applies a series of measures to prevent the chemical spills that can occur in the exercise of its activities.

The measures adopted entail placing containment troughs and trays beneath storage facilities or equipment containing pollutant substances, as well as ensuring adequate maintenance of all equipment.

In spite of these measures, small spillages do occasionally occur, for example, when replacing oil in equipment or replacing containers, or when filling tanks (overflows).

Principal accidental spills –EN23–

Facility	Spilled substance	Amount (litres)
Barcelona regasification plant	THT	309
	Oil	3,640
Cartagena regasification plant	Hydraulic oil	50
Huelva regasification plant	Gas-oil	20
Serrablo underground storage facility	Methanol	5
	Water with oil	10
Almendralejo TP/CS	Oil	1
	Oil	35
	Gas-oil	5
Cadiz TC	THT	5

There was an LNG spill of $8m^3$ at Barcelona plant due to an incident occurring in November 2008.

Waste management (EN22)

Since 2001, Enagás' waste management system has entailed separating, storing and delivering to authorised waste managers all hazardous and non-hazardous waste produced at all its facilities, including the head office.

The majority of the waste produced in the Company's generation and gas transportation activities is waste associated with storage activities. This explains the considerable annual fluctuation in the quantity and type of waste generated.

In 2008 Enagás handled a total of 2,313 tonnes of waste, of which 1,819 tonnes was hazardous waste and the remainder (494) tonnes was non-hazardous waste.

Non hazardous waste handled –EN22–

	2006	2007	2008
Inert industrial waste	86.7	72.5	256.3
Scrap metal	99 (*)	102	124.9
Paper and cardboard waste	32 (*)	37	72.7
Wood	8 (*)	23.5	28.9
Plastics	6 (*)	9.5	11.3
TOTAL NON HAZARDOUS WASTE	231,7	244,5	494.29

(*) Data corrected since publication of the 2007 Report due to a calculation error

Hazardous waste handled (t) –EN22–

	2006	2007	2008
Water with methanol	1,395.8	1,412.4	1,668.1
Oil/water/detergent mix	59.8	100.7	79.1
Contaminated absorbent material	7.5	7.4	12.6
Used oil	6.8	13	13.8
Transformers with PCBs (*)	6.5	0	0
Spent batteries	5.9	10.3	5.7
Electrical and electronic scrap	5.8	12.9	15.2
Empty metal can waste	3.8	3	9.7
Empty plastic container waste	2.1	4.4	2.5
Contaminated gravel	3.7	0.9	3.8
Oil filters	2.6	1.8	1.1
Hydrocarbon waste	2.1	2.1	0.06
Used light bulbs	1.1	1.2	1.3
Solvent/antifreeze	1.0	1.9	0.9
Used batteries	0.6	0.5	0.5
Swarf with lubricant	0.6	0.8	0.3
Paint	0.5	1.9	2.1
Aerosols	0.4	0.5	2
R-22 coolant	0	0.5	0.35
TOTAL HAZARDOUS WASTE	1,506.6	1,576.2	1,819.1

(*) Latest equipment with PCBs at Enagás.

Enagás has implemented an environmental management system certified under quality standard UNE-EN-ISO 14001 for the activities of production, transport and storage of gas as well as for the Technology Unit

Destination of waste handled in 2008.

Non hazardous waste	Treatment method in 2008
Inert industrial waste	Disposal
Scrap metal	Recycling
Paper and cardboard waste	Recycling
Wood	Recovery/Disposal
Plastics	Recycling
Hazardous waste	**Treatment method in 2008**
Water with methanol	Recovery
Contaminated absorbent material	Recovery/Disposal
Used oil and oil mixes	Regeneration/Recovery
Spent batteries	Recovery/Disposal
Electrical and electronic scrap	Recycling
Empty plastic container waste	Recycling/Disposal
Contaminated gravel	Disposal
Oil filters	Recovery/Reconditioning
Hydrocarbon waste	Recovery
Used light bulbs	Recycling
Solvent/antifreeze	Regeneration
Used batteries	Recycling/Disposal
Swarf with lubricant	Disposal
Paint	Recovery

4.8.3.6. Environmental objectives (EN5, EN14, EN26, EC2)

Enagás' environmental objectives are defined in its Environmental Strategic Plan. The plan covers several years but is revised on an annual basis to update existing and incorporate any new environmental challenges facing the Company.

The 2005-2010 Plan currently in place was revised in the course of the 2008 to quantify specific objectives and reiterate the Company's key lines of action:

- Reduction of greenhouse gas emissions
- Improved energy efficiency
- Protection of the environment

The principal environmental objectives and progress made towards each in 2008 are detailed below.

Line of action	Objective	2008 progress report
Reduction of greenhouse gas emissions ***–EN26, EC2–***	Eliminate atmospheric emissions of natural gas during start-up at compressor stations by installing 22 turbo-compressors with electric starter systems (by 31/12/2010)	Target 60% met
	Install NOx low emission systems in the new turbocompressors (by 31/12/10)	
	Adapt cooling installations to reduce the percentage of plant using the coolant R-22 by 12% each year (by 31/12/2008)	Target 100% met This coolant had been replaced at almost all facilities by end-2008 (except for eight pending replacement at three facilities)
Improved energy efficiency ***–EN5–***	Generate electricity at the Almendralejo compressor station, as a pilot facility for increasing energy efficiency in the use of combustible gas by more than 40% (by 31/03/2009)	Assembly of the installation was completed in 2008. The electricity evacuation system remains pending
	Electricity at regulation and metering stations (completion delayed, now due by 31/12/09)	Basic engineering viability study completed in 2008
	Generate electricity at the Huelva regasification plant, as a pilot installation for generating more than 80% of electricity consumed (by 31/12/2010)	Project pending construction and commissioning
Protection of the environment ***–EN26–***	Reduce noise generated at regulation and metering stations, achieving results at three stations each year (by 31/12/2009).	Noise abatement measures were introduced at most stations affected in the course of 2008
	Install 15 dual-wall underground oil and condensate collection tanks with leak detection systems in new compressor stations or extensions of existing stations (by 31/12/2010).	Target 60% met

In addition to the objectives set in the Environmental Strategic Plan, the various organisational units have defined their own voluntary environmental objectives. Progress made towards achieving the most important of these in 2008 is detailed below:

Organisational unit	Goal	2008 progress report
Transportation department	To replace ionic smoke detectors with optical detectors, delivering the resulting waste to a certified waste manager (by end 2008)	Target 100% met
	To develop a methanol recovery unit at the Serrablo underground storage facility ***–EN26–***	Unit assembled in 2008
Barcelona plant	To replace all lead tank seals with plastic ones	Target 100% met
Cartagena plant	Voluntary adherence to the Environmental Pact promoted by the Region of Murcia	Target 100% met
Huelva plant	To replace all lead tank seals with plastic ones	Target 100% met

As part of the modifications needed to expand the capacity of the Cartagena regasification plant and build a new 150,000 m^3 tank at the plant, in 2009 the Company will adapt and upgrade the gas recovery system to maximise safety and minimise environmental impacts.

It also plans to increase boil-off gas recovery capacity by installing a new compressor with twice the capacity of the current ones, and to replace the existing reliquifier with a new higher capacity one so that flare emissions can be reduced *–EN26–*.

4.8.3.7. Environmental expenditure (EN30, EC2)

Environmental investments made by Enagás in 2008 amounted to €54.6Mn and are listed, by main applications, in the table below.

Costs incurred to ensure compliance with the environmental protection and impact mitigation principles adopted by the Company came to €0.7Mn.

The increase in investments classified as "Other environmental improvements" in 2008 corresponds to the work planned at the Cartagena Plant, where atmospheric greenhouse gas emissions are to be reduced by the installation of a new boil-off gas recovery system *–EC2–*.

Environmental expenditure –EN30, EC2–

Investments	2005	2006	2007	2008
Research and development	59,220	1,577,960	3,682,593	967,382
Execution of environmental objectives ***–EC2–***	14,445,000	2,169,000	4,419,845(*)	1,927,772
Environmental project studies	253,971	1,140,380	993,269	249,163
Archaeological studies and work	249,332	57,359	569,796	948,163
Habitat restoration	6,323,000	1,937,399	2,658,901	11,879,514
On-site environmental monitoring	527,481	295,982	588,609	810,002
Targeted and horizontal drilling	2,000,496	592,733	5,204,448	8,146,734
Other environmental improvements ***–EC2–***	501,074	388,909	1,002,022	29,715,618
Environmental management systems (*)	84,789	52,580		
TOTAL INVESTMENTS	24,444,363	8,212,302	19,119,483	54,644,348
Expenditure	**2005**	**2006**	**2007**	**2008**
Environmental management systems	15,003	124,700	165,692	220,280
Environmental controls at installations (noise, emissions and effluents)	260,748	128,220	94,990	98,496
Waste management	441,000	457,100	469,500	430,510
Execution of environmental objectives			45,703	
Environmental studies at installations			17,373	
TOTAL EXPENDITURE	716,751	710,020	793,258	749,286

(*) Linked to an investment project in 2005 and 2006.

CORPORATE GOVERNANCE

5.1. CORPORATE GOVERNANCE AT ENAGÁS

General corporate governance principles at Enagás (4.6, 4.8)

For the Enagás Board of Directors, good governance principles and practices are central to cementing confidence among investors and shareholders and fostering the creation of shareholder value.

Reflecting its commitment to compliance with all good governance standards and recommendations, Enagás has adopted measures to enhance the transparency and reliability of the financial information it publishes on the markets, focusing particularly on measures that enable shareholders to monitor good governance recommendations more closely and in greater detail, thereby demonstrating its belief that transparency, fair and equal treatment of shareholders and appropriate disclosure can be highly valuable assets.

Enagás embarked on the process of adapting to these values when it adopted the measures established in Law 44/2002 of 22 November, known as the Financial System Reform Act. This act was the point of departure for a new drive to incorporate best practice in corporate governance and sustainability.

Accordingly, following the introduction of the Financial System Reform Act, at the Ordinary General Meeting held on 25 April 2003 shareholders resolved to amend the Company Bylaws to incorporate two new articles governing the Audit and Compliance Committee and the Appointments and Remunerations Committee (concerning, inter alia, their organisation, operation, competition and assigned powers).

In addition, at the Board meeting held on 24 July 2004, the Directors approved a new Internal Code of Conduct on matters relating to the securities markets that incorporated the provisions of Law 24/1988, the Securities Market Act, as amended by Law 44/2002.

In particular, a new section 3 was added governing privileged or confidential information that sets out the rules of conduct to be observed in respect of the same and the principles of action established to ensure that share prices are correctly established, and provisions regarding regular market reporting obligations and transactions in treasury shares.

This new section also includes exhaustive regulations on related-party transactions, conflicts of interest, the duties incumbent on the Company and associated persons when related-party transactions or transactions that could imply conflicts of interest are proposed, and the responsibilities of the Board Committees in relation to these issues.

With respect to possible conflicts of interest, persons subject to the Internal Code of Conduct must act as follows:

- Notify the Secretary to the Board of Directors of any possible conflicts of interest to which they may be subject due to family relationships, their personal equity or any other reason. Notifications must be effected within 15 days, and in all cases before any decision relating to the possible conflict of interest is taken.

- Update information, including any change or end to the previously notified situations, and any new conflicts of interest arising.

- Refrain from participating in any decision-making process that may be affected by such a conflict of interest with the Company.

The Appointments and Remunerations Committee is the body responsible for regulating and resolving any conflicts of interest that may arise, pursuant to article 25 of the Regulations of the Board of Directors.

The process of ongoing improvement underway at Enagás continued following the approval of Law 26/2003, of 17 July, on the transparency of listed limited companies, which made substantive amendments to Law 24/1988, the Securities Market Act, and the revised text of the Spanish Companies Act and was subsequently implemented by Order ECO 3722/2003, henceforth the main point of reference for all listed limited companies when drafting their Annual Corporate Governance Report. The entry into force of this Transparency Law revealed that Enagás already complied with the majority of the requirement set out therein.

Accordingly, at the General Meeting held on 25 April 2005, Enagás shareholders resolved to approve a set of General Meeting Regulations with which all shareholders would be familiar that would thus ensure better exercise of their information and voting rights (which cover notices of call and their dissemination, the availability of the full content of proposals submitted for consideration at General Meetings, delegation and voting).

In addition, at a meeting held on 19 February 2004, the Board of Directors approved an extensive set of regulations governing its organisation and operation that was reported to the Spanish National Securities Commission (CNMV) as a significant event. The Board Regulations were drawn up on the basis of the recommendations contained in the Olivencia Code and the Aldama Report, according particular attention to issues including the definition of Directors' duties, the regulation of Board Committees and the assignment to the same of a set of powers and responsibilities designed to enhance the guarantees of objectivity with which the Board must approach certain issues, and the regulation of Directors' remuneration.

The Unified Code of Good Governance, or Conthe Code, which has since become Enagás' benchmark in all matters relating to best practices in corporate governance, was approved on 22 May 2006. The improvements and additions contained in this Code were adopted by the Enagás Board at its meeting of 29 March 2007. Accordingly, the Board Regulations and those of the Audit and Compliance Committee were amended, with all changes being reported to the CNMV, and announced to the public on the Company's website and to shareholders at the General Meeting held in May.

Board of Directors and Committees (4.1, 4.2. 4.3, 4.7)

As a general principle, the Board aimed to incorporate within the text of the Regulations as many of the recommendations of the Unified Code of Good Governance as possible, with the exception of those recommendations that are impossible to comply with (for example, the recommendation to eliminate limits on shareholders' voting rights, since these are imposed under the Hydrocarbons Law) or would distort current practices or conditions conducive to the good governance of the Company.

Accordingly, article 3 relating to the quantitative and qualitative composition of the Board has been modified to bring it in line with the categories of Directors defined in the Unified Code. In addition to the categories of "Executive", "Proprietary" and "Independent", the category of "Other External" has been included to define those Directors that are neither Executive nor Proprietary Directors but also do not satisfy all the criteria necessary for classification as "Independent". The requirement that at least a third of the Directors must be independent has been included in the Regulations, , and is currently being complied with.

As the table below shows, the current composition of the Board of Directors conforms to the rules set out in the Unified Code:

Name of Director	Seat on the Board	Type of Director	Audit and compliance committee	Appointments and remunerations committee
Antonio Llardén Carratalá	Chairman	Executive	–	–
Bancaja (represented by Mr. José Luis Olivas Martínez)	Deputy Chairman and	Proprietary (Bancaja)	Member	–
Jesús David Álvarez Mezquíriz	Director	Independent	–	–
Bilbao Bizkaia Kutxa (represented by Xabier de Irala Estévez)	Director	Proprietary (BBK)	–	–
Carlos Egea Krauel	Director	Proprietary (Sagane Inversiones, S.L)	Member	–
Salvador Gabarró Serra	Director	Proprietary (Gas Natural SDG S.A.)	–	Chairman
Teresa García-Milá Lloveras	Director	Independent	–	Member
Miguel Ángel Lasheras Merino	Director	Independent	–	–
Dionisio Martínez Martínez	Director	Independent	–	Member
Luis Javier Navarro Vigil	Director	External	Member	–
Martí Parellada Sabata	Director	Independent	Chairman	–
Peña Rueda, S.L.U (represented by Manuel Menéndez Menéndez)	Director	Proprietary (CIC, SL, Cajastur)	–	–
Ramón Pérez Simarro	Director	Independent	–	Member
José Riva Francos	Director	Independent	–	–
SEPI (Spanish State Holding Company)	Director	Proprietary (SEPI)	–	–
Antonio Téllez de Peralta	Director	Independent	Member	–
Rafael Piqueras Bautista	Secretary	–	Secretary	Secretary

The Board was also given powers to appoint and remove members of senior management, on the proposal of the chief executive, and to carry out annual appraisals of their performance, the performance of the Board Committees and that of the Chairman and Chief Executive Officer.

Board members that are classified as Independent Directors are selected from among professionals of recognised standing that bring qualifications and experience beneficial to the Company's interests.

The Board regulations also give the Board responsibility for approving the regular financial information issued to the markets, incorporate the principle of equal treatment of women and men when nominating Directors, and stipulate that Independent Directors shall remain as such for no more than 12 years.

In relation to the Board Committees, in addition to modifications of the Board Regulations (articles 25 and 26), changes to the Company Bylaws were also made.

The reworking of the Company Bylaws (articles 44 and 45) approved by shareholders at the General Meeting held on 11 May 2007 entailed the incorporation of the recommendations of the Unified Code of Good Governance relating to Board Committees. As a result, Executive Directors are henceforth excluded from membership of the Appointments and Remunerations Committee, as they already were from the Audit and Compliance Committee, and the composition of both Committees is now set at between three and five Directors, with a view to broadening access to the committees for the different types of director.

Audit and Compliance Committee (4.1, 4.4)

Regulations for the Audit and Compliance Committee were approved at the meeting of the Board of Directors of 19 February 2004. They are designed to provide the Committee with an organisational and operational framework that enables it to operate as an independent and transparent body, and thereby comply with the regulations contained in article 44 of the Company Bylaws and article 26 of the regulations governing the organisation and operation of the Board of Directors.

Amendments made to the Regulations on 11 May 2007 raised the maximum number of Committee members to five, since it was thought that this would allow for better representation of the different categories of Directors.

Article 3 of the Regulations of the Audit and Compliance Committee states that none of its members may be executive directors, in order to preserve the transparency and objective nature of its decisions, and the parity between controlling and independent directors must be maintained. The aforesaid article also stipulates that the Chairman of the Board of Directors and members of other committees may not sit on the Audit and Compliance Committee.

As established in article 4 of the Committee Regulations, the term of Committee membership is the same as the term of office for a Directorship. On ceasing to be a Director, a Committee member's period of service is automatically concluded. Serving Directors may cease to be Committee members at any time the Board of Director so decide.

Notwithstanding the above, the Chairman of the Committee must be replaced every four years. The Committee Chairman may be re-elected one year after leaving the post, without prejudice to his/her continuity as a member of the Committee if the Board of Directors decides that there exists sufficient reason for re-election.

During their period of office, Committee members shall perform the duties and adhere to the working principles stipulated in the Company Bylaws, the Regulations of the Board of Directors and prevailing legislation on company directors.

In keeping with article 8 of its Regulations, the Committee must meet at least four times a year and the Chairman shall call as many further meetings as he/she believes are required for the Committee to complete its tasks.

The tasks to be performed by the Audit and Compliance Committee are set out in article 44 of the Company Bylaws and article 7 of the Committee Regulations, as modified to adapt them to the Unified Code.

- To assess compliance with the Internal Code of Conduct on matters relating to securities markets, the regulations of the Board of Directors and the Company's governing regulations, and to make proposals for their improvement.
- To provide information at General Meetings on questions within the scope of its competencies, including the financial reporting process, risk exposure, and financial, social and environmental performance.

Appointments and Remunerations Committee (article 4.1, 4.5, 4.10)

The regulations of the Appointments and Remunerations Committee are contained in article 45 of the Company Bylaws and article 25 of the regulations governing the organisation and operation of the Board of Directors.

Amendments made to these Regulations on 11 May 2007 raised the maximum number of Committee members to five, since it was thought that this would allow for better representation of the different categories of Directors. Executive Directors are excluded from the Committee, as was already standard practice at the Company. The Committee is comprised mainly of Independent Directors, as stipulated in the Company Bylaws and the Board Regulations.

The duties of the Appointments and Remunerations Committee are detailed in Article 45 of the Company Bylaws and Article 25 of the Regulations of the Board of Directors. Foremost among these are the duty:

- To review the structure of the Board of Directors, the criteria for the statutory renewal of Directors, the inclusion of new members and any other aspects relating to its composition that it deems appropriate, providing the Board of Directors with the proposals that it considers necessary.
- To establish payment criteria for company Directors, in accordance with the stipulations of the Bylaws and in line with resolutions of the General Shareholders' Meeting, and ensure that payments are transparent.

Directors' remuneration (4.5, 4.10)

The sections of the Board Regulations dealing with Directors' remuneration have also been adapted to the Conthe Code. The amendments include the express inclusion of the Board's duty to present Directors' remuneration for approval at General Shareholders' Meetings and to approve the contracts of Executive Directors, as was already standard practice at the Company, and of the requirement that information on Directors' remuneration be henceforth disclosed on an individualised basis.

The procedure for determining the remuneration payable to the members of the Board of Directors is established in article 36 of the Company Bylaws, which provides that the office of Board member shall be remunerated and that shareholders shall determine the maximum total remuneration due to Directors at general meetings, which remuneration shall be a lump-sum cash payment, paid on an annual basis or for such interval as the shareholders decide.

Enagás has established a payment framework for Directors aimed at covering both the responsibilities involved in carrying out their duties, and effective commitment and attendance at sessions, without removing or limiting the powers of the General Meeting in any way. This body is responsible for determining the maximum amount to be paid to Directors and the form and criteria that must be taken into account in assigning and distributing such payment, to be effected by the Board of Directors, in accordance with guidelines established by the General Meeting.

Likewise, article 16 of the Regulations of the Board of Directors stipulates that the Appointments and Remunerations Committee establish payment criteria for company Directors, within the scope of Company Bylaws and in accordance with resolutions of the General Meeting, while the Board of Directors is responsible for final distribution of the overall sum within the limits established by Bylaws for this purpose. Payments to Directors will be transparent. The Annual Report, as an integral part of the Annual Financial Statements and the Annual Corporate Governance Report, shall include appropriate information on the remuneration received by members of the Board of Directors.

General Shareholders' Meeting (4.4, 4.10)

At the Ordinary General Meeting held in 2003, shareholders resolved to amend certain articles of the Company Bylaws to align them with the requirements of the Transparency Act in relation to channels of communication with shareholders and the incorporation of new technologies as a means of enabling shareholders to exercise their information, attendance, representation and voting rights.

Accordingly, shareholders now have various possible means of exercising their attendance and voting rights. They may attend and vote at general meetings in person or use a postal vote, electronic media using an authorised electronic signature, or any other form of remote communication that satisfies the requirements established in legislation and regulations, provided that the identity of the person exercising the voting rights can be duly verified. In particular, the regulations expressly mention that shareholders who cast their votes by remote methods must be taken into account and deemed to be present when determining whether a meeting is validly constituted.

To allow the time needed to install the media necessary to the use of new technologies, the Board of Directors deemed it expedient to postpone the date as of which shareholders could cast their votes or delegate representation rights by electronic media, or other methods of remote communication, until the technical resources necessary for such purpose were in place.

With regards to the exercise of rights to information, a distinction was made between requests for information relating to items included on the agenda, and requests for information or clarifications of publically-accessible information that may have been submitted to the CNMV since the last General Meeting was held.

To this end, the information content of the Company's website (www.enagas.es) was enhanced, as well as its capacity to serve as a link between Enagás, its Board of Directors, its investors and its employees, as required under Order ECO 3772/2003 of 26 December, and CNMV Circular 1/2004 of 17 March.

Subsequently, on the occasion of the 2005 General Meeting, the regulations were amended to allow for the possibility of shareholders holding at least five percent of the Company's share capital to request, by certified notice received at the registered office of the Company within five days of publication of the notice convening the General Meeting, that a supplement to the notice, adding one or more items to the agenda, be published.

The incorporation of the recommendations of the Unified Code of Good Governance concluded with the amendment of the General Meeting Regulations approved at the 2007 General Meeting.

This amendment entailed the express inclusion among the powers of the General Meeting the power to approve those transactions that alter the structure of the Company, including the incorporation within subsidiaries of core activities previously performed by the Company, the acquisition or disposal of core operating assets, when this entails a change to the Company's corporate purpose, or transactions that have an effect equivalent to liquidation of the Company (article 4), and the stipulation that issues that are materially separate be put to the vote separately so that shareholders may exercise their voting preferences individually on each.

For a better understanding of the model and its subsequent preparation, please read the instructions provided at the end before filling it out.

A - OWNERSHIP STRUCTURE

A.1 Complete the following table on the company's share capital:

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

Indicate whether different types of shares exist with different associated rights:

NO

A.2 List the direct and indirect holders of significant ownership interests in your organisation at year-end, excluding directors:

Name or corporate name of shareholder	Number of direct voting rights	Number of indirect voting rights (*)	% of total voting rights
ATALAYA INVERSIONES, S.R.L.	0	11,936,714	5.000
CAJA DE AHORROS DE ASTURIAS	0	11,937,395	5.000
GAS NATURAL SDG, S.A.	11,936,703	0	5.000

Name or corporate name of indirect shareholder	Through: name or corporate name of direct shareholder	Number of direct voting rights	% of total voting rights
CAJA DE AHORROS DE ASTURIAS	CANTÁBRICA DE INVERSIONES DE CARTERA, S.L.	11.937.395	5,000
ATALAYA INVERSIONES, S.R.L.	SAGANE INVERSIONES, S.L.	11.936.714	5,000

Indicate the most significant movements in the shareholder structure during the year:

A.3 Complete the following charts on company Directors holding voting rights through company shares:

Name or corporate name of Director	Number of direct voting rights	Number of indirect voting rights (*)	% of total voting rights
ANTONIO LLARDÉN CARRATALÁ	27,116	0	0.011
CAJA DE AHORROS DE VALENCIA, CASTELLÓN Y ALICANTE, BANCAJA	0	11,936,713	5.000
ANTONIO TÉLLEZ DE PERALTA	400	0	0.000
BILBAO BIZKAIA KUTXA (BBK)	0	11,936,713	5.000
DIONISIO MARTÍNEZ MARTÍNEZ	2,010	0	0.001
LUIS JAVIER NAVARRO VIGIL	10	2,156	0.001
MARÍA TERESA GARCÍA-MILÁ LLOVERAS	1,500	0	0.001
MARTÍ PARELLADA SABATA	910	0	0.000
RAMÓN PÉREZ SIMARRO	100	0	0.000
SALVADOR GABARRÓ SERRA	10	0	0.000
SOCIEDAD ESTATAL DE PARTICIPACIONES INDUSTRIALES	11,936,713	0	5.000

Name or corporate name of indirect shareholder	Through: name or corporate name of direct shareholder	Number of direct voting rights	% of total voting rights
CAJA DE AHORROS DE VALENCIA, CASTELLON Y ALICANTE, BANCAJA	BANCAJA INVERSIONES, S.A.	11,936,713	5.000
BILBAO BIZKAIA KUTXA (BBK)	KARTERA 1, S.L.	11,936,713	5.000
LUIS JAVIER NAVARRO VIGIL	NEWCOMER 2000, S.L.U.	2,156	0.001

% of total voting rights held by the Board of Directors	15.014

Complete the following charts on share options held by Directors:

Name or corporate name of Director	Number of direct share options	Number of indirect share options	Equivalent number of shares	% of total voting rights
ANTONIO LLARDÉN CARRATALÁ	27,116	0	16,700	0.011
CAJA DE AHORROS DE VALENCIA, CASTELLÓN Y ALICANTE, BANCAJA	0	11,936,713	11,936,713	5.000
ANTONIO TELLEZ DE PERALTA	400	0	400	0.000
BILBAO BIZKAIA KUTXA (BBK)	0	11,936,713	11,936,713	5.000
DIONISIO MARTÍNEZ MARTÍNEZ	2,010	0	2,010	0.001
LUIS JAVIER NAVARRO VIGIL	10	2,156	2,166	0.001
MARÍA TERESA GARCÍA-MILÁ LLOVERAS	1,500	0	1,500	0.001
MARTÍ PARELLADA SABATA	910	0	910	0.000
RAMÓN PÉREZ SIMARRO	100	0	100	0.000
SALVADOR GABARRÓ SERRA	10	0	10	0.000
SOCIEDAD ESTATAL DE PARTICIPACIONES INDUSTRIALES	11,936,713	0	11,936,713	5.000

A.4 Indicate, as applicable, any family, commercial, contractual or corporate relationships between owners of significant shareholdings, insofar as these are known by the company, unless they are insignificant or arise from ordinary trading or exchange activities:

A.5 Indicate, as applicable, any commercial, contractual or corporate relationships between owners of significant shareholdings, and the company and/or its group, unless they are insignificant or arise from ordinary trading or exchange activities:

Type of relationship

Contractual

Brief description:

GAS PURCHASES FOR SELF SUPPLY. COST OF SERVICE (IN THOUSAND €): 7,252.

Name or corporate name of related party
GAS NATURAL SDG, S.A.

Type of relationship

Contractual

Brief description:

VARIOUS SERVICES (PAYMENTS). COST (IN THOUSAND €): 5,342.

Name or corporate name of related party
GAS NATURAL SDG, S.A.

Type of relationship

Contractual

Brief description:

PURCHASE OF GAS TO SUPPLY THE TARIFF MARKET IN 2008: GAS NATURAL GROUP COMPANIES SUPPLIED ENAGÁS WITH 17,420 GWH OF GAS TO SUPPLY TARIFF CUSTOMERS, AMOUNT (IN THOUSAND €): 383,602.

Name or corporate name of related party
GAS NATURAL SDG, S.A.

Type of relationship

Contractual

Brief description:

SALE OF ENAGÁS GAS TO DISTRIBUTORS OF THE GAS NATURAL GROUP: IN 2008 14,704 GWH WERE SOLD. COST (IN THOUSAND €): 329,547.

Name or corporate name of related party
GAS NATURAL SDG, S.A.

Type of relationship

Contractual

Brief description:

ENAGÁS HAS PROVIDED SERVICES TO GAS NATURAL GROUP COMPANIES:

SALE OF SURPLUS GAS FROM THE TARIFF MARKET, AMOUNT (IN THOUSAND €): 17,962; INFRASTRUCTURE CONNECTION, AMOUNT (IN THOUSAND €): 1,607; CABLE MAINTENANCE, AMOUNT (IN THOUSAND €): 1,463; MAINTENANCE OF NETWORKS AND OTHER SERVICES, AMOUNT (IN THOUSAND €) 642; ENAGÁS HAS BILLED THE GAS NATURAL GROUP FOR LATE PAYMENT INTEREST IN THE AMOUNT OF (THOUSAND €): 32; USE OF VAPORISATION WATER: AMOUNT (IN THOUSAND €): 866;

TOTAL REVENUES FROM SERVICES PROVIDED CAME TO (IN THOUSAND €): 22,572.

Name or corporate name of related party
GAS NATURAL SDG, S.A.

Type of relationship
Contractual

Brief description:
LEASING OF FIBRE OPTICS FROM DESARROLLO DEL CABLE, S.A. TO ENAGAS. COST OF SERVICE (IN THOUSAND €): 18,978.

Name or corporate name of related party
GAS NATURAL SDG, S.A.

Type of relationship
Corporate

Brief description
PAYMENT OF DIVIDENDS FOR 2007 FINANCIAL YEAR. AMOUNT (THOUSAND €): 7,148.5.

Name or corporate name of related party
GAS NATURAL SDG, S.A.

Type of relationship
Commercial

Brief description:
PARTICIPATION OF CAJASTUR IN LOAN (CLUB DEAL) SIGNED 24/11/04 AND PAID 10/01/05. AMOUNT (THOUSAND €): 65,000.

Name or corporate name of related party
CAJA DE AHORROS DE ASTURIAS

Type of relationship
Commercial

Brief description:
CREDIT POLICY AGREEMENT. AMOUNT (IN THOUSAND €): 6,000.

Name or corporate name of related party
CAJA DE AHORROS DE ASTURIAS

Type of relationship
Commercial

Brief description:
INTEREST RATE HEDGING AGREEMENT (COLLAR) FOR THE PERIOD JAN 2009-JAN 2010. AMOUNT (THOUSAND €): 50,000.

Name or corporate name of related party
CAJA DE AHORROS DE ASTURIAS

Type of relationship
Commercial

Brief description:
GUARANTEE LINE AGREEMENT. AMOUNT (IN THOUSAND €): 12,000.

Name or corporate name of related party
CAJA DE AHORROS DE ASTURIAS

Type of relationship
Contractual

Brief description:
LEASE OF BASIC SAFETY EQUIPMENT TO ENAGÁS. COST (IN THOUSAND €): 1,588.

Name or corporate name of related party
GAS NATURAL SDG, S.A.

Type of relationship
Commercial

Brief description:
LOAN. AMOUNT (IN THOUSAND €): 30,000.

Name or corporate name of related party
CAJA DE AHORROS DE ASTURIAS

Type of relationship
Corporate

Brief description:
PAYMENT OF DIVIDENDS FOR 2007 FINANCIAL YEAR. AMOUNT (THOUSAND €): 7,148.5.

Name or corporate name of related party
CANTABRICA DE INVERSIONES DE CARTERA, S.L.

Type of relationship
Corporate

Brief description:
PAYMENT OF DIVIDENDS FOR 2007 FINANCIAL YEAR. AMOUNT (THOUSAND €): 7,148.5.

Name or corporate name of related party
SAGANE INVERSIONES, S.L.

Type of relationship

Commercial

Brief description:

GUARANTEE LINE AGREEMENT. AMOUNT (IN THOUSAND €): 6,000.

Name or corporate name of related party
CAJA DE AHORROS DE VALENCIA, CASTELLON Y ALICANTE, BANCAJA

Type of relationship

Commercial

Brief description:

INTEREST RATE HEDGING AGREEMENT (COLLAR) FOR THE PERIOD JAN 2009-JAN 2010. AMOUNT (THOUSAND €): 50,000.

Name or corporate name of related party
CAJA DE AHORROS DE VALENCIA, CASTELLON Y ALICANTE, BANCAJA

Type of relationship

Corporate

Brief description:

PAYMENT OF DIVIDENDS FOR 2007 FINANCIAL YEAR. AMOUNT (THOUSAND €): 7,148.5

Name or corporate name of related party
BANCAJA INVERSIONES, S.A.

Type of relationship

Commercial

Brief description:

PROVISION OF CREDIT LINE FOR 2008 FINANCIAL YEAR. AMOUNT (THOUSAND €): 6,000.

Name or corporate name of related party
CAJA DE AHORROS DE VALENCIA, CASTELLON Y ALICANTE, BANCAJA

Type of relationship

Corporate

Brief description:

PAYMENT OF DIVIDENDS FOR 2007 FINANCIAL YEAR. AMOUNT (THOUSAND €): 7,148.5.

Name or corporate name of related party
SOCIEDAD ESTATAL DE PARTICIPACIONES INDUSTRIALES

Type of relationship

Commercial

Brief description:

PROVISION OF GUARANTEE LINE FOR 2008 FINANCIAL YEAR. AMOUNT (THOUSAND €): 6,000.

Name or corporate name of related party
BILBAO BIZKAIA KUTXA (BBK)

Type of relationship

Commercial

Brief description:

INTEREST RATE HEDGING AGREEMENT (COLLAR) FOR THE PERIOD JAN 2009-JAN 2010. AMOUNT (THOUSAND €): 30,000.

Name or corporate name of related party
BILBAO BIZKAIA KUTXA (BBK)

Type of relationship

Commercial

Brief description:

PROVISION OF CREDIT LINE FOR 2008 FINANCIAL YEAR. AMOUNT (THOUSAND €): 12,000.

Name or corporate name of related party
BILBAO BIZKAIA KUTXA (BBK)

Type of relationship

Commercial

Brief description:

LOAN. AMOUNT (IN THOUSAND €): 50,000

Name or corporate name of related party
BILBAO BIZKAIA KUTXA (BBK)

Type of relationship

Corporate

Brief description:

PAYMENT OF DIVIDENDS FOR 2007 FINANCIAL YEAR. AMOUNT (THOUSAND €): 7,148.5.

Name or corporate name of related party
BILBAO BIZKAIA KUTXA (BBK)

A.6 Indicate whether any shareholders' agreements have been notified to the company pursuant to article 112 of the Securities' Market Act (Ley del Mercado de Valores). Provide a brief description and list the shareholders bound by the agreement, as applicable.

NO

Indicate whether the company is aware of the existence of any concerted actions among its shareholders. Give a brief description as applicable:

NO

Expressly indicate any amendments to or termination of such agreements or concerted actions during the year.

No.

A.7 Indicate whether any individuals or bodies corporate currently exercise control or could exercise control over the company in accordance with article 4 of the Spanish Securities' Market Act: If so, identify:

NO

A.8 Complete the following tables on the company's treasury shares:

At year-end:

Number of shares held directly	Number of shares held indirectly (*)	% of total share capital
0	0	0.000

(*) Through:

Total	0

Give details of any significant changes during the year, in accordance with Royal Decree 1362/2007:

Gain/(loss) on treasury shares during the year	0

A.9 Give details of the applicable conditions and time periods governing any resolutions of the General Shareholders' Meeting authorising the Board of Directors to purchase and/or transfer the treasury shares.

There is no mandate in force by the GSM to the Board of Directors for the purchase and/or transfer of treasury shares.

A.10 Indicate, as applicable, any restrictions imposed by Law or the company's Bylaws on exercising voting rights, as well as any legal restrictions on the acquisition or transfer of ownership interests in the share capital. Indicate whether there are any legal restrictions on exercising voting rights. Indicate whether there are any restrictions included in the Bylaws on exercising voting rights:

YES

Maximum percentage of legal restrictions on voting rights a shareholder can exercise	3.000

Indicate whether there are any restrictions included in the Bylaws on exercising voting rights:

YES

Maximum percentage of restrictions under the Company's Bylaws on voting rights a shareholder can exercise	3.000

Description of restrictions under law or the Company's Bylaws on exercising voting rights
Article 6a bis ("Limitation of interest in share capital and of the exercise of voting rights") of the Company Bylaws was amended at the Extraordinary General Shareholders' Meeting held 31 October 2007 to bring it in line with provisions of Act 12/2007 of 2 July. Act 12/2007 of 2 July, amending the Hydrocarbons Industry Act (Act 34/1998 of 7 October) 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 the Hydrocarbons Industry Act, which vests in Enagás, S.A. the capacity of "technical system operator" and sets ceilings on shareholdings in the company. The wording of the 20th Additional Provision now stands as follows: "20th Additional Provision. The company ENAGÁS, Sociedad Anónima, shall assume the functions, rights and obligations of Technical System Manager of the gas system. (...) no individual or body corporate may hold a direct or indirect stake of more than 5% in the equity capital of the company responsible for the technical management of the system, nor may they exercise voting rights in such company of over 3%. Under no circumstances may such share holdings be syndicated. Those parties that operate within the gas sector, including those natural persons or bodies corporate that directly or indirectly possess equity holdings in the former of more than 5%, may not exercise voting rights in the System Technical Manager of over 1%. These restrictions will not apply to direct or indirect equity interests held by public-sector enterprises. Under no circumstances may equity holdings be syndicated. Likewise, the combined total of direct or indirect holdings owned by parties that operate within the natural gas sector may not exceed 40%. For the purposes of calculating the stake in that shareholding structure, in addition to the shares or other securities held or acquired by entities belonging to its same group, as defined by article 4 of Act 24/1988, dated 28 July, on the Securities Market stakes shall be attributed to one and the same individual or body corporate when they are owned by: a) Those parties who act in their own name but on behalf of that individual or body corporate in a concerted fashion or forming a decision-making unit with them. Unless proven otherwise, it shall be deemed that the members of the board of directors of a body. b) The partners together with whom that individual or body corporate exercises control over a controlled entity under the provisions of article 4 of Act 24/1988, dated 28 July, governing the Securities Market. Nonetheless, both the actual ownership of the shares and other securities and the voting rights held through any certificate shall be taken into account. Non-compliance with the limitation on a stake in the capital referred to in this article shall be deemed a very serious breach in accordance with the terms set out in article 109 of this Act. Responsibility shall lie with the individuals or bodies corporate that end up as owners of the securities or whoever the excess stake in the capital or in the voting rights can be attributed to, pursuant to the provisions of the preceding paragraphs. Whatever the case, the penalty system stipulated herein will apply.

Description of restrictions under law or the Company's Bylaws on exercising voting rights

The 6th Transitional Provision of Act 12/2007 of 2 July provides that within four months of its coming into force Enagás, S.A. shall bring its Bylaws in line with the 20th Additional Provision of Act 34/1998 of 7 October (the Hydrocarbons Industry Act). The 2nd Transitional Provision of Act 12/2007 of 2 July, further prescribes:

2nd Transitional Provision Technical System Operator - 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 the 20th Additional Provision of the Hydrocarbons Industry Act shall be suspended as from the coming into force of this provision.

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 bis ("Limitation of interest in share capital and of the exercise of voting rights") of Enagás, S.A.'s Bylaws stipulates the following:

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

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

For the purposes of calculating the stake in that shareholding structure, there shall apply the 20th Additional Provision Act 34/1998 of 7 October (the Hydrocarbons Industry Act).

Indicate if there are any legal restrictions on the acquisition or transfer of share capital:

YES

Description of legal restrictions on the acquisition or transfer of share capital

In accordance with the provisions of the 20th Additional Provision of Act 34/1998, article 6 bis of the Company Bylaws establishes that no individual or body corporate may hold a direct or indirect stake of more than 5% in the equity capital of the company responsible for the technical management of the system. Under no circumstances may such share holdings be syndicated. These restrictions will not apply to direct or indirect equity interests held by public-sector enterprises. Under no circumstances may share capital be syndicated.

A.11 Indicate whether the General Shareholders' Meeting has agreed to take neutralisation measures to prevent a public takeover bid by virtue of the provisions of Act 6/2007.

NO

If applicable, explain the measures adopted and the terms under which these restrictions may be lifted:

B - COMPANY MANAGEMENT STRUCTURE

B.1 Board of Directors

B.1.1 List the maximum and minimum number of Directors included in the Bylaws:

Maximum number of Directors	17
Minimum number of Directors	6

B.1.2 Complete the following table with Board members' details:

Name or corporate name of Director	Representative	Position held	Date of first appointment	Date of last appointment	Election procedure
ANTONIO LLARDÉN CARRATALÁ	–	CHAIRMAN	22.04.2006	22.04.2006	VOTE AT GENERAL SHAREHOLDERS' MEETING
CAJA DE AHORROS DE VALENCIA, CASTELLÓN Y ALICANTE, BANCAJA	JOSÉ LUIS OLIVAS MARTÍNEZ	DEPUTY CHAIRMAN	09.07.2002	11.05.2007	VOTE AT GENERAL SHAREHOLDERS' MEETING
ANTONIO TÉLLEZ DE PERALTA	–	DIRECTOR	19.09.2005	22.04.2006	CO-OPTATION
BILBAO BIZKAIA KUTXA (BBK)	XABIER DE IRALA ESTÉVEZ	DIRECTOR	28.11.2007	25.04.2008	CO-OPTATION
CARLOS EGEA KRAUEL	–	DIRECTOR	09.07.2002	11.05.2007	VOTE AT GENERAL SHAREHOLDERS' MEETING
DIONISIO MARTÍNEZ MARTÍNEZ	–	DIRECTOR	31.05.2002	22.04.2006	VOTE AT GENERAL SHAREHOLDERS' MEETING
JESÚS DAVID ÁLVAREZ MEZQUÍRIZ	–	DIRECTOR	25.04.2003	11.05.2007	VOTE AT GENERAL SHAREHOLDERS' MEETING
JOSÉ RIVA FRANCOS	–	DIRECTOR	31.05.2002	22.04.2006	VOTE AT GENERAL SHAREHOLDERS' MEETING
LUIS JAVIER NAVARRO VIGIL	–	DIRECTOR	09.07.2002	11.05.2007	CO-OPTATION
MARÍA TERESA GARCÍA-MILÁ LLOVERAS	–	DIRECTOR	22.04.2006	22.04.2006	VOTE AT GENERAL SHAREHOLDERS' MEETING
MARTÍ PARELLADA SABATA	–	DIRECTOR	17.03.2005	22.04.2005	CO-OPTATION

Name or corporate name of Director	Representative	Position on the board	Date of first appointment	Date of last appointment	Election procedure
MIGUEL ÁNGEL LASHERAS MERINO	–	DIRECTOR	22.04.2006	22.04.2006	VOTE AT GENERAL SHAREHOLDERS' MEETING
PEÑA RUEDA, S.L. UNIPERSONAL	MANUEL MENÉNDEZ MENÉNDEZ	DIRECTOR	30.04.2004	25.04.2008	VOTE AT GENERAL SHAREHOLDERS' MEETING
RAMÓN PÉREZ SIMARRO	–	DIRECTOR	17.06.2004	22.04.2005	CO-OPTATION
SALVADOR GABARRÓ SERRA	–	DIRECTOR	18.11.2004	22.04.2005	CO-OPTATION
SOCIEDAD ESTATAL DE PARTICIPACIONES INDUSTRIALES	ENRIQUE MARTÍNEZ ROBLES	DIRECTOR	25.04.2008	25.04.2008	VOTE AT GENERAL SHAREHOLDERS' MEETING

Total number of Directors	16

Indicate any Board members who left during this period:

Name or corporate name of Director	Status of the Director at the time	Leaving date
CAJA DE AHORROS DEL MEDITERRÁNEO	PROPRIETARY	20.05.2008

B.1.3 Complete the following tables on Board members and their respective categories:

EXECUTIVE DIRECTORS

Name or corporate name of Director	Committee proposing appointment	Post held in the company
ANTONIO LLARDÉN CARRATALÁ	APPOINTMENTS AND REMUNERATIONS COMMITTEE	CHAIRMAN

Total number of Executive Directors	1
% of the Board	6.250

EXTERNAL PROPRIETARY DIRECTORS

Name or corporate name of Director	Committee proposing appointment	Name or corporate name of significant shareholder represented or proposing appointment
CAJA DE AHORROS DE VALENCIA, CASTELLÓN Y ALICANTE, BANCAJA	APPOINTMENTS AND REMUNERATIONS COMMITTEE	BANCAJA INVERSIONES, S.A.
BILBAO BIZKAIA KUTXA (BBK)	APPOINTMENTS AND REMUNERATIONS COMMITTEE	BILBAO BIZKAIA KUTXA (BBK)
CARLOS EGEA KRAUEL	BOARD OF DIRECTORS	SAGANE INVERSIONES, S.L.
PEÑA RUEDA, S.L. UNIPERSONAL	APPOINTMENTS AND REMUNERATIONS COMMITTEE	CAJA DE AHORROS DE ASTURIAS
SALVADOR GABARRÓ SERRA	BOARD OF DIRECTORS	GAS NATURAL SDG, S.A.
SOCIEDAD ESTATAL DE PARTICIPACIONES INDUSTRIALES	APPOINTMENTS AND REMUNERATIONS COMMITTEE	SOCIEDAD ESTATAL DE PARTICIPACIONES INDUSTRIALES

Total number of Proprietary Directors	6
% of the Board	37.500

INDEPENDENT EXTERNAL DIRECTORS

Name or corporate name of Director

ANTONIO TÉLLEZ DE PERALTA

Profile

FORMER GENERAL MANAGER OF ENAGÁS, S.A.; FORMER CEO OF GAS NATURAL SDG, S.A.; FORMER CEO OF COMPAÑÍA LOGÍSTICA DE HIDROCARBUROS, S.A. (CLH); FORMER CHAIRMAN OF TERQUIMSA; FORMER GENERAL MANAGER OF GRUPO LECHE PASCUAL AND FORMER GENERAL MANAGER OF BIOCARBURANTES PENINSULARES.

Name or corporate name of Director

DIONISIO MARTÍNEZ MARTÍNEZ

Profile

LAWYER, SECRETARY TO THE BOARD OF EBN BANCO DE NEGOCIOS, S.A.

Name or corporate name of Director

JESÚS DAVID ÁLVAREZ MEZQUÍRIZ

Profile

CHAIRMAN OF BIOCARBURANTES PENINSULARES, S.L.; DIRECTOR OF BODEGAS VEGA SICILIA, S.A; CEO OF EULEN, S.A. AND DIRECTOR OF ENEBRO, S.A.

Name or corporate name of Director

JOSÉ RIVA FRANCOS

Profile

DIRECTOR OF LOGISTA, S.A.; VICE CHAIRMAN AND CEO OF GRUPO SUARDIAZ COMPANIES.

Name or corporate name of Director

MARÍA TERESA GARCÍA-MILÁ LLOVERAS

Profile

PROFESSOR OF ECONOMICS AT POMPEU FABRA UNIVERSITY; MEMBER OF EXECUTIVE BOARD OF CENTRE FOR RESEARCH IN INTL. ECONOMICS (CREI); DIRECTOR OF BANCO SABADELL, S.A. AND DIRECTOR OF VUELING AIRLINES, S.A.

Name or corporate name of Director

MARTÍ PARELLADA SABATA

Profile

CHAIRMAN OF COMFORSA.; DIRECTOR OF AGRUPACIÓN MUTUA DEL COMERCIO Y DE LA INDUSTRIA; DIRECTOR OF EPLICSA; DIRECTOR OF GRUPO MGO, S.A. AND PATRON OF THE ICO FOUNDATION.

Name or corporate name of Director

MIGUEL ÁNGEL LASHERAS MERINO

Profile

CHAIRMAN OF INTERMONEY ENERGÍA, S.A. AND DE WIND TO MARKET, S.A.

Name or corporate name of Director

RAMÓN PÉREZ SIMARRO

Profile

ACADEMIC DIRECTOR OF THE REPSOL YPF FOUNDATION; FORMER ENERGY GENERAL MANAGER OF; FORMER GENERAL SECRETARY OF ENERGY AND MINERAL RESOURCES; FORMER TECHNICAL SECRETARY GENERAL OF THE MINISTRY OF INDUSTRY; FORMER PROFESSOR OF THE UNIVERSIDAD AUTÓNOMA DE MADRID.

Total number of Independent Directors	8
% of the Board	50.000

OTHER EXTERNAL DIRECTORS

Name or corporate name of Director	Committee proposing appointment
LUIS JAVIER NAVARRO VIGIL	APPOINTMENTS AND REMUNERATIONS COMMITTEE

Total number of Other External Directors	1
% of the Board	6.250

List the reasons why these cannot be considered Proprietary or Independent Directors and detail their relationships with the company, its executives or shareholders:

Name or corporate name of Director

LUIS JAVIER NAVARRO VIGIL

Company, executive or shareholder with whom the relationship is maintained

BP ESPAÑA, S.A.

Reasons

The shareholder (B.P. España S.A.U.) proposing the appointment as Proprietary Director on 15/11/06, sold its shareholding in the company. However, he is not considered to be an Independent Director as he holds or has held a significant business relationship with the company. Nonetheless, it was decided to classify Luis Javier Navarro Vigil under the category of "Other External Directors" as he did not meet all the conditions required to be classified as an "Independent Director" as stipulated by the "Unified Good Governance Code" related to Order ECO/3722/2003 of 26 December and CNMV Circular 4/2007 of 27 December.

List any changes in the category of each Director which have occurred during the year:

B.1.4 Explain, when applicable, the reasons why Proprietary Directors have been appointed upon the request of shareholders who hold less than 5% of the share capital:

Provide details of any rejections of formal requests for Board representation from shareholders whose equity interest is equal to or greater than that of other shareholders who have successfully requested the appointment of proprietary directors. If so, explain why these requests have not been entertained:

NO

B.1.5 Indicate whether any Director has resigned from office before their term of office has expired, whether that Director has given the Board his/her reasons and through which channel. If made in writing to the whole Board, list below the reasons given by that Director:

YES

Name of Director

CAJA DE AHORROS DEL MEDITERRÁNEO

Reasons for resignation

On 20 May 2008, CAJA DE AHORROS DEL MEDITERRÁNEO (CAM) tendered its resignation following the sale, on the same date, by INVERSIONES COTIZADAS DEL MEDITERRÁNEO, S.L. (INCOMED, S.L.), a company fully owned by CAJA DE AHORROS DEL MEDITERRÁNEO (CAM) of all the shares it owned, directly or indirectly, in Enagás, S.A., representing 5% of the company's share capital. These reasons were explained in CNMV filing 93,543 of the same date.

B.1.6 Indicate what powers, if any, have been delegated to the Chief Executive Officer:

B.1.7 List the Directors, if any, who hold office as directors or executives in other companies belonging to the listed Company's group:

B.1.8 List any company Board members who likewise sit on the Boards of Directors of other non-group companies that are listed on official securities markets in Spain, insofar as these have been disclosed to the Company:

Name or corporate name	Name of listed company	Post
CAJA DE AHORROS DE VALENCIA, CASTELLÓN Y ALICANTE, BANCAJA	NH HOTELES. S.A.	DIRECTOR
CAJA DE AHORROS DE VALENCIA, CASTELLÓN Y ALICANTE, BANCAJA	BANCO DE VALENCIA. S.A.	CHAIRMAN
BILBAO BIZKAIA KUTXA (BBK)	ITINERE INFRAESTRUCTURAS SA	DIRECTOR
CARLOS EGEA KRAUEL	IBERDROLA RENOVABLES SA	DIRECTOR
JOSÉ RIVA FRANCOS	COMPAÑÍA DE DISTRIBUCION INTEGRAL LOGISTA. S.A.	DIRECTOR
MARÍA TERESA GARCÍA-MILÁ LLOVERAS	VUELING AIRLAINS. S.A.	DIRECTOR
MARÍA TERESA GARCÍA-MILÁ LLOVERAS	BANCO DE SABADELL. S.A.	DIRECTOR
SALVADOR GABARRÓ SERRA	CRITERIA CAIXACORP SA	DIRECTOR
SALVADOR GABARRÓ SERRA	GAS NATURAL SDG. S.A.	CHAIRMAN

B.1.9 Indicate and, where appropriate, explain whether the company has established rules about the number of boards on which its Directors may sit:

NO

B.1.10 In relation with Recommendation 8 of the Unified Code, indicate the company's general policies and strategies that are reserved for approval by the Board of Directors in plenary session:

Investment and financing policy	YES
Design of the structure of the corporate group	YES
Corporate governance policy	YES
Corporate social responsibility policy	YES
The strategic or business plans, management targets and annual budgets	YES
Remuneration and evaluation of senior officers	YES
Risk control and management, and the periodic monitoring of internal information and control systems	YES
Dividend policy, as well as the policies and limits applying to treasury stock	YES

B.1.11 Complete the following tables on the aggregate remuneration paid to Directors during the year:

a) In the reporting company:

Concept	In thousand €
Fixed remuneration	924
Variable remuneration	354
Per diems	1,177
Statutory compensation	0
Share options and/or other financial instruments	0
Other	78
Total	2,533

Other benefits	In thousand €
Advances	0
Loans	0
Funds and pension plans: Contributions	0
Funds and pension plans: obligations	0
Life insurance premiums	57
Guarantees issued by the company in favour of Directors	0

b) For company directors sitting on other governing bodies and/or holding senior management posts within group companies:

Concept	In thousand €
Fixed remuneration	0
Variable remuneration	0
Per diems	0
Statutory compensation	0
Share options and/or other financial instruments	0
Other	0
Total	0

Other benefits	In thousand €
Advances	0
Loans	0
Funds and pension plans: Contributions	0
Funds and pension plans: obligations	0
Life insurance premiums	0
Guarantees issued by the company in favour of Directors	0

c) Total remuneration by type of Director:

Type of director	By company	By group
EXECUTIVE	1,420	0
EXTERNAL PROPRIETARY	460	0
EXTERNAL INDEPENDENT	577	0
OTHER EXTERNAL	76	0
Total	2,533	0

d) Remuneration as percentage of profit attributable to parent company:

Total remuneration received by Directors (in thousand €)	2,533
Total remuneration received by Directors/profit attributable to parent company (%)	1.0

B.1.12 List any members of senior management who are not Executive Directors and indicate total remuneration paid to them during the year:

Name or corporate name	Post
JOSÉ ESPEJO SERRANO	INTERNAL AUDITOR
DIEGO DE REINA LOVERA	FINANCIAL DIRECTOR
ANTONIO GARCÍA MATEO	GENERAL DIRECTOR OF TECHNOLOGY, ENGINEERING AND PURCHASES
RAMÓN SÁNCHEZ VALERA	GENERAL DIRECTOR OF INFRASTRUCTURE DEPARTMENT AND THIRD-PARTY ACCESS (TPA) SERVICES
FRANCISCO JAVIER GONZÁLEZ JULIÁ	TECHNICAL SYSTEM OPERATOR DEPARTMENT
ERUNDINO NEIRA QUINTAS	DIRECTOR OF RESOURCES
JUAN PONS GUARDIA	GENERAL MANAGER OF STRATEGY AND REGULATION
RAFAEL PIQUERAS BAUTISTA	GENERAL SECRETARIAT

Total remuneration received by senior management (in thousand €)	2,172

B.1.13 Identify, in aggregate terms, any indemnity or "golden parachute" clauses that exist for members of the senior management (including executive directors) of the company or of its group in the event of dismissal or changes in control. Indicate whether these agreements must be reported to and/or authorised by the governing bodies of the company or its group:

Number of beneficiaries	9

	Board of Directors	General Shareholders' Meeting
Body authorising clauses	YES	NO

Is the General Shareholders' Meeting informed of such clauses?	NO

B.1.14 Describe the procedures for establishing remuneration for Board members and the relevant provisions in the Bylaws:

Procedures for establishing Board members' remuneration and relevant provisions in the Bylaws

The process for establishing remuneration for Board members is covered in Article

36 of the Company Bylaws, which establishes the following:

"The position of Director shall be remunerated. The General Shareholders' Meeting shall determine the total maximum remuneration to be paid to Board members, and this shall comprise a cash sum per year, or such period as determined by the General Shareholders' Meeting.

When setting pay, the shareholders in general meeting may resolve that part of such pay remunerate the office of Director itself, equally for all Directors, and another part be apportioned by the Board on such basis as may be determined at the General Meeting.

Directors may receive additional remuneration in the form of company shares, share options or other securities that en- able the holder to obtain shares, or through other remuneration systems based on the market price value of the shares. The application of the said systems shall be presented to the General Shareholders' Meeting for approval, and the Meeting shall determine the value of the shares granted each Director, the price for the exercise of option rights, the term of duration and all other conditions deemed appropriate.

Remuneration established herein shall be compatible with and independent from salaries, wages, indemnifications, pensions or compensations of any type established in general or in particular for those members of the Board of Directors who are linked to the company through a normal labour relationship, special top management contract, or a services contract. Such relationships shall be compatible with the position of member of the Board of Directors.

Board members shall be entitled to the payment or reimbursement of expenses incurred as a result of attendance at meetings and other tasks directly related to the performance of their duties, such as travel, accommodation, meals and any other which may arise". By virtue of the foregoing, Enagás has established a payment framework for Directors aimed at covering both the responsibilities involved in carrying out their duties, and effective dedication and attendance at sessions, without removing or limiting the powers of the GSM in any way. This body is responsible for determining the maximum amount to be paid to Directors and the form and criteria that must be taken into account in assigning and distributing such payment, to be effected by the Board of Directors, in accordance with guidelines established by the General Meeting.

Procedures for establishing Board members' remuneration and relevant provisions in the Bylaws
Likewise, article 16 of the Regulations of the Board of Directors stipulates that the Appointments and Remunerations Committee establish payment criteria for company Directors, within the scope of the Company Bylaws and in accordance with resolutions of the General Meeting, while the Board of Directors is responsible for final distribution of the overall sum within the limits established by Bylaws for this purpose. The Board of Directors may, on an annual basis, delegate the powers conferred upon it in respect of the remuneration of Directors to the Appointments and Remunerations Committee, subject to the restrictions laid down in the Bylaws. Payments to Directors will be transparent. The Notes to the Financial Statements, as an integral part of the Annual Financial Statements, shall include accurate, detailed information on the remuneration received by each member of the Board of Directors, and on the remuneration received by Executive Directors for performing senior management functions. This information will also be included in the Annual Corporate Governance Report.

Indicate whether the Board has reserved for plenary approval the following decisions.

At the proposal of the company's chief executive, the appointment and removal of senior officers, and their compensation clauses.	YES
Directors' remuneration, and, in the case of Executive Directors, the additional remuneration for their executive functions and other contract conditions.	YES

B.1.15 Indicate whether the Board of Directors approves a detailed remuneration policy and specify the points included:

YES

The amount of the fixed components, itemised where necessary, of Board and Board committee attendance fees, with an estimate of the fixed annual payment they give rise to.	YES
Variable components.	YES
The main characteristics of pension systems, including an estimate of their amount of annual equivalent cost.	YES
The conditions that the contracts of Executive Directors exercising executive functions shall respect.	YES

B.1.16 Indicate whether the Board submits a report on the Directors' remuneration policy to the advisory vote of the General Shareholders' Meeting, as a separate point on the agenda. Explain the points of the report regarding the remuneration policy as approved by the Board for forthcoming years, the most significant departures in those policies with respect to that applied during the year in question and a global summary of how the remuneration policy was applied during the year. Describe the role played by the Remuneration Committee and whether external consultancy services have been procured, including the identity of the external consultants.

YES

Issues covered in the remuneration policy report
In accordance with the provisions of article 36 of the Company Bylaws, the company's Board of Directors each year proposes to shareholders at the General Meeting the maximum compensation that should be paid to Directors for performance of their functions, as well as the breakdown between remuneration for attendance and membership of Board Committees, remuneration for chairing said Committees and remuneration for serving as Deputy-Chairman of the Board. The remuneration paid to the Chairman for performance of his executive functions is approved by the Board of Directors.

Role of the Remunerations Committee
The Committee formulates all proposals relating to the Company's remuneration policy.

Have external consultancy firms been used?	

Identity of external consultants

B.1.17 List any Board members who are likewise members of the Boards of Directors, or executives or employees of companies that own significant holdings in the listed company and/or group companies:

Name or corporate name of Director	Name or corporate name of significant shareholder	Post
SALVADOR GABARRÓ SERRA	GAS NATURAL SDG, S.A.	CHAIRMAN

List, if appropriate, any relevant relationships, other than those included under the previous heading, that link members of the Board of Directors with significant shareholders and/or their group companies:

B.1.18 Indicate whether any changes have been made to the Regulations of the Board of Directors during the year:

NO

B.1.19 Indicate the procedures for appointing, re-electing, appraising and removing Directors. List the competent bodies and the processes and criteria to be followed for each procedure.

APPOINTMENT OF DIRECTORS:

Pursuant to article 8 of the Regulations of the Board of Directors of Enagás, S.A.. "Directors shall be appointed by the General Shareholders' Meeting or by the Board of Directors, in conformity with the provisions contained in the Spanish Companies Act and in the Company Bylaws".

Those appointed must be people who, in addition to meeting the legal and statutory requirements, have recognised prestige and the appropriate professional knowledge and experience to suitably hold the post.

Before the Board can exercise its co-opting powers, a new Director must be nominated by the Appointments and Remunerations Committee. Board decisions to co-opt new Directors are then submitted to the General Shareholders' Meeting for approval.

In keeping with Corporate Governance recommendations, when the Board of Directors does not agree with the Committee's proposals, it must explain the reasons for this and duly record its reasons in the Minutes.

The process of filling Board vacancies has no implicit bias against women candidates; The company makes a conscious effort to include women with the target profile among the candidates for Board places."

Special mention should be made of the specific requirements that have been established to ensure the impartiality and independence of Independent Directors appointed to the Board, which are set out in article 9 of the Regulations of the Board of Directors: "Independent Directors shall be defined as those who, appointed based on their personal and professional attributes, may perform their duties without being affected by dealings with the company, its significant shareholders or its executives. Under no circumstances may the following persons be classified as Independent Directors:

a) Those who have been employed by or served as Executive Directors of group companies, unless three or five years, respectively, have lapsed since the termination of said relationship.

b) Those who receive any sum or benefit other than Director's compensation from the company or its Group, unless such is not significant. Dividends and pension supplements received by a Director on account of his/her prior professional or employment relationship shall not be taken into account for purposes of this section provided that such supplements are unconditional and, consequently, the company providing such may not, on a discretionary basis, suspend, modify or revoke any disbursement thereof, without incurring a breach of obligations.

c) Those who are, or have been during the past three years, a partner of the external auditor or party responsible for the auditor's report reviewing the accounts of Enagás, S.A. or any other Group company for said period.

d) Those who are Executive Directors or senior managers of another company where an Executive Director or Senior Manager of Enagás, S.A. is an External Director.

e) Those who maintain, or have maintained in the last year, a significant business relationship with Enagás, S.A. or any other Group company, whether on his/her own behalf or as a significant shareholder, Director or senior manager of any company that maintains or has maintained said relationship. Business relationships shall be defined as those whereby a company serves as a provider of goods or services, including those of a financial nature, or as an advisor or consultant.

f) Those who are significant shareholders, Executive Directors or senior managers of any entity that receives, or has received during the past three years, significant donations from Enagás, S.A. or its Group. Those who are mere patrons of a Foundation that receives donations shall not be considered included under this letter.

g) Those who are spouses, partners or relatives within the second degree of an Executive Director or Senior Manager of the company.

h) Those who have not been nominated, whether for appointment or renewal, by the Appointments and Remunerations Committee.

i) Those who are found, in respect of a significant shareholder or one represented on the Board, in any of the circumstances described under a), e), f) or g). In the event of kinship as described under letter g), this limitation shall apply not only in respect of the shareholder, but also in respect of its Proprietary Directors in the investee. Those Proprietary Directors who lose their status as such as a result of the sale of their interest by the shareholder that they represented may only be re-elected as Independent Directors if the shareholder that they represented until that time has sold all of its shares in the company.

Any Directors who hold a shareholding interest in the company may hold the status of an Independent Director provided that he/she meets all of the conditions established under this article and, further, that his/her interest is not significant.

RE-ELECTION:

Article 10 of the Regulations of the Board of Directors stipulates that "Directors may hold their post for a period of four years, and may be re-elected. Directors who are co-opted shall hold their post until the date of the first subsequent General Shareholders' Meeting.

As a general rule, an appropriate rotation of Independent Directors should be sought. For this reason, when an Independent Director is proposed for re-election, the circumstances making his/her continuity in the post advisable must be justified. Independent Directors shall not remain as such for a period in excess of twelve consecutive years."

APPRAISAL:

Article 11 of the aforementioned Regulations establishes that "the Appointments and Remunerations Committee, responsible for evaluating the quality of work and commitment to the post of the Directors proposed during the previous term of office, shall provide information required to assess proposal for re-election of Directors presented by the Board of Directors to the General Shareholders' Meeting.

REMOVAL AND DISMISSAL :

Directors shall leave their post after the first General Shareholders' Meeting following the end of their term of appointment and in all other cases in accordance with the law, Company Bylaws and the present Regulations (article 12.1 of the Regulations of the Board of Directors).

The Board of Directors shall 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 proposal from the Appointments Committee (article 12.3 of the Regulations of the Board of Directors).

B.1.20 Indicate the cases in which Directors must resign.

In accordance with Corporate Governance recommendations, article 12 of the Regulations of the Board of Directors stipulates that:

Directors must tender their resignation if the Board deems this appropriate, in the following circumstances:

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 damage its credibility and reputation. The moment a Director is indicted or tried for any of the crimes stated in article 124 of the Public Limited Companies Act, the Board should examine the matter and, in view of the particular circumstances and potential harm to the company's name and reputation, decide whether or not he or she should be called on to resign.

d) When the reason for which they were appointed Executive Directors is no longer valid.

e) When Independent Directors cease to meet the conditions established under article 9.

f) When the shareholder represented by a Proprietary Director sells its shareholding interest in its entirety. They shall also do so, in the appropriate number, when the shareholder in question reduces its stake to a level requiring a reduction in the number of its Proprietary Directors.

In the circumstances envisaged in points d), e) and f), if the Board of Directors does not deem it advisable to have a Director tender his/her resignation, the latter must be included in the category that, in accordance with the Regulations, is most appropriate based on his/her new circumstances.

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 proposal from the Nomination Committee.

After a Director resigns 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.

B.1.21 Indicate whether the duties of chief executive officer fall upon the Chairman of the Board of Directors. If so, describe the measures taken to limit the risk of powers being concentrated in a single person:

YES

Measures for reducing risk
The Chairman of the Board of Directors exercises the functions of chief executive of the Company. As well as the functions and powers attributed to the post by law and the Company Bylaws, the Chairman of the Board of Directors, as an executive, effectively directs the company's business, in accordance with the decisions and criteria established by the General Shareholders' Meeting and the Board of Directors in their respective competencies. However, the Board of Directors' Regulations contain a detailed report on issues which must be presented to the Board; in general terms, the Board retains sole jurisdiction on operations valued at over €3 million. Similarly, Enagás' internal regulations on investment and tendering also reserve decision making powers for the Board for sums of over €3 million.

Indicate, and if necessary explain, whether rules have been established that enable any of the independent directors to convene Board Meetings or include new items on the agenda, to coordinate and voice the concerns of external directors and oversee the evaluation by the Board of Directors.

YES

Explanation of rules
At its meeting of 29 March 2007, the Board of Directors approved an amendment to article 17 of the Regulations of the Board of Directors which establishes that, when the Chairman of the Board also serves as chief executive of the Company, the Board of Directors may empower one of the Independent Directors to ask for meetings to be convened or new items to be included on the agenda, to coordinate and report the concerns of the External Directors, and to oversee the Board's evaluation of its Chairman.

B.1.22 Are qualified majorities, other than legal majorities, required for any type of decisions?

NO

Describe how resolutions are adopted by the Board of Directors and specify, at least, the minimum attendance quorum and the type of majority for adopting resolutions:

Description of resolution:

All resolutions

Quorum	%
Meetings of the Board of Directors shall be validly constituted when at least half its members plus one are present or represented, except when the meeting has not been duly convened, in which case the attendance of all members is required.	51.00

Type of majority	%
Resolutions shall be adopted with the vote in favour of an absolute majority of Directors present or represented, irrespective of the type of decision in question, except in the case of written ballots held without meeting.	51.00

B.1.23 Indicate whether there are any specific requirements, apart from those relating to the Directors, to be appointed Chairman:

NO

B.1.24 Indicate whether the Chairman has the casting vote:

NO

B.1.25 Indicate whether the Bylaws or the Regulations of the Board of Directors set any age limit for Directors:

NO

Age limit for chairman	Age limit for CEO	Age limit for Director
0	0	0

B.1.26 Indicate whether the Bylaws or the Regulations of the Board of Directors set a limited term of office for Independent Directors:

YES

Maximum number of years in office	12

B.1.27 If there are few or no female Directors, explain the reasons and describe the initiatives adopted to remedy this situation.

Explanation of reasons and initiatives
As of the publication of this report, only one of a total of sixteen (16) members of the Board of Directors is a woman, Teresa García-Milá Lloveras, and Enagás, S.A. should therefore prioritise and try to increase female representation should a vacancy arise on the Board, especially for independent seats. Given the above, in 2008 the Board adopted various initiatives aimed at rectifying the gender imbalance. In particular, article 8 of the Regulations of the Board of Directors expressly incorporates the principle of equal treatment of men and women set out in the Unified Code. The new article stipulates that "the process for filling Board vacancies has no implicit bias against women candidates. The company shall seek out and include women with the target profile among the candidates for Board places.

Indicate in particular whether the Appointments and Remunerations Committee has established procedures to ensure the selection processes are not subject to implicit bias that will make it difficult to select female directors, and make a conscious effort to search for female candidates who have the required profile:

YES

Indicate the main procedures
In the exercise of its functions, and in accordance with the Regulations of the Board of Directors, whenever a vacancy arises, the Appointments and Remunerations Committee analyses the professional profile of potential female candidates and thus endeavours to ensure that the number of female Directors on the company's Board is progressively increased.

B.1.28 Indicate whether there are any formal processes for granting proxies at Board meetings. If so, give brief details.

Article 39 of the Company Bylaws states that Directors may grant representation to other Directors, but none of the attendees may hold more than two representations or voting proxies.

Furthermore, pursuant to article 7.3 of the Regulations of the Board of Directors, representation of absent Directors may be granted by any means, with a telegram or fax to the Chairman or Secretary to the Board being valid.

B.1.29 Indicate the number of Board meetings held during the year and how many times the Board has met without the Chairman's attendance:

Number of Board meetings	11
Number of Board meetings held in the absence of its chairman	0

Indicate how many meetings of the various Board committee were held during the year:

Number of Executive or Delegated Committee meetings	0
Number of meetings of the Audit and Compliance Committee	3
Number of meetings of the Appointments and Remunerations Committee	4
Number of meetings of the Appointments Committee	0
Number of meetings of the Remunerations Committee	0

B.1.30 Indicate the number of Board meetings held during the financial year without the attendance of all members. Non-attendance will also include proxies granted without specific instructions

Number of non-attendances by Directors during the year	25
% of non-attendances of the total votes cast during the year	14.000

B.1.31 Indicate whether the individual and consolidated financial statements submitted for approval by the Board are certified previously:

YES

Indicate, if applicable, the person(s) who certified the company's individual and consolidated financial statements for preparation by the Board:

Name	Post
DIEGO DE REINA LOVERA	FINANCIAL DIRECTOR
ANTONIO LLARDÉN CARRATALÁ	CHAIRMAN

B.1.32 Explain the mechanisms, if any, established by the Board of Directors to prevent the individual and consolidated financial statements it prepares from being submitted to the General Shareholders' Meeting with a qualified Audit Report.

The Board of Directors and Audit and Compliance Committee are required to ensure that the annual financial statements are published without qualifications:

Article 5, paragraph c) of the Regulations of the Board of Directors states that among the functions of the Board of Directors regarding the Annual Financial Statements are the following:

To present, in clear and precise terms, facilitating comprehension of their contents, the individual and consolidated Annual Financial Statements and the Management Report, after obtaining the Reports issued by the Financial Department and the relevant report issued by the Audit and Compliance Committee and the corresponding clarifications.

In presenting the Annual Financial Statements, the Board of Directors shall set out all comments or recommendations previously made by the Audit and Compliance Committee in its Report. In the event that the Annual Financial Statements differ from the prior Report issued by the Audit and Compliance Committee, the Board of Directors shall provide sufficient explanation of the reasons for the discrepancy.

The Board of Directors shall endeavour to present the Financial Statements in such a way that there are no grounds for qualification from the Auditor of the Financial Statements. However, when the Board of Directors considers that its criteria must be maintained, it shall publicly explain the content and extent of the discrepancy."

Article 7, paragraph c) of the Audit and Compliance Committee Regulations states that said Committee shall "operate as a channel of communication between the Board of Directors and the Auditor, evaluating the results of each Audit, and the Management Team's responses to its recommendations, and mediating and arbitrating in cases of discrepancies between them in relation to principles and criteria to be applied in the preparation of financial statements.

Enagás has established quarterly reviews of its financial statements to detect any possible risks that could affect these and any qualifications which may arise. It consequently carries out suitable measures to resolve any qualifications.

B.1.33 Is the Secretary to the Board also a Director?

NO

B.1.34 Explain the procedures for appointing and removing the Secretary to the Board, indicating whether his/her appointment and removal have been notified by the Appointments Committee and approved by the Board in plenary session.

Appointment and removal procedure
Article 20 of the Regulations of the Board of Directors details the procedures for the appointment and dismissal of the Secretary to the Board. The Secretary to the Board of Directors shall be appointed by the Board and shall not necessarily also be a Director. The Secretary shall exercise the functions conferred upon such position under commercial law and in these Regulations. To ensure the independence, impartiality and professionalism of the Secretary, his/her appointment and removal shall be the subject of a prior report from the Appointments and Remunerations Committee and must be approved by the Board in plenary session. The aforesaid article 25 of the Regulations also establishes that, the functions of the Appointments and Remunerations Committee shall include responsibility for "proposing the appointment and dismissal of the Secretary to the Board of Directors".

Does the Appointments Committee propose appointments?	YES
Does the Appointments Committee advise on dismissals?	YES
Do appointments have to be approved by the Board in plenary session?	YES
Do dismissals have to be approved by the Board in plenary session?	YES

Is the Secretary to the Board entrusted in particular with the function of overseeing corporate governance recommendations?

YES

Remarks
In accordance with the provisions of article 20.3 of the Regulations of the Board of Directors, "the Secretary shall also be responsible for the formal and material legality of the Board of Directors' actions and shall guarantee that its governing procedures and rules are respected and regularly revised. In particular he/she shall ensure that the actions of the Board: a) adhere to the spirit and letter of laws and their implementing regulations, including those issued by regulatory agencies; b) comply with the company bylaws and the regulations of the General Shareholders' Meeting, the Board of Directors and others; c) are informed of those Corporate Governance recommendations of the Unified Code that the company has subscribed to.

B.1.35 Indicate the mechanisms, if any, established by the Company to preserve the independence of the auditors, of financial analysts, of investment banks and of rating agencies.

To safeguard the independence of the external auditors, the Audit and Compliance Committee of the Enagás Board of Directors has been assigned, as part of its core remits, responsibility for evaluating the company's accounting verification system, ensuring the independence of the external auditor, reviewing the internal control system, guaranteeing transparency of information, and ensuring compliance with internal conduct regulations.

In addition, it is responsible for proposing the appointment of the External Accounts Auditors to the Board of Directors, for submission to the General Shareholders Meeting, in accordance with applicable regulations, and for advising on payments to external auditors, and liaising with the latter in respect of issues that may jeopardise their independence.

It is the Board of Directors' responsibility to adopt and implement as many measures as are necessary to ensure transparency of the company on financial markets, to encourage the appropriate setting of company and subsidiary share, to supervise, through the Audit and Compliance Committee, regular provision of public information of a financial nature and to carry out as many functions as are imposed on it by the company's status as a listed company according to applicable legislation.

Where appropriate, the Audit and Compliance Committee shall invite the external auditors to attend its quarterly meetings in order to:

- Obtain information on the quarterly reviews of the financial statements.
- Analyse any incidents encountered.
- Ask the Directors to come up with a plan of action to resolve the incidents encountered.

B.1.36 Indicate whether the Company has changed its external audit firm during the year. If so, identify the new audit firm and the previous firm:

NO

Outgoing auditor	Incoming auditor

Explain any disagreements with the outgoing auditor and the reasons for the same:

NO

B.1.37 Indicate whether the audit firm performs other non-audit work for the Company and/or its Group. If so, state the amount of fees received for such work and the percentage they represent of the fees billed to the Company and/or its Group:

YES

	Company	Group	Total
Amount of other non-audit work (in thousand €)	1,367	0	1,367
Amount of other non-audit work as a % of total amount billed by audit firm	88.000	0.000	88.000

B.1.38 Indicate whether the audit report on the previous year's financial statements is qualified of includes reservations. If applicable, indicate the reasons given by the Chairman of the Audit Committee to explain the content and scope of those reservations or qualifications.

NO

B.1.39 Indicate the number of consecutive years during which the current audit firm has been auditing the financial statements of the Company and/or its Group. Likewise, indicate how many years the current firm has been auditing the accounts as a percentage of the total number of years over which the financial statements have been audited:

	Company	Group
Number of consecutive years	5	5

	Company	Group
Number of years audited by current audit firm /Number of years the company's financial statements have been audited (%)	20.8	20.8

B.1.40 List any equity holdings of the members of the company's Board of Directors in other companies with the same, similar or complementary types of activity to that which constitutes the corporate purpose of the company and/or its group, and which have been reported to the company. Likewise, list the posts or duties they hold in such companies:

Name or corporate name of Director	Corporate name of the company in question	% share	Post or duties
CAJA DE AHORROS DE VALENCIA, CASTELLÓN Y ALICANTE, BANCAJA	IBERDROLA, S.A.	6.033	–
BILBAO BIZKAIA KUTXA (BBK)	IBERDROLA, S.A.	7.184	–
BILBAO BIZKAIA KUTXA (BBK)	GAS NATURAL SDG, S.A.	0.219	–
CARLOS EGEA KRAUEL	IBERDROLA, S.A.	0.000	–
LUIS JAVIER NAVARRO VIGIL	E.ON RENOVABLES S.L.U.	0.000	DIRECTOR
LUIS JAVIER NAVARRO VIGIL	BP ESPAÑA, S.A.	0.000	DIRECTOR
LUIS JAVIER NAVARRO VIGIL	E.O.N. ESPAÑA	0.000	DIRECTOR
SALVADOR GABARRÓ SERRA	IBERDROLA, S.A.	0.001	–
SALVADOR GABARRÓ SERRA	GAS NATURAL SDG, S.A.	0.000	CHAIRMAN

B.1.41 Indicate and give details of any procedures through which Directors may receive external advice:

YES

Details of procedure
Article 15 of the Regulations of the Board of Directors establishes that Directors shall be entitled to propose to the Board of Directors the engagement, at the company's expense, of legal, accounting, technical, financial, commercial or any other type of experts deemed necessary for the interests of the company, for the purpose of assisting the Board in performing its duties when there are specific problems of a certain importance and complexity linked to the such performance. The proposal must be communicated to the Chairman of the Board via the Secretary to the Board. The Board of Directors may veto its approval when it considers that such services are unnecessary for the duties with which they are entrusted, or disagrees with the cost of the same (disproportionate in relation to the problem and assets and revenues of the company) or believes that the said technical assistance can be adequately provided by experts and technicians from within the company. The company should organise induction programmes for new Directors to acquaint them rapidly with the workings of the company and its corporate governance rules. It shall also offer Directors refresher courses when circumstances so dictate.

B.1.42 Indicate whether there are procedures for Directors to receive the information they need in sufficient time to prepare for meetings of the governing bodies:

YES

Details of procedure
Article 6 of the Regulations of the Board of Directors governs the procedure to ensure that Directors have the necessary information to prepare meetings of the Board of Directors with sufficient time. The aforesaid article establishes that: Notices convening ordinary sessions shall be issued by the Chairman or the Secretary, or by the Deputy Chairman on order of the Chairman, may be effected by any media, and shall include the venue at which the meeting is to be held and the agenda of the same. The convening notice, which shall be issued, except in extraordinary situations, at least three days prior to the date scheduled for the meeting, shall contain the information and documents considered relevant or appropriate to better inform Directors. The Chairman shall be empowered to establish the agenda of the meetings, although any Director may request, prior to convocation, the inclusion of the points that, in his/her opinion, should be deliberated by the Board of Directors". In practice, the convening notice shall be issued a week before the meeting and, in addition to the meeting venue and the agenda, shall include all documentation considered appropriate or relevant.

B.1.43 Indicate and, where appropriate, give details of whether the company has established rules obliging Directors to inform the Board of any circumstances that might harm the organisation's name or reputation, tendering their resignation as the case may be:

YES

Details of the rules
Pursuant to Corporate Governance recommendations, article 12 of the Regulations of the Board of Directors establishes that Directors place their offices at the Board of Directors' disposal, and tender, if the Board deems this appropriate, their resignation, inter alia, in situations that could place the company's interest at risk or damage its credibility 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 review the case as promptly as possible and, based on the specific circumstances, decide if it is appropriate for the Director to remain in his/her post.

B.1.44 Indicate whether the Audit Committee is responsible for the following:

NO

Indicate whether the Board of Directors has examined this matter. If so, provide a justified explanation of the decision taken as to whether or not the director should continue to hold office.

NO

Decision	Explanation

B.2 Committees of the Board of Directors

B.2.1 Give details of all the committees of the Board of Directors and their members:

AUDIT AND COMPLIANCE COMMITTEE

Name	Post	Type
MARTÍ PARELLADA SABATA	CHAIRMAN	INDEPENDENT DIRECTOR
ANTONIO TÉLLEZ DE PERALTA	MEMBER	INDEPENDENT DIRECTOR
CAJA DE AHORROS DE VALENCIA, CASTELLÓN Y ALICANTE, BANCAJA	MEMBER	PROPRIETARY
CARLOS EGEA KRAUEL	MEMBER	PROPRIETARY
LUIS JAVIER NAVARRO VIGIL	MEMBER	OTHER EXTERNAL

APPOINTMENTS AND REMUNERATIONS COMMITTEE

Name	Post	Type
SALVADOR GABARRÓ SERRA	CHAIRMAN	PROPRIETARY
DIONISIO MARTÍNEZ MARTÍNEZ	MEMBER	INDEPENDENT DIRECTOR
MARÍA TERESA GARCÍA-MILÁ LLOVERAS	MEMBER	INDEPENDENT DIRECTOR
RAMÓN PÉREZ SIMARRO	MEMBER	INDEPENDENT DIRECTOR

B.2.2 Indicate whether the Audit Committee is responsible for the following:

To supervise the preparation process and monitoring the integrity of financial information on the company and, if applicable, the group, and revising compliance with regulatory requirements, the adequate boundaries of the scope of consolidation and correct application of accounting principles.	YES
To regularly review internal control and risk management systems, so main risks are correctly identified, managed and notified.	YES
To safeguard the independence and efficacy of the internal audit function; propose the selection, appointment, reappointment and removal of the head of internal audit ; propose the department's budget; receive regular report-backs on its activities; and verify that senior management are acting on the findings and recommendations of its reports.	YES
To establish and supervise a mechanism whereby staff can report, confidentially and, if necessary, anonymously, any irregularities they detect in the course of their duties, in particular financial or accounting irregularities, with potentially serious implications for the firm.	YES
To submit to the Board proposals for the selection, appointment, reappointment and removal of the external auditor, and the engagement conditions.	YES
To receive regular information from the external auditor on the progress and findings of the audit programme and check that senior management are acting on its recommendations.	YES
To ensure the independence of the external auditor	YES
In the case of groups, the Committee should urge the group auditor to take on the auditing of all component companies.	YES

B.2.3 Describe the organisational and operational rules and the responsibilities attributed to each of the Board committees.

Committee name

APPOINTMENTS AND REMUNERATIONS COMMITTEE

Brief description

It should be noted that the Appointments and Remunerations Committee has no specific regulations, as it is sufficiently regulated under article 25 of the Regulations of the Board of Directors and article 45 of the Company Bylaws.

The Appointments and Remunerations Committee is comprised of four members appointed by the Board of Directors, which is within the limits established in the Company Bylaws and the Regulations of the Board, which set a minimum of three and maximum of five members.

It comprises mainly Independent Directors, as dictated in the Company Bylaws and the Regulations of the Board Three of the Committee's members are Independent Directors while one, the Chairman, is a Proprietary Director.

Pursuant to article 25 of the Regulations of the Board of Directors, the Appointments and Remunerations Committee must meet at least four times a year. In 2008, the Committee met four times.

The duties of the Appointments and Remunerations Committee are detailed in Article 45 of the Company Bylaws and Article 25 of the Regulations of the Board of Directors and are as follows:

1. To establish payment criteria for the Company's Directors, in accordance with the stipulations of the Bylaws and in line with resolutions passed at the General Shareholders' Meeting, and to ensure that payments are transparent.

2. To establish a general remuneration policy for Enagás, S.A., management personnel, justifying the same to the Board of Directors, and guidelines relating to the appointment, selection, promotion and dismissal of senior managers, in order to ensure that the company has the appropriate highly qualified staff for administering its business at all times.

3. To review the structure of the Board of Directors, the criteria for the statutory renewal of Directors, the incorporation of new members and any other aspects relating to its composition that it deems appropriate, providing the Board of Directors with the proposals that it considers necessary.

4. To report on the appointment and dismissal of the Secretary to the Board of Directors.

5. To inform the Board of Directors, prior to approval, of transactions that Directors wish to undertake that imply or may imply a conflict of interests, in accordance with the stipulations of the Internal Code of Conduct in Matters Relating to Stock Markets.

6. To formulate and revise the criteria to be followed in the composition of the Board of Directors and for the selection of the candidates proposed for the post of Director.

7. To provide information, objectively and in the company's interest, concerning the proposals for appointment, re-election and ratification of Directors, as well as for the appointment of members of Board Committees.

8. To freely formulate proposals to the Board of Directors regarding the company's organisational structure, including the creation of senior management posts, in order to achieve improved and more efficient company administration.

9. To designate and dismiss senior management staff, and where necessary, approve special conditions in their contracts.

10. To approve payment of senior management, providing that this does not diverge from criteria established in the general payment policy for Management.

11. To report to the Board of Directors on any related-party transactions before Board approval of the same. Under no circumstances shall any such transaction be authorised without a prior report evaluating the transaction from the point of view of market conditions. If the transactions are ordinary, generic authorisation of the type of transaction and its conditions shall be sufficient.

12. To provide information to the Board of Directors on measures to be taken in the event of non-compliance with these Regulations or the Internal Code of Conduct in Matters Relating to Stock Markets on the part of Directors or other persons subject to the aforementioned Regulations. In performing this duty, the Appointments and Remunerations Committee shall work in conjunction with the Audit and Compliance Committee wherever appropriate.

Committee name

AUDIT AND COMPLIANCE COMMITTEE

Brief description

Regulations for the Audit and Compliance Committee were approved at the meeting of the Board of Directors of 19 February 2004. They are aimed at providing the committee with an organisational and operational framework that enables it to operate as an independent and transparent body, and thereby comply with the regulations contained in article 44 of the Company Bylaws and article 26 of the regulations governing the organisation and operation of the Board of Directors. At its meeting of 29 March 2007, the Board amended article 26 of the Regulations of the Board of Directors to incorporate as many of the recommendations of the Unified Code as possible and thus also amended the Regulations of the Audit and Compliance Committee to bring them in line with changes made to the Regulations of the Board of Directors.

The Audit and Compliance Committee is comprised of five members, which is within the limits established in article 44 of the Company Bylaws and article 3 of the Audit and Compliance Committee Regulations, which set a minimum of three and maximum of five members, appointed by the Board of Directors. Two of the Committee's members, including the Chairman, are Independent Directors, two are Proprietary Directors, and the fifth is classified as "Other External Director".

Article 3 of the Regulations of the Audit and Compliance Committee states that none of its members may be Executive Directors, in order to preserve the transparency and objective nature of its decisions, and the parity between Proprietary and Independent Directors must be maintained.

The aforesaid article also stipulates that the Chairman of the Board of Directors and members of other committees may not sit on the Audit and Compliance Committee.

As established in article 4 of the Committee Regulations, the term of Committee membership is the same as the term of office for a Directorship. On ceasing to be a Director, a Committee member's period of service is automatically concluded. Serving Directors may cease to be Committee members at any time the Board of Directors so decides.

Notwithstanding the above, the Chairman of the Committee must be replaced every four years. The Committee Chairman may be re-elected one year after leaving the post, without prejudice to his/her continuity as a member of the Committee if the Board of Directors decides that there exists sufficient reason for re-election.

The remuneration of Committee members, as provided for in article 5 of the Committee Regulations, will be approved as established in the Company Bylaws and the Regulations of Board of Directors the pertaining to the approval of Directors' remuneration, and shall be subject to the same disclosure obligations.

During their period of office, Committee members shall perform the duties and adhere to the working principles stipulated in the Company Bylaws, the Regulations of the Board of Directors and prevailing legislation on company Directors.

In keeping with article 8 of its Regulations, the Committee must meet at least four times a year and the Chairman shall call as many further meetings as he/she believes are required for the Committee to complete its tasks. In 2008, the Committee met three times.

The tasks to be performed by the Audit and Compliance Committee are set out in article 44 of the Company Bylaws, article 26 of the Regulations of the Board of Directors and article 7 of the Committee Regulations.

The Committee is responsible for evaluating the company's accounting verification system, ensuring the independence of the external auditor, reviewing the internal control system, guaranteeing transparency of information, and ensuring compliance with internal conduct regulations.

To fulfil these objectives, in addition to the functions established by law for the Audit and Compliance Committee, the Committee shall have the following duties:

a) In relation to the financial statements:

– Overseeing the preparation process and monitoring the integrity of financial information on the company and, where relevant, the Group, and checking compliance with regulatory requirements, the due definition of the scope of consolidation and correct application of accounting principles.

– Providing information on the annual financial statements prior to their presentation by the Board of Directors.

In its Report, the Committee includes the information that it deems necessary on the application of accounting criteria, internal control systems and any other relevant facts.

The Board of Directors must provide an explanation if it presents financial statements that differ from information previously provided by the Audit and Compliance Committee.

– Examining the information on the company's activities and results that is produced regularly in compliance with securities market regulations, and ensuring that such information is transparent and accurate.

b) In relation to internal audits:

– Monitoring the independence of the internal audit unit.

– Supervising the company's internal auditing services and verifying the internal control systems, in order to achieve optimum monitoring of the execution of the annual internal audit.

In particular, the Committee shall monitor the quality of the work of the internal audit unit in areas including: accuracy and integrity of information, compliance with policies, plans, regulations and standards and asset protection measures.

The Committee has full access to Internal Auditing systems and meets regularly, in plenary session or through its Chairman, with the Internal Auditing Manager, from whom it may request all the information necessary for its work.

– Providing information and putting forward proposals to the Board of Directors regarding the selection, appointment, reappointment and dismissal of the head of Internal Audit.

c) In relation to external audits:

– Making proposals to the Board of Directors for submission to shareholders at the General Meeting concerning the appointment of the External Accounts Auditor, in accordance with applicable regulations, and providing information on the remuneration payable to the same and other terms and conditions of their appointment.

– Liaising with the external auditors to obtain information on any issues that could compromise the latter's independence or any other subjects related to the auditing process, and on any other disclosure obligations established in legislation on the annual audit process and in the technical audit regulations.

– Taking receipt of the external auditor's regular reports on the audit programme and results of its execution, and ensuring that senior management takes account of its recommendations.

– Serving as a channel for communications between the Auditors and the Board of Directors, evaluating the results of each audit, and the management team's responses to its recommendations, and mediating and arbitrating in the event of disagreement between the two concerning the principles and criteria to be applied in the preparation of the financial statements.

– Overseeing the execution of contracted audit work and ensuring that the auditor's opinion on the financial statements and the main contents of the Auditors' Report are written clearly and accurately.

– Providing information on non-auditing contracts between the company and the Accounts Auditors.

– Ensuring that the External Accounts Auditor is provided with access to all the information necessary for him/her to do his/her work.

d) In relation to the Company's risk map:

– Identifying and analysing, in conjunction with the internal and external auditors, the main risks to which the company is exposed, and, in particular, those affecting its financial position.

– Producing a risk assessment report for the Board of Directors.

– Where appropriate, proposing to the Board of Directors measures required to manage, mitigate or prevent risks detected.

– Establishing and supervising a mechanism whereby staff can report, confidentially and, if necessary, anonymously, any irregularities they detect in the course of their duties, in particular financial or accounting irregularities, with potentially serious implications for the firm.

e) In relation to corporate governance

f) In relation to shareholders

Note: Given technical difficulties in reproducing the content for sections e) and f), please see section G) Other Information of Interest.

B.2.4 Identify any advisory or consulting powers and, where applicable, the powers delegated to each of the committees:

Committee name

APPOINTMENTS AND REMUNERATIONS COMMITTEE

Brief description

TASKS 4 TO 11 LISTED IN SECTION B.2.3 OF THIS REPORT.

Committee name

AUDIT AND COMPLIANCE COMMITTEE

Brief description

TASKS 1 TO 18 LISTED IN SECTION B.2.3 OF THIS REPORT.

B.2.5 Indicate, as appropriate, whether there are any regulations governing the board committees. If so, indicate where they can be consulted, and whether any amendments have been made during the year. Also indicate whether an annual report on the activities of each committee has been prepared voluntarily.

Committee name

APPOINTMENTS AND REMUNERATIONS COMMITTEE

Brief description

The Appointments and Remunerations Committee has no specific regulations, as it is sufficiently regulated under article 25 of the Regulations of the Board of Directors and article 45 of the Company Bylaws.

Committee name

AUDIT AND COMPLIANCE COMMITTEE

Brief description

Regulations for the Audit and Compliance Committee were approved at the meeting of the Board of Directors held on 19 February 2004. The aim of this document was to provide the committee with an organisational and operational framework as an independent and transparent body, thereby complying with the regulations contained in article 44 of the Company Bylaws and article 26 of the Regulations of the Board of Directors.

The aforementioned regulations are available for consultation at the headquarters of Enagás, S.A. and on its website at www.enagas.es or www.enagas.com.

No changes were made to the regulations of the Audit and Compliance Committee in 2008.

The Audit and Compliance committee has drafted a report on its activities, available both at the headquarters of Enagás, S.A. and on its corporate website.

B.2.6 Indicate whether the composition of the Executive Committee reflects the participation within the Board of the different types of Directors

NO

If the answer is no, explain the composition of the executive committee.
There is no Executive Committee.

C - RELATED-PARTY TRANSACTIONS

C.1 Indicate whether the Board plenary sessions have reserved the right to approve, based on a favourable report from the Audit Committee or any other committee responsible for this task, transactions which the company carries out with Directors, significant shareholders or representatives on the Board, or related parties:

YES

C.2 List any relevant transactions entailing a transfer of assets or liabilities between the company or its Group companies and the significant shareholders in the Company:

Name or corporate name of significant shareholder	Name or corporate name of the company or its group company	Nature of the relationship	Type of transaction	Amount (thousand €)
ATALAYA INVERSIONES, S.R.L.	ENAGÁS, S.A.	Corporate Paid to SAGANE INVERSIONES, S.L. (significant shareholder)	Dividends and other benefits paid	7,149
CAJA DE AHORROS DE ASTURIAS	ENAGÁS, S.A.	Commercial	Guarantees and sureties	12,000
CAJA DE AHORROS DE ASTURIAS	ENAGÁS, S.A.	Corporate Paid to CANTÁBRICA DE INVERSIONES DE CARTERA, S.L. (significant shareholder)	Dividends and other benefits paid	7,149
CAJA DE AHORROS DE ASTURIAS	ENAGÁS, S.A.	Commercial	Finance agreements, loans and capital contributions (lender)	30,000
CAJA DE AHORROS DE ASTURIAS	ENAGÁS, S.A.	Commercial	Finance agreements, loans and capital contributions (lender)	50,000
CAJA DE AHORROS DE ASTURIAS	ENAGÁS, S.A.	Commercial	Finance agreements, loans and capital contributions (lender)	6,000

Name or corporate name of significant shareholder	Name or corporate name of the company or its group company	Nature of the relationship	Type of transaction	Amount (thousand €)
CAJA DE AHORROS DE ASTURIAS	ENAGÁS, S.A.	Commercial	Finance agreements, loans and capital contributions (lender)	65,000
GAS NATURAL SDG, S.A.	ENAGÁS, S.A.	Contractual	Sale of goods (finished or in progress)	329,547
GAS NATURAL SDG, S.A.	ENAGÁS, S.A.	Contractual	Receipt of services	18,978
GAS NATURAL SDG, S.A.	ENAGÁS, S.A.	Contractual	Purchase of goods (finished or in progress)	383,602
GAS NATURAL SDG, S.A.	ENAGÁS, S.A.	Corporate	Dividends and other benefits paid	7,149
GAS NATURAL SDG, S.A.	ENAGÁS, S.A.	Contractual	Provision of services	22,572
GAS NATURAL SDG, S.A.	ENAGÁS, S.A.	Contractual	Receipt of services	5,342
GAS NATURAL SDG, S.A.	ENAGÁS, S.A.	Contractual	Purchase of goods (finished or in progress)	7,252
GAS NATURAL SDG, S.A.	ENAGÁS, S.A.	Contractual	Receipt of services	1,588

C.3 List any relevant transactions entailing a transfer of assets or liabilities between the Company or its Group companies, and the Company's managers or directors:

Name or corporate name of Director or senior manger	Name or corporate name of the company or its group company	Nature of the relationship	Type of transaction	Amount (thousand €)
BILBAO BIZKAIA KUTXA (BBK)	ENAGÁS, S.A.	Commercial	Finance agreements, loans and capital contributions(lender)	50,000
BILBAO BIZKAIA KUTXA (BBK)	ENAGÁS, S.A.	Commercial	Finance agreements, loans and capital contributions (lender)	6,000

Name or corporate name of Director or senior manger	Name or corporate name of the company or its group company	Nature of the relationship	Type of transaction	Amount (thousand €)
BILBAO BIZKAIA KUTXA (BBK)	ENAGÁS, S.A.	Commercial	Finance agreements, loans and capital contributions (lender)	30,000
BILBAO BIZKAIA KUTXA (BBK)	ENAGÁS, S.A.	Corporate	Dividends and other benefits paid	7,149
BILBAO BIZKAIA KUTXA (BBK)	ENAGÁS, S.A.	Commercial	Guarantees and sureties	12,000
CAJA DE AHORROS DE VALENCIA, CASTELLÓN Y ALICANTE, BANCAJA	ENAGÁS, S.A.	Corporate (Paid to BANCAJA INVERSIONES,S.A. significant shareholder)	Dividends and other benefits paid	7,149
CAJA DE AHORROS DE VALENCIA, CASTELLÓN Y ALICANTE, BANCAJA	ENAGÁS, S.A.	Commercial	Finance agreements, loans and capital contributions (lender)	6,000
CAJA DE AHORROS DE VALENCIA, CASTELLÓN Y ALICANTE, BANCAJA	ENAGÁS, S.A.	Commercial	Finance agreements, loans and capital contributions (lender)	50,000
CAJA DE AHORROS DE VALENCIA, CASTELLÓN Y ALICANTE, BANCAJA	ENAGÁS, S.A.	Commercial	Guarantees and sureties	6,000
SOCIEDAD ESTATAL DE PARTICIPACIONES INDUSTRIALES	ENAGÁS, S.A.	Corporate	Dividends and other benefits paid	7,149

C.4 List any relevant transactions undertaken by the Company with other companies in its group that are not eliminated in the process of drawing up the consolidated financial statements and whose object and conditions set them apart from the company's habitual trading activities:

Corporate name of the group company

GASODUCTO AL ÁNDALUS, S.A.

Amount (thousand €)

4,552

Brief description of the transaction

INCOME FROM PIPELINE MAINTENANCE AND FRANCHISE ROYALTIES.

Corporate name of the group company
GASODUCTO AL ÁNDALUS, S.A.

Amount (thousand €)
24,911

Brief description of the transaction
LOAN GRANTED BY ENAGÁS.

Corporate name of the group company
GASODUCTO AL ÁNDALUS, S.A.

Amount (thousand €)
4,695

Brief description of the transaction
PAYMENT TO ENAGAS OF DIVIDENDS FOR THE 2007 FINANCIAL YEAR.

Corporate name of the group company
GASODUCTO AL ÁNDALUS, S.A.

Amount (thousand €)
17,244

Brief description of the transaction
TRANSPORT CHARGES PAID.

Corporate name of the group company
GASODUCTO BRAGA - TUY, S.A.

Amount (thousand €)
3,323

Brief description of the transaction
TRANSPORT SERVICE CHARGES PAID.

Corporate name of the group company
GASODUCTO BRAGA - TUY, S.A.

Amount (thousand €)
10,891

Brief description of the transaction
LOAN GRANTED BY ENAGÁS.

Corporate name of the group company
GASODUCTO CAMPO MAYOR - LEIRIA - BRAGA, S.A.

Amount (thousand €)
4,427

Brief description of the transaction
LOAN GRANTED BY ENAGÁS.

Corporate name of the group company
GASODUCTO CAMPO MAYOR - LEIRIA - BRAGA, S.A.

Amount (thousand €)
3,248

Brief description of the transaction

TRANSPORT SERVICE CHARGES PAID.

Corporate name of the group company

GASODUCTO DE EXTREMADURA, S.A.

Amount (thousand €)

8,681

Brief description of the transaction

TRANSPORT RIGHTS PAID.

Corporate name of the group company

GASODUCTO DE EXTREMADURA, S.A.

Amount (thousand €)

3,221

Brief description of the transaction

PAYMENT TO ENAGAS OF DIVIDENDS FOR THE 2007 FINANCIAL YEAR.

Corporate name of the group company

GASODUCTO DE EXTREMADURA, S.A.

Amount (thousand €)

1,896

Brief description of the transaction

LOAN GRANTED BY ENAGÁS.

Corporate name of the group company

GASODUCTO DE EXTREMADURA, S.A.

Amount (thousand €)

4,919

Brief description of the transaction

INCOME FROM PIPELINE MAINTENANCE AND FRANCHISE ROYALTIES.

C.5 Identify, where appropriate, any conflicts of interest affecting company Directors pursuant to Article 127 of the Spanish Companies Act.

NO

C.6 List the mechanisms established to detect, determine and resolve any possible conflicts of interest between the Company and/or its Group, and its Directors, management or significant shareholders.

Mechanisms for detecting and regulating possible conflicts of interest between Enagás and/or its group, and its Directors, managers or shareholders are primarily set out in the Enagás Internal Code of Conduct in Matters Relating to Stock Markets.

The Internal Code of Conduct in Matters Relating to Stock Markets is applicable to the following persons:

– Members of the Board.

– Managing Directors and members of the Management Committee.

– Board members and, in the appropriate cases, members of the Management Committee of subsidiary or partially owned companies in which Enagás S.A. has operational control.

– People concerned with Stock Market activities.

– In general, everyone who has access to the Company's privileged or reserved information.

With regards to related-party transactions, the company must adopt the following measures:

a) Report such transactions to the National Securities Market Commission (CNMV) every six months and include information on them in the Corporate Governance section of the notes to the company's annual financial statements.

b) Submit them in draft form to the Board of Directors for authorisation prior to their execution, following the relevant report from the Appointments and Remunerations Committee, and assess whether they satisfy market criteria.

With respect to possible conflicts of interest, persons subject to the Internal Code of Conduct in Matters Relating to Stock Markets must act as follows:

– Inform the Board, through its Secretariat, of any possible conflicts of interest which may result from their family relationships, personal property or any other cause. Communications must be made within a fortnight and, in any case, before the decision that may be affected by the potential conflict of interest is taken.

– Keep the information updated, taking into account any modification or cessation of previously reported situations as well as the emergence of new conflicts of interest.

– Refrain from participating in the adoption of any decision that may be affected by the conflict of interest with the company.

The Appointments and Remunerations Committee is the body responsible for regulating and resolving any conflicts of interest that may arise and, pursuant to article 25 of the Regulations of the Board of Directors, is assigned the following duties:

a) Informing the Board of Directors, prior to their approval, of any transactions that Directors wish to undertake that imply or may imply a conflict of interest, in accordance with the stipulations of the Internal Code of Conduct in Matters Relating to Stock Markets.

b) Reporting to the Board of Directors on possible transactions with related parties before Board approval of the same. Under no circumstances shall any such transaction be authorised without a prior report evaluating the transaction from the point of view of market conditions. If the transactions are ordinary, generic authorisation of the type of transaction and its conditions shall be sufficient.

c) To inform the Board of Directors on measures to be taken in the event of non-compliance with these Regulations or the Code of Conduct in Matters Relating to Stock Markets by Directors or other persons subject to the aforementioned same. In performing this duty, the Appointments and Remunerations Committee shall work in conjunction with the Audit and Compliance Committee wherever appropriate.

C.7 Is more than one Group company listed in Spain?

NO

Identify the listed subsidiaries in Spain

D - RISK CONTROL SYSTEMS

D.1 Give a general description of risk policy in the company and/or its group, detailing and evaluating the risks covered by the system, together with evidence that the system is appropriate for the profile of each type of risk.

The Enagás risk policy is aimed at achieving the following:

– Establishing the guidelines for developing risk management at the company's different business units.

– Adhering to the Corporate Governance recommendations regarding risk control.

– Ensuring that the activities of the various divisions and business units at Enagás are aligned with the company's risk.

– Establishing the risk management processes and responsibilities.

We define Integral Risk Management, based on the COSO report, as a process carried out by the Board of Directors, the Audit and Compliance Committee, the Management Committee and each of the company's divisions and business units, intended to establish a uniform strategy designed to identify possible events which may affect the company and allocate risk in accordance with its risk appetite, in order to provide reasonable security that Enagás will meet its targets.

There are three stages in integral risk management: identification of events and risks to be assessed; systematic quantification of the risk, developing specific methodologies and metrics for each risk type and establishing the correct controls and monitoring of the company's risk; and risk management based on assisting managers in risk analysis, decision-making and resources allocation, using a quantitative basis.

The company as a whole, in other words, the heads of each division and business unit, is responsible for analysing events and risks.

Enagás has grouped these risks, separating them in terms of the nature of the risk and bearing in mind the different measurement methods applied, as follows:

– Operational risk: This is the possible loss of value or earnings as a result of events caused by inadequacies or failures in processes, human. Resources, business teams and IT systems, or due to external factors

– Business risk: This is the possible loss of value or earnings due to external factors such as regulation, the economic cycle, competition levels, demand patterns, the structure of the industry, etc. as well as the possible loss of value or earnings arising from taking incorrect decisions regarding business plans and the Company's future strategies.

– Credit risk: This is the possible loss of value or earnings as a result of counterparty's failure to meet its contractual obligations:

– Financial risk: This is the uncertainty concerning a portfolio's value due to exchange and interest rate fluctuations, etc., as well as the liquidity and solvency of the companies.

In 2008, the heads of the various divisions and business units at Enagás performed a self-assessment of the events affecting each area and assessed the corresponding risks.

The risks have been measured in terms of their impact and probability in quantitative terms where possible. Also, the necessary controls and action plans have been established to maintain these risks within the admissible thresholds.

Any of these risks could trigger financial or non financial losses, while for operational risk the forecast risks are included in the company's financial statements and annual budgets. Therefore, in accordance with the techniques used, the risks have been assessed in terms of the unexpected loss arising from possible events affecting Enagás.

The risks are defined in terms of the following variables: events, factors, effects, controls and business areas or processes.

D.2 Indicate whether the Company or Group has been exposed to different types of risk (operational, technological, financial, legal, reputational, fiscal…) during the year:

YES

If so, indicate the circumstances and whether the established control systems worked adequately:

Risk

Legal and regulatory framework

Circumstances responsible for occurrence

This risk arises because Enagás operates in a highly regulated market in which a remuneration system has been established for regulated gas sector activities, which includes re-gasification, storage and transport activities and technical system management.

Also, given its role as Technical System Operator, Enagás is obliged to respect the established legislation and regulations regarding the operation and co-ordination of the gas system.

Any change to the prevailing legal framework, its interpretation and/or the parameters to be updated by the Authorities could have a significant impact on the performance of the activities of Enagás, the manner in which it manages its business and its financial statements.

In 2008 there were various amendments made to Technical System Operator Regulations NGTS-06, NGTS-07 while the protocol details of the Technical Systems Operator Regulations were also amended (hereinafter PD): PD-02, PD-07 and PD-08. Also PD-11 "Procedures for distribution at transport network entry points" was released.

The assignation conditions and the application procedure for interrupting the gas system were also amended.

We would also highlight the publication of Royal Decree 326/2008, of 29 February which amended the remuneration for the transport activity for facilities brought on stream after 1 January 2008.

Operation of control systems

The control systems established consisted in maintaining and broadening, to render more fluent and continuous, communications with all participants in the gas system, including regulators, distribution companies, supply companies and other gas transporters, on these elements and their practical implementation, which has increased the importance of adapting the various activities and systems to the new regulations.

Enagás also has various action plans in place to avoid these regulatory changes having an adverse effect on the company's long-term objectives.

Risks occurring in the year

Interruption of supply

Circumstances responsible for this occurrence

In 2008 two significant incidences occurred in the gas infrastructures: There was one incident at a regasification plant which partially affected its capacity as well as perforating a pipe in the transport network.

This was caused by a fault in the systems. There was also an incident in the transport network caused by machinery not owned by Enagás.

Operation of control systems

The control systems implemented for both the detection and operation as well as the rapid response of the maintenance teams worked correctly and supply to our customers was unaffected.

D.3 Indicate whether there is a committee or other governing body in charge of establishing and supervising these control systems:

YES

If so, please explain its duties.

Name of the Committee or Body

AUDIT AND COMPLIANCE COMMITTEE

Description of functions

- Identifying and analysing, in conjunction with the internal and external auditors, the main risks to which the company is exposed, and, in particular, those affecting its financial position.
- Producing a risk assessment report for the Board of Directors.
- Where appropriate, proposing to the Board of Directors measures required to manage, mitigate or prevent risks detected.

Name of the Committee or Body

MANAGEMENT COMMITTEE

Description of functions

- Managing the various types of risk: acquiring knowledge of the risks, the corresponding responses, suitable control improvements and the situation of the actions in place.
- Establishing the risk levels for each of its divisions as well as the risk level for the company as a whole.
- Permanently supervising activities and risks regarding the accepted level of risk for the company.
- Proposing to the Audit and Compliance Committee the measures needed to manage those risks identified.
- Defining the risk management plan for Enagás, whereby risk management is present in all its major activities and processes.
- Proposing a risk policy to the Audit and Compliance Committee.

Name of the Committee or Body

MANAGEMENT OR BUSINESS UNIT

Description of functions

As the owner of the risk, it is their responsibility to manage the risks inherent in its activity by establishing suitable controls and action plans.

Name of the Committee or Body

INTERNAL AUDIT

Description of functions

Responsible for assessing the suitability and efficiency of the controls comprising the company's governance, operations and IT systems. This should include:

– The accuracy of financial and operating information;

– The effectiveness and efficiency of operations;

– Asset protection;

– Legal, regulatory and contractual compliance.

D.4 Identify and describe the processes for compliance with the regulations applicable to the Company and/or its Group.

Each of the divisions and business units at Enagás is cognisant with the applicable legislation and regulations. Part of their duties include ensuring that new mandatory legislation and regulations are analysed and applied.

The General Secretariat deals with, clarifies and establishes the criteria for all issues on which the divisions or business units have reasonable doubts.

New legislation or regulatory amendments will often necessitate amendments to the company's internal regulations or the establishment of processes to comply with said regulations.

If there are various divisions involved in complying with the regulations, the Executive Committee will set up various working groups to develop and implement the new processes or activities.

In each of the audits carried out the Internal Audit department shall verify compliance with prevailing legislation and internal regulations.

The main compliance processes of the various regulations entail:

– Legislation and regulations affecting Enagás as a gas transporter and as Technical System Operator.

– Mercantile law.

– Fiscal law.

– Environmental law.

– Legislation regarding prevention.

E - GENERAL SHAREHOLDERS' MEETINGS

E.1 Indicate the quorum required for constitution of the General Shareholders' Meeting established in the Company's Bylaws. Describe how it differs from the system of minimum quorums established in the Spanish Companies Act (LSA for its initials in Spanish).

NO

	Quorum % other than that established in article 102 of the LSA for general cases	Quorum % other than that established in article 103 of the LSA for the special cases described in article 103
Quorum required for first call	0	0
Quorum required for second call	0	0

E.2 Indicate and, as applicable, describe any differences between the company's system of adopting corporate resolutions and the framework set forth in the Spanish Companies Act (LSA).

NO

Describe how they differ from the rules established under the LSA.

E.3 List all shareholders' rights regarding the General Shareholders' Meetings other than those established under the LSA.

Shareholders' rights in relation to general meetings are those established in the Spanish Companies Act. The Regulations of the General Shareholders' Meeting of Enagás, S.A. recognise the following shareholders' rights:

1.- RIGHTS TO INFORMATION.

This right is regulated by article 7 of the Regulations, which has the following content and scope:

On the date the notice of convening of the General Shareholders' Meeting is published, and on the day of the meeting itself, the company shall place the following resources at its shareholders' disposal:

a) The full text of the call for the General Shareholders' Meeting, setting out the resolutions proposed for adoption, and reports from the Board of Directors, where appropriate, concerning their justification and timeliness, providing that all this is possible.

b) Comprehensive documentation on the Enagás financial statements and the consolidated financial statements of the Enagás Group, and on the proposed appropriation of Enagás earnings, for the financial year in question.

c) Enagás Management Report and Consolidated Management Report for the financial year.

d) Auditors' Reports on the Consolidated Financial Statements and Enagás Financial Statements.

e) Informe Anual de Gobierno Corporativo.

f) Any other report or information required by law or deemed appropriate by the Board of Directors.

Prior to the General Meeting, the company shall make the above available to shareholders via the following channels:

– The Shareholder Office.

– A free phone telephone number to be specified in the convening notice.

– The company's website.

Up to the seventh day before the meeting is held, shareholders may request from Directors any information or clarification they deem appropriate concerning Agenda items, or submit in writing the questions they judge relevant.

During the General Meeting, shareholders may verbally request any information or clarifications they deem appropriate concerning Agenda items, and, if it is not possible to meet such requests at that time, Directors must provide written answers within a period of seven days following the end of the Meeting.

Directors are under obligation to provide the information requested, except in cases where, in the judgement of the Chairman, the dissemination of the information requested would be detrimental to company interests, or on the grounds of legal or statutory provisions, legal or administrative resolutions. Such refusal shall not be possible when the request is put forward by shareholders representing at least 25% of the company's share capital.

The information requested shall be provided to the shareholder requesting it in writing, within the period running from the date of the convening notice until the date of the Meeting inclusive, provided such request conforms to the requirements of time, execution and scope determined by law and the Regulations of the General Shareholders' Meeting.

2.- RIGHTS TO PARTICIPATE.

This right is regulated in article 8 of the Regulations.

Following accreditation in compliance with the provisions of article 9 of the Regulations of the General Shareholders' Meeting, shareholders may at any time propose questions of interest for the company, or related to their shareholding, through the Shareholder Office, free phone line or the e-mail address included on the website.

The company shall examine the questions, suggestions and comments submitted by shareholders, and shall respond to the same when considered appropriate for the good of the company.

3.- RIGHTS OF ATTENDANCE.

In accordance with article 27 of the Company Bylaws and article 9 of the Regulations of the General Shareholders' Meeting, attendance at General Meetings requires a minimum shareholding of 100 shares, provided these are duly recorded in the corresponding registries of member entities of IBERCLEAR (the Spanish securities clearing and settlement body) five days prior to the meeting and shareholder accreditation is confirmed, either via the corresponding attendance and voting card issued by member entities of IBERCLEAR or through the electronic attendance and voting card issued by the manager of the Book Entry Register or by an authorised share custodian.

Shareholders that do not hold the aforementioned number of shares may group together for the purposes of attendance, appointing a single shareholder to represent them.

4.- RIGHTS OF REPRESENTATION.

In accordance with article 27 of the Company Bylaws and article 10 of the Regulations of the General Shareholders' Meeting, all shareholders entitled to attend meetings may be represented by another person, who need not be a shareholder.

Representation rights must be conferred in writing, by mail, a recognised electronic signature, or any of the other legally-permitted electronic or remote communication methods. In all cases, the identity of the representative must be duly guaranteed, and shall be valid only for the particular meeting in question.

All proxies shall be revocable. If the shareholder represented actually attends the meeting in person, the representation rights are automatically revoked, and he/she must inform the representative in order to ensure that this person does not attempt to exercise representation rights that are non-existent.

Shareholders who are natural persons prevented from exercising their civil rights and shareholders that are legal persons may be represented by any duly accredited legal representative. Both in cases of legal representation and delegation of attendance rights, no shareholder shall have more than one representative at the Meeting.

5.- VOTING RIGHTS.

This right is regulated in article 27 of the Company Bylaws and article 11 of the Regulations of the General Shareholders' Meeting . All shareholders with attendance rights, under the terms set out in article 27 of the Company Bylaws and developed in article 9 of the Regulations of the General Shareholders' Meeting, shall be entitled to vote and may exercise such right on their own behalf or by representation, either by attending and voting at the Meeting in person, with using a duly signed and accredited attendance and voting card, or by postal vote sent to the Shareholder Office, using a recognised electronic signature or other electronic media, or, in general any remote communication media envisaged by law, attaching the relevant electronic attendance and voting certificate.

E.4 Indicate the measures, if any, adopted to encourage participation by shareholders at General Shareholders' Meetings.

In addition to the rights to information, attendance, representation and vote described in the section above, accredited shareholders may submit questions of interest to the company or related to their position as shareholders at any time via the Shareholder Office, the free phone line or e-mail address given on the company website (article 8 of the Regulations of the General Shareholders' Meeting).

In accordance with the provisions of article 7.2 of the Regulations of the General Shareholders' Meeting, in the seven days extending from the date of the convening notice to the date of the meeting itself, shareholders may request from Directors any information or clarification they deem appropriate concerning Agenda items, or submit in writing the questions they judge relevant.

While the General Meeting is in progress, shareholders may verbally request any information or clarifications they deem appropriate concerning Agenda items, and, if it is not possible to satisfy such requests at that time, Directors must provide written answers within a period of seven days following the end of the Meeting.

Likewise, with the aim of encouraging shareholder participation in general meetings, the company shall implement various practices including:

– Publishing the convening notice in the main communications media.

– Offering gifts as incentives for shareholders' personal attendance of general meetings.

– Holding meetings a venue offering the best possible conditions for the meeting and easy access for shareholders and making transport available to them to facilitate their attendance.

– Offering personal assistance and directions for shareholders who wish to attend through personnel at the Shareholder Office.

E.5 Indicate whether the General Shareholders' Meetings is presided by the Chairman of the Board of Directors. List measures, if any, adopted to guarantee the independence and correct operation of the General Shareholders' Meeting.

YES

Details of measures
In accordance with article 12.2 of the Regulations of the General Shareholders' Meeting: the General Shareholders' Meeting shall be chaired by the Chairman of the Board of Directors, or, in his/her absence, by the shareholder elected in each case by shareholders present at the meetings. The Chairman shall be assisted by the Secretary to the Board of Directors, or, in his/her absence, by the shareholder elected in each case by shareholders attending the meetings. The smooth operation and progress of the meeting is ensured by the provisions established in the Regulations of the General Shareholders' Meeting, which establish the following: – The Board of Directors shall appoint a notary to attend general meetings, who shall be responsible for taking and drawing up the minutes, with the accompanying guarantee of neutrality and independence for all shareholders. – The Chairman of the Audit and Compliance Committee of Enagás, S.A., in representation of the Committee, shall be available at meetings to respond to questions from shareholders on issues under the Committee's competency.

Detalles las medidas

– The General Shareholders' Meeting must be attended by the company's external auditors, who shall be convened for such purpose by the Board of Directors. The auditor shall intervene, whenever deemed expedient by the Chairman, to clarify questions relating to its work as the company's external auditors.

Requirements and standards that definitively guarantee the smooth progress of general meetings are contained in articles 13 to 18 of the Regulations of the General Shareholders' Meeting, of which the following are of note:

– Before addressing Agenda items, an attendance list shall be drawn up, detailing the nature or representation of each attendee and the number of shares, owned or represented, by virtue of which they are attending, such that the summary of the attendance list shall determine the number of shareholders, present or represented, as well as the share capital they hold. Capital with voting rights shall be specified. The Deputy Secretary to the Board or the person so appointed by the Chairman in his/her absence shall provide the Directors with two copies of said summary duly signed by him/her or a scrutinising shareholder. Attendance shall be considered closed for the purposes of establishing a quorum at the time stated in the call for the commencement of the Meeting.

– For the purposes of verifying the valid constitution of the meeting, Enagás prepares and proposes to the Management Company of Registry, Compensation and Settlement of Securities, the format of the attendance card to be issued to shareholders, ensuring that such format is uniform and incorporates a bar code so it can be read electronically, thus facilitating the electronic counting of attendees at the Meeting.

– From the moment they enter the venue of the meeting and throughout the same, shareholders shall have the support of personnel from the Shareholder Office for resolving any queries and facilitating their contribution.

– With the aim of guaranteeing the smooth course of the meeting, shareholders or representatives arriving late at the Meeting venue may attend the Meeting once the admission of attendance and voting cards has been closed, but shall not be included on the attendance list nor, therefore, form part of the quorum for voting purposes.

– Once the meeting has been validly constituted, the notary called by the company to draw up the minutes shall ask participants if they have any reservations or challenges to the details of shareholders and share capital read by the Chairman.

– Any shareholder with reservations shall show the member of the Panel his/her attendance card to verify and correct, as applicable, any possible errors.

– To facilitate the smooth running of the meeting, the Chairman shall request that shareholders who wish to take the floor approach the Chair and show their attendance cards so that an order for contributions may be established. Said request will be made before commencing the presentation of the financial year and proposals to be submitted to the meeting. The Chairman shall also be responsible for keeping debate within the limits of the Agenda and responding to shareholders either jointly or individually.

– In the event of any occurrence that substantially affects the proper order of the Meeting, the Chairman of the meeting may agree to suspend the same for as long as necessary, and may even postpone the session until the next possible business day should the circumstances persist.

– At the meeting, the Secretary shall give account of the results of the voting on any resolution, indicating the number of votes for, number of votes against, and number of abstentions.

– The scrutineers shall prepare a note on the result of each vote, including the votes previously issued and any change that may have occurred in the course of the meeting.

– Once all resolutions have been put to the vote, the Secretary shall deliver to the notary, if the company has requested the attendance of a notary, the scrutineers' note containing data on the results of the vote on each resolution before the Chairman proceeds to close the session.

– If the meeting has been held in the presence of a notary, the notary's deed shall be taken to constitute the minutes of the meeting, which shall not therefore require approval.

E.6 Indicate the amendments, if any, made to the General Shareholders' Meeting Regulations during the year.

No amendments were made in 2008.

E.7 Indicate the attendance figures for the General Shareholders' Meetings held during the year:

Attendance data					
Date of General Shareholders' Meeting	% attending in person	% by proxy	% remote voting		Total
			Electronic means	Other	
25/04/2008	15.044	13.497	0.000	29.947	58.488

E.8 Briefly indicate the resolutions adopted at the General Shareholders' Meetings held during the year and the percentage of votes with which each resolution was adopted.

The Ordinary Shareholders' Meeting was held on 25 April 2008. The resolutions adopted at the meeting are detailed below, along with the percentage of votes with which each resolution was passed.

RESOLUTIONS ADOPTED BY THE ORDINARY GENERAL SHAREHOLDERS' MEETING 2008:

RESOLUTION 1 – To review and approve the annual financial statements (balance sheet, income statement and notes thereto) and the Management Report for financial year 2007 of Enagás, S.A. and its Consolidated Group

Voting on the Resolution was as follows: For: 110,626,254 (99.070%); Against: 3,692 (0.003%); Abstentions: 1,035,320 (0.927%); Total votes cast: 111,665,266;

RESOLUTION 2 – To approve the proposal for distribution of Enagás, S.A. profit for financial year 2007, which included net profits of €235,137,559.21, in line with the following distribution proposal prepared by the Board of Directors:

Distribution (in €): Legal Reserves: 0; Voluntary Reserves: 92,165,817.99; Dividend: 142,971,741.22; Total: €235,137,559.21.

To pay out an additional dividend to the value of €85,675,518.22. Said amount is the result of deducting from the financial year's total dividend, €142,971,741.22, the interim dividend of €57,296,222.40 that was agreed by the Board of Directors on 19 December 2007 and paid to shareholders on 10 January 2008.

The additional dividend will be paid on 3 July 2008.

The total gross dividend for the financial year, approval of which, in accordance with the previous paragraph, means payment of €0.598874 per share.

Once the interim dividend already paid is deducted – €0.24 gross per share, the remaining payment will be for €0.358874 per share, before tax deductions.

Voting on the Resolution was as follows: For: 111,663,589 (99.998%); Against: 602 (0.001%); Abstentions: 1,075 (0.001%); Total votes cast: 111,665,266;

RESOLUTION 3 – To approve the management of the Board of Directors of Enagás, S.A. during the financial year 2007.

Voting on the Resolution was as follows: For: 109,049,405 (97.658%); Against: 333,016 (0.298%); Abstentions: 2,282,845 (2.044%); Total votes cast: 111,665,266;

RESOLUTION 4 – To re-appoint Deloitte S.L. as the Accounts Auditor of Enagás, S.A. and its Consolidated Group for 2008.. The company shall also be placed in charge of providing any other auditing services required by law that are specified by the company until the next Ordinary General Shareholders' Meeting is held.

Voting on the Resolution was as follows: For: 109,615,243 (98.164%); Against: 1,857,156 (1.663%); Abstentions: 192,867 (0.173%); Total votes cast: 111,665,266;

RESOLUTION 5 – To modify article 35 ("Composition of the Board") of the Company Bylaws to set the maximum number of members of the Board of Directors at seventeen. The full text of article 35 of the Company Bylaws is to read as follows:

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 by 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 text of the Spanish Companies Act may not be a Director.

Voting on the Resolution was as follows: For: 110,682,171 (99.120%); Against: 187,710 (0.168%); Abstentions: 795,385 (0.712%); Total votes cast: 111,665,266.

RESOLUTION 6:

6.1. To re-elect Peña Rueda S.L. Unipersonal, whose particulars are already recorded in the Commercial Registry, as a member of the Board of Directors for an additional period of four years. Peña Rueda S.L. Unipersonal shall retain its status as a Proprietary Director on the proposal of Cantábrica de Inversiones de Cartera, S.L., an Enagás, S.A. shareholder.

Voting on the Resolution was as follows: For: 111,064,849 (99.463%); Against: 404,754 (0.362%); Abstentions: 195,663 (0.175%); Total votes cast: 111,665,266.

6.2. To ratify the appointment made by virtue of co-optation by the Board of Directors until the date of this Meeting and appoint Bilbao Bizkaia Kutxa (BBK), whose particulars are already recorded in the Commercial Registry, as a member of the Board of Directors for a bylaw-stipulated period of four years. Bilbao Bizkaia Kutxa (BBK) shall maintain its status as a Proprietary Director on the proposal of Bilbao Bizkaia Kutxa (BBK) itself, an Enagás S.A. shareholder.

Voting on the Resolution was as follows: For: 110,805,619 (99.230%); Against: 497,487 (0.446%); Abstentions: 362,160 (0.324%); Total votes cast: 111,665,266.

6.3 To appoint the Spanish State Holding Company (SEPI) as a member of the Board of Directors for a bylaw-stipulated period of four years. SEPI shall have the status of a Proprietary Director on the proposal of SEPI itself, a Company shareholder. The number of Directors is thus set at 17.

Voting on the Resolution was as follows: For: 107,658,952 (96.412%); Against: 2,448,011 (2.192%); Abstentions: 1,558,303 (1.396%); Total votes cast: 111,665,266.

RESOLUTION 7 – The General Shareholders' Meeting, in accordance with the second paragraph of article 36 of the Company Bylaws, agrees to set the figure of €1,249,733 as the maximum payment level for members of the Board of Directors for 2008, to be paid in accordance with the following method and criteria:

Each Board member attending a minimum of two sessions during the year will be entitled to a payment of €22,050.

In addition, effective attendance at sessions will entitle him/her to a maximum Director's payment of €42,446. The Board of Directors will decide the exact payment amount for attendance, whether personally or by means of a delegated representative, at each session.

Likewise, Board committee members will be entitled to the sum of €11,025 per annum, with chairmanship of the same entitling them to an additional €5,513 per annum.

The performance of the office of Vice Chair of the Board of Directors shall be remunerated in the further amount of €32,025 per annum.

The aforementioned sums are separate from rewards and salary payments which may be additionally paid for work done or services provided by Board members, and also from the right to payment or reimbursement of expenses incurred in the course of their duties.

Voting on the Resolution was as follows: For: 110,413,228 (98.878%); Against: 455,158 (0.408%); Abstentions: 796,880 (0.714 %); Total votes cast: 111,665,266.

RESOLUTION 8 – Presentation of the explanatory report on the items stipulated under article 116 bis of the Securities Market Act.

RESOLUTION 9:

1.- To delegate to the Board of Directors, with the broadest scope possible, the powers required to supplement, implement, perform and rectify the resolutions adopted at the General Shareholders' Meeting. The power to rectify shall encompass the power to make any required or advisable modifications, amendments and additions arising from any objections or remarks made by the regulatory bodies of securities markets, stock markets, the Commercial Registry or any other public authority with competencies relating to the resolutions adopted.

2.- To delegate indistinctly to the Chairman of the Board of Directors, Mr. Antonio Llardén Carratalá, and the Secretary, Mr. Rafael Piqueras Bautista, the powers required to formalise the resolutions adopted by the General Shareholders' Meeting and record those so required, in full or in part, thus allowing public or private documents of any kind to be signed, even those supplementing or rectifying such resolutions."

Voting on the Resolution was as follows: For: 111,601,480 (99.943%); Against: 424 (0%); Abstentions: 63,362 (0.057%); Total votes cast: 111,665,266.

E.9 Indicate whether the Bylaws impose any minimum requirement on the number of shares needed to attend the General Shareholders' Meetings:

YES

Number of shares required to attend the General Shareholders' Meetings	100

E.10 Indicate and explain the policies pursued by the company with reference to proxy voting at the General Shareholders' Meeting.

In accordance with article 27 of the Company Bylaws and article 10 of the General Shareholders' Meeting Regulations, all shareholders entitled to attend General Meetings may appoint another person, who need not be a shareholder, to represent them using the delegation form provided by company for each meeting that is printed on the attendance card. The same shareholder may not be represented at the meeting by more than one representative.

Representation shall be specific for each Meeting and conferred in writing via mail, or any means of remote communication envisaged by law, provided at all times that the identity of the subject exercising such representation is duly certified. All proxies shall be revocable.

If the shareholder represented actually attends the meeting in person, the representation rights are automatically revoked, and he/she must inform the representative in order to ensure that this person does not attempt to exercise representation rights that are non-existent.

E.11 Indicate whether the company is aware of the policy of institutional investors on whether or not to participate in the company's decision-making processes.

NO

E.12 Indicate the address and mode of accessing corporate governance content on your company's website.

All information on Enagás Corporate Governance is available to the public on its website
(www.enagas.es / www.enagas.com).

Access to the aforementioned information is as follows:
- In Spanish: Página Principal - Accionistas e Inversores - Gobierno Corporativo.
- In English: Investor-Relations - Corporate Governance.

F - DEGREE OF COMPLIANCE WITH CORPORATE GOVERNANCE RECOMMENDATIONS

Indicate the degree of the company's compliance with Corporate Governance recommendations. Should the company not comply with any of them, explain the recommendations, standards, practices or criteria the company applies.

1. The bylaws of listed companies should not place an upper limit on the votes that can be cast by a single shareholder, or impose other obstacles to the takeover of the company by means of share purchases on the market.
   See sections: A.9, B.1.22, B.1.23 and E.1, E.2

Explain

Act 12/2007 of 2 July, amending the Hydrocarbons Industry Act (Act 34/1998 of 7 October) 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 the Hydrocarbons Industry Act, which vests in Enagás, S.A. the capacity of "technical system operator" and sets ceilings on shareholdings in the company. The wording of the 20th additional provision now stands as follows:

"20th Additional Provision. Technical System Operator.

The company ENAGÁS, Sociedad Anónima, shall assume the functions, rights and obligations of Technical System Operator. (...)

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

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

For the purposes of calculating the stake in that shareholding structure, in addition to the shares or other securities held or acquired by entities belonging to its same group, as defined by article 4 of Act 24/1988, dated 28 July, on the Securities Market stakes shall be attributed to one and the same individual or body corporate when they are owned by:

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

b) The partners together with whom that individual or body corporate exercises control over a controlled entity under the provisions of article 4 of Act 24/1988, dated 28 July, governing the Securities Market.

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

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

The 6th Transitional Provision of Act 12/2007 of 2 July provides that within four months of its coming into force Enagás, S.A. shall bring its Bylaws in line with the 20th Additional Provision of Act 34/1998 of 7 October (the Hydrocarbons Industry Act). The 2nd Transitional Provision of Act 12/2007 of 2 July, further prescribes:

2nd Transitional Provision Technical system operator.

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 the 20th Additional Provision of the Hydrocarbons Industry Act shall be suspended as from the coming into force of this provision.

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 bis ("Limitation of interest in share capital and of the exercise of voting rights") of Enagás, S.A.'s Bylaws stipulates the following:

No individual or body corporate may hold a direct or indirect stake of more than 5% in the equity capital of the company responsible for the technical management of the system, nor may they exercise voting rights in such company of over 3%. Under no circumstances may such share holdings be syndicated. Those parties that operate within the gas sector, including those natural persons or bodies corporate that directly or indirectly possess equity holdings in the former of more than 5%, may not exercise voting rights in the System

Technical Manager of over 1%. These restrictions will not apply to direct or indirect equity interests held by public-sector enterprises Under no circumstances may share capital be syndicated.

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

For the purposes of calculating the stake in that shareholding structure, there shall apply the 20th Additional Provision Act 34/1998 of 7 October (the Hydrocarbons Industry Act).

It is for this reason that, since there is an express legal and statutory limit on the exercise of voting rights, Enagás, S.A. is unable to adopt the recommendation that no upper limit be placed on the votes that can be cast by a single shareholder.

2. When a dominant and a subsidiary company are stock market listed, the two should provide detailed disclosure on:

a) The type of activity they engage in, and any business dealings between them, as well as between the subsidiary and other group companies;

b) The mechanisms in place to resolve possible conflicts of interest.

See sections: C.4 and C.7

Not applicable

3. Even when not expressly required under company law, any decisions involving a fundamental corporate change should be submitted to the General Shareholders' Meeting for approval or ratification. In particular:

a) The transformation of listed companies into holding companies through the process of subsidiarisation, i.e. reallocating core activities to subsidiaries that were previously carried out by the originating firm, even though the latter retains full control of the former;

b) Any acquisition or disposal of key operating assets that would effectively alter the company's corporate purpose;

c) Operations that effectively add up to the company's liquidation

Complies

4. Detailed proposals of the resolutions to be adopted at the General Shareholders' Meeting, including the information stated in Recommendation 28, should be made available at the same time as the publication of the Meeting notice.

Complies

5. Separate votes should be taken at the General Meeting on materially separate items, so shareholders can express their preferences in each case. This rule shall apply in particular to:

a) The appointment or ratification of directors, with separate voting on each candidate;

b) Amendments to the bylaws, with votes taken on all articles or group of articles that are materially different.

See section: E.8

Complies

6. Companies should allow split votes, so financial intermediaries acting as nominees on behalf of different clients can issue their votes according to instructions.

See section: E.4

Complies

7. The Board of Directors should perform its duties with unity of purpose and independent judgement, according all shareholders the same treatment. It should be guided at all times by the company's best interest and, as such, strive to maximise its value over time.

   It should likewise ensure that the company abides by the laws and regulations in its dealings with stakeholders; fulfils its obligations and contracts in good faith; respects the customs and good practices of the sectors and territories where it does business; and upholds any additional social responsibility principles it has subscribed to voluntarily.

Complies

8. The board should see the core components of its mission as to approve the company's strategy and authorise the organisational resources to carry it forward, and to ensure that management meets the objectives set while pursuing the company's interests and corporate purpose. As such, the board in full should reserve the right to approve:

a) The company's general policies and strategies, and, in particular:

   i) The strategic or business plans, management targets and annual budgets;

   ii) Investment and financing policy;

   iii) Design of the structure of the corporate group

   iv) Corporate governance policy;

   v) Corporate social responsibility policy;

   vi) Remuneration and evaluation of senior officers;

   vii) Risk control and management, and the periodic monitoring of internal information and control systems;

   viii) Dividend policy, as well as the policies and limits applying to treasury stock.
   See sections: B.1.10, B.1.13, B.1.14 and D.3

b) The following decisions:

   i) On the proposal of the company's chief executive, the appointment and removal of senior officers, and their compensation clauses.
   See section: B.1.14

   ii) Directors' remuneration, and, in the case of executive directors, the additional consideration for their management duties and other contract conditions.
   See section: B.1.14

   iii) The financial information that all listed companies must periodically disclose.

   iv) Investments or operations considered strategic by virtue of their amount or special characteristics, unless their approval corresponds to the General Shareholders' Meeting;

   v) The creation or acquisition of shares in special purpose vehicles or entities resident in countries or territories considered tax havens, and any other transactions or operations of a comparable nature whose complexity might impair the transparency of the group.

c) Transactions which the company conducts with directors, significant shareholders, shareholders with board representation or other persons related thereto ("related-party transactions").

However, board authorisation need not be required for related-party transactions that simultaneously meet the following three conditions:

1ª. They are governed by standard form contracts applied on an across-the-board basis to a large number of clients;

2ª. They go through at market prices, generally set by the person supplying the goods or services;

3ª. Their amount is no more than 1% of the company's annual revenues.

It is advisable that related-party transactions should only be approved on the basis of a favourable report from the Audit Committee or some other committee handling the same function; and that the directors involved should neither exercise nor delegate their votes, and should withdraw from the meeting room while the board deliberates and votes.

Ideally the above powers should not be delegated with the exception of those mentioned in b) and c), which may be delegated to the Executive Committee in urgent cases and later ratified by the full board.
See sections: C.1 and C.6

Complies

9. In the interests of maximum effectiveness and participation, the Board of Directors should ideally comprise no fewer then five and no more than fifteen members
See section: B.1.1

Explain

The recommendation, which would affect the Bylaws, to reduce the number of Directors to between five (5) and fifteen (15) as recommended in the Unified Code, instead of between six (6) and sixteen (16) as currently established in article 35 of the Company Bylaws, has not been incorporated because it was deemed that due to the legal limits placed on capital interests, the structure of the Board must be such as to allow for the addition of representatives of potential future shareholders without such addition entailing any reduction in the desired percentage of Independent Directors.

10. External directors, proprietary and independent, should occupy an ample majority of board places, while the number of executive directors should be the minimum practical bearing in mind the complexity of the corporate group and the ownership interests they control.
See sections: A.2, A.3, B.1.3 and B.1.14

Complies

11. In the event that some external director can be deemed neither proprietary nor independent, the company should disclose this circumstance and the links that person maintains with the company or its senior officers, or its shareholders:
See section: B.1.3

Complies

12. 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.

This proportional criterion can be relaxed so the weight of proprietary directors is greater than would strictly correspond to the total percentage of capital they represent:

1. In large cap companies where few or no equity stakes attain the legal threshold for significant shareholdings, despite the considerable sums actually invested.

2. In companies with a plurality of shareholders represented on the board but not otherwise related.
See sections: B.1.3, A.2 and A.3

Complies

13. The number of independent directors should represent at least one third of all board members.

See section: B.1.3

Complies

14. The nature of each director should be explained to the General Meeting of Shareholders, which will make or ratify his or her appointment. Such determination should subsequently be confirmed or reviewed in each year's Annual Corporate Governance Report, after verification by the Nomination Committee. The said Report should also disclose the reasons for the appointment of proprietary directors at the urging of shareholders controlling less than 5% of capital; and explain any rejection of a formal request for a board place from shareholders whose equity stake is equal to or greater than that of others applying successfully for a proprietary directorship.

See sections: B.1.3 and B.1 4

Complies

15. When women directors are few or non existent, the board should state the reasons for this situation and the measures taken to correct it; in particular, the Nomination Committee should take steps to ensure that:

a) The process of filling board vacancies has no implicit bias against women candidates;

b) The company makes a conscious effort to include women with the target profile among the candidates for board places.

See sections: B.1.2, B.1.27 and B.2.3.

Explain

As of the publication of this report, only one of a total of sixteen (16) members of the Board of Directors is a woman, Teresa García-Milá Lloveras, and Enagás, S.A. should therefore prioritise and try to increase female representation should a vacancy arise on the Board, especially for independent seats.

Given the above, in 2008 the Board adopted various initiatives aimed at rectifying the gender imbalance. In particular, article 8 of the Regulations of the Board of Directors expressly incorporates the principle of equal treatment of men and women set out in the Unified Code. The new article stipulates that the process for filling Board vacancies has no implicit bias against women candidates. The company makes a conscious effort to include women with the target profile among the candidates for Board places.

16. The Chairman, as the person responsible for the proper operation of the Board of Directors, should ensure that directors are supplied with sufficient information in advance of board meetings, and work to procure a good level of debate and the active involvement of all members, safeguarding their rights to freely express and adopt positions; he or she should organise and coordinate regular evaluations of the board and, where appropriate, the company's chief executive, along with the chairmen of the relevant board committees.

See section: B.1.42

Complies

17. When a company's Chairman is also its chief executive, an independent director should be empowered to request the calling of board meetings or the inclusion of new business on the agenda; to coordinate and give voice to the concerns of external directors; and to lead the board's evaluation of the Chairman.

See section: B.1.21

Complies

18. The Secretary should take care to ensure that the board's actions:

a) Adhere to the spirit and letter of laws and their implementing regulations, including those issued by regulatory agencies;

b) Comply with the company bylaws and the regulations of the General Shareholders' Meeting, the Board of Directors and others;

c) Are informed by those good governance recommendations of the Unified Code that the company has subscribed to.

In order to safeguard the independence, impartiality and professionalism of the Secretary, his or her appointment and removal should be proposed by the Nomination Committee and approved by a full board meeting; the relevant appointment and removal procedures being spelled out in the board's regulations.

See section: B.1.34

Complies

19. The board should meet with the necessary frequency to properly perform its functions, in accordance with a calendar and agendas set at the beginning of the year, to which each director may propose the addition of other items.

See section: B.1.29

Complies

20. Director absences should be kept to the bare minimum and quantified in the Annual Corporate Governance Report. When directors have no choice but to delegate their vote, they should do so with instructions.

See sections: B.1.28 and B.1.30

Partially complies

In 2008 the company endeavoured to avoid director absences unless unavoidable. There were a total of 25 absences representing 0.13% of the total votes during the year and, in all cases, the absent directors delegated their vote to the Chairman or another director.

21. When directors or the Secretary express concerns about some proposal or, in the case of directors, about the company's performance, and such concerns are not resolved at the meeting, the person expressing them can request that they be recorded in the minute book.

Complies

22. The board in full should evaluate the following points on a yearly basis:

a) The quality and efficiency of the board's operation;

b) Starting from a report submitted by the Nomination Committee, how well the Chairman and chief executive have carried out their duties;

c) The performance of its committees on the basis of the reports furnished by the same.

See section: B.1.19

Complies

23. All directors should be able to exercise their right to receive any additional information they require on matters within the board's competence. Unless the bylaws or board regulations indicate otherwise, such requests should be addressed to the Chairman or Secretary.

See section: B.1.42

Complies

24. All directors should be entitled to call on the company for the advice and guidance they need to carry out their duties. The company should provide suitable channels for the exercise of this right, extending in special circumstances to external assistance at the company's expense.

See section: B.1.41

Complies

25. Companies should organise induction programmes for new directors to acquaint them rapidly with the workings of the company and its corporate governance rules. Directors should also be offered refresher programmes when circumstances so advise.

Complies

26. Companies should require their directors to devote sufficient time and effort to perform their duties effectively, and, as such:

a) Directors should apprise the Nomination Committee of any other professional obligations, in case they might detract from the necessary dedication;

b) Companies should lay down rules about the number of directorships their board members can hold.

See sections: B.1.8, B.1.9 and B.1.17

Partially complies

Point a) of article 13 of the Regulations of the Board of Directors ("Duty of diligent administration") stipulates that Board members must inform the Appointments and Remunerations Committee of any professional obligations that might detract from the necessary dedication. The company may limit the number of directorships its Board members can hold if this may also detract from the commitment required.

The Enagás, S.A. Regulations of the Board of Directors place no quantitative limit on the number of directorships its Board members can hold but expressly incorporates the content of this Recommendation.

27. The proposal for the appointment or renewal of directors which the board submits to the General Shareholders' Meeting, as well as provisional appointments by the method of co-option, should be approved by the board:

a) On the proposal of the Nomination Committee, in the case of independent directors.

b) Subject to a report from the Nomination Committee in all other cases.

See section: B.1.2

Complies

28. Companies should post the following director particulars on their websites, and keep them permanently updated:

a) Professional experience and background;

b) Directorships held in other companies, listed or otherwise;

c) An indication of the director's classification as executive, proprietary or independent; In the case of proprietary directors, stating the shareholder they represent or have links with.

d) The date of their first and subsequent appointments as a company director; and

e) Shares held in the company and any options on the same.

Complies

29. Independent directors should not stay on as such for a continued period of more than 12 years.

See section: B.1.2

Complies

30. Proprietary directors should resign when the shareholders they represent dispose of their ownership interest in its entirety. If such shareholders reduce their stakes, thereby losing some of their entitlement to proprietary directors, the latter's number should be reduced accordingly.

See sections: A.2, A.3 and B.1.2

Partially complies

Article 12.2 f) of the Regulations of the Board of Directors stipulates that Directors must place their offices at the Board of Directors' disposal, and tender their resignation, if the Board deems this appropriate, when the shareholders they represent dispose of their shareholding in its entirety. They shall also do so, in the appropriate number, when the shareholder in question reduces its stake to a level requiring a reduction in the number of its Proprietary Directors.

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) of article 12.2, the latter must be included in the category that, in accordance with the present Regulations, is most appropriate based on his/her new circumstances.

In compliance with this Recommendation, Luis Javier Navarro Vigil is now included under the category of "Other External Directors" as the shareholder who proposed his appointment as Proprietary Director on 15 November 2006, B.P. España S.A.U., has sold its entire shareholding in the company. However, he is not considered to be an Independent Director as he holds or has held a significant business relationship with the company.

Nonetheless, it was decided to classify Luis Javier Navarro Vigil under the category "Other External Directors" as he did not meet all the conditions required to be classified as an "Independent Director" as stipulated by the "Unified Good Governance Code" related to Order ECO/3722/2003 of 26 December and CNMV Circular 4/2007 of 27 December.

31. 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 proposal from the Nomination Committee. In particular, just cause will be presumed when a director is in breach of his or her fiduciary duties or comes under one of the disqualifying grounds enumerated in section III. 5 (Definitions) of this Code.

The removal of independents may also be proposed when a takeover bid, merger or similar corporate operation produces changes in the company's capital structure, in order to meet the proportionality criterion set out in Recommendation 12.

See sections: B.1.2, B.1.5 and B.1.26

Complies

32. Companies should establish rules obliging directors to inform the board of any circumstance that might harm the organisation's name or reputation, tendering their resignation as the case may be, with particular mention of any criminal charges brought against them and the progress of any subsequent trial.

The moment a director is indicted or tried for any of the crimes stated in article 124 of the Public Limited Companies Act, the board should examine the matter and, in view of the particular circumstances and potential harm to the company's name and reputation, decide whether or not he or she should be called on to resign. The board should also disclose all such determinations in the Annual Corporate Governance Report.

See sections: B.1.43 and B.1.44

Complies

33. All directors should express clear opposition when they feel a proposal submitted for the board's approval might damage the corporate interest. In particular, independents and other directors unaffected by the conflict of interest should challenge any decision that could go against the interests of shareholders lacking board representation.

When the board makes material or reiterated decisions about which a director has expressed serious reservations, then he or she must draw the pertinent conclusions. Directors resigning for such causes should set out their reasons in the letter referred to in the next Recommendation.

This terms of this Recommendation should also apply to the Secretary of the board, director or otherwise.

Complies

34. Directors who give up their place before their tenure expires, through resignation or otherwise, should state their reasons in a letter to be sent to all members of the board. Irrespective of whether such resignation is filed as a significant event, the motive for the same must be explained in the Annual Corporate Governance Report.

See section: B.1.5

Complies

35. The company's remuneration policy, as approved by its Board of Directors, should specify at least the following points:

a) The amount of the fixed components, itemised, where necessary, of board and board committee attendance fees, with an estimate of the fixed annual remuneration they give rise to.

b) Variable components, in particular:

  i) The types of directors they apply to, with an explanation of the relative weight of variable to fixed remuneration items.

  ii) Performance evaluation criteria used to calculate entitlement to the award of shares or share options or any performance-related remuneration;

  iii) The main parameters and grounds for any system of annual bonuses or other non cash benefits; and

  iv) An estimate of the sum total of variable payments arising from the remuneration policy proposed, as a function of degree of compliance with pre-set targets or benchmarks.

c) The main characteristics of pension systems (for example, supplementary pensions, life insurance and similar arrangements), with an estimate of their amount or annual equivalent cost.

d) The conditions to apply to the contracts of executive directors exercising senior management functions, among them:

  i) Duration;

  ii) Notice periods; and

  iii) Any other clauses covering hiring bonuses, as well as indemnities or "golden parachutes" in the event of early termination of the contractual relation between company and executive director.

See section: B.1.15

Complies

36. Remuneration comprising the delivery of shares in the company or other companies in the group, share options or other share-based instruments, payments linked to the company's performance or membership of pension schemes should be confined to executive directors.

    The delivery of shares is excluded from this limitation when directors are obliged to retain them until the end of their tenure.
    See sections: A.3 and B.1.3

Complies

37. External directors' remuneration should sufficiently compensate them for the dedication, abilities and responsibilities that the post entails, but should not be so high as to compromise their independence.

Complies

38. In the case of remuneration linked to company earnings, deductions should be computed for any qualifications stated in the external auditor's report.

Complies

39. In the case of variable awards, remuneration policies should include technical safeguards to ensure they reflect the professional performance of the beneficiaries and not simply the general progress of the markets or the company's sector, atypical or exceptional transactions or circumstances of this kind.

Complies

40. The Board should submit a report on the directors' remuneration policy to the advisory vote of the General Shareholders' Meeting, as a separate point on the agenda. This report can be supplied to shareholders separately or in the manner each company sees fit.

    The report will focus on the remuneration policy the board has approved for the current year, with reference, as the case may be, to the policy planned for future years. It will address all the points referred to in Recommendation 35, except those potentially entailing the disclosure of commercially sensitive information. It will also identify and explain the most significant changes in remuneration policy with respect to the previous year, with a global summary of how the policy was applied over the period in question.

    The role of the Remuneration Committee in designing the policy should be reported to the Meeting, along with the identity of any external advisors engaged.
    See section: B.1.16

Partially complies

In accordance with the provisions of article 36 of the Company Bylaws, the company's Board of Directors each year proposes to shareholders at the General Meeting the maximum compensation that should be paid to Directors for performance of their functions, as well as the breakdown between remuneration for attendance and membership of Board Committees, remuneration for chairing said Committees and remuneration for serving as Deputy Chairman of the Board.

The remuneration paid to the Chairman for performance of his executive functions is approved by the Board of Directors.

The Appointments and Remunerations Committee informs the Board of Directors of all proposals relating to remuneration policy In 2008 no external advisors were engaged.

In 2008, the Appointments and Remunerations Committee did not feel it was necessary to engage an external advisor to establish its directors' remuneration policy.

41. The notes to the annual accounts should list individual directors' remuneration in the year, including:

a) A breakdown of the compensation obtained by each company director, to include where appropriate:

   i) Participation and attendance fees and other fixed directors payments;

   ii) Additional compensation for acting as chairman or member of a board committee;

   iii) Any payments made under profit-sharing or bonus schemes, and the reason for their accrual;

   iv) Contributions on the director's behalf to defined-contribution pension plans, or any increase in the director's vested rights in the case of contributions to defined-benefit schemes;

   v) Any severance packages agreed or paid;

   vi) Any compensation they receive as directors of other companies in the group;

   vii) The remuneration executive directors receive in respect of their senior management posts;

   viii) Any kind of compensation other than those listed above, of whatever nature and provenance within the group, especially when it may be accounted a related-party transaction or when its omission would detract from a true and fair view of the total remuneration received by the director.

b) An individual breakdown of deliveries to directors of shares, share options or other share-based instruments, itemised by:

   i) Number of shares or options awarded in the year, and the terms set for their execution;

   ii) Number of options exercised in the year, specifying the number of shares involved and the exercise price;

   iii) Number of options outstanding at the annual close, specifying their price, date and other exercise conditions;

   iv) Any change in the year in the exercise terms of previously awarded options.

c) Information on the relation in the year between the remuneration obtained by executive directors and the company's profits, or some other measure of enterprise results.

Complies

42. When the company has an Executive Committee, the breakdown of its members by director category should be similar to that of the board itself. The Secretary of the board should also act as secretary to the Executive Committee.
See sections: B.2.1 and B.2.6

Not applicable

43. The board should be kept fully informed of the business transacted and decisions made by the Executive Committee. To this end, all board members should receive a copy of the Committee's minutes.

Not applicable

44. In addition to the Audit Committee mandatory under the Securities Market Act, the Board of Directors should form a committee, or two separate committees, of Nomination and Remuneration.

The rules governing the make-up and operation of the Audit Committee and the committee or committees of Nomination and Remuneration should be set forth in the board regulations, and include the following:

a) The Board of Directors should appoint the members of such committees with regard to the knowledge, aptitudes and experience of its directors and the terms of reference of each committee; discuss their proposals and reports; and be responsible for overseeing and evaluating their work, which should be reported to the first board plenary following each meeting;

b) These committees should be formed exclusively of external directors and have a minimum of three members. Executive directors or senior officers may also attend meetings, for information purposes, at the Committees' invitation.

c) Committees should be chaired by an independent director.

d) They may engage external advisors, when they feel this is necessary for the discharge of their duties.

e) Meeting proceedings should be minuted and a copy sent to of the minutes sent to all board members.
See sections: B.2.1 and B.2.3

Partially complies

Articles 44 and 45 of the Bylaws and articles 23, 25 and 26 of the Regulations of the Board of Directors expressly provide for the creation, from among the members of the Board of Directors, of both an Audit and Compliance Committee (article 44 of the Bylaws, articles 23 and 26 of the Regulations of the Board of Directors), and an Appointments and Remunerations Committee (article 45 of the Bylaws and articles 23 and 25 of the Regulations of the Board of Directors).

By virtue of the provisions of articles 8, 25 and 26 of the Regulations of the Board of Directors, the Board of Directors shall be responsible for appointing the members of both Committees and for ensuring that those appointed are persons of recognised standing that have the appropriate professional knowledge and experience to duly exercise the duties attached to the post.

The members of both Committees may engage external advisors should they feel this is necessary for the performance of their duties, as provided for in article 15 of the Regulations of the Board of Directors.

Both Committees are comprised exclusively of external directors and have more than recommended minimum of three members. The Audit and Compliance Committee is comprised of five members, of whom two, including the Chairman, are Independent Directors, two are Proprietary Directors, and one is classified as an "Other External Director". The Appointments and Remunerations Committee is comprised of four members, three of whom are Independent Directors and one of whom is a Proprietary Director.

The Secretary of the two Committees sends a copy of the minutes of meetings of both Committees to all members of the Board of Directors.

45. The job of supervising compliance with internal codes of conduct and corporate governance rules should be entrusted to the Audit Committee, the Nomination Committee or, as the case may be, separate Compliance or Corporate Governance committees.

Complies

46. All members of the Audit Committee, particularly its chairman, should be appointed with regard to their knowledge and background in accounting, auditing and risk management matters.

Complies

47. Listed companies should have an internal audit function, under the supervision of the Audit Committee, to ensure the proper operation of internal reporting and control systems.

Complies

48. The head of internal audit should present an annual work programme to the Audit Committee, report to it directly on any incidents arising during its implementation, and submit an activities report at the end of each year.

Complies

49. Control and risk management policy should specify at least:

a) The different types of risk (operational, technological, financial, legal, reputational, …) the company is exposed to, with the inclusion under financial or economic risks of contingent liabilities and other off-balance sheet risks;

b) The determination of the risk level the company sees as acceptable;

c) Measures in place to mitigate the impact of risk events should they occur;

d) The internal reporting and control systems to be used to control and manage the above risks, including contingent liabilities and off-balance sheet risks.

See sections: D

Complies

50. The Audit Committee's role should be:

1. With respect to internal control and reporting systems:

a) Monitor the preparation and the integrity of the financial information prepared on the company and, where appropriate, the group, checking for compliance with legal provisions, the accurate demarcation of the consolidation perimeter, and the correct application of accounting principles.

b) Review internal control and risk management systems on a regular basis, so main risks are properly identified, managed and disclosed.

c) Monitor the independence and efficacy of the internal audit function; propose the selection, appointment, reappointment and removal of the head of internal audit; propose the department's budget; receive regular report-backs on its activities; and verify that senior management are acting on the findings and recommendations of its reports.

d) Establish and supervise a mechanism whereby staff can report, confidentially and, if necessary, anonymously, any irregularities they detect in the course of their duties, in particular financial or accounting irregularities, with potentially serious implications for the firm.

2. With respect of the external auditor:

a) Make recommendations to the board for the selection, appointment, reappointment and removal of the external auditor, and the terms of his engagement.

b) Receive regular information from the external auditor on the progress and findings of the audit programme, and check that senior management are acting on its recommendations.

c) Monitor the independence of the external auditor, to which end:

   i) The company should notify any change of auditor to the CNMV as a significant event, accompanied by a statement of any disagreements arising with the outgoing auditor and the reasons for the same.

   ii) The Committee should ensure that the company and the auditor adhere to current regulations on the provision of non audit services, the limits on the concentration of the auditor's business and, in general, other requirements designed to safeguard auditors' independence;

   iii) The Committee should investigate the issues giving rise to the resignation of any external auditor.

d) In the case of groups, the Committee should urge the group auditor to take on the auditing of all component companies.

See sections: B.1.35, B.2.2, B.2.3 and D.3

Complies

51. The Audit Committee should be empowered to meet with any company employee or manager, even ordering their appearance without the presence of another senior officer.

Complies

52. The Audit Committee should prepare information on the following points from Recommendation 8 for input to board decision-making:

a) The financial information that all listed companies must periodically disclose. The Committee should ensure that interim statements are drawn up under the same accounting principles as the annual statements and, to this end, may ask the external auditor to conduct a limited review.

b) The creation or acquisition of shares in special purpose vehicles or entities resident in countries or territories considered tax havens, and any other transactions or operations of a comparable nature whose complexity might impair the transparency of the group. c) Related-party transactions, except where their scrutiny has been entrusted to some other supervision and control committee.

See sections: B.2.2 and B.2.3

Complies

53. The Board of Directors should seek to present the annual accounts to the General Shareholders' Meeting without reservations or qualifications in the audit report. Should such reservations or qualifications exist, both the Chairman of the Audit Committee and the auditors should give a clear account to shareholders of their scope and content.

See section: B.1.38

Complies

54. The majority of Nomination Committee members –or Nomination and Remuneration Committee members as the case may be– should be independent directors.

See section: B.2.1

Complies

55. The Nomination Committee should have the following functions in addition to those stated in earlier recommendations:

a) Evaluate the balance of skills, knowledge and experience on the board, define the roles and capabilities required of the candidates to fill each vacancy, and decide the time and dedication necessary for them to properly perform their duties.

b) Examine or organise, in appropriate form, the succession of the chairman and chief executive, making recommendations to the board so the handover proceeds in a planned and orderly manner.

c) Report on the senior officer appointments and removals which the chief executive proposes to the board.

d) Report to the board on the gender diversity issues discussed in Recommendation 14 of this Code.

See section: B.2.3

Partially complies

The duties and responsibilities of the Appointments and Remunerations Committee are stipulated in articles 45 of the Bylaws and 25 of the Regulations of the Board of Directors and are described in section B.2.3 above. The company complies with the Recommendation in c) above as these provisions stipulate that the Committee must designate and dismiss senior management staff, and where necessary, approve special conditions in their contracts.

However, the company only partially complies with the duties described in a) b) and d) of Recommendation 55. Even though the Appointments and Remunerations Committee endeavours to comply with these, said provisions include, inter alia, duties related to those recommended but which are not identical. These are:

- To establish payment criteria for the Company's Directors, in accordance with the stipulations of the Bylaws and in line with resolutions passed at the General Shareholders' Meeting, and to ensure that payments are transparent.
- To establish a general remuneration policy for Enagás, S.A., management personnel, justifying the same to the Board of Directors, and guidelines relating to the appointment, selection, promotion and dismissal of senior managers, in order to ensure that the company has the appropriate highly qualified staff for administering its business at all times.
- To review the structure of the Board of Directors, the criteria for the statutory renewal of Directors, the incorporation of new members and any other aspects relating to its composition that it deems appropriate, providing the Board of Directors with the proposals that it considers necessary.
- To formulate and revise the criteria to be followed in the composition of the Board of Directors and for the selection of the candidates proposed for the post of Director.
- To provide information, objectively and in the company's interest, concerning the proposals for appointment, re-election and ratification of Directors, as well as for the appointment of members of Board Committees.
- To freely formulate proposals to the Board of Directors regarding the company's organisational structure, including the creation of senior management posts, in order to achieve improved and more efficient company administration.
- To approve payment of senior management, providing that this does not diverge from criteria established in the general payment policy for Management.

56. The Nomination Committee should consult with the company's Chairman and chief executive, especially on matters relating to executive directors.

Any board member may suggest directorship candidates to the Nomination Committee for its consideration.

Complies

57. The Remuneration Committee should have the following functions in addition to those stated in earlier recommendations:

a) Make proposals to the Board of Directors regarding:

i) The remuneration policy for directors and senior officers;

ii) The individual remuneration and other contractual conditions of executive directors.

iii) The standard conditions for senior officer employment contracts.

b) Oversee compliance with the remuneration policy set by the company.
See sections: B.1.14 and B.2.3

Partially complies

The duties of the Appointments and Remunerations Committee include proposing to the Board of Directors the remuneration of senior executives and the basic conditions of their contracts (articles 45 of the Bylaws and 25 of the Regulations of the Board of Directors).

58. The Remuneration Committee should consult with the Chairman and chief executive, especially on matters relating to executive directors and senior officers.

Cumple

G - OTHER INFORMATION OF INTEREST

If you consider that there is any material aspect or principle relating to the Corporate Governance practices followed by your company that has not been addressed in this report, indicate and explain below.

CLARIFICATION OF SECTION A.2:

Indicate the most significant movements in the shareholder structure during the year:

On 20 May 2008 CAM (Caja de Ahorros del Mediterráneo) notified the Comisión Nacional del Mercado de Valores of the sale of 11,936,703 shares, representing 5% of the share capital of Enagás, S.A., which gave it an indirect stake in Enagás, S.A. via INVERSIONES COTIZADAS DEL MEDITERRÁNEO, S.L. (INCOMED, S.L.) thus losing its status as significant shareholder of Enagás, S.A..

On 24 November 2008 BBK (Bilbao Bizkaia Kutka) notified the Comisión Nacional del Mercado de Valores that it was contributing 11,936,713 shares, equivalent to 5% of the share capital of Enagás, S.A. (giving it a direct shareholding in Enagás, S.A.), to the share capital of KARTERA 1, S.L., a fully-owned subsidiary of Grupo BBK. Thus KARTERA 1, S.L. became a direct significant shareholder in Enagás, S.A. and BBK became an indirect significant shareholder in Enagás, S.A. while maintaining a seat on the Board of Directors of Enagás, S.A.

CLARIFICATION OF SECTION A.3:

Complete the following charts on share options held by Directors:

In the table included at the end of this section, referring to the number of direct and indirect share options and the number of equivalent shares, all Directors holding voting rights on shares in Enagás, S.A. are included.

CLARIFICATION OF SECTION A.5:

Indicate, as applicable, any commercial, contractual or corporate relationships between owners of significant shareholdings, and the company and/or its group, unless they are insignificant or arise from ordinary trading or exchange activities:

- On 20 May 2008 CAM (CAJA DE AHORROS DEL MEDITERRÁNEO) notified the Comisión Nacional del Mercado de Valores of the sale of 11,936,703 shares, representing 5% of the share capital of Enagás, S.A., which gave it an indirect stake in Enagás, S.A. via INVERSIONES COTIZADAS DEL MEDITERRÁNEO, S.L. (INCOMED, S.L.) thus losing its status as significant shareholder of Enagás, S.A.

Prior to this sale, INCOMED, S.L. received an interim dividend of €2,880.5 thousand paid by Enagás, S.A. on 10 January 2008.

We would also mention other transactions between Enagás, S.A. and GAS NATURAL SDG, S.A. as a significant shareholder of the company and a related party as stipulated in section d) of point 4.1 of Ministerial Order EHA 3050/2004. These describe the third-party access services provided in 2008. Enagás S.A. has a total of 23 third-party access (TPA) agreements in force with Gas Natural Comercializadora S.A. and Gas Natural Servicios, S.A., of which one is short-term and 22 are long-term. Of the 63 contracts signed in 4Q08, 10 remain in force.

Between 1 January and 31 December 2008 the following services were provided:

- Regasification of 72,139.77 GWh, (revenues for these services including cistern loading, totalled €56,963.89 thousand).
- Transport of 174,276.90 GWh (revenues from these services, including the transport component of tolls, totalled €86,278.26 thousand).

– Storage of an average of 4,488.49 GWh (revenues from these services totalled €42,230.05 thousand). TOTAL FROM TPA

SERVICES: €185,472.2 THOUSAND.

CLARIFICATION OF SECTION B.1.8:

List any company Board members who likewise sit on the Boards of Directors of other non-group companies that are listed on official securities markets in Spain, insofar as these have been disclosed to the Company:

- Xabier de Irala Estévez, who represents BBK (Bilbao Bizkaia Kutxa) on the Board of Enagás, S.A., is a member of the Board of Directors and Executive Committee of IBERDROLA, S.A.
- José Luis Olivas Martínez, who represents BANCAJA (Caja de Ahorros de Valencia, Castellón y Alicante) is a Director of ABERTIS INFRAESTRUCTURAS, S.A., Director of IBERDROLA, S.A. and Chairman of the IBERDROLA Consultative Committee in Valencia.

CLARIFICATION OF SECTION B.1.9:

Indicate and, where appropriate, explain whether the company has established rules about the number of boards on which Directors may sit:

Article 13 of the Regulations of the Board of Directors stipulates that the company may limit the number of directorships its Board members can hold if this may also detract from the commitment required. Board members must also inform the Appointments and Remunerations Committee of any professional obligations that might detract from the necessary dedication.

CLARIFICATION OF SECTION B.1.11:

Complete the following tables indicating the aggregate remuneration paid to directors of Directors during the year:

"Others" in section B.1.11.a) includes €77 thousand paid to the Chairman as remuneration in kind.

CLARIFICATION OF SECTION B.1.12:

List any members of senior management who are not Executive Directors and indicate total remuneration paid to them during the year:

On 24 March 2008, Luis Calderón Castro resigned as a member of the Executive Committee and left the Company.

CLARIFICATION OF SECTION B.1.16:

Describe the role played by the Remuneration Committee and whether external consultancy services have been procured, including the identity of the external consultants:

The Appointments and Remunerations Committee of Enagás, S.A. did not engage an external advisor in 2008.

CLARIFICATION OF SECTION B.1.17:

List any Board members who are likewise members of the Boards of Directors, or executives or employees of companies that own significant holdings in the listed company and/or group companies:

- Xabier de Irala Estévez, who represents BBK (Bilbao Bizkaia Kutxa) on the Board of Enagás, S.A., is Chairman of BBK.
- Manuel Menéndez Menéndez, who represents the shareholder PEÑA RUEDA, S.L.U., is Chairman of CAJASTUR (Caja de Ahorros de Asturias).

– José Luis Olivas Martínez, who represents the shareholder BANCAJA (Caja de Ahorros de Valencia, Castellón y Alicante), is Chairman of BANCAJA.

– Enrique Martínez Robles, who represents the shareholder SEPI (Sociedad Estatal de Participaciones Industriales), is Chairman of SEPI.

CLARIFICATION OF SECTION B.1.22:

Are qualified majorities, other than those established by law, required for certain decisions? No qualified majorities are required, other than those legally-established.

Describe how resolutions are adopted by the Board of Directors and specify, at least, the minimum attendance quorum and the type of majority for adopting resolutions:

Article 29 of the Bylaws and article 7 of the Regulations of the Board of Directors stipulate that Meetings of the Board of Directors shall be validly constituted when at least half its members plus one are present or represented, except when the meeting has not been duly convened, in which case the attendance of all members is required. The aforementioned articles also stipulate that resolutions shall be adopted with the vote in favour of an absolute majority of Directors present or represented, irrespective of the type of decision in question, except in the case of written ballots held without meeting, which shall only be permissible when none of the Directors oppose the procedure and the requirements established in the Regulations of the Commercial Registry are satisfied.

CLARIFICATION OF SECTION B.1.40:

List any equity holdings of the members of the company's Board of Directors in other companies with the same, similar or complementary types of activity to that which constitutes the corporate purpose of the company and/or its group, and which have been reported to the company. Likewise, indicate the positions or duties they exercise in these companies:

– Xabier de Irala Estévez, who represents BBK (Bilbao Bizkaia Kutxa) on the Board of Enagás, S.A., is also, as an individual, is a member of the Board of Directors and Executive Committee of Iberdrola. He also owns 165,076 shares in Iberdrola, S.A. equivalent to 0.003% of its share capital.

– Manuel Menéndez Menéndez, who represents Peña Rueda, S.L. on the Board of Enagás, S.A., is also, as an individual, Chairman of the Board of Directors of Hidroeléctrica del Cantábrico, S.A. (H.C.), Chairman of the Board of Directors of Naturgas Energía Grupo, S.A. and a director of EDP Renovables, S.A.

– José Luis Olivas Martínez, who represents BANCAJA (Caja de Ahorros de Valencia, Castellón y Alicante) on the Board of Enagás, S.A., as an individual, is also a Director of Iberdrola and Chairman of the Iberdrola Consultative Committee in Valencia. He also owns 10,357 shares in Iberdrola, S.A. and 18,867 shares in Iberdrola Renovables.

CLARIFICATION OF SECTION B.2.3:

Describe the organisational and operational rules and the responsibilities attributed to each of the Board committees.

Given that it is technically impossible to include all the information in B.2.3 of this form, the rest of the text is reproduced below.

DUTIES OF THE AUDIT AND COMPLIANCE COMMITTEE:

e) In relation to Corporate Governance:

– Assessing compliance with the Internal Code of Conduct in Matters Relating to Stock Markets, the Regulations of the Board of Directors and the company's governance regulations in general, and make the proposals necessary for their improvement. In fulfilling this duty, the Appointments and Remunerations Committee shall liaise with the Audit and Compliance Committee in considering company directors and managers' compliance with the Code.

- Preparing an annual report on the work of the Audit and Compliance Committee that shall form part of the Corporate Governance Report.

- Assisting with drafting the Annual Corporate Governance Report, especially in areas concerning transparency of information and conflicts of interests.

f) In relation to shareholders:

- Providing information on questions within the scope of its competencies at the General Shareholders' Meeting.

The above functions, with the exception of those attributed directly to the Audit and Compliance Committee by law or in the Company Bylaws, shall be considered delegated functions and may therefore be executed, at any time, on prior request, directly by the Board of Directors itself. Resolutions adopted by the Committee in the exercise of delegated functions shall not be binding for the Board of Directors. However, the Board must provide due justification of any decision it adopts without taking account of the reports or recommendations of the Audit and Compliance Committee on issues under its competency.

CLARIFICATION OF SECTION C.2:

List any relevant transactions entailing a transfer of resources or obligations between the company or its group companies and significant shareholders of the company:

We would also mention other transactions between Enagás, S.A. and GAS NATURAL SDG, S.A. as a significant shareholder of the company and a related party as stipulated in section d) of point 4.1 of Ministerial Order EHA 3050/2004. These describe the third-party access services (TPA) agreements in force in 2008:

Between 1 January and 31 December 2008 the following services were provided:

- Regasification of 72,139.77 GWh, (revenues for these services including cistern loading, totalled €56,963.89 thousand).

- Transport of 174,276.90 GWh (revenues from these services, including the transport component of tolls, totalled €86,278.26 thousand).

- Storage of an average of 4,488.49 GWh (revenues from these services totalled €42,230.05 thousand). TOTAL FROM TPA

SERVICES: €185,472.2 THOUSAND.

CLARIFICATION OF SECTION C.3:

List any relevant transactions entailing a transfer of assets or liabilities between the Company or its Group companies, and the Company's managers or directors:

In accordance with the provisions of section a} of point 4.1. of Ministerial Order EHA 3050/2004, pertaining to transactions with directors, executives and their close family members:

Attendance fees paid to members of the Board of Directors to 31 December 2008 totalled €1,177 thousand.

Remuneration to each director at 31 December 2008 can be broken as follows (in thousand €):

NAME OR CORPORATE NAME OF DIRECTOR OR SENIOR MANAGER AND AMOUNTS IN THOUSAND €:

ANTONIO LLARDÉN CARRATALÁ: 1420

JESÚS DAVID ÁLVAREZ MEZQUÍRIZ: 64

BBK (BILBAO BIZKAIA KUTXA): 64

BANCAJA (CAJA DE AHORROS DE VALENCIA, CASTELLÓN Y ALICANTE): 107

CARLOS EGEA KRAUEL: 76

SALVADOR GABARRÓ SERRA: 81

TERESA GARCÍA-MILÁ LLOVERAS: 76

MIGUEL ÁNGEL LASHERAS MERINO: 64

DIONISIO MARTÍNEZ MARTÍNEZ: 76

LUIS JAVIER NAVARRO VIGIL: 76

MARTÍ PARELLADA SABATA: 81

PEÑA RUEDA, S.L.U.: 64

RAMÓN PÉREZ SIMARRO: 76

JOSÉ RIVA FRANCOS: 64

SEPI (SPANISH STATE HOLDING COMPANY): 42

ANTONIO TÉLLEZ DE PERALTA: 76

Attendance fees paid to directors that resigned in the course of 2007 were also included in the calculation of these payments. Specifically those paid to CAM (CAJA DE AHORROS DEL MEDITERRÁNEO), for a total amount of €25.5 thousand. Also, when calculating the fees paid to SEPI, the date on which it was appointed director, ie 26 May 2008, was taken into consideration.

Remuneration paid to the company's senior management totalled €2,172 thousand.

We would also mention other transactions between Enagás, S.A. and Other Related Parties, section b) of point 4.1. of Ministerial Order EHA 3050/2004) relating to 2008:

I) CAJA MURCIA:

1. Loan agreement for €35,000 thousand.

2. Bank guarantee line for €6,000 thousand.

Director Carlos Egea Krauel represents Caja Murcia on the Board of CASER. II) CAIXA DE CATALUNYA:

1. Loan agreement for €6,000 thousand.

2. Bank guarantee line for €12,000 thousand.

3. Has contributed €15,000 thousand to the €1,000,000 thousand syndicated loan.

Antonio Llardén Carratalá, Chairman of Enagás, S.A. is also a director and deputy vice chairman of CAIXA CATALUNYA.

III) LA CAIXA (CAIXA D´ ESTALVIS PENSIONS DE BARCELONA):

1. Contributed €89,000 thousand in the syndicated loan.

2. Loan agreement for €50,000 thousand.

3. Three-year loan for €100,000 thousand.

4. Bank guarantee line for €12,000 thousand.

5. Financial guarantee lines for €63,000 thousand.

6. Hedging instruments (Collar) for January 2009/January 2010 for €100,000 thousand.

7. Renting contracts for €8,233 thousand.

The director Salvador Gabarro is First Vice Chairman of the company.

IV) EULEN, S.A.:

Enagás, S.A. paid EULEN, S.A. €2,288 thousand for building and installation maintenance services.

The director Jesús David Álvarez Mezquíriz is Chief Executive Officer of the company.

V) HIDROCANTÁBRICO, S.A.:

Enagás, S.A. incurred costs of €6,815 thousand for electricity services provided by HIDROCANTÁBRICO, S.A.

The director Manuel Menéndez Menéndez is Chairman of the company.

VI) IBERDROLA, S.A.:

In 2008 Enagás, S.A. paid IBERDROLA, S.A. a total of €6,529 thousand which can be broken down as follows: €5,894 thousand for self-supply gas; €351 thousand for office rental services; and €284 thousand for electricity services.

The director José Luis Olivas Martínez is a director of the company and Chairman of the Iberdrola Consultative Committee in Valencia. Also, the director Xavier de Irala Estévez is also a director and member of the Executive Committee of IBERDROLA, S.A.

VII) INTERMONEY ENERGÍA, S.A.:

Enagás, S.A. incurred costs of €253 thousand for advisory services provided by INTERMONEY ENERGY, S.A.

Enagás, S.A. also received some €2,941 thousand in revenues from the sale of EU emission allowances (EUAs). This transaction was carried out at market rates.

The director Miguel Ángel Lasheras Merino is Chairman of INTERMONEY ENERGÍA, S.A. and WIND TO MARKET (companies belonging to Grupo CIMD, a group of companies providing energy trading, consultancy and management services).

We would also mention other transactions between Enagás, S.A. and Other Related Parties, section b) of point 4.1. of Ministerial Order EHA 3050/2004) relating to 2008:

I) GRUPO GAS NATURAL SDG, S.A.:

Enagás S.A. has a total of 23 third-party access (TPA) agreements in force with Gas Natural Comercializadora S.A. and Gas Natural Servicios, S.A., of which one is short-term and 22 are long-term. Of the 63 contracts signed in 4Q08, 10 remain in force. Between 1 January and 31 December 2008 the following services were provided:

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- Transport of 174,276.90 GWh (revenues from these services, including the transport component of tolls, totalled €86,278.26 thousand).
- Storage of an average of 4,488.49 GWh (revenues from these services totalled €42,230.05 thousand). TOTAL FROM TPA

SERVICES: €185,472.2 THOUSAND.

II)HIDROCANTÁBRICO ENERGÍA, S.A.:

Enagás, S.A. has total of three long-term contracts in force with Hidrocantábrico Energía Of the four contracts signed in 4Q08, one remains in force. Between 1 January and 31 December 2008 the following services were provided:

– Regasification of 466.68 GWh, (revenues for these services including cistern loading, the unloading of tankers and LNG storage, totalled €1,528.46 thousand).

– Transport of 2,663.20 GWh (revenues from these services, including the transport component of tolls, totalled €1,202.18 thousand).

– Storage of an average of 28.84 GWh (revenues from these services totalled €36.50 thousand). TOTAL FROM TPA

SERVICES: €2,767.14 THOUSAND.

III) IBERDROLA, S.A.:

Enagás S.A. has a total of 12 third-party access (TPA) agreements in force with Iberdrola S.A., of which one is short-term and 11 are long-term. Of the 21 contracts signed in 4Q08, four remain in force. Between 1 January and 31 December 2008 the following services were provided:

– Regasification of 17,948.54 GWh, (revenues for these services including cistern loading, the unloading of tankers and LNG storage, totalled €14,480.13 thousand).

– Transport of 20,586.16 GWh (revenues from these services, including the transport component of tolls, totalled €16,474.99 thousand).

– storage of an average of 874.44 GWh (revenues from these services totalled €8,380.46 thousand). TOTAL FROM

TPA SERVICES: €39,335.58 THOUSAND.

IV) NATURGÁS COMERCIALIZADORA, S.A.:

Enagás has total of seven TPA contracts in force with Naturgas Comercializadora, of which six are long-term and one is short-term. Of the 27 contracts signed in 4Q08, five remain in force. Between 1 January and 31 December 2008 the following services were provided:

– Regasification of 2,905.26 GWh, (revenues for these services including cistern loading, the unloading of tankers and LNG storage, totalled €2,601.75 thousand).

– Transport of 6,786.71 GWh (revenues from these services, including the transport component of tolls, totalled €1,572.07 thousand).

– Storage of an average of 269.99 GWh (revenues from these services totalled €4,397.66 thousand). TOTAL FROM TPA

SERVICES: €8,571.48 THOUSAND.

The director Manuel Menéndez Menéndez is Chairman of the company.

You may include in this section any other information, clarification or observation related to the above sections of this report.

Specifically indicate whether the company is subject to corporate governance legislation from a country other than Spain and, if so, include the compulsory information to be provided when different to that required by this report.

Binding definition of Independent Director:

List any Independent Directors who maintain, or have maintained in the past, a relationship with the Company, its significant shareholders or managers, when the significance or importance thereof would dictate that the Directors in question may not be considered independent pursuant to the definition set forth in section 5 of the Unified Good Governance Code:

NO

Date and signature:

This annual corporate governance report was approved by the Company's Board of Directors at its meeting held on:

30/01/2009

List any directors who voted against or abstained from voting on the approval of this report.

NO

Report on the Activities of the Enagás Audit and Compliance Committee in 2008

Composition

Chairman

Mr. Martí Parellada Sabata

Members

BANCAJA (represented by Mr. José Luis Olivas Martínez)

Mr. Luis Javier Navarro Vigil

Mr. Antonio Téllez de Peralta

Mr. Carlos Egea Krauel (from 20 June 2007)

Secretary

Mr. Rafael Piqueras Bautista

There were no changes in the composition of the Audit and Compliance Committee in 2008.

As provided in corporate regulations, the Committee called on a number of persons related to matters under its competence for consultation. Accordingly, Committee meetings were regularly attended by Enagás' Finance Director, Mr. Diego De Reina, and by the Head of the Internal Audit Unit, Mr. José Espejo. External auditors from Deloitte also attended Committee meetings on a number of occasions.

Activities of the Committee

The Committee met three (3) times in 2008. The main areas on which the Audit and Compliance Committee focused in 2008 are summarised below.

1.- Committee activities relating to the formulation and approval of the Enagás annual financial statements for 2008

As in previous years, the Audit Committee was entrusted with the task of discussing and analysing the financial statements prior to their formulation by the Board of Directors. For this purpose, the members of the Committee met with the Company's external auditor (Deloitte S.L.) in February 2008 as well as with the Finance Director and the Head of Enagás' Internal Audit Unit.

Both the external auditors and the financial officers of the Company offered the Committee their views on the financial statements. Differences in accounting criteria, which in no case exceeded the materiality threshold above which Deloitte's opinion on the financial statements could be affected, related to issues including the statement of receivables, third-party network access invoices, non-payment of tariffs previously paid by Enagás, underground storage facilities and the calculation of own work capitalised.

Deloitte has informed the Audit Committee that its report would be without provisos or qualifications.

The Audit Committee's examination of the 2008 financial statements produced the following conclusions:

- That the financial statements of Enagás and its consolidated group, as submitted to the Committee, reflect the Company's equity and results for the fiscal year truthfully and accurately.
- That the financial statements contain sufficient information to be clearly understood, as well as sufficient description of the risks faced by the Company.
- That the financial statements respect generally accepted accounting principles and regulations, in the same terms applied in previous years.
- -That the principles of parity of treatment for shareholders and transparency of information reported to the markets have been upheld.

In view of the foregoing, the Committee resolved to recommend that the Board of Directors of Enagás draw up the financial statements. At a meeting held on 25 February 2008, the Board of Directors adopted the Committee's recommendation and formulated the financial statements in line with the terms indicated by the Committee.

In addition to the above task, in line with usual practice in previous years, the Chairman of the Audit Committee, Mr. Parellada, attended the Ordinary General Shareholders' Meeting held on 25 April 2008 to explain the most important aspects of the financial statements to the Company's shareholders and thus ensure that they had all the information needed to be able to vote on the financial statements, which were approved as proposed by the Board of Directors.

2.- Monitoring relationships between Enagás and its significant shareholders.

The Committee continued to supervise relationships between Enagás and its significant shareholders, and no incidents worthy of mention occurred.

3.- Audit and risk control plan for 2008

All meetings of the Audit Committee included as items of business on the agenda both a general review of progress in implementing the 2008 audit plan and a specific analysis of the main audit processes underway at that time.

This area of the Audit Committee's work is therefore considered to be of particular importance. On this point, it should be remembered that several years ago, with the assistance of external consultants, the Company carried out an exhaustive review of business and related risks, pinpointing the internal processes that might be affected by each of the risks reviewed. The results were used to identify those processes that should be given priority attention by the Internal Audit Unit and Audit Committee. The Audit Plan implemented in the course of 2008 focused on monitoring those processes identified as priorities in 2003.

The Internal Audit Unit identified several non-essential weaknesses in its review of the reports and has issued recommendations it believes will help eliminate or mitigate the impact of the risks associated with certain activities forming part of this process.

Despite the above, the Committee thought it necessary to review the Company's risk model. As a result, with appropriate external assistance, the Company's risk services have drawn up a new model, which was approved by the Committee at a meeting held on 30 January 2009.

4.- Quarterly accounting reviews

Throughout 2008 the Committee continued to review the limited quarterly reports issued by the auditors, as in previous years.

Specifically, in conjunction with Deloitte it analysed the reports issued by the latter for the first, second and third quarters, respectively. By performing these reviews, the Committee is able to minimise the impact of any accounts issues arising in the course the year and Committee and Board members are able to keep abreast of the opinions of the Company's external auditors on annual developments in the balance sheet and income statement.

The Audit Committee considers that both the quarterly reviews carried out by the external auditor and the Committee's own analysis of the reports are essential to ensuring strict control over the Company's accounting and facilitating the issue of a clean year-end report.

The Committee also reviews and approves, in line with the good corporate governance recommendations it has adopted, the financial information that the Company releases each quarter.

5.- Events after the balance-sheet close

In the opening months of 2009, the Committee continued to perform its usual activities, in particular assisting the Board of Directors in drawing up the financial statements. As in the previous financial year, the Audit and Compliance Committee has issued a prior favourable report on the 2008 financial statements, which will be submitted to shareholders at the 2009 Ordinary General Meeting.

At a meeting held on 30 January 2009, the Committee resolved to propose the re-appointment of Deloitte, S.L. as auditors of the Company's financial statements at the Ordinary General Meeting.

This report was prepared and approved by the Audit and Compliance Committee at the meeting held on 30 January 2009 and was approved by the Board of Directors at a meeting held on the same day.


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ANNUAL ACCOUNTS

Deloitte.

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Torre Picasso
28020 Madrid
España

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www.deloitte.es

Translation of a report originally issued in Spanish based on our work performed in accordance with generally accepted auditing standards in Spain and 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.

AUDITORS' REPORT ON CONSOLIDATED FINANCIAL STATEMENTS

To the Shareholders of Enagás, S.A.:

1. We have audited the consolidated financial statements of Enagás, S.A. and Subsidiaries comprising the consolidated balance sheet at 31 December 2008 and the related consolidated income statement, consolidated cash flow statement, consolidated statement of changes in equity and notes to the consolidated financial statements for the year then ended. The preparation of these consolidated financial statements is the responsibility of the Parent's directors. Our responsibility is to express an opinion on the consolidated financial statements taken as a whole based on our audit work performed in accordance with generally accepted auditing standards in Spain, which require examination, by means of selective tests, of the evidence supporting the consolidated financial statements and evaluation of their presentation, of the accounting policies applied and of the estimates made.

2. As required by Spanish corporate and commercial law, for comparison purposes the Parent's directors present, in addition to the figures for 2008 for each item in the consolidated balance sheet, consolidated income statement, consolidated cash flow statement and consolidated statement of changes in equity, the figures for 2007. Our opinion refers only to the consolidated financial statements for 2008. On 29 February 2008, we issued our auditors' report on the 2007 consolidated financial statements, in which we expressed an unqualified opinion.

3. In our opinion, the accompanying consolidated financial statements for 2008 present fairly, in all material respects, the consolidated equity and consolidated financial position of Enagás, S.A. and Subsidiaries at 31 December 2008 and the consolidated results of their operations, the changes in the consolidated equity and their consolidated cash flows for the year then ended, and contain the required information, sufficient for their proper interpretation and comprehension, in conformity with International Financial Reporting Standards as adopted by the European Union applied on a basis consistent with that of the preceding year.

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

Member of
Deloitte Touche Tohmatsu

4. The accompanying consolidated directors' report for 2008 contains the explanations which the Parent's directors consider appropriate about the Group's situation, the evolution of its business and other matters, but is not an integral part of the consolidated financial statements. We have checked that the accounting information in the consolidated directors' report is consistent with that contained in the consolidated financial statements for 2008. Our work as auditors was confined to checking the consolidated directors' report with the aforementioned scope, and did not include a review of any information other than that drawn from the accounting records of Enagás, S.A. and Subsidiaries.

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

Jesús María Navarro

10 February 2009

ENAGÁS S.A. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEET AT 31 DECEMBER 2008
(Figures in thousands of euros)

Assets	Notes	31.12.2008	31.12.2007
NON-CURRENT ASSETS		**4,046,543**	**3,459,808**
Intangible assets	5	37,552	34,042
Property, plant and equipment	6	3,975,029	3,390,727
Financial assets	8	19,716	24,952
Deferred tax assets	20	14,246	10,087
CURRENT ASSETS		**671,283**	**516,149**
Inventories	10	2,215	3,378
Trade and other receivables	9	444,208	497,292
Other financial assets	8	8,461	8,305
Other assets		1,857	1,919
Cash and cash equivalents		214,542	5,255
TOTAL ASSETS		**4,717,826**	**3,975,957**
Equity and liabilities	**Notas**	**31.12.2008**	**31.12.2007**
EQUITY		**1,440,366**	**1,343,905**
CAPITAL AND RESERVES		**1,456,080**	**1,344,800**
Issued capital	11	358,101	358,101
Reserves	11	901,165	805,709
Profit for the year		258,885	238,286
Interim dividend	11	(62,071)	(57,296)
NET UNREALIZED GAINS (LOSSES) RESERVE	**11**	**(15,714)**	**(895)**
Available-for-sale financial assets		(554)	–
Hedging instruments		(15,160)	1,006
Other		–	(1,901)
NON-CURRENT LIABILITIES		**2,259,041**	**1,879,144**
Provisions	13	31,523	30,683
Non-current financial liabilities	14	2,156,403	1,782,714
Deferred tax liabilities	20	1,355	1,764
Other liabilities	15	69,760	63,983
CURRENT LIABILITIES		**1,018,419**	**752,908**
Current financial liabilities	14	514,735	229,161
Trade and other payables	18 y 20	503,159	523,292
Other liabilities		525	455
TOTAL EQUITY AND LIABILITIES		**4,717,826**	**3,975,957**

Notes 1 to 34 are an integral part of the consolidated balance sheet at 31 December 2008.

ENAGÁS S.A. AND SUBSIDIARIES
CONSOLIDATED INCOME STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2008
(Figures in thousands of euros)

	Notes	2008	2007
Purchase-sale of gas on regulated market	21	7,640	(12,151)
Revenue from regulated activities	21	813,101	792,025
Revenue from liberalised activities	21	16,186	15,499
Other operating income	21	16,807	16,070
Employee benefits expense	22	(68,952)	(62,002)
Other operating costs	22	(155,126)	(159,073)
Depreciation and amortisation		(203,051)	(187,183)
Impairment losses and gains (losses) on disposal of non-current assets		6,508	5,110
OPERATING PROFIT		**433,113**	**408,295**
Finance revenue	23	13,799	1,464
Finance costs	23	(80,910)	(61,020)
Change in fair value of financial instruments	23	124	–
Impairment and gains (losses) on disposal of financial instruments	23	–	1,926
PROFIT BEFORE TAX FROM CONTINUING OPERATIONS		**366,126**	**350,665**
Income tax expense	20	(107,241)	(112,379)
PROFIT FOR THE YEAR FROM DISCONTINUED OPERATIONS		**258,885**	**238,286**
Profit for the year from discontinued operations		–	–
PROFIT FOR THE YEAR		**258,885**	**238,286**
Attributable to:			
Equity holders of the parent		**258,885**	**238,286**
BASIC EARNINGS PER SHARE	**12**	**1.08**	**1.00**
DILUTED EARNINGS PER SHARE	**12**	**1.08**	**1.00**

Notes 1 to 34 are an integral part of the consolidated income statement at 31 December 2008.

ENAGÁS, S.A. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF TOTAL CHANGES IN EQUITY
FOR YEAR ENDED 31 DECEMBER 2007 (Figures in thousands of euros)

	Issued capital and share premium	Other reserves	Retained earnings	Profit (loss) for the year	Interim dividend	Net unrealised gains (losses) reserve (Note 14)	Equity
Balance at 31.12.2006	**358,101**	**706,399**	**–**	**216,384**	**(45,360)**	**(321)**	**1,235,203**
Adjustments for changes in accounting criteria	–	–	–	–	–	–	–
Adjustments for errors	–	–	–	–	–	–	–
Adjusted balance at 31.12.2006	**358,101**	**706,399**	**–**	**216,384**	**(45,360)**	**(321)**	**1,235,203**
I. Total recognized income and expense				**238,286**		**(574)**	**237,712**
II. Transactions with shareholders and owners	**–**	**–**	**–**	**–**	**(11,936)**	**–**	**(11,936)**
Capital increase/(decrease)	–	–	–	–	–	–	–
Conversion of financial liabilities into equity	–	–	–	–	–	–	–
Dividends paid	–	–	–	–	(11,936)	–	(11,936)
Transactions with treasury shares or own equity instruments	–	–	–	–	–	–	–
Business combinations	–	–	–	–	–	–	–
Other transactions with shareholders and owners		–	–	–	–	–	–
III. Other changes in equity	**–**	**99,310**	**–**	**(216,384)**	**–**	**–**	**(117,074)**
Equity-settled transactions	–	–	–	–	–	–	–
Transfers between equity accounts	–	–	–	(216,384)	–	–	(216,384)
Other changes	–	99,310	–	–	–	–	99,310
Balance al 31.12.2007	**358,101**	**805,709**	**–**	**238,286**	**(57,296)**	**(895)**	**1,343,905**

Notes 1 to 34 are an integral part of the consolidated statement of changes in equity for the year ended 31 December 2008.

ENAGÁS S.A. Y SOCIEDADES DEPENDIENTES
ESTADO TOTAL DE CAMBIOS EN EL PATRIMONIO NETO CONSOLIDADO
AL 31 DE DICIEMBRE DE 2008 (Expresado en miles de euros)

	Issued capital and share premium	Other reserves	Retained earnings	Profit (loss) for the year	Interim dividend	Net unrealised gains (losses) reserve (Note 14)	Equity
Balance at 31.12.2007	**358,101**	**805,709**	**–**	**238,286**	**(57,296)**	**(895)**	**1,343,905**
Adjustments for 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 recognized income and expense				**258,885**		**(14,819)**	**244,066**
II. Transactions with shareholders and owners	**–**	**–**	**–**	**–**	**(4,775)**	**–**	**(4,775)**
Capital increase/(decrease)	–	–	–	–	–	–	–
Conversión of financial liabilities into equity	–	–	–	–	–	–	–
Dividends paid	–	–	–	–	(4,775)	–	(4,775)
Transactions with treasury shares or own equity instruments	–	–	–	–	–	–	–
Business combinations	–	–	–	–	–	–	–
Other transactions with shareholders and owneres		–	–	–	–	–	–
III. Other changes in equity	**–**	**95,456**	**–**	**(238,286)**	**–**	**–**	**(142,830)**
Equity-settled transactions	–	–	–	–	–	–	–
Transfers between equity accounts	–	–	–	(238,286)	–	–	(238,286)
Other changes	–	95,456	–	–	–	–	95,456
Balance al 31.12.2008	**358,101**	**901,165**	**–**	**258,885**	**(62,071)**	**(15,714)**	**1,440,366**

Notes 1 to 34 are an integral part of the consolidated statement of changes in equity for the year ended 31 Decembere 2008.

ENAGÁS, S.A. AND SUBSIDIARIES
CONSOLIDATED CASH FLOW STATEMENT FOR THE YEARS ENDED 31 DECEMBER 2008 AND 2007
(Figures in thousands of euros)

	2008	2007
PROFIT BEFORE TAX	**366,126**	**350,665**
Adjustments to profit	**269,450**	**244,377**
Depreciation of property, plant and equipment	203,051	187,183
Other adjustments to profit	66,399	57,194
Change in working capital	**35,897**	**13,528**
Inventories	1,164	75,358
Restatement of minimum linepack for gas pipeline	–	(42,702)
Trade and other receivables	45,635	(47,429)
Other current assets	(3,360)	(2,727)
Trade and other payables	(7,542)	31,028
Other current liabilities	–	–
Other non-current assets and liabilities	–	–
Other cash flows from operating activities	**(200,253)**	**(184,598)**
Interest paid	(112,328)	(75,451)
Interest received	11,714	459
Income tax receipts (payments)	(99,639)	(109,606)
CASH FLOWS FROM OPERATING ACTIVITIES	**471,220**	**423,972**
Payments on investments	**(761,069)**	**(506,096)**
Property, plant and equipment, and investment property	(760,339)	(504,212)
Other financial assets	(730)	(1,884)
Proceeds from disposals	**9,064**	**6,792**
Property, plant and equipment, and investment property	7,322	4,340
Other financial assets	1,742	2,452
Other cash flows from/(used in) investing activities	**406**	**–**
Other proceeds from/(payments made on) investing activities	406	–
NET CASH USED IN INVESTING ACTIVITIES	**(751,599)**	**(499,304)**
Proceeds from and payments on equity instruments	**–**	**–**
Proceeds from and payments of financial liabilities	**632,638**	**189,911**
Issues	710,500	202,690
Repayment and redemption	(77,862)	(12,779)
Dividends paid	**(142,972)**	**(112,637)**
CASH FLOWS FROM FINANCING ACTIVITIES	**489,666**	**77,274**
INCREASE IN CASH AND CASH EQUIVALENTS	**209,287**	**1,942**
Cash and cash equivalents at 1 January	5,255	3,313
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	**214,542**	**5,255**

Notes 1 to 34 are an integral part of the consolidated cash flow statement for the year ended 31 December 2008.

ANNUAL ACCOUNTS

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 2008, 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 2008 have been prepared by the directors, at a meeting of the Board of Directors held on 30 January 2009, 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 2008, and of the results of its operations, the changes in its equity and cash flows occurring in the year then ended.

The Enagás Group's consolidated annual financial statements for 2008 have been prepared from the accounting records kept by the parent company and by the other entities comprising the Group.

The 2007 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 in 2008.

The financial year for the companies comprising the Group ends on 31 December, the date of the financial statements 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 these annual financial statements are approved and their scant materiality, are consolidated on the basis of data as at 30 November 2008.

Note 3 includes the most significant accounting principles and measurement bases used in preparing the consolidated financial statements of the Group for 2008.

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 2008 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 presented 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 issuance
- 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 2008 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 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 the "Reserves".

Note 33 includes the most significant aspects of the Group's joint ventures existing at the end of financial year 2008.

2.4. Comparison of information

To facilitate understanding of the information presented in these consolidated financial statements and comparison with the information submitted to the National Securities Market Commission (Spanish acronym CNMV), the Group adapted certain assets and liability disclosures for 2008 to match those in Circular 1/2008 of 15 February 2008.

Consequently, the comparative information for 2007 included in these statements was also adapted. Each note provides the charts and information necessary to understand the changes made.

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 any impairment losses.

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 consolidated income statements amounted to 1,240 thousand euros in 2008 and 646 thousand euros in 2007, 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 licence to use the computer applications, or production cost if internally developed, and amortised over a period of up to four years.

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

	Amortisation rate	Useful life (years)
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
Computer 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 in 2008.

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

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

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 improvement 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 period of construction if this is over a year. The average rate of capitalisation used to calculate the amount of the borrowing costs to be capitalised was 4.75% in 2008 (4.27% in 2007).

2. Employee benefits expenses directly related to work in progress. The Group has a "functional procedure for allocation of employee benefits expenses 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 expenses, 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 consolidated income statement for 2008 as a decrease in employee benefits expenses. (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 for dismantling, with a credit to "Non-current provisions" (Note 13) in the accompanying consolidated balance sheet. In addition, this provision has been adjusted in subsequent periods.

Subsequent to 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 millions 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 (Spanish acronym CNE), 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., to store 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 improvement 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 expenses 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 "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:

	Porcentaje anual	Vida útil (años)
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 experiences and future expectations.

These projections are prepared for a period of five years, with estimates of future flows based on reasonable growth rates, which are in no case incremental to nor 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" 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 2008.

d. Operating leases

In operating leases, the lessor retains substantially all the risks and rewards of ownership of the asset.

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 on 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 investments 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.

  Available-for-sale investments include a mutual fund to hedge its obligations in respect of long-service bonuses. This fund is measured at fair value in accordance with its market price at each balance sheet date. Although this fund was created to hedge the related provision for the long-service bonus, gains or losses in the value of the fund generate changes for the same amount in the related provision.

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 turned into 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 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 time 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.

The company assesses the net realisable value of inventories at the end of the year and makes the appropriate impairment provision when these are overvalued. 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 charge is reversed.

Other inventories

Other inventories unrelated to natural gas are stated at the lower of acquisition or production cost and net realisable value. Cost 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 recorded 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 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.

- *Derivative finance instruments and hedge accounting:* Bank borrowings expose the Group to fluctuations in interest rates. To hedge these risks, the group uses cash flow 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 financial instruments are disclosed in Note 16.

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are deferred in equity. The gain or loss relating to the ineffective portion is recognised immediately in profit or loss. Amounts deferred in equity are recycled in profit or loss in the periods when the hedged item is recognised in profit or loss.

Changes in the fair value of derivatives that do not quality for hedge accounting are recognised in profit and loss immediately.

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 4.75%.

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 sheets.

The company has committed to pay senior management and other top-ranking employees a variable sum as a "reward" 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 would accrue at period-end depending upon the fulfilment of certain objectives.

k. Termination benefits

De acuerdo con la legislación vigente, las entidades consolidadas españolas y algunas entidades extranjeras están obligadas a indemnizar a aquellos empleados que sean despedidos sin causa justificada. No existe plan alguno de reducción de personal que haga necesaria la creación de una provisión por este concepto.

l. Provisions

At the date of preparation of the consolidated annual financial statements, the directors distinguished between:

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

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

The consolidated 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 30).

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 2008 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. Deferred revenue

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

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

n. Revenue recognition

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

Gas sales are recognised when all the risks and rewards have been substantially transferred to the buyer.

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.

Enagás manages gas purchases and sales with customers in the tariff or regulated market and receives compensation aimed at covering the costs incurred in this activity. Accordingly, revenue and expenses from gas purchases and sales on the regulated tariff market are presented in the consolidated income statement at their net amounts. In 2008, the company recorded revenue in the amount of 7,640 thousand euros in connection with gas purchases and sales on the regulated market. In addition, revenue from regulated management of gas purchases and sales is recorded under "Revenue from regulated activities" in an amount of 4,785 thousand euros. The company engaged in this activity during the first six months of the year, 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 fees 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, gasstorage and transportation, technical management of the system and gas distribution activities, in addition to formulae and criteria for restating and establishing the remuneration of these activities in coming years. Subsequently, on an annual basis, new Orders have been published that have replaced those of previous years.

On 28 December 2007 the Ministry of Industry, Tourism and Trade approved three Ministerial Orders: ITC/3861/2007, which establishes the last-resort supply rates for 2008; ITC/3862/2007, which establishes the mechanism for assigning the capacity of the underground natural gas storage facilities and creates a capacity market; and ITC/3863/2007, which establishes the tolls and royalties for third-party access to gas installations for 2008, and updates aspects relating to the remuneration for regulated gas activities.

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

- Regasification and loading of LNG cisterns
- Transfer of LNG to ships
- Storage
- Transport.
- Management of gas purchases and sales on the tariff market
- Technical system management
- Floating storage of LNG in ships during the Winter Plan for the tariff market (see Note 3-f)
- Creation of the minimum operating level for LNG ships and of the minimum linepack for gas pipelines (see Note 3-f)
- 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 shareholder's right to receive payment has 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 of an asset or an increase of 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 depletion 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

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 recorded. 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 related to specific tax incentives.

Income tax expense represents the sum of the tax currently payable and any changes in deferred tax. The tax currently payable 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 ordinary equity holders of the parent entity 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. These are included to calculate diluted earnings per share (Note 12).

r. Consolidated cash flow statements

The following terms are used in the presentation of consolidated cash flow statements:

Cash flow: inflows and outflows of cash and cash equivalents, defined as highly liquid, short-term investments with low risk of experiencing significant fluctuations in their value.

Operating activities: the main activities of the enterprise and those that are not 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 alter the amount and structure of equity and liabilities that are not operating activities.

4. Regulation of remuneration

a. Revenue from regasification, storage and transport

During the year, 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 level of Royal Decree.

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 for these regulated activities in place 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%.

Furthermore, Ministerial Order ITC/3863/2007 of 29 December 2007 is responsible for updating this remuneration, as well as the unit values for investment and operating costs applicable to transport, regasification, and storage facilities, established in Ministerial orders ITC/3993/2006, ITC/3994/2006, and ITC/3995/2006 of 29 December 2006.

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

a.1. Recognised fixed cost. This is calculated based on assets used in production. This fixed amount 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 infrastructure 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 capital 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 infrastructure brought into service since 2002, the standard value of each investment set by the regulator is used, while those investments that entail expansion are measured at actual cost.

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

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

  Regasification infrastructure put into service as of 2006 is stated 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 assets used in the system.* 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, 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% on the value of the gross investment obtained in 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% on the value of the net investment (after depreciation) obtained in 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% of the value of the net investment (after depreciation) obtained in the previous paragraph.

- *Remuneration for 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 these transport assets, remuneration is also updated annually at a rate of 2.5%.

The resulting remuneration rate for transport in 2008 was 8.15%.

a.1.2. Remuneration for operating costs relating to assets used in the system is calculated in accordance with recognised costs for gas system installations in 2000 for the transport and regasification activities, standardised by physical and technical units. The annual adjustment rate based on the CPI and IPRI for capital goods is applied to the resulting standard value, adjusted by an efficiency factor. Revenue for this item is obtained by applying these adjusted standard figures to physical units

For underground storage, a specific fixed operating and maintenance cost is defined for each site.

a.1.3. Enagás, S.A. recognises the revenue related to the fixed recognised cost in 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 ships.

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 2008, this cost was set at 0.000150 euros per kWh regasified and 0.000180 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 in the Serrablo and Gaviota storage facilities. The variable costs established are:

- Unit costs at the Serrablo facility: Injection: 0.000498 €/kWh; extraction: 0.000091 €/kWh
- Unit costs at the Gaviota facility: Injection: 0.000043 €/kWh; extraction: 0.001099 €/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 obligations as Technical System Manager, which include coordinating the development, operation and maintenance the transport network, supervising the safety 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 2008, the amount earmarked for TSM remuneration, which should be collected by companies that are titleholders of the regasification, transport, storage and distribution facilities, as a percentage of invoicing for tolls and royalties relating to third-party network access rights, was 0.39% for tolls and fees and 0.19% for prices. This amount will be deposited by these companies in the periods and form established for the payment procedure relating to the deposit account the National Energy Commission has open for these purposes.

The above-mentioned percentage of the invoicing will be 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 users.

This revenue is taken to the consolidated income statement month to month 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 by the Ministerial Order dated 28 October 2002.

d. Regulated services for the tariff market

In accordance with the Hydrocarbon Law, as a transport company Enagás, S.A. purchases and sells gas to distribution companies and other transporters, which in turn sell the gas on the tariff (regulated) market in accordance with Royal Decree 949/2001 of 3 August. For this purpose only, Enagás, S.A. buys gas from Sagane, S.A. and Gas Natural Aprovisionamientos, S.A. Control of gas consumption by distribution companies is based on monthly meter readings.

This obligation ceased to exist on 1 July 2008: article 2 of Order ITC/2309/2007 of 30 July, which establishes the mechanism for transferring customers from the tariff market to the supply of last resort regime in natural gas, rendered the system for supplying gas under tariff used by distribution companies before Law 12/2007 of 2 July went into effect null and void on 1 July 2008.

As of that date, the remaining tariff market customers started being supplied by the last-resort suppliers.

While the supply of gas for the tariff market has been maintained, the purchase and sale price for gas is set based on the following criteria:

- Gas purchase cost. This raw material cost (RMC) is calculated based on the CIF prices of crude and oil products on international markets paid by the carrier for sale on the regulated market, including the necessary costs for positioning gas in the basic network. This cost is calculated on a quarterly basis in January, April, July and October of each year.
- Sale price. The sale price includes the cost of the raw material to be sold on the tariff market, natural gas purchase and sale management expenses and the average regasification cost. The selling price will change when raw material prices are adjusted by the Directorate General for Energy Policy and Mines or annually, if structural or supply conditions change.

As this revenue is not subject to settlement, it is taken to the consolidated income statement based on amounts invoiced to distribution companies for actual monthly consumption according to meter readings. It is therefore recognised on an accruals basis; i.e. when realised.

e. Revenue from regulated services for the tariff market

This revenue is used to remunerate the management of gas purchases and sales for gas supplied to distribution companies and other transporters which in turn sell it on the tariff market. This remuneration is calculated based on the following components:

- Specific total purchase and selling price of gas. Calculated as a percentage of the volume of gas earmarked for the tariff market and measured at the average price of the raw material sold during the year. The percentage established for 2008 is 0.0005.
- The cost of shrinking and internal gas consumption arising during regasification processes, storage and transport of gas to be sold on the tariff market is broken down as follows:

The recognised values relate only to shrinkage and differences in measurement. The recognised percentages are:

- Regasification: 0/15%
- Storage: 0%
- Transport: 0.20%

- Cost of financing gas inventories to be sold on the tariff market. This cost is calculated by applying a coefficient of 0.218 to the value of end customer demand (based on the average cost of the raw material to be sold on the tariff market). The resulting figure is then multiplied by a three-month Euribor rate plus 0.5%. For 2008, the coefficient is 4.59%.

f. Settlement system

On 1 November 2002, Ministerial Order 2692/2002 (28 October) was published, regulating settlement procedures for remuneration of regulated activities and defining the information system to be used by the companies.

The fifth additional provision of Order ITC/3993/2006 amends section I.5 of appendix II of this Order on settlements and states that the interest equivalent to applying the average 1-year treasury bill yield on the amounts to be paid to each transporter or distributor for 60 days be added to the settlements.

g. Revenue for the minimum operating level and minimum linepack of gas pipelines

The second transitional provision of Order ITC4099/2005 provided that in 2006 transport companies that are titleholders of the regasification plants shall 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 2008, gas for the minimum operating level and linepack must be acquired via 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 half-yearly yield on 10-year government bonds plus 3.5%.

h. 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 and from this date the values indicated above for the management of gas purchases and sales are used.

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

i. Development of the Regulatory Framework

The main legislation in the gas industry approved in 2008 include:

Resolution of the Directorate General for Energy Policy and Mining of 30 January, which establishes the available capacity of underground storage in the basic natural gas network between 1 April 2008 and 31 March 2009.

Royal Decree 326/2008 of 29 February, which establishes the remuneration payable for natural gas transport services applicable to facilities placed in service from January 1, 2008.

Order ITC/676/2008 of 7 March, which regulates the transfer of funds in 2008, with a charge to tolls paid by third parties for access to gas installations, from the dedicated account of the National Energy Commission (CNE) to the Institute for Diversification and Saving of Energy (IDAE), to execute the measures set forth in the action plan for 2008-2012, the energy saving and efficiency strategy for 2004-2012, and the criteria for executing the measures set forth in that plan.

Resolution of the General Secretariat for Energy of 14 March which details matters relating to managing underground storage facilities in the basic network and establishes the rules for auctioning storage capacity.

Resolution of the Directorate General for Energy Policy and Mining of 27 January, which establishes certain matters relating to the assignment of available underground storage capacity in the basic natural gas network for the period between 1 April 2008 and 31 March 2009.

Resolution of the General Secretariat for Energy of 19 May which establishes the standards for auctions of natural gas for operations and the minimum linepack for transport, regasification and underground storage facilities.

Resolution of the General Directorate of Energy Policy and Mines of 4 July, which amends the technical management standards STMR-06 on "delivery" and SMTR-07 on "statements", protocol details PD-02 on "general criteria for establishing delivery procedures," and ratifies protocol detail PD-11 on "procedure for delivery to points of entry to the transport network".

Resolution of the General Directorate of Energy Policy and Mines of 8 September, which amends the resolution of 25 July 2006, which regulates the conditions for assigning and processing the application of supply cut-off in the gas system.

Order ITC/2607/2008 of 11 September, which establishes the rules for allocating transport capacity in the international connections with France.

Resolution of the General Directorate of Energy Policy and Mines of 6 October, which announces the procedure for commercialisation of natural gas interconnection capacity between Spain and France for the period from 1 April 2009 to 31 March 2013 (long-term contracts) and from 1 April 2009 to 31 March 2010 (short-term contracts).

Order ITC/2857/2007 of 10 October, which establishes the last resort tariff of the natural gas system.

Resolution of the General Directorate of Energy Policy and Mines of 23 October, which modifies technical management standard 6 (STMR-06) for the gas system and the PD-07 and PD-08 protocol details.

Resolution of the Directorate General for Energy Policy and Mining of 11 November, approving the Winter Action Plan for operation of the gas system.

Resolution of the Directorate General for Energy Policy and Mining of 15 December, which establishes forms for Gas System Operators to use when submitting information.

Order ITC/3802/2008 of 26 December, establishing the tolls and fees for third-party access to gas installations, the last-resort rate, and certain aspects relating to regulated activities in the gas sector.

5. Intangible assets

The breakdown and movements in intangible assets and accumulated amortisation in 2008 and 2007 were as follows:

2008

Cost	Beginning balance	Additions	Increase / (decrease) due to transfers	Disposals, derecognition or reversals	Ending balance
Development costs	441	143	–	–	584
Concessions	5,887	–	–	–	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	Beginning balance	Additions	Increase / (decrease) due to transfers	Disposals, derecognition or reversals	Ending 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**

2007

Cost	Beginning balance	Additions	Increase / (decrease) due to transfers	Disposals, derecognition or reversals	Ending balance
Development costs	260	181	–	–	441
Concessions	5,886	1	–	–	5,887
Computer software	22,628	6,944	–	–	29,572
Other intangible assets	27,403	88	–	–	27,491
Total cost	**56,177**	**7,214**	**–**	**–**	**63,391**

Amortisation	Beginning balance	Additions	Increase / (decrease) due to transfers	Disposals, derecognition or reversals	Ending balance
Development costs	55	45	–	–	100
Concessions	2,052	212	–	–	2,264
Computer software	12,267	4,150	–	–	16,417
Other intangible assets.	9,525	1,043	–	–	10,568
Total amortisation	**23,899**	**5,450**	**–**	**–**	**29,349**

The increases in "Development costs" in 2008 relate to phase 1 of the power generation project for the Huelva plant, in the amount of 81 thousand euros, and the long-term demand prediction project, in the amount of 63 thousand euros.

Key computer programs in 2008 include:

- The data processing centre's disaster recovery plan, for 1,302 thousand euros.
- The new version of the SL-ATR to adapt it to Order ITC/3126/2005, for 1,159 thousand euros
- The new functionality of the Human Resources systems, for 736 thousand euros
- Facility maintenance and operation system, for 527 thousand euros
- Enagas' SAP customer confidence centre, for 517 thousand euros.
- Consolidation and stabilisation of the critical business applications, for 417 thousand euros
- The reading and measuring system, for 317 thousand euros
- Tank distribution management system, for 309 thousand euros.

At year end 2008 and 2007, the company was still using the following fully-amortised intangible assets:

2008

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

2007

Description	Carrying amount (gross)
Development costs	46
Computer software	9,222
Other intangible assets.	1,415
Total	**10,683**

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 2008 and 2007 were as follows:

2008

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

2007

Cost	Beginning balance	Additions	Increase / (decrease) due to transfers	Disposals, derecognition or reversals	Ending balance
Land and buildings	134,714	4,856	5,593	(1,324)	143,839
Plant and machinery	4,486,602	57,726	65,741	(965)	4,609,104
Other installations, equipment and furniture	35,555	4,622	–	(724)	39,453
Prepayments and work in progress	373,523	491,853	(71,334)	(2,796)	791,246
Government grants	(560,851)	–	–	–	(560,851)
Total cost	**4,469,543**	**559,057**	**–**	**(5,809)**	**5,022,791**

Depreciation	Beginning balance	Additions	Increase / (decrease) due to transfers	Disposals, derecognition or reversals	Ending balance
Land and buildings	36,326	2,534	–	(507)	38,353
Plant and machinery	1,573,458	198,556	–	(804)	1,771,210
Other installations, equipment and furniture	31,677	1,459	–	(686)	32,450
Prepayments and work in progress	–	–	–	–	–
Government grants	(207,283)	(20,855)	–	–	(228,138)
Total depreciation	**1,434,178**	**181,694**	**–**	**(1,997)**	**1,613,875**

Impairment losses	Beginning balance	Additions	Increase / (decrease) due to transfers	Reversals	Disposals or derecognition	Ending balance
Land and buildings	–	–	–	–	–	–
Plant and machinery	20,458	528	–	–	(2,797)	18,189
Other installations, equipment and furniture	–	–	–	–	–	–
Prepayments and work in progress	–	–	–	–	–	–
Government grants	–	–	–	–	–	–
Total impairment losses	**20,458**	**528**	**–**	**–**	**(2,797)**	**18,189**

The transfers in plant and machinery were accounted for by the start-up during the year of:

- Branch of the Barcelona-Arbós gas pipeline
- The Alcázar de San Juan-Villarrobledo gas pipeline
- Phase II of the Semianillo south-west Madrid gas pipeline
- The Albacete-Villarrobledo gas pipeline
- Branch of the gas pipeline to Campo de Gibraltar
- The Albacete-Montesa gas pipeline
- Section 1 of the Montesa-Denia gas pipeline
- The Ramal-ACECA gas pipeline.
- Regulation and metering stations in various positions of the basic network
- The increase in the emission capacity of the Cartagena Plant to 1,350,000 m^3
- GA-243-D secondary pump in the Cartagena Plant
- DCI civil works in the Cartagena Plant.
- A fourth tank at the Cartagena Plant.
- The capacity addition at the Barcelona Sea Line.
- Refurbishment of the tank loading platform in Barcelona.
- The Zaragoza compression station
- The Alcázar de San Juan compression station
- Methanol regeneration plant in the Serrablo storage facility.

Additions under "Plant and Machinery" include 4,063 thousand euros (2007: 42,762 thousand euros) corresponding to the minimum linepack for system security of the gas pipelines (2,318 thousand euros) as well as minimum operating levels for the regasification plants (1,745 thousand euros, also known as "gas for operation").

Additions in "Prepayments and work in progress" in 2008 relate mainly to the following installations:

- The increase in the emission capacity of the Barcelona Plant to 1,800,000 m^3
- The increase in the emission capacity of the Barcelona Plant to 1,950,000 m^3
- The upgrade of the boil-off system at the Huelva plant
- A fifth tank at the Cartagena Plant.
- A fifth tank at the Huelva Plant.
- A seventh tank at the Barcelona Plant.
- An eighth tank at the Barcelona Plant.
- Increase in capacity at the Haro Compression Station.
- The Navarra compression station

- The Montesa compression station
- The Denia compression station
- The Chinchilla compression station
- The Denia-Ibiza-Mallorca underwater gas pipeline
- Lemona – Haro gas pipeline.
- Almería-Lorca gas pipeline.
- Lorca-Chinchilla gas pipeline.
- Regasification facilities at the El Musel Plant.
- Marine civil engineering works at the El Musel Plant.
- DCS substitution and expansion of control and command room at Barcelona Plant.

Disposals, derecognition, or reversals of property, plant and equipment in 2008 relate mainly to the sale of three compressors at the Jaca-17 well for 4,788 thousand euros, the derecognition of assets amounting to 3,176 thousand euros (for which the corresponding provision had been recorded), the sale of vehicles for 637 thousand euros, and the dismantling of valve position P024, for 114 thousand euros.

The revaluation of assets by Enagás, S.A., in accordance with the provisions of Royal Decree Law 7/1996 (7 June) regarding the revaluation of assets, resulted in an increase of 16,166 thousand euros in the depreciation charge in 2008 (2007: 16,182 thousand euros).

"Plant and machinery" includes certain capitalised dismantling/ refurbishment/ retirement costs from the Serrablo storage facility amounting to 5,034 thousand euros in 2008 (2007: 819 thousand euros)

Capitalised finance costs accrued during construction of infrastructure projects in 2008 amounted to 30,145 thousand euros (2007: 19,357 thousand euros).

Likewise, own work capitalised increased property, plant and equipment by 11,555 thousand euros in 2008 (2007: 10,413 thousand euros).

The reduction in "Accumulated depreciation" relates mainly to the derecognition of the compressors at the J- 17 well at Serrablo, in the amount of 4,788 thousand euros.

At year end 2008 and 2007, the company was still using the following fully-depreciated items of property, plant and equipment:

2008

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

2007

Description	Carrying amount (gross)
Buildings	7,241
Plant and machinery	265,105
Other installations, equipment and furniture	29,584
Total	**301,930**

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 2008 relate to investments in gas infrastructure, as follows:

	Thousands of euros		
	Grants received at 31.12.08	Released to income at 31.12.08	Balance at 31.12.08
Regasification plants	76,840	51,072	25,768
Gas transport infrastructure	466,909	193,895	273,014
Underground storage facilities	17,508	4,299	13,209
Total	**561,257**	**249,266**	**311,991**

The grants were received from the following bodies:

	Thousands of euros		
	Grants received at 31.12.08	Released to income at 31.12.07	Balance at 31.12.08
EU structural funds	399,574	153,966	245,608
Spanish regional authorities	47,835	15,909	31,926
Spanish state	113,848	79,391	34,457
Total	**561,257**	**249,266**	**311,991**

Government grants to be released to the income statement in 2009 amount to approximately 20,548 thousand euros. The schedule for the release of the outstanding balance at 31 December 2008 is:

	Years		
	<1	2 to 5	>5
Spanish state grants	3,024	12,095	19,338
Spanish regional authority grants	1,588	6,351	23,987
EU structure fund grants	15,936	63,744	165,928
Total grants	**20,548**	**82,190**	**209,253**

7. Interests in joint ventures

There were no changes to shareholdings in subsidiaries in 2008 and 2007 so the percentage stakes and balances held by the parent company Enagás, S.A. remain as follows:

	Thousands of Euros		Percentage stakes
	2008	2007	
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**	**–**
(-) Impairment losses	–	–	–
Total, net	**39,217**	**39,217**	**–**

8. Financial assets

8.1. Composition and breakdown

The Group's financial assets at 31 December 2008 and 31 December 2007, broken down by class and category for measurement purposes, were as follows:

	Non-current financial assets							
Category / Class	Equity instruments		Debt securities		Loans, derivatives and other financial assets		Total	
	2008	2007	2008	2007	2008	2007	2008	2007
Assets at fair value through profit or loss								
– Financial assets held for trading	–	–	–	–	–	–	–	–
– Other non-current financial assets	–	–	–	–	–	–	–	–
Held-to-maturity investments	1	1	–	–	711	697	712	698
Loans and receivables	–	–	–	–	12,584	16,154	12,584	16,154
Available-for-sale financial assets								
– Measured at fair value	–	–	6,420	8,100	–	–	6,420	8,100
– Measured at cost	–	–	–	–	–	–	–	–
Derivatives	–	–	–	–	–	–	–	–
Total	**1**	**1**	**6,420**	**8,100**	**13,295**	**16,851**	**19,716**	**24,952**

	Current financial assets							
Category / Class	Equity instruments		Debt securities		Loans, derivatives and other financial assets		Total	
	2008	2007	2008	2007	2008	2007	2008	2007
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	–	–	–	–	6,292	5,377	6,292	5,377
Available-for-sale financial assets								
– Measured at fair value	–	–	–	–	–	–	–	–
– Measured at cost	–	–	–	–	–	–	–	–
Derivatives	–	–	–	–	2,169	2,928	2,169	2,928
Total	**–**	**–**	**–**	**–**	**8,461**	**8,305**	**8,461**	**8,305**

The changes in 2008 and 2007 in Group financial assets were as follows:

	Thousands of Euros				
	Balance at 01.01.08	Additions or provisions	Gains (losses) recognised in equity/income	Disposals, derecognition or reversals	Balance at 31.12.08
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	–	–	–	–	–
Net total	**33,257**	**3,842**	**4,500**	**(13,422)**	**28,177**

	Thousands of Euros				
	Balance at 01.01.07	Additions or provisions	Gains (losses) recognised in equity/income	Disposals, derecognition or reversals	Balance at 31.12.07
Held-to-maturity investments	716	4	–	(22)	698
Loans and receivables	21,220	7,615	–	(7,304)	21,531
Available-for-sale financial assets	9,243	1,884	(575)	(2,452)	8,100
Derivatives	300	–	2,628	–	2,928
Gross total	**31,479**	**9,503**	**2,053**	**(9,778)**	**33,257**
(-) Impairment losses	–	–	–	–	–
Net total	**31,479**	**9,503**	**2,053**	**(9,778)**	**33,257**

8.2. Impairment losses

In 2008, 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 or euros	Interest rate	Maturity
Non-current loans:			
Loans to Group companies	16,132	5.122%	Sept.-2011
Other loans	22	–	–
Current loans:			
Loans to Group companies	5,377	5.122%	Dic.-2008
Balance at 31.12.07	**21,531**		
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%	Dic.-2009
Balance at 31.12.08	**18,876**		

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 bear 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	31.12.2008	31.12.2007
Non-current loans to Group companies		
Gasod. Al-Andalus, S.A.	5,487	7,293
Gasod. de Extremadura, S.A.	620	1,123
Gasod. Campo Maior- Leiria- Braga, S.A.	2,597	3,549
Gasod. Braga-Tuy, S.A.	3,880	4,167
Total, non-current	**12,584**	**16,132**
Current loans to Group companies		
Gasod. Al-Andalus, S.A.	2,743	2,431
Gasod. de Extremadura, S.A.	310	374
Gasod. Campo Maior- Leiria- Braga, S.A.	1,299	1,183
Gasod. Braga-Tuy, S.A.	1,940	1,389
Total, current	**6,292**	**5,377**

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 relate to a BBVA mutual fund.

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

The carrying value of this fund at 31 December 2008 6,420 thousand euros (2007: 8,100 thousand euros). The interest in this fund at 31 December 2008 was 100%.

In 2008, 134 thousand units of the fund were sold, with a historical cost of 1,619 thousand euros, and a contribution worth 730 thousand euros corresponding to 54 thousand units was made.

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:

	2008	2007
Trade and other receivables:		
Trade receivables	29,860	174,722
Receivable from Group companies	1,815	1,916
Other receivables	366,237	308,087
Income tax receivable	46,296	12,567
Total	**444,208**	**497,292**

The 1,815 thousand euro "Receivable from Group companies" balance corresponds to 839 thousand euros receivable from Gasoducto Al-Andalus, S.A. and 976 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 2008 for 228,394 thousand euros, and the outstanding balance on the remuneration for technical system management of 1,125 thousand euros, leaving a total outstanding balance at the end of 2008 of 229,519 thousand euros.

In 2008, having received the final settlement amounts for 2002 and 2003, the outstanding balances for regulated activities in those years were recognised in the 2007 and 2008 settlements as one-time payments amounting to 23,412 thousand euros and 12,795 thousand euros, respectively. Based on this new information, the company has made the pertinent adjustments to reflect the new situation in the accompanying 2008 consolidated financial statements.

Moreover, definitive settlement amounts have been received for 2004 and 2005 giving rise to a receivable of 1,761 thousand euros and a payable of 3,133 thousand euros, respectively. These settlement statements also recognise accumulated variances in Enagas' favour for the period from 2004 to 2007 totalling 27,605 thousand euros, an amount which is being added to recognised cost for 2008 in this year's settlements. At the date of preparation of these consolidated financial statements, the definitive settlements related to the remuneration of regulated transport activities in 2006 and 2007 were pending.

In addition, the company has yet to collect 3,785 thousand euros for its services as Technical System Manager from 2002 to 2007.

"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 2008, these uncollected amounts totalled 11,727 thousand euros, of which 5,830 thousand euros are subject to a lawsuit filed by certain suppliers. Specifically, 5,059 thousand euros were past due by over one year at 31 December 2008.

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, extemporaneous.

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 ratified expressly 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 is not *extemporaneous*.

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 2008 totalled 28,240 thousand euros, of which 50% (14,120 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.

At the date of preparation of these financial statements, the regional economic and administrative court of Madrid had issued rulings upholding 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.

Consequently, Enagás, S.A. is entitled to demand payment from suppliers for the amounts indicated in the invoices issued in 2004, 2005, 2006, and 2007 corresponding to the total amount charged by the Port Authorities of Huelva, Barcelona, and Cartagena.

"Taxes receivable" at 31 December 2008 basically includes VAT receivable by the Enagás, S.A. parent company as the VAT paid is higher than VAT collected, partly because Enagás, S.A. acts as a tax warehouse.

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 relate to companies of recognised prestige and solvency.

The Group does not have a significant concentration of credit risk as it operates in a regulated environment with planned scenarios. However, it makes the valuation adjustments estimated necessary to cover bad debt risks.

10. Inventories

As indicated in Note 4.f, when Law 12/2007 of 2 July went into effect, 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 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.

Once transactions for December 2008 have been definitively settled (expected in February 2009), and consequently, once the legal adjustment period has concluded, both parties will record the definitive adjustments in relation to surplus or deficit amounts.

For the time being, based on available information until said contract is definitively settled, Enagás, S.A. does not own any gas and has therefore not recorded any gas inventories in its accounting records. The impact of settling this contract will be taken into account in the financial statements for 2009, but it is not expected to be significant.

It should be noted that at 31 December 2008, Enagás, S.A., as Technical System Manager, had 735 GWh of Operational Gas necessary to ensure operation of the gas system, as established in the fifth additional provision of Order ITC/3863/2007 of 28 December. 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 2,215 thousand euros (2,419 thousand euros in 2007) of inventories unrelated to natural gas that include, inter alia, office materials and consumables.

No inventory impairment losses were recorded in 2008 or 2007.

11. Equity

11.1. Issued capital

At 31 December 2008 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 2008, Enagás, S.A.'s share price stood at 15.56 euros, having reached a high for the year of 21.01 euros per share on 9 January.

At year-end 2008 and 2007, no company held 5% or more of the company's issued capital. The most significant shareholdings in Enagás, S.A. at 31 December 2008 are as follows:

Company	% shareholding
Gas Natural, SDG., S.A.	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.

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 for a period of less than three years".

The Group has no treasury shares.

11.2. Reserves

Legal reserve

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 fully allocated the legal reserve in an amount of 71,620 thousand euros, included under "Restricted reserves" in the accompanying consolidated balance sheet.

Revaluation reserve

In 2007, this balance, which arose as a result of the revaluation made pursuant to Royal Decree-Law 7/1996 of 7 June, was allocated to unrestricted reserves as provided for in the same decree.

11.3. Interim dividend

The distribution of net profit for 2008 that Enagás, S.A.'s Board of Directors will propose for approval at the General Shareholders' Meeting is as follows:

	Thousands of euros
Dividend	155,330
Voluntary reserves	100,066
	255,396

At its meeting of 22 December 2008, the Board of Directors of Enagás, S.A. resolved to pay an interim dividend against 2008 profit of 62,071 thousand euros (0.26 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 Corporations Law.

In accordance with legal requirements, the provisional financial statements prepared by the Group, which showed that there were sufficient resources to pay interim dividends 2008, are the following:

	Miles de euros	
	Provisional financial astatements at 31 October 2008	Provisional financial astatements at 31 October 2007
Accounting profit (Group)	221,102	196,247
10% allocation to legal reserve	–	–
Income available for distribution	**221,102**	**196,247**
Forecast interim dividend	**(62,071)**	**(57,296)**
Forecast cash at bank and in hand (Group) between 31 October and 31 December:		
– Cash at bank and in hand	297,270	2,890
– Collections forecast for the period	125,000	271,800
– Credit facilities and loans granted by banks	200,000	459,000
– Payments forecast for the period (including interim dividend)	(158,000)	(313,700)
Forecast cash at bank and in hand	**464,270**	**419,990**

The proposed gross final dividend (0.39 euros per share) is subject to approval at the Shareholders' Meeting and is not included as a liability in these financial statements.

11.4. 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 (see Note 8.4).

This fund is carried at fair value in accordance with its market price at each balance sheet date.

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

	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 17).

The movement in these headings in 2008 and 2007 were as follows:

2008

	Thousands of euros			
	01.01.2008	Change in fair value	Recognised in income	31.12.2008
Cash flow hedges:				
Collars	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)**

2007

	Thousands of euros			
	01.01.2007	Change in fair value	Recognised in income	31.12.2007
Cash flow hedges:				
Collars	739	2,273	(1,575)	1,437
Tax effect deferred in equity	(222)	(675)	466	(431)
Total	**517**	**1,598**	**(1,109)**	**1,006**

Net unrealised gains (losses) reserve - other

This item reflects the cancellation of the debt owed by the government to Enagás, S.A. since 2007 for the settlements corresponding to the period from 2003 to 2005. The final settlements were received in 2008 and the debt was cancelled.

12. Earnings per share

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

Accordingly:

	2008	2007	Chg
Profit for the year (thousands of euros)	258,885	238,286	8.64%
Weighted average number of shares outstanding (thousand)	238,734	238,734	–
Basic earnings per share (euros)	**1.0844**	**0.9981**	**8.64%**

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 31 December 2008, basic and diluted earnings per share are the same.

13. Provisions and contingent liabilities

13.1. 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 the balance of this caption of the financial statements in 2008 were as follows:

Non-current provisions	01.01.2008	Additions	Discounting / restatement to fair value	Amounts applied	31.12.2008
Litigation	1,167	(1,050)	–	(10)	107
Long-service bonus	8,110	730	(668)	(1,742)	6,430
LTI	–	1,362	–	–	1,362
Abandonment costs	19,417	3,403	799	–	23,619
Other	1,989	(1,984)	–	–	5
Total long-term provisions	**30,683**	**2,461**	**131**	**(1,752)**	**31,523**

The most significant items of provisions recorded in 2008 are as follows:

- Litigation. This item includes a lawsuit filed by Fibracolor, S.A. due to interruptions in the gas supply in March 2005 caused by lack of gas inventories.
- Long-service bonus. Relates to non-consolidated remuneration to reward management and executive directors for their length of service to the company. In 2008, the provision was increased by 730 thousand euros and 1,742 thousand euros were applied in conjunction with the sale of investments made during the year. This balance also includes a 668 thousand euro charge to reflect the impact of measurement at fair value.
- 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 system which concludes in June 2010.
- Abandonment costs. This provision includes a revised estimate of the cost of dismantling the Serrablo facility, while the impact of discounting the dismantling costs for both the Serrablo and Yela storage facilities were reflected in "Discounting/restatement to fair value". (See Note 3.b).

13.2. Contingencies

The Group had the following contingent liabilities at 31 December 2008:

- 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 and 2006, amounting to 23 thousand euros.
- Proceedings with the state tax authorities (AEAT) regarding assessments relating to VAT on imports in 2003 an 2004 (see Note 20).

14. Financial liabilities

14.1. Non-current financial liabilities

The breakdown of "Non-current financial liabilities" at year-end 2008 and 2007 was as follows:

	Non-current financial liabilities							
Category / Class	**Bank borrowings and finance leases**		**Bonds and other marketable debt securities**		**Derivatives and other financial liabilities**		**Total**	
	2008	**2007**	**2008**	**2007**	**2008**	**2007**	**2008**	**2007**
Trade and other payables	2,114,198	1,758,923	–	–	36,094	23,791	2,150,292	1,782,714
Liabilities a fair value through profit or loss								
– Held for trading	–	–	–	–	–	–	–	–
– Other	–	–	–	–	–	–	–	–
Derivatives	–	–	–	–	6,111	–	6,111	–
Total	**2,114,198**	**1,758,923**	**–**	**–**	**42,205**	**23,791**	**2,156,403**	**1,782,714**

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

2008

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

2007

	2009	2010	2011	2012 and beyond	Total
Bank borrowings	84,344	1,114,100	105,714	454,765	1,758,923
Finance leases	–	–	–	–	–
Derivatives	–	–	–	–	–
Others	10,032	5,115	5,500	3,144	23,791
Total	**94,376**	**1,119,215**	**111,214**	**457,909**	**1,782,714**

At 31 December 2008, the company had undrawn credit facilities amounting to 292 million euros, with a limit of 331 million euros (2007: 246 million euros, with a limit of 324 million euros), which, in the opinion of management, sufficiently covers any short-term commitments of the Group.

There are also 1,450 million euros of undrawn loans (2007: 200 million euros).

Average annual interest in 2008 on Group loans and credit facilities in euros was 4.98% without considering hedges and fees and 4.74% factoring hedges and fees in (4.33% and 4.28%, respectively, in 2007).

Current loans and credit facilities of the parent company are denominated in euros and earned average annual interest of 4.67% in 2008.

The directors estimate that the fair value of bank borrowings at 31 December 2008 calculated by discounting of future cash flows at market interest rates amounted to 3,374 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	26.4	-26.7

“Derivatives and other financial liabilities” classified as trade and other payables include:

- 5,304 thousand euros corresponding to the adjustments envisaged in the income tax assessment for 1995 to 1998, discounted to 31 December 2008 (2007: 5,085 thousand euros).

- The loan from the General Energy Secretariat, which forms part of the aid envisaged in the National Energy Program 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.

  Also included is the loan from the General Energy 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.

  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.

- 15,725 thousand euros corresponding to long-term payables to suppliers of property, plant and equipment recognised by the Group in 2008.

- The loans which the subsidiaries Gasoducto Al-Andalus, S.A. and Gasoducto de Extremadura, S.A. received from the Portuguese company Galp Gas Natural, S.A. amounting to 5,558 thousand euros and 2,593 thousand euros, respectively, as well as those received by the subsidiary Gasoducto Campo Mayor Leiria Braga, S.A. from the Portuguese company REN, S.A. amounting to 2,549 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.

At 31 December 2008, there were no issuances, repurchases, or repayments of debt securities or other issues guaranteed by the Enagás Group.

Financing highlights in the year include:

- A loan of 500 million euros granted by the Official Credit Institute (ICO), with initial fees amounting to 0.15% of principal, a grace period of up to five years, and a bi-yearly amortisation schedule concluding in ten years. In 2008, 100 million euros were drawn down.
- A loan of 100 million euros granted by SCH for one year and falling due in April 2009.
- A loan of 100 million euros granted by BBVA for one year and falling due in April 2009.
- A loan of 30 million euros granted by CajaAstur falling due in May 2011.
- A loan of 50 million euros granted by BBK falling due in June 2009.
- A loan of 100 million euros granted by La Caixa falling due in May 2011.
- A loan of 50 million euros granted by the Royal Bank of Scotland, none of which had been drawn down at 31 December 2008.
- A loan of 30 million euros granted by ING falling due in July 2009.
- A loan of 1,000 million euros granted by BEI, the first tranche (Tranche A) of which amounts to 350 thousand euros and was executed on 19 December 2008. At 31 December 2008, none of this amount had been drawn down

In keeping with Note 2.4 regarding Comparison of Information, it is hereby indicated that this note includes figures which in 2007 were included in "Bank borrowings" (Note 16) and "Other financial liabilities" (Note 17) in the 2007 consolidated financial statements for 2007, and 5,085 thousand euros corresponding to borrowings from other companies which in the 2007 balance sheet were recorded in "Other liabilities – non-current".

14.2. Current financial liabilities

The breakdown of "Current financial liabilities" at year-end 2008 and 2007 was as follows:

	Current financial liabilities							
Category / Class	**Bank borrowings and finance leases**		**Bonds and other marketable debt securities**		**Derivatives and other financial liabilities**		**Total**	
	2008	**2007**	**2008**	**2007**	**2008**	**2007**	**2008**	**2007**
Trade and other payables	430,428	167,223	–	–	68,299	61,938	498,727	229,161
Liabilities at fair value through profit or loss								
– Held for trading	–	–	–	–	–	–	–	–
– Other	–	–	–	–	–	–	–	–
Derivatives	–	–	–	–	16,008	–	16,008	–
Total	**430,428**	**167,223**	**–**	**–**	**84,307**	**61,938**	**514,735**	**229,161**

"Derivatives and other financial liabilities" classified as trade and other payables included an interim dividend against earnings amounting to 62,071 thousand euros in 2008 and 57,296 euros in 2007.

Likewise, this heading includes interest on bank borrowings from related parties amounting to 912 thousand euros in 2008, as well as other items pending allocation amounting to 39 thousand euros.

In keeping with Note 2.4 regarding Comparison of Information, it is hereby indicated that this note includes figures which in 2007 were included in "Bank borrowings" (Note 16) and "Other financial liabilities" (Note 17) in the 2007 consolidated financial statements for 2007, and the amount corresponding to a dividend payable which in the 2007 balance sheet was recorded under "Other financial liabilities".

15. Other non-current liabilities

The changes in 2008 and 2007 in this caption of the accompanying consolidated balance sheet were as follows:

Thousands of euros	Gasoducto de Extremadura, S.A. royalty	Gasoducto Al-Andalus, S.A. royalty	Total
Balance at 1 January 2007	**7,960**	**28,981**	**36,941**
Additions/decreases/recognition in income	4,394	(962)	3,432
Balance at 31 December 2007	**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**

Amounts related to the royalty of the Gasoducto de Extremadura, S.A. and Gasoducto Al-Andalus, S.A. subsidiaries correspond to balances pending application of contracts signed with these subsidiaries in respect of "gas transport rights" 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 2008 is the following:

Thousands of euros	Connections to the basic network
Balance at 31 December 2007	**23,610**
Additions	9,395
Decreases/recognition in income	(513)
Balance at 31 December 2008	**32,492**

16. Risk and capital management policy

16.1. Qualitative information.

The Enagás Group is exposed to certain risks, which it manages via systems of identification, measurement, restriction of concentration and supervision.

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

- To comply with rules of good corporate governance
- To comply strictly with the Group's regulations

- Each business and corporate area defines:

  a) The markets and products where it has sufficient knowledge and capacity to ensure effective risk management

  b) Criteria for counterparties

  c) Authorised operators

- 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 operations 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 the state and expectations of debt and capital markets.

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.

16.2. Quantitative information.

a) Interest-rate exposure:

	2008	2007
Percentage of borrowings referenced to hedged rates	59%	51%

Taking into account these percentages of bank borrowings tied to fixed interest rates and by performing a sensitivity analysis on market rate changes of one percentage point, in accordance with its estimates, the Company considers that the impact on profit or loss of this change in the finance cost of the borrowings tied to floating interest rates could amount to approximately EUR 10 million.

Conversely, with respect to borrowings tied to floating interest rates, the estimated impact on equity of the derivatives arranged arising from similar market rate fluctuations would not lead to material changes during 2009.

16.3. 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 a 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 2007 and 2008. Overall, the Group's capital structure consists of equity attributable to the equity holders of the parent (capital, share premium, retained earnings, and others), borrowings, cash, and other liquid assets. In this regard, the Group provides quantitative disclosures in Notes 14 to 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 its 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 were unchanged in 2008 (see Note 32). The company monitors these ratings for decision-making purposes.

17. 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.

2008

Instrument	Contrat Date	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**				

2007

Instrument	Contract Date	Amount	Cap/Floor	Fixed rate	Start date	Maturity
Collar	August-2003	1,000,000	4.12/3.67	–	10/01/2005	11/01/2008
Total		**1,000,000**				

The company has fulfilled the requirements set forth in Note 3.f 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 2008 and 2007 is as follows:

2008

					Fair value (thousands of euros)	
Instrument	Classification	Rate	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**

At year-end 2008, the amount recognised in the income statement in connection with the fair value of these hedging instruments was 6,548 thousand euros.

2007

					Fair value (thousands of euros)	
Instrument	Classification	Rate	Amount (thousands of euros)	Maturity	Assets	Liabilities
Collar	Interest rate hedge	Cap	1,000,000	April 2008	2,928	–
Total			**1,000,000**		**2,928**	**–**

At year-end 2007, the recognised in the income statement in connection with the fair value of this hedging instrument was 1,575 thousand euros.

18. Trade and other payables

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

	2008	2007
Trade and other payables:		
Payables to Group companies	2,414	2,766
Gas Natural, SDG, S.A. Group suppliers	9,789	151,307
Other suppliers	438,602	322,977
Other payables	3,693	3,615
Current tax liability	48,661	42,627
Total	**503,159**	**523,292**

"Payables to Group companies" relates to gas transport services payable, consolidated proportionately, which subsidiaries provide to Enagás, S.A.

"Gas Natural, SDG, S.A. Group suppliers" relates mainly to purchases of natural gas for operations from Gas Natural Comercializadora Sdg, S.A. amounting to 2,955 thousand euros, and to compensation for shrinkage as per a CNE resolution, to Gas Natural Distribución, SDG, S.A. amounting to 5,000 thousand euros, while the balances with other suppliers relate mainly to purchases of materials and services provided to Group companies, recognised principally under "Other operating expenses" and "Non-current assets".

In keeping with Note 2.4 regarding Comparison of Information, it is hereby indicated that this note includes figures which in 2007 were included in "Trade and other payables" (Note 20) and "Tax receivable and payable" (Note 22.3) in the 2007 consolidated financial statements for 2007, and 3,615 thousand euros which in the 2007 balance sheet were recorded under "Other financial liabilities".

19. 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 2,091 thousand euros in 2008 (2,014 thousand in 2007), recognised under "Personnel benefits expense" in the accompanying consolidated income statement.

20. Taxation

20.1. 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.

20.2. Tax receivable and payable

Balances receivable from and payable to public authorities at 31 December are as follows:

	Thousands of euros	
	2008	**2007**
Tax Receivable:		
VAT	46,296	12,567
Other	–	–
Total	**46,296**	**12,567**
Tax Payable:		
Income tax	43,502	39,685
VAT	70	237
Other	5,089	2,705
Total	**48,661**	**42,627**

At year end, 61,507 thousand euros had been paid (72,490 thousand euros in 2007) on account of the final income tax expense payable, of which 57,655 thousand euros related to Enagás, S.A. (67,720 thousand euros in 2007), 2,033 thousand euros to Gasoducto Al-Andalus, S.A. (2,954 thousand euros in 2007), and 1,819 thousand euros to Gasoducto de Extremadura, S.A. (2,176 thousand euros in 2007).

20.3. Reconciliation of profit before tax and taxable income

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

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 (foreign fines and taxes)	190	–	190
Temporary differences:			
Arising in 2008			
Accelerated depreciation R.D.L. 3/1993	–	–	–
Government grants	–	–	–
Long-service fund	730	(668)	62
Property revaluations	606		606
Provisions for litigation	76	(76)	–
Provisions for HCP	–	–	–
Other	1,425		1,425
Arising in prior years			
Accelerated depreciation R.D.L. 31/1993	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**

2007

	Thousands of euros		
	Increase	**Decrease**	**Total**
Accounting profit before tax	**350,665**		**350,665**
Permanent differences:			
Exemption for international double taxation	–	(1,545)	(1,545)
Other items (foreign fines and taxes)	121	–	121
Temporary differences:			–
Arising in 2008			
Accelerated depreciation R.D.L. 3/1993	–	–	–
Government grants	–	–	–
Long-service fund	1,884	–	1,884
Property revaluations	114	–	114
Provisions for litigation	147	–	147
Provisions for HCP	1,371	–	1,371
Other	–	(586)	(586)
Arising in prior years			
Accelerated depreciation R.D.L. 3/1993	645	–	645
Government grants	–	(359)	(359)
Long-service fund	–	(2,452)	(2,452)
Provisions for property, plant and equipment	–	(690)	(690)
Provisions for litigation	–	(562)	(562)
Provisions for HCP	–	(2,097)	(2,097)
Other	456	(59)	397
Offset of tax loss carryforwards			
Taxable income	**355,403**	**(8,350)**	**347,053**

20.4. Income tax recognised in equity

Aside from the income tax charge recognised in the consolidated income statements, in 2008 and 2007 the Group booked the following amounts for the following items in consolidated equity.

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
For discounting of taxes payable	–	–	–
Arising in prior years			
Current available-for-sale	–	–	–
Measurement of other financial assets	362	–	362
For 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**

2007

	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	473	(682)	(209)
Measurement of other financial assets	–	–	–
For discounting of taxes payable			
Arising in prior years			
Current available-for-sale	–	–	–
Measurement of other financial assets	–	–	–
For discounting of taxes payable	455	–	455
Total deferred tax	**928**	**(682)**	**246**
Total taxes recognised directly in equity	**928**	**(682)**	**246**

20.5. Reconciliation between profit before tax and income tax expense

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

	2008	2007
Accounting profit before tax	**366,126**	**350,665**
Tax rate 30% (*)	109,838	113,966
Impact temporary differences	**(378)**	**(463)**
Deductions:		
International double taxation relief	(2,545)	(2,386)
Investments in R&D&I and others	(2,301)	(1,253)
Employee training expense	(15)	(17)
Pension fund contributions	(64)	(85)
Effect of tax reform in Spain	**–**	**(1)**
Effect of applying different tax rates	**(81)**	**(136)**
Tax effect of consolidation eliminations against equity	**2,787**	**2,754**
Offset of tax loss carryforwards	**–**	**–**
Total tax expense recognised in the income statement	**107,241**	**112,379**

(*) Para el ejercicio 2007 la cuota era de 32,5%

20.6. Breakdown of income tax expense

The breakdown of "Income tax expense" for 2008 and 2007 is as follows:

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**

2007

	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	100,870	2,592	1,933	452	215
Discontinued operations	–	–	–	–	–
Deferred tax:					
Continuing operations	6,317	–	–	–	–
Discontinued operations	–	–	–	–	–
Total tax expense	**107,187**	**2,592**	**1,933**	**452**	**215**

20.7. Deferred Tax

The breakdown of deferred tax assets and liabilities in 2008 and 2007 is as follows:

	2008	2007
Temporary differences (deferred tax assets)		
Government and other grants	1,012	1,119
Long-service bonus fund	2,238	2,096
Property revaluations	996	1,645
Provisions for litigation	122	351
Provisions for HCP	–	595
Derivatives	6,627	(431)
Other	3,251	4,712
Tax loss carryforwards	–	–
Unused tax credits and other	–	–
Total deferred tax assets	**14,246**	**10,087**

	2008	2007
Deferred tax liabilities:		
Accelerated depreciation	1,072	1,385
Government and other grants	–	–
Long-service bonus fund	–	306
Derivatives	130	–
Other	153	73
Total deferred tax liabilities	**1,355**	**1,764**

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.

The Group had not recognised any loss carryforwards or unused tax credits at year end 2008 or 2007.

The Group does not have any unrecognised deferred tax assets.

At the end of 2007, Enagás, S.A. recorded prepaid and deferred tax balances in accordance with the provisions of Law 35/2006 of 28 November on personal income tax and the partial amendments to the laws governing corporate taxation and the taxation of non-residents and wealth tax. This law modifies, inter alia, the corporate income tax rate. The rate applicable is 32.5% for 2007 and 30% for 2008 and beyond.

20.8. Years open to inspection and tax audits

In accordance with current legislation, tax returns cannot be considered definitive until they have been inspected by the tax authorities or the inspection period of four years has prescribed. At year end 2008, Enagás, S.A. is open to inspection for all years for which the inspection period has not elapsed. The inspection of VAT on imports is still pending for 2006, 2007, and 2008 for Enagás, S.A.

At 31 December 2008, Enagás, S.A. had tax assessments issued in respect of VAT on imports for 2002, 2003, 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	Tax charge	Interest	Total
2002	2,358	326	2,684
2003	213	36	249
2004	410	100	510

At the date of preparation of these financial statements, the assessments had been signed under protest and appealed by the company.

21. Revenue

The breakdown of Group revenue is analysed below:

	2008	2007
Sales of gas on the regulated market	377,019	973,781
Cost of sales of gas on the regulated market	(369,379)	(985,932)
Net (purchase)/sale of gas on regulated market	**7,640**	**(12,151)**
Revenue from regulated activities	813,101	792,025
Revenue from liberalised activities	16,186	15,499
Other revenue	16,807	16,070
Sales of materials	76	–
Ancillary and other operating revenue	16,613	16,035
Government grants	118	35
Total	**853,734**	**811,443**

Sales of gas relate entirely to those made by Enagás, S.A. 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:

	2008	2007
Regulated activities:		
Enagás, S.A.	813,101	792,025
Liberalised activities:		
Gasoducto Al-Andalus, S.A.	7,602	7,145
Gasoducto Extremadura, S.A.	5,875	5,563
Gasoducto Campo Maior - Leiria - Braga, S.A.	2,534	2,621
Gasoducto Braga - Tuy, S.A.	175	170
Total	**829,287**	**807,524**

The cost of sales relates mainly to gas supplies or purchases made during the year by Enagás, S.A. to supply the regulated market. The detail by supplier is as follows:

	Thousands of euros	
	31.12.2008	31.12.2007
Sagane, S.A.	200,182	498,081
Gas Natural Aprovisionamientos, S.A.	168,399	478,827
Cepsa Gas Comercializadora, S.A.	–	8,738
Other	798	286
Total	**369,379**	**985,932**

22. Expenses

An analysis of Group expenses is provided below:

	Thousands of euros	
	31.12.2008	31.12.2007
Employee benefits expense	68,952	62,002
Other operating costs	155,126	159,073
	224,078	**221,075**

22.1. Employee benefits expense

The detail of employee benefits expense is as follows:

	Thousands of euros	
	31.12.2008	31.12.2007
Wages and salaries	54,445	48,459
Termination benefits	6,910	5,059
Social security	11,463	10,907
Other employee benefits expenses	5,598	5,976
Contributions to external pension funds	2,091	2,014
Own work capitalised	(11,555)	(10,413)
	68,952	**62,002**

The Group has capitalised 11,555 thousand euros of employee benefits expenses directly related to ongoing investment projects at 31 December 2008 and 10,413 thousand euros at 31 December 2007 (see note 6).

Job posts were reorganised in 2008. This resulted in 29 early retirements from among employees 60 years of age or older.

"Termination benefits" include the amount paid to Antonio González-Adalid García-Zozaya for stepping down from his post as Chairman of the company in January 2007 (see Note 28).

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

	Average number of employees	
	2008	2007
Managers	70	62
Technicians	467	435
Administrative staff	130	129
Labourers	350	351
Total	**1,017**	**977**

At 31 December 2008, the Group had 1,008 employees (985 in 2007). The detail by category and gender is as follows:

	2008		2007	
Category	**Men**	**Women**	**Men**	**Women**
Managers	57	9	63	8
Technicians	363	109	347	90
Administrative staff	36	90	38	90
Labourers	334	10	338	11
Total	**790**	**218**	**786**	**199**

22.2. Other operating costs

Details of this heading are:

	Thousands of euros	
	31.12.2008	**31.12.2007**
External services:		
R&D costs	1,240	646
Leases and fees	36,446	64,063
Repairs and maintenance	27,182	25,150
Professional services	13,436	10,835
Transport	14,785	14,453
Insurance premiums	2,981	3,602
Banking and similar services	5	204
Advertising and PR	2,321	1,900
Supplies	20,936	17,402
Other services	13,757	6,884
External services	**133,089**	**145,139**
Taxes other than income tax	**5,527**	**3,466**
Other external expenses	**9,061**	**7,307**
Change in trade provisions	**7,449**	**3,161**

22.3. Other information

"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 2008, these expenses amounted to 1,557 thousand euros (479 thousand euros in 2007), as follows:

2008

Categories	Audit of financial statements	Other verification services	Other services
Deloitte, S.L.	189	30	1,249
Deloitte Consulting S.L.	–	–	117
Other	2	–	–
Total	**191**	**30**	**1,366**

2007

Categories	Audit of financial statements	Other verification services	Other services
Deloitte, S.L.	158	20	–
Deloitte Consulting S.L.	–	–	299
Other	2	–	–
Total	**160**	**20**	**299**

23. Net financial result

The detail of this heading in the accompanying consolidated income statement is as follows:

Thousands of euros	31.12.2008	31.12.2007
Revenue from equity investments		–
Revenue from non-current loans	1,221	1,768
Other interest and finance revenue	12,578	(304)
Finance revenue	**13,799**	**1,464**
Financing and similar costs	(823)	(2,951)
Loan interest	(82,103)	(57,329)
Revenue attributable to provisions	2,016	(740)
Finance costs	**(80,910)**	**(61,020)**
Change in fair value of financial instruments	**124**	**–**
Impairment and gains (losses) on disposal of financial instruments	**–**	**1,926**
Net finance cost	**(66,987)**	**(57,630)**

The Group has capitalised borrowing costs in an amount of 30,145 thousand euros at 31 December 2008 and 19,357 thousand euros at 31 December 2007 (see note 6).

24. Business and geographical segments

24.1. Segmentation criteria

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

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. contributes most of the 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.

24.2. 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 one underground storage facility: Serrablo, located between the towns of Jaca and Sabiñánigo (Huesca), owned by the company.

b. Technical system management

In 2006, 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 co-ordination 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. The selling price, calculated by the government, reflects the cost of the raw materials, the average regasification cost and the cost of managing gas purchases and sales for the tariff market.

d. Liberalised activities

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

24.3. 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		Group Total	
	2008	2007	2008	2007	2008	2007	2008	2007	2008	2007
Income statement										
Operating profit (loss)	427,926	390,504	9,814	4,039	(17,685)	(445)	13,058	14,196	**433,113**	**408,295**
Profit (loss) before tax	258,539	228,907	6,923	3,422	(13,032)	(575)	6,454	6,533	**258,885**	**238,286**
Balance sheet										
Total assets	4,557,052	3,656,303	22	178,649	17,990	17,341	142,763	123,664	4,717,826	3,975,957

	Thousands of euros									
	Infrastructure		Purchase-sale of gas		Technical system management		Liberalised activities + consolidation adjustments		Group Total	
	2008	2007	2008	2007	2008	2007	2008	2007	2008	2007
Revenue	800,726	762,201	12,405	10,001	9,141	10,446	31,462	28,794	**853,734**	**811,443**
Depreciation and amortisation	196,324	181,928	1	65	2,856	1,980	3,870	3,210	**203,051**	**187,183**
Acquisitions of assets (*)	787,287	562,250	2	202	3,412	3,640	189	179	**790,890**	**566,271**
Non-current liabilities (**)										
Deferred tax liabilities	1,322	1,717	–	–	5	7	28	40	**1,355**	**1,764**
Provisions	31,321	30,290	–	1	30	56	172	336	**31,523**	**30,683**
Other non-current liabilities	32,493	23,611	–	–	–	–	37,268	40,373	**69,760**	**63,983**
Current liabilities (**)										
Trade and other payables (***)	421,180	303,164	235	157,366	16,151	1,268	22,090	21,809	**459,657**	**483,608**
Other current liabilities	–	–	–	–	–	–	525	455	**525**	**455**

(*) Acquisitions of assets includes change in inventories of replacement parts and storage of construction material for new infrastructure, and includes grants.
(**) Does not include financial liabilities.
(***) Does not include income tax payable.

25. Environmental information

Conservation of and commitment to the environment is a priority for the 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.

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 environmental aspects relating to 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 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.

In 2008, these environmental activities required total capitalised investment of 54,644 thousand euros (19,119 thousand euros in 2007). Environmental expenses incurred by the company in 2008 totalled 749 thousand euros (793 thousand euros in 2007) and are recorded under the "Other operating costs".

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

In 2008, the Group did not receive any grants or revenue relating to environmental activities, except those mentioned below in the note detailing greenhouse gas emission rights.

26. Greenhouse gas emission rights

Certain Enagás, S.A. installations come within the scope of Law 1/2006 of 9 March governing trading in greenhouse gas emission rights. In July 2006, the Spanish Ministry for the Environment published the definitive and free allocation of greenhouse gas emission rights for these installations, with the total rights assigned to Enagás, S.A. via the National Allocations Plan for 2006-2007 amounting to 756,676 (360,584 corresponding to 2006 and 396,092 to 2007).

Moreover, 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 2,310,225 (452,093 each year).

The installations for which these allocations have been received are:

- The Serrablo underground storage facility
- The LNG storage and regasification plants at Barcelona, Cartagena and Huelva

– The compression stations in: Algete, Almendralejo, Almodóvar, Bañeras, Córdoba, Crevillente, Sevilla, Haro, Paterna, Tivissa, Zamora, Zaragoza, and Alcázar de San Juan.

The 452,093 rights allocated for 2008 were valued at 23 euros/right, the spot price on the first business day of 2008 of RWE Trading GMBH.

The Enagás Group recognised the consumption of 149,348 greenhouse gas emission rights up to November 2008 in the consolidated income statement (first 11 months of 2007: 108,627 rights).

In early 2009, the Enagás Group recognised the consumption of 6,880 emission rights in December 2008 (13,449 in December 2007) in the consolidated income statement, leavings total rights consumed in 2008 at 156,228 (121,716 in 2007).

In 2008, the Group sold 290,000 of the gas emission rights allocated for the year for 6,670 thousand euros.

In this manner, total surplus rights in 2008, which amounted to 5,865 rights, and which valued at 23 euros/right (their price on the first business day of 2008), amounted to 135 thousand euros, while based on a reference price of 15.26 euros/right (their price on the last business day of 2008), they have a value of 89 thousand euros.

Likewise, total surplus rights in 2007, which amounted to 274,376 rights and were valued at 5.50 euros/right, their price on the first business day of 2007, amounted to 1,509 thousand euros, while the value of the surplus at 31 December 2007 was 3 thousand euros, based on a reference price of 0.01 euros/right, their price on the last business day of 2007.

In the first quarter of 2008, 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 2008, Enagás, S.A. delivered greenhouse gas emission rights equivalent to the verified emissions in 2007 for all these installations.

In 2008, 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.

27. Related party transactions

27.1. Related party transactions

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

Below is a detail of the Group's related-party transactions in 2008 and 2007. The detail distinguishes between significant shareholders, members of the Board of Directors and company management, 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.

2008

Expenses and revenues	Thousands of euros				
	2008				
	Significant shareholders	Directors and senior management	Persons, companies or Group entities	Other related parties	Total
Expenses:					
Finance costs	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**
Revenues					
Finance income	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**
TPNA 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 revenues	–	–	–	–	–
Total revenues	**541,584**	**–**	**21,766**	**57,554**	**620,904**

2007

Expenses and revenues	Thousands of euros				
	2007				
	Significant shareholders	Directors and senior management	Persons, companies or Group entities	Other related parties	Total
Expenses:					
Finance costs	3,134	–	–	5,100	**8,234**
Management or collaborative agreements	–	–	–	–	**–**
Transfers of R+D and license agreements	–	–	–	–	**–**
Leases	–	–	–	–	**–**
Services received	22,047	–	31,797	2,094	**55,938**
Purchase of goods (finished or work-in-progress)	948,184	–	–	–	**948,184**
Impairment provisions for bad or doubful debt	–	–	–	–	**–**
Losses on derecognition or disposal of assets	–	–	–	–	**–**
Other expenses	–	1,067	–	–	**1,067**
Total expenses	**973.365**	**1,067**	**31,797**	**7,194**	**1,013,423**
Revenues					
Finance income	–	–	2,757	–	**2,757**
Management or collaborative agreements	–	–	–	–	**–**
Transfers of R+D and license agreements	–	–	–	–	**–**
Dividends received	–	–	8,710	–	**8,710**
Leases	–	–	–	–	**–**
Services rendered	6,578	–	10,051	–	**16,629**
TPNA services	151,322	–	–	44,261	**195,583**
Sale of goods (finished or work-in-progress)	810,823	–	–	–	**810,823**
Gains on derecognition or disposal of assets	–	–	–	–	**–**
Other revenues	–	–	–	–	**–**
Total revenues	**968,723**	**–**	**21,518**	**44,261**	**1,034,502**

2008

Other transactions	Thousands of euros				
	2008				
	Significant shareholders	Directors and senior management	Persons, companies or Group 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)	–	–	–	–	**–**
Collateral and guarantees given	**–**	**–**	**–**	**61,500**	**61,500**
Collateral and guarantees 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	**–**	**–**	**–**	**–**	**–**

2007

Other transactions	Thousands of euros				
	2007				
	Significant shareholders	Directors and senior management	Persons, companies or Group entities	Other related parties	Total
Purchase of property, plant and equipment, intangible assets, or other	–	–	–	–	**–**
Financing agreements: loans and capital contributions (lender)	–	–	48,757	–	**48,757**
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)	79,761	–	–	132,241	**212,002**
Finance leases (lessee)	–	–	–	–	**–**
Repayment or cancellation of loans and finance leases (lessee)	–	–	–	–	**–**
Collateral and guarantees given	**–**	**–**	**–**	**67,877**	**67,877**
Collateral and guarantees received	**12,022**	**–**	**–**	**15,103**	**27,125**
Commitments assumed	**–**	**–**	**–**	**–**	**–**
Cancelled commitments/guarantees	**–**	**–**	**–**	**–**	**–**
Dividends and other benefits paid	**25,892**	**–**	**–**	**5,663**	**31,555**
Other transactions	**–**	**–**	**–**	**–**	**–**

28. Directors and senior management compensation

28.1. Wages and salaries

The remuneration received in 2008 and 2007 by the members of the Board of Directors and Group senior management, broken down by item, was as follows:

2008

	Salaries	Attendance fees	Other	Pension plans	Insurnace premiums	Severance pay	Equity-settled transactions
Board of Directors	1,278	1,177	78	–	57	–	–
Senior executives	1,954	–	86	47	85	–	–
Total	**3,232**	**1,177**	**164**	**47**	**142**	**–**	**–**

2007

	Salaries	Attendance fees	Other	Pension plans	Insurnace premiums	Severance pay	Equity-settled transactions
Board of Directors	861	1,067	43	3	56	4,725	–
Senior executives	1,914	–	94	61	111	–	–
Total	**2,775**	**1,067**	**137**	**64**	**167**	**4,725**	**–**

At 31 December 2008, the company had extended advances or loans to Board members or senior management totalling 3 thousand euros.

The detail of the remuneration by board member, excluding insurance premiums, is the following:

	Thousands of euros	
CONSEJEROS	**2008**	**2007**
Antonio Llardén Carratalá (Executive Director) (*)	1,420	936
Antonio González Adalid (Executive Director) (**)	–	84
Bancaja (Proprietary Director)	–	102
Dionisio Martínez Martínez (Independent Director)	76	72
José Rivas Marcos (Independent Director)	64	–
José Riva Francos (Independent Director)	–	61
Luis Javier Navarro Vigil (External Director)	76	73
Carlos Egea Krauel (Proprietary Director)	76	67
Jesús David Álvarez Mezquíriz (Independent Director)	64	61
Caja de Ahorros del Mediterráneo (Proprietary Director) (***)	25	67
José Luis Olivas Martínez (Proprietary Director)	107	–
Peña Rueda S.L. Universal (Proprietary Director)	64	61
Xabier de Irala Estévez (Proprietary Director)	–	4
Ramón Pérez Simarro (Independent Director)	76	72
Salvador Gabarró Serra (Proprietary Director)	81	77
Martí Parellada Sabata (Independent Director)	81	77
Antonio Téllez de Peralta (Independent Director)	76	72
Teresa García-Milá Lloveras (Independent Director)	76	67
Miguel Ángel Lasheras Merino (Independent Director)	64	61
Bilbao Bizkaia Kutxa (Proprietary Director) (****)	64	7
Sociedad Estatal de Participaciones Industriales (Proprietary Director) (*****)	42	–

(*) Holds a life insurance policy with a premium of 57 thousand euros in 2008.
(**) From 1 to 24 January 2007.
(***) From 1 January to 25 April 2008.
(****) Since 28 November 2007.
(*****) From 26 May to 31 December 2008.

In 2007, the remuneration paid to board members should also include the 4,725 thousand euros of termination benefits paid to the former Executive Chairman as stipulated in his contract with Enagás, S.A.

In addition to this indemnity, the rights accrued under the long-service bonus scheme during his employment with Enagás, S.A. were settled, in the amount of 3,173 thousand euros.

29. Other disclosure on the Board of Directors

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

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 2008 are as follows:

DIRECTOR	COMPANY	No. of SHARES	% SHAREHOLDING
Caja de Ahorros de Valencia, Castellón y Alicante, Bancaja	Iberdrola, S.A.	301,282,820	6.033%
BBK (Bilbao Bizkaia Kutxa)	Iberdrola, S.A. Gas Natural, SDG, S.A.	359,380,724 982,134	7.184% 0.219%
Salvador Gabarró Serra	Iberdrola, S.A.	10,350	0.001%
Luis Javier Navarro Vigil	BP, PLC	63,853	0.000%

In addition, Xabier de Irala Estévez, representing BBK (Bilbao Bizkaia Kutxa) on Enagás, S.A.'s Board of Directors, as a private individual owns 166,577 shares of Iberdrola, representing 0.003% of its share capital.

José Olivas Martínez, a proprietary director and the representative of 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 2008 are as follows:

DIRECTOR	COMPANY	POSITION
Salvador Gabarró Serra	Gas Natural, SDG, S.A.	Chairman
Luis Javier Navarro Vigil	BP España SAU E. ON España E. ON Renovables S.L.U.	Director Director 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 the 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.

Xabier de Irala Estévez, representative of BBK (Bilbao Bizkaia Kutxa) on Enagás, S.A.'s Board of Directors, as a private individual is a member of the Board of Directors and Executive Committee of Iberdrola, S.A.

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

30. Guarantee commitments to third parties

At 31 December 2008 the Group had provided guarantees to third parties deriving from its activities for an amount of 100,602 thousand euros (77,874 thousand euros in 2007). It has also extended financial guarantees for a total of 214,286 thousand euros (234,517 thousand euros in 2007) 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.

31. Events after the balance sheet date

On 12 January 2009 an interim dividend was paid against 2008 results. The dividend totalled 0.26 euros per share and was approved by the Board of Directors of Enagás, S.A. at its meeting of 22 December 2008.

On 16 January 2009, the Official State Gazette (BOE) published the 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.

32. Other information

At the General Shareholders' Meeting held on 25 April 2008, the shareholders approved the appointment of Sociedad Estatal de Participaciones Industriales (SEPI) as a proprietary director for the statutory period of four years. Prior to this, the shareholders approved an amendment to article 35 of the company's Bylaws regarding the composition of the Board of Directors in order to increase the maximum number of Board members to 17.

Moreover, the shareholders ratified their approval of Bilbao Bizkaia Kutxa (BBK) as proprietary director for a tenure of four years and re-elected, for the same period, Peña Rueda, S.L.U. as proprietary director, at the proposal of the shareholder Cantábrica de Inversiones de Cartera, S.L. (Cajastur).

On 20 May 2008, Caja de Ahorros del Mediterráneo announced its resignation as proprietary director of Enagás, S.A. as a result of having sold, on that same date, the 5% share in Enagás, S.A. held by its wholly-owned subsidiary Inversiones Cotizadas del Mediterráneo, S.L.

In July 2008, Enagás, S.A. was included in the list of the Top 250 Global Energy Companies compiled by the financial information agency Platts, based on its financial performance in 2008.

In August 2008, the credit rating agency Standard & Poor confirmed its long-term rating of Enagás, S.A., currently "AA-", and the company's stable outlook.

On 22 September 2008, Enagás, S.A. was included in the Dow Jones Sustainability World (DJSI) and Dow Jones STOXX Sustainability indices of the companies with the best sustainability records worldwide.

On 22 December 2008, Enagás, S.A. obtained ISO 9001:2000 certification as Technical System Manager for the Spanish gas system.

33. Joint ventures

Information on the joint ventures in which the company had interests at 31 December 2008 is set out in the table below.

							Miles de Euros			
							Datos de la Entidad Participada (*)			
Company	**Location**	**Activity**	**Consolidation method**	**%**	**% of voting rights controlled by Enagás, S.A.**	**Carrying amount**	**Assets**	**Liabilities**	**Equity**	**Profit for the year (**)**
Gasoducto Al-Andalus, S.A.	Madrid	Gas transport	Proportionate	66.96	50	23,744	96,125	96,125	53,416	9,603
Gasoducto de Extremadura, S.A.	Madrid	Gas transport	Proportionate	51	50	9,732	43,918	43,918	30,755	7,881
Gasoduto Campo Maior Leiria Braga, S.A.	Portugal	Gas transport	Proportionate	12	50	3,195	81,687	81,687	38,850	8,879
Gasoduto Braga-Tuy, S.A.	Portugal	Gas transport	Proportionate	49	50	2,546	18,700	18,700	6,791	1,073
Total										

(*) 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 close of 30 November 2008 (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.

MANAGEMENT REPORT OF THE ENAGÁS GROUP

I.-Performance of the Group in 2008

Net profit rose 8.64% in 2008 to 258,885 thousand euros.

Revenue totalled 839,950 thousand euros.

The parent company invested 763,120 thousand euros in 2008. The Board of Directors of Enagás, S.A. approved investments totalling 820.7 million euros, which relate mainly to the following projects:

- The Musel regasification plant in Asturias
- The Yela underground storage facility in Guadalajara
- The Chincilla compression station in Albacete

The Enagás, S.A. Group's capital and reserves amounted to 1,456,080 thousand euros and equity to 1,440,366 thousand euros.

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

On 28 December 2007 the Ministry of Industry, Tourism and Trade approved three Ministerial Orders: ITC/3861/2007, which establishes the last-resort supply rates for 2008; ITC/3862/2007, which establishes the mechanism for assigning the capacity of the underground natural gas storage facilities and creates a capacity market; and ITC/3863/2007, which establishes the tolls and royalties for third-party access to gas installations for 2008, and updates aspects relating to the remuneration for regulated gas activities.

Throughout the year the Group continued to enlarge and enhance its re-gasification, transport and storage installations to adapt them to the outlook for demand going forward. In this respect, the main actions carried out were:

- The increase in the emission capacity of the Cartagena Plant to 1,350,000 m^3 (n)/h
- At the end of 2008 the Enagás, S.A. Group was operating 8,134 km of pipeline designed to operate at maximum bar pressures of 72 and 80, compared with 7,655 km in December 2007, thus helping secure continuity of supply and the development of areas that previously had no access to natural gas supplies.
- The main assets coming on stream in 2008 were the gas pipelines for Albacete-Montesa, Albacete-Villarobledo, and Alcázar de San Juan-Villarobledo, the branch of the Barcelona-Arbón gas pipeline, the inclusion of regulating and metering stations, and the modification of certain gas pipeline positions. The emission capacity of the Cartagena plant was also expanded to 1,350,000 m^3(n)/h and a fourth tank was built there, as well as a compression station at Alcázar de San Juan. Some 25 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 403.

Overall, at the end of 2008, the gas infrastructure of the Enagás, S.A., Group, consisting of the basic natural gas network, was as follows:

The Barcelona, Huelva and Cartagena regasification plants, with total combined LNG storage capacity of 1,437,000m^3 in a total of 14 tanks, 9 cistern loaders and emission capacity of 4,35,000 m^3(n)/h, 150,000 m^3(n)/h higher than the 4,200,000 m^3(n)/h at the end of 2007.

The Serrablo (Huesca) underground storage facility, in operation, with maximum injection of 4.0 Mm^3/day and maximum output of 6.9 Mm^3/day, and the concession to the Yela (Guadalajara) storage facility in accordance with the provisions of Royal Decree 1061/2007 of 20 July.

A gas pipeline network with a total length of 8,134 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.

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

In 2008, Enagás implemented a corporate risk management model using advanced risk management and control techniques. This required that each department director:

- Evaluate risk in the areas for which he is responsible
- Measure risk based on impact and likelihood
- Establish the necessary controls and action plans to keep risk within acceptable parameters

The methodology used is inspired by the report "Enterprise Risk Management - Integrated Framework" published by COSO.

Enagás analyses risk using quantitative techniques, but where not possible, qualitative techniques were used.

Risk was defined in terms of the following dimensions: events, factors, effects, controls, and business areas or processes.

Each risk can lead to financial or non-financial losses. Expected losses were deemed to have been reflected in the company's financial statements and the annual budgets. Consequently risk was evaluated, in keeping with the aforementioned techniques, in terms of unexpected losses due to potential events, in other words, losses in a worst case scenario.

When the data available about risk is insufficient or inconclusive, Enagás adopts the 'precaution principle' to better understand the risks inherent in each activity and compare the various alternatives for preventing them.

In addition, Enagás has established the following families of risk, taking into account its various measurement methodologies: operational risk, credit risk, financial risk, and business risk.

The most significant risks faced by Enagás are: regulatory risk (considered a business risk), as a company that works in a highly regulated sector; risk relating to incidents or the potential unavailability of infrastructure, equipment, or systems (operational risk); and finally, risks associated with the inability to provide the services of the company (also classified as operational risk).

The various types of operational risk were broken down into various levels. The highest level of operational risk is that which has a financial, environmental, or social impact, such as:

- Incidents and unavailability of infrastructure, equipment, and systems
- Damage to the environment, third parties, or society
- Poor quality or interruption of any service provided by the company
- Non-fulfilment or poor quality of services provided by third parties which could cause losses for the company
- Failures or unintentional errors in the execution of a process
- Non-compliance with laws and regulations, as well as bad business practices
- Acts which violate laws or employment, health, or safety agreements
- Fraud and unauthorised activities

Enagás uses various tools based on statistical models (OPRisk Simulation to evaluate operational risk) to obtain a financial valuation for each department. These tools consolidate the risk exposure for each department and then for the company as a whole, using quadratic and arithmetical sums which take into account the degree of correlation between these risks.

Moreover, when measuring financial risk and credit risk, Enagás uses predictive models based on a variety of simulations: Montecarlo (credit risk) or by performing static measurements after defining predetermined scenarios (liquidity risk).

Lastly, the internal audit unit has a tool for integrated risk management, Enterprise Risk Assessment (ERA), which comprises an assessment of each of the risks identified, existing controls, action plans defined at the managerial level, and key information for proper risk management.

IIa.-Risks relating to sustainability.

In 2008, the Group identified the principal risks and opportunities inherent in its risk map and factored these into Enagás' corporate responsibility policy and commitment to sustainable development.

❯ Environmental dimension:

Conservation of and commitment to the environment is a priority for Enagás. The company's risk model classified the environmental dimension as an operational risk under the event type: **Damage to the environment or third parties.** This risk relates to damages caused to the environment or to third parties due to accidents which take place at the company or affecting its assets.

In the Group's risk map, Enagás classified environmental events as an important risk for the company, based on risk thresholds defined by each department and their quantitative assessment.

The measurement analysis focused on quantifying the risk relating to environmental damage caused by problems in the company's infrastructure (leaks, spills, noise pollution, forest fires caused by a pipeline, etc).

The Group's environmental management systems aim to manage risk by defining controls and action plans to minimise the likelihood that risk will materialise. Below are the main action plans defined by the company:

- Training and development programmes for employees which operate the company's equipment and infrastructure.
- Performance of regular simulations.
- Evaluation of the functioning of control systems and security alarms.

❯ Social dimension:

Enagás considers the social dimension a strategic factor in management, and thus includes two risk groups among its operational risks:

- Events relating to: **workplace health and safety,** including aspects such as employee diseases and injuries, prevention issues, relationships among employees, discriminatory behaviour, violation of laws, contracts and / or collective agreements by either party.
- Events relating to **unethical business practices and legal and regulatory violations.**

The measurement analysis focused on quantifying the risk relating to business practices which could lead to injuries or illnesses or occupational safety hazards, as well as unethical business practices or regulatory and legal violations.

Below are the main action plans defined by the company to minimise these risks:

- Monitoring employee motivation and sentiment.
- Updating the database of applicable laws and regulations.
- Specific training programmes on legal and regulatory matters.

❯ Financial dimension:

When evaluating the financial dimension of risk, the focus was on the impact of risk on the company's financial statements, in addition to possible reputational risk.

The measurement analysis focused on quantifying the following events:

- Operational: interruption of storage, transportation, regasification, or technical system management services, or poor quality or delayed services rendered by Enagás, and failure to bring R&D&I investment to fruition.
- Business: market risk and competition (competitive pressure, changes in economic and political environment both nationally and internationally, changes in demand patterns, etc.)
- Credit: risk of losses arising from breach of duties or obligations on the part of customers or suppliers (for advances given), group companies, banks, etc.
- Financial: Interest rate risk.

In the Group's risk map for 2008, Enagás classified these types of events as a key risk for the company, based on risk thresholds defined by each department, their quantitative assessment, and the effectiveness of existing controls.

Below are the main action plans defined by the company to minimise these risks:

- ISO 9001:2000 quality certification for certain critical activities such as STMR, third-party access to the network, etc.

- Review of internal controls in the financial reporting system.
- Implementation of more advanced tools to measure and manage financial risk, and transmit findings to senior management and to the Group's comprehensive risk model.

IIb.-Risk of corruption and fraud.

Within the comprehensive risk model, the Group considers and quantifies risk relating to corruption under the heading **Fraud and unauthorised activities.**

Following the measurement performed in 2008, the Group assessed this potential risk from the standpoint of both internal fraud and external fraud, and although no fraud was detected, appropriate steps were taken to identify events which could occur.

The Group has adopted a preventive approach to fraud, and established a manual (Principles Governing Action (Ethics Channel)) and oversight committee to ensure that the process for business principle consult and alert process works properly and to protect the identity of informants.

Moreover, the Group defined action plans to minimise the likelihood that this risk will materialise and broaden the scope of this risk category, such as:

- Regular ratification of the code of conduct.
- Rotation of employees in certain critical posts.
- Specific internal audits on the main activities conducted.
- Creation of an ethics channel.

IIc.-Functions of the governing bodies involved in risk management.

The governing bodies in charge of risk management, whether in terms of identification, management, or oversight, are the following:

- The Board of Directors, which receives regular reports from the Audit and Compliance Committee.
- The Audit and Compliance Committee, which meets quarterly to analyse risk and risk management. It also approves the annual audit plan and analyses the reports regarding control of each process.
- The General Secretariat, responsible for risk management and the internal audit.
- Each department director at Enagás identifies and evaluates risk and establishes the controls and action plans necessary to keep risk within established risk thresholds.
- The internal audit function, which evaluates the level and functioning of the various controls. The audits are performed in accordance with the Standards for the Professional Practice of Internal Auditing published by the Institute of Internal Auditors.

Many of the action plans proposed by department and unit directors in their self-evaluations and by the internal auditors in their recommendations are included in the annual targets approved by the Board of Directors, achievement of which is followed up and approved by the Management Committee.

Likewise, the Audit and Compliance Committee monitors the action plans agreed upon by department heads and the internal auditors to ensure that they are executed in the manner planned.

III.-Use of financial instruments

In February 2008, the Board of Directors approved an interest rate hedging policy devised to align the company financial with the targeted 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 which meant that at year-end, 65% of total net debt was hedged against interest rate increases, with a significant positive impact on average financial cost in 2008.

IV.-Outlook

The company has earmarked capex of 900 million euros for 2009 and plans to bring assets entailing an equivalent amount of investment online during the year.

Management expects profit for 2009 to be higher than in 2008. Likewise, the company maintains the growth targets set out under its 2007-2012 Strategic Plan.

V.-Events after the balance sheet date

On 10 January 2009 an interim dividend was paid against 2008 results. The dividend totalled 0.26 euros per share and was approved by the Board of Directors of Enagás, S.A. at its meting of 22 December 2008.

VI.-Research and development activity

Technological innovation initiatives carried out by the company in 2008 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 2008 by area were:

a) *Production (LNG).* Work was completed on the GERG - "MOLAS" project, headed by Enagás, S.A. aimed at knowing how LNG ages and the changes to its properties during shipping. The company also continued to develop a reliability model for plant equipment and installations. In this area, the company also completed an LNG sampling project to more accurately gauge the quality of the LNG unloaded at the regasification plants.

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 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. Several noise emission readings were taken at the Group's compression stations and underground storage facilities in order to properly model a series of solutions to reduce noise at these facilities.

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

d) *Measurement.* The company finalised engineering details and purchasing management for the high pressure gas meter calibration bank, and began assembling this calibration bank.

e) *Projects of General Interest.* The GERG project to measure and determine the dew point of natural gas was finalised, and a follow-up was performed on the equipment installed at the Portuguese border.

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&I 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 in 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
GAS NATURAL SDG, S.A.	11,936,703	0	5.000
ATALAYA INVERSIONES, SRL	0	11,936,714	5.000
CAJASTUR (CAJA DE AHORROS DE ASTURIAS)	0	11,937,395	5.000
SEPI (SOCIEDAD ESTATAL DE PARTICIPACIONES INDUSTRIALES)	11,936,703	0	5.000

(*) through:

Name or corporate name of the direct owner of the shareholding	Number of direct voting rights	% of total voting rights
SAGANE INVERSIONES S.L.	11,936,714	5.000
CANTÁBRICA DE INVERSIONES DE CARTERA, S.L.	11,937,395	5.000
Total:	23,874,109	10.000

Name or corporate name of the director	Number of direct voting rights	Number of indirect voting rights (*)	% of total voting rights
ANTONIO LLARDÉN CARRATALÁ	27,116	0	0.011
BANCAJA (CAJA DE AHORROS DE VALENCIA, CASTELLÓN Y ALICANTE)	0	11,936,713	5.000
BBK (BILBAO BIZKAIA KUTXA)	0	11,936,713	5.000
SALVADOR GABARRÓ SERRA	10	0	0.000
TERESA GARCÍA-MILÁ LLOVERAS	1500	0	0.000
DIONISIO MARTÍNEZ MARTÍNEZ	2,010	0	0.001
LUIS JAVIER NAVARRO VIGIL	10	2,156	0.001
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
SOCIEDAD KARTERA 1, S.L.	11,936,713	**5.000**
NEWCOMER 2000, S.L.U.	2,156	**0.001**
Total:	23,875,582	**10.000**

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 capacity 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 Corporation Law 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 by the General Shareholders' Meeting or by the Board of Directors in conformity with the provisions contained in the Spanish Corporation Law and the company 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. – DURATION OF POST 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:

When they are involved in any of the legally stipulated circumstances of incompatibility or prohibition.

When they are in serious breach of their obligations as directors.

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 Corporation Law, 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.

When the circumstances motivating their appointment as directors no long exist.

When independent directors no longer fulfil the criteria required under article 9.

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 Corporation Law, 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 Corporation Law.

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.

ANNUAL ACCOUNTS

ENAGÁS GROUP

On 30 January 2008, the Board of Directors of Enagás, S.A. approved the management report for the year ended 31 December 2008, consisting of the accompanying documents, in accordance with article 171 of the Spanish Corporation Law and article 37 of the Code of Commerce.

The undersigned directors state that, to the best of their knowledge, the annual financial statements, prepared in accordance with the accounting principles applied, provide a true and fair value of the equity, financial position and results of the company and of the companies included in the consolidation scope, taken as a whole, and that the management reports 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.

Chairman

Antonio LLardén Carratalá

Deputy Chairman

José Luis Olivas Martínez

Propietary director representing BANCAJA

Directors

Jesús David Álvarez Mezquíriz

Antonio Téllez de Peralta

Carlos Egea Krauel

Teresa García-Milà Lloveras

Salvador Gabarró Serra

Dionisio Martínez Martínez

Luis Javier Navarro Vigil

Ramón Pérez Simarro

José Riva Francos

Miguel Ángel Lasheras Merino

Martí Parellada Sabata

Sociedad Estatal de Participaciones Industriales
(Represented by Enrique Martínez Robles)

Peña Rueda, S.L. (sole shareholder company)
(Represented by Manuel Menéndez Menéndez)

Bilbao Bizkaia Kutxa - BBK
(Represented by Xavier de Irala)

Secretary to the Board

Rafael Piqueras Bautista

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INTERNAL FINANCIAL
REPORTING SYSTEM

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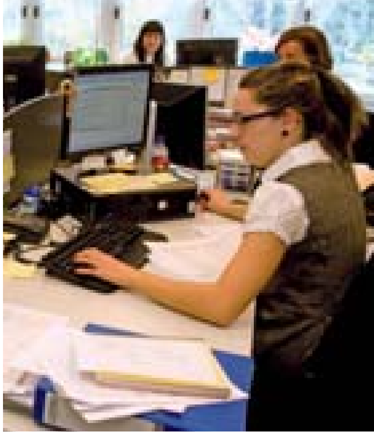



7. Internal Financial Reporting System

Over the past few years the financial information disseminated by companies to market agents (analysts, lenders, investors, etc.) and regulatory entities (Spanish stock market commission –Comisión Nacional del Mercado de Valores–, supervisory bodies for regulated sectors, etc) has increased significantly in terms of both frequency and volume published. In this new context, the transparency and reliability of the processes used to generate this financial information, in many cases in extremely short periods of time, has become a basic requirement.

To address this issue, over during the past few months the Enagás group has developed a far-reaching project to revise and improve its internal financial reporting system (SCIRF for its initials in Spanish) to adapt this to international gold standards. Subsequently, once the main recommendations for improvement identified had been incorporated, the SCIRF project was assessed externally.

Following is a description of the main aspects of the group's internal financial reporting system along with the internal assessment and the report issued by the external assessor.

Project background and objectives

The business community requires from companies an increasingly greater commitment to protecting the interests of shareholders, clients, employees, creditors, suppliers and society as a whole. These new requirements are reflected, among other things, in specific measures adopted by companies to shore up confidence in the financial information that is publicly disseminated.

One key to boosting confidence lies in the creation of efficient financial reporting systems which allow:

- Reliable and high quality financial information to be reported involving the entire company.
- Systemising and formalising financial reporting, obtaining improvements and increasing efficiency through the application of international gold standards.

In this context, the Enagás group, aware of its social responsibility, decided at the end of 2007 to undertake a far-reaching project to adapt its internal financial reporting system to international gold standards, with the following key objectives:

- To improve the efficiency and security of financial reporting processes, minimising the risk of error.
- Staying ahead of new regulatory requirements in the field of internal control and corporate governance, adopting international gold standards in advance.
- Positioning the company as a leader in our business community in the area of internal control and corporate governance.

The project, headed by the chairman of Enagás and coordinated by the Finance Department, was a huge challenge for the company as a whole, as one of its objectives was to complete it in time to be reviewed by an independent assessor at the end of 2008.

Overview of the Enagás internal financial reporting system

Financial reporting is a vital channel for communication with shareholders, investors, financiers and supervisory bodies that is fed with information from various sources. In fact, virtually all group departments provide (to a greater or lesser extent) data used to compile financial information. Therefore, in addition to the Finance department, meeting the objectives of transparency and veracity of information is the responsibility of all business units in their respective areas of operation. This shared responsibility is one of the keys that ensure the correct functioning of the group's internal financial reporting system.

The Enagás SCIRF project is based on two types of control mechanism: (i) general control mechanisms (such as the Audit Committee, Ethical Code, Internal Audit function or an adequate organisational structure, etc.); and (ii) control mechanisms in place in the different departments governing significant transactions that have an impact on the financial information reported. During the course of the project eight areas and 29 processes with a significant impact on group financial reporting were identified. Using a standard documentation model, these have been broken down into 749 operating activities and 286 control activities. The person responsible for the execution of each control activity has been identified to ensure the traceability of all records used to draw up financial information.

Documentation generated within these areas and processes contains detailed descriptions of the transactions relating to the financial information compiled from the outset of the procedure until it is recorded in the company accounts and includes authorisation and processing records.

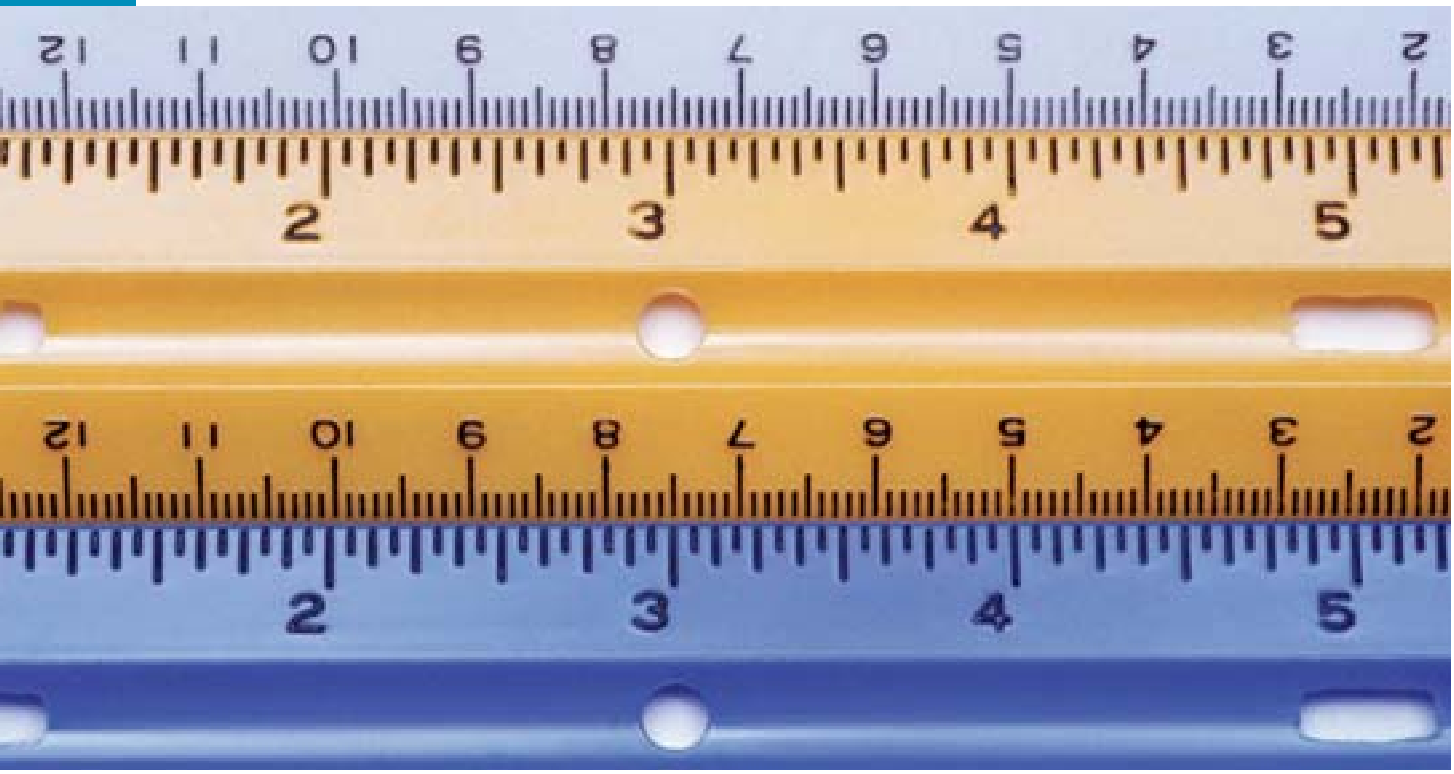
Therefore, reports have been drawn up with the following key objectives in mind:

- To identify the critical processes linked directly and indirectly to the preparation of financial information.
- To identify the risks inherent to these processes that could give rise to significant errors in the financial information reported (typically factors such as integrity, validity, register, cost valuation and presentation).
- To identify and classify the controls established to mitigate these risks.

All documentation relating to the group's SCIRF project is stored using a corporate technology tool. System information is updated regularly to reflect any change in the transactions or financial reporting system and is open to review by our external auditor or supervisory bodies with prior warning and authorisation. The aim of these regular updates is to take advantage of the initial effort made to improve the quality of existing processes and step up control over the mechanisms for preparing financial information.

Internal assessment of the internal financial reporting system

After the completion of the project and the implementation of the identified recommendations for improvement, Enagás concluded that at 31 December 2008, in terms of both its structure and operation the group's internal financial reporting system efficiently mitigated the risk associated with preparing financial information.



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

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

1. We have examined the effectiveness of the internal control system on the generation of the financial information of Enagás, S.A. and Subsidiaries ("the Company") at 31 December 2008. The objective of this system is to contribute to the transactions performed being presented fairly under the accounting principles and standards applicable to it and to provide reasonable assurance in relation to the prevention or detection of any errors that might have a material effect on the financial information. The aforementioned system is based on the rules and policies defined by Company management, which is responsible for maintaining the effectiveness thereof. Our responsibility is limited to expressing an opinion on its effectiveness based on the work performed by us.

2. Our work was performed in accordance with Spanish professional standards and, consequently, it included understanding the internal control system on the generation of the financial information, an assessment of the risk of the existence of material errors in that information, the performance of tests and evaluations of the design and operational effectiveness of this system, and the performance of such other procedures as we might have considered necessary. We consider that our examination provides a reasonable basis for our opinion.

3. A financial reporting internal control system is designed to provide reasonable assurance on the reliability of the financial information in accordance with the accounting principles and standards applicable to it. A financial reporting internal control system includes policies and procedures that: (i) enable the records reflecting the transactions performed to be kept accurately and with a reasonable level of detail; (ii) guarantee that these transactions are only performed in accordance with the authorisations established; (iii) provide reasonable assurance as to the proper recognition of transactions to make it possible to prepare the financial information in accordance with the accounting principles and standards applicable to it; and (iv) provide reasonable assurance in relation to the prevention or timely detection of unauthorised acquisitions, use or sale of assets of a company which could have a material effect on the financial information.

4. The limitations inherent to any internal control system might give rise to errors, irregularities or fraud that might not be detected. Also, the projection to future periods of an evaluation of internal control is subject to risks, including the risk that the internal controls are rendered inadequate as a result of future changes in the applicable conditions or that there is a reduction in the future in the degree of compliance with the policies or procedures established.

5. In our opinion, at 31 December 2008 the Company maintained, in all material respects, an effective internal control system on the generation of financial information and this internal control system is based on the rules and policies defined by Company management.

DELOITTE, S.L.

Jesús María Navarro
10 February 2009

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

Member of
Deloitte Touche Tohmatsu

ANNEX

8.1. Scope and principles for defining the content and quality of disclosures (3.1, 3.2, 3.3, 3.5, 3.6, 3.7, 3.8, 3.10, 3.11)

In the preparation of this 2008 Annual Report, the following references were used:

- The Sustainability Reporting Guidelines of the GRI (Global Reporting Initiative), version 3, published 2006, which define the main aspects to be taken into account.
- External analysis of best practice in sustainability reporting, in terms of both content and organisation of the same, focusing in particular on energy companies included in the IBEX-35.
- The assessment made by various organisations and institutions specialising in sustainability matters regarding the scope and content of the 2007 Enagás annual report, including any suggestions for improvements made.
- The results of consultations with stakeholders, in which they were specifically asked to rate the information on corporate responsibility provided by Enagás.
- The results of the Company's drive to include all units in the preparation of the annual report, having recourse to the primary source of information.

One of the main objectives of this annual report is to provide reliable and balanced information on Enagás' commitment to the principal challenges raised by sustainable development. Accordingly, the content of the report aims to address the reporting principles of materiality, stakeholder inclusiveness, completeness, comparability, balance, accuracy, clarity and timeliness.

- **Principles of materiality and stakeholder inclusiveness**

In its 2008 Annual Report, Enagás has sought to address all issues relevant or material for the various stakeholder groups, i.e. those that could significantly influence their opinions and/or decisions.

Accordingly, as part of the process of drawing up the 2009-2012 Corporate Responsibility Master Plan, it performed a materiality analysis to define the corporate responsibility topics that are material for Enagás and must therefore be reported in the 2008 Annual Report.

Relevant issues in the sector according to the study of materiality

Note: The relevance is estimated according to the importance given by the stakeholders

Also in 2008, Enagás reviewed its Map of Stakeholder Groups to ensure that it is generating value for stakeholders from the threefold perspective of financial and economic solidity, social commitment and respect for the environment. A survey was performed for this purpose and the results taken into account in drawing up this report (for more information see section 3.4 on stakeholders).

- **Principle of completeness**

The 2008 Enagás Annual Report covers the main actions and results of its activities, incorporating those events considered material in 2008 as well as other information considered useful for stakeholders.

The scope of the report includes all Spanish companies in which Enagás, S.A. is the majority shareholder, and, therefore, covers only the Company's activities in Spain.

- **Principle of comparability**

To facilitate use and understanding of this report on the part of stakeholders, most of the indicators used are quantitative and wherever possible include data for previous years to support the information detailing the Company's advances and achievements in relation to corporate responsibility.

The report also includes historical information included in previous Company annual reports, striving wherever possible to use the same calculation methods so as to prevent inconsistencies and highlighting those instances where errors have been identified in past data or the methods use to calculate the performance indicators has changed.

In addition, the 2008 report takes accounts of the content and indicators recommended in the third version of the Global Reporting Initiative (GRI) guidelines and thus serves as an internal and external benchmark for comparison since it uses internationally recognised principles and content indices.

From the financial point of view, the consolidated annual financial statements of the Enagás Group for 2006, 2007, 2008 have been prepared in accordance with International Financial Reporting Standards (IFRs), on the basis of the accounting records kept by the Company and the other companies included in the consolidated Group (for more information see section 6 on the annual financial statements).

- **Principle of balance**

This report aims to give an objective overview of the position of Enagás, reflecting both positive and negative aspects and thus providing a reasonable assessment of the general performance of the Company.

- **Principles of accuracy and clarity**

The information contained in this report is clear and accurate, enabling stakeholders to make their own assessments of the performance and activities of the Company. The Company has also included charts, diagrams, tables and indicators to facilitate understanding of its activities in the financial, social and environmental spheres.

- **Principle of timeliness**

Enagás publishes information on corporate responsibility/sustainability on an annual basis, so keeping stakeholders up-to-date on the Company's financial, social and environmental performance.

For clarifications or additional information on the content of the 2008 Annual Report, please use the contact details published in section 7.6. - Contact.

ANNEX

8.2. Self-Declaration of GRI application Level - 3 (3.9)

In 2007, Enagás drew up an Annex to the 2007 Annual Report setting out the GRI Principles and Content Index that also indicated the connection between the content index and indicators established in the third version of the GRI guidelines and the content of the 2007 Enagás Annual Report.

In the aforesaid annex Enagás gave itself a B rating on the GRI application scale (C,B or A), after assessing the content of the 2007 Annual Report and the information available on the corporate website and analysing the content of the corporate responsibility reports of similar energy sector companies.

One of Enagás' targets for 2008 was to achieve an **A+ rating** on the application scale. Accordingly, it made a major effort to include all units of the Company in the collection and compilation of information, as recommended in the GRI (see Annex 7.3: Global reporting initiative (GRI) Content Index and 7.5: external assurance report).

GRI application level

	C	C+	B	B+	A	A+
Self-assessment (Enagás)						A+ GRI REPORT SELF-DECLARED
External assessment						A+ GRI REPORT 3rd PARTY CHECKED
GRI assessment						A+ GRI REPORT GRI CHECKED

8.3. Global reporting initiative (GRI) content index (3.12)

The pages of this report corresponding to each standard GRI disclosure item and indicator (additional indicators are identified by an asterisk), and the related elements of the ten principles of the United National Global Compact are indicated in the table below.

To make it easier to identify the sections of the 2008 Annual Report relating to each Global Reporting Initiative (GRI) performance indicator, the codes referring to the GRI content and indicators are included in titles and at the end of relevant paragraphs.

3.7	Specific limitations on the scope or boundary of the report	321-322
3.8	Basis for reporting on joint ventures, subsidiaries, leased facilities, outsourced operations and other entities that can significantly affect comparability from period to period and/or between organisations	321-322
3.9	Data measurement techniques, bases for calculations, assumptions and estimates applied. Reasons for not applying GRI Indicator Protocols	323
3.10	Explanation of the effect of any re-statements of information provided in earlier reports, and the reasons for such re-statements.	321-322
3.11	Significant changes in the scope, boundary or measurement methods applied in the report	321-322
GRI content index		
3.12	Table identifying the location of the standard disclosures in the report	324-332
Assurance		
3.13	Policy and current practice with regard to seeking external assurance of the report	335-336
4. Governance, commitments and engagement		
Governance		
4.1	Governance structure of the organisation	133-136
4.2	Indicate whether the Chair of the highest governance body is also an executive officer	133-135
4.3	For organisations that have a unitary board structure, state the number of board members of the highest governance body that are independent and/or non-executive members	133-135
4.4	Mechanisms for shareholders and employees to provide recommendations or direction to the highest governance body	135-137
4.5	Linkage between compensation for members of the highest governance body and the organisation's performance	136
4.6	Process in place for the highest governance body to ensure conflicts of interest are avoided	132-133
4.7	Process for determining the qualifications and expertise of the highest governance body for guiding the organisation's strategy on economic, environmental and social topics	133-134
4.8	Mission statements, values, codes of conduct and principles relevant to economic, environmental and social performance and the status of their implementation	60, 64, 132-133
4.9	Procedures of the highest governance body for overseeing the organisation's identification and management of economic, environmental and social performance, and adherence or compliance with internationally agreed standards, codes of conduct, and principles	35
4.10	Processes for evaluating the highest governance body's own performance, particularly with respect to economic, environmental and social performance	31-35, 136-137

Commitments to external initiatives			
4.11	Explanation of whether and how the precautionary approach or principle is addressed by the organisation		31-33
4.12	Externally developed economic, environmental and social charters, principles or other initiatives to which the organisation subscribes or endorses		108-110
4.13	Memberships in associations (such as industry associations) and/or national/international advocacy organisations in which the organisation: – Has positions in governance bodies – Participates in projects or committees – Provides substantive funding beyond routine membership dues; or Views membership as strategic		51-56
Stakeholder engagement			
4.14	List of stakeholder groups engaged by the organisation		66-68
4.15	Basis for identification and selection of stakeholders with whom to engage		66-68
4.16	Approaches to stakeholder engagement (including frequency)		66-68
4.17	Key topics and concerns that have been raised through stakeholder engagement and how the organisation has responded to those key topics and concerns, including through its reporting		66-68
ECONOMIC DIMENSION			
Management approach			**15**
Economic performance			
EC1	Direct economic value generated and distributed, including revenues, operating costs, employee compensation, donations and other community investments, retained earnings and payments to capital providers and governments		10, 67
EC2	Financial implications and other risks and opportunities for the organisation's activities due to climate change	GC7	127, 129
EC3	Coverage of the organisation's defined-benefit plan obligations		84
EC4	Significant financial assistance received from government		29
Market presence			
EC5*	Range of ratios of standard entry level wage compared with local minimum wage at significant locations of operation	GC1	79
EC6	Policy, practices and proportion of spending on locally-based suppliers at significant locations of operation		100
EC7	Procedures for local hiring and proportion of senior management hired from the local community at locations of operation	GC6	NOTE 1

Indirect economic impacts			
EC8	Development and impact of infrastructure investments and services provided primarily for public benefit though commercial, in-kind or pro-bono engagement		108
EC9*	Understanding and describing significant indirect economic impacts, including the extent of impacts		26, 51, 100
ENVIRONMENTAL DIMENSION			
Management approach			**120, 126-129**
Materials			
EN1	Materials used by weight or volume	GC8	121
EN2	Percentage of materials used that are recycled input materials	GC8, GC9	121
Energía			
EN3	Direct energy consumption by primary energy source	GC8	111
EN4	Indirect energy consumption by primary energy source	GC8	111
EN5*	Energy saved due to conservation and efficiency improvements	GC8, GC9	112, 127
EN6*	Initiatives to provide energy-efficient or renewable energy-based products and services, and reductions in energy requirements as a result of these initiatives	GC8, GC9	112
EN7*	Initiatives to reduce indirect energy consumption and reductions achieved	GC8, GC9	112
Water			
EN8	Total water withdrawal by source	GC8	121-122
EN9*	Water sources significantly affected by withdrawal of water	GC8	121-122
EN10*	Percentage and total volume of water recycled or reused	GC8, GC9	NOTE 2
Biodiversity			
EN11	Location and size of land in or adjacent to protected areas and areas of high biodiversity value outside protected areas. State the location and size of land owned, leased or managed in areas of high biodiversity value outside protected areas	GC8	119
EN12	Description of significant impacts of activities, products and services on biodiversity in protected areas or in areas of high biodiversity value outside protected areas	GC8	117
EN13*	Habitats protected or restored	GC8	117-118
EN14*	Strategies, current actions and future plans for managing impacts on biodiversity	GC8	117, 119

EN15*	Number of IUCN Red List species and national conservation list species with habitats in areas affected by operations, by level of extinction risk	GC8	119
Emissions, effluents and waste			
EN16	Total direct and indirect greenhouse gas emissions by weight	GC8	112-115
EN17	Other relevant indirect greenhouse gas emissions by weight	GC8	114
EN18*	Initiatives to reduce greenhouse gas emissions and reductions achieved	GC7, GC8, GC9	113
EN19	Emissions of ozone-depleting substances by weight	GC8	122
EN20	NO, SO and other significant air emissions by type and weight	GC8	122
EN21	Total water discharge by quality and destination	GC8	123
EN22	Total weight of waste by type and disposal method	GC8	124-125
EN23	Total number and volume of significant spills	GC8	124
EN24*	Weight of transported, imported, exported or treated waste deemed hazardous under the terms of the Basel Convention Annexes I, II, III and VIII, and percentage of transported water shipped internationally	GC8	NOTE 3
EN25*	Identity, size, protected status and biodiversity value of water bodies and related habitats significantly affected by the reporting organisation's discharges of water and runoff	GC8	123
Products and services			
EN26	Initiatives to migrate environmental impacts of products and services, and extent of impact mitigation.	GC7, GC8, GC9	127-129
EN27	Percentage of products sold and their packaging materials that are reclaimed, by category	GC8, GC9	NOTE 4
Compliance			
EN28	Monetary value of significant fines and total number of non-monetary sanctions for non-compliance with environmental laws and regulations.	GC8	NOTE 5
Transport			
EN29*	Significant environmental impacts of transporting products and other goods and materials used for the organisation's operations, and transporting members of the workforce	GC8	111-112, 123
General			
EN30*	Total environmental protection expenditures and investments by type	GC7, GC8, GC9	129

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SOCIAL DIMENSION			
1. Labour practices and decent work			
Labour practices			**74**
Labour practices			
LA1	Total workforce by employment type, employment contract and region		74-75, 77
LA2	Total number and rate of employee turnover by age group, gender and region	GC6	77
LA3*	Benefits provided to full-time employees that are not provided to temporary or part-time employees, by major operations		83-84
Labour/management relations			
LA4	Percentage of employees	GC1, GC3	85
LA5	Minimum notice period(s) regarding operational changes, including whether it is specified in collective agreements	GC3	86
Occupational health and safety			
LA6*	Percentage of total workforce represented in formal joint management-worker health and safety committees that helps monitor and advise on occupational health and safety programmes.	GC1	56, 86-87
LA7	Rates of injury, occupational diseases, lost days and absenteeism and number of work-related fatalities by region	GC1	88, 90-93
LA8	Education, training, counselling, prevention and risk control programmes in place to assist workforce members, their families or community members regarding serious diseases	GC1	83, 93-94
LA9*	Health and safety topics covered in formal agreements with trade unions	GC1	87
Training and education			
LA10	Average hours of training per year per employee by employee category		81-83
LA11*	Programmes for skills management and lifelong learning that support the continued employability of employees and assist them in managing career endings		81
LA12*	Percentage of employees receiving regular performance and career development reviews.		78
Diversity and equity opportunity			
LA13	Composition of governance bodies and breakdown of employees per category according to gender, age group, minority group membership and other indicators of diversity	GC1, GC6	16, 76-77
LA14	Ratio of basic salary of men to women by employee category	GC1, GC6	78-79

2. Human rights			
Management approach			**100-101**
Investment and procurement practices			
HR1	Percentage and total number of significant investment agreements that include human rights clauses or that have undergone human rights screening	GC1, GC2, GC3, GC4, GC5, GC6	100-101
HR2	Percentage of significant suppliers and contractors that have undergone screening on human rights and action taken	GC1, GC2, GC3, GC4, GC5, GC6	100-101
HR3*	Total hours of employee training on policies and procedures concerning aspects of human rights that are relevant to operations, including the percentage of employees trained.	GC1, GC2, GC3, GC4, GC5, GC6	65
Non-discrimination			
HR4	Total number of incidents of discrimination and actions taken	GC1, GC2, GC6	NOTE 6
Freedom of association and collective bargaining			
HR5	Operations identified in which the right to exercise freedom of association and collective bargaining may be at significant risk, and actions taken to support these rights	GC1, GC2, GC3	85
Child labour			
HR6	Operations identified as having significant risk for incidents of child labour and measures taken to contribute to the elimination of child labour	GC1, GC2, GC5	NOTE 7
Forced and compulsory labour			
HR7	Operations identified as having significant risk of forced or compulsory labour, and measures to contribute to the elimination of forced or compulsory labour	GC1, GC2, GC4	NOTE 8
Security practices			
HR8*	Percentage of security personnel trained in the organisation's policies or procedures concerning aspects of human rights that are relevant to operations	GC1, GC2	65,101
Indigenous rights			
HR9*	Total number of incidents involving the violation of indigenous peoples´ rights of and action taken.	GC1, GC2	NOTE 9
3. Society			
Management approach			**31, 108**
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SO1	Nature, scope and effectiveness of any programmes and practices that access and manage the impacts of operations on communities, including entering, operating and exiting		108

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Corruption			
SO2	Percentage and total number of business units analysed for risks related to corruption	GC10	35
SO3	Percentage of employees trained in the organisation's anti-corruption policies and procedures	GC10	65
SO4	Actions taken in response to incidents of corruption	GC10	35
Public policy			
SO5	Public policy positions and participation in public policy development and lobbying	GC1, GC2, GC3, GC4, GC5, GC6, GC7, GC8, GC9, GC10	51
SO6*	Total value of financial and in-kind contributions to political parties, politicians and related institutions by country	GC10	NOTE 10
Anti-competitive behaviour			
SO7*	Total number of legal actions for anti-competitive behaviour, anti-trust and monopoly practices and their outcomes		NOTE 11
Compliance			
SO8	Monetary value of significant fines and total number of non-monetary sanctions for non-compliance with laws and regulations		NOTE 12
4. Product responsibility			
Management approach			**94-95**
Customer health and safety			
PR1	Life cycle stages in which the health and safety impacts of products and services are assessed for improvement, and percentage of significant products and services categories subject to such procedures	GC1	56, 92, 94
PR2*	Total number of incidents of non-compliance with regulations and voluntary codes concerning health and safety impacts of products and services during their life cycle, by type of outcomes	GC1	94
Products and services labelling			
PR3	Type of product and service information required by procedures, and percentage of significant products and services subject to such information requirements	GC8	95
PR4*	Total number of incidents of non-compliance with regulations and voluntary codes concerning health and safety impacts of products and services during their life cycle, by type of outcomes	GC8	NOTE 13
PR5*	Practices related to customer satisfaction, including results of surveys measuring customer satisfaction		96-97

Marketing communications			
PR6	Programmes for adherence to laws, standards and voluntary codes related to marketing communications, including advertising, promotion and sponsorship		NOTE 14
PR7*	Total number of incidents of non-compliance with regulations and voluntary codes concerning marketing communications, including advertising, promotion and sponsorship, by type of outcomes		NOTE 14
Customer privacy			
PR8*	Total number of substantiated complaints regarding breaches of customer privacy and losses of customer data	GC1	NOTE 15
Compliance			
PR9	Monetary value of significant fines for non-compliance with laws and regulations concerning the provision and use of products and services		NOTE 16

1 Enagás' activities are generally performed in Spain, so almost all its staff are contracted locally.

2 Enagás does not reuse water in its processes.

3 Waste generated by Enagás is not shipped internationally.

4 Enagás does not produce products or packaging materials in its processes.

5 There have been no sanctions for non-compliance with environmental laws and regulations.

6 No incidents of discrimination were reported in 2008. In addition, Enagás approved its Business Principles establishing a procedure for reporting and managing incidents of this type.

7 None of the activities in which Enagás is engaged have been identified as carrying a risk of child exploitation. Additionally, the Enagás collective agreement prohibits the Company from employing minors of less than 16 years of age (article 28) and its Business Principles establish a procedure for reporting and managing incidents of this type.

8 None of Enagás' operations have been identified as carrying significant risk of forced or compulsory labour. Additionally, the Enagás collective agreement establishes business hours for the year and the possibility of flexible working hours (article 38), there is an occupational risk prevention policy, and the Company's Business Principles establish a procedure for reporting and managing incidents of this type.

9 No incidents involving the violation of indigenous peoples' rights have been reported.

10 No contributions to political parties of any kind have been made. In addition, the Enagás's Business Principles stipulate that "we will not make donations to any political party in any circumstances other than those expressly provided for in applicable legislation".

11 There is no pending litigation resulting from anti-competitive behaviour, anti-trust and monopoly practices.

12 There have been no significant fines or non-monetary sanctions for non-compliance with laws and regulations.

13 Not applicable. The services that Enagás provides do not involve labelling.

14 Enagás does not carry out advertising or promotional marketing campaigns. In addition, Enagás is a member of the Spanish Association of Directors of Communication (DIRCOM), which, inter alia, promotes ethical communications practices.

15 There have been no substantiated complaints regarding breaches of customer privacy and loss or theft of customer data. In addition, Enagás complies with applicable data protection legislation and has implemented an action plan to facilitate the exercise of rights deriving from Spanish data protection legislation.

16 There have been no significant fines for non-compliance with laws and regulations concerning the provision and use of products and services.

8.4. Contents of the global compact.

The Global Compact is an ethical commitment initiative that encourages companies worldwide to incorporate into their strategy and operations ten universal principles concerning human rights, labour standards, the environment and the fight against corruption.

Enagás has been a member of the United Nations Global Compact since 2003 and regularly renews its commitment, maintaining a public and transparent record of the progress it has made in this field in an annual report published on the Global Compact website at www.pactomundial.org.

The connection between the ten principles of the Global Compact and the GRI indicators considered in this report is included in the table below, in accordance with the guidelines for linking GRI sustainability reporting with the preparation of a United Nations Global Compact Communication on Progress, published by the United Nations Global Compact Office in May 2007.

GC	Principles of the Global Compact	GRI indicators
	HUMAN RIGHTS	
1	Businesses should support and respect the protection of internationally proclaimed human rights within their sphere of influence.	EC5, LA4, LA6 – 9, LA13-14, HR1 - 9, SO5, PR1 - 2, PR8
2	Businesses should ensure that they are not complicit in human rights abuses.	HR1 – 9, SO5
	LABOUR STANDARDS	
3	Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining.	LA4 – 5, HR1 - 3, HR5, SO5
4	Businesses should uphold the elimination of all forms of forced and compulsory labour.	HR1 - 3, HR7, SO5
5	Businesses should uphold the effective abolition of child labour.	HR1 - 3, HR6, SO5
6	Businesses should uphold the elimination of discrimination in respect of employment and occupation.	EC7, LA2, LA13 -14, HR1 – 4, SO5
	ENVIRONMENT	
7	Businesses should support a precautionary approach to environmental challenges.	EC2, EN18, EN26, EN30, SO5
8	Businesses should undertake initiatives to promote greater environmental responsibility.	EN1 - 30, SO5, PR3 - 4
9	Businesses should encourage the development and diffusion of environmentally friendly technologies.	EN2, EN5 - 7, EN10, EN18, EN26 - 27, EN30, SO5
	ANTI-CORRUPTION	
10	Businesses should work against all forms of corruption, including extortion and bribery.	SO2 - 6

In addition, to make it easier to identify the activities most directly related with the principles of the Global Compact, Enagás has singled out the GRI indicators that have a direct bearing on the aforesaid principles and, in the table below, has indicated the pages of this report in which this information is contained.

GC	Principles of the Global Compact	Directly-related GRI indicators	Page
	HUMAN RIGHTS		
1	Businesses should support and respect the protection of internationally proclaimed human rights.	HR1 - 9	65, 85, 100-101, 332 (Notas 6, 7, 8 y 9)
2	Businesses should ensure that they are not complicit in human rights abuses.	HR1 – 2, HR8	65, 100-101
	LABOUR STANDARDS		
3	Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining.	LA4 – 5, HR5	85-86
4	Businesses should uphold the elimination of all forms of forced and compulsory labour.	HR7	332 (Nota 8)
5	Businesses should uphold the effective abolition of child labour.	HR6	332 (Nota 7)
6	Businesses should uphold the elimination of discrimination in respect of employment and occupation.	LA2, LA13 – 14, HR4	16, 76-79, 332 (Nota 6)
	ENVIRONMENT		
7	Businesses should support a precautionary approach to environmental challenges.	EN18, EN26	113, 127, 129
8	Businesses should undertake initiatives to promote greater environmental responsibility.	EN2, EN 5 – 7, EN 10, EN13 – 14, EN18, EN 21-22, EN26 – 27, EN30	112-113, 117-119, 121, 123-125, 127, 129, 332 (Notas 2 y 4)
9	Businesses should encourage the development and diffusion of environmentally friendly technologies.	EN2, EN5 - 7, EN10, EN18, EN26 - 27, EN30	112-113, 121, 123, 127, 129, 332 (Notas 2 y 4)
	ANTI-CORRUPTION		
10	Businesses should work against all forms of corruption, including extortion and bribery.	SO2 - 4	35, 65

8.5. External assurance report (3.13)

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Paseo de la Castellana, 95
28046 Madrid

Independent Review Report of the Enagas S.A. 2008 Annual Report according to the ISAE 3000 Standard

(Free translation from the original in Spanish.
In case of discrepancy, the Spanish language version prevails.)

To the management of Enagas S.A. (hereinafter Enagas)

Introduction

We have been engaged by Enagas to review the non-financial information corresponding to the year 2008, included in its 2008 Annual Report (hereinafter the Report), which is available to the general public and whose scope is described in the chapter entitled Scope and principles for defining the content and quality of disclosures.

The information reviewed encompasses the contents of the sections entitled Economic Dimension, Environmental Dimension and Social Dimension within the Global Reporting Initiative (GRI) Content Index chapter. The contents, preparation and maintenance of the information systems that provide the data, as well as the integrity of the Enagas Report, are the responsibility of Enagas Management.

Scope

In the Report, Enagas describes the efforts and progress it has made towards a more sustainable development. Our responsibility has been to review the information relating to the indicators used by Enagas to comply with Global Reporting Initiative Version 3 (GRI G3) criteria included in the Global Reporting Initiative (GRI) Content Index chapter of the Report, as mentioned in the preceding paragraph, and to offer readers a limited level of assurance, according to the ISAE 3000 standard (International Standard for Assurance Engagements), that:

- The quantitative data regarding the GRI G3 indicators has been reliably obtained;
- The qualitative information regarding the GRI G3 indicators is adequately supported by internal or third-party documentation;
- The Report follows the GRI G3 Guidelines for A+ level of application, and the self-declaration has received Global Reporting Initiative confirmation.

We have verified that the financial information included in this Report has been obtained from the company's annual accounts, which have been audited by an independent third party.

Review criteria

Our work has been carried out in accordance with ISAE 3000: *Assurance Engagements other than Audits or Reviews of Historical Financial Information*, issued by the International Auditing and Assurance Standards Board (IAASB), and the Guidelines for Engagements in the Revision of Corporate Responsibility Reports from the Spanish Institute of Registered Auditors (ICJCE). Among other requirements, compliance with these norms require the following:

- The engagement has been carried out with a team specialised in assurance and corporate sustainable development. In accordance with the aforementioned norms, this engagement complies with KPMG's independence policy, which is based on the IFAC Code of Ethics for Professional Accountants.
- The procedures undertaken are substantially fewer than those of a reasonable assurance procedure, and consequently the assurance provided is also lower. Under no circumstances may this report be understood as an audit report.

In our review we have followed Enagas' criteria for application of the GRI G3 principles, as described in the chapter entitled Scope and principles for defining the content and quality of disclosures.

Work performed

We have reviewed the reliability of the quantitative data and other qualitative information included in the Report as described in the scope, basing our review on the following activities:

- Interviews with personnel responsible for the systems providing information included in the Report.
- Review of the systems used to generate, aggregate and facilitate the data.
- Analysis of the scope and manner in which information is presented.
- Review by sampling of the calculations carried out at corporate level and their consistency.
- Verification that other information included in the Report is adequately supported by internal or third-party documentation.

Conclusions

Based on the work described above, we have not observed circumstances indicating that the data included has not been obtained by reliable means, that the information is not fairly stated. We have also not identified any significant omissions or differences in the information reviewed.

KPMG Asesores, S.L.

(signed)

Julián Martín Blasco
Partner

12 March 2009

8.6. Contact (2.4, 3.4)

Please address any comments, requests for clarification or suggestions relating to this report to:

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Main picture in the cover: Panoramic view from the connection point of the pipeline Spanish Peninsula-Balearic Islands in San Antonio (Ibiza).
Picture 2: Equipment installation in the compression station of Montesa (Valencia)
• Andrés H. Zuazo
• Banco de Imagen

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