



> Annual Report





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06



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> Key Figures

> CONSOLIDATED FINANCIAL DATA (MILLIONS OF EUROS)

	2002	2003	2004	2005	2006
EBITDA	333.7	383.0	399.1	478.4	563.6
EBIT	207.2	249.5	275.1	332.8	378.7
Net Profit	110.1	142.0	158.1	191.0	216.4
Dividends	55.1	71.0	79.1	95.5	112.6
Pay-out	50%	50%	50%	50%	52%
Investments	192.3	426.3	462.9	358.7	433.2
Net Debt	1,253.0	1,278.7	1,421.0	1,546.6	1,779.2
Shareholders' Equity	852.4	932.4	997.8	1,110.4	1,235.2
Assets	2,895.7	3,093.0	3,101.4	3,225.6	3,626.2
Net Debt/EBITDA	3.8x	3.3x	3.6x	3.2x	3.2x
Interest Cover (EBITDA/interest costs)	8.5x	12.1x	12.3x	11.1x	11.1x
Net Debt/Total Assets	43.3%	41.3%	45.8%	47.9%	49.1%
Net Debt/Net Debt+Shareholders' Equity	59.5%	57.8%	58.7%	58.2%	59.0%
Average cost of debt	3.9%	2.9%	3.0%	3.4%	3.6%
ROE after tax (*)	13.4%	15.9%	16.4%	18.1%	18.5%
ROCE after tax (**)	6.9%	7.5%	7.7%	8.5%	8.7%

(*) Net profit/ Average shareholders' equity

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

> FINANCIAL DATA PER SHARE (EUROS)

	2002	2003	2004	2005	2006
Net Profit	0.46	0.59	0.66	0.80	0.91
Dividends	0.23	0.30	0.33	0.40	0.47
EBITDA	1.40	1.60	1.67	2.00	2.36
No. of shares (million)	238.7	238.7	238.7	238.7	238.7

The gross dividend of 0.47 per share is pending approval at the General Shareholders Meeting.
Figures for 2004, 2005 and 2006 are calculated in accordance with IFRS.

> TRANSPORTED NATURAL GAS DEMAND (GWh)

	2002	2003	2004	2005	2006
Tariff Market	109,846	80,703	61,866	61,463	55,218
Liberalised Market	133,192	194,535	257,734	314,431	336,217
International Shipments				313	5,923
Total Demand	243,038	275,238	319,600	376,207	397,358

Figures for 2006 correspond to the final gas balance

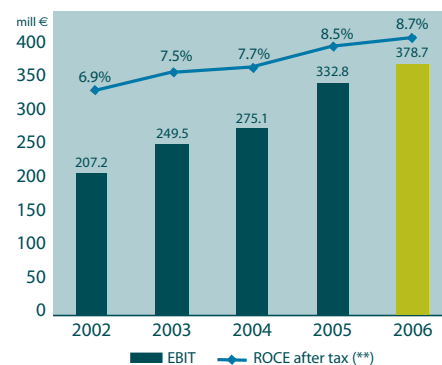
> INFRASTRUCTURE

	2002	2003	2004	2005	2006
Transportation Network					
Km of gas pipeline	6,383	6,522	7,158	7,538	7,609
Regasification Plants					
LNG storage capacity (m ³)	560,000	560,000	710,000	987,000	1,287,000
Vaporisation capacity (m ³ (n)/h)	2,100,000	2,250,000	2,700,000	3,450,000	4,050,000
Underground Storage					
Extraction capacity (Mm ³ (n)/day)	10.3	12.5	12.5	12.5	12.5
Injection capacity (Mm ³ (n)/day)	8.4	8.4	8.4	8.4	8.4

> NET PROFIT



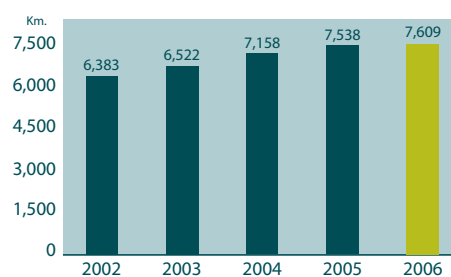
> EBIT



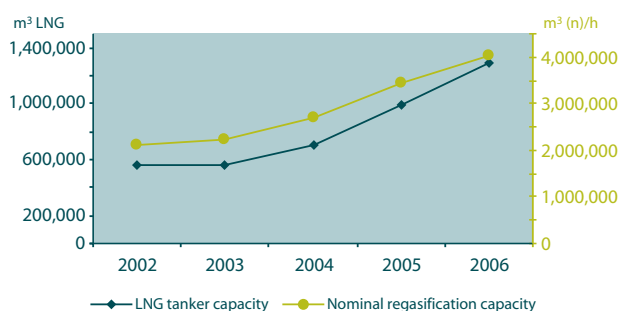
> TRANSPORTED NATURAL GAS DEMAND



> KM. OF GAS PIPELINE



> REGASIFICATION ASSETS



(*) Net profit/ Average shareholders' equity

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

> Letter from the Chairman



Dear shareholders,

It is a pleasure for me to address you for the first time as Chairman in conjunction with the publication of the 2006 Annual Report. In this my first address, I would like to review the most salient events of the year but in particular, I would like to detail the main strategic initiatives that will guide Enagás going forward. As you know, the future of the Company holds many challenges but also enormous opportunities for growth and value creation that we must capitalize on.

2006 has been a good year financially and very important strategically as the Company set in motion a new, long-term strategic plan. This new plan, which we recently updated, is primarily inspired by the revised government energy infrastructure plan, which entails a significant increase in investment by Enagás over the next few years. This will underpin continued earnings and profit momentum in the coming years.

In 2006, our share price increased 11.5% against the 31.8% rally for the Ibex 35. The share price corrected in the final days of the year after the changes to the Company's 2007 regulatory framework were announced.

I would like to underscore that one of the Company's strategic priorities is to restore confidence in our shares, in order to continue to post sustained gains in the future, in line with the growth we expect from the business as set out in the new strategic plan.

I would also like to highlight the commitment of Enagás' Board of Directors and the entire organisation in 2006 to the area of corporate responsibility. Major progress has been made on environmental policy, human resource management and corporate governance, all key to our target of creating sustained value, enhancing our shareholders and investors' confidence in Enagás.

Operating environment

Total demand for transported gas in 2006 grew less than initial forecasts primarily due to milder temperatures and the effect of higher raw material prices on consumption rates among industrial consumers and co-generation plants. This notwithstanding, gas consumption in Spain increased 5.7%, well above our European neighbours.

With a view toward servicing the strong growth in demand for natural gas in Spain, Enagás is continuing to integrate new assets into the system. Investments worth €326.8 million were put into operation in 2006, which increased nominal regasification capacity by 23% and LNG storage capacity at the Company's plants by 31%. In addition, 71 km. of pipeline were brought on stream last year.

I would also like to highlight the strong performance of the system in 2006 thanks to the assets brought on-line in recent years, the efforts of Enagás employees and the application for a second year of the System Technical Management Regulations, which have been key to improving the operation of the gas system.

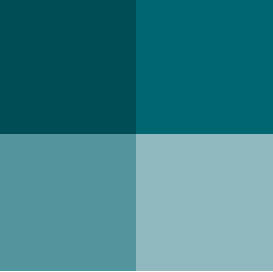
Financial performance and position

Net profit totalled €216.4 million in 2006, up 13.3% year-over-year.

This result enable us to propose a gross dividend of €0.47 per share for approval at the General Shareholders' Meeting. This figure marks an 18% increase over 2005 and reflects five-year growth of over 100%.

Moreover, EBIT rose 13.8% year-over-year to €378.7 million in 2006. This is primarily due to significant growth in revenues against more moderate growth in operating costs thanks to the operating efficiency and cost control policy implemented by Enagás.

2006 was also very important in terms of progress on our strategic objectives based on long-term profitable growth. Investment is a key component of this strategy. In 2006, the Company's capex amounted to €433.2 million and those approved by the Board of Directors totalled over €1.2 billion, guaranteeing a very high level of activity over the next few years.



Given our investment activity, net debt stood at €1.779 billion at year-end, equivalent to 49.1% of total assets. We deem this figure reasonable and believe it reflects the sound financial position of the Company and its ability to successfully accommodate our ambitious long-term investment plan.

2007 and the long-term strategic plan

Year-end 2006 was marked by the publication of the Ministerial Orders, which have introduced a series of changes in the remuneration scheme for regulated activities in the gas sector in 2007.

Under these Ministerial Orders, Enagás estimates that its total return from regulated activities in 2007 will increase at most by 7% year-over-year. This maximum estimated increase in revenues, combined with our commitment to operational efficiency and financial strength, will ensure yet another year of sustained profit growth.

It is important to highlight that the remuneration of our activities accounts for less than 9% of total cost of the Spanish natural gas system and that we are developing the network efficiently, thereby speeding up deregulation and the corresponding increase in competition. Tolls for accessing the Spanish gas system were left unchanged for 2007, having declined over 30% in real terms since 2001.

Another key factor in 2007 will be the forthcoming revised Mandatory Planning guidelines for gas and electricity transport networks, which will extend current planning from 2011 to 2016. This will add visibility and security to Enagás' strategic project by making the development of new infrastructure necessary for Spain's gas transport system urgent and mandatory.

Closer upon us, however, is the 2007-2012 planning period, on which we have based our strategic plan. As such, over the next six years, the Company has the tremendous challenge of and opportunity to invest approximately €4 billion, which will increase our assets, and by extension revenues, well above those of comparable companies in Spain and abroad. This, coupled with Enagás' operational excellence, will allow us to grow our profits at an average annual rate of approximately 10%. This will enable us to also maintain a flexible financial position that will allow us to consider additional dividend increases and potentially acquire assets that fit within our business model.

Corporate responsibility

Our commitment to the environment in which the business is conducted by maintaining a steady dialogue with all interested stakeholders is an essential cornerstone of Enagás' strategy. The incorporation of Enagás in the prestigious FTSE4Good Index is a testament to this commitment, making us the only Spanish energy company included in this index in its 2006 update.

In the environmental arena, I would like to note the efforts made by Enagás to reduce pollutant emissions. In 2006, we successfully cut CO₂ emissions by 55% from the previous year and methane emissions, 74%. Moreover, the Company is

committed to continuing its efforts to identify, profile and lessen the environmental impact of its activities and facilities and ensuring that such are used efficiently.

Meanwhile, on the employment and social front, Enagás is continuing to move forward with its policy of facilitating the professional and personal development of our employees. In terms of professional development specifically, the considerable increase in the training budget in 2006 is worth noting. In relation to personal development, we continue to move forward with our policy of reconciling family and work life.

In the corporate governance arena, we remain committed to acting with the utmost transparency, procuring at all times to surpass minimum prevailing legal standards and the recommendations of the various institutions.

Conclusion

Last, distinguished shareholders, as Chairman of Enagás, I would like to thank each and every one of the Company's employees for their efforts in 2006 and also you, our shareholders, on behalf of myself and the Board of Directors that I have the honour of presiding, for the trust you have placed in the Company. You may all rest fully assured that I will do all that is humanly possible to not disappoint you.

Many thanks,



Antonio Llardén Carratalá
Chairman



> Governing Bodies

Chairman

Antonio Llardén Carratalá

(Executive Director)

- Director of Caixa Catalunya
- Member of the Board of Directors of Eurogas and the Executive Committee of Internacional Gas Unión.
- Member of the Board of Directors and Executive Committee of the Club Español de la Energía.
- Member of the Industry and Energy Committees and the CEOE's Environment Committee plus the Foment del Treball Committee.
- Member of the Policy Network of the International Chamber of Commerce (ICC), and member of the ICC's Commission on Environment and Energy.
- Member of the Board of Rectors of the Industrial Engineers Colleges of Spain and Dean of the Industrial Engineer's College of Catalonia.
- Member of the Board of Directors of the Autònoma University of Barcelona and Chairman of the university's Economics Committee.

Deputy Chairman

José Luis Olivas Martínez

(Nominee Director. Representative of Bancaja)

- Chairman of the Valencian Federation of Savings Banks (Federación Valenciana de Cajas de Ahorros).
- Chairman of Grupo Bancaja
- Chairman of Banco de Valencia, S.A.
- Director of Abertis Infraestructuras, S.A.
- Director of the Spanish Confederation of Savings Banks (Confederación Española de Cajas de Ahorros (CECA))
- Director of Metrovacesa, S.A.
- Director of NH Hoteles, S.A.

Directors

Jesús David Álvarez Mezquíriz

(Independent)

- Director of Bodegas Vega Sicilia, S.A.
- Director of Eulen, S.A.
- Director of El Enebro, S.A.

Carlos Egea Krauel

(Controlling Director, nominated by Sagane Inversiones, S.L.)

- General Director of Caja de Ahorros de Murcia.
- Secretary of the Spanish Confederation of Savings Banks (Confederación Española de Cajas de Ahorros (CECA))
- Deputy Chairman of Ahorro Corporación.
- Represents Caja Murcia on Caser, S.A.'s Board of Directors

Salvador Gabarró Serra

(Controlling Director nominated by Gas Natural SDG S.A.)

- Chairman of Gas Natural SDG S.A.
- First Deputy-Chairman of La Caixa.

Teresa García-Milá Lloveras

(Independent)

- Economics Professor, Pompeu Fabra University.
- Director of Banco Sabadell.
- Director of the Círculo de Economía.
- Board Member of the Centre de Reserca en Economia Internacional (CREI).
- Economics Coordinator at the National Evaluation and Prospecting Agency.

Miguel Ángel Lasheras Merino

(Independent)

- Chairman of Intermoney Energía, S.A.
- Chairman of Wind to Market, S.A.

Dionisio Martínez Martínez

(Independent)

- Chairman of Boysep Investment SICAV, S.A.
- Secretary of EBN Banco, S.A.
- Lawyer.

Manuel Menéndez Menéndez

(Controlling Director. Representative of CIC, S.L. Cajastur)

- Chairman of the Board of Directors of Caja de Ahorros de Asturias.
- Chairman of the Board of Directors of Hidrocantábrico.
- Director of the Spanish Confederation of Savings Banks (Confederación Española de Cajas de Ahorros (CECA))
- Director of EDP Electricidad de Portugal, S.A.

Luis Javier Navarro Vigil

(External Director)

- Director of BP GAS ESPAÑA S.A.U.
- Director of CLH, S.A.
- Member of the Board of Trustees of the Príncipe de Asturias Foundation.
- Member of the Board of Trustees of the Universidad de Comillas Foundation.
- Member of the British Hispanic Foundation.
- Member of the Rey Jaime I Foundation.

Martí Parellada Sabata

(Independent)

- Chairman of Comfor ,S.A.
- Director of the Agrupación Mutual del Comercio de la Industria.
- Director of Eplic, S.A.
- Director of Fibracolor, S.A.

Ramón Pérez Simarro

(Independent)

- Former Director General of Energy.
- Former General Secretary of Energy and Mineral Resources.
- Former General Technical Secretary of the Ministry of Industry.
- Former lecturer, Autònoma University of Madrid.
- Academic Director of the Repsol YPF Foundation.



José Riva Francos

(Independent)

- Deputy-Chairman and Chief Executive of the Grupo Suardiaz companies.
- Director of Logista, S.A.
- Director of Red Eléctrica de España, S.A.

Vicente Sala Belló

(Controlling Director. Representative of Incomed, Caja de Ahorros del Mediterráneo)

- Chairman of the Board of Directors of Caja de Ahorros del Mediterráneo (CAM).
- Director of Sol Meliá, S.A.
- Director of Metrovacesa, S.A.

Antonio Téllez de Peralta

(Independent)

- General Director, Operations of Grupo Leche Pascual.

Secretary to the Board

Rafael Piqueras Bautista.

Deputy-Secretary to the Board

Beatriz Martínez-Falero García.

Audit and Compliance Committee

Chairman: Martí Parellada Sabata.

Members: Antonio Téllez de Peralta.

José Luis Olivas Martínez.

Luis Javier Navarro Vigil.

Appointments and Remunerations Committee

Chairman: Salvador Gabarró Serra.

Members: Dionisio Martínez Martínez.

Ramón Pérez Simarro

Management Committee

Antonio Llardén Carratalá
(Chairman)

Antonio García Mateo
(General Management Technology, Engineering and Purchases)

Javier González Juliá
(General Management System Operations)

Juan Manuel Llabrés Estabén
(General Management of Strategy and Regulation)

Diego de Reina Lovera
(Financial Management)

José Ferrándiz Alarcón de la Lastra
(Technical Secretary)

Erundino Neira Quintas
(Human Resources Management)

Rafael Piqueras Bautista
(Management of Legal Affairs)

Ramón Sánchez Valera
(Infrastructure Management)



> Activity Report



> KEY EVENTS

2 JANUARY

2005 Interim Dividend

Enagás paid out a gross dividend of 0.16 per share charged to 2005 earnings.

22 FEBRUARY

All-time Natural Gas Consumption Record

The demand for natural gas in Spain reached a new record high of 1,552 GWh due to the low temperatures experienced in the country. The winter peak exceeded last year's record of 1,503 GWh by 3%.

21 APRIL

Strategic Presentation

Enagás presented its Strategic Plan 2006-2012 at the Madrid Stock Exchange. The Company set a minimum target investment for the period of 4.3 billion, which will result in a dramatic increase in assets, and thus revenues.

22 APRIL

2006 General Shareholders' Meeting

Enagás held its General Shareholders' Meeting at second call and adopted the eight resolutions submitted for approval by the shareholders.

The adoption of the fourth resolution proposed on the agenda led to the appointment of the following directors: Antonio Llardén Carratalá (controlling director, proposed by Gas Natural SDG, S.A), María Teresa García-Milá Lloveras



(independent director), Miguel Ángel Lasheras Merino (independent director) and Antonio Téllez de Peralta (independent director).

The appointment of Antonio Llardén Carratalá filled the vacancy left with the resignation of Rafael Villaseca Marco, also a controlling director of Gas Natural SDG, S.A.

The appointment of Antonio Téllez was in response to his status as a co-opted director.

In the remaining cases, the new directors filled vacancies left with the resignation of independent directors José Manuel Fernández Norriella and Sir Robert Malpas.

16 JUNE Credit Ratings

Following the presentation of the Enagás Strategic Plan for 2006-2012, the credit rating agencies confirmed the Company's credit rating. Standard & Poor's upheld its AA-rating while Moody's affirmed its A2 rating.

Both agencies took into account the advances made and stability of the Regulatory Framework governing the remuneration of the Company's activities, the reliability of revenues from regulated activities and the solid position of Enagás in terms of liquidity. They also looked favourably upon the Company's strategy focused on the regulated activity of natural gas transport in Spain.

6 JULY 2005 Final dividend

Enagás paid out a gross 0.24 per share as a final dividend, charged to 2005 earnings.



26 JULY Appointment to the Audit and Compliance Committee

The Enagás Board of Directors, on the proposal of the Appointment and Remunerations Committee, approved the appointment of Antonio Téllez de Peralta as a new member of the Audit and Compliance Committee.

Antonio Téllez, who has been an independent director with Enagás since 2005, filled the vacancy left on the Committee with the resignation of Sir Robert Malpas in April 2006.

7 SEPTEMBER

Record Summer Demand

The summer demand for natural gas reached a new high of 1,227 GWh due to the high temperatures experienced in the country. Some 616 GWh were for the electricity market, surpassing the previous record of 610 GWh reached 6 September.

With respect to the record of the previous summer of 1,166 GWh, demand for natural gas increased 5%.

15 SEPTEMBER

FTSE4Good

Enagás was incorporated into the FTSE4Good sustainability index, which includes companies with best practices in Corporate Social Responsibility (CSR).



15 NOVEMBER

Enagás wins the El Musel regasification plant contract

The Spanish Directorate-General for Energy Policy and Mines, which comes under the Ministry for Industry, Trade and Tourism, awarded Enagás the tender to build a new regasification plant at the El Musel port in Gijón.

The plant will have an LNG storage capacity of 300,000m³ and an emission capacity of 800,000m³/h. The plant will also have a dock designed to receive methane tankers carrying up to 250,000m³ of LNG. Construction will take 36 months once all the pertinent administrative authorisations are given.

Planned investment in the new infrastructure was estimated at around 375Mn. This project is included in the Company's Investment Plan to 2012.

15 NOVEMBER

BP España sells its stake in Enagás

BP España sold its 5% stake in Enagás share capital to the investment bank Lehman Brothers, which in turn placed this block of shares with different institutional investors.

1 DECEMBER

Quality Management System Certification

All Enagás centers and facilities became certified under Quality Management System regulation UNE-EN ISO 9001:2000 based on the general natural gas measurement process used by the Company.

The certification, awarded by Lloyd's Register Quality Assurance and accredited by ENAC (Spanish Accreditation Body) and UKAS Environmental Management, is in recognition of the commitment to quality undertaken by Enagás in the past few years.

30 DECEMBER

Remuneration 2007

Ministerial Orders were published to set the remuneration of the regulated activities of the gas sector, as well as the



tariffs, tolls and fees applicable to consumers of natural gas and the users of gas facilities.

24 JANUARY 2007
Changes in the Board of Directors

The Company's Board of Directors unanimously agreed to appoint director Antonio Llardén Carratalá as Chairman of the Board of Directors in place of Antonio González-Adalid García-Zozaya.

> DEVELOPMENT OF THE REGULATORY FRAMEWORK

31 MARCH

Revision of the 2002-2011 Energy Plan

This document approved by the Cabinet contains the government's energy policy guidelines. The Mandatory Planning document establishes two very important features: it provides growth forecasts both for consumption of natural gas in Spain and the infrastructure needed to be developed in the sector through to 2011 in order to guarantee that demand for natural gas is covered, with adequate security arrangements.

4 APRIL

Resolution of the Directorate-General of Energy Policy and Mines of 13 March

The resolution established the protocol details of the Technical Management Standards of the Gas System. The six protocol details approved in this standard are "Measurement", "Distribution procedures", "Demand forecasting", "Communication mechanisms", "Procedure for gauging the amount of energy offloaded from methane tankers" and "Operating standards for offloading methane tankers".

24 JUNE

Royal Decree 7/2006

This Royal Decree modified, among other features, the operating procedure for storage included in the toll for transportation and distribution, which was reset at half a day of the transportation capacity and contracted distribution. For users whose contracted transportation and distribution capacity is under 0.5% of total contracted capacity the



rate set is one day. A new procedure was also established for assigning and sharing contracted capacity in underground storage facilities.

21 JULY

Order ITC/2348/2006

This Order established the regulations governing the accounting information of companies developing natural and manufactured gas activities by channelling. The Order, which is a regulatory fleshing out of Articles 62 y 63 of the Hydrocarbons Law, clarifies the content and means of complying with the financial information which companies which operate in the natural and manufactured gas sector are required to file with the Ministry of Industry, Tourism and Trade and the National Energy Commission.

3 AUGUST

Resolution of the Directorate-General of Energy Policy and Mines of 28 July.

This modified section 3.6.3, "Feasibility of tanker offloading programmes" of the Regulation on Technical Management of the Gas System NGTS-3.

5 AUGUST

Resolution of the Directorate-General of Energy Policy and Mines of 25 July.

This resolution regulated the assignation conditions and the application procedure for interrupting the gas system.

17 AUGUST

Order ITC/2675/2006

This Order initiated the procedure for developing the electricity transportation network, the basic natural gas

network and storage facilities for strategic reserves of oil products with a view to drawing up a new Plan for the Gas and Electricity Sectors for the period 2007-2016.

9 NOVEMBER

Winter Action Plan 2006-2007 for the operation of the gas system

This plan established limits on exports during the winter period, on minimum LNG levels for each user, and on extraction from underground storage facilities. It also established that under certain circumstances part of the capacity of the Maghreb gas pipeline is reserved to supply the tariff market.

25 NOVEMBER

Royal Decree 1370/2006

This approved the National Allocation Plan for greenhouse gas emission rights for the period 2008-2012.

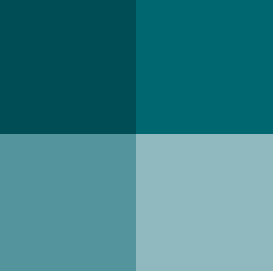
30 DECEMBER

Ministerial Orders ITC/3993/2006, ITC/3994/2006, and ITC/3995/2006/

The Orders established the remuneration scheme for regulated activities in the gas sector for the year. Orders ITC/3992/2006 and ITC/3996/2006 were also published, establishing respectively the rates applied in 2007 for natural gas, and the tolls and fees for allowing third parties access to gas installations.

Remuneration scheme for 2007

The aim of these Ministerial Orders is to establish and update the remunerative scheme applied to regulated activities, defining the elements which make this up, and es-



establishing appropriate measures to guarantee adequate provision of the service.

Unlike in previous years, the returns on regasification activities (Ministerial Order ITC/3994/2006) and on underground storage facilities (Ministerial Order ITC/3995/2006) were set in two different Orders to that for the rest of the activities in the sector (Ministerial Order ITC/3993/2006), due to the application of a new calculation procedure in these two cases.

As was the case in 2006, the remuneration for transportation infrastructure, regasification, and underground storage facilities currently in service, and those due to come on stream in 2007 do not account for more than 9% of the total costs of the Spanish natural gas system.

The content of the Orders affected in the first place remunerations for the year 2006 in such a way that regulated revenues were over six million euros more than initially forecast. This is the result of the application of a new calculation procedure for regasification assets which came into operation in 2006.

According to the Orders and the final figure for the close of 2006, the total estimated return for Enagás for the year 2007 from regulated activities will mean a maximum increase in revenues of 7% with respect to the previous year.

This return includes the accredited cost of assets put into operation up to 31 December 2005, plus the return from assets put into operation during 2006, along with the estimated return assigned to facilities forecast to come on stream throughout the year 2007.

It also includes the forecast for the management fee for the purchase of gas to supply the tariff market, the remuneration for the technical management of the system activity, and the return from gas used for inflation.

Ministerial Order ITC/3993/2006

The Ministerial Order ITC/3993/2006 set the returns for regulated activities in the transportation of gas, the management of buying/selling activities and for the Technical Manager of the System.

The methodology for calculating the returns on transportation infrastructure remains the same as in previous years. The Order, however, established significantly different standard unit values for investment. In the case of pipelines, it includes an adjustment formula which takes the length of these into account. This was followed by a complementary correction of errors regulation published on 20 January 2007. For compression stations, the new scheme contemplates different values according to two capacity levels.

As an exception, the Order recognises costs 20% above the standard, even though they do not have special technical characteristics. Recognition of such costs depends on the overall return on the applicant's assets.

In addition, a new formula was established for adjusting standard investment costs during the regulatory period according to the PPI for the classification by economic use of the components of capital goods minus 0.5%.

Adjustments to standard operating costs will be carried out during the regulatory period using an index, 20% of which comprises the PPI with an efficiency factor $X=0.5\%$ and 80% the CPI, with an efficiency factor of $Y=1.0\%$.

Furthermore, the Ministerial Order allows for the CNE within a space of six months to draw up a report which includes a review of reference unit operating values for transportation installations, and an analysis of transportation assets which lists the gross and net book values of



these assets, along with their useful life in terms of depreciation.

Another important change introduced by the Ministerial Order is an increase in the provisional return applied to installations which come on stream in a specific year up to a maximum equivalent of 80% of the final return. This will allow Enagás to reduce financing costs borne up until now.

The Order through an additional rule modifies Order ECO/2682/2002 which establishes the regulations for the payment of regulated activities in the natural gas sector and those of quotas with specific purposes, by introducing a mechanism that allows a final rebalancing of recognised return and revenues from direct billing. This will be applied monthly. The applicable interest rate will be the one-year Treasury bill rate.

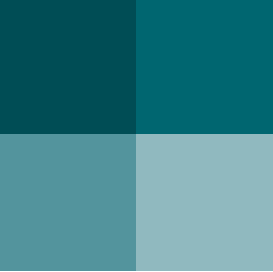
Also, a transitional provision established that as of 1 July 2007 transporters will be responsible for buying gas for their own use (own-use consumers) in the market, thereby

affording them the category of final consumers. The acquisition of gas required by transporters will be carried out through public auction, with returns based on the purchase price.

Ministerial Order ITC/3994/2006

The new regulatory framework for regasification assets established by the Ministerial Order involves a change in the calculation parameters for the remuneration of investments. The main change in the methodology under the system that has been approved is that financial returns are calculated on the basis of both existing and new net fixed assets. Neither net fixed assets or the depreciation of these are indexed to an inflation rate.

The rate of financial return to be applied is equal to the average yield on the 10-year Treasury bond over the past 24 months plus 350 basis points. This rate remains in place throughout the whole useful life of the installation. The rate for existing assets in operation up until 31 December 2006 will be 7.21%.



The new model guarantees the receipt of 100% of the recognised fixed return regardless of the level of capacity utilization of the facility.

Standard investment values generally increased (with the exception of vaporisers, which were reduced). With the aim of enhancing the efficiency of investment, the difference between real and standard costs will be shared equally between operators and consumers during the regulatory period.

The Order also recognises the possibility of including in the asset base, investments to replace assets which have been depreciated, or those that need to be replaced for technical reasons.

It sets up an incentive for the extension of the useful life of assets in the form of returns equal to half of the financial return plus depreciation in the final year of the regulatory life of the asset.

The Order also extends the practice of using standard operating costs to encourage efficiency gains. This real increase is due to the aforementioned guaranteed payment of 100% of the recognised fixed return.

Standard investment costs during the regulatory period are adjusted according to the PPI for the classification by economic use of the components of capital goods minus 0.5%.

Adjustments to fixed operating and maintenance costs will be carried out during the regulatory period using an index, 20% of which comprises the CPI with an efficiency factor $X=0.5\%$ and 80% the PPI, with an efficiency index of $Y=1.0\%$. In the case of variable costs, the index used is made up of 20% of the PPI with an efficiency factor of $Y=1.0\%$ and 80% of an index showing the cost of electricity minus an efficiency factor of $X=0.5\%$.

The Ministerial Order allows for the CNE to draw up a report which includes the review of the unit reference values

for operating and maintenance costs for regasification facilities.

Lastly, the Order establishes a new philosophy for the review of the unit values of investment and production costs designed to assure facility owners a nominal internal rate of return after tax of at least 200 basis points above the weighted average cost of capital (WACC).

Ministerial Order ITC/3995/2006

The new regulatory framework for underground storage assets established by the Ministerial Order involves a change in the calculation parameters for the remuneration of investments. The main change in the methodology under the system that has been approved, as in the case of regasification, is that financial returns are calculated on the basis of both existing and new net fixed assets. Neither net fixed assets nor the depreciation of these are indexed to an inflation rate.

The rate of financial return to be applied is equal to the 10-year Treasury bond yield plus 350 basis points. This rate remains in place throughout the whole useful life of the installation. The rate for existing assets in operation up until 31 December 2006 will be 7.21%.

The depreciation period for investments in installations is set at 10 years and 20 years for cushion gas.

It sets a new incentive for the extension of the useful life of assets, with returns equal to half of the financial return plus depreciation in the final year of the regulatory life of the asset.

Operating and maintenance costs are set for each storage facility. Adjustments to fixed costs will be carried out during the regulatory period using an index, 20% of which comprises the CPI with an efficiency factor $X=0.5\%$ and 80% the PPI, with an efficiency index of $Y=1.0\%$. In the case of variable costs, the index used is made up of 20% of

the PPI with an efficiency factor of $Y=1.0\%$ and 80% of an index showing the cost of electricity minus an efficiency factor of $X=0.5\%$. However, the Ministerial Order establishes that unit fixed and variable operating and maintenance values will be revised within a year.

Lastly, the Order established a new philosophy for the review of returns from activity - which includes a revision of fixed and variable operating and maintenance costs - designed to assure facility owners a nominal internal rate of return after tax of at least 300 basis points above the weighted average cost of capital (WACC).

RATES AND TOLLS FOR 2007

Ministerial Order ITC/3992/2006

The average increase in rates set by Order ITC/3992/2005 was 2.2%, due to the increase in the raw material cost deriving from the inclusion of a higher proportion of spot LNG in the formula.

The Order included the elimination as of July 1, 2007 of the rates for the sub-groups 2.1 to 2.4 and 2.1A to 2.4A. Consumers affected by this will now source supply in the liberalized market.

Lastly, the Ministerial Order tightens regulation at the retail level relating to the telemetering of consumption.

Ministerial Order ITC/3996/2006

The average tolls and fees set by the Order, which in general has maintained the structure of current tolls, are little

different from those set for 2006. However, it does include some modifications aimed at improving the cost allocation mechanism among users.

Firstly, we highlight the changes to the new tolls created in 2006:

- Increase in the coefficients for tolls charged for services of less than one year's duration.
- A 10% increase of in transit tolls, as well as the inclusion of new entry/exit points in the core network.

Specific changes in transportation tolls include:

- The creation of a temporary toll applicable to users paying the raw materials rate.
- The creation of a toll known as 3.5 applicable to users with consumption of over 10 GWh/year, with special conditions for night usage.

As regards tolls for access to the regasification system for third parties the following are worthy of mention:

- The creation of a fixed zone-based toll for unloading tanks.
- A 50% increase in LNG tank storage fees, and the establishment of a formula designed to allow an annual increase of 20% over the next few years to bring the service toll closer to its real cost.
- A 20% increase in the tank loading fee.



> Activity Report



> SHAREHOLDERS AND INVESTORS

In 2006 global economic activity was again driven by the growth of emerging countries, lower oil prices than in 2005 and a pick-up in investment which, together with low interest rates, encouraged numerous mergers and acquisitions. Global markets achieved historic highs in 2006 as a result of all these factors.

Against this backdrop the Ibex 35 ended the year at 14,147 points, up 31.79% compared with 2005 and one of the best performances among European indices. The general index of the Madrid stock exchange rose 34.49%.

SHARE PERFORMANCE

Enagás' shares rose 11.52% in 2006 to 17.62 euros. As a result the Company's market capitalisation stood at 4.206 billion euros at December 31, 2006.

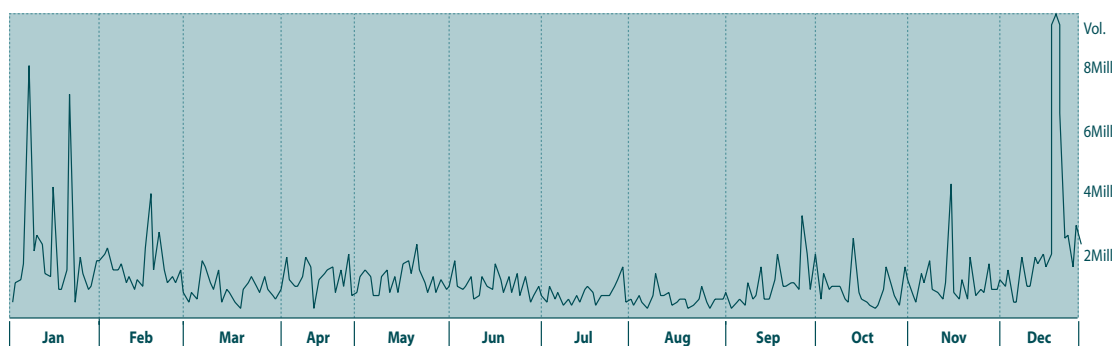
Enagás' shares closed at a record high of 21.09 euros on December 15, 2006, whilst its lowest price in the year of 15.34 euros was posted on January 11. Enagás average share price in 2006 was 17.42 euros.

A total of 443.6 million Enagás' shares were traded in 2006, 4.2% up on 2005. The effective volume traded was 7.74 billion euros.

> ENAGÁS vs IBEX 35 IN 2006



> ENAGÁS' TRADED VOLUME IN 2006



> STOCK MARKET AND FINANCIAL VARIABLES PER SHARE

	2002	2003	2004	2005	2006
Nº of shares (millions)	238.7	238.7	238.7	238.7	238.7
Capitalisation (millions euros)	1,384.5	2,053.1	2,912.6	3,771.5	4,206.5
Price at 31 December	5.80	8.60	12.20	15.80	17.62
High share price	6.49	8.68	12.20	16.00	21.14
Low share price	5.11	5.79	8.19	11.46	15.16
Average	5.73	7.13	9.44	13.66	17.42
Days quoted	128	250	250	256	254
Share volume (millions)	304.5	223.3	255.7	425.8	443.6
Turnover (millions euros)	1,903.5	1,574.5	2,416.2	5,710.8	7,742.4
Net earnings per share (EPS)*	0.46	0.59	0.66	0.8	0.91
Book value per share *	3.57	3.91	4.18	4.65	5.17
Dividend per share (DPS)	0.23	0.30	0.33	0.40	0.47(**)
PER (Price/earnings ratio)*	12.61	14.58	18.42	19.75	19.36
PBV (Price/Book value per share) *	1.62	2.20	2.86	3.40	3.41

* Data at December 31

**Subject to approval at the General Shareholders' Meeting of final dividend payment

The figures for 2004, 2005 and 2006 were booked under IFRS

SHARE CAPITAL AND SHAREHOLDER STRUCTURE

At December 31 2006 Enagás' fully subscribed and paid-up share capital stood at 358,101,390 million euros representing by 238,734,260 ordinary shares, each with a nominal value of 1.5 euros, officially listed on the four Spanish stock markets and traded on the continuous market.

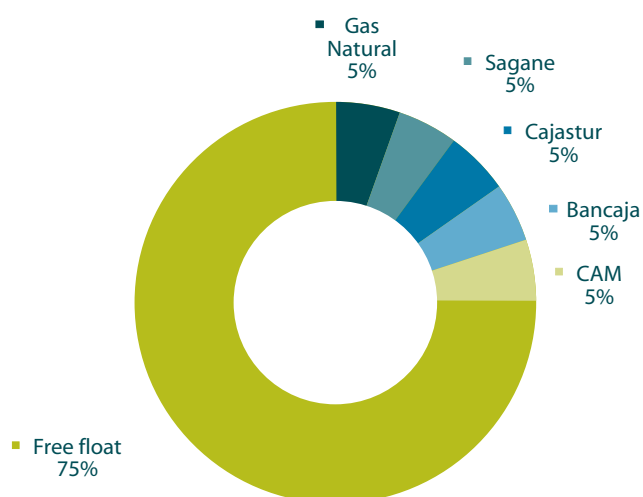
The share capital of Enagás is represented by book entries, with Iberclear and its member companies responsible for the accounting record of the Company's shares.

In 2006 there were variations in Enagás significant shareholdings to adapt these to article 92 of Law 62/2003, of 30 December, on Administrative, Tax and Social Measures, which stipulates that, with effect from 1 January 2007, no physical or legal person may hold a stake of more than 5% in Enagás' share capital.

Over the course of the year Gas Natural SDG reduced its stake in the Company from 12.8% to the legal limit of 5%.

BP España, a shareholder of Enagás since the Company's IPO sold its 5% stake on November 15, 2006.

> SHAREHOLDER STRUCTURE AT 12-31-2006



The shareholdings of the other significant shareholders remained unchanged from December 31, 2005: Caja de Ahorros del Mediterráneo (CAM), Sagane Inversiones, Caja de Ahorros de Asturias (Cajastur) and Caja de Ahorros de Valencia, Castellón y Alicante (Bancaja) each held 5% interests.

The Company had a free float of 75% at December 31, 2006. Approximately 32% of the Company's free float is domestic, whilst international investors, mainly from the UK and the US, control the remaining 68%.

> N° of shares per shareholder	Shareholder	Total shares	Stake
Until 500	65,093	13,191,195	5.53%
501 - 10,000	10,316	17,504,891	7.33%
10,001 - 50,000	607	13,178,559	5.52%
50,001 - 100,000	105	7,607,239	3.19%
100,001 - 500,000	120	24,838,370	10.40%
500,001 - 1,000,000	20	12,173,670	5.10%
More than 1,000,001	25	150,240,336	62.93%
Total	76,286	238,734,260	100.00%

Source: Iberclear. April 2006

ENAGÁS ON THE INDICES

Enagás has formed part of the Ibex 35 index since 2003. In accordance with stock market regulations and as a consequence of the percentage of the Company's free float, at December 31 2006 Enagás participated in the Ibex 35 with 100% of its market capitalisation and the share's weighting in the index was 0.91%.

In 2006 the Company was also included in the FTSE4Good index, a sustainability index which measures the performance of European companies that meet globally recognised corporate social responsibility (CSR) practices.

An independent committee of experts with proven track records in the fields of socially responsible investment (SRI), fund managers, academics and entrepreneurs revise the indices to ensure that they faithfully reflect current CSR best practices. Information provided by Enagás in relation to social, environmental, corporate governance and ethical criteria was assessed prior to the Company's inclusion in the FTSE4Good index.

Enagás was the only Spanish company included in the FTSE4Good index in this revision and is the eleventh Spanish company to achieve this recognition.

Another index in which the Company has been present since 2002 due to its liquidity and sector position is the Dow Jones Stoxx 600 international index, which rose 17.8% in 2006.

DIVIDENDS

The Board of Directors has resolved to propose to the General Shareholders' Meeting the distribution of a total dividend for 2006 of 0.47 euros gross per share, which would represent an 18% increase on the previous year's dividend.



On January 11, 2007 a gross dividend of 0.19 euros per share was paid from Enagás' 2006 earnings. This means that the Company proposes to pay an extraordinary gross dividend of 0.28 euros for 2006 if approved.

This dividend represents 52.05% of Enagás' consolidated net profit for 2006 and underlines the Company's commitment to maximising value creation for its shareholders.

The Company's dividend yield stood at 2.67% over its share price at December 31, 2006.

> DIVIDENDS

	2002	2003	2004	2005	2006
Total amount (millions euros)	55.04	71.01	79.06	95.48	112.64
Interim dividend	21.49	28.65	31.04	38.20	45.36
Additional	33.55	42.36	48.03	57.28	67.28
Gross dividend per share (euros)	0.23	0.30	0.33	0.40	0.47(**)
Interim dividend	0.09	0.12	0.13	0.16	0.19
Additional	0.14	0.18	0.20	0.24	0.28
Dividend yield*	4.00%	3.50%	2.70%	2.53%	2.67%
Pay-out (%)***	50%	50%	50%	50%	52%

* Data at 31 December

** Subject to approval at the General Shareholders' Meeting of final dividend payment

*** Percentage of Net Profit to be distributed as dividend



TRANSPARENCY AND COMMUNICATION

Enagás pursues a policy of utmost transparency in its relationship with the financial markets. To this end the Company makes use of all communications channels to keep shareholders, analysts and rating agencies fully informed.

In 2006 the Company held meetings with and gave presentations to more than 300 institutional investors and analysts. It also held road shows in London, the US, Switzerland, Germany, Italy, Scotland, Holland, Belgium, Portugal, France, Austria and Spain.

In 2006 the company also conducted five webcasts via its corporate website www.enagas.es to present its quarterly results and the Company's 2006-2012 business plan.

In addition, the Company dealt with enquiries and requests for information from shareholders and analysts via

the Investor Relations' Department (investors@enagas.es Tel: 34.91.709.93.30) and the Shareholder Information Office (accionistas@enagas.es) In 2006 the Company responded to more than 1,300 e-mails and approximately 2,000 telephone calls and sent numerous documents to shareholders via these communications media.

Enagás' commitment to provide transparent and detailed information to the financial markets on the Company's activities and results was used in 2006 by a total of 29 financial institutions which published views on the Company. Up-to-date analysts' opinions and forecasts in relation to Enagás can be consulted in the Shareholders and Investors section of the Company website (www.enagas.es). Enagás' shares ended the year with 16 buy, 10 hold and three sell recommendations and an average target price of 18.96 euros per share.



> CONSOLIDATED MANAGEMENT REPORT

RESULTS FOR FULL-YEAR 2006

Net profit for the year came in at 216.4 million euros, an increase of 13.3% over 2005.

This positive earnings performance stemmed basically from an increase in revenues and only a moderate rise in operating and financial costs.

REVENUE

Revenue in 2006 increased by 15.2% to 744.4 million euros.

This heading comprises two items, whose performance during the year was as follows:

- Revenue from regulated activities, which climbed 12.3% to 733.1 million euros from 652.6 million euros in 2005. Growth was driven mainly by the volume of assets put into operation between 2005 and 2006.

The scale of the increase, however, was smaller than the 14% growth forecast by the Company at the beginning of the year. This was due to lower volumes of regasified gas in the year, which had a negative impact on variable regasification revenues. The drop in regasification volumes was mainly the result of milder temperatures in the winter and the impact of natural gas prices on consumers, particularly in the industrial segment and in cogeneration.

- Likewise, there was a positive difference of 11.3 million euros deriving from the purchase-sale transactions of gas needed to supply the tariff market.



> CONSOLIDATED ANNUAL RESULTS (MILLIONS EUROS)

	2002	2003	2004	2005	2006	Var.% 05/06
Operating Cash-Flow (EBITDA)	333.7	383.0	399.1	478.4	563.6	17.8%
Operating Profit (EBIT)	207.2	249.5	275.1	332.8	378.7	13.8%
Profit from Ordinary Activities	167.8	217.8	242.7	292.4	331.7	13.4%
Net Profit after taxes	110.1	142.0	158.1	191.0	216.4	13.3%

> FINANCIAL FIGURES (MILLIONS EUROS)

	2002	2003	2004	2005	2006
Total Assets	2,895.7	3,093.0	3,101.4	3,225.6	3,626.2
Shareholder's Equity	852.4	932.3	997.8	1,110.4	1,235.2
Net Financial Debt	1,253.0	1,278.7	1,426.6	1,546.6	1,779.2
Investments	192.3	426.3	462.9	358.7	433.2
Net Debt / EBITDA	3.8 x	3.3 x	3.6 x	3.2 x	3.2x
Interest cover over EBITDA	8.5 x	12.1 x	12.3 x	11.1 x	11.1 x
Net Debt / Total Assets	43.3%	41.3%	45.8%	47.9%	49.1%
ROE after tax	13.4%	15.9%	16.4%	18.1%	18.5%
ROCE after tax	6.9%	7.5%	7.7%	8.5%	8.7%

The figures for 2004, 2005 and 2006 were booked under IFRS

Revenues from non-regulated activities amounted to 14.0 million euros, while other operating income in the year came to 16.6 million euros.

OPERATING COSTS

Enagás' operating costs for the year were up 5.9%. These comprise two basic items:

Personnel costs. Although the average workforce was similar to the level of 2005, these fell by 6.7% as a result of the absence of any severance and early-retirement payments booked in the year.

Other operating costs. These rose 10.9%, basically due to an increase in energy costs and the leasing of methane tankers under the 2005/2006 Winter Action Plan.

OPERATING CASH FLOW (EBITDA)

EBITDA rose 17.8% to 563.6 million euros.

OPERATING PROFIT (EBIT)

The depreciation and amortisation expense in the year increased by 27% to 184.9 million euros as a result of the wider asset base and adjustments to the carrying amount of underground storage facilities research and exploration assets. As a result, EBIT advanced 13.8% in the year to 378.7 million euros.

FINANCIAL RESULT

Financial expenses rose 16.3% on the back of higher debt levels and an increase in the average cost of debt to 3.62% from 3.39%.

The EBITDA interest cover ratio at the end of 2006 stood at 11.1x.

Capex

Capex in 2006 amounted to 433.2 million euros, a rise of 21% from the 358.7 million invested in 2005.

Assets worth 326.8 million euros came on stream in 2006 against 473.2 million euros in 2005. Assets put in operation in 2006 increased nominal regasification capacity by 23% and LNG storage capacity at the Company's regasification plants by 31%. In addition, 71 kilometres of gas pipelines were put into operation during the year.

Investments in land in 2006 amounted to 46.1 million euros.

In addition, during 2006 Enagás' Board of Directors approved investment projects worth more than 1.2 billion euros, a record figure for the Company and one which guarantees an acceleration in the pace of investment over the coming years.

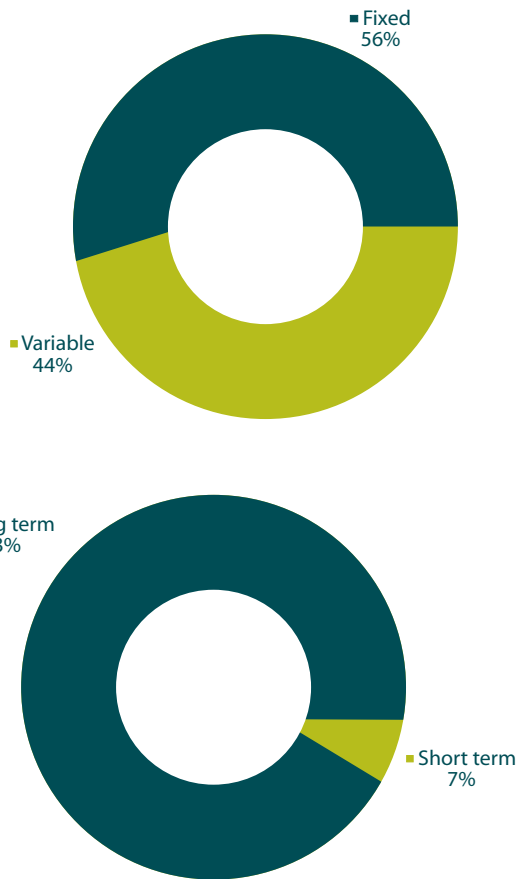
Financing

Operating cash flow in the year amounted to 346.0 million euros.

Total financial debt as of end-2006 came to 1.779 billion euros, up from 1.548 billion at the end of 2005. Of total debt, 93% is long-term, with 56% hedged with derivative instruments at an average maximum fixed cost of 4.32%.



> DEBT STRUCTURE AT 12.31.06



Gearing (net financial debt/total assets) stood at 49.1% at the end of the year compared to 47.9% the year before.

The average cost of the Company's debt in 2006 was 3.62%, compared with 3.39% in 2005, reflecting interest-rate hikes by the ECB in 2006, which raised the cost of floating-rate debt.

RATINGS AGENCIES

The main ratings agencies confirmed Enagás' credit ratings in 2006. Both Standard & Poors and Moody's carried out in-depth studies of Enagás' Strategic Plan and affirmed the company's ratings and ratings outlook.



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

In their reports, the ratings agencies indicate their confidence in Enagás' ability to execute the announced investment programme while maintaining a solid financial and operating profile.

Both agencies have a favourable opinion of the advances made and stability of the Regulatory Framework governing the remuneration of the Company's activities, as well as of Enagás' strategy geared toward the regulated natural gas transportation business in Spain.



> ACTIVITIES

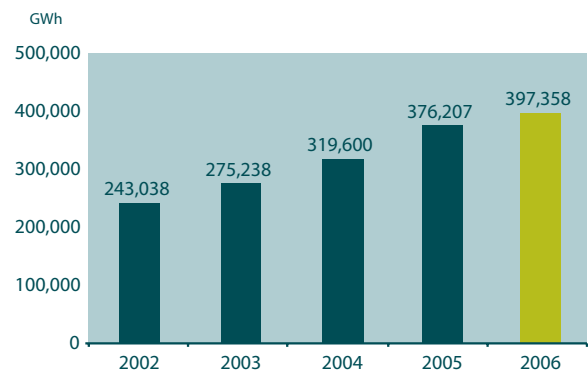
GAS SYSTEM OPERATION

Demand

In 2006, natural gas transported for the Spanish market amounted to 397,358 GWh, up 5.7% on 2005.

Of this amount, 76.7% used Enagás entry points, again underlining Enagás' position as the leading natural gas transport operator in Spain.

> EVOLUTION OF DEMAND



Demand for transported natural gas for the conventional sector (domestic, commercial and industrial use) stood at 256,778 GWh, 3% lower than in 2005. This decline was mainly due to a milder winter with shorter cold snaps than the previous year resulting in a sharp slowdown in heating needs.

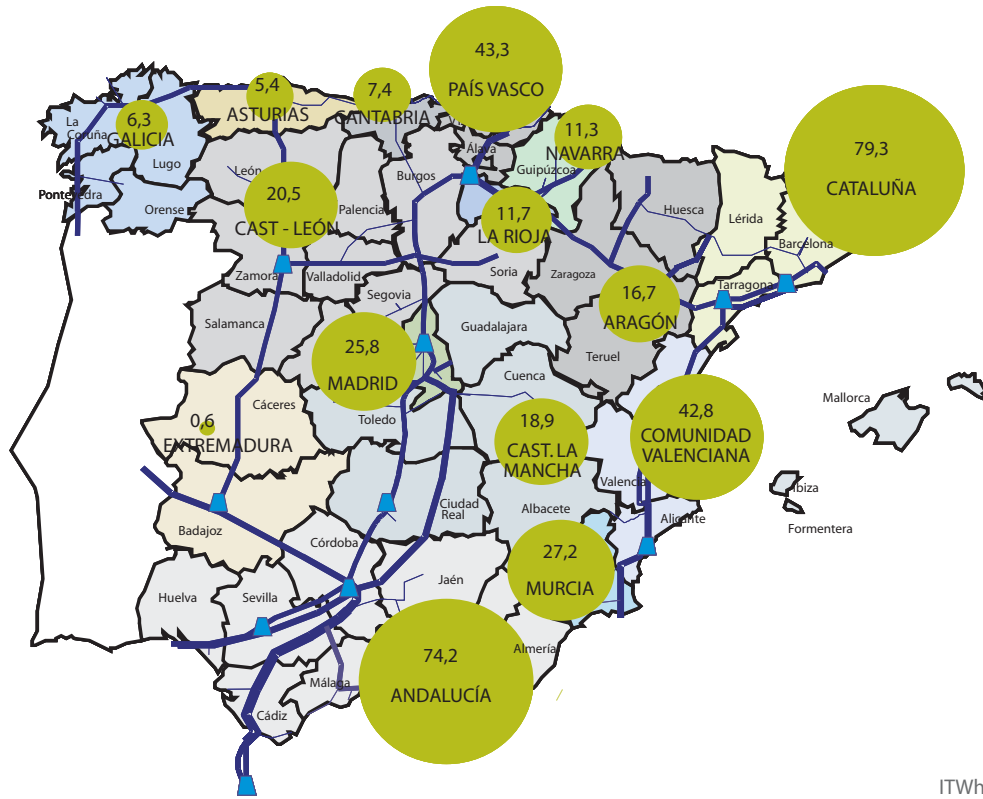
Also, 2006 saw a decrease in activity from some industrial customers and a fall in the consumption at co-generation plants, due primarily to the impact of higher natural gas prices.

Accordingly, natural gas-fired electricity generation again drove demand for natural gas in Spain. At December 31, 2006 there were 39 CCGTs in operation, of which eight came on stream in 2006.

In 2006 approximately 24% of total electricity produced in Spain was generated using natural gas, with 134,657 GWh needing to be transported, 21.1% more than in 2005. Natural gas consumption accounted for 33.9% of total demand, up from 29.6% in 2005.

In 2006 biofuel-fired thermal plants cut their consumption of natural gas by more than 50% compared with 2005.

> NATURAL GAS DEMAND (TWh)



2006 also saw the volume of natural gas transported via international connections increase from 313 GWh in 2005 to 5,923 GWh in 2006. This increase in natural gas exports was due to the connection via Irún with the French market, which came on stream in 2006 and supplements the Larrau connection.

Of this amount, 518 GWh were for the electricity market.

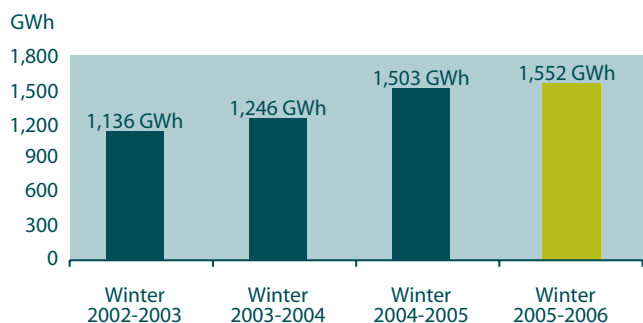
Demand was 2.8 times greater on the day of peak demand in 2006 than on the day when demand was at its lowest in August.

Peak demand 2006

On 23 February, as a result of the low temperatures, demand for natural gas in Spain reached a record high of 1,552 GWh, 3.3% higher than the peak registered in 2005.

This new record is the equivalent of 226,000 m³ of liquefied natural gas (LNG) and approximately two large

> EVOLUTION PEAK CONSUMPTION



> DEMAND BY SECTORS (GWh)

	2002	2003	2004	2005	2006
Liberalised market					
Conventional market	122,000	165,664	199,528	215,788	203,960
CCGTs	11,192	28,871	58,206	98,643	132,257
Total	133,192	194,535	257,734	314,431	336,217
Tariff market					
Conventional market	93,695	69,545	53,401	48,936	52,818
Electricity generation	16,151	11,158	8,465	12,527	2,400
Total	109,846	80,703	61,866	61,463	55,218
Total domestic demand	243,038	275,238	319,600	375,894	391,435
International exits	—	—	—	313	5,923
Total demand	243,038	275,238	319,600	376,207	397,358

Peak summer demand was registered on 7 September, when a new record of 1,227 GWh was set.

Supply

A total of 409,796 GWh of natural gas was supplied in 2006, up 4.9% on 2005. 69.3% of this supply was liquefied natural gas (LNG), 30.5% via the Larrau and Tarifa international connections, whilst just 0.2% was domestic production.

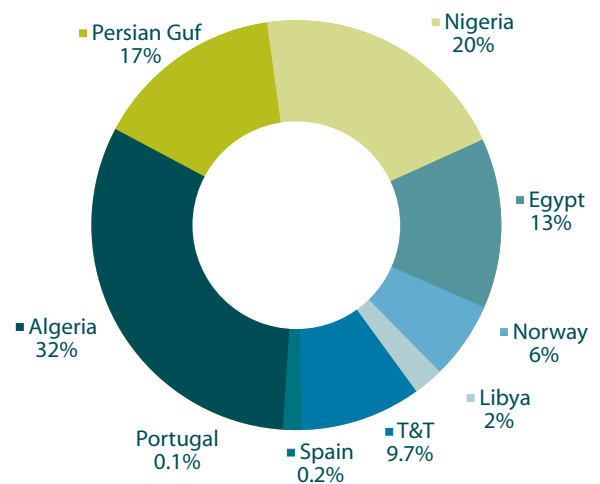
The main features of the supply structure in 2006 were:

- The key role of LNG, which accounted for 69% of total supplies and imports of which grew by 12% compared with 2005.
- The significant reduction in Algerian gas, which was 22.9% lower than the volume received in 2005. Algerian gas, both natural and LNG, accounted for 32% of total supplies compared with 44% in 2005.

- The increase in the number of tankers unloaded from Nigeria, Egypt, and Trinidad and Tobago.

- The tariff market was largely covered with natural gas from Algeria transported via the Maghreb-Europe gas

> SOURCE OF SUPPLY 2006



> SYSTEM INTAKES (GWh)

	2002	2003	2004	2005	2006
Natural Gas					
Tarifa	69,361	74,509	87,540	110,323	100,337
Larrau	43,903	26,640	26,356	24,434	24,570
National	30,564	2,529	3,664	562	814
Tuy	-	-	908	194	270
LNG					
Barcelona Plant	69,361	71,962	79,948	89,948	72,825
Cartagena Plant	43,903	57,792	61,998	70,307	51,234
Huelva Plant	30,564	36,730	34,015	55,993	65,288
Bilbao Plant	-	8,608	29,307	38,905	51,200
Sagunto Plant	-	-	-	-	43,258
Total Supply	287,656	278,770	323,736	390,666	409,796

This includes de LNG transfers from regasification plants to tankers, either destined for other regasifications plants in the Spanish gas system or for a different country.

pipeline, while the deregulated market was largely supplied with liquefied natural gas and, to a lesser degree, by Norwegian gas via the Larrau international connection.

The natural gas consumed in Spain was from eight different sources.

SYSTEM TECHNICAL MANAGEMENT

Enagás, as the System's Technical Manager, continued to perform the functions granted to it by Royal Decree Law 6/2000, thereby guaranteeing the continuity and security of supply and correct coordination between access points, storage, transport and distribution.

The 2006-2007 Winter Action Plan for the operation of the gas system enabled Enagás, in its capacity as System Technical Manager, to limit international exits of natural gas to avoid supply problems over the winter months,

to bolster requirements for minimum natural gas inventories in plants and methane tankers and to determine the limits on the extraction of gas from underground stores.

The coordination of the entry of natural gas into the system and its transport to delivery points was affected by two events in 2006: the lower-than-forecast demand for natural gas and the start up of the new regasification plant in the town of Sagunto in the Valencia region.

The lower-than-forecast consumption of natural gas resulted in a supply surplus from marketing companies. Consequently in March Enagás, as System Technical Manager, ended its gas extraction campaign from its underground stores ahead of schedule and started its injection campaign in the last week of that month.

Temperatures remained milder than forecast in the final quarter of 2006. As a result, November registered the greatest imbalance between the programming scheduled

> SPANISH GAS SYSTEM



by agents and final real consumption, resulting in a significant deviation from the forecast for electricity generation from natural gas.

As a result there was an LNG surplus. This was resolved by Resolution 14081 of 28 July 2006, from the General Secretariat of Energy, modifying section 3.6.3 of the Network Code, in relation to "The viability of programmes for unloading tankers".

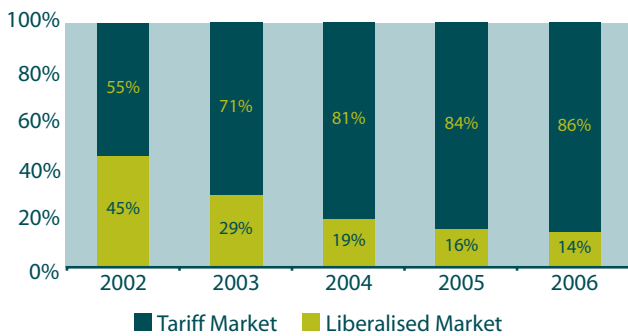
Also, there was congestion in the gas transport system, specifically at the Levante axis, following the coming on stream of the new regasification plant in the port of Sa-

gunto (Valencia). As result, the regasification capacity contracted by agents at the Sagunto and Cartagena plants could not be fully utilised as there was insufficient transport capacity to cope with production.

The solution agreed by the system agents with Enagás until the necessary transport infrastructure comes on stream was ratified by the National Energy Commission.

In 2006 Enagás, in accordance with the Network Code, and in line with its transparency policy, published the reports on the key System Operation variables on its website.

> EVOLUTION OF MARKET SHARE



Deregulation and access to the transport network

In 2006, the liberalised market accounted for 86% of the total gas volume. The of the domestic commercial market also continued, with 43% of its volume managed by private operators.

To serve the needs of this market, Enagás has reached transport, regasification and storage agreements for the coming years with 19 companies. A total of 268 third-party network access contracts were signed in 2006, 15% more than the 2005 total of 234. Of the aforementioned agreements negotiated and signed by December 31, 2006, 250 were for short-term capacity reservations.

In line with Enagás' transparency policy and in accordance with the capacity contracted by operators, the company website includes monthly updates on available capacity and contracted capacity at its facilities for the next ten years. In 2006 Enagás also began publishing daily updates on contracted and available capacity for the next seven days on its website.

Transport System Planning

A significant event in 2006 was the publication and approval in April by the Government of the revised Spanish Electricity and Gas Infrastructure Plan for 2005-2011.

Enagás, as the System Technical Manager, has worked over the last two years with the Ministry for Industry, Tourism and Commerce on the revision of the Mandatory Planning guidelines for the natural gas transport network.

The Mandatory Planning document established two key aspects: firstly, it indicates the outlook for growth in natural gas consumption in Spain, and, secondly, the necessary infrastructure development in the sector to 2011 to guarantee demand for natural gas is safely met.

The Government estimates that demand for natural gas in Spain will grow at an average annual rate of 5.2% in the 2005-2011 period, mainly as a result of natural gas consumption for electricity generation. Also, the peak consumption forecast in the Planning document by 2011 will be 87% higher than the figure registered in 2006.

The infrastructure developed must therefore provide the system with sufficient overall entry capacity to:

- Meet conventional demand when this reaches an annual peak and at the same time demand from all operational CCGTs.
- Meet demand in the case of total failure of any of the entry points, to meet 100% of conventional demand on a summer working day and to supply a minimum of 90% of the CCGTs in operation.
- Have sufficient surplus capacity available, around 10%, to meet demand in the event of peak gas demand growing at a higher rate than forecast over a period of several years.

Also, in a geographical area such as Spain, the appropriate distribution of gas entry points, both in terms of location and entry capacity, maximises the transport capacity of existing infrastructure by reducing to a

minimum the average distance the natural gas has to be transported.

With regard to the construction of gas pipelines, the revised Obligatory Planning guidelines anticipate that 2,187 kilometres of new pipeline will come on stream over the 2005-2011 period with the aim of bolstering the system and covering new geographic areas which are not currently supplied with natural gas.

To measure the LNG storage capacity in each of the regasification plants in the system at least three days' independent nominal production has been established. Also, to cope with possible adverse weather conditions which could result in the shutdown of ports, each regasification plant must in future be designed to operate independently for ten days.

The LNG storage capacity in regasification plants in the system will have increased by 94.2% in 2011 to 3,690,000 m³ of LNG compared with the capacity at 31 December 2006. In addition, the vaporisation capacity in regasification plants will increase from 5,650,000 m³ (n)/h at the end of 2006 to 8,262,800 m³ (n)/h in 2011, an increase of 46.2%.

Finally, research will be carried out on the most viable underground storage structures, regardless of their location or level of development.

The Government estimates that the different operators will invest 6.45 billion euros over the 2005-2011 period. These investments will enable the operators to provide an excellent service to the whole country and guarantee the continuity and security of the supply at all times.



DEVELOPMENT OF THE TRANSPORT SYSTEM

Transport by gas pipeline

At the end of 2006, Enagás' transport network was made up of 7,609 km of pipelines designed to be operated at maximum pressures of 72 and 80 bar.

In addition, at the end of 2006 the Company had eleven compression stations with an installed capacity of 360,163 HP and 356 regulating and measuring.

As part of its development plans Enagás began operating an additional 71 kilometres of gas pipelines in 2006. These included:

- Castellon-Onda gas pipeline.
- Malaga-Malaga east branch.
- Semicircle pipeline (Phase I) in southwest Madrid.
- Falces-Irurzun pipeline, Falces-Larraga section.

In 2006 new station control systems were implemented in the Coreses and Paterna compression stations and a project was started to incorporate electric starters at the Algete, Almendralejo and Almodóvar compression stations aimed at cutting CO₂ emissions and greenhouse gases.

Regasification

In 2006, 69% of the natural gas consumed in Spain was liquefied natural gas, underlining the importance of Enagás' regasification business, an area in which the Company is a recognised global leader.

This is why Enagás is expanding its plants to strengthen the supply infrastructure in the Iberian peninsular and be able to continue diversifying its sources.



In 2006 a total of 276 tankers were unloaded at Enagás' three plants, 70 less than in 2005. The volume of LNG unloaded represented a total of 189,344 GWh compared with the 2005 figure of 216,249 GWh.

The Company also filled a total of 33,437 tanks (to supply areas situated a long way from pipelines by

> FEATURES OF REGASIFICATION PLANTS

	Barcelona	Cartagena	Huelva
Tanks (number)	6	3	4
Storage capacity (m ³ LNG)	540,000	287,000	460,000
Emission capacity m ³ (n)/h	1,650,000	1,200,000	1,200,000



tanker trucks), representing a total of 9,940 GWh, and loaded 10 tankers at its Huelva plant, the equivalent of 2,147 GWh.

Two new tanks came on stream in 2006, one at the Huelva plant and the other in Barcelona, increasing the LNG storage capacity at each plant by 150,000 m³. Four new sea water vaporisers also came on stream, increasing vaporisation capacity by 600,000 m³(n)/h.

Other projects at Enagás regasification plants in 2006 were:

- The automatization of the tank loading platforms at the Barcelona plant.
- The start of work to monitor tanker docking at the three maritime terminals.
- The coming on stream of the new submarine outfall at the Cartagena plant, replacing the previous surface outfall and improving the environment in the area of Punta de Gate.
- The coming on stream of the third sea water submarine outfall at the Huelva plant.
- A new reliquefier at the Barcelona plant, contributing to the reduction in the plant's total CO₂ emissions and the almost total elimination of greenhouse gas emissions.

- The Company now has its own full-time fire service at each of the three plants, further improving its fire prevention measures.

Underground storage

Enagás has two underground storage facilities, the Serrablo facility, located between the towns of Jaca and Sabiñánigo (Huesca), which is owned by the Company, and Gaviota, an offshore storage facility situated near the town of Bermeo (Vizcaya), which is owned by

Repsol YPF and Murphy Eastern Oil and operated by Repsol Investigaciones Petrolíferas (RIPSA) on behalf of Enagás.

In addition to routine maintenance work at the Serrablo underground storage facility, both on surface facilities and on well pressure monitoring equipment, the Company lagged and added an electronic tracking device to several items of equipment to inhibit the formation of hydrates and reduce methanol use during the months when the wells are in production.

	MAX. INJECTION Mm³(n)/day	MAX. PRODUCTION Mm³(n)/day	INJECTION 2006 Mm³(n)	PRODUCTION 2006 Mm³(n)	INVENTORIES Mm³(n)
Serrablo	3.9	6.8	350	295	1,007
Gaviota	4.5	5.7	492	361	2,570
Total	8.4	12.5	842	656	3,577





> Corporate Responsibility



> Corporate Responsibility

> ENVIRONMENT

Conservation and commitment to the environment are priority objectives for Enagás and all its workers. Protecting the environment is present in all business decisions, with the Company striving to balance industrial and economic progress with respect for the environment and so contributing towards sustainable development.

Enagás's commitment to the environment, its past actions and the goals and targets set for the future, and included in the Environmental Strategic Plan 2005-2010, have been key factors in the inclusion of Enagás in the FTSE4Good sustainability index in 2006.

SIGNIFICANT EVENTS IN 2006

Strategic Plan

In 2006 the Environmental Strategic Plan 2005–2010 was revised. This Plan, which was originally approved in 2005, sets out the tasks to be carried out by the Company in order to reach its environmental goals.

Legal framework and emission rights

In November 2006 the National Allocation Plan (NAP) for the 2008–2012 period was approved. This NAP is the second to be drawn up in the framework of the EU arrangements for trading in greenhouse-gas emission rights, and the first to be applied to that coincides with the commitment period (2008–2012) fixed under the Kyoto Protocol to the UN Framework Convention on Climate Change. Enagás is currently working on its rights application for this period.



Emission monitoring

Over the last two years Enagás has developed a greenhouse-gas management system that includes a set of procedures to measure, record and calculate emissions and perform audits to verify the traceability of the results.

EPER register

Under section 15 of Directive 96/61/CE (IPPC) and Decision 2000/479/CE, Enagás again registered at the State Emissions and Pollution Sources Register the data required on atmospheric emissions and effluents at its regasification plants, underground storage facilities and compressor stations, with a thermal capacity of at least 50 MW or over.

Environmental organisation

Specific new jobs were created at the Company to assure improved monitoring and supervision of prevention and environment activities in the ambit of the Transport Department. This new organisation makes it possible to control environmental management more directly at the Company's various facilities.

Certificate renewals

The Environmental Management certificates based on the UNE-EN-ISO 14001:2004 standard were renewed for all certified facilities.

Integrated Environmental Licences

In addition to the integrated environmental licences (AAIs) already obtained, applications were made for all the other facilities affected by the IPPC Act.

- Barcelona Plant
 - Cartagena Plant
 - Huelva Plant
 - Serrablo Underground Storage Facility
 - Almendralejo Compression Station
 - Cordoba Compression Station
 - Seville Compression Station
 - Crevillente Compression Station
 - Paterna Compression Station
 - Bañeras Compression Station
 - Tivissa Compression Station
 - Alcázar de San Juan Compression Station (new facility)
 - Navarre Compression Station (new facility)
- ## Environmental Impact Declarations
- Over the course of 2006 the following impact declarations were obtained:
- Albacete–Montesa (11/16/2006)
 - Villarrobledo–Albacete (06/26/2006)
 - South West Madrid Semi-Ring Sections II and III (07/03/2006)
 - Branch to Gibraltar Area (08/01/2006)
 - Alcázar de San Juan–Villarrobledo (09/15/2006)
 - Arbós Barcelona (01/24/2006)
 - Alcázar de San Juan Compression Station (12/15/2006)

Soil pollution

Enagás prepared the necessary documentation to comply with the stipulations of the recent decree on polluted soils (No. 9/2005), which requires certain firms to submit a preliminary report on soils.

For new applications for AAIs, A preliminary soils study (IPS) was presented together with all new AAI applications, while at facilities already covered by an IAA the IPS was carried out separately.

ENAGÁS ENVIRONMENT POLICY

Enagás, assuming all the relevant requirements under the UNE-EN-ISO 14001 standard, which is used as a reference, adopts conservation of the environment as one of its key action principles. Enagás publicly acknowledges and accepts the following environmental commitments and principles:

Environmental commitment

To carry out its activities in a way that respects the environment, paying particular attention to protecting its natural surroundings, its customers and the general public.

Environmental principles

Minimise impact: constantly strive to identify, characterise and improve environmental impact caused by the Company's activities and facilities and aim to achieve more efficient use of them.

- Continuous adaptation to the relevant regulations: complying with all the environmental legislation that is applicable to its facilities and activities. Taking into

account international standards and legislative trends when planning actions that could have a significant environmental impact, particularly in areas where no applicable legislation is in place.

- Prevention of pollution and assessing potential risks: applying the basic principle of preventing pollution and assessing potential risks from the planning and decision-making stages right through to the execution and implementation of new projects.
- Environmental cooperation: cooperate whenever required with authorities, NGOs and other organisations, public or private, to seek to find solutions for any environmental problems that may arise.
- Inclusion of environmental criteria for contractors: including environmental criteria in decision-making on the award of contracts for services and products and informing contractors working with Enagás of the applicable environmental procedures and requirements.
- Environmental communications and information: encouraging in-house and external environmental communications with criteria of transparency, informing employees and the general public of goals attained and work in progress regarding the control of environmental issues.
- Continuous improvement: striving for continuous improvement by means of systematic, regular environmental assessment of the environmental management system (EMS), treating environmental audits as a basic tool.

ENVIRONMENTAL MANAGEMENT

Environmental activities impact and actions

Enagás's activities generate several types of environmental impact that are exhaustively controlled and minimised by the Company insofar as is possible.

Most activities with environmental implications can be divided into two main groups: building and engineering activities and the storage, regasification and transport of natural gas.

Building and engineering activities

During the planning stages several routes and possible alternatives are studied for each project, selecting the one with the lowest impact.

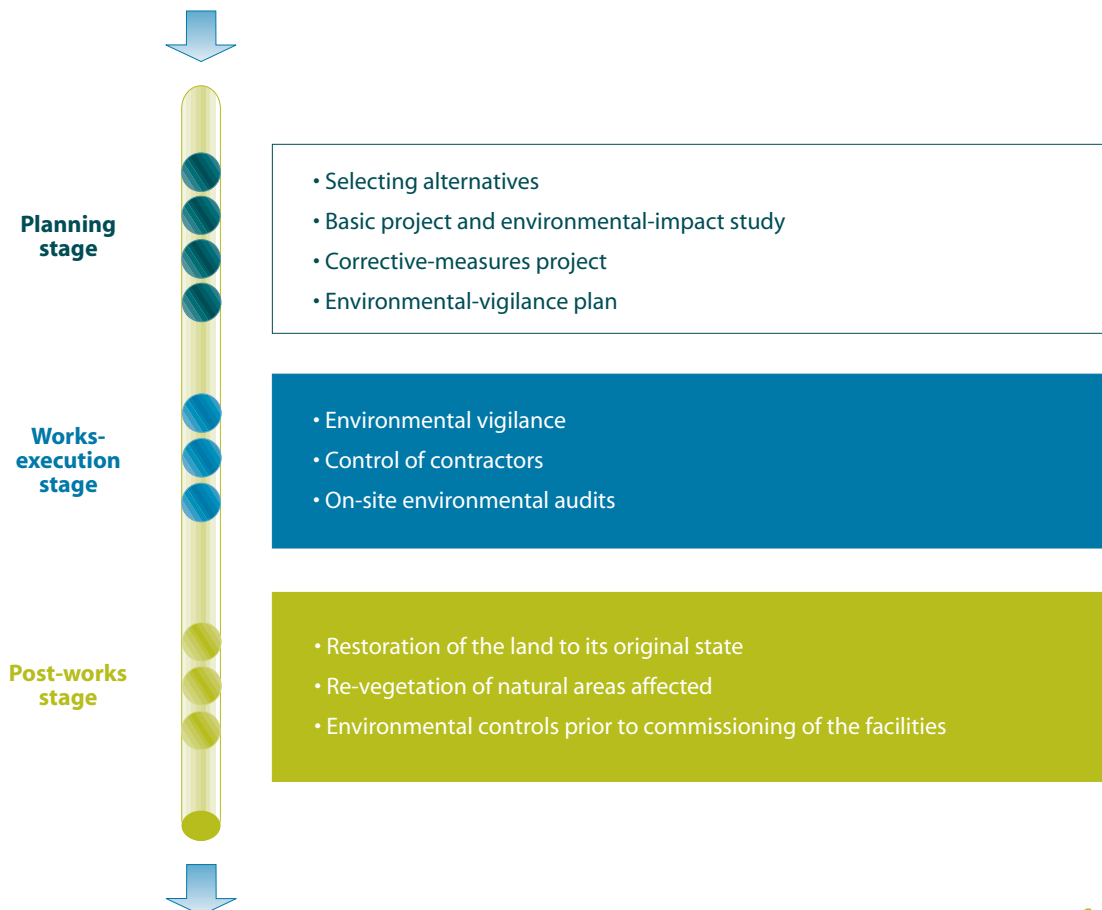
Once the basic scope of each project has been determined, its environmental impact is studied in detail, identifying the appropriate corrective measures to minimise the potential impact.

All of this takes the form of an environmental impact study, which is completed with the corrective-measures project, in which specific actions are defined to minimise the impact caused during the building of the project.

The submittal of the environmental-impact study to the relevant authority marks the beginning of the assessment formalities for projects covered by the applicable legislation.

During the execution of works, environmental control is carried out to assure compliance with the measures set out in the appropriate environmental studies, in the environmental impact declaration and in the environmental commitment and requirements assumed.

> SUMMARY OF ENVIRONMENTAL ACTIVITIES IN BUILDING AND ENGINEERING



Source: Enagás

The main instrument for this control is the environmental vigilance programme, in which the measures necessary to control the project's environmental impact are fixed and planned. A technician based on site verifies that this system is being applied correctly.

Also, Enagás carried out regular audits to verify compliance with the environmental requirements applicable to each project, making an Assistant Environmental Technician available for supervision tasks.

Once the Works have been completed and the land has been restored to its original state, the re-vegetation of all natural areas affected is carried out, with follow-up vigilance in successive years to assure the success of all the corrective measures implemented.

Natural-gas storage, regasification and transport

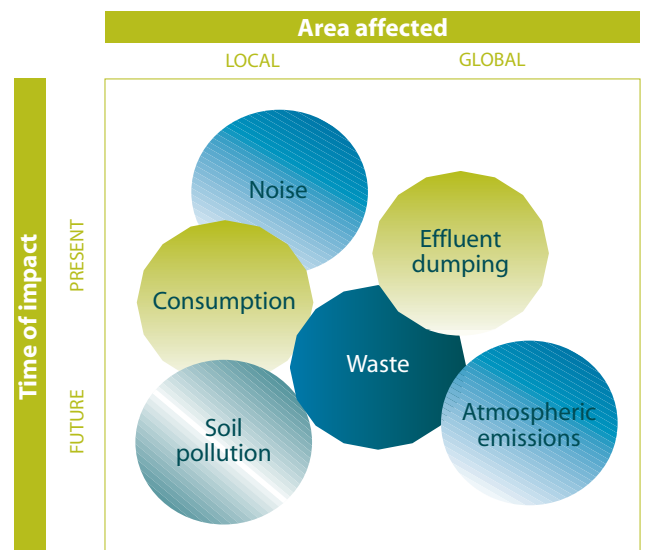
Enagás assumes its commitment to control environmental issues at its operational facilities, paying special attention to those that could have the greatest impact, including:

- *Atmospheric emissions:* emissions of natural gas and pollutant gases generated by combustion facilities. To control and reduce them, annual maintenance and measuring programmes are set up to assure the correct functioning of the facilities.
- *Noise:* mostly generated at plants, compressor stations, underground storage facilities and regulation and measurement stations. The noise generated is measured regularly, establishing the appropriate improvements to reduce noise impact.
- *Wastewater dumping:* consists of sewage and water used for gas-vaporisation purposes. Vigilance and measuring programmes are drawn up every year to ensure that pollution of the environment is minimal.

- *Hazardous and non-hazardous waste:* all waste is segregated and stored, in accordance with the relevant legislation, before being handed over to any authorised waste manager. Quarterly inspections are also carried out to verify that storage conditions are appropriate.
- *Consumption of natural resources:* water, electricity and natural gas. Consumption levels are measured and recorded, and actions are defined in order to reduce them.
- *Soil pollution:* Enagás's activities are taken into account and the possibility of effects are studied, implementing appropriate measures to contain and prevent spills.

The most significant issues at Enagás's facilities are own consumption, atmospheric emissions and the noise generated by certain facilities. However, each issue ge-

> TYPE OF IMPACT OF THE MAIN ENVIRONMENTAL ISSUES INVOLVED IN NATURAL-GAS PRODUCTION, STORAGE AND TRANSPORT



Source: Enagás

> KEY ENVIRONMENTAL ISSUES INVOLVED IN STORAGE, TRANSPORT AND REGASIFICATION

Atmospheric emissions	Noise	Effluent dumping	Waste	Consumption of natural resources	Soil pollution
CH ₄	Operation of RMSs, CSs and plants	Sewage	Hazardous	Water	Chemical spills
CO ₂ NO _x CO		Rainwater Vaporisation	Non-hazardous	Electricity Natural gas	

nerates some impact that may have a present or future effect on a larger or smaller area.

Environment certificates

Enagás has developed a responsible organisation to carry out the commitments acquired under its environment policy.

The Company has also implemented an Environmental Management System (EMS) based on the UNE-EN ISO 14001 standard, which guarantees compliance with the applicable environmental legislation and the continuous improvement of its environmental conduct.

This system enables the most significant environmental issues and any deviations from legal limits to be identified, facilitating decision-making to solve environmental problems and take the appropriate action to minimise them.

Description of certified activities

All Enagás production units are certified under the UNE-EN ISO 14001 standard:

- Barcelona, Cartagena and Huelva plants.
- Serrablo underground storage.

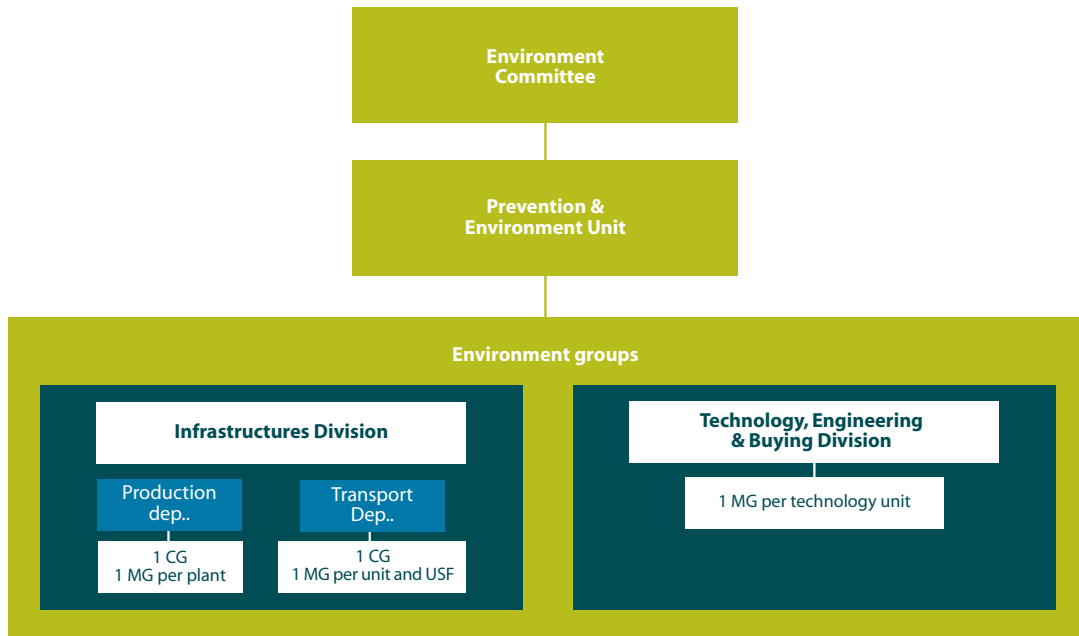
- Transport Department
- Technology Unit.

Environmental organisation

The environmental organisation consists of :

- The Environment Committee, composed of senior managers at the Company, which establishes the basic guidelines for action.
- Environment groups, which are responsible for implementing the guidelines fixed by the Committee. These groups are divided into:
 - Environment monitoring groups, set up at workplaces (plants, storage facilities and transport units).
 - Coordination groups, which fix homogeneous guidelines for environment-related activities at all the Company's sites.
- The Prevention and Environment Unit, which coordinates environment-related actions throughout the Company's activities. It is responsible for developing, implementing and monitoring the Environmental Management System and verifying compliance with the applicable legislation.

> ENVIRONMENTAL ORGANISATION CHART



CG: Coordination group
 MG: Monitoring group
 USF: Underground storage facility

Source: Enagás

Document structure

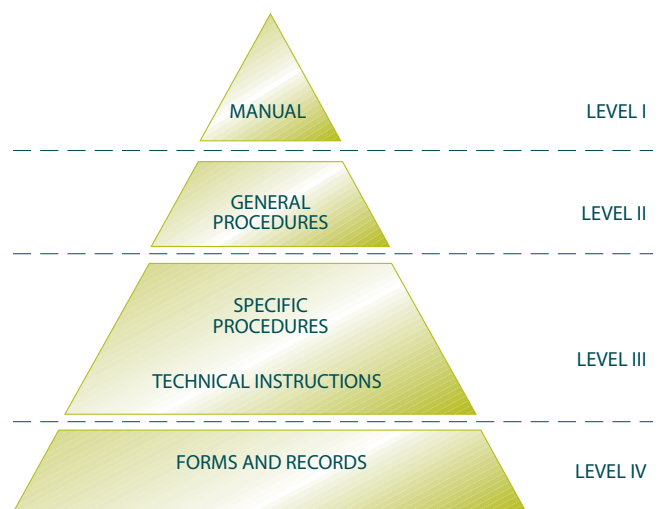
EMS documents are organised into four levels:

1. Environment manual.
2. General procedures.
3. Specific procedures and technical instructions.
4. Forms and records.

CLIMATE CHANGE: GREENHOUSE-GAS EMISSIONS (GEI)

The international response to global warming has taken the form of two instruments: the UN Framework Convention on Climate Change, which came into effect in 1994, and the Kyoto Protocol.

> PYRAMID STRUCTURE OF THE EMS



Source: Enagás

The Kyoto Protocol develops the generic prescriptions of the Convention, while establishing — for the first time — a commitment by developed countries to reduce greenhouse-gas emissions.

The commitment assumed by the European Union under the Kyoto Protocol has been to reduce its greenhouse-gas emissions by 8% between 2008–2012, compared with 1990 emission levels. To comply with this commitment, the EU has taken a number of actions, including setting up a community-wide system for trading in emission rights.

Since 2005 certain changes have occurred in the legislation of Member States regulating these rights-trading arrangements, which have had major repercussions on Enagás's facilities.

The National Allocation Plan (NAP) for emission rights 2005–2007 was approved in 2005 by the European Commission, with the condition that its ambit of application would be increased to include any combustion facility with a thermal capacity of over 20 MW, regardless of the type of useable power obtained.

This condition was finally incorporated into Spanish law when the Government approved Royal Decree 5/2005 (11 March) of urgent reforms to foster productivity and improve public contracting.

In the case of Enagás, this change meant including the following facilities in the arrangements for trading in greenhouse-gas emission rights:

- Algete, Almendralejo, Almodóvar, Bañeras, Córdoba, Crevillente, Dos Hermanas, Haro, Paterna, Tivissa, Zamora and Zaragoza compressor stations.
- Barcelona, Cartagena and Huelva LNG storage and regasification plants.
- Serrablo underground natural-gas storage facility.



Enagás has obtained for all the required greenhouse-gas emission licences for its facilities, issued by the relevant regional environment authorities.

In November 2006 the NAP for the 2008–2012 was approved. This is the second such plan in the framework of the EU arrangements for trading in greenhouse-gas emission rights and the first to coincide with the period of commitment (2008–2012) fixed under the Kyoto Protocol to the UN Framework Convention on Climate Change. In 2006 Enagás submitted allocation applications for all its facilities that are currently operational.

Enagás: Greenhouse-Gas Monitoring System

In order to comply with the Kyoto Protocol and qualify for the NAP, in 2006 Enagás developed a management system that includes a set of procedures and audits, to assure stringent control of the calibration of measuring equipment and guarantee the traceability of measurements.

The annual emissions reports, which must be prepared by all facilities with a capacity of over 20 MW, are verified by an accredited organisation and submitted to the relevant regional authority by 28 February each year. This explains why the verified emissions do not exactly match the totals for Enagás, since they do not include emissions from such sources as safety torches or heating boilers.

The calculation of carbon dioxide (CO₂) emissions is based on fuel consumption, as follows:

$$\text{Emissions} = F_e \times F_o \times [C_f \times \text{NCV}]$$

- **F_e - Emission factor:** tonnes of CO₂ per TJ of fuel consumed
- **F_o - Oxidation factor:** totally oxidised percentage of CO₂
- **C_f - Fuel consumption:** m³(n)
- **NCV - Net calorific value of fuel.** TJ/ m³(n) for natural gas or in TJ/t for diesel

Under the current NPA for 2006 Enagás received a total of 360,584 emission rights (tonnes of CO₂).

Enagás has now submitted its application for rights under the NPA for 2008–2012. This is the second such plan in the framework of the EU arrangements for trading in greenhouse-gas emission rights and the first to coincide with the period of commitment (2008–2012) fixed under the Kyoto Protocol to the UN Framework Convention on Climate Change.

ENVIRONMENTAL GOALS AND TARGETS

In 2006, Enagás revised its Environmental Strategic Plan 2005–2010 and fixed a number of specific goals for each of its units, with a view to ensuring that all business decisions take into account the protection of the environment as a priority for action.

There are two key issues at stake:

- Reduction of greenhouse gases: to achieve this, the objectives set include: maintenance and energy-savings



> EMISSIONS AND RIGHTS ALLOCATED (TONNES)

Facility	Rights allocated 2006	Emissions verified 2006	Balance	Rights allocated 2007	Total 2006–2007
Serrablo	20,784	15,562	5,222	20,784	41,568
Barcelona	17,803	1,683	16,120	17,803	35,606
Cartagena	21,794	10,406	11,388	21,794	43,588
Huelva	7,972	2,820	5,152	7,972	15,944
Algete	20,461	11,121	9,340	20,461	40,922
Almendralejo	45,428	45,590	-162	45,428	90,856
Almodóvar	24,830	11,761	13,069	24,830	49,660
Bañeras	19,833	4,206	15,627	19,833	39,666
Cordoba	67,057	4,991	62,066	83,528	150,585
Crevillente	23,256	5,346	17,910	26,480	49,736
Dos Hermanas	20,721	2,025	18,696	30,629	51,350
Haro	10,163	7,410	2,753	10,163	20,326
Paterna	38,324	8,482	29,842	38,324	76,648
Tivissa	7,929	20,400	-12,471	12,226	20,155
Zamora	14,229	7,063	7,166	14,229	28,458
Zaragoza	0	0	0	1,608	1,608
Total	360,584	158,866	201,718	396,092	756,676

programmes for combustion facilities, installing boil-off recovery equipment at regasification plants, using quick-release seals on vents at gas-pipeline positions, eliminating natural-gas emissions when starting up new compression units, and implementing procedures for purging from air to gas to avoid or reduce methane emissions.

- Energy efficiency and use:

- Electricity generation at compression stations: the goal is to recover the heat contained in exhaust

gases from turbo-compressors in order to generate electricity.

- Electricity generation at regulating and measuring stations: The goal is to use the rise in pressure that occurs in regulation to generate electricity via an expansion turbine.

- Electricity generation at regasification plants: LNG can be used as a cold source and seawater as a hot source to produce electricity via an intermediary fluid and expansion turbine, thereby making use of the energy contained in LNG.

➤ KEY ENVIRONMENTAL GOALS AND TARGETS 2005–2010

AREAS	GOALS	COMPLIANCE
Reduction in greenhouse-gas emissions	Reduction in natural- gas emissions	Fitting of quick-release seals to vent chimneys at gas-pipeline positions to reduce leakage via valves.
		Building a safety torch, a reliquefier and a compression at the Barcelona plant to recover the boil-off generated and eliminate vents of natural gas into the atmosphere.
Eliminating emissions during start-up at compression stations by installing an electric starter system for the turbo-compressors. This system has been implemented at the three turbo-compressors at the Dos Hermanas and Tivissa compression stations, at the two new ones in Banyeres and at Almendralejo.		
	Reduction in emissions of other greenhouse gases	Adapting climate-control installations at regulating and measuring plant measuring centres by replacing the coolant R-22 with another that is less harmful for the environment.
Energy savings and efficiency	Reduction in consumption	Installing programmable controllers at regulating and measuring stations to improve control of the gas temperature and achieve a reduction in own consumption by boilers.
		Reducing the own consumption/regasified gas ratio at regasification plants by installing new, more energy-efficient seawater vaporisers at each plant.
	Electricity generation (R&D)	Electricity generation at compressor stations from the heat contained in the exhaust gases of turbo-compressors.
		Electricity generation at regulating and measuring stations by using an expansion turbine to make use of the pressure rise.
		Electricity generation at regasification plants by making use of the energy contained as cold in LNG.
Prevention of soil pollution	Improvements in waste management	Segregation of non-hazardous plastics from urban solid waste at Transport Department sites.
		Improvements to facilities where the THT tank is located at the Barcelona plant to avoid mixing with rainwater and therefore minimise "water with THT" waste.
		Improved conditioning or location of waste-storage areas at the Barcelona and Cartagena plants.
	Improvements in spill prevention and control	Performing seal tests for buried oil tanks and filter-condensate collection tanks at Paterna, Cordoba, Zamora and Haro compression stations.
		Impermeabilising drain-off oil drains at Zamora and Tivissa compression stations.
		Installing dual-wall tanks for used oil and filter condensates with leak detection systems at Banyeres and Tivissa compressor stations.
	Improvements in treatment processes	Gradually eliminating septic tanks and replacing them with sealed tanks.
Protection of the environment	Reduction in noise at regulation and measuring stations	Completing the study of measures to reduce noise and altering design specifications for future stations.
	Protection of power lines for wild birds	Carrying out projects to modify Enagás's electricity lines to protect local wild birds.

CASE STUDY IN IMPROVED ENERGY USE: ALMENDRALEJO COMPRESSOR STATION

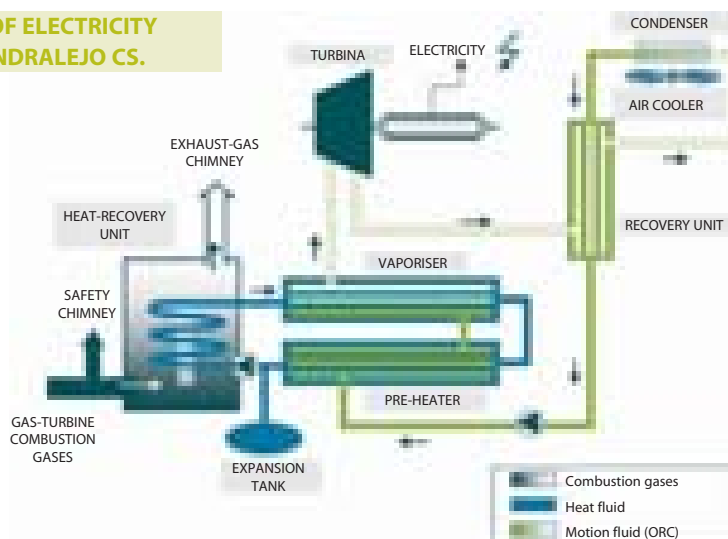
Enagás currently operates 11 compressor stations (ECs), with a total capacity of 270 MW. This capacity will be increased significantly over the next few years as new stations come on line. Studies by the Gas Engineering and Technology Department show that almost 70% of the total energy involved in a gas turbine used at a compressor station (EC) is emitted into the atmosphere by the combustion gases as heat. This heat energy, which is a by-product of the compression process, can be used for purposes other than accomplishing the mission of the EC itself. This has led Enagás to consider turning this residual heat energy into electricity, thereby optimising the overall energy performance of the EC and improving the energy quality and environmental conduct of its activities.

Following initial studies, two Technologies based on a Rankin cycle have been considered, differing only in the type of working fluid used in the cycle turbine: water (as steam) or a hydrocarbon (ORC). The latter needs less cooling and maintenance during operation and is better adapted to the changes in the compression process. Both technologies are already being successfully applied at compressor stations in Switzerland (steam cycle) and in Canada and the United States (ORC).

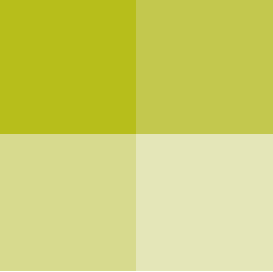
The result of this study is the beginning of the Project to build a 5.1-MW electricity-generation plant at the Almendralejo compressor-station complex. This plant will use the residual heat energy from its five SOLAR Centaur 50 gas turbines (one is always on standby as a backup), with a capacity of 4.6 MW, as the primary energy for the generation of electricity. ORC will be used as the working fluid, with an estimated flow rate and combustion-gas temperature of 16.1 kg/s and 495° C, respectively, for a turbine with a 70% load. Output forecasts are for 5,375 equivalent hours per year, i.e. approximately 27,416 gross MWh/year.

The Project is now being built and is scheduled to be operational in the first quarter of 2008, representing a significant improvement to the Company's energy use.

> SIMPLIFIED DIAGRAM OF ELECTRICITY GENERATION AT ALMENDRALEJO CS.



Source: Enagás



KEY ENVIRONMENTAL MAGNITUDES AND INDICATORS FOR OPERATIONS

Atmospheric emissions

The exhaustive control of its atmospheric emissions carried out by Enagás enables it to comply with the emission limits fixed by the applicable legislation and contribute towards the efficient functioning of all the Company's facilities.

The most significant atmospheric emissions by Enagás are of natural gas and pollutant gases produced by combustion sources.

Sources of natural-gas emissions (mainly methane, CH₄)

- Safety vents
- Commissioning of new facilities
- Leaks

> SPECIFIC EMISSION BY QUANTITY OF GAS TRANSPORTED

Pollutant	Specific emission [kg/GWh] (2006)
CH ₄	16.39
CO ₂	581.00
CO	0.16
NO _x	0.12

> ATMOSPHERIC EMISSIONS GENERATED BY THE ACTIVITIES OF ENAGÁS

Areas of activity	Natural gas [000 m ³ (n)]	Combustion sources		
		CO ₂ (t)	CO (t)	NO _x (t)
Regasification plants	5,646	14,592	16	2
Serrablo underground storage facility	31	15,568	5	6
Basic gas-pipeline network	2,216	147,801	29	27
Total (Var.% 05/06)	7,893 (-74.4%)	177,962 (-54.8%)	49 (-12.1%)	35 (-13.8%)

Combustion sources (mainly CO₂ emissions)

- Motors and gas turbines
- Gas boilers, submerged combustion vaporisers and gas burners
- Diesel motors used by self-contained emergency systems
- Safety torches

In 2006 7.9 million m³(n) of natural gas was emitted, representing 0.04 % of the total gas transported and a reduction of 74.4% compared with the previous year's emissions (30.9 million).

This major reduction can largely be attributed to the improvements made at the Barcelona plant, where a safety torch was installed, together with a reliquefier and a compressor to recover the boil-off generated and eliminate natural-gas vents into the atmosphere.

Methane emissions stood at 5,021 tonnes, 74.4% less than in 2005, representing a specific emission of 16.39 kg per GWh of gas transported.

Carbon-dioxide emissions generated by combustion sources stood at 177,962 tonnes, 54.8% less than in 2005. The average specific emission was 581 kg per GWh of gas transported.

The reduction in CO₂ emissions achieved was largely due to lower use by the compression stations and by the installation of seawater vaporisers at the regasification plants (i.e. atmospheric-emission-free equipment). Investment in infrastructures of this type avoided the need to use submerged combustion vaporisers generating CO₂ emissions at regasification plants.



Noise emissions

Assessment of the noise levels at facilities is a key factor in controlling their noise impact on the environment. It also allows the Company to determine which facilities need measures to be implemented to reduce this impact.

In 2006 the exterior noise generated at 27 facilities was measured, finding a high degree of compliance with the limits fixed by the applicable regional or local legislation.

Wastewater dumping

Following the vigilance programmes set up for 2006, 26 analyses of dumping at 12 transport-network sites were carried out, and checks were made of cooling waters at re-gasification plants, in order to comply with the requirements of the relevant effluent licences.

Waste management

In 2006 Enagás managed over 1,600 tonnes of waste, all of which was handed over to authorised managers for subsequent treatment or recovery. The quantity of the total waste managed that was recovered was 11 %.

This management led to an expenditure of €450,000 in 2006.

Energy consumption

In 2006, the energy consumed by all Enagás's facilities was 1,218 GWh, the equivalent of 0.4% of the total energy transported.

Of the total energy consumed, 82% corresponded to own natural-gas consumption and the remaining 18% to electricity consumption.

Most of the energy consumption occurred at the compression stations in the basic gas-pipeline network, 58% of the total.

KEY ENVIRONMENTAL MAGNITUDES AND INITIATIVES IN INFRASTRUCTURE PROJECTS

Archaeological protection

In order to protect the cultural heritage, Enagás carries out archaeological studies in areas where new infrastructures are being planned. These studies are then completed with field prospecting during the building phase.

In 2006 €57,000 was invested in archaeological-protection studies with a view to estimating impact on the cultural and archaeological heritage.

A major initiative in this area was the study of the new gas pipeline that will link mainland Spain with the Balearic Islands to minimise any potential impact of these works.

Environmental studies

Environmental-impact studies (EISs) represent a key phase in the development of infrastructures. They are used to assess environmental values in the area where

> ENERGY CONSUMPTION AT ENAGÁS FACILITIES

Areas of activity	Quantity (GWh)	%
Regasification plants	313	26
Serrablo underground storage facility	87	7
Basic gas-pipeline network (incl. compressor stations)	819	67
Total	1,218	100

> WASTE GENERATED IN 2006

Non-hazardous waste	Tonnes	% of total weight
Inert industrial waste	86.7	5.37%
Fibreglass insulation	5.3	0.33%
Paper and cardboard waste	4.3	0.27%
Wood	2.8	0.17%
Scrap metal	1.9	0.12%
Plastic NPs (PET, PVC)	0.4	0.02%
Misc.	0.2	0.01%
TOTAL non-hazardous waste	101.6	6.30%
Non-hazardous waste	Tonnes	% of total weight
Water with methanol	1,395.8	86.50%
Oil/water/detergent mix	59.8	3.71%
Contaminated absorbent material	7.5	0.46%
Used oil	6.8	0.42%
Transformers with remaining PCB	6.5	0.40%
Spent batteries	5.9	0.36%
Electronics scrap	5.8	0.36%
Empty metal can waste	3.8	0.23%
Contaminated gravel	3.7	0.23%
Plastic NPs (PET, PVC)	2.7	0.17%
Oil filters	2.6	0.16%
Empty plastic container waste	2.1	0.13%
Hydrocarbon waste	2.1	0.13%
Used light bulbs	1.1	0.07%
Solvent/antifreeze	1.0	0.06%
Spent batteries	0.6	0.04%
Swarf with lubricant	0.6	0.04%
Paint	0.5	0.03%
Aerosols	0.4	0.03%
Misc.	2.9	0.14%
TOTAL hazardous waste	1,512.0	93.70%
TOTAL WASTE	1,613.6	100.00%

the project is being planned, in order for the necessary measures to be designed in order to protect the environment appropriately.

EISs are submitted to the Ministry of the Environment, which decides the environmental feasibility via an environmental-impact declaration (EID). In 2006 EIDs were obtained for the following projects:

- 4th LNG storage tank at Cartagena plant.
- Extension of Cartagena plant to 1,200,000 m³ (n)/h.
- South West Madrid semi-ring gas pipeline (section I).

- Castellón–Onda gas pipeline.
- Falces–Iruzun gas pipeline.

Also, resolutions were obtained whereby the Ministry of the Environment decided not to submit the following projects for environmental assessment:

- Extension of Huelva plant to 1,350,000 m³(n)/h.
- Branch gas pipeline to Saica.
- Zaragoza compression station.

Protective measures

The most relevant protective measures taken in 2006 were:

- Modification of the initially planned route for the Falces–Iruzun gas pipeline in order to avoid affecting the “Yesos de la Ribera Estellesa” LIC and Pinares de Lerín nature enclave. An alternative route was also planned for the Castellón–Onda gas pipeline to avoid crossing the river Mijares and disturbing an area with a high likelihood of containing archaeological remains.
- Protection of soil and vegetation: use of restricted work tracks, tracks marked off with bollards, conservation of topsoil, and design of fire-prevention plans.
- Protection of fauna: reconnaissance prior to the arrival of machinery to locate burrows, nests or other sites of interest, temporary restrictions on works during the mating or breeding season, regular inspections of the trench or sealing off of pipe ends to avoid animals becoming trapped.
- Protection of watercourses: carrying out crossings during the driest season, use of excavated materials to restore river beds, installation of water-flow sheaths and solid-retention systems.



In cases with a high ecological value drilling is carried out to eliminate the impact on the watercourse and riverbank vegetation. In 2006 this technique was used at the crossings of the Segura and Sinca rivers, with a drilling length of 158 and 274 metres, respectively.

Vigilance plans

Environmental vigilance on site assures compliance with the protective measures planned, resides allowing any impact not foreseen initially to be identified during the building phase, thereby facilitating the adoption and implementation of the appropriate corrective measures. The results of this vigilance are included in monitoring reports prepared by specialist technicians based on their visits to works sites.

On-site environmental vigilance is completed by monitoring of all operational gas pipelines. In 2006 approximately 1,132 kilometres of gas pipeline was monitored.

Environmental vigilance and operational monitoring received an investment of approximately €0.3 million in 2006.



> ENVIRONMENT AUDITS OF PROJECTS IN 2006

Facility/Project	Length (Km)	Nº audits
Malaga–Rincón de la Victoria branch	28	2
Castellón–Onda	13	2
South West Madrid semi-ring	12	2
Pajares bypass	2	1
Branch to Saica	13	1
Falces–Irurzun gas pipeline	58	1
Barcelona Plant	0	2
Cartagena Plant	0	3
Huelva Plant	0	1
TOTAL	126	15

> ENVIRONMENTAL MONITORING OF THE FOLLOWING GAS PIPELINES IN OPERATION

Project	Length (Km)
Algete–Manoteras split	8.0
North West Madrid Semi-ring	55.0
Rivas–Loeches–Arganda	50.0
Puente Genil–Malaga	119.0
Valencia–Alicante split	90.0
Cartagena–Lorca phase I	24.0
Huelva–Seville	88.0
Seville–Cordoba	175.0
Villafranca de Cordoba–Porcuna	36.3
Cordoba–Santa Cruz de Mudela	154.0
Santa Cruz de Mudela–Alcázar de San Juan	83.0
Alcázar de San Juan–Quintanar de la Orden	34.0
Quintanar de la Orden–exit to Cuenca	45.0
Getafe–exit to Cuenca	63.0
Partial split of Gibraltar Area branch Gibraltar	17.5
Fuente Álamo–Lorca	37.6
Sotana–Murcia branch	52.4
TOTAL	1,131.8



Landscape recovery

One of Enagás's key objectives is to integrate all its building projects into the landscape.

To accomplish this recovery work is carried out in affected areas, divided into two stages. The first stage is the restoration of the land, consisting of restoring the soil occupied by a work track and replacing the topsoil, water-courses and any infrastructures crossed, such as roads or farm tracks. The second stage consists of replacing the vegetation in the area ("re-vegetation") using native plant species.

In 2006 over 870,000 m² was re-vegetated and approximately 1.6 million m² of land was restored, with an investment of €1.94 million.

> LANDSCAPE RECOVERY CARRIED OUT

Region	Re-vegetation area (m ²)	Area restored (m ²)
Andalusia	91,927	377,570
Aragon	295,565	93,982
Catalonia	447,696	
Valencia Region		77,400
Madrid	2,590	237,500
Murcia	33,230	
Navarre		812,000
Total	871,008	1,598,452

ENVIRONMENTAL COSTS

Enagás identifies and values its environmental costs in order to control the financial resources allocated by the Company to assure its commitment to respect and protect the environment.

The expenditure and investment budget for carrying out environmental actions via the various action programmes in 2006 stood at €8.9 million.

Of this sum, the largest item was the execution of the objectives of the Strategic Plan 2005–2010, with a cost of €3.8 million.

> SUMMARY OF EXPENDITURE AND INVESTMENTS

Activity	Sum (€000)
Development, implementation and monitoring of EMS	177
Vigilance campaigns and control of noise, emissions and effluents	128
Waste management	457
Execution of Strategic Environment Plan objectives	3,747
Environmental studies	1,140
Environmental vigilance on sites	296
Archaeological studies and work	57
Landscape recovery	1,937
Targeted and horizontal drilling	593
Other environmental improvements	389
Total	8,922

> Corporate Responsibility



> HUMAN RESOURCES

Enagás' team of employees is one of the main foundations supporting the Company's day-to-day activities.

One of the major principles of human resources management within Enagás is to involve all levels of the organisation in reaching the Company's overall goals. People management within the Company also fosters bidirectional participation so that everyone in the organisation takes an active part in the results that Enagás obtains.

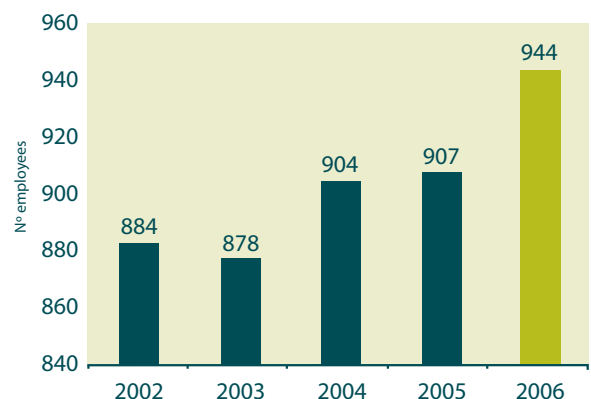
In order to achieve this, the human resources management model provides encouragement for staff via the following set of tools and initiatives: ongoing technical training for staff, harnessing internal knowledge, developing skills to meet the company's needs and individual aspirations, etc.

This model took root in Enagás in 2006, becoming not only a source of technical support but also an internal catalyst for change and continuous improvement.

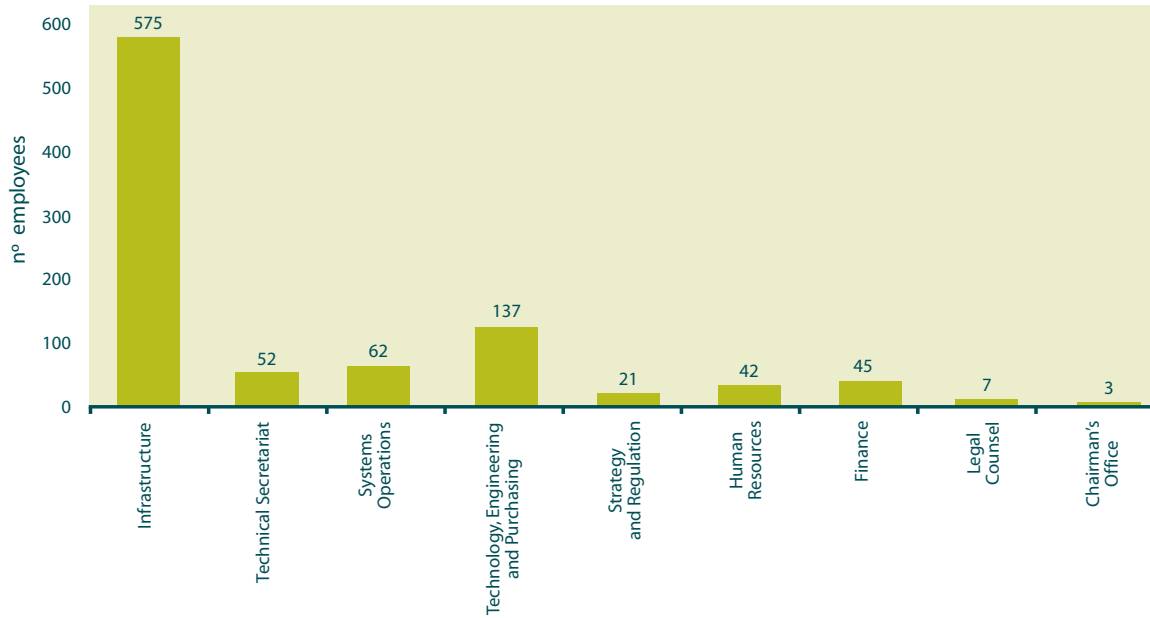
Workforce

37 new employees joined Enagás in 2006, taking the total headcount at 31 December to 944, up 4% on the total at

> HEADCOUNT



> NUMBER OF EMPLOYEES IN EACH ORGANISATIONAL UNIT



the end of 2005. This increase came in response to Enagás' Human Resources policy to prepare for the business growth that is forecast in the short term.

Because of this growth, which is based on a significant investment plan to be carried out by the Company over the next few years, most staff at the end of 2006 were involved in areas linked to infrastructure development and maintenance. This shows how the organisational structure is constantly adapting to the challenges facing Enagás in coming years.

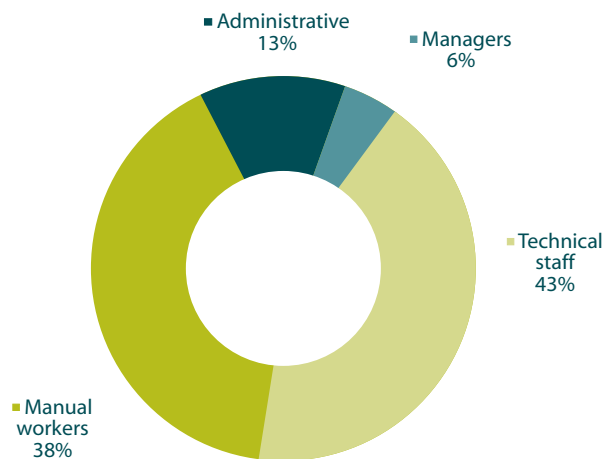
Female employees made up 20% of the Company's workforce at the end of 2006 and the employees' average age remained unchanged at around 44 years old.

Enagás regularly monitors the average age of employees in different areas and at different levels in the Company and endeavours to create a constant balance between succession plan reviews, internal career progression plans and recruitment needs.

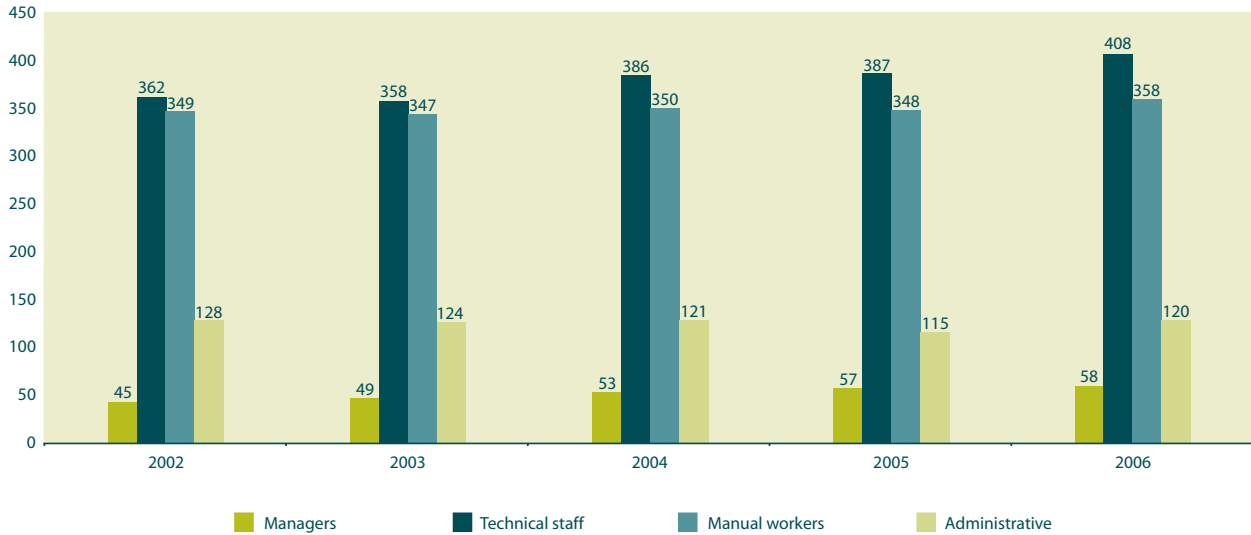
Professional profile

Technicians make up the largest professional group in Enagás, i.e. 43.2% of the total workforce at the end of 2006.

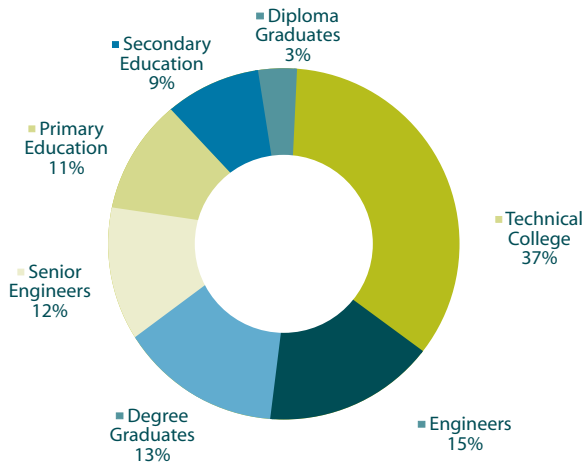
> EMPLOYEES BY PROFESSIONAL CATEGORY



> N° EMPLOYEES BY PROFESSIONAL CATEGORY (2002-2006)



> WORKFORCE BY LEVEL OF EDUCATION



The proportion of staff who are technicians has increased significantly in recent years as a result of the ongoing policy of providing technical training for the workforce.

To be precise, 23 technicians were recruited to Enagás in 2006, which represents a compound annual growth rate of 12% since 2002.

The tendency of the workforce to become more technically qualified is also reflected in the average level of qualification among the staff. The groups which grew most in 2006 were Engineers and Senior Engineers.

> CHANGES IN EMPLOYEE QUALIFICATIONS 2006

	JOINED	LEFT	CHANGE IN HEADCOUNT
Senior Engineers	21	7	14
Engineers	12	1	11
Degree graduates	5	4	1
Diploma graduates	2	1	1
Technical college	14	9	5
Secondary Education	11	3	8
Primary Education	0	3	-3

Stable, quality employment

Enagás fosters stable, quality employment which is borne out year after year by the low level of turnover and the average time people stay with the Company. In 2006, the staff turnover rate was 4% and employees had been with the Company on average 15.9 years.

The quality and stability of employment is also reflected in the type of contract of employment offered by Enagás.

At the end of 2006, 97.4% of staff were in permanent employment and 2.6% were temporary.

> TEMPORARY/PERMANENT CONTRACT SPLIT (2002-2006)



The HR management and development model

Enagás' HR management model seeks to match the Company's global objectives with the employees' personal goals and individual career plans. This model is based on two supports:

- **Management by Objectives** which stems from the Company's Strategy and Mission. This is linked to the variable remuneration system.
- A **Performance Evaluation Model** which is linked to the fixed remuneration system and which measures the level to which Enagás' management team's performance is in line with Company Values.

This model ensures that each and every member of the organisation contributes to reaching the Company's global objectives, and that the financial results obtained by Enagás feed through to the employees' individual remuneration.

The scope of application of this management-by-objectives model was initially restricted to employees whose remuneration was not defined by the wages agreement. This group made up 29% of the total headcount at the end of 2006.

> STAFF INCLUDED IN THE MANAGEMENT BY OBJECTIVES MODEL

(N° of employees)	2005	2006
Staff Managed by Objectives (December)	91	243
% Staff Managed by Objectives (*)	41%	90%
N° employees joining the company / year	41	152

* As a percentage of all staff not included in the wages agreement



Mechanisms are also in place to encourage the development of staff included in the Enagás wages agreement. In 2006, a new Professional Development system was launched. This includes an annual evaluation of each employee's performance, encouragement for employees to develop their job skills and motivation for individuals to work hard and contribute to the Company's objectives.

A Monitoring and Development Committee also exists which holds three meetings a year with the various trade union representatives to evaluate general issues concerning staff promotion and development, training, etc.

Training

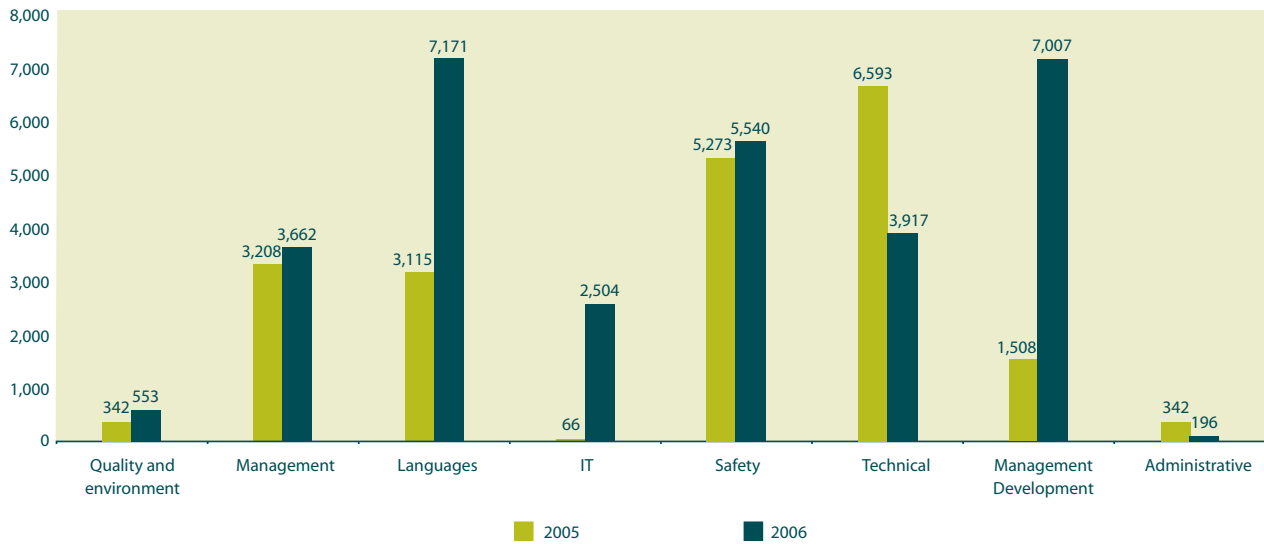
Significant efforts were carried out in training in 2006, which led to a 49.7% increase in the number of training hours per employee compared with 2005. A total of 30,551 hours of training were provided in 2006, via 212 different courses.

Furthermore, while training in all areas was carried out, the management skills training programme was the one which grew most in percentage terms in 2006.

TRAINING INDICATORS

	2005	2006
Training hours per employee	22.21	33.24
Investment per employee (€)	400	451.25
Nº courses	162	212
Nº participants	496	693
Nº attendees	1,030	1,327
Total Investment (€)	411,561	414,700
Total training hours	20,363	30,551

> HOURS OF TRAINING PER AREA

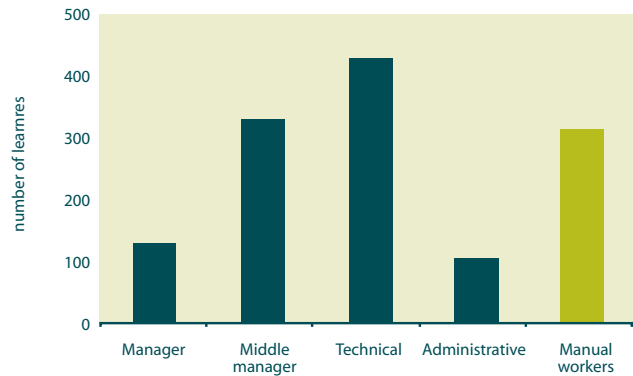


Internship plan

In 2006, Enagás reaffirmed its commitment to young graduates by recruiting 62 interns to gain work experience in the Company, something which will help them in their future search for permanent employment.

As in 2005, the number of interns made up 7% of the total headcount in 2006.

> PROFESSIONAL CATEGORY OF LEARNERS

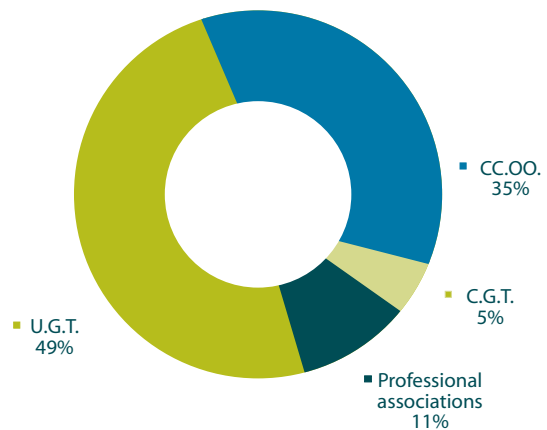


Labour relations

At the end of 2006, 93.9% of Enagás staff contracts were subject to the 15th Wage Agreement (2005-2008), which was signed by all the major trade unions active in the Company.

In 2006, the annual wage agreement review committee met with the main trade union representatives to revise the various issues affecting labour relations between the company and employees. There were 55 trade union representatives at 31 December 2006.

> TRADE UNION REPRESENTATION



Personal development and flexible working conditions

With regards to social issues, measures were adopted in 2006 to make the timetable more flexible to improve the work-life balance. This led to the implementation of a software programme which allows each employee to manage his or her work time.

These measures provide more flexibility for employees to decide when they start work and how long they take for lunch.

A working group was also set up in 2006 to improve working conditions for employees who work shifts in Enagás. It analyses aspects such as medical conditions, overlaps in the overall timetable, needs of specific groups, etc.

Social Benefits

The main social benefits that Enagás placed at its employees' disposal in 2006 were the following:

Pension plan

All Enagás employees who have been at the company for at least two years are participants in the company pension scheme. This is a mixed pension scheme which provides a defined benefit in the event of disability or death.

The benefits payable under the plan in the event of permanent disability and death are guaranteed by an insurance policy.

In 2006, 95% of employees were participants in the scheme. The remaining 5% will join the scheme as they reach the required level of two years' service in the company.

Group Life and Accident Insurance

A life and accident insurance policy is taken out for all employees to provide the same permanent disability and death cover as the pension plan includes. This covers the period between joining the Company and the moment at which they become eligible to join the pension scheme.

Study grants and special financial assistance

Enagás offers a series of study grants each academic year both to its employees and to their children who wish to attend a particular course. The amounts increase in line with the level of studies, from junior school, through secondary and higher education.

Enagás granted 160,447 euros in the 2006/07 academic year via 616 subsidies awarded to 370 employees.

In the cases of employees' children with disabilities and who receive special needs education, Enagás pays 80% of the fees. The total amount paid in this form of special financial assistance in 2006 was 1,290.49 euros.



Medical Assistance Companies

Enagás is committed to improving the scope and quality of service that employees receive from the various medical assistance companies. Accordingly, the following actions were carried out in 2006:

- Renegotiation of the policy linked to one of the medical assistance companies, including additional services and discounts. In 2006, employees were provided with a free dental treatment service as well as discounts on individual policies for retired staff which had not been available up until that point.
- A group policy was taken out with a third medical assistance company which provided employees with a wider choice of companies from which to choose to provide assistance for their particular needs and those of their spouses and children.

Loans and Advance Payments

Enagás signed an agreement with a bank to provide employees access to loans (mortgages and personal

loans) at better than market conditions. For advance payments of salary of up to three months, Enagás pays the interest.

Occupational health

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

In 2006, a total of 2,110 medical consultations were performed. Also, 333 actions related to various vaccination programmes and 60 actions within the risk campaigns were carried out.

Enagás takes considerable efforts to raise people's awareness about different aspects of occupational health. The most outstanding examples of this were the informative campaigns carried out in 2006 related to: precautionary measures and vaccinations for travel to high-risk countries, first aid, bird flu, advice on giving up smoking, protection from the sun, heat stroke, etc.

> MAIN MEDICAL SERVICE ACTIONS

	Total 2006
Assistance work	
• N° consultations	2,110
Vaccination campaigns	
• Flu vaccination	318
• Tetanus vaccination	15
Prevention campaigns	
• Individual help to stop smoking	28
• Cardiovascular risk prevention	32
Health protection	
• Medical check-ups performed	835
• Early detection of pathology	175
• Ergonomic measurements	31



> RISK PREVENTION AND SAFETY

The application of the new regulatory requirements in traditional fields of Occupational Risk Prevention and Safety was reinforced by the implementation of the standards set in Enagás' Risk Prevention Management System (SIGPRI). The primary obligation set by this system is to continually adapt and update to comply with the increasingly demanding legal obligations. These obligations affect employees' health and safety as well as prevention and safety with regards to serious accidents.

Significant examples of this in 2006 include the amendments to the Prevention Services Regulations and the new legislation covering noise and asbestos. Enagás included this new legislation in its internal regulations and set up common standards of behaviour in health and safety areas across its operations.

In order to adapt its installations and processes to the Royal Decrees on Health and Safety Protection for workers who are exposed to risks from explosive atmospheres in the workplace, Enagás moved ahead with the implementation of the Protection Against Explosions Documents ("DPCE") for its three regasification plants, the Serralbo underground storage facility and the three Transport Management facilities. Enagás employees and subcontractors are required to wear work clothing and footwear which avoid causing electrostatic discharges.

With regards to serious accident prevention and safety requirements, Enagás once again passed the compulsory inspections required by the regulatory framework set by the European Union's Serious Accident Directives (CORAG/SEVESO). These inspection processes were carried out by the Authorised Control Bodies at the three Enagás facilities affected by this legislation: the Barcelona, Cartagena and Huelva regasification plants.

The Self Protection Plans were another aspect of the implementation of this legislation. They are intended to ensure

that the decisions and actions to be taken in emergency situations are done so in a swift and systematic manner. The plans were put into practice and subjected to an annual revision with practice drills attended by the competent authorities. In 2006 drills were carried out at the Serrablo plants and underground storage facilities and the buildings which make up the company's head office. In the latter case, the guidelines followed related to the Self Protection plan approved by the Madrid City Council's Safety Department.

Furthermore, and given that Enagás will be obliged to submit its preventive measures to a mandatory Regulatory Audit by a certified organisation in 2007, the necessary work was carried out in 2006 to adapt the preventive actions and the internal Procedures and Rules which regulate them.

As a major milestone in its commitment to continuous improvement in risk prevention, and due to the recent reorganisation in the Transport Department, new staff were recruited with specific responsibilities for preventive actions. The role of these Risk Prevention and Environmental Technicians is to cooperate in preventive tasks with the Central Services Prevention Unit, to channel information and to promote meeting the objectives set in Article 3 of Royal Decree 171/2004 on Coordination of Business Activities. New staff also joined the Central Technical Office – which reports to the General Manager for Technology, Engineering and Purchasing – to monitor health and safety at construction sites. These new appointments will help the Company leverage synergies arising from an integrated and coordinated management via Enagás' Prevention Service.

As part of Enagás' commitment to ongoing health and safety staff training, in 2006 the Company continued the training initiatives launched in 2005 covering the risks of a possible presence of explosive atmospheres in the workplace. The usual training courses have also continued on subjects such as occupational risk prevention management, fire prevention and protection, emergency situations, first aid and safe working at heights. These initiatives are managed by the Human Resources department in cooperation with the Risk Prevention department.

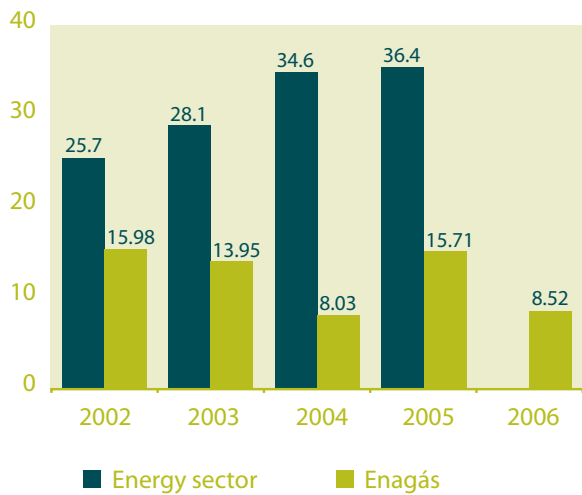


Expenses specifically associated with risk prevention in 2006 reached just over 3mn, which represents a 40% increase on the previous year. This significant increase is partly due to the costs arising from the reviews carried out to implement the legislation covering explosive atmospheres, as well as costs for fireproofing structures, acquiring new fire protection equipment, safety appliances, personal protection devices, etc.

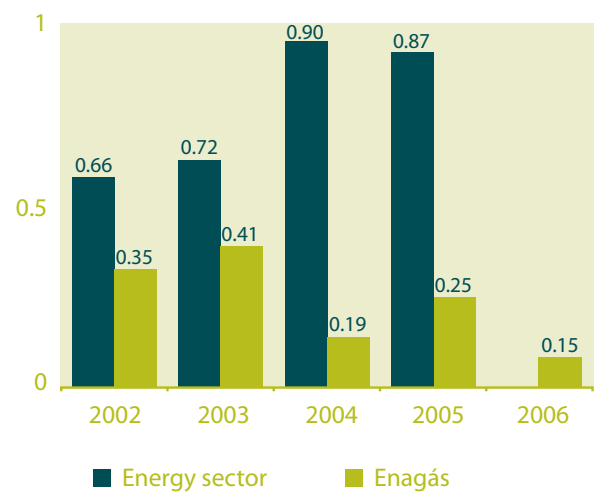
On a final point, data on Enagás' accident history continue to reflect the continuous improvement achieved as a result of the Company's efforts in this field. Both the frequency index, which indicates the number of accidents per hours worked and the accident severity index, which registers the amount of sick leave taken as a result of accidents, improved significantly compared to previous years.

Furthermore, good results were kept up with regards to controlling the number of accidents in construction work on new infrastructure, and among subcontractors working on Enagás projects.

> **FREQUENCY INDICES COMPARISON**
ENAGÁS - ENERGY SECTOR¹. 2002 - 2006



> **SEVERITY INDICES COMPARISON**
ENAGÁS - ENERGY SECTOR. 2002 - 2006



FREQUENCY INDEX (F.I.): Number of accidents which have caused injuries and sick leave per million hours worked.

SEVERITY INDEX (S.I.): Total days lost due to accidents per thousand hours worked.

¹ The accident indices for the Energy Sector (production and distribution of energy, gas and water) are published by the Ministry of Labour and Social Affairs as part of the Occupational Accident and Illness Statistics. The indices for 2006 are pending publication.





> QUALITY

In 2006, Enagás' quality management system became certified under regulation UNE-EN ISO 9001:2000 for its measurement process.

This recognition is a testament to the commitment that Enagás has made to quality over recent years and is part of an overall plan that seeks to extend the quality management model to all areas for which Enagás has been entrusted as the technical administrator of the gas system.

Enagás' overall aim in this process is not only to improve its own operating strategy, but also to improve the quality and overall efficiency of the gas system.

Within the framework of the quality management system, particular emphasis has been placed on ensuring the involvement of individuals at all levels of the company in the model by identifying channels for such - for instance,

suggestion boxes to be used by anyone to share their ideas for improvement, make comments or report incidents related to the quality management system.

Under this model, the channels needed to identify, analyse and implement initiatives that will ensure the continuous improvement of the measurement process were established and a series of initiatives ranging from the technological improvements and automation of the entire data collection process to researching new measurement technologies via R&D&I projects were set in motion in 2006.

In the area of organisation and quality, in addition to the overall management of the implementation of the quality management model, 12 improvement projects geared towards streamlining the Company's organisational model as a whole were undertaken. Several noteworthy projects include changes made in Engineering, Technology and Purchasing in order to bring the organisation in line with the increase in activity that is expected in the coming years, as well as the organisational analysis performed to bring Enagás into line with the new regulatory environment brought about in 2006 (Regulations for the Technical Management of the Gas System).

> TECHNOLOGICAL INNOVATION

Enagás is fully committed to technological innovation and has a distinguished track record in this field. This has made Company a benchmark in Spain in gas transport technology.

In 2006 ongoing improvements in this area enabled Enagás to find environmentally-friendly and sustainable solutions to the technical challenges it faced.

Particularly noteworthy in 2006 was the drive to develop and implement the General Technological Management Regulations, a revised version of which was approved by the Board in October 2006.

By business the main projects were as follows:

R+D+i projects

- The MOLAS project, which was launched under the auspices of the European Gas Research Group (GERG). Headed by Enagás, this project aims to develop a model that establishes the changes in the physical and chemical properties of liquid natural gas (LNG) during its transport by tanker. The results of this research will be applied to both Operating Safety (stratification in tanks) and Quality (calorific power limits and Wobbe Index)
- Enagás was involved in the drawing up of the Spanish Gas Association's (Sedigas) regulations concerning the "Odorisation of Combustible Gases" intended to optimise the odorisation cost-capacity ratio. Enagás compiled up-to-date information on new odorant measurement and injection equipment, on the properties of different mixtures of odorants, and their equivalencies in odorisation capacity.
- With the aim of improving the energy efficiency Tests were conducted at the Company's regulation and me-



tering stations to assess the influence of the low temperature of natural gas on the performance of certain equipment (regulators, turbines, etc.) to improve their energy efficiency.

- In 2006 work commenced on the design, construction and coming on stream of an electricity generation plant in the Almendralejo compressor station. The facility is based on an Organic Rankine Cycle, which uses the thermal energy from the exhaust gas emitted by turbine compressors to produce electricity. The detailed engineering of the project which will have a gross generation capacity of 4,500 kWe is currently being studied. It will supply energy to the compressor station with the surplus being sold to the electricity network.
- In the same field, the use of waste energy from normal processes in Enagás' facilities and technical-economic feasibility studies for electricity generation were conducted both in the LNG regasification process and pressure regulation at regulation and metering stations.

Laboratories

- In 2006 the Company decided to construct and operate a calibration bank of high-pressure gas meters at Enagás' Central Laboratory in Zaragoza. This bank will resolve a lack in this area throughout southern Europe and is intended to meet the corresponding demand.
- The Company drew up and implemented a new Calibration and Maintenance Plan for the meters in its Basic Gas Pipeline Network, resulting in a 40% increase in activity. A total of 302 calibrations were performed in 2006. The Company also implemented measures to improve the measurement of gas volumes, both in its LNG plants and transport pipelines.
- The Company revised its Calibration Plan for Standard Verification Tools at Regulation and/or Metering Sta-

tions to improve the quality control system for volume converters.

- Enagás' natural gas analysis method has been ratified with a view to obtaining ENAC (Spanish Accreditation Body) accreditation. The Company recently applied for this accreditation in line with the requirements of Enagás specification EV-203.

Forums, collaborations and research

In 2006 Enagás continued to play an active role in the sector's most important technology forums. These included:

- The European Gas Research Group (GERG in French), the body which represents the interests of European gas companies in various fields, especially in discussions with the European Union on aid for R+D+i projects, and which promotes and coordinates the R+D+i work of its member companies.
- IGU, LNG sub-committee, representing Sedigas/Enagás.
- "Technical Study Group of the GIIGNL", coordinating and carrying out the work entrusted to Enagás in the area of "Technical Research".
- In partnership with Sedigas, and following meetings with the Spanish Metrology Centre (C.E.M.), Enagás is involved in joint initiatives to promote the development of regulations in relation to the measurement of the volume and energy of natural gas.
- Representing AENOR/Sedigas, in 2006 the Company took part in ISO TC 159 standardisation activities on natural gas properties and analysis.

Enagás' Technology Division also collaborated with other company divisions on:



- The recognition of new equipment and material suppliers.
 - The standardisation and codification of the most frequently used materials with a view to implementing them in the SAP's SRM module.
 - Design criteria for the definition of potentially explosive atmospheres (ATEX).
 - The implementation of software (GESCÓN) to assist in the management of electronic contracts, the remote reading of meters, simulations, checking bills, etc.
 - Guides for the Design, Acquisition, Construction and Operation of gas measurement lines using ultrasonic meters.
- Finally, in 2006 the Company looked into introducing new technologies and new designs, equipment and materials. The most important were:
- Automatic ultrasonic inspection of pipeline welds.
 - Adjustable boilers to optimise energy consumption when heating gas after depressurisation.

- Use of medium-density polyethylene as an alternative to low-density polyethylene to lag underground pipes.
- Photovoltaic solar energy to feed valve positions.
- Monitoring of the cathodic protection of pipelines.
- The determination of the critical parameters in the analysis of gases and the definition of standard gases.
- The comparison of equipment and new technologies for chromatographic analysis.





> Corporate Responsibility

> ENAGÁS WEB PORTAL

In June 2006, Enagás launched a new website, with a web portal to follow in December the same year.

The new website included a wide range of information on the Regulations of the Technical Management of the Gas System (NGTS), as well as new features such as searching by date and by data category and downloading capabilities for images and documents, etc.

Enagás' new website complies with W3C Web Content Accessibility Guidelines 1.0, Level A. This enables all individuals, regardless of any disability or the form of technology used, to access the Internet, to browse the web with easy access.

The need to incorporate new content and facilitate access to this content prompted Enagás to create a corporate portal.

This new portal, available as of 29 December 2006, reflects the image of a Company that has been committed to promoting informational transparency with stakeholders (clients, providers, shareholders, the media, and society in general). Enagás works continually on the portal to ensure that the information posted is always up-to-date.

One of the aims of the new corporate portal is to make educational materials that fully illustrate the world of natural gas available to all visitors, students, professionals and experts. By doing so, Enagás endeavours to respond

to the growing demand for information regarding the sector.

The Company believes it is essential for this information to be as complete as possible. As a result, providing educational, informative material without compromising its thoroughness has been an enormous challenge.

The new portal offers important new features that range from content relating to the source of this type of energy and its deposits and reserves, a dictionary of gas-related terms, videos of the Company's facilities and even the option of allowing suppliers to request natural gas reserves online.

In this regard, the Enagás portal provides exclusive access for different types of visitors who frequently access the site.

Moreover, Enagás has included a section featuring the most important articles and news items on the energy sector published in the press. In order to make all the information possible related to the sector constantly available to all visitors, an up-to-date schedule is also available that details the most important events and courses in the energy sector in Spain and abroad.

With its sights set on representing a meeting point for gas-related matters, Enagás' corporate portal offers visitors the opportunity to be in the know, with a list of the most notable web pages in the world of energy.

Corporate Responsibility (CR) is one of the Company's priorities. A new section on the portal outlines its commitment to this and the different social endeavours spearheaded by Enagás.

In this sense, content on the environment and prevention has also been strengthened with special emphasis placed on quality. In this area, Enagás received recognition that certifies the gas measurement process used throughout



the gas system in accordance with regulation UNE-EN ISO 9001:2000.

With the aim of constantly incorporating new content, always with a commitment to providing the best, most up-to-date information, the Enagás portal has been launched with the purpose of becoming a reference for natural gas in Spain.

Since 19 June, 2006, visitors have accessed nearly three million pages on the site, which averages at approximately 7,600 pages visited a day.

In 2006, over 2,000 e-mails from the web mailbox requesting all types of information were also answered.



> Corporate Responsibility

> SOCIAL ACTION

Enagás aims to carry out its activities in a socially responsible way. Among the Company's main objectives are the social and cultural development of, and assistance to, the local communities where it operates.

To this end, the Company funds projects supporting disadvantaged groups such as the elderly, the disabled and underprivileged children.

In 2006, Enagás financed 10 "complete education support" grants in collaboration with the Madrid Down's Syndrome Foundation for children aged six to 18 who have Down's Syndrome and additional disabilities. The grants help these young people, throughout their educational life, to become fully integrated into all aspects of home, school, work and social life.

Enagás also financed the refurbishment of the ASPANIS headquarters in the region of Palencia. ASPANIS works with people in the region with mental disabilities. The Company also helped the Santa Lucía senior citizens' home in Denia, Alicante, to improve and adapt its installations. Improved access has allowed residents to get out and enjoy the gardens more, and to grow their own produce.

In keeping with the Company's commitment to helping protect the young, Enagás has also collaborated with various schools by, among other things, making donations, both financial and otherwise, to *Nuevo Futuro's* second-hand market in Madrid. *Nuevo Futuro* is an NGO, which helps to provide a better life for those youngsters marginalised from society and growing up outside the family home.



Enagás also donated IT equipment to state-run schools and various other social and educational organisations with the aim of helping provide all groups in society with access to the latest information technology.

Esupports cultural activities through the sponsorship of various events and activities organised by leading cultural groups. Once again Enagás collaborated with the theatre group, which aims to foster the free creation and representation of lyrical and musical art and choreography and promote research into Spain's lyrical and musical heritage.

One of the main concerns of the Company's Environmental strategic plan is environmental conservation, particularly in those areas where the Company operates. With this in mind, the Company continued to support the environmental education programme of the environmental group, –(ADENEX), for the Sierra Grande de Hornachos Nature Reserve in Badajoz. This Association contributes to the protection and defence of the nature reserves and the common historical, artistic and cultural heritage of the region.

The commitment and practical work undertaken by the Company in matters concerning the environment are covered in more detail in Enagás' Environmental Report.

Throughout 2006 Enagás continued to support initiatives aimed at developing sound corporate governance practices. A practical demonstration of these principles is our collaboration with Acción Social Empresarial (ASE) – Social Action in Business - designed to encourage business and executive thinking on the importance of social responsibility in the environment they work in.

In 2006, the Company continued to take part, with exhibitions and talks, at the country's most important energy forums such as the Instituto de Empresa and the Club Español de la Energía and Sedigas, amongst others.

The Company also collaborated with other bodies whose activities were of interest to Enagás.



ACKNOWLEDGEMENTS

In recognition of its work concerning Corporate Social Responsibility (CSR), in September 2006 Enagás was admitted to the FTSE4Good Index which includes companies considered benchmarks in best CSR practices. This is the most selective index of its kind and there are currently only 11 Spanish companies included.

In order to qualify for entry to the FTSE4Good Index, a company must first be in the FTSE Developed Index Series. This is a stock market index created by the FTSE Group covering 23 international markets with over 2,000 potential members.

A committee of independent advisers, experts in socially responsible investment and Corporate Social Responsibility, review these indices every six months to ensure they are a fair reflection of best CSR practices. Investors worldwide use these FTSE Indices to evaluate earnings, manage assets and analyse investments.

For inclusion, eligible companies must meet criteria requirements in the following areas: working towards environmental sustainability; upholding and supporting universal human rights; and developing positive relationships with shareholders. When the FTSE4Good was reviewed in September 2006 and when Enagás was the only Spanish company admitted, environmental sustainability and supporting universal human rights were the most highly rated requirements.



Also, Enagás has been a member of the United Nations Global Compact since 2003. This is an ethical commitment initiative which encourages companies worldwide to incorporate into their strategy and operations the 10 universal principles concerning human rights, work, the environment, and anti-corruption.

It aims to promote the creation of a global corporate citizenship capable of reconciling business interests and processes with the values and demands of society as well as UN and International Organisation sector projects and trade union and NGO schemes.

Enagás provides a public and transparent record of the progress made in this field in an annual report published on the Asociación Española del Pacto Mundial (Spanish Global Compact Association, "ASEPAM") website at www.pactomundial.org.

Principles of the Global Compact

Principle 1

Businesses should support and respect the protection of internationally proclaimed human rights.

Principle 2

They must make sure that they are not complicit in human rights abuses.

Principle 3

Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining.

Principle 4

They should uphold the elimination of all forms of forced and compulsory labour.

Principle 5

Businesses should uphold the effective abolition of child labour.

Principle 6

They should uphold the elimination of discrimination in respect of employment and occupation.

Principle 7

Businesses should support a precautionary approach to environmental challenges.

Principle 8

They should undertake initiatives to promote greater environmental responsibility.

Principle 9

Businesses should encourage the development and diffusion of environmentally friendly technologies.

Principle 10

Businesses should work against all forms of corruption, including extortion and bribery.



> Corporate Governance





A OWNERSHIP STRUCTURE

A.1. COMPLETE THE FOLLOWING TABLES ON THE COMPANY'S SHARE CAPITAL:

Last modified	Share capital (€)	Number of shares
05/03/2002	358,101,390.00	238,734,260

If there are different types of shares, please list them in the table below:

Type	Number of shares	Unit face value

A.2. LIST THE DIRECT AND INDIRECT HOLDERS OF SIGNIFICANT SHARES IN YOUR ORGANIZATION AT THE END OF THE YEAR, EXCLUDING MEMBERS OF ITS BOARD DIRECTORS:

Name or corporate name of shareholder	Number of shares held directly	Number of shares held indirectly (*)	% of total share capital
GAS NATURAL SDG, S.A.	11,936,703	0	5.0
ATALAYA INVERSIONES, SRL	0	11,936,714	5.0
CAJASTUR (CAJA DE AHORROS DE ASTURIAS)	0	11,937,395	5.0

(*) Through:

Name or corporate name of direct shareholder	Number of shares held directly	% of share capital
SAGANE INVERSIONES S.L.	11,936,714	5.0
CANTÁBRICA DE INVERSIONES DE CARTERA, S.L.	11,937,395	5.0
Total:	23,874,109	

Indicate the most significant movements in the ownership structure during the year:

Name or corporate name of shareholder	Date of the operation	Description of the operation
GAS NATURAL SDG, S.A.	08/08/2006	Reduction of 5% stake

A.3. COMPLETE THE FOLLOWING TABLES ON COMPANY SHARES HELD BY DIRECTORS:

Name or corporate name of director	Date of first appointment	Date of last appointment	Number of shares held directly	Number of shares held indirectly (*)	% of total share capital
MR. ANTONIO GONZÁLEZ-ADALID GARCÍA-ZOZAYA	09/29/2000	04/30/2004	15,979	0	0.007
BANCAJA (CAJA DE AHORROS DE VALENCIA, CASTELLÓN Y ALICANTE)	07/09/2002	04/25/2003	11,936,713	0	5.000
CAM (CAJA DE AHORROS DEL MEDITERRÁNEO)	04/25/2003	04/25/2003	0	12,002,000	5.027
MR. SALVADOR GABARRÓ SERRA	11/18/2004	04/22/2005	10	0	0.000
MRS. TERESA GARCÍA-MILÁ LLOVERAS	04/22/2006	04/22/2006	200	0	0.000
MR. DIONISIO MARTÍNEZ MARTÍNEZ	05/31/2002	04/22/2006	2,010	0	0.001
MR. LUIS JAVIER NAVARRO VIGIL	07/09/2002	04/25/2003	10	0	0.000
MR. MARTÍ PARELLADA SABATA	03/17/2005	04/22/2005	110	0	0.000
MR. RAMÓN PÉREZ SIMARRO	06/17/2004	04/22/2005	100	0	0.000
MR. ANTONIO TÉLLEZ DE PERALTA	09/19/2005	04/22/2006	400	0	0.000

(*) Through:

Name or corporate name of direct shareholder	Number of shares held directly
INCOMED, S.L. (INVERSIONES COTIZADAS DEL MEDITERRÁNEO, S.L.)	12,002,000
Total:	12,002,000

% of total equity held by the Board of Directors	10.035
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Complete the following tables on Company share options held by Directors:

Name or corporate name of director	Number of share options held directly	Number of share options held indirectly	Number of equivalent shares	% of total share capital
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A.4. WHERE APPLICABLE INDICATE ANY FAMILY, COMMERCIAL, CONTRACTUAL OR CORPORATE RELATIONSHIPS BETWEEN OWNERS OF SIGNIFICANT SHAREHOLDINGS AS THEY BECOME KNOWN TO THE COMPANY, UNLESS THEY ARE INSIGNIFICANT OR DERIVE FROM ORDINARY TRADING OR EXCHANGE ACTIVITIES:

Related name or corporate name	Type of relationship	Brief description
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A.5. WHERE APPLICABLE INDICATE ANY COMMERCIAL, CONTRACTUAL OR CORPORATE RELATIONSHIPS BETWEEN OWNERS OF SIGNIFICANT SHAREHOLDINGS AS THEY BECOME KNOWN TO THE COMPANY, UNLESS THEY ARE INSIGNIFICANT OR DERIVE FROM ORDINARY TRADING OR EXCHANGE ACTIVITIES:

Related name or corporate name	Type of relationship	Brief description
BANCAJA (CAJA DE AHORROS DE VALENCIA, CASTELLÓN Y ALICANTE)	Corporate	DIVIDEND PAYMENT CORRESPONDING TO 2005. AMOUNT (IN THOUSANDS OF €): 4,774.
BANCAJA (CAJA DE AHORROS DE VALENCIA, CASTELLÓN Y ALICANTE)	Commercial	CREDIT LINE IN 2006. AMOUNT (IN THOUSANDS OF €): 6,000



>	BANCAJA (CAJA DE AHORROS DE VALENCIA, CASTELLÓN Y ALICANTE)	Commercial	GUARANTEES IN 2006. AMOUNT (IN THOUSANDS OF €): 6,000
	BANCAJA (CAJA DE AHORROS DE VALENCIA, CASTELLÓN Y ALICANTE)	Contractual	INTEREST RATE COLLAR FOR THE PERIOD JAN 2005/APR 2008. AMOUNT (IN THOUSANDS OF €): 15,000.
	CANTÁBRICA DE INVERSIONES DE CARTERA, S.L.	Corporate	DIVIDEND PAYMENT CORRESPONDING TO 2005. AMOUNT (IN THOUSANDS OF €): 4,774.
	CAJASTUR (CAJA DE AHORROS DE ASTURIAS)	Commercial	CREDIT POLICY. AMOUNT (IN THOUSANDS OF €): 6,000
	CAJASTUR (CAJA DE AHORROS DE ASTURIAS)	Commercial	GUARANTEE LINE. AMOUNT (IN THOUSANDS OF €): 6,000.
	CAJASTUR (CAJA DE AHORROS DE ASTURIAS)	Commercial	PARTICIPATION OF CAJASTUR IN THE CLUB DEAL TAKEN OUT ON 24/11/2004 AND PAID ON 10/01/2005. AMOUNT (IN THOUSANDS OF €): 30,000
	CAM (CAJA DE AHORROS DEL MEDITERRÁNEO)	Corporate	DIVIDEND PAYMENT CORRESPONDING TO 2005 PAID TO INCOMED, S.L.. AMOUNT (IN THOUSANDS OF €): 4,800
	CAM (CAJA DE AHORROS DEL MEDITERRÁNEO)	Commercial	CREDIT LINE. AMOUNT (IN THOUSANDS OF €): 6,000
	CAM (CAJA DE AHORROS DEL MEDITERRÁNEO)	Commercial	GUARANTEE LINE AMOUNT (IN THOUSANDS OF €): 12,000
	CAM (CAJA DE AHORROS DEL MEDITERRÁNEO)	Commercial	INTEREST RATE COLLAR FOR THE PERIOD JAN 2005/APR 2008. AMOUNT (IN THOUSANDS OF €): 15,000.
	GAS NATURAL SDG, S.A.	Corporate	DIVIDEND PAYMENT CORRESPONDING TO 2005. AMOUNT (IN THOUSANDS OF €): 8,441.
	GAS NATURAL SDG, S.A.	Contractual	SERVICES RELATING TO THIRD PARTY ACCESS TO ENAGÁS INFRASTRUCTURE (TPA) IN 2006: REGASIFICATION OF 74,356GWH: AMOUNT (THOUSANDS OF €):50,297. TRANSPORTATION OF 150,306 GWH, AMOUNT (THOUSANDS OF €): 76.740; AVERAGE STORAGE OF 9.082 GWH: AMOUNT (IN THOUSANDS OF €): 22,915. TOTAL AMOUNT TPA SERVICES (IN THOUSANDS OF €): 149,952.
	GAS NATURAL SDG, S.A.	Contractual	GAS PURCHASES FOR THE TARIFF MARKET IN 2006: COMPANIES BELONGING TO THE GAS NATURAL GROUP HAVE SUPPLIED ENAGÁS NATURAL GAS FOR TARIFF MARKET CUSTOMERS TO THE AMOUNT OF 55,285 GWH, AMOUNT (IN THOUSANDS OF €): 1,117,466. NATURAL GAS PURCHASES OF 2,113GWH DURING THE SECOND HALF OF 2006 TO ENSURE ENAGÁS' GAS PIPELINES AND TANKS MET MINIMUM CAPACITY. AMOUNT (IN THOUSANDS OF €): 42,702; 273GWH TO MEET THE MINIMUM CAPACITY REQUIREMENTS OF GAS PIPELINES AND TANKS OF OTHER

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		TRANSPORTERS. AMOUNT (IN THOUSANDS OF €): 5,526. TOTAL AMOUNT (IN THOUSANDS OF €) OF GAS PURCHASED TO SUPPLY THE TARIFF MARKET IN 2006: 1,165,694.
GAS NATURAL SDG, S.A.	Contractual	SALE OF ENAGÁS GAS TO DISTRIBUTORS BELONGING TO THE GAS NATURAL GROUP IN 2006: 43,529 GWH. AMOUNT (IN THOUSANDS OF €): 904,669
GAS NATURAL SDG, S.A.	Contractual	LEASE OF OPTIC FIBRE DEVELOPED BY CABLE, S.A. TO ENAGÁS. COST OF SERVICE (IN THOUSANDS OF €): 17,733.
GAS NATURAL SDG, S.A.	Contractual	RENTAL OF MINIMUM SECURITY STOCKS TO ENAGÁS. COST (IN THOUSANDS OF €): 3,452.
GAS NATURAL SDG, S.A.	Contractual	STORAGE OF LNG IN TANKERS. COST (IN THOUSANDS OF €): 5,990.
GAS NATURAL SDG, S.A.	Contractual	SERVICES SUPPLIED BY ENAGÁS TO COMPANIES BELONGING TO THE GAS NATURAL GROUP: MAINTENANCE SERVICES – AMOUNT (IN THOUSANDS OF €) 2,131; INFRASTRUCTURE CONNECTION SERVICES - AMOUNT (IN THOUSANDS OF €): 3,026; AND OTHER SERVICES - AMOUNT (IN THOUSANDS OF €): 918. TOTAL REVENUES FROM SERVICES RENDERED AMOUNT (IN THOUSANDS OF €) 6,075.
SAGANE INVERSIONES S.L.	Corporate	DIVIDEND PAYMENT CORRESPONDING TO 2005. AMOUNT (IN THOUSANDS OF €): 4,795.

A.6. INDICATE ANY SHAREHOLDERS AGREEMENTS THAT HAVE BEEN REPORTED TO THE COMPANY:

Participants in shareholders agreement	% of share capital affected	Brief description of the agreement
ENAGÁS, S.A.	0,000	THERE ARE NO AGREEMENTS BETWEEN ENAGÁS SHAREHOLDERS

Indicate any concerted actions among shareholders of which the Company is aware:

Participants in concerted actions	% of share capital affected	Brief description of the concerted action
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Expressly indicate any modification or termination of such agreements or concerted actions during the year.

A.7. INDICATE WHETHER ANY PERSON OR COMPANY EXERCISES CONTROL, OR MAY EXERCISE CONTROL, OVER THE COMPANY UNDER THE TERMS SET FORTH IN ARTICLE 4 OF THE SECURITIES' MARKET LAW:

Name or corporate name
ENAGÁS, S.A.

Comments
NO PERSON OR COMPANY EXERCISES OR MAY EXERCISE CONTROL OVER THE COMPANY.

A.8. COMPLETE THE FOLLOWING TABLES ABOUT THE COMPANY'S TREASURY STOCK:

At year end:

Number of shares held directly	Number of shares held indirectly (*)	% of total share capital
0	0	0,000

(*) Through:

Name or corporate name of direct shareholder	Number of shares held directly
Total:	

List any significant changes occurring during the year, as defined by Royal Decree 377/1991:

Date	Number of shares held directly	Number of shares held indirectly	% of total share capital

Income from treasury stock transactions obtained during the year	0
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A.9. DETAIL THE TERMS AND CONDITIONS OF ANY AUTHORISATION(S) CONFERRED ON THE BOARD OF DIRECTORS AT THE GENERAL SHAREHOLDERS' MEETING TO PURCHASE AND/OR TRANSFER THE TREASURY STOCK DESCRIBED IN SECTION A.8. ABOVE.

No authorisation has been conferred on the Board of Directors at the General Shareholders' Meeting to purchase or transfer treasury stock.

A.10. INDICATE ANY RESTRICTIONS UNDER LAW OR THE COMPANY'S ARTICLES OF ASSOCIATION AFFECTING THE EXERCISING OF VOTING RIGHTS OR ANY LEGAL RESTRICTIONS ON THE ACQUISITION AND/OR TRANSFER OF COMPANY STOCK.

In accordance with the 20th Additional Provision of Law 34/1998, dated 7 October governing the Hydrocarbons sector (pursuant to the wording of Law 62/2003 of 30 December), no person or company may own a stake larger than 5% in Enagás' share capital. Voting rights corresponding to the shares owned by shareholders who own a higher percentage are suspended until this limit is reached.

Pursuant to the provision mentioned above, article 6 bis of Enagás' Articles of Association establishes that the sum of the direct and indirect shares held by any of the Company's shareholders may not exceed 5 %.

Therefore, voting rights corresponding to the shares or other securities held by Enagás shareholders over and above the maximum percentage indicated in the paragraph above shall be suspended until their interest is brought into line with this limit.

With regard to attendance and voting rights, article 27 of the Company's Articles of Association establishes that "All shareholders owning at least 100 shares, which must be registered in the corresponding shareholders' register of an entity affiliated to the Management Company of Securities Registration, Clearing and Settlement Systems at least five days prior to the date scheduled for the general meeting, may attend and vote at the general meetings. Shareholders who do not own this number of shares may group together and appoint a proxy, and shares belonging to each shareholder individually and by proxy may be accumulated".

B. STRUCTURE OF CORPORATE ADMINISTRATION

B.1. BOARD OF DIRECTORS

B.1.1. List the maximum and minimum number of directorships stipulated by the Articles of Association:

Maximum number of Directors	16
Minimum number of Directors	6

B.1.2. Complete the following table with Board members' details:

Name or corporate name of director	Representative	Position on the Board	Date of first appointment	Date of last appointment	Election procedure
ANTONIO GONZÁLEZ-ADALID GARCÍA-ZOZAYA		CHAIRMAN	09/29/2000	04/30/2004	GENERAL SHAREHOLDERS' MEETING
JESÚS DAVID ÁLVAREZ MEZQUÍRIZ		DIRECTOR	04/25/2003	04/25/2003	GENERAL SHAREHOLDERS' MEETING
BANCAJA (CAJA DE AHORROS DE VALENCIA, CASTELLÓN Y ALICANTE)	JOSÉ LUIS OLIVAS MARTÍNEZ	DIRECTOR	07/09/2002	04/25/2003	GENERAL SHAREHOLDERS' MEETING
CAM (CAJA DE AHORROS DEL MEDITERRÁNEO)	VICENTE SALA BELLÓ	DIRECTOR	04/25/2003	04/25/2003	GENERAL SHAREHOLDERS' MEETING
CARLOS EGEA KRAUEL		DIRECTOR	07/09/2002	04/25/2003	GENERAL SHAREHOLDERS' MEETING
SALVADOR GABARRÓ SERRA		DIRECTOR	11/18/2004	04/22/2005	CO-OPTION
TERESA GARCÍA-MILÁ LLOVERAS		DIRECTOR	04/22/2006	04/22/2006	GENERAL SHAREHOLDERS' MEETING
MIGUEL ÁNGEL LASHERAS MERINO		DIRECTOR	04/22/2006	04/22/2006	GENERAL SHAREHOLDERS' MEETING
ANTONIO LLARDÉN CARRATALÁ		DIRECTOR	04/22/2006	04/22/2006	GENERAL SHAREHOLDERS' MEETING
DIONISIO MARTÍNEZ MARTÍNEZ		DIRECTOR	05/31/2002	04/22/2006	GENERAL SHAREHOLDERS' MEETING
LUIS JAVIER NAVARRO VIGIL		DIRECTOR	07/09/2002	04/25/2003	CO-OPTION
MARTÍ PARELLADA SABATA		DIRECTOR	03/17/2005	04/22/2005	CO-OPTION
PEÑA RUEDA, S.L.U.	MANUEL MENÉNDEZ MENÉNDEZ	DIRECTOR	04/30/2004	04/30/2004	GENERAL SHAREHOLDERS' MEETING
RAMÓN PÉREZ SIMARRO		DIRECTOR	06/17/2004	04/22/2005	CO-OPTION
JOSÉ RIVA FRANCOS		DIRECTOR	05/31/2002	04/22/2006	GENERAL SHAREHOLDERS' MEETING
ANTONIO TÉLLEZ DE PERALTA		DIRECTOR	09/19/2005	04/22/2006	CO-OPTION
Total number of Directors				16	

Indicate any Directors leaving the Board during this period:

Name or corporate name of director	Leaving date
JÓSE MANUEL FERNÁNDEZ NORNIELLA	04/22/2006
SIR. ROBERT MALPAS	04/22/2006
RAFAEL VILLASECA MARCO	04/22/2006

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

EXECUTIVE DIRECTORS

Name or corporate name of director	Committee proposing the appointment	Post held in the company
ANTONIO GONZÁLEZ-ADALID GARCÍA - ZOZAYA	APPOINTMENTS AND REMUNERATION COMMITTEE	CHAIRMAN

NON-INDEPENDENT EXTERNAL DIRECTORS

Name or corporate name of director	Committee proposing the appointment	Name or corporate name of significant shareholder represented or proposing the 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)	BOARD OF DIRECTORS	CAM (CAJA DE AHORROS DEL MEDITERRÁNEO)
CARLOS EGEA KRAUEL	BOARD OF DIRECTORS	SAGANE INVERSIONES, S.L.
SALVADOR GABARRÓ SERRA	BOARD OF DIRECTORS	GAS NATURAL SDG, S.A.
ANTONIO LLARDÉN CARRATALÁ	APPOINTMENTS AND REMUNERATION COMMITTEE	GAS NATURAL SDG, S.A.
PEÑA RUEDA, S.L.U.	APPOINTMENTS AND REMUNERATION COMMITTEE	CAJASTUR (CAJA DE AHORROS DE ASTURIAS)

INDEPENDENT EXTERNAL DIRECTORS

Name or corporate name of director	Committee proposing the appointment	Background
JESÚS DAVID ÁLVAREZ MEZQUÍRIZ	APPOINTMENTS AND REMUNERATION COMMITTEE	DIRECTOR OF BODEGAS VEGA SICILIA, S.A.; MANAGING DIRECTOR OF EULEN, S.A. AND DIRECTOR OF EL ENEBRO, S.A.
TERESA GARCÍA-MILÁ LLOVERAS	APPOINTMENTS AND REMUNERATION COMMITTEE	FELLOW IN ECONOMICS AT THE POMPEU FABRA UNIVERSITY; MEMBER OF THE "CÍRCULO DE ECONOMÍA" AND MEMBER OF CREI (RESEARCH CENTRE FOR INTERNATIONAL ECONOMICS) AND ECONOMICS COORDINATOR OF ANEP (SPANISH EVALUATION AND FORECASTING AGENCY). >

> MIGUEL ÁNGEL LASHERAS MERINO	APPOINTMENTS AND REMUNERATION COMMITTEE	CHAIRMAN OF INTERMONEY ENERGÍA, S.A. AND DeWIND TO MARKET, S.A.
DIONISIO MARTÍNEZ MARTÍNEZ	BOARD OF DIRECTORS	LAWYER AND CHAIRMAN OF BOYSEP INVESTMENT SICAV, S.A. AND SECRETARY TO THE BOARD OF DIRECTORS AT EBN BANCO DE NEGOCIOS, S.A.
MARTÍ PARELLADA SABATA	APPOINTMENTS AND REMUNERATION COMMITTEE	CHAIRMAN OF COMFOR, S.A.; DIRECTOR OF AGRUPACIÓN MUTUAL (MUTUA) BELONGING TO THE CHAMBER OF INDUSTRY; DIRECTOR OF EPLICSA, S.A. AND DIRECTOR OF FIBRACOLOR, S.A.
RAMÓN PÉREZ SIMARRO SIMARRO	APPOINTMENTS AND REMUNERATION COMMITTEE	FORMER DIRECTOR GENERAL FOR ENERGY (1990); FORMER SECRETARY GENERAL FOR ENERGY AND MINERAL RESOURCES (1990-1993); AS HEAD OF THE ENERGY SECTOR HE ORCHESTRATED THE DEREGULATION OF THE OIL SECTOR IN SPAIN, AND PUSHED THROUGH THE SPANISH NATIONAL ENERGY PLAN (1991-2000); FORMER TECHNICAL SECRETARY GENERAL AT THE MINISTRY OF INDUSTRY; FORMER LECTURER IN ECONOMIC THEORY AT MADRID'S UNIVERSIDAD AUTÓNOMA; AND ACADEMIC DIRECTOR OF THE REPSOL YPF FOUNDATION.
JOSÉ RIVA FRANCOS	BOARD OF DIRECTORS	DIRECTOR OF LOGISTA, S.A.; DIRECTOR OF REE (RED ELÉCTRICA DE ESPAÑA, S.A.); VICE CHAIRMAN AND MANAGING DIRECTOR OF COMPANIES BELONGING TO THE SUARDIAZ GROUP.
ANTONIO TÉLLEZ DE PERALTA	APPOINTMENTS AND REMUNERATION COMMITTEE	OPERATIONS MANAGER AT LECHE PASCUAL.

OTHER EXTERNAL DIRECTORS

Name or corporate name of director	Committee proposing the appointment
LUIS JAVIER NAVARRO VIGIL	APPOINTMENTS AND REMUNERATION COMMITTEE

List the reasons why they may not be considered independent directors:

The shareholder (B.P. España S.A.U.) who proposed his appointment as an Independent Director on 15/11/2006 has sold its entire stake in the Company. However, he is not considered to be an Independent Director as he holds, or has held, a significant business relationship with the Company during the past year.

It was decided to classify Luis Javier Navarro Vigil under the category “Other External Directors” as he did not meet all the conditions required to be classified as an “Independent Director” as stipulated by the “Unified Code of Corporate Good Governance” related to Order ECO/3722/2003 of 26 December and CNMV circular 1/2004 at 17 March.

List any changes in the classification of each Director which have occurred during the period:

Name or corporate name of director	Date of change	Previous type	Current type
LUIS JAVIER NAVARRO VIGIL	11/15/2006	NON-INDEPENDENT EXTERNAL DIRECTOR	OTHER EXTERNAL DIRECTOR

B.1.4. Indicate whether the type of directorships mentioned in the previous point correspond to the distribution established in the Board regulations.

The type of Directorships correspond to the distribution established in section 2 of article 3 of Enagás’ Board of Directors regulations, which stipulate two types of Directorship:

1. Internal or executive directors: Directors with executive and senior management functions within the Company. These must not account for more than 20% of the total number of Board members.
2. External directors: Who may be either:
 - 2.1. Non-independent: Directors proposed by owners of significant stable shareholdings in the Company.
 - 2.2. Independent: Directors of high professional standing who are able to contribute their experience and knowledge to corporate governance and being neither executive nor non-independent, ensure impartiality and objectivity.

When submitting proposals at the General Shareholders’ meeting and co-opting members to cover vacancies, the Board of Directors shall endeavour to ensure that the Board is composed of a majority of independent directors in relation to executive members.

B.1.5. Indicate, where applicable, any powers delegated to Managing Directors:

Name or corporate name of director	Brief description
ANTONIO GONZÁLEZ-ADALID GARCÍA-ZOZAYA	FULL POWERS OF REPRESENTATION AND ADMINISTRATION, AND AUTHORITY OVER ALL COMPANY OPERATIONS. THESE INCLUDE THE DELEGATION OF ALL THE BOARD OF DIRECTORS’ POWERS, EXCEPT FOR THOSE WHICH MAY NOT BE DELEGATED BY LAW OR UNDER ENAGÁS’ BOARD OF DIRECTORS REGULATIONS.

B.1.6. List any Board members holding senior management or directive positions in other companies belonging to the listed Company's group:

Name or corporate name of director	Name of group company	Post

B.1.7. List all Board members who are also members of the Board of Directors of other companies listed on official securities markets in Spain, other than your own Group, that have been reported to the Company:

Name or corporate name of director	Listed company	Post
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
CAM (CAJA DE AHORROS DEL MEDITERRÁNEO)	METROVACESA	DIRECTOR
CAM (CAJA DE AHORROS DEL MEDITERRÁNEO)	SOL MELIÁ, S.A.	DIRECTOR
MR. CARLOS EGEA KRAUEL	CECA (CONFEDERACIÓN ESPAÑOLA DE CAJAS DE AHORROS)	SECRETARY TO THE BOARD
MR. SALVADOR GABARRÓ SERRA	GAS NATURAL SDG, S.A.	CHAIRMAN
MR. SALVADOR GABARRÓ SERRA	LA CAIXA (CAJA DE AHORROS Y PENSIONES DE BARCELONA)	VICECHAIRMAN
MR. DIONISIO MARTÍNEZ MARTÍNEZ	BOYSEP INVESTMENT SICAV, S.A.	CHAIRMAN
MR. LUIS JAVIER NAVARRO VIGIL	CLH (COMPAÑÍA LOGÍSTICA DE HIDROCARBUROS, S.A.)	DIRECTOR
MR. JOSÉ RIVA FRANCOS	LOGISTA (COMPAÑÍA DE DISTRIBUCIÓN INTEGRAL LOGISTA, S.A.)	DIRECTOR
MR. JOSÉ RIVA FRANCOS	RED ELÉCTRICA DE ESPAÑA, S.A.	DIRECTOR

B.1.8. Complete the following tables indicating the aggregate remuneration paid to Directors during the year.

a) For Directors of the company subject to this report:

Concept	Thousands of €
Fixed remuneration	800
Variable remuneration	2,427
Per diems	1,013
Statutory compensation	0
Options on shares and/or other financial instruments	0
Other	16
Total:	4,256

Other benefits	Thousands of €
Advances	0
Loans	320
Funds and pension plans: contributions	10
Funds and pension plans: obligations	0
Life insurance premiums	82
Guarantees issued by the company in favour of directors	0

b) For Directors belonging to other boards of directors and/or holding senior management posts in Group companies:

Concept	Thousands of €
Fixed remuneration	0
Variable remuneration	0
Per diems	0
Statutory compensation	0
Options on shares and/or other financial instruments	0
Other	0
Total:	0

Other benefits	Thousands of €
Advance	0
Loans	0
Funds and pension plans: contributions	0
Funds and pension plans: obligations	0
Life insurance premiums	0
Guarantees issued by the company in favour of directors	0

c) Total remuneration by type of directorship:

Type of directorship	Company	Group
Executive	3,301	0
Non-independent external directors	376	0
Independent external directors	505	0
Other external directors	74	0
Total:	4,256	0

d) Remuneration as a percentage of parent company attributable profit:

Total remuneration received by directors (in thousands of €)	4,256
Total remuneration received by directors/ parent company attributable profit (%)	1,770

B.1.9. List senior management members who are not executive directors and indicate the total remuneration accruing to them during the year:

Name or corporate name	Post
MR. JOSÉ FERRÁNDIZ ALARCÓN DE LA LASTRA	TECHNICAL SECRETARY
ANTONIO GARCÍA MATEO	GENERAL MANAGER FOR TECHNOLOGY, ENGINEERING AND PURCHASING
FRANCISCO JAVIER GONZÁLEZ JULIÁ	GENERAL MANAGER FOR SYSTEMS OPERATIONS
DIEGO DE REINA LOVERA	FINANCE DIRECTOR
JUAN MANUEL LLABRÉS ESTABEN	GENERAL MANAGER FOR STRATEGY AND REGULATION
ERUNDINO NEIRA QUINTAS	HEAD OF HUMAN RESOURCES
RAFAEL PIQUERAS BAUTISTA	LEGAL DIRECTOR
RAMÓN SÁNCHEZ VALERA	GENERAL MANAGER FOR INFRASTRUCTURE

Total remuneration received by senior directors (in thousands of €)	3,691
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B.1.10. Identify in aggregate terms any guarantee or protective clauses benefiting senior management (including executive directors) of the Company or its Group. Indicate whether these clauses have to be reported to and/or authorised by the governing bodies of the Company or its Group:

Number of beneficiaries	9
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	Board of Directors	Shareholders' Meeting
Body authorising clauses	X	
	Yes	No
Is the General Shareholders' meeting informed of these clauses €		X

B.1.11. Indicate the procedures for establishing Board members' remuneration and any relevant clauses in the Articles of Association regarding this payment.

The procedures for establishing Board members' remuneration are established in article of 36 of the Company's Articles of Association as follows:

"Directorships shall be remunerated". The total remuneration to be received by members of the Board of Directors shall be determined at the General Shareholders' meeting. This amount shall be paid in cash on an annual basis or for the period of time agreed at the meeting.

It may be agreed at the General meeting to allocate part of this remuneration to all members of the board equally in compensation for their role as Director, and part may be distributed by the Board of Directors itself in accordance with criteria established at the General meeting.

Board members may also be remunerated with Company shares, options on shares or other securities which give them the right to obtain shares or through other remuneration systems not linked to the share price performance. The application of these systems shall be approved at the General meeting, where the reference value of the shares shall be determined, along with the number of shares to be delivered to each Board member, the exercise price for the share options, the duration of the plan and any other pertinent conditions.

The remuneration referred to in this article shall be compatible with and independent from all salaries, remuneration, reimbursements, pensions or other types of compensation, established on a collective or individual basis for those members of the Board of Directors employed by the company in a normal or special senior management position or as a services provider. These functions shall be compatible with their role as member of the Board of Directors.

Members of the Board of Directors shall be entitled to receive payment or reimbursement for expenses relating to the attendance of meetings and other tasks directly linked with their directorship such as travel, accommodation and per diem expenses, and any other expense which they may incur.

In relation to the above, Enagás has established a remuneration system for Directors designed to cover both the responsibilities linked to the post, their dedication and attendance of meetings, without prejudice to the responsibilities of the Shareholders, who are empowered with setting the maximum amounts to be paid to Directors and the systems and

criteria to be adopted for distributing this remuneration, which shall be determined by the Board of Directors following the guidelines set down at the General Meeting.

Additionally, article 16 of the Board of Directors' Regulations stipulates that the Appointments and Remuneration Committee shall establish the remuneration criteria for members of the Board of Directors pursuant to the Company's Articles of Association and the General meeting, while the Board of Directors itself shall be responsible for the distribution of the global amount, within the limits defined by the Articles of Association. The remuneration of Directors shall be transparent. The notes to the annual accounts and annual corporate governance report shall contain the information considered necessary regarding the remuneration received by members of the Board of Directors for tasks related to this post.

B.1.12. Indicate the identity of any Board members who sit on board(s) of directors or hold senior management posts in companies having significant shareholdings in the listed company and/or its group companies:

Name or corporate name of director	Name or corporate name of significant shareholder	Post
SALVADOR GABARRÓ SERRA	GAS NATURAL SDG,S.A.	CHAIRMAN
ANTONIO LLARDÉN CARRATALÁ	GAS NATURAL SDG,S.A.	MANAGING DIRECTOR OF RESOURCES

LIST, IF APPROPRIATE, ANY RELEVANT RELATIONS OTHER THAN THOSE INDICATED IN THE SECTION ABOVE THAT LINK MEMBERS OF THE BOARD OF DIRECTORS WITH SIGNIFICANT SHAREHOLDERS AND/OR THEIR GROUP COMPANIES:

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

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

No modifications have been made to Board regulations, and the text of the regulations filed with the Companies Register on 27 April 2004, previously communicated to a published by the CNMV on its website, remains unchanged.

B.1.14. Indicate the procedures for the appointment, re-election, assessment and removal of directors. List the competent bodies, the steps to be followed and the criteria to be applied in each procedure.



APPOINTMENT OF DIRECTORS:

Under article 8 of Enagás' Board of Directors' Regulations "Directors shall be appointed at the General Shareholders' meeting or by the Board of Directors, in accordance with the Spanish Companies Law (LSA) and the Company's Articles of Association".

Directors shall hold office for a maximum of four years, after which they may be re-elected. Members of the Board of Directors who have been appointed by co-option shall hold office until the date of the first General Shareholders' Meeting following their appointment.

In addition to meeting the requirements for the post stipulated by law and the Company's Articles of Association, Directors shall be persons of high standing and have the necessary knowledge and expertise to perform their functions. Candidates for Directorships submitted by the Board of Directors at the General Meeting and appointments made by co-option by this body as part of its remit must be preceded by a proposal from the Appointments and Remuneration Committee.

Recommendations of good governance stipulate that when the Board of Directors disagrees from the proposals put forward by this committee, it must state its reasons for doing so and this statement recorded in the Minutes.

Specific requisites have been set to ensure the independence and impartiality in the appointment of Independent Directors.

In this sense, persons may not be proposed or appointed as Independent Directors if they are related to any significant shareholder at the time the proposal is made. Neither may the following: persons who occupy, or have occupied, senior management posts at the Company during the past two years; direct family members of persons occupying the post of CEO or any senior management position in the Company during the past two years; persons directly or indirectly making or receiving payments to or from the Company which could affect their independence and in general any persons having any relationship with the day-to-day operation of the Company or holding professional or commercial links with executive board members and other senior management staff.

Following these recommendations, the Board of Directors must endeavour to ensure that independent directors make up a large majority of the board compared to executive members.

RE-ELECTION AND EVALUATION OF DIRECTORS:

The Appointments and Remuneration Committee, which is responsible for evaluating the quality of work and commitment of the Directors proposed in their previous term of office, shall provide the information required to assess proposals for the re-election of Directors presented by the Board of Directors at the General Meeting.

As a general rule, an appropriate rotation of Independent Directors should take place. For this reason, when a Director is proposed for re-election, the circumstances supporting his/her continuity in the post must be explained.

REMOVAL AND DISMISSAL OF DIRECTORS:

Directors shall leave their post after the first General Meeting following the end of their term of appointment and in all other cases as set down by law, the Articles of Association and the current Board of Directors' Regulations.

B.1.15. Indicate the circumstances under which Directors may be required to resign.

Directors must tender their resignation to the Board of Directors and, should the Board consider it expedient, prepare a formal letter of resignation, pursuant to article 12 of the Board of Directors' Regulations, in the following situations.

- a) When Executive Directors no longer hold executive posts, other than those on the Board with which their appointment as a Director was associated.
- b) When they are incur in any of the circumstances of incompatibility or prohibition established by law.
- 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 an Independent, Executive or Non-independent Directors is no longer valid.

After a Director resigns from his/her post, he/she may not work for a competitor Company for a period of two years, unless the Board of Directors waives this restriction 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 vesting cumulative powers in a single person:

YES NO

The Chairman of the Board of Directors also performs the duties of Chief Executive Officer. As well as the functions and powers attributed to the post by law and the Articles of Association, the Chairman of the Board of Directors effectively directs the Company's business, in accordance with the decisions and criteria established at the General Meeting and the Board of Directors in their respective competencies.

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

However, the Board of Directors' Regulations contain a detailed list of issues that must be presented to the Board; as a general rule, the Board of Directors has sole decision-making authority in transactions for amounts of more than €3Mn.

Similarly, Enagás' internal regulations on investments and tenders also reserve decision-making authority for the Board in transactions involving sums of over €3Mn.

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

YES NO

INDICATE HOW THE BOARD OF DIRECTORS ADOPTS RESOLUTIONS, DETAILING AT LEAST THE MINIMUM QUORUM OF ATTENDEES AND THE TYPE OF MAJORITY REQUIRED TO PASS RESOLUTIONS:

ADOPTION OF RESOLUTIONS

Description of resolution	Quorum required	Type of Majority
	Article 39 of the Articles of Association and article 7 of the Board of Directors' Regulations state that meetings of the Board of Directors are validly constituted when at least half its members plus one are present or represented, except when the meeting has not been convened, in which case the presence of all members is required.	The aforementioned Articles establish that resolutions shall be adopted with the vote of the majority of Directors present or represented, irrespective of the type of resolution being put to the vote, except in a case of a written vote without a meeting, in which case the vote shall only be valid if no Director opposes this procedure and the requirements of the Trade 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 the Articles of Association or Board of Directors' Regulations establish any age limit for Directors:

YES NO

Age limit for chairman	
Age limit for chief executive	
Age limit for director	

B.1.21. Indicate whether the Articles of Association or Board of Directors' Regulations establish a maximum number of years in office for Directors:

YES NO

Maximum number of years in office	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 Articles of Association states that Directors may delegate powers of representation and voting rights to other Directors, but that no attendee may hold more than two representations or voting proxies.

Furthermore, pursuant to article 7.3 of the Board of Directors' Regulations, powers to represent absent Directors may be conferred 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 held in the year. Indicate also the number of times, if any, which the Board met in the absence of its Chairman:

Number of Board meetings	12
Number of Board meetings held in the absence of the Chairman	0

INDICATE THE NUMBER OF BOARD COMMITTEE MEETINGS HELD IN THE YEAR:

Number of Executive Committee meetings	0
Number of Audit Committee meetings	4
Number of Appointments and Remuneration Committee meetings	4
Number of Strategy and Investment Committee meetings	0
Number of Committee meetings	0

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

YES NO

IF SO, IDENTIFY THE PERSON(S) WHO CERTIFY THE COMPANY'S INDIVIDUAL AND CONSOLIDATED FINANCIAL STATEMENTS FOR PRESENTATION TO THE BOARD:

Name	Position
ANTONIO LLARDÉN CARRATALÁ	CHAIRMAN
DIEGO DE REINA LOVERA	FINANCIAL DIRECTOR

B.1.25. Describe any mechanisms the Board of Directors has established to prevent the individual and consolidated financial statements that it has approved being presented at the General Shareholders' Meeting with a qualified auditors report.

Article 5 (section c) of the Board of Directors' Regulations states that the duties of the Board of Directors in relation to the annual financial statements shall include the following:

To present, in clear and precise terms that facilitate proper comprehension of their content, the individual and consolidated financial statements and management report, after obtaining the reports issued by the finance department and the relevant report issued by the Audit and Compliance Committee and the corresponding clarifications.

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

In presenting the financial statements, the Board of Directors shall take into account all comments or recommendations previously made by the Audit and Compliance Committee in its report. In the event that the financial statements differ from the report previously issued by the Audit and Compliance Committee, the Board of Directors shall provide sufficient explanation of the reasons for the discrepancy.

The Board of Directors shall endeavour to present the financial statements in such a way that no qualifications are applied by the Company's statutory auditor. 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 Regulations of the Audit and Compliance Committee states that the Committee shall "operate as a channel of communication between the Board of Directors and the auditors, assessing the results of each au-

dit, and the management team's responses to its recommendations, and mediating and arbitrating in cases of discrepancies between them in relation to the principles and criteria to be applied in the preparation of the financial statements".

Furthermore, as detailed in the Audit and Compliance Committee Report attached to this Corporate Governance Report, throughout 2006 the aforementioned Committee paid close attention to monitoring the financial statements in order to prevent the presentation of financial statements with qualifications from the auditors, to this end holding regular meetings with the auditors and adhering to the auditor's recommendations and requirements at all times. In this respect, it should be emphasised that included among the tasks of the External Auditors is the function of effecting limited quarterly reviews of the financial statements that are presented to the Audit and Compliance Committee.

B.1.26. List measures adopted to ensure that information disclosed to the securities markets is distributed fairly and systematically.

Following the approval of Financial System Reform Act 44/2002, significant changes were made to Securities Market Law pertaining to the disclosure 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:

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

Relevant information shall be disclosed to the CNMV before it is published in any other media and as soon as the event or fact is known, the relevant decision is adopted, or the relevant agreement or contract is signed. The notification shall be accurate, clear and comprehensive in content, and quantified as required by the nature of the operation, in such a way that it does lead to confusion or deceit.

Enagás considers relevant all information that may reasonably affect an investor in the purchase or transfer of stocks or financial instruments and may therefore materially 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 CNMV, asking to be exempted from this obligation.

In order that information that may affect 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 taking remedial action to rectify the consequences of 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. In performing this duty, the Appointments and Remuneration Committee acts in coordination with the Audit and Compliance Committee as appropriate.

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

YES NO

B.1.28. Indicate the mechanisms established by the Company, if any, to ensure the independence of the auditors, financial analysts, investment banks and ratings agencies.

To ensure the independence of the Company’s external auditors, the Audit and Compliance Committee of Enagás must, as one of its core duties, evaluate the Company’s accounts verification system, verify the independence of the External Auditor, review the internal control system, and monitor transparency of information and compliance with internal conduct regulations. One of its functions is to propose to the Board of Directors, for submission to shareholders at the General Meeting, the appointment of external accounts auditors in accordance with applicable regulations. It also reports on the remuneration of such external auditors, and liaises with them to obtain information on any issues that may jeopardise their independence.

It is the Board of Directors’ responsibility to adopt and implement as many measures as are necessary to ensure the Company’s transparency on the financial markets, to encourage the correct formulation 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 billed for non-audit services (in thousands of €)	525	0	525
Amount billed for non-audit services/total amount billed by the audit firm (as a %)	82.000	0,000	0.000

B.1.30. Indicate the number of consecutive years the current audit firm has audited the annual financial statements 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 financial statements have been audited:

	Company	Group
Number of consecutive years	3	3

	Company	Group
Number of years audited by current audit firm/number of years accounts have been audited (as a %)	14.000	14.000

B.1.31. List the Company directors' holdings in other companies that carry out activities that are the same, similar or complementary to the corporate purpose of the Company and/or its Group that have been reported to the Company. Indicate the positions they hold or duties they perform in these companies:

Name or corporate name director	Name of the Company	% holding	Position or duties
BANCAJA (CAJA DE AHORROS DE VALENCIA, CASTELLÓN Y ALICANTE)	ENDESA, S.A.	0.024	—————
BANCAJA (CAJA DE AHORROS DE VALENCIA, CASTELLÓN Y ALICANTE)	GAS NATURAL SDG, S.A.	0.005	—————
BANCAJA (CAJA DE AHORROS DE VALENCIA, CASTELLÓN Y ALICANTE)	IBERDROLA, S.A.	1.098	—————
BANCAJA (CAJA DE AHORROS DE VALENCIA, CASTELLÓN Y ALICANTE)	UNIÓN FENOSA, S.A.	0.002	—————
CAM (CAJA DE AHORROS DEL MEDITERRÁNEO)	UNIÓN FENOSA, S.A.	5.150	—————
MR. SALVADOR GABARRÓ SERRA	GAS NATURAL SDG, S.A.	0.000	CHAIRMAN
MR. ANTONIO LLARDÉN CARRATALÁ	GAS NATURAL SDG, S.A.	0.000	GENERAL RESOURCES DIRECTOR
MR. LUIS JAVIER NAVARRO VIGIL	BP ESPAÑA, S.A.U.	0.000	CHAIRMAN

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

YES NO

Describe 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 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 to ensure that Directors receive the information they need to prepare for meetings of the governing bodies in sufficient time:

YES NO

Describe the procedure

Article 6 of the Board of Directors' Regulations governs the procedure for ensuring that Directors receive the information they need to prepare meetings of the Board of Directors in sufficient time. This article establishes that:

"The notice of call for ordinary sessions shall be issued by the Chairman or the Secretary, or Vice Chairman on order of the Chairman, may be published via any media, and shall contain the venue at which the meeting is to be held and the meeting Agenda.

The notice of call, which shall be issued, except in exceptional circumstances, at least three days prior to the date scheduled for the meeting, shall contain the information and documents considered relevant or appropriate to properly inform Directors.

The Chairman shall be responsible for drawing up the Agenda for the meeting, although any Director may request, prior to the notice of call, the inclusion of any points that, in his/her opinion, should be deliberated by the Board of Directors".

In practice, the notice of 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 Company Directors' liability.

YES NO

B.2. COMMITTEES OF THE BOARD OF DIRECTORS

B.2.1. List the governance bodies:

Name of committee	No of members	Duties
AUDIT AND COMPLIANCE COMMITTEE	4	CONTAINED IN ARTICLE 44 OF THE ARTICLES OF ASSOCIATION, ARTICLE 26 OF THE REGULATIONS GOVERNING THE ORGANISATION AND OPERATION OF THE BOARD OF DIRECTORS AND ARTICLE 7 OF THE COMMITTEE REGULATIONS. ITS BASIC OBJECTIVES ARE TO EVALUATE THE COMPANY'S AUDIT SYSTEMS, ENSURE THE INDEPENDENCE OF THE EXTERNAL AUDITOR, REVIEW 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 REMUNERATION COMMITTEE	3	CONTAINED IN ARTICLE 45 OF THE ARTICLES OF ASSOCIATION AND ARTICLE 25 OF THE REGULATIONS GOVERNING THE ORGANISATION AND OPERATION 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
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AUDIT COMMITTEE

Name	Position
MR. LUIS JAVIER NAVARRO VIGIL	CHAIRMAN
BANCAJA (CAJA DE AHORROS DE VALENCIA, CASTELLÓN Y ALICANTE)	MEMBER
MR. MARTÍ PARELLADA SABATA	MEMBER
MR. ANTONIO TÉLLEZ DE PERALTA	MEMBER
MR. RAFAEL PIQUERAS BAUTISTA	SECRETARY (NON- MEMBER)

APPOINTMENTS AND REMUNERATION COMMITTEE

Name	Position
MR. SALVADOR GABARRÓ SERRA	CHAIRMAN
MR. DIONISIO MARTÍNEZ MARTÍNEZ	MEMBER

>	MR. RAMÓN PÉREZ SIMARRO	MEMBER
	MR. RAFAEL PIQUERAS BAUTISTA	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 a meeting of Enagás' Board of Directors held on 19 February 2004. The aim of the regulations is to provide the committee with an organisational and operational framework that ensures its independence and transparency, thereby supplementing the regulations contained in article 44 of the Articles of Association and article 26 of the Board of Directors' Regulations.

In accordance with the provisions of article 44 of the Articles of Association, the Audit and Compliance Committee shall be composed of a maximum of 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 that the parity between non-independent and independent Directors must be maintained.

Accordingly, neither the Chairman of the Board of Directors nor members of other committees may sit on the Audit and Compliance Committee.

As established in article 4 of the Committee Regulations, appointments to the Committee shall be for the same duration as Board membership. Serving Directors may cease to be Committee members at any time the Board of Director so decides.

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

As established in article 5 of the Committee Regulations, the remuneration of Committee members shall be determined in the manner set out in the Articles of Association and the Board of Directors' Regulations on the remuneration of Directors, and shall be subject to the same disclosure obligations.

As established in article 6 of the Committee Regulations, in their period of office, Committee members shall be subject to the duties and principles of action stipulated in the Articles of Association, the Board of Directors' Regulations, and prevailing legislation applicable to Board Members.

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 fulfil its duties. In 2006, the Committee met four times.

The duties of the Audit and Compliance Committee, as set out in article 44 of the Articles of Association and article 7 of the Committee Regulations, are as follows:

1. To oversee the financial reporting process.
2. To provide information on the annual financial statements prior to their presentation by the Board of Directors.

In its Report, the Committee includes the information it deems necessary on the application of accounting criteria, internal control systems and any other relevant fact.

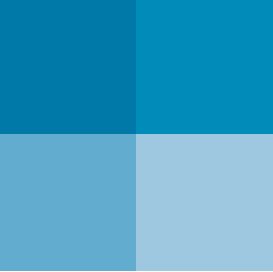
The Board of Directors must provide an explanation if it presents financial statements that differ from information previously provided by the Audit and Compliance Committee.

3. To examine the information on the Company's activities and results that is produced regularly in compliance with Securities Market Regulations, ensuring that such information is transparent and accurate.
4. To supervise the Company's internal audit department and verify the internal control systems, to ensure optimum monitoring of the annual financial statements.

In particular, the Committee must supervise the quality of internal auditing with regards to the 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, either in full session or through its Chairman, with the internal audit manager, from whom it may request all information necessary for its work.

5. To provide information and put forward proposals to the Board of Directors regarding the selection, appointment, renewal and dismissal of the internal audit manager.
6. To make proposals to the Board of Directors for submission to the General Shareholders' Meeting concerning the appointment of Enagás' external auditors, in accordance with applicable regulations, and to provide information on the auditors' fees.

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7. To work with the external auditors to obtain information on issues that may jeopardise the latter's independence or any other subjects related to the auditing process, as well as on all other disclosures required pursuant to accounts auditing legislation and technical audit regulations.
 8. To act as a communication channel between the auditors and the Board of Directors, to assess 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 in respect of the principles and criteria to be applied in the preparation of financial statements.
 9. To supervise the performance of contracted auditing work, ensuring that the opinion on the financial statements 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 auditors are given access to all information necessary to the performance of their duties.
 12. To identify and analyse, in conjunction with the internal and external auditors, the main risks affecting the Company, and, in particular, those affecting its asset and financial position.
 13. To provide the Board of Directors with a risk assessment and measurement report.
 14. Where appropriate, to propose to the Board of Directors measures necessary to manage, mitigate or prevent risks detected.
 15. To assess compliance with the Internal Code of Conduct on matters relating to the securities markets, the Regulations of the Board of Directors and the Audit Committee and, in general, the Company's governing regulations, and to make proposals for their improvement. In undertaking this duty, the Audit and Compliance Committee must liaise with the Appointments and Remuneration 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 report to the General Meeting on issues within the scope of its competencies.

APPOINTMENTS AND REMUNERATION COMMITTEE:

The Regulations of the Appointments and Remuneration Committee are contained in article 45 of the Articles of Association and article 25 of the Regulations governing the organisation and operation of the Board of Directors.

The Appointments and Remunerations Committee is composed of three members appointed by the Board of Directors, within a maximum of four established in the Articles of Association and Board Regulations.

It is comprised of a majority of Independent Directors, as stipulated in the Articles of Association and Board of Directors' Regulations.

Pursuant to article 25 of the Board of Directors' Regulations, the Appointments and Remuneration Committee must meet at least four times a year. In 2006, the Committee met four times.

The duties of the Appointments and Remuneration Committee, as set out in article 45 of the Articles of Association and article 25 of the Committee Regulations, are as follows:

1. To review the structure of the Board of Directors, the criteria for the statutory renewal of Directors' mandates, the appointment of new members and any other aspects relating to its composition that it deems appropriate, providing the Board of Directors with the proposals it considers necessary.
2. To establish the remuneration of Company Directors, in accordance with the provisions of the Articles of Association and in line with resolutions passed at the General Meeting, and to ensure that payments are transparent.
3. To establish a general remuneration 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 appropriate highly qualified staff to manage its business at all times.

By delegation of the Board of Directors, it also has the following duties:

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 with regards to the composition of the Board of Directors and the selection of candidates proposed for the post of Director.
6. To provide information, objectively and in the Company's interest, concerning proposals for the appointment, re-election and ratification of Directors, as well as for the appointment of members of each of the 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 the remuneration of senior management, provided that this does not diverge from criteria established in the general Management remuneration policy.
10. To provide the Board of Directors with information on transactions with related parties prior to their approval. 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 standard, 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 the securities markets by Directors or other persons subject to the aforementioned Regulations. In performing this duty, the Appointments and Remuneration Committee acts in conjunction 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	Brief description
AUDIT AND COMPLIANCE COMMITTEE	DUTIES 1 to 18 ABOVE ARE DESCRIBED IN MORE DETAIL IN SECTION B.2.3 OF THIS REPORT.
APPOINTMENTS AND REMUNERATION COMMITTEE	DUTIES 4 to 11 ABOVE ARE DESCRIBED IN MORE DETAIL 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. Likewise indicate whether any annual reports on the activities of each committee have been prepared on a voluntary basis.

Regulations for the Audit and Compliance Committee were approved at a meeting of the Board of Directors held on 19 February 2004. The aim of the regulations is to provide the committee with an organisational and operational framework that ensures its independence and transparency, thereby supplementing the regulations contained in article 44 of the Articles of Association and article 26 of the Board of Directors' Regulations.

The aforementioned regulations are available for consultation at the registered office of Enagás, S.A and on its website at www.enagas.es or www.enagas.com.

No changes were made to the Regulations of the Audit and Compliance Committee in 2006.

The Audit and Compliance committee has drawn up a report on its activities, which is available both at the registered office of 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 by article 45 of the Articles of Association and article 25 of the Board of Directors' Regulations.

B.2.6. If there is an Executive Committee, explain the level of powers and independence it has, in exercise of its duties, to adopt resolutions concerning the Company's administration and management.

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, indicate whether all members are external Directors:

YES NO

C RELATED-PARTY TRANSACTIONS

C.1. LIST ANY SIGNIFICANT TRANSACTIONS ENTAILING THE TRANSFER OF RESOURCES OR OBLIGATIONS BETWEEN THE COMPANY OR ITS GROUP COMPANIES AND SIGNIFICANT SHAREHOLDERS IN THE COMPANY:

Name or Corporate name of the significant Shareholder	Name or Corporate name of the Company or Group Company	Nature of relationship	Type of transactions	Amount (thousands of €)
BANCAJA (CAJA DE AHORROS DE VALENCIA, CASTELLÓN Y ALICANTE)	ENAGÁS, S.A.	CORPORATE	DIVIDENDS AND OTHER EARNINGS DISTRIBUTIONS	4,774
BANCAJA (CAJA DE AHORROS DE VALENCIA, CASTELLÓN Y ALICANTE)	ENAGÁS, S.A.	COMMERCIAL	FINANCE AGREEMENTS: OTHERS	6,000
BANCAJA (CAJA DE AHORROS DE VALENCIA, CASTELLÓN Y ALICANTE)	ENAGÁS, S.A.	COMMERCIAL	GUARANTEES AND SURETIES	6,000
BANCAJA (CAJA DE AHORROS DE VALENCIA, CASTELLÓN Y ALICANTE)	ENAGÁS, S.A.	COMMERCIAL	FINANCE AGREEMENTS: OTHERS	15,000

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>	CAJASTUR (CAJA DE AHORROS DE ASTURIAS)	ENAGÁS, S.A.	CORPORATE	DIVIDENDS AND OTHER EARNINGS DISTRIBUTIONS	4,774
	CAJASTUR (CAJA DE AHORROS DE ASTURIAS)	ENAGÁS, S.A.	COMMERCIAL	FINANCE AGREEMENTS OTHERS	6,000
	CAJASTUR (CAJA DE AHORROS DE ASTURIAS)	ENAGÁS, S.A.	COMMERCIAL	GUARANTEES AND SURETIES	6,000
	CAJASTUR (CAJA DE AHORROS DE ASTURIAS)	ENAGÁS, S.A.	COMMERCIAL	FINANCE AGREEMENTS LOANS	30,000
	CAM (CAJA DE AHORROS DEL MEDITERRÁNEO)	ENAGÁS, S.A.	CORPORATE	DIVIDENDS AND OTHER EARNINGS DISTRIBUTIONS	4,800
	CAM (CAJA DE AHORROS DEL MEDITERRÁNEO)	ENAGÁS, S.A.	COMMERCIAL	FINANCE AGREEMENTS: OTHERS	6,000
	CAM (CAJA DE AHORROS DEL MEDITERRÁNEO)	ENAGÁS, S.A.	COMMERCIAL	GUARANTEES AND SURETIES	12,000
	CAM (CAJA DE AHORROS DEL MEDITERRÁNEO)	ENAGÁS, S.A.	COMMERCIAL	FINANCE AGREEMENTS: OTHERS	15,000
	GAS NATURAL SDG, S.A.	ENAGÁS, S.A.	CORPORATE	DIVIDENDS AND OTHER EARNINGS DISTRIBUTIONS	8,441
	GAS NATURAL SDG, S.A.	ENAGÁS, S.A.	CONTRACTUAL	PROVISION OF SERVICES	149,952
	GAS NATURAL SDG, S.A.	ENAGÁS, S.A.	CONTRACTUAL	ACQUISITION OF GOODS (FINISHED OR OTHERWISE)	1,165,694
	GAS NATURAL SDG, S.A.	ENAGÁS, S.A.	CONTRACTUAL	SALES OF GOODS (FINISHED OR OTHERWISE)	904,669
	GAS NATURAL SDG, S.A.	ENAGÁS, S.A.	CONTRACTUAL	RECEIPT OF SERVICES	17,733
	GAS NATURAL SDG, S.A.	ENAGÁS, S.A.	CONTRACTUAL	RECEIPT OF SERVICES	3,452
	GAS NATURAL SDG, S.A.	ENAGÁS, S.A.	CONTRACTUAL	RECEIPT OF SERVICES	5,990
	GAS NATURAL SDG, S.A.	ENAGÁS, S.A.	CONTRACTUAL	RECEIPT OF SERVICES	6,075
	SAGANE INVERSIONES S.L.	ENAGÁS, S.A.	CORPORATE	DIVIDENDS AND OTHER EARNINGS DISTRIBUTIONS	4,795

C.2. LIST ANY RELEVANT TRANSACTIONS ENTAILING THE TRANSFER OF RESOURCES OR OBLIGATIONS BETWEEN THE COMPANY OR ITS GROUP COMPANIES AND COMPANY DIRECTORS OR SENIOR MANAGERS:

Name or Corporate name of the significant Shareholder	Name or Corporate name of the Company or Group Company	Nature of transaction	Type of transaction	Amount (thousands of €)
ANTONIO GONZÁLEZ-ADALID GARCÍA-ZOZAYA	ENAGÁS, S.A.	CORPORATE	REMUNERATION	58



>	JESÚS DAVID ÁLVAREZ MÉZQUIRIZ	ENAGÁS, S.A.	CORPORATE	REMUNERATION	58
	BANCAJA (CAJA DE AHORROS DE VALENCIA, CASTELLÓN Y ALICANTE)	ENAGÁS, S.A.	CORPORATE	REMUNERATION	68
	CAM (CAJA DE AHORROS DEL MEDITERRÁNEO)	ENAGÁS, S.A.	CORPORATE	REMUNERATION	58
	CARLOS EGEA KRAUEL	ENAGÁS, S.A.	CORPORATE	REMUNERATION	58
	JOSÉ MANUEL FERNÁNDEZ NORNIELLA	ENAGÁS, S.A.	CORPORATE	REMUNERATION	21
	SALVADOR GABARRÓ SERRA	ENAGÁS, S.A.	CORPORATE	REMUNERATION	73
	TERESA GARCÍA-MILÁ LLOVERAS	ENAGÁS, S.A.	CORPORATE	REMUNERATION	38
	MIGUEL ÁNGEL LASHERAS MERINO	ENAGÁS, S.A.	CORPORATE	REMUNERATION	38
	ANTONIO LLARDÉN CARRATALÁ	ENAGÁS, S.A.	CORPORATE	REMUNERATION	38
	SIR. ROBERT MALPAS	ENAGÁS, S.A.	CORPORATE	REMUNERATION	23
	DIONISIO MARTÍNEZ MARTÍNEZ	ENAGÁS, S.A.	CORPORATE	REMUNERATION	68
	LUIS JAVIER NAVARRO VIGIL	ENAGÁS, S.A.	CORPORATE	REMUNERATION	73
	MARTÍ PARELLADA SABATA	ENAGÁS, S.A.	CORPORATE	REMUNERATION	68
	PEÑA RUEDA, S.L.U.	ENAGÁS, S.A.	CORPORATE	REMUNERATION	58
	RAMÓN PÉREZ SIMARRO	ENAGÁS, S.A.	CORPORATE	REMUNERATION	68
	JOSÉ RIVA FRANCOS	ENAGÁS, S.A.	CORPORATE	REMUNERATION	58
	ANTONIO TÉLLEZ DE PERALTA	ENAGÁS, S.A.	CORPORATE	REMUNERATION	63
	RAFAEL VILLASECA MARCO	ENAGÁS, S.A.	CORPORATE	REMUNERATION	21

C.3. LIST ANY RELEVANT TRANSACTIONS UNDERTAKEN BY THE COMPANY WITH OTHER COMPANIES BELONGING TO THE SAME GROUP AND NOT ELIMINATED IN THE PROCESS OF DRAWING UP THE CONSOLIDATED FINANCIAL STATEMENTS THAT ARE EFFECTED FOR REASONS AND IN CONDITIONS SETTING THEM APART FROM COMPANY'S USUAL BUSINESS ACTIVITIES:

Corporate name of Group entity	Brief description of the transaction	Amount (in thousands of €)
GASODUCTO AL ANDALUS, S.A.	PAYMENT TO ENAGÁS OF 2005 DIVIDENDS	4,859
GASODUCTO AL ANDALUS, S.A.	LOAN GRANTED BY ENAGÁS	35,703
GASODUCTO AL ANDALUS, S.A.	TRANSPORT CHARGES	16,410
GASODUCTO AL ANDALUS, S.A.	PIPELINE MAINTANANCE REVENUES AND COMPANY FEES	4,836
GASODUCTO BRAGA –TUY, S.A.	ENAGÁS HAS GUARANTEED A LOAN GRANTED BY A PORTUGUESE FINANCIAL ENTITY	8,900
GASODUCTO BRAGA –TUY, S.A.	TRANSPORTATION SERVICE FEES	3,478
GASODUCTO CAMPO MAYOR –LEIRIA –BRAGA, S.A.	LOAN GRANTED BY ENAGÁS	6,242
GASODUCTO CAMPO MAYOR –LEIRIA –BRAGA, S.A.	TRANSPORTATION SERVICE FEES	3,428
GASODUCTO DE EXTREMADURA, S.A.	PAYMENT TO ENAGÁS OF 2005 DIVIDENDS	3,105
GASODUCTO DE EXTREMADURA, S.A.	TRANSPORT CHARGES	8,423
GASODUCTO DE EXTREMADURA, S.A.	LOAN GRANTED BY ENAGÁS	5,041
GASODUCTO DE EXTREMADURA, S.A.	PIPELINE MAINTANANCE REVENUES AND COMPANY FEES	4,541

C.4. IDENTIFY ANY CONFLICTS OF INTEREST AFFECTING COMPANY DIRECTORS, PURSUANT TO ARTICLE 127 TER OF THE SPANISH COMPANIES ACT.

Enagás' Directors are not affected by any conflicts of interest, pursuant to article 127 ter of the Spanish Companies Act.

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 of Conduct 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 interest.
- Persons involved in dealings with the securities markets.
- In general, all those with access to confidential or reserved Company information.

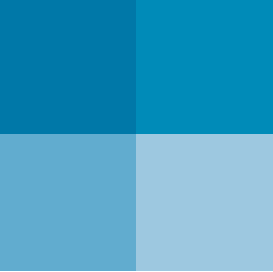
With regards to transactions with related parties, the Company must adopt the following measures:

- a) Report to the CNMV every six months and include information in the Corporate Governance chapter of the Company Annual Report.
- b) Submit details of the transactions to the Board of Directors for authorisation prior to their execution, 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 change in or termination of 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 Remuneration Committee is the body responsible for regulating and resolving conflicts of interest that may arise. Article 25 of the Board of Directors' Regulations attributes the following duties to the Committee:

- 
- a) To inform the Board of Directors, prior to approval, of transactions that Directors wish to undertake that entail or may entail a conflict of interests, in accordance with the provisions of the Internal Code of Conduct on matters relating to the securities markets.
 - b) To provide the Board of Directors with information on transactions with related parties prior to their approval. Transactions shall not be authorised under any circumstances unless a report assessing the transaction from the point of view of market conditions has first been issued. If the transactions are standard, generic authorisation of the type of transaction and its conditions shall be sufficient.
 - c) To inform the Board of Directors of 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. In performing this duty, the Appointments and Remunerations Committee shall liaise with the Audit and Compliance Committee as appropriate.

D. RISK CONTROL SYSTEMS

D.1. GIVE A GENERAL DESCRIPTION OF THE RISK POLICY OF THE COMPANY AND/OR ITS GROUP, LIST AND ASSESS THE RISKS COVERED BY THE SAME, AND EXPLAIN OF HOW FAR SAID POLICY MATCHES THE PROFILE OF EACH TYPE OF RISK.

Risk Control Systems form part of the Global Risk Management System in place at Enagás. The actions taken by the organisation in 2006, which consist primarily of a review of the critical processes associated with the most significant risks, in accordance with the Internal Audit Plan approved by the Audit and Compliance Committee, are described below.

The Enagás risk policy is designed to achieve the following main objectives:

- To align top-level objectives with the Company's mission and strategy.
- To improve the efficiency and effectiveness of operations.
- To ensure the reliability of financial information and information to be provided to institutions.
- To ensure compliance with all applicable laws and regulations.

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

Enagás tracks the most significant risks associated with the various activities that make up the Company's critical processes on an on-going basis, using the various risk management tools available. For this purpose, Enagás has a processes/risks model.

The model defines 34 processes at Enagás which have been the subject of a rigorous analysis, involving the Company's senior management, to select the risks that affect each process.

Significant risks are grouped as follows:

- General risks.
- Operational risks
- Information risk in decision-making.

The analysis performed in 2006 included, amongst others, the following processes: Maintenance of transportation infrastructure (II), Remuneration of regulated activities, operation of regasification plant infrastructure, recording and processing of asset and financial information: Costs-income, operating management of the system and approval of investments: Small investments, etc; in addition, the recommendations issued in previous years in relation to processes associated with infrastructure construction, the exploration of underground storage, management of third-party network access services and the sale and purchase of gas were followed up.

The risk policy aims to identify, locate and measure the most significant risks that are identified in each process.

D.2. INDICATE THE CONTROL SYSTEMS ESTABLISHED TO ASSESS, MITIGATE AND REDUCE THE MAIN RISKS FOR THE COMPANY AND THE GROUP.

Control systems are designed to ensure that management directives are complied with and that all risk-control measures are systematically taken.

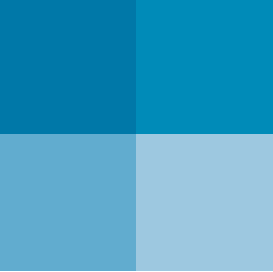
The current risk control systems employed by Enagás in management and decision making processes can be broken down as follows:

1. Creating a control environment.
2. Setting objectives.
3. Assessing risks.
4. Control activities.
5. Information and communication.
6. Supervision.

1. Creating a 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 existence of the Audit and Compliance Committee, which works proactively in regular meetings.
- The approval of the general internal audit regulations that establish the framework of reference applicable to the entire Company.

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- The management philosophy and modus operandi, which is based on the delegation of functions and responsibilities, in view of Enagás' significant expansion throughout Spain.

2. Setting objectives:

The Company has rolled out a human resources management model that guarantees that employees are attuned to strategy, in particular, by progressively extending objective-driven and performance-related management models to all staff covered by the collective labour agreement.

3. Assessing risks:

Risks are systematically identified by drawing up a risk map and assessing each risk on the basis of its severity relative to others and the existing level of internal control.

Risks identified are associated with the relevant processes, with the impact of the risk on these processes also assessed.

The persons responsible for each process have also been established, and charged with identifying any new risks that may affect the process and establishing work programmes for the development of procedures for assessing the controls that ensure efficient management of the same.

4. Control activities:

These are the policies and procedures put in place to help ensure that the management's risk responses are implemented.

A series of controls have been established in the Company that are grouped into the following categories: supervisory, general and specific controls.

- 4.1. Supervisory controls: These controls relate to activities carried out by the person responsible for management of a specific risk to ensure that the control activities are correctly performed. Supervisory activities include both obtaining evidence of the effectiveness of specific controls (reviewing incident reports, regular recalculations, etc) and assessing the results of control activities performed in respect of transactions that have already been subject to a specific risk control process.
- 4.2. General controls: These are controls that spread across the entire risk control process and provide a global framework that ensures adequate segregation of functions (authorisation, storage and protection of archives) and the integrity of information. The general controls that contribute to fulfilment of these objectives relate to the allocation of key activities to qualified personal, the establishment of powers of authority and limits, the creation of physical safeguards and controls of access to information, processes and systems.

4.3. Specific controls: These are the controls that form the basis of the entire risk control process. The aim of these controls is to provide a first line of defence in the prevention, detection and correction of errors. Included in this category are business controls, controls on information and the reporting process, from the capture of the relevant information on the Company until its inclusion in the financial statements.

5. Information and communication.

Information and communication systems are pivotal to the entire risk management system; without them, it would be impossible to formulate an optimum response to risks.

In 2006 the Company's management accorded particular priority to the quality of information provided at all levels for which a risk dashboard supporting the management indicators that the Company had defined for all areas of responsibility has been drawn up.

Another important element is the communication to the persons responsible for the various units of the information they need to perform their operating, reporting and compliance responsibilities.

6. Supervision:

Risk management is supervised by means of ongoing supervisory activities either performed by the relevant internal auditors or in the form of independent assessments of very specific issues.

The scope and frequency of such assessments depends mainly on the assessment of the risks in question and efficiency of supervision procedures.

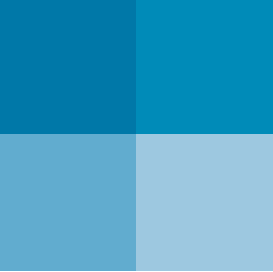
Any deficiencies in risk management are reported to line managers, with the most important issues being relayed to the Company's senior executives and Board of Directors.

D.3. IF ANY OF THE RISKS AFFECTING THE COMPANY AND/OR ITS GROUP HAVE MATERIALISED, INDICATE THE CIRCUMSTANCES AND WHETHER THE CONTROL SYSTEMS FUNCTIONED CORRECTLY.

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

1. Legal and regulatory framework:

This risk arises from the fact that Enagás operates in a tightly regulated market in which a remuneration system has been established for regulated gas sector activities, which include regasification, storage, transportation, technical system management and the management of gas purchases and sale on the tariff-based market.



Any change in the current legal framework, its interpretation, and the criteria to be updated by the authorities could have a significant impact on Enagás' operations, the manner in which it manages its business, its operating results and its financial statements.

The approval of the Technical System Management Regulations and other sector regulations whose publication had been on hold because of their disparate interpretation by the different system operators, has resulted in a considerable reduction in this risk and also contributed to a consolidation of the remuneration model for gas operations

The control systems established consist of maintaining and extending fluid, ongoing communication with all gas system operators, including the regulators, distribution companies, sellers and other transportation companies, on these aspects and their practical application, which has resulted in the publication of the regulations mentioned above and thus removed some of the uncertainties to which the Company is exposed.

2. Management efficiency:

Over the past year various installations have been added to Spain's gas network, including plants and new pipelines. These new installations must therefore be incorporated within the established models for the optimisation of generation facilities with a view to making system management more efficient.

These reviews revealed that not all the equipment had been incorporated in the models. Accordingly, a procedure was established whereby the models will be updated whenever a new installation is brought into service.

3. Information systems.

The legislative changes underway in the gas system have a significant effect on the IT systems currently used for Enagás' management and those used by all other gas system operators.

In 2006, Enagás successfully concluded the adaptation of its IT systems to the technical management standards for the gas system contained in Order ITC/3126/2005, of 5 October and the detailed protocols established in the Resolution of 13 March 2006, thereby substantially reducing this risk.

However, foreseeable future changes mean that virtually permanent monitoring of IT systems is essential.

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 THEIR DUTIES.

The organisation established for controlling and managing the risks facing the Company is focused around clearly differentiated supervision, control and management levels:

- Audit and Compliance Committee: Responsible for risk management in accordance with provisions established in the organisational and operational Regulations of the Board of Directors. This body is updated quarterly on developments in the risk control system.
- Management Committee: Responsible for the internal control system and its supervision.
- Internal audit manager: His/her responsibilities consist of coordinating risk management, verifying controls and contributing to the improvement of risk management processes.

The work of the internal audit unit focuses on identifying, assessing and taking pre-emptive action to prevent the possible negative impacts that may derive from risks to Enagás and increasing the level of control and management of these.

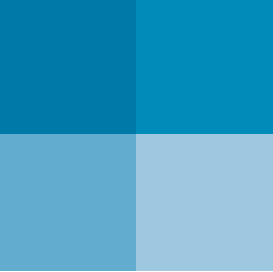
- Process owners: Those with overall responsibility for managing risks within the scope of their competence and developing action and monitoring plans.

D.5. IDENTIFY AND DESCRIBE COMPLIANCE PROCESSES FOR THE VARIOUS REGULATIONS THAT AFFECT THE COMPANY AND/OR ITS GROUP.

One of the mandatory elements of the various processes in place at the Company is compliance with the different laws, regulations, procedures, etc.

The main regulations affecting Enagás are those established by Law 34/1998, of 7 October, on the Hydrocarbons Sector, and their implementing provisions. These have implications for virtually all the Company's operating processes, since, in addition to its transportation activities, Enagás is also the Technical System Manager. The following legislation is particularly important:

- Royal Decree Law 6/2000, of 23 June, on urgent measures for increasing competition in the goods and services markets.
- Royal Decree 949/2001, of 3 August, regulating third-party access to gas installations and establishing an integrated economic system for the natural gas sector.
- Royal Decree 1434/2002, of 27 December, regulating transportation, distribution, marketing, supply and facilities authorisation procedures in the natural gas sector.
- Law 62/2003, of 30 December, on tax, administrative and social security measures.
- Royal Decree 1716/2004, of 23 July, regulating the obligation to maintain a minimum level of emergency stock, the diversification of natural gas supply, and the incorporation of strategic reserves of oil products.

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- Order ITC/3126/2005, of 5 October, approving the technical system management regulations.
 - The resolution of the General Directorate for Energy Policy and Mines, dated 13 March 2006, establishing the detailed protocols of the technical system management regulations.
 - Royal Decree Law 7/2006, of 23 June, adopting urgent measures in the energy sector.
 - The resolution of the General Directorate for Energy Policy and Mines, dated 25 July 2006, regulating terms and conditions of allocation and the procedure for ensuring uninterrupted operation of the gas system.
 - Order ITC/2675/2006, of 1 August, initiating procedures for the submission of proposals to develop the electricity transportation network, the basic natural gas network and installations for storing strategic reserves of oil products.
 - The resolution of the General Directorate for Energy Policy and Mines, dated 25 October 2006, approving the 2006-2007 Winter Action Plan for the operation of the gas system.
 - Order ITC/102/2005, of 28 October, establishing remuneration for regulated gas sector activities.
 - Order ITC/103/2005, of 28 January, establishing tolls and usage fees for third-party access to gas installations.
 - Order ITC/104/2005, of 28 January, establishing tariffs for the distribution of natural and manufactured gases, meter rentals and connection rights for consumers connected to distribution networks operating at a pressure of 4 bar or less.
 - Order ITC/3655/2005, of 23 November, amending Order ECO/31/2004, of 15 January, establishing the remuneration of regulated gas sector activities, Order ITC/103/2005, of 28 January establishing tolls and usage fees for third-party access to gas installations, Order ITC/104/2005, of 28 January establishing tariffs for the distribution of natural and manufactured gases, meter rentals and connection rights for consumers connected to distribution networks operating at a pressure of 4 bar or less, and Order ECO/2692/2002, of 28 October governing procedures for settlement of remuneration for regulated natural gas sector activities and gas allocated to specific uses and establishing the information systems that should be implemented in gas sector companies.
 - Order ITC/4099/2005, of 27 December, establishing remuneration for regulated gas sector activities.
 - Order ITC/4100/2005, of 27 December, establishing the tolls and usage fees associated with third-party access to gas installations.
 - Order ITC/4101/2005, of 27 December, establishing tariffs for the distribution of natural and manufactured gases, meter rentals and connection rights for consumers connected to distribution networks operating at a pressure of 4 bar or less.

Other important regulations with implications for Enagás in its gas transportation activities are those related to workplace safety, and in particular Law 31/1995, of 8 November, on the Prevention of Workplace Risks, and subsequent implementing legislation. Control systems are incorporated in the various procedures in place and in the internal and external audit procedures contained in previous legislation.

A final point of note is that although the natural gas it regasifies and transports has little pollutant effect, Enagás pays great attention to environmental considerations. Environmental control systems are incorporated in current procedures and in the internal and external audit procedures contained in legislation and in Spanish standard UNE EN ISO 14001 on waste management.

E. GENERAL SHAREHOLDERS MEETINGS

E.1. WHAT NUMBER OF ATTENDEES DOES THE COMPANY'S ARTICLES OF ASSOCIATION SET AS THE QUORUM FOR GENERAL SHAREHOLDERS' MEETINGS? DETAIL ANY DIFFERENCES FROM THE MINIMUM REQUIREMENTS ESTABLISHED UNDER SPANISH COMPANIES LAW (LSA).

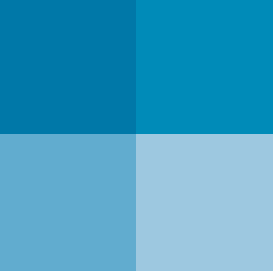
Article 25 of Enagás' Articles of Association states that "General Shareholders Meetings shall be validly constituted at first call when the shareholders present or represented hold at least 25% of subscribed share capital with voting rights. At second call, meetings shall be validly constituted irrespective of the percentage of capital held by shareholders present or represented at the same".

Article 26 of the Articles of Association establishes the circumstances in which a special quorum is required, stating that "Should at an Ordinary or Extraordinary General Meeting held at first call shareholders wish to pass valid resolutions on the issue of bonds, the increase or reduction of share capital, the transformation, merger or spin-off of the Company and any amendment of the Articles of Association in general, shareholders possessing at least 50% of subscribed capital with voting rights must be present or represented. At second call, the attendance or representation of shareholders holding at least 25% of subscribed capital with voting rights shall be sufficient.

The quorums required pursuant to Enagás' Articles of Association are therefore those established in articles 102 and 103 of Spanish Companies Law.

E.2. EXPLAIN THE RULES GOVERNING ADOPTION OF CORPORATE RESOLUTIONS. DESCRIBE ANY DIFFERENCES TO THE SYSTEM ESTABLISHED IN THE SPANISH COMPANIES LAW.

Article 13.3 of the Enagás' General Meeting Regulations states that "Resolutions must be adopted with the vote in favour of the majority of subscribed capital with voting rights present or represented at the meeting, in accordance with article 93 of the Spanish Companies Law".



As an exception to the above, article 13.3 stipulates that “In the case of bond issues, capital increases or decreases, the transformation, merger or spin-off of the Company and any amendment of the Articles of Association in general, at second call, and when the meeting is attended by shareholders representing less than 50% of subscribed capital with voting rights, two thirds of the subscribed capital with voting rights present or represented must vote in favour of the resolution in order for it to be adopted”, in accordance with article 103 of the LSA.

E.3. LIST ALL SHAREHOLDERS’ RIGHTS IN RESPECT OF GENERAL MEETINGS THAT DIFFER FROM THOSE ESTABLISHED UNDER SPANISH COMPANIES LAW.

Shareholders’ rights in respect of general meetings are those established in Spanish Companies Law.

Enagás’ General Meeting Regulations recognise the following shareholders rights:

1. The right to information.

This right is established in article 7 of the General Meeting Regulations, which has the following content and scope:

On the date the General Meeting is called, and on the date of the meeting itself, the Company shall place the following resources at its shareholders’ disposal:

- a) The full text of the notice calling the General Meeting, the resolutions proposed for adoption, and reports from the Board of Directors, where appropriate, setting out the reasons for these resolutions and their expediency, providing that all this is possible.
- b) The full financial statements of Enagás and the consolidated financial statements of the Enagás Group, including the proposed distribution of Enagás’ profit for the year in question.
- c) Enagás management report and consolidated management report.
- d) The auditors’ report on the consolidated financial statements and individual financial statements of Enagás.
- e) Annual corporate governance report.
- f) Any other report that must be included or which the Board of Directors deems it appropriate to include.

Prior to the meeting, the Company shall make the above available to shareholders via the following channels:

- The Shareholder Information Office.
- A freephone telephone number specified in the notice of call.
- The corporate website.

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

During the meeting, shareholders may verbally request any information or clarifications they deem appropriate concerning items on the Agenda, and, if it is not possible to satisfy such requests at that time, Directors must provide written answers within seven days of 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, or legal or administrative resolutions. Such refusal shall not be possible when the request is made by shareholders representing at least 25% of the Company's share capital.

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

2. Participation rights.

This right is established in article 8 of the General Meeting Regulations.

After accreditation of their identity pursuant to the provisions of article 9 of the General Meeting Regulations, shareholders may submit questions of interest for the Company or related to their shareholding at any time, through the Shareholder Information Office, freephone line or the e-mail address included on the website.

The Company shall examine the questions, suggestions and comments submitted by shareholders, and shall respond to the same when considered expedient to the proper operation of the Company.

3. Attendance rights.

In accordance with article 27 of the Articles of Association and article 9 of the General Meeting Regulations, to be permitted to attend meetings, shareholders must have a minimum holding of 100 shares, which must be registered in the corresponding shareholders' register held by an entity affiliated to the Management Company of Securities Registration, Clearing and Settlement Systems at least five days prior to the meeting. In addition, their shareholder status must be confirmed either through the corresponding attendance and voting card issued by an entity affiliated to the Management Company of Securities Registration, Clearing and Settlement Systems, or via the electronic attendance and voting card issued by the entity responsible for keeping the register of book-entry shares or by the authorised custodian 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.

Pursuant to article 27 of the Articles of Association and article 10 of the General Meeting Regulations, all shareholders entitled to attend General Shareholders Meeting may nominate a proxy 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, provided that the identity of the nominated proxy can in all cases be duly verified, and are valid for the meeting in question only.

Representation rights may be revoked at any time. If the shareholder to be represented attends the meeting in person, the representation rights conferred are automatically revoked, and the shareholder must inform the nominated proxy immediately, to ensure that this person does not attempt to exercise representation rights that he/she does not have.

Individual shareholders who are incapacitated and shareholders that are legal entities may be represented by duly-accredited legal representatives. In cases of both legal representation and delegation of attendance rights, no shareholder shall have more than one representative at the meeting.

5. Voting rights.

Voting rights are governed by article 27 of the Articles of Association and article 11 of the General Meeting Regulations.

All shareholders with attendance rights, pursuant to the provisions of article 17 of the Articles of Association, as implemented in article 9 of the General Meeting Regulations, shall be entitled to vote and may exercise such right either themselves or via a nominated proxy, that is, either by attending personally and voting at the Meeting, using a duly-signed and accredited attendance and voting card, or by post, via the Shareholder Information Office, using a recognised electronic signature or any other remote communication media permitted by law, attaching the relevant electronic attendance and voting certificate.

E.4. INDICATE ANY MEASURES ADOPTED TO ENCOURAGE SHAREHOLDER PARTICIPATION AT GENERAL MEETINGS.

As well as the information, attendance, representation and voting rights described in the previous section, duly-accredited shareholders may submit questions of interest to the Company or related to their position as shareholders via the Shareholders Information Office or through the corporate website at any time (article 8 of the General Meeting Regulations).

Pursuant to the provisions of article 7.2 of the General Meeting Regulations, in the seven days between the issue of the notice of call and the meeting itself, shareholders may request from Directors any information or clarification they deem pertinent in writing.

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

Likewise, with the aim of encouraging shareholder participation in its general meetings, the Company shall adopt various practices including:

- Publishing the notice of call in the main communications media.
- Offering gifts to shareholders as an incentive for attendance at general meetings.
- Holding general meetings in a venue with optimum meeting facilities and easy access for shareholders and making transport available to facilitate attendance.
- Providing personalised assistance and directions for shareholders wishing to attend through the staff at the Shareholder Information Office.

E.5. INDICATE WHETHER GENERAL MEETINGS ARE CHAIRED BY THE CHAIRMAN OF THE BOARD. LIST THE MEASURES, IF ANY, ADOPTED TO GUARANTEE THE INDEPENDENCE AND CORRECT OPERATION OF GENERAL MEETINGS:

YES NO

Detail the measures

By virtue of article 12.2 of the General Meeting Regulations, shareholders meetings shall be chaired by the Chairman of the Board of Directors, or, in his/her absence, by the shareholder elected in each case by shareholders 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 of the General Meeting Regulations, from which the following points are drawn:

- The Board of Directors shall appoint a notary to attend shareholders meetings, who shall be responsible for taking notes and drawing up the minutes, thereby guaranteeing neutrality and independence for all shareholders.
- The Chairman of the Audit and Compliance Committee, acting in representation of the Committee, shall be available at shareholders meetings to answer any questions that shareholders may have on compliance issues. >



- The Company's auditors shall be present at shareholders meetings previously called by the Board of Directors and, when deemed appropriate by the Chairman, shall answer any questions concerning its work as the Company's external auditors.

Requirements and standards that definitively guarantee the smooth progress of shareholders meetings are contained in articles 13 to 19 of General Meeting Regulations, of which the following are of note:

- Before addressing items on the Agenda, 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 monitoring 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 Securities Registration, Clearing and Settlement Systems the format of the attendance card to be issued to shareholders, ensuring that such format is uniform and incorporates a bar code so it can be read electronically, thus facilitating the electronic counting of attendees at the meeting.
- From the moment they enter the venue of the meeting and throughout the same, shareholders shall have the support of personnel from the Shareholder Information Office for resolving any queries and facilitating their contribution.
- With the aim of guaranteeing the smooth operation of the meeting, shareholders or representatives arriving late at the meeting venue may attend the meeting once the admission of attendance and voting cards has been closed, but will not be included on the attendance list nor, therefore, form part of the quorum for voting purposes.
- Once the meeting has been validly constituted, the notary appointed 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 his/her attendance card to members of the Panel, who shall verify and correct, as applicable, any possible errors.
- To facilitate the smooth operation 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. This request shall be made before commencing the presentation of the financial year and proposals to be submitted to the meeting, and the Chairman is also responsible for maintaining debate within the limits of the Agenda and responding to shareholders jointly or individually.
- The Chairman may agree to suspend the meeting for the necessary time should an event that materially affects its proper operation occur, and if such a circumstance persists, may propose that the meeting be adjourned until the next possible business day.





- The Secretary shall announce the results of the vote on each resolution to the meeting, indicating the number of votes for and against and any abstentions.
- The monitors shall draw up a report on the results of each vote, including those previously cast, and any changes made in the course of the meeting.
- Once all resolutions have been put to the vote, the Chairman of the meeting shall pass to the notary, if asked to attend the meeting, the monitors' report containing the results of the vote on each resolution, and shall proceed to close the meeting.
- If a notary has been present at the meeting, the notary's report shall be taken as the Minutes of the Meeting, with no specific approval being necessary.

E.6. INDICATE ANY CHANGES MADE TO THE GENERAL MEETING REGULATIONS IN THE COURSE OF THE YEAR.

Articles 3.1 and 5.2.1 of the General Meeting Regulations were amended in 2006 to make them consistent with the Articles of Association. These amendments were approved at the Ordinary Shareholders Meeting held on 22 April 2006.

It was deemed necessary to amend article 3.1 of the General Meeting Regulations, to bring it in line with article 20 of the Articles of Association by incorporating provisions allowing for Ordinary Shareholders Meetings to be valid even if not called or held within the required timeframes.

The amendment to article 5.2.1 of the General Meeting Regulations was made to bring it in line with article 22 of the Articles of Association by changing the minimum period from publication of the notice calling Ordinary General Meetings from two weeks before the date of the meeting to the current minimum of one month established in Spanish Companies Law. It was also necessary to give shareholders representing at least 5% of share capital the option of requesting publication of supplements to the notice calling the General Shareholders Meeting, as well as to set deadlines and methods for exercising this option.

Accordingly, at the Ordinary General Meeting shareholders adopted the following resolution (Sixth Resolution):

To amend articles 3.1 and 5.2.1 of the General Meeting Regulations, which shall henceforth read as follows:

ARTICLE 3.1: ORDINARY GENERAL MEETINGS

Ordinary General Meetings must be held in the first six months of each year to adopt all resolutions falling within their competency that are submitted for its consideration, and as a minimum:

- a) To approve, as appropriate, the Company's management.
- b) To approve, as appropriate, the financial statements for the previous year.
- c) To agree the distribution of profit.

Ordinary General Meetings shall be valid even if called or held outside of the established timeframes.

ARTICLE 5.2.1: TIME AND FORM OF PUBLICATION.

Ordinary General Meetings shall be called via a notice published in the Official Journal of the Trade and Companies Registry and in a regional newspaper with wide circulation at least one month before the date scheduled for the meeting.

The notice shall include the date of the meeting on first call and all the items on the agenda.

Shareholders representing at least 5% of share capital shall have the option of requesting publication of supplements to the notice calling the General Shareholders Meeting, including details of one or more items on the agenda. To exercise this right, shareholders must submit a written request to the Company's registered office within five days of the publication of the notice.

The supplement to the notice must be published at least two weeks before the scheduled date of the general meeting.

Failure to publish the supplement to the notice within the legally established period shall cause the general meeting to be deemed invalid.

Prior to publication of the notice of call, the Company shall submit the document to the Spanish Securities Market Commission (CNMV), to the Spanish Stock Exchanges and to other markets on which the Company's shares are traded and shall inform the entities affiliated to the corresponding securities registration, clearing and settlement system.

The text of the notice shall also be placed on the corporate website.

In addition to complying with the aforementioned legal and regulatory requirements, to achieve maximum dissemination and give shareholders sufficient time to request and obtain additional information on the items on the agenda, the Board of Directors shall endeavour to ensure that the notice is published in advance of the legally- required minimum, and via a greater number of public communication channels than the legally-required minimum, except where this is not possible for reasons of urgency or other circumstances beyond the control of the Board. The notice of call may also be published a second time, on a date close to the meeting, as a reminder.

E.7. INDICATE ATTENDANCE FIGURES FOR GENERAL MEETINGS HELD IN THE YEAR COVERED BY THIS REPORT:

ATTENDANCE FIGURES

Date of General Meeting	% attending in person	% represented by proxy	% voting by remote means	Total %
04/22/2006	56.512	1.478	0.000	57.990

E.8. PROVIDE A BRIEF SUMMARY OF RESOLUTIONS PASSED AT THE GENERAL MEETINGS HELD IN THE YEAR COVERED BY THIS REPORT AND THE PERCENTAGE OF VOTES WITH WHICH EACH RESOLUTION WAS PASSED.

The resolutions adopted by shareholders at the ordinary general meeting held on 22 April 2006, which was the only meeting held that year, and the percentage of votes with which each resolution was passed, are as follows:

FIRST RESOLUTION:

To approve the financial statements (balance sheet, income statement and notes) and the Management Report for the year running from 1 January to 31 December 2005 for Enagás S.A. and its Consolidated Group.

Voting on the Resolution was as follows:

Total number of votes cast:	138,441,388	
Number of votes in favour:	135,421,198	(9.8184%)
Number of votes against:	0	(0.0000%)
Number of abstentions:	3,020,190	(2.1816%)

SECOND RESOLUTION:

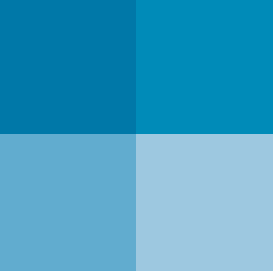
To approve the distribution of Enagás, S.A earnings for 2005, consisting of a net profit of €191,415,823, in line with the following distribution proposal put forward by the Board of Directors:

Distribution	€
Statutory reserves	00.00
Voluntary reserves	95,935,561.94
Dividends	95,480,238.29
Total profit	191,415,800.23

To pay an additional dividend in the amount of € 57,282,756.69. This amount is the result of deducting from the total dividend for the financial year of € 95,480,238.29 the interim dividend of € 38,197,481.60 agreed by the Board of Directors on 16 December 2005 and paid to shareholders on 12 January 2006.

The additional dividend will be paid on 6 July 2006.

The total dividend paid from 2006 profits presented to shareholders for approval, as detailed in the previous paragraph, amounts to € 0.399944 gross per share, with taxes being borne by shareholders.



After deduction of the interim dividend in the amount of € 0.16 gross per share already paid, the amount still to be paid totals € 0.239944 per share, from which the legally applicable taxes will be deducted.

Voting on the Resolution was as follows.

Total number of votes cast:	138,441,388	
Number of votes in favour:	135,420,548	(97.8180%)
Number of votes against:	0	(00.0000 %)
Number of abstentions:	3,020,840	(2.1820%)

THIRD RESOLUTION:

To approve the management of the Board of Directors of Enagás, S.A. in 2005.

Voting on the Resolution was as follows.

Total number of votes cast:	138,441,388	
Number of votes in favour:	135,420,762	(97.8181%)
Number of votes against:	441	(00.0003%)
Number of abstentions:	3,020,185	(2.1816 %)

FOURTH RESOLUTION:

1. To appoint to the Company's Board of Directors, for the statutory term of four years, the following persons:

- Antonio Llardén Carratalá, proposed by Gas Natural SDG, S.A. and therefore to be considered a non-independent director.
- María Teresa García Milá, who shall be considered an independent director.
- Miguel Angel Lasheras Merino, who shall be considered an independent director. - Antonio Téllez de Peralta, who shall be considered an independent director.

Antonio Téllez de Peralta's appointment as Director reflects the fact that he has until now been serving as a Director by co-option.

Antonio Llardén Carratalá was appointed to fill the vacancy left by the resignation of Rafael Villaseca Marco, also a non-independent member representing Gas Natural SDG, S.A.

The other new appointments fill the vacancies left by the resignations of José Manuel Fernández Norniella and Sir Robert Malpas.

The Directors were informed of the aforesaid resignations at the Board Meeting held on 22 April 2006.

2. To re-appoint, for a further period of four years, the following Directors:

- Dionisio Martínez Martínez.
- José Riva Francos.

Both shall continue to serve as independent directors.

Voting on the Resolution was as follows.

Total number of votes cast:	138,441,388	
Number of votes in favour:	132,378,501	(95.6206%)
Number of votes against:	867,727	(00.6268%)
Number of abstentions:	5,195,160	(3.7526%)

FIFTH RESOLUTION:

To approve the amendments to articles 20 and 22 of the Articles of Association, which shall henceforth read as follows:

ARTICLE 20. ORDINARY GENERAL MEETINGS

Ordinary General Meetings shall be held in the first six months of each year, after publication of the required notices, to review the management of the company, to approve, as appropriate, the financial statements for the previous year, to agree the distribution or profit and to appoint or re-appoint Directors, in line with the rules on reappointments set down in the Articles of Association.

Ordinary General Meetings shall be valid even if not called or held within the legally established timeframes.

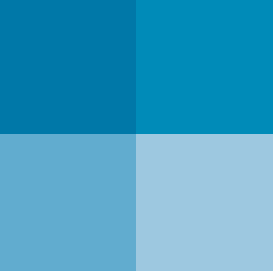
ARTICLE 22. CALL OF SHAREHOLDERS MEETINGS

Ordinary General Meetings must be called by notice published in the Official Journal of the Trade and Companies Registry and a regional newspaper with wide circulation at least one month before the date scheduled for the meeting.

The notice shall include the date of the meeting on first call and all items on the agenda. The notice shall also include the date on which, if necessary, the meeting will be held on second call.

The dates for the meetings on first and second call must be at least 24 hours apart.

Shareholders representing at least 5% of the share capital shall have the option of requesting publication of a supplement to the notice calling the General Shareholders Meeting, including details of one or more items on the agenda. To



exercise this right, shareholders must submit a written request to the Company's registered office within five days of the publication of the notice.

The supplement to the notice must be published at least two weeks before the scheduled date of the general meeting.

Failure to publish the supplement to the notice within the legally established period shall cause the general meeting to be invalid.

Voting on the Resolution was as follows.

Total number of votes cast:	138,441,388	
Number of votes in favour:	135,419,942	(97.8175%)
Number of votes against:	278	(00.0002%)
Number of abstentions:	3,021,168	(2.1823%)

SIXTH RESOLUTION:

To amend articles 3.1 and 5.2.1 of the General Meeting Regulations, which shall henceforth read as follows:

ARTICLE 3.1. ORDINARY GENERAL MEETINGS

Ordinary General Shareholders Meeting must be held in the first six months of each year to adopt all resolutions falling within its competency that are submitted for its consideration, and as a minimum:

- a) To approve, as appropriate, the Company's management.
- b) To approve, as appropriate, the financial statements for the previous year.
- c) To agree the distribution of profit.

Ordinary General Meetings shall be valid even if not convened or held within the established timeframes.

ARTICLE 5.2.1. TIME AND FORM OF PUBLICATION.

Ordinary General Meetings must be called by notice published in the Official Journal of the Trade and Companies Registry and a regional newspaper with wide circulation at least one month before the date scheduled for the meeting.

The notice shall include the date of the meeting on first call and all items on the agenda.

Shareholders representing at least 5% of share capital shall have the option of requesting publication of a supplement to the notice calling the General Shareholders Meeting, including details of one or more items on the agenda. To exercise this right, shareholders must submit a written request to the Company's registered office within five days of the publication of the notice.

The supplement to the notice must be published at least two weeks before the scheduled date of the general meeting.

Failure to publish the supplement to the notice within the legally established period shall cause the general meeting to be invalid.

Prior to publication of the notice of call, the Company shall submit the document to the Spanish Securities Market Commission (CNMV), to the Spanish Stock Exchanges and to the other markets on which the Company's shares are traded and shall inform the entities affiliated to the corresponding securities registration, clearing and settlement system.

The text of the notice shall also be placed on the corporate website.

In addition to complying with the aforementioned legal and regulatory requirements, to achieve maximum dissemination and give shareholders sufficient time to request and obtain additional information on the items on the agenda, the Board of Directors shall endeavour to ensure that the notice is published in advance of the legally-required minimum, and via a greater number of public communication channels than the legally-required minimum, except where not possible for reasons of urgency or other circumstances beyond the control of the Board. The notice of call may also be published a second time, on a date close to the meeting, as a reminder.

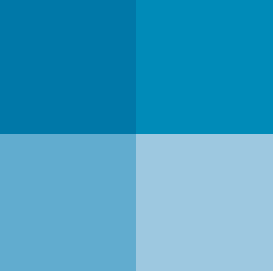
Voting on the Resolution was as follows.

Total number of votes cast:	138,441,388	
Number of votes in favour:	135,359,662	(97.7740%)
Number of votes against:	60,558	(00.0437%)
Number of abstentions:	3,021,168	(2.1823%)

SEVENTH RESOLUTION:

To set as the maximum payment for members of the Board of Directors in respect of 2006, the amount of €1,045,000, to be distributed as described below:

- Each Board member attending a minimum of two meetings in the course of the year shall be entitled to receive a payment of €20,000.
- In addition, attendance at meetings in person shall entitle Directors to receive a maximum annual attendance fee of €38,500 per Director. The Board of Directors shall determine the exact amount of the attendance fee payable per meeting, for attendance in person or by means of a delegated representative.
- Likewise, members of Board committees shall be entitled to an annual payment of €10,000, with chairmanship of any of these committees entitling them to an additional annual payment of €5,000.



The aforementioned sums are separate from any remuneration and salary payments which may also be paid in respect of work or services provided by Board members, and also from their entitlement to payment or refund of expenses incurred in performance of their duties as Board members.

Voting on the Resolution was as follows:

Total number of votes cast:	138,441,388	
Number of votes in favour:	135,391,766	(97.7972%)
Number of votes against:	27,641	(00.0200%)
Number of abstentions:	3,021,981	(2.1829%)

EIGHTH RESOLUTION:

To delegate to the Chairman of the Board of Directors Antonio González-Adalid García-Zozaya, the Secretary of the Board of Directors Luis Pérez de Ayala Becerril, and the Vice Secretary Beatriz Martínez-Falero Garcíaso, so that any of these persons, indistinctly, may undertake the full execution of resolutions adopted at the general meetings and take the actions that may be necessary to this effect, the powers included in the following non-exhaustive list: to appear before a notary of their choice to take the resolutions for the amendment of the Articles of Association to public deed, and to formulate and execute whatever public or private deed or documents may be necessary to record the aforesaid resolutions in the Trade and Companies Register, executing whatever private and public documentation may be necessary to correct or amend errors or additions to the former and to ensure that the resolutions meet the specifications of the Trade and Companies Registrar, until the financial statements are duly included in said Register.

Voting on the Resolution was as follows.

Total number of votes cast:	138,441,388	
Number of votes in favour:	135,420,270	(97.8178%)
Number of votes against:	278	(00.0002%)
Number of abstentions:	3,020,840	(2.1820%)

E.9. INDICATE THE MINIMUM NUMBER OF SHARES, IF ANY, REQUIRED TO BE ABLE TO ATTEND GENERAL MEETINGS AND WHETHER ANY RESTRICTIONS ON SUCH ATTENDANCE ARE ESTABLISHED IN THE ARTICLES OF ASSOCIATION:

Article 27 of the Enagás Articles of Association states that "All shareholders owning at least 100 shares, which must be registered in the corresponding shareholders' register of an entity affiliated to the Management Company of Securities Registration, Clearing and Settlement Systems at least five days prior to the date scheduled for the general meeting, 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 ADOPTED BY THE COMPANY IN RELATION TO PROXY VOTING AT GENERAL MEETINGS.

As indicated in section E.3 of this report, all shareholders with attendance rights may nominate another person, who need not necessarily be a shareholder, to represent them at general meetings, using the proxy nomination form provided by the Company for each meeting which is printed on the attendance card. The same shareholder may not be represented at a meeting by more than one proxy.

The appointment of a proxy shall be specific to each meeting and conferred in writing via any means of remote communication permitted by law, provided at all times that the identity of the nominated proxy is duly accredited. Representation rights may be revoked at any time.

If the shareholder to be represented attends the meeting in person, the representation rights conferred are automatically revoked, and the shareholder must inform the nominated proxy immediately, to ensure that this person does not attempt to exercise representation rights that he/she does not have.

E.11. INDICATE WHETHER THE COMPANY IS AWARE OF 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 OF YOUR WEBSITE AND THE MEANS OF ACCESSING CONTENT ON CORPORATE GOVERNANCE.

All information on Enagás' corporate governance can be consulted by the public on its website (www.enagas.es/www.enagas.com).

The aforementioned information is accessed as follows:

In Spanish: Página Principal - Accionistas e Inversores - Gobierno Corporativo.

In English: Investor-Relations - Corporate Governance.

F. DEGREE OF COMPLIANCE WITH CORPORATE GOVERNANCE RECOMMENDATIONS

Indicate the extent to which the Company has complied with existing recommendations on corporate governance and any cases where it has not followed these recommendations.



If the Company has not have complied with any of the recommendations, explain the recommendations, standards, practices and/or criteria that the Company has adopted in their place.

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

For information regarding the degree of compliance with the recommendations for good corporate governance, reference should be made initially to the content of the Olivencia Code, as duly updated in the Aldama Report. Enagás, S.A has therefore redrafted the recommendations contained in both reports so as to give information on its compliance with the aforementioned recommendations as accurately as possible.

RECOMENDATION 1. DUTIES OF THE BOARD OF DIRECTORS.

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

The Enagás Board of Directors performs the administrative, representative and supervisory duties necessary or expedient to the achievement of the corporate purpose established in the Articles of Association, within the framework established by the Law, the Articles of Association and the Board Regulations.

The functional division of the Board and the differentiation between the different types of Directors ensures compliance with the 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, who shall be persons of recognised professional standing without links to the management team and significant shareholders.” (Olivencia Code)

The Board of Directors of Enagás consists of a total of 16 Directors (including the Chairman), of which eight are independent. These Independent Directors are persons of recognised professional standing and comply with the recommendations included in the Aldama Report in terms of their impartiality and objectivity as board members, thereby guaranteeing that the interests of minority shareholders are protected, which recommendations are expressly contained out in article 9 of the Regulations of the Board of Directors of Enagás.”

In all circumstances, with regards to its composition, the Board of Directors endeavours to ensure that Independent Directors have a substantial majority over Executive Directors, as expressly provided for in article 3 of the Enagás Board of Directors’ Regulations.

RECOMMENDATION 3. COMPOSITION OF THE BOARD OF DIRECTORS.

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

“That within the composition of the Board of Directors, external Directors (non-independent and independent Directors) shall constitute a broad majority over Executive Directors, and that the ratio of non-independent to independent Directors shall be established taking into account the Company’s shareholder structure and the share capital represented on the Board”. (Olivencia Code).

At the close of 2006, the Enagás Board of Directors was composed of 16 members, of which only one was an Executive Director. Of the 15 external Directors, eight were Independent Directors, and six were non-independent directors, appointed on the proposal of the five largest Enagás shareholders, thereby ensuring representation of the greatest possible proportion of capital on the Board. One director had ceased to be a non-independent director and is now an external director (others category).

At the time of this report’s approval, the Board of Directors was composed of 15 members, with one seat being vacant. One of the non-independent directors had become an executive director, leaving five non-independent directors, one other external director and eight independent directors.

RECOMMENDATION 4. SIZE OF THE BOARD OF DIRECTORS.

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

Article 35 of the Articles of Association states that “the Board of Directors shall be composed of a minimum of six members and a maximum of 16, appointed at the General Meeting.”

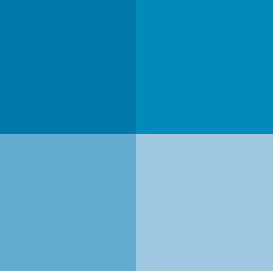
In this way, its size can be adjusted to ensure effective and participatory operation of the Company’s Board of Directors.

RECOMMENDATION 5. AVOIDING CONCENTRATION OF POWER.

“That 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 a single person.” (Olivencia Code).

The Chairman of the Board assumes the chairmanship of all the Company’s management and governing bodies but, although the Chairman also serves as Chief Executive Officer, there is a clear distinction between those powers that may be delegated and those that may not. In addition to the function and powers vested in the position by Law and under the Articles of Association, the Chairman of the Board of Directors, as an executive, effectively directs the Company’s business, in accordance with the decisions and criteria established at the General Shareholders’ Meeting and by the Board of Directors in their respective competencies.

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



However, the Board Regulations contain a detailed report on issues that must be presented to the Board; in general terms, the Board retains sole jurisdiction over transactions for amounts in excess of €3Mn. Similarly, Enagás internal regulations on investments and tendering also reserve decision-making powers for the Board for sums in excess of €3Mn.

RECOMENDATION 6. REGULATORY GUARANTEE.

“That the figure of Board Secretary shall be vested with greater importance, strengthening 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 assists the Chairman in his work and ensures the smooth operation of the governance body, and in particular is responsible for providing Directors with the information and advice they need, keeping Company documents, duly recording meetings in the Minutes Book and keeping record of Board resolutions.

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

RECOMMENDATION 7. COMPOSITION OF THE EXECUTIVE COMMITTEE.

“That the composition of the Executive Committee, where one exists, shall reflect the balance maintained in the Board between the different categories of Directors, and that the relationship between the two bodies shall be informed by the principle of transparency, such that the Board has full knowledge of issues handled and resolutions adopted by the Committee”. (Olivencia Code).

“That the Board of Directors shall determine the composition of this Committee, it being recommended that, when the Executive Committee assumes the powers of the Board in full or in significant part, its composition be similar to that of the Board itself with regards to the balance between the different categories of Directors”. (Aldama Code).

Given the number of Directors and smooth operation 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 comprised exclusively of external Directors to which to delegate control of accounts and control information (Audit Committee), the selection of Directors and senior managers (Appointments Committee), the determination and review of remuneration policy (Remuneration Committee), and the evaluation of the governance system (Compliance Committee).” (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 are Internal or Executive. At the close of 2006, the Audit and Compliance Committee consisted of one non-independent director, another external director (others category) and two independent directors, while the Appointments and Remuneration Committee had a majority of independent directors over non-independent directors, being composed of one non-independent director and two independents.

RECOMMENDATION 9. INFORMATION FOR DIRECTORS.

“That the necessary measures shall be adopted to ensure that the Directors can obtain sufficient information, specifically drafted and designed to prepare for Board meetings, in sufficient time. Except in exceptional circumstances, the importance or confidential nature of the information shall not be cited as grounds for not doing so.” (Olivencia Code).

The Secretary of the Board of Directors is responsible for providing Directors with sufficient information in advance, specifically drawn up and designed to prepare for Board meetings.

Specifically, article 6 of the Board of Directors’ Regulations establishes the procedure by which Directors may obtain 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.

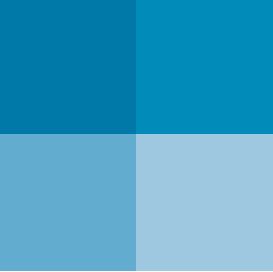
Members of the Board of Directors also have access to all the Company’s services and may obtain the information and advice they need concerning any aspect of the Company, provided their duties as Directors so require.

This right to information is channelled through the Chairman or Secretary of the Board of Directors, who deal with requests from Directors, either providing them with the information directly, referring them to the appropriate contact person or overseeing whatever measures may be necessary for the requested examination.

RECOMMENDATION 10. OPERATION 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 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 operation shall be reviewed at least once a year”. (Olivencia Code).

Pursuant to article 6 of the Board of Directors’ Regulations, 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 expedient for the Company’s smooth running. However, better and more extensive monitoring of matters affecting the Company on the part of the Board has meant that meetings are actually held once a month.



The Chairman is responsible for organising debates, and encouraging and securing the participation of all Directors in the body's deliberations.

The meetings and resolutions of the Board of Directors are recorded in a Minutes Book, signed by the Chairman and the Secretary. The Secretary to the Board is the custodian of the Minutes Book.

Pursuant to the provisions of article 8 of the Audit and Compliance Committee Regulations and article 25 of the Board of Directors' Regulations, the Audit and Compliance Committee and Appointments and Remuneration Committee must meet at least four times a year. In 2006, each Committee met four times.

Likewise, the resolutions adopted by each Committee are recorded in a Minutes Book, signed by the Chairman and Secretary of each body.

RECOMMENDATION 11. APPOINTMENTS POLICY.

"That the involvement of the Board in the selection and re-election of its members shall adhere to a formal, transparent procedure, based on a reasonably argued proposal from the Appointments Committee." (Olivencia Code).

Pursuant to article 8 of the Board of Directors' Regulations, Enagás' Directors shall be appointed by the General Shareholders' Meeting or by the Board of Directors, in accordance with the provisions contained in Spanish Companies Law and the Articles of Association.

Persons appointed as Directors must, in addition to meeting the legal and statutory requirements, be persons of recognised standing who have the professional knowledge and experience required to properly exercise the post.

Proposals for the appointment of Directors submitted by the Board of Directors for approval at General Shareholders Meetings and resolutions on appointments adopted by this body by virtue of the powers of co-option legally conferred upon it, are preceded by a relevant proposal from the Appointments and Remunerations Committee.

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

The Appointment and Remunerations Committee, which is responsible for evaluating the quality of work and commitment of the Directors proposed in their previous term of office, shall provide the information required to assess proposals for the re-election of Directors presented by the Board of Directors at the General Shareholders Meeting.

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

RECOMMENDATION 12. PROTECTION OF EXTERNAL DIRECTORS FROM REMOVAL.

“That once Non-Independent or Independent External Directors have been elected at the Shareholders Meeting, the Board should not propose their removal before they complete the statutory term of office for which they were appointed, except in exceptional circumstances duly explained by the Board, based on a report from the Appointments Committee.” (Aldama Code).

Article 10 of the Enagás Board of Directors’ Regulations 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 at General Meetings.”

RECOMMENDATION 13. LIMITATIONS ON DIRECTORS’ POSTS.

“That companies shall include in their regulations the obligation for Directors to resign in situations that may have a negative effect on the operation of the Board or the credibility and reputation of the Company.” (Olivencia Code).

Directors must tender their resignation to the Board of Directors in the following cases and, should the Board consider it expedient, prepare a formal letter of resignation, pursuant to article 12 of the Board of Directors’ Regulations, in the following situations:

- a) When Executive Directors no longer hold executive posts other than those on the Board with which their appointment as a Director was associated.
- b) When they are involved in any of the circumstances of incompatibility or prohibition established by law.
- 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 an Independent, Executive or Non-independent Director is no longer valid.

RECOMMENDATION 14. AGE OF DIRECTORS.

“Companies that adopt a policy imposing a limit on the age of Directors must state it clearly in their internal regulations.” (Aldama Code).

The Regulations governing the organisation and operation of the Enagás Board of Directors does not set any age limit for Directors.



RECOMMENDATION 15. APPROPRIATE INFORMATION AND ADVICE.

“That the right of all Directors to gather and obtain the information and advice they need to perform their supervisory duties shall be formally recognised. Suitable arrangements shall be made for this right to be exercised, drawing on the assistance of external experts in certain specific circumstances.” (Olivencia Code).

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

In particular, section 2 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, to assist the Board in performing its duties when there are specific problems of importance and complexity linked to 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 itself.

RECOMMENDATION 16. DIRECTORS’ REMUNERATION.

“That the policy governing the remuneration of Directors, which shall be proposed, reviewed and evaluated by the Remuneration Committee, shall conform to 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 to the Board of Directors both the general criteria for Directors’ remuneration that it deems appropriate and an overall sum to be paid to the Board, which shall be submitted for approval at the General Shareholders Meeting. Once the general remuneration criteria and overall amount to be paid to Directors has been established by the General Shareholders Meeting, the Appointments and Remuneration 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 deriving from Directors’ general duties of diligence and loyalty, providing for, in particular, situations of conflicts of interest, the duty of confidentiality, the exploitation of business opportunities and the use of corporate assets.” (Olivencia Code).

As detailed in the section of this report dealing with the regulations governing the organisation and operation of the Board of Directors, Directors must comply with obligations of diligent administration, faithfulness, loyalty, secrecy and non-competition.

RECOMMENDATION 18. TRANSACTIONS WITH SIGNIFICANT SHAREHOLDERS.

“That the Board of Directors shall foster the adoption of appropriate measures to extend duties of loyalty to significant shareholders, establishing, in particular, safeguards for transactions made between shareholders and the Company.”

As prescribed by the Board of Directors’ Regulations and the Enagás Internal Code of Conduct, transactions with significant shareholders are formally reserved for the Board of Directors, which shall adopt such resolutions on the basis of the transaction’s conformance to market prices and following reports from the Appointments and Remuneration Committee working in conjunction with the Audit and Compliance Committee.

In addition, the Director proposed by the significant shareholder in question (or, where appropriate, the physical person representing such shareholder) must abstain in the vote on the resolution. This situation has actually arisen in practice since 2002, as noted in the Minutes of the Board of Directors, prepared by the Secretary with the Chairman’s approval.

RECOMMENDATION 19. GENERAL SHAREHOLDERS MEETINGS.

“That on the occasion of Shareholders Meetings, and from the time such meetings are called, the Company must disclose the full content of all motions to be submitted to the meeting on its website, irrespective of any other procedures for this purpose established by law or implemented voluntarily by the Company.” (Aldama Code).

In its relations with its shareholders, the Enagás Board of Directors applies the principle of parity of treatment, creating appropriate systems for finding out about shareholders’ proposals in respect of the Company’s management and opening up the channels needed for a regular exchange of information with committees or groups of shareholders.

The Board of Directors also encourages informed participation of shareholders at General Meetings, adopting as many measures as deemed appropriate to ensure that General Shareholders Meetings are able to effectively perform the functions attributed by law and in the Articles of Association.

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

- a) The notice of call.
- b) The full content of all proposed resolutions to be submitted for adoption at the meeting.
- c) The full financial statements of Enagás and the consolidated financial statements of the Enagás Group, for the year in question.
- d) Enagás management report and consolidated management report.
- e) Annual corporate governance report.
- f) Any other report that must be included or which the Board of Directors deems it appropriate to include.



RECOMMENDATION 20. GENERAL MEETING AND BOARD OF DIRECTORS' REGULATIONS.

“That all companies should equip themselves with a set of rules or criteria for corporate governance, including, as a minimum, General Meeting Regulations and Board Regulations”. (Aldama Code).

At the Ordinary General Meeting held on 25 April 2003, shareholders approved specific regulations for General Meetings governing, inter alia, the rules for the organisation, call, preparation, information, attendance and execution of General Meetings, with a view to assisting shareholders in the exercise of their corresponding rights. The aforementioned Regulations were amended at the Ordinary Shareholders Meeting held on 30 April 2004 to adapt them to Law 26/2003 on the transparency of listed companies and with a view to ensuring that shareholders are aware of the rules to which they are subject at general meetings and therefore better equipped to exercise their corresponding information and voting rights. Subsequently, at the Ordinary General Meeting held on 22 April 2005, shareholders amended articles 3.1 and 5.2.1 of the aforesaid Regulations to adapt them to the legal reforms introduced by Law 19/2004, of 14 November, amending Spanish Companies Law.

In addition, at a meeting held on 19 February 2004, the Board of Directors approved the internal framework and operating rules for the Board of Directors and its Committees. At the same meeting, the Board of Directors also approved regulations for the operation of the Audit and Compliance Committee, to provide the committee with an organisational and operational framework that ensures its independence and transparency. The Board presented the content of both regulations at the General Meeting held on 30 April 2004.

RECOMMENDATION 21. TRANSPARENCY OF INFORMATION.

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

Pursuant to articles 105, 106 and 112 of Spanish Companies Law 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 remote communication and their right to information, at the Ordinary General Meeting held in 30 April 2004, shareholders approved the amendment of various articles of the Enagás Articles of Association relating to these issues.

Mechanisms established to encourage communication between the Company and its shareholders are detailed and extensively regulated in the General Meeting Regulations (articles 7 to 13 inclusive) and Enagás Articles of Association (article 8 and articles 27 to 31 inclusive).

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, accurate, reliable information, especially with respect to its shareholder structure,

substantial changes in the rules of governance, related-party transactions of particular importance and transactions in treasury shares.” (Olivencia Code).

It is the Board of Directors’ responsibility to adopt and implement as many measures as are necessary to ensure the Company’s transparency on the financial markets, to encourage the correct formulation 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.

Through its Chairman, or its Investor Relations Director, the Secretary to the Board, the Finance Director or the Legal Affairs Director, Enagás shall immediately provide the market with all relevant information by notifying the Spanish Securities Market Commission (CNMV) within the deadlines and in accordance with the established procedures contained in the applicable regulations. Such information shall be disclosed to the CNMV before it is published in any other media and as soon as the event or fact is known, the relevant decision is adopted, or the relevant agreement or contract is signed. The notification shall be accurate, clear and comprehensive in content, such that it does not lead to error or confusion.

RECOMMENDATION 23. INFORMATION ON CORPORATE GOVERNANCE.

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

This Corporate Governance Report attests to Enagás’ compliance 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, pertaining to the communication and assessment of corporate governance rules.

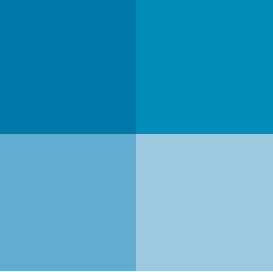
RECOMMENDATION 24. REGULAR FINANCIAL REPORTING.

“That all regular financial information furnished to the markets, in addition to the annual financial statements, shall be drawn up in accordance with the same professional practices and principles as the financial statements and that, before its publication, 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 it is required to provide to the markets under applicable regulations and in application of the principle of prudence, are prepared in accordance with the same principles, criteria and professional practices used to prepare the financial statements, and are as reliable as the latter.

RECOMMENDATION 25. INFORMATION VIA THE INTERNET.

“That all listed companies should have a website through which to inform shareholders, investors and the market in general about financial events and any other significant event that takes place in connection with the Company, and to assist shareholders in the exercise of their right to information and any other shareholder rights.” (Aldama Code).



Enagás has a corporate website (www.enagas.com/www.enagas.es) that includes information on key aspects of the Company, financial information and information on all corporate governance matters.

Thus, on the website it is possible to consult Annual Corporate Governance reports, the Articles of Association, the Board of Directors' Regulations, General Meeting Regulations and Audit and Compliance Committee Regulations, and information on significant shareholders and their representation on the Board of Directors, and the composition of the Board and its Committees. Likewise, it is possible to consult quarterly and annual reports for the last few years and significant events communicated to the markets. Also available are the calls for General Shareholders Meetings and the information contained in the same, motions and resolutions to be adopted, and the resolutions ultimately adopted.

RECOMMENDATION 26. INDEPENDENCE OF EXTERNAL AUDITORS.

"That the Board of Directors and the Audit Committee shall oversee situations that could compromise the independence of the Company's External Auditors, and, specifically, that they shall verify the fees paid for all items as a percentage of the audit firm's total income, 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 the remuneration of the External Auditors, and to contact the auditors to obtain information on any issues that could compromise their independence.

RECOMMENDATION 27. QUALITY OF ACCOUNTING

"That the Board of Directors shall endeavour to ensure that the financial statements it prepares are not presented at the General Shareholders Meeting with reservations and qualifications in the auditors' report. 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 financial statements in such a way that no qualifications from the Company's Auditors are necessary.

If the Board of Directors feels that it must maintain its criteria in certain 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 that are not in line with the recommendations of this Code." (Olivencia Code).

Both this report and the annual report include all information relevant to the Company's compliance with good corporate governance rules.

G. OTHER INFORMATION OF INTEREST

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

This section may include any other information, clarification or detail related to previous sections of the report, provided that it is relevant and not repeated.

In particular, indicate whether the Company is subject to corporate governance legislation in place in 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 A.2:

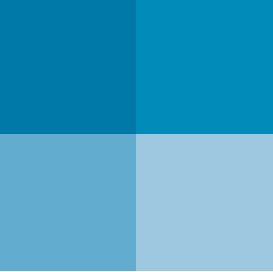
"List the direct and indirect holders of significant shares in your organisation at the end of the year, excluding members of its Board Directors.

Indicate the most significant movements in the ownership structure during the year."

- BP España, S.A.U. is not included in this report as a significant shareholder, since at the close of the financial year covered by this report, this entity had disposed of all shares it held in Enagás, as reported to the Spanish Securities Market Commission (CNMV) as a significant event on 15/11/2006, in a submission detailing the agreement with Lehman Brothers International (Europe) for the sale and distribution among qualified investors of 11,936,713 Enagás shares, representing 5% of its share capital, a transaction that constitutes a significant change in the shareholder structure of Enagás.
- At the start of the financial year covered by this report Gas Natural Sdg, S.A. owned 26.1% of Enagás share capital (62,309,642 shares). On 08/08/2005, it duly notified the Spanish Securities Market Commission (CNMV) of the reduction in its holding in Enagás to 5%, as required under prevailing legislation. Consequently, at the close of 2006, this company owned 11,936,714 shares representing 5% of Enagás' share capital.

CLARIFICATION OF SECTION A.5:

"Where applicable indicate any commercial, contractual or corporate relationships between owners of significant shareholdings as they become known to the Company, unless they are insignificant or derive from ordinary trading or exchange activities:"



BP España, S.A.U. ceased to be a significant shareholder in Enagás on 15/11/2006, after selling its 11,936,13 shares, representing 5% of Enagás' share capital social, to Lehman Brothers International (Europe) for distribution to qualified investors.

However, below we list the commercial, contractual and corporate relationships that existed between BP España, S.A.U. and Enagás in 2006:

1. Corporate relationship: Enagás paid BP España S.A.U. € 4.774 Mn by way of total dividend for 2005.
2. Contractual relationship: Enagás has provided ATR services to BP España, S.A.U. Total income generated from ATR services amounted to € 4.601Mn, breaking down as follows:
 - a) Regasification services for 614 GWh, generating income of € 0.579 Mn.
 - b) Transportation services for 477 GWh, generating income of € 0.995 Mn.
 - c) Storages services for 1,131 GWh, generating income of € 3.027 Mn.

CLARIFICATION OF SECTION B.1.2:

"Complete the following table with Board members' details."

After the Board meeting held on 24/01/07, Enagás notified the Spanish Securities Market Commission (CNMV) of its decision to approve the nomination of:

- Antonio Llardén Carratalá as Chairman, replacing Antonio González-Adalid García-Zozaya.
- José Luis Olivas Martínez as Vicechairman, representing BANCAJA (Caja de Ahorros de Valencia, Castellón y Alicante).

On 22/11/06 Luis Pérez de Ayala resigned as Secretary and Legal Advisor to the Company's Board of Directors. He has been replaced by Rafael Piqueras Bautista, who has assumed the same duties.

Beatriz Martínez-Falero García is Vice secretary of the Company's Board of Directors.

CLARIFICATION OF SECTION B.1.3:

"Indicate any changes, if any, to Directors' posts during the period."

- On 24/01/2007, Antonio Llardén Carratalá ceased to be a non-independent director and became the Chief Executive Officer.
- José Luis Olivas Martínez remains a non-independent director representing BANCAJA (Caja de Ahorros de Valencia, Castellón y Alicante) but on 24/01/07 also assumed the role of Vice Chairman.

- The status of Luis Javier Navarro Vigil changed from non-independent director to other external director, since the shareholder (B.P. España S.A.U.) that proposed his appointment as non-independent director sold its entire holding in the Company's capital on 15/11/06. He is not considered an Independent Director since he maintains, or had maintained in the past year, a significant business relationship with this company.

Notwithstanding the above, it was considered expedient to include Luis Javier Navarro Vigil in the "Other External Directors" category since he does not satisfy all the prerequisites for classification as an Independent Director established in the "Single Code of Good Governance, pursuant to Order ECO/3722/2003, of 26 December, and CNMV Circular 1/2004, of 17 March.

CLARIFICATION OF SECTION B.1.7:

"List all board members who are also members of the board of directors of other companies listed on official securities markets in Spain, other than those of your own Group, that have been reported to the Company":

- José Luis Olivas Martínez, who represents BANCAJA on Enagás' Board of Directors, is Chairman of the BANCAJA Group (Caja de Ahorros de Valencia, Castellón y Alicante) and a board member of Abertis Infraestructuras, S.A.
- Vicente Sala Belló, who represents CAM on Enagás' Board of Directors, is Chairman of the board of directors of CAM (Caja de Ahorros del Mediterráneo).

CLARIFICATION OF SECTION B.1.8:

"Complete the following tables indicating the aggregate remuneration paid to directors during the year".

In 2006, non-executive directors received payments only to cover expenses (per diems). They did, therefore, receive any payment by way of fixed or variable remuneration.

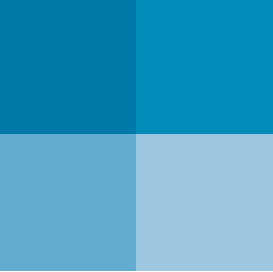
"Variable remuneration" was paid to the Executive Director and included an amount due under the long-term 2003-2006 incentives scheme, which was paid in full in 2006.

Similarly, the amounts included under "Other Benefits" in section B.1.8. were received only by the Company's Chief Executive. Non-executive Directors received no benefits or any kind in 2006.

CLARIFICATION OF SECTION B.1.9:

"List senior management members who are not executive directors and indicate the total remuneration accruing to them during the year":

Mr Luis Pérez de Ayala Becerril left the post of Director of Legal Affairs in November 2006 and was replaced by Rafael Pi-queras Bautista.



The Company's senior management, including its Executive Director, are amongst the beneficiaries of the multi-year remuneration plan approved by the Board of Directors on the proposal of the Appointments and Remuneration Committee in 2003. The plan provides long-term incentives payable upon achievement of certain objectives over a three-year period and expired in June 2006.

The Company has also adopted a bonus payment system rewarding staff who remain in Enagás' service and consisting of an annual payment to staff within its scope. The amount set aside is paid upon conclusion of thirty years' service, retirement, unfair dismissal or redundancy. In 2006, the amount distributed to Enagás' senior management and Executive Director totalled €924Mn.

CLARIFICATION OF SECTION B.1.12:

"Indicate the identity of any board members who sit on board(s) of directors or hold senior management posts in companies having significant shareholdings in the listed company and/or its group companies":

- Antonio Llardén Carratalá resigned from the post of General Resources Manager of Grupo Gas Natural Sdg, S.A. on 24 January 2007, after being appointed Executive Chairman of Enagás.
- Luis Javier Navarro Vigil is a Director of BP España S.A.U., a company that, until 15 November 2006, held a significant shareholding in Enagás. However, he remains a member of the Enagás Board of Directors.
- Manuel Menéndez Menéndez, who represents Peña Rueda, S.L.U. on the Board, is the Chairman of CAJASTUR (Caja de Ahorros de Asturias).
- José Luis Olivas Martínez as Vicechairman, who represents BANCAJA, is the Chairman of BANCAJA (Caja de Ahorros de Valencia, Castellón y Alicante).
- Vicente Sala Belló, who represents CAM on the Board, is the Chairman of CAM (Caja de Ahorros del Mediterráneo).

CLARIFICATION OF SECTION 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."

The total amount billed for audit services in 2006 was €124,000 (€117,000 corresponding to the Company and €7,000 to the Group). The total amount billed for non-audit services was €525,000, corresponding entirely to the Company. Thus, the amount billed for non-audit services accounted for 82% of the Company's total bill and 81% of the total billed for the Company and Group.

CLARIFICATION OF SECTION B.1.31:

“List the Company directors’ holdings in other companies that carry on activities that are the same, similar or complementary to the corporate purpose of the Company and/or its Group that have been reported to the Company. Indicate the positions they hold or duties they perform in these companies:”

- Antonio Llardén Carratalá resigned from the post of General Resources Manager of Grupo Gas Natural Sdg, S.A. on 24 January 2007, after being appointed Executive Chairman of Enagás.
- Subsequent to the balance sheet close, Luis Javier Navarro Vigil ceased to be Chairman of BP España, S.A.U. and is not a Director of the company.
- Manuel Menéndez Menéndez, who represents Peña Rueda, S.L. on the Board of Enagás, is also, in an individual capacity, Chairman of Hidroeléctrica del Cantábrico, S.A. (H.C.), representative of H.C. on the Board of Naturgas Energía Grupo, S.A., and a member of the Board of Electricidad de Portugal, S.A. (EDP).
- José Luis Olivas Martínez, who represents BANCAJA on the Board of Enagás, has holdings of 0.0002% in the capital of REPSOL and 0.00004% in the capital of TOTALFINA.

CLARIFICATION OF SECTION C. RELATED PARTY TRANSACTIONS:

The following points should be taken into account in relation to information on transactions with related parties:

- a) Transactions with related parties for significant sums that exceed Enagás’ normal levels of trading are approved by the Company’s Board of Directors following a report from the Appointments and Remunerations Committee.
- b) Pursuant to Order EHA/3050/2004, it is not necessary to provide information on transactions that, since they form part of normal company trading, are concluded under normal market conditions and are not of great importance. For such purposes, and based on the balances shown in the Company’s financial statements, transactions for amounts of less than €3,000 concluded in the period for which information is provided are considered to be insignificant.
- c) Closing balances are not available for certain transactions, particularly those which are calculated on the basis of gas balances at the close of accounts. Accordingly, in some cases the amounts shown are provisional only. In other cases, the decision has been taken to include figures for the first eleven months of the financial year, in which case the fact that this is being done is highlighted.

Unless expressly indicated otherwise in the text, these transactions correspond to contracts signed prior to the period under examination. New relationships deriving from contracts signed or commitments assumed in 2006 are expressed indicated as such.



CLARIFICATION OF SECTION C.1:

“List any significant transactions entailing a transfer of resources or obligations between the Company or its Group companies and significant shareholders in the Company”:

The information contained in the tables included in section C.1 refers to transactions between Enagás, S.A. and companies that exercise a significant influence on Enagás and to companies on which Enagás itself has a significant influence (section 1 of the fourth point of Order EHA3050/2004). These are:

- 1) Transactions with BANCAJA (Caja de Ahorros de Valencia, Castellón y Alicante).
- 2) Transactions with BP España S.A.U.: Refer to the clarification to section A.5.
- 3) Transactions with CAJASTUR (Caja de Ahorros de Asturias) or its subsidiary Cantábrica de Inversiones de Cartera, S.L.
- 4) Transactions with CAM (Caja de Ahorros del Mediterráneo) or its subsidiary Incomed, S.L.
- 5) Transactions with Gas Natural Sdg, S.A. and companies of its Group.
- 6) Transactions with Sagane Inversiones, S.L.

Transactions with other related parties are detailed below, as required under section D of the fourth point of Order EHA 3050/2004:

a) Transactions with La Caixa d’ Estalvis Pensions de Barcelona (hereinafter, “La Caixa”) and companies of its Group:

1. La Caixa has contributed €89.000Mn to the “Club Deal” type loan concluded on 24 November 2004 and paid on 10 January 2005. The loan matures in 2010.
2. Enagás has secured a line of credit with La Caixa in the amount of €100.000Mn.
3. Guarantees provided by La Caixa to Enagás totalled €25.255Mn at 31/12/2006.
4. Enagás has concluded renting contracts with companies of the La Caixa Group in the amount of €6.288Mn.

The terms and conditions agreed in all financial agreements concluded with La Caixa with regards to interest, commission, charges and guarantees are those of the market.

b) Transactions with Repsol YPF and companies of its Group:

Enagás rents underground storage at Gaviota from Repsol Investigaciones Petrolíferas S.A. The cost to Enagás in 2006 was €24.494Mn.

CLARIFICATION OF SECTION C.2.

“List any relevant transactions entailing a transfer of resources or obligations between the Company or its Group companies and Company Directors or Senior Managers”:

a) Per diems paid to members of the Enagás Board of Directors totalled €1.013Mn at 31 December 2006.

This total includes the per diems paid to Directors who resigned in 2006 (i.e. José Manuel Fernández Norniella, Sir Robert Malpas and Rafael Villaseca Marco), until the date of their resignation (the Board Meeting held on 22/04/06).

b) Remuneration paid to Enagás' senior management, including the Chief Executive, totalled €6.774Mn (including long-term remuneration accrued since 2003 and settled last year).

CLARIFICATION OF SECTION C.3.

"List any relevant transactions undertaken by the Company with other companies belonging to the same Group and not eliminated in the process of drawing up the consolidated financial statements that are effected for reasons and in conditions setting them apart from Company's usual business activities":

Transactions with companies controlled by Enagás are listed in this section (section a, fourth point 1, Order EHA3050/2004):

- A. Transactions with "Gasoducto Al Andalus".
- B. Transactions with "Gasoduto Braga-Tuy".
- C. Transactions with "Gasoduto Campo Maior-Leira-Braga".
- D. Transactions with "Gasoducto Extremadura".

**This annual corporate governance report was approved by the Board of Directors
at a meeting held on 29/03/2007.**

> REPORT ON THE ACTIVITIES OF THE ENAGÁS AUDIT AND COMPLIANCE COMMITTEE IN 2006

COMPOSITION

Chairman

Mr. Luis Javier Navarro Vigil

Members

BANCAJA (represented by José Luis Olivas Martínez)

Sir Robert Malpas (until April 2006)

Mr. Martí Parellada Sabata.

Mr. Antonio Téllez de Peralta (as of June 2006)

Secretary

Mr. Luis Pérez de Ayala (until November 2006)

Mr. Rafael Piqueras Bautista (as of November 2006)

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. Diego 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 in 2006. The following is a summary of the most significant areas on which the Audit and Compliance Committee focused in 2006.

1. Committee activities relating to the formulation and approval of the Enagás Annual Accounts for 2005

As on previous occasions, the Audit 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 2006 the members of the Com-

mittee met with the Company's external auditor, as well as with the Finance Director and the head of the Enagás Internal Auditing 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 the statement of receivables, items for third-party network access invoices outstanding after payments by Enagás, items for underground storage facilities and the calculation of projects underway.

The area of greatest interest in Deloitte's opinion were the calculations under "Various Debtors" in the consolidated annual accounts of €25,522 as the figure estimated by Enagás, S.A. to be settled by the competent Regulatory Body for revenues from regulated activities in 2002, as well as €17,394 and €10,114 for 2003 and 2004, respectively. Nevertheless, even after the submission period for its auditor report for the year 2002 closed in 2005, the Regulatory Body had not yet specified the final amount owed by Enagás, S.A. or any other agent in the sector in terms of the figures used to determine the tariffs, tolls and fees for the shortages in question. Deloitte thus cited this uncertainty in its auditor's report for the consolidated accounts, which was made available to the shareholders at the last General Shareholders' Meeting.

Deloitte informed the Audit Committee that its report was clean and without reservations in all other respects.

The Audit Committee's study of the 2005 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 faced by the Company.
- 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 2006, 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 2006, 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 annual accounts that were approved on the proposal of the Board of Directors.



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

The Committee has continued to oversee the relationships existing between Enagás and its significant shareholders, and no incidents worthy of mention occurred.

3. Audit and risk control plan for 2006

All meetings of the Audit Committee have included as items of business on the agenda both a general reference to the development of the expected auditing plan for 2006, and a specific analysis of the main auditing processes to be carried out at each stage.

This area of the Audit Committee's work is therefore considered to be of particular importance. It is thus worth remembering that several 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 Auditing Unit and the Audit Committee were identified. The Audit Plan that was put into practice throughout 2006 has focused on monitoring the processes set as objectives in 2003. Reports were prepared during the fiscal year on: 1st *"Maintenance of infrastructure: Transport (II);"* 2nd *"Monitoring the Recommendations Issued in 2004;"* 3rd *"Financial Information Records and Process: Suppliers;"* 4th *"System Operating Management"* 5th *"Remuneration from Regulated Activities;"* 6th *"Small Investments;"* and 7th *"Infrastructure Operation: Plants"*.

The Internal Auditing Unit indicated several non-essential weaknesses in its review of the reports and has issued recommendations it believes will help eliminate or mitigate the impact of the risks associated with certain activities of the process.

4. Quarterly accounting reviews

Throughout 2006 the Committee continued to monitor the limited quarterly reviews carried out by auditors.

Specifically, the Committee analysed the reports it issued with Deloitte for the first, second and third quarters, respectively. 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 the balance sheet and income statement.

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 in ensuring strict control over the company's accounting and facilitating the issue of a clean year-end report.

5. 2007 Audit Plan

In December 2006, on the proposal of the head of the Internal Auditing Unit, the Committee approved the audit plan for 2007, as well as the budget allotted to the Unit for this purpose. The plan entails an audit of processes such as: Infrastructure Maintenance: Transport III; Planning and Development of Information Systems; Invoicing; Dialogue with Other Bodies; Strategic Planning; Formulation of the Remuneration Policy and Organisational Structure of the Company; Organisation and Control of Corporate Management; Management and Administration of General Services; Financial Information Records and Process: Revenue; Monitoring Recommendations II and Infrastructure Maintenance: Transport IV.

6. Activities after the end of the year

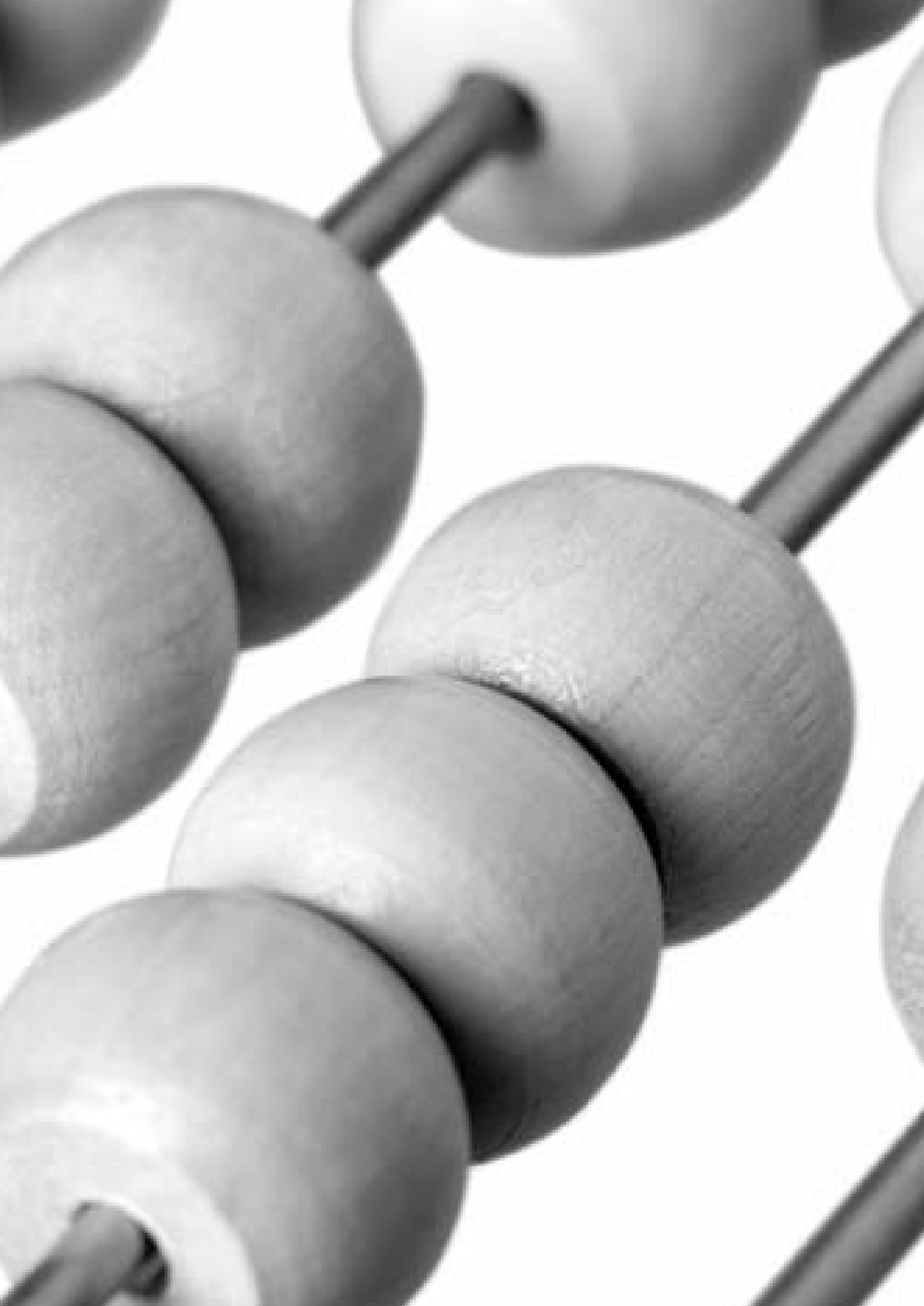
Throughout the first months of 2007, the Committee has continued its normal activities, particularly with regards to its participation in the formulation of the Annual Accounts by the Board of Directors. As in the previous financial year, the Audit and Compliance Committee has issued a prior favourable report on the 2006 Accounts to be submitted to the 2007 Ordinary General Shareholders' Meeting.

At its meeting of 29 March 2007, the Board of Directors agreed to appoint Mr. Martí Parellada Sabata as Chairman of the Committee to replace Mr. Luis Javier Navarro Vigil for the four-year legal term set for the Chairmanship.

At the same meeting, the Board of Directors agreed to call an Ordinary General Shareholders' Meeting having listed a proposal to modify Article 44 of the Company's By-laws to set the number of members of the Committee between three and five on the agenda. It also agreed to modify the Regulations for the Organisation and Operation of the Board of Directors and the Regulations for the Audit and Compliance Committee so as to bring them in line with the recommendations of the Unified Code of Good Governance approved by the Spanish National Securities Market Commission in May 2006.

Last, the Board of Directors on the proposal of the Committee included on the agenda for the aforementioned Ordinary General Shareholders' Meeting the proposal to renew the appointment of Deloitte S.L. as its external auditor for 2007.

The foregoing report was prepared and approved by the Audit and Compliance Committee at its session held on 29 March 2007 and by the Board of Directors at its session held the same day.





Annual Accounts



Translation of a report originally issued in Spanish based on our work performed in accordance with generally accepted auditing standards in Spain and of consolidated financial statements originally issued in Spanish and prepared in accordance with IFRS, as adopted by the European Union (see Notes 2 and 35). In the event of a discrepancy, the Spanish-language version prevails.

AUDITORS' REPORT ON CONSOLIDATED FINANCIAL STATEMENTS

To the Shareholders of Enagás, S.A.:

1. We have audited the consolidated financial statements of Enagás, S.A. and Subsidiaries comprising the consolidated balance sheet at 31 December 2006 and the related consolidated income statement, consolidated cash flow statement, consolidated statement of changes in equity and notes to the consolidated financial statements for the year then ended. The preparation of these consolidated financial statements is the responsibility of the Parent's directors. Our responsibility is to express an opinion on the consolidated financial statements taken as a whole based on our audit work performed in accordance with generally accepted auditing standards in Spain, which require examination, by means of selective tests, of the evidence supporting the consolidated financial statements and evaluation of their presentation, of the accounting policies applied and of the estimates made.
2. As required by corporate and commercial law, for comparison purposes the Parent's directors present, in addition to the figures for 2006 for each item in the consolidated balance sheet, consolidated income statement, consolidated cash flow statement and consolidated statement of changes in equity, the figures for 2005. Our opinion refers only to the consolidated financial statements for 2006. On 23 February 2006, we issued our auditors' report on the 2005 consolidated financial statements, in which we expressed an opinion qualified for an uncertainty similar to that described in paragraph 3 below.
3. The heading "Trade debtors and other accounts receivable" in the consolidated financial statements referred to above includes EUR 25,522 thousand relating to the amount estimated by Enagás, S.A. as being subject to settlement by the competent Regulator in relation to revenue from regulated activities for 2002, and EUR 17,394 thousand, EUR 10,114 thousand and EUR 4,396 thousand relating to 2003, 2004 and 2005, respectively (see Note 9 to the accompanying consolidated financial statements).

In relation to the unsettled amount recognised by the Parent for 2002, on 20 July 2006, the Spanish National Energy Commission handed down a Resolution with respect to the amounts that, in its opinion, should have been collected by Enagás, S.A. from the other Industry players in 2002 and which, accordingly, in the opinion of the Spanish National Energy Commission, were not subject to settlement by it to Enagás, S.A. for that year. On 31 August 2006, Enagás, S.A. filed an administrative appeal to a superior administrative body against the aforementioned Resolution, indicating the reasons for which, in its opinion, the items considered by the Spanish National Energy Commission in its Resolution do not correspond to items to be collected by Enagás, S.A. in 2002 in accor-

dance with the legislation in force at that date. At the date of this report, a final ruling had not yet been handed down on this appeal by the competent agencies (see Note 9 to the accompanying consolidated financial statements).

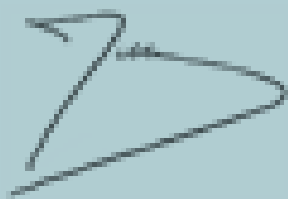
However, even though, at least, the related period corresponding to 2002 and 2003 ended in 2005 and 2006, respectively, the Regulator has not yet announced the definitive amount that will be paid to Enagás, S.A. or to any other industry player in relation to the amounts taken into account in the calculation of the tariffs, fees and charges as a result of the related shortfalls.

Therefore, although the Regulator appears to have acknowledged the existence of certain amounts payable in relation to 2002 and 2003, at the date of this report we did not know the percentage of the amounts considered that would correspond to Enagás, S.A. and, accordingly, we cannot express a definitive conclusion on the full or partial recoverability of the aforementioned amounts recognised in the accompanying consolidated financial statements in relation to the amounts not yet settled by the competent Regulator for the prior years indicated in the first paragraph of this section.

4. In our opinion, except for the effects of any adjustment that might have been required had the final outcome of the uncertainty described in paragraph 3 above been known, the accompanying consolidated financial statements for 2006 present fairly, in all material respects, the consolidated equity and consolidated financial position of Enagás, S.A. and Subsidiaries at 31 December 2006 and the consolidated results of their operations, the changes in the consolidated equity and their consolidated cash flows for the year then ended, and contain the required information, sufficient for their proper interpretation and comprehension, in conformity with International Financial Reporting Standards as adopted by the European Union applied on a basis consistent with that of the preceding year.
5. The accompanying consolidated directors' report for 2006 contains the explanations which the Parent's directors consider appropriate about the Group's situation, the evolution of its business and other matters, but is not an integral part of the consolidated financial statements. We have checked that the accounting information in the consolidated directors' report is consistent with that contained in the consolidated financial statements for 2006. Our work as auditors was confined to checking the consolidated directors' report with the aforementioned scope, and did not include a review of any information other than that drawn from the accounting records of Enagás, S.A. and Subsidiaries.

DELOITTE, S.L.

Registered in ROAC under no. S0692



Jesús María Navarro

30 March 2007

ENAGÁS, S.A. and Subsidiaries
Consolidated balance sheet at 31 December 2006 and 2005

(Figures in thousands of euros)

Assets	Notes	31.12.2006	31.12.2005
NON-CURRENT ASSETS		3,084,559	2,813,503
Intangible assets	5	32,278	29,600
Investment property		643	677
Property, plant and equipment	6	3,014,907	2,737,142
Non-current financial assets	8	27,299	28,211
Deferred tax assets	21	9,432	17,873
CURRENT ASSETS		541,636	412,116
Inventories	10	78,736	2,345
Trade debtors and other accounts receivable	9	446,624	402,111
Other current financial assets	8	4,180	3,849
Income tax receivable	9 and 21	6,284	51
Other current assets		2,499	2,374
Cash and cash equivalents		3,313	1,386
TOTAL GENERAL		3,626,195	3,225,619
Liabilities	Notes	31.12.2006	31.12.2005
EQUITY AND LIABILITIES	11	1,235,203	1,110,429
Share capital		358,101	358,101
Reserves		706,078	599,565
Profit (loss) for the year		216,384	190,960
Interim dividend		(45,360)	(38,197)
NON-CURRENT LIABILITIES		1,726,364	1,588,051
Borrowings	15	1,633,225	1,495,874
Other financial liabilities	16 and 18	21,220	28,917
Deferred tax liabilities	21	2,149	2,374
Provisions	14	16,708	16,607
Other non-current liabilities	13	53,062	44,279
CURRENT LIABILITIES		664,628	527,139
Borrowings	15	123,961	22,563
Other financial liabilities	16 and 18	3,664	16,808
Trade and other payables	19	447,391	394,994
Current tax liabilities	21	41,276	51,873
Other current liabilities		48,336	40,901
TOTAL GENERAL		3,626,195	3,225,619
Notes 1 to 35 described in the accompanying notes are an integral part of the consolidated balance sheet as of 31 December 2006.			

Translation of consolidated financial statements originally issued in Spanish and prepared in accordance with IFRSs, as adopted by the European Union (see Notes 2 and 35). In the event of a discrepancy, the Spanish-language version prevails.

ENAGÁS, S.A. and Subsidiaries**Consolidated profit and Loss Accounts for the years ended sheet at 31 December 2006 and 2005** (Figures in thousands of euros)

	Notes	31.12.2006	31.12.2005
Purchase-sale of gas on regulated market	22	11,339	(6,398)
Revenue from regulated activities	22	733,055	652,609
Revenue from non-regulated activities	22	13,985	15,437
Other revenue			
Other operating revenue	22	19,587	19,253
Staff costs	23	(54,321)	(58,198)
Depreciation and amortisation	5 and 6	(184,934)	(145,601)
Other operating expenses	23	(160,037)	(144,278)
OPERATING PROFIT (LOSS)		378,674	332,824
Financial and similar revenue	24	3,662	2,656
Interest and similar charges	24	(50,655)	(43,054)
PRE-TAX PROFIT FROM CONTINUED OPERATIONS		331,681	292,426
Income tax expense	21	(115,297)	(101,466)
PROFIT AFTER TAX - CONTINUING OPERATIONS		216,384	190,960
After tax profit from discontinued operations		—	—
PROFIT (LOSS) FOR THE YEAR		216,384	190,960
Attributable to:			
Parent Company		216,384	190,960
NET PROFIT PER SHARE	12	0.91	0.80
NET PROFIT PER DILUTED SHARE		0.91	0.80

Notes 1 to 35 described in the accompanying notes are an integral part of the consolidated profit and loss accounts as of 31 December 2006.

Translation of consolidated financial statements originally issued in Spanish and prepared in accordance with IFRSs, as adopted by the European Union (see Notes 2 and 35). In the event of a discrepancy, the Spanish-language version prevails.

ENAGÁS, S.A. and Subsidiaries
Statement of changes in consolidated net equity as of 31 December 2006 and 2005

(Figures in thousands of euros)

	Share capital and additional paid-in capital	Other reserves	Reserve for revaluation of NEC debt	Cash flow hedge reserve	PRIOR YEARS' PROFIT/LOSS	Profit (loss)	Interim dividend	Total
Balance at 01.01.05	358,101	532,103	(1,075)	(17,682)	(690)	158,118	(31,035)	997,840
Distribution of profit/(loss) to:								
Parent Company legal reserve	-	-	-	-	-	-	-	-
Parent Company voluntary reserve	-	78,638	-	-	-	(78,638)	-	-
Consolidated Companies' profit (loss)	-	9,901	-	-	-	(9,901)	-	-
Other	-	658	-	-	-	-	-	658
Dividends paid by the parent	-	-	-	-	-	(79,063)	31,035	(48,028)
Dividends received by the parent	-	(9,484)	-	-	-	9,484	-	-
Net profit (loss) not recognised in the profit and loss accounts								
Changes in the fair value of assets	-	-	71	-	-	-	-	71
Deferred tax liability	-	-	(25)	-	-	-	-	(25)
Hedging transactions								
Profit transferred to shareholders' equity	-	-	-	(4,145)	-	-	-	(4,145)
Transfer to profit (loss)	-	-	-	15,145	-	-	-	15,145
Deferred tax liability	-	-	-	(3,850)	-	-	-	(3,850)
Profit (loss) for the year	-	-	-	-	-	190,960	-	190,960
Interim dividend	-	-	-	-	-	-	(38,197)	(38,197)
Balance at 31.12.05	358,101	611,816	(1,029)	(10,532)	(690)	190,960	(38,197)	1,110,429
Distribution of profit/(loss) to:								
Parent Company legal reserve	-	-	-	-	-	-	-	-
Parent Company voluntary reserve	-	95,924	-	-	-	(95,924)	-	-
Consolidated Companies' profit (loss)	-	9,224	-	-	-	(9,224)	-	-
Other	-	(208)	-	-	-	-	-	(208)
Dividends paid by the parent	-	-	-	-	-	(95,479)	38,197	(57,282)
Dividends received by the parent	-	(9,667)	-	-	-	9,667	-	-
Net profit (loss) not recognised in the profit and loss accounts								
Changes in the fair value of assets	-	-	386	-	-	-	-	386
Deferred tax liability	-	-	(195)	-	-	-	-	(195)
Hedging transactions								
Profit transferred to shareholders' equity	-	-	-	9,479	-	-	-	9,479
Transfer to profit (loss)	-	-	-	7,463	-	-	-	7,463
Deferred tax liability	-	-	-	(5,893)	-	-	-	(5,893)
Profit (loss) for the year	-	-	-	-	-	216,384	-	216,384
Interim dividend	-	-	-	-	-	-	(45,360)	(45,360)
Balance at 31.12.06	358,101	707,089	(838)	517	(690)	216,384	(45,360)	1,235,203

Notes 1 to 35 described in the accompanying notes are an integral part of the changes to consolidated net equity statement as of 31.12.06.

Translation of consolidated financial statements originally issued in Spanish and prepared in accordance with IFRSs, as adopted by the European Union (see Notes 2 and 35). In the event of a discrepancy, the Spanish-language version prevails.

ENAGÁS, S.A. and Subsidiaries
Consolidated cash flow statements at 31 December 2006 and 2005

(Figures in thousands of euros)

	2006	2005
CONSOLIDATED PROFIT (LOSS) BEFORE TAXES	331,681	292,426
Adjustments to consolidated profit (loss)	191,192	140,688
Fixed asset depreciation	184,934	145,601
Movement in provisions	(1,516)	3,338
Profit/loss on the disposal of fixed assets	(195)	(3,410)
Changes in deferred revenue	8,626	(6,186)
Change in accruals and prepayments	(409)	661
Other adjustments	(248)	684
Change in working capital	(59,185)	(58,267)
Increase / decrease in inventories	(76,391)	39
Increase / decrease in debtors	(43,955)	68,318
Increase / decrease in suppliers and creditors	61,161	(126,624)
Increase / decrease in other receivables	-	-
Change in corporate income tax payable	(117,678)	(81,232)
NET CASH FLOW FROM OPERATING ACTIVITIES	346,010	293,615
Investments in capital	(479,312)	(358,667)
Capital grants received	1,164	18,460
Cash flow from the sale of capital assets	45	4,943
Increase / decrease in financial assets	(5,208)	(5,073)
NET CASH FLOW FROM INVESTMENT ACTIVITIES	(483,311)	(340,337)
Increase / decrease in loans other than overdrafts	235,796	128,777
Dividends paid	(95,479)	(79,063)
Increase / decrease in other payables	(1,089)	(3,633)
NET CASH FLOW FROM FINANCING ACTIVITIES	139,228	46,081
TOTAL NET CASH FLOW	1,927	(641)
Cash and other equivalent liquid assets at the beginning of the period	1,386	2,027
CASH AND OTHER EQUIVALENT LIQUID ASSETS AT THE END OF THE PERIOD	3,313	1,386
Notes 1 to 35 described in the accompanying notes are an integral part of the consolidated cash flow statement as of 31 December 2006.		

Translation of consolidated financial statements originally issued in Spanish and prepared in accordance with IFRSs, as adopted by the European Union (see Notes 2 and 35). In the event of a discrepancy, the Spanish-language version prevails.



> Annual Accounts

Translation of consolidated financial statements originally issued in Spanish and prepared in accordance with IFRSs, as adopted by the European Union (see Notes 2 and 35). In the event of a discrepancy, the Spanish-language version prevails.

ENAGÁS, S.A. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED ANNUAL ACCOUNTS FOR THE YEAR ENDED 31 DECEMBER 2006

1. GROUP ACTIVITY

The Parent Company Enagás, S.A. is a company incorporated in Spain in accordance with Spanish Public Limited Companies Law, whose corporate purpose is the import, acquisition and sale of natural gas on the regulated domestic market, and its regasification, storage and transport both for the regulated and the liberalised market. Its registered office is at Paseo de los Olmos, nº 19, 28005 Madrid.

In addition to the operations it carries out directly, Enagás, S.A. is the head of a group of companies that include holdings in business combinations carrying out diverse activities and which comprise, together with Enagás, S.A., the Enagás Group (hereinafter, the Group). Consequently, Enagás, S.A. is required to prepare Consolidated Annual Accounts for the Group in addition to its own Annual Accounts.

The consolidated Annual Accounts of the Group and of each of the entities comprising this for fiscal year 2006, which have served as the basis for the preparation of these consolidated Annual Accounts, are pending the approval of their respective Shareholders' Meetings. However, the Directors believe these Annual Accounts will be approved as presented.

These Consolidated Annual Accounts are presented in thousands of euros (unless expressly stated otherwise) as this is the currency of the principal economic area in which the Enagás Group operates.

2. BASIS OF PRESENTATION OF THE FINANCIAL STATEMENTS AND CONSOLIDATION PRINCIPLES

2.1. Accounting principles

The consolidated annual accounts of the Enagás Group for fiscal year 2006 have been prepared by the Directors, at a meeting of the Board of Directors held on 29 March 2007, in accordance with the provisions of International Financial

Reporting Standards (hereinafter, "IFRS"), as adopted by the European Union, pursuant to Regulation (EC) No. 1606/2002 of the European Parliament and the Council.

These annual accounts give a true and fair view of the financial position of the Group at 31 December 2006 and of the results of its operations, changes in its net equity and cash flows which have occurred in the Group in the year ending on that date.

The Consolidated Annual Accounts for fiscal year 2006 of the Enagás Group have been prepared from the accounting records kept by the Company and by the other entities comprising the Group.

The Consolidated Annual Accounts for fiscal year 2005 included for comparative purposes have also been prepared in accordance with the provisions of the IFRS adopted by the European Union consistent with those applied in fiscal year 2006.

As a result of law 62/2003, published on 31 December 2003, in 2006 Gas Natural SDG, S.A. reduced its shareholding to the maximum permitted (see Note 11). Consequently, debit and credit balances at 31 December 2006 and the transactions carried out during the 12 month period elapsed are booked under third party payables and receivables. In order to present information in a uniform manner and to facilitate comparison, debit and credit balances at 31 December 2006 and the transactions carried out during the 12 month period elapsed at that date that were recorded under "Group companies" in the annual accounts for 2005 have been reclassified under third party payables and receivables for purposes of presentation.

The Group companies end their financial year on 31 December and the accounts at that date are used for consolidation purposes, except for Gasoduto Braga-Tuy, S.A. and Gasoduto Campo Maior – Leiria - Braga, S.A. which, because of the date on which these Annual Accounts are approved and the immaterial effect of this, are consolidated on the basis of accounts as at 30 November 2006.

Note 3 includes the main accounting principles and valuation methods used in preparing the Consolidated Annual Accounts of the Group for fiscal year 2006.

2.2. Responsibility for the information and estimates made

The information contained in these annual accounts is the responsibility of the Directors of the Group.

The Consolidated Annual Accounts of the Group for fiscal year 2006 include estimates made by Senior Management of the Group and of consolidated entities – subsequently ratified by their Directors – to quantify certain assets, liabilities, revenues, expenses and commitments recorded therein. These estimates relate basically to the following:

- The useful lives of tangible and intangible assets (Note 3)
- The valuation of assets to determine the existence of losses due to their impairment (Note3-b).
- Forecasts for bills pending execution.

- Provisions for decline in value of spare parts for tangible fixed assets.
- Prior years' accounts pending settlement with the government (Note 9).

Although these estimates were made on the basis of the best information available at 31 December 2006 regarding the facts analysed, it is possible that future events may require these to be changed (upwards or downwards) in coming years. This would be done prospectively in accordance with the provisions of IAS 8, with the effects of the change of estimate being recognised in the relevant Consolidated Profit and Loss Accounts.

2.3. Basis of consolidation

Enagás, S.A.'s investee companies included in the scope of consolidation are engaged in the transport of gas.

The Annual Accounts of multigroup entities are consolidated via the proportional consolidation method with the aggregation of balances and subsequent eliminations being carried out in the same proportion as the Group's shareholding in the capital of these companies.

The consolidation was carried out as follows:

- a) Proportionate consolidation for multi-group companies managed in conjunction with Transgás, S.A. (Gasoducto Al-Andalus, S.A., and Gasoducto de Extremadura, S.A.) and REN Gasoductos, S.A. (Gasoduto Campo Maior – Leiria – Braga, S.A. and Gasoduto Braga – Tuy, S.A., these being Portuguese companies).
- b) Transactions between consolidated companies: During the consolidation process, credits, debits, revenue, expenses and results from operations with other Group companies have been eliminated in the same proportion as Enagás, S.A.'s shareholding in the companies concerned.
- c) Consistency: For investee companies whose accounting and valuation rules are different from the Group's rules, adjustments have been made on consolidation, provided that the effect is significant, in order to present the consolidated financial statements based on consistent valuation rules.
- d) Translation of financial statements denominated in foreign currencies: All the companies included in the scope of consolidation prepare their accounts in euros and therefore no foreign currency translation process has been necessary.
- e) Elimination of dividends: Internal dividends are those recorded as revenue for the year of a Group Company which have been paid by another Group Company.

Dividends received by Group Companies in respect of prior years' distributed profit are eliminated by treating them as reserves of the receiving company and are included under the consolidation reserves caption.

Note 34 includes the most significant aspects of the Group's business combinations in operation at the end of fiscal year 2006.

3. MEASUREMENT BASES

The main valuation standards used in the preparation of the accompanying Consolidated Annual Accounts are as follows:

a) Intangible assets

Intangible assets are initially measured at cost of acquisition or production and subsequently remeasured at cost less any accumulated amortisation and impairment losses.

Criteria for the recognition of impairment losses on intangible assets and, where applicable, of recoveries of previous years' impairment losses are similar to those used for tangible assets (see Note 3c).

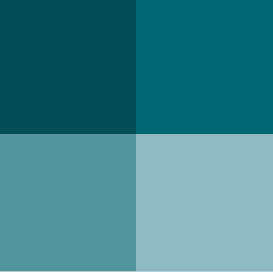
Concessions may only be included in assets when the company has acquired them for value in the case of concessions susceptible to transfer, or for the amount of the expenses incurred in obtaining them directly from the State or relevant Public Body. If the rights to a concession are lost due to failure to comply with the terms and conditions thereof, its value is fully written off in order to cancel its net carrying value. Concessions are amortised on the basis of their useful lives.

Costs of purchasing and developing the Group's basic computer systems are booked under the "Other intangible assets" caption of the Consolidated Balance Sheet. The costs of maintaining the computer systems are charged to the Consolidated Profit and Loss Accounts for the year in which they are incurred.

Intangible assets with a defined life are amortised on the basis of this, equivalent to the following percentages of amortisation:

	Annual Percentage	Useful Life
Development costs	50%	2
Concessions, patents, licences, brands and similar:		
– Port concessions at the Barcelona Plant	1.33%-1.28%	75-78
– Port concessions at the Huelva Plant	7.60%	13
– Use of the public radioelectric domain	20%	
Software	25%	5

The Group records all research costs and those development costs whose technological and commercial viability cannot be established as expenses in the Consolidated Profit and Loss Accounts. Research and development costs recorded as



expenses in the Consolidated Profit and Loss Accounts amounted to 459 thousand euros in 2006 and 581 thousand euros in 2005.

In July 2006, the Environment Ministry published the definitive, free allocation of greenhouse gas emission rights to Enagás, S.A. plants. This allocation is included in the National Allocations Plan for 2006-2007 so from 2006 Enagás, S.A. will have to hand over greenhouse gas emission rights for emissions made during the elapsed part of 2006 in the first few months of the following year.

The Group records emission rights as non-amortisable intangible assets in the same way as for its other assets, initially at cost with the relevant provision being made if the fair value is lower than this cost.

Rights received free of charge in accordance with the National Allocations Plan for 2006-2007 are assumed to have zero cost as the Group presents the assets net of subsidies.

b) Property, plant and equipment

Goods acquired for use in production, for the supply of goods or services or for administrative purposes, are stated in the balance sheet at acquisition or production cost, less accumulated depreciation and any impairment losses they may have suffered, except for any adjustments arising as a result of fixed asset restatements made by Enagás, S.A. in 1996.

Capitalised costs include:

1. Financial expenses associated with the financing of infrastructure projects accrued during the period of construction if this is over a year, with the average rate of capitalisation used to calculate the amount of the interest expenses to be capitalised being 3.6% in fiscal year 2006 (3.4% in 2005).
2. Personnel costs directly associated with work in progress. The amounts capitalised for these items are recorded in the accompanying Consolidated Profit and Loss Accounts for fiscal year 2006 net of personnel costs for a total of 9,490 thousand euros (8,181 thousand euros in 2005), (see Note 6).
3. Future payments which the Group will have to make in relation with the requirement to disassemble certain tangible fixed assets pertaining to the Serrablo storage facility at the end of its useful life. The amount recorded in books for these assets includes an estimate of the present value at the date of acquisition of the costs to the Group of disassembly work, this being credited to the "Long term provisions" caption (Note 14) of the accompanying Consolidated Balance Sheet. This provision has been restated in the periods following its constitution.

The costs of remodelling work, extensions or improvements is booked as an increase in the value of the asset only if its capacity, productivity or useful life is increased. The net carrying value of replaced assets is deducted.

Regular upkeep, maintenance and repair expenses are charged to profit and loss, following the accrual principle, as a cost of the year in which they are incurred.

Assets under construction destined for production, rental or administrative purposes, or other purposes yet to be decided are booked at cost price, after deducting impairment losses. As regards qualified assets, the cost includes capitalised interest expenses in accordance with Group accounting policy. Depreciation of these assets, as for other real estate assets, begins when the assets are ready for the use for which they were envisaged.

Non-extractable immobilised gas necessary to exploit natural gas underground storage facilities is recorded under tangible fixed assets and depreciated over the useful life specified by prevailing legislation, or over the lease period if shorter.

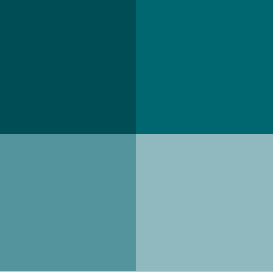
Depreciation is calculated according to the estimated useful life, using the straight-line method, on the cost of acquisition of the assets less their residual value. The land on which the buildings and other constructions stand is considered to have an undefined useful life and accordingly is not subject to depreciation.

Annual allocations for the depreciation of tangible assets are recorded under the “Depreciation and Amortization” heading of the Consolidated Profit and Loss Accounts and are, basically, equivalent to the following depreciation percentages, based on the years of estimated useful life, on average, of the asset items:

	Annual Percentage	Useful Life
Buildings	3%-2%	33.33-50
Plant (transport network)	5%-3.33%	20-30
Tanks	5%	20
Underground storage facilities	10%	10
Non-extractable immobilised gas	4%	25
Other plant and machinery	12%-5%	8.33-20
Tools and equipment	30%	3.33
Furniture and fixtures	10%	10
Computer equipment	25%	4
Transport items	16%	6.25

The Directors of the Group believe that the carrying value of the assets does not exceed their recoverable value which is calculated on the basis of the discounted future cash flows they generate.

Profit or loss from the sale or retirement of an asset is calculated as the difference between the profit from the sale and the amount in books of the asset, and is recorded in the Profit and Loss Accounts under the “Other revenue / operating expenses” caption.



Government subsidies related to tangible fixed assets are treated as a lower cost of acquisition of these and are taken to profit and loss over the expected useful lives of the assets as reduced depreciation of these.

c) Loss of value of tangible and intangible assets

At the end of each financial year, or when deemed necessary, the value of the assets is analysed to see if there is any indication they may have suffered an impairment loss. If such an indication exists, an estimate is made of the amount recoverable from the asset in order to calculate, where necessary, the amount of the required write-down. In the case of identifiable assets which do not generate cash flows independently, the recoverability of the Cash-Generating Unit to which the asset belongs is estimated.

The recoverable amount is the higher of an asset's fair value less costs to sell and its value in use, which is the discounted present value of estimated future cash flows. The Group uses value in use in nearly all cases to calculate the recoverable value of tangible fixed assets.

To estimate value in use, the Group prepares projections of future cash flows before tax from the most recent budgets approved by Group Directors. These budgets include the best available estimates of revenue and costs of Cash-Generating Units based on sector forecasts, previous experiences and future expectations.

These projections cover the next five years with estimates of future flows being based on reasonable growth rates which are in no case incremental nor exceed the previous years' growth rates.

To calculate the present value, these flows are discounted at a pre-tax rate which reflects the cost of capital of the business and of the geographical area in which it is carried out. The discount rate is based on the current cost of money and the risk premiums used by analysts of the business and geographical area.

If the recoverable amount is lower than the net carrying value, a provision for impairment loss is recorded for the difference and charged to the "Depreciation and Amortisation" caption of the Consolidated Profit and Loss Accounts.

Prior years' impairment losses are reversed when there is a change in the estimated recoverable amount. The value of the asset is increased, and this increase recognised as profit, up to the original carrying amount prior to the recognition of the loss in value.

The Group's property, plant and equipment consists almost entirely of gas transportation, regasification and storage assets, and those assets needed to carry out its regulated gas sales business and technical system management activities. In application of IAS 36 and considering that there are no indications of loss of value of balance sheet assets, the Company has deemed said impairment analysis to be unnecessary in fiscal year 2006, except for the 13,677 thousand euro impairment loss provision for investment on reports on research into and the exploration of underground storage facilities (see Note 6).

d) Operating leases

In operating leases, the ownership of the leased asset and substantially all of the associated risks and benefits are retained by the lessor.

When consolidated companies act as lessees, leasing expenses, including incentives granted by the lessor, are taken to the Consolidated Profit and Loss Account on a straight-line basis.

e) Financial assets

Financial assets are included on the balance sheet when the Group becomes one of the parties to the contract for the instrument.

Financial assets held by Group companies are classified according to the categories established by IFRS:

- Loans and receivables: Are measured at amortised cost, which is the cash amount lent less repayments of principal plus uncollected accrued interest in the case of loans, and the present value of the payment made in the case of receivables.
- Financial assets held-to-maturity: Those which the Enagás Group intends and is able to hold until maturity and which are also measured at amortised cost.
- Investments available-for-sale: Other investments which are not included in any of the previous categories. These are measured in the Consolidated Balance Sheet at fair value when this can be reliably determined. Changes in the fair value, net of the tax impact, are credited or debited to the “Net equity: restatement reserve for unrealised assets and liabilities” caption of the Consolidated Balance Sheet until these investments are sold when the accumulated amount in this caption relating to these investments is fully allocated to the Consolidated Profit and Loss Accounts. If the fair value is lower than the cost of acquisition, the difference is directly recorded in the Consolidated Profit and Loss Accounts.

Available-for-sale investments include a capital-market mutual fund to hedge commitments accrued in respect of the Loyalty award. This fund is carried at fair value in accordance with its market price at each accounting close. Although this fund was created to hedge the provision for the loyalty award with which it is associated, changes in the value of the fund result in changes for the same amount in the associated provision.

Investments held-to-maturity and loans and receivables originated by the companies are carried at amortised cost with accrued interest being recognised in the Consolidated Profit and Loss Accounts at the effective interest rate.

Cash and cash equivalents

This caption of the Consolidated Balance Sheet includes cash, sight deposits and other highly liquid short term investments which can quickly be turned into cash and which do not carry the risk of a change in value.

Trade debtors and other accounts receivable

Accounts receivable are measured at fair value when recognised in the Consolidated Balance Sheet and are subsequently carried at amortised cost using the effective interest method.

The Group makes provisions for the difference between the amount recoverable of accounts receivable and their carrying value. The recoverable amount of the debt is calculated by discounting estimated future cash flows using the effective interest rate at the time of the transaction.

f) Inventories

Natural gas inventories.

In general, natural gas inventories are stated at average cost or net realisable value. Cost is calculated using the Weighted Average Price established for Enagás, S.A.'s regulated activity as the Cost of Raw Material for the period in which the acquisition is made. Net realisable value is an estimate of the sale price established by prevailing legislation.

Order ITC/3126/2005, of 5 October 2005 published the approval of the Rules for the Technical Management of the Gas System (hereinafter RTMS), following the proposal of the Technical Manager of the System and prior review by the National Energy Commission. These RTMS are applicable to the Technical Manager of the System and all parties who access this, to owners of gas plants and to consumers.

RTMS-02 defines the "minimum linepack for gas pipelines" as the amount of their own gas which those parties supplying gas to the System must provide in order to contribute to the minimum operating level of the transport networks. This amounts to approximately one day of the daily maximum throughput acquired or reserved by each user. In addition, in accordance with the RTMS, those parties providing gas to the system have the right to storage capacity for their commercial operations in the transport networks. This storage capacity, which may not exceed the usable capacity of the gas pipeline network, corresponds to the storage capacity included in the transport and distribution tariff less the amount used for the minimum linepack. Currently, this storage capacity is equivalent to another day of purchased capacity.

As regards the "minimum linepack for gas pipelines", the second temporary provision of Order ITC4099/2005 indicates that "transporters owning regasification plants shall acquire the natural gas necessary for the minimum linepack of the gas pipelines of the transport network and for the minimum operating level of the regasification plants. They shall

acquire this gas from the transporter responsible for supplying gas at tariff during the period from 1 June to 30 September at the Cost of Raw Material price prevailing when the purchase is made”.

In 2006, Enagás, S.A., in order to meet the aforementioned requirements, acquired natural gas for the minimum linepack of its gas pipelines and the minimum operating level of its plants (also called “Gas Talón”), this being recorded at the cost of raw material price for the period of the date of acquisition.

The Company assesses the net realisable value of inventories at the end of the year and makes the appropriate provision when these are overvalued. This provision is reversed when the circumstances which caused the decline in value no longer exist or when there is clear proof of an increase in the net realisable value due to a change in financial circumstances.

In addition, Royal Decree 1716/2004 governs the obligation to maintain minimum inventory levels, the diversification of natural gas supplies and la Corporación de Reservas Estratégicas de Productos Petrolíferos (CORES). As regards minimum gas inventories, it specifies that all agents must maintain, in ownership or under lease with exclusive use, an amount of gas equivalent to 35 days’ consumption of the clients they supply.

In this respect, Enagás, S.A. has a natural gas inventories leasing arrangement with Gas Natural Aproveccionamientos, S.A. giving it immediate access to the amount of gas equivalent to the 35 days’ supply required by the aforementioned regulation, located in the underground storage facilities in which Gas Natural Aproveccionamientos, S.A. keeps part of its inventories.

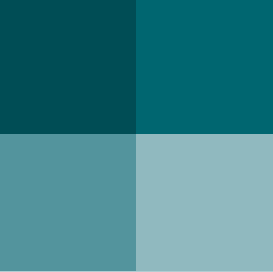
The expense recorded in fiscal year 2006 for this leasing arrangement amounted to 3,452 thousand euros and is recorded under the “Other operating expenses” caption in the accompanying Consolidated Profit and Loss Accounts.

In addition, in order to guarantee the supply of natural gas during the winter, the Regulator, through a Ministerial Resolution of 28 November 2005, approved the “Winter 2005-2006 Plan of Action”, which states that Enagás, S.A. as Technical Manager of the System must acquire stocks of liquid natural gas in ships during the period from November to March of each of the two years mentioned. The expense recorded in fiscal year 2006 for this acquisition of inventories amounted to 5,990 thousand euros and is recorded under the “Other operating expenses” caption in the accompanying Consolidated Profit and Loss Accounts.

Also, Enagás, by virtue of the stipulations of the first Temporary Provision of Order ITC/4099/2005, of 27 December 2005 mentioned above, that recognises the calculation of regulated tariffs for 2006, has recognised the revenues associated with this measure for an identical amount of 5,990 thousand euros relating to regulated revenues, recorded in the “revenue from regulated activities” caption of the accompanying Consolidated Profit and Loss Accounts.

Other inventories

Other inventories unrelated to natural gas are valued at the lower of cost of acquisition or production and net realisable value. The cost includes the cost of direct materials and, where appropriate, direct labour costs and general man-



ufacturing costs, also including costs incurred in transferring inventories to their current location and conditions, at the point of sale.

Also, the Company assesses the net realisable value of inventories at the end of the year and makes the appropriate provision when these are overvalued. This provision is reversed when the circumstances which caused the decline in value no longer exist or when there is clear proof of an increase in the net realisable value due to a change in financial circumstances.

g) Equity and financial liabilities

Capital and equity instruments issued by the Group are carried at the amount received in equity, net of direct issuing costs.

Financial liabilities are classified according to the substance of the contract and taking into account the financial background.

Group companies classify their main financial liabilities as follows:

- Financial liabilities at fair value through changes in equity: Financial liabilities associated with financial assets available-for-sale originating from asset transfers where the assigning entity neither substantially transfers nor retains the risks and benefits of said assets.
- Financial liabilities held-to-maturity: Financial liabilities held-to-maturity are carried at amortised cost as defined above.

The liability instruments held by group companies are:

- *Bank loans*: Bank loans which accrue interest are carried at the amount received, net of direct issuing costs. Financial expenses, including premiums payable on settlement or repayment and direct issuing costs, are booked according to accrual criteria in the Profit and Loss Accounts using the effective interest method and are incorporated to the amount booked for the instrument if not paid during the period in which they accrue.
- *Derivatives and accounting of hedges*: Due to loans with banks the Group is exposed to fluctuations in interest rates. To hedge these risks, the group uses cash flow swaps. The Group does not use derivative instruments for speculative purposes.

The use of derivatives is governed by the Group's risk management policies approved by the chairman of the parent company Enagás, S.A..

Fluctuations in the fair value of derivative instruments which have been conceived and shown to be effective as cash flow hedges are recognised directly in equity, while the ineffective portion is recognised directly in consolidated profit

or loss. If the cash flow hedge of a firm commitment or the forecasted transaction results in the recognition of a non-financial asset or liability, the gains and losses previously recognised in equity are included in the initial measurement of the cost of the asset or liability. In the case of hedges that do not result in the recognition of an asset or liability, the amounts deferred in equity are taken to the consolidated profit and loss accounts in the same period in which the hedged item affects net profit (loss).

Fluctuations in the fair value of derivative instruments which do not meet the criteria for hedge accounting are recognised in the Consolidated Profit and Loss Accounts as they occur.

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated, or exercised or when it no longer meets the criteria for hedge accounting. Any accumulated gains or losses on the hedging instrument recognised in equity remain in equity until the forecast transaction takes place. If the forecast transaction is no longer expected to occur, amounts previously recognised in equity are transferred to profit and loss for the year.

Derivatives embedded in other financial instruments or principal contracts are recognised separately as derivatives when their risks and other features are not closely related to those of the principal contracts and when these principal contracts are not carried at fair value with unrealized profit or loss presented in the Consolidated Profit and Loss Accounts.

h) Trade and other payables

Trade creditors do not accrue interest explicitly and are carried at nominal value.

i) Classification of payables into current and non-current

In the accompanying consolidated balance sheet, payables are classified by maturity, in other words, those maturing in 12 months or less are classified as current, and those maturing in over 12 months as non-current.

Loans falling due in over 12 months are revalued at an interest rate. The benchmark interest rate used in the year is 3.62%.

j) Pension commitments

The external pension fund was set up in accordance with the approved pension plan which has been adapted to the provisions of the Law on pension plans and funds. It is a defined contribution plan covering the commitments acquired by the Company with respect to current employees. The Company recognises certain vested rights for past service and undertakes to make monthly contributions averaging 6.8% of qualifying salary amounts. It is a mixed plan covering retirement benefits, disability and death.

k) Termination benefits

Under current Spanish regulations, Spanish consolidated companies and some foreign companies are required to pay severance to employees terminated without just cause. There are no labour force reduction plans making it necessary to record a provision in this connection.

l) Provisions

At the date of preparation of the annual accounts of the consolidated companies, their respective directors distinguished between:

- *Provisions*: credit balances representing obligations existing at the date of the balance sheet arising from past events which may result in losses for the companies; specific as regards their nature but uncertain as regards amount and/or timing of cancellation, and
- *Contingent liabilities*: possible obligations incurred as a result of past events that will only have to be met if one or more future events, outside the control of the consolidated companies, occurs.

The consolidated annual accounts of the Group include all significant provisions where it is probable that the obligation will have to be settled is more than remote. Contingent liabilities are not recognised on the consolidated annual accounts but are disclosed. (see Note 31)

Provisions are quantified using the best available information available regarding the consequences of the underlying event and are remeasured at each balance sheet date. They are used to settle the specific liabilities for which they were originally recognised and are fully or partially reversed when these liabilities cease to exist or decrease.

At year-end 2006 a number of legal proceedings and claims had been filed against consolidated companies in connection with the normal conduct of their business. The Group's legal counsel and its directors believe that the resolution of these proceedings and claims will produce no material effect on the annual accounts of the year in which they are resolved.

m) Deferred revenue

This is mainly advance amounts received for natural gas transport rights ceded to Gasoducto Al-Andalus, S.A. and Gasoducto de Extremadura, S.A., that are taken to profit and loss on a straight-line basis until 2020 when the transport contract expires.

Until 2005 this revenue was taken to profit and loss on the basis of real GWh transported in respect of estimated GWh until 2020 mentioned in the transport contract. This change means this revenue will be taken to profit and loss more slowly than it has been to date, although the amount involved is not significant.

This caption also includes the accrual of amounts received for making connections from Enagás, S.A.'s basic network to networks owned by distributors, secondary transporters, gas selling companies and qualified clients. This revenue is taken to profit and loss on the basis of the useful life of the assigned installations.

n) Revenue recognition

Revenue is calculated at the fair value of the payment received or to be received and represents the amounts receivable for the goods delivered and the services provided as part of the company's normal business, less discounts, VAT, and other sales taxes.

Gas sales are recognised when all the risks and benefits have been substantially transferred.

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

Enagás manages gas purchases and sales with regulated clients and receives compensation aimed at covering the costs incurred in this activity. Accordingly, net revenue and expenses from gas purchases and sales on the regulated market are presented in the Consolidated Profit and Loss Accounts, with an amount of 11,339 thousand euros being recorded in 2006 for the positive margin on gas purchases and sales on the regulated market. Revenue from the regulated compensation of gas purchase and sales management is recorded under the "Revenue from regulated activities" caption in an amount of 12,222 thousand euros.

Following the publication of rules which affect Enagás, S.A. in the Official State Gazette of 15 February 2002 (applicable as of 19 February 2002), revenue subject to the new regulations is recorded in accordance with the methods set out below:

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

On 27 December 2005 the Ministry of Industry, Tourism and Trade approved three Ministerial Orders - ITC/4099/2005, ITC/4100/2005 and ITC/4101/2005- updating these prices for 2006, published in the Official State Gazette of 30 December, and establishing compensation in 2006 for all companies carrying out regasification, storage, transport or distribution activities.



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

- Regasification and loading of LNG tanks
- Transfer of LNG to tankers
- Storage
- Transport
- Management of gas purchases and sales on the regulated market
- Technical system management
- Floating storage of LNG in tankers during the Winter Plan, for the regulated market (see Note 3f)
- Creation of the minimum operating level for LNG tanks and of the minimum linepack for gas pipelines (see Note 3f)

The most relevant aspects of the regulations covering the activity carried out by the Group from a revenue point of view are examined in Note 4 below.

Interest revenue is accrued on a time basis according to the principal pending payment and the effective interest rate charged, which is the rate that exactly discounts estimated future cash receipts over the life of the financial asset from the net book value of the asset.

Dividend revenue from investments is recognised when the rights of the shareholders to receive the dividend payment have been established.

o) Expense recognition

Expenses are recognised in the Consolidated Profit and Loss Accounts when a decrease in future economic benefits related to a decrease in an asset or an increase of a liability has arisen that can be measured reliably. This means that the recognition of expenses takes place simultaneously with the recognition of the increase in the liability or reduction of the asset.

An expense is recognised immediately when a payment does not generate future economic benefits or when the necessary requirements for it to be recorded as an asset are not met.

p) Income tax expense

Corporate income tax is recorded in the Consolidated Profit and Loss Accounts or in the net equity accounts of the Consolidated Balance Sheet depending on where the gains or losses originating from this have been recorded. Dif-

ferences between the carrying amount of assets and liabilities and their tax bases generate deferred tax assets or liabilities which are calculated using the tax rates which are expected to be in force when the assets and liabilities are realised.

Changes during the year in deferred tax assets or liabilities which do not come from business combinations are recognised in the Consolidated Profit and Loss Accounts or directly in the equity accounts of the Consolidated Balance Sheet, as appropriate.

A deferred tax asset should only be recognised when it is expected that sufficient future taxable profit will be available to recover deductions for temporary differences.

Tax deductions arising from financial events occurring during the year reduce the accrued tax expense unless doubts exist as to their realization, in which case they are not recognised until they materialise, or they are related to specific tax incentives.

The income tax expense for the year is the sum of the current tax resulting from applying the tax rate to taxable income for the year, after using any tax deductions, and the changes in deferred tax assets and liabilities.

q) Earnings per share

Basic earnings per share is the ratio between net profit for the year attributable to the Parent Company and the weighted average number of ordinary shares outstanding during the period, without including the average number of parent company shares held by Group companies, and coincides with diluted basic earnings (Note 12).

r) Consolidated cash flow statements

Terms used in the consolidated cash flow statements are as shown below:

- *Cash flow*: inflows and outflows of cash and cash equivalents; cash equivalents are short-term investments that are highly liquid and have low risk that their value will change.
- *Operating activities*: activities typically carried out by the Company and any others that cannot be classified as investing or financing activities.
- *Investing activities*: the acquisition, disposal or use by other means of non-current assets and other investments not included in cash and cash equivalents.
- *Financing activities*: activities that result in changes in the size and composition of equity and liabilities that do not form part of the operating activities.

4. REGULATION OF COMPENSATION

a) Revenue from regasification, storage and transport activities

Ministerial Order ITC/4099 of 27 December 2005 specifies revenue for regulated regasification, storage and transport activities, based on the authorised cost of these activities. In particular, the Order stipulates that the authorised cost of these activities includes fixed and variable components.

a.1) Authorised fixed cost.

Calculated based on assets in course of production. This fixed amount compensates investment and operating costs relating to assets used in the gas system.

a.1.1. Compensation for investment costs is determined as set out below:

- Compensation for depreciation of assets used in the system. Compensation is calculated based on the book value of the assets after the restatement of 1996 (Royal Decree Law 7/1996), less capital grants received to finance these assets. An annual restatement rate based on the adjusted average of the consumer price index (CPI) and the industrial price index (IPRI) is applied to the difference. The depreciation rate relating to the useful life of the asset is applied to the resulting value, thereby obtaining the amount of revenue for this item. No compensation for depreciation is recorded for fully-depreciated assets.

With respect to new infrastructures brought into service since 2002, the standard value of each investment set by the regulator will be used as a basis for calculating the relating compensation for depreciation, while for those that imply enlargement the basis for calculating the relating compensation for depreciation will be real cost.

- Financial compensation for the investment. This figure is calculated by applying a financial compensation rate equal to the annual average for 10-year Government bonds or a replacement interest rate plus 1.5% to the value obtained in the previous paragraph. For fully-depreciated assets the financial compensation rate is applied to 50 % of the value obtained in the previous paragraph.

The resulting rate in 2005 was 5.79%, while for 2006 it was 5.01%.

- ##### **a.1.2.** Compensation for operating costs relating to assets used in the system is calculated in accordance with authorised costs for gas system installations in 2000 for each activity, standardised by physical and technical unit. The annual restatement rate (CPI and IPRI average) is applied to the resulting standard value, adjusted by an efficiency factor of 0.85. Revenue for this item is obtained by applying these restated standard figures to physical units.

a.1.3. Revenue relating to the fixed authorised cost is taken to the Consolidated Profit and Loss Accounts on a straight-line basis. In this way, a month-on-month balance is achieved between revenue (compensation) and expenses (depreciation).

a.2) Authorised variable cost for regasification and transfer of LNG to tankers.

a.2.1. The authorised variable cost is calculated based on the number of kW/hr actually regasified and loaded in LNG tanks in each period and the variable unit regasification cost for the period in question. For 2006, this cost is set at 0.000267 euros per kW/hr regasified or loaded in tanks.

a.2.2. For loading LNG onto tankers from regasification plants or the pre-cooling of ships a cost identical to the variable regasification cost is recognised. For ship to ship transfers the cost is 80% of this value.

b) Revenue from technical system management (TSM)

Revenue from this activity is calculated on a yearly basis in accordance with the authorised cost for each year and is used to compensate Enagás, S.A.'s obligations as Technical Manager of the System, which include coordinating development, operating and maintaining the transport network, supervising the safety of the natural gas supply (storage levels and emergency plans), implementing plans for the future development of gas infrastructures and controlling third-party access to the network.

In 2006, the quota allocated to compensate GTS to be collected by companies owning regasification, transport, storage and distribution facilities, as a percentage of invoicing for access charges and royalties relating to third-party network access rights, was 0.37% for access charges and royalties and 0.18% for prices, while in 2005 these figures were 0.53% and 0.25% respectively. This quota will be recorded by these companies in the periods and form established for the payment procedure relating to the deposit account the National Energy Commission has open for these purposes.

The above-mentioned percentage of the invoicing will be calculated based on the figure obtained by applying maximum access charges and royalties to the invoiced amounts, without subtracting possible discounts that could be agreed between facility owners and users.

This revenue is taken to the Consolidated Profit and Loss Accounts following a straight-line criterion on a month-on-month basis.

c) Assessment of access charges relating to third-party access to gas installations

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

d) Revenue from gas purchases and sales

In accordance with the Law on hydrocarbons, as a transport company Enagás, S.A. purchases and sells gas to distribution companies and other transporters that in turn sell the gas on the regulated market in accordance with Royal Decree 949/2001 (3 August). With this sole end in mind, Enagás, S.A. buys gas from Sagane, S.A. and Gas Natural Aprovevisionamientos, S.A. Control of gas consumption by distribution companies is based on monthly meter readings.

The purchase and selling price for gas is set based on the following criteria:

- Gas purchase cost: This raw material cost (RMC) is calculated based on the CIF prices of crude and oil products on international markets paid by the carrier, for sale on the regulated market, including the necessary costs for positioning gas in the basic network. This cost is calculated on a three-monthly basis in January, April, July and October of each year.
- Sale price: The sale price includes the cost of the raw material to be sold on the regulated market, natural gas purchase and sale management expenses and the average regasification cost. The selling price will change when raw material prices are adjusted by the Directorate General for Energy Policy and Mines or annually, if structural or supply conditions change.

As this revenue is not subject to assessment, it is taken to the Consolidated Profit and Loss Accounts based on amounts invoiced to distribution companies for actual monthly consumption according to meter readings. It is therefore taken to the Profit and Loss Accounts on an accruals basis.

e) Revenue from Management of gas purchases and sales

This revenue is used to compensate the management of gas purchases and sales for gas supplied to distribution companies and other transporters which in turn sell it on the regulated market. This compensation is calculated based on the following components:

- Specific total purchase and selling price of gas. Calculated as a percentage of the volume of gas earmarked for the regulated market and valued at the average price of the raw material sold during the year. The coefficient fixed for both 2006 and 2005 was 0.005.
- A breakdown of gas shrinkage costs arising during regasification processes, storage and transport of gas to be sold on the regulated market is set out below:
 - Regasification: 0.4 % of the average cost of the raw material to be sold on the regulated market in relation to the volume of gas unloaded in regasification plants for sale on the regulated market.

- Storage: 2.11% of the average cost of the raw material with respect to the volume of gas kept in underground gas storage facilities to be sold on the regulated market.
- Transport: 0.35 % of the average cost of the raw material in relation to the volume of gas pumped into the transport system for sale on the regulated market.
- Cost of financing gas inventories to be sold on the regulated market. This cost is calculated by applying a coefficient of 0.218 to the value of end customer demand (based on the average cost of the raw material to be sold on the regulated market). The resulting figure is then multiplied by a three-month Euribor rate plus 0.5%. The rate for 2006 was 2.66% and in 2005 it was 2.60 %.

f) Payment systems

On 1 November 2002, Ministerial Order 2692/2002 (28 October) was published, regulating compensation payment procedures for regulated activities and defining the information system to be used by the companies.

g) Revenue from floating storage

The first temporary provision of Order ITC 4099/2005 establishes that the Technical Manager of the System has the right to compensation to cover the costs of storing LNG in tankers for the regulated market, as detailed in the Winter Plan, approved by a ruling of the Directorate General for Energy Policy and Mines of 28 November 2005.

h) Revenue for the minimum operating level and minimum linepack of gas pipelines

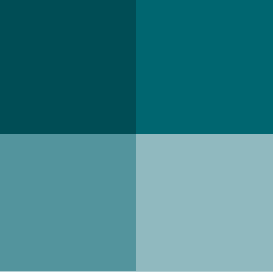
The second temporary provision of Order ITC4099/2005 indicates that, in 2006, transporters owning regasification plants shall acquire the natural gas necessary for the minimum linepack of the gas pipelines of the transport network and for the minimum operating level of regasification plants.

The gas acquired for this purpose has the right to receive financial compensation on the basis of the investment made, valued according to the yield on 10-year government bonds plus 3%. In 2006, this rate was 6.51%.

i) Development of the Regulatory Framework

Gas sector legislation approved in 2006 was as follows:

On 31 March 2006, the Cabinet approved the 2006 revision of the 2002-2011 Energy Plan that contains the government's energy policy guidelines. In respect of the gas system, the capacity of the gas pipelines and regasification plants



located along the Spanish coastline that feed gas into the system has been increased. This revision also envisages a significant increase in the network of gas pipelines due to notable growth in demand. In addition, liquid natural gas storage facilities have also been enlarged.

On 4 April 2006 the Resolution of the Directorate General for Energy Policy and Mines of 13 March was published, establishing protocols for the Gas System's Technical Management Regulations.

On 24 June 2006, Royal Decree Law 7/2006, of 23 June, was published, implementing urgent measures in the energy sector. Among other aspects, the operating storage included in the transport and distribution tariff was changed to 1 day of the purchased transport and distribution capacity, except for those users whose purchased transport and contribution capacity is less than 0.5% of the total capacity purchased, for which the operating storage is 1 day. A procedure was also established for the allocation and distribution of underground storage capacity purchased.

On 21 July 2006, Order ITC/2348/2006 of 14 July was published, regulating financial reporting by companies carrying out activities associated with piped natural and manufactured gases.

The aim of the Order is to clarify the contents and presentation of the financial information that companies operating in the natural and manufactured gas sector must provide to the Ministry of Industry, Tourism and Trade, and to the National Energy Commission. From the fourth quarter of 2006, these companies are required to submit financial information both quarterly and annually.

On 3 August 2006, the Resolution of the Directorate General for Energy Policy and Mines of 28 July was published, modifying section 3.6.3 Viability of tanker unloading schedules of the Gas System Technical Management Regulations «NGTS-3».

On 5 August 2006, the Resolution of the Directorate General for Energy Policy and Mines of 25 July 2006 was published, regulating the terms and conditions of the allocation and procedure for application of gas system interruptibility.

On 17 August 2006, Order ITC/2675/2006, of 1 August, initiating the procedure for making proposals for the development of the electricity transmission network, of the basic natural gas network and of the installations for the storage of strategic reserves of oil products in order to prepare a new plan for the Gas and Electricity sectors for 2007-2016 was published.

On 9 November 2006, the Resolution of the Directorate General for Energy Policy and Mines, approved on 25 October was published, approving the "Winter 2006-2007 Plan of Action", for the operation of the gas system. This plan establishes limits on exports, on the minimum levels of LNG of each user and on extraction from underground storage facilities. Also, part of the capacity of the Magreb pipeline is reserved for the regulated market under certain circumstances.

On 30 December 2006, Ministerial Orders ITC/3993/2006, ITC/3994/2006, and ITC/3995/2006 were published, establishing the compensation to be received for regulated gas sector activities in 2007.

Unlike previous years, compensation for regasification (Ministerial Order ITC/3994/2006) and underground storage (Ministerial Order ITC/3995/2006) has been regulated by two orders different to that for the rest of gas sector activities (Ministerial Order ITC/3993/2006), due to the implementation of a new calculation procedure for the first two activities.

On the same day, Order ITC/3992/2006, establishing the tariffs applicable to natural gas, and Order ITC/3996/2006, establishing the tariffs and fees for third party access to gas installations to be applied in 2007, were published.

5. INTANGIBLE ASSETS

The carrying value of intangible assets at 31 December 2006 and 2005 and their corresponding amortisation is as follows:

INTANGIBLE ASSETS	Cost	Accumulated amortisation	Net total
Thousands of euros			
Development costs	46	(26)	20
Concessions, patents, licences, brands and similar	33,093	(10,444)	22,649
Computer software programmes	15,765	(8,834)	6,931
Balance at 31.12.05	48,904	(19,304)	29,600
Development costs	260	(55)	205
Concessions, patents, licences, brands and similar	33,289	(11,712)	21,577
Computer software programmes	22,628	(12,132)	10,496
Balance at 31.12.06	56,177	(23,899)	32,278

The breakdown and movements in intangible assets in 2006 and 2005, is as follows:

INTANGIBLE ASSETS	01.01.06	Increases	31.12.06
Thousands of euros			
Development costs	46	214	260
Concessions, patents, licences, brands and similar	33,093	196	33,289
Software	15,765	6,863	22,628
Total	48,904	7,273	56,177

INTANGIBLE ASSETS Thousands of euros	01.01.05	Increases	31.12.05
Development costs	46	-	46
Concessions, patents, licences, brands and similar	33,025	68	33,093
Software	12,685	3,080	15,765
Total	45,756	3,148	48,904

Major items in the accumulated Concessions caption in fiscal year 2006 were the Port of Barcelona for 3,676 thousand euros and the Port of Huelva for 2,114 thousand euros.

Increases in development costs in 2006 were due to the long term demand prediction project, phase I of the electricity generation project at the Huelva plant, and the project for the reengineering of the heating of NG at the entry to the Regulation and Measurement Station.

Key computer programs in 2006 include:

- The logistics system for third party network access for 1,041 thousand euros.
- The new version of the SL-ATR for 987 thousand euros.
- The CPD's disaster recovery plan for 763 thousand euros.
- The development of a new functionality for the SAP support systems for 539 thousand euros.
- Project ASTRA, (Updating of the Gas Transport Simulation System), for 508 thousand euros.

Charges in the Consolidated Profit and Loss Accounts in fiscal year 2006 and 2005 in respect of the amortisation of intangible assets amounted to 4,595 thousand and 4,056 thousand euros respectively. The breakdown and movements of this amortisation were as follows:

ACCUMULATED AMORTISATION Thousands of euros	01.01.06	Increases	31.12.06
Development costs	26	29	55
Concessions, patents, licences, brands and similar	10,444	1,268	11,712
Software	8,834	3,298	12,132
Total	19,304	4,595	23,899

ACCUMULATED AMORTISATION Thousands of euros	01.01.05	Increases	31.12.05
Development costs	44	(18)	26
Concessions, patents, licences, brands and similar	9,124	1,320	10,444
Software	6,080	2,754	8,834
Total	15,248	4,056	19,304

The intangible assets fully amortised as of 31 December 2006 and 2005, amounted to 7,708 thousand and 4,437 thousand euros respectively.

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

6. PROPERTY, PLANT AND EQUIPMENT

The carrying value of tangible assets at 31 December 2006 and 2005 and their corresponding depreciation is as follows:

PROPERTY, PLANT AND EQUIPMENT			
Thousands of euros	Cost	Accumulated depreciation	Net total
Land and buildings	80,895	(33,895)	47,000
Plant and machinery	4,130,570	(1,395,988)	2,734,582
Other fixtures, tools and furniture	12,910	(10,961)	1,949
Payments on account and assets in course of construction	337,542	–	337,542
Other property, plant and equipment	22,057	(19,836)	2,221
Capital grants	(558,291)	184,645	(373,646)
Provisions	(12,506)	–	(12,506)
Balance at 31.12.05	4,013,177	(1,276,035)	2,737,142
Land and buildings	134,714	(36,326)	98,388
Plant and machinery	4,486,602	(1,573,458)	2,913,144
Other fixtures, tools and furniture	13,297	(11,512)	1,785
Payments on account and assets in course of construction	373,523	–	373,523
Other property, plant and equipment	22,258	(20,165)	2,093
Capital grants	(560,851)	207,283	(353,568)
Provisions	(20,458)	–	(20,458)
Balance at 31.12.06	4,449,085	(1,434,178)	3,014,907

The breakdown and movements in tangible assets and accumulated depreciation in 2006 and 2005 were as follows:

PROPERTY, PLANT AND EQUIPMENT					
Thousands of euros	Balance at 01.01.06	Increases	Decreases	Transfers and other	Balance at 31.12.06
Land and buildings	80,895	53,840	(21)	–	134,714
Plant and machinery	4,130,570	61,222	(23,349)	318,159	4,486,602
Other fixtures, tools and furniture	12,910	387	–	–	13,297
Payments on account and assets in course of construction	337,542	355,429	(1,289)	(318,159)	373,523
Other property, plant and equipment	22,057	1,161	(960)	–	22,258
Capital grants	(558,291)	–	(2,560)	–	(560,851)
Provisions	(12,506)	(15,510)	1,618	5,940	(20,458)
Total	4,013,177	456,529	(26,561)	5,940	4,449,085

PROPERTY, PLANT AND EQUIPMENT					
Thousands of euros	Balance at 01.01.05	Increases	Decreases	Transfers and other	Balance at 31.12.05
Land and buildings	79,311	1,508	–	76	80,895
Plant and machinery	3,667,078	216,200	(1,674)	248,966	4,130,570
Other fixtures, tools and furniture	12,158	752	–	–	12,910
Payments on account and assets in course of construction	450,103	136,481	–	(249,042)	337,542
Other property, plant and equipment	21,806	578	(327)	–	22,057
Capital grants	(539,831)	(18,460)	–	–	(558,291)
Provisions	(9,402)	(3,193)	89	–	(12,506)
Total	3,681,223	333,866	(2,001)	–	4,013,177

ACCUMULATED DEPRECIATION					
Thousands of euros	Balance at 01.01.06	Increases	Decreases	Transfers	Balance at 31.12.06
Land and buildings	33,895	2,433	(2)	–	36,326
Plant and machinery	1,395,988	182,910	(11,597)	6,157	1,573,458
Other fixtures, tools and furniture	10,961	551	–	–	11,512
Other property, plant and equipment	19,836	1,289	(960)	–	20,165
Capital grants	(184,645)	(22,638)	–	–	(207,283)
Total	1,276,035	164,545	(12,559)	6,157	1,434,178

ACCUMULATED DEPRECIATION					
Thousands of euros	Balance at 01.01.05	Increases	Decreases	Transfers	Balance at 31.12.05
Land and buildings	31,474	2,421	–	–	33,895
Plant and machinery	1,237,930	158,183	(125)	–	1,395,988
Other fixtures, tools and furniture	10,255	706	–	–	10,961
Other property, plant and equipment	18,586	1,574	(324)	–	19,836
Capital grants	(160,116)	(24,529)	–	–	(184,645)
Total	1,138,129	162,884	(449)	–	1,276,035

The start-up during the year of the following investments for a total amount of approximately 330,356 thousand euros were mainly responsible for the increases in the plant and machinery heading:

- The increase in the emission capacity of the Barcelona Plant to 1,650,000 m³
- The increase in the emission capacity of the Cartagena Plant to 1,200,000 m³
- The increase in the emission capacity of the Huelva Plant to 1,200,000 m³
- A fourth 150,000 m³ tank at the Huelva Plant.
- A sixth 150,000 m³ tank at the Barcelona Plant.
- An overland and underwater outflow pipe at the Cartagena Plant.
- Falces-Irurzun gas pipeline. Falces-Larraga section.
- Castellón-Onda gas pipeline.
- Phase I of the second Saica branch gas pipeline
- Malaga East-Malaga branch gas pipeline.
- Phase I of the Semianillo south-west Madrid gas pipeline
- Increase in installed capacity of the Bañeras Station.
- Acquisition of land for the enlargement of the Huelva Plant
- Acquisition of land in the municipality of las Rozas.

Increases in assets under construction include the following investments for approximately 138,270 thousand euros:

- The second Barcelona-Arbós gas pipeline.
- Falces-Irurzun gas pipeline.
- Denia-Ibiza-Mallorca gas pipeline.

- Almería-Lorca gas pipeline.
- Lorca-Chinchilla gas pipeline.
- Zaragoza Compression Station.
- Montesa Compression Station.
- Navarra Compression Station.
- Alcázar de San Juan compression station.
- The increase in the emission capacity of the Huelva Plant to 1,350,000 m³
- The increase in the emission capacity of the Barcelona Plant to 1,800,000 m³
- A fourth tank at Cartagena.

Decreases in tangible assets in 2006 were mainly in respect of the Sevilla and Tivissa Compression Stations for an amount of 15,165 thousand euros, decreases resulting from accounting adjustments arising from a ruling of 6 October 2005 by the third chamber of the Justice Tribunal of the European Community regarding VAT on grants for an amount of 9,493 thousand euros, and decreases in vehicles in an amount of 960 thousand euros.

Transfers shows the movement from fixed assets in course of construction to permanent of those projects which began operating during the year.

The restatement of tangible assets by Enagás, S.A., in accordance with the provisions of Royal Decree Law 7/1996 (7 June) regarding the restatement of balance sheets, will cause an increase of 15,938 thousand euros in the fixed asset depreciation charge for 2007 and of 16,005 thousand euros in 2006.

In 2006 and 2005 the Group capitalised as an increase in the value of tangible assets financial expenses amounting to 8,941 thousand euros and 9,086 thousand euros respectively (see note 24).

Work carried out by the company on intangible assets caused increases in capex of 9,490 thousand euros in 2006 and 8,181 thousand euros in 2005 (see Note 23.1).

Decreases in accumulated depreciation were mainly in respect of the Sevilla and Tivissa Compression Stations for an amount of 10,195 thousand euros, decreases resulting from the ruling of 6 October 2005 mentioned above for an amount of 1,404 thousand euros, and decreases for vehicles in an amount of 960 thousand euros.

Tangible assets in operation and fully depreciated as of 31 December 2006 and 2005 amounted to 298,299 thousand euros and 289,419 thousand euros respectively.

Capital goods are not mortgaged or subject to any other similar encumbrance.

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

The Company also has insurance policies against third party civil liability.

Capital grants received in 2006 were for investments in gas infrastructure as follows:

Thousands of euros	Grants received at 31.12.06	Amount taken to accumulated profit (loss) at 31.12.06	Balance at 31.12.06
Regasification plants	76,840	41,507	35,333
Gas transport infrastructure	466,503	163,269	303,234
Underground storage facilities	17,508	2,507	15,001
Total	560,851	207,283	353,568

These grants were received from the following Bodies:

Thousands of euros	Grants received at 31.12.06	Amount taken to accumulated profit (loss) at 31.12.06	Balance at 31.12.06
EU structural funds	399,168	120,966	278,202
Official Bodies of the autonomous regions	47,835	12,734	35,101
Spanish state	113,848	73,583	40,265
Total	560,851	207,283	353,568

Amounts received in 2006 mainly correspond to the Gas Infrastructure Operating Programme with structural funds provided by the EEC.

Capital grants to be taken to profit and loss in 2007 amount to approximately 20,969 thousand euros. The schedule for the allocation of the balance pending at 31 December 2006 is:

Thousands of euros	< 1	Years 2-5	> 5
Government grants	2,898	11,593	25,773
Grants from the autonomous regions	1,588	6,351	27,163
ERDF grants	16,483	65,933	195,786
Total Grants	20,969	83,877	248,722

7. HOLDINGS IN BUSINESS COMBINATIONS

There were no changes to shareholdings in subsidiaries in 2006 and 2005 so the percentage stakes and balances held by the parent company Enagás, S.A. remains as follows:

Thousands of euros	2006	2005	% shareholding
Gasoducto Al-Andalus, S.A. (Spain)	23,744	23,744	66.96%
Gasoducto de Extremadura, S.A. (Spain)	9,732	9,732	51%
Gasoducto Campo Maior - Leiria - Braga, S.A. (Portugal)	3,195	3,195	12%
Gasoducto Braga - Tuy, S.A. (Portugal)	2,546	2,546	49%
Gross total	39,217	39,217	–
Less: impairment losses	–	–	–
Net total	39,217	39,217	–

8. FINANCIAL ASSETS

This caption of the Consolidated Balance Sheet breaks down as follows:

Thousands of euros	31.12.06		31.12.05	
	Non-current	Current	Non-current	Current
Financial assets held to maturity	18	–	18	–
Loans and accounts receivable	17,040	4,180	19,630	3,849
Financial assets available-for-sale	9,243	–	7,925	–
Financial assets at fair value	300	–	–	–
Other financial assets	698	–	638	–
Gross total	27,299	4,180	28,211	3,849
Impairment losses	–	–	–	–
Net total	27,299	4,180	28,211	3,849

Movements in 2006 and 2005 in financial assets belonging to the Group were as follows:

Thousands of euros	Balance at 01.01.06	Increases	Restatement of value against reserves/ PL	Decreases	Balance at 31.12.06
Financial assets held to maturity	18	–	–	–	18
Loans and accounts receivable	23,479	1,403	–	(3,662)	21,220
Financial assets available-for-sale	7,925	924	394	–	9,243
Financial assets at fair value	–	–	420	(120)	300
Other financial assets	638	62	–	(2)	698
Gross total	32,060	2,389	814	(3,784)	31,479
Impairment losses	–	–	–	–	–
Net total	32,060	2,389	814	(3,784)	31,479

Thousands of euros	Balance at 01.01.05	Increases	Restatement of value against reserves/ PL	Decreases	Balance at 31.12.05
Financial assets held to maturity	10	8	–	–	18
Loans and accounts receivable	27,931	1,207	–	(5,659)	23,479
Financial assets available-for-sale	2,199	5,059	667	–	7,925
Other financial assets	697	14	–	(73)	638
Gross total	30,837	6,288	667	(5,732)	32,060
Impairment losses	–	–	–	–	–
Net total	30,837	6,288	667	(5,732)	32,060

a) Loans and accounts receivable generated by the company:

Current and non-current loans

This caption of the Consolidated Balance Sheet breaks down as follows:

	Thousands of euros	Interest rate	Due date
Non-current loans:			
• Loans to group companies	19,244	3.5605%	Sept.-2011
• Other loans	386	–	–
Current loans:			
• Loans to group companies	3,849	3.5605%	Dec.-2006
Balance at 31.12.05	23,479	–	–
Non-current loans:			
• Loans to group companies	16,719	3.8960%	Sept.-2011
• Other loans	321	–	–
Current loans:			
• Loans to group companies	4,180	3.8960%	Dec.-2007
Balance at 31.12.06	21,220	–	–

Current and non-current loans include those granted by the Parent Company to finance the construction of transport infrastructure falling due in the long term and are carried at amortised cost using the effective interest method. These loans accrue interest at variable rates referenced to the EIB rate plus a 90 bp spread for Gasoducto Al-Andalus, S.A. and Gasoducto de Extremadura, S.A., and at the average cost of Enagás, S.A. debt (3.62%) plus 32.5 basis points.

Details are as follows:

Thousands of euros	31.12.06	31.12.05
Non-current loans to Group companies:		
Gasod. Al - Andalus, S.A.	9,437	11,180
Gasod. de Extremadura, S.A.	1,976	2,721
Gasod. Campo Maior - Leiria - Braga, S.A.	4,394	4,425
Gasod. Braga - Tuy, S.A.	912	918
Total non-current	16,719	19,244
Current loans to group companies:		
Gasod. Al - Andalus, S.A.	2,359	2,236
Gasod. de Extremadura, S.A.	494	544
Gasod. Campo Maior - Leiria - Braga, S.A.	1,099	885
Gasod. Braga - Tuy, S.A.	228	184
Total current	4,180	3,849

b) Available-for-sale financial assets:

Non-current securities portfolio

This caption of the Consolidated Balance Sheet at 31 December 2006 mainly corresponds to a BBVA Investment Fund.

This fund is carried at fair value in accordance with its market price at each accounting close. Although, as this fund was created to hedge the provision for the loyalty award with which it is associated, changes in the value of the fund result in changes for the same amount in the associated provision.

The carrying value of this fund at 31 December 2006 and 2005 was 9,243 thousand euros and 7,925 thousand euros respectively. At 31 December 2006 the stake in this fund was 100%.

9. TRADE AND OTHER RECEIVABLES AND INCOME TAX RECEIVABLES

The breakdown of the balance of this caption at the balance sheet date is as follows:

	2006	2005
Trade debtors:		
Clients for sales and provision of services	225,343	201,445
Group companies, debtors	1,543	1,649
Sundry receivables	219,738	199,017
Total	446,624	402,111

The 1,543 thousand euros balance of "Group companies, debtors" relates to Gasoducto Al-Andalus, S.A. in an amount of 664 thousand euros, and to Gasoducto de Extremadura, S.A. for 879 thousand euros. These balances represent gas transport services for Transgás, S.A. pending collection which are consolidated proportionally in accordance with the percentage shareholding of Enagás, S.A. in these companies.

"Sundry debtors" includes the balance pending payment in respect of compensation for regulated activities for 2006 in an amount of 168,657 thousand euros. At the beginning of 2007, at the date these Consolidated Annual Accounts were prepared, payments number 11, 12 and 13 corresponding to 2006 in an amount of 13,648, 29,953 and 49,944 thousand euros were received.

Also at the date these Consolidated Annual Accounts were prepared, final payments for 2002, 2003, 2004 and 2005 totalling 25,522 thousand euros, 17,394 thousand euros, 10,114 thousand euros and 4,396 thousand euros respectively were pending receipt. The aforementioned amounts are recorded in the Consolidated Balance Sheets including the financial impact arising from their discounting. Accordingly, the updated balances pending settlement amount to: 25,291 thousand euros, 17,079 thousand euros, 9,771 thousand euros and 4,088 thousand euros for 2002, 2003, 2004 and 2005 respectively.

In this respect, Article 13 of Ministerial Order ECO/2692/2002 stipulating settlement procedures states that "Any differences between the net revenue payable and the accredited compensation that arise when the settlement procedure is applied each year, shall be taken into account in the calculation of the tariffs, access charges and fees of the following two years".

The Group maintains these balances pending settlement for 2002, 2003, 2004 and 2005 because, although the Regulator has taken these into consideration when calculating tariffs, access charges and royalties for the following years, these balances may only be settled once the definitive payments have been received.

In relation with the account pending settlement for 2002, on 20 July 2006 the NEC issued a "ruling in respect of the inspection carried out into Enagás, S.A." in relation, among other aspects, with Enagás' invoicing of other agents in 2002.

In accordance with the theoretical functioning of the settlement system, this ruling establishes the NEC's conclusions as regards possible deficiencies in the revenue collection procedure followed by the various Agents in the relevant years prior to the issuance of the definitive settlement for 2002.

In summary, and only in respect of 2002, the NEC ruling establishes that Enagás has revenue collection deficiencies for that year of 16,504 thousand euros, which would mean that this amount is not subject to settlement, so would not be an amount pending settlement with Enagás, S.A.

On 31 August 2006, Enagás, S.A. lodged a written appeal against this ruling with the Ministry of Industry, Tourism and Trade asking for an annulment on the basis of various reasons both in respect of the ruling's form (expiration of the inspection procedure) and content. In the lodging of the appeal the suspension of the enforcement of the ruling was not asked for. To date the appeal has not been resolved.

This appeal, if finally considered lawful, contains the opinions of Enagás, S.A. about each of the items under consideration, which are contrary to the considerations indicated in the ruling given by the NEC in the appropriate cases.

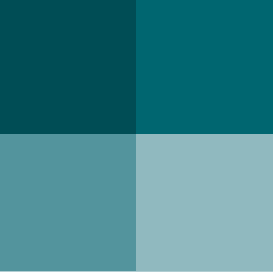
Both Enagás, S.A.'s legal office and a prestigious legal firm have analysed the aforementioned settlement for 2002, the NEC's ruling and the appeal lodged and mentioned above.

Both analyses concur in estimating that if the NEC's ruling were lawful, and so were to be taken into consideration for the preparation of the definitive settlement for 2002, there would be a reasonably high probability of Enagás, S.A. recovering approximately 10.8 million euros. They also concur in estimating that Enagás, S.A. has little chance of recovering 5.7 million euros.

In addition, we would point out that on the basis of currently available information, the Group believes that, despite the NEC's ruling regarding the amounts pending collection by Enagás, uncertainty remains about the amount pending for 2002, as no Regulating Body has officially stated the total amount pending settlement by the System with Enagás, S.A. and so, although the amount of 25,522 thousand euros is the Company's best possible estimate, the real amount to be settled has not yet been officially established in any document or communication. In this respect, the only reference to an amount pending settlement by the Regulating Body is included in the draft annual report prepared by the Ministry of Industry prior to the following year's legislation. The report for 2007 includes a pending sector deficit for 2002 of around 59 million euros. To estimate the amount that could be recognised for Enagás for this pending deficit, it should be borne in mind that in 2002 the sector's main regulated agents were practically Enagás and the Gas Natural Group and that Enagás usually accounts for 1/3 of sector activities.

Accordingly, given the uncertainty described above and the available information, the Group has decided not to make any provision in this respect. The definitive settlement for 2002 is expected to be issued in the first half of 2007.

Taxes and social security at 31 December 2006 basically includes VAT receivable by the parent company Enagás, S.A. because VAT receivable is higher than accrued VAT due partly to Enagás, S.A. acting as a tax deposit (see note 21).



The Directors believe that the carrying amount of the accounts recorded under the Trade debtors and other accounts receivable caption is close to their fair value.

Credit risk

The Group's main financial assets are cash balances, trade debtors and other accounts receivable, and debts on investments which represent the Group's maximum exposure to credit risk in relation to financial assets. The balances record amounts which are all within the stipulated maturity period and relate to companies of recognised prestige and solvency.

The Group does not have a significant concentration of credit risk as it operates in a regulated environment with planned scenarios. However, all value adjustments deemed necessary are made to provide for bad debt risks.

10. INVENTORIES

In order to comply with the requirements of the System's Technical Management Regulations (see Note 3.f), Enagás, S.A. has recorded natural gas inventories in an amount of 42,702 thousand euros, equivalent to 2,113 GWh, under the "Inventories" caption of the accompanying consolidated balance sheet.

In addition, according to the preliminary gas balance for December, Enagás, S.A. held 33,591 thousand euros, equivalent to 1,662 GWh of natural gas inventories, with the definitive gas balance for December, recorded in January 2007, showing a decline in these inventories to 1,077 GWh. These inventories arise from obligations in respect of compliance with rule number 2 of the Winter Plan (Resolution of the Directorate General for Energy Policy and Mines of 25 October 2006), that indicates that users' inventories must be greater than three days of reserved regasification capacity.

The Group also has 2,443 thousand euros of inventories unrelated to natural gas that include, among others, office materials and consumables.

11. EQUITY

11.1. Share capital

At 31 December 2006 share capital of the parent company amounted to 358,101 thousand euros and was represented by 238,734,260 ordinary bearer shares, all of the same class and series, with a par value of 1.50 euros each and fully paid up.

All shares of the parent company Enagás, S.A. are listed on the four Spanish stock exchanges and are traded on the continuous market. At 29 December 2006, the price of Enagás, S.A. shares stood at 17.62 euros, having reached a high for the year of 21.09 euros per share on 15 December.

The most significant shareholdings in the share capital of Enagás, S.A. at 31 December 2006 are as follows:

Company	% shareholding
Gas Natural, SDG., S.A.	5.000
Inversiones Cotizadas del Mediterráneo, S.L.	5.027
Sagane Inversiones, S.L.	5.000
Caja de Ahorros de Valencia, Castellón y Alicante.	5.000
Cantábrica de Inversiones de Cartera, S.L.	5.000

Inversiones Cotizadas del Mediterráneo, S.L. and Cantábrica de Inversiones de Cartera, S.L., are subsidiaries of la Caja de Ahorros del Mediterráneo (CAM) and la Caja de Ahorros de Asturias (Cajastur), respectively.

The Group has no treasury shares.

After the publication of Law 62/2003 on tax, administration and social order measures on 31 December 2003, of which Article 92 amends Law 34/1998 on the Hydrocarbon sector, it is established that “no individual or company may directly or indirectly hold more than a 5% interest in Enagás, S.A., in terms of share capital or voting rights for a period of less than three years”.

As a result, Gas Natural SDG, S.A. reduced its shareholding in 2006 to the maximum permitted.

11.2. Reserves

Revaluation reserve

The balance of this caption is the result of the adjustment made pursuant to Royal Decree-Law 7/1996 of 7 June.

This balance may be used, without accruing tax, to offset future years' losses and to increase capital stock.

From 1 January 2007 it may be allocated to unrestricted reserves.

Legal reserve

Under the revised Spanish Corporations Law, 10% of profit for each year must be transferred to the legal reserve until the balance of this reserve reaches at least 20% of share capital.

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

The parent company of the Group has fully allocated the legal reserve in an amount of 71,620 thousand euros, included in the “non-distributable reserves” caption of the accompanying Consolidated Balance Sheet.

Reserve for the revaluation of unrealised assets and liabilities

Movements in this reserve arising from adjustments to the value of assets available-for-sale and derivatives used as cash flow hedges in 2006 and 2005 are as follows:

Thousands of euros	01.01.2006	Change in market value	Allocation to profit and loss	31.12.2006
Cash-flow hedges:				
Collars	(16,203)	9,479	7,463	739
Deferred tax from revaluation of unrealised liabilities	5,671	(3,281)	(2,612)	(222)
Total	(10,532)	6,198	4,851	517

Thousands of euros	01.01.2005	Change in market value	Allocation to profit and loss	31.12.2005
Cash-flow hedges:				
Collars	(27,103)	(4,152)	15,052	(16,203)
FRAs	(100)	7	93	-
Deferred tax from revaluation of unrealised liabilities	9,521	1,450	(5,300)	5,671
Total	(17,682)	(2,695)	9,845	(10,532)

11.3. Interim dividend

The proposed distribution of Enagás, S.A.'s 2006 net profit that the Board of Directors will submit for approval by the Shareholders' Meeting is as follows:

Dividend	112,637
Voluntary reserve	103,023
	215,660

On 20 December 2006, the Board of Directors of Enagás, S.A. resolved to pay an interim dividend against 2006 results of 45,360 thousand euros (a gross amount of 0.19 euros per share). The Company has prepared the necessary liquidity statement, expressed in thousands of euros, in accordance with Article 216 of Royal Decree Law 1564/1989 (22 December), whereby the Spanish Companies Act was introduced:

In accordance with legal requirements, the provisional financial statements prepared by the Group which justify the existence of the funds necessary to pay this interim dividend for 2006 were the following:

	Thousands of euros
Net profit at 31.10.06	181,838
10% Legal reserve	–
Profit available for distribution	181,838
Forecast interim payment	(45,360)
Forecast cash at bank and in hand between 31 October and 31 December 2006:	
– Cash at bank and in hand at 31 October 2006	4,570
– Collections forecast for the period under consideration	333,700
– Credit facilities and loans granted by banks	515,000
– Payments forecast for the period under consideration (Including interim payment)	(442,400)
Forecast cash at bank and in hand at 31 December 2006	410,870

The proposed gross supplementary dividend (0.28 euros per share) is subject to the approval of the shareholders at the Shareholders' Meeting and is not included as a liability in these financial statements.

12. EARNINGS PER SHARE

Basic earnings per share is calculated by dividing the net profit attributable to equity holders of the parent by the weighted average number of shares in issue in the year, excluding the average number of ordinary shares purchased by the Company and held as treasury shares.

Accordingly:

	2006	2005	Change
Net profit for the year (thousands of euros)	216,384	190,960	13.31%
Weighted average number of shares in circulation(thousands of shares)	238,734	238,734	-
Basic earnings per share in euros	0.906381161	0.799886066	13.31%

Diluted earnings per share is calculated as the ratio between the net profit for the period attributable to ordinary shareholders adjusted to take into account the effect attributable to potential ordinary shares which cause dilution and the weighted average number of outstanding ordinary shares during the period, adjusted by the weighted average of ordinary shares that would be issued if all the potential ordinary shares were converted into ordinary shares of the company. As there are no potential ordinary shares at 31 December 2006, the basic and diluted profit per share are the same.

13. DEFERRED REVENUE

The variations in 2006 and 2005 in this caption of the accompanying consolidated balance sheet were as follows:

Thousands of euros	Royalty Gasoducto de Extremadura, S.A.	Royalty Gasoducto Al-Andalus, S.A.	Total
Balance at 01.01.05	12,026	33,707	45,733
Decreases/Allocation to profit and loss	(3,515)	(2,671)	(6,186)
Balance at 31.12.05	8,511	31,036	39,547
Decreases/Allocation to profit and loss	(551)	(2,055)	(2,606)
Balance at 31.12.06	7,960	28,981	36,941

Amounts representing the royalty of the subsidiaries Gasoducto de Extremadura, S.A. and Gasoducto Al-Andalus, S.A. are for balances pending application of contracts signed with these subsidiaries in respect of “gas transport rights” consolidated proportionally in accordance with the percentage shareholding of Enagás, S.A. in these companies.

Enagás, S.A. allocates and books this revenue based on its accrual on a straight-line basis until 2020 when the transport contract expires. (see Note 3m.)

In 2006 the accrual of revenue from connections to the basic network was recognised. Movement in this item in 2006 is the following:

Thousands of euros	Connections to the basic network
Balance at 31.12.05	0
Increases	11,600
Decreases/Allocation to profit and loss	(368)
Balance at 31.12.06	11,232

“Other non-current liabilities” includes the effect of the adjustments envisaged in the income tax inspection for the fiscal years 1995 to 1998, updated at 31 December 2006, in favour of Gas Natural SDG, S.A., the head company of the 59/93 Tax Group during that period, in an amount of 4,889 thousand euros.

14. PROVISIONS

The variations in the balance of this caption of the consolidated balance sheet in 2006 were as follows:

Thousands of euros	Lawsuits-tax proceedings and/or demands	Loyalty award	Abandonment costs	LTI	Other	Total
Balance at 01.01.06	1,829	7,935	3,008	3,830	5	16,607
Allocations charged to profit and loss:						
Interest and similar expenses	425	–	–	–	–	425
Allocations to provisions	107	1,318	–	808	2,710	4,943
Reversal of provisions credited to profit and loss: :						
Interest and similar revenue	(779)	–	150	(4,638)	–	(5,267)
Others (transfers)	–	–	–	–	–	–
Balance at 31 December 2006	1,582	9,253	3,158	0	2,715	16,708

The most significant items of the provisions made in 2006 are as follows:

- Loyalty award. Provisions relate to non-consolidated remuneration to reward Enagás' management and Board members for their loyalty in an amount of 1,318 thousand euros with 924 thousand euros in allocations for the year and 394 thousand euros for the effect of valuation at fair value.
- Long term incentive plan. In 2006 the provision for the pluri-annual remuneration plan proposed by the Appointments and Remuneration committee in 2003 and approved by the Board of Directors in 2006 was reversed. This consisted of a long term incentive plan linked to the achievement of certain objectives by senior management, including executive directors, over a three-year period, that expired in June 2006.
- Others. This mainly comprises the provision made for differences in the measurement of the calorific power of certain specific points of the basic network.

The Directors of the Enagás Group consider the provisions recorded in the accompanying Consolidated Balance Sheet adequately cover risks from lawsuits, arbitration and other proceedings described in this note, and do not expect further liabilities to arise from these in addition to those recorded.

Given the nature of the risk covered by these provisions it is not possible to make a reasonable estimate as to the timing of any payments which may arise, except for the LTI which concluded in June 2006.

Discounting of provisions is recorded under the "Financial Expenses" caption of the accompanying Consolidated Profit and Loss Accounts.

Enagás, S.A. has a contingent liability with the NEC at 31 December 2006 in relation with Settlement Accounts the company has pending collection for 2002 (see note 9).

15. BORROWINGS

Balances of bank loans at 31 December 2006 and scheduled repayments are as follows:

Liabilities at 31 December 2006 maturing in the							
Thousands of euros		Short term	Long term				
	Balance at 31.12.06	2007	2008	2009	2010	Others	Total long-term
Principal	1,746,604	113,379	74,344	84,344	1,093,855	380,682	1,633,225
Accrued interest pending payment	10,582	10,582	–	–	–	–	–
Total	1,757,186	123,961	74,344	84,344	1,093,855	380,682	1,633,225

At 31 December 2006, group companies had unused credit facilities amounting to 100,912 thousand euros which, in the opinion of management, sufficiently cover any short term commitments of the Group. They also had 200,000 thousand euros in unused loans.

Average annual interest in 2006 on Group loans and credit facilities in euros was 3.14% without hedges and fees and 3.62% with hedges and fees (2.40% with hedges and fees in 2005).

Current loans and credit facilities and policies of the parent company are denominated in euros and accrued average annual interest of 3.6201% in 2006.

The Directors estimate that the fair value of bank loans at 31 December 2006 calculated via the discount of future cash flows at market interest rates amounts to 1,747 thousand euros. The interest rate curve used in this calculation takes into account the risks associated with the sector and with the credit rating of ENAGÁS. The sensitivity of the aforementioned fair value to fluctuations in foreign currency exchange rates and interest rates is as follows:

Thousands of euros	Change in interest rates	
	0.25%	-0.25%
Change in the value of debt	15.5	-15.7

The most significant events taking place in the financial area were:

- In February 2006 the second 50 million euro drawdown of the 200 million euro 15-year loan granted by the ICO was made and the credit facility with La Caixa was renewed.
- From May to July 2006 the other credit facilities approved by the Board Meeting held in March 2006 were renewed.
- In July 2006 a new 6 million euro credit facility was signed with la Caja Bilbao Bizcaia Kutxa.
- In September 2006 the third and final drawdown of the 200 million euro 15-year loan granted by the ICO was made in an amount of 100 million euros.
- In October 2006 approval was given for a one-year extension to the drawdown of Tranche B of the 200 million euro loan in order to adjust the funds to the materiality of the corresponding investments.
- Between the second and third quarters of the year all the guarantee contracts expiring in 2006 were renewed.

16. OTHER FINANCIAL LIABILITIES

The detail of this caption of the consolidated balance sheets is as follows:

Thousands of euros	31.12.06		31.12.05	
	Non-current	Current	Non-current	Current
Financial liabilities at fair value	–	34	7,203	12,427
SGE loan to Enagás, S.A.	1,175	–	–	–
Loan from Transgás, S.A. to Gasod. Al-Andalus, S.A.	9,482	2,370	11,164	2,233
Loan from Transgás, S.A. to Gasod. de Extremadura, S.A.	5,038	1,260	6,130	1,226
Loan from REN Gasodutos, S.A. to Gasod.Campo Mayor-Leira Braga, S.A.	5,525	–	4,420	922
	21,220	3,664	28,917	16,808

Loans from Transgás, S.A. bear interest at variable market rates and fall due in 2011.

These loans are repaid in accordance with the periods envisaged in the contracts and with each company's cash resources.

The loan from the General Energy Secretariat forms part of the aid envisaged in the National Energy Program granted by the Ministry of Industry, Tourism and Trade within the framework of the National Plan for Scientific Research, and Technical Development and Innovation (2004-2007). This loan is associated with the "project for the electricity generation system at the Almendralejo Compression Station" being carried out by Enagás, S.A. The total amount of the loan is 3,265 thousand euros, distributed between 1,175 thousand euros for 2006 and 2,090 thousand euros for 2007. In December 2006 the funding granted for 2006 was drawn down. This is to be repaid in ten years with a three year grace period and a cost of 0.25%- the cost of the guarantees provided-.

17. RISK MANAGEMENT POLICY

The Enagás Group is exposed to certain risks that it manages via systems of identification, measurement, restriction of concentration and supervision.

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

- To comply with rules of good corporate governance.
 - To strictly comply with all the regulatory system of the Group.
 - Each business and corporate area defines:
 - a) The markets and products where it has sufficient knowledge and capacity to ensure effective risk management.
 - b) Counterparty criteria.
 - c) Authorised operators.
 - For each market where they operate the various businesses and corporate areas establish the extent of the risk exposure they are prepared to accept in line with their strategy for that market.
 - These limits are approved by the respective Risk Committees and when these are non-existent by the Enagás Risk Committee.
 - All the operations of the various businesses and corporate areas are carried out within the approved limits for each case.
 - The businesses, corporate areas, business lines and companies establish the necessary risk management controls to ensure that market transactions are carried out in accordance with the Group's policies, rules and procedures.

Interest rate risk

Fluctuations in interest rates alter the fair value of those assets and liabilities that accrue fixed interest and the future flows of those assets and liabilities that accrue a variable interest rate.

The target of interest rate risk management is to reach an equilibrium in the structure of debt that minimises the cost of this over the long term and reduces Consolidated Profit and Loss Accounts volatility.

In line with Enagás Group estimates and debt structure targets, hedging operations are carried out via the use of derivatives to reduce these risks.

Liquidity risk

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

Credit risk

The Group has no significant credit risk as the average client collection period is very short and placements of cash or the purchase of derivatives is carried out with highly solvent entities.

18. DERIVATIVE FINANCIAL INSTRUMENTS

At 31 December 2006 the Group held derivatives for a notional and/or contractual value of 1,000 million euros with a residual term to maturity of 1.25 years.

In 2006 and 2005 the Enagás Group charged 7,463 thousand euros and 15,145 thousand euros respectively to the accompanying Consolidated Profit and Loss Accounts under the "Cash flow hedge reserve" caption as hedging for the impact on the Profit and Loss Accounts of those operations subject to hedging.

The notional and/or contractual value of the formal contracts does not represent the real risk assumed by the Group as the net position is derived by offsetting and/or grouping these financial instruments.

Cash flow hedges

In 2003 Enagás, S.A. contracted hedging instruments to limit the financial cost of its long-term financing. These instruments limit the company's costs in the period 2004-2008 and are applicable to a total of 1,000 million euros, enabling risks to be minimised and investments to be financed under the best possible conditions, mainly through long-term fixed cost financing arrangements.

For the period 2005-2008, cash flow hedges using various collars, with a cap at 4.12% and floor of 3.67% (on average), were taken out. The hedges commence in January 2005 and mature in April 2008 and the known maximum fixed cost is 4.32% which includes the impact of the refinancing carried out in November compared to 4.66% prior to this.

The estimated fair value of the swaps executed at 31 December 2006 is 790 thousand euros (15,832 thousand euros in 2005). These amounts are based on the market values of equivalent instruments at the balance sheet date. All interest rate collars are designed to be effective as cash flow hedges and their fair value is deferred and recorded under net equity. As already mentioned, 7,463 thousand euros (15,143 thousand euros in 2005) were offset against hedged interest payments made during the period.

19. TRADE AND OTHER PAYABLES

Details of the trade and other payables caption are as follows:

Thousands of euros	2006	2005
Trade payables:		
Payable to Group companies	2,810	2,484
Suppliers of Gas Natural, SDG., S.A.	178,803	168,082
Other suppliers	265,778	224,428
Total	447,391	394,994

Payables to group companies represents gas transport services pending payment and consolidated proportionally that subsidiaries provide to the parent company Enagás, S.A.

The balance of the Grupo Gas Natural, SDG, S.A. suppliers caption mainly represents natural gas purchases for the regulated market made from Gas Natural Aprovechamientos Sdg, S.A. in an amount of 116,240 thousand euros and from Sagane, S.A. in an amount of 60,841 thousand euros, while the other suppliers balance mainly comprises purchases of materials and services provided to Group companies recorded principally under other operating expenses and non-current assets.

20. DEFINED CONTRIBUTION PLANS

The Group has defined contribution pension plans covering the commitments acquired by the Company with respect to current employees. The associated assets are held separately from Group assets in funds under the control of trustees. If an employee leaves the plan before having fully accrued their contributions, the amount payable by the Group is reduced by the amount of the lost contributions.

21. TAXATION

21.1 Tax return

The parent company ENAGÁS, and the subsidiaries Gasoducto Al-Andalus, S.A., Gasoducto de Extremadura, S.A., Gasoducto Campo Maior-Leiria-Braga, S.A., and Gasoducto Braga-Tuy, S.A. all file individual tax returns.

21.2 Years open for tax inspection

The tax returns filed by Enagás, S.A. for the main taxes to which it is liable are open to inspection for all years that have not become statute-barred, with the exception of income tax for which the years 1999 to 2005 are open to inspection and the revision of VAT on imports for which the years 2004, 2005 and 2006 are pending inspection.

All the taxes to which Gasoducto Al-Andalus, S.A. and Gasoducto Extremadura, S.A. are subject for all years that are not statute-barred are open to inspection.

Gasoduto Campo Mayor-Leiria-Braga, S.A. and Gasoducto Braga-Tuy, S.A., are open to tax inspection for the years 2002, 2003, 2004, 2005 and 2006 respectively.

At 31 December 2006, Enagás, S.A. had tax assessments issued in respect of VAT on imports, for 2002 and 2003. The total amount for 2002 is 2,684 thousand euros, of which 2,358 thousand euros correspond to the tax liability (deductible VAT) and 326 thousand euros to arrears interest, while the total amount for 2003 is 249 thousand euros, of which 213 thousand euros correspond to the tax liability (deductible VAT) and 36 thousand euros to arrears interest. Both assessments have been signed in disagreement, and the relevant appeals have been made.. At this date, other consolidated companies had no additional tax assessments open.

Due to the possible interpretations of tax regulations, the results of future inspections for the years open to inspection could give rise to tax liabilities, the amount of which cannot be objectively determined at present. However, in the view of the tax advisors of the Enagás Group and of its Directors, the possibility of significant liabilities arising in this respect additional to those recorded is remote.

21.3 Taxes payable and receivable

Balances receivable from and payable to public authorities at 31 December are as follows:

Thousands of euros	2006	2005
Taxes payable:		
VAT	5,953	51
Other	331	–
Total	6,284	51
Taxes receivable:		
Income tax expense	39,039	33,471
VAT	246	15,627
Other	1,991	2,775
Total	41,276	51,873

At the year end, 71,724 thousand euros had been paid on account of the final corporate income tax charge to be paid by Enagás, S.A., 70,875 thousand euros, Gasoducto Al-Andalus, S.A., 2,459 thousand euros and Gasoducto de Extremadura, S.A., 2,179 thousand euros.

21.4 Reconciliation of accounting and tax income

Corporate income tax expense as at 31 December 2006 breaks down as follows:

Thousands of euros	2006	2005
Enagás, S.A.	109,841	97,002
Gasoducto Al - Andalus, S.A.	2,726	2,628
Gasoducto de Extremadura, S.A.	2,083	1,150
Gasoducto Campo Maior - Leiria - Braga, S.A.	393	443
Gasoducto Braga - Tuy, S.A.	254	243
Total	115,297	101,466

The reconciliation of the income tax resulting from applying the corporate income tax rate prevailing in Spain to “pre-tax profit” and the charge recorded for this tax in the Consolidated Profit and Loss Accounts and the reconciliation of this with the amount of this tax payable for 2006 and 2005 is as follows:

Thousands of euros	2006	2005
Profit before tax	341,574	301,675
Permanent differences	(2,888)	(1,198)
Adjusted profit (loss)	338,686	300,477
Tax rate	35%	35%
Profit after applying tax rate	118,540	105,167
Effect of tax reform in Spain	1,064	–
Effect of applying different tax rates	(331)	(185)
Tax credits	(3,976)	(3,516)
Profit and loss account tax charge	115,297	101,466
Taxes recorded directly in equity	(3,326)	1,425
Total tax charge	111,971	102,891
Timing differences	(3,512)	(3,336)
Tax payable	108,459	99,555

21.5 Taxes recognised in net equity

Aside from the income tax charge recognised in the Consolidated Profit and Loss Accounts, in 2006 and 2005 the Group booked the following amounts for the following items in consolidated net equity.

Thousands of euros	2006	2005
For cash flow hedges	223	5,671
For discounting of taxes payable	359	554
	582	6,225

21.6 Deferred tax

Under tax regulations prevailing in the various countries in which the consolidated companies are located, certain timing differences arose in 2006 and 2005 that should be taken into account when calculating the income tax expense.

Thousands of euros	2006	2005
Deferred tax liabilities originating from:		
Deferred tax liability originating from adoption of IFRS	554	512
Accelerated depreciation	1,595	1,862
	2,149	2,374

The origins of the deferred taxes recorded in both years are:

Thousands of euros	2006	2005
Deferred tax assets originating from:		
Deferred tax asset originating from adoption of IFRS	892	7,120
Capital grants	1,236	1,557
Loyalty fund provision	2,267	2,322
LTI provision	–	1,340
Fixed asset provisions	1,816	2,586
Provisions for litigation	476	641
PCS Provisions	880	–
Other	1,865	2,307
	9,432	17,873

The table below shows the main deferred tax assets and liabilities recognised by the Group and changes to these during the year:

Thousands of euros	Balance at 01.01.2006	Charge / credit in the profit and loss accounts	Charge / credit in the asset and liability valuation reserve	Balance at 31.12.2006
Deferred tax assets:				
– Adoption of IFRS	7,120	(2,752)	(3,476)	892
– Capital grants	1,557	(321)	–	1,236
– Loyalty fund provision	2,322	(55)	–	2,267
– LTI provision	1,340	(1,340)	–	0
– Fixed asset provisions	2,586	(770)	–	1,816
– Provisions for litigation	641	(165)	–	476
– PCS Provisions	–	880	–	880
– Others	2,307	(592)	150	1,865
Total deferred tax assets	17,873	(5,115)	(3,326)	9,432
Deferred tax liabilities:				
– Adoption of IFRS	512	42	–	554
– Accelerated amortisation and depreciation	1,862	(267)	–	1,595
Total deferred tax liabilities	2,374	(225)	–	2,149

Thousands of euros	Balance at 01.01.2005	Charge / credit in the profit and loss accounts	Charge / credit in the asset and liability valuation reserve	Balance at 31.12.2005
Deferred tax assets:				
– Adoption of IFRS	10,735	(5,040)	1,425	7,120
– Capital grants	1,687	(130)	–	1,557
– Loyalty fund provision	2,291	31	–	2,322
– LTI provision	767	573	–	1,340
– Fixed asset provisions	1,527	1,059	–	2,586
– Others	1,324	1,624	–	2,948
Total deferred tax assets	18,331	(1,883)	1,425	17,873
Deferred tax liabilities:				
– Adoption of IFRS	259	253	–	512
– Accelerated amortisation and depreciation	1,898	(36)	–	1,862
– Others	516	(516)	–	–
Total deferred tax liabilities	2,673	(299)	–	2,374

At the end of 2006, Enagás, S.A., Gasoducto Al-Andalus, S.A. and Gasoducto de Extremadura, S.A. recorded prepaid and deferred tax balances in accordance with the provisions of Law 35/2006 of 28 November on personal income tax and the partial amendments to the laws governing corporate taxation and the taxation of non-residents and personal income. Among other things, this law changes the income tax rate, with 32.5% being the tax rate for 2007, and 30% the tax rate for 2008 and following years.

This change in tax rates led to an increase in the tax expense included in the consolidated profit and loss accounts for 2006 of 1,064 thousand euros, and a charge to asset and liability reserves of 48 thousand euros.

21.7 Other tax information

19 November 2005 saw the publication of Law 22/2005 that among other things implements in Spanish law the EC directive restructuring the EC tax regime for energy products and electricity (Directive 2003/96/EC). As a result of this law, that modifies special taxes law 38/1992 of 28 December, natural gas has been explicitly included within the scope of the special tax on hydrocarbons.

On 24 June (Official State Gazette nº 150) Royal Decree 774/2006 of 23 June was published, modifying the regulations for Special Taxes that came into force on 1 July 2006.

Among the modifications included in the regulations is the possibility of authorising any of the installations comprising the gas system as this is described in article 59 of Law 34/1998 as a tax deposit for natural gas, it being possible to authorise various of these installations as a single tax deposit provided they have the same owner and are controlled centrally.

In September, Enagás S.A. requested authorisation for its installations to operate as a single tax deposit for purposes of the special tax on hydrocarbons. The tax deposit was authorised with effect from 1 October 2006.

22. REVENUE

Group revenue breaks down as follows:

	2006	2005
Gas sales on regulated market	1,103,260	843,783
Cost of gas sales on regulated market	(1,091,921)	(850,181)
Purchase-sale of gas on regulated market	11,339	(6,398)
Revenue from regulated activities	733,055	652,609
Revenue from non-regulated activities	13,985	15,437
Other revenue	19,587	19,253
Sales of materials	1	729
Auxiliary and ordinary trading revenue	19,529	18,502
Capital grants	57	22
Total	777,966	680,901

Gas sales relate entirely to those made by Enagás, S.A. Revenue from services rendered basically relates to Enagás, S.A.'s regulated activities, while revenue generated by other companies relates to non-regulated activities. Services rendered are analysed below:

	2006	2005
Regulated activities:		
Enagás, S.A.	733,055	652,609
Non-regulated activities:		
Gasoducto Al - Andalus, S.A.	6,442	7,252
Gasoducto Extremadura, S.A.	5,079	5,568
Gasoducto Campo Maior - Leiria - Braga, S.A.	2,272	2,466
Gasoducto Braga - Tuy, S.A.	192	151
Total	747,040	668,046

The cost of sales relates mainly to gas supplies or purchases made during the year by Enagás, S.A. to satisfy the regulated market. Details by supplier are as follows:

Thousands of euros	2006	2005
Sagane, S.A.	704,670	668,492
Gas Natural Aprovisionamientos, S.A.	380,817	165,130
Gas Natural Comercializadora, S.A.	3,018	15,948
Other	3,416	611
	1,091,921	850,181

23. EXPENSES

An analysis of Group expenses is provided below:

Thousands of euros	31.12.06	31.12.05
Staff costs	54,321	58,198
Other operating expenses	160,037	144,278
	214,358	202,476

23.1 Staff costs

The table below shows a breakdown of staff costs:

Thousands of euros	31.12.06	31.12.05
Salaries and wages	45,273	44,576
Severance payments	797	5,274
Social Security costs	10,256	10,153
Other personnel costs	5,549	4,466
Contributions to external pension funds	1,936	1,910
Work on PPE	(9,490)	(8,181)
	54,321	58,198

The Group has capitalised staff costs directly related to investment projects in progress in an amount of 9,490 thousand euros at 31 December 2006 and 8,181 thousand euros at 31 December 2005, (see note 6).

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

	Average headcount	
	2006	2005
Executives	59	56
Supervisors and graduates	399	389
Administrative staff	115	119
Workers	346	353
Total	919	917

At 31 December 2006, the Company had 944 employees.

23.2 Other operating expenses

The detail of this caption is as follows:

Thousands of euros	31.12.06	31.12.05
External services:		
R+D expenses	460	581
Leases and royalties	70,670	59,256
Repairs and maintenance	18,660	19,431
Professional services	11,168	10,332
Transport	14,521	14,315
Insurance premiums	3,747	4,720
Banking and similar services	186	208
Advertising and public relations	1,862	1,670
Supplies	18,987	16,161
Other services	9,810	7,516
External services	150,071	134,190
Taxes other than income taxes	2,318	1,992
Other external expenses	7,648	8,096

The Group has a lease contract with the Repsol-YPF Group to operate the "Gaviota" hydrocarbon concession, owned by the Repsol-YPF Group (see note 25.2.a). These installations are used by the Group for the regulated activity of natural gas storage as are its own "Serrablo" installations. The current contract ends in 2018.

23.3 Other information

“Other general operating costs” includes the fees paid by consolidated companies for the audit of their annual accounts and for other accounting verification work. In 2006, these expenses amounted to 146 thousand euros as follows:

Thousands of euros	2006
Audit of annual accounts	123
Other audit related services	23
Other non-audit related services	502

24. NET FINANCIAL PROFIT (LOSS)

The detail of the “net financial profit (loss)” caption of the accompanying Consolidated Profit and Loss Accounts is as follows:

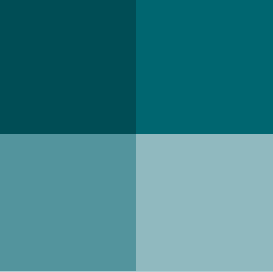
Thousands of euros	31.12.06	31.12.05
Revenue from equity investments	338	–
Revenue from long term loans	493	1,091
Other interest and finance revenue	2,831	1,565
Financial revenue	3,662	2,656
Interest and similar charges	692	388
Interest on loans	50,488	42,523
Revenue attributable to provisions	(525)	143
Financial costs	50,655	43,054
Net financial profit (loss)	(46,993)	(40,398)

The Group has capitalised financial expenses in an amount of 8,941 thousand euros at 31 December 2006 and 9,086 thousand euros at 31 December 2005 (see note 6).

25. BUSINESS AND GEOGRAPHICAL SEGMENTS

25.1 Segment criteria

Information about segments is structured in accordance with the Group’s various business lines (main business segments).



Information about secondary segments (geographical segments) are not included in this note because Enagás, S.A., the group parent company, carries out its activities within Spain where all regions are subject to the same risks and returns, with no characteristics existing among the various regions which could lead to different results from those obtained. In addition, Enagás, S.A. contributes most of the assets, liabilities, revenues and expenses to the group's consolidated financial statements to the extent that operations involving companies based in Portugal do not exceed 10% of group sales or assets, the limit established by IFRS for the disclosure of secondary segment information.

25.2 Main business segments

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

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

Gas transport: Core activity which consists of the movement of gas through the transport network, comprised of gas pipelines for the primary (with maximum design pressure equal to or higher than 60 bars) and secondary (with maximum design pressure of between 60 and 16 bars) transport of gas to distribution points, as owner of most of the Spanish gas transport network.

Regasification: The gas is transported from producer countries in methane tankers at 160 °C below zero in liquid form (LNG) and is unloaded at the regasification plants where it is stored in cryogenic tanks. The temperature of the LNG is increased using saltwater vaporisers transforming this into gas. The natural gas is then injected into gas pipelines and transported throughout Spain.

Storage: Enagás, S.A. operates two underground storage facilities: Serrablo, located between the towns of Jaca and Sabiñánigo (Huesca) and owned by the Company, and Gaviota, an off-shore storage facility located near Bermeo (Vizcaya), owned by the Repsol YPF Group and Murphy Eastern Oil and operated by Enagás via a long term lease contract.

b) Technical system management

In 2005, Enagás, S.A. as technical system manager, continued to carry out the tasks entrusted to it by Royal Decree Laws 6/2000 of 23 June and 949/2001 of 3 August, aimed at guaranteeing the continuity and security of gas supply, and the correct co-ordination of points of access, storage, transport and distribution.

c) Purchase-sale of gas on the regulated market

Enagás, S.A. continued to satisfy the needs of the regulated market in accordance with the provisions of Hydrocarbons Law 34/1998 of 7 October. The selling price, calculated by the Government, reflects the cost of the raw materials, the average regasification cost and the cost of managing gas purchases and sales for the regulated market.

d) Non-regulated activities

This refers to all non-regulated activities and transactions related to Group companies.

25.3 Segment information by business – basis and methodology

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

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

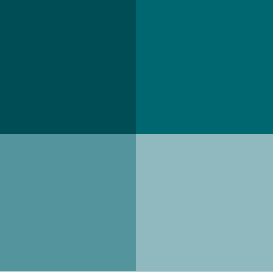
Segment information of these businesses is as follows.

	Infrastructures		Purchase-sale of gas		Technical System Management		Non-Regulated Activities + Consolidation		Group Total	
Thousands of euros	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005
P/L										
Operating profit	346.787	312.936	25.700	5.884	79	420	6.108	13.584	378.674	332.824
After tax profit (loss)	198.276	181.727	17.061	4.098	(44)	202	1.092	4.932	216.384	190.960
Balance sheet										
Total Assets/Liabilities	3.251.387	2.904.077	242.423	189.835	15.139	6.891	117.245	124.816	3.626.195	3.225.619

26. ENVIRONMENTAL INFORMATION

The Enagás Group's activities in 2006 ratified its commitment to make current economic development compatible with the conservation of natural resources to guarantee their use by future generations. For this reason the Group has committed itself to making the respect for and conservation of the environment one of its main criteria when taking corporate decisions. This commitment is embodied in the Group's Environmental Policy which comprises a set of principles whose fundamental purpose is to guarantee that any Group activity or installation respects the environment from the beginning to the end of its useful life.

The practical application of Environmental Policy is represented by the Environmental Management System certified by AENOR according to ISO regulation 14001. The environmental management system involves a number of rules and procedures guaranteeing knowledge and exhaustive control of environmental aspects and the adoption of measures to minimise and correct adverse effects on the environment.



In 2006 the ISO 14001 certificate for the Technology Unit and Transport and Production Departments was renewed and certificates for the other departments have been monitored. Measures aimed at correcting the environmental impact of infrastructure projects include environmental control of construction work, landscaping, controlled drilling and archaeological conservation.

In 2006, these environmental activities involved investments totalling 8,212 thousand euros, which are recorded on the asset side of the balance sheet (24,375 thousand euros in 2005).

Environmental expenses totalled 710 thousand euros in 2006 and are recorded under the "Other operating expenses" heading (717 thousand euros in 2005).

Possible contingencies, indemnities and other environmental risks are sufficiently covered by the third-party liability insurance policies the Group has contracted.

The Enagás Group has not received any capital grants or revenue relating to environmental activities.

27. GREENHOUSE GAS EMISSION RIGHTS

Certain Enagás, S.A. installations come within the scope of Law 1/2005 of 9 March governing trading in greenhouse gas emission rights. In July 2006, the Environment Ministry published the definitive and free allocation of greenhouse gas emission rights for these installations, with the total rights assigned to Enagás, S.A. via the National Allocations Plan for 2006-2007 amounting to 756,676, of which 360,584 correspond to 2006 and 396,092 to 2007.

The installations for which these allocations have been received are:

- The Serrablo underground storage facility.
- The LNG storage and regasification plants at Barcelona, Cartagena and Huelva.
- The compression stations at: Algete, Almendralejo, Almodóvar, Bañeras, Córdoba, Crevillente, Sevilla, Haro, Paterna, Tivissa, Zamora and Zaragoza.

The rights assigned for 2006, 360,584, were valued at 22.25 euros/right, the spot price on the first business day of 2006 of RWE Trading GMBH.

In 2006, the Enagás Group consumed 158,866 greenhouse gas emission rights, so at 31 December 2006 the company had a surplus of 201,718 rights. This surplus of rights valued at a price of 22.25 euros/right, their price on the first business day of 2006, has a value of 4,488 thousand euros, whilst the value of this surplus at 31 December 2006 is 1,271 thousand euros, based on a reference price of 6.30 euros/right, their price on the last business day of 2006.

In 2006, Enagás, S.A. did not negotiate any future contract relating to greenhouse gas emission rights nor do any contingencies related to provisional penalties or measures exist under the terms established by Law 1/2005.

At 31 December 2006, the accounts for each of the installations that have been allocated emission rights in RENADE (the National Registry of Greenhouse Gas Emission Rights) are not open, as the modification of the National Allocations Plan by the Environment Ministry and the EC has not been concluded. However, on 28 February 2007, Enagás, S.A. presented the emissions report verified by an accredited entity to the relevant regional governments and so will be able to transfer to RENADE, in April 2007, the rights allocated for 2006-2007.

In December 2006, Enagás, S.A. submitted requests for allocation for the greenhouse gas emission rights allocation plan for 2008-2012.

28. RELATED-PARTY TRANSACTIONS

Since 2003 the Enagás Group has published information regarding transactions with related parties on a quarterly basis. The format of this information has changed to adapt this to the requirements of Order EHA/3050/2004, of 15 September.

Significant aspects to take into account in relation with information about related party transactions are:

- a) Material related party transactions in excess of Enagás' ordinary activities are approved by the Board of Directors of the Company subsequent to a report by the Appointments and Remuneration Committee.
- b) According to Order EHA/3050/2004, it is not necessary to disclose transactions which are part of the Company's ordinary activities, are carried out under normal market conditions and are not material. In this respect, and taking into account the amounts included in Enagás' financial statements, transactions taking place during the period for which information is provided are deemed not to be material when they fail to exceed the sum of three million euros.
- c) Year closes for certain transactions are not available, especially those whose amounts depend on the close of gas balances. This means that at times amounts are provisional or figures are included for the first eleven months of the year, in which case this circumstance is expressly stated.

Unless otherwise indicated, transactions are for contracts signed prior to the reference period. New relationships, arising from contracts or commitments entered into in 2006, are expressly indicated.

28.1 Enagás, S.A. transactions with group companies, core shareholders and companies which exert a significant influence on Enagás (section A of Point 4.1 of Order EHA 3050/2004).

28.1.1 *Subsidiaries of Enagás, S.A.*

- Transactions with Gasoducto Al-Andalus
Enagás S.A. has granted this company a loan for 35,703 thousand euros.
Gasoducto Al-Andalus, S.A. has paid Enagás, S.A. dividends for fiscal year 2005 in an amount of 4,859 thousand euros.

Enagás S.A. has incurred a cost of 16,410 thousand euros for transport rights, and has received revenue of 4,836 thousand euros for gas pipeline maintenance and corporate royalties by virtue of long term contracts entered into by the parties.

- Transactions with Gasoducto de Extremadura

Enagás S.A. has granted this company a loan for 5,041 thousand euros.

Gasoducto Extremadura, S.A. has paid Enagás, S.A. dividends for fiscal year 2005 in an amount of 3,105 thousand euros.

Also, Enagás S.A. has incurred a cost of 8,423 thousand euros for transport rights, for services provided by Gasoducto Extremadura, and received revenue of 4,541 thousand euros for gas pipeline maintenance and corporate royalties by virtue of long term contracts entered into by the parties.

- Transactions with Gasoduto Campo Maior–Leiria–Braga

Enagás S.A. has granted this company a loan for 6,242 thousand euros.

In addition, Enagás, S.A. has incurred a cost of 3,428 thousand euros for the provision of transport services.

- Transactions with Gasoduto Braga–Tuy

Enagás, S.A. has guaranteed a loan granted by a Portuguese bank to Gasoduto Braga-Tuy S.A. for 8,900 thousand euros.

In addition, Enagás, S.A. has incurred a cost of 3,478 thousand euros for the provision of transport services.

28.1.2 Enagás S.A. transactions with companies which exercise a significant influence on Enagás and with companies on which Enagás, S.A. exercises a significant influence.

- Transactions with Gas Natural SDG and group companies

1. Enagás S.A. paid Gas Natural SDG, S.A. 8,441 thousand euros in dividends.

2. Enagás S.A. has entered into 26 contracts with Gas Natural Comercializadora S.A. for third party network access (TPNA), of which 17 are short term and 9 long term. Ten of the seventy-five contracts signed in 2006 were signed in the last quarter of the year.

TPNA contracts are standardised forms approved by the Ministry of Industry, Tourism and Trade as are the access tolls invoiced by Enagás, S.A.

3. Between 1 January and 31 December 2006 the following services were provided: Regasification of 74,356 GWh, 43.59% of total TPNA, billing 50,297 thousand euros for these services; 150,306 GWh were transported, which represents 59.57% of total TPNA, billing 76,740 thousand euros for these services; and finally an average of 9,082 GWh were stored which represents 51.68% of total TPNA, billing 22,915 thousand euros for these services.

4. Enagás S.A. has entered into a gas purchase-sale contract with several Gas Natural Group companies to satisfy regulated market demand. In 2006 Enagás S.A. acquired 55,285 GWh of natural gas, for 1,117,466 thousand

euros. The acquisition price corresponds to the cost of the raw material which serves to fix the sale price to distributors.

Between July and 31 December 2006, according to the stipulations of the Second Temporary Provision of ITC 4099/2005, 2,113 GWh of natural gas were acquired from Gas Natural Group companies for 42,702 thousand euros to comply with the minimum linepack for gas pipelines and minimum operating levels for tanks in that part corresponding to Enagás by law, and 273 GWh of natural gas for 5,526 thousand euros in that part corresponding to transporters.

In this same period, Enagás S.A. transported 43,529 GWh of natural gas to Gas Natural Group distributors for 904,669 thousand euros. The terms and conditions and price of these operations are regulated by the authorities.

5. Desarrollo del Cable S.A. leases Enagás part of the fibre optic cable necessary for its telecoms services, by virtue of a long term contract signed in 1999 and modified in 2005. The cost to Enagás of this service in 2006 was 17,733 thousand euros.
6. Enagás S.A. paid Gas Natural Group companies 2,131 thousand euros for maintenance services, 3,026 thousand euros for infrastructure connections, and 918 thousand euros for other services. These services were provided under market conditions and at market prices.
7. The hiring of LNG inventories and their storage in ships, cost Enagás, S.A. 3,452 and 5,990 thousand euros respectively.

- Transactions with BP España, S.A.

1. Enagás S.A. paid BP España S.A. 4,774 thousand euros in dividends.
2. Enagás S.A. has entered into three short term contracts with BP Gas España S.A. for third party network access (TPNA) all of which are currently in force. One of the fourteen contracts signed in 2006 was signed in the last quarter of the year.

TPNA contracts are standardised forms approved by the Ministry of Industry, Tourism and Trade as are the access tolls invoiced by Enagás, S.A.

3. Between 1 January and 31 December 2006 the following services were provided: Regasification of 614 GWh, 0.36% of total TPNA, billing 579 thousand euros for these services; 477 GWh were transported, which represents 0.19% of total TPNA, billing 995 thousand euros for these services; and finally 1,131 GWh were stored which represents 6.44% of total TPNA, billing 3,027 thousand euros for these services.

- Transactions with la Caja de Ahorros del Mediterráneo (CAM) or its subsidiary Inversiones Cotizadas del Mediterráneo (INCOMED S.L.)

1. Enagás S.A. paid INCOMED 4,800 thousand euros in dividends.
2. Enagás S.A. renewed a credit line with la CAM for 6,000 thousand euros, and has signed a guarantee line for 12,000 thousand euros.
3. Enagás S.A. has an interest rate hedge (COLLAR) with la CAM for 15,000 thousand euros for the period from January 2005 to April 2008.

The terms and conditions of the financial agreements entered into with la CAM are the usual market ones in respect of interest, commission, expenses and guarantees.

- Transactions with Caja de Ahorros de Valencia, Castellón y Alicante (Bancaja)

1. Enagás S.A. paid Bancaja 4,774 thousand euros in dividends.
2. Enagás S.A. has a credit line open with Bancaja for 6,000 thousand euros, and has also signed a guarantee line for 6,000 thousand euros that expires annually.
3. Enagás S.A. has an interest rate hedge (COLLAR) with Bancaja for 15,000 thousand euros for the period from January 2005 to April 2008.

The terms and conditions of the financial agreements entered into with BANCAJA are the usual market ones in respect of interest, commission, expenses and guarantees.

- Transactions with Caja de Ahorros de Asturias (Cajastur) or with its subsidiary Cantábrica de Inversiones de Cartera, S.L.

1. Enagás S.A. paid Cantábrica de Inversiones de Cartera S.L., 4,774 thousand euros in dividends.
2. Enagás S.A. has a credit facility with Cajastur for 6,000 thousand euros, and a guarantee line for 6,000 thousand euros.
3. Also, Cajastur has a 30,000 thousand euro stake in the Club Deal Syndicated Loan signed on 24 November 2004 and paid on 10 January 2005, falling due in 2010.

The terms and conditions of the financial agreements entered into with CAJASTUR are the usual market ones in respect of interest, commission, expenses and guarantees.

- Transactions with Sagane Inversiones, S.L.

Enagás S.A. paid Sagane Inversiones S.L. 4,795 thousand euros in dividends.

28.2 Transactions with directors, management and their close relatives (section B of Point 4.1 of Order EHA 3050/2004)

Board members received 1,013 thousand euros in per diems. Senior Executives (the Chairman and members of the Management Committee) received remuneration totalling 6.77 million euros (including long term remuneration accrued since 2003 and received this year).

28.3 Transactions with related parties (section D of Point 4.1 of Order EHA 3050/2004)

- Transactions with la Caixa d'Estalvis I Pensions de Barcelona ("La Caixa") and group companies

1. La Caixa has an 89 million euro stake in the Club Deal Loan signed on 24 November 2004 and paid on 10 January 2005.

2. Enagás S.A. also has a credit line for 100.0 million euros with La Caixa.
3. At 31 December 2006 La Caixa had given Enagás guarantees amounting to 25,255 thousand euros. In addition, Enagás has renting agreements with La Caixa group companies for 6,288 thousand euros of principal.

The terms and conditions of the financial agreements entered into with la Caixa are the usual market ones in respect of interest, commission, expenses and guarantees.

- Transactions with Repsol YPF and group companies

Enagás S.A. leases the Gaviota underground storage facility from Repsol Investigaciones Petrolíferas S.A., for which Enagás S.A. paid 24,494 thousand euros in 2006.

29. DIRECTORS' COMPENSATION

29.1 Wages and salaries

Board members received 4,256 thousand euros and 1,933 thousand euros in 2006 and 2005 respectively in respect of compensation. These amounts include per diems and other sums received by the Directors by virtue of their membership of the Board of Directors and its dependent Committees, and for attending meetings, in application of the resolution adopted by the Shareholders' Meeting of 22 April 2006, with the limits indicated in said resolution having been respected and complied with in respect of the amounts received by members of the Board.

This item also includes salaries and compensation for the carrying out of executive functions by members of the board with these responsibilities. These amounts are independent of the compensation fixed annually by the Shareholders' Meeting to compensate Board members. Finally, the amounts corresponding to payment of expenses incurred by board members when attending board and committee meetings are also included in this item, as is the part corresponding to the long term incentive approved by the Board in 2003 and which was paid in June 2006, (see note 14).

29.2 Other compensation

Pension contributions made during the year totalled 10 thousand euros (10 thousand euros in 2005) and the premiums paid for life insurance amounted to 82 thousand euros (65 thousand in 2005).

At 31 December 2006, the outstanding balance for loans granted to Board members was 320 thousand euros (355 thousand euros at 31 December 2005), granted under market terms and conditions.

30. OTHER INFORMATION REGARDING THE BOARD OF DIRECTORS

In order to comply with the provisions of Article 127 of the Spanish Companies Act, these Notes to the accounts contain

information relating to the shareholdings and positions held by Enagás Board Members with respect to other companies with a corporate purpose that is similar or supplementary to that of Enagás S.A. When preparing this information, companies having a corporate purpose that is similar or supplementary to that of Enagás have been considered to be those that are engaged in the transport, regasification, distribution or sale of natural gas, regulated by Law 34/1998 on the Hydrocarbon Industry.

Shareholdings in companies that have the same, similar or supplementary corporate purpose that have been reported to ENAGÁS, S.A. by Directors at 31 December 2006 are as follows:

Director	Company	Shares / % Ownership
Caja de Ahorros del Mediterráneo, CAM	Unión Fenosa	5.150%
Caja de Ahorros de Valencia, Castellón y Alicante, Bancaja	Iberdrola	1.098%
	Endesa	0.024%
	Gas Natural, SDG S.A.	0.005%
	Unión Fenosa	0.002%

José Olivas Martínez, the representative of BANCAJA (Caja de Ahorros of Valencia, Castellón y Alicante), on the board of Enagás, holds 0.0002% of the share capital of Repsol and 0.00004% of the share capital of Totalfina as a private individual.

Positions held or duties fulfilled by Company Directors at companies that have the same, similar or supplementary corporate purpose that have been reported to ENAGÁS, S.A. at 31 December 2006 are as follows:

Director	Company	Position
Salvador Gabarró Serra	Gas Natural, SDG, S.A.	Chairman
Luis Javier Navarro Vigil	BP España SAU	Chairman
Antonio Llardén Carratalá	Gas Natural, SDG, S.A.	Managing Director of Resources

Manuel Menéndez Menéndez, the representative of Peña Rueda, S.L. on the Board, holds as a private individual the positions of Chairman of the Board of Directors of Hidroeléctrica del Cantábrico, S.A., and member of the board of Eléctrica De Portugal (EDP) and is the physical representative of HC, S.A. on the Board of Naturgas Energía Grupo, S.A.

No activities that are the same, similar or complementary to those of Enagás, other than those listed above, are carried out by Company Directors.

31. THIRD-PARTY GUARANTEES

At 31 December 2006 the Group had provided guarantees to third parties deriving from its activities for an amount of 61,630 thousand euros. It has also received guarantees for a total of 43,146 thousand euros for the loans granted by the European Investment Bank.

Also, 8,900 thousand euros correspond to guarantees furnished to Group companies to guarantee debt included in the liabilities of the Consolidated Balance Sheet, mainly for a loan that Banco Santander Central Hispano, S.A. has granted to Gasoduto Braga – Tuy, S.A.

Group Directors believe no significant liabilities will arise additional to those recorded in the accompanying Consolidated Balance Sheet as a result of the transactions described in this note.

32. EVENTS AFTER THE BALANCE SHEET DATE

On 11 January 2007 an interim dividend was paid against 2006 results. The dividend totalled 0.19 euros per share and was approved by the Board of Directors of Enagás, S.A. at a meeting held on 20 December 2006.

At the board meeting held on 24 January 2007, Antonio González-Adalid García-Zozaya submitted his resignation as Chairman of Enagás, S.A., a position he had held since June 2002. At the same ordinary session of the Board of Directors, Antonio Llardén Carratalá, a member of the Board since April 2006, was unanimously appointed Chairman of Enagás.

In addition, José Luis Olivas Martínez, an independent director representing the Cajas de Ahorros of Valencia, Castellón y Alicante – BANCAJA -, was appointed Deputy Chairman of Enagás S.A.

In 2007 the staff costs associated with this change in the chairmanship of the parent company will be recorded.

33. OTHER INFORMATION

In 2006 rating agencies confirmed the Company's credit rating. Standard & Poor's maintained their AA- rating; and Moody's confirmed a rating of A2.

In 2006, Enagás, S.A. joined the FTSE4Good index, that includes those companies that set a good example in the world of best practices in Corporate Social Responsibility.

On 22 November 2006 the Company's Board of Directors unanimously agreed to appoint Rafael Piqueras Bautista as Secretary and Advisory Lawyer to the Board in replacement of Luis Pérez de Ayala Becerril, whose resignation from the position was accepted.

34. BUSINESS COMBINATIONS

Information on the business combinations in which the Group had interests at 31 December 2006 is set out in the table below.

Company	Country	Line of Business	Reporting Method	%	% Voting rights Controlled by Enagás S.A.	Thousands of euros				
						Net carrying Value	Figures for part-owned company (*)			Net profit for the year (**)
							Assets	Liabilities	Equity	
Gasoducto Al-Andalus, S.A.	Spain	Gas transport.	PC	66.96	50	23,744	106,983	106,983	49,290	6,951
Gasoducto de Extremadura, S.A.	Spain	Gas transport.	PC	51	50	9,732	48,195	48,195	27,692	6,134
Gasoducto Campo Maior Leiria Braga, S.A.	Portugal	Gas transport.	PC	12	50	3,195	97,510	97,510	36,858	7,827
Gasoducto Braga-Tuy, S.A.	Portugal	Gas transport.	PC	49	50	2,546	19,496	19,496	6,842	1,250
Total										

PC: Proportionate consolidation.

(*) The data presented correspond to figures for the individual companies prepared under GAAP applicable in the country in question and before the homogenization adjustments made prior to consolidation of the financial statements.

(**) Data for Gasoduto Campo Mayor-Leiria-Braga, S.A., and Gasoduto Braga-Tuy, S.A., as indicated in note 1a), are taken from the accounts closed on 30 November 2006.

35. EXPLANATION ADDED FOR TRANSLATION TO ENGLISH

These consolidated financial statements are presented on the basis of IFRSs, as adopted by the European Union. Certain accounting practices applied by the Company that conform with IFRSs may not conform with other generally accepted accounting principles.

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

MANAGEMENT REPORT OF THE ENAGÁS GROUP

Performance of the Group in 2006

Net profit for the year was 216,384 thousand euros, up 13.3% on the prior-year figure.

Net sales totalled 744,394 thousand euros.

The Group made investments for a total value of 479,312 thousand euros. The Board of Enagás, S.A. approved investments totalling 1,200 million euros, on the following projects:

- Seventh and eighth tanks at the Barcelona Plant.
- Lemona – Haro gas pipeline.
- Gas pipeline connecting Lorca with the Almería – Chinchilla gas pipeline.
- Tivissa – Patena gas pipeline.
- Almería-Chinchilla gas pipeline.
- Denia-Ibiza-Mallorca underwater gas pipeline.

The Enagás Group had shareholders' equity of 1,235,203 thousand euros.

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

The Company engaged in no treasury shares transactions in the course of the year.

On 27 December 2005 the Ministry of Industry, Tourism and Trade approved three Ministerial Orders - ITC/4099/2005, ITC/4100/2005 and ITC/4101/2005- updating these prices for 2006, published in the Official State Gazette of 30 December, and establishing compensation in 2006 for all companies carrying out regasification, storage, transport or distribution activities.

Throughout the year the Group continued to extend and enhance its re-gasification, transport and storage installations to bring them in line with the requirements pointed up by future demand forecasts. To this end the following major initiatives were undertaken in 2006:

- A sixth tank with LNG storage capacity of 150,000m³ was brought into service at the Group's Barcelona Plant, and a fourth tank with LNG storage capacity of 150,000m³ was opened at the Huelva Plant. Also, the emission capacity of the Huelva Plant was increased to 1,200,000 m³(n)/h.
- Total combined nominal re-gasification capacity at the three Plants was increased by 600,000 m³(n)/h.

- At the end of 2006 the Enagás, S.A. Group was operating 7,609Km of pipeline designed to operate at maximum bar pressures of 72 and 80, compared with 7,360Km operational in December 2005, thus helping secure continuity of supply and the development of areas that previously had no access to natural gas supplies.
- The principal transport assets that came on stream in 2006 were as follows: the new tanks at the Barcelona and Huelva plants mentioned above, the Falces-Larraga branch of the Falces-Irurzun gas pipeline, Phase I of the Saica branch of the Castellón-Onda gas pipeline, the Málaga este-Málaga branch gas pipeline and Phase I of the south-west Madrid semi-ring gas pipeline. Also the installed capacity of the Bañeras compression station was increased. Some 46 new regulating and measuring stations were brought into service in the course of the year, taking the total number in operation at the year-end to 356.

Overall, at the end of 2006, the gas infrastructure of the Enagás, S.A., Group, consisting of the basic natural gas network, was as follows:

The Barcelona, Huelva and Cartagena regasification plants had a total combined LNG storage capacity of 1,287,000m³, 300,000m³ more than the end-2005 level of 987,000m³, and combined emission capacity of 4,050,000 m³(n)/h, 600,000 m³(n)/h higher than the 3,450,000 m³(n)/h recorded at the end of 2005.

Subterranean storage facilities in Serrablo (Huesca) and Gaviota (Vizcaya).

A gas pipeline network with a total length of 7,609 Km, consisting of the following main lines:

Central line: Huelva-Córdoba-Madrid-Burgos-Cantabria-Basque Country.

(with Huelva-Sevilla-Córdoba-Madrid duplicated)

Eastern line: Barcelona-Valencia-Alicante-Murcia-Cartagena.

Western line: Almendralejo-Cáceres-Salamanca-Zamora-León-Oviedo.

Spain-Portugal western line: Córdoba-Badajoz-Portugal (Campo Maior-Leiria-Braga)-Tuy-Pontevedra-A Coruña-Oviedo.

Ebro line: Tivisa-Zaragoza-Logroño-Calahorra-Haro.

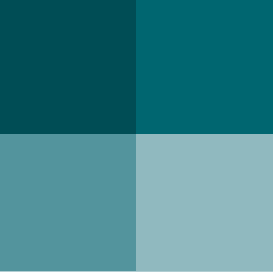
The following system entry points:

North: Calahorra-Lac Spain-France pipeline connecting Spain and Portugal with the European gas pipeline network.

South: Maghreb-Europe pipeline and connection to the Marismas-Palancares gas fields in the Guadalquivir valley.

Subsequent events

On 11 January 2007 an interim dividend was paid against 2006 results. The dividend totalled 0.19 euros per share and was approved by the Board of Directors of Enagás, S.A. at a meeting held on 20 December 2006.



At the board meeting held on 24 January 2007, Antonio González-Adalid García-Zozaya submitted his resignation as Chairman of Enagás, S.A., a position he had held since June 2002. At the same ordinary session of the Board of Directors, Antonio Llardén Carratalá, a member of the Board since April 2006, was unanimously appointed Chairman of Enagás.

In addition, José Luis Olivas Martínez, an independent director representing the Cajas de Ahorros of Valencia, Castellón y Alicante – BANCAJA -, was appointed Deputy Chairman of Enagás S.A.

Research and development initiatives

Technological innovation initiatives realised by the Company in 2006 were focussed on assessing, developing and testing new gas technologies with the aim of increasing and improving the competitiveness of natural gas in various applications, and in particular on projects of strategic value for the Group.

The most significant activities carried out in 2006 by area were:

- a) **Production (LNG).** Work began on the GERG - "MOLAS" project, headed by Enagás, S.A. that aims to develop physical and statistical models to discover how LNG ages and the changes to its properties during transport by tanker. In addition, a reliability model has been developed for plant equipment and installations.
- b) **Transport** Work has begun on a project for the design, construction and start-up of an electricity generation plant at the Almendralejo compression station based on an Organic Rankine Cycle (ORC). Technical and financial feasibility studies have also been carried out into the generation of electricity during the LNG regasification process and the regulation of pressure in the Regulation and Measurement Stations.
- c) **Operation.** The "Electra" program that will provide information about demand for natural gas for the generation of electricity in conventional thermal and combined cycle power plants is being developed, as is the "Proteo" program that will provide information about long term natural gas demand, (10 years).
- d) **Safety** Various projects and studies related to the analysis of gas pipeline risks have been continued.
- e) **Measurement.** A high pressure gas meter calibration bank has been built and has begun operating, and a project has been launched to assess the state of the art in systems for the supervision and monitoring of energy measurement stations.
- f) **Projects of General Interest** Work is ongoing on the measurement and calculation of the dewpoint, and the company has taken part in the "Biogas in Natural Gas Operations" project that has provided information about installations for the injection of biogas into natural gas networks currently in operation in Europe and European legislation in this respect.



Design: ROJO taller de investigación, diseño y comunicación

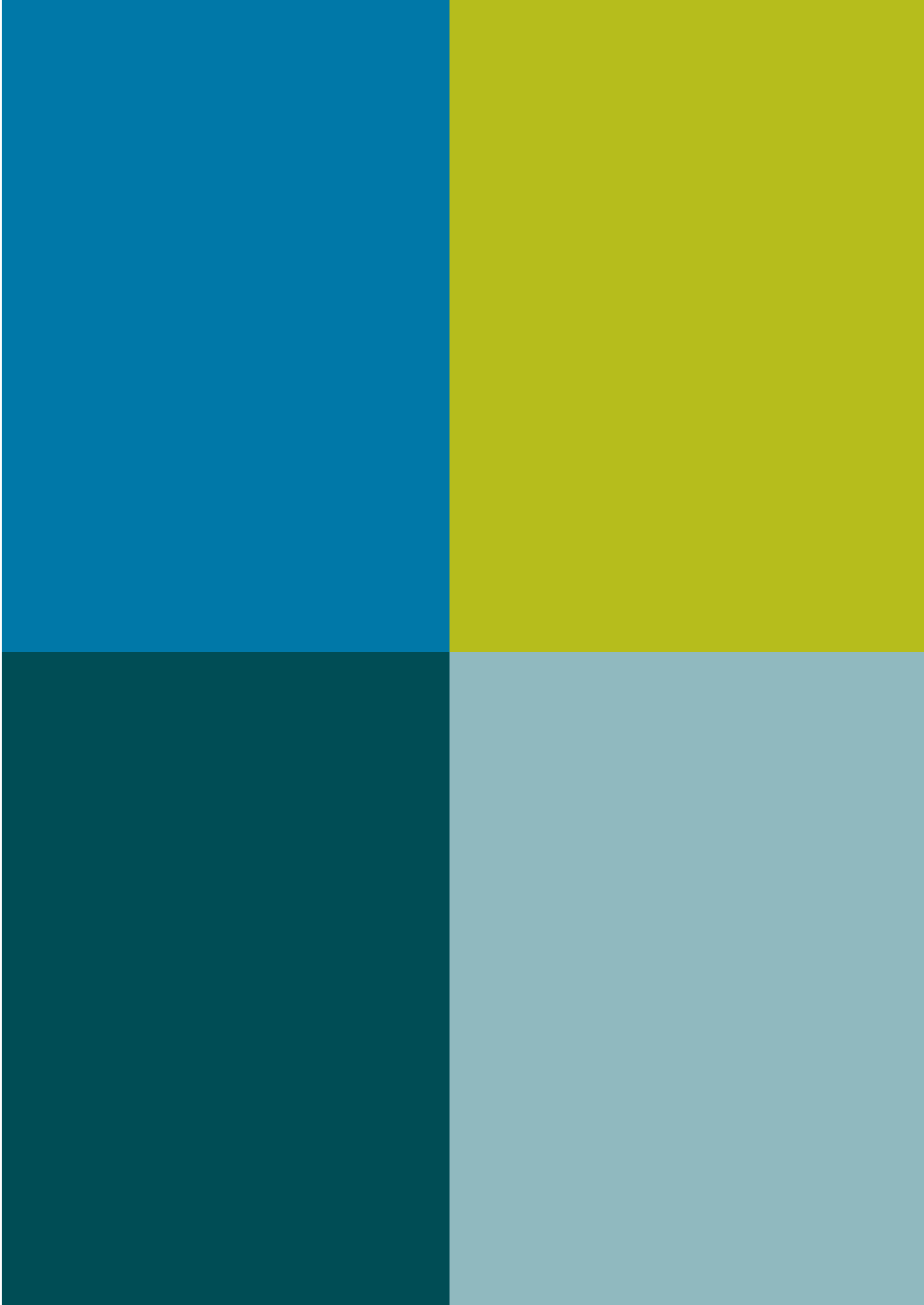
Pre press: Rapygraf

Printing: Gráficas Marte

Photos: Archivo Enagás

6x6 Producciones Fotográficas

Banco de Imagen





Paseo de los Olmos, 19
28005 Madrid

www.enagas.es
investors@enagas.es