

# 05

Report of  
Corporate Governance  
and Governing Bodies



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# [ Summary

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A blurred office interior with a large window on the left and a conference table with chairs in the foreground. The image has a blue color overlay.

## [ Letter from the Chairman



Dear Shareholders,

One year on, and I am delighted to be able to provide you the Enagás Corporate Governance Report, which follows the model approved by the authorities responsible for the Spanish securities market.

2005 has represented a period of consolidation for all the initiatives undertaken by the company over recent years, and I am convinced that the results of this have been entirely satisfactory.

Both the Board of Directors, of which I am Chairman, and the company's Management team are continually concerned with defending the rights of the shareholder, no matter what size his or her holding may be, as well as ensuring market protection. I can firmly state that the General Meeting of Shareholders is an excellent example of Enagás' desire to see shareholders and investors alike participating in the smooth running of company.

Of particular interest this year have been the efforts made by Enagás to clearly transmit all information on any operations carried out by the company with related persons or entities, thus ensuring equal treatment and clarity of information. In this respect, and also with respect to the constant monitoring of company accounts, the Auditing Commission has further focused its activities. This is an organisation which, day after day, has acquired increasing importance in the Enagás organisational framework and, as in previous years, the Commission has also drawn up a report on its activity, which accompanies the mandatory corporate governance report.

I would like to take this opportunity to reiterate my commitment, as well as that of the Board of Directors, to defend the interests of both shareholders and the markets. In doing so, everyone can continue to place their trust in Enagás, as they have done over the past years.

Many thanks,

A handwritten signature in blue ink, which appears to read 'Antonio González-Adalid'.

Antonio González-Adalid  
Chairman

# Ownership structure

## A.1. Complete the following tables on the company's share capital:

Latest date of any change	Share capital ( € )	Number of shares
03-05-2002	358,101,390,00	238,734,260

If there are different types of shares, indicate this in the following box:

Class	Number of shares	Nominal unit value

## A.2. List the direct and indirect holders of significant holdings in your company at the end of its financial year, excluding members of the board:

Name or company name of director	Number of shares	Number of shares held indirectly (*)	% Total/ equity
BP ESPAÑA, S.A.	11,936,713	0	5,000
GAS NATURAL SDG, S.A.	35,708,987	0	14.958
ATALAYA INVERSIONES, SRL	0	11,989,392	5.022
CAJASTUR (CAJA DE AHORROS DE ASTURIAS)	0	11,937,395	5.000

(\*) Through

Name or company name of direct shareholder	Number of shares held directly	% Total/ equity
SAGANE INVERSIONES, SRL	11,989,392	5.022
CANTÁBRICA DE INVERSIONES DE CARTERA, S.L.	11,937,395	5.000
<b>Total:</b>	<b>23,926,787</b>	

Indicate the most significant movements in shareholding structure during the financial year:

Name or company name of director	Date of operation	Type of operation
GAS NATURAL SDG, S.A.	05-12-2005	A 15% drop in equity

### A.3. Complete the following tables on company Directors holding company shares:

Name or company name of director	Date first appointed	Date last appointed	Number of shares held directly	Number of shares held indirectly (*)	% Total/ equity
ANTONIO GONZÁLEZ -ADALID GARCÍA-ZOZAYA	29-09-2000	30-04-2004	9,069	0	0.004
BANCAJA (CAJA DE AHORROS DE VALENCIA, CASTELLÓN Y ALICANTE)	09-07-2002	25-04-2003	11,936,713	0	5.000
CAM(CAJA DE) AHORROS DEL MEDITERRÁNEO	25-04-2003	25-04-2003	0	12,002,000	5.027
SALVADOR GABARRÓ SERRA	18-11-2004	22-04-2005	10	0	0.000
SIR. ROBERT MALPAS	31-05-2002	31-05-2002	6.000	0	0.003
DIONISIO MARTÍNEZ MARTÍNEZ	31-05-2002	31-05-2002	2.010	0	0.001
LUIS JAVIER NAVARRO VIGIL	09-07-2002	25-04-2003	10	0	0.000
MARTÍ PARELLADA SABATA	17-03-2005	22-04-2005	10	0	0.000
PEÑA RUEDA, SLU	30-04-2004	30-04-2004	0	11,937,395	5.000
RAMÓN PÉREZ SIMARRO	17-06-2004	22-04-2005	100	0	0.000
ANTONIO TÉLLEZ DE PERALTA	19-09-2005	19-09-2005	400	0	0.000
RAFAEL VILLASECA MARCO	31-05-2002	31-05-2002	356	0	0.000

(\*) Through

Name or company name of direct shareholder	Number of shares held directly
INCOMED, S.L. (INVERSIONES COTIZADAS DEL MEDITERRÁNEO, S.L.)	12,002,000
CANTÁBRICA DE INVERSIONES DE CARTERA, S.L.	11,937,395
<b>Total:</b>	<b>23,939,395</b>

<b>% of total equity held by the Board of Directors</b>	15,035
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Fill in the following tables on company Directors holding company shares:

Name or company name of director	Number of options held directly	Number of options held indirectly	Equivalent number of shares	% Total/ equity

**A.4. Where applicable, list any family, commercial, contractual or corporate relations between owners of significant shareholdings, which the company is aware of, unless they are of little relevance or arise from ordinary trading or exchange:**

Names or company names related	Type of relationship	Short description

**A.5. Where applicable, list any commercial, contractual or corporate relations between owners of significant shareholdings which the company is aware of, unless they are of little relevance or arise from ordinary trading or exchange:**

Names or company names related	Type of relationship	Short description
BANCAJA (CAJA DE AHORROS DE VALENCIA, CASTELLÓN Y ALICANTE)	Shareholder	PAYMENT OF DIVIDENDS FOR THE 2004 BUSINESS YEAR. AMOUNT (IN THOUSAND €): 3,900
BANCAJA (CAJA DE AHORROS DE VALENCIA, CASTELLÓN Y ALICANTE)	Commercial	INTEREST COVERAGE CONTRACT (COLLAR) FOR THE PERIOD JAN 20005- APRIL 2008. AMOUNT (THOUSAND €): 15,000
BANCAJA (CAJA DE AHORROS DE VALENCIA, CASTELLÓN Y ALICANTE)	Commercial	CREDIT SUBSCRIPTION LINE CORRESPONDING TO THE 2005 FINANCIAL YEAR. AMOUNT (THOUSAND €): 6,000
BANCAJA (CAJA DE AHORROS DE VALENCIA, CASTELLÓN Y ALICANTE)	Commercial	CONTRACTING GUARANTEES LINE IN 2005 FINANCIAL YEAR. AMOUNT (THOUSAND €): 6,000
ENAGAS-BP ESPAÑA,S,A	Shareholder	PAYMENT OF DIVIDENDS FOR THE 2004 BUSINESS YEAR. AMOUNT (IN THOUSAND €): 3,900
ENAGAS-BP ESPAÑA,S,A	Contractual	SERVICES RELATED TO THIRD PARTY ACCESS TO ENAGAS INFRASTRUCTURES (ATR): IN 2005 19,795 GWH WERE REGASIFIED. AMOUNT (THOUSAND €): 12,170; 18,817 GWH WERE TRANSPORTED. TOTAL (THOUSAND €):5,200; AN AVERAGE OF 1,087 GWH WERE STORED. AMOUNT (THOUSAND €): 3,012 €. TOTAL AMOUNT OF ATR SERVICES (THOUSAND €): 20,382.

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CAJASTUR (CAJA DE AHORROS DE ASTURIAS)	Shareholder	PAYMENT OF DIVIDENDS FOR THE 2004 BUSINESS YEAR. AMOUNT (IN THOUSANDS €): 3,900
CAJASTUR (CAJA DE AHORROS DE ASTURIAS)	Commercial	PARTICIPATION OF CAJASTUR IN LOAN (CLUB DEAL) SIGNED 24-11-2004 AND PAID 10-01-2005. ENDING IN 2010. PARTICIPATION OF (THOUSAND €): 30,000
CAJASTUR (CAJA DE AHORROS DE ASTURIAS)	Commercial	CONTRACTING IN 2005 FINANCIAL YEAR OF A CREDIT LINE. AMOUNT (THOUSAND €): 6,000
CAM (CAJA DE AHORROS DEL MEDITERRÁNEO)	Shareholder	PAYMENT TO INCOMED S.L. OF DIVIDENDS FOR 2004 FINANCIAL YEAR. AMOUNT (THOUSAND €): 3,900
CAM (CAJA DE AHORROS DEL MEDITERRÁNEO)	Commercial	RENEWAL OF CREDIT LINE WITH THE CAM. AMOUNT (THOUSAND €): 6,000
CAM (CAJA DE AHORROS DEL MEDITERRÁNEO)	Commercial	INTEREST COVERAGE CONTRACT (COLLAR) FOR THE PERIOD JAN 20005- APRIL 2008. AMOUNT (THOUSAND €): 15,000
ENAGAS-CAM (CAJA DE AHORROS DEL MEDITERRÁNEO)	Commercial	GUARANTEE LINE SIGNED IN 2005 FINANCIAL YEAR. AMOUNT (THOUSAND €): 12,000
ENAGAS-GAS NATURAL SDG, S.A	Shareholder	PAYMENT OF DIVIDENDS FOR THE 2004 BUSINESS YEAR. AMOUNT (THOUSAND €): 16,700
ENAGAS-GAS NATURAL SDG, S.A	Contractual	SERVICES RELATED TO THIRD PARTY ACCESS TO ENAGAS INFRASTRUCTURES (ATR) DURING 2005 FINANCIAL YEAR: 67,954 GWH NATURAL GAS WERE REGASIFIED FOR THE GAS NATURAL GROUP AMOUNT (THOUSAND €): 47,550; 136,764 GWH WERE TRANSPORTED. AMOUNT (THOUSAND €): 60,940.20; AN AVERAGE OF 7,556 GWH WERE STORED. AMOUNT (THOUSAND €): 20,670;TOTAL AMOUNT OF ATR SERVICES (THOUSAND €): 129,160
ENAGAS-GAS NATURAL SDG,S.A	Contractual	PURCHASE OF GAS FOR SUPPLYING THE TARIFF MARKET IN 2005: GAS NATURAL GROUP COMPANIES SUPPLIED ENAGAS WITH 59,341 GWH OF GAS TO SUPPLY TARIFF CUSTOMERS AMOUNT (THOUSAND €): 853,070
ENAGAS-GAS NATURAL SDG, S.A	Contractual	SALE OF GAS FROM ENAGAS TO DISTRIBUTORS OF THE GAS NATURAL GROUP: DURING THE 2005 FINANCIAL YEAR, 49,833 GWH WERE TRANSFERRED. AMOUNT (THOUSAND €): 707,570
ENAGAS-GAS NATURAL SDG,S.A	Contractual	PURCHASE-SALE AGREEMENT FOR FIBRE OPTICS BETWEEN ENAGAS DESARROLLO DEL CABLE S.A. (THOUSAND €): 4,940; AND ACCOUNTED CAPITAL GAINS OF (THOUSAND €): 3,390
ENAGAS-GAS NATURAL SDG,S.A	Contractual	LEASING OF FIBRE OPTICS FROM DEVELOPMENT OF CABLE TO ENAGAS AMOUNT (THOUSAND €): 15,580



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ENAGAS-GAS NATURAL SDG,S.A	Contractual	FIBRE OPTICS MAINTENANCE SERVICES, PROVIDED BY ENAGAS TO DESARROLLO DEL CABLE S.A. AMOUNT (THOUSAND €): 820
ENAGAS-GAS NATURAL SDG, S.A	Contractual	SUPPLY OF ELECTRICITY FROM GAS NATURAL TO ENAGAS. AMOUNT (THOUSAND €): 7,800
ENAGAS-GAS NATURAL SDG,S.A	Contractual	RENTAL OF BASIC SAFETY AND STORAGE LNG GOODS IN ENAGAS TANKERS AMOUNT (THOUSAND €): 3,662
SAGANE INVERSIONES S.R.L	Shareholder	PAYMENT OF DIVIDENDS FOR THE 2004 BUSINESS YEAR. AMOUNT (THOUSAND €): 3,900

#### A.6. List any shareholders' agreements that have been communicated to the company:

Participants in shareholders' agreement	% of company capital affected	Brief description of agreement

Where applicable, list any concerted actions between shareholders which were communicated to the company:

Participants in concerted action	% of company capital affected	Brief description of the concerted action

Expressly indicate any change to or breach of said agreements or concerted actions, if any.

#### A.7. Indicate whether any legal or physical person exercises or may exercise control over the company pursuant to Article 4 of the Securities Market Act:

Name or company name
Observations

#### A.8. Complete the following tables on the company's treasury stock:

At the end of the financial year:

Number of shares held directly	Number of shares held indirectly	(*) % Total/ equity

(\*) Through

Name or company name of direct shareholder	Number of shares held directly
<b>Total:</b>	

List any significant variations that have occurred during the financial year in accordance with Royal Decree 377/1991:

Date	Number of shares held directly	Number of shares held indirectly	% Total/ equity

Earnings from treasury-stock over the year (Thousand euros)	0
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**A.9. List the terms and conditions of any authorisations conferred by the GSM to the Board of Directors to purchase and/or transfer the treasury stock described in section A.8 above.**

There is no mandate in force by the GSM to the Board of Directors for the acquisition or transfer of its own shares.

**A.10. State, as applicable, any restrictions under law or Bylaws on exercising voting rights, as well as any legal restrictions on the acquisition and/or transfer of equity:**

In accordance with the provisions of Additional Disposition Twenty of Act 34/1998, of October 7th, on the Hydrocarbons Sector (and in compliance with Act 62/2003, of 30 December), no legal or physical person may own shares in Enagás of more than 5% of equity. Voting rights corresponding to shares owned by those who exceed this percentage will be suspended while the share percentage is rectified.

The 2005 Annual general Shareholders' Meeting approved a change to Company Bylaws in order to adapt the same to the aforesaid Additional Disposition Twenty.

Article 27 of Company Bylaws states that: "Shareholders owning 100 shares, registered with the relevant registers of any of the entities participating in the Management Company for the Registry, Clearing and Settlement of Securities or the entity replacing it, at least five days prior to the date scheduled for the Shareholders' Meeting, may duly attend and vote at the General Meetings. Shareholders who do not hold the aforementioned number of shares are entitled to form groups and delegate another shareholder to represent them; for this purpose, the shares corresponding to each person in his/her own right and by representation shall be cumulative. "

# Structure of corporate administration

## B.1. Board of Directors

B.1.1. State the maximum and minimum number of Directors established in the Bylaws:

<b>Maximum number of Directors</b>	16
<b>Minimum number of Directors</b>	6

B.1.2. Use the following to provide details on Board members:

Name or company name of director	Represented by	Seat on the board	Date first appointed	Date last appointed	Election procedure
ANTONIO GONZÁLEZ – ADALID GARCÍA - ZOZAYA		CHAIRMAN	29-09-2000	30-04-2004	GENERAL SHAREHOLDERS' MEETING
JESÚS DAVID ÁLVAREZ MEZQUÍRIZ		DIRECTOR	25-04-2003	25-04-2003	GENERAL SHAREHOLDERS' MEETING
BANCAJA (CAJA DE AHORROS DE VALENCIA, CASTELLÓN Y ALICANTE)	JOSÉ LUIS OLIVAS MARTÍNEZ	DIRECTOR	09-07-2002	25-04-2003	GENERAL SHAREHOLDERS' MEETING
CAM (CAJA DE AHORROS DEL MEDITERRÁNEO)	VICENTE SALA BELLÓ	DIRECTOR	25-04-2003	25-04-2003	GENERAL SHAREHOLDERS' MEETING
CARLOS EGEA KRAUEL		DIRECTOR	09-07-2002	25-04-2003	GENERAL SHAREHOLDERS' MEETING
JOSÉ MANUEL FERNÁNDEZ NORNIELLA		DIRECTOR	31-05-2002	31-05-2002	GENERAL SHAREHOLDERS' MEETING
SALVADOR GABARRÓ SERRA		DIRECTOR	18-11-2004	22-04-2005	CO-OPTED
SIR ROBERT MALPAS		DIRECTOR	31-05-2002	31-05-2002	GENERAL SHAREHOLDERS' MEETING
DIONISIO MARTÍNEZ MARTÍNEZ		DIRECTOR	31-05-2002	31-05-2002	GENERAL SHAREHOLDERS' MEETING
LUIS JAVIER NAVARRO VIGIL		DIRECTOR	09-07-2002	25-04-2003	GENERAL SHAREHOLDERS' MEETING
MARTÍ PARELLADA SABATA		DIRECTOR	17-03-2005	22-04-2005	CO-OPTED
PEÑA RUEDA, SLU	MANUEL MENÉNDEZ MENÉNDEZ	DIRECTOR	30-04-2004	30-04-2004	GENERAL SHAREHOLDERS' MEETING
RAMÓN PÉREZ SIMARRO		DIRECTOR	17-06-2004	22-04-2005	CO-OPTED
JOSÉ RIVA FRANCOS		DIRECTOR	31-05-2002	31-05-2002	GENERAL SHAREHOLDERS' MEETING
ANTONIO TÉLLEZ DE PERALTA		DIRECTOR	19-09-2005	19-09-2005	CO-OPTED
RAFAEL VILLASECA MARCO		DIRECTOR	31-05-2002	31-05-2002	GENERAL SHAREHOLDERS' MEETING

<b>Total number of Directors</b>	16
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List any Board members who left during this period:

Name or company name of director	Leaving date
RAMÓN BLANCO BALÍN	21-07-2005
ENRIQUE LOCUTURA RUPÉREZ	17-02-2005

B.1.3. Complete the following tables on Board members and their different roles:

#### EXECUTIVE DIRECTORS

Name or company name of director	Committee proposing appointment	Post within company organisation
ANTONIO GONZÁLEZ – ADALID GARCÍA - ZOZAYA	APPOINTMENTS AND REMUNERATIONS COMMITTEE	CHAIRMAN

#### EXTERNAL CONTROLLING DIRECTORS

Name or company name of director	Committee proposing appointment	Name or company name of significant shareholder represented or who proposed appointment
BANCAJA (CAJA DE AHORROS DE VALENCIA, CASTELLÓN Y ALICANTE)	BOARD OF DIRECTORS	BANCAJA (CAJA DE AHORROS DE VALENCIA, CASTELLÓN Y ALICANTE)
CAM (CAJA DE AHORROS DEL MEDITERRÁNEO)	APPOINTMENTS AND REMUNERATIONS COMMITTEE	CAM (CAJA DE AHORROS DEL MEDITERRÁNEO)
CARLOS EGEA KRAUEL	BOARD OF DIRECTORS	SAGANE INVERSIONES, SRL
SALVADOR GABARRÓ SERRA	BOARD OF DIRECTORS	GAS NATURAL SDG, S.A.
LUIS JAVIER NAVARRO VIGIL	APPOINTMENTS AND REMUNERATIONS COMMITTEE	BP ESPAÑA, S.A.
PEÑA RUEDA, SLU	APPOINTMENTS AND REMUNERATIONS COMMITTEE	CAJASTUR (CAJA DE AHORROS DE ASTURIAS)
RAFAEL VILLASECA MARCO	APPOINTMENTS AND REMUNERATIONS COMMITTEE	GAS NATURAL SDG, S.A.

#### EXTERNAL INDEPENDENT DIRECTORS

Name or company name of director	Committee proposing appointment	Profile
JESÚS DAVID ÁLVAREZ MEZQUÍRIZ	APPOINTMENTS AND REMUNERATIONS COMMITTEE	DIRECTOR OF BODEGAS VEGA SICILIA, S.A; CHIEF EXECUTIVE OF EULEN S.A AND DIRECTOR OF EL ENEBRO, S.A.

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JOSÉ MANUEL FERNÁNDEZ NORNIELLA	BOARD OF DIRECTORS	HONORARY CHAIRMAN OF THE EBRO-PULEVA GROUP, DIRECTOR OF IBERIA, S.A. AND OF ENDESA, S.A.
SIR ROBERT MALPAS	BOARD OF DIRECTORS	CHAIRMAN DE "EVOLUTION" (DISSOLVED IN JANUARY 2006), NON-EXECUTIVE DIRECTOR OF AGCERT P.L.C. DUBLIN
DIONISIO MARTÍNEZ MARTÍNEZ	BOARD OF DIRECTORS	DIRECTOR OF INVERCIAXA (DISSOLVED IN 2005); SPOKESMAN OF THE GENERAL CODIFICATION COMMITTEE, CHAIRMAN OF "BOYSEP INVESTMENT SICAV, S.A", BOARD SECRETARY OF EBN BANCO, S.A AND SECRETARY OF THE APPLIED ECONOMIC STUDIES FOUNDATION (FEDEA)
MARTÍ PARELLADA SABATA	APPOINTMENTS AND REMUNERATIONS COMMITTEE	PROFESSOR, UNIVERSITY OF BARCELONA; PATRON OF THE I.C.O FOUNDATION; DIRECTOR OF THE BARCELONA ECONOMICS INSTITUTE; CHAIRMAN OF COMFORSA, S.A.; DIRECTOR OF AGRUPACIÓN MUTUA DEL COMERCIO Y DE LA INDUSTRIA; DIRECTOR OF EPLICSA, S.A. AND DIRECTOR OF FIBRACOLOR, S.A.
RAMÓN PÉREZ SIMARRO	APPOINTMENTS AND REMUNERATIONS COMMITTEE	FORMER GENERAL DIRECTOR OF ENERGY (1990); FORMER GENERAL ENERGY AND MINERAL RESOURCES SECRETARY; WHILE IN CHARGE OF THE ENERGY SECTOR HE CARRIED OUT THE DERUGULARIZATION OF THE SPANISH OIL SECTOR, APPROVING THE SPANISH NATIONAL ENERGY PLAN (1991-2000); FORMER GENERAL TECHNICAL SECRETARY OF THE MINISTRY OF INDUSTRY; FORMER LECTURER IN ECONOMIC THEORY AT THE AUTONOMOUS UNIVERSITY OF MADRID.
ANTONIO TÉLLEZ DE PERALTA	APPOINTMENTS AND REMUNERATIONS COMMITTEE	GENERAL DIRECTOR OF INVESTEE COMPANIES AND DEPUTY- CHAIRMAN OF THE LECHE PASCUAL GROUP
JOSÉ RIVA FRANCOS	BOARD OF DIRECTORS	DIRECTOR OF LOGISTA, S.A. AND RED ELÉCTRICA DE ESPAÑA; DEPUTY CHAIRMAN AND DIRECTOR OF COMPANIES WITHIN THE SUARDIAZ GROUP

## OTHER EXTERNAL DIRECTORS

Name or company name of director	Committee proposing appointment

List the reasons why they are not considered as controlling or independent Directors:

Indicate any variations, if any, to Directors' posts during the period:

Name or company name of director	Date of change	Previous condition	Current condition
RAFAEL VILLASECA MARCO	17-02-2005	INDEPENDENT EXTERNAL DIRECTOR	EXTERNAL CONTROLLING DIRECTOR

B.1.4. Indicate whether the classification of Directors made in the previous points corresponds to the distribution established by the Board Regulations:

The classification of Directors corresponds to criteria stemming from Article 3, section 2 of Regulations of the Board of Directors of Enagás, which establishes two categories of Directors:

- 1.- Internal or executive: with executive management powers in the company, who may not exceed 20 percent of the total number of the Board of Directors.
- 2.- External: who may be:
  - 2.1. Controlling: Proposed by holders of significant stable shares in company capital.
  - 2.2. Independent: People of acknowledged professional prestige who are able to contribute their experience and knowledge to corporate governance and, while not executive or controlling Directors, meet the conditions which guarantee their impartiality and objectivity. In exercising their powers of co-option and proposal to the GSM to fill vacancies, the Board of Directors shall ensure that in the composition of the body, independent Directors represent a wide majority over executive Directors.

B.1.5. Indicate, as applicable, any powers which are delegated to Directors:

Name or company name of director	Short description
ANTONIO GONZÁLEZ-ADALID GARCÍA-ZOZAYA	HOLDS THE BROADEST POWERS OF REPRESENTATION, ADMINISTRATION AND DISPOSITION OF COMPANY OPERATIONS. THIS INCLUDES ALL THE POWERS OF THE BOARD OF DIRECTORS, WITH THE EXCEPTION OF THOSE WHICH CANNOT BE DELEGATED BY LAW OR THE REGULATIONS OF THE BOARD OF DIRECTORS OF ENAGAS

B.1.6. Identify any Board members who are also Directors of other companies within the listed public company's group of companies:

Name or company name of director	Company name of the group company	Position

B.1.7. Provide a list of any Board members who have notified the company that they hold directorships with other listed companies in Spain, other than group companies:

Name or company name of director	Listed company	Position
BANCAJA (CAJA DE AHORROS DE VALENCIA, CASTELLÓN Y ALICANTE)	BANCO DE VALENCIA	CHAIRMAN
BANCAJA (CAJA DE AHORROS DE VALENCIA, CASTELLÓN Y ALICANTE)	NH HOTELES	DIRECTOR
BANCAJA (CAJA DE AHORROS DE VALENCIA, CASTELLÓN Y ALICANTE)	METROVACESA	DIRECTOR
JOSÉ MANUEL FERNÁNDEZ NORNIELLA	ENDESA, S.A.	DIRECTOR
JOSÉ MANUEL FERNÁNDEZ NORNIELLA	IBERIA, S.A.	DIRECTOR
SALVADOR GABARRÓ SERRA	GAS NATURAL SDG, S.A.	CHAIRMAN
LUIS JAVIER NAVARRO VIGIL	CLH (COMPAÑÍA LOGÍSTICA DE HIDROCARBUROS, S.A.)	DIRECTOR
JOSÉ RIVA FRANCOS	LOGISTA (COMPAÑÍA DE DISTRIBUCIÓN INTEGRAL LOGISTA, S.A.)	DIRECTOR
JOSÉ RIVA FRANCOS	RED ELÉCTRICA DE ESPAÑA, S.A.	DIRECTOR
RAFAEL VILLASECA MARCO	GAS NATURAL SDG, S.A.	CHIEF EXECUTIVE

B.1.8. Use the following tables to provide details of the accrued aggregate remuneration of Directors during the year:

a) In the company which is the subject of this report:

Remuneration item	Thousand euros
Fixed pay	723
Variable pay	280
Allowances	918
Token payments	0
Share options and/or other financial instruments	0
Other	11
<b>Total:</b>	<b>1,932</b>



<b>Other benefits</b>	<b>Thousand euros</b>
Advances	0
Loans granted	355
Pension plans and funds: contributions	9
Pension plans and funds: Obligations contracted	0
Life insurance premiums	65
Guarantees constituted by the company in favour of directors	0

b) For directors who sit on the Board of Directors and/or senior management of group companies:

<b>Remuneration item</b>	<b>Thousand euros</b>
Fixed pay	0
Variable pay	0
Allowances	0
Token payments	0
Share options and/or other financial instruments	0
Other	0
<b>Total:</b>	<b>0</b>

<b>Other benefits</b>	<b>Thousand euros</b>
Advances	0
Loans granted	0
Pension plans and funds: contributions	0
Pension plans and funds: Obligations contracted	0
Life insurance premiums	0
Guarantees constituted by the company in favour of directors	0

c) Total remuneration by type of Directorship:

<b>Type of Director</b>	<b>By company</b>	<b>By group</b>
Executive	1,067	0
Controlling Directors	448	0
Independent external Directors	417	0
Other external Directors	0	0
<b>Total:</b>	<b>1,932</b>	<b>0</b>

d) Regarding the attributable profit of the controlling company:

<b>Total Directors' remuneration (in thousand euros)</b>	1,932
<b>Total Directors' remuneration / attributable profit of controlling company (as %)</b>	0,980

B.1.9. Identify members of senior management who are not also executive Directors and indicate total remuneration accruing to them during the year:

Name or company name	Position
JOSÉ FERRÁNDIZ ALARCÓN DE LA LASTRA	TECHNICAL SECRETARY
ANTONIO GARCÍA MATEO	DIRECTOR OF TECHNOLOGY, ENGINEERING AND PURCHASING
FRANCISCO JAVIER GONZÁLEZ JULIÁ	GENERAL DIRECTOR OF SYSTEM OPERATIONS
DIEGO DE REINA LOVERA	FINANCIAL DIRECTOR
JUAN MANUEL LLABRÉS ESTABEN	GENERAL DIRECTOR OF STRATEGY AND REGULATION
ERUNDINO NEIRA QUINTAS	HUMAN RESOURCES DIRECTOR
LUIS PÉREZ DE AYALA BECERRIL	DIRECTOR OF LEGAL AFFAIRS
RAMÓN SÁNCHEZ VALERA	DIRECTOR OF INFRASTRUCTURE

<b>Total Directors' remuneration (in thousand euros)</b>	1.857
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B.1.10. Identify, in aggregate terms, any guarantee or 'golden parachute' clauses in the event of dismissal or changes in control benefiting senior managers, including executive company or group Directors. Indicate whether these contracts must be reported to and/or approved by governing bodies of the company and/or its group:

<b>Number of beneficiaries</b>	3
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	Board of Directors	GSM
<b>Body authorising clauses</b>		

	YES	NO
<b>Is the GSM informed of clauses?</b>		X

### B.1.11. Detail the process for establishing remuneration of members of the Board of Directors and relevant clauses in the Bylaws regarding pay.

The process for establishing remuneration for Board members is covered in Article 36 of Company Bylaws, which establish the following:

“The position of Director shall be remunerated. The General Shareholders’ Meeting shall determine the total maximum remuneration to be paid to Board members, and this shall comprise a cash sum per year, or such period as determined by the General Shareholders’ Meeting.

On determining such remuneration, the Meeting may resolve that part of the same may be applied to the position itself and paid equally to all the members, while the other part may be distributed by the Board of Directors itself, according to the criteria established by the General Shareholders’ Meeting

Directors may receive additional remuneration in the form of company shares, share options or other securities that enable the holder to obtain shares, or through other remuneration systems based on the market price value of the shares. The application of the said systems shall be presented to the General Shareholders’ Meeting for approval, and the Meeting shall determine the value of the shares granted each Director, the price for the exercise of option rights, the term of duration and all other conditions deemed appropriate.

Remuneration established herein shall be compatible with and independent from salaries, wages, indemnifications, pensions or compensations of any type established in general or in particular for those members of the Board of Directors who are linked to the company through a normal labour relationship, special top management contract, or a service contract. Such relationships shall be compatible with the position of member of the Board of Directors.

Board members shall be entitled to the payment or reimbursement of expenses incurred as a result of attendance at meetings and other tasks directly related to the performance of their duties, such as travel, accommodation, meals and any other which may arise”

By virtue of the foregoing, Enagás has established a payment framework for Directors aimed at covering both the responsibilities involved in carrying out their duties, and effective dedication and attendance at sessions, without removing or limiting the powers of the GSM in any way. This body is responsible for determining the maximum amount to be paid to Directors and the form and criteria that must be taken into account in assigning and distributing such payment, to be effected by the Board of Directors, in accordance with guidelines established by the General Meeting.

Likewise, Article 16 of the Regulations of the Board of Directors stipulates that the Appointments and Remunerations Committee establishes payment criteria for company Directors, within the scope of Company Bylaws and in accordance with resolutions of the General Meeting, while the Board of Directors is responsible for final distribution of the overall sum within the limits established by Bylaws for this purpose. Payments to Directors will be transparent. The Annual Report, as an integral part of the Annual Accounts, includes appropriate information on remuneration received by members of the Board of Directors.

### B.1.12. Identify any Board members who are in turn members of the Board of Directors or hold Directorships in companies holding significant stock in the listed company and/or its group companies.

<b>Name or company name of director</b>	<b>Name or company name significant shareholder</b>	<b>Position</b>
SALVADOR GABARRÓ SERRA	GAS NATURAL SDG,S.A.	CHAIRMAN
LUIS JAVIER NAVARRO VIGIL	BP ESPAÑA, S.A.	CHAIRMAN
RAFAEL VILLASECA MARCO	GAS NATURAL SDG, S.A.	CHIEF EXECUTIVE

Detail any relevant relationships, other than those given in the previous point, linking Board members with significant shareholders and/or group companies:

Name or company name of director	Name or company name significant shareholder	Relationship

B.1.13. Indicate any changes made to Board Regulations during the year.

There has been no need to make changes to Board Regulations. The company maintained the text registered at the Commercial Registry on 27 April 2004, which had firstly been communicated and posted on the website of the Spanish National Securities Commission (CNMV).

B.1.14. Indicate the procedures for appointing, re-electing, evaluating and removing Directors. Provide details on the bodies responsible, steps to be followed and criteria to be used in each procedure.



## **APPOINTMENT OF DIRECTORS:**

Pursuant to Article 8 of the Regulations of the Board of Directors of Enagás, "Directors shall be appointed by the General Shareholders' Meeting or by the Board of Directors, in conformity with the provisions contained in the Joint Stock Companies Act and Company Bylaws".

Directors may hold their post for a maximum of four years, and may be re-elected. Directors who are co-opted shall hold their post until the date of the first subsequent General Meeting.

Those appointed to Directorships must be people who, in addition to meeting the legal and statutory requirements, have recognised prestige and the appropriate professional knowledge and experience to suitably hold the post. Before the Board can exercise its co-opting powers, a new Director must be nominated by the Appointments and Remunerations Committee. Board decisions to co-opt new Directors are then submitted to the General Shareholders' Meeting for approval.

In keeping with good governance recommendations, when the Board of Directors does not agree with the Committee's proposals, it must explain the reasons for this and duly record its reasons in the Minutes.

Special mention should be made of specific requirements that have been established to ensure the impartiality and independence of Independent Directors appointed to the Board.

Persons with significant links to shareholders, and those who hold senior management posts in the company, or have held such posts in the previous two years, direct relatives of persons who are or have been an executive Director or senior manager of the company in the previous two years, those who directly or indirectly have received payments from the company, or issued payments to it, that may jeopardise their independence, and in general, those persons that may have any relation to the day-to-day management of the company, or who, for professional or commercial reasons have links with executive Directors or with other senior managers of the company, may not be appointed as independent Directors.

In compliance with recommendations on this subject, the Board of Directors, in considering its own composition, must endeavour to ensure that independent Directors have a substantial majority over executive Directors.

## **RE-ELECTION AND EVALUATION OF DIRECTORS:**

The Appointment and Remunerations 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-election of Directors presented by the Board of Directors to the General Shareholders' Meeting.

As a general rule, appropriate rotation of independent Directors should take place. For this reason, when one is proposed for re-election, the circumstances making his/her continuity in the post advisable must be justified.

## **REMOVAL AND DISMISSAL OF DIRECTORS:**

Directors shall leave their post after the first General Shareholders' Meeting following the end of their term of appointment and in all other cases in accordance with the Law, Company Bylaws and the present Regulations.

**B.1.15. Indicate the circumstances in which Directors are obliged to resign.**

Directors must tender their resignation to the Board of Directors' in the following cases:

- a) When executive Directors no longer hold the executive posts, other than those on the Board, that were associated with their appointment as a Director.
- b) When they are involved in any of the legally stipulated circumstances of incompatibility or prohibition.
- c) When they are in serious breach of their obligations as Directors.
- d) When they place the interests of the company at risk.
- e) When the reason for which they were appointed as independent, executive or controlling Directors is no longer valid.

After a Director resigns from his post, he/she may not work for a competitor company for a period of two years, unless the Board of Directors exempts him/her from this obligation or shortens its duration.

**B.1.16. Explain whether the duties of Chief Executive Officer fall to the Chairman of the Board.  
Indicate any measures taken to limit the risks of one single person accumulating powers:**

YES  NO

**Risk-limitation measures**

As well as the functions and powers attributed to the post by law and the Company Bylaws, the Chairman of the Board of Directors, as an executive, effectively directs the company's business, in accordance with the decisions and criteria established by the General Shareholders' Meeting and the Board of Directors in their respective competencies.

The Board of Directors delegates the powers mentioned in section B.1.5. of this Report to the Chairman.

However, the Board of Directors' Regulations contain a detailed report on issues which must be presented to the Board; in general terms, the Board retains sole jurisdiction on operations valued at over three million euros. Similarly, Enagás internal regulations on investment and tendering also reserve decision making powers for the Board for sums of over three million euros.

**B.1.17. Are reinforced majorities required, other than the legally stipulated ones, for any type of decision?**

YES  NO

Indicate how the Board of Directors adopts resolutions, including at least the minimum quorum of attendees and the kind of majorities required to pass resolutions.

## ADOPTION OF RESOLUTIONS

Description of resolution	Quorum	Type of majority
	Article 39 of Company Bylaws and Article 7 of the Regulations of the Board of Directors state that the Board of Directors is validly constituted when attended by at least half its members plus one, present or represented, except when it has not been called, in which case the attendance of all members is necessary.	The aforementioned Articles establish that resolutions are adopted with a majority vote of the Directors present or represented, regardless of the type of resolution being voted, except in a case of a written vote without a meeting, which shall only be valid when no Director opposes this procedure and when the requirements of the Commercial Registry Regulations are met.

B.1.18. State whether there are specific requirements, other than those for Directors, for being appointed chairman:

YES  NO

Description of requirements

B.1.19. Indicate whether the Chairman has the casting vote:

YES  NO

Subjects for which there is a casting vote

B.1.20. Indicate whether Bylaws or Board Regulations establish any age limit for Directors:

YES  NO

<b>Age limit for chairman</b>	
<b>Age limit for chief executive</b>	
<b>Age limit for director</b>	

B.1.21. Indicate whether the Bylaws or the Board Regulations establish any limit on the term of office for independent Directors:

YES  NO

<b>Maximum number of years in office</b>	0
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B.1.22. Indicate whether there are any formal processes for proxy voting at meetings of the Board of Directors. If so, briefly describe them.

Article 39 of the Company Bylaws states that Directors may grant representation to other Directors, but none of the attendees may hold more than two representations or voting proxies.

Furthermore, pursuant to Article 7.3 of the Regulations of the Board of Directors, representation of absent Directors may be granted by any means, with a telegram or fax to the Chairman or Secretary of the Board being valid.

B.1.23. State the number of meetings the Board of Directors has held during the year. Indicate the number of times, if any, on which the Board has met in the absence of its Chairman:

<b>Number of Board meetings</b>	11
<b>Number of Board meetings held in the absence of the Chairman</b>	0

Indicate the number of Board committee meetings held over the year:

<b>Number of Executive Committee meetings</b>	0
<b>Number of Audit and Compliance Meetings</b>	4
<b>Number of meetings of the Appointments and Remuneration Committee</b>	5
<b>Number of meetings of the Strategy and Investment Committee</b>	0
<b>Number of meetings of the Commission</b>	0

B.1.24. Indicate whether the individual and consolidated Annual Accounts presented for Board approval are certified beforehand:

YES  NO



If so, identify the person(s) certifying the individual and consolidated Annual Accounts presented for the Board's approval:

Name	Position
ANTONIO GONZÁLEZ - ADALID GARCÍA -ZUZAYA	CHAIRMAN
DIEGO DE REINA LOVERA	FINANCIAL DIRECTOR

**B.1.25. Describe any mechanisms the Board of Directors has established to avoid individual and consolidated accounts that it has approved being presented to the General Shareholders' Meeting with a qualified auditor's report.**

Article 5, section C) of the Regulations of the Board of Directors states that among the functions of the Board of Directors regarding the Annual Accounts are the following:

To present, in clear and precise terms, facilitating comprehension of their contents, the individual and consolidated Annual Accounts and the Management Report, after obtaining the Reports issued by the Financial Department and the relevant report issued by the Audit and Compliance Committee and the corresponding clarifications.

Except where specifically stated and appropriately noted in the Minutes, the Board of Directors, before complying with its legal obligation to sign off Annual Accounts, shall be understood to have obtained all relevant information, either directly or through the Audit and Compliance Committee, and have placed any provisos it deems pertinent on record.

In presenting the Annual Accounts, the Board of Directors shall set out all comments or recommendations previously made by the Audit and Compliance Committee in its Report. In the event that the Annual Accounts differ from the prior Report issued by the Audit and Compliance Committee, the Board of Directors shall provide sufficient explanation for the reasons justifying the discrepancy.

The Board of Directors shall endeavour to present the Accounts in such a way that there are no provisos from the Auditor in the company Accounts. However, when the Board of Directors considers that its criteria must be maintained, it shall publicly explain the content and extent of the discrepancy.

Article 7, section C) of the Audit and Compliance Committee Regulations states that said Committee shall "operate as a channel of communication between the Board of Directors and the Auditor, evaluating the results of each Audit, and the Management Team's responses to its recommendations, and mediating and arbitrating in cases of discrepancies between them in relation to principles and criteria to be applied in the preparation of financial statements.

Furthermore, as mentioned in the Report of the Audit and Compliance Committee attached to this Corporate Governance Report, the aforementioned Committee and the Board of Directors paid special attention throughout the 2005 financial year to monitoring the Annual Accounts in order to avoid the presentation of Annual Accounts with Auditor's provisos. To this end, regular meetings with the Auditor were held and the Auditor's recommendations and requirements were followed at all times. In this respect, it should be emphasised that among the tasks of the External Auditors is that of effecting limited quarterly reviews of the financial statements which are presented to the Audit and Compliance Committee.

**B.1.26. List measures adopted to ensure that information disclosed to the securities markets is transmitted equitably and symmetrically.**

After the approval of the Financial System Reform Act 44/2002, significant changes were made to the Securities Market Act concerning the notification of relevant information. For this reason, in June, 2003, a new Internal Code of Conduct including these modifications was approved.

In this respect, the company has adopted the following information transparency measures:

Enagás S.A., through its Chairman, or its Investor Relations Director, the Secretary to the Board, the Financial Director or the Legal Affairs Director, shall immediately provide the market with all relevant information by notifying the Spanish National Securities Market Commission (CNMV), within the deadlines and in accordance with the established procedures contained in the applicable regulations.

Notification to the Spanish National Securities Market Commission of relevant information shall take place before its publication by any other media and as soon as the fact is known, the relevant decision is adopted, or the relevant agreement or contract is signed. The content of the notification shall be true, clear and complete in content, and quantified as required by the nature of the operation, and shall therefore not lead to confusion or deceit.

Enagás considers as relevant all information which may reasonably affect an investor in the purchase or transfer of stocks or financial instruments and may therefore notably influence their value in a secondary market in accordance with the law. If Enagás S.A. considers that the information should not be made public because it affects the company's legitimate interests, it shall immediately notify the Spanish Securities National Market Commission, asking to be exempted from this obligation.

In order that information which may effect the markets is distributed to shareholders on an equitable basis, Enagás S.A. and those holding confidential information (including shareholders with significant shareholdings in Enagás or with an appointed representative on the Board of Directors) must keep such information confidential, and take appropriate steps to prevent this information being used for abusive or disloyal purposes, where necessary carrying our remedial action to rectify the consequences arising from such use.

It is the duty of the Audit and Compliance Committee to inform the Board of Directors of measures to be taken in the event of non-compliance with these Regulations, or the Internal Code of Conduct on Matters Relating to Securities Markets, on the part of Directors or other persons subject to the same. When fulfilling this function, the Appointments and Remunerations Committee acts will liaise with the Audit and Compliance Committee as appropriate.

**B.1.27. Is the Secretary of the Board also a Director?**

YES  NO

**B.1.28. Indicate mechanisms, if any, established by the company to preserve the independence of the auditor, the financial analysts, the investment banks and the rating agencies.**

To preserve the independence of external auditors, the Audit and Compliance Committee of Enagás is responsible for evaluating the company's accounting verification system, ensuring the independence of the External Auditor, reviewing the internal control system, guaranteeing the transparency of information, and compliance with internal conduct regulations. One of its functions is propose to the Board of Directors, for submission to the GSM, the appointment of exter-

nal Account Auditors in accordance with applicable regulations It also reports on the remuneration of such external Auditors, and receives information on issues which may jeopardise their independence.

It is the Board of Directors' responsibility to adopt and implement as many measures as are necessary to ensure the company's transparency on financial markets, to encourage the appropriate setting of company and subsidiary share prices, to supervise, through the Audit and Compliance Committee, regular provision of public information of a financial nature and to carry out as many functions as necessary to ensure that the company complies with its legal obligations as a listed company.

B.1.29. Indicate whether the audit firm performs services for the company and/or its group apart from the audit. If so, declare the fees it receives for such non-audit services and what percentage these represent of the total fees it bills to the company and/or its group.

YES  NO

	Company	Group	Total
Amount from non-audit services (in thousand euros)	258	258	258
Amount from non-audit services / total amount billed by the audit firm (%)	68,00	68,00	68,00

B.1.30. Indicate the number of consecutive years the current audit firm has audited the annual accounts of the company and/or its group, and state how many years the current audit firm has been auditing the accounts as a percentage of the total number of years over which the annual accounts have been audited:

	Company	Group
Number of consecutive years	2	2

	Company	Group
Nº. of years audited by current audit firm / No. of years the company has been audited (%)	9,500	9,500

B.1.31. Detail any information in the company's possession with regard to Directors' stock holdings in other companies involved in activities which are the same as, analogous or complementary to those covered by the corporate mission of the company and/or its group. Indicate the positions or duties in relation to said companies:

Name or company name of director	Name of company in which shares are held	% holding	Post or duties
CAM (CAJA DE AHORROS DEL MEDITERRÁNEO)	UNIÓN FENOSA, S.A.	4.040	-----
CAM (CAJA DE AHORROS DEL MEDITERRÁNEO)	POSEIDON GAS AIE	5.240	-----
CAM (CAJA DE AHORROS DEL MEDITERRÁNEO)	NAUTILUS GAS II AIE	5.240	-----
BANCAJA (CAJA DE AHORROS DE VALENCIA, CASTELLÓN Y ALICANTE)	IBERDROLA, S.A.	1.000	-----
BANCAJA (CAJA DE AHORROS DE VALENCIA, CASTELLÓN Y ALICANTE)	ENDESA, S.A.	0.032	-----
BANCAJA (CAJA DE AHORROS DE VALENCIA, CASTELLÓN Y ALICANTE)	GAS NATURAL SDG, S.A.	0.024	-----
JOSÉ MANUEL FERNÁNDEZ NORNIELLA	ENDESA, S.A.	0.000	DIRECTOR
SALVADOR GABARRÓ SERRA	GAS NATURAL SDG, S.A.	0.000	CHAIRMAN
SIR. ROBERT MALPAS	BP PLC LONDRES	0.000	
LUIS JAVIER NAVARRO VIGIL	BP PLC	0.000	
LUIS JAVIER NAVARRO VIGIL	BP ESPAÑA, S.A.	0.000	CHAIRMAN
LUIS JAVIER NAVARRO VIGIL	BP GAS ESPAÑA, S.A.U.	0.000	CHAIRMAN
RAFAEL VILLASECA MARCO	GAS NATURAL SDG, S.A.	0.000	CHIEF EXECUTIVE (SINCE 28-01-05)
RAFAEL VILLASECA MARCO	ENDESA, S.A.	0.000	
RAFAEL VILLASECA MARCO	IBERDROLA, S.A.	0.000	
RAFAEL VILLASECA MARCO	ENDESA, S.A.	0.000	

B.1.32. Indicate whether there are procedures for Directors to receive external advice and provide details as appropriate:

YES  NO

#### Detail the procedure

Section two of Article 15 of the Board of Directors Regulations establishes that Directors shall be entitled to propose to the Board of Directors the engagement, at the company's expense, of legal, accounting, technical, financial, commercial or any other type of experts deemed necessary for the interests of the company, for the purpose of assisting the Board in performing its duties when there are specific problems of a certain importance and complexity linked to the such performance. The proposal must be communicated to the Chairman of the Board via the Board Secretary. The Board of Directors may veto its approval when it considers that such services are unnecessary for the duties with which they are entrusted, or disagrees with the cost of the same (disproportionate in relation to the problem and assets and revenues of the company) or believes that the said technical assistance can be adequately provided by experts and technicians from within the company.

B.1.33. Indicate whether there are procedures for Directors to receive the information they need in sufficient time to prepare for meetings of the governing bodies:

YES  NO

#### Detail the procedure

Article 6 of the Regulations of the Board of Directors governs the procedure to ensure that Directors have the necessary information to prepare meetings of the Board of Directors with sufficient time. Said Article establishes that: "The call for ordinary sessions shall be issued by the Chairman or the Secretary, or Vice Chairman on order of the Chairman, may be effected by any media, and shall contain the venue for the meeting is to be held and Agenda of the same. The call, which shall be issued, except in extraordinary cases, at least three days prior to the date scheduled for the meeting, shall contain the information and documents considered relevant or appropriate to better inform Directors. The Chairman is empowered to establish the Agenda of the meetings, although any Director may request, prior to such call, the inclusion of the points that, in his/her opinion, should be deliberated by the Board of Directors". In practice, the call will be issued a week before the meeting and, in addition to the meeting venue and the Agenda, will include all documentation considered appropriate or relevant.

B.1.34. Indicate whether there is an insurance policy to cover the company Directors' liability.

YES  NO

## B.2. Board of Directors' Committees

B.2.1. List administrative bodies:

Name of body	Nº of members	Duties
AUDIT AND COMPLIANCE COMMITTEE	4	CONTAINED IN ARTICLE 45 OF THE COMPANY BYLAWS AND ARTICLE 7 OF THE COMMITTEE REGULATIONS: ITS BASIC OBJECTIVES ARE TO EVALUATE THE COMPANY'S AUDIT SYSTEMS, INSURE THE INDEPENDENCE OF THE EXTERNAL AUDITOR, REVIEW THE INTERNAL CONTROL SYSTEMS AND ENSURE TRANSPARENCY OF INFORMATION AND COMPLIANCE WITH INTERNAL RULES OF CONDUCT. ITS DUTIES ARE LISTED IN DETAIL IN SECTION B.2.3 OF THIS REPORT.
APPOINTMENTS AND REMUNERATIONS COMMITTEE	3	THE APPOINTMENTS AND REMUNERATIONS COMMITTEE REGULATIONS ARE CONTAINED IN ARTICLE 45 OF THE COMPANY BYLAWS AND ARTICLE 25 OF THE ORGANISATION AND OPERATING REGULATIONS OF THE BOARD OF DIRECTORS. ITS DUTIES ARE DESCRIBED IN MORE DETAIL IN SECTION B.2.3 OF THIS REPORT.

B.2.2. List the Board Committees and their members:

#### EXECUTIVE COMMITTEE

Name	Position

#### AUDIT AND COMPLIANCE COMMITTEE

Name	Position
LUIS JAVIER NAVARRO VIGIL	CHAIRMAN
SIR ROBERT MALPAS	MEMBER
JOSÉ LUIS OLIVAS MARTÍNEZ	MEMBER
MARTÍ PARELLADA SABATA	MEMBER
LUIS PÉREZ DE AYALA BECERRIL	SECRETARY, NON MEMBER

#### APPOINTMENTS AND REMUNERATIONS COMMITTEE

Name	Position
SALVADOR GABARRÓ SERRA	CHAIRMAN
DIONISIO MARTÍNEZ MARTÍNEZ	MEMBER
RAMÓN PÉREZ SIMARRO	MEMBER
LUIS PÉREZ DE AYALA BECERRIL	SECRETARY NON MEMBER

#### INVESTMENT AND STRATEGY COMMITTEE

Name	Position

B.2.3. Describe the organisational and functional rules and the responsibilities attributed to each of the Board committees.

#### AUDIT AND COMPLIANCE COMMITTEE

Regulations for the Audit and Compliance Committee were approved at the meeting of the Board of Directors of February 19<sup>th</sup>, 2004. They are aimed at providing the committee with an organisational and operational framework which en-

ables it to operate as an independent and transparent body, and thereby comply with regulations contained in Article 44 of the Company Bylaws and Article 26 of the Regulations of the Board of Directors.

In accordance with the stipulations of Article 44 of Company Bylaws, the Audit and Compliance Committee comprises four Directors who are appointed by the Board of Directors.

Article 3 of the Regulations of the Audit and Compliance Committee states that none of its members may be executive Directors, in order to preserve the transparency and objective nature of its decisions, and the parity between controlling and independent Directors must be maintained.

The Chairman of the Board of Directors and members of other committees may not sit on this committee.

As established in Article 4 of the Committee Regulations, duration of Committee membership has the same duration as a Directorship. On ceasing to be a Director, a Committee member's period of service is automatically concluded. Serving Directors may cease to be Committee members at any time that the Board of Director so decides..

Notwithstanding the above, Chairmanship of the Committee must rotate every four years. The Committee Chairman may be re-elected one year after leaving the post, without prejudice to his/her continuity as a member of the Committee if the Board of Directors decides that there exists sufficient reason for said re-election.

Company Bylaws and the relevant Regulations of the Board of Directors regulate payment of Committee members, which is subject to the rules of confidentiality contained therein.

During their period of office, Committee members shall perform the duties and working principles stipulated in the Company Bylaws and in the Regulations of the Board of Directors.

In keeping with Article 8 of its Regulations, the Committee must meet at least four times a year and the Chairman shall call as many further meetings, as he/she believes are required for the Committee to complete its tasks. During the 2005 financial year, the Committee met four times.

The tasks of the Audit and Compliance Committee are set out in Article 44 of Company Bylaws and Article 7 of the Committee Regulations:

1. To verify the financial information process.
2. To provide information on the Annual Accounts prior to their presentation by the Board of Directors.  
In its Report, the Committee includes the information that it deems necessary on the application of accounting criteria, internal control systems and any other relevant fact.  
The Board of Directors must provide an explanation if it presents Annual Accounts that differ from information previously provided by the Audit and Compliance Committee.
3. To examine the information on company activities and results that is produced regularly in compliance with the Securities Market Regulations, ensuring that such information is transparent and accurate.
4. To supervise the company's Internal Auditing Services and verify the internal control systems, in order to achieve optimum monitoring of the Annual Internal Audit.  
In particular, the Committee must supervise the quality of Internal Auditing in areas such as reliability and completeness of information, compliance with policies, laws and regulations and measures for safeguarding assets.  
The Committee has full access to Internal Auditing systems and meets regularly, in full session or through its Chairman, with the Internal Auditing Manager, from whom it may request all the information necessary for its work.
5. To inform and put forward proposals to the Board of Directors regarding the selection, appointment, renewal and dismissal of the Internal Auditing Manager.
6. To make proposals to the Board of Directors for submission to the General Shareholder's Meeting concerning the appointment of the Enagás External Accounts Auditor, in accordance with applicable regulations, and to provide information on payment to the same.

7. To work with the External Accounts Auditors to receive information on questions that may jeopardise the latter's independence or any other subjects related to the Accounts Auditing process, as well as other communications stipulated in the Accounts Audit legislation and in technical Audit regulations.
8. To act as a communication channel between the Auditors and the Board of Directors, to evaluate the results of each audit, and the management team's responses to its recommendations, and to mediate and arbitrate in cases of discrepancies between the two concerning principles and criteria to be applied in the preparation of financial statements.
9. To supervise completion of contracted auditing work, ensuring that the opinion on the Annual Accounts and the main contents of the Auditors' Report are written clearly and accurately.
10. To provide information on non-auditing contracts between the company and the Accounts Auditors.
11. To ensure that the External Accounts Auditor is provided with access to all the information necessary for him/her to do his/her work.
12. To identify and analyse, with the cooperation of the Internal and External Auditors, the main risks affecting the company, and, in particular, those affecting its economic-financial situation.
13. To provide a risk-assessment report to the Board of Directors.
14. Where appropriate, to propose to the Board of Directors measures required to manage, mitigate or prevent risks detected.
15. To assess compliance with the Internal Code of Conduct on Matters Relating to Securities Markets, the Regulations of the Board of Directors and the company's governing regulations, and to make proposals for their improvement. In fulfilling this duty, the Appointments and Remunerations Committee may choose to liaise with the Audit and Compliance Committee to consider company directors and managers' compliance with the Code.
16. To prepare an Annual Report on the work of the Audit and Compliance Committee as part of the Corporate Governance Report.
17. To participate in the drafting of the Annual Corporate Governance Report, especially in areas concerning transparency of information and conflicts of interests.
18. To inform the General Shareholders' Meeting on questions within the scope of its competencies.

### **APPOINTMENTS AND REMUNERATIONS COMMITTEE**

The Regulations of the Appointments and Remunerations Committee are contained in Article 45 of the Company Bylaws and Article 25 of the Regulations of the Board of Directors.

The Appointments and Remunerations Committee is comprised of three members appointed by the Board of Directors, up to a maximum of four Directors as established in the Company Bylaws and the Regulations of the Board.

It is comprised of a majority of independent Directors.

The tasks of the Appointments and Remunerations Committee are detailed in Article 45 of the Company Bylaws and Article 25 of the Regulations of the Board of Directors and are as follows:

1. To review the structure of the Board of Directors, the criteria for the statutory renewal of Directors, the inclusion of new members and any other aspects relating to its composition that it deems appropriate, providing the Board of Directors with the proposals that it considers necessary.
2. To establish payment criteria for company Directors, in accordance with the stipulations of the Bylaws and in line with resolutions of the General Shareholders' Meeting, and ensure that payments are transparent.



3. To establish a general payment policy for Enagás management personnel, justifying the same to the Board of Directors, and guidelines relating to the appointment, selection, promotion and dismissal of senior managers, in order to ensure that the company has the appropriate highly qualified staff for administering its business at all times.
4. To inform the Board of Directors, prior to approval, of transactions that Directors wish to undertake that imply or may imply a conflict of interests, in accordance with the stipulations of the Internal Code of Conduct on Matters Relating to the Securities Markets.
5. To formulate and revise the criteria to be followed in the composition of the Board of Directors and for the selection of the candidates proposed for the post of Director.
6. To provide information, objectively and in the company's interest, concerning the proposals for appointment, re-election and ratification of Directors, as well as for the appointment of members of Board Committees.
7. To freely formulate proposals to the Board of Directors regarding the company's organisational structure, including the creation of senior management posts, in order to achieve improved and more efficient company administration.
8. To designate senior management staff, and where necessary, approve special conditions in their contracts.
9. To approve payment of senior management, providing that this does not diverge from criteria established in the general payment policy for Management.
10. To inform the Board of Directors' decision-making process on transactions with closely linked parties. Under no circumstances shall any such transaction be authorised without a prior report evaluating the transaction from the point of view of market conditions. If the transactions are ordinary, generic authorisation of the type of transaction and its conditions shall be sufficient.
11. To inform the Board of Directors concerning measures to be taken in the event of non-compliance with these Regulations or the Code of Conduct on Matters Relating to Securities Markets by Directors or other persons subject to the aforementioned Regulations. On performing this duty, the Appointments and Remunerations Committee acts in coordination with the Audit and Compliance Committee as appropriate.

B.2.4. Indicate any advisory and consultancy powers and, where applicable, proxies assigned to each committee:

Committee name	Short description
AUDIT AND COMPLIANCE COMMITTEE	POWERS 1 TO 18 LISTED IN SECTION B.2.3 OF THIS REPORT
APPOINTMENTS AND REMUNERATIONS COMMITTEE	POWERS 4, 6, 7, 10 AND 11 LISTED IN SECTION B.2.3. OF THIS REPORT

B.2.5. Indicate any regulations that may cover the Board committees: where they are available for consultation and any changes that may have been made during the year.

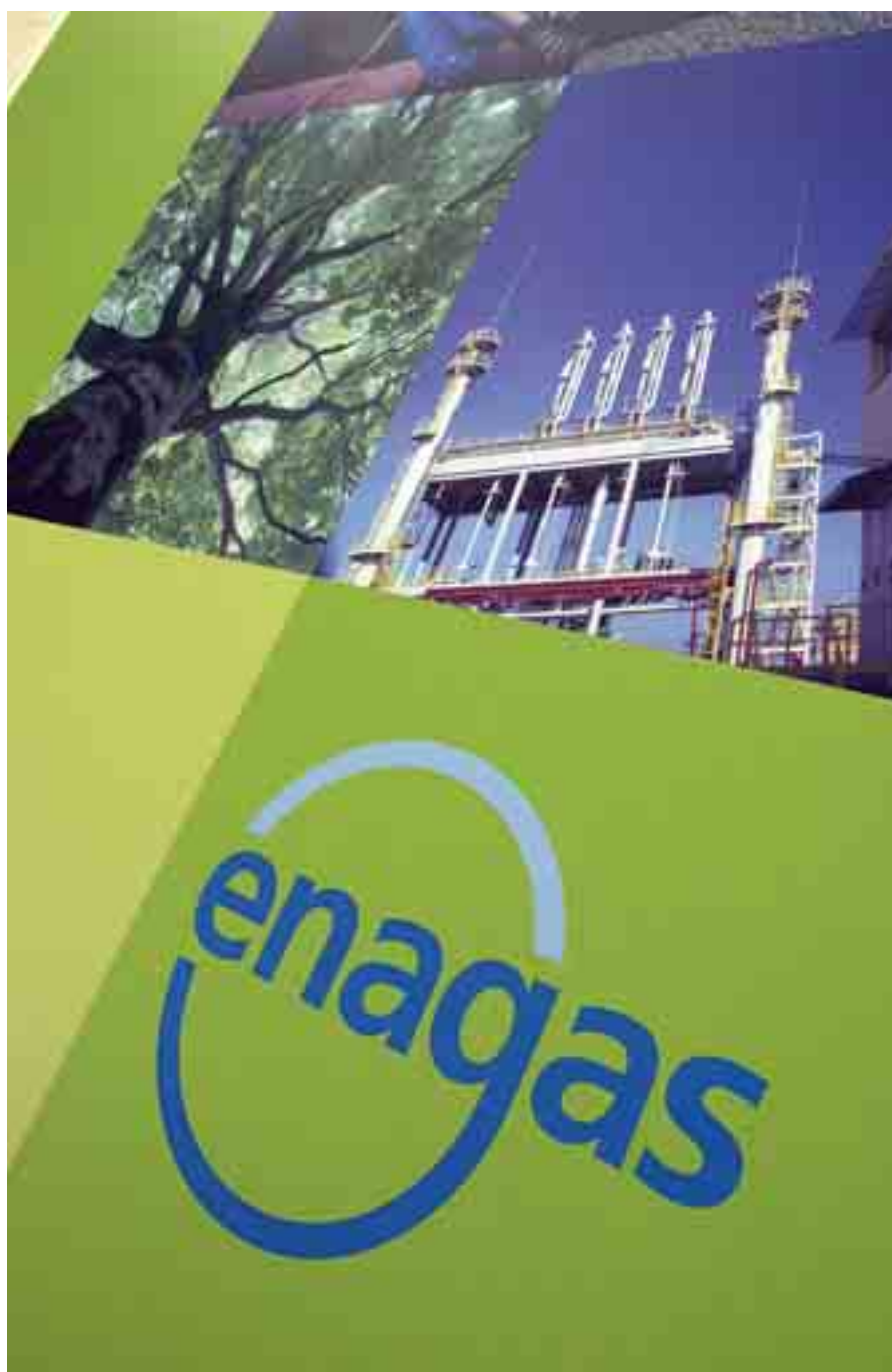
Regulations for the Audit and Compliance Committee were approved at the meeting of the Board of Directors of 19 February 2004. The aim of this document was to provide the committee with an organisational and operational framework as an independent and transparent body, thereby complying with the regulations contained in Article 44 of the Company Bylaws and Article 26 of the Regulations of the Board of Directors.

The aforementioned regulations are available for consultation at Enagás, S.A headquarters and on its website at [www.enagas.es](http://www.enagas.es) or [www.enagas.com](http://www.enagas.com).

Throughout the 2005 financial year, there were no modifications to regulations of the Audit and Compliance Committee.

The Audit and Compliance committee has drafted a report on its activities, available both at Enagás headquarters and on the corporate website.

Finally, it is important to note that the Appointments and Remunerations Committee does not have its own regulations, as it is sufficiently regulated under Article 25 of the Regulations of the Board of Directors and Article 45 of the Company Bylaws.



B.2.6. If there is an Executive Committee, explain the degree of powers and independence it has to adopt resolutions on the company's administration and management in pursuit of its duties.

There is no Executive Committee.

B.2.7. Indicate whether the composition of the Executive Committee reflects the different Directors' participation in the Board as a function of their category:

YES  NO

**If the answer is no, explain the composition of the executive committee**

There is no Executive Committee.

B.2.8. If there is an appointments committee, whether members are external Directors:

YES  NO

# Associated operations

## C.1. List any relevant operations entailing a transfer of resources or obligations between the company or its group companies and the significant shareholders in the company:

Name or company name significant shareholder	Name or company name of the company or its group company	Nature of the relationship	Type of operation	Value (thousand euros)
BANCAJA (CAJA DE AHORROS DE VALENCIA, CASTELLÓN Y ALICANTE)	ENAGAS, S.A.	Shareholder	DIVIDEND PAYMENTS FOR FINANCIAL YEAR 2004	3,900
BANCAJA (CAJA DE AHORROS DE VALENCIA, CASTELLÓN Y ALICANTE)	ENAGAS, S.A.	Commercial	INTEREST COVERAGE CONTRACT (COLLAR) FOR THE PERIOD JAN 20005-APRIL 2008	15,000
BANCAJA (CAJA DE AHORROS DE VALENCIA, CASTELLÓN Y ALICANTE)	ENAGAS, S.A.	Commercial	CREDIT LINE SUBSCRIPTION 2005 FINANCIAL YEAR	6,000
BANCAJA (CAJA DE AHORROS DE VALENCIA, CASTELLÓN Y ALICANTE)	ENAGAS, S.A.	Commercial	CONTRACTING GUARANTEE LINE 2005 FINANCIAL YEAR	6,000
BP ESPAÑA, S.A.	ENAGAS, S.A.	Shareholder	DIVIDEND PAYMENTS FOR FINANCIAL YEAR 2004	3,900
BP ESPAÑA, S.A.	ENAGAS, S.A.	Contractual	SERVICES RELATED TO THIRD PARTY ACCESS TO ENAGAS INFRASTRUCTURES (ATR): IN 2005 19,795 GWH WERE REGASIFIED. AMOUNT (THOUSAND €): 12,170; 18,817 GWH WERE TRANSPORTED. AMOUNT (THOUSAND €): AN AVERAGE OF 1,087 GWH WERE STORED. AMOUNT (THOUSAND €): 3,012 €. AMOUNT FOR TOTAL SERVICES (THOUSAND €)	20,382
CAJA DE AHORROS DE ASTURIAS (CAJASTUR)	ENAGAS, S.A.	Shareholder	DIVIDEND PAYMENTS FOR FINANCIAL YEAR 2004	3,900
CAJA DE AHORROS DE ASTURIAS (CAJASTUR)	ENAGAS, S.A.	Commercial	PARTICIPATION OF CAJASTUR IN LOAN (CLUB REAL) RAISED 24-11-2004 AND PAID 10-01-2005. TO BE REPAYED IN 2010. PARTICIPATION OF (THOUSAND)	30,000





CAJA DE AHORROS DE ASTURIAS (CAJASTUR)	ENAGAS, S.A.	Commercial	CONTRACTING IN 2005 FINANCIAL YEAR OF A CREDIT LINE. AMOUNT (THOUSAND €)	6,000
CAM (CAJA DE AHORROS DEL MEDITERRÁNEO)	ENAGAS, S.A.	Shareholder	PAYMENT TO INCOMED S.L. OF DIVIDENDS FOR 2004 FINANCIAL YEAR. AMOUNT (THOUSAND €)	3,900
CAM (CAJA DE AHORROS DEL MEDITERRÁNEO)	ENAGAS, S.A.	Commercial	RENEWAL OF CREDIT LINE WITH THE CAM. AMOUNT (THOUSAND €)	6,000
CAM (CAJA DE AHORROS DEL MEDITERRÁNEO)	ENAGAS, S.A.	Commercial	INTEREST COVERAGE CONTRACT (COLLAR) FOR THE PERIOD JAN 20005- APRIL 2008. AMOUNT (THOUSAND €)	15,000
CAM (CAJA DE AHORROS DEL MEDITERRÁNEO)	ENAGAS, S.A.	Commercial	SUBSCRIPTION IN 2005 FINANCIAL YEAR TO LINE OF GUARANTEES. AMOUNT (THOUSAND €)	12,000
GRUPO GAS NATURAL SDG, S.A.	ENAGAS, S.A.	Shareholder	DIVIDEND PAYMENTS FOR FINANCIAL YEAR 2004	16,700
GRUPO GAS NATURAL SDG, S.A.	ENAGAS, S.A.	Contractual	SERVICES RELATED TO THIRD PARTY ACCESS TO ENAGAS INFRA-STRUCTURES (ATR): IN 2005, 67,954 GWH WERE REGASIFIED FOR THE GAS NATURAL GROUP. AMOUNT (THOUSAND €): 60,940.2, AND AN AVERAGE QUANTITY OF 7,556 GWH WERE STORED. AMOUNT (THOUSAND €): 20,670; TOTAL AMOUNT FOR ATR SERVICE (THOUSAND €):	129,160
GRUPO GAS NATURAL SDG, S.A.	ENAGAS, S.A.	Contractual	PURCHASE OF GAS FOR SUPPLYING THE TARIFF MARKET IN 2005: GAS NATURAL GROUP COMPANIES SUPPLIED ENAGAS WITH 59.341 GWH OF GAS TO SUPPLY TARIFF CUSTOMERS	853,070



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GRUPO GAS NATURAL SDG, S.A.	ENAGAS, S.A.	Contractual	ENAGAS SALE OF GAS TO GAS NATURAL GROUP DISTRIBUTORS IN FINANCIAL YEAR 2005 49,833 GWH WERE SOLD	707,570
GRUPO GAS NATURAL SDG, S.A.	ENAGAS, S.A.	Contractual	PURCHASE AND SALE OF FIBRE OPTICS BY GAS NATURAL TO ENAGAS TO DESARROLLO DEL CABLE S.A. CAPITAL GAINS OF (THOUSAND €): 3,390. AMOUNT: 4,940	4,940
GRUPO GAS NATURAL SDG, S.A.	ENAGAS, S.A.	Contractual	LEASING OF FIBRE OPTICS FROM DESARROLLO DEL CABLE TO ENAGAS S.A.	15,580
GRUPO GAS NATURAL SDG, S.A.	ENAGAS, S.A.	Contractual	FIBRE OPTICS MAINTENANCE SERVICES, LEANT BY ENAGAS TO DESARROLLO DEL CABLE S.A.	820
GRUPO GAS NATURAL SDG, S.A.	ENAGAS, S.A.	Contractual	SUPPLY OF ELECTRICITY FROM GAS NATURAL TO ENAGAS	7,800
GRUPO GAS NATURAL SDG, S.A.	ENAGAS, S.A.	Contractual	RENTAL OF BASIC SAFETY AND STORAGE LNG GOODS IN ENAGAS TANKERS	3,662
SAGANE INVERSIONES, S.L.	ENAGAS, S.A.	Shareholder	DIVIDEND PAYMENTS FOR FINANCIAL YEAR 2004	3,900

**C.2. List any relevant operations entailing a transfer of resources or obligations between the company or its group companies and company administrators or directors:**

<b>Name or company name of managers or Directors</b>	<b>Name or company name of the company or its group company</b>	<b>Nature of the operation</b>	<b>Type of operation</b>	<b>Value (thousand Euros)</b>

**C.3. List any relevant operations undertaken by the company with other companies belonging to the same group, that are not eliminated in the process of drawing up the consolidated financial statements and whose object and conditions set them apart from the habitual trading of the company:**

<b>Company name of the group company</b>	<b>Brief description of the operation</b>	<b>Value (thousand Euros)</b>
GASODUCTO AL ANDALUS, S.A.	PAYMENT OF DIVIDENDS TO ENAGAS FOR THE 2004 FINANCIAL YEAR	5,500
GASODUCTO AL ANDALUS, S.A.	LOAN GRANTED TO ENAGAS BY FINANCE INFRASTRUCTURES	40,600
GASODUCTO AL ANDALUS, S.A.	TRANSPORT CHARGES PAID BY ENAGAS	16,000
GASODUCTO AL ANDALUS, S.A.	GAS PIPELINE MAINTENANCE SERVICES PROVIDED BY ENAGAS	4,260
GASODUCTO BRAGA –TUY, S.A.	ENAGAS IS GUARANTEEING A LOAN GRANTED BY A PORTUGUESE FINANCIAL ENTITY TO G.BRAGA-TUY	8,900
GASODUCTO BRAGA –TUY, S.A.	TRANSPORT CHARGES PAID BY ENAGAS	3,400
GASODUCTO CAMPO MAYOR –LEIRIA –BRAGA, S.A.	LOAN MADE BY ENAGAS TO G. CAMPO MAYOR	6,000
GASODUCTO CAMPO MAYOR –LEIRIA –BRAGA, S.A.	TRANSPORT CHARGES PAID BY ENAGAS	3,360
GASODUCTO DE EXTREMADURA, S.A.	LOAN MADE BY ENAGAS TO G. DE EXTREMADURA	6,600
GASODUCTO DE EXTREMADURA, S.A.	TRANSPORT CHARGES PAID BY ENAGAS	8,300
GASODUCTO DE EXTREMADURA, S.A.	GAS PIPELINE MAINTENANCE SERVICES PROVIDED BY ENAGAS	4,520

**C.4. Identify any conflicts of interest affecting company Directors, pursuant to Article 127 of the Joint Stock Companies Act.**

Mechanisms for detecting and regulating possible conflicts of interest between Enagás and/or its group, and its Directors, managers or shareholders are primarily set out in the Enagás Internal Code of Conduct.

### **C.5. List the mechanisms established to detect, determine and resolve possible conflicts of interest between the company and/or its group, and its Directors, managers and/or significant shareholders.**

Mechanisms for detecting and regulating possible conflicts of interest between Enagás and/or its group, and its Directors, managers or shareholders are primarily set out in the Enagás Internal Code of Conduct.

The Internal Code is applicable to the following persons:

- Members of the Board of Directors.
- Managing Directors and members of the Management Committee.
- Members of the Board of Directors and where appropriate, members of the Management Committee of subsidiary companies or those in which Enagás S.A. has a controlling stake.
- Persons involved in dealings with the Securities Markets.
- In general, all those with access to confidential or reserved company information.

With regards to operations carried out with closely linked parties, the company must adopt the following measures:

- a) Report to the National Securities Market Commission every six months and include information in the in the Corporate Governance chapter of the company Annual Report.
- b) Submit them in draft form to the Board of Directors for authorisation, following the relevant report from the Appointments and Remunerations Committee, and evaluate whether they satisfy market criteria.

With respect to possible conflicts of interest, persons subject to the Internal Code of Conduct must act as follows:

- Notify the Secretary to the Board of Directors of any possible conflicts of interest to which they may be subject due to family relationships, their personal equity or any other reason. Notifications must be effected within 15 days, and in any event, before any decision relating to the possible conflict of interest is taken.





- Update information, including any modification or end to the previously notified situations, and any new conflicts of interest arising.
- Refrain from participating in any decision-making process that may be affected by such a conflict of interest with the company.

The Appointments and Remunerations Committee is the body responsible for regulating and resolving conflicts of interest that may arise. Article 25 of the Regulations of the Board of Directors attributes the following duties to it:

- a) In accordance with the stipulations of the Internal Code of Conduct on Matters Relating to the Securities Markets, to inform the Board of Directors of any conflicts of interests, or the possibility of such, linked to transactions that Directors wish to undertake. Such information must be provided to the Board prior to its approval of said transactions.
- b) To report to the Board of Directors on possible transactions with closely linked parties before Board approval of the same. Under no circumstances shall any such transaction be authorised without a prior report evaluating the transaction from the point of view of market conditions. If the transactions are ordinary, generic authorisation of the type of transaction and its conditions shall be sufficient.
- c) To inform the Board of Directors on measures to be taken in the event of non-compliance with these Regulations or the Code of Conduct on Matters Relating to Securities Markets by Directors or other persons subject to the aforementioned same. On performing this duty, the Appointments and Remunerations Committee will liaise with the Audit and Compliance Committee as appropriate.



# Risk control systems

## **D.1. Give a general description of risk policy in the company and/or its group, list and assess risks covered by the same, and explain of how far said policy matches the profile of each type of risk.**

The Enagás risk policy is aimed at achieving the following main objectives:

- Improving the efficiency and effectiveness of operations.
- Ensuring the reliability of financial information and information to be provided to institutions.
- Compliance with applicable laws and regulations.

Any obstacle to the achievement of the aforementioned objectives is identified and analysed as a risk.

Enagás defined its risk policy in relation to project implementation, in the 2002 and 2003 financial years, with the aim of achieving the aforementioned objectives. For this purpose, on 7 May 2003 the Management Committee approved a plan encompassing processes and a matrix of risks/processes identifying Enagás' critical processes.

This plan defined the operations undertaken by Enagás in thirty-four processes and established a rigorous analysis in which the whole company participated, selecting the risks that affect each process.

Significant risks were grouped into:

- Environmental risks.
- Operational risks.
- Information risks for decision-making.

Via the use of the various management tools available, Enagás conducts permanent monitoring of the most significant risks involved in the different critical processes of the company. For this purpose, Enagás has a processes/risks model. In the 2005 fiscal year, the main operational processes were analysed: Purchase/sale of gas, suppliers and contracts, maintenance of infrastructures: Transport (II), Recording and processing of economic-financial information, infrastructure operations: Underground storage etc.

## **D.2. Indicate the control systems established to assess, mitigate and reduce the main risks for the company and the group.**

Control systems are aimed at ensuring that management directives are complied with and that all risk-control measures are systematically taken.

Current risk control systems implemented in management and decision making processes at Enagás can be broken down as follows:

- Control environment.
- Regulations and procedures.
- Information and communication.
- Actions in risk matters.
- Monitoring of regulatory compliance.
- Bodies responsible for implementing and supervising control mechanisms (please see D.4 for details).
- Main risks covered by the system.

## 1. Control environment.

The control environment records behaviour patterns in an organisation, exercising a direct influence on the level of awareness of personnel with respect to control. The following factors make up the Enagás control environment: the integrity and professionalism of its personnel, both in selection and professional development; the management philosophy and its way of acting based on the delegation of functions given large coverage of Enagás throughout the country.

## 2. Regulations and procedures.

A set of regulations, policies and procedures have been defined and implemented to guarantee the accuracy of accounting information, the authenticity of transactions undertaken, the safeguarding of assets, compliance with the Internal Code of Conduct on Matters Relating to the Securities Markets, and compliance with laws and regulations. Enagás has a raft of general regulations and technical and administrative procedures that cover its main activities.

## 3. Information and communication.

Control activities are based on information and communication systems that enable the exchange of information at all levels (vertically upwards and downwards and horizontally on the same level) to develop, manage and control operations.

## 4. Actions in risk matters.

Risk evaluation is conducted in terms of the comparative importance of risks and the existing level of internal control. The basic key instruments used by the company in risk management are: financial statements and analytical accounts, debt levels, remunerations system for gas activities and the annual strategy plan.

This methodology enables the establishment of indicators facilitating regular monitoring of the different technical and economic factors that ensure effective control over different processes and activities, while at the same time improving financial statements and debt levels in the medium-term.

Risk impact assessment, as well as monitoring activities corresponding to each of the aforementioned instruments, is carried out with suitable frequency, defined in terms of management objectives (continuous for debt levels, monthly for financial statements and monthly/quarterly in budgetary control referring to the strategic plan).

## 5. Monitoring of regulatory compliance.

Risks arising from possible changes to the existing legal framework are managed via the development and establishment of procedures and methodologies aimed, in principle, at ensuring compliance with the legislation in force.

## 6. Main risks covered by the system.

During the 2005 financial year, the most important risks analysed by the system for the different processes have included:

- Environmental risks (legal and regulatory risks, catastrophic losses, etc.).
- Operational risks (interruption of operations, delay in construction of infrastructures, non-fulfilment of commitments, sub-contracting, image and reputation, health and safety, the environment, etc.).
- Integrity risks (internal and external risk, unauthorised use, etc.).
- Information risks for decision-making (accounting-financial information, information to regulators, performance measurement).

These risks have been managed via the development of suitable regulations, policies, procedures, limits, authorisations and controls that have made it possible to mitigate or reduce them as far as possible.

### **D.3. If any of the risks facing the company and/or its group have materialized, indicate the circumstances and whether the control systems worked properly.**

The main risks existing and analysed during this financial year have been:

#### **1. Legal and regulatory framework:**

The approval of Regulations of the Technical System Management, and other sector regulations which were awaiting publication, have produced an important reduction of this risk. Consolidation of the payment model for gas operations has also had a positive effect in this respect.

The control systems established consist of the existence of fluid communication with the authorities and other players in the gas system, such as regulators, distribution companies, sellers and other transportation companies, on the practical application of regulations and measures.

#### **2. Management efficiency:**

During the review carried out by the internal audit unit, certain weaknesses were detected in purchase planning and general planning. Likewise, in monitoring and maintenance of gas transportation facilities.

Appropriate improvements are being made to existing procedures and regulations, in order to resolve the aforementioned weaknesses.

#### **3. Information systems:**

Reviews effected by the internal audit unit detected the need to improve information systems in order to obtain data on cost and on management improvement indicators in relation to the maintenance and infrastructures process.

Managers in charge of said process are implementing improvements to eliminate the weakness.

### **D.4. Indicate whether there is any committee or other governing body in charge of establishing and supervising these control systems and give details of what their duties are.**

The organisation established to control and manage risks facing the company is focused around clearly differentiated supervision, control and management levels:

- Audit and Compliance Committee: Responsible for the risk management in accordance with provisions established in the organisational and operational Regulations of the Board of Directors. This body is informed quarterly on developments in the risk control system.
- Management Committee: Responsible for the internal control system and supervision of the same.
- Internal Auditing manager: responsibility consists of coordinating risk management, verifying controls and contributing to the improvement of risk management processes.

The work of the internal auditing units is focused on preventative identification, assessment and decision-making,



with the aim of minimising the possible negative impacts that may arise from risks to Enagás and increasing the level of control and management of the same.

- Process owners: Those with chief responsibility for managing risks within the scope of their competence and developing action and monitoring plans.

## **D.5. Identify and describe the compliance processes for the regulations and standards affecting the company and/or its group.**

Enagás operates in a highly regulated market. The scope of company operations is determined by regulations currently in place, both at national and EU level, as well as political decisions of the EU, the Spanish Government, relevant Ministries and the National Energy Commission.

Given the relevance of compliance with applicable legislation, all processes defined in the process map are associated with risks in the “legal and regulatory environment”.

Process owners bear the chief responsibility for compliance with the different applicable regulations, together with the Management Committee, Audit and Compliance Committee and the audit unit manager, who all liaise to ensure compliance.

Of specific legislation governing Enagás activities, as well as general legislation, the following is of note:

- Act 34/1998, of October 7th, on the Hydrocarbons sector.
- Royal Decree – Act 6/2000, June 23rd, on Urgent Measures to Intensify Competition in the Goods and Services Markets.
- Royal Decree 949/2001, August 3rd, regulating access by third parties to the gas facilities and establishing an integrated economic system for the natural gas sector.
- Royal Decree 1434/2002, December 27th, regulating the transportation, distribution, marketing, supply and facilities authorisation procedures for natural gas.
- Act 62/2003, December 30th, Taxation, Administration, and Social Order Measures.
- Royal Decree 1716/2004, July 23rd, regulating the maintenance required for minimum security devices, the diversification of natural gas supply, and the association of strategic petroleum product reserves.
- Order ITC/3126/2005, October 5th, which approved the technical standards for management of the gas system.

Furthermore, legislation in force covers matters of safety, risk prevention and the environment, and there are also specific regulations applicable to individual processes.

# General shareholders' meeting

## **E.1. What number of attendees does the Company Bylaws set as the quorum for the General Shareholders' Meeting (GSM)? Describe any differences from the minimum regime established under the Joint Stock Companies Act.**

Article 25 of the Enagás Company Bylaws states that "the General Shareholders' Meeting shall be validly constituted at first call when the shareholders present or represented hold at least twenty-five percent of the paid up share capital with voting rights. At second call, the Meeting shall be validly constituted regardless of the amount of share capital attending the same".

Article 26 of the Company Bylaws states that "In the event the Ordinary or Extraordinary General Shareholders' Meeting at first call wishes to validly resolve the issue of bonds, the increase or reduction of share capital, the transformation, merger or spin-off of the company, and in general, to amend the Company Bylaws, shareholders possessing at least fifty percent of the subscribed paid up company share capital with voting rights must be present or represented. At second call, attendance of least twenty-five percent of the paid up share capital with voting rights shall be sufficient.

The quorums required by the Company Bylaws of Enagás are therefore those stipulated in Articles 102 and 103 of the Joint Stock Companies.

## **E.2. Explain the rules governing adoption of corporate resolutions. Describe any differences from the guidelines established under the Joint Stock Companies Act.**

Article 13.3 of The Enagás General Shareholders Meeting regulations states that: "Resolutions must be adopted with the vote in favour of the majority of capital with voting rights, present and represented at the meeting, in accordance with Article 93 of the Joint Stock Companies Act".

As an exception, Article 13.3 indicates that "In the case of debenture issues, capital increases or decreases, transformation, merger or spin-off of the company and, in general, any modification of Company Bylaws at second call, and when the Meeting is attended by shareholders representing less than fifty percent of the subscribed voting capital, two thirds of the subscribed voting capital, present or represented must vote in favour of the resolution in order for it to be adopted", in accordance with Article 103 of the Joint Stock Companies Act.

## **E.3. List all shareholders' rights regarding the general meetings other than those established under the Joint Stock Companies Act.**

Shareholders' rights in relation to GSM are those established in the Joint Stock Companies Act.

The Enagás General Shareholders' Meeting Regulations recognise the following shareholders rights:

### **1.- Right to information.**

On the date the General Shareholders' Meeting is called, and on the day of the meeting itself, the company shall place the following resources at its shareholders' disposal:

- a)- The full text of the call for the General Shareholders' Meeting, setting out resolutions proposed for adoption, and reports from the Board of Directors, where appropriate, concerning their justification and timeliness, providing that all this is possible.



- b)- The full documentation pertaining to Enagás Annual Accounts and the Consolidated Annual Accounts of the Enagás Group for the financial year in question.
- c)- The Enagás Management Report and the consolidated Management Report for the financial year.
- d)- Auditors' Reports on the Enagás Consolidated Annual Accounts and Annual Accounts.
- e)- The Annual Corporate Governance Report.
- f)- Any other mandatory report or information which the Board of Directors deems appropriate.

Prior to the GSM, the company shall make the above available to shareholders via the following channels:

- The Shareholders Information Office.
- A freephone telephone number to be specified in the GSM call.
- The company website.

Up to the seventh day before the meeting is held, shareholders may request from Directors any information or clarification they deem appropriate concerning Agenda items, or submit in writing the questions they judge relevant.

During the GSM, shareholders may verbally request any information or clarifications they deem appropriate concerning Agenda items, and, if it is not possible to meet such requests at that time, Directors must provide written answers within a period of seven days following the end of the Meeting.

Directors are under obligation to provide the information requested, except in cases where, in the judgement of the Chairman, the dissemination of the information requested would be detrimental to company interests, or on the grounds of legal or statutory provisions, legal or administrative resolutions. Such refusal shall not be possible when the request is put forward by shareholders representing at least twenty-five percent of company capital stock.

The information requested shall be provided to the shareholder requesting it in writing, within the period running from the day of the call until the day of the Meeting itself, provided such request conforms to the requirements of time, execution and scope determined by law and the Regulations of the General Shareholders' Meeting.

## 2.- Right to participation.

Following accreditation in compliance with the provisions of Article 9 of the Regulations of the General Shareholders' Meeting, shareholders may at any time propose questions of interest for the company, or related to their shareholding, through the Shareholder Information Office, freephone line or the e-mail address included on the website.

The company shall examine questions, suggestions and comments by shareholders, and shall respond to the same when considered appropriate for the good of the company.

### 3.- Attendance rights.

In accordance with Article 27 of Company Bylaws and Article 9 of the Regulations of the General Shareholders' Meeting, attendance at the GSM requires a minimum shareholding of 100 shares, provided these are registered in the appropriate account entry five days prior to the Meeting, and after shareholder accreditation is confirmed, via the corresponding attendance and voting card, or through the electronic attendance and voting card issued by the Entity entrusted with the Account Entry Registry or the Authorised or Depository Entity of the shares.

Shareholders who do not hold the aforementioned number of shares may group together for the purposes of attendance, appointing a single shareholder to represent them.

### 4.- Representation rights.

All shareholders entitled to attend General Shareholders' Meeting may nominate someone to represent them who need not be a shareholder. Representation rights must be conferred in writing, by mail, a recognised electronic signature, or any of the other legally-permitted electronic or remote communication methods. In all cases, the identity of the representative must be duly guaranteed, and is valid only for the particular meeting in question.

Representation is always revocable. If the shareholder who is to be represented actually attends the meeting, representation rights are automatically revoked, and he/she must inform the representative in order to ensure that this person does not attempt to exercise representation rights which are inexistent.

Both in cases of legal representation and delegation of attendance rights, no shareholder shall have more than one representative at the Meeting.

### 5.- Voting rights.

All shareholders with attendance rights, under the terms of Article 17 of Company Bylaws, which are set out in Article 9 of the Regulations of the General Shareholders' Meeting, shall be entitled to vote and may exercise such right on their own behalf or by representation, either by attending personally and voting at the Meeting, with an attendance and voting card duly signed and accredited, or by post, via the Shareholder Information Office, recognised electronic signature or any other remote communication media envisaged by law, attaching the relevant electronic attendance and voting certificate.

## **E.4. Indicate any measures adopted to encourage shareholder participation at GSMs.**

As well as the rights to information, attendance, representation and vote described in the section above, accredited shareholders may at any time suggest questions of interest to the company or related to their position as shareholders via the Shareholders Information Office or through the company website.

In the seven days between the call issue and the meeting itself, shareholders may request from Directors any information or clarification they deem appropriate concerning Agenda items, or submit in writing the questions they judge relevant.

During the GSM, shareholders may verbally request any information or clarifications they deem appropriate concerning Agenda items, and, if it is not possible to meet such requests at that time, Directors must provide written answers within a period of seven days following the end of the Meeting.

Likewise, with the aim of encouraging shareholder participation in GSMs, the company, shall implement practices including:



- Publishing the call for the Meeting in the main communications media.
- Provide gifts with a view to of encouraging physical attendance of shareholders at the GSMs.
- Hold the GSM in a venue with the best conditions possible and easy access for shareholders, making transport available to them to facilitate their attendance.
- Personal attention and directions for shareholders who wish to attend through personnel at the Shareholder Information Office.

**E.5. Indicate whether the GSM is presided by the Chairman of the Board. List measures, if any, adopted to guarantee the independence and correct operation of the GSM.**

YES  NO



### Detail measures

By virtue of Article 12.2 of the Regulations of the General Shareholders' Meeting, " the GSM shall be presided over by the Chairman of the Board of Directors, or, in his/her absence, by the shareholder elected in each case by shareholders attending the meeting. The Chairman shall be assisted by the Secretary to the Board of Directors, or, in his/her absence, by the shareholder elected in each case by shareholders attending the meetings."

The smooth operation and progress of the Meeting is ensured through the provisions established in regulations for the GSM, from which the following considerations may be taken:

- The Board of Directors shall appoint a notary shall attend the GSM and he/she shall be responsible for taking and drawing up the minutes, with the accompanying guarantee of neutrality and independence for all shareholders.

Requirements and standards that definitively guarantee the smooth progress of the GSM are contained in Articles 13 to 19 of the Regulations of the General Shareholders' Meeting, of which the following are of note:

- Before addressing Agenda items, an attendance list shall be drawn up, detailing the nature or representation of each attendee and the number of shares, owned or represented, by virtue of which they are attending, such that the summary of the attendance list shall determine the number of shareholders, present or represented, as well as the share capital they hold. Capital with voting rights shall be specified. The Vice Secretary of the Board or the person so appointed by the Chairman in his/her absence shall provide the Directors with two copies of said summary duly signed by him/her or a scrutinising shareholder. At the time stated in the call for the commencement of the Meeting, attendance is considered closed for the purposes of setting a quorum.
- For the purposes of verifying the valid constitution of the meeting, Enagás prepares and proposes to the Management Company of Registry, Compensation and Settlement of Securities, the format of the attendance card to be issued to shareholders, ensuring that such format is uniform and incorporates a bar code so it can be read electronically, thus facilitating the electronic counting of attendees at the Meeting.
- From the moment they enter the venue of the GSM and throughout the same, shareholders shall have the support of personnel from the Shareholder Information Office for resolving any queries and facilitating their contribution.
- With the aim of guaranteeing the smooth course of the GSM, shareholders or representatives arriving late at the Meeting venue may attend the Meeting once the admission of attendance and voting cards has been closed, but will not be included on the attendance list nor, therefore, form part of the quorum for voting purposes.
- Once the GSM has been validly constituted, the notary called by the company to draw up minutes shall ask participants if there are any reservations or challenges to the details of shareholders and share capital read by the Chairman. Any shareholder with reservations shall show the member of the Panel his/her attendance card to verify and correct, as applicable, any possible errors.
- To facilitate smooth running of the Meeting, the Chairman shall request that shareholders who wish to take the floor approach the Chair and show their attendance cards so that an order for contributions may be established. Said re-



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quest will be made before commencing with the presentation of the financial year and proposals to be submitted to the GSM, the Chairman also being responsible for maintaining debate within the limits of the Agenda and responding to shareholders jointly or individually.

- In the event of any occurrence that substantially affects the good order of the Meeting, the Chairman of the GSM may agree to suspend the same for as long as necessary, and may even postpone the session until the next possible business day, should the original circumstances persist.

#### **E.6. State any changes made to GSM Regulations this financial year.**

No changes have been made to GSM regulations this financial year.

#### **E.7. Indique los datos de asistencia en las juntas generales celebradas en el ejercicio al que se refiere el presente informe:**

##### **ATTENDANCE FIGURES**

<b>GSM date</b>	<b>% attending in person</b>	<b>% by proxy</b>	<b>% remote voting</b>	<b>Total %</b>
22-04-2005	27.775	18.763	0.000	47

#### **E.8. Provide a brief summary of resolutions passed at the GSMs held during the year covered by the present report and the percentage of votes with which each resolution was passed.**

During fiscal year 2005, a single Enagás General Shareholders' Meeting was held on 22 April. The following Resolutions were passed, with voting percentages as stated:

##### **FIRST RESOLUTION:**

To approve the Annual Accounts (Balance, Profits and Loss Account and Report) and the Management Report for the financial year between 1 January and 31 December 2004 for Enagás S.A. and its Consolidated Group.

Voting on the Resolution was as follows:

Total number of votes cast:	111,103,228
Number of votes in favour:	111,101,584 (100.000%)
Number of votes against:	664 (0.000%)
Number of abstentions:	1000 (0.000%)



## SECOND RESOLUTION

To approve application of Enagás, S.A results for the 2004 financial year, which included net profits of 157,701,000 euros, in line with the following distribution proposal prepared by the Board of Directors:

### Distribution Euros

Legal Reserves	0
Voluntary Reserves	78,638,000
Dividend	79,063,000
Total Results	157,701,000

To pay out an additional dividend to the value of 48,028,000 euros. Said amount is the result of deducting from the financial year's total dividend, 79,063,000 euros, the interim dividend of 31,035,000 euros that was agreed by the Board of Directors on December 16th, 2004, and paid to shareholders on January 12th, 2005.

The additional dividend will be paid on July 4<sup>th</sup>, 2005.

The total dividend for the financial year, approval of which – in accordance with the previous paragraph, means payment of 0.331175 gross per share. Shareholders are responsible for tax payments.

Once the dividend a cuenta already paid is deducted – 0.13 euros gross per share, the remaining payment will be for 0.201175 euros per share, before tax deductions.

Voting on the Resolution was as follows:

Total number of votes cast:	111,103,228
Number of votes in favour:	111,101,744 (100.00%)
Number of votes against:	206 (0.000 %)
Number of abstentions:	1,278 (0.000%)

### THIRD RESOLUTION

To approve the management of the Board of Directors of Enagás, S.A. during the financial year 2004.

Voting on the Resolution was as follows:

Total number of votes cast:	111,103,228
Number of votes in favour:	111,004,444 (99.91%)
Number of votes against:	97,784 (0.09%)
Number of abstentions:	1,000 (0.000 %)

### FOURTH RESOLUTION

To appoint Mr Salvador Gabarró Serra company Director for the statutory term of four years. Mr Gabarró Serra was proposed for a directorship by Gas Natural SDG, S.A., and will therefore hold the post of controlling director.

To appoint Mr Ramón Pérez Simarro company Director for the statutory term of four years. Mr Pérez Simarro will be an independent Director.

To appoint Mr Martí Parellada Sabata company Director for the statutory term of four years. Mr Parellada Sabata will also be an independent Director.

Until this date, Mr Salvador Gabarró, Mr Ramón Pérez Simarro, and Mr Martí Parellada Sabatas had been exercising the functions of Directors co-opted by the Board since the last GSM. They all attended the 2004 GSM, expressly accepting the post of member of the Board of Directors for which they had been proposed, and all declared to the effect that there was no legal incompatibility.

Voting on the Resolution was as follows:

Total number of votes cast:	111,103,228
Number of votes in favour:	111,102,022 (100.00%)
Number of votes against:	206 (0.000%)
Number of abstentions:	1,000 (0.000%)

### FIFTH RESOLUTION

“The contents of article 6, part 2, and the limitation established in the second section of article 8 of the present Bylaws, shall not be applied shareholders who, at the time of inclusion of the same in these Bylaws, held a percentage of the capital stock of Enagás, S.A. over and above the limit set out in the aforementioned article 6, part 2. However, before January 1st, 2007, said shareholders will have to reduce their capital stock to comply with the maximum level indicated in the Bylaws.”

Voting on the Resolution was as follows:

Total number of votes cast:	111,103,228
Number of votes in favour:	111,101,744 (100.00%)
Number of votes against:	484 (0.000%)

## SIXTH RESOLUTION

To set the figure of 950,000 euros as the maximum payment level for members of the Board of Directors for 2005, to be paid in accordance with the following method and criteria:

- Each Board member attending a minimum of two sessions during the year will be entitled to a payment of 20,000 euros.
- In addition, effective attendance at sessions will entitle him/her to a maximum Director's payment of 33,000. The board of Directors will decide the exact amount attendance payment per session, for attending personally or by means of a delegated representative.
- Likewise, Board committee members will be entitled to the sum of 9,600 euros per annum, with chairmanship of the same entitling them to an additional 5,000 euros per annum.

The aforementioned sums are separate from rewards and salary payments which may be additionally paid for work done or services provided by Board members, and also from the right to payment or of expenses incurred in the course of their duties.

Voting on the Resolution was as follows:

Total number of votes cast:	111,103,228
Number of votes in favour:	111,101,499 (100.00%)
Number of votes against:	729 (0.000%)
Number of abstentions:	1.000 (0.000%)

## SEVENTH RESOLUTION

Delegate in the Chairman, the Secretary to the Board of Directors and Vice Secretary so that any off them, indistinctly, may undertake the full execution of resolutions adopted by the GSM, and taking the actions that may be necessary to this effect: Appear before the notary of their choice to establish the official legal record of resolutions which modify Company Bylaws, and undertake whatever action, writing either public or private documents to ensure that resolutions are recorded in the mercantile register, providing all necessary documentation - both private and public, to correct errors and annexes to ensure that these resolutions are adapted to the Mercantile Registrar's specifications and duly included with the Annual Accounts in said Mercantile Register.

Voting on the Resolution was as follows:

Total number of votes cast:	111,103,228
Number of votes in favour:	111,101,862 (100.000%)
Number of votes against:	366 (0.000%)
Number of abstentions:	1,000 (0.000%)

### **E.9. Indicate the number of shares, if any, that are required to be able to attend the GSM and whether there are any restrictions on such attendance in the Bylaws.**

Article 27 of the Company Bylaws states that: "Shareholders owning 100 shares, registered, at least five days prior to the date scheduled for the Shareholders' Meeting with the corresponding registers any of the entities participating in the Management Company for the Registry, Clearing and Settlement of Securities or the entity replacing it, accordingly may attend and vote at the General Meetings. Shareholders who do not hold the aforementioned number of shares are entitled to form groups and delegate another shareholder to represent them; for this purpose the shares corresponding to each person in his/her own right and by representation shall be cumulative. "

**E.10. Indicate and explain the policies pursued by the company with reference to proxy voting at the GSM.**

As indicated in section E.3, any shareholder with the right to attend may be represented at the GSM by another person, not necessarily a shareholder, and must use the delegation form envisaged by the company for each meeting printed on the attendance card. The same shareholder may not be represented at the meeting by more than one representative. Representation shall be specific for each Meeting and conferred in writing via mail, or any means of remote communication envisaged by law, provided at all times that the identity of the subject exercising such representation is duly certified. Representation is always revocable.

If the shareholder who is to be represented actually attends the meeting, representation rights are automatically revoked, and he/she must inform the representative in order to ensure that this person does not attempt to exercise representation rights which are inexistent.

**E.11. Indicate whether the company is aware of the institutional investors' policy regarding whether or not to participate in the company's decision making:**

YES  NO

Describe the policy

**E.12. Indicate the address and mode of access to the content on corporate governance on your website.**

All information on Enagás corporate government is available to the public on its website ([www.enagas.es](http://www.enagas.es) / [www.enagas.com](http://www.enagas.com)).

Access to the aforementioned information is as follows: Home page – Investor Relations –Corporate Governance:

**Indicate how far the company has complied with existing recommendations on corporate governance and any cases where it has not followed said recommendations.**

**Should the company not have complied with any of them, explain the recommendations, standards, practices and/or criteria that the company does apply.**

**Until the single document referred to in the ECO/3722/2003, of December 26th, is completed, the recommendations of the Olivencia Code and the Aldama Report should be used as reference when filling out this part.**

For information regarding the level of compliance with good corporate governance the Olivencia Code should be used, and updated with the contents of the Aldama report. In this way Enagás, S.A has redrafted the recommendations contained in both reports so as to give information in the most precise manner possible of compliance with the aforementioned recommendations.

## **RECOMMENDATION 1. DUTIES OF THE BOARD OF DIRECTORS.**

“That the Board of Directors expressly undertakes the general supervisory role as the core of its duties, exercises the non-delegatable responsibilities arising from its mission, and establishes a formal catalogue of the information reserved for its knowledge”. (Olivencia Code).

The Enagás Board of Directors is responsible for the administration, representation and supervision that are necessary and advisable for the achievement of the corporate purpose stipulated in the Bylaws, within the framework established by the Law, Company Bylaws and its Regulations.

The functional division of the Board and the differentiation between different types of Directors ensures compliance with corporate governance guidelines for the promotion of security and transparency in the company.

## **RECOMMENDATION 2. INDEPENDENCE OF THE BOARD OF DIRECTORS.**

“That the Board of Directors be comprised of a reasonable number of independent Directors, with a profile of recognised professional prestige, without links to the management team and significant shareholders.” Olivencia Code)

The Board of Directors of Enagás has a total of 16 Directors (including the Chairman), of which eight are Independent. These Independent Directors have recognised professional prestige and comply with the recommendations included in the Aldama Report in terms of impartiality and objectivity in their posts, thereby guaranteeing their protection of minority shareholders’ interests, recommendations expressly set out in Article 9 of the Regulations of the Board of Directors of Enagás.

In any event, the Board of Directors, endeavours to ensure that the Independent Directors have a substantial majority over Executive Directors.

## **RECOMMENDATION 3. COMPOSITION OF THE BOARD OF DIRECTORS.**

“That the Board of Directors, through its members, represents the highest percentage of capital possible”.



“Within the composition of the Board of Directors, external Directors (controlling and independent Directors) shall constitute a broad majority over Executive Directors. The ratio of Controlling to Independent Directors shall be established taking into account the company shareholder structure and the share capital held by the Board of Directors”. (Olivencia Code)

The Enagás Board of Directors is composed of sixteen members, of which only one is executive. Of the fifteen external Directors, eight are Independent Directors, and seven are Controlling Directors. The latter are appointed on the proposal from the seven largest Enagás shareholders, so that the greatest participation of capital is possible in the Board.

#### **RECOMMENDATION 4. SIZE OF THE BOARD OF DIRECTORS.**

“That the Board of Directors will have a reasonable number of members to ensure its operability and the work of each Director, and that it has the necessary means to best and most effectively perform its duties, including communication with those responsible for different business areas and services and, as applicable, ensure the attendance of professionals and external experts.” (Aldama Report)

Article 35 of the Company Bylaws states that “the Board of Directors will be composed of a minimum of 6 members, and a maximum of 16, appointed by the General Meeting”. In this way, its size is suitable for a more effective and participatory working of the company’s Board of Directors.”

In this way, its size is suitable for a more effective and participatory working of the company’s Board of Directors.

#### **RECOMMENDATION 5. AVOIDING CONCENTRATION OF POWER.**

“Should the Board opt to endow the Chairman with chief executive powers, it should adopt due safeguards to reduce the risks of concentrating power in one single person.” (Olivencia Code)

The Chairman of the Board is responsible for chairmanship of all the company’s management and governing bodies and, despite acting as Chief Executive Officer, there is a clear division between those powers that may be delegated and those that may not.

#### **RECOMMENDATION 6. REGULATORY GUARANTEE.**

“The figure of Board Secretary shall be invested with maximum relevance, reinforcing his or her independence and highlighting his or her duty to oversee the formal and material legality of the Board’s actions.” (Olivencia Code)

The Secretary of the Board of Directors of Enagás assists the Chairman in his work providing for the smooth running of the body, and is particularly responsible for providing Directors with the necessary information and advice, preserving company documents, duly recording meetings in the Minutes Book and bearing witness to the body’s resolutions.

The Secretary is also responsible for the formal and material legality of the Board of Directors’ actions and guarantees that its governing procedures and rules are respected and regularly revised.

#### **RECOMMENDATION 7. COMPOSITION OF THE EXECUTIVE COMMITTEE.**

“That the composition of the Executive Committee, where it exists, shall reflect the same balance as there is on the Board between the different categories of Directors. The relations between both bodies shall be informed by the principle of

transparency, such that the Board has complete knowledge of the business dealt with and the resolutions that the Committee has adopted.” (Olivencia Code)

“The Board of Directors shall determine the composition of this Committee, and it is recommended that when the Executive Committee assumes totally or significantly the powers of the Board, its composition be similar to that of the Board itself regarding participation in some of the different categories of Directors.” (Aldama Report)

Due to the number of Directors and the smooth running of the Appointments and Remunerations Committee and Audit and Compliance Committee, the Enagás Board of Directors has so far not felt it necessary to delegate powers to an Executive Committee. However, this is covered by the discretionary nature attributed to this Committee in the Aldama Report.

### **RECOMMENDATION 8. DELEGATED CONTROL COMMITTEES.**

“That the Board of Directors should establish committees in which to delegate control, comprising exclusively external Directors, with respect to accounts control and information (audit); the selection of Directors and senior managers (Appointments); determination and review of remuneration policy (remuneration); and evaluation of the governance system (compliance)”. (Olivencia Code)

The Enagás Board of Directors has established two delegated Committees: the Appointments and Remunerations Committee and the Audit and Compliance Committee.

None of the members of these Committees is Internal or Executive. In the case of the Audit and Compliance Committee, the same parity between Controlling Directors and Independent Directors is maintained, while in that of the Appointments and Remunerations Committee, there are more Independent Directors than controlling Directors.

### **RECOMMENDATION 9. INFORMATION FOR DIRECTORS.**

“That due arrangements shall be taken to ensure that the Directors can obtain sufficient information, specifically drafted and oriented to prepare Board meetings, in sufficient time. Except in exceptional circumstances, the importance or reserved nature of the information shall not be alleged as grounds to not do so. (Olivencia Code)

The Secretary of the Board of Directors is responsible for providing the Directors with sufficient information in advance, specifically prepared and oriented towards preparation for Board meetings.

Specifically, Article 6 of the Regulations of the Board of Directors establishes the procedure in which Directors may have the information necessary to prepare meetings of the Board of Directors with sufficient time, so that in practice and in compliance with the aforementioned precept, the call can be made a week before the meeting of the Board of Directors is to take place, and such call shall include, together with the venue and Agenda, all documentation considered relevant or appropriate in relation to same.

Members of the Board of Directors also have access to the company’s services and may obtain the information and advice they need concerning any aspect of the company, provided that duties as Directors so requires.

This right to information is channelled through the Chairman or Secretary to the Board of Directors, who deal with requests from Directors, providing them with the information directly, offering them the appropriate spokespersons or furnishing as many measures as may be necessary for the requested examination.

## **RECOMMENDATION 10. FUNCTIONING OF THE BOARD OF DIRECTORS.**

“That to ensure the Board operates correctly, its meetings shall be held as often as necessary to comply with its mission. The Chairman shall encourage all the Directors to take part and freely adopt positions. Special care shall be taken in drawing up the minutes, and the quality and efficiency of its operations shall be reviewed at least once a year.” (Olivencia Code)

According to Article 6 of the Regulations of the Board of Directors, the Chairman must call a meeting of the Enagás Board of Directors must meet at least once every two months, and, on the initiative of the Chairman, as many times as he/she deems appropriate for the company’s smooth running. However, greater and improved follow-up by the Board of matters affecting the company has led to said meetings taking place once a month in practice.

The Chairman is responsible for organising debate, achieving and encouraging the participation of all Directors in the body’s deliberations.

Meetings and agreements of the Board of Directors will be recorded in a Minutes Book, signed by the Chairman and the Secretary. The Secretary to the Board is the custodian of the Minutes Book.

The Audit and Compliance committee and the Appointments and Remunerations Committee, in keeping with the provisions of Article 8 of the Audit and Compliance Committee Regulations and Article 25 of the Regulations of the Board of Directors, must meet at least four times a year. In the 2005 financial year, the former met on four occasions and the latter on five. Likewise, the resolutions adopted in each Committee are recorded in minutes, signed by the Chairman and Secretary of each body.

## **RECOMMENDATION 11. APPOINTMENTS POLICY.**

“That the intervention of the Board in the selection and re-election of its members shall respect a formal, transparent procedure, based on a reasonably argued proposal from the Appointments Committee.” (Olivencia Code)

Pursuant to Article 8 of Board Regulations, Enagás Directors shall be appointed by the General Shareholders’ Meeting or by the Board of Directors, in conformity with the provisions contained in the Joint Stock Companies Act and the Company Bylaws.

Those appointed to Directorship must be people who, in addition to meeting the legal and statutory requirements, have recognised prestige and the appropriate professional knowledge and experience to suitably hold the post.

Proposals for the appointment of Directors submitted by the Board of Directors for approval by the General Shareholders’ Meeting and resolutions in this respect adopted by this body by virtue of the co-optation powers legally conferred on it, must be preceded by the relevant proposal from the Appointments and Remunerations Committee.

When the Board of Directors does not agree with the proposals of the Committee, it must explain the reasons for this and record the same in the Minutes, although this has not occurred to date.

The Appointment and Remunerations 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 timely information on the proposal for re-election of Directors presented by the Board of Directors to the General Shareholders’ Meeting.

As a general rule, appropriate rotation of independent Directors should take place. For this reason, when one is proposed for re-election, justification of the circumstances making his/her continuity in the post advisable may be sought. To date, this has not occurred.

## **RECOMMENDATION 12. PROTECTION OF EXTERNAL DIRECTORS FROM REMOVAL.**

“Once the Shareholders’ Meeting has appointed the Controlling and Independent External Directors, the Board should not propose their removal before they complete the period of office stipulated in the Bylaws, except for exceptional and

justified causes approved by the Board of Directors, based on a report by the Appointments and Remuneration Committee.” (Aldama Report)

Article 10 of the Regulations of the Board of Directors of Enagás establishes that “Directors shall remain in their posts for four years” and, except in the cases of termination expressly set out herein, the Board of Directors may not propose the removal of Directors to the GSM.

### **RECOMMENDATION 13. LIMITATIONS ON DIRECTORS’ POSTS.**

“That companies will include in their regulations the obligation of Directors to resign in situations which may have a negative effect on the functioning of the Board or the credibility and reputation of the company.” (Olivencia Code)

Directors must place their offices at the Board of Directors’ disposal, and resign, if the Board deems this appropriate, in the following cases:

- a) When Executive Directors no longer hold the executive posts, other than those on the Board, that were associated with their appointment as a Director.
- b) When they are involved in any of the legally stipulated circumstances of incompatibility or prohibition.
- c) When they are in serious breach of their obligations as Directors.



- d) When they place the interests of the company at risk.
- e) When the reason for which they were appointed as independent, executive or controlling Directors is no longer valid.

#### **RECOMMENDATION 14. AGE OF DIRECTORS.**

“Companies which adopt a policy on this matter must state it clearly in their internal regulations.” (Aldama Report)  
The organisational and operational Regulations of the Board of Directors of Enagás does not include any age limit for Directors.

#### **RECOMMENDATION 15. APPROPRIATE INFORMATION AND ADVISORY SERVICES.**

“The right of all Directors to gather and obtain the necessary information and advice to pursue their supervisory duties shall be formally recognised. Suitable arrangements shall be made for this right to be exercised, including the engagement of external experts under special circumstances.” (Olivencia Code)

Throughout the text of the Regulations of the Board of Directors, it is stipulated that Directors may have access to all company information and advice necessary, and may consult external experts at any time.

Section two of Article 15 of the Board of Directors Regulations establishes that Directors shall be entitled to propose to the Board of Directors the engagement, at the company’s expense, of legal, accounting, technical, financial, commercial or any other type of experts deemed necessary for the interests of the company, for the purpose of assisting the Board in performing its duties when there are specific problems of a certain importance and complexity linked to the such performance. The Board of Directors may veto its approval when considering such request, deeming the same unnecessary in terms of the duties entrusted, the expense incurred (disproportionate in relation to the problem and assets and revenues of the company) and finally, in terms of whether said technical assistance may be adequately provided by experts and technicians from within the company itself.

#### **RECOMMENDATION 16. DIRECTORS’ PAY.**

“The pay policy for Directors, which shall be reviewed and evaluated by the Remuneration Committee, shall respect the criteria of moderation and be related to the performance of the company and detailed, individualised information.” (Olivencia Code)

The Appointments and Remunerations Committee is responsible for proposing both the criteria for Directors’ payment that it deems appropriate to the Board of Directors, as well as an overall sum to be paid to the Board. Once the overall amount and the distribution criteria has been established by the General Shareholders’ Meeting, the Appointment and Remunerations Committee proposes the specific remuneration of Board members in line with the general criteria set by the Board.

#### **RECOMMENDATION 17. DIRECTORS’ OBLIGATIONS.**

“That the internal regulations of the company shall list the obligations emanating from Directors’ general duties of diligence and loyalty. They shall, in particular, envisage the possibility of conflicts of interest arising, the duty of confidentiality, the exploitation of business opportunities and the use of corporate assets.” (Olivencia Code)

As mentioned in the section dealing with the Organisation and Operation Regulations of the Board of Directors in this Report, Directors must comply with obligations of diligent administration, faithfulness, loyalty, secrecy and non-competition.

### **RECOMMENDATION 18. TRANSACTIONS WITH SIGNIFICANT SHAREHOLDERS.**

“The Board of Directors shall foster the adoption of due arrangements to extend the duties of loyalty to significant shareholders, establishing, especially, safeguards for transactions made between such shareholders and the company.

As prescribed by the Board Regulations and the Enagás Internal Code of Conduct, transactions with significant shareholders are formally reserved for the Board of Directors, which adopts the resolution in view of the suitability of the transaction to market values, after reports from the Appointments and Remunerations Committee in co-ordination with the Auditing and Compliance Committee.

Furthermore, the Director proposed by the significant shareholder in question (or where appropriate, the physical person representing such shareholders must abstain in the vote concerning the resolution, which has actually occurred, as noted in the Minutes of the Board of Directors, prepared by the Secretary with the Chairman’s approval.

### **RECOMMENDATION 19. GENERAL SHAREHOLDERS MEETING.**

“On the occasion of Shareholders’ Meetings, and from the time they are convened, the company must disclose the full content of all the motions to be submitted to the Meeting on its website, regardless of other procedures for this purpose established by law or implemented voluntarily by the company.” (Aldama Report)

In its relations with its shareholders, the Board of Directors of Enagás applies the principle of parity of treatment, creating the appropriate systems to ascertain the shareholders proposals related to company administration and opening the necessary channels for a regular exchange of information with committees or groups of shareholders.

The Board of Directors also encourages informed participation by shareholders at the General Meetings, adopting as many measures as are appropriate to facilitate the General Shareholders’ Meeting truly carrying out the functions attributed to it by law and Company Bylaws.

As of the publication of the call for the General Shareholders’ Meeting, as well as during the course of the same, shareholders are provided with the following information, via the company website, toll-free telephone number and the Shareholder Information Office:

- a) The call.
- b) The full contents of all motions submitted to the GSM for approval.
- c) The full documentation of the Annual Accounts of Enagás, and the Consolidated Annual Accounts of the Enagás Group for the financial year in question.
- d) Management Report and Consolidated Management Report.
- e) The Annual Corporate Governance Report.
- f) Any other report that must be included or which the Board of Directors deems appropriate to include.

## **RECOMMENDATION 20. GSM AND BOARD REGULATIONS.**

“All companies should have a set of rules or criteria for corporate governance, including at least GSM and Board of Directors’ regulations”. (Aldama Report)

At the Ordinary GSM held on 25 April 2003, a specific regulation was approved governing the General Shareholders’ Meeting regulating, amongst other matters, the rules for the organisation, call, preparation, information, attendance and course of the GSM, with a view to assisting shareholders in the exercise of their corresponding rights. The aforementioned Regulations were amended by the Ordinary GSM held on 30 April 2004 to adapt it to Act 26/2003, on transparency of listed companies, and so that shareholders might know the bases to which the meeting is subject for better exercise of their corresponding information and voting rights.

Likewise, the Board of Directors, at its meeting of 19 February 2004, approved the internal framework and operating rules for the Board of Directors and its Committees; the Board of Directors at its meeting of 19 February 2004 approved regulations concerning the Audit and Compliance Committee, to provide this committee with organisational and operational rules as an independent and transparent body. The Board presented the content of both regulations at the GSM held on 30 April 2004.

## **RECOMMENDATION 21. TRANSPARENCY OF INFORMATION.**

“Measures should be adopted to make the mechanism for the delegation of votes more transparent and encourage communication between the company with its shareholders, in particular institutional investors.” (Olivencia Code)

Pursuant to Articles 105.4, 106.2 and 112 of the Joint Stock Companies Act, relating to the representation of shareholders at General Shareholders’ Meetings by remote communication media, and the means by which they may delegate or exercise the right to vote on proposals included on the Agenda via post, e-mail or any other means of communication and their right of information, the Ordinary GSM of 30 April 2004, approved the amendment of various articles of the Enagás Bylaws in reference to these issues.

Mechanisms established to encourage communication of the company with its shareholders are detailed and regulated extensively in the Regulations of the General Shareholders’ Meeting and in the Enagás Company Bylaws.

## **RECOMMENDATION 22. MARKET TRANSPARENCY.**

“That the Board of Directors, over and above the requirements imposed by prevailing regulations, shall be responsible for supplying the markets with rapid, exact, reliable information, especially with respect to the shareholding structure, substantial changes in the rules of governance, related operations of special relevance or treasury stock.” (Olivencia Code)

It is the Board of Directors’ responsibility to adopt and implement as many measures as are necessary to ensure transparency of the company on financial markets, to encourage the appropriate setting of company and subsidiary share, to supervise, through the Audit and Compliance Committee, regular provision of public information of a financial nature and to carry out as many functions as are imposed on it by the company’s status as a listed company according to applicable legislation.

Enagás, through its Chairman, Director of Investor Relations, the Secretary to the Board, the Finance Director or the Director of Legal Affairs, within the terms and in accordance with the procedures established in legislation in effect, im-

mediately report on the market, via communication to the CNMV, any relevant information. Such report shall be issued as soon as the fact is known, the decision is taken or an agreement is signed, in a clear, true and complete manner that does not give rise to any error or confusion.

### **RECOMMENDATION 23. INFORMATION ON CORPORATE GOVERNANCE.**

“That the duties of information on structures and practices of the governance of each company be extended, and in general, that measures are adopted to ensure the greatest quality of information, being redrafted into a single text to be published for the general knowledge of shareholders and investors.” (Aldama Report)

This Corporate Governance Report shows compliance by Enagás with most of the recommendations included in the Good Governance Code drafted by the Special Committee for Encouraging Transparency and Security in Markets and Listed Companies, in the areas of publicity and rules of corporate governance.

### **RECOMMENDATION 24. PERIODICAL FINANCIAL INFORMATION.**

“All periodical financial information furnished to the markets, in addition to the Annual Accounts, shall be drawn up according to the same professional practices and principles as the Annual Accounts. Before being published, such information shall be verified by the Audit Committee.” (Olivencia Code)

The Enagás Board of Directors has taken the necessary measures to ensure that quarterly, six-monthly, annual and any other financial information that the applicable regulations and prudence require be furnished the markets, are prepared in accordance with the same principles, criteria and professional practices with which the Annual Accounts are prepared, and are as reliable as the latter.

### **RECOMMENDATION 25. INFORMATION VIA THE INTERNET.**

“All listed companies should have a website through which they inform shareholders, investors and the market in general about economic events and any other significant events that take place in connection with the company, as well as enabling shareholders to exercise their right to information and any other shareholder rights.” (Aldama Report)

Enagás has a corporate website ([www.enagas.com](http://www.enagas.com) /[www.enagas.es](http://www.enagas.es)), which contains information on the most relevant aspects of the company, financial information as well as all information relating to corporate governance.

Thus, on the website it is possible to consult Annual Corporate Governance reports, the Bylaws, the Regulations of the Board of Directors and the General Shareholders’ Meeting as well as those of the Audit and Compliance Committee, information on significant shareholders and their representation on the Board of Directors, composition of the Board and Committees. Likewise, it is possible to consult quarterly reports and annual reports for the last few years and relevant facts communicated to the markets. Also available are the calls for the General Shareholders’ Meetings and the information contained in same, motions and resolutions to be adopted, and the resolutions finally adopted.

### **RECOMMENDATION 26. INDEPENDENCE OF EXTERNAL AUDITORS.**

“That the Board of Directors and the Audit Committee shall oversee situations that could jeopardise the independence of the company’s External Auditors. Specifically, they shall verify the fees paid for all items as a percentage of the audit



firm's total revenues, and provide public information on fees paid for professional services other than auditing." (Olivencia Code)

As part of its functions, the Audit and Compliance Committee of the Enagás Board of Directors is responsible for proposing the appointment of the External Accounts Auditors to the Board of Directors, for submission to the General Shareholders' Meeting, in accordance with the applicable regulations, and to provide information on payments to External Auditors, as well as working with them to receive information on questions that may put their independence at risk.

### **RECOMMENDATION 27. QUALITY OF ACCOUNTING.**

"That the Board of Directors shall try to avoid the accounts it has filed being presented to the General Shareholders' Meeting with reservations and qualifications. When this is not possible, both the Board and the Auditors must clearly explain the content and scope of discrepancies to the markets and shareholders." (Olivencia Code)

In accordance with its organisational and operational Regulations, the Board of Directors will endeavour to formulate the Accounts so that there is no need for provisos by the company's Accounts Auditor.

If the Board of Directors feels that it must maintain its criteria in any circumstances, the content and scope of the discrepancy must be explained publicly.

### **RECOMMENDATION 28. CONTINUITY.**

"That the Board of Directors shall include in its annual public report information on its governance rules, explaining those which do not meet the recommendations of this code." (Olivencia Code)

Both this report and the annual report include all information relevant to compliance by the company with good corporate governance rules.

# Other information of interest

**List and explain below the contents of any relevant principles or aspects of corporate governance applied by the company that have not been covered by this report.**

**This section may include any other relevant but not re-iterative information, clarification or detail related to previous sections of the report.**

**Specifically indicate whether the company is subject to corporate governance legislation from a country other than Spain and, if so, include the compulsory information to be provided when different from that required by this report.**

## CLARIFICATION OF SECTION B.1.7:

LIST, AS APPLICABLE, COMPANY DIRECTORS WHO ARE MEMBERS OF THE BOARD OF DIRECTORS OR OTHER LISTED COMPANIES IN SPAIN WHICH ARE NOT GROUP MEMBERS, AND WHICH HAS BEEN NOTIFIED TO THE COMPANY.

JOSE LUIS OLIVAS MARTÍNEZ, THE BANCAJA REPRESENTATIVE ON THE ENAGÁS BOARD, IS A DIRECTOR OF ABERTIS INFRAESTRUCTURAS.

## CLARIFICATION OF SECTION B.1.8:

"FILL IN THE FOLLOWING TABLES WITH DETAILS OF THE ACCRUED AGGREGATE REMUNERATION OF DIRECTORS DURING THE YEAR."

IN 2005, NON-EXECUTIVE DIRECTORS HAY ONLY RECEIVED PAYMENTS FOR EXPENSES. THEREFORE, THEY HAVE NOT BEEN PAID ANYTHING AS A FIXED OR VARIABLE SALARY.

LIKewise, SUMS WHICH, IN ACCORDANCE WITH THE TABLE IN B.1.8. ARE INCLUDED UNDER "OTHER BENEFITS", HAVE ONLY BEEN PAID TO THE COMPANY'S EXECUTIVE DIRECTORS. NON-EXECUTIVE DIRECTORS HAVE NOT RECEIVED ANY BENEFITS DURING THE 2005 FINANCIAL YEAR.

## CLARIFICATION OF SECTION B.1.9:

"IDENTIFY MEMBERS OF SENIOR MANAGEMENT WHO ARE NOT ALSO EXECUTIVE DIRECTORS AND INDICATE TOTAL REMUNERATION ACCRUING TO THEM DURING THE YEAR."

DURING THE 2005 FINANCIAL YEAR, THE MULTI-ANNUAL PAYMENT PLAN APPROVED BY THE BOARD, FOLLOWING ITS PROPOSAL BY THE APPOINTMENTS AND REMUNERATIONS COMMITTEE IN 2003, REMAINED IN FORCE. IT CONSISTS OF A LONG-TERM INCENTIVE, PAYMENT OF WHICH IS LINKED TO ACHIEVING CERTAIN OBJECTIVES OVER A THREE-YEAR PERIOD. THE COMPANY'S SENIOR MANAGEMENT, INCLUDING EXECUTIVE DIRECTORS, ARE POTENTIAL BENEFICIARIES OF THIS SYSTEM, WHICH COMES TO AN END IN JULY, 2006.

IN ADDITION TO THE ABOVE, THE COMPANY RECOGNISES A METHOD OF BONUS PAYMENT SYSTEM TO REWARD THOSE WHO REMAIN WITH ENAGÁS. IT CONSISTS OF AN ANNUAL SUM WHICH IS RESERVED FOR STAFF WITHIN ITS SCOPE. THE QUANTITY RESERVED IS PAID FOR REMAINING WITH THE COMPANY FOR THIRTY YEARS, RETIREMENT, UNFAIR DISMISSAL OR REDUNDANCY. DURING THE 2005 FINANCIAL YEAR, THE SUM RESERVED FOR SENIOR MANAGERS AND DIRECTORS WAS 313 THOUSAND EUROS.

THE SUM OF 342 THOUSAND EUROS WAS DEDUCTED FROM THE AFOREMENTIONED PROVISION TO MEET PAYMENTS DUE TO THE ENDING OF THE CONTRACT OF A COMPANY SENIOR MANAGER.

TOTAL PAYMENTS IN RELATION TO THE PREVIOUS PARAGRAPH AMOUNTED TO 1,331 THOUSAND EUROS.

#### CLARIFICATION OF SECTION B.1.12:

“INDICATE, AS APPLICABLE, THE IDENTITY OF BOARD MEMBERS WHO ARE IN TURN MEMBERS OF THE BOARD OF DIRECTORS OR HOLD DIRECTORSHIPS IN COMPANIES HOLDING SIGNIFICANT STOCK IN THE LISTED COMPANY AND/OR ITS GROUP COMPANIES.”

MANUEL MENÉNDEZ MENÉNDEZ, REPRESENTATIVE OF THE DIRECTOR PEÑA RUEDA, S.L.U. IS CHAIRMAN OF CAJASTUR. JOSÉ LUIS OLIVAS MARTÍNEZ, REPRESENTATIVE OF THE DIRECTOR BANCAJA, IS CHAIRMAN OF BANCAJA. VICENTE SALA BELLÓ, REPRESENTATIVE OF THE DIRECTOR CAM, IS CHAIRMAN OF CAM.

#### CLARIFICATION OF SECTION B.1.31:

“LIST THE COMPANY DIRECTORS’ STOCK HOLDINGS IN OTHER COMPANIES WITH THE SAME, ANALOGOUS OR COMPLEMENTARY ACTIVITY AS CONSTITUTES THE CORPORATE PURPOSE OF THE COMPANY AND/OR ITS GROUP THAT HAVE BEEN REPORTED TO THE COMPANY. INDICATE THE POSITIONS OR DUTIES THEY HOLD IN SAID COMPANIES. INDICATE THE POSITIONS OR DUTIES THEY HOLD IN SAID COMPANIES:

RAMÓN BLANCO BALÍN CEASED TO BE AN ENAGÁS DIRECTOR AS OF 21 DE JULY 21ST, 2005. HE WAS A DIRECTOR OF GAS NATURAL SDG, S.A. UNTIL JANUARY 28TH, 2005.

ENRIQUE LOCUTURA RUPÉREZ CEASED TO BE AN ENAGÁS DIRECTOR AS OF FEBRUARY 17TH, DE 2005. HE WAS CHIEF EXECUTIVE AND BOARD MEMBER OF GAS NATURAL SDG, S.A. AND CHAIRMAN OF GAS NATURAL DISTRIBUCIÓN, S.A. UNTIL JANUARY 28TH, 2005.

JOSÉ LUIS OLIVAS MARTÍNEZ, BANCAJA REPRESENTATIVE ON THE ENAGÁS BOARD, HAS SHAREHOLDINGS EQUAL TO 0,00% OF THE CAPITAL STOCK OF ENDESA, IBERDROLA AND GAS NATURAL.

MANUEL MENÉNDEZ MENÉNDEZ IS CHAIRMAN OF HIDROCANTÁBRICO S.A AND IS THE REPRESENTATIVE OF HIDROCANTÁBRICO, S.A. ON THE BOARD OF NATURCORP, S.A.

#### CLARIFICATION OF SECTION C - ASSOCIATED OPERATIONS

THE FOLLOWING SHOULD BE TAKEN INTO ACCOUNT IN RELATION TO ASSOCIATED OPERATIONS:

- A) ASSOCIATED OPERATIONS FOR SIGNIFICANT SUMS, OVER AND ABOVE ENAGÁS’ NORMAL LEVEL OF TRADING, ARE APPROVED BY THE COMPANY BOARD, FOLLOWING A REPORT FROM THE APPOINTMENTS AND REMUNERATIONS COMMITTEE.
- B) IN ACCORDANCE WITH ACT EHA/3050/2004, IT IS NOT NECESSARY TO PROVIDE INFORMATION ON THOSE OPERATIONS WHICH, BELONGING TO NORMAL COMPANY TRADING, ARE EFFECTED UNDER NORMAL MARKET CONDITIONS AND ARE NOT OF GREAT IMPORTANCE. FOR THESE PURPOSES, TAKING INTO ACCOUNT THE AGGREGATES CORRESPONDING TO THE COMPANY’S ACCOUNTING RESULTS, THOSE OPERATIONS, WITHIN THE PERIOD FOR WHICH INFORMATION IS BEING PROVIDED, OF LESS THAN 3,000 (THOUSAND EUROS) ARE NOT CONSIDERED TO BE OF GREAT IMPORTANCE.
- C) THE CLOSURE FOR CERTAIN OPERATIONS IS NOT AVAILABLE, EN PARTICULARLY FOR WHICH CALCULATIONS ARE SPECIFICALLY LINKED TO THE CLOSURE OF GAS BALANCES. THIS MEANS THAT AMOUNTS ARE SOMETIMES PROVISIONAL, OR THAT THE DECISION IS MADE TO INCLUDE FIGURES FOR THE FIRST ELEVEN MONTHS OF THE FINANCIAL YEAR, IN WHICH CASE THE FACT THAT THIS IS BEING DONE IS HIGHLIGHTED.

IF THE TEXT DOES NOT INDICATE ANYTHING ELSE, OPERATIONS CORRESPOND TO CONTRACTS SIGNED BEFORE THE PERIOD IN HAND IN THE CASE OF NEW RELATIONSHIPS, DERIVED FROM CONTRACTS OR COMMITMENTS ACQUIRED IN

2005, THIS IS EXPRESSLY INDICATED.

#### CLARIFICATION OF SECTION C.1:

LIST ANY RELEVANT OPERATIONS ENTAILING A TRANSFER OF RESOURCES OR OBLIGATIONS BETWEEN THE COMPANY OR GROUP COMPANIES AND SIGNIFICANT COMPANY SHAREHOLDERS.”

INFORMATION CONTAINED IN TABLES INCLUDED IN SECTION C.1 REFERS TO ENAGÁS, S.A. OPERATIONS WITH COMPANIES THAT EXERCISE A SIGNIFICANT INFLUENCE ON ENAGÁS AND TO COMPANIES ON WHICH ENAGÁS ITSELF HAS A SIGNIFICANT INFLUENCE (PART 1 OF THE FOURTH POINT OF ORDER EHA 3050/2004). THESE ARE:

- 1) OPERATIONS WITH BANCAJA (CAJA DE AHORROS DE VALENCIA, CASTELLÓN Y ALICANTE).
- 2) OPERATIONS WITH BP ESPAÑA S.A.
- 3) OPERATIONS WITH CAJASTUR (CAJA DE AHORROS DE ASTURIAS) OR WITH ITS SUBSIDIARY CANTÁBRICA DE INVERSIONES DE CARTERA, S.L.
- 4) OPERATIONS WITH CAM (CAJA DE AHORROS DEL MEDITERRÁNEO).
- 5) OPERATIONS WITH GAS NATURAL SDG AND ITS GROUP COMPANIES.
- 6) OPERATIONS WITH SAGANE INVERSIONES, S.L.

BELOW ARE LISTED OPERATIONS WITH OTHER ASSOCIATED PARTIES, IN COMPLIANCE WITH PART D OF THE FOURTH POINT 1. OF ORDER EHA 3050/2004:



A) OPERATIONS WITH LA CAIXA D' ESTALVIS PENSIONS DE BARCELONA (LA CAIXA) AND ITS GROUP ENTITIES:

1. LA CAIXA IS PARTICIPATING WITH 109,000 (THOUSAND €) IN THE "CLUB DEAL" TYPE LOAN, SIGNED ON NOVEMBER 24TH, 2004, AND PAID ON JANUARY 10TH, 2005, WHICH ENDS IN 2010, AND HAS RENEWED A CREDIT LINE WITH ENAGÁS DURING THE FIRST SIX MONTHS TO THE VALUE OF 100,000 (THOUSAND €).
2. GUARANTEES PROVIDED BY LA CAIXA TO ENAGÁS HAD A TOTAL VALUE OF 30,800 (THOUSAND €). IN ADDITION, ENAGÁS HAS SIGNED RENTING CONTRACTS WITH LA CAIXA GROUP ENTITIES TO THE VALUE OF 5,200 (THOUSAND €).
3. IN JANUARY 2005, ALL FOUR FRA CONTRACTS ENDED. THEY HAD A TOTAL VALUE OF 300,000 (THOUSAND €) AND RELATED TO THE PERIOD BETWEEN JANUARY 7TH, 2004, AND JANUARY 10TH, 2005.

CONTRACTS SIGNED WITH LA CAIXA ALL ADHERED TO MARKET CONDITIONS IN TERMS OF INTEREST, FEES, EXPENSES AND GUARANTEES.

B) OPERATIONS WITH REPSOL YPF AND ITS GROUP COMPANIES:

ENAGÁS S.A. HAS RENTED UNDERGROUND STORAGE AT GAVIOTA TO REPSOL INVESTIGACIONES PETROLÍFERAS S.A., THE FORMER HAVING PAID A TOTAL OF 23,480 (THOUSAND €) DURING THE FINANCIAL YEAR.

CLARIFICATION OF SECTION C.3:

"LIST ANY RELEVANT OPERATIONS UNDERTAKEN BY THE COMPANY WITH OTHER COMPANIES BELONGING TO THE SAME GROUP, THAT ARE NOT ELIMINATED IN THE PROCESS OF DRAWING UP THE CONSOLIDATED FINANCIAL STATEMENTS AND WHOSE OBJECT AND CONDITIONS SET THEM APART FROM THE HABITUAL TRADING OF THE COMPANY."

OPERATIONS WITH COMPANIES CONTROLLED BY ENAGÁS ARE LISTED IN THIS SECTION (SECTION A, FOURTH POINT 1, ORDER EHA 3050/2004):

- A. OPERATIONS WITH "GASODUCTO AL ANDALUS".
- B. OPERATIONS WITH "GASODUCTO BRAGA-TUY".
- C. OPERATIONS WITH "GASODUCTO CAMPO MAIOR-LEIRA-BRAGA".
- D. OPERATIONS WITH "GASODUCTO EXTREMADURA".

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**This annual corporate governance report was approved by the Board of Directors at its meeting of 22-02-2006.**

**List the Directors or members of the governing body that voted against or abstained from approving this report.**

The present Report was drafted and approved by the Audit and Compliance Committee at its session held on the 22 of

## Composition

### Chairman

Mr. Luis Javier Navarro Vigil

### Members

BANCAJA (represented by Mr. José Luis Olivas Martínez)

Sir Robert Malpas

Mr. Ramón Pérez Simarro (until March 2005)

Mr. Martí Parellada Sabata (from March 2005 onwards).

### Secretary

Mr. Luis Pérez de Ayala

The Committee met five times during 2004. In keeping with corporate regulations, the Committee called on a number of people related to the matters within its competence for consultation, having regularly attended sessions of the Committee during the year, Enagás' Finance Director, Mr. De Reina, and the head of the Internal Auditing Unit, Mr. José Espejo; similarly, external auditors from Deloitte have also attended the Committee on a number of occasions.

## Activities of the Committee

The Committee met four times during the 2005 year. The following is a summary of the most significant areas on which the Audit and Compliance Committee focused during 2005.

1. Committee activities relating to the formulation and approval of the Enagás Annual Accounts for 2004  
AAs on previous occasions, the Auditing Committee was entrusted with the task of debating and analysing accounts prior to their formulation by the Board of Directors. Within the scope of this work, in February 2005 the members of the Committee met with the External Company Accounts Auditor, as well as with the Finance Director and the head of the Enagás Internal Audit Unit.  
Both the External Auditors and the financial officers of the Company offered the Committee their views on the financial statements. Differences in criteria, the material nature of which was never to the extent that it could affect Deloitte's opinion of the financial statements, referred to matters such as accounting methods for certain minor developments, the reclassification of subsidies, the updating and elimination of certain provisions, accounting methods for income derived from transport concessions to subsidiary companies and other matters of lesser importance. To this end, Deloitte informed the Auditing Committee that their report was clean and without reservations. The Audit Committee's study of the 2004 Annual Accounts reached the following conclusions:
  - That the Annual Accounts of Enagás and those of its consolidated group reflected the Company's equity and the results of the fiscal year truthfully and accurately.
  - That the aforementioned Accounts contained sufficient information to be clearly understood, as well as a description of the risks the Company faces.

- That the Accounts fully respected the generally accepted principles and regulations of accounting, in the same terms as were applied in previous years.
- That the principles of parity of treatment for shareholders and transparency of information reported to the markets had been upheld.

In view of the foregoing, the Committee resolved to recommend that the Board of Directors of Enagás formulate the said Accounts. The Board of Directors, at its session held in February 2005, followed the Committee's recommendation and formulated the Accounts in the same terms as indicated by the Committee.

In addition to the previous work, the Chairman of the Audit Committee, Mr. Navarro Vigil, also participated in the Ordinary General Shareholders' Meeting held on 22 April 2005, to explain the most important aspects of the Accounts to the Company shareholders, so as to furnish them with all the necessary information to be able to vote on the aforementioned Accounts.

## 2. Monitoring of the relationships between Enagás and its significant shareholders.

The Committee has continued to be particularly vigilant in overseeing the relationships existing between Enagás and its significant shareholders, with relationships not giving rise to any incidents worthy of mention.

## 3. Audit and risk control plan for 2005

All meetings of the Auditing Committee have included, within the Order of Business, both a general reference to the development of the expected auditing plan for 2005, and a specific analysis of the main auditing processes to be carried out at each stage.

This area of the Auditing Committee's work is therefore considered to be of particular importance. It is thus worth remembering that three years ago the company, with the assistance of external consultants, carried out an exhaustive review of business and related risks, outlining the internal processes that might be affected by each of these said risks. In view of the results obtained, those processes that required the fundamental attention of the Internal Audit Unit were identified. The Audit Plan that was put into practice throughout 2005 has, for the second year in succession, focused on monitoring those processes which were set as objectives in 2003.

The following is a summary of the processes which were examined and the conclusions that were reached:

### 3.1 Auditing of operating costs for Gaviota's social affairs:

2005 saw the conclusion of this process, which had begun the previous year. Its conclusions were submitted to the Committee, pending confirmation of data by the owners of Almacenamiento de Gaviota.

### 3.2 Auditing of activities relating to the maintenance of transportation gas pipelines:

This internal process has been subjected to comprehensive auditing, with activities analysed with respect to the a priori risks associated with them. The Audit Unit concluded the process, with recommendations aimed at:

3.2.1 Improving management efficiency.

3.2.2 Ensuring the integrity of information systems.

3.2.3 Eliminating all occupational risks which might arise from the management of documentation concerning company and contracted employees.

3.2.4 Encouraging organisational changes in Maintenance Centres to bring them in line with company strategy.

### 3.3 Auditing of the operating process of Serrablo's social affairs:

Unlike the auditing process applied to Gaviota, the procedure with respect to Serrablo was focussed on operational aspects rather than questions related to costs. The Internal Audit Unit submitted generally favourable conclusions to the Audit Committee, whilst nevertheless also detecting specific areas for improvement, such as warehousing and materials,



indicators of reliability and levels of gas leakage. The Committee's interest specifically centred upon measurement, balance and reduction operations, as well as matters related to industrial safety. As far as the first aspect was concerned, no risks associated with said processes were detected, with the exception of slightly high leakage levels. With respect to the industrial safety of the warehousing aspect, the Internal Auditor confirmed that treatment and operational standards were satisfactory.

#### 3.4 Auditing of the processes relating to purchase and company supplier selection management

The fourth key sector to be examined by Auditors, with a report submitted to the Audit and Compliance Committee was the area of processes relating to purchase, materials and company supplier selection management.

The conclusions that were reached, as before, have been highly favourable overall, with special attention paid to the importance that purchase management has to a company such as Enagás.

Specific aspects have received special favourable attention: the existence of recently modified General Management Regulations pertaining to Adjudication and Contracting, the content of which allows for sufficient process flexibility, with the corresponding control that such activities require. Another aspect praised was the design and implementation of a specific information system for this process, increasing safety, security and overall control.

In spite of the above, certain areas were considered to be potential risks, with the following specific measures recommended to be put into practice:

3.4.1 Performance assessment risks.

3.4.2 Potential risks in the selection of suppliers.

3.4.3 Lack of framework agreements.

3.4.4 Risks associated with changes in the market price of raw materials in the construction industry (particularly, in the price of steel).



3.4.5 Non-compliance with established controls as stipulated under current regulations.

3.4.6 Organisational structure in which there is room for improvement.

4. Quarterly accounting reviews

Throughout 2005 the Committee continued to monitor the limited quarterly reviews carried out by auditors.

Together with Deloitte, the Committee specifically analysed reports for April, July and October, corresponding to the first, second and third quarters. With this course of action as undertaken by the Committee, it was possible to minimise the impact of any accounting aspect arising throughout the year, thus allowing members of the Committee and Board of Directors to keep abreast of the views of the company's external auditors with respect to the annual evolution of balance and profit and loss accounts.

The Audit Committee considers that both the quarterly reviews as carried out by the external auditor and the Committee's own analysis of these reports are of prime importance to the carrying out of strict controls over the company's accounting, facilitating the issue of a clean year-end report.

5. Audit Plan 2006

In December 2005, on proposal from the head of the Internal Audit Unit, the Committee approved the audit plan for 2005, as well as the budget allotted to the Unit for this purpose.

Two aspects of the proposed audit plan for 2006 merit special mention:

Firstly, the Audit Committee has stressed the importance of monitoring all processes associated with the payoff and liquidation of regulated activities, having ensured that the Internal Audit Unit gives priority to this analysis.

Secondly, the potential benefits to be gained from updating the risk map as drawn up three years ago have been considered, with a view to tackling certain processes which have recently been identified as being of potential interest with respect to risk control.

6. Activities after the end of the year

Throughout the first months of 2006, the Committee has continued its normal activities, particularly with regards to its participation in the formulation of the Annual Accounts by the Company Board of Directors. As in the previous financial year, the Audit and Compliance Committee has issued a prior favourable report on the 2005 Accounts to be submitted to the 2006 Ordinary General Shareholders' Meeting.

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