



Annual Report  
**2010**



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# Index

Letter from the Chairman **4**

1. Key figures **8**

2. Enagás today **12**

2.1. Profile **14**

2.2. Milestones 2010 / Challenges 2011 **16**

2.3. Enagás Strategic Plan 2010 – 2014 **18**

2.4. Operations review 2010 **18**

2.5. Finance **24**

2.6. Acquisitions in 2010 **27**

2.7. Regulatory developments in 2010 **28**

2.8. Technological innovation and development **31**

3. Sustainability in Enagás **32**

3.1. Sustainable management model **34**

3.2. Monitoring the Sustainability Management Model – CSR Scorecard **41**

3.3. Recognition of the Sustainable Management Model **43**

4. Our Commitments **44**

4.1. Commitment to people **46**

4.2. Commitment to customers **68**

4.3. Commitment to suppliers **78**

4.4. Commitment to the environment **84**

4.5. Commitment to society **104**

4.6. Commitment to shareholders **110**

4.7. Commitment to public sector authorities **116**

4.8. Commitment to good governance and corporate integrity **124**

5. Corporate Governance Report **136**

6. The Enagás group's internal control system for financial information **234**

6.1. Overview **236**

6.2. Compliance with the sixteen ICWG indicators **237**

6.3. Internal assessment of the internal financial information control system **244**

7. Financial statements **246**

8. Appendices **358**



• Annual Report 2010

## Letter from the **Chairman**



Three key elements underpin our Strategic plan: cost efficiency, financial strength and investment geared to sustainable long-term value creation.

4



### Dear Shareholders,

It is a pleasure for me to address you once again, on the occasion of the publication of this Annual Report for 2010.

As you know, 2010 has been a difficult year for all of us, especially regarding the economy. Enagás has not been unaffected by this situation. The fall in natural gas consumption in 2009 prompted us to reconsider the level of investment needed in the system for the next few years.

In the light of this new investment scenario, Enagás started work on updating its Strategic Plan in July 2010, setting new targets for the period 2010-2014. The Plan covering the years to 2014 is based on three fundamental principles: cost efficiency, financial strength and implementation of the programmed investments, focusing on the creation of value for our shareholders. Although we anticipate slower growth in investment, we remain confident that profits will increase. For the years 2010-2014 we have prudently estimated an average annual increase of 7%.

Regarding 2010, I am extremely pleased to report that we once again closed the year with results exceeding our targets. Net profit was up by 11.9% against our



forecast of 10% at the beginning of the year. This will allow us to propose the distribution of a gross dividend of €0.84 per share for approval at the General Shareholders Meeting, compared with a €0.75 dividend last year, an increase in line with our earnings growth.

2010 also saw us buy third party assets for the first time. We have purchased the Gaviota storage facility and 40% of the BBG regasification plant. I would like to emphasise that the company's acquisitions policy is based on strict financial and strategic discipline, always geared to fostering profitable, low-risk growth, creating value without unduly increasing our levels of indebtedness.

Once again I would like to draw attention to Enagás' financial policy during the year. We have maintained high levels of liquidity, so that we can be sure of having the funding needed to undertake virtually all the investments we envisage on favourable terms, without needing to turn to the capital markets at a time of great turbulence and volatility.

We have also exceeded our targets for investment, which reached €796Mn, including acquisitions of regulated assets. Our target for infrastructure brought into operation was also exceeded and stood at €645Mn.

Good financial management has enabled us, once again, to close the year with a very low average cost of debt (2.7%) and, more importantly, we are practically assured of good rates for future years, as 70% of our debt is fixed-rate.

As a result of our substantially increased investment, net debt at the end of the year stood at €3,175Mn, giving a net debt/total assets ratio of 46.5%, reflecting the company's sound financial structure and confirming our ability to meet the needs of our long-term investment plan. Enagás has maintained its credit rating once again this year with a sound AA- from Standard&Poor's and A2 from Moody's.

## Stock market performance and shareholder structure

As you know, 2010 has been a difficult year for the Spanish stock market, reflecting the problems of our economy in an adverse global climate.

Against this backdrop, Enagás' shares have outperformed the market average. They are among the top ten in the Ibex 35 index and recorded the best performance for power and gas companies.

During 2010 there has been no change in the number of shareholders on the Board of Directors. Enagás' free float represents 70% of its capital, one of the highest levels in the Ibex-35 index, giving the shares considerable liquidity.

## Operating environment

Demand for natural gas transported in 2010 remained steady compared with 2009. However, there has been a healthy recovery in conventional demand, which rose by 10%.

Consumption of gas for power generation fell by almost 16% but natural gas is playing an increasingly important supporting role in this sector, especially in view of the strong growth in renewable energy. I would like to stress the importance of the investments Enagás is making, which are absolutely necessary to maintain this balance between the different technologies used for power generation, and the good functioning of the System in 2010, which has responded well to the increase in peak demand. 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 Enagás as Technical System Operator.

• Annual Report 2010

## Letter from the Chairman

6

### Corporate Responsibility

Enagás' commitment to a Sustainable Management Model which is geared to innovation and improvement has been reflected in initiatives such as the appointment of the Independent Leader Director and the creation of an Appointments, Remuneration and Corporate Responsibility Committee, which underline management's commitment to Corporate Social Responsibility. All the Enagás business units have been involved in implementing over 60 lines of action as part of our Quality, Excellence and Sustainability Master Plan, the results of which are reviewed annually using a variety of internal tools and by external organisations.

Thanks to the continued efforts of everyone at Enagás, the company has again been listed on the Dow Jones Sustainability Index (DJSI), FTSE4Good and Ethibel Excellence indices, the leading world sustainability indices, and has been awarded the European 400+ Seal of Excellence based on the EFQM standard. Furthermore, our information system processes have been certified according to the ISO 9000 standard, while in the area of work-life balance and equality we have obtained the Spanish Ministry for Health, Social Policy and Equality's "Equality at Work" accolade, awarded for the first time this year. Enagás remains committed to the ten principles of the United Nations Global Compact and the main activities demonstrating this commitment are described in this report.

### Conclusion

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 confidence in us. In 2011 we shall show the same commitment and continue to work hard to meet our targets, overcome new challenges and create value sustainably.



Antonio Llardén  
Chairman







## Stock market data

	2002	2003	2004	2005	2006	2007	2008	2009	2010
Share price (31 Dec.)	5.80	8.60	12.20	15.80	17.62	19.99	15.56	15.43	14.92
Dividend (€)	0.23	0.30	0.33	0.40	0.47	0.60	0.65	0.75	0.84
Capitalisation (€Mn)	1,384.5	2,052.8	2,912.1	3,771.5	4,205.9	4,771.6	3,714.7	3,682.5	3,560.7
No. of shares (Mn)	238.7	238.7	238.7	238.7	238.7	238.7	238.7	238.7	238.7

## Demand for gas transported (GWh)

	2002	2003	2004	2005	2006	2007	2008	2009	2010
Total demand	243,038	275,238	319,600	375,894	391,435	408,431	449,389	401,855	400,700

## Infrastructure

	2002	2003	2004	2005	2006	2007	2008	2009	2010
<b>Transportation network</b>									
Km, of gas pipeline	6,383	6,522	7,158	7,538	7,609	7,655	8,134	8,884	8,981
<b>Regasification plants</b>									
LNG storage capacity (m <sup>3</sup> )	560,000	560,000	710,000	987,000	1,287,000	1,287,000	1,437,000	1,437,000	1,887,000
Vaporisation capacity (m <sup>3</sup> (n)/h)	2,100,000	2,250,000	2,700,000	3,450,000	4,050,000	4,200,000	4,350,000	4,650,000	4,650,000
<b>Underground storage facilities</b>									
Extraction capacity (Mm <sup>3</sup> (n)/day)	10.3	12.5	12.5	12.5	12.5	12.5	6.9	6.9	6.9
Injection capacity (Mm <sup>3</sup> (n)/day)	8.4	8.4	8.4	8.4	8.4	8.4	4.0	4.4	4.4

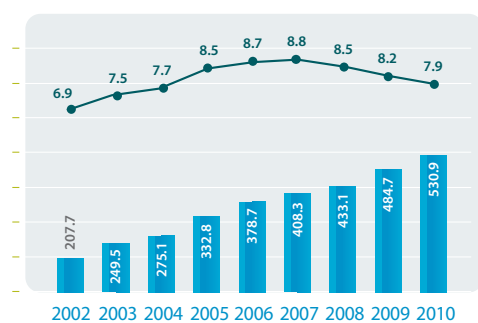


• Annual Report 2010

## Key figures

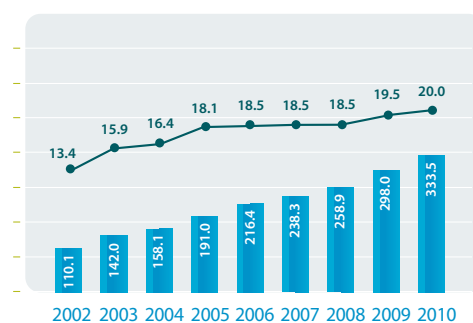
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## EBIT



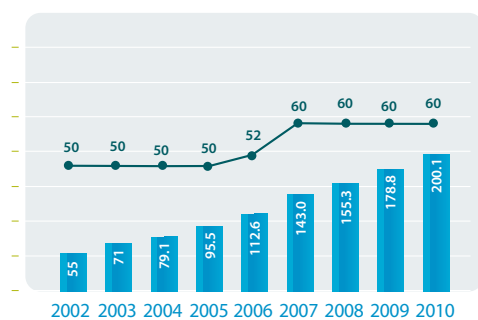
EBIT (€Mn) ● ROCE (%) —

## Net profit



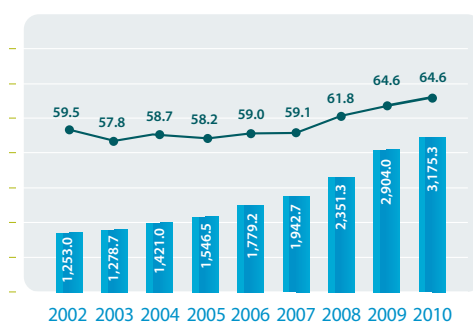
Net profit (€Mn) ● ROE (%) —

## Dividends



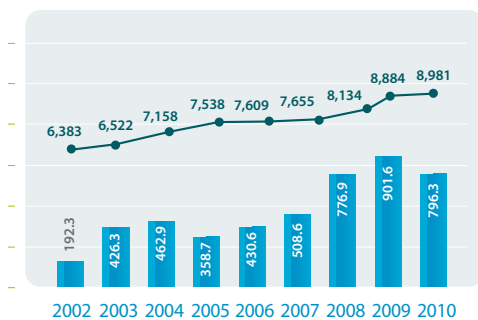
Dividends (€Mn) ● Pay-out (%) —

## Net debt



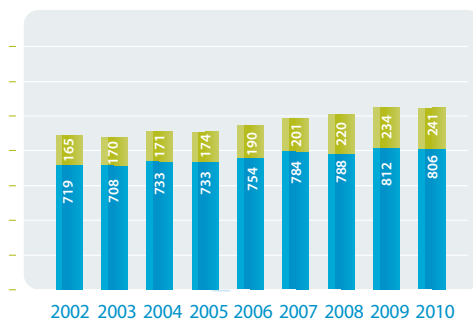
Net debt (€Mn) ● Net debt/(net debt + equity) —

## Investment



Investment (€Mn) ● Km. of gas pipeline —

## Employees

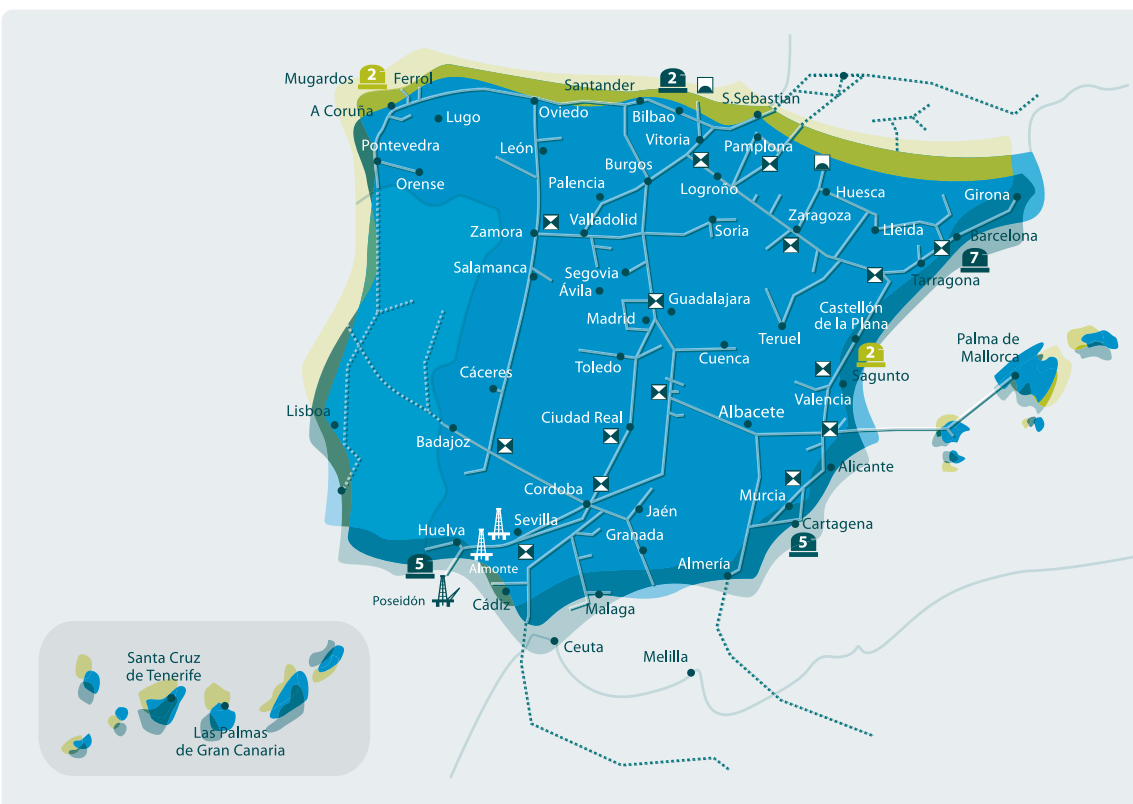


Men ● Women





### Gas infrastructures



- Operational pipeline
- Transportation pipeline not operated by Enagás
- Regasification plant not operated by Enagás (number of tanks in operation)
- Gas field
- Regasification plant (number of tanks in operation)
- Compression station in operation
- Underground storage facility in operation

## 2. Enagás today

2.1. Profile **14**

2.2. Milestones 2010 / Challenges 2011 **16**

2.3. Enagás Strategic Plan 2010 – 2014 **18**

2.4. Operations review 2010 **18**

2.5. Finance **24**

2.6. Acquisitions in 2010 **27**

2.7. Regulatory developments in 2010 **28**

2.8. Technological innovation and development **31**





## 2. Enagás today

### 2.1. Profile -2.2, 2.5, 2.6, 2.7-

#### Our Mission

In its role as carrier and technical operator, Enagás ensures 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 Spanish gas system works by coordinating its different agents and proposing measures for improvement. It develops the transport network and manages infrastructure in a secure, efficient, profitable and environmentally-friendly manner. These functions are performed exclusively and independently.

All of this 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.

#### Our Values

- Operational security and reliability
- Impartiality and transparency
- Continuous improvement
- High professional standards
- Commitment to the environment
- Honesty
- Results-orientated
- Team work
- Personal development

#### Our main activities

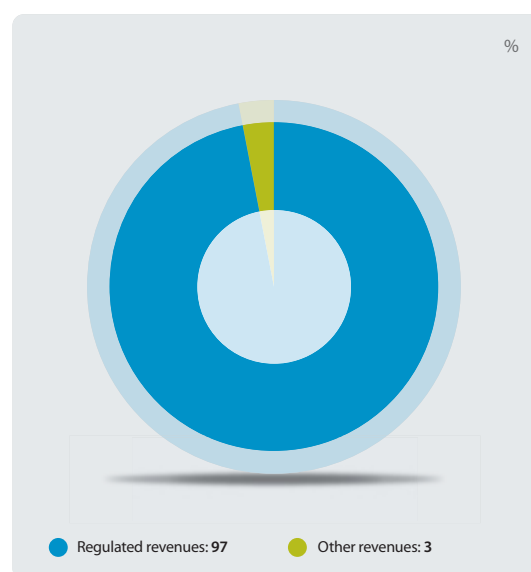
Enagás operates in Spain.

#### Sole transporter for the primary gas transport trunk network

Its role as sole transporter for the primary natural gas transport trunk network (Royal Decree-Law 6/2009) makes Enagás a key player in the sector, providing strategic support for the development of the gas network in Spain, helping to consolidate the process of liberalisation in the sector and competition between suppliers. The company has developed the following infrastructure, which it makes available to suppliers via third-party access services:

- 9,000 km of gas pipelines in Spain
- An underground storage facility at Serrablo (Huesca). It also operates the underground storage facility at Gaviota (purchase pending authorisation).
- Three regasification plants in Barcelona, Cartagena and Huelva, with a total LNG emission capacity of 4,650,000 m<sup>3</sup> (n)/h and total LNG storage capacity of 1,887,000 m<sup>3</sup>.
- The company also owns 40% of the BBG regasification plant in Bilbao.

#### Revenue





### Technical System Operator

Enagás was appointed the Technical System 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 supply and efficient coordination between access points, storage facilities, and transportation and distribution networks.

In addition, to reinforce its autonomy as Technical System Operator, the company has segregated the activities it performs as System Operator from those it performs as gas transporter and manager of its own network, via a separate unit which is responsible for technical management of the Spanish gas system.



## 2.2. Milestones 2010 / Challenges 2011 -2.10-

### Meeting challenges Planned for 2010

- ✓ 10% growth in regulated revenues
  - Excellent financial resources, in terms of maturity and cost
  - Consolidation of 25% purchase of BBG regasification plant (40% consolidation at 31/12/10)
- ✓ Increase in net profit and EBITDA around double digit level
  - 2008-2010 Efficiency and Cost Containment Plan to remain in place
  - Average cost of debt: 3.3% (Average cost of debt at 31/12/10: 2.7%)
- ✓ €700 Mn in investments
  - Streamlining permits and authorisation
  - Projects valued at €500Mn to be brought on stream
- ✓ Consolidation of Enagás as sole transporter for the primary network via the acquisition of assets meeting three basic criteria:
  - Regulated assets
  - Acceptable profitability
  - Not exceeding the level of indebtedness envisaged by the company
- ✓ Development of other areas of business related to the core activity, ensuring in all cases the low risk profile and sustained growth which characterise the company's development
  - ✗ Creation of the Secondary Capacity Market to allow agents to negotiate in a continuous market (\*)
  - ✓ Second stage of Open Season to develop a new link between Spain and France (MIDCAT)
  - ✓ Participation by Enagás as TSO in development of compulsory planning for the gas and electricity sectors for 2012 to 2020 as stipulated in current regulations.
  - ✓ Review of the remuneration scheme for regasification plants and underground storage
  - ✓ Development and presentation to all the company's stakeholders of the 2010 – 2014 Strategic Plan, focusing on tight control of operating and finance costs, increasing profitability and earnings, sustainable over time. The company plans to achieve this without losing sight of its main aim as carrier and technical operator, which is to ensure that the Spanish gas system operates correctly, guaranteeing the security of supply and encouraging competition in a transparent and non-discriminatory manner.

(\*) It has not been possible to develop the continuously operating secondary market for all installations because the relevant Royal Decree has not been approved.

✓ Achieved ✗ Not achieved ■ In progress

### Challenges 2011

- Keep investment at a level above €650Mn
- Put assets worth over €650Mn into operation
- EBITDA growth around double digit level
- Net profit growth above 5%
- Complete the 2012-2020 compulsory infrastructure planning process

## Other milestones 2010

### April

#### 8 Enagás buys Repsol's share in the Gaviota underground storage facility

Repsol sold Enagás its 82% stake in the Gaviota storage facility for €86.9Mn. €16.4Mn of this amount is subject to approval of the expansion project by the Ministry for Industry, Trade and Tourism

#### 30 2010 General Shareholders' Meeting

Approval of a total gross dividend for 2009 of €0.749 per share (15.1% increase on 2008). All resolutions submitted to the meeting were approved. Isabel Sánchez García was appointed Independent Director

### June

#### 28 The company moves ahead with its commitment to good governance

The Board of Directors of Enagás approved the appointment of Independent Director José Riva Francos as a member of the Audit and Compliance Committee. This addition maintains the Committee's balance between the number of independent and proprietary directors.

The Board also approved the delegation of powers to the Chairman of the Appointments, Remuneration and Corporate Responsibility Committee, currently independent director Dionisio Martínez Martínez, to call board meetings or include new items on the agenda in order to coordinate and convey the concerns of Directors and to lead the Board's evaluation of its Chairman

### July

#### 20 Presentation of updated 2010-2014 Strategic Plan

Presentation by the Chairman of Enagás of the updated 2010-2014 Strategic Plan

#### 27 Enagás acquires 18% of Gaviota from Murphy Oil, giving the company 100% ownership of the underground storage facility

Enagás signed an agreement to acquire Murphy Spain Oil Company's 18% stake in the Gaviota natural gas storage facility for €19.2Mn. The deal includes the current infrastructure and the extension project

#### 29 Enagás acquires 15% of Bahía de Bizkaia Gas from Repsol

Enagás signed a purchase agreement with Repsol for the acquisition of 15% of the Bahía de Bizkaia Gas (BBG) regasification plant for €40Mn, including debt.

Once the transaction was closed and all pertinent authorisations obtained, Enagás became BBG's majority shareholder, with a 40% interest

### September

#### 9 Enagás retains ranking in Dow Jones Sustainability Index for third year running

The continuing presence of Enagás in the index is further evidence of the company's unwavering commitment to sustainability and bolsters the commitments undertaken in the 2009-2012 Quality, Excellence and Sustainability Master Plan, which underpins the Sustainability Management Model

### November

#### 3 Moody's affirms its long-term rating for Enagás

Ratings agency Moody's affirmed its long-term A2 rating of Enagás, its short-term Prime 1 credit rating and its stable future outlook

#### 24 Enagás acquires natural gas transport assets from Iberdrola

Enagás entered into an agreement to acquire Iberdrola's natural gas transport assets for approximately €8Mn

### December

#### 7 Enagás awarded "Equality at Work" accolade

Enagás is one of the first entities to receive this distinction, awarded by the Ministry of Health, Social Policy and Equality for its outstanding application of policies of equality of treatment and opportunity for the men and women employed by the company

#### 16 All-time record for conventional daily demand

Conventional demand for natural gas in Spain set a new all-time record of 1,166 GWh, mainly due to the low temperatures recorded. This was 1.4% higher than the previous record of 1,150 GWh set on 12 January 2010

#### 22 Standard & Poor's confirms its long-term rating for Enagás

Standard & Poor's upheld its "AA-" long-term and "A-1+" short-term ratings for the company, with a stable outlook



## 2.3. Enagás Strategic Plan 2010 – 2014

The investment plan, adapted to the new economic environment, is designed to meet the company's commitment to continue guaranteeing the security of the national energy system.

### The economy and energy

The review of the Strategic Plan in 2010 was motivated by the economic situation and by circumstances in the energy sector, which have changed substantially since the 2007-2012 Strategic Plan was drawn up.

### Clarity, realism and prudence

The update of the Strategic Plan increases visibility for the company's stakeholders up to 2014, providing a clear, realistic and prudent picture.

### Key figures

- Average annual investment of €700Mn(2010-2014)
- Average annual assets put into operation of €680Mn, above the pace registered from 2007 to 2009
- Debt ratios unchanged from current levels
- Sufficient financial wherewithal to carry out planned investment to 2014
- CAGRs for EBITDA and net profit of 10% and 7%, respectively
- Increase in dividend per share in line with growth in net profit

### Three fundamental principles

The update to the company's strategy is based on three fundamental principles: low-risk growth, financial strength which is compatible with planned investment, and maintaining the efficiency and cost control plan until 2014.

## 2.4. Report on activities 2010

### 16 April

Enagás supports BG Italy in the development of the Brindisi LNG plant. Enagás continues to work with BG and strengthen its position as a leader in international good practices in managing LNG terminals.

### 16 August

A methane tanker carrying LNG from Peru docked at the Cartagena regasification plant. This is a new source of liquid natural gas and contributes to the company's policy of diversifying sources of supply in Spain.

### 30 November

The Barcelona regasification plant set an all-time production record of 400.6 GWh. This was 7% above the previous high, recorded on 27 January 2005.

### 16 December

All-time record for conventional demand, at 1,166 GWh, coinciding with a cold spell.

### 22 December

Record set for cistern loading at Cartagena plant (72 in one day). The previous record dated from 2 September 2010, with 71 loads handled at the Huelva plant. The new record is 44% higher than the plant's nominal capacity of 50 per day.

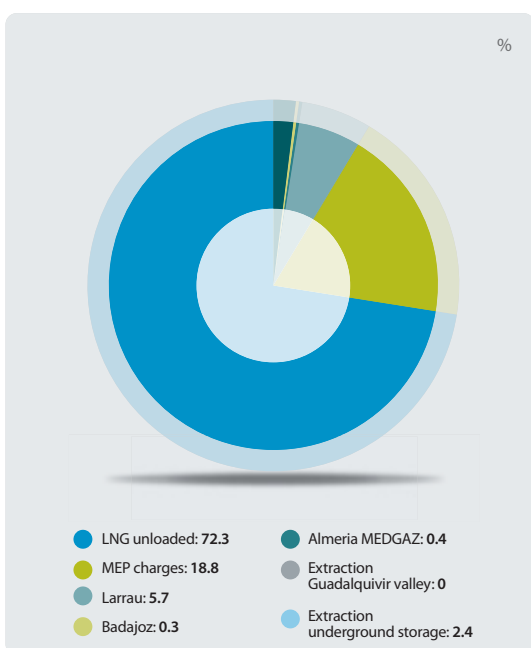
### Demand for natural gas in 2010

Conventional demand for natural gas rose by 10% in 2010 and has returned to pre-recession levels, mainly as a result of the effect of low temperatures on domestic consumption and higher industrial consumption. Total demand for natural gas was 400,700 GWh, a similar figure to 2009. In 2010, demand for gas to generate power fell by 15.7%, largely because of increased hydro output, greater output from renewable sources and more extensive use of nuclear power plants.

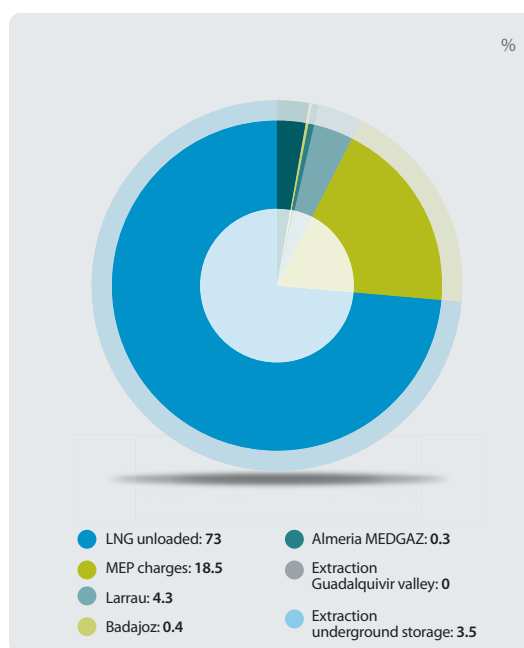
## Demand for natural gas in 2010

	2007	2008	2009	2010	% Chg.2010 vs 2009
Domestic market	408,431	449,389	401,855	400,700	-0.3%
Domestic conventional	266,372	261,921	241,062	265,083	+10.0%
Electricity sector	142,059	187,468	160,793	135,617	-15.7%
Exports International Connection	1,857	2,145	11,564	12,576	+9%
Exits - Guadalquivir Valley	1,321	1,441	1,495	806	-46%
Regulated transport activity	411,609	452,976	414,914	414,083	-0.2%
Transfer Maghreb-Europe pipeline (MEP) to REN	22,389	28,318	21,934	22,365	+2%
Total exits	434,330	481,294	436,848	436,525	-0.1%
Injection	9,019	13,601	7,579	12,224	+61.3%


## Gas Transported 2009



## Gas Transported 2010



## Source of supplies



	2009		2010		2010 vs 2009
	GWh	%	GWh	%	
Algeria NG	79,561	31%	79,398	29%	-0.2%
Algeria LNG	47,999		42,649		-11%
Italy LNG*	12,416	3%	10,291	2%	-17%
Qatar LNG	50,131	12%	65,533	16%	+31%
Oman LNG	23,129	6%	1,931	0%	-92%
Nigeria LNG	55,192	13%	87,865	21%	+59%
Egypt LNG	47,942	12%	32,728	8%	-32%
Norway LNG	15,773	4%	20,680	5%	+31%
France NG	23,956	6%	18,637	5%	-22%
Libya LNG	8,252	2%	4,128	1%	-50%
T&T LNG	43,778	11%	34,789	8%	-21%
US LNG*	-	-	1,311	0%	new
Peru LNG	-	-	7,164	2%	new
Belgium LNG*	-	-	876	0%	new
Yemen LNG	1,048	0.3%	2,968	1%	>100%
Domestic NG	1,715	0.4%	1,201	0%	-30%
Portugal NG	1,346	0.3%	1,816	0%	+35%
<b>Total</b>	<b>412,239</b>	<b>100%</b>	<b>413,964</b>	<b>100%</b>	<b>+0.4%</b>

Domestic NG includes the extraction of non-basic storage in the Guadalquivir Valley

\* Commercially sourced

## Supply of natural gas in 2010

In 2010, the Spanish gas system added new supply sources, most notably shipments originating from the new liquefaction plant in Peru. Spain received natural gas from a total of 15 different countries.

Also notable was the 8.8% increase in natural gas exports compared to 2009 both to France via the Larrau and Irún connections, and to Portugal via Tuy and Badajoz. Most of the exports to Portugal were used to supply combined cycle thermal plants.

## The Spanish Gas System in 2010

### Enagás transport network

The Montesa compressor station came into operation in February, increasing the transport capacity of the Levante Axis, the Transversal Axis and the pipeline connecting the Balearic Islands to the Spanish mainland system.

The most significant additions in 2010 include the duplication of the Castelnou-Tivissa pipeline at the end of October, significantly increasing transport capacity in the Ebro valley. The new gas pipeline, 26" in diameter and 90.6 kilometres long, is one of the infrastructures regarded by the SGRI as necessary for flow reversibility in the Larrau international connection.

This pipeline also reinforces transport in the Ebro valley, facilitating operations during injection, improving security of supply for zone II (Catalonia) and zone III (Ebro valley and Basque country).

In December, Enagás started work on the Besós branch pipeline, which will supply gas to the two new units at the Besós combined cycle plant at Sant Adrià (Barcelona) and link to the future Martorell-Figueres pipeline.


### Input into the system 2010



		2009	2010	%Chg
NG	Tarifa	79,561	79,398	- 0.2 %
	Larrau	23,956	18,637	- 22.2 %
	Domestic suppliers	1,715	1,201	- 29.9 %
	Tuy	-	-	
	Badajoz	1,346	1,816	+ 35.0 %
	<b>Total NG</b>	<b>106,578</b>	<b>101,053</b>	<b>- 5.2 %</b>
LNG	Barcelona port	72,392	77,484	+ 7.0 %
	Cartagena port	44,043	42,738	- 3.0 %
	Huelva port	58,542	67,828	+ 15.9 %
	Bilbao port	48,422	50,660	+ 4.6 %
	Sagunto port	65,507	55,713	- 15.0 %
	Mugardos port	16,754	18,489	+ 10.4 %
	<b>Total LNG</b>	<b>305,661</b>	<b>312,911</b>	<b>+ 2.4 %</b>
	<b>Total input</b>	<b>412,239</b>	<b>413,964</b>	<b>+ 0.4 %</b>

21

### Deliveries by source in 2010



Deliveries in 2010	Nigeria	Algeria	Italy	Egypt	Qatar	T&T	Oman	Norway	Libya	US	Yemen	Peru	Belgium	Total	Average delivery (GWh)
Barcelona	24	26	14	5	36	5	1	2	4			1	118	650	
Cartagena	7	11	4	9	17	3	1	1	7	1		2	63	680	
Huelva	31	41	4	7	1	4		6	3		2	1	100	680	
Bilbao	17	2			2	21		10				3	1	56	900
Sagunto	9	18	9	15	16	1		2	3	1	1		76	740	
Mugardos	8	2			3	8		1					22	840	
<b>Total</b>	<b>96</b>	<b>100</b>	<b>32</b>	<b>36</b>	<b>75</b>	<b>42</b>	<b>2</b>	<b>22</b>	<b>17</b>	<b>2</b>	<b>3</b>	<b>7</b>	<b>435</b>		
Average delivery (GWh)	920	420	330	910	870	830	970	940	240	660	990	1.020	880	720	
<b>Quality of LNG</b>															
SCP mass (KWh/Kg)	15.25	15.03	15.02	15.38	15.16	15.39	15.14	15.13	14.97	15.28	15.31	15.14		15.19	
PCS volume (KWh/m <sup>3</sup> )	6,852	6,889	6,847	6,640	6,883	6,610	6,946	6,809	7,161	6,825	6,760	6,838		6,838	
LNG density (Kg/m <sup>3</sup> )	449	458	456	432	454	429	459	450	479	447	442	452		450	

• Annual Report 2010

Enagás **today****Enagás regasification plants**

In 2010 LNG storage capacity was substantially increased by the addition of three new 150,000m<sup>3</sup> tanks: the seventh tank at the Barcelona plant at the end of October, the fifth tank at the Cartagena plant early in November, and the fifth tank at the Huelva plant at the end of December. System capacity was thus increased by 18% over the year.

Enagás is also building a regasification plant at El Musel in Gijón (Asturias). It will be located on the extended property of the El Musel port in Gijón, between the dyke towers and the north pier, occupying roughly 18 hectares.

22

**The Spanish Gas System in 2010**  
 Enagás regasification plants
**Huelva plant**

Number of tanks

5

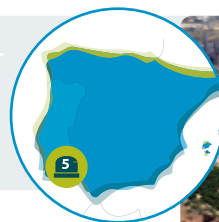
Storage capacity

620,000 m<sup>3</sup> LNG

Emission capacity

1,350,000 m<sup>3</sup> (n)/h

Docking capacity

140,000 m<sup>3</sup> LNG**Barcelona plant**

Number of tanks

7

Storage capacity

690,000 m<sup>3</sup> LNG

Emission capacity

1,950,000 m<sup>3</sup>(n)/h

Docking capacity

80,000 m<sup>3</sup> LNG140,000 m<sup>3</sup> LNG**Cartagena plant**

Number of tanks

5

Storage capacity

587,000 m<sup>3</sup> LNG

Emission capacity

1,350,000 m<sup>3</sup> (n)/h

Docking capacity

40,000 m<sup>3</sup> LNG250,000 m<sup>3</sup> LNG



## Underground storage facilities

In 2010 the company continued work on the Yela underground storage facility, one of the most important infrastructure projects in its portfolio. The 11 wells needed to construct the Yela storage facility were drilled in 2009 and in 2010 the 17½" and 12¼" stages were completed, including drilling, pipe laying and cementing as far as the roof structure and the storage section. In December, the last stage of drilling began, hollowing out the storage section, and is expected to be completed in the first quarter of 2011.

Work has also been completed on reconditioning the wells drilled in previous years for monitoring. Work on constructing the power line and the power sub-station is in the final stages and civil engineering work on the plant has begun.

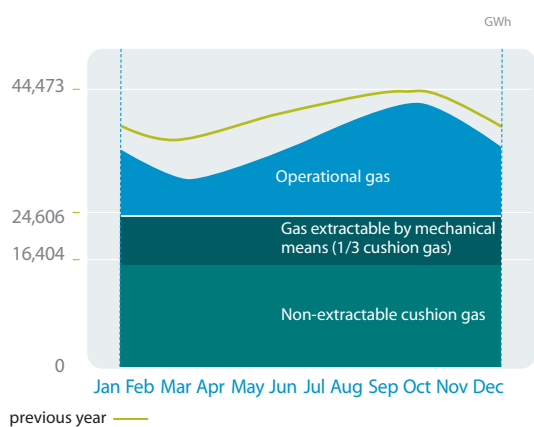
## Contracting capacity

At the close of 2010, the contracted capacity of Enagás' input facilities was 60%: 54% short-term and 6% long-term. In line with trends in recent years, short-term contracting, at 588 contracts, accounted for 74% of the total. This is the result of taking advantage of cheaper tolls in summer and logistical management which seeks to improve the ratio of capacity use.

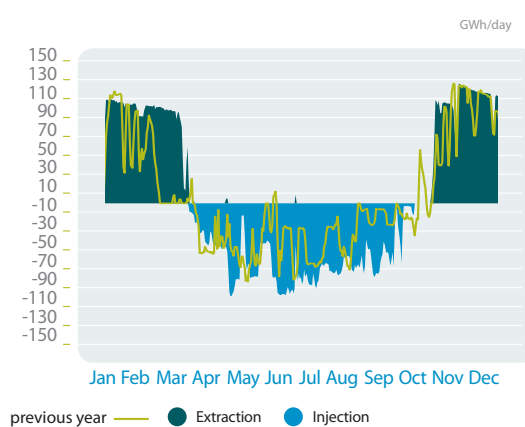
In 2010 the capacity used at Enagás plants was 61% of contracted capacity.

23

### Underground storage inventories



### Injection/extraction Underground storage



### Underground storage inventories

	2009	2010
Capacity	44,473	44,473
A Total	38,331	35,769
A <sub>1</sub> Non-extractable cushion gas (2/3)	16,404	16,404
A <sub>2</sub> Extractable cushion gas (2/3)	8,202	8,202
A <sub>3</sub> Operational gas	13,725	11,164
Operational gas % full	69%	56%
A <sub>1</sub> +A <sub>2</sub> Cushion gas	24,606	24,606
A <sub>2</sub> +A <sub>3</sub> Useful gas	21,927	19,366
Injection	7,579	12,224
Extraction	10,265	14,785

## 2.5. Finance - EC4 -

### Revenue

Regulated revenue in 2010 totalled €966Mn, an increase of 11.4% on the figure for 2009 and in line with the target set at the beginning of the year

Revenue from non-regulated activities totalled €34.8Mn. Total revenue for the year stood at €1.0Bn, 11% higher than in 2009.

### Operating expenses

Operating expenses were 9.9% higher than in 2009. In like-for-like terms, excluding provisions for termination benefits and early retirement and the consolidation of operating expenses for the 40% holding in the BBG regasification plant, the increase was 4%, well below the increase in revenue and reflecting once again our commitment to controlling costs. The containment of operating costs, part of the effi-

ciency plan introduced by Enagás in 2008, is particularly relevant in a year which saw the company's asset base continued to grow by over 12%.

### Operating Cash Flow (EBITDA) and operating Profit (EBIT)

EBITDA for the year was €780.8Mn, 11.3% more than in 2009 and slightly higher than the target set by the company at the start of the year. This healthy growth reflects the positive trend in operating costs combined with rising revenue. The EBITDA margin on regulated revenue was 80.8%, in line with the figure for 2009. However, the like-for-like EBITDA margin (excluding provisions for early retirement) would have been 81.3%.

### Financial performance

	2010	2009	% Chg
Regulated revenue (€Mn)	966.0	866.8	11.4%
EBITDA (€Mn)	780.8	701.3	11.3%
EBIT (€Mn)	530.9	484.7	9.5%
Net profit (€Mn)	333.5	298.0	11.9%
Total assets (€Mn)	6,829.1	5,779.9	
Net debt (€Mn)	3,175.3	2,904.0	
Equity (€Mn)	1,738.8	1,593.4	
Net debt/total assets (%)	46.5%	50.2%	
Net debt/EBITDA	4.1x	4.1x	
Net debt/(net debt + equity) (%)	64.6%	64.6%	
Average cost of debt (%)	2.70%	3.31%	
Investment (€Mn)	796.3	901.6	-11.7%
Assets put into operation (€Mn)	644.6	965.3	-33.2%

The depreciation and amortisation charge for the year amounted to €249.9Mn, 15.4% higher than in 2009 and in line with the growth in asset volume.

EBIT totaled €530.9Mn, 9.5% up on 2009. ROCE (net operating revenue/average net debt + average equity) at 31 December 2010 stood at 7.9% while ROE for 2010 was 20%, up slightly on the 2009 figure of 19.5%.

### Net finance expense

Net finance expense for the year was €58.6Mn, 4.3% lower than in 2009 as a result of the average cost of debt falling to 2.7%, considerably less than the 3.3% recorded in 2009.

The EBITDA interest cover ratio at the end of 2010 was 9.9x compared with 9.6x a year earlier.

### Net profit

The healthy growth in earnings led to net profit of €333.5Mn in 2010, 11.9% higher than the €298.0Mn recorded in 2009, a result amply exceeding the strategic target of 10% set at the beginning of the year.

### Investment

Enagás invested €796.3Mn in 2010, including acquisitions, in excess of the year's target of €700Mn. Assets brought into operation during the year (€644.6Mn) also exceeded the target of €500Mn.

### Cash Flow and Financing - EC4 -

Operating cash flows adjusted for changes in working capital totalled €628.9Mn, 17.7% higher than the 2009 figure. The increase was a result of the 11.3% rise in EBITDA and successful management of working capital during the year.

Cash flows generated were used mainly to finance investments and pay dividends (€185.7Mn).

Accordingly, at 31 December 2010, the company's net debt was €3.2Bn, up from €2.9Bn at year-end 2009. Gearing (net financial debt/total assets) was 46.5% at the year-end, slightly lower than the previous year's 50.2%. The gearing ratio (net debt/net debt + equity) was 64.6%, the same level as at 31 December 2009.

Capital grants recognised in income in 2010 totalled €20.5Mn and correspond essentially to the EU structural funds assigned to the Gas Infrastructure Operational Programme - EC4 -:

- Spanish government subsidies: €3.0Mn (14.7% of all subsidies applied to earnings)
- Subsidies from Autonomous Regions: €1.6Mn (7.7% of all subsidies applied to earnings)
- FEDER subsidies: €15.9Mn (77.6% of all subsidies applied to earnings)

### Debt structure

At 31 December 95% of debt was long-term and 70% fixed rate, compared with 60% in 2009, in line with long-term company policy of contracting most debt at fixed rates.

The average maturity period is 5.6 years and untapped liquidity is €2.07Bn. Consequently, Enagás will not need to turn to the capital markets for additional funding over the next four years. After the refinancing of the syndicated loan in 2009, the company will not have to enter into any significant refinancing operations until 2012.



### Financing strategy

The company's financing strategy remains prudent and it will continue to diversify instruments and maturities. The main instruments used and their respective maturities are as follows:

- Very long-term financing through a bond placement with AFLAC
- Long-term financing with loans from the ICO and EIB
- Medium-term financing through the issue of simple bonds and other loans
- Short-term financing with credit policies

### Dividend policy

The company's dividend policy was not changed in 2010 and the pay-out is 60% of net profit.

### Rating agencies

The main ratings agencies all confirmed Enagás' credit ratings in 2010.

Standard & Poor's produced its annual report in December, confirming the company's AA- rating and stable 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 its con-

servative financial policy, in addition to its high level of liquidity. The report also draws attention to the following points:

- The regulatory framework still provides an incentive for investment without exposure to gas volumes and prices
- The strategic importance for the country of gas infrastructure management
- Excellent management of liquidity by the company avoids any financing problems and also means a wide range of mechanisms is available to access financial markets
- The stable outlook is based on the excellent risk profile of the company's business, with good cash flow generation and the expectation of regulatory stability

Moody's held its rating for Enagás at A2. In its report in November the agency stressed the company's strategy of focusing on regulated activity in Spain and its sound financial structure, with a robust cash position. It also emphasised its low level of exposure to gas volumes and prices.

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 sound companies in the Spanish energy sector and highlight the secure and low-risk nature of its strategy.

## 2.6. Acquisitions in 2010

Investment in the regulated infrastructure of third parties belonging to the Spanish gas system further strengthens the company in its role as sole transporter for the primary gas transport trunk network under Royal Decree-Law 6/2009 of 30 April.

### Enagás recently carried out the following operations in this area:

#### Stake acquired in the Bahía de Bizkaia Gas (BBG) regasification plant

- April 2010: all necessary permits obtained for the acquisition of BP's 25% holding, agreed in September 2009, for €65Mn, including debt.
- August 2010: agreement to purchase part of Repsol's holding (15%) for €40Mn, including debt. Authorisation granted in November 2010.

Via these two operations Enagás has become the majority shareholder (40%) of BBG and will use its experience in the gas sector to assist in the operation of the plant and ensure its enlargement and future development.

#### Acquisition of Gaviota underground storage facility

- April 2010: agreement to purchase Repsol's 82% holding for €86.9Mn. Of that amount, €16.4Mn is subject to the Ministry for Industry, Tourism and Trade's approval of the expansion project.
- July 2010: agreement signed for purchase of Murphy Spain Oil Company's 18% holding for €19.2Mn.

Official authorisation for both operations is still pending. When authorisation has been granted Enagás will own 100% of this strategic infrastructure, of great importance in guaranteeing security of supply for the gas system.



#### Acquisition of natural gas transportation assets from Iberdrola

- November 2010: agreement signed for approximately €8Mn, including the following acquisitions:
  - 100% of Iberdrola Infraestructuras Gasistas, owner and operator of the gas pipeline at Dársena de Escombreras, Cartagena (Murcia).
  - Gas pipeline at the combined cycle thermal power plant in Arcos de la Frontera (Cádiz).

As with the Gaviota facility, authorisation for these operations is still pending.

All the operations for acquisitions described above are in line with Enagás' policy of acquiring assets in the basic natural gas network, provided that this is compatible with the targets for profitability and indebtedness set out in its Strategic Plan.



## 2.7. Regulatory developments in 2010

### Supra-national

#### Regulation 994/2010

Regulation 994/2010 of the European Parliament and Council of 20 October 2010, which repeals Directive 2004/67/EC, establishes measures to safeguard security of gas supply, so that the proper, ongoing functioning of the internal natural gas market is ensured, allowing for the application of exceptional measures when the market cannot continue to meet demand and clearly defining and assigning the responsibilities of the natural gas distributors, member states, and the European Union regarding preventive measures and their response to supply disruptions. This Regulation also specifies transparent mechanisms, in a spirit of solidarity, for coordinating planning for, and the response to, emergencies at national, regional or EU level

#### Regulation 617/2010

Council Regulation of 24 June 2010, establishing a common framework for submitting to the Commission details of projects for investment in energy infrastructures in the oil, natural gas and electric power sectors (including power from renewable sources and bio-fuels), concerning the capture and storage of carbon dioxide produced by these sectors

#### Commission Decision of 10 November 2010

This Decision amends Chapter 3 of Annex I of Regulation (EC) 715/2009, introducing transparency requirements in order to ensure effective access to natural gas transportation networks and provide minimum guarantees of equitable conditions for access to the market

#### Commission Decision of 3 November 2010

This Decision lays down the criteria and measures for the financing of commercial demonstration projects for the environmentally safe capture and geological storage of CO<sub>2</sub> as well as demonstration projects for innovative renewable energy technologies under the scheme for greenhouse gas emission allowance trading within the Community, as established by Directive 2003/87/EC of the European Parliament and Council

### Remuneration and Tolls

#### Order ITC/3354/2010

Order ITC/3354/2010, of 28 December, approves the tolls and fees for third-party access to gas facilities and remuneration for regulated activity

#### Order ITC/1890/2010

Order ITC/1890/2010, of 13 July, regulates certain matters related to third-party access and regulated remuneration in the natural gas system

### Last Resort Rate

#### Royal Decree 104/2010

Royal Decree 104/2010, of 5 February, governs the introduction of the last-resort supply service for the natural gas sector. It specifies the legal regime applicable to consumers entitled to the last resort rate and introduced measures to determine the rates payable by consumers who do not have a contract with a supplier. The Decree also establishes measures to be applied by distributors and suppliers so that the transfer to last resort supply is compatible with the principle of competition.

#### Order ITC/1506/2010

Order ITC/1506/2010, of 8 June, modifies Order ITC/1660/2009, which stipulated methods for calculating the last resort rate for natural gas. This Order revises the formulae published to take account of the increased number of auctions. Some modifications have also been introduced affecting the formulae for assessing tolls.

#### Directorate-General for Energy Policy and Mines Resolution of 28 December 2010

This Resolution establishes the cost of producing electric power and the last resort rates to be applied in the first quarter of 2011.

#### Directorate-General for Energy Policy and Mines Resolution of 28 December 2010

The Resolution publishes the last resort supply rate for natural gas to be applied with effect from 1 January 2011.

#### Directorate-General for Energy Policy and Mines Resolution of 23 September 2010

This Resolution publishes the last resort supply rate for natural gas to be applied with effect from 1 October 2010. This Resolution publishes the last resort supply rate for natural gas to be applied with effect from 1 July 2010.

#### Directorate-General for Energy Policy and Mines Resolution of 22 March 2010

The Resolution stipulates the last resort supply rate for natural gas to be applied with effect from 1 April 2010.

### Compulsory planning and winter plan

#### Order ITC/734/2010

Order ITC/734/2010, of 24 March, initiates the procedure for proposals to develop the electric power transportation network, the natural gas transportation network, and facilities for storing strategic reserves of oil products.

#### Directorate-General for Energy Policy and Mines Resolution of 11 November 2010

This resolution approves the 2010-2011 Winter Action Plan for the operation of the gas system, establishing the exceptional operating terms and conditions set for the 2010-2011 winter months in order to guarantee supply in view of increases in demand resulting from the seasonal nature of the domestic and commercial market and any sudden cold spells.

### Underground storage facilities

#### Directorate-General for Energy Policy and Mines Resolution of 12 March 2010

This Resolution definitively establishes the basic storage capacity to be auctioned in the period from 1 April 2010 to 31 March 2011.

#### Directorate-General for Energy Policy and Mines Resolution of 2 March 2010

This Resolution establishes certain aspects related to the auction to assign storage capacity from 1 April 2010 to 31 March 2011.

#### Secretariat for Energy Resolution of 1 March 2010

Resolution of the Secretariat for Energy modifying the Resolution of 14 March 2008 setting out certain issues regarding the management of underground storage facilities in the basic network and establishing the rules for capacity auctions.

### Auction for the purchase of operational and linepack gas

#### Directorate-General for Energy Policy and Mines Resolution of 14 June 2010

This resolution approves certain parameters for the auction of natural gas, setting last resort rates for the period 1 July to 31 December 2010.

#### Directorate-General for Energy Policy and Mines Resolution of 2 June 2010

This resolution sets out operational rules for the auctioning of natural gas for the establishment of the last resort rate for the period from 1 July to 31 December 2010.

#### Directorate-General for Energy Policy and Mines Resolution of 19 May 2010

The resolution approves certain parameters for the auction of operational and linepack gas in the period 1 July 2010 to 30 June 2011.

#### Secretariat for Energy Resolution of 7 May 2010

This resolution establishes certain features of the auctioning of natural gas for the establishment of the last resort rate for the period from 1 July 2010 to 30 June 2011.



#### Directorate-General for Energy Policy and Mines Resolution of 5 May 2010

This resolution sets out operational rules for the auctioning of operational and linepack gas for the period from 1 July 2010 to 30 June 2011.

#### Directorate-General for Energy Policy and Mines Resolution of 22 January 2010

The resolution publishes details of the available basic natural gas storage capacity for the period 1 April 2010 to 31 March 2011.

### Procedures for assigning capacity

#### Directorate-General for Energy Policy and Mines Resolution of 3 November 2010

This resolution gave prior notice of the procedure for coordinated allocation of natural gas inter-connection capacity between France and Spain for the period 1 April 2011 and 31 March 2012 under short-term contracts.

#### Directorate-General for Energy Policy and Mines Resolution of 30 July 2010

This resolution modifies the resolution of 25 July 2006, regulating the allocation conditions and the application procedure for interrupting the gas system.

### Geological storage of carbon dioxide

#### Law 40/2010

Law 40/2010, of 29 December, on the geological storage of carbon dioxide, establishes the legal framework for the geological storage of carbon dioxide (CO<sub>2</sub>) in environmentally safe conditions in order to help combat climate change.

#### Royal Decree 1733/2010

Royal Decree 1733/2010, of 17 December, classifies, as provisionally reserved to the State for research and the possible exploitation of Section B resources, underground facilities which may provide effective storage for carbon dioxide, in the area known as "Almacén 3" in Palencia province.

### Incorporation of Strategic Reserves

#### Order ITC/3365/2010

The quotas for the Incorporation of Strategic Reserves of Petroleum Products for 2011 were approved.

### Other Resolutions

#### Royal Decree 1226/2010

Details the basic organisational structure of the Ministry for Industry, Tourism and Trade.

#### Order ITC/2906/2010

Order ITC/2906/2010, of 8 November, approves the annual programme for facilities and exceptional measures in electricity and natural gas transportation networks.

#### Royal Decree 929/2010

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

#### Royal Decree 197/2010

Royal Decree 197/2010, of 26 February, brings certain dispositions concerning the hydrocarbons sector into line with the provisions of Law 25/2009, of 22 December, which amends various laws in accordance with the Law on the provision of service activities and free access to them.

#### Order ITC/1053/2010

Order ITC/1053/2010, dated 19 April, regulates the transfer of funds, charged to power tariffs and third-party access tolls to gas facilities, from the account of the National Energy Commission (Comisión Nacional de Energía) to the Institute for Energy Diversification and Saving (Instituto para la Diversificación y Ahorro de la Energía), in 2010, for execution of the measures pursuant to the 2008-2012 action plan forming part of the 2004-2012 energy saving and efficiency strategy (E4) and criteria for execution of the measures set forth under this plan.

## 2.8. Technical innovation and development - EC9 -

In 2010 Enagás made major efforts to improve the efficiency of activities linked to its investments and operations, through innovation and technological development.

Thanks to its experience and know-how and to initiatives for cooperation and the exchange of knowledge with companies, organisations and other

entities, both in this country and abroad, Enagás succeeded in increasing efficiency in financial and energy terms, not only in the design, supply and construction of new facilities but also in the operation and maintenance of existing facilities (see Section 4.4.4 Energy efficiency in Enagás).

Investment in innovation and development, excluding that for pilot projects to be implemented in 2011, has continued to rise, reaching €1.2Mn in the year.

In line with making this activity part of its corporate purpose, Enagás has gradually increased its technological knowledge of the storage and transport of CO<sub>2</sub> and increased its presence in national and international forums and organisations dealing with this topic. Enagás is participating (initially with 20% of capital), in the company Palencia 3, Investigación, Desarrollo y Explotación, S.L., together with Iberdrola, Gas Natural Fenosa, Fundación Instituto Petrofísico, Fundación Santa Bárbara and Sociedad de Investigación y Explotación Minera de Castilla y León. Enagás, S.A. was authorised to purchase a holding in this com-

pany in a resolution passed on 17 June 2010 by the Board of Directors of the Spanish energy watchdog (Comisión Nacional de Energía).

The purpose of the company is research into underground storage facilities for carbon dioxide, or other resources, treatment plants, transport infrastructures and auxiliary facilities, their development, construction, operation, maintenance and exploitation, and any other related activity, in the Community of Castilla y León and its area of influence.

In view of the obvious parallel with its main activity, the transportation and storage of natural gas, Enagás sees the need to establish its position at the forefront in knowledge of and solutions for the transportation of CO<sub>2</sub>. Together with other related initiatives, work in this key area may help to combat climate change and stabilise the concentration of greenhouse gases in the atmosphere.





# 3. Sustainable Management in Enagás

3.1. Sustainable management model **34**

3.2. Monitoring the Sustainable Management Model  
CSR Scorecard **41**

3.3. Recognition of the Sustainable  
Management Model **43**



## 3. Sustainable Management in Enagás

### 3.1. Enagás' Sustainable Management Model - 4.8 -

The mechanisms for assessing quality, excellence and sustainability built into Enagás' Sustainable Management Model make it a vital tool for driving innovation and improvement.

The Sustainable Management Model brings together three key areas:

- A governance model that defines responsibilities for sustainability, quality and excellence in the various organisational levels and involves all departments of the company.
- Assessment tools to identify improvements in different areas of the company's management and relations with our stakeholders.
- A specific action plan that sets out and integrates lines of action related to the areas of improvement identified.



## Meeting Challenges Planned for 2010

- ✓ Matters of Corporate Social Responsibility to be formally assigned to the Board of Directors' Appointments and Remuneration Committee.
- ✓ A management model for stakeholders to be developed and introduced. This is a centralised management model which establishes:
  - I. Measures which can lead to an improvement in the opinion of stakeholders regarding significant issues which have been identified.
  - II. Two-way communication channels with each stakeholder group.
  - III. Internal and external communication on progress in the action plan.
- ✓ Monitoring the introduction of the Integrated Management Model for Quality, Excellence and Sustainability via the definition of a scorecard with indicators that facilitate comparison with other companies in the sector.
- ✓ Continuing to include the degree of compliance with sustainability measures when setting company objectives.
- ✓ EFQM Report to be drawn up and evaluated according to EFQM standards to obtain the European Seal of Excellence 400+.
- ✓ Definition of a model for knowledge management which makes it possible:
  - I. To ensure knowledge is acquired and maintained
  - II. To structure, disseminate and apply knowledge in the organisation to ensure the creation of value

- III. To reduce the risk of losing critical knowledge within the organisation
- IV. To ensure that outstanding levels of performance are maintained in processes where they have been achieved

## Other Milestones 2010

- ✓ Survey of the company's main stakeholders' levels of satisfaction and expectations with regard to Enagas' performance in different areas
- ✓ Publication of a leaflet explaining the company's sustainability management model, setting out its commitments to its main stakeholders
- ✓ Redesign and update of the Corporate Social Responsibility section of the company's website
- ✓ ISO 9000 certification obtained for the company's IT system management processes
- ✓ As Technical System Manager, Enagás was positioned in 2010 as one of Europe's leading agents in the implementation of good practices in gas system management and internal control, based on a control model set up for its "Capacity management and system feasibility studies" and "System security of supply" processes. This model was revised in accordance with the Statement on Auditing Standards Nº 70 Type II (SAS70).

✓ Achieved ✗ Not achieved ■ In progress

## Challenges 2011

- To draw up a map of the knowledge available in the company for different disciplines, and of the associated resources. Knowledge Management
- To disseminate the results of the 2010 stakeholder survey and identify lines of action to improve dialogue with stakeholders
- To maintain rankings in the major sustainability indices (DJSI, FTSE4Good, Ethibel Excellence, etc.)

# Sustainable Management in Enagás

The model's success lies in the integration of three key areas:

## 1. Governance model

A governance model that defines sustainability responsibilities at the various organisational levels and involves all departments of the company.

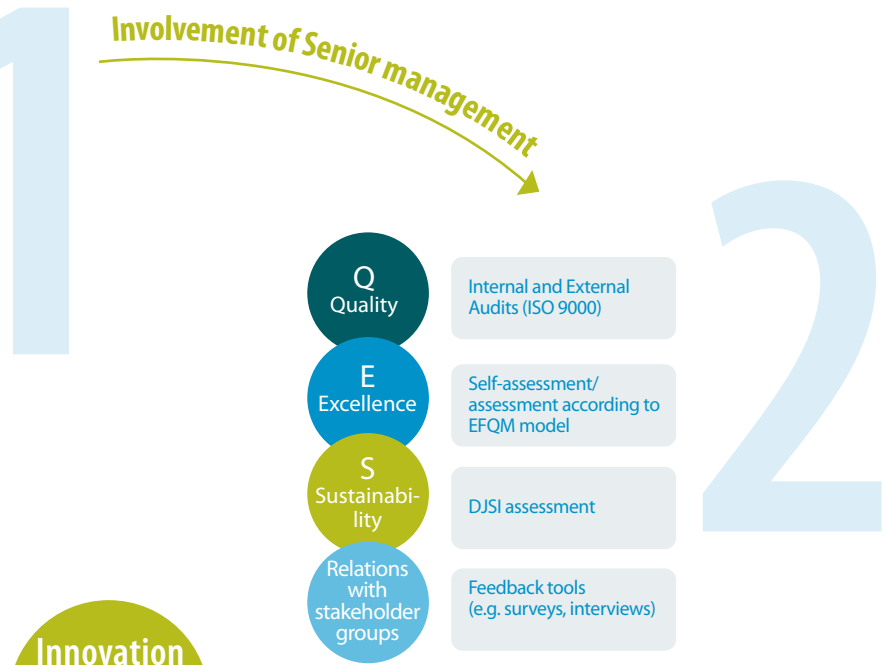


All levels of the organisation are involved in the Sustainable Management Model and the creation of a corporate culture that supports the principles of sustainability.

Enagás has specific bodies that define, approve and encourage sustainability and CSR, such as the Appointments, Remuneration and Corporate Responsibility Committee, and the Sustainability Committee, made up of senior managers.

## 2. Assessment tools

Assessment tools to identify improvements in different areas of the company's management and relations with stakeholders.



Assessment tools enable us to identify improvements from two viewpoints:

- Internal: internal audits and assessments uncover potential areas for improvement.
- External: independent bodies evaluate Enagás' performance, issuing a final assessment and proposing improvements.

## 3. Action Plan

A specific Action Plan that sets out and integrates lines of action related to the areas of improvement identified.

Sustainability performance reporting



Improvements identified are articulated in the Quality, Excellence and Sustainability Master Plan.

- More than 200 lines of action
- Organised by commitments to our stakeholders
- Involvement of the entire company
- Linked to employees' variable remuneration
- Updated annually and covering a three-year period
- Included in the Strategic Plan and disclosed to stakeholders in the Annual Report

Improvements identified

### 3.1.1. Sustainability governance model - 4.8, 2.10, 4.12, 4.13, HR3, HR8, S03 -

Enagás' Sustainability Management Model derives from a culture of corporate social responsibility, supported by a sound organisational structure involving all levels of the company.

#### Organisational structure

- The Appointments, Remuneration and Corporate Responsibility Committee is a Board level committee responsible for approving strategy on sustainability and initiatives proposed by the bodies that report to it (the Sustainability Committee), and for promoting a culture of sustainability at Enagás.
- The Sustainability Committee, composed of members of the Management Committee and Directors, is responsible for managing CSR and for proposing strategies in the field of CSR.

#### Corporate culture

The Sustainable Management Model is based on an CSR strategy that guides action on such matters, defining the values and behaviours expected, as set out in Enagás' Business Principles.

#### Business Principles - 4.12, 4.13, HR3, HR8, S03 -

Enagás' Business Principles serve as a code of conduct for its employees in their professional activities and in relation to the company's stakeholders, and can be accessed on its website.

The Management Procedures for the Business Principles ensures that these principles are effectively implemented at Enagás. The procedures regulate the functioning of the ethical channel and define the role of the Business Principles Supervisory Committee as a collegiate body to which the Audit and Control Committee delegates management of the process of notification and consultation concerning matters related to this area.

Any person, whatever their relation with Enagás, may make a confidential and anonymous enquiry or report on irregular conduct via the available channels (by e-mail to [canaletico@enagas.es](mailto:canaletico@enagas.es), by let-

ter to a member of the Business Principles Supervisory Committee, by fax, or using a form on the company's intranet).

A question was included in the 2010 employee satisfaction survey regarding their knowledge of Enagás' Business Principles and the associated channels. 73% responded favourably, suggesting that there is wide knowledge among employees. The on-line course on Enagás' Business Principles was also continued, with 111 employees completing it in 2010, in addition to the 209 employees who did so in 2009, bringing the total number who have completed the course up to 30% of the workforce. -HR3,S03-

In 2010 two queries or suggestions for improvement were received via the ethical channel mailbox. One suggested improvements to the intranet forms on the ethical channel (they were checked to ensure they were working correctly) while the other suggested improvements to the on-line course on Business Principles (some changes to this will be introduced as a result).





## Sustainable Management in Enagás

	Channel used			
Total messages	E-mail (canaletico@enagas.es)	Confidential letter to Member of BPSC	Fax to Chairman of BPSC	Intranet forms
2	2	0	0	0
	Type of message			
Total messages	Query/suggestion for improvement		Report of irregular conduct	
2	2		0	
	Type of message			
Total messages	Admissible		Not admissible	
2	2			

38

No incidence of corruption was discovered in 2010. Enagás' Business Principles and the ethical channel provide essential tools for the confidential and anonymous reporting of this type of incident and procedures on how such reports are dealt with (SO4).

### 3.1.2. Assessment tools

Enagás' management model includes integrated assessment tools covering the areas of Quality, Excellence, Sustainability and stakeholder relations.

These tools are managed as an integrated package and coordinated using a common mechanism of continuous improvement.

Each of these tools is assessed from both an internal and an external perspective, guaranteeing their transparency, objectivity and external recognition.

#### Quality in Enagás

Enagás' Quality Management System is certified to ISO 9001:2008 standard and is based on the integrated management of processes and indicators as a tool for improving the organisation's processes as well as the results obtained.

#### Excellence in Enagás

Enagás uses the EFQM model as its benchmark for achieving excellence in management. This requires

a systematic and regular review of all the company's activities and results, comparing them with the EFQM model.

#### Sustainability at Enagás

Enagás is ranked each year in the DJSI World and FTSE4Good indices, the main global indicators of companies that apply the best practices in corporate social responsibility.

The assessment performed for the purposes of these rankings, in addition to encouraging improvement, allows Enagás to compare its performance with other major global companies.

Enagás also uses other assessment tools to identify areas for improvement such as GRI reporting, AA1000 and Family-Responsible Company standards.

#### Stakeholder relations - 4.14, 4.15, 4.16, 4.17, EC1 -

Enagás' stakeholder management model identifies the perceptions and expectations of its stakeholders and builds them into its management processes. These are aspects which are vital for corporate reputation and the creation of value for the company.

In order to carry out this work, Enagás has implemented feedback tools, allowing it to carry out annual consultations among stakeholder groups to assess their perceptions and expectations.



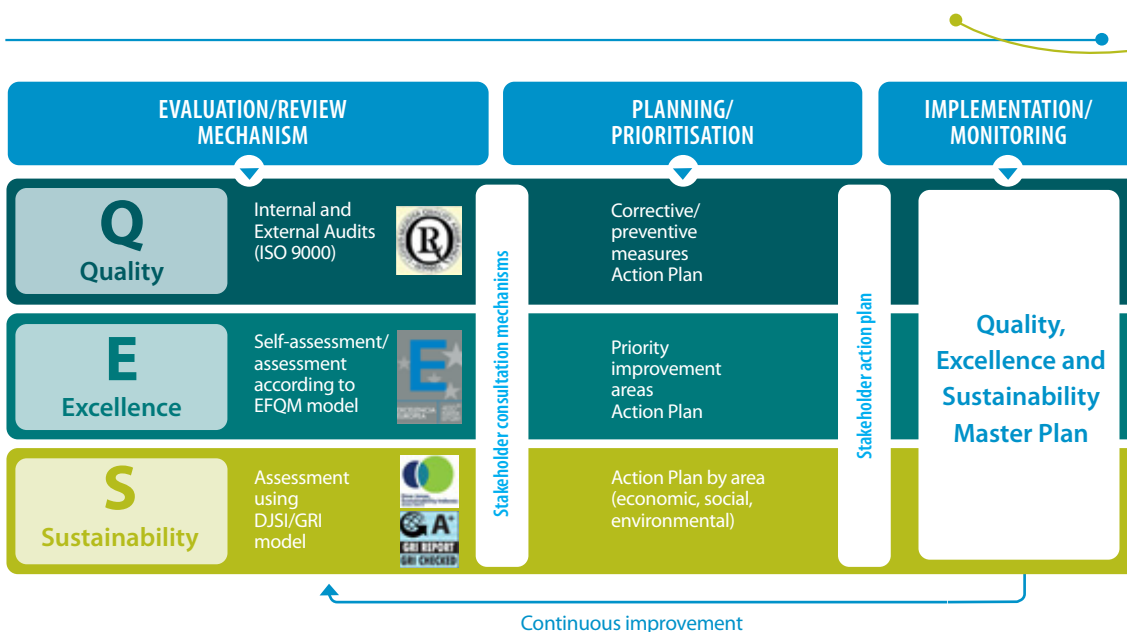
• Annual Report 2010

## Sustainable Management in Enagás

## Economic value distributed - EC1 -

	2008	2009	2010
<b>Economic Value Generated</b>			
Net sales	820.7	866.8	966.0
Other revenues	39.5	34.7	34.8
<b>Total EVG</b>	<b>860.2</b>	<b>901.5</b>	<b>1,000.8</b>
<b>Economic Value Distributed</b>			
Suppliers: Other operating expenses	148.8	137.2	147.3
Payments to suppliers	45.5	46.5	48.1
Lease and ownership expenses	36.4	36.1	37.7
Other	66.9	54.6	61.5
<b>Society</b>	<b>113.4</b>	<b>127.7</b>	<b>144.3</b>
Taxes	112.8	126.9	143.0
Investment in social action(*)	0.6	0.8	1.3
<b>Employees: Personnel expenses</b>	<b>69.0</b>	<b>60.7</b>	<b>67.2</b>
Wages, salaries and similar remuneration	61.4	56.0	61.6
Pension contributions and provisions	2.1	2.1	2.2
Other social security expenses	14.2	15.8	16.8
Healthcare insurance	1.4	1.4	1.2
Canteen services/subsidised food	1.5	1.5	1.6
Capital expenditure	-11.6	-16.1	-16.2
<b>Capital providers</b>	<b>222.3</b>	<b>240.0</b>	<b>258.7</b>
Dividends paid to shareholders	155.3	178.8	200.1
Net financial result	67.0	61.2	58.6
<b>Total EVD</b>	<b>553.4</b>	<b>565.7</b>	<b>617.5</b>
<b>Economic value retained</b>			
Reserves	103.6	119.3	133.4
Depreciation and amortisation	203.1	216.6	249.9
<b>Total EVR</b>	<b>306.7</b>	<b>335.9</b>	<b>383.3</b>
<b>Other indicators</b>			
Investment	776.9	901.6	796.3

(\*) This figure varies from that reported in the Commitment to Society section, which includes investments in social action managed by the Communications Department



### 3.1.3. Action Plan: Quality, Excellence and Sustainability Master Plan

The management processes identified by the assessment tools as areas for improvement are translated into lines of action built into the Quality, Excellence and Sustainability Master Plan. This Plan is structured according to categories or commitments to our stakeholders (individuals, customers, shareholders, the environment, society), setting out targets and specific lines of action for each one.

The 2009-2012 Quality, Excellence and Sustainability Master Plan contains over 200 lines of action structured according to Enagás' commitments to its stakeholders, with 87% of the 70 action lines planned for 2010 having been achieved. This three-year plan is linked to employees' variable remuneration and is updated each year. It is incorporated into the company's Strategic Plan and reported to stakeholder groups.

The 2009-2012 Quality, Excellence and Sustainability Master Plan is updated on the basis of the results of the assessments performed for the main sustainability indices and stakeholder surveys, prioritising actions with the managers responsible for implementing them.



### 3.2. Monitoring the Sustainability Management Model – CSR Scorecard

Enagás uses a scorecard system with indicators for each CSR area which are regularly reported to the Appointment, Remuneration and Corporate Responsibility Committee.

• Annual Report 2010

## Sustainable Management in Enagás

## CSR scorecard

## Indicators by dimension

## 1. People

	2010
Rate of absenteeism	3.78%
Voluntary employee turnover	0.10%
Percentage of women employees	23.02%
Percentage of women in management posts	15.87%
Training hours per employee	42.52
Investment in training per employee	860.67 €
Percentage of employees attending training	96.7%
Incidence rate of accidents resulting in sick leave (Enagás staff and plant contractors and construction staff)	6.74
Integrated severity rate (Enagás staff + plant contractors and construction staff)	1.1

## 2. Customers

Number of TPA customer service incidents	78
Number of GTS customer service incidents	87
Average number of days to resolve TPA customer incidents	22
Average number of days to resolve GTS customer incidents	1.9
Overall assessment - TPA customer survey (1-6)	4.35
Overall assessment - GTS transport and distribution customer survey (1-6)	4.7
Overall assessment - GTS supplier customer survey (1-6)	4.6

## 3. Suppliers

Number approved suppliers	2,031
Supplier diversification (percentage orders placed with)	47%
Percentage of main suppliers (categories 1 and 2)	43%
Percentage of main suppliers with CSR ratings	71%
Percentage of works and services contracted with Spanish companies (amount)	91.60%
Percentage of supplies contracted with Spanish companies (amount)	85.91%

## 4. Shareholders

EBITDA growth	11.3%
Net profit growth	11.9%
Net debt (€Mn)	3,175.3
Change in share price	-3.3%
Pay-out	60%
Number of members of the Board of Directors	16
Number of independent Directors	8
Number of women on the Board	2
Non-audit fees	37%

## 5. The environment

Consumption of water (m <sup>3</sup> )	64,990
Energy consumption (own consumption of natural gas, vehicle fuel, generating units and electricity) (GWh)	727,278



▶ Waste production (tonnes)	2,427.50
Hazardous waste (%)	88.60%
Total GHG emissions – direct and indirect (tonnes CO <sub>2</sub> )	330,007
Surface area restored (m <sup>2</sup> )	2,703,242
Surface area replanted (m <sup>2</sup> )	171,363
Environmental investment (€Mn)	38.8
<b>6. Society</b>	
Investment in social action (€Mn)	1.1
Investment in social action / net profit	0.33

### 3.3. Recognition of the Sustainable Management Model

#### Recognition of the Sustainable Management Model



Enagás is ranked in the best-known indices such as the [DJSI](#), [FTSE4GOOD](#) and the [ETHIBEL EXCELLENCE INVESTMENT REGISTER](#)

Enagás is committed to the [UN Global Compact's](#) ten principles.

Enagás' annual report received the [GRI's](#) top score of [A+](#) and was verified in 2009 against the [AA1000](#) assurance standard.

Enagás is a family-responsible company, certified by the Fundación +Familia and [rated B "Proactive"](#).

Enagás has participated in the [Carbon Disclosure Project](#) for the second year running.

Enagás has been awarded [European Excellence +400](#) accreditation under the EFQM model.

Enagás participates annually in a variety of sustainability-related initiatives (with [OEKOM](#), [Sustainalytics](#), [Goldman Sachs](#), etc.).

Enagás was named by the CRF Institute as one of Spain's Top Employers, and as one of 10 best companies to work for in the IBEX 35, according to the Actualidad Económica ranking, which rated its performance as "notable".

# 4. Nuestros Compromisos

- 4.1. Compromiso con las personas **46**
- 4.2. Compromiso con los clientes **68**
- 4.3. Compromiso con los proveedores **78**
- 4.4. Compromiso con el medio ambiente **84**
- 4.5. Compromiso con la sociedad **104**
- 4.6. Compromiso con los accionistas **110**
- 4.7. Compromiso con las administraciones públicas **116**
- 4.8. Compromiso con el Buen Gobierno y la Integridad Corporativa **124**

• Annual Report 2010

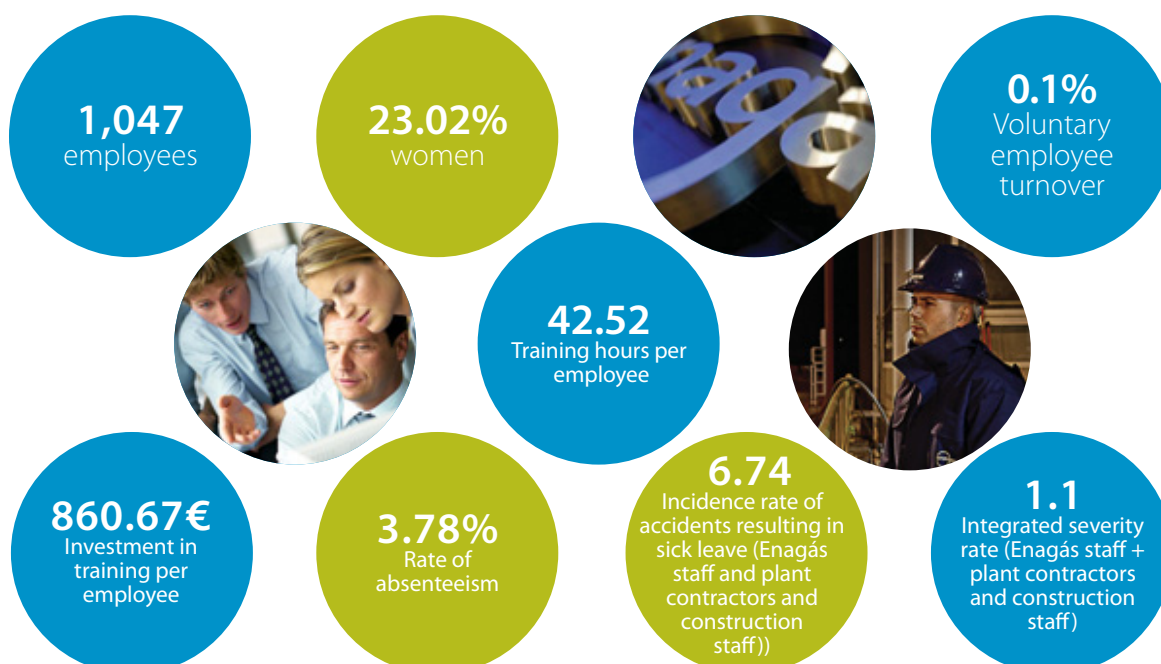
## Our Commitments

46

“Enagás' commitment to people focuses on augmenting stable and secure quality employment, on professional development based on merit (integrity, work and achievements), on equal opportunities, and on ensuring a healthy balance between our workers' personal lives and their jobs.”

Erundino Neira, Head of Resources and CSR

### Key indicators 2010



## 4.1. Commitment to people

### Meeting challenges Planned for 2010

- ✓ Improvements to performance review process
- ✓ Renewal of Family-Responsible Company accreditation to qualify for level B - Proactive (801-1,450 points)
- ✓ Survey on working climate to be launched
- ✓ Consolidation of technical and business courses at Enagás Training School
- ✓ Launch of training structure and programmes for Training School managers

### Other milestones 2010

- ✓ Signing of the XV Enagás Collective Bargaining Agreement (2009-2012)
- ✓ Management school programmes (general managers, directors, heads of unit and potential unit heads) in conjunction with IESE, recording a satisfaction level above 9 out of 10
- ✓ Launch of Enagás Open Classroom in November 2010, dealing with knowledge related to the company's business environment

- ✓ Approval and implementation of Enagás language policy: definition and development of training programmes and methodology
- ✓ Design and implementation of a scorecard for training
- ✓ Inclusion of Enagás in corporate reputation ranking: CRF Top Employers, Actualidad Económica, MER CO personas
- ✓ OHSAS 18001:2007 certificate secured for the transportation department, encompassing underground storage
- ✓ Legal risk prevention audit passed satisfactorily (no significant non-compliance)
- ✓ Enagás awareness-raising campaign "Prevention isn't just paperwork, safety depends on you"
- ✓ Psycho-social study of jobs to identify risk of mental strain
- ✓ "Equality at Work" accolade awarded by Spanish Ministry for Health, Social Policy and Equality

✓ Achieved   ✗ Not achieved   ■ In progress

### Challenges 2011

- Training in the management and development of human resources: system for managing performance, management by objectives, etc.
- Dissemination of training scorecard and training school
- Development of Enagás school training platform with greater emphasis on e-learning
- Development and communication of Enagás training itineraries
- Launch of a corporate volunteer scheme
- Pilot scheme for new performance management system to be extended to new units
- OHSAS 18001:2007 certification for infrastructure project management
- Introduction of software application to manage prevention of occupational risk
- Production of a comparative study of good practice in occupational risk prevention in companies in the gas sector
- Reinforce the specific analysis of jobs including psycho-social and design factors
- Further work on reducing noise at different sites
- Identification of short-, medium- and long-term potential with a view to retaining talent, readying the company for generational succession and honing professional development within the Enagás management structure



## Our Commitments

48

### 4.1. Commitment to people

#### 4.1.1. Human resources policy - 4.12, 4.13 -

In 2010 Enagás approved a Human Resources Policy establishing the following basic principles:

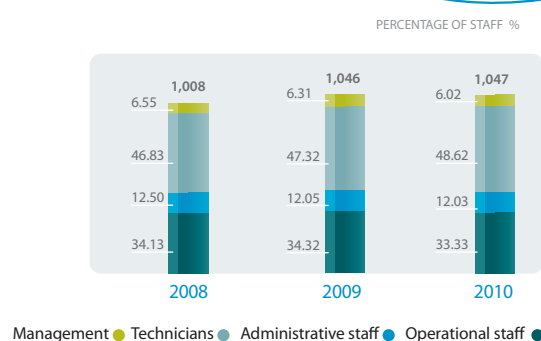
- Fostering stable, quality employment
- Attracting and retaining talent
- Achieving the best possible work-life balance
- Nurturing equal opportunities and stamping out discrimination
- Guaranteeing occupational health and safety
- Promoting the Enagás code of ethics
- Enhancing internal communication

These initiatives demonstrate Enagás' ongoing commitment with regard to respect for human rights and freedoms, in accordance with internationally accepted codes of conduct such as the Universal Declaration of Human Rights, the ILO Tripartite Declaration, the OECD Guidelines for Multinational Enterprises and

the United Nations Global Compact, to which Enagás has been affiliated since 2003, progress on which is detailed in the Appendix: Contents of the Global Compact.

In 2010 Enagás was involved in various studies to identify the best companies to work for. As a result of these studies, the company has been recognised as a Top Employer by the CRF Institute, confirmed as one of 10 best companies in the IBEX 35, according to the *Actualidad Económica* ranking, and was listed as one of the 100 best companies in Spain to work for in the Merco Personas index.

#### Total staff and breakdown by professional category - LA1 -



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

	Management		Technicians		Administrative staff		Operational staff	
	Men	Women	Men	Women	Men	Women	Men	Women
< 25 years				1		1		6
26-35 years	4	1	80	58	1	11	74	5
36-45 years	9	5	112	42	3	24	108	5
46-55 years	22	1	117	21	18	38	114	2
> 55 years	18	3	71	7	13	17	35	
Total	53	10	381	128	35	91	337	12



## 4.1.2. Enagás employees

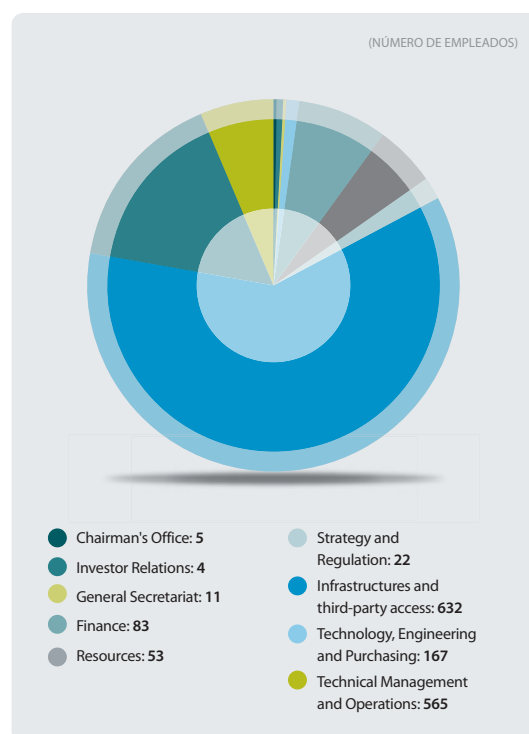
Enagás' headcount for 2010 saw a slight but significant increase (+0.10%), given the complicated prevailing economic climate. The number of women rose by 2.99% compared with 2009, reaching a total of 23.02%, 41.66% of new staff being women. - LA1 -

The low voluntary turnover rate (0.10%), the impressive average length of service (15.6 years) and low levels of absenteeism (3.78%) are prime examples of the loyalty and satisfaction of our employees.

Furthermore, Enagás continues to focus heavily on permanent employment (97.3% of the workforce has an open-ended contract of employment) and full-time employment (1.81% of the workforce have part-time contracts). - LA1 -

Overall rotation has increased to 3.72%, mainly as a result of the termination of the contracts of 25 employees aged over 62, with the aim of continuing to incorporate younger staff (in 2010 the average age was 44.4) and increase the technical skills of the workforce. - LA2 -, - EC3 -

### Workforce breakdown by organisational unit - LA1 -



49

### Turnover and absenteeism rates - LA2 -

	2008	2009	2010
Total turnover: Total permanent contracts terminated/total workforce (%)	5.3	1.7	3.72
Rate of absenteeism (%)	5.5	3.7	3.78

### Turnover by gender and age - LA2 -

	Gender		Age Group				
	Men	Women	< 25	26-35	36-45	46-55	> 55
Turnover in numbers: Permanent contracts terminated	9	30		3	3		33
Total turnover: Total contracts terminated/total workforce (%)	0.86	2.87		0.29	0.29		3.15

## Our Commitments

### 4.1.3. Freedom of association and union representation

#### New collective agreement

In July the fifteenth Enagás collective agreement was signed. Covering a four-year period it ensures stable working conditions until 31 December 2012 and forms the basis for the development of policies and procedures for the promotion, remuneration, income, training and professional development of the company employees it covers (667 employees, 63.7% of all staff). - LA4 -

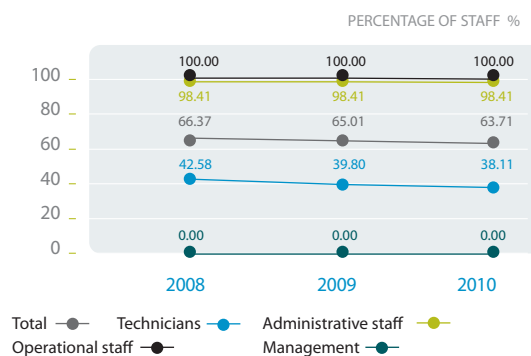
An important new feature is the link between part of the annual salary increase and the fulfilment of the company's targets for the previous year. This development means that the performance of employees subject to the collective agreement can be aligned with the challenges assumed by Enagás as part of the management-by-objectives programme.

Another significant change is that the period during which continuous shifts are worked has been modified to bring it into line with school holidays, as part of Enagás' continuing efforts to improve the work-life balance of staff.

#### Right to freedom of association and union representation

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). Furthermore, as stipulated in Article 64 of the fifteenth Enagás collective agreement, membership of trade unions and participation in their activities must not be the basis for discrimination in employment or working conditions, and any agreement or decision by the company contrary to this principle is deemed null and void. - HR5 -

#### Staff covered by the collective wage agreement - LA4



The conditions established in the collective agreement are applicable to all Enagás employees, whatever the nature of their contract, with the express exception of senior management, directors, unit heads, plant managers, project managers, and all employees belonging to the technical professional category who have agreed to such exclusion on the proposal of management (Article 1).

The employee or the company may unilaterally opt to reinstate such employees within the scope of the agreement.

In addition, Enagás' Business Principles establish the general framework of measures necessary in the event of conduct that could jeopardise employees' rights. - HR5 -

The current collective agreement establishes four joint committees to oversee its application: the Joint Committee for Monitoring and Control of the Collective Agreement, the Joint Committee for Social Affairs, the Joint Committee for Interpretation and Supervision of the Agreement, and the Joint Committee for Development.

In connection with the participation of employees in risk prevention, the collective agreement sets up an inter-centre Health and Safety Committee, which has responsibility for a larger area than the legally established delegates for risk prevention and health and safety committees for each centre. - LA5 -

The employee representatives have the right to receive information, prior to execution, on any corporate plan that could materially affect employee



interests (dismissals, sanctions, restructuring, organisational reviews, etc.), although no minimum notice period is specified for the company (Article 5) - LA5 -

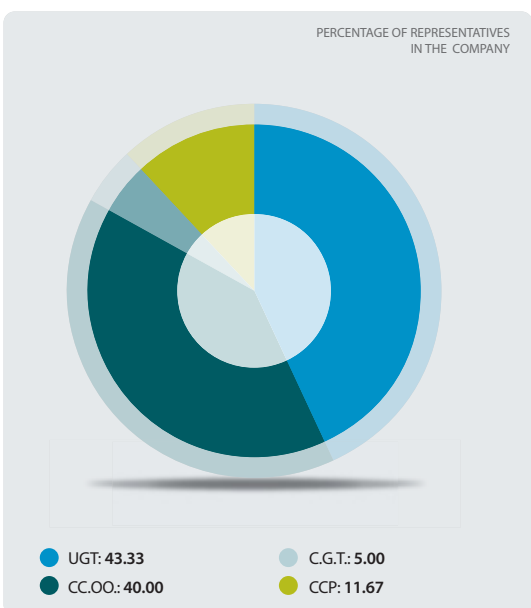
### 4.1.4. Equal opportunities and work-life balance

#### Equality plan

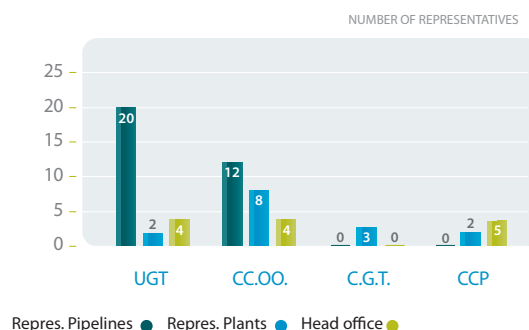
Women now account for 23.02% of Enagás staff, 2.99% more than last year - LA13 -

Enagás' commitment to equality of opportunity in recent years has been demonstrated by its Position on Equal Opportunities, Equality Plan, Harassment Protocol, the publication of a guide to non-sexist language, and professional development training specifically for women. The company also has mechanisms to ensure ongoing monitoring of the measures envisaged and

#### Breakdown of union representation - LA5 -



#### Union representation by site - LA5 -



• Annual Report 2010

## Our Commitments

improvements to them: a person supervising equality issues, a monitoring committee (with the participation of employee representatives) and an indicator score-card.

2010 also saw the launch of the *Porque no nos da igual* campaign for equality, designed to make all staff appreciate the achievements of the Equality Plan and encourage all of them, especially managers, to take an active part in pursuing its aims.

In December 2010, in recognition of its equal opportunities and treatment policy, Enagás received the Equality at Work accolade, awarded to 36 companies by the Ministry for Health, Social Policy and Equality.

52



**Plan de igualdad de Enagás**  
**Porque no nos da igual.**

En Enagás creemos que la igualdad de oportunidades dentro de la Compañía más que un derecho, es un deber.

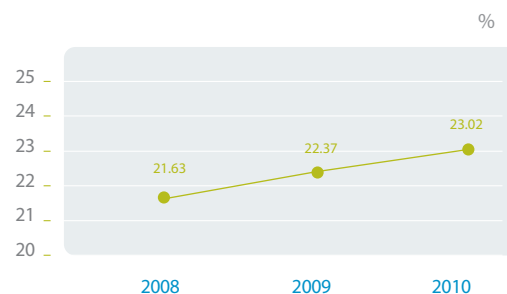
Y como no nos da igual, estamos impulsado un plan de igualdad que además de buscar la plena integración de la mujer en nuestro entorno profesional, persigue que todos tengamos los mismos derechos y deberes en el trabajo.

**La igualdad es cosa de todos.**

**Porque a ti tampoco te da igual.**

*by* CI

### Number of female employees - LA1 -



### Changes in male/female ratio by professional category - LA13 -



Management ● Technicians ●  
 Administrative staff ● Operational staff ●

The difference between the average salary of men and women at Enagás is due solely to the low level of female representation in the management (15.87%) and operational (3.44%) 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.

No incident of discrimination was confirmed in 2010. The Business Principles Supervisory Committee received via ethical reporting channels two suggestions for improvement, the implementation of which are now in progress. (For more information see the Business Principles section). - HR4 -

#### Integration of disabled people in the workplace

Enagás has a total of 15 employees with recognised disability (1.4% of the workforce), holding responsible

posts in the organisation, their levels of disability ranging from 33% to over 65%.

In 2008, Enagás signed an agreement with the Juan XXIII Foundation which is still in force, aimed at helping disabled people gain employment and, through sponsorship programmes, complying with the 2% statutory target for the employment of people with disabilities. - LA13-

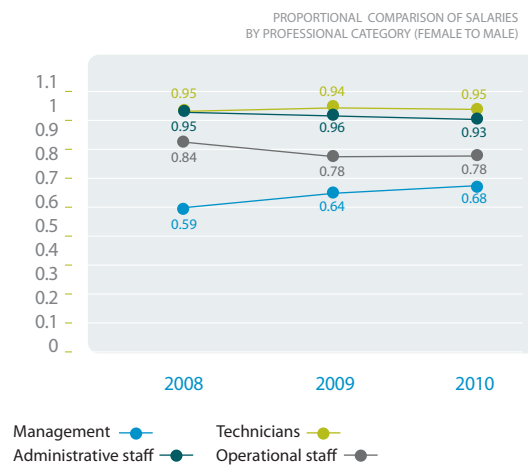
As a socially responsible company that voluntarily assumes the social and environmental concerns of the wider society, Enagás works with the Juan XXIII Foundation to improve the quality of life of people with learning disabilities, making donations to programmes to help disabled people into employment and contracting goods and services supplied by its Special Employment Centre (48 transactions hiring halls and providing catering services in 2010, worth a total of €18,000.)

In 2010 Enagás also began to contribute financially to a new employment project supported by the Juan XXIII Foundation. Designed to promote the employment of the disabled, it covers all the necessary stages: a permanent school for vocational training, support in employment, work placement with companies, and a job-search service.

The *Telefónica Ability Awards* recognise the work of the companies and organisations which do most to integrate disabled workers in their business plan and in 2010 the Board of Trustees for the awards ratified Enagás' status as an *Ability* company during the first presentation ceremony.

Enagás was chosen as one of the 48 *Ability* companies after a rigorous selection process involving over 450 nominations from 273 entities. The award gives recognition to Enagás' work in supporting the integration of disabled workers through the commitment of senior management and the leadership of employees, the category in which Enagás presented its candidature.

### Average male/female salary by professional category -LA14-



### Work-life balance

Enagás continues to be committed to the work-life balance of its employees and introduced two new measures in 2010: *días sin cole* is an urban summer camp for the children of staff, while a free service for employees providing assistance with official transactions has been introduced. The mobile tele-care service has also been improved.

In 2010 a training video on work-life balance was produced and this has been sent to all staff managers and to employees who have joined the company since January 2009, with a view to fostering work-life balance at Enagás. The video is accessible to all staff on the company intranet.

A total of 56 measures to promote work-life balance are currently in place at Enagás, embracing the following areas: - LA3 -

- Quality employment
- Flexible working hours
- Support for employees' families
- Professional development
- Equal opportunities



• Annual Report 2010

## Our Commitments

54



### Benefits provided to employees - LA3 -

Pension plans: for all employees with at least two years' service with the company	94.27
Health care insurance for employees and dependent family members	96.47
Canteen services (Barcelona and Huelva plants)	14.52
Meal subsidies (financial assistance and luncheon vouchers)	85.48
Temporary incapacity supplement of 100% of salary	31
Loans on preferential terms*	4.21
Three months interest free loans, advances on salary and extraordinary payments**	10.94
Medical service and preventive healthcare campaigns	(see section on Health and Safety)
Family support plan	(see chart showing application of scheme)
Group insurance providing cover in the event of death or disability: for all employees with less than two years' service in the company and certain other groups	11.17
Study grants**	53.22

### of workforce taking advantage of benefits

%

94.27

96.47

14.52

85.48

31

4.21

10.94

(see section on Health and Safety)

(see chart showing application of scheme)

11.17

53.22

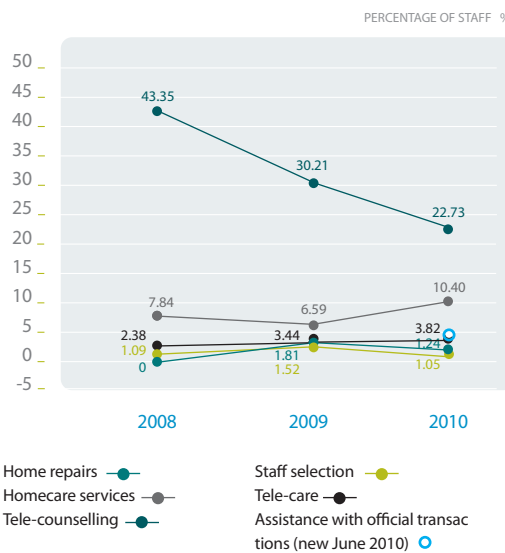
\* NOTE: Only for employees not covered by the collective agreement. Percentage calculated for total employees not covered by the collective agreement.

\*\*NOTE: Only for employees covered by the collective agreement. Percentage calculated for total employees covered by the collective agreement.

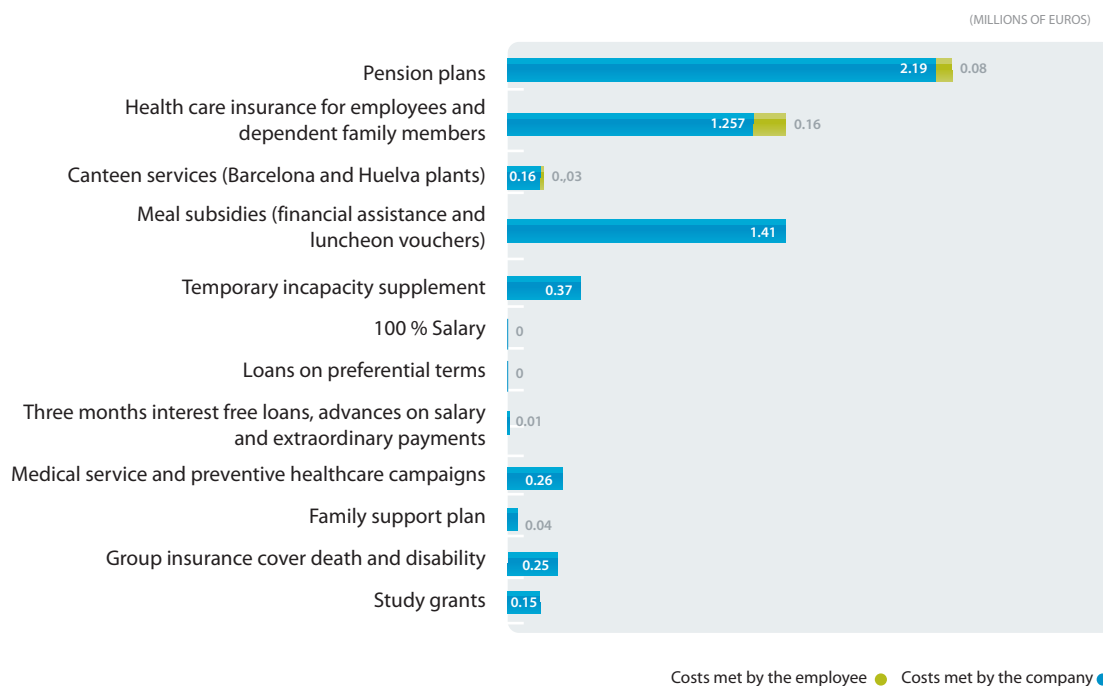
Enagás also offers a family support programme providing for the social and care needs of employees and their immediate families, i.e. parents, spouses and children, whether or not they live at the same address. This programme is available throughout Spain and the services it offers include: home repairs, recruitment service, tele-care, homecare service, telephone counselling and assistance with official transactions (new). - LA3 -

In 2010 Enagás renewed its certification as a Family-Responsible Company, with a “B- Proactive” rating, awarded by the Fundación +Familia, testifying to its continued improvements in this area.

### Use of family support services by employees - LA13 -



### Breakdown of costs associated with social benefits provided by the company - EC3 -



## Our Commitments

56

### 4.1.5. Human capital development

Enagás believes in the training of its employees as a fundamental tool for personal and professional development, and to attract and retain the talent it needs for sustainable growth.

The Enagás training school provides a general framework for the development of increasingly specific training adapted to the needs of the company and its employees. In 2010 there was a substantial increase in internal training (10.8% total hours, 26.8% cost).

The company draws up an annual Training Plan, which is updated to reflect the training needs identified through talks with the heads of the different units. The plan envisages the technical, business, management and personal skills needed to ensure the ongoing professional development of Enagás employees. - LA10, LA11 -

Training programmes at the Enagás School in 2010 included the following: - LA10, LA11 -:

- Management Development Programme at the IESE Business School for unit heads and potential unit heads: 33 members of staff attended a 12-week course providing 160 hours of instruction on management, including modules related to finance, personnel management, innovation, strategy, etc.
- Management training for managers and general managers: four sessions lasting one morning each for managers, dealing with talent management, personnel management, innovation and strategy, respectively. A specialised forum was also organised for the Management Committee on the new economic and financial environment.
- Management skill development programme for middle managers and technical staff: this programme has been revised to bring it into line with the updated model of competences for different job profiles in the company, placing special emphasis on key competences for optimum performance. In the case of technical staff it deals with skills such as communication, time management, teamwork, analysis and solution of problems, while for middle management staff it focuses on leadership, communication, team management, planning, and time management.
- Training in interpersonal skills applied to business: effective presentations, negotiation, etc.
- Language courses: In 2010 Enagás established a new language policy, designed to help staff to attain the language standard necessary for them to carry out their duties as effectively as possible. The policy establishes a Learning Contract, as a tool to reinforce commitment by the employee, his/her line manager and the HR development unit to achieving the objectives proposed, in accordance with the multi-method learning itinerary specified.
- Enagás Open Classroom: this was created to give staff the opportunity to update their knowledge of the company's business environment, which is becoming increasingly dynamic and globalised. In-house experts in different fields pass on their knowledge to other employees. Regular talks are given on the different areas dealt with in the Training School (environment, business, personnel, technical issues, ethical principles, etc.)

#### Training indicators - LA10 -, - LA11 -

	2008		2009		2010	
	Internal	External	Internal	External	Internal	External
Hours of training	80.0	20.0	86.3	13.7	95.6	4.4
Cost of training	66.0	34.0	74.7	25.3	94.7	5.3

In 2010 work also continued on various training schemes intended to strengthen the implementation of corporate values, i.e. courses on the Business Principles, which were followed by 111 employees, and on work-life balance, which are scheduled to conclude in the first quarter of 2011.

Enagás has an agreement with the university under which its interns attend courses on aspects of their work (business, technical matters, tools and IT applications used in their Unit), complementing their postgraduate programme at the university for Citius and Optimus grant. - LA10 -

In 2010 the degree of penetration in training was 96.7%, a substantial increase on the figure for 2009 (75%). This means that practically all staff have attended training activities. The company's commitment to training is also evidenced in the increase in the number of courses (71%) and training hours per employee (3%), and in investment in training, which has doubled in the past year. - LA10 -

The subject areas which have grown most are IT, because of increased specialist training for IT technical staff, in response to requests from IT Systems management, and higher level courses in management associated with the launch of the Management School.

57

### Training indicators - LA10 -

	2008	2009	2010
Training hours per employee	38.1	41.1	42.52
Investment per employee (€)	394.1	426.3	860.67
Number of courses	166	201	343
Number of beneficiaries	1,228	1,599	2,906
Total investment (€)	400,997	445,884	901,122
Total training hours	38,404	42,994	44,516

### Training hours by professional category - LA10 -

	2008			2009			2010		
	(a) Total staff	(b) Hours of training	(b/a)	(a) Total staff	(b) Hours of training	(b/a)	(a) Total staff	(b) Hours of training	(b/a)
Management	66	5,612	85	66	3,170	48.0	63	4,005	63.57
Technicians	472	25,601	54.2	495	29,782	60.2	509	27,170	53.38
Administrative staff	126	2,504	19.9	126	1,956	15.5	126	1,095	8.69
Operational staff	344	4,687	13.6	359	8,086	22.5	349	12,246	35.09
Total	1,008	38,404	38.1	1,046	42,994	41.1	1,047	44,516	42.52

• Annual Report 2010

## Our Commitments



There is a significant decline in language training as, under the new language policy, which includes face-to-face and on-line tuition, the Learning Contract covers a period from 1 April to 31 March. The hours and costs have not been taken into account at the end of this, the first year of the contract, but we estimate that language training in 2010 totalled around 8,000 hours.

### 4.1.6. Performance assessment

Enagás assesses the performance of its employees through two assessment systems:

#### a) Performance assessment:

Enagás has introduced a performance review system for senior or middle management staff not covered by collective agreements. These reviews are a key determinant of their career advancement and fixed remuneration.

In 2010 a scheme for improving this system was introduced: a map for the competences of all staff not covered by collective agreements was drawn up and a pilot project carried out with staff from all categories (50 individuals), to evaluate the desirability of extending the system to assess the performance of all staff not covered by collective agreements in future years.

At 31 December 2010, 51.8% of staff not covered by collective agreements were included in the system for assessing performance.

For staff covered by collective wage agreements, there is an annual review system linked to career development, which encourages personal development and provides incentives for personal effort and contributions to achieving the company's goals. This

#### Number of training hours by area - LA10 -

	2008	2009	2010
Quality, Excellence and Sustainability	340	168	302
Management	4,275	6,392	6,440
Languages	13,008	8,893	1,445
IT	1,817	1,103	6,652
Risk Prevention and the Environment	4,810	12,239	13,601
Technical skills	6,550	8,465	6,389
Higher Studies and Management Development	7,022	5,632	9,391
Administrative skills	582	102	298



has a direct effect on fixed remuneration. At 31 December 2010, 81 % of the staff covered by the collective agreement were included in this evaluation system.

71.6% of all staff are thus included in the performance assessment system. - LA12 -

### b) Management-by-objectives:

Enagás has introduced a management-by-objectives (MBO) model that enables it to align employees' performance targets with the challenges facing the company by setting objectives that are applicable at both departmental and individual level. This system applies to 100% of the staff excluded from the collective agreement, and is directly reflected in their variable earnings (36.3% of the total workforce).

In 2010 new General Regulations governing Management-by-Objectives were introduced. They include the following points: a yearly calendar will be established, taking the first quarter of each year as the deadline for attaining targets; staff on maternity leave, paternity leave or sick leave not exceeding 6 months will be considered to have complied 100% with their targets, etc.

A new IT system has been introduced to support the management of the MBO model, allowing the process of setting and assessing objectives to be automated and computerised by means of a workflow scheme. This allows certain activities to be decentralised and the system to be integrated in the HR management IT system (SAP).



The Enagás remuneration model factors in considerations of equality and non-discrimination, such that any differences between the salaries of different individuals are due solely to their positions in the organisation, levels of experience, length of service and contribution of value.

In 2010, 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 -

### Number of employees receiving performance and career development reviews in the period - LA12 -

	2008	2009	2010
Total number of employees (a)	985	1,008	1,047
Number of employees receiving performance and career development reviews in the period (b)	662	674	737
Percentage of employees receiving performance and career development reviews in the period (b/a)	67.2 %	66.9 %	71.6 %

## Our Commitments

60

### 4.1.7. Internal communication

Enagás continues to work on improving internal communications through the various different channels it has in place, and by encouraging employee involvement through the Internal Communication Committee.

2010 saw the addition of new sections in our internal magazine *azulyverde*, including “Our Customers” and “Social Action”, while improvements have been made to our electronic newsletter *Ráfagas*.

The company intranet has also been substantially overhauled. It now uses a new IT platform and all the menus have been redesigned, adapting the new intranet to the needs of employees.

- Home: includes news, latest developments, notices, etc.
- Corporate information: includes organisational chart, policies, maps of infrastructures, etc.
- Staff: includes training, performance assessment, remuneration, time management, etc.
- My work: includes journey planning, documentation, applications, practice communities, etc.

This year a number of internal communication campaigns have also been organised, dealing with a variety of issues, including the prevention of risk in the workplace, equal opportunities, and work-life balance.

### 4.1.8. Employee satisfaction

During the year, Enagás conducted its biennial employee satisfaction survey. Participation was over 61% and the level of general satisfaction reported was 55%, a 14.5% improvement on the results for the previous survey, held in 2008.

The aspects most highly valued were those related to the content and organisation of work, relations with line managers, and the company’s image. The aspects recording the lowest scores were customer focus and quality, communication, and human resources policies.

These aspects and others are being analysed in detail with a view to incorporating new lines of action in the Quality, Excellence and Sustainability Master Plan for 2009-2012.

### 4.1.9. Health and safety

#### Health and safety management model

Enagás’ commitment to health and safety is reflected in all its business decisions and activities and in the terms of its Risk Prevention Policy. In 2010 the new Strategic Plan for the Environment and Risk Prevention 2010–2012 was approved, setting out the general framework for the company’s action in key areas, regarding both the environment (see the

#### Internal communication channels

	Description	2010 indicators
Intranet	<ul style="list-style-type: none"> <li>• Continuous updates to the online information contained in the news section</li> </ul>	<ul style="list-style-type: none"> <li>• Online updates</li> <li>• 89 news items published</li> </ul>
azulyverde	<ul style="list-style-type: none"> <li>• Quarterly internal magazine for all employees</li> </ul>	<ul style="list-style-type: none"> <li>• Quarterly</li> <li>• 4 magazines issued to all employees</li> </ul>
Ráfagas	<ul style="list-style-type: none"> <li>• Electronic newsletter summing up the news for each fortnight</li> </ul>	<ul style="list-style-type: none"> <li>• Fortnightly</li> <li>• 25 newsletter sent to all employees</li> </ul>
Internal communication campaigns	<ul style="list-style-type: none"> <li>• Internal publicity aimed at promoting and raising awareness of important company</li> </ul>	<ul style="list-style-type: none"> <li>• As required</li> <li>• Support for the yearly occupational risk prevention campaign</li> <li>• Campaign to launch and provide training on the new Intranet</li> <li>• Launch of the equality awareness campaign</li> </ul>



chapter on Commitment to the Environment) and the prevention of occupational hazards, including strategic objectives related to excellence in industrial and occupational safety, the incorporation of occupational hazard prevention across the company, and progress in noise reduction at its facilities.

A review of this plan is carried out each year, involving all the company's management units, with a view to planning lines of action and monitoring their implementation at meetings of the groups and committees concerned with accident prevention and the environment.

The Enagás Risk Prevention Plan is the reference document regarding occupational risk in the company and includes details of responsibility, organisational structure and integrated preventive measures (risk assessment, planning of preventive action, documentary records, etc.)

## Consultation and participation

The units and areas involved and staff representatives participate in activities to deal with health and safety issues via committees and groups concerned with risk prevention and the environment.

The health and safety committees are joint collegiate bodies with whom regular consultation takes place on measures dealing with risk prevention. They are composed of representatives of staff and management, as specified in Article 38 of the Law on the Prevention of Occupational Hazards.

As in previous years, 100% of Enagás employees are represented by the health and safety committees, as follows: - LA6, LA9 -:

- Inter-centre Health and Safety Committee: a joint collegiate body with whom regular consultation takes place on measures to deal with risk prevention. This body represents staff on a broader scale than individual work centres and represents and defends the interests of workers with the competences specified in Article 64 of the Spanish Workers Statute, which can be expressly delegated to local committees and delegates. Its meetings take place at two-monthly intervals.

## Our Commitments

- Plant Health and Safety Committee: formed by two accident prevention delegates and two management representatives, who assist the manager of the plant's accident prevention department as technical advisors. Meetings take place at quarterly intervals.
- Head Office Health and Safety Committee: formed as legally specified, by representatives of staff and management at Head Office. Its meetings take place at quarterly intervals.

Health and safety meetings are also held at four-monthly intervals in the Transportation Department. These are attended by the area head of the Transportation Department and the relevant technical specialist dealing with risk prevention and the environment, with the corresponding risk prevention delegates.

The following table lists other committees and groups concerned with accident prevention and environmental issues, the frequency with which they meet and their composition:

In order to comply with the terms of its Policy on Serious Accidents and Risk Prevention Enagás has developed procedures, regulations and instructions for the prevention of occupational risks and these are documented in the relevant Prevention Management System manuals, so that health and safety standards for its employees and sub-contractors comply with the Spanish Law on Occupational Risk Prevention and current legislation on safety and the prevention of serious accidents. - PR1 -

The Enagás Risk Prevention Management System also includes procedures and guidelines for identifying and evaluating risks in all life cycle stages of its facilities (planning, commissioning, emergency shut-downs, 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 preventive action plans,

### Risk Prevention: Meetings, Groups and Committees

	Members	Frequency
Risk prevention and environment committee	Management committee, Managers involved, Head of Prevention and Environment Unit	Yearly
Transportation Department Functional Committee for Risk Prevention and the Environment	Transportation Dept., Head of Transportation Unit, Risk Prevention and the Environment Unit	Six-monthly
Production Department Functional Committee for Risk Prevention and the Environment	Production Manager, Plant managers, Risk Prevention and the Environment Unit	Yearly
Central functional committee for risk prevention and the environment	Risk Prevention and the Environment Unit, other areas involved	Six-monthly
Functional committees for risk prevention in plants	Plant manager, Head of risk prevention department in plant, Head of operations, Head of maintenance	Two-monthly
Risk prevention coordination group - Transportation	Central services risk prevention department, Risk prevention and environment technician	Four-monthly
Risk prevention coordination group - Plants	Heads Risk Prevention Dept. Plants, Head of Risk Prevention Service	Four-monthly
Coordination meetings own risk prevention service	Head of risk prevention (plants), Risk prevention department (central services), Head of risk prevention service	Four-monthly
Risk prevention in transportation monitoring meetings	Head Transportation Unit, Area Head, Risk prevention and environment technician (Transportation)	Six-monthly
Coordination meetings external risk prevention service	Own risk prevention service, External risk prevention service	Four-monthly
Sustainability committee	Management Committee, Head of Risk Prevention and Environment unit	Quarterly

by providing sufficient information 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 -

Correct implementation of the Risk Prevention Management System is reviewed by means of internal and external audits forming part of the annual audit scheme.

### Assessment and certification of the occupational risk prevention management system

Each year a review is carried out of Enagás' Risk Prevention Management System via safety inspections (visits and programmed observation) and internal audits, which allow non-compliance to be identified and preventive/corrective action to be taken. In 2010 audits were conducted in the three regasification plants, two areas of each of the three transportation units (6 areas audited of a total of 18) and the Serrablo underground storage facility.

In 2010 the legally required risk prevention audit was also carried out, as were the control and supervision programme for compliance with regulations on occupational risk prevention by the Works Inspectorate, regulation safety inspections, external audits of serious accidents in regasification plants, and OHSAS 18001 monitoring audits in the three regasification plants. In all cases the results were satisfactory.

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

	2008	2009	2010
Incidents of non-compliance that resulted in payment of a fine or penalty	5	2	6
Incidents of non-compliance that resulted in alerts/warnings	20	6	7
Incidents of non-compliance with voluntary codes	0	0	0
<b>Total</b>	<b>25</b>	<b>8</b>	<b>13</b>

This year Enagás has also been awarded OHSAS 18001 certification for its transportation department (including the Serrablo underground storage facility) and a proposal has been submitted to extend this to infrastructure project management in 2011.

### Compliance with current legislation

Thanks to the successful implementation of its management system, Enagás has complied satisfactorily with the Work Inspectorate's programme for monitoring and supervising compliance with occupational risk prevention regulations.

The company has an IT tool which records all the legal requirements regarding risk prevention and the environment for each site and the regulations for their application. Every year compliance is verified internally and audited by outside bodies. This feature was one of the company's strong points in the last OHSAS 18001 audit report.



• Annual Report 2010

## Our Commitments

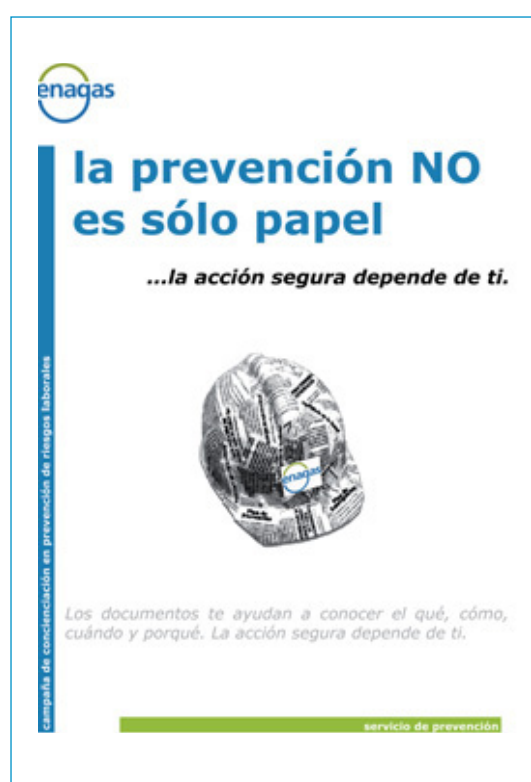
64

The new European Parliament and Council regulations concerning the Registration, Evaluation, Authorisation and Restriction of Chemicals (REACH) exempts natural gas from the obligation to register. - PR1 -.

Enagás participates in the Marcogaz-Enagás *Join-Group Environmental Health and Safety*, in the Life Cycle Assessment working group which is carrying out an analysis of the life cycle of natural gas, analysing its impact at all stages in the chain. The Health and Safety working group deals with issues related to safety and occupational health in the gas industry. - PR1, LA6 -.

### Protection and emergency measures - LA7 -

Enagás has all the human and material resources needed to deal with possible emergencies in its facilities. These resources are specified in protection plans and instructions for responding to emergencies in all the company's places of work. Based on these documents, simulations and training for response groups, emergency procedures are put in place in each site. - LA7 -.



In 2010 there were no serious accidents and emergency drills were held in the three regasification plants, as legally required, in six compressor stations (6/15), and the Serrablo underground storage facility, applying the corresponding emergency plans. Special training was given in this area and the drills were all completed satisfactorily, enabling the company to continue introducing improvements in emergency procedures - LA7 -.

### Enagás' performance in occupational risk prevention

#### Risk assessment - PR1 -

All activities which may have an impact on health and safety are monitored through risk assessment. In 2010, risk was assessed in all new or modified Enagás facilities and maintenance ranges where there is a risk of fire or explosion. Work was also completed on the assessment of psycho-social risk affecting managers and shift workers, initiated in 2009 - PR1 -.

#### Training, information and awareness raising -LA7, LA8-

Each year the Risk Prevention Service programmes activities to meet all training needs concerning health and safety, keeping staff fully trained and up to date. In 2010, 152 courses were held on health and safety (13,431.5 hours, 30% of all training), including: general safety, general course on risks in offices, general hygiene and ergonomics, general course on building work, first aid, and the "back school". A training itinerary in risk prevention has been approved for all Enagás staff, agreed by all the management units involved - LA7, LA8 -.

In 2010, documentation regarding risk prevention published on the company intranet was updated, making it available to all employees, and a campaign was launched under the slogan "Risk prevention is not just paperwork, safety depends on you", including clear messages designed to raise awareness of risk prevention, using various internal communication channels: posters, the *ráfagas* newsletter, the *azulyverde* magazine, etc. - LA7, LA8, LA9 -.

Enagás also has a family support service for employees and their families, including home assistance, 24-hour mobile tele-care, etc., in order to provide support for dependents and those with serious illnesses - LA8- .

### Dealing with accidents/incidents -LA7-

In its occupational risk prevention management system Enagás has a procedure for dealing with accidents and incidents, where procedures are specified for responding to, reporting, investigating and carrying out statistical analysis of incidents and accidents occurring on company sites. At Enagás all accidents are reported, whether they lead to sick leave or otherwise, are fatal, serious or multiple, as well as other incidents. The corresponding records are completed in all cases and the most significant incidents are investigated - LA7 -.

In 2010, to extend the scope of the information reported regarding accidents, Enagás has asked the main sub-contractors who carry out work on its premises for details of hours worked and any accidents occurring, so that an integrated index for frequency and seriousness can be calculated. Information is thus provided by the sub-contractor with the largest number of employees on the company's premises, all sub-contractors involved in construction projects, and sub-contractors' staff at regasification plants (Barcelona, Cartagena and Huelva).

In 2010, the frequency index decreased, due to the reduction in the number of accidents leading to sick leave (18 in 2010 vs. 19 in 2009), half of these being due to physical over-exertion. There was also a reduction in the number of accidents not leading to sick leave (22 in 2010 vs. 37 in 2009).



In 2010 the seriousness index rose as a result of the greater number of working days lost (471). Over 60% of this total were due to four work accidents resulting from slipping or bodily displacement as a result of physical effort.

### Accident frequency index - LA7 -

	2008	2009	2010
Frequency of accidents resulting in sick leave for own staff	9.6	11.2	1.4
Frequency index resulting in sick leave	6.9	8.7	6.7*

\*NOTE: The integrated frequency index for 2010 includes the sub-contractor with the largest number of employees on the company's premises, all sub-contractors involved in construction projects, and sub-contractors' staff at regasification plants. The figures are therefore not comparable to those for previous years, which only included sub-contractors involved in construction.

• Annual Report 2010

## Our Commitments

66

### Encouraging healthy habits -LA8-

The Risk Prevention Service promotes healthy habits in Enagás, providing regular medical check-ups for all staff (76.5% of employees attended check-ups voluntarily in 2010). It also encourages participation in a range of campaigns concerning public health.

In 2010, a campaign to encourage people to stop smoking was organised jointly with the Madrid City Council. It consisted of eight sessions, the first being individual (so that each person's characteristics could be determined) and the remaining seven group sessions. A total of 33 employees attended.

### Main medical service initiatives -LA8-

	2010
<b>Care programme</b>	
- Number of consultations	1,504
<b>Vaccination campaigns</b>	
- Flu	180
- Tetanus	12
<b>Preventive campaigns</b>	
- High blood pressure	285
- Cardiovascular risk	754
- Prostate disease	322
<b>Health screening</b>	
- Check-ups	801
- Head Office and Gasometer	318
- Other company centres	483

### Accident severity index -LA7-

	2008	2009	2010
Index of seriousness of accidents leading to sick leave for own staff	0.3	0.1	0.3
Index of seriousness of accidents leading to sick leave	0.1	0.3	1.1*

\*NOTE: The integrated seriousness index for accidents leading to sick leave in 2010 includes the sub-contractor with the largest number of employees on the company's premises, all sub-contractors involved in construction projects, and sub-contractors' staff at regasification plants. The figures are therefore not comparable to those for previous years, which only included sub-contractors involved in construction.

### Occupational diseases and lost days -LA7-

	2008	2009	2010
Rate of occupational diseases	0	0	0
Rate of lost days	59.6	17.6	54.2

### Information provided to customers and end users

- PR3 -

Enagás has specific procedures for providing information on all its activities. For example, as required under the regulations governing gas fuel networks and connections, the route of gas pipelines must be clearly signalled by signposts or another similar method. To comply with these regulations, Enagás has drawn up general internal specifications of the details to be included on signposts: 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 -



67

The routes of the company's pipelines are also marked by underground tape warning of their presence, in accordance with general project specifications - PR3 -

When natural 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 the presentation of consignment notes, product safety sheets, etc. - PR3 -

Enagás is also required to draw up monthly balance statements for all distributors that include daily figures. For this purpose, its information systems must always be up-to-date in terms of distributors' gas inventories, balances, etc. - PR3 -



### Product information to be provided to distributors - PR3 -

	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	

• Annual Report 2010

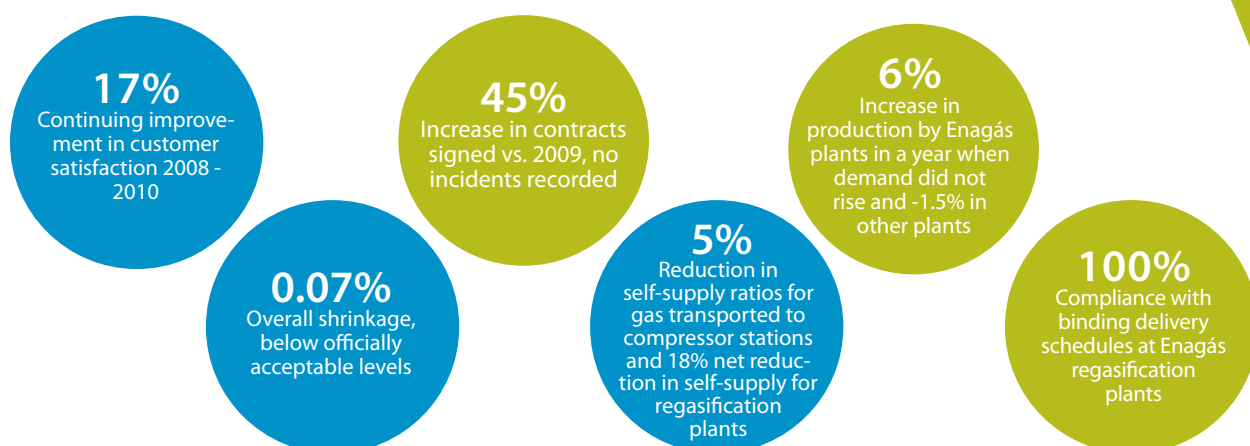
## Our Commitments

“Our customers' satisfaction with the services we provide is a key issue for Enagás: we identify their expectations and devise improvement plans”

Fernando Impuesto Noguera, Head of TPA Management

68

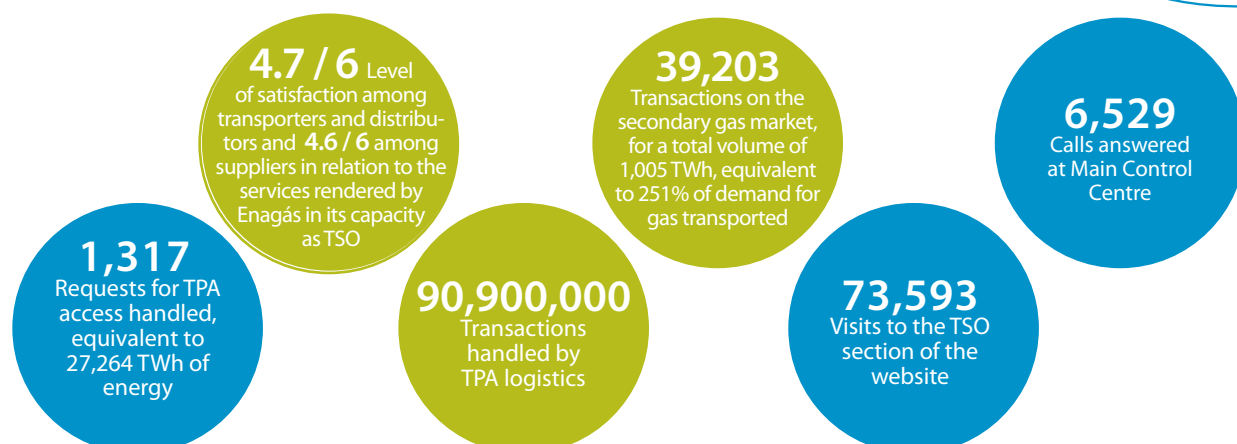
### Key indicators 2010



“The Technical System Operator works in coordination with the various parties that operate or use the gas system under the principles of transparency, objectivity and independence.”

Article 64, Chapter III of Act 34/1998

### Key indicators 2010





## 4.2. Commitment to customers

### Meeting challenges

#### Planned for 2010

- ✓ Client satisfaction increased for the third year running, rising from 4.1 / 6 in 2008 to 4.8 / 6 in 2010, while the rating for Enagás GTS also continued to improve
- ✓ Introduction of N+1 distribution system with Enagás GTS internal information, to achieve information continuity and improve agents' effectiveness
- ✓ Making the Enagás contracting process more efficient, streamlining the process, simplifying documentary support for contracts and developing electronic contracting and billing services
- ✓ New Enagás website content: improvements to Enagás GTS (e.g. new flow snapshot) and transportation business sections (new portal allowing direct restricted communication with customers)<sup>1</sup>
- ✓ Enagás improvement plan for TPA logistics (e.g. automating self-supply records)
- ✗ Secondary Capacity Market to allow agents to negotiate in a continuous market\*
- Benchmark study of sector companies focusing on customer satisfaction and publication of results<sup>2</sup>

#### Other milestones 2010

- ✓ Development of new international connection capacity with France via Open Season 2015. Together with Open Season 2013, this consolidates an increase of over 6 times current capacity (35 to 225 GWh/d). Enagás was in charge of the Joint Allocation Office
- ✓ Avoiding the "balance blackout" at weekends via N+1 distribution (advance N+2 distribution at weekends), providing continuous information to customers on current stocks, a cornerstone in their decision making
- ✓ 794 access contracts signed, 45% higher than 2009. 59% increase in number of access applications handled
- ✓ Enagás website, GTS section: progress on guidelines set in Transparency Platform via publication of information on available capacity, automatically updated at weekly (daily in due course) intervals
- ✓ Introduction of interruptible capacity supply service on saturated international connections used by Enagás for transportation activities
- ✓ Coordination between physical and commercial information systems, reflecting the latest daily temperature forecast in daily/ monthly demand scheduling for suppliers
- ✓ Improvement in self-supply ratios for gas transported to Enagás transportation compressor stations
- ✓ Introduction of final cumulative monthly emissions and distribution figures (as requested by transportation agents)
- ✓ Second consecutive year with no complaints about delays to ships
- ✓ For the second year running the use of tank loading services increased, with all-time records at the Huelva and Cartagena plants owing to demand from the solar thermal industry and agriculture
- ✓ Record production of 1,600,000 m<sup>3</sup>(n)/h at Barcelona plant
- ✓ Customer newsletter launched and improvements made to structure and content of Enagás website: restricted customer access, indicators, daily capacity available over following month

\* It has not been possible to develop the continuously operating secondary market for all installations because the relevant Royal Decree has not been approved.

<sup>1</sup> In the Gas Transportation section of the website the following content has been added: capacity of facilities, restricted customer access, quality indicators and monthly capacity report with daily breakdown and daily report.

<sup>2</sup> The results of the study will be published in the 2011 Annual Report.

✓ Achieved ✗ Not achieved ■ In progress

## Our Commitments

### Challenges 2011

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- Revision of TPA logistics: Progress on plans for this project (new processes introduced and functions updated), responding to requests from the sector
- 2011-2014 Enagás Management Improvement Plan (formerly the Efficiency Plan) introduced and developed, emphasising improvements in logistics and commercial dealings with our customers
- Management of elimination of exchanges: suppliers will be able to eliminate exchanges from MS-TPA and it will be possible to eliminate them in TPA logistics without intervention by GTS
- Improvements to logistical and commercial operations at regasification terminals: loading ships, study of improvements in availability of docking facilities, and improved compatibility for ships at Enagás transportation plants
- Introduction of new exchange system linked to unloading ships: suppliers will be able to combine exchanges at plants and the physical unloading of ships, so that if the unloading process is delayed the exchange will automatically be transferred to the date when it takes place
- Development of model for connections contract, supporting its implementation by participation in a working group with the CNE
- Mapping of links between commercial fleets and physical journeys: this will ensure consistency between the identity and scheduling of the ship, physical unloading and the exchanges linked to unloading if there should be any, thus increasing the reliability of information on N+2 balances
- Development of the Measurement Optimisation Plan with the aim of minimising leakage in regasification and transportation
- Making a technical library of Gas System Monitoring Committee conferences available to the gas sector on the internet
- Scope of operations, scheduling: schedule for sending nominations and revised nominations opened before 8.00am and possible extension to 7.30am confirmed
- Operations, distribution and balances: Include date and time when information is issued when a TPA logistics balance is unloaded
- Development of customer portal on website and publication / catalogue of new suppliers that have contracts with Enagás
- Operations, distribution and balances: Include date and time when information is issued when a TPA logistics balance is unloaded
- Study assessing the introduction of customer satisfaction survey in other areas of direct management of service in facilities
- Development of stakeholder management model

## 4.2.

# Commitment to customers

### 4.2.1. Enagás' customers

Enagás' customers are the major domestic and multinational energy companies that distribute natural gas in Spain:

BP Gas Europe, S.A.U., Carboex, S.A.U., Cepsa Gas Comercializadora, S.A., EDF Trading Limited, EGL Energía Iberia, S.L., Endesa Energía, S.A., ENOI SPA, E.ON Generación, S.L., Galp Energía España, S.A.U., Gas Natural Comercializadora, S.A., Gas Natural Servicios, S.D.G., S.A., GDF Suez Comercializadora, S.A., GDF Suez Energía España, S.A.U., HC Energía Gas, S.L., Iberdrola Ge-

neración, S.A.U., Ingeniería y Comercialización del Gas, S.A., Investigación Criogenia y Gas, S.A., Naturgas Energía Comercializadora, S.A.U., Nexus Energía S.A., Shell España S.A., Unión Fenosa Gas Comercializadora S.A., and Sonatrach Gas Comercializadora, S.A.U.

The following companies were added to Enagás' customer portfolio in 2010: Energía VM Energías Especiales, S.A.U., Grupo Villar Mir Energía, S.L.U., RWE Supply & Trading Iberia, S.L.U., RWE Supply & Trading GmbH and Servigas S. XXI, S.A.



## Our Commitments

### 4.2.2. Customer Service

#### Channels for providing service

Enagás has set up various channels to encourage communication between customers and the company and enable Enagás to address their requests. These channels provide information on customer expectations and their degree of satisfaction with the company.

72

#### Customer service channels

	Description	2010 indicators
Customer satisfaction surveys	This is one of the main instruments underpinning the annual improvement plan, since it informs us not only of the importance of the services that Enagás provides to its customers, but also their satisfaction with these services	<ul style="list-style-type: none"> <li>• Annual surveys</li> </ul>
Account managers	As the parties responsible for the relationship between Enagás and its customers, account managers monitor customer needs and provide them with information and advice on new products and services	<ul style="list-style-type: none"> <li>• Ongoing contact</li> </ul>
Regular meetings	Meetings with customers aimed at analysing their market position. These meetings cover any issues that could be in customers' interests and are also used to present new options and new business opportunities for them to consider	<ul style="list-style-type: none"> <li>• Regular meetings</li> </ul>
Main Control Centre	The centre handles emergency situations and calls from customers concerning the operation of the Spanish gas system around the clock 365 days a year. Incidents may either be detected through Enagás systems (SCADA) or reported by external agents (third parties, control centres, security staff, etc.).	<ul style="list-style-type: none"> <li>• 24 h x 365 days</li> <li>• Number of incoming calls answered: 6,529</li> </ul>
SL-ATR (Third-party access logistics system)	This system provides flexible, real time communication between the various parties involved in the Spanish gas system, thus supporting the management of the entire gas cycle: applications for capacity, programming and nominations, viability responses, the underground storage rights market, measurements, gas quality, distribution, balances, and billing	<ul style="list-style-type: none"> <li>• Number of transactions 90,900,000</li> <li>• 18 new developments started up within the TPA system</li> </ul>
Spanish Gas System Monitoring Committee	Body charged with the task of overseeing the functioning of the Spanish gas system, coordinating the actions of those parties involved in the system, and drawing up reports on temporary operational plans and other aspects of the system that require monitoring. The committee comprises representatives of the Spanish Ministry for Industry, Tourism and Trade, the Spanish National Energy Commission ( <i>Comisión Nacional de Energía</i> ), the Electricity System Operator and gas suppliers, transporters and distributors	<ul style="list-style-type: none"> <li>• Two-monthly meetings</li> <li>• Number in attendance: 629</li> </ul>
Enagás website	Includes up-to-date information required to manage the Spanish gas system and dealings between the different agents involved (suppliers, transporters, distributors, etc.) The following functions were added in 2010: capacity of facilities, restricted customer access, quality indicators and monthly capacity report with daily breakdown and daily report. It also features corporate information on Enagás and allows all stakeholders to contact the company	<ul style="list-style-type: none"> <li>• Number of visits to website: 317,100</li> </ul>
Customer newsletter	New initiative rolled out by the company to supplement the standard channels of information, the ultimate aim being to offer customers a new direct channel through which to obtain information on third-party access (TPA) services, the current status of Enagás infrastructures and any other issues that may interest them	<ul style="list-style-type: none"> <li>• Monthly newsletter</li> </ul>



## Requests for access to the Spanish gas system

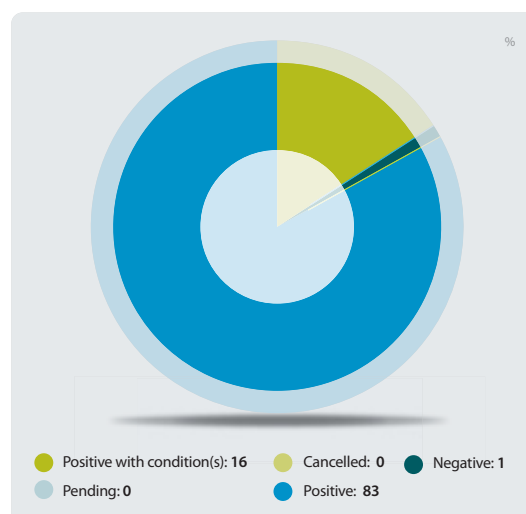
In 2010 1,317 applications were received and processed, equivalent to a volume of 27,264 TWh. 1,105 of these applications corresponded to Enagás as provider of transportation. All of the applications were dealt with within the time limits established in Royal Decree 949/2002 and the viability report of the Technical System Operator was positive in 99% of cases, 16% being subject to conditions of one type or another.

Breakdown of applications dealt with in the year:

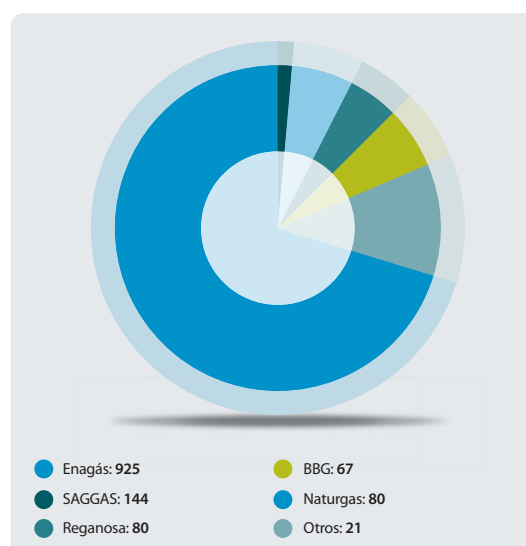
### Type of service requested

	2010
Underground storage	21
Tank filling	73
Regasification	321
Reserve transportation capacity	376
Cooling	1
Conduct terminal	451
International transportation – inward	31
International transportation – outward	41
Other services	2
<b>Total</b>	<b>1,317</b>

### Responses to viability applications



### Applications by transporter





# Our Commitments

74

## Incidents

Enagás, in its role as both transporter and Technical System Operator, has made significant improvements to the processes with which it deals with customer in-

cidents, including IT applications which have improved monitoring and the management of associated documentation and led to reduced processing times and better service for customers.

### Technical System Management

#### Incidents dealt with per service requested

	2010
Numbers of incidents recorded	87
Number of incidents closed	87
Average days to completion	1.9
Number of incidents still being processed from previous year	0

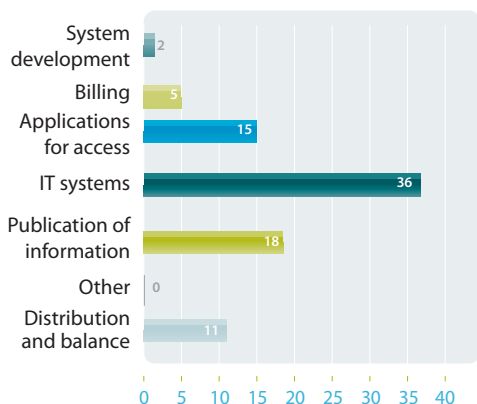
### Third-party access

#### Incidents dealt with per service requested

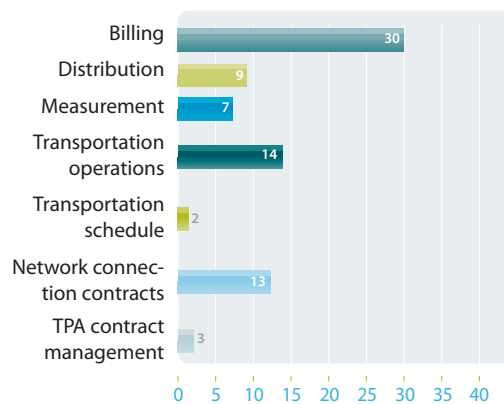
	2010
Numbers of incidents recorded	78
Number of incidents closed	74
Average days to completion*	22
Number of incidents still being processed from previous year	4

\* In the case of TPA average resolution time depends on processes

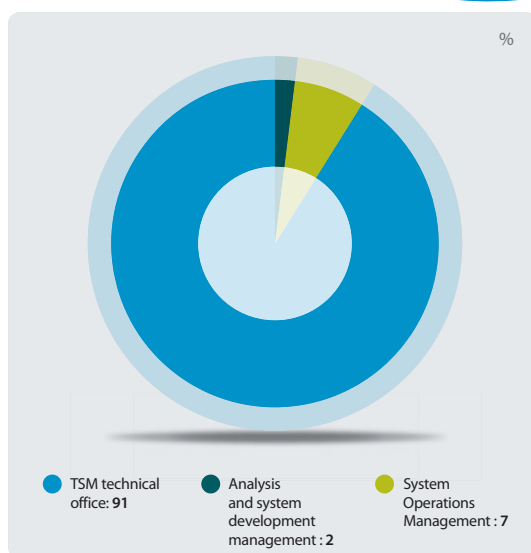
### Nature of the incident



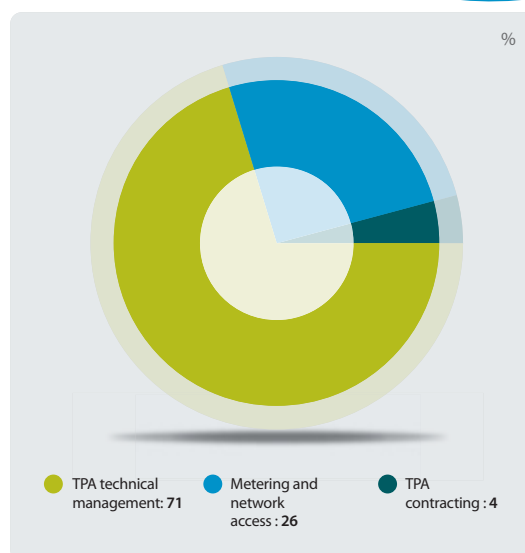
### Nature of the incident



### Incidents by area affected



### Incidents by area affected



### 4.2.3. Customer satisfaction

– 4.17, PR5 –

#### Results of customer satisfaction survey

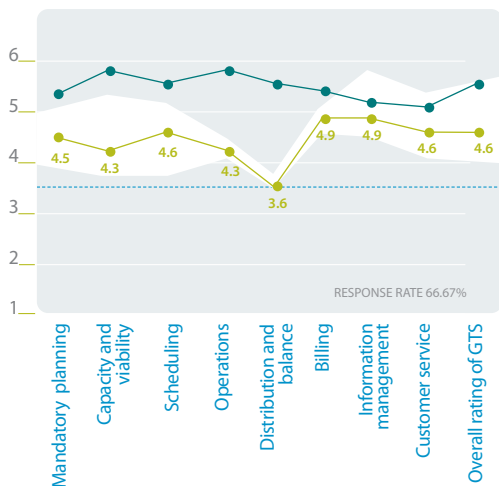
Each year Enagás carries out a survey of customer satisfaction, with both its transportation work and its role as Technical System Operator. This is one of the main instruments underpinning the annual improvement plan, since it provides information not only of the importance of the services that Enagás

provides to its customers, but also their satisfaction with these services.

The results of the customer satisfaction survey of suppliers, transporters and distributors conducted by Enagás as Technical System Operator were as follows:

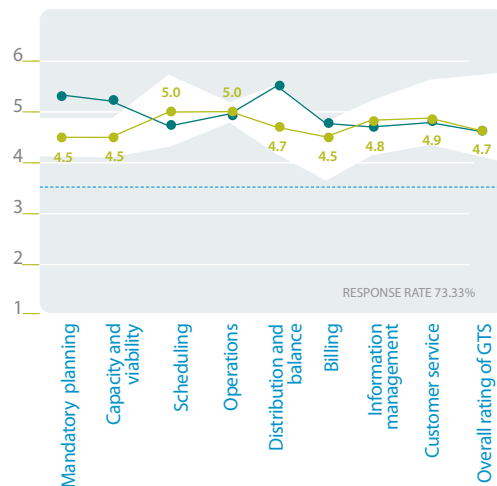
#### Results of Enagás GTS customer satisfaction survey Suppliers - PR5 –

2010 survey of: Suppliers



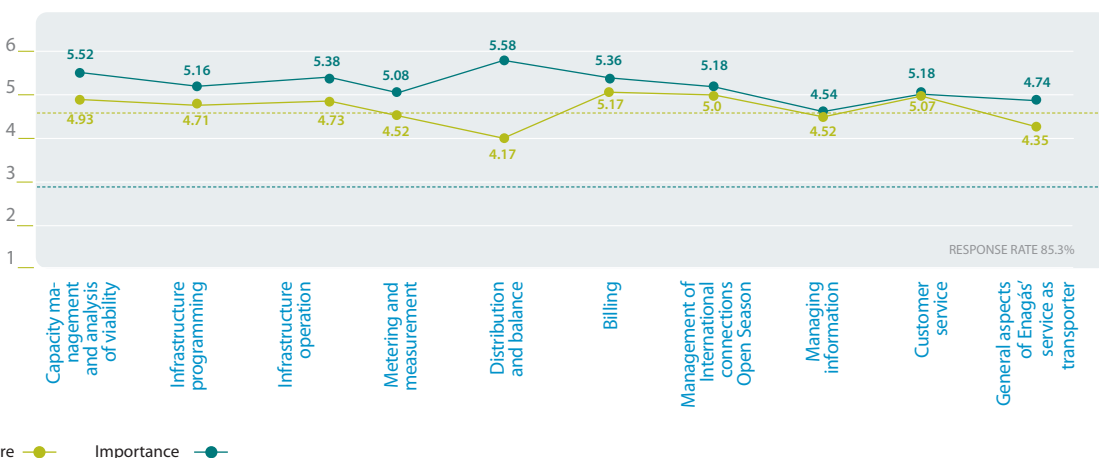
#### Results of Enagás GTS customer satisfaction survey – Transporters and distributors - PR5 –

2010 survey of: Transporters and distributors



#### Results of Enagás GTS customer satisfaction survey - PR5 –

2010 survey of services provided to customers



Score ● Importance ●

## Our Commitments

### Service quality indicators

Indicators	Description
Overall measurement difference ratio	<ul style="list-style-type: none"> <li>Percentage representing the difference between input and output plus variation in stocks against input</li> <li>This percentage is calculated for regasification plants and the transportation system</li> </ul>
Enagás overall self-supply	<ul style="list-style-type: none"> <li>The relationship between the amount of gas used to operate Enagás' equipment and facilities and total gas input to the Enagás system</li> </ul>
Overall losses Enagás	<ul style="list-style-type: none"> <li>Quantity of natural gas lost due to leaks and/or venting across all of Enagás' infrastructures</li> </ul>
Measurement of customer satisfaction	<ul style="list-style-type: none"> <li>Degree of satisfaction of our customers with Enagás services. Customer satisfaction is expressed as an average of the results of the questionnaires sent to customers each year, and ranges from 6 (highly satisfied with services provided) to 1 (very dissatisfied with services provided).</li> </ul>

76

The measures undertaken in 2010, as part of the 2010 Improvement Plan, have led to a 2.8% improvement in satisfaction levels among suppliers compared with 2009. Levels of satisfaction among transporters and distributors remained above average and similar to the previous year.

The measures included improvements to the TPA system (automation of self-supply input data, N+1 distribution, better data extraction, etc.) and meetings with the main agents in the sector to plan for the period 2012-2020, among other issues.

The rating for the distribution and balance service improved significantly (by 50%), although it was the activity rated lowest by suppliers.

This service received special attention in 2010, through measures such as the indicator developed to provide objective assessment of the quality of N+2 distribution and the reduction of delays in finalising distribution.

Overall perception of GTS has improved in the last three years.

A new type of customer survey of Enagás' transportation work was introduced in 2010, extended to include all transportation services provided by Enagás related to regasification and gas transportation, in which the number of questions was increased from 8 to 36. This increased scope will allow Enagás to compare its performance to that of other companies in the sector.

In the last three years there has been a cumulative improvement of 17% in the overall assessment of En-

agás as transporter. The services most highly valued were international connection management, operations at regasification plants, customer service, and billing. Surveys covering Enagás' role as System Operator indicate that there is scope for improvement in distribution and balances, considered by customers as the most important area.

### Other service quality indicators

Enagás has management indicators in place which allow it to measure the efficiency of its operations. The most significant are available to clients on the Enagás website: overall measurement difference ratio, overall Enagás self-supply, overall losses, and customer satisfaction (see table).

### Improving customer satisfaction -4.17-

The results of customer satisfaction surveys are shared with Enagás customers and their comments and feedback are used to draw up the Customer Satisfaction Improvement Plan.

In 2010, Enagás defined and planned the action it will take in 2011 regarding its role as transporter and as Technical System Operator, as shown in the following tables.

These and other areas of improvement are included in the Enagás 2011 Improvement Plan.

## Areas of improvement 2011 Enagás in its role as Technical System Operator

Procedures for managing and publishing information: review of TPA logistics, furthering action planned for this project, responding to requests from the sector (processes to be implemented and functions updated)

Procedures for managing and publishing information: improvements to management of elimination of exchanges so that suppliers will be able to eliminate exchanges from MS-TPA and it will be possible to eliminate them in TPA logistics without intervention by GTS

Procedures for managing and publishing information: introduction of new system for exchanges related to unloading of ships so that suppliers can link exchanges in plants to physical unloading of ships, designed so that if there is a delay in physical unloading the exchange will be automatically transferred to the same date.

Procedures for managing and publishing information: mapping of commercial shipping and real voyages, to ensure consistency between the identity and scheduling of the ship, physical unloading and the exchanges linked to unloading, if any, thus increasing the reliability of information on N+2 balances

Procedures for managing and publishing information: A technical library of Gas System Monitoring Committee conferences will be made available to the gas sector on the internet. .

Scheduling process: schedule for sending nominations and revised nominations opened before 8.00am and possible extension to 7.30am confirmed

Scheduling process: introduction of system for carrying out gas exchanges linked to ships and possibility of eliminating exchanges

Distribution and balance procedure: inclusion of date and time when information is issued when a TPA logistics balance is unloaded

Distribution and balance procedure: breakdown of distribution. A subsidiary working group has been set up to review aspects of Technical System Management of scheduling and distribution

## Areas for improvement 2011 Enagás as transporter

Procedures for dealing with capacity, viability and contracting: improvements to customer support and flexibility of unregulated services (improved connection contracts in line with recent changes in regulations) and improved contracting procedure (proposal for electronic signature and improvements to systems)

Procedure for scheduling and operating infrastructure: improvements in communication to customers of plan for maintenance, development and distribution of the report on scheduling and operation (two-monthly report on infrastructure operation), logistical and commercial improvements at the Barcelona plant (greater availability of windows), greater compatibility between ships (acceptance of ships at terminal and customer database)

Reading, measurement, distribution and balance procedure: identification of interested parties in aspects of metering by client and unit of measurement, communication to customers of plans for improved metering and study of incorporation of proposals after their presentation, information about the role of Enagás as transporter in distribution, and revision of customer satisfaction surveys to clarify aspects of balances and distribution

Billing: proposal to use electronic billing among suppliers

International connections: participation in and development of South Gas Regional Initiatives, improvement and development of international connection products (joint operations in international connections with GTS, and development of bundled products)

Information management: development and implementation of new channels of information for customers, including newsletter, introduction and development of restricted areas for customers, introduction and development of report publishing capacity and development of "service calculator", catalogue, and guide for new entrants

Customer service and general: modification of calendar for meetings with customers, establishment of a programme of technical visits with major customers and development of stakeholder management model

• Annual Report 2010

## Our Commitments

78

“At Enagás, we strive to forge mutually beneficial relationships with our suppliers, spreading our CSR commitments all along the supply chain by means of supplier endorsement, all this through direct dialogue and with guaranteed security for contractors”

Héctor Tajahuerce, Head of Procurement

### Key indicators 2010





## 4.3. Commitment to suppliers

### Meeting challenges

#### Planned for 2010

- ✓ Ensuring the correct functioning of contracting processes to facilitate the Enagás Investment Plan
- Better knowledge of suppliers, with the support of the Achilles company, in the following areas (\*):
  - I. Management of risks associated with each supplier
  - II. Definition of CSR assessment criteria
- ✓ Improving communications with suppliers via the website, with a view to offering better services and cutting response times

#### Other milestones 2010

- ✓ Inclusion of critical suppliers (categories 1 and 2) in the RePro database, with information about CSR criteria

(\*) In Risk Management a project is being undertaken to create a measurement methodology through the Achilles company, the results of which will be assessed in coming years

✓ Achieved   ✗ Not achieved   ■ In progress

#### Challenges 2011

- Implementing a supplier risk management approach in conjunction with Achilles
- Starting up a supplier performance monitoring system and analyse its inclusion in decisions regarding contract awards

## 4.3.1. Commitment to suppliers

### 4.3.1. Approval of suppliers –PR1, EC6 –

Enagás only operates at national level and only invests in Spain. Most of its contracts for goods and services are thus with Spanish companies. – EC6 –.

Enagás is subject to Law 30/2007 of 30 October on public sector contracting, which includes companies operating in the regulated market. In compliance with this law, Enagás' contracting processes include prior selection of suppliers based on their technical capacity to undertake the work required and their quality standards. Subsequently financial aspects are considered, so that the best decision on adjudication can be taken. – EC6 –.

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 assesses the following criteria, inter alia: - HR1 -.

- 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
- Respect for the principles of the United Nations Global Compact and the Universal Declaration of Human Rights

In 2010, Enagás had a total of 2,031 approved suppliers, 959 (around 47%) of which it placed orders with.

### Orders placed by Enagás – EC6 –

	Domestic suppliers		Internacional (Rest of Europe)		Internacional (Rest of world)	
	Works & Services	Supplies	Works & Services	Supplies	Works & Services	Supplies
Number of orders	982	2,988	36	73	14	8
Value of orders (€ Mn)	282.8	119.3	1.7	19.5	24.3	0.04
% (of total value)	91.6%	85.9%	0.5%	14.1%	7.9%	0.03%



### 4.3.2. Integrating suppliers in Enagás' Sustainability Model

– HR1, HR2 -

Enagás continues to favour long-term relations with suppliers, based on transparency, trust and mutual benefit. Its agreements with its main suppliers demonstrate its excellent relations with them. These agreements set out clearly the contractual conditions needed for greater commitment by suppliers to ensure the quality of their products and services. – HR1 –.

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 the Universal Declaration of Human Rights, the ILO Tripartite Declaration, the OECD Guidelines for Multinational Enterprises and the United Nations Global Compact. – HR2 –.

#### Major suppliers and contractors that have undergone screening on human rights and action taken – HR2 -

	2008	2009	2010
Total major suppliers and contractors	51	61	35
Percentage of contracts that include human rights criteria or investigations	0	14	100
Percentage of contracts rejected or where additional conditions have been imposed	0	0	0

• Annual Report 2010

## Our Commitments

### Purchasing agreements including human rights clauses and which were subject to checks .- HR1 -

	2008	2009	2010
Total major contracts (a)	64	18	30
Number of investment agreements including human rights clauses and which were subject to checks (b)	7	18	30
Percentage of investment agreements including human rights clauses and which were subject to checks (b/a)	11	100	100



In addition, all agreements signed from 2009 onwards include a clause requiring compliance with the company's corporate responsibility policy in commercial contracts and Enagás' general contracting terms and conditions – HR2 –.

The clause stipulates that 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. It 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 – HR2 –

Enagás considers that an agreement is significant if the total contracted exceeds two million euros – HR1 –.

Enagás classifies suppliers into four categories based on the risk or cost to the company's operations of a

failure or malfunctioning of the products or services provided.

Category 1 and 2 suppliers are the main suppliers, representing 43% of the total. Enagás has asked these suppliers to be included in the RePro database, so it can consult updated information more easily, having already recorded 71% of the total.

Registration in RePro entails including specific CSR data on suppliers in accordance with four key metrics: leadership, communication and transparency, management systems and dialogue, enabling Enagás to use the results of the RePro's sustainable supplier measurement model (CSR scoring) and extract data for use in its accreditation and procurement processes.

### 4.3.3. Channels for relations with suppliers

Enagás holds meetings with suppliers to maintain regular communication, making available the following communication channels:

#### Channels for providing customer service

	Description	2010 indicators
Website	Provides information and documentation related to: the supplier accreditation process and initial application form; general contracting terms and conditions, Business Principles, CSR, etc.; and supplier support, including question forms on contracting or billing	
proveedores@enagas.es	The specific supplier support e-mail account for any type of query.	890 queries received



• Annual Report 2010

## Our Commitments

84

“Our activities geared towards protecting the environment and biodiversity, along with energy efficiency, curbing emissions and responsible use of resources, are all pivotal parts of Enagás' approach to environmental management so as to ensure that its activities have as little an impact as possible on the environment”

Nicolás Pericacho, Head of Prevention and the Environment Unit

### Key indicators 2010



## 4.4. Commitment to the environment

### Meeting challenges Planned for 2010

- ✓ Formulation of the Strategic Plan for the Environment and Risk Prevention 2010-2012
  - ✓ Defining and drawing up the environmental indicators requested by the Ministry for Industry, Trade and Tourism based on the Energy Plan for the Power and Gas sectors
  - ✓ Assessment of environmental hazards in regasification plants so that they can be identified and ranked to ensure coverage in the event of environmental damage
  - Improving the system for reporting environmental indicators by publishing them at four monthly intervals on the Enagás website from 2011, including information on:
    - I. GHG emissions (CO<sub>2</sub> + CH<sub>4</sub>), self-supply of natural gas, power and water consumption, waste generation
    - II. Newly published environmental legislation of interest
    - III. Compliance with programme of environmental measurement
    - IV. Environmental incidents
- ✓ Achieved   ✗ Not achieved   ■ In progress

### Challenges 2011

- Reduce carbon emissions from own consumption by 10% versus forecast for own consumption and gas transported in 2011
- Evaluate and implement energy saving and efficiency initiatives in teams and system and plant operation initiatives
- Anticipate risks and opportunities from future carbon scenarios based on EU targets for 2020 and 2050
- Integrate environmental risk analysis in company operations

## 4.4. Commitment to the environment

### 4.4.1. Environmental management system – EN12 –

Enagás' engineering and construction activities and those related to regasification, storage and natural gas transportation have a series of environmental impacts and these are monitored thoroughly so that they can be kept at minimum levels.

The environmental issues identified as significant are considered when environmental objectives and targets are set and preventive measures established.

Enagás has had a UNE-EN-ISO 14001 certified Environmental Management System in place since 2000-2001 for the following activities: offload, storage and regasification of liquid gas at the Huelva, Barcelona

and Cartagena plants, underground natural gas storage at the Serrablo plant, monitoring, inspection, maintenance, operation and control of gas transportation network facilities, and development of technological innovation projects, calibration and analysis at the Zaragoza laboratory.

### 4.4.2. Strategic Plan for the Environment and Risk Prevention

Enagás' action plan is shaped by its commitment to protecting the environment, which is a factor in all business decisions, with the company striving to balance industrial and economic progress with respect for the environment.

#### Activities

Construction and engineering

Regasification, storage and transportation of natural gas

#### Environmental impact - EN12 -

- Impact on vegetation of opening up pipeline routes
- Impact on wildlife due to invasion 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
- Emissions of greenhouse and other gases invernadero y otros gases no GEI
- Noise generation and emission
- Wastewater discharges
- Spills and soil pollution
- Waste production

#### Measures to protect the environment

- Programme of environmental surveillance including corrective measures, supervised on site by an environmental technician
- Identification and assessment of related environmental aspects, to determine which have or may have a significant impact. The assessment takes into account normal and abnormal operating conditions and emergency scenarios

### Commitments made in the Strategic Plan for the Environment and Risk Prevention 2010 - 2012



In 2010, in line with this commitment, reflected in its policy on the environment, Enagás approved the 2010-2012 Strategic Plan for the Environment and Risk Prevention, which renews the company's commitments in the areas of risk prevention and the environment (climate change -EC2-, biodiversity and environmental management) and helps to consolidate its position as one of the most advanced entities in the sector in this field.

The Strategic Plan responds to the demands of different agents (investors, shareholders, ratings agencies, etc.) for improvements to the scope and reliability of the Enagás Risk Prevention and Environment Reporting system and greater transparency vis-à-vis its main stakeholders in the assessment of environmental performance.

#### 4.4.3. Climate change

##### 4.4.3.1. Enagás and its carbon footprint: GHG emissions – EN16, EN17, EN18 –

Enagás' CO<sub>2</sub> emissions come mainly (51.2%) from its own consumption of natural gas (see chart showing GHG emissions for 2010) associated with verified direct emissions from its use in the following systems and equipment in the gas transportation network:

- Compression stations: Use of turbo-compressors to optimise the performance of the basic network

(pressure in gas pipeline network) in accordance with national demand and gas in transit/exports to other countries. This accounts for 83.1% of all self-supply at the 15 operating compressor stations.

- Underground storage facilities: Used for injection and extraction cycles at Serrablo storage facility.
- Regasification plants: Use of natural gas at Barcelona, Cartagena and Huelva plants in submerged combustion, boilers, flares, etc.
- Gas regulating and metering stations: Use of natural gas for preheating gas as part of the process for reducing gas transportation pipeline pressure to delivery pressure for distributor networks.

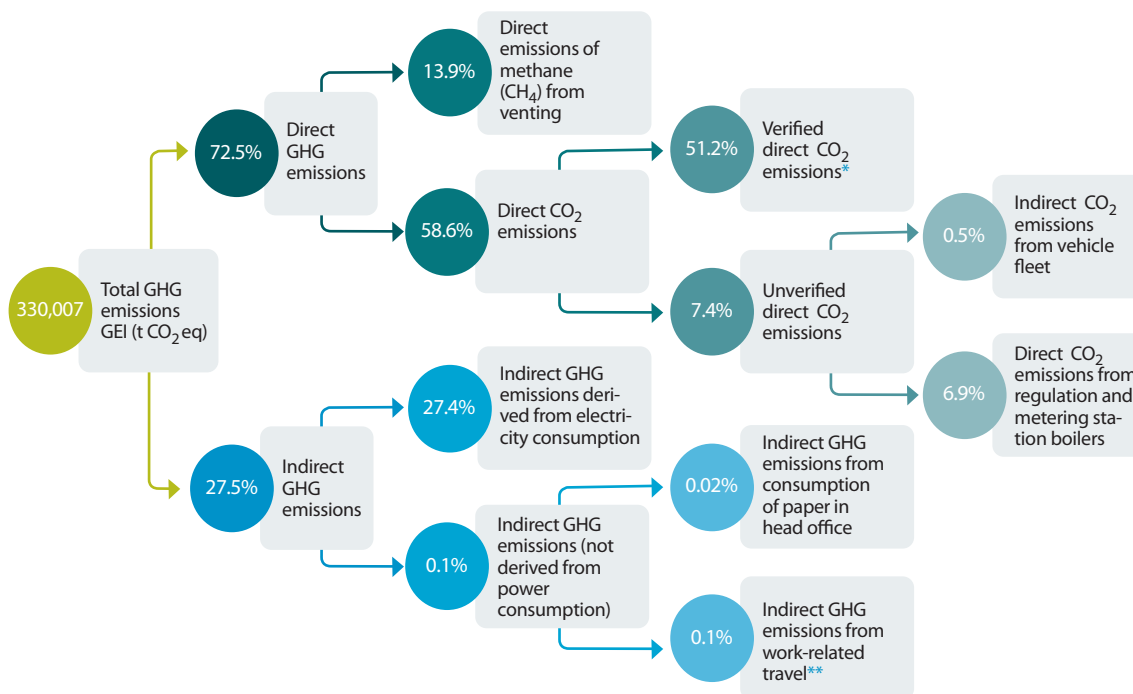
The efficiency of compressor stations increased by 2.3% in 2010, with a 21% increase in compressed gas, leading to a better performance by the turbo-compressors.

The following variables should also be taken into consideration, as they have led to an increase in self-supply:

- Patterns of increased demand (domestic-commercial and industrial) are closely related to the work involved in transporting gas between points of entry/supply and the points where it is consumed, which depends on distance. This effect is likely to be more pronounced in periods of peak demand caused by cold spells.
- The location of areas where demand for electric power is lower, normally near input points, and the introduction of new combined cycle plants which are further from input points mean increased self-supply requirements to meet demand.
- Increased exports and traffic to Portugal and the reduction in imports from France, which involve greater use of certain compressor stations.
- The location and use of input points combined with the demand to be met by area. All gas entering an area which is not consumed locally is a surplus which has to be transported to other areas where input is insufficient to meet demand. When the availability of gas from areas with a surplus falls below a certain threshold compressor stations

## Our Commitments

### GHG emissions in 2010



\* CO<sub>2</sub> emissions from own consumption in combustion units, 0.1% of diesel consumption for generating units and firefighting pumps

\*\* Data available from second half of 2010 onward

must be used to transport it to areas where there is a shortfall. This means that transport must be forced to maintain minimum pressures at delivery points to guarantee supplies to the companies connected to them and, consequently, to the end customer.

- The operation of the transportation system itself also calls for minimum pressures to be maintained at delivery points to guarantee supplies to the companies connected to them and, consequently, to the end customer.

In 2010, although overall demand was very similar to 2009, conventional demand grew by about 10%, while demand for gas to be used for power generation in combined cycle plants fell by 15.7%.

The precise location of the changes in these types of demand has led, in both cases, to an increase in emissions, as additional compression has been necessary.

Moreover, the amount of gas available for transportation from areas with a surplus to those with a shortfall

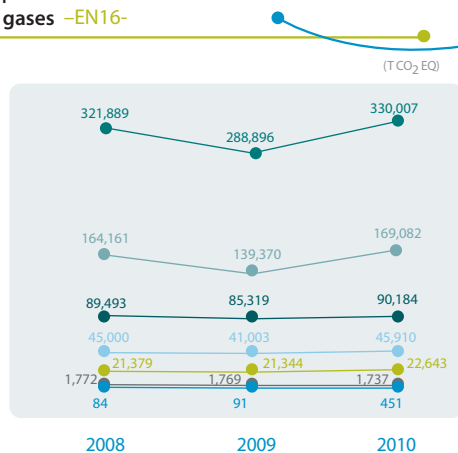
fell by approximately 80% compared with 2009, greater use of compression thus being needed to ensure transportation.

Exports via international links grew by 8.8% while there was a 2% increase in gas in transit.

At the end of 2009 the Balearics pipeline came into operation and early in 2010 consumption began in the Mallorca combined cycle plants, calling for high pressures to be maintained at Denia to guarantee transportation from the mainland at adequate pressure for the plants to function correctly.



## Atmospheric emissions of GHG gases -EN16-



- Total GHG emissions
- Direct emissions CO<sub>2</sub> (verified)
- Direct CO<sub>2</sub> emissions from regulation and metering station boilers
- Indirect emissions CO<sub>2</sub> vehicle fleet
- Indirect emissions CO<sub>2</sub> from electricity consumption
- Indirect emissions CO<sub>2</sub> not from electricity consumption

\* Figures for total GHG emissions in 2008 and 2009 differ from those published in previous reports, as they now include indirect emissions not derived from power consumption

\*\* Indirect emissions not derived from power consumption only include emissions from paper consumption

Enagás guarantees continuity and security of supply, as well as the correct coordination between access points, storage, transport and distribution, operating the system as efficiently as possible and minimising the environmental impacts derived from the emission of greenhouse gases (GHG).

### Direct GHG emissions

- Direct emissions of methane (CH<sub>4</sub>) from venting: because of the nature of its operations Enagás records emissions of methane, not incorporated as yet in the emissions rights trading scheme.
- Verified direct carbon dioxide emissions are the only kind included in the emission rights trading scheme. They come from combustion at the industrial facilities listed below. These are boilers (type C points of combustion), turbocompressors and vaporisers (type B points of combustion), all of which use natural gas as their fuel. (EN16) Each

89

## Direct emissions verified (t CO<sub>2</sub> equivalent) - EN16 -

	2008	2009	2010
Serrablo underground storage facility	22,245	13,811	25,592
Barcelona LNG regasification plant	1,895	2,637	2,077
Cartagena LNG regasification plant	151	1,227	378
Huelva LNG regasification plant	743	571	704
Algete compression station	9,895	7,070	1,702
Almendralejo compression station	44,858	40,922	36,518
Almodóvar compression station	15,529	1,303	733
Bañeras compression station	8,655	428	572
Córdoba compression station	542	2,347	12,327
Crevillente compression station	116	114	134
Dos Hermanas compression station	207	294	241
Haro compression station	19,494	10,568	10,342
Paterna compression station	136	340	1,079
Tivissa compression station	11,830	15,660	19,243
Zamora compression station	9,357	12,625	13,336
Zaragoza compression station	2,893	1,822	1,066
Alcázar de San Juan compression station	7,502	26,544	40,913
Lumbier compression station	-	1,087	1,720
Montesa compression station	-	-	405

• Annual Report 2010

## Our Commitments

year these facilities must undergo a CO<sub>2</sub> emissions check carried out by an accredited verification body.

Emissions rights allocated for 2010 totalled 531,334 t of CO<sub>2</sub> equivalent. The difference between the allocation and real emissions is mainly due to the lower demand for natural gas in Spain during the year, compared to National Energy Plan forecasts. The fall in demand for gas transported by the system led to a reduction in the use of combustion units at facilities.

- Non-verified direct CO<sub>2</sub> emissions. These emissions, which are not covered by regulations on greenhouse gas emissions, are from:
  - Regulation and metering station boilers, calculated on the basis of own consumption at these combustion points and the CO<sub>2</sub> emission factor.
  - Enagás' vehicle fleet, consisting of 365 vehicles.

### Indirect GHG emissions

- Indirect GHG emissions derived from electricity consumption: nearly 90% of Enagás' electricity consumption corresponds to regasification plants.

- Indirect GHG emissions not derived from electricity consumption. - EN17-

- CO<sub>2</sub> emissions derived from the consumption of paper at Enagás' head office.
- Emissions derived from work-related travel by Enagás staff. These emissions were included from the second half of 2010 onward, when a new supplier was appointed and asked to report this information.

### Initiatives to reduce GHG emissions - EN18, EN26 -

- Initiatives for energy efficiency and saving (see section on Energy efficiency in Enagás).
- Continuous venting of natural gas into the atmosphere has been discontinued at the Algete, Almodóvar, Haro, Coreses, Almendralejo, Paterna and position K.01 compressor stations.
- In 2010 electric starter motors were installed at the Serrablo underground storage facility, in the J-2 and Booster turbocompressors.
- In 2009 a study was carried out of the company's 114 four-wheel drive vehicles, with a view to analysing the alternatives available on the market to reduce current consumption levels and the resulting CO<sub>2</sub> emissions. As a result a plan was drawn up for the vehicles in the fleet to be progressively replaced by models with lower fuel consumption.
- Various initiatives have been introduced to contribute to reducing paper consumption (see chapter on Consumption management: auxiliary supplies, water and paper).
- Enagás constantly strives to minimise emissions produced by staff travel, reducing the number of journeys by air by the use of technologies such as video-conferencing and replacing air travel by rail journeys where possible.



- To illustrate this commitment to combating climate change, in 2010, for the second year running, the company participated in the Carbon Disclosure Project, which compiles best practices employed by benchmark companies in the field of climate change and other Ibx 35 companies. In 2010 Enagás obtained the following results:
  - 70 out of 100 in the section evaluating disclosure.
  - Level B, the second highest, for performance.

#### 4.4.3.2. Emissions of other gases: ozone-depleting and other polluting gases - EN19, EN20, EN26 -

Natural gas combustion at points of atmospheric emissions produces pollutant gases, such as carbon monoxide (CO), nitrogen oxide (NOx) and sulphur oxide (SOx).

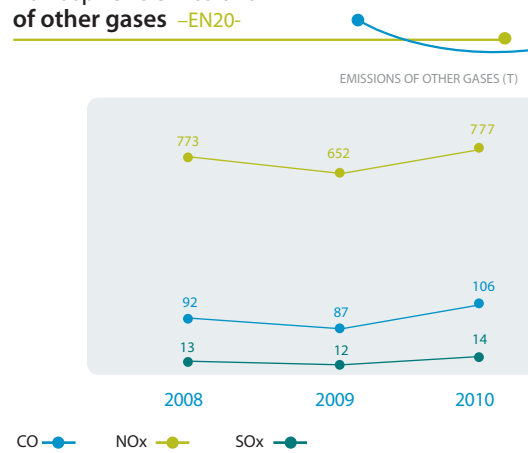
Each year Enagás carries out its Environmental Monitoring Programme with a view to controlling the emission of polluting gases produced by combustion. This involves carrying out regulatory and voluntary (self) checks on all combustion points. - EN20

As a result of the study carried out in 2010 on improvements to the system for reporting environmental indicators, the calculation of NOx, CO and SOx emissions was optimised, using methods of calculation which better match Enagás' activities. The principal change refers to consumption rather than the use of figures for individual measurements and simplified molecular weight, as well as the use of standardised emission factors in line with international norms. In this way, a uniform methodology was established for all pollutants (CO, NOx, SOx, CO<sub>2</sub>).

Data on emissions in previous years were recalculated, as shown in the chart above.

Leaks of gases from air-conditioning equipment using R-22 gas as a coolant involve the emission of insignificant amounts of non-greenhouse gases which can affect the ozone layer. -EN19-

#### Atmospheric emissions of other gases -EN20-



In 2010 Enagás continued to update its air-conditioning equipment in those cases where this had not been completed in 2009, for example in the Serralbo underground storage facility, where 10.5kg of R-22 coolant were eliminated and this gas is no longer used at all on the site. -EN19-

#### Initiatives to reduce impact -EN20, EN26-

- The combustion of natural gas also produces other pollutant gases: carbon monoxide (CO), nitrogen oxides (NOx) and sulphur oxides (SOx).
- 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.
- In 2010, all the measurements programmed in the Surveillance Plan were carried out: regulation inspections by an external body at 335 points in the basic gas pipeline network, 7 inspections at combustion points in plants and 11 at combustion points in the Serrablo underground storage facility.
- At compressor stations, the Serrablo underground storage facility and regasification plants, whose integrated environmental permits call for the measurement of SOx emissions, inspections are carried out at the intervals prescribed in these permits.

• Annual Report 2010

## Our Commitments

- Equipment at the Serrablo facility which still contained R-22 coolant was eliminated and 10.5 kg of the gas was processed as waste.
- Combustion conditions are improved by maintenance work, which cuts CO emissions.

92

### 4.4.4. Energy efficiency in Enagás – EN3, EN4, EN5, EN6, EN7, EN29 –

#### Energy consumption

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

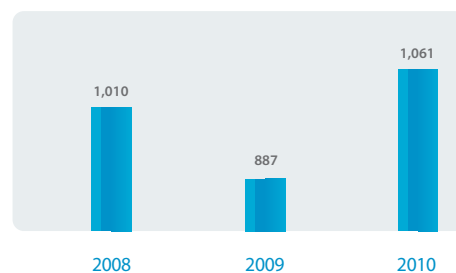
Power consumption in buildings and other facilities in 2010 was slightly higher than in 2009 because of a slight increase in the use of regulation and metering stations in the basic pipeline network – EN4 –

#### Initiatives to reduce power consumption – EN5, EN6, EN7 –

The Strategic Plan for the Environment and Risk Prevention 2010 – 2012 includes various lines of action related to energy efficiency, including the following, which were implemented in 2010:

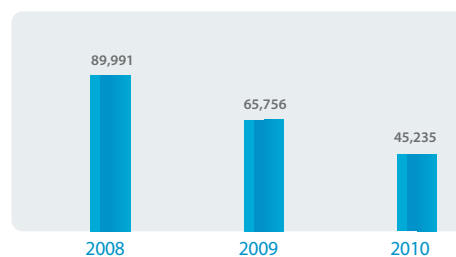
#### Consumption of natural gas –EN3-

CONSUMPTION OF NATURAL GAS (GWh)

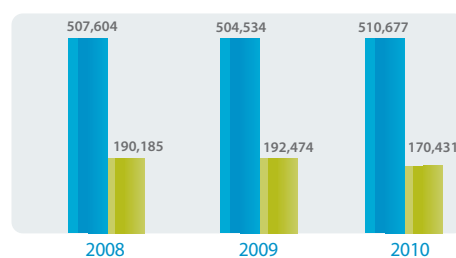


#### Consumption of fuel –EN3, EN29-

CONSUMPTION OF DIESEL IN GENERATING UNITS (LITRES)



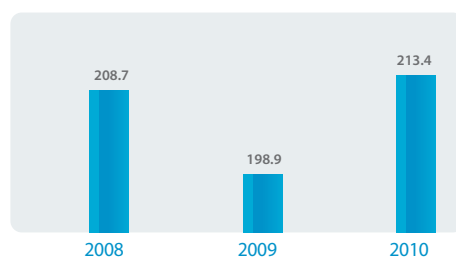
FUEL FOR VEHICLE FLEET (LITRES)



Diesel vehicle fleet (litres) ● Petrol vehicle fleet ●

#### Consumption of electricity –EN4-

CONSUMPTION OF ELECTRICITY (GWh)



The percentage of power consumed which comes from renewable sources is the same as that in the national energy mix.

- The Barcelona regasification plant has progressively introduced the improvements identified in the 2009 energy audits, including the installation of solar control panels in office buildings and the maintenance workshop, which has led to a reduction of over 40% in consumption by existing heating and air-conditioning equipment, and the replacement of conventional lighting by LED fluorescent lighting in various parts of the plant.
- A pilot test of the power generation system at the Huelva regasification plant has been carried out. This is expected to generate over 80% of the electric power consumed.
- Improvements have been introduced in the pressurisation system of the water network at the Cartagena plant and a new chlorination system has been deployed at the Barcelona plant.
- Improvements continue to be implemented in the performance of the Cartagena plant's wastewater treatment system, which is expected to be completed in 2011.

Measures undertaken in 2010 as part of the Green Datacenter Strategic Plan (2010-2012) include the introduction of a scorecard to measure CPD energy efficiency, in order to reduce CO<sub>2</sub> emissions and reduce environmental impact, the identification of measures to improve energy efficiency in the short term (reduction in the number of servers through consolidated technologies for virtualisation, optimising hardware architecture, etc.) and the definition of a medium- to long-term strategy for the construction of a new Green Data Center, using more efficient and environmentally friendly technologies, promoting the use of natural gas and energy efficiency with tri-generation systems.

## 4.4.5. Material environmental concerns

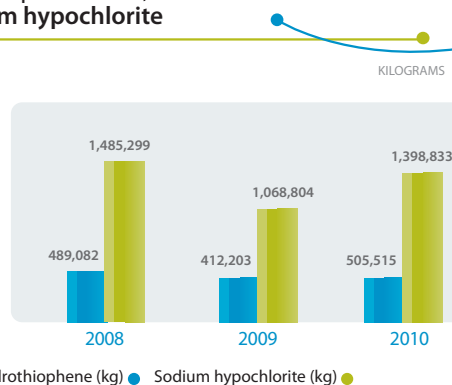
### 4.4.5.1. Consumption: auxiliary materials, water and paper – EN1, EN2, EN8, EN9, EN26 –

#### Consumption of auxiliary materials (business area: Natural gas transportation) –EN1-

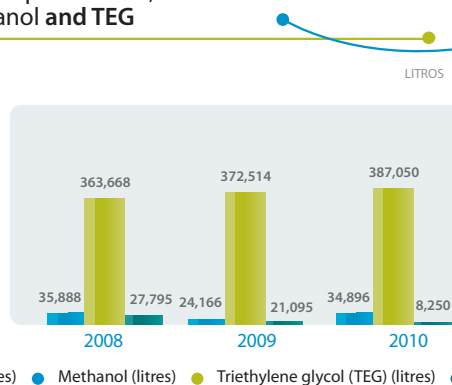
Since Enagás' activities do not involve productive processes per se, no raw materials are deemed to be consumed. In 2010 Enagás consumed the following auxiliary materials:

Methanol is used at the Serrablo underground storage facility to prevent hydrates forming during transportation of the gas from the wells to the plant. Enagás has a methanol regeneration unit which regenerated 42,369 litres of methanol for subsequent use in 2010, 10.9% of the total used in the facility. – EN2 -

#### Consumption of THT, Sodium hypochlorite



#### Consumption of oils, methanol and TEG





• Annual Report 2010

## Our Commitments

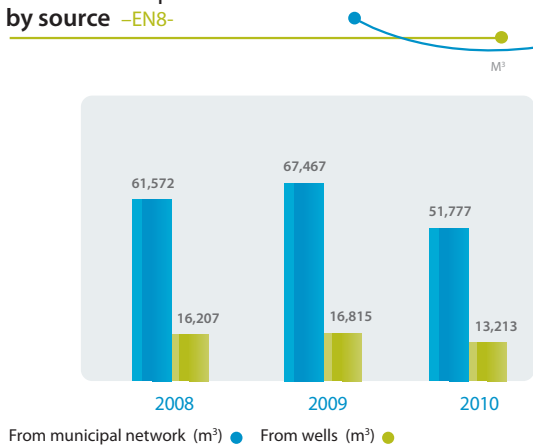
\*Note: The Serrablo underground storage facility estimates methanol density at 0.80 g/cm<sup>3</sup> for the level of purity at which they operate. For 99% pure methanol the figure would be 0.79 g/cm<sup>3</sup>.

### Water consumption by source –EN8-

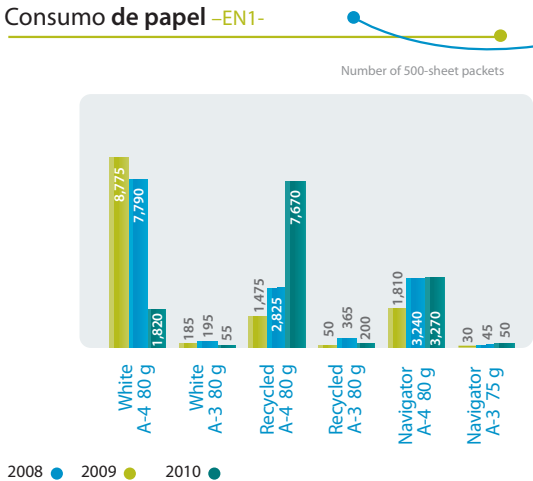
The water used by Enagás is drawn exclusively from the municipal network and wells. None of the latter are in protected areas. -EN8, EN9-

In 2010, water drawn from wells at the Bañeras compressor station totalled 2,089 litres, 4.45% in excess of the annual limit authorised. –EN9-

#### Water consumption by source –EN8-



#### Consumo de papel –EN1-



### Consumption of paper –EN1-

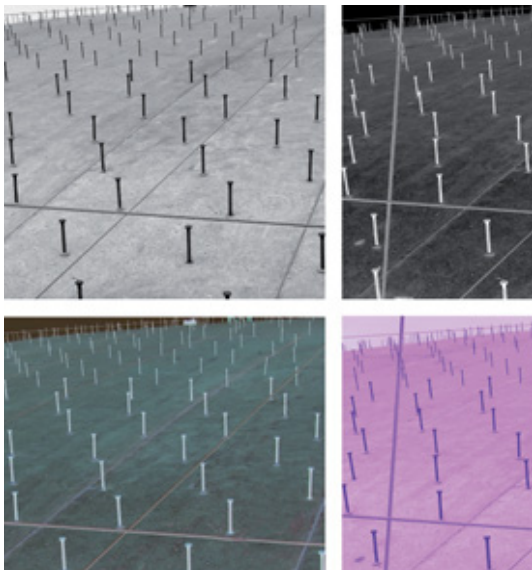
In 2010 consumption of paper in Enagás' headquarters was 9.6% lower than in the previous year. As can be seen in the chart, there has been a considerable increase in the use of recycled paper in preference to non-recycled white paper, reflecting Enagás' policy of promoting the use of recycled paper.

### Initiatives to reduce impact –EN8, EN26-

In 2010, the methanol regeneration unit was in operation for approximately 2.5 months and performed less efficiently than expected (approximately 20% of maximum efficiency). To improve its effectiveness a prior treatment unit has been installed to eliminate the iron oxides forming in the distillation tower and preventing proper functioning. The unit uses hydrogen peroxide to oxidise the water and eliminates the iron oxides by flocculation/sedimentation, so that they will not reach the distillation unit. It is expected that in coming years the percentage of methanol recovered will increase, reducing the amount of waste generated.

In 2010 Enagás continued to pursue its aim of reducing water consumption in transportation centres by 10% compared with average levels for 2003-2007. Consumption totalled 26.1% less than the average for this period (in 2009 the figure recorded was 23.5% less).

Various measures have been introduced to reduce paper consumption in our headquarters. Christmas greetings and annual reports are now sent in electronic format and recycled paper is used whenever possible for all multifunction equipment in the building.



#### 4.4.5.2. Noise – EN26, EN29 –

The main sources of noise at Enagás are the regulators at regulating stations, and compressors, pumps and other equipment at compressor stations, plants and underground storage facilities.

In 2010 a noise reduction project was introduced at Enagás' three regasification plants. This is a continuation of the project developed in 2009 for nine compressor stations. Noise was mapped both at the perimeters of the facilities and inside them, taking different operating conditions into account (maximum, minimum and normal levels). These maps have enabled the company to identify critical sources of noise and propose methods to attenuate it, using simulations to carry out evaluations.

#### Initiatives to reduce impact –EN26, EN29-

- In line with its programme for reducing noise at regulation and metering stations by fitting silencers on regulation lines and insulating doors and grating, silencers have been fitted at positions B-14.03, B-22 and B20,05.
- Work on noise reduction measures has also been initiated at the Almendralejo and Algete compressor stations.

#### 4.4.5.3. Waste water disposal – EN21, EN25, EN26 –

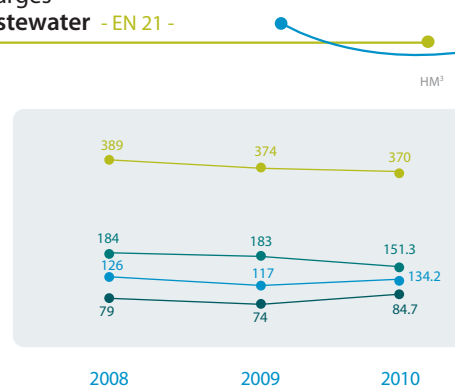
##### Wastewater disposal - EN21 -

Enagás generates two types of waste water:

- Wastewater from sanitary use at regasification plants, underground storage facilities, transportation centres and compressor stations, which is discharged into municipal sewage networks or purification plants at a total of 22 installations and into authorised septic tanks at 17.
- 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 the water taken in.

Enagás does not discharge any wastewater into water courses located in protected nature reserves or considered to be of particular ecological value. – EN25-

##### Discharges of wastewater - EN 21 -



Seawater used in evaporators at regasification plants —●—  
 Barcelona plant —●— Huelva plant —●— Cartagena plant —●—

## Our Commitments

### Initiatives to reduce impact –EN21, EN26–

Under the monitoring programmes established for 2010, 15 analyses of discharges into septic tanks 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 and integrated environmental permits.

In 2010 two septic tanks with trench filters at the Castellón and Haro transportation centres were replaced by sealed tanks which could be emptied at intervals into the public sewage system, and the waste treated in municipal wastewater treatment plants.

### 4.4.5.4. Spills and waste management – EN22, EN23, EN26 –

#### Spills and soil pollution – EN23 –

Enagás applies a series of preventive and corrective measures to deal with the chemical spills that can occur in the exercise of its activities:

In spite of these measures, small spillages do occasionally occur, for example, when replacing oil in equipment, replacing containers or when filling tanks (overflows). As the amounts concerned are very small, they are not reflected in the financial report.

#### Initiatives to reduce the impact of spills and soil pollution –EN26–

The main measures taken to minimise the number and volume of spills are as follows:

- Placing containment troughs and trays beneath storage facilities or equipment containing pollutant substances
- Regular inspection of underground tanks for leakage
- Installation of dual-wall underground tanks to improve oil and condensate collection.
- Elimination or replacement of underground chemical storage tanks by surface mounted structures to prevent soil damage and pollution in the event of any malfunction

#### Measures to prevent spillages and soil pollution

- Placing containment troughs and trays beneath storage facilities or equipment containing pollutant substances
- Regular inspection of underground tanks for leakage
- Installation of dual-wall underground tanks to improve oil and condensate collection.

#### Corrective measures for spillages and soil pollution

- Assess damage caused by the spill
- Remove all the waste generated, label the waste and dispose of it in the area for hazardous waste
- Decontaminate the ground, removing the layer of soil affected, placing it in suitable containers to be transported to a landfill site.
- Restore the site
- Inform the waste manager so that waste materials can be taken away and disposed of
- Draw up a report describing the incident, indicating its scope (extent, damage, area affected, etc.) and causes, and describing the corrective measures taken
- Submit documentation concerning the incident to the centre so that it can be placed on record

### Principal accidental spills - EN23 -

	Spilled substance	Number	Amount (litres)
Transportation department (Logroño TP, Zamora TP/CS, Burgos TP)	THT	3	36
Barcelona plant	Oil	1	25
Cartagena regasification plant	Oil	2	136
Serrablo underground storage facility	Oil	3	1,750 kg contaminated soil

97

### 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. Based on the information provided by these managers the treatment of waste may be classified as shown in the following table.

Nearly all 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.

The volume of hazardous waste increased because of the amount of water containing methanol, the main waste substance handled, which increased by 20% compared with 2008 figures. The amount is determined by the volume of gas extracted and the location of the well from which it is taken. The amount of gas extracted rose from 4,486 GWh in 2009 to 6,105 GWh in 2010.

### Waste handled - EN22 -



### Non-hazardous waste handled (t) - EN22

	2008	2009	2010	Treatment 2010
Inert waste	256.3	157.1	106.4	Disposal
Paper and cardboard	72.7	65.6	71	Recycling
Scrap metal	124.9	62.1	55.1	Recycling
Wood	28.9	24.3	35.4	Recovery/Disposal
Plastics	11.3	8.9	9.2	Recycling

• Annual Report 2010

## Our Commitments

### Non-hazardous waste handled (t) – EN22

	2008	2009	2010	Treatment 2010
Water with methanol	1,668.10	819.60	2,042.18	Physical-chemical treatment
Oil/water/detergent mix	79.10	45.30	26.02	Physical-chemical treatment
Contaminated gravel	3.80	16.80	17.47	Disposal
Electrical and electronic scrap	15.20	17.90	16.43	Recycling/recovery
Used oil	13.80	19.50	12.84	Regeneración/valorización
Contaminated absorbent material	12.60	9.20	9.32	Recovery/Disposal
Spent batteries	5.70	7.50	7.87	Disposal
Empty metal can waste	9.70	7.60	6.24	Recycling/recovery
Solvent/antifreeze	0.90	0.20	4.03	Recovery
Empty plastic container waste	2.50	3.30	2.61	Recycling/recovery
Oil filters	1.10	1.50	1.81	Disposal
Used light bulbs	1.30	1.10	1.04	Recycling/recovery
Used batteries	0.50	0.60	0.69	Recycling/Disposal
Swarf with lubricant	0.30	0.60	0.59	Recovery/Disposal
Aerosols	2.00	0.40	0.52	Physical-chemical treatment
Hydrocarbon waste	0.06	-	0.41	Physical-chemical treatment
Paint	2.10	0.50	0.31	Recovery/Disposal
R-22 coolant	0.35	0.12	-	Recovery
Triethylene glycol	-	93.10	-	Physical-chemical treatment

98

### Initiatives to reduce impact – EN26 -

- In 2010 the work on minimising waste undertaken in previous years continued, with measures including the use of alternative products, lengthening the working life of equipment, purchasing materials unpackaged, on pallets or in bulk, the internal reuse of used containers or discarded IT equipment. Non-hazardous waste has been reduced by over 40% compared with 2008 figures, largely due to reductions in inert waste and scrap metal in excess of 50%.
- Dissemination of good practices in maintenance and equipment cleaning and other operations involving the transfer of waste (Huelva plant) led to a 99.2% reduction in gravel waste contaminated with hydrocarbons.
- As a result of changes in the conditions and requirements governing suppliers (Barcelona plant) waste products from painting work on machinery and auxiliary equipment have been eliminated.



#### 4.4.6. Managing Biodiversity

In 2010, International Year of Biodiversity, Enagás strengthened its commitment to incorporating considerations of biodiversity in its activities (see Enagás website for details of policy on biodiversity). – EN14 -

- Changes in land usage through appropriate planning and location of facilities, restoration and replanting of areas affected during pipeline construction (the company's only activity with a risk of impact on biodiversity, given the high likelihood of crossing a protected natural area). – EN15 -
- Climate change, mainly by reducing GHG emissions from the design stage that cause changes in the ecosystems where plant and animal species grow (see section on Climate Change).

Enagás takes into account the existence of special protection areas and habitats of interest listed by the IUCN (International Union for Conservation of Nature) and protection of the cultural heritage associated with them. – EN15 -

In the design stage of pipeline projects the route causing least environmental impact is selected. However, there are other technical and administrative considerations which sometimes make it impossible not to enter protected areas. These include the start and end points of the pipeline and the selection of areas without geomorphologic and geotechnical problems. These considerations and the number of projects un-

dertaken determine the extent to which Enagás facilities enter protected areas.

As can be seen in the following table, in 2009 no projects which entered protected areas were undertaken, while in 2010 four projects were initiated, involving a total of 252,439 m<sup>2</sup> of protected natural spaces. – EN11 -

To mitigate the main impacts on biodiversity of pipeline construction (see chart), preventive and corrective measures are adopted in the pipeline design and construction phases and in the early years of operation. These measures, included in the Environmental Monitoring Programme, are needed to reduce the adverse impacts on these areas. – EN14 -



#### Protected area

	Operations	Area affected 2008 (m <sup>2</sup> )	Area affected 2009 (m <sup>2</sup> )	Area affected 2010 (m <sup>2</sup> )	Biodiversity	
					Attributes of area	Protection status
Installations in protected areas (Natura 2000 network)	Gas pipelines	308,376	0	203,423	Overland	Natura 2000 (SCI/SPA)
	Concentrated installations	2,800	0	774		
	<b>TOTAL</b>	<b>311,176</b>	<b>0</b>	<b>204,197</b>		



• Annual Report 2010

## Our Commitments

### Main effects of Enagás pipeline construction on biodiversity - EN12 -

#### Preventive measures (study of routes and alternatives in environmental impact assessment) - EN14 -

- Using corridors belonging to other infrastructures
- Using targeted drilling and locating crossing points with water courses at points with least impact
- Using existing access routes to work sites
- Using narrower work tracks
- Modifying the route to avoid affecting species of trees which are of interest
- Adjusting the work schedule to the nesting and breeding season of certain species and removing specimens to similar habitats nearby

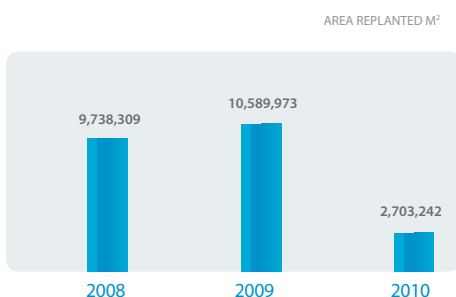
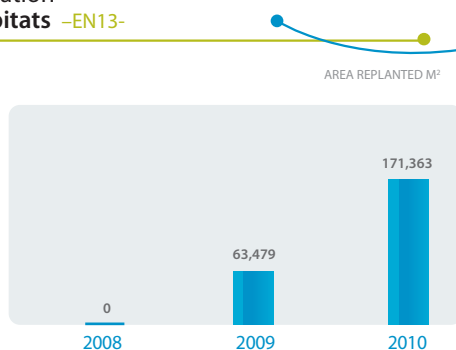
#### Corrective measures after pipeline construction - EN13 -

- Earth surface restored via decompacting and replacement of topsoil
- Restoration of affected water courses
- Replanting of affected land by sowing herbaceous species and planting trees and shrubs
- Restoration of banks and slopes

100

Restoration and replanting work are intended to replace the vegetation eliminated during pipeline construction. To ensure the swift recovery of the environment, native plant species are used, measures are taken to protect seedlings, which are monitored periodically, and lost specimens are replaced.

### Restoration of habitats - EN13 -



The total area restored and replanted depends on the number of projects carried out during the year and the length of the pipeline sections involved. In 2010, five projects were carried out with a total length of 131,937 m, the area restored thus being smaller than that restored in 2009, when eight projects totalling 396,448 m were undertaken. The area replanted increased as a consequence of the number of projects involving the digging of trenches. – EN13 -

Internal environmental audits are also performed of projects in the construction stage, in order to guarantee compliance with the environmental requirements applicable in each case. – EN14 -

### Environmental audits of projects in 2010

- Villar de Arnedo compression station
- Chinchilla compression station
- Barcelona plant extension
- Huelva plant extension
- Cartagena plant extension
- Aspe – Elche alternative route
- Duplication of Castelnou – Tivissa gas pipeline
- Duplication of Tivissa – Paterna gas pipeline
- Algete – Yela gas pipeline
- Position J-04 Yela
- Yela underground storage facility



In 2010 environmental impact declarations were issued for the following projects: – EN11 –

- Castropodame - Villafranca del Bierzo gas pipeline
- Yela - Villar de Arnedo gas pipeline
- Martorell – Figueres gas pipeline

Installations with installed power capacity in excess of 20 Mw (regasification plants, the Serrablo underground storage facility and some of the compressor stations) are subject to the IPPC Directive, which establishes integrated environmental permits as a means for defining the environmental standards that installations must satisfy whilst in operation. No integrated environmental permits were issued in 2010 – EN11 -

A greenhouse gas emissions permit was received for the Villar de Arnedo compressor station. – EN11 -

When work has been completed and the pipeline is in operation, environmental monitoring continues to verify the suitability of the programme and the success of the preventive and corrective measures taken. – EN14 -

To ensure that all Enagás' projects are implemented in accordance with the principles of the company's environmental policy, work has begun to achieve certification of its infrastructure design and construction activities in accordance with the requirements of the UNE-EN-ISO 14001:2004 standard.

Gas pipelines in operation subject to environmental monitoring in 2010

- South-west Madrid semi-circular pipeline Section II
- Splitting of Arbós - Barcelona plant gas pipeline
- Alcázar de San Juan- Villarrobledo gas pipeline
- Villarrobledo - Albacete
- Albacete - Montesa
- Branch to Aceca
- Pajares alternative route
- Falces - Irurzun

Individual activities for conservation of biodiversity – EN12 -

In the course of work on splitting the Campo de Gibraltar pipeline (stages 2 and 3) in the Los Alcornocales Natural Park, with a view to preserving and increasing biodiversity in the area, microhabitats (rainwater and run-off water pools) have been created to favour the establishment and reproduction of various native species of amphibians such as the Los Barrios Fire Salamander, the small marbled newt, the Iberian parsley frog and the Spanish painted frog.

The invasive characteristics of the zebra mussel have led to it being considered by the Ministry for the Environment, local government bodies and hydrographical confederations as a pest which colonises ecosystems, destroying the ecological balance and displacing native species. To prevent the proliferation of the species in the Ebro basin during work on splitting the Castelnou – Tivissa pipeline at points

• Annual Report 2010

## Our Commitments



where it crosses water courses, precautions were intensified in all activity involving contact with bodies of water infected with the zebra mussel, all equipment, machinery and staff involved being thoroughly cleaned and disinfected.

### 4.4.7. Environmental expenditure and investment

- EN30 -

Environmental investments by Enagás in 2010 amounted to €38Mn and are listed, by main applications, in the table below.

#### Environmental expenditure – EN30, EC2 -

	2008	2009	2010
Research and development	967,382	969,236	278,495
Implementation of environmental objectives	1,927,772	1,290,118	332,821
Environmental project studies	249,163	227,383	425,342
Archaeological studies and work	948,163	663,438	219,508
Habitat restoration	11,879,514	13,975,212	3,098,647
On-site environmental monitoring	810,002	1,093,781	899,805
Targeted and horizontal drilling	8,146,734	1,124,127	1,689,114
Other environmental improvements	29,715,618	15,745,186	30,317,981
<b>TOTAL</b>	<b>54,644,348</b>	<b>35,088,481</b>	<b>38,777,075</b>

The breakdown of other environmental improvements in 2010 is as follows:

#### Other environmental improvements – EN30, EC2 -

	EUROS 2010
Technical support for projects	15,400
Protection of marginal areas at exposed crossover points	976,987
Protection of birds on power lines	65,790
Fire prevention	48,430
Compensatory measures	34,507
Noise reduction at regulation and metering stations and compression stations	1,320,000
Emissions analysis	150,320
Prevention of soil contamination	2,150,000
Environmental checks prior to start-up	28,410
Recovery of boil-off	25,528,137
<b>TOTAL</b>	<b>30,317,981</b>

Costs incurred to ensure compliance with the environmental protection and impact mitigation principles adopted by the company came to €1.18Mn.

### Environmental costs – EN30, EC2 –

	2008	2009	2010
Environmental management systems	220,280	152,493	142,292
Analysis of environmental risks	-	-	30,876
Report on Ministry indicators	-	-	26,475
Environmental controls at installations (noise, emissions and effluents)	98,496	210,553	210,784
Waste management	430,510	488,644	722,739
Other environmental improvements	-	-	45,089
<b>TOTAL</b>	<b>749,286</b>	<b>851,689</b>	<b>1,178,255</b>

EUROS



• Annual Report 2010

## Our Commitments

104

“Our goal is to strengthen the relationship of trust and proximity that Enagás enjoys with the communities in which it operates. We are also unflinchingly committed to improving the transparency, accuracy and rigour of all our communications. Our aim is to keep our stakeholders and society at large regularly informed, and also to help the press and media do their job”

Felisa Martín, Head of Communications

### Key indicators 2010

**€1.1Mn**

Investment in social action



**18**  
press releases  
sent to over  
**500**  
journalists

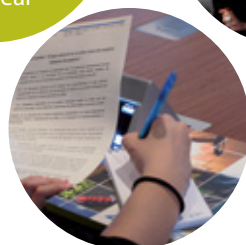
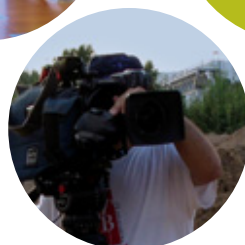
Enagás had  
close to  
**4,000**  
mentions in  
the press



Enagás  
investment in  
social action in  
2010 amounted  
to **0.33%** of  
net profit for  
the year



Nearly **100**  
interviews and  
articles by Enagás  
management



Over **2,000**  
queries and  
requests dealt  
with by  
e-mail



## 4.5. Commitment to society and the media

### Meeting challenges

#### Planned for 2010

- ✓ More detailed analysis of the impact of contributions to the community
- ✓ Reinforcement of information sessions to strengthen relations with the communities in which Enagás is developing infrastructures
- ✓ Design of the annual communication plan, which includes quantifiable objectives, and implementation of the mechanisms to measure progress and/or compliance more reliably
- ✓ Improvement of the corporate website with the inclusion of new graphic content (e.g. info-graphics, maps, interactive graphics) to facilitate interactive participation and reinforce its use as a learning tool

#### Other milestones 2010

- ✓ Establishment of a new line of corporate publications targeting stakeholders
- ✓ Development of a procedure for managing sponsorship, donations, and patronage

✓ Achieved   ✗ Not achieved   ■ In progress

### Challenges 2011

- Increase the number of information meetings and events in communities where the company operates and implements its infrastructure projects
- Strengthen relations with recipients of sponsorship, patronage and donations to allow the company to improve continuously in the area of CSR
- Conduct feasibility study on communication initiatives in the 2.0 environment to afford the company new communication channels
- Achieve a more interactive and dynamic website, without undermining accessibility, with new developments such as content subscription, interactive presentations and new multimedia content
- Develop new publications and audiovisual material to increase stakeholders' knowledge of the company and its activities



## Our Commitments

106

### 4.5. Commitment to society and the media

#### 4.5.1. Our contribution to the community – 4.13, EC8, S01, S05–

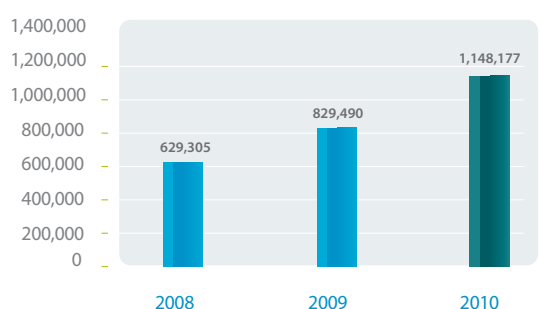
The objective of Enagás' Social Action Model is to reconcile the company's business activities with the needs and expectations of the community and it is committed to gradually increasing its contributions to charitable work. – EC8 –

Since 2007 Enagás has tripled its investment in social actions so that in 2010 it exceeded €1.1Mn, 0.33% of net profit.

Areas receiving special attention were education and training, community development, and art and culture (see table).

As well as financial contributions Enagás has provided other types of assistance for social development in the community, such as educational and IT material supplied to institutions with social aims, while the Chairman and members of senior management have contributed free of charge to various forums and congresses and helped to organise visits to the company's premises. – EC8 –

#### Contributions to charity

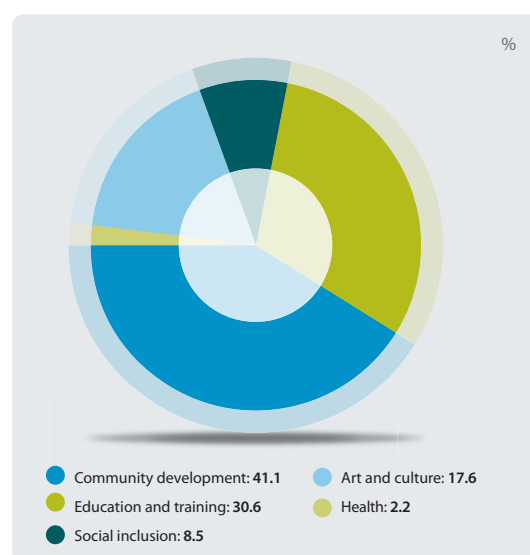


#### Management of sponsorship, patronage and donations – S01 -

To assess the needs of communities and maximise the impact of its investments, Enagás consults public bodies in areas where it has infrastructures or expects to have them in the near future. – EC8 –

In 2010 the company introduced a procedure for managing sponsorship, patronage and donations, covering all stages of assessing and managing contributions, from the submission and evaluation of applications to monitoring and assessing the impact of its support – EC8, S01 –

#### Contributions to charity by area in 2010



## Contribución al desarrollo social

### Education and training

[Spanish Confederation of Managers and Executives \(CEDE\)](#)  
[Spanish Committee for United World Colleges Foundation](#)  
[Spanish Managers' Association \(AED\)](#)  
[European Energy Infrastructure Conference](#)  
[Sedigas](#)  
[Conseil Coopération Economique](#)  
[Spanish Maintenance Association](#)  
[Foro Nueva Economía](#)  
[Harvard Club, Spain](#)  
[Barcelona Graduate School of Economics Foundation](#)  
[Economic information Journalists' Association \(APIE\)](#)  
[Spanish Energy Club 'Amics del País' Economics Society, Barcelona](#)  
[Spanish Committee for United World Colleges Foundation](#)  
[Real Instituto Elcano Foundation for International and Strategic Studies](#)  
[Enerclub and Spanish Committee for the World Energy Council, Spanish Energy Club](#)

### Social inclusion

[Down Syndrome Foundation, Madrid](#)  
[Juan XXIII Foundation](#)  
[Oliva Town Council \(Valencia\)](#)

### Art and culture

[Gran Teatre del Liceu Foundation](#)  
[Embassy of the Sultanate of Oman](#)  
[Reina Sofia Higher School of Music, Isaac Albéniz Foundation](#)  
[Cadaqués Town Council \(Girona\)](#)  
[Teatro Lírico Foundation \(Teatro Real\)](#)  
[Yela \(Guadalajara\) Sociocultural Association](#)

### Community development

[Cartagena Basketball Club](#)  
[CD Brihuega \(Guadalajara\) 7-a-side football team](#)  
[Bermeo-Urdaibai rowing team](#)  
[IDEC Foundation \(Continuing Education Institute Private Foundation\)](#)  
[Brihuega Town Council](#)  
[Catalan Energy Research Institute Foundation \(IREC\)](#)  
[Adenex](#)  
[Spanish Network, United Nations Global Compact](#)  
[Spanish CO<sub>2</sub> Association](#)  
[Barcelona Chamber of Commerce](#)  
[Guadalajara Provincial council](#)  
[Lumbier \(Navarra\) Town Council](#)

### Health

[Josep Carreras International Foundation](#)  
[Pasqual Maragall Foundation for Research into Alzheimer's disease](#)

## Our Commitments

Applications for sponsorship or patronage received via email by the communications department (dir-com@enagas.es) or other channels are evaluated according to the following criteria: -SO1-:

- Institutional: priority is given to collaborations, contributions, aid and implementations requested by public administrations.
- Location: Enagás participates in programmes and initiatives developed in regions where it has or expects to have a direct, ongoing impact, through existing plants or facilities planned for the future.
- Social: activities that contribute to the wellbeing of people, especially the most disadvantaged.
- Excellence in technological and scientific R&D: initiatives from the area of technological and scientific research, especially those affecting the energy industry.
- Industry: activities undertaken by energy or energy-related companies.

These criteria, which are embodied in the Enagás Social Action Model, are in line with the company's principles of responsibility, integrity and transparency. According to the procedure in place, all donations must be authorised correctly and be reflected in the company's records.

After agreements for cooperation have been signed they are monitored at regular intervals to ensure compliance with the conditions and objectives stipulated and the Sustainability Committee is informed accordingly.

In 2010, Enagás organised an e-mail survey of levels of satisfaction among the beneficiaries of its social programme, to assess the impact of its contributions to society, the results of which reflected a favourable opinion of the company's initiatives.

Public opinion regarding infrastructure projects in communities where Enagás makes a social contribution is generally positive. Brihuega (Guadalajara), where Enagás is constructing the Yela underground

storage facility, is a good example. The results achieved in this area have led to new lines of cooperation from which the whole community has benefited.

-SO1-

### Our contribution to economic and technological development - S05, EC9, 4.13 -

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

Involvement in industry associations and forums in 2010:

- European Association for the Streamlining of Energy Exchange of Gas
- European Gas Incident Data Group
- Enerclub
- ENTSOG (European Network of Transmission System Operators for Gas)
- ERGEG (European Regulators' Group for Electricity and Gas)
- Gas Regulation Forum
- GERG (European Gas Research Group)
- GIE (Gas Infrastructure Europe)
- GIIGNL (Groupe International des Importateurs de Gaz Naturel Liquéfié)
- IGU (International Gas Union)
- PSG (Pipeline Safety Group)
- MAR COGAZ (European Natural Gas Industry Technical Association)

- SEDIGAS (Spanish Gas Association)
- UNECE (United Nations Economic Commission for Europe)
- Florence School of Regulation

### 4.5.2. Our commitment to transparency of information in the media

Enagás' communication policy is based on transparency of information, accuracy and rigour, as well as trust in its dealings with the media. This enables the company to publicise its activities, development and management practices and keep all its stakeholders informed.

In 2010 around 4,000 press releases were issued mentioning Enagás. To this we must add mentions on radio, television and on-line publications, the latter recording around 27,000 items referring to Enagás.

Contact with the media has been stepped up in 2010 via 18 press releases sent to approximately 500 journalists, 3 press conferences and around 100 articles, interviews and other items in different media channels.

Improvements have also been made to the content of the website (317,100 visits in 2010), the Chairman and senior managers have participated more extensively in open forums, and informal communication channels with the media have been developed, including visits, informal encounters and meetings. Approximately 2,000 queries have also been dealt with via e-mail and around 3,000 by phone.

Enagás also has other less formal channels of communication, such as visits, informal encounters and meetings.

#### Channels of communication available to the media

	Description	2010 indicators
E-mail	<ul style="list-style-type: none"> <li>• <a href="mailto:dircom@enagas.es">dircom@enagas.es</a>: e-mail address of Enagás' Communication Department</li> </ul>	<ul style="list-style-type: none"> <li>• 2,000 e-mails handled</li> </ul>
Telephone	<ul style="list-style-type: none"> <li>• +34 917 099 340: Permanent, daily information service for media</li> </ul>	<ul style="list-style-type: none"> <li>• 3,000 calls handled</li> </ul>
Corporate website	<ul style="list-style-type: none"> <li>• Communication section with new graphic content</li> </ul>	<ul style="list-style-type: none"> <li>• 317,100 visits to website</li> </ul>

• Annual Report 2010

## Our Commitments

110

“Enagás has an active policy of reporting transparency in relation to the financial markets. To fulfil this commitment, all the communication channels (roadshows, meetings, webcasts, e-mail, free phone, fax and website portal) through which relationships between the company and investors and financial analysts are established are being enhanced”

Antonio Velázquez-Gaztelu, Head of Investor Relations

### Key indicators 2010

**€644.6 Mn**

Assets brought into operation

**324**

Meetings with analysts and investors



**60%**

Pay out

**-3.3%**

Change in share price (vs. Ibex 35 -17,4%)

Coverage by

**31**

financial analysts

**11.9%**

Increase in net profit and dividend vs. 2009

**€796.3 Mn**

Investment



**6**

Webcasts by the Chairman (quarterly results, strategic update for 2010-2014 and the GSM 2010)

**11.3%**

Increase in EBITDA

## 4.6. Commitment to shareholders

### Meeting challenges Planned for 2010

- ✓ Strategic review with new long-term objectives
- ✓ Financial targets for investors and analysts in 2010:
  - I. Investment: minimum €700Mn
  - II. Assets put into operation: €500Mn
  - III. Increase in regulated revenues, EBITDA, net profit and dividend around double digit level
- ✓ Maintain AA-/A2 credit ratings
- ✓ Webcast of the General Shareholders' Meeting via the corporate website
- ✓ Top management roadshows in main financial centres, explaining new strategic plan, new company objectives and challenges for the future

✓ Achieved   ✗ Not achieved   ■ In progress



111

### Challenges 2011

- Introduction of electronic voting at General Shareholders' Meeting and in shareholders' forum
- Maintaining credit ratings
- Financial targets for investors and analysts in 2011:
  - I. Investment: minimum €650Mn
  - II. Assets put into operation: €650Mn
  - III. EBITDA growth around double digit level
  - IV. Increase in net profit of at least 5%



## 4.6. Commitment to shareholders

### 4.6.1. Enagás' shares in 2010 -2.9-

#### Stock market performance in 2010

In 2010 the world's main equity markets continued the positive trends seen in 2009 with a degree of upward movement. This was the result of economic growth in a number of countries, especially the emerging economies but also developed nations such as Germany and the United States, and of lax monetary policy adopted by the world's main central banks, which kept interest rates at all-time lows.

Nevertheless, the Spanish stock market, like that of other European countries, has not shared in this growth. The Ibex 35 listing was affected by the international community's perception of Spain as a high-risk investment.

The sovereign debt crisis, leading to the highest ever differences in returns between Spanish and German bonds, and lower levels of economic growth than the rest of Europe meant that the Ibex 35 index finished the year 17.4% down, at 9,859 points.

Amid widespread pessimism over Spanish equities in 2010, investors opted for defensive stocks such as Enagás. The share shed just 3.3% in the year, making it the ninth best performer in the Ibex 35 index and the second among energy stocks.

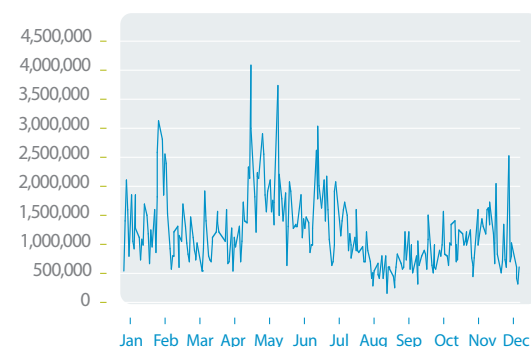
Enagás ended the year trading at €14.915 per share, equivalent to a market cap of €3.56Bn, setting a high for the year of €16.73 per share on 6 April and a low of €12.08 on 1 July.

During the year a total of 464.2 million shares were traded, 5.6% more than in 2009, while Enagás ranked 18th in stock liquidity, with a cash volume of €6.73Bn.

#### Share price performance 2010

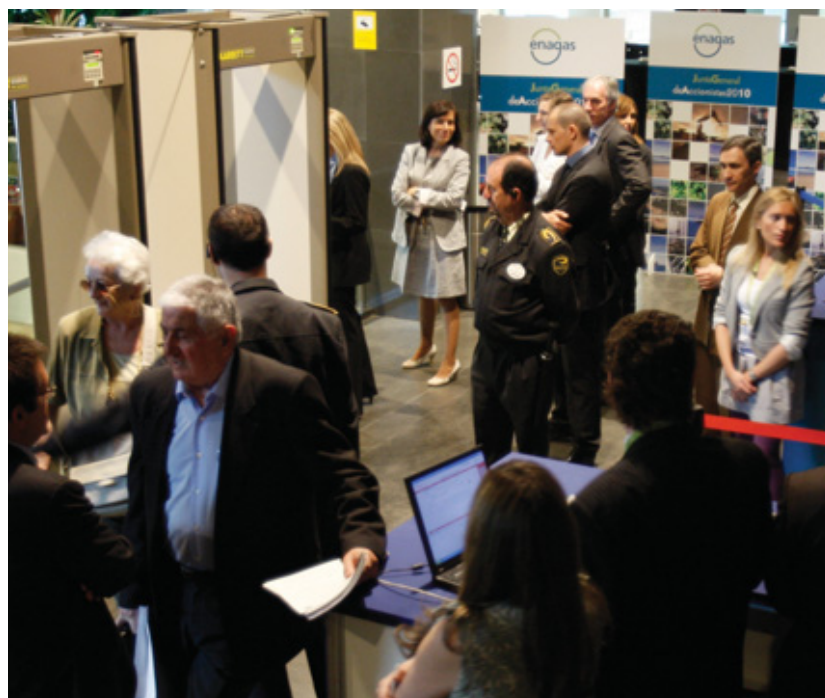
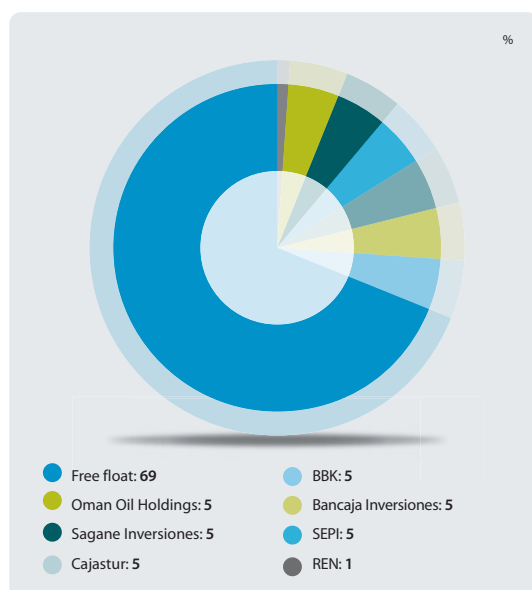


#### Trading volume 2010



## Share capital and shareholder structure

at a 31/December/2010 - EC4, 2.9 -



## Stock market and financial variables per share

	2002	2003	2004	2005	2006	2007	2008	2009	2010
Number of shares (millions)	238.7	238.7	238.7	238.7	238.7	238.7	238.7	238.7	238.7
Capitalisation (€Mn)	1,384.5	2,053.1	2,912.6	3,771.5	4,206.5	4,771.6	3,714.2	3,682.5	3,560.7
Price at 31 December (€)	5.80	8.60	12.20	15.80	17.62	19.99	15.56	15.425	14.915
High (€)	6.49	8.68	12.20	16.00	21.14	21.67	21.25	15.90	16.73
Low (€)	5.11	5.79	8.19	11.46	15.16	15.86	10.32	10.43	12.08
Average (€)	5.73	7.13	9.44	13.66	17.42	18.27	17.28	13.53	14.76
Days quoted	128	250	250	256	254	253	255	254	257
Share volume (millions)	304.5	223.3	255.7	425.8	443.6	771.2	548.8	439.7	464.2
Turnover (€Mn)	1,903.5	1,574.5	2,416.2	5,710.8	7,742.4	13,950.3	9,719.4	5,976.8	6,730.0
Net earnings per share (EPS) (€)	0.46	0.59	0.66	0.80	0.91	1.00	1.08	1.25	1.40
Dividend per share (DPS) (€)	0.23	0.30	0.33	0.40	0.47	0.60	0.65	0.75	0.84*
P/E (Price/earnings ratio)	12.61	14.58	18.42	19.75	19.36	20.03	14.36	12.35	10.68

• Annual Report 2010

## Our Commitments

### Dividends

	2002	2003	2004	2005	2006	2007	2008	2009	2010
Total amount (€Mn)	55.04	71.01	79.06	95.48	112.64	142.97	155.18	178.86	200.09
Interim	21.49	28.65	31.04	38.20	45.36	57.30	62.07	67.56	74.49
Final dividend	33.55	42.36	48.03	57.28	67.28	85.68	93.11	111.30	125.60
Gross dividend per share (€)	0.23	0.30	0.33	0.40	0.47	0.60	0.65	0.75	0.84
Interim	0.09	0.12	0.13	0.16	0.19	0.24	0.26	0.28	0.31
Final dividend	0.14	0.18	0.20	0.24	0.28	0.36	0.39	0.47	0.53
% of nominal	15.30	20.00	22.10	26.60	31.33	39.92	43.33	50.00	55.87
Dividend yield (%)	4.00	3.50	2.70	2.53	2.67	3.00	4.18	4.86	5.62
Pay-out (%)	50	50	50	50	52	60	60	60	60

114

#### 4.6.2. Continuing an active, transparent dialogue

Transmitting accurate, complete information that gives a true view of the company, its business activities and strategies to shareholders, equity and fixed-income investors, research analysts, rating agencies and the market in general is a core principle of Enagás.

To illustrate, the company stepped up dialogue in 2010, especially following the release of its updated 2010-2014 Strategic Plan, in a bid to provide an appropriate response to the concerns and requests for information of its stakeholders. After the presentation by the Chairman of Enagás in July via webcast and conference call, followed by more than 100 people, the management team visited the world's main financial exchanges to convey the long-term targets of the company's Strategic Plan.

In 2010 meetings were held with 324 institutional investors and analysts, 23% more than in 2009. In 2010 Enagás also organised four webcasts via its corporate website ([www.enagas.es](http://www.enagas.es)) to present quarterly results, which were followed by an average of 103 people.

Regular meetings and conference calls have also been conducted with Standard&Poor's and Moody's to explain the company's new strategic objectives. In a difficult year like 2010 this activity has been essential for the main ratings agencies to confirm Enagás' credit ratings and stable outlook. Standard&Poor's rating remained at AA and Moody's at A2, providing a guarantee of solvency and financial strength in a difficult economic environment.

Communication with analysts has been fundamental to maintaining analytical coverage by 31 brokers. Like the rest of the market, they are given detailed, up-to-date information on Enagás' activity. 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](http://www.enagas.es)). At the end of 2010 the analyst consensus resulted in 21 buy, 9 hold and 1 sell recommendations, with an average target price of €17.66 per share.

To coordinate this work with institutional investors, fixed income investors, analysts and rating agencies, Enagás can call on the services of senior management and its Investor Relations Department, which channels all the enquiries and requests of this important stakeholder group.



The channels of communication most frequently used by the Investor Relations Department in 2010 were presentations at meetings, forums and conferences, themed seminars, roadshows in the main financial marketplaces, and meetings with individuals and groups at the company's offices.

In 2010, the Investor Relations Department made a special effort to improve communication with minority shareholders. For the first time the General Shareholders Meeting was shown on a live webcast via the corporate website [www.enagas.es](http://www.enagas.es) (in Spanish and English), facilitating communication between the Board of Directors and all shareholders with access to the Internet.

To promote active, flexible and permanent communication Enagás will make two specially created tools or channels for dialogue available to shareholders: electronic voting and the shareholder forum.

In addition, the Shareholder Information Office has responded to the information needs of shareholders, especially regarding the General Meeting and the distribution of dividends for the year. Enagás provides ongoing service to shareholders via four information channels: a dedicated e-mail address, the free shareholder phone support line, a fax number and the corporate website.

• Annual Report 2010

## Our **Commitments**

116

“As a company that works almost exclusively in regulated areas of activity, Enagás works closely with the regulatory bodies. Accordingly, many of our initiatives focus on providing support to these bodies and identifying those needs and expectations that will help improve the regulatory framework and the efficiency and quality of the services we provide.”

Juan Pons, General Manager of Strategy and Regulation



## 4.7. Commitment to public sector authorities

### Meeting challenges

#### Planned for 2010

- ✓ Completion of second stage of Open Season to develop a new link between Spain and France (MID-CAT)
- ✓ Publication of European Pilot Framework Guideline on Capacity Allocation as part of Third Package
- ✓ Review of unit costs for underground storage facility operations

#### Other milestones 2010

- ✓ Presentation, as the TSO, to the Ministry for Industry, Trade and Tourism (MITyC), of the first draft of gas infrastructure projects covered by the Compulsory Planning 2012-2020 report as scheduled in the document

117

✓ Achieved   ✗ Not achieved   ■ In progress

### Challenges 2011

- Start of the Secondary Capacity Market (contingent on release of related Royal Decree)
- Introduction of an automatic bid and offer system for interruptible supply (contingent on release of related Royal Decree)
- Ensure ENTSOG approval of the European Ten Year Network Development Plan.
- Adopt and execute regional cooperation between transmission companies as envisaged in Regulation 715/2009 for the harmonisation of the regulatory framework in the south region- Spain, France and Portugal
- Publish the Framework Guidelines for Europe within the scope of the Third Package
- Complete the 2012-2020 Mandatory Planning process



## 4.7. Commitment to public sector authorities

### 4.7.1. Dialogue with regulatory bodies and public sector authorities -4.13, S05 -

As a company that works almost exclusively in regulated areas of activity, Enagás maintains ongoing relations with the public administrations and national and European regulators. Enagás is also a member and/or participates actively in a number of associations with gas sector agents, providing its know-how to encourage competition and market transparency. - S05 -

#### The most significant activities in this area in 2010 are listed below.

##### a) Ministry for Industry, Tourism and Trade

Enagás submits information to the Ministry for Industry, Tourism and Trade so that new facilities may be authorised, recognised and included in the regime for remuneration. Financial information broken down by activity is also submitted regularly, as is the information needed to formulate the model for tariffs and remuneration, the record of facilities, and details of gas movement and stocks.

Enagás contributes to the development of new regulations to meet the needs and requirements of the different agents in the gas sector. Enagás played an active part in the formulation of Ministerial Order ITC/3354/2010 of 28 December, which establishes remuneration for regulated activity in the sector and the tolls and fees for third-party access to gas facilities in 2011, and is working with the Ministry on the transposition to Spanish regulations of the provisions of the third energy package established by Directive 2009/73/EC regarding common standards for the internal gas market.

As specified in Order ITC/34/2010, which establishes the procedure for making proposals regarding the development of electricity and natural gas transportation networks, among others, Enagás, as Technical System Operator, submitted the first proposal for 2012-2020 gas sector planning, complying with official time limits. Throughout the process the company has cooperated closely with the Department of Energy Planning and Monitoring.

Enagás has also played an active part in drawing up the European Regulations on Security of Supply (EU no. 994/2010) in Parliament and has provided technical support for the Directorate General of Energy Policy and Mines regarding compliance with the regulations and, particularly, for the Emergency Response Review of Spain directed by the International Energy Agency on 25/ 26 October in Madrid.

Finally, as part of its involvement in international forums, in particular with regard to European regulatory developments, Enagás works regularly with the Ministry to facilitate coordinated action in their respective areas of responsibility.

### b) Comisión Nacional de la Energía

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

The CNE also participates in the working groups reviewing Technical System Management and attends meetings of the Gas System Monitoring Committees.

As well as sending regular reports on investment in infrastructures, the operation of the gas system, and financial information on its activities, the company works actively with the CNE in the process of recognising facilities and including them in the remuneration scheme, an area where the Commission is playing an increasingly active role.

With regard to the settlement of remuneration payable for regulated natural gas sector activities, which is an area within the CNE's remit, Enagás helps finalise the forms used to collect information and regularly submits the information needed to prepare them. In its session on 27 July 2010 the CNE Board of Directors approved settlement of regulated activity for 2008. As in previous years, the data provided by Enagás for the final calculation of remuneration for regulated activities in 2009 passed the inspection process.

Enagás also takes part in the various public consultation processes launched by the CNE that affect its activities. With a view to extending and enhancing its contributions to regulatory developments at European level, Enagás maintains regular contact with various departments of the regulatory body to facilitate the exchange of information and coordinated action in their respective areas of responsibility.

Like other agents in the energy sector, Enagás consults the CNE on the practical application of the regulatory framework to issues that may be open to different interpretations.

### c) Gas System Monitoring Committee

As Technical System Operator, Enagás leads and coordinates the Committee. It also coordinates the Committee's working group which meets monthly to update, revise and modify regulations and protocols for technical management for the gas system. In 2010 this working group carried out the following activities:

#### 7 Sub-groups

**METERING** - in response to the Ministerial Order on meters and converters, with the assistance of the Spanish Metrology Centre.

**MODIFICATION OF PD-01 ON MEASUREMENT** – proposed review of protocol, updating 19 aspects

**GUIDE TO GOOD PRACTICE IN LNG PLANTS** – presentation by owners of regasification plants of final version of "Guide to Good Practice in Plants". This document is intended to increase the transparency of commercial management for users and management of ship-plant operations. The LNG plants and GTS will publish this document on their websites.

**SECONDARY CAPACITY MARKET** – comments submitted to Department for Hydrocarbons.

**RECOGNITION OF GAS SALES AND PURCHASES IN BALANCE SHEETS** – proposal for improvements in procedure for recognising gas sales and purchases in balance sheets, in cases where the seller does not have sufficient stocks.

- Proposal for modification to NGTS standards regarding costs related to LNG imbalances.
- Proposal for new section in NGTS regarding measures applicable to users in the event of imbalances due to faults in regasification plants (includes two alternatives).
- Proposal for modification to PD-07 to allow programming of an exchange associated with offloading.

## Our Commitments



**SCHEDULING AND DISTRIBUTION IN NETWORKS** – study of points to be reviewed in certain regulations and protocols concerning scheduling for demand and distribution in distribution networks (in progress).

**TECHNICAL INFORMATION NEEDED FOR SYSTEM OPERATION** – information about remote control signals needed for system operation (in progress).

### 4 proposals for modifications submitted to the Ministry for Industry, Tourism and Trade for approval

- Proposal for modifying PD-05 to establish exact requirements for safe measurement of natural gas consumption in methane tankers when docked at Spanish terminals from 1 January 2010, to conform to Article 4b of Directive 2005/33/EC of 6 July 2003, which modifies Directive 1999/32/EC.
- Proposal for modification to NGTS 9 (normal system operation), Section 9.6.4a, dealing with negative stocks at regasification plant, and inclusion of new Section 9.8 “Measures applicable to users in the event of an imbalance due to a fault in the regasification plant”.
- Proposal for modification to point 5 of Section 7.1.1 of Detailed Protocol PD-07 on exchange of LNG from tanks

- Proposal for modification to Detailed Protocol PD-01 Measurement, the name of which will be changed to PD-01 Measurement, Quality and Odourising of Gas.

### 1 proposal approved by the Ministry for Industry, Tourism and Trade

Proposal for modification to NGTS 3.6.1 Viability of scheduling of offloading from ships, approved together with the Winter Plan under Resolution 11 of November 2010, by the Directorate-General for Energy Policy and Mines (BOE number 277 of 16 November 2010).

#### d) Sedigas

Enagás holds the Presidency of the Sedigas Transporters Committee, which coordinates work of interest to the transportation sector, such as the production of a manual for LNG plants and regulations on transportation, activity related to various draft laws, including those on critical infrastructures, ports and environmental responsibility.

#### e) European Parliament

Given the importance of directives, regulations and other EU resolutions for 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 levels of the parliamentary structure.

#### f) European Commission

Enagás maintains contact and regularly works with various members of the European Commission, in particular those attached to the Directorate General for Energy (DG ENER). 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 being GIE and ENTSOG.

Enagás cooperated closely with the DGENER in 2010, submitting responses to the implementation of regulations and taking part in bilateral meetings dealing with the following four issues:

- Regulation Number 994/2010 of the European Parliament and Council of 20 October 2010 on measures to ensure the security of gas supplies, which rescinds Directive 2004/67/EC of the Council
- Modification of guidelines on transparency contained in part 3 of Appendix I of Regulation 715/2009
- Communication regarding the Infrastructure Package
- Proposal for comitology dealing with procedures for managing congestion

#### g) European Gas Regulation Forum

Enagás made a major contribution to the activities of the Forum through its involvement in ENT-SOG working groups and the groups based on the three pillars defined by the GIE, namely, pipeline transport, LNG regasification terminals and underground storage. GIE and ENT-SOG are recognised to be the most active contributors to the Forum.

#### h) ENT-SOG

ENT-SOG is the European Network of Transmission System Operators, set up in response to one of the requirements of Regulation 715/2009, on conditions of access to natural gas transmission networks. All EU natural gas transportation network operators are required to join this organisation, including Enagás.

The above regulation assigns ENT-SOG a major institutional role in drawing up detailed regulations to promote the development and proper functioning of the internal natural gas market and cross-border trade and to ensure optimum management, coordinated exploitation and appropriate technical advances in the European natural gas transmission network. The regulations drafted, once they have passed through the public consultation stage and the comitology process (process of debate and approval by the European Commission and the EU's member states), will be directly binding on the operators

with no need for ratification or publication in national legislation.

Enagás has played a very active role in ENT-SOG during the organisation's first year of life.

In 2010 ENT-SOG's activity focused on the following areas: investment, capacity, tolls, balance and interoperability. All the groups met at least once a month as well as holding numerous telephone conferences and meetings with experts.

- Investment. Enagás has contributed via a multidisciplinary group to work on drawing up the first non-binding Ten-Year Network Development Plan (TYNDP) to be published early in 2011. The information concerning Spain in the TYNDP is based on the 2008-2016 Compulsory Planning document and on the 2010 annual programme detailed in Order ITC/2906/2010.
- Capacity. Enagás is a member of the group set up in ENT-SOG to develop the first European network code dealing with the standardisation of mechanisms for assigning capacity at interconnection points. The group has held numerous meetings to advise ERGEG and the European Commission, at which Enagás has played a leading role, explaining the functioning of the Spanish system and the way in which the future regulation of mechanisms for assigning capacity will be implemented.
- Balance. Enagás is a member of the ENT-SOG group set up to deal with issues related to balance in gas systems. In 2010 the group's work centred on cooperation with ERGEG and the European Commission in developing framework guidelines on balance.
- Tolls. Enagás has taken part in the group dealing with tolls since it was formed in mid-2010. The main aim of the group is to standardise tariff structures for access to the transmission network. Its work is still at an early stage and in 2010 it focused on supporting other ENT-SOG groups and passing on its expertise to them.

## Our Commitments

- Transparency. Enagás has taken advantage of its membership of this group to influence the regulatory process carried out to modify the guidelines on transparency in Part 3 of Appendix I of Regulation 715/2009 and has contributed to and promoted the development of ENTSOG's transparency platform. The transparency platform, based on the information published by individual transporters on their websites, offers network users a way to search for a route through the European gas transmission network simply by selecting entry and exit points. A summary of the route is generated, giving users an overview of capacity available monthly along the length of the route, applicable contracts and tariffs, rules on balance, mechanisms for allocation and other dynamic data, such as flows, relevant names, and interruptions at each point.

Through ENTSOG, Enagás has taken part in meetings with ERGEG (European Regulators' Group for Electricity and Gas) and the European Commission.

### i) GIE

As an operator involved in all three areas, Enagás is a full and active member of all three sections of GIE (transmission, LNG plants and underground storage) and a proactive contributor to the association's various working groups.

As a 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 GIE. Enagás is also one of the 12 members of the Executive Board of GIE.

GIE's activities in 2010 included cooperation with the European regulators in publishing the ERGEG report on procedures for managing congestion at European regasification plants.

### j) ERGEG

ERGEG (European Regulators' Group for Electricity and Gas) was created by the European Commission (Decision of 11 November 2003, 2003/796/CE) as the body advising it on internal energy market matters.

ERGEG's main objective is to facilitate uniform application by all member states of the provisions of the Second Package (Directive 2003/54/EC, Directive 2003/55/EC, EC Regulation 1228/2003 and EC Regulation 1775/2005) and other possible regulatory changes.

In 2010 ERGEG's work focused on two issues: the new role of regional initiatives in the context of the Third Package and preparatory work for its application.

### New role of regional initiatives

Before the publication of the Third Package regional cooperation between transporters was purely voluntary. However, according to the terms of the Third Package, all transporters are required to cooperate on a regional basis to improve the operation of the internal gas market. In this new context, the significance and scope of regional initiatives is considerably enhanced. In 2010, ERGEG conducted two surveys ("Regional Initiatives Progress Report" and "Draft Strategy for Delivering a More Integrated European Energy Market: The Role of the Regional Initiatives") to which Enagás responded, emphasising the fundamental role played by regional initiatives in the development of the Spain-France interconnection.

Preparatory work for the application of the Third Package.

The provisions of the Third Package are not applicable until March 2011. In the period between its approval, on 3 September 2009, and 3 March 2011 ERGEG undertook to advance work on its implementation by preparing the relevant framework guidelines and to provide support for the European Commission and the Regulatory Agency for Energy. The latter will become operative on 3 March 2011.

In 2010, Enagás worked closely with ERGEG in formulating the following framework guidelines:

- Framework guidelines for mechanisms to assign capacity, the main aim being to optimise the use of interconnection capacity between member states, integrate markets and develop trading by standardising the way in which capacity at interconnection points is made available.
- The purpose of the framework guidelines for balance is to develop the functioning of the internal gas market, establishing rules for balance based on market mechanisms. Standardisation must allow for areas of balance to be reduced.

Enagás has also submitted its opinion regarding the comitology proposal for procedures to deal with congestion at interconnections and the transparency requirements of the Third Package.

#### Other changes in regulations

Enagás has also worked closely with ERGEG on revising the mechanisms for allocating capacity at underground storage facilities in order to improve effective access to these infrastructures.



#### k) South Gas Regional Initiative

In 2006, under the supervision of the European Commission, ERGEG launched the Regional Initiatives constituting the first step towards creating the single European energy market. Three regional gas markets and seven electricity markets were identified.

The South Gas Regional Initiative (SGRI), of which Enagás is an active member, is made up of all market agents in France, Spain and Portugal and is led by the Spanish National Energy Commission (CNE).

Within the SGRI, increasing interconnection capacity between Spain and France is a fundamental priority. The development of an Open Season between Spain and France responds to this need.

The Open Season is a coordinated process for assigning capacity, whose main aim is to assess the interest of the market and put the necessary infrastructures in place to meet demand. Open Seasons are necessary in France for decisions on investment and, although this is not the case in Spain, the decision has been taken to standardise regulatory procedures.

In 2010 the South Gas Regional Initiative has continued the work started in previous years on developing Open Season regulations to increase capacity between Spain and France.



• Annual Report 2010

## Our Commitments

124

“Our corporate governance model lays the foundations on which to base the company's management, while ensuring due compliance with applicable law and adopting the best international practices, the ultimate aim of guaranteeing sustainable value creation for our stakeholders and managing any risks that may prevent this”

Rafael Piqueras, General Secretary

### Key indicators 2010

**16**  
Members of  
the Board of  
Directors



**60.917%**  
General  
Shareholders'  
Meeting  
attendance



**8**  
Independent  
members of  
the Board of  
Directors



**2**  
Women on  
the Board  
of Directors



**48**  
Recommendations of the  
Code of Good  
Governance  
followed

## 4.8. Commitment to Good Corporate Governance

### Meeting challenges Planned for 2010

- ✓ Formal allocation of corporate social responsibility matters to the Appointments and Remuneration Committee
- Modification of board regulations to assign responsibility for supervising Business Principles to Board committees (\*)
- Regular information updates for Board of Directors, including matters of corporate reputation and sustainability (\*\*)
- ✓ Assessment of the performance of the Board of Directors
- ✓ Board of Directors to be made responsible for maintaining good relations with stakeholders
- ✓ Inclusion of a new female member in Enagás' Board of Directors, respecting the principles of rotation and gender diversity in the company's governing body.
- Further reductions in the non audit fees paid to the company's chief auditor (\*\*\*)
- ✓ Approval of Enagás' formal risk policy

(\*) The Audit and Control Committee retains formal responsibility so that the Business Principles Monitoring Committee submits the minutes of its meetings to this committee.

(\*\*) Planning for the training of Board members in 2011 and the matters to be included in their training have been approved.

### Other milestones 2010

- ✓ The Chairman of the Appointments, Remuneration and Corporate Responsibility Committee (acting as Independent Leader Director) was granted powers to call board meetings or include new items on the agenda in order to coordinate and convey the concerns of Directors and to lead the Board's evaluation of its Chairman.
- ✓ Introduction of a process for self-assessment of reputational risk
- ✓ Sustainability Committee made responsible for risk management
- ✓ Approval of procedure for integrated risk management
- ✓ Internal Control over Financial Reporting system adapted to recommendations proposed in the report on "Internal Control over Financial Reporting" prepared by the Internal Control Working Group of the financial reporting of listed companies set up by the Spanish stock market regulator (CNMV).

✓ Achieved ✗ Not achieved ■ In progress

(\*\*\*) Enagás has included a clause in its conditions for contracting auditing services for the period 2011-2013, and will do so in the contracts signed subsequently, specifying that fees for non-audit services should not exceed 10% of the total amount agreed in the contract. If the amount should exceed this limit, it must be expressly authorised by the Audit and Compliance Committee.

### Challenges 2011

- Electronic voting to be introduced for the upcoming 2010 General Shareholders' Meeting and creation of the Shareholder Electronic Forum at [www.enagas.es](http://www.enagas.es).
- Training of Board members during 2011 in matters related to the regulatory framework, risk management and control, internal control, corporate social responsibility, and corporate governance.
- Publication of detailed information on training and experience of Enagás Board members
- Publication of information on evaluation of the Board and its Committees
- Definition of action plans to deal with reputational risks evaluated as critical in 2010
- Analysis of the need to include scenarios corresponding to critical reputational risks in the General Regulations for Communication in Crisis Situations
- Drawing up of a procedure reflecting the evaluation of legal risks, in response to the reform of the penal code in 2010

## Governing Bodies -2.3, 4.1, 4.2, 4.3-

### Management Committee

	Post
Antonio Llardén Carratalá	Chairman
Juan Pons Guardia	General Manager of Strategy and Regulation
Ramón Sánchez Valera	General Manager of Infrastructures and Third-Party Access
Juan Andrés Díez de Ulzurrun	General Manager of Technology, Engineering and Purchasing
Diego de Reina Lovera	Chief Financial Officer
Erundino Neira Quintas	Corporate Resources and CSR Manager
Rafael Piqueras Bautista	General Secretary
Javier González Juliá	Chief Operating and Technical System Management Officer

126

### Board of Directors

Name of Director	Post	Type	Audit and Compliance Committee	Appointments, Remuneration and Corporate Social Responsibility Committee
Antonio Llardén Carratalá	Chairman	Executive	-	-
Bancaja (Representada por José Luis Olivas Martínez)	Deputy Chairman	Proprietary (Bancaja)	Member	-
Jesús David Álvarez Mezquíriz	Director	Independent	-	-
Bilbao Bizkaia Kutxa (Representada por Joseba Andoni Aurrekoetxea Bergara)	Director	Proprietary (BBK)	-	Member
Sagane Inversiones, S.L. (Representada por Carlos Egea Krauel)	Director	Proprietary (Sagane Inversiones, S.L.)	-	Member
Sultan Hamed Khamis Al Burtamani	Director	Dominical (Oman Oil Holdings Spain S.L.)	-	-
Teresa García-Milá Lloveras	Director	Independent	-	Member
Miguel Ángel Lasheras Merino	Director	Independent	-	-
Dionisio Martínez Martínez	Director	Independent	-	Chairman
Luis Javier Navarro Vigil	Director	External	Member	-
Martí Parellada Sabata	Director	Independent	Chairman	-
Peña Rueda, S.L.U. (Representada por Manuel Menéndez Menéndez)	Director	Dominical (CIC, S.L., Cajastur)	-	-
Ramón Pérez Simarro	Director	Independent	-	Member
José Riva Francos	Director	Independent	Member	-
Sociedad Estatal de Participaciones Industriales -SEPI - (Representada por Enrique Martínez Robles)	Director	Dominical (SEPI)	Member	-
Isabel Sánchez García	Director	Independent	-	-
Rafael Piqueras Bautista	Secretary	-	Secretary	Secretary

## Chairman

1. Antonio Llardén Carratalá

## Deputy Chairman

2. José Luis Olivas Martínez

## Directors

3. Jesús David Álvarez Mezquíriz
4. Joseba Andoni Aurrekoetxea Bergara
5. Carlos Egea Krauel
6. Sultan Hamed Khamis
7. Teresa García-Milá Lloveras
8. Miguel Ángel Lasheras Merino
9. Dionisio Martínez Martínez
10. Luis Javier Navarro Vigil
11. Martí Parellada Sabata
12. Manuel Menéndez Menéndez
13. Ramón Pérez Simarro
14. José Riva Francos
15. Enrique Martínez Robles
16. Isabel Sánchez García

## Secretary to the Board

17. Rafael Piqueras Bautista



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### 4.8.2. Enagás corporate governance standards – 4.4, 4.6, 4.7, 4.8 -

Enagás' Corporate Governance Policy lays down the general principles covering the company's policy in this area.

Enagás also has separate regulations for specific areas: Regulations for the General Shareholders Meeting, Regulations for the Board of Directors and each of its Committees, and the Internal Code of Conduct in Matters Relating to the Securities Market. These give fuller details of the rules and procedures for the activities of the different governing bodies and their dealings with the securities market (full details are available on the [www.enagas.es](http://www.enagas.es) website).

Lastly, Enagás has drawn up a set of Business Principles, to act as guidelines for correct professional conduct on the part of employees.

### 4.8.3. Activity of Corporate Governance Bodies

#### General Shareholders' Meeting

Enagás' General Shareholders' Meeting was held on 30 April 2010 at second call, with the second highest attendance ever recorded: 60.917%

	EUROS
Share capital	358,101,390
Total shares	238,734,260
Number of shares	200,536,103



Shareholders	Number of shareholders	Number of shares	% total share capital
1. Present:	6,151	78,995,684	39.392
In person	95	24,012,464	11.974
By remote means	6,056	54,983,220	27.418
2. Represented by proxy:	742	43,164,842	21.525
TOTAL	6,893	122,160,526	60.917



All the proposals included in the agenda by the Board of Directors for consideration by the General Shareholders' Meeting were approved.

They included:

- **Modification of Article 2 of the Articles of Association (Corporate Purpose) to include the following activities:**

- Transport and storage of carbon dioxide, hydrogen, biogas and other energy fluids, via proprietary or third-party facilities, and the design, construction, commissioning, operation and maintenance of all kinds of complementary infrastructure and facilities necessary for said activities.
- Heat and cooling capture activities and the use of energies associated with, or resulting from, core activities.
- Rendering of various types of services including engineering, construction, advisory and consultancy services and involvement in natural gas market management activities, provided these are compatible with the activities attributed to the company by law.

- **Modification of Article 45 of the Articles of Association (Appointments, Remuneration and Corporate Social Responsibility Committee), allocating to the committee all activity related to Corporate Social Responsibility, while changing its name and requiring the majority of its members to be independent.**

- The Committee was made responsible for establishing a general CSR and Corporate Governance policy, ensuring the adoption and effective application of best practices, both those which are compulsory and those in line with generally-accepted recommendations. To do this, the Committee may submit to the Board the initiatives and proposals it deems appropriate and shall provide information on proposals submitted to the Board and information the company releases to shareholders annually regarding these issues.

- **Modification of Article 49 of the Articles of Association (Preparation of Financial Statements) in line with new legislation, as follows:**

- The Board of Directors must prepare, within three months of the close of the company's financial year, its financial statements, Directors' Report and proposed appropriation of profit, and, where appropriate, the financial statements and Directors' Report of the consolidated group.
- The annual financial statements shall comprise the income statement, the statement of changes in equity, the cash flow statement and notes to the financial statements. These documents, which together constitute a unit, shall be clearly and concisely written and provide a true and fair view of the company's equity, financial position and results of operations.
- The financial statements and Directors' Report must be signed by all Directors and if the signature of any Director is missing, this must be indicated in all the documents where his/her signature is required, clearly indicating the reason.
- **Re-election, appointment and ratification of Directors and the company's external auditor, Deloitte S.L.**

Lastly, the Board of Directors meeting on 31 January 2011 plans to approve the introduction of electronic voting, so that shareholders can vote in this way at the time of the next General Shareholders' Meeting, which will need to approve the relevant changes to the regulations for this meeting.

### Board of Directors:

- Number of meetings in the year: 11
- Attendance: 24 absences, with votes delegated in all cases except 1.
- Main issues dealt with:
  - Addition of a female director approved at the General Shareholders' Meeting on 30 April 2010.
  - Appointment of the Chairman of the Appointments, Remuneration and Corporate Responsibility Committee as Independent Leading Director.



## Our Commitments

- Improvements to the procedure for assessing Board members and plans for their training in 2011.

### Appointments, Remuneration and Corporate Responsibility Committee

- Number of meetings: 5
- Attendance: 3 absences, with no delegation of votes.

### Audit and Compliance Committee

- Number of meetings: 4
- Attendance: 0 absences.

### 4.8.4. Good Corporate Governance practices – 4.5, 4.10 -

Enagás continued to honour its commitment to comply with the Unified Code of Good Governance:

- Enagás complies with 48 recommendations
- Enagás partially complies with 5 recommendations (\*)
- Enagás explains its position regarding 2 recommendations
- 3 recommendations are not applicable to Enagás.

(\*) In 2010 Enagás partially complied with Recommendation 15 – previously the subject of a comment – when a second female independent director was appointed to the Board of Directors.

Enagás identified good corporate governance practices at the international level, and took the following steps in 2010:

- Conferring on the Appointments, Remuneration and Corporate Responsibility Committee (formerly the Appointments and Remuneration Committee) the duty of setting general policies on corporate social responsibility and corporate governance.

- Appointing the Chairman of the Appointments, Remuneration and Corporate Responsibility Committee as Independent Leader Director, with powers to call board meetings or include new items on the agenda in order to coordinate and convey the concerns of Directors and to lead the Board's evaluation of its Chairman.

- Raising the number of female directors to two, both independent directors, demonstrating the company's commitment to increasing the presence of women on the Board.

- Assessing the performance of the Board, the Chairman and Board committees through confidential interviews with individual directors, which will be conducted over the first quarter of 2011. The assessment process will also involve individual evaluation of external directors prior to their being nominated for re-election.

- Training activities for Directors were scheduled for 2011, covering issues relating to the regulatory framework of the industry, the company's practices as to strategic planning, risk management and control, internal control of financial reporting and other information systems, and best practices in corporate social responsibility and corporate governance. This training will be provided largely by Management Committee members and company executives.

- Introduction of remote voting as a new form of shareholder participation at the forthcoming General Shareholders' Meeting in 2011.

- A shareholder forum was created using a specific platform on the [www.enagas.es](http://www.enagas.es) website to enable shareholders to make suggestions to the Board regarding resolutions to be discussed and voted on at the 2011 General Shareholders' Meeting.

## Remuneration of the Board of Directors

€ (THOUSANDS)

Director	Board	Audit and Compliance Committee	Appointments, Remuneration and Corporate Responsibility Committee	Other	Total
Antonio Llardén Carratalá*	64	-	-	1,536	1,600
Bancaja (Represented by José Luis Olivas Martínez)	64	32	-	11	107
Jesús David Álvarez Mezquíriz	64	-	-	-	64
Bilbao Bizkaia Kutxa (Represented by Joseba Andoni Aurrekoetxea Bergara)	64	-	12	-	76
Sagane Inversiones, S.L. (Represented by Carlos Egea Krauel)	64	-	12	-	76
Said Al Masoudi	57	-	-	-	57
Teresa García-Milá Lloveras	64	-	12	-	76
Miguel Ángel Lasheras Merino	64	-	-	-	64
Dionisio Martínez Martínez	64	-	17	-	81
Luis Javier Navarro Vigil	64	12	-	-	76
Martí Parellada Sabata	64	17	-	-	81
Peña Rueda, S.L.U. (Represented by Manuel Menéndez Menéndez)	64	-	-	-	64
Ramón Pérez Simarro	64	-	12	-	76
José Riva Francos	64	6	-	-	70
Sociedad Estatal de Participaciones Industriales -SEPI - (represented by Enrique Martínez Robles)	64	12	-	-	76
Isabel Sánchez García	42	-	-	-	42
Antonio Téllez de Peralta	22	6	-	-	28
<b>TOTALES</b>	<b>1,017</b>	<b>85</b>	<b>65</b>	<b>1,547</b>	<b>2,714</b>

\* Fixed annual remuneration and variable remuneration according to targets is unchanged from 2009 levels. As part of a multi-year incentive paid over a number of years Directors received €924,000. They also hold a life insurance policy, premiums for which totalled €68,000 in 2010, while €10,000 was paid into the pension plan.

### 4.8.5. Risk management

#### Integrated Risk Management model - 1.2, 4.10, 4.11 -

As stipulated in its Risk Policy, Enagás has an Integrated Risk Management Model to enable management to deal effectively with the uncertainties, contingencies and opportunities that may arise, thereby improving their ability to create value and offer both shareholders and other stakeholders a high standard of assurance as regards profitability and environmental and social impact.

There are two key aspects to the Integrated Risk Management Model:

- It sets the level of acceptable risk in order to determine the corporate risk profile. Risks are identified, analysed and measured by each department.
- It assigns responsibility for risk management at all levels of the company.

In 2010, via the implementation of the Integrated Risk Management Procedure, a framework was established for Integrated Risk Management, identifying the factors involved and the role to be played by each part of the company.

#### Integrated risk Management model



132

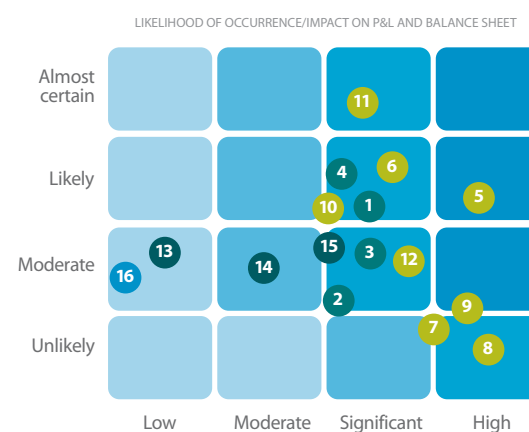
### Enagás strategic risk map

The Enagás Strategic Risk Map 2010-2012 reflects the latest updates of the profiles for business and counter-party risk (30 October 2010) and financial risk (January 2010).

For reasons of confidentiality, as risk is assessed in monetary terms, the information is presented by type of risk.

In 2010 Enagás succeeded in reducing or containing the value of operational, business, counter-party and financial risk, via the implementation of the action plans proposed in the period 2008–2010.

#### Enagás Strategic Risk Map (2010-2013)



- Business risk (as at October 2010)
- Operational risk (as at October 2008)
- Counterparty risk (as at October 2010)
- Financial risk (as at January 2010)

### Management of reputational risk

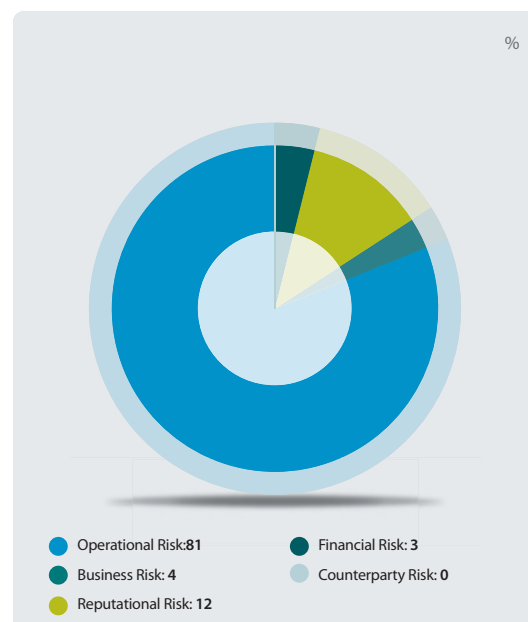
Enagás understands reputational risk to be any action, event or circumstance that may adversely affect stakeholders' perceptions and opinions of the company.

In 2010, Enagás implemented a Reputational Risk Self-assessment Process, applying qualitative measurement techniques and conducting workshops with each Enagás department, during which reputational risk was assessed according to a list of expectations (see table).

This assessment considers the possible reputational effect of any of the risks envisaged in the Enagás integrated risk management model (operational, business, counterparty and financial), when the expectations of stakeholders are not met, and events affecting reputation involving the action, interests or judgements of third parties.

The assessment indicates that reputational risk stems mainly from operational risks and risks defined as strictly reputational.

### Reputational risk by source



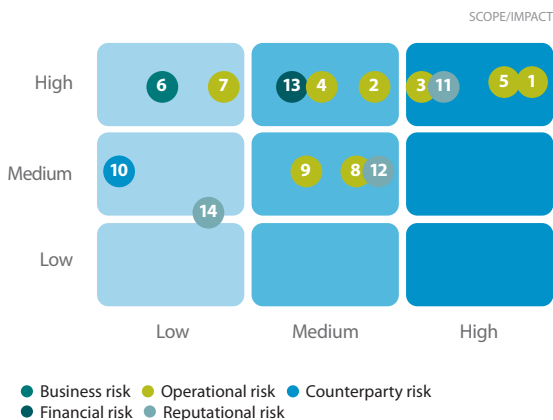
### Dictionary of stakeholder expectations

Category	Description	Expectation
Finance and Market	Expectations regarding Enagás' profitability and competitiveness	<ol style="list-style-type: none"> <li>1. Good balance between risk and profitability</li> <li>2. Reliability of external information</li> <li>3. Management of rating</li> <li>4. Ability to form constructive alliances</li> <li>5. Responsible behaviour vis-à-vis competitors</li> <li>6. Potential for growth without detrimental effects on operations</li> </ol>
Governance	Expectations concerning Enagás' institutional and political relations with other organisations and corporations	<ol style="list-style-type: none"> <li>7. Ability to influence development of regulations</li> <li>8. Cooperation</li> <li>9. Transparency</li> <li>10. Compliance</li> <li>11. Independence and neutrality</li> <li>12. Leadership</li> </ol>
Operations	Expectations regarding Enagás' performance in work processes and supply capacity	<ol style="list-style-type: none"> <li>13. Loyalty and sincerity</li> <li>14. Efficiency of supply chain</li> <li>15. Ability to respond quickly and flexibly</li> <li>16. Solvency, rigour and excellence</li> <li>17. Operational safety</li> <li>18. Guaranteed supply</li> </ol>
People and Society	Expectations concerning Enagás' employees, other individuals local bodies	<ol style="list-style-type: none"> <li>19. Good company to work for</li> <li>20. Development of knowledge</li> <li>21. Approachability</li> <li>22. Control of local affairs</li> <li>23. Creation of employment and wealth</li> <li>24. Respect for the environment</li> </ol>

• Annual Report 2010

# Our Commitments

## Enagás Strategic Reputational Risk Map 2010



1. Incidents and unavailability of infrastructures, equipment and systems
2. Damage to the environment or to third parties
3. Poor quality or interrupted service
4. Delays in official decisions and disputes with counterparties
5. Bad business practices
6. Regulatory risk
7. Employment practices and workplace safety
8. Fraud and unauthorised activities
9. Errors and delays in external communication and leaks of confidential information
10. Counterparty risk
11. Spreading of prejudicial information by interested third parties
12. Responsibility for actions by third parties extended or attributed to Enagás
13. Liquidity risk
14. Increase in frequency of errors, incidents, complaints and claims

134

The Strategic Reputation Risk Map also shows the most significant risks indicated in the assessment carried out on 31 December 2010. Each reputational risk is shown, according to its origin and impact on the expectations of stakeholders, adjusted for its importance to stakeholders and the significance for them of the likelihood of its being widely known.

## Roles and responsibilities in risk management – 4.9 -

In 2010 risk management occupied a prominent position on the agendas of Enagás’ governing bodies, which met regularly to discuss issues related to this issue. The Audit and Compliance Committee met four times during the year.

## Roles in risk management

	Develop an internal ethos	Approval of Corporate Management profile	Determine level of risk acceptable to Corporate Management	Approval of overall risk map	Risk management and control
Governing bodies (Board of Directors and Audit and Compliance Committee)		●		●	
Sustainability Committee	●	●		●	●
Management Committee	●	●	●	●	
Department Managers			●		●
General Secretariat - Internal Audit	●				●

The Sustainability Committee was made responsible for risk management. The main responsibilities assigned include developing a common culture regarding risk at all levels of the company and in all its activities, determining the short-, medium- and long-term positions Enagás should adopt, and informing the Audit Committee of any failure to comply with risk policy.

### Risk related to corruption and fraud – S02, S04 –

As part of its self-assessment of reputational risk in 2010 Enagás analysed and evaluated the possible reputational effect on all its departments of any operational risk, including that of “Fraud and Unauthorised Activities”.

Enagás’ internal audits of its Internal Control over Financial Reporting system also implicitly contemplate the possibility of fraud by verifying the effectiveness of the control mechanisms linked to this risk.

### Sustainability-related risks

Dimension	Risk	Objective	Action Plan
Environmental	Damage to the environment or to third persons	To reconcile industrial and economic progress with respect for the environment	-Complete the process of evaluating environmental risks in accordance with the Law on Environmental Responsibility in Enagás’ main infrastructures (regasification plants and compressor stations)
Social	Health, hygiene and safety Unethical business practices Regulatory and legal violations	To be a benchmark in terms of public confidence in the energy sector	-Proceed with the implementation of the Strategic Plan for the Environment and Risk Prevention, to achieve the following objectives: -Excellence in industrial and occupational safety -Extending the culture of risk prevention throughout the company -Staff training -Equality plan -Ethical Channel
Financial	Operational, business, financial and counterparty risks	To encourage continuous improvement and the adoption of new processes and technologies in order to reduce the costs associated with this policy	-Implementation of new, more advanced IT tools -Follow up corrective action suggested for monitoring the system for Internal Control over Financial Reporting



# 5. Annual Corporate Governance Report

A. Ownership Structure **138**

B. Company Management Structure **148**

C. Related-Party Transactions **179**

D. Risk Control Systems **185**

E. General Meetings **190**

F. Degree of compliance with Corporate Governance Recommendations **202**

G. Other Information of Interest **219**

Report on the activities of the Enagás Audit and Compliance Committee in 2010 **230**

• Annual Report 2010

# Annual Corporate Governance Report for Listed Limited Companies

138

## A. Ownership Structure

For a better understanding of the model and its subsequent preparation, please read the instructions provided at the end before filling it out.

### 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 (Cajastur)	0	11,937,395	5.000
Oman Oil Company, S.A.O.C.	0	11,936,702	5.000

Name or corporate name of indirect shareholder	Through: Name or corporate name of shareholder	Number of direct voting rights	% of total voting rights
Caja de Ahorros de Asturias (Cajastur)	Cantábrica de Inversiones de Cartera, S.L. (CIC, S.L.)	11,937,395	5.000
Atalaya Inversiones, S.R.L.	Sagane Inversiones, S.L.	11,936,714	5.000
Oman Oil Company, S.A.O.C.	Oman Oil Holdings Spain S.L.U.	11,936,702	5.000

Indicate the most significant movements in the shareholder structure during the year.

### A.3 Complete the following tables 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	48,116	0	0.020
Caja de Ahorros de Valencia, Castellón y Alicante, Bancaja	0	11,936,713	5.000
Bilbao Bizkaia Kutxa (BBK)	0	11,936,713	5.000
Dionisio Martínez Martínez	2,010	0	0.001
Luis Javier Navarro Vigil	10	3,986	0.002
Martí Parellada Sabata	910	0	0.000
María Teresa García-Milá Lloveras	1,500	0	0.001
Ramón Pérez Simarro	100	0	0.000
Sagane Inversiones, S.L.	11,936,714	0	5.000
Sociedad Estatal de Participaciones Industriales (SEPI)	11,936,713	0	5.000
Sultan Hamed Khamis Al Burtamani	1	0	0.000

139

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, Castellón 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
Don Luis Javier Navarro Vigil	Newcomer 2000, S.L.U.	3,986	0.002

% of total voting rights held by the Board of Directors:

20.024

Complete the following tables on share options held by directors.

• Annual Report 2010

## Annual Corporate Governance Report for Listed Limited Companies

A.4 Indicate, as applicable, any family, commercial, contractual or corporate relationships between owners of significant shareholdings, insofar as en 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.

140

### Type of relationship

Commercial

### Brief description:

interest rate Hedging Agreement (Collar) which matured in january 2010. amount (in thousands €): 50,000.

### Name or corporate name of related party

Caja de Ahorros de Asturias (Cajastur)

### Type of relationship

Commercial

### Brief description:

Loan falling due in 2011. Amount (thousand €): 30,000.

### Name or corporate name of related party

Caja de Ahorros de Asturias (Cajastur)

### Type of relationship

Commercial

### Brief description:

Provision of guarantee line. Amount (in thousands €): 12,000

### Name or corporate name of related party

Caja de Ahorros de Asturias (Cajastur)

**Type of relationship**

Commercial

**Brief description:**

Credit policy agreement. Amount (in thousands €): 2,000.

**Name or corporate name of related party**

Caja de Ahorros de Asturias (Cajastur)

**Type of relationship**

Corporate

**Brief description:**

Payment of Final Dividend for the 2009 financial year: 5,563; Interim Dividend for 2010 financial year: 3,724; Total Dividend for 2010 financial year: 9,287 (all amounts in thousands €).

**Name or corporate name of related party**

Oman Oil Holdings Spain S.L.U.

**Type of relationship**

Corporate

**Brief description:**

Payment of Final Dividend for the 2009 Business year: 5,563; Payment of Interim Dividend for 2010 financial year: 3,724; Total Dividend for 2010 financial year: 9,287 (all amounts in thousands €).

**Name or corporate name of related party**

Sagane Inversiones, S.L.

**Type of relationship**

Corporate

**Brief description:**

Payment of Final Dividend for the 2009 Business year: 5,563; Payment of Interim Dividend for 2010 financial year: 3,725; Total Dividend for 2010 financial year: 9,288 (all amounts in thousands €).

**Name or corporate name of related party**

Cantábrica de Inversiones de Cartera, S.L. (CIC, S.L.)

• Annual Report 2010

## Annual Corporate Governance Report for Listed Limited Companies

142

### Type of relationship

Corporate

### Brief description:

Payment of Final Dividend for the 2009 Business year: 5,563; Payment of Interim Dividend for 2010 financial year: 3,724; Total Dividend for 2010 financial year: 9,287 (all amounts in thousands €).

### Name or corporate name of related party

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 Bancaja Inversiones, S.A.

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 KarterA 1, S.L.

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 Sociedad Estatal de Participaciones Industriales (SEPI)
 

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### Type of relationship

Commercial

### Brief description:

Provision of guarantee line. Amount (in thousands €): 6,000

### Name or corporate name of related party

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 Caja de Ahorros de Valencia, Castellón y Alicante, Bancaja
 

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### Type of relationship

Commercial

### Brief description:

Provision of Credit Line. Amount (in thousands €): 6,000

### Name or corporate name of related party

---

 Caja de Ahorros de Valencia, Castellón y Alicante, Bancaja
 

---

### Type of relationship

Commercial

### Brief description:

Interest Rate Hedging Agreement (collar) which matured in January 2010. Amount (in thousands €): 50,000.

### Name or corporate name of related party

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 Caja de Ahorros de Valencia, Castellón y Alicante, Bancaja
 

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**Type of relationship**

Commercial

**Brief description:**

Renewal and Increase of Credit Facility. Amount (in thousands €): 25,000.

**Name or corporate name of related party**

Bilbao Bizkaia Kutxa (BBK)

**Type of relationship**

Commercial

**Brief description:**

Provision of Guarantee Line. Amount (in thousands €): 6,000.

**Name or corporate name of related party**

Bilbao Bizkaia Kutxa (BBK)

**Type of relationship**

Commercial

**Brief description:**

Interest Rate Hedging Agreement (collar) which matured in January 2010. Amount (in thousands €): 30,000.

**Name or corporate name of related party**

Bilbao Bizkaia Kutxa (BBK)

**Type of relationship**

Commercial

**Brief description:**

Loan Renewal and Increase. Amount (in thousands €): 100,000.

**Name or corporate name of related party**

Bilbao Bizkaia Kutxa (BBK)

• Annual Report 2010

## Annual Corporate Governance Report for Listed Limited Companies

**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). 112 de la LMV. 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.

Not applicable.

**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:

<b>Total</b>	<b>0</b>
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Give details of any significant changes during the year, in accordance with Royal Decree 1362/2007.

<b>Gain/(loss) on treasury shares during the year:</b>	<b>0</b>
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## A.9 Give details of the applicable conditions and time periods governing any resolutions of the General Meeting authorising the Board of Directors to purchase and/or transfer the treasury shares.

### The Annual General Meeting of 30 April 2010 adopted the following resolution:

In accordance with the provisions of articles 75 et seq. of the Spanish Companies Act, to authorise and empower the Board of Directors with the faculty of substitution, to use derivatives to acquire treasury shares, either directly or via any of the Group companies, in the following terms:

- The acquisition may be performed via sale-purchase or any other business method for consideration.
- The authorisation pertains to shares which, together with those already held, do not exceed 10% of the Company's share capital.
- The purchase price shall not exceed by 50% or fall short by 50% of the average trading price of the seven sessions previous to the purchase date.
- The authorisation is extended for a five-year period, as from the date of this resolution.

Acquisition of treasury shares must enable the Company, at all events, to provision the reserve stipulated in article 79.3 of the Companies Act, without diminishing either the share capital or the unavailable reserves. The shares to be acquired must be fully paid in.

The shares acquired may be conveyed, entirely or in part, to employees, management or Directors of the Company, or of Group companies, in accordance with the provisions of article 75.1 of the Spanish Companies Act..

This authorisation for the acquisition of treasury shares shall, as appropriate, supersede all authorisations previously granted by the General Meeting.

## 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. transmisión de participaciones en el capital social. Indicate whether there are any legal restrictions on exercising voting rights.

YES

<b>Maximum percentage of legal restrictions on voting rights a shareholder can exercise</b>	<b>3.000</b>
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Indicate whether there are any restrictions included in the Bylaws on exercising voting rights.

YES

<b>Maximum percentage of restrictions under the company's bylaws on voting rights a shareholder can exercise</b>	<b>3.000</b>
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• Annual Report 2010

## Annual Corporate Governance Report for Listed Limited Companies

### Description of restrictions under law or the company's bylaws on exercising voting rights

Article 6 bis ("Limitation of interest in share capital and of the exercise of voting rights") of the Company Bylaws was amended at the Extraordinary General 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 a 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 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, 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 an extremely 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:

Second 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 by this provision.

In accordance with the aforementioned legal provision, article 6 bis ("Limitation of interest in share capital and of the exercise of voting rights") of Enagás, S.A.'s 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, nor exercise voting rights in such company of over 3%. Under no circumstances may such shareholdings be syndicated. Any party operating within the gas sector, including natural persons or bodies corporate that directly or indirectly own equity holdings in the former of more than 5%, may not exercise voting rights over 1%. These restrictions will not apply to direct or indirect interests held by public sector enterprises. Under no circumstances may share capital be syndicated.

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 interests held by public-sector enterprises. Under no circumstances may share capital be syndicated.

#### A.11 Indicate whether the General 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.

• Annual Report 2010

# Annual Corporate Governance Report for Listed Limited Companies

148

## 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 on the board	Date of first appointment	Date of last appointment	Election procedure
Antonio Llardén Carratalá	—	Chairman	22/04/2006	30/04/2010	Vote at General Meeting
Caja De Ahorros de Valencia, Castellón Y Alicante, Bancaja	José Luis Olivas Martínez	Vice-Chairman	09/07/2002	11/05/2007	Vote at General Meeting
Bilbao Bizkaia Kutxa (BBK)	Joseba Andoni Aurrekoetxea Bergara	Director	28/11/2007	25/04/2008	Co-option
Dionisio Martínez Martínez	—	Director	31/05/2002	30/04/2010	Vote at General Meeting
Isabel Sánchez García	—	Director	30/04/2010	30/04/2010	Vote at General Meeting
Jesús David Álvarez Mezquiriz	—	Director	25/04/2003	11/05/2007	Vote at General Meeting
José Riva Francos	—	Director	31/05/2002	30/04/2010	Vote at General Meeting
Luis Javier Navarro Vigil	—	Director	09/07/2002	11/05/2007	Co-option
Martí Parellada Sabata	—	Director	17/03/2005	27/03/2009	Co-option
María Teresa García-Milá Lloveras	—	Director	22/04/2006	30/04/2010	Vote at General Meeting
Miguel Ángel Lasheras Merino	—	Director	22/04/2006	30/04/2010	Vote at General Meeting
Peña Rueda, S.L. Unipersonal	Manuel Menéndez Menéndez	Director	30/04/2004	25/04/2008	Vote at General Meeting



	Representative	Position on the board	Date of first appointment	Date of last appointment	Procedimiento procedure
Ramón Pérez Simarro	—	Director	17/06/2004	27/03/2009	Co-option
Sagane Inversiones, S.L.	Mr. Carlos Egea Krauel	Director	27/04/2009	30/04/2010	Co-option
Sociedad Estatal De Participaciones Industriales (SEPI)	Enrique Martínez Robles	Director	25/04/2008	25/04/2008	Vote at General Meeting
Sultan Hamed Khamis Al Burtamani	—	Director	21/12/2010	21/12/2010	Co-option

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**Total number of directors** 16

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149

List any departures from the Board of Directors occurring during the year:

Name or corporate name of director	Status of the director at the time	Leaving date
Antonio Téllez Peralta	Independent Director	30/04/2010
Said Mohamed Abdulah Al Masoudi	Proprietary	20/12/2010

### 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, Remuneration and CSR Committee.	Chairman

<b>Total number of executive directors</b>	1
<b>% of the board</b>	6.250

• Annual Report 2010

## Annual Corporate Governance Report for Listed Limited Companies

150

### 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	Nomination, remuneration and corporate social responsibility committee	Caja de Ahorros de Valencia, Castellón y Alicante, Bancaja
Bilbao Bizkaia Kutxa (Bbk)	Nomination, remuneration and corporate social responsibility committee	Bilbao Bizkaia Kutxa (BBK)
Peña Rueda, S.L. Unipersonal	Nomination, remuneration and corporate social responsibility committee	Cantabrica de Inversiones de Cartera, S.L. (CIC, S.L.)
Sagane Inversiones, S.L.	Appointments, remuneration and CSR committee	Sagane Inversiones, S.L.
Sociedad Estatal De Participaciones Industriales	Nomination, remuneration and corporate social responsibility committee	Sociedad Estatal De Participaciones Industriales (SEPI)
Sultan Hamed Khamis Al Burtamani	Appointments, remuneration and CSR committee	Oman Oil Holdings Spain S.L.U.

Total number of proprietary directors	6
% of the board	37.500

### Independent External Directors

Name or corporate name of director	Profile
Dionisio Martínez Martínez	Lawyer (abogado); Member of the General Codification Committee (Comisión General de Codificación); Former Partner of the Garrigues Law Firm.; Former Head of Corporate Affairs at Tabacalera.; Former Director of Telefónica de España; Former Director of Iberia, Líneas Aéreas.
Isabel Sánchez García	Director of the Bachelor's Programme in Business Administration, Instituto de Empresa (I.E.); Former Head of Competition Promotion at the National Competition Commission (Comisión Nacional de la Competencia); Former Advisor to the Private Sector and Energy Development Departments, Latin America and Caribbean Region, World Bank.; Former Head of the Office of the Secretary of State for Science and Technology Policy, Spanish Ministry of Science and Technology.
Jesús David Álvarez Mezquíriz	Chairman of Biocarburantes Peninsulares, S.L.; Director of Eulen, S.A.
José Riva Francos	Director of Logista, S.A.; Deputy Chairman and Chief Executive of the Grupo Suardiaz Companies.
Martí Parellada Sabata	Chairman of Comforsa.; Director of Eplicsa.; Trustee of the Fundación Instituto de Crédito Oficial (Ico); Deputy Chairman of the Fundación Instituto de Economía de Barcelona; Chair Professor at the University of Barcelona.
María Teresa García-Milá Lloveras	Chair Professor of Economics and Deputy Rector of Academic Policy at the Universidad Pompeu Fabra (Upf); Director and Chair of the Audit and Control Committee of Banco Sabadell, S.A.; Member of Círculo de Economía and of the Management Board of Centre de Recerca en Economía Internacional (CREI).
Miguel Ángel Lasheras Merino	Chairman of Intermoney Energía, S.A.; Chairman of Wind to Market, S.A.
Ramón Pérez Simarro	Partner at Enerma Consultores.; Former Director General of Energy.; Former General Secretary of Energy and Mineral Resources.; Former General Technical Secretary of the Ministry of Industry.; Former Professor at Universidad Autónoma de Madrid; Former Academic Director of the Fundación Repsol YPF.

<b>Total number of independent directors</b>	8
<b>% of the board</b>	50.000

### Other External Directors

<b>Name or corporate name of director</b>	<b>Committee proposing appointment</b>
Luis Javier Navarro Vigil	Nomination, Remuneration and Corporate Social Responsibility Committee

<b>Total number other external directors</b>	1
<b>% of the board</b>	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.U.

#### Reasons

B.P. España S.A.U., a former significant shareholder of Enagás, S.A, proposed his appointment as a Proprietary Director on 9 July 2002 and sold its entire stake in the company on 15 November 2006. However, Mr NAVARRO is not considered to be an Independent Director as he maintains or has maintained 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

• Annual Report 2010

## Annual Corporate Governance Report for Listed Limited Companies

**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

Said Mohamed Abdulah Al Masoudi

### Reasons for resignation

On 19 December 2010 Mr. AL MASOUDI, a Proprietary Director appointed at the proposal of OMAN OIL HOLDINGS SPAIN, S.L.U, tendered his resignation.

On 20 December 2010 the Board of Directors of Enagás, S.A. resolved to appoint as a natural-person Director by co-option SULTAN HAMED KHAMIS AL BURTAMANI, a national of the Sultanate of Oman, to replace the outgoing Director mentioned above. Mr Al Burtamani was nominated by the shareholder OMAN OIL HOLDINGS SPAIN, S.L.U, and his status is accordingly that of a Proprietary Director.

**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
María Teresa García-Milá Lloveras	Banco de Sabadell. S.A.	Director

**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

153

**B.1.11 Complete the following tables on the aggregate remuneration paid to directors during the year.**

a) In the reporting company:

Concept

	IN THOUSANDS €
Fixed remuneration	924
Variable remuneration	554
Per diems	1,178
Statutory compensation	0
Share options and/or other financial instruments	0
Other	58

**Total** 2,714

Other Benefits

	IN THOUSANDS €
Advances	0
Loans	0
Funds and pension plans: Contributions	10
Funds and pension plans: Obligations	0
Life insurance premiums	63
Guarantees issued by the company in favour of Directors	0

• Annual Report 2010

## Annual Corporate Governance Report for Listed Limited Companies

b) For company directors sitting on other governing bodies and/or holding senior management posts within group companies:

Concept	IN THOUSANDS €
Fixed remuneration	0
Variable remuneration	0
Per diems	0
Statutory compensation	0
Share options and/or other financial instruments	0
Other	0
<b>Total</b>	<b>0</b>

Other Benefits	IN THOUSANDS €
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 Directors	1,600	0
External Proprietary Directors	456	0
External Independent Directors	582	0
Other External Directors	76	0
<b>Total</b>	<b>2,714</b>	<b>0</b>



d) Remuneration as percentage of profit attributable to the parent company:

Total remuneration received by directors (in thousands €)	2,714
Total remuneration received by directors/profit attributable to parent company (%)	0.8

**B.1.12 List any members of senior management who are not executive directors and indicate total remuneration paid to them during the year.**

155

Name or corporate name	Post
Juan Andrés Díez de Ulzurrun Moreno	General Director of Technology, Engineering and Purchases
Francisco Javier González Juliá	Technical System Operator Department
Juan Pons Guardia	General Manager of Strategy and Regulation
Ramón Sánchez Valera	General Director of Infrastructure Department and third-party access (tpa) services
Diego De Reina Lovera	Financial Director
Rafael Piqueras Bautista	General Secretariat
Erundino Neira Quintas	Head of Resources and Corporate Social Responsibility
José Espejo Serrano	Internal Audit

Total remuneration received by senior management (in thousands €)	2,442
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**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	8
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	Board of Directors	General Meeting
Body authorising clauses	YES	NO

Is the General Meeting informed of such clauses?	NO
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• Annual Report 2010

## Annual Corporate Governance Report for Listed Limited Companies

### 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 Meeting shall determine the total maximum remuneration to be paid to Directors, and this shall comprise a cash sum payable on an annual basis or in respect of such period as the General Meeting may determine.

When setting remuneration, the 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 enable the holder to obtain shares, or through other remuneration systems based on the price of the shares quoted on a public exchange. The application of the said systems shall be presented to the General Meeting for approval, and the Meeting shall determine the value of the shares granted to 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 senior manager contract, or a contract for services. Such relationships must be compatible with the position of member of the Board of Directors.

Directors 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.

Likewise, article 16 of the Regulations of the Board of Directors stipulates that the Nomination, Remuneration and Corporate Social Responsibility 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 Nomination and Remuneration Committee, subject to the restrictions laid down in the Bylaws.

Payments to Directors shall be transparent. The Notes to the financial statements, as an integral part of the financial statements, shall include accurate, detailed information on the remuneration received by each Director, 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.

On the proposal of the company's chief executive, the appointment and removal of senior officers, and their compensation clauses.  
Directors' remuneration, and, in the case of executive directors, the additional remuneration for their executive functions and other contract conditions.

YES

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 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 Vice-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.

• Annual Report 2010

## Annual Corporate Governance Report for Listed Limited Companies

**Have external consultancy firms been used?**

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**Identity of external consultants**

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**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.**

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 Board Regulations, Enagás, S.A. Directors shall be appointed by the General Meeting or by the Board of Directors, in conformity with the provisions contained in the Spanish Companies Act and the Company Bylaws.

Appointees for Directorships must be persons who, in addition to satisfying the requirements for office under the law and the Bylaws, have recognised prestige and the professional expertise and experience appropriate to the performance of their duties.

Any nomination for a Directorship which the Board lays before the General Meeting and any appointment made by the Board in the exercise of its statutory powers of co-optation must be preceded by an appropriate proposal from the Nomination and Remuneration Committee.

Following Good Governance Recommendations, when the Board of Directors departs from the Committee's recommendations it must explain its reasons, and such rationale must be duly recorded in the minutes.

Selection processes must be free of any implied bias against women candidates. The Company shall seek out and include women with the target profile among 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 are defined as those who, appointed based on their personal and professional aptitudes, may perform their duties without being affected by dealings with the Company, its significant shareholders or its executives. Under no circumstances may the following be classified as Independent Directors:

- a) Persons who have been employed by or served as Executive Directors of Group companies, unless three (3) or five (5) years, respectively, have elapsed since the termination of that relationship.
- b) Persons who receive any sum or benefit other than Director's remuneration from the Company or its Group, unless such benefit is negligible. 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 them may not, on a discretionary basis, suspend, modify or revoke any accrual thereof, without incurring a breach of obligations.
- c) Persons who are, or have been during the past three (3) 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 that period.
- d) Persons 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) Persons who maintain, or have maintained in the past 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 such relationship. Business relationships shall be defined as relationships whereby the company serves as a provider of goods or services, including those of a financial nature, or as an advisor or consultant.
- f) Persons who are significant shareholders, executive directors or senior managers of any entity that receives, or has received during the past three (3) years, significant gifts from Enagás, S.A. or its Group. Patrons or trustees of any foundation that receives donations shall not be included under this section.
- g) Spouses, partners or relatives up to the second degree of any of the Company's Executive Directors or senior managers.
- h) Persons who have not been nominated, whether for appointment or renewal, by the Nomination and Remuneration 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 at the investee. 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 Director holding an interest in the Company may hold the status of 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 (4) years, and may be re-elected. Directors who are co-opted shall hold office until the date of the first subsequent General Meeting.

As a general rule, an appropriate rotation of Independent Directors shall be sought. For this reason, when an Independent Director is proposed for re-election, the circumstances making this Director's continuity in the post advisable must be justified. Independent Directors shall not remain as such for a period in excess of twelve (12) consecutive years.

• Annual Report 2010

## Annual Corporate Governance Report for Listed Limited Companies

### Appraisal:

Article 11 of the Regulations of the Board stipulates that the Nomination and Remuneration Committee, responsible for evaluating the quality of work and dedication to their offices 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 Meeting.

### Removal and dismissal:

Directors shall leave their post after the first General Meeting following the end of their term of appointment and in all other cases in accordance with the law, the Bylaws and these Regulations (article 12.1 of the Regulations of the Board).

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 Nomination Committee (article 12.3 of the Regulations of the Board).

### 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 place their offices at the Board of Directors' disposal, and tender their resignation, if the Board deems fit, in the following cases:

- a) When they are involved in any of the statutory circumstances of incompatibility or prohibition.
- b) When they are in serious breach of their duties 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 offences stated in article 124 of the Companies Act, the Board shall examine the matter and, in view of the particular circumstances and potential harm to the Company's name and reputation, decide whether or not the Director shall be called on to resign.
- d) When the reason for which they were appointed as Directors no longer holds.
- e) When Independent Directors cease to meet the conditions established under article 9.
- f) When the shareholder represented by a Proprietary Director sells its entire interest. They shall also do so, in the appropriate number, when that shareholder 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 in points d), e) and f), the latter must be included in the category that, in accordance with these Regulations, is most appropriate based on his/her new circumstances.

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 Nomination Committee.



After a Director resigns from his/her post, he/she may not work for a competitor for a period of two (2) years, unless exempted from this duty or the duration of the duty is shortened by the Board of Directors.

**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 limiting risk**

The Chairman of the Board of Directors exercises the functions of chief executive of the Company. In addition to the powers and duties attributed to him/her by law and the Bylaws, the Chairman shall exercise the management in practice of the Company's affairs, always in accordance with the decisions and criteria laid down by the General Meeting and the Board of Directors in their respective spheres of authority.

However, the Board of Directors' Regulations contain a detailed list of issues which must be presented to the Board; in general terms, the Board retains sole authority on operations valued at over €3 million. Similarly, Enagás, S.A.'s internal regulations on investment and tendering also reserve decision making powers for the Board for sums of over €3 million.

161

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**

Article 17 of the Regulations of the Board of Enagás, S.A. stipulates that, if the Chairman of the Board is also the Company's chief executive, the Board may give powers to one of the Independent Directors to demand that a Board meeting be convened or that additional items of business be included on the agenda, to collate and voice the concerns of External Directors, and to direct the Board's assessment of the Chairman's performance.

In 2010, the Board of Enagás, S.A. also approved the delegation of powers to the Chairman of the Nomination, Remuneration and Corporate Responsibility Committee, currently Independent Director Dionisio Martínez Martínez, to call board meetings or include new items on the agenda in order to coordinate and convey the concerns of Directors and to lead the Board's evaluation of its chairman. Mr Martínez's appointment as Independent Leader Director was notified to the CNMV, the Spanish securities market regulator, in a filing dated 28 June 2010.

**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.

• Annual Report 2010

# Annual Corporate Governance Report for Listed Limited Companies

## 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

0

Age limit for CEO

0

Age limit for directors

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

At the time of writing of this report, two (2) of the Directors on the Board of Enagás, S.A. are women – María Teresa García-Milá Lloveras and Isabel Sánchez García – out of a total sixteen (16) Directors. In 2009 there was only one woman Director.

Enagás, S.A., in the awareness that it must continue to encourage and facilitate the presence of women in the event of any vacancy arising on the Board, particularly for Independent Directorships, resolved at the General Meeting of 30 April 2010 to appoint Isabel Sánchez García as an Independent Director. This development was consistent with article 8 of the Regulations of the Board, which prescribes that selection processes must be free of any implied bias that might stand in the way of the selection of women Directors. The Company shall seek out and include women with the target profile among candidates for Board places.

163

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 Nomination, Remuneration and Corporate Social Responsibility 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 Bylaws stipulates that a Director may give a proxy to another Director and delegate his or her voting powers, but no Director present at a meeting may hold more than two proxies.

Furthermore, in accordance with article 7.3 of the Regulations of the Board, proxies for the representation of absent Directors may be granted by any means, with a telegram or facsimile addressed to the Chairman or Secretary of 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

• Annual Report 2010

## Annual Corporate Governance Report for Listed Limited Companies

Indicate how many meetings of the various board committees were held during the year.

Number of meetings of the Executive or Delegated Committee	0
Number of meetings of the Executive or Delegated Committee	4
Number of meetings of the Appointments and Remunerations Committee	5
Number of meetings of the Appointments Committee	0
Number of meetings of the Remunerations Committee	0

164

**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	24
% of non-attendances of the total votes cast during the year	12.000

**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 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 authorise for issue, in clear and precise terms facilitating comprehension of their contents, the individual and consolidated financial statements and the Directors' report, after obtaining the report issued by the finance department and the relevant report issued by the Audit and Compliance Committee, all appropriate clarifications having been made.

Upon authorising the financial statements for issue, the Board shall attend to any comments or recommendations submitted by the Audit and Compliance Committee in its prior report. If the financial statements depart from the prior report issued by the Audit and Compliance Committee, the Board of Directors shall provide an adequate 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 Company's Accounts Auditor. However, if the Board of Directors determines that it must stand by a contrary view, 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 "serve 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.

Enagás, S.A. 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 of the board also a director?**

NO

### **B.1.34 Explain the procedures for appointing and removing the Secretary of 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 of the board.

The Secretary to the Board of Directors shall be appointed by the Board and need not 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 Nomination and Remuneration 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 Nomination, Remuneration and Corporate Social Responsibility Committee shall include responsibility for "proposing the appointment and dismissal of the Secretary of the Board of Directors".

• Annual Report 2010

## Annual Corporate Governance Report for Listed Limited Companies

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

166

Is the Secretary of the board entrusted in particular with the function of overseeing corporate governance recommendations?

YES

### Remarks

In accordance with article 20.3 of the Regulations of the Board, the Secretary shall see to it that the acts of the Committee are formally and substantively lawful, and that its procedures and rules of governance are abided by and regularly reviewed. In particular he/she shall ensure that the actions of the Board:

- Adhere to the spirit and letter of primary enactments and their implementing regulations, including those issued by regulatory agencies;
- Comply with the Bylaws and the Regulations of the Board of Directors and other provisions governing the Company;
- Incorporate the good governance recommendations that the Company has accepted.

### **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.**

Measures in aid of preserving auditor independence:

The Audit and Compliance Committee is the organ created by the Board to carry on relations with the company's external auditors.

The chief purposes of the Audit and Compliance Committee are to evaluate the Company's accounting verification system, ensure the independence of the External Accounts Auditor, review the internal control system, safeguard the transparency of information, and ensure compliance with the Internal Code of Conduct.

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.

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.

Measures in aid of preserving the independence of financial analysts, rating agencies and investment banks:

In accordance with the Regulations, the Board of Directors shall adopt and execute all acts and measures required to ensure transparency of the Company with regard to the financial markets, uphold the proper formation of prices for the Company's and its subsidiaries' shares, and perform all functions attending the Company's status as a listed company pursuant to current laws and regulations.

The Investor Relations Department manages communications with financial analysts, investors and rating agencies so as to assure that relations with all parties remain objective, fair and non-discriminatory.

In addition, within the scope of its activities the Finance Department provides investment banks with the information they need.

Shareholders, investors and analysts can avail themselves of full and updated information by the following channels: The Investor Relations Department and the Shareholder Information Office.

Finally, Enagás, S.A. presentations to financial analysts, investors and other parties are published on the company's website.

**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

Amount of other non-audit work (in thousands €)

Company

Group

Total

388

2

390



• Annual Report 2010

## Annual Corporate Governance Report for Listed Limited Companies

▶ Amount of other non-audit work as a % of total amount billed by audit firm	36.980	11.760	36.580
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**B.1.38** Indicate whether the audit report on the previous year's financial statements is qualified or includes reservations. 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 financial statements as a percentage of the total number of years over which the financial statements have been audited.

	Company	Group
Number of consecutive years	7	7
Number of years audited by current audit firm/ Number of years the company's financial statements have been audited (%)	27.0	27.0

**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.	5.494	—
Bilbao Bizkaia Kutxa (BBK)	Iberdrola, S.A.	6.553	—
Bilbao Bizkaia Kutxa (BBK)	Gas Natural SDG, S.A.	0.110	—
Luis Javier Navarro Vigil	E.ON España	0.000	Director
Luis Javier Navarro Vigil	BP España, S.A.	0.000	Director
Don Luis Javier Navarro Vigil	E.ON Renovables S.L.U.	0.000	Director
Don Luis Javier Navarro Vigil	BP, PLC	0.000	—

### 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 stipulates that Directors shall further 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 such performance.

The proposal must be communicated to the Chairman of the Board via the Secretary of the Board. The Board of Directors may withhold its approval when it considers that such services are unnecessary for the duties with which they are entrusted, or disagrees with the cost (disproportionate in relation to the problem and assets and revenues of the Company) or believes that such technical assistance can be adequately provided by experts and technicians from within the Company.

The Company shall 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.

169

### 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 channel, and shall specify the meeting venue and agenda.

The notice of meeting, which other than in exceptional circumstances shall be issued at least three (3) days in advance of the intended date of the meeting, shall contain all information and documents thought appropriate or relevant for Directors to be properly informed.

The power to set the agenda of a meeting rests with the Chairman, but any Director may request in advance of the calling of such meeting that there be added to the agenda any items which in his/her view ought to be addressed by the Board.

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.

• Annual Report 2010

## Annual Corporate Governance Report for Listed Limited Companies

**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.**

SI

### Details of 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. The moment a Director is indicted or tried for any of the offences stated in article 124 of the Companies Act, the Board shall examine the matter and, in view of the particular circumstances and potential harm to the Company's name and reputation, decide whether or not the Director shall be called on to resign.

170

**B.1.44 Indicate whether any director has notified the company that he/she has been indicted or tried for any of the offences stated in article 124 of the Spanish Companies Act (LSA for its initials in Spanish).  
article 124 of the Spanish Companies Act:**

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
Caja de Ahorros de Valencia, Castellón y Alicante, Bancaja	Member	Proprietary
José Riva Francos	Member	Independent Director
Luis Javier Navarro Vigil	Member	Other External
Sociedad Estatal de Participaciones Industriales (SEPI)	Member	Proprietary

### Appointments, Remuneration and CSR Committee.

Name	Post	Type
Dionisio Martínez Martínez	Chairman	Proprietary
Bilbao Bizkaia Kutxa (BBK)	Member	Dominical
María Teresa García-Milá Lloveras	Member	Independent Director
Ramón Pérez Simarro	Member	Independent Director
Sagane Inversiones, S.L.	Member	Proprietary

171

### B.2.2 Indicate whether the Audit Committee is responsible for the following.

- 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.
- To regularly review internal control and risk management systems, so main risks are correctly identified, managed and notified.
- 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.
- Establishing and supervising a mechanism whereby staff can report, confidentially and, if thought 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

YES

YES

YES



• Annual Report 2010

## Annual Corporate Governance Report for Listed Limited Companies

- ▶ • To submit to the board proposals for the selection, appointment, reappointment and removal of the external auditor, and the engagement conditions.
- 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.
- To ensure the independence of the external auditor.
- In the case of groups, the Committee should urge the group auditor to take on the auditing of all component companies.

YES

YES

YES

YES

172

### B.2.3 Describe the organisational and operational rules and the responsibilities attributed to each of the board committees.

#### 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 (5) 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 (3) and maximum of five (5) members, appointed by the Board of Directors. Two (2) of the Committee's members, including the Chairman, are Independent Directors, two (2) are Proprietary Directors, and the fifth (5) 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. A member of the Audit and Compliance Committee shall vacate that office if he vacates his Directorship or, while remaining a Director, if so decided by the Board of Directors. Notwithstanding the above, the Chairman of the Committee must be replaced every four (4) years. The Committee Chairman may be re-elected one (1) 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 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 (4) 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 2010, the Committee met four (4) 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 chief purposes of the Committee are to evaluate the Company's accounting verification system, ensure the independence of the External Accounts Auditor, review the internal control system, safeguard the transparency of information, and ensure compliance with the Internal Code of Conduct.
- 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 financial statements prior to their being authorised for issue by the Board of Directors.

In its Report, the Committee shall include 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 properly explain any departure from the Audit and Compliance Committee's prior Report in the financial statements finally authorised for issue.

- 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 audit 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, legislation and standards and asset protection measures.

The Committee shall have full access to Internal audit systems and shall meet regularly, in plenary session or through its Chairman, with the Internal Audit 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.

• Annual Report 2010

## Annual Corporate Governance Report for Listed Limited Companies

174

### 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 laws and regulations, and providing information on the remuneration payable to the External Accounts Auditor and other terms and conditions of their engagement.
- 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 technical auditing standards.
- 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.

Proposing, where appropriate, to the Board of Directors measures required to manage, mitigate or prevent risks detected.

- Establishing, if the Committee thinks fit for the purposes of risk of detection, 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. NOTE: More information on points e) and f) can be found in section G1) CLARIFICATION OF SECTION B.2.3.

### Committee name

Appointments, Remuneration and CSR Committee.

### Brief description

- It should be noted that the Nomination, Remuneration and Corporate Social Responsibility 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, which was altered at the General Meeting of 30 April.

- The Nomination, Remuneration and Corporate Social Responsibility Committee comprises five (5) 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 (3) and maximum of five (5) members.
- It comprises mainly Independent Directors, as dictated in the Company Bylaws and the Regulations of the Board. Three (3) of the Committee's members, including the Chairman, are Independent Directors, while two (2) are Proprietary Directors.
- On 28 June 2010, the Board also approved the appointment of the Chairman of the Nomination, Remuneration and Corporate Responsibility Committee, Dionisio Martínez Martínez, as Independent Leader Director, with a power to call board meetings or include new items on the agenda in order to coordinate and convey the concerns of Directors and to lead the Board's evaluation of its Chairman.
- Pursuant to article 25 of the Regulations of the Board of Directors, the Nomination, Remuneration and Corporate Social Responsibility Committee must meet at least four (4) times a year. In 2010, the Committee met five (5) times.
- The duties of the Nomination, Remuneration and Corporate Social Responsibility 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 remuneration criteria for the Company's Directors, in accordance with the stipulations of the Bylaws and in line with resolutions passed at the General Meeting, and to ensure that remuneration is transparent.
  2. To establish a general remuneration policy for Enagás, S.A. management personnel, providing a rationale 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 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 renewal of Directors required under the Bylaws, the addition 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 of 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 interest, in accordance with the stipulations of the Internal Code of Conduct regarding the securities market.
  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 office 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 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.

• Annual Report 2010

## Annual Corporate Governance Report for Listed Limited Companies

176

9. To produce reports on intended appointments and dismissals of senior management staff, and, where necessary, approve special terms in their contracts.
10. To approve the remuneration of senior management, provided that this does not diverge from criteria established in the general remuneration policy for executives.
11. To report to the Board of Directors on any related-party transactions before they are authorized. Under no circumstances shall any such transaction be authorised without a prior report evaluating the transaction from the point of view of arm's length conditions. If the transactions are ordinary, generic authorisation of the type of transaction and its terms and conditions shall suffice.
12. To report to the Board of Directors on measures to be taken in the event of breach of these Regulations or the Internal Code of Conduct on matters relating to the securities markets on the part of Directors or other persons subject to those rules. In performing this duty, the Nomination and Remuneration Committee shall work in conjunction with the Audit and Compliance Committee wherever appropriate.

### **B.2.4 Identify any advisory or consulting powers and, where applicable, the powers delegated to each of the committees.**

#### Committee name

Audit and Compliance Committee

#### Brief description

Tasks 1 to 18 listed in section b.2.3 of this report.

#### Committee name

Nomination, Remuneration and Corporate Social Responsibility Committee.

#### Brief description

Tasks 4 to 11 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

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 ope-

rational 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](http://www.enagas.es) or [www.enagas.com](http://www.enagas.com).

No changes were made to the regulations of the Audit and Compliance Committee in 2010.

The Audit and Compliance committee has drafted a report on its activities in 2010, available both at the headquarters of Enagás, S.A. and on its corporate website.

### Committee name

Nomination, Remuneration and Corporate Social Responsibility Committee.

### Brief description

The Nomination, Remuneration and Corporate Social Responsibility 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.

Article 45 of the Bylaws was altered at the General Meeting of 30 April 2010 so as to read as follows:

ARTICLE 45.- APPOINTMENTS, REMUNERATION AND CSR COMMITTEE.

The Board of Directors shall appoint from among its members an Appointments, Remuneration and CSR Committee that shall be comprised of a minimum of three and a maximum of five Directors. A majority of Committee members must be Independent Directors and no Executive Directors may be included among its number. The Committee Chairman shall be selected from among Committee members by the Board of Directors, and shall not have a casting vote.

The Committee shall have powers and responsibilities in respect of the following matters:

- To establish remuneration criteria for the Company's Directors, in accordance with the stipulations of the Bylaws and in line with resolutions passed at the General Meeting, and to ensure that remuneration is transparent.
- To establish a general remuneration policy for Enagás, S.A. management personnel and guidelines relating to the nomination, 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 re-appointment of Directors pursuant to the Company's Bylaws, the incorporation of new members and any other aspects relating to its composition that it deems appropriate.
- To report to the Board on transactions that entail or could entail a conflict of interest.
- To establish a general CSR and Corporate Governance policy, ensuring the adoption and effective application of best practices, both those which are compulsory and in line with generally-accepted recommendations. To do this, the Committee may submit to the Board the initiatives and proposals it deems appropriate and shall provide information on proposals submitted to the Board and information the Company releases to shareholders annually regarding these issues.

• Annual Report 2010

## Annual Corporate Governance Report for Listed Limited Companies

The Committee shall meet at least four times a year, with meetings being called by the Chairman. The Committee may seek advice both internally and externally and request the attendance of senior management personnel, as deemed necessary in the execution of its duties.

Moreover, on 28 June 2010, the Board also approved the appointment of the Chairman of the Nomination, Remuneration and Corporate Responsibility Committee, Dionisio Martínez Martínez, as Independent Leader Director, with a power to call board meetings or include new items on the agenda in order to coordinate and convey the concerns of Directors and to lead the Board's evaluation of its Chairman.

178

### **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 (In thousands €)
Atalaya Inversiones, S.R.L.	Enagás, S.A.	Corporate. Paid to Sagane Inversiones, S.L. (significant shareholder).	Dividends and other benefits paid	9,287
Caja de Ahorros de Asturias (Cajastur)	Enagás, S.A.	Commercial	Finance agreements, loans and capital contributions (lender)	50,000
Caja de Ahorros de Asturias (Cajastur)	Enagás, S.A.	Commercial	Guarantees and sureties	12,000
Caja de Ahorros Asturias (Cajastur)	Enagás, S.A.	Corporate. Paid to CIC, S.L. (significant shareholder).	Dividends and other benefits paid	9,288
Caja de Ahorros de Asturias (Cajastur)	Enagás, S.A.	Commercial	Finance agreements, loans and capital contributions (lender)	2,000
Caja de Ahorros de Asturias (Cajastur)	Enagás, S.A.	Commercial	Finance agreements, loans and capital contributions (lender)	30,000
Oman Oil Company, S.A.O.C.	Enagás, S.A.	Corporate Paid to Oman Oil Holdings Spain, S.L.U.	Dividends and other benefits paid	9,287

• Annual Report 2010

## Annual Corporate Governance Report for Listed Limited Companies

### 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 manager	Name or corporate name of the company or its group company	Nature of the relationship	Type of transaction	Amount (In thousands €)
Bilbao Bizkaia Kutxa (BBK)	Enagás, S.A.	Commercial	Guarantees and sureties	6,000
Bilbao Bizkaia Kutxa (BBK)	Enagás, S.A.	Corporate Paid to Kartera 1, S.L. (significant shareholder)	Dividends and other benefits paid	155,000
Bilbao Bizkaia Kutxa (BBK)	Enagás, S.A.	Commercial	Finance agreements, loans and capital contributions (lender)	155,000
Caja de Ahorros de Valencia, Castellón y Alicante, Bancaja	Enagás, S.A.	Commercial	Guarantees and sureties	6,000
Caja de Ahorros de Valencia, Castellón y Alicante, Bancaja	Enagás, S.A.	Commercial	Finance agreements, loans and capital contributions (lender)	56,000
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	9,287
Sagane Inversiones, S.L.	Enagás, S.A.	Corporate	Dividends and other benefits paid	9,287
Sociedad Estatal De Participaciones Industriales (SEPI)	Enagás, S.A.	Corporate	Dividends and other benefits paid	9,287

### 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 subject matter and terms set them apart from the company's ordinary trading activities.

Corporate name of the group company

Gasoducto Al-Andalus, S.A.

Amount (In thousands €)

5,596

Brief description of the transaction

Income from pipeline maintenance and franchise royalties.

Corporate name of the group company

Gasoducto Al-Andalus, S.A.

Amount (In thousands €)

6,074

Brief description of the transaction

Dividends received by Enagás, S.A. for the 2009 financial year.

Corporate name of the group company

Gasoducto Al-Andalus, S.A.

Amount (In thousands €)

16,363

Brief description of the transaction

Transport service charges paid.

Corporate name of the group company

Gasoducto Al-Andalus, S.A.

Amount (In thousands €)

19,007

Brief description of the transaction

Loan granted by Enagás, S.A.

Corporate name of the group company

Gasoducto Braga - Tuy, S.A.

Amount (In thousands €)

3,329

Brief description of the transaction

Transport service charges paid.

Corporate name of the group company

Gasoducto Braga - Tuy, S.A.

Amount (In thousands €)

11,869

Brief description of the transaction

Loan granted by Enagás, S.A.

• Annual Report 2010

## Annual Corporate Governance Report for Listed Limited Companies

Corporate name of the group company

Gasoducto Campo Maior - Leiria - Braga, S.A.

Amount (In thousands €)

4,605

Brief description of the transaction

Loan granted by Enagás, S.A.

Corporate name of the group company

Gasoducto Campo Maior - Leiria - Braga, S.A.

Amount (In thousands €)

3,254

Brief description of the transaction

Transport service charges paid.

Corporate name of the group company

Gasoducto de Extremadura, S.A.

Amount (In thousands €)

3,945

Brief description of the transaction

Dividends received por Enagás, S.A. for the 2009 financial year.

Corporate name of the group company

Gasoducto de Extremadura, S.A.

Amount (In thousands €)

41

Brief description of the transaction

Loan granted by Enagás, S.A.

Corporate name of the group company

Gasoducto de Extremadura, S.A.

Amount (In thousands €)

8,560

Brief description of the transaction

Transport service charges paid.

Corporate name of the group company

Gasoducto de Extremadura, S.A.

Amount (In thousands €)

4,966

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 LSA.

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, S.A. and/or its group, and its Directors, managers or shareholders are primarily set out in Enagás, S.A.'s 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 regard 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 Nomination, Remuneration and Corporate Social Responsibility Committee, and assess whether they satisfy market criteria.

• Annual Report 2010

## Annual Corporate Governance Report for Listed Limited Companies

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. Notifications must be effected within fifteen (15) days, and in any event, before any decision relating to the possible 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 Nomination, Remuneration and Corporate Social Responsibility 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) To inform the Board of Directors, prior to approval, of transactions that Directors wish to undertake that imply or may imply a conflict of interest, in accordance with the stipulations of the Code of Conduct regarding the securities market.
- 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 arm's length conditions. If the transactions are ordinary, a generic authorisation of the type of transaction and its terms and conditions shall suffice.
- 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 on Matters Relating to Securities Markets by Directors or other persons subject to the aforementioned same. In performing this duty, the Nomination and Remuneration 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.

185

Enagás' Risk Policy establishes the guiding principles and mechanisms to enable management to deal effectively with the uncertainties, contingencies and opportunities that may arise, thereby improving the Company's ability to create value and offer both shareholders and other stakeholders a higher standard of assurance as regards profitability and environmental and social impact.

All initiatives aimed at controlling and mitigating risk shall follow these Basic Principles:

- Segregation and independence among risk managers and supervisors.
- Global supervision and like-for-like measurement of risks assumed by Enagás.
- Consistent understanding of risk management.
- Focus on decision-taking: providing the information required for decision-making within its purview.
- Establish efficient coordination among the Company's different business areas/units to guarantee the optimum use of the knowledge and resources available.
- Transparency (simplicity, objectivity and accountability) regarding the processes and methodologies used.
- Facilitate active supervision by the Audit and Compliance Committee and the Management Committee.
- Constantly update and make improvements by regularly reviewing the risks and adopting best practices concerning risk supervision and management.

Responsibilities: to entrust integral risk management to the Enagás Board of Directors, management and employees, each within their area of responsibility.

In 2010, formal specification of the Integrated Risk Management Procedure established an integrated risk management framework that identifies the roles of the company's various decision-making bodies and the constituent parts of the risk management system:

1. Nurturing an internal risk management environment that guides the company's actions and directly influences employee awareness of internal control issues.

• Annual Report 2010

## Annual Corporate Governance Report for Listed Limited Companies

2. Setting goals for the organization as a precondition of identifying potential scenarios with an impact on the achievement of those goals.
3. Every unit manager or head must systematically identify relevant events.
4. Evaluating risks to enable the company to consider the scope of potential events impacting the company's achievement of its goals and the probability of such events arising.
5. Responding to risks: The aim is to take decisions – to avoid, mitigate, share or accept a given risk – on the basis of the outcome of an assessment as to whether the particular risk needs to be addressed.
6. Establishing control actions as necessary to ensure that risk responses are implemented properly and on time by department and unit heads.
7. Within the risk management framework, reporting and communicating at all organizational levels to identify, evaluate and respond to risks, and, ultimately, take decisions and achieve the objectives set down at the organization-wide level.
8. Risk management is to be overseen by the Audit and Compliance Committee and the Sustainability Committee, by the individual department/unit “owning” each risk, and by the Internal Audit Unit in the performance of its assigned role.

Enagás, S.A. 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 or counterparty risk:** This is the possible loss of value or earnings as a result of a 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.
- **Reputational risk:** Any action, event or circumstance that may adversely affect stakeholders' perceptions and opinions of the company.

The risks have been measured in terms of their impact and probability in quantitative and qualitative terms. Also, the necessary controls and action plans have been established to maintain these risks within the admissible thresholds.

In 2010, the heads of the various divisions and business units at Enagás, S.A. managed their risks based on a self-assessment of some of these and by permanently monitoring the control activities and the risks in relation to the Company's accepted level of risk.

Moreover, the Enagás Group continues to cement and reinforce its System of Internal Control of Financial Reporting (Spanish "SCIF") with a view to adopting best practices towards the reliability and transparency of the financial reporting process.

## 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.

### Risks occurring in the year

Corporate.

### Circumstances responsible for this occurrence

The circumstances inherent to the ordinary course of business.

### Operation of control systems

The control systems put in place proved adequate for risks arising in 2010.

## 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

Internal Audit

### Description of duties

The key risk management functions include:

- Proposing risk management strategy to the Sustainability Committee.
  - Nurturing a risk-aware culture across the company and helping to train employees in risk management skills.
  - Designing and reviewing the risk management process.
  - Supporting the Sustainability Committee in framing, adopting and updating internal risk management Regulations.
  - Supporting individual departments in risk identification and assessment
- The key roles of the Internal Audit Unit are:

• Annual Report 2010

## Annual Corporate Governance Report for Listed Limited Companies

- Focusing audit work on the most significant identified risks and on established internal controls.
- Reporting on the progress of control activities as regards design-related matters to the Audit and Compliance Committee and to the departments concerned.

### Name of the Committee or Body

Audit and Compliance Committee

### Description of duties

- 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.
- Proposing, where appropriate, to the Board of Directors measures required to manage, mitigate or prevent risks detected.

### Name of the Committee or Body

Management Committee

### Description of duties

- Creating the structures and environment required for the Integrated Risk Management model to operate effectively
- Establishing the company's risk management philosophy: accepted risks, integrity, ethical values and staff competencies
- Approving the accepted risk level for the company as a whole
- Permanently reviewing the organization's activities and potential inherent risks with reference to the accepted level of risk for the Company.
- Proposing to the Audit and Compliance Committee the measures needed to manage those risks identified.

### Name of the Committee or Body

Sustainability Committee

### Description of duties

- Establishing overall policy on risk management and defining the company's position in the short, medium and long-term
- Across all company levels and activities, nurturing a common risk culture aligned with the strategies and objectives laid down by senior management
- Reporting to the Audit and Compliance Committee on progress made in risk management and proposing actions in response to breaches of risk policy or internal regulations and/or conflicts arising in connection with risk management.

#### Name of the Committee or Body

Management or Business Unit

#### Description of duties

- As the owners of the risk, it is their responsibility to manage the risks inherent in their activities by establishing suitable controls and action plans.
- Introducing risk management objectives in all functions.

### 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, S.A. is cognisant of the applicable legislation and regulations. Part of their duties include ensuring that new mandatory legislation and regulations are analysed and applied.

New legislation or regulatory amendments will often necessitate amendments to the company's internal regulations or the establishment of new actions or 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.

Specifically, in response to new laws and regulations affecting third-party grid access management processes, in 2010 Enagás, S.A. specified a procedure that sets out the actions to be taken to prepare for possible impacts and identify the related services or variables most likely to create conflicts with clients.

The General Secretariat deals with, clarifies and establishes the criteria for all issues on which the divisions or business units have reasonable doubts.

Moreover, 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 S.A. as a gas transporter and as Technical System Operator.
- Mercantile law.
- Fiscal law.
- Environmental law.
- Legislation regarding prevention.

• Annual Report 2010

# Annual Corporate Governance Report for Listed Limited Companies

190

## E. General Meetings

E.1 Indicate the quorum required for constitution of the General Meeting established in the company's Bylaws. Describe how it differs from the system of minimum quorums established in the LSA.

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 LSA.

NO

Describe how they differ from the rules established under the LSA.

E.3 List all shareholders' rights regarding the General 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 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 Meeting is published, and on the day of the meeting itself, the Company shall place the following resources at its shareholders' disposal:

- The full text of the notice of General Meeting, setting out the resolutions proposed for adoption, and, where appropriate and as far as practicable, reports from the Board of Directors concerning their rationale and appropriateness.

- b) Comprehensive documentation on the Enagás, S.A. Financial Statements and the Consolidated Financial Statements of the Enagás Group, and on the proposed appropriation of Enagás profit or loss for the financial year in question.
- c) Enagás, S.A. Management Report and Consolidated Management Report for the financial year.
- d) Auditors' Reports on the Consolidated Financial Statements and Enagás, S.A. Financial Statements.
- e) Annual Corporate Governance Report.
- 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 business on the agenda, and, if it is impracticable to meet such requests at that time, Directors must provide written answers within a period of seven days following the end of the Meeting.

The Directors are under a duty to furnish the information requested unless, in the view of the Chairman, publicity of the requested information would harm the Company's interests, or supply of the information is barred under the law or the Bylaws or a judicial or administrative decision. No such refusal may be made if the request is put forward by shareholders representing at least twenty-five percent 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 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 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 benefit of the Company.



• Annual Report 2010

## Annual Corporate Governance Report for Listed Limited Companies

### 3. Rights of attendance.

In accordance with article 27 of the Company Bylaws and article 9 of the Regulations of the General 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 Meeting, all shareholders entitled to attend meetings may be represented by another person, who need not be a shareholder.

Proxies must be conferred in writing, by post, a recognised electronic signature, or any of the other legally permitted electronic or remote communication methods. In all cases, the identity of the proxy must be duly guaranteed, and shall be valid only for the particular meeting in question.

A proxy may be revoked at any time. If the principal attends the meeting in person, his/her proxies are automatically revoked, and he/she must inform the proxy-holder in order to ensure that such person does not attempt to exercise proxy rights he/she does not hold.

Shareholders who are natural persons disqualified from exercising their civil rights and shareholders that are juristic 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 Meeting. All shareholders with attendance rights, under the terms set out in article 27 of the Company Bylaws and implemented by article 9 of the Regulations of the General 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, using a duly signed and accredited attendance and voting card, or by postal vote sent to the Shareholder Information 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 shareholder participation at General 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 Meeting).

In accordance with the provisions of article 7.2 of the Regulations of the General 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.

During the General Meeting, shareholders may verbally request any information or clarifications they deem appropriate concerning business on the agenda, and, if it is impracticable to meet 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 at 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 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 Meeting.

YES

• Annual Report 2010

## Annual Corporate Governance Report for Listed Limited Companies

### Details of measures

In accordance with article 12.2 of the Regulations of the General Meeting: The General 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. 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 present.

The smooth operation and progress of the meeting is ensured by the provisions established in the Regulations of the General 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.
- The General Meeting must be attended by the Company's external auditor, 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 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 of the board or the person so appointed by the Chairman in his/her absence shall provide the Directors with two copies of that 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 Notice of Meeting 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.



- The Meeting Secretary shall read out the results of the vote on each 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 notarial instrument shall be taken to constitute the minutes of the meeting, which shall not therefore require adoption.

## E.6 Indicate the amendments, if any, made to the General Meeting regulations during the year.

No amendments were made in 2010.

## E.7 Indicate the attendance figures for the General Meetings held during the year.

### Attendance data

Date of General Meeting	% attending in person	% by proxy	% remote voting		Total
			Electronic means	Other	
30/04/2010	11.974	21.525	0.000	27.418	60.917

## E.8 Briefly indicate the resolutions adopted at the General Meetings held during the year and the percentage of votes with which each resolution was adopted.

The Annual General Meeting was held on 30 April 2010. 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 ANNUAL GENERAL MEETING OF 30 APRIL 2010:

**RESOLUTION 1.-** To adopt the annual accounts (balance sheet, profit and loss account, statement of changes in equity, cash flow statement and notes) and the directors' report for the financial year beginning on 1 January and ending on 31.12.09 for Enagás, S.A. and its consolidated Group.

- Voting on the Resolution was as follows: For: 120,786,524 (98.87%); Against: 897 (0.001%); Abstentions: 1,373,105 (1.12%); Total votes cast: 122,160,526.

• Annual Report 2010

## Annual Corporate Governance Report for Listed Limited Companies

**RESOLUTION 2.-** To approve the distribution of Enagás, S.A. profit for financial year 2009, totalling a net profit of €297,271,191.22, in accordance with the following proposed distribution prepared by the Board of Directors: Distribution (in €): Legal Reserves: 0; Voluntary Reserves: €118,452,784.65; Dividend: €178,818,406.57; Total Earnings: €297,271,191.22.

- To pay out a final dividend in the amount of €111,256,610.99. Said amount is the result of deducting from the financial year's total dividend of €178,818,406.57, the interim dividend of €67,561,795.58 resolved upon by the Board of Directors on 30 November 2009 and paid to shareholders on 22 December 2009.
- The final dividend was paid on 5 July 2010.
- The total dividend for the financial year being proposed for approval in accordance with the previous paragraph equates to €0.749027 per share (gross).
- Once the interim dividend already paid – €0.283 gross per share - is deducted, the amount now payable is €0.466027 per share, before tax deductions.
- Voting on the Resolution was as follows: For: 120,601,679 (98.72%); Against: 114,487 (0.09%); Abstentions: 1,444,360 (1.18%); Total votes cast: 122,160,526.

**RESOLUTION 3.-** To approve the performance of the Board of Directors of Enagás, S.A. during the financial year 2009.

- Voting on the Resolution was as follows: For: 120,348,564 (98.51%); Against: 173,917 (0.14%); Abstentions: 1,638,045 (1.34%); Total votes cast: 122,160,526.

**RESOLUTION 4.-** To re-appoint the Company Deloitte S.L. as auditor of Enagás, S.A. and its consolidated Group for the statutory period of one year. The firm shall also be engaged to render any other auditing services required by law that the Company may need until the next Ordinary General Meeting is held.

- Voting on the Resolution was as follows: For: 118,846,508 (97.28%); Against: 908,931 (0.74%); Abstentions: 2,405,087 (1.96%); Total votes cast: 122,160,526.

**RESOLUTION 5.-** To amend article 2 of the Company Bylaws (OBJECTS), the wording of which thus becomes: ARTICLE 2.- OBJECTS OF THE COMPANY

The Company's objects are:

- Activities specific to the regasification, basic and secondary transport and storage of natural gas, using the Company's or third-party infrastructure or gas installations, and activities similar or linked to the above.
- The design, construction, commissioning, operation and maintenance of all types of gas infrastructure and supporting installations, including telecommunications networks, remote and control systems of any nature and electricity networks owned by the Company or by third parties.
- All tasks relating to the technical management of the gas system.
- Transport and storage of carbon dioxide, hydrogen, biogas and other energy fluids, via proprietary or third-party facilities, and the design, construction, commissioning, operation and maintenance of all kinds of complementary infrastructure and facilities necessary for said activities.

- e) Heat and cooling capture activities and the usage of energies associated with core activities or resulting therefrom.
- f) Rendering of various types of services including engineering, construction, advisory and consultancy services relating to the activities making up its corporate purpose and involvement in natural gas market management activities, provided these are compatible with the activities attributed to the Company by law.

The activities stated above may be carried out by the Company itself or through companies with similar or identical objects in which the Company holds a stake, and always within the scope and limits legally established in relation to the oil and gas business.

- Voting on the Resolution was as follows: For: 120,484,217 (98.62%); Against: 115,125 (0.09%); Abstentions: 1,561,184 (1.27%); Total votes cast: 122,160,526.

**RESOLUTION 6.-** To amend article 45 of the Company Bylaws (NOMINATION AND REMUNERATION COMMITTEE), the full wording of which thus becomes:

**ARTICLE 45.-** APPOINTMENTS, REMUNERATION AND CSR COMMITTEE.

The Board of Directors shall appoint from among its members an Appointments, Remuneration and CSR Committee that shall be comprised of a minimum of three and a maximum of five Directors. A majority of Committee members must be Independent Directors and no Executive Directors may be included among its number. The Committee Chairman shall be selected from among Committee members by the Board of Directors, and shall not have a casting vote.

The Committee shall have powers and responsibilities in respect of the following matters:

- To establish remuneration criteria for the Company's Directors, in accordance with the stipulations of the Bylaws and in line with resolutions passed at the General Meeting, and to ensure that remuneration is transparent.
- To establish a general remuneration policy for Enagás, S.A. management personnel and guidelines relating to the nomination, 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 re-appointment of Directors pursuant to the Company's Bylaws, the incorporation of new members and any other aspects relating to its composition that it deems appropriate.
- To report to the Board on transactions that entail or could entail a conflict of interest.
- To establish a general CSR and Corporate Governance policy, ensuring the adoption and effective application of best practices, both those which are compulsory and in line with generally-accepted recommendations. To do this, the Committee may submit to the Board the initiatives and proposals it deems appropriate and shall provide information on proposals submitted to the Board and information the Company releases to shareholders annually regarding these issues.

The Committee shall meet at least four times a year, with meetings being called by the Chairman. The Committee may seek advice both internally and externally and request the attendance of senior management personnel, as deemed necessary in the execution of its duties.

- Voting on the Resolution was as follows: For: 120,483,366 (98.62%); Against: 115,287 (0.09%); Abstentions: 1,561,873 (1.27%); Total votes cast: 122,160,526.

• Annual Report 2010

## Annual Corporate Governance Report for Listed Limited Companies

**RESOLUTION 7.-** To amend article 49 of the Company Bylaws (PREPARATION OF FINANCIAL STATEMENTS), the full wording of which thus becomes:

**ARTICLE 49.-** PREPARATION OF FINANCIAL STATEMENTS.

The Board of Directors must prepare, within three months of the close of the Company's financial year, its financial statements, Directors' Report and proposed appropriation of profit, and, where appropriate, the financial statements and Directors' Report of the consolidated group.

The annual accounts shall comprise the income statement, the statement of changes in equity, the cash flow statement and notes to the financial statements. These documents, which together make one unit, shall be clearly and concisely written and provide a true and fair view of the Company's equity, financial position and results of operations.

The financial statements and Directors' Report must be signed by all Directors and if the signature of any Director is missing, this must be indicated in all the documents his/her signature is required, clearly indicating the reason.

- Voting on the Resolution was as follows: For: 120,484,727 (98.62%); Against: 114,967 (0.09%); Abstentions: 1,560,832 (1.27%); Total votes cast: 122,160,526.

**RESOLUTION 8.- 8.1.-** To re-appoint Antonio Llardén Carratalá as a Director for the four-year period stipulated by the Bylaws. Mr. Llardén shall serve as Executive Director.

- Voting on the Resolution was as follows: For: 111,870,021 (91.57%); Against: 8,072,106 (6.60%); Abstentions: 2,218,399 (1.81%); Total votes cast: 122,160,526.

8.2.- To re-appoint Miguel Angel Lasheras Merino as a director for the four-year period stipulated by the Bylaws. Mr. Lasheras shall serve as Independent Director.

- Voting on the Resolution was as follows: For: 120,081,949 (98.2%), Against: 372,023 (0.30%); Abstentions: 1,706,554 (1.39%); Total votes cast: 122,160,526,

8.3.- To re-appoint Dionisio Martínez Martínez as a director for the four-year period stipulated in the Bylaws. Mr. Martínez shall serve as independent director.

- Voting on the Resolution was as follows: For: 113,143,002 (92.61%); Against: 7,197,495 (5.89%); Abstentions: 1,820,029 (1.49%); Total votes cast: 122,160,526.

8.4.- To re-appoint José Riva Francos as a director for the four-year period stipulated in the Bylaws. Mr. Riva shall serve as independent director.

- Voting on the Resolution was as follows: For: 120,081,949 (98.29%); Against: 373,023 (0.30%); Abstentions: 1,706,554 (1.39%); Total votes cast: 122,160,526.

8.5.- To re-appoint Teresa García-Milá Lloveras as a director for the four-year period stipulated in the Bylaws. Ms. García-Milá shall serve as independent director.

- Voting on the Resolution was as follows: For: 114,160,708 (93.45%); Against: 6,293,264 (5.15%); Abstentions: 1,706,554 (1.39%); Total votes cast: 122,160,526.

8.6.- To ratify and appoint Said Mohamed Abdullah Al Masoudi for the four-year statutory period. Mr. Al Masoudi shall serve as proprietary director proposed by the shareholder Oman Oil Holdings Spain, S.L.U.



- Voting on the Resolution was as follows: For: 113,997,399 (93.31%); Against: 6,505,977 (5.32%); Abstentions: 1,657,150 (1.35%); Total votes cast: 122,160,526.

8.7.- To ratify and appoint a representative of Sagane Inversiones S.L. for the four-year period stipulated in the Bylaws. The representative of Sagane Inversiones S.L. shall serve as proprietary Director proposed by the shareholder Sagane Inversiones S.L.

- Voting on the Resolution was as follows: For: 113,276,179 (92.72%); Against: 6,529,861 (5.34%); Abstentions: 2,354,486 (1.92%); Total votes cast: 122,160,526.

8.8.- To appoint Isabel Sánchez García as a director for the four-year period stipulated in the Bylaws. Ms. Sánchez García shall serve as independent Director.

- Voting on the Resolution was as follows: For: 120,155,534 (98.35%); Against: 347,842 (0.28%); Abstentions: 1,657,150 (1.35%); Total votes cast: 122,160,526.

8.9.- To establish the number of directors at sixteen (16) which is within the limits established by the Company's Bylaws.

- Voting on the Resolution was as follows: For: 118,288,926 (96.83%); Against: 1,414,611 (1.15%); Abstentions: 2,456,989 (2.01%); Total votes cast: 122,160,526.

**RESOLUTION 9.-** The Company in General Meeting, in accordance with article 36(2) of the Company's Bylaws, resolves to fix the maximum remuneration payable to Directors for 2010 at €1,249,733, to be apportioned on the following basis:

- A Director attending a minimum of two meetings during the year shall be entitled to a payment of €22,050.
- In addition, actual attendance at sessions will entitle any given director to a maximum of €42,446. The Board of Directors shall establish the amount paid for attending each meeting, in person or by proxy.
- Likewise, board committee members shall 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-chairman of the Board of Directors shall be remunerated in the further amount of €32,025 per annum.
- The aforementioned sums are separate from emoluments and salary which may be additionally accrued for work done or services provided by Board members, and from the right to payment or reimbursement of expenses incurred in the course of their duties.

Voting on the Resolution was as follows: For: 119,495,766 (97.81%); Against: 208,310 (0.17%); Abstentions: 2,456,450 (2.01%); Total votes cast: 122,160,526.

**RESOLUTION 10.-** In accordance with the provisions of articles 75 et seq. of the Spanish Companies Act, the General Meeting resolved to authorise and empower the Board of Directors with the faculty of substitution, to use derivatives to acquire treasury shares, either directly or via any of the Group companies, in the following terms:

1. The acquisition may be performed via sale-purchase or any other business method for consideration.
2. The authorisation pertains to shares which, together with those already held, do not exceed 10% of the Company's share capital.

• Annual Report 2010

## Annual Corporate Governance Report for Listed Limited Companies

3. The purchase price shall not exceed by 50% or fall short by 50% of the average trading price of the seven sessions previous to the purchase date.

4. The authorisation is extended for a five-year period, as from the date of this agreement.

Acquisition of treasury shares must enable the Company, at all events, to provision the reserve stipulated in article 79.3 of the Companies Act, without diminishing either the share capital or the unavailable reserves. The shares to be acquired must be fully paid in.

The shares acquired may be conveyed, entirely or in part, to employees, management or directors of the Company, or of Group companies, in accordance with the provisions of article 75.1 of the Spanish Companies Act.

This authorisation for the acquisition of treasury shares shall, as appropriate, replace all authorisations previously granted by the General Meeting.

- Voting on the Resolution was as follows: For: 91,156,815 (74.62%); Against: 92,332,521 (24.01%); Abstentions: 1,671,190 (1.36%); Total votes cast: 122,160,526.

ITEM 11.-Presentation of the explanatory report on the matters under article 116 bis of the Ley de Mercados de Valores [Securities Market Act].

**RESOLUTION 12.-** To delegate to the Board of Directors the broadest powers to powers to supplement, implement, perform, rectify and formalise the resolutions adopted at the General 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 exchanges, the Registro Mercantil [Spanish registrar of companies] or any other public authority with powers relating to the resolutions adopted.

To delegate indistinctly to the Chairman of the Board of Directors, Antonio Llardén Carratalá, and the Secretary, Rafael Piqueras Bautista, the powers required formally to record the resolutions adopted by the General Meeting and register those so requiring, in full or in part, with powers to that end to execute all manner of notarised and non-notarised instruments, including those supplementing or rectifying those resolutions.

- Voting on the Resolution was as follows: For: 120,390,422 (98.55%); Against: 398,546 (0.32%); Abstentions: 1,371,558 (1.12%); Total votes cast: 122,160,526.

### E.9 Indicate whether the Bylaws impose any minimum requirement on the number of shares required to attend the General Meetings.

YES

Number of shares required to attend the General Meetings

100

### E.10 Indicate and explain the policies pursued by the company with reference to proxy voting at the General Meeting.

In accordance with article 27 of the Company Bylaws and article 10 of the General 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 the 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.

Proxies must be conferred in writing or by any other legally permitted electronic or remote communication methods, provided that the identity of the proxy is properly assured, and shall be valid only for the particular meeting in question. A proxy may be revoked at any time.

If the principal attends the meeting in person, his/her proxies are automatically revoked, and he/she must inform the proxy-holder in order to ensure that such person does not attempt to exercise proxy rights he/she does not hold.

### 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, S.A.'s Corporate Governance is available to the public on its website: ([www.enagas.es](http://www.enagas.es) / [www.enagas.com](http://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.

• Annual Report 2010

## Annual Corporate Governance Report for Listed Limited Companies

202

### 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 natural person or legal entity may directly or indirectly hold an interest in the company responsible for the technical management of the system representing more than 5% of the share capital, or exercise more than 3% of its voting rights. Such shares may under no circumstances be syndicated.

Parties that operate within the gas sector, including those natural persons or legal entities that directly or indirectly own 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. 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, 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 an extremely 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 into line with the 20th Additional Provision of Act 34/1998 of 7 October. The 2nd Transitional Provision of Act 12/2007 of 2 July further prescribes:

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 by this provision.

In accordance with the aforementioned legal provision, article 6 bis ("Limitation of interest in share capital and of the exercise of voting rights") of Enagás, S.A.'s 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, nor exercise voting rights in such company of over 3%. Under no circumstances may such shareholdings be syndicated. Any party operating within the gas sector, including natural persons or bodies corporate that directly or indirectly own equity holdings in the former of more than 5%, may not exercise voting rights over 1%. These restrictions will not apply to direct or indirect interests held by public sector enterprises. Under no circumstances may share capital be syndicated.

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 limit imposed by law and by the Bylaws on the exercise of voting rights, Enagás, S.A. is unable to adopt the recommendation that no limits be applied on the number of voting rights that a single shareholder may exercise.

## 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;

• Annual Report 2010

## Annual Corporate Governance Report for Listed Limited Companies

b) The mechanisms in place to resolve possible conflicts of interest.  
See sections: C0.4 and C0.7

Not applicable

**3. Even when not expressly required under company law, any decisions involving a fundamental corporate change should be submitted to the General Meeting for approval or ratification. In particular:**

- a) The transformation of listed companies into holding companies through the process of subsidiarisation, i.e. re-allocating 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 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:**

205

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 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:

- 1<sup>a</sup>. They are governed by standard form contracts applied on an across-the-board basis to a large number of clients;
- 2<sup>a</sup>. They go through at market prices, generally set by the person supplying the goods or services;
- 3<sup>a</sup>. 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.



• Annual Report 2010

## Annual Corporate Governance Report for Listed Limited Companies

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 than 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 seventeen (17) 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 share capital, 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.14

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 shall expressly seek out and include women with the target profile among candidates for Board places.

See sections: B.1.2, B.1.27 and B.2.3

Partially complies

At the date of publication of this report, two of a total of sixteen (16) members of the Board of Directors are women, María Teresa García-Milá Lloveras and Isabel Sánchez García. In 2010, therefore, Enagás, S.A. prioritised female representation when vacancies arose on the Board, especially for independent seats. Given the above, in 2010 the Board adopted various initiatives aimed at rectifying the gender imbalance. In particular, the Annual General Meeting of 30 April 2010 resolved to appoint Isabel Sánchez García in accordance with article 8 of the Regulations of the Board, which stipulates that selection procedures must be free of any implied bias that might stand in the way of the selection of women Directors. The Company shall seek out and include women with the target profile among 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

• Annual Report 2010

## Annual Corporate Governance Report for Listed Limited Companies

17. If the Chairman of the Board is also the Company's chief executive, powers should be given to one of the Independent Directors to demand that a Board meeting be convened or that additional items of business be included on the agenda, to bring together and voice the concerns of External Directors, and to direct the Board's assessment of the Chairman's performance.

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 primary enactments and their implementing regulations, including those issued by regulatory agencies;
- b) Comply with the the Bylaws and the Regulations of the General Meeting, of the Board of Directors and other provisions governing the Company;
- c) Are informed by those good governance recommendations of the Unified Code that the company has subscribed to.

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 Nomination and Remuneration Committee and must be approved by the Board in plenary session; and that procedure of appointment and removal must be specified in the Regulations of the Board.

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 2010 the Company endeavoured to restrict director absences to events of strict necessity. There were a total of twenty-four (24) absences, and bearing in mind that 11 board meetings were held, this represents 13% of the total votes during the year and, in all cases but one, the absent directors delegated their vote to the Chairman or another director.

The Audit and Compliance Committee met on four (4) occasions, with all committee members being present at each meeting. Finally, the Nominations and Remuneration Committee met on five (5) occasions, with three (3) committee members being absent, representing 12% of total votes cast over the course of 2010.

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

• Annual Report 2010

## Annual Corporate Governance Report for Listed Limited Companies

Point a) of article 13 of the Regulations of the Board of Directors ("Duty of diligent administration") stipulates that board members shall apprise the Nominations Committee of any professional obligations in case they 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.

210

### 27. The proposal for the appointment or renewal of directors which the board submits to the General 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. They shall also do so, in the appropriate number, when that shareholder reduces its stake to a level requiring a reduction in the number of its proprietary directors.

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 that shareholder reduces its stake to a level requiring a reduction in the number of its Proprietary Directors.

If the Board of Directors does not deem it advisable to have a Director tender his/her resignation in the cases specified in points d), e) and f) of article 12.2, the Director must be included in the category that, in accordance with these 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, Mr. Navarro is not considered to be an Independent Director as he maintains or has maintained a significant business relationship with the Company.

Nonetheless, it was decided to classify Mr Navarro 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

Cumple

- 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 offences stated in article 124 of the 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 the Director will 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.**

• Annual Report 2010

## Annual Corporate Governance Report for Listed Limited Companies

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 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 Vice-chairman of the Board.

• Annual Report 2010

## Annual Corporate Governance Report for Listed Limited Companies

The remuneration paid to the Chairman for performance of his executive functions is approved by the Board of Directors.

The Nomination, Remuneration and Corporate Social Responsibility Committee informs the Board of Directors of all proposals relating to remuneration policy.

In 2010, the Nomination, Remuneration and Corporate Social Responsibility Committee did not feel it was necessary to engage an external advisor to establish its directors' remuneration policy.

214

### 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 of the minutes sent to all board members.

See sections: B.2.1 and B.2.3

Complies

**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

• Annual Report 2010

## Annual Corporate Governance Report for Listed Limited Companies

### 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) 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.
- 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 effectiveness 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) Establishing and supervising a mechanism whereby staff can report, confidentially and, if thought 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 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 Remuneration 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.

• Annual Report 2010

## Annual Corporate Governance Report for Listed Limited Companies

d) Report to the board on the gender diversity issues discussed in Recommendation 14 of this Code.  
See section: B.2.3

Complies

**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

Complies

**58. The Remuneration Committee should consult with the Chairman and chief executive, especially on matters relating to executive directors and senior officers.**

Complies

## 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.3:

Complete the following tables on company Directors holding voting rights through company shares.

- The table at the end of this section, regarding the number of direct and indirect share options and the number of equivalent shares, has been left blank, because none of the Directors holds options on Enagás, S.A. shares.

### Clarification of section B.1.6:

Indicate what powers, if any, have been delegated to the Chief Executive Officer:  
The Company does not have a Chief Executive Officer.

### 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:

- José Luis Olivas Martínez, who represents Bancaja (Caja de Ahorros de Valencia, Castellón y Alicante) is a director of Iberdrola, S.A. and Chairman of the Iberdrola Advisory Committee in the Region of Valencia.
- Carlos Egea Krauel, who represents Sagane Inversiones, S.L., is a director of Iberdrola Renovables, S.A. and secretary of the board of Confederación Española de las Cajas de Ahorros (CECA).

### Clarification of section 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.

- 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. Further, the Regulations place Directors under a duty to apprise the Nomination, Remuneration and Corporate Social Responsibility Committee of any other professional obligations in case they might detract from the necessary dedication.



• Annual Report 2010

## Annual Corporate Governance Report for Listed Limited Companies

### Clarification of section B.1.11:

Complete the following tables on the aggregate remuneration paid to directors during the year:

- Remuneration paid to each director at 31 December 2010 can be broken down as follows (in thousands €):

Antonio Llardén Carratalá: 1,600  
 Jesús David Álvarez Mezquíriz: 64  
 Bbk (Bilbao Bizkaia Kutxa): 76  
 Bancaja (Caja de Ahorros de Valencia, Castellón y Alicante): 107.  
 Teresa García-Milá Lloveras: 76  
 Miguel Ángel Lasheras Merino: 64  
 Dionisio Martínez Martínez: 81  
 Luis Javier Navarro Vigil: 76  
 Martí Parellada Sabata: 81  
 Peña Rueda, S.L.U.: 64  
 Ramón Pérez Simarro: 76  
 José Riva Francos: 70  
 Sagane Inversiones, S.L.: 76  
 Sepi (Sociedad Estatal de Participaciones Industriales): 76  
 Isabel Sánchez García: 42

- Fixed remuneration and Executive Directors' target-based pay for the year was unchanged from 2009. In 2010 Executive Directors received €924 thousand from the Multi-year Incentive Plan. The Company also paid €68 thousand in premiums for a life insurance plan and contributed €10 thousand to a pension plan.
- Attendance fees (€1,178 thousand) paid to directors who resigned in the course of 2010 or who were not re-elected were also included in the calculation of these payments. Specifically those paid to SAID AL MASOUDI, up to 19 December 2010, totalling €57 thousand and ANTONIO TÉLLEZ DE PERALTA up to 30 April 2010, in the sum of €28 thousand.

### 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:

- Total remuneration paid to senior management and the Head of Internal Audit in 2010 amounted to €2,442 thousand. Fixed remuneration and Executive Directors' target-based pay for the year was unchanged from 2009. In 2010 senior management received €1,103 thousand from the Multi-year Incentive Plan.
- In 2010 contributions totalling €68 thousand were made to pension plans for senior management and the Head of Internal Audit. There are also life insurance policies in place for which the Company paid premiums totalling €101 thousand.
- The Company paid €1,349 thousand in severance pay to a member of senior management and the Head of Internal Audit.

Juan Andrés Díez de Ulzurrun Moreno replaced Antonio García Mateo as Engineering, Technology and Purchasing General Manager on 8 November.

#### 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 Nomination, Remuneration and Corporate Social Responsibility Committee of Enagás, S.A. did not engage an external advisor in 2010.

#### 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.

- Manuel Menéndez Menéndez, who represents the shareholder Peña Rueda, S.L.U., is Chairman of Caja de Ahorros de Asturias (Cajastur).
- José Luis Olivas Martínez, who represents the shareholder Caja de Ahorros de Valencia, Castellón y Alicante (Bancaja), is Chairman of Bancaja.
- Enrique Martínez Robles, who represents the shareholder Sociedad Estatal de Participaciones Industriales (SEPI), is Chairman of SEPI.
- Joseba Andoni Aurrekoetxea Bergara, who represents the shareholder Bilbao Bizkaia Kutxa (BBK) since 27 July 2009, is Chairman of the control committee at BBK.

#### Clarification of section B.1.22:

Are qualified majorities, other than legal majorities, required for any type of 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 39 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, list the posts or duties they hold in such companies.

- 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 Caja de Ahorros de Valencia, Castellón y Alicante (Bancaja) on the board of Enagás, S.A., as an individual, is also a director of Iberdrola, S.A. and Chairman of the Iberdrola, S.A.

• Annual Report 2010

## Annual Corporate Governance Report for Listed Limited Companies

Advisory Committee in the Region of Valencia. He also owns 32,098 shares in Iberdrola, S.A. and 18,867 shares in Iberdrola Renovables, S.A.

- Carlos Egea Krauel, representing Sagane Inversiones, S.L. holds 9,716 shares in Iberdrola, S.A. and 4,690 shares in Gas Natural SDG, S.A.

### 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 Audit and Compliance Committee shall liaise with the Nominations and Remuneration 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 Meeting.
- The above functions, with the exception of those attributed directly to the Audit and Compliance Committee by law or the Bylaws, shall be considered delegated functions and may accordingly be reclaimed and exercised 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 within its purview.

### Clarification of sections A.4, B.1.4, B.1.6, B.1.7, B.1.17, B.1.36 Y B.2.6:

ENAGÁS, S.A. does not comply with any of these recommendations as they are not deemed to affect the Company.

### Clarification of section C.2:

List any relevant transactions entailing a transfer of assets or liabilities between the Company or its group companies and significant shareholders in the Company: – One of Enagás, S.A. transactions with its significant shareholders was an interest rate collar hedge in the amount of €50,000 thousand with Caja de Ahorros de Asturias (CAJASTUR), which matured in January 2010. Enagás, S.A. has a credit facility with CAJASTUR for a value of €2,000 thousand and a bank guarantee line in the amount of €12,000 thousand. In addition, Enagás, S.A. has a €30,000 thousand loan falling due in 2011.

We refer to this transaction in section C.2 above as a commercial operation involving finance agreements, loans and capital contributions (as borrower), for these amounts.

### 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:

- Transactions with Bilbao Bizkaia Kutxa (BBK): Enagás, S.A. renewed a credit line with BBK and extended it to €25,000 thousand. It also renewed a loan from BBK and extended it to €100,000 thousand. It also has a €6,000 thousand bank guarantee line. Enagás S.A. arranged with BBK an interest rate collar contract worth €30,000 thousand which expired in January 2010: We refer to this transaction in section C.3 above as a commercial operation involving finance agreements, loans and capital contributions (lender), totalling €36,000 thousand. The terms in all financial agreements with BBK are normal market interest rates, fees, expenses and guarantees.
- Transactions with Caja de Ahorros de Valencia, Castellón y Alicante (Bancaja): Enagás, S.A. has a €6,000 thousand credit line with BANCAJA, as well as an interest rate collar worth €50,000 thousand which expired in January 2010. We refer to this transaction in section C.3 above as a commercial operation involving finance agreements, loans and capital contributions (lender) totalling €56,000 thousand. The terms in all financial agreements with BANCAJA are normal market interest rates, fees, expenses and guarantees.
- 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:

#### 1) Directors:

- Attendance fees paid to members of the Board of Directors to 31 December 2010 totalled €1,178 thousand.
- Remuneration to each director at 31 December 2010 can be broken down as follows (in thousands €):

Antonio Llardén Carratalá: 1,600

Jesús David Álvarez Mezquíriz: 64

BBK (Bilbao Bizkaia Kutxa): 76

Bancaja (Caja de Ahorros de Valencia, Castellón y Alicante): 107.

Teresa García-Milá Lloveras: 76

Miguel Ángel Lasheras Merino: 64

Dionisio Martínez Martínez: 81

Luis Javier Navarro Vigil: 76

Martí Parellada Sabata: 81

Peña Rueda, S.L.U.: 64

Ramón Pérez Simarro: 76

José Riva Francos: 70

Sagane Inversiones, S.L.: 76

Sepi (Sociedad Estatal de Participaciones Industriales): 76

Isabel Sánchez García: 42

- Fixed remuneration and Executive Directors' target-based pay for the year was unchanged from 2009. In 2010 the Executive Director received €924 thousand from the Multi-year Incentive Plan. The Company also paid €68 thousand in premiums for a life insurance plan and contributed €10 thousand to a pension plan.
- Attendance fees (€1,178 thousand) paid to directors who resigned in the course of 2010 or who were not re-elected were also included in the calculation of these payments. Specifically those paid to Said Al Masoudi, up to 19 December 2010, totalling €57 thousand and Antonio Téllez de Peralta up to 30 April 2010, in the sum of €28 thousand.

• Annual Report 2010

## Annual Corporate Governance Report for Listed Limited Companies

224

### 2) Senior Management:

- Total remuneration paid to senior management and the Head of Internal Audit in 2010 amounted to €2,442 thousand. Fixed remuneration and Executive Directors' target-based pay for the year was unchanged from 2009. In 2010 senior management received €1,103 thousand from the Multi-year Incentive Plan.
- In 2010 contributions totalling €68 thousand were made to pension plans for senior management and the Head of Internal Audit. There are also life insurance policies in place for which the Company paid premiums totalling €101 thousand.
- The Company paid €1,349 thousand in severance pay to a member of senior management and the Head of Internal Audit.

Juan Andrés Díez de Ulzurrun Moreno replaced Antonio García Mateo as Engineering, Technology and Purchasing General Manager on 8 November.

### 3) Other Related Parties:

- 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 2010: Included are transactions with companies with a significant influence over Enagás, S.A. and companies over which Enagás, S.A. has a significant influence (Ministerial Order EHA 3050/2004):

#### I) Caja Murcia:

Enagás, S.A. has entered into the following transactions with Caja Murcia:

- 1) A €35,000 thousand credit line.
  - 2) A €6,000 thousand bank guarantee line.
- The terms in all financial agreements with Caja Murcia are normal market interest rates, fees, expenses and guarantees.
  - We would include the following other related-party transactions (as per paragraph d. of point 4.1, of Ministerial Order 3050/2004):

#### II) Caixa Catalunya:

- 1) Enagás, S.A. has renewed and extended a €10,000 thousand credit policy with Caixa Catalunya.
  - 2) Enagás, S.A. has a bank guarantee line of €12,000 thousand with Caixa Catalunya.
- The terms in all financial agreements with Caixa Catalunya are normal market interest rates, fees, expenses and guarantees.
  - The Chairman of the Enagás, S.A. Board, Antonio Llardén Carratalá, is a director of Caixa Catalunya.

#### III) Banco Sabadell:

- 1) Banco Sabadell and Enagás, S.A. have signed an agreement in which the bank will broker a loan for €100,000 thousand corresponding to the C tranche of the €1,000,000 thousand loan granted by EIB.
- 2) Enagás also has arranged a €6,000 thousand credit line with Banco Sabadell.
- 3) Banco Sabadell has granted Enagás, S.A. a €150,000 thousand loan, maturing in 2012.
- 4) Enagás, S.A. has a bank guarantee line of €6,000 thousand with Banco Sabadell.

5) Lastly, Enagás. S.A. arranged an interest-rate swap with Banco Sabadell for €50,000 thousand for the period running from November 2009 to November 2012.

- The terms in all financial agreements with Banco Sabadell are normal market interest rates, fees, expenses and guarantees.
- The Director María Teresa García-Milá Lloveras is a director of Banco Sabadell.

#### IV) Eulen, S.A:

- Enagás, S.A. paid Eulen some €2,246 thousand for building and installation maintenance services.
- The director Jesús David Álvarez Mezquíriz is a Director of Eulen, S.A.

#### V) Grupo Intermoney:

- Enagás, S.A. paid Grupo Intermoney some €186 thousand for advisory services.
- The director Miguel Ángel Lasheras Merino is Chairman of Intermoney Energía, S.A. and Wind To Market (companies belonging to Grupo CIMD).
- 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 third-party access (TPA) services in 2010: TPA contracts are standard forms approved by the Ministry for Industry, Trade and Tourism. The tolls billed by Enagás are also set by the Ministry. These TPA services are:

#### VI) Iberdrola, S.A.:

- 1) In 2009, Enagás S.A. paid Iberdrola S.A. €5,081 thousand for self-supply.
  - 2) Enagás S.A. has a total of 16 third-party access (TPA) agreements in force with Iberdrola S.A., of which one (1) is short-term and fifteen (15) long-term.
- Between 1 January and 31.12.10 the following services were provided: Regasification of 12,334.48 GWh (billings for these services, including cistern loading, offloading tankers and LNG storage, totalled €12,460.97 thousand); transport of 15,143.38 GWh (billings for these services, including the transport component of tolls, were €18,106.95 thousand); storage of a daily average of 3,348.98 GWh (billings for these services were €22,884.53 thousand).
  - Total from tpa services: €53,452.45 thousand.
  - José Luis Olivas Martínez, who represents Bancaja (Caja de Ahorros de Valencia, Castellón y Alicante) is a director of Iberdrola, S.A. and Chairman of the Iberdrola Advisory Committee in the Region of Valencia.

• Annual Report 2010

## Annual Corporate Governance Report for Listed Limited Companies

226

### VII) Naturgás Comercializadora, S.A.:

- Enagás S.A. has a total of fourteen (14) TPA contracts in force with Naturgas Comercializadora, S.A. of which thirteen (13) are long-term and one (1) is short-term. Six (6) TPA agreements were signed in 4Q10, of which only one (1) remained in force at 31 December 2010.
- Between 1 January and 31.12.10 the following services were provided: Regasification of 2,835.63 GWh (billings for these services, including cistern loading, offloading tankers and LNG storage, totalled €3,512.89 thousand); transport of 2,821.37 GWh (billings for these services, including the transport component of tolls, were €2,578.81 thousand); storage of a daily average of 1,122.45 GWh (billings for these services were €7,465.03 thousand).
- Total from tpa services: €13,556.73 thousand.
- The director Manuel Menéndez Menéndez is Chairman o Naturgás Energía Grupo, S.A.

### VIII) Hidrocantábrico Energía, S.A.:

- Enagás, S.A. has total of four (4) long-term TPA contracts in force with Hidrocantábrico Energía, S.A. Some 2,957.70 GWh were transported and billing for this service totalled €1,206.37 thousand.
- Total from tpa services: €1,206.37 thousand.
- The director Manuel Menéndez Menéndez is Chairman of Hidroeléctrica del Cantábrico, S.A. (HC).

### Clarification of section C4:

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 subject matter and terms set them apart from the company's ordinary trading activities.

On 17 December 2010, Enagás, S.A. entered into an agreement with REN GASODUTOS, S.A. whereby Enagás, S.A. was to dissociate itself from the Portuguese side of the Joint Project for Natural Gas Supply to Portugal and Spain, in which Enagás, S.A. was then a participant through the companies Gasoduto Braga-Tuy, S.A. and Gasoduto Campo Maior-Leiria-Braga, S.A., after authorization of the transaction by the competition authority.

On 24 January 2011, the competition authority adopted a final decision not to oppose REN GASODUTOS, S.A.'s acquisition of exclusive control over the companies Gasoduto Braga-Tuy, S.A. and Gasoduto Campo Maior-Leiria-Braga, S.A. Enagás, S.A. is no longer a shareholder of either company and will play no further role in the Joint Project.

### Clarification of section 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.

A Working Group on Internal Controls (GTCl) was set up on the suggestion of the CNMV to draw up a set of recommendations on this issue. The GTCl's work has focused on three main objectives: (i) a review of the Spanish regulatory framework on internal controls for financial reporting; (ii) establishing a framework of principles and good practices regarding such controls, including their supervision; and (iii) improving the transparency of information issued by listed companies to markets about their internal control systems.



As regards these recommendations, in 2010 the Enagás Group – in line with its philosophy of responsibility and ongoing improvement of its system of internal control of financial reporting – began a plan to adapt to the recommendations set down in the relevant report. The plan involves specifying a range of identifiers in accordance with the company's System of Internal Control of Financial Reporting so as suitably to cover the list of 16 indicators proposed by the Working Group on Internal Controls (GTCI) of the CNMV, the Spanish securities market regulator.

#### Clarification of section F - Degree of compliance with Corporate Governance recommendations.

Enagás, S.A. continued to honour its commitment to comply with the Unified Code of Good Governance:

- Enagás, S.A. complies with 48 recommendations.
- Enagás, S.A. partly complies with 5 recommendations.
- Enagás, S.A. explains its response to 2 recommendations.
- 3 recommendations are not applicable to Enagás.

In 2010, recommendation 15 – set out above – was partly complied with when a second woman Director was appointed to the Board, as an Independent.

Enagás, S.A. identified good corporate governance practices at the international level, and took the following steps in 2010:

- Conferring on the Appointments, Remuneration and Corporate Responsibility Committee (formerly the Appointments and Remuneration Committee) the added duties of setting general corporate social responsibility and corporate governance policy.
- Appointing the Chairman of the Nomination, Remuneration and Corporate Responsibility Committee as Independent Leader Director, with powers to call board meetings or include new items on the agenda in order to coordinate and convey the concerns of Directors and to lead the Board's evaluation of its Chairman.
- The number of women Directors was raised to two (2); both are Independent Directors. This development demonstrates the company's commitment to increase the presence of women on the Board.
- An assessment will be undertaken of the performance of the Board, the Chairman and Board committees. Confidential interviews with individual Directors will accordingly be conducted over the first quarter of 2011. The assessment process will also involve individual evaluation of External Directors prior to their being nominated for re-election.
- Training activities for Directors were scheduled for 2011, covering issues relating to the regulatory framework of the industry, the company's practices as to strategic planning, risk management and control, internal control of financial reporting and other information systems, and best practices in corporate social responsibility and corporate governance. This training will be provided largely by Management Committee members and company executives.
- Electronic voting will be introduced as a new form of shareholder participation at the forthcoming General Meeting.
- A shareholder forum was created using a specific platform on [www.enagas.es](http://www.enagas.es) to enable shareholders to make suggestions to the Board regarding resolutions to be discussed and voted on at the 2011 Annual General Meeting.

• Annual Report 2010

## Annual Corporate Governance Report for Listed Limited Companies

### Clarification of section G.2.:

Binding definition of Independent Director: The Nomination, Remuneration and Corporate Social Responsibility Committee and the Board of Directors have studied the situations concerning two (2) Independent Directors and have found that these do not affect their independence. (See Section G.2).

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.

YES

### Name of director

Jesús David Álvarez Mezquíriz

### Type of relationship

Contractual

### Reason

Even though Mr. Álvarez is a Director of Eulen, S.A., an entity which maintained a commercial relationship with Enagás, S.A. in 2010, the Nomination, Remuneration and Corporate Social Responsibility Committee and the Board of Directors believe that the abstention of this director in the negotiation and decision-making process of both parties; the rigorous procedures usually followed for contracting works and services, which were not excluded on this occasion and the express intervention of the Committee and the Board, given the related-party nature of this relationship, means that there are not sufficient or important enough reasons why this director may not remain Independent.

### Name of director

Miguel Angel Lasheras Merino

### Type of relationship

Contractual

### Reason

Even though he is Chairman of Intermoney Energía, S.A., an entity which maintained an advisory relationship with the Company in 2010, the Nomination, Remuneration and Corporate Social Responsibility Committee and the Board of Directors believe that the amount of fees received by Intermoney for the specialist advice provided is neither significant nor important. Therefore he shall continue to be considered Independent. In addition, the express intervention of the Committee and the Board must be noted, given the related-party nature of this relationship.

Date and signature:

This annual corporate governance report was approved by the company's Board of Directors at its meeting held on:

31/01/2011

List whether any directors voted against or abstained from voting on the approval of this report.

NO

• Annual Report 2010

## Annual Corporate Governance Report for Listed Limited Companies

# Report on the activities of the Enagás Audit and **Compliance Committee in 2010**

230

## Composition of the **Committee in 2010**

### **Chairman**

Martí Parellada Sabata, Independent Director, from 1 January to 31 December.

### **Members**

BANCAJA (represented by José Luis Olivas Martínez), Proprietary Director, from 1 January to 31 December.

Luis Javier Navarro Vigil, External Director, from 1 January to 31 December.

Sociedad Estatal de Participaciones Estatales (SEPI), Proprietary Director, represented by its Chairman, Enrique Martínez Robles, from 1 January to 31 December.

Antonio Téllez de Peralta, Independent Director, from 1 January to 30 April.

José Riva Francos, Independent Director from 28 June to 31 December.

### **Secretary**

Rafael Piqueras Bautista

In 2010 the term of office as a director of Antonio Téllez de Peralta reached its statutory end. The board appointed Independent Director, José Rivas Francos, to replace him.

As provided in the Company's constitutional documents and rules and 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, Diego De Reina, and the head of the Internal Audit Unit, José Espejo. External auditors from Deloitte also attended Committee meetings on a number of occasions.

## Activities of the Committee

The Committee met four (4) times in 2010. The following is a summary of the most significant areas on which the Audit and Compliance Committee focused in 2010.

### 1.- Committee activities relating to the formulation and approval of the Enagás financial statements for 2009

As in previous years, the Audit Committee was entrusted with the task of discussing and analysing the financial statements prior to their authorisation for issue by the Board of Directors. For this purpose, the members of the Committee met with the Company's external auditor (Deloitte S.L.) on 1 February 2010 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 in no case exceeded the materiality threshold above which Deloitte's opinion on the financial statements could be affected. Deloitte informed the Audit Committee that its report would be without reservations or qualifications.

The Audit Committee's examination of the 2009 financial statements resulted in the following conclusions:

- That the financial statements of Enagás and its consolidated group, as submitted to the Committee, gave a true and fair view of the Company's equity and results of operations for the year.
- That the financial statements contained sufficient information to be clearly understood, as well as a sufficient description of the risks faced by the Company.
- That the financial statements followed generally accepted accounting principles and regulations, on the same terms applied in previous years.
- That the principles of parity of treatment for shareholders and transparency of information reported to the markets had been upheld.

The Committee accordingly resolved to recommend that the Board of Directors of Enagás authorise the financial statements for issue. At a meeting held on 1 February 2010, the Board of Directors adopted the Committee's recommendation and authorised the financial statements for issue in line with the terms indicated by the Committee. The financial statements and directors' report for 2009 were approved at the General Meeting held on 30 April 2010.

In addition to the above, and in accordance with standard practice in previous years, the Chairman of the Audit Committee, Mr. Parellada, also took part in the Ordinary General Shareholders' Meeting held on 30 April 2010, explaining the most important elements of the financial statements to the Company's shareholders in order to ensure that they had all the information necessary to be able to vote on the financial statements that were approved on the proposal of 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.

• Annual Report 2010

## Annual Corporate Governance Report for Listed Limited Companies

### 3.- Audit and risk control plan for 2010

All meetings of the Audit Committee have included as items of business on the agenda both a general review of progress in the implementation of the audit plan for 2010, and a specific analysis of the main audit processes underway at that particular time.

This area of the Audit Committee's work is therefore considered to be of particular importance. In 2003, 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 these risks. Based on the results obtained, those processes that should be given the most urgent attention by the Internal Audit Unit and Audit Committee were identified. However, the Committee deemed it necessary to review the Company's Risk Model and, as a result, with appropriate external assistance, the Company's risk services drew up a new model that was approved by the Committee on 30 January 2009.

The Audit Plan implemented in the course of 2010 focused on monitoring those processes identified as priorities in the new risk model.

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.

The Committee also supervised the Company's project to review the internal financial reporting system together with suitable external consultants. This reporting system is intended to guarantee that the financial information prepared and published by the Company is complete and accurate. Companies listed on US stock exchanges are required to implement this system under the provisions of the Sarbanes Oxley Act and, although such a review of the financial reporting system is not compulsory for companies such as Enagás, it is considered to be good practice. The consultants taking part in the review stated that "in general Enagás has an appropriate level of control in its internal financial reporting system". A review of compliance with this system was carried out in 2010.

### 4.- Quarterly accounting reviews

Throughout 2010 the Committee continued to review the limited quarterly report issued by the auditors, as in previous years.

Specifically, it analysed, in conjunction with Deloitte, the reports issued by the latter for the first, second and third quarters, respectively. Performing these reviews enables the Committee to minimise the impact of any accounts issues arising in the course the year and the members of the Committee and Board of Directors 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 these reports are essential to ensuring strict control over the Company's accounting while facilitating the issue of an unqualified 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 makes public each quarter.

It made a specific report on the financial statements for the first half-year which, on its recommendation, were approved by the Board of Directors at its July 2010 meeting.

## 5.- Report on the activities of the Business Principles Supervisory Committee (Ethical Channel) .

The Committee was informed of the activities of the Business Principles Supervisory Committee (Ethical Channel) and approved its 2010 report in which no incidences worthy of mention occurred.

## 6.- Activities after the end of the reporting period

In the opening months of 2011, the Committee continued with 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 2010 financial statements which will be submitted to the 2011 General Meeting for adoption.

At its meeting on 31 January 2011, the Committee resolved to recommend to the General Meeting the re-appointment of Deloitte, S.L. as auditors of the Company's financial statements.

This report was prepared and adopted by the Audit and Compliance Committee at the meeting held on 31 January 2011 and was approved by the Board of Directors at a meeting held on the same day.



# 6. The Enagás Group's Internal Control System for Financial Information

6.1. Overview **236**

6.2. Compliance with the sixteen  
ICWG indicators **237**

6.3. Internal assessment of the internal  
financial information control system **244**

• Annual Report 2010

## The Enagás group's Internal Control System for Financial Information

### 6.1. Overview

236

The Enagás Group continued last year to strengthen and consolidate its Internal Control over Financial Reporting (ICFR) system to ensure the implementation of best practices with regard to the reliability and transparency of the financial reporting process..

Aware of its responsibility to continually improve its systems, in 2010 Enagás set up a project to comply with the recommendations of the report on "Internal Control over Financial Reporting" prepared by the Internal Control Working Group on the financial reporting of listed companies (ICWG) set up by the Spanish stock market regulator (CNMV). Enagás began this project voluntarily in 2010 on the assumption that the recommendations will soon come into force.

The report, based on the COSO framework, proposes a set of principles and best practices for ICFR with three aims:

- To review the Spanish regulatory framework on internal control for financial reporting, comparing it with that of neighbouring countries, and proposing any changes needed to improve it.
- To establish a framework of principles and best practices on ICFR, including the process of supervising its operation.
- To contribute to improving the transparency of the information issued by listed companies on their ICFR.

One of the main achievements of the ICWG is the publication of guidelines on how to prepare a description of a company's internal controls for financial reporting, setting out these principles and best practices under five headings:

- The control environment
- Assessing financial reporting risks
- Control activities
- Information and communication
- Supervising the operation of the system

These pillars are broken down into sixteen key indicators.

## 6.2. Compliance with the sixteen ICWG indicators

Given its particular situation, the Enagás group has decided to implement these standard indicators ahead of time, specifying a range of identifiers related to policies, regulations, manuals, procedures and any other document that contains guidelines that may be affected by the indicators.

The indicators are described below grouped under their respective control headings, and setting out the corresponding identifiers specified by the company.

237

### 6.2.1. The control environment

The "control environment" component is designed to ensure that information is made available to the markets on the specific mechanisms set up by companies to guarantee a climate of internal control that enables the generation of complete, reliable and timely information and which prevents irregularities arising while also providing a means of detecting and rectifying any that do arise.

The indicators falling under the "control environment" heading are the following:

**The bodies and functions responsible** for the existence and regular updating of a suitable, effective ICFR, its implementation and its monitoring.

This indicator is implemented via the following identifiers:

IDENTIFIER	DESCRIPTION	DEPARTMENT RESPONSIBLE
<ul style="list-style-type: none"> <li>Job analysis and description sheets</li> </ul>	<ul style="list-style-type: none"> <li>Description of duties, responsibilities, academic qualifications, competences etc.</li> </ul>	<ul style="list-style-type: none"> <li>Resources and CSR Department</li> </ul>
<ul style="list-style-type: none"> <li>ICFR Manual</li> </ul>	<ul style="list-style-type: none"> <li>Detailed description of ICFR re: control activities, information systems, associated risks, allocation of responsibilities (including the assessment and supervision of internal controls), etc., establishing a procedure for identifying, managing and updating said internal controls and the regular updating of the associated documentation</li> </ul>	<ul style="list-style-type: none"> <li>Finance Department</li> </ul>
<ul style="list-style-type: none"> <li>Regulations on the organisation and duties of the Audit and Compliance Committee of the Board of Directors of Enagás, S.A.</li> </ul>	<ul style="list-style-type: none"> <li>Sets out the principles of the organisation, operation, aims and duties, and the standards which govern the activities of the Audit and Compliance Committee of the Board of Directors of Enagás, S.A. with regard to the company's rules of governance and its risk map, the communication and supervision of ICFR, etc.</li> </ul>	<ul style="list-style-type: none"> <li>Secretary's Office of the Board</li> </ul>

• Annual Report 2010

## The Enagás group's Internal Control System for Financial Information

**The departments and or mechanisms responsible for the design and review of the organisational structure, defining lines of responsibility and appropriate procedures, with particular regard to financial reporting.**

This indicator is implemented via the following identifiers:

IDENTIFIER	DESCRIPTION	DEPARTMENT RESPONSIBLE
• Complete organigram of Enagás, S.A.	• Shows how functions are structured and distributed across the organisation's units and hierarchical reporting lines.	• Resources and CSR Department
• Regulations governing the organisation and functioning of the Board of Directors of Enagás, S.A.	• Sets out the principles of the organisation, operation, aims and duties, and the standards which govern the activities of the Board of Directors of Enagás S.A.	• Secretary's Office of the Board
• Activity Report on the Audit and Compliance Committee	• Describes the composition of the Audit and Compliance Committee in the financial year concerned and the activities carried out by it.	• Secretary's Office of the Board
• Rules and Regulations of the General Shareholders' Meeting	• Sets out the organisation and operation of the General Shareholders' Meeting of Enagás S.A. with rules for calling and preparing the meeting and governing the exercise of shareholders' rights.	• Secretary's Office of the Board
• General Regulations governing Management-by-Objectives	• Defines the basic principles and operations for managing Enagás' Management-by-Objectives (MBO) process.	• Resources and CSR Department
• Revised text of the Articles of Association	• Details aspects such as: the company's name, corporate purpose, registered address, share capital, shareholders' rights, the indivisibility of the shares, etc.	• Secretary's Office of the Board
• General Internal Audit Regulations	• Describes the Internal Audit function, detailing its purpose and duties, the preparation of its annual plan, the powers and duties of the Internal Auditors, etc.	• General Secretariat - Internal Audit
• Period-end procedures for the Consolidated Financial Statements and Annual Accounts	• Details the basic tasks involved in preparing, reviewing and approving the Enagás group's consolidated financial statements and annual accounts at period end.	• Finance Department
• Period-end procedures for the Individual Financial Statements and Annual Accounts	• Details the basic tasks involved in preparing, reviewing and approving the individual financial statements and annual accounts of the companies forming the Enagás group at the period end.	• Finance Department

**A code of conduct, "whistle-blowing" channel, and training and refresher courses for personnel involved in preparing and reviewing financial information or evaluating ICFR.**

This indicator is implemented via the following identifiers:

IDENTIFIER	DESCRIPTION	DEPARTMENT RESPONSIBLE
• Internal code of conduct in matters relating to securities markets	• Defines the company's ethical values with regard to matters relating to securities markets and the individuals involved.	• Secretary's Office of the Board
• Enagás' Business Principles	• Establishes guidelines on employee behaviour and relations with stakeholders.	• Secretary's Office of the Board





• Annual Corporate Governance Report	• Sets out the structures and practices of corporate governance, based on the principles of transparency, objectivity and protecting shareholders' rights.	• General Secretariat
• Corporate Governance Policy	• States that Enagás' Board of Directors considers the principles and practices of good corporate governance to be vital to foster investors' trust and for efficiency and growth.	• General Secretariat
• Procedures of the Sustainability Committee	• Details the composition and operation of this body which was set up to promote sustainable management in Enagás, based on stakeholders' expectations and helping the company to manage risk.	• Resources and CSR Department
• Business Principles Management Procedures (Ethical channel)	• Governs the management process for queries and reporting behaviour that does not comply with the company's values. Reporting procedures are completely anonymous.	• General Secretariat
• Training Plan	• Annual plan which prioritises all training activities to ensure that personnel acquire and hone the necessary skills.	• Resources and CSR Department
• Training School	• Internal provision of some of the training activities contained in the Training Plan	• Resources and CSR Department
• Human Resources Development Procedure	• Programmes and guarantees continuous training to ensure skills are taught and kept up to date.	• Resources and CSR Department
• Regulations on the organisation and duties of the Audit and Compliance Committee of the Board of Directors of Enagás, S.A.	• Detailed above.	• Secretary's Office of the Board
• Other corporate policies	• State the principles guiding action relating to areas including human resources, quality, corporate social responsibility, health and safety, etc.	• Resources and CSR Department

## 6.2.2. Risk assessment in financial reporting

The purpose of the "risk assessment" component is to analyse the impact of potential events on the achievement of objectives related to the reliability of financial reporting. A range of risks may affect this reliability, including calculation errors or errors in the application of rules, system failures, accounting fraud, lack of knowledge of key information, or incorrect estimates and forecasts. Such assessments are intended to ensure that anti-fraud safeguards are developed.

• Annual Report 2010

## The Enagás group's Internal Control System for Financial Information

The indicators falling under the "risk assessment" heading are the following:

### The processes for identifying risks related to ICFR

This indicator is implemented via the following identifiers:

IDENTIFIER	DESCRIPTION	DEPARTMENT RESPONSIBLE
<ul style="list-style-type: none"> <li>ICFR Manual</li> </ul>	<ul style="list-style-type: none"> <li>Detailed above.</li> </ul>	<ul style="list-style-type: none"> <li>Finance Department</li> </ul>
<ul style="list-style-type: none"> <li>Enagás' Internal Risk Management Procedure</li> </ul>	<ul style="list-style-type: none"> <li>Establishes a framework for the general management of risks, identifying said risks and the duties to be performed by the company's various bodies. This includes the duty of the Internal Audit function to communicate to senior management and the Sustainability Committee information on the risks affecting the organisation, including those specific to ICFR.</li> </ul>	<ul style="list-style-type: none"> <li>Secretary General - Internal Audit</li> </ul>
<ul style="list-style-type: none"> <li>Regulations on the organisation and duties of the Audit and Compliance Committee of the Board of Directors of Enagás, S.A.</li> </ul>	<ul style="list-style-type: none"> <li>Detailed above.</li> </ul>	<ul style="list-style-type: none"> <li>Secretary's Office of the Board</li> </ul>
<ul style="list-style-type: none"> <li>Enagás Risk Policy</li> </ul>	<ul style="list-style-type: none"> <li>States the company's policies on how to deal effectively with uncertainty, risks and the associated opportunities, there by improving its capacity to generate value in order to achieve the aims of the organisation, which include reliable financial reporting.</li> </ul>	<ul style="list-style-type: none"> <li>Secretary General - Internal Audit</li> </ul>

240

### 6.2.3. Control activities

The "control activities" component refers to the scope of the specific controls the company has implemented to mitigate the risk of errors or irregularities in financial reporting. These involve all areas and levels of the company and are focused on preventing and detecting any errors or fraud that could arise in its ICFR.

The indicators falling under the "control activities" heading are the following:

### Documentation and flow charts of activities and controls

This indicator is implemented via the following identifiers:

IDENTIFIER	DESCRIPTION	DEPARTMENT RESPONSIBLE
<ul style="list-style-type: none"> <li>ICFR (latest version)</li> </ul>	<ul style="list-style-type: none"> <li>Current version of Enagás' ICFR, detailing all activity and control flows.</li> </ul>	<ul style="list-style-type: none"> <li>Finance Department</li> </ul>
<ul style="list-style-type: none"> <li>General Computer Controls</li> </ul>	<ul style="list-style-type: none"> <li>Establishes a general framework setting out the key controls needed to guarantee the security of the IT systems affecting financial reporting.</li> </ul>	<ul style="list-style-type: none"> <li>Finance Department</li> </ul>

## Internal control policies and procedures for IT systems

This indicator is implemented via the following identifiers:

IDENTIFIER	DESCRIPTION	DEPARTMENT RESPONSIBLE
• Information Security Policy	• States the principles guiding how to effectively manage the security of the information processed by the company's IT systems and of the assets involved in this processing activity.	• Finance Department
• General IT System Management Rules	• Establishes responsibilities and defines the relationships between the requesting units and the Information Systems Department with regard to the management of Enagás' IT systems.	• Finance Department
• General Computer Controls	• Detailed above	• Finance Department
• ICFR Manual	• Detailed above	• Finance Department

241

## Internal control policies and procedures for overseeing the management of outsourced activities

This indicator is implemented via the following identifiers:

IDENTIFIER	DESCRIPTION	DEPARTMENT RESPONSIBLE
• Procedure for identifying and dealing with "Service Organisations"	• Regulates the process of identifying and dealing with suppliers of certain key services, known as "Service Organisations", to which Enagás has outsourced processes that have a significant impact on financial reporting.	• Finance Department

## Procedures for reviewing and authorising the financial information and description of ICFR to be disclosed

This indicator is implemented via the following identifiers:

IDENTIFIER	DESCRIPTION	DEPARTMENT RESPONSIBLE
• ICFR Manual	• Detailed above	• Finance Department
• Regulations on the organisation and duties of the Audit and Compliance Committee of the Board of Directors of Enagás, S.A.	• Detailed above	• Secretary's Office of the Board
• Procedure on regular reports to securities market regulators	• Sets out guidelines for complying with the information requirements and timetables established in CNMV Circular 1/2008, of 30 January on regular information from issuers with securities admitted to trading on regulated markets, and for issuing press releases in regard to financial information published in the media.	• Investor Relations Department and Communications Department



• Annual Report 2010

## The Enagás group's Internal Control System for Financial Information

### 6.2.4. Information and Communication

The "information and communication" component relates to the procedures and mechanisms for conveying the applicable control directives to the personnel engaged in preparing financial information and ensuring they are cognisant with the information systems supporting such processes.

The indicators falling under the "information and communication" heading are the following:

#### Defining and maintaining accounting policies

This indicator is implemented via the following identifiers:

IDENTIFIER	DESCRIPTION	DEPARTMENT RESPONSIBLE
• Accounting Policy Manual	• Document which establishes and provides information on the accounting policies required for performing accounting estimates and preparing the company's financial statements and annual accounts to ensure that these provide a true and fair view of the company's equity, financial position, results of operations, changes in net equity and cash flows.	• Finance Department
• Period-end procedures for the Consolidated Financial Statements and Annual Accounts	• Detailed above.	• Finance Department
• Period-end procedures for the Individual Financial Statements and Annual Accounts	• Detailed above	• Finance Department

#### A manual of accounting policies which is regularly updated and communicated

This indicator is implemented via the following identifiers:

IDENTIFIER	DESCRIPTION	DEPARTMENT RESPONSIBLE
• Accounting Policy Manual	• Detailed above	• Finance Department

#### Mechanisms for the capture and preparation of financial information

This indicator is implemented via the following identifiers:

IDENTIFIER	DESCRIPTION	DEPARTMENT RESPONSIBLE
• ICFR (latest version)	• Detailed above	• Finance Department
• Accounting Policy Manual	• Detailed above	• Finance Department
• Regulations on the organisation and duties of the Audit and Compliance Committee of the Board of Directors of Enagás, S.A.	• Detailed above	• Secretary's Office of the Board
• Period-end procedures for the Consolidated Financial Statements and Annual Accounts	• Detailed above	• Finance Department
• Period-end procedures for the Individual Financial Statements and Annual Accounts	• Detailed above	• Finance Department

## 6.2.5. Monitoring

The “monitoring” component includes procedures and mechanisms for the regular assessment and monitoring of the ICFR in order to prevent or rectify any failings in its design or operation.

Continuous monitoring is built into the company’s ongoing operations and includes regular reviews by the Audit and Compliance Committee and by the Sustainability Committee, as well as by each Department or Unit in the exercise of their functions.

The indicators falling under the “monitoring” heading are the following:

243

### The internal audit function

This indicator is implemented via the following identifiers:

IDENTIFIER	DESCRIPTION	DEPARTMENT RESPONSIBLE
• General Internal Audit Regulations	• Detailed above	• General Secretariat - Internal Audit
• Regulations on the organisation and duties of the Audit and Compliance Committee of the Board of Directors of Enagás, S.A.	• Detailed above	• Secretary’s Office of the Board
• ICFR Manual	• Detailed above	• Finance Department

### A procedure for reporting any significant internal control weaknesses to senior management and the Audit Committee, and action plan to correct or mitigate the weaknesses found

This indicator is implemented via the following identifiers:

IDENTIFIER	DESCRIPTION	DEPARTMENT RESPONSIBLE
• ICFR Manual	• Detailed above	• Finance Department
• Regulations on the organisation and duties of the Audit and Compliance Committee of the Board of Directors of Enagás, S.A.	• Detailed above	• Secretary’s Office of the Board
• Enagás’ Internal Risk Management Procedure	• Detailed above	• General Secretariat - Internal Audit

### The scope of the ICFR assessment

This indicator is implemented via the following identifiers:

IDENTIFIER	DESCRIPTION	DEPARTMENT RESPONSIBLE
• ICFR Manual	• Detailed above	• Finance Department

• Annual Report 2010

## The Enagás group's Internal Control System for Financial Information

### The ICFR monitoring activities undertaken by the Audit Committee

This indicator is implemented via the following identifiers:

IDENTIFIER	DESCRIPTION	DEPARTMENT RESPONSIBLE
• ICFR Manual	• Detailed above	• Finance Department
• Regulations on the organisation and duties of the Audit and Compliance Committee of the Board of Directors of Enagás, S.A.	• Detailed above	• Secretary's Office of the Board

244

### Review of ICFR by the external auditor, with a corresponding report

This indicator is implemented via the following identifiers:

IDENTIFIER	DESCRIPTION	DEPARTMENT RESPONSIBLE
• ICFR Manual	• Detailed above	• Finance Department
• Regulations on the organisation and duties of the Audit and Compliance Committee of the Board of Directors of Enagás, S.A.	• Detailed above	• Secretary's Office of the Board

## 6.3. Internal assessment of the internal financial information control system

Following an internal evaluation of the ICFR and the implementation of the recommendations for improvement, Enagás considered that, at 31 December 2010, the internal control system for the group's financial information effectively mitigated the risk associated with the generation of financial information in terms of its structure and operation.

Following this internal review, Enagás subjected its internal financial information control system to external review, the results of which are detailed below:

# Deloitte.

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www.deloitte.es

*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 over financial information of Enagás, S.A. and Subsidiaries (“the Company”) at 31 December 2010. 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 over 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. An internal control system over financial information is designed to provide reasonable assurance on the reliability of the financial information in accordance with the accounting principles and standards applicable to it. An internal control system over financial information 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 2010 the Company maintained, in all material respects, an effective internal control system over 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 2011



# 7. Consolidated Financial Statements

- 1. Group Activity **256**
- 2. Basis of presentation of the annual financial statements and consolidation principles **257**
- 3. Measurement bases **263**
- 4. Regulation of remuneration **275**
- 5. Intangible Assets **283**
- 6. Property, Plant and Equipment **285**
- 7. Interests in joint ventures **290**
- 8. Financial assets **291**
- 9. Available-for-sale (AFS) non-current assets **294**
- 10. Inventories **295**
- 11. Trade and other receivables and current tax assets **295**
- 12. Cash and cash equivalents **298**
- 13. Equity **298**
- 14. Earnings per share **302**
- 15. Provisions and contingent liabilities **303**
- 16. Financial liabilities **305**
- 17. Other non-current liabilities **309**
- 18. Risk and capital management policy **310**
- 19. Derivative financial instruments **312**
- 20. Trade and other payables **314**
- 21. Defined contribution plans **315**
- 22. Taxation **315**
- 23. Revenue **323**
- 24. Expenses **324**
- 25. Net finance cost **327**
- 26. Business and geographical segments **327**
- 27. Environmental information **330**
- 28. Greenhouse gas emission rights **331**
- 29. Related party transactions **332**
- 30. Director and senior management compensation **337**
- 31. Other director disclosures **339**
- 32. Guarantee commitments to third parties **340**
- 33. Other information **341**
- 34. Joint ventures **342**
- 35. Events after the balance sheet date **343**
- Management report of the Enagás group **343**

• Annual Report 2010

# Consolidated Financial Statements



## Auditors' report

248



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*Translation of a report originally issued in Spanish based on our work performed in accordance with the audit regulations in force in Spain and of consolidated financial statements originally issued in Spanish and prepared in accordance with the regulatory financial reporting framework applicable to the Group (see Notes 2 and 36). In the event of a discrepancy, the Spanish-language version prevails.*

## AUDITORS' REPORT ON CONSOLIDATED FINANCIAL STATEMENTS

To the Shareholders of Enagás, S.A.:

1. We have audited the consolidated financial statements of Enagás, S.A. ("the Company") and Subsidiaries ("the Group"), which comprise the consolidated balance sheet at 31 December 2010 and the related consolidated income statement, consolidated statement of recognised income and expense, consolidated statement of changes in equity, consolidated statement of cash flows and notes to the consolidated financial statements for the year then ended. As indicated in Note 2 to the accompanying consolidated financial statements, the directors are responsible for the preparation of the Group's consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the European Union and the other provisions of the regulatory financial reporting framework applicable to the Group. Our responsibility is to express an opinion on the consolidated financial statements taken as a whole based on our audit work performed in accordance with the audit regulations in force in Spain, which require examination, by means of selective tests, of the evidence supporting the consolidated financial statements and evaluation of whether their presentation, the accounting principles and policies applied and the estimates made comply with the applicable regulatory financial reporting framework.
2. In our opinion, the accompanying consolidated financial statements for 2010 present fairly, in all material respects, the consolidated equity and consolidated financial position of Enagás, S.A. and Subsidiaries at 31 December 2010, and the consolidated results of their operations and consolidated cash flows for the year then ended, in conformity with International Financial Reporting Standards as adopted by the European Union and the other provisions of the regulatory financial reporting framework applicable to the Group.
3. The accompanying consolidated directors' report for 2010 contains the explanations which the directors of Enagás, S.A. consider appropriate about the Group's situation, the evolution of its business and other matters, but is not an integral part of the consolidated financial statements. We have checked that the accounting information in the consolidated directors' report is consistent with that contained in the consolidated financial statements for 2010. 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 2011



• Annual Report 2010

# Consolidated Financial Statements

## Consolidated Financial Statements

250

ENAGÁS S.A. AND SUBSIDIARIES  
"CONSOLIDATED INCOME STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2010"

(FIGURES IN THOUSANDS OF EUROS)

	Notes	31.12.2010	31.12.2009
Revenue from regulated activities	23	965,995	866,829
Revenue from liberalised activities	23	15,740	15,429
Other operating income	23	18,830	14,125
Employee benefits expense	24	(67,194)	(60,743)
Other operating costs	24	(151,926)	(139,437)
Depreciation and amortisation		(249,898)	(216,590)
Impairment gains and (losses) on disposal of assets		(659)	5,104
<b>OPERATING PROFIT</b>		<b>530,888</b>	<b>484,717</b>
Finance revenue	25	19,713	12,257
Finance costs	25	(78,314)	(72,715)
Change in fair value of financial instruments	25	-	(779)
<b>PROFIT BEFORE TAX FROM CONTINUING OPERATIONS</b>		<b>472,287</b>	<b>423,480</b>
Income tax expense	22	(138,806)	(125,449)
<b>PROFIT FOR THE YEAR FROM CONTINUING OPERATIONS</b>		<b>333,481</b>	<b>298,031</b>
Profit for the year from discontinued operations		-	-
<b>PROFIT FOR THE YEAR</b>		<b>333,481</b>	<b>298,031</b>
Attributable to:			
Equity holders of the parent		333,481	298,031
<b>BASIC EARNINGS PER SHARE</b>	14	<b>1.40</b>	<b>1.25</b>
<b>DILUTED EARNINGS PER SHARE</b>	14	<b>1.40</b>	<b>1.25</b>

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

**ENAGÁS S.A. AND SUBSIDIARIES**

CONSOLIDATED BALANCE SHEET AT 31 DECEMBER 2010

(FIGURES IN THOUSANDS OF EUROS)

	Notes	31.12.2010	31.12.2009
<b>Assets</b>			
<b>NON-CURRENT ASSETS</b>		<b>5,228,603</b>	<b>4,764,874</b>
Intangible assets	5	36,629	41,405
Property, plant and equipment	6	5,123,748	4,654,955
Financial assets, group and associated companies	8	880	8,084
Other long term financial assets	8	31,932	2,934
Deferred tax assets	22	35,414	57,496
<b>CURRENT ASSETS</b>		<b>1,600,533</b>	<b>1,015,065</b>
Available-for-sale assets	9	31,336	-
Inventories	10	5,328	4,725
Trade and other receivables	11	366,483	359,669
Other financial assets	8	108,042	8,083
Other assets		2,293	2,064
Cash and cash equivalents	12	1,087,051	640,524
<b>TOTAL ASSETS</b>		<b>6,829,136</b>	<b>5,779,939</b>
<b>Equity and Liabilities</b>			
<b>EQUITY</b>		<b>1,736,245</b>	<b>1,581,255</b>
<b>CAPITAL AND RESERVES</b>		<b>1,738,836</b>	<b>1,593,429</b>
Issued Capital	13	358,101	358,101
Reserves	13	1,121,739	1,004,859
Profit for the year		333,481	298,031
Interim dividend	13	(74,485)	(67,562)
<b>NET UNREALISED GAINS (LOSSES) RESERVE</b>	13	<b>(2,591)</b>	<b>(12,174)</b>
<b>NON-CURRENT LIABILITIES</b>		<b>4,006,240</b>	<b>3,372,581</b>
Provisions	15	34,352	31,504
Non-current financial liabilities	16	3,678,134	3,090,039
Deferred tax liabilities	22	214,664	166,585
Other liabilities	17	79,090	84,453
<b>CURRENT LIABILITIES</b>		<b>1,086,651</b>	<b>826,103</b>
Liabilities associated to available-for-sale-assets	9	5,857	-
Current Provisions	15	3,294	-
Current financial liabilities	16	730,847	503,763
Trade and other payables	20	346,653	321,955
Other liabilities		-	385
<b>TOTAL GENERAL</b>		<b>6,829,136</b>	<b>5,779,939</b>

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

• Annual Report 2010

# Consolidated Financial Statements

## ENAGÁS, S.A. AND SUBSIDIARIES CONSOLIDATED STATEMENT OF RECOGNISED INCOME AND EXPENSES FOR THE YEAR ENDED 31 DECEMBER 2010

(FIGURES IN THOUSANDS OF EUROS)

	31.12.2010	31.12.2009
PROFIT FOR THE YEAR	333,481	298,031
INCOME AND EXPENSES RECOGNISED IN EQUITY:	(2,794)	(18,509)
Remeasurement of financial instruments		
Available-for-sale financial assets	-	13
Cash flow hedges	(3,992)	(26,455)
Tax effect	1,198	7,933
INCOME AND EXPENSE RECLASSIFIED TO PROFIT AND LOSS:	12,377	22,049
Remeasurement of financial instruments		
Available-for-sale financial instruments	-	779
Cash flow hedges	17,682	30,722
Tax effect	(5,305)	(9,452)
TOTAL RECOGNISED INCOME/(EXPENSE)	343,064	301,571
Attributable to equity holders of the parent	343,064	301,571

252



ENAGÁS S.A. AND SUBSIDIARIES  
 CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2010

FIGURES IN THOUSANDS OF EUROS

	Issued Capital and share premium	Other reserves	Retained earnings	Profit for the year	Interim dividend	Net unrealised gains (losses)	Equity
BALANCE AT 01/01/09	358,101	901,165		258,885	(62,071)	(15,714)	1,440,366
Total recognised income/(expense)	-	-	-	298,031	-	3,540	301,571
Transactions with shareholders and owners	-	-	-	(93,259)	(67,562)	-	(160,821)
Capital increase / (decrease)	-	-	-	-	-	-	-
Conversion of financial liabilities into equity	-	-	-	-	-	-	-
Dividends paid	-	-	-	(93,259)	(67,562)	-	(160,821)
Transactions with treasury shares or own equity instruments	-	-	-	-	-	-	-
Business combinations	-	-	-	-	-	-	-
Other transactions with shareholders and owners	-	-	-	-	-	-	-
Other changes in equity	-	103,694	-	(165,626)	62,071	-	139
Equity-settled transactions	-	-	-	-	-	-	-
Transfers between equity accounts	-	-	-	(165,626)	-	-	(165,626)
Other changes	-	103,694	-	-	62,071	-	165,765
BALANCE AT 31/12/2009	358,101	1,004,859	-	298,031	(67,562)	(12,174)	1,581,255
Effects of changes in accounting criteria 2009	-	-	-	-	-	-	-
Adjustments for errors 2009	-	-	-	-	-	-	-

• Annual Report 2010

# Consolidated Financial Statements

## ENAGÁS S.A. AND SUBSIDIARIES CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2010

FIGURES IN THOUSANDS OF EUROS

	Issued Capital and share premium	Other reserves	Retained earnings	Profit for the year	Interim dividend	Net unrealised gains (losses)	Equity
ADJUSTED BALANCE AT 01/01/10	358,101	1,004,859	-	298,031	(67,562)	(12,174)	1,581,255
Total recognised income/(expense)	-	-	-	333,481	-	9,583	343,064
Transactions with shareholders and owners	-	-	-	(111,256)	(74,485)	-	(185,741)
Capital increase / (decrease)	-	-	-	-	-	-	-
Conversion of financial liabilities into equity	-	-	-	-	-	-	-
Dividends paid	-	-	-	(111,256)	(74,485)	-	(185,741)
Transactions with treasury shares or own equity instruments	-	-	-	-	-	-	-
Business combinations combinación de negocios	-	-	-	-	-	-	-
Other transactions with shareholders and owners	-	-	-	-	-	-	-
Other changes in equity	-	116,880	-	(186,775)	67,562	-	(2,333)
Equity-settled transactions	-	-	-	-	-	-	-
Transfers between equity accounts	-	-	-	(186,775)	-	-	(186,775)
Other changes	-	116,880	-	-	67,562	-	184,442
BALANCE AT 31/12/10	358,101	1,121,739	-	333,481	(74,485)	(2,591)	1,736,245

ENAGÁS S.A. AND SUBSIDIARIES  
 CONSOLIDATED CASH FLOW STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2010

FIGURES IN THOUSANDS OF EUROS

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

• Annual Report 2010

# Consolidated Financial Statements



## 1. Group Activity

256

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

In addition to the operations it carries out directly, Enagás, S.A. is the head of a group of companies that includes interests in joint ventures engaged in the gas transport business and which, together with Enagás, S.A., comprise the Enagás Group (hereinafter, the Group). Consequently, Enagás, S.A. is required to prepare consolidated annual financial statements for the Group in addition to its own annual financial statements, which also include information on joint ventures and investments in associates.

The consolidated annual financial statements of the Group and those of each of the entities comprising the Group for the financial year 2010, which have served as the basis for the preparation of these consolidated annual financial statements, are pending the approval at their respective Shareholders' Meetings. However, the directors believe these annual financial statements will be approved as presented.

These consolidated annual financial statements are presented in thousands of euros (unless expressly stated otherwise) as this is the functional currency of the principal economic area in which the Enagás Group operates.





## 2.

# Basis of presentation of the annual financial statements and consolidation principles

## 2.1. Accounting principles

257

The consolidated annual financial statements of the Enagás Group for 2010 have been prepared by the directors, at a meeting of the Board of Directors held on 31 January 2011, in accordance with the International Financial Reporting Standards (hereinafter, IFRS), as adopted by the European Union, pursuant to Regulation (EC) No. 1606/2002 of the European Parliament and of the Council.

These annual financial statements give a true and fair view of the equity and financial position of the Group at 31 December 2010, the results of its operations, and the changes in its equity, cash flows and recognised income and expense during the year then ended.

The Enagás Group's consolidated annual financial statements for 2010 have been prepared from the accounting records kept by the parent company and by the other entities comprising the Group.

The 2009 consolidated annual financial statements included for comparative purposes have also been prepared in accordance with the IFRS adopted by the European Union and applied on a basis consistent with those applied in 2009. The 2008 financial statements were approved by the parent company's shareholders in general meeting on 30 April 2010.

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

Note 3 includes the most significant accounting principles and measurement bases used in preparing the consolidated financial statements of the Group for 2010.

## 2.2. Responsibility for the information and estimates made

The information included in the accompanying consolidated financial statements is the responsibility of the Group's directors.

The Group's 2010 consolidated financial statements include estimates made by senior management of the Group and of consolidated entities – subsequently ratified by their directors – regarding the carrying amounts of certain assets, liabilities, revenues, expenses and commitments recognised therein. These estimates related basically to the following:

# Consolidated Financial Statements

- The useful life of property, plant and equipment and of intangible assets (Notes 3-a and 3-b)
- The measurement of assets to determine impairment losses (Note 3-c)
- Forecasts for invoices pending issue
- Provisions for impairment of replacement parts for property, plant and equipment
- Prior years' accounts pending settlement with the government (Note 11)
- Provisions for dismantling/abandonment costs (Note 3.b)

Although these estimates were made on the basis of the best information available at 31 December 2010 regarding the facts analysed, it is possible that future events may require these to be changed (upwards or downwards) in coming years. This would be done prospectively in accordance with the provisions of IAS 8, recognising the effects of the changes in accounting estimates in the corresponding consolidated income statement.

## 2.3 Changes in scope of consolidation

During 2010 the following changes in the scope of consolidation of Enagás Group have occurred:

- The acquisition of a 25% shareholding in Bahia de Bizkaia Gas, SL (hereafter BBG) from BP Holdings BV (hereafter BP) for a consideration of 25,125 thousand euros became effective. This acquisition represents the incorporation of Enagas, SA to the partnership agreement governing the BBG Board to date, replacing BP. As a result, BBG is now consolidated within the Enagás Group using proportionate consolidation from 1 April 2010.
- In November the Group announced the acquisition of a 15% shareholding in BBG from Repsol YPF, S.A. for a consideration of 19,208 thousand euros, effective 1 January 2010. As a result, BBG is now consolidated within the Enagás Group using proportionate consolidation from 1 January 2010.

## 2.4 Basis of consolidation

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

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

The consolidation is carried out as follows:

- a) Proportionate consolidation for joint ventures managed in conjunction with GALP Gas Natural, S.A; Gasoducto Al-Andalus, S.A., and Gasoducto de Extremadura, S.A. and in conjunction with REN Gasoductos, S.A; Gasoduto Campo Maior-Leiria- Braga, S.A. and Gasoduto Braga-Tuy, S.A., (the latter two, Portuguese companies) and in conjunction with Infrastructure Arzak and Ente Vasco de la Energía (EVE) for BBG.
- b) Intra-group transactions: All credits, debits, income, expenses and results from transactions with other Group companies are eliminated on consolidation in proportion to Enagás, S.A.'s interest in the companies' share capital.

- c) Consistency: For investee companies which apply different accounting principles and measurement bases to those of the Group, adjustments have been made on consolidation, provided that the effect is significant, in order to present the consolidated financial statements based on consistent measurement bases.
- d) Translation of financial statements denominated in foreign currencies: The individual financial statements of all Companies included in the scope of consolidation are presented in euros. Therefore, no foreign currency translation is required.
- e) Elimination of dividends: Internal dividends are those recognised as revenue for the year by a Group company and which have been paid by another Group company.

Dividends received by Group companies in respect of prior years' distributed profit are eliminated by treating them as reserves of the receiving company and included under "Reserves".

Note 34 includes the most significant aspects of the Group's joint ventures in existence at the end of 2010.

## 2.5 Comparison of information

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

## 2.6 Accounting standards and principles

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

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

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

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

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

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

# Consolidated Financial Statements

- Amendment to IFRS 2- group share-based payments

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

- Improvements to IFRS (issued in May 2008)

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

- Improvements to IFRS (issued in May 2009)

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

- IFRIC 12 - Services Concession Agreements

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

- IFRIC 15 – Agreements for the construction of buildings

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

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

It addresses three main aspects to this principle; one is that the exchange rate risk derived from the functional currency of the foreign operation vis-à-vis the parent company reporting currency may not be considered a hedged risk, only the risk between the functional currencies of both may be considered a hedged risk. It also clari-

fies that the hedging instrument of the net investment may be held by any entity within the group, not necessarily by the parent of the foreign operation and, finally, discusses how to determine the amounts to be reclassified from equity to profit when the investment is sold. The application of these standards had no impact on the Group's financial position or results.

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

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

261

- IFRIC 18 - Transfers of assets from customers

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

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

At the time of preparation of these financial statements, the following are the most important standards and principles that had been published by the IASB but had not yet entered into force, either because their effective date is later than the date of the consolidated financial statements or because they have not yet been adopted by the European Union:

• Annual Report 2010

# Consolidated Financial Statements

## Approved for their application in the European Union

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

262

## Not approved in the European Union

Rules, Amendments and Principles	Content	Mandatory Application
IFRS 9 Financial instruments Classification and measurement (published in November 2009 and October 2010)	Replaces the classification and measurement requirements of financial assets and liabilities of IAS 39	Annual periods beginning 1 January 2013
Improvements to IFRS (published in May 2010).	Amendments to a series of standards	Principally mandatory for the periods beginning 1 January 2011; some are mandatory for the periods beginning 1 July 2010
Amendment to IFRS 7- Financial instruments: disclosures about transfers of financial assets (published in October 2010)	Enhanced derecognition disclosure requirements for transfer transactions of financial assets	Annual periods beginning 1 July 2011

The directors have assessed the potential impacts of future application of these rules and consider that their entry into force will not have a significant effect on the consolidated financial statements.



### 3.

## Measurement bases

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

263

#### a. Intangible assets

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

The criteria used to recognise the impairment losses on these assets and, where applicable, the reversal of impairment losses recognised in prior years, are similar to those used for property, plant and equipment (see note 3c).

Development costs are amortised on a straight-line basis over their useful life, as long as the costs are assigned to specific projects, clearly quantified, and relate to assets whose technical and commercial feasibility for sale or use have been established.

The Group recognises as expenses in the consolidated income statement all research and development costs whose technical and commercial feasibility cannot be established. Research and development costs recognised as expenses in the accompanying consolidated income statement amounted to 1,674 thousand euros in 2010 and 1,152 thousand euros in 2009, and related entirely to research.

Service concession arrangements may only be capitalised when the company has acquired the assets for consideration in the case of concessions susceptible to transfer, or for the amount of the expenses incurred in obtaining them directly from the state or relevant public body. If the rights to a concession are lost due to failure to comply with the terms and conditions thereof, its value is fully written off in order to cancel its carrying amount. These concessions are amortised on the basis of their useful lives.

Costs of purchasing and developing basic computer systems are recognised under "Property, plant and equipment" in the consolidated balance sheet. Maintenance costs related to the computer systems are recognised with a charge to the consolidated income statement in the year in which they are incurred. Computer software is measured in the amount paid for ownership or the right to use the computer applications, or production cost if internally developed. They are amortised over a period of four years.



• Annual Report 2010

# Consolidated Financial Statements

Intangible assets with a finite useful life are amortised over that period, which is equivalent to the following amortisation rates:

	Amortisation rate	Useful life
Development Costs	5%-50%	20-2
<b>Concessions, patents, licences, brands and similar:</b>		
Port concessions at the Barcelona plant	1.33%-1.28%	75-78
Port concessions at the Huelva plant	7.60%	13
Other concessions at the Bilbao Plant	20.00%	5
Use of the public radioelectric domain	20.00%	5
<b>Software</b>	<b>25%</b>	<b>4</b>

264

In 2008, the Environment Ministry published the definitive, free allocation of greenhouse gas emission rights to Enagás, S.A. plants. This allocation is included in the National Allocation Plan for 2008-2012. In 2010, Enagás, S.A. delivered greenhouse gas emission rights equivalent to its emissions in 2009.

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

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

## b. Property, plant and equipment

Property, plant and equipment are valued initially at acquisition price or production cost, with the exception of revaluations made by Enagás, S.A. in 1996, less accumulated depreciation and any impairment losses, in keeping with the criterion set forth in the following note.

The costs of remodelling, expansion or upgrades leading to increased productivity, capacity or a lengthening of the useful lives of assets are capitalised as an increase in the cost of the related asset. The net carrying amount of replaced assets is deducted. In contrast, regular upkeep, repairs and maintenance expenses are expensed currently.

Capitalised costs include:

1. Finance costs associated with the financing of infrastructure projects accrued during the construction period if this is over a year. The average capitalisation rate used to calculate the amount of the borrowing costs to be capitalised was 2.83% in 2010 (3.40% in 2009).
2. Employee benefits expense directly related to work in progress. The Group has a "Functional procedure for allocation of Employee Benefits Expense to Investment Projects" which sets out the hypotheses for making this calculation. This procedure establishes that, to calculate own work capitalised, it is necessary to consider both direct employee benefits expense, i.e., the hours worked and assigned to each project based on cost/hour calculated at the beginning of the year, and indirect costs. The amounts capitalised for these items are recognised in the accompanying 2010 consolidated income statement for 2010 as a decrease in employee benefits expense (see Note 6).

3. Future payments which the Group will have to make in relation to the requirement to dismantle certain items of property, plant and equipment corresponding to the Serrablo and the Yela underground storage facilities at the end of their useful lives. The carrying amounts of these assets include an estimate of the present value at the date of acquisition of the costs to the Group of dismantling, with a credit to "Provisions" (Note 15) in the accompanying consolidated balance sheet. In addition, this provision has been adjusted for discounting in subsequent periods.

Subsequent to RD 1061/2007 of 20 July 2007, which grants Enagás the concession to operate the Yela underground natural gas storage facility in compliance with article 25.3 of Law 34/1998 of 7 October, which establishes a provision of 14.7 million euros for dismantling costs, this amount was recorded as an increase in the value of the asset. This provision will be discounted each year to reflect the financial impact of a long-term account receivable from the National Energy Commission (the Spanish energy regulator, hereinafter the "CNE" for its initials in Spanish), given that, once the dismantling is approved, the company may request payments on account against dismantling costs.

The expenses and pertinent discounting for abandoning the Serrablo underground storage facility are reflected in the provision allocated to comply with the requirements of "Order of 6 September 1995 regarding the concession, to Enagás, S.A., for the storage of natural gas in Jaca, Aurín, and Suprajaca, located in Serrablo", which required that a project for abandoning the Serrablo site be presented and approved prior to engaging in storage activities.

The costs of remodelling, expansion or upgrades leading to increased productivity, capacity or a lengthening of the useful lives of assets are capitalised as an increase in the cost of the related asset. The net carrying amount of replaced assets is deducted. In contrast, regular upkeep, repairs and maintenance expenses are expensed currently.

Properties in the course of construction for production, rental or administrative purposes, or for purposes not yet determined, are carried at cost, less any recognised impairment loss. Cost includes, for qualifying assets, capitalised borrowing costs and employee benefits expense directly related to work in progress in accordance with the Group's accounting policy. Depreciation of these assets, on the same basis as other items of property, plant and equipment, commences when the assets are ready for their intended use.

The volume of gas that must remain 'immobilised' in the storage facility to operate natural gas storage facilities (i.e. cushion gas) is recognised as property, plant and equipment and depreciated over the useful life specified by prevailing legislation, or over the lease period if shorter.

Both natural gas related to the minimum linepack for system security of the gas pipelines and the minimum LNG stock level of the regasification plants (also called the "gas talón") were considered non-depreciable assets as this gas is not available and thereby immobilised under prevailing regulations. It is measured at the auction price under Order ITC/3993/2006 and the Resolution dated 18 April 2007 (see Note 6).

• Annual Report 2010

# Consolidated Financial Statements

Items of property, plant and equipment are depreciated on a straight-line basis over the estimated useful lives of the related assets, using the following annual rates:

	Depreciation rate	Useful life (years)
Buildings	3%-2%	33.33-50
Plant (transport network)	5%-2.50%	20-40
Tanks	5%	20
Underground storage facilities	10%	10
Cushion gas	5%	20
Other plant and machinery	12%-5%	8.33-20
Tools and equipment	30%	3.33
Furniture and fixtures	10%	10
Computer equipment	25%	4
Transport equipment	16%	6.25

The Group's directors consider that the carrying amount of property, plant and equipment does not exceed their recoverable value, calculated based on the discounted future cash flows they generate in accordance with the remuneration envisaged in prevailing legislation.

The gain or loss on the disposal or derecognition of an asset is calculated as the difference between the amount of the sale and the carrying amount of the asset and is recognised in the income statement under "Impairment loss or gain on disposals of non-current assets".

Government grants related to property, plant and equipment are capitalised as a decrease in the cost of the assets and released to the consolidated income statements over the expected useful life of the asset as a decrease in depreciation of the related asset.

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

At each balance sheet date, or when deemed necessary, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any).

In the case of identifiable assets which do not generate cash inflows independently, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Recoverable amount is the higher of fair value less costs to sell and value in use, considered to be present value of the estimated future cash flows. The Group uses value in use in nearly all cases to calculate the recoverable value of its property, plant and equipment.

To estimate value in use, the Group prepares pre-tax cash flow projections based on the latest budgets approved by the Group's directors. These budgets include the best available estimates of the revenue and expense of cash-generating units based on industry forecasts, past experience and future expectations.

These projections are prepared for a period of five years, with estimates of future flows based on reasonable growth rates, which in no case beyond year five either scale up or exceed prior years' growth rates.

To calculate the present value, the cash flows are discounted at a pre-tax rate that reflects the cost of capital of the business and of the geographical area where business is carried out. The discount rate is based on current interest rates and the risk premiums commonly used by analysts covering the business and the geographical region.

If the recoverable amount of an asset is lower than its carrying amount, an impairment loss is recognised for the difference, with a charge to "Depreciation and amortisation expense" in the consolidated income statement.

A previously recognised impairment loss is reversed if there has been a change in the estimates used to determine the asset's recoverable amount via a credit in the income statement up to the carrying amount that would have been determined had no impairment loss be recognised.

The Group's property, plant and equipment consists almost entirely of gas transportation, regasification and storage assets, and those assets needed to carry out its regulated gas sales business and technical system management activities.

#### **d. Operating leases**

In operating leases, the ownership of the leased asset and substantially all the risks and rewards incidental thereto remain with the lessor.

When consolidated entities act as lessees, lease payments, including any incentives granted by the lessor, are recognised as an expense in the consolidated income statement on a straight-line basis over the lease term.

#### **e. Financial assets**

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

Group companies classify financial assets into the following categories established by IFRS:

- Loans and receivables. These assets are measured at amortised cost, which is basically the cash amount given less repayments of principal plus accrued interest receivable in the case of loans, and the present value of the consideration provided in the case of receivables.
- Held-to-maturity investments. These are assets that the Enagás Group has the positive intent and ability to hold to maturity. They are also recorded at amortised cost.
- Available-for-sale financial assets. These are all other assets not classified in any of the preceding categories. These investments are presented in the consolidated balance sheet at fair value, when this can be determined reliably. Gains and losses arising from changes in fair value, net of tax, are recognised directly in "Equity - net unrealised gains (losses) reserve" in the consolidated balance sheet until this investment is disposed of, at which time the cumulative gain or loss previously recognised in the revaluation reserve is recognised in the consolidated income statement. If fair value is lower than cost, the difference is recognised directly in the consolidated income statement.

# Consolidated Financial Statements

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

## Cash and cash equivalents

This heading in the consolidated balance sheet includes cash on hand, sight deposits and other highly liquid short-term investments that can readily be realised in cash and that are not subject to risk of a change in value.

## Trade and other receivables

Receivables are initially measured at fair value in the consolidated balance sheet and subsequently remeasured at amortised cost using the effective interest method.

The Group records the corresponding impairment provisions for the difference between the recoverable amount of receivables and their carrying amount. The recoverable amount of receivables is calculated by discounting estimated future cash flows using the effective interest rate at the outset of the transaction.

## f. Available-for-sale (AFS) non-current assets

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

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

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

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

## g. Inventories

### Natural gas inventories

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

Also, the company assesses the net realisable value of inventories at the balance sheet date and makes the appropriate impairment write-down when they are overstated. When the circumstances that that previously caused inventories to be written down no longer exist or there is clear evidence of an increase in net realisable value because of new economic circumstances, the impairment is reversed.

### Other inventories

Other inventories unrelated to natural gas are stated at the lower of acquisition or production cost and net realisable value. The carrying amount includes the cost of direct materials and, where appropriate, direct labour and manufacturing overheads, including costs incurred in bringing the products to their present location and condition, at the point of sale.

In addition, the company assesses the net realisable value of inventories at the balance sheet date and recognises any necessary impairment charges. When the circumstances that that previously caused inventories to be written down no longer exist or there is clear evidence of an increase in net realisable value because of new economic circumstances, the impairment is reversed.

269

### h. Equity and financial liabilities

Capital and other equity instruments issued by the Group are recognised at the proceeds received, net of direct issue costs.

Financial liabilities are classified according to the terms and economic substance of the contractual agreement.

Group companies classify their main financial liabilities as follows:

- Financial liabilities at fair value through profit or loss, mainly financial liabilities held for trading: Financial liabilities associated with available-for-sale financial assets originating from asset transfers where the assigning entity neither substantially transfers nor retains the risks and benefits of said assets.
- Held-to-maturity financial liabilities: Held-to-maturity financial liabilities are measured at amortised cost as defined above.

The liability instruments held by Group companies are:

- Bank loans: Interest-bearing loans are carried at the amount received, net of direct issue costs. Finance costs, including premiums payable upon settlement or repayment and direct issue costs, are taken to the consolidated income statement as accrued using the effective interest method and added to the carrying amount of the instrument if not paid during the period in which they accrue.
- Financial derivative instruments and hedge accounting: Bank borrowings expose the Group to fluctuations in interest rates. To hedge these risks, the group uses swaps. The Group does not use derivative instruments for speculative purposes.

The use of derivatives is governed by the Group's risk management policies approved by the parent company Enagás, S.A. Further details on the use of derivative instruments are disclosed in Note 18.

The Company arranges cash flow and fair value hedges. These hedge arrangements are recognised as follows:

- a) Fair value hedges: the hedging instrument and the hedged item are both measured at fair value, and any changes in fair value are recognised in the consolidated income statement as finance cost or revenue.
- b) Cash flow hedges: the portion of the gain or loss on the hedging instrument that is determined to be an effective hedge is recognised, net of the corresponding tax effect, in "Equity – Net unrealised gains (losses) reserve – Hedges" in the accompanying consolidated balance sheet. The accumulated gain or loss on the hedging ins-

# Consolidated Financial Statements

trument is taken to the income statement as the hedged item affects profit or loss. The portion of the gain or loss deemed to be an ineffective hedge is recognised directly in the consolidated income statement under finance revenue or cost, as appropriate.

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated, or exercised or no longer qualifies for hedge accounting. Any cumulative gain or loss deferred in equity at that time remains in equity until the forecast transaction takes place. When a forecast hedged transaction is no longer expected to occur, the cumulative gain or loss that was deferred in equity is recognised immediately in profit or loss.

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

## **i. Trade and other payables**

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

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

Payables in the accompanying consolidated balance sheet are classified by maturity, i.e., those maturing in 12 months or less are classified as current, and those maturing in over 12 months as non-current.

## **k. Pension Obligations**

Enagás makes contributions, in accordance with the approved pension plan adapted to the provisions of the Law on Pension Plans and Funds, to a defined contribution plan called "Enagás Fondo de Pensiones", whose fund manager is Gestión de Previsión y Pensiones, S.A. and its custodian Banco Bilbao Vizcaya Argentaria, S.A., and which covers the company's obligations with respect to serving employees. The company recognises certain vested rights for past service and undertakes to make monthly contributions averaging 6.8% of eligible salary. It is a mixed plan covering retirement benefits, disability and death.

The contributions made each year by the company in this connection are recognised under "Employee benefits expense" in the consolidated income statements. The amounts not yet contributed at each year-end are recognised at their present value under "Provisions – Provisions for pensions and similar obligations" in the consolidated balance sheet.

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

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



## I. Termination benefits

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

## m. Provisions

The Group makes a distinction between:

- Provisions: balances payable covering obligations existing at the balance sheet date arising as a result of past events which could give rise to a loss for the companies which is specific in nature but uncertain as to amount and timing.
- Contingent liabilities: possible obligations as a result of past events whose occurrence depends on the occurrence or non-occurrence of one or more separate future events not within the control of the consolidated entities.

The consolidated financial statements of the Group include all significant provisions where it is more likely than not that the obligation will have to be settled. Contingent liabilities are not recognised in the consolidated annual financial statements, but are disclosed in the notes (see Note 15).

Provisions, which are estimated based on the best available information as to the consequences of the events giving rise thereto and which are re-estimated at the balance sheet date, are used to meet the specific and probable obligations for which they were initially recognised and are reversed, totally or partially, whenever these risks disappear or diminish.

At year-end 2010 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.

# Consolidated Financial Statements

## n. Deferred revenue

This is mainly advance payments received for natural gas transport rights assigned to Gasoducto Al-Andalus, S.A. and Gasoducto de Extremadura, S.A., which are taken to profit and loss on a straight-line basis until 2020 when the transport contract expires.

It also includes the accrual of amounts received for making connections from Enagás, S.A.'s basic network to networks owned by distributors, secondary transporters, gas supply companies and eligible customers. This revenue is taken to profit and loss on the basis of the useful life of the assigned installations.

## o. Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. It represents the amounts receivable for goods delivered and the services rendered as part of the company's ordinary course of business, less discounts, VAT, and other sales taxes.

Ordinary revenue from the rendering of services is recognised by reference to the stage of completion of the transaction at the balance sheet date, provided the result of the transaction can be estimated reliably.

Following the publication of rules which affect Enagás, S.A. in the Official State Gazette of 15 February 2002 (applicable as of 19 February 2002), revenue recognition criteria under the new regulations are as follows:

On 15 February 2002 three Ministerial Orders were approved by the Ministry of Economy defining the new remuneration system for regulated natural gas activities in Spain, which came into force on 19 February 2002. In addition to specifying remuneration for regulated gas-related activities, these Orders fixed natural gas prices and tolls and royalties for third-party access to gas installations stipulating the total payment receivable in 2002 by all companies carrying out purchase and sale activities for the tariff market, regasification, gas storage and transportation, technical management of the system and gas distribution activities, in addition to formulae and criteria for restating and establishing the remuneration of these activities in coming years. Subsequently, on an annual basis, new Orders have been published that have replaced those of previous years.

On 28 December 2009 the Ministry of Industry, Tourism and Commerce approved Ministerial Order ITC/3520/2009 establishing the tolls and fees for third-party access to gas installations applicable in 2010 as well as the last resort tariff, in addition to updating certain aspects relating to remuneration of regulated gas sector activities.

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

- Transporte
- Regasification, including loading of LNG tank and the transfer of LNG to tankers
- Storage
- Technical system management
- Generation of the minimum operating level for LNG ships and of the minimum linepack for gas pipelines (see Note 3-b)
- Own consumption of natural gas

- Overall incentive for availability

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

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

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

273

#### **p. Expense recognition**

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

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

#### **q. Income tax expense**

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

Changes during the year in deferred tax assets or liabilities which do not arise from business combinations are recognised in the consolidated income statement or directly in equity accounts in the consolidated balance sheet, as appropriate.

Deferred tax assets are recognised only when it is probable that taxable profits will be available against which the deductible temporary differences can be utilised.

Deductions arising from economic events in the year are deducted from accrued income tax expense unless there are doubts as to whether they will be realised, in which case they are not recognised until they materialise, or they relate to specific tax incentives.

Income tax expense represents the sum of the current tax and any changes in deferred tax. Current tax is calculated by applying the tax rate to taxable profit less any deductions.

• Annual Report 2010

# Consolidated Financial Statements

## r. Earnings per share

Basic earnings per share is calculated by dividing profit or loss attributable to owners of the parent by the weighted average number of ordinary shares outstanding during the year, excluding the number of parent company shares held as treasury shares by Group companies. Basic earnings per share coincides with diluted earnings per share (Note 14).

## s. Consolidated flow statement

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

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

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

Investing activities: the acquisition and disposal of non-current assets and other investments not included in cash and cash equivalents.

Financing activities: activities that result in changes in the size and composition of equity and liabilities that are not operating activities.

## 4. Regulation of remuneration

### a. Revenue from regasification, storage and transport

275

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

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

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

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

Ministerial Order ITC/3802/2008 of 26 December 2008 updated certain aspects of the financial regime governing regulated activities within the gas sector for 2009.

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

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

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

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

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

# Consolidated Financial Statements

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

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

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

276

## a.1. Recognised fixed cost. Recognised fixed cost is calculated on the basis of operating assets and compensates investment and operating costs relating to assets used in the gas system.

a.1.1. Remuneration for investment costs comprises:

- **Value of recognised assets.** For installations put into service before 2002, the remuneration is calculated based on the book value of the assets after the revaluation of 1996 (Royal Decree Law 7/1996), less grants received to finance these assets. An annual restatement rate based on the adjusted average of the consumer price index (CPI) and the industrial price index (IPRI) is applied to the difference.

For new installations brought into service since 2002, the standard value of each investment set by the regulator is used, while those investments that entail expansion are measured at actual cost.

Investments in underground storage are also measured at actual cost because there are no standard values.

Transport installations brought into service from 2008 are valued at the average of the standard value and actual cost.

Regasification installations put into service since 2006 are valued at actual cost plus 50% of the difference between standard value and actual cost, up to the amount of standard value.

- **Remuneration for depreciation of system assets.** The depreciation rate relating to the useful life of the asset is applied to the investment recognised to give the amount of revenue for this item.

For transport assets put into service after 1 January 2008, depreciation is updated annually at a rate of 2.5%.

- **Financial remuneration for the value of the investment.** For transport assets put into service before 2008, this figure is calculated by applying a financial return equal to the annual average IRR on 10-year government bonds or a replacement interest rate plus 1.5% to the value of the gross investment value obtained as per the previous paragraph.

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

For regasification and storage assets, this figure is calculated by applying a financial return equal to the annual average IRR on 10-year government bonds or a replacement interest rate, based on the date that each facility was put into service, plus 3.5%, to the value of the net investment (after depreciation) obtained in the previous paragraph.

The resulting remuneration rate for transport assets started up in 2010 was 7.85%.

- **Remuneration of fully depreciated assets.** For transport assets put into service before 2008, 50% of the financial remuneration is recognised. For regasification, storage, and transport assets put into service from 1 January 2008, 50% of the depreciation and the financial remuneration of the last year is recognised. With regard to the latter transport assets, remuneration is also updated annually at a rate of 2.5%.

**a.1.2.** Compensation for operating costs relating to regasification and transport assets started up before the end of 2007 is calculated in accordance with the costs authorised in 2000 for gas system installations for gas transport and regasification, standardised by physical and technical unit. For transport assets commissioned after 1 January 2008, the standard values applicable are those established in the unit value review proposal put forward by the CNE.

These standard values are updated annually based on consumer price index and the industrial price index (IPRI) for capital goods, adjusted by certain efficiency factors. .

For underground storage, a specific fixed operating and maintenance cost is defined for each site.

**a.1.3.** Revenue relating to the fixed authorised cost is taken to the consolidated income statement on a straight-line basis. In this way, a month-on-month balance is achieved between revenue (remuneration) and expenses (depreciation).

## **a.2. Recognised variable cost for regasification and transfer of LNG to tankers.**

**a.2.1.** The recognised variable cost is calculated based on the number of kW/hr actually regasified and loaded in LNG cisterns in each period and the variable unit regasification cost for the period in question. For 2010, this cost was set at 0.000181 euros per kWh regasified and 0.000217 euros per kWh loaded in cisterns.

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

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

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

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



# Consolidated Financial Statements

## b. Revenue from technical system management (TSM)

Revenue from this activity is calculated on a yearly basis in accordance with the recognised cost for each year and is used to compensate Enagás, S.A.'s for its obligations as Technical System Manager, which include coordinating the development, operation and maintenance the transport network, supervising the security of natural gas supply (storage levels and emergency plans), implementing plans for the future development of gas infrastructures and controlling third-party access to the network.

In 2010, the amount earmarked for TSM remuneration, which should be collected by companies that are titleholders of the regasification, transport, storage and gas distribution facilities, as a percentage of invoicing for tolls and fees relating to third-party network access rights, was 0.42%. This amount is deposited by these companies within the deadlines and in the manner established in the settlement procedure in the deposit account kept open by the CNE for these purposes.

The above-mentioned percentage of invoicing is calculated based on the figure obtained by applying maximum tolls and fees to the invoiced amounts, without subtracting possible discounts that could be agreed between the titleholders of the installations and their users.

Notwithstanding the foregoing, the remuneration recognised for acting as technical system manager in 2010 was 11,206,248 euros. Any surplus or shortfall between this figure and the amounts received as a result of application of the above calculations will be included by the CNE in the fourteenth settlement of 2010.

This revenue is taken to the consolidated income statement monthly on a straight-line basis.

## c. Settlement of tolls relating to third-party access to gas installations.

Invoicing and collection of remuneration for regulated activities subject to settlement (third-party access to the network and technical system management) is carried out in compliance with the settlement procedure established in the Ministerial Order dated 28 October 2002.

## d. Settlement system.

On 1 November 2002, Ministerial Order ECO/2692/2002 (28 October) was published, regulating settlement procedures for remuneration of regulated activities and defining company disclosure requirements.

Additional provision number five of Order ITC/3993/2006 amends section I.5 of appendix II of this settlements order and states that the interest equivalent to applying the average 1-year treasury bill yield during 60 days to the amounts to be paid to each transporter or distributor be added to the settlements.

## e. Revenue for the minimum operating level and minimum linepack of gas pipelines

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

Additionally, Article 17 of this Order provides that the financial retribution for the filling gas purchased for the minimum of transport pipelines and regasification plants purchased each year shall be calculated by applying to cost a remuneration rate equal to the average monthly rate of the 10 year Spanish government bond in the

twelve months prior to November last year, plus 350 basis points. The acquisition cost will be the result of applying the auction price to the quantity purchased.

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

#### **f. Revenue for gas purchases for internal consumption**

From 1 July 2007, gas transporters are responsible for acquiring the amount of gas needed for internal consumption at their facilities. This leads to a reduction in the percentages of shrinkage retained from users.

Gas acquired by transporters is measured at the auction price, with the payments made treated as reimbursable expenses.

279

#### **g. Development of the Regulatory Framework**

The main gas industry regulatory developments approved in 2010 include:

##### **1. Supranational regulations**

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

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

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

**European Commission Decision of 3 November 2010** laying down the criteria and measures applicable to the financing of commercial demonstration projects for the capture and geological storage of CO<sub>2</sub> in safety to the environment and demonstration projects for innovative renewable energy technologies, under the scheme for greenhouse gases trading emissions in the Community established by Directive 2003/87/EC of the European Parliament and the Council.

# Consolidated Financial Statements

## 2. Spanish regulations

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

• Annual Report 2010

## Consolidated Financial Statements

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

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

**Law 40/2010 of 29 December 2010** on the geological storage of carbon dioxide providing the legal framework for the geological storage of carbon dioxide (CO<sub>2</sub>), in safety to the environment, in order to contribute to the fight against climate change.

## 5. Intangible Assets

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

### 2010

	Opening balance	Additions	Increase / (decrease) due to transfers	Disposals, derecognition or reversals	Closing balance
<b>Cost</b>					
Development costs	965	900	-	-	1,865
Concessions	5,887	71	-	(23)	5,935
Computer software	47,075	19,995	-	-	67,070
Other intangible assets	32,287	257	(25,319)	-	7,225
<b>Total cost</b>	<b>86,214</b>	<b>21,223</b>	<b>(25,319)</b>	<b>(23)</b>	<b>82,095</b>
<b>Amortisation</b>					
Development costs	271	88	-	-	359
Concessions	2,687	236	-	(4)	2,919
Computer software	28,533	9,602	-	-	38,135
Other intangible assets	13,318	1,851	(11,116)	-	4,053
<b>Total amortisation</b>	<b>44,809</b>	<b>11,777</b>	<b>(11,116)</b>	<b>(4)</b>	<b>45,466</b>

### 2009

	Opening balance	Additions	Increase / (decrease) due to transfers	Disposals, derecognition or reversals	Closing balance
<b>Cost</b>					
Development costs	584	381	-	-	965
Concessions	5,887	-	-	-	5,887
Computer software	36,607	10,468	-	-	47,075
Other intangible assets	30,607	1,680	-	-	32,287
<b>Total cost</b>	<b>73,685</b>	<b>12,529</b>	<b>-</b>	<b>-</b>	<b>86,214</b>
<b>Amortisation</b>					
Development costs	178	93	-	-	271
Concessions	2,476	211	-	-	2,687
Computer software	21,852	6,685	-	(4)	28,533
Other intangible assets	11,627	1,691	-	-	13,318
<b>Total amortisation</b>	<b>36,133</b>	<b>8,680</b>	<b>-</b>	<b>(4)</b>	<b>44,809</b>

• Annual Report 2010

# Consolidated Financial Statements

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

Key software additions in 2010 include:

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

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

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

## 2010

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

## 2009

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

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



## 6.

## Property, Plant and Equipment

The breakdown and movement in property, plant and equipment and accumulated depreciation in 2010 and 2009 were as follows:

285

## 2010

	Opening balance	Additions	Increase / (decrease) due to transfers	Disposals, derecognition or reversals	Closing balance
<b>Cost</b>					
Land and buildings	155,436	57,712	3,088	(6)	216,230
Plant and machinery	6,119,216	153,626	404,659	(1)	6,677,500
Other installations, equipment and furniture	43,900	3,957		(535)	47,322
Prepayments and work in progress	915,823	559,800	(407,747)	(10)	1,067,866
Government grants	(561,257)	(22,785)		-	(584,042)
<b>Total cost</b>	<b>6,673,118</b>	<b>752,310</b>	<b>-</b>	<b>(552)</b>	<b>7,424,876</b>
<b>Depreciation</b>					
Land and buildings	43,934	18,992	-	(1)	62,925
Plant and machinery	2,192,469	284,112	-	(1)	2,476,580
Other installations, equipment and furniture	36,815	3,425	-	(531)	39,709
Prepayments and work in progress	-	-	-	-	-
Government grants	(269,815)	(23,844)	-	-	(293,659)
<b>Total depreciation</b>	<b>2,003,403</b>	<b>282,685</b>	<b>-</b>	<b>(533)</b>	<b>2,285,555</b>
<b>Impairment losses</b>					
Land and buildings	-	-	-	-	-
Plant and machinery	14,760	813	-	-	15,573
Other installations, equipment and furniture	-	-	-	-	-
Prepayments and work in progress	-	-	-	-	-
Government grants	-	-	-	-	-
<b>Total impairment losses</b>	<b>14,760</b>	<b>813</b>	<b>-</b>	<b>-</b>	<b>15,573</b>

• Annual Report 2010

# Consolidated Financial Statements

2009

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

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

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

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

- Duplication of the Castelnou – Tivissa gas pipeline.
- Murcia Workplace.
- DCS upgrade and expansion of control and command room at Barcelona Plant.
- Upgrade of boil-off system at the Huelva plant.
- Replacement of the fire system at the Barcelona Plant.
- A seventh 150,000 m<sup>3</sup> tank at the Barcelona Plant.
- P-2003 E/F secondary pumps at the Barcelona Plant.
- A fifth 150,000 m<sup>3</sup> tank at the Cartagena Plant.
- Regulating and metering stations at various points on the basic grid.

- Expansion work at various points on the basic grid.
- A fifth 150,000 m<sup>3</sup> tank at the Huelva Plant.
- Civil works at new site on the Huelva Plant.
- Work upgrade to 250,000 m<sup>3</sup> on methane tanker dock at the Barcelona plant.
- High pressure turbine calibration laboratory.
- Montesa compression station.

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

287

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

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

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

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

Write-offs in , property, plant and equipment accumulated during 2010 amounting to 158 thousand euros relate to replaced furniture, and 378 thousand euros related to vehicles sold for an amount of 19 thousand euros. The Transfers entry recognises the movements in work-in-progress assets to property, plant and equipment as projects brought into operation in the year.

• Annual Report 2010

# Consolidated Financial Statements

The revaluation of assets by Enagás, S.A., in accordance with the provisions of Royal Decree Law 7/1996 (7 June) regarding the revaluation of assets, resulted in an increase of 15,208 thousand euros in the depreciation charge in 2010 (2009: 15,619 thousand euros).

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

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

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

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

## 2010

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

## 2009

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

Property, plant and equipment are not mortgaged or subject to any other similar encumbrance.

The Group insures its assets so no significant losses occur, on the basis of best market practice and according to the nature and characteristics of the items of property, plant and equipment.

The Group also has insurance policies against third-party civil liability.

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

	Grants received at 31/12/10	Released to income at 31.12.10	Balance at 31.12.10
Regasification plants	86,225	62,812	23,413
Gas transport infrastructure	480,309	224,622	255,687
Underground storage facilities	17,508	6,225	11,283
<b>Total</b>	<b>584,042</b>	<b>293,659</b>	<b>290,383</b>

THOUSAND OF EUROS

289

The grants were received from the following bodies:

EU structural funds	413,074	185,973	227,101
Spanish regional authorities	57,120	22,248	34,872
Spanish state	113,848	85,438	28,410
<b>Total</b>	<b>584,042</b>	<b>293,659</b>	<b>290,383</b>

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

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

• Annual Report 2010

# Consolidated Financial Statements

## 7. Interests in joint ventures

290

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

	THOUSAND OF EUROS		Percentage stakes
	2010	2009	
Gasoducto Al-Andalus, S.A. (España)	23,744	23,744	66.96 %
Gasoducto de Extremadura, S.A. (España)	9,732	9,732	51.00 %
Gasoduto Campo Maior - Leiria - Braga, S.A. (Portugal)	3,195	3,195	12.00 %
Gasoduto Braga - Tuy, S.A. (Portugal)	2,546	2,546	49.00 %
Bahía Bizkaia Gas, S.A. (España)	44,333	-	40.00 %
<b>Total, gross</b>	<b>83,550</b>	<b>39,217</b>	-
Less: impairment losses	-	-	-
<b>Total net</b>	<b>83,550</b>	<b>39,217</b>	-

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

## 8.

## Financial assets

## 8.1 Composition and breakdown

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

291

Category / Class	"Equity instruments"		Debt securities		"Loans, derivatives and other"		Total	
	2010	2009	2010	2009	2010	2009	2010	2009
<b>Non-current financial assets</b>								
Assets at fair value through profit or loss								
Financial assets held for trading	-	-	-	-	-	-	-	-
Other non-current financial assets	-	-	-	-	-	-	-	-
Held-to-maturity investments	31	1	-	-	790	712	821	713
Loans and receivables	-	-	-	-	1,340	8,236	1,340	8,236
Available-for-sale financial assets								
Measured at fair value	-	-	-	-	-	-	-	-
Measured at cost	-	-	-	-	-	-	-	-
Derivatives	-	-	-	-	30,651	2,069	30,651	2,069.0
<b>Total</b>	<b>31</b>	<b>1</b>	<b>-</b>	<b>-</b>	<b>32,781</b>	<b>11,017</b>	<b>32,812</b>	<b>11,018</b>
<b>Current financial assets</b>								
Assets at fair value through profit or loss								
Financial assets held for trading	-	-	-	-	-	-	-	-
Other non-current financial assets	-	-	-	-	-	-	-	-
Held-to-maturity investments	-	-	-	-	-	-	-	-
Loans and receivables	-	-	101,742	-	6,300	8,083	108,042	8,083
Available-for-sale financial assets								
Measured at fair value	-	-	-	-	-	-	-	-
Measured at cost	-	-	-	-	-	-	-	-
Derivatives	-	-	-	-	-	-	-	0
<b>Total</b>	<b>-</b>	<b>-</b>	<b>101,742</b>	<b>6,300</b>	<b>8,083</b>	<b>108,042</b>	<b>8,083</b>	<b>8,083</b>



• Annual Report 2010

# Consolidated Financial Statements

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

## 2010

	Balance at 01/01/10	Additions or provisions	Gain (loss) recognised in equity/income	Increase (decrease) due to transfers	Disposals, derecognition or reversals	Balance at 31/12/10
Equity instruments	1	30	-	-	-	31
Debt securities	-	101,742	-	-	-	101,742
Loans, derivatives and others	19,100	2,243	28,582	(9,606)	(1,238)	39,081
<b>Total</b>	<b>19,101</b>	<b>104,015</b>	<b>28,582</b>	<b>(9,606)</b>	<b>(1,238)</b>	<b>140,854</b>

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

## 2009

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

## 8.2 Impairment losses

In 2010 there were no changes in provisions for impairment losses on the Group's financial assets.

## 8.3 Loans and receivables generated by the company:

### Current and non-current loans

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

	Thousands of euros	Interest rate	Maturity
<b>Non-current loans:</b>			
Loans to Group companies	8,084	2.640%	Sept.-2011
Other loans	-	-	-
<b>Current loans:</b>			
Loans to Group companies	8,083	2.640%	Dic.-2009
<b>Balance at 31/12/09</b>	<b>16,167</b>		
<b>Non-current loans:</b>			
Loans to Group companies	880	4.130%	Dic.-2012
Other loans	460	3.330%	-
<b>Current loans:</b>			
Loans to Group companies	6,300	4.130%	Dic.-2010
<b>Balance at 31/12/10</b>	<b>7,640</b>		

293

Current and non-current loans include long-term loans granted by the parent company to finance the construction of transport infrastructure; they are measured at amortised cost using the effective interest method. These loans accrue interest at variable rates referenced to the EIB rate plus a 90bp spread for Gasoducto Al-Andalus, S.A., Gasoducto de Extremadura, S.A.

The breakdown is as follows:

	31.12.2010	THOUSANDS OF EUROS 31.12.2009
<b>Non-current loans to Group companies:</b>		
Gasod. Al-Andalus, S.A.	-	3,095
Gasod. de Extremadura, S.A.	-	10
Gasod. Campo Maior- Leiria- Braga, S.A.	880	1,996
Gasod. Braga-Tuy, S.A.	-	2,983
<b>Total, non-current</b>	<b>880</b>	<b>8,084</b>
<b>Current loans to Group companies:</b>		
Gasod. Al-Andalus, S.A.	6,280	3,095
Gasod. de Extremadura, S.A.	20	10
Gasod. Campo Maior- Leiria- Braga, S.A.	-	1,996
Gasod. Braga-Tuy, S.A.	-	2,982
<b>Total, current</b>	<b>6,300</b>	<b>8,083</b>

• Annual Report 2010

# Consolidated Financial Statements

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

294

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

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

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

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

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

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

	31.12.2010		31.12.2010
<b>Assets</b>		<b>Liabilities and Equity</b>	
NON-CURRENT ASSETS	14,202	NET EQUITY	-
Intangible assets	14,202	NON CURRENT LIABILITIES	2,036
CURRENT ASSETS	17,134	Financial liabilities	2,036
Other financial assets	9,606	CURRENT LIABILITIES	3,821
Other assets	4,536	Financial liabilities	2,036
Cash and cash equivalents	2,992	Trade creditors and other payables	294
TOTAL GENERAL	31,336	Other liabilities	1,491
		TOTAL GENERAL	5,857

## 10. Inventories

It should be noted that at 31 December 2010, Enagás, S.A., as Technical System Manager, had approximately 850 GWh of operational gas necessary to ensure operation of the gas system, as stipulated in the fifth additional provision of Order ITC/3863/2007 of 28 December 2007. This gas is not recognised as inventory in the financial statements since it belongs to the entire gas system and is not the property of Enagás, S.A.

The Group also has 5,328 thousand euros (4,725 thousand euros in 2009) of inventories unrelated to natural gas that include, inter alia, office materials and consumables.

295

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

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

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

The 1,286 thousand euro "Receivable from Group companies" balance corresponds to 597 thousand euros receivable from Gasoducto Al-Andalus, S.A. and 689 thousand euros receivable from Gasoducto de Extremadura, S.A. Both balances relate to gas transport services rendered to Galp Gas Natural, S.A. pending collection, which are consolidated using the proportionate method in accordance with the percentage interest of Enagás, S.A. in these companies.

• Annual Report 2010

# Consolidated Financial Statements

Under “Other receivables”, the Group includes the unsettled balance relating to remuneration for regulated regasification, transport, and storage activities in 2010 for 205,947 thousand euros, and the outstanding balance on the remuneration for technical system management of 1,497 thousand euros, leaving a total outstanding balance of 206,444 thousand euros at the 2010 year-end.

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

“Other receivables” also includes the uncollected amounts from gas suppliers for the freight tax regulated by article 24 of Law 48/2003. This tax is levied on natural gas shipments which agents unload at the regasification plants, including those of which Enagás, S.A. is titleholder at the ports of Barcelona, Cartagena, and Huelva. At 31 December 2010, these uncollected amounts totalled 7,088 thousand euros, of which 5,974 thousand euros are subject to a lawsuit filed by certain suppliers. Specifically, 4,984 thousand euros were past due by over one year at 31 December 2010.

Law 48/2003 modifies the duty on goods unloaded at ports under the concession regime. Title I of this law states that if the concessionaire makes the application within a period of six months, 100% of the duties related to unloading may be passed on to the agent that is titleholder of the merchandise even though payment to the port authority is still the responsibility of the taxpayer, in this case Enagás, as concessionaire under the previous regime. Under the previous regime, only 50% of the duty could be passed on to the titleholder of the goods by the titleholder of the concession.

The problem with the suppliers arose from the fact that while Law 43/2003 came into effect on 27 February 2004, Title I of the law related to the pass-through of duties became applicable on 1 January 2004 in accordance with the fifth additional provision of Law 48/2003. Enagás, S.A. submitted the application for the change of regime in July 2004, understanding that the six-month period started on 27 February 2004, when the law took effect. However, the suppliers with which the company is in litigation understand that the application from 1 January of Title I implies that this period ended on 30 June 2004. Therefore, Enagás, S.A.’s application is past the deadline and therefore, for legal purposes, outside the allotted period.

As a result of this situation, Enagás, S.A. has filed administrative claims seeking legal jurisdiction for its actions covering the full uncollected amounts. It should be noted that Enagás, S.A.'s claims have been expressly ratified by the Huelva Port Authority via ruling issued 3 May 2007, which, in line with the Port Authorities of Cartagena and Barcelona, considers without any reservation that Enagás' election to avail itself of the new economic tax regime established by Law 48/2003 was not outside the allotted period. In addition, all the rulings handed down by the regional economic and administrative courts have upheld the claims lodged by Enagás, S.A. in response to the suppliers' refusal to pay the total amounts invoiced for port duties on merchandise and for general services.

The Group's directors recognise the risk that the rest of the suppliers paying the full tax passed on by Enagás, S.A. will seek reimbursement of 50% if the court rules against Enagás, S.A. in the claims in process. The amount paid to Enagás, S.A. by suppliers with which there is no ongoing litigation at 31 December 2010 totalled 39,119 thousand euros, of which 50% (19,559 thousand euros) would be at risk.

The above notwithstanding, the Group's directors consider that based on the information available at that date, the risk of not recovering these amounts is remote, so no provision for this concept has been recorded. However, it will continue to monitor the claims lodged in 2010.

"Income tax receivable" at 31 December 2010 basically includes VAT receivable by parent company Enagás, S.A., as accrued recoverable VAT is higher than VAT payable, partly because Enagás, S.A. acts as a tax warehouse. This heading also includes corporate income tax withholdings and payments on account paid by the company (Note 22).

Los Administradores consideran que el importe en libros de las cuentas de deudores comerciales y otras cuentas a cobrar se aproxima a su valor razonable.

### **Credit risk**

The Group's main financial assets are cash and cash equivalents, trade and other receivables, and investments, which represent the Group's maximum exposure to credit risk in relation to financial assets. The balances include amounts which on the whole are within the stipulated maturity periods and are payable by companies of recognised prestige and solvency.

The Group does not have a significant concentration of credit risk as it operates in a regulated environment under planned scenarios. However, it takes the impairment provisions deemed necessary to cover bad debt risks.

• Annual Report 2010

# Consolidated Financial Statements

## 12. Cash and cash equivalents

298

The breakdown of "Cash and cash equivalents" at 31 December 2010 and 2009 is as follows:

	31.12.2010	31.12.2009
Cash	18,961	7,623
Cash equivalents	1,068,090	632,901
<b>Total</b>	<b>1,087,051</b>	<b>640,524</b>

As a general rule, bank balances accrue interest at a rate that is similar to the market rate for daily deposits. Current deposits mature within less than three months and earn interest at market rates for this kind of product. There are no significant restrictions on the availability of cash and bank balances.

## 13. Equity

### 13.1 Issued capital

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

All shares of parent company Enagás, S.A. are listed on the four Spanish stock exchanges and are traded on the electronic trading platform (the continuous market). At 30 December 2010, Enagás, S.A.'s share price closed at 14.915 euros, having reached a high for the year of 16.575 euros per share on 1 April.

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



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

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

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

It should be noted that article 92 of Law 62/2003 on tax, administration and social order measures of 31 December 2003, which amends Law 34/1998 on the hydrocarbon sector, establishes that “no individual or company may directly or indirectly hold more than 5% of Enagás, S.A.’s ordinary or voting shares”.

Law 12/2007, of 2 July 2007, further limits the exercise of voting rights to 3%, in addition to the ownership cap of 5%. The law also stipulates the natural persons or legal entities that operate in the gas industry and those that, directly or indirectly, hold over 5% of the share capital of these companies may not exercise more than 1% of the voting rights in the technical system manager. These restrictions shall not apply to direct or indirect shareholdings held by public-sector enterprises.

The Group has no treasury shares.

## 13.2 Reserves

### Legal reserve

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

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

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

In 2010, Gasoducto Al-Andalus, S.A. and Gasoducto de Extremadura, S.A. had also appropriated to their respective legal reserves the full required amount.

• Annual Report 2010

# Consolidated Financial Statements

## 13.3 Interim dividend

The distribution of net profit for 2010 that Enagás, S.A.'s Board of Directors will propose for approval at the General Shareholders' Meeting is as follows:

	THOUSANDS OF EUROS
Dividend	200,089
Voluntary reserves	126,976
	<b>327,065</b>

300

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

In accordance with legal requirements, the provisional financial statements prepared by the Group, which showed that there were sufficient resources to pay the interim dividend against 2010 profit, are set forth below:

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

The aforementioned interim dividend was paid on 21 December 2010.

The proposed before-tax final dividend (0.526 euros per share) is subject to shareholder approval and is not recognised as a liability in these financial statements.

## 13.4 Net unrealised gains (losses) reserve

### Available-for-sale (AFS) financial assets

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

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

	01.01.2009	"Change in fair value"	"Recognised in income"	31.12.2009
Available-for-sale (AFS) financial assets	(792)	13	779	-
Tax effect deferred in equity	238	(4)	(234)	-
<b>Total</b>	<b>(554)</b>	<b>9</b>	<b>545</b>	<b>-</b>

THOUSANDS OF EUROS

301

### Hedging transactions

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

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

#### 2010

	01.01.2010	"Change in fair value"	"Recognised in income"	31.12.2010
Cash flow hedges	(17,390)	(3,992)	17,682	(3,700)
Tax effect deferred in equity	5,216	1,198	(5,305)	1,109
<b>Total</b>	<b>(12,174)</b>	<b>(2,794)</b>	<b>12,377</b>	<b>(2,591)</b>

THOUSANDS OF EUROS

#### 2009

	01.01.2009	"Change in fair value"	"Recognised in income"	31.12.2009
Cash flow hedges	(21,657)	(26,455)	30,722	(17,390)
Tax effect deferred in equity	6,497	7,936	(9,217)	5,216
<b>Total</b>	<b>(15,160)</b>	<b>(18,519)</b>	<b>21,505</b>	<b>(12,174)</b>

THOUSANDS OF EUROS

• Annual Report 2010

# Consolidated Financial Statements

## 14. Earnings per share

302

Basic earnings per share is calculated by dividing the profit for the year attributable to equity holders of the parent by the weighted average number of shares outstanding in the year, excluding the average number of treasury shares held in the year.

Accordingly:

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

Diluted earnings per share is calculated by dividing profit for the period attributable to equity holders of the parent (adjusted for the effect of dilutive potential ordinary shares) by the weighted average number of ordinary shares outstanding during the period adjusted for the weighted average number of ordinary shares that would be issued on the conversion of all the dilutive potential ordinary shares into ordinary shares of the company. As there are no potential ordinary shares at either year-end 2009 or year-end 2008, basic and diluted earnings per share are the same.

## 15.

# Provisions and contingent liabilities

## 15.1 Provisions

303

The directors of the Enagás Group consider that the provisions recorded in the accompanying consolidated balance sheet adequately cover risks from lawsuits, arbitration and other proceedings described in this note, and therefore do not expect these proceedings to give rise to additional liabilities. Given the nature of the risk covered by these provisions it is not possible to make a reasonable estimate as to the timing of any payments which may arise.

The discounting of provisions is recognised with a charge to "Finance costs" in the accompanying consolidated income statement.

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

	01.01.2010	Additions	Discounting	Amounts applied	31.12.2010
<b>Non-current provisions</b>					
Long-term incentive plan	2,762	-	-	(2,762)	-
Tax	-	-	-	-	-
Other	5,255	(5)	-	-	5,250
Abandonment costs	23,487	5,500	115	-	29,102
<b>Total non-current provisions</b>	<b>31,504</b>	<b>5,495</b>	<b>115</b>	<b>(2,762)</b>	<b>34,352</b>
<b>Current provisions</b>					
Other	-	3,294	-	-	3,294
<b>Total, current</b>	<b>-</b>	<b>3,294</b>	<b>-</b>	<b>-</b>	<b>3,294</b>

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

- Personnel obligations. Includes a long-term incentive featuring an annual compensation plan whose perception is linked to the achievement of certain objectives over three years, the beneficiaries of which are the senior management of the company, including executive directors. During 2010 all provisions have been used.
- Other responsibilities. In 2010 Enagas, SA has provisioned 3,294 thousand euros for two lawsuits that the company has with Gas Natural Fenosa and Iberdrola in respect of commercial claims.
- Abandonment costs. Includes the provision of 5,500 thousand euros relating to the allowances made by Bahía de Bizkaia Gas, SL, according to its shareholding, for decommissioning costs of the regasification plant owned by the company. The effect of discounting the costs to dismantle the Yela and Serrablo underground storage facilities and to dismantle the BBG regasification plant have been included under the column headed "Discounting"

• Annual Report 2010

# Consolidated Financial Statements

## 15.2 Contingencies

The Group had the following contingent liabilities at 31 December 2010:

- Uncollected amounts from gas suppliers for the freight tax regulated by article 24 of Law 48/2003 (see Note 11).
- Administrative proceedings with the Chamber of Commerce of Madrid relating to claims on income tax for 2005, 2006, 2007 and 2008.
- Proceedings with the state tax authorities (AEAT) regarding assessments relating to VAT on imports in 2002 and 2004 (see Note 22.8).

## 16. Financial liabilities

### 16.1 Non-current financial liabilities

The breakdown of "Non-current financial liabilities" at year-end 2010 and 2009 was as follows:

Category / Class	"Bank borrowings and finance leases"		"Bonds and other marketable debt securities"		"Derivatives and other financial"		Total	
	2010	2009	2010	2009	2010	2009	2010	2009
Debts and other payables	2,496,871	1,914,629	1,165,548	1,130,423	14,678	29,289	3,677,097	3,074,341
Liabilities at fair value through profit or loss								
Held for trading	-	-	-	-	-	-	-	-
Others	-	-	-	-	-	-	-	-
Derivatives	-	-	-	-	1,037	15,698	1,037	15,698
<b>Total</b>	<b>2,496,871</b>	<b>1,914,629</b>	<b>1,165,548</b>	<b>1,130,423</b>	<b>15,715</b>	<b>44,987</b>	<b>3,678,134</b>	<b>3,090,039</b>

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

#### 2010

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



• Annual Report 2010

# Consolidated Financial Statements

2009

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

At 31 December 2010, Enagás, S.A. had undrawn credit facilities amounting to 155 million euros, with a limit of 690 million euros (2009: 121 million euros, with a limit of 406 million euros). The company is currently negotiating renewal of the main facilities maturing in 2011. Undrawn loans granted amount to 725 million euros (2009: 875 million euros).

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

Average annual interest in 2010 on Group loans and credit facilities in euros was 2.04% without considering hedges and fees and 2.52% factoring hedges and fees (2.26% and 3.30%, respectively, in 2009).

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

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

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

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

- 5,682 thousand euros corresponding to the adjustments envisaged in the income tax assessment for 1995 to 1998, updated as at 31 December 2010 (2009: 5,523 thousand euros).
- The loan from the General Energy Secretariat, which forms part of the aid envisaged in the National Energy Programme granted by the Ministry of Industry, Tourism and Trade within the framework of the National Plan for Scientific Research, and Technical Development and Innovation (2004-2007). This loan is associated with the "Project for the electricity generation system at the Almendralejo compression station" being carried out by Enagás, S.A. The total amount of the loan granted is 3,265 thousand euros of which 168 thousand euros have been re-paid, 2,799 thousand euros are classified as non-current and 168 thousand euros as current.

Also included is the loan from the General Industry Secretariat, which forms part of the aid envisaged in the aforementioned plan by the Ministry of Industry, Tourism and Trade. This loan is associated with the "Project for design and development of a high pressure gas meter calibration facility" being carried out by Enagás, S.A. The total amount of the loan is 1,100 thousand euros, with 600 thousand euros allocated in 2007 and 500 thousand euros in 2008. The financing granted for each year was drawn down in December 2007 and 2008. In May 2009 the General Industry Secretariat notified Enagás, S.A. of its obligation to repay 204 thousand euros in connection with the loan received in 2007 to bring the amount received in line with the actual amount invested. The repayment was made in October of 2009. At 31 December 2010, 839 thousand euros are long term and 57 thousand euros short term.

This heading also includes another loan from the General Energy Secretariat as part of the aid envisaged in the aforementioned plan by the Ministry of Industry, Tourism and Trade. Specifically, this loan is associated with the "Project for Huelva power generation plant" being carried out by Enagás, S.A. The total amount of the loan granted is 3,598 thousand euros to be received in four annuities. During 2009 it disposed of 157 thousand euros from the first annuity and during 2010 it disposed of 422 thousand euros from the second annuity.

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

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

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

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

Financing highlights in the year include:

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

• Annual Report 2010

# Consolidated Financial Statements

## 16.2 Current financial liabilities

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

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

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

- Interest on borrowings from related-party banks in the amount of 458 thousand euros in 2010 (2009: 830 thousand euros).
- Current borrowings from the General Energy Secretariat for 355 thousand euros (see Note 16.1).
- The current balances on the loans which subsidiaries Gasoducto Al-Andalus, S.A. and Gasoducto de Extremadura, S.A. received from Galp Gas Natural, S.A., amounting to 6,451 thousand euros and 2,465 thousand euros, respectively.
- Other items pending application in the amount of 124 thousand euros (2009: 147 thousand euros).

## 17. Other non-current liabilities

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

THOUSANDS OF EUROS

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

Amounts related to the royalty of the subsidiaries Gasoducto de Extremadura, S.A. and Gasoducto Al-Andalus, S.A. correspond to balances pending application in respect of "gas transport rights" contracts signed with these subsidiaries. These balances are consolidated proportionally in accordance with the percentage shareholding of Enagás, S.A. in these companies.

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

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

THOUSANDS OF EUROS

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

• Annual Report 2010

# Consolidated Financial Statements

## 18. Risk and capital management policy

310

### 18.1 Qualitative information

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

The basic principles defined by the Enagás Group in establishing the policy for managing its most significant risks are as follows:

- Compliance with corporate governance rules.
- Strict compliance with the Group's in-house rules.
- Each business and corporate area defines:
  - a) Its trading markets and products as a function of where it has sufficient knowledge and capacity to ensure effective risk management
  - b) Criteria for counterparties
  - c) Authorised brokers
- The businesses and corporate areas establish for each market in which they operate their risk threshold in accordance with the strategy defined.
- The limits are approved by the respective risk committees, or in their absence, by the Enagás Risk Committee.
- All the transactions of the various businesses and corporate areas are carried out within the approved limits for each case.
- The businesses, corporate areas, business lines and companies establish the necessary risk management controls to ensure that market transactions are carried out in accordance with the Group's policies, rules and procedures.

#### Interest rate risk

Interest rate fluctuations affect the fair value of assets and liabilities carrying fixed interest rates and the future flows from assets and liabilities linked to floating interest rates.

The objective of interest rate risk management is to achieve a balanced debt structure that minimises the cost of debt over the long term and mitigates volatility in the consolidated income statement.

In line with its estimates and debt structure targets, the Enagás Group writes derivatives to hedge its risks.

### Liquidity risk


The Group's liquidity policy consists of taking out credit facilities and short term investments to cover requirements for a period consistent with debt and capital market conditions and expectations.

### Credit risk

The Group has no significant credit risk as the average customer collection period is very short and cash is placed on derivatives written with highly solvent entities.

## 18.2 Quantitative information

### a) Interest-rate exposure



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

Based on the above levels of fixed-rate borrowings and after carrying out an analysis of the company's sensitivity to a one percentage point variation in market interest rates, the company estimates that the higher cost of servicing its floating-rate debt resulting from such a variation would have an income-statement impact of approximately 19 million euros.

In addition, and again in relation to its floating rate debt, management estimates that the impact on equity, as a result of derivatives arranged, of a similar change in market rates would not be significant in 2011.

## 18.3 Capital management.

The Group, and specifically its parent company Enagás, S.A., as a capital- and investment-intensive business within a regulated market, has a capital management focus at the corporate level aimed at achieving a financial structure that optimises cost in order to maintain strong financial health. To this end, despite not having to rely on external borrowing, it continuously seeks access to financial markets at the most competitive cost possible to finance its investment plan without requiring changes to the Group's dividend policy.

During 2010 there have been no changes in capital management with respect to 2009. Overall, the Group's capital structure consists of equity attributable to the equity holders of the parent (capital, share premium, retained earnings, and others), borrowings, cash, and other liquid assets. In this regard, the Group provides quantitative disclosures in Notes 15 to 17 about the financial liabilities which make up its capital structure, together with its policies for managing the related risks. These notes describe the financial position in detail and describe the strength of this position, which the capital management policy mentioned in the first paragraph of this section aims to ensure. Moreover, these notes indicate that the credit ratings held by the principle agencies did not change in respect of 2009 (see Note 33). The company monitors these ratings for decision-making purposes.

• Annual Report 2010

# Consolidated Financial Statements

## 19. Derivative financial instruments

312

The company uses derivatives to hedge its exposure to business, operating and cash flow risks. Specifically, the company has entered into the following hedging arrangements.

### 2010

Instrument	Date written	Notional amount	Cap/Floor	Fixed rate	Start date	Maturity
Interest rate swap	June-10	250,000	-	1.4167	27/08/2010	27/08/2013
Interest rate swap	September-10	150,000	-	1.65425	23/11/2011	24/11/2014
Interest rate swap	September-10	200,000	-	1.461	16/05/2011	10/04/2014
Interest rate swap	September-10	100,000	-	1.397	03/11/2010	03/05/2013
Interest rate swap	December-10	200,000	-	1.6851	01/01/2011	01/01/2014
Total		900,000				

### 2009

Instrument	Date written	Notional amount	Fixed rate	Start date	Maturity
Cross Currency Swap julio-2009	July-2009	147,514	-	15/09/2009	15/09/2039
Swap	November-2009	250,000	1.98	27/11/2009	27/11/2012
Total		397,514			

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

The company has fulfilled the requirements set forth in Note 3.h regarding the measurement bases for classifying financial instruments as hedges. Specifically, they have been formally designated as such, and they have been tested for effectiveness.

The notional and/or contractual amount of the contracts entered into does not represent the real risk assumed by Enagás, S.A., as the net position is derived by offsetting and/or grouping these financial instruments.



The fair value of these hedges at 31 December 2010 and 2009 is as follows:

## 2010

FAIR VALUE (THOUSANDS OF EUROS)

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

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

## 2009

FAIR VALUE (THOUSANDS OF EUROS)

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

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

• Annual Report 2010

# Consolidated Financial Statements

## 20. Trade and other payables

314

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

	31.12.2010	31.12.2009
Payable to Group companies	8,188	2,704
Other trade payables	323,807	304,918
Other suppliers	4,921	4,303
Current tax liabilities (see Note 22.2)	9,737	10,030
<b>Total</b>	<b>346,653</b>	<b>321,955</b>

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

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

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

## 21. Defined contribution plans

The Group operates defined contribution pension plans covering the commitments acquired by the company with respect to qualifying serving employees. The assets of the plans are held separately from those of the Group in funds under the control of trustees. Where employees leave the plans prior to full vesting of the contributions, the contributions payable by the Group are reduced by the amount of the forfeited contributions.

The contributions made by the company to the pension plan in this connection amounted to 2,191 thousand euros in 2010 (2,082 thousand euros in 2009), recognised under "Personnel benefits expense" in the accompanying consolidated income statement.

315

## 22. Taxation

### 22.1 Tax return

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

### 22.2 Tax receivable and payable

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

	2010	2009
	THOUSANDS OF EUROS	
<b>Tax receivable:</b>		
Value added tax	19,297	15,579
Income tax	1,710	22,001
<b>Total</b>	<b>21,007</b>	<b>37,580</b>
<b>Taxes payable:</b>		
Income tax	2,740	1,994
Value added tax	-	70
Other	6,997	7,966
<b>Total</b>	<b>9,737</b>	<b>10,030</b>

• Annual Report 2010

# Consolidated Financial Statements

In 2010 Enagás, S.A.'s current tax came out as a recoverable balance, which is why it had not recognised any payable to the tax authorities in this connection for that year (see Notes 22.3 and 22.7).

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

Likewise, the outstanding balance under Income Taxes relates mainly to the balance due for corporate income tax for 2006 resulting from that year's Tax Inspection on Enagás, S.A. (See Note 22.8).

316

## 22.3 Reconciliation of profit before tax and taxable income

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

2010	Increase	Decrease	THOUSANDS OF EUROS Total
<b>Profit before tax</b>	<b>472,287</b>		<b>472,287</b>
<b>Permanent differences:</b>			
Exemption for international double taxation	-	-	-
Other items (foreign fines and taxes)	64	-	64
Donations	1,093	-	1,093
<b>Temporary differences:</b>			
<b>Arising in 2009</b>			
Accelerated depreciation R.D.L. 3/1993	-	-	-
Accelerated depreciation Law 4/2008	-	(238,663)	(238,663)
Government grants	-	-	-
Long-service fund	2,180	-	2,180
Provisions for property, plant and equipment	944	-	944
Provisions for litigation	3,500	-	3,500
Provisions for contingencies and expenses	-	-	-
Other	83	-	83
<b>Arising in prior years</b>			
Accelerated depreciation R.D.L. 3/1993	1,077	-	1,077
Accelerated depreciation Law 4/2008	30,067	-	30,067
Government grants	-	(359)	(359)
Long-service fund	-	-	-
Provisions for property, plant and equipment	-	(248)	(248)
Provisions for litigation	-	-	-
Provisions for contingencies and expenses	-	-	-
Other	63	(2,763)	(2,700)
Offset of tax loss carryforwards	-	(72,321)	(72,321)
<b>Taxable income</b>	<b>511,358</b>	<b>(314,354)</b>	<b>197,004</b>

## Ejercicio 2009

THOUSANDS OF EUROS

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

• Annual Report 2010

# Consolidated Financial Statements

## 22.4 Income tax recognised in equity

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

### 2010

	Increase	Decrease	Total
THOUSANDS OF EUROS			
<b>Current tax:</b>			
Capital increase expenses	-	-	-
Capital reduction expenses	-	-	-
Other	-	-	-
<b>Total current tax</b>	-	-	-
<b>Deferred tax:</b>			
<b>Arising in 2010</b>			
Available-for-sale financial assets	-	-	-
Measurement of other financial assets	10,897	(15,004)	(4,107)
Discounting of taxes payable	-	-	-
<b>Arising in prior years</b>			
Available-for-sale financial assets	-	-	-
Measurement of other financial assets	-	-	-
Discounting of taxes payable	-	-	-
<b>Total deferred tax</b>	10,897	(15,004)	(4,107)
<b>Total taxes recognised directly in equity</b>	10,897	(15,004)	(4,107)

### 2009

	Increase	Decrease	Total
THOUSANDS OF EUROS			
<b>Current tax:</b>			
Capital increase expenses	-	-	-
Capital reduction expenses	-	-	-
Other	-	-	-
<b>Total current tax</b>	-	-	-
<b>Deferred tax:</b>			
<b>Arising in 2009</b>			
Available-for-sale financial assets	-	(4)	(4)
Measurement of other financial assets	20,359	(21,641)	(1,282)
Discounting of taxes payable	-	-	-
<b>Arising in prior years</b>			
Available-for-sale financial assets	4	(237)	(233)
Measurement of other financial assets	-	-	-
Discounting of taxes payable	-	-	-
<b>Total deferred tax</b>	20,363	(21,882)	(1,519)
<b>Total taxes recognised directly in equity</b>	20,363	(21,882)	(1,519)

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

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

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

319

## 22.6 Breakdown of income tax expense

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

### 2010

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

• Annual Report 2010

# Consolidated Financial Statements

2009

	Enagás, S.A.	G.Al-Andalus, S.A.	G. de Extremadura, S.A.	G. Campo Maior Leiria Braga, S.A.	G. Braga Tuy, S.A.
<b>Current tax:</b>					
Continuing operations	(45,672)	2,677	1,885	458	237
Discontinued operations	-	-	-	-	-
<b>Deferred tax</b>					
Continuing operations	165,864	-	-	-	-
Discontinued operations	-	-	-	-	-
<b>Total tax expense</b>	<b>120,192</b>	<b>2,677</b>	<b>1,885</b>	<b>458</b>	<b>237</b>

320

## 22.7 Deferred tax

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

	2010	2009
<b>Temporary differences (deferred tax assets)</b>		
Government and other grants	796	904
Long-service fund	3,339	828
Provisions for property, plant and equipment	1,900	336
Provisions for litigation	1,050	-
Derivatives	3,390	5,218
Provisions for contingencies and expenses	1,575	1,575
Other	2,703	2,962
<b>Tax loss carryforwards</b>	<b>-</b>	<b>40,903</b>
<b>Unused tax credits and other</b>	<b>20,661</b>	<b>4,770</b>
<b>Total deferred tax assets</b>	<b>35,414</b>	<b>57,496</b>
<b>Deferred tax liabilities:</b>		
Accelerated depreciation	427	750
Free depreciation	211,820	165,700
Long-service fund	-	-
Derivatives	2,279	-
Other	138	135
<b>Total deferred tax liabilities</b>	<b>214,664</b>	<b>166,585</b>

These deferred tax assets were recognised in the balance sheet since the Group's directors consider that, based on the best estimates of future results, including certain tax planning measures, it is likely that these assets will be utilised.



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

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

The Group does not have any unrecognised deferred tax assets.

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

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

## 22.8 Years open to inspection and tax audits

In accordance with current legislation, tax returns cannot be considered definitive until they have been inspected by the tax authorities or the inspection period of four years has prescribed.

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

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

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

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

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

Regarding assessments signed under protest, settlement assessments were issued on 23 December 2010 confirming the adjustments proposed by the tax authorities in relation to which the relevant appeals will be filed in due course. The assessed amounts, in thousands of euros and broken down between tax due (deductible VAT) and late-payment interest, are as follows:

• Annual Report 2010

# Consolidated Financial Statements

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

322

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

At 31 December 2009 state tax authorities (AEAT) had opened assessments relating to VAT on imports in 2002 and 2004 signed under protest. The assessed amounts, in thousands of euros and broken down between tax due (deductible VAT) and late-payment interest, are as follows:

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

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

## 23. Revenues

The breakdown of Group revenue is analysed below:

	31.12.2010	31.12.2009
THOUSANDS OF EUROS		
Sales of gas on the regulated market	-	(1,609)
Cost of sales of gas on the regulated market	-	1,609
<b>Net (purchase) / sale of gas on the regulated market</b>	-	-
Revenue from regulated activities	965,995	866,829
Revenue from liberalised activities	15,740	15,429
<b>Other income</b>	<b>18,830</b>	<b>14,125</b>
Ancillary and other operating income	18,704	13,999
Government grants	126	126
<b>Total</b>	<b>1,000,565</b>	<b>896,383</b>

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:

	31.12.2010	31.12.2009
THOUSANDS OF EUROS		
<b>Regulated activities:</b>		
Enagás, S.A.	945,573	866,829
Bahía de Bizkaia Gas, S.A.	20,422	-
<b>Liberalised activities:</b>		
Gasod. Al-Andalus, S.A.	7,324	7,139
Gasod. de Extremadura, S.A.	5,701	5,575
Gasod. Campo Maior- Leiria- Braga, S.A.	2,540	2,540
Gasod. Braga-Tuy, S.A.	175	175
<b>Total</b>	<b>981,735</b>	<b>882,258</b>

• Annual Report 2010

# Consolidated Financial Statements

## 24. Expenses

An analysis of Group expenses is provided below:

324

	31.12.2010	THOUSANDS OF EUROS 31.12.2009
Employee benefits expense	67,194	60,743
Other operating costs	151,926	139,437
<b>Total</b>	<b>219,120</b>	<b>200,180</b>

### 24.1 Employee benefits expense

	31.12.2010	THOUSANDS OF EUROS 31.12.2009
Wages and salaries	56,991	55,384
Termination benefits	4,632	649
Social security	12,329	11,761
Other employee benefits expense	7,204	6,983
Contributions to external pension funds	2,191	2,081
Own work capitalised	(16,153)	(16,115)
<b>Total</b>	<b>67,194</b>	<b>60,743</b>

The detail of employee benefits expense is as follows:

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

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

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

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

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

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

## 24.2 Other operating costs

Details of this heading are as follows:

	31.12.2010	31.12.2009
THOUSANDS OF EUROS		
<b>External services:</b>		
R&D costs	1,674	1,152
Leases and royalties	37,699	36,063
Repairs and maintenance	31,142	27,262
Professional services	14,074	13,385
Transport	14,407	14,643
Insurance premiums	3,730	3,668
Banking and similar services	103	7
Advertising, publicity and PR	2,826	2,016
Supplies	20,601	19,625
Other services	9,092	7,404
<b>External services</b>	<b>135,348</b>	<b>125,225</b>
Taxes other than income tax	4,230	1,436
Other expenses	2	(0)
Other external expenses	9,052	7,909
Change in trade provisions	3,294	4,867

• Annual Report 2010

# Consolidated Financial Statements

## 24.3 Other disclosures

"Other operating costs" includes the fees paid by consolidated entities for the audit of their annual financial statements and for other audit and non-audit work. In 2010, these expenses amounted to 1,066 thousand euros (918 thousand euros in 2009), as follows:

326

Category	2010		2009
	Services rendered by the external auditor and related parties	Services rendered by other auditors of the Group	Services rendered by the external auditor and related parties
Audit services (1)	256	7	219
Audit related services (2)	413	-	456
<b>Audit and related services total</b>	<b>669</b>	<b>7</b>	<b>675</b>
Tax advisory services	-	-	-
Other services	390	-	250
<b>Professional services total</b>	<b>390</b>	<b>-</b>	<b>250</b>

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

(2) Audit related services: Virtually the entire amount of this balance corresponds to the work necessary to verify the adequacy of the internal control systems and other review work in connection with disclosures reported to the regulators, mainly the CNMV and the CNE.

## 25. Net finance cost

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

THOUSANDS OF

EUROS	31.12.2010	31.12.2009
Revenue from group companies and associates	287	503
Third-party revenue	19,426	11,754
<b>Finance revenue</b>	<b>19,713</b>	<b>12,257</b>
Financing and similar expense	(4,230)	(636)
Loan interest	(74,059)	(72,113)
Revenue attributable to provisions	(25)	34
<b>Finance costs</b>	<b>(78,314)</b>	<b>(72,715)</b>
Change in fair value of financial instruments	-	(779)
<b>Net finance cost</b>	<b>(58,601)</b>	<b>(61,237)</b>

At 31 December 2010 the Group had capitalised 25,259 thousand euros in connection with borrowing costs (29,573 thousand euros at 31 December 2009 - see Note 6).

## 26. Business and geographical segments

### 26.1 Segmentation criteria

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

Secondary information (geographical segments) is not detailed in this note because Enagás, S.A., the group's parent company, carries out its activities within Spain, where all regions are subject to similar risks and returns, with no characteristics existing among the various regions which could lead to different results from those obtained.

• Annual Report 2010

# Consolidated Financial Statements

In addition, Enagás, S.A. is by far the biggest contributor of assets, liabilities, revenue and expenses to the Group's consolidated financial statements. Operations involving companies based in Portugal represent less than 10% of the Group's sales or assets, the limit established by IFRS for the disclosure of secondary segment information.

## 26.2 Main business segments

The business areas described below have been established on the basis of the classification included in the Hydrocarbons Law 34/1998 of 7 October and in accordance with the organisational structure of Enagás, S.A., which takes into account the nature of the services and products offered.

328

### a) Infrastructure activity (including gas transport, regasification, and storage):

- **Gas transport:** Core activity which consists of the movement of gas through the company's transport network, composed of gas pipelines for the primary (with maximum design pressure equal to or higher than 60 bars) and secondary (with maximum design pressure of between 60 and 16 bars) transport of gas to distribution points, as owner of most of the Spanish gas transport network.
- **Regasification:** The gas is transported from producer countries in methane tankers at 160°C below zero in liquid form (LNG) and is unloaded at the regasification plants, where it is stored in cryogenic tanks. At these facilities, the temperature of the LNG is raised through a physical process, generally using saltwater vaporisers, transforming it into gas. The natural gas is then injected into gas pipelines and transported throughout the Spanish mainland.
- **Storage:** Enagás, S.A. operates a single underground storage facility, namely the Serrablo facility, located between the towns of Jaca and Sabiñánigo (Huesca). This facility is owned by the company.

### b) Technical system management

In 2010, Enagás, S.A. as technical system manager, continued to carry out the tasks entrusted to it under Royal Decree Laws 6/2000 of 23 June and 949/2001 of 3 August, aimed at guaranteeing the continuity and security of gas supply, and the correct coordination of access, storage, transport and distribution points.

### c) Liberalised activities

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



## 26.3 Basis and methodology for segment reporting

The segment information provided below is based on monthly reports prepared by the Finance Department and generated via a computer programme which breaks down the financial statements by activity.

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

Segments disclosure for these activities is provided below:

THOUSANDS OF EUROS

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

(\*\*) Does not include financial liabilities

(\*\*\*) Does not include income tax payable

• Annual Report 2010

# Consolidated Financial Statements

## 27. Environmental information

330

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

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

The Enagás Group has integrated environmental protection within its political and strategic programs of the Company through the implementation of the Environmental Management System developed and certified by AENOR and prepared in accordance with the requirements of UNE EN ISO 14001, which ensures compliance with applicable environmental legislation and continual improvement of the environmental record in respect of the LNG storage and regasification plants in Barcelona, Cartagena, Huelva, and Bilbao, the Serrablo underground storage facility, the facilities for the basic gas pipeline network, and the technological innovation unit.

In 2010, AENOR, the Spanish accreditation company, issued Environmental Management System audit reports with a positive opinion, concluding that the System has a degree of development and maturity that ensures continuous improvement in that area.

The Enagás Group goes to continual lengths to identify, classify and minimise the environmental fallout from its activities and installations, assessing risks and promoting eco-efficiency, practicing responsible waste and residue management, minimising its carbon footprint and attempting to mitigate any negative contribution to climate change.

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

In 2010, these environmental activities entailed total capitalised investment of 38,777 thousand euros (35,088 thousand euros in 2009). Environmental expenses incurred by the company in 2010 totalled 1,198 thousand euros (852 thousand euros in 2009) and are recorded under "Other operating costs".

Potential contingencies, indemnities and other environmental risks to which the Enagás Group is exposed are sufficiently covered by the third-party liability insurance policies.

In 2010, the Group did not receive any grants or revenue relating to environmental activities, except those mentioned below in Note 23.3 detailing greenhouse gas emission rights.

## 28.

## Greenhouse gas emission rights

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

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

The installations for which these allocations have been received are:

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

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

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

The facilities for which these allocations have been received are:

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

The measurement of rights for the third group of incumbents (32,861 rights related to 2009 and 50,431 rights related to 2010) implies additions for the year of 1,180 thousand euros.

In a meeting held on 23 June 2008 the Board of Directors of Enagás, S.A. authorised the scaled sale of surplus emission allowances (European Union Allowance, EUAs) for each year between 2008 and 2012 and the swap of emission allowances for Certified Emission Reductions (CERs). In December 2010, 16,750 EUAs were swapped

• Annual Report 2010

# Consolidated Financial Statements

with BBVA for CERs valued at €24.20/CER and 17,000 EUAs were swapped with Gas Natural SDG, S.A. for CERs valued at €23.75/CER. These transactions resulted in the total recognition of CERs amounting to 8,167 thousand euros in 2010.

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

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

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

In the first quarter of 2010, Enagás, S.A. submitted its emission reports, verified by the accredited DOE (AENOR), to the pertinent regional governments, which validated said emissions.

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

In 2010, Enagás, S.A. did not arrange any futures contracts relating to greenhouse gas emission rights nor are there any contingencies related to provisional penalties or measures under the terms established by Law 1/2005.

332

## 29. Related party transactions

### 29.1 Related party transactions

The Group considers “related parties” any subsidiary, associate, or jointly controlled entity, as well as key personnel in its management team (members of the Board of Directors, management and their close family members), and entities over which key management personnel could exercise significant or total control.

Below is a detail of the Group’s related-party transactions in 2010 and 2009, distinguishing between significant shareholders, board members, executives and other related parties. The terms of transactions with related parties are equivalent to those made on an arm’s-length basis, and the corresponding remuneration in kind has been recorded.

2010

31-12-2010

THOUSANDS OF EUROS

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

• Annual Report 2010

# Consolidated Financial Statements

2009

31-12-2009

THOUSANDS OF EUROS

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

2010

31-12-2010

THOUSANDS OF EUROS

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

• Annual Report 2010

# Consolidated Financial Statements

2009

31-12-2009

THOUSANDS OF EUROS

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

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



## 30.

## Director and senior management compensation

### 30.1 Wages and salaries

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

#### 2010

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

<sup>1</sup> Fixed remuneration and variable pay are unchanged for 2010. Additionally, in 2010 the Board of Directors and Senior Management have been paid the Multi-Year Incentive Plan (Plan de Incentivos Plurianual) pertaining to prior years, in the amounts of 924 and 1,103 thousand euros.

#### 2009

	Salaries	Attendance fees	Other	Pension plans	Insurance premiums	Termination benefits
Directors	1,478	1,155	79	10	68	-
Senior management	2,065	-	76	55	85	-
Total	3,543	1,155	155	65	153	-

• Annual Report 2010

# Consolidated Financial Statements

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

	THOUSANDS OF EUROS	
DIRECTORS	2010	2009
Antonio Llardén Carratalá, (Executive Director) <sup>1</sup>	1,600	1,621
BANCAJA (Proprietary Director)	107	107
Carlos Egea Krauel (Proprietary Director)	-	27
Sagane Inversiones S.L. (Proprietary Director)	76	49
Bilbao Bizkaia Kutxa (Proprietary Director)	76	72
Sociedad Estatal de Participaciones Industriales (Proprietary Director)	76	73
Salvador Gabarró Serra (Proprietary Director)	-	21
Said Al Masoudi (Proprietary Director) <sup>2</sup>	57	23
Peña Rueda S.L. Unipersonal (Proprietary Director)	64	64
Jesús David Álvarez Mezquíriz (Independent Director)	64	64
Dionisio Martínez Martínez (Independent Director)	81	78
José Riva Francos (Independent Director)	70	64
Ramón Pérez Simarro (Independent Director)	76	76
Martí Parellada Sabata (Independent Director)	81	81
Antonio Téllez de Peralta (Independent Director) <sup>3</sup>	28	76
Teresa García-Milà Lloveras (Independent Director)	76	76
Miguel Angel Lasheras Merino (Independent Director)	64	64
Luis Javier Navarro Vigil (External Director)	76	76
Isabel Sanchez García <sup>4</sup>	42	-
<b>Total</b>	<b>2,714</b>	<b>2,712</b>

<sup>1</sup> 1 Additionally, in 2010 Directors have been paid the Multi-Year Incentive Plan (Plan de Incentivos Plurianual) pertaining to prior years, in the amount of 924 thousand euros. Also holds a life insurance policy with a premium of 63 thousand euros and contributions to pension plans of 10 thousand euros in 2010.

<sup>2</sup> From 1 January to 19 December 2010.

<sup>3</sup> From 1 January to 30 April 2010.

<sup>4</sup> From 30 April to 31 December 2010.

## 31. Other director disclosures

In keeping with the provisions of article 227 and following of the Spanish Limited Liability Companies Law, these notes include information relating to the ownership interests and positions held by members of Enagás, S.A.'s Board of Directors in other companies engaging in activities that are similar or complementary to those that constitute its corporate purpose. When preparing this information, companies having a corporate purpose that is similar or complementary to that of Enagás have been considered to be those that independently engage in the transport, regasification, distribution or supply of natural gas, as regulated by Law 34/1998 on the Hydrocarbon Industry.

Thus, shareholdings in the capital of companies with similar or complementary type of activity reported by the Directors to the Group at 31 December 2010 are:

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

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

Positions held or duties performed by company directors at companies whose corporate purposes is the same, similar or complementary disclosed to Enagás, S.A. at 31 December 2010 are as follows:

DIRECTOR	COMPANY	POSITION
Luis Javier Navarro Vigil	BP España SAU.	Director
	E.ON España	Director
	E.ON Renovables S.L.U.	Director

• Annual Report 2010

# Consolidated Financial Statements

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

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

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

340

## 32. Guarantee commitments to third parties

At 31 December 2010 the Group had provided guarantees to third parties deriving from its activities for an amount of 109,914 thousand euros (117,202 thousand euros in 2009). It has also extended financial guarantees for a total of 188,629 thousand euros (217,259 thousand euros in 2009) to secure loans granted by the European Investment Bank.

The Group's directors estimate that no significant liabilities will arise in addition to those recognised in the accompanying consolidated balance sheet as a result of the transactions described in this note.



## 33.

# Other information

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

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

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

On 9 September it was announced that for the third consecutive year Enagás has been included in the Dow Jones Sustainability World Index (DJSI World), which includes companies with the best practices in sustainability and corporate responsibility.

On 3 November, credit rating agency Moody's reaffirmed Enagás, S.A.'s long-term rating of "A2", its short-term rating with a stable outlook.

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

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

• Annual Report 2010

# Consolidated Financial Statements

## 34. Joint ventures

342

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

### Joint Ventures 2010

Company	Location	Activity	Consolidation method	%	% of voting rights controlled by Enagás, S.A.	Carrying amount	Thousands of euros			Profit for the year (**)
							Investee data			
						Assets	Liabilities	Equity		
Gasoducto Al-Andalus, S.A.	Spain	Gas transport	PC	66.96	50	23,744	85,219	85,219	53,268	9,455
Gasoducto de Extremadura, S.A.	Spain	Gas transport	PC	51	50	9,732	38,468	38,468	30,913	7,907
Gasoduto Campo Maior Leiria Braga, S.A. (***)	Portugal	Gas transport	PC	12	50	3,195	99,123	99,123	40,690	9,702
Gasoduto Braga-Tuy, S.A. (***)	Portugal	Gas transport	PC	49	50	2,546	21,514	21,514	7,155	1,312
Bahía de Bizkaia Gas, S.L.	Spain	Storage and regasification	PC	40	33.33%	44,334	253,075	253,075	97,153	12,902

PC: Proportionate consolidation.

(\*) The data presented correspond to figures for the individual companies prepared under local GAAP and before the standardisation adjustments made prior to consolidation of the financial statements.

(\*\*) Data for Gasoduto Campo Mayor-Leiria-Braga, S.A. and Gasoduto Braga-Tuy, S.A. are taken at the 30 November 2010 close (see Note 1a).

(\*\*\*) The shareholding in this company is recognised as Available-For-Sale (AFS) in the Consolidated Balance Sheet (see Notes 3.f and 9s).

## 35. Events after the balance sheet date

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

## 36.

# Explanation added for translation to English

These financial statements are presented on the basis of the regulatory financial reporting framework applicable to the Group see Note 2. Certain accounting practices applied by the Group that conform with that regulatory framework may not conform with other generally accepted accounting principles and rules.

Translation of a report originally issued in Spanish. In the event of a discrepancy, the Spanish-language version prevails.

343

## Management report of the Enagás group

### I. Performance of the Group in 2010

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

Revenue totalled 981,735 thousand euros.

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

At year-end the Enagás Group's capital and reserves stood at 1,738,836 thousand euros while total equity stood at 1,736,245 thousand euros.

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

On 31 December 2009 the Official State Gazette (BOE) published Order ITC/3520/2009 from the Ministry of Industry, Tourism and Trade, which establishes the remuneration of regulated activities in the gas industry for 2010, and updated certain aspects relating to the remuneration of regulated activities in the gas industry.

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

- A seventh 150,000 m<sup>3</sup> tank at the Barcelona Plant.
- A fifth 150,000 m<sup>3</sup> tank at the Huelva and Cartagena Plants.
- Enlargement of the methane tanker dock at the Cartagena Plant to 250,000 m<sup>3</sup>.

• Annual Report 2010

## Consolidated Financial Statements

- At the end of 2010 the Enagás Group operated 8,981 km of pipeline designed to function at maximum bar pressures of 72 and 80, compared with 8,884 km in December 2009. This increase helps secure continuity of supply and the development of areas that previously had no access to gas supplies.
- RMS are included in transportation assets and different pipeline positions have been modified. In addition, the boil-off system at the Huelva plant was upgraded and the Compression Station in Montesa and the Murcia workplace were built. A total of three new regulating and metering stations were brought into service in the course of the year, taking the total number in operation at year-end to 424.

344

Overall, at the end of 2010, the gas infrastructure of the Enagás Group comprising the basic natural gas grid was as follows:

The Barcelona, Huelva and Cartagena regasification plants, with total combined LNG storage capacity of 1,887,000 m<sup>3</sup> in a total of 17 tanks, nine cistern loaders and emission capacity of 4,650,000 m<sup>3</sup>(n)/h.

The Serrablo (Huesca) underground storage facility, in operation, with maximum injection of 4.4 Mm<sup>3</sup>/day and maximum output of 6.7 Mm<sup>3</sup>/day, and the concession for the Yela (Guadalajara) storage facility in accordance with the provisions of Royal Decree 1061 of 20 July 2007.

A gas pipeline network with a total length of 8,981 km, consisting of the following main lines:

- **Central line:** Huelva-Córdoba-Madrid-Burgos-Cantabria-Basque Country (with the Huelva-Seville-Córdoba-Madrid duplicated)
- **Eastern line:** Barcelona-Valencia-Alicante-Murcia-Cartagena
- **Western line:** Almendralejo-Cáceres-Salamanca-Zamora-León-Oviedo
- **Spain-Portugal western line:** Córdoba-Badajoz-Portugal (Campo Maior-Leiria-Braga)-Tuy-Pontevedra-A Coruña-Oviedo
- **Ebro line:** Tivisa-Zaragoza-Logroño-Calahorra-Haro
- **Transverse line:** Alcazar de San Juan-Villarrobledo-Albacete-Montesa.
- **Balearic line:** Montesa-Denia-S. Antoni de Portmany- S. Juan de Dios.

The following gas pipeline entry points to the gas system:

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

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



## II. Main business risks

Enagás Group, S.A. is exposed to various risks inherent to the sector, to the market in which it operates and to the activities it performs, which may prevent it from achieving its objectives and executing its strategies successfully.

The main risks associated with Enagás' business activities are classified as follows:

### 1. Business risk

Business risk relates to losses caused by external factors such as regulation, economic growth patterns, competition levels, demand trends, structural industry factors, etc., as well as to those losses resulting from incorrect decision-making in relation to the company's business plans and strategies.

Within business risk, regulatory risk, which relates to the regulatory framework governing the company's business activities and also refers to certain aspects of local rates, is particularly prominent.

Enagás has implemented measures to control and manage its business risk within acceptable risk levels. To this end it continually monitors risks relating to regulation, the market and the competition.

### 2. Counterparty risk

Counterparty risk relates to the possibility of losses deriving from a counterparty's failure to comply with its obligations and to uncertainty as to a counterparty's ability to honour its obligations.

In the assessments performed in 2010, Enagás qualified its credit or counterparty risk as negligible as it only does business with solvent companies, as corroborated by these companies' external credit ratings.

The pertinent counterparty risk management information is disclosed in Note 18 to the consolidated annual financial statements.

### 3. Financial risk

Financial risk is an assessment of earnings vulnerability to adverse fluctuations in financial variables such as interest rates, exchange rates, market liquidity conditions and other market drivers.

The financial risk management policy is detailed in Note 16 to the consolidated annual financial statements.

### 4. Operational risk

Enagás' day-to-day operations can give rise to direct or indirect losses on account of inadequate internal processes, technological errors, human error or certain external events.

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

# Consolidated Financial Statements

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

## 5. Reputational risk

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

During 2010, Enagas, S.A. implemented a reputational risk self-assessment procedure through the application of qualitative measurement techniques.

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

The Group has identified as relevant any Reputational Risk that derives from the aftermath of the materialisation of certain risks: Operational, (service interruption, environmental damage and damage to third parties, incidents, and unavailability of certain infrastructures, equipment and systems, errors and delays in external communication, fraud, health, hygiene and safety at work, etc.), regulatory and liquidity risk.

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

## III. Use of financial instruments

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

In compliance with this policy, the company entered into a series of interest rate hedges during the year. As a result, at year-end, 70% of total gross debt was hedged against interest rate increases.

## IV. Outlook

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

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

# Cuentas Anuales

## V. Events after the balance sheet date

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

## VI. Research and development

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

The most significant activities carried out in 2010 by area were:

- a) Production (LNG).** The company continued to develop new phases of its project for designing a reliability model for plant equipment and installations. Within this area research has been carried out on the "in situ" generation of nitrogen using semi permeable membranes reducing the consumption of liquid nitrogen acquired externally. Noise maps of the three regasification plants have been prepared.
- b) Transport.** Work continued on the project to design, build and start-up an electricity generation plant at the Al-mendralejo compression station. In addition, technical and financial feasibility studies were carried out to gauge the use of micro turbines combined with cogeneration in the supply of power at Enagás, S.A.'s positions. The studies were performed on various network positions or distribution points. Research has been carried out, along with other European companies, on new alternatives for the lining of pipelines. Improvements are being considered in venting installations for transport positions in order to reduce their cost.
- c) Safety.** Work proceeded on various projects and studies related to the analysis of gas pipeline risks and LNG plants.
- d) Measurement.** The company has initiated a procedure to certify the high pressure gas meter calibration bank. Research is being conducted on rolling out an ongoing monitoring system to oversee measurement variables at the most critical positions from the measurement standpoint. Several improvements to the chromatographic techniques and patterns used have been researched and tested. Research is being conducted, along with several European metrology laboratories, on improving the traceability of the technical measure of the amount of energy exchanged during the unloading of LNG carriers.
- e) Projects of general interest.** A number of projects were started up in a bid to optimise management of the basic gas transport grid's existing and future operations. The Group is also researching the impact of introducing bio-gas into the transport networks.
- f) Other matters.** The company is carrying out a campaign to contact other energy companies with the aim of spearheading the joint development of R&D activities in order to share costs and exchange information.

## VII. Transactions with treasury shares

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

• Annual Report 2010

# Consolidated Financial Statements

## 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.

348

### Capital structure of the company

Date of last modification	Share capital (€)	Number of shares	Number of voting rights
03-05-02	358,101,390.00	238,734,260	238,734,260

All the shares are of the same class.

### b) Restrictions on the transfer of securities

There are no restrictions on the transfer of securities.

### c) Significant direct and indirect shareholdings

#### Significant direct and indirect shareholdings

Name or corporate name of the shareholder	Number of direct voting rights	Number of indirect voting rights (*)	% of total voting rights
Oman Oil Company, S.A.O.C.	0	11,936,702	5.000
Atalaya Inversiones, S.R.L.	0	11,936,714	5.000
Cajastur (Caja de Ahorros de Asturias)	0	11,937,395	5.000

(\*) Through:

Name or corporate name of the shareholder	Number of direct voting rights	% of total voting rights
Oman Oil Holdings España, S.L.U.	11,936,702	5.000
Sagane Inversiones, S.L.	11,936,714	5.000
Cantábrica de Inversiones de Cartera, S.L.	11,937,395	5.000
Total:	35,810,811	15.000

### Significant shareholdings in the company

Name or corporate name of the shareholder	Number of direct voting rights	Number of indirect voting rights (*)	% of total voting rights
Antonio Llardén Carratalá	48,116	0	0.020
Bancaja (Caja de Ahorros de Valencia, Castellón y Alicante)	0	11,936,713	5.000
BBK (Bilbao Bizkaia Kutxa)	0	11,936,713	5.000
Teresa García Milá Lloveras	1,500	0	0.001
Dionisio Martínez Martínez	2,010	0	0.001
Luis Javier Navarro Vigil	10	3,986	0.002
Martí Parellada Sabata	910	0	0.000
Ramón Pérez Simarro	100	0	0.000
Sagane Inversiones, S.L.	11,936,714	0	5.000
Sociedad Estatal Participaciones Industriales (SEPI)	11,936,713	0	5.000

(\*) through

Name or corporate name of the shareholder	Number of direct voting rights	% of total voting rights
Bancaja Inversiones, S.A.	11,936,713	5.000
Kartera 1, S.L.	11,936,713	5.000
Newcomer 2000, S.L.U.	3,986	0.002
<b>Total:</b>	<b>23,877,412</b>	<b>10.002</b>

#### d) Any restrictions on voting rights

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

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

"Additional provision 20. Technical System Manager.

ENAGAS, Sociedad Anónima shall undertake the duties, rights and obligations of technical system operator. (...)

# Consolidated Financial Statements

No natural person or corporate body may hold, directly or indirectly, more than 5% of the share capital of the company acting as technical system manager, or exercise more than 3% of the company's voting rights. Such shares may in no event be syndicated. Parties operating in the gas industry or natural persons or corporate bodies that, directly or indirectly, hold over 5% of the share capital of these companies may not exercise voting rights in the technical system manager above 1%. These restrictions shall not apply to direct or indirect shareholdings held by public-sector enterprises. The shareholdings may in no event be syndicated.

In addition, the sum of direct and indirect shareholdings held by parties operating in the natural gas industry may not exceed 40%.

To calculate the shareholding, the same individual or legal entity will be attributed, in addition to the shares and other securities held or acquired by companies belonging to its group, as defined in article 4 of the Law 24/1988, of 28 July, regarding securities markets, those whose ownership corresponds to:

- a) Any person acting on his own behalf but on account of the aforesaid, in concert or constituting a decision-making unit. Unless proven otherwise, the members of a governing body shall be presumed to act on account of or in concert with that governing body.
- b) Partners with those with which one of them exercises control over a dominant company in accordance with article 4 of Securities Market Law 24/1988.

In any event, regard shall be had to the proprietary ownership of the shares and other securities and the voting rights attached to each.

Breach of the restrictions on interests in share capital prescribed by this article shall be treated as a very serious infringement for the purposes of article 109 of this Law, and liability shall attach to any natural person or body corporate found to be holders of the securities or to any person to whom there may be attributed the excess interest in share capital or voting rights pursuant to the above sub-paragraphs. In any event, the regime of penalties laid down in the law shall be applied".

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

"Transitory provision 2. Technical System Manager.

Any voting rights attaching to shares and other securities held by persons with an ownership interest in the share capital of ENAGÁS, Sociedad Anónima, in excess of the ceilings set forth in additional provision 20 of Hydrocarbons Law 34/1998 of 7 October shall be suspended once this provision comes into force.

The National Energy Commission (CNE) shall have the standing to bring legal action to give effect to the restrictions imposed in this provision".

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

"No natural person or corporate body may hold, directly or indirectly, an interest in the company representing more than 5% of share capital or exercise more than 3% of its voting rights. Such shares may in no event be syndicated. Parties operating in the gas industry or natural persons or corporate bodies that, directly or indirectly, hold over 5% of the share capital of these companies may not exercise voting rights

above 1%. These restrictions shall not apply to direct or indirect shareholdings held by public-sector enterprises. The shareholdings may in no event be syndicated.

In addition, the sum of direct and indirect shareholdings held by parties operating in the natural gas industry may not exceed 40%.

For the purposes of computing holdings in the share capital of the company, additional provision 20 of the Hydrocarbons Law 34/1998 of 7 October shall apply”.

#### e) Agreements between shareholders

There are no records of any agreements among the company's shareholders.

#### f) The rules governing the appointment and replacement of board members and the amendment of the articles of association

Bylaw provisions affecting the appointment and replacement of board members:

ARTICLE 35. – COMPOSITION OF THE BOARD.

The company shall be governed and managed by the Board of Directors, which shall represent the company collegiately, both in and out of court. Its representation shall extend, without any limitation of power, to all acts embodied in the corporate purpose.

The Board of Directors shall be composed of a minimum of six members and a maximum of seventeen, appointed at the General Shareholders' Meeting.

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

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

An appointment as director shall take effect upon acceptance thereof.

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

# Consolidated Financial Statements

## ARTICLE 37. POSTS.

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

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

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

## ARTICLE 3. QUANTITATIVE AND QUALITATIVE COMPOSITION.

1.- Within the minimum and maximum limits set forth under article 35 of the company's current bylaws, notwithstanding the powers of proposal enjoyed by shareholders, the Board of Directors shall propose to the General Shareholders' Meeting the number of directors that at each stage it deems appropriate in the interest of the company. The General Shareholders' Meeting shall decide on the final number.

2.- The Board of Directors shall be composed of directors that belong to the categories stated below:

**a) Internal or executive directors:** directors who perform senior management functions or are employed by the company or its Group. If a director performs senior management functions and, at the same time, is or represents a significant shareholder or one that is represented on the Board of Directors, he/she shall be considered internal or executive for purposes of the present Regulations.

No more than 20% of the total number of members of the Board of Directors may belong to this category.

**b) External directors:** These directors shall in turn fall into three categories:

**b1) Proprietary directors:** directors who hold a shareholding interest equal to or greater than that which is considered significant under the law or have been appointed on account of their status as shareholders, even if their shareholding is less than said amount, as well as those who represent said shareholders.

**b2) Independent directors:** directors of acknowledged professional prestige are able to contribute their experience and knowledge to corporate governance and, since they do not belong to either of the two preceding categories, meet the conditions set forth under article 9 of the present Regulations. The number of independent directors shall represent at least one third of all directors.

**b3) Other external directors:** external directors who are not proprietary directors and cannot be classified as independent directors in accordance with article 9 of the present Regulations.

In exercising its powers of co-option and proposal to the General Shareholders' Meeting to fill vacancies, the Board of Directors shall endeavour to ensure that, within the composition of the body, independent directors represent a broad majority over executive directors and that among external directors, the relation between proprietary members and independents should match the proportion between the capital represented on the board by proprietary directors and the remainder of the company's capital.



#### ARTICLE 8. APPOINTMENT OF DIRECTORS.

1.- Directors shall be appointed at the General Shareholders' Meeting or by the Board of Directors in conformity with the provisions contained in the Spanish Companies Act and the company's Bylaws.

2.- Those appointed to directorship must be people who, in addition to meeting the legal and bylaw-stipulated requirements, have acknowledged prestige and the appropriate professional knowledge and experience to perform their tasks efficiently.

Proposals for the appointment of directors which the Board of Directors submits to the General Shareholders' Meeting, as well as appointments adopted by the Board by virtue of its powers of co-option, must be made subject to a report from the Appointments and Remuneration Committee. When the Board of Directors does not agree with the Committee's recommendations, it must explain its reasons and duly record them in the minutes.

3.- The process of filling board vacancies shall have no implicit bias against women candidates. The company shall make an effort to include women with the target profile among the candidates for Board positions.

#### ARTICLE 9. APPOINTMENT OF INDEPENDENT DIRECTORS.

Independent directors are defined as directors appointed for their personal and professional qualities who are in a position to perform their duties without being influenced by any connection with the company, its significant shareholders or its management. As such, the following shall in no circumstances qualify as independent directors:

- a) Past employees or executive directors of Group companies, unless three or five years have elapsed, respectively, from the end of the employment relationship.
- b) Those who have received some payment or other form of compensation from the company or its Group on top of their directors' fees, unless the amount involved is not significant. Payment shall not include for the purposes of the provisions of this article, dividends or pension top-ups paid to the director in connection with his or her former professional or employment relationship, so long as their settlement is unconditional in nature and the company paying them cannot arbitrarily choose to suspend, modify or revoke their payment, unless the director is in breach of his or her obligations.
- c) Partners, now or in the past three years, in the external auditor or the firm responsible for the audit report, during the said period, of Enagás, S.A. or any other within its Group.
- d) Executive directors or senior officers of another company where an executive director or senior officer of Enagás, S.A. is an external director.
- e) Those having material business dealings with Enagás, S.A. or some other in its Group or who have had such dealings in the preceding year, either on their own account or as the significant shareholder, director or senior officer of a company that has or has had such dealings. Business dealings are considered those with suppliers of goods or services, including financial advisory and consultancy services.
- f) Significant shareholders, executive directors or senior officers of an entity that receives significant donations from Enagás, S.A. or its Group, or has done so in the past three years. Mere sponsors of a foundation receiving donations are not included here.

# Consolidated Financial Statements

g) Spouses, or partners maintaining an analogous affective relationship, or close relatives of one of the company's executive directors or senior officers.

h) Any person not proposed for appointment or renewal by the Appointments and Remuneration Committee.

i) Those standing in some of the situations listed in a), e), f) or g) above in relation to a significant shareholder or a shareholder with board representation. In the case of the family relations set out in letter g), the limitation shall apply not only in connection with the shareholder but also with his or her proprietary directors in the investee company. Proprietary directors disqualified as such and obliged to resign due to the disposal of shares by the shareholder they represent may only be re-elected as independents once the said shareholder has sold all remaining shares in the company.

A director with shares in the company may qualify as independent, provided he or she meets all the conditions stated in this article and the holding in question is not significant.

## ARTICLE 10. TENURE AND CO-OPTION.

Directors may hold their post for a period of four years, and may be re-elected. Directors appointed by co-option will perform their functions until the date of the next General Shareholders' Meeting.

## ARTICLE 11. RE-APPOINTMENT OF DIRECTORS.

The Appointments and Remuneration Committee, responsible for evaluating the quality of work and dedication to the post of the directors proposed during the previous term of office, shall provide information required to assess proposal for re-appointment of directors presented by the Board of Directors to the General Shareholders' Meeting.

As a general rule, appropriate rotation of independent directors should be endeavoured. For this reason, when one is proposed for re-election, the circumstances making his/her continuity in the post advisable must be justified. Independent directors should not stay on as such for a continuous period of more than 12 years.

## ARTICLE 12. REMOVAL OF DIRECTORS.

1.- Directors shall leave their post after the first General Shareholders' Meeting following the end of their tenure and in all other cases in accordance with law, the company's bylaws and the present Regulations.

2.- Directors must place their office at the Board of Directors' disposal, and tender, if the Board deems this appropriate, their resignation in the following cases:

a) When they are involved in any of the legally stipulated circumstances of incompatibility or prohibition.

b) When they are in serious breach of their obligations as directors.

c) When they may put the interests of the company at risk or harm its name and reputation. If a director is indicted or an order is issued to initiate a trial against him/her for a crime specified under article 124 of the Spanish Companies Act, the Board shall examine the matter as promptly as possible and, in view of the particular circumstances, decide where or not the director should be called on to resign.

d) When the circumstances motivating their appointment as directors no longer exist.

e) When independent directors no longer fulfil the criteria required under article 9.

f) When the shareholders represented by proprietary directors dispose of their ownership interests. If such shareholders reduce their stakes, thereby losing some of their entitlement to proprietary directors, the latter's number should be reduced proportionately.

Should the Board of Directors not deem it advisable to have a director tender his/her resignation in the cases specified under letters d), e) and f), the latter must be included in the category that, in accordance with the present Regulations, is most appropriate based on his/her new circumstances.

3.- The Board of Directors should not propose the removal of independent directors before the expiry of their tenure as mandated by the bylaws, except where just cause is found by the board, based on a report from the Appointments and Remuneration Committee.

4.- After a director has been removed from his/her post, he/she may not work for a competitor company for a period of two years, unless the Board of Directors exempts him/her from this obligation or shortens its duration.

Bylaw provisions affecting the amendment of the bylaws:

#### ARTICLE 26. SPECIAL QUORUM.

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

At second call, attendance of at least twenty-five percent of the paid up voting capital shall be sufficient.

#### **g) The powers of board members, and in particular the power to issue or buy back shares.**

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

Regardless of the foregoing, the tenth resolution adopted by the General Shareholders' Meeting held on 11 May 2007 with the following terms is now in force:

"To grant the Board of Directors the broadest powers required by law to increase the company's share capital, at one or several times, within a maximum period of five years from the date, under the terms of article 153.b) of the Spanish Companies Act, up to a maximum of 179 million euros, by issuing new shares, with or without voting rights, with or without a share premium, in exchange for cash, and to establish the terms and conditions of the capital increase and the features of the shares, with the possibility of offering freely new shares unsubscribed within the pre-emptive subscription period(s) and determine, if the shares are not fully subscribed, that capital will be increased only by the amount of the subscriptions made and, accordingly, to redraft the article of the company bylaws regarding share capital. The Board was also empowered to waive pre-emptive subscription rights under the terms of article 159 of the Spanish Companies Act.

• Annual Report 2010

## Consolidated Financial Statements

h) Significant agreements to which the company is a party and which take effect, alter or terminate upon a change of control of the company arising from a takeover bid and the effects thereof except where such disclosure could pose a serious risk to the company. This exception is not applicable when the company is legally obliged to disclose the information.

No agreements of this kind exist.

i) Agreements between the company and its board members or employees providing for compensation if they resign or are made redundant without valid reason or if their employment relation ends following a takeover bid.

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

The clauses in each case are applicable in cases of company termination of the contract, unfair disciplinary dismissal, dismissal for the reasons outlined under article 52 of the Workers' Statute or as decided by the manager citing one of the reasons outlined under article 50 of Workers' Statute provided the resolution is certified by means of conciliation between the parties, legal judgment, arbitration award or by a competent administrative body. They are not applicable if the resolution is the result of a unilateral decision made by the manager without just cause.

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

## • Enagás Group

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

The undersigned directors state that, to the best of their knowledge, the annual financial statements, prepared in accordance with the accounting principles applied, provide a true and fair value of the equity, financial position and results of the company and of the companies included in the consolidation scope, taken as a whole, and that the management report includes a fair analysis of the evolution and results of the businesses and the position of the company and the companies included in consolidation, taken as a whole, together with the description of the main risks and uncertainties faced.

357

### President

- D. Antonio Llardén Carratalá

### Vice-president

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

### Directors

- D. Jesús David Álvarez Mezquíriz
- Dña. Isabel Sánchez García
- Dña. Teresa García-Milà Lloveras
- D. Dionisio Martínez Martínez
- D. Luis Javier Navarro Vigil
- D. Ramón Pérez Simarro
- D. José Riva Francos
- D. Miguel Angel Lasheras Merino
- D. Martí Parellada Sabata
- Mr. Sultan Al Burtamani
- Sagane Inversiones S.L.  
(Represented by D. Carlos Egea Krauel)
- Sociedad Estatal de Participaciones Industriales  
(Represented by D. Enrique Martínez Robles)
- Peña Rueda S.L. Unipersonal  
(Represented by D. Manuel Menéndez Menéndez)
- Bilbao Bizkaia Kutxa-BBK  
(Represented by D. Joseba Andoni Aurrekoetxea Bergara)

### Secretary of the Board

- D. Rafael Piqueras Bautista

# Appendices

## 1. About this report

358

### 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 2010 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.
- The assessment made by various organisations and institutions specialising in sustainability matters regarding the scope and content of the 2009 Enagás Annual Report, including any suggestions for improvements made.
- The results of the stakeholder surveys carried out in late-2010, asking representatives of the company's stakeholder groups to assess key aspects of their relations with Enagás and their level of satisfaction with its performance regarding each of those aspects.
- The results of the company's drive to include all its units in the preparation of the annual report, having recourse to primary sources 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 2010 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.

At the end of 2010, therefore, as referred to in the chapter on sustainable management, an external survey of all Enagás' stakeholders was carried out in order to identify their main areas of concern.

### Principle of completeness

The 2010 Enagás Annual Report covers the company's main activities and results, incorporating those events considered material in the year as well as other information which may be useful for stakeholders.

The scope of this report is limited to Spanish territory, where Enagás carries out its activities.

### 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 highligh-

ting those instances where errors have been identified in past data or the methods used to calculate performance indicators have changed.

As in previous years, the 2010 Annual Report also takes account of the content and indicators recommended in the third version of the Global Reporting Initiative (GRI) guidelines, providing an internal and external benchmark for comparison since it uses internationally recognised principles and content indices. This year's annual report has also been drafted applying the principles of standard AA1000: inclusiveness, materiality and responsiveness.

From the financial point of view, the consolidated annual financial statements of the Enagás Group for 2010 were 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 thereby 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 company's performance and activities. Charts, diagrams, tables and indicators have also been included to facilitate understanding of its activities in the financial, social and environmental spheres.

In line with last year's report, the 2010 Annual Report details the milestones set in the 2009 Annual Report and achieved in 2010, together with other major milestones, and also presents targets for 2011, with the aim of improving transparency for the company's stakeholders.

#### **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 2010 Annual Report, please use the contact details published at the end of this report.

## 2. Self-declaration of GRI application level – 3 – 3.9 –

In 2010 Enagás rated its application level as A+. Non-financial information, corresponding to the GRI indicators, is included in the 2010 Annual Report and has been verified by KPMG.

The Global Reporting Initiative (GRI) has confirmed that Enagás' 2010 Annual Report complies with its A+ application level. Enagás has thus obtained the highest rating awarded by the GRI for the third consecutive year.





## 3. GRI content index

361

### Global Reporting Initiative (GRI) content index - 3.12 -

The following table details the pages in this report corresponding to each GRI indicator (additional indicators are marked with an asterisk).

#### I. Profile

GRI	Indicator	Reported	Pages/ Direct response
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##### 1. Strategy and analysis

1.1	Statement from the most senior decision maker of the organisation, strategy	Fully	4
1.2	Description of key impacts, risks and opportunities	Fully	132

##### 2. Company profile

2.1	Name of the organisation	Fully	381
2.2	Primary brands, products and/or services	Fully	14
2.3	Operational structure of the organisation	Fully	126
2.4	Location of organisation's headquarters	Fully	381
2.5	Number of countries where the organisation operates and names of countries with major operations	Fully	14
2.6	Nature of ownership and legal form	Fully	14
2.7	Markets served	Fully	14
2.8	Scale of the reporting organisation (net sales, total capitalisation, etc.)	Fully	8
2.9	Significant changes during the reporting period regarding size, structure or ownership	Fully	113
2.10	Awards and accolades	Fully	17, 43

##### 3. Report parameters

###### Report profile

3.1	Reporting period for information provided	Fully	358, 359
3.2	Date of most recent previous report	Fully	358, 359
3.3	Reporting cycle (annual, biennial, etc.)	Fully	358, 359
3.4	Contact point	Fully	381

###### Report scope and boundary

3.5	Process for defining report content (including determining materiality, prioritising topics)		
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# Appendices

362

	within the report and identifying stakeholders)	Fully	358, 359
3.6	Boundary of the report	Fully	358 - 359
3.7	Specific limitations on the scope or boundary of the report	Fully	358 - 359
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	Fully	358 - 359
3.9	Data measurement techniques, bases for calculations, assumptions and estimates applied. Reasons for not applying GRI Indicator Protocols.	Fully	360
3.10	Explanation of the effect of any re-statements of information provided in earlier reports, and the reasons for such re-statements.	Fully	358
3.11	Significant changes in the scope, boundary or measurement methods applied in the report	Fully	358
<b>GRI content index</b>			
3.12	Table identifying the location of the standard disclosures in the report Assurance	Fully	361
<b>Assurance</b>			
3.13	Policy and current practice with regard to seeking external assurance of the report	Fully	377 - 378

## 4. Governance, commitments and engagement

### Governance

4.1	Governance structure of the organisation	Fully	126 - 127
4.2	Indicate whether the Chair of the highest governance body is also an executive officer	Fully	126 - 127
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	Fully	126 - 127
4.4	Mechanisms for shareholders and employees to provide recommendations or direction to the highest governance body	Fully	128
4.5	Linkage between compensation for members of the highest governance body and the organisation's performance	Fully	130
4.6	Process in place for the highest governance body to ensure conflicts of interest are avoided	Fully	128
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	Fully	128
4.8	Mission statements, values, codes of conduct and principles relevant to economic, environmental and social performance and the status of their implementation	Fully	34
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	Fully	134
4.10	Processes for evaluating the highest governance body's own performance, particularly with respect to economic, environmental and social performance	Fully	130, 132

## ▶ Commitments to external initiatives

4.11	Explanation of whether and how the precautionary approach or principle is addressed by the organisation	Fully	132
4.12	Externally developed economic, environmental and social charters, principles or other initiatives to which the organisation subscribes or endorses	Fully	37, 48
4.13	Memberships in associations (such as industry associations) and/or national/ international advocacy organisations in which the organisation: <ul style="list-style-type: none"> <li>• Has positions in governance bodies</li> <li>• Participates in projects or committees</li> <li>• Provides substantive funding beyond routine membership dues; or</li> <li>• Views membership as strategic</li> </ul>	Fully	37, 48

## Stakeholder engagement

4.14	List of stakeholder groups engaged by the organisation	Fully	38, 39
4.15	Basis for identification and selection of stakeholders with whom to engage	Fully	38, 39
4.16	Approaches to stakeholder engagement (including frequency)	Fully	38, 39
4.17	Key topics and concerns that have been raised through stakeholder engagement those key topics and concerns, including through its reporting	Fully	38, 39, 75

## II. Management dimensions

Aspects Reported Pages/ Direct response**Economic dimension**

EC dimension summary	Fully	8
Economic performance	Fully	7 – 26
Market presence	Fully	7 – 26
Indirect economic impacts	Fully	7 – 26

**Environmental dimension**

EN dimension summary	Fully	85
Materials	Fully	93
Energy	Fully	92
Water	Fully	94
Biodiversity	Fully	99
Emissions, effluents and waste	Fully	87, 88, 89, 90
Products and services	Fully	85
Compliance	Fully	Enagás treats any fine or sanction as material if it exceeds 25% of the materiality limit set by

# Appendices



			the external auditors each year
Transport	Fully	90	
Overall	Fully	85	
<b>Labour practices summary</b>	<b>Fully</b>	<b>46</b>	
Labour practices	Fully	49	
Labour relations	Fully	50	
Health and safety	Fully	60, 61	
Training	Fully	56	
Diversity and equality of opportunity	Fully	51, 52	
<b>Human rights dimension summary</b>	<b>Fully</b>	<b>37</b>	
Investment and procurement practices		78	
Non-discrimination		51	
Freedom of association and collective bargaining		50	
Child labour			The Enagás collective agreement prohibits the company from employing minors of than 16 years of age (Article 28) and its Business Principles establish a procedure for managing incidents of this type.
Forced and compulsory labour			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.
Security practices		81	
Indigenous rights		14	
<b>Society dimension summary</b>	<b>Fully</b>	<b>34, 108</b>	
Community		106	
Corruption		37	
Public policy		108, 118	
Anti-competitive behaviour		14	
Compliance			Enagás treats any fine or sanction as material if it exceeds 25% of the materiality limit set by the external auditors each year
<b>Product responsibility dimension summary</b>	<b>Fully</b>	<b>68</b>	
Customer health and safety		62 - 63	
Products and services labelling		67	
Marketing communications		104	
Customer privacy		68	
Compliance			Enagás treats any fine or sanction as if it exceeds 25% of the materiality limit set by the external auditors each year

## III. Performance indicators

GRI	Indicator	Reported	Pages/ Response	Non-reported part	Reason for omission	Explanation	Report date
<b>Economic dimension</b>							
<b>Economic performance</b>							
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	Fully	38, 40				
EC2	Financial implications and other risks and opportunities for the organisation's activities due to climate change	Partial	102 - 103 Enagás 2010 Climate Report (pages 7-8)	If quantified, disclose financial implications and the tools used to quantify	Not applicable	In its risk management model, Enagás defines the risk due to climate change in terms of factors or causes leading to risks, their effects and the physical location where they could arise. One risk factor is the siting of infrastructures, if sea levels were to rise. Enagás has insured against such a risk. Another risk involves changes to European emission trading rights. Since 2006, Enagás emissions have been around 30% of the rights assigned, putting the company in a strong position if its rights were reduced or ceased to be assigned free of charge.	
EC3	Coverage of the organisation's defined-benefit plan obligations	Fully	49, 55				
EC4	Significant financial assistance received from government	Partial	24-26, 114	Aggregate financial value on accruals basis of tax relief/ credits, subsidies, grants, royalty holidays, financial assistance from export credit agencies, financial incentives, other benefits received or receivable from any government body in respect of any operation	Not applicable	The only significant assistance received by Enagás is in the form of subsidies.	

• Annual Report 2010

## Appendices

### ▶ Market presence

EC5	Range of ratios of standard entry level wage compared with local minimum wage at significant locations of operation	Fully	59
EC6	Policy, practices and proportion of spending on locally-based suppliers at significant locations of operation	Fully	80
EC7	Procedures for local hiring and proportion of senior management hired from the local community at significant locations of operation	Fully	Enagás' activities are generally performed in Spain, so almost all its staff are contracted locally.

### Indirect economic impacts

EC8	Development and impact of infrastructure investments and services provided primarily for public benefit through commercial, in-kind, or pro-bono engagement	Fully	106
EC9	Understanding and describing significant indirect economic impacts, including the extent of impacts	Fully	31, 108

### Environmental dimension

#### Materials

EN1	Materials used by weight or volume	Fully	93, 94
EN2	Percentage of materials used that are recycled input materials	Fully	93

#### Energy

EN3	Direct energy consumption by primary energy source	Fully	92
EN4	Indirect energy consumption by primary energy source	Fully	92



▶ EN5	Energy saved due to conservation and efficiency improvements	Partial	92	Total energy saved due to process redesign, conversion and retrofitting of equipment and changes in personnel behaviour	Information not available	This line of action is included in the 2013 Plan for the Environment and Risk Prevention
EN6	Initiatives to provide energy-efficient or renewable energy-based products and requirements as a result of these initiatives	Partial	92	<ul style="list-style-type: none"> <li>Quantified reduction of energy requirements of products and services achieved in the reporting period</li> <li>Usage pattern assumptions and normalisation factors</li> </ul>	Information not available	This line of action is included in the 2013 for the Environment and Risk Prevention
EN7	Initiatives to reduce indirect energy consumption and reductions achieved	Partial	92	<ul style="list-style-type: none"> <li>Extent to which indirect energy use has been reduced</li> <li>Assumptions and methodology used</li> </ul>	Information not available	This line of action is included in the 2013 Strategic Plan for the Environment and Risk Prevention

#### Energy

EN8	Total water withdrawal by source	Fully	93 – 94			
EN9	Water sources significantly affected by withdrawal of water	Fully	93			
EN10	Percentage and total volume of water recycled or reused	Fully	Enagás does not reuse water in its processes			

#### Biodiversidad

EN11	Description 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	Fully	99 - 101			
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	Fully	86, 100, 101			

• Annual Report 2010

## Appendices

▶ EN13	Habitats protected or restored	Fully	100		
EN14	Strategies, current actions and future plans for managing impacts on biodiversity	Fully	100, 101		
EN15	Number of IUCN Red List species and conservation list species with habitats in areas affected by operations, by level of extinction risk	Fully	99		

### Emissions, effluents and waste

EN16	Total direct and indirect greenhouse, gas emissions by weight	Fully	87, 89, 90		
EN17	Other relevant indirect greenhouse gas emissions by weight	Fully	87, 90		
EN18	Initiatives to reduce greenhouse gas emissions and reductions achieved	Partial	87, 90	The extent of greenhouse gas emissions reductions achieved in the reporting period as a direct result of said initiatives in tonnes of CO2 equivalent	Information not available This line of action is included in the 2013 Strategic Plan for the Environment and Risk Prevention
EN19	Emissions of ozone-depleting substances by weight	Fully	91		
EN20	NO, SO and other significant air emissions by type and weight	Partial	91	Weight of significant air emissions of POP, VOC, HAP, stack and fugitive emissions, PM or other emissions	Not applicable The environmental regulations applicable to Enagás do not include the measurement of these pollutants as natural gas does not contain any substances which can give rise to any of them
EN21	Total water discharge by quality and destination	Fully	95		
EN22	Total weight of waste by type and disposal method	Fully	96, 97, 98		
EN23	Total number and volume of significant spills	Fully	96, 97		
EN24	Weight of transported, imported, exported, or treated waste deemed hazardous under the terms of the Basel	Fully	Waste generated by Enagás is not shipped internationally		







Convention Annex I, II, III, and VIII, and percentage of transported waste shipped internationally.

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	Fully	95
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#### Products and services

EN26	Initiatives to mitigate environmental impacts of products and services, and extent of impact mitigation	Partial	90 (GHG), 91 (non- GHG), 92, (energy), 94 (materials), 95 (noise and effluents), 96 (spills), 98 (waste)	Extent to which environmental impacts of products and services have been mitigated during the reporting period	Information not available	This line of action is included in the 2013 Strategic Plan for the Environment and Risk Prevention
EN27	Percentage of products sold and their packaging materials that are reclaimed by category	Not reported	Not applicable as Enagás' processes do not generate products or materials			

#### Compliance

EN28	Monetary value of significant fines and total number of non-monetary sanctions for non-compliance with environmental laws and regulations	Fully	Enagás has not been fined for any non-compliance with environmental laws
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#### 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	Fully	92, 95
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#### Overall

EN30	Total environmental protection expenditures and investments by type	Fully	102, 103
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• Annual Report 2010

## Appendices

### ▶ Social dimension

#### 1. Labour practices and decent work

##### Labour practices

LA1	Total workforce by employment type, employment contract, and region	Fully	48, 49, 52
LA2	Total number and rate of employee turnover by age group, gender and region	Fully	48
LA3	Benefits provided to full-time employees that are not provided to temporary or part-time employees, by major operations	Fully	53, 54, 55

##### Labour/management relations

LA4	Percentage of employees covered by collective bargaining agreements	Fully	50
LA5	Minimum notice period(s) regarding operational changes, including whether it is specified in collective agreements	Fully	50, 51

##### Occupational health and safety

LA6	Percentage of total workforce represented in formal joint management-worker health and safety committees that help monitor and advise on occupational health and safety programmes	Fully	61, 64
LA7	Rates of injury, occupational diseases, lost days and absenteeism and number of work-related fatalities by region	Fully	64, 65, 66
LA8	Education, training, counselling, prevention and risk control programmes in place to assist workforce members, their families or community members regarding serious diseases	Fully	64, 65, 66



▶ LA9	Health and safety topics covered in formal agreements with trade unions	Fully	61, 65
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#### Training and education

LA10	Average hours of training per year per employee by employee category	Fully	56, 57, 58
LA11	Programmes for skills management and life-long learning that support the continued employability of employees and assist them in managing career endings	Fully	56
LA12	Percentage of employees receiving regular performance and career development reviews	Fully	59

#### Diversity and equality of 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	Fully	48, 51, 52, 53, 55
LA14	Ratio of basic salary of men to women by employee category	Fully	53

## 2. Human rights

#### 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	Fully	80, 81, 82, 83
HR2	Percentage of significant suppliers and contractors that have undergone screening on human rights and action taken	Fully	81, 83
HR3	Total hours of employee training on policies and procedures concerning	Fully	37



• Annual Report 2010

## Appendices



aspects of human rights that are relevant to operations, including the percentage of employees trained

### Non-discrimination

HR4	Total number of incidents of discrimination and actions taken	Fully	52
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### 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	Fully	50
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### 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	Fully	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
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### Forced and compulsory labour

HR7	Operations identified as having significant risk for incidents of forced or compulsory labour, and measures to contribute to the elimination of forced or compulsory labour	Fully	None of Enagás' operations have been identified as being subject to a 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
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prevention policy, and the company's Business Principles establish a procedure for reporting and managing incidents of this type

#### 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	Fully	Enagás does not have any security personnel contracted as part of its staff. In addition, the requirements of the company's supplier accreditation process include respect for the principles of the United Nations Global Declaration of Human Rights. A corporate responsibility clause has been included in all commercial contracts and the company's General Contracting Conditions since November 2008
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#### Indigenous rights

HR9	Total number of incidents involving the violation of indigenous peoples' rights and action taken	Not reported	Enagás' activities are generally performed in Spain. No violations of indigenous peoples' rights have been reported
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### 3. Society

#### Community

SO1	Nature, scope and effectiveness of any programmes and practices that assess and manage the impacts of operations on communities, including entering, operating and exiting	Fully	106, 108
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• Annual Report 2010

## Appendices

### ▶ Corruption

SO2	Percentage and total number of business units analysed for risks related to corruption	Fully	135
SO3	Percentage of employees trained in organisation's anti-corruption policies and procedures	Fully	37
SO4	Actions taken in response to incidents of corruption	Fully	38, 135

### Public policy

SO5	Public policy positions and participation in public policy development and lobbying	Fully	106, 108, 118
SO6	Total value of financial and in-kind contributions to political parties, politicians and related institutions by country	Fully	No contributions to political parties of any kind have been made. Enagás' Business Principles also contain guidelines on this matter

### Anti-competitive behaviour

SO7	Total number of legal actions for anti-competitive behaviour, anti-trust and monopoly practices and their outcomes	Fully	There is no pending litigation resulting from anti-competitive behaviour, anti-trust and monopoly practices
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### Compliance

SO8	Monetary value of significant fines and total number of non-monetary sanctions for non-compliance with laws and regulations	Fully	No sanctions, significant fines or non-monetary sanctions have been imposed for non-compliance with laws or regulations
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### 4. Product responsibility

#### Customer health and safety

PR1	Life cycle stages in which the health and safety impacts of products and services are assessed for improvement, and	Fully	62, 63, 64, 80
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percentage of significant products and services categories subject to such procedures

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 outcome	Fully	63
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#### 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	Fully	67
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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 outcome	Not reported	Not applicable. The services that Enagás provides do not involve labelling
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PR5	Practices related to customer satisfaction, including results of surveys measuring customer satisfaction	Fully	75
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#### Marketing communications

PR6	Programmes for adherence to laws, standards, and voluntary codes related to marketing communications, including advertising, promotion, and sponsorship.	Fully	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
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PR7	Total number of incidents of non-, compliance with regulations and voluntary codes concerning marketing communications, including advertising,	Not reported	Enagás does not carry out advertising or promotional campaigns. In addition, Enagás is a member of the Spanish
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• Annual Report 2010

## Appendices



promotion and sponsorship, by  
type of outcome

Association of Directors of  
Communication (DIRCOM),  
which inter alia, promotes ethical  
communications practices

### Customer privacy

PR8

Total number of substantiated complaints  
regarding breaches of customer privacy  
and losses of customer data

Fully

There have been no substantiated  
complaints regarding breaches  
of customer privacy and loss  
or theft of customer data

### Compliance

PR9

Monetary value of significant fines  
for non-compliance with laws and  
regulations concerning the provision  
and use of products and services

Fully

There have been no significant  
for non-compliance with laws  
provision and use of products  
and services



## 4. External assurance report

External assurance report - 3.13 -

377



**KPMG Asesores S.L.**  
Edificio Torre Europa  
Paseo de la Castellana, 95  
28046 Madrid

### Independent Assurance Report to the Management of Enagás, S.A.

(Free translation from the original in Spanish.  
In case of discrepancy, the Spanish language version prevails.)

We performed a limited assurance review on the non-financial information contained in Enagás, S.A. (hereinafter Enagás) Annual Report for the year ended 31 December 2010 (hereinafter "the Report"). The information reviewed corresponds to the economic, environmental and social indicators referred in the chapter entitled Appendix 3 "GRI content index".

Enagás management is responsible for the preparation and presentation of the Report in accordance with the Sustainability Reporting Guidelines version 3.0 (G3) of the Global Reporting Initiative as described in the section entitled Appendix 2 "Self-declaration of GRI application level". This section details the self-declared application level, which has been confirmed by Global Reporting Initiative. Management is also responsible for the information and assertions contained within the Report; for the implementation of processes and procedures which adhere to the principles set out in the AA1000 AccountAbility Principles Standard 2008 (AA1000APS); for determining its objectives in respect of the selection and presentation of sustainable development performance; and for establishing and maintaining appropriate performance management and internal control systems from which the reported performance information is derived.

Our responsibility is to carry out a limited assurance engagement and to issue an independent report based on the work performed, which refers exclusively to the information corresponding to the year 2010. Data corresponding to previous years have not been the object of review. We conducted our engagement in accordance with International Standard on Assurance Engagements (ISAE) 3000, "Assurance Engagements other than Audits or Reviews of Historical Financial Information", issued by the International Auditing and Assurance Standards Board and also in accordance with the guidance set out by the Accountants Institute of Spain (Instituto de Censores Jurados de Cuentas de España). These standards require that we plan and perform the engagement to obtain limited assurance about whether the Report is free from material misstatement and that we comply with the independence requirements included in the International Federation of Accountants Code of Ethics which outlines detailed requirements regarding integrity, objectivity, confidentiality and professional qualifications and conduct. We have also conducted our engagement in accordance with AA1000 Accountability Assurance Standard 2008 (AA1000OAS) (Type 2), which covers not only the nature and extent of the organisation's adherence to the AA1000APS, but also evaluates the reliability of performance information as indicated in the scope.

A limited assurance engagement on a sustainability report consists of making inquiries to Management, primarily to the persons responsible for the preparation of information presented in the Report, and applying analytical and other evidence gathering procedures, as appropriate through the following procedures:

- Inquiries of management to gain an understanding of Enagás's processes for determining the material issues for their key stakeholder groups.
- Interviews with relevant Enagás staff concerning the application of sustainability strategy and policies.
- Interviews with relevant Enagás staff responsible for providing the information contained in the Report.
- Analysing the processes of compiling and internal control over quantitative data reflected in the Report, regarding the reliability of the information, by using analytical procedures and review testing based on sampling.
- Reading the information presented in the Report to determine whether it is in line with our overall knowledge of, and experience with, the sustainability performance of Enagás.
- Verifying that the financial information reflected in the Report was taken from the annual accounts of Enagás, which were audited by independent third parties.

KPMG Asesores S.L., a limited liability Spanish company, is a subsidiary of KPMG Europe LLP and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.

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The extent of evidence gathering procedures performed in a limited assurance engagement is less than that for a reasonable assurance engagement, and therefore also the level of assurance provided. Also, this report should not be considered an audit report.

Our multidisciplinary team included specialists in AA1000APS, stakeholder dialogue, social, environmental and economic business performance.

Based on the procedures performed, as described above, nothing has come to our attention that causes us to believe that the data included in the Annual Report of Enagás, S.A. for the year ended 31 December 2010 have not been reliably obtained, that the information has not been fairly presented, or that significant discrepancies or omissions exist, nor that the Report is not prepared, in all material respects, in accordance with the Sustainability Reporting Guidelines (G3) of the Global Reporting Initiative as described in the Appendix 2 "Self-declaration of GRI application level" section of the Report. Additionally, and also based on the procedures performed, as described above, nothing has come to our attention that as a result of Enagás implementing the procedures described in sections "Stakeholder relations", "Action Plan: Quality, Excellence and Sustainability Master Plan" and Appendix 1 "About this report" of the Report, any material issues have been omitted as applies to the principles of inclusivity, materiality and responsiveness as included in the AA1000 AccountAbility Principles Standard 2008.

Under separate cover, we will provide Enagás management with an internal report outlining our complete findings and areas for improvement. Without prejudice to our conclusions presented above, we present some of the key observations and areas for improvement below:

**In relation to the INCLUSIVITY principle**

During 2010, Enagás has advanced in its consultation processes, carrying out an online survey among its stakeholders on the importance and company performance on issues identified internally within the framework of the Self-Evaluation Process of Reputational Risk, specifically related with finance and markets, corporate governance, operations, people and society as well as the evolution of the company's relationship with the different stakeholders. It is recommended that Enagás analyzes the extent to which this global approach includes sustainability specific issues so that the completeness of the consultation can be ensured.

**In relation to the MATERIALITY principle**

Enagás has carried out a formal internal process involving relevant company departments and based on the results obtained from the consultations carried out in 2009. As a result, the themes used to design the consultation process were identified. It is recommended that Enagás formalize the processes it carries out to identify and prioritize the relevant issues using other external sources of information (observatories, ratings, press, etc.). In addition, it is recommended that Enagás makes systematic use of these inputs in the design of its Annual Report.

**In relation to the RESPONSIVENESS principle**

The information obtained through the consultation processes carried out in 2009 has been taken into account in the reviews of the 2009-2012 Master Plan of Quality, Excellence and Sustainability, resulting in new lines of work. It is recommended that Enagás formalizes the prioritization process of the lines of work, as well as the documentation process for those that have been discarded. In addition, it is also recommended that Enagás makes use of the consultation processes to request feedback from its stakeholders on the design, execution and results of specific actions.

KPMG Asesores, S.L.

(Signed)

José Luis Blasco Vázquez  
Partner

1 March 2011

## 5. 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](http://www.pactomundial.org).

The links between the ten principles of the Global Compact and the GRI indicators considered in this report are listed in the table below, in accordance with the guidelines for using GRI sustainability reporting in the preparation of a United Nations Global Compact Communication on Progress, published by the United Nations Global Compact Office in May 2007.

GC	Human rights	GRI Indicators
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 make sure that they are not complicit in human rights abuses.	HR1 – 9, SO5
GC	Labour	GRI Indicators
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
GC	The environment	GRI Indicators
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
GC	Anti-corruption	GRI Indicators
10	Businesses should work against corruption in all its forms, including extortion and bribery.	SO2 – 6

## Appendices

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 these principles. The table below indicates the pages of this report in which this information is contained.

GC	Human rights	Directly-related GRI indicators	Page
1	Businesses should support and respect the protection of internationally proclaimed human rights within their sphere of influence.	HR1-9	80 - 83, 50, 52, 53, 37, 372, 373
2	Businesses should make sure that they are not complicit in human rights abuses.	HR1-2, HR8	80 - 83, 373
GC	Labour	Directly-related GRI indicators	Page
3	Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining.	LA4-5, HR5	50 - 51
4	Businesses should uphold the elimination of all forms of forced and compulsory labour.	HR7	373
5	Businesses should uphold the effective abolition of child labour.	HR6	372
6	Businesses should uphold the elimination of discrimination in respect of employment and occupation.	LA2, LA13-14, HR4	48, 51 - 53, 55
GC	The environment	Directly-related GRI indicators	Page
7	Businesses should support a precautionary approach to environmental challenges.	EN18, EN26	87, 90 - 98
8	Businesses should undertake initiatives to promote greater environmental responsibility.	EN2, EN 5-7, EN 10, EN13-14, EN18, EN21-22, EN26-27, EN30	90 - 103, 367 - 369
9	Businesses should encourage the development and diffusion of environmentally friendly technologies.	EN2, EN 5-7, EN10, EN18, EN26-27, EN30	87, 90-103, 368-369
GC	Anti-corruption	Directly-related GRI indicators	Page
10	Businesses should work against corruption in all its forms, including extortion and bribery.	SO2 - 4	37, 38, 135



## 6. Contact

381

### Contact - 2.2, 2.4, 3.4 -

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