

ENAGÁS, S.A.

Financial Statements  
at 31 December 2013

*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 financial statements originally issued in Spanish and prepared in accordance with the regulatory financial reporting framework applicable to the Company (see Notes 2 and 23). In the event of a discrepancy, the Spanish-language version prevails.*

# Financial statements at 31 December 2013

## ENAGÁS, S.A.

Translation of financial statements originally issued in Spanish and prepared in accordance with the regulatory financial reporting framework applicable to the Company (see Notes 2 and 23).  
In the event of a discrepancy, the Spanish-language version prevails.

### ENAGÁS, S.A.

#### BALANCE SHEET AT 31 DECEMBER 2013

(Thousands of Euros)

ASSETS	Note			EQUITY AND LIABILITIES	Note		
		2013	2012			2013	2012
<b>NON-CURRENT ASSETS</b>		<b>4,035,341</b>	<b>2,066,164</b>	<b>EQUITY</b>	Note 12	<b>1,998,554</b>	<b>1,905,305</b>
<b>Intangible assets</b>		<b>28,134</b>	<b>31,336</b>	<b>SHAREHOLDERS' EQUITY</b>		<b>2,001,213</b>	<b>1,905,305</b>
Research and development	Note 5	31	12	Share capital		358,101	358,101
Computer software		27,591	30,097	Registered capital		358,101	358,101
Other intangible assets		512	1,227	Reserves		1,383,726	1,362,197
				Legal and by-law-mandated reserves		71,620	71,620
<b>Property, plant and equipment</b>		<b>67,311</b>	<b>65,210</b>	Other reserves		1,312,106	1,290,577
Land and buildings	Note 6	59,954	56,885	Profit for the year		379,469	287,185
Plant and other items of property, plant and equipment		6,150	6,310	Interim dividend		(120,083)	(102,178)
Work in progress and advances		1,207	2,015				
				<b>VALUATION ADJUSTMENTS</b>		<b>(2,659)</b>	<b>-</b>
<b>Non-current investments in Group companies and associates</b>		<b>3,930,375</b>	<b>1,963,450</b>	Hedging transactions		(2,659)	-
Equity instruments	Note 8.2	1,335,093	1,246,540				
Loans to companies		2,595,282	716,910	<b>NON-CURRENT LIABILITIES</b>		<b>2,217,846</b>	<b>1,261,393</b>
				<b>Non-current provisions</b>	Note 13.1	<b>2,033</b>	<b>621</b>
<b>Non-current financial assets</b>		<b>1,397</b>	<b>1,563</b>	Provisions for non-current employee benefit obligations		-	171
Equity instruments	Note 8.1	-	189	Other provisions		2,033	450
Loans to third parties		733	719				
Other financial assets		664	655	<b>Non-current financial liabilities</b>	Note 14.1	<b>989,394</b>	<b>76,079</b>
				Bank borrowings		987,746	75,000
<b>Deferred tax assets</b>		<b>8,124</b>	<b>4,605</b>	Derivatives	Note 15	809	-
	Note 17.7			Other financial liabilities		839	1,079
<b>CURRENT ASSETS</b>		<b>602,790</b>	<b>1,546,970</b>	<b>Non-current payables to Group companies and associates</b>	Note 14.3	<b>1,211,786</b>	<b>1,169,654</b>
<b>Inventories</b>		<b>14</b>	<b>13</b>	<b>Deferred tax liabilities</b>	Note 17.7	<b>14,633</b>	<b>15,039</b>
Raw materials and other supplies	Note 9	14	13				
				<b>CURRENT LIABILITIES</b>		<b>421,731</b>	<b>446,436</b>
<b>Trade and other receivables</b>		<b>43,768</b>	<b>191,659</b>	<b>Current financial liabilities</b>	Note 14.2	<b>342,339</b>	<b>349,862</b>
Trade receivables	Note 10	196	11,451	Bonds and other marketable securities		280,944	245,852
Trade receivables from Group companies and associates		16,844	29,922	Bank borrowings		58,384	104,244
Other receivables		19,587	131,779	Derivatives	Note 15	2,989	-
Employee receivables		118	13	Other financial liabilities		22	(234)
Current tax assets	Note 17.1	6,191	18,494				
Other receivables from public authorities	Note 17.1	832	-	<b>Current payables to Group companies and associates</b>		<b>23,012</b>	<b>8,813</b>
				Trade and other payables	Note 16	56,380	87,761
<b>Current investments in Group companies and associates</b>		<b>266,364</b>	<b>180,862</b>	Suppliers		13,906	19,884
Loans to companies	Note 8.2	266,364	3,037	Suppliers - Group companies and associates		5,818	36,830
Other financial assets		-	177,825	Other payables		1,319	9,062
				Payable to employees		3,249	2,276
<b>Current prepayments and accrued income</b>		<b>122</b>	<b>102</b>	Current tax liabilities	Note 17.1	8,127	100
Cash and cash equivalents	Note 11	292,522	1,174,334	Other payables to public authorities	Note 17.1	23,961	19,609
Cash		10,720	52,057				
Cash equivalents		281,802	1,122,277				
<b>TOTAL ASSETS</b>		<b>4,638,131</b>	<b>3,613,134</b>	<b>TOTAL EQUITY AND LIABILITIES</b>		<b>4,638,131</b>	<b>3,613,134</b>

Notes 1 to 23 to the accompanying financial statements are an integral part of the balance sheet at 31 December 2013

**Financial statements at 31 December 2013**  
**Enagás, S.A.**

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**ENAGÁS, S.A.**

**INCOME STATEMENT FOR 2013**

(Thousands of Euros)

	Note	2013	2012
<b>CONTINUING OPERATIONS</b>		<b>422,240</b>	<b>283,048</b>
<b>Revenue</b>	Note 18.1	<b>531,763</b>	<b>373,507</b>
Services rendered		164,669	93,503
Dividend income from Group companies and associates		367,094	280,004
<b>In-house work performed on company assets</b>		<b>1,617</b>	<b>1,133</b>
<b>Procurements</b>	Note 18.2	<b>(33)</b>	<b>(276)</b>
Raw materials and other consumables used		(33)	(276)
<b>Other operating income</b>		<b>11,782</b>	<b>1,195</b>
Non-core and other operating income		11,751	1,160
Capital grants taken to income		31	35
<b>Employee benefits expense</b>	Note 18.3	<b>(41,137)</b>	<b>(35,825)</b>
Wages, salaries and similar expenses		(29,120)	(25,009)
Social Security and other benefits		(12,017)	(10,816)
<b>Other operating costs</b>		<b>(63,791)</b>	<b>(40,418)</b>
External services		(61,200)	(40,206)
Taxes other than income tax		(91)	(212)
Losses, impairment and changes in trade provisions		(2,500)	-
<b>Amortisation and depreciation</b>	Notes 5 and 6	<b>(17,797)</b>	<b>(16,291)</b>
<b>Impairment losses and gains (losses) on disposal of assets</b>		<b>(164)</b>	<b>23</b>
Gains (losses) on disposals and other		(164)	23
<b>OPERATING PROFIT</b>		<b>422,240</b>	<b>283,048</b>
<b>Finance revenue</b>	Note 18.4	<b>15,954</b>	<b>29,065</b>
Marketable securities and other financial instruments		15,954	29,065
- Third parties		15,954	29,065
<b>Finance costs</b>	Note 18.4	<b>(53,033)</b>	<b>(23,217)</b>
Borrowings from Group companies and associates		(44,310)	(8,991)
Borrowings from third parties		(8,723)	(14,226)
<b>Exchange differences</b>		<b>(7,500)</b>	<b>(839)</b>
<b>NET FINANCE COST</b>		<b>(44,579)</b>	<b>5,009</b>
<b>PROFIT BEFORE TAX</b>		<b>377,661</b>	<b>288,057</b>
Income tax	Note 17.5	1,808	(872)
<b>PROFIT FOR THE YEAR FROM CONTINUING OPERATIONS</b>		<b>379,469</b>	<b>287,185</b>
<b>DISCONTINUED OPERATIONS</b>		-	-
<b>PROFIT FOR THE YEAR</b>		<b>379,469</b>	<b>287,185</b>

Notes 1 to 23 to the accompanying financial statements are an integral part of the income statement for the year ended 31 December 2013

**Financial statements at 31 December 2013**  
**Enagás, S.A.**

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**ENAGÁS, S.A.**

**STATEMENT OF CHANGES IN EQUITY FOR 2013**  
**A) STATEMENT OF RECOGNISED INCOME AND EXPENSE**  
 (Thousands of Euros)

	Note	2013	2012
<b>PROFIT FROM INCOME STATEMENT (I)</b>		<b>379,469</b>	<b>287,185</b>
<b>Income and expense recognised directly in equity</b>			
- Cash flow hedges	Note 12.3	(3,798)	-
- Grants, donations and bequests received		-	-
- Tax effect		1,139	-
<b>TOTAL INCOME AND EXPENSE RECOGNISED DIRECTLY IN EQUITY (II)</b>		<b>(2,659)</b>	<b>-</b>
<b>Transfers to income statement</b>			
- Cash flow hedges	Note 12.3	-	-
- Grants, donations and bequests received		-	-
- Tax effect		-	-
<b>TOTAL INCOME AND EXPENSE TRANSFERRED TO INCOME STATEMENT (III)</b>		<b>-</b>	<b>-</b>
<b>TOTAL RECOGNISED INCOME AND EXPENSE (I+II+III)</b>		<b>376,810</b>	<b>287,185</b>

Notes 1 to 23 to the accompanying financial statements are an integral part of the statement of recognised income and expense at 31 December 2013

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**Financial statements at 31 December 2013**  
**Enagás, S.A.**

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**ENAGÁS, S.A.**

**STATEMENT OF CHANGES IN EQUITY FOR 2013**

**B) STATEMENT OF TOTAL CHANGES IN EQUITY**

(Thousands of Euros)

	Share capital	Share premium and Reserves	Profit for the year	Interim dividend	Valuation adjustments	Grants, donations and bequests	Total equity
<b>BALANCE AT 1 JANUARY 2012</b>	<b>358,101</b>	<b>1,240,540</b>	<b>358,675</b>	<b>(90,958)</b>	<b>(5,684)</b>	<b>184,324</b>	<b>2,044,998</b>
Total recognised income and expense	-	-	287,185	-	-	-	287,185
Transactions with shareholders	-	-	(146,060)	(102,178)	-	-	(248,238)
- Dividends paid	-	-	(146,060)	(102,178)	-	-	(248,238)
Other changes in equity	-	121,657	(212,615)	90,958	5,684	(184,324)	(178,640)
<b>BALANCE AT 31 DECEMBER 2012</b>	<b>358,101</b>	<b>1,362,197</b>	<b>287,185</b>	<b>(102,178)</b>	-	-	<b>1,905,305</b>
Restatements for changes in accounting policies in 2012	-	-	-	-	-	-	-
Restatements for 2012 errors	-	-	-	-	-	-	-
<b>RESTATED BALANCE AT 1 JANUARY 2013</b>	<b>358,101</b>	<b>1,362,197</b>	<b>287,185</b>	<b>(102,178)</b>	-	-	<b>1,905,305</b>
Total recognised income and expense	-	-	379,469	-	(2,659)	-	376,810
Transactions with shareholders	-	-	(163,478)	(120,083)	-	-	(283,561)
- Dividends paid	-	-	(163,478)	(120,083)	-	-	(283,561)
Other changes in equity	-	21,529	(123,707)	102,178	-	-	-
<b>BALANCE AT 31 DECEMBER 2013</b>	<b>358,101</b>	<b>1,383,726</b>	<b>379,469</b>	<b>(120,083)</b>	<b>(2,659)</b>	-	<b>1,998,554</b>

Notes 1 to 23 to the accompanying financial statements are an integral part of the statement of total changes in equity for the year ended 31 December 2013

**Financial statements at 31 December 2013**  
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*financial reporting framework applicable to the Company (see Notes 2 and 23).*

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**ENAGÁS, S.A.**

**CASH FLOW STATEMENT FOR 2013**

(Thousands of Euros)

	2013	2012
<b>CASH FLOWS FROM OPERATING ACTIVITIES (I)</b>	<b>490,381</b>	<b>54,010</b>
Profit for the year before tax	377,661	288,057
Adjustments to profit:	(355,890)	(280,179)
- Amortisation and depreciation	17,797	16,291
- Impairment losses	(164)	-
- Changes in provisions	1,411	-
- Allocation of grants	(31)	(35)
- Gains (losses) on derecognition and disposal of non-current assets	164	(23)
- Finance revenue	(427,983)	(315,250)
- Finance costs	60,533	23,217
- Other income and expense	(7,617)	(4,379)
<b>Changes in working capital</b>	<b>102,175</b>	<b>5,618</b>
- Inventories	(1)	(8,922)
- Trade and other receivables	133,088	28,595
- Other current assets	(20)	-
- Trade and other payables	(30,892)	(14,055)
<b>Other cash flows from operating activities</b>	<b>366,435</b>	<b>40,514</b>
- Interest paid	(50,776)	(75,375)
- Dividends received	544,919	102,178
- Interest received	44,907	26,205
- Income tax received (paid)	(173,344)	(11,685)
- Other cash inflows/(outflows)	729	(809)
<b>CASH FLOWS FROM INVESTING ACTIVITIES (II)</b>	<b>(1,000,694)</b>	<b>(732,379)</b>
<b>OPERATING PROFIT</b>		
Payments for investments	(1,011,920)	(870,374)
- Group companies and associates	(996,658)	(855,958)
- Intangible assets and property, plant and equipment	(15,242)	(14,416)
- Other financial assets	(20)	-
Proceeds of disposals	11,226	137,995
- Group companies and associates	10,428	137,995
- Intangible assets and property, plant and equipment	798	-
<b>CASH FLOWS FROM FINANCING ACTIVITIES (III)</b>	<b>(371,499)</b>	<b>452,354</b>
Proceeds of and payments on financial liabilities	(87,938)	700,592
- Issue of bonds and other marketable securities	1,182,859	1,291,736
- Issue of bank borrowings	115	883,500
- Issue of borrowings from Group companies and associates	60,000	1,163,211
- Repayments of bonds and other marketable securities	(1,147,803)	(2,005,000)
- Repayment of bank borrowings	(176,716)	(632,855)
- Repayment of borrowings from Group companies and associates	(6,393)	-
Payments of dividends and remuneration on other equity instruments	(283,561)	(248,238)
- Dividends	(283,561)	(248,238)
<b>EFFECT OF CHANGES IN EXCHANGE RATES (IV)</b>	<b>-</b>	<b>-</b>
<b>NET INCREASE/DECREASE IN CASH AND CASH EQUIVALENTS (I+II+III+IV)</b>	<b>(881,812)</b>	<b>(226,015)</b>
Cash and cash equivalents at beginning of year	1,174,334	1,400,349
Cash and cash equivalents at end of year	292,522	1,174,334

## Financial statements at 31 December 2013 Enagás, S.A.

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### 1.- General Information

#### 1.1 Company activity

Enagás, S.A. is incorporated in Spain in accordance with the Corporate Enterprises Act. Its corporate purpose is:

- The regasification, basic and secondary transport and storage of natural gas, by means of or through the corresponding owned or third-party gas infrastructure and facilities, and the performance of ancillary or related activities.
- The design, construction, commissioning, exploitation, operation and maintenance of all manner of gas infrastructure and complementary facilities, including telecommunications and control, including remote control, networks of any kind and electric grids, owned by it or third parties.
- The performance of all the duties related to technical operation of the gas system.
- The transport and storage of carbon dioxide, hydrogen, biogas and other energy-related fluids, by means of or through the corresponding owned or third-party infrastructure, and the design, construction, commissioning, exploitation, operation and maintenance of all manner of complementary infrastructure and facilities required to this end.
- The business of leveraging the heat, cooling and energy properties associated with or deriving from its core businesses.
- The provision of a broad range of services, including: engineering, construction, and advisory and consultancy services, in connection with the businesses constituting its corporate purpose, and participation in activities related to the management of the natural gas market to the extent compatible with the business activities vested in the Company under the law.

The foregoing activities may be carried out by the Company itself or through investees with an identical or similar corporate purpose, subject to the scope and limits laid down in prevailing applicable oil and gas legislation. Under prevailing legislation, the transport and system management duties that are regulated must be performed, respectively, by two wholly-owned subsidiaries. Accordingly, the following activities also form part of the corporate purpose:

- Management of the corporate Group comprising the Company's equity investments in the companies constituting that group.
- The provision of assistance or support services to the Group companies and investees, to which end the Company may also extend any guarantees and security deemed opportune.

Its registered office is at Paseo de los Olmos, no. 19, 28005 Madrid. The bylaws and other public information about the Company may be consulted on its official website, [www.enagas.es](http://www.enagas.es), and at its registered office.

In addition to the operations performed directly by Enagás, S.A., it is also the head of a group of companies that includes investments in subsidiaries and interests in joint ventures, engaging in various activities and which comprise, together with Enagás, S.A., the Enagás Group ("the Group"). Consequently, pursuant to prevailing legislation, Enagás, S.A. is required to prepare consolidated financial statements for the Group in addition to its own separate financial statements, which also include information on its investments in subsidiaries and interests in joint ventures. The financial statements of Enagás, S.A. and its consolidated Group at 31 December 2013 were authorised for issue by the directors at their Board meeting held on 17 February 2014. The separate and consolidated financial statements for 2012 were approved by the

## Financial statements at 31 December 2013 Enagás, S.A.

shareholders of Enagás, S.A. at the General Meeting held on 24 April 2013 and were filed at the Madrid Companies Registry.

The main aggregates of the consolidated financial statements of the Enagás group for 2013 and 2012 are as follows:

	2013	2012
Total assets	7,210,600	8,083,443
Equity	2,139,375	2,004,784
Income	1,308,124	1,198,408
Net profit	403,183	379,508

These accompanying 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 operates.

## 2.- Basis of presentation of the financial statements

### 2.1 Regulatory financial reporting framework applicable to the Company

These financial statements were drawn up by the Directors pursuant to the regulatory financial reporting framework applicable to the Company, as set out in:

- a) The Spanish Commercial Code and other business legislation.
- b) The General Spanish Accounting Standards approved by Royal Decree 1514/2007.
- c) Compulsory regulations approved by the Spanish Institute of Accountants and Auditors (ICAC) pursuant to the General Spanish Accounting Standards and supplementary regulations.
- d) Any other applicable Spanish accounting regulations.

### 2.2 True and fair view

The accompanying financial statements, which were obtained from the Company's accounting records, are presented in accordance with the regulatory financial reporting framework applicable to the Company and, in particular, with the accounting principles and rules contained therein and, accordingly, provide a true and fair view of the Company's equity, financial position, results of operations, changes in recognised income and expense and cash flows during the year. These financial statements, which were drawn up by the Company's Directors, will be submitted for approval by the shareholders at the Annual General Meeting, and it is expected that they will be approved without any changes.

### 2.3 Non-compulsory accounting principles applied

No non-compulsory accounting principles have been applied. The Directors also drew up these financial statements in due consideration of all the compulsory accounting principles and regulations with a significant effect on the statements.

### 2.4 Critical issues regarding measurement and estimation of uncertainty

The results and determination of assets and liabilities disclosed in the financial statements are sensitive to the accounting principles and policies, measurement criteria and estimates employed by the Company's Directors.

The Company's 2013 financial statements include estimates made by senior management of the Company – subsequently ratified by the Directors – regarding the carrying amounts of certain assets, liabilities, revenues, expenses and commitments recognised therein. These estimates relate basically to the following:



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- The useful life of property, plant and equipment and intangible assets (see Note 4.1 and 4.2).
  - The measurement of assets to determine impairment losses (see Note 4.2).
  - Forecasts for invoices pending issue.
  - The income tax calculation (see Note 17).

Although these estimates were made on the basis of the best information available at 31 December 2013 regarding the facts analysed, it is possible that future events may require these to be modified (upwards or downwards) in the years ahead. This would be carried out prospectively, recognising the effects of the changes to accounting estimates in the financial statements.

During the twelve-month period ended 31 December 2013 no significant changes were made to estimates as at the end of 2012, and no significant changes are expected in future years.

### **2.5 Comparison of information**

The information included in these notes to the financial statements for 2012 is presented solely and exclusively for comparison purposes with the information for 2013.

### **2.6 Grouping of items**

Certain items on the balance sheet, the income statement, the statement of changes in equity and the cash flow statement are grouped to make them easier to understand, although where individual data are significant, specific information has been included in the respective notes to these financial statements.

### **2.7 Changes in accounting criteria**

In 2013 there were no significant changes in accounting policies with respect to those applied in 2012.

## **3.- Distribution of profits**

The proposed distribution of profits for the year as drawn up by the Company's Directors to be submitted for approval at the General Shareholders' Meeting is as follows (in thousands of euros):

	<b>2013</b>
Voluntary reserves	77,082
Dividends	302,387
	<b>379,469</b>

On 19 December 2013, Enagás, S.A. paid 0.503 euros gross per share as an interim dividend on account of 2013 profits. In this regard, the interim dividend amounted to 120,083 thousand euros.

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The provisional accounting records drawn up in accordance with legal requirements indicating sufficient liquidity for distribution of dividends were as follows:

	<b>Thousands of euros</b>
	Provisional financial statement at 31 October 2013
Accounting profit	63,798
10% allocation to legal reserve	-
Interim dividend from Group companies	311,129
<b>Income available for distribution</b>	<b>374,927</b>
<b>Forecast payments on account</b>	<b>(120,083)</b>
Forecast cash at banks and on hand between 31 October and 31 December:	
- Cash at banks and on hand	685,489
- Collections forecast for the period	149,000
- Credit facilities and loans granted by financial institutions	690,000
- Payments forecast for the period (including payments on account)	(347,600)
<b>Forecast cash at banks and on hand</b>	<b>1,176,889</b>

The proposed before-tax final dividend (0.764 euros per share) is subject to shareholder approval at the General Meeting and is not recognised as a liability in these financial statements. If approved, this before-tax final dividend would amount to 182,304 thousand euros.

#### **4.- Accounting policies and measurement bases**

The main accounting policies and measurement bases used by the Company in the preparation of the 2013 financial statements, pursuant to those set out in the General Spanish Accounting Standards, were as follows:

##### **4.1 Intangible assets**

Intangible assets are generally valued initially at their acquisition price or production cost. They are subsequently measured at cost less any accumulated amortisation and impairment losses, if any.

The criteria used to recognise 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 4.2).

a) Expenditure on research and development:

95% of research costs are amortised during the first year and the remaining 5% the following year, provided the costs are assigned to specific projects, clearly quantified, and there is a firm belief in the technical success and the economic and commercial profitability of the projects.

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Development costs are amortised on a straight-line basis over their useful life, provided the costs are assigned to specific projects, clearly quantified, and there is a firm belief in the technical success and the economic and commercial profitability of the projects.

### b) Computer software:

The acquisition and development costs incurred in relation to the basic computer systems are recognised with a charge to "Intangible assets" in the balance sheet. Maintenance costs related to computer systems are charged to the income statement in the year in which they are incurred. They are measured at the amount paid for ownership or the right to use the software programs, or as production cost if developed internally by the Company. They are amortised over a period of four years.

Intangible assets with a finite useful life are amortised over that period, which is equivalent to the following amortisation rates:

	<b>Amortisation rate</b>	<b>Useful life</b>
Development costs	5%-50%	20-2
Other intangible assets	20%	5
Computer software	25%	4

## 4.2 Property, plant and equipment

Property, plant and equipment are valued initially at acquisition or production cost, with the exception of revaluations made in 1996, less accumulated depreciation and any impairment losses, in keeping with the criteria laid down at the end of this 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. In contrast, regular maintenance, upkeep and repair expenses are charged to profit or loss in the year in which they are incurred.

Capitalised costs include:

1. Borrowing 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 2.99% in 2013 (2.47% in 2012).
2. Employee benefits expense directly related to work in progress. The amounts capitalised for these items are recognised on the accompanying income statement under "In-house work performed on company assets".
3. 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 Company's accounting policy. Depreciation of these assets commences when the assets are ready for their intended use.

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:

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	<b>Depreciation rate</b>	<b>Useful life (years)</b>
Buildings	3%-2%	33.33-50
Other plant and machinery	12%-5%	8.33-20
Tools and equipment	30%	3
Furniture and fixtures	10%	10
Computer equipment	25%	4
Transport equipment	16%	6

**Impairment of property, plant and equipment and intangible assets**

At the end of each reporting period (in the case of goodwill or intangible assets with indefinite useful lives), or whenever there are indications of losses in value (for all other assets), the Company performs an "impairment test" to ascertain whether these losses in value will reduce the recoverable value of the assets below their carrying amount.

Recoverable amount is the higher of fair value less costs to sell and value in use, considered to be the present value of the estimated future cash flows. The Company uses value in use in nearly all cases to calculate the recoverable amount of its property, plant and equipment.

To estimate value in use, the Company draws up pre-tax cash flow projections based on the latest budgets approved by the 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 cover the coming five years and the flows for future years are estimated by applying reasonable growth rates, which may not be incremental after the fifth year.

The present value is calculated by discounting the cash flows at a pre-tax rate that reflects the business' cost of capital. The discount rate is based on current interest rates and the risk premiums commonly used by analysts covering the business.

If the recoverable amount of an asset is less than its carrying amount, an impairment loss is recognised for the difference, with a charge to "Impairment losses and gains (losses) on disposal of assets" on the income statement.

**4.3 Leases**

Leases are classified as finance leases when it may be deduced from the lease conditions that substantially all the risks and rewards incidental to ownership of the asset covered by the contract are transferred to the lessee. All other leases are classified as operating leases.

**Finance leases**

In the case of finance leases where the Company acts as lessee, the Company recognises the cost of the leased assets on the balance sheet based on the nature of the leased asset and, simultaneously, a liability for the same amount. This amount will be the lesser of the fair value of the leased asset and the present value at the beginning of the lease term of the minimum payments agreed, plus the purchase option, when there is no reasonable doubt as to its exercise. The calculation will not include contingent payments, service costs or taxes that can be passed on by the lessor. The total finance charge on the lease is recognised on the income statement for the year in which it is incurred, using the effective interest rate method. Contingent payments, if any, are recognised as an expense for the year in which they are arise.

Assets recognised for these types of transactions are depreciated on the basis of their nature using the same criteria as those applied to other items of property, plant and equipment.

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### Operating leases

Costs arising from operating leases are charged to the income statement for the year in which they accrue.

Any proceeds or payments in connection with an operating lease will be treated as advance proceeds or payment and recognised in the income statement over the lease term as the benefits of the leased asset are received or given.

## **4.4 Financial instruments**

### 4.4.1 Financial assets

#### *Classification*

The financial assets held by the Company are classified as follows:

- a) Loans and receivables: financial assets arising from the sale of goods or the rendering of services in the ordinary course of business, or financial assets which did not arise from the ordinary course of business but are not equity instruments or derivatives, have fixed or determinable payments and are not traded on an active market.
- b) Equity investments in Group companies and jointly controlled entities: Group companies are considered to be those related to the Company through a relationship of control. Jointly controlled entities are companies over which, by virtue of an agreement, the Company exercises joint control with one or more partners.

#### *Initial measurement -*

Financial assets are initially measured at the fair value of the consideration given, plus directly attributable transaction costs.

In the case of equity investments in Group companies that exercise control over subsidiaries, from 1 January 2010 onwards the fees paid to legal advisors and other professionals related to the acquisition of the investment are recognised directly in profit or loss.

#### *Subsequent measurement -*

Loans and receivables are measured at amortised cost.

Investments in Group companies, associates and jointly controlled entities are measured at cost, less, where applicable, the accumulated amount of valuation adjustments. These valuation adjustments are calculated as the difference between the carrying amount and the recoverable amount, understood as the greater of fair value less costs to sell and the present value of future cash flows arising from the investment. In the absence of any better evidence of the recoverable amount, the equity of the investee is taken into account, corrected in view of any unrealised gains at the date of measurement (including any goodwill).

At each reporting date at least, the Company performs an impairment test on financial assets not measured at fair value through profit or loss. Objective evidence of impairment is considered to exist when the recoverable amount of the financial asset is lower than its carrying amount. When this occurs, the impairment loss is recognised on the income statement.

Specifically, with respect to the valuation adjustments concerning trade receivables, the criterion employed by the Company to calculate any adjustments is to recognise impairment provisions at the difference between the recoverable amount of the 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.

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The Company derecognises a financial asset when the rights to the asset's cash flows expire or are transferred, and substantially all the risks and rewards inherent to ownership of the asset have been transferred, such as outright sales of assets, transfers of trade loans in factoring operations whereby the Company does not retain any credit or interest rate risk, sales of financial assets with a repurchase agreement at fair value or securitisations of financial assets whereby the transferor does not retain subordinated financing, does not issue any type of guarantee, and does not assume any other kind of risk.

However, the Company does not derecognise financial assets which it sells while retaining substantially all the risks and rewards of ownership, and instead recognises a financial liability equal to the consideration received, such as discounted bills, with-recourse factoring, sales of financial assets with a repurchase agreement at a fixed price or at the selling price plus interest and securitisations of financial assets whereby the transferor retains subordinated financing or other types of guarantees which substantially absorb all the expected losses.

#### 4.4.2 Financial liabilities

Financial liabilities include the Company's trade payables that arose from the purchase of goods and services in the normal course of its business, or non-trade payables that cannot be considered to be derivative financial instruments.

These payables are initially recognised at the fair value of the consideration received, adjusted by directly attributable transaction costs. These liabilities are subsequently measured at amortised cost.

Derivative liabilities are recognised at fair value on the same criteria as financial assets held for trading as described in the preceding section. The Company derecognises financial liabilities once the obligations generating them have been extinguished.

The Company calculates credit risk when measuring derivative liabilities. This adoption requires that an adjustment be made to the Company's valuation techniques for measuring the fair value of its derivatives. The Company includes a bilateral credit risk adjustment for the purpose of reflecting its own risk and that of the counterparty in the fair value of the derivatives.

Specifically, in order to determine the credit risk adjustment, a technique was applied based on calculations through simulations of expected total exposure (which includes current exposure and potential exposure) adjusted by the probability of default over time and by the loss given default (or potential loss) assigned to the Company and to each of the counterparties.

The credit risk adjustment has specifically been calculated using this formula:

$$\text{EAD} * \text{PD} * \text{LGD}$$

- EAD (Exposure at default): Exposure at default for each point in time. EAD is calculated using simulated scenarios with market price curves (e.g. Monte Carlo).
- PD (Probability of default): Probability that one of the counterparties defaults on payment at each point in time.
- LGD (Loss given default): Loss given default = 1- (recovery rate): Final percentage loss when one of the counterparties has defaulted.

The expected total exposure of the derivatives is obtained using observable market inputs as well as yield curves, exchange rates and volatilities in accordance with market conditions at the measurement date.

The inputs applied to determine own and counterparty credit risk (calculation of probability of default) are based mainly on the application of credit spreads of the Group and of comparable companies currently traded on the market (CDS (Credit Default Swap) curves, IRR spreads on debt issues). Where own or comparable company credit spreads were not available, and in order to maximise the use of relevant observable variables, the most appropriate reference rates quoted on the market depending on each case were used (quoted credit spread indices). For counterparties with available credit information, the credit spreads used are obtained from the CDS (Credit Default Swaps) quoted on the market.

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Credit enhancements relating to guarantees or collateral were also taken into consideration when determining the loss given default rate to be applied for each position in order to adjust fair value to credit risk. Loss given default is considered to be consistent over time. A minimum recovery rate of 40% is used where no credit enhancements relating to guarantees or collateral exist.

At 31 December 2013, the application of this standard did not have a significant impact on the Company.

For the purposes of financial information, fair value measurements are classified under level 1, 2 or 3, based on the degree to which the applicable inputs are observable and their importance in the fair value measurement overall, as described below:

- Level 1 – The inputs are based on quoted prices (unadjusted) for identical instruments traded in active markets.
- Level 2 – The inputs are based on quoted prices for similar instruments in active markets (not included in level 1), quoted prices for identical or similar instruments in non-active markets, and techniques based on valuation models where all material inputs are observable in the market or may be verified by observable market data.
- Level 3 – The inputs are not generally observable and do not generally reflect the estimates of the market events in order to determine the price of the asset or liability. The non-observable data used in the valuation models is significant in the fair values of the assets and liabilities.

The Company has determined that the majority of the inputs used to calculate the fair value of derivative financial instruments are in Level 2 of the above hierarchy. However, Level 3 inputs are used to calculate credit risk adjustments, as well as credit risk estimates based on credit ratings or those of comparable companies to evaluate the probability of default of the Company or its counterparties. The Company has evaluated the impact of the credit risk adjustments on the total value of derivative financial instruments and concluded that it is not significant.

The Company has therefore determined that the entire portfolio of derivative financial instruments should be classified as Level 2.

#### 4.4.3 Equity instruments

An equity instrument represents a residual interest in the equity of the Company, after deduction of all its liabilities.

Equity instruments issued by the Company are recognised in equity as the proceeds received, net of issue costs.

#### 4.4.4 Derivatives and hedging transactions

The Company uses derivative financial instruments to hedge against the risks to which its future cash flows are exposed. These risks relate to changes in interest rates. The Company arranges financial hedges for this type of transaction.

In order for these financial instruments to qualify as hedges they are designated as such from the outset, and the hedge relationship is documented. In addition, the Group verifies initially and then periodically throughout the life of the hedge (and at least at the end of each reporting period) the hedge's effectiveness. A hedge is effective if it is expected, prospectively, that the changes in the cash flows from the hedged item (attributable to the hedged risk) are almost entirely offset by the changes in the cash flows of the hedging instrument and that, retrospectively, the gains or losses on the hedge have fluctuated within a range of 80% to 125% of gains or losses on the hedged item.

The Company uses cash flow hedges: the portion of the gain or loss in fair value of the hedging instrument that is determined to be an effective hedge is recognised, net of the corresponding tax effect, under "Equity – Valuation adjustments – Hedging transactions" in the accompanying balance sheet. The accumulated gain or loss on the hedging instrument is taken to the income statement as the hedged item affects profit or loss. The portion of the gain or loss deemed to be an ineffective hedge is recognised directly in the income statement as finance revenue or costs.

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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 relating to the hedging instrument 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 for the year.

At 31 December 2013, Enagás, S.A. held commercial third-party guarantees on its infrastructure investment in the amount of 39,427 thousand euros (76,684 thousand euros in 2012). It has also extended financial guarantees for a total of 470,000 thousand euros (490,000 thousand euros in 2012) to secure the loans granted by the European Investment Bank. Enagás, S.A. guarantees the obligations of Group companies up to a maximum of 1,243,790 thousand euros.

#### **4.4.5 Cash and cash equivalents**

Liquid financial assets, deposits and liquid financial investments that may be transformed into a determinable amount of cash within less than three months, and where the risk of changes in their value is immaterial, are considered cash equivalents.

### **4.5 Inventories**

Inventories are stated at the lower of acquisition or production cost and net realisable value. The carrying amount includes the direct cost of 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.

The Company recognises any appropriate impairment losses by reporting them as an expense in the income statement when the net realisable value of the inventories falls below their acquisition price (or production cost).

### **4.6 Foreign currency transactions**

The Company's functional currency is the euro. Consequently, transactions in currencies other than the euro are considered to be foreign currency transactions and are recognised by applying the prevailing exchange rates.

At the end of the reporting period, monetary assets and liabilities denominated in foreign currencies are translated into euros at the rates prevailing at the balance sheet date. Any gains or losses arising are taken directly to the income statement in the year in which they arise.

### **4.7 Income tax**

As from 1 January 2013, Enagás, S.A., as the parent of consolidated tax group 493/12, regulated by Title VII, Chapter VIII of the consolidated Spanish Corporation Tax Act [Ley del Impuesto sobre Sociedades], files consolidated tax returns, and its subsidiaries are as follows:

- Enagás Transporte, S.A.U.
- Enagás GTS, S.A.U.
- Enagás Internacional, S.L.U.
- Enagás Financiaciones, S.A.U.
- Enagás - Altamira, S.L.U.

The income tax payable or receivable comprises the current tax payable or receivable and deferred tax income or expense.



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Current tax is the amount paid by the Company in settlement of the income tax during a particular year. Tax credits and other tax benefits applied to the taxable income, excluding withholdings, prepayments and tax loss carryforwards effectively offset during the year, are deducted from the current tax.

Deferred tax expense or income corresponds to the recognition and derecognition of deferred tax assets and liabilities. These include taxable and deductible temporary differences between the carrying amount of an asset or liability in the balance sheet and its tax base, and the carry forward of unused tax credits and unused tax losses. Deferred tax assets and liabilities are measured at the tax rates that are expected to apply when the asset is realised or the liability is settled.

Deferred tax liabilities are recognised for all taxable temporary differences, with the exception of those arising from initial recognition of goodwill or from other assets and liabilities in a transaction that does not affect taxable income or accounting profit and is not a business combination.

Deferred tax assets are only recognised to the extent that it is considered likely the Company will have sufficient taxable income in the future against which the deferred tax assets can be offset.

Deferred tax assets and liabilities arising from items directly charged or credited to equity accounts are also recognised with a charge or credit respectively to equity.

Recognised deferred tax assets are reassessed at the end of each reporting period, and the appropriate adjustments are made where there are doubts as to their future recoverability. Deferred tax assets not recognised on the balance sheet are also reassessed at the end of each reporting period, and are recognised where it has become highly probable that they will be recovered through future taxable income.

#### **4.8 Income and expenses**

In accordance with the criteria set out by the Spanish Institute of Accountants and Auditors in Official Bulletin (BOICAC) no. 79, on the classification for accounting purposes in separate financial statements of the income and expenses of holding companies that apply the General Spanish Accounting Standards, approved by Royal Decree 1514/2007, and on the calculation of the Company's revenue, dividends and interest on loans received from its investees are included as an integral part of the Company's revenue (see Note 18.1)

Income and expenses are also recognised on an accruals basis, i.e. when the actual flow of the related goods and services occurs, regardless of when the resulting monetary or financial flow arises. Income is measured at the fair value of the consideration received, net of discounts and tax.

##### Income

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.

Interest income from financial assets is recognised using the effective interest method, and dividend income is recognised when the shareholder's right to receive payment has been established. Interest and dividends from financial assets accrued after the date of acquisition are in any case recognised as income on the income statement.

##### Expenses

Expenses are recognised on the 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.

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An expense is recognised immediately when a payment does not generate future economic benefits or when the prerequisites for capitalisation as an asset are not met.

#### ***4.9 Provisions and contingencies***

While drawing up the Company's financial statements, the Directors made a distinction between the following:

- a) Provisions: credit balances covering present obligations arising from past events, the settlement of which is likely to cause an outflow of resources, but which are uncertain as to their amount and/or timing.
- b) Contingent liabilities: possible obligations that arise from past events the future emergence of which will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events that are beyond the control of the Company.

The financial statements include all provisions when it is considered more likely than not that the corresponding obligation will have to be settled. Contingent liabilities are not recognised in the financial statements but are disclosed in the notes to the financial statements if they are considered to be remote.

Provisions are measured at the present value of the best possible estimate of the amount required to settle or transfer the obligation, taking into account the information available on the event and its consequences, and any adjustments arising from the restatement of these provisions are recognised as finance expenses as they are accrued.

The compensation to be received from a third party when an obligation is settled is recognised as an asset, provided it is certain that reimbursement will be received, unless the risk has been contractually externalised so that the Company is not obliged to settle, in which case the reimbursement will be taken into consideration in estimating the amount of any provisions.

At year-end 2013, a number of lawsuits and claims had been filed against business groups in connection with the ordinary course of their business. The Company's legal advisors and its Directors believe that the resolution of these proceedings and claims will have no significant effects on the financial statements for the years in which they are resolved beyond those recognised or indicated in these financial statements.

#### ***4.10 Termination benefits***

Pursuant to current legislation, the Company is obliged to make redundancy payments to employees with which it severs employment relations, under certain conditions. Thus, redundancy payments that may be reasonably quantified are expensed in the year in which the redundancy decision was taken. There are no redundancy plans warranting recognition of a provision in this connection.

#### ***4.11 Environmental assets and liabilities***

Environmental assets are considered to be those used by the Company on an ongoing basis, the main aim of which is to minimise environmental impact and protect and improve the environment, including the reduction or elimination of future pollution.

Costs arising from the purchase of systems, equipment and facilities used to eliminate, restrict or control any impacts of normal gas operations on the environment are considered as capital investments.

Any environmental outlays other than expenditure on the purchase of assets are expensed currently.

With respect to any environmental contingencies that may arise, Enagás, S.A. considers these are sufficiently covered by the civil liability insurance policies it has taken out.

#### 4.12 Pension obligations

Enagás makes contributions, in accordance with the approved pension plan adapted to the provisions of the Pension Plans and Funds Act [*Ley de Planes y Fondos de Pensiones*], to a defined contribution plan called "Enagás Fondo de Pensiones", whose fund manager is Gestión de Previsión y Pensiones, S.A. and custodian Banco Bilbao Vizcaya Argentaria, S.A., and which covers the company's obligations with respect to serving employees. The Group recognises certain vested rights for past service and undertakes to make monthly contributions averaging 4.61% of eligible salary (4.77% in 2012). It is a mixed plan covering retirement benefits, disability and death.

The contributions made each year in this connection are recognised under "Employee benefits expense" on the income statement. At year-end 2013, there were no contributions payable in this connection.

The Group has outsourced its pension obligations vis-a-vis its directors by means of a mixed group insurance policy. In addition to pension commitments, the cover provides benefits in the event of widowhood, death or disability.

#### 4.13 Transactions with related parties

The Company carries out all its transactions with related parties at market value. The transfer prices are adequately documented and, therefore, the Company's Directors consider that there are no significant risks in this connection that may lead to any significant liabilities in the future.

#### 4.14 Classification of non-current and current balances

Amounts on the accompanying 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".

### 5.- Intangible assets

The changes in 2013 and 2012 in "Intangible Assets" in the balance sheet were as follows:

#### 2013

Cost	Opening balance	Additions	Transfers (additions or decreases)	Disposals, derecognition or write-downs	Closing balance
Research and development	8,275	613	-	-	8,888
Computer software	75,457	10,964	-	-	86,421
Other intangible assets	6,474	250	-	-	6,724
<b>Total cost</b>	<b>90,206</b>	<b>11,827</b>	-	-	<b>102,033</b>

Amortisation	Opening balance	Provisions	Transfers (additions or decreases)	Disposals, derecognition or write-downs	Closing balance
Research and development	(8,263)	(594)	-	-	(8,857)
Computer software	(45,360)	(13,470)	-	-	(58,830)
Other intangible assets	(5,247)	(965)	-	-	(6,212)
<b>Total amortisation</b>	<b>(58,870)</b>	<b>(15,029)</b>	-	-	<b>(73,899)</b>

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<b>Total intangible assets</b>	<b>Opening balance</b>	<b>Closing balance</b>
Cost	90,206	102,033
Amortisation	(58,870)	(73,899)
<b>Total, net</b>	<b>31,336</b>	<b>28,134</b>

**2012**

<b>Cost</b>	<b>Opening balance</b>	<b>Additions</b>	<b>Transfers due to spin-offs</b>	<b>Closing balance</b>
Research and development	27,531	249	(19,505)	8,275
Concessions	5,864	-	(5,864)	-
Emission allowances	4,969	-	(4,969)	-
Computer software	93,350	11,796	(29,689)	75,457
Other intangible assets	7,460	2	(988)	6,474
<b>Total cost</b>	<b>139,174</b>	<b>12,047</b>	<b>(61,015)</b>	<b>90,206</b>

<b>Amortisation</b>	<b>Opening balance</b>	<b>Provisions</b>	<b>Transfers due to spin-offs</b>	<b>Closing balance</b>
Research and development	(22,747)	(255)	14,739	(8,263)
Concessions	(3,106)	-	3,106	-
Computer software	(50,893)	(12,284)	17,817	(45,360)
Other intangible assets	(5,112)	(1,042)	907	(5,247)
<b>Total amortisation</b>	<b>(81,858)</b>	<b>(13,581)</b>	<b>36,569</b>	<b>(58,870)</b>

<b>Total intangible assets</b>	<b>Opening balance</b>	<b>Closing balance</b>
Cost	139,174	90,206
Amortisation	(81,858)	(58,870)
<b>Total, net</b>	<b>57,316</b>	<b>31,336</b>

The accumulated additions to "Research and development" in 2013 correspond mainly to the research and development project for technology applied to pipe-based CO<sub>2</sub> transmission amounting to 119 thousand euros, Phase 1 of the project involving the LCE Tri-generation Plant in Zaragoza amounting to 122 thousand euros, the MOLAS project (aging of LNG during transport by ship) amounting to 107 thousand euros, and the project for transporting hydrogen through gas pipelines amounting to 90 thousand euros.

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Key computer software additions in 2013 include:

- IT infrastructure software, for 1,868 thousand euros
- Competence centre software, for 1,261 thousand euros
- Green data centre software, for 1,428 thousand euros
- Corporate platform performance software, for 561 thousand euros
- ECOFI support software, for 850 thousand euros
- 2013 operation software, for 753 thousand euros
- 2013 offer planning and prediction software, for 342 thousand euros
- Supplier management software, for 307 thousand euros
- Systems plan, for 462 thousand euros
- Changes in the technological platform supporting the processes, for 832 thousand euros

At year-end 2013 and 2012, the Company was still using the following fully-amortised intangible assets:

**2013**

<b>Item</b>	<b>Carrying amount (gross)</b>
Research and development	8,276
Computer software	30,531
Other intangible assets	4,364
<b>Total</b>	<b>43,171</b>

**2012**

<b>Item</b>	<b>Carrying amount (gross)</b>
Research and development	8,027
Computer software	20,849
Other intangible assets	1,261
<b>Total</b>	<b>30,137</b>

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

***6.- Property, plant and equipment***

The changes in 2013 and 2012 in "Property, plant and equipment" in the balance sheet and the main information affecting this heading are as follows:

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**2013**

Cost	Opening balance	Additions	Transfers (additions or decreases)	Disposals, derecognition or write-downs	Closing balance
Land and buildings	69,176	1,984	2,163	(612)	72,711
Plant and machinery	4,617	38	-	-	4,655
Other installations, equipment & furniture	28,605	1,655	-	-	30,260
Prepayments and work in progress	2,015	1,355	(2,163)	-	1,207
<b>Total cost</b>	<b>104,413</b>	<b>5,032</b>	<b>-</b>	<b>(612)</b>	<b>108,833</b>

Depreciation	Opening balance	Provisions	Disposals, derecognition or write-downs	Closing balance
Land and buildings	(12,291)	(915)	449	(12,757)
Plant and machinery	(1,791)	(451)	-	(2,242)
Other installations, equipment & furniture	(25,121)	(1,402)	-	(26,523)
<b>Total depreciation</b>	<b>(39,203)</b>	<b>(2,768)</b>	<b>449</b>	<b>(41,522)</b>

Total property, plant and equipment	Opening balance	Closing balance
Cost	104,413	108,833
Depreciation	(39,203)	(41,522)
<b>Total, net</b>	<b>65,210</b>	<b>67,311</b>

**2012**

Cost	Opening balance	Additions	Transfers due to spin-offs	Disposals, derecognition or write-downs	Closing balance
Land and buildings	179,556	1,271	(111,651)	-	69,176
Plant and machinery	7,244,457	65	(7,239,905)	-	4,617
Other installations, equipment & furniture	62,242	1,928	(35,564)	(1)	28,605
Prepayments and work in progress	1,004,610	(895)	(1,001,700)	-	2,015
<b>Total cost</b>	<b>8,490,865</b>	<b>2,369</b>	<b>(8,388,820)</b>	<b>(1)</b>	<b>104,413</b>

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	<b>Opening balance</b>	<b>Provisions</b>	<b>Transfers due to spin-offs</b>	<b>Disposals, derecognition or write-downs</b>	<b>Closing balance</b>
<b>Depreciation</b>					
Land and buildings	(50,085)	(841)	38,635	-	(12,291)
Plant and machinery	(2,727,219)	(446)	2,725,874	-	(1,791)
Other installations, equipment & furniture	(41,992)	(1,422)	18,292	1	(25,121)
<b>Total depreciation</b>	<b>(2,819,296)</b>	<b>(2,709)</b>	<b>2,782,801</b>	<b>1</b>	<b>(39,203)</b>

	<b>Opening balance</b>	<b>Additions</b>	<b>Transfers due to spin-offs</b>	<b>Disposals or derecognition</b>	<b>Closing balance</b>
<b>Impairment losses</b>					
Land and buildings	-	-	-	-	-
Plant and machinery	(14,974)	-	14,974	-	-
Other installations, equipment & furniture	-	-	-	-	-
Prepayments and work in progress	-	-	-	-	-
<b>Total impairment losses</b>	<b>(14,974)</b>	<b>-</b>	<b>14,974</b>	<b>-</b>	<b>-</b>

<b>Total property, plant and equipment</b>	<b>Opening balance</b>	<b>Closing balance</b>
Cost	8,490,865	104,413
Depreciation	(2,819,296)	(39,203)
Impairment	(14,974)	-
<b>Total, net</b>	<b>5,656,595</b>	<b>65,210</b>

In 2013, under additions to "Land and buildings", 703 thousand euros was recognised in relation to the renovations and improvements of the installations of the Central Headquarters building and 1,262 thousand euros for the renovations and improvements of the facilities of the R&D centre in Zaragoza.

Additions to "Prepayments and work in progress" in 2013 relate basically to the Tri-generation Plant in Zaragoza.

The disposals of property, plant and equipment accumulated in 2013 relate basically to the disposal of the interior facilities in buildings of the R&D centre in Zaragoza. The amount transferred to operations in 2013 relates to the launch of the Green Data Center.

The revaluations of property, plant and equipment made pursuant to Royal Decree Law 7/1996 of 7 June, concerning the revaluation of assets, increased the depreciation charge by 73 thousand euros in both 2013 and 2012.

Likewise, in-house work performed on company assets increased property, plant and equipment by 1,617 thousand euros in 2013 (1,133 thousand euros in 2012).

The decreases in accumulated depreciation correspond mainly to the disposal of interior facilities in buildings.

At year-end 2013 and 2012, the Company was still using the following fully depreciated items of property, plant and equipment:

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**2013**

Item	Carrying amount (gross)
Buildings	5,446
Plant and machinery	533
Other installations, equipment & furniture	23,757
<b>Total</b>	<b>29,736</b>

**2012**

Item	Carrying amount (gross)
Buildings	5,446
Plant and machinery	479
Other installations, equipment & furniture	21,611
<b>Total</b>	<b>27,536</b>

Property, plant and equipment are not mortgaged or subject to any other similar encumbrances.

The Company operates a policy of insuring its assets so that no significant losses occur, on the basis of best market practices and depending on the nature and characteristics of the property, plant and equipment.

The Company also holds insurance policies against third-party civil liability.

**7.- Leases**

**A.- FINANCE LEASES**

At year-end 2013 and 2012, the Company was not operating any leases qualifying as finance leases.

**B.- OPERATING LEASES**

At year-end 2013 and 2012, the Company was committed to the following minimum lease payments, pursuant to ongoing contracts, with no consideration taken of the effects of shared service charges, future CPI increases or future adjustments of contractually agreed rents.

Operating leases Minimum payments	Nominal value	
	2013	2012
Less than one year	76	191
Between one and five years	1,309	4,742
More than five years	3,460	19
<b>Total</b>	<b>4,845</b>	<b>4,952</b>

In its position as lessee, the most significant operating lease agreement held by the Company at year-end 2013 and 2012 is the lease of the 9,627.50 m<sup>2</sup> office building in Madrid where the Company has its headquarters. The lease agreement



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commenced on 6 April 2001, with a term of 10 years, and was renegotiated in November 2013 for a period of 6 years. Likewise, the rent paid in 2013 and 2012 amounted to 3,460 thousand euros and 3,359 thousand euros, respectively. As far as contingent rent is concerned, the agreement provides for annual CPI-linked increases.

**8.- Financial investments (non-current and current)**

**8.1 Non-current financial assets**

The breakdown of "Non-current financial investments" at year-end 2013 and 2012 is as follows:

Class  Category	Non-current financial instruments					
	Equity instruments		Loans, derivatives and other		Total	
	2013	2012	2013	2012	2013	2012
Loans and receivables	-	-	1,397	1,374	1,397	1,374
Other	-	189	-	-	-	189
<b>Total</b>	<b>-</b>	<b>189</b>	<b>1,397</b>	<b>1,374</b>	<b>1,397</b>	<b>1,563</b>

There were no changes due to impairment losses under this heading in 2013 or 2012.

**8.2 Group companies, jointly controlled entities and associates**

The breakdown of "Non-current investments in Group companies and associates" at year-end 2013 and 2012 is as follows:

Class  Category	Non-current financial instruments					
	Equity instruments		Loans, derivatives and other		Total	
	2013	2012	2013	2012	2013	2012
Investments in Group companies and jointly controlled entities	1,335,093	1,246,540	-	-	1,335,093	1,246,540
Loans and receivables	-	-	2,595,282	716,910	2,595,282	716,910
<b>Total</b>	<b>1,335,093</b>	<b>1,246,540</b>	<b>2,595,282</b>	<b>716,910</b>	<b>3,930,375</b>	<b>1,963,450</b>

In 2013 the following changes were made to the Company's equity instruments:

- On 30 April 2013, Enagás Internacional, S.A.U. issued 33,127,760 new shares, with the corresponding share capital increase and share premium arising from the following transactions:
  - Share capital increase and share premium through the non-monetary contribution from Enagás, S.A. to Enagás Internacional, S.L.U. of the shares of Palencia 3, Investigación, Desarrollo y Explotación, S.L. ("Palencia 3"), Sociedad Promotora Bilbao Gas HUB, S.A. ("HUB") and Enagás - Altamira, S.L.U. ("Altamira"), for a total of 41,407 thousand euros.

This transaction was performed under the special tax neutrality regime in accordance with Title VII, Chapter VIII of the consolidated Spanish Corporation Tax Act, approved by Legislative Royal Decree 4/2004, of 5 March ("TRLIS"), for the exchange of securities (in the case of Altamira) and for special non-monetary contributions (in the case of HUB and Palencia), the related notice having been submitted to the tax authorities.

- Share capital increase and share premium to partially offset the loan obtained by Enagás Internacional, S.L.U. on 12 September 2012 from Enagás, S.A. amounting to 69,019 thousand euros.

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- On 27 May 2013, Enagás Financiaciones, S.A.U. issued 300 new shares, with the corresponding share capital increase and share premium for a total of 100 thousand euros. The new shares issued were paid in and subscribed for by the Company's sole shareholder, Enagás, S.A.
- In July 2013, the contributions for future share capital increases to Gasoductos de Morelos S.A.P.I de C.V., amounting to 8,893 thousand euros, were capitalised.
- At year-end 2013, Estación de Compresión Soto la Marina, S.A.P.I. de C.V. was incorporated, a company which is 49.96% directly owned and 0.04% indirectly owned by Enagás, S.A. At 31 December 2013, Enagás, S.A.'s investment in this company amounted to 2,353 thousand euros.
- On 14 November 2013, in order to reinstate the equity balance, Enagás GTS, S.A.U. reduced its share capital and share premium by 8,914 thousand euros, without paying the sole shareholder (Enagás, S.A.) the aforementioned amount. On the same date, the share capital and share premium were increased through the issue of 400,000 new shares, with the corresponding share capital increase and share premium, totalling 8,000 thousand euros. The new shares issued were paid in and subscribed for by the Company's sole shareholder, Enagás, S.A.

In 2012 the following changes were made to the Company's equity instruments:

- In April 2012 Enagás Financiaciones, S.A.U. was incorporated, the share capital of which, amounting to 60 thousand euros, is wholly owned by Enagás, S.A., and in May Enagás Internacional, S.L.U. was incorporated, the share capital of which, amounting to 3 thousand euros, is wholly owned by Enagás, S.A.
- Likewise, in the third quarter of 2012 and after the corporate spin-off took effect, Enagás, S.A. recognised the ownership interest in the share capital of Enagás Transporte, S.A.U. and Enagás GTS, S.A.U., amounting to 1,187,820 thousand euros and 15,397 thousand euros, respectively.
- Lastly, in July 2012 the Company acquired 50% of the share capital of Gasoducto de Morelos S.A.P.I. de C.V., amounting to 2,041 thousand euros, which until that point had been owned by Elecnor.

Loans to Group companies are subject to market interest rates, whereby the average rates for 2013 and 2012 were 4.20% and 4.13%, respectively.

The balances of these loans are broken down in the following table:

	Thousands of euros	
	2013	2012
Enagás Transporte, S.A.U.	2,506,383	549,875
Enagás Internacional, S.L.U.	70,607	141,842
Gasoducto Morelos S.A.P.I. de C.V.	18,292	24,424
Enagás-Altamira, S.L.U.	-	769
<b>Total</b>	<b>2,595,282</b>	<b>716,910</b>

The increase in the loans granted to Enagás Transporte, S.A.U. basically relates to the loan granted to this company amounting to 1,045,714 thousand euros (990,000 thousand euros non-current and 55,714 thousand euros current) as a result of the debt transferred from Enagás Transporte, S.A.U. to Enagás, S.A. (see Note 14.1).

Likewise, the loan granted to Enagás Internacional, S.L.U., amounting to 69,019 thousand euros, was partially offset by the share capital increase and the share premium referred to above.

The detail of these loans, by maturity, at year-end 2013 and 2012 is as follows:

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**2013**

	2015	2016	2017	2018 and beyond	Total
<b>Loans and receivables</b>	23,516	32,500	813,977	1,725,289	2,595,282
<b>Total</b>	<b>23,516</b>	<b>32,500</b>	<b>813,977</b>	<b>1,725,289</b>	<b>2,595,282</b>

**2012**

	2014	2015	2016	2017	2018 and beyond	Total
<b>Loans and receivables</b>	-	769	-	549,875	166,266	716,910
<b>Total</b>	-	<b>769</b>	-	<b>549,875</b>	<b>166,266</b>	<b>716,910</b>

The most significant disclosures concerning Group companies and associates at year-end 2013 and 2012 are as follows:

**2013**

Name / Registered address / Activity	% shareholding		Thousands of euros								
	Direct	Indirect	Share capital	Profit/(Loss)		Other equity	Total equity <sup>(1)</sup>	Dividends received	Carrying amount		
				Operating	Net				Cost	Impairment during the year	Accumulated impairment
Enagás Transporte, S.A.U.	100	-	300,000	618,106	386,989	614,241	1,301,230	364,814	1,187,820	-	-
Enagás GTS, S.A.U.	100	-	7,283	(10,208)	(7,096)	12,443	12,630	-	23,397	-	-
Enagás Financiaciones, S.A.U.	100	-	90	44,157	45	(4)	131	-	160	-	-
Enagás Internacional, S.L.U.	100	-	33,131	3,382	(766)	77,155	109,520	-	110,429	-	-
Gasoducto Morelos S.A.P.I. de C.V.	50	-	19,989	(196)	(1,234)	7,100	23,925	-	10,934	-	-
Estación de Compresión Soto la Marina, S.A.P.I. de C.V.	49.9	0.1	4,818	(5)	(27)	-	4,615	-	2,353	-	-
									<b>1,335,093</b>		

(1) Does not include valuation adjustments or capital grants.

**2012**

Name / Registered address / Activity	% shareholding		Thousands of euros								
	Direct	Indirect	Share capital	Profit/(Loss)		Other equity	Total equity <sup>(1)</sup>	Dividends received	Carrying amount		
				Operating	Net				Cost	Impairment during the year	Accumulated impairment
Enagás Transporte, S.A.U.	100	-	300,000	591,589	370,766	608,491	1,279,257	280,004	1,187,820	-	-
Enagás GTS, S.A.U.	100	-	10,000	(5,284)	(3,670)	5,397	11,727	-	15,397	-	-
Enagás Financiaciones, S.A.U.	100	-	60	8,798	(74)	-	(14)	-	60	-	-
Enagás Internacional, S.L.U.	100	-	3	1,716	(143)	4	(136)	-	3	-	-
Gasoducto Morelos S.A.P.I. de C.V.	50	-	3,191	(43)	30	16,991	20,212	-	2,041	-	-
Enagás - Altamira, S.L.U.	100	-	6,183	1,048	551	38,848	45,582	-	41,219	-	-
									<b>1,246,540</b>		

(1) Does not include valuation adjustments or capital grants.

These Group companies are not listed on securities markets.

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There were no changes due to impairment losses under this heading in 2013 or 2012.

The breakdown of "Current investments in Group companies and associates" at year-end 2013 and 2012 is as follows:

Category \ Class	Current financial instruments			
	Loans, derivatives and other		Total	
	2013	2012	2013	2012
<b>Loans and receivables</b>	266,364	180,862	266,364	180,862
<b>Total</b>	<b>266,364</b>	<b>180,862</b>	<b>266,364</b>	<b>180,862</b>

Loans to Group companies are subject to market interest rates, the average rates for 2013 and 2012 being 4.20% and 4.13%, respectively.

In addition, Enagás, S.A. granted a credit facility to Enagás Transporte, S.A.U. for a total of 300,000 thousand euros, which at 31 December 2013 and 2012 had not been drawn down, and a credit facility to Enagás Internacional, S.L.U. amounting to 10,000 thousand euros, which at 31 December 2013 and 2012 had been drawn down by 3,516 thousand euros and 50 thousand euros, respectively.

It is worth noting that "Loans and receivables" basically includes the account receivable from Group companies from the tax group amounting to 196,316 thousand euros and the short-term balances of the loans granted to Enagás Transporte, S.A.U., Gasoducto Morelos S.A.P.I. de C.V. and Compañía Transportista de Gas Canarias, S.A. amounting to 67,819 thousand euros, 1,703 thousand euros and 439 thousand euros, respectively.

In 2013 the portion of the interim dividend distributed by Enagás Transporte, S.A.U. in 2012 that had yet to be received at 31 December 2012, amounting to 177,825 thousand euros, was received. Likewise, the total interim dividend distributed by Enagás Transporte, S.A.U. in 2013 was received.

**8.3 Information on the type and level of risk in connection with financial instruments and capital**

**8.3.1 Qualitative information**

Enagás, S.A. is exposed to certain risks which it manages via risk identification, measurement, limits and oversight systems.

The basic principles defined by Enagás, S.A. in establishing the policy for managing its most significant risks are as follows:

- Comply with the principles of good corporate governance.
- Strict compliance with all the in-house rules of Enagás, S.A.
- Each business and corporate area defines:
  - a) Its trading markets and products as a function of its know-how and ability to ensure effective risk management.
  - b) Criteria for counterparties.
  - c) Authorised brokers.

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- The businesses and corporate areas establish their risk exposure for each market in which they operate 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 policies, rules and procedures of Enagás, S.A.

The main financial risks to which the Company is exposed are as follows:

### Credit risk

The Company has no significant credit risk since the average customer collection period is very short. Similarly, cash is placed and derivatives are arranged with highly solvent entities.

### 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 income statement.

Depending on Enagás, S.A.'s estimates and debt structure targets, hedging transactions are carried out by arranging derivatives that mitigate these risks.

### Liquidity risk

The Company's liquidity policy consists of arranging credit facilities and short-term investments to cover requirements for a period consistent with debt and capital market conditions and expectations.

## 8.3.2 Quantitative information

a) Interest rate risk:

	2013	2012
Percentage of borrowings benchmarked to fixed/hedged rates	59%	48%

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 impact on its income statement of such a variation in the cost of servicing its floating-rate debt would be approximately:

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	Millions of euros			
	Change in interest rates			
	2013		2012	
	1%	-1%	1%	-1%
Change in finance cost	10.47	-10.47	8.35	-8.35

In connection with floating-rate debt, it is estimated that the impact on equity of similar changes to market rates as a result of derivatives would not be significant in 2014.

**8.3.3 Management of capital**

The objectives of the capital management performed at a corporate level by Enagás, S.A. are to ensure financial stability and obtain sufficient financing for investments, optimising the cost of capital in order to maximise the value created for the shareholder and, all the while, maintaining its commitment to solvency

As a result, Enagás, S.A. has demonstrated its financial robustness, which is endorsed by the various rating agencies.

At 31 December 2013, Enagás, S.A. maintained its long-term credit rating of BBB (Standard and Poor's), the outlook having changed from negative to stable, and A- (Fitch Ratings), the outlook having changed from negative to stable.

**9.- Inventories**

The Company also has 14 thousand euros (13 thousand euros in 2012) of inventories unrelated to natural gas that include, inter alia, office materials and consumables.

**10.- Trade and other receivables**

At 31 December 2013, the 16,844 thousand euros recognised under "Trade receivables from Group companies and associates" basically relates to Enagás Transporte, S.A.U., Enagás GTS, S.A.U. and Enagás Internacional, S.L.U., for 9,998 thousand euros, 3,559 thousand euros and 2,678 thousand euros, respectively. At 31 December 2012, this balance basically related to Enagás Transporte, S.A.U., Enagás GTS, S.A.U. and Enagás Internacional, S.L.U., for 23,352 thousand euros, 2,814 thousand euros and 2,674 thousand euros, respectively.

Enagás, S.A. recognises the amount payable for regulated regasification, transport and storage as a Transporter and Technical System Operator from 2004 to 2011, totalling 17,982 thousand euros (120,716 thousand euros at 31 December 2012) under "Other receivables".

It is highlighted that, in 2013, 104,470 thousand euros were recognised corresponding to the outstanding balance for 2011. That amount formed part of the provisional deficit for 2011, which included an increase in the cost recognised in settlements for 2012, paid by the Company, through Enagás Transporte, S.A.U.

"Other receivables" also includes the uncollected amounts from gas suppliers for the freight duty regulated by article 24 of Law 48/2003. This duty 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 until the corporate spin-off. At 31 December 2013, the balances receivable and those that are subject to litigation with certain suppliers were transferred to Enagás Transporte, S.A.U.

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

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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 merchandise by the titleholder of the concession.

The origin of the litigation 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 additional provision five of Law 48/2003. Enagás, S.A. submitted the application for the change of regime in July 2004, with the understanding that the six-month period started on 27 February 2004, when the Law took effect. However, the suppliers with which the Group is in litigation understand that the application of Title I from 1 January 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 a ruling on 3 May 2007 which, like the Port Authorities of Cartagena and Barcelona, considers with no reservations that the option exercised by Enagás to avail itself of the new economic tax regime established by Law 48/2003 was not outside the period assigned. 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 goods and for general services.

The Company acknowledges the risk that the other suppliers which, up until the corporate spin-off, paid the full duty passed on by Enagás, S.A., may seek a 50% refund if the tribunal rules against Enagás, S.A. on the administrative claims filed. The amount paid to Enagás, S.A. by suppliers with which there is no ongoing litigation at 31 December 2013 totals 47,420 thousand euros, of which 50% (23,710 thousand euros) would be at risk.

The directors consider that the carrying amount of trade and other receivables approximates their fair value.

## 11.- Cash and cash equivalents

The breakdown of "Cash and cash equivalents" at 31 December 2013 and 2012 is as follows:

	2013	2012
Cash	10,720	52,057
Cash equivalents	281,802	1,122,277
<b>Total</b>	<b>292,522</b>	<b>1,174,334</b>

As a general rule, bank balances accrue interest at a rate that is similar to the market rate for daily deposits.

The change in cash and cash equivalents is primarily due to the cancellation of temporary financial investments to repay Enagás Group loans totalling 800 thousand euros early during the third quarter of 2013.

Moreover, as indicated in Note 14.1, Enagás, S.A. has undrawn credit facilities to shore up liquidity. In this regard, Enagás, S.A. had the following funds available at 31 December 2013 and 2012:

	2013	2012
Cash and cash equivalents	292,522	1,174,334
Other funds available (Note 14.1)	1,634,845	632,707
<b>Total</b>	<b>1,927,367</b>	<b>1,807,041</b>

Current deposits mature within less than 12 months and earn interest at market rates for this kind of product. There are no significant restrictions on the availability of cash and bank balances.

## **12.- Equity and Shareholders' equity**

The Company's share capital amounted to 358,101 thousand euros at year-end 2013 and 2012, and was represented by 238,734,260 shares, each with a par value of 1.5 euros and all of the same class. The Parent's shares are fully paid up and traded on the Spanish stock exchange, including the electronic trading platform (the continuous market).

All the shares of the Parent, Enagás, S.A., are listed on the four Spanish stock exchanges and are traded on the electronic trading platform. On 31 December 2013, Enagás, S.A.'s share price closed at 18.995 euros, having marked a high for the year of 20.525 euros per share on 3 May.

No company held more than 5% of the Company's share capital at either year-end 2013 or 2012.

The most significant shareholdings in Enagás, S.A. at 31 December 2013 are as follows:

<b>Company</b>	<b>Shareholding, %</b>
Oman Oil Company, S.A.O.C.	5.000
Sociedad Estatal de Participaciones Industriales	5.000
Kutxabank, S.A.	5.000
Fidelity International Limited	1.973
Retail Oeics Aggregate	1.010

The most significant shareholdings remain unchanged from 2012.

It should be noted that article 92 of Law 62/2003 on tax, administration and social order measures, and published on 31 December 2003, which amends Hydrocarbon Law 34/1998, stipulates 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, further limits the exercise of voting rights to 3%, in addition to the ownership cap of 5%. The law also stipulates that individuals 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 operator. These restrictions do not apply to direct or indirect shareholdings held by public-sector enterprises.

The Group has no treasury shares.

### **12.1 Legal reserve**

Pursuant to Article 274 of the Spanish Corporate Enterprises Act, 10% of profit in each year was transferred to the legal reserve until the balance of this reserve is at least 20% of share capital. This percentage was reached with the proposed distribution of profit for 2003. The reserve cannot be distributed and, if it is used to offset losses, in the event no other reserves are available for this purpose, future profits must be used to restore it.

At year-end 2013 and 2012, the balance of this reserve had reached the legally required minimum.

### **12.2 Treasury shares**

At year-end 2013 and 2012, the Company held no treasury shares.



## 12.3 Valuation adjustments

### Hedging transactions

This heading refers to derivatives arranged by the Company and designated as cash flow hedges related to the debt transferred (see Note 15).

The changes in these headings in 2013 and 2012 were as follows:

#### 2013

	Thousands of euros			
	01.01.2013	Change in fair value	Recognised in profit or loss	31.12.2013
Cash flow hedges	-	(3,798)	-	(3,798)
Taxes recognised in equity	-	1,139	-	1,139
<b>Total</b>	-	<b>(2,659)</b>	-	<b>(2,659)</b>

#### 2012

	Thousands of euros		
	01.01.2012	Transfers due to spin-offs	31.12.2012
Cash flow hedges	(8,119)	8,119	-
Taxes recognised in equity	2,435	(2,435)	-
<b>Total</b>	<b>(5,684)</b>	<b>5,684</b>	-

## 12.4 Dividends

In addition to the interim dividend in 2013 (mentioned in Note 3 above), in 2013 Enagás, S.A. distributed the before-tax final dividend for 2012. This dividend amounted to 163,478 thousand euros (0.685 euros per share) and was paid in July 2013.

## 13.- Provisions and contingencies

### 13.1 Provisions

The directors of Enagás, S.A. consider that the provisions recorded in the accompanying 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 risks covered by these provisions, it is not possible to make a reasonable estimate as to the timing of any payments which may arise.

The breakdown of provisions on the balance sheet at year-end 2013 and 2012 and the main changes recognised are as follows:

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**2013**

<b>Non-current provisions</b>	<b>Opening balance</b>	<b>Provisions</b>	<b>Amounts applied</b>	<b>Closing balance</b>
Employee benefits	171	-	(171)	-
Other liabilities	450	2,033	(450)	2,033
<b>Total non-current provisions</b>	<b>621</b>	<b>2,033</b>	<b>(621)</b>	<b>2,033</b>

There were no changes in current provisions in 2013.

**2012**

<b>Non-current provisions</b>	<b>Opening balance</b>	<b>Provisions</b>	<b>Spin-off</b>	<b>Closing balance</b>
Employee benefits	-	171	-	171
Other liabilities	6,460	450	(6,460)	450
Abandonment costs	77,645	-	(77,645)	-
<b>Total non-current provisions</b>	<b>84,105</b>	<b>621</b>	<b>(84,105)</b>	<b>621</b>

<b>Current provisions</b>	<b>Opening balance</b>	<b>Spin-off</b>	<b>Closing balance</b>
Other liabilities	-	-	-
Greenhouse gas emission allowances	5,176	(5,176)	-
<b>Total current provisions</b>	<b>5,176</b>	<b>(5,176)</b>	<b>-</b>

**13.1.1 Employee benefits**

This heading corresponds primarily to a provision in the amount of 90 thousand euros in connection with redundancies carried out in December 2012 in order to cover the financial consequences of possible regulatory changes with respect to the age from which early-retirement programmes can be applied. Contractually, this possibility has materialised in 6 of the 9 employees made redundant taking leave.

**13.1.2 Other liabilities**

The provision made in 2013 amounting to 2,033 thousand euros relates to obligations arising mainly from claims and litigation.

The 450 thousand euros allocated in 2012 related to a lawsuit between Enagás, S.A. and Acotel, S.A. due to the breach of contractual agreements. The parties reached an agreement in 2013.

**13.2 Contingencies**

It is worth mentioning that there was a contingent liability for Enagás, S.A. at 31 December 2013 for the balances receivable from the gas suppliers for the freight tax regulated by article 24 of Law 48/2003 (see Note 10).

**14.- Financial liabilities (non-current and current)**

**14.1 Non-current financial liabilities**

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The breakdown of "Non-current financial liabilities" at year-end 2013 and 2012 is as follows:

Category \ Class	Non-current financial instruments					
	Bank borrowings and finance leases		Derivatives and other financial liabilities		Total	
	2013	2012	2013	2012	2013	2012
<b>Accounts payable</b>	987,746	75,000	839	1,079	988,585	76,079
<b>Derivatives</b>	-	-	809	-	809	-
<b>Total</b>	<b>987,746</b>	<b>75,000</b>	<b>1,648</b>	<b>1,079</b>	<b>989,394</b>	<b>76,079</b>

The table below shows a breakdown, by maturity, of payables classified as "Bank borrowings and finance leases" and "Derivatives":

**2013**

	2015	2016	2017	2018 and beyond	Total
<b>Bank borrowings</b>	20,000	32,500	61,700	873,546	987,746
<b>Derivatives</b>	809	-	-	-	809
<b>Other</b>	839	-	-	-	839
<b>Total</b>	<b>21,648</b>	<b>32,500</b>	<b>61,700</b>	<b>873,446</b>	<b>989,394</b>

**2012**

	2014	2015	2016	2017 and beyond	Total
<b>Bank borrowings</b>	75,000	-	-	-	75,000
<b>Other</b>	1,079	-	-	-	1,079
<b>Total</b>	<b>76,079</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>76,079</b>

At 31 December 2013, the Company had undrawn credit facilities with a limit of 1,525 million euros (in 2012 it had credit facilities with a limit of 701 million, 523 million euros of which had not been drawn down). The Company also had undrawn loans amounting to 110 million euros (110 million euros in 2012).

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

The average rate of bank borrowings in euros in 2013 was 1.76% (3.16% in 2012). The Company has no foreign currency debt.

The Directors consider that the fair value of the bank borrowings and other obligations at 31 December 2013 does not differ significantly from their carrying amount. The sensitivity of that fair value to fluctuations in interest rates is as follows:

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	Millions of euros			
	Change in interest rates			
	2013		2012	
	0.25%	-0.25%	0.25%	-0.25%
Change in fair value of borrowings	11.2	-11.4	14.4	-14.6

Lastly, derivatives and other financial liabilities classified as accounts payable include the recognition by Enagás, S.A. in 2013 and 2012 of 15 thousand euros and 255 thousand euros, respectively, in connection with long-term payables to non-current asset suppliers.

At 31 December 2013 and 2012, there were no issuances, repurchases, or repayments of debt securities or other issues guaranteed by Enagás, S.A.

Financing highlights in 2013 include:

- The change in the balance of accounts payable in 2013 is due mainly to the early repayment of a loan amounting to 75 million euros and the transfer of the EIB debt from Enagás Transporte, S.A.U. to Enagás, S.A. in December for a total of 1,045,714 thousand euros (990,000 thousand euros non-current and 55,714 thousand euros current). The balance of derivatives at 31 December 2013 relates to the derivatives associated with the debt transferred (see Note 15).

Following approval of this transfer, an intra-group loan was entered into between both companies (see Note 8.2).

- Enagás Financiaciones, S.A.U. announced a Consent Solicitation in respect of its bond issue maturing in 2017 and secured by Enagás S.A. and Enagás Transporte, S.A.U. to eliminate the guarantee granted by the latter in order to simplify the Group's financial structure.
- On 12 December 2013, Enagás, S.A. entered into a financing agreement for a total of 1.2 billion euros with a term of five years. The transaction, entered into under a Club Deal arrangement, allows the Enagás Group's liquidity and financial structure to be optimised. The financial institutions that participated in this transaction are: BBVA, Banco Santander, Barclays, BNP Paribas, Caixabank, Citibank, Mediobanca, Natixis, Société Générale, Crédit Agricole, Intesa San Paolo, JPMorgan and Mizuho.

On 26 April 2013, Enagás Financiaciones, S.A.U. renewed the Euro Medium Term Note (EMTN) programme for 2 billion euros, which was listed on the Luxembourg Stock Exchange in 2012, with Enagás, S.A. acting as the guarantor.

At 15 January 2013, Enagás Financiaciones S.A.U., issued 50 million euros at 2 years, which was paid on 29 January 2013. This issue serves as a guarantee for Enagás S.A. and the funds were allocated to the ordinary operations of the Enagás Group company.

## **14.2 Current financial liabilities**

The breakdown of current financial liabilities at year-end 2013 and 2012 is as follows:

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Class  Category	Current financial instruments							
	Bank borrowings and finance leases		Bonds and other marketable securities		Derivatives and other financial liabilities		Total	
	2013	2012	2013	2012	2013	2012	2013	2012
<b>Accounts payable</b>	58,384	104,244	280,944	245,852	22	(234)	339,350	349,862
<b>Derivatives</b>	-	-	-	-	2,989	-	2,989	-
<b>Total</b>	<b>58,384</b>	<b>104,244</b>	<b>280,944</b>	<b>245,852</b>	<b>3,011</b>	<b>(234)</b>	<b>342,339</b>	<b>349,862</b>

The change in the balance of accounts payable in 2013 is mainly due to the repayment of the loan amounting to 100 million euros and the transfer of the EIB debt from Enagás Transporte, S.A.U. to Enagás, S.A. in December (see Note 14.1).

On 26 April 2013, Enagás, S.A. renewed the Euro Commercial Paper (ECP) programme for up to 1 billion euros, which was listed on the Irish Stock Exchange in 2011. Banco Santander is the programme arranger and will act as dealer along with another ten designated dealer banks. At 31 December 2013, the Group had drawn down 280,944 thousand euros under the programme (246 million at 31 December 2012).

The balance of derivatives at 31 December 2013 relates to the valuation of the derivatives associated with the debt transferred (see Note 15).

**14.3 Borrowings from Group companies, jointly controlled entities and associates**

The breakdown of "Non-current borrowings from Group companies and associates" at year-end 2013 and 2012, including the balance of the loans granted to Enagás, S.A. by the other Group companies, is as follows:

	Thousands of euros	
	2013	2012
Enagás Financiaciones, S.A.U.	1,211,786	1,163,261
Enagás-Altamira, S.L.U.	-	6,393
<b>Total</b>	<b>1,211,786</b>	<b>1,169,654</b>

In 2013 and 2012, the average rate for the loan received from Enagás Financiaciones, S.A.U. was 3.71% and 4.25%, respectively, and the loan received from Enagás-Altamira, S.L.U., which was repaid in 2013, was 2.58% and 3.89%, respectively. The detail by maturity is as follows:

**2013**

	2015	2016	2017	2018 and beyond	Total
<b>Loans and accounts payable</b>	49,870	399,688	752,346	9,882	1,211,786
<b>Total</b>	<b>49,870</b>	<b>399,688</b>	<b>752,346</b>	<b>9,882</b>	<b>1,211,786</b>

**2012**

	2014	2015	2016	2017 and beyond	Total
<b>Loans and accounts payable</b>	10,000	6,393	400,312	752,949	1,169,654
<b>Total</b>	<b>10,000</b>	<b>6,393</b>	<b>400,312</b>	<b>752,949</b>	<b>1,169,654</b>

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The breakdown of "Current payables to Group companies and associates" at year-end 2013 and 2012, including mainly interest and short-term loans granted to Enagás, S.A. by other Group companies, is as follows:

	Thousands of euros	
	2013	2012
Enagás Financiaciones, S.A.U.	17,890	8,813
Enagás Transporte, S.A.U.	2,003	-
Enagás GTS, S.A.U.	2,797	-
Enagás Internacional, S.L.U.	286	-
Enagás - Altamira, S.L.U.	36	-
<b>Total</b>	<b>23,012</b>	<b>8,813</b>

## 15.- Derivative financial instruments

The Company uses derivative financial instruments to hedge its exposure to business, operating and cash flow risks. Specifically, the Company arranged certain interest rate swaps (IRS) under market conditions in the course of 2013

The Company has met the requirements set out in Note 4.4.4 regarding the measurement bases for financial instruments to qualify as hedges. Specifically, they have been formally designated as hedges, and they have been tested for effectiveness.

These instruments are offset and settled by differences, whereby the actual risk for Enagás, S.A. arises from the net position and not from the amount contracted for.

The fair value of these hedge derivatives at 31 December 2013 was as follows:

### 2013

Instrument	Classification	Type	Notional amount (thousands of euros)	Maturity	Fair value (thousands of euros)	
					Assets	Liabilities
Interest rate swap	Cash flow hedge	Floating to fixed	200,000	June 2015	-	2,339
Interest rate swap	Cash flow hedge	Floating to fixed	150,000	December 2014	-	1,459
<b>Total</b>			<b>350,000</b>		-	<b>3,798</b>

In respect of cash flow hedges, the table below provides the schedule of years in which the cash flows hedged will occur:

Notional amount (thousands of euros)	Currency	Maturity	Total	2014	2015
200,000	Euros	June 2015	2,339	1,530	809
150,000	Euros	December 2014	1,459	1,459	-
<b>350,000</b>			<b>3,798</b>	<b>2,989</b>	<b>809</b>

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The financial assets carried in the accompanying financial statements at fair value break down as follows, in accordance with the fair value calculation method:

	Level 1	Level 2	Level 3	Total
<b>Hedging derivatives</b>	-	3,798	-	3,798
<b>Total</b>	-	<b>3,798</b>	-	<b>3,798</b>

Level 1 inputs: Quoted prices in active markets for identical assets.

Level 2 inputs: On the basis of quoted prices in active markets for similar financial assets or other valuation techniques using observable market data.

Level 3 inputs: On the basis of inputs other than observable market data.

**16.- Trade and other payables**

	<b>Balance at 31.12.13</b>	<b>Balance at 31.12.12</b>
Suppliers	13,906	19,884
Suppliers - Group companies and associates	5,818	36,830
Other payables	1,319	9,062
Payables to employees	3,249	2,276
Current tax liabilities (Note 17.1)	8,127	100
Other payables to public authorities (Note 17.1)	23,961	19,609
<b>Total</b>	<b>56,380</b>	<b>87,761</b>

The detail of "Current payables to suppliers - Group companies and associates", the balance of which at 31 December 2013 is 5,818 thousand euros, is as follows:

- Enagás Transporte, S.A.U., 1,114 thousand euros.
- Enagás GTS, S.A.U., 3,431 thousand euros.
- Enagás Financiaciones, S.A.U., 900 thousand euros.
- Enagás Internacional, S.L.U., 373 thousand euros.

"Suppliers" corresponds to amounts owed for the purchase of materials by and services rendered to Enagás, S.A., which are recognised under "External services" and "Property, plant and equipment".

As a result of the entry into force of Spanish Law 15/2010, laying down measures to combat late payment in commercial transactions, Enagás, S.A. amended the commercial transaction payment terms of its supplier contracts to bring them into line with the new law.

The disclosures required under additional provision three of Spanish Law 15/2010, of 5 July, are as follows:

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	Payments made and payments outstanding at year-end			
	2013		2012	
	Amount	%	Amount	%
Paid within the legal term	73,636	83.24	285,737	62.99
Other	14,831	16.76	167,909	37.01
<b>Total payments for the year</b>	<b>88,467</b>	<b>100</b>	<b>453,646</b>	<b>100</b>
Weighted average payment days	57.16		10.97	
Late payments which at year-end were outstanding by more than the legal limit	1,239		503	

The figures shown in the table above regarding supplier payments refer to payments of a commercial nature owed to suppliers of goods and services so that they include data relating to the items comprising "Trade and other payables" within current liabilities on the balance sheet.

The weighted average term by which payments are overdue was calculated by dividing the sum of the products of each of the payments made to suppliers during the year later than the stipulated legal term and the number of days by which this term was surpassed (numerator) and the total amount of payments made during the year later than the stipulated legal term (denominator).

With regard to "Late payments which at year end were outstanding by more than the legal limit", totalling 1,239 thousand euros in 2013 (503 thousand euros at year-end 2012), it should be noted that 203 thousand euros (189 thousand euros at year-end 2012) is due to payments blocked by the Company on the basis that the related supplier had failed to meet one or more of their contractual obligations or relating to performance withholdings not due or sums withheld for legal purposes.

The maximum payment term applicable to the Company in 2013 under Spanish Law 3/2004, of 29 December, establishing measures to combat late payments in business transactions, is approximately 60 days. To calculate the sums past due by more than this term, management included all invoices outstanding as per the underlying contractual terms, including those contracts establishing shorter payment terms than the legally-stipulated maximum.

## **17.- Taxation**

### **17.1 Current balances with the tax authorities**

The composition of current balances with the tax authorities is as follows:

#### **Tax receivable**

	<b>2013</b>	<b>2012</b>
Tax refunds receivable	6,191	18,494
VAT refundable	832	-
<b>Total</b>	<b>7,023</b>	<b>18,494</b>



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**Tax payable**

	<b>2013</b>	<b>2012</b>
Tax withholdings payable	22,296	18,892
Income tax payable	8,127	100
VAT payable	1,243	304
Social security payable	422	413
<b>Total</b>	<b>32,088</b>	<b>19,709</b>

In 2013 Enagás, S.A. paid 185,265 thousand euros on account of income tax (56,670 thousand euros in 2012). As mentioned in Note 4.7, Enagás, S.A. acts as the Parent of the tax group and, therefore, the payments on account made in 2013 relate to the amount payable by the tax group.

The balance of tax refunds receivable relates basically to the balance receivable for 2012 income tax. In 2013 an income tax refund corresponding to 2011 for 15,433 thousand euros was received.

**17.2 Income tax**

The Company has filed consolidated tax returns since 1 January 2013 in conjunction with several Group companies (see Note 4.7), which means that the results of the tax group and the tax credits and tax relief are calculated on an aggregate basis.

Income tax is calculated on the basis of the Group's accounting profit/loss as determined by application of generally accepted accounting principles, which does not necessarily coincide with the Group's taxable profit/tax loss.

**17.3 Reconciliation of accounting profit and taxable income**

The reconciliation of accounting profit and taxable income is as follows:

**2013**

	<b>Thousands of euros</b>		
	Increases	Decreases	Total
<b>Accounting profit, before tax</b>	<b>377,661</b>		<b>377,661</b>
<b>Permanent differences:</b>			
Other items (foreign fines and taxes)	186	-	186
Donations	953	-	953
<b>Temporary differences:</b>			
Arising in the current year:			
Depreciation deduction limit R.D.L. 16/2012	5,034	-	5,034
Employee benefits provision	-	(263)	(263)
Provisions for litigation	2,164	-	2,164
Trade allowances	2,500	-	2,500
Arising in prior years:			
Unrestricted depreciation regimes, Law 4/2008 and Law 13/2010	1,016	-	1,016
Provisions for litigation	-	(450)	(450)
<b>Taxable profit</b>	<b>389,514</b>	<b>(713)</b>	<b>388,801</b>

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**2012**

	Thousands of euros		
	Increases	Decreases	Total
<b>Accounting profit, before tax</b>	<b>288,057</b>		<b>288,057</b>
<b>Permanent differences:</b>			
Segregated profit	234,850		234,850
Other items (foreign fines and taxes)	331	-	331
Donations	804	-	804
<b>Temporary differences:</b>			
Arising in the current year:			
Unrestricted depreciation regimes, Law 4/2008 and Law 13/2010	-	(55,171)	(55,171)
Employee benefits provision	3,043	-	3,043
Provisions for litigation	650	-	650
Arising in prior years:			
Unrestricted depreciation regimes, Law 4/2008 and Law 13/2010	21,291	-	21,291
Provisions for contingencies and expenses	-	(4,954)	(4,954)
<b>Taxable profit</b>	<b>549,026</b>	<b>(60,125)</b>	<b>488,901</b>

**17.4 Taxes recognised in equity**

In 2012 and as a result of the corporate spin-off, Enagás, S.A. transferred the taxes recognised in equity relating to the transport business to Enagás Transporte, S.A.U. and, therefore, no tax was recognised in equity in 2013. The breakdown of taxes recognised directly in equity in 2013 is as follows:

**2013**

	Thousands of euros		
	Increases	Decreases	Total
<b>Current tax:</b>			
<b>Total current tax</b>	-	-	-
<b>Deferred tax:</b>			
Arising in the current year:			
Measurement of other financial assets	1,139	-	1,139
<b>Total deferred tax</b>	<b>1,139</b>	-	<b>1,139</b>
<b>Total tax recognised directly in equity</b>	<b>1,139</b>	-	<b>1,139</b>

**17.5 Reconciliation of accounting profit and income tax expense**

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

	2013	2012
<b>Accounting profit, before tax</b>	<b>377,661</b>	<b>288,057</b>
Tax rate of 30%	113,298	86,417
<b>Impact of permanent differences</b>	<b>342</b>	<b>340</b>
<b>Deductions:</b>		
International double taxation relief	(110,128)	(84,001)
Investment in R&D and other	(2,072)	(1,584)
Donations	(334)	(281)
<b>Adjustments to income tax</b>	<b>(2,914)</b>	<b>(19)</b>
<b>Total tax expense recognised in the income statement</b>	<b>(1,808)</b>	<b>872</b>

### 17.6 Breakdown of income tax expense

The breakdown of income tax expense is as follows (in thousands of euros):

	2013	2012
<b>Current tax:</b>		
Continuing operations	4,107	(9,651)
Discontinued operations	-	-
<b>Deferred tax:</b>		
Continuing operations	(3,001)	10,542
Discontinued operations	-	-
<b>Adjustments to income tax</b>		
Continuing operations	(2,914)	(19)
Discontinued operations	-	-
<b>Total tax expense</b>	<b>(1,808)</b>	<b>872</b>

### 17.7 Deferred tax assets recognised

The detail of this heading at year-end 2013 and 2012 was as follows (in thousands of euros):

	2013	2012
<b>Temporary differences (deferred tax assets):</b>		
Provision for remuneration	4,075	4,470
Provisions for litigation	649	135
Trade allowances	750	-
Derivatives	1,139	-
Depreciation deduction limit R.D.L. 16/2012	1,511	-
<b>Total deferred tax assets</b>	<b>8,124</b>	<b>4,605</b>

These deferred tax assets were recognised on the balance sheet since the Company's directors consider that, based on the best estimates of future results, it is likely that these assets will be recovered.

Article 7 of Law 16/2012, of 27 December, adopting several fiscal measures designed to consolidate state finances and boost economic activity, introduced restrictions over the depreciation or amortisation that can be deducted for income tax purposes. This restriction provides that for the depreciation and amortisation of property, plant and equipment, intangible assets and investment property for tax periods beginning in 2013 and 2014, for those entities that do not comply with the requirements established in sections 1, 2 or 3 of article 108 of the revised Corporation Tax Act, up to 70% of that which

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would have been tax deductible had that percentage not been applied will be deducted from taxable profit in accordance with sections 1 and 4 of article 11 of the Law. However, amortisation/depreciation for accounting purposes that is not tax deductible may be deducted on a straight-line basis for a period of 10 years or over the useful life of the asset as from the first tax period that begins in 2015. Based on this legislation, the deferred tax asset created in this connection in 2013 amounted to 1,511 thousand euros, equivalent to an asset base of 5,034 thousand euros.

The Company does not have any deferred tax assets not recognised on the accompanying balance sheet.

### 17.8 Deferred tax liabilities

The detail of this heading at year-end 2013 and 2012 was as follows (in thousands of euros):

	2013	2012
<b>Deferred tax liabilities:</b>		
Accelerated depreciation	427	427
Unrestricted depreciation	14,041	14,480
Other	165	132
<b>Total deferred tax liabilities</b>	<b>14,633</b>	<b>15,039</b>

In 2009 and 2010, Enagás, S.A. availed itself of the unrestricted depreciation tax incentive tied to headcount protection, enacted under Law 4/2008, of 23 December. 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.

Likewise, in 2011 the Company availed itself of the unrestricted depreciation tax incentive provided for in Royal Decree 13/2010, of 3 December, extending the unrestricted depreciation regime for new investments in fixed assets attached to core business activities and waiving the headcount protection obligations. The timeline for applying this tax break was also extended until the financial year 2015.

On 31 March 2012, Royal Decree 12/2012 abolished the unrestricted depreciation regime for new investments as of that date. In any case, the amounts pending application on investments made up to 31 March 2012 may be applied to a limit of 40% of the prior taxable income for investments open to taxpayers in 2009 and 2010, and to a limit of 20% of the prior taxable income for investments in 2011 and the first quarter of 2012.

As a result, the deferred tax generated in this regard by Enagás, S.A. in 2012 totalled 16,551 thousand euros on a base of 55,171 thousand euros. In 2013 a total of 439 thousand euros was applied, of which 305 thousand euros correspond to 2013 and 134 thousand euros for adjustments in 2012.

### 17.9 Years open for inspection and tax audits

In accordance with current legislation, tax returns cannot be considered definitive until they have been inspected by the tax authorities or the inspection period of four years has prescribed.

As of year-end 2013, Enagás, S.A. has open to inspection all applicable tax returns from 2009 to 2013 with the exception of import VAT, the returns of which are open to review from 2010 to 2013, and the common external tariff, which is open to review for 2011, 2012 and 2013.

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The Company's directors consider that all applicable taxes have been duly paid so that even in the event of discrepancies in the interpretation of prevailing tax legislation with respect to the treatment applied, the resulting potential tax liabilities, if any, would not have a material impact on the accompanying financial statements.

### 18.- Income and expenses

#### 18.1 Revenue

The Company conducts most of its business in the national market, and the distribution of its revenue in 2013 and 2012, by business activity, is as follows:

<b>Business</b>	<b>2013</b>	<b>2012</b>
<b>Services rendered</b>	<b>164,669</b>	<b>93,503</b>
Services to Group companies and other related parties	164,669	93,203
Services to third parties	-	300
<b>Dividend income from Group companies and associates</b>	<b>367,094</b>	<b>280,004</b>
<b>Total</b>	<b>531,763</b>	<b>373,507</b>

The dividends received in 2013 include 311,129 thousand euros and 53,686 thousand euros relating to the interim dividend for 2013 and the final dividend for 2012, respectively, received from Enagás Transporte, S.A.U., and 2,279 thousand euros relating to the interim dividend for 2013 from Enagás-Altamira, S.L.U.

It is worth noting that income from marketable securities was calculated by using the effective interest method.

#### 18.2 Procurements

The consumption of raw materials is accounted for by purchases of other gas-related items, such as odourisation equipment, spare parts, gases and oils, used in the research and development centre amounting to 33 thousand euros and 276 thousand euros at 31 December 2013 and 2012, respectively.

#### 18.3 Social Security and other benefits

Details of employee benefits expense in 2013 and 2012 are as follows:

	<b>2013</b>	<b>2012</b>
Wages and salaries	25,124	23,910
Termination benefits	3,996	1,099
Social security	4,378	4,091
Other employee benefit expenses	6,833	5,886
Contributions to external pension funds	806	839
	<b>41,137</b>	<b>35,825</b>

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It should be noted that the workforce underwent restructuring in 2013, and this resulting in termination agreements being signed with 6 employees 62 years of age or older. The breakdown of "Social Security and other benefits" in 2013 and 2012 is as follows:

	<b>2013</b>	<b>2012</b>
<b>Social Security and other benefits:</b>		
Social security	4,377	4,091
Contributions to pension plans	1,417	3,711
Other employee benefits	6,223	3,014
<b>Total</b>	<b>12,017</b>	<b>10,816</b>

The contributions made by the company to the pension plan in this connection amounted to 806 thousand euros in 2013 (839 thousand euros in 2012), recognised under "Employee benefits expense" in the accompanying income statement.

**18.4 Finance revenue and costs**

The breakdown of finance revenue and costs is as follows:

<b>Thousands of euros</b>	<b>2013</b>	<b>2012</b>
Other interest and finance revenue	15,954	29,065
<b>Finance revenue</b>	<b>15,954</b>	<b>29,065</b>
Finance and similar costs	(78)	(3,106)
Interest on loans	(52,955)	(20,111)
<b>Finance costs</b>	<b>(53,033)</b>	<b>(23,217)</b>
<b>Change in fair value of financial instruments</b>	-	-
<b>Exchange differences</b>	<b>(7,500)</b>	<b>(839)</b>
<b>Impairment losses and gains (losses) on disposal of financial instruments</b>	-	-
<b>Net finance cost</b>	<b>(44,579)</b>	<b>5,009</b>

It should be noted that expenses for interest on loans were calculated by using the effective interest method.

**19.- Related party transactions and balances**

**19.1 Related party transactions**

The Group's "related parties", in addition to subsidiaries, associates and jointly controlled entities, are considered to be "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 as established in Order EHA/3050/2004, of 15 September, and CNMV Circular 1/2008, of 30 January.

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Below is a breakdown of the related party transactions of Enagás, S.A. in 2013 and 2012, 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.

**2013**

Income and expense	Thousands of euros				
	31-12-2013				
	Significant shareholders	Directors and senior management	Group employees, companies or entities	Other related parties	Total
<b>Expenses:</b>					
Finance costs	78	-	44,310	103	<b>44,491</b>
Services received	-	-	1,744	1,684	<b>3,428</b>
Other expenses	-	1,046	-	24	<b>1,070</b>
<b>Total expenses</b>	<b>78</b>	<b>1,046</b>	<b>46,054</b>	<b>1,811</b>	<b>48,989</b>
<b>Income:</b>					
Finance revenue	-	-	44,917	2,069	<b>46,986</b>
Dividends received	-	-	367,094	-	<b>367,094</b>
Services rendered	-	-	119,738	-	<b>119,738</b>
<b>Total income</b>	<b>-</b>	<b>-</b>	<b>531,749</b>	<b>2,069</b>	<b>533,818</b>

**2012**

Income and expense	Thousands of euros				
	31-12-2012				
	Significant shareholders	Directors and senior management	Group employees, companies or entities	Other related parties	Total
<b>Expenses:</b>					
Finance costs	70	-	8,991	13	<b>9,074</b>
Services received	-	-	800	2,584	<b>3,384</b>
Other expenses	-	1,003	-	-	<b>1,003</b>
<b>Total expenses</b>	<b>70</b>	<b>1,003</b>	<b>9,791</b>	<b>2,597</b>	<b>13,461</b>
<b>Income:</b>					
Finance revenue	1,219	-	-	6,216	<b>7,435</b>
Dividends received	-	-	280,004	-	<b>280,004</b>
Services rendered	-	-	93,556	19	<b>93,575</b>
<b>Total income</b>	<b>1,219</b>	<b>-</b>	<b>373,560</b>	<b>6,235</b>	<b>381,014</b>

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**2013**

Other transactions	Thousands of euros			
	31-12-2013			
	Significant shareholders	Group employees, companies or entities	Other related parties	Total
Financing agreements: loans and capital contributions (lender)	-	2,665,330	-	<b>2,665,330</b>
Financing agreements: loans and capital contributions (borrower)	-	1,231,678	100,000	<b>1,231,678</b>
Guarantees and sureties received	1,017	-	-	<b>1,017</b>
Guarantees and sureties extended	-	1,243,790	-	<b>1,243,790</b>
Dividends and other profit paid out	50,992	-	-	<b>50,992</b>
Consolidated income tax payable	-	3,120	-	<b>3,120</b>
Consolidated income tax receivable	-	196,316	-	<b>196,316</b>

**2012**

Other transactions	Thousands of euros			
	31-12-2012			
	Significant shareholders	Group employees, companies or entities	Other related parties	Total
Financing agreements: loans and capital contributions (lender)	-	716,910	-	<b>716,910</b>
Financing agreements: loans and capital contributions (borrower)	17	1,169,654	755	<b>1,170,426</b>
Guarantees and sureties received	1,641	-	3,709	<b>5,350</b>
Dividends and other profit paid out	37,236	-	-	<b>37,236</b>

**19.2 Director and senior management remuneration**

The remuneration received in 2013 and 2012 by the members of the Board of Directors and senior management of Enagás, S.A., broken down by item, was as follows:

**2013**

	Salaries	Attendance fees	Other	Pension plans	Insurance premiums	Termination benefits
<b>Directors</b>	1,888	1,046	77	10	79	-
<b>Senior management<sup>1 2</sup></b>	1,609	-	74	42	54	2,122
<b>Total</b>	<b>3,497</b>	<b>1,046</b>	<b>151</b>	<b>52</b>	<b>133</b>	<b>2,122</b>

<sup>1</sup> Does not include the remuneration of the Director of Operations and TSM or of the General Manager of Infrastructures and TPA, which were included in the subsidiaries Enagás GTS, S.A.U. and Enagás Transporte, S.A.U., respectively.

<sup>2</sup> Senior management are covered by the mixed group insurance policy covering pension obligations. 141 thousand euros of the total premium paid in 2013 was for senior management.



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**2012**

	Salaries	Attendance fees	Other	Pension plans	Insurance premiums
<b>Directors</b>	1,622	1,004	67	10	72
<b>Senior management<sup>1</sup></b>	1,420	-	60	45	56
<b>Total</b>	<b>3,042</b>	<b>1,004</b>	<b>127</b>	<b>55</b>	<b>128</b>

<sup>1</sup> Does not include the remuneration of the Director of Operations and TSM or of the General Manager of Infrastructures and TPA, which were included in the subsidiaries Enagás GTS, S.A.U. and Enagás Transporte, S.A.U., respectively.

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

<b>DIRECTORS</b>	<b>Thousands of euros</b>	
	<b>2013</b>	<b>2012</b>
Antonio Llardén Carratalá (Executive Director) <sup>1</sup>	1,670	1,667
Rosa Rodríguez Díaz	44	-
Marcelino Oreja Arburúa <sup>2</sup>	423	103
Sagane Inversiones, S.L. (Proprietary Director)	-	37
Bilbao Bizkaia Kutxa / Kartera 1 (Proprietary Director)	-	56
Sociedad Estatal de Participaciones Industriales (Proprietary Director)	76	76
Sultan Hamed Khamis Al Burtamani	37	45
Peña Rueda, S.L. Unipersonal (Proprietary Director)	-	32
Jesús David Álvarez Mezquíriz (Independent Director)	72	64
Dionisio Martínez Martínez (Independent Director) <sup>3</sup>	113	81
José Riva Francos (Independent Director)	77	81
Ramón Pérez Simarro (Independent Director)	72	76
Martí Parellada Sabata (Independent Director)	76	76
Teresa García-Milà Lloveras (Independent Director)	76	76
Miguel Angel Lasherías Merino (Independent Director)	76	71
Luis Javier Navarro Vigil (External Director)	76	76
Isabel Sanchez García (Independent Director)	72	76
Jesús Máximo Pedrosa Ortega	51	-
<b>Total</b>	<b>3,011</b>	<b>2,693</b>

<sup>1</sup> In 2013, the Executive Chairman received fixed pay of 960 thousand euros and a bonus of 576 thousand euros, as approved by the Board; he also received Board meeting attendance fees of 64 thousand euros and other in-kind compensation totalling 70 thousand euros, making for an overall sum of 1,670 thousand euros. He is also the beneficiary of a life insurance policy for which the premium for the year was 78 thousand euros, while 10 thousand euros were contributed to his pension plan. The Group has outsourced its pension obligations vis-a-vis its directors by means of a mixed group insurance policy. In addition to pension commitments, the cover provides benefits in the event of widowhood, death or disability. The Executive Chairman is one of the beneficiaries covered by this policy. The total premium paid during the year in respect of the Executive Chairman was 197 thousand euros.

<sup>2</sup> In 2013, the Chief Executive Officer received fixed pay of 300 thousand euros and a bonus of 52 thousand euros, as approved by the Board; he also received Board meeting attendance fees totalling 64 thousand euros and other in-kind compensation totalling 7 thousand euros. The CEO is also part of the group of beneficiaries covered by the mixed-benefit pension plan described above and the premium paid during the year in respect of the CEO was 100 thousand euros. The pension plan grace period is currently applicable for the CEO and therefore no plan contributions have been made.

<sup>3</sup> The amount received by Mr. Martínez in 2013 includes 16 thousand euros relating to remuneration for carrying out the duties of Independent Coordinator Director in 2012, in accordance with that agreed upon at the General Shareholder's Meeting held on 30 March 2012, and which was received this past year along with the remuneration in this connection for 2013.

**19.3 Interests in companies engaging in similar activities as the Company and activities performed by the Directors as independent professionals or as employees**

In keeping with the provisions of article 229 et seq. of the Spanish Corporate Enterprises Act, these notes include disclosures 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 Group companies engaged in the transport, regasification, distribution or supply of natural gas, as regulated by Hydrocarbon Law 34/1998.

Ownership interests in companies that have an identical, similar or complementary corporate purpose that have been reported to Enagás, S.A. by directors are as follows:

**2013**

DIRECTOR	COMPANY	No. of SHARES	% SHAREHOLDING
Luis Javier Navarro Vigil	BP, PLC	712	0.000%
Jesús Máximo Pedrosa Ortega	IBERDROLA	3,382	0.000%
Jesús Máximo Pedrosa Ortega <sup>4</sup>	IBERDROLA	7,472	0.000%

Oman Oil Holdings Spain, S.L.U., the Enagás shareholder which proposed appointing Sultan Hamed Khamis Al Burtamani as proprietary director of Enagás, holds 7.5% of the indirect shareholding in SAGGAS-Planta de Regasificación de Sagunto, S.A. through its direct investee Infraestructura de Gas.

Positions held or duties performed by Group directors at companies whose corporate purpose is identical, similar or complementary were disclosed to Enagás, S.A. at 31 December 2013 are as follows:

**Positions of directors in companies engaging in similar activities**

**2013**

DIRECTOR	COMPANY	POSITION
Luis Javier Navarro Vigil	TLA, S. de R.L. de C.V.	Director
Sultan Hamed Khamis Al Burtamani	SAGGAS-Planta de Regasificación de Sagunto, S.A.	Director
	Infraestructuras de Gas	Director
	Oman Oil Company, S.A.O.C.	Director of Business Development
Miguel Ángel Lasheras Merino	Sociedad Promotora Bilbao Gas Hub, S.A.	Managing Director of the Iberian Gas Hub Project

No activities that are identical, similar or complementary to those of Enagás, other than those listed above, are carried out by its directors as independent professionals or as employees.

Pursuant to CNE Resolution of 26 July 2012 (published in the Official State Gazette on 17 August 2012), Enagás Transporte, S.A.U., a company wholly-owned by law by Enagás, S.A., was certified as "transport system operator" for the purposes of article 63 of Hydrocarbon Law 34/1998, of 7 October, and Directive 2009/73/EC. As a result of this designation, persons engaged in the supply or production of natural gas cannot sit on the governing body of Enagás, S.A.

<sup>4</sup> Through Inversiones Asfis as Joint and Several Director with a 60% shareholding.

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Given the attendant conflicts of interest, several former directors of Enagás, S.A. stepped down, while Luis Javier Navarro Vigil certified that he had resigned from the positions that were incompatible with sitting on the Board of Enagás, S.A.

### 20.- Environmental information

Enagás, S.A., as the head of the Enagás Group, endeavours to protect the environment and its biodiversity, to boost energy efficiency, lower its emissions and to promote the responsible use of resources within its environmental management strategy, designed to mitigate its impact on its surroundings.

This documentation, prepared in accordance with the requirements of the UNE EN ISO 14001 standard, is the basis of the Environmental Management System developed and certified by AENOR which ensures compliance with applicable environmental legislation and continual improvement of the environmental record in respect of the regasification plants, underground storage facilities, the facilities for the basic gas pipeline network, the Zaragoza laboratory and Project Management in New Infrastructure Developments.

In 2013, AENOR, a Spanish certification body, issued Environmental Management System audit reports with a positive opinion, concluding that the System has a degree of development and maturity that ensures continuous improvement in this field.

Enagás, S.A. 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 help combat climate change.

The Company also incorporates environmental criteria into its contractor and supplier dealings and takes environmental issues into consideration when it issues tenders for supply of products and services.

Enagás, S.A. did not make any environmental-related investments in the assets of the balance sheet in 2013 or 2012. Environmental expenses incurred by the Group in 2013 totalled 91 thousand euros (82 thousand euros in 2012) and are recorded under "Other operating costs".

Potential contingencies, indemnities and other environmental risks to which the Company is exposed are sufficiently covered by civil liability insurance policies.

Enagás, S.A. did not receive any grants or income in 2013 as a result of its activities relating to the environment.

### 21.- Other disclosures

#### 21.1 Employees

The average number of employees in 2013 and 2012, by professional category, was as follows:

Category	2013	2012
Managers	44	53
Technicians	242	404
Administrative staff	65	101
Manual workers	8	217
<b>Total</b>	<b>359</b>	<b>775</b>

The average number of employees in 2012 included those that were later affected by the corporate spin-off.

At 31 December 2013, the total number of employees was 365 (355 employees in 2012). The distribution of the professional categories by gender was as follows:

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Category	2013		2012	
	Men	Women	Men	Women
Managers	39	8	36	7
Technicians	148	96	148	89
Administrative staff	16	50	16	51
Manual workers	7	1	7	1
<b>Total</b>	<b>210</b>	<b>155</b>	<b>207</b>	<b>148</b>

It should be noted that "Managers" includes the eight men and one woman making up the Group's senior management.

### **21.2 Auditors' fees**

Fees for financial audit and other services performed in 2013 and 2012 by the Company's auditor, Deloitte, S.L., or by a firm in the same group or related to the auditor, were as follows:

Category	2013	2012
	Services provided by the auditor and its related parties	Services provided by the auditor and its related parties
Audit services (1)	143	80
Other assurance services (2)	711	1,045
<b>Total audit and audit-related services</b>	<b>854</b>	<b>1,125</b>
Other services	47	208
<b>Total professional services</b>	<b>47</b>	<b>208</b>

**(1) Audit services:** This heading includes the services provided to complete the bylaw-stipulated audit of the Group's financial statements for 143 thousand euros (80 thousand in 2012), work which encompasses limited reviews of the interim and quarterly consolidated financial statements.

**(2) Other assurance services related to the audit:** Virtually all of this amount corresponds to the work required to review the effectiveness of the internal control over financial reporting systems and other review work performed in connection with the information to be disclosed to the regulatory bodies, mainly the CNMV (the securities markets regulator) and the former National Energy Commission, CNE, which has now been merged into CNMC, the National Markets and Competition Commission.

### **21.3 Greenhouse gas emission allowances**

At 31 December 2013 and 2012, Enagás, S.A. did not have any technical facilities subject to greenhouse gas emissions.

The allowances assigned to the Company in 2012 and valued at 7.09 euros/allowance (the spot price on the first business day of 2012 of RWE Trading GMBH), were transferred to Enagás Transporte, S.A.U. with the facilities that received the respective assignment of allowances.

## **22.- Events after the reporting date**

On 31 January 2014, Enagás, S.A. acted as the guarantor in the agreement that Enagás Internacional, S.L.U. reached to acquire the 22.38% interest that Hunt and Repsol have in the Peruvian company Transportadora de Gas del Perú (TgP). This acquisition is conditional on the remaining existing shareholders not exercising their pre-emption rights. At the time of authorisation for issue of the financial statements, the period during which these shareholders could exercise their rights had not yet elapsed.

With regard to the Consent Solicitation of Enagás Financiaciones, S.A.U., referred to in Note 14.1 of these financial statements, the notarial instrument modifying the terms and conditions was entered in the Madrid Companies Register on 29 January 2014.

No events with a material impact on the financial statements of Enagás, S.A. have occurred between 31 December 2013 and the date of authorising these financial statements for issue.

## **23.- Explanation added for translation to English**

These financial statements are presented on the basis of the regulatory financial reporting framework applicable to the Company (see Note 2). Certain accounting practices applied by the Company that conform with that regulatory framework may not conform with other generally accepted accounting principles and rules.

## **MANAGEMENT REPORT OF ENAGÁS, S.A.**

### **I.- Performance of Enagás, S.A. in 2013**

Since July 2012, Enagás, S.A. has performed its activities as the Parent of the Enagás Group, through investments in the share capital of the companies constituting the Group, and provides assistance and support services to these same companies.

The commitment assumed by the Company in performing these activities is that of creating value for all of its stakeholders.

Net profit rose 32.1% in 2013 to 379,469 thousand euros.

Revenue totalled 531,763 thousand euros.

Investments in 2013 amounted to 16,859 thousand euros (see Notes 5 and 6).

At year end, Enagás, S.A.'s shareholders' equity stood at 2,001,213 thousand euros, and equity totalled 1,998,554 thousand euros.

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

### **II.- Main business risks**

Enagás, 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 potential 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 its business activities, 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, the competition, business plans, strategic decisions, etc.

#### **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 2013, Enagás, S.A. characterised its credit and counterparty risk as acceptable, as it only does business with solvent companies, as corroborated by these companies' external credit ratings.

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Information concerning counterparty risk management is disclosed in Note 8 to the financial statements.

### 3. Financial risk

Financial risk is an assessment of the uncertainty of earnings as a result of adverse fluctuations in financial variables such as interest rates, exchange rates and liquidity.

Financial risk management policy is set out in Note 8 to the financial statements.

### 4. Operational risk

Enagás's operations may give rise to losses of value or losses on account of inadequate processes, human error, equipment failure, computer system failure or as a result of external events.

Enagás, S.A. has identified the following significant operational risks: incidents affecting its infrastructures, equipment and systems; poor quality or interruption of service; suppliers, outsourcing and other agents; business practices and regulatory breaches; workplace health and safety risks; and damage to the environment and to third parties.

Each year, Enagás, S.A. identifies the control activities that allow it adequately and appropriately to respond to these risks. The most notable control activities are: the application of certain internal policies and procedures, the establishment of limits and authorisations, periodic analysis, definition of quality indicators, and quality, risk prevention and environment certificates, etc.

### 5. Criminal liability risk

Article 31 bis of Organic Law 5/2010 of 22 June, which reforms Spain's Criminal Code, introduces criminal liability on the part of legal entities.

Within this context, Enagás, S.A. could be held liable in Spain for crimes committed by its officers and staff in the course of their work and in their own interests if the Company is found to have failed to have exercised sufficient control.

To prevent this risk from materialising, Enagás, S.A. has approved a Criminal Liability Risk Model and has implemented the measures required to prevent corporate crime.

### 6. Reputational risk

Reputational risk refers to any action, event or circumstance that could have either a harmful or beneficial effect on the company's reputation among its stakeholders.

Enagás, S.A. has implemented a reputational risk self-assessment procedure which uses qualitative measurement techniques.

This process contemplates the potential reputational impact that materialisation of any of the risks listed in the model (operational, business, financial and counterparty risk) could have as a result of failing to meet stakeholder expectations and as a result of strictly reputational events arising from the action, interest or opinion of a third party.

Enagás, S.A. has identified as relevant any reputational risk arising in the aftermath of the materialisation of certain risks: operational (bad business practice, leaking of confidential information, external fraud and regulatory and legal breaches), and business (obsolescence of infrastructures, equipment and systems).

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In the process of measuring reputational risk, the domino effect that the materialisation of any criminal liability risk would have on reputational risk is considered relevant.

The management of certain risks strictly defined as reputational stemming from third-party action is also considered to be a key factor.

### **III.- Use of financial instruments**

The Enagás Group's financial management is centralised with the Parent, Enagás, S.A. In February 2008 the Enagás Board of Directors approved an interest rate hedging policy to bring the Company's finance costs into line with the rates structure targeted in the Company's Strategic Plan.

In compliance with this policy, the Group entered into a series of interest rate hedges in the course of 2013. As a result, 72% of the Group's total gross debt was hedged against interest rate increases at 31 December 2013 (82% in 2012).

### **IV.- Outlook**

Enagás, S.A., as the Parent of the Enagás Group, will guarantee the proper functioning of the Spanish gas system and monitor the security of supply, encouraging competitiveness transparently and without discrimination.

Likewise, it will optimise the Spanish gas system coordinating the various players and proposing measures to improve its functioning. It will continue to develop the transport grid and will manage its infrastructures in a manner which is safe, efficient, profitable and committed to the environment.

It will do all of the foregoing in collaboration with the regulators, providing quality service to its customers, creating value for its shareholders and contributing to the sustainable development of the Group.

### **V.- Research and development**

The technological innovation initiatives carried out by Enagás, S.A. in 2013 comprised assessing, developing and testing new gas technologies with the aim of increasing and improving the competitiveness of natural gas in various applications, focusing particularly on projects of strategic value for the Group.

The most significant activities carried out by area in 2013 were:

- a) **Production (LNG).** Further work was carried out on disseminating the "MOLAS" application, to investigate how LNG ages and how its properties change during shipping. In this area, the Group is developing a new technique in order to improve its LNG sampling system to more accurately gauge the quality of the LNG when loading the tanks. It is drawing up engineering plans for a facility to generate electricity by leveraging the spikes in gas emission pressure at the Barcelona plant. The Group has continued the project to investigate new technologies in the small-scale LNG distribution field.
- b) **Transport.** Work has continued on a study regarding the impact on operations of transporting natural gas and moderate amounts of hydrogen through gas pipelines, as well as the possible conversion of surplus hydrogen into methane. A European project was launched to improve the quantitative evaluation of gas leaks in gas transport systems. Studies were also begun to assess the impact of in-network gas flaring. Studies and simulation models were updated to calculate the safety distances between parallel gas pipelines.
- c) **Operation.** The logistics planning and optimisation application (SPOL), which allows all network facilities to be managed by enhancing system performance in general, was substantially modified in order to take into account recent extraordinary operating conditions. Actual operational data were used to confirm that the quality of the gas transported through the gas pipeline network had been accurately determined by means of simulation.
- d) **Safety.** Work proceeded on various projects and studies related to the analysis of the risks involving gas pipelines, LNG plants and underground storage facilities.



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- e) **Metering.** A number of initiatives are under way to enhance the chromatographic and metering techniques of various parts of the natural gas system. Work continued on a number of initiatives for the measurement and determination of dew points and hydrocarbon levels in natural gas in the laboratory as well as in the field. Studies are under way on how to improve the level of uncertainty in laboratories measuring gas flow. Tests are also being carried out to assess the application of measurement systems in regulating and metering stations. Computational flow dynamics (CFD) simulation techniques are being applied in order to enhance the accuracy of metering stations.
- f) **Projects of general interest.** The tri-generation facility was assembled at the Zaragoza Technology Centre to enable the supply of heat, cooling and electricity to the various areas of the new data processing centre, control centre, laboratories and offices.
- g) **Other matters:** The company is carrying out a campaign to contact other energy companies and associations with the aim of spearheading the joint development of R&D activities in order to share know-how.

**VI.- Transactions with treasury shares**

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

**VII.- Corporate Governance Report**

The Corporate Governance Report of Enagás, S.A. is attached to this management report as a separate section.

**VIII.- Additional information**

This additional disclosure is included to comply with article 116 bis of the Securities Market Act [Ley 24/1988].

- a) ***The capital structure, 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 thereto and the percentage of total share capital represented***

The capital structure of the company:

Date of last modification	Share capital (€)	Number of shares	Number of voting rights
03/05/2002	358,101,390.00	238,734,260	238,734,260

All the shares are of the same class.

- b) ***Restrictions on the transfer of securities***

There are no restrictions on the transfer of securities.

- c) ***Significant direct and indirect shareholdings***

Significant shareholdings (excluding directors):

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Name or company name of the shareholder	Number of direct voting rights	Number of indirect voting rights	% of total voting rights
OMAN OIL HOLDINGS ESPAÑA, S.L.U.	0	11,936,702	5,000
KARTERA 1, S.L.	0	11,936,713	5,000
FIDELITY INTERNATIONAL LIMITED	0	4,710,880	1,973
RETAIL OEICS AGGREGATE	0	2,410,274	1,010

(\*) Through:

Name or company 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
KARTERA 1, S.L.	11,936,713	5,000
Total	23,873,415	10,000

Significant shareholdings of directors and information on the board members that hold voting rights (excluding directors):

Name or company name of the shareholder	Number of direct voting rights	Number of indirect voting rights (*)	% of total voting rights
ANTONIO LLARDÉN CARRATALÁ	56,396	0	0.024
MARCELINO OREJA ARBURÚA	1,260	0	0
TERESA GARCÍA MILÁ LLOVERAS	1,500	0	0.001
SULTAN HAMED KHAMIS AL BURTAMANI	1	0	0
DIONISIO MARTÍNEZ MARTÍNEZ	2,010	0	0.001
LUIS JAVIER NAVARRO VIGIL	1,405	7,075	0.004
MARTÍ PARELLADA SABATA	910	0	0
RAMÓN PÉREZ SIMARRO	100	0	0
SOCIEDAD ESTATAL DE PARTICIPACIONES INDUSTRIALES (SEPI)	11,936,713	0	5
<b>TOTAL</b>	<b>12,000,295</b>	<b>7,075</b>	<b>5.03</b>

(\*) Through:

Name or company name of the shareholder	Number of direct voting rights	% of total voting rights
NEWCOMER 2000, S.L.U.	7,075	0.003
Total	7,075	0.003

**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 General Meeting held on 31 October 2007 to bring it in line with the provisions of Law 12/2007 of 2 July.

Law 12/2007 of 2 July, amending Hydrocarbon Law 34/1998, of 7 October, in order to bring it into line with the provisions of 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 Additional Provision Twenty 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 Twenty. Technical system operator.

Enagás, S.A. shall undertake the duties, rights and obligations of technical system operator. (...)

No individual or body corporate may hold a direct or indirect interest in the shareholder structure of the company responsible for technical system management of more than 5% of the share capital or exercise more than 3% of its voting rights. Under no circumstances may such shareholdings 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 operator above 1%. These restrictions shall not apply to direct or indirect shareholdings 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 interest in the shareholding structure, the same individual or body corporate 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, of 28 July.

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 Six of Law 12/2007, of 2 July, provides that during the four months prior to the entry into force of the Law, Enagás, S.A. must bring its bylaws in line with Additional Provision Twenty of Law 34/1998, of 7 October. Transitional Provision Two of Law 12/2007 of 2 July, further prescribes:

"Transitional Provision Two. Technical system operator.

The voting rights that correspond to the shares or other securities held by those persons that have a shareholding in Enagás, S.A., exceeding the maximum percentages indicated in Additional Provision Twenty of Hydrocarbon Law 34/1998, shall be suspended as from the entry into force of this provision.

The Spanish energy regulator may bring all legal actions aimed at ensuring compliance with the limitations imposed by this provision."

In accordance with the aforementioned legal provision, article 6 bis ("Restrictions on shareholdings and the exercise of voting rights") of Enagás, S.A.'s bylaws sets forth the following:

"No individual or body corporate may hold a direct or indirect interest in the shareholder structure of the company responsible for technical system management of more than 5% of the share capital, nor exercise voting rights in such company of over 3%. Under no circumstances may such shareholdings be syndicated. Those parties that operate within the gas sector, including those individuals or bodies corporate that directly or indirectly possess equity holdings in the former of more than 5%, may not exercise voting rights 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 interest in the Company's shareholding structure, the Additional Provision Twenty of Hydrocarbon Law 34/1998 of 7 October, shall apply.

**e) *Agreements between shareholders***

There is no record 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 as a collegiate body, both in and out of court. Its representation shall extend, with no limitation of powers, to all acts embodied in the Company's objects.

The Board of Directors shall be composed of a minimum of six members and a maximum of seventeen, appointed at the General Shareholders' Meeting.

Directors shall be elected by vote. For this purpose, the shares that are voluntarily pooled, to make a share capital that is equal to or greater than the result of dividing the latter by the number of directors, shall be entitled to appoint a number of directors equal to the integer number resulting from that proportion. If this power is exercised, the shares pooled in this way shall not take part in the voting for the appointment of the remaining directors.

A director need not be a shareholder, may step down from office, may have his appointment revoked, and may be re-elected on one or more occasions.

Appointment as director shall take effect upon acceptance of the post.

Persons who are in any of the situations referred to in article 124 of the revised Spanish Companies Act [*Ley de Sociedades Anónimas*] may not be appointed as directors.

**ARTICLE 37.- POSTS.**

## Financial statements at 31 December 2013 Enagás, S.A.

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The Board of Directors will appoint its Chairman and, where applicable, a Deputy Chairman, who shall act as Chairman when necessary. In the absence of a Deputy Chairman, the most senior director in age shall act as Chairman.

The Board of Directors will be responsible for appointing a Secretary, and may also appoint a Deputy Secretary, whose shall act as Secretary when necessary. These officers need not be directors. In the absence of both, the most junior director in age shall act as 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 these 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 these 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 these 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 Corporate Enterprises 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-optation, 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 this period, of Enagás, S.A. or any other within its Group.
- d) Executive directors or senior officers of another company where an executive director or senior officer of Enagás, S.A. is an external director.
- e) Those having material business dealings with Enagás, S.A. or some other in its Group or who have had such dealings in the preceding year, either on their own account or as the significant shareholder, director or senior officer of a company that has or has had such dealings. Business dealings are considered those with suppliers of goods or services, including financial advisory and consultancy services.
- f) Significant shareholders, executive directors or senior officers of an entity that receives significant donations from Enagás, S.A. or its Group, or has done so in the past three years. Mere sponsors of a foundation receiving donations are not included here.
- g) Spouses, or partners maintaining an analogous affective relationship, or close relatives of one of the company's executive directors or senior officers.

- h) Any person not proposed for appointment or renewal by the Appointments and Remuneration Committee.
- i) Those standing in some of the situations listed in a), e), f) or g) above in relation to a significant shareholder or a shareholder with board representation. In the case of the family relations set out in letter g), the limitation shall apply not only in connection with the shareholder but also with his or her proprietary directors in the investee company. Proprietary directors disqualified as such and obliged to resign due to the disposal of shares by the shareholder they represent may only be re-elected as independents once the said shareholder has sold all remaining shares in the company.

A director with shares in the company may qualify as independent, provided he or she meets all the conditions stated in this article and the holding in question is not significant.

#### ARTICLE 10.- TENURE AND CO-OPTION

Directors may hold their post for a period of four years, and may be re-elected. Board members designated by co-optation will discharge their positions until the next General Shareholders' Meeting is held.

#### 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 these 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.

## Financial statements at 31 December 2013 Enagás, S.A.

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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 these 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 order to enable the Ordinary or Extraordinary General Meeting of shareholders validly to resolve to issue bonds, increase or reduce capital, convert, merge or spin-off the Company and, in general, to amend the bylaws in any way, it will be necessary, at first call, that the shareholders in attendance (either in person or represented) hold at least fifty per cent of the share capital with voting rights.

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 members of the Board of Directors who have the power to represent the Company are its Chairman, Antonio Lladen Carratala, to whom the Board of Directors granted the powers that appear in the public deed executed on 9 February 2007 before Notary of Madrid Pedro de la Herran Matorras under number 324 of his protocol and as recorded in the Madrid Companies Registry, 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 at the General Meeting held on 11 May 2007 is currently in force. Its terms are:

"To grant the Board of Directors the broadest powers required by law to increase the Company's share capital, once or several times, within a maximum period of five years from the date of the Meeting, under the terms of article 153.b) of the Spanish Companies Act, up to a maximum of 179 million euros, by issuing new shares, with or without voting rights, with or without a share premium, in exchange for cash, and to establish the terms and conditions of the capital increase and the features of the shares, with the possibility of offering freely new shares unsubscribed within the pre-emptive subscription period(s) and determine, if the shares are not fully subscribed, that capital will be increased only by the amount of the subscriptions made and, accordingly, to redraft the article of the Company bylaws regarding share capital. The Board of Directors was also empowered to disapply pre-emption rights, in full or in part, in accordance with article 159 of the Spanish Companies Act."

**h) *Significant agreements to which the company is a party and which take effect, alter or terminate upon a change of control of the company arising from a takeover bid and the effects thereof except where such disclosure could pose a serious risk to the company. This exception is not applicable when the company is legally obliged to disclose the information.***

No agreements of this kind exist.



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**Enagás, S.A.**

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*i) Agreements between the company and its board members or employees providing for compensation if they resign or are made redundant without valid reason or if their employment relation ends following a takeover bid.*

The Company has an agreement with the Executive Chairman and seven of its officers that include express severance pay clauses.

The clauses in each case are applicable in cases of company termination of the contract, unfair disciplinary dismissal, dismissal for the reasons outlined under article 52 of the Workers' Statute or as decided by the manager citing one of the reasons outlined under article 50 of the Workers' Statute provided the resolution is certified by means of conciliation between the parties, legal judgement, arbitration award, or resolution by a competent administrative body. They are not applicable if the resolution is the result of a unilateral decision made by the manager without just cause.

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

**IX.- Events after the balance sheet date**

On 31 January 2014, Enagás, S.A. acted as the guarantor in the agreement that Enagás Internacional, S.L.U. reached to acquire the 22.38% interest that Hunt and Repsol have in the Peruvian company Transportadora de Gas del Perú (TgP). This acquisition is conditional on the other existing shareholders not exercising their pre-emption rights. At the time of authorisation for issue of the financial statements, the period during which these shareholders could exercise their rights had not yet elapsed.

With regard to the Consent Solicitation of Enagás Financiaciones, S.A.U., referred to in Note 14.1 of these financial statements, the notarial instrument modifying the terms and conditions was entered in the Madrid Companies Register on 29 January 2014.

No events with a material impact on the financial statements of Enagás, S.A. have occurred between 31 December 2013 and the date of authorising these financial statements for issue.

## **Financial statements at 31 December 2013**

### **Enagás, S.A.**

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On 17 February 2014, the Board of Directors of Enagás, S.A. authorised the financial statements and management report for the year ended 31 December 2013, consisting of the accompanying documents, signed and sealed by the Secretary with the Company's stamp, for issue, in accordance with article 253 of the Spanish Corporate Enterprises Act and article 37 of the Code of Commerce.

DECLARATION OF RESPONSIBILITY. For the purposes of article 8.1 b) of Spanish Royal Decree 1632/2007, of 19 October 2007, the undersigned directors state that, to the best of their knowledge, the financial statements, prepared in accordance with applicable accounting principles, provide a fair value of the Company's equity, financial position and results and that the management report includes a fair analysis of the performance and results of the businesses and the situation of the Company, together with the description of the main risks and uncertainties faced. They additionally state that to the best of their knowledge the directors not signing below did not express dissent with respect to the financial statements or management report.

#### **Chairman**

Antonio Llardén Carratalá

#### **Chief Executive Officer**

Marcelino Oreja Arburúa

#### **Directors**

Sultan Al Burtamani

Jesús David Álvarez Mezquíriz

Sociedad Estatal de Participaciones Industriales-SEPI  
(Represented by Federico Ferrer Delso)

Teresa García-Milà Lloveras

Miguel Ángel Lasheras Merino

Dionisio Martínez Martínez

Luis Javier Navarro Vigil

Martí Parellada Sabata

Ramón Pérez Simarro

José Riva Francos

Isabel Sánchez García

Rosa Rodríguez Díaz

Jesús Máximo Pedrosa Ortega

#### **Secretary to the Board**

Rafael Piqueras Bautista