



07

ANNUAL REPORT









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LETTER FROM THE CHAIRMAN



Dear Shareholders,

It gives me great pleasure to be writing to you once again as we publish the Enagás Annual Report for 2007. In this message, I would like to give account of my first year as Chairman and share with you our future outlook for the Company.

2007 was another good year for the Company in financial terms. It was also a key year in strategic terms - a year in which we laid the foundations necessary for future growth and achieved a record high in terms of investment volumes. Also in 2007 we agreed with the regulatory authorities the bases that will be used to determine the remuneration we obtain for transportation assets brought into service from 2008 on, so guaranteeing us stability and adequate returns on our investment. This will ensure we are able to continue increasing our income and profitability in the years to come.

Another of Enagás' major achievements in the past year, and one of which I am particularly proud, was our successful drive to streamline the authorisation process for our sizeable project portfolio. As you are aware, the timely commissioning of infrastructures is essential both to the system's efficient operation and to fulfilment of our strategic plan.

To this end, as we announced at the Extraordinary General Meeting held in October last year, we have introduced a new organisational structure at Enagás that will better equip us to meet the challenges ahead, specifically by strengthening our teams in the Infrastructures, Regulation and Stakeholder Relations departments.

I could not end my comments on our 2007 highlights without mentioning the fact that the system settlements pending since 2002 have finally been resolved, thereby eliminating the uncertainty deriving from the auditors' qualifications issued in respect of our 2005 and 2006 financial statements.

In 2007, the Enagás share rose 13.5% while the Ibex 35 gained 7.3%. In this connection, I would like to remind you that one of the strategic priorities of the Company is to cement investor confidence in our shares, as this will allow us to continue enjoying sustained price increases in the future, in line with the growth we anticipate for the business, as explained in our strategic plan.

Another important point of note in 2007 was that both SE-PI and BBK joined our shareholder base, each acquiring a 5% capital interest. These two major institutions have further strengthened our base of stable shareholders.

In 2007 we also made further significant advances in the field of corporate responsibility. We consider our commitment to this area essential if we wish to move ahead in our drive for sustainable value creation. You will find copious information on all these points in the Annual Report that follows.

Operating environment

Demand for gas transported in the system grew slightly less than initially forecast in 2007, mainly due to milder-than-expected weather conditions in Spain. This notwithstanding, gas consumption in Spain increased 4.3%, which was well above the average for our European neighbours. We should also highlight the 12.1% increase in peak demand - an advance attesting to the increasingly important role of natural gas as a source of electricity.

With a view to meeting the strong growth in demand for natural gas in Spain, Enagás continues to integrate new assets into the system. Although the number of new facilities brought into service in 2007 was lower than in previous years, with investment at €94.2 million the Company is stepping up the rate of investment such that in the years to come the number of new projects we bring into service will comfortably outstrip the average of recent years.

I would also like to highlight the efficiency of the system's operation in 2007, which ensured that we were able to adequately cater for the successive consumption peaks registered in the year. On this point I should stress the contribution of our solid base of assets and the quality of the technical and human resources with which the Enagás team is endowed.

As a further significant event in 2007 I would also like to draw your attention to the new autonomous unit we have created within Enagás, the Technical System Management Department, that will enable us to adjust to the legal requirements of the Hydrocarbon Law, cement Enagás' inde-

pendence as technical system manager and facilitate competitive dynamics in the Spanish gas sector.

Financial performance and position

The Company posted a net profit of €238.3 million for 2007, representing a 10.1% advance on the previous year. This profit, coupled with the increase in the proportion of profit assigned to shareholder remuneration from 52% to 60%, will allow us to propose the distribution of an additional dividend of €0.36 per share for approval at the General Shareholders Meeting. If approved, this figure will take the total dividend for the year to €0.6 per share, which is 27.7% higher than the dividend distributed in 2007 and reflects a five-year average increase of over 21%. I would like to highlight this achievement as I see it as a clear signal of Enagás' commitment to generating value for our shareholders and cementing the trust that they place in our Company.

At operating level, Enagás achieved a 7.8% advance on the prior-year level, taking operating profit for 2007 to €408.3 million.

This strong performance was due primarily to a significant rise in revenues coupled with a modest rise in operating expenses, achieved on the back of Enagás' operational efficiency and cost containment policy.

2007 was also a year of considerable progress towards achieving our strategic objectives, which are based on long-term profitable growth. In this connection, Enagás' investments reached a new record high in the year, totalling €508.6 million - 10% higher than the previous record high of €462.9 million registered in 2004. In addition, investments approved by the Board of Directors in 2007 came to €1,189 million, a level that will guarantee us steadily rising volumes of activity over the coming years.

As a result of this upturn in investment activity, net debt came to €1.943 billion by the year-end, equivalent to 48.9% of total assets. We consider this figure reasonable and believe it attests to the Company's robust financial position and its ability to successfully implement our ambitious long-term investment plan.

2008 and the long-term strategic plan

Work on drafting the new Enagás long-term strategic plan began in the last quarter of 2007. Two key elements underpin the content of the plan - firstly, the regulatory framework and, secondly, the investment plan.

With regards to the regulatory backdrop, in February 2008 the Spanish Government approved Royal Decree 326/2008 establishing the regulatory system for transportation assets effective as of 1 January this year. The content of these new regulations are covered in detail in this Annual Report, but I would like here to draw your attention to two key elements: firstly, the possibility, provided for in the regulations, of maintaining sufficiently high rates of return on investment and, secondly, the greater long-term stability now inherent in the regulatory framework.

As regards Enagás' investment plan, we are confident of seeing a very significant increase once the Infrastructures Plan for the 2008-2016 period has been approved, which we expect to happen in the course of 2008.

Corporate responsibility

Corporate responsibility has been pivotal to Enagás' strategy for some years now. Last year, I mentioned in my message to shareholders our Company's inclusion in the prestigious FTSE4Good Index. In 2007 we continued to develop the various branches of our social development policy, earning the Company the Family-Responsible Company Certificate that recognises Enagás' endeavours to reconcile the professional and personal lives of its employees.

As regards the environment, I would like to mention in particular Enagás' continuing endeavours to reduce greenhouse gas emissions. These and the Company's other environmental initiatives are covered in broad detail in the Corporate Responsibility section of this Annual Report.

Also in 2007, we produced updates of the Enagás Quality Plan and the statement of the Company's Mission and the Values that should guide the conduct of all those forming part of our human resources team both in our internal activities and in those where we come into contact with our various stakeholder groups.

Conclusion

Lastly, distinguished shareholders, as Chairman of Enagás, I would like express my appreciation of the commitment and industry of each and every one of the Company's employees, without whose efforts none of the achievements

described in this message and in the Annual Report would have been possible. And both personally and on behalf of the Board of Directors I have the honour of chairing I would also like to thank you, our valued shareholders, for the trust your place in our Company. Be assured that we will continue to pursue our strategy of maximising long-term, sustainable value creation.

Many thanks

A handwritten signature in black ink, appearing to read 'Antonio Llardén', enclosed within a large, stylized, handwritten loop that extends to the right.

Antonio Llardén
Chairman



ENAGÁS IN 2007



2.1 COMPANY PROFILE

Enagás, S.A. is Spain's leading natural gas transportation, regasification and storage company and is also the Technical System Operator.

Following a significant rise in energy consumption in Spain and in light of forecasts for future consumption, in the early 1970s the authorities resolved to extend the use of natural gas to all parts of Spain.

Thus, on 23 March 1972, with the aim of creating a gas pipeline network catering for the entire Peninsula, the Ministry for Industry passed a Decree creating the National Gas Company (*Empresa Nacional del Gas, or Enagás, S.A.*).

The Government deemed it important that the State have an interest in the Company via the National Industry Institute (*Instituto Nacional de Industria, or INI*).

In its early years, Enagás focussed on analysing plans and carrying out the technical studies necessary to the development of gas infrastructures.

Drawing on these strategic analyses, on 31 November 1975 a Decree published in the Official State Gazette (BOE) laid out the first Gasification Plan and awarded Enagás the first administrative concession for the construction of Spain's Gas Pipeline Network.

In 1981 Enagás became part of the National Hydrocarbons Institute (*Instituto Nacional de Hidrocarburos, or INH*)

In June 1994 the INH sold 91% of Enagás' capital to Gas Natural SDG and in October 1998 it sold the remaining 9% as well.

Enagás was made the Technical Operator of the Gas System pursuant to Royal Decree-Law 6/2000 of 23 June. Its core remits included guaranteeing continuity and safety of supply and

efficient coordination between access points, storage facilities, and transportation and distribution networks.

In June 2002, following an IPO launched by Gas Natural, Enagás was admitted for trading on all four Spanish securities exchanges. Enagás is currently a member of the select Ibex 35 index and one of the companies included in the FTSE4GOOD sustainability index. The Company's free float is 65%.

In 2007, in order to comply with the provisions of Law 12/2007 of 2 July, modifying the Hydrocarbon Law, the Company was required to separate the activities it performs as Technical System Operator from those it performs as gas transporter and manager of its own network.

Accordingly, Enagás has created a dedicated internal unit to take charge of the technical management of the gas system.

Enagás operates on the Spanish and Portuguese markets, in the latter case via part-owned subsidiaries. 97% of Enagás' 2007 revenues came from the regulated activities in which the Company is engaged, that is, gas transportation via high pressure gas pipelines, regasification, underground storage, gas purchases and sales to supply the tariff market and technical management of the gas system.

At the close of 2007, the Company had more than 7,600km of high pressure gas pipelines and three regasification plants, in Barcelona, Cartagena and Huelva, with a total LNG emission capacity of 4,200,000 m³ (n)/h and total LNG storage capacity of 1,287,000m³.

In addition, in November 2006 Enagás was awarded the concession to build the El Musel regasification plant in Gijón. The Company also manages two underground natural gas storage facilities, in Gaviota and Serrablo, and has been granted the administrative concession to operate the Yela storage facility in Guadalajara.

The Company has a staff of 985, of which 199 are women and 786 are men.



KEY FIGURES

Consolidated financial data (millions of euros)

	2002	2003	2004	2005	2006	2007
EBITDA	333.7	383.0	399.1	478.4	563.6	596.0
EBIT	207.2	249.5	275.1	332.8	378.7	408.3
Net profit	110.1	142.0	158.1	191.0	216.4	238.3
Dividends	55.0	71.0	79.1	95.5	112.6	143.0
Payout	50%	50%	50%	50%	52%	60%
Investments	192.3	426.3	462.9	358.7	430.6	508.6
Net debt	1,253.0	1,278.7	1,421.0	1,546.5	1,779.2	1,942.7
Shareholders' equity	852.4	932.4	997.8	1,110.4	1,235.2	1,343.9
Assets	2,895.7	3,093.0	3,101.4	3,225.6	3,626.2	3,976.0
Net debt/EBITDA	3.8x	3.3x	3.6x	3.2x	3.2x	3.3x
Interest cover (EBITDA/interest costs)	8.5x	12.1x	12.3x	11.1x	11.1x	9.8x
Net debt/Total assets	43.3%	41.3%	45.8%	47.9%	49.1%	48.9%
Net debt/Net debt+Shareholders' equity	59.5%	57.8%	58.7%	58.2%	59.0%	59.1%
Average cost of debt	3.9%	2.9%	3.0%	3.4%	3.6%	4.3%
ROE after tax (*)	13.4%	15.9%	16.4%	18.1%	18.5%	18.5%
ROCE after tax (**)	6.9%	7.5%	7.7%	8.5%	8.7%	8.8%
Headcount (at 31 December)	884	878	904	907	944	985

(*) Net profit/ Average shareholders' equity.

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

Financial data per share (euros)

	2002	2003	2004	2005	2006	2007
Net profit	0.46	0.59	0.66	0.80	0.91	1.00
Dividends	0.23	0.30	0.33	0.40	0.47	0.60
EBITDA	1.40	1.60	1.67	2.00	2.36	2.50
No. of shares (million)	238.7	238.7	238.7	238.7	238.7	238.7

– The gross dividend of 0.60 per share is pending approval at the General Shareholders Meeting.

– Figures for 2004, 2005, 2006 and 2007 are calculated in accordance with IFRS.

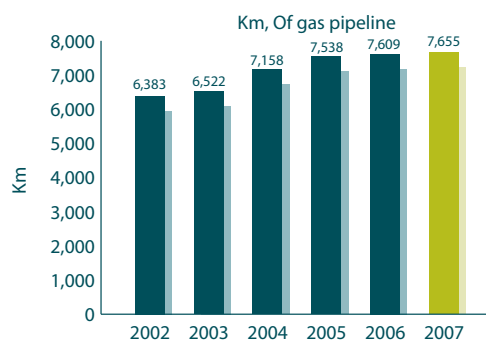
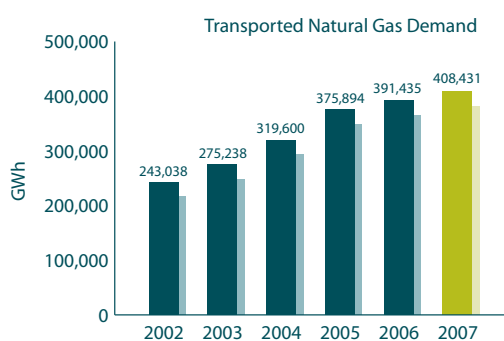
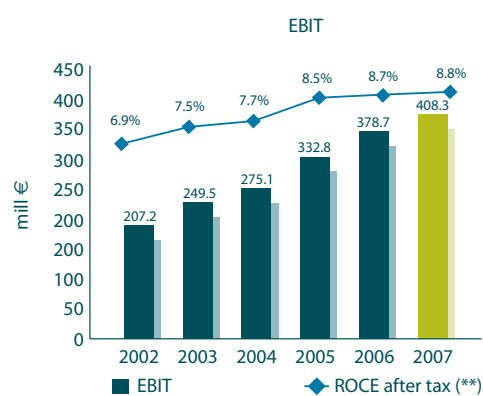
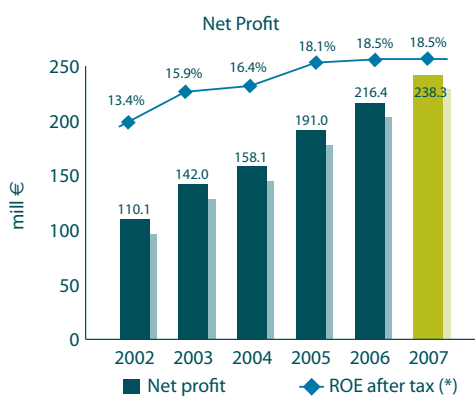
Transported Natural Gas Demand (GWh)

	2002	2003	2004	2005	2006	2007
Tariff market	109,846	80,703	61,866	61,463	55,218	46,072
Liberalised market	133,192	194,535	257,734	314,431	336,217	362,359
Total demand	243,038	275,238	319,600	375,894	391,435	408,431

(*) Figures for 2007 correspond to the final gas balance.

Infrastructure

	2002	2003	2004	2005	2006	2007
Transportation network						
Km of gas pipeline	6,383	6,522	7,158	7,538	7,609	7,655
Regasification plants						
LNG storage capacity (m3)	560,000	560,000	710,000	987,000	1,287,000	1,287,000
Vaporisation capacity (m3(n)/h)	2,100,000	2,250,000	2,700,000	3,450,000	4,050,000	4,200,000
Underground storage						
Extraction capacity (Mm3(n)/day)	10.3	12.5	12.5	12.5	12.5	12.5
Injection capacity (Mm3(n)/day)	8.4	8.4	8.4	8.4	8.4	8.4



GOVERNANCE BODIES



Board of Directors

Director's name	Post in the Board	Type of Director	Audit and Compliance Committee	Appointments and Remunerations Committee
Antonio Llardén Carratalá	Chairman	Executive	–	–
Bancaja (Representative of José Luis Olivas Martínez)	Deputy-Chairman	Controlling Director (Bancaja)	Member	–
Jesús David Álvarez Mezquiriz	Director	Independiente	–	–
Bilbao Bizkaia Kutxa (Representative of Xabier de Irala Estévez)	Director	Controlling Director (BBK)	–	–
Carlos Egea Krauel	Director	Controlling Director (Sagane Inversiones S.L.)	Member	–
Salvador Gabarró Serra	Director	Controlling Director (Gas Natural SDG S.A.)	–	Chairman
Teresa García-Milá Lloveras	Director	Independent	–	Member
Miguel Ángel Lasheras Merino	Director	Independent	–	–
Dionisio Martínez Martínez	Director	Independent	–	Member
Luis Javier Navarro Vigil	Director	External	Member	–
Martí Parellada Sabata	Director	Independent	Chairman	–
Ramón Pérez Simarro	Director	Independent	–	Member
José Riva Francos	Director	Independent	–	–
Antonio Téllez de Peralta	Director	Independent	Member	–
CAM (Representative of Vicente Sala Belló)	Director	Controlling Director (Incomed S.L-CAM-)	–	Member
Peña Rueda, S.L.U. (Representative of Manuel Menéndez Menéndez)	Director	Controlling Director, (CIC, SL Cajastur)	–	–
Rafael Piqueras Bautista	Secretary to the Board	–	Secretary	Secretary

Management Committee

Antonio Llardén Carratalá (Chairman)

Juan Pons Guardia (Strategy and Regulation Department)

Ramón Sánchez Valera (Infrastructures and TPA Department)

Antonio García Mateo (Technology, Engineering and Procurement Department)

Luis Calderón Castro (Communications Department)

Diego de Reina Lovera (Finance Department)

Erundino Neira Quintas (Resources Department)

Rafael Piqueras Bautista (General Secretariat)

STM

Javier González Juliá (System Operations and Technical Management Department)

2.4. 2007 HIGHLIGHTS

11 January

2006 interim dividend paid

Enagás paid a gross dividend of €0.19 per share from 2006 earnings.

24 January

Antonio Llardén named new Chief Executive Officer of Enagás

The Board of Directors resolved to unanimously approve the appointment of Antonio Llardén as Chairman and Chief Executive Officer of the Company. Antonio Llardén has been a member of the Board of Directors of Enagás since April 2006.

On the proposal of Antonio Llardén, the Board also agreed to appoint José Luis Olivas as the Company's Deputy Chairman, in compliance with the provisions of the Enagás Bylaws.

22 March

Minister for Industry, Tourism and Trade, Joan Clos, visits Enagás

The Chairman of Enagás, Antonio Llardén, presented to the Minister for Industry, Tourism and Trade, Joan Clos, the investment plan the Company is currently implementing, which is in line with Government-approved plans for regasification plants, transportation networks and underground natural gas storage facilities.

11 April

Enagás takes out a €200 million loan with the Instituto de Crédito Oficial (ICO) to finance new gas infrastructures

This loan is in addition to the two previous loans granted to Enagás by the same institution in 2002 and 2004, worth a total of €350 million. The loan was provided for under the Enagás' Business Plan, which envisages investments in excess of €4 billion for the 2007-2012 period.

17 April

2007-2012 strategic review

Enagás Chairman Antonio Llardén Carratalá unveiled the Company's updated strategic plan for 2007-2012 at the Madrid Securities Exchange.

9 May

Enagás receives Family-Responsible Company accreditation

The Family-Responsible Company Certificate awarded by the Fundación +Familia attests to the Company's application of po-

licies that foster work-life balance, and the introduction of new family responsibility initiatives.

11 May

General Shareholders' Meeting

Shareholders approved all resolutions on the Agenda.

With regards to dividend policy, shareholders approved an increase in the Company's pay-out from 52% to 60%.

Also at the meeting, shareholders agreed to re-elect the following Directors for a statutory period of four years: Carlos Egea Krauel, Luis Javier Navarro Vigil, Jesús David Álvarez Mezquiriz, Caja de Ahorros del Mediterráneo and Bancaja.

5 July

Acquisition of 5% of Enagás by BBK

Enagás was informed by Bilbao Bizkaia Kutxa, BBK, that it had acquired a 5% stake in the Company. This operation sees another savings bank join the Company's shareholder base, investing in Enagás the maximum amount permitted by law. BBK has indicated that it intends to retain its interest over the long term.

5 July

2006 final dividend

Enagás paid a gross final dividend of €0.28 per share from 2006 earnings.

20 July

Enagás awarded the administrative concession to operate the Yela underground storage facility in Guadalajara

In total, Enagás will invest more than €400 million in this facility, which, due to its strategic location close to Madrid, will be key to guaranteeing continuity of supply.

27 July

Credit ratings

The rating agencies Standard & Poor's and Moody's confirmed their long-term ratings for Enagás (AA- and A2, respectively), following the presentation of the new Enagás Strategic Plan.

3 August

Enagás obtains administrative authorisation to build mainland-Balearics gas pipeline

The Directorate-General for Energy Policy and Mines, attached to the Ministry for Industry, Tourism and Trade, has authorised Enagás to proceed with the construction of the Denia-Ibiza-Mallorca gas pipeline and recognised its public use.

The underwater section of the pipeline will be 268km long and the investment will total €360 million.



Total investment for the overall project, which includes the Montesa-Denia gas pipeline and a compression station in Denia, will be €490 million.

19 October

Enagás approves a new organisational structure

On the request of Chairman Antonio Llardén, the Enagás Board of Directors approved a new organisational structure designed to align the company with recent legislative requirements and entailing the creation of a dedicated internal unit responsible for the technical management of the gas system.

Enagás has also reinforced its various business areas to ensure the success of the company's Strategic Plan and enhance its relationships with stakeholders.

31 October

Extraordinary General Shareholders' Meeting

At the Extraordinary General Shareholders' Meeting, shareholders resolved to amend Enagás' Bylaws in order to adapt them to Law 12/2007 of 2 July 2007.

Percentage ownership in the Company's capital is thus now limited to 5% of total capital and to 3% for the exercise of voting rights. Neither individuals nor legal entities operating in the gas industry may exercise voting rights in excess of 1%.

Mr. Xabier de Irala was appointed non-independent director in representation of BBK.

6 November

The CNE Board visits Enagás' regasification plant in Barcelona

Enagás Chairman Antonio received the Chairman of the Board of Directors of the Spanish Energy watchdog (*Comisión Nacional de Energía*, or CNE), Ms. Teresa Costa Campí, and the Chairman of the Barcelona Port Authority, Jordi Valls i Riera, at the Barcelona regasification plant.

21 November

Acquisition of 5% of Enagás by SEPI

The Spanish State Holding Company (SEPI) informed Enagás that it had acquired a 5% stake in the Company.

SEPI now holds the same stake as the Company's other main institutional shareholders.

Enagás views this presence positively as it strengthens the institutional presence in the Company's shareholder structure and demonstrates SEPI's confidence in its Strategic Plan.

17 December

All-time natural gas demand record

On 17 December 2007, demand for natural gas in Spain reached a new record high of 1,863 GWh/day. Of this total daily demand, 728 GWh went to the electricity market.

Lower-than-average temperatures for this time of year underpinned an increase in demand from the domestic market to 1,135 GWh.

The winter peak exceeded last year's record of 1,662 GWh by 12%.

21 December

Agreement between Eurogas, ACS and Enagás on Project Castor for the underground storage of natural gas

Eurogas Corporation (Eurogas), ACS and Enagás signed an agreement to significantly develop Project Castor for the underground storage of natural gas in the province of Castellón.

Under the terms of this agreement Enagás will hold a 33.33% stake in this facility when it comes on stream, estimated for the end of 2010.

2.5 DEVELOPMENT OF THE REGULATORY FRAMEWORK IN 2007

Law 12/2007

Law 12/2007 of 3 July amended Law 34/1998 governing the Hydrocarbons Sector to adapt it to Directive 2003/55/EC of the European Parliament and of the Council of 26 June 2003 concerning common rules for the internal market in natural gas.

Although the approval of Law 12/2007 marked the full incorporation within the Spanish legal framework of Directive 2003/55/EC, the objectives and core elements of the European guidelines were already included in Spanish legislation regulating the gas system.

The Law updated the functions of Enagás as follows:

- To reinforce the autonomy of its activities as technical manager of the entire gas system, the Law renders functional segregation between those activities that Enagás performs as Technical System Operator and those that it performs as a gas transporter obligatory. To this end, it stipulated that Enagás must create a dedicated internal unit to take charge of the technical management of the gas system and that this structure be made obligatory under the Company Bylaws. Pursuant to the new Law, the unit must be headed up by a person appointed by the Enagás Board of Directors with the approval of the Ministry of Industry, Tourism and Trade.
- With a view to cementing Enagás' autonomy, the text of the new Law revised the limits on the exercise of voting rights at the Company. Thus, in addition to the 5% maximum limit on percentage ownership interests in share capital already in effect, the Law introduced a limit of 3% on the exercise of voting rights for individuals and legal entities alike and a limit of 1% for gas sector companies.
- The Law extended the duties of the Technical System Manager to cover the secondary transportation network, which is included in the Obligatory Planning document. It also provides for the necessary coordination between the plans drawn up by the Government and those drawn up by the Autonomous Communities.
- Lastly, the EC Directive stipulates that supply activities must be segregated from infrastructure management activities. This separation requirement conflicted to an extent with the existing gas sector model, in that gas transporters, although only to a limited degree and without assuming any price or volume risk, retained responsibility for certain supply activities. For this reason, Enagás has ceased all activities entailing the supply of gas to distributors for sale on the tariff market.

Other key provisions of the new Law included the definition of last-resort suppliers and tariffs, the creation of the Change of Supplier Office, and the establishment of the Energy System Technical Management Monitoring Committee.

Royal Decree 326/2008

At the end of 2006, four years after the remuneration system applicable to Enagás' assets was defined, Ministerial Orders ITC/3994/2006 and ITC/3995/2006, updating the remuneration system applicable to regasification and underground storage activities, were published. The two orders included amendments to methodological criteria that meant that financial remuneration would henceforth be calculated on the basis of net assets. The complexity of the financial system in place in the gas sector prevented the concomitant modification of the remuneration system for transportation activities.

Royal Decree 326/2008, of 29 February, established the remuneration system for natural gas transportation activities applicable to facilities brought into service on or after 1 January 2008, adapting the transportation remuneration system to the model the authorities began defining for regasification and storage activities at the end of 2006. The new Royal Decree also increased the degree of convergence with the new electricity transportation remuneration system, also established and approved by Royal Decree 325/2008, of 29 February, and with the remuneration systems for these regulated activities existing in neighbouring EU states.

The model previously existing will continue to be applied to assets brought into service before 1 January 2008.

The adjustment and standardisation of the approved remuneration framework was a necessary condition precedent to the start of the ten years of major investment in transportation facilities envisaged in the proposals set out in the Spanish Electricity and Gas Infrastructure Plan for 2008-2016. As stated in the recitals to the Decree, this remuneration framework provides the conditions of stability and absence of uncertainty needed to efficiently secure financial resources.

In short, in order to compete effectively to secure resources and obtain the returns sought, the remuneration framework defined in the New Royal Decree is built around an incentives- and costs-based regulatory model that is adapted to standard regulatory practices and to levels of return on activities similar to those in place in neighbouring EU countries.

The main revisions made to the transportation remuneration system are as follows:

- The rate of return established is equal to the average 12-month Treasury bond yield at the time the facility is brought into service, plus 375 basis points. This rate allows for standardisation



with those established for other regulated activities and is consistent with the risk/reward objectives set for the same.

- In each annual return, the regulated asset base is valued in accordance with the discounted net value of the assets. Net value is discounted at a constant rate of 2.5% over the useful life of the assets. In line with the foregoing, depreciation of regulated assets is discounted at the same rate.
- The useful life over which regulated pipelines are depreciated is set at 40 years, while the useful lives of compression stations (20 years) and regulation and metering stations (30 years) are unchanged. Remuneration due to an extension of the useful life of an asset will be equal to 50% of the sum of the depreciation and financial return in the final year, discounted annually at a rate of 2.5%, plus 100% of the remuneration due for operating and maintenance costs.
- A new method of calculating the definitive recognised value of the investments has been established, consisting of the sum of the real, duly audited value of the investment made plus 50% of the difference between the value resulting from application of benchmark unit values and the aforesaid real value. This calculation will be made irrespective of whether the difference is positive or negative.
- A new global incentive to availability has been introduced. This incentive, which affects all installations of the facility owner, has yet to be defined prior to its application by order of the Ministry of Industry, Tourism and Trade. The amount that may be applied as an incentive for availability is limited to $\pm 2\%$ of the annual revenues received by the transportation Company by way of remuneration for investment costs.

Lastly, the Royal Decree gives the National Energy Commission (CNE) an express mandate to draw up, in the nine months following the Decree's publication, a proposal for the benchmark unit values for investment costs and the cost of operating and maintaining transportation facilities that will be applied to facilities brought into service on or after 1 January 2008. The revision of these parameters should guarantee the target returns established in the regulations. Within the same nine-month period, the CNE must present a proposal for remuneration incentives payable to the Technical System Operator with a view to encouraging efficiency in the management of the entire gas system.

Royal Decree 1766/2007

This Royal Decree adapted Royal Decree 1716/2004, regulating the obligation to maintain minimum security inventories, to diversify natural gas supplies, and to incorporate strategic petroleum product reserves, to the provisions of Law 12/2007.

Accordingly, it releases transporters from the obligation to maintain minimum security inventories and to diversify supplies, which obligation, from the date of abolition of the tariff market, will rest exclusively with distributors and direct consumers on the market.

For those still subject to it, the obligation to maintain minimum inventories has been adjusted to the physical storage capacities of the Spanish gas system, such that the aforesaid obligation has been reduced from 35 days to 20 days of firm sales or consumption.



Similarly, because of the new regasification plants brought into service and the new agents active in the market, the diversification target has been reduced to 50%. In addition, with a view to facilitating the entry of new companies to the market and given that supplies for agents with small market shares may be an obstacle to the development of their business, application of the diversification obligation has been limited to those agents that import more than 7% of their total supply.

Order ITC/3861/2007

This Ministerial Order establishes the procedure for calculating the maximum prices at which last-resort distributors may supply natural gas to consumers that do not have an in force contract with any distributor as of 1 July 2008.

The Order also sets the regulated tariff applicable as of 1 July 2008. The revision of this natural gas tariff, which is applicable to domestic consumers and small businesses (tariff group 3), meant an average increase of 4.7% - the result of the rise in the price of oil products and crude in the six months prior to application of the new prices, and movement in the euro-dollar exchange rate.

Order ITC/3863/2007

Order ITC/3863/2007, of 28 December, approved the tolls and fees for third-party access to gas facilities in 2008. It also establishes certain elements of the financial system for regulated gas sector activities.

The average value of the tolls and fees set by the Order, which generally maintained the existing tolls structure, was 6% higher than the average in 2007, thereby guaranteeing the adequacy of tariffs.

Remuneration from transportation infrastructures already in service and those brought into service in 2008 accounts for just a little over 9% of the total costs of the Spanish natural gas system, which will be around 8% higher than in the previous year, mainly due to the increase in the cost of raw material, which accounts for around 80% of these costs. The Order also includes, for the first time, a section on energy saving and efficiency, associated with the 2008-2012 Action Plan, which formalises the measures envisaged in the "Energy saving and efficiency strategy in Spain 2004-2012" dated 20 December 2007, the amount of which is equivalent to a little more than 2% of total costs.

Applying this Ministerial Order, Enagás estimates that its total remuneration from regulated activities for 2008 will increase by approximately 8% on the prior-year level, confirming the profitability and growth of the Company's business.

Order ITC/3862/2007

This Order establishes the mechanism for assigning the capacity of the underground natural gas storage facilities and creates a capacity market, both for access to storage capacity and for extraction and injection rights, with the aim of optimising management of the facilities and guaranteeing security of supply.

Royal Decree 1068/2007 and Order ITC/2309/2007

These regulatory developments regulate the sale of last-resort supplies in the natural gas sector, establishing 1 July 2007 as the start-up date for the last-resort supply service. They also es-



establish the mechanism for transferring customers from the tariff market to the last-resort gas supply service.

**Directorate-General for Energy Policy and Mines
Resolution of 4 December 2007**

This resolution approved the 2007-2008 Winter Action Plan for the operation of the gas system, establishing the exceptional operating terms and conditions set for the 2008-2008 winter months with a view to guaranteeing supply before the increase in demand resulting from the seasonal nature of the domes-

tic and commercial market and any sudden cold spells. Some of the measures envisaged entail possible restrictions on exports, the extraction of underground storage, and the maintenance of minimum liquid natural gas (LNG) inventories in plants.

Order ITC/3420/2007

This Order approved the individual assignment of greenhouse gas emission rights to facilities covered by the National Allocation Plan for greenhouse gas emission rights for the 2008-2012 period.



CORPORATE RESPONSIBILITY



3.1. SUSTAINABILITY AT ENAGÁS

A key element of the business management policies adopted by Enagás is the importance it accords to performing its activities in a socially-responsible and environmentally-friendly manner, such that the Company's financial results are achieved without compromising its social responsibility or respect for the environment.

Enagás is aware that, in performing its principal activity – i.e. the transportation of natural gas - it is providing a service that is pivotal to society and the economic development of the country. Natural gas is one of the cleanest and most environmentally-friendly sources of energy.

The commitment Enagás has assumed in respect of sustainability issues was reaffirmed by the Company's Chairman and senior officers in 2007 when they updated the Enagás mission and values statement to include, as a priority objective, an undertaking to contribute to sustainable development in the exercise of its activities.

This undertaking from senior officers will be further strengthened in 2008 by the creation of a Sustainability Committee. This Committee's core remit will be to draft a medium- to long-term action plan that will enable the Company to identify the challenges, opportunities and priority courses of action needed in the area of sustainability via dialogue with the Company's various stakeholder groups.

Mission and values

Our Mission: "Enagás' mission, in its role as carrier and technical operator, is to ensure that the Spanish gas system works correctly, to guarantee the security of supply and to encourage competition in a transparent and non-discriminatory manner.

Enagás optimises the way the gas system works by coordinating the different agents and proposing measures for improvement. It develops the transport network and manages its infrastructure in a secure, efficient, profitable and environmentally-friendly manner. These functions are performed exclusively and independently.

All the above is carried out in cooperation with the regulators, providing a quality service for customers, creating value for shareholders and contributing to the sustainable development of society."

Our values:

- Operational security and reliability
- Honesty, impartiality and transparency
- Continual improvement
- Team work
- Results-orientated
- Professional exigency
- Personal development
- Environmental commitment

In recognition of its work in the area of Corporate Social Responsibility (CSR), in September 2006 Enagás was admitted to the FTSE4Good, the index composed of those companies that set the benchmarks in best CSR practice. The criteria used by the FTSE to determine which companies should be admitted to this index encompass social responsibility, environment, relations with shareholders, employees, customers and suppliers, and respect and support for human rights.

Enagás' admission to the FTSE4Good in 2006 and the ratification of its place in 2007 constitutes a significant external recognition of the Company's efforts in promoting and managing sustainability, and is an excellent measure of the

success of its internal management in corporate responsibility-related matters.

Enagás has made it one of its objectives for 2008 to contribute further to this process and other similar ones with a view to securing its inclusion in the most prestigious sustainability indices at international level.

Relations with stakeholder groups

Dialogue with stakeholder groups, based on transparency in management and information disclosure, is a central undertaking of Enagás' Corporate Responsibility action plan. Dialogue is also key to ensuring the successful start-up of new projects and efficiency of its work as Technical System Operator. When defining the policies and principles to be applied in this area, Enagás strives to ascertain the expectations of all stakeholder groups and how the Company may convert such expectations into a clear and transparent response for each group.

For this reason, the Company is looking to open up dialogue channels that will enable Enagás' stakeholders to obtain information on any issue related to the Company and to communicate effectively with it. Satisfaction surveys were carried out with a number of these stakeholder groups in the course of 2007.

Shareholders and investors

Enagás has pursued a policy of utmost transparency in its relationship with the financial markets since its admission for trading in 2002. To comply with this undertaking, the Company makes use of all available communications channels to keep shareholders (whether retail or institutional investors) and analysts fully informed.

Enagás has established a Shareholder Information Office to respond to all information needs its shareholders may have. The various communication channels available include a freephone shareholder support line (900 100 399), a dedicated e-mail address (accionistas@enagas.es) and a fax number (91 709 93 28). In 2007 Enagás provided its intuitional investors and financial analysts with information with ever increasing transparency and frequency. The channels of communication most frequently used were presentations at meetings, forums and conferences, roadshows in the main financial marketplaces, and the Company's corporate website (www.enagas.es).

In 2007 the Company held meetings with and gave presentations to more than 230 institutional investors and analysts and held roadshows in London, the US (New York, Chicago, Boston), Zurich, Edinburgh, Vienna, Geneva, Paris, Frankfurt, Milan, Dublin, Madrid, Barcelona and Bilbao.

Also in 2007 the Company conducted five webcasts via its corporate website www.enagas.es to present its quarterly results and the Company's 2006-2012 business plan.

Enagás' commitment to providing transparent and detailed information on the Company's activities and results to the financial markets and investors was used in 2007 by a total of 32 financial institutions that published opinions on the Company. Up-to-date analysts' opinions and forecasts relating to Enagás can be consulted in the Shareholders and Investors section of the Company website (www.enagas.es). Enagás' shares ended the year with 23 buy, 9 hold and no sell recommendations and an average target price of €21.14 per share.

Employees

Human resources are essential to the efficient exercise of Enagás' activities and the Company views the professional development of its employees as one of the key elements underpinning its operations and results.

Enagás has established the channels needed to encourage voluntary employee involvement in the improvement of the Company's operations. These include a suggestions mailbox on the Company intranet and the workplace climate surveys that the Company has been carrying out for a number of years.

In addition, the Company recognises the usual channels of trade union representation, with permanent dialogue between senior management and the legal representatives of its employees being guaranteed via the Monitoring and Development Committee. Ultimately, the objective of this Committee is to debate plans relating to improvements to working conditions and propose solutions to any conflicts that may arise.

One of the Company's key objectives, and one of its core employee undertakings, is to help its staff achieve the best possible work-life balance. In recognition of its efforts in this area, in April 2007 Enagás was awarded the Family-Responsible Company Certificate by the Fundación+Familia – an accreditation that attests to the Company's application of policies that foster work-life balance.

Suppliers

Optimising the supplies and contracts that the Company's various departments require to cover their needs and thus fulfil the Company's business objectives is the responsibility of Enagás' Procurement Department.

To help secure the above objectives, the Procurement Department has adopted a set of standards and procedures and introduced an operating handbook that promote competitiveness and guarantee total impartiality and equal

opportunities for suppliers, as well as transparency in relationships with the same.

Enagás complies with European legislation concerning the obligation to publish in the Official Journal of the European Union (OJEU) and the Official State Gazette (BOE) any future projects to be realised in the year ahead, thereby making information more accessible to potential suppliers.

Enagás also has a supplier accreditation system to ensure optimum quality of supplies and services. These suppliers are spread across 127 category groups, such that, at the end of 2007, a total of 2,056 suppliers had been accredited, of which approximately 1,000 received orders in the course of the year.

In 2007, the number of contracts put out to tender by Enagás rose by approximately 18.5% relative to the previous year, with the total value of contracts awarded coming to €1.255Bn. The largest contract awarded was the €226Mn contract for the construction of the underwater gas pipeline to the Balearic Islands.

The increase in contracts put out to tender was facilitated by improvements in internal systems and procedures, the roll-out of the SAP-SRM software application and the recruitment of new human resources.

Enagás is aware of the importance of its suppliers and contractors to the development of its activities and endeavours to make them share in its environmental undertakings.

When contracting out a service, the Company expressly informs each potential supplier of the main General Environmental Requirements that must be taken into account when working on a project with Enagás in the early stages of the contracting process.

In addition, at those facilities where, because of ongoing improvements and extensions, a particularly large number of contractors and suppliers are engaged, Enagás organises information days at which it shares information on waste management and preventive measures to consider with its co-workers.

In 2007, information days were held at the Company's plants in Barcelona, Cartagena and Huelva, and at the Serrablo underground storage facility.

With a view to enhancing and facilitating purchase management, Enagás has set itself the following objectives for 2008:

- Extension of the SAP-SRM application, which facilitates and reduces purchase management schedules, tightens controls and renders management more streamlined.
- Automation of the process of extracting information from systems and improvement of the ordering system to improve

management control and pre-empt any irregularities that may occur.

- Development of operating handbooks to standardise certain processes.
- More in-depth analysis of supplier markets by product group.
- Development of a supplier management area on the Enagás corporate website.

Society

Enagás maintains an open dialogue with regards to the needs and expectations of society as a whole. These needs are not only represented directly on its Governance Bodies but are also taken into account in the Company's daily operations.

With regards to initiatives of a social nature, Enagás continues to focus in particular on those sections of society where the need is greatest, providing social welfare assistance to the elderly and young children.

In addition, Enagás provides active financial support for various cultural initiatives. The corporate website (www.enagas.es) is the Company's principal channel of communication with wider society.

In 2007 Enagás made further improvements to this website, which now reflects the image of a Company committed to fostering transparency of information for all stakeholder groups.

Enagás works continually on the portal to ensure that the information posted on it is always up-to-date.

On the website, the Company aims to provide as comprehensive a range of information as possible on natural gas and the transportation, regasification and storage thereof, as well as on the various elements of the Company that could be of interest to readers.

Enagas' website is in conformance with Level A of the Accessibility Guidelines for W3C Web Content 1.0. This ensures that all individuals, regardless of any disability they may have or the form of technology they use to access the internet, are able to browse the web without difficulty.

In 2007, the Company website registered more than 20.5 million visits and users browsed more than eight million pages of the site. This equates to a daily average of 22,500 visits, an increase on the 2006 level of almost 300%.

In addition, the Communications Department responded to more than 1,400 e-mails sent through the Enagás web mailbox, (contacta@enagas.es), including questions on the Company's activities and the gas sector in general, sponsorship and patronage proposals, requests from energy companies,

associations and universities, etc. All these queries were quickly processed to ensure that users enjoyed the best possible support.

Clients and market agents

Maintaining maximum possible transparency with the various clients active in the system from one year to the next, and thus guaranteeing maximum levels of impartiality and objectivity, is another of the Company's priorities.

The efficient exercise of Enagás' activities is contingent upon satisfactory interaction with its customers, and with all market operators as a whole. The new framework for relationships between system operators defined in the implementing regulations of Law 34/1998 on the Hydrocarbons Sector, as modified by Law 12/2007 of 3 July 2007, referring to the segregation of activities, implies a need to establish better defined channels for communicating with the Company's customers.

Over the past few years, the system used to monitor customer perceptions of service quality has consisted of holding regular focus groups designed to pinpoint strengths and identify possible areas where improvement was needed. To this end, in the course of 2007, the Company carried out its first customer satisfaction survey with a view to identifying customer needs and expectations in relation to the various services provided and their level of satisfaction with the same. The questionnaire was sent to all customers and the results are currently being assessed with a view to defining a strategy for improvement.

Also in the course of 2007 Enagás developed and incorporated within the corporate website a new tool that renders interaction between the Company and its customers easier and quicker and, in particular, offers an on-line facility for reserving capacity on the Company's infrastructures.

In its role as carrier, Enagás has an e-mail address (**dgia.gestionatr@enagas.es**) for the use of all agents in the Spanish gas system.

Regulatory authorities and other public sector bodies

Because of the nature of its activities, Enagás is subject to regulation by a number of different authorities. In particular, almost all the revenues obtained by Enagás derive from the recognition, on the part of the authorities, of its right to receive remuneration for its activities as a carrier of natural gas. This remuneration is calculated on the basis that the recovery of investments made and a reasonable return on capital employed should be guaranteed, while management should be efficient and productivity improvements achieved, as specified in Law 34/1998 on the Hydrocarbons Sector.



Recognising that the success of its activities are underpinned by the regulation of the same, Enagás maintains a flexible relationship with the different competent regulatory and administrative authorities, based on cooperation and transparency, with a view to guaranteeing a regulatory framework that will continue to provide the Company with a fair level of remuneration for the efficient operation of its activities.

Enagás is in regular contact and actively works with the Ministry for Industry, Tourism and Trade, which has responsibility for, inter alia, setting the level of remuneration needed to ensure the smooth and efficient operation of the regulatory framework. At regular intervals, the Company also issues accounts information segmented by activity, information on the commissioning of new assets, and information on the annual investment plan, always in accordance with the requirements established in the regulatory framework.

As an independent regulatory body, the National Energy Commission (CNE) also has considerable powers over the activities of Enagás. Enagás works very closely with the CNE in a number of areas, including in providing assistance in the development of the various processes and studies deriving



from the different “mandates” established in the regulations and from Regional Gas Initiatives. In 2007, this cooperation also extended to the different public consultation processes initiated by the CNE. In addition to assisting in specific ad-hoc projects, Enagás also reports regularly to the CNE on issues including the start-up of new assets, inter alia, and submits regular accounting information segmented by activity.

Also on a regular basis, Enagás is required to submit extensive information to the authorities at autonomous community and local level with responsibility for the areas in which the Company performs its activities and is planning new facilities.

Lastly, Enagás is working increasingly closely with the various European bodies with powers and responsibilities in respect of the gas sector, including the European Commission’s Directorate-General for Energy and Transport (DGET) and the European Regulators’ Group for electricity and gas (ERGEG).

Media relations

Enagás’ relations with the media in 2007 were based on fluid communication and transparency of information. The presentation of the Company’s 2007-2012 Strategic Plan, on 17 April, provided the occasion for a meeting of Enagás’ Chairman with 30 journalists, organised by the Spanish Association of Economic Journalists (APIE).

In addition, the Chairman held various meetings throughout the year with editors of the national and economic press, and Enagás held head-office briefing sessions for journalists specialising in energy so that information on the Company could be relayed to stakeholders via the various communications media.

In the course of the year a total of 36 press releases were issued and sent to an updated database containing more than 400 contacts, providing information on key events affecting the Company.

In addition, staff working in the Communications Department responded to more than 1,300 phone enquiries from the media requesting information of all kinds on the Company, its investments in infrastructures, projects, current progress, corporate strategy, etc.

The Department also provided assistance in the drafting of articles and reports related to natural gas for various Spanish and European titles.

The Communications Department has a dedicated e-mail address on the Enagás website (dircom@enagas.es) that the media can use to contact the press team.

Professional ethics and integrity

The Company has an Internal Code of Conduct relating to the Securities Markets that applies to the Board of Directors, members of the Management Committee and all employees that have access to privileged or confidential information in the course of their work. The Company also has an Internal Procurement Code, which is approved by the Board of Directors, designed to ensure transparency in the tendering and procurement process, and based on hierarchical authorisation powers that differ according to quantities. The above documents can be consulted on the Intranet (and are therefore accessible to all employees) and the first is also available for public consultation on the corporate website.

In addition, in the course of 2007, Enagás successfully concluded the process of adapting its entire organisational structure to the segregation of functions (Technical System Operator and Carrier) rendered obligatory by the entry into force of Law 12/2007. To effect this separation of activities, the Company was required to draw up a separate code of conduct for the System Technical Management Department, which was approved by the Board of Directors and notified to employees, in order to ensure adequate segregation of its system management functions from the rest of the activities carried out by the corporate group.

3.2. FINANCIAL INFORMATION

3.2.1. REPORT ON ACTIVITIES

Operation of the gas system and technical system management

Demand

Demand on the Spanish market followed a fluctuating but ultimately rising trend in the course of 2007, reaching a total of 408,431 GWh by 31 December, a 4.3% advance on 2006 consumption.

In the first quarter of the year, mild temperatures in winter 06/07 and increased hydro reserves resulted in lower consumption in the domestic-commercial sector and lower consumption of natural gas to generate electricity respectively. These circumstances together caused a 5.7% drop in demand for natural gas transported in the system relative to the first quarter of 2006.

After a transitional second quarter and typical summer period, in the fourth quarter, following the drop in temperatures signalling the approach of winter, an extremely dry hydro scenario and temporary shutdowns for maintenance work at various nuclear stations, demand for natural gas rose significantly in all consumption segments, such that demand growth over the full year came to 4.3%.

Final demand transported for traditional consumption sectors, which include domestic-commercial and industrial consumption, totalled 266,372 GWh, up 3.7% on the prior-year figure and in line with forecasts made at the start of the year.

In 2007 approximately 25% of total electricity produced in Spain was generated using natural gas, with 142,059 GWh

needing to be transported, 5.5% more than in 2006. This natural gas consumption accounted for 34.8% of total demand, a figure that, along with the 34.4% recorded in 2006, cements this segment's priority status with regards to the sector's future development. At the end of 2007, there were a total of 53 combined cycle plants in operation in Spain, 14 of them brought into service in the course of the year, together representing installed power capacity of 20,990 MW.

As a percentage of total electricity generation in 2007, natural gas combined cycle power plants accounted for 24.4%, just slightly below coal-fired plants, representing 25.7%.

Natural gas consumption at biofuel-fired thermal plants continued to fall in 2007, dipping to 2,518 GWh for the year as a whole.

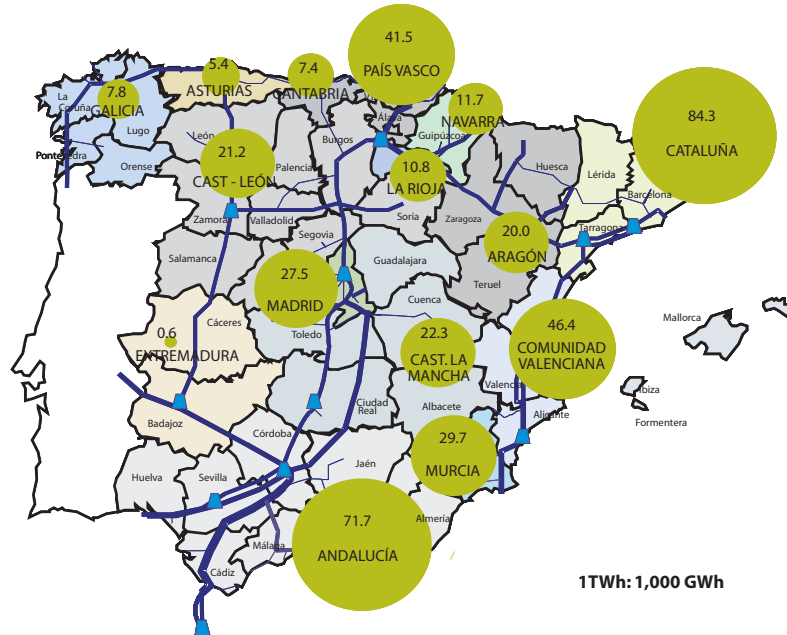
As regards international connections, a key point of note was the reduction in natural gas exports, which fell from 5,923 GWh in 2006 to 1,857 GWh in 2007. At the year-end, overall natural gas movements through international connections showed a balance in favour of incoming gas of 126,691 GWh, which was 6.3% higher than the balance for the year ended 31 December 2006.

Demand from the deregulated market accounted for 89% of the total for the year as a whole, up from 86% in the previous year.

With the entry into force of ITC/3992/2007, group 2 (industrial) tariffs were abolished as of 1 July 2007, remaining in place only for consumers connected to networks of 4 bar or less. By the year-end, the introduction of these new regulations had brought about a 15.9% reduction in tariff consumption relative to 2006.

International Connections	System intakes (GWh/year)		System exits (GWh/year)		Balance (GWh/year)		Balance 2007 vs. Balance 06
	2006	2007	2006	2007	2006	2007	
Tarifa	100,236	95,743	-	-	100,236	95,743	-4.5%
Larrau	24,570	26,306	5,245	675	19,325	25,631	32.6%
Irún	-	-	678	532	-678	-532	-21.5%
Badajoz	120	6,500	-	650	120	5,850	4,775.2%
Tuy	150	-	-	-	150	-	-
Total	125,076	128,549	5,923	1,857	119,153	126,691	6.3%

NATURAL GAS DEMAND (TWH)



Demand peaks

December 2007 saw a series of exceptionally high demand peaks that, for the first time, on four separate occasions, took consumption beyond 1,800 GWh/day, which is equivalent to the content of two large-capacity LNG carriers.

The all-time record high demand in the gas system was recorded on 17 December, when consumption reached 1,863 GWh/day, 12.1% higher than the previous consumption peak recorded on 23 February 2006 (1,552 GWh/day).

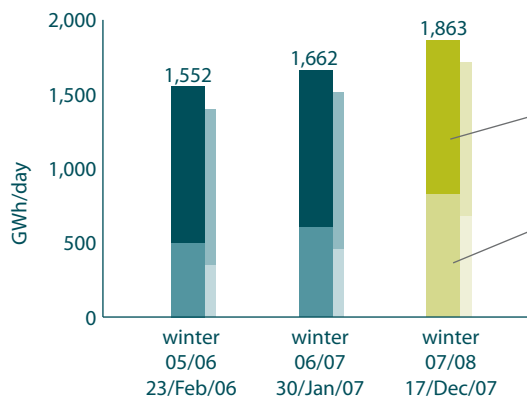
Lower-than-average temperatures for this time of year underpinned an increase in demand from the domestic market to 1,135 GWh. In addition, low wind and hydro generation

necessitated high volumes of gas deliveries to the electricity sector, totalling 728 GWh/day.

Peak daily demand in 2007 was equivalent to 3.2 times demand on the day of least consumption, which, as is usually the case, occurred in August.

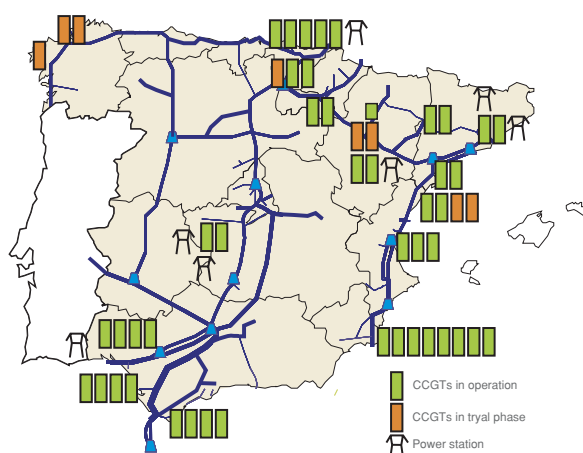
The all-time record for demand for gas from the electricity sector was recorded on 14 December, when daily consumption was 742 GWh, representing a combined cycle capacity utilisation factor of 78% and accounting for 41% of total electricity generated on that day.

Peak demand



GWh/day	winter peak	winter peak	winter peak 07-08	
	05/06	06/07	current	%vs.last winter
	23/Feb/06	30/Jan/2007	17/Dec/2007	
Conventional	1,034	1,089	1,129	+4%
Gas emission	989	1,040	1,075	+3%
LNG Cisterns	45	49	54	+10%
Electric Generation	518	573	734	+28%
Power stations	25	24	31	+30%
CCGTs	493	549	703	+28%
Number of CCGT	31	39	53	
Total market	1,552	1,662	1,863	+12%

LOCATION OF CCGTs AND POWER STATIONS



Demand by sectors

	Unit: GWh	2006	2007	2007 vs. 2006
tariff	Conventional	52,818	46,449	-12.1%
	Electricity Generation	2,400		-100.0%
	Tariff Market	55,218	46,449	-15.9%
TPA	Conventional	203,960	219,924	+7.8%
	Electricity Generation	132,257	142,059	+7.4%
	Liberalised Market	336,217	361,982	+7.7%
	Total Domestic Demand	391,435	408,431	+4.3%
	– Conventional domestic	256,777	266,372	+3.7%
	– Electricity Generation	134,658	142,059	+5.5%
	International Exits	5,923	1,857	-68.6%
Valle Guadalquivir exits	2,383	1,321	-44.6%	
	Total Transported Gas Demand*	399,741	411,610	+3.0%

* LNG transfers from regasification plants to tankers are not included.

Supply

Total natural gas supplied to the market in 2007 came to 409,947 GWh, a figure very similar to that recorded in 2006. Some 68.4% of this supply was liquefied natural gas (LNG), 31.3% was supplied via international connections, while domestic production accounted for just 0.3%.

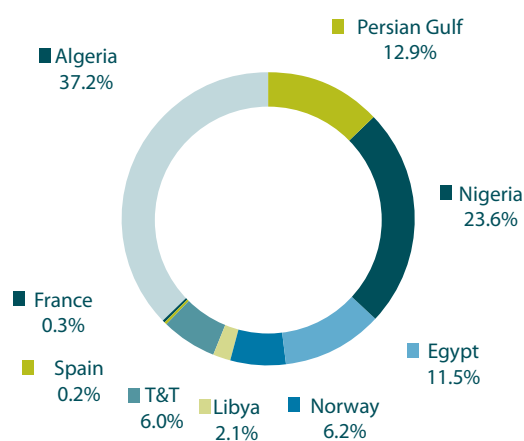
The breakdown of sources of supply in 2007 was very similar to that seen in previous years, with a high percentage of supply in the form of LNG and an increase in the number of carriers

bringing LNG to Spain from Nigeria and Algeria (110 and 126 carriers, respectively, of a total of 425 carriers pumping gas into the Spanish system in the course of 2007). Natural gas consumed in Spain was sourced from a total of eight different destinations.

A significant event in 2007 was the first-time import of significant volumes of gas through the Badajoz international connection. For the year as a whole, these totalled 6,500 GWh.

Source of Supply

2007		
Unit: GWh	GWh	%
Algeria GN	102,243	} 37.2%
Algeria LNG	50,178	
Persian Gulf LNG	53,149	12.9%
Nigeria LNG	96,871	23.6%
Egypt LNG	46,960	11.5%
Norway LNG	25,277	6.2%
France NG	1,029	0.3%
Libya LNG	8,760	2.1%
T&T LNG	24,440	6.0%
Spain NG	1,040	0.2%
Total	409,947	100%

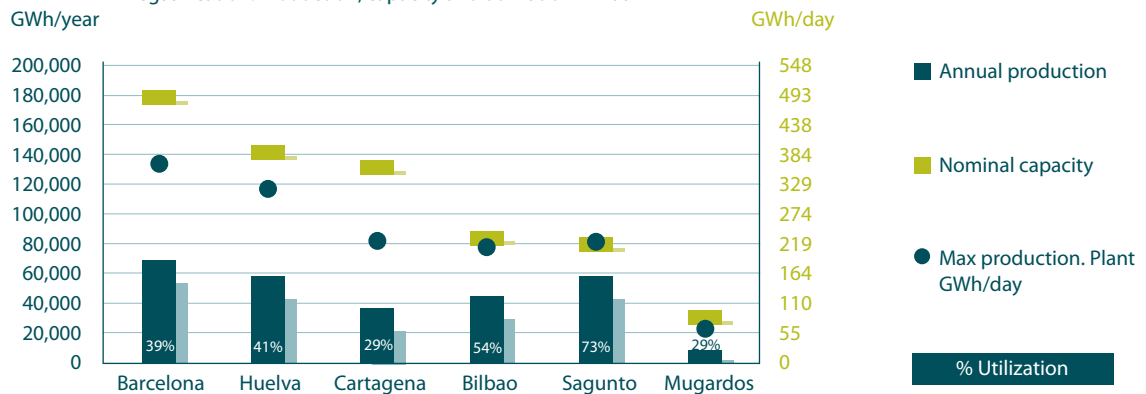


System Intakes

Unit: GWh	2006	2007	Var. %	
NG	Tarifa	100,337	95,743	-4.6%
	Larrau	24,570	26,306	+7.1%
	National	814	1,040	+27.8%
	Tuy	150	-	
	Badajoz	120	6,500	+5,317%
	Total NG	125,992	129,589	+2.9%
LNG	Barcelona Plant	72,825	70,216	-3.6%
	Cartagena Plant	51,234	38,479	-24.9%
	Huelva Plant	65,288	58,312	-10.7%
	Bilbao Plant	51,200	44,800	-12.5%
	Sagunto Plant	43,258	58,911	+36.2%
	Mugardos Plant	-	9,641	
Total LNG	283,806	280,358	-1.2%	
Total Supply	409,797	409,947	+0.0%	



Regasification: Production, capacity and utilization in 2007



Development of the gas system

Facilities brought into service

Further new facilities were incorporated within the Spanish gas system in 2007, including both regasification plants and new transportation pipelines.

The largest new facility brought into service was the Reganosa plant, in Mugaridos, A Coruña, which is the sixth plant in the Spanish system and the seventh in the Iberian Peninsula. The first carrier (Unión Fenosa's Galicia Spirit) finished unloading its cargo on 12 May, the plant began supplying gas to the system on 16 May and commercial operations commenced on 7 November.

In addition, the Huelva plant increased its regasification capacity from 1,200,000 to 1,350,000 Nm³/h.

With regards to new high-pressure pipelines, in February Enagás brought into service the Falces-Irurzun pipeline that improved the pressure for natural gas arriving in Pamplona.

Reganosa brought into service the Mugaridos-As Pontes-Guitiriz pipeline and the branch pipeline connecting it to the As Pontes combined cycle plant in May, and the Abegondo-Sabón pipeline in July.

In April 2007, Endesa Gas Transportista brought the Teruel-Calamocho pipeline into service.

The start-up of these infrastructures has kept system clearance (the ratio between system capacity and its maximum load factor) on the rising trend of the past few years, taking the year-end ratio to 14%. The average and maximum system load factors in 2007 were 58% and 86% respectively.

Features of Regasification Plants

LNG Storage capacity					Δ	
	m ³ LNG	31-Dec-06	31-Dec-07	Date of put into operation	m ³ LNG	%
TANKS	Barcelona	540,000	540,000		–	–
	Cartagena	287,000	287,000		–	–
	Huelva	469,500	469,500		–	–
	Total tanks Enagás	1,296,500	1,296,500		–	–
	Bilbao	300,000	300,000		–	–
	Sagunto	300,000	300,000		–	–
	Reganosa		300,000	May/Jul	+300,000	new
	Total tanks	1,896,500	2,196,500		+300,000	+16%

Emission capacity					Δ	
	Nm ³ LNG	31-Dec-06	31-Dec-07	Date of put into operation	Nm ³ LNG	%
VAPORIZATORS	Barcelona	1,650,000	1,650,000		–	–
	Cartagena	1,200,000	1,200,000		–	–
	Huelva	1,200,000	1,350,000	May/07	+150,000	+13%
	Total emission capacity Enagás	4,050,000	4,200,000		+150,000	+4%
	Bilbao	800,000	800,000		–	–
	Sagunto	750,000	800,000		+50,000	+7%
	Reganosa		412,800	May/07	+412,800	new
	Total emission capacity	5,600,000	6,212,800		+612,800	+11%

In 2007, the Technical System Operator continued to perform the functions assigned to it under the Hydrocarbons Sector Law, guaranteeing continuity and security of supply, as well as efficient coordination between access points and storage, transportation and distribution facilities. Interruptible service customers suffered no cuts to supply in 2007, nor were there any incidents at entry points or in the high-pressure transport network that had repercussions on deliveries to distributors.

New legislation that came into force in 2007 included Law 12/2007 of 3 July, amending Law 34/1998 governing the Hydrocarbons Sector to adapt it to Directive 2003/55/EC of the

European Parliament and of the Council of 26 June 2003 concerning common rules for the internal market in natural gas. Pursuant to this law, Enagás assumed the duties, rights and obligations of Technical System Operator, establishing, to this end, a dedicated unit to manage the system on an exclusive basis that is separate from the Company's other activities for accounting and operational purposes.

The introduction of Law 12/2007, meanwhile, marked the abolition of the existing tariff system and creation of last-resort tariffs. The new model, under which natural gas will henceforth be supplied exclusively by distributors, requires

adjustments to all the regulations currently in force that the aforesaid law implements. Royal Decree 1068/2007, of 27 July, governed the introduction of the last-resort supply service for the natural gas sector (of 28 July 2007), while Order ITC/2309/2007, of 30 July, established the mechanism for transferring customers from the tariff market to the last-resort gas supply service (Official State Gazette of 31 July 2007).

Another important regulatory provision issued in 2007 was the resolution published in Official State Gazette no. 293 of 7 December 2007, approving the 2007-2008 Winter Action Plan for the operation of the gas system. Under the plan, Enagás, in its role as Technical System Operator, is permitted to restrict exports in order to prevent supply problems during the winter

months, to increase minimum natural gas inventory requirements at plants, and to impose limits on the extraction of gas from underground storage facilities.

In 2007, in accordance with the Technical System Management Regulations, and in line with its transparency policy, Enagás published a number of reports on key System Operation variables on its website.

Development of the transportation system

Enagás has retained its key role in expanding and opening up the natural gas market in Spain, developing the infrastructures needed to increase existing capacity and allow the system operators to which it provides services to make maximum use of this capacity.

SPANISH GAS SYSTEM



Transport System Utilization

Acumulated	2002	2003	2004	2005	2006	2007
System capacity	1,063	1,263	1,488	1,745	2,036	2,166
Annual maximum GWh/day						
Daily transport GWh/day						
maximum	935 92% 11/Jan	1,148 108% 18/Feb	1,272 98% 30/Nov	1,529 93% 29/Nov	1,552 88% 23/Feb	1,863 86% 17/Dec
average	705 71%	791 75%	906 74%	1,074 68%	1,122 61%	1,152 58%
minimum	374 35% 25/Dec	422 40% 1/Jan	539 42% 22/Aug	643 40% 1/Jan	649 34% 26/Mar	655 33% 13/May
Transported volume* GWh	257,411	288,565	331,721	391,881	409,707	420,629

Transport* = Domestic Demand + International Exports + Marismas Gasfield + Injection Underground Gas Storages.

At the end of 2007, the deregulated market accounted for approximately 90% of total demand and there were a total of 32 distribution companies with definitive authorisation registered with the Ministry for Industry, Tourism and Trade and serving this market, six more than at the end of 2006.

With regards to contract volumes, 200 new contracts for third-party access to the network were concluded in 2007, which is 25% fewer than the 268 signed in 2006. However, the number of long-term contracts was up 50%, an advance attesting to the growth in the deregulated segment over the past few years.

Of the total number of contracts concluded up to 31 December 2007, 173 were to reserve short-term capacity and of these 173, 115 had a term of one calendar month or less. To reserve long-term capacity, a total of 27 contracts were signed. In addition, in 2007 Enagás assumed undertakings with 18 distribution companies, placing its natural gas regasification, storage and transportation facilities at their disposal for the year ahead.

Enagás also supplied natural gas for the tariff market to all distributors and carriers that operate on this market.

This growth in long-term operations and contracts is to a great extent the fruit of specific investments to this end that have brought ongoing increases in the natural gas system's nominal entry capacity. In 2007, this nominal capacity was increased by 8% relative to the previous year.

Pipeline transportation

The high-pressure pipelines used to channel gas through the system are composed of steel tubes with a high yield stress and welded connections.

To provide passive protection against corrosion, the exterior of the pipelines is coated in polyethylene sheeting to prevent the steel from coming into direct contact with the earth.

At the end of 2007, Enagás' transport network was made up of 7,609 km of pipelines designed to be operated at maximum pressures of 72 and 80 bar. As part of its plans for expansion, in 2007 the Company brought into service the second section of the 46 km Falces-Irurzun pipeline. Also, in August 2007, Enagás gained administrative authorisation for the construction of the mainland-Balearic Islands pipeline, as well as recognition of the public use of the Denia-Ibiza-Mallorca pipeline. The first, running from Denia to Punta de Cala Gració (Ibiza), will be 123 Km long and will have a maximum depth of 997m. The second section, which will run from San Antonio de Portmany (Ibiza) to the thermal station in San Juan de Dios (Mallorca), will be 145 Km long and have a maximum depth of 718m. The pipe will have a diameter of 20 inches and will be designed to withstand pressure of 220 bar.

The pipe will transport a maximum volume of 676,00 m³ of natural gas, which will reach Mallorca with a pressure of 80 bar.

Compression stations and regulation and metering stations

At 31 December 2007 the Company had 11 compression stations with total installed power capacity of 360,163 HP. The compressors at these facilities raise the pressure of gas transported to 72/80 bar in order to maximise pipeline transportation capacity.

The transportation network was rounded out in 2007 with the addition of 22 new regulation and metering stations. These facilities, which are located at network delivery points, reduce gas pressure to 16 bar in order to begin the process of adjustment to the final pressure at which the gas will be used by companies and households, which may be as low as 20 millibar. It is also at these facilities that gas delivered is metered.

Facilities of this kind are constantly being built and brought into service, responding to requests for new delivery points from gas distribution and transportation companies.

Lastly, maintenance, operating and control activities relating to the gas pipeline network are co-ordinated from 45 centres distributed across the length and breadth of Spain.

For operating purposes, these transportation centres are grouped into three transportation units – North, South and East.

Regasification

Gas is transported in LNG carriers in a liquid state at a temperature of 160°C below zero and is unloaded from these carriers at regasification plants.

At these facilities, by means of a physical process in which seawater vaporisers are generally used, the temperature of the liquefied natural gas (LNG) is increased, and its gaseous state thus restored. At the end of this process, the natural gas is injected into the pipelines to be transported throughout Spain.

Enagás has three regasification plants at present, in Barcelona, Cartagena and Huelva. In addition, in November 2006 Enagás was awarded the concession to build the El Musel regasification plant in Gijón.

The coming years are expected to see an increase in the number of large-capacity LNG carrier deliveries, mainly originating from Trinidad and Tobago, Nigeria and the Persian Gulf, to ensure that the rise in demand is satisfied.

For this reason, Enagás is expanding its regasification plants



with a view to strengthening the supply infrastructure in mainland Spain and ensuring that it is able to continue diversifying its sources of LNG supply.

In 2007, a total of 265 vessels were unloaded at Enagás' three plants, ten less than in 2006. The volume of LNG unloaded represented a total of 167,007 GWh compared with a 2006 figure of 189,344 GWh.

Also in 2007, the Company increased the emission capacity of its Huelva plant from 1,200,000 m³(n)/h to 1,350,000 m³(n)/h.

In the first half of 2008, the Company expects to bring on stream new facilities that will guarantee constant supply via the underwater pipeline linking the plant to Sant Adriá del Besós, increasing line operation pressure from 45 bars to 51 bars.

Following this increase in storage capacity, the Company expects to be able to further increase emission capacity, initially to 1,800,000 m³(n)/h and subsequently, in a second phase, to 1,950,000 m³(n)/h.

In addition, a fourth tank is under construction at the Cartagena plant that will provide LNG storage capacity of 150,000 m³ and is scheduled to be brought into service at the end of 2008. A fifth tank with LNG storage capacity of 150,000 m³ is also in the planning stages.

With this increase in storage capacity, emission capacity is set to increase to 1,350,000 m³(n)/h.

Lastly, an extension of the storage capacity available at the Huelva plant is currently in progress that will entail the construction of a fifth tank with capacity of 150,000m³.

Underground storage

To align supply with demand and provide for the consumptions peaks caused by seasonal fluctuations in demand, supply shutdowns, etc, it is essential that the system is able to store large volumes of gas.

In the case of underground storage facilities, gas is either stored underground in former gas fields or injected into deep aquifers or cavities hollowed out in saline formations.

Enagás manages two underground storage facilities, at Serrablo and Gaviota, both of which are former, now depleted gas fields. The Serrablo gas field is located between the municipalities of Jaca and Sabiñánigo (Huesca). Gaviota is an off-shore storage facility owned by Repsol YPF that is located close to Bermeo (Vizcaya).

In July 2007, Enagás was awarded the administrative concession to operate the Yela underground natural gas storage facility in the municipality of Brihuega (Guadalajara). The Company plans to invest more than €400Mn in this facility.

Investment planned for the development stages of the project comes to €184Mn, to which figure investments in a (non-extractable) gas blanket and connections between the storage facility and the rest of the gas system will subsequently be added.

This new underground storage facility, which will be key to guaranteeing continuity of supply due to its strategic location and proximity to Madrid, will have an operating capacity of 1,050Mm³(n). Gas will be stored at a depth of 2,300 metres and will have a maximum flow rate of 15 Mm³(n)/day. The facility will cover a surface area of 65,000 m².

Underground Gas Storage activity in 2007

	Max. Injection Mm ³ (n)/day	Max. Production Mm ³ (n)/day	Injection 2007 Mm ³ (n)	Production 2007 Mm ³ (n)	Inventories Mm ³ (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



On 21 December, Eurogas Corporation (Eurogas), ACS and Enagás signed an agreement to promote Project Castor for the underground storage of natural gas in the province of Castellón.

Under the terms of this agreement Enagás will hold a 33.33% stake in this facility when it comes on stream, estimated for the end of 2010.

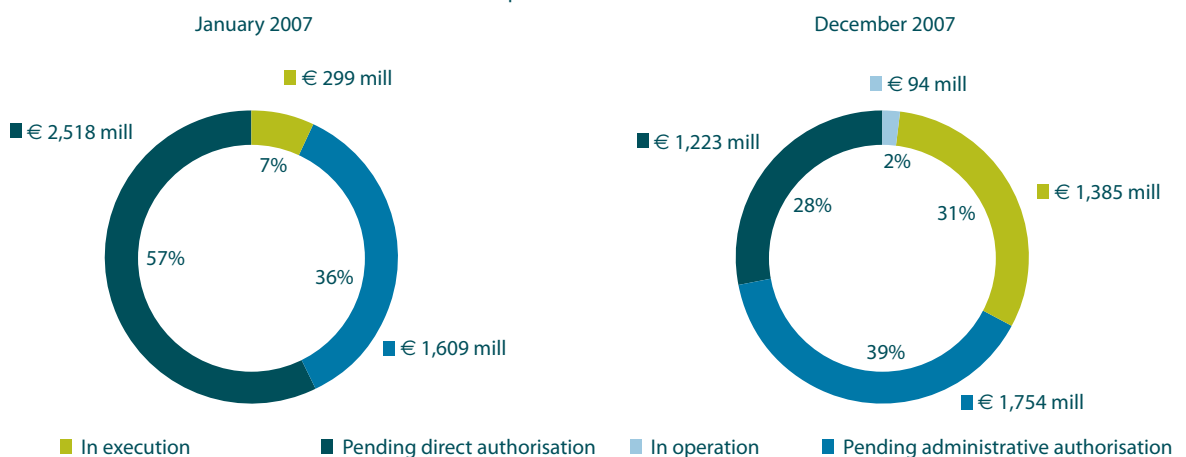
Authorisation processes

In 2007 significant progress was made towards obtaining authorisation for projects worth around €3.5Bn.

Of this amount, and in addition to the €94.2Mn worth of projects brought into operation in 2007, €1.15Bn worth have administrative authorisation, €935Mn have Environmental Certification, and €1.3Bn have been approved directly by the Ministry for Industry, Tourism and Trade.

An increase in the LNG storage capacity of the Barcelona plant is currently underway, which will involve the construction of two new tanks, each with a capacity of 150,000m³. Once the seventh tank is built, the plant's oldest two 40,000m³ tanks will be dismantled. Once the eighth tank is built, the 80,000m³ tank will also be decommissioned.

Volume of processed investments



3.2.2 CONSOLIDATED MANAGEMENT REPORT

Consolidated Income Statement

Million euros	Jan-Dec 2006	Jan-Dec 2007	Var. %
Gross profit (*)	11.3	-12.2	-207.2%
Revenue from regulated activities	733.1	792.0	8.0%
Other operating income	33.6	37.4	11.3%
Total Revenue	778.0	817.2	5.0%
Personnel Expenses	-54.3	-62.0	14.1%
Other Operating Expenses	-160.0	-159.3	-0.5%
Operating Cash Flow (EBITDA)	563.6	596.0	5.7%
Provision for Depreciation of Fixed Assets	-184.9	-187.7	1.5%
Operating Profit (EBIT)	378.7	408.3	7.8%
Net financial result	-47.0	-57.6	22.6%
Profit before taxes	331.7	350.7	5.7%
Income tax expense	-115.3	-112.4	-2.5%
Net Profit	216.4	238.3	10.1%

(*) Sales of gas-supplies of gas

Financial Data

	2006	2007
Investments (millions of euros)	430.6	508.6
Net debt (millions of euros)	1,779.2	1,942.7
Shareholders' equity (millions of euros)	1,235.2	1,343.9
Assets (millions of euros)	3,626.2	3,976.0
Net debt/EBITDA	3.2x	3.3x
Interest cover (EBITDA/interest costs)	11.1x	9.8x
Net debt/Total assets	49.1%	48.9%
Net debt/Net debt+Shareholders' equity	59.0%	59.1%
Average cost of debt	3.6%	4.3%
ROE after tax (*)	18.5%	18.5%
ROCE after tax (**)	8.7%	8.8%

(*) Net profit/ Average shareholders' equity

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

Results for full-year 2007

Enagás reported a net profit of €238.3Mn for financial year 2007, a 10.1% increase on the prior-year figure of €216.4Mn.

This positive earnings performance was attributable mainly to higher revenues achieved on the back of an only modest rise in operating costs.

Revenue

Revenues generated by regulated activities came to €792.0Mn in 2007, 8% higher than the 2006 figure. This strong performance is mainly a reflection of the number of new assets brought into service in 2006 plus, to a lesser extent, those brought on stream in the course of 2007.

On the other hand, the Company recorded a gross loss of €12.2Mn (gas sales-supply) as a result of gas sales and purchases made to provide for the tariff market, compared with a profit of €11.3Mn the previous year.

This loss of €12.2Mn includes an amount of €8.7Mn corresponding to gas used for the Company's own consumption that was generated from its activities in the sale and purchase of gas for the tariff market after 1 July 2007. This has been booked as regulated revenue as established under the second transitional provision of Ministerial Order 3993/2006.

Revenues from non-regulated activities amounted to €15.5Mn, while other operating income for the year totalled €21.9Mn.

Operating costs

Enagás' operating costs for the year were up 3.2%. This line of the income statement consists of two core elements.

Firstly, personnel expenses were up by 14%. However, if we deduct the non-recurring charge of €4.7Mn corresponding to indemnities paid to senior management, the increase would have been a more contained 5.5%.

Secondly, other operating expenses were stable, easing by 0.5% as a result of the cost containment plan implemented across the Company.

Operating cash flow (EBITDA)

EBITDA was 5.7% higher than the prior-year level at €596Mn.

Operating profit (EBIT)

Depreciation and amortisation charges for the year rose just slightly, up 1.5% to €187.7Mn – a negligible rise that reflects the adjustments made in 2006 to the net carrying value of underground storage research and exploration assets to bring them in line with the values that appear in appendix IV of Order ITC 3995/2006. These adjustments led to a depreciation charge of €13.7Mn in 2006.

As a result, EBIT advanced 7.8% in the year to €408.3Mn.

Financial result

The Company reported a net financial loss, including capitalised financial expenses (€19.4Mn), of €57.6Mn in 2007, compared with

a net financial loss in 2006, including capitalised financial expenses (€8.9Mn), of €47Mn.

The increase in the scale of the net loss was due to higher gearing and a higher average cost of debt than in 2006 (4.28% vs. 3.62%).

The EBITDA interest cover ratio at the end of 2007 was 9.8x compared with 11.1x a year earlier.

Capex

Investments made in 2007 totalled €508.6Mn, an 18.1% advance on the 2006 capex figure of €430.6Mn. The 2007 figure in fact constitutes a record high in terms of annual investment by the Company.

Also in 2007, the Enagás Board of Directors approved investment projects totalling €1.2Bn. These include the Musel regasification plant in Asturias, the underground storage facility at Yela (Guadalajara) and the Chinchilla compression station in Albacete.

The total value of assets brought into service in 2007 was €94.2Mn compared with €326.8Mn in 2006.

Financing

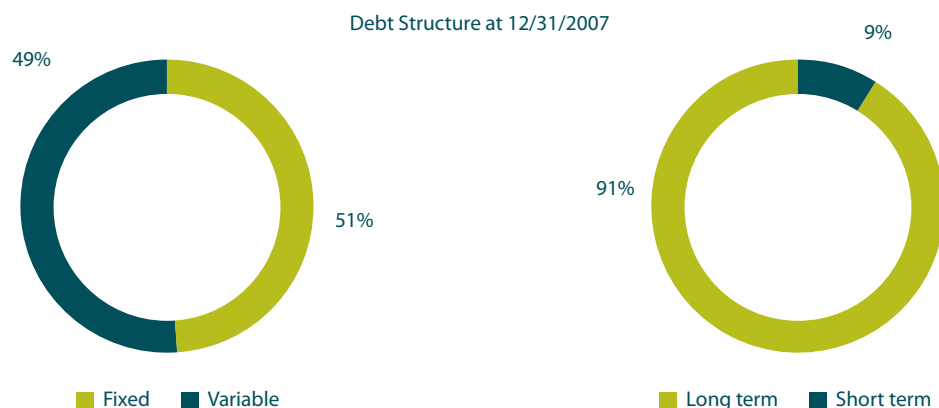
Operating cash flows adjusted for changes in working capital totalled €466.8Mn, which was 34.9% higher than the 2006 figure of €346Mn.

Cash flows generated were used mainly to finance investments (€508.6Mn) and pay dividends (€112.6Mn). The shortfall was covered by increasing debt by €167Mn.

Accordingly, at 31 December 2007, the Company's net debt was €1.943Bn, up from €1.779Bn at year-end 2006. At the financial year close, 91.3% of the Company's debt was long-term and 51.3% was hedged using derivatives. Until April 2008, Enagás had an interest rate hedge that capped debt of €1Bn at a fixed maximum rate of 4.32%.

The Company's debt ratio (net debt as a percentage of total assets) was 48.9% at the year-end, very close to the 49.1% recorded at the end of 2006 while the ratio of debt to EBITDA at the 2007 close was 3.3x, compared with 3.2x at 31 December 2006.

The average cost of the Company's debt in 2007 was 4.28%, compared with 3.62% in 2006, reflecting interest-rate hikes made by the ECB in 2007 that raised the cost of floating-rate debt.



2007-2012 Strategic Plan

Enagás Chairman Antonio Llardén Carratalá unveiled the Company's updated Strategic Plan for 2007-2012 on 17 April 2007 at the Madrid Securities Exchange. The key messages in his presentation were as follows:

- Between 2007 and 2012, the Company will invest at least €4Bn, which will imply a very substantial increase in assets and, consequently, revenues.
 - With regards to gas pipeline construction, the Company expects to bring 2,800km of new pipelines on stream in the period, which will entail an investment of approximately €2.6Bn.
 - LNG storage capacity in regasification plants is forecast to rise by 69% by 2012, while vaporisation capacity will be increased by 35% on end-2006 levels. Enagás will invest around €1Bn in this area, part of which is earmarked for constructing the new regasification plant in the port of El Musel (Asturias).
 - Enagás will invest €400Mn in underground storage facilities by 2012, raising extraction capacity by 120% and increasing the operating volume of the said facilities by 63%. The largest project will be the underground storage facility in Yela (in the province of Guadalajara).
- With regards to financial targets, between 2007 and 2012 the Company aims to generate average annual revenue growth in excess of 9% and average annual net profit growth in excess of 10%.

- With regards to dividend policy, Enagás' Chairman has announced an increase in the Company's payout, from 52% in 2006 to 60% in 2007, implying a CAGR for 2007-2012 dividend growth of over 12%.
- The investment programme will be financed via both internal cash flow generation and increases in long-term debt, such as to gradually enhance the Company's financial structure. This level of gearing is expected to result in maximum debt in 2012 of 3.8x EBITDA, which is still below the Company's 4x target.

Rating agencies

Following the presentation of Enagás' 2007-2012 Strategic Plan, credit rating agencies Standard & Poor's and Moody's confirmed their ratings for the Company. Standard & Poor's maintained its AA- long-term and A-1+ short-term ratings, while Moody's confirmed its A2 long-term and P-1 short-term ratings. The rating outlook awarded by both agencies was stable.

The two rating agencies' decision to maintain their ratings was a direct response to the Strategic Plan presented by Enagás and reflects their reassessment of the Company's financial forecasts and strategic focus for the same period.

Both rating agencies highlighted the Company's stable business and robust cash position and expressed their confidence in the continued successful implementation of its investment plan, in line with its strategy of creating value added while maintaining a policy of prudent development and financial strength.

In addition, both agencies placed great value on the key role played by Enagás and its activities in the Spanish energy sector as a whole and on the low-risk profile attached to its business, thanks to a strategy built around regulated natural gas transportation activities in Spain.

3.2.3. RISK CONTROL AND MANAGEMENT

Effective management of the risks to which the Company is exposed enables its senior officers to deal efficiently with the various uncertainties, contingencies and opportunities that may arise and thus improve the Company's ability to generate value.

The strategy and objectives set by the Directors are designed to achieve a balance between the aforesaid strategy and objectives and the associated risks.

The Company's risk policy is designed to:

- Improve the efficiency and effectiveness of operations
- Align top-level targets with Company strategy
- Ensure the reliability of financial information
- Ensure compliance with applicable laws and regulations

Organisation of risk management functions

The Board of Directors and Audit and Compliance Committee have the knowledge and experience needed to carry out their risk management functions with the efficiency, objectivity and autonomy required, and to oversee implementation of the Company's general risk management strategy and business plans.

The Board of Directors has conferred upon the Audit and Compliance Committee responsibility for "identifying and analysing, in conjunction with the internal and external auditors, the main risks to which the Company is exposed, and, in particular, those affecting its financial position".

The risk management structure in place is underpinned by the knowledge and experience of the senior officers and risk experts attached to Enagás' various departments and units, who analyse the risks affecting them, quantify them, establish the relevant internal controls and assume responsibility for their practical application.

Definitions and objectives

The main risks to which the Company is exposed may be grouped into the following three categories:

Environmental risks: Environmental risks arise as a consequence of external factors, which can engender significant changes to the bases underpinning Enagás' general objectives and strategy.

The Company's approach to such risks entails identifying and measuring relevant risks, establishing appropriate responses, which may entail preventing, reducing, sharing or even accepting the risk in question, and continuously monitoring risk exposure.

Business process risks: Business process risks arise primarily as a consequence of the following:

- Failure to clearly define processes.
- Lack of alignment between processes and business strategy.
- Ineffective and inefficient processes that do not satisfy customer requirements.
- Processes that do not create value for shareholders, or expose certain financial assets to unacceptable losses, excessive risks, inadequate use or potential loss of the same.

Risks associated with information used for decision making: Such risks arise when the information on which Enagás bases its strategic, operational and financial decisions is not relevant or is unreliable.

Enagás' policy for controlling and managing business process risks and the risks associated with information used for decision making rests on efficient identification, measurement and monitoring of the aforesaid risks.

The Company's central aim is to identify and eliminate such risks, irrespective of whether or not they have given rise to any loss or damage.

Implementation of the model

The Corporate Risk Management Model in place enables the Company to identify, assess and quantify risks and so take appropriate action to reduce, mitigate or eliminate them.

The model is based on the system recommended by the COSO (Committee Of Sponsoring Organizations), which establishes an integrated framework for corporate risk management.

In the second half of 2007, the Company's various departments began to measure the effects of risks in terms of their impact and probability of occurrence using non probabilistic models. In the first six months of 2007 and in previous years, risks were assessed according to their relative scale and the Company's degree of control over them. The aforesaid change has been applied in respect of each and every process by the manager responsible for the process in question.

The control procedures described above ensure that the various departments apply standardised responses to the various risks, which responses consist essentially of policies and procedures drawn up by each of the departments and units for the purpose of containing and/or minimising the level of risk.

Internal Audit

The Internal Audit Unit is hierarchically dependent on the General Secretariat and reports directly to the Audit and Compliance Committee.

The core remit of Internal Audit is to monitor whether or not the internal controls established are being applied systematically and are sufficient to maintain the level of control desired, and, where appropriate, to suggest new control procedures.

The objectives, operating regulations, powers and responsibilities of Internal Audit are set out in the General Internal Audit Regulations approved by the Chairman of Enagás.

The Strategic Audit Plan and Annual Internal Audit Plans are drawn up to reflect those processes that, according to the Company's Risk Map, carry the greatest level of risk. The implementation of recommendations issued is also subject to annual follow-up.

The Company's Internal Audit Plan for 2007 was approved by the Audit and Compliance Committee at its meeting of 22 December 2006.

In the course of 2007, the head of the Internal Audit Unit met with the Audit and Compliance Committee each quarter to present the conclusions reached and main recommendations set out in the Internal Audit reports, and to report on the degree of implementation of the various recommendations.

3.2.4. THE ENAGÁS SHARE

The Ibex 35 closed 2007 ahead 7.32%, at 15,182 points, placing it among the year's best performing European indices. The general index of the Madrid securities exchange gained 5.60% in the year.

The hallmarks of stock market performance in 2007 were volatility, uncertainty and jitteriness, which were accentuated in the summer months by the crisis in the US sub-prime mortgage segment. However, following the US Federal Reserve's decision to cut its base rates in September, the markets recovered a degree of stability and ended the year in positive territory.

Share performance

Enagás closed 2007 in positive territory for the fifth year running, with a share rerating of 13.45%. At the year-end the share was trading at €19.99, equivalent to a market capitalisation of €4.772Bn.

The Enagás share struggled at the start of 2007 following the announcement of changes to the regulatory framework in which the Company operates, sinking to a low for the year of

€15.86 on 19 January. After the Company unveiled its Strategic Plan in April and the markets began to perceive the regulatory framework as somewhat less uncertain, the Enagás share began to rally, reaching a record high of €21.67 on 14 December and closing the year at €19.99. The average Enagás share price in 2007 was €18.27.

As regards volume turnover, a total of 769.1 million shares changed hands in 2007 (a daily average of 2.5 million shares), which represents a 73.4% increase on 2006 trading volumes.

At 31 December, Enagás ranked 13th among the most actively traded shares on the Spanish stock exchange.

Share capital and shareholder structure

At December 31 2007, Enagás had fully subscribed, paid-in share capital totalling €358,101,390.

This capital was represented by 238,734,260 ordinary shares, each with a nominal value of €1.5, included on the official list of all four Spanish stock markets and also admitted for trading on the continuous market.

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

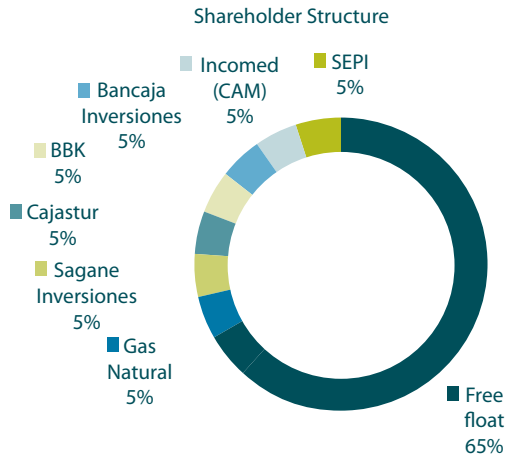
New legislation passed in 2007 included Law 12/2007, of 2 July, which introduced a 5% maximum limit on direct or indirect ownership interests in the Company's capital for individuals and legal entities alike as well as a 3% limit on the exercise of voting rights.

In addition, the new law stipulates that companies operating in the gas sector and those that have direct or indirect ownership interests in the capital of such companies exceeding 5% may not exercise voting rights in respect of the Technical System Manager in excess of 1%. These restrictions will not apply to direct or indirect interests held by public-sector enterprises.

A number of changes in the structure of significant shareholdings in Enagás' capital were recorded in 2007.

In July, Bilbao Bizkaia Kutxa (BBK) informed the CNMV that it had acquired 5% of Enagás' share capital. In this same month, the Spanish Government authorised the Spanish State Holding Company (SEPI) to acquire 5% of Enagás' share capital, an ownership interest that SEPI reached and reported to the CNMV on 23 November.

The shareholdings of the other significant shareholders were unchanged from 31 December 2006, with Inversiones Cotizadas del Mediterráneo, S.L. (CAM), Banca Inversiones S.A., Cantábrica de Inversiones de Cartera, S.L., (Cajastur), Sagane Inversiones S.L. and Gas Natural SDG S.A. each maintaining interests of 5% in the Company's capital at 31 December 2007.



The Company had free float of 65% at 31 December 2007. On the basis of information available to the Company, approximately 31% of free float is held by Spanish investors, while the remainder is owned by international investors located principally in the United Kingdom and the United States.

Dividends

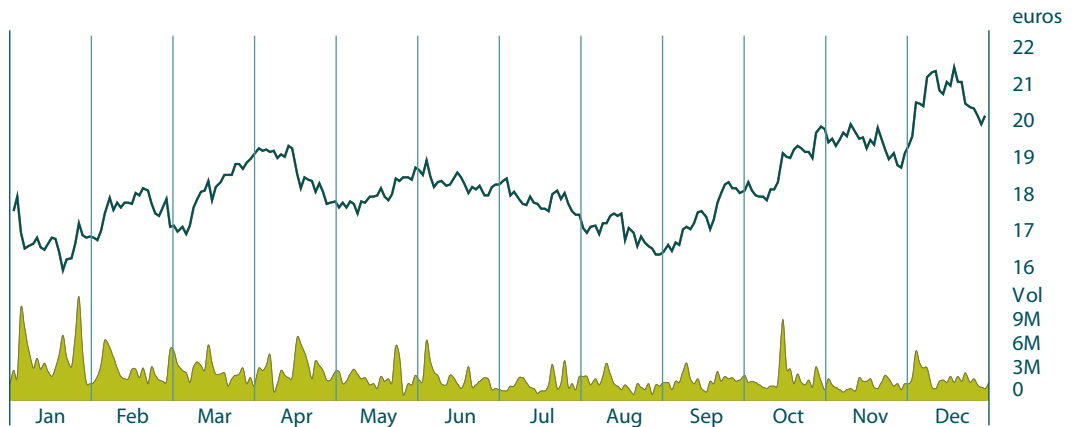
At the 2007 Annual General Meeting shareholders resolved to increase the percentage of net profit assigned to the distribution of dividends to 60%, up from 52% in 2006. This move is a testament to Enagás' commitment to maximising value for its shareholders.

The results achieved by Enagás in 2007 mean that the Company is able to propose the distribution of a gross dividend of €0.60 per share at the General Meeting, which, if accepted, will represent a 27.7% increase on the previous year's dividend.

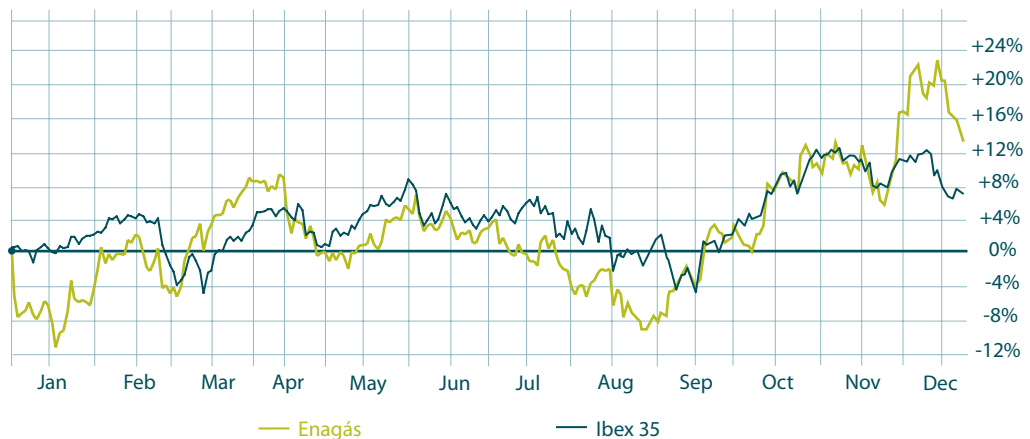
On 10 January 2008 a gross dividend of €0.24 per share was paid from Enagás' 2007 earnings. This means that, if approved, the Company will be paying an additional gross dividend of €0.36 per share.

The Company's dividend yield was 3% of its share price at 31 December 2007.

The stock of Enagás in 2007



Enagás vs. Ibex 35 in 2007



Dividends

	2002	2003	2004	2005	2006	2007
Total amount (millions euros)	55.04	71.01	79.06	95.48	112.64	142,97
Interim dividend	21.49	28.65	31.04	38.20	45.36	57.30
Additional	33.55	42.36	48.03	57.28	67.28	85.68
Gross dividend per share (euros)	0.23	0.30	0.33	0.40	0.47	0.60**
Interim dividend	0.09	0.12	0.13	0.16	0.19	0.24
Additional	0.14	0.18	0.20	0.24	0.28	0.36
% over nominal share value	15.30%	20.00%	22.10%	26.60%	31.33%	39.92%
Dividend yield*	4.00%	3.50%	2.70%	2.53%	2.67%	3.00%
Pay-out (%)***	50%	50%	50%	50%	52%	60%

**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

Stock market and financial variables per share

	2002	2003	2004	2005	2006	2007
Nº of shares (millions)	238.7	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	4,771.6
Price at 31 December	5.80	8.60	12.20	15.80	17.62	19.99
High share price	6.49	8.68	12.20	16.00	21.14	21.67
Low share price	5.11	5.79	8.19	11.46	15.16	15.86
Average	5.73	7.13	9.44	13.66	17.42	18.27
Days quoted	128	250	250	256	254	253
Share volume (millions)	304.5	223.3	255.7	425.8	443.6	771.2
Turnover (millions euros)	1,903.5	1,574.5	2,416.2	5,710.8	7,742.4	13,950.3
Net earnings per share (EPS)*	0.46	0.59	0.66	0.80	0.91	1.00
Book value per share*	3.57	3.91	4.18	4.65	5.17	5.63
Dividend per share (DPS)	0.23	0.30	0.33	0.40	0.47	0.60**
PER (Price/earnings ratio)*	12.61	14.58	18.42	19.75	19.36	20.03
PBV (Price/Book value per share) *	1.62	2.20	2.86	3.40	3.41	3.55

*Data at December 31

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

The figures for 2004, 2005, 2006 and 2007 have been booked under IFRS

3.3. COMPANY INFORMATION

3.3.1. EMPLOYEES

Enagás' considers its employees to be its most important asset, being directly dependent on them for fulfilment of the Company's objectives. For this reason, the Company deems it essential to create a workplace environment conducive to professional growth and development.

Its human resources strategy is underpinned by the values expressed in its Mission Statement, which set out the Company's commitment to its people, and to facilitating their professional development.

In 2007, the Company made further advances in its ongoing drive to make all its people contributors to the achievement of global goals. This entailed the incorporation of all persons not covered by the collective wages agreement within the Company's management-by-objectives model.

Another of Enagás' commitments to its employees is its ongoing drive to reconcile their personal interests with the global interests of the Company. As a result of its efforts in this direction, in April 2007 Enagás obtained the Family-Responsible Company Certificate promoted by Fundación +Familia and awarded by the Ministry of Labour and Social Affairs. This accreditation ratifies Enagás' commitment to developing and implementing a management model that promotes equal opportunities, integration and work-life balance.

In addition, in the course of 2007, Enagás successfully concluded the process of adapting its entire organisational structure to the segregation of functions (Technical System Operator and Gas Carrier) rendered obligatory by the entry into force of Law 12/2007.

The new organisational model, the corresponding assignment of processes, functions and people, and the mechanisms necessary to ensure their efficient operation, were defined with the corresponding objectives in mind:

- Ensuring correct segregation of functions, while at the same time avoiding superfluous operations and/or duplication of effort.
- Guaranteeing a stable and efficient work climate that fosters the professional development of all persons involved.

Our human resources

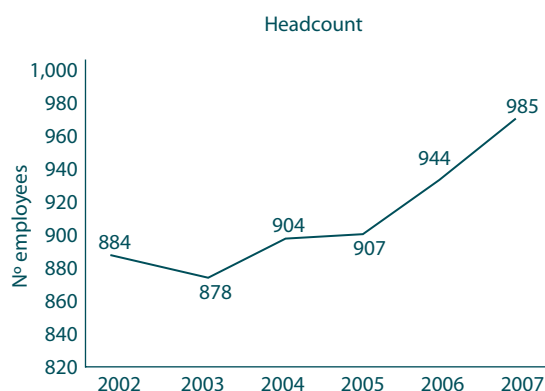
Workforce expansion

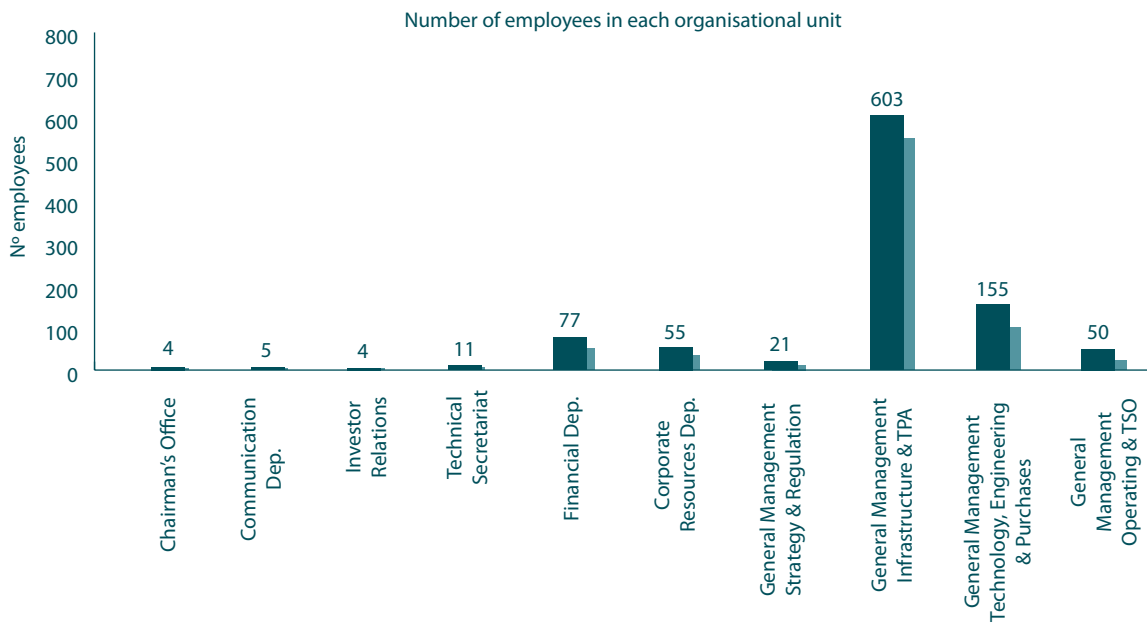
Enagás recruited a total of 63 new employees in 2007, taking the year-end headcount to 985, up 4% on the end-2006 figure.

At 31 December, women accounted for 20% of the total workforce.

In order to guarantee successful implementation of the ambitious investment plan Enagás has been pursuing in the past few years, in 2007 the Company made additional hirings to ensure an adequately-sized workforce. This workforce expansion is likely to continue over the years to come, given the expected increase in the Company's asset base.

In terms of the distribution of staff across the different organisational units, the majority work in departments associated with the development and maintenance of Enagás' infrastructures.





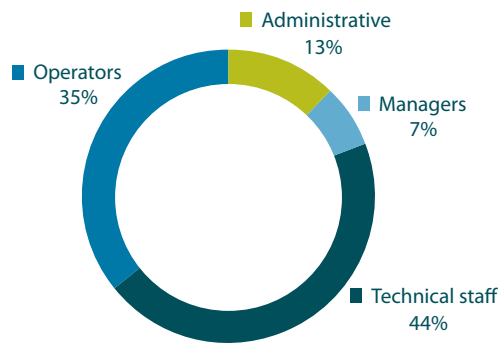
Professional profile

Technicians make up the largest professional group in Enagás, accounting for 44.4% of the total workforce at the end of 2007. The proportion of technical staff has increased significantly in recent years as a result of the ongoing policy of providing technical training for the workforce. The number of new technical staff hired by Enagás in 2007 was

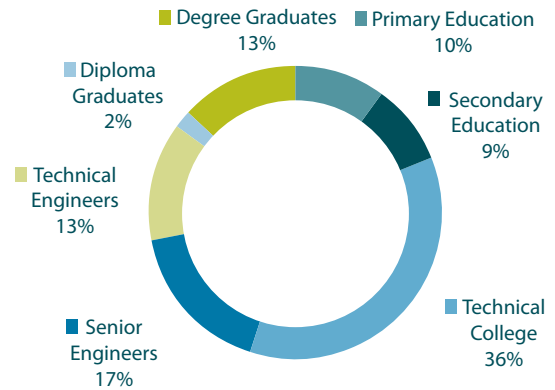
23, an increase of 3% over 2006 and an aggregate increase of 20% since 2002.

This tendency among the workforce to become more technically qualified is also reflected in the average level of qualification among staff; the professional groups that have seen the greatest increase in number of employees are Engineers and Senior Engineers.

Employees by professional category



Workforce by professional group



Employees by sex division and women/men vs. basic wage

Category	Women	Men	Total	%	% vs Basic wage
Managers	8	65	73	7.4	-14.63
Technical	89	345	434	44.1	-1.49
Administrative	91	38	129	13.1	-4.30
Operators	11	338	349	35.4	-5.07
Total	199	786	985	100	

Changes in workforce by level of education

	2007 Joined	2007 Left	Workforce increase
Senior Engineers	25	10	15
Technical Engineers	3	6	-3
Diploma Graduates	1	2	-1
Degree Graduates	13	1	12
Technical College	19	3	16
Secondary Education	1	4	-3
Primary Education	1	1	0



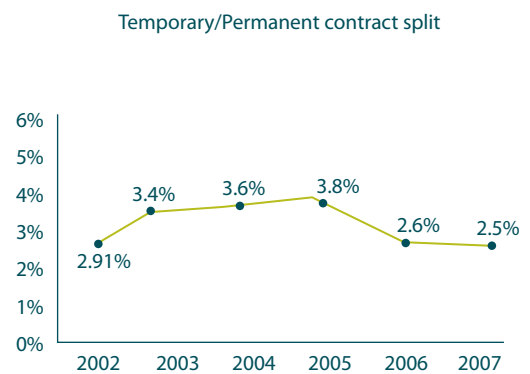
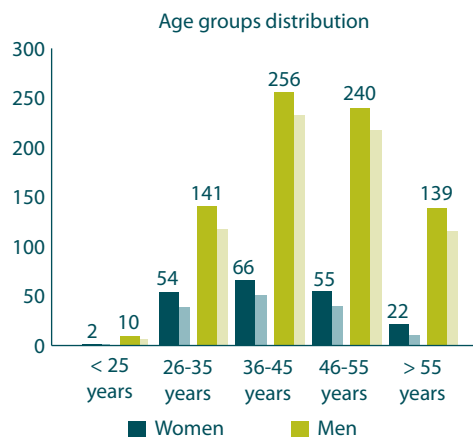
The average age of the Enagás' workforce at the end of 2007 was unchanged at around 44 years. The human resources department regularly monitors this average across the different departments and different levels in the Company and endeavours to create a constant balance between succession plan reviews, internal career progression plans and recruitment needs.

Stable, quality employment

Enagás' endeavours to provide stable, quality employment are borne out year after year by its low level of staff turnover (4.2% in 2007) and low rate of absenteeism (5.31% in 2007). In addition, at 31 December 2007, average length of service with the Company was 16 years.

Employees by professional category and age

Age	MANAGERS		TECHNICAL		ADMINISTRATIVE		OPERATORS	
	Man	Woman	Man	Woman	Man	Woman	Man	Woman
< 25 years	0	0	0	2	0	0	10	0
26-35 years	2	1	75	37	3	10	61	6
36-45 years	20	4	98	34	6	26	132	2
46-55 years	19	1	105	12	21	39	95	3
> 55 years	24	2	67	4	8	16	40	0
	89%	11%	79%	21%	29%	71%	97%	3%





This quality and stability of employment is also reflected in the type of employment contracts offered by Enagás. At the end of 2007, 98% of its staff were in permanent employment while just 2% were on temporary contracts.

The HR management and development model

Over the past few years Enagás has been making ongoing adjustments to its human resources management model to reflect the increasing importance accorded to values including work-life balance, personal fulfilment and professional development.

Accordingly, Enagás has sought not only to improve the stability and content of remuneration packages, but has also endeavoured to provide its employees with a good work-life balance and the professional development and training tools that will enhance their motivation as well as their skills and qualifications.

The remuneration model for staff not covered by the collective wages agreement consists of two elements:

- Variable remuneration determined via a management-by-objectives model.
- Fixed remuneration determined principally via the performance appraisal model.

At the end of 2007, the management-by-objectives model was used to determine the remuneration of all staff not covered by the collective wages agreement (31% of the total workforce).

The human resources department is responsible for coordinating application of the management-by-objectives model. Once the Company's overall objectives have been set, this entails coordinating their adaptation and individualisation to departmental and personal requirements. The aim of this coordination is to ensure the integrity and homogeneity of the model, such that it constitutes not only a remuneration tool but also a core people management and personal development tool.

Staff included in the management by objectives model

	2006	2007
Staff managed by objectives (December)	243	306
% Staff managed by objectives (*)	90%	100%
Nº employees joining the Company	152	63

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

The performance appraisal model for staff not included in the collective wages agreement has been in place for some years now and therefore has sufficient sophistication to be used both for professional development monitoring and for salary reviews in relation to fixed remuneration.

This model is applied for all senior and middle managers, i.e. the 43% of the workforce excluded from the wages agreement.

The model is used to assess the extent to which the actions of the Enagás management team is aligned to the values of the Company and to analyse individual performance with reference to a number of critical attributes (teamwork, leadership skills, etc.).

For staff included in the collective wages agreement (680 employees), in 2007 the Company continued to roll out its new Professional Development System based on annual appraisals

of employee performance. This system encourages personal development and provides incentives for personal effort and contributions to the Company's goals.

The rollout of the new model meant that 78% (531 employees) of this employee group were involved in performance appraisals last year.

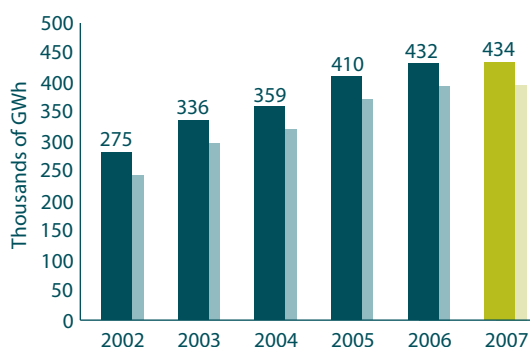
A Monitoring and Development Committee has also been established for this employee group, which met three times with the various union representatives in 2007. The Committee considers various elements of the work conditions of staff covered by the wage agreement, including promotion, personal and professional development within the Company, and training.

In 2007 the average wage of Enagás' employees was 2.45x the minimum guaranteed interprofessional wage.

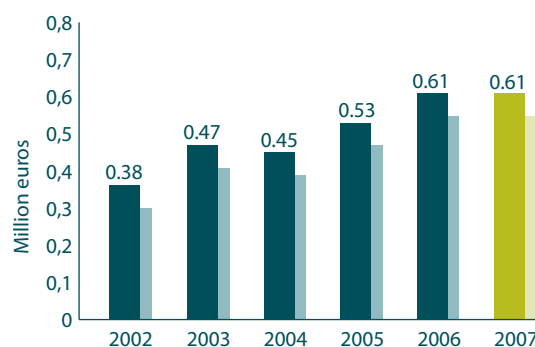
Professional groups	Remuneration Level	Minimum Legal Salary	Times MLS
Technical staff	28,197.44	8,400	3.36
Administrative	17,925.76	8,400	2.13
Especialista técnico	19,864.00	8,400	2.36
Servicios auxiliares	16,181.60	8,400	1.93

Operating efficiency

Transported natural gas demand by employee



Operating Cash-flow by employee



Training

Significant efforts were made in training in 2007, resulting in a 6% increase in the number of training hours per employee compared with 2006. By the year-end, 96% of the workforce had received training of some kind and a total of 35,242 hours of training has been provided, via 216 different courses.

Although training was provided in all areas, it was the Company's management skills training programme that saw the greatest increase in training hours relative to 2006. The main objective of this programme is to ensure that management staff develop a global, inclusive vision of the Company, to assimilate new knowledge and tools in the field of management, and to maintain an efficient, employee-driven management model. Six management skills training programmes were given in 2007, accounting for a total of 4,251 training hours and attended by 11 delegates.

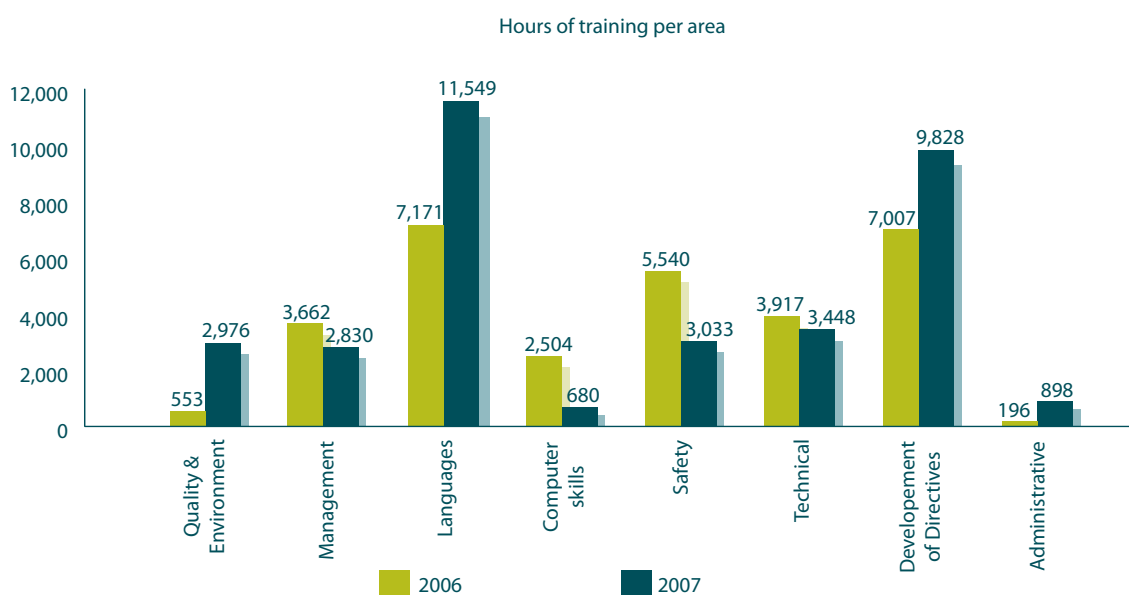
Other important training initiatives in 2007 included the development of a Management Refresher Training Programme – a long-term training programme ran by highly-regarded management training specialists at the IESE business school in Barcelona and Euroforum business school in Madrid. The key elements of this integrated training programme are:

- Competitive assessment.
- High degree of personalised content.
- Provision of the tools participants need to take decisions from a integrated general management perspective.

The programme gives participants the opportunity to analyse their specific responsibilities in an integrated manner and helps them to place the tasks assigned to them within the overall framework of the Company's general objectives and policies.

Training Indicators

	2006	2007
Training hours per employee	33.24	35.44
Investment per employee (€)	451.25	384
Nº courses	212	216
Nº attendees	1,327	1,618
Total investment (€)	414,700	488,046
Total training hours	30,551	35,242





In addition, in response to requirements raised by recent audits and certifications, in 2007 the Company significantly increased the number of training hours dedicated to environmental and quality issues.

A total of 2,040 hours of environmental training were provided in 2007, in face-to-face courses attended by 280 employees.

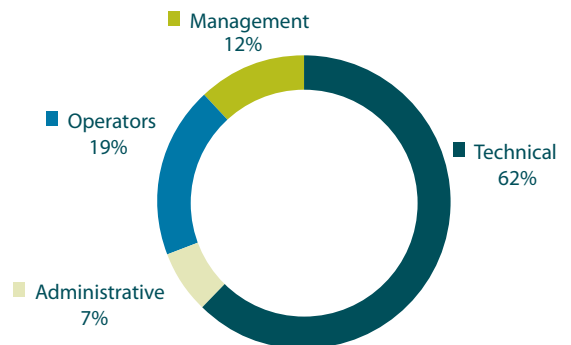
To design the content of these courses, the Company considered the environmental training needs associated with each individual position, according particular attention to those positions that involve waste management functions and/or the execution of environmental monitoring programmes.

As part of its commitment to ongoing health and safety staff training, in 2007 Enagás further developed the training initiatives launched in 2006 that cover the risks deriving from the possible presence of explosive atmospheres in the workplace.

The usual training courses on subjects such as occupational risk prevention management, fire prevention and protection, emergency situations, first aid and safe working at heights also continued.

One of the main priorities of Enagás' human resources policy is to protect the Company's internal knowledge base. Internal training is therefore particularly important, as borne out by the fact that in 2007 69% of all training was internal rather than external, compared with 67% in 2006.

Hours of training per professional category



Type of training



Training expenses



Internship plan

In 2007, the Company took on 55 new interns (6% of its total workforce) to receive practical training and experience that will facilitate their subsequent incorporation within the labour market.

Work-life balance

Another of Enagás priority targets is to foster a healthy balance between its employees' professional and personal lives. To this end, Enagás has made a firm undertaking to

being a Family-Responsible Company, an accreditation it was awarded by the Fundación+Familia on 17 April.

To gain the aforesaid accreditation, the Company developed a comprehensive programme entailing the implementation of a communication and training programme and adoption of measures fostering work-life balance as part of the first phase of an awareness-raising drive that lays the foundations for a solid programme of ongoing improvements. The programme provides a framework for the following series of measures already in place at Enagás:

Stable employment

Measures fostering stability of employment

- The Company's permanent employees are guaranteed stable employment for the term of the collective agreement.
- Leave on personal grounds may be granted for a period of one to five years
- Holiday and temporary sick leave are permitted during trial periods.
- Every effort is made to redeploy employees in their existing location in the event of relocations.

Flexible employment

The Company has also taken steps to make its timetables more flexible with a view to fostering work-life balance and

to this end has rolled out an individual work time management system that will ultimately be extended across the entire Company.

Measures fostering flexible working conditions

- Flexible start times.
- Flexibility to lengthen/shorten lunch breaks by half an hour.
- Continuous working day (without lunch break) from 1 July to 30 September.
- Continuous working day every Friday throughout the year.
- Flexibility in taking holiday leave, with possibility of three separate breaks.
- Three rest days to be taken at employee's discretion.
- Leave for all employees from 24 to 31 December.

Professional development and skills training

Measures fostering professional development and skills training

- Job swaps possible between positions with similar duties.
- Annual training plan for newly-recruited staff.
- Annual management refresher training plan.
- Annual training plan for redeployment or adjustment to a new position or function.
- Performance and professional development appraisals.
- Assistance given to employees wishing to complete a course of academic study.



Support for employees' families and people with disabilities.

Another new initiative in 2007 was the development of a family assistance program designed to help employees achieve an appropriate balance between their working and family lives.

The family program covers employees, their parents, spouses/partners and children, has been extended across the whole of Spain, and is intended to provide for the needs of all employee groups.

The programme embraces a broad spectrum of measures ranging from personal care and specialist treatment to in-home preventive health care and support designed for people at risk due to illness, solitude, age, disability, high-risk pregnancies and domestic violence. Assistance is available 24 hours a day every day of the year and is supplemented by advice and guidance services on issues of a medical, legal, psychological, social and nutritional nature.

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

Enagás awarded grants worth a total of €155,959 in the 2007/08 academic year in the form of 613 separate awards to 378 employees.

A total of 44 employees requested study grants for their own purposes and were between them awarded a total of €12,055. These grants were used for the following purposes:

- 7 post-graduate engineering diplomas
- 20 engineering degrees/diplomas
- 5 level 2 vocational training courses
- 12 language training courses

Family assistance coverage (% utilization of conciliation measures)

Personnel Selection	0.51%
Tele-assistance	1.33%
Specialized treatment services	1.84%
Home help service	2.55%
Telephone orientation service	13.88%



For employees' children who have disabilities and receive special needs education, Enagás pays 80% of the fees.

In 2007, 26 Company employees took paternity leave and 15 employees were granted reduced working hours to allow them to care for children under eight or other family members who due to their age were unable to cope on their own.

To promote family-responsible practices, the collective agreement currently in place establishes a minimum notice period of three months in situations where, for technical and/or

organisational reasons, employees are required to relocate and stipulates that every effort should be made to effect the transfer during school holiday periods.

As a further measure to prevent disruption of the work-life balance, employees that are relocated for company reasons are given a period of three months during which, where duly justified, they are permitted to return to their former place of work. These employees also have first refusal on any vacancies that may arise at their level at their original work location.

Measures supporting employees' families and people with disabilities

- Special leave is granted for various reasons related to direct family members, on terms exceeding those established by law.
- Every effort is made to schedule relocations due to organisational needs during school holiday periods.
- Study grants for employees' children.
- 80% of school fees covered for children of employees who have disabilities and receive special needs education.
- Priority in choice of holiday dates given to employees with children of school age.
- First refusal on appropriate vacancies given to employees with diminished capacity to perform their present function.
- Special leave given to employees with diminished capacity until they reach retirement age.

Social benefits

Pension plan

All Enagás employees who have been at the Company for at least two years are entitled to join the company pension scheme. This is a mixed pension scheme incorporating defined contributions and defined benefits 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.

Group life and accident insurance

A life and accident insurance policy is taken out for all employees that provides the same permanent disability and death cover as the pension plan. The policy covers the period between joining the Company and the time when employees become eligible to join the pension scheme.

Medical assistance companies

Enagás is constantly seeking to improve the scope and quality of service that employees receive from the various medical assistance companies. To this end, it has taken out group policies with three medical assistance companies providing nationwide coverage between which employees are free to choose. These companies cover employees from the time they join the Company for any condition that could afflict them, their spouses/partners and children.

The cover available to Enagás employees also includes international medical assistance and a repatriation service in the event of serious illness or accident outside Spain.

Loans and advances

In 2007 Enagás concluded an agreement with a bank that gives its employees access to loans (mortgages and personal loans) at better-than-market conditions. For advances of salary payments of up to three months, Enagás pays the interest.

Social benefits

- Temporary incapacity supplement of up to 100% of salary.
- Salary advances, extraordinary payments, and up to three months interest free.
- Personal loans where Enagás meets the finance charges.
- Meal subsidies (subsidised dining rooms, financial assistance or lunch vouchers).
- Group insurance providing cover in the event of death, full, permanent disability and severe disability.
- Pension plan.
- Private medical and health care insurance for employees and dependent family members.
- Medical service and preventive health campaigns.

Employee services

- Support for cultural, sporting and social activities.
- Free hot drinks and subsidised soft drinks .
- Parking.
- On-site cashpoints.

Labour relations

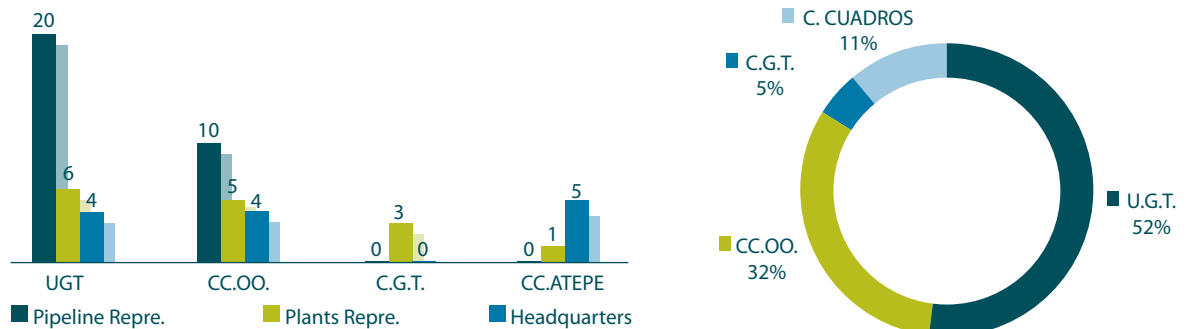
At the end of 2007, 69% of Enagás staff contracts were subject to the 14th Enagás collective wage agreement which was signed in 2005 by all the major trade unions active in the Company. This agreement is effective for a period of four years (2005-2008).

In 2007, the annual wage agreement review committee met several times with the main trade union representatives to

consider the various issues affecting labour relations between the Company and its employees. There were 55 trade union representatives at 31 December 2007.

The collective wage agreement currently in place gives representatives of the trade unions with representation at Enagás of more than 10% the right to be informed prior to execution of any corporate plan that could materially affect employee interests, although no minimum notice period is specified for the Company.

Trade union representation



3.3.2. SOCIAL ACTION

The focus of Enagás' social action policy is to provide urgently-needed assistance in regions in which the Company has offices and/or industrial facilities.

The Company therefore supports social projects that benefit underprivileged groups including the elderly, the disabled and children. The environment, education and cultural sponsorship are also priority elements of its action plans. In 2007, Enagás once again provided ten "in total support of education" grants for children aged six to 18 who have Down's Syndrome and special needs due to other disabilities, in collaboration with the Madrid Down's Syndrome Foundation. The grants help these young people, throughout their educational life, to become fully integrated into all aspects of home, school, work and social life.

To improve quality of life for Down's sufferers and their families, the Company also worked with the Asido Association in Cartagena (Murcia), helping to fit out its occupational therapy workshops.

Also in 2007, Enagás funded refurbishments at the Home for the Elderly in Brihuega (Guadalajara) and supported the social and cultural initiatives of various other foundations working with the elderly and sick, including the International Josep Carreras Foundation, which works to combat leukaemia.

For a further consecutive year, as part of its work to support marginalised children, Enagás provided practical and financial support for the second-hand market in Madrid operated by Nuevo Futuro, an NGO that works to provide homes for youngsters growing up outside the family environment. It also donated equipment and other materials to various schools.

Enagás also donated IT equipment to a number of state-run social and educational institutions, so helping facilitate access to new information technologies for all social groups.

One of the Company's principal management objectives is to strike a balance between industrial and economic progress and care for the environment. For this reason, supporting environment-related projects is another of Enagás' specific focuses. In 2007, this commitment led Enagás to take part in the Bosque Solar de Doñana project in the Parque Dunar de Matalascañas (Huelva). This initiative, which aims to foster the use of clean energy sources, will produce more than 162,000 kilowatts each year, while at the same time preventing the atmospheric emission of more than 60 tonnes of CO₂ per year and the use of more than seven tonnes of oil.

Enagás also continued to support the environmental group, *Asociación para la Defensa de la Naturaleza y los Recursos de*

Extremadura (ADENEX), an association that contributes to the protection and defence of the nature reserves and common historical, artistic and cultural heritage of Extremadura, in particular providing ongoing funding for the environmental education programme at the Sierra Grande de Hornachos nature reserve in Badajoz.

Once again in 2007, Enagás worked to promote and disseminate culture by sponsoring a number of events and activities organised by prestigious cultural institutions including Madrid's Lyric Theatre Foundation and Barcelona's Gran Teatre del Liceu Foundation, two foundations that aim to foster the free creation and representation of lyrical and musical art and choreography and promote research into Spain's lyrical and musical heritage.

Other major cultural programmes sponsored by Enagás in 2007 included the Week of Culture organised by International Solidarity. The focus of this NGO's work is to identify, support and implement development and humanitarian aid projects in the world's poorest countries.

Enagás also helped organise various cultural events in locations including Brihuega, in Guadalajara as part of its work to support popular culture in those areas where it has offices or industrial facilities.

Throughout 2007, Enagás worked to disseminate knowledge of the gas sector by giving talks at Spain's most important energy forums, including the *Club Español de la Energía*, and various educational institutes, including the Oviedo University Foundation and Cartagena's Politécnica University in Murcia.

Enagás also works to promote the development of best practice in corporate governance. In 2007, efforts in this area included the Company's collaboration with *Acción Social Empresarial* (ASE, or Social Action in Business), an association that works with businesses and executives to promote ethical principles in governance.

2007 acknowledgements

In 2007, Enagás reaffirmed its commitment to the United Nations Global Compact, an ethical commitment initiative that encourages companies worldwide to incorporate within their strategy and operations ten universal principles concerning human rights, work, the environment and the fight against corruption.

The aim of the initiative is to foster a global corporate citizenship that makes it possible to reconcile business interests and processes with the values and demands of civil society and the projects of the UN, sector-specific international organisations, trade unions and NGOs.

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



The ten principles of the Global Compact

Principle 1

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

Principle 2

Businesses should ensure 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

Businesses 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

Businesses 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

Businesses 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.

In addition, in recognition of its work in the area of Corporate Social Responsibility (CSR), in September 2006 Enagás was admitted to the FTSE4Good, the index composed of those companies that set the benchmarks in best CSR practice. The criteria used by the FTSE to determine which companies should be admitted to this index cover social responsibility, environment, relations with shareholders, employees, clients and suppliers, and respect and support for human rights.

In April 2007, Enagás was also awarded the Family-Responsible Company Certificate, an accreditation that attests to the Company's application of policies that foster work-life balance and the introduction of new family-responsible initiatives.





3.3.3 VISITS TO COMPANY INSTALLATIONS AND INVOLVEMENT IN INDUSTRY ASSOCIATIONS AND FORUMS

Visits to Enagás installations

A total of 42 visits to Enagás were organised in 2007. The Barcelona plant was the most frequently visited, with 22 visits and a total of 628 visitors.

Enagás was actively involved in the organisation of the LNG 15 World Conference held in Barcelona in April, which was attended by 2,869 delegates from 72 countries. Besides being a member of the National Organising Committee and arranging technical visits to its Barcelona gasification plant, Enagás had a stand at the Conference that welcomed and gave information to more than 900 people.

Between 24 and 26 April, Enagás arranged for more than 350 people to visit its Barcelona plant. In addition, a number of leading industry figures were received in Enagás' Hospitality Room, including the Minister for Industry, Tourism and Trade, Joan Clos.

The Barcelona plant received a further three visits in May, welcoming representatives of Stream Repsol-Gas Natural LNG, Qatargas, employees of Gas Natural, and senior officers of ERG.

In June the plant was visited by a delegation from the regional authorities of Trieste in Italy, accompanied by representatives

of Gas Natural, by representatives of Total, and also by representatives of Shell and shareholders of Priolo.

The more high profile visits included, in November, visits from the Chairman of the Spanish energy watchdog (*Comisión Nacional de Energía*, or CNE), Ms. Teresa Costa Campí, accompanied by a number of directors of this regulatory body, and from the Chairman of the Barcelona Port Authority, Jordi Valls i Riera.

The Cartagena plant received a total of six visits and 79 visitors in the course of last year, welcoming the Mayoress of Cartagena, Pilar Barreiro Álvarez, and delegations from the companies Sumitomo and Neftegaztop.

The Huelva plant had three visits, attended by a total of 39 visitors, including representatives of the Gas and Electricity Department of Shell, a delegation from the ICO and representatives of Gascan, accompanied by a delegation from the Canary Islands regional authorities.

Nine visits were organised to Enagás' head offices, which were attended by a total of 62 visitors. The most high profile visitors were the Minister for Industry, Tourism and Trade, Joan Clos, and the Director for the Economy and Technological Innovation of the Community of Madrid, Fernando Merry del Val.

The Serrablo underground storage facility was visited last year by 15 students from Zaragoza University, while the compressor station in Algete welcomed 20 representatives of the Ministry for Industry, Tourism and Trade.

Involvement in industry associations and forums

National associations	Remits
SEDIGAS (Asociación Española del Gas)	<p>Sedigas is involved in standardisation, training, professional accreditation, and publishing activities and is authorised to represent the Spanish gas industry in dealings with the public authorities, standardisation and accreditation bodies, professional associations and other national energy sector agents.</p> <p>As Spain's largest gas carrier and the Technical System Operator, Enagás is not only a member of its Committee of Gas Transporters but also a member of the Management Committee and Standing Committee.</p>
ENERCLUB	<p>ENERCLUB works on the national and international stage to promote reflection, debate, and training, and to raise awareness in all aspects of energy knowledge. ENERCLUB also works to disseminate knowledge of energy-related issues and to defend and promote the interests of all actively involved in the energy sector. Enagás is an active member of the Board of Directors and Executive Committee of ENERCLUB, and of its Hydrocarbons Chapter. Enagás also contributes to its various information days, seminars, courses, etc, by sending top-level representatives to share their experience and knowledge of the gas sector with delegates at such events.</p>
GIE (Gas Infrastructure Europe)	<p>GIE is a European association of 57 companies that own and/or operate basic gas infrastructures (transportation networks, regasification plants and underground storage facilities) in 27 European countries.</p> <p>GIE is becoming the main counterparty to the European regulators (ERGEG) and the European Commission, working to defend the interests of infrastructure operators before European institutions. GIE also actively contributes to the creation of the single European market by fostering cooperation between Europe's regulatory bodies and other sector associations and helping to draft new European legislative and regulatory developments. GIE also carries out individual actions and initiatives designed to encourage and increase the development of the infrastructures needed to guarantee security and diversity of supply, to promote interconnections between national markets and, in short, to accelerate the liberalisation of the European market.</p> <p>GIE is composed of three associations: GTE (Gas Transmission Europe), GSE (Gas Storage Europe) and GLE (Gas LNG Europe), grouping together, respectively, transportation network operators and/or owners, storage providers and LNG operators.</p> <p>As an operator involved in all three areas, Enagás is a full and active member of all three sections of GIE and a proactive contributor to the association's various working groups.</p> <p>As the leading player in the European LNG industry, Enagás also chairs the association of European LNG plant operators (GLE) and is a member of the Executive Committee of GIE.</p> <p>As chair of the GLE, Enagás has spearheaded various initiatives, including GLE's contribution to the GGPLNG (Good Guidelines Practices for LNG system Operators) that ERGEG published in 2007. The GGPLNG constitute the foundations of the new European regulations governing access to regulated LNG terminals.</p> <p>In 2007, Enagás hosted the Annual GIE Conference, held each year in a different EU country, in Madrid. Over three days this event brought together in Madrid more than 300 top-level representatives of Europe's main gas companies, as well as representatives of the European Commission, European regulators and sector associations. The event gave Enagás the opportunity not only to cement its image as the LNG leader in Europe but also to show its commitment to becoming more closely involved in pan-European activities.</p> <p>Enagás is also a member of GIE's SSE (Safety, Security, Environment) Study Group.</p>



<p>▶ EASEE-gas</p>	<p>This association has 84 full members and 25 associate members. EASEE-gas promotes Common Business Practices, or CBPs, with a view to simplifying and unifying the processes associated with gas transactions between its members and thereby achieving an efficient and effective gas market.</p>
<p>GIIGNL (Grupo Internacional de Importadores de GNL)</p>	<p>GIIGNL fosters the development of LNG-related activities including purchases, imports, maritime transportation, regasification, etc. In 2007 Enagás led a study into access conditions for all plants in Europe that included a detailed comparison of tariffs and tolls. After its presentation by Enagás at the GIIGNL general meeting, the study proved extremely popular with members representing Asian and US companies.</p>
<p>IGU (International Gas Union)</p>	<p>The IGU is composed of the gas associations representing the national industries of 68 countries. The Union looks into problems associated with the gas industry with a view to fostering its expansion, from the technical, economic and regulatory points of view alike. IGU also promotes cooperation and knowledge sharing between gas technicians working in its member countries. Via SEDIGAS, Enagás actively contributes to and promotes IGU initiatives via its involvement in working groups such as PGC B (Strategy, Economics and Regulation), PGC D (LNG), WOC 2 (underground storage facilities) and WOC 3 (transportation).</p>
<p>UNECE</p>	<p>An organisation that makes active contributions to specific areas of the gas industry, the United Nations Economic Commission for Europe (UNECE) is composed of government representatives from its more than 56 member nations. Enagás took part in the UNECE Working Gas Party on two occasions in 2007, presenting and promoting the Company, as well as the Spanish LNG market and gas industry in general.</p>
<p>LNG 15 GNL 15</p>	<p>Enagás was honorary sponsor of the organisation of this high-profile international event, which is held every three years and attracted more than 2,000 representatives of the LNG industry to Barcelona for the four- day period running from 24-27 April.</p>
<p>19th World Petroleum Congress</p>	<p>Enagás is the official sponsor of the 19th World Petroleum Congress that will take place in Madrid between 29 June and 3 July 2008. As a member of the Congress' Organising Committee, Enagás also has a key role in the event's organisation.</p>
<p>GERG</p>	<p>The core remits of the GERG are to coordinate research and technological development in the gas sector, guarantee gas supply, protect the environment, increase energy efficiency and security and reduce production, transportation, storage, distribution and usage costs. Enagás is a member of the Executive Committee of this association.</p>
<p>MARCOGAZ</p>	<p>Marcogas is involved in drafting European legislation, standards and accreditations relating to safety, responsible use of energy and protection of people and the environment in the fields of gas transportation, distribution and utilisation. Enagás is a member of the Marcogaz Standing Committee for Gas Infrastructures and takes part in the joint environment, health and safety group, which deals with other safety- and environment-related aspects of the gas sector via various working groups.</p>

Enagás sees active participation in national and international forums and associations as crucial to exchanging experience, promoting the joint development of improvement opportunities and fostering cooperation with other companies and bodies engaged in R&D&I projects. Accordingly, it regards increased involvement as one of its top priorities.

In the technological area, Enagás is closely involved with the following organisations:

- The Spanish Gas Association, *Asociación Española del Gas* (SEDIGAS)
- The Spanish Association for Standardisation and Certification, *Asociación Española de Normalización* (AENOR)
- The International Organisation for Standardisation (ISO)
- The Technical Association of the European Natural Gas Industry (MARCOGAZ)
- European Gas Incident Group (EGIG)
- European Association for Streamlining of Energy Exchange (EASEE-gas)
- International Group of LNG Importers (GIIGNL)
- European Gas Research Group (GERG)
- International Gas Unión (IGU)
- Pipe Line Safety Group (PSG)

In 2007 the Company also took part in various environment and safety forums. The main issues debated and developed by the Company at these forums were:

- The development of guidelines and developmental indicators
- The study of climate change and related problems
- The reduction of methane emissions
- Review of security- and safety-related problems and regulations potentially impacting on gas systems and components
- Analysis of product life cycles

Lastly, in addition to its involvement in the forums detailed above, Enagás has a seat on the Gas System Monitoring Committee, which holds meetings every two months that are attended by representatives of all Gas System operators, the General Office of Energy Policy and Mines, attached to the Ministry for Industry, Tourism and Trade, the National Energy Commission and, depending on the items on the agenda, the Electricity System Operator.

3.3.4. HEALTH AND SAFETY

Occupational Risk Prevention

In 2007, Enagás completed the definition of its Risk Prevention Management System (SIGPRI), which will be rolled out initially at its regasification plants and underground storage facilities and subsequently extended to the management of transportation pipelines and supporting installations, including compressor stations and regulation and metering stations. Once the roll-out is complete, the Company's compliance with regulatory requirements in the fields of occupational risk prevention and industrial safety will have been reinforced by self-imposed requirements that bring health and safety standards at all facilities up to the level already existing at regasification plants.

These changes will be approved and implemented in early 2008, after being submitted to a process of consultation in which employees will participate through the intermediary of their representatives. In addition to the Regulatory Inspection and Audit of risk prevention measures in place, in 2007 Enagás submitted its regasification plants to the process of certification under international standard OHSAS 18001 for the first time, such that its regasification plants will benefit from this certification from the start of 2008. This process covered all activities at these plants, from the planning and construction of additional installations and/or extensions through to their commissioning.

In 2008 the Company intends to commence the same process for its gas pipeline transportation installations and aims to complete the entire process in 2009.





ENAGÁS, S.A.'S PREVENTION POLICY

For Enagás, workplace efficiency and safety, the health of its employees and respect for its environment are strategic management factors compatible with, if not essential to achieving its financial and social objectives.

Each and every employee shares in the responsibility for preventing risks in their own particular area, although responsibility for ensuring adequate risk management lies with directors and line managers.

Health and safety in the workplace is understood to be not only the right of every employee but also an obligation that the Company assumes in addition to complying with minimum legal prerequisites. The Company works on the basic principle that all accidents can be prevented.

Enagás aspires to be recognised by its employees, customers and suppliers, the public authorities and the public in general as one of the leading companies in risk prevention.

The principles underpinning its risk prevention action plans are subject to continuous improvement and regular revision, in order to guarantee optimum efficiency.

In line with the principles of its risk prevention policy, Enagás has assumed the following undertakings:

- To comply with the legal requirements established in the area of occupational health and safety.
- To manage the technical, human and material resources necessary to fulfilment of its objectives in a responsible manner.
- To make risk management a central element of the Company's policies that is of equal importance to all others.
- To identify, measure and manage the risks deriving from its activities, so as to guarantee, as far as reasonably possible, the protection of people and property.
- To establish self-protection plans that guarantee the prevention and control of risks to people and property and provide appropriate responses to potential emergency situations.
- To provide all staff in its employment with regular health checks in respect of the risks inherent in their jobs.
- To adopt the best technologies available and equip the units responsible for implementing the Risk Management System with the technical and human resources necessary and economically viable to fulfilment of the targets set for them.
- To foster a policy of communication, dialogue and consultation between workers at all levels, as well as through their representatives, in pursuit of maximum possible transparency.
- To train all employees in and keep them regularly updated, through the established reporting lines, on the safe handling of installations and equipment as well as on emergency procedures.
- To develop the Risk Prevention Management System into a tool for structured, logical preventive action that is the fruit of a concerted planning effort.
- To correctly inform all employees and authorities of the risks at all industrial plants and the technological safety measures available.
- To make all management teams responsible for the fulfilment of risk prevention objectives, requiring them to take corrective action when established programmes are not observed or results achieved are inadequate.
- In addition, in accordance with prevailing legislation, Enagás has established a specific policy for dealing with serious accidents.



Fdo. Antonio Llardén Carratalá
CHAIRMAN

Coordination of Business Activities

Enagás' Risk Prevention Management System covers not only the safety of its employees but also extends to contractors working with the Company. Accordingly, Enagás requires all contractors to provide documentation attesting to their compliance with legislation pertaining to occupational risk prevention and the environment, and with the internal regulations defined by the Company, from the time invitations to tenders and contracts are issued until the work to be carried out is actually executed.

At the tendering stage, Enagás' Procurement Department provides all bidders with the information defined in the internal procedure on the Coordination of Business Activities. This document includes a set of forms (concerning information on risk prevention and contractors' accreditation) that must be completed by all bidders, together with the Safety Regulations for Contractors, the Work Permits Regulations, and the General Environmental Requirements, compliance with which is obligatory for all contractors.

At the contracting stage, the Company's Risk Prevention and Environmental Department, its equivalent at the regasification plants and the risk prevention and environmental transportation technicians act as Coordinators of Business Activities (Royal Decree 171/2004). Companies successful in bidding for contracts with Enagás receive information on and/or an assessment of the risks existing in the area in which their employees will be working, the measures in place to prevent these risks and the procedure to follow in the event of emergency. The contractor assesses the risks and plans preventive actions on the basis of this documentation.

Finally, in the execution stages, contractors undertake to comply with all safety regulations established by law or defined by Enagás. While the work is in progress, the Coordinator of Business Activities holds monitoring meetings with the contractor and carries out inspections to check compliance with the risk prevention measures established.

Monitoring health and safety protection

In 2007, Enagás made significant advances in respect of the controls needed to protect the health and safety of employees exposed to the risks associated with the existence of explosive atmospheres in the workplace.

For its new facilities and compressor stations, Enagás has drafted internal regulations that will facilitate preparation of the Protection Against Explosions Documents (DPCE) required by law and will improve the quality of the processes used to measure the risks to which employees working in explosive atmospheres are exposed. At the same time, it continued to adapt those facilities already in service before the aforesaid law took effect and to implement the corresponding corrective measures.

Self protection plans for emergency situations and practice drills

The self protection plans designed to ensure that the decisions and actions to be taken in emergency situations are implemented in a swift and systematic manner are another of the Company's priorities in this area. The plans were put into practice and subjected to an annual revision with practice drills attended by the competent authorities. The results were satisfactory and enabled the Company to make any improvements to the measures to be implemented that were needed.

Lastly, in view of the specific characteristics of compressor station and the protective methods available there, in 2007, the Company developed a new self protection plan designed specifically for these installations, which will supplement the general emergency plan for gas pipelines.

Serious accident prevention and safety

With regards to the serious accident prevention and safety requirements at regasification plants established in the regulatory framework set by the European Union's Serious Accident Directives (CORAG/SEVESO), Enagás once again passed the compulsory inspections in 2007.

Inspections and audits

In 2007, Enagás performed various inspections and audits to check its contractors' compliance with the risk prevention measures defined by the Company and in applicable legislation.

- **OHSAS 18001:2007 audits:** Audits were carried out at Enagás' regasification plants to check that they conformed to the aforesaid standard. One of the focuses of the audit was the operational aspects of the prevention measures, including operational controls of contractors. These audits are performed by third-party specialists on an ongoing basis, with certifications requiring renewal every three years.
- **Mandatory risk prevention audits:** These audits were performed by an accredited external audit firm. Beginning 2007, under prevailing legislation, these audits will be required every two years. The entire risk prevention management system is checked at these audits, including contractor controls.
- **Serious accident audits:** These audits are performed at Enagás' regasification plants by an external audit firm on an annual basis. Their purpose is to check operational controls, including contractor controls.
- **Internal audits:** The focus of these audits was compliance with applicable legislation and the occupational risk prevention



system. In 2007 their scope was limited to regasification plants, but in 2008 the Company's transportation facilities will also be covered.

Financial resources

In 2007 expenses specifically associated with risk prevention came to €4.3Mn, which represents a 40% increase on the previous year. This significant increase is due to the costs incurred in the revisions required to implement the legislation on explosive atmospheres, the cost of acquiring new fire protection equipment, the cost of maintaining explosimeters, safety appliances, personal protection devices, etc.

Accident indices

The statistics on accidents reflected in both the frequency index (which shows 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) show that, at the end of 2007, Enagás' figures were well below the averages for companies active in the Spanish energy sector.

Furthermore, in 2007, the Company's success in controlling the number of accidents in construction work at new infrastructures was confirmed, with the frequency index showing a 20% fall from the 2006 level.

Frequency indices comparison



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 2007 are pending publication.

Severity indices comparison



Employee participation

Enagás has an Intercentre Health and Safety Committee, a regional body to which the individual workplace risk prevention representatives and health and safety committees required under prevailing legislation and existing at the Madrid head office and all LNG plants report. This Committee represents the Company's entire workforce on health and safety issues and is composed of six risk prevention representatives appointed by the trade unions with the greatest representation in the workforce and six representatives of senior management.

Employees are able to exercise their rights of consultation and participation through the intermediary of this Committee, resulting in measures more stringent than those required by law being agreed for the following areas: activities that cannot be performed by a single employee working alone, use of communications equipment in classified areas, vehicular transportation of dangerous goods and pressurised gas bottles, clothing and other safety equipment, etc.

In addition, health and safety meetings are held with risk prevention representatives every four months – a frequency exceeding the minimum requirement set by law – to consider risk prevention measures implemented in the Transportation Department's work centres.

Raising health awareness at the Company

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 2007, a total of 2,011 medical consultations were performed. Also, 333 actions related to various vaccination programmes and 60 actions within the risk campaigns were carried out.

Enagás also makes considerable efforts to raise people's awareness about different aspects of occupational health. The

most high-profile examples of this commitment in 2007 were the information campaigns relating to cardiovascular risk prevention, bird flu, advice on giving up smoking, protection from the sun, heat stroke, and precautionary measures and vaccinations before travelling to high-risk countries.

Main Medical Service Actions

	Total 2007
Assistance work	
Nº consultations	2,011
Vaccination campaigns	
Flu vaccination	235
Tetanus vaccination	21
Prevention campaigns	
Individual help to stop smoking	14
Cardiovascular risk prevention	260
Health protection	
Medical check-ups performed	955
Early detection of pathology	189
Ergonomic measurements	17

3.4 TECHNOLOGICAL INNOVATION

Technological innovation is a constant in all areas of Enagás' work, from the research and development of the new products and processes needed to carry out the Company's activities in a secure, efficient, profitable and environmentally-friendly manner through to its involvement in and contributions to European projects and studies, for which Enagás provides a clear benchmark in the use of new technologies for the storage and regasification of liquefied natural gas (LNG) and the transportation of natural gas.

LNG storage and regasification

In 2007, the European Gas Research Group (GERG), which Enagás chairs, made further advances with the MOLAS project, an initiative aimed at developing physical and statistical models that can be used to establish the age of liquefied natural gas (LNG) and any changes to its properties occurring during tanker transportation. The results of this research will have applications in both Operating Safety (stratification in tanks) and Quality (calorific power limits and Wobbe Index). Development of the physical model was completed in the course of 2007, and the results were presented at the project progress meeting held in Barcelona in October. Work is currently underway on the statistical model, which is due to be completed in September 2008.

In addition, Enagás launched a new LNG sampling and vaporisation project. The aim of this project is to design, develop, implement and commission an innovative, integrated system for LNG sampling and vaporisation, the main application for which will be the precise measurement of both the quality of the LNG pumped into plants from LNG tankers and the quantity of energy thus transferred. The system's design was completed in 2007, its component parts acquired and construction initiated. The new installation will be brought into service in May 2008.

Also in 2007, Enagás concluded the second phase of a joint project with Cartagena's Politécnica University to develop a reliability model for LNG plant equipment and installations. The work concluded has allowed for the development of a simplified availability model for the Cartagena plant, for which it was also necessary to develop submodels for equipment faults and scheduled and unscheduled maintenance. The third phase of the project will be completed over the next two years. This phase will cover new equipment as well as looking at installations already included in greater detail and will extend the model to the Barcelona and Huelva plants.

Natural gas production

Various reports on odourisation have been prepared with a view to ascertaining and proving the technical and economic benefits of substituting the odourant currently used (100% THT) with a mix (70% THT/30% TBM) that requires a significantly smaller volume of odourant (around 40%) to produce similar levels of odourisation.

The GERG "Power Particles Measurement" project progressed with the definition and construction of an experimental system for measuring powder particles and suspended substances that may be contained in natural gas and analysis of the preliminary results.

Other technical economic improvements considered in 2007 included an analysis of the possibility of using lower-power micro turbines (up to 30 kW) in regulation and metering stations as an alternative to the supply of energy via electric cable.

Operations

Another important advance achieved in 2007 was the conclusion of the "Electra" project, the aim of which was to predict demand for natural gas to generate electricity in both thermal and combined cycle plants. The application takes into account the various alternative sources of electricity existing –i.e. nuclear, renewable energy sources, traditional sources, etc.– as well as the most influential parameters in the equation –i.e. temperature, wind level, rain, business day vs. holiday, etc. The results obtained from this modelling exercise provided the foundations for the second phase, in which the model will be integrated within various existing applications so that it may be consulted and used by the different units interested.

The "Proteo" application, which predicts long-term demand for natural gas was also finalised in the course of 2007.

Safety

In conjunction with other European gas companies, in 2007 Enagás continued work on various projects and studies looking into the risks affecting gas pipelines, principally developing the PIPESAFE calculation tool.

As part of its work with GERG, the Company took part in a project testing the viability of a system that detects gas pipeline cracks and leaks by measuring the sound that such effects transmit to the pipeline. The system proved viable for linear pipelines, but the signal processing systems require further development before they can be used for pipelines with compressor stations or consumption point exits.



Gas measurement and quality

The GERG “Benchmark Calorimeter” project came to an end after the equipment had been constructed, commissioned and tested for accuracy. The new calorimeter developed constitutes an advance on existing calorimetry techniques in that it makes it possible to measure the calorific power of the components of natural gas with a degree of uncertainty of less than 0.05%. This new instrument will allow for more accurate measurement of the energy contained in natural gas.

Progress was also made in the drive to improve gas volume measurement with 2007 seeing the conclusion of basic engineering work, significant advances with detailed engineering, and the purchase of the main equipment needed for the construction of a calibration bank of high-pressure gas meters at Enagás’ Central Laboratory in Zaragoza.

With the same end in mind, another new project launched in 2007 focuses on assessing the state of the art in energy measurement station supervision and monitoring systems. This project highlighted the advantages of using such systems, principally at stations equipped with ultrasonic meters, and accordingly the decision was taken to draw up technical specifications with a view to commencing the acquisition and roll out of a pilot test comparing the various technological alternatives in existence.

Within the framework of the GERG project looking into the use of Coriolis effect meters to measure gas volumes, further tests in addition to those initially planned were carried out at the E-01 Calahorra metering station. Although the project is not yet concluded, preliminary conclusions indicate that the technology in question should be improved in order to reduce the effects of the configuration of the installation on accuracy of measurement.

To more accurately quantify energy pumped from LNG tankers to plants, technical statistics have been drawn up to determine the most representative amount of LNG transferred.

Last year also marked the culmination of the GERG dew point measurement and identification project. This project involved comparing the performance of the various applications developed to determine the dew point and the accuracy of the various systems available on the market. A similar project now underway in the United States has fuelled interest in possible coordination between the two projects with a view to sharing results and experience.

Energy efficiency

In 2007, Enagás continued its work to design, build and commission an electricity generation plant at its Almendralejo compressor station using a “tail-end” cycle based on an organic Rankine cycle that uses the thermal energy from the exhaust gases emitted by turbine compressors to produce electricity. Construction of the facility is already 80% complete and operating and output tests are planned for May and June 2008, as soon as the line for exporting the electricity generated is finished (4.6 MW maximum capacity).

In this same field of action, and after concluding the relevant technical and economic feasibility studies, in 2007 Enagás carried out the various administrative formalities necessary to begin planning and building another organic Rankine cycle at the Huelva regasification plant that, using seawater in the hot reservoir and LNG in the cold, will partially regasify the gas and generate electrical energy. The Andalusian authorities’ initial reaction to the proposals was positive and the Company is therefore now in frequent contact with the local electricity company to resolve any outstanding issues prior to the definitive launch of the project.

3.5 QUALITY

A quality policy aligned with Company strategy

Taking the current 2007-2012 Strategic Plan and the recent update of the Company's mission and values statement as its point of departure, in 2007 the Company also updated its Quality Policy.



Quality policy

Enagás' quality policy takes as its basis the Company's mission as Technical System Manager and gas carrier and is underpinned by the following principles:

- **Customer focus**, guaranteeing that requirements are satisfied in all services offered by Enagás.
Respect for commitments assumed and cooperation with customers, system operators, suppliers and society in general, in order to guarantee sustainable development.
- **Compliance with regulations**, ensuring that the Company's operations are at all times aligned with prevailing legislation and actively contributing to its efficient implementation.
- **Transparency and confidentiality**, thereby ensuring that the various system agents are aware of the rationale for its actions and guaranteeing confidentiality and discretion in the management of third-party information.
- **Ongoing improvements and excellence in management**, establishing the indicators needed to monitor processes, identifying, through these indicators, any possible irregularities, and proposing and implementing the necessary corrective measures.

Senior management assumes a commitment to enforcing the above values, undertaking to spearhead and foster the actions needed to successfully implement this quality policy.

The Chairman

A handwritten signature in blue ink, appearing to read "Alfonso", written over a circular stamp or seal.

December 2007



A model for excellence in Technical Management of the Gas System

Enagás revised its Map and Inventory of Processes in 2007 and all level-one processes across the entire Company are now standardised. Level-four (maximum level of detail) and all intervening level processes are also standardised for the majority of the activities related to Enagás' business. The objective for the short term is to enhance process monitoring and to standardise support processes.

Also in 2007 Enagás began the process of extending its UNE-EN ISO 9001:2000 certification, which currently covers the gas measurement process, to cover its activities as Technical System Manager. This extension of certification is considered a priority objective and is a pivotal element of Enagás' medium-term quality planning.

In pursuit of this objective, the Company concluded the first phase of the project in December 2007, consisting of a

preliminary audit of the quality management system in place within the technical system management department conducted by the certifying body. The results of this audit suggested that the quality management system for the technical system management department could be ready for certification in the course of 2008.

Securing this certification will cement Enagás' transparency and objectivity as Technical System Manager, as well as reaffirming its commitment to achieving ongoing efficiency and operational improvements in this capacity.

In addition, and also included in the aforementioned medium-term plans, the Enagás Management Model envisages a move towards a more sophisticated management model. With this in mind, in 2007, the Company conducted a comparison of its technical system management model and the management model of the EFQM (European Foundation for Quality Management).

3.6. ENVIRONMENTAL INFORMATION

3.6.1. ENVIRONMENTAL MANAGEMENT

Enagás incorporates the principles of environmental protection and preservation in all its industrial and economic development activities with a view to guaranteeing sustainable development.

In line with this undertaking and the provisions of its environmental policy, Enagás has implemented an environmental management system certified under quality standard UNE-EN-ISO 14001 at the following facilities:

- Huelva regasification plant. Certified since May 2000.
- Barcelona regasification plant. Certified since December 2000.
- Serrablo underground storage facility. Certified since December 2000.
- Gas transportation department. Certified since December 2000.

- Cartagena regasification plant. Certified since July 2001.
- Technology unit. Certified since August 2002.

In the execution of all its activities, from the planning and construction of new facilities to the operation and maintenance of installations, Enagás incorporates measures designed to minimise any adverse impact and protect the immediate environment.

Enagás' environmental unit consists of:

- The Environmental Committee formed of the Company's senior management, which establishes environmental policies.
- The environmental groups responsible for implementing management guidelines.
- The Risk Prevention and Environment Unit, which coordinates and supports the organisational units in the development of environmental action plans.



3.6.2 ENVIRONMENTAL POLICY

Conservation and commitment to the environment are priority objectives for Enagás and all its workers. Protecting the environment is a factor in all business decisions, with the Company striving to balance industrial and economic progress with respect for the environment and so contribute towards sustainable development. To this end Enagás has pledged and assumed the following environmental principles and commitments:

- **Sustainable development.** To carry out its activities in an environmentally-friendly manner, ensuring future resources while also paying particular attention to energy efficiency, the fight against climate change and protecting the environment and its citizens in general.
- **Ongoing adaptation to applicable regulations.** To comply with the environmental legislation applicable to its facilities and activities. To take international standards and legislation trends into account when planning actions that may have a significant environmental impact, especially in those areas in which no applicable legislation currently exists.
- **Preventing pollution and assessing potential risks.** To apply the basic principle of pollution prevention and potential risk assessment from the planning and decision making stages through to the execution and implementation of new projects.
- **Continual improvement.** To ensure continual improvement by designing environmental objectives and targets for those environmental issues which need improving and which have been highlighted using a systemic and periodical evaluation of the environmental management system. Basic tools include audits and the use of environmental indicators when assessing the performance made in this field.
- **Minimising impact.** To constantly strive to identify, understand and improve environmental impacts caused by the Company's activities and facilities, and endeavour to achieve more efficient use of them, from their inception through to the end of their useful lives, paying special attention to those used in particularly sensitive areas.
- **Inclusion of environmental criteria in relationships with contractors.** To factor environmental criteria into decisions on the award of contracts for services and products and to inform contractors working with Enagás of the applicable environmental procedures and requirements.
- **Environmental cooperation.** To cooperate whenever required with authorities, NGOs and other public or private organisations in seeking solutions to any environmental problems that may arise.
- **Environmental communication and information.** To encourage 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 and guaranteeing the traceability of all environmental data and information used.
- **Employee training, motivation and involvement.** To ensure the correct training of employees depending on their activity and to encourage participation from all employees in order to achieve a continual improvement in environmental performance.

September 2007



Chairman of Enagás

3.6.3 ENVIRONMENTAL OBJECTIVES

Enagás' environmental objectives are defined in its Environmental Strategic Plan. The plan covers several years but is revised on an annual basis to update existing and incorporate any new environmental challenges facing the Company.

The 2005-2010 plan in place at the end of 2007 was revised in the course of the year to quantify specific plan objectives and reiterate the Company's key environmental goals:

- Reduction of greenhouse gas emissions
- Improved energy efficiency
- Protection of the environment

Line of action	Objective	2007 progress report
Reduction of greenhouse gas emissions	To eliminate atmospheric emissions of natural gas during start-up at compressor stations by installing 22 turbo-compressors with electric starter systems. (Scheduled for conclusion by 31/12/2010).	Installed at the Zaragoza and Alcázar de San Juan stations. Targets 60% met.
	To install low NO _x emission systems in the new turbo-compressors (Scheduled for conclusion by 31/12/2010)	
	To adapt cooling installations to reduce the percentage of plant using the coolant R-22 by 12% each year. (Scheduled for conclusion by 31/12/2008).	The coolant used was changed in 70% of installations in 2007.
Improved energy efficiency	To generate electricity at the Almedralejo compressor station, as a pilot installation for increasing energy efficiency in the use of combustible gas by more than 40%. (Scheduled for conclusion by 31/03/2008).	The system was installed in 2007.
	To generate electricity at regulation and metering stations (Scheduled for conclusion by 31/12/2009).	Objectives were pending quantification at the end of 2007.
	To generate electricity at the Huelva regasification plant, as a pilot installation for generating more than 80% of electricity consumed (Scheduled for conclusion by 31/12/2010).	
Protection of the environment	To reduce noise generated at regulation and metering stations, achieving results at three stations each year. (Scheduled for conclusion by 31/09/2009).	The action plan and resource requirements were drawn up in 2007.
	To adopt measures to protect wild birds at five electricity lines owned by Enagás. (Scheduled for conclusion by 31/12/2007).	This objective was 100% fulfilled in 2007, with measures being adopted at the five lines where the greatest risks were identified.
	To install 15 dual-wall underground oil and condensate collection tanks with leak detection systems in new compressor stations or extensions of existing stations. (Scheduled for conclusion by 31/12/2010).	Installed at the Zaragoza and Alcázar de San Juan stations in 2007. Targets 60% met.

In addition to the objectives set in the Environmental Strategic Plan, the various organisational units have defined their own

voluntary environmental objectives. The most important initiatives launched in 2007 were as follows:

Organisational Unit	Objective	2007 progress report
Transportation Department	To perform vapour tightness tests on underground oil and condensate collection tanks at compressor stations. (Concluded in 2007).	The target was 100% met in 2007.
	To replace ionic smoke detectors with optical detectors, taking resulting waste to a certified waste manager. (Concluded in 2007).	It was not possible to achieve 100% compliance with the target in 2007 so this has become a target for 2008.
	To develop a methanol recovery plant at the Serrablo underground storage facility.	In 2007 the technical economic feasibility study was completed for the project, which will commence in 2008.
Barcelona plant	To reduce emissions from venting and natural gas burn in flaring operations by 30% relative to 2006.	This target was 100% met in 2007.
Cartagena plant	To hold awareness-raising days for regular contractors. (Concluded in 2007).	The contractor awareness-raising days were held in 2007 and the target therefore met.
Huelva plant	To reduce atmospheric and flare emissions of methane, so reducing chromatograph venting on the boil-off line.	Work to meet this objective was initiated in 2007.

3.6.4 ENVIRONMENTAL PROTECTION MEASURES

Enagás' environmental protection measures may be grouped, depending on the unit responsible for them, into those related to engineering and construction activities and those specific to regasification, storage and natural gas transportation activities.

Projects in the planning and construction stage

In accordance with the Company's environmental policy and the regulations governing environmental impact assessments, at the start-up stage of all projects an environmental impact study or supplementary environmental report is produced that is used to identify the best possible location for the planned installation and the best available technology, with a view to reducing and minimising the environmental impacts of the work and the facility's subsequent operation.

In 2007 the Company provided the aforesaid environmental information and obtained the authorisation of the competent environmental authority to begin construction of the following installations:

- Montesa – Denia gas pipeline
- Underwater gas pipeline to the Balearic Islands
- Denia compressor station
- Almería – central axis gas pipeline
- Lelona – Haro gas pipeline
- Cartagena plant, increase of emission capacity to 1,350,000 m³(n)/h
- Navarra compressor station
- Increase of capacity at Haro compressor station

The principal environmental impacts of the work to build the above installations identified in the environmental impact studies are as follows:

Main effects of construction work on biodiversity

- Impact on vegetation of construction of access routes
- Impact on wildlife due to development and destruction of habitats
- Soil damage and pollution due to movement of earth



- Water damage and pollution where pipelines cross water courses
- Atmospheric impact of emissions of solid particles and noise

Subsequently, in the construction phase, the protective and corrective measures identified as being needed in the planning phase are implemented. To this end, the Company establishes Environmental Monitoring Programmes that provide a time schedule for the aforesaid corrective measures and are implemented under the on-site supervision of an environment specialist.

Protective measures

- Course of existing infrastructures followed to avoid deforestation and land clearance
- Water course crossing points chosen that have minimal impact on vegetation and wildlife
- Topsoil stored and preserved

- Access routes redirected or narrowed to avoid having to cut down trees
- Trunks of ancient tree species protected
- Timetable for execution of work altered to avoid affecting wildlife

Corrective measures

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

In 2007 the following environmental audits were performed in relation to projects in the execution stages, in order to guarantee compliance with the environmental requirements applicable in each case:

Environmental audits of projects in 2007	Kilometres	Nº audits
Falces- Irurzun gas pipeline	58	1
Arbós - Barcelona plant gas pipeline	72	2
Semicircle southwest of Madrid Section II	73	2
Villarobledo- Albacete gas pipeline	72.5	1
Alcázar de San Juan- Villarobledo gas pipeline	62	1
Albacete- Montesa gas pipeline	130	1
Splitting of Campo de Gibraltar branch, Phase II	14.5	1
Alcázar de San Juan compressor station		2
Zaragoza compressor station		1
D-06A Reocín valve position		1
O-02 Mieres valve position		1
S-03.3 Marbella valve position		1
Cartagena plant		1
Huelva plant		1
Total	482	17

The environmental monitoring programme continues in the years after the work is completed, the earth restored to its original state and the land affected replanted, in order to ensure the success of the corrective measures taken.

For all pipelines, the shortest route that avoids adverse impacts on habitats and protected nature reserves is selected. Where this is not possible, minimising and corrective measures are enhanced to reduce adverse impacts on the areas.

Landscape recovery

	2006	2007
Surface area replanted (m ²)	871,008	40,494
Surface area restored (m ²)	1,598,452	1,408,016

Gas pipelines built in protected areas

	2006	2007
Km. of pipeline built in protected nature reserves/km. of pipeline built	11.85 %	4.97 %

It is important to note that, once the pipeline has been sunk and the affected land restored, no environmental impacts or other evidence of the construction work remain, other than the valve positions and regulation and metering stations sited along the length of the pipeline.

Environmental protection measures in the operating phase

Installations with installed power capacity in excess of 20 MW – a group that includes the Barcelona, Huelva and Cartagena regasification plants, the Serrablo underground storage facility and some of the compressor stations on the basic gas pipeline network - are subject to the IPPC Act, which establishes integrated environmental permits as a means to defining and enforcing the environmental standards that installations must satisfy whilst in operation.

In 2007 the following integrated environmental permits applied for in 2006 were issued for all installations affected by the IPPC Act:

- Integrated environmental permits issued in 2007:
- Barcelona plant (extension work)
- Bañeras compressor station (extension work)
- Alcázar de San Juan compressor station (new facility)
- Seville compressor station (extension work)
- Haro compressor station (extension work)

- Navarra compressor station (new facility)

The main environmental effects identified in the operation of Enagás' facilities, grouped by category, are as follows:

- **Atmospheric emissions:** These consist of emissions of natural gas and pollutant gases produced by combustion facilities, most of which use natural gas as their fuel.
- **Noise pollution:** Noise is generated in the operation of various plant - compressors, regulators, etc.
- **Waste production:** The majority of waste produced by Enagás is a product of installation maintenance activities, with the exception of water with methanol, which waste is a product of the natural gas drying process at the Serrablo underground storage facility.
- **Consumption of natural resources:** Consumption of water, natural gas and electricity
- **Wastewater dumping:** Waste water consists of sewerage water and seawater used in the natural gas vaporisation process, which is discharged back into the sea at a slightly reduced temperature.
- **Soil pollution:** Considered a potential side-effect of accidental spillages or leaks.

The following environmental initiatives have been developed to control and monitor these effects:



Greenhouse gas emissions

The main greenhouse gases emitted are methane (CH₄) and carbon dioxide (CO₂).

Methane emissions are measured on the basis of the natural gas emissions produced by the venting necessary to the operation of certain equipment and purging from air to gas on new sections of gas pipeline.

The volumes of methane emissions resulting from these natural gas venting operations, expressed in tonnes and tonnes of CO₂ equivalent, are:

Venting emissions

	2006	2007
Natural gas emissions (thousands of m ³)	7,893	2,934
Methane emissions, CH ₄ (t)	5,021	1,866
Methane emissions, CH ₄ (t CO ₂ equivalent)	105,452	39,203

The reduction in natural gas emissions is due primarily to the installation of a safety flare, reliquefier and compressor at the Barcelona regasification plant in April 2006. This new plant eliminates venting emissions and the results of the changes were therefore clearly visible in figures for the initial months of 2007.

The reduced number of operating hours at compressor stations, which release natural gas into the atmosphere

during start-up and shut-down, also contributed to the reduction.

Carbon dioxide emissions are produced by combustion in the various points of industrial combustion – i.e. boilers (type C combustion points), turbo-compressors and vaporisers (type B combustion points). Natural gas is the fuel used at all points of combustion.

Carbon dioxide emissions at points of combustion

	2006	2007
Carbon dioxide emissions, CO ₂ (t), from industrial points of combustion	208,903*	154,190
Carbon dioxide emissions, CO ₂ (t) from vehicle fleet (**)	1,765	1,824

(*) The figure differs from that published in the 2006 environmental annual report because the latter did not include flare gas burnt at regasification plants.

(**) Calculated on the basis of data published in the 1990-2005 national inventory of greenhouse gases and revised in March 2007.

The reduction in carbon dioxide emissions due to combustion was made possible by less frequent use of turbines, which are the main points of combustion at compressor stations and use natural gas as their fuel. This reduced usage was achieved by applying operating procedures that determine and optimise the circumstances in which the turbo-compressors are brought into operation.

A further factor in the reduction in combustion gas emissions was the installation, in successive capacity extensions at regasification plants, of seawater vaporisers that make less frequent use of submerged combustion vaporisers possible.

Direct greenhouse gas emissions

	2006	2007
Direct greenhouse gas emissions (t CO ₂ equivalent)	316,120	195,217

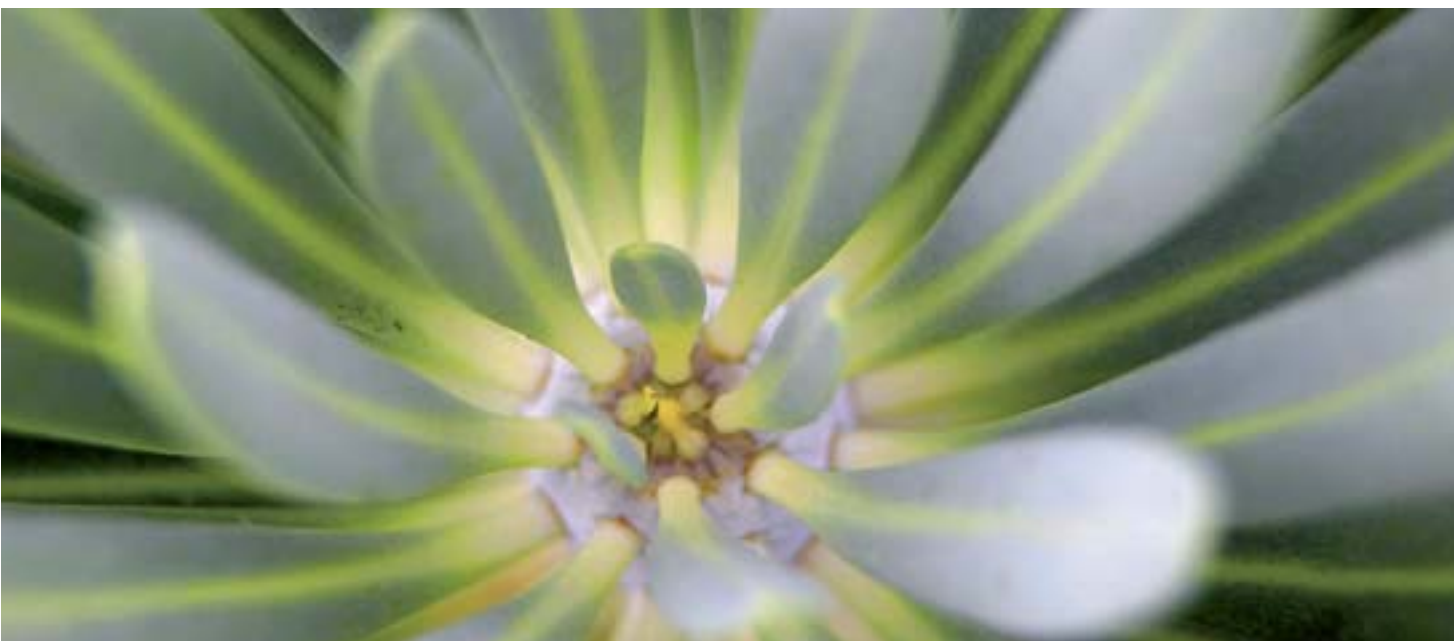
Indirect greenhouse gas emissions

	2006	2007
Emissions due to electricity consumption (t CO ₂ equivalent) (*)	94,126	83,970

(*) Calculated on the basis of the emission factor published by the International Energy Agency for Spain in 2006.

Total greenhouse gas emissions

	2006	2007
Greenhouse gas emissions (t CO ₂ equivalent)	410,246	279,187





Trading in emission rights

Enagás has established an emissions monitoring and verification system in order to comply with the Kyoto Protocol and qualify for the National Allocation Plan (NAP) for emission rights.

All installations with installed thermal power capacity in excess of 20MW are affected. For each of these facilities, an annual emissions report is drawn up, verified by an accredited body and filed with the competent autonomous community body before 28 February each year.

Emissions verified (t CO₂ equivalent)

	2006	2007
Serrablo underground storage facility	15,562	13,101
Barcelona LNG regasification plant	1,683	1,666
Cartagena LNG regasification plant	10,406	626
Huelva LNG regasification plant	2,820	1,059
Algete compressor station	11,121	6,595
Almendralejo compressor station	45,590	39,155
Almodóvar compressor station	11,761	10,661
Bañeras compressor station	4,206	3,500
Córdoba compressor station	4,991	1,196
Crevillente compressor station	5,346	109
Dos Hermanas compressor station	2,025	862
Haro compressor station	7,410	10,757
Paterna compressor station	8,482	273
Tivissa compressor station	20,400	14,590
Zamora compressor station	7,063	17,545

Emissions potentially harmful to the ozone layer

The only emissions of this type are those resulting from possible gas escapes from climate-control equipment that uses the coolant R-22.

In 2007, the Company began a drive to withdraw from its regulation stations all equipment that contained this coolant and replace it with equipment that uses R140 (which does not harm the ozone layer). A total of 89 R-22-based systems were

withdrawn and disposed of in accordance with legislation on hazardous waste and electrical and electronic waste.

Work to withdraw all equipment using R-22 at all remaining plants will continue throughout 2008.

Atmospheric emissions of other gases

The combustion of natural gas in the combustion points mentioned above also produces other pollutant gases - specifically carbon monoxide (CO) and nitrogen oxide (NO_x).

Atmospheric emissions of other gases

	2006	2007
Carbon monoxide emissions, CO (t)	49	36
Nitrogen monoxide emissions, NO _x (t)	35	40

CO emissions have been reduced as a result of maintenance work to improve combustion conditions at the installation in question. No reduction in NO_x emissions has been achieved, with levels unchanged from 2005.

To monitor emissions of pollutant gases produced in combustion, each year Enagás draws up an Environmental Monitoring Programme that entails execution of a series of mandatory and voluntary environmental controls applied at all points of combustion.

In 2007, atmospheric controls were carried out at 726 points of combustion on the basic gas pipeline network, 15 combustion points at plants and 12 combustion points at Serrablo.

Noise generation and emissions

Noise is generated by the operation of regulators at regulation stations and compressors and other equipment at compressor stations, plants and storage facilities.

Assessment of noise levels at facilities is key to controlling the noise impact on the environment. It also enables the Company to identify those facilities at which noise reduction measures need to be implemented.

In 2007 noise generated was measured at 39 facilities, with a high degree of compliance with the limits established in applicable legislation being verified.

In respect of noise generated at regulation stations, a study looking into the possible adoption of noise reduction

measures, including the installation of silencers at sources of noise and insulation of doors and grates, has been drawn up.

In 2007, a plan was drawn up that provides for the application of these measures at a total of 48 regulation stations identified as being priorities either because of the level of noise they generate or because they are located in areas sensitive to the impact of noise.

With regards to compressor stations, a study to select appropriate noise reduction measures for these facilities will begin in the course of 2008.

Wastewater dumping

Enagás generates two types of waste water - wastewater from sanitary use in plants, storage facilities, maintenance centres and compressor stations, and the seawater used in vaporisers at regasification plants, which is returned to the sea with its properties unaltered, the only change being a reduction in its temperature relative to the temperature of water captured for consumption.

Enagás does not dump wastewater into water courses located in protected nature reserves or considered to be of particular ecological value.

The total volume of seawater used at regasification plants discharged in 2007 was 434.0 Hm³.

Total volume of seawater used at regasification plants discharged

	2006	2007
Barcelona plant (Hm ³)	210	246
Cartagena plant (Hm ³)	96.4	69.5
Huelva plant (Hm ³)	198	118.5
Total (Hm³)	504.4	434.0

Wastewater from sanitary use is discharged into municipal sewerage networks or purification plants at a total of 25 installations and into authorised septic tanks at 19. As a result of the monitoring programmes established in 2007, 15 analyses of dumping at 10 transportation-network sites were carried out, and checks were performed on sanitary water and cooling-unit water used at regasification plants, in order to comply with the requirements of the relevant effluent permits.

Spillages and soil pollution

Enagás applies a series of measures to prevent the possible spillages of chemical substances that can occur in the exercise of its activities.

The measures adopted entail placing containment troughs and trays beneath storage facilities or equipment containing pollutant substances, as well as ensuring adequate maintenance of all equipment.

In spite of these measures, small spillages do occasionally occur, for example, when replacing oil in equipment or replacing containers, or when filling tanks (overflows).

The largest accidental spillages at regasification plants and the Serrablo underground storage facility in 2007 are detailed in the table below.

To precisely quantify the incidence of accidental spillages, a data collection system that will be rolled out in all installations potentially affected is currently being developed.

In 2007, Enagás prepared preliminary reports on soil conditions for all facilities at which chemical substances are stored, as required under Royal Decree 9/2005.

Waste management

Since 2001, Enagás' waste management system has entailed separating, storing and delivering to authorised waste managers all hazardous and non-hazardous waste produced at all its facilities, including the head office.

The majority of the waste produced in the Company's generation and gas transportation activities is waste associated with storage activities. This explains the considerable annual fluctuation in the quantity and type of waste generated.

In 2007 Enagás handled a total of 1,820 tonnes of waste, of which 1,575 tonnes was hazardous waste and the remainder (245) tonnes was non-hazardous waste.

	Oil spillages	Gasoil spillages	Hypochlorite spillages
Regasification plants and Serrablo storage facility	3	3	1

Non hazardous waste managed

Non hazardous waste	Quantity managed (t)	
	2006	2007
Inert industrial waste	86.7	72.5
Scrap metal	99 (*)	102
Paper and cardboard waste	32 (*)	37
Wood	8 (*)	23.5
Plastics	6 (*)	9.5
Total non hazardous waste	231.7	244.5

(*) Data corrected since last year's publication due to a calculation error

Hazardous waste managed

Hazardous waste	Quantity managed (t)	
	2006	2007
Water with methanol	1,395.8	1,412.4
Oil/water/detergent mix	59.8	100.7
Contaminated absorbent material	7.5	7.4
Used oil	6.8	13
Transformers with PCBs (*)	6.5	0
Spent batteries	5.9	10.3
Electrical and electronic scrap	5.8	12.9
Empty metal can waste	3.8	3
Empty plastic container waste	2.1	4.4
Contaminated gravel	3.7	0.9
Oil filters	2.6	1.8
Hydrocarbon waste	2.1	2.1
Used light bulbs	1.1	1.2
Solvent/antifreeze	1.0	1.9
Used disposable batteries	0.6	0.5
Swarf with lubricant	0.6	0.8
Paint	0.5	1.9
Aerosols	0.4	0.5
Total hazardous waste	1,506.6	1,575.7

(*) Last remaining PCBs existing at Enagás.

Waste treatment method

Non hazardous waste	Treatment method in 2007
Inert industrial waste	Disposal
Scrap metal	Recycling
Paper and cardboard waste	Recycling
Wood	Reconditioning/Elimination
Plastics	Recycling
Hazardous waste	Treatment method in 2007
Water with methanol	Reconditioning
Contaminated absorbent material	Reconditioning/Disposal
Used oil and oil mixes	Regeneration/Reconditioning
Spent batteries	Recovery/Disposal
Electrical and electronic scrap	Recycling
Empty plastic container waste	Recycling/Disposal
Contaminated gravel	Disposal
Oil filters	Recovery/Reconditioning
Hydrocarbon waste	Reconditioning
Used light bulbs	Recycling
Solvent/antifreeze	Regeneration
Used batteries	Recycling/Disposal
Swarf with lubricant	Disposal
Paint	Reconditioning



Consumption of auxiliary materials	2007
Consumption of tetrahydrothiophene (THT) (Kg.)	405,000
Consumption of methanol (litres)	330,400
Consumption of sodium hypochlorite (Kg.)	1,471,510
Consumption of triethylene glycol (TEG) (Kg.)	14,960
Consumption of oil (litres)	4,215

Consumption management

Since Enagás' activities do not involve productive processes per se, no raw materials are deemed to be consumed.

In accordance with its environmental principles, reducing consumption is a priority for Enagás when planning its activities.

Consumption of tetrahydrothiophene as a natural gas odorisant is largely determined by the obligatory concentration defined for this product in prevailing legislation applicable to gas transportation activities.

At the Serrablo underground storage facility, use of methanol prevents hydrates from forming during transportation of the gas extracted from the facility until its subsequent processing. To reduce methanol consumption, the Company plans to install a methanol recovery unit at the end of 2008.

Methanol is also used as a desiccant when new pipeline sections are brought into operation but its use has been considerably reduced by the adoption of alternative systems, such as dry air, when conditions allow.

With regards to consumption of triethylene glycol at the Serrablo storage facility, a regeneration system that makes it possible to keep redeploying this substance until its properties are exhausted has been in operation since the facility was brought into service. In 2007, this process resulted in the redeployment of 0.7% of total materials consumed.

Energy consumption

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

Indirect energy consumption consists of the electricity used at buildings and installations.

Energy efficiency improvement initiatives launched in 2007 included a project to generate electricity from residual thermal energy that began with a pilot test at the Almendralejo compressor station and is scheduled to come on stream in the course of 2008.

Consumption of water

The water used at Enagás installations is sourced from the municipal network and authorised wells.

None of these water sources is adversely affected by Enagás' consumption.

Communication, training and awareness-raising

Enagás' corporate website (www.enagas.es) includes a section on the environment where the Company's environmental principles and Environmental Strategic Plan are available for consultation. Key information on its main environmental management activities is also included.

For raising employee awareness of environmental issues, the Handbook of Good Environmental Practices designed for all employees is available on the Company intranet. This handbook contains guidelines to be taken into account when working at generation facilities, in offices and even at home.

Consumption of natural gas

	2006	2007
Consumption of natural gas (GWh)	998.56	818.63
Consumption of natural gas (GJ, 1GWh=3.600 GJ)	3.59 x 10⁶	2.94 x 10⁶

Consumption of electricity

	2006	2007
Total consumption of electricity (GWh)	219.41	195.74
Total consumption of electricity (GJ, 1GWh=3.600GJ)	789	704

Total water consumption by source

	2006	2007
Consumption of water from municipal network (m ³)	53,125	54,365
Consumption of water from wells (m ³)	22,444	23,783

Fuel consumption

Fuel consumption

	2005	2006	2007
Consumption of gasoil generating sets (litres)	(*)	33,389	59,772
Consumption of gasoil vehicle fleet (litres)	700,321	663,090	685,294
Total consumption of gasoil (Gj)			
(Gj, 1 m ³ gasoil=36.46 Gj)	25,533	24,176	24,985

(*) No data is available for 2005

Environmental costs

Environmental investments made by Enagás in 2007 amounted to €19.1Mn.

Costs incurred by the Company to ensure compliance with environmental protection and enhancement principles came to €0.8Mn.

Euros	2006	2007
Investments		
Research and development	1,577,960	3,682,593
Implementation of Environmental Strategic Plan objectives	2,169,000	4,419,845(*)
Environmental project studies	1,140,380	993,269
Archaeological studies and work	57,359	569,796
Landscape recovery	1,937,399	2,658,901
On-site environmental monitoring	295,982	588,609
Targeted and horizontal drilling	592,733	5,204,448
Other environmental improvements	388,909	1,002,022
Environmental management systems (*)	52,580	
Total investments	8,212,302	19,119,483
Expenditure		
Environmental management systems	124,700	165,692
Environmental controls at installations (noise, emissions and effluents)	128,220	94,990
Waste management	457,100	469,500
Implementation of Environmental Strategic Plan objectives		45,703
Environmental studies at installations		17,373
Total expenditure	710,020	793,258

(*) Linked to an investment project in 2006.



CORPORATE GOVERNANCE



4.1. CORPORATE GOVERNANCE AT ENAGÁS

For the Enagás Board of Directors, good governance principles and practices are key to cementing shareholder confidence, increasing economic efficiency and fostering value creation.

For this reason, the Board is firmly committed to complying with all good governance standards and recommendations that enhance the transparency and reliability of the financial information published on the markets.

Enagás embarked on the process of adapting to these values when it adopted the measures established in Law 44/2002 of 22 November, known as the Financial System Reform Act. This act was the point of departure for a new drive to incorporate best practice in corporate governance and sustainability.

Accordingly, following the introduction of the Financial System Reform Act, at the Ordinary General Meeting held on 25 April 2003 shareholders resolved to amend the Company Bylaws to incorporate two new articles governing the Audit and Compliance Committee and the Appointments and Remunerations Committee (concerning, inter alia, their organisation, operation, competition and assigned powers).

In addition, at the Board meeting held on 24 July 2004, the Directors approved a new Internal Code of Conduct on matters relating to the securities markets that incorporated the provisions of Law 24/1988, the Securities Market Act, as amended by Law 44/2002.

In particular, a new section 3 was added governing privileged or confidential information that sets out the rules of conduct to be observed in respect of the same, procedures for ensuring that share prices are correctly established, and provisions regarding periodic market reporting obligations and transactions in treasury shares.

This new section also includes exhaustive regulations on related-party transactions, conflicts of interest, the duties incumbent on the Company and associated persons, and the responsibilities of the Board Committees in relation to these issues.

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 all cases before any decision relating to the possible conflict of interest is taken.
- Update information, including any change or end to the previously notified situations, and any new conflicts of interest arising.
- Refrain from participating in any decision-making process that may be affected by such a conflict of interest with the Company.

The Appointments and Remunerations Committee is the body responsible for regulating and resolving any conflicts of interest that may arise, pursuant to article 25 of the Regulations of the Board of Directors.

The process of ongoing improvement underway at Enagás continued following the approval of Law 26/2003, of 17 July, on the transparency of listed limited companies, which made substantive amendments to Law 24/1988, the Securities Market Act, and the revised text of the Spanish Companies Act and was subsequently implemented by Order ECO 3722/2003, henceforth the main point of reference for all listed limited companies when drafting their Annual Corporate Governance Report.

Accordingly, at the General Meeting held on 25 April 2005, Enagás shareholders resolved to approve a set of General Meeting Regulations with which all shareholders would be familiar that would thus ensure better exercise of their information and voting rights (which cover notices of call and their dissemination, the availability of the full content of proposals submitted for consideration at General Meetings, delegation and voting).

In addition, at a meeting held on 19 February 2004, the Board of Directors approved an extensive set of regulations governing its organisation and operation. The Board Regulations were drawn up on the basis of the recommendations contained in the Olivencia Code and the Aldama Report, according particular attention to issues including the definition of Directors' duties, the regulation of Board Committees and the assignment to the same of a set of powers and responsibilities designed to enhance the guarantees of objectivity with which the Board must approach certain issues, and the regulation of Directors' remuneration.

The Unified Code of Good Governance, or Conthe Code, which has since become Enagás' benchmark in all matters relating to best practices in corporate governance, was approved on 22 May 2006.

The improvements and additions contained in this Code were adopted by the Enagás Board at its meeting of 29 March 2007, at which the Board Regulations and those of the Audit and Compliance Committee were amended.

Board of Directors and Committees

As a general principle, the Board aimed to incorporate within the text of the Regulations as many of the recommendations of the Unified Code of Good Governance as possible, with the exception of those recommendations that are impossible to comply with (for example, the recommendation to eliminate limits on shareholders' voting rights, since these are imposed under the Hydrocarbons Law) or would distort current practices or conditions conducive to the good governance of the Company.

Accordingly, article 3 relating to the quantitative and qualitative composition of the Board has been modified to bring it in line with the categories of Directors defined in the Unified Code. In addition to the categories of "Executive", "Controlling" and "Independent", the category of "Other External" has been included to define those Directors that are neither Executive nor Controlling Directors but also do not satisfy all the criteria necessary for classification as "Independent". The requirement that at least a third of Directors must be independent was also incorporated.

As the table below shows, the current composition of the Board of Directors conforms to the rules set out in the Unified Code:

Name or company name	Represented by	Type of Director	Audit and Compliance Committee	Appointments and Remunerations Committee
Antonio Llardén Carratalá		Chairman and Chief Executive Officer		
Bancaja	José Luis Olivas Martínez	Deputy Chairman and Controlling Director representing Bancaja	Member	
Jesús D. Álvarez Mezquíriz		Independent Director		
Caja de Ahorros del Mediterráneo	Vicente Sala Belló	Controlling Director representing CAM		Member
Carlos Egea Krauel		Controlling Director representing Sagane Inversiones S.L.	Member	
Salvador Gabarró Serra		Controlling Director representing Gas Natural SDG, S.A.		Chairman

▶ Teresa García-Milá Lloveras		Independent Director	Member
Miguel. A Lasheras Merino		Independent Director	
Dionisio Martínez Martínez		Independent Director	Member
Luis J. Navarro Vigil		Other External Director	Member
Martí Parellada Sabata		Independent Director	Chairman
Cantábrica de Inversiones de Cartera S.L.	Manuel Menéndez Menéndez	Controlling Director representing Cantabrica de Inversiones de Cartera S.L.	
Ramón Pérez Simarro		Independent Director	Member
José Riva Francos		Independent Director	
Antonio Téllez de Peralta		Independent Director	Member
Bilbao Bizkaia Kutxa	Xabier de Irala Estévez	Controlling Director representing BBK	

The Board is also given powers to appoint and remove members of senior management, on the proposal of the chief executive, and to carry out annual appraisals of their performance, the performance of the Board Committees and that of the Chairman and Chief Executive Officer.

Board members that are classified as Independent Directors are selected from among professionals of recognised standing whose qualifications and experience place them in a position to contribute value to the Company.

The Board regulations also give the Board responsibility for approving the regular financial information issued to the markets, incorporate the principle of equal treatment of women and men when nominating Directors, and stipulate that Independent Directors shall remain as such for no more than 12 years.

In relation to the Board Committees, in addition to modifications of the Board Regulations (articles 25 and 26), changes to the Company Bylaws were also made.

The reworking of the Company Bylaws (articles 44 and 45) approved by shareholders at the General Meeting held on 11 May 2007 entailed the incorporation of the recommendations of the Unified Code of Good Governance relating to Board Committees. As a result, Executive Directors are henceforth excluded from membership of the Appointments and Remunerations Committee, as they already were from the Audit and Compliance Committee, and the composition of both Committees is now set at between three and five Directors, with a view to broadening access to the committees for the different types of director.

Audit and Compliance Committee

Regulations for the Audit and Compliance Committee were approved at the meeting of the Board of Directors of 19 February 2004. They are designed to provide the Committee with an organisational and operational framework that enables it to operate as an independent and transparent body, and thereby comply with the regulations contained in article 44 of the Company Bylaws and article 26 of the regulations governing the organisation and operation of the Board of Directors.

Amendments made to the Regulations on 11 May 2007 raised the maximum number of Committee members to five, since it was thought that this would allow for better representation of the different categories 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 safeguard the transparency and objective nature of its decisions, and maintain parity between Controlling and Independent Directors. The aforesaid article also stipulates that the Chairman of the Board of Directors and members of other committees may not sit on the Audit and Compliance Committee.



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

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

The tasks to be performed by the Audit and Compliance Committee are set out in article 44 of the Company Bylaws and article 7 of the Committee Regulations, as modified to adapt them to the Unified Code. Its principal duties are:

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

The tasks to be performed by the Audit and Compliance Committee are set out in article 44 of the Company Bylaws and article 7 of the Committee Regulations, as modified to adapt them to the Unified Code. Its principal duties are:

- To assess compliance with the Internal Code of Conduct on matters relating to securities markets, the regulations of the Board of Directors and the Company's governing regulations, and to make proposals for their improvement.



- To provide information at General Meetings on questions within the scope of its competencies, including the financial reporting process, risk exposure, and financial, social and environmental performance.

Appointments and Remunerations Committee

The regulations of the Appointments and Remunerations Committee are contained in article 45 of the Company Bylaws and article 25 of the regulations governing the organisation and operation of the Board of Directors.

Amendments made to these Regulations on 11 May 2007 raised the maximum number of Committee members to five, since it was thought that this would allow for better representation of the different categories of Directors. Executive Directors are excluded from the Committee, as was already standard practice at the Company. The Committee is comprised mainly of Independent Directors, as stipulated in the Company Bylaws and the Board Regulations.

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

- To review the structure of the Board of Directors, the criteria for the statutory renewal of Directors, the incorporation of new members and any other aspects relating to its composition that it deems appropriate, providing the Board of Directors with the proposals that it considers necessary.

- To establish payment criteria for the Company's Directors, in accordance with the stipulations of the Bylaws and in line with resolutions passed at the General Shareholders' Meeting, and to ensure that payments are transparent.

Directors' remuneration

The sections of the Board Regulations dealing with Directors' remuneration have also been adapted to the Conthe Code. The amendments include the express inclusion of the Board's duty to present Directors' remuneration for approval at General Shareholders' Meetings and to approve the contracts of Executive Directors, and of the requirement that information on Directors' remuneration be henceforth disclosed on an individualised basis.

The procedure for determining the remuneration payable to the members of the Board of Directors is established in article 36 of the Company Bylaws, which provides that the office of Board member shall be remunerated and that shareholders shall determine the maximum total remuneration due to Directors at general meetings, which remuneration shall be a lump-sum cash payment, paid on an annual basis or for such interval as the shareholders decide.

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

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

General Shareholders' Meeting

At the Ordinary General Meeting held in 2003, shareholders resolved to amend certain articles of the Company Bylaws to align them with the requirements of the Transparency Act in relation to channels of communication with shareholders and the incorporation of new technologies as a means of enabling shareholders to exercise their information, attendance, representation and voting rights.

Accordingly, shareholders now have various possible means of exercising their attendance and voting rights. They may attend and vote at general meetings in person or use a postal vote, electronic media using an authorised electronic signature, or any other form of remote communication that satisfies the requirements established in legislation and regulations, provided that the identity of the person exercising the voting rights can be duly verified. In particular, the regulations expressly mention that shareholders who cast their votes by remote methods must be taken into account and deemed to be present when determining whether a meeting is validly constituted.

To allow the time needed to install the media necessary to the use of new technologies, the Board of Directors deemed it expedient to postpone the date as of which shareholders could cast their votes or delegate representation rights by electronic media, or other methods of remote communication, until the technical resources necessary for such purpose were in place.

With regards to the exercise of rights to information, a distinction was made between requests for information relating to items included on the agenda, and requests for information or clarifications of publically-accessible information that may have been submitted to the CNMV since the last General Meeting was held.

To this end, the information content of the Company's website (www.enagas.es) was enhanced, as well as its capacity to serve as a link between Enagás, its Board of Directors, its investors and its employees, as required under Order ECO 3772/2003 of 26 December, and CNMV Circular 1/2004 of 17 March.

Subsequently, on the occasion of the 2005 General Meeting, the regulations were amended to allow for the possibility of shareholders holding at least five percent of the Company's share capital to request, by certified notice received at the registered office of the Company within five days of publication of the notice convening the General Meeting, that a supplement to the notice, adding one or more items to the agenda, be published.

The incorporation of the recommendations of the Unified Code of Good Governance concluded with the amendment of the General Meeting Regulations approved at the 2007 General Meeting.

This amendment entailed the express inclusion among the powers of the General Meeting the power to approve those transactions that alter the structure of the Company, including the incorporation within subsidiaries of core activities previously performed by the Company, the acquisition or disposal of core operating assets, when this entails a change to the Company's corporate purpose, or transactions that have an effect equivalent to liquidation of the Company (article 4) and the stipulation that issues that are materially separate be put to the vote separately so that shareholders may exercise their voting preferences individually on each.

4.2. ANNUAL CORPORATE GOVERNANCE REPORT FOR LISTED COMPANIES

A. OWNERSHIP STRUCTURE

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

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

Indicate whether different share classes with different rights attached to them exist:

Yes No

Class	Number of shares	Face value	Number of voting rights	Different rights
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A.2. List the direct and indirect holders of significant holdings in your company at the end of its financial year, excluding members of the board:

Name or company name of shareholder	Number of direct voting rights	Number of indirect voting rights (*)	% of total voting derechos de voto
GAS NATURAL SDG, S.A.	11,936,703	0	5.000
ATALAYA INVERSIONES, SRL	0	11,936,714	5.000
CAJASTUR (CAJA DE AHORROS DE ASTURIAS)	0	11,937,395	5.000
SEPI (SPANISH STATE HOLDING COMPANY)	11,936,703	0	5.000

(*) Through:

Name or company name of direct shareholder	Number of direct voting rights	% of total voting rights
SAGANE INVERSIONES S.L.	11,936,714	5.000
CANTÁBRICA DE INVERSIONES DE CARTERA, S.L.	11,937,395	5.000
Total:	23,874,109	10.000

Indicate the most significant movements in the shareholder structure in the financial year:

Name or company name of shareholder	Date of operation	Type of operation
SEPI (SPANISH STATE HOLDING COMPANY)	27/11/2007	Acquisition of 5% of the share capital of Enagás, S.A.
BANCAJA (CAJA DE AHORROS DE VALENCIA, CASTELLÓN Y ALICANTE)	2/08/2007	Contribution of its direct holding in Enagás, S.A. (5% of the share capital of Enagás, S.A.) to the share capital of Bancaja Inversiones, S.A.

A.3. Complete the following tables on company Directors holding voting rights attached to company shares:

Name or company name of director	Number of direct voting rights	Number of indirect voting rights (*)	% of total voting rights
ANTONIO LLARDÉN CARRATALÁ	16,700	0	0.007
BANCAJA (CAJA DE AHORROS DE VALENCIA, CASTELLÓN Y ALICANTE)	0	11,936,713	5.000
BBK (BILBAO BIZKAIA KUTXA)	11,936,713	0	5.000
CAM (CAJA DE AHORROS DEL MEDITERRÁNEO)	0	11,936,713	5.000
SALVADOR GABARRÓ SERRA	10	0	0.000
TERESA GARCÍA-MILÁ LLOVERAS	200	0	0.000
DIONISIO MARTÍNEZ MARTÍNEZ	2,010	0	0.001
LUIS JAVIER NAVARRO VIGIL	10	0	0.000
MARTÍ PARELLADA SABATA	910	0	0.000
RAMÓN PÉREZ SIMARRO	100	0	0.000
ANTONIO TÉLLEZ DE PERALTA	400	0	0.000

(*) Through:

Name or company name of direct shareholder	Number of direct voting rights	% of total voting rights
BANCAJA INVERSIONES, S.A.	11,936,713	5.000
INCOMED, S.L. (INVERSIONES COTIZADAS DEL MEDITERRÁNEO, S.L.)	11,936,713	5.000
Total:	23,873,426	10.000

% of total voting rights controlled by the Board of Directors	15.008
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Complete the following tables on company Directors who hold option rights on company shares:

Name or company name of director	Number of direct option rights	Number of indirect option rights	Equivalent number of shares	% of total voting rights
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A.4. Where applicable, list any family, commercial, contractual or corporate relationships between owners of significant shareholdings that the company is aware of, unless they are of little relevance or arise from ordinary trading or exchange:

Name or company name of related party	Type of relationship	Brief description
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A.5. Where applicable, list any commercial, contractual or corporate relationships between owners of significant shareholdings and the company and/or its group, unless they are of little relevance or arise from ordinary trading or exchange:

Name or company name of related party	Type of relationship	Brief description
BANCAJA (CAJA DE AHORROS DE VALENCIA, CASTELLÓN Y ALICANTE)	Shareholder	PAYMENT TO BANCAJA INVERSIONES, S.A. OF DIVIDENDS FOR 2006 FINANCIAL YEAR. AMOUNT (THOUSAND €): 5,632.

BANCAJA (CAJA DE AHORROS DE VALENCIA, CASTELLÓN Y ALICANTE)	Commercial	PROVISION OF CREDIT LINE FOR 2007 FINANCIAL YEAR. AMOUNT (THOUSAND €): 6,000.
BANCAJA (CAJA DE AHORROS DE VALENCIA, CASTELLÓN Y ALICANTE)	Commercial	PROVISION OF GUARANTEE LINE FOR 2007 FINANCIAL YEAR. AMOUNT (THOUSAND €): 6,000.
BANCAJA (CAJA DE AHORROS DE VALENCIA, CASTELLÓN Y ALICANTE)	Commercial	INTEREST RATE HEDGING AGREEMENT (COLLAR) FOR THE PERIOD JAN 2005- APRIL 2008.AMOUNT (THOUSAND €): 15,000.
BANCAJA (CAJA DE AHORROS DE VALENCIA, CASTELLÓN Y ALICANTE)	Contractual	FEES FOR REAL ESTATE SERVICES: 60.
CANTÁBRICA DE INVERSIONES DE CARTERA, S.L.	Shareholder	PAYMENT OF DIVIDENDS FOR 2006 FINANCIAL YEAR. AMOUNT (THOUSAND €): 5,632.
CAJASTUR (CAJA DE AHORROS DE ASTURIAS)	Commercial	CREDIT POLICY AGREEMENT. AMOUNT (IN THOUSAND €): 6,000.
CAJASTUR (CAJA DE AHORROS DE ASTURIAS)	Commercial	GUARANTEE LINE AGREEMENT. AMOUNT (IN THOUSAND €): 12,000.
CAJASTUR (CAJA DE AHORROS DE ASTURIAS)	Commercial	PARTICIPATION OF CAJASTUR IN LOAN (CLUB DEAL) SIGNED 24/11/2004 AND PAID 10/01.2005. AMOUNT (THOUSAND €):. 30,000.
CAM (CAJA DE AHORROS DEL MEDITERRÁNEO)	Shareholder	PAYMENT TO INCOMED S.L. OF DIVIDENDS FOR 2006 FINANCIAL YEAR. AMOUNT (THOUSAND €): 5,663.
CAM (CAJA DE AHORROS DEL MEDITERRÁNEO)	Commercial	CREDIT LINE AGREEMENT. AMOUNT (IN THOUSAND €): 6.000.
CAM (CAJA DE AHORROS DEL MEDITERRÁNEO)	Commercial	GUARANTEE LINE AGREEMENT. AMOUNT (IN THOUSAND €): 12,000.
CAM (CAJA DE AHORROS DEL MEDITERRÁNEO)	Commercial	INTEREST RATE HEDGING AGREEMENT (COLLAR) FOR THE PERIOD JAN 2005- APRIL 2008. AMOUNT (THOUSAND €): 15,000.
GAS NATURAL SDG, S.A. (EN MILES €): 5.632	Shareholder	PAYMENT OF DIVIDENDS FOR 2006 FINANCIAL YEAR. AMOUNT (THOUSAND €): 5,632.
GAS NATURAL SDG, S.A.	Contractual	SERVICES RELATED TO THIRD PARTY ACCESS TO ENAGAS INFRASTRUCTURES (ATR) IN 2007 FINANCIAL YEAR: 66,916 GWH WERE REGASIFIED. AMOUNT (IN THOUSAND €): 157,342 GWH WERE TRANSMITTED. AMOUNT (IN THOUSAND €): 74,811; AN AVERAGE OF 8,461 GWH WERE STORED. AMOUNT (IN THOUSAND €): 31.638. TOTAL AMOUNT OF ATR SERVICES (IN THOUSAND €): 156,757.
GAS NATURAL SDG, S.A.	Contractual	ACQUISITION OF GAS FOR SUPPLYING THE TARIFF MARKET IN 2007: GAS NATURAL GROUP COMPANIES SUPPLIED ENAGAS WITH 45,330 GWH OF GAS TO SUPPLY TARIFF CUSTOMERS, AMOUNT (IN THOUSAND €): 948,184. ACQUISITION OF 3 GWH OF NATURAL GAS IN 2007 TO COMPLY WITH THE OBLIGATION TO KEEP THE PIPELINES AND TANKS OF OTHER TRANSPORTERS AT MINIMUM LEVELS, AMOUNT (IN THOUSAND €): 56. TOTAL AMOUNT (IN THOUSAND €) OF GAS PURCHASES FOR SUPPLYING THE TARIFF MARKET IN 2007: €948,240.



ACQUISITION OF GAS FOR SUPPLYING THE TARIFF MARKET IN 2007: GAS NATURAL GROUP COMPANIES SUPPLIED ENAGAS WITH 45,330 GWH OF GAS TO SUPPLY TARIFF CUSTOMERS, AMOUNT (IN THOUSAND €): 948,184.
ACQUISITION OF 3 GWH OF NATURAL GAS IN 2007 TO COMPLY WITH THE OBLIGATION TO KEEP THE PIPELINES AND TANKS OF OTHER TRANSPORTERS AT MINIMUM LEVELS, AMOUNT (IN THOUSAND €): 56.
TOTAL AMOUNT (IN THOUSAND €) OF GAS PURCHASES FOR SUPPLYING THE TARIFF MARKET IN 2007: €948,240.

GAS NATURAL SDG, S.A.	Contractual	SALE OF ENAGÁS GAS TO DISTRIBUTORS OF THE GAS NATURAL GROUP: IN 2007 40,889 GWH WERE SOLD. AMOUNT (IN THOUSAND €) :810,823.
GAS NATURAL SDG, S.A.	Contractual	LEASE OF FIBRE OPTICS FROM DESARROLLO DEL CABLE, S.A. TO ENAGAS. COST OF SERVICE (IN THOUSAND €): 18,212.
GAS NATURAL SDG, S.A.	Contractual	LEASE OF BASIC SAFETY EQUIPMENT TO ENAGÁS. COST (IN THOUSAND €): 3,835.
GAS NATURAL SDG, S.A.	Contractual	ENAGÁS HAS PROVIDED NETWORK MAINTENANCE SERVICES TO GAS NATURAL GROUP COMPANIES: AMOUNT (THOUSAND €) 595; INFRASTRUCTURE CONNECTION: AMOUNT (THOUSAND €): 3,510; MAINTENANCE AND OTHER SERVICES: AMOUNT (IN THOUSAND €): 1.463; USE OF LNG VAPORISATION WATER: AMOUNT (IN THOUSAND €): 1,010. TOTAL REVENUES FROM SERVICES PROVIDED CAME TO (IN THOUSAND €): 6,578.
GAS NATURAL SDG, S.A.	Contractual	ENAGÁS HAS BILLED THE GAS NATURAL GROUP LATE PAYMENT INTEREST IN THE AMOUNT OF (THOUSAND €): 98.
SAGANE INVERSIONES S.L.	Shareholder	PAYMENT OF DIVIDENDS FOR 2006 FINANCIAL YEAR. AMOUNT (THOUSAND €): 5,632.
BBK (BILBAO BIZKAIA KUTXA)	Shareholder	PAYMENT OF DIVIDENDS FOR 2006 FINANCIAL YEAR. AMOUNT (THOUSAND €): 3,364.
BBK (BILBAO BIZKAIA KUTXA)	Commercial	PROVISION OF CREDIT LINE FOR 2007 FINANCIAL YEAR. AMOUNT (THOUSAND €): 6,000.
BBK (BILBAO BIZKAIA KUTXA)	Commercial	PROVISION OF GUARANTEE LINE FOR 2007 FINANCIAL YEAR. AMOUNT (THOUSAND €): 6,000.
EULEN, S.A.	Contractual	RECEIPT OF BUILDING AND INSTALLATION MAINTENANCE SERVICES. AMOUNT (IN THOUSAND €): 1,950.
INTERMONEY ENERGÍA, S.A.	Contractual	RECEIPT OF ADVISORY SERVICES. AMOUNT (IN THOUSAND €): 144.

A.6. Specify whether the company has been informed of any shareholders' agreements that may affect it pursuant to article 112 of the Spanish Securities Market Act (LMV). If so, give a brief description of the agreement and list the shareholders bound by it:

Yes No

Signatories of the shareholders' agreement	% of share capital affected	Brief description of agreement
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Indicate whether the company is aware of any concerted actions between its shareholders. If so, give a brief description:

Yes No

Participants in concerted action	% of share capital affected	Brief description of concerted action
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Expressly indicate any change to or breach of said agreements or concerted actions, if any.

A.7. Indicate whether any legal or physical person exercises or may exercise control over the company pursuant to article 4 of the Securities Market Act. If so, give details:

Yes No

Name or company name

ENAGÁS, S.A.

Observations

There is no legal or physical person that exercises or may exercise control over the company.

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

At the end of the financial year:

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

(*) Through:

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

List any significant changes that have occurred in the financial year in accordance with Royal Decree 1362/2007:

Date of notification	Total number of directly-held shares acquired	Total number of indirectly-held shares acquired	% of total share capital
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Capital gain/(capital loss) on treasury shares sold in the period	0
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A.9. Detail the conditions and term of the current mandate granted at the General Meeting to the Board of Directors for the acquisition or transfer of treasury shares.

There is currently no mandate granted by the General Shareholders' Meeting to the Board of Directors for the acquisition or transfer of treasury shares in force.

A.10. Detail, as applicable, any restrictions on exercising voting rights existing under law or the company bylaws, and any legal restrictions on the acquisition and/or transfer of shareholdings.

Indicate whether there are any legal restrictions on exercising voting rights:

Yes No

Maximum percentage of voting rights that may be exercised by a shareholder due to legal restrictions	3%
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Indicate whether there are any restrictions on exercising voting rights under the company bylaws:

Yes No

Description of restrictions on exercising voting rights established by law and/or in the company bylaws

Article 6a ("Limitation of interest in share capital and of the exercise of voting rights") of the Company Bylaws was amended at the Extraordinary General Shareholders' Meeting held 31 October 2007 to bring it in line with provisions of Law 12/2007 of 2 July.

Law 12/2007 of 2 July, amending the Hydrocarbons Industry Act (Law 34/1998 of 7 October) in accordance with Directive 2003/55/EC of the European Parliament and of the Council of 26 June 2003 concerning common rules for the internal market in natural gas, provides a new wording for the twentieth additional provision of the Hydrocarbons Industry Act, which vests in Enagás, S.A. the capacity of "technical system operator" and sets ceilings on shareholdings in the company. The twentieth additional provision now reads as follows:

"Twentieth Additional provision. Technical System Operator.

ENAGÁS, Sociedad Anónima, shall undertake the duties, rights and obligations of technical system operator. (...)

No natural person or body corporate may directly or indirectly hold an interest in the company responsible for technical management of the system representing more than five percent of the share capital, or exercise more than three percent of its voting rights. Such shares may in no event be syndicated. A party operating in the gas industry or a natural person or body corporate directly or indirectly holding over five percent of the share capital of such party may not exercise voting rights above one percent. These restrictions shall not apply to direct or indirect interests held by public-sector enterprises. Holdings in share capital may in no event be syndicated.

In addition, the sum of direct and indirect shares held by parties operating in the natural gas industry may not exceed 40 percent.

For the purposes of computing holdings in share capital, one and the same natural person or body corporate shall be deemed to hold the shares and other securities held or acquired by entities of its same "group," within the meaning of article 4 of Law 24/1988 of 28 July, the Securities Market Act, in addition to those shares held by:

- a) any person acting on his own behalf but on account of the aforesaid, in a concerted manner or forming with the aforesaid a single decision-making unit. Unless proved otherwise, the directors of a body corporate shall be presumed to act on account of or in concert with that body corporate; and
- b) any partner with whom the aforesaid exercises control over a subsidiary entity, pursuant to article 4 of the Securities Market Act.

At all events, regard shall be had to the controlling ownership of shares and other securities and to any voting rights enjoyed by virtue of any title.

Breach of the restrictions on interests in share capital prescribed by this article shall be treated as a very serious infringement for the purposes of article 109 of this Act, and liability shall attach to any natural person or body corporate found to be holders of the securities or to any person to whom there may be attributed the excess interest in share capital or voting rights pursuant to the above sub-paragraphs. At all events, there shall apply the regime of penalties laid down in the Act."

The sixth transitional provision of Law 12/2007 of 2 July provides that within four months of its coming into force Enagás, S.A. shall bring its Bylaws in line with additional provision 20 of the Hydrocarbons Industry Act. The second transitional provision of Law 12/2007 of 2 July, further prescribes:

"Second transitional provision. Technical system operator.

Any voting rights attaching to shares and other securities held by persons with an ownership interest in the share capital of ENAGÁS, Sociedad Anónima, in excess of the ceilings set forth in additional provision 20 of the Hydrocarbons Industry Act shall be suspended as from the coming into force of this provision.

The National Energy Commission (CNE) shall have the standing to bring legal action to give effect to the restrictions imposed in this provision."

In accordance with the aforementioned legal provision, article 6a ("Limitation of interest in share capital and of the exercise of voting rights") of Enagás, S.A.'s bylaw sets forth the following:

"No natural person or body corporate may directly or indirectly hold an interest in the company greater than five percent of share capital, nor exercise voting rights above three percent. Such shares may in no event be syndicated. A party operating in the gas industry or a natural person or body corporate directly or indirectly holding over five percent of the share capital of such party may not exercise voting rights above one percent. These restrictions shall not apply to direct or indirect interests held by public-sector enterprises. Holdings in share capital may in no event be syndicated.

In addition, the sum of direct and indirect shares held by parties operating in the natural gas industry may not exceed 40 percent.

For the purposes of computing holdings in the share capital of the company, there shall apply additional provision 20 of the Hydrocarbons Industry Act."

Indicate whether there are any legal restrictions on the acquisition and/or transfer of shareholdings:

Yes No

Description of legal restrictions on the acquisition and/or transfer of shareholdings

In accordance with the provisions of the twentieth additional provision of Act 34/1998, article 6a of the Company Bylaws establishes that no legal or physical person may directly or indirectly own shares in the company with a value equivalent to more than 5% of the total share capital. Such shares may in no event be syndicated. These restrictions shall not apply to direct or indirect interests held by public-sector enterprises. Holdings in share capital may in no event be syndicated.

A.11. Indicate if the General Shareholders Meeting has agreed to adopt neutralisation measures in response to any take-over bid pursuant to the provisions of Act 6/2007.

Yes No

If so, explain the measures approved and the circumstances in which the foregoing restrictions would be ineffective:

B. MANAGEMENT STRUCTURE OF THE COMPANY

B.1. Board of Directors

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

Maximum number of Directors	16
Minimum number of Directors	6

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

Name or company name of director	Represented by	Seat on the Board	Date first appointed	Date last appointed	Election procedure
ANTONIO LLARDÉN CARRATALÁ		CHAIRMAN	22/04/2006	22/04/2006	GENERAL SHAREHOLDERS' MEETING
JESÚS DAVID ÁLVAREZ MEZQUÍRIZ		DIRECTOR	25/04/2003	11/05/2007	GENERAL SHAREHOLDERS' MEETING
BANCAJA (CAJA DE AHORROS DE VALENCIA, CASTELLÓN Y ALICANTE)	JOSE LUIS OLIVAS MARTÍNEZ	DEPUTY CHAIRMAN	09/07/2002	11/05/2007	GENERAL SHAREHOLDERS' MEETING
BBK (BILBAO BIZKAIA KUTXA)	XABIER DE IRALA ESTÉVEZ	DIRECTOR	28/11/2007	28/11/2007	CO-OPTED
CAM (CAJA DE AHORROS DEL MEDITERRÁNEO)	VICENTE SALA BELLÓ	DIRECTOR	25/04/2003	11/05/2007	GENERAL SHAREHOLDERS' MEETING
CARLOS EGEA KRAUEL		DIRECTOR	09/07/2002	11/05/2007	GENERAL SHAREHOLDERS' MEETING
SALVADOR GABARRÓ SERRA		DIRECTOR	18/11/2004	22/04/2005	CO-OPTED
TERESA GARCÍA-MILÁ LLOVERAS		DIRECTOR	22/04/2006	22/04/2006	GENERAL SHAREHOLDERS' MEETING
MIGUEL ÁNGEL LASHERAS MERINO		DIRECTOR	22/04/2006	22/04/2006	GENERAL SHAREHOLDERS' MEETING
DIONISIO MARTÍNEZ MARTÍNEZ		DIRECTOR	31/05/2002	22/04/2006	GENERAL SHAREHOLDERS' MEETING
LUIS JAVIER NAVARRO VIGIL		DIRECTOR	09/07/2002	11/05/2007	CO-OPTED
MARTÍ PARELLADA SABATA		DIRECTOR	17/03/2005	22/04/2005	CO-OPTED
PEÑA RUEDA, S.L.U.	MANUEL MENÉNDEZ MENÉNDEZ	DIRECTOR	30/04/2004	30/04/2004	GENERAL SHAREHOLDERS MEETING
RAMÓN PÉREZ SIMARRO		DIRECTOR	17/06/2004	22/04/2005	CO-OPTED

JOSÉ RIVA FRANCOS	DIRECTOR	31/05/2002	22/04/2006	GENERAL SHAREHOLDERS' MEETING
ANTONIO TÉLLEZ DE PERALTA	DIRECTOR	19/09/2005	22/04/2006	CO-OPTED

Total number of Directors 16

List any Board members who left during this period:

Name or company name of director	Seat on Board at time of departure	Leaving date
ANTONIO GONZÁLEZ-ADALID GARCÍA-ZOZAYA	CHAIRMAN	24/01/2007
XABIER DE IRALA ESTÉVEZ	DIRECTOR	28/11/2007

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

EXECUTIVE DIRECTORS

Name or company name of director	Committee proposing appointment	Post within company organisation
ANTONIO LLARDÉN CARRATALÁ	APPOINTMENTS AND REMUNERATIONS COMMITTEE	CHAIRMAN

Total number of Executive Directors 1

% of total Board 6

EXTERNAL CONTROLLING DIRECTORS

Name or company name of director	Committee proposing appointment	Name or company name of significant shareholder represented or that proposed appointment
BANCAJA (CAJA DE AHORROS DE VALENCIA, CASTELLÓN Y ALICANTE)	BOARD OF DIRECTORS	BANCAJA INVERSIONES, S.A. (BANCAJA)
BBK (BILBAO BIZKAIA KUTXA)	APPOINTMENTS AND REMUNERATIONS COMMITTEE	BBK (BILBAO BIZKAIA KUTXA)
CAM (CAJA DE AHORROS DEL MEDITERRÁNEO)	BOARD OF DIRECTORS	INCOMED, S.L. (CAM)

CARLOS EGEA KRAUEL	BOARD OF DIRECTORS	SAGANE INVERSIONES, S.L.
SALVADOR GABARRÓ SERRA	BOARD OF DIRECTORS	GAS NATURAL SDG, S.A.
PEÑA RUEDA, S.L.U.	APPOINTMENTS AND REMUNERATIONS COMMITTEE	CAJASTUR (CAJA DE AHORROS DE ASTURIAS)

Total number of Controlling Directors	6
% of total Board	38

EXTERNAL INDEPENDENT DIRECTORS

Name or company name of director	Profile
JESÚS DAVID ÁLVAREZ MEZQUÍRIZ	DIRECTOR OF BODEGAS VEGA SICILIA, S.A.; CHIEF EXECUTIVE OFFICER OF EULEN, S.A. AND DIRECTOR OF EL ENEBRO, S.A.
TERESA GARCÍA-MILÁ LLOVERAS	PROFESSOR OF ECONOMICS, POMPEU FABRA UNIVERSITY. FABRA. CONSEJERA DE BANCO SABADELL, VOCAL DEL DIRECTOR OF BANCO SABADELL, MEMBER OF THE CÍRCULO DE ECONOMÍA, MEMBER OF THE EXECUTIVE BOARD OF THE CENTRE FOR RESEARCH IN INTERNATIONAL ECONOMICS (CREI), ECONOMICS COORDINATOR OF THE NATIONAL AGENCY OF EVALUATION AND FORESIGHT (ANEP), DIRECTOR OF VUELING.
MIGUEL ÁNGEL LASHERAS MERINO	CHAIRMAN OF INTERMONEY ENERGÍA, S.A. AND DE WIND TO MARKET, S.A.
DIONISIO MARTÍNEZ MARTÍNEZ	LAWYER, CHAIRMAN OFBOYSEP INVESTMENT SICAV, S.A. AND BOARD SECRETARY OF EBN BANCO DE NEGOCIOS, S.A.
MARTÍ PARELLADA SABATA	CHAIRMAN OF COMFORSA; DIRECTOR OF AGRUPACIÓN MUTUA DEL COMERCIO Y DE LA INDUSTRIA; DIRECTOR OF EPLICSA, S.A. AND DIRECTOR OF FIBRACOLOR, S.A.
RAMÓN PÉREZ SIMARRO	FORMER GENERAL DIRECTOR OF ENERGY; FORMER GENERAL ENERGY AND MINERAL RESOURCES SECRETARY; FORMER GENERAL DIRECTORS OF REPSOL YPF, S.A.
JOSÉ RIVA FRANCOS	DIRECTOR OF LOGISTA, S.A.; DIRECTOR OF REE (RED ELÉCTRICA DE ESPAÑA, S.A.); DEPUTY-CHAIRMAN AND CHIEF EXECUTIVE OFFICER OF SUARDIAZ GROUP COMPANIES.
ANTONIO TÉLLEZ DE PERALTA	DEPUTY MANAGING DIRECTOR OF LECHE PASCUAL GROUP.

Total number of Independent Directors	8
% of total Board	50

OTHER EXTERNAL DIRECTORS

Name or company name of director	Committee proposing appointment
LUIS JAVIER NAVARRO VIGIL	APPOINTMENTS AND REMUNERATIONS COMMITTEE

Total number of other external Directors	1
% of total Board	6

List the reasons why they are not considered Controlling or Independent Directors and their links to the company, its senior officers or its shareholders:

Name or company name of director	Reasons	Sociedad, directivo o accionista con el que mantiene el vínculo
LUIS JAVIER NAVARRO VIGIL	<p>The shareholder (B.P. España S.A.U.) that proposed his appointment as External Controlling 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.</p> <p>Nonetheless, 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 4/2007 of 27 December.</p>	BP ESPAÑA, S.A.U.

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

Name or company name of director	Date of change	Previous post	Current post

B.1.4. Explain, where applicable, the reasons for which external controlling directors have been appointed on the proposal of shareholders with holdings of less of 5% of total capital:

Name or company name of shareholder	Reason
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Indicate whether any formal requests for representation on the Board presented by shareholders with holdings equal to or greater than those of other shareholders on the request of whom external controlling shareholders have been appointed have been refused. If so, explain the reasons for refusal:

Yes No

Name or company name of shareholder	Reason
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B.1.5. Indicate whether any Director has left office before the end of his/her term, if the Director in question explained his/her reasons to the Board and, if so, through what media, and, if such explanation was submitted to the entire Board in writing, explain below the reasons given:

Name of Director	Reasons for leaving
ANTONIO GONZÁLEZ-ADALID GARCÍA-ZOZAYA	Antonio González-Adalid García-Zozaya tendered his resignation from the post of Director and, thus, also from the post of Chairman on 24 January 2007 since this was considered to be in the best interests of the company, for the reasons set out in the notification of significant event filed with the CNMV on this same date under number 75,883.
XABIER DE IRALA ESTÉVEZ	Xabier de Irala Estévez tendered his resignation as Director so that he could be replaced by BBK (BILBAO BIZKAIA KUTXA), the shareholder that proposed his appointment as external controlling Director, represented by Mr. de Irala as physical person.

B.1.6. Indicate, as applicable, any powers that are delegated to Executive Directors:

Name or company name of director	Brief description
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B.1.7. Identify any Board members who are also Directors of other companies within the listed public company's group of companies:

Name or company name of director	Company name of the group company	Position
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B.1.8. Provide a list of any Board members who have notified the company that they hold directorships with other listed companies in Spain, other than group companies:

Name or company name of director	Listed company	Position
BANCAJA (CAJA DE AHORROS DE VALENCIA, CASTELLÓN Y ALICANTE)	BANCO DE VALENCIA	CHAIRMAN
BANCAJA (CAJA DE AHORROS DE VALENCIA, CASTELLÓN Y ALICANTE)	NH HOTELES	DIRECTOR
BANCAJA (CAJA DE AHORROS DE VALENCIA, CASTELLÓN Y ALICANTE)	ENAGÁS, S.A.	DEPUTY CHAIRMAN
BANCAJA (CAJA DE AHORROS DE VALENCIA, CASTELLÓN Y ALICANTE)	MARTINSA-FADESA	DIRECTOR
BBK (BILBAO BIZKAIA KUTXA)	CAF (CONSTRUCCIONES Y AUXILIAR DE FERROCARRILES, S.A.)	DIRECTOR
BBK (BILBAO BIZKAIA KUTXA)	ITINERE INFRAESTRUCTURAS	DIRECTOR
CAM (CAJA DE AHORROS DEL MEDITERRÁNEO)	SOL MELIÁ, S.A.	DIRECTOR
CARLOS EGEA KRAUEL	CECA (CONFEDERACIÓN ESPAÑOLA DE CAJAS DE AHORROS)	NON-DIRECTOR SECRETARY
CARLOS EGEA KRAUEL	IBERDROLA RENOVABLES, S.A.	DIRECTOR
SALVADOR GABARRÓ SERRA	GAS NATURAL SDG, S.A.	CHAIRMAN
SALVADOR GABARRÓ SERRA	LA CAIXA (CAJA DE AHORROS Y PENSIONES DE BARCELONA)	FIRST DEPUTY CHAIRMAN
SALVADOR GABARRÓ SERRA	CRITERIA CAIXACORP, S.A.	DIRECTOR
DIONISIO MARTÍNEZ MARTÍNEZ	BOYSEP INVESTMENT SICAV, S.A.	CHAIRMAN
JOSÉ RIVA FRANCOS	LOGISTA (COMPAÑÍA DE DISTRIBUCIÓN INTEGRAL LOGISTA, S.A.)	DIRECTOR
JOSÉ RIVA FRANCOS	RED ELÉCTRICA DE ESPAÑA, S.A.	DIRECTOR

B.1.9. Indicate and where applicable explain if the company has established rules restricting the number of boards on which its Directors may have a seat:

Yes No

Explanation of rules

There are no rules restricting the number of boards on which the company's directors may have a seat.

B.1.10. In relation to recommendation number 8 of the Unified Code, indicate the general company policies and strategies that the Board, in full session, has responsibility for approving:

	Yes	No
Investment and financing policy	X	
Design of the structure of the corporate group	X	
Corporate governance policy	X	
Corporate social responsibility policy	X	
The strategic or business plans, management targets and annual budgets	X	
Remuneration and evaluation of senior officers	X	
Risk control management, and the periodic monitoring of internal information and control systems	X	
Dividend policy, as well as the policies and limits applying to treasury stock.	X	

B.1.11. Use the following tables to provide details of the total remuneration accrued by Directors in the year:

a) At the company to which this report relates:

Type of remuneration	In thousands €
Fixed remuneration	837
Variable remuneration	23
Allowances	1,067
Token payments	0
Share options and/or other financial instruments	0
Other	4,820
TOTAL:	6,747

Other benefits	In thousands
Advances	0
Loans granted	0.3
Pension plans and funds: Contributions	3
Pension plans and funds: Obligations contracted	0
Life insurance premiums	56
Guarantees constituted by the company in favour of Directors	0

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

Type of remuneration	In thousands €
Fixed remuneration	0
Variable remuneration	0
Allowances	0
Token payments	0
Share options and/or other financial instruments	0
Other	0
TOTAL:	0

Other benefits	In thousands €
Advances	0
Loans granted	0
Pension plans and funds: Contributions	0
Pension plans and funds: Obligations contracted	0
Life insurance premiums	0
Guarantees constituted by the company in favour of directors	0

c) Total remuneration by type of Directorship:

Type of Director	By company	By group
Executive Directors	5,745	0
External Controlling Directors	385	0
External Independent Directors	544	0

Other External Directors	73	0
Total	6,747	0

d) Regarding the attributable profit of the controlling company:

Total Directors' remuneration (in thousand €)	6,747
Total Directors' remuneration/attributable profit of controlling company (as %)	2.86

B.1.12. List the members of senior management who are not also executive directors and indicate the total remuneration accruing to them in the year:

Name or company name	Position
LUIS CALDERÓN CASTRO	DIRECTOR OF COMMUNICATIONS
JOSÉ ESPEJO SERRANO	INTERNAL AUDITOR
ANTONIO GARCÍA MATEO	GENERAL DIRECTOR OF TECHNOLOGY, ENGINEERING AND PURCHASING
FRANCISCO JAVIER GONZÁLEZ JULIÁ	GENERAL DIRECTOR OF SYSTEM OPERATION AND TECHNICAL MANAGEMENT
DIEGO DE REINA LOVERA	FINANCIAL DIRECTOR
ERUNDINO NEIRA QUINTAS	DIRECTOR OF RESOURCES
JUAN PONS GUARDIA	GENERAL DIRECTOR OF STRATEGY AND REGULATION
RAFAEL PIQUERAS BAUTISTA	GENERAL SECRETARY
RAMÓN SÁNCHEZ VALERA	GENERAL DIRECTOR OF INFRASTRUCTURES AND THIRD-PARTY ACCESS (TPA) SERVICES

Total Directors' remuneration (in thousand €)	1,899
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B.1.13. List in aggregate terms, any guarantee or 'golden parachute' clauses applicable in the event of dismissal or changes in control benefiting senior managers, including executive company or group Directors. Indicate whether these contracts must be reported to and/or approved by the governing bodies of the company and/or its group

Number of beneficiaries	11
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	Board of Directors	General shareholders' meeting
Body authorising clauses	X	
	Yes	NO
Is the General Shareholders' Meeting informed of such clauses?		X

B.1.14. Detail the process for establishing the remuneration of members of the Board of Directors and the relevant clauses in the Bylaws regarding pay:

Procedure for determining Directors' remuneration and clauses in company Bylaws

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

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

When setting pay, the shareholders in general meeting may resolve that part of such pay remunerate the office of Director itself, equally for all Directors, and another part be apportioned by the Board on such basis as may be determined at the General Meeting.

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

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

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

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

Likewise, article 16 of the Regulations of the Board of Directors stipulates that the Appointments and Remunerations Committee establish payment criteria for company Directors, within the scope of Company Bylaws and in accordance with resolutions of the General Meeting, while the Board of Directors is responsible for final distribution of the overall sum within the limits established by Bylaws for this purpose. The Board of Directors may, on an annual basis, delegate the powers conferred

upon it in respect of the remuneration of Directors to the Appointments and Remunerations Committee, subject to the restrictions laid down in the Bylaws.

Payments to Directors will be transparent. The Notes to the Financial Statements, as an integral part of the Annual Financial Statements, shall include accurate, detailed information on the remuneration received by each member of the Board of Directors, and on the remuneration received by Executive Directors for performing senior management functions. This information will also be included in the Annual Corporate Governance Report.

Indicate whether responsibility for passing resolutions on the following matters is reserved for the Board in full session:

	Yes	No
On the proposal of the company's Chief Executive, the appointment and eventual removal of senior officers, and compensation clauses.	X	
The remuneration of Directors, and, in the case of Executive Directors, the additional remuneration due for their executive functions and the other terms and conditions that their contracts must adhere to.	X	

B.1.15. Indicate whether the Board of Directors approves a detailed remuneration policy and specify the issues over which it passes judgement:

Yes No

	Yes	No
Amount of fixed components, including a breakdown, where relevant, of allowances for attending Board Meetings and its Committees and an estimate of the annual fixed remuneration to which they give rise.	X	
Variable components of remuneration.	X	
Main characteristics of pension systems, including estimate of their amount and equivalent annual cost.	X	
Terms and conditions with which the contracts of those exercising senior management functions as Executive Directors must respect, including:	X	
i) Term;	X	
ii) Notice periods; and	X	
iii) Any other clauses relating to recruitment bonuses, as well as compensation or golden parachute clauses applicable in the event of early termination of the employment relationship between the company and the Executive Director.	X	

B.1.16. Indicate whether the Board submits a report on Directors' remuneration policy to the vote at General Shareholders Meeting, as a separate item on the agenda and for the purposes of consultation. If applicable, explain the elements of the report on remuneration policy approved by the Board for future years, the most significant changes in such policies relative to those applied in the past year, and an overall summary of how remuneration policy was applied in the year. Specify the role of the Remunerations Committee, whether external advisory services have been used and, if so, the name of the external consultants that provided the services:

Yes No

Issues dealt with in the report on remuneration policy

In accordance with the provisions of article 36 of the company Bylaws, the company's Board of Directors each year proposes to shareholders at the General Meeting the maximum compensation that should be paid to Directors for performance of their functions, as well as the breakdown between remuneration for attendance and membership of Board Committees, remuneration for chairing said Committees and remuneration for serving as Deputy-Chairman of the Board.

The remuneration paid to the Chairman for performance of his/her executive functions is approved by the Board of Directors.

Role of the Remunerations Committee

The Committee formulates all proposals relating to remuneration policy

	Yes	No
Has the company used external advisory services?		X
Name of external consultants		

B.1.17. Identify any Board members who are also members of the Board of Directors, hold Directorships or are employed at companies holding significant shareholdings in the listed company and/or its group companies:

Name or company name of director	Company name of significant shareholder	Cargo
SALVADOR GABARRÓ SERRA	GAS NATURAL SDG, S.A.	DIRECTOR

Detail any significant relationships other than those detailed in the previous point that link Board members with significant shareholders and/or group companies:

Name or company name of related director	Name or company name of related significant shareholder	Description of relationship
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B.1.18. State whether any changes were made to the Board Regulations in the year:

Yes No

Description of the changes

The Board of Directors amended the Board Regulations at its meeting of 29 March, 2007. As a general principle, the Board aimed to incorporate in the text of the Regulations as many of the recommendations of the Unified Code as possible, with the exception of those recommendations that it is impossible to comply with (for example, the recommendation to eliminate limits on shareholders' voting rights that are imposed by law) or would distort current practices or conditions conducive to the good governance of the company. In incorporating the changes, the Board sought to adhere as far as possible to the current structure of the Regulations and to the wording of the recommendations used in the Unified Code.

The most important changes introduced in 2007 were the following:

Quantitative and qualitative composition of the Board (article 3).

- Article 3 has been modified to bring it in line with the categories of Directors defined in the Unified Code. It should be stressed that, with regards to classification as "Independent Directors", the current good governance recommendations surpass the requirements of the "comply or explain" principle and are in compliance with the necessary legal prerequisites since Ministerial Order ECO/3722/2003 prohibits those Directors that do not conform to the definition of "Independent" established in Appendix III of the Unified Code from being classified as "Independent" in the Annual Corporate Governance Report. For this reason, in addition to the categories of "Executive", "Controlling" and "Independent", the category of "Other External" has been included to define those Directors that are neither Executive nor Controlling Directors but also do not satisfy all the criteria necessary for classification as "Independent". The Unified Code permits use of this classification with the proviso that the reasons for its use are explained in the Annual Corporate Governance Report.
- The requirement that at least a third of the Directors must be independent has been included in the Regulations, which requirement is currently conformably satisfied.
- The recommendation, which would affect the Bylaws, to reduce the number of Directors to between the current five and 15 (instead of between six and 16, as recommended in the Unified Code) has not been incorporated because it was deemed that due to the legal limits placed on capital interests, the structure of the Board must be such as to allow for the addition of representatives of potential future shareholders without such addition entailing any reduction in the desired percentage of independent directors.

Board objectives (article 4).

- Express references to the "unity of purpose and independence of criteria" and to the relationship with stakeholders referred to in the Unified Code have been added.

Board functions (article 5).

- Express reference to the function of proposing Directors' remuneration to the General Shareholders' Meeting and approving the contracts of Executive Directors (article 5 A) 7), which is already standard practice at the company, has been added.
- The Board is given powers to appoint and remove members of senior management, on the proposal of the chief executive.
- The Board must assess its performance, the performance of its Committees and that of the Chief Executive Officer on an annual basis (article 5 A) 13).

- The recommendation that transactions affecting the structure of the company that are equivalent to spin-off or liquidation (for example, the sale of core assets that alters its corporate purpose in practice) be submitted by the Board for approval at the General Shareholders' Meeting (article 5 B) 5, 6 and 7) has been incorporated.
- The Board must give approval for shareholdings in special purpose entities or companies domiciled in tax havens (5 B) 14).
- The Board must approve the regular financial information issued to the markets (article 5 D) 2).

Board meetings (article 6).

- The exact wording of the Unified Code has been used to establish the obligation that the Chairman sends information to Directors in advance of meetings, as is already standard practice at the company.

Meeting procedures (article 7).

- Express mentions from the Unified Code of procedures that are already standard practice at the company have been added.

Appointment of Directors (article 8).

- The principle of equal treatment of women and men set out in the Unified Code has been incorporated.

Classification as Independent Directors (articles 9 and 11).

- The definition of "Independent Directors" established in the Unified Code has been reproduced since this is obligatory pursuant to Ministerial Order ECO/3772/2003.
- It is established that Independent Directors shall remain as such for no more than 12 years.

Dismissal of Directors (article 12).

- The circumstances in which Directors may be involved in criminal proceedings are specified.
- Should the reason for a Director's classification as External, Controlling or Independent cease to be valid, it is specified that the Director must tender his/her resignation to the Board, which may agree for the Director to remain in office by changing his/her classification in line with the new situation.
- The Board shall propose the early departure of Independent Directors only where there is due cause.

Duties of Directors (article 13).

- Directors' duties to attend Board Meetings, to demonstrate due commitment, and to inform the company of any personal situations that could affect the company's credit rating and reputation have been highlighted.

Rights of attendance and information (article 15).

- Induction courses are organised by for new Directors.

Directors' remuneration (article 16).

- Information on payments to Directors must be provided in individualised form.

Board Chairman (article 17).

- If deemed expedient, the Board may appoint an Independent Directors to act as "coordinator" of the External Directors.

Board Secretary (article 20).

- The wording used in the Unified Code in its recommendation that the independence, impartiality and professionalism of the Secretary be guaranteed, which is standard practice at the company, has been reproduced.

Executive Committee (article 24).

- There is currently no Executive Committee. Should one be established, the duty to keep the Board informed of the issues with which it deals would be stressed.

Appointments and Remunerations Committee (article 25).

- The maximum number of Committee members is raised to five since it is thought that this could allow for better representation of the different categories of Directors. Executive Directors are excluded from the Committee, as is already standard practice at the company. This entry into force of this change is contingent upon shareholders' approval of the proposed change to article 45 of the Bylaws.
- The functions of the Committee are adjusted in line with other changes made to the Regulations.

Audit and Compliance Committee (article 26).

- The maximum number of Committee members is raised to five since it is thought that this could allow for better representation of the different categories of Directors. This entry into force of this change is contingent upon shareholders' approval of the proposed change to article 44 of the Bylaws.
- The functions of the Committee are adjusted in line with other changes made to the Regulations.
- Also at its meeting of 29 March 2007, the Board amended the Regulations of the Audit and Compliance Committee to bring them in line with changes made to the Board Regulations

The amended text of the Organisational and Operational Regulations of the Board of Directors has been filed with the CNMV and published on the company's website.

B.1.19. Indicate the procedures for appointing, re-electing, evaluating and removing Directors. Provide details of the bodies responsible, steps to be followed and criteria to be used in each procedure.

APPOINTMENT OF DIRECTORS:

Pursuant to article 8 of the Regulations of the Board of Directors of Enagás, S.A.. "directors shall be appointed by the General Shareholders' Meeting or by the Board of Directors, in conformity with the provisions contained in the Spanish Companies Act and in the company Bylaws".

Those appointed to Directorships must be people who, in addition to meeting the legal and statutory requirements, are of recognised standing and have the appropriate professional knowledge and experience to duly exercise the duties attached to the post.

Before the Board can exercise its co-opting powers, a new Director must be nominated by the Appointments and Remunerations Committee. Board decisions to co-opt new Directors are then submitted to the General Shareholders' Meeting for approval.

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

The process of filling board vacancies has no implicit bias against women candidates. The company shall seek out and include women with the target profile among the candidates for board places.

Special mention should be made of the specific requirements that have been established to ensure the impartiality and independence of Independent Directors appointed to the Board, which are set out in article 9 of the Board Regulations:

"Independent Directors shall be defined as those who, appointed based on their personal and professional attributes, may perform their duties without being affected by dealings with the company, its significant shareholders or its executives. Under no circumstances may the following persons be classified as independent Directors:

- a) Those who have been employed by or served as Executive Directors of group companies, unless three or five years, respectively, have lapsed since the termination of said relationship.

- b) Those who receive any sum or benefit other than Director's compensation from the company or its Group, unless such is not significant. Dividends and pension supplements received by a director on account of his/her prior professional or employment relationship shall not be taken into account for purposes of this section provided that such supplements are unconditional and, consequently, the company providing such may not, on a discretionary basis, suspend, modify or revoke any disbursement thereof, without incurring a breach of obligations.
- c) Those who are, or have been during the past three years, a partner of the external auditor or party responsible for the auditor's report reviewing the accounts of Enagás, S.A. or any other Group company for said period.
- d) Those who are executive directors or senior managers of another company where an executive Director or Senior Manager of Enagás, S.A. is an external director.
- e) Those who maintain, or have maintained in the last year, a significant business relationship with Enagás, S.A. or any other Group company, whether on his/her own behalf or as a significant shareholder, director or senior manager of any company that maintains or has maintained said relationship. Business relationships shall be defined as those whereby a company serves as a provider of goods or services, including those of a financial nature, or as an advisor or consultant.
- f) Those who are significant shareholders, executive directors or senior managers of any entity that receives, or has received during the past three years, significant donations from Enagás, S.A. or its Group. Those who are mere patrons of a Foundation that receives donations shall not be considered included under this letter.
- g) Those who are spouses, partners or relatives within the second degree of an executive Director or Senior Manager of the company.
- h) Those who have not been nominated, whether for appointment or renewal, by the Appointments and Remunerations Committee.
- i) Those who are found, in respect of a significant shareholder or one represented on the Board, in any of the circumstances described under a), e), f) or g). In the event of kinship as described under letter g), this limitation shall apply not only in respect of the shareholder, but also in respect of its controlling directors in the investee. Those controlling Directors who lose their status as such as a result of the sale of their interest by the shareholder that they represented may only be re-elected as independent directors if the shareholder that they represented until that time has sold all of its shares in the company.

Any Directors who hold a shareholding interest in the company may hold the status of an independent director provided that he/she meets all of the conditions established under this article and, further, that his/her interest is not significant.

RE-ELECTION AND EVALUATION OF DIRECTORS:

Article 10 of the Board Regulations stipulates that "Directors may hold their post for a period of four years, and may be re-elected. Directors who are co-opted shall hold their post until the date of the first subsequent General Shareholders' Meeting."

Article 11 of the aforementioned Regulations establishes that "the Appointments and Remunerations Committee, responsible for evaluating the quality of work and commitment to the post of the Directors proposed during the previous term of office, shall provide information required to assess proposal for re-election of Directors presented by the Board of Directors to the General Shareholders' Meeting."

As a general rule, an appropriate rotation of independent Directors should be sought. For this reason, when one is proposed for re-election, the circumstances making his/her continuity in the post advisable must be justified. Independent Directors shall not remain as such for a period in excess of twelve consecutive years."

REMOVAL AND DISMISSAL OF DIRECTORS:

Directors shall leave their post after the first General Shareholders' Meeting following the end of their term of office and in all other cases in accordance with the Law, Company Bylaws and the present Regulations (article 12.1 of the Board Regulations).

The Board of Directors shall not propose the resignation of any independent Director before the Bylaw-stipulated term of office has expired, unless there is due cause, noted by the Board following a report by the Appointments Committee (article 12.3 of the Board Regulations).

B.1.20. Indicate the circumstances in which Directors are obliged to tender their resignation.

In accordance with the good governance recommendations, article 12 of the Board Regulations stipulates that:

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

- a) When they are involved in any of the legally stipulated circumstances of incompatibility or prohibition.
- b) When they are in serious breach of their obligations as Directors.
- c) When they may put the interests of the company at risk or damage its credibility and reputation. If a Director is indicted or an order is issued to initiate a trial against him/her for a crime specified under article 124 of the Spanish Companies Act, the Board shall review the case as promptly as possible and, based on the specific circumstances, decide if it is appropriate for the Director to continue to hold his/her post.
- d) When the reason for which they were appointed as independent, executive or controlling Directors is no longer valid.
- e) When Independent Directors cease to meet the conditions established under article 9.
- f) When the shareholder represented by a controlling Director sells its shareholding interest in its entirety. They shall also do so, in the appropriate number, when said shareholder reduces his/her shareholding interest to a level requiring a reduction in the number of controlling Directors.

Should the Board of Directors not deem it advisable to have a Director tender his/her resignation in the cases specified under letters d), e) and f), the latter must be included in the category that, in accordance with the present Regulations, is most appropriate based on his/her new circumstances.

The Board of Directors shall not propose the resignation of any independent Director before the bylaw-stipulated term of office has lapsed, unless there is just cause, noted by the Board, following a report by the Appointments Committee.

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 exempts him/her from this obligation or shortens its duration."

B.1.21. Explain whether the duties of Chief Executive Officer fall to the Chairman of the Board. Indicate any measures taken to limit the risks of a single person accumulating powers:

Yes No

Risk limitation measures

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

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

Indicate and, where appropriate, explain whether any rules empowering one of the Independent Directors to ask for meetings to be convened or new items to be included on the agenda, to coordinate and report the concerns of the External Directors and to oversee the Board's evaluation of its Chairman have been established.

Yes No

Explanation of rules

At its meeting of 29 March 2007, the Board of Directors approved an amendment to article 17 of the Board Regulations that establishes that, when the Chairman and Chief Executive are one and the same, the Board of Directors may empower one of the Independent Directors to request the convening of meetings or inclusion of new items on the agenda, to coordinate and act as spokesperson for the concerns of External Directors, and to oversee the Board's appraisal of its Chairman.

B.1.22. Are reinforced majorities greater than the legally stipulated ones required for any type of decision?

Sí No

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

ADOPTION OF RESOLUTIONS

Description of resolution	Quorum	Type of majority
Article 39 of the Company Bylaws and article 7 of the Regulations of the Board of Directors state that meetings of the Board of Directors shall be validly constituted when at least half its members plus one are present or represented, except when the meeting has not been duly convened, in which case the attendance of all members is required.		The aforementioned articles also establish that resolutions shall be adopted with the vote in favour of an absolute majority of Directors present or represented, irrespective of the type of decision in question, except in the case of written ballots held without meeting, which shall only be permissible when none of the Directors oppose the procedure and the requirements established in the Regulations of the Commercial Registry are satisfied.

B.1.23. State whether there are specific requirements, other than those for Directors, for being appointed chairman.

Yes No

Description of requirements

B.1.24. State whether the Chairman has the casting vote:

Yes No

Subjects for which there is a casting vote

B.1.25. Indicate whether the Bylaws or Board Regulations establish any age limit for Directors:

Yes No

Age limit for Chairman

Age limit for Executive Directors

Age limit for Directors

B.1.26. Indicate whether the Bylaws or Board Regulations establish any limit on term of office for Independent Directors:

Yes No

Maximum number of years in office

12

B.1.27. If there are few or no female directors, explain the reasons and the steps taken to rectify this situation.

Explanation of reasons and steps taken

As of the publication of this report, only one of a total of sixteen (16) members of the Board of Directors is a woman, Teresa García-Milà Lloveras, and Enagás, S.A. should therefore prioritise and endeavour to increase female representation should a vacancy arise on the Board, especially for independent seats.



▶ Given the above, in 2007 the Board adopted various initiatives aimed at rectifying the gender imbalance. In particular, at the Ordinary General Meeting held on 11 May 2007 shareholders approved an amendment of article 8 of the Board Regulations to expressly incorporate the principle of equal treatment of men and women set out in the Unified Code. The new article stipulates that steps should be taken to ensure that “the process of filling board vacancies has no implicit bias against women candidates” . and “the company makes a conscious effort to include women with the target profile among the candidates for board places.”

In particular, state whether the Appointments and Remunerations Committee has established procedures to ensure that selection procedures contain no implicit bias that will encumber the selection of female directors and that female candidates who possess the professional experience required are specifically sought out:

Yes No

Detail the main procedures

In the exercise of its functions, and in accordance with the Board Regulations, whenever a vacancy arises, the Appointments and Remunerations Committee analyses the professional profile of potential female candidates and thus endeavours to ensure that the number of female Directors on the company’s Board is progressively increased.

B.1.28. Indicate whether there are any formal processes for proxy voting at meetings of the Board of Directors. If so, give a brief description.

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

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

B.1.29. State the number of meetings the Board of Directors held in the year. Indicate the number of times, if any, on which the Board met in the absence of its Chairman:

Number of Board meetings	11
Number of Board meetings held in the absence of the Chairman	0

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

Number of meetings of the Executive Committee	0
Number of meetings of the Audit and Compliance Committee	5
Number of meetings of the Appointments and Remunerations Committee	4
Number of meetings of the Appointments Committee	0
Number of meetings of the Remunerations Committee,	0

B.1.30. State the number of meetings the Board of Directors held in the year without all members in attendance. In the calculation, representations exercised without specific instructions shall be treated as non-attendance:

Number of instances of non-attendance in the year	0
Number of instances of non-attendance in the year as % of total votes	0

B.1.31. Indicate whether the individual and consolidated financial statements presented for Board approval are certified beforehand:

Yes No

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

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

B.1.32. Describe any mechanisms the Board of Directors has established to avoid individual and consolidated financial statements that it has approved being presented at the General Shareholders' Meeting with a qualified auditor's report.

The Board of Directors and Audit and Compliance Committee are required to endeavour to ensure that the annual financial statements are published without qualifications:

Article 5, paragraph c) of the Regulations of the Board of Directors states that among the functions of the Board of Directors regarding the Annual Financial Statements are the following:

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

In presenting the Annual Financial Statements, the Board of Directors shall set out all comments or recommendations previously made by the Audit and Compliance Committee in its Report. In the event that the Annual Financial Statements differ from the prior Report 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 there are no grounds for qualification from the Auditor of the Financial Statements. 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, paragraph c) of the Audit and Compliance Committee Regulations states that said Committee shall "operate as a channel of communication between the Board of Directors and the Auditor, evaluating the results of each Audit, and the Management Team's responses to its recommendations, and mediating and arbitrating in cases of discrepancies between them in relation to principles and criteria to be applied in the preparation of financial statements.

In relation to the qualification established in the financial statements of Enagás, S.A. and its Group for the past two years, the Audit and Compliance Committee has set up an Executive Office to:

- Establish a procedure for action that will allow for channels of communication to be established with the regulatory bodies so that the criteria for interpreting the current standards can be clarified.
- Ensure that adequate resources are applied to prevent the prescription of claims and explain the reasons for the actions realised.

B.1.33. Is the Board Secretary also a Director?

Yes No

B.1.34. Explain the procedure for the appointment and dismissal of the Board Secretary, stating whether his/her appointment and dismissal are the subject of a prior report from the Appointments Committee and approved by the Board in full session.

Appointment and dismissal procedure

Article 20 of the Board Regulations details the procedures for the appointment and dismissal of the Board Secretary.

“The Secretary of the Board of Directors shall be appointed by the Board and shall not necessarily also be a Director. The Secretary shall exercise the functions conferred upon such position under commercial law and in these Regulations. To ensure the independence, impartiality and professionalism of the Secretary, his/her appointment and dismissal shall be the subject of a prior report from the Appointments and Remunerations Committee and approved by the Board in full session.”

The aforesaid article 25 of the Regulations also establishes that, the functions of the Appointments and Remunerations Committee shall include responsibility for "proposing the appointment and dismissal of the Secretary of the Board of Directors".

	Yes	No
Does the Appointments Committee propose appointments?	X	
Does the Appointments Committee advise on dismissals?	X	
Do appointments have to be approved by the Board in full session?	X	
Do dismissals have to be approved by the Board in full session?	X	

Is the Board Secretary given responsibility for specifically monitoring compliance with the good governance recommendations?

Yes No

Observations

In accordance with the provisions of article 20.3 of the Board Regulations, "the Secretary shall also be responsible for the formal and material legality of the Board of Directors' actions and shall guarantee that its governing procedures and rules are respected and regularly revised. In particular he/she shall ensure that the actions of the Board:

- a) Are in line with the letter and spirit of the Law and its implementing regulations, including those approved by the regulatory bodies;
 - b) Conform to the company Bylaws, the Board Regulations and any other company regulations;
 - c) Incorporate the good governance recommendations that the company has accepted".
-

B.1.35. Indicate any mechanisms established by the company to safeguard the independence of the auditor, financial analysts, investment banks and rating agencies.

To safeguard the independence of the external auditors, the Audit and Compliance Committee of the Enagás Board of Directors has been assigned, as part of its core remits, responsibility for evaluating the company's accounting verification system, ensuring the independence of the external auditor, reviewing the internal control system, guaranteeing transparency of information, and ensuring compliance with internal conduct regulations.

In addition, it is responsible for proposing the appointment of the External Accounts Auditors to the Board of Directors, for submission to the General Shareholders Meeting, in accordance with applicable regulations, and for advising on payments to external auditors, and liaising with the latter in respect of issues that may jeopardise their independence.

It is the Board of Directors' responsibility to adopt and implement whatever actions and/or measures may be necessary to ensure the company's transparency in respect of the financial markets, to ensure that the share price of the company and its subsidiaries is correctly established, to oversee, through the Audit and Compliance Committee, the regular provision of public information of a financial nature and to carry out as many functions as may be imposed upon it due to the company's status as a listed company according to applicable legislation.

Where appropriate, the Audit and Compliance Committee shall invite the external auditors to attend its quarterly meetings in order to:

- Obtain information on the quarterly reviews of the financial statements.
- Analyse any incidents encountered.
- Ask the Directors to come up with a plan of action to resolve the incidents encountered.

B.1.36. State whether the company changed its external auditor in the year. If so, give the names of the outgoing and incoming auditors:

Yes No

Outgoing auditor

Incoming auditor

If there were disagreements with the outgoing auditor, give details of the disagreements:

Yes No

Explanation of disagreements

B.1.37. Indicate whether the audit firm performs services for the company and/or its group apart from the audit. If so, declare the fees it receives for such non-audit services and what percentage these represent of the total fees it bills to the company and/or its group:

Yes No

	Company	Group	Total
Amount from non-audit services (in thousand euros)	299	0	299
Amount from non-audit services/total amount billed by the audit firm (%)	66	0	66

B.1.38. State whether the auditor's report to the previous year's financial statements contained any provisos or qualifications. If so, detail the reasons given by the Chairman of the Audit Committee to explain the content and scope of these provisos or qualifications.

Yes No

Explanation of reasons

The Independent Auditors included the following qualification in the auditor's report to the 2006 financial statements:

Under the "Sundry Debtors" heading of the consolidated balance sheet the company recognised €25,522 thousand as the figure estimated by Enagás, S.A. pending settlement by the competent Regulatory Body in respect of revenues from regulated activities in 2002, as well as amounts of €17,394 thousand, €10,114 thousand and €4,396 thousand for 2003, 2004 and 2005 respectively (see Note 9 of the accompanying annual financial statements).

In relation to the amount pending settlement recognised by the Controlling company in 2002, on 20 July 2006 the National Energy Commission (*Comisión Nacional de Energía*) issued a Resolution in respect of the amounts that, in its opinion, should have been collected by Enagás, S.A. from other sector agents in 2002 and, thus, in the opinion of the National Energy Commission, were not pending payment to Enagás, S.A. in respect of that year.

On 31 August 2006, Enagás, S.A. submitted an appeal against the aforesaid Resolution, setting out the reasons for which, in its opinion, the items covered by the National Energy Commission in the said Resolution did not correspond to items to be collected by Enagás, S.A. in 2002 in accordance with the regulations in force at that time. As of the date of this Report's publication, no decision has been issued by the Regulatory bodies in respect of this appeal (see Note 9 to the accompanying financial statements).

Explanation of reasons:

1. 2002 FINANCIAL YEAR

2002 was the first year in which the current remuneration model was implemented, and since no definitive settlement was made by the Regulatory Bodies, no benchmark parameters are available that may be used to verify the accuracy of the estimates drawn up by the company. The same applies for subsequent years.

However, the theoretical period for the “recovery” of amounts due in respect of 2002 via rates and tolls, in accordance with prevailing legislation, ended on 31 December 2005.

The amount corresponding to the year in question is subject to a degree of uncertainty as to its recovery connected directly to the absence of a definitive settlement establishing the actual amount that each Agent is entitled to “recover”. The problem can be summed up as follows:

- The final figure that the Regulator deems to be the sector deficit/surplus, if any, is not known, and thus neither is its allocation between each Sector Agent.
- Similarly, the actual figure assigned to each Agent as pending recovery or payment for the purposes of determining the definitive settlement of the remuneration system is also not known.

The estimate of the amount pending settlement calculated by Enagás, S.A. could differ significantly from the actual amount resulting from the final settlement determined by the Regulator.

Nevertheless, on 20 July 2006, the National Energy Commission (CNE) issued a Resolution on the inspection carried out at Enagás, S.A. in relation to, inter alia, the amount invoiced by Enagás, S.A. to other Agents in 2002.

This Resolution sets out, based on the technical operation of the settlement system, the CNE’s conclusions with regards to possible deficiencies in the collection process adopted by the different agents for the year, prior to the issue of the definitive settlement for 2002.

In short, and solely with regards to 2002, the CNE Resolution establishes that Enagás, S.A. has collection deficiencies for the year in question of €16,504 thousand.

This means that, in determining the definitive settlement for 2002, the CNE will presumably consider this amount as not pending collection by the System for Enagás, S.A. and therefore not due for settlement.

On 31 August 2006, Enagás, S.A. lodged an appeal with a view to presenting its analysis of each of the items covered by the Resolution and requesting an amendment of the demands set out by the CNE.

In brief, the situation at that time could be summarised as follows:

- Until the publication of the Definitive Settlement for 2002, it is estimated that the €25.5 million recognised by Enagás, S.A. for 2002 is subject to a certain certainty.
- However, on the basis of available information, it seems reasonable to assume that it is likely that a large part of the debt will be recovered either through the system settlement or through the appeal lodged against the CNE Resolution.
- At the same time, it is possible that amounts not received in the definitive settlement could be recovered by other means.

Notwithstanding the foregoing, based on information currently available, it must be assumed that, despite the Resolution published by the CNE relating to the amounts pending collection by Enagás, S.A., uncertainty remains over the amount pending for 2002 (€25.5 million) since no Regulatory Body has at any time given any official statement as to the amount pending settlement between the System and Enagás, S.A.

Lastly, it should be noted that the definitive settlement for 2002, which attributed to Enagás, S.A. virtually all the amounts deemed due, was published by the CNE on 19 December 2007.



2. 2003, 2004 and 2005 FINANCIAL YEARS

In relation to the debt of €31.9 million recognised in the company's financial statements for the year ended 31 December 2006 for the amounts outstanding for the 2003, 2004 and 2005 financial years, the situation is as follows:

- The theoretical period for the "recovery" of amounts due in respect of 2003 via rates and tolls (€17.4 million) ended on 31 December 2006.
- By analysing the amounts pending settlement in line with the conclusions set out in the CNE Resolution for 2002, a preliminary conclusion as to the recoverability of the amounts that is in line with the conclusions obtained for 2002 may be envisaged.

B.1.39. State the number of consecutive years that the current audit firm has been auditing the financial statements of the company and/or group. State also the number of years as a percentage of the total number of years over which the annual accounts have been audited:

	Company	Group
Number of consecutive years	4	4

	Company	Group
No. of years audited by current audit firm/ No. of years the company has been audited (%)	17.4	17.4

B.1.40. Detail any information in the company's possession concerning Directors' shareholdings in other companies involved in activities that are identical, analogous or complementary to those that constitute the corporate purpose of the company and/or its group. Indicate also the positions or duties they exercise in these companies:

Name or company name of director	Name of company in which shares are held	% shareholding	Position or duties
ANTONIO LLARDÉN CARRATALÁ	ENAGÁS, S.A.	0.007	CHAIRMAN
BANCAJA (CAJA DE AHORROS DE VALENCIA, CASTELLÓN Y ALICANTE)	ENAGÁS, S.A.	5.000	DEPUTY CHAIRMAN
BANCAJA (CAJA DE AHORROS DE VALENCIA, CASTELLÓN Y ALICANTE)	IBERDROLA, S.A.	6.030	—
BBK (BILBAO BIZKAIA KUTXA)	ENAGÁS, S.A.	5.000	DIRECTOR
BBK (BILBAO BIZKAIA KUTXA)	IBERDROLA, S.A.	7.197	DIRECTOR

BBK (BILBAO BIZKAIA KUTXA)	GAS NATURAL SDG, S.A.	0,219	—
CAM (CAJA DE AHORROS DEL MEDITERRÁNEO)	UNION FENOSA, S.A.	5,150	—
SALVADOR GABARRÓ SERRA	GAS NATURAL SDG, S.A.	0,000	CHAIRMAN
SALVADOR GABARRÓ SERRA	ENAGÁS, S.A.	0,000	DIRECTOR
SALVADOR GABARRÓ SERRA	IBERDROLA, S.A.	0,001	—
LUIS JAVIER NAVARRO VIGIL	BP ESPAÑA, S.A.U.	0,000	DIRECTOR
LUIS JAVIER NAVARRO VIGIL	ENEL VIESGO	0,000	DIRECTOR
LUIS JAVIER NAVARRO VIGIL	E.ON RENOVABLES IBERIA	0,000	CHAIRMAN

B.1.41. Indicate whether there are any procedures for Directors to receive external advice and provide details as appropriate:

Yes No

Details of the procedure

Article 15 of the Regulations of the Board of Directors establishes that Directors shall be entitled to propose to the Board of Directors the engagement, at the company's expense, of legal, accounting, technical, financial, commercial or any other type of experts deemed necessary for the interests of the company, for the purpose of assisting the Board in performing its duties when there are specific problems of a certain importance and complexity linked to the such performance.

The proposal must be communicated to the Chairman of the Board via the Board Secretary. The Board of Directors may veto its approval when it considers that such services are unnecessary for the duties with which they are entrusted, or disagrees with the cost of the same (disproportionate in relation to the problem and assets and revenues of the company) or believes that the said technical assistance can be adequately provided by experts and technicians from within the company.

The company should organise induction programmes for new directors to acquaint them rapidly with the workings of the company and its corporate governance rules. It shall also offer Directors refresher programmes when circumstances so advise.

B.1.42. Indicate whether there are procedures for Directors to receive the information they need in sufficient time to prepare for meetings of the governing bodies:

Yes No

Details of the procedure

Article 6 of the Regulations of the Board of Directors governs the procedure to ensure that Directors have the necessary information to prepare meetings of the Board of Directors with sufficient time. The aforesaid article establishes that:

"Notices convening ordinary sessions shall be issued by the Chairman or the Secretary, or by the Deputy Chairman on order of the Chairman, may be effected by any media, and shall include the venue at which the meeting is to be held and the agenda of the same.

▶ The convening notice, which shall be issued, except in extraordinary situations, at least three days prior to the date scheduled for the meeting, shall contain the information and documents considered relevant or appropriate to better inform Directors.

The Chairman shall be empowered to establish the agenda of the meetings, although any Director may request, prior to convening the meeting, the inclusion of the points that, in his/her opinion, should be deliberated by the Board of Directors”.

In practice, the convening notice shall be issued a week before the meeting and, in addition to the meeting venue and the agenda, shall include all documentation considered appropriate or relevant.

B.1.43. State whether the company has established rules requiring Directors to report and, if applicable, resign in situations that could compromise the credit rating and reputation of the company and provide details where appropriate:

Yes No

Details of the rules

Pursuant to the good governance recommendations, article 12 of the Board Regulations establishes that Directors place their offices at the Board of Directors’ disposal, and tender, if the Board deems this appropriate, their resignation, inter alia, in situations that could place the company’s interest at risk or damage its credibility and reputation. If a Director is indicted or an order is issued to initiate a trial against him/her for a crime specified under article 124 of the Spanish Companies Act, the Board shall review the case as promptly as possible and, based on the specific circumstances, decide if it is appropriate for the Director to continue to hold his/her post.

B.1.44. Indicate whether any member of the Board of Directors has informed the company that he/she has been indicted or has had an order to initiate trial proceedings issued against him/her for an offence specified under article 124 of the Spanish Companies Act:

Yes No

Name of Director	Offence	Observations
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State whether the Board of Directors examined the case. If so, detail the rationale behind the decision taken on whether or not the Director should remain in his/her position.

Yes No

Decision taken	Explanation of rationale
-----------------------	---------------------------------

Should remain in post/should not remain in post

B.2. Board of Directors' Committees

B.2.1. List all Board Committees and their members:

EXECUTIVE COMMITTEE

Name	Position	Type of director

AUDIT AND COMPLIANCE COMMITTEE

Name	Position	Type of director
MARTÍ PARELLADA SABATA	CHAIRMAN	INDEPENDENT DIRECTOR
BANCAJA (CAJA DE AHORROS DE VALENCIA, CASTELLÓN Y ALICANTE)	MEMBER	CONTROLLING DIRECTOR
CARLOS EGEA KRAUEL	MEMBER	CONTROLLING DIRECTOR
LUIS JAVIER NAVARRO VIGIL	MEMBER	OTHER EXTERNAL DIRECTOR
ANTONIO TÉLLEZ DE PERALTA	MEMBER	INDEPENDENT DIRECTOR
RAFAEL PIQUERAS BAUTISTA	NON-DIRECTOR SECRETARY	

APPOINTMENTS AND REMUNERATIONS COMMITTEE

Nombre	Cargo	Tipología
DON SALVADOR GABARRÓ SERRA	CHAIRMAN	CONTROLLING DIRECTOR
CAM (CAJA DE AHORROS DEL MEDITERRÁNEO)	MEMBER	CONTROLLING DIRECTOR
TERESA GARCÍA-MILÁ LLOVERAS	MEMBER	INDEPENDENT DIRECTOR
DIONISIO MARTÍNEZ MARTÍNEZ	MEMBER	INDEPENDENT DIRECTOR
RAMÓN PÉREZ SIMARRO	MEMBER	INDEPENDENT DIRECTOR
RAFAEL PIQUERAS BAUTISTA	NON-DIRECTOR SECRETARY	

APPOINTMENTS COMMITTEE

Name	Position	Type of director

REMUNERATIONS COMMITTEE

Name	Position	Type of director

_____ COMMITTEE

Name	Position	Type of director

B.2.2. Indicate whether the Audit Committee performs the following functions:

	Yes	No
Monitor the preparation and the integrity of the financial information prepared on the company and, where appropriate, the group, checking for compliance with legal provisions, the accurate demarcation of the consolidation perimeter, and the correct application of accounting principles.	X	
Review internal control and risk management systems on a regular basis, so main risks are properly identified, managed and disclosed.	X	
Monitor the independence and efficacy of the internal audit function; propose the selection, appointment, reappointment and removal of the head of internal audit; propose the department's budget; receive regular report-backs on its activities; and verify that senior management are acting on the findings and recommendations of its report.	X	
Establish and supervise a mechanism whereby staff can report, confidentially and where appropriate anonymously, any irregularities they detect in the course of their duties, in particular financial or accounting irregularities, with potentially serious implications for the firm.		X
Make recommendations to the board for the selection, appointment, reappointment and removal of the external auditor, and the terms and conditions of his engagement.	X	
Receive regular information from the external auditor on the progress and findings of the audit programme, and check that senior management are acting on its recommendations.	X	
Monitor the independence of the external auditor.	X	
In the case of groups, the Committee should urge the group editor to take on the auditing of all component companies.	X	

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

AUDIT AND COMPLIANCE COMMITTEE:

Regulations for the Audit and Compliance Committee were approved at the meeting of the Board of Directors of 19 February 2004. They are aimed at providing the committee with an organisational and operational framework that enables it to operate as an independent and transparent body, and thereby comply with the regulations contained in article 44 of the Company Bylaws and article 26 of the regulations governing the organisation and operation of the Board of Directors. At its meeting of 29 March 2007, the Board amended article 26 of the Board Regulations in order to incorporate as many of the recommendations of the Unified Code as possible and thus also amended the Regulations of the Audit and Compliance Committee to bring them in line with changes made to the Board Regulations.

The Audit and Compliance Committee is comprised of five members, which is within the limits established in article 44 of the Company Bylaws and article 3 of the Audit and Compliance Committee Regulations, which set a minimum of three and maximum of five members, appointed by the Board of Directors. Two of the Committee's members, including the Chairman, are Independent Directors, two are Controlling Directors, and the fifth is classified as "Other External Director".

Article 3 of the Regulations of the Audit and Compliance Committee states that none of its members may be Executive Directors, in order to safeguard the transparency and objective nature of its decisions, and maintain parity between Controlling and Independent Directors.

The aforesaid article also stipulates that the Chairman of the Board of Directors and members of other committees may not sit on the Audit and Compliance Committee.

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

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

The remuneration of Committee members, as provided for in article 5 of the Committee Regulations, will be approved as established in the company Bylaw and the Board Regulations pertaining to the approval of Directors' remuneration, and shall be subject to the same disclosure obligations.

During their period of office, Committee members shall be subject, pursuant to article 6 of the Board Regulations, to the same duties and working principles as those established in the company Bylaws, in the Regulations of the Board of Directors and in prevailing legislation regulating Directors.

In keeping with article 8 of its Regulations, the Committee must meet at least four times a year and the Chairman shall call as many further meetings as he/she believes are required for the Committee to complete its tasks. In 2007, the Committee met five times.

The tasks to be performed by the Audit and Compliance Committee are set out in article 44 of Company Bylaws and article 7 of the Committee Regulations.

The Committee's core remits are to evaluate the company's accounts verification system, monitor the independence of the external auditor, review the internal control system, guarantee transparency of information, and ensure compliance with internal rules of conduct.

To fulfil these remits, in addition to the functions established by law for the Audit and Compliance Committee, the Committee shall be responsible for the following tasks:

a) In relation to the financial statements:

- Overseeing the preparation process and monitoring the integrity of financial information on the company and, where relevant, the Group, and checking compliance with regulatory requirements, the due definition of the scope of consolidation and correct application of accounting principles.
- Providing information on the annual financial statements prior to their presentation by the Board of Directors.

In its report, the Committee shall include the information deemed necessary on the application of accounting criteria, internal control systems and any other relevant item.

The Board of Directors must provide due explanation whenever it presents annual financial statements that diverge or differ from the information previously provided by the Audit and Compliance Committee.

- Examining the information on the company's activities and results that is produced regularly in compliance with securities market regulations, and ensuring that such information is transparent and accurate.

b) In relation to the Internal Audit:

- Monitoring the independence of the internal audit unit.
- Supervising the company's internal auditing services and verifying the internal control systems, in order to achieve optimum monitoring of the execution of the annual internal audit.

In particular, the Committee shall monitor the quality of the work of the internal audit unit in areas including accuracy and integrity of information, compliance with policies, plans, regulations and standards and asset protection measures.

The Committee shall have unlimited access to internal auditing systems and shall meet regularly, either in full session or in the person of its Chairman, with the head of Internal Audit, from whom it may request all the information necessary for its work.

- Providing information and putting forward proposals to the Board of Directors regarding the selection, appointment, reappointment and dismissal of the head of Internal Audit.

c) In relation to external audits:

- Making proposals to the Board of Directors for submission to shareholders at the General Meeting concerning the appointment of the External Accounts Auditor, in accordance with applicable regulations, and providing information on the remuneration payable to the same and other terms and conditions of their appointment.
- Liaising with the external auditors to obtain information on any issues that could compromise the latter's independence or any other subjects related to the auditing process, and on any other disclosure obligations established in legislation on the annual audit process and in the technical audit regulations.
- Taking receipt of the external auditor's regular reports on the audit programme and results of its execution, and ensuring that senior management takes account of its recommendations.
- Serving as a channel for communications between the Auditors and the Board of Directors, evaluating the results of each audit, and the management team's responses to its recommendations, and mediating and arbitrating in the event of disagreement between the two concerning the principles and criteria to be applied in the preparation of the financial statements.
- Overseeing the execution of contracted audit work and ensuring that the auditor's opinion on the financial statements and the main contents of the Auditors' Report are written clearly and accurately.
- Providing information on non-auditing contracts between the company and the Accounts Auditors.
- Ensuring that the External Accounts Auditor is provided, on request, with access to all information necessary to the execution of their work.

d) In relation to the company's risk map:

- Identifying and analysing, in conjunction with the internal and external auditors, the main risks to which the company is exposed, and, in particular, those affecting its financial position.

- Producing a risk assessment report for the Board of Directors.
- Where appropriate, proposing to the Board of Directors the measures deemed necessary to manage, mitigate or prevent risks detected.
- Establish and supervise a mechanism whereby staff can report, confidentially and, if necessary, anonymously, any irregularities they detect in the course of their duties, in particular financial or accounting irregularities, with potentially serious implications for the firm.

e) In relation to corporate governance:

- Assessing compliance with the Internal Code of Conduct on matters relating to the securities markets, the Regulations of the Board of Directors and the company's governance regulations in general, and make the proposals necessary for their improvement. In fulfilling this duty, the Appointments and Remunerations Committee shall liaise with the Audit and Compliance Committee in considering company directors and managers' compliance with the Code.
- Preparing an annual report on the work of the Audit and Compliance Committee that shall form part of the Corporate Governance Report.
- Assisting with drafting the Annual Corporate Governance Report, especially in areas concerning transparency of information and conflicts of interests.

f) In relation to shareholders:

- Providing information on questions within the scope of its competencies at the General Shareholders' Meeting.

The above functions, with the exception of those attributed directly to the Audit and Compliance Committee by law or in the company Bylaws, shall be considered delegated functions and may therefore be executed, at any time, on prior request, directly by the Board of Directors itself.

Resolutions adopted by the Committee in the exercise of delegated functions shall not be binding for the Board of Directors. However, the Board must provide due justification of any decision it adopts without taking account of the reports or recommendations of the Audit and Compliance Committee on issues under its competency.

APPOINTMENTS AND REMUNERATIONS COMMITTEE:

Firstly, it should be noted that the Appointments and Remunerations Committee has no specific regulations, as it is sufficiently regulated under article 25 of the Regulations of the Board of Directors and article 45 of the company Bylaws.

The Appointments and Remunerations Committee is comprised of five members appointed by the Board of Directors, which is within the limits established in the Company Bylaws and the Regulations of the Board, which set a minimum of three and maximum of five members.

It comprises mainly Independent Directors, as dictated in the Company Bylaws and the Regulations of the Board. Three of the Committee's members, including the Chairman, are External Controlling Directors and two are Independent Directors.

Pursuant to article 25 of the Board Regulations, the Appointments and Remunerations Committee must meet at least four times a year. In 2007, the Committee met four times.

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

1. Establishing payment criteria for company Directors, in accordance with the stipulations of the Bylaws and in line with resolutions of the General Shareholders' Meeting, and ensuring that payments are transparent.
2. Establishing a general remuneration policy for Enagás, S.A., management personnel, justifying the same to the Board of Directors, and guidelines relating to the appointment, selection, promotion and dismissal of senior managers, in order to ensure that the company has the appropriate highly qualified staff for administering its business at all times.

3. Reviewing the structure of the Board of Directors, the criteria for the statutory renewal of Directors, the incorporation of new members and any other aspects relating to its composition that it deems appropriate, providing the Board of Directors with the proposals that it considers necessary.
4. Reporting on the appointment and dismissal of the Secretary to the Board of Directors.
5. Informing the Board of Directors, prior to their approval, of any transactions that Directors wish to undertake that imply or may imply a conflict of interest, in accordance with the stipulations of the Internal Code of Conduct on matters relating to the securities markets.
6. Formulating and revising the criteria to be followed in the composition of the Board of Directors and the selection of the candidates proposed for the post of Director.
7. Providing 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.
8. Submitting to the Board of Directors proposals concerning the company's organisational structure and the creation of the senior management posts deemed necessary for a better, more efficient administration of the company.
9. Advising on the appointment and dismissal of members of senior management staff, and where necessary, approving any special conditions in their contracts.
10. Approving the remuneration packages of senior management, providing they do not diverge from the criteria established in the general payment policy for Management.
11. Reporting to the Board of Directors on possible transactions with related parties before Board approval of the same. Under no circumstances shall any such transaction be authorised without a prior report evaluating the transaction from the point of view of market conditions. If the transactions are ordinary, generic authorisation of the type of transaction and its conditions shall be sufficient.
12. Providing information to the Board of Directors on measures to be taken in the event of non-compliance with these Regulations or the Internal Code of Conduct on matters relating to the securities markets on the part of Directors or other persons subject to the aforementioned Regulations. In performing this duty, the Appointments and Remunerations Committee shall work in conjunction with the Audit and Compliance Committee wherever appropriate.

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

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

B.2.5. Detail any regulations that cover the Board committees, where they are available for consultation and any changes that have been made in the year. Where applicable, state also whether any annual report on the activities of each committee has been produced on a voluntary basis.

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

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

No changes were made to the regulations of the Audit and Compliance Committee in 2007.

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

Finally, it should be noted that the Appointments and Remunerations Committee has no specific regulations, as it is sufficiently regulated under article 25 of the Regulations of the Board of Directors and article 45 of the company Bylaws.

B.2.6. 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.

C. RELATED-PARTY TRANSACTIONS

C.1. Indicate whether responsibility for approving transactions made by the company with Directors, significant shareholders or shareholders represented on the Board, or with persons related to Directors or shareholders, is reserved for the Board in full session:

Yes No

C.2. List any material transactions entailing a transfer of resources or obligations between the company or its group companies, and significant shareholders of the company:

Name or company name of significant shareholder	Name or company name of the company or its group company	Nature of the relationship	Type of transaction	Amount (thousand euros)
BANCAJA (CAJA DE AHORROS DE VALENCIA, CASTELLÓN Y ALICANTE)	ENAGÁS, S.A.	Shareholder	Dividends and other income distributions	5,632
BANCAJA (CAJA DE AHORROS DE VALENCIA, CASTELLÓN Y ALICANTE)	ENAGÁS, S.A.	Commercial	Finance agreements: other	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: other	15,000
BANCAJA (CAJA DE AHORROS DE VALENCIA, CASTELLÓN Y ALICANTE)	ENAGÁS, S.A.	Contractual	Management agreements	60
CAJASTUR (CAJA DE AHORROS DE ASTURIAS)	ENAGÁS, S.A.	Shareholder	Dividends and other income distributions	5,632
CAJASTUR (CAJA DE AHORROS DE ASTURIAS)	ENAGÁS, S.A.	Commercial	Finance agreements: other	6,000
CAJASTUR (CAJA DE AHORROS DE ASTURIAS)	ENAGÁS, S.A.	Commercial	Guarantees and sureties	12,000
CAJASTUR (CAJA DE AHORROS DE ASTURIAS)	ENAGÁS, S.A.	Commercial	Finance agreements: loans	30,000
CAM (CAJA DE AHORROS DEL MEDITERRÁNEO)	ENAGÁS, S.A.	Shareholder	Dividends and other income distributions	5,663
CAM (CAJA DE AHORROS DEL MEDITERRÁNEO)	ENAGÁS, S.A.	Comercial	Finance agreements: other	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: other	15,000
GAS NATURAL SDG, S.A.	ENAGÁS, S.A.	Shareholder	Dividends and other income distributions	5,632
GAS NATURAL SDG, S.A.	ENAGÁS, S.A.	Contractual	Provision of services	156,757
GAS NATURAL SDG, S.A.	ENAGÁS, S.A.	Contractual	Purchase of goods (finished or otherwise)	948,240
GAS NATURAL SDG, S.A.	ENAGÁS, S.A.	Contractual	Sale of goods (finished or otherwise)	810,823
GAS NATURAL SDG, S.A.	ENAGÁS, S.A.	Contractual	Receipt of services	18,212
GAS NATURAL SDG, S.A.	ENAGÁS, S.A.	Contractual	Receipt of services	3,835
GAS NATURAL SDG, S.A.	ENAGÁS, S.A.	Contractual	Provision of services	6,676
SAGANE INVERSIONES S.L.	ENAGÁS, S.A.	Shareholder	Dividends and other income distributions	5,632
BBK (BILBAO BIZKAIA KUTXA)	ENAGÁS, S.A.	Shareholder	Dividends and other income distributions	3,364
BBK (BILBAO BIZKAIA KUTXA)	ENAGÁS, S.A.	Commercial	Finance agreements: other	6,000
BBK (BILBAO BIZKAIA KUTXA)	ENAGÁS, S.A.	Commercial	Guarantees and sureties	6,000
EULEN, S.A.	ENAGÁS, S.A.	Contractual	Receipt of services	1,950
INTERMONEY ENERGÍA, S.A.	ENAGÁS, S.A.	Contractual	Receipt of services	144

C.3. Detalle las operaciones relevantes que supongan una transferencia de recursos u obligaciones entre la sociedad o entidades de su grupo, y los administradores o directivos de la sociedad:

Nombre o denominación social de los administradores o directivos	Nombre o denominación social de la sociedad o entidad de su grupo	Naturaleza de la operación	Tipo de la operación	Importe (miles de euros)
ANTONIO LLARDÉN CARRATALÁ	ENAGÁS, S.A.	SHAREHOLDER	Remuneration	61
JESÚS DAVID ÁLVAREZ MEZQUÍRIZ	ENAGÁS, S.A.	SHAREHOLDER	Remuneration	61
BBK (BILBAO BIZKAIA KUTXA)	ENAGÁS, S.A.	SHAREHOLDER	Remuneration	7
BANCAJA (CAJA DE AHORROS DE VALENCIA, CASTELLÓN Y ALICANTE)	ENAGÁS, S.A.	SHAREHOLDER	Remuneration	102
CAM (CAJA DE AHORROS DEL MEDITERRÁNEO)	ENAGÁS, S.A.	SHAREHOLDER	Remuneration	67
CARLOS EGEA KRAUEL	ENAGÁS, S.A.	SHAREHOLDER	Remuneration	67
SALVADOR GABARRÓ SERRA	ENAGÁS, S.A.	SHAREHOLDER	Remuneration	77
TERESA GARCÍA-MILÁ LLOVERAS	ENAGÁS, S.A.	SHAREHOLDER	Remuneration	67
MIGUEL ÁNGEL LASHERAS MERINO	ENAGÁS, S.A.	SHAREHOLDER	Remuneration	61
DIONISIO MARTÍNEZ MARTÍNEZ	ENAGÁS, S.A.	SHAREHOLDER	Remuneration	72
LUIS JAVIER NAVARRO VIGIL	ENAGÁS, S.A.	SHAREHOLDER	Remuneration	73
MARTÍ PARELLADA SABATA	ENAGÁS, S.A.	SHAREHOLDER	Remuneration	77
PEÑA RUEDA, S.L.U.	ENAGÁS, S.A.	SHAREHOLDER	Remuneration	61
RAMÓN PÉREZ SIMARRO	ENAGÁS, S.A.	SHAREHOLDER	Remuneration	72
JOSÉ RIVA FRANCOS	ENAGÁS, S.A.	SHAREHOLDER	Remuneration	61
ANTONIO TÉLLEZ DE PERALTA	ENAGÁS, S.A.	SHAREHOLDER	Remuneration	72

C.4. List any material transactions undertaken by the company with other companies belonging to the same group that are not eliminated in the process of drawing up the consolidated financial statements and that, in terms of their purpose and conditions, do not conform to the habitual trading patterns of the company:

Company name of the group company	Brief description of the transaction	Amount (thousand euros)
GASODUCTO AL ANDALUS, S.A.	PAYMENT TO ENAGAS OF DIVIDENDS FOR THE 2006 FINANCIAL YEAR.	4,189
GASODUCTO AL ANDALUS, S.A.	LOAN GRANTED BY ENAGÁS.	29,432

GASODUCTO AL ANDALUS, S.A.	TRANSPORT CHARGES PAID.	16,824
GASODUCTO AL ANDALUS, S.A.	INCOME FROM PIPELINE MAINTENANCE AND FRANCHISE ROYALTIES.	5,318
GASODUTO BRAGA - TUY, S.A.	LOAN GRANTED BY ENAGÁS.	10,891
GASODUTO BRAGA - TUY, S.A.	TRANSPORT SERVICE CHARGES PAID.	3,286
GASODUTO CAMPO MAIOR - LEIRIA - BRAGA, S.A.	LOAN GRANTED BY ENAGÁS.	5,378
GASODUCTO CAMPO MAIOR - LEIRIA - BRAGA, S.A.	TRANSPORT SERVICE CHARGES PAID.	3,220
GASODUCTO DE EXTREMADURA, S.A.	PAYMENT TO ENAGAS OF DIVIDENDS FOR THE 2006 FINANCIAL YEAR.	2,816
GASODUCTO DE EXTREMADURA, S.A.	TRANSPORT RIGHTS PAID.	8,467
GASODUCTO DE EXTREMADURA, S.A.	LOAN GRANTED BY ENAGÁS.	3,057
GASODUCTO DE EXTREMADURA, S.A.	INCOME FROM PIPELINE MAINTENANCE AND FRANCHISE ROYALTIES.	4,733

C.5. State whether, in the course of 2007, the members of the Board of Directors encountered any situations of conflict of interest, as defined in article 127 of the Spanish Companies Act.

Yes No

Name or company name of director	Description of situation of conflict of interest
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C.6. List the mechanisms established to detect, determine and resolve possible conflicts of interest between the company and/or its group, and its Directors, senior officers and/or significant shareholders.

Mechanisms for detecting and regulating possible conflicts of interest between Enagás, S.A. and/or its group, and its Directors, senior officers or significant shareholders are primarily set out in the Enagás, S.A. 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 stake.

- Persons involved in dealings with the Securities Markets.
- In general, all persons with access to confidential or reserved company information.

With regards to related-party transactions, the company must adopt the following measures:

- Report such transactions to the National Securities Market Commission (CNMV) every six months and include information on them in the Corporate Governance section of the notes to the company's annual financial statements.
- Submit them in draft form to the Board of Directors for authorisation prior to their execution, following the relevant report from the Appointments and Remunerations Committee, and assess 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 all cases before any decision relating to the possible conflict of interest is taken.
- Update information, including any change or end to the previously notified situations, and any new conflicts of interest arising.
- Refrain from participating in any decision-making process that may be affected by such a conflict of interest with the company.

The Appointments and Remunerations Committee is the body responsible for regulating and resolving any conflicts of interest that may arise and, pursuant to article 25 of the Regulations of the Board of Directors, is assigned the following duties:

- Informar al Consejo de Administración, con carácter previo a su aprobación, sobre las transacciones que pretendan llevar a cabo los Consejeros, que impliquen o puedan implicar conflictos de interés, de acuerdo a lo establecido en el Código de Conducta en materias relativas al Mercado de Valores.
- Reporting to the Board of Directors on any related-party transactions before Board approval of the same. Under no circumstances shall any such transaction be authorised without a prior report evaluating the transaction from the point of view of market conditions. If the transactions are ordinary, generic authorisation of the type of transaction and its conditions shall be sufficient.
- Providing information to the Board of Directors on 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 Remunerations Committee shall liaise with the Audit and Compliance Committee as appropriate.

C.7. Is more than one company of the Group listed for trading in Spain?

Yes No

List the subsidiaries that are listed for trading in Spain

Listed subsidiaries

Indicate whether details of the respective areas of activity and any possible business relationships between these subsidiaries, and/or between the listed subsidiary and other group companies, have been disclosed publicly;

Yes No

Detail any business relationships between the parent company and listed subsidiary, and/or between the latter and other group companies

Detail the mechanisms established for the resolution of conflicts of interest between the listed subsidiary and other group companies:

Mechanisms for resolving possible conflicts of interest

D. RISK CONTROL SYSTEMS

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

The Enagás, S.A. risk policy has been designed to achieve the following main objectives:

- To align priority targets with the company's mission and strategy.
- To improve the efficiency and effectiveness of operations.
- To ensure the accuracy of financial information and information to be provided to institutions.
- To ensure compliance with applicable laws and regulations.

Enagás, S.A., has implemented a corporate risk management model enabling it to assess both risks and the degree of control it has over each. The organisational structure developed for this purpose is as follows:

- Process owners are responsible for identifying, measuring, managing and monitoring risks.
- The Audit and Compliance Committee, in conjunction with the internal audit unit and external auditor, identifies and analyses the main risks to which the company is exposed, and, in particular, those affecting its financial position.
- The Audit and Compliance Committee provides information and submits proposals to the Board of Directors regarding risks detected, the assessment of the same and the measures necessary for risk management.

The former model was based on the system set out in the reports produced by the COSO (Committee of Sponsoring Organizations of the Treadway Commission), which establish a comprehensive internal control and risk management framework.

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

Using the various management tools available, the owners of each process monitor the most significant risks involved in the company's various critical processes on an ongoing basis.

For this purpose, Enagás, S.A. has developed a processes/risks model. Thirty-four processes have been defined and a rigorous analysis performed, in which the company's executive management was involved, in order to identify the risks affecting each of these processes. Significant risks have been grouped into three categories:

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

All risks to which the company is exposed fall into one of these three categories.

In mid-2007 Enagás, S.A. began assessing risks on the basis of impact and probability of occurrence using the IT tools available to it. Previously, risks were assessed on the basis of relative importance and existing level of internal control.

Risks are quantified either on the basis of existing statistical information or using various indicators defined in the risk quantification model.

D.2. Indicate whether any of the various types of risks that affect the company and/or its group (operational, technological, financial legal, reputational, tax, etc) have materialised in the year:

Yes No

If so, detail the circumstances responsible for their occurrence and whether the control systems established worked correctly.

Risk materialised in the year	Circumstances responsible for occurrence	Operation of control systems
Legal and regulatory framework	<p>Risk arises because Enagás, S.A. operates in a highly regulated market in which a remuneration system has been established for regulated gas sector activities, which includes re-gasification, storage and transport activities, technical system management and management of the sale of gas to the tariff market.</p> <p>Any change to the prevailing legal framework, its interpretation and/or the parameters to be updated by the Authorities could have a significant impact on the performance of Enagás, S.A.'s activities, the manner in which it manages its business, its operating results and financial statements.</p>	<p>Maintaining and broadening, to render more fluent and continuous, communications with all participants in the Gas System, including Regulators, Distribution companies, supply companies and other gas transporters, on these elements and their practical implementation, which has resulted in the publication of the Standards referred to above and thus reducing some of the uncertainties the Company faces. In addition, these enhanced communications with system agents makes it possible to pre-empt and prepare for possible changes in activities and methodology resulting from the publication of new legislation.</p>





The publication of changes to the protocol details to the Gas System Technical Management Standards (hereinafter PD) no 05, PD no 06, PD no 07, PD no 08, PD no 9, PD no 10 and other standards has created a need to adjust activities and the methodology used to the new legislation.

Interruption of supply

Natural gas consumption in Spain reached records levels on various occasions in 2007, with volumes demanded exceeding forecasts.

Thanks to infrastructure enlargements and improved planning, Enagás, S.A. was able to satisfy this excess client demand even though on certain occasions demand exceeded the theoretical supply capacity reflected in models.

Information systems

The legislative changes to which the gas system is subject have a significant impact on the IT systems currently in place both for Enagás, S.A.'s own internal management SERVICES and for services provided to other gas system agents.

In 2007, Enagás, S.A. continued adjusting its IT systems to the Technical Management Standards for the Gas System and the new Protocol Details mentioned above, and this has substantially reduced this risk. However, foreseeable changes that could occur make it essential to establish near permanent IT system maintenance programmes.

D.3. Indicate whether there are any committees or other governing bodies in charge of establishing and overseeing these control systems:

Yes

No

If yes, detail the functions of each.

Name of the Committee or Body

Description of functions

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 committee receives quarterly reports on the performance of the risk control system.

Management Committee

Responsible for the internal control system and supervision of the same..





Process owners

Those ultimately responsible for managing risks and controls within the scope of their competence and developing action and monitoring plans.

Head of Internal Audit

His/her responsibility consists of coordinating risk management, verifying controls and contributing to the improvement of risk management processes. The work of the internal auditing unit is focused on preventative identification, assessment and decision-making, with the aim of minimising the possible negative impacts that may arise from risks to Enagás and increasing the level of control and management of the same.

D.4. Identify and describe the compliance processes for the various regulations and standards affecting the company and/or its group.

Enagás, S.A. operates in a tightly regulated sector that has undergone substantial changes in recent years.

As established in article 7 of the regulations governing the organisation and operation of the Audit and Compliance Committee of the Board of Directors of Enagás, S.A., the Committee shall monitor the quality of the work of the internal audit unit in terms of accuracy and integrity of information, compliance with policies, plans, regulations and standards and asset protection measures.

Under the methodology currently employed, at the time the various audits are performed by the internal audit unit, one of the items planned and assessed, in accordance with the goals of the risk policy defined, is compliance with the laws and standards that may be applicable.

Likewise, within the scope of its competencies, the external auditor also examines compliance with laws and standards.

E. GENERAL SHAREHOLDERS' MEETINGS

E.1. Describe the differences, if any, from the minimum requirement established under the Spanish Companies Act (LSA) with regards to the minimum number of attendees required to constitute a quorum at General Meetings.

Yes

No

Difference in % of quorum as set out in article 102 of the LSA for ordinary circumstances

Difference in % of quorum as set out in article 103 of the LSA for exceptional circumstances

Quorum required for first call

Quorum required for second call

Description of the differences

There are no differences between the two systems. The quorums required under the Company Bylaws of Enagás, S.A. are in line with the minimum quorums stipulated in articles 102 and 103 of the Spanish Companies Act (LSA).

Article 25 of the Enagás, S.A. Company Bylaws states that “the General Shareholders’ Meeting shall be validly constituted at first call when the shareholders present or represented hold at least twenty-five percent of paid-in share capital with voting rights. At second call, the Meeting shall be validly constituted regardless of the percentage of share capital present or represented”.

Article 26 of the Company Bylaws establishes requirements for special quorums, providing that: “In order for resolutions concerning the issue of bonds, the increase or reduction of share capital, the transformation, merger or spin-off of the company, and in general, any amendment to the Company Bylaws to be validly passed at Ordinary or Extraordinary General Meetings held at first call, shareholders possessing at least fifty percent of the company’s subscribed capital with voting rights must be present or represented. At second call, the attendance or representation of shareholders holding at least twenty-five percent of subscribed capital with voting rights shall be sufficient.”

E.2. Describe the differences, if any, from the system established under the Spanish Companies Act (LSA) for the adoption of corporate resolutions.

Yes No

Describe the differences from the system established in the Spanish Companies Act (LSA).

	Reinforced majority other than that established in article 103.2 for the situations defined in article 103.1	Other situations where reinforced majorities required
% established by the company for the adoption of corporate resolutions		
Description of the differences		
<p>There are no differences between the two systems. Article 13.3 of the regulations of the General Shareholders’ Meeting of Enagás, S.A. stipulates that: “In order for resolutions to be adopted, in accordance with article 93 of the Spanish Companies Act, they must receive the vote in favour of the majority of subscribed capital with voting rights present and represented at the meeting”.</p> <p>In derogation from the above, article 13.3 provides that “In the case of bond issues, capital increases or decreases, transformation, merger or spin-off of the company and, in general, any amendment of the company Bylaws, at second call, and when the Meeting is attended by shareholders representing less than fifty percent of the subscribed voting capital, two thirds of the subscribed voting capital present or represented must vote for of the resolution in order for it to be adopted”, in accordance with article 103 of the Spanish Companies Act.</p>		

E.3. List all shareholders' rights in relation to general meetings other than those established under the Spanish Companies Act (LSA).

Shareholders' rights in relation to general meetings are those established in the Spanish Companies Act.

The General Shareholders' Meeting Regulations of Enagás, S.A. recognise the following shareholders rights:

1. RIGHTS TO INFORMATION.

This right is regulated by article 7 of the Shareholders' Meeting Regulations, which has the following content and scope:

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

- a) The full text of the call for the General Shareholders' Meeting, setting out the resolutions proposed for adoption, and reports from the Board of Directors, where appropriate, concerning their justification and timeliness, providing that all this is possible.
- b) Comprehensive documentation on the Enagás financial statements and the consolidated financial statements of the Enagás Group, and on the proposed appropriation of Enagás earnings, for the financial year in question.
- c) Enagás Management Report and Consolidated Management Report for the financial year.
- d) Auditors' Reports on the Consolidated Financial Statements and Enagás Financial Statements.
- e) The Annual Corporate Governance Report.
- f) Any other report or information required by law or deemed appropriate by the Board of Directors.

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

- The Shareholders Information Office.
- A freephone telephone number to be specified in the convening notice.
- The company's website.

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

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

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

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

2. RIGHTS TO PARTICIPATE.

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

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

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

3. RIGHTS OF ATTENDANCE.

In accordance with article 27 of Company Bylaws and article 9 of the Regulations of the General Shareholders' Meeting, attendance at General Meetings requires a minimum shareholding of 100 shares, provided these are duly recorded in the corresponding registries of member entities of IBERCLEAR (the Spanish securities clearing and settlement body) five days prior to the meeting and shareholder accreditation is confirmed, either via the corresponding attendance and voting card issued by member entities of IBERCLEAR or through the electronic attendance and voting card issued by the manager of the Book Entry Register or by an authorised share custodian.

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

4. RIGHTS OF REPRESENTATION.

In accordance with article 27 of the Company Bylaws and article 10 of the General Meeting Regulations, all shareholders entitled to attend meetings may be represented by another person, who need not be a shareholder.

Representation rights must be conferred in writing, by mail, a recognised electronic signature, or any of the other legally-permitted electronic or remote communication methods. In all cases, the identity of the representative must be duly guaranteed, and shall be valid only for the particular meeting in question.

All proxies shall be revocable. If the shareholder represented actually attends the meeting in person, the representation rights granted shall be automatically revoked, and he/she must inform the representative immediately in order to ensure that this person does not attempt to exercise representation rights that are non-existent.

Shareholders who are natural persons preventing from exercising their civil rights and shareholders that are legal persons may be represented by any duly accredited legal representative. Both in cases of legal representation and delegation of attendance rights, no shareholder shall have more than one representative at the Meeting.

5. VOTING RIGHTS.

This right is regulated in article 27 of the Company Bylaws and article 11 of the General Meeting Regulations. All shareholders with attendance rights, under the terms set out in article 17 of Company Bylaws and developed in article 9 of the Regulations of the General Shareholders' Meeting, shall be entitled to vote and may exercise such right on their own behalf or by representation, either by attending and voting at the Meeting in person, with using a duly signed and accredited attendance and voting card, or by postal vote sent to the Shareholder Information Office, using a recognised electronic signature or other electronic media, or, in general any remote communication media envisaged by law, attaching the relevant electronic attendance and voting certificate.

E.4. Indicate any measures adopted to encourage shareholder participation at general meetings.

In addition to the rights to information, attendance, representation and vote described in the section above, accredited shareholders may submit questions of interest to the company or related to their position as shareholders at any time via the Shareholders Information Office, the freephone line or e-mail address given on the company website (article 8 of the General Meeting Regulations).

In accordance with the provisions of article 7.2 of the General Meeting Regulations, in the seven days extending from the date of the convening notice to the date of the meeting itself, shareholders may request from Directors any information or clarification they deem appropriate concerning Agenda items, or submit in writing the questions they judge relevant.

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

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

- Publishing the convening notice in the main communications media.
- Offering gifts as incentives for shareholders' personal attendance of general meetings.
- Holding meetings a venue offering the best possible conditions for the meeting and easy access for shareholders and making transport available to them to facilitate their attendance.
- Offering personal assistance and directions for shareholders who wish to attend through personnel at the Shareholder Information Office.

E.5. Indicate whether General Shareholders Meetings are chaired by the Chairman of the Board of Directors. List the measures adopted, if any, to guarantee the independence and smooth operation of general meetings.

Yes No

Description of the measures

In accordance with article 12.2 of the General Meeting Regulations, "General Shareholders Meeting shall be chaired by the Chairman of the Board of Directors, or, in his/her absence, by the shareholder elected in each case by shareholders present at the meetings. 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 by the provisions established in the General Meeting Regulations, which establish the following:

- The Board of Directors shall appoint a notary to attend general meetings, who shall be responsible for taking and drawing up the minutes, with the accompanying guarantee of neutrality and independence for all shareholders.
- The Chairman of the Audit and Compliance Committee of Enagás, S.A., in representation of the Committee, shall be available at meetings to respond to questions from shareholders on issues under the Committee's competency.
- General Meeting must be attended by the company's external auditors, who shall be convened for such purpose by the Board of Directors. The auditor shall intervene, whenever deemed expedient by the Chairman, to clarify questions relating to its work as the company's external auditors.

Requirements and standards that definitively guarantee the smooth progress of general meetings are contained in articles 13 to 18 of the Regulations of the General Shareholders' Meeting, of which the following are of note:

- Before addressing Agenda items, an attendance list shall be drawn up, detailing the nature or representation of each attendee and the number of shares, owned or represented, by virtue of which they are attending, such that the summary of the attendance list shall determine the number of shareholders, present or represented, as well as the share capital they hold. Capital with voting rights shall be specified. The Deputy Secretary of the Board or the person so appointed by the Chairman in his/her absence shall



provide the Directors with two copies of said summary duly signed by him/her or a scrutinising shareholder. Attendance shall be considered closed for the purposes of establishing a quorum at the time stated in the call for the commencement of the Meeting.

- AFor the purposes of verifying the valid constitution of the meeting, Enagás shall prepare and propose to IBERCLEAR (the Spanish securities clearing and settlement body) the format of the attendance card to be issued to shareholders, ensuring that such format is uniform and incorporates a bar code that 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 course of the meeting, shareholders or representatives arriving late at the Meeting venue may attend the Meeting once the admission of attendance and voting cards has been closed, but shall not be included on the attendance list nor, therefore, form part of the quorum for voting purposes.
- Once the meeting has been validly constituted, the notary called by the company to draw up the minutes shall ask participants if they have any reservations or challenges to the details of shareholders and share capital read by the Chairman. Any shareholder with reservations shall show the member of the Panel his/her attendance card to verify and correct, as applicable, any possible errors.
- To facilitate the smooth running of the meeting, the Chairman shall request that shareholders who wish to take the floor approach the Chair and show their attendance cards so that an order for contributions may be established, said request being made before commencing the presentation of the financial year and proposals to be submitted to the meeting. The Chairman shall also be responsible for keeping debate within the limits of the Agenda and may respond to shareholders either jointly or individually.
- In the event of any occurrence that substantially affects the proper order of the Meeting, the Chairman of the meeting may agree to suspend the same for as long as necessary, and may even postpone the session until the next possible business day should the circumstances persist.
- At the meeting, the Secretary shall give account of the results of the voting on any resolution, indicating the number of votes for, number of votes against, and number of abstentions.
- The scrutineers shall prepare a note on the result of each vote, including the votes previously issued and any change that may have occurred in the course of the meeting.
- Once all resolutions have been put to the vote, the Secretary shall deliver to the notary, if the company has requested the attendance of a notary, the scrutineers' note containing data on the results of the vote on each resolution before the Chairman proceeds to close the session.
- If the meeting has been held in the presence of a notary, the notary's deed shall be taken to constitute the minutes of the meeting, which shall not therefore require approval.

E.6. Detail any amendments made to the General Meeting Regulations in the year.

In 2007 amendments were made to articles 4 and 13.3 of the General Meeting Regulations to bring them in line with the content of the Unified Good Governance Code. These amendments were approved at the Ordinary General Shareholders' Meeting held on 11 May, 2007.

Firstly, it was deemed necessary to amend article 4 of the Regulations of the General Shareholders' Meeting to broaden the powers of General Meetings.

Secondly, it was deemed necessary to amend article 13.3 of the Regulations of the General Shareholders' Meeting regulating the casting of votes at General Meetings.

Accordingly, the following resolution (number seven) was adopted at the Ordinary General Shareholders' Meeting:

"To amend articles 4 and 13.3 of the Regulations of the General Shareholders' Meeting, the full wording of which thus becomes:

ARTICLE 4.- POWERS OF THE GENERAL SHAREHOLDERS' MEETING

The powers of the General Shareholders' Meeting, pursuant to Spanish Companies Law and the company Bylaws, shall extend to the following matters:

- a) Approving, as appropriate, the Annual Financial Statements of Enagás, the Consolidated Financial Statements of the Enagás Group, the report of the Board of Directors and the proposed appropriation of earnings.
- b) Appointing and dismissing Directors, and ratifying or revoking the appointments of Directors co-opted to the Board.
- c) Appointing and re-electing the accounts auditors.
- d) Authorising the execution of transactions in treasury shares.
- e) Agreeing bond issues, capital increases or decreases, transformation, merger or spin-off of the company and, in general, any modification of company Bylaws, and any other transactions that alter the structure of the company including the incorporation within subsidiaries of core activities previously performed by the company, and the acquisition or disposal of core operating assets, when this entails a change to the company's corporate purpose, or transactions that have an effect equivalent to liquidation of the company.
- f) Authorising, as needed, the Board of Directors to increase share capital in line with the provisions of article 153.1.b of the Spanish Companies Act.
- g) Passing resolutions on issues submitted for shareholder approval by the Board of Directors, in accordance with the law.
- h) Approving and modifying the General Meeting Regulations.
- i) Any other decisions legally assigned to its authority.

In exercising its duties, the General Meeting shall not interfere in the powers and responsibilities reserved for the Board or Directors.

ARTICLE 13.3. - VOTING

Ordinary General Shareholders' Meetings should be convened by placing a notice in the Official Gazette of the Commercial Registry and in a daily newspaper with one of the broadest circulations in the province at least one month prior to the date scheduled for the meeting.

The notice shall give the date set for the meeting on first call and list all matters to be dealt with at the meeting.

Shareholders representing at least five per cent of share capital may request publication of a supplement to the notice convening the Meeting adding one or more items to the agenda. In order to exercise this right, shareholders must submit their request by certified notice received at the registered office of the company within five days from the publication of the convening notice.

Any such supplement to the convening notice shall be published at least 15 days in advance of the scheduled date of the General Shareholders' Meeting.

Failure to publish the supplement to the convening notice by the legally established deadline shall render the General Meeting null and void.

Prior to its publication, the company must file the convening notice with the Spanish National Securities Commission (CNMV), the Spanish securities exchanges and any other markets on which the company's shares are listed for trading and inform member entities of the relevant securities registration, clearing and settlement body.

The text of the notice shall also be available for consultation on the company's website.

In addition to the legal and regulatory requirements set out above, in order to achieve maximum dissemination and ensure that shareholders have sufficient time to request and obtain additional information related to the items on the Agenda, the Board of Directors shall endeavour to ensure that the notice is published in advance of the legally established deadline, in a number of corporate communication media exceeding the minimum requirement established by law, unless this is not possible because of the urgency of the situation or other circumstances beyond the control of the Board. In addition, the convening notice shall be re-published on a date closer to that scheduled for the meeting by way of reminder.

At the meetings, the various resolutions shall put to the vote after being read out by the Secretary, except where the written text has been provided to shareholders in advance and, because of its length, the Chairman deems a full reading unnecessary. Reading of the resolutions may be dispensed with on the decision of the Chairman, provided that his/her decision is not opposed by shareholders representing a majority of subscribed voting capital and present at the meeting.

Issues that are essentially independent shall be put to the vote separately so that shareholders may exercise their voting preferences separately.

In order for resolutions to be adopted, in accordance with article 93 of the Spanish Companies Act, they must receive the vote in favour of a majority of subscribed capital with voting rights present and represented at the meeting.

Notwithstanding the above, in the case of bond issues, capital increases or decreases, transformation, merger or spin-off of the company and, in general, any amendment of the company Bylaws, at second call, and when the Meeting is attended by shareholders representing less than fifty percent of the subscribed voting capital, two thirds of the subscribed voting capital present or represented must vote for the resolution in order for it to be adopted .

After each proposed resolution has been read out by the Secretary, the meeting shall proceed to vote. To determine the result of the vote, votes cast at the meeting by shareholders present or represented, votes cast by proxy as a result of the exercise of the public request for representation by delegation and votes cast by post or by electronic means via the Shareholder Office or using any other remote communication media that satisfies the established prerequisites shall be included in the count.

In determining the result of votes on items on the agenda at general meetings, the Meeting Panel shall include:

- As votes against, all votes corresponding to shares whose owners or representatives have indicated that they are voting against the resolution either by communicating or submitting their vote to the Meeting Notary, for registration in the minutes, or by indicating their opposition via remote voting methods.
- As abstentions, all votes corresponding to shares whose owners or representatives have notified their abstention either directly to the Meeting Notary, for registration in the minutes, or via remote voting methods.
- As votes for, all votes corresponding to shares present or presented at the meeting, and votes cast by remote voting methods.

For resolutions on items not included on the agenda, which are covered by articles 131, 132 and 134 of the Spanish Companies Act, the Meeting Panel shall include:

- As votes for, all votes corresponding to shares whose owners or representatives satisfy the prerequisites set out below and have indicated that they are voting for the resolution by communicating or submitting their vote directly to the Meeting Notary, for registration in the minutes.
- As abstentions, all votes corresponding to shares whose owners or representatives have notified their abstention either directly to the Meeting Notary, for registration in the minutes, or via remote voting methods. As votes against, all votes corresponding to shares present or presented at the meeting, provided that the prerequisites set out below are satisfied.

Proxy votes, including those secured by public request, may not be exercised in votes on resolutions not included on the agenda and submitted to the vote at general meetings by virtue of the legal provisions set out above, unless expressly thus dictated.

If in the course of a meeting a shareholder wishes to leave the session, the shareholder in question may address the Panel and, if so desired, ask that his/her voting intentions on each item on the Agenda be recorded in the minutes. If the shareholder fails to do so, it shall be assumed that he/she is voting in favour of all items pending vote included on the agenda and against any items not included on the agenda and submitted to the vote in his/her absence.

The Meeting Secretary shall give account of the results of the vote on each resolution, indicating the number of votes for, number of votes against, and number of abstentions.

The scrutineers shall prepare a note on the result of each vote, including the votes previously cast and any change that may have occurred in the course of the meeting.

Once all resolutions have been put to the vote, the Meeting Secretary shall deliver to the Notary, if the company has requested the attendance of a notary, the scrutineers' note containing data on the results of the vote on each resolution before the Chairman proceeds to close the session.

E.7. Provide details of attendance at general meetings held in the year to which this report relates:

Attendance data					
Date of general meeting	% attending in person	% represented by proxy	% remote voting		Total
			Electronic votes	Other	
11/05/2007	27.8532	2.8987	20.5259		51.2778

Attendance data					
Date of general meeting	% attending in person	% represented by proxy	% remote voting		Total
			Electronic votes	Other	
31/10/2007	16.8594	0.1075	35.0001		51.9670

E.8. Give a brief description of the resolutions adopted at the general meetings held in the year to which this report relates and indicate the percentage of votes with which each resolution was adopted

Two general meetings were held in 2007. The first was an ordinary general meeting held on 11 May, 2007 and the second an extraordinary general meeting held on 31 October, 2007. The resolutions adopted at each of these meetings are detailed below, along with the percentage of votes with which each resolution was passed.

RESOLUTIONS ADOPTED AT THE ORDINARY GENERAL SHAREHOLDERS' MEETING HELD ON 11 MAY, 2007

PROPOSED RESOLUTION 1

"To approve the Annual Financial Statements (Balance sheet, Income statement, and notes thereto) and the Management Report of Enagás, S.A. and its Consolidated Group for the financial year running from 1 January to 31 December 2006."

Voting on the Resolution was as follows:

For		Against		Abstentions		Total votes cast
Nº of votes	%	Nº of votes	%	Nº of votes	%	122,417,792
120,275,681	98.2502	0	0.0000	2,142,111	1.7498	

PROPOSED RESOLUTION 2

"To approve the appropriation of Enagás, S.A. profit for financial year 2006, which included net profits of €235,137,559.21, in line with the following distribution proposal prepared by the Board of Directors:

Distribution	Euros
Legal Reserves	0
Voluntary Reserves	103,023,077.48
Dividend	112,636,972.48
Total	215,660,049.96

To pay out an additional dividend in the amount of €67,277,463.08. Said amount is the result of deducting from the financial year's total dividend of €112,636,972.48 the interim dividend of €45,359,509.40 agreed by the Board of Directors on 20 December, 2006 and paid to shareholders on 11 January, 2007.

The additional dividend will be paid on 5 July 2007.

The total dividend for the financial year being proposed for approval in accordance with the previous paragraph equates to a gross payment of €0.471809 per share.

Once the gross interim dividend of €0.18 already paid is deducted, the remaining payment due amounts to €0.281809 per share, before tax deductions."

Voting on the Resolution was as follows:

For		Against		Abstentions		Total votes cast
Nº of votes	%	Nº of votes	%	Nº of votes	%	122,417,792
120,276,152	98.2505	0	0.0000	2,141,640	2,141,640	

PROPOSED RESOLUTION 3

"To approve the management of the Board of Directors of Enagás, S.A. during the financial year 2006."

Voting on the Resolution was as follows:

For		Against		Abstentions		Total votes cast
Nº of votes	%	Nº of votes	%	Nº of votes	%	122,417,792
118,259,293	96.6030	1,172,003	0.9574	2,986,496	2.4396	

PROPOSED RESOLUTION 4

"To reappoint the Deloitte S.L. as auditors of the financial statements of Enagás, S.A. and its Consolidated Group for a legally established period of one year. Deloitte S.L. shall also be placed in charge of providing any other auditing services required by law that are specified by the company until the next Ordinary General Shareholders' Meeting is held."

Voting on the Resolution was as follows:

For		Against		Abstentions		Total votes cast
Nº of votes	%	Nº of votes	%	Nº of votes	%	122,417,792
119,137,384	97.3203	1,001,897	0.8184	2,278,511	1.8613	

PROPOSED RESOLUTION 5

- "To re-elect CAJA DE AHORROS DE VALENCIA, CASTELLÓN Y ALICANTE (BANCAJA), whose particulars are already recorded in the Commercial Registry, as a member of the Board of Directors for an additional period of four years. BANCAJA shall maintain its status as a Controlling Director on the proposal of BANCAJA itself, an Enagás S.A. shareholder.
- To re-elect CAJA DE AHORROS DEL MEDITERRÁNEO, whose particulars are already recorded in the Commercial Registry, as a member of the Board of Directors for an additional period of four years.
- CAJA DE AHORROS DEL MEDITERRÁNEO shall maintain its status as a Controlling Director on the proposal of the shareholder Inversiones Cotizadas del Mediterráneo S.L., through which CAJA DE AHORROS DEL MEDITERRÁNEO has a stake in the capital of Enagás, S.A.
- To re-elect CARLOS EGEA KRAUEL, whose particulars are already recorded in the Commercial Registry, as a member of the Board of Directors for an additional period of four years. Mr. Egea shall maintain his status as a Controlling Director proposed by the shareholder SAGANE INVERSIONES S.L.
- To re-elect LUIS JAVIER NAVARRO VIGIL, whose particulars are already recorded in the Commercial Registry, as a member of the Board of Directors for an additional period of four years. Mr. Navarro shall continue to serve as an External Director.
- "To re-elect JESÚS DAVID ÁLVAREZ MEZQUÍRIZ, whose particulars are already recorded in the Commercial Registry, as a member of the Board of Directors for an additional period of four years. Mr. Álvarez Mezquíriz shall continue to serve as an Independent Director.

These re-election proposals keep the number of members of the Board of Directors at 15, which is within the statutory limits."

Voting on the Resolution was as follows:

For		Against		Abstentions		Total votes cast
Nº of votes	%	Nº of votes	%	Nº of votes	%	122,417,792
102,828,213	83.9978	12,366,524	10.1019	7,223,055	5.9003	

PROPOSED RESOLUTION 6

“To amend article 44 and article 45 of the Company Bylaws, the full wording of which thus becomes:

ARTICLE 44. AUDIT AND COMPLIANCE COMMITTEE.

The Board of Directors shall appoint from among its members an Audit and Compliance Committee that shall be comprised of a minimum of three and a maximum of five Directors. No Executive Directors may be included among the members of the Committee. The Board of Directors shall elect a Chairman from amongst the Committee members, but the Chairman shall not have the casting vote.

The Audit and Compliance Committee shall have powers and responsibilities in respect of the following matters:

- Providing information at General Shareholders’ Meetings on issues raised by shareholders that fall within the scope of its competencies.
- Proposing to the Board of Directors, for submission to the General Shareholder’s Meeting, the appointment of the external accounts auditor, in accordance with article 204 of the Spanish Companies Act, and the fees payable to the auditor.
- Supervising the company’s internal auditing services and overseeing the financial reporting process and internal control systems, in order to achieve optimum monitoring of the execution of the annual audit.
- Liaising closely with the external auditors to obtain information on any issues that could compromise the latter’s independence or any other matters established in legislation and in the technical audit regulations, and serving as a channel for communications between the auditors and the Board of Directors, thereby ensuring maximum objectivity in evaluating the results of each audit.
- Examining the information on the company’s activities and results that is produced regularly in compliance with securities market regulations, and ensuring that such information is transparent and accurate, and that the Internal Code of Conduct and Board Regulations are respected by those persons subject to the same.

Committee meetings shall be called by the Chairman and shall take place at least four times a year. The company’s external auditor may attend Committee meetings and the Finance Director, head of the Enagás Internal Auditing Unit or any other Director that the Committee deems appropriate, may also be asked to give account at meetings. The Committee may obtain support and assistance from the aforesaid executives in the execution of its duties.

ARTICLE 45. - APPOINTMENTS AND REMUNERATIONS COMMITTEE

The Board of Directors shall appoint from among its members an Appointments and Remunerations Committee that shall be comprised of a minimum of three and a maximum of five Directors. A majority of Committee members must be Independent Directors and no Executive Directors may be included among its number. The Board of Directors shall elect a Chairman from amongst the Committee members, but the Chairman shall not have the casting vote.

The Committee shall have powers and responsibilities in respect of the following matters:

- Establishing payment criteria for company Directors, in accordance with the stipulations of the Bylaws and in line with resolutions of the General Shareholders’ Meeting, and ensuring that payments are transparent.
- Establishing a general remuneration policy for Enagás, S.A. management personnel and guidelines relating to the appointment, selection, promotion and dismissal of senior managers, in order to ensure that the company has the appropriate highly qualified staff for administering its business at all times.

- Reviewing the structure of the Board of Directors, the criteria for the statutory renewal of Directors, the incorporation of new members and any other aspects relating to its composition that it deems appropriate.
- Providing advice and information to the Board on transactions that entail or could entail a conflict or interest.

The Committee shall meet at least four times a year, with meetings being called by the Chairman. The Committee may seek advice both internally and externally and request the attendance of senior management personnel, as deemed necessary to the execution of its duties.”

Voting on the Resolution was as follows:

For		Against		Abstentions		Total votes cast
N° of votes	%	N° of votes	%	N° of votes	%	122,417,792
120,139,318	98.1388	0	0.0000	2,278,474	1.8612	

PROPOSED RESOLUTION 7

“To amend articles 4 and 13.3 of the General Meeting Regulations, the full wording of which thus becomes:

ARTICLE 4.- POWERS OF THE GENERAL SHAREHOLDERS’ MEETING

The powers of the General Shareholders’ Meeting, pursuant to the Spanish Companies Act and the company Bylaws, shall extend to the following matters:

- Approving, as appropriate, the Annual Financial Statements of Enagás, the Consolidated Financial Statements of the Enagás Group, the report of the Board of Directors and the proposed appropriation of profit.
- Appointing and dismissing Directors, and ratifying or revoking the appointments of Directors co-opted to the Board.
- Appointing and re-electing the Accounts Auditors.
- Authorising the execution of transactions in treasury shares.
- Agreeing bond issues, capital increases or decreases, transformation, merger or spin-off of the company and, in general, any modification of company Bylaws, and any other transactions that alter the structure of the company including the incorporation within subsidiaries of core activities previously performed by the company and the acquisition or disposal of core operating assets, when this entails a change to the company’s corporate purpose, or transactions that have an effect equivalent to liquidation of the company.
- Authorising, as needed, the Board of Directors to increase share capital in line with the provisions of article 153.1.b of the Spanish Companies Act.
- Resolving on issues submitted for the approval of the Board of Directors, in accordance with the law.
- Approving and modifying the General Shareholders’ Meeting Regulations.
- Any other decisions legally assigned to its authority.

In exercising its duties, the General Meeting shall not interfere in the powers and responsibilities reserved for the Board or Directors.

ARTICLE 13.3. - VOTING

Ordinary General Meetings should be convened by placing a notice in the Official Gazette of the Commercial Registry and in a daily newspaper with one of the broadest circulations in the province at least one month prior to the date scheduled for the meeting.

The convening notice shall give the date set for the meeting on first call and list all matters to be dealt with at the meeting.

Shareholders representing at least five per cent of share capital may request publication of a supplement to the notice convening the General Meeting that lists one or more of the items on the agenda. In order to exercise this right, shareholders must submit their request by certified notice received at the registered office of the company within five days from the publication of the convening notice.

Any such supplement to the convening notice shall be published at least 15 days in advance of the scheduled date of the General Shareholders' Meeting.

Failure to publish the supplement to the convening notice by the legally established deadline shall render the Meeting null and void.

Prior to its publication, the company must file the convening notice with the Spanish National Securities Commission (CNMV), the Spanish securities exchanges and any other markets on which the company's shares are listed for trading and inform member entities of the relevant securities registration, clearing and settlement body.

The text of the notice shall also be available for consultation on the company's website.

In addition to the legal and regulatory requirements set out above, in order to achieve maximum dissemination and ensure that shareholders have sufficient time to request and obtain additional information related to the items on the Agenda, the Board of Directors shall endeavour to ensure that the notice is published in advance of the legally established deadline, in a number of corporate communication media exceeding the minimum requirement established by law, unless this is not possible because of the urgency of the situation or other circumstances beyond the control of the Board. In addition, the convening notice shall be re-published on a date closer to that scheduled for the meeting by way of reminder.

At the meetings, the various resolutions shall put to the vote after being read out by the Secretary, except where the written text has been provided to shareholders in advance and, because of its length, the Chairman deems a full reading unnecessary. Reading of the resolutions may be dispensed with on the decision of the Chairman, provided that his/her decision is not opposed by shareholders representing a majority of subscribed voting capital and present at the meeting.

Issues that are essentially independent shall be put to the vote separately so that shareholders may exercise their voting preferences separately.

In order for resolutions to be adopted, in accordance with article 93 of the Spanish Companies Act, they must receive the vote in favour of a majority of subscribed capital with voting rights present and represented at the meeting.

Notwithstanding the above, in the case of bond issues, capital increases or decreases, transformation, merger or spin-off of the company and, in general, any amendment of the company Bylaws, at second call, and when the Meeting is attended by shareholders representing less than fifty percent of the subscribed voting capital, two thirds of the subscribed voting capital present or represented must vote for the resolution in order for it to be adopted. .

After each proposed resolution has been read out by the Secretary, the meeting shall proceed to vote. To determine the result of the vote, votes cast at the meeting by shareholders present or represented, votes cast by proxy as a result of the exercise of the public request for representation by delegation and votes cast by post or by electronic means via the Shareholder Information Office or using any other remote communication media that satisfies the established prerequisites shall be included in the count.

To calculate votes for the items on the agenda at general meetings, the Meeting Panel will include:

- As votes against, all votes corresponding to shares whose owners or representatives have indicated that they are voting against the resolution either by communicating or submitting their vote to the Meeting Notary, for registration in the minutes, or by indicating their opposition via remote voting means.
- As abstentions, all votes corresponding to shares whose owners or representatives have notified their abstention either directly to the Meeting Notary, for registration in the minutes, or via remote voting methods.
- As votes for, all votes corresponding to shares present or presented at the meeting, and votes for cast by remote voting methods.

For resolutions on items not included on the agenda, which are covered by articles 131, 132 and 134 of the Spanish Companies Act, the Meeting Panel shall include:

- As votes against, all votes corresponding to shares whose owners or representatives satisfy the prerequisites set out below and have indicated that they are voting for the resolution by communicating or submitting their vote directly to the Meeting Notary, for registration in the minutes.
- As abstentions, all votes corresponding to shares whose owners or representatives have notified their abstention either directly to the Meeting Notary, for registration in the minutes, or via remote voting methods.
- As votes against, all votes corresponding to shares present or presented at the meeting, and votes for cast by remote voting methods, provided that the prerequisites set out below are satisfied.

Proxy votes, including those secured by public request, may not be exercised in votes on resolutions not included on the agenda and submitted to the vote at general meetings by virtue of the legal provisions set out above, unless it is expressly thus dictated.

If in the course of a meeting a shareholder wishes to leave the session, the shareholder in question may address the Panel and, if so desired, ask that his/her voting intentions on each item on the Agenda be recorded in the minutes. If the shareholder fails to do so, it shall be assumed that he/she is voting for all items pending vote included on the agenda and against any items not included on the agenda and submitted to the vote in his/her absence.

The Meeting Secretary shall give account of the results of the vote on each resolution, indicating the number of votes for, number of votes against, and number of abstentions.

The scrutineers shall prepare a note on the result of each vote, including the votes previously cast and any change that may have occurred in the course of the meeting.

Once all resolutions have been put to the vote, the Meeting Secretary shall deliver to the Notary, if the company has requested the attendance of a notary, the scrutineers' note containing data on the results of the vote on each resolution before the Chairman proceeds to close the session."

Voting on the Resolution was as follows:

For		Against		Abstentions		Total votes cast
Nº of votes	%	Nº of votes	%	Nº of votes	%	122,417,792
122,139,481	98.1389	0	0.0000	2,278,311	1.8611	

PROPOSED RESOLUTION 8

Report on the changes made to the regulations governing the organisation and operation of the Board of Directors of Enagás, S.A. to bring them in line with the recommendations of the Unified Good Governance Code.

Article 115 of the Securities Market Act, in compliance with Law 26/2003, of 17 July, known as the Transparency Act provides that the Board of Directors of listed limited companies, after submission to shareholders at the General Meeting, shall draw up internal regulations governing the operation of the board, in accordance with law and the company Bylaws, that shall establish specific procedures designed to guarantee optimum administration of the company. A copy of these regulations must be filed with the Spanish Securities Market Commission (CNMV). Once this notice has been issued, the regulations shall be entered in the Commercial Registry in accordance with standard practice.

Before this requirement for listed companies was made law, it was widespread practice among such companies to draw up such regulations, in implementation of the recommendations set out, firstly, in the Olivencia Good Governance Report and, subsequently, in the Aldama Report.

Pursuant to article 116 of the Securities Market Act, and also in compliance with Law 26/2003, listed companies must each year publish an Annual Corporate Governance Report in which they must detail either the extent to which the company has adopted the corporate governance recommendations or, where applicable, the reasons for not adopting the said recommendations, in application of the "comply or explain" principle that is a feature of the good corporate governance recommendations. This requirement was implemented by Ministerial order ECO/3722/2003, of 26 December, providing that the CNMV would publish "a

unique document incorporating the existing corporate governance recommendations (the Olivencia and Aldama Reports) to which listed companies could refer when, in accordance with the obligation established in article 116 of the Securitax Market Act, specifying their Annual Corporate Governance Report whether or not they have adopted the established corporate governance recommendations.

In compliance with this order, on 22 May 2006 the CNMV approved the "Unified Good Governance Code" (known as the Conthe Code) to which listed companies should refer when preparing their Annual Corporate Governance Report for 2007 in the first half of 2008.

The Board of Directors of Enagás, S.A. has always endeavoured to pursue principles of conduct that are in line with generally accepted principles of corporate governance, including, in particular, those recommended in the Olivencia and Aldama Reports. For this reason it has developed extensive Board Regulations that conform to the aforesaid principles and were approved by the Board at its meeting of 19 February 2004.

Although the recommendations of the Unified Code and its Annexes contain no key conceptual differences in relation to the Olivencia and Aldama Reports, which they consolidate into a single document, they do introduce certain new ideas and reformulate some of the principles and recommendations set out therein, thereby requiring adjustments to existing regulations consisting of:

- Changes made by the Board to the Board Regulations and to the Regulations of the Audit and Compliance Committee. The new Regulations must be filed with the CNMV and published on the company's website. Shareholders must be informed of the changes at the next general meeting.
- Proposing to shareholders at the general meeting changes to article 44 and article 45 of the Company Bylaws relating to the Audit and Compliance Committee and the Appointments and Remunerations Committee.
- Proposing changes to the General Shareholders' Meeting Regulations to shareholders at the general meeting.

As a general principle, the company has endeavoured to incorporate in the current text of the Regulations as many of the recommendations of the Unified Code as possible, with the exception of those recommendations that it is impossible to comply with (for example, the recommendation to eliminate limits on shareholders' voting rights which in Enagás, S.A.'s case are imposed by law) or would distort current practices or conditions conducive to the good governance of the company. In incorporating the changes, the Board sought to adhere as far as possible to the current structure of the Regulations and to the wording of the recommendations incorporated used in the Unified Code. The most important changes introduced are the following:

Quantitative and qualitative composition of the Board (article 3).

- Article 3 has been modified to bring it in line with the categories of Directors defined in the Unified Code. It should be stressed that, with regards to classification as "Independent Directors", the current good governance recommendations surpass the requirements of the "comply or explain" principle and are in compliance with the necessary legal prerequisites since Ministerial Order ECO/3722/2003 prohibits those Directors that do not conform to the definition of "Independent" established in Appendix III of the Unified Code from being classified as "Independent" in the Annual Corporate Governance Report. For this reason, in addition to the categories of "Executive", "Controlling" and "Independent", the category of "Other External" has been included to define those Directors that are neither Executive nor Controlling Directors but also do not satisfy all the criteria necessary for classification as "Independent". The Unified Code permits use of this classification with the proviso that the reasons for its use are explained in the Annual Corporate Governance Report.
- The requirement that at least a third of the Directors must be independent has been included in the Regulations, which requirement is currently conformably satisfied by Enagás, S.A.
- The recommendation, which would affect the Bylaws, to reduce the number of Directors to between the current five and 15 (instead of between six and 16, as recommended in the Unified Code) has not been incorporated because it was deemed that due to the legal limits placed on capital interests, the structure of the Board must be such as to allow for the addition of representatives of potential future shareholders without such addition entailing any reduction in the desired percentage of independent directors.

Board objectives (article 4).

- Express references to the "unity of purpose and independence of criteria" and to the relationship with stakeholders referred to in the Unified Code have been added.

Board functions (article 5).

- Express reference to the function of proposing Directors' remuneration to shareholders at the General Meeting and approving the contracts of Executive Directors (article 5 A) 7), which is already standard practice at the company, has been added.
- The Board is given powers to appoint and remove members of senior management, on the proposal of the chief executive.
- The Board must assess its performance, the performance of its Committees and that of the Chief Executive Officer on an annual basis (article 5 A) 13).
- The recommendation that transactions affecting the structure of the company that are equivalent to spin-offs or liquidations (for example, the sale of core assets that alters its corporate purpose in practice) be submitted by the Board for approval at General Meetings (article 5 B) 5, 6 and 7) has been incorporated.
- The Board must give approval for shareholdings in special purpose entities or companies domiciled in tax havens (5 B) 14).
- The Board must approve the regular financial information issued to the markets (article 5 D) 2).

Board meetings (article 6).

- The exact wording of the Unified Code has been used to establish the obligation that the Chairman sends information to Directors in advance of meetings, as is already standard practice at the company.

Meeting procedures (article 7).

- Express references from the Unified Code describing practices already in place at the company have been incorporated.

Appointment of Directors (article 8).

- The principle of equal treatment of women and men set out in the Unified Code has been expressly incorporated.

Classification as Independent Directors (articles 9 and 11).

- The definition of "Independent Directors" established in the Unified Code has been reproduced since this is obligatory pursuant to Ministerial Order ECO/3772/2003.
- It is established that Independent Directors shall remain as such for no more than 12 years.

Dismissal of Directors (article 12).

- The circumstances in which Directors may be involved in criminal proceedings are specified.
- Should the reason for a Director's classification as External, Controlling or Independent cease to be valid, it is specified that the Director must tender his/her resignation to the Board, which may agree for the Director to remain in office by changing his/her classification in line with the new situation.
- The Board shall propose the early departure of Independent Directors only where there is due cause.

Duties of Directors (article 13).

- Directors' duties to attend Board Meetings, to demonstrate due commitment, and to inform the company of any personal situations that could affect the company's credit rating and reputation have been highlighted.

Rights of attendance and information (article 15).

- Induction courses are organised for new Directors.

Directors' remuneration (article 16).

- Information on payments to Directors must be provided in individualised form.

Board Chairman (article 17).

- If deemed expedient, the Board may appoint an Independent Directors to act as "coordinator" of the External Directors.

Board Secretary (article 20).

- The wording used in the Unified Code in its recommendation that the independence, impartiality and professionalism of the Secretary be guaranteed, which is standard practice at the company, has been reproduced.

Executive Committee (article 24).

- There is currently no Executive Committee. Should one be established, the duty to keep the Board informed of the issues with which it deals would be stressed.

Appointments and Remunerations Committee (article 25).

- The maximum number of Committee members is raised to five since it is thought that this could allow for better representation of the different categories of Directors. Executive Directors are excluded from the Committee, as is already standard practice at the company. This entry into force of this change is contingent upon shareholders' approval of the proposed change to article 45 of the Bylaws.
- The functions of the Committee are adjusted in line with other changes made to the Regulations.

Audit and Compliance Committee (article 26).

- The maximum number of Committee members is raised to five since it is thought that this could allow for better representation of the different categories of Directors. This entry into force of this change is contingent upon shareholders' approval of the proposed change to article 44 of the Bylaws.
- The functions of the Committee are adjusted in line with other changes made to the Regulations.
- Also at its meeting of 29 March 2007, the Board amended the Regulations of the Audit and Compliance Committee to bring them in line with changes made to the Board Regulations

The amended text of the Organisational and Operational Regulations of the Board of Directors has been filed with the CNMV and published on the company's website.

Voting on the Resolution was as follows:

For		Against		Abstentions		Total votes cast
N° of votes	%	N° of votes	%	N° of votes	%	122,417,792
120,139,481	98.1389	0	0.0000	2,278,311	1.8611	

PROPOSED RESOLUTION 9

"The General Shareholders' Meeting, in accordance with the second paragraph of article 36 of the company Bylaws, agrees to set the figure of €1,098,000 as the maximum payment level for members of the Board of Directors for 2007, to be paid in accordance with the following method and criteria:

- Each Board member attending a minimum of two sessions during the year will be entitled to a payment of €21,000.
- In addition, effective attendance at sessions will entitle him/her to a maximum Director's payment of €40,425. The Board of Directors will decide the exact payment amount for attendance, whether personally or by means of a delegated representative, at each session.
- Likewise, Board committee members will be entitled to the sum of €10,500 per annum, with chairmanship of the same entitling them to an additional €5,250 per annum.

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

Voting on the Resolution was as follows:

For		Against		Abstentions		Total votes cast
Nº of votes	%	Nº of votes	%	Nº of votes	%	122,417,792
120,138,847	98.1384	471	0.0004	2,278,474	1.8612	

PROPOSED RESOLUTION 10

“To empower the Board of Directors, as broadly as is legally necessary, so that, in accordance with article 153 b) of the Spanish Companies Act, it may, at any time, increase share capital one or more times within a period of five years as of the date of the present Meeting, by a maximum amount of €179 million through the issuance of new shares, with or without voting rights or an issue premium, being the value of which based on monetary contributions, with the power to set the terms and conditions of the capital increase and the characteristics of the shares, as well as to freely offer the new unsubscribed shares with a period or periods of preferred subscription, establish that, in the event of incomplete subscription, the capital shall be increased only in the amount of the subscriptions made and provide new wording for the article of the Company Bylaws governing share capital. The Board of Directors is also empowered to exclude the right of first refusal under the terms of article 159 of the Spanish Companies Act.”

Voting on the Resolution was as follows:

For		Against		Abstentions		Total votes cast
Nº of votes	%	Nº of votes	%	Nº of votes	%	122,417,792
118,009,359	96.3989	1,462,118	1.1944	2,946,315	2.4068	

PROPOSED RESOLUTION 11

“To empower the Board of Directors to issue, in one or more tranches, up to a maximum value of two million euros (€2,000,000,000) or the equivalent in another currency, fixed-income securities, in any of the forms permitted by law, including, inter alia, bonds, mortgage bonds, promissory notes and debentures, either unsecured or secured by some form of collateral, including mortgages, and represented by physical securities or book entries. The securities issued may or may not be convertible into existing or newly issued shares of the company. In the case of convertible securities, conversion may be mandatory or voluntary, and in the latter case, on the initiative of either the holder of the securities or the issuer. Alternatively, securities may incorporate an option to buy the aforementioned shares. The securities may be issued in Spain or abroad, pursuant to Spanish or foreign legislation, as appropriate.

The Board of Directors shall have freedom to determine all other terms and conditions of the issue or issues, including whether they shall be perpetual or redeemable and, in the latter case, their term to redemption, always subject to compliance with legal limits and, in general, to execute, without restriction, whatever public or private deeds may be necessary or the Board of Directors may deem expedient for the execution of this resolution, as well as, where appropriate, to appoint the Purser and approve the key rules governing relationship between the Issuer and the syndicate of holders of the securities issued.

The Board of Directors shall have a period of five years counting from the date on which this resolution is passed at the General Meeting in which to implement the power hereby conferred upon it, at the end of which period, the powers shall expire in respect of the unexercised portion”.

Voting on the Resolution was as follows:

For		Against		Abstentions		Total votes cast
Nº of votes	%	Nº of votes	%	Nº of votes	%	122,417,792
116,328,217	95.0256	3,144,266	2.5685	2,945,309	2.4059	

PROPOSED RESOLUTION 12

"Be it resolved to delegate powers to the Chairman of the Board of Directors, Antonio Llardén Carratalá, to the Secretary, Rafael Piqueras Bautista, and to the Deputy Secretary, Beatriz Martínez-Falero García, so that any of them indistinctly may fully implement the above resolutions of the General Meeting of the company, doing any act necessary, including without limitation: To appear before the notary of their choice to establish the official legal record of resolutions which modify company Bylaws, and undertake whatever action, writing either public or private documents to ensure that resolutions are recorded in the Commercial Register, providing all necessary documentation - both private and public, to correct errors and appendices to ensure that these resolutions are adapted to the Commercial Registrar's specifications and duly included with the Annual Financial Statements in said Commercial Register.

Voting on the Resolution was as follows:

For		Against		Abstentions		Total votes cast
Nº of votes	%	Nº of votes	%	Nº de votos	%	122,417,792
120,277,321	98.2515	0	0.0000	2,140,471	1.7485	

RESOLUTIONS ADOPTED AT THE EXTRAORDINARY GENERAL SHAREHOLDERS' MEETING HELD ON 31 OCTOBER 2007

PROPOSED RESOLUTION 1

"To amend article 6a of the company Bylaws, the full wording of which thus becomes:

ARTICLE 6a. LIMITATION ON INTERESTS IN SHARE CAPITAL AND THE EXERCISE OF VOTING RIGHTS

"No natural person or body corporate may directly or indirectly hold an interest in the company greater than five percent of share capital, nor exercise voting rights above three percent. Such shares may in no event be syndicated. A party operating in the gas industry or a natural person or body corporate directly or indirectly holding over five percent of the share capital of such party may not exercise voting rights above one percent. These restrictions shall not apply to direct or indirect interests held by public-sector enterprises. Holdings in share capital may in no event be syndicated.

In addition, the sum of direct and indirect shares held by parties operating in the natural gas industry may not exceed 40 percent.

For the purposes of computing holdings in the share capital of the company, there shall apply the twentieth additional provision of the Hydrocarbons Industry Act."

Voting on the Resolution was as follows:

For		Against		Abstentions		Total votes cast
Nº of votes	%	Nº of votes	%	Nº of votes	%	99,216,142
85,521,568	86.1972	13,316,278	13.4215	378,296	0.3813	

PROPOSED RESOLUTION 2

"To fix the number of members of the Board of Directors at 16.

To appoint as a Director, for the bylaw-stipulated term of office of four years, Xavier de Irala Estévez, as a Controlling Director nominated by the shareholder Bilbao Bizkaia Kutxa."

Voting on the Resolution was as follows:

For		Against		Abstentions		Total votes cast
Nº of votes	%	Nº of votes	%	Nº of votes	%	99,216,142
98,777,132	99.5575	186,185	0.1877	252,825	0.2548	

PROPOSED RESOLUTION 3

"In accordance with the second paragraph of article 36 of the company Bylaws, the maximum total compensation payable to Directors for 2007 is hereby modified. The amount shall be €1,128,500, apportioned on the basis laid down in the resolution of the General Shareholders' Meeting of 11 May 2007, to which is hereby added the following rider:

- The performance of the office of Deputy Chair of the Board of Directors shall be remunerated in the further amount of €30,500 per annum."

Voting on the Resolution was as follows:

For		Against		Abstentions		Total votes cast
Nº of votes	%	Nº of votes	%	Nº of votes	%	99,216,142
97,757,586	98.5299	6,235	0.0063	1,452,321	1.4638	

PROPOSED RESOLUTION 4

"Be it resolved to delegate powers to the Chairman of the Board of Directors, Antonio Llardén Carratalá, to the Secretary, Rafael Piqueras Bautista, and to the Deputy Secretary, Beatriz Martínez-Falero García, so that any of them indistinctly may fully implement the above resolutions of the General Meeting of the company, doing any act necessary, including without limitation: appearing before a notary of his/her choice and executing as a deed the resolutions to amend the company's Bylaws; doing and executing any and all acts or notarised or non-notarised documents required to achieve registration with the Commercial Registry of the above resolutions; and executing any and all notarised or non-notarised documents required to rectify or amend errors or supplement the aforesaid, and bringing these resolutions into conformity with the appraisal of the Commercial Registrar."

Voting on the Resolution was as follows:

For		Against		Abstentions		Total votes cast
Nº of votes	%	Nº of votes	%	Nº of votes	%	99,216,142
99,065,793	99.8485	205	0.0002	150,144	0.1513	

E.9. Indicate whether the Bylaws establish a minimum number of shares necessary to be able to attend General Meetings:

Yes No

Number of shares necessary to be able to attend General Meetings

100

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

In accordance with article 27 of the Company Bylaws and article 10 of the General Shareholders' Meeting Regulations, all shareholders entitled to attend General Meetings may appoint another person, who need not be a shareholder, to represent them using the delegation form provided by company for each meeting that is printed on the attendance card. The same shareholder may not be represented at the meeting by more than one representative.

Representation shall be specific for each Meeting and conferred in writing via mail, or any means of remote communication envisaged by law, provided at all times that the identity of the subject exercising such representation is duly certified. All proxies shall be revocable.

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

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 and mode of access to the content on corporate governance on your website.

All information on Enagás corporate governance is available to the public on its website (www.enagas.es / www.enagas.com).

Access to the aforementioned information is as follows:

In Spanish: Página Principal - Accionistas e Inversores - Gobierno Corporativo.

In English: Investor-Relations - Corporate Governance.

F. DEGREE OF COMPLIANCE WITH CORPORATE GOVERNANCE RECOMMENDATIONS

Indicate the degree of the company's compliance with Corporate Governance recommendations.

Should the company not comply with any of the afore-mentioned recommendations, explain the recommendations, rules, practices or criteria the company applies.

1. The bylaws of listed companies should not place an upper limit on the votes that can be cast by a single shareholder, or impose other obstacles to the takeover of the company by means of share purchases on the market.

See section: **A.9, B.1.22, B.1.23 y E.1, E.2.**

Complies

Explanation

Law 12/2007 of 2 July, amending the Hydrocarbons Industry Act (Law 34/1998 of 7 October) in accordance with Directive 2003/55/EC of the European Parliament and of the Council of 26 June 2003 concerning common rules for the internal market in natural gas, provides new wording for the twentieth additional provision of the Hydrocarbons Industry Act, which vests in Enagás, S.A. the capacity of "technical system operator" and sets ceilings on shareholdings in the company. The wording of the twentieth additional provision now stands as follows:

"Twentieth additional provision. Technical System Operator.

The company ENAGÁS, Sociedad Anónima, shall undertake the duties, rights and obligations of technical system operator. (...)

No natural person or body corporate may directly or indirectly hold an interest in the company responsible for technical management of the system representing more than five percent of the share capital, or exercise more than three percent of its voting rights. Such shares may in no event be syndicated. A party operating in the gas industry or a natural person or body corporate directly or indirectly holding over five percent of the share capital of such party may not exercise voting rights above one percent. These restrictions shall not apply to direct or indirect interests held by public-sector enterprises. Holdings in share capital may in no event be syndicated.

In addition, the sum of direct and indirect shares held by parties operating in the natural gas industry may not exceed 40 percent.

For the purposes of computing holdings in share capital, one and the same natural person or body corporate shall be deemed to hold the shares and other securities held or acquired by entities of its same "group," within the meaning of article 4 of Law 24/1988 of 28 July, the Securities Market Act, in addition to those shares held by:

a) any person acting on his own behalf but on account of the aforesaid, in a concerted manner or forming with the aforesaid a single decision-making unit. Unless proved otherwise, the directors of a body corporate shall be presumed to act on account of or in concert with that body corporate; and

b) any partner with whom the aforesaid exercises control over a subsidiary entity, pursuant to article 4 of the Securities Market Act.

At all events, regard shall be had to the controlling ownership of shares and other securities and to any voting rights enjoyed by virtue of any title.

Breach of the restrictions on interests in share capital prescribed by this article shall be treated as a very serious infringement for the purposes of article 109 of this Act, and liability shall attach to any natural person or body corporate found to be holders of the securities or to any person to whom there may be attributed the excess interest in share capital or voting rights pursuant to the above sub-paragraphs. At all events, there shall apply the regime of penalties laid down in the Act."

The sixth transitional provision of Law 12/2007 of 2 July provides that within four months of its coming into force Enagás, S.A. shall bring its Bylaws in line with the twentieth additional provision of the Hydrocarbons Industry Act. The second transitional provision of Law 12/2007 of 2 July, further prescribes:

"Second transitional provision . Technical system operator.

Any voting rights attaching to shares and other securities held by persons with an ownership interest in the share capital of ENAGAS, Sociedad Anónima, in excess of the ceilings set forth in the twentieth additional provision of the Hydrocarbons Industry Act shall be suspended as from the coming into force of this provision.

The National Energy Commission (CNE) shall have the standing to bring legal action to give effect to the restrictions imposed in this provision."

In accordance with the aforementioned legal provision, article 6a ("Limitation of interest in share capital and of the exercise of voting rights") of Enagás, S.A.'s bylaw sets forth the following:

"No natural person or body corporate may directly or indirectly hold an interest in the company greater than five percent of share capital, nor exercise voting rights above three percent. Such shares may in no event be syndicated. A party operating in the gas industry or a natural person or body corporate directly or indirectly holding over five percent of the share capital of such party may not exercise voting rights above one percent. These restrictions shall not apply to direct or indirect interests held by public-sector enterprises. Holdings in share capital may in no event be syndicated.

In addition, the sum of direct and indirect shares held by parties operating in the natural gas industry may not exceed 40 percent.

For the purposes of computing holdings in the share capital of the company, there shall apply the twentieth additional provision of the Hydrocarbons Industry Act."

Accordingly, in compliance with the aforementioned legal provision, article 6a ("Limitation on interests in share capital and the exercise of voting rights") of the Company Bylaws was amended at the Extraordinary General Shareholders' Meeting held 31 October 2007 to bring it in line with provisions of Law 12/2007 of 2 July. This article establishes that no natural person or body corporate may directly or indirectly hold an interest in the company greater than five percent of share capital. Such shares may in no event be syndicated. These restrictions shall not apply to direct or indirect interests held by public-sector enterprises. Holdings in share capital may in no event be syndicated.

It is for this reason that, since there is an express legal and statutory limit on the exercise of voting rights, Enagás, S.A. is unable to adopt the recommendation that no limits be applied on the number of voting rights that a single shareholder may exercise.

2. When a dominant and a subsidiary company are stock market listed, the two should provide detailed disclosure on:

- a) The type of activity they engage in, and any business dealings between them, as well as between the subsidiary and other group companies;**
- b) The mechanisms in place to resolve possible conflicts of interest.**

See sections: C.4 and C.7

Complies **Partially complies** **Explanation** **Not applicable**

This recommendation is not applicable since the hypotheses set out in the recommendation are not met at Enagás, S.A. as it has not listed subsidiaries.

3. Even when not expressly required under company law, any decisions involving a fundamental corporate change should be submitted to the General Shareholders' Meeting for approval or ratification. In particular:

- a) The transformation of listed companies into holding companies through the process of subsidiarisation, i.e. reallocating core activities to subsidiaries that were previously carried out by the originating firm, even though the latter retains full control of the former;**
- b) Any acquisition or disposal of key operating assets that would effectively alter the company's corporate purpose;**

c) Operations that effectively add up to the company's liquidation

Complies **Partially complies** **Explanation**

Article 5.B) of the Enagás, S.A. Board Regulations expressly incorporates the recommendation, stipulating that any proposal or resolution that entails a change in the company structure must be submitted to the General Shareholders' Meeting for approval or ratification.

4. Detailed proposals of the resolutions to be adopted at the General Shareholders' Meeting, including the information stated in recommendation 28, should be made available at the same time as the publication of the Meeting notice.

Complies **Explanation**

Enagás, S.A. Enagás, S.A. considers the above recommendation the ideal mechanism for guaranteeing shareholders' right to information, and for this reason has initiated the measures necessary to ensure that detailed information on each and every resolution is made available to shareholders at the time the notice convening the 2008 General Meeting is published and thus to guarantee the aforesaid right.

5. Separate votes should be taken at the General Shareholders' Meeting on materially separate items, so shareholders can express their preferences in each case This rule shall apply in particular to:

a) The appointment or ratification of directors, with separate voting on each candidate;

b) Amendments to the bylaws with votes taken on all articles or group of articles that are materially different.

See section: E.8

Complies **Partially complies** **Explanation**

Article 4 ("Powers of the General Shareholders' Meeting") and article 13.3 ("Voting") of the General Meeting Regulations were amended at the Ordinary General Meeting held on 11 May 2007 to bring them in the line with the provisions of the Unified Good Governance Code, as explained in detail in section E.8 of this report.

Point b) of article 4 of the General Shareholders' Meeting Regulations establishes that the powers of the General Meeting shall include "Appointing and dismissing Directors, and ratifying or revoking the appointments of Directors co-opted to the Board."

Paragraph 3 of article 13 of the General Meeting Regulations establishes that "...issues that are essentially independent shall be put to the vote separately so that shareholders may exercise their voting preferences separately..."

Enagás, S.A. has established adequate mechanisms to ensure that its shareholders may exercise their voting rights separately on each materially separate item at the next General Meeting.

6. Companies should allow split votes, so financial intermediaries acting as nominees on behalf of various clients can issue their votes according to instructions.

See section: E.4

Complies **Explanation**

Both the Company Bylaws and the General Meeting Regulations of Enagás, S.A. incorporate this recommendation, which governs the right of all shareholders to be represented at General Meetings by another person, who need not be a shareholder, and in particular, deal with situations where public requests for representation result in a single person representing more than three shareholders. On this point it is established that the document containing the public request for representation must contain, or have attached to it, the meeting agenda, the request for instruction for the exercise of voting rights and the manner in which the proxy should vote in the event that no specific instruction are given.

7. The Board of Directors should perform its duties with unity of purpose and independent judgement, according all shareholders the same treatment. It should be guided at all times by the company's best interest, and, as such, strive to maximise its value over time.

It shall likewise ensure that the company abides by the laws and regulations in its relations with stakeholders, fulfils its obligations and contracts in good faith, respects the customs and good practices of the sectors and territories where it does business, and upholds any additional social responsibility principles it has subscribed to voluntarily.

Complies **Partially complies** **Explanation**

This recommendation is incorporated in the Board Regulations, and specifically in article 13, which establishes as obligations incumbent on the Directors of Enagás, S.A. the obligations of diligent administration, faithfulness, loyalty, secrecy and non-competition, In particular, we would highlight the obligation to act in the company's interests, by virtue of which Directors must comply with the obligations regarding respect of the company's interests established by law and in the Bylaws as well as with all rules imposed under the company's Internal Code of Conduct.

Article 4 of the aforesaid regulations expressly establishes that, in executing its duties, the Board of Directors must be guided, inter alia, by the obligation to maximise the company's value and ensure that the interests of minority shareholders are respected.

8. The board should see the core components of its mission as to approve the company's strategy and authorise the organisational resources to carry it forward, and to ensure that management meets the objectives set while pursuing the company's interests and corporate purpose. As such, the board in full shall should reserve the right to approve:

a) The company's general policies and strategies, and, in particular:

- i) The strategic or business plans, management targets and annual budgets;
- ii) Investment and financing policy;
- iii) Design of the structure of the corporate group
- iv) Corporate governance policy;
- v) Corporate social responsibility policy;
- vi) Remuneration and evaluation of senior officers;
- vii) Risk control and management, and the periodic monitoring of internal information and control systems;
- viii) Dividend policy, as well as the policies and limits applying to treasury stock.

See section: B.1.10, B.1.13, B.1.14 and D.3

b) The following decisions:

- i) On the proposal of the company's chief executive, the appointment and removal of senior officers, and their compensation clauses.

See section: B.1.14.

- ii) Directors' remuneration, and, in the case of executive directors, the additional consideration for their management duties and other contract conditions.

See section: B.1.14.

- iii) The financial information that all listed companies must periodically disclose.
- iv) Investments or operations considered strategic by virtue of their amount or special characteristics, unless their approval corresponds to the General Shareholders' Meeting;

- v) The creation or acquisition of shares in special purpose vehicles or entities resident in jurisdictions considered tax havens, and any other transactions or operations of a comparable nature whose complexity might impair the transparency of the group.

c) Transactions which the company conducts with directors, significant shareholders, shareholders with board representation or other persons related thereto (“related-party transactions”).

However, board authorisation need not be required for related-party transactions that simultaneously meet the following three conditions:

1. They are governed by standard form contracts applied on an across-the-board basis to a large number of clients;
2. They go through at market prices, generally set by the person supplying the goods or services;
3. Their amount is no more than 1% of the company’s annual revenues.

It is advisable that related-party transactions should only be approved on the basis of a favourable report from the Audit Committee or some other committee handling the same function; and that the directors involved should neither exercise nor delegate their votes, and should withdraw from the meeting room while the board deliberates and votes.

Deally the above powers should not be delegated with the exception of those mentioned in b) and c), which may be delegated to the Executive Committee in urgent cases and later ratified by the full board.

See sections: C.1 and C.6

Complies **Partially complies** **Explanation**

9. In the interests of maximum effectiveness and participation, the Board of Directors should ideally comprise no fewer than five and no more than fifteen members.

See section: B.1.1

Complies **Explains**

The recommendation, which would affect the Bylaws, to reduce the number of Directors to between five (5) and fifteen (15) as recommended in the Unified Code, instead of between six (6) and sixteen (16) as currently established in article 35 of the company Bylaws, has not been incorporated because it was deemed that due to the legal limits placed on capital interests, the structure of the Board must be such as to allow for the addition of representatives of potential future shareholders without such addition entailing any reduction in the desired percentage of independent directors.

10. External directors, proprietary and independent , should occupy an ample majority of board places, while the number of executive directors should be the minimum practical bearing in mind the complexity of the corporate group and the ownership interests they control.

See sections: A.2, A.3, B.1.3 and B.1.14.

Complies **Partially complies** **Explanation**

The composition of the Enagás, S.A. Board of Directors conforms to the provisions of this recommendation since the Board has just one (1) executive director. The six (6) External Controlling Directors and eight (8) Independent Directors therefore constitute a broad majority on the Board.

11. In the event that some external director can be deemed neither proprietary nor independent, the company should disclose this circumstance and the links that person maintains with the company or its senior officers, or its shareholders:

See section: B.1.3

Complies **Explanation** **Not applicable**

The shareholder (B.P. España S.A.U.) that proposed his appointment as External Controlling 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.

Nonetheless, 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 Good Governance Code" related to Order ECO/3722/2003 of 26 December and CNMV Circular 4/2007 of 27 December.

12. That among external directors, the relation between proprietary members and independents should match the proportion between the capital represented on the board by proprietary directors and the remainder of the company's capital.

This proportional criteria can be relaxed so the weight of proprietary directors is greater than would strictly correspond to the total percentage of capital they represent:

- 1 In large cap companies where few or no equity stakes attain the legal threshold for significant shareholdings, despite the considerable sums actually invested.
- 2 In companies with a plurality of shareholders represented on the board but not otherwise related.

See sections: B.1.3, A.2 and A.3

Complies **Explanation**

13. The number of independent directors should represent at least one third of all board members.

See section: B.1.3

Complies **Explanation**

The Board of Directors of Enagás, S.A. is composed in conformance with the recommended proportion, since it has eight independent directors of a total of sixteen (16) and independent directors therefore account for half of the total number of directors.

14. The nature of each director should be explained to the General Meeting of Shareholders, which will make or ratify his or her appointment. Such determination should subsequently be confirmed or reviewed in each year's Annual Corporate Governance Report, after verification by the Appointments Committee. The said Report should also disclose the reasons for the appointment of proprietary directors at the urging of shareholders controlling less than 5% of capital; and explain any rejection of a formal request for a board place from shareholders whose equity stake is equal to or greater than that of others applying successfully for a proprietary directorship.

See sections: B.1.3 and B.1.4

Complies **Partially complies** **Explanation**

15. When female directors are few or non-existent, the board should state the reasons for this situation and the measures taken to correct it, and, in particular, the Nomination Committee should take steps to ensure that:

- i. The process of filling board vacancies has no implicit bias against women candidates;
- ii. The company makes a conscious effort to include women with the target profile among the candidates for board places.

See sections: B.1.2, B.1.27 and B.2.3

Complies **Partially complies** **Explanation** **Not applicable**

As of the publication of this report, only one of a total of sixteen (16) members of the Board of Directors is a woman, Teresa García-Milá Lloveras, and Enagás, S.A. should therefore prioritise and try to increase female representation should a vacancy arise on the Board, especially for independent seats.

Given the above, in 2007 the Board adopted various initiatives aimed at rectifying the gender imbalance. In particular, at the Ordinary General Meeting held on 11 May 2007 shareholders approved an amendment of article 8 of the Board Regulations to expressly incorporate the principle of equal treatment of men and women set out in the Unified Code. The new article stipulates that “the process for filling board vacancies has no implicit bias against women candidates. The company makes a conscious effort to include women with the target profile among the candidates for board places.”

16. The Chairman, as the person responsible for the proper operation of the Board of Directors, should ensure that directors are supplied with sufficient information in advance of board meetings, and work to procure a good level of debate and the active involvement of all members, safeguarding their rights to freely express and adopt positions; he or she should organise and coordinate regular evaluations of the board and, where appropriate, the company's chief executive, along with the chairmen of the relevant board committees.

See section: B.1.42

Complies **Partially complies** **Explanation**

The Chairman of Enagás, S.A. ensures that Directors are supplied with sufficient information in advance of Board meetings and works to ensure an adequate level of debate and the active participation of Directors in Board sessions, as stipulated in article 6 of the Regulations of the Board of Directors, which establishes the procedure for ensuring that Directors have the information necessary to prepare for meetings of the Board of Directors with sufficient time. As a result, in practice, the convening notice is issued a week before the meeting of the Board of Directors is due to take place and includes, together with the venue and Agenda, all documentation considered relevant or appropriate in relation to same.

In addition, members of the Board of Directors have access to all company services and may obtain the information and advice they need concerning any aspect of the company, provided that their duties as Directors so require.

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

17. When a company's Chairman is also its chief executive, an independent director should be empowered to request the calling of board meetings or the inclusion of new business on the agenda; to coordinate and give voice to the concerns of external directors; and to lead the board's evaluation of the Chairman.

See section: B.1.21

Complies **Partially complies** **Explanation** **Not applicable**

At its meeting of 29 March 2007, the Board of Directors approved an amendment to article 17 of the Board Regulations that establishes that, when the Chairman and Chief Executive are one and the same, the Board of Directors may empower one of the Independent Directors to request the convocation of meetings or inclusion of new items on the agenda, to coordinate and act as spokesperson for the concerns of External Directors, and to oversee the Board's appraisal of its Chairman.

Article 11 of the aforementioned Regulations establishes that "the Appointments and Remunerations Committee, responsible for evaluating the quality of work and to the post of the Directors proposed during the 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.

18. The Secretary of the Board should take care to ensure that the board's actions:

- a) Adhere to the spirit and letter of laws and their implementing regulations, including those issued by regulatory agencies;**
- b) Comply with the company bylaws and the regulations of the General Shareholders' Meeting, the Board of Directors and any others;**
- c) Are informed by those good governance recommendations of the Unified Code that the company has subscribed to.**

In order to safeguard the independence, impartiality and professionalism of the Secretary, his or her appointment and removal should be proposed by the Nomination Committee and approved by a full board meeting; the relevant appointment and removal procedures being spelled out in the board's regulations.

See section: B.1.34

Complies **Partially complies** **Explanation**

Article 20 of the Board Regulations establishes that

1. The Secretary of the Board of Directors shall be appointed by the Board and shall not necessarily also be a Director. The Secretary shall exercise the functions conferred upon such position under commercial law and in these Regulations. To ensure the independence, impartiality and professionalism of the Secretary, his/her appointment and removal shall be the subject of a prior report from the Appointments and Remunerations Committee and must be approved by the Board in full session.
2. The Secretary shall assist the Chairman in his/her work in order to guarantee the smooth operation of the Board, and shall in particular be responsible for providing Directors with the necessary information and advice, keeping company documents, duly recording meetings in the Minutes Book and bearing witness to Board resolutions. The Secretary shall also be responsible for giving notice of resolutions adopted by the Board.
3. The Secretary shall also be responsible for the formal and material legality of the Board of Directors' actions and ensure that its governing procedures and rules are respected and regularly revised. In particular he/she shall ensure that the actions of the Board:
 - a) Are in line with the letter and spirit of the Law and its implementing regulations, including those approved by the regulatory bodies;
 - b) Conform to the company Bylaws, the Board Regulations and any other company regulations;
 - c) Incorporate the good governance recommendations that the company has accepted.

Article 5 of the Board Regulations establishes that the powers and responsibilities of the Board of Directors shall include: "Appointing and revoking the appointments of the Chairman, Deputy Chairman, Chief Executive Officer, Secretary and Deputy Secretary of the Board of Directors".

19. The board should meet with the necessary frequency to properly perform its functions, in accordance with a calendar and agendas set at the beginning of the year, to which each director may propose the addition of other items.

See section: B.1.29

Complies Partially complies Explanation

Enagás, S.A. complies with this recommendation. Attesting to this is the fact that in 2007 the Board met eleven (11) times, thereby complying with the provisions of article 6 of its Board Regulations, which stipulates that the Board of Directors must meet at least once every two months, and, on the initiative of the Chairman, as many other times as he/she deems appropriate for the company's smooth operation. The aforesaid article also stipulates that the Chairman shall be empowered to establish the agenda for the meetings, although any of the Directors may request, prior to convocation, the inclusion of the points that, in his/her opinion, should be deliberated by the Board of Directors.

20. Director absences should be kept to the bare minimum and quantified in the Annual Corporate Governance Report. When directors have no choice but to delegate their vote, they should do so with instructions.

See sections: B.1.28 and B.1.30

Complies Partially complies Explanation

There were no absences where the absent director was not represented by proxy. Directors were represented by proxy on nineteen (19) occasions.

21. When directors or the Secretary express concerns about some proposal or, in the case of directors, about the company's performance, and such concerns are not resolved at the meeting, the person expressing them can request that they be recorded in the minute book.

Complies Partially complies Explanation Not applicable

Enagás, S.A. complies scrupulously with this recommendation, as is reflected in the content of the minutes of its Board meetings.

22. The board in full should evaluate the following points on a yearly basis:

- a) The quality and efficiency of the board's operation;
- b) Starting from a report issued by the Nomination Committee, how well the Chairman and chief executive have carried out their duties;
- c) The performance of its committees on the basis of the reports furnished by the same.

See section: B.1.19

Complies Partially complies Explanation

Article 11 of the aforementioned Regulations establishes that "the Appointments and Remunerations Committee, responsible for evaluating the quality of work and commitment to the post of the Directors proposed during the 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.

23. All directors should be able to exercise their right to receive any additional information they require on matters within the board's competence. Unless the bylaws or board regulations indicate otherwise, such requests should be addressed to the Chairman or Secretary.

See section: B.1.42

Complies Explanation

Enagás, S.A. complies scrupulously with this recommendation, as is reflected in article 6 (“Meetings of the Board of Directors”) and article 15.1 (“Rights of attendance and information”) of its Board Regulations.

The aforementioned article 6 governs the procedure to ensure that Directors have the necessary information to prepare for meetings of the Board of Directors with sufficient time. The aforesaid article establishes that:

“Notices convening ordinary sessions shall be issued by the Chairman or the Secretary, or by the Deputy Chairman on the order of the Chairman, may be effected by any media, and shall include the venue at which the meeting is to be held and the agenda of the same.

The convening notice, which shall be issued, except in extraordinary situations, at least three days prior to the date scheduled for the meeting, shall contain the information and documents considered relevant or appropriate to better inform Directors.

The Chairman shall be empowered to establish the agenda of the meetings, although any Director may request, prior to convocation, the inclusion of the points that, in his/her opinion, should be deliberated by the Board of Directors”.

In practice, the convening notice shall be issued a week before the meeting and, in addition to the meeting venue and the agenda, shall include all documentation considered appropriate or relevant.

In addition, the aforementioned article 15.1 establishes that members of the Board of Directors shall have access to all company services and may obtain the information and advice they need concerning any aspect of the company, provided that their duties as Directors so require. The right to information extends also to both Spanish and foreign subsidiaries and is channelled through the Chairman or Secretary of the Board of Directors, who deal with requests from Directors, providing them with the information directly, offering them the appropriate spokespersons or furnishing as many measures as may be necessary for the requested examination.

The Board of Directors may take the steps necessary to guarantee the confidentiality of any information that may be considered sensitive from a commercial point of view.

24. All directors should be entitled to call on the company for the advice and guidance they need to carry out their duties. The company should provide suitable channels for the exercise of this right, extending in special circumstances to external assistance at the company's expense.

See section: B.1.41

Complies **Explanation**

Enagás, S.A. amply covers this recommendation in article 15.2 of the Board Regulations, which provides 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.

25. Companies should organise induction programmes for new directors to acquaint them rapidly with the workings of the company and its corporate governance rules. Directors should also be offered refresher courses when circumstances so advise.

Complies **Partially complies** **Explanation**

Enagás, S.A. amply covers this recommendation in article 15.3 of its Board Regulations, which establishes that the company should organise induction programmes for new directors to acquaint them rapidly with the workings of the company and its corporate governance rules. It shall also offer Directors refresher courses when circumstances so dictate.

In line with the foregoing, it is Enagás, S.A. policy to regularly offer directors induction and refresher courses to provide them with the knowledge they need to efficiently exercise their duties.

26. Companies should require their directors to devote sufficient time and effort to perform their duties effectively, and, as such:

a) Directors should apprise the Nomination Committee of any other professional obligations, in case they might detract from the necessary dedication;

b) Companies should lay down rules about the number of directorships their board members can hold.

See sections: B.1.8, B.1.9 and B.1.17

Complies **Partially complies** **Explanation**

Point a) of article 13 of the Board Regulations ("Duty of diligent administration") establishes that Board members must inform the Appointments and Remuneration Committee of any professional obligations that might detract from the necessary dedication. The company may limit the number of directorships its board members can hold if this may also detract from the commitment required.

The Enagás, S.A. Board Regulations place no quantitative limit on the number of directorships its Board members can hold but expressly incorporates the content of this recommendation.

27. The proposal for the appointment or renewal of directors which the board submits to the General Shareholders' Meeting, as well as their provisional appointments by the method of cooption, should be approved by the Board:

a) On the proposal of the Nomination Committee, in the case of independent directors.

b) Subject to a report from the Nomination Committee in all other cases.

See section: B.1.2

Complies **Partially complies** **Explanation**

Enagás, S.A. has adopted this recommendation, as reflected in article 25 of its Board Regulations, which, in accordance with article 45 of the company Bylaws, stipulates that:

The Appointments and Remunerations Committee shall be responsible for reviewing the structure of the Board of Directors, the criteria for the statutory renewal of Directors, the incorporation of new members and any other aspects relating to its composition that it deems appropriate, providing the Board of Directors with the proposals that it considers necessary. It shall also be responsible for formulating and revising the criteria to be followed in the composition of the Board of Directors and the selection of the candidates proposed for the post of Director.

By delegation of the Board Directors, the Appointments and Remunerations Committee is empowered to report, objectively and in the company's interest, on proposals for the appointment, re-election and ratification of Directors, as well as for the appointment of members of each of the Board Committees.

28. Companies should post the following director particulars on their websites, and keep them permanently updated:

a) Professional experience and background;

b) Directorships held in other companies, listed or otherwise;

c) An indication of the director's classification as executive, proprietary or independent; In the case of proprietary directors, stating the shareholder they represent or have links with.

d) The date of their first and subsequent appointments as a company director; and

e) Shares held in the company and any options on the same.

Complies **Partially complies** **Explanation**

29. Independent directors should not stay on as such for a continued period of more than 12 years.

See section: B.1.2

Complies **Explanation**

Article 11 of the Board Regulations expressly incorporates this recommendation, establishing that "as a general rule, an appropriate rotation of Independent Directors should be sought. For this reason, when an independent director is proposed for re-election, the circumstances making his/her continuity in the post advisable must be justified. Independent Directors shall not remain as such for a period in excess of twelve consecutive years."

30. Proprietary directors should resign when the shareholders they represent dispose of their ownership interest in its entirety. If such shareholders reduce their stakes, thereby losing some of their entitlement to proprietary directors, the latter's number should be reduced accordingly.

See sections: A.2, A.3 and B.1.2

Complies **Partially complies** **Explanation**

Article 12.2 f) of the Board Regulations establishes that Directors must place their offices at the Board of Directors' disposal, and tender their resignation, if the Board deems this appropriate, when the shareholders they represent dispose of their shareholding in its entirety. They shall also do so, in the appropriate number, when the shareholder in question reduces its stake to a level requiring a reduction in the number of its Controlling Directors.

In the circumstances envisaged in points d), e) and f) of the aforesaid article 12,2, if the Board of Directors does not deem it advisable to have a Director tender his/her resignation, the latter must be included in the category that, in accordance with the Regulations, is most appropriate based on his/her new circumstances.

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.

The company decided to classify Luis Javier Navarro Vigil under the category "Other External Directors" as did not meet all the conditions required to be classified as an "Independent Director" as stipulated by the "Unified Code of Good Governance" related to Order ECO/3722/2003 of 26 December and CNMV Circular 4/2007 of 27 December.

31. The Board of Directors should not propose the removal of independent directors before the expiry of their tenure as mandated by the bylaws, except where just cause is found by the board, based on a proposal from the Nomination Committee. In particular, just cause will be presumed when a director is in breach of his or her fiduciary duties or comes under one of the disqualifying grounds enumerated in section III. 5 (Definitions) of this Code.

The removal of independents may also be proposed when a takeover bid, merger or similar corporate operation produces changes in the company's capital structure, in order to meet the proportionality criterion set out in recommendation 12.

See sections: B.1.2, B.1.5 and B.1.26

Complies **Explanation**

Article 12 of the Board Regulations establishes that the Board of Directors shall not propose the removal of any Independent Director before the expiry of their bylaw-stipulated tenure, except where just cause is found to exist by the Board subject to a prior report from the Appointments Committee.

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

32. Companies should establish rules obliging directors to inform the board of any circumstances that might harm the organisation's name or reputation, tendering their resignation as the case may be, with particular mention of any any criminal charges brought against them and the progress of any subsequent trial.

The moment a director is indicted or tried for any of the crimes stated in article 124 of the Public Limited Companies Law, the board should examine the matter and, in view of the particular circumstances and potential harm to the company's name and reputation, decide whether or not he or she should be called on to resign. The board should also disclose all such determinations in the Annual Corporate Governance Report.

See sections: B.1.43, B.1.44

Complies Partially complies Explanation

Pursuant to the good governance recommendations, article 12 of the Board Regulations establishes that Directors must place their offices at the Board of Directors' disposal, and tender their resignation, if the Board deems this appropriate, inter alia, in situations that could place the company's interests at risk or damage its credibility and reputation. If a Director is indicted or an order is issued to initiate a trial against him/her for a crime specified under article 124 of the Spanish Companies Act, the Board shall review the case as promptly as possible and, based on the specific circumstances, decide if it is appropriate for the Director to remain in his/her post.

33. All directors should express clear opposition when they feel a proposal submitted for the board's approval might damage the corporate interest. In particular, independents and other directors unaffected by the conflict of interest should challenge any decision that could go against the interests of shareholders lacking board representation.

When the board makes material or reiterated decisions about which a director has expressed serious reservations, then he or she must draw the pertinent conclusions. Directors opting to resign for such causes should set out their reasons in the letter referred to in the next Recommendation.

This terms of this Recommendation should also apply to the Secretary of the board, director or otherwise.

Complies Partially complies Explanation Not applicable

At Enagás, S.A., all reservations, disagreements and challenges related to the adoption of resolutions or material decisions are recorded in the minutes to Board meetings, including express indication of the reasons for such reservations, disagreements and challenges.

34. Directors who give up their place before their tenure expires, through resignation or otherwise, should state their reasons in a letter to be sent to all members of the board. Irrespective of whether such resignation is filed as a significant event, the motive for the same must be explained in the Annual Corporate Governance Report.

See section: B.1.5

Complies Partially complies Explanation Not applicable

Article 12 of the Board Regulations stipulates that Directors who resign or vacate their posts before the expiry of their term of office must explain the reasons.

As detailed in section B.1.5 of this report, Antonio González-Adalid García-Zozaya tendered his resignation from the post of Director and, thus, also from the post of Chairman, on 24 January 2007 since this was considered to be in the best interests of the company, for the reasons set out in the notification of significant event filed with the CNMV on this same date under number 75,883.

35. The company's remuneration policy, as approved by its Board of Directors, shall specify at least the following points:

a) The amount of the fixed components, itemised, where necessary, of board and board committee attendance fees, with an estimate of the fixed annual remuneration they give rise to.

b) Variable components, in particular:

- i) The types of directors they apply to, with an explanation of the relative weight of variable to fixed remuneration items.
- ii) Performance evaluation criteria used to calculate entitlement to the award of shares or share options or any performance-related remuneration;
- iii) The main parameters and grounds for any system of annual bonuses or other non cash benefits; and
- iv) An estimate of the sum total of variable payments arising from the remuneration policy proposed, as a function of degree of compliance with pre-set targets or benchmarks.

c) The main characteristics of pension systems (for example, supplementary pensions, life insurance and similar arrangements), with an estimate of their amount or annual equivalent cost.

d) The conditions to apply to the contracts of executive directors exercising senior management functions, among them:

- i) Duration;
- ii) Notice periods; and
- iii) Any other clauses covering hiring bonuses, as well as indemnities or "golden parachutes" in the event of early termination of the contractual relation between company and executive director.

See section: B.1.15

Complies **Partially complies** **Explanation**

36. Remuneration comprising the delivery of shares in the company or other companies in the group, share options or other share-based instruments, payments linked to the company's performance or membership of pension schemes should be confined to executive directors.

The delivery of shares is excluded from this limitation when directors are obliged to retain them until the end of their tenure.

See sections: A.3, B.1.3

Complies **Explanation**

37. External directors' remuneration should sufficiently compensate them for the dedication, abilities and responsibilities that the post entails, but should not be so high as to compromise their independence.

Complies **Explanation**

By virtue of the foregoing, in article 36 of the Company Bylaws and article 16 of the Board Regulations, Enagás has established a payment framework for Directors aimed at covering both the responsibilities involved in carrying out their duties, and effective com-

mitment and attendance at sessions, without removing or limiting the powers of the General Meeting in any way, which body is responsible for determining the maximum amount to be paid to Directors and the form and criteria that must be taken into account in assigning and distributing such payment, which shall be effected by the Board of Directors, in accordance with guidelines established at the General Meeting.

In this way, the company safeguards the independence of all directors, who must respect the criteria adopted by the General Meeting for the assignment and distribution of their remuneration, in accordance with this recommendation.

38. In the case of remuneration linked to company earnings, deductions should be computed for any qualifications stated in the external auditor's report.

Complies **Explanation** **Not applicable**

The functions and responsibilities of the Appointments and Remunerations Committee include establishing payment criteria for company Directors and general remuneration policy for Enagás, S.A. management personnel and by delegation of the Board Directors, approving the remuneration packages of senior management, providing they do not diverge from the criteria established in the general payment policy for Management (article 25 of the Board Regulations, in accordance with article 45 of the Company Bylaws).

In exercising its functions and responsibilities, the Appointments and Remunerations Committee complies with this recommendation since it factors any possible accounts qualifications identified by the external auditors in their annual report into its calculation of earning-related remuneration.

39. In the case of variable awards, remuneration policies should include technical safeguards to ensure they reflect the professional performance of the beneficiaries and not simply the general progress of the markets or the company's sector, atypical or exceptional transactions or circumstances of this kind .

Complies **Explanation** **Not applicable**

Enagás, S.A. applies this recommendation in that all beneficiaries of variable remuneration undergo annual performance appraisals linked to their fulfilment of specific targets and objectives.

40. The Board should submit a report on the directors' remuneration policy to the advisory vote of the General Shareholders' Meeting, as a separate point on the agenda. This report can be supplied to shareholders separately or in the manner each company sees fit.

The report will focus on the remuneration policy the board has approved for the current year, with reference, as the case may be, to the policy planned for future years. It will address all the points referred to in Recommendation 35, except those points potentially entailing the disclosure of commercially sensitive information. It will also identify and explain the most significant changes in remuneration policy with respect to the previous year, with a global summary of how the policy was applied in the year in question.

The role of the Remuneration Committee in designing the policy should be reported to the Meeting, along with the identity of any external advisors engaged.

See section: B.1.16

Complies **Partially complies** **Explanation**

In accordance with the provisions of article 36 of the company Bylaws, the company's Board of Directors each year proposes to shareholders at the General Meeting the maximum compensation that should be paid to Directors for performance of their functions, as well as the breakdown between remuneration for attendance and membership of Board Committees, remuneration for chairing said Committees and remuneration for serving as Deputy Chairman of the Board.

The remuneration paid to the Chairman for performance of his executive functions is approved by the Board of Directors.

41. The notes to the annual accounts should list individual directors' remuneration in the year, including:

a) A breakdown of the compensation obtained by each company director, to include where appropriate:

- i) Participation and attendance fees and other fixed directors payments;
- ii) Additional compensation for acting as chairman or member of a board committee;
- iii) Any payments made under profit-sharing or bonus schemes, and the reason for their accrual;
- iv) Contributions made on the director's behalf to defined-contribution pension plans, or any increase in the director's vested rights in the case of contributions to defined-benefit schemes;
- v) Any severance packages agreed or paid;
- vi) Any compensation they receive as directors of other companies in the group;
- vii) The remuneration executive directors receive in respect of their senior management posts;
- viii) Any kind of compensation other than those listed above, of whatever nature and provenance within the group, especially when it may be accounted a related-party transaction or when its omission would detract from a true and fair view of the total remuneration received by the director.

b) An individual breakdown of deliveries to directors of shares, share options or other share-based instruments, itemised by:

- i) Number of shares or options awarded in the year, and the terms set for their execution;
- ii) Number of options exercised in the year, specifying the number of shares involved and the exercise price;
- iii) Number of options outstanding at the annual close, specifying their price, date and other exercise conditions;
- iv) Any change in the year in the exercise terms of previously awarded options.

c) Information on the relation in the year between the remuneration obtained by executive directors and the company's profits, or some other measure of enterprise results.

Complies Partially complies Explanation

42. When the company has an Executive Committee, the breakdown of its members by director category should be similar to that of the board itself. The Secretary of the board should also act as secretary to the Executive Committee.

See sections: B.2.1 and B.2.6

Complies Partially complies Explanation Not applicable

This recommendation is not applicable to Enagás, S.A. as it does not have an Executive Committee.

In view of the number of Directors and the smooth operation of the Appointments and Remunerations Committee and Audit and Compliance Committee, the Enagás, S.A. Board of Directors has so far not felt it necessary to create an Executive Committee. However, this is covered by the discretionary nature attributed to this Committee in the Unified Code, which envisages the gradual disappearance of Executive Committees as governance bodies in line with the trend towards more frequent meetings of the Boards of Directors and smaller Board memberships.

Nonetheless, in article 43 of the Company Bylaws and article 23 and article 24 of its Board Regulations, Enagás, S.A. provides for the possibility of the Board of Directors appointing an Executive Committee from among its members.

43. The board should be kept fully informed of the business transacted and decisions made by the Executive Committee. To this end, all board members should receive a copy of the Committee's minutes.

Complies Explanation Not applicable

As explained under recommendation 42 above, Enagás, S.A. does not have an Executive Committee.

44. In addition to the Audit Committee mandatory under the Securities Market Act, the Board of Directors should form a committee, or two separate committees, of Nomination and Remuneration.

The rules governing the make-up and operation of the Audit Committee and the committee or committees of Nomination and Remuneration should be set out in the board regulations, and include the following:

- a) The Board of Directors should appoint the members of such committees with regard to the knowledge, aptitudes and experience of its directors and the terms of reference of each committee; discuss their proposals and reports; and be responsible for overseeing and evaluating their work, which should be reported to the first board plenary following each meeting;**
- b) These committees should be formed exclusively of external directors and have a minimum of three members. Executive directors or senior officers may also attend meetings, for information purposes, at the Committees' invitation.**
- c) Committees should be chaired by an independent director.**
- d) They may engage external advisors, when they feel this is necessary for the discharge of their duties.**
- e) Meeting proceedings should be minuted and a copy sent to of the minutes sent to all Board members.**

See sections: B.2.1 and B.2.3

Complies **Partially complies** **Explanation**

Articles 44 and 45 of the Bylaws and articles 23, 25 and 26 of the Board Regulations expressly provide for the creation, from among the members of the Board of Directors, of both an Audit and Compliance Committee (article 44 of the Company Bylaws and articles 23 and 26 of the Board Regulations) and an Appointments and Remunerations Committee (article 45 of the Company Bylaws and articles 23 and 25 of the Board Regulations).

By virtue of the provisions of articles 8, 25 and 26 of the Board Regulations, the Board of Directors shall be responsible for appointing the members of both Committees and for ensuring that those appointed are persons of recognised standing that have the appropriate professional knowledge and experience to duly exercise the duties attached to the post.

The members of both Committees engage external advisors should they feel this is necessary for the performance of their duties, as provided for in article 15 of the Board Regulations.

Both Committees are composed exclusively of external directors and have more than recommended minimum of three members. The Audit and Compliance Committee is comprised of five members, of whom two, including the Chairman, are Independent Directors, two are Controlling Directors, and one of is classified as an "Other External Director". The Appointments and Remunerations Committee is comprised of five members, three of whom are Independent Directors and two are whom are Controlling Directors.

The Secretary of the two Committees sends a copy of the minutes of meetings of both Committees to all members of the Board of Directors.

As of the date of this Report, the Chairman of the Appointments and Remunerations Committee is classified as a Controlling Director.

45. The job of supervising compliance with internal codes of conduct and corporate governance rules should be entrusted to the Audit Committee, the Nomination Committee or, as the case may be, separate Compliance or Corporate Governance committees.

Complies **Explanation**

Under the provisions of articles 25 and 26 of the Board Regulations and article 7.e) of the Regulations of the Audit and Compliance Committee, responsibility for assessing compliance with the Internal Code of Conduct and Corporate Governance Rules falls to the latter, in conjunction with the Appointments and Remunerations Committee.

Article 25 of the Board Regulations establishes that the Appointments and Remunerations Committee's functions and responsibilities shall include "providing information to the Board of Directors on measures to be taken in the event of non-compliance with these Regulations or the Internal Code of Conduct on matters relating to the securities markets on the part of Directors or other persons subject to the aforementioned Regulations. In performing this duty, the Appointments and Remunerations Committee shall work in conjunction with the Audit and Compliance Committee wherever appropriate.

In line with the foregoing, article 26.2 of the Board Regulations includes among the core remits of the Audit and Compliance Committee guaranteeing transparency of information and ensuring compliance with internal rules of conduct. More specifically, article 7.e) of the Regulations of the Audit and Compliance Committee relating to corporate governance, includes among the remits and functions of the Committee the following:

- Assessing compliance with the Internal Code of Conduct on matters relating to the securities markets, the Regulations of the Board of Directors and the company's governance regulations in general, and make the proposals necessary for their improvement. In fulfilling this duty, the Appointments and Remunerations Committee shall liaise with the Audit and Compliance Committee in considering company directors and managers' compliance with the Code.
- Preparing an annual report on the work of the Audit and Compliance Committee that shall form part of the Corporate Governance Report.
- Assisting with drafting the Annual Corporate Governance Report, especially in areas concerning transparency of information and conflicts of interests.

46. All members of the Audit Committee, particularly its chairman, should be appointed with regard to their knowledge and background in accounting, auditing and risk management matters.

Complies **Explanation**

Article 3.6 of the Regulations of the Audit and Compliance Committee establishes that:

"The Chairman and other members of the Committee shall be persons with adequate training and experience appropriate for the nature of the functions the Committee is to perform and, in particular, knowledge and experience in accounting, auditing and risk management matters."

47. Listed companies should have an internal audit function, under the supervision of the Audit Committee, to ensure the proper operation of internal reporting and control systems.

Complies **Explanation**

This recommendation is expressly incorporated in article 7.b) of the Regulations of the Audit and Compliance Committee, which establishes that the Committee's function with regards to internal auditing shall include the following:

- Monitoring the independence of the internal audit unit.
- Supervising the company's internal auditing services and verifying the internal control systems, in order to achieve optimum monitoring of the execution of the annual internal audit.

In particular, the Committee shall monitor the quality of the work of the internal audit unit in areas including accuracy and integrity of information, compliance with policies, plans, regulations and standards and asset protection measures.

The Committee shall have unlimited access to internal auditing systems and shall meet regularly, either in full session or in the person of its Chairman, with the head of Internal Audit, from whom it may request all the information necessary for its work.

- Providing information and putting forward proposals to the Board of Directors regarding the selection, appointment, reappointment and dismissal of the head of Internal Audit.

48. The head of internal audit should present an annual work programme to the Audit Committee, report to it directly on any incidents arising during its implementation, and submit an activities report at the end of each year.

Complies **Partially complies** **Explanation**

The head of internal audit performs his/her duties in accordance with the provisions set out in article 44 of the Company Bylaws and article 7. b) Regulations of the Audit and Compliance Committee, which are fully adjusted to this recommendation.

49. Control and risk management policy shall specify at least:

- a) The different types of risk (operational, technological, financial, legal, reputational, ...) the company is exposed to, with the inclusion under financial or economic risks of contingent liabilities and other off-balance sheet risks;**
- b) The determination of the risk level the company sees as acceptable;**
- c) Measures in place to mitigate the impact of risk events should they occur;**
- d) The internal reporting and control systems to be used to control and manage the above risks, including contingent liabilities and off-balance sheet risks.**

See section: D

Complies **Partially complies** **Explanation**

In accordance with the provisions of article 44 of the company Bylaws, it is the responsibility of the Audit and Compliance Committee to oversee the company's Internal Auditing Services and internal control systems, pursuant to article 7.d) of the Committee Regulations.

The annual risk review performed by Enagás, S.A. allows for the revision of those of the company's critical processes to which the most significant risks are attached, all in accordance with the Internal Audit Plan approved by the Audit and Compliance Committee. This risk policy is described in detail in Section D of this Report entitled "Risk Control Systems".

50. The Audit Committee's role should be:

1 With respect to internal control and reporting systems:

- a) Monitor the preparation and the integrity of financial information prepared on the company and, where appropriate, the group, checking for compliance with legal provisions, the accurate demarcation of the consolidation perimeter, and the correct application of accounting principles.**
- b) Review internal control and risk management systems on a regular basis, so main risks are properly identified, managed and disclosed.**
- c) Monitor the independence and efficacy of the internal audit function; propose the selection, appointment, reappointment and removal of the head of internal audit ; propose the department's budget; receive regular report-backs on its activities; and verify that senior management are acting on the findings and recommendations of its reports.**
- d) Establish and supervise a mechanism whereby staff can report, confidentially and, if necessary, anonymously, any irregularities they detect in the course of their duties, in particular financial or accounting irregularities, with potentially serious implications for the firm.**

2 With respect of the external auditor:

- a) Make recommendations to the board for the selection, appointment, reappointment and removal of the external auditor, and the terms of his engagement.**

b) Receive regular information from the external auditor on the progress and findings of the audit programme, and check that senior management are acting on its recommendations.

c) Monitor the independence of the external auditor, to which end:

- i) The company should notify any change of auditor to the CNMV as a significant event, accompanied by a statement of any disagreements arising with the outgoing auditor and the reasons for the same.
- ii) The Committee should ensure that the company and the auditor adhere to current regulations on the provision of non-audit services, the limits on the concentration of the auditor's business and, in general, other requirements designed to safeguard auditors' independence;
- iii) The Committee should investigate the issues giving rise to the resignation of any external auditor.

d) In the case of groups, the Committee should urge the group auditor to take on the auditing of all component companies.

See sections: **B.1.35, B.2.2, B.2.3 and D.3**

Complies **Partially complies** **Explanation**

Enagás, S.A. has adjusted its internal information and control systems to bring them in line with points a), b) and c) of section 1 of this recommendation, pursuant to the provisions of article 7 a) and b) of the Regulations of the Audit and Control Committee.

The external auditor and Audit and Compliance Committee perform their duties in accordance with section 2 of this recommendations, as reflected in article 7.c) of the Regulations of the Audit and Control Committee.

Enagás, S.A. has not yet established a mechanism enabling employees to report any serious irregularities, as recommended in point d) of section 1 of this recommendation.

51. The Audit Committee should be empowered to meet with any company employee or manager, even ordering their appearance without the presence of another senior officer.

Complies **Explanation**

The powers of the Audit and Compliance Committee include the power to request the presence of any employee or manager at Committee sessions and obtain from them the assistance necessary to the execution of their functions (article 8.4 of the Regulations of the Audit and Control Committee).

52. The Audit Committee should prepare information on the following points from recommendation 8 for input to board decision-making:

- a) The financial information that all listed companies must periodically disclose. The Committee should ensure that interim statements are drawn up under the same accounting principles as the annual statements and, to this end, may ask the external auditor to conduct a limited review.**
- b) The creation or acquisition of shares in special purpose vehicles or entities resident in countries or territories considered tax havens, and any other analogous or operations of a comparable nature whose complexity might impair the transparency of the group.**
- c) Related-party transactions, except where their scrutiny has been entrusted to some other supervision and control committee.**

See sections: **B.2.2 and B.2.3**

Complies **Partially complies** **Explanation**

The Audit and Compliance Committee complies with its obligation to report to the Board of Directors, before the latter gives its approval, on the financial information prepared regularly in compliance with securities market regulations, ensuring that such information is transparent and accurate (article 7.a) of the Regulations of the Audit and Compliance Committee).

This recommendation is expressly incorporated in article 7.b) of the Regulations of the Audit and Compliance Committee, which establishes that the Committee's function with regards to internal auditing shall include the following:

- Monitoring the independence of the internal audit unit.
- Supervising the company's internal auditing services and verifying the internal control systems, in order to achieve optimum monitoring of the execution of the annual internal audit.

In particular, the Committee shall monitor the quality of the work of the internal audit unit in areas including accuracy and integrity of information, compliance with policies, plans, regulations and standards and asset protection measures.

The Committee shall have unlimited access to internal auditing systems and shall meet regularly, either in full session or in the person of its Chairman, with the head of Internal Audit, from whom it may request all the information necessary for its work.

- Providing information and putting forward proposals to the Board of Directors regarding the selection, appointment, reappointment and dismissal of the head of Internal Audit.

In accordance with the provisions of article 25 of the Board Regulations, responsibility for reporting to the Board of Directors on transactions with related parties before Board approval of the same falls to the Appointments and Remunerations Committee.

53. The Board of Directors should seek to present the annual accounts to the General Shareholders' Meeting without reservations or qualifications in the audit report. Should such reservations or qualifications exist, both the Chairman of the Audit Committee and the auditors should give a clear account to shareholders of their scope and content.

See section: B.1.38

Complies Partially complies Explanation

The Board of Directors of Enagás, S.A. presents its annual financial statements at General Meetings as recommended in this recommendation. However, where discrepancies exist between the criteria maintained by the Board of Directors and those applied by the auditors, the Board must explain to shareholders the content and scope of such discrepancies (article 5.c of the Board Regulations).

54. The majority of Nomination Committee members – or Nomination and Remuneration Committee members as the case may be – should be independent directors.

See section: B.2.1

Complies Explanation Not applicable

The majority of members of the Appointments and Remunerations Committee are Independent Directors (article 25.1 of the Board regulations), since, of the total of five members, three are Independent Directors and two are Controlling Directors, pursuant to the provisions of article 25.1 of the Board Regulations.

55. The Nomination Committee should have the following functions in addition to those stated in earlier recommendations:

- a) Evaluate the balance of skills, knowledge and experience on the board, define the roles and capabilities required of the candidates to fill each vacancy, and decide the time and dedication necessary for them to properly perform their duties.

- b) **Examine or organise, in appropriate form, the succession of the chairman and chief executive, making recommendations to the board so the handover proceeds in a planned and orderly manner.**
- c) **Report on the senior officer appointments and removals which the chief executive proposes to the board.**
- d) **Report to the board on the gender diversity issues discussed in Recommendation 14 of this Code.**

See section: B.2.3

Complies Partially complies Explanation Not applicable

56. The Nomination Committee should consult with the company's Chairman and chief executive, especially on matters relating to executive directors.

Any board member may suggest directorship candidates to the Nomination Committee for its consideration.

Complies Partially complies Explanation Not applicable

At Enagás, S.A. the Appointments and Remunerations Committee is empowered to request the opinion of the Chairman of the Board of Directors on matters relating to Executive Directors whenever deemed pertinent.

When selecting potential directors the Committee takes into consideration all candidates suggested by any member of the Board of Directors.

57. The Remuneration Committee should have the following functions in addition to those stated in earlier recommendations:

a) Make proposals to the Board of Directors regarding:

- i) The remuneration policy for directors and senior officers;
- ii) The individual remuneration and other contractual conditions of executive directors;
- iii) Basic contract terms and conditions for senior officers.

b) Oversee compliance with the remuneration policy set by the company.

See sections: B.1.14, B.2.3

Complies Partially complies Explanation Not applicable

The Appointments and Remunerations Committee of Enagás, S.A. has been assigned the functions suggested in this recommendation by virtue of the provisions of article 16 of the Company Bylaws and article 25 of the Board Regulations.

58. The Remuneration Committee should consult with the Chairman and chief executive, especially on matters relating to executive directors and senior officers.

Complies Explanation Not applicable

With regards to this recommendation, we reiterate the text set out under recommendation 56.

G. OTHER INFORMATION OF INTEREST

If you believe that there are any relevant principles or aspects of corporate governance practices applied by the company that have not been covered by this report, please list and explain their content.

This section may include any other relevant information, clarification or detail related to previous sections of the report.

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

CLARIFICATION OF SECTION A.5:

“Where applicable, list any commercial, contractual or corporate relationships between owners of significant shareholdings and the company and/or its group, unless they are of little relevance or arise from ordinary trading or exchange:”:

On 27 November 2007, SEPI (SPANISH STATE HOLDING COMPANY) notified the Securities Market Commission that it had acquired 11,936,703 shares representing five percent of the share capital of Enagás, S.A., thus acquiring the status of significant shareholder of Enagás, S.A.. Subsequent the close of 2007, it received an interim dividend of €2,865 thousand paid by Enagás, S.A. on 10 January 2008.

CLARIFICATION OF SECTION B.1.8:

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

Xabier de Irala Estévez, who represents BBK (Bilbao Bizkaia Kutxa) on the Board of Enagás, S.A., is a member of the Board of Directors and Executive Committee of IBERDROLA, S.A.

José Luis Olivas Martínez, who represents BANCAJA (Caja de Ahorros de Valencia, Castellón y Alicante) is a Director of ABERTIS INFRAESTRUCTURAS, S.A., Director of IBERDROLA, S.A. and Chairman of the IBERDROLA Consultative Committee in Valencia.

CLARIFICATION OF SECTION B.1.9:

“Indicate and where applicable explain if the company has established rules restricting the number of boards on which its Directors may have a seat”.

Article 13 of the Board Regulations establishes that the company may limit the number of directorships its Board members can hold if this may also interfere with the commitment required. The aforesaid article also stipulates that Board members must inform the Appointments and Remunerations Committee of any professional obligations that might interfere with the commitment required;

CLARIFICATION OF SECTION B.1.11:

“Use the following tables to provide details of the total remuneration accrued by Directors in the year:”

The “Others” category of section B.1.11.a) includes the sum of €4,725 thousand that the former Chairman of the Board of Directors received by way of indemnity, in application of the provisions of his contract with the company dated 20 September 2002.

In addition to payment of this indemnity, the company settled the amount corresponding to the interests accumulated by the former Chairman in the Enagás management pension fund *Fondo de Permanencia de Directivos de Enagás, S.A.* in the period of his service with the company. This amounted to the sum of €3,174 thousand.

The “Executives” category of section B.1.11.c) includes the aforesaid indemnity paid to the former Chairman of the Board of Directors.

CLARIFICATION OF SECTION B.1.12:

“List the members of senior management who are not also executive directors and indicate the total remuneration accruing to them in the year”:

In November 2007, Juan Manuel Llabrés Estaben and José Ferrándiz Alarcón de Lastra ceased to be members of the Management Committee, but they continue to exercise their professional functions within the company.

CLARIFICATION OF SECTION B.1.17:

“Identify any Board members who are also members of the Board of Directors, hold directorships or are employed at companies holding significant shareholdings in the listed company and/or its group companies”:

Xabier de Irala Estévez, who represents BBK (Bilbao Bizkaia Kutxa) on the Board of Enagás, S.A., is Chairman of BBK.

Manuel Menéndez Menéndez, who represents the shareholder Peña Rueda, S.L.U., is Chairman of CAJASTUR (Caja de Ahorros de Asturias).

José Luis Olivas Martínez, who represents the shareholder BANCAJA (Caja de Ahorros de Valencia, Castellón y Alicante), is Chairman of BANCAJA.

Vicente Sala Belló, who represents the shareholder CAM (Caja de Ahorros del Mediterráneo), is Chairman of CAM.

CLARIFICATION OF SECTION B.1.40:

“Detail any information in the company’s possession concerning Directors’ shareholdings in other companies involved in activities that are identical, analogous or complementary to those that constitute the corporate purpose of the Company and/or its group. Indicate also the positions or duties they exercise in these companies”:

Xabier de Irala Estévez, who represents BBK (Bilbao Bizkaia Kutxa) on the Board of Enagás, S.A., is also, as an individual, a member of the Board of Directors and Executive Committee of IBERDROLA, S.A. He also owns 165,076 shares in Iberdrola, equivalent to 0.003% of its share capital.

Manuel Menéndez Menéndez, who represents Peña Rueda, S.L. on the Board of Enagás, S.A., is also, as an individual, Chairman of Hidroeléctrica del Cantábrico, S.A. (H.C.), Chairman of Naturgas Energía Grupo, S.A. and a member of the General and Supervisory Committee of Portugal, S.A.

José Luis Olivas Martínez, who represents BANCAJA (Caja de Ahorros de Valencia, Castellón y Alicante) on the Board of Enagás, S.A., is a Director of Iberdrola and Chairman of the Iberdrola Consultative Committee in Valencia.

CLARIFICATION OF SECTION C.2:

“List any material transactions entailing a transfer of resources or obligations between the Company or its group companies, and significant shareholders of the company”:

The information contained in the tables included in section C.2 refers to Enagás, S.A. operations with companies that exercise a significant influence on Enagás, S.A. and to companies over which Enagás has a significant influence (section A of the fourth point of Ministerial Order EHA 3050/2004).

It also embraces operations with companies where the Directors of Enagás, S.A. exercise a significant influence, in accordance with the provisions of section D of the fourth point of Ministerial Order EHA 3050/2004 pertaining to transactions with other related parties.

- 1) Operations with BANCAJA (Caja de Ahorros de Valencia, Castellón y Alicante).
- 2) Operations with CAJASTUR (Caja de Ahorros de Asturias) or its subsidiary Cantábrica de Inversiones de Cartera, S.L.
- 3) Operations with CAM (Caja de Ahorros del Mediterráneo) or its subsidiary Incomed, S.L.
- 5) Operations with Gas Natural Sdg, S.A. and group subsidiaries.
- 6) Operations with Sagane Inversiones S.L.
- 7) Operations with Eulen S.A.
- 8) Operations with Intermoney Energía,

CLARIFICATION OF SECTION C.3:

“List any material transactions entailing a transfer of resources or obligations between the Company or its group companies, and Company directors or senior managers”:

In accordance with the provisions of section A of the fourth point of Ministerial Order EHA 3050/2004, pertaining to transactions with directors, executives and their close family members:

This total is broken down in section C.3, which details the amount paid to each member of the Board of Directors at 31 December 2007. Attendance fees paid to Directors that resigned in the course of 2007 were also included in the calculation of these payments -specifically the fees in the amount of €3.5 thousand paid to Mr. Antonio González-Adalid García-Zozaya and the fees in the amount of €3.67 paid to Mr. Xavier de Irala Estévez. The attendance fees paid to the shareholder BBK, which totalled €7 thousand, cover the period from 28 November to 31 December 2007.

Remuneration paid to the company's senior management totalled €1,899 thousand.

CLARIFICATION OF SECTION C.4:

“List any material transactions undertaken by the Company with other companies belonging to the same group that are not eliminated in the process of drawing up the consolidated financial statements and that, in terms of their purpose and conditions, do not conform to the habitual trading patterns of the company”:

Operations with companies controlled by Enagás, S.A. are listed in this section (section A, fourth point 1, Ministerial Order EHA 3050/2004):

- A. Operations with Gasoducto Al Andalus, S.A.
- B. Operations with Gasoducto Braga-Tuy, S.A.
- C. Operations with Gasoducto Campo Maior-Leira-Braga, S.A.
- D. Operations with Gasoducto de Extremadura, S.A.

Binding definition of Independent Director:

Please state whether any of the independent directors hold or has held any kind of relationship with the company, its significant shareholders or its senior officers that, had it been sufficiently significant or important, would have meant that the director could not have been considered as an independent director in accordance with the definition included in section 5 of the Unified Good Governance Code:

Yes

No

Name of Director	Type of relationship	Reason
------------------	----------------------	--------

This annual corporate governance report was approved by the Board of Directors at its meeting of 25 February 2008.

List the Directors, if any, that voted against or abstained from approving this report.

Yes

No

Name or company name of director who has not voted for the approval of this report	Reasons (against, abstention, non-attendance)	Explanation of reasons
--	---	------------------------

4.3. REPORT ON THE ACTIVITIES OF THE ENAGÁS AUDIT AND COMPLIANCE COMMITTEE IN 2007

Chairman

Mr. Martí Parellada Sabata.

Members

BANCAJA (represented by Mr. José Luis Olivas Martínez)

Mr. Luis Javier Navarro Vigil

Mr. Antonio Téllez de Peralta

Mr. Carlos Egea Krauel (from 20 June 2007)

Secretary

Mr. Rafael Piqueras Bautista

At its meeting of 29 March 2007, the Board of Directors agreed to appoint Mr. Martí Parellada Sabata as Chairman of the Committee following the expiry of the four-year term of office of the previous Chairman, Mr. Luis Javier Navarro Vigil, who will remain a Member of the Committee.

At the aforesaid meeting, the Board of Directors also agreed to modify the Regulations for the Organisation and Operation of the Board of Directors and the Regulations of the Audit and Compliance Committee 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.

At the General Meeting held on 11 May 2007 shareholders agreed to amend the Company Bylaws to raise the maximum number of members of the Committee to five and, at its meeting of 20 June 2007, the Board agreed to appoint Mr. Carlos Egea Krauel as a Member of the Committee.

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. Likewise, external auditors from Deloitte have also attended the Committee on a number of occasions.

Activities of the Committee

The Committee met five times in 2007. The main areas on which the Audit and Compliance Committee focused in 2007 are summarised below.

1.- Committee activities relating to the formulation and approval of the Enagás Annual Financial Statements for 2006

As on previous occasions, the Audit Committee was entrusted with the task of debating and analysing the accounts prior to their formulation by the Board of Directors. As part of this work, in March 2007 the members of the Committee met with the Company's external auditor, and with the Finance Director and 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 in progress.

The areas of greatest interest, in Deloitte's opinion, were the amount of €25,522 recognised under "Sundry Debtors" in the consolidated annual financial statements as the figure estimated by Enagás, S.A. pending settlement by the competent Regulatory Body in respect of revenues from regulated activities in 2002, as well as amounts of €17,394 and €10,114 for 2003 and 2004, respectively. However, even though the submission period for its auditor's report for the year 2002 closed in 2007, the Regulatory Body had not yet specified the final amount that would be paid to Enagás, S.A. or any other agent in the sector in relation to 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 to the consolidated financial statements, 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 qualifications in all other respects.

The Audit Committee's report to the 2006 Financial Statements reached the following conclusions:

- That the Financial Statements 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 Financial Statements contained sufficient information to be clearly understood, as well as sufficient description of the risks faced by the Company.
- That the Financial Statements 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 aforesaid Financial Statements. The Board of Directors, at its meeting of March 2007, followed the Committee's recommendation and formulated the financial statements in line with the terms indicated by the Committee.

In addition to the above work, and in accordance with standard practice in previous years, the Chairman of the Audit Committee, Mr. Parellada, also took part in the Ordinary General Shareholders' Meeting held on 11 May 2007, explaining the most important elements of the Financial Statements to the Company's shareholders in order to ensure that they had all the information necessary to be able to vote on the Financial Statements that were approved on the proposal of the Board of Directors.

2.- Monitoring relationships between Enagás and its significant shareholders.

The Committee 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 2007

All meetings of the Audit Committee have included as items of business on the agenda both a general reference to the implementation of the audit plan envisaged for 2007, 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. On this point, it should be remembered 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. On the basis of the results obtained, those processes that required priority attention from the Internal Auditing Unit and the Audit Committee were identified. The Audit Plan implemented in the course of 2007 focused on monitoring those processes that were identified as priorities in 2003.

The Internal Auditing Unit identified several non-essential weaknesses in its review of the aforesaid processes 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 2007 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 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.

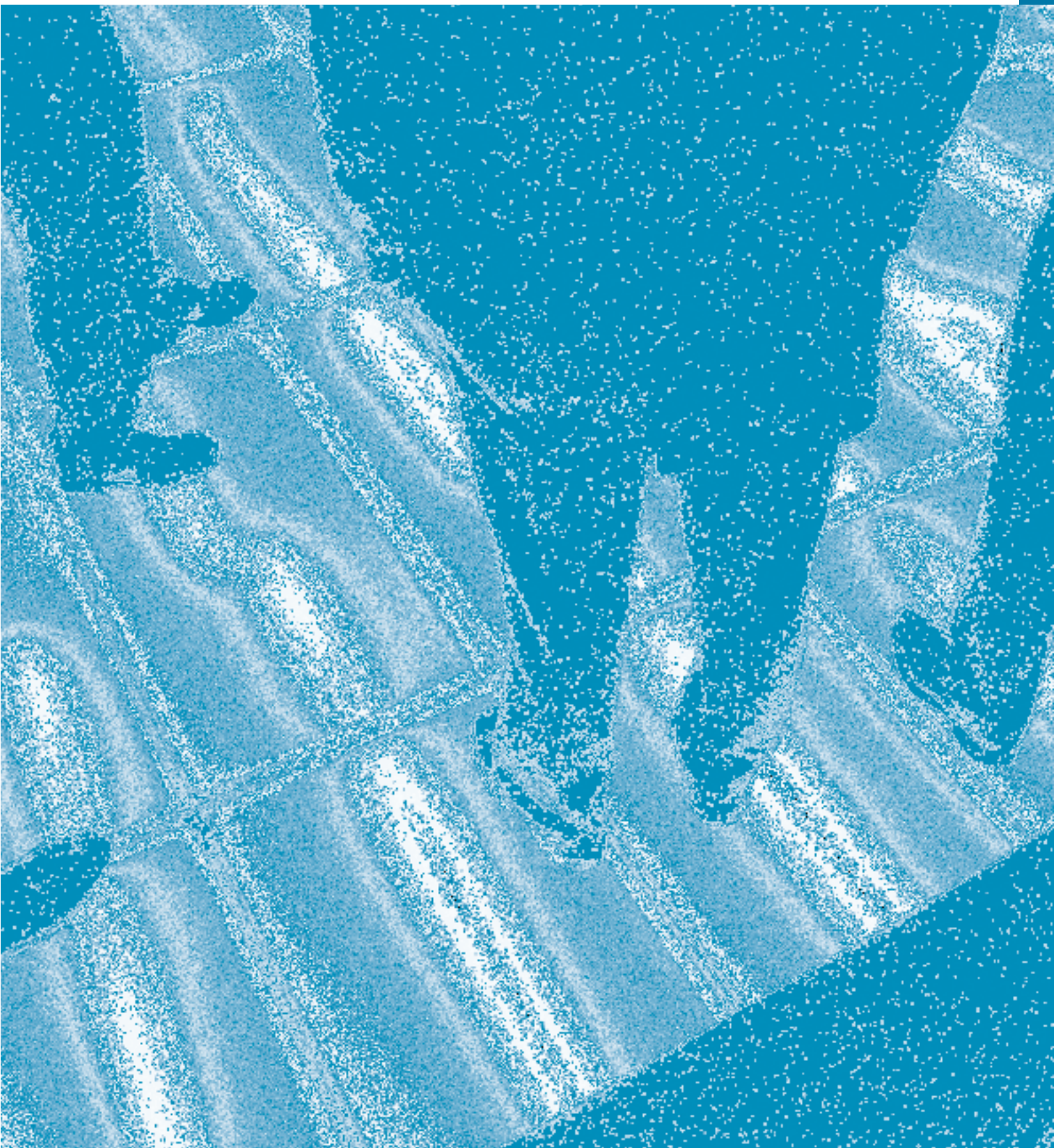
The Audit Committee considers that both the quarterly reviews as carried out by the external auditor and the Committee's own analysis of these reports are of prime importance in ensuring strict control over the Company's accounting and facilitating the issue of a clean year-end report.

6.- Activities after the year-end

In the opening months of 2008, the Committee continued with its usual activities, assisting the Board of Directors in the preparation of the Financial Statements. As in the previous financial year, the Audit and Compliance Committee has issued a prior favourable report on the 2007 Financial Statements to be submitted to shareholders at the 2008 Ordinary General Meeting.

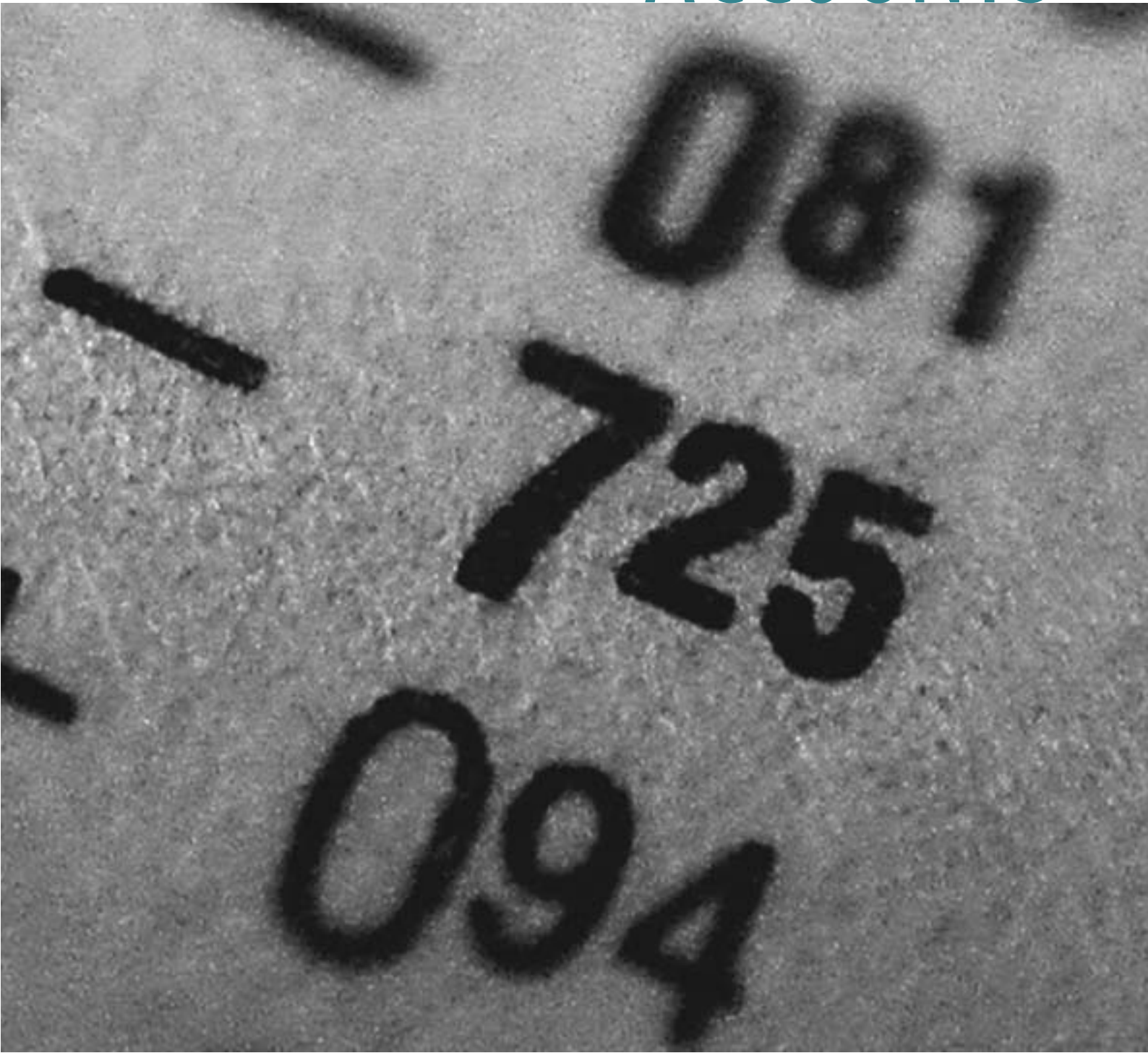
At its meeting of 25 February 2008, the Committee agreed to propose the re-appointment of Deloitte, S.L. as auditors of the Company's Financial Statements at the Ordinary General Meeting.

The foregoing report was prepared and approved by the Audit and Compliance Committee at its meeting on 25 February 2008 and was approved by the Board of Directors at a meeting held on the same day.



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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 IFRSs as adopted by the European Union (see Notes 2.1 and 36). In the event of a discrepancy, the Spanish-language version prevails.

AUDITORS' REPORT ON CONSOLIDATED FINANCIAL STATEMENTS

To the Shareholders of Enagás, S.A.:

1. We have audited the consolidated financial statements of Enagás, S.A. and Subsidiaries comprising the consolidated balance sheet at 31 December 2007 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 Spanish corporate and commercial law, for comparison purposes the Parent's directors present, in addition to the figures for 2007 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 2006. Our opinion refers only to the consolidated financial statements for 2007. On 30 March 2007, we issued our auditors' report on the 2006 consolidated financial statements, in which we expressed an opinion qualified for an uncertainty relating to the recoverability of the amounts recognised under "Trade and other Receivables" in the consolidated financial statements corresponding to the amounts not yet settled by the competent Regulator in relation to revenue from regulated activities for 2002 and subsequent years. This uncertainty no longer existed at 31 December 2007, as a result of the publication by the Spanish National Energy Commission on 19 December 2007, of the definitive settlement for 2002 and the analyses performed by the Company based on the new information available, relating to both the amounts for 2002, and the amounts not yet recognised for subsequent years (see Note 10 to the accompanying consolidated financial statements).
3. In our opinion, the accompanying consolidated financial statements for 2007 present fairly, in all material respects, the consolidated equity and consolidated financial position of Enagás, S.A. and Subsidiaries at 31 December 2007 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.

4. The accompanying consolidated directors' report for 2007 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 2007. 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

29 February 2008

ENAGÁS S.A. AND SUBSIDIARIES CONSOLIDATED BALANCE SHEET AT 31 DECEMBER 2007 AND 2006

(Figures in thousands of euros)

Assets	Notes	31/12/2007	31/12/2006
NON-CURRENT ASSETS		3,459,808	3,084,559
Intangible assets	5	34,042	32,278
Investment properties	6	-	643
Property, plant and equipment	7	3,390,727	3,014,907
Financial assets	9	24,952	27,299
Deferred tax assets	22	10,087	9,432
CURRENT ASSETS		516,149	541,636
Inventories	11	3,378	78,736
Trade and other receivables	10	484,603	446,624
Other financial assets	9 y 19	8,305	4,180
Deferred tax assets	10 y 22	12,567	6,284
Other assets		2,041	2,499
Cash and cash equivalents		5,255	3,313
TOTAL ASSETS		3,975,957	3,626,195
Equity and liabilities			
CAPITAL AND RESERVES	12	1,343,905	1,235,203
Issued capital		358,101	358,101
Reserves		804,814	706,078
Profit for the year		238,286	216,384
Interim dividend		(57,296)	(45,360)
NON-CURRENT LIABILITIES		1,879,144	1,726,364
Borrowings	16	1,758,923	1,633,225
Other financial liabilities	17	18,706	21,220
Deferred tax liabilities	22	1,764	2,149
Provisions	15	30,683	16,708
Other liabilities	14	69,068	53,062
CURRENT LIABILITIES		752,908	664,628
Borrowings	16	167,223	123,961
Other financial liabilities	17 y 19	4,642	3,664
Trade and other payables	20	477,050	447,391
Current tax liabilities	22	42,627	41,276
Other liabilities		61,366	48,336
TOTAL EQUITY AND LIABILITIES		3,975,957	3,626,195

Notes 1 to 36 are an integral part of the consolidated balance sheet at 31 December 2007

ENAGÁS S.A. AND SUBSIDIARIES
CONSOLIDATED INCOME STATEMENT FOR THE YEARS
ENDED 31 DECEMBER 2007 AND 2006

(Figures in thousands of euros)

	Notes	31/12/2007	31/12/2006
Purchase-sale of gas on regulated market	23	(12,151)	11,339
Revenue from regulated activities	23	792,025	733,055
Revenue from liberalised activities	23	15,499	13,985
OTHER REVENUE			
Other operating income	23	21,870	19,587
Employee benefits expense	24	(62,002)	(54,321)
Depreciation and amortisation	5 y 7	(187,686)	(184,934)
Other operating costs	24	(159,260)	(160,037)
OPERATING PROFIT		408,295	378,674
Finance and similar revenue	25	3,390	3,662
Financial and similar costs	25	(61,020)	(50,655)
Translation differences, net		-	-
PROFIT BEFORE TAX FROM CONTINUING OPERATIONS		350,665	331,681
Income tax expense	22	(112,379)	(115,297)
PROFIT FOR THE YEAR FROM DISCONTINUED OPERATIONS		238,286	216,384
Profit for the year from discontinued operations		-	-
PROFIT FOR THE YEAR		238,286	216,384
Attributable to:			
Equity holders of the parent		238,286	216,384
BASIC EARNINGS PER SHARE		1.00	0.91
DILUTED EARNINGS PER SHARE		1.00	0.91

Notes 1 to 36 are an integral part of the consolidated income statement for the year ended 31 December 2007

ENAGÁS, S.A. AND SUBSIDIARIES CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2007

(Figures in thousands of euros)

	Share capital and share premium	Other reserves	CNE debt revaluation reserve	Cash flow hedge reserve	Retained earnings	Profit (loss) for the year	Interim dividend	Total
Balance at 1 January 2006	358,101	611,816	(1,029)	(10,532)	(690)	190,960	(38,197)	1,110,429
Distribution of profit to:								
Legal reserve - parent company	-	-	-	-	-	-	-	-
Voluntary reserves - parent company	-	95,924	-	-	-	(95,924)	-	-
Reserves at consolidated companies	-	9,224	-	-	-	(9,224)	-	-
Other	-	(208)	-	-	-	-	-	(208)
Dividends paid by the parent company	-	-	-	-	-	(95,479)	38,197	(57,282)
Dividends received by the parent company	-	(9,667)	-	-	-	9,667	-	-
Net profit not recognised in profit and loss	-	-	-	-	-	-	-	-
Increase in fair value of assets	-	-	386	-	-	-	-	386
Deferred tax	-	-	(195)	-	-	-	-	(195)
Hedging operations	-	-	-	-	-	-	-	-
Income deferred in equity	-	-	-	9,479	-	-	-	9,479
Transfer to profit and loss	-	-	-	7,463	-	-	-	7,463
Deferred tax	-	-	-	(5,893)	-	-	-	(5,893)
Profit for the year	-	-	-	-	-	216,384	-	216,384
Interim dividend	-	-	-	-	-	-	(45,360)	(45,360)
Balance at 31 December 2006	358,101	707,089	(838)	517	(690)	216,384	(45,360)	1,235,203
Distribution of profit to:								
Legal reserve - parent company	-	-	-	-	-	-	-	-
Voluntary reserves - parent company	-	103,275	-	-	-	(103,275)	-	-
Reserves at consolidated companies	-	9,182	-	-	-	(9,182)	-	-
Other	-	(4,437)	-	-	-	-	-	(4,437)
Dividends paid by the parent company	-	-	-	-	-	(112,637)	45,360	(67,277)
Dividends received by the parent company	-	(8,710)	-	-	-	8,710	-	-
Net profit not recognised in profit and loss	-	-	-	-	-	-	-	-
Decrease in fair value of assets	-	-	(1,505)	-	-	-	-	(1,505)
Deferred tax	-	-	442	-	-	-	-	442
Hedging operations	-	-	-	-	-	-	-	-
Income deferred in equity	-	-	-	2,273	-	-	-	2,273
Transfer to profit and loss	-	-	-	(1,575)	-	-	-	(1,575)
Deferred tax	-	-	-	(209)	-	-	-	(209)
Profit for the year	-	-	-	-	-	238,286	-	238,286
Interim dividend	-	-	-	-	-	-	(57,296)	(57,296)
Balance at 31 December 2007	358,101	806,399	(1,901)	1,006	(690)	238,286	(57,296)	1,343,905

Notes 1 to 36 are an integral part of the consolidated statement of changes in equity for the year ended 31 December 2007

ENAGÁS, S.A. AND SUBSIDIARIES CONSOLIDATED CASH FLOW STATEMENT FOR THE YEARS ENDED 31 DECEMBER 2007 AND 2006

(Figures in thousands of euros)

	2007	2006
PROFIT BEFORE TAX	350,665	331,681
Adjustments to profit	210,596	191,192
Depreciation of property, plant and equipment	187,686	184,934
Movement in provisions	13,975	(1,516)
(Gains) / losses on disposal of assets	(3,324)	(195)
Change in deferred revenue	15,810	8,626
Change in accruals	464	(409)
Other adjustments	(4,015)	(248)
Movements in working capital	17,635	(59,185)
(Increase) / decrease in inventories	75,358	(76,391)
Restatement of minimum linepack for gas pipeline (see Notes 3-f and 10)	(42,702)	–
(Increase) / decrease in trade and other receivables	(45,774)	(43,955)
(Increase) / decrease in trade and other payables	30,753	61,161
(Increase) / decrease in other liabilities	–	–
Movement in income tax payable	(112,068)	(117,678)
NET CASH GENERATED BY OPERATING ACTIVITIES	466,828	346,010
Acquisitions of equity investments	(523,361)	(479,312)
Government grants received	–	1,164
Proceeds from disposal of equity investments	4,340	45
(Increase) / decrease in financial assets	1,083	(5,208)
NET CASH USED IN INVESTING ACTIVITIES	(517,938)	(483,311)
Increase / (decrease) in loans except for bank overdrafts	166,995	235,796
Dividends paid	(112,637)	(95,479)
Increase / (decrease) in other liabilities	(1,306)	(1,089)
NET CASH GENERATED BY FINANCING ACTIVITIES	53,052	139,228
TOTAL NET CASH	1,942	1,927
Cash and cash equivalents at the beginning of the financial year	3,313	1,386
CASH AND CASH EQUIVALENTS AT THE END OF THE FINANCIAL YEAR	5,255	3,313

Notes 1 to 36 are an integral part of the consolidated cash flow statement for the year ended 31 December 2007

ENAGÁS, S.A. AND SUBSIDIARIES

Notes to the consolidated annual financial statements for the year ended 31 December 2007

1. Group Activity

Enagás, S.A., the parent company, is a company incorporated in Spain in accordance with Spanish Public Limited Companies Law. Its corporate purpose is the import, acquisition and sale of natural gas on the regulated domestic market, and its regasification, storage and transport both for the regulated and the liberalised market. 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 includes interests in joint ventures engaged in the gas transport business and which, together with Enagás, S.A., comprise the Enagás Group (hereinafter, the Group). Consequently, Enagás, S.A. is required to prepare consolidated annual financial statements for the Group in addition to its own annual financial statements

The consolidated annual financial statements of the Group and those of each of the entities comprising the Group for the financial year 2007, which have served as the basis for the preparation of these consolidated annual financial statements, are pending the approval at their respective Shareholders' Meetings. However, the Directors believe these annual financial statements will be approved as presented.

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

2. Basis of presentation of the annual financial statements and consolidation principles

2.1. Accounting principles

The consolidated annual financial statements of the Enagás Group for financial year 2007 have been prepared by the Directors, at a meeting of the Board of Directors held on 25 February 2008, in accordance with the International Financial Reporting Standards (hereinafter, "IFRS"), as adopted by the European Union, pursuant to Regulation (EC) No. 1606/2002 of the European Parliament and of the Council.

These annual financial statements give a true and fair view of the equity and financial position of the Group at 31 December 2007, and of the results of its operations, the changes in its equity and cash flows occurring in the year then ended.

The consolidated annual financial statements for financial year 2007 of the Enagás Group have been prepared from the accounting records kept by the Company and by the other entities comprising the Group.

The 2006 consolidated annual financial statements included for comparative purposes have also been prepared in accordance with the IFRSs adopted by the European Union and applied on a basis consistent with those in financial year 2007.

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 12). Consequently, debit and credit balances, as well as transactions carried out during the 12-month period, are classified under headings related to third party payables and receivables.

The financial year for the companies comprising the Group end on 31 December, the date of the financial statements 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 financial statements are approved and their scant materiality, are consolidated on the basis of data as at 30 November 2007.

Note 3 includes the most significant accounting principles and measurement bases used in preparing the consolidated financial statements of the Group for financial year 2007.

2.2. Responsibility for the information and estimates made

The Group's directors are responsible for the information contained in these annual financial statements.

The consolidated financial statements of the Group for financial year 2007 include estimates made by Senior Management of the Group and of consolidated entities – subsequently ratified by their Directors – about the carrying amounts of certain assets, liabilities, revenues, expenses and commitments presented therein. These estimates relate basically to the following:

- The useful life of property, plant and equipment and of intangible assets (Notes 3-a and 3-b)
- The measurement of assets to determine impairment losses (Note 3-b)
- Forecasts for invoices pending execution
- Provisions for impairment of replacement parts for property, plant and equipment
- Prior years' accounts pending settlement with the government (Note 10)

Although these estimates were made on the basis of the best information available at 31 December 2007 regarding the facts analysed, it is possible that future events may require these to be changed (upwards or downwards) in coming years. This would be done prospectively in accordance with the provisions of IAS 8, recognising the effects of the changes in accounting estimates in by including it in profit or loss.

2.3. Basis of consolidation

Enagás, S.A.'s investees included in the scope of consolidation are engaged in the transport of gas.

The annual financial statements of joint ventures are consolidated using proportionate consolidation, combining the balances and subsequent eliminations in proportion to the Group's interest in these companies' share capital.

The consolidation is carried out as follows:

- a. Proportionate consolidation for joint ventures managed in conjunction with 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., i.e. the Portuguese companies).
- b. Intra-group transactions: all credits, debits, income, expenses and results from transactions with other Group companies are eliminated on consolidation in proportion to Enagás, S.A.'s interest in the companies' share capital.
- c. Consistency: For investee companies which apply different accounting principles and measurement bases to those of the Group, adjustments have been made on consolidation, provided that the effect is significant, in order to present the consolidated financial statements based on consistent measurement bases.
- d. Translation of financial statements denominated in foreign currencies: The individual financial statements of all companies included in the scope of consolidation are presented in euros. Therefore, no foreign currency translation is required.
- e. Elimination of dividends: Internal dividends are those recognised as revenue for the year 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 included under the "Reserves".

Note 35 includes the most significant aspects of the Group's joint ventures existing at the end of financial year 2007.

3. Measurement bases

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

a. Intangible assets

Intangible assets are recognised initially at acquisition or production cost and subsequently remeasured at cost less any accumulated amortisation and any impairment losses.

The criteria used to recognise the impairment losses on these assets and, where applicable, the reversal of impairment losses recognised in prior years, are similar to those used for property, plant and equipment (see Note 3c).

Service concession arrangements may only be included in assets which the company has acquired for consideration in the case of concessions susceptible to transfer, or for the amount of the expenses incurred in obtaining them directly from the state or relevant public body. If the rights to a concession are lost due to failure to comply with the terms and conditions thereof, its value is fully written off in order to cancel its carrying amount. These concessions are amortised on the basis of their useful lives.

Costs of purchasing and developing the Group's basic computer systems are recognised under "Property, plant and equipment" in the consolidated balance sheet. Maintenance costs related to the computer systems are recognised with a charge to profit or loss in the year in which they are incurred.

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

	Amortisation rate	Useful life (years)
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%	5
Computer software	25%	4

The Group recognises as expenses in the consolidated income statement all research and development costs whose technical and commercial feasibility cannot be established. Research and development costs recognised as expenses in the consolidated income statement amounted to 646 thousand euros in 2007 and 460 thousand euros in 2006.

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 Allocation Plan for 2006-2007.

In the second quarter of 2007, Enagás, S.A. delivered greenhouse gas emission rights equivalent to its emissions in 2006.

The Group recognises emission rights as non-amortisable intangible assets in the same way as its other assets; initially at cost, then making the pertinent write-down where fair value is lower than cost.

Rights received free of charge in accordance with the National Allocation Plan for 2006-2007 are assumed to have zero cost as the Group presents the assets net of subsidies (see Note 28).

b. Property, plant and equipment

Assets acquired for use in production, for the supply of goods or services, or for administrative purposes, are presented in the balance sheet at acquisition or production cost, less accumulated depreciation and any impairment losses, except for any revaluations made by Enagás, S.A. in 1996.

Capitalised costs include:

1. Finance costs associated with the financing of infrastructure projects accrued during the period of construction if this is over a year. The average rate of capitalisation used to calculate the amount of the borrowing costs to be capitalised was 4.27% in 2007 (3.6% in 2006).
2. Employee benefits expenses directly related to work in progress. The amounts capitalised for these items are recognised in the accompanying consolidated income statement for financial year 2006 with a decrease in employee benefits expenses of 10,413 thousand euros (9,490 thousand euros in 2006) (see Note 7).
3. Future payments which the Group will have to make in relation to the requirement to dismantle certain items of property, plant and equipment corresponding to the Serrablo and Yela underground storage facilities at the end of their useful lives. The carrying amounts of these assets includes an estimate of the present value at the date of acquisition of the costs to the Group for dismantling, with a credit to "Non-current provisions" (Note 15) in the accompanying consolidated balance sheet. In addition, this provision has been adjusted in subsequent periods.

The costs of remodelling, expansion or improvement leading to increased productivity, capacity or a lengthening of the useful lives of assets are capitalised as an increase in the cost of the related asset. The net carrying amount of replaced assets is deducted.

In keeping with the accrual principle, period maintenance, upkeep and repair expenses are charged directly to profit and loss in the year they are incurred.

Properties in the course of construction for production, rental or administrative purposes, or for purposes not yet determined, are carried at cost, less any recognised impairment loss. Cost includes, for qualifying assets, borrowing costs capitalised expenses in accordance with the Group's accounting policy. Depreciation of these assets, on the basis as other property assets, commences when the assets are ready for their intended use.

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

In addition, in 2007 both natural gas related to the minimum linepack for system security of the gas pipelines and the minimum LNG stock level of the regasification plants (also called "Gas Talón") was considered a non-depreciable asset as it is not available and thereby immobilised under prevailing regulations. It is measured at the auction price under Order ITC/3993/2006 and the Resolution dated 18 April 2007 (see Note 3-f).

Depreciation is calculated over the estimated useful lives of the assets, 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 indefinite useful life and, therefore, is not depreciated.

The annual depreciation charge is recognised under "Depreciation and amortisation expense" in the consolidated income statement and, basically, corresponds to the following depreciation rates, based on the estimated average years of useful life of the related assets:

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

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

The gain or loss on the disposal or derecognition of an asset is calculated as the difference between the amount of the sale and the carrying amount of the asset and is recognised in the income statement under "Other operating income" or "Other operating costs", respectively.

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

c. Impairment of property, plant and equipment and intangible assets

At each balance sheet date, or when deemed necessary, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). In the case of identifiable assets which do not generate cash inflows independently, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

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

To estimate value in use, the Group prepares pre-tax cash flow projections based on the latest budgets approved by the Group's directors. These budgets include the best available estimates of the revenue and expense of cash-generating units based on industry forecasts, past experiences and future expectations.

These projections are for a period of five years, with estimates of future flows based on reasonable growth rates, which are in no case incremental nor exceed prior years' growth rates.

To calculate the present value, the cash flows are discounted at a pre-tax rate that reflects the cost of capital of the business and of the geographical area where business is carried out. The discount rate is based on the current interest rates and the risk premiums commonly used by analysts of the business and the geographical area.

If the recoverable amount of an asset is lower than its carrying amount, an impairment loss is recognised for the difference, with a charge to "Depreciation and amortisation" in the consolidated income statement.

A previously recognised impairment loss is reversed if there has been a change in the estimates used to determine the asset's recoverable amount recoverable amount and recognised in profit and loss up to the carrying amount that would have been determined had no impairment loss be recognised.

The Group's property, plant and equipment consists almost entirely of gas transportation, regasification and storage assets, and those assets needed to carry out its regulated gas sales business and technical system management activities. In application of IAS 36 and considering that there are no indications of asset impairment in the balance sheet, the Company has considered that no impairment test was necessary for financial year 2007.

d. Operating leases

In operating leases, the lessor retains substantially all the risks and rewards of ownership of the asset.

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

e. Financial assets

Financial assets are recognised on the balance sheet when the Group becomes one of the parties to the contractual terms of the instrument.

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

- Loans and receivables. These assets are measured at amortised cost, which is basically the cash amount given less repayments of principal plus accrued interest receivable in the case of loans, and the present value of the consideration made in the case of receivables.
- Held-to-maturity investments. These are assets that the Enagás Group has the positive intent and ability to hold to maturity. They are also recorded at amortised cost.
- Available-for-sale financial assets. These are all other assets not classified in any of the preceding categories. These investments are presented in the consolidated balance sheet at fair value, when this can be determined reliably. Gains and losses arising from changes in fair value, net of tax, are recognised directly in "Equity - revaluation reserve for unrealised assets and liabilities" in the consolidated balance sheet until this investment is disposed of, at which time the cumulative gain or loss previously recognised in the investments revaluation reserve is included in the consolidated income statement. If fair value is lower than cost, the difference is recognised directly in profit and loss.

Available-for-sale investments include a mutual fund to hedge its obligations in respect of long-service bonuses. This fund is measured at fair value in accordance with its market price at each balance sheet date. Although this fund was created to hedge the related provision for the long-service bonus, gains or losses in the value of the fund generate changes for the same amount in the related provision.

Held-to-maturity investments and loans and receivables originated by the companies are measured at amortised cost, with accrued interest recognised in profit or loss in accordance with the effective interest rate.

Cash and cash equivalents

This heading in the consolidated balance sheet includes cash on hand, sight deposits and other highly liquid short-term investments that can readily be turned into cash and that are not subject to risk of a change in value.

Trade and other receivables

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

The Group records the corresponding provisions for the difference between the amount recoverable of receivables and their carrying amount. The recoverable amount of receivable 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 System Manager and prior review by the National Energy Commission. The RTMS are applicable to the Technical System Manager and all titleholder who access the system, owners of gas plants and 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 toll 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 "transportation companies that are titleholders of 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.

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.

Meanwhile, the second transitional provision of Order ITC/3993/2006 established that from 1 July 2007 gas transport companies will be in charge of purchasing the required amount of natural gas for own consumption and to cover the minimum linepack of their plants. These acquisitions will be made via the auction procedure established in the Resolution of 12 April 2007. The Resolution of 18 April 2007 established both the operating rules of the auctions to acquire 'gas for operation' and 'minimum linepack for gas pipelines' for delivery between 1 July 2007 and 30 June 2008.

As a result, in 2007 Enagás, S.A. acquired 2,900 GWh of gas supplied by Cepsa Gas Comercializadora, S.A., the winner of the auction, at a price of 2.0755 euros/GWh. As these inventories entail unavailable gas and, therefore, immobilised gas under current regulations, they have been restated in 2007 to "Property, plant and equipment" (see Note 3-b).

Also, the Company assesses the net realisable value of inventories at the balance sheet date and makes the appropriate write-down when this are overstated. When the circumstances that led to the write-down no longer exist and there is clear evidence of an increase in the net realisable value due to a change in financial circumstances, the write-down is reversed.

In addition, Royal Decree 1716/2004 governs the obligation to maintain minimum reserves for security, the obligation to diversify the supply of natural gas and the reserves regulator, La Corporación de Reservas Estratégicas de Productos Petrolíferos (CORES). As regards minimum gas reserves, it specifies that all agents must hold, in ownership or under lease with exclusive use, an amount of gas equivalent to 35 days' consumption of the customers 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 reserves.

The expense recorded in 2007 for this leasing arrangement amounted to 3,835 thousand euros, recognised under "Other operating costs" in the accompanying consolidated income statement (see Note 24.2).

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 Action Plan", which states that Enagás, S.A. as Technical System Manager, must acquire stocks of liquid natural gas in tankers during the period from November to March of each of the two years mentioned. The expense recorded in 2006 for this acquisition of inventories amounted to 5,990 thousand euros, recognised in "Other operating costs" in the accompanying consolidated income statement.

Also, Enagás, by virtue of the stipulations of the first Transitory Provision of Order ITC/4099/2005, of 27 December 2005 mentioned above, which recognises the calculation of regulated tariffs for 2006, recognised the revenues associated with this measure for an identical amount of 5,990 thousand euros relating to regulated revenues under "Revenue from regulated activities" in the accompanying consolidated income statement.

In 2007, no regulated expenses or income were recognised for the acquisition of stocks related to the Winter Action Plan.

Other inventories

Other inventories unrelated to natural gas are stated at the lower of acquisition or production cost and net realisable value. Cost includes the cost of direct materials and, where appropriate, direct labour and manufacturing overheads, including costs incurred in bringing the products to their present location and condition, at the point of sale.

In addition, the Company assesses the net realisable value of inventories at the balance sheet date and makes any necessary write-downs. When the circumstances that led to the write-down no longer exist and there is clear evidence of an increase in the net realisable value due to a change in financial circumstances, the write-down is reversed.

g. Equity and financial liabilities

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

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

Group companies classify their main financial liabilities as follows:

- Financial liabilities at fair value through profit or loss, mainly financial liabilities held for trading: Financial liabilities associated with available-for-sale financial assets originating from asset transfers where the assigning entity neither substantially transfers nor retains the risks and benefits of said assets.
- Held-to-maturity financial liabilities: Held-to-maturity financial liabilities are measured at amortised cost as defined above.

The liability instruments held by Group companies are:

- **Bank loans:** Interest-bearing loans are carried at the amount received, net of direct issue costs. Finance costs, including premiums payable upon settlement or repayment and direct issue costs, are taken to the income statement as accrued using the effective interest method and added to the carrying amount of the instrument if not paid during the period in which they accrue.
- **Derivative finance instruments and hedge accounting:** Bank borrowings expose the Group 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 parent company Enagás, S.A. Further details on the use of derivative financial instruments are disclosed in Note 18.

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are deferred in equity. The gain or loss relating to the ineffective portion is recognised immediately in profit or loss. Amounts deferred in equity are recycled in profit or loss in the periods when the hedged item is recognised in profit or loss.

Changes in the fair value of derivatives that do not qualify for hedge accounting are recognised in profit and loss immediately.

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated, or exercised or no longer qualifies for hedge accounting. Any cumulative gain or loss deferred in equity at that time remains in equity until the forecast transaction takes place. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was previously recognised in equity is transferred to profit or loss.

Derivatives embedded in other financial instruments or host contracts are treated as separate derivatives when their risks and characteristics are not closely related to those of the host contracts and the host contracts are not measured at fair value with changes in fair value recognised in profit or loss.

h. Trade and other payables

Trade payables are non-interest bearing and are stated at nominal value.

i. Classification of payables into current and non-current

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

Loans falling due in over 12 months are discounted at an interest rate. The benchmark interest rate used in the year is 4.27%.

j. Post-employment benefits

Enagás, S.A.'s 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 Company's obligations with respect to current employees. The Company recognises certain vested rights for past service and undertakes to make monthly contributions averaging 6.8% of eligible salary. It is a mixed plan covering retirement benefits, disability and death.

k. Termination benefits

Under current Spanish regulations, Spanish consolidated companies and some foreign companies are required to pay termination benefits 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 financial statements of the consolidated companies, their respective directors distinguished between:

- **Provisions:** credit balances representing obligations existing at the balance sheet date as a result of a event which could give rise to a loss for the companies that is specific in nature, but uncertain as to its amount and/or timing, and
- **Contingent liabilities:** possible obligations as a result of past events whose occurrence depends on the occurrence or non-occurrence of one or more separate future events not within the control of the consolidated entities.

The consolidated financial statements of the Group include all significant provisions where it is more likely than not that the obligation will have to be settled. Contingent liabilities are not recognised on the consolidated annual financial statements, but are disclosed in the notes (see Note 32).

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

At year-end 2007 a number of legal proceedings and claims had been filed against consolidated companies in connection with the ordinary course of their business. The Group's legal counsel and its directors believe that the resolution of these proceedings and claims will not have a significant effect on the annual financial statements of the years in which they are resolved.

m. Deferred revenue

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

It also includes the accrual of amounts received for making connections from Enagás, S.A.'s basic network to networks owned by distributors, secondary transporters, gas supply companies and eligible customers. This revenue is taken to profit and loss on the basis of the useful life of the assigned installations.

n. Revenue recognition

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

Gas sales are recognised when all the risks and rewards have been substantially transferred to the buyer.

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 customers in the tariff or regulated market and receives compensation aimed at covering the costs incurred in this activity. Accordingly, revenue and expenses from gas purchases and sales on the regulated tariff

market are presented in the consolidated income statement at their net amounts. In 2007, the Company recorded an amount of 12,151 thousand euros for the negative margin on gas purchases and sales on the regulated market. Revenue from the regulated remuneration of gas purchase and sales management is recorded under "Revenue from regulated activities" in an amount of 12,070 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 recognition criteria under the new regulations are as follows:

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

On 29 December 2006 the Ministry of Industry, Tourism and Trade approved five Ministerial Orders: ITC/3993/2006, ITC/3994/2006 and ITC/3995/2006, establishing the remuneration regime for regulated gas activities in 2007, and ITC/3992/2006 and ITC/3996/2006, establishing the tolls and royalties for third-party access to gas installations, respectively, for 2007.

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

- Regasification and loading of LNG cisterns.
- Transfer of LNG to ships.
- Storage.
- Transport.
- Management of gas purchases and sales on the tariff market.
- Technical system management.
- Floating storage of LNG in ships during the Winter Plan for the tariff market (see Note 3-f).
- Creation of the minimum operating level for LNG ships and of the minimum linepack for gas pipelines (see Note 3-f).
- Own consumption of natural gas.

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

Interest revenue is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

Dividend revenue from investments is recognised when shareholder's right to receive payment has been established.

o. Expense recognition

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

An expense is recognised immediately when a payment does not generate future economic benefits or when the necessary requirements for it to be recorded as an asset are not met.

p. Income tax

Income tax expense is recognised in the consolidated income statement or in equity accounts in the consolidated balance sheet depending on where the gains or losses giving rise to it have been recorded. Deferred tax assets and liabilities are recognised on differences between the carrying amounts of assets and liabilities and the corresponding tax bases and are calculated using the tax rates that are expected to apply when the assets are realised or the liabilities settled.

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

Deferred tax assets are recognised only when it is probable that taxable profits will be available against which the deductible temporary differences can be utilised.

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

Income tax expense represents the sum of the tax currently payable and deferred tax. The tax currently payable is calculated by applying the tax rate to taxable profit less any deductions.

q. Earnings per share

Basic earnings per share is calculated by dividing profit or loss attributable to ordinary equity holders of the parent entity by the weighted average number of ordinary shares outstanding during the year, excluding the number of parent company shares held as treasury shares by Group companies. These are included to calculate diluted earnings per share (Note 13).

r. Consolidated cash flow statement

The following terms are used in the presentation of consolidated cash flow statements:

- **Cash flows:** inflows and outflows of cash and cash equivalents, defined as highly liquid, short-term investments with low risk of experiencing significant fluctuations in their value.
- **Operating activities:** the main activities of the enterprise and those that are not investing or financing activities.
- **Investing activities:** the acquisition and disposal of long-term assets and other investments that are not considered to be cash equivalents.
- **Financing activities:** activities that alter the equity capital and borrowing structure of the enterprise that are not operating activities.

4. Regulation of remuneration

a) Revenue from regasification, storage and transport

Ministerial Orders ITC/3993/2006, ITC/3994/2006 and ITC/3995/2006 of 29 December 2006 determine the revenue for regulated transport, regasification and storage activities for 2007, based on the recognised costs. Unlike in the past, for the first time three Ministerial Orders were published, each covering a specific activity. In addition, a new remuneration mechanism is introduced for regasification and underground storage assets based on assets net of depreciation. For the transport activity, the original mechanism based on gross assets remains in place.

These Orders stipulate that the cost recognised for transport, regasification and underground stage comprises fixed and variable components.

a.1) Recognised fixed cost. This is calculated based on assets used in production.

This fixed amount compensates investment and operating costs relating to assets used in the gas system.

a.1.1. Remuneration for investment costs comprises:

- **Value of recognised assets.** For infrastructure put into service before 2002, the remuneration is calculated based on the book value of the assets after the revaluation of 1996 (Royal Decree Law 7/1996), less 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.

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

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

Regasification infrastructure put into service in 2006 and 2007 is stated at actual cost plus 50% of the difference between actual cost and standard value, up to the amount of standard value.

- **Remuneration for depreciation of assets used in the system.** The depreciation rate relating to the useful life of the asset is applied to the investment recognised to give the amount of revenue for this item.
- **Financial remuneration for the value of the investment.** For transport assets, this figure is calculated by applying a financial return equal to the annual average IRR on 10-year government bonds or a replacement interest rate plus 1.5% on the value of the **gross** investment obtained in the previous paragraph.

For regasification and storage assets, this figure is calculated by applying a financial return equal to the annual average IRR on 10-year government bonds or a replacement interest rate plus 3.5% on the value of the **net** investment (after depreciation) obtained in the previous paragraph.

- **Remuneration for fully depreciated assets:** For transport assets, 50% of the financial remuneration is recognised. For regasification and storage assets, 50% of the depreciation and the financial remuneration of the last year is recognised.

The resulting rates in 2007 were 5.21% for transport and 7.21% for regasification and storage.

- **a.1.2.** Remuneration for operating costs relating to assets used in the system is calculated in accordance with recognised costs for gas system installations in 2000 for the transport and regasification activities, standardised by physical and technical units. The annual adjustment rate based on the CPI and IPRI for capital goods is applied to the resulting standard value, adjusted by an efficiency factor. Revenue for this item is obtained by applying these adjusted standard figures to physical units.

For underground storage, a specific fixed operating and maintenance cost is defined for each site.

a.1.3. Enagás, S.A. recognises the revenue related to the fixed recognised cost in the consolidated income statement on a straight-line basis. In this way, a month-on-month balance is achieved between revenue (remuneration) and expenses (depreciation).

a.2) Recognised variable cost for regasification and transfer of LNG to ships.

a.2.1. The recognised variable cost is calculated based on the number of kW/hr actually regasified and loaded in LNG cisterns in each period and the variable unit regasification cost for the period in question. For 2007, this cost was set at 0.000146 euros per kWh regasified and 0.000175 euros per kWh loaded in cisterns.

a.2.2. For loading LNG onto ships from regasification plants or the pre-cooling of ships a cost identical to the variable cistern loading cost is recognised. For ship-to-ship transfers the cost is 80% of this value.

a.3) Recognised variable cost for injection and extraction in underground storage facilities.

a.3.1. The cost is based on the kWh injected and extracted in the Serrablo and Gaviota storage facilities. The variable costs established are:

- **Unit costs at the Serrablo facility:** Injection: 0.000483 €/kWh; extraction: 0.000088 €/kWh
- **Unit costs at the Gaviota facility:** Injection: 0.000042 €/kWh; extraction: 0.001067 €/kWh

b) Revenue from technical system management (TSM)

Revenue from this activity is calculated on a yearly basis in accordance with the recognised cost for each year and is used to compensate Enagás, S.A.'s obligations as Technical System Manager, which include coordinating the development, operation and maintenance 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 2007, the amount earmarked for TSM remuneration, which should be collected by companies that are titleholders of the regasification, transport, storage and distribution facilities, as a percentage of invoicing for tolls and royalties relating to third-party network access rights, was 0.42% for tolls and fees and 0.22% for prices. This amount will be deposited 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 tolls and fees to the invoiced amounts, without subtracting possible discounts that could be agreed between the titleholders of the installations and users.

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

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

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

d) Regulated services for the tariff market

In accordance with the Hydrocarbon Law, as a transport company Enagás, S.A. purchases and sells gas to distribution companies and other transporters, which in turn sell the gas on the tariff (regulated) market in accordance with Royal Decree 949/2001 of 3

August. For this purpose only, Enagás, S.A. buys gas from Sagane, S.A. and Gas Natural Aproveisionamientos, S.A. Control of gas consumption by distribution companies is based on monthly meter readings.

The purchase and sale 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 quarterly 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 tariff 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 settlement, it is taken to the consolidated income statement based on amounts invoiced to distribution companies for actual monthly consumption according to meter readings. It is therefore taken to profit and loss on an accruals basis; i.e. when realised.

e) Revenue from regulated services for the tariff market

This revenue is used to remunerate the management of gas purchases and sales for gas supplied to distribution companies and other transporters which in turn sell it on the tariff market. This remuneration 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 tariff market and measured at the average price of the raw material sold during the year. The percentage established for 2007 is 0.0005.
- The cost of shrinking and internal gas consumption arising during regasification processes, storage and transport of gas to be sold on the tariff market is broken down as follows:

Until 30 June 2007, the percentages of shrinkage were:

- **Regasification:** 0.37% of the average cost of the raw material to be sold on the tariff market in relation to the volume of gas unloaded in regasification plants for sale on the tariff market.
- **Storage:** 2.11% of the average cost of the raw material with respect to the volume of gas kept in underground storage facilities to be sold on the tariff market.
- **Transport:** 0.43% of the average cost of the raw material in relation to the volume of gas pumped into the transport system for sale on the tariff market.

From 1 July 2007, the recognised values relate only to shrinkage and differences in measurement. The recognised percentages are:

- **Regasification:** 0.31%
 - **Storage:** 0%
 - **Transport:** 0.07%
- Cost of financing gas inventories to be sold on the tariff 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 tariff market). The resulting figure is then multiplied by a three-month Euribor rate plus 0.5%. For 2007, the coefficient is 3.38%.

f) Settlement system.

On 1 November 2002, Ministerial Order 2692/2002 (28 October) was published, regulating settlement procedures for remuneration of regulated activities and defining the information system to be used by the companies.

The fifth additional provision of Order ITC/3993/2006 amends section I.5 of appendix II of this Order on settlements and states that the interest equivalent to applying the average 1-year Treasury bill yield on the amounts to be paid to each transporter or distributor for 60 days be added to the settlements.

g) Revenue for the minimum operating level and minimum linepack of gas pipelines.

The second transitional provision of Order ITC4099/2005 provided that in 2006 transport companies that are titleholders of the 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.

For 2007, gas for the minimum operating level and linepack must be acquired via auction, with the gas valued at the final auction price. The gas acquired for this purpose has the right to receive a return based on the investment made, valued according to the average half-yearly yield on 10-year government bonds plus 3.5%.

h) Revenue for gas purchases for internal consumption

From 1 July 2007, gas transporters are responsible for acquiring the amount of gas needed for internal consumption at their facilities. This leads to a reduction in the percentages of shrinkage retained from users and from this date the values indicated above for the management of gas purchases and sales are used.

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

i) Development of the Regulatory Framework

The main legislation in the gas industry approved in 2007 include:

Resolution of the General Directorate for Energy Policy and Mines of 1 February 2007 which extends the additional extraction established in Rule 3.e of Resolution of October 25, 2006, which approves the Winter Action Plan 2006-2007 for Gas System Operation.

Resolution of the General Directorate of Energy Policy and Mines, dated February 1, 2007, which establishes the formats for the presentation of accounting information in accordance with Order ITC/2348/2006, of July 14, which establishes the regulations on accounting information for companies developing natural gas and gas manufactured by channelling.

Resolution of the General Directorate of Energy Policy and Mines, undated, which establishes that the new formula for calculating the amounts to be paid to transports and distributors share only be applicable to settlements from 2007.

Resolution of the General Directorate for Energy Policy and Mines of 12 April 2007 which establishes the standards for auctions of natural gas for operations and the minimum linepack for transport, regasification and underground storage facilities.

Resolution of the General Directorate of Energy Policy and Mines of 18 April 2007, of which establishes the standards for auctions of gas for operations and minimum linepack for operating the transport and processing system, for the period from 1 July 2007 to 30 June 2008 (Official State Gazette 20 April 2007).

Resolution of the General Directorate of Energy Policy and Mines of 20 April 2007, which modifies certain technical management standards for the gas system and which also establishes several detailed protocols.

Resolution of the General Directorate of Energy Policy and Mines of 20 April 2007, which approves the detailed Protocols PD-07, PD-8, PD-9 and PD-10 on the technical management standards for the gas system.

Ministerial Order ITC/1549/2007 of 18 May 2007, which approves the annual installation programme and exceptional activities for the electricity and natural gas transport networks.

Resolution from the General Directorate for Energy Policy and Mines of 25 June 2007, which establishes that consumers in group 2 in the tariff market must procure supplies in the free market through contracts with suppliers from 1 July 2007.

Ministerial Order ITC/1968/2007 of 2 July 2007, which updates the system for automatically setting maximum pre-tax selling prices for bottled LPG and amends certain provisions related to hydrocarbons.

Law 12/2007, published on 3 July 2007, which modifies Law 34/1998 on the hydrocarbons sector in order to adapt it to Directive 2003/55/EC of the European Parliament and of the Council of 26 June 2003, on community standards for the internal market for natural gas.

Royal Decree 1061/2007 of 20 July 2007, granting Enagás, S.A. the concession to operate the underground natural gas storage facility called "Yela" at the "Santa Bárbara" site and the recognition of its public use in the province of Guadalajara (Official State Gazette 11 September 2007).

Ministerial Order ITC/2389/2007 of 27 July amending the Order of 18 December 200 on the storage of minimum inventories for security outside the Spanish territory (Official State Gazette 4 August 2007)

Royal Decree 1068/2007 of 27 July, which regulates the start-up of last resort supply in the natural gas sector.

Order ITC/2309/2007 of 30 July, which establishes the mechanism of clients' transfer from the tariff market to the supply of the last resort in natural gas, setting 1 July 2008 as the start date of the supply of last resort.

Resolution of the General Directorate of Energy Policy and Mines of 11 September 2007, which amends Resolution of 25 July 2006, which regulates the conditions for assigning and processing the application of supply cut-off in the gas system (Official State Gazette 18 September 2007).

Resolution of the General Directorate of Energy Policy and Mines of 17 September 2007, which modifies Detailed Protocols PD-05 y PD-06 of system technical management rules gas system (Official State Gazette 22 September 2007).

Order ITC/2795/2007 of 28 September of the General Directorate of Energy Policy and Mines, which modifies the natural gas tariff for use as a raw material and establishes a toll for certain users connected to regasification plants.

Order ITC/3283/2005 of 11 October 2007, approving the rules for disclosure by entities required to maintain minimum stocks of oil products for security, including LNG and natural gas, and the powers of the reserves regulator, La Corporación de Reservas Estratégicas de Productos Petrolíferos, to conduct inspections.

Resolution of the General Directorate of Energy Policy and Mines, of 18 October 2007, which modifies the sections 9.4 "individual imbalances" and 9.6 "measures to adopt in case of imbalances", included in the gas system technical management rule NTGS-9 "normal operation of the system" (Official State Gazette 7 November 2007).

Order PRE/3420/2007 of 14 November, publishing the resolution adopted by the Spanish cabinet approving the individual allocation of greenhouse gas emission rights to plants included in the National Allocation Plan 2008-2012.

Resolution of the Directorate General for Energy Policy and Mining of 4 December 2007, approving the 2007-2008 Winter Action Plan for operation of the gas system. Published in the Official State Gazette on 7 December 2007.

Royal Decree 1766/2007 of 28 December, which modifies the Royal Decree 1716/2004, of 23 July, regulating the maintenance of minimum reserves for security, the diversification of natural gas supply and the association of strategic petroleum product reserves.

Order ITC/3862/2007 of 28 December, which establishes the last resort tariff of the natural gas system for 2008.

Order ITC/3862/2007 of 28 December, which establishes the mechanism for assigning capacity of natural gas storages and creates a capacity market.

Order ITC/3863/2007 of 28 December 2007, establishing the tolls and fees for third-party access to gas installations to be applied in 2008 and updates certain issues regarding the remuneration of regulated gas activities.

Royal Decree 1804/2007 of 28 December 2007, converting the operating concessions of Gaviota 1 and Gaviota II, located in the Bay of Biscay off the coast of Vizcaya, into concessions to operate underground hydrocarbon storage facilities.

5. Intangible assets

The carrying amount of intangible assets at 31 December 2007 and 2006 and the related accumulated amortisation are as follows:

Intangible assets	Thousands of euros		
	Cost	Accumulated amortisation	Net total
Development costs	260	(55)	205
Concessions, patents, licences, brands and similar	33,289	(11,577)	21,712
Computer software	22,628	(12,267)	10,361
Balance at 31 December 2006	56,177	(23,899)	32,278
Development costs	441	(100)	341
Concessions, patents, licences, brands and similar	33,378	(12,832)	20,546
Computer software	29,572	(16,417)	13,155
Balance at 31 December 2007	63,391	(29,349)	34,042

The breakdown and movements in intangible assets in 2007 and 2006 is as follows:

Intangible assets	Thousands of euros		
	01/01/07	Additions	31/12/07
Development costs	260	181	441
Concessions, patents, licences, brands and similar	33,289	89	33,378
Computer software	22,628	6,944	29,572
Total	56,177	7,214	63,391

Intangible assets	Thousands of euros		
	01/01/06	Additions	31/12/06
Development costs	46	214	260
Concessions, patents, licences, brands and similar	33,093	196	33,289
Computer software	15,765	6,863	22,628
Total	48,904	7,273	56,177

Additions in development costs in 2007 include phase 1 of the power generation project for the Huelva plant, for 81 thousand euros, the long-term demand prediction project for 72 thousand euros and the reengineering of the heating of NG project at the entry to the Regulation and Measurement Station, for 22 thousand euros.

Key computer programs in 2007 include:

- The new version of the SL-ATR, for 1,919 thousand euros
- The new functionality of the Human Resources systems, for 1,044 thousand euros
- The reading and measuring system, for 570 thousand euros
- Consolidation and stabilisation of the critical business applications, for 555 thousand euros
- The data processing centre's disaster recovery plan, for 471 thousand euros
- The development of a new functionality for the SAP support system, for 308 thousand euros

Amortisation of intangible assets recognised in the 2007 and 2006 consolidated income statements amounted to 5,450 and 4,595 thousand euros, respectively. The breakdown and movements are as follows:

Accumulated amortisation	Thousands of euros		
	01/01/07	Increases	31/12/07
Development costs	55	45	100
Concessions, patents, licences, brands and similar	11,577	1,255	12,832
Computer software	12,267	4,150	16,417
Total	23,899	5,450	29,349

Accumulated amortisation	Thousands of euros		
	01/01/06	Increases	31/12/06
Development costs	26	29	55
Concessions, patents, licences, brands and similar	10,309	1,268	11,577
Computer software	8,969	3,298	12,267
Total	19,304	4,595	23,899

Fully amortised intangible assets at 31 December 2007 and 2006 amounted to 10,567 and 7,708 thousand euros, respectively.

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

6. Investment properties

Noteworthy in 2007 is the sale by Enagás, S.A. of Centro de Transporte de Paterna, which it had leased and restated in this heading.

7. Property, plant and equipment

The carrying amount of property, plant and equipment at 31 December 2007 and 2006 and the related accumulated depreciation is as follows:

Property, plant and equipment	Thousands of euros		
	Cost	Accumulated depreciation	Net total
Land and buildings	134,714	(36,326)	98,388
Plant and machinery	4,486,602	(1,573,458)	2,913,144
Other installations, equipment and furniture	13,297	(11,512)	1,785
Prepayments and work in progress	373,523	-	373,523
Other items of property, plant and equipment	22,258	(20,165)	2,093
Government grants	(560,851)	207,283	(353,568)
Impairment	(20,458)	-	(20,458)
Balance at 31 December 2006	4,449,085	(1,434,178)	3,014,907
Land and buildings	143,839	(38,353)	105,486
Plant and machinery	4,609,104	(1,771,210)	2,837,894
Other installations, equipment and furniture	13,830	(11,487)	2,343
Prepayments and work in progress	791,246	-	791,246
Other items of property, plant and equipment	25,623	(20,963)	4,660
Government grants	(560,851)	228,138	(332,713)
Impairment	(18,189)	-	(18,189)
Balance at 31 December 2007	5,004,602	(1,613,875)	3,390,727

The breakdown and movements in property, plant and equipment and accumulated depreciation in 2007 and 2006 are as follows:

Property, plant and equipment	Thousands of euros				
	Balance at 01/01/07	Additions	Disposals	Transfers and other	Balance at 31/12/07
Land and buildings	134,714	4,856	(1,324)	5,593	143,839
Plant and machinery	4,486,602	57,726	(965)	65,741	4,609,104
Other installations, equipment and furniture	13,297	1,139	(606)	–	13,830
Prepayments and work in progress	373,523	491,853	(2,796)	(71,334)	791,246
Other items of property, plant and equipment	22,258	3,483	(118)	–	25,623
Government grants	(560,851)	–	–	–	(560,851)
Impairment	(20,458)	(528)	2,797	–	(18,189)
Total	4,449,085	558,529	(3,012)	–	5,004,602

Property, plant and equipment	Thousands of euros				
	Balance at 01/01/06	Additions	Disposals	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 installations, equipment and furniture	12,910	387	–	–	13,297
Prepayments and work in progress	337,542	355,429	(1,289)	(318,159)	373,523
Other items of property, plant and equipment	22,057	1,161	(960)	–	22,258
Government grants	(558,291)	–	(2,560)	–	(560,851)
Impairment	(12,506)	(15,510)	1,618	5,940	(20,458)
Total	4,013,177	456,529	(26,561)	5,940	4,449,085

Accumulated depreciation	Thousands of euros				
	Balance at 01/01/07	Additions	Disposals	Transfers	Balance at 31/12/07
Land and buildings	36,326	2,534	(507)	–	38,353
Plant and machinery	1,573,458	198,556	(804)	–	1,771,210
Other installations, equipment and furniture	11,512	545	(570)	–	11,487
Other items of property, plant and equipment	20,165	914	(116)	–	20,963
Government grants	(207,283)	(20,855)	–	–	(228,138)
Total	1,434,178	181,694	(1,997)	–	1,613,875

Accumulated depreciation

Thousands of euros

	Balance at 01/01/06	Additions	Disposals	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 installations, equipment and furniture	10,961	551	–	–	11,512
Other items of property, plant and equipment	19,836	1,289	(960)	–	20,165
Government grants	(184,645)	(22,638)	–	–	(207,283)
Total	1,276,035	164,545	(12,559)	6,157	1,434,178

Additions of plant and machinery include the restatement of minimum linkepack for system security and minimum reserve for plants ('Gas Talón de Gasoductos y Plantas') from "Inventories" for 42,762 thousand euros (see Notes 3-b and 3-f), while transfers include the start-up during the year, for approximately 43,376 thousand euros, of the following investments:

- The increase in the emission capacity of the Huelva Plant to 1,350,000m³ (n)/h
- Modification of different gas pipeline positions.
- ERM in various gas pipeline positions.
- Falces-Irurzun gas pipeline. Section II.
- Fibre optic cable at the branch to the Jaca well.
- Fibre optic cable phase IV northern connection of Zaragoza.

Additions of work in progress include the following investments, for approximately 332,840 thousand euros:

- Branch of the Barcelona-Arbós gas pipeline.
- The Montesa-Denia gas pipeline.
- The Denia-Ibiza-Mallorca gas pipeline.
- The Albacete-Montesa gas pipeline.
- Branch of the gas pipeline to Campo de Gibraltar phase II.
- Sections I and II of the south-west Madrid semi-ring gas pipeline.
- The Alcázar de San Juan-Villarrobledo gas pipeline.
- The Albacete-Villarrobledo gas pipeline.
- The Denia compression station.
- The Zaragoza compression station.
- The Montesa compression station.
- The Navarra compression station.
- The Alcázar de San Juan compression station.
- The increase in the emission capacity of the Cartagena Plant to 1,350,000m³ (n)/h.
- The increase in the emission capacity of the Barcelona Plant to 1,800,000m³ (n)/h.

- The increase in the emission capacity of the Barcelona Plant to 1,950,000m³ (n)/h
- The upgrade of the boil-off system at the Huelva plant
- The upgrade of the boil-off system at the Cartagena plant
- A fourth and fifth tank at Cartagena
- A seventh and eighth tank at Barcelona
- A fifth tank at Huelva
- Dismantling of the Yela underground storage field

Disposals of property, plant and equipment in 2007 relate mainly to the sale of Centro de Transporte de Córdoba, for 1,357 thousand euros, two plots of land in the Villalba (Lugo) industrial park, for 126 thousand euros, the dismantling of the Solac C-3000A turbo compressor at the Barcelona plant, for 793 thousand euros, and the replacement of equipment at some gas pipeline positions, for 83 thousand euros.

Transfers shows the movement from work in progress to property, plant and equipment of projects that were put into operation in the year.

The revaluation of assets by Enagás, S.A., in accordance with the provisions of Royal Decree Law 7/1996 (7 June) regarding the revaluation of assets, will lead to an increase of 16,169 thousand euros in the depreciation expense in 2008 and 16,182 thousand euros in 2007.

In 2007 and 2006 the Group capitalised 19,357 and 8,941 thousand euros of borrowing costs, respectively as an increase in the value of its property, plant and equipment (see Note 25).

Work performed by the company on its own assets led to increases in investment of 10,413 and 9,490 thousand euros in 2007 and 2006, respectively (see Note 24.1).

Disposals in "Accumulated depreciation" relate mainly to the derecognition following its sale of Centro de Transporte Córdoba, for 637 thousand euros, to the dismantling of the Solca C-3000A turocompressor at the Barcelona plant, for 674 thousand euros, and the derecognition for replacement of equipment at some positions of the gas pipeline, for 45 thousand euros.

Fully-depreciated items of property, plant and equipment still in use at 31 December 2007 and 2006 amounted to 301,930 and 298,299 thousand euros, respectively.

Investment properties are not mortgaged or subject to any other similar encumbrance.

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

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

Government grants received in 2007 relate to investments in gas infrastructure, as follows:

	Thousands of euros		
	Grants received at 31/12/07	Released to profit and loss at 31/12/07	Balance at 31/12/07
Regasification plants	76,840	45,112	31,728
Gas transport infrastructure	466,503	179,623	286,880
Underground storage facilities	17,508	3,403	14,105
Total	560,851	228,138	332,713

The grants were received from the following bodies:

	Thousands of euros		
	Grants received at 31/12/07	Released to profit and loss at 31/12/07	Balance at 31/12/07
EU structural funds	399,168	137,449	261,719
Official regional bodies	47,835	14,322	33,513
Spanish state	113,848	76,367	37,481
Total	560,851	228,138	332,713

Increases in 2007 mainly relate to the Gas Infrastructure Operating Programme with structural funds provided by the EEC.

Government grants released to profit and loss in 2008 amount to approximately 21,048 thousand euros. The schedule for the release of the outstanding balance at 31 December 2007 is:

	Years		
	<1	2 a 5	>5
State grants	3,024	12,095	22,362
Regional government grants	1,589	6,351	25,573
ERDF grants	16,435	65,744	179,540
Total grants	21,048	84,190	227,475

8. Interests in joint ventures

There were no changes to shareholdings in subsidiaries in 2007 and 2006, so the percentage stakes and balances held by the parent company Enagás, S.A. remains as follows:

	Thousands of euros		percentage stakes
	2007	2006	
Gasod. Al-Andalus, S.A.	23,744	23,744	66.96%
Gasod. de Extremadura, S.A.	9,732	9,732	51%
Gasod. Campo Maior- Leiria- Braga, S.A.	3,195	3,195	12%
Gasod. Braga-Tuy, S.A.	2,546	2,546	49%
Gross total	39,217	39,217	-
(-) Losses for deterioration	-	-	-
Net total	39,217	39,217	-

9. Financial assets

The breakdown of this heading the consolidated balance sheet by nature of transaction is the following:

	Thousands of euros			
	31/12/2007		31/12/2006	
	Non-current	Current	Non-current	Current
Held-to-maturity investments	1	–	18	–
Loans and receivables	16,154	5,377	17,040	4,180
Available-for-sale financial assets	8,100	–	9,243	–
Financial assets at fair value through profit or loss	–	2,928	300	–
Other financial assets	697	–	698	–
Gross total	24,952	8,305	27,299	4,180
Impairment losses	–	–	–	–
Net total	24,952	8,305	27,299	4,180

The movement in 2007 and 2006 in the Group's financial assets is as follows:

	Thousands of euros				
	Balance at 01/01/07	Acquisitions or allocations	Gain (loss) recognised in reserves/ profit and loss	Disposals derecognition or reversals	Balance at 31/12/07
Held-to-maturity investments	18	–	–	(17)	1
Loans and receivables	21,220	7,615	–	(7,304)	21,531
Available-for-sale financial assets	9,243	1,884	(575)	(2,452)	8,100
Financial assets at fair value through profit or loss	300	–	2,628	–	2,928
Other financial assets	698	4	–	(5)	697
Gross total	31,479	9,503	2,053	(9,761)	33,257
Impairment losses	–	–	–	–	–
Net total	31,479	9,503	2,053	(9,761)	33,257

	Thousands of euros				
	Balance at 01/01/06	Acquisitions or allocations	Gain (loss) recognised in reserves/profit and loss	Disposals, derecognition or reversals	Balance at 31/12/06
Held-to-maturity investments	18	–	–	–	18
Loans and receivables	23,479	1,403	–	(3,662)	21,220
Available-for-sale financial assets	7,925	924	394	–	9,243
Financial assets at fair value through profit or loss	–	–	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

a) Loans and receivables generated by the company:

Current and non-current loans

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

	Thousands of euros	Interest rate	Maturity
Non-current loans:			
Loans to Group companies	16,719	3.90%	Sep.-11
Other loans	321		
Current loans:			
Loans to Group companies	4,180	3.90%	Dic.-07
Balance at 31.12.06	21,220		
Non-current loans:			
Loans to Group companies	16,132	5.12%	Sep.-11
Other loans	22		
Current loans:			
Loans to Group companies	5,377	5.12%	Dic.-08
Balance at 31.12.07	21,531		

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 measured at amortised cost using the effective interest method. These loans bear interest at variable rates referenced to the EIB rate plus a 90bp spread for Gasoducto Al-Andalus, S.A., Gasoducto de Extremadura, S.A., Gasoducto Campo Mayor-Leiria-Braga, S.A. and Gasoducto Braga-Tuy, S.A.

The detail is as follows:

Thousands of euros	31/12/2007	31/12/2006
Non-current loans to Group companies		
Gasod. Al-Andalus, S.A.	7,293	9,437
Gasod. de Extremadura, S.A.	1,123	1,976
Gasod. Campo Maior- Leiria- Braga, S.A.	3,549	4,394
Gasod. Braga-Tuy, S.A.	4,167	912
Total, non-current	16,132	16,719
Current loans to Group companies		
Gasod. Al-Andalus, S.A.	2,431	2,359
Gasod. de Extremadura, S.A.	374	494
Gasod. Campo Maior- Leiria- Braga, S.A.	1,183	1,099
Gasod. Braga-Tuy, S.A.	1,389	228
Total, current	5,377	4,180

In April, Enagás, S.A. granted an 8,300 thousand euro loan falling due in 2001 to Gasoduto Braga-Tuy, S.A. This loan replaces the guarantee given to that company for 8,900 thousand euros related to the loan it had with Banco Santander Central Hispano, S.A.

b) Available-for-sale financial assets:

Long-term securities portfolio

The financial assets included under this consolidated balance sheet heading at 31 December 2007 mainly relate to a mutual fund of BBVA.

This fund is measured at fair value in accordance with its market price at each balance sheet date. As this fund was created to hedge the related provision for long-service bonuses, changes in fair value result in changes for the same amount in the related provision.

The carrying amount of the fund at 31 December 2007 and 2006 was 8,100 and 9,243 thousand euros, respectively. The interest in this fund at 31 December 2007 was 100%.

In 2007, 228 thousand units of the fund were sold, with a historical cost of 2,452 thousand euros, and two contributions worth 1,884 thousand euros corresponding to 133 thousand units were made.

10. Trade and other receivables and current tax assets

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

	2007	2006
Trade and other receivables:		
Trade receivables	190,975	225,343
Receivable from Group companies	1,916	1,543
Other receivables	291,712	219,738
Total	484,603	446,624

The 1,916 thousand euro balance of "Receivable from Group companies" corresponds to the 983 thousand euros receivable from Gasoducto Al-Andalus, S.A. and the 933 thousand euros receivable from Gasoducto de Extremadura, S.A. Both balances relate to gas transport services rendered to Transgás, S.A. pending collection, which are consolidated using the proportionate method in accordance with the percentage interest of Enagás, S.A. in these companies.

Under "Other receivables", the Enagás Group include the unsettled balance related to remuneration of regulated and transport activities for 2007 of 120,776 thousand euros and the outstanding balance on the remuneration for the technical system management of 2,284 thousand euros, leaving a total outstanding balance at the end of 2007 of 123,060 thousand euros.

In addition, at the date of preparation of these consolidated annual financial statements, outstanding were the final settlements related to the remuneration of regulated and transport activities in 2003, 2004, 2005 and 2006 for 16,457 thousand euros, 9,936 thousand euros, 3,093 thousand euros and 12,666 thousand euros, respectively, as well as the amounts related to the remuneration of technical system management from 2002, 2003, 2004, 2005 and 2006 for 735 thousand euros, 937 thousand euros, 178 thousand euros, (390) thousand euros and 1,591 thousand euros, respectively. The aforementioned amounts are recognised in the consolidated balance sheets including the financial impact arising from their discounting to present value.

In this respect, Article 13 of Ministerial Order ECO/2692/2002 establishing settlement procedures states that "Any differences between the net revenue payable and the recognised remuneration that arise when the settlement procedure is applied each year shall be taken into account in the calculation of the tariffs, tolls and royalties of the following two years".

The Group maintains these balances pending settlement for 2003, 2004, 2006 and 2006 because, although the regulator has taken these into consideration when calculating tariffs, tolls and royalties for the following years, they may only be settled once the definitive payments have been received.

In this respect, on 19 December 2007, the National Energy Commission (CNE) published the definitive settlement for 2002. As at that date, Enagás, S.A. had 24,786 thousand euros recognised under "Sundry receivables" in this connection. This definitive settlement establishes that Enagás, S.A., because of the result at the end of financial year 2002, should pay the gas system 1,786 thousand euros for uncollected amounts. However, due to the difference arising from the application of the settlement procedure between net revenue payable and recognised remuneration each year, it will receive 23,412 thousand euros for the shortfall. Based on this new information, the Company has made the pertinent adjustments to reflect the new situation in the accompanying consolidated financial statements as at 31 December 2007.

In addition, bearing in mind the criteria followed by the CNE in preparing the definitive settlement of 2002, as well as the items detailed by the CNE in the assessments levied in 2003, 2004 and 2005 and the appeals lodged by Enagás, S.A. of these assessments, the Company's directors have carried out studies to establish the recoverability of the unsettled amounts for those years recognised under "Sundry receivables" as indicated above.

As regards the unsettled amount for 2006, the assessments have yet to be received from the CNE. Accordingly, the balances recognised are based on Enagás, S.A.'s best estimates.

"Sundry receivables" also includes the uncollected amounts from gas suppliers for the freight tax regulated by Article 24 of Law 48/2003. This tax is levied on natural gas shipments which agents unload at the regasification plants including those of which

Enagás, S.A. is titleholder at the ports of Barcelona, Cartagena and Huelva. At 31 December 2007, these uncollected amounts totalled 5,941 thousand euros, of which 5,592 thousand euros are subject to a lawsuit filed by some suppliers. Specifically, 4,494 thousand euros are past-due amounts of over one year.

Law 48/2003 modifies the duty on goods unloaded at ports under the concession regime. Title I of this law states that if the concessionaire makes the application within a period of six months, 100% of the duties related to unloading may be passed on to the agent that is titleholder of the merchandise even though payment to the port authority is still the responsibility of the taxpayer, in this case Enagás, as concessionaire under the previous regime. Under the previous regime, only 50% of the duty could be passed on to the titleholder of the goods by the titleholder of the concession.

The problem with the suppliers arose from the fact that while Law 43/2003 came into effect on 27 February 2004, Title I of the law related to the pass-through of duties became applicable on 1 January 2004 in accordance with the fifth additional provision of Law 48/2003. Enagás, S.A. submitted the application for the change of regime in July 2004, understanding that the six-month period started on 27 February 2004, when the law took effect. However, the suppliers with which the company is in litigation understand that the application from 1 January of Title I implies that this period ended on 30 June 2004. Therefore, Enagás, S.A.'s application is past the deadline and therefore, for legal purposes, *extemporeaneous*.

As a result of this situation, Enagás, S.A. has filed administrative claims seeking ratification of adapting the right of its actions for the full uncollected amounts. It should be noted that Enagás, S.A.'s claims have been ratified expressly by the Huelva Port Authority via ruling issued 3 May 2007, which, in line with the Port Authorities of Cartagena and Barcelona, considers without any reservation that Enagás' election to avail itself of the new economic tax regime established by Law 48/2003 is not *extemporeaneous*.

Accordingly, the Group's directors recognise the risk that the rest of the suppliers paying the full tax passed on by Enagás, S.A. will seek reimbursement of 50% if the court rules against Enagás, S.A. in the administrative claims. The amount paid to Enagás, S.A. by suppliers with which there is no ongoing litigation at 31 December 2007 totalled 20,210 thousand euros, of which 50% would be at risk.

The above notwithstanding, the Group's directors consider that based on the information available at that date, the risk of not recovering these amounts is remote, so no provision for this concept has been recorded. However, it will monitor these claims in 2008.

"Taxes receivable" at 31 December 2007 basically includes VAT receivable by the Enagás, S.A. parent company as the VAT paid is higher than VAT collected, partly because Enagás, S.A. acts as a tax warehouse.

The directors consider that the carrying amount of trade and other receivables is similar to fair value.

Credit risk

The Group's main financial assets are cash and cash equivalents, trade and other receivables, and debts on investments, which represent the Group's maximum exposure to credit risk in relation to financial assets. The balances include amounts which on the whole are within the stipulated maturity periods and 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, it makes the valuation adjustments estimated necessary to cover bad debt risks.

11. Inventories

In addition, according to the preliminary gas balance for December, Enagás, S.A. held 959 thousand euros (33,591 thousand euros in 2006) equivalent to 45 GWh of natural gas inventories (1,662 GWh in 2006), with the definitive gas balance for December recorded in January 2008 showing a decline in these inventories to 578 GWh (1,077 GWh in January 2007). These inventories arise from obligations in respect of compliance with rule number 2 of the Winter Plan (Resolution of the Directo-

rate 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.

In 2007, Enagás, S.A. restated 42,762 thousand euros equivalent to 2,900 GWh corresponding to minimum gas reserves for gas pipelines and plants to "Property, plant and equipment" as this gas is unavailable and thereby immobilised under prevailing regulations (see Notes 3-b, 3-f and 6).

The Group also has 2,419 thousand euros of inventories unrelated to natural gas (2,443 thousand euros in 2006) that include, inter alia, office materials and consumables.

12. Capital and reserves

12.1. Issued capital

At 31 December 2007 the share capital of the parent company amounted to 358,101 thousand euros, represented by 238,734,260 ordinary bearer shares, all of the same class and series, with a par value of 1.50 euros each and fully paid up.

All shares of the Enagás, S.A. parent company are listed on the four Spanish stock exchanges and are traded on the electronic trading platform (the continuous market). At 28 December 2007, Enagás, S.A.'s share price stood at 19.99 euros, having reached a high for the year of 21.56 euros per share on 14 December.

The most significant shareholdings in the share capital of Enagás, S.A. at 31 December 2007 are as follows:

Company	% shareholding
Gas Natural, SDG., S.A.	5.000
Inversiones Cotizadas del Mediterráneo, S.L.	5.000
Sagane Inversiones, S.L.	5.000
Bancaja Inversiones, S.A.	5.000
Cantábrica de Inversiones de Cartera, S.L.	5.000
Sociedad Estatal de Participaciones Industriales	5.000
Bilbao Bizkaia Kutxa	5.000

Inversiones Cotizadas del Mediterráneo, S.L., Cantábrica de Inversiones de Cartera, S.L. Bancaja Inversiones, S.A. are subsidiaries of the Caja de Ahorros del Mediterráneo (CAM), Caja de Ahorros de Asturias (Cajastur) and Caja de Ahorros de Valencia, Castellón y Alicante (Bancaja) savings banks, respectively.

The Group has no treasury shares.

It should be noted that Article 92 of Law 62/2003 on tax, administration and social order measures of 31 December 2003, which amends Law 34/1998 on the Hydrocarbon sector, establishes that "no individual or company may directly or indirectly hold more than 5% of Enagás, S.A.'s ordinary or voting shares 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.

12.2. Reserves

Revaluation reserve

The balance of this caption, which arose as a result of the revaluation made pursuant to Royal Decree-Law 7/1996 of 7 June, was allocated to unrestricted reserves as allowed by this law.

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 share capital amount. Otherwise, until the legal reserve exceeds 20% of share capital, it can only be used to offset losses, provided that sufficient other reserves are not available for this purpose.

The parent company of the Group has fully allocated the legal reserve in an amount of 71,620 thousand euros, included under "Restricted reserves" in the accompanying consolidated balance sheet.

Unrealised asset and liability revaluation reserve

Movements in this reserve arising from valuation adjustments of available-for-sale assets and derivatives designated as cash flow hedges in 2007 and 2006 (see Note 18) are as follows:

	Thousands of euros			
	01/01/2007	Change in fair value	Recognition in profit or loss	31/12/2007
Cash flow hedges:				
Collars	739	2,273	(1,575)	1,437
Deferred tax on unrealised liability revaluation	(222)	(675)	466	(431)
Total	517	1,598	(1,109)	1,006

	Thousands of euros			
	01/01/2006	Change in fair value	Recognition in profit or loss	31/12/2006
Cash flow hedges:				
Collars	(16,203)	9,479	7,463	739
Deferred tax on unrealised liability revaluation	5,671	(3,281)	(2,612)	(222)
Total	(10,532)	6,198	4,851	517

12.3. Interim dividend

The distribution of net profit for 2007 that Enagás, S.A.'s Board of Directors will propose for approval at the General Shareholders' Meeting is as follows:

	Thousands of euros
Dividend	142,972
Voluntary reserves	92,166
	235,138

At its meeting of 19 December 2007, the Board of Directors of Enagás, S.A. resolved to pay an interim dividend charged against 2007 profit of 57,296 thousand euros (a gross 0.24 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), approving the revised text of the Spanish Corporations Law.

In accordance with legal requirements, the provisional financial statements prepared by the Group, which showed that there were sufficient resources to pay interim dividends 2007, are the following:

	Thousands of euros
Accounting profit at 31 October 2007	196,247
10% allocation to legal reserve	–
Income available for distribution	196,247
Forecast interim dividend	(57,296)
Forecast cash at bank and in hand between 31 October and 31 December 2007	
– Cash at bank and in hand at 31 October 2007	2,890
– Collections forecast for the period	271,800
– Credit facilities and loans granted by banks	459,000
– Payments forecast for the period (including interim dividend)	(313,700)
Forecast cash at bank and in hand at 31 December 2007	419,990

The proposed gross final dividend (0.36 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.

13. 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 outstanding in the year, excluding the average number of treasury shares held in the year.

Accordingly:

	2007	2006	Chg
Net profit for the year (thousands of euros)	238,286	216,384	10.12%
Weighted average number of shares outstanding (thousand)	238,734	238,734	–
Basic earnings per share (euros)	0.9981	0.9064	10.12%

Diluted earnings per share is calculated by dividing the net profit for the period attributable to ordinary equity holders of the parent (adjusted for the effect of dilutive potential ordinary shares) by the weighted average number of ordinary shares outstanding during the period adjusted for the weighted average number of ordinary shares that would be issued on the conversion of all the dilutive potential ordinary shares into ordinary shares of the company. As there are no potential ordinary shares at 31 December 2007, basic and diluted earnings per share are the same.

14. Other non-current liabilities

The movement in this heading in the accompanying consolidated balance sheet in 2007 and 2006 is as follows:

Thousands of euros	Fee Gasoducto de Extremadura, S.A.	Fee Gasoducto Al-Andalus, S.A.	Total
Balance at 1 January 2006	8,511	31,036	39,547
Additions/decreases/recognition in profit and loss	(551)	(2,055)	(2,606)
Balance at 31 December 2006	7,960	28,981	36,941
Additions/decreases/recognition in profit and loss	4,394	(962)	3,432
Balance at 31 December 2007	12,354	28,019	40,373

Amounts related to the royalty of the Gasoducto de Extremadura, S.A. and Gasoducto Al-Andalus, S.A. subsidiaries correspond to 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. recognises and records this revenue on a straight-line basis as accrued until 2020 when the transport contract expires (see Note 3-m).

In 2006, the accrual of revenue from connections to the basic network was recognised. Movement in this item in 2007 is the following:

Thousands of euros	Connections to the basic network
Balance at 31 December 2006	11,232
Additions	13,118
Decreases/recognition in profit and loss	(740)
Balance at 31 December 2007	23,610

"Other non-current liabilities" includes the effect of the adjustments envisaged in the income tax inspection for financial years 1995 to 1998, updated at 31 December 2007, for 5,085 thousand euros.

15. Provisions

The movement in the balance of this consolidated balance sheet heading in 2007 is as follows:

	Thousands of euros				
	Litigation, tax inspections and/or claims	Long-service bonus	Abandonment costs	Other	Total
Balance at 1 January 2007	1,582	9,253	3,158	2,715	16,708
Utilised amounts recognised in profit and loss					
Interest and similar costs	80	-	740	-	820
Utilised	68	1,309	15,519	1,371	18,267
Unused amounts reversed recognised in profit and loss					
Interest and similar revenue	(375)	(2,452)	-	-	(2,827)
Unused amounts reversed	(188)	-	-	(2,097)	(2,285)
Balance at 31 December 2007	1,167	8,110	19,417	1,989	30,683

The most significant items of provisions recorded in 2007 are as follows:

- Long-service bonus. Provisions relate to non-consolidated remuneration to reward Enagás' managers and executive members of the Board of Directors members for their length of service and amount to 1,309 thousand euros, of which 1,884 thousand euros were contributions made in 2007 and -575 thousand euros for the impact of measurement at fair value. Decreases of 2,452 thousand euros relate to the disposal of investments made in 2007.
- Abandonment costs. Provisions recorded include 14,700 thousand euros related to the costs of dismantling the Yela underground storage facility located in Guadalajara, as indicated in Article 8 of Royal Decree 1061/2007 of 20 July granting Enagás, S.A. the concession to operate this facility (see Note 7).
- Others. This mainly comprises the provision made for differences in the measurement of the heat value of certain specific points of the basic network.

The Directors of the Enagás Group consider that the provisions recorded in the accompanying consolidated balance sheet adequately cover risks from lawsuits, arbitration and other proceedings described in this note, and therefore do not expect these to give rise to additional liabilities.

The discounting of provisions is recognised with a charge to "Finance costs" in the accompanying consolidated income statement.

Enagás, S.A. also has a contingent liability at 31 December 2007 related to uncollected amounts from gas suppliers for the freight tax regulated by Article 24 of Law 48/2003 (see Note 10).

16. Bank borrowings

Balances of bank borrowings at 31 December 2007 and scheduled repayments are as follows:

Thousands of euros	Bank borrowings at 31 December 2007						
	Balance at 31/12/07	Current			Non-current		
		2008	2009	2010	2011	Other	Total non- current
Principal	1,911,031	152,108	84,344	1,114,100	105,714	454,765	1,758,923
Accrued interest payable	15,115	15,115	-	-	-	-	-
TOTAL	1,926,146	167,223	84,344	1,114,100	105,714	454,765	1,758,923

At 31 December 2007, Group companies had undrawn credit facilities amounting to 245,894 thousand euros which, in the opinion of management, sufficiently covers any short-term commitments of the Group. There are also 200,000 thousand euros of unused loans.

Average annual interest in 2007 on Group loans and credit facilities in euros was 4.33% without hedges and fees and 4.28% with hedges and fees (3.62% with hedges and fees in 2006).

Current loans and credit facilities and policies of the parent company are denominated in euros and earned average annual interest of 4.27% in 2007.

The Directors estimate that the fair value of bank borrowings at 31 December 2007 calculated by discounting the future cash flows at market interest rates amounts to 2,039 thousand euros. The interest rate curve used in this calculation takes into account the risks associated with the industry and Enagás, S.A.'s credit worthiness. 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 value of borrowings	14.7	-14.8

Financing highlights in the year include:

- In March 2007 the Board of Directors approved the renewal of the credit policies arranged with several financial institutions. This renewal came into effect between May and July. In addition, in November a new policy was arranged with Caixa Catalunya for 6 million euros which matures annually.
- In April 2007, a new 15-year 200 million euro was signed with ICO, with a 5-year grace period. No amounts on this loan had been drawn down at 31 December 2007.
- In June and September 2007, two drawdowns of 100 million euros each were made related to Tranche B of the 200 million euro loan granted by the EIB and signed on 21 June 2004.
- In the second and third quarters of the year, all the guarantee contracts expiring were renewed and a new guarantee policy was signed with Caixa Catalunya for 12 million euros.

17. Other financial liabilities

The detail of the balances of this heading of the consolidated balance sheet is as follows:

	Thousands of euros			
	31/12/2007		31/12/2006	
	Non-current	Current	Non-current	Current
Financial liabilities at fair value through profit and loss	-	-	-	34
SGE loan to Enagás, S.A.	3,265	-	1,175	-
SGL loan to Enagás, S.A.	600	-	-	-
Transgás, S.A. loan to Gasod. Al-Andalus, S.A.	7,417	2,472	9,482	2,370
Transgás, S.A. loan to Gasod. de Extremadura, S.A.	3,764	1,255	5,038	1,260
REN Gasodutos, S.A. loan to Gasod.Campo Mayor-Leira Braga, S.A.	3,660	915	5,525	-
	18,706	4,642	21,220	3,664

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 the availability of cash of each company.

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 2007 and 2,090 thousand euros for 2008. In December 2006, the financing granted for 2006 was drawn down, and in July 2007 the amount granted for 2007 was drawn down.

Meanwhile, the loan from the General Energy Secretariat forms part of the aid envisaged in the aforementioned plan by the Ministry of Industry, Tourism and Trade. This loan is associated with the "Project for the design and development of a high pressure gas meter calibration facility" being carried out by Enagás, S.A. The total amount of the loan is 1,100 thousand euros, distributed between 600 thousand euros for 2007 and 500 thousand euros for 2008. In December 2007, the amount granted for the year was drawn down.

Both loans are repayable in 10 years, with a 3-year grace period and a cost of 0.25%- the cost of the guarantees provided-.

18. Risk management policy

The Enagás Group is exposed to certain risks, which it manages via systems of identification, measurement, restriction of concentration and supervision.

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

- To comply with rules of good corporate governance
- To comply strictly with the Group's regulations

- Each business and corporate area defines:
 - a) The markets and products where it has sufficient knowledge and capacity to ensure effective risk management
 - b) Criteria for counterparties.
 - c) Authorised operators
- For each market of operations, the various businesses and corporate areas establish their risk tolerance in accordance with the defined strategy.
- The limits are approved by the respective Risk Committees, or in their absence, 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

Changes in interest rates affect the fair value of fixed-rate assets and liabilities and the future cash flows of assets and liabilities indexed to floating rates.

The objective of interest rate risk management is to achieved a balanced debt structure that minimises the cost of debt over the long term and volatility in the consolidated income statement.

In line with its estimates and debt structure targets, the Enagás Group enters into derivative financial instruments to hedge its risks.

Liquidity risk

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

Credit risk

The Group has no significant credit risk as the average customer collection period is very short and cash is placed or derivatives acquired with highly solvent entities.

19. Derivative financial instruments

At 31 December 2007 the Group held derivatives for a notional and/or contractual principal amount of 1,000 million euros with a remaining term to maturity of 3.3 years.

In 2007 and 2006 the Enagás Group credited 111 and 7,463 thousand euros, respectively, and debited 1,686 thousand euros to the accompanying consolidated income statement under "Reserves" to cover impact on profit and loss of hedging transactions.

The notional and/or contractual amount of the contracts entered into 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. entered into hedging instruments that limit the financial cost of its non-current borrowings. 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 2006-2008, the Company arranged cash flow hedges using various collars, with a cap of 4.12% and floor of 3.67% (on average). The hedges commence in January 2006 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 2006 compared to the previous level of 4.66%.

The fair value of swaps arranged at 31 December 2007 is estimated at -1,275 thousand euros (790 thousand euros in 2006). These amounts are based on the fair values of equivalent instruments at the balance sheet date. All interest rate collars are designated and effective as cash flow hedges, with changes in fair value deferred in equity. As mentioned, -1,575 thousand euros (7,463 thousand euros in 2006) were offset against hedged interest payments made during the period.

20. Trade and other payables

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

	2007	2006
Trade payables:		
Payables to Group companies	2,766	2,810
Gas Natural, SDG, S.A. Group suppliers	151,307	178,803
Other suppliers	322,977	265,778
Total	477,050	447,391

"Payables to Group companies" relates to gas transport services payable, consolidated proportionately, which subsidiaries provide to the Enagás, S.A. parent company.

The balance of the "Gas Natural, SDG, S.A. Group suppliers" relates mainly to natural gas purchases for the regulated market made from Gas Natural Aprovevisionamientos Sdg, S.A. in an amount of 100,078 thousand euros, and from Sagane, S.A. in an amount of 49,469 thousand euros, while the balances of other suppliers mainly comprises purchases of materials and services provided to Group companies, recognised principally under "Other operating expenses" and "Non-current assets".

21. Defined contribution plans

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

22. Taxation

22.1. Tax return

The Enagás, S.A. parent company and the Gasoducto Al-Andalus, S.A., Gasoducto de Extremadura, S.A., Gasoduto Campo Maior-Leiria-Braga, S.A. and Gasoduto Braga-Tuy, S.A. subsidiaries all file individual tax returns.

22.2. Years open to inspection

Enagás, S.A. is open to inspection for all years for which the inspection period has yet to expire. The inspection of VAT on imports is still pending for 2006 and 2007.

Gasoducto Al-Andalus, S.A., Gasoducto Extremadura, S.A., Gasoducto Campo Mayor-Leiria-Braga, S.A. and Gasoducto Braga-Tuy, S.A. are open to inspection for all years for which the inspection period has yet to expire.

At 31 December 2007, 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 late-payment 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 late-payment interest. Both assessments have been signed in disagreement, and the relevant appeals have been made. At the balance sheet date, all other consolidated entities had no tax assessments.

Given the various possible interpretations of tax legislation, the outcome of potential tax audits of the years open that could be conducted by the tax authorities in the future could give rise to contingent tax liabilities that cannot be objectively quantified. However, the Enagás Group's tax advisors and directors consider the possibility of significant additional liabilities arising in this respect to be remote.

22.3. Tax receivable and payable

Balances receivable from and payable to public authorities at 31 December are as follows:

	Thousands of euros	
	2007	2006
Tax receivable:		
VAT	12,567	5,953
Other	–	331
Total	12,567	6,284
Tax payable:		
Income tax	39,685	39,039
VAT	237	246
Other	2,705	1,991
Total	42,627	41,276

At the year end, 72,490 thousand euros had been paid on account of the final income tax expense payable, 67,720 thousand euros for Enagás, S.A., 2,954 thousand euros for Gasoducto Al-Andalus, S.A. and 2,176 thousand euros for Gasoducto de Extremadura, S.A.

22.4. Reconciliation between accounting profit and income tax expense

The detail of income tax expense at 31 December 2007 is as follows:

	Miles de euros	
	2007	2006
Enagás, S.A.	107,187	109,841
Gasoducto Al-Andalus, S.A.	2,592	2,726
Gasoducto de Extremadura, S.A.	1,933	2,083
Gasoduto Campo Maior-Leiria-Braga, S.A.	452	393
Gasoduto Braga-Tuy, S.A.	215	254
Total	112,379	115,297

The reconciliation between the income tax resulting from applying the general corporate income tax rate prevailing in Spain to "Profit before tax" and the expense recognised in the consolidated income statement, and the reconciliation between this and the tax payable for 2007 and 2006 are as follows:

	Thousands of euros	
	2007	2006
Accounting profit before tax	539,431	341,574
Permanent differences	(1,424)	(2,888)
Adjusted profit	538,007	338,686
Tax rate	32.5%	35%
Accounting profit at the tax rate	174,852	118,540
Effect of tax reform in Spain	(1)	1,064
Effect of applying different tax rates	(58,731)	(331)
Deductions from taxable income	(3,742)	(3,976)
Income tax expense	112,378	115,297
Taxes recognised directly in equity	1,682	(3,326)
Total income tax expense	114,060	111,971
Temporary differences	(711)	(3,512)
Income tax expense	113,349	108,459

22.5. Income tax recognised in equity

Aside from the income tax expense recognised in the consolidated income statement, in 2007 and 2006 the Group recognised the amount following amounts for the following concepts in consolidated equity:

	Thousands of euros	
	2007	2006
Cash flow hedges	431	223
Adjustments to tax receivable	801	359
	1,232	582

22.6 Deferred tax

Under tax regulations prevailing in the various countries in which the consolidated companies are located, certain temporary differences arose in 2007 and 2006 that should be taken into account when calculating the income tax expense.

The deferred taxes recognised in 2007 and 2006 arose from:

	Thousands of euros	
Deferred tax liabilities related to:	2007	2006
Adoption of IFRS	379	554
Accelerated depreciation	1,385	1,595
	1,764	2,149

	Thousands of euros	
Deferred tax assets related to:	2007	2006
Adoption of IFRS	764	892
Government grants	1,119	1,236
Long-service bonus fund	2,096	2,267
Property revaluations	1,645	1,816
Provisions for litigation	351	476
Provisions for HCP	595	880
Other	3,517	1,865
	10,087	9,432

The main deferred tax assets and liabilities recognised by the Group and the movements therein during the year are as follows:

Thousands of euros	Balance at 01/01/2007	Income statement	Asset and liability valuation reserve	Balance at 31/12/2007
Deferred tax assets:				
- Adoption of IFRS	892	151	(279)	764
- Capital grants	1,236	(117)	-	1,119
- Long-service bonus fund	2,267	(171)	-	2,096
- Property revaluations	1,816	(171)	-	1,645
- Provisions for litigation	476	(125)	-	351
- Provisions for HCP	880	(285)	-	595
- Other	1,865	(309)	1,961	3,517
Total deferred tax assets	9,432	(1,027)	1,682	10,087
Deferred tax liabilities:				
- Adoption of IFRS	554	(175)	-	379
- Accelerated depreciation	1,595	(210)	-	1,385
Total deferred tax liabilities	2,149	(385)	-	1,764

Thousands of euros	Balance at 01/01/2006	Income statement	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
- Long-service bonus fund	2,322	(55)	-	2,267
- Provision ILP	1,340	(1,340)	-	0
- Property revaluations	2,586	(770)	-	1,816
- Provisions for litigation	641	(165)	-	476
- Provisions for HCP	-	880	-	880
- Other	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 depreciation	1,862	(267)	-	1,595
Total deferred tax liabilities	2,374	(225)	-	2,149

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. This law modifies, inter alia, the corporate income tax rate. The rate applicable is 32.5% for 2007 and 30% for 2008 and beyond.

This change in tax rates led to an increase in the tax expense included in the consolidated income statement for 2007 of 1,000 and a debt to asset and liability revaluation reserves of 19 thousand euros (1,064 thousand euros and 48 thousand euros, respectively).

23. Revenue

An analysis of the Group's revenue is as follows:

	2007	2006
Sales of gas on the regulated market	973,781	1,103,260
Cost of sales of gas on the regulated market	(985,932)	(1,091,921)
Net (purchase)/sale of gas on regulated market	(12,151)	11,339
Revenue from regulated activities	792,025	733,055
Revenue from liberalised activities	15,499	13,985
Other revenue	21,870	19,587
Sales of materials	-	1
Ancillary and other operating revenue	21,835	19,529
Government grants	35	57
Total	817,243	777,966

Sales of gas relate entirely to those made by Enagás, S.A. Revenue from the rendering of services are basically from Enagás, S.A. for regulated activities and other companies for liberalised activities. The detail of services rendered are as follows:

	2007	2006
Regulated activities:		
Enagás, S.A.	792,025	733,055
Liberalised activities:		
Gasoducto Al - Andalus, S.A.	7,145	6,442
Gasoducto Extremadura, S.A.	5,563	5,079
Gasoduto Campo Maior - Leiria - Braga, S.A.	2,621	2,272
Gasoduto Braga - Tuy, S.A.	170	192
Total	807,524	747,040

The cost of sales relates mainly to gas supplies or purchases made during the year by Enagás, S.A. to supply the regulated market. The detail by supplier is as follows:

	Thousands of euros	
	2007	2006
Sagane, S.A.	498,081	704,670
Gas Natural Aprovisionamientos, S.A.	478,827	380,817
Gas Natural Comercializadora, S.A.	-	3,018
CEPSA Gas Comercializadora S.A.	8,738	-
Other	287	3,416
Total	985,932	1,091,921

24. Expenses

An analysis of Group expenses is provided below:

	Thousands of euros	
	31/12/2007	31/12/2006
Employee benefits expense	62,002	54,321
Other operating costs	159,260	160,037
	221,262	214,358

24.1. Employee benefits expense

The detail of employee benefits expense is as follows:

	Thousands of euros	
	31/12/2007	31/12/2006
Wages and salaries	48,459	45,273
Termination benefits	5,059	797
Social Security	10,907	10,256
Other employee benefits expenses	5,976	5,549
Contributions to external pension funds	2,014	1,936
Own work capitalised	(10,413)	(9,490)
	62,002	54,321

The Group has capitalised 10,413 thousand euros of employee benefits expenses directly related to ongoing investment projects at 31 December 2007 and 9,490 thousand euros at 31 December 2006 (see note 7).

“Termination benefits” include the amount paid to Antonio González-Adalid García-Zozaya for stepping down from his post as Chairman of the company in January 2007 (see Note 30).

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

	Average number of employees	
	2007	2006
Managers	62	59
Technicians	435	399
Administrative staff	129	115
Labourers	351	346
Total	977	919

At 31 December 2007, the Company had 985 employees. The detail by category and sex is as follows:

Category	Gender		Total
	Female	Male	
Senior management	–	9	9
Management	8	56	64
Outside CLA	60	173	233
Technicians	27	63	90
Technical specialists	10	435	445
Administration/IT	93	45	138
Auxiliary services/ancillary staff	1	5	6
Total	199	786	985

24.2. Other operating costs

Details of this heading are:

	Thousands of euros	
	31/12/2007	31/12/2006
External services:		
R&D costs	646	460

Leases and fees	64,063	70,670
Repairs and maintenance	25,150	18,660
Professional services	10,835	11,168
Transport	14,453	14,521
Insurance premiums	3,602	3,747
Banking and similar services	204	186
Advertising and PR	1,900	1,862
Supplies	17,402	18,987
Other services	7,071	9,810
External services:	145,326	150,071
Taxes other than income tax	3,466	2,318
Other external expenses	7,307	7,648
Change in trade provisions	3,161	-

24.3. Other information

"Other operating costs" includes the fees paid by consolidated entities for the audit of their annual financial statements and for other audit and non-audit work. In 2007, these expenses amounted to 479 thousand euros, as follows:

Item	2007
Audit of annual financial statements	160
Other audit services	20
Non-audit services	299

Of the total expense, fees invoiced by Deloitte, S.L amounted to 477 thousand euros, and those by other auditors to 2 thousand euros.

25. Net financial result

The detail of this heading in the accompanying consolidated income statement is as follows:

Thousands of euros	31/12/2007	31/12/2006
Revenue from equity investments	-	338
Revenue from non-current loans	1,768	493
Other interest and finance revenue	1,622	2,831

Finance revenue	3,390	3,662
Finance and similar costs	2,951	692
Loan interest	57,329	50,488
Revenue attributable to provisions	740	(525)
Finance costs	61,020	50,655
Net financial loss	(57,630)	(46,993)

The Group has capitalised borrowing costs for an amount of 19,357 thousand euros at 31 December 2007 and 8,941 thousand euros at 31 December 2006 (see note 7).

26. Business and geographical segments

26.1. Segmentation criteria

Segment information is organised according to the Group's various business units (primary reporting segment).

Secondary information (geographical segments) is not detailed in this note because Enagás, S.A., the group's parent company, carries out its activities within Spain, where all regions are subject to 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, revenue and expenses to the Group's consolidated financial statements. Operations involving companies based in Portugal represent less than 10% of the Group's sales or assets, the limit established by IFRS for the disclosure of secondary segment information.

26.2. Main business segments

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

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

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

b) Technical system management

In 2006, 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 access, storage, transport and distribution points.

c) Purchase-sale of gas on the regulated market

Enagás, S.A. continued to satisfy the needs of the tariff 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 tariff market.

d) Liberalised activities

These refer to all liberalised activities and transactions related to Group companies.

26.3. Bases and methodology of business segment reporting

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

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

Segment information of these businesses is as follows.

	Miles de euros									
	Infrastructure		Purchase-sale of gas		Technical System Management		Liberalised activities + consolidation adjustments		Total	
	2007	2006	2007	2006	2007	2006	2007	2006	2007	2006
Income statement										
Operating profit (loss)	390,504	346,787	4,039	25,700	(445)	79	14,197	6,108	408,295	378,674
Profit (loss) before tax	228,907	198,276	3,422	17,061	(575)	(44)	6,533	1,092	238,286	216,384
Balance sheet										
Total assets / liabilities	3,656,303	3,251,387	178,649	242,423	17,341	15,139	123,664	117,245	3,975,957	3,626,195

	Thousands of euros									
	Infrastructure		Purchase-sale of Gas		Technical System Management		Liberalised activities + consolidation adjustments		Total	
	2007	2006	2007	2006	2007	2006	2007	2006	2007	2006
Ordinary revenue	770,939	705,844	13,414	36,844	10,446	10,221	34,594	25,057	829,394	777,966
Depreciation and amortisation	181,928	180,670	65	61	1,980	1,897	3,713	2,305	187,686	184,934
Acquisitions of assets (*)	563,169	468,300	202	1,316	3,640	9,067	179	629	567,190	479,312
Non-current liabilities (**)										
Deferred tax liabilities	1,717	2,089	-	-	7	7	40	53	1,764	2,149
Provisions	30,290	16,264	1	1	56	55	336	388	30,683	16,708
Other non-current liabilities	28,558	15,980	-	-	20	18	40,491	37,064	69,068	53,062
Current liabilities (**)										
Trade and other payables	301,071	252,401	157,342	183,872	1,198	939	17,439	10,178	477,050	447,391
Current tax liability (***)	2,093	1,728	24	19	70	79	755	411	2,942	2,237
Other current liabilities	59,018	43,903	870	3,612	(30)	87	1,507	734	61,366	48,336

(*) Acquisitions of assets include the change in inventories of replacement parts and the storage of material for the construction of new infrastructure and do not include provisions or government grants.

(**) Does not include borrowings or other financial liabilities

(***) Does not include income tax payable

27. Environmental information

The Enagás Group's activities in 2007 underscore its commitment to make economic growth compatible with the conservation of natural resources, to guarantee their use by future generations. For this reason, Enagás, S.A. has publicly committed assumed the principles of preserving and protecting the environment as one of the main criteria in its corporate decision-making. This commitment is embodied in the Group's Environmental Policy, which comprises a set of principles whose fundamental purpose is to guarantee that any Enagás activity or installation, from its initial design to the end of its useful life, will endeavour to minimise the impact on the environment.

The practical application of Environmental Policy is represented by the Environmental Management System (EMS) certified by AENOR according to ISO 14001 standard. Environmental managements entails a set of rules and procedures that guarantee knowledge and comprehensive control of environmental issues and the adoption of measures to minimise and correct adverse effects on the environment at the LNG regasification plants, the underground storage facilities, the basic gas pipeline network and the innovation and technology unit.

Moreover, the Enagás Group pays careful attention to the design and execution of all its projects in order to achieve full integration of its activities and their surroundings. The first step in the process is to identify the environmental conditions and impact of the project at any of its stages. Then the Group monitors the environment in the construction stage and finally it integrates the facilities built under the EMS.

In 2007, these environmental activities required total investment of 19,119 thousand euros (8,212 thousand euros in 2006) included on the asset side of the balance sheet.

Environmental expenses totalled 793 thousand euros in 2007 (710 thousand euros in 2006), recognised under "Other operating costs".

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

The Enagás Group has not received any government grants or revenue relating to environmental activities.

28. Greenhouse gas emission rights

Certain Enagás, S.A. installations come within the scope of Law 1/2006 of 9 March governing trading in greenhouse gas emission rights. In July 2006, the Spanish Ministry of Environment 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, with 360,584 corresponding 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 Algete, Almendralejo, Almodóvar, Bañeras, Córdoba, Crevillente, Sevilla, Haro, Paterna, Tivissa, Zamora and Zaragoza compressing stations

The 396,092 rights allocated for 2007 were valued at 5.50 euros/right, the spot price on the first business day of 2007 of RWE Trading GMBH.

The Enagás Group recognised the consumption of 108,267 greenhouse gas emission rights in the income statement in 2007 and 158,866 rights in 2006, leaving a surplus at 31 December 2007 and 2006 of 287,825 and 201,718 rights, respectively.

In early 2008, the Enagás Group recognised the consumption of 13,449 emission rights in December 2007 in the income statement, leaving total surplus rights for 2007 at 274,376.

This surplus rights in 2007 valued at a price of 5.50 euros/right, their price on the first business day of 2007, amounted to 1,509 thousand euros, while the value at 31 December 2007 of the surplus is 3 thousand euros, based on a reference price of 0.01 euros/right, their price on the last business day of 2007.

In addition, the surplus rights in 2006 valued at a price of 22.25 euros/right, their price on the first business day of 2006, amounted to 4,488 thousand euros, while the value at 31 December 2006 was 1,271 thousand euros, based on a reference price of 6.30 euros/right, their price on the last business day of 2006.

In the first quarter of 2007, Enagás, S.A. submitted its emission reports for 2006, verified by the accredited DOE (Aenor), to the pertinent regional governments. These confirmed the validity of the emissions verified, so each installation assigned emission rights then opened the related accounts in RENADE.

In the second quarter of 2007, Enagás, S.A. delivered greenhouse gas emission rights equivalent to the verified emissions in 2006 for all these installations.

In 2007, Enagás, S.A. did not arrange any futures contracts relating to greenhouse gas emission rights nor are there any contingencies related to provisional penalties or measures under the terms established by Law 1/2005.

In accordance with Order PRE/3420/2007 of 14 November, at its meeting of 2 November 2007, the Spanish cabinet, at the proposal of the Ministries of the Environment, of Finance and of Industry, Tourism and Trade, adopted the Agreement approving the individual allocation of greenhouse gas emission rights to plants included in the National Allocation Plan 2008-2012. Accordingly, the total amount of rights definitely and freely assigned to Enagás, S.A.'s plant was 2,136,060. This equates to 427,212 rights per year.

29. 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 to the disclosures of related party transactions include:

- a) a) Related party transactions of significant amounts and that go beyond Enagás' ordinary business are approved by the Board of Directors of the Company subsequent to a report by the Appointments and Remuneration Committee.
- b) 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 on an arm's length basis and are insignificant. In this respect, and taking into account the amounts included in Enagás' financial statements, transactions taking place during the reporting period are considered insignificant when they do not reach the sum of three million euros.
- c) Year-end data are not available for certain transactions, which means that in some cases amounts are provisional, while in others the Group elected to include figure for the first eleven months of the year. In both cases, this circumstance and the importance are stated expressly.

Unless otherwise indicated, transactions are for contracts signed prior to the reference period. New relationships, arising from contracts or commitments entered into in 2007, are expressly indicated.

29.1. Transactions between Enagás, S.A. and Group companies, significant shareholders and entities which exercise significant influence over Enagás (section A of Point 4.1 of Order EHA 3050/2004).

29.1.1 Subsidiaries of Enagás, S.A.

- **Transactions with Gasoducto Al-Andalus**

Enagás, S.A. has granted this company a loan for 29,432 thousand euros.

Gasoducto Al-Andalus, S.A. has paid Enagás, S.A. 4,189 thousand euros of dividends corresponding to financial year 2006.

Enagás, S.A. has incurred a cost of 16,824 thousand euros in respect of transport rights, and received revenue of 5,318 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 3,057 thousand euro loan.

Gasoducto Extremadura, S.A. has paid Enagás, S.A. 2,816 thousand euros of dividends corresponding to financial year 2006.

In addition, Enagás, S.A. has incurred a cost of 8,467 thousand euros for transport rights from services rendered by Gasoducto Extremadura, and received revenue of 4,733 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 5,378 thousand euros.

In addition, Enagás, S.A. has incurred a cost of 3,220 thousand euros for the provision of transport services.

- **Transactions with Gasoduto Braga–Tuy**

Enagás, S.A. has granted this company a loan for 10,891 thousand euros.

In addition, Enagás, S.A. has incurred a cost of 3,286 thousand euros for the provision of transport services.

29.1.2. Transactions between Enagás, S.A. and companies which exercise significant influence over Enagás and with companies over which Enagás, S.A. exercises significant influence.

- **Transactions with Gas Natural SDG and group companies**

1. Enagás, S.A. paid Gas Natural SDG, S.A. 5,632 thousand euros in dividends.

2. Enagás, S.A. has entered into 25 contracts with Gas Natural Comercializadora S.A. for third party access (TPA) to its network, of which 12 are short term and 13 long term. In the last quarter of 2007, 59 TPA contracts were signed, of which only 13 remained in force at 31 December 2007.

TPA 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 2007 the following services were provided: Regasification of 66,916 GWh, 45.8% of total TPA, with 50,309 thousand euros invoiced for these services including cistern loading; transport of 157,342 GWh, 65.2% of total TPA, with 74,811 thousand euros invoiced for these services including the pipe conveyance component; and the storage of an average of 8,461 GWh, 45.5% of total TPA, with 31,638 thousand euros invoiced for these services.

4. Enagás, S.A. has entered into a gas purchase-sale contract with several Gas Natural Group companies to supply the tariff market. In 2007, Enagás S.A. acquired 45,330 GWh of natural gas for 948,184 thousand euros. The acquisition price corresponds to the cost of the raw material used to establish the sale price to distributors.

In accordance with the Second Transitional Provision of ITC 4099/2005, 3 GWh of natural gas were acquired from Gas Natural Group companies in 2007 for 56 thousand euros to comply with the minimum linepack for gas pipelines and tanks in that part corresponding to transporters.

In this same period, Enagás, S.A. transported 40,899 GWh of natural gas to Gas Natural Group distributors for 810,823 thousand euros. The terms and conditions and price of these transactions are regulated by the government.

5. Desarrollo del Cable S.A. leases to 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 2007 was 18,212 thousand euros.

6. Enagás, S.A. provided services to several Gas Natural Group companies amount to 1,891 thousand euros for maintenance, 3,510 thousand euros for infrastructure connections and 1,177 thousand euros for other services. These services were provided on an arm's length basis and at market prices.

7. Inventory rental amounted to a cost for Enagás, S.A. of 3,835 thousand euros.

- **Transactions with Caja de Ahorros del Mediterráneo (CAM) or its subsidiary Inversiones Cotizadas del Mediterráneo (INCOMED S.L.)**

1. Enagás, S.A. paid INCOMED 5,663 thousand euros in dividends.
2. Enagás S.A. renewed a 6,000 thousand euro credit line with CAM and signed a guarantee line for 12,000 thousand euros.
3. Enagás S.A. has an interest rate hedge (COLLAR) with CAM for 15,000 thousand euros for the period from January 2005 to April 2008.

The terms and conditions of all financial agreements entered into with CAM are the usual market ones in respect of interest, fees, expenses and guarantees.

- **Transactions with Caja de Ahorros de Valencia, Castellón y Alicante (Bancaja)**

1. Enagás, S.A. paid Bancaja 5,632 thousand euros in dividends.
2. Enagás, S.A. has a credit line open with Bancaja for 6,000 thousand euros and 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.
4. In the fourth quarter of 2007, Enagás, S.A. paid a Bancaja group company 60 thousand euros of brokerage fees for a real estate transaction.

The terms and conditions of the financial agreements entered into with BANCAJA are the usual market ones in respect of interest, fees, 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., 5,632 thousand euros in dividends.
2. Enagás, S.A. has a credit facility and guarantee line with Cajastur, both for 6,000 thousand euros.
3. Also, Cajastur has a 30,000 thousand euro interest 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, fees, expenses and guarantees.

- **Transactions with Bilbao Bizkaia Kutxa (BBK)**

1. Enagás S.A. paid BBK 3,364 thousand euros in dividends.
2. Enagás S.A. has a credit line with BBK for 6,000 thousand euros and a guarantee line for 6,000 thousand euros.

The terms and conditions of the financial agreements entered into with BBK are the usual market ones in respect of interest, fees, expenses and guarantees.

- **Transactions with Sagane Inversiones, S.L.**

Enagás S.A. paid Sagane Inversiones S.L. 5,632 thousand euros in dividends.

29.2. Transactions with directors, managers and their close relatives (section B of Point 4.1 of Order EHA 3050/2004)

Board members received 1,067 thousand euros in attendance fees. Per diems paid to senior Executives (the Chairman and members of the Management Committee) amounted to 3,100 thousand euros.

29.3. Transactions with other related parties (section D of Point 4.1 of Order EHA 3050/2004)

- **Transactions with Caixa d'Estalvis I Pensions de Barcelona (La Caixa) and group companies**

1. La Caixa has an 89,000 thousand euro interest 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 100,000 thousand euros with La Caixa.
3. At 31 December 2007 La Caixa had given Enagás guarantees amounting to 77,037 thousand euros. In addition, Enagás has renting agreements with La Caixa group companies for 6,737 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, fees, 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 it paid 26,648 thousand euros in 2007.

- **Transactions with Eulen, S.A.**

Enagás, S.A. has entered into cleaning service and general maintenance contracts with Eulen, S.A. In 2007, the cost of these amounted to 1,950 thousand euros.

- **Transactions with Intermoney Energía**

Enagás, S.A. paid this company 144 thousand euros in 2007 for advisory services.

30. Compensation of the board of directors

30.1. Wages and salaries

Board members received remuneration of 2,022 thousand euros and 4,256 thousand euros in 2007 and 2006, respectively. These amounts include attendance fees and other sums paid to directors for their membership of the Board of Directors and board committees, and for attending meetings, in application of the resolution adopted at the Shareholders' Meeting of 11 May 2007, within the limits indicated in said resolution in respect of the amounts received by members of the Board.

Also includes salaries and compensation for discharging executive duties by members of the board with these responsibilities. These amounts are independent of the compensation fixed annually at the Shareholders' Meeting for their directorships.

Finally, the amounts corresponding to payment of expenses incurred by board members for board and committee meetings are also included, as is the part corresponding to the long-term incentive approved by the Board in 2003 and which was paid in June 2006.

The detail of the remuneration by board member is the following:

DIRECTORS	Thousands of euros
Antonio González Adalid (Executive Director) (*)	84
Antonio Llardén Carratalá (Executive Director)	936
Bancaja (Proprietary Director)	102
CAM (Proprietary Director)	67
Carlos Egea Krauel (Proprietary Director)	67
Salvador Gabarró Serra (Proprietary Director)	77
Peña Rueda S.L.U.	61
Xabier de Irala Estévez (Proprietary Director) (**)	4
Bilbao Bizkaia Kutxa (***)	7
Jesús David Álvarez Mezquiriz (Independent Director)	61
Teresa García Milá (Independent Director)	67
Miguel Ángel Lasheras Merino (Independent Director)	61
Dionisio Martínez Martínez	72
Martí Parellada Sabata (Independent Director)	77
Ramón Pérez Simarro (Independent Director)	72
José Riva Francos (Independent Director)	61
Antonio Téllez de Peralta (Independent Director)	72
Luis Javier Navarro Vigil (External Director)	73

(*) From 1 to 24 January

(**) From 31 October to 28 November

(***) Since 28 November

In 2007, the remuneration paid to board members should include the 4,725 thousand euros of termination benefits paid to the former Executive Chairman as stipulated in his contract with Enagás, S.A.

In addition to this indemnity, the rights accrued under the "Directors Long-service Fund" during his relationship were settled, amounting to 3,173 thousand euros.

30.2. Other remuneration

Pension contributions made during the year totalled 3 thousand euros (10 thousand euros in 2006), while life insurance premiums paid totalled 56 thousand euros (82 thousand euros in 2006).

In 2007, no loans were granted to members of the Board of Directors. The outstanding balance of loans granted to directors at 31 December 2006 was 320 thousand euros.

31. Other information on the Board of Directors

In order to comply with the provisions of Article 127 ter of the Spanish Corporations Law, these notes include information relating to the ownership interests and positions held by members of Enagás, S.A.'s Board of Directors in other companies engaging in activities that are similar or complementary to those that constitute its corporate purpose. When preparing this information, companies having a corporate purpose that is similar or complementary to that of Enagás have been considered to be those that independently engage in the transport, regasification, distribution or supply of natural gas, as regulated by Law 34/1998 on the Hydrocarbon Industry.

Ownership interests in companies that have the same, similar or complementary corporate purpose that have been reported to Enagás, S.A. by directors at 31 December 2007 are as follows:

DIRECTOR	COMPANY	No. OF SHARES	% SHAREHOLDING
Caja de Ahorros del Mediterraneo, CAM.	Unión Fenosa	15,690,000	5.150%
Caja de Ahorros de Valencia, Castellón y Alicante, Bancaja.	Iberdrola	301,282,820	6.030%
BBK (Bilbao Bizkaia Kutxa)	Iberdrola	359,380,724	7.197%
	Gas Natural, SDG, S.A.	982,134	0.219%
D. Salvador Gabarró Serra	Iberdrola	10,350	0.001%
D. Luis Javier Navarro Vígil	BP, plc	63,853	0.000%

In addition, Xabier de Irala Estévez, representing BBK (Bilbao Bizkaia Kutxa) on Enagás, S.A.'s Board of Directors, as an individual owns 165,076 shares of Iberdrola, representing 0.003% of its share capital.

Positions held or duties performed by Company directors at companies whose corporate purposes is the same, similar or complementary disclosed to Enagás, S.A. at 31 December 2007 are as follows:

DIRECTOR	COMPANY	POSITION
Salvador Gabarró Serra	Gas Natural, SDG, S.A.	Chairman
Luis Javier Navarro Vígil	BP España SAU.	Director
	Enel Viesgo	Director
	E.ON Renovables Iberia	Chairman
BBK (Bilbao Bizkaia Kutxa)	Iberdrola, S.A.	Director

Manuel Menéndez Menéndez, the representative of Peña Rueda, S.L. on Enagás, S.A.'s Board of Directors, holds as a private individual the positions of Chairman of the Board of Directors of Hidroeléctrica del Cantábrico, S.A. (H.C.), Chairman of the Board of Naturgas Energía Grupo, S.A. and member of the general and supervisory board of EDP-Energías de Portugal, S.A..

José Luis Olivas Martínez, representing the Bancaja on Enagás, S.A.'s Board of Directors, is a director of Iberdrola and Chairman of the Advisory Council of Iberdrola in Valencia.

Xabier de Irala Estévez, representative of BBK (Bilbao Bizkaia Kutxa) on Enagás, S.A.'s Board of Directors, as an individual is a member of the Board of Directors and Executive Committee of Iberdrola.

No activities that are the same, similar or complementary to those of Enagás, other than those listed above, are carried out by Company Directors.

32. Guarantee commitments to third parties

At 31 December 2007 the Group had provided guarantees to third parties deriving from its activities for an amount of 77,874 thousand euros (61,630 thousand euros in 2006). It has also received financial guarantees for a total of 234,517 thousand euros (43,146 thousand euros in 2006) for the loans granted by the European Investment Bank.

The Group's directors estimate that no significant liabilities will arise in addition to those recognised in the accompanying consolidated balance sheet as a result of the transactions described in this note.

33. Events after the balance sheet date

On 10 January 2007, the gross 0.24 interim dividend charged against 2007 profit approved by the Board of Directors of Enagás, S.A. was paid.

34. Other disclosures

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, a proprietary director representing Cajas de Ahorros of Valencia, Castellón y Alicante – BANCAJA -, was appointed Deputy Chairman of Enagás S.A.

In 2007, rating agencies affirmed the Company's debt rating. Standard & Poor's maintained its long-term AA- rating and short-term A-1+ rating, while Moody's confirmed its long-term A2 and short-term P-1 ratings.

In April 2007, the +Familia foundation awarded Enagás, S.A. the *Certificado de Empresa Familiarmente Responsable* (family-friendly company certificate) in recognition of the Company's policies in support of work-life balance.

On 31 October 2007, Enagás held an Extraordinary Shareholders Meeting at which approval was given to amend the Company's Articles of Association to introduce new voting rights limits as set out in Law 12/2007. Accordingly, no natural person or corporate body may hold, directly or indirectly, an interest in Enagás representing more than 5% of its share capital, or exercise more than 3% of its voting rights. In addition, companies which operate in the gas industry or which, directly or indirectly, hold over 5% of the share capital of these companies may not exercise voting rights in the technical system operator above 1%. These restrictions shall not to the direct or indirectly ownership interest held by public-sector enterprises.

Approval was also given at the Extraordinary Shareholders Meeting to appoint Xavier as proprietary director in representation of Bilbao Bizcaia Kutxa (BBK).

In the fourth quarter of 2007, Enagás, S.A., Eurogas Corporation (Eurogas) and ACS entered into an agreement to promote the Castor underground natural gas storage facility project located in the province of Castellón. Under the terms of this agreement, Enagás, S.A. will hold a 33.33% stake in this gas infrastructure facility when it comes on stream, tentatively by 2010.

35. Joint ventures

A continuación se presentan datos sobre las sociedades en negocios conjuntos de la Sociedad a 31 de diciembre de 2007:

Thousands of euros										
Details of investee (*)										
Company	Country	Activity	Consolidation method	%	% of voting rights controlled by Enagás, S.A.	Carrying amount	Assets	Liabilities	Equity	Profit for the year (**)
Gasoducto Al-Andalus, S.A.	Madrid	Gas transport	Proportionate	66.96	50	23,744	100,130	100,130	50,825	7,791
Gasoducto de Extremadura, S.A.	Madrid	Gas transport	Proportionate	51	50	9,732	45,351	45,351	29,189	7,017
Gasoduto Campo Maior-Leiria-Braga, S.A.	Portugal	Gas transport	Proportionate	12	50	3,195	88,944	88,944	36,858	8,672
Gasoduto Braga-Tuy, S.A.	Portugal	Gas transport	Proportionate	49	50	2,546	19,496	18,055	18,055	1,064
Total										

PC: Proportionate consolidation.

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

(**) Data for Gasoduto Campo Mayor-Leiria-Braga, S.A. and Gasoduto Braga-Tuy, S.A. are taken at the close of 30 November 2007 (see Note 1a).

36. 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.

MANAGEMENT REPORT OF THE ENAGÁS GROUP

Performance in 2007

Net profit rose 10.1% in 2007 to 238,239 thousand euros.

Revenue totalled 792,025 thousand euros.

Total investments in the year were 523,361 thousand euros. The Board of Directors of Enagás, S.A. approved investments totalling 1,189 million euros, which mainly relate to the following projects:

- The Musel regasification plant in Asturias
- The Yela underground storage facility in Guadalajara
- The Chincilla compression station in Albacete

The Enagás, S.A. Group's equity at 31 December 2007 stood at 1,343,905 thousand euros.

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

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

On 29 December 2006 the Ministry of Industry, Tourism and Trade approved five Ministerial Orders: ITC/3993/2006, ITC/3994/2006 and ITC/3995/2006, establishing the remuneration regime for regulated gas activities in 2007, and ITC/3992/2006 and ITC/3996/2006, establishing the tolls and royalties for third-party access to gas installations, respectively, for 2007.

Throughout the year the Group continued to enlarge and enhance its re-gasification, transport and storage installations to adapt them to the outlook for demand going forward. In this respect, the main actions carried out were:

- The increase in the emission capacity of the Huelva Plant to 1,350,000m³(n)/h
- The increase in the total combined nominal re-gasification capacity at the three Plants of 150,000 m³ (n)/h.
- The increase in the continuity of supply and the development of areas which previously had no access to natural gas supplies. At the end of 2007, the Enagás, S.A. Group operated 7,655Km of pipeline designed to operate at maximum bar pressures of 72 and 80, compared with 7,609Km at the end of 2006.
- The start of operations of transport assets -the main asset coming on stream in 2007 was the Falces-Irurzun-Tramo II gas pipeline- as well as the inclusion of Reduction and Metering Stations (RMS) and the modification of certain gas pipeline positions. The emission capacity of the Huelva plant was also expanded to 1,350,000 m³(n)/h and optice fibre cable was added at the branch to the Jaca wells and the northern connection of Zaragoza. Some 22 new RMS were put into service in the course of the year, taking the total number in operation at the year-end to 378.

Overall, at the end of 2007, 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, with total combined LNG storage capacity of 1,287,000m³ in a total of 13 tanks, 9 cistern loaders and emission capacity of 4,200,000 m³(n)/h, 150,000 m³(n)/h higher than the 4,050,000 m³(n)/h at the end of 2006.

The Serrablo (Huesca) and Gaviota (Vizcaya) underground storage facilities, in operation, with maximum injection of 8.5 Mm³/day and maximum output of 12.6 Mm³/day, and the concession to the Yela (Guadalajara) storage facility in accordance with the provisions of Royal Decree 1061/2007 of 20 July.

A gas pipeline network with a total length of 7,655 Km, consisting of the following main lines:

- **Central line:** Huelva-Córdoba-Madrid-Burgos-Cantabria-Basque Country (with the Huelva-Seville-Córdoba-Madrid duplicated).

- **Eastern line:** Barcelona-Valencia-Alicante-Murcia-Cartagena
- **Western line:** Almendralejo-Cáceres-Salamanca-Zamora-León-Oviedo
- **Spain-Portugal western line:** Córdoba-Badajoz-Portugal (Campo Maior-Leiria-Braga)-Tuy-Pontevedra-A Coruña-Oviedo
- **Ebro line:** Tivisa-Zaragoza-Logroño-Calahorra-Haro

The following gas pipeline entry points to the gas system:

North: the Calahorra-Lac Spain-France pipeline connecting Spain and Portugal with the European gas pipeline network

South: the Maghreb-Europe pipeline and connection to the Marismas-Palancares gas fields in the Guadalquivir valley

Events after the balance sheet date

On 10 January 2008 an interim dividend was paid against 2007 results. The dividend totalled 0.24 euros per share and was approved by the Board of Directors of Enagás, S.A. at its meeting held on 19 December 2007.

Research and development activity

Technological innovation initiatives carried out by the Company in 2007 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 2007 by area were:

- a) **Production (LNG).** Work continued on the GERG - "MOLAS" project, headed by Enagás, S.A. aimed at knowing how LNG ages and the changes to its properties during transport by ship. The Company also continued to develop a reliability for plant equipment and installations. In this area, the Company also embarked on an LNG sampling project to more accurately gauge the quality of the LNG unloaded at the regasification plants.
- b) **Transport.** Work continued on the project to design, building and start-up an electricity generation plant at the Almendralejo compression station. In addition, technical and financial feasibility studies were carried out to gauge the use of micro turbines in the supply of power at Enagás, S.A.'s positions. It made preliminary studies, commissioned advisory services and acquired components for the test model.
- c) **Operation.** The first phase was completed of the "Electra" application, which provides information about demand for natural gas for the generation of electricity. The "Proteo" application was also completed. This application provides statistics on the long-term (10 years) demand for natural gas.
- d) **Safety.** Work proceeded on various projects and studies related to the analysis of gas pipeline risks.
- e) **Measurement.** The basic engineering and details of the high pressure gas meter calibration bank were carried out, along with demonstration tests of a Coriolis-type metre under operating conditions in Calahorra. In addition, the first phase of the project to assess the state of the art in systems for the supervision and monitoring of energy measurement stations was completed.
- f) **Projects of General Interest.** The GERG project to measure and determine the dew point of natural gas was finalised, with the Company planning to compare its results with those of a similar project being carried out in the US.
- g) **Other matters.** The Company is carrying out a campaign to contact other energy companies with the aim of spearheading the joint development of RD&I activities in order to share costs and exchange information.

Additional information

a) The structure of capital, including securities which are not admitted to trading on a regulated market in a Member State, indicating, where appropriate, the different classes of shares and, for each class of shares, the rights and obligations attaching to it and the percentage of total share capital that it represents

The capital structure of the Company:

Date of last modification	Share capital (€)	Number of shares	Number of voting rights
03/05/2002	358,101,390,00	238,734,260	238,734,260

All the shares are of the same class.

b) Restrictions on the transfer of securities

There are no restrictions on the transfer of securities.

c) Significant direct and indirect shareholdings

Name or corporate name of the shareholder	Number of direct voting rights	Number of indirect voting rights (*)	% of total voting rights
GAS NATURAL SDG, S.A.	11,936,703	0	5.000
ATALAYA INVERSIONES, SRL	0	11,936,714	5.000
CAJASTUR (CAJA DE AHORROS DE ASTURIAS)	0	11,937,395	5.000
SEPI (SOCIEDAD ESTATAL DE PARTICIPACIONES INDUSTRIALES)	11,936,703	0	5.000

(*) through:

Name or corporate name of the direct owner of the shareholding	Number of direct voting rights	% of total voting rights
SAGANE INVERSIONES S.L.	11,936,714	5.000
CANTÁBRICA DE INVERSIONES DE CARTERA, S.L.	11,937,395	5.000
Total:	23,874,109	10.000

Name or corporate name of the Director	Number of direct voting rights	Number of indirect voting rights (*)	% of total voting rights
DON ANTONIO LLARDÉN CARRATALÁ	16,700	0	0.007
BANCAJA (CAJA DE AHORROS DE VALENCIA, CASTELLÓN Y ALICANTE)	0	11,936,713	5.000
BBK (BILBAO BIZKAIA KUTXA)	11,936,713	0	5.000
CAM (CAJA DE AHORROS DEL MEDITERRÁNEO)	0	11,936,713	5.000
DON SALVADOR GABARRÓ SERRA	10	0	0.000
DOÑA TERESA GARCÍA-MILÁ LLOVERAS	200	0	0.000
DON DIONISIO MARTÍNEZ MARTÍNEZ	2,010	0	0.001
DON LUIS JAVIER NAVARRO VIGIL	10	0	0.000
DON MARTÍ PARELLADA SABATA	910	0	0.000
DON RAMÓN PÉREZ SIMARRO	100	0	0.000
DON ANTONIO TÉLLEZ DE PERALTA	400	0	0.000

(*) through:

Name or corporate name of the direct owner of the shareholding	Number of direct voting rights	% of total voting rights
BANCAJA INVERSIONES, S.A.	11,936,713	5.000
INCOMED, S.L. (INVERSIONES COTIZADAS DEL MEDITERRÁNEO, S.L.)	11,936,713	5.000
Total:	23,873,426	10.000

d) Any restrictions on voting rights

Article 6 bis ("Restrictions on shareholdings and the exercise of voting rights" of the Articles of Association was amended at the Extraordinary Shareholders Meeting held 31 October 2007 to bring it in line with the provisions of Law 12/2007 of 2 July.

Law 12 of 2 July 2007, amending Law 34/1998 on the Hydrocarbons sector in accordance with Directive 2003/55/EC of the European Parliament and of the Council of 26 June 2003 concerning common rules for the internal market in natural gas, provides new wording for the 20th additional provision of Law 34/1998, which vests in Enagás, S.A. the capacity of "technical system operator" and sets ceilings on shareholdings in the Company. The wording of this additional provisions now stands as follows:

"Additional provision 20. Technical System Manager.

ENAGAS, Sociedad Anónima shall undertake the duties, rights and obligations of technical system operator. (...)

No natural person or corporate body may hold, directly or indirectly, an interest in the company in the technical system manager representing more than 5% of share capital, or exercise more than 3% of the company's voting rights. Such shares may in no event be syndicated. Parties operating in the gas industry or natural persons or corporate bodies that, directly or indirectly, hold over 5% of the share capital of these companies may not exercise voting rights in the technical system manager

above 1%. These restrictions shall not apply to direct or indirect shareholdings held by public-sector enterprises. The shareholdings may in no event be syndicated.

In addition, the sum of direct and indirect shareholdings held by individuals or legal entities operating in the natural gas industry may not exceed 40%.

To calculate the shareholding, the same individual or legal entity will be attributed, in addition to the shares and other securities held or acquired by companies belonging to its group, as defined in Article 4 of the Spanish Securities Market Law 24/1988, of 28 July, those whose ownership corresponds to:

- a) Any person acting on his own behalf but on account of the aforesaid, in concert or constituting a decision-making unit. Unless proven otherwise, the members of a governing body shall be presumed to act on account of or in concert with that governing body.
- b) Partners with those with which one of them exercises control over a dominant company in accordance with 4 of Securities Market Law 24/1988.

In any event, regard shall be had to the proprietary ownership of the shares and other securities and the voting rights attached to each.

Breach of the restrictions on interests in share capital prescribed by this article shall be treated as a very serious infringement for the purposes of article 109 of this Law, and liability shall attach to any natural person or body corporate found to be holders of the securities or to any person to whom there may be attributed the excess interest in share capital or voting rights pursuant to the above sub-paragraphs. In any event, the regime of penalties laid down in the Law shall be applied".

Transitional provision 6 of Law 12/2007 of 2 July provides that within four months of the law coming into force, Enagás, S.A. shall bring its bylaws in line with additional provision 20 of Law 34/1998 of 7 October. Transitional provision 2 of Law 12/2007 of 2 July, further prescribes:

"Transitory provision 20. Technical System Manager.

Any voting rights attaching to shares and other securities held by persons with an ownership interest in the share capital of ENAGÁS, Sociedad Anónima, in excess of the ceilings set forth in additional provision 20 of Hydrocarbons Law 34/1998 of 7 October shall be suspended once this provision comes into force.

The National Energy Commission (CNE) shall have the standing to bring legal action to give effect to the restrictions imposed in this provision".

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

"No natural person or body corporate may hold, directly or indirectly, an interest in the company in the Company representing more than 5% of share capital or exercise more than 3% of the its voting rights. Such shares may in no event be syndicated. Parties operating in the gas industry or natural persons or legal entities that, directly or indirectly, hold over 5% of the share capital of these companies may not exercise voting rights above 1%. These restrictions shall not apply to direct or indirect shareholdings held by public-sector enterprises. The shareholdings may in no event be syndicated.

In addition, the sum of direct and indirect shareholdings held by parties operating in the natural gas industry may not exceed 40%.

For the purposes of computing holdings in the share capital of the Company, additional provision 20 of the Hydrocarbons Law 34/1998 of 7 October shall apply".

e) Agreements between shareholders

There are no records of any agreements among the Company's shareholders.

f) The rules governing the appointment and replacement of board members and the amendment of the articles of association

Bylaw provisions affecting the appointment and replacement of board members:

ARTICLE 35. – COMPOSITION OF THE BOARD

The Company shall be governed and managed by the Board of Directors, which shall represent the Company collegiately, both in and out of court. Its representation shall extend, without any limitation of power, to all acts embodied in the corporate purpose.

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

The Board Members shall be elected by means of a vote. For this purpose, the shares that are voluntarily pooled, up to a total in share capital that is equal to or greater than the result of dividing the latter by the number of Board Members, shall be entitled to appoint those who, exceeding whole fractions, are deducted from the corresponding proportion. If this power is exercised, the shares pooled in this fashion shall not take part in the appointment of the remaining members of the Board.

The post of Director, for those for which shareholder status is not required, may be waived, revoked and eligible for re-election to one or more terms.

An appointment as Director shall take effect upon acceptance thereof.

Any person found in any of the situations referred to under article 124 of the revised Spanish Corporation Law may not be a Director.

ARTICLE 37º. - POSTS

The Board of Directors shall appoint a Chairman, and if applicable, a Deputy Chairman, who in the Chairman's absence shall act as Chairman. In lieu of a Deputy Chairman, the most senior Director in age shall substitute the Chairman.

The appointment of a Secretary is also incumbent on the Board of Directors, which may appoint, in addition to a Deputy Secretary, who in the Secretary's absence shall act as Secretary, persons who are not Directors. In lieu of a Deputy Secretary, the most senior Director in age shall substitute the Secretary.

Provisions of the organisational and operational Regulations of the Board of Directors (adopted by the Board of Directors on 29 March 2007):

ARTICLE 3. - QUANTITATIVE AND QUALITATIVE COMPOSITION

1. Within the minimum and maximum limits set forth under article 35 of the Company's current bylaws, notwithstanding the powers of proposal enjoyed by shareholders, the Board of Directors shall propose to the General Shareholders' Meeting the number of Directors that at each stage it deems appropriate in the interest of the Company. The General Shareholders' Meeting shall decide on the final number.

2. The Board of Directors shall be composed of Directors that belong to the categories stated below:

- a) **Internal or Executive Directors:** Directors who perform senior management functions or are employed by the Company or its Group. If a Director performs senior management functions and, at the same time, is or represents a significant shareholder or one that is represented on the Board of Directors, he/she shall be considered internal or executive for purposes of the present Regulations.

No more than 20% of the total number of members of the Board of Directors may belong to this category.

- b) **External Directors:** These Directors shall in turn fall into three categories:

b1) **Proprietary Directors:** Directors who hold a shareholding interest equal to or greater than that which is considered significant under the law or have been appointed on account of their status as shareholders, even if their shareholding is less than said amount, as well as those who represent said shareholders.

b2) **Independent Directors:** Directors of acknowledged professional prestige are able to contribute their experience and knowledge to corporate governance and, since they do not belong to either of the two preceding categories, meet the conditions set forth under article 9 of the present Regulations. The number of independent Directors shall represent at least one third of all Directors.

b3) **Other External Directors:** external directors who are not proprietary directors and cannot be classified as independent directors in accordance with article 9 of the present Regulations.

In exercising its powers of co-option and proposal to the General Shareholders' Meeting to fill vacancies, the Board of Directors shall endeavour to ensure that, within the composition of the body, independent directors represent a broad majority over executive directors and that among external directors, the relation between proprietary members and independents should match the proportion between the capital represented on the board by proprietary directors and the remainder of the company's capital.

ARTICLE 8. - APPOINTMENT OF DIRECTORS

1. Directors shall be appointed by the General Shareholders' Meeting or by the Board of Directors in conformity with the provisions contained in the Spanish Corporation Law and the Company Bylaws.
2. Those appointed to directorship must be people who, in addition to meeting the legal and bylaw-stipulated requirements, have acknowledged prestige and the appropriate professional knowledge and experience to perform their tasks efficiently.

The proposal for the appointment of directors which the Board of Directors submits to the General Shareholders' Meeting, as well as appointments adopted by the Board by virtue of its powers of co-option, subject to a report from the Appointments and Remuneration Committee. When the Board of Directors does not agree with the Committee's recommendations, it must explain the reasons for this and duly record its reasons in the Minutes.

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

ARTICLE 9. - APPOINTMENT OF INDEPENDENT DIRECTORS

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

- a) Past employees or executive directors of Group companies, unless 3 or 5 years have elapsed, respectively, from the end of the relation

- b) Those who have received some payment or other form of compensation from the Company or its Group on top of their directors' fees, unless the amount involved is not significant. Dividends or pension supplements received by a director for prior employment or professional services shall not count for the purposes of this section, provided such supplements are non contingent, i.e. the paying company has no discretionary power to suspend, modify or revoke their payment, and by doing so would be in breach of its obligations.
- c) Partners, now or on the past 3 years, in the external auditor or the firm responsible for the audit report, during the said period, of Enagás, S.A. or any other within its Group.
- d) Executive directors or senior officers of another company where an executive director or senior officer of Enagás, S.A. is an external director.
- e) Those having material business dealings with Enagás, S.A. or some other in its Group or who have had such dealings in the preceding year, either on their own account or as the significant shareholder, director or senior officer of a company that has or has had such dealings. Business dealings will include the provision of goods or services, including financial services, as well as advisory or consultancy relationships.
- f) Significant shareholders, executive directors or senior officers of an entity that receives significant donations from Enagás, S.A. or its Group, or has done so in the past 3 years. This provision will not apply to those who are merely trustees of a Foundation receiving donations.
- g) Spouses, or partners maintaining an analogous affective relationship, or close relatives of one of the Company's executive directors or senior officers.
- h) Any person not proposed for appointment or renewal by the Appointments and Remuneration Committee.
- i) Those standing in some of the situations listed in a), e), f) or g) above in relation to a significant shareholder or a shareholder with board representation. In the case of the family relations set out in letter g), the limitation shall apply not only in connection with the shareholder but also with his or her proprietary directors in the investee company. Proprietary directors disqualified as such and obliged to resign due to the disposal of shares by the shareholder they represent may only be re-elected as independents once the said shareholder has sold all remaining shares in the Company.

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

ARTICLE 10. - DURATION OF POST AND CO-OPTION

Directors may hold their post for a period of four years, and may be re-elected. Directors appointed by co-option will perform their functions until the date of the next General Shareholders' Meeting.

ARTICLE 11. - RE-APPOINTMENT OF DIRECTORS

The Appointments and Remuneration Committee, responsible for evaluating the quality of work and dedication to the post of the Directors proposed during the previous term of office, shall provide information required to assess proposal for re-appointment of Directors presented by the Board of Directors to the General Shareholders' Meeting.

As a general rule, appropriate rotation of independent Directors should be endeavoured. For this reason, when one is proposed for re-election, the circumstances making his/her continuity in the post advisable must be justified. Independent directors should not stay on as such for a continuous period of more than 12 years.

ARTICLE 12. - REMOVAL OF DIRECTORS

1. Directors shall leave their post after the first General Shareholders' Meeting following the end of their tenure and in all other cases in accordance with the Law, the Company's Bylaws and the present Regulations.
2. Directors must place their offices at the Board of Directors' disposal, and tender, if the Board deems this appropriate, their resignation in the following cases:
 - a) When they are involved in any of the legally stipulated circumstances of incompatibility or prohibition.
 - b) When they are in serious breach of their obligations as Directors.
 - c) When they may put the interests of the Company at risk or harm its name and reputation. If a Director is indicted or an order is issued to initiate a trial against him/her for a crime specified under article 124 of the Spanish Corporation Law, the Board shall examine the matter as promptly as possible and, in view of the particular circumstances, decide where or not the Director should be called on to resign.
 - d) When the circumstances motivating their appointment as directors no longer exist.
 - e) When independent directors no longer fulfil the criteria required under article 9.
 - f) When the shareholders represented by proprietary directors dispose of their ownership interests. If such shareholders reduce their stakes, thereby losing some of their entitlement to proprietary directors, the latter's number should be reduced accordingly.

Should the Board of Directors not deem it advisable to have a Director tender his/her resignation in the cases specified under letters d), e) and f), the latter must be included in the category that, in accordance with the present Regulations, is most appropriate based on his/her new circumstances.

3. The Board of Directors should not propose the removal of independent directors before the expiry of their tenure as mandated by the bylaws, except where just cause is found by the board, based on a report from the Appointments and Remuneration Committee.
4. After a director has been removed from his/her post, he/she may not work for a competitor company for a period of two years, unless the Board of Directors exempts him/her from this obligation or shortens its duration.

Bylaw provisions affecting the amendment of the bylaws:

ARTICLE 26. - SPECIAL QUORUM

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

At second call, attendance of at least twenty-five percent of the paid up share capital with voting rights shall be sufficient.

g) The powers of board members, and in particular the power to issue or buy back shares.

The only member of the Board of Directors who has the power to represent the Company is Chairman Antonio Llardén Carratalá. The Board of Directors granted him the powers that appear in the public deed executed on 9 February 2007 before Notary of Madrid Pedro de la Herrán Matorras under number 324 of his protocol and as recorded in the Mercantile Registry of Madrid, Volume 20,090; Book 0; Folio 172, Section 8; Page M-6193; Record 688. Although said powers encompass broad powers of representation, they do not include the ability to issue or buy back shares of the Company.

Regardless of the foregoing, the resolution adopted by the General Shareholders' Meeting held on 11 May 2007 with the following terms is now in force:

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

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

No agreements of this kind exist.

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

The Company has an agreement with the Chief Executive and 10 of its managers that include express severance pay clauses.

The clauses in each case are applicable in cases of unfair disciplinary dismissal, dismissal for the reasons outlined under art. 52 of the Workers' Statute or as decided by the Manager citing one of the reasons outlined under art. 50 of the Workers' Statute provided the resolution is declared justified by means of conciliation between the parties, legal judgment, arbitration award, or resolution by a competent administrative body. They are not applicable if the resolution is due to a unilateral decision made by the Manager without any cause given.

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

ENAGÁS GROUP

On 25 February 2007, the Board of Directors of Enagás, S.A. approved the management report for the year ended 31 December 2007, consisting of the accompanying documents, in accordance with Article 171 of the Spanish Corporation Law and Article 37 of the Code of Commerce.

However, pursuant to article 171.2 of the Spanish Companies Act, it is hereby noted that the financial statements were not signed by Caja de Ahorros del Mediterráneo, represented by Vicente Salar Belló, as he did not attend the meeting and his signature could not be obtained.

The undersigned directors state that, to the best of their knowledge, the annual financial statements, prepared in accordance with the accounting principles applied, provide a true and fair value of the equity, financial position and results of the Company and of the companies included in consolidation, taken as a whole, and that the management reports includes a fair analysis of the evolution and results of the businesses and the position of the Company and the companies included in consolidation, taken as a whole, together with the description of the main risks and uncertainties facing them.

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