

ENAGÁS, S.A.  
and  
Subsidiaries

Consolidated 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 consolidated financial statements originally issued in Spanish and prepared in accordance with the regulatory financial reporting framework applicable to the Group (see Notes 2 and 34). In the event of a discrepancy, the Spanish-language version prevails.*

Translation of consolidated financial statements originally issued in Spanish and prepared in accordance with the regulatory financial reporting framework applicable to the Group (see Notes 2 and 34). In the event of a discrepancy, the Spanish-language version prevails.

**ENAGÁS, S.A. AND SUBSIDIARIES**  
**CONSOLIDATED BALANCE SHEET AT 31 DECEMBER 2013**  
**(Figures in thousands of euros)**

<u>Assets</u>	Note	12/31/2013	31/12/2012
<b>NON-CURRENT ASSETS</b>		<b>6,136,747</b>	<b>5,977,882</b>
Intangible assets	5	97,354	74,303
Goodwill		35,851	19,153
Other intangible assets		61,503	55,150
Property, plant and equipment	6	5,784,405	5,679,516
Equity-accounted investments	32	165,846	152,341
Investments in subsidiaries and associates	8	14,650	15,688
Other non-current financial assets	8	2,457	14,071
Deferred tax assets	21	72,035	41,963
<b>CURRENT ASSETS</b>		<b>1,073,853</b>	<b>2,105,561</b>
Inventories	9	15,182	13,829
Trade and other receivables	10	699,321	607,473
Other current financial assets	8	2,997	2,227
Other current assets		2,995	2,385
Cash and cash equivalents	11	353,358	1,479,647
<b>TOTAL ASSETS</b>		<b>7,210,600</b>	<b>8,083,443</b>
<hr/>			
<u>Equity and liabilities</u>	Note	12/31/2013	31/12/2012
<b>EQUITY</b>		<b>2,139,375</b>	<b>2,004,784</b>
<b>CAPITAL AND RESERVES</b>		<b>2,118,427</b>	<b>2,014,878</b>
Issued capital	12	358,101	358,101
Reserves	12	1,477,226	1,379,447
Profit for the year		403,183	379,508
Interim dividend	12	(120,083)	(102,178)
<b>NET UNREALISED GAINS (LOSSES) RESERVE</b>	12	<b>7,042</b>	<b>(10,094)</b>
<b>NON-CONTROLLING INTERESTS (EXTERNAL PARTNERS)</b>		<b>13,906</b>	<b>-</b>
<b>NON-CURRENT LIABILITIES</b>		<b>4,320,324</b>	<b>5,210,229</b>
Provisions	14	177,321	175,389
Financial liabilities	15	3,649,289	4,538,270
Non-current borrowings from related parties		5	16
Deferred tax liabilities	21	416,422	422,014
Other non-current liabilities	16	77,287	74,540
<b>CURRENT LIABILITIES</b>		<b>750,901</b>	<b>868,430</b>
Financial liabilities	15	494,305	575,010
Trade and other payables	19	256,596	293,420
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>7,210,600</b>	<b>8,083,443</b>

Notes 1 to 34 in the accompanying financial information are an integral part of the consolidated balance sheet at 31 December 2013

Translation of consolidated financial statements originally issued in Spanish and prepared in accordance with the regulatory financial framework applicable to the Group (see Notes 2 and 34). In the event of a discrepancy, the Spanish-language version prevails.

**ENAGÁS, S.A. AND SUBSIDIARIES**

**CONSOLIDATED INCOME STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2013**

**(Figures in thousands of euros)**

	Note	31.12.2013	31.12.2012
Revenue	22	1,278,603	1,180,059
Revenue from regulated activities		1,235,412	1,140,355
Revenue from deregulated activities		43,191	39,704
Other operating income	22	29,521	18,349
Employee benefits expense	23	(85,518)	(78,987)
Other operating costs	23	(194,519)	(185,114)
Depreciation and amortisation		(342,082)	(315,875)
Impairment losses and gains (losses) on disposal of assets		(17,135)	15
<b>OPERATING PROFIT</b>		<b>668,870</b>	<b>618,447</b>
Finance revenue	24	24,231	37,970
Finance costs	24	(129,886)	(110,998)
Exchange differences (net)	24	(4,894)	(3,657)
Changes in fair value of financial instruments	24	1,074	-
<b>NET FINANCE COST</b>		<b>(109,475)</b>	<b>(76,685)</b>
Share of profit of equity-accounted investees	32	5,610	969
<b>PROFIT BEFORE TAX FROM CONTINUING OPERATIONS</b>		<b>565,005</b>	<b>542,731</b>
Income tax expense	21	(160,749)	(163,223)
<b>PROFIT FOR THE YEAR FROM CONTINUING OPERATIONS</b>		<b>404,256</b>	<b>379,508</b>
<b>PROFIT FOR THE YEAR</b>		<b>404,256</b>	<b>379,508</b>
Result attributable to external partners		(1,073)	-
<b>RESULT ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT</b>		<b>403,183</b>	<b>379,508</b>
<b>BASIC EARNINGS PER SHARE</b>	13	<b>1.69</b>	<b>1.59</b>
<b>DILUTED EARNINGS PER SHARE</b>	13	<b>1.69</b>	<b>1.59</b>

Notes 1 to 34 in the accompanying financial information are an integral part of the consolidated income statement for the year ended 31 December 2013

Translation of consolidated financial statements originally issued in Spanish and prepared in accordance with the regulatory financial reporting framework applicable to the Group (see Notes 2 and 34). In the event of a discrepancy, the Spanish-language version prevails.

**ENAGÁS, S.A. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENT OF RECOGNISED INCOME AND EXPENSE FOR THE YEAR ENDED 31**  
**DECEMBER 2013**  
**Figures in thousands of euros**

	<b>31.12.2013</b>	<b>31.12.2012</b>
<b>CONSOLIDATED PROFIT FOR THE YEAR</b>	<b>404,256</b>	<b>379,508</b>
<b>INCOME AND EXPENSE RECOGNISED IN EQUITY:</b>	<b>2,084</b>	<b>(12,716)</b>
Remeasurement of financial instruments	-	-
Available-for-sale financial instruments	-	-
Cash flow hedges	11,131	(23,945)
Translation differences	(6,968)	3,585
Tax effect	(2,079)	7,644
<b>INCOME AND EXPENSE RECLASSIFIED TO PROFIT OR LOSS:</b>	<b>15,052</b>	<b>8,403</b>
Remeasurement of financial instruments	-	-
Available-for-sale financial instruments	-	-
Cash flow hedges	20,406	12,005
Tax effect	(5,354)	(3,602)
<b>TOTAL RECOGNISED INCOME/(EXPENSE)</b>	<b>421,392</b>	<b>375,195</b>
Attributable to external partners	<b>1,073</b>	-
Attributable to equity holders of the parent	420,319	375,195

Notes 1 to 34 in the accompanying financial information are an integral part of the consolidated statement of recognised income and expense for the year ended 31 December 2013

Translation of consolidated financial statements originally issued in Spanish and prepared in accordance with the regulatory financial reporting framework applicable to the Group (see Notes 2 and 34). In the event of a discrepancy, the Spanish-language version prevails.

**ENAGÁS, S.A. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2013**  
**Figures in thousands of euros**

	Issued capital	Share premium and reserves	Retained earnings	Profit for the year	Interim dividend	Net unrealised gains (losses)	Non-controlling interests	Total equity
<b>RESTATED BALANCE AT 1 JANUARY 2012</b>	<b>358,101</b>	<b>1,235,591</b>		<b>364,643</b>	<b>(90,958)</b>	<b>(5,781)</b>	-	<b>1,861,596</b>
<b>Total recognised income and expense</b>	-	-	-	<b>379,508</b>	-	<b>(4,313)</b>	-	<b>375,195</b>
<b>Transactions with shareholders and owners</b>	-	-	-	<b>(146,060)</b>	<b>(102,178)</b>	-	-	<b>(248,238)</b>
- Capital increases / (decreases)	-	-	-	-	-	-	-	-
- Conversion of financial liabilities into equity	-	-	-	-	-	-	-	-
- Dividends paid	-	-	-	(146,060)	(102,178)	-	-	(248,238)
- Transactions with treasury shares (net)	-	-	-	-	-	-	-	-
- Business combinations	-	-	-	-	-	-	-	-
- Other transactions with shareholders and owners	-	-	-	-	-	-	-	-
<b>Other changes in equity</b>	-	<b>143,856</b>	-	<b>(218,583)</b>	<b>90,958</b>	-	-	<b>16,231</b>
- Share-based payments	-	-	-	-	-	-	-	-
- Transfers between equity accounts	-	-	-	(218,583)	-	-	-	(218,583)
- Other changes	-	143,856	-	-	90,958	-	-	234,814
<b>BALANCE AT 31 DECEMBER 2012</b>	<b>358,101</b>	<b>1,379,447</b>	-	<b>379,508</b>	<b>(102,178)</b>	<b>(10,094)</b>	-	<b>2,004,784</b>
Restatements for changes in accounting policies in 2012	-	-	-	-	-	-	-	-
Restatements for prior-period errors	-	-	-	-	-	-	-	-
<b>RESTATED BALANCE AT 1 JANUARY 2013</b>	<b>358,101</b>	<b>1,379,447</b>	-	<b>379,508</b>	<b>(102,178)</b>	<b>(10,094)</b>	-	<b>2,004,784</b>
<b>Total recognised income and expense</b>	-	-	-	<b>403,183</b>	-	<b>17,136</b>	<b>1,073</b>	<b>421,392</b>
<b>Transactions with shareholders and owners</b>	-	-	-	<b>(163,478)</b>	<b>(120,083)</b>	-	<b>12,833</b>	<b>(270,728)</b>
- Capital increases / (decreases)	-	-	-	-	-	-	-	-
- Conversion of financial liabilities into equity	-	-	-	-	-	-	-	-
- Dividends paid	-	-	-	(163,478)	(120,083)	-	-	(283,561)
- Transactions with treasury shares (net)	-	-	-	-	-	-	-	-
- Business combinations	-	-	-	-	-	-	12,833	12,833
- Other transactions with shareholders and owners	-	-	-	-	-	-	-	-
<b>Other changes in equity</b>	-	<b>97,779</b>	-	<b>(216,030)</b>	<b>102,178</b>	-	-	<b>(16,073)</b>
- Share-based payments	-	-	-	-	-	-	-	-
- Transfers between equity accounts	-	-	-	(216,030)	-	-	-	(216,030)
- Other changes	-	97,779	-	-	102,178	-	-	199,957
<b>BALANCE AT 31 DECEMBER 2013</b>	<b>358,101</b>	<b>1,477,226</b>	-	<b>403,183</b>	<b>(120,083)</b>	<b>7,042</b>	<b>13,906</b>	<b>2,139,375</b>

Notes 1 to 34 in the accompanying financial information are an integral part of the consolidated statement of changes in equity for the year ended 31 December 2013

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**ENAGÁS, S.A. AND SUBSIDIARIES**  
**CONSOLIDATED CASH FLOW STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2013**  
**Figures in thousands of euros**

	<u>12/31/2013</u>	<u>12/31/2012</u>
<b>PROFIT BEFORE TAX</b>	<b>565,005</b>	<b>542,731</b>
<b>Adjustments to profit</b>	<b>439,577</b>	<b>376,516</b>
Depreciation and amortisation expense	342,082	315,785
Other adjustments to profit	97,495	60,731
<b>Changes in working capital</b>	<b>(124,637)</b>	<b>(135,834)</b>
Inventories	891	(44)
Trade and other receivables	(96,827)	(62,449)
Other current assets	(979)	(308)
Trade and other payables	(23,392)	(73,033)
Other non current assets and liabilities	(4,330)	-
<b>Other cash flows used in operating activities</b>	<b>(310,810)</b>	<b>(200,240)</b>
Interest paid	(127,951)	(117,093)
Interest received	18,425	27,793
Income taxes paid	(198,943)	(110,940)
Other cash inflows (outflows)	(2,341)	-
<b>NET CASH FROM OPERATING ACTIVITIES</b>	<b><u>569,135</u></b>	<b><u>583,173</u></b>
<b>Payments on investments</b>	<b>(481,032)</b>	<b>(470,604)</b>
Subsidiaries and associates	(262,002)	(167,059)
Property, plant and equipment and investment property	(218,743)	(302,167)
Other financial assets	(287)	(1,378)
<b>Proceeds from disposals</b>	<b>11,757</b>	<b>5,112</b>
Subsidiaries and associates	11,757	5,112
<b>Other cash flows used in investing activities</b>	<b>4,782</b>	<b>-</b>
Other investment activities cash inflows (outflows)	4,782	-
<b>NET CASH USED IN INVESTING ACTIVITIES</b>	<b><u>(464,493)</u></b>	<b><u>(465,492)</u></b>
<b>Proceeds from financial liabilities</b>	<b>(947,370)</b>	<b>182,881</b>
Issues	1,283,846	3,521,336
Repayments and redemptions	(2,231,216)	(3,338,455)
<b>Dividends paid</b>	<b>(283,561)</b>	<b>(248,238)</b>
<b>NET CASH (USED IN) FROM FINANCING ACTIVITIES</b>	<b><u>(1,230,931)</u></b>	<b><u>(65,357)</u></b>
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	<b><u>(1,126,289)</u></b>	<b><u>52,324</u></b>
Cash and cash equivalents at 1 January	1,479,647	1,427,323
<b>CASH AND CASH EQUIVALENTS AT 31 DECEMBER</b>	<b><u>353,358</u></b>	<b><u>1,479,647</u></b>

Notes 1 to 34 in the accompanying financial information are an integral part of the consolidated cash flow statement for the year ended 31 December 2013

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## **1. Group activity**

Enagás, S.A., the Parent (hereinafter, the Company), is incorporated in Spain in accordance with the Corporate Enterprises Act and 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, advisory, and consultancy services, in connection with the businesses constituting its corporate purpose and participation in natural gas market management activities to the extent compatible with the business activities vested in the Company under the law.

The foregoing activities may be carried out by Enagás, S.A. 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 by two wholly-owned subsidiaries (Enagás Transporte, S.A.U. and Enagás GTS, S.A.U., respectively). 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 and its group may be consulted on its official website, [www.enagas.es](http://www.enagas.es), and at its registered office.

Enagás, S.A. is the Parent of a group of companies that includes interests in joint ventures and subsidiaries engaged in the natural gas transport business and which, together with Enagás, S.A., comprise the Enagás Group (hereinafter, the Group). Consequently, Enagás, S.A. is required to prepare, in addition to its own financial statements, the Group's consolidated financial statements, which also include information on its interests in joint ventures and subsidiaries.

The consolidated financial statements of the Group and those of each of the entities comprising the Group for the financial year 2013, which have served as the basis for the preparation of these consolidated financial statements, are pending approval at their respective General Shareholders' Meetings. However, the directors believe these financial statements will be approved as presented.

These consolidated financial statements are presented in thousands of euros (unless expressly stated otherwise) as this is the functional currency of the principal economic area in which the Enagás Group operates.

## **2. Basis of presentation of the financial statements and consolidation principles**

### **2.1. Accounting policies**

The consolidated financial statements of the Enagás Group for 2013 were prepared by the directors, at a Board of Directors meeting held on 17 February 2014, in accordance with the International Financial Reporting Standards (hereinafter, IFRS), as adopted by the European Union, pursuant to Regulation (EC) No. 1606/2002 of the European Parliament and of the Council.

These consolidated financial statements give a true and fair view of the equity and financial position of the Group at 31 December 2013, the results of its operations, and the changes in its equity, cash flows and recognised income and expense during the year then ended.

The Enagás Group's consolidated financial statements for 2013 have been prepared from the accounting records kept by the Parent and by the other entities comprising the Group.

The 2012 consolidated financial statements included for comparative purposes were also prepared in accordance with the IFRS adopted by the European Union and applied on a basis consistent with those applied in 2011 and 2010. The 2012 consolidated financial statements were approved by the shareholders of Enagás, S.A. at its General Shareholders' Meeting held on 24 April 2013 and are deposited at the Madrid Companies Registry.

The financial year end of all the Group companies is 31 December 2013.

Note 3 includes a summary of the most significant accounting principles and measurement bases used in preparing the Parent's consolidated financial statements for 2013.

### **2.2. Responsibility for the information and estimates made**

The information included in the accompanying consolidated financial statements is the responsibility of the Parent's directors.

The Group's 2013 consolidated financial statements include estimates made by senior management of the Group and of consolidated entities – subsequently ratified by their directors – in order to quantify the amounts of certain assets, liabilities, revenues, expenses and commitments recognised therein. These estimates relate basically to the following:

- The useful life of property, plant and equipment and of intangible assets (Notes 3.b and 3.c)
- The measurement of assets to determine impairment losses (Note 3.d)
- Forecasts for invoices pending issue
- Provisions for impairment of replacement parts for property, plant and equipment (Note 3.d)
- The income tax calculation (Note 3.p)
- Provisions for dismantling/abandonment costs (Note 3.c)

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 changed (upwards or downwards) in coming years. This would be done prospectively in accordance with the provisions of IAS 8, recognising the effects of the changes in accounting estimates in the corresponding consolidated income statement.



### 2.3 Changes in the scope of consolidation

During 2013 the changes in the scope of consolidation of the Enagás Group were as follows:

- The purchase agreement for the acquisition of 90% of Naturgas Energía Transporte, S.A.U. by Enagás Transporte, S.A.U. from the Naturgas Group for 245 million euros was executed on 15 February 2013. This amount included the subrogation of a loan from the previous shareholder amounting to 130 million euros. Ente Vasco de la Energía (EVE) continues to hold a 10% non-controlling interest in the target (Note 7).

This company changed its corporate name to Enagás Transporte del Norte, S.L. and is fully consolidated in these consolidated financial statements.

- In September 2013, Terminal de Valparaíso S.A. (wholly owned by Enagás Internacional S.L.U.) increased its interest in the Chilean company GNL Quintero S.A. by acquiring the second tranche of 20% held by BG Group, thereby raising its interest to 40%.

In order to perform this operation, Terminal de Valparaíso S.A. increased its share capital which was subscribed by Oman Oil Company. Thereafter, Enagás Internacional S.L.U.'s stake in Terminal Valparaíso S.A. was 51%, with the remaining 49% held by Oman Oil Company. Terminal de Valparaíso S.A. is therefore now consolidated using the equity method (see Note 2.4). Subsequent to the operation, the Enagás Group now holds a 20.4% interest in GNL Quintero S.A.

- In August 2013, the companies Servicios de Compresión SLM and Enagás Internacional S.L.U. jointly incorporated Estación de Compresión Soto La Marina SAPI de CV and Estación de Compresión Soto La Marina EPC SAPI de CV, located in Mexico. Enagás, S.A. directly and indirectly holds a 50% interest in these companies, which were accounted for using the equity method.

### 2.4 Basis of consolidation

Enagás, S.A.'s direct and indirect investees included in the scope of consolidation are engaged primarily in the transport, storage and regasification of natural gas.

Subsidiaries are the investees which the Parent controls by virtue of holding more than half of the voting rights or, short of this, having the power to govern their financial and operating policies so as to obtain benefits from their activities. These potential voting rights held by the Group or third parties are deemed to be exercisable or convertible at 31 December 2013.

Jointly controlled entities are those constituting joint ventures. Joint ventures are arrangements in which control is shared with venturers under a contractual agreement by virtue of which financial and operational strategic decisions about the relevant activities require the unanimous consent of the parties sharing control (Note 32).

Non-controlling interests in equity and in the results of Enagás Group subsidiaries are recognised as "Non-controlling interests" under "Equity" in the consolidated balance sheet and "Result attributable to external partners" in the consolidated income statement.

The consolidation was carried out as follows:

- a. The Company's 100%-owned subsidiaries are fully consolidated: 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. and the consolidated financial statements of the Chile subgroup whose Parent is Enagás Chile I,

Spa. Enagás Transporte del Norte, S.L., an investee 90% owned, was also fully consolidated when taking into account the 10% interest of Ente Vasco de la Energía under “Non-controlling interests”.

b. Proportionate consolidation for the jointly controlled entities managed in conjunction with GALP Gas Natural, S.A. in the case of Gasoducto Al-Andalus, S.A. and Gasoducto de Extremadura, S.A., with Infraestructura Arzak and EVE in the case of Bahía de Bizkaia Gas, S.L. (BBG), and with VOPAK in the case of Terminal de LNG de Altamira, S. de RL. de CV.

c. The investments in Compañía Transportista de Gas de Canarias, S.A. (Gascan), Estación de Compresión Soto La Marina SAPI de CV, Estación de Compresión Soto La Marina EPC SAPI de CV, Morelos EPC, SAPI de CV and Gasoducto Morelos, SAPI de CV were accounted for using the equity method. In addition, within the consolidated subgroup headed up by Enagás Chile I, Spa, the investments in Terminal de Valparaíso, S.A. and, indirectly, GNL Quintero, S.A. are also accounted for using the equity method.

d. Intra-group transactions: All balances, transactions, income and expenses between fully-consolidated companies are eliminated on consolidation. In the case of companies accounted for using the proportionate method of consolidation, balances, transactions and unrealised gains and losses on transactions with other Group companies are eliminated to the extent of the ownership interest consolidated. Unrealised gains and losses on transactions between Group companies and equity-accounted investees are eliminated to the extent of the Group’s ownership interest in the latter.

e. Consistency: For investees which apply different accounting principles and measurement bases to those of the Group, adjustments have been made on consolidation, provided that the effect is material, in order to present the consolidated financial statements based on consistent measurement bases.

f. Translation of financial statements denominated in foreign currencies: The companies included in the scope of consolidation keep their accounting records in euros, with the exception of Enagás Internacional, S.L Unipersonal, Enagás-Altamira, S.L.U., Altamira LNG, CV, Gasoductos de Morelos, SAPI de CV, Morelos EPC, Estación de Compresión Soto La Marina SAPI de CV, Estación de Compresión Soto La Marina EPC SAPI de CV, and the Chilean consolidated subgroup, the foreign currency of which is the dollar.

These companies’ financial statements were translated into euros in the process of consolidation into the Enagás Group’s financial statements using the following procedures:

- The assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet.
- The income and expenses for each income statement are translated at the average exchange rates for the year in which the transactions were performed.
- The resulting exchange differences are recognised as a separate component of equity, called “Translation differences” under “Net unrealised gains (losses) reserve”.

When a company with a functional currency other than the euro is sold or is derecognised as a result of the loss of control, the translation differences relating to that company recognised in equity are reclassified from equity to profit or loss when the gain or loss on the disposal is recognised.

The average and closing rates of exchange between the dollar and the euro in 2013 and 2012 are shown below:

Currency	Average exchange rate in 2013	Closing exchange rate at 31 December 2013
Dollar	1,3283	1,3789

Currency	Average exchange rate in 2012	Closing exchange rate at 31 December 2012
Dollar	1,2859	1,3197

g. Elimination of dividends: Intra-group dividends are those recognised as revenue for the year by a Group company and which have been paid by another Group company.

Dividends received by Group companies in respect of prior years' profit are eliminated by treating them as reserves of the receiving company and are included under "Reserves".

The most significant aspects of the Group's joint ventures in existence at the end of 2013 are summarised in Note 32.

## 2.5 Comparison of information

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

## 2.6 Accounting standards and principles

### a. Standards, amendments and interpretations in effect for the current year

The accounting policies adopted for the preparation of the consolidated financial statements for the year ended 31 December 2013 are the same as those followed for the preparation of the consolidated financial statements for 2012, except for the adoption, from 1 January 2013, of the following standards, amendments and interpretations issued by the IASB (International Accounting Standards Board) and IFRIC (International Financial Reporting Interpretations Committee) and adopted by the European Union for use in Europe:

Standards, amendments and interpretations	Content	Mandatorily applicable in annual periods beginning on or after:
IFRS 13 Fair Value measurement (published in May 2011)	Sets out a framework for measuring fair value.	Annual periods beginning on or after 1 January 2013
IFRIC Interpretation 20 – Stripping Costs in the Production Phase of a Surface Mine (published in October 2011)	The IFRS Interpretations Committee addresses the accounting treatment of the costs of eliminating waste materials at surface mines	Annual periods beginning on or after 1 January 2013
Amendments to IAS 1 – Presentation of items of other comprehensive income (published in June 2011)	Minor amendment related to the presentation of other comprehensive income	Annual periods beginning on or after 1 July 2012 (for Enagás Group 1 January 2013 is the annual period beginning that date)
Amendments to IAS 12: Income taxes - Deferred tax on investment property (published in December 2010)	This amendment introduces an exception to the general tenets of IAS 12 affecting deferred taxes relating to investment properties measured at fair value under IAS 40 Investment property.	Annual periods beginning on or after 1 January 2013
Amendments to IAS 19 – Employee benefits (published in June 2011)	The amendments primarily affect defined benefit plans as one of the main changes relates to the elimination of the so-called “corridor approach”.	Annual periods beginning on or after 1 January 2013
Amendments to IFRS 7 - Financial instruments: Disclosures - Offsetting financial assets and financial liabilities (published in December 2011)	Introduction of new disclosure requirements related with offsetting financial asset and financial liabilities under IAS 32	Annual periods beginning on or after 1 January 2013
Improvements to IFRSs, 2009-2011 cycle (published in May 2012)	Minor modifications to a series of standards	Annual periods beginning on or after 1 January 2013

The main effect of their entry into force in the accompanying consolidated financial statements is as follows:

- **IFRS 13 Fair value measurement**

The Group applied IFRS 13 for the first time in 2013, which establishes a single source of guidance regarding fair value measurement and disclosures relating to fair value measurement.

In accordance with IFRS 13, fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (for example, an exit price), regardless of whether that price is directly observable or estimated using another valuation technique.

IFRS 13 must be applied prospectively as of 1 January 2013. Accordingly, and as per the transitory provisions, the Company did not make the disclosures required by IFRS 13 for the 2012 comparative period.

The adoption of IFRS 13 requires that an adjustment be made to the Group’s valuation techniques for obtaining the fair value of its derivatives. The Group 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, credit risk is determined using a technique that employs simulations to calculate the expected total exposure (which includes both current exposure and potential exposure) adjusted by the probability of default over time and by the severity (or potential loss) allocated to the Company and each of the counterparties.

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

$$EAD * PD * LGD$$

- 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): Severity = 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 the 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 quoted on the market.

Credit enhancements relating to guarantees or collateral were also taken into consideration when determining the severity rate to be applied for each position in order to adjust the fair value to the credit risk. Severity 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 Group recognised credit risk when measuring the fair value of liability derivatives in the consolidated financial statements, which gave rise to a financial gain of 1,074 thousand euros (see Note 24).

**b. Standards, amendments and interpretations issued but not yet in effect for the current year**

At the date of preparation of these consolidated financial statements, the following are the most important standards and interpretations published by the IASB but not yet in effect, either because their effective date is subsequent to the date of the consolidated financial statements or because they had not yet been adopted by the European Union:

Approved for use in the European Union		
Standards, amendments and interpretations	Content	Mandatorily applicable in annual periods beginning on or after:
IFRS 10 Consolidated financial statements (published in May 2011)	Replaces current consolidation requirements under IAS 27.	Annual periods beginning on or after 1 January 2014
IFRS 11 Joint arrangements (published in May 2011)	Replaces the current IAS 31 on joint ventures.	Annual periods beginning on or after 1 January 2014
IFRS 12 Disclosures on interests in other entities (published in May 2011)	Single standard establishing the disclosure requirements related to interests in subsidiaries, associates, joint arrangements and unconsolidated 'structured entities'.	Annual periods beginning on or after 1 January 2014
IAS 27 (Revised) Separate financial statements (published in May 2011)	The standard has been revised as, following issuance of IFRS 10, it will now only cover the separate financial statements of reporting entities.	Annual periods beginning on or after 1 January 2014
IAS 28 (Revised) Investments in associates and joint ventures (published in May 2011)	This revision is parallel to the issuance of IFRS 11 Joint arrangements.	Annual periods beginning on or after 1 January 2014
Amendment to IAS 32 Financial instruments: Presentation- Offsetting financial assets and financial liabilities (published in December 2011)	Additional clarification on the rules for offsetting financial assets and financial liabilities under IAS 32 and the introduction of new disclosure requirements associated with IFRS 7.	Annual periods beginning on or after 1 January 2014
Transition guidance: Amendments to IFRS 10, 11 and 12 (published in June 2012)	Clarification of the transition rules of these standards.	Annual periods beginning on or after 1 January 2014
Investment entities: Amendments to IFRS 10, IFRS 12 and IAS 27 (published in October 2012)	Exception to consolidation for parents that meet the definition of an investment entity.	Annual periods beginning on or after 1 January 2014

Not approved for use in the European Union yet		
Standards, amendments and interpretations	Content	Mandatorily applicable in annual periods beginning on or after:
IFRS 9 Financial instruments: Classification and measurement (published in November 2009 and October 2010) and subsequent amendment of IFRS 9 and IFRS 7 regarding the effective date and transition disclosures (published in December 2011) and hedge accounting and other amendments (published in November 2011)	Replaces the requirements for classification and measurement of financial assets and financial liabilities and derecognitions and hedge accounting under IAS 39.	Undefined
Amendments to IAS 36: Recoverable amount disclosures for non-financial assets (published in May 2013)	Clarifies certain disclosure requirements and requires additional information when the recoverable amount is based on fair value less costs to sell.	Annual periods beginning on or after 1 January 2014
Amendments to IAS 39: Novation of derivatives and continuation of hedge accounting (published in June 2013)	The amendments determine in which cases and under what criteria the novation of a derivative does not make the interruption of hedge accounting necessary.	Annual periods beginning on or after 1 January 2014
Amendment to IAS 19: Employee contributions to defined benefit plans (published in November 2013)	The amendment is issued in order to allow these contributions to be deducted from the cost of the service in the same period that they were paid, if certain requirements are met.	Annual periods beginning on or after 1 July 2014
Improvements to the IFRSs 2010-2012 Cycle and the 2011-2013 Cycle (published in December 2013)	Minor amendments to a series of standards.	Annual periods beginning on or after 1 July 2014
IFRS 21 Levies (published in May 2013)	Guidance on when to recognise a liability for levies charged for participation by the entity in a market on a specified date.	Annual periods beginning on or after 1 January 2014

The directors have assessed the potential impacts of the future application of these standards and consider that their entry into force will not have a significant effect on the consolidated financial statements, expect in the following cases:

- **IFRS 10 Consolidated financial statements, IFRS 11 Joint arrangements, IFRS 12 Disclosures of interests in other entities, IAS 27 (revised) Separate financial statements and IAS 28 (revised) Investments in associates and joint ventures**

IFRS 10 changes the current definition of control. The new definition of control requires three elements:

- i. power over the investee;
- ii. exposure or rights to variable returns from investment in the investee; and
- iii. the ability to use this power to affect the amount of such returns.

The Group is currently analysing how this new definition of control will affect its consolidated entities as a whole, although it can state so far that the quantitative impact will not be material with respect to the accompanying consolidated figures.

IFRS 11 Joint Arrangements will replace the prevailing IAS 31. The greatest change between IFRS 11 and the standard currently in force is the elimination of the proportionate consolidation option for jointly controlled entities which will now have to be accounted for using the equity method.

Application of this standard will not have a material impact on the Group as Bahía de Bizkaia Gas, S.L. and Altamira LNG, CV are currently the only subsidiaries affected. These companies will now be considered joint ventures with the application of IFRS 11 and must be accounted for using the equity method. Based on the foregoing, instead of proportionately consolidating their assets, liabilities and income and expenses in the consolidated balance sheet and consolidated income statement, the fair value of the financial investment will be accounted for using the equity method for both companies and the inclusion of the result will be through results of entities accounted for using the equity method.

The main aggregates of these companies for 2013 are included in Note 32 on joint ventures.

The amendments to IAS 27 and IAS 28 are parallel to the issuance of the abovementioned new IFRS.

Lastly, IFRS 12 is a disclosure standard encompassing the disclosure requirements in respect of interests in other entities, whether subsidiaries, associates, joint arrangements or other unconsolidated structured entities, and introduces new disclosure requirements.

As a result, its entry into force is likely to entail disclosures in addition to those which the Group is currently required to make regarding its investments in other entities and investment vehicles.

All accounting policies and measurement bases with a material effect on the 2013 consolidated financial statements were applied in their preparation.

### **3. Measurement bases**

The main measurement bases used in the preparation of the accompanying 2013 consolidated financial statements are as follows:

#### **a. Goodwill and business combinations**

The acquisition by the Parent of control over a subsidiary constitutes a business combination and is accounted for using the acquisition method. In subsequent consolidations, the elimination of the investments in/net assets of these subsidiaries is carried out, as a general rule, on the basis of the amounts resulting from the use of the acquisition method (described below) on the date on which control was obtained.

Business combinations are accounted for using the acquisition method, to which end the acquisition date and cost of the business combination are determined; the identifiable assets acquired and liabilities assumed are recognised at their acquisition-date fair values.

Goodwill or the gain on a bargain purchase is the difference between the recognised acquisition-date fair values of the assets acquired and liabilities assumed and the cost of the business combination.

The cost of the business combination is the sum of:

- the acquisition-date fair values of any assets transferred, liabilities incurred or assumed and equity instruments issued, and
- the fair value of any contingent consideration, i.e., that depends on future events or the delivery of certain defined milestones.

The cost of the business combination does not include expenses relating to the issuance of equity instruments offered or financial liabilities delivered in exchange for the items acquired.

Goodwill arising in the acquisition of companies with a functional currency other than the euro is measured in the functional currency of the company acquired and is translated to euros at the exchange rate prevailing at the balance sheet date.

Goodwill is not amortised. It is subsequently measured at cost less any impairments losses. Goodwill impairment losses are not reversed subsequently (see Note 3.d).

In the exceptional case of a gain on a bargain purchase, the gain is recognised in profit or loss.

If at the end of the year in which a combination occurs it has not been possible to complete the valuation work needed to apply the acquisition method outlined above, the combination is accounted for provisionally. The provisional amounts can be adjusted during the time interval needed to obtain the required information. This measurement period may not exceed one year from the acquisition date. The effects of any adjustments made during the measurement period are accounted for retroactively, modifying the comparative information if necessary.

Subsequent changes in the fair value of the contingent consideration are recognised in profit or loss, unless the consideration was classified as equity, in which case it is not remeasured.

#### b. **Intangible assets**

The Enagás Group measures these assets initially at acquisition 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 (Note 3.d).

Development costs are amortised on a straight-line basis over their useful life, as long as the costs are assigned to specific projects, clearly quantified, and relate to assets whose technical and commercial feasibility for sale or use have been established.

The Group expenses all research and development costs whose technical and commercial feasibility cannot be established. Research costs recognised as an expense in the accompanying consolidated income statement amounted to 2,150 thousand euros in 2013 (1,641 thousand euros in 2012) (Note 23.2).

Concession arrangements may only be capitalised when a company has acquired the assets for consideration (in the case of concessions that can be transferred) or for the amount of the expenses incurred in obtaining them directly from the state or relevant public body. If the rights to a concession are



lost due to failure to comply with the terms and conditions thereof, its value is fully written off in order to cancel its carrying amount. These concessions are amortised on the basis of their useful lives.

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

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

	Amortisation rate	Useful life
Development costs	5%-50%	20-2
Concessions, patents, licences, brands and similar:		
- Port concessions at the Barcelona plant	1.33%-1.28%	75-78
- Port concessions at the Huelva plant	7.6%	13
- Other concessions at the Bilbao plant	20,00%	5
- Use of the public radioelectric domain	20,00%	5
Computer software	25%	4

In 2013 the free allocation of greenhouse gas emission allowances to institutions subject to the emission allowance trading scheme for the 2013-2020 period, which includes the facilities of Enagás Transporte S.A. and BBG, was approved by resolution of the Spanish cabinet.

The Group recognises emission allowances as non-amortisable intangible assets in the same way as its other assets; initially at acquisition cost, then making the pertinent write-down if fair value falls below the aforementioned cost. In the second quarter of 2013, the Enagás Group delivered greenhouse gas emission allowances equivalent to the verified emissions in 2012 for all these installations (see Note 27).

Allowances received free of charge in accordance with the National Allocation Plan for 2013-2020 are deemed to have zero cost as the Group presents the assets net of subsidies (Note 27).

c. **Property, plant and equipment**

Property, plant and equipment are valued initially at acquisition or production cost, with the exception of revaluations made by Enagás, S.A. in 1996, less accumulated depreciation and any impairment losses, in keeping with the criteria set forth in the following note.

The costs of remodelling, expansion or upgrades leading to increased productivity, capacity or a lengthening of the useful lives of assets are capitalised as an increase in the cost of the related asset. 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 Group has a “Functional procedure for allocation of Employee Benefits Expense to Investment Projects” which sets out the hypotheses for making this calculation. This procedure establishes that, to calculate own work

capitalised, it is necessary to consider both direct employee benefits expense, i.e., the hours worked and assigned to each project based on cost/hour calculated at the beginning of the year, and indirect costs. The amounts capitalised for these items are recognised in the 2013 consolidated income statement as a decrease in employee benefits expense (Note 6).

3. Future payments which the Group will have to make in relation to the requirement to dismantle certain items of property, plant and equipment corresponding to the Serrablo, Yela and Gaviota underground storage facilities and the Bilbao, Altamira, Barcelona, Huelva and Cartagena regasification plants at the end of their useful lives. The carrying amounts of these assets include an estimate of the present value at the date of acquisition of the dismantling costs incurred by the Group, with a credit to "Non-current provisions" (Note 14) in the accompanying consolidated balance sheet. In addition, this provision has been adjusted in subsequent periods.

Subsequent to Royal Decree (RD) 1061/2007, of 20 July, which grants Enagás the concession to operate the Yela underground natural gas storage facility, the Group, for the purposes of complying with article 25.3 of Law 34/1998, of 7 October, which establishes a provision of 14.7 million euros for dismantling costs, has recognised the related provision as an increase in the value of the asset. This provision will be discounted to present value each year to reflect the financial impact on the Group of a non-current account receivable from the Spanish energy regulator (hereinafter, the CNE for its acronym in Spanish)\* given that, once the dismantling is approved, the Group can request payments on account against dismantling costs.

The expenses and pertinent discounting for abandoning the Serrablo underground storage facility are reflected in the provision allocated to comply with the requirements of "Order of 6 September 1995 regarding the concession, to Enagás, S.A., for the storage of natural gas in Jaca, Aurín, and Suprajaca, located in Serrablo", which required that a project for abandoning the Serrablo site be presented and approved prior to engaging in storage activities.

In 2011, in keeping with the provisions of article 25.3 of Law 34/1998, of 7 October 1998, the Group recognised the provision for dismantling costs associated with the Gaviota underground storage facility. With regard to this storage facility, it should be noted that the Enagás Group reached an agreement with its former owners, Repsol Investigaciones Petrolíferas, S.A. and Murphy Spain Oil, S.A., for its acquisition in 2010; however, it did not obtain all the required approvals from the regulatory authorities until April 2011, which is when the transaction closed. This is the date from which the Group has accounted for the investment.

Properties in the course of construction for production, rental or administrative purposes, or for purposes not yet determined, are carried at cost, less any recognised impairment loss. Cost includes, for qualifying assets, capitalised borrowing costs and employee benefits expense directly related to work in progress in accordance with the Group's accounting policy. Depreciation of these assets commences when the assets are ready for their intended use.

The volume of gas that must remain 'immobilised' in the storage facility to operate natural gas storage facilities (i.e. cushion gas) is recognised as property, plant and equipment and depreciated over the useful life specified by prevailing legislation, or over the lease term, if shorter.

Both the natural gas related to the minimum linepack of the gas pipelines for system security and the minimum operating levels of the regasification plants (also called "*gas talon*") are considered non-depreciable assets as this gas is not available and thereby immobilised under prevailing regulations. It is measured at the auction price under Order ITC/3993/2006 and the Resolution dated 18 April 2007 (Note 6).

(\* ) Following the approval of Law 3/2013, the CNE's functions are included mainly within the CNMC – the National Markets and Competition Commission.

Items of property, plant and equipment are depreciated on a straight-line basis over the estimated useful lives of the related assets, using the following annual rates:

	Depreciation rate	Useful life (years)
Buildings	3%-2%	33.33-50
Plant (transport network)	5%-2.50%	20-40
Tanks	5%	20
Underground storage facilities	5-10%	10-20
Cushion gas	5%	20
Other plant and machinery	12%-5%	8.33-20
Tools and equipment	30%	3.33
Furniture and fixtures	10%	10
Computer equipment	25%	4
Transport equipment	16%	6.25

The directors consider that the carrying amount of property, plant and equipment does not exceed their recoverable value, calculated based on the discounted future cash flows they generate in accordance with the remuneration envisaged in prevailing legislation.

The gain or loss on the disposal or derecognition of an asset is calculated as the difference between the sales price and the carrying amount of the asset and is recognised in the consolidated income statement under "Impairment losses and gains (losses) on disposals of assets" (see Note 3.d).

Government grants related to property, plant and equipment are capitalised as a decrease in the cost of the assets and released to the consolidated income statements over the expected useful life of the asset as a decrease in depreciation of the related asset.

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

At the end of each reporting period in the case of goodwill or assets with indefinite useful lives, or whenever there are indications of impairment for all other assets, the Group analyses the recoverable amounts of its assets to determine whether there is any indication that they may be impaired. If any such an indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). In the case of identifiable assets which do not generate cash inflows independently, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Recoverable amount is the higher of fair value less costs to sell and value in use, considered to be the present value of the estimated future cash flows. The Group 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 Group prepares 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 are prepared for a period of five years, with estimates of future flows based on reasonable growth rates, which in no case scale up beyond year five.

To calculate the present value, the cash flows are discounted at a pre-tax rate that reflects the cost of capital of the business and of the geographical area where business is carried out. The discount rate is

based on prevailing interest rates and the risk premiums commonly used by analysts covering the business and the geographical region.

If the recoverable amount of an asset is lower than its carrying amount, an impairment loss is recognised for the difference, with a charge to "Impairment losses and gains (losses) on disposal of assets" in the consolidated income statement. The impairment loss is applied by firstly reducing the carrying amount of the goodwill corresponding to the cash-generating unit where the impairment loss is to be recognised. If the impairment charge is greater than the carrying amount of goodwill, the rest of the assets belonging to the cash-generating unit are then reduced, in proportion to their respect carrying amounts, down to the higher of their fair value less costs to sell and their value in use.

A previously recognised impairment loss is reversed if there has been a change in the estimates used to determine the asset's recoverable amount via a credit in the income statement up to the carrying amount that would have been determined had no impairment loss be recognised. Note however, that goodwill impairment losses cannot be reversed subsequently.

The Group's property, plant and equipment consists almost entirely of gas transportation, regasification and storage assets, and those assets needed to carry out its regulated gas sales business and technical system management activities.

e. **Leases**

In operating leases, the ownership of the leased asset and substantially all the risks and rewards incidental thereto remain with the lessor.

When consolidated entities act as lessees, lease payments, including any incentives granted by the lessor, are recognised as an expense in the consolidated income statement on a straight-line basis over the lease term.

The Group was not party to any finance leases at year-end 2013.

f. **Financial assets**

Financial assets are recognised in the consolidated balance sheet when the Group becomes party to the contractual terms of the instrument.

Group companies classify financial assets into the following categories established by IFRS:

- Loans and receivables: These assets are measured at amortised cost, which is basically the cash amount given less repayments of principal plus accrued interest receivable in the case of loans, and the present value of the consideration provided in the case of receivables.
- Held-to-maturity investments: These are assets that the Enagás Group has the positive intent and ability to hold to maturity. They are also recorded at amortised cost.

*Initial valuation -*

Held-to-maturity investments and loans and receivables originated by the companies are measured initially at the fair value of the consideration delivered plus directly attributable transaction costs. They are subsequently measured at amortised cost, with accrued interest recognised in the consolidated income statement in accordance with the effective interest rate.

*Subsequent valuation -*

Loans and receivables are measured at amortised cost.

Investments in Group companies 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 tacit capital gains at the date of valuation (including any goodwill).

At each reporting date at least, the Group 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 consolidated income statement.

Specifically, with respect to the valuation adjustments concerning trade receivables, the criterion employed by the Group 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.

The Group 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 Group 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 transferer does not retain subordinated financing, does not issue any type of guarantee, and does not assume any other kind of risk.

However, the Group 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 transferer retains subordinated financing or other types of guarantees which substantially absorb all the expected losses.

#### Cash and cash equivalents

This heading in the consolidated balance sheet includes cash on hand, time deposits and other highly liquid current investments that can readily be realised in cash and that are not subject to risk of a change in value.

#### Trade and other receivables

Receivables are initially measured at fair value in the consolidated balance sheet and subsequently remeasured at amortised cost using the effective interest method.

The Group recognises the appropriate provisions for the difference between the recoverable amount of the receivables and the carrying amount at which they are recognised. The recoverable amount of receivables is calculated by discounting estimated future cash flows using the effective interest rate at the outset of the transaction.

### **g. Inventories**

#### Natural gas inventories

The only natural gas inventories held by the Enagás Group are those held as cushion gas and linepack gas for the pipelines and regasification facilities it operates; these stocks of gas are classified as property, plant and equipment.

#### Other inventories

Other inventories unrelated to natural gas are stated at the lower of acquisition or production cost and net realisable value. The carrying amount includes the 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 Group makes any necessary valuation adjustments, recognising them as an expense in the consolidated income statement when the net realisable value of the inventories falls below their acquisition price (or production cost).

h. **Equity and financial liabilities**

Capital and other equity instruments issued by the Group are recognised at the proceeds received, net of direct issue costs.

Financial liabilities include the Group'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. They are subsequently recognised at amortised cost.

Derivative financial instruments are recognised at fair value. The Group derecognises financial liabilities once the obligations generating them have been extinguished.

Financial liabilities are classified according to the terms and economic substance of the contractual agreement.

The liability instruments held by Group companies are:

- *Bank loans and finance leases, and bonds and other marketable securities:* Interest-bearing loans and bonds are recognised at the amount received, net of direct issue costs. Finance costs, including premiums payable upon settlement or repayment and direct issue costs, are taken to the consolidated income statement as accrued using the effective interest method and added to the carrying amount of the instrument if not paid during the period in which they accrue.
- *Derivative financial instruments and hedge accounting:* Bank borrowings expose the Group to fluctuations in interest rates. To hedge these risks, the Group uses swaps. The Group does not use derivative financial instruments for speculative purposes.

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 use of financial derivatives is governed by the Group's risk management policies approved by the Parent, Enagás, S.A. Further details on the use of financial derivatives are disclosed in Note 18.

The Group arranges cash flow and fair value hedges. These hedge arrangements are recognised as follows:

- a) Fair value hedges: The hedging instrument and the hedged item are both measured at fair value, and any changes in fair value are recognised in the consolidated income statement as finance cost or revenue.
- b) Cash flow hedges: The portion of the gain or loss 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 – Net unrealised gains (losses) reserve – Cash flow hedges" in the accompanying

consolidated balance sheet. The accumulated gain or loss on the hedging instrument is taken to the consolidated income statement as the hedged item affects profit or loss. The portion of the gain or loss deemed to be an ineffective hedge is recognised directly in the consolidated income statement under finance revenue or finance costs, as appropriate.

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (for example, an exit price), regardless of whether that price is directly observable or estimated using another valuation technique.

As per IFRS 13, 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 on a whole, 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 decided that the entire portfolio of derivative financial instruments is classified as Level 2.

The Company uses mid-market prices as observable inputs from external information sources of repute in financial markets.

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.

i. **Classification of payables into current and non-current**

Payables in the accompanying consolidated balance sheet are classified by maturity, i.e., those maturing in 12 months or less are classified as current, and those maturing in over 12 months as non-current.

j. **Pension obligations**

The Enagás Group makes contributions, in accordance with the approved pension plan adapted to the provisions of the Law on Pension Plans and Funds, to a defined contribution plan called “Enagás Fondo de Pensiones”, whose fund manager is Gestión de Previsión y Pensiones, S.A. and custodian is Banco Bilbao Vizcaya Argentaria, S.A., and which covers the Group’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 by the Group each year in this connection are recognised under “Employee benefits expense” in the consolidated income statements (see Note 23.1). At year-end 2013, there are no amounts not yet contributed for this item.

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.

k. **Termination benefits**

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

l. **Provisions**

In these consolidated financial statements, the directors made a distinction between:

- **Provisions**: Balances payable covering obligations existing at the balance sheet date arising as a result of past events which could give rise to a loss for the companies which is specific in nature but uncertain as to amount and timing.
- **Contingent liabilities**: Possible obligations as a result of past events whose occurrence depends on the occurrence or non-occurrence of one or more separate future events not within the control of the consolidated entities.

The consolidated financial statements of the Group include all significant provisions for which it is more likely than not that the obligation will have to be settled. Contingent liabilities are not recognised in the consolidated financial statements, but are disclosed in the notes (Note 14).

Provisions, which are estimated based on the best available information as to the consequences of the events giving rise thereto and which are re-estimated at the balance sheet date, are used to meet the specific and probable obligations for which they were initially recognised and are reversed, totally or partially, whenever these risks disappear or diminish.

The compensation to be received from a third party when an obligation is settled is recognised as a separate asset so long as it is virtually certain that the reimbursement will be received if the obligation is settled, unless the risk has been contractually externalised so that the Group is legally exempt from having to settle, in which case the reimbursement is taken into consideration in estimating the amount of the provision, if any.

At year-end 2013 and 2012, a number of legal proceedings and claims had been filed against consolidated companies in the ordinary course of their businesses. The Group’s legal counsel and its directors believe that the resolution of these proceedings and claims will not have a significant effect on the consolidated financial statements of the years in which they are resolved.

m. **Deferred revenue**

Deferred revenue mainly relates to advance payments received for natural gas transport rights assigned to Gasoducto Al- Andalus, S.A. and Gasoducto de Extremadura, S.A., which are taken to profit and loss on a straight-line basis until 2020 when the transport contract expires.

This heading also includes the accrual of amounts received for making connections from the basic network of Enagás Transporte S.A.U. and Enagás Transporte del Norte S.L. to networks owned by distributors,



secondary transporters, gas supply companies and eligible customers. This revenue is taken to profit or loss on the basis of the useful life of the assigned installations.

n. **Revenue recognition**

Revenue is measured at the fair value of the consideration received or receivable, and represents the amounts receivable for goods delivered and the services rendered as part of the Group's ordinary course of business, less discounts, VAT, and other sales taxes.

Ordinary revenue from the rendering of services is recognised by reference to the stage of completion of the transaction at the balance sheet date, provided the result of the transaction can be estimated reliably.

Following the publication of rules which affect the Parent in the Official State Gazette of 15 February 2002 (applicable as of 19 February 2002) and implement the remuneration principles established in Royal Decree 949/2001, revenue recognition criteria under the new regulations are as follows:

On 15 February 2002, three Ministerial Orders were approved by the Ministry of Economy defining the new remuneration system for regulated natural gas activities in Spain, which came into force on 19 February 2002. In addition to specifying remuneration for regulated gas-related activities, these orders fixed natural gas prices and tolls and fees for third-party access to gas facilities, stipulating the total payment receivable in 2002 by all companies carrying out gas purchase and sale activities for the tariff market, regasification, gas storage and transportation, technical management of the system and gas distribution activities, in addition to formulae and criteria for restating and establishing the remuneration of these activities in coming years. Subsequently, on an annual basis, new orders have been published that have replaced those of previous years.

Updates to the remuneration system include those introduced in 2006 through Order ITC/3994/2006 and Order ITC/3995/2006 revising and updating the remuneration for regasification and underground storage, respectively, and Royal Decree 326/2008 revising and updating the remuneration for transport installations brought into service as from 1 January 2008.

In accordance with this legislation, the Group is entitled to remuneration for the following activities:

- Transport
- Regasification, including loading of LNG tanks and the transfer of LNG to tankers
- Storage
- Technical system operation
- Generation of the minimum operating level for LNG tankers, of the cushion gas for underground storage facilities, and of the minimum linepack for gas pipelines (Note 3.c)
- Own consumption of natural gas
- Sales of condensates at the recently-acquired Gaviota storage facility
- Interest applicable to the remuneration received under the settlement system
- Regasification and transport shrinkage incentive
- Overall incentive for availability

On 27 December 2012, the Ministry of Industry, Energy and Tourism passed Order IET/2812/2012, establishing the tolls and fees for third-party access to gas installations and remuneration of regulated activities for 2013.

The most relevant revenue-related aspects of the regulations governing the activity carried out by the Group are described in Note 4 below.

Interest income is recognised using the effective interest method, by reference to the principal outstanding and the applicable effective interest rate, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's carrying amount.

Dividend income from investments is recognised when the shareholder's rights to receive payment have been established.

o. **Expense recognition**

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

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

p. **Income tax expense**

Income tax expense is recognised in the consolidated income statement or in equity in the consolidated balance sheet depending on where the gains or losses giving rise to it have been recognised.

Income tax expense is calculated by aggregating the current tax arising from the application of the tax rate to the taxable profit (tax loss) for the year, after deducting the tax credits allowable for tax purposes, withholdings and payments on account and the use of tax loss carryforwards, plus the change in deferred tax assets and liabilities.

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.

Changes during the year in deferred tax assets or liabilities which do not arise from business combinations are recognised in the consolidated income statement or directly in equity in the consolidated balance sheet, as appropriate.

Deferred tax assets are recognised only when it is probable that taxable profits will be available against which the deductible temporary differences can be utilised. Deferred tax liabilities are recognised for all taxable temporary differences, except to the extent that they arise from the initial recognition of goodwill.

Deductions arising from economic events in the year are deducted from accrued income tax expense unless there are doubts as to whether they will be realised, in which case they are not recognised until they materialise, or they relate to specific tax incentives.

At each year end, the Group reassesses the deferred tax assets recognised, and their carrying amount is reduced if there are any doubts over recoverability. Similarly, at each reporting date, the Group reassesses unrecognised deferred tax assets, recognising a previously unrecognised deferred tax asset to the extent that it has become probable that taxable profit will be available against which the asset can be utilised.

Likewise, it should be noted that as of 1 January 2013, Enagás, S.A. is the Parent of consolidated tax group 493/12 and files consolidated income tax returns in accordance with Title VIII, Chapter VII of the consolidated Spanish Corporation Tax Law. The subsidiaries included in this tax group are:

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

q. **Earnings per share**

Basic earnings per share are calculated by dividing net profit or loss attributable to the Parent by the weighted average number of ordinary shares outstanding during the year, excluding the average number of shares of the Parent held by the Group companies. Basic earnings per share coincides with diluted earnings per share (Note 13).

r. **Consolidated cash flow statements**

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

- Cash flows: Inflows and outflows of cash and cash equivalents, which are non-current, highly liquid investments that are subject to an insignificant risk of changes in value.
- Operating activities: The Group's ordinary operating activities and any other activities that cannot be classified as investing or financing activities.
- Investing activities: The acquisition or disposal of non-current assets and other investments not included in cash and cash equivalents.
- Financing activities: Activities that result in changes in the size and composition of equity and liabilities that are not operating activities.

**4. Regulation of remuneration**

**a) Revenue from regasification, storage and transport**

The prevailing regulatory framework was established by Hydrocarbon Law 34/1998, of 7 October, and subsequent enacting regulations.

From the remuneration standpoint, Royal Decree 949/2001, of 3 August, stands out. This piece of legislation stipulated, among other things, the remuneration of regulated activities using the following general criteria:

- Asset owners should be able to recoup their investments over the useful lives of their assets.
- Remuneration should provide a reasonable return on the financial resources invested.
- The scheme for remunerating operating costs should be designed to provide an incentive for efficient management and productivity gains, some of which should be passed on to users and consumers.

Notwithstanding the foregoing, the regulations setting forth how the regulated remuneration for gas transport, regasification and storage were to be calculated were not passed until 2002, with the publication of Order ECO/301/2002, of 15 February.

The main general characteristics of the remuneration regime so established were as follows:

- The remuneration system initially applied to all three regulated activities: transportation, regasification and underground storage.
- Remuneration was calculated individually for each facility, and accrual began from the date on which the final commissioning certificate was obtained.
- The investment to be remunerated was the result of multiplying certain standard unit investment costs by the technical details of each facility.

- Remuneration consisted of two components: remuneration of (i) investment costs and (ii) operation and maintenance (O&M) costs.
- Remuneration of investment costs in turn consisted of two items: (i) remuneration of depreciation, arrived at by dividing qualifying investments by the asset's useful life; and (ii) financial remuneration, calculated as the product of investment and a rate of return (the 10-year government bond yield plus 150 basis points).
- Operating and maintenance costs consisted of a fixed item, specifically the result of multiplying the standard O&M unit costs by the technical details of each facility; and, in the case of regasification activities, a variable item as a function of the amounts regasified each year.
- Annual remuneration was established on the basis of the prior year's remuneration multiplied by a restatement factor –  $(1 + f_j * IPH)$ , where IPH (Spanish acronym) the arithmetic average of the consumer price index and industrial price index and  $f_j$  is an efficiency factor of no more than 0.85.
- Once a facility reached the end of its useful life, it ceased to receive any depreciation remuneration and 50% of financial remuneration.

Subsequently, new ministerial orders were published annually updating the unit investment and O&M remuneration values, establishing the remuneration for the year in question.

The most significant regulatory developments occurring since then are as follows:

Ministerial Order ITC/30/2003, of 26 January, updated certain aspects of the financial regime governing regulated activities within the gas sector for 2003.

In 2004, Ministerial Order ECO/31/2004, of 15 January, was published stipulating that in the event of facility modifications or extensions the amount of investment qualifying for remuneration would be the carrying amount of the assets up to the limit implied by applying the standard unit costs, and also updating certain items of the financial regime.

Order ECO/102/2005, of 28 January, updated certain aspects of the financial regime governing regulated activities within the gas sector for 2005.

Order ECO/4099/2005, of 27 December, updated certain aspects of the financial regime governing regulated activities within the gas sector for 2006.

Publication of Orders ITC/3994/2006 and ITC/3995/2006, of 29 December, marked a substantial change in the regime for remunerating regasification and underground storage activities from 2007. The following changes triggered by these ministerial orders are worth highlighting:

- The remuneration regime is no longer the same for all activities.
- The amount of investment qualifying for remuneration in respect of regasification is one half of the sum of the carrying amount and the standard value resulting from application of the unit investment values, up to the limit of the latter.
- The change affects all regasification and storage facilities.
- Depreciation charges and financial remuneration in respect of regasification and underground storage activities are no longer updated annually.
- Financial remuneration is calculated based on the net value of the investment, rather than the gross value, as before.

- The remuneration rate is calculated on the basis of 10-year government bond yields plus 350 basis points.
- At the end of a facility's regulatory useful life, it is awarded useful life extension costs equal to half of the depreciation charge and financial remuneration in the last year of useful life.

Meanwhile, Order ITC/3993/2006, of 29 December, updated certain aspects of the financial regime governing regulated activities within the gas sector for 2007.

Order ITC/3863/2007, of 27 December, updated certain aspects of the financial regime governing regulated activities within the gas sector for 2008.

In 2008, Royal Decree 326/2008, of 29 February, established the remuneration payable for natural gas transportation services applicable to facilities brought into service from 1 January 2008, marking the first time the mechanism for calculating this remuneration was set at Royal Decree level.

Adaptation and standardisation of the remuneration framework was intended to provide stability and eliminate uncertainty, thus paving the way for the major investments anticipated during the new infrastructure planning period (2008 to 2016).

This Royal Decree adapted the transport remuneration system to the model which had begun to be defined in late 2006 for regasification and underground storage activities, further reinforcing convergence with the remuneration system for electricity transmission and with the remuneration schemes in place for analogous regulated activities in neighbouring European nations.

The new remuneration calculation formula was similar to those in place for regasification and underground storage. As in these cases, it was based on net assets, although in the case of transport, investments are updated annually at a rate of 2.5%.

Ministerial Order ITC/3802/2008, of 26 December, updated certain aspects of the financial regime governing regulated activities within the gas sector for 2009.

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

Order ITC/3354/2010, of 28 December, established remuneration of regulated gas sector activities as well as the tolls and fees for third-party access to gas installations for 2011.

That same year, Order ITC/3128/2011, of 17 November, regulated certain aspects of third-party access to gas installations and remuneration of regulated activities.

The following provisions established in this piece of legislation stand out:

- Regulatory development of application of the unit position values, transport facility maintenance centres and the procedure for valuing the expansion of regulated transport infrastructure, clarifying certain practical matters.
- Establishment of an incentive for reducing shrinkage in the gas transport grid via application of a formula similar to that already applied to regasification facilities.
- Publication of new benchmark unit values for investment and O&M costs for regasification facilities, based on the regulator's proposals, for application from 2012 on.
- Modification of the scheme for remunerating O&M costs for underground natural gas storage facilities. Broadly speaking, the fixed and variable amounts under the old model were replaced by values based on direct and indirect costs in an attempt to better adapt to how these costs are generated and evolve. Establishment of the definitive remuneration for the

Serrablo and Gaviota facilities in this respect for 2007 and 2008 and of their provisional remuneration for 2009, 2010 and 2011.

- Clarification of certain aspects of the unit investment and O&M values for transport facilities, separating the cost of lineal work on transport positions and their application for facility expansion work. Specification that the unit values apply to maintenance centres, determining vital parameters for calculation of their remuneration, such as their useful lives.
- Establishment of a daily balancing system for the day after 'gas day' based on data provided by the distributors. Introduction of a procedure designed to motivate compliance with the information reporting deadlines.
- Maintenance of the obligation to maintain strategic stocks of natural gas equivalent to 20 days' supply and adaptation of the capacity allocation mechanism to this new level.
- Recognition of outstanding remuneration for certain installations associated with the Serrablo underground storage facility.
- Addition of a mandate on "Minimum production requirements for regasification plants" requiring the regulator (CNE) to present the Directorate-General of Energy Policy and Mining with a proposal regarding minimum production requirements for each regasification plant and the minimum operating levels within a period of three months. To this end the CNE is mandated to convene the taskforces it deems fit, involving suppliers, regasification plant owners, transporters and the technical system operator. The proposal must include an analysis of the investment needed to reduce both the minimum production requirements and minimum operating levels for each plant.

Order IET/3587/2011, of 30 December, established remuneration of regulated gas sector activities for 2012 and the tolls and fees for third-party access to gas installations.

Royal Decree Law 13/2012, of 30 March, transposing EU Directives on internal electricity and gas markets and electronic communication matters into Spanish law, introduced a series of measures that ultimately affected costs qualifying for remuneration in the gas sector.

The following provisions stand out:

For underground storage facilities:

- The legislation establishes that remuneration for investment costs will accrue from the year after the facility is commissioned and that, as a general rule, the remuneration corresponding to year 'n' will be paid in year 'n+1' and that remuneration in a given year will not be paid in respect of remuneration accrued in more than one calendar year.
- Notwithstanding the foregoing, a provisional commissioning certificate may be provided for the storage facility as a whole for the purposes of beginning to inject cushion gas, entitling the facility to definitive remuneration from that date on, this remuneration having the consideration of transitory until the definitive commissioning certificate is issued.
- The definitive commissioning certificate will be granted within no more than one month from when the owner accredits that the facility has operated continuously for at least 48 hours in a row exhibiting normal parameters in both injection and extraction mode.

For regasification plants:

- Suspension of processing of all procedures for adjudicating and awarding authorisations for new regasification plants in mainland Spain, including government permits, project execution permits and commissioning certificates.

- Notwithstanding the foregoing, regasification plants in mainland Spain that already had their execution projects approved can continue to build the infrastructure and later apply for the commissioning certificate solely for the purpose of qualifying for transitory remuneration.
- This transitory remuneration will be equal to the financial remuneration in respect of the asset and will be calculated in year 'n', applying the remuneration rate in effect for this type of facility to the carrying amount of the investment.

For gas pipelines and regulation and metering stations:

- Until approval of new infrastructure plans for the natural gas transport network, suspension of permitting of new gas pipelines and regulation and metering stations pending receipt or application of government authorisation and included in the power and gas infrastructure planning document for 2008-2016, as amended by Order ITC/2906/2010, of 8 November, unless they are deemed part of international commitments or are economically profitable for the system due to growth in related demand.
- Notwithstanding the foregoing, as a result of an exceptional Cabinet agreement, these facilities may be individually permitted if it is deemed that not building the facility within a timeframe of three years would pose an imminent risk to supply security or have an adverse economic impact on the gas system or if its construction is considered strategic for the Spanish state as a whole.
- Moreover, the foregoing will not apply to gas pipelines earmarked to supplying an area of influence when the economic viability of the pipelines can be established.

Order IET/849/2012, of 26 April, revised the tolls and fees for third-party access to gas installations, increasing those in effect at the time by 5% in general.

In addition, this order amended the remuneration regime for underground storage facilities established under Order ITC/3995/2006, of 29 December. Specifically, it changed the useful lives of these assets from 10 to 20 years in all instances.

Order IET/2805/2012, of 27 December, completed the overhaul of the underground storage facility remuneration regime, enacting the amendments introduced by Royal Decree Law 13/2012 and Order IET/849/2012; the new regime applies to facilities obtaining definitive or provisional commissioning certificates after 1 April 2012.

The main novelty introduced by this last ministerial order is the decision to update the net investment values at an annual rate of 2.5%, bringing the underground storage facility remuneration regime in line with the prevailing transport regime. This update factor applies to all investments made in underground storage facilities, including cushion gas.

Order IET/2812/2012, of 27 December, established the remuneration for regulated gas-related activities for 2013, whereby it left the methodologies established intact, but introduced the establishment of an efficiency factor (fj) of zero in order to update the remuneration of transport facilities that started up prior to 2008 and distribution facilities.

Order IET/2446/2013, of 27 December, established the tolls and fees for third-party access to gas installations and remuneration of the regulated activities, establishing the fixed assets entitled to remuneration at each company in relation to their transport, regasification, storage and distribution activities, as well as the parameters for calculating the related variable remuneration.

This order includes the update factor for unit investment and O&M values applicable to regasification, transport and storage facilities in 2014. The methodologies established in prior ministerial orders were left intact, so that this piece of legislation simply updated remuneration entitlements for 2014.

This order increases access tolls and fees by 2.3% as a general rule, with the exception of certain tolls, such as the underground storage fee, which was left unchanged year on year.

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

**a.1) Recognised fixed cost.** Recognised fixed cost is calculated on the basis of operating assets and compensates investment and operating costs relating to assets used in the gas system.

**a.1.1.** Remuneration for investment costs comprises the following:

- Value of recognised assets. For facilities commissioned before 2002, the remuneration is calculated based on the carrying amount of the assets after the revaluation of 1996 (Royal Decree Law 7/1996), less grants received to finance these assets. An annual update rate based on the adjusted average of the consumer price index (CPI) and the industrial price index (IPRI) is applied to the difference.

For new facilities brought into service since 2002, the standard value of each investment set by the regulator is used, while those investments that entail expansion are measured at actual cost.

Investments in underground storage are also measured at actual cost because there are no standard values.

Transport installations brought into service from 2008 are valued at the average of the standard value and actual cost.

Regasification installations put into service since 2006 are valued at actual cost plus 50% of the difference between standard value and actual cost, up to the amount of standard value.

- Remuneration for depreciation of system assets. The depreciation rate relating to the useful life of the asset is applied to the investment recognised to give the amount of revenue for this item.

For transport assets put into service after 1 January 2008, depreciation is updated annually at a rate of 2.5%.

- Financial remuneration for the value of the investment. For transport assets put into service before 2008, this figure is calculated by applying a financial return equal to the annual average yield on 10-year government bonds or a replacement interest rate plus 1.5% to the value of the gross investment value obtained as per the previous section.

For transport assets put into service after 1 January 2008, this figure is calculated by applying a financial return equal to the annual average yield on 10-year government bonds or a replacement interest rate, plus 3.75%, to the value of the net investment value (net of depreciation) obtained as per the previous section, updated annually at a rate of 2.5%.

For regasification and storage assets, this figure is calculated by applying a financial return equal to the annual average yield on 10-year government bonds or a replacement interest rate, based on the date that each facility was put into service, plus 3.5%, to the value of the net investment (net of depreciation) obtained in the previous section. For storage assets brought into service after 1 April 2012, the value of the net investment (net of depreciation) is updated annually at a rate of 2.5%.

The resulting remuneration rate for transport assets commissioned in 2013 was 8.71%.



- Remuneration of fully depreciated assets. For transport assets brought into service before 2008, 50% of the financial remuneration is recognised. For regasification, storage, and transport assets brought into service after 1 January 2008, 50% of the depreciation and the financial remuneration of the last year is recognised. With regard to transport assets, remuneration is also updated annually at a rate of 2.5%.

**a.1.2.** Remuneration of operating costs relating to regasification and transport assets brought into service before the end of 2007 is calculated in accordance with the costs authorised in 2000 for gas system installations for gas transport and regasification, standardised by physical and technical units. For transport assets commissioned after 1 January 2008, the standard values applicable are those established in the unit value review proposal put forward by the CNE.

These standard values are updated annually based on the consumer price index and the industrial price index for capital goods, adjusted by certain efficiency factors.

For underground storage facilities, a specific fixed operating and maintenance cost is defined for each site, calculated on the basis of the corresponding direct and indirect costs.

These costs are updated annually based on the consumer price index and the industrial price index for capital goods, adjusted by certain efficiency factors. The direct costs to be finally recognised correspond to half of the direct costs during the preceding year, updated as described above, plus half of the actual cost for the current year, which must be substantiated by a financial audit.

**a.1.3.** Revenue relating to recognised fixed costs is taken to the consolidated income statement on a straight-line basis. This method produces a month-on-month correlation between income (remuneration) and expenses (depreciation).

## **a.2) Recognised variable cost for regasification and transfer of LNG to tankers**

The recognised variable cost is calculated based on the number of kWh actually regasified and the kWh loaded in LNG trucks during each period and the variable unit regasification cost for the period concerned. In 2013 this cost was 0.000165 euros/kWh regasified and 0.000197 euros/kWh loaded in tankers.

For loading LNG onto tankers from regasification plants or the pre-cooling of ships, a cost identical to the variable cost of loading the tanks is recognised. For tanker-to-tanker transfers the cost is 80% of this value.

## **b) Revenue from technical system operation (TSO)**

Revenue from this activity is calculated on a yearly basis in accordance with the recognised cost for each year and is used to compensate the Enagás Group for its obligations as Technical System Operator, which include coordinating the development, operation and maintenance of the transport network, supervising the security of natural gas supply (storage levels and emergency plans), implementing plans for the future development of gas infrastructures and controlling third-party access to the network.

In 2013, the amount earmarked for TSO remuneration, which should be collected by companies that are titleholders of the regasification, transport, storage and gas distribution facilities, as a percentage of invoicing for tolls and fees relating to third-party network access rights, was 0.38%. This amount is

deposited by these companies within the deadlines and in the manner established in the settlement procedure in the deposit account kept open by the CNE for these purposes.

The above-mentioned percentage of invoicing is calculated based on the figure obtained by applying maximum tolls and fees to the invoiced amounts, without subtracting possible discounts that could be agreed between the titleholders of the installations and their users.

Notwithstanding the foregoing, the provisional remuneration recognised for acting as Technical System Operator in 2013 was 11,561,060 euros. Any surplus or shortfall between this figure and the amounts received as a result of application of the above calculations will be included by the CNE in the fourteenth settlement of 2013.

This revenue is taken to the consolidated income statement monthly on a straight-line basis.

**c) Settlement of tolls relating to third-party access to gas installations**

Invoicing and collection of remuneration for regulated activities subject to settlement (third-party access to the network and technical system operation) is carried out in compliance with the settlement procedure established in the Ministerial Order dated 28 October 2002.

**d) Settlement system.**

Ministerial Order ECO/2692/2002, of 28 October, was published on 1 November 2002, regulating settlement procedures for remuneration of regulated activities and defining company disclosure requirements.

Additional Stipulation Five of Order ITC/3993/2006 amends section I.5 of appendix II of this settlement Order, stipulating that the amounts to be paid to each transporter or distributor will bear the interest arising from application to these amounts of the average values of one-year treasury bills over 60 days.

**e) Revenue corresponding to the minimum operating level and minimum linepack of gas pipelines**

Article 16 of Order IET/3587/2011 stipulates that the minimum linepack for gas pipelines and the minimum inventory level of the regasification plants will be remunerated as a necessary investment for the transportation business, with recognition of a financial return.

Article 17 of this order also provides that the financial remuneration for the minimum linepack of gas transportation pipelines and regasification plants purchased each year will be calculated by application to the acquisition cost of a rate of remuneration corresponding to the monthly average of 10-year government bonds over the twelve months previous to November of the preceding year, plus 350 basis points. The acquisition cost will be the result of applying the auction price to the quantity purchased.

**f) Revenue for gas purchases for internal consumption**

From 1 July 2007, gas transporters are responsible for acquiring the amount of gas needed for internal consumption at their facilities. This leads to a reduction in the percentages of shrinkage retained from users.

Gas acquired by transporters is measured at the auction price, with the payments made treated as reimbursable expenses.

**g) Developments in the regulatory framework**

The main gas industry regulatory developments approved in 2013 include:

## **1. Supranational regulations**

**Commission Regulation (EU) No. 984/2013, of 14 October, establishing a network code on capacity allocation mechanisms** in gas transport systems and supplementing Regulation (EC) No. 715/2009 of the European Parliament and of the Council.

**Regulation (EU) No. 347/2013 of the European Parliament and of the Council, of 17 April, on guidelines for trans-European energy infrastructure** and repealing Decision No. 1364/2006/EC and amending Regulations (EC) No. 713/2009, (EC) No. 714/2009 and (EC) No. 715/2009.

## **2. Spanish regulations**

### **REMUNERATION AND TOLLS:**

**Order IET/2812/2012, of 27 December**, established remuneration of regulated gas sector activities for 2013, leaving the methodologies established intact.

**Order IET/2446/2013, of 27 December**, establishing the tolls and fees for third-party access to gas installations and remuneration of regulated gas sector activities.

**Judgment of 10 October 2013, of the Judicial Review Chamber of the Supreme Court**, which rendered null and void paragraphs one and two of article 13 of Order IET/3587/2011, of 30 December, establishing the tolls and fees for third-party access to gas installations and remuneration of regulated gas sector activities.

### **TARIFF OF LAST RESORT**

**Resolution of the Directorate General for Energy Policy and Mining, of 26 December 2013**, publishing the natural gas tariff of last resort.

**Resolution of the Directorate General for Energy Policy and Mining, of 30 September 2013**, establishing the procedure for conducting the auction for the acquisition of base gas for setting the tariff of last resort for natural gas for the period between 1 January and 30 June 2014.

**Resolution of the Directorate General for Energy Policy and Mining, of 13 June 2013**, establishing certain parameters for the auction for the acquisition of natural gas for the purpose of setting the tariff of last resort for the period between 1 July 2013 and 30 June 2014.

**Resolution of the Directorate General for Energy Policy and Mining, of 16 May 2013**, establishing the procedure for conducting the auction for the acquisition of natural gas for setting the tariff of last resort for the period between 1 July 2013 and 30 June 2014.

**(\*) Resolution of the Directorate General for Energy Policy and Mining, of 18 January 2013**, which corrected the errors in the resolution of 28 December 2012, publishing the natural gas tariff of last resort.

### **SYSTEM OPERATION RULES**

**Resolution of the Directorate General for Energy Policy and Mining, of 30 April 2013**, amending protocol PD-04 "Communication mechanisms" of the technical operation rules of the

gas system (NGTS). This resolution also amends NGTS-06 "Allocations", NGTS-07 "Balance" and PD-02 "Procedure for delivery to transport-distribution network points (PCTD)".

**Resolution of the Directorate General for Energy Policy and Mining, of 7 February 2013**, amending NGTS-06 "Allocations", NGTS-07 "Balance" and protocol PD-02 "Procedure for delivery to transport-distribution network points (PCTD)".

**Resolution of the Directorate General for Energy Policy and Mining, of 21 December 2012**, amending protocol PD-01 "Gas metering, quality and odourisation" of the technical operation rules of the gas system.

#### **MANDATORY PLANNING AND WINTER PLAN**

**Resolution of the Directorate-General of Energy Policy and Mining, of 8 October 2013**, approving the winter action plan for operation of the gas system.

#### **UNDERGROUND STORAGE**

**Order IET/1119/2013, of 27 May**, authorising Enagás Transporte, S.A.U. the assignment of the natural gas underground storage operation concessions known as "Gaviota", "Serrablo" and "Yela".

**Resolution of the Directorate General for Energy Policy and Mining, of 6 March 2012**, establishing certain aspects relating to the auction of basic storage capacity for the period between 1 April 2013 and 31 March 2014.

**Resolution of the Directorate General for Energy Policy and Mining, of 22 January 2013**, publishing the capacity allocated and available in the basic natural gas storage facilities for the period between 1 April 2013 and 31 March 2014.

#### **AUCTION FOR THE ACQUISITION OF GAS FOR MINIMUM LINEPACK PURPOSES AND MINIMUM OPERATING LEVELS**

**Resolution of the Directorate General for Energy Policy and Mining, of 23 May 2013**, approving certain parameters for the auction for the acquisition of gas to fulfil minimum operating requirements for the period between 1 July 2013 and 30 June 2014.

**Resolution of Secretary of State for Energy, of 7 May 2013**, amending the resolution of 17 April 2012, establishing the procedure for the auction of natural gas earmarked for the minimum linepack of new underground natural gas storage facilities.

**Resolution of the Directorate General for Energy Policy and Mining, of 10 May 2013**, establishing the rules for conducting the auction for the acquisition of gas to fulfil minimum operating requirements for the period between 1 July 2013 and 30 June 2014.

**Resolution of the Directorate General for Energy Policy and Mining, of 8 April 2013**, establishing the rules for conducting the auction for the acquisition in 2013 of natural gas for the minimum linepack of the basic underground storage facilities, "Yela" and "Castor".

#### **CAPACITY ALLOCATION PROCEDURES**

**Resolution of the CNE, of 9 May 2013**, approving the Information Memorandum and the standard contract for the coordinated allocation of natural gas capacity at the Spain-Portugal

interconnection to be made available during the period between October 2013 and September 2014.

## **ESTABLISHMENT OF STRATEGIC RESERVES**

**Order IET/2459/2013, of 26 December**, approving the amounts certain companies are required to contribute to CORES, the corporation entrusted with managing the country's strategic oil product reserves, for 2014.

## **OTHER PROVISIONS**

**Electricity Sector Law 24/2013, of 26 December**, establishing control restrictions on the technical system operator.

**Resolution of the Secretary of State for Energy, of 27 December 2013**, updating the appendix of Order IET/2877/2008, of 9 October, establishing a mechanism to promote the use of biofuels and other renewable fuels for transportation.

**Resolution of 13 December 2013**, re-establishing the individual transmission, on an exceptional basis, of the primary gas pipeline making up the basic network known as "El Musel-Llanera" and "Desdoblamiento Interconexión Llanera-Otero".

**Law 21/2013, of 9 December**, on environmental assessments.

**Resolution of the National Markets and Competition Commission, of 26 November 2013**, on the certification of Enagás Transporte, S.A.U. as an independent operator of the Enagás Transporte del Norte S.L. network.

**Resolution of the Directorate General for Energy Policy and Mining, of 20 November 2012**, amending the Resolution of 25 July 2006, which regulates allocation conditions and the process of applying interruptible gas supply contracts in the gas system.

**Resolution of the Spanish cabinet of 15 November**, approving the free allocation of greenhouse gas emission allowances to institutions subject to the emission allowance trading scheme for the 2013-2020 period and for each year to each facility.

**Resolution of the National Markets and Competition Commission, of 14 November 2013**, on the certification of Enagás Transporte, S.A.U. as an independent operator of the SAGGAS network.

**Resolution of the Presidency of the CNMC, of 8 November 2013**, creating a website for the organisation.

**Resolution of the Presidency of the CNMC, of 31 October 2013**, approving the delegation of certain competencies.

**Law 16/2013, of 29 October**, establishing certain environmental tax measures and adopting other tax and financial measures.

**Resolution of the Bilbao Port Authorities, of 29 October 2013**, publishing the announcement of the administrative concession granted to "Enagás Transporte del Norte, Sociedad Limitada". (Regulating and metering stations in Punta Sollana Zierbana.)

**Announcement of 28 October 2013 of the Industry and Energy Department of the Central Government Office in Cantabria** whereby all public information is subject to the administrative

authorisation request of the project known as “Addendum no. 2 to the Bilbao-Treto Plant gas pipeline” in Cantabria.

**Resolution of the Secretariat General of Autonomous Community and Local Coordination, of 21 October 2013**, publishing the Bilateral General Administration Cooperation Commission Agreement of the State and the Autonomous Community of Cantabria in relation to Law 1/2013, of 15 April, governing the prohibition in the Autonomous Community of Cantabria of the hydraulic fracturing technique as a research technique and non-conventional gas extraction.

**Regional Law 30/2013, of 15 October**, which prohibits the use of hydraulic fracturing technique as a research technique and non-conventional gas extraction in Navarra Autonomous Community Government.

**Ministry of Industry, Energy and Tourism Order IET/1984/2013, of 15 October**, which stipulates the removal and appointment of members of the CORES Executive Board.

**CNMC Resolution, of 9 October 2013**, publishing the resolution of the Board whereby directors are assigned to the Competition Board and regulatory Supervisory Board.

**Ministry of Economy and Competitiveness Order ECC/1796/2013, of 4 October**, determining the date on which the CNMC enters into operation.

**Directorate-General of Energy Policy and Mining Resolution, of 8 October 2013**, authorising Enagás Transporte, S.A.U. to decommission the TK-1200A and TK-1200B tanks and their facilities associated with the Barcelona regasification plant.

**Directorate-General of Energy Policy and Mining Resolution, of 17 September**, granting Enagás Transporte S.A.U. administrative authorisation, project approval and recognition of public use for the construction of the facilities relating to addendum 2 to the “Zarza de Tajo-Yela” gas pipeline project.

**Royal Decrees 673 to 682/2013, of 10 September**, of the Ministry of Economy and Competitiveness, appointing the Chairman, Deputy Chairman and Directors of the National Markets and Competition Commission.

**Royal Decree 657/2013, of 30 August, of the Ministry of Finance and Public Authorities**, approving the Organic Statute of the National Markets and Competition Commission.

**Resolution of the Directorate General for Energy Policy and Mining, of 15 July 2013**, amending the Resolution of 25 July 2006, which regulates allocation conditions and the process of applying supply interruptible gas contracts in the gas system.

**Law 7/2013, of 21 June, of the la Rioja Autonomous Community**, which prohibits the use of hydraulic fracturing technique as a research technique and non-conventional gas extraction in la Rioja Autonomous Community.

**Order IET/1048/2013, of 10 June**, establishing minimum services in the oil and gas sector in light of the general strike called for 12 June 2013 in the districts of Ferrol, Eume and Ortegá, and the Autonomous Community of Galicia.

**Law 3/2013, of 4 June**, creating the National Markets and Competition Commission.

**CNE Resolution, of 30 May 2013**, establishing and publishing the list of dominant operators in the energy sectors.

**Order IET/938/2013, of 27 May**, establishing minimum services in the oil and gas sector in light of the general strike called for 30 May 2013 in Navarra Autonomous Community Government and the Basque Country Autonomous Community.

**Resolution of the Directorate General for Energy Policy and Mining, of 9 May 2013**, granting Enagás Transporte, S.A.U. administrative authorisation and approval of the operating project “Appendix to the Villalba-Llanera gas pipeline. Extension of the I-008 Position with E.M. G-1000 for the natural gas delivery point”, in the Ribadeo municipality.

**Resolution of the Directorate General for Energy Policy and Mining, of 6 May 2013**, granting Enagás Transporte, S.A.U., administrative authorisation and approval of the operating project “Appendix to the Tivissa-Paterna Duplication gas pipeline, Section 1. Alteration of Position 15-04.D with EM G-250 for the Tortosa Energía delivery point”, in the Tortosa municipality.

**Law 1/2013, of 15 April, of the Cantabria Autonomous Community**, which prohibits the use of hydraulic fracturing technique as a research technique and non-conventional gas extraction in Cantabria Autonomous Community.

**Resolution of the Directorate General for Energy Policy and Mining, of 9 April 2013**, granting Enagás Transporte, S.A.U. direct authorisation to construct the Euskadour international compression station.

**CNE Resolution, of 4 April 2013**, on the request to have Regasificadora del Noroeste, S.A. (REGANOSA) certified as technical gas transport system operator.

**Resolution of the Directorate General for Energy Policy and Mining, of 26 March 2013**, authorising the change in ownership in the authorisations and concessions granted to Enagás, S.A., in favour of Enagás Transporte, S.A.U.

**Corrections to errors in the Resolution of the Secretary of State for Energy, of 7 March 2013**, publishing the values of the natural gas raw material cost and base cost for the first quarter of 2013 for the purposes of calculating the efficiency top-up and the remuneration values for co-generation and other facilities under Royal Decree 661/2007 of 25 May 2007, regulating electric power output under the CHP/renewables regime.

**Resolution of the Directorate General for Energy Policy and Mining, of 8 March 2013**, granting Enagás, S.A. administrative authorisation and approval of the operation project for the construction of the facilities relating to addendum 5 to the Almería-Chinchilla gas pipeline project, in the Moratalla municipality.

**CNE Resolution, of 7 February 2013**, on delegating competencies.

**Judgment of 25 January 2013, of the Judicial Review Chamber of the Supreme Court**, which rendered null and void point 0.8 referred to in article 13 of Ministry of Industry, Tourism and Trade Order IET/3354/2010, of 28 December, establishing the tolls and fees for third-party access to gas installations and remuneration of regulated gas sector activities.

**Resolution of the Gijón Port Authorities**, publishing the announcement of the administrative concession granted to Enagás, S.A. for the construction and operation of the “Musel-Llanera” pipeline and ancillary facilities, in the section that runs from the Port of Gijón service area from the regasification plant granted in consignment to Enagás, S.A.

**Resolution of the Directorate General for Energy Policy and Mining, of 4 February 2013**, granting Enagás, S.A. administrative authorisation and approval of the operation project of the “Algete-Yela gas pipeline. Alteration of Position J-02 with regulation and metering stations (80/16) G-1000 for the delivery point”, in the Marchamalo municipality.

**Plenary Session. Judgment 8/2013, of 17 January 2013.** 2586-2008 Unconstitutionality appeal. Filed by the Canary Island Government regarding article 1.1 of 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.

**Order IET/35/2013, of 21 January**, creating the Electronic Administration Ministerial Commission in the Ministry of Industry, Energy and Tourism, and governing its composition and functions.

**Resolution of the Valencia Port Authorities, of 14 January 2013**, extending the purpose of the concession owned by “Planta Regasificadora de Sagunto, S.A.” (SAGGAS) in the Port of Sagunto.

**Resolution of the Directorate General for Energy Policy and Mining, of 10 January 2013**, granting Enagás, S.A. administrative authorisation and approval of the operating project “Appendix to the Granada-Motril gas pipeline, extension of the L-07 Position with regulation and metering stations (80/16) G-1000 for the natural gas delivery point”, in the Granada municipality.

**Head of State Law 17/2013, of 29 October**, on guaranteeing supply and increasing competition in island and non-mainland electricity systems.

The company Compañía Transportista de Gas Canarias, S.A., (Gascán), developer of two regasification plans on Tenerife and Gran Canaria, and holder of the administrative authorisation to construct the former, is 41.94% owned by Enagás Transporte, S.A.U. (see Note 32). The remaining 58.06% interest is held by Unión Eléctrica de Canarias Generación, S.A.U., (Unelco) and Sociedad para el Desarrollo Económico de Canarias, S.A., (Sodecan).

Law 17/2013, of 29 October, on guaranteeing supply and increasing competition in island and non-mainland electricity systems sets forth the transfer of ownership of the regasification plants planned for the Canary Islands to the business group that the technical natural gas system operator forms part of, which is solely owned by Enagás, S.A.

Consequently, there is a legal obligation to transfer ownership of the regasification plants to the Enagás Group, while the aforesaid law stipulates that if an agreement cannot be reached, arbitration would begin to determine the transfer price.

At 31 December 2013, the Enagás Group is negotiating the transfer price with Gascán and its shareholders.

## **5. Intangible assets**

The breakdown of and movement in intangible assets and their amortisation in 2013 and 2012 were as follows:



**2013**

Cost	Opening balance	Increases due to changes in the scope of consolidation	Additions	Transfers (additions or decreases)	Disposals, derecognition or write-downs	Translation differences	Closing balance
Goodwill	19.153	17.521	-	-	-	(823)	35.851
Other intangible assets							-
Development costs	5.263	-	-	-	(1)	-	5.262
Concessions	5.935	-	-	-	-	-	5.935
Computer software	113.614	39	28.499	-	-	(22)	142.130
Other intangible assets	9.366	-	192	-	-	(10)	9.548
<b>Total cost</b>	<b>153.331</b>	<b>17.560</b>	<b>28.691</b>	<b>-</b>	<b>(1)</b>	<b>(855)</b>	<b>198.726</b>

Depreciation	Opening balance	Increases due to changes in the scope of consolidation	Provisions	Transfers (additions or decreases)	Disposals, derecognition or write-downs	Translation differences	Closing balance
Other intangible assets							
Development costs	(982)	-	(417)	-	-	-	(1.399)
Concessions	(3.348)	-	(214)	-	-	-	(3.562)
Computer software	(68.285)	(39)	(20.537)	-	-	1	(88.860)
Other intangible assets	(6.413)	-	(1.139)	-	-	1	(7.551)
<b>Total depreciation</b>	<b>(79.028)</b>	<b>(39)</b>	<b>(22.307)</b>	<b>-</b>	<b>-</b>	<b>2</b>	<b>(101.372)</b>

Carrying amount	Opening balance	Increases due to changes in the scope of consolidation	Additions	Transfers (additions or decreases)	Disposals, derecognition or write-downs	Translation differences	Closing balance
Goodwill	19.153	17.521,0	-	-	-	(823)	35.851
Other intangible assets	55.150	-	6.384	-	(1)	(30)	61.503
<b>Total intangible assets</b>	<b>74.303</b>	<b>17.521</b>	<b>6.384</b>	<b>-</b>	<b>(1)</b>	<b>(853)</b>	<b>97.354</b>

**2012**

Cost	Opening balance	Additions	Transfers (additions or decreases)	Disposals, derecognition or write-downs	Translation differences	Closing balance
Goodwill	-	19.153	-	-	-	19.153
Other intangible assets						
Development costs	5.259	4	-	-	-	5.263
Concessions	5.935	-	-	-	-	5.935
Computer software	93.796	19.799	-	-	19	113.614
Other intangible assets	9.855	(501)	-	-	12	9.366
<b>Total cost</b>	<b>114.845</b>	<b>38.455</b>	-	-	<b>31</b>	<b>153.331</b>

Depreciation	Opening balance	Provisions	Transfers (additions or decreases)	Disposals, derecognition or write-downs	Translation differences	Closing balance
Other intangible assets						
Development costs	(565)	(417)	-	-	-	(982)
Concessions	(3.134)	(214)	-	-	-	(3.348)
Computer software	(51.221)	(17.051)	-	-	(13)	(68.285)
Other intangible assets	(5.110)	(1.302)	-	-	(1)	(6.413)
<b>Total depreciation</b>	<b>(60.030)</b>	<b>(18.984)</b>	-	-	<b>(14)</b>	<b>(79.028)</b>

Carrying amount	Opening balance	Additions	Transfers (additions or decreases)	Disposals, derecognition or write-downs	Translation differences	Closing balance
Goodwill	-	19.153	-	-	-	19.153
Other intangible assets	54.815	318	-	-	17	55.150
<b>Total intangible assets</b>	<b>54.815</b>	<b>19.471</b>	-	-	<b>17</b>	<b>74.303</b>

a) Goodwill

The increases for changes in the scope of consolidation under "Goodwill" correspond to the goodwill arising from the acquisition of Naturgas Energía Transporte, S.A.U. (formerly, Enagás Transporte del Norte, S.L.) (Note 7), amounting to 15,582 thousand euros, and to the inclusion of the goodwill that the company recognised amounting to 1,939 thousand euros.

In addition, the goodwill of Altamira, LNG C.V. was reduced due to fluctuations in the dollar-euro exchange rate from 31 December 2012 to 31 December 2013, as it was expressed in dollars.

b) Other intangible assets

Key software additions in 2013 include the following:

- SL ATR 2.0, for 11,738 thousand euros
- Commercial system management software, for 1,764 thousand euros
- 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
- 2012 systems plan, for 462 thousand euros

- Maintenance management software 2.0, for 1,173 thousand euros
- Measurement systems, for 1,029 thousand euros
- Software for enhancing contracting, invoicing and metering systems, for 238 thousand euros
- Transport portal, for 705 thousand euros
- Software for enhancing transport and production systems, for 315 thousand euros

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

### **2013**

<b>Item</b>	<b>Carrying amount (gross)</b>
Development costs	269
Computer software	47.446
Other intangible assets	5.288
<b>Total</b>	<b>53.003</b>

### **2012**

<b>Item</b>	<b>Carrying amount (gross)</b>
Development costs	269
Computer software	36.009
Other intangible assets	2.195
<b>Total</b>	<b>38.473</b>

The assets classified within "Other intangible assets" are not mortgaged or subject to any other similar encumbrance.

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

The breakdown of and movement in property, plant and equipment and accumulated depreciation in 2013 and 2012 were as follows:

**2013**

Cost	Opening balance	Increases due to changes in the scope of consolidation	Additions	Transfers (additions or decreases)	Disposals, derecognition or write-downs	Translation differences	Closing balance
Land and buildings	249.225	441	5.334	2.163	(613)	(483)	256.067
Plant and machinery	8.164.019	320.498	27.547	233.064	(1.953)	(4.352)	8.738.823
Other installations, equipment & furniture	74.280	16	5.591	-	(7)	(64)	79.816
Prepayments and work in progress	676.032	25.049	162.747	(235.227)	(3.939)	(85)	624.577
Government grants	(602.042)	(2.998)	(3.924)	-	-	-	(608.964)
<b>Total cost</b>	<b>8.561.514</b>	<b>343.006</b>	<b>197.295</b>	<b>-</b>	<b>(6.512)</b>	<b>(4.984)</b>	<b>9.090.319</b>

Depreciation	Opening balance	Increases due to changes in the scope of consolidation	Provisions	Transfers (additions or decreases)	Disposals, derecognition or write-downs	Translation differences	Closing balance
Land and buildings	(74.269)	-	(6.228)	-	448	11	(80.038)
Plant and machinery	(3.080.492)	(95.063)	(325.888)	-	946	217	(3.500.280)
Other installations, equipment & furniture	(46.539)	(16)	(6.748)	-	7	17	(53.279)
Government grants	334.276	2.426	19.028	-	-	-	355.730
<b>Total depreciation</b>	<b>(2.867.024)</b>	<b>(92.653)</b>	<b>(319.836)</b>	<b>-</b>	<b>1.401</b>	<b>245</b>	<b>(3.277.867)</b>

Impairment	Opening balance	Increases due to changes in the scope of consolidation	Additions	Transfers (additions or decreases)	Reversals, write-offs or derecognition	Translation differences	Closing balance
Plant and machinery	(14.974)	-	(13.170)	-	97	-	(28.047)
Other installations, equipment & furniture	-	-	-	-	-	-	-
Government grants	-	-	-	-	-	-	-
<b>Total impairment losses</b>	<b>(14.974)</b>	<b>-</b>	<b>(13.170)</b>	<b>-</b>	<b>97</b>	<b>-</b>	<b>(28.047)</b>

Carrying amount	Opening balance	Increases due to changes in the scope of consolidation	Additions	Transfers (additions or decreases)	Disposals, derecognition or write-downs	Translation differences	Closing balance
Land and buildings	174.956	441	(894)	2.163	(165)	(472)	176.029
Plant and machinery	5.068.553	225.435	(311.511)	233.064	(910)	(4.135)	5.210.496
Other installations, equipment & furniture	27.741	-	(1.157)	-	-	(47)	26.537
Prepayments and work in progress	676.032	25.049	162.747	(235.227)	(3.939)	(85)	624.577
Government grants	(267.766)	(572)	15.104	-	-	-	(253.234)
<b>Total property, plant and equipment</b>	<b>5.679.516</b>	<b>250.353</b>	<b>(135.711)</b>	<b>-</b>	<b>(5.014)</b>	<b>(4.739)</b>	<b>5.784.405</b>

**2012**

Cost	Opening balance	Additions	Transfers (additions or decreases)	Disposals, derecognition or write-downs	Translation differences	Closing balance
Land and buildings	254.637	2.458	(8.439)	-	569	249.225
Plant and machinery	7.414.397	190.366	554.154	-	5.102	8.164.019
Other installations, equipment & furniture	64.408	9.947	-	(150)	75	74.280
Prepayments and work in progress	1.015.300	206.918	(545.715)	(569)	98	676.032
Government grants	(584.042)	(18.000)	-	-	-	(602.042)
<b>Total cost</b>	<b>8.164.700</b>	<b>391.689</b>	-	<b>(719)</b>	<b>5.844</b>	<b>8.561.514</b>

Depreciation	Opening balance	Provisions	Transfers (additions or decreases)	Disposals, derecognition or write-downs	Translation differences	Closing balance
Land and buildings	(68.311)	(5.948)	-	-	(10)	(74.269)
Plant and machinery	(2.773.722)	(306.576)	-	-	(194)	(3.080.492)
Other installations, equipment & furniture	(42.534)	(4.099)	-	109	(15)	(46.539)
Government grants	314.911	19.365	-	-	-	334.276
<b>Total depreciation</b>	<b>(2.569.656)</b>	<b>(297.258)</b>	-	<b>109</b>	<b>(219)</b>	<b>(2.867.024)</b>

Impairment	Opening balance	Additions	Transfers (additions or decreases)	Reversals, write-offs or derecognition	Translation differences	Closing balance
Plant and machinery	(14.974)	-	-	-	-	(14.974)
Other installations, equipment & furniture	-	-	-	-	-	-
Government grants	-	-	-	-	-	-
<b>Total impairment losses</b>	<b>(14.974)</b>	-	-	-	-	<b>(14.974)</b>

Carrying amount	Opening balance	Additions	Transfers (additions or decreases)	Disposals, derecognition or write-downs	Translation differences	Closing balance
Land and buildings	186.326	(3.490)	(8.439)	-	559	174.956
Plant and machinery	4.625.701	(116.210)	554.154	-	4.908	5.068.553
Other installations, equipment & furniture	21.874	5.848	-	(41)	60	27.741
Prepayments and work in progress	1.015.300	206.918	(545.715)	(569)	98	676.032
Government grants	(269.131)	1.365	-	-	-	(267.766)
<b>Total property, plant and equipment</b>	<b>5.580.070</b>	<b>94.431</b>	-	<b>(610)</b>	<b>5.625</b>	<b>5.679.516</b>

At 31 December 2013, transfers to "Plant and machinery" mainly relate to the start-up of the following:

- New positions and regulating and metering stations in gas pipelines
- Changes in gas pipeline positions
- Cushion gas in the Yela and Castor underground storage facilities
- Bilbao-Treto gas pipeline

It should be noted that the Enagás Group undertakes to acquire half the current ownership interest that ACS Actividades de Construcción y Servicios, S.A. has in ESCAL UGS, S.L. (a company in charge of the Castor natural gas underground storage project), which represents 33.33% of the share capital; and undertakes to acquire 16.67% from the other shareholders of this company, in the event they decide to sell their ownership interest. These commitments are subject to certain conditions precedent which were not met at the date of preparation of these consolidated financial statements.

The increases for changes in the scope of consolidation under "Plant and machinery" include the property, plant and equipment received through the acquisition of Enagás Transporte del Norte, S.L. in 2013, which includes 92,707 thousand euros relating to the assignment of the associated acquisition cost (Note 7).

Similarly, 1,808 thousand euros were recognised that relate to the natural gas acquired for the minimum linepack of the gas pipelines (1,030 thousand euros in 2012). This heading also includes 763 thousand euros for dismantling the Barcelona, Cartagena and Huelva plants (78,787 thousand euros in 2012) (Note 14).

Additions to "Prepayments and work in progress" in 2013 relate basically to the following installations:

- Regasification facilities at the El Musel plant
- LNG storage facilities at the El Musel plant
- Martorell-Figueras gas pipeline
- Maritime civil works at the El Musel plant
- Duplication of the Treto-Llanera gas pipeline
- Musel-Llanera gas pipeline
- Duplication of the Villapresente-Burgos gas pipeline
- Tripling of the Tivissa-Arbos gas pipeline
- Metering unit (measurement systems) at position G-6500 at position D-16 in Llanera
- El Villar de Arnedo-Castelnou gas pipeline
- Third storage tank of the Bilbao plant

The reductions in property, plant and equipment accumulated in 2013 relate basically to the derecognition of the PA-216 submerged combustion vaporizer and the GB-201 A/B air compressors of the Cartagena Plant as a result of their deterioration. Both pieces of equipment were fully depreciated. The minimum operating level of the TK 1200 A/B tanks of the Barcelona Plant was also derecognised. Derecognition of work in progress concerned projects which were eventually not carried out. "Transfers" shows the movements from work in progress to property, plant and equipment as projects were commissioned during the year.

The revaluation of assets in accordance with the provisions of Royal Decree Law 7/1996, of 7 June, resulted in an increase of 14,643 thousand euros in the depreciation charge for property, plant and equipment in 2013 (14,964 thousand euros in 2012).

Capitalised finance costs accrued during construction of infrastructure projects in 2013 amounted to 7,943 thousand euros (20,959 thousand euros in 2012).

Likewise, own work capitalised increased property, plant and equipment by 12,906 thousand euros in 2013 (15,180 thousand euros in 2012) (see Note 23.1).

The impairment recognised under "Plant and machinery" in 2013 is mainly due to the physical deterioration of materials used as spares for said assets, as well as the estimated loss of value of certain assets.

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

The Group insures its assets so no significant losses occur, on the basis of best market practice and according to the nature and characteristics of the items of property, plant and equipment.

The Group also has insurance policies against third-party civil liability.

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

**2013**

Item	Carrying amount (gross)
Buildings	11.643
Plant and machinery	659.089
Other installations, equipment & furniture	41.715
<b>Total</b>	<b>712.447</b>

**2012**

Item	Carrying amount (gross)
Buildings	10.143
Plant and machinery	551.717
Other installations, equipment & furniture	39.067
<b>Total</b>	<b>600.927</b>

Government grants received at year-end 2013 and 2012 relate to investments in gas infrastructure, as follows:

	Thousands of euros		
	Grants received at 31/12/2013	Released to income at 30/12/2013	Balance at 31/12/2013
Regasification plants	97.141	(81.263)	15.878
Gas transport infrastructure	494.315	(265.154)	229.161
Underground storage facilities	17.508	(9.313)	8.195
<b>Total</b>	<b>608.964</b>	<b>(355.730)</b>	<b>253.234</b>

	Thousands of euros		
	Grants received at 31/12/2012	Released to income at 31/12/2012	Balance at 31/12/2012
Regasification plants	86.225	(70.316)	15.909
Gas transport infrastructure	498.309	(255.677)	242.632
Underground storage facilities	17.508	(8.283)	9.225
<b>Total</b>	<b>602.042</b>	<b>(334.276)</b>	<b>267.766</b>

The grants were received from the following bodies:

	Thousands of euros		
	Grants received at 31/12/2013	Released to income at 31/12/2013	Balance at 31/12/2013
EU structural funds	433.926	(226.323)	207.603
Spanish regional authorities	61.190	(35.412)	25.778
Spanish state	113.848	(93.995)	19.853
<b>Total</b>	<b>608.964</b>	<b>(355.730)</b>	<b>253.234</b>

	Thousands of euros		
	Grants received at 31/12/2012	Released to income at 31/12/2012	Balance at 31/12/2012
EU structural funds	431.074	(216.516)	214.558
Spanish regional authorities	57.120	(26.403)	30.717
Spanish state	113.848	(91.357)	22.491
<b>Total</b>	<b>602.042</b>	<b>(334.276)</b>	<b>267.766</b>

Government grants to be released to the income statement in 2014 amount to approximately 18,915 thousand euros. The schedule for the release of the outstanding balance at 31 December 2013 is as follows:

	Years		
	<1	2 to 5	>5
Spanish state grants	2.288	9.152	8.413
Spanish regional authority grants	1.773	7.090	16.915
FEDER grants	14.854	59.283	133.466
<b>Total grants</b>	<b>18.915</b>	<b>75.525</b>	<b>158.794</b>

## **7. Business combinations**

On 15 February 2013, Enagás Transporte, S.A.U. effectively acquired 90% of Naturgas Energía Transporte, S.A.U. (Note 2.3).

The purchase price amounted to 245 million euros, 115 million euros of which relate to the 90% interest in the share capital of Naturgas Energía Transporte, S.A.U. and the remaining 130 million euros relate to the subrogation by Enagás Transporte, S.A.U. of the intra-company debt of the previous shareholder.

The goodwill that arose at the effective date of the business combinations is detailed as follows:

	Amounts in thousands of euros
Consideration transferred	115.493
Non-controlling interest's shareholding acquired	12.832
Fair value of net assets acquired	112.744
<b>Goodwill (see Note 5)</b>	<b>15.582</b>



Enagás Transporte, S.A.U.'s assets and liabilities carried at fair value at the acquisition date were as follows:

	Thousands of euros
<b>Current assets:</b>	<b>12.854</b>
Inventories	1.023
Trade receivables	9.084
Other current assets	705
Cash and cash equivalents	2.042
<b>Non-current assets:</b>	<b>252.293</b>
Intangible assets	1.939
Property, plant and equipment	250.353
Other non-current assets	1
<b>Current liabilities:</b>	<b>(139.510)</b>
Borrowings from related parties	(129.654)
Trade payables	(9.655)
Other current liabilities	(201)
<b>Non-current liabilities:</b>	<b>(12.893)</b>
Deferred tax liabilities	(5.492)
Other non-current liabilities	(7.401)
<b>Total fair value of identifiable net assets acquired</b>	<b>112.744</b>

The fair value of the net assets acquired includes 92,707 thousand euros recognised as an addition to property, plant and equipment (Note 6).

Details of the revenue and profit attributable to the business combination from the date of acquisition at 31 December 2013 are as follows:

	Enagas Transporte del Norte, S.L.
Revenue	26.223
Profit for the year	10.732
Profit attributable to non-controlling interests	1.073
<b>Profit for the year attributable to the parent</b>	<b>9.659</b>

Had the aforementioned business combination occurred at the beginning of 2013, the revenue and profit for the year would have been as follows:

	Enagas Transporte del Norte, S.L.
Revenue	31.478
Profit for the year	12.736
Profit attributable to non-controlling interests	1.274
<b>Profit for the year attributable to the parent</b>	<b>11.462</b>

Similarly, the shareholders agreement signed between Enagás Transporte, S.A.U. and EVE includes the option to sell the 10% interest owned by EVE, which can be executed in July 2016. In this regard, the put option was initially recognised under “Reserves” in the consolidated balance sheet for the present value of the debt at the payment date of 15,600 thousand euros, along with a financial liability under “Non-current financial liabilities”. Subsequently, any change in the present value of the debt is taken to profit and loss. At 31 December 2013, the present value of this option amounted to 16,400 thousand euros, having recognised a finance cost of 800 thousand euros in the 2013 consolidated income statement.

## **8. Financial assets**

### **8.1 Composition and breakdown**

The Group’s financial assets at 31 December 2013 and 31 December 2012, broken down by class and category for measurement purposes, were as follows:

Class Category	Non-current financial assets							
	Equity instruments		Debt securities		Loans, derivatives and other		Total	
	2013	2012	2013	2012	2013	2012	2013	2012
Held-to-maturity investments	181	189	-	-	789	717	970	906
Loans and receivables	-	-	-	-	15.383	16.407	15.383	16.407
Derivatives	-	-	-	-	754	12.446	754	12.446
<b>Total</b>	<b>181</b>	<b>189</b>	<b>-</b>	<b>-</b>	<b>16.926</b>	<b>29.570</b>	<b>17.107</b>	<b>29.759</b>

Class Category	Current financial assets							
	Equity instruments		Debt securities		Loans, derivatives and other		Total	
	2013	2012	2013	2012	2013	2012	2013	2012
Held-to-maturity investments	-	-	-	-	277	-	277	-
Loans and receivables	-	-	-	-	2.436	2.227	2.436	2.227
Derivatives	-	-	-	-	284	-	284	-
<b>Total</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>2.997</b>	<b>2.227</b>	<b>2.997</b>	<b>2.227</b>

The changes in Group financial assets in 2013 and 2012 were as follows:

#### **2013**

	Opening balance	Additions or provisions	Remeasurement against equity/profit or loss	Transfers	Disposals, derecognition or write-downs	Closing balance
Equity instruments	189	-	(8)	-	-	181
Debt securities	-	-	-	-	-	-
Loans, derivatives and other	31.797	2.190	(12.432)	-	(1.632)	19.923
<b>Total</b>	<b>31.986</b>	<b>2.190</b>	<b>(12.440)</b>	<b>-</b>	<b>(1.632)</b>	<b>20.104</b>

#### **2012**

	Opening balance	Additions or provisions	Remeasurement against equity/profit or loss	Transfers	Disposals, derecognition or write-downs	Closing balance
Equity instruments	4.749	158	-	-	(4.718)	189
Debt securities	-	-	-	-	-	-
Loans, derivatives and other	60.151	16.287	(39.661)	-	(4.980)	31.797
<b>Total</b>	<b>64.900</b>	<b>16.445</b>	<b>(39.661)</b>	<b>-</b>	<b>(9.698)</b>	<b>31.986</b>

The main changes in 2013 relate to the change in value of the Cross Currency Swap fair-value hedge (see Note 18).

Furthermore, in 2013 the loan granted by Enagás Transporte S.A.U. to Gasoducto Al-Andalus, S.A. was repaid along with the interest accrued on the loans granted to the investee Gasoducto de Morelos amounting to 1,105 thousand euros (599 thousand euros were accrued in 2012).

No financial assets were non-performing at 31 December 2013.

The financial assets carried in the accompanying financial statements at fair value break down as follows by fair value calculation methodology:

	Level 1	Level 2	Level 3	Total
Hedging derivatives	-	1.038	-	1.038
<b>Total</b>	-	<b>1.038</b>	-	<b>1.038</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.

## **8.2 Impairment losses**

In 2013, there were no changes in provisions for impairment losses on the Group's financial assets.

## **8.3 Loans and receivables generated by the Group:**

### **Current and non-current loans**

The balance of these consolidated balance sheet headings by the nature of the transaction is detailed below:

	Thousands of euros
<b>Non-current loans:</b>	
Other loans	719
Loans to Group companies	15.688
<b>Current loans:</b>	
Loans to Group companies	2.227
<b>Balance at 31/12/2012</b>	<b>18.634</b>
<b>Non-current loans:</b>	
Other loans	733
Loans to Group companies	14.650
<b>Current loans:</b>	
Loans to Group companies	2.436
<b>Balance at 31/12/2013</b>	<b>17.819</b>

Current and non-current loans include long-term loans granted by the Parent to finance the construction of transport infrastructure; they are measured at amortised cost using the effective interest method.

The breakdown is as follows:

Thousands of euros	Interest rate	Maturity	31/12/2013	31/12/2012
<b>Non-current loans to Group companies (Note 28)</b>			<b>14.650</b>	<b>15.688</b>
Gasoductos de Morelos	7.5%	Sept. 2033	14.650	15.688
<b>Current loans to Group companies (Note 28)</b>			<b>2.436</b>	<b>2.227</b>
Gasod. Al-Andalus, S.A.	1.8%	Dec. 2013	-	1.329
Gascan	5.34%	Jun. 2013	-	299
Gascan	6-month Euribor + Margin	Jun. 2014	296	-
Gascan	6-month Euribor + Margin	Aug. 2014	254	-
Gascan	6-month Euribor + Margin	Mar. 2014	182	-
Gasoducto de Morelos	7.5%	Sept. 2033	1.704	599
<b>Total</b>			<b>17.086</b>	<b>17.915</b>

## **9. Inventories**

It should be noted that at 31 December 2013, the Enagás Group, as technical system operator, had approximately 859 GWh of working gas reserves necessary to ensure operation of the gas system, as stipulated in additional provision five of Order ITC/3863/2007, of 28 December. This gas is not recognised as inventory in the financial statements since it belongs to the entire gas system and is not the property of the Enagás Group.

The Group also has 15,182 thousand euros (13,829 thousand euros in 2012) of inventories unrelated to natural gas that include, inter alia, office materials and consumables.

## **10. Trade and other receivables**

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

	<b>31.12.13</b>	<b>31.12.12</b>
Trade receivables	14.790	26.403
Receivable from Group companies (Note 28)	1.738	2.152
Other receivables	647.688	520.951
Current tax assets (Note 21.2)	35.105	57.967
<b>Total</b>	<b>699.321</b>	<b>607.473</b>

The 1,738 thousand euros under "Receivable from Group companies" corresponds mainly to services provided by Enagás Transporte, S.A.U. to Gasoducto Al-Andalus, S.A. and Gasoducto de Extremadura, S.A. totalling 660 thousand euros and 684 thousand euros, respectively, as per the percentage interest of Galp Natural Gas, S.A. in these companies.

Under "Other receivables", the Enagás Group includes the unsettled balance relating to remuneration for regulated regasification, transport, and storage activities in 2013 for 318,934 thousand euros, and the outstanding balance on the remuneration for technical system management of 2,050 thousand euros, leaving a total outstanding balance of 320,984 thousand euros at year-end 2013.

"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 Barcelona, Cartagena and Huelva plants. At 31 December 2013, these outstanding balances receivable amounted to 9,669 thousand euros, 8,524 thousand euros of which were more than one year past due. This debt is currently the subject of a lawsuit.

Law 48/2003 modifies the duty on goods unloaded at ports under the concession regime. Title I of this law states that if the concessionaire makes the application within a period of six months, 100% of the duties related to unloading may be passed on to the agent that is titleholder of the merchandise even though payment to the port authority is still the responsibility of the taxpayer, in this case the Enagás Group, 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 lawsuit 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, the Enagás Group has filed administrative claims seeking legal jurisdiction for its actions covering the full uncollected amounts. It should be noted that the Enagás Group's claims have been expressly ratified by the Huelva Port Authority via a ruling issued on 3 May 2007, which, in line with the Port Authorities of Cartagena and Barcelona, considers without any reservation that Enagás' election to avail itself of the new economic tax regime established by Law 48/2003 was not outside the allotted period. In addition, all the rulings handed down by the regional economic and administrative courts have upheld the claims lodged by Enagás, S.A. in response to the suppliers' refusal to pay the total amounts invoiced for port duties on merchandise and for general services.

The Group's directors recognise the risk that the rest of the suppliers currently paying the full duties passed on by the Enagás Group will seek reimbursement of 50% if the court rules against the Group in the administrative claims in process. The amount paid to the Enagás Group by suppliers with which there is no ongoing litigation at 31 December 2013 totalled 53,001 thousand euros, of which 50% (26,501 thousand euros) would be at risk.

The above notwithstanding, the Group's directors consider that based on the information available to date, the risk of not recovering these amounts is remote, so no provision for this concept has been recognised. However, they will continue to monitor the claims lodged in 2013.

"Income tax receivable" at 31 December 2013 basically includes VAT receivable by the Group, as accrued recoverable VAT is higher than VAT payable, partly because Enagás Transporte, S.A.U. acts as a tax warehouse and as a result of income tax receivable (Note 21).

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

### **Credit risk**

The Group's main financial assets are cash and cash equivalents, trade and other receivables, and investments, which represent the Group's maximum exposure to credit risk in relation to financial assets. The balances include amounts which on the whole are within the stipulated maturity periods and are payable by companies of recognised prestige and solvency.

The Group does not have a significant concentration of credit risk as it operates in a regulated environment under planned scenarios. However, it recognises the impairment provisions deemed necessary to cover the risk of non-payment (Note 17).

## **11.- Cash and cash equivalents**

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

	<b>2013</b>	<b>2012</b>
Cash	44.421	85.765
Cash equivalents	308.937	1.393.882
<b>Total</b>	<b>353.358</b>	<b>1.479.647</b>

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 last quarter of 2013 (see Note 15.1).

Moreover, as indicated in Note 15.1, the Enagás Group has undrawn credit facilities to shore up liquidity. In this regard, the Enagás Group has the following funds available at 31 December 2013:

<b>Funds available</b>	<b>31/12/2013</b>	<b>31/12/2012</b>
Cash and cash equivalents	353.358	1.479.647
Other funds available (Note 15.1)	1.761.110	752.020
<b>Total funds available</b>	<b>2.114.468</b>	<b>2.231.667</b>

As a general rule, cash at banks earns interest at a rate that is similar to the market rate for daily deposits. 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**

### **12.1 Share capital**

The share capital of Enagás, S.A. 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 Enagás, S.A.'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
Bilbao Bizkaia Kutxa	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.

## 12.2 Reserves

### Legal reserve

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

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

The Group's Parent has appropriated an amount of 71,620 thousand euros to the legal reserve, included under restricted reserves in the accompanying consolidated balance sheet.

## 12.3 Proposed distribution of the Parent's net profit

The distribution of net profit for 2013 that Enagás, S.A.'s Board of Directors will propose for approval at the General Shareholders' Meeting is as follows:

	<b>2013</b>
Voluntary reserves	77.082
Dividends	302.387
	<b>379.469</b>

At its meeting on 18 November 2013, the Board of Directors of Enagás, S.A. resolved to pay an interim dividend against 2013 profit of 120,083 thousand euros (0.503 euros per share, before tax). The Parent has prepared the necessary liquidity statement, expressed in thousands of euros, in accordance with article 277 of Spain's Corporate Enterprises Act.

In accordance with legal requirements, the provisional financial statements prepared by the Group's Parent, indicating the existence of sufficient resources to pay the interim dividend against 2013 profit, are set forth below:

	<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 interim dividend</b>	<b>(120.083)</b>
Forecast cash at banks and in hand between 31 October and 31 December:	
- Cash at banks and in 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 the interim dividend)	(347.600)
<b>Forecast cash at banks and in hand</b>	<b>1.176.889</b>

The aforementioned interim dividend was paid on 19 December 2013.

The proposed before-tax final dividend (0.764 euros per share) is subject to shareholder approval at the General Shareholders' 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.

#### **12.4 Net unrealised gains (losses) reserve**

The amounts recognised by the Group under this reserve heading at 31 December 2013 and 2012 break down as follows:

	<b>31/12/2013</b>	<b>31/12/2012</b>
Translation differences	(3.383)	3.585
Cash flow hedges	10.425	(13.679)
<b>Total net unrealised gains (losses)</b>	<b>7.042</b>	<b>(10.094)</b>

#### **Hedging transactions**

This heading refers to derivatives arranged by the Company and designated as cash flow hedges (Note 18).

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	(20.184)	11.131	20.406	11.353
Taxes recognised in equity	6.505	(2.079)	(5.354)	(928)
<b>Total</b>	<b>(13.679)</b>	<b>9.052</b>	<b>15.052</b>	<b>10.425</b>

## 2012

	Thousands of euros			
	01/01/2012	Change in fair value	Recognised in profit or loss	01/01/2012
Cash flow hedges	(8.244)	(23.945)	12.005	(20.184)
Taxes recognised in equity	2.463	7.644	(3.602)	6.505
<b>Total</b>	<b>(5.781)</b>	<b>(16.301)</b>	<b>8.403</b>	<b>(13.679)</b>

### **12.5 Total dividends paid**

In addition to the interim dividend in 2013 (mentioned in Note 12.3 above), Enagás, S.A. distributed the 2012 before-tax final dividend in 2013. This dividend amounted to 163,478 thousand euros (0.685 euros per share) and was settled in July 2013.

### **12.6 Non-controlling interests**

Movement in non-controlling interests under equity in the consolidated balance sheet at 31 December 2013 is as follows:

	Balance at 31/12/2012	Initial recognition	Contribution of results	Balance at 31/12/2013
Ente Vasco de la Energía	-	12.833	1.073	13.906
<b>Total</b>	<b>-</b>	<b>12.833</b>	<b>1.073</b>	<b>13.906</b>

The amount of 13,906 thousand euros recognised as non-controlling interests comprises the 10% interest that EVE holds in Enagás Transporte del Norte, S.L. (see Note 7).

## **13. Earnings per share**

Basic earnings per share is calculated by dividing the profit for the year attributable to equity holders of the Parent by the weighted average number of shares outstanding in the year, excluding the average number of treasury shares held in the year.

Accordingly:

	2013	2012	Change
Net profit for the year (thousands of euros)	403.183	379.508	6,2%
Weighted average number of shares outstanding (thousands of shares)	238.734	238.734	-
<b>Basic earnings per share in euros</b>	<b>1,6888</b>	<b>1,5897</b>	<b>6,2%</b>

Diluted earnings per share is calculated by dividing profit for the period attributable to equity holders of the Parent (adjusted for the effect of dilutive potential ordinary shares) by the weighted average number of ordinary shares outstanding during the period adjusted for the weighted average number of ordinary shares that would be issued on the conversion of all the dilutive potential ordinary shares into ordinary shares of the company. As there are no potential ordinary shares at either year-end 2013 or 2012, basic and diluted earnings per share coincide.

#### **14. Provisions and contingent liabilities**

##### **14.1 Provisions**

The directors consider that the provisions recorded in the accompanying consolidated balance sheet adequately cover the Group's exposure to the 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 discounting of provisions is recognised with a charge to "Finance costs" in the accompanying consolidated income statement.

The changes in this consolidated balance sheet heading in 2013 were as follows:

Non-current provisions	01/01/2013	Provisions	Discounting	Amounts applied	Reclasificaciones	Translation differences	31/12/2013
Employee benefits	668	-	-	(668)	-	-	-
Other liabilities	7.162	3.295	-	(4.418)	-	-	6.039
Abandonment costs	167.559	763	3.033	-	-	(73)	171.282
<b>Total non-current provisions</b>	<b>175.389</b>	<b>4.058</b>	<b>3.033</b>	<b>(5.086)</b>	-	<b>(73)</b>	<b>177.321</b>

##### *Employee benefits*

This heading corresponds primarily to the provision to cover any financial consequences that may arise from possible regulatory changes and the redundancies carried out in December 2012. This provision was used in full in 2013.

##### *Other liabilities*

The provisions made in 2013 relate to legal obligations primarily deriving from legal claims and lawsuits.

Applications relate mainly to the agreements reached with regard to commercial claims with suppliers.

##### *Abandonment costs*

The provision in 2013 amounting to 763 thousand euros relates to the increase in the allowance for provisions for dismantling the Barcelona, Cartagena and Huelva plants.

The effect of discounting the provision for dismantling these plants, the Yela, Gaviota and Serrablo underground storage facilities, owned by Enagás Transporte S.A.U. and the facilities owned by T.L.A. de Altamira CV and BBG have been included under the column headed "Discounting" (Note 3.c).

## 14.2 Contingencies

The Group had the following contingent liabilities at 31 December 2013:

- The outstanding balances receivable from gas suppliers for the freight duty regulated by article 24 of Law 48/2003 (see Note 10).
- Proceedings for judicial review regarding the urban planning licence and construction work tax levied.
- Court case relating to extra-contractual damages caused by the construction of gas pipelines.

## 15. Financial liabilities

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

Class Category	Non-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
Accounts payable	1.774.342	2.700.438	1.829.824	1.818.427	22.470	11.224	3.626.636	4.530.089
Derivatives	-	-	-	-	22.653	8.181	22.653	8.181
<b>Total</b>	<b>1.774.342</b>	<b>2.700.438</b>	<b>1.829.824</b>	<b>1.818.427</b>	<b>45.123</b>	<b>19.405</b>	<b>3.649.289</b>	<b>4.538.270</b>

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
Accounts payable	169.576	286.884	318.448	270.607	866	1.879	488.890	559.370
Derivatives	-	-	-	-	5.415	15.640	5.415	15.640
<b>Total</b>	<b>169.576</b>	<b>286.884</b>	<b>318.448</b>	<b>270.607</b>	<b>6.281</b>	<b>17.519</b>	<b>494.305</b>	<b>575.010</b>

Below is a breakdown, by maturity, of the accounts payable and the maturity of the derivatives:

### 2013

	2014	2015	2016	2017	2018 and beyond	Total
Bonds and other marketable securities	318.448	548.683	399.826	752.289	129.026	2.148.272
Bank borrowings	169.576	119.608	134.712	161.525	1.358.497	1.943.918
Derivatives	5.415	809	-	-	21.844	28.068
Other	866	2.247	17.491	923	1.809	23.336
<b>Total</b>	<b>494.305</b>	<b>671.347</b>	<b>552.029</b>	<b>914.737</b>	<b>1.511.176</b>	<b>4.143.594</b>

## 2012

	2013	2014	2015	2016	2017 and beyond	Total
<b>Bonds and other marketable securities</b>	270.607	10.000,0	498.813,0	399.800	909.814	2.089.034
<b>Bank borrowings</b>	286.884	580.308	497.212	132.283	1.490.635	2.987.322
<b>Derivatives</b>	15.640	4.074	2.593	252,0	1.262,0	23.821
<b>Other</b>	1.879	6.307	1.091	1.091	2.735	13.103
<b>Total</b>	<b>575.010</b>	<b>600.689</b>	<b>999.709</b>	<b>533.426</b>	<b>2.404.446</b>	<b>5.113.280</b>

The financial liabilities carried at fair value in the accompanying financial statements break down as follows by fair value calculation methodology:

	Level 1	Level 2	Level 3	Total
Hedging derivatives	-	28.068	-	28.068
<b>Total</b>	<b>-</b>	<b>28.068</b>	<b>-</b>	<b>28.068</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.

### 15.1 Non-current financial liabilities

At 31 December 2013, the Group had credit facilities amounting to a maximum of 1,660 million euros (886 million euros in 2012), 1,651 million euros of which is undrawn (642 million euros in 2012). The Group 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 annual interest rate on Group borrowings was 2.29% in 2013, without considering hedges and transaction fees, and 2.65% factoring in hedges and fees (2.122% and 2.466%, respectively, in 2012).

The directors estimate that the fair value of bank borrowings and other obligations at 31 December 2013 differs little from the carrying amount thereof. The sensitivity of the aforementioned fair value to fluctuations in interest rates is as follows:

	Millions of euros			
	Change in interest rates			
	2013		2012	
	0,25%	-0,25%	0,25%	-0,25%
Change in fair value of	32.4	(32,7)	49.3	(49,9)

“Others” also includes:

- The loan from the General Energy Secretariat, which forms part of the aid envisaged in the National Energy Programme granted by the Ministry of Industry, Tourism and Trade within the framework of the National Plan for Scientific Research, and Technical Development and Innovation (2004-2007). This loan is associated with the “Project for the electricity generation system at the Almendralejo compression station” being carried out by Enagás Transporte, S.A.U. The total amount of the loan granted is 3,265 thousand euros, of which 168 thousand euros was

repaid in 2010, 467 thousand euros in 2011, 466 thousand euros in 2012, and 466 thousand euros in 2013; 1,231 thousand euros is classified as non-current and 466 thousand euros as current.

- The loan from the General Industry Secretariat, which forms part of the aid envisaged in the aforementioned plan by the Ministry of Industry, Tourism and Trade. This loan is associated with the "Project for design and development of a high pressure gas meter calibration facility" being carried out by Enagás Transporte, S.A.U. The total initial loan grant was 1,100 thousand euros. The Group repaid 204 thousand euros in 2009, at the request of the authorities, in order to adjust the size of the loan to the amount actually invested. A further 128 thousand euros was repaid in 2012 and another 128 thousand euros in 2013; at 31 December 2013, 455 thousand euros was classified as non-current and 128 thousand euros as current.
- This heading also includes another loan from the General Energy Secretariat as part of the aid envisaged in the aforementioned plan by the Ministry of Industry, Tourism and Trade. This loan is associated with the "Project for Huelva power generation plant" being carried out by Enagás Transporte, S.A.U. The total initial loan granted was 3,598 thousand euros. The Group repaid 108 thousand euros in 2009, at the request of the General Energy Secretariat, in order to adjust the size of the loan to the amount actually invested. In 2012, it repaid another 13 thousand euros in this same connection. The Group repaid 22 thousand euros in December 2012, and 64 thousand euros at 31 December 2013, whereby 162 thousand euros was classified as non-current and 3,229 thousand euros as current.

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

"Others" also includes the financial liability corresponding to EVE's option to sell its interest in Enagás Transporte del Norte, S.L. (see Note 7).

Lastly, "Accounts payable – Derivatives and other financial liabilities" includes 332 thousand euros corresponding to non-current payables to fixed asset suppliers.

Derivatives also include cash-flow hedges arranged by the Group for 2010-2017.

Financing highlights in 2013 include:

- On 26 April 2013, Enagás Financiaciones, S.A.U. renewed the Euro Medium Term Note (EMTN) programme for two billion euros, which was listed on the Luxembourg Stock Exchange in 2012, with Enagás, S.A. acting as guarantor.
- On 15 January 2013, Enagás Financiaciones S.A.U. launched a two-year issue amounting to 50 million euros, 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 Enagás, S.A.
- It should also be mentioned that on 26 April 2013 Enagás, S.A. renewed the Euro Commercial Paper (ECP) programme for up to one 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 281.5 million euros under the programme (246 million at 31 December 2012).
- Enagás Financiaciones announced a Consent Solicitation of its bond issue maturing in 2017 and secured by Enagás S.A. and Enagás Transporte S.A.U. to eliminate the guarantee of the latter in order to simplify the Group's financial structure. During this same year, authorisation was requested from the European Investment Bank (EIB) to transfer its debt totalling 1,046 million euros from Enagás Transporte S.A.U. to Enagás, S.A. Following approval of this transfer, an intra-group loan was entered into between both companies.
- 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.

- In the last quarter of 2013, the Enagás Group repaid loans totalling 800 million euros early through the cancellation of temporary financial instruments, thereby extending the average life of the debt (see Note 11).
- In order to finance the expansion of the third storage tank at the Bilbao plant (Note 6), BBG drew down on a loan with the EIB, BBVA, Kutxabank and Caixabank amounting to 41 million euros, and cancelled the previous loan with Kutxabank for 7 million euros.

## 15.2 Current financial liabilities

Derivatives and other financial liabilities classified as "Accounts payable" include:

- Interest on borrowings from related-party banks in the amount of 50 thousand euros in 2013 (78 thousand euros in 2012).
- Current borrowings from the General Energy and Industry Secretariats for a combined 757 thousand euros (660 thousand euros in 2012).

## 16. Other non-current liabilities

The changes in this consolidated balance sheet heading in 2013 and 2012 were as follows:

Thousands of euros	Gasoducto de Extremadura, S.A. royalty	Gasoducto Al-Andalus, S.A. royalty	Connections to the basic network	Total
<b>Balance at 1 January 2012</b>	<b>8.552</b>	<b>19.399</b>	<b>48.038</b>	<b>75.989</b>
Additions	-	-	3.457	3.457
Decreases/recognition in profit or loss	(950)	(2.156)	(1.800)	(4.906)
<b>Balance at 31 December 2012</b>	<b>7.602</b>	<b>17.243</b>	<b>49.695</b>	<b>74.540</b>
Increases due to changes in the scope of consolidation	-	-	7.401	7.401
Additions	-	-	1.323	1.323
Decreases/recognition in profit or loss	(950)	(2.156)	(2.871)	(5.977)
<b>Balance at 31 December 2013</b>	<b>6.652</b>	<b>15.087</b>	<b>55.548</b>	<b>77.287</b>

Amounts related to the royalties payable by group subsidiaries Gasoducto de Extremadura, S.A. and Gasoducto Al-Andalus, S.A. correspond to balances pending application in respect of "gas transport rights" contracts signed with these subsidiaries. These balances are consolidated proportionally in accordance with the percentage shareholding of Enagás Transporte, S.A.U. in these companies.

Enagás Transporte, S.A.U. recognises and records this revenue on a straight-line basis as accrued until 2020, which is when the transport contract expires (Note 3.m).

The accrual of revenue from connections to the basic network was recognised in 2006.

The increases in revenue from connections to the basic network resulting from changes in the scope of consolidation relate to the inclusion of the connections of Enagás Transporte del Norte, S.L, amounting to 7,401 thousand euros.

## **17. Risk and capital management policy**

### **17.1 Qualitative information**

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

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

- Comply with the principles of good corporate governance.
- Strict compliance with the Group's in-house rules.
- Each business and corporate area defines:
  - a) Its trading markets and products as a function of its know-how and ability to ensure effective risk management.
  - b) Criteria for counterparties.
  - c) Authorised brokers.
- 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 Group is exposed are as follows:

#### Credit risk

The Group has no significant credit risk as it operates in a regulated market and the average customer collection period is very short, as explained in Note 10. Cash is also placed or derivatives written 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 consolidated income statement.

Based on the Enagás Group's estimates and debt structure targets, hedges are put in place using derivatives that mitigate these risks.

### Liquidity risk

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

### **17.2 Quantitative information**

#### a) Interest-rate exposure

	<b>2013</b>	<b>2012</b>
Percentage of borrowings benchmarked to fixed/hedged rates	72%	82%

Based on the above levels of fixed-rate borrowings and after carrying out an analysis of the Group's sensitivity to a one percentage point variation in market interest rates, the Group estimates that the impact on its income statement of such a variation in the cost of servicing its floating-rate debt would be approximately:

	<b>Millions of euros</b>			
	<b>Change in interest rates</b>			
	<b>2013</b>		<b>2012</b>	
	<b>1,00%</b>	<b>-1,00%</b>	<b>1,00%</b>	<b>-1,00%</b>
Change in finance cost	10.6	(10,60)	6.55	(6,55)

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.

### **17.3 Capital management**

The Enagás Group adopts a corporate capital management approach, the objectives of which are to guarantee financial stability and obtain sufficient funds to make investments; optimising the cost of capital, to unlock the maximum value for shareholders and maintaining its commitment to protecting solvency.

As a result, the Enagás Group has demonstrated its financial robustness, which is endorsed by the various ratings 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.

### **18.- Derivative financial instruments**

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



Instrument	Date arranged	Notional amount	Type	Start date	Maturity
Interest rate swap	December 2013	475.000	Floating to fixed	January 2014	January 2017
Interest rate swap	April 2013	4.725	Floating to fixed	April 2013	June 2032
Interest rate swap	April 2013	9.451	Floating to fixed	April 2013	June 2032
Interest rate swap	April 2013	9.451	Floating to fixed	April 2013	June 2032
<b>Total</b>		<b>498.627</b>			

The Group has fulfilled the requirements set forth in Note 3.h regarding the measurement bases for classifying financial instruments as hedges. Specifically, they have been formally designated as hedges, and they have been tested for effectiveness.

These instruments are offset and settled in cash, and therefore the Enagás Group's real exposure derives from the net position thereof and not the notional amount.

The fair value of these hedges at 31 December 2013 and 2012 is as follows:

### 2013

Instrument	Classification	Type	Notional amount	Currency	Maturity	Fair value (thousands of euros)	
						Assets	Liabilities
Cross currency sw ap	Fair value hedge	Fixed to floating	147.514	Euros	Sept. 2039		(21.605)
Interest rate sw ap	Cash flow hedge	Floating to fixed	475.000	Euros	January 2017	877	-
Interest rate sw ap	Cash flow hedge	Floating to fixed	110.000	Euros	November 2014	-	(1.393)
Interest rate sw ap	Cash flow hedge	Floating to fixed	170.000	Euros	April 2014	-	(1.033)
Interest rate sw ap	Cash flow hedge	Floating to fixed	200.000	Euros	June 2015	-	(2.339)
Interest rate sw ap	Cash flow hedge	Floating to fixed	150.000	Euros	December 2014	-	(1.459)
Interest rate sw ap	Cash flow hedge	Floating to fixed	4.725	Euros	June 2032	-	(43)
Interest rate sw ap	Cash flow hedge	Floating to fixed	9.451	Euros	June 2032	-	(68)
Interest rate sw ap	Cash flow hedge	Floating to fixed	9.451	Euros	June 2032	-	(61)
Interest rate sw ap	Cash flow hedge	Floating to fixed	79.360	Dollars	September 2017	-	(67)
Interest rate sw ap	Cash flow hedge	Floating to fixed	133.240	Dollars	September 2021	161	-
<b>Total</b>						<b>1.038</b>	<b>(28.068)</b>

### 2012

Instrument	Classification	Type	Notional amount (thousands of euros)	Currency	Maturity	Fair value (thousands of euros)	
						Assets	Liabilities
Interest rate sw ap	Cash flow hedge	Floating to fixed	200.000	Euros	June 2015	-	(4.294)
Cross currency sw ap	Fair value hedge	Fixed to floating	147.514	Euros	September 2039	12.446	-
Interest rate sw ap	Cash flow hedge	Floating to fixed	250.000	Euros	August 2013	-	(755)
Interest rate sw ap	Cash flow hedge	Floating to fixed	250.000	Euros	August 2013	-	(2.350)
Interest rate sw ap	Cash flow hedge	Floating to fixed	130.000	Euros	November 2014	-	(3.875)
Interest rate sw ap	Cash flow hedge	Floating to fixed	190.000	Euros	April 2014	-	(3.492)
Interest rate sw ap	Cash flow hedge	Floating to fixed	200.000	Euros	January 2014	-	(3.822)
Interest rate sw ap	Cash flow hedge	Floating to fixed	150.000	Euros	December 2014	-	(3.215)
Interest rate sw ap	Cash flow hedge	Floating to fixed	79.360	Dollars	September 2017	-	(202)
Interest rate sw ap	Cash flow hedge	Floating to fixed	133.240	Dollars	September 2021	-	(1.816)
<b>Total</b>						<b>12.446</b>	<b>(23.821)</b>

At year-end 2013, the Group recognised a loss of 12,356 thousand euros in the consolidated income statement in connection with restating its aforementioned interest rate swaps at fair value.

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	2016 and beyond
475.000	Euros	January 2017	877	284	-	593
133.240	Dollars	September 2021	161	-	-	161
110.000	Euros	November 2014	(1.393)	(1.393)	-	-
170.000	Euros	April 2014	(1.033)	(1.033)	-	-
200.000	Euros	June 2015	(2.339)	(1.530)	(809)	-
150.000	Euros	December 2014	(1.459)	(1.459)	-	-
79.360	Dollars	September 2017	(67)	-	-	(67)
4.725	Euros	June 2032	(43)	-	(72)	29
9.451	Euros	June 2032	(68)	-	(145)	77
9.451	Euros	June 2032	(61)	-	(145)	84
<b>1.341.227</b>			<b>(5.425)</b>	<b>(5.131)</b>	<b>(1.171)</b>	<b>877</b>

In respect of fair value hedges, the breakdown of the losses and gains on the hedging instrument and hedged item is as follows (amounts in thousands of euros):

Loss	Gain	Net
11.354	12.428	1.074

Adoption of IFRS 13 (see Note 2.6) has reduced the value of derivative liabilities by 1,074 thousand euros. The impact on the consolidated income statement during the year ended 31 December 2013 of including the bilateral credit risk adjustment is 1,074 thousand euros.

## **19. Trade and other payables**

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

	31/12/2013	31/12/2012
Payable to Group companies	1.107	1.053
Payable to suppliers	208.805	243.869
Other payables	4.851	5.334
Current tax liabilities (Note 20.2)	41.833	43.164
<b>Total</b>	<b>256.596</b>	<b>293.420</b>

"Payable to Group companies" relates to the payables for the gas transport services the subsidiaries Gasoducto Al-Andalus, S.A. and Gasoducto de Extremadura, S.A. provide to Enagás Transporte, S.A.U., as these are accounted for using proportionate consolidation.

"Payable to suppliers" corresponds to amounts owed for services rendered and the purchase of materials, which are recognised primarily in "Other operating costs" and "Non-current assets", respectively.

As a result of the entry into force of Law 15/2010, laying down measures to combat late payment in commercial transactions, the Enagás Group amended contract conditions in relation to payment terms within their business operations 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:

	Payments made and payments outstanding at year end			
	2013		2012	
	Amount	%	Amount	%
Paid within the legal term	394.620	89%	395.118	52%
Other	48.644	11%	369.598	48%
<b>Total payments for the year</b>	<b>443.264</b>	<b>100%</b>	<b>764.716</b>	<b>100%</b>
Weighted average term by which payments were deferred over the legal period estipulated (days)	31,16		12,02	
Late payments which at year end were outstanding by more than the legal limit	8.249		7.570	

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 consolidated 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 8,249 thousand euros (7,570 thousand euros at year-end 2012), it should be noted that a sum of 1,034 thousand euros (1,034 thousand euros at year-end 2012) is due to payments blocked by the Group 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 Enagás Group companies in 2013 under Law 3/2004, of 29 December 2004, 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.

## **20. Defined contribution plans**

The Group operates defined contribution pension plans covering the commitments acquired with respect to qualifying serving employees. The plan assets are held separately from those of the Group in funds under the control of trustees. Where employees leave the plans prior to full vesting of the contributions, the contributions payable by the Group are reduced by the amount of the forfeited contributions.

The contributions made by the Group to the pension plan in this connection amounted to 2,300 thousand euros in 2013 (2,355 thousand euros in 2012), recognised under "Employee benefits expense" in the accompanying consolidated income statement (Note 23.1).

## **21. Taxation**

### **21.1 Tax return**

Enagás, S.A. is the Parent of consolidated tax group 493/12, with this being the first year of filing consolidated income tax returns in Spain (Note 3.p). The other Group companies settle their individual income tax bills in accordance with the tax legislation in force in each country.

## 21.2 Tax receivables and payables

Tax receivables and tax payables at year-end 2013 and 2012 were as follows:

	Thousands of euros	
	2013	2012
<b>Tax receivables:</b>		
Value added tax	27.787	37.393
Income tax	7.318	20.574
<b>Total</b>	<b>35.105</b>	<b>57.967</b>
<b>Tax payables:</b>		
Income tax	13.977	16.862
Value added tax	1.243	-
Other	26.613	26.302
<b>Total</b>	<b>41.833</b>	<b>43.164</b>

At year-end 2013, the Group had paid 193,499 thousand euros (110,940 thousand euros in 2012) on account of the final corporate income tax bill. An amount of 13,977 thousand euros was payable for this tax at 31 December 2013.

The balance receivable from the tax authorities relates mainly to VAT receivable, as well as income tax receivable in 2012.

## 21.3 Reconciliation of profit before tax and taxable income

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

	2013				2012
	Spanish companies consolidated for tax purposes	Spanish companies not consolidated for tax purposes	Foreign companies	Total	Total
<b>Accounting profit, before tax</b>	521.379	32.821	10.805	<b>565.005</b>	<b>542.731</b>
<b>Adjustments and consolidation</b>	25.560	1.762	(350)	<b>26.972</b>	-
Permanent differences of individual companies					
Increases	1.334	784	18	<b>2.136</b>	<b>1.138</b>
Decreases	(4.517)	-	(5)	<b>(4.522)</b>	-
Temporary differences of individual companies					
Increases	151.403	2.186	1.866	<b>155.455</b>	<b>66.509</b>
Decreases	(3.793)	(2.110)	(9.916)	<b>(15.819)</b>	<b>(164.084)</b>
<b>Taxable income</b>	<b>691.366</b>	<b>35.443</b>	<b>2.418</b>	<b>729.227</b>	<b>446.294</b>

## 21.4 Tax recognised in equity

Aside from the income tax charge recognised in the consolidated income statements, in 2013 and 2012, the Group recognised the following amounts for the following items in consolidated equity:

**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:			
Available-for-sale financial assets	-	-	-
Measurement of other financial assets	48	(263)	(215)
Discounting of taxes payable	-	-	-
Arising in prior years:			
Available-for-sale financial assets	-	-	-
Measurement of other financial assets	13.218	(20.436)	(7.218)
Discounting of taxes payable	-	-	-
<b>Total deferred tax</b>	<b>13.266</b>	<b>(20.699)</b>	<b>(7.433)</b>
<b>Total tax recognised directly in equity</b>	<b>13.266</b>	<b>(20.699)</b>	<b>(7.433)</b>

**2012**

	Thousands of euros		
	Increases	Decreases	Total
<b>Current tax:</b>			
<b>Total current tax</b>	-	-	-
<b>Deferred tax:</b>			
Arising in the current year:			
Available-for-sale financial assets	-	-	-
Measurement of other financial assets	20.061	(17.026)	3.035
Discounting of taxes payable	-	-	-
Arising in prior years:			
Available-for-sale financial assets	-	-	-
Measurement of other financial assets	-	-	-
Discounting of taxes payable	-	-	-
<b>Total deferred tax</b>	<b>20.061</b>	<b>(17.026)</b>	<b>3.035</b>
<b>Total tax recognised directly in equity</b>	<b>20.061</b>	<b>(17.026)</b>	<b>3.035</b>

**21.5 Reconciliation between profit before tax and income tax expense**

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

	2013				2012
	Spanish companies consolidated for tax purposes	Spanish companies not consolidated for tax purposes	Foreign companies	Total	Total
<b>Accounting profit, before tax</b>	521.379	32.783	10.417	<b>565.005</b>	<b>542.731</b>
<b>Permanent differences and consolidation adjustments</b>	22.377	2.546	-337	<b>24.586</b>	<b>1.138</b>
Tax rate %	163.127	10.610	3.131	<b>176.878</b>	<b>163.160</b>
Effect of the tax credits (*)	(9.015)	(2.756)	-	<b>(11.771)</b>	<b>(88.930)</b>
Effect of tax loss carryforwards not recognised in the	(19)	-	-	<b>(19)</b>	-
Effect of different tax rates	-	(331)	-	<b>(331)</b>	<b>369</b>
Adjustment of non-recoverable tax assets	-	-	-	-	-
Adjustments to income tax	(3.821)	(8)	266	<b>(3.563)</b>	<b>(19)</b>
Other (*)	(445)	-	-	<b>(445)</b>	<b>88.643</b>
<b>Income tax for the year</b>	<b>149.827</b>	<b>7.515</b>	<b>3.407</b>	<b>160.749</b>	<b>163.223</b>

(\*) In 2012 double taxation tax relief were included in relation to intra-group dividends, since there was no tax consolidation regime (See Note 3-p)

The following tax rate has been used for the calculation of the income tax: 30% for Spanish companies that pay taxes under state regulation, 28% for companies that pay taxes under foral regulation (Vizcaya), 20% for companies in Chile and 30% for companies in Mexico

## 21.6 Breakdown of income tax expense

The breakdown of "Income tax expense" for 2013 and 2012 is as follows:

### 2013

	Enagás, S.A.	Enagás Transporte, S.A.	Enagás GTS, S.A.	Enagás Internacional, S.L.	Enagás Financiaciones, S.A.	G.Al-Andalus, S.A.	G. de Extremadura, S.A.	Bahía de Bizkaia Gas, S.L.	Enagás Altamira, S.L.	Enagás Transporte del Norte, S.L.	Altamira Group	Total
<b>Current tax:</b>												
Continuing operations	(4.075)	(196.873)	2.690	310	(19)	(3.996)	(2.270)	(852)	37	(487)	(726)	(206.241)
Discontinued operations	-	-	-	-	-	-	-	-	-	-	-	-
<b>Deferred tax:</b>												
Continuing operations	3.000	40.929	353	-	-	445	152	-	-	(535)	(2.415)	41.929
Discontinued operations	-	-	-	-	-	-	-	-	-	-	-	-
<b>Adjustments to income tax:</b>												
Continuing operations	2.914	189	-	-	-	-	-	-	718	8	(266)	3.563
Discontinued operations	-	-	-	-	-	-	-	-	-	-	-	-
<b>Total tax expense</b>	<b>1.839</b>	<b>(155.755)</b>	<b>3.043</b>	<b>310</b>	<b>(19)</b>	<b>(3.551)</b>	<b>(2.118)</b>	<b>(852)</b>	<b>755</b>	<b>(994)</b>	<b>(3.407)</b>	<b>(160.749)</b>

### 2012

	Enagás, S.A.	Enagás Transporte, S.A.	Enagás GTS, S.A.	Enagás Internacional	Enagás Financiaciones, S.A.	G.Al-Andalus, S.A.	G. de Extremadura, S.A.	Bahía de Bizkaia Gas, S.L.	Enagás Altamira, S.L.	Altamira Group	Total
<b>Current tax:</b>											
Continuing operations	10.564	(135.356)	1.400	62	32	(1.908)	(3.130)	(1.054)	(235)	(4.345)	(133.970)
Discontinued operations	-	-	-	-	-	-	-	-	-	-	-
<b>Deferred tax:</b>											
Continuing operations	(10.542)	(18.901)	171	-	-	-	-	-	-	-	(29.272)
Discontinued operations	-	-	-	-	-	-	-	-	-	-	-
<b>Adjustments to income tax:</b>											
Continuing operations	19	-	-	-	-	-	-	-	-	-	19
Discontinued operations	-	-	-	-	-	-	-	-	-	-	-
<b>Total tax expense</b>	<b>41</b>	<b>(154.257)</b>	<b>1.571</b>	<b>62</b>	<b>32</b>	<b>(1.908)</b>	<b>(3.130)</b>	<b>(1.054)</b>	<b>(235)</b>	<b>(4.345)</b>	<b>(163.223)</b>

## 21.7 Deferred tax

The breakdown of deferred tax assets and liabilities in 2013 and 2012 is as follows:

	2013	2012
<b>Temporary differences (deferred tax assets):</b>		
Government and other grants	1.652	1.698
Accelerated depreciation R.D.L. 16/2012	26.499	-
Long-service fund	4.340	4.883
Provisions for property, plant and equipment	1.439	4.467
Provisions for litigation	1.402	2.239
Derivatives	9.387	9.979
Other	11.620	4.923
<b>Tax loss carryforwards</b>	<b>1.820</b>	<b>744</b>
<b>Unused tax credits and other</b>	<b>13.876</b>	<b>13.030</b>
<b>Total deferred tax assets</b>	<b>72.035</b>	<b>41.963</b>

	2013	2012
<b>Deferred tax liabilities:</b>		
Accelerated depreciation	427	427
Free depreciation	386.344	403.717
Derivatives	8.452	4.476
Other	21.199	13.394
<b>Total deferred tax liabilities</b>	<b>416.422</b>	<b>422.014</b>

The deferred tax assets were recognised in the consolidated balance sheet since the directors consider that, based on the best estimates of future results, including certain tax planning measures, it is likely that these assets will be utilised.

Article 7 of Law 16/2012, of 27 December, on 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 stipulates 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 Corporate Tax Law, up to 70% of that which would have been tax deductible had the aforementioned percentage not been applied, will be deducted from taxable profit in accordance with sections 1 and 4 of article 11 of this 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 26,499 thousand euros equal to an asset base of 88,330 thousand euros.

Within deferred tax assets included under "Unused tax credits and other" in the table above are the credits recognised by Bahía de Bizkaia Gas, S.L. and Enagás Transporte del Norte, S.L. for investment in new fixed assets. In this regard, BBG has approved tax credits for investments in new fixed assets totalling 3,120 thousand euros, which are not recognised as assets on the balance sheet.

The Group does not have any unrecognised deferred tax assets, except where indicated in the previous paragraph.

In 2009 and 2010, Enagás, S.A. availed itself of the free 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.

Similarly, in 2013 and 2012, the Enagás Group availed itself of the unrestricted accelerated depreciation tax incentive provided for in Royal Decree Law 13/2010, of 3 December, extending the accelerated depreciation regime for new investments in fixed assets attached to core business activities and waiving the headcount protection obligation.

Royal Decree Law 12/2012, of 30 March, introduced certain amendments to the abovementioned tax breaks. The Enagás Group has factored these amendments into its calculations of the tax credit deriving from accelerated depreciation charges recognised in 2013. As a result of the foregoing, a deferred tax asset arose for the Enagás Group in 2012 amounting to 32,870 thousand euros, equal to an asset base of 109,567 thousand euros in 2012. In 2013, 17,373 thousand euros were recognised in this connection.

## **21.8 Years open to inspection and tax audits**

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

As of year-end 2013, the Enagás Group 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.

The 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 consolidated financial statements.

## **22. Revenue**

The breakdown of Group revenue for 2013 and 2012 is analysed below:

<b>Thousands of euros</b>	<b>31/12/2013</b>	<b>31/12/2012</b>
<b>Revenue</b>	<b>1.278.603</b>	<b>1.180.059</b>
Revenue from regulated activities	1.235.412	1.140.355
Revenue from deregulated activities	43.191	39.704
<b>Other income</b>	<b>29.521</b>	<b>18.349</b>
Sales of materials	-	-
Ancillary and other operating income	29.399	18.273
Government grants	122	76
<b>Total</b>	<b>1.308.124</b>	<b>1.198.408</b>

Revenue primarily comprises the revenue of Enagás Transporte, S.A.U. for regulated activities. The breakdown of this revenue by company is as follows:



Thousands of euros	31/12/2013	31/12/2012
<b>Regulated activities:</b>		
Enagás, S.A.	-	-
Enagás Transporte, S.A.U.	1.178.096	1.106.819
Enagás GTS, S.A.U.	11.561	11.789
Bahía de Bizkaia Gas, S.A.	20.431	21.747
Enagás Transporte del Norte, S.L.	25.324	0
<b>Deregulated activities:</b>		
Enagás, S.A.	3.547	617
Gasod. Al-Andalus, S.A.	8.072	7.508
Gasoducto de Extremadura, S.A.	6.286	5.845
Enagás-Altamira, S.L.	-	209
Grupo Altamira C.V.	25.286	25.525
<b>Total</b>	<b>1.278.603</b>	<b>1.180.059</b>

## **23. Expenses**

An analysis of Group expenses is provided below:

	Thousands of euros	
	31/12/2013	31/12/2012
Employee benefits expense	85.518	78.987
Other operating costs	194.519	185.114
<b>Total</b>	<b>280.037</b>	<b>264.101</b>

### **23.1 Employee benefits expense**

The breakdown of employee benefits expense is as follows:

	Thousands of euros	
	31/12/2013	31/12/2012
Wages and salaries	65.580	65.157
Termination benefits	6.080	3.166
Social security	14.949	14.098
Other employee benefit expenses	9.515	9.391
Contributions to external pension funds	2.300	2.355
Own work capitalised	(12.906)	(15.180)
<b>Total</b>	<b>85.518</b>	<b>78.987</b>

At 31 December 2013, the Group had capitalised 12,906 thousand euros for employee benefits expense directly related to ongoing investment projects (15,180 thousand euros at 31 December 2012) (Note 6).

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

Category	2013	2012
Managers	70	68
Technicians	574	568
Administrative staff	128	134
Manual workers	428	424
<b>Total</b>	<b>1.200</b>	<b>1.194</b>

At 31 December 2013, the Group had 1,211 employees (1,178 in 2012). The breakdown by category and gender is as follows:

Category	2013		2012	
	Men	Women	Men	Women
Managers	60	14	57	11
Technicians	432	150	417	142
Administrative staff	32	97	33	98
Manual workers	412	14	408	12
<b>Manual workers</b>	<b>936</b>	<b>275</b>	<b>915</b>	<b>263</b>

“Directors” includes the 11 individuals (10 men and one woman) making up the Group’s senior management.

The average number of employees at Group companies with a disability of a severity of 33% or higher in 2013 and 2012 is as follows:

Category	2013	2012
Managers	-	-
Technicians	6	9
Administrative staff	-	-
Manual workers	6	8
<b>Total</b>	<b>12</b>	<b>17</b>

## 23.2 Other operating costs

Details of this heading are as follows:

	Thousands of euros	
	31/12/2013	31/12/2012
External services:		
R&D costs	2.150	1.641
Leases and royalties	46.607	43.811
Repairs and maintenance	36.140	35.393
Professional services	22.864	18.688
Transport	10.978	10.291
Insurance premiums	5.390	4.203
Banking and similar services	173	131
Advertising, publicity and PR	2.859	2.966
Supplies	20.882	25.118
Other services	25.788	18.301
<b>External services</b>	<b>173.831</b>	<b>160.543</b>
<b>Taxes other than income tax</b>	<b>9.860</b>	<b>15.050</b>
<b>Other external expenses</b>	<b>9.913</b>	<b>9.235</b>
<b>Change in trade provisions</b>	<b>915</b>	<b>286</b>
<b>Total other operating costs</b>	<b>194.519</b>	<b>185.114</b>

### 23.3 Other disclosures

“Other operating costs” includes the fees paid by consolidated entities for the audit of their financial statements and for other audit and non-audit work. In 2013, these expenses amounted to 1,511 thousand euros (1,572 thousand euros in 2012), as follows:

Category	2013		2012	
	Services provided by the auditor and its related parties	Services provided by other Group auditors	Services provided by the auditor and its related parties	Services provided by other Group auditors
Audit services (1)	443	39	313	71
Other assurance services (2)	971	-	980	-
<b>Total audit and audit-related services</b>	<b>1.414</b>	<b>39</b>	<b>1.293</b>	<b>71</b>
Other services	47	3	208	-
Tax advisory services	-	8	-	-
<b>Total professional services</b>	<b>47</b>	<b>11</b>	<b>208</b>	<b>-</b>

**(1) Audit services:** This heading includes the services provided to complete the statutory audit of the Group's financial statements in the amount of 304 thousand euros (272 thousand euros in 2012), which encompassed 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 (securities markets regulator) and the CNE as well as reviews of acquisitions completed by the Enagás Group in 2013, including preparation of the required documentation.

### 24. Net finance cost

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

	31/12/2013	31/12/2012
Finance revenue from Group companies and associates	1.137	703
Finance revenue from third parties	23.094	37.267
<b>Finance revenue</b>	<b>24.231</b>	<b>37.969.903</b>
Finance and similar costs	(3.927)	(7.137)
Interest expense	(124.259)	(101.822)
Discounting of provisions	(1.700)	(2.039)
<b>Finance costs</b>	<b>(129.886)</b>	<b>(110.998)</b>
<b>Profit from hedging instruments</b>	<b>1.074</b>	<b>-</b>
<b>Exchange differences</b>	<b>(4.894)</b>	<b>(3.657)</b>
<b>Net finance cost</b>	<b>(109.475)</b>	<b>(76.685)</b>

The Group had capitalised borrowing costs of 7,943 thousand euros at 31 December 2013 (20,959 thousand euros at 31 December 2012) (Note 6).

## **25. Business and geographical segments**

### **25.1 Basis of segmentation**

Segment information is organised according to the Group's various business units (primary reporting segment). The Group identifies its operating segments based on internal reports on the Group's performance which are regularly reviewed, debated and evaluated in the decision-making process.

### **25.2 Segments by geographical areas**

The breakdown of 2013 and 2012 revenue by geographical area is provided in the table below:

<b>Revenue</b>	<b>31/12/2013</b>	<b>31/12/2012</b>
Europe	1.253.317	1.154.534
South America	25.286	25.525
<b>Total</b>	<b>1.278.603</b>	<b>1.180.059</b>

### **25.3 Main business segments**

The business areas described below have been established on the basis of the classification included in the Hydrocarbons Law 34/1998, of 7 October, and in accordance with the organisational structure of the Enagás Group, which takes into account the nature of the services and products offered.

#### **a) Infrastructure activity (including gas transport, regasification and storage):**

- **Gas transport:** Core activity which consists of the movement of gas through the Group's transport network, composed of gas pipelines for the primary (with maximum design pressure equal to or higher than 60 bars) and secondary (with maximum design pressure of between 60 and 16 bars) transport of gas to distribution points, as owner of most of the Spanish gas transport network.
- **Regasification:** The gas is transported from producer countries in methane tankers at 160°C below zero in liquid form (LNG) and is unloaded at the regasification plants, where it is stored in cryogenic tanks. At these facilities, the temperature of the LNG is raised through a physical process, generally using saltwater vaporisers, transforming it into gas. The natural gas is then injected into gas pipelines and transported throughout the Spanish mainland.
- **Storage:** The Enagás Group operates the following underground storage facilities: Serrablo, located between the towns of Jaca and Sabinanigo (Huesca); Gaviota (an off-shore facility) located close to Bermeo (Vizcaya); and Yela (Guadalajara).

#### **b) Technical system management**

In 2013, the Enagás Group, as technical system operator, continued to carry out the tasks entrusted to it under Royal Decree Laws 6/2000, of 23 June, and 949/2001, of 3 August, aimed at guaranteeing the continuity and security of gas supply, and the correct coordination of access, storage, transport and distribution points.

#### **c) Deregulated activities**

These refer to all deregulated activities and the transactions related to the Group's international investees.

## 25.4 Bases and methodology for segment reporting

The segment information provided below is based on monthly reports prepared by the corporate Finance Department and generated via a computer programme which breaks down the financial statements by activity.

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

Segments disclosure for these activities is provided below:

INCOME STATEMENT	Thousands of euros									
	Infrastructure		Technical system operation		Deregulated activities		Adjustments		Total Group	
	2013	2012	2013	2012	2013	2012	2013	2012	2013	2012
Operating revenue	1.244.904	1.153.839	13.084	12.592	156.351	100.344	(106.215)	(68.367)	1.308.124	1.198.408
Depreciation and amortisation	(314.310)	(290.875)	(4.172)	(2.494)	(21.889)	(20.795)	(1.711)	(1.711)	(342.082)	(315.875)
Operating profit (loss)	660.802	616.739	(10.203)	(5.280)	21.488	21.488	(3.217)	(14.500)	668.870	618.447
Finance revenue	6.616	7.483	458	648	421.438	312.638	(404.281)	(282.799)	24.231	37.970
Finance costs	(112.863)	(87.399)	(388)	(607)	(56.092)	(26.651)	39.457	3.659	(129.886)	(110.998)
Income tax expense (receivable)	(164.203)	(161.055)	3.042	1.572	(516)	(4.446)	928	706	(160.749)	(163.223)
Profit (loss) after tax	391.039	375.542	(7.098)	(3.676)	387.414	289.502	(368.172)	(281.860)	403.183	379.508
<b>BALANCE SHEET</b>	<b>2013</b>	<b>2012</b>	<b>2013</b>	<b>2012</b>	<b>2013</b>	<b>2012</b>	<b>2013</b>	<b>2012</b>	<b>2013</b>	<b>2012</b>
<b>Total assets</b>	<b>6.411.726</b>	<b>6.300.920</b>	<b>55.236</b>	<b>58.977</b>	<b>4.744.515</b>	<b>3.713.373</b>	<b>(4.000.877)</b>	<b>(1.989.827)</b>	<b>7.210.600</b>	<b>8.083.443</b>
Capital expenditure	195.859	414.167	13.546	5.565	16.581	15.623	-	-	225.986	435.355
Non-current liabilities (**)	635.316	641.427	-	95	35.714	30.421	-	-	671.030	671.943
-Deferred tax liabilities	385.464	393.877	-	-	30.958	28.137	-	-	416.422	422.014
-Provisions	172.565	173.010	-	95	4.756	2.284	-	-	177.321	175.389
-Other non-current liabilities	77.287	74.540	-	-	-	-	-	-	77.287	74.540
Current liabilities (**)	176.958	217.469	37.167	47.146	59.207	94.082	(16.736)	(65.277)	256.596	293.420
-Trade and other payables	176.958	217.469	37.167	47.146	59.207	94.082	(16.736)	(65.277)	256.596	293.420

(\*\*) Does not include financial liabilities

## 26. Environmental information

The Enagás Group's efforts to protect the environment and its biodiversity, to boost energy efficiency, lower its carbon emissions and promote the responsible use of resources are the key components of 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 LNG storage and regasification plants in Barcelona, Cartagena, and Huelva, the Serrablo, Gaviota and Yela underground storage facilities, the facilities for the basic gas pipeline network, the Zaragoza laboratory and Project Management in New Infrastructure Developments.

In 2013, AENOR, the Spanish accreditation agency, 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.

One of the targets set out in the Group's environmental protection strategy for 2013-2015 (PEMAP for its acronym in Spanish) is to obtain EMAS (the EU Eco-Management and Audit Scheme) certification, thereby fostering an improved environmental record across the entire organisation. In 2013, the Barcelona and Huelva plants obtained certification. Similarly, in 2013 the Environmental Management System at the Gaviota underground storage facility was adapted to the Enagás Group's Environmental Management System and for AENOR certification; the Yela underground storage facility was also included in the scope of the UNE EN ISO 14001 certification.

The Enagás Group goes to continual lengths to identify, classify and minimise the environmental fallout from its activities and installations, assessing risks and promoting eco-efficiency, practicing responsible

waste and residue management, minimising its carbon footprint and attempting to help combat climate change.

Furthermore, the Group incorporates environmental criteria into its contractor and supplier dealings, taking environmental issues into consideration when it awards service and product supply contracts.

In 2013, these environmental activities entailed total capitalised investment of 9,286 thousand euros (22,342 thousand euros in 2012). Environmental expenses incurred by the Group in 2013 totalled 924 thousand euros (922 thousand euros in 2012) and are recorded under "Other operating costs".

Potential contingencies, indemnities and other environmental risks to which the Enagás Group is exposed are sufficiently covered by third-party liability insurance policies.

The Group has benefited from tax breaks as a result of the environment-related activities: the Directorate-General of the Environment of Murcia issued a certificate validating the environmental investments for the execution of the project "Updating the boil-off system of the Enagás Group's regasification plant in Cartagena", an investment which relates to 2008. This environmental investment amounted to 25,218 thousand euros, giving rise to a deduction of 1,513 thousand euros in income tax for 2012 (presented in July 2013), which relates to a 6% tax deduction of the total environmental investment made, pursuant to that established in the revised Corporate Income Tax Law.

## **27. Greenhouse gas emission allowances**

Certain Enagás Group installations fall within the scope of Law 1/2006, of 9 March, governing trading in greenhouse gas emission allowances.

Directive 2009/29/EC of the European Parliament and of the Council of 23 April 2009, reformed the trading scheme for the 2013-2020 period. Although an auction is set up as the customary procedure for allocating emission allowances as of 2013 for the owners of the facilities included in the scope of the emission allowance trading scheme, the owners that opt to do so, pursuant to that envisaged in the Directive, will receive free allowances from 2013 to 2020 in accordance with the European Union harmonisation legislation.

On 15 November 2013, the free allocation of greenhouse gas emission allowances to institutions subject to the emission allowance trading scheme for the 2013-2020 period, which includes the facilities of Enagás Transporte S.A.U. and BBG, was approved by resolution of the Spanish cabinet. The facilities for which these allocations have been received are:

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

The definitive number emission allowances allocated to Enagás Transporte S.A.U., free of charge, for its facilities amounts to 985,915 for the 2013-2020 period, and 188,674 in 2013. The number of allowances under the previous 2008-2012 National Allocation Plan was 547,704.

Similarly, the number of allowances allocated to BBG was 13,843(\*) for the 2013-2020 period, and 2,649(\*) in 2013. The number of allowances under the previous 2008-2012 National Allocation Plan was 2,240(\*).

(\*) For the Enagás Group's 40% ownership interest in this investee. Total emission allowances allocated to BBG totalled 34,608 for the 2013-2020 period, 6,622 of which were for 2013. Similarly, all of the emission allowances in 2012 amounted to 5,601.

The 2013 allowances allocated for 2013 were valued at 6.61 euros/allowance: the spot price on the first business day of 2013 as per RWE Trading GMBH, which implies an addition for the year of 1,247 thousand euros.

The Enagás Group consumed 322,655 greenhouse gas emission allowances in 2013 (123,383 in 2012).

In the first quarter of 2013, the Enagás Group submitted its emission reports, verified by the accredited agency (AENOR), to the pertinent regional governments, which validated said emissions.

In 2013, the Enagás Group did not arrange any futures contracts relating to greenhouse gas emission allowances nor are there any contingencies related to provisional penalties or measures under the terms established by Law 1/2005.

## **28. Related party transactions and balances**

### **28.1 Related party transactions**

The Group considers “related parties” any subsidiary, associate, or jointly controlled entity, as well as key personnel in its management team (members of the Board of Directors, management and their close family members), and entities over which key management personnel could exercise significant or total control, as per Order EHA/3050/2004, of 15 September, and CNMV Circular 1/2008, of 30 January.

Inter-group balances not eliminated on consolidation are as follows:

- Receivables of 1,738 thousand euros at 31 December 2013 (2,152 thousand euros at 31 December 2012) (see Note 10).
- Payables of 1,107 thousand euros at 31 December 2013 (1,053 thousand euros at 31 December 2012) (see Note 19).
- Loans to Group companies of 17,086 thousand euros at 31 December 2013 (17,915 thousand euros at 31 December 2012) (see Note 8).

Below is a breakdown of the Group’s related party transactions 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 persons, companies or entities	Other related parties	Total
<b>Expenses:</b>					
Finance costs	78	-	-	5.538	<b>5.616</b>
Management or collaborative agreements	-	-	-	-	-
Transfers of R+D and license agreements	-	-	-	-	-
Leases	-	-	-	-	-
Services received	-	-	10.644	2.384	<b>13.028</b>
Purchase of goods (finished or work-in-progress)	-	-	-	-	-
Impairment provisions for bad or doubtful debt	-	-	-	-	-
Losses on derecognition or disposal of assets	-	-	-	-	-
Other expenses	-	1.046	-	24	<b>1.070</b>
<b>Total expenses</b>	<b>78</b>	<b>1.046</b>	<b>10.644</b>	<b>7.946</b>	<b>19.714</b>
<b>Income:</b>					
Finance revenue	-	-	1.137	2.069	<b>3.206</b>
Management or collaborative agreements	-	-	-	-	-
Transfers of R+D and license agreements	-	-	-	-	-
Dividends received	-	-	-	-	-
Leases	-	-	-	-	-
Services rendered	-	-	11.468	-	<b>11.468</b>
TPA services	-	-	-	-	-
Sale of goods (finished or work-in-progress)	-	-	-	-	-
Gains on derecognition or disposal of assets	-	-	-	-	-
Other revenue	-	-	-	-	-
<b>Total revenue</b>	-	-	<b>12.605</b>	<b>2.069</b>	<b>14.674</b>

**2012**

Income and expense	Thousands of euros				
	31/12/2012				
	Significant shareholders	Directors and senior management	Group persons, companies or entities	Other related parties	Total
<b>Expenses:</b>					
Finance costs	702	-	53	8.314	<b>9.069</b>
Management or collaborative agreements	-	-	-	-	-
Transfers of R+D and license agreements	-	-	-	-	-
Leases	-	-	-	-	-
Services received	-	-	9.966	36.403	<b>46.369</b>
Purchase of goods (finished or work-in-progress)	-	-	-	14.200	<b>14.200</b>
Impairment provisions for bad or doubtful debt	-	-	-	-	-
Losses on derecognition or disposal of assets	-	-	-	-	-
Other expenses	-	1.003	-	-	<b>1.003</b>
<b>Total expenses</b>	<b>702</b>	<b>1.003</b>	<b>10.019</b>	<b>58.917</b>	<b>70.641</b>
<b>Income:</b>					
Finance revenue	1.219	-	703	6.216	<b>8.138</b>
Management or collaborative agreements	-	-	-	-	-
Transfers of R+D and license agreements	-	-	-	-	-
Dividends received	-	-	-	-	-
Leases	-	-	-	-	-
Services rendered	-	-	18.779	-	<b>18.779</b>
TPA services	-	-	-	53.216	<b>53.216</b>
Sale of goods (finished or work-in-progress)	-	-	-	-	-
Gains on derecognition or disposal of assets	-	-	-	-	-
Other revenue	-	-	-	-	-
<b>Total revenue</b>	<b>1.219</b>	-	<b>19.482</b>	<b>59.432</b>	<b>80.133</b>



**2013**

Other transactions	Thousands of euros				
	31/12/2013				
	Significant shareholders	Directors and senior management	Group persons, companies or entities	Other related parties	Total
Purchase of property, plant and equipment, intangible assets and other	-	-	-	-	-
Financing agreements: loans and capital contributions (lender)	-	-	17.086	-	<b>17.086</b>
Finance lease agreements (lessor)	-	-	-	-	-
Repayment or cancellation of loans and finance leases (lessor)	-	-	-	-	-
Sale of property, plant and equipment, intangible assets and other	-	-	-	-	-
Financing agreements: loans and capital contributions (borrower)	-	-	-	100.000	<b>100.000</b>
Finance lease agreements (lessee)	-	-	-	-	-
Repayment or cancellation of loans and finance leases (lessee)	-	-	-	-	-
Guarantees and sureties extended	-	-	83.997	-	<b>83.997</b>
Guarantees and sureties received	1.017	-	-	11.080	<b>12.097</b>
Commitments assumed	-	-	-	-	-
Cancelled commitments/guarantees	-	-	-	-	-
Dividends and other profits paid out	50.992	-	-	-	<b>50.992</b>
Other transactions	-	-	-	-	-

**2012**

Other transactions	31/12/2012				
	Significant shareholders	Directors and senior management	Group persons, companies or entities	Other related parties	Total
Purchase of property, plant and equipment, intangible assets and other	-	-	-	-	-
Financing agreements: loans and capital contributions (lender)	-	-	169.286	-	<b>169.286</b>
Finance lease agreements (lessor)	-	-	-	-	-
Repayment or cancellation of loans and finance leases (lessor)	-	-	-	-	-
Sale of property, plant and equipment, intangible assets and other	-	-	-	-	-
Financing agreements: loans and capital contributions (borrower)	17	-	16	250.755	<b>250.788</b>
Finance lease agreements (lessee)	-	-	-	-	-
Repayment or cancellation of loans and finance leases (lessee)	-	-	-	-	-
Guarantees and sureties extended	-	-	-	-	-
Guarantees and sureties received	1.641	-	-	3.709	<b>5.350</b>
Commitments assumed	-	-	-	-	-
Cancelled commitments/guarantees	-	-	-	-	-
Dividends and other profits paid out	37.236	-	-	-	<b>37.236</b>
Other transactions	-	-	-	-	-

These transactions include the finance costs arising from hedging contracts with the financial entities related to the Enagás Group.

## **29. Director and senior management compensation**

### **29.1 Wages and salaries**

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

#### **2013**

	<b>Salaries</b>	<b>Attendance fees</b>	<b>Other</b>	<b>Pension plans</b>	<b>Insurance premiums</b>	<b>Termination benefits</b>
<b>Directors</b>	1.888	1.046	77	10	79	-
<b>Senior management</b>	2.231	-	96	50	79	2.122
<b>Total</b>	<b>4.119</b>	<b>1.046</b>	<b>173</b>	<b>60</b>	<b>158</b>	<b>2.122</b>

#### **2012**

	<b>Salaries</b>	<b>Attendance fees</b>	<b>Other</b>	<b>Pension plans</b>	<b>Insurance premiums</b>
<b>Directors</b>	1.622	1.004	67	10	72
<b>Senior management</b>	1.935	-	83	58	98
<b>Total</b>	<b>3.557</b>	<b>1.004</b>	<b>150</b>	<b>68</b>	<b>170</b>

Senior management are covered by the mixed group insurance policy covering pension obligations. 257 thousand euros of the total premium paid in 2013 was for senior management.

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

DIRECTORS	Thousands of euros	
	2013	2012
Antonio Llardén Carratalá (Executive Director) <sup>(1)</sup>	1.670	1.667
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 Lasheras 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	-
Rosa Rodríguez Díaz	44	-
<b>Total</b>	<b>3.011</b>	<b>2.693</b>

<sup>1</sup> In 2013, the Executive Chairman received fixed pay totalling 960 thousand euros and a bonus of 576 thousand euros, as approved by the Board; he additionally received Board attendance fees of 64 thousand euros and other in-kind compensation totalling 70 thousand euros, making for an overall sum of 1,674 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 CEO received fixed pay totalling 300 thousand euros and a bonus of 52 thousand euros, as approved by the Board; he additionally received Board attendance fees of 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.

### **30. Other disclosures concerning the Board of Directors**

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 the Group by directors at 31 December 2013 are as follows:

2013

DIRECTOR	COMPANY	No. of SHARES	% SHAREHOLDING
Luis Javier Navarro Vigil	BP, PLC	712	0,00%
Jesús Máximo Pedrosa Ortega	IBERDROLA	3.382	0,00%
Jesús Máximo Pedrosa Ortega <sup>(1)</sup>	IBERDROLA	7.472	0,00%

<sup>1</sup> Through Inversiones Asfis as Joint and Several Director with a 60% stake

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 investment in the company Infraestructura de Gas.

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

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. 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.

### **31. Guarantees**

At 31 December 2013, the Group had provided guarantees to third parties arising from its business activities amounting to 57,538 thousand euros (77,462 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.

The Enagás Group guarantees the obligations of Group companies up to a maximum of 83,997 thousand euros (see Note 28.1).

The directors do not expect that any significant liabilities will arise in addition to those recognised in the accompanying consolidated balance sheet as a result of the transactions described in this note.

### **32. Joint ventures**

Information on the joint ventures in which the Enagás Group had interests at 31 December 2013 is set out in the table below:

Company	Country	Business	%	% of voting rights controlled by the Enagás Group	Thousands of euros							
					Carrying amount	Assets		Equity	Liabilities		Revenue	Profit (loss) for the year
						Non-current	Current		Non-current	Current		
Gasoducto Al-Andalus, S.A.	Spain	Gas transport	66.96	50,00%	23,744	51,061	8,051	55,931	-	3,181	31,088	12,118
Gasoducto de Extremadura, S.A.	Spain	Gas transport	51	50,00%	9,732	22,256	12,169	31,809	-	2,616	21,198	8,804
Bahía de Bizkaia Gas, S.L.	Spain	Storage and regasification	40	33,33%	44,334	258,717	48,802	96,615	187,856	23,048	51,077	8,745
Altamira LNG, C.V. subgroup	Netherlands/Mexico	Holding company/Regasification	40	50,00%	41,218	300,183	26,704	116,780	147,696	62,411	64,115	14,199
Gasoducto de Morelos, S.A.P.I. de C.V.	Mexico	Gas transport	50	50,00%	10,934	108,979	44,196	23,925	89,932	39,318	-	(1,234)
Morelos EPC, S.A.P.I. de C.V.	Mexico	Engineering and construction	50	50,00%	3	123	23,279	4,345	-	19,056	62,736	4,391
GNL Quintero, S.A.	Chile	Regasification	20.4	20,40%	136,645	121,617	782,365	33,102	823,873	47,006	152,536	37,324
Terminal de Valparaíso, S.A.	Chile	Holding company	51	51,00%	136,386	269,315	9	269,314	-	10	-	7,498
Cia. Transporte Gas Canarias, S.A. (Gascan)	Spain	Storage and regasification	41.94	41,94%	3,535	8,315	9	(1,590)	182	9,732	-	(937)
EC Soto La Marina SAPI de CV	Mexico	Natural gas compression	50	50,00%	2,355	-	19,444	4,615	-	14,829	-	(27)
EC Soto La Marina EPC SAPI de CV	Mexico	Engineering and construction	50	50,00%	2	-	20,791	(154)	-	20,945	17,589	(158)

(1) The data presented correspond to figures for the individual companies prepared under local GAAP and before the standardisation adjustments made prior to consolidation of the financial statements.

As indicated in Note 4, Head of State Law 17/2013, of 29 October, on guaranteeing the supply and increase of competition in island and non-mainland electricity systems, establishes a commitment for the Enagás Group to acquire all ownership interest in Gascan.

### **33. Events after the balance sheet date**

On 31 January 2014, the Enagás Group reached an agreement 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 shareholders that already have a shareholding not exercising their pre-emption rights. On preparation of these consolidated financial statements, the period during which these shareholders could exercise their rights had not yet elapsed.

With regard to the Consent Solicitation of the Enagás Group company, Financiaciones, S.A.U., indicted in Note 15.1 of these consolidated financial statements, the deed amending the terms and conditions was registered in the Madrid Companies Registry on 29 January 2014.

No events having a material impact on the Group's consolidated financial statements have occurred between 31 December 2013 and the date of authorising these consolidated financial statements for issue.

### **34. Explanation added for translation to English**

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

**Appendix I – Subsidiaries of the Enagás Group at 31 December 2013**

<b>Company</b>	<b>Country</b>	<b>Business</b>	<b>%</b>	<b>% of voting rights controlled by the Enagás Group</b>	<b>Share capital</b>
Enagás Transporte, S.A.U.	Spain	Regasification, storage and transport	100	100,00%	300,000,000 euros
Enagás GTS, S.A.U.	Spain	Technical system operation	100	100,00%	7,282,864 euros
Enagás Internacional, S.L.U.	Spain	Holding company	100	100,00%	3,937 dollars
Enagás Financiaciones, S.A.U.	Spain	Financial management	100	100,00%	60,000 euros
Enagás Altamira, S.L.U.	Spain	Holding company	100	100,00%	8,888,273 dollars
Enagás Transporte del Norte S.L.	Spain	Gas transport	90	90,00%	38,501,045 euros
Enagás Chile I, S.P.A.	Chile	Holding company	100	100,00%	23,243,152 dollars
Enagás Chile II, Limitada	Chile	Holding company	100	100,00%	184,974,292 dollars

*Translation of a report originally issued in Spanish. In the event of a discrepancy, the Spanish-language version prevails.*

## **MANAGEMENT REPORT OF THE ENAGÁS GROUP**

### **I.- Group performance in 2013**

Net profit rose 6.2% in 2013 to 403,183 thousand euros.

Revenue totalled 1,278,603 thousand euros.

The Enagás Group carries out its business activities primarily in Spain, where it develops and operates virtually all its facilities. The Group leveraged its extensive track record developing and operating regasification plants and transport networks around the world to make a number of international business investments in 2013.

In respect of its operations in Spain, throughout 2013 the Group maintained the basic natural gas regasification and storage network and expanded the basic natural gas transport network with the acquisition of Enagás Transporte del Norte, S.L., servicing demand at all times

Demand for natural gas declined by 8% with regard to 2012. This decrease was driven by a year-on-year drop in the consumption of gas at electric power generation stations of 33%, while deliveries of gas to the manufacturing and residential segments dropped by 0.5% to 277 TWh.

In 2013, the volume of gas transported by the gas system (including transport to Portugal, gas exports in the form of loads and exports) rose 23% to 66 TWh.

As in prior years, diversification was high, with the Group importing gas from eleven different source markets, and for the first time in thirteen years the composition of its supplies was reverted in Spain with 54% of imports comprising natural gas and 46% LNG via the regasification plants.

Over the coming years the Spanish gas system will face the challenge of adapting and harmonising its operations in Europe with the new contracting models (CAM-CMP), and of implementing the processes necessary for the integration of the daily gas markets (Gas Target Model). In addition, progress should be made regarding the regional cooperation indicated in Regulation (EU) No. 994/2010, concerning measures to safeguard security of gas supply.

Investments made in 2013 regarding property, plant and equipment and intangible assets totalled 531.4 million euros, while assets entering operation amounted to 546 million euros.

On 27 December 2012, the Ministry of Industry, Energy and Tourism approved Ministerial Order IET/2812/2012 establishing the tolls and fees for third-party access to gas installations and remuneration of regulated gas sector activities for 2013. In this regard, the tolls and fees for third-party access to gas installations and remuneration of regulated activities for 2014 were approved in Order IET/2446/2013, of 27 December.

In 2013, Enagás reduced CO<sub>2</sub> emissions generated from self-consumption of natural gas, electricity demand and flaring at its own facilities by 9%.

The capital and reserves of the Enagás Group stood at 2,118,427 thousand euros at year end, while equity amounted to 2,139,375 thousand euros.

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

72% of net debt at 31 December was fixed-rate, while the average time to maturity of net debt at 31 December 2013 was 5.7 years.

In 2013, the Group continued to expand and enhance its regasification, transport and storage facilities to bring them into line with demand forecasts.

In this respect, the main actions carried out were:

- Zarza de Tajo-Yela gas pipeline.
- Martorell-Figueras gas pipeline.
- Musel-Llanera gas pipeline.
- Bilbao Treto gas pipeline.
- Regasification facilities and facilities for LNG load methane tankers in El Musel plant.
- Third storage tank in the Bilbao plant.

In 2013, the company also acquired 90% of Naturgás Energía Transporte, S.A., thereby adding 450 km of high-pressure gas pipelines and the international connection with Irún to its facilities. Naturgás Energía Transporte, S.A. then changed its corporate name to Enagás Transporte del Norte, S.L.

Overall, at the end of December 2013, the Enagás Group's gas infrastructure comprising the basic natural gas network consisted of the following:

- Over 10,000 kilometres of gas pipelines throughout Spain.
- Three underground storage facilities: Serrablo (Huesca), Yela (Guadalajara) and Gaviota (Vizcaya).
- Three regasification plants in Cartagena, Huelva and Barcelona. Construction of the Gijón plant was also completed in 2013.
- The Group additionally owns 40% of the BBG regasification plant (Bilbao), 40% of the Altamira regasification plant (Mexico) and 20.4% of the Bahía de Quintero regasification plant (Chile).

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

The Enagás Group is exposed to various risks inherent to the sector, the market in which it operates and the activities it performs, which could prevent it from achieving its objectives and executing its strategies successfully.

The main risks associated with the Enagás Group's 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 Group's business activities is particularly prominent.

The Enagás Group 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, the Enagás Group qualified its credit and counterparty risk as acceptable as it only does business with solvent companies, as corroborated by these companies' external credit ratings.

Information concerning counterparty risk management is disclosed in Note 10 to the consolidated 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.

The financial risk management policy is detailed in Note 17 to the consolidated financial statements.

### 4. Operational risk

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

The Enagás Group 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, the Enagás Group identifies the control activities that allow it to adequately and appropriately 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.

In this regard, the Enagás Group 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 Group is found to have failed to have exercised sufficient control.

To prevent this risk from materialising, the Enagás Group has approved a Criminal Liability Risk Model and has implemented the measures needed 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.

The Enagás Group 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.

The Enagás Group has identified as relevant any reputational risk arising in the aftermath of the materialisation of certain risks: operational (bad business practice, filtration of confidential information,

external fraud and regulatory and legal breaches), and business (obsolescence of infrastructures, equipment and systems).

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**

In February 2008, the Enagás Group Board of Directors approved an interest rate hedging policy devised to align the Group's financial cost with the target rate structure set under the Group'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 total gross debt was hedged against interest rate increases at 31 December 2013.

### **IV.- Outlook**

The natural gas market is mature. The Spanish gas sector is dependent on the stream of regulations emanating from the European Union. The Enagás Group, which generates most of its revenue from the regulated business in Spain, is committed to Europe's new energy policy objectives. To this end, it is working intensively to help make sure that these regulatory developments prove as effective as possible, factoring in the characteristics of the internal market, and that they are properly integrated into the Spanish framework.

Net profit is expected to increase by 2.4% with regard to 2013, taking into account that results are affected by the amendment to the accounting standards (IFRS 10 and 11), whereby BBG and Altamira are accounted for using the equity method and only contribute to profit after tax.

The Enagás Group is considering making investments in 2014 of 625 million euros (in enterprise value terms), 65% of which is intended to go towards new international acquisitions and 35% towards regulated assets in Spain.

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

The technological innovation initiatives carried out by the Group 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 rolling out the "MOLAS" application, aimed at learning about 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 study 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 proved that the quality of the gas transported through the gas pipeline network can be 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.
- 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 precision of metering stations.
- f) **General interest projects:** 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 Group 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 share**

The Group did not carry out any transactions involving treasury shares in 2013.

#### **VII.- Additional information**

This additional disclosure is included to comply with article 116 bis of Spain's Securities Market Law 24/1988 of 28 July.

***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***

Capital structure of the Parent:

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):

Name or company name of the shareholder	Number of direct voting rights	Number of indirect voting rights	% of total voting rights
OMAN OIL COMPANY, S.A.O.C.(*)	0	11.936.702	5,000
KUTXABANK, S.A.(*)	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
<b>Total</b>	<b>23.873.415</b>	<b>10,000</b>

Significant shareholdings of directors holding voting rights attached to the Company's shares

Name or company name of the shareholder	Number of direct voting rights	Number of indirect voting rights (*)	% of total voting rights
ANTONIO LLARDEN CARRATALA	56.396	0	0,024
MARCELINO OREJA ARBURUA	1.260	0	0
TERESA GARCIA MILA LLOVERAS	1.500	0	0,001
SULTAN HAMED KHAMIS AL BURTAMANI	1	0	0
DIONISIO MARTINEZ MARTINEZ	2.010	0	0,001
LUIS JAVIER NAVARRO VIGIL	1.405	7.075	0,004
MARTI PARELLADA SABATA	910	0	0
RAMON PEREZ 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>5,030</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
<b>Total</b>	<b>7.075</b>	<b>0,003</b>

**d) Any restrictions on voting rights**

Article 6 bis (“Restrictions on shareholdings and the exercise of voting rights”) of the bylaws was amended at the Extraordinary Shareholders’ Meeting held on 31 October 2007 to bring it into 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.

ENAGAS, 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. 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 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.

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.”

Accordingly, Transitional Provision Six of Law 12/2007, of 2 July, stipulates that during the four months prior to the entry into force of the Law, the company Enagás, S.A. shall adapt its bylaws to that envisaged in Additional Provision Twenty of Law 34/1998, of 7 October, adding Transitional Provision Two of Law 12/2007, of 2 July:

“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 ENAGAS, S.A., exceeding the maximum percentages indicated in Additional Provision Twenty of Hydrocarbon Law 34/1998, shall be suspended as of the entry into force of this provision.

The Spanish energy regulator shall be entitled to 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 subject to any of the situations referred to in article 124 of the revised Spanish Companies Law may not be appointed as directors.

#### ARTICLE 37.- POSTS.

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, which shall act as Secretary when necessary, those that may not be directors. In the absence of both, the most senior 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-option, must be made subject to a report from the Appointments and Remuneration Committee. When the Board of Directors does not agree with the Committee's recommendations, it must explain its reasons and duly record them in the minutes.

3.- The process of filling board vacancies shall have no implicit bias against women candidates. The Company shall make an effort to include women with the target profile among the candidates for Board positions.

#### ARTICLE 9.- APPOINTMENT OF INDEPENDENT DIRECTORS

Independent directors are defined as directors appointed for their personal and professional qualities who are in a position to perform their duties without being influenced by any connection with the company, its significant shareholders or its management. As such, the following shall in no circumstances qualify as independent directors:

a) Past employees or executive directors of Group companies, unless three or five years have elapsed, respectively, from the end of the employment relationship.

b) Those who have received some payment or other form of compensation from the Company or its Group on top of their directors' fees, unless the amount involved is not significant. Payment shall not include for the purposes of the provisions of this article, dividends or pension top-ups paid to the director in connection with his or her former professional or employment relationship, so long as their settlement is unconditional in nature and the Company paying them cannot arbitrarily choose to suspend, modify or revoke their payment, unless the director is in breach of his or her obligations.

c) Partners, now or in the past three years, in the external auditor or the firm responsible for the audit report, during 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 Law, the Board shall examine the matter as promptly as possible and, in view of the particular circumstances, decide where or not the director should be called on to resign.

d) When the circumstances motivating their appointment as directors no longer exist.

- e) When independent directors no longer fulfil the criteria required under article 9.
- f) When the shareholders represented by proprietary directors dispose of their ownership interests. If such shareholders reduce their stakes, thereby losing some of their entitlement to proprietary directors, the latter's number should be reduced proportionately.

Should the Board of Directors not deem it advisable to have a director tender his/her resignation in the cases specified under letters d), e) and f), the latter must be included in the category that, in accordance with 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 Shareholders' Meeting to validly resolve to issue bonds, increase or reduce capital, transform, 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, who 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 Shareholders' 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 Law, up to a maximum of 179 million euros, by issuing new shares, with or without voting rights, with or without a share premium, in exchange for cash, and to establish the terms and conditions of the capital increase and the features of the shares, with the possibility of offering freely new shares unsubscribed within the pre-emptive subscription period(s) and determine, if the shares are not fully subscribed, that capital will be increased only by the amount of the subscriptions made and, accordingly, to redraft the article of the Company bylaws regarding share capital. The Board of Directors was also empowered to disapply pre-emption rights, in full or in part, in accordance with article 159 of the Spanish Companies Law.”

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

No agreements of this kind exist.

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

The Company has an agreement with the Executive Chairman and 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.

#### **VIII.- Events after the balance sheet date**

On 31 January 2014, the Enagás Group reached an agreement 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 shareholders that already have a shareholding not exercising their pre-emption rights. On preparation of these consolidated financial statements, the period during which these shareholders could exercise their rights had not yet elapsed.

With regard to the Consent Solicitation of the Enagás Group company, Financiaciones, S.A.U., indicated in Note 15.1 of these consolidated financial statements, the deed amending the terms and conditions was registered in the Madrid Companies Registry on 29 January 2014.

No events having a material impact on the Group's consolidated financial statements have occurred between 31 December 2013 and the date of authorising these consolidated financial statements for issue.

## ENAGAS GROUP

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

D. Antonio Llardén Carratalá

### Chief Executive Officer

D. Marcelino Oreja Arburúa

### Directors

Mr Sultan Al Burtamani

D. Jesús David Álvarez Mezquíriz

Sociedad Estatal de Participaciones Industriales-SEPI  
(Representada por D. Federico Ferrer Delso)

Dña. Teresa García-Milá Lloveras

D. Miguel Ángel Lasheras Merino

D. Dionisio Martínez Martínez

D. Luis Javier Navarro Vigil

D. Martí Parellada Sabata

D. Ramón Pérez Simarro

D. José Riva Francos

Dña. Isabel Sánchez García

Dña. Rosa Rodríguez Diaz

D. Jesús Máximo Pedrosa Ortega

### Secretary to the Board

D. Rafael Piqueras Bautista