ENAGÁS, S.A. and Subsidiaries
Consolidated balance sheet at 31 December 2006 and 2005

(Figures in thousands of euros)

Assets	Notes	31.12.2006	31.12.2005
NON-CURRENT ASSETS		**3,084,559**	**2,813,503**
Intangible assets	5	32,278	29,600
Investment property		643	677
Property, plant and equipment	6	3,014,907	2,737,142
Non-current financial assets	8	27,299	28,211
Deferred tax assets	21	9,432	17,873
CURRENT ASSETS		**541,636**	**412,116**
Inventories	10	78,736	2,345
Trade debtors and other accounts receivable	9	446,624	402,111
Other current financial assets	8	4,180	3,849
Income tax receivable	9 and 21	6,284	51
Other current assets		2,499	2,374
Cash and cash equivalents		3,313	1,386
TOTAL GENERAL		**3,626,195**	**3,225,619**

Liabilities	Notes	31.12.2006	31.12.2005
EQUITY AND LIABILITIES	**11**	**1,235,203**	**1,110,429**
Share capital		358,101	358,101
Reserves		706,078	599,565
Profit (loss) for the year		216,384	190,960
Interim dividend		(45,360)	(38,197)
NON-CURRENT LIABILITIES		**1,726,364**	**1,588,051**
Borrowings	15	1,633,225	1,495,874
Other financial liabilities	16 and 18	21,220	28,917
Deferred tax liabilities	21	2,149	2,374
Provisions	14	16,708	16,607
Other non-current liabilities	13	53,062	44,279
CURRENT LIABILITIES		**664,628**	**527,139**
Borrowings	15	123,961	22,563
Other financial liabilities	16 and 18	3,664	16,808
Trade and other payables	19	447,391	394,994
Current tax liabilities	21	41,276	51,873
Other current liabilities		48,336	40,901
TOTAL GENERAL		**3,626,195**	**3,225,619**

Notes 1 to 35 described in the accompanying notes are an integral part of the consolidated balance sheet as of 31 December 2006.

Translation of consolidated financial statements originally issued in Spanish and prepared in accordance with IFRSs, as adopted by the European Union (see Notes 2 and 35). In the event of a discrepancy, the Spanish-language version prevails.

ENAGÁS, S.A. and Subsidiaries
Consolidated profit and Loss Accounts for the years ended sheet at 31 December 2006 and 2005 (Figures in thousands of euros)

	Notes	31.12.2006	31.12.2005
Purchase-sale of gas on regulated market	22	11,339	(6,398)
Revenue from regulated activities	22	733,055	652,609
Revenue from non-regulated activities	22	13,985	15,437
Other revenue			
Other operating revenue	22	19,587	19,253
Staff costs	23	(54,321)	(58,198)
Depreciation and amortisation	5 and 6	(184,934)	(145,601)
Other operating expenses	23	(160,037)	(144,278)
OPERATING PROFIT (LOSS)		**378,674**	**332,824**
Financial and similar revenue	24	3,662	2,656
Interest and similar charges	24	(50,655)	(43,054)
PRE-TAX PROFIT FROM CONTINUED OPERATIONS		**331,681**	**292,426**
Income tax expense	21	(115,297)	(101,466)
PROFIT AFTER TAX - CONTINUING OPERATIONS		**216,384**	**190,960**
After tax profit from discontinued operations		—	—
PROFIT (LOSS) FOR THE YEAR		**216,384**	**190,960**
Attributable to:			
Parent Company		**216,384**	**190,960**
NET PROFIT PER SHARE	12	**0.91**	**0.80**
NET PROFIT PER DILUTED SHARE		**0.91**	**0.80**

Notes 1 to 35 described in the accompanying notes are an integral part of the consolidated profit and loss accounts as of 31 December 2006.

Translation of consolidated financial statements originally issued in Spanish and prepared in accordance with IFRSs, as adopted by the European Union (see Notes 2 and 35). In the event of a discrepancy, the Spanish-language version prevails.

ENAGÁS, S.A. and Subsidiaries
Statement of changes in consolidated net equity as of 31 December 2006 and 2005 **(Figures in thousands of euros)**

	Share capital and additional paid-in capital	Other reserves	Reserve for revaluation of NEC debt	Cash flow hedge reserve	PRIOR YEARS' PROFIT/LOSS	Profit (loss)	Interim dividend	Total
Balance at 01.01.05	**358,101**	**532,103**	**(1,075)**	**(17,682)**	**(690)**	**158,118**	**(31,035)**	**997,840**
Distribution of profit/(loss) to:								
Parent Company legal reserve	-	-	-	-	-	-	-	-
Parent Company voluntary reserve	-	78,638	-	-	-	(78,638)	-	-
Consolidated Companies' profit (loss)	-	9,901	-	-	-	(9,901)	-	-
Other	-	658	-	-	-	-	-	658
Dividends paid by the parent	-	-	-	-	-	(79,063)	31,035	(48,028)
Dividends received by the parent	-	(9,484)	-	-	-	9,484	-	-
Net profit (loss) not recognised in the profit and loss accounts	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Changes in the fair value of assets	-	-	71	-	-	-	-	71
Deferred tax liability	-	-	(25)	-	-	-	-	(25)
Hedging transactions	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Profit transferred to shareholders' equity	-	-	-	(4,145)	-	-	-	(4,145)
Transfer to profit (loss)	-	-	-	15,145	-	-	-	15,145
Deferred tax liability	-	-	-	(3,850)	-	-	-	(3,850)
Profit (loss) for the year	**-**	**-**	**-**	**-**	**-**	**190,960**	**-**	**190,960**
Interim dividend	-	-	-	-	-	-	(38,197)	(38,197)
Balance at 31.12.05	**358,101**	**611,816**	**(1,029)**	**(10,532)**	**(690)**	**190,960**	**(38,197)**	**1,110,429**
Distribution of profit/(loss) to:								
Parent Company legal reserve	-	-	-	-	-	-	-	-
Parent Company voluntary reserve	-	95,924	-	-	-	(95,924)	-	-
Consolidated Companies' profit (loss)	-	9,224	-	-	-	(9,224)	-	-
Other	-	(208)	-	-	-	-	-	(208)
Dividends paid by the parent	-	-	-	-	-	(95,479)	38,197	(57,282)
Dividends received by the parent	-	(9,667)	-	-	-	9,667	-	-
Net profit (loss) not recognised in the profit and loss accounts	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Changes in the fair value of assets	-	-	386	-	-	-	-	386
Deferred tax liability	-	-	(195)	-	-	-	-	(195)
Hedging transactions	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Profit transferred to shareholders' equity	-	-	-	9,479	-	-	-	9,479
Transfer to profit (loss)	-	-	-	7,463	-	-	-	7,463
Deferred tax liability	-	-	-	(5,893)	-	-	-	(5,893)
Profit (loss) for the year	**-**	**-**	**-**	**-**	**-**	**216,384**	**-**	**216,384**
Interim dividend	-	-	-	-	-	-	(45,360)	(45,360)
Balance at 31.12.06	**358,101**	**707,089**	**(838)**	**517**	**(690)**	**216,384**	**(45,360)**	**1,235,203**

Notes 1 to 35 described in the accompanying notes are an integral part of the changes to consolidated net equity statement as of 31.12.06.

Translation of consolidated financial statements originally issued in Spanish and prepared in accordance with IFRSs, as adopted by the European Union (see Notes 2 and 35). In the event of a discrepancy, the Spanish-language version prevails.

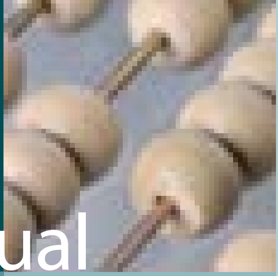
ENAGÁS, S.A. and Subsidiaries
Consolidated cash flow statements at 31 December 2006 and 2005

(Figures in thousands of euros)

	2006	2005
CONSOLIDATED PROFIT (LOSS) BEFORE TAXES	**331,681**	**292,426**
Adjustments to consolidated profit (loss)	**191,192**	**140,688**
Fixed asset depreciation	184,934	145,601
Movement in provisions	(1,516)	3,338
Profit/loss on the disposal of fixed assets	(195)	(3,410)
Changes in deferred revenue	8,626	(6,186)
Change in accruals and prepayments	(409)	661
Other adjustments	(248)	684
Change in working capital	**(59,185)**	**(58,267)**
Increase / decrease in inventories	(76,391)	39
Increase / decrease in debtors	(43,955)	68,318
Increase / decrease in suppliers and creditors	61,161	(126,624)
Increase / decrease in other receivables	-	-
Change in corporate income tax payable	**(117,678)**	**(81,232)**
NET CASH FLOW FROM OPERATING ACTIVITIES	**346,010**	**293,615**
Investments in capital	(479,312)	(358,667)
Capital grants received	1,164	18,460
Cash flow from the sale of capital assets	45	4,943
Increase / decrease in financial assets	(5,208)	(5,073)
NET CASH FLOW FROM INVESTMENT ACTIVITIES	**(483,311)**	**(340,337)**
Increase / decrease in loans other than overdrafts	235,796	128,777
Dividends paid	(95,479)	(79,063)
Increase / decrease in other payables	(1,089)	(3,633)
NET CASH FLOW FROM FINANCING ACTIVITIES	**139,228**	**46,081**
TOTAL NET CASH FLOW	**1,927**	**(641)**
Cash and other equivalent liquid assets at the beginning of the period	1,386	2,027
CASH AND OTHER EQUIVALENT LIQUID ASSETS AT THE END OF THE PERIOD	**3,313**	**1,386**

Notes 1 to 35 described in the accompanying notes are an integral part of the consolidated cash flow statement as of 31 December 2006.

Translation of consolidated financial statements originally issued in Spanish and prepared in accordance with IFRSs, as adopted by the European Union (see Notes 2 and 35). In the event of a discrepancy, the Spanish-language version prevails.



> Annual Accounts

Translation of consolidated financial statements originally issued in Spanish and prepared in accordance with IFRSs, as adopted by the European Union (see Notes 2 and 35). In the event of a discrepancy, the Spanish-language version prevails.

ENAGÁS, S.A. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED ANNUAL ACCOUNTS FOR THE YEAR ENDED 31 DECEMBER 2006

1. GROUP ACTIVITY

The Parent Company Enagás, S.A. is a company incorporated in Spain in accordance with Spanish Public Limited Companies Law, whose corporate purpose is the import, acquisition and sale of natural gas on the regulated domestic market, and its regasification, storage and transport both for the regulated and the liberalised market. Its registered office is at Paseo de los Olmos, nº 19, 28005 Madrid.

In addition to the operations it carries out directly, Enagás, S.A. is the head of a group of companies that include holdings in business combinations carrying out diverse activities and which comprise, together with Enagás, S.A., the Enagás Group (hereinafter, the Group). Consequently, Enagás, S.A. is required to prepare Consolidated Annual Accounts for the Group in addition to its own Annual Accounts.

The consolidated Annual Accounts of the Group and of each of the entities comprising this for fiscal year 2006, which have served as the basis for the preparation of these consolidated Annual Accounts, are pending the approval of their respective Shareholders' Meetings. However, the Directors believe these Annual Accounts will be approved as presented.

These Consolidated Annual Accounts are presented in thousands of euros (unless expressly stated otherwise) as this is the currency of the principal economic area in which the Enagás Group operates.

2. BASIS OF PRESENTATION OF THE FINANCIAL STATEMENTS AND CONSOLIDATION PRINCIPLES

2.1. Accounting principles

The consolidated annual accounts of the Enagás Group for fiscal year 2006 have been prepared by the Directors, at a meeting of the Board of Directors held on 29 March 2007, in accordance with the provisions of International Financial

Reporting Standards (hereinafter, “IFRS”), as adopted by the European Union, pursuant to Regulation (EC) No. 1606/2002 of the European Parliament and the Council.

These annual accounts give a true and fair view of the financial position of the Group at 31 December 2006 and of the results of its operations, changes in its net equity and cash flows which have occurred in the Group in the year ending on that date.

The Consolidated Annual Accounts for fiscal year 2006 of the Enagás Group have been prepared from the accounting records kept by the Company and by the other entities comprising the Group.

The Consolidated Annual Accounts for fiscal year 2005 included for comparative purposes have also been prepared in accordance with the provisions of the IFRS adopted by the European Union consistent with those applied in fiscal year 2006.

As a result of law 62/2003, published on 31 December 2003, in 2006 Gas Natural SDG, S.A. reduced its shareholding to the maximum permitted (see Note 11). Consequently, debit and credit balances at 31 December 2006 and the transactions carried out during the 12 month period elapsed are booked under third party payables and receivables. In order to present information in a uniform manner and to facilitate comparison, debit and credit balances at 31 December 2006 and the transactions carried out during the 12 month period elapsed at that date that were recorded under “Group companies” in the annual accounts for 2005 have been reclassified under third party payables and receivables for purposes of presentation.

The Group companies end their financial year on 31 December and the accounts at that date are used for consolidation purposes, except for Gasoduto Braga-Tuy, S.A. and Gasoduto Campo Maior – Leiria - Braga, S.A. which, because of the date on which these Annual Accounts are approved and the immaterial effect of this, are consolidated on the basis of accounts as at 30 November 2006.

Note 3 includes the main accounting principles and valuation methods used in preparing the Consolidated Annual Accounts of the Group for fiscal year 2006.

2.2. Responsibility for the information and estimates made

The information contained in these annual accounts is the responsibility of the Directors of the Group.

The Consolidated Annual Accounts of the Group for fiscal year 2006 include estimates made by Senior Management of the Group and of consolidated entities – subsequently ratified by their Directors – to quantify certain assets, liabilities, revenues, expenses and commitments recorded therein. These estimates relate basically to the following:

- The useful lives of tangible and intangible assets (Note 3)
- The valuation of assets to determine the existence of losses due to their impairment (Note3-b).
- Forecasts for bills pending execution.

- Provisions for decline in value of spare parts for tangible fixed assets.
- Prior years' accounts pending settlement with the government (Note 9).

Although these estimates were made on the basis of the best information available at 31 December 2006 regarding the facts analysed, it is possible that future events may require these to be changed (upwards or downwards) in coming years. This would be done prospectively in accordance with the provisions of IAS 8, with the effects of the change of estimate being recognised in the relevant Consolidated Profit and Loss Accounts.

2.3. Basis of consolidation

Enagás, S.A.'s investee companies included in the scope of consolidation are engaged in the transport of gas.

The Annual Accounts of multigroup entities are consolidated via the proportional consolidation method with the aggregation of balances and subsequent eliminations being carried out in the same proportion as the Group's shareholding in the capital of these companies.

The consolidation was carried out as follows:

a) Proportionate consolidation for multi-group companies managed in conjunction with Transgás, S.A. (Gasoducto Al-Andalus, S.A., and Gasoducto de Extremadura, S.A.) and REN Gasoductos, S.A. (Gasoduto Campo Maior – Leiria – Braga, S.A. and Gasoduto Braga – Tuy, S.A., these being Portuguese companies).

b) Transactions between consolidated companies: During the consolidation process, credits, debits, revenue, expenses and results from operations with other Group companies have been eliminated in the same proportion as Enagás, S.A.'s shareholding in the companies concerned.

c) Consistency: For investee companies whose accounting and valuation rules are different from the Group's rules, adjustments have been made on consolidation, provided that the effect is significant, in order to present the consolidated financial statements based on consistent valuation rules.

d) Translation of financial statements denominated in foreign currencies: All the companies included in the scope of consolidation prepare their accounts in euros and therefore no foreign currency translation process has been necessary.

e) Elimination of dividends: Internal dividends are those recorded as revenue for the year of a Group Company which have been paid by another Group Company.

Dividends received by Group Companies in respect of prior years' distributed profit are eliminated by treating them as reserves of the receiving company and are included under the consolidation reserves caption.

Note 34 includes the most significant aspects of the Group's business combinations in operation at the end of fiscal year 2006.

3. MEASUREMENT BASES

The main valuation standards used in the preparation of the accompanying Consolidated Annual Accounts are as follows:

a) Intangible assets

Intangible assets are initially measured at cost of acquisition or production and subsequently remeasured at cost less any accumulated amortisation and impairment losses.

Criteria for the recognition of impairment losses on intangible assets and, where applicable, of recoveries of previous years' impairment losses are similar to those used for tangible assets (see Note 3c).

Concessions may only be included in assets when the company has acquired them for value in the case of concessions susceptible to transfer, or for the amount of the expenses incurred in obtaining them directly from the State or relevant Public Body. If the rights to a concession are lost due to failure to comply with the terms and conditions thereof, its value is fully written off in order to cancel its net carrying value. Concessions are amortised on the basis of their useful lives.

Costs of purchasing and developing the Group's basic computer systems are booked under the "Other intangible assets" caption of the Consolidated Balance Sheet. The costs of maintaining the computer systems are charged to the Consolidated Profit and Loss Accounts for the year in which they are incurred.

Intangible assets with a defined life are amortised on the basis of this, equivalent to the following percentages of amortisation:

	Annual Percentage	Useful Life
Development costs	50%	2
Concessions, patents, licences, brands and similar:		
– Port concessions at the Barcelona Plant	1.33%-1.28%	75-78
– Port concessions at the Huelva Plant	7.60%	13
– Use of the public radioelectric domain	20%	
Software	25%	5

The Group records all research costs and those development costs whose technological and commercial viability cannot be established as expenses in the Consolidated Profit and Loss Accounts. Research and development costs recorded as expenses in the Consolidated Profit and Loss Accounts amounted to 459 thousand euros in 2006 and 581 thousand euros in 2005.

In July 2006, the Environment Ministry published the definitive, free allocation of greenhouse gas emission rights to Enagás, S.A. plants. This allocation is included in the National Allocations Plan for 2006-2007 so from 2006 Enagás, S.A. will have to hand over greenhouse gas emission rights for emissions made during the elapsed part of 2006 in the first few months of the following year.

The Group records emission rights as non-amortisable intangible assets in the same way as for its other assets, initially at cost with the relevant provision being made if the fair value is lower than this cost.

Rights received free of charge in accordance with the National Allocations Plan for 2006-2007 are assumed to have zero cost as the Group presents the assets net of subsidies.

b) Property, plant and equipment

Goods acquired for use in production, for the supply of goods or services or for administrative purposes, are stated in the balance sheet at acquisition or production cost, less accumulated depreciation and any impairment losses they may have suffered, except for any adjustments arising as a result of fixed asset restatements made by Enagás, S.A. in 1996.

Capitalised costs include:

1. Financial expenses associated with the financing of infrastructure projects accrued during the period of construction if this is over a year, with the average rate of capitalisation used to calculate the amount of the interest expenses to be capitalised being 3.6% in fiscal year 2006 (3.4% in 2005).

2. Personnel costs directly associated with work in progress. The amounts capitalised for these items are recorded in the accompanying Consolidated Profit and Loss Accounts for fiscal year 2006 net of personnel costs for a total of 9,490 thousand euros (8,181 thousand euros in 2005), (see Note 6).

3. Future payments which the Group will have to make in relation with the requirement to disassemble certain tangible fixed assets pertaining to the Serrablo storage facility at the end of its useful life. The amount recorded in books for these assets includes an estimate of the present value at the date of acquisition of the costs to the Group of disassembly work, this being credited to the “Long term provisions” caption (Note 14) of the accompanying Consolidated Balance Sheet. This provision has been restated in the periods following its constitution.

The costs of remodelling work, extensions or improvements is booked as an increase in the value of the asset only if its capacity, productivity or useful life is increased. The net carrying value of replaced assets is deducted.

Regular upkeep, maintenance and repair expenses are charged to profit and loss, following the accrual principle, as a cost of the year in which they are incurred.

Assets under construction destined for production, rental or administrative purposes, or other purposes yet to be decided are booked at cost price, after deducting impairment losses. As regards qualified assets, the cost includes capitalised interest expenses in accordance with Group accounting policy. Depreciation of these assets, as for other real estate assets, begins when the assets are ready for the use for which they were envisaged.

Non-extractable immobilised gas necessary to exploit natural gas underground storage facilities is recorded under tangible fixed assets and depreciated over the useful life specified by prevailing legislation, or over the lease period if shorter.

Depreciation is calculated according to the estimated useful life, using the straight-line method, on the cost of acquisition of the assets less their residual value. The land on which the buildings and other constructions stand is considered to have an undefined useful life and accordingly is not subject to depreciation.

Annual allocations for the depreciation of tangible assets are recorded under the "Depreciation and Amortization" heading of the Consolidated Profit and Loss Accounts and are, basically, equivalent to the following depreciation percentages, based on the years of estimated useful life, on average, of the asset items:

	Annual Percentage	**Useful Life**
Buildings	3%-2%	33.33-50
Plant (transport network)	5%-3.33%	20-30
Tanks	5%	20
Underground storage facilities	10%	10
Non-extractable immobilised gas	4%	25
Other plant and machinery	12%-5%	8.33-20
Tools and equipment	30%	3.33
Furniture and fixtures	10%	10
Computer equipment	25%	4
Transport items	16%	6.25

The Directors of the Group believe that the carrying value of the assets does not exceed their recoverable value which is calculated on the basis of the discounted future cash flows they generate.

Profit or loss from the sale or retirement of an asset is calculated as the difference between the profit from the sale and the amount in books of the asset, and is recorded in the Profit and Loss Accounts under the "Other revenue / operating expenses" caption.

Government subsidies related to tangible fixed assets are treated as a lower cost of acquisition of these and are taken to profit and loss over the expected useful lives of the assets as reduced depreciation of these.

c) Loss of value of tangible and intangible assets

At the end of each financial year, or when deemed necessary, the value of the assets is analysed to see if there is any indication they may have suffered an impairment loss. If such an indication exists, an estimate is made of the amount recoverable from the asset in order to calculate, where necessary, the amount of the required write-down. In the case of identifiable assets which do not generate cash flows independently, the recoverability of the Cash-Generating Unit to which the asset belongs is estimated.

The recoverable amount is the higher of an asset's fair value less costs to sell and its value in use, which is the discounted present value of estimated future cash flows. The Group uses value in use in nearly all cases to calculate the recoverable value of tangible fixed assets.

To estimate value in use, the Group prepares projections of future cash flows before tax from the most recent budgets approved by Group Directors. These budgets include the best available estimates of revenue and costs of Cash-Generating Units based on sector forecasts, previous experiences and future expectations.

These projections cover the next five years with estimates of future flows being based on reasonable growth rates which are in no case incremental nor exceed the previous years' growth rates.

To calculate the present value, these flows are discounted at a pre-tax rate which reflects the cost of capital of the business and of the geographical area in which it is carried out. The discount rate is based on the current cost of money and the risk premiums used by analysts of the business and geographical area.

If the recoverable amount is lower than the net carrying value, a provision for impairment loss is recorded for the difference and charged to the "Depreciation and Amortisation" caption of the Consolidated Profit and Loss Accounts.

Prior years' impairment losses are reversed when there is a change in the estimated recoverable amount. The value of the asset is increased, and this increase recognised as profit, up to the original carrying amount prior to the recognition of the loss in value.

The Group's property, plant and equipment consists almost entirely of gas transportation, regasification and storage assets, and those assets needed to carry out its regulated gas sales business and technical system management activities. In application of IAS 36 and considering that there are no indications of loss of value of balance sheet assets, the Company has deemed said impairment analysis to be unnecessary in fiscal year 2006, except for the 13,677 thousand euro impairment loss provision for investment on reports on research into and the exploration of underground storage facilities (see Note 6).

d) Operating leases

In operating leases, the ownership of the leased asset and substantially all of the associated risks and benefits are retained by the lessor.

When consolidated companies act as lessees, leasing expenses, including incentives granted by the lessor, are taken to the Consolidated Profit and Loss Account on a straight-line basis.

e) Financial assets

Financial assets are included on the balance sheet when the Group becomes one of the parties to the contract for the instrument.

Financial assets held by Group companies are classified according to the categories established by IFRS:

- Loans and receivables: Are measured at amortised cost, which is the cash amount lent less repayments of principal plus uncollected accrued interest in the case of loans, and the present value of the payment made in the case of receivables.

- Financial assets held-to-maturity: Those which the Enagás Group intends and is able to hold until maturity and which are also measured at amortised cost.

- Investments available-for-sale: Other investments which are not included in any of the previous categories. These are measured in the Consolidated Balance Sheet at fair value when this can be reliably determined. Changes in the fair value, net of the tax impact, are credited or debited to the "Net equity: restatement reserve for unrealised assets and liabilities" caption of the Consolidated Balance Sheet until these investments are sold when the accumulated amount in this caption relating to these investments is fully allocated to the Consolidated Profit and Loss Accounts. If the fair value is lower than the cost of acquisition, the difference is directly recorded in the Consolidated Profit and Loss Accounts.

  Available-for-sale investments include a capital-market mutual fund to hedge commitments accrued in respect of the Loyalty award. This fund is carried at fair value in accordance with its market price at each accounting close. Although this fund was created to hedge the provision for the loyalty award with which it is associated, changes in the value of the fund result in changes for the same amount in the associated provision.

  Investments held-to-maturity and loans and receivables originated by the companies are carried at amortised cost with accrued interest being recognised in the Consolidated Profit and Loss Accounts at the effective interest rate.

Cash and cash equivalents

This caption of the Consolidated Balance Sheet includes cash, sight deposits and other highly liquid short term investments which can quickly be turned into cash and which do not carry the risk of a change in value.

Trade debtors and other accounts receivable

Accounts receivable are measured at fair value when recognised in the Consolidated Balance Sheet and are subsequently carried at amortised cost using the effective interest method.

The Group makes provisions for the difference between the amount recoverable of accounts receivable and their carrying value. The recoverable amount of the debt is calculated by discounting estimated future cash flows using the effective interest rate at the time of the transaction.

f) Inventories

Natural gas inventories.

In general, natural gas inventories are stated at average cost or net realisable value. Cost is calculated using the Weighted Average Price established for Enagás, S.A.'s regulated activity as the Cost of Raw Material for the period in which the acquisition is made. Net realisable value is an estimate of the sale price established by prevailing legislation.

Order ITC/3126/2005, of 5 October 2005 published the approval of the Rules for the Technical Management of the Gas System (hereinafter RTMS), following the proposal of the Technical Manager of the System and prior review by the National Energy Commission. These RTMS are applicable to the Technical Manager of the System and all parties who access this, to owners of gas plants and to consumers.

RTMS-02 defines the "minimum linepack for gas pipelines" as the amount of their own gas which those parties supplying gas to the System must provide in order to contribute to the minimum operating level of the transport networks. This amounts to approximately one day of the daily maximum throughput acquired or reserved by each user. In addition, in accordance with the RTMS, those parties providing gas to the system have the right to storage capacity for their commercial operations in the transport networks. This storage capacity, which may not exceed the usable capacity of the gas pipeline network, corresponds to the storage capacity included in the transport and distribution tariff less the amount used for the minimum linepack. Currently, this storage capacity is equivalent to another day of purchased capacity.

As regards the "minimum linepack for gas pipelines", the second temporary provision of Order ITC4099/2005 indicates that "transporters owning regasification plants shall acquire the natural gas necessary for the minimum linepack of the gas pipelines of the transport network and for the minimum operating level of the regasification plants. They shall acquire this gas from the transporter responsible for supplying gas at tariff during the period from 1 June to 30 September at the Cost of Raw Material price prevailing when the purchase is made".

In 2006, Enagás, S.A., in order to meet the aforementioned requirements, acquired natural gas for the minimum linepack of its gas pipelines and the minimum operating level of its plants (also called "Gas Talón"), this being recorded at the cost of raw material price for the period of the date of acquisition.

The Company assesses the net realisable value of inventories at the end of the year and makes the appropriate provision when these are overvalued. This provision is reversed when the circumstances which caused the decline in value no longer exist or when there is clear proof of an increase in the net realisable value due to a change in financial circumstances.

In addition, Royal Decree 1716/2004 governs the obligation to maintain minimum inventory levels, the diversification of natural gas supplies and la Corporación de Reservas Estratégicas de Productos Petrolíferos (CORES). As regards minimum gas inventories, it specifies that all agents must maintain, in ownership or under lease with exclusive use, an amount of gas equivalent to 35 days' consumption of the clients they supply.

In this respect, Enagás, S.A. has a natural gas inventories leasing arrangement with Gas Natural Aprovisionamientos, 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 Aprovisionamientos, S.A. keeps part of its inventories.

The expense recorded in fiscal year 2006 for this leasing arrangement amounted to 3,452 thousand euros and is recorded under the "Other operating expenses" caption in the accompanying Consolidated Profit and Loss Accounts.

In addition, in order to guarantee the supply of natural gas during the winter, the Regulator, through a Ministerial Resolution of 28 November 2005, approved the "Winter 2005-2006 Plan of Action", which states that Enagás, S.A. as Technical Manager of the System must acquire stocks of liquid natural gas in ships during the period from November to March of each of the two years mentioned. The expense recorded in fiscal year 2006 for this acquisition of inventories amounted to 5,990 thousand euros and is recorded under the "Other operating expenses" caption in the accompanying Consolidated Profit and Loss Accounts.

Also, Enagás, by virtue of the stipulations of the first Temporary Provision of Order ITC/4099/2005, of 27 December 2005 mentioned above, that recognises the calculation of regulated tariffs for 2006, has recognised the revenues associated with this measure for an identical amount of 5,990 thousand euros relating to regulated revenues, recorded in the "revenue from regulated activities" caption of the accompanying Consolidated Profit and Loss Accounts.

Other inventories

Other inventories unrelated to natural gas are valued at the lower of cost of acquisition or production and net realisable value. The cost includes the cost of direct materials and, where appropriate, direct labour costs and general manufacturing costs, also including costs incurred in transferring inventories to their current location and conditions, at the point of sale.

Also, the Company assesses the net realisable value of inventories at the end of the year and makes the appropriate provision when these are overvalued. This provision is reversed when the circumstances which caused the decline in value no longer exist or when there is clear proof of an increase in the net realisable value due to a change in financial circumstances.

g) Equity and financial liabilities

Capital and equity instruments issued by the Group are carried at the amount received in equity, net of direct issuing costs.

Financial liabilities are classified according to the substance of the contract and taking into account the financial background.

Group companies classify their main financial liabilities as follows:

- Financial liabilities at fair value through changes in equity: Financial liabilities associated with financial assets available-for-sale originating from asset transfers where the assigning entity neither substantially transfers nor retains the risks and benefits of said assets.

- Financial liabilities held-to-maturity: Financial liabilities held-to-maturity are carried at amortised cost as defined above.

The liability instruments held by group companies are:

- *Bank loans:* Bank loans which accrue interest are carried at the amount received, net of direct issuing costs. Financial expenses, including premiums payable on settlement or repayment and direct issuing costs, are booked according to accrual criteria in the Profit and Loss Accounts using the effective interest method and are incorporated to the amount booked for the instrument if not paid during the period in which they accrue.

- *Derivatives and accounting of hedges:* Due to loans with banks the Group is exposed to fluctuations in interest rates. To hedge these risks, the group uses cash flow swaps. The Group does not use derivative instruments for speculative purposes.

The use of derivatives is governed by the Group's risk management policies approved by the chairman of the parent company Enagás, S.A..

Fluctuations in the fair value of derivative instruments which have been conceived and shown to be effective as cash flow hedges are recognised directly in equity, while the ineffective portion is recognised directly in consolidated profit or loss. If the cash flow hedge of a firm commitment or the forecasted transaction results in the recognition of a non-financial asset or liability, the gains and losses previously recognised in equity are included in the initial measurement of the cost of the asset or liability. In the case of hedges that do not result in the recognition of an asset or liability, the amounts deferred in equity are taken to the consolidated profit and loss accounts in the same period in which the hedged item affects net profit (loss).

Fluctuations in the fair value of derivative instruments which do not meet the criteria for hedge accounting are recognised in the Consolidated Profit and Loss Accounts as they occur.

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated, or exercised or when it no longer meets the criteria for hedge accounting. Any accumulated gains or losses on the hedging instrument recognised in equity remain in equity until the forecast transaction takes place. If the forecast transaction is no longer expected to occur, amounts previously recognised in equity are transferred to profit and loss for the year.

Derivatives embedded in other financial instruments or principal contracts are recognised separately as derivatives when their risks and other features are not closely related to those of the principal contracts and when these principal contracts are not carried at fair value with unrealized profit or loss presented in the Consolidated Profit and Loss Accounts.

h) Trade and other payables

Trade creditors do not accrue interest explicitly and are carried at nominal value.

i) Classification of payables into current and non-current

In the accompanying consolidated balance sheet, payables are classified by maturity, in other words, those maturing in 12 months or less are classified as current, and those maturing in over 12 months as non-current.

Loans falling due in over 12 months are revalued at an interest rate. The benchmark interest rate used in the year is 3.62%.

j) Pension commitments

The external pension fund was set up in accordance with the approved pension plan which has been adapted to the provisions of the Law on pension plans and funds. It is a defined contribution plan covering the commitments acquired by the Company with respect to current employees. The Company recognises certain vested rights for past service and undertakes to make monthly contributions averaging 6.8% of qualifying salary amounts. It is a mixed plan covering retirement benefits, disability and death.

k) Termination benefits

Under current Spanish regulations, Spanish consolidated companies and some foreign companies are required to pay severance to employees terminated without just cause. There are no labour force reduction plans making it necessary to record a provision in this connection.

l) Provisions

At the date of preparation of the annual accounts of the consolidated companies, their respective directors distinguished between:

- *Provisions:* credit balances representing obligations existing at the date of the balance sheet arising from past events which may result in losses for the companies; specific as regards their nature but uncertain as regards amount and/or timing of cancellation, and

- *Contingent liabilities:* possible obligations incurred as a result of past events that will only have to be met if one or more future events, outside the control of the consolidated companies, occurs.

The consolidated annual accounts of the Group include all significant provisions where it is probable that the obligation will have to be settled is more than remote. Contingent liabilities are not recognised on the consolidated annual accounts but are disclosed. (see Note 31)

Provisions are quantified using the best available information available regarding the consequences of the underlying event and are remeasured at each balance sheet date. They are used to settle the specific liabilities for which they were originally recognised and are fully or partially reversed when these liabilities cease to exist or decrease.

At year-end 2006 a number of legal proceedings and claims had been filed against consolidated companies in connection with the normal conduct of their business. The Group's legal counsel and its directors believe that the resolution of these proceedings and claims will produce no material effect on the annual accounts of the year in which they are resolved.

m) Deferred revenue

This is mainly advance amounts received for natural gas transport rights ceded to Gasoducto Al-Andalus, S.A. and Gasoducto de Extremadura, S.A., that are taken to profit and loss on a straight-line basis until 2020 when the transport contract expires.

Until 2005 this revenue was taken to profit and loss on the basis of real GWh transported in respect of estimated GWh until 2020 mentioned in the transport contract. This change means this revenue will be taken to profit and loss more slowly than it has been to date, although the amount involved is not significant.

This caption also includes the accrual of amounts received for making connections from Enagás, S.A.'s basic network to networks owned by distributors, secondary transporters, gas selling companies and qualified clients. This revenue is taken to profit and loss on the basis of the useful life of the assignaed installations.

n) Revenue recognition

Revenue is calculated at the fair value of the payment received or to be received and represents the amounts receivable for the goods delivered and the services provided as part of the company's normal business, less discounts, VAT, and other sales taxes.

Gas sales are recognised when all the risks and benefits have been substantially transferred.

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

Enagás manages gas purchases and sales with regulated clients and receives compensation aimed at covering the costs incurred in this activity. Accordingly, net revenue and expenses from gas purchases and sales on the regulated market are presented in the Consolidated Profit and Loss Accounts, with an amount of 11,339 thousand euros being recorded in 2006 for the positive margin on gas purchases and sales on the regulated market. Revenue from the regulated compensation of gas purchase and sales management is recorded under the "Revenue from regulated activities" caption in an amount of 12,222 thousand euros.

Following the publication of rules which affect Enagás, S.A. in the Official State Gazette of 15 February 2002 (applicable as of 19 February 2002), revenue subject to the new regulations is recorded in accordance with the methods set out below:

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

On 27 December 2005 the Ministry of Industry, Tourism and Trade approved three Ministerial Orders - ITC/4099/2005, ITC/4100/2005 and ITC/4101/2005- updating these prices for 2006, published in the Official State Gazette of 30 December, and establishing compensation in 2006 for all companies carrying out regasification, storage, transport or distribution activities.

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

- Regasification and loading of LNG tanks
- Transfer of LNG to tankers
- Storage
- Transport
- Management of gas purchases and sales on the regulated market
- Technical system management
- Floating storage of LNG in tankers during the Winter Plan, for the regulated market (see Note 3f)
- Creation of the minimum operating level for LNG tanks and of the minimum linepack for gas pipelines (see Note 3f)

The most relevant aspects of the regulations covering the activity carried out by the Group from a revenue point of view are examined in Note 4 below.

Interest revenue is accrued on a time basis according to the principal pending payment and the effective interest rate charged, which is the rate that exactly discounts estimated future cash receipts over the life of the financial asset from the net book value of the asset.

Dividend revenue from investments is recognised when the rights of the shareholders to receive the dividend payment have been established.

o) Expense recognition

Expenses are recognised in the Consolidated Profit and Loss Accounts when a decrease in future economic benefits related to a decrease in an asset or an increase of a liability has arisen that can be measured reliably. This means that the recognition of expenses takes place simultaneously with the recognition of the increase in the liability or reduction of the asset.

An expense is recognised immediately when a payment does not generate future economic benefits or when the necessary requirements for it to be recorded as an asset are not met.

p) Income tax expense

Corporate income tax is recorded in the Consolidated Profit and Loss Accounts or in the net equity accounts of the Consolidated Balance Sheet depending on where the gains or losses originating from this have been recorded. Differences between the carrying amount of assets and liabilities and their tax bases generate deferred tax assets or liabilities which are calculated using the tax rates which are expected to be in force when the assets and liabilities are realised.

Changes during the year in deferred tax assets or liabilities which do not come from business combinations are recognised in the Consolidated Profit and Loss Accounts or directly in the equity accounts of the Consolidated Balance Sheet, as appropriate.

A deferred tax asset should only be recognised when it is expected that sufficient future taxable profit will be available to recover deductions for temporary differences.

Tax deductions arising from financial events occurring during the year reduce the accrued tax expense unless doubts exist as to their realization, in which case they are not recognised until they materialise, or they are related to specific tax incentives.

The income tax expense for the year is the sum of the current tax resulting from applying the tax rate to taxable income for the year, after using any tax deductions, and the changes in deferred tax assets and liabilities.

q) Earnings per share

Basic earnings per share is the ratio between net profit for the year attributable to the Parent Company and the weighted average number of ordinary shares outstanding during the period, without including the average number of parent company shares held by Group companies, and coincides with diluted basic earnings (Note 12).

r) Consolidated cash flow statements

Terms used in the consolidated cash flow statements are as shown below:

- *Cash flow:* inflows and outflows of cash and cash equivalents; cash equivalents are short-term investments that are highly liquid and have low risk that their value will change.

- *Operating activities:* activities typically carried out by the Company and any others that cannot be classified as investing or financing activities.

- *Investing activities:* the acquisition, disposal or use by other means of non-current assets and other investments not included in cash and cash equivalents.

- *Financing activities:* activities that result in changes in the size and composition of equity and liabilities that do not form part of the operating activities.

4. REGULATION OF COMPENSATION

a) Revenue from regasification, storage and transport activities

Ministerial Order ITC/4099 of 27 December 2005 specifies revenue for regulated regasification, storage and transport activities, based on the authorised cost of these activities. In particular, the Order stipulates that the authorised cost of these activities includes fixed and variable components.

a.1) Authorised fixed cost.

Calculated based on assets in course of production. This fixed amount compensates investment and operating costs relating to assets used in the gas system.

a.1.1. Compensation for investment costs is determined as set out below:

- Compensation for depreciation of assets used in the system. Compensation is calculated based on the book value of the assets after the restatement of 1996 (Royal Decree Law 7/1996), less capital grants received to finance these assets. An annual restatement rate based on the adjusted average of the consumer price index (CPI) and the industrial price index (IPRI) is applied to the difference. The depreciation rate relating to the useful life of the asset is applied to the resulting value, thereby obtaining the amount of revenue for this item. No compensation for depreciation is recorded for fully-depreciated assets.

  With respect to new infrastructures brought into service since 2002, the standard value of each investment set by the regulator will be used as a basis for calculating the relating compensation for depreciation, while for those that imply enlargement the basis for calculating the relating compensation for depreciation will be real cost.

- Financial compensation for the investment. This figure is calculated by applying a financial compensation rate equal to the annual average for 10-year Government bonds or a replacement interest rate plus 1.5% to the value obtained in the previous paragraph. For fully-depreciated assets the financial compensation rate is applied to 50 % of the value obtained in the previous paragraph.

The resulting rate in 2005 was 5.79%, while for 2006 it was 5.01%.

a.1.2. Compensation for operating costs relating to assets used in the system is calculated in accordance with authorised costs for gas system installations in 2000 for each activity, standardised by physical and technical unit. The annual restatement rate (CPI and IPRI average) is applied to the resulting standard value, adjusted by an efficiency factor of 0.85. Revenue for this item is obtained by applying these restated standard figures to physical units.

a.1.3. Revenue relating to the fixed authorised cost is taken to the Consolidated Profit and Loss Accounts on a straight-line basis. In this way, a month-on-month balance is achieved between revenue (compensation) and expenses (depreciation).

a.2) Authorised variable cost for regasification and transfer of LNG to tankers.

a.2.1. The authorised variable cost is calculated based on the number of kW/hr actually regasified and loaded in LNG tanks in each period and the variable unit regasification cost for the period in question. For 2006, this cost is set at 0.000267 euros per kW/hr regasified or loaded in tanks.

a.2.2. For loading LNG onto tankers from regasification plants or the pre-cooling of ships a cost identical to the variable regasification cost is recognised. For ship to ship transfers the cost is 80% of this value.

b) Revenue from technical system management (TSM)

Revenue from this activity is calculated on a yearly basis in accordance with the authorised cost for each year and is used to compensate Enagás, S.A.'s obligations as Technical Manager of the System, which include coordinating development, operating and maintaining the transport network, supervising the safety of the natural gas supply (storage levels and emergency plans), implementing plans for the future development of gas infrastructures and controlling third-party access to the network.

In 2006, the quota allocated to compensate GTS to be collected by companies owning regasification, transport, storage and distribution facilities, as a percentage of invoicing for access charges and royalties relating to third-party network access rights, was 0.37% for access charges and royalties and 0.18% for prices, while in 2005 these figures were 0.53% and 0.25% respectively. This quota will be recorded by these companies in the periods and form established for the payment procedure relating to the deposit account the National Energy Commission has open for these purposes.

The above-mentioned percentage of the invoicing will be calculated based on the figure obtained by applying maximum access charges and royalties to the invoiced amounts, without subtracting possible discounts that could be agreed between facility owners and users.

This revenue is taken to the Consolidated Profit and Loss Accounts following a straight-line criterion on a month-on-month basis.

c) Assessment of access charges relating to third-party access to gas installations

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

d) Revenue from gas purchases and sales

In accordance with the Law on hydrocarbons, as a transport company Enagás, S.A. purchases and sells gas to distribution companies and other transporters that in turn sell the gas on the regulated market in accordance with Royal Decree 949/2001 (3 August). With this sole end in mind, Enagás, S.A. buys gas from Sagane, S.A. and Gas Natural Aprovisionamientos, S.A. Control of gas consumption by distribution companies is based on monthly meter readings.

The purchase and selling price for gas is set based on the following criteria:

- Gas purchase cost: This raw material cost (RMC) is calculated based on the CIF prices of crude and oil products on international markets paid by the carrier, for sale on the regulated market, including the necessary costs for positioning gas in the basic network. This cost is calculated on a three-monthly basis in January, April, July and October of each year.

- Sale price: The sale price includes the cost of the raw material to be sold on the regulated market, natural gas purchase and sale management expenses and the average regasification cost. The selling price will change when raw material prices are adjusted by the Directorate General for Energy Policy and Mines or annually, if structural or supply conditions change.

As this revenue is not subject to assessment, it is taken to the Consolidated Profit and Loss Accounts based on amounts invoiced to distribution companies for actual monthly consumption according to meter readings. It is therefore taken to the Profit and Loss Accounts on an accruals basis.

e) Revenue from Management of gas purchases and sales

This revenue is used to compensate the management of gas purchases and sales for gas supplied to distribution companies and other transporters which in turn sell it on the regulated market. This compensation is calculated based on the following components:

- Specific total purchase and selling price of gas. Calculated as a percentage of the volume of gas earmarked for the regulated market and valued at the average price of the raw material sold during the year. The coefficient fixed for both 2006 and 2005 was 0.005.

- A breakdown of gas shrinkage costs arising during regasification processes, storage and transport of gas to be sold on the regulated market is set out below:

  - Regasification: 0.4 % of the average cost of the raw material to be sold on the regulated market in relation to the volume of gas unloaded in regasification plants for sale on the regulated market.

- Storage: 2.11% of the average cost of the raw material with respect to the volume of gas kept in underground gas storage facilities to be sold on the regulated market.

- Transport: 0.35 % of the average cost of the raw material in relation to the volume of gas pumped into the transport system for sale on the regulated market.

– Cost of financing gas inventories to be sold on the regulated market. This cost is calculated by applying a coefficient of 0.218 to the value of end customer demand (based on the average cost of the raw material to be sold on the regulated market). The resulting figure is then multiplied by a three-month Euribor rate plus 0.5%. The rate for 2006 was 2.66% and in 2005 it was 2.60 %.

f) Payment systems

On 1 November 2002, Ministerial Order 2692/2002 (28 October) was published, regulating compensation payment procedures for regulated activities and defining the information system to be used by the companies.

g) Revenue from floating storage

The first temporary provision of Order ITC 4099/2005 establishes that the Technical Manager of the System has the right to compensation to cover the costs of storing LNG in tankers for the regulated market, as detailed in the Winter Plan, approved by a ruling of the Directorate General for Energy Policy and Mines of 28 November 2005.

h) Revenue for the minimum operating level and minimum linepack of gas pipelines

The second temporary provision of Order ITC4099/2005 indicates that, in 2006, transporters owning regasification plants shall acquire the natural gas necessary for the minimum linepack of the gas pipelines of the transport network and for the minimum operating level of regasification plants.

The gas acquired for this purpose has the right to receive financial compensation on the basis of the investment made, valued according to the yield on 10-year government bonds plus 3%. In 2006, this rate was 6.51%.

i) Development of the Regulatory Framework

Gas sector legislation approved in 2006 was as follows:

On 31 March 2006, the Cabinet approved the 2006 revision of the 2002-2011 Energy Plan that contains the government's energy policy guidelines. In respect of the gas system, the capacity of the gas pipelines and regasification plansts located along the Spanish coastline that feed gas into the system has been increased. This revision also envisages a significant increase in the network of gas pipelines due to notable growth in demand. In addition, liquid natural gas storage facilities have also been enlarged.

On 4 April 2006 the Resolution of the Directorate General for Energy Policy and Mines of 13 March was published, establishing protocols for the Gas System's Technical Management Regulations.

On 24 June 2006, Royal Decree Law 7/2006, of 23 June, was published, implementing urgent measures in the energy sector. Among other aspects, the operating storage included in the transport and distribution tariff was changed to ? a day of the purchased transport and distribution capacity, except for those users whose purchased transport and contribution capacity is less than 0.5% of the total capacity purchased, for which the operating storage is 1 day. A procedure was also established for the allocation and distribution of underground storage capacity purchased.

On 21 July 2006, Order ITC/2348/2006 of 14 July was published, regulating financial reporting by companies carrying out activities associated with piped natural and manufactured gases.

The aim of the Order is to clarify the contents and presentation of the financial information that companies operating in the natural and manufactured gas sector must provide to the Ministry of Industry, Tourism and Trade, and to the National Energy Commission. From the fourth quarter of 2006, these companies are required to submit financial information both quarterly and annually.

On 3 August 2006, the Resolution of the Directorate General for Energy Policy and Mines of 28 July was published, modifying section 3.6.3 Viability of tanker unloading schedules of the Gas System Technical Management Regulations «NGTS-3».

On 5 August 2006, the Resolution of the Directorate General for Energy Policy and Mines of 25 July 2006 was published, regulating the terms and conditions of the allocation and procedure for application of gas system interruptibility.

On 17 August 2006, Order ITC/2675/2006, of 1 August, initiating the procedure for making proposals for the development of the electricity transmission network, of the basic natural gas network and of the installations for the storage of strategic reserves of oil products in order to prepare a new plan for the Gas and Electricity sectors for 2007-2016 was published.

On 9 November 2006, the Resolution of the Directorate General for Energy Policy and Mines, approved on 25 October was published, approving the "Winter 2006-2007 Plan of Action", for the operation of the gas system. This plan establishes limits on exports, on the minimum levels of LNG of each user and on extraction from underground storage facilities. Also, part of the capacity of the Magreb pipeline is reserved for the regulated market under certain circumstances.

On 30 December 2006, Ministerial Orders ITC/3993/2006, ITC/3994/2006, and ITC/3995/2006 were published, establishing the compensation to be received for regulated gas sector activities in 2007.

Unlike previous years, compensation for regasification (Ministerial Order ITC/3994/2006) and underground storage (Ministerial Order ITC/3995/2006) has been regulated by two orders different to that for the rest of gas sector activities (Ministerial Order ITC/3993/2006), due to the implementation of a new calculation procedure for the first two activities.

On the same day, Order ITC/3992/2006, establishing the tariffs applicable to natural gas, and Order ITC/3996/2006, establishing the tariffs and fees for third party access to gas installations to be applied in 2007, were published.

5. INTANGIBLE ASSETS

The carrying value of intangible assets at 31 December 2006 and 2005 and their corresponding amortisation is as follows:

INTANGIBLE ASSETS Thousands of euros	Cost	Accumulated amortisation	Net total
Development costs	46	(26)	20
Concessions, patents, licences, brands and similar	33,093	(10,444)	22,649
Computer software programmes	15,765	(8,834)	6,931
Balance at 31.12.05	**48,904**	**(19,304)**	**29,600**
Development costs	260	(55)	205
Concessions, patents, licences, brands and similar	33,289	(11,712)	21,577
Computer software programmes	22,628	(12,132)	10,496
Balance at 31.12.06	**56,177**	**(23,899)**	**32,278**

The breakdown and movements in intangible assets in 2006 and 2005, is as follows:

INTANGIBLE ASSETS Thousands of euros	01.01.06	Increases	31.12.06
Development costs	46	214	260
Concessions, patents, licences, brands and similar	33,093	196	33,289
Software	15,765	6,863	22,628
Total	**48,904**	**7,273**	**56,177**

INTANGIBLE ASSETS Thousands of euros	01.01.05	Increases	31.12.05
Development costs	46	-	46
Concessions, patents, licences, brands and similar	33,025	68	33,093
Software	12,685	3,080	15,765
Total	**45,756**	**3,148**	**48,904**

Major items in the accumulated Concessions caption in fiscal year 2006 were the Port of Barcelona for 3,676 thousand euros and the Port of Huelva for 2,114 thousand euros.

Increases in development costs in 2006 were due to the long term demand prediction project, phase I of the electricity generation project at the Huelva plant, and the project for the reengineering of the heating of NG at the entry to the Regulation and Measurement Station.

Key computer programs in 2006 include:

- The logistics system for third party network access for 1,041 thousand euros.
- The new version of the SL-ATR for 987 thousand euros.
- The CPD's disaster recovery plan for 763 thousand euros.
- The development of a new functionality for the SAP support systems for 539 thousand euros.
- Project ASTRA, (Updating of the Gas Transport Simulation System), for 508 thousand euros.

Charges in the Consolidated Profit and Loss Accounts in fiscal year 2006 and 2005 in respect of the amortisation of intangible assets amounted to 4,595 thousand and 4,056 thousand euros respectively. The breakdown and movements of this amortisation were as follows:

ACCUMULATED AMORTISATION Thousands of euros	01.01.06	Increases	31.12.06
Development costs	26	29	55
Concessions, patents, licences, brands and similar	10,444	1,268	11,712
Software	8,834	3,298	12,132
Total	**19,304**	**4,595**	**23,899**

ACCUMULATED AMORTISATION Thousands of euros	01.01.05	Increases	31.12.05
Development costs	44	(18)	26
Concessions, patents, licences, brands and similar	9,124	1,320	10,444
Software	6,080	2,754	8,834
Total	**15,248**	**4,056**	**19,304**

The intangible assets fully amortised as of 31 December 2006 and 2005, amounted to 7,708 thousand and 4,437 thousand euros respectively.

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

6. PROPERTY, PLANT AND EQUIPMENT

The carrying value of tangible assets at 31 December 2006 and 2005 and their corresponding depreciation is as follows:

PROPERTY, PLANT AND EQUIPMENT Thousands of euros	Cost	Accumulated depreciation	Net total
Land and buildings	80,895	(33,895)	47,000
Plant and machinery	4,130,570	(1,395,988)	2,734,582
Other fixtures, tools and furniture	12,910	(10,961)	1,949
Payments on account and assets in course of construction	337.542	–	337.542
Other property, plant and equipment	22.057	(19.836)	2.221
Capital grants	(558.291)	184.645	(373.646)
Provisions	(12.506)	–	(12.506)
Balance at 31.12.05	**4,013,177**	**(1,276,035)**	**2,737,142**
Land and buildings	134,714	(36,326)	98,388
Plant and machinery	4,486,602	(1,573,458)	2,913,144
Other fixtures, tools and furniture	13,297	(11,512)	1,785
Payments on account and assets in course of construction	373,523	–	373,523
Other property, plant and equipment	22,258	(20,165)	2,093
Capital grants	(560,851)	207,283	(353,568)
Provisions	(20,458)	–	(20,458)
Balance at 31.12.06	**4,449,085**	**(1,434,178)**	**3,014,907**

The breakdown and movements in tangible assets and accumulated depreciation in 2006 and 2005 were as follows:

PROPERTY, PLANT AND EQUIPMENT **Thousands of euros**	**Balance at 01.01.06**	**Increases**	**Decreases**	**Transfers and other**	**Balance at 31.12.06**
Land and buildings	80,895	53,840	(21)	–	134,714
Plant and machinery	4,130,570	61,222	(23,349)	318,159	4,486,602
Other fixtures, tools and furniture	12,910	387	–	–	13,297
Payments on account and assets in course of construction	337,542	355,429	(1,289)	(318,159)	373,523
Other property, plant and equipment	22,057	1,161	(960)	–	22,258
Capital grants	(558,291)	–	(2,560)	–	(560,851)
Provisions	(12,506)	(15,510)	1,618	5,940	(20,458)
Total	**4,013,177**	**456,529**	**(26,561)**	**5,940**	**4,449,085**

PROPERTY, PLANT AND EQUIPMENT **Thousands of euros**	**Balance at 01.01.05**	**Increases**	**Decreases**	**Transfers and other**	**Balance at 31.12.05**
Land and buildings	79,311	1,508	–	76	80,895
Plant and machinery	3,667,078	216,200	(1,674)	248,966	4,130,570
Other fixtures, tools and furniture	12,158	752	–	–	12,910
Payments on account and assets in course of construction	450,103	136,481	–	(249,042)	337,542
Other property, plant and equipment	21,806	578	(327)	–	22,057
Capital grants	(539,831)	(18,460)	–	–	(558,291)
Provisions	(9,402)	(3,193)	89	–	(12,506)
Total	**3,681,223**	**333,866**	**(2,001)**	**–**	**4,013,177**

ACCUMULATED DEPRECIATION **Thousands of euros**	**Balance at 01.01.06**	**Increases**	**Decreases**	**Transfers**	**Balance at 31.12.06**
Land and buildings	33,895	2,433	(2)	–	36,326
Plant and machinery	1,395,988	182,910	(11,597)	6,157	1,573,458
Other fixtures, tools and furniture	10,961	551	–	–	11,512
Other property, plant and equipment	19,836	1,289	(960)	–	20,165
Capital grants	(184,645)	(22,638)	–	–	(207,283)
Total	**1,276,035**	**164,545**	**(12,559)**	**6,157**	**1,434,178**

ACCUMULATED DEPRECIATION

Thousands of euros	Balance at 01.01.05	Increases	Decreases	Transfers	Balance at 31.12.05
Land and buildings	31,474	2,421	–	–	33,895
Plant and machinery	1,237,930	158,183	(125)	–	1,395,988
Other fixtures, tools and furniture	10,255	706	–	–	10,961
Other property, plant and equipment	18,586	1,574	(324)	–	19,836
Capital grants	(160,116)	(24,529)	–	–	(184,645)
Total	**1,138,129**	**162,884**	**(449)**	**–**	**1,276,035**

The start-up during the year of the following investments for a total amount of approximately 330,356 thousand euros were mainly responsible for the increases in the plant and machinery heading:

- The increase in the emission capacity of the Barcelona Plant to 1,650,000 m^3
- The increase in the emission capacity of the Cartagena Plant to 1,200,000 m^3
- The increase in the emission capacity of the Huelva Plant to 1,200,000 m^3
- A fourth 150,000 m^3 tank at the Huelva Plant.
- A sixth 150,000 m^3 tank at the Barcelona Plant.
- An overland and underwater outflow pipe at the Cartagena Plant.
- Falces-Irurzun gas pipeline. Falces-Larraga section.
- Castellón-Onda gas pipeline.
- Phase I of the second Saica branch gas pipeline
- Malaga East-Malaga branch gas pipeline.
- Phase I of the Semianillo south-west Madrid gas pipeline
- Increase in installed capacity of the Bañeras Station.
- Acquisition of land for the enlargement of the Huelva Plant
- Acquisition of land in the municipality of las Rozas.

Increases in assets under construction include the following investments for approximately 138,270 thousand euros:

- The second Barcelona-Arbós gas pipeline.
- Falces-Irurzun gas pipeline.
- Denia-Ibiza-Mallorca gas pipeline.

- Almería-Lorca gas pipeline.
- Lorca-Chinchilla gas pipeline.
- Zaragoza Compression Station.
- Montesa Compression Station.
- Navarra Compression Station.
- Alcázar de San Juan compression station.
- The increase in the emission capacity of the Huelva Plant to 1,350,000 m^3
- The increase in the emission capacity of the Barcelona Plant to 1,800,000 m^3
- A fourth tank at Cartagena.

Decreases in tangible assets in 2006 were mainly in respect of the Sevilla and Tivissa Compression Stations for an amount of 15,165 thousand euros, decreases resulting from accounting adjustments arising from a ruling of 6 October 2005 by the third chamber of the Justice Tribunal of the European Community regarding VAT on grants for an amount of 9,493 thousand euros, and decreases in vehicles in an amount of 960 thousand euros.

Transfers shows the movement from fixed assets in course of construction to permanent of those projects which began operating during the year.

The restatement of tangible assets by Enagás, S.A., in accordance with the provisions of Royal Decree Law 7/1996 (7 June) regarding the restatement of balance sheets, will cause an increase of 15,938 thousand euros in the fixed asset depreciation charge for 2007 and of 16,005 thousand euros in 2006.

In 2006 and 2005 the Group capitalised as an increase in the value of tangible assets financial expenses amounting to 8,941 thousand euros and 9,086 thousand euros respectively (see note 24).

Work carried out by the company on intangible assets caused increases in capex of 9,490 thousand euros in 2006 and 8,181 thousand euros in 2005 (see Note 23.1).

Decreases in accumulated depreciation were mainly in respect of the Sevilla and Tivissa Compression Stations for an amount of 10,195 thousand euros, decreases resulting from the ruling of 6 October 2005 mentioned above for an amount of 1,404 thousand euros, and decreases for vehicles in an amount of 960 thousand euros.

Tangible assets in operation and fully depreciated as of 31 December 2006 and 2005 amounted to 298,299 thousand euros and 289,419 thousand euros respectively.

Capital goods are not mortgaged or subject to any other similar encumbrance.

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

The Company also has insurance policies against third party civil liability.

Capital grants received in 2006 were for investments in gas infrastructure as follows:

Thousands of euros	Grants received at 31.12.06	Amount taken to accumulated profit (loss) at 31.12.06	Balance at 31.12.06
Regasification plants	76,840	41,507	35,333
Gas transport infrastructure	466,503	163,269	303,234
Underground storage facilities	17,508	2,507	15,001
Total	**560,851**	**207,283**	**353,568**

These grants were received from the following Bodies:

Thousands of euros	Grants received at 31.12.06	Amount taken to accumulated profit (loss) at 31.12.06	Balance at 31.12.06
EU structural funds	399,168	120,966	278,202
Official Bodies of the autonomous regions	47,835	12,734	35,101
Spanish state	113,848	73,583	40,265
Total	**560,851**	**207,283**	**353,568**

Amounts received in 2006 mainly correspond to the Gas Infrastructure Operating Programme with structural funds provided by the EEC.

Capital grants to be taken to profit and loss in 2007 amount to approximately 20,969 thousand euros. The schedule for the allocation of the balance pending at 31 December 2006 is:

Thousands of euros	< 1	Years 2-5	> 5
Government grants	2,898	11,593	25,773
Grants from the autonomous regions	1,588	6,351	27,163
ERDF grants	16,483	65,933	195,786
Total Grants	**20,969**	**83,877**	**248,722**

7. HOLDINGS IN BUSINESS COMBINATIONS

There were no changes to shareholdings in subsidiaries in 2006 and 2005 so the percentage stakes and balances held by the parent company Enagás, S.A. remains as follows:

Thousands of euros	2006	2005	% shareholding
Gasoducto Al-Andalus, S.A. (Spain)	23,744	23,744	66.96%
Gasoducto de Extremadura, S.A. (Spain)	9,732	9,732	51%
Gasoducto Campo Maior - Leiria - Braga, S.A. (Portugal)	3,195	3,195	12%
Gasoducto Braga - Tuy, S.A. (Portugal)	2,546	2,546	49%
Gross total	**39,217**	**39,217**	**–**
Less: impairment losses	–	–	–
Net total	**39,217**	**39,217**	**–**

8. FINANCIAL ASSETS

This caption of the Consolidated Balance Sheet breaks down as follows:

	31.12.06		31.12.05	
Thousands of euros	**Non-current**	**Current**	**Non-current**	**Current**
Financial assets held to maturity	18	–	18	–
Loans and accounts receivable	17,040	4,180	19,630	3,849
Financial assets available-for-sale	9,243	–	7,925	–
Financial assets at fair value	300	–	–	–
Other financial assets	698	–	638	–
Gross total	**27,299**	**4,180**	**28,211**	**3,849**
Impairment losses	–	–	–	–
Net total	**27,299**	**4,180**	**28,211**	**3,849**

Movements in 2006 and 2005 in financial assets belonging to the Group were as follows:

Thousands of euros	**Balance at 01.01.06**	**Increases**	**Restatement of value against reserves/ PL**	**Decreases**	**Balance at 31.12.06**
Financial assets held to maturity	18	–	–	–	18
Loans and accounts receivable	23,479	1,403	–	(3,662)	21,220
Financial assets available-for-sale	7,925	924	394	–	9,243
Financial assets at fair value	–	–	420	(120)	300
Other financial assets	638	62	–	(2)	698
Gross total	**32,060**	**2,389**	**814**	**(3,784)**	**31,479**
Impairment losses	–	–	–	–	–
Net total	**32,060**	**2,389**	**814**	**(3,784)**	**31,479**

Thousands of euros	Balance at 01.01.05	Increases	Restatement of value against reserves/ PL	Decreases	Balance at 31.12.05
Financial assets held to maturity	10	8	–	–	18
Loans and accounts receivable	27,931	1,207	–	(5,659)	23,479
Financial assets available-for-sale	2,199	5,059	667	–	7,925
Other financial assets	697	14	–	(73)	638
Gross total	**30,837**	**6,288**	**667**	**(5,732)**	**32,060**
Impairment losses	–	–	–	–	–
Net total	**30,837**	**6,288**	**667**	**(5,732)**	**32,060**

a) Loans and accounts receivable generated by the company:

Current and non-current loans

This caption of the Consolidated Balance Sheet breaks down as follows:

	Thousands of euros	Interest rate	Due date
Non-current loans:			
• Loans to group companies	19,244	3.5605%	Sept.-2011
• Other loans	386	–	–
Current loans:			
• Loans to group companies	3,849	3.5605%	Dec.-2006
Balance at 31.12.05	**23,479**	**–**	**–**
Non-current loans:			
• Loans to group companies	16,719	3.8960%	Sept.-2011
• Other loans	321	–	–
Current loans:			
• Loans to group companies	4,180	3.8960%	Dec.-2007
Balance at 31.12.06	**21,220**	**–**	**–**

Current and non-current loans include those granted by the Parent Company to finance the construction of transport infrastructure falling due in the long term and are carried at amortised cost using the effective interest method. These loans accrue interest at variable rates referenced to the EIB rate plus a 90 bp spread for Gasoducto Al-Andalus, S.A. and Gasoducto de Extremadura, S.A., and at the average cost of Enagás, S.A. debt (3.62%) plus 32.5 basis points.

Details are as follows:

Thousands of euros	31.12.06	31.12.05
Non-current loans to Group companies:		
Gasod. Al - Andalus, S.A.	9,437	11,180
Gasod. de Extremadura, S.A.	1,976	2,721
Gasod. Campo Maior - Leiria - Braga, S.A.	4,394	4,425
Gasod. Braga - Tuy, S.A.	912	918
Total non-current	**16,719**	**19,244**
Current loans to group companies:		
Gasod. Al - Andalus, S.A.	2,359	2,236
Gasod. de Extremadura, S.A.	494	544
Gasod. Campo Maior - Leiria - Braga, S.A.	1,099	885
Gasod. Braga - Tuy, S.A.	228	184
Total current	**4,180**	**3,849**

b) Available-for-sale financial assets:

Non-current securities portfolio

This caption of the Consolidated Balance Sheet at 31 December 2006 mainly corresponds to a BBVA Investment Fund.

This fund is carried at fair value in accordance with its market price at each accounting close. Although, as this fund was created to hedge the provision for the loyalty award with which it is associated, changes in the value of the fund result in changes for the same amount in the associated provision.

The carrying value of this fund at 31 December 2006 and 2005 was 9,243 thousand euros and 7,925 thousand euros respectively. At 31 December 2006 the stake in this fund was 100%.

9. TRADE AND OTHER RECEIVABLES AND INCOME TAX RECEIVABLES

The breakdown of the balance of this caption at the balance sheet date is as follows:

	2006	2005
Trade debtors:		
Clients for sales and provision of services	225,343	201,445
Group companies, debtors	1,543	1,649
Sundry receivables	219,738	199,017
Total	**446,624**	**402,111**

The 1,543 thousand euros balance of "Group companies, debtors" relates to Gasoducto Al-Andalus, S.A. in an amount of 664 thousand euros, and to Gasoducto de Extremadura, S.A. for 879 thousand euros. These balances represent gas transport services for Transgás, S.A. pending collection which are consolidated proportionally in accordance with the percentage shareholding of Enagás, S.A. in these companies.

"Sundry debtors" includes the balance pending payment in respect of compensation for regulated activities for 2006 in an amount of 168,657 thousand euros. At the beginning of 2007, at the date these Consolidated Annual Accounts were prepared, payments number 11, 12 and 13 corresponding to 2006 in an amount of 13,648, 29,953 and 49,944 thousand euros were received.

Also at the date these Consolidated Annual Accounts were prepared, final payments for 2002, 2003, 2004 and 2005 totalling 25,522 thousand euros, 17,394 thousand euros, 10,114 thousand euros and 4,396 thousand euros respectively were pending receipt. The aforementioned amounts are recorded in the Consolidated Balance Sheets including the financial impact arising from their discounting. Accordingly, the updated balances pending settlement amount to: 25,291 thousand euros, 17,079 thousand euros, 9,771 thousand euros and 4,088 thousand euros for 2002, 2003, 2004 and 2005 respectively.

In this respect, Article 13 of Ministerial Order ECO/2692/2002 stipulating settlement procedures states that "*Any differences between the net revenue payable and the accredited compensation that arise when the settlement procedure is applied each year, shall be taken into account in the calculation of the tariffs, access charges and fees of the following two years*".

The Group maintains these balances pending settlement for 2002, 2003, 2004 and 2005 because, although the Regulator has taken these into consideration when calculating tariffs, access charges and royalties for the following years, these balances may only be settled once the definitive payments have been received.

In relation with the account pending settlement for 2002, on 20 July 2006 the NEC issued a "ruling in respect of the inspection carried out into Enagás, S.A." in relation, among other aspects, with Enagás' invoicing of other agents in 2002.

In accordance with the theoretical functioning of the settlement system, this ruling establishes the NEC's conclusions as regards possible deficiencies in the revenue collection procedure followed by the various Agents in the relevant years prior to the issuance of the definitive settlement for 2002.

In summary, and only in respect of 2002, the NEC ruling establishes that Enagás has revenue collection deficiencies for that year of 16,504 thousand euros, which would mean that this amount is not subject to settlement, so would not be an amount pending settlement with Enagás, S.A.

On 31 August 2006, Enagás, S.A. lodged a written appeal against this ruling with the Ministry of Industry, Tourism and Trade asking for an annulment on the basis of various reasons both in respect of the ruling's form (expiration of the inspection procedure) and content. In the lodging of the appeal the suspension of the enforcement of the ruling was not asked for. To date the appeal has not been resolved.

This appeal, if finally considered lawful, contains the opinions of Enagás, S.A. about each of the items under consideration, which are contrary to the considerations indicated in the ruling given by the NEC in the appropriate cases.

Both Enagás, S.A.'s legal office and a prestigious legal firm have analysed the aforementioned settlement for 2002, the NEC's ruling and the appeal lodged and mentioned above.

Both analyses concur in estimating that if the NEC's ruling were lawful, and so were to be taken into consideration for the preparation of the definitive settlement for 2002, there would be a reasonably high probability of Enagás, S.A. recovering approximately 10.8 million euros. They also concur in estimating that Enagás, S.A. has little chance of recovering 5.7 million euros.

In addition, we would point out that on the basis of currently available information, the Group believes that, despite the NEC's ruling regarding the amounts pending collection by Enagás, uncertainty remains about the amount pending for 2002, as no Regulating Body has officially stated the total amount pending settlement by the System with Enagás, S.A. and so, although the amount of 25,522 thousand euros is the Company's best possible estimate, the real amount to be settled has not yet been officially established in any document or communication. In this respect, the only reference to an amount pending settlement by the Regulating Body is included in the draft annual report prepared by the Ministry of Industry prior to the following year's legislation. The report for 2007 includes a pending sector deficit for 2002 of around 59 million euros. To estimate the amount that could be recognised for Enagás for this pending deficit, it should be borne in mind that in 2002 the sector's main regulated agents were practically Enagás and the Gas Natural Group and that Enagás usually accounts for 1/3 of sector activities.

Accordingly, given the uncertainty described above and the available information, the Group has decided not to make any provision in this respect. The definitive settlement for 2002 is expected to be issued in the first half of 2007.

Taxes and social security at 31 December 2006 basically includes VAT receivable by the parent company Enagás, S.A. because VAT receivable is higher than accrued VAT due partly to Enagás, S.A. acting as a tax deposit (see note 21).

The Directors believe that the carrying amount of the accounts recorded under the Trade debtors and other accounts receivable caption is close to their fair value.

Credit risk

The Group's main financial assets are cash balances, trade debtors and other accounts receivable, and debts on investments which represent the Group's maximum exposure to credit risk in relation to financial assets. The balances record amounts which are all within the stipulated maturity period and relate to companies of recognised prestige and solvency.

The Group does not have a significant concentration of credit risk as it operates in a regulated environment with planned scenarios. However, all value adjustments deemed necessary are made to provide for bad debt risks.

10. INVENTORIES

In order to compy with the requirements of the System's Technical Management Regulations (see Note 3.f), Enagás, S.A. has recorded natural gas inventories in an amount of 42,702 thousand euros, equivalent to 2,113 GWh, under the "Inventories" caption of the accompanying consolidated balance sheet.

In addition, according to the preliminary gas balance for December, Enagás, S.A. held 33,591 thousand euros, equivalent to 1,662 GWh of natural gas inventories, with the definitive gas balance for December, recorded in January 2007, showing a decline in these inventories to 1,077 GWh. These inventories arise from obligations in respect of compliance with rule number 2 of the Winter Plan (Resolution of the Directorate General for Energy Policy and Mines of 25 October 2006), that indicates that users' inventories must be greater than three days of reserved regasification capacity.

The Group also has 2,443 thousand euros of inventories unrelated to natural gas that include, among others, office materials and consumables.

11. EQUITY

11. 1. Share capital

At 31 December 2006 share capital of the parent company amounted to 358,101 thousand euros and was represented by 238,734,260 ordinary bearer shares, all of the same class and series, with a par value of 1.50 euros each and fully paid up.

All shares of the parent company Enagás, S.A. are listed on the four Spanish stock exchanges and are traded on the continuous market. At 29 December 2006, the price of Enagás, S.A. shares stood at 17.62 euros, having reached a high for the year of 21.09 euros per share on 15 December.

The most significant shareholdings in the share capital of Enagás, S.A. at 31 December 2006 are as follows:

Company	% shareholding
Gas Natural, SDG., S.A.	5.000
Inversiones Cotizadas del Mediterráneo, S.L.	5.027
Sagane Inversiones, S.L.	5.000
Caja de Ahorros de Valencia, Castellón y Alicante.	5.000
Cantábrica de Inversiones de Cartera, S.L.	5.000

Inversiones Cotizadas del Mediterráneo, S.L. and Cantábrica de Inversiones de Cartera, S.L., are subsidiaries of la Caja de Ahorros del Mediterráneo (CAM) and la Caja de Ahorros de Asturias (Cajastur), respectively.

The Group has no treasury shares.

After the publication of Law 62/2003 on tax, administration and social order measures on 31 December 2003, of which Article 92 amends Law 34/1998 on the Hydrocarbon sector, it is established that "no individual or company may directly or indirectly hold more than a 5% interest in Enagás, S.A., in terms of share capital or voting rights for a period of less than three years".

As a result, Gas Natural SDG, S.A. reduced its shareholding in 2006 to the maximum permitted.

11.2. Reserves

Revaluation reserve

The balance of this caption is the result of the adjustment made pursuant to Royal Decree-Law 7/1996 of 7 June.

This balance may be used, without accruing tax, to offset future years' losses and to increase capital stock.

From 1 January 2007 it may be allocated to unrestricted reserves.

Legal reserve

Under the revised Spanish Corporations Law, 10% of profit for each year must be transferred to the legal reserve until the balance of this reserve reaches at least 20% of share capital.

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

The parent company of the Group has fully allocated the legal reserve in an amount of 71,620 thousand euros, included in the “non-distributable reserves” caption of the accompanying Consolidated Balance Sheet.

Reserve for the revaluation of unrealised assets and liabilities

Movements in this reserve arising from adjustments to the value of assets available-for-sale and derivatives used as cash flow hedges in 2006 and 2005 are as follows:

Thousands of euros	01.01.2006	Change in market value	Allocation to profit and loss	31.12.2006
Cash-flow hedges:				
Collars	(16,203)	9,479	7,463	739
Deferred tax from revaluation of unrealised liabilities	5,671	(3,281)	(2,612)	(222)
Total	**(10,532)**	**6,198**	**4,851**	**517**

Thousands of euros	01.01.2005	Change in market value	Allocation to profit and loss	31.12.2005
Cash-flow hedges:				
Collars	(27,103)	(4,152)	15,052	(16,203)
FRAs	(100)	7	93	-
Deferred tax from revaluation of unrealised liabilities	9,521	1,450	(5,300)	5,671
Total	**(17,682)**	**(2,695)**	**9,845**	**(10,532)**

11.3. Interim dividend

The proposed distribution of Enagás, S.A.'s 2006 net profit that the Board of Directors will submit for approval by the Shareholders' Meeting is as follows:

Dividend	112,637
Voluntary reserve	103,023
	215,660

On 20 December 2006, the Board of Directors of Enagás, S.A. resolved to pay an interim dividend against 2006 results of 45,360 thousand euros (a gross amount of 0.19 euros per share). The Company has prepared the necessary liquidity statement, expressed in thousands of euros, in accordance with Article 216 of Royal Decree Law 1564/1989 (22 December), whereby the Spanish Companies Act was introduced:

In accordance with legal requirements, the provisional financial statements prepared by the Group which justify the existence of the funds necessary to pay this interim dividend for 2006 were the following:

	Thousands of euros
Net profit at 31.10.06	181,838
10% Legal reserve	–
Profit available for distribution	181,838
Forecast interim payment	(45,360)
Forecast cash at bank and in hand between 31 October and 31 December 2006:	
– Cash at bank and in hand at 31 October 2006	4,570
– Collections forecast for the period under consideration	333,700
– Credit facilities and loans granted by banks	515,000
– Payments forecast for the period under consideration (Including interim payment)	(442,400)
Forecast cash at bank and in hand at 31 December 2006	**410,870**

The proposed gross supplementary dividend (0.28 euros per share) is subject to the approval of the shareholders at the Shareholders' Meeting and is not included as a liability in these financial statements.

12. EARNINGS PER SHARE

Basic earnings per share is calculated by dividing the net profit attributable to equity holders of the parent by the weighted average number of shares in issue in the year, excluding the average number of ordinary shares purchased by the Company and held as treasury shares.

Accordingly:

	2006	2005	Change
Net profit for the year (thousands of euros)	216,384	190,960	13.31%
Weighted average number of shares in circulation(thousands of shares)	238,734	238,734	-
Basic earnings per share in euros	**0.906381161**	**0.799886066**	**13.31%**

Diluted earnings per share is calculated as the ratio between the net profit for the period attributable to ordinary shareholders adjusted to take into account the effect attributable to potential ordinary shares which cause dilution and the weighted average number of outstanding ordinary shares during the period, adjusted by the weighted average of ordinary shares that would be issued if all the potential ordinary shares were converted into ordinary shares of the company. As there are no potential ordinary shares at 31 December 2006, the basic and diluted profit per share are the same.

13. DEFERRED REVENUE

The variations in 2006 and 2005 in this caption of the accompanying consolidated balance sheet were as follows:

Thousands of euros	Royalty Gasoducto de Extremadura, S.A.	Royalty Gasoducto Al-Andalus, S.A.	Total
Balance at 01.01.05	**12,026**	**33,707**	**45,733**
Decreases/Allocation to profit and loss	(3,515)	(2,671)	(6,186)
Balance at 31.12.05	**8,511**	**31,036**	**39,547**
Decreases/Allocation to profit and loss	(551)	(2,055)	(2,606)
Balance at 31.12.06	**7,960**	**28,981**	**36,941**

Amounts representing the royalty of the subsidiaries Gasoducto de Extremadura, S.A. and Gasoducto Al-Andalus, S.A. are for balances pending application of contracts signed with these subsidiaries in respect of "gas transport rights" consolidated proportionally in accordance with the percentage shareholding of Enagás, S.A. in these companies.

Enagás, S.A. allocates and books this revenue based on its accrual on a straight-line basis until 2020 when the transport contract expires. (see Note 3m.)

In 2006 the accrual of revenue from connections to the basic network was recognised. Movement in this item in 2006 is the following:

Thousands of euros	Connections to the basic network
Balance at 31.12.05	**0**
Increases	11,600
Decreases/Allocation to profit and loss	(368)
Balance at 31.12.06	**11,232**

"Other non-current liabilities" includes the effect of the adjustments envisaged in the income tax inspection for the fiscal years 1995 to 1998, updated at 31 December 2006, in favour of Gas Natural SDG, S.A., the head company of the 59/93 Tax Group during that period, in an amount of 4,889 thousand euros.

14. PROVISIONS

The variations in the balance of this caption of the consolidated balance sheet in 2006 were as follows:

Thousands of euros	Lawsuits-tax proceedings and/or demands	Loyalty award	Abandonment costs	LTI	Other	Total
Balance at 01.01.06	**1,829**	**7,935**	**3,008**	**3,830**	**5**	**16,607**
Allocations charged to profit and loss:						
Interest and similar expenses	425	–	–	–	–	425
Allocations to provisions	107	1,318	–	808	2,710	4,943
Reversal of provisions credited to profit and loss: :						
Interest and similar revenue	(779)	–	150	(4,638)	–	(5,267)
Others (transfers)	–	–	–	–	–	–
Balance at 31 December 2006	**1,582**	**9,253**	**3,158**	**0**	**2,715**	**16,708**

The most significant items of the provisions made in 2006 are as follows:

- Loyalty award. Provisions relate to non-consolidated remuneration to reward Enagás' management and Board members for their loyalty in an amount of 1,318 thousand euros with 924 thousand euros in allocations for the year and 394 thousand euros for the effect of valuation at fair value.

- Long term incentive plan. In 2006 the provision for the pluri-annual remuneration plan proposed by the Appointments and Remuneration committee in 2003 and approved by the Board of Directors in 2006 was reversed. This consisted of a long term incentive plan linked to the achievement of certain objectives by senior management, including executive directors, over a three-year period, that expired in June 2006.

- Others. This mainly comprises the provision made for differences in the measurement of the calorific power of certain specific points of the basic network.

The Directors of the Enagás Group consider the provisions recorded in the accompanying Consolidated Balance Sheet adequately cover risks from lawsuits, arbitration and other proceedings described in this note, and do not expect further liabilities to arise from these in addition to those recorded.

Given the nature of the risk covered by these provisions it is not possible to make a reasonable estimate as to the timing of any payments which may arise, except for the LTI which concluded in June 2006.

Discounting of provisions is recorded under the "Financial Expenses" caption of the accompanying Consolidated Profit and Loss Accounts.

Enagás, S.A. has a contingent liability with the NEC at 31 December 2006 in relation with Settlement Accounts the company has pending collection for 2002 (see note 9).

15. BORROWINGS

Balances of bank loans at 31 December 2006 and scheduled repayments are as follows:

		Liabilities at 31 December 2006 maturing in the					
Thousands of euros		Short term	Long term				
	Balance at 31.12.06	2007	2008	2009	2010	Others	Total long-term
Principal	1,746,604	113,379	74,344	84,344	1,093,855	380,682	1,633,225
Accrued interest pending payment	10,582	10,582	–	–	–	–	–
Total	**1,757,186**	**123,961**	**74,344**	**84,344**	**1,093,855**	**380,682**	**1,633,225**

At 31 December 2006, group companies had unused credit facilities amounting to 100,912 thousand euros which, in the opinion of management, sufficiently cover any short term commitments of the Group. They also had 200,000 thousand euros in unused loans.

Average annual interest in 2006 on Group loans and credit facilities in euros was 3.14% without hedges and fees and 3.62% with hedges and fees (2.40% with hedges and fees in 2005).

Current loans and credit facilities and policies of the parent company are denominated in euros and accrued average annual interest of 3.6201% in 2006.

The Directors estimate that the fair value of bank loans at 31 December 2006 calculated via the discount of future cash flows at market interest rates amounts to 1,747 thousand euros. The interest rate curve used in this calculation takes into account the risks associated with the sector and with the credit rating of ENAGÁS. The sensitivity of the aforementioned fair value to fluctuations in foreign currency exchange rates and interest rates is as follows:

	Change in interest rates	
Thousands of euros	**0.25%**	**-0.25%**
Change in the value of debt	15.5	-15.7

The most significant events taking place in the financial area were:

- In February 2006 the second 50 million euro drawdown of the 200 million euro 15-year loan granted by the ICO was made and the credit facility with La Caixa was renewed.

- From May to July 2006 the other credit facilities approved by the Board Meeting held in March 2006 were renewed.

- In July 2006 a new 6 million euro credit facility was signed with la Caja Bilbao Bizcaia Kutxa.

- In September 2006 the third and final drawdown of the 200 million euro 15-year loan granted by the ICO was made in an amount of 100 million euros.

- In October 2006 approval was given for a one-year extension to the drawdown of Tranche B of the 200 million euro loan in order to adjust the funds to the materiality of the corresponding investments.

- Between the second and third quarters of the year all the guarantee contracts expiring in 2006 were renewed.

16. OTHER FINANCIAL LIABILITIES

The detail of this caption of the consolidated balance sheets is as follows:

Thousands of euros	31.12.06 Non-current	31.12.06 Current	31.12.05 Non-current	31.12.05 Current
Financial liabilities at fair value	–	34	7,203	12,427
SGE loan to Enagás, S.A.	1,175	–	–	–
Loan from Transgás, S.A. to Gasod. Al-Andalus, S.A.	9,482	2,370	11,164	2,233
Loan from Transgás, S.A. to Gasod. de Extremadura, S.A.	5,038	1,260	6,130	1,226
Loan from REN Gasodutos, S.A. to Gasod.Campo Mayor-Leira Braga, S.A.	5,525	–	4,420	922
	21,220	**3,664**	**28,917**	**16,808**

Loans from Transgás, S.A. bear interest at variable market rates and fall due in 2011.

These loans are repaid in accordance with the periods envisaged in the contracts and with each company's cash resources.

The loan from the General Energy Secretariat forms part of the aid envisaged in the National Energy Program granted by the Ministry of Industry, Tourism and Trade within the framework of the National Plan for Scientific Research, and Technical Development and Innovation (2004-2007). This loan is associated with the "project for the electricity generation system at the Almendralejo Compression Station" being carried out by Enagás, S.A. The total amount of the loan is 3,265 thousand euros, distributed between 1,175 thousand euros for 2006 and 2,090 thousand euros for 2007. In December 2006 the funding granted for 2006 was drawn down. This is to be repaid in ten years with a three year grace period and a cost of 0.25%- the cost of the guarantees provided-.

17. RISK MANAGEMENT POLICY

The Enagás Group is exposed to certain risks that it manages via systems of identification, measurement, restriction of concentration and supervision.

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

- To comply with rules of good corporate governance.
    - To strictly comply with all the regulatory system of the Group.
    - Each business and corporate area defines:

        a) The markets and products where it has sufficient knowledge and capacity to ensure effective risk management.

        b) Counterparty criteria.

        c) Authorised operators.

    - For each market where they operate the various businesses and corporate areas establish the extent of the risk exposure they are prepared to accept in line with their strategy for that market.
    - These limits are approved by the respective Risk Committees and when these are non-existent by the Enagás Risk Committee.
    - All the operations of the various businesses and corporate areas are carried out within the approved limits for each case.
    - The businesses, corporate areas, business lines and companies establish the necessary risk management controls to ensure that market transactions are carried out in accordance with the Group's policies, rules and procedures.

Interest rate risk

Fluctuations in interest rates alter the fair value of those assets and liabilities that accrue fixed interest and the future flows of those assets and liabilities that accrue a variable interest rate.

The target of interest rate risk management is to reach an equilibrium in the structure of debt that minimises the cost of this over the long term and reduces Consolidated Profit and Loss Accounts volatility.

In line with Enagás Group estimates and debt structure targets, hedging operations are carried out via the use of derivatives to reduce these risks.

Liquidity risk

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

Credit risk

The Group has no significant credit risk as the average client collection period is very short and placements of cash or the purchase of derivatives is carried out with highly solvent entities.

18. DERIVATIVE FINANCIAL INSTRUMENTS

At 31 December 2006 the Group held derivatives for a notional and/or contractual value of 1,000 million euros with a residual term to maturity of 1.25 years.

In 2006 and 2005 the Enagás Group charged 7,463 thousand euros and 15,145 thousand euros respectively to the accompanying Consolidated Profit and Loss Accounts under the "Cash flow hedge reserve" caption as hedging for the impact on the Profit and Loss Accounts of those operations subject to hedging.

The notional and/or contractual value of the formal contracts does not represent the real risk assumed by the Group as the net position is derived by offsetting and/or grouping these financial instruments.

Cash flow hedges

In 2003 Enagás, S.A. contracted hedging instruments to limit the financial cost of its long-term financing. These instruments limit the company's costs in the period 2004-2008 and are applicable to a total of 1,000 million euros, enabling risks to be minimised and investments to be financed under the best possible conditions, mainly through long-term fixed cost financing arrangements.

For the period 2005-2008, cash flow hedges using various collars, with a cap at 4.12% and floor of 3.67% (on average), were taken out. The hedges commence in January 2005 and mature in April 2008 and the known maximum fixed cost is 4.32% which includes the impact of the refinancing carried out in November compared to 4.66% prior to this.

The estimated fair value of the swaps executed at 31 December 2006 is 790 thousand euros (15,832 thousand euros in 2005). These amounts are based on the market values of equivalent instruments at the balance sheet date. All interest rate collars are designed to be effective as cash flow hedges and their fair value is deferred and recorded under net equity. As already mentioned, 7,463 thousand euros (15,143 thousand euros in 2005) were offset against hedged interest payments made during the period.

19. TRADE AND OTHER PAYABLES

Details of the trade and other payables caption are as follows:

Thousands of euros	2006	2005
Trade payables:		
Payable to Group companies	2,810	2,484
Suppliers of Gas Natural, SDG., S.A.	178,803	168,082
Other suppliers	265,778	224,428
Total	**447,391**	**394,994**

Payables to group companies represents gas transport services pending payment and consolidated proportionally that subsidiaries provide to the parent company Enagás, S.A.

The balance of the Grupo Gas Natural, SDG, S.A. suppliers caption mainly represents natural gas purchases for the regulated market made from Gas Natural Aprovisionamientos Sdg, S.A. in an amount of 116,240 thousand euros and from Sagane, S.A. in an amount of 60,841 thousand euros, while the other suppliers balance mainly comprises purchases of materials and services provided to Group companies recorded principally under other operating expenses and non-current assets.

20. DEFINED CONTRIBUTION PLANS

The Group has defined contribution pension plans covering the commitments acquired by the Company with respect to current employees. The associated assets are held separately from Group assets in funds under the control of trustees. If an employee leaves the plan before having fully accrued their contributions, the amount payable by the Group is reduced by the amount of the lost contributions.

21. TAXATION

21.1 Tax return

The parent company ENAGÁS, and the subsidiaries Gasoducto Al-Andalus, S.A., Gasoducto de Extremadura, S.A., Gasoduto Campo Maior-Leiria-Braga, S.A., and Gasoduto Braga-Tuy, S.A. all file individual tax returns.

21.2 Years open for tax inspection

The tax returns filed by Enagás, S.A. for the main taxes to which it is liable are open to inspection for all years that have not become statute-barred, with the exception of income tax for which the years 1999 to 2005 are open to inspection and the revision of VAT on imports for which the years 2004, 2005 and 2006 are pending inspection.

All the taxes to which Gasoducto Al-Andalus, S.A. and Gasoducto Extremadura, S.A. are subject for all years that are not statute-barred are open to inspection.

Gasoduto Campo Mayor-Leiria-Braga, S.A. and Gasoducto Braga-Tuy, S.A., are open to tax inspection for the years 2002, 2003, 2004, 2005 and 2006 respectively.

At 31 December 2006, Enagás, S.A. had tax assessments issued in respect of VAT on imports, for 2002 and 2003. The total amount for 2002 is 2,684 thousand euros, of which 2,358 thousand euros correspond to the tax liability (deductible VAT) and 326 thousand euros to arrears interest, while the total amount for 2003 is 249 thousand euros, of which 213 thousand euros correspond to the tax liability (deductible VAT) and 36 thousand euros to arrears interest. Both assessments have been signed in disagreement, and the relevant appeals have been made.. At this date, other consolidated companies had no additional tax assessments open.

Due to the possible interpretations of tax regulations, the results of future inspections for the years open to inspection could give rise to tax liabilities, the amount of which cannot be objectively determined at present. However, in the view of the tax advisors of the Enagás Group and of its Directors, the possibility of significant liabilities arising in this respect additional to those recorded is remote.

21.3 Taxes payable and receivable

Balances receivable from and payable to public authorities at 31 December are as follows:

Thousands of euros	**2006**	**2005**
Taxes payable:		
VAT	5,953	51
Other	331	–
Total	**6,284**	**51**
Taxes receivable:		
Income tax expense	39,039	33,471
VAT	246	15,627
Other	1,991	2,775
Total	**41,276**	**51,873**

At the year end, 71,724 thousand euros had been paid on account of the final corporate income tax charge to be paid by Enagás, S.A., 70,875 thousand euros, Gasoducto Al-Andalus, S.A., 2,459 thousand euros and Gasoducto de Extremadura, S.A., 2,179 thousand euros.

21.4 Reconciliation of accounting and tax income

Corporate income tax expense as at 31 December 2006 breaks down as follows:

Thousands of euros	2006	2005
Enagás, S.A.	109,841	97,002
Gasoducto Al - Andalus, S.A.	2,726	2,628
Gasoducto de Extremadura, S.A.	2,083	1,150
Gasoducto Campo Maior - Leiria - Braga, S.A.	393	443
Gasoducto Braga - Tuy, S.A.	254	243
Total	**115,297**	**101,466**

The reconciliation of the income tax resulting from applying the corporate income tax rate prevailing in Spain to "pre-tax profit" and the charge recorded for this tax in the Consolidated Profit and Loss Accounts and the reconciliation of this with the amount of this tax payable for 2006 and 2005 is as follows:

Thousands of euros	2006	2005
Profit before tax	**341,574**	**301,675**
Permanent differences	(2,888)	(1,198)
Adjusted profit (loss)	338,686	300,477
Tax rate	35%	35%
Profit after applying tax rate	118,540	105,167
Effect of tax reform in Spain	1,064	–
Effect of applying different tax rates	(331)	(185)
Tax credits	(3,976)	(3,516)
Profit and loss account tax charge	115,297	101,466
Taxes recorded directly in equity	(3,326)	1,425
Total tax charge	111,971	102,891
Timing differences	(3,512)	(3,336)
Tax payable	**108,459**	**99,555**

21.5 Taxes recognised in net equity

Aside from the income tax charge recognised in the Consolidated Profit and Loss Accounts, in 2006 and 2005 the Group booked the following amounts for the following items in consolidated net equity.

Thousands of euros	2006	2005
For cash flow hedges	223	5,671
For discounting of taxes payable	359	554
	582	**6,225**

21.6 Deferred tax

Under tax regulations prevailing in the various countries in which the consolidated companies are located, certain timing differences arose in 2006 and 2005 that should be taken into account when calculating the income tax expense.

Thousands of euros Deferred tax liabilities originating from:	2006	2005
Deferred tax liability originating from adoption of IFRS	554	512
Accelerated depreciation	1,595	1,862
	2,149	**2,374**

The origins of the deferred taxes recorded in both years are:

Thousands of euros Deferred tax assets originating from:	2006	2005
Deferred tax asset originating from adoption of IFRS	892	7,120
Capital grants	1,236	1,557
Loyalty fund provision	2,267	2,322
LTI provision	–	1,340
Fixed asset provisions	1,816	2,586
Provisions for litigation	476	641
PCS Provisions	880	–
Other	1,865	2,307
	9,432	**17,873**

The table below shows the main deferred tax assets and liabilities recognised by the Group and changes to these during the year:

Thousands of euros	**Balance at 01.01.2006**	**Charge / credit in the profit and loss accounts**	**Charge / credit in the asset and liability valuation reserve**	**Balance at 31.12.2006**
Deferred tax assets:				
– Adoption of IFRS	7,120	(2,752)	(3,476)	892
– Capital grants	1,557	(321)	–	1,236
– Loyalty fund provision	2,322	(55)	–	2,267
– LTI provision	1,340	(1,340)	–	0
– Fixed asset provisions	2,586	(770)	–	1,816
– Provisions for litigation	641	(165)	–	476
– PCS Provisions	–	880	–	880
– Others	2,307	(592)	150	1,865
Total deferred tax assets	**17,873**	**(5,115)**	**(3,326)**	**9,432**
Deferred tax liabilities:				
– Adoption of IFRS	512	42	–	554
– Accelerated amortisation and depreciation	1,862	(267)	–	1,595
Total deferred tax liabilities	**2,374**	**(225)**	**–**	**2,149**

Thousands of euros	**Balance at 01.01.2005**	**Charge / credit in the profit and loss accounts**	**Charge / credit in the asset and liability valuation reserve**	**Balance at 31.12.2005**
Deferred tax assets:				
– Adoption of IFRS	10,735	(5,040)	1,425	7,120
– Capital grants	1,687	(130)	–	1,557
– Loyalty fund provision	2,291	31	–	2,322
– LTI provision	767	573	–	1,340
– Fixed asset provisions	1,527	1,059	–	2,586
– Others	1,324	1,624	–	2,948
Total deferred tax assets	**18,331**	**(1,883)**	**1,425**	**17,873**
Deferred tax liabilities:				
– Adoption of IFRS	259	253	–	512
– Accelerated amortisation and depreciation	1,898	(36)	–	1,862
– Others	516	(516)	–	
Total deferred tax liabilities	**2,673**	**(299)**	**–**	**2,374**

At the end of 2006, Enagás, S.A., Gasoducto Al-Andalus, S.A. and Gasoducto de Extremadura, S.A. recorded prepaid and deferred tax balances in accordance with the provisions of Law 35/2006 of 28 November on personal income tax and the partial amendments to the laws governing corporate taxation and the taxation of non-residents and personal income. Among other things, this law changes the income tax rate, with 32.5% being the tax rate for 2007, and 30% the tax rate for 2008 and following years.

This change in tax rates led to an increase in the tax expense included in the consolidated profit and loss accounts for 2006 of 1,064 thousand euros, and a charge to asset and liability reserves of 48 thousand euros.

21.7 Other tax information

19 November 2005 saw the publication of Law 22/2005 that among other things implements in Spanish law the EC directive restructuring the EC tax regime for energy products and electricity (Directive 2003/96/EC). As a result of this law, that modifies special taxes law 38/1992 of 28 December, natural gas has been explicitly included within the scope of the special tax on hydrocarbons.

On 24 June (Official State Gazette nº 150) Royal Decree 774/2006 of 23 June was published, modifying the regulations for Special Taxes that came into force on 1 July 2006.

Among the modifications included in the regulations is the possibility of authorising any of the installations comprising the gas sytem as this is described in article 59 of Law 34/1998 as a tax deposit for natural gas, it being possible to authorise various of these installations as a single tax deposit provided they have the same owner and are controlled centrally.

In September, Enagás S.A. requested authorisation for its installations to operate as a single tax deposit for purposes of the special tax on hydrocarbons. The tax deposit was authorised with effect from 1 October 2006.

22. REVENUE

Group revenue breaks down as follows:

	2006	2005
Gas sales on regulated market	1,103,260	843,783
Cost of gas sales on regulated market	(1,091,921)	(850,181)
Purchase-sale of gas on regulated market	**11,339**	**(6,398)**
Revenue from regulated activities	733,055	652,609
Revenue from non-regulated activities	13,985	15,437
Other revenue	19,587	19,253
Sales of materials	1	729
Auxiliary and ordinary trading revenue	19,529	18,502
Capital grants	57	22
Total	**777,966**	**680,901**

Gas sales relate entirely to those made by Enagás, S.A. Revenue from services rendered basically relates to Enagás, S.A.'s regulated activities, while revenue generated by other companies relates to non-regulated activities. Services rendered are analysed below:

	2006	2005
Regulated activities:		
Enagás, S.A.	733,055	652,609
Non-regulated activities:		
Gasoducto Al - Andalus, S.A.	6,442	7,252
Gasoducto Extremadura, S.A.	5,079	5,568
Gasoducto Campo Maior - Leiria - Braga, S.A.	2,272	2,466
Gasoducto Braga - Tuy, S.A.	192	151
Total	**747,040**	**668,046**

The cost of sales relates mainly to gas supplies or purchases made during the year by Enagás, S.A. to satisfy the regulated market. Details by supplier are as follows:

Thousands of euros	2006	2005
Sagane, S.A.	704,670	668,492
Gas Natural Aprovisionamientos, S.A.	380,817	165,130
Gas Natural Comercializadora, S.A.	3,018	15,948
Other	3,416	611
	1,091,921	**850,181**

23. EXPENSES

An analysis of Group expenses is provided below:

Thousands of euros	31.12.06	31.12.05
Staff costs	54,321	58,198
Other operating expenses	160,037	144,278
	214,358	**202,476**

23.1 Staff costs

The table below shows a breakdown of staff costs:

Thousands of euros	31.12.06	31.12.05
Salaries and wages	45,273	44,576
Severance payments	797	5,274
Social Security costs	10,256	10,153
Other personnel costs	5,549	4,466
Contributions to external pension funds	1,936	1,910
Work on PPE	(9,490)	(8,181)
	54,321	**58,198**

The Group has capitalised staff costs directly related to investment projects in progress in an amount of 9,490 thousand euros at 31 December 2006 and 8,181 thousand euros at 31 December 2005, (see note 6).

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

	Average headcount	
	2006	**2005**
Executives	59	56
Supervisors and graduates	399	389
Administrative staff	115	119
Workers	346	353
Total	**919**	**917**

At 31 December 2006, the Company had 944 employees.

23. 2 Other operating expenses

The detail of this caption is as follows:

Thousands of euros	**31.12.06**	**31.12.05**
External services:		
R+D expenses	460	581
Leases and royalties	70,670	59,256
Repairs and maintenance	18,660	19,431
Professional services	11,168	10,332
Transport	14,521	14,315
Insurance premiums	3,747	4,720
Banking and similar services	186	208
Advertising and public relations	1,862	1,670
Supplies	18,987	16,161
Other services	9,810	7,516
External services	**150,071**	**134,190**
Taxes other than income taxes	**2,318**	**1,992**
Other external expenses	**7,648**	**8,096**

The Group has a lease contract with the Repsol-YPF Group to operate the "Gaviota" hydrocarbon concession, owned by the Repsol-YPF Group (see note 25.2.a). These installations are used by the Group for the regulated activity of natural gas storage as are its own "Serrablo" installations. The current contract ends in 2018.

23.3 Other information

"Other general operating costs" includes the fees paid by consolidated companies for the audit of their annual accounts and for other accounting verification work. In 2006, these expenses amounted to 146 thousand euros as follows:

Thousands of euros	**2006**
Audit of annual accounts	123
Other audit related services	23
Other non-audit related services	502

24. NET FINANCIAL PROFIT (LOSS)

The detail of the "net financial profit (loss)" caption of the accompanying Consolidated Profit and Loss Accounts is as follows:

Thousands of euros	**31.12.06**	**31.12.05**
Revenue from equity investments	338	–
Revenue from long term loans	493	1,091
Other interest and finance revenue	2,831	1,565
Financial revenue	**3,662**	**2,656**
Interest and similar charges	692	388
Interest on loans	50,488	42,523
Revenue attributable to provisions	(525)	143
Financial costs	**50,655**	**43,054**
Net financial profit (loss)	**(46,993)**	**(40,398)**

The Group has capitalised financial expenses in an amount of 8,941 thousand euros at 31 December 2006 and 9,086 thousand euros at 31 December 2005 (see note 6).

25. BUSINESS AND GEOGRAPHICAL SEGMENTS

25.1 Segment criteria

Information about segments is structured in accordance with the Group's various business lines (main business segments).

Information about secondary segments (geographical segments) are not included in this note because Enagás, S.A., the group parent company, carries out its activities within Spain where all regions are subject to the same risks and returns, with no characteristics existing among the various regions which could lead to different results from those obtained. In addition, Enagás, S.A. contributes most of the assets, liabilities, revenues and expenses to the group's consolidated financial statements to the extent that operations involving companies based in Portugal do not exceed 10% of group sales or assets, the limit established by IFRS for the disclosure of secondary segment information.

25.2 Main business segments

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

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

Gas transport: Core activity which consists of the movement of gas through the transport network, comprised of gas pipelines for the primary (with maximum design pressure equal to or higher than 60 bars) and secondary (with maximum design pressure of between 60 and 16 bars) transport of gas to distribution points, as owner of most of the Spanish gas transport network.

Regasification: The gas is transported from producer countries in methane tankers at 160 ºC below zero in liquid form (LNG) and is unloaded at the regasification plants where it is stored in cryptogenic tanks. The temperature of the LNG is increased using saltwater vaporisers transforming this into gas. The natural gas is then injected into gas pipelines and transported throughout Spain.

Storage: Enagás, S.A. operates two underground storage facilities: Serrablo, located between the towns of Jaca and Sabiñánigo (Huesca) and owned by the Company, and Gaviota, an off-shore storage facility located near Bermeo (Vizcaya), owned by the Repsol YPF Group and Murphy Eastern Oil and operated by Enagás via a long term lease contract.

b) Technical system management

In 2005, Enagás, S.A. as technical system manager, continued to carry out the tasks entrusted to it by Royal Decree Laws 6/2000 of 23 June and 949/2001 of 3 August, aimed at guaranteeing the continuity and security of gas supply, and the correct co-ordination of points of access, storage, transport and distribution.

c) Purchase-sale of gas on the regulated market

Enagás, S.A. continued to satisfy the needs of the regulated market in accordance with the provisions of Hydrocarbons Law 34/1998 of 7 October. The selling price, calculated by the Government, reflects the cost of the raw materials, the average regasification cost and the cost of managing gas purchases and sales for the regulated market.

d) Non-regulated activities

This refers to all non-regulated activities and transactions related to Group companies.

25.3 Segment information by business – basis and methodology

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

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

Segment information of these businesses is as follows.

	Infraestructures		Purchase-sale of gas		Technical System Management		Non-Regulated Activities + Consolidation		Group Total	
Thousands of euros	**2006**	**2005**	**2006**	**2005**	**2006**	**2005**	**2006**	**2005**	**2006**	**2005**
P/L										
Operating profit	346.787	312.936	25.700	5.884	79	420	6.108	13.584	**378.674**	**332.824**
After tax profit (loss)	198.276	181.727	17.061	4.098	(44)	202	1.092	4.932	**216.384**	**190.960**
Balance sheet										
Total Assets/Liabilities	3.251.387	2.904.077	242.423	189.835	15.139	6.891	117.245	124.816	**3.626.195**	**3.225.619**

26. ENVIRONMENTAL INFORMATION

The Enagás Group's activities in 2006 ratified its commitment to make current economic development compatible with the conservation of natural resources to guarantee their use by future generations. For this reason the Group has committed itself to making the respect for and conservation of the environment one of its main criteria when taking corporate decisions. This commitment is embodied in the Group's Environmental Policy which comprises a set of principles whose fundamental purpose is to guarantee that any Group activity or installation respects the environment from the beginning to the end of its useful life.

The practical application of Environmental Policy is represented by the Environmental Management System certified by AENOR according to ISO regulation 14001. The environmental management system involves a number of rules and procedures guaranteeing knowledge and exhaustive control of environmental aspects and the adoption of measures to minimise and correct adverse effects on the environment.

In 2006 the ISO 14001 certificate for the Technology Unit and Transport and Production Departments was renewed and certificates for the other departments have been monitored. Measures aimed at correcting the environmental impact of infrastructure projects include environmental control of construction work, landscaping, controlled drilling and archaeological conservation.

In 2006, these environmental activities involved investments totalling 8,212 thousand euros, which are recorded on the asset side of the balance sheet (24,375 thousand euros in 2005).

Environmental expenses totalled 710 thousand euros in 2006 and are recorded under the “Other operating expenses” heading (717 thousand euros in 2005).

Possible contingencies, indemnities and other environmental risks are sufficiently covered by the third-party liability insurance policies the Group has contracted.

The Enagás Group has not received any capital grants or revenue relating to environmental activities.

27. GREENHOUSE GAS EMISSION RIGHTS

Certain Enagás, S.A. installations come within the scope of Law 1/2005 of 9 March governing trading in greenhouse gas emission rights. In July 2006, the Environment Ministry published the definitive and free allocation of greenhouse gas emission rights for these installations, with the total rights assigned to Enagás, S.A. via the National Allocations Plan for 2006-2007 amounting to 756,676, of which 360,584 correspond to 2006 and 396,092 to 2007.

The installations for which these allocations have been received are:

- The Serrablo underground storage facility.
- The LNG storage and regasification plants at Barcelona, Cartagena and Huelva.
- The compression stations at: Algete, Almendralejo, Almodóvar, Bañeras, Córdoba, Crevillente, Sevilla, Haro, Paterna, Tivissa, Zamora and Zaragoza.

The rights assigned for 2006, 360,584, were valued at 22.25 euros/right, the spot price on the first business day of 2006 of RWE Trading GMBH.

In 2006, the Enagás Group consumed 158,866 greenhouse gas emission rights, so at 31 December 2006 the company had a surplus of 201,718 rights. This surplus of rights valued at a price of 22.25 euros/right, their price on the first business day of 2006, has a value of 4,488 thousand euros, whilst the value of this surplus at 31 December 2006 is 1,271 thousand euros, based on a reference price of 6.30 euros/right, their price on the last business day of 2006.

In 2006, Enagás, S.A. did not negotiate any future contract relating to greenhouse gas emission rights nor do any contingencies related to provisional penalties or measures exist under the terms established by Law 1/2005.

At 31 December 2006, the accounts for each of the installations that have been allocated emission rights in RENADE (the National Registry of Greenhouse Gas Emission Rights) are not open, as the modification of the National Allocations Plan by the Environment Ministry and the EC has not been concluded. However, on 28 February 2007, Enagás, S.A. presented the emissions report verified by an accredited entity to the relevant regional governments and so will be able to transfer to RENADE, in April 2007, the rights allocated for 2006-2007.

In December 2006, Enagás, S.A. submitted requests for allocation for the greenhouse gas emission rights allocation plan for 2008-2012.

28. RELATED-PARTY TRANSACTIONS

Since 2003 the Enagás Group has published information regarding transactions with related parties on a quarterly basis. The format of this information has changed to adapt this to the requirements of Order EHA/3050/2004, of 15 September.

Significant aspects to take into account in relation with information about related party transactions are:

a) Material related party transactions in excess of Enagás' ordinary activities are approved by the Board of Directors of the Company subsequent to a report by the Appointments and Remuneration Committee.

b) According to Order EHA/3050/2004, it is not necessary to disclose transactions which are part of the Company's ordinary activities, are carried out under normal market conditions and are not material. In this respect, and taking into account the amounts included in Enagás' financial statements, transactions taking place during the period for which information is provided are deemed not to be material when they fail to exceed the sum of three million euros.

c) Year closes for certain transactions are not available, especially those whose amounts depend on the close of gas balances. This means that at times amounts are provisional or figures are included for the first eleven months of the year, in which case this circumstance is expressly stated.

Unless otherwise indicated, transactions are for contracts signed prior to the reference period. New relationships, arising from contracts or commitments entered into in 2006, are expressly indicated.

28.1 Enagás, S.A. transactions with group companies, core shareholders and companies which exert a significant influence on Enagás (section A of Point 4.1 of Order EHA 3050/2004).

28.1.1 Subsidiaries of Enagás, S.A.

- Transactions with Gasoducto Al-Andalus
  Enagás S.A. has granted this company a loan for 35,703 thousand euros.
  Gasoducto Al-Andalus, S.A. has paid Enagás, S.A. dividends for fiscal year 2005 in an amount of 4,859 thousand euros.

Enagás S.A. has incurred a cost of 16,410 thousand euros for transport rights, and has received revenue of 4,836 thousand euros for gas pipeline maintenance and corporate royalties by virtue of long term contracts entered into by the parties.

- Transactions with Gasoducto de Extremadura

  Enagás S.A. has granted this company a loan for 5,041 thousand euros.

  Gasoducto Extremadura, S.A. has paid Enagás, S.A. dividends for fiscal year 2005 in an amount of 3,105 thousand euros.

  Also, Enagás S.A. has incurred a cost of 8,423 thousand euros for transport rights, for services provided by Gasoducto Extremadura, and received revenue of 4,541 thousand euros for gas pipeline maintenance and corporate royalties by virtue of long term contracts entered into by the parties.

- Transactions with Gasoduto Campo Maior–Leiria–Braga

  Enagás S.A. has granted this company a loan for 6,242 thousand euros.
  In addition, Enagás, S.A. has incurred a cost of 3,428 thousand euros for the provision of transport services.

- Transactions with Gasoduto Braga–Tuy

  Enagás, S.A. has guaranteed a loan granted by a Portuguese bank to Gasoduto Braga-Tuy S.A. for 8,900 thousand euros.

  In addition, Enagás, S.A. has incurred a cost of 3,478 thousand euros for the provision of transport services.

28.1.2 Enagás S.A. transactions with companies which exercise a significant influence on Enagás and with companies on which Enagás, S.A. exercises a significant influence.

- Transactions with Gas Natural SDG and group companies

1. Enagás S.A. paid Gas Natural SDG, S.A. 8,441 thousand euros in dividends.
2. Enagás S.A. has entered into 26 contracts with Gas Natural Comercializadora S.A. for third party network access (TPNA), of which 17 are short term and 9 long term. Ten of the seventy-five contracts signed in 2006 were signed in the last quarter of the year.

   TPNA contracts are standardised forms approved by the Ministry of Industry, Tourism and Trade as are the access tolls invoiced by Enagás, S.A.
3. Between 1 January and 31 December 2006 the following services were provided: Regasification of 74,356 GWh, 43.59% of total TPNA, billing 50,297 thousand euros for these services; 150,306 GWh were transported, which represents 59.57% of total TPNA, billing 76,740 thousand euros for these services; and finally an average of 9,082 GWh were stored which represents 51.68% of total TPNA, billing 22,915 thousand euros for these services.
4. Enagás S.A. has entered into a gas purchase-sale contract with several Gas Natural Group companies to satisfy regulated market demand. In 2006 Enagás S.A. acquired 55,285 GWh of natural gas, for 1,117,466 thousand

euros. The acquisition price corresponds to the cost of the raw material which serves to fix the sale price to distributors.

Between July and 31 December 2006, according to the stipulations of the Second Temporary Provision of ITC 4099/2005, 2,113 GWh of natural gas were acquired from Gas Natural Group companies for 42,702 thousand euros to comply with the minimum linepack for gas pipelines and minimum operating levels for tanks in that part corresponding to Enagás by law, and 273 GWh of natural gas for 5,526 thousand euros in that part corresponding to transporters.

In this same period, Enagás S.A. transported 43,529 GWh of natural gas to Gas Natural Group distributors for 904,669 thousand euros. The terms and conditions and price of these operations are regulated by the authorities.

5. Desarrollo del Cable S.A. leases Enagás part of the fibre optic cable necessary for its telecoms services, by virtue of a long term contract signed in 1999 and modified in 2005. The cost to Enagás of this service in 2006 was 17,733 thousand euros.
6. Enagás S.A. paid Gas Natural Group companies 2,131 thousand euros for maintenance services, 3,026 thousand euros for infrastructure connections, and 918 thousand euros for other services. These services were provided under market conditions and at market prices.
7. The hiring of LNG inventories and their storage in ships, cost Enagás, S.A. 3,452 and 5,990 thousand euros respectively.

- Transactions with BP España, S.A.

1. Enagás S.A. paid BP España S.A. 4,774 thousand euros in dividends.
2. Enagás S.A. has entered into three short term contracts with BP Gas España S.A. for third party network access (TPNA) all of which are currently in force. One of the fourteen contracts signed in 2006 was signed in the last quarter of the year.

   TPNA contracts are standardised forms approved by the Ministry of Industry, Tourism and Trade as are the access tolls invoiced by Enagás, S.A.
3. Between 1 January and 31 December 2006 the following services were provided: Regasification of 614 GWh, 0.36% of total TPNA, billing 579 thousand euros for these services; 477 GWh were transported, which represents 0.19% of total TPNA, billing 995 thousand euros for these services; and finally 1,131 GWh were stored which represents 6.44% of total TPNA, billing 3,027 thousand euros for these services.

- Transactions with la Caja de Ahorros del Mediterráneo (CAM) or its subsidiary Inversiones Cotizadas del Mediterráneo (INCOMED S.L.)

1. Enagás S.A. paid INCOMED 4,800 thousand euros in dividends.
2. Enagás S.A. renewed a credit line with la CAM for 6,000 thousand euros, and has signed a guarantee line for 12,000 thousand euros.
3. Enagás S.A. has an interest rate hedge (COLLAR) with la CAM for 15,000 thousand euros for the period from January 2005 to April 2008.

The terms and conditions of the financial agreements entered into with la CAM are the usual market ones in respect of interest, commission, expenses and guarantees.

- Transactions with Caja de Ahorros de Valencia, Castellón y Alicante (Bancaja)

    1. Enagás S.A. paid Bancaja 4,774 thousand euros in dividends.
    2. Enagás S.A. has a credit line open with Bancaja for 6,000 thousand euros, and has also signed a guarantee line for 6,000 thousand euros that expires annually.
    3. Enagás S.A. has an interest rate hedge (COLLAR) with Bancaja for 15,000 thousand euros for the period from January 2005 to April 2008.

    The terms and conditions of the financial agreements entered into with BANCAJA are the usual market ones in respect of interest, commission, expenses and guarantees.

- Transactions with Caja de Ahorros de Asturias (Cajastur) or with its subsidiary Cantábrica de Inversiones de Cartera, S.L.

    1. Enagás S.A. paid Cantábrica de Inversiones de Cartera S.L., 4,774 thousand euros in dividends.
    2. Enagás S.A. has a credit facility with Cajastur for 6,000 thousand euros, and a guarantee line for 6,000 thousand euros.
    3. Also, Cajastur has a 30,000 thousand euro stake in the Club Deal Syndicated Loan signed on 24 November 2004 and paid on 10 January 2005, falling due in 2010.

    The terms and conditions of the financial agreements entered into with CAJASTUR are the usual market ones in respect of interest, commission, expenses and guarantees.

- Transactions with Sagane Inversiones, S.L.

    Enagás S.A. paid Sagane Inversiones S.L. 4,795 thousand euros in dividends.

28.2 Transactions with directors, management and their close relatives (section B of Point 4.1 of Order EHA 3050/2004)

Board members received 1,013 thousand euros in per diems. Senior Executives (the Chairman and members of the Management Committee) received remuneration totalling 6.77 million euros (including long term remuneration accrued since 2003 and received this year).

28.3 Transactions with related parties (section D of Point 4.1 of Order EHA 3050/2004)

- Transactions with la Caixa d'Estalvis I Pensions de Barcelona ("La Caixa") and group companies

    1. La Caixa has an 89 million euro stake in the Club Deal Loan signed on 24 November 2004 and paid on 10 January 2005.

2. Enagás S.A. also has a credit line for 100.0 million euros with La Caixa.

3. At 31 December 2006 La Caixa had given Enagás guarantees amounting to 25,255 thousand euros. In addition, Enagás has renting agreements with La Caixa group companies for 6,288 thousand euros of principal.

   The terms and conditions of the financial agreements entered into with la Caixa are the usual market ones in respect of interest, commission, expenses and guarantees.

- Transactions with Repsol YPF and group companies

  Enagás S.A. leases the Gaviota underground storage facility from Repsol Investigaciones Petrolíferas S.A., for which Enagás S.A. paid 24,494 thousand euros in 2006.

29. DIRECTORS' COMPENSATION

29.1 Wages and salaries

Board members received 4,256 thousand euros and 1,933 thousand euros in 2006 and 2005 respectively in respect of compensation. These amounts include per diems and other sums received by the Directors by virtue of their membership of the Board of Directors and its dependent Committees, and for attending meetings, in application of the resolution adopted by the Shareholders' Meeting of 22 April 2006, with the limits indicated in said resolution having been respected and complied with in respect of the amounts received by members of the Board.

This item also includes salaries and compensation for the carrying out of executive functions by members of the board with these responsibilities. These amounts are independent of the compensation fixed annually by the Shareholders' Meeting to compensate Board members. Finally, the amounts corresponding to payment of expenses incurred by board members when attending board and committee meetings are also included in this item, as is the part corresponding to the long term incentive approved by the Board in 2003 and which was paid in June 2006, (see note 14).

29.2 Other compensation

Pension contributions made during the year totalled 10 thousand euros (10 thousand euros in 2005) and the premiums paid for life insurance amounted to 82 thousand euros (65 thousand in 2005).

At 31 December 2006, the outstanding balance for loans granted to Board members was 320 thousand euros (355 thousand euros at 31 December 2005), granted under market terms and conditions.

30. OTHER INFORMATION REGARDING THE BOARD OF DIRECTORS

In order to comply with the provisions of Article 127 of the Spanish Companies Act, these Notes to the accounts contain information relating to the shareholdings and positions held by Enagás Board Members with respect to other companies with a corporate purpose that is similar or supplementary to that of Enagás S.A. When preparing this information, companies having a corporate purpose that is similar or supplementary to that of Enagás have been considered to be those that are engaged in the transport, regasification, distribution or sale of natural gas, regulated by Law 34/1998 on the Hydrocarbon Industry.

Shareholdings in companies that have the same, similar or supplementary corporate purpose that have been reported to ENAGÁS, S.A. by Directors at 31 December 2006 are as follows:

Director	Company	Shares / % Ownership
Caja de Ahorros del Mediterráneo, CAM	Unión Fenosa	5.150%
Caja de Ahorros de Valencia, Castellón y Alicante, Bancaja	Iberdrola	1.098%
	Endesa	0.024%
	Gas Natural, SDG S.A.	0.005%
	Unión Fenosa	0.002%

José Olivas Martínez, the representative of BANCAJA (Caja de Ahorros of Valencia, Castellón y Alicante), on the board of Enagás, holds 0.0002% of the share capital of Repsol and 0.00004% of the share capital of Totalfina as a private individual.

Positions held or duties fulfilled by Company Directors at companies that have the same, similar or supplementary corporate purpose that have been reported to ENAGÁS, S.A. at 31 December 2006 are as follows:

Director	Company	Position
Salvador Gabarró Serra	Gas Natural, SDG, S.A.	Chairman
Luis Javier Navarro Vigil	BP España SAU	Chairman
Antonio Llardén Carratalá	Gas Natural, SDG, S.A.	Managing Director of Resources

Manuel Menéndez Menéndez, the representative of Peña Rueda, S.L. on the Board, holds as a private individual the positions of Chairman of the Board of Directors of Hidroeléctrica del Cantábrico, S.A., and member of the board of Eléctrica De Portugal (EDP) and is the physical representative of HC, S.A. on the Board of Naturgas Energía Grupo, S.A.

No activities that are the same, similar or complementary to those of Enagás, other than those listed above, are carried out by Company Directors.

31. THIRD-PARTY GUARANTEES

At 31 December 2006 the Group had provided guarantees to third parties deriving from its activities for an amount of 61,630 thousand euros. It has also received guarantees for a total of 43,146 thousand euros for the loans granted by the European Investment Bank.

Also, 8,900 thousand euros correspond to guarantees furnished to Group companies to guarantee debt included in the liabilities of the Consolidated Balance Sheet, mainly for a loan that Banco Santander Central Hispano, S.A. has granted to Gasoduto Braga – Tuy, S.A.

Group Directors believe no significant liabilities will arise additional to those recorded in the accompanying Consolidated Balance Sheet as a result of the transactions described in this note.

32. EVENTS AFTER THE BALANCE SHEET DATE

On 11 January 2007 an interim dividend was paid against 2006 results. The dividend totalled 0.19 euros per share and was approved by the Board of Directors of Enagás, S.A. at a meeting held on 20 December 2006.

At the board meeting held on 24 January 2007, Antonio González-Adalid García-Zozaya submitted his resignation as Chairman of Enagás, S.A., a position he had held since June 2002. At the same ordinary session of the Board of Directors, Antonio Llardén Carratalá, a member of the Board since April 2006, was unanimously appointed Chairman of Enagás.

In addition, José Luis Olivas Martínez, an independent director representing the Cajas de Ahorros of Valencia, Castellón y Alicante – BANCAJA -, was appointed Deputy Chairman of Enagás S.A.

In 2007 the staff costs associated with this change in the chairmanship of the parent company will be recorded.

33. OTHER INFORMATION

In 2006 rating agencies confirmed the Company's credit rating. Standard & Poor's maintained their AA- rating; and Moody's confirmed a rating of A2.

In 2006, Enagás, S.A. joined the FTSE4Good index, that includes those companies that set a good example in the world of best practices in Corporate Social Responsibility.

On 22 November 2006 the Company's Board of Directors unanimously agreed to appoint Rafael Piqueras Bautista as Secretary and Advisory Lawyer to the Board in replacement of Luis Pérez de Ayala Becerril, whose resignation from the position was accepted.

34. BUSINESS COMBINATIONS

Information on the business combinations in which the Group had interests at 31 December 2006 is set out in the table below.

Company	Country	Line of Business	Reporting Method	%	% Voting rights Controlled by Enagás S.A.	Thousands of euros				
						Net carrying Value	Figures for part-owned company (*)			
							Assets	Liabilities	Equity	Net profit for the year (**)
Gasoducto Al-Andalus, S.A.	Spain	Gas transport.	PC	66.96	50	23,744	106,983	106,983	49,290	6,951
Gasoducto de Extremadura, S.A.	Spain	Gas transport.	PC	51	50	9,732	48,195	48,195	27,692	6,134
Gasoducto Campo Maior Leiria Braga, S.A.	Portugal	Gas transport.	PC	12	50	3,195	97,510	97,510	36,858	7,827
Gasoducto Braga-Tuy, S.A.	Portugal	Gas transport.	PC	49	50	2,546	19,496	19,496	6,842	1,250
Total										

PC: Proportionate consolidation.
(*) The data presented correspond to figures for the individual companies prepared under GAAP applicable in the country in question and before the homogenization adjustments made prior to consolidation of the financial statements.
(**) Data for Gasoduto Campo Mayor-Leiria-Braga, S.A., and Gasoduto Braga-Tuy, S.A., as indicated in note 1a), are taken from the accounts closed on 30 November 2006.

35. EXPLANATION ADDED FOR TRANSLATION TO ENGLISH

These consolidated financial statements are presented on the basis of IFRSs, as adopted by the European Union. Certain accounting practices applied by the Company that conform with IFRSs may not conform with other generally accepted accounting principles.