Translation of consolidated financial statements originally issued in Spanish and prepared in accordance with IFRSs, as adopted by the European Union (see Notes 2.1 and 36). In the event of a discrepancy, the Spanish-language version prevails.

ENAGÁS S.A. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEET AT 31 DECEMBER 2007 AND 2006
(Figures in thousands of euros)

Assets	**Notes**	**31.12.2007**	**31.12.2006**
NON-CURRENT ASSETS		**3,459,808**	**3,084,559**
Intangible assets	5	34,042	32,278
Investment properties	6	-	643
Property, plant and equipment	7	3,390,727	3,014,907
Financial assets	9	24,952	27,299
Deferred tax assets	22	10,087	9,432
CURRENT ASSETS		**516,149**	**541,636**
Inventories	11	3,378	78,736
Trade and other receivables	10	484,603	446,624
Other financial assets	9 y 19	8,305	4,180
Deferred tax assets	10 y 22	12,567	6,284
Other assets		2,041	2,499
Cash and cash equivalents		5,255	3,313
TOTAL ASSETS		**3,975,957**	**3,626,195**

Equity and liabilities	**Notes**	**31.12.2007**	**31.12.2006**
CAPITAL AND RESERVES	12	**1,343,905**	**1,235,203**
Issued capital		358,101	358,101
Reserves		804,814	706,078
Profit for the year		238,286	216,384
Interim dividend		(57,296)	(45,360)
NON-CURRENT LIABILITIES		**1,879,144**	**1,726,364**
Borrowings	16	1,758,923	1,633,225
Other financial liabilities	17	18,706	21,220
Deferred tax liabilities	22	1,764	2,149
Provisions	15	30,683	16,708
Other liabilities	14	69,068	53,062
CURRENT LIABILITIES		**752,908**	**664,628**
Borrowings	16	167,223	123,961
Other financial liabilities	17 y 19	4,642	3,664
Trade and other payables	20	477,050	447,391
Current tax liabilities	22	42,627	41,276
Other liabilities		61,366	48,336
TOTAL EQUITY AND LIABILITIES		**3,975,957**	**3,626,195**

Notes 1 to 36 are an integral part of the consolidated balance sheet at 31 December 2007

Translation of consolidated financial statements originally issued in Spanish and prepared in accordance with IFRSs, as adopted by the European Union (see Notes 2.1 and 36). In the event of a discrepancy, the Spanish-language version prevails.

ENAGÁS S.A. AND SUBSIDIARIES
CONSOLIDATED INCOME STATEMENT FOR THE YEARS ENDED 31 DECEMBER 2007 AND 2006
(Figures in thousands of euros)

	Notes	31.12.2007	31.12.2006
Purchase-sale of gas on regulated market	23	(12,151)	11,339
Revenue from regulated activities	23	792,025	733,055
Revenue from liberalised activities	23	15,499	13,985
OTHER REVENUE			
Other operating income	23	21,870	19,587
Employee benefits expense	24	(62,002)	(54,321)
Depreciation and amortisation	5 y 7	(187,686)	(184,934)
Other operating costs	24	(159,260)	(160,037)
OPERATING PROFIT		**408,295**	**378,674**
Finance and similar revenue	25	3,390	3,662
Financial and similar costs	25	(61,020)	(50,655)
Translation differences, net		-	-
PROFIT BEFORE TAX FROM CONTINUING OPERATIONS		**350,665**	**331,681**
Income tax expense	22	(112,379)	(115,297)
PROFIT FOR THE YEAR FROM DISCONTINUED OPERATIONS		**238,286**	**216,384**
Profit for the year from discontinued operations		**-**	**-**
PROFIT FOR THE YEAR		**238,286**	**216,384**
Attributable to:			
Equity holders of the parent		**238,286**	**216,384**
BASIC EARNINGS PER SHARE	**13**	**1.00**	**0.91**
DILUTED EARNINGS PER SHARE		**1.00**	**0.91**

Notes 1 to 36 are an integral part of the consolidated income statement for the year ended 31 December 2007

Translation of consolidated financial statements originally issued in Spanish and prepared in accordance with IFRSs, as adopted by the European Union (see Notes 2.1 and 36). In the event of a discrepancy, the Spanish-language version prevails.

ENAGÁS, S.A. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2007
(Figures in thousands of euros)

	Share capital and share premium	Other reserves	CNE debt revaluation reserve	Cash flow hedge reserve	Retained earnings	Profit (loss) for the year	Interim dividend	Total
Balance at 1 January 2006	**358,101**	**611,816**	**(1,029)**	**(10,532)**	**(690)**	**190,960**	**(38,197)**	**1,110,429**
Distribution of profit to:								
Legal reserve - parent company	-	-	-	-	-	-	-	**-**
Voluntary reserves - parent company	-	95,924	-	-	-	(95,924)	-	**-**
Reserves at consolidated companies	-	9,224	-	-	-	(9,224)	-	**-**
Other	-	(208)	-	-	-	-	-	**(208)**
Dividends paid by the parent company	-	-	-	-	-	(95,479)	38,197	**(57,282)**
Dividends received by the parent company	-	(9,667)	-	-	-	9,667	-	**-**
Net profit not recognised in profit and loss	-	-	-	-	-	-	-	**-**
Increase in fair value of assets	-	-	386	-	-	-	-	**386**
Deferred tax	-	-	(195)	-	-	-	-	**(195)**
Hedging operations	-	-	-	-	-	-	-	**-**
Income deferred in equity	-	-	-	9,479	-	-	-	**9,479**
Transfer to profit and loss	-	-	-	7,463	-	-	-	**7,463**
Deferred tax	-	-	-	(5,893)	-	-	-	**(5,893)**
Profit for the year	-	-	-	-	-	216,384	-	**216,384**
Interim dividend	-	-	-	-	-	-	(45,360)	**(45,360)**
Balance at 31 December 2006	**358,101**	**707,089**	**(838)**	**517**	**(690)**	**216,384**	**(45,360)**	**1,235,203**
Distribution of profit to:								
Legal reserve - parent company	-	-	-	-	-	-	-	**-**
Voluntary reserves - parent company	-	103,275	-	-	-	(103,275)	-	**-**
Reserves at consolidated companies	-	9,182	-	-	-	(9,182)	-	**-**
Other	-	(4,437)	-	-	-	-	-	**(4,437)**
Dividends paid by the parent company	-	-	-	-	-	-112,637	45,360	**(67,277)**
Dividends received by the parent company	-	(8,710)	-	-	-	8,710	-	**-**
Net profit not recognised in profit and loss	-	-	-	-	-	-	-	**-**
Decrease in fair value of assets	-	-	(1,505)	-	-	-	-	**(1,505)**
Deferred tax	-	-	442	-	-	-	-	**442**
Hedging operations	-	-	-	-	-	-	-	**-**
Income deferred in equity	-	-	-	2,273	-	-	-	**2,273**
Transfer to profit and loss	-	-	-	(1,575)	-	-	-	**(1,575)**
Deferred tax	-	-	-	(209)	-	-	-	**(209)**
Profit for the year	-	-	-	-	-	238,286	-	**238,286**
Interim dividend	-	-	-	-	-	-	(57,296)	**(57,296)**
Balance at 31 December 2007	**358,101**	**806,399**	**(1,901)**	**1,006**	**(690)**	**238,286**	**(57,296)**	**1,343,905**

Notes 1 to 36 are an integral part of the consolidated statement of changes in equity for the year ended 31 December 2007

Translation of consolidated financial statements originally issued in Spanish and prepared in accordance with IFRSs, as adopted by the European Union (see Notes 2.1 and 36). In the event of a discrepancy, the Spanish-language version prevails.

ENAGÁS, S.A. AND SUBSIDIARIES
CONSOLIDATED CASH FLOW STATEMENT FOR THE YEARS ENDED 31 DECEMBER 2007 AND 2006
(Figures in thousands of euros)

	2007	2006
PROFIT BEFORE TAX	**350,665**	**331,681**
Adjustments to profit	**210,596**	**191,192**
Depreciation of property, plant and equipment	187,686	184,934
Movement in provisions	13,975	(1,516)
(Gains) / losses on disposal of assets	(3,324)	(195)
Change in deferred revenue	15,810	8,626
Change in accruals	464	(409)
Other adjustments	(4,015)	(248)
Movements in working capital	**17,635**	**(59,185)**
(Increase) / decrease in inventories	75,358	(76,391)
Restatement of minimum linepack for gas pipeline (see Notes 3-f and 10)	(42,702)	-
(Increase) / decrease in trade and other receivables	(45,774)	(43,955)
(Increase) / decrease in trade and other payables	30,753	61,161
(Increase) / decrease in other liabilities	-	-
Movement in income tax payable	**(112,068)**	**(117,678)**
NET CASH GENERATED BY OPERATING ACTIVITIES	**466,828**	**346,010**
Acquisitions of equity investments	(523,361)	(479,312)
Government grants received	-	1,164
Proceeds from disposal of equity investments	4,340	45
(Increase) / decrease in financial assets	1,083	(5,208)
NET CASH USED IN INVESTING ACTIVITIES	**(517,938)**	**(483,311)**
Increase / (decrease) in loans except for bank overdrafts	166,995	235,796
Dividends paid	(112,637)	(95,479)
Increase / (decrease) in other liabilities	(1,306)	(1,089)
NET CASH GENERATED BY FINANCING ACTIVITIES	**53,052**	**139,228**
TOTAL NET CASH	**1,942**	**1,927**
Cash and cash equivalents at the beginning of the financial year	3,313	1,386
CASH AND CASH EQUIVALENTS AT THE END OF THE FINANCIAL YEAR	**5,255**	**3,313**

Notes 1 to 36 are an integral part of the consolidated cash flow statement for the year ended 31 December 2007

Translation of consolidated financial statements originally issued in Spanish and prepared in accordance with IFRSs, as adopted by the European Union (see Notes 2.1 and 36). In the event of a discrepancy, the Spanish-language version prevails.

ENAGÁS, S.A. AND SUBSIDIARIES

Notes to the consolidated annual financial statements for the year ended 31 December 2007

1. Group Activity

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

In addition to the operations it carries out directly, Enagás, S.A. is the head of a group of companies that includes interests in joint ventures engaged in the gas transport business and which, together with Enagás, S.A., comprise the Enagás Group (hereinafter, the Group). Consequently, Enagás, S.A. is required to prepare consolidated annual financial statements for the Group in addition to its own annual financial statements.

The consolidated annual financial statements of the Group and those of each of the entities comprising the Group for the financial year 2007, which have served as the basis for the preparation of these consolidated annual financial statements, are pending the approval at their respective Shareholders' Meetings. However, the Directors believe these annual financial statements will be approved as presented.

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

2. Basis of presentation of the annual financial statements and consolidation principles

2.1. Accounting principles

The consolidated annual financial statements of the Enagás Group for financial year 2007 have been prepared by the Directors, at a meeting of the Board of Directors held on 25 February 2008, in accordance with the International Financial Reporting Standards (hereinafter, "IFRS"), as adopted by the European Union, pursuant to Regulation (EC) No. 1606/2002 of the European Parliament and of the Council.

These annual financial statements give a true and fair view of the equity and financial position of the Group at 31 December 2007, and of the results of its operations, the changes in its equity and cash flows occurring in the year then ended.

The consolidated annual financial statements for financial year 2007 of the Enagás Group have been prepared from the accounting records kept by the Company and by the other entities comprising the Group.

The 2006 consolidated annual financial statements included for comparative purposes have also been prepared in accordance with the IFRSs adopted by the European Union and applied on a basis consistent with those in financial year 2007.

As a result of law 62/2003, published on 31 December 2003, in 2006 Gas Natural SDG, S.A. reduced its shareholding to the maximum permitted (see Note 12). Consequently, debit and credit balances, as well as transactions carried out during the 12-month period, are classified under headings related to third party payables and receivables.

The financial year for the companies comprising the Group end on 31 December, the date of the financial statements used for consolidation purposes except for Gasoduto Braga-Tuy, S.A. and Gasoduto Campo Maior–Leiria-Braga, S.A. which, because of the date on which these annual financial statements are approved and their scant materiality, are consolidated on the basis of data as at 30 November 2007.

Note 3 includes the most significant accounting principles and measurement bases used in preparing the consolidated financial statements of the Group for financial year 2007.

2.2. Responsibility for the information and estimates made

The Group's directors are responsible for the information contained in these annual financial statements.

The consolidated financial statements of the Group for financial year 2007 include estimates made by Senior Management of the Group and of consolidated entities – subsequently ratified by their Directors – about the carrying amounts of certain assets, liabilities, revenues, expenses and commitments presented therein. These estimates relate basically to the following:

- The useful life of property, plant and equipment and of intangible assets (Notes 3-a and 3-b)
- The measurement of assets to determine impairment losses (Note 3-b)
- Forecasts for invoices pending execution
- Provisions for impairment of replacement parts for property, plant and equipment
- Prior years' accounts pending settlement with the government (Note 10)

Although these estimates were made on the basis of the best information available at 31 December 2007 regarding the facts analysed, it is possible that future events may require these to be changed (upwards or downwards) in coming years. This would be done prospectively in accordance with the provisions of IAS 8, recognising the effects of the changes in accounting estimates in by including it in profit or loss.

2.3 Basis of consolidation

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

The annual financial statements of joint ventures are consolidated using proportionate consolidation, combining the balances and subsequent eliminations in proportion to the Group's interest in these companies' share capital.

The consolidation is carried out as follows:

a. Proportionate consolidation for joint ventures managed in conjunction with Transgás, S.A. (Gasoducto Al-Andalus, S.A., and Gasoducto de Extremadura, S.A.) and REN Gasoductos, S.A. (Gasoduto Campo Maior–Leiria– Braga, S.A. and Gasoduto Braga–Tuy, S.A., i.e. the Portuguese companies).

b. Intra-group transactions: all credits, debits, income, expenses and results from transactions with other Group companies are eliminated on consolidation in proportion to Enagás, S.A.'s interest in the companies' share capital.

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

d. Translation of financial statements denominated in foreign currencies: The individual financial statements of all companies included in the scope of consolidation are presented in euros. Therefore, no foreign currency translation is required.

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

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

Note 35 includes the most significant aspects of the Group's joint ventures existing at the end of financial year 2007.

3. Measurement bases

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

a. Intangible assets

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

The criteria used to recognise the impairment losses on these assets and, where applicable, the reversal of impairment losses recognised in prior years, are similar to those used for property, plant and equipment (see Note 3c).

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

Costs of purchasing and developing the Group's basic computer systems are recognised under "Property, plant and equipment" in the consolidated balance sheet. Maintenance costs related to the computer systems are recognised with a charge to profit or loss in the year in which they are incurred.

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

	Amortisation rate	**Useful life (years)**
Development costs	50%	2
Concessions, patents, licences, brands and similar:		
- Port concessions at the Barcelona Plant.	1.33%-1.28%	75-78
- Port concessions at the Huelva Plant.	7.60%	13
- Use of the public radioelectric domain	20.00%	5
Computer software	25%	4

The Group recognises as expenses in the consolidated income statement all research and development costs whose technical and commercial feasibility cannot be established. Research and development costs recognised as expenses in the consolidated income statement amounted to 646 thousand euros in 2007 and 460 thousand euros in 2006.

In July 2006, the Environment Ministry published the definitive, free allocation of greenhouse gas emission rights to Enagás, S.A. plants. This allocation is included in the National Allocation Plan for 2006-2007.

In the second quarter of 2007, Enagás, S.A. delivered greenhouse gas emission rights equivalent to its emissions in 2006.

The Group recognises emission rights as non-amortisable intangible assets in the same way as its other assets; initially at cost, then making the pertinent write-down where fair value is lower than cost.

Rights received free of charge in accordance with the National Allocation Plan for 2006-2007 are assumed to have zero cost as the Group presents the assets net of subsidies (see Note 28).

b. **Property, plant and equipment**

Assets acquired for use in production, for the supply of goods or services, or for administrative purposes, are presented in the balance sheet at acquisition or production cost, less accumulated depreciation and any impairment losses, except for any revaluations made by Enagás, S.A. in 1996.

Capitalised costs include:

1. Finance costs associated with the financing of infrastructure projects accrued during the period of construction if this is over a year. The average rate of capitalisation used to calculate the amount of the borrowing costs to be capitalised was 4.27% in 2007 (3.6% in 2006).

2. Employee benefits expenses directly related to work in progress. The amounts capitalised for these items are recognised in the accompanying consolidated income statement for financial year 2006 with a decrease in employee benefits expenses of 10,413 thousand euros (9,490 thousand euros in 2006) (see Note 7).

3. Future payments which the Group will have to make in relation to the requirement to dismantle certain items of property, plant and equipment corresponding to the Serrablo and Yela underground storage facilities at the end of their useful lives. The carrying amounts of these assets includes an estimate of the present value at the date of acquisition of the costs to the Group for dismantling, with a credit to "Non-current provisions" (Note 15) in the accompanying consolidated balance sheet. In addition, this provision has been adjusted in subsequent periods.

The costs of remodelling, expansion or improvement leading to increased productivity, capacity or a lengthening of the useful lives of assets are capitalised as an increase in the cost of the related asset. The net carrying amount of replaced assets is deducted.

In keeping with the accrual principle, period maintenance, upkeep and repair expenses are charged directly to profit and loss in the year they are incurred.

Properties in the course of construction for production, rental or administrative purposes, or for purposes not yet determined, are carried at cost, less any recognised impairment loss. Cost includes, for qualifying assets, borrowing costs capitalised expenses in accordance with the Group's accounting policy. Depreciation of these assets, on the basis as other property assets, commences when the assets are ready for their intended use.

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

In addition, in 2007 both natural gas related to the minimum linepack for system security of the gas pipelines and the minimum LNG stock level of the regasification plants (also called “Gas Talón”) was considered a non-depreciable asset as it is not available and thereby immobilised under prevailing regulations. It is measured at the auction price under Order ITC/3993/2006 and the Resolution dated 18 April 2007 (see Note 3-f).

Depreciation is calculated over the estimated useful lives of the assets, using the straight-line method, on the cost of acquisition of the assets less their residual value. The land on which the buildings and other constructions stand is considered to have an indefinite useful life and, therefore, is not depreciated.

The annual depreciation charge is recognised under “Depreciation and amortisation expense” in the consolidated income statement and, basically, corresponds to the following depreciation rates, based on the estimated average years of useful life of the related assets:

	Depreciation rate	**Useful life (years)**
Buildings	3%-2%	33.33-50
Plant (transport network)	5%-3.33%	20-30
Tanks	5%	20
Underground storage facilities.	10%	10
Cushion gas	5%	20
Other plant and machinery	12%-5%	8.33-20
Tools and equipment	30%	3,33
Furniture and fixtures	10%	10
Computer equipment	25%	4
Transport equipment	16%	6,25

The Group’s directors consider that the carrying amount of the assets does not exceed their recoverable value, calculated based on the discounted future cash flows they generate in accordance with the remuneration envisaged in prevailing legislation.
The gain or loss on the disposal or derecognition of an asset is calculated as the difference between the amount of the sale and the carrying amount of the asset and is recognised in the income statement under “Other operating income” or “Other operating costs”, respectively.

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

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

At each balance sheet date, or when deemed necessary, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). In the case of identifiable assets which do not generate cash inflows independently, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Recoverable amount is the higher of fair value less costs to sell and value in use, considered to be present value of the estimated future cash flows. The Group uses value in use in nearly all cases to calculate the recoverable value of its property, plant and equipment.

To estimate value in use, the Group prepares pre-tax cash flow projections based on the latest budgets approved by the Group’s directors. These budgets include the best available estimates of the revenue and expense of cash-generating units based on industry forecasts, past experiences and future expectations.

These projections are for a period of five years, with estimates of future flows based on reasonable growth rates, which are in no case incremental nor exceed prior years’ growth rates.

To calculate he present value, the cash flows are discounted at a pre-tax rate that reflects the cost of capital of the business and of the geographical area where business is carried out. The discount rate is based on the current interest rates and the risk premiums commonly used by analysts of the business and the geographical area.

If the recoverable amount of an asset is lower than its carrying amount, an impairment loss is recognised for the difference, with a charge to "Depreciation and amortisation" in the consolidated income statement.

A previously recognised impairment loss is reversed if there has been a change in the estimates used to determine the asset’s recoverable amount recoverable amount and recognised in profit and loss up to the carrying amount that would have been determined had no impairment loss be recognised.

The Group's property, plant and equipment consists almost entirely of gas transportation, regasification and storage assets, and those assets needed to carry out its regulated gas sales business and technical system management activities. In application of IAS 36 and considering that there are no indications of asset impairment in the balance sheet, the Company has considered that no impairment test was necessary for financial year 2007.

d. **Operating leases**

In operating leases, the lessor retains substantially all the risks and rewards of ownership of the asset.

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

e. **Financial assets**

Financial assets are recognised on the balance sheet when the Group becomes one of the parties to the contractual terms of the instrument.

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

- Loans and receivables. These assets are measured at amortised cost, which is basically the cash amount given less repayments of principal plus accrued interest receivable in the case of loans, and the present value of the consideration made in the case of receivables.

- Held-to-maturity investments. These are assets that the Enagás Group has the positive intent and ability to hold to maturity. They are also recorded at amortised cost.

- Available-for-sale financial assets. These are all other assets not classified in any of the preceding categories. These investments are presented in the consolidated balance sheet at fair value, when this can be determined reliably. Gains and losses arising from changes in fair value, net of tax, are recognised directly in “Equity - revaluation reserve for unrealised assets and liabilities” in the consolidated balance sheet until this investment is disposed of, at which time the cumulative gain or loss previously recognised in the investments revaluation reserve is included in the consolidated income statement. If fair value is lower than cost, the difference is recognised directly in profit and loss.

  Available-for-sale investments include a mutual fund to hedge its obligations in respect of long-service bonuses. This fund is measured at fair value in accordance with its market price at each balance sheet date. Although this fund was created to hedge the related provision for the long-service bonus, gains or losses in the value of the fund generate changes for the same amount in the related provision.

  Held-to-maturity investments and loans and receivables originated by the companies are measured at amortised cost, with accrued interest recognised in profit or loss in accordance with the effective interest rate.

Cash and cash equivalents

This heading in the consolidated balance sheet includes cash on hand, sight deposits and other highly liquid short-term investments that can readily be turned into cash and that are not subject to risk of a change in value.

Trade and other receivables

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

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

f. **Inventories**

Natural gas inventories

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

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

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

As regards the “minimum linepack for gas pipelines”, the second temporary provision of Order ITC4099/2005 indicates that “transportation companies that are titleholders of regasification plants shall acquire the natural gas necessary for the minimum linepack of the gas pipelines of the transport network and for the minimum operating level of the regasification plants.

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

Meanwhile, the second transitional provision of Order ITC/3993/2006 established that from 1 July 2007 gas transport companies will be in charge of purchasing the required amount of natural gas for own consumption and to cover the minimum linepack of their plants. These acquisitions will be made via the auction procedure established in the Resolution of 12 April 2007. The Resolution of 18 April 2007 established both the operating rules of the auctions to acquire ‘gas for operation’ and ‘minimum linepack for gas pipelines’ for delivery between 1 July 2007 and 30 June 2008.

As a result, in 2007 Enagás, S.A. acquired 2,900 GWh of gas supplied by Cepsa Gas Comercializadora, S.A., the winner of the auction, at a price of 2.0755 euros/GWh. As these inventories entail unavailable gas and, therefore, immobilised gas under current regulations, they have been restated in 2007 to “Property, plant and equipment” (see Note 3-b).

Also, the Company assesses the net realisable value of inventories at the balance sheet date and makes the appropriate write-down when this are overstated. When the circumstances that led to the write-down no longer exist and there is clear evidence of an increase in the net realisable value due to a change in financial circumstances, the write-down is reversed.

In addition, Royal Decree 1716/2004 governs the obligation to maintain minimum reserves for security, the obligation to diversify the supply of natural gas and the reserves regulator, La Corporación de Reservas Estratégicas de Productos Petrolíferos (CORES). As regards minimum gas reserves, it specifies that all agents must hold, in ownership or under lease with exclusive use, an amount of gas equivalent to 35 days’ consumption of the customers they supply.

In this respect, Enagás, S.A. has a natural gas inventories leasing arrangement with Gas Natural 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 reserves.

The expense recorded in 2007 for this leasing arrangement amounted to 3,835 thousand euros, recognised under “Other operating costs” in the accompanying consolidated income statement (see Note 24.2).

In addition, in order to guarantee the supply of natural gas during the winter, the Regulator, through a Ministerial Resolution of 28 November 2005, approved the “Winter 2005-2006 Action Plan”, which states that Enagás, S.A. as Technical System Manager, must acquire stocks of liquid natural gas in tankers during the period from November to March of each of the two years mentioned. The expense recorded in 2006 for this acquisition of inventories amounted to 5,990 thousand euros, recognised in “Other operating costs” in the accompanying consolidated income statement.

Also, Enagás, by virtue of the stipulations of the first Transitory Provision of Order ITC/4099/2005, of 27 December 2005 mentioned above, which recognises the calculation of regulated tariffs for 2006, recognised the revenues associated with this measure for an identical amount of 5,990 thousand euros relating to regulated revenues under “Revenue from regulated activities” in the accompanying consolidated income statement.

In 2007, no regulated expenses or income were recognised for the acquisition of stocks related to the Winter Action Plan.

Other inventories

Other inventories unrelated to natural gas are stated at the lower of acquisition or production cost and net realisable value. Cost includes the cost of direct materials and, where appropriate, direct labour and manufacturing overheads, including costs incurred in bringing the products to their present location and condition, at the point of sale.

In addition, the Company assesses the net realisable value of inventories at the balance sheet date and makes any necessary write-downs. When the circumstances that led to the write-down no longer exist and there is clear evidence of an increase in the net realisable value due to a change in financial circumstances, the write-down is reversed.

g. **Equity and financial liabilities**

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

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

Group companies classify their main financial liabilities as follows:

- Financial liabilities at fair value through profit or loss, mainly financial liabilities held for trading: Financial liabilities associated with available-for-sale financial assets originating from asset transfers where the assigning entity neither substantially transfers nor retains the risks and benefits of said assets.

- Held-to-maturity financial liabilities: Held-to-maturity financial liabilities are measured at amortised cost as defined above.

The liability instruments held by Group companies are:

- *Bank loans:* Interest-bearing loans are carried at the amount received, net of direct issue costs. Finance costs, including premiums payable upon settlement or repayment and direct issue costs, are taken to the income statement as accrued using the effective interest method and added to the carrying amount of the instrument if not paid during the period in which they accrue.

- *Derivative finance instruments and hedge accounting:* Bank borrowings expose the Group to fluctuations in interest rates. To hedge these risks, the group uses cash flow swaps. The Group does not use derivative instruments for speculative purposes.

The use of derivatives is governed by the Group’s risk management policies approved by the parent company Enagás, S.A. Further details on the use of derivative financial instruments are disclosed in Note 18.

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are deferred in equity. The gain or loss relating to the ineffective portion is recognised immediately in profit or loss. Amounts deferred in equity are recycled in profit or loss in the periods when the hedged item is recognised in profit or loss.

Changes in the fair value of derivatives that do not quality for hedge accounting are recognised in profit and loss immediately.

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated, or exercised or no longer qualifies for hedge accounting. Any cumulative gain or loss deferred in equity at that time remains in equity until the forecast transaction takes place. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was previously recognised in equity is transferred to profit or loss.

Derivatives embedded in other financial instruments or host contracts are treated as separate derivatives when their risks and characteristics are not closely related to those of the host contracts and the host contracts are not measured at fair value with changes in fair value recognised in profit or loss.

h. **Trade and other payables**

Trade payables are non-interest bearing and are stated at nominal value.

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

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

Loans falling due in over 12 months are discounted at an interest rate. The benchmark interest rate used in the year is 4.27%.

j. **Post-employment benefits**

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

k. **Termination benefits**

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

l. **Provisions**

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

- Provisions: credit balances representing obligations existing at the balance sheet date as a result of a event which could give rise to a loss for the companies that is specific in nature, but uncertain as to its amount and/or timing, and

- Contingent liabilities: possible obligations as a result of past events whose occurrence depends on the occurrence or non-occurrence of one or more separate future events not within the control of the consolidated entities.

The consolidated financial statements of the Group include all significant provisions where it is more likely than not that the obligation will have to be settled. Contingent liabilities are not recognised on the consolidated annual financial statements, but are disclosed in the notes (see Note 32).
Provisions, which are estimated based on the best available information as to the consequences of the events giving rise thereto and which are re-estimated at the balance sheet date, are used to meet the specific and probable obligations for which they were initially recognised and are reversed, totally or partially, whenever these risks disappear or diminish.

At year-end 2007 a number of legal proceedings and claims had been filed against consolidated companies in connection with the ordinary course of their business. The Group's legal counsel and its directors believe that the resolution of these proceedings and claims will not have a significant effect on the annual financial statements of the years in which they are resolved.

m. **Deferred revenue**

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

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

n. **Revenue recognition**

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

Gas sales are recognised when all the risks and rewards have been substantially transferred to the buyer.

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

Enagás manages gas purchases and sales with customers in the tariff or regulated market and receives compensation aimed at covering the costs incurred in this activity. Accordingly, revenue and expenses from gas purchases and sales on the regulated tariff market are presented in the consolidated income statement at their net amounts. In 2007, the Company recorded an amount of 12,151 thousand euros for the negative margin on gas purchases and sales on the regulated market. Revenue from the regulated remuneration of gas purchase and sales management is recorded under "Revenue from regulated activities" in an amount of 12,070 thousand euros.

Following the publication of rules which affect Enagás, S.A. in the Official State Gazette of 15 February 2002 (applicable as of 19 February 2002), revenue recognition criteria under the new regulations are as follows:

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

On 29 December 2006 the Ministry of Industry, Tourism and Trade approved five Ministerial Orders: ITC/3993/2006, ITC/3994/2006 and ITC/3995/2006, establishing the remuneration regime for regulated gas activities in 2007, and ITC/3992/2006 and ITC/3996/2006, establishing the tolls and royalties for third-party access to gas installations, respectively, for 2007.

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

- Regasification and loading of LNG cisterns
- Transfer of LNG to ships
- Storage
- Transport
- Management of gas purchases and sales on the tariff market
- Technical system management
- Floating storage of LNG in ships during the Winter Plan for the tariff market (see Note 3-f)
- Creation of the minimum operating level for LNG ships and of the minimum linepack for gas pipelines (see Note 3-f)
- Own consumption of natural gas

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

Interest revenue is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

Dividend revenue from investments is recognised when shareholder's right to receive payment has been established.

o. **Expense recognition**

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

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

p. **Income tax**

Income tax expense is recognised in the consolidated income statement or in equity accounts in the consolidated balance sheet depending on where the gains or losses giving rise to it have been recorded. Deferred tax assets and liabilities are recognised on differences between the carrying amounts of assets and liabilities and the corresponding tax bases and are calculated using the tax rates that are expected to apply when the assets are realised or the liabilities settled.

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

Deferred tax assets are recognised only when it is probable that taxable profits will be available against which the deductible temporary differences can be utilised.

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

Income tax expense represents the sum of the tax currently payable and deferred tax. The tax currently payable is calculated by applying the tax rate to taxable profit less any deductions.

q. **<u>Earnings per share</u>**

Basic earnings per share is calculated by dividing profit or loss attributable to ordinary equity holders of the parent entity by the weighted average number of ordinary shares outstanding during the year, excluding the number of parent company shares held as treasury shares by Group companies. These are included to calculate diluted earnings per share (Note 13).

r. **<u>Consolidated cash flow statement</u>**

The following terms are used in the presentation of consolidated cash flow statements:

<u>Cash flows</u>: inflows and outflows of cash and cash equivalents, defined as highly liquid, short-term investments with low risk of experiencing significant fluctuations in their value.

<u>Operating activities</u>: the main activities of the enterprise and those that are not investing or financing activities.

<u>Investing activities</u>: the acquisition and disposal of long-term assets and other investments that are not considered to be cash equivalents.

<u>Financing activities</u>: activities that alter the equity capital and borrowing structure of the enterprise that are not operating activities.

<u>4. Regulation of remuneration</u>

a) Revenue from regasification, storage and transport

Ministerial Orders ITC/3993/2006, ITC/3994/2006 and ITC/3995/2006 of 29 December 2006 determine the revenue for regulated transport, regasification and storage activities for 2007, based on the recognised costs. Unlike in the past, for the first time three Ministerial Orders were published, each covering a specific activity. In addition, a new remuneration mechanism is introduced for regasification and underground storage assets based on assets net of depreciation. For the transport activity, the original mechanism based on gross assets remains in place.

These Orders stipulate that the cost recognised for transport, regasification and underground stage comprises fixed and variable components.

a.1) Recognised fixed cost. This is calculated based on assets used in production. This fixed amount compensates investment and operating costs relating to assets used in the gas system.

a.1.1. Remuneration for investment costs comprises:

- <u>Value of recognised assets</u>. For infrastructure put into service before 2002, the remuneration is calculated based on the book value of the assets after the revaluation of 1996 (Royal Decree Law 7/1996), less capital grants received to finance these assets. An annual restatement rate based on the adjusted average of the consumer price index (CPI) and the industrial price index (IPRI) is applied to the difference.

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

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

Regasification infrastructure put into service in 2006 and 2007 is stated at actual cost plus 50% of the difference between actual cost and standard value, up to the amount of standard value.

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

- Financial remuneration for the value of the investment. For transport assets, this figure is calculated by applying a financial return equal to the annual average IRR on 10-year government bonds or a replacement interest rate plus 1.5% on the value of the **gross** investment obtained in the previous paragraph.

  For regasification and storages assets, this figure is calculated by applying a financial return equal to the annual average IRR on 10-year government bonds or a replacement interest rate plus 3.5% on the value of the **net** investment (after depreciation) obtained in the previous paragraph.

- Remuneration for fully depreciated assets: For transport assets, 50% of the financial remuneration is recognised. For regasification and storage assets, 50% of the depreciation and the financial remuneration of the last year is recognised.

  The resulting rates in 2007 were 5.21% for transport and 7.21% for regasification and storage.

a.1.2. Remuneration for operating costs relating to assets used in the system is calculated in accordance with recognised costs for gas system installations in 2000 for the transport and regasification activities, standardised by physical and technical units. The annual adjustment rate based on the CPI and IPRI for capital goods is applied to the resulting standard value, adjusted by an efficiency factor. Revenue for this item is obtained by applying these adjusted standard figures to physical units.

For underground storage, a specific fixed operating and maintenance cost is defined for each site.

a.1.3. Enagás, S.A. recognises the revenue related to the fixed recognised cost in the consolidated income statement on a straight-line basis. In this way, a month-on-month balance is achieved between revenue (remuneration) and expenses (depreciation).

a.2) Recognised variable cost for regasification and transfer of LNG to ships.

a.2.1. The recognised variable cost is calculated based on the number of kW/hr actually regasified and loaded in LNG cisterns in each period and the variable unit regasification cost for the period in question. For 2007, this cost was set at 0.000146 euros per kWh regasified and 0.000175 euros per kWh loaded in cisterns.

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

a.3) Recognised variable cost for injection and extraction in underground storage facilities.

a.3.1. The cost is based on the kWh injected and extracted in the Serrablo and Gaviota storage facilities. The variable costs established are:

- Unit costs at the Serrablo facility: Injection: 0.000483 €/kWh; extraction: 0.000088 €/kWh
- Unit costs at the Gaviota facility: Injection: 0.000042 €/kWh; extraction: 0.001067 €/kWh

b) Revenue from technical system management (TSM)

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

In 2007, the amount earmarked for TSM remuneration, which should collected by companies that are titleholders of the regasification, transport, storage and distribution facilities, as a percentage of invoicing for tolls and royalties relating to third-party network access rights, was 0.42% for tolls and fees and 0.22% for prices. This amount will be deposited by these companies in the periods and form established for the payment procedure relating to the deposit account the National Energy Commission has open for these purposes.

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

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

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

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

d) Regulated services for the tariff market

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

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

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

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

As this revenue is not subject to settlement, it is taken to the consolidated income statement based on amounts invoiced to distribution companies for actual monthly consumption according to meter readings. It is therefore taken to profit and loss on an accruals basis; i.e. when realised.

e) Revenue from regulated services for the tariff market

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

- Specific total purchase and selling price of gas. Calculated as a percentage of the volume of gas earmarked for the tariff market and measured at the average price of the raw material sold during the year. The percentage established for 2007 is 0.0005.

- The cost of shrinking and internal gas consumption arising during regasification processes, storage and transport of gas to be sold on the tariff market is broken down as follows:

Until 30 June 2007, the percentages of shrinkage were:

- Regasification: 0.37% of the average cost of the raw material to be sold on the tariff market in relation to the volume of gas unloaded in regasification plants for sale on the tariff market.
- Storage: 2.11% of the average cost of the raw material with respect to the volume of gas kept in underground storage facilities to be sold on the tariff market.
- Transport: 0.43% of the average cost of the raw material in relation to the volume of gas pumped into the transport system for sale on the tariff market.

From 1 July 2007, the recognised values relate only to shrinkage and differences in measurement. The recognised percentages are:

- Regasification: 0.31%
- Storage: 0%
- Transport: 0.07%

- Cost of financing gas inventories to be sold on the tariff market. This cost is calculated by applying a coefficient of 0.218 to the value of end customer demand (based on the average cost of the raw material to be sold on the tariff market). The resulting figure is then multiplied by a three-month Euribor rate plus 0.5%. For 2007, the coefficient is 3.38%.

f) Settlement system

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

The fifth additional provision of Order ITC/3993/2006 amends section I.5 of appendix II of this Order on settlements and states that the interest equivalent to applying the average 1-year Treasury bill yield on the amounts to be paid to each transporter or distributor for 60 days be added to the settlements.

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

The second transitional provision of Order ITC4099/2005 provided that in 2006 transport companies that are titleholders of the regasification plants shall acquire the natural gas necessary for the minimum linepack of the gas pipelines of the transport network and for the minimum operating level of regasification plants.

For 2007, gas for the minimum operating level and linepack must be acquired via auction, with the gas valued at the final auction price. The gas acquired for this purpose has the right to receive a return based on the investment made, valued according to the average half-yearly yield on 10-year government bonds plus 3.5%.

h) Revenue for gas purchases for internal consumption

From 1 July 2007, gas transporters are responsible for acquiring the amount of gas needed for internal consumption at their facilities. This leads to a reduction in the percentages of shrinkage retained from users and from this date the values indicated above for the management of gas purchases and sales are used.

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

i) Development of the Regulatory Framework

The main legislation in the gas industry approved in 2007 include:

Resolution of the General Directorate for Energy Policy and Mines of 1 February 2007 which extends the additional extraction established in Rule 3.e of Resolution of October 25, 2006, which approves the Winter Action Plan 2006-2007 for Gas System Operation.

Resolution of the General Directorate of Energy Policy and Mines, dated February 1, 2007, which establishes the formats for the presentation of accounting information in accordance with Order ITC/2348/2006, of July 14, which establishes the regulations on accounting information for companies developing natural gas and gas manufactured by channelling**.**

Resolution of the General Directorate of Energy Policy and Mines, undated, which establishes that the new formula for calculating the amounts to be paid to transports and distributors share only be applicable to settlements from 2007.

Resolution of the General Directorate for Energy Policy and Mines of 12 April 2007 which establishes the standards for auctions of natural gas for operations and the minimum linepack for transport, regasification and underground storage facilities.

Resolution of the General Directorate of Energy Policy and Mines of 18 April 2007, of which establishes the standards for auctions of gas for operations and minimum linepack for operating the transport and processing system, for the period from 1 July 2007 to 30 June 2008 (Official State Gazette 20 April 2007.

Resolution of the General Directorate of Energy Policy and Mines of 20 April 2007, which modifies certain technical management standards for the gas system and which also establishes several detailed protocols.

Resolution of the General Directorate of Energy Policy and Mines of 20 April 2007, which approves the detailed Protocols PD-07, PD-8, PD-9 and PD-10 on the technical management standards for the gas system.

Ministerial Order ITC/1549/2007 of 18 May 2007, which approves the annual installation programme and exceptional activities for the electricity and natural gas transport networks.

Resolution from the General Directorate for Energy Policy and Mines of 25 June 2007, which establishes that consumers in group 2 in the tariff market must procure supplies in the free market through contracts with suppliers from 1 July 2007.

Ministerial Order ITC/1968/2007 of 2 July 2007, which updates the system for automatically setting maximum pre-tax selling prices for bottled LPG and amends certain provisions related to hydrocarbons.

Law 12/2007, published on 3 July 2007, which modifies Law 34/1998 on the hydrocarbons sector in order to adapt it to Directive 2003/55/EC of the European Parliament and of the Council of 26 June 2003, on community standards for the internal market for natural gas.

Royal Decree 1061/2007 of 20 July 2007, granting Enagás, S.A. the concession to operate the underground natural gas storage facility called “Yela” at the “Santa Bárbara” site and the recognition of its public use in the province of Guadalajara (Official State Gazette 11 September 2007).

Ministerial Order ITC/2389/2007 of 27 July amending the Order of 18 December 200 on the storage of minimum inventories for security outside the Spanish territory (Official State Gazette 4 August 2007)

Royal Decree 1068/2007 of 27 July, which regulates the start-up of last resort supply in the natural gas sector.

Order ITC/2309/2007 of 30 July, which establishes the mechanism of clients' transfer from the tariff market to the supply of the last resort in natural gas, setting 1 July 2008 as the start date of the supply of last resort.

Resolution of the General Directorate of Energy Policy and Mines of 11 September 2007, which amends Resolution of 25 July 2006, which regulates the conditions for assigning and processing the application of supply cut-off in the gas system (Official State Gazette 18 September 2007).

Resolution of the General Directorate of Energy Policy and Mines of 17 September 2007, which modifies Detailed Protocols PD-05 y PD-06 of system technical management rules gas system (Official State Gazette 22 September 2007.

Order ITC/2795/2007 of 28 September of the General Directorate of Energy Policy and Mines, which modifies the natural gas tariff for use as a raw material and establishes a toll for certain users connected to regasification plants.

Order ITC/3283/2005 of 11 October 2007, approving the rules for disclosure by entities required to maintain minimum stocks of oil products for security, including LNG and natural gas, and the powers of the reserves regulator, La Corporación de Reservas Estratégicas de Productos Petrolíferos, to conduct inspections.

Resolution of the General Directorate of Energy Policy and Mines, of 18 October 2007, which modifies the sections 9.4 " individual imbalances" and 9.6 "measures to adopt in case of imbalances", included in the gas system technical management rule NTGS-9 "normal operation of the system" (Official State Gazette 7 November 2007).

Order PRE/3420/2007 of 14 November, publishing the resolution adopted by the Spanish cabinet approving the individual allocation of greenhouse gas emission rights to plants included in the National Allocation Plan 2008-2012***.***

Resolution of the Directorate General for Energy Policy and Mining of 4 December 2070, approving the 2007-2008 Winter Action Plan for operation of the gas system. Published in the Official State Gazette on 7 December 2007.

Royal Decree 1766/2007 of 28 December, which modifies the Royal Decree 1716/2004, of 23 July, regulating the maintenance of minimum reserves for security, the diversification of natural gas supply and the association of strategic petroleum product reserves.

Order ITC/3862/2007 of 28 December, which establishes the last resort tariff of the natural gas system for 2008.

Order ITC/3862/2007 of 28 December, which establishes the mechanism for assigning capacity of natural gas storages and creates a capacity market.

Order ITC/3863/2007 of 28 December 2007, establishing the tolls and fees for third-party access to gas installations to be applied in 2008 and updates certain issues regarding the remuneration of regulated gas activities.
Royal Decree 1804/2007 of 28 December 2007, converting the operating concessions of Gaviota 1 and Gaviota II, located in the Bay of Biscay off the coast of Vizcaya, into concessions to operate underground hydrocarbon storage facilities.

5. Intangible assets

The carrying amount of intangible assets at 31 December 2007 and 2006 and the related accumulated amortisation are as follows:

Intangible assets	Thousands of euros		
	Cost	Accumulated amortisation	Net total
Development costs	260	(55)	205
Concessions, patents, licences, brands and similar	33,289	(11,577)	21,712
Computer software	22,628	(12,267)	10,361
Balance at 31 December 2006	**56,177**	**(23,899)**	**32,278**
Development costs	441	(100)	341
Concessions, patents, licences, brands and similar	33,378	(12,832)	20,546
Computer software	29,572	(16,417)	13,155
Balance at 31 December 2007	**63,391**	**(29,349)**	**34,042**

The breakdown and movements in intangible assets in 2007 and 2006 is as follows:

Intangible assets	Thousands of euros		
	01.01.07	Additions	31.12.07
Development costs	260	181	441
Concessions, patents, licences, brands and similar	33,289	89	33,378
Computer software	22,628	6,944	29,572
Total	**56,177**	**7,214**	**63,391**

Intangible assets	Thousands of euros		
	01.01.06	Additions	31.12.06
Development costs	46	214	260
Concessions, patents, licences, brands and similar	33,093	196	33,289
Computer software	15,765	6,863	22,628
Total	**48,904**	**7,273**	**56,177**

Additions in development costs in 2007 include phase 1 of the power generation project for the Huelva plant, for 81 thousand euros, the long-term demand prediction project for 72 thousand euros and the reengineering of the heating of NG project at the entry to the Regulation and Measurement Station, for 22 thousand euros.

Key computer programs in 2007 include:

- The new version of the SL-ATR, for 1,919 thousand euros
- The new functionality of the Human Resources systems, for 1,044 thousand euros
- The reading and measuring system, for 570 thousand euros
- Consolidation and stabilisation of the critical business applications, for 555 thousand euros
- The data processing centre’s disaster recovery plan, for 471 thousand euros
- The development of a new functionality for the SAP support system, for 308 thousand euros

Amortisation of intangible assets recognised in the 2007 and 2006 consolidated income statements amounted to 5,450 and 4,595 thousand euros, respectively. The breakdown and movements are as follows:

Accumulated amortisation	Thousands of euros		
	01.01.07	Increases	31.12.07
Development costs	55	45	100
Concessions, patents, licences, brands and similar	11,577	1,255	12,832
Computer software	12,267	4,150	16,417
Total	**23,899**	**5,450**	**29,349**

Accumulated amortisation	Thousands of euros		
	01.01.06	Increases	31.12.06
Development costs	26	29	55
Concessions, patents, licences, brands and similar	10,309	1,268	11,577
Computer software	8,969	3,298	12,267
Total	**19,304**	**4,595**	**23,899**

Fully amortised intangible assets at 31 December 2007 and 2006 amounted to 10,567 and 7,708 thousand euros, respectively.

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

6. Investment properties

Noteworthy in 2007 is the sale by Enagás, S.A. of Centro de Transporte de Paterna, which it had leased and restated in this heading.

7. Property, plant and equipment

The carrying amount of property, plant and equipment at 31 December 2007 and 2006 and the related accumulated depreciation is as follows:

Property, plant and equipment	Thousands of euros		
	Cost	Accumulated depreciation	Net total
Land and buildings	134,714	(36,326)	98,388
Plant and machinery	4,486,602	(1,573,458)	2,913,144
Other installations, equipment and furniture	13,297	(11,512)	1,785
Prepayments and work in progress	373,523	-	373,523
Other items of property, plant and equipment	22,258	(20,165)	2,093
Government grants	(560,851)	207,283	(353,568)
Impairment	(20,458)	-	(20,458)
Balance at 31 December 2006	**4,449,085**	**(1,434,178)**	**3,014,907**
Land and buildings	143,839	(38,353)	105,486
Plant and machinery	4,609,104	(1,771,210)	2,837,894
Other installations, equipment and furniture	13,830	(11,487)	2,343
Prepayments and work in progress	791,246	-	791,246
Other items of property, plant and equipment	25,623	(20,963)	4,660
Government grants	(560,851)	228,138	(332,713)
Impairment	(18,189)	-	(18,189)
Balance at 31 December 2007	**5,004,602**	**(1,613,875)**	**3,390,727**

The breakdown and movements in property, plant and equipment and accumulated depreciation in 2007 and 2006 are as follows:

Property, plant and equipment	Thousands of euros				
	Balance at 01.01.07	Additions	Disposals	Transfers and other	Balance at 31.12.07
Land and buildings	134,714	4,856	(1,324)	5,593	143,839
Plant and machinery	4,486,602	57,726	(965)	65,741	4,609,104
Other installations, equipment and furniture	13,297	1,139	(606)	-	13,830
Prepayments and work in progress	373,523	491,853	(2,796)	(71,334)	791,246
Other items of property, plant and equipment	22,258	3,483	(118)	-	25,623
Government grants	(560,851)	-	-	-	(560,851)
Impairment	(20,458)	(528)	2,797	-	(18,189)
Total	**4,449,085**	**558,529**	**(3,012)**	**-**	**5,004,602**

	Thousands of euros				
Property, plant and equipment	**Balance at 01.01.06**	**Additions**	**Disposals**	**Transfers and other**	**Balance at 31.12.06**
Land and buildings	80,895	53,840	(21)	-	134,714
Plant and machinery	4,130,570	61,222	(23,349)	318,159	4,486,602
Other installations, equipment and furniture	12,910	387	-	-	13,297
Prepayments and work in progress	337,542	355,429	(1,289)	(318,159)	373,523
Other items of property, plant and equipment	22,057	1,161	(960)	-	22,258
Government grants	(558,291)	-	(2,560)	-	(560,851)
Impairment	(12,506)	(15,510)	1,618	5,940	(20,458)
Total	**4,013,177**	**456,529**	**(26,561)**	**5,940**	**4,449,085**

	Thousands of euros				
Accumulated depreciation	**Balance at 01.01.07**	**Additions**	**Disposals**	**Transfers**	**Balance at 31.12.07**
Land and buildings	36,326	2,534	(507)	-	38,353
Plant and machinery	1,573,458	198,556	(804)	-	1,771,210
Other installations, equipment and furniture	11,512	545	(570)	-	11,487
Other items of property, plant and equipment	20,165	914	(116)	-	20,963
Government grants	(207,283)	(20,855)	-	-	(228,138)
Total	**1,434,178**	**181,694**	**(1,997)**	**-**	**1,613,875**

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

Additions of plant and machinery include the restatement of minimum linkepack for system security and minimum reserve for plants (‘*Gas Talón de Gasoductos y Plantas*’) from “Inventories” for 42,762 thousand euros (see Notes 3-b and 3-f), while transfers include the start-up during the year, for approximately 43,376 thousand euros, of the following investments:

- The increase in the emission capacity of the Huelva Plant to 1,350,000m^3 (n)/h
- Modification of different gas pipeline positions
- ERM in various gas pipeline positions
- Falces-Irurzun gas pipeline. Section II.
- Fibre optic cable at the branch to the Jaca well
- Fibre optic cable phase IV northern connection of Zaragoza

Additions of work in progress include the following investments, for approximately 332,840 thousand euros:

- Branch of the Barcelona-Arbós gas pipeline
- The Montesa-Denia gas pipeline
- The Denia-Ibiza-Mallorca gas pipeline
- The Albacete-Montesa gas pipeline
- Branch of the gas pipeline to Campo de Gibraltar phase II
- Sections I and II of the south-west Madrid semi-ring gas pipeline
- The Alcázar de San Juan-Villarrobledo gas pipeline
- The Albacete-Villarrobledo gas pipeline
- The Denia compression station
- The Zaragoza compression station
- The Montesa compression station
- The Navarra compression station
- The Alcázar de San Juan compression station
- The increase in the emission capacity of the Cartagena Plant to 1,350,000m^3 (n)/h
- The increase in the emission capacity of the Barcelona Plant to 1,800,000m^3 (n)/h
- The increase in the emission capacity of the Barcelona Plant to 1,950,000m^3 (n)/h
- The upgrade of the boil-off system at the Huelva plant
- The upgrade of the boil-off system at the Cartagena plant
- A fourth and fifth tank at Cartagena
- A seventh and eighth tank at Barcelona
- A fifth tank at Huelva
- Dismantling of the Yela underground storage field

Disposals of property, plant and equipment in 2007 relate mainly to the sale of Centro de Transporte de Córdoba, for 1,357 thousand euros, two plots of land in the Villalba (Lugo) industrial park, for 126 thousand euros, the dismantling of the Solac C-3000A turbo compressor at the Barcelona plant, for 793 thousand euros, and the replacement of equipment at some gas pipeline positions, for 83 thousand euros.

Transfers shows the movement from work in progress to property, plant and equipment of projects that were put into operation in the year.

The revaluation of assets by Enagás, S.A., in accordance with the provisions of Royal Decree Law 7/1996 (7 June) regarding the revaluation of assets, will lead to an increase of 16,169 thousand euros in the depreciation expense in 2008 and 16,182 thousand euros in 2007.

In 2007 and 2006 the Group capitalised 19,357 and 8,941 thousand euros of borrowing costs, respectively as an increase in the value of its property, plant and equipment (see Note 25).
Work performed by the company on its own assets led to increases in investment of 10,413 and 9,490 thousand euros in 2007 and 2006, respectively (see Note 24.1).

Disposals in “Accumulated depreciation” relate mainly to the derecognition following its sale of Centro de Transporte Córdoba, for 637 thousand euros, to the dismantling of the Solca C-3000A turocompressor at the Barcelona plant, for 674 thousand euros, and the derecognition for replacement of equipment at some positions of the gas pipeline, for 45 thousand euros.

Fully-depreciated items of property, plant and equipment still in use at 31 December 2007 and 2006 amounted to 301,930 and 298,299 thousand euros, respectively.

Investment properties are not mortgaged or subject to any other similar encumbrance.

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

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

Government grants received in 2007 relate to investments in gas infrastructure, as follows:

	Thousands of euros		
	Grants received at 31.12.07	**Released to profit and loss at 31.12.07**	**Balance at 31.12.07**
Regasification plants	76,840	45,112	31,728
Gas transport infrastructure	466,503	179,623	286,880
Underground storage facilities	17,508	3,403	14,105
Total	**560,851**	**228,138**	**332,713**

The grants were received from the following bodies:

	Thousands of euros		
	Grants received at 31.12.07	**Released to profit and loss at 31.12.07**	**Balance at 31.12.07**
EU structural funds	399,168	137,449	261,719
Official regional bodies	47,835	14,322	33,513
Spanish state	113,848	76,367	37,481
Total	**560,851**	**228,138**	**332,713**

Increases in 2007 mainly relate to the Gas Infrastructure Operating Programme with structural funds provided by the EEC.

Government grants released to profit and loss in 2008 amount to approximately 21,048 thousand euros. The schedule for the release of the outstanding balance at 31 December 2007 is:

	Years		
	<1	**2 to 5**	**>5**
State grants	3,024	12,095	22,362
Regional government grants	1,589	6,351	25,573
ERDF grants	16,435	65,744	179,540
Total grants	**21,048**	**84,190**	**227,475**

8. Interests in joint ventures

There were no changes to shareholdings in subsidiaries in 2007 and 2006, so the percentage stakes and balances held by the parent company Enagás, S.A. remains as follows:

	Thousands of euros		**percentage stakes**
	2007	**2006**	
Gasod. Al-Andalus, S.A.	23,744	23,744	66.96%
Gasod. de Extremadura, S.A.	9,732	9,732	51%
Gasod. Campo Maior- Leiria- Braga, S.A.	3,195	3,195	12%
Gasod. Braga-Tuy, S.A.	2,546	2,546	49%
Gross total	**39,217**	**39,217**	
(-) Losses for deterioration	-	-	
Net total	**39,217**	**39,217**	

9. Financial assets

The breakdown of this heading the consolidated balance sheet by nature of transaction is the following:

	Thousands of euros			
	31.12.2007		31.12.2006	
	Non-current	Current	Non-current	Current
Held-to-maturity investments	1	-	18	-
Loans and receivables	16,154	5,377	17,040	4,180
Available-for-sale financial assets	8,100	-	9,243	-
Financial assets at fair value through profit or loss	-	2,928	300	-
Other financial assets	697	-	698	-
Gross total	**24,952**	**8,305**	**27,299**	**4,180**
Impairment losses	-	-	-	-
Net total	**24,952**	**8,305**	**27,299**	**4,180**

The movement in 2007 and 2006 in the Group's financial assets is as follows:

	Thousands of euros				
	Balance at 01.01.07	**Acquisitions or allocations**	**Gain (loss) recognised in reserves/ profit and loss**	**Disposals, derecogniti on or reversals**	**Balance at 31.12.07**
Held-to-maturity investments	18	-	-	(17)	1
Loans and receivables	21,220	7,615	-	(7,304)	21,531
Available-for-sale financial assets	9,243	1,884	(575)	(2,452)	8,100
Financial assets at fair value through profit or loss	300	-	2,628	-	2,928
Other financial assets	698	4	-	(5)	697
Gross total	**31,479**	**9,503**	**2,053**	**(9,761)**	**33,257**
Impairment losses	-	-	-	-	-
Net total	**31,479**	**9,503**	**2,053**	**(9,761)**	**33,257**

	Thousands of euros				
	Balance at 01.01.06	**Acquisitions or allocations**	**Gain (loss) recognised in reserves/ profit and loss**	**Disposals, derecognition or reversals**	**Balance at 31.12.06**
Held-to-maturity investments	18	-	-	-	18
Loans and receivables	23,479	1,403	-	(3,662)	21,220
Available-for-sale financial assets	7,925	924	394	-	9,243
Financial assets at fair value through profit or loss	-	-	420	(120)	300
Other financial assets	638	62	-	(2)	698
Gross total	**32,060**	**2,389**	**394**	**(3,784)**	**31,479**
Impairment losses	-	-	-	-	-
Net total	**32,060**	**2,389**	**394**	**(3,784)**	**31,479**

a) Loans and receivables generated by the company:

Current and non-current loans

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

	Thousands of euros	Interest rate	Maturity
Non-current loans:			
Loans to Group companies	16,719	3.90%	sep-11
Other loans	321		
Current loans:			
Loans to Group companies	4,180	3.90%	dic-07
Balance at 31.12.06	**21,220**		
Non-current loans:			
Loans to Group companies	16,132	5.12%	sep-11
Other loans	22		
Current loans:			
Loans to Group companies	5,377	5.12%	dic-08
Balance at 31.12.07	**21,531**		

Current and non-current loans include those granted by the parent company to finance the construction of transport infrastructure falling due in the long term and measured at amortised cost using the effective interest method. These loans bear interest at variable rates referenced to the EIB rate plus a 90bp spread for Gasoducto Al-Andalus, S.A., Gasoducto de Extremadura, S.A., Gasoduto Campo Mayor-Leiria-Braga, S.A. and Gasoduto Braga-Tuy, S.A.

The detail is as follows:

Thousands of euros	**31.12.2007**	**31.12.2006**
Non-current loans to Group companies		
Gasod. Al-Andalus, S.A.	7,293	9,437
Gasod. de Extremadura, S.A.	1,123	1,976
Gasod. Campo Maior- Leiria- Braga, S.A.	3,549	4,394
Gasod. Braga-Tuy, S.A.	4,167	912
Total, non-current	**16,132**	**16,719**
Current loans to Group companies		
Gasod. Al-Andalus, S.A.	2,431	2,359
Gasod. de Extremadura, S.A.	374	494
Gasod. Campo Maior- Leiria- Braga, S.A.	1,183	1099
Gasod. Braga-Tuy, S.A.	1,389	228
Total, current	**5,377**	**4,180**

In April, Enagás, S.A. granted an 8,300 thousand euro loan falling due in 2001 to Gasoduto Braga-Tuy, S.A. This loan replaces the guarantee given to that company for 8,900 thousand euros related to the loan it had with Banco Santander Central Hispano, S.A.

b) Available-for-sale financial assets:

Long-term securities portfolio

The financial assets included under this consolidated balance sheet heading at 31 December 2007 mainly relate to a mutual fund of BBVA.

This fund is measured at fair value in accordance with its market price at each balance sheet date. As this fund was created to hedge the related provision for long-service bonuses, changes in fair value result in changes for the same amount in the related provision.

The carrying amount of the fund at 31 December 2007 and 2006 was 8,100 and 9,243 thousand euros, respectively. The interest in this fund at 31 December 2007 was 100%.

In 2007, 228 thousand units of the fund were sold, with a historical cost of 2,452 thousand euros, and two contributions worth 1,884 thousand euros corresponding to 133 thousand units were made.

10. Trade and other receivables and current tax assets

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

	2007	2006
Trade and other receivables:		
Trade receivables	190,975	225,343
Receivable from Group companies	1,916	1,543
Other receivables	291,712	219,738
Total	**484,603**	**446,624**

The 1,916 thousand euro balance of "Receivable from Group companies" corresponds to the 983 thousand euros receivable from Gasoducto Al-Andalus, S.A. and the 933 thousand euros receivable from Gasoducto de Extremadura, S.A. Both balances relate to gas transport services rendered to Transgás, S.A. pending collection, which are consolidated using the proportionate method in accordance with the percentage interest of Enagás, S.A. in these companies.

Under "Other receivables", the Enagás Group include the unsettled balance related to remuneration of regulated and transport activities for 2007 of 120,776 thousand euros and the outstanding balance on the remuneration for the technical system management of 2,284 thousand euros, leaving a total outstanding balance at the end of 2007 of 123,060 thousand euros.

In addition, at the date of preparation of these consolidated annual financial statements, outstanding were the final settlements related to the remuneration of regulated and transport activities in 2003, 2004, 2005 and 2006 for 16,457 thousand euros, 9,936 thousand euros, 3,093 thousand euros and 12,666 thousand euros, respectively, as well as the amounts related to the remuneration of technical system management fro 2002, 2003, 2004, 2005 and 2006 for 735 thousand euros, 937 thousand euros, 178 thousand euros, (390) thousand euros and 1,591 thousand euros, respectively. The aforementioned amounts are recognised in the consolidated balance sheets including the financial impact arising from their discounting to present value.

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

The Group maintains these balances pending settlement for 2003, 2004, 2006 and 2006 because, although the regulator has taken these into consideration when calculating tariffs, tools and royalties for the following years, they may only be settled once the definitive payments have been received.

In this respect, on 19 December 2007, the National Energy Commission (CNE) published the definitive settlement for 2002. As at that date, Enagás, S.A. had 24,786 thousand euros recognised under "Sundry receivables" in this connection. This definitive settlement establishes that Enagás, S.A., because of the result at the end of financial year 2002, should pay the gas system 1,786 thousand euros for uncollected amounts. However, due to the difference arising from the application of the settlement procedure between net revenue payable and recognised remuneration each year, it will receive 23,412 thousand euros for the shortfall. Based on this new information, the Company has made the pertinent adjustments to reflect the new situation in the accompanying consolidated financial statements as at 31 December 2007.

In addition, bearing in mind the criteria followed by the CNE in preparing the definitive settlement of 2002, as well as the items detailed by the CNE in the assessments levied in 2003, 2004 and 2005 and the appeals lodged by Enagás, S.A. of these assessments, the Company's directors have carried out studies to establish the recoverability of the unsettled amounts for those years recognised under "Sundry receivables" as indicated above.

As regards the unsettled amount for 2006, the assessments have yet to be received from the CNE. Accordingly, the balances recognised are based on Enagás, S.A.'s best estimates.

"Sundry receivables" also includes the uncollected amounts from gas suppliers for the freight tax regulated by Article 24 of Law 48/2003. This tax is levied on natural gas shipments which agents unload at the regasification plants including those of which Enagás, S.A. is titleholder at the ports of Barcelona, Cartagena and Huelva. At 31 December 2007, these uncollected amounts totalled 5,941 thousand euros, of which 5,592 thousand euros are subject to a lawsuit filed by some suppliers. Specifically, 4,494 thousand euros are past-due amounts of over one year.

Law 48/2003 modifies the duty on goods unloaded at ports under the concession regime. Title I of this law states that if the concessionaire makes the application within a period of six months, 100% of the duties related to unloading may be passed on to the agent that is titleholder of the merchandise even though payment to the port authority is still the responsibility of the taxpayer, in this case Enagás, as concessionaire under the previous regime. Under the previous regime, only 50% of the duty could be passed on to the titleholder of the goods by the titleholder of the concession.

The problem with the suppliers arose from the fact that while Law 43/2003 came into effect on 27 February 2004, Title I of the law related to the pass-through of duties became applicable on 1 January 2004 in accordance with the fifth additional provision of Law 48/2003. Enagás, S.A. submitted the application for the change of regime in July 2004, understanding that the six-month period started on 27 February 2004, when the law took effect. However, the suppliers with which the company is in litigation understand that the application from 1 January of Title I implies that this period ended on 30 June 2004. Therefore, Enagás, S.A.'s application is past the deadline and therefore, for legal purposes, *extemperaneous*.

As a result of this situation, Enagás, S.A. has filed administrative claims seeking ratification of adapting the right of its actions for the full uncollected amounts. It should be noted that Enagás, S.A.'s claims have been ratified expressly by the Huelva Port Authority via ruling issued 3 May 2007, which, in line with the Port Authorities of Cartagena and Barcelona, considers without any reservation that Enagás' election to avail itself of the new economic tax regime established by Law 48/2003 is not *extemperaneous*.

Accordingly, the Group's directors recognise the risk that the rest of the suppliers paying the full tax passed on by Enagás, S.A. will seek reimbursement of 50% if the court rules against Enagás, S.A. in the administrative claims. The amount paid to Enagás, S.A. by suppliers with which there is no ongoing litigation at 31 December 2007 totalled 20,210 thousand euros, of which 50% would be at risk.

The above notwithstanding, the Group's directors consider that based on the information available at that date, the risk of not recovering these amounts is remote, so no provision for this concept has been recorded. However, it will monitor these claims in 2008.

"Taxes receivable" at 31 December 2007 basically includes VAT receivable by the Enagás, S.A. parent company as the VAT paid is higher than VAT collected, partly because Enagás, S.A. acts as a tax warehouse.

The directors consider that the carrying amount of trade and other receivables is similar to fair value.

Credit risk

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

The Group does not have a significant concentration of credit risk as it operates in a regulated environment with planned scenarios. However, it makes the valuation adjustments estimated necessary to cover bad debt risks.

11. Inventories

In addition, according to the preliminary gas balance for December, Enagás, S.A. held 959 thousand euros (33,591 thousand euros in 2006) equivalent to 45 GWh of natural gas inventories (1,662 GWh in 2006), with the definitive gas balance for December recorded in January 2008 showing a decline in these inventories to 578 GWh (1,077 GWh in January 2007). These inventories arise from obligations in respect of compliance with rule number 2 of the Winter Plan (Resolution of the 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.

In 2007, Enagás, S.A. restated 42,762 thousand euros equivalent to 2,900 GWh corresponding to minimum gas reserves for gas pipelines and plants to "Property, plant and equipment" as this gas is unavailable and thereby immobilised under prevailing regulations (see Notes 3-b, 3-f and 6).

The Group also has 2,419 thousand euros of inventories unrelated to natural gas (2,443 thousand euros in 2006) that include, inter alia, office materials and consumables.

12. Capital and reserves

12.1 Issued capital

At 31 December 2007 the share capital of the parent company amounted to 358,101 thousand euros, represented by 238,734,260 ordinary bearer shares, all of the same class and series, with a par value of 1.50 euros each and fully paid up.

All shares of the Enagás, S.A. parent company are listed on the four Spanish stock exchanges and are traded on the electronic trading platform (the continuous market). At 28 December 2007, Enagás, S.A.'s share price stood at 19.99 euros, having reached a high for the year of 21.56 euros per share on 14 December.

The most significant shareholdings in the share capital of Enagás, S.A. at 31 December 2007 are as follows:

Company	% shareholding
Gas Natural, SDG., S.A.	5.000
Inversiones Cotizadas del Mediterráneo, S.L.	5.000
Sagane Inversiones, S.L.	5.000
Bancaja Inversiones, S.A.	5.000
Cantábrica de Inversiones de Cartera, S.L.	5.000
Sociedad Estatal de Participaciones Industriales	5.000
Bilbao Bizkaia Kutxa	5.000

Inversiones Cotizadas del Mediterráneo, S.L., Cantábrica de Inversiones de Cartera, S.L. Bancaja Inversiones, S.A. are subsidiaries of the Caja de Ahorros del Mediterráneo (CAM), Caja de Ahorros de Asturias (Cajastur) and Caja de Ahorros de Valencia, Castellón y Alicante (Bancaja) savings banks, respectively.

The Group has no treasury shares.

It should be noted that Article 92 of Law 62/2003 on tax, administration and social order measures of 31 December 2003, which amends Law 34/1998 on the Hydrocarbon sector, establishes that "no individual or company may directly or indirectly hold more than 5% of Enagás, S.A.'s ordinary or voting shares for a period of less than three years".

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

12.2 Reserves

<u>Revaluation reserve</u>

The balance of this caption, which arose as a result of the revaluation made pursuant to Royal Decree-Law 7/1996 of 7 June, was allocated to unrestricted reserves as allowed by this law.

<u>Legal reserve</u>

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

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

The parent company of the Group has fully allocated the legal reserve in an amount of 71,620 thousand euros, included under "Restricted reserves" in the accompanying consolidated balance sheet.

<u>Unrealised asset and liability revaluation reserve</u>

Movements in this reserve arising from valuation adjustments of available-for-sale assets and derivatives designated as cash flow hedges in 2007 and 2006 (see Note 18) are as follows:

	Thousands of euros			
	01.01.2007	Change in fair value	Recognition in profit or loss	31.12.2007
Cash flow hedges:				
Collars	739	2,273	(1,575)	1,437
Deferred tax on unrealised liability revaluation	(222)	(675)	466	(431)
Total	**517**	**1,598**	**(1,109)**	**1,006**

	Thousands of euros			
	01.01.2006	Change in fair value	Recognition in profit or loss	31.12.2006
Cash flow hedges:				
Collars	(16,203)	9,479	7,463	739
Deferred tax on unrealised liability revaluation	5,671	(3,281)	(2,612)	(222)
Total	**(10,532)**	**6198.0**	**4,851**	**517**

12.3 Interim dividend

The distribution of net profit for 2007 that Enagás, S.A.'s Board of Directors will propose for approval at the General Shareholders' Meeting is as follows:

	Thousands of euros
Dividend	142,972
Voluntary reserves	92,166
	235,138

At its meeting of 19 December 2007, the Board of Directors of Enagás, S.A. resolved to pay an interim dividend charged against 2007 profit of 57,296 thousand euros (a gross 0.24 euros per share). The Company has prepared the necessary liquidity statement, expressed in thousands of euros, in accordance with Article 216 of Royal Decree Law 1564/1989 (22 December), approving the revised text of the Spanish Corporations Law.

In accordance with legal requirements, the provisional financial statements prepared by the Group, which showed that there were sufficient resources to pay interim dividends 2007, are the following:

	Thousands of euros
Accounting profit at 31 October 2007	196,247
10% allocation to legal reserve	-
Income available for distribution	**196,247**
Forecast interim dividend	**(57,296)**
Forecast cash at bank and in hand between 31 October and 31 December 2007:	
- Cash at bank and in hand at 31 October 2007	2,890
- Collections forecast for the period	271,800
- Credit facilities and loans granted by banks	459,000
- Payments forecast for the period (including interim dividend)	(313,700)
Forecast cash at bank and in hand at 31 December 2007	**419,990**

The proposed gross final dividend (0.36 euros per share) is subject to the approval of the shareholders at the Shareholders' Meeting and is not included as a liability in these financial statements.

13. Earnings per share

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

Accordingly:

	2007	2006	Chg
Net profit for the year (thousands of euros)	238,286	216,384	10.12%
Weighted average number of shares outstanding (thousand)	238,734	238,734	-
Basic earnings per share (euros)	0.9981	0.9064	10.12%

Diluted earnings per share is calculated by dividing the net profit for the period attributable to ordinary equity holders of the parent (adjusted for the effect of dilutive potential ordinary shares) by the weighted average number of ordinary shares outstanding during the period adjusted for the weighted average number of ordinary shares that would be issued on the conversion of all the dilutive potential ordinary shares into ordinary shares of the company. As there are no potential ordinary shares at 31 December 2007, basic and diluted earnings per share are the same.

14. Other non-current liabilities

The movement in this heading in the accompanying consolidated balance sheet in 2007 and 2006 is as follows:

Thousands of euros	Fee Gasoducto de Extremadura, S.A.	Fee Gasoducto Al-Andalus, S.A.	Total
Balance at 1 January 2006	**8,511**	**31,036**	**39,547**
Additions/decreases/recognition in profit and loss	(551)	(2,055)	(2,606)
Balance at 31 December 2006	**7,960**	**28,981**	**36,941**
Additions/decreases/recognition in profit and loss	4,394	(962)	3,432
Balance at 31 December 2007	**12,354**	**28,019**	**40,373**

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

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

In 2006, the accrual of revenue from connections to the basic network was recognised. Movement in this item in 2007 is the following:

Thousands of euros	Connections to the basic network
Balance at 31 December 2006	**11,232**
Additions	13,118
Decreases/recognition in profit and loss	(740)
Balance at 31 December 2007	**23,610**

"Other non-current liabilities" includes the effect of the adjustments envisaged in the income tax inspection for financial years 1995 to 1998, updated at 31 December 2007, for 5,085 thousand euros.

15. Provisions

The movement in the balance of this consolidated balance sheet heading in 2007 is as follows:

	Thousands of euros				
	Litigation, tax inspections and/or claims	**Long-service bonus**	**Abandonment costs**	**Other**	**Total**
Balance at 1 January 2007	**1,582**	**9,253**	**3,158**	**2,715**	**16,708**
Utilised amounts recognised in profit and loss					
Interest and similar costs	80	-	740	-	820
Utilised	68	1,309	15,519	1,371	18,267
Unused amounts reversed recognised in profit and loss					
Interest and similar revenue	(375)	(2,452)	-	-	(2,827)
Unused amounts reversed	(188)	-	-	(2,097)	(2,285)
Balance at 31 December 2007	**1,167**	**8,110**	**19,417**	**1,989**	**30,683**

The most significant items of provisions recorded in 2007 are as follows:

- Long-service bonus. Provisions relate to non-consolidated remuneration to reward Enagás' managers and executive members of the Board of Directors members for their length of service and amount to 1,309 thousand euros, of which 1,884 thousand euros were contributions made in 2007 and -575 thousand euros for the impact of measurement at fair value. Decreases of 2,452 thousand euros relate to the disposal of investments made in 2007.

- Abandonment costs. Provisions recorded include 14,700 thousand euros related to the costs of dismantling the Yela underground storage facility located in Guadalajara, as indicated in Article 8 of Royal Decree 1061/2007 of 20 July granting Enagás, S.A. the concession to operate this facility (see Note 7).

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

The Directors of the Enagás Group consider that the provisions recorded in the accompanying consolidated balance sheet adequately cover risks from lawsuits, arbitration and other proceedings described in this note, and therefore do not expect these to give rise to additional liabilities.

The discounting of provisions is recognised with a charge to "Finance costs" in the accompanying consolidated income statement.

Enagás, S.A. also has a contingent liability at 31 December 2007 related to uncollected amounts from gas suppliers for the freight tax regulated by Article 24 of Law 48/2003 (see Note 10).

16. Bank borrowings

Balances of bank borrowings at 31 December 2007 and scheduled repayments are as follows:

Thousands of euros		Bank borrowings at 31 December 2007					
		Current	Non-current				
	Balance at 31.12.07	2008	2009	2010	2011	Other	Total non-current
Principal	1,911,031	152,108	84,344	1,114,100	105,714	454,765	1,758,923
Accrued interest payable	15,115	15,115	-	-	-	-	-
TOTAL	**1,926,146**	**167,223**	84,344	1,114,100	105,714	454,765	**1,758,923**

At 31 December 2007, Group companies had undrawn credit facilities amounting to 245,894 thousand euros which, in the opinion of management, sufficiently covers any short-term commitments of the Group. There are also 200,000 thousand euros of unused loans**.**

Average annual interest in 2007 on Group loans and credit facilities in euros was 4.33% without hedges and fees and 4.28% with hedges and fees (3.62% with hedges and fees in 2006).

Current loans and credit facilities and policies of the parent company are denominated in euros and earned average annual interest of 4.27% in 2007.

The Directors estimate that the fair value of bank borrowings at 31 December 2007 calculated by discounting the future cash flows at market interest rates amounts to 2,039 thousand euros. The interest rate curve used in this calculation takes into account the risks associated with the industry and Enagás, S.A.'s credit worthiness. The sensitivity of the aforementioned fair value to fluctuations in foreign currency exchange rates and interest rates is as follows:

	Thousands of euros	
	Change in interest rates	
	0.25%	-0.25%
Change in value of borrowings	14.7	-14.8

Financing highlights in the year include:

- In March 2007 the Board of Directors approved the renewal of the credit policies arranged with several financial institutions. This renewal came into effect between May and July. In addition, in November a new policy was arranged with Caixa Catalunya for 6 million euros which matures annually.
- In April 2007, a new 15-year 200 million euro was signed with ICO, with a 5-year grace period. No amounts on this loan had been drawn down at 31 December 2007.
- In June and September 2007, two drawdowns of 100 million euros each were made related to Tranche B of the 200 million euro loan granted by the EIB and signed on 21 June 2004.
- In the second and third quarters of the year, all the guarantee contracts expiring were renewed and a new guarantee policy was signed with Caixa Catalunya for 12 million euros.

17. Other financial liabilities

The detail of the balances of this heading of the consolidated balance sheet is as follows:

	Thousands of euros			
	31.12.2007		31.12.2006	
	Non-current	Current	Non-current	Current
Financial liabilities at fair value through profit and loss	-	-	-	34
SGE loan to Enagás, S.A.	3,265	-	1,175	-
SGI loan to Enagás, S.A.	600	-	-	-
Transgás, S.A. loan to Gasod. Al-Andalus, S.A.	7,417	2,472	9,482	2,370
Transgás, S.A. loan to Gasod. de Extremadura, S.A.	3,764	1,255	5,038	1,260
REN Gasodutos, S.A. loan to Gasod.Campo Mayor-Leira Braga, S.A.	3,660	915	5,525	-
	18,706	**4,642**	**21,220**	**3,664**

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

These loans are repaid in accordance with the periods envisaged in the contracts and the availability of cash of each company.

The loan from the General Energy Secretariat forms part of the aid envisaged in the National Energy Program granted by the Ministry of Industry, Tourism and Trade within the framework of the National Plan for Scientific Research, and Technical Development and Innovation (2004-2007). This loan is associated with the “Project for the electricity generation system at the Almendralejo Compression Station” being carried out by Enagás, S.A. The total amount of the loan is 3,265 thousand euros, distributed between 1,175 thousand euros for 2007 and 2,090 thousand euros for 2008. In December 2006, the financing granted for 2006 was drawn down, and in July 2007 the amount granted for 2007 was drawn down.

Meanwhile, the loan from the General Energy Secretariat forms part of the aid envisaged in the aforementioned plan by the Ministry of Industry, Tourism and Trade. This loan is associated with the “Project for the design and development of a high pressure gas meter calibration facility” being carried out by Enagás, S.A. The total amount of the loan is 1,100 thousand euros, distributed between 600 thousand euros for 2007 and 500 thousand euros for 2008. In December 2007, the amount granted for the year was drawn down.

Both loans are repayable in 10 years, with a 3-year grace period and a cost of 0.25%- the cost of the guarantees provided-.

18. Risk management policy

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

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

- To comply with rules of good corporate governance
- To comply strictly with the Group's regulations
- Each business and corporate area defines:

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

  b) Criteria for counterparties

  c) Authorised operators

- For each market of operations, the various businesses and corporate areas establish their risk tolerance in accordance with the defined strategy.

- The limits are approved by the respective Risk Committees, or in their absence, by the Enagás Risk Committee.

- All the operations of the various businesses and corporate areas are carried out within the approved limits for each case.

- The businesses, corporate areas, business lines and companies establish the necessary risk management controls to ensure that market transactions are carried out in accordance with the Group's policies, rules and procedures.

Interest rate risk

Changes in interest rates affect the fair value of fixed-rate assets and liabilities and the future cash flows of assets and liabilities indexed to floating rates.

The objective of interest rate risk management is to achieved a balanced debt structure that minimises the cost of debt over the long term and volatility in the consolidated income statement.

In line with its estimates and debt structure targets, the Enagás Group enters into derivative financial instruments to hedge its risks.

Liquidity risk

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

Credit risk

The Group has no significant credit risk as the average customer collection period is very short and cash is placed or derivatives acquired with highly solvent entities.

19. Derivative financial instruments

At 31 December 2007 the Group held derivatives for a notional and/or contractual principal amount of 1,000 million euros with a remaining term to maturity of 3.3 years.

In 2007 and 2006 the Enagás Group credited 111 and 7,463 thousand euros, respectively, and debited 1,686 thousand euros to the accompanying consolidated income statement under "Reserves" to cover impact on profit and loss of hedging transactions.

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

Cash flow hedges

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

For the period 2006-2008, the Company arranged cash flow hedges using various collars, with a cap of 4.12% and floor of 3.67% (on average). The hedges commence in January 2006 and mature in April 2008 and the known maximum fixed cost is 4.32%, which includes the impact of the refinancing carried out in November 2006 compared to the previous level of 4.66%.

The fair value of swaps arranged at 31 December 2007 is estimated at -1,275 thousand euros (790 thousand euros in 2006). These amounts are based on the fair values of equivalent instruments at the balance sheet date. All interest rate collars are designated and effective as cash flow hedges, with changes in fair value deferred in equity. As mentioned, -1,575 thousand euros (7,463 thousand euros in 2006) were offset against hedged interest payments made during the period.

20. Trade and other payables

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

	2007	**2006**
Trade payables:		
Payables to Group companies	2,766	2,810
Gas Natural, SDG, S.A. Group suppliers	151,307	178,803
Other suppliers	322,977	265,778
Total	**477,050**	**447,391**

"Payables to Group companies" relates to gas transport services payable, consolidated proportionately, which subsidiaries provide to the Enagás, S.A. parent company.

The balance of the "Gas Natural, SDG, S.A. Group suppliers" relates mainly to natural gas purchases for the regulated market made from Gas Natural Aprovisionamientos Sdg, S.A. in an amount of 100,078 thousand euros, and from Sagane, S.A. in an amount of 49,469 thousand euros, while the balances of other suppliers mainly comprises purchases of materials and services provided to Group companies, recognised principally under "Other operating expenses" and "Non-current assets".

21. Defined contribution plans

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

22. Taxation

22.1 Tax return

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

22.2 Years open to inspection

Enagás, S.A. is open to inspection for all years for which the inspection period has yet to expire. The inspection of VAT on imports is still pending for 2006 and 2007.

Gasoducto Al-Andalus, S.A., Gasoducto Extremadura, S.A., Gasoducto Campo Mayor-Leiria-Braga, S.A. and Gasoducto Braga-Tuy, S.A. are open to inspection for all years for which the inspection period has yet to expire.

At 31 December 2007, Enagás, S.A. had tax assessments issued in respect of VAT on imports for 2002 and 2003. The total amount for 2002 is 2,684 thousand euros, of which 2,358 thousand euros correspond to the tax liability (deductible VAT) and 326 thousand euros to late-payment interest, while the total amount for 2003 is 249 thousand euros, of which 213 thousand euros correspond to the tax liability (deductible VAT) and 36 thousand euros to late-payment interest. Both assessments have been signed in disagreement, and the relevant appeals have been made. At the balance sheet date, all other consolidated entities had no tax assessments.

Given the various possible interpretations of tax legislation, the outcome of potential tax audits of the years open that could be conducted by the tax authorities in the future could give rise to contingent tax liabilities that cannot be objectively quantified. However, the Enagás Group's tax advisors and directors consider the possibility of significant additional liabilities arising in this respect to be remote.

22.3 Tax receivable and payable

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

	Thousands of euros	
	2007	**2006**
Tax receivable:		
VAT	12,567	5,953
Other	-	331
Total	**12,567**	**6,284**
Tax payable:		
Income tax	39,685	39,039
VAT	237	246
Other	2,705	1,991
Total	**42,627**	**41,276**

At the year end, 72,490 thousand euros had been paid on account of the final income tax expense payable, 67,720 thousand euros for Enagás, S.A., 2,954 thousand euros for Gasoducto Al-Andalus, S.A. and 2,176 thousand euros for Gasoducto de Extremadura, S.A.

22.4 Reconciliation between accounting profit and income tax expense

The detail of income tax expense at 31 December 2007 is as follows:

	Thousands of euros	
	2007	**2006**
Enagás, S.A.	107,187	109,841
Gasoducto Al - Andalus, S.A.	2,592	2,726
Gasoducto de Extremadura, S.A.	1,933	2,083
Gasoduto Campo Maior - Leiria - Braga, S.A.	452	393
Gasoduto Braga - Tuy, S.A.	215	254
Total	**112,379**	**115,297**

The reconciliation between the income tax resulting from applying the general corporate income tax rate prevailing in Spain to "Profit before tax" and the expense recognised in the consolidated income statement, and the reconciliation between this and the tax payable for 2007 and 2006 are as follows:

	Thousands of euros	
	2007	**2006**
Accounting profit before tax	**539,431**	**341,574**
Permanent differences	(1,424)	(2,888)
Adjusted profit	538,007	338,686
Tax rate	32.5%	35%
Accounting profit at the tax rate	174,852	118,540
Effect of tax reform in Spain	(1)	1,064
Effect of applying different tax rates	(58,731)	(331)
Deductions from taxable income	(3,742)	(3,976)
Income tax expense	112,378	115,297
Taxes recognised directly in equity	1,682	(3,326)
Total income tax expense	114,060	111,971
Temporary differences	(711)	(3,512)
Income tax expense	**113,349**	**108,459**

22.5 Income tax recognised in equity

Aside from the income tax expense recognised in the consolidated income statement, in 2007 and 2006 the Group recognised the amount following amounts for the following concepts in consolidated equity:

	Thousands of euros	
	2007	**2006**
Cash flow hedges	431	223
Adjustments to tax receivable	801	359
	1,232	**582**

22.6 Deferred tax

Under tax regulations prevailing in the various countries in which the consolidated companies are located, certain temporary differences arose in 2007 and 2006 that should be taken into account when calculating the income tax expense.

The deferred taxes recognised in 2007 and 2006 arose from:

Deferred tax liabilities related to:	Thousands of euros	
	2007	2006
Adoption of IFRS	379	554
Accelerated depreciation	1,385	1,595
	1,764	**2,149**

Deferred tax assets related to:	Thousands of euros	
	2007	2006
Adoption of IFRS	764	892
Government grants	1,119	1,236
Long-service bonus fund	2,096	2,267
Property revaluations	1,645	1,816
Provisions for litigation	351	476
Provisions for HCP	595	880
Other	3,517	1,865
	10,087	**9,432**

The main deferred tax assets and liabilities recognised by the Group and the movements therein during the year are as follows:

Thousands of euros	Balance at 01.01.07	Income statement	Asset and liability valuation reserve	Balance at 31.12.07
Deferred tax assets:				
- Adoption of IFRS	892	151	(279)	764
- Capital grants	1,236	(117)	-	1,119
- Long-service bonus fund	2,267	(171)	-	2,096
- Property revaluations	1,816	(171)	-	1,645
- Provisions for litigation	476	(125)	-	351
- Provisions for HCP	880	(285)	-	595
- Other	1,865	(309)	1,961	3,517
Total deferred tax assets	**9,432**	**(1,027)**	**1,682**	**10,087**
Deferred tax liabilities:				
- Adoption of IFRS	554	(175)	-	379
- Accelerated depreciation	1,595	(210)	-	1,385
Total deferred tax liabilities	**2,149**	**(385)**	**-**	**1,764**

Thousands of euros	Balance at 01.01.06	Income statement	Asset and liability valuation reserve	Balance at 31.12.06
Deferred tax assets:				
- Adoption of IFRS	7,120	-2,752	(3,476)	892
- Capital grants	1,557	(321)	-	1,236
- Long-service bonus fund	2,322	(55)	-	2,267
- Provision ILP	1,340	(1,340)	-	0
- Property revaluations	2,586	(770)	-	1,816
- Provisions for litigation	641	(165)	-	476
- Provisions for HCP	-	880.0	-	880
- Other	2,307	(592)	150	1,865
Total deferred tax assets	**17,873**	**(5,115)**	**-3,326**	**9,432**
Deferred tax liabilities:				
- Adoption of IFRS	512	42	-	554
- Accelerated depreciation	1,862	(267)	-	1,595
Total deferred tax liabilities	**2,374**	**(225)**	**-**	**2,149**

At the end of 2006, Enagás, S.A., Gasoducto Al-Andalus, S.A. and Gasoducto de Extremadura, S.A. recorded prepaid and deferred tax balances in accordance with the provisions of Law 35/2006 of 28 November on personal income tax and the partial amendments to the laws governing corporate taxation and the taxation of non-residents and personal income. This law modifies, inter alia, the corporate income tax rate. The rate applicable is 32.5% for 2007 and 30% for 2008 and beyond.

This change in tax rates led to an increase in the tax expense included in the consolidated income statement for 2007 of 1,000 and a debt to asset and liability revaluation reserves of 19 thousand euros (1,064 thousand euros and 48 thousand euros, respectively).

23. Revenue

An analysis of the Group's revenue is as follows:

	2007	2006
Sales of gas on the regulated market	973,781	1,103,260
Cost of sales of gas on the regulated market	(985,932)	(1,091,921)
Net (purchase)/sale of gas on regulated market	**(12,151)**	**11,339**
Revenue from regulated activities	792,025	733,055
Revenue from liberalised activities	15,499	13,985
Other revenue	21,870	19,587
Sales of materials	-	1
Ancillary and other operating revenue	21,835	19,529
Government grants	35	57
Total	**817,243**	**777,966**

Sales of gas relate entirely to those made by Enagás, S.A. Revenue from the rendering of services are basically from Enagás, S.A. for regulated activities and other companies for liberalised activities. The detail of services rendered are as follows:

	2007	2006
Regulated activities:		
Enagás, S.A.	792,025	733,055
Liberalised activities:		
Gasoducto Al - Andalus, S.A.	7,145	6,442
Gasoducto Extremadura, S.A.	5,563	5,079
Gasoduto Campo Maior - Leiria - Braga, S.A.	2,621	2,272
Gasoduto Braga - Tuy, S.A.	170	192
Total	**807,524**	**747,040**

The cost of sales relates mainly to gas supplies or purchases made during the year by Enagás, S.A. to supply the regulated market. The detail by supplier is as follows

	Thousands of euros	
	2007	2006
Sagane, S.A.	498,081	704,670
Gas Natural Aprovisionamientos, S.A.	478,827	380,817
Gas Natural Comercializadora, S.A.	-	3,018
CEPSA Gas Comercializadora S.A.	8,738	-
Other	287	3,416
Total	**985,932**	**1,091,921**

24. Expenses

An analysis of Group expenses is provided below:

	Thousands of euros	
	31.12.2007	31.12.2006
Employee benefits expense	62,002	54,321
Other operating costs	159,260	160,037
	221,262	**214,358**

24. 1 Employee benefits expense

The detail of employee benefits expense is as follows:

	Thousands of euros	
	31.12.2007	31.12.2006
Wages and salaries	48,459	45,273
Termination benefits	5,059	797
Social Security	10,907	10,256
Other employee benefits expenses	5,976	5,549
Contributions to external pension funds	2,014	1,936
Own work capitalised	(10,413)	(9,490)
	62,002	**54,321**

The Group has capitalised 10,413 thousand euros of employee benefits expenses directly related to ongoing investment projects at 31 December 2007 and 9,490 thousand euros at 31 December 2006 (see note 7).

“Termination benefits” include the amount paid to Antonio González-Adalid García-Zozaya for stepping down from hits post as Chairman of the company in January 2007 (see Note 30).

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

	Average number of employees	
	2007	**2006**
Managers	62	59
Technicians	435	399
Administrative staff	129	115
Labourers	351	346
Total	**977**	**919**

At 31 December 2007, the Company had 985 employees. The detail by category and sex is as follows:

	Gender		
Category	**Female**	**Male**	**Total**
Senior management	-	9	9
Management	8	56	64
Outside CLA	60	173	233
Technicians	27	63	90
Technical specialists	10	435	445
Administration/IT	93	45	138
Auxiliary services/ancillary staff	1	5	6
TOTAL	**199**	**786**	**985**

24. 2 Other operating costs

Details of this heading are:

	Thousands of euros	
	31.12.2007	**31.12.2006**
External services:		
R&D costs	646	460
Leases and fees	64,063	70,670
Repairs and maintenance	25,150	18,660
Professional services	10,835	11,168
Transport	14,453	14,521
Insurance premiums	3,602	3,747
Banking and similar services	204	186
Advertising and PR	1,900	1,862
Supplies	17,402	18,987
Other services	7,071	9,810
External services:	**145,326**	**150,071**
Taxes other than income tax	**3,466**	**2,318**
Other external expenses	**7,307**	**7,648**
Change in trade provisions	**3,161**	**-**

24.3 Other information

"Other operating costs" includes the fees paid by consolidated entities for the audit of their annual financial statements and for other audit and non-audit work. In 2007, these expenses amounted to 479 thousand euros, as follows:

Item	2007
Audit of annual financial statements	160
Other audit services	20
Non-audit services	299

Of the total expense, fees invoiced by Deloitte, S.L amounted to 477 thousand euros, and those by other auditors to 2 thousand euros.

25. Net financial result

The detail of this heading in the accompanying consolidated income statement is as follows:

Thousands of euros	31.12.2007	31.12.2006
Revenue from equity investments	-	338
Revenue from non-current loans	1,768	493
Other interest and finance revenue	1,622	2,831
Finance revenue	**3,390**	**3,662**
Finance and similar costs	2,951	692
Loan interest	57,329	50,488
Revenue attributable to provisions	740	(525)
Finance costs	**61,020**	**50,655**
Net financial loss	**(57,630)**	**(46,993)**

The Group has capitalised borrowing costs for an amount of 19,357 thousand euros at 31 December 2007 and 8,941 thousand euros at 31 December 2006 (see note 7).

26. Business and geographical segments

26.1 Segmentation criteria

Segment information is organised according to the Group's various business units (primary reporting segment).

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

26.2 Main business segments

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

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

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

- **Regasification:** The gas is transported from producer countries in methane tankers at 160 ºC below zero in liquid form (LNG) and is unloaded at the regasification plants, where it is stored in cryptogenic tanks. At these facilities, the temperature of the LNG is raised through a physical process, generally using saltwater vaporisers, transforming it into gas. The natural gas is then injected into gas pipelines and transported throughout the Spanish mainland.
- **Storage:** Enagás, S.A. operates two underground storage facilities: Serrablo, located between the towns of Jaca and Sabiñánigo (Huesca), owned by the Company, and Gaviota, an off-shore storage facility located near Bermeo (Vizcaya), owned by the Repsol YPF Group and Murphy Eastern Oil and operated by Enagás.

b) Technical system management

In 2006, Enagás, S.A. as technical system manager, continued to carry out the tasks entrusted to it by Royal Decree Laws 6/2000 of 23 June and 949/2001 of 3 August, aimed at guaranteeing the continuity and security of gas supply, and the correct co-ordination of access, storage, transport and distribution points.

c) Purchase-sale of gas on the regulated market

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

d) Liberalised activities

These refer to all liberalised activities and transactions related to Group companies.

26.3 Bases and methodology of business segment reporting

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

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

Segment information of these businesses is as follows.

	Thousands of euros									
	Infrastructure		Purchase-sale of gas		Technical System Management		Liberalised activities + consolidation adjustments		**Total**	
	2007	2006	2007	2006	2007	2006	2007	2006	**2007**	**2006**
Income statement										
Operating profit (loss)	390,504	346,787	4,039	25,700	(445)	79	14,197	6,108	**408,295**	**378,674**
Profit (loss) before tax	228,907	198,276	3,422	17,061	(575)	(44)	6,533	1,092	**238,286**	**216,384**
Balance sheet										
Total assets / liabilities	3,656,303	3,251,387	178,649	242,423	17,341	15,139	123,664	117,245	**3,975,957**	**3,626,195**

	Thousands of euros									
	Infrastructure		Purchase-sale of gas		Technical System Management		Liberalised activities + consolidation adjustments		**Total**	
	2007	2006	2007	2006	2007	2006	2007	2006	**2007**	**2006**
Ordinary revenue	770,939	705,844	13,414	36,844	10,446	10,221	34,594	25,057	**829,394**	**777,966**
Depreciation and amortisation	181,928	180,670	65	61	1,980	1,897	3,713	2,305	**187,686**	**184,934**
Acquisitions of assets (*)	563,169	468,300	202	1,316	3,640	9,067	179	629	**567,190**	**479,312**
Non-current liabilities (**)										
Deferred tax liabilities	1,717	2,089	-	-	7	7	40	53	**1,764**	**2,149**
Provisions	30,290	16,264	1	1	56	55	336	388	**30,683**	**16,708**
Other non-current liabilities	28,558	15,980	-	-	20	18	40,491	37,064	**69,068**	**53,062**
Current liabilities (**)										
Trade and other payables	301,071	252,401	157,342	183,872	1,198	939	17,439	10,178	**477,050**	**447,391**
Current tax liability (***)	2,093	1,728	24	19	70	79	755	411	**2,942**	**2,237**
Other current liabilities	59,018	43,903	870	3,612	(30)	87	1,507	734	**61,366**	**48,336**

(*) Acquisitions of assets include the change in inventories of replacement parts and the storage of material for the construction of new infrastructure and do not include provisions or government grants.
(**) Does not include borrowings or other financial liabilities
(***) Does not include income tax payable

27. Environmental information

The Enagás Group's activities in 2007 underscore its commitment to make economic growth compatible with the conservation of natural resources, to guarantee their use by future generations. For this reason, Enagás, S.A. has publicly committed assumed the principles of preserving and protecting the environment as one of the main criteria in its corporate decision-making. This commitment is embodied in the Group's Environmental Policy, which comprises a set of principles whose fundamental purpose is to guarantee that any Enagás activity or installation, from its initial design to the end of its useful life, will endeavour to minimise the impact on the environment.

The practical application of Environmental Policy is represented by the Environmental Management System (EMS) certified by AENOR according to ISO 14001 standard. Environmental managements entails a set of rules and procedures that guarantee knowledge and comprehensive control of environmental issues and the adoption of measures to minimise and correct adverse effects on the environment at the LNG regasification plants, the underground storage facilities, the basic gas pipeline network and the innovation and technology unit.

Morover, the Enagás Group pays careful attention to the design and execution of all its projects in order to achieve full integration of its activities and their surroundings. The first step in the process is to identify the environmental conditions and impact of the project at any of its stages. Then the Group monitors the environment in the construction stage and finally it integrates the facilities built under the EMS.

In 2007, these environmental activities required total investment of 19,119 thousand euros (8,212 thousand euros in 2006) included on the asset side of the balance sheet.

Environmental expenses totalled 793 thousand euros in 2007 (710 thousand euros in 2006), recognised under “Other operating costs”.

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

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

28. Greenhouse gas emission rights

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

The installations for which these allocations have been received are:

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

The 396,092 rights allocated for 2007 were valued at 5.50 euros/right, the spot price on the first business day of 2007 of RWE Trading GMBH.

The Enagás Group recognised the consumption of 108,267 greenhouse gas emission rights in the income statement in 2007 and 158,866 rights in 2006, leaving a surplus at 31 December 2007 and 2006 of 287,825 and 201,718 rights, respectively.

In early 2008, the Enagás Group recognised the consumption of 13,449 emission rights in December 2007 in the income statement, leaving total surplus rights for 2007 at 274,376.

This surplus rights in 2007 valued at a price of 5.50 euros/right, their price on the first business day of 2007, amounted to 1,509 thousand euros, while the value at 31 December 2007 of the surplus is 3 thousand euros, based on a reference price of 0.01 euros/right, their price on the last business day of 2007.

In addition, the surplus rights in 2006 valued at a price of 22.25 euros/right, their price on the first business day of 2006, amounted to 4,488 thousand euros, while the value at 31 December 2006 was 1,271 thousand euros, based on a reference price of 6.30 euros/right, their price on the last business day of 2006.

In the first quarter of 2007, Enagás, S.A. submitted its emission reports for 2006, verified by the accredited DOE (Aenor), to the pertinent regional governments. These confirmed the validity of the emissions verified, so each installation assigned emission rights then opened the related accounts in RENADE.

In the second quarter of 2007, Enagás, S.A. delivered greenhouse gas emission rights equivalent to the verified emissions in 2006 for all these installations.

In 2007, Enagás, S.A. did not arrange any futures contracts relating to greenhouse gas emission rights nor are there any contingencies related to provisional penalties or measures under the terms established by Law 1/2005.

In accordance with Order PRE/3420/2007 of 14 November, at its meeting of 2 November 2007, the Spanish cabinet, at the proposal of the Ministries of the Environment, of Finance and of Industry, Tourism and Trade, adopted the Agreement approving the individual allocation of greenhouse gas emission rights to plants included in the National Allocation Plan 2008-2012. Accordingly, the total amount of rights definitely and freely assigned to Enagás, S.A.'s plant was 2,136,060. This equates to 427,212 rights per year.

29. Related party transactions

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

Significant aspects to take into account in relation to the disclosures of related party transactions include:

a) Related party transactions of significant amounts and that go beyond Enagás' ordinary business are approved by the Board of Directors of the Company subsequent to a report by the Appointments and Remuneration Committee.

b) According to Order EHA/3050/2004, it is not necessary to disclose transactions which are part of the Company's ordinary activities, are carried out on an arm's length basis and are insignificant. In this respect, and taking into account the amounts included in Enagás' financial statements, transactions taking place during the reporting period are considered insignificant when they do not reach the sum of three million euros.

c) Year-end data are not available for certain transactions, which means that in some cases amounts are provisional, while in others the Group elected to include figure for the first eleven months of the year. In both cases, this circumstance and the importance are stated expressly.

Unless otherwise indicated, transactions are for contracts signed prior to the reference period. New relationships, arising from contracts or commitments entered into in 2007, are expressly indicated.

29.1 Transactions between Enagás, S.A. and Group companies, significant shareholders and entities which exercise significant influence over Enagás (section A of Point 4.1 of Order EHA 3050/2004).

28.1.1 Subsidiaries of Enagás, S.A.

- Transactions with Gasoducto Al-Andalus

  Enagás, S.A. has granted this company a loan for 29,432 thousand euros.

  Gasoducto Al-Andalus, S.A. has paid Enagás, S.A. 4,189 thousand euros of dividends corresponding to financial year 2006.

Enagás, S.A. has incurred a cost of 16,824 thousand euros in respect of transport rights, and received revenue of 5,318 thousand euros for gas pipeline maintenance and corporate royalties by virtue of long-term contracts entered into by the parties.

- Transactions with Gasoducto de Extremadura

Enagás, S.A. has granted this company a 3,057 thousand euro loan.

Gasoducto Extremadura, S.A. has paid Enagás, S.A. 2,816 thousand euros of dividends corresponding to financial year 2006.

In addition, Enagás, S.A. has incurred a cost of 8,467 thousand euros for transport rights from services rendered by Gasoducto Extremadura, and received revenue of 4,733 thousand euros for gas pipeline maintenance and corporate royalties by virtue of long-term contracts entered into by the parties.

- Transactions with Gasoduto Campo Maior–Leiria–Braga

Enagás, S.A. has granted this company a loan for 5,378 thousand euros.

In addition, Enagás, S.A. has incurred a cost of 3,220 thousand euros for the provision of transport services.

- Transactions with Gasoduto Braga–Tuy

Enagás, S.A. has granted this company a loan for 10,891 thousand euros.

In addition, Enagás, S.A. has incurred a cost of 3,286 thousand euros for the provision of transport services.

29.1.2 Transactions between Enagás, S.A. and companies which exercise significant influence over Enagás and with companies over which Enagás, S.A. exercises significant influence.

- Transactions with Gas Natural SDG and group companies

1.- Enagás, S.A. paid Gas Natural SDG, S.A. 5,632 thousand euros in dividends.

2.- Enagás, S.A. has entered into 25 contracts with Gas Natural Comercializadora S.A. for third party access (TPA) to its network, of which 12 are short term and 13 long term. In the last quarter of 2007, 59 TPA contracts were signed, of which only 13 remained in force at 31 December 2007.

TPA contracts are standardised forms approved by the Ministry of Industry, Tourism and Trade, as are the access tolls invoiced by Enagás, S.A.

3.- Between 1 January and 31 December 2007 the following services were provided: Regasification of 66,916 GWh, 45.8% of total TPA, with 50,309 thousand euros invoiced for these services including cistern loading; transport of 157,342 GWh, 65.2% of total TPA, with 74,811 thousand euros invoiced for these services including the pipe conveyance component; and the storage of an average of 8,461 GWh, 45.5% of total TPA, with 31,638 thousand euros invoiced for these services.

4.- Enagás, S.A. has entered into a gas purchase-sale contract with several Gas Natural Group companies to supply the tariff market. In 2007, Enagás S.A. acquired 45,330 GWh of natural gas for 948,184 thousand euros. The acquisition price corresponds to the cost of the raw material used to establish the sale price to distributors.

In accordance with the Second Transitional Provision of ITC 4099/2005, 3 GWh of natural gas were acquired from Gas Natural Group companies in 2007 for 56 thousand euros to comply with the minimum linepack for gas pipelines and tanks in that part corresponding to transporters.

In this same period, Enagás, S.A. transported 40,899 GWh of natural gas to Gas Natural Group distributors for 810,823 thousand euros. The terms and conditions and price of these transactions are regulated by the government.

5.- Desarrollo del Cable S.A. leases to Enagás part of the fibre optic cable necessary for its telecoms services, by virtue of a long-term contract signed in 1999 and modified in 2005. The cost to Enagás of this service in 2007 was 18,212 thousand euros.

6.- Enagás, S.A. provided services to several Gas Natural Group companies amount to 1,891 thousand euros for maintenance, 3,510 thousand euros for infrastructure connections and 1,177 thousand euros for other services. These services were provided on an arm's length basis and at market prices.

7.- Inventory rental amounted to a cost for Enagás, S.A. of 3,835 thousand euros.

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

1.- Enagás, S.A. paid INCOMED 5,663 thousand euros in dividends.

2.- Enagás S.A. renewed a 6,000 thousand euro credit line with CAM and signed a guarantee line for 12,000 thousand euros.

3.- Enagás S.A. has an interest rate hedge (COLLAR) with CAM for 15,000 thousand euros for the period from January 2005 to April 2008.

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

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

1.- Enagás, S.A. paid Bancaja 5,632 thousand euros in dividends.

2.- Enagás, S.A. has a credit line open with Bancaja for 6,000 thousand euros and a guarantee line for 6,000 thousand euros that expires annually.

3.- Enagás S.A. has an interest rate hedge (COLLAR) with Bancaja for 15,000 thousand euros for the period from January 2005 to April 2008.

4.- In the fourth quarter of 2007, Enagás, S.A. paid a Bancaja group company 60 thousand euros of brokerage fees for a real estate transaction.

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

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

1.- Enagás, S.A. paid Cantábrica de Inversiones de Cartera S.L., 5,632 thousand euros in dividends.

2.- Enagás, S.A. has a credit facility and guarantee line with Cajastur, both for 6,000 thousand euros.

3.- Also, Cajastur has a 30,000 thousand euro interest in the Club Deal Syndicated Loan signed on 24 November 2004 and paid on 10 January 2005, falling due in 2010.

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

- Transactions with Bilbao Bizkaia Kutxa (BBK)

1.- Enagás S.A. paid BBK 3,364 thousand euros in dividends.

2.- Enagás S.A. has a credit line with BBK for 6,000 thousand euros and a guarantee line for 6,000 thousand euros.

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

- Transactions with Sagane Inversiones, S.L.

Enagás S.A. paid Sagane Inversiones S.L. 5,632 thousand euros in dividends.

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

Board members received 1,067 thousand euros in attendance fees. Per diems paid to senior Executives (the Chairman and members of the Management Committee) amounted to 3,100 thousand euros.

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

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

1.- La Caixa has an 89,000 thousand euro interest in the Club Deal Loan signed on 24 November 2004 and paid on 10 January 2005.

2.- Enagás, S.A. also has a credit line for 100,000 thousand euros with La Caixa.

3.- At 31 December 2007 La Caixa had given Enagás guarantees amounting to 77,037 thousand euros. In addition, Enagás has renting agreements with La Caixa group companies for 6,737 thousand euros of principal.

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

- Transactions with Repsol YPF and group companies

Enagás, S.A. leases the Gaviota underground storage facility from Repsol Investigaciones Petrolíferas S.A., for which it paid 26,648 thousand euros in 2007.

- Transactions with Eulen, S.A.

Enagás, S.A. has entered into cleaning service and general maintenance contracts with Eulen, S.A. In 2007, the cost of these amounted to 1,950 thousand euros.

- Transactions with Intermoney Energía

Enagás, S.A. paid this company 144 thousand euros in 2007 for advisory services.

30. Compensation of the board of directors

30.1 Wages and salaries

Board members received remuneration of 2,022 thousand euros and 4,256 thousand euros in 2007 and 2006, respectively. These amounts include attendance fees and other sums paid to directors for their membership of the Board of Directors and board committees, and for attending meetings, in application of the resolution adopted at the Shareholders' Meeting of 11 May 2007, within the limits indicated in said resolution in respect of the amounts received by members of the Board.

Also includes salaries and compensation for discharging executive duties by members of the board with these responsibilities. These amounts are independent of the compensation fixed annually at the Shareholders' Meeting for their directorships.

Finally, the amounts corresponding to payment of expenses incurred by board members for board and committee meetings are also included, as is the part corresponding to the long-term incentive approved by the Board in 2003 and which was paid in June 2006.

The detail of the remuneration by board member is the following:

DIRECTORS	Thousands of euros
Antonio González Adalid (Executive Director) (*)	84
Antonio Llardén Carratalá (Executive Director)	936
Bancaja (Proprietary Director)	102
CAM (Proprietary Director)	67
Carlos Egea Krauel (Proprietary Director)	67
Salvador Gabarró Serra (Proprietary Director)	77
Peña Rueda S.L.U.	61
Xabier de Irala Estévez (Proprietary Director) (**)	4
Bilbao Bizkaia Kutxa (***)	7
Jesús David Álvarez Mezquiriz (Independent Director)	61
Teresa García Milá (Independent Director)	67
Miguel Ángel Lasheras Merino (Independent Director)	61
Dionisio Martínez Martínez	72
Martí Parellada Sabata (Independent Director)	77
Ramón Pérez Simarro (Independent Director)	72
José Riva Francos (Independent Director)	61
Antonio Téllez de Peralta (Independent Director)	72
Luis Javier Navarro Vigil (External Director)	73

(*) From 1 to 24 January
(**) From 31 October to 28 November
(***) Since 28 November

In 2007, the remuneration paid to board members should include the 4,725 thousand euros of termination benefits paid to the former Executive Chairman as stipulated in his contract with Enagás, S.A.

In addition to this indemnity, the rights accrued under the "Directors Long-service Fund" during his relationship were settled, amounting to 3,173 thousand euros.

30.2 Other remuneration

Pension contributions made during the year totalled 3 thousand euros (10 thousand euros in 2006), while life insurance premiums paid totalled 56 thousand euros (82 thousand euros in 2006).

In 2007, no loans were granted to members of the Board of Directors. The outstanding balance of loans granted to directs at 31 December 2006 was 320 thousand euros.

31. Other information on the Board of Directors

In order to comply with the provisions of Article 127 ter of the Spanish Corporations Law, these notes include information relating to the ownership interests and positions held by members of Enagás, S.A.'s Board of Directors in other companies engaging in activities that are similar or complementary to those that constitute its corporate purpose. When preparing this information, companies having a corporate purpose that is similar or complementary to that of Enagás have been considered to be those that independently engage in the transport, regasification, distribution or supply of natural gas, as regulated by Law 34/1998 on the Hydrocarbon Industry.

Ownership interests in companies that have the same, similar or complementary corporate purpose that have been reported to Enagás, S.A. by directors at 31 December 2007 are as follows:

DIRECTOR	COMPANY	No. OF SHARES	% SHAREHOLDING
Caja de Ahorros del Mediterraneo, CAM.	Unión Fenosa	15,690,000	5.150%
Caja de Ahorros de Valencia, Castellón y Alicante, Bancaja.	Iberdrola	301,282,820	6.030%
BBK (Bilbao Bizkaia Kutxa)	Iberdrola Gas Natural, SDG, S.A.	359,380,724 982,134	7.197% 0.219%
Salvador Gabarró Serra	Iberdrola	10,350	0.001%
Luis Javier Navarro Vigil	BP, plc	63,853	0.000%

In addition, Xabier de Irala Estévez, representing BBK (Bilbao Bizkaia Kutxa) on Enagás, S.A.'s Board of Directors, as an individual owns 165,076 shares of Iberdrola, representing 0.003% of its share capital.

Positions held or duties performed by Company directors at companies whose corporate purposes is the same, similar or complementary disclosed to Enagás, S.A. at 31 December 2007 are as follows:

DIRECTOR	COMPANY	POSITION
Salvador Gabarró Serra	Gas Natural, SDG, S.A.	Chairman
Luis Javier Navarro Vigil	BP España SAU. Enel Viesgo E.ON Renovables Iberia	Director Director Chairman
BBK (Bilbao Bizkaia Kutxa)	Iberdrola, S.A.	Director

Manuel Menéndez Menéndez, the representative of Peña Rueda, S.L. on Enagás, S.A.'s Board of Directors, holds as a private individual the positions of Chairman of the Board of Directors of Hidroeléctrica del Cantábrico, S.A. (H.C.), Chairman of the Board of Naturgas Energía Grupo, S.A. and member of the general and supervisory board of EDP-Energías de Portugal, S.A..

José Luis Olivas Martínez, representing the Bancaja on Enagás, S.A.'s Board of Directors, is a director of Iberdrola and Chaiman of the Advisory Council of Iberdrola in Valencia.

Xabier de Irala Estévez, representative of BBK (Bilbao Bizkaia Kutxa) on Enagás, S.A.'s Board of Directors, as an individual is a member of the Board of Directors and Executive Committee of Iberdrola. No activities that are the same, similar or complementary to those of Enagás, other than those listed above, are carried out by Company Directors.

32. Guarantee commitments to third parties

At 31 December 2007 the Group had provided guarantees to third parties deriving from its activities for an amount of 77,874 thousand euros (61,630 thousand euros in 2006). It has also received financial guarantees for a total of 234,517 thousand euros (43,146 thousand euros in 2006) for the loans granted by the European Investment Bank.

The Group's directors estimate that no significant liabilities will arise in addition to those recognised in the accompanying consolidated balance sheet as a result of the transactions described in this note.

33. Events after the balance sheet date

On 10 January 2007, the gross 0.24 interim dividend charged against 2007 profit approved by the Board of Directors of Enagás, S.A. was paid.

34. Other disclosures

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

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

In 2007, rating agencies affirmed the Company's debt rating. Standard & Poor's maintained its long-term AA- rating and short-term A-1+ rating, while Moody's confirmed its long-term A2 and short-term P-1 ratings.

In April 2007, the +Familia foundation awarded Enagás, S.A. the *Certificado de Empresa Familiarmente Responsable* (family-friendly company certificate) in recognition of the Company's policies in support of work-life balance.

On 31 October 2007, Enagás held an Extraordinary Shareholders Meeting at which approval was given to amend the Company's Articles of Association to introduce new voting rights limits as set out in Law 12/2007. Accordingly, no natural person or corporate body may hold, directly or indirectly, an interest in Enagás representing more than 5% of its share capital, or exercise more than 3% of its voting rights. In addition, companies which operate in the gas industry or which, directly or indirectly, hold over 5% of the share capital of these companies may not exercise voting rights in the technical system operator above 1%. These restrictions shall not to the direct or indirectly ownership interest held by public-sector enterprises.

Approval was also given at the Extraordinary Shareholders Meeting to appoint Xavier as proprietary director in representation of Bilbao Bizcaia Kutxa (BBK).

In the fourth quarter of 2007, Enagás, S.A., Eurogas Corporation (Eurogas) and ACS entered into an agreement to promote the Castor underground natural gas storage facility project located in the province of Castellón. Under the terms of this agreement, Enagás, S.A. will hold a 33.33% stake in this gas infrastructure facility when it comes on stream, tentatively by 2010.

35. Joint ventures

Information on the joint ventures in which the Company had interests at 31 December 2007 is set out in the table below.

Company	Country	Activity	Consolidation method	%	% of voting rights controlled by Enagás, S.A.	Thousands of euros				
						Carrying amount	Details of investee (*)			
							Assets	Liabilities	Equity	Profit for the year (**)
Gasoducto Al-Andalus, S.A.	Madrid	Gas transport	Proportionate	66.96	50	23,744	100,130	100,130	50,825	7,791
Gasoducto de Extremadura, S.A.	Madrid	Gas transport	Proportionate	51	50	9,732	45,351	45,351	29,189	7,017
Gasoduto Campo Maior Leiria Braga, S.A.	Portugal	Gas transport	Proportionate	12	50	3,195	88,944	88,944	36,858	8,672
Gasoduto Braga-Tuy, S.A.	Portugal	Gas transport	Proportionate	49	50	2,546	19,496	18,055	18,055	1,064
Total										

PC: Proportionate consolidation.
(*) The data presented correspond to figures for the individual companies prepared under local GAAP and before the standardisation adjustments made prior to consolidation of the financial statements.
(**) Data for Gasoduto Campo Mayor-Leiria-Braga, S.A. and Gasoduto Braga-Tuy, S.A. are taken at the close of 30 November 2007 (see Note 1a).

36. Explanation added for translation to English

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

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

MANAGEMENT REPORT OF THE ENAGÁS GROUP

Performance in 2007

Net profit rose 10.1% in 2007 to 238,239 thousand euros.

Revenue totalled 792,025 thousand euros.

Total investments in the year were 523,361 thousand euros. The Board of Directors of Enagás, S.A. approved investments totalling 1,189 million euros, which mainly relate to the following projects:

- The Musel regasification plant in Asturias

- The Yela underground storage facility in Guadalajara

- The Chincilla compression station in Albacete

The Enagás, S.A. Group's equity at 31 December 2007 stood at 1,343,905 thousand euros.

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

The Company did not carry out any transactions involving treasury shares in the year.

On 29 December 2006 the Ministry of Industry, Tourism and Trade approved five Ministerial Orders: ITC/3993/2006, ITC/3994/2006 and ITC/3995/2006, establishing the remuneration regime for regulated gas activities in 2007, and ITC/3992/2006 and ITC/3996/2006, establishing the tolls and royalties for third-party access to gas installations, respectively, for 2007.

Throughout the year the Group continued to enlarge and enhance its re-gasification, transport and storage installations to adapt them to the outlook for demand going forward. In this respect, the main actions carried out were:

- The increase in the emission capacity of the Huelva Plant to 1,350,000m^3 (n)/h

- The increase in the total combined nominal re-gasification capacity at the three Plants of 150,000 m^3 (n)/h.

- The increase in the continuity of supply and the development of areas which previously had no access to natural gas supplies. At the end of 2007, the Enagás, S.A. Group operated 7,655Km of pipeline designed to operate at maximum bar pressures of 72 and 80, compared with 7,609Km at the end of 2006.

- The start of operations of transport assets -the main asset coming on stream in 2007 was the Falces-Irurzun-Tramo II gas pipeline- as well as the inclusion of Reduction and Metering Stations (RMS) and the modification of certain gas pipeline positions. The emission capacity of the Huelva plant was also expanded to 1,.350,000 m^3(n)/h and optice fibre cable was added at the branch to the Jaca wells and the northern connection of Zaragoza. Some 22 new RMS were put into service in the course of the year, taking the total number in operation at the year-end to 378.

Overall, at the end of 2007, the gas infrastructure of the Enagás, S.A., Group, consisting of the basic natural gas network, was as follows:

The Barcelona, Huelva and Cartagena regasification plants, with total combined LNG storage capacity of 1,287,000m^3 in a total of 13 tanks, 9 cistern loaders and emission capacity of 4,200,000 m^3(n)/h, 150,000 m^3(n)/h higher than the 4,050,000 m^3(n)/h at the end of 2006.

The Serrablo (Huesca) and Gaviota (Vizcaya) underground storage facilities, in operation, with maximum injection of 8.5 Mm3/day and maximum output of 12.6 Mm3/day, and te concession to the Yela (Guadalajara) storage facility in accordance with the provisions of Royal Decree 1061/2007 of 20 July.

A gas pipeline network with a total length of 7,655 Km, consisting of the following main lines:

- **Central line**: Huelva-Córdoba-Madrid-Burgos-Cantabria-Basque Country (with the Huelva-Seville-Córdoba-Madrid duplicated)

- **Eastern line**: Barcelona-Valencia-Alicante-Murcia-Cartagena

- **Western line**: Almendralejo-Cáceres-Salamanca-Zamora-León-Oviedo

- **Spain-Portugal western line**: Córdoba-Badajoz-Portugal (Campo Maior-Leiria-Braga)–Tuy-Pontevedra-A Coruña-Oviedo

- **Ebro line**: Tivisa-Zaragoza-Logroño-Calahorra-Haro

The following gas pipeline entry points to the gas system:

North: the Calahorra-Lac Spain-France pipeline connecting Spain and Portugal with the European gas pipeline network

South: the Maghreb-Europe pipeline and connection to the Marismas-Palancares gas fields in the Guadalquivir valley

Events after the balance sheet date

On 10 January 2008 an interim dividend was paid against 2007 results. The dividend totalled 0.24 euros per share and was approved by the Board of Directors of Enagás, S.A. at its meting held on 19 December 2007.

Research and development activity

Technological innovation initiatives carried out by the Company in 2007 were focussed on assessing, developing and testing new gas technologies with the aim of increasing and improving the competitiveness of natural gas in various applications, and in particular on projects of strategic value for the Group.

The most significant activities carried out in 2007 by area were:

a) **Production (LNG).** Work continued on the GERG - "MOLAS" project, headed by Enagás, S.A. aimed at knowing how LNG ages and the changes to its properties during transport by ship. The Company also continued to develop a reliability for plant equipment and installations. In this area, the Company also embarked on an LNG sampling project to more accurately gauge the quality of the LNG unloaded at the regasification plants.

b) **Transport.** Work continued on the project to design, building and start-up an electricity generation plant at the Almendralejo compression station. In addition, technical and financial feasibility studies were carried out to gauge the use of micro turbines in the supply of power at Enagás, S.A.'s positions. It made preliminary studies, commissioned advisory services and acquired components for the test model.

c) **Operation.** The first phase was completed of the "Electra" application, which provides information about demand for natural gas for the generation of electricity. The "Proteo" application was also completed. This application provides statistics on the long-term (10 years) demand for natural gas.

d) **Safety.** Work proceeded on various projects and studies related to the analysis of gas pipeline risks.

e) **Measurement.** The basic engineering and details of the high pressure gas meter calibration bank were carried out, along with demonstration tests of a Coriolis-type metre under operating conditions in Calahorro. In addition, the first phase of the project to assess the state of the art in systems for the supervision and monitoring of energy measurement stations was completed.

f) **Projects of General Interest.** The GERG project to measure and determine the dew point of natural gas was finalised, with the Company planning to compare its results with those of a similar project being carried out in the US.

g) **Other matters**. The Company is carrying out a campaign to contact other energy companies with the aim of spearheading the joint development of RD&I activities in order to share costs and exchange information.

Additional information

a) The structure of capital, including securities which are not admitted to trading on a regulated market in a Member State, indicating, where appropriate, the different classes of shares and, for each class of shares, the rights and obligations attaching to it and the percentage of total share capital that it represents

The capital structure of the Company:

Date of last modification	Share capital (€)	Number of shares	Number of voting rights
03-05-2002	358,101,390.00	238,734,260	238,734,260

All the shares are of the same class.

b) Restrictions on the transfer of securities

There are no restrictions on the transfer of securities.

c) Significant direct and indirect shareholdings

Name or corporate name of the shareholder	**Number of direct voting rights**	**Number of indirect voting rights (*)**	**% of total voting rights**
GAS NATURAL SDG, S.A.	11,936,703	0	5.000
ATALAYA INVERSIONES, SRL	0	11,936,714	5.000
CAJASTUR (CAJA DE AHORROS DE ASTURIAS)	0	11,937,395	5.000
SEPI (SOCIEDAD ESTATAL DE PARTICIPACIONES INDUSTRIALES)	11,936,703	0	5.000

(*) through:

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

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

(*) through:

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

d) Any restrictions on voting rights

Article 6 bis ("Restrictions on shareholdings and the exercise of voting rights" of the Articles of Association was amended at the Extraordinary Shareholders Meeting held 31 October 2007 to bring it in line with the provisions of Law 12/2007 of 2 July.

Law 12 of 2 July 2007, amending Law 34/1998 on the Hydrocarbons sector in accordance with Directive 2003/55/EC of the European Parliament and of the Council of 26 June 2003 concerning common rules for the internal market in natural gas, provides new wording for the 20th additional provision of Law 34/1998, which vests in Enagás, S.A. the capacity of "technical system operator" and sets ceilings on shareholdings in the Company. The wording of this additional provisions now stands as follows:

> "Additional provision 20. Technical System Manager.
>
> ENAGAS, Sociedad Anónima shall undertake the duties, rights and obligations of technical system operator. (...)
>
> No natural person or corporate body may hold, directly or indirectly, an interest in the company in the technical system manager representing more than 5% of share capital, or exercise more than 3% of the company's voting rights. Such shares may in no event be syndicated. Parties operating in the gas industry or natural persons or corporate bodies that, directly or indirectly, hold over 5% of the share capital of these companies may not exercise voting rights in the technical system manager above 1%. These restrictions shall not apply to direct or indirect shareholdings held by public-sector enterprises. The shareholdings may in no event be syndicated.
>
> In addition, the sum of direct and indirect shareholdings held by individuals or legal entities operating in the natural gas industry may not exceed 40%.
>
> To calculate the shareholding, the same individual or legal entity will be attributed, in addition to the shares and other securities held or acquired by companies belonging to its group, as defined in Article 4 of the Spanish Securities Market Law 24/1988, of 28 July, those whose ownership corresponds to:
>
> a) Any person acting on his own behalf but on account of the aforesaid, in concert or constituting a decision-making unit. Unless proven otherwise, the members of a governing body shall be presumed to act on account of or in concert with that governing body.
>
> b) Partners with those with which one of them exercises control over a dominant company in accordance with 4 of Securities Market Law 24/1988.
>
> In any event, regard shall be had to the proprietary ownership of the shares and other securities and the voting rights attached to each.
>
> Breach of the restrictions on interests in share capital prescribed by this article shall be treated as a very serious infringement for the purposes of article 109 of this Law, and liability shall attach to any natural person or body corporate found to be holders of the securities or to any person to whom there may be attributed the excess interest in share capital or voting rights pursuant to the above sub-paragraphs. In any event, the regime of penalties laid down in the Law shall be applied".

Transitional provision 6 of Law 12/2007 of 2 July provides that within four months of the law coming into force, Enagás, S.A. shall bring its bylaws in line with additional provision 20 of Law 34/1998 of 7 October. Transitional provision 2 of Law 12/2007 of 2 July, further prescribes:

> "Transitory provision 20. Technical System Manager.
>
> Any voting rights attaching to shares and other securities held by persons with an ownership interest in the share capital of ENAGÁS, Sociedad Anónima, in excess of the ceilings set forth in

additional provision 20 of Hydrocarbons Law 34/1998 of 7 October shall be suspended once this provision comes into force.

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

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

"No natural person or body corporate may hold, directly or indirectly, an interest in the company in the Company representing more than 5% of share capital or exercise more than 3% of the its voting rights. Such shares may in no event be syndicated. Parties operating in the gas industry or natural persons or legal entities that, directly or indirectly, hold over 5% of the share capital of these companies may not exercise voting rights above 1%. These restrictions shall not apply to direct or indirect shareholdings held by public-sector enterprises. The shareholdings may in no event be syndicated.

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

For the purposes of computing holdings in the share capital of the Company, additional provision 20 of the Hydrocarbons Law 34/1998 of 7 October shall apply".

e) Agreements between shareholders

There are no records of any agreements among the Company's shareholders.

f) The rules governing the appointment and replacement of board members and the amendment of the articles of association

Bylaw provisions affecting the appointment and replacement of board members:

ARTICLE 35. – **COMPOSITION OF THE BOARD**.

The Company shall be governed and managed by the Board of Directors, which shall represent the Company collegiately, both in and out of court. Its representation shall extend, without any limitation of power, to all acts embodied in the corporate purpose.

The Board of Directors shall be composed of a minimum of six members and a maximum of sixteen, appointed by the General Shareholders' Meeting.

The Board Members shall be elected by means of a vote. For this purpose, the shares that are voluntarily pooled, up to a total in share capital that is equal to or greater than the result of dividing the latter by the number of Board Members, shall be entitled to appoint those who, exceeding whole fractions, are deducted from the corresponding proportion. If this power is exercised, the shares pooled in this fashion shall not take part in the appointment of the remaining members of the Board.

The post of Director, for those for which shareholder status is not required, may be waived, revoked and eligible for re-election to one or more terms.

An appointment as Director shall take effect upon acceptance thereof.

Any person found in any of the situations referred to under article 124 of the revised Spanish Corporation Law may not be a Director.

ARTICLE 37º.- POSTS.

The Board of Directors shall appoint a Chairman, and if applicable, a Deputy Chairman, who in the Chairman's absence shall act as Chairman. In lieu of a Deputy Chairman, the most senior Director in age shall substitute the Chairman.

The appointment of a Secretary is also incumbent on the Board of Directors, which may appoint, in addition to a Deputy Secretary, who in the Secretary's absence shall act as Secretary, persons who are not Directors. In lieu of a Deputy Secretary, the most senior Director in age shall substitute the Secretary.

Provisions of the organisational and operational Regulations of the Board of Directors (adopted by the Board of Directors on 29 March 2007):

ARTICLE 3. QUANTITATIVE AND QUALITATIVE COMPOSITION.

1.- Within the minimum and maximum limits set forth under article 35 of the Company's current bylaws, notwithstanding the powers of proposal enjoyed by shareholders, the Board of Directors shall propose to the General Shareholders' Meeting the number of Directors that at each stage it deems appropriate in the interest of the Company. The General Shareholders' Meeting shall decide on the final number.

2.- The Board of Directors shall be composed of Directors that belong to the categories stated below:

a) Internal or Executive Directors: Directors who perform senior management functions or are employed by the Company or its Group. If a Director performs senior management functions and, at the same time, is or represents a significant shareholder or one that is represented on the Board of Directors, he/she shall be considered internal or executive for purposes of the present Regulations.

No more than 20% of the total number of members of the Board of Directors may belong to this category.

b) External Directors: These Directors shall in turn fall into three categories:

b1) Proprietary Directors: Directors who hold a shareholding interest equal to or greater than that which is considered significant under the law or have been appointed on account of their status as shareholders, even if their shareholding is less than said amount, as well as those who represent said shareholders.

b1) Independent Directors: Directors of acknowledged professional prestige are able to contribute their experience and knowledge to corporate governance and, since they do not belong to either of the two preceding categories, meet the conditions set forth under article 9 of the present Regulations. The number of independent Directors shall represent at least one third of all Directors.

b) Other External Directors: external directors who are not proprietary directors and cannot be classified as independent directors in accordance with article 9 of the present Regulations.

In exercising its powers of co-option and proposal to the General Shareholders' Meeting to fill vacancies, the Board of Directors shall endeavour to ensure that, within the composition of the body, independent directors represent a broad majority over executive directors and that among external directors, the relation between proprietary members and independents should match the proportion between the capital represented on the board by proprietary directors and the remainder of the company's capital.

ARTICLE 8.- APPOINTMENT OF DIRECTORS.

1.- Directors shall be appointed by the General Shareholders' Meeting or by the Board of Directors in conformity with the provisions contained in the Spanish Corporation Law and the Company Bylaws.

2.- Those appointed to directorship must be people who, in addition to meeting the legal and bylaw-stipulated requirements, have acknowledged prestige and the appropriate professional knowledge and experience to perform their tasks efficiently.

The proposal for the appointment of directors which the Board of Direcgtors submits to the General Shareholders' Meeting, as well as appointments adopted by the Board by virtue of its powers of co-option, subject to a report from the Appointments and Remuneration Committee. When the Board of Directors does not agree with the Committee's recommendations, it must explain the reasons for this and duly record its reasons in the Minutes.

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

ARTICLE 9.- APPOINTMENT OF INDEPENDENT DIRECTORS.

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

a) Past employees or executive directors of Group companies, unless 3 or 5 years have elapsed, respectively, from the end of the relation

b) Those who have received some payment or other form of compensation from the Company or its Group on top of their directors' fees, unless the amount involved is not significant. Dividends or pension supplements received by a director for prior employment or professional services shall not count for the purposes of this section, provided such supplements are non contingent, i.e. the paying company has no discretionary power to suspend, modify or revoke their payment, and by doing so would be in breach of its obligations.

c) Partners, now or on the past 3 years, in the external auditor or the firm responsible for the audit report, during the said period, of Enagás, S.A. or any other within its Group.

d) Executive directors or senior officers of another company where an executive director or senior officer of Enagás, S.A. is an external director.

e) Those having material business dealings with Enagás, S.A. or some other in its Group or who have had such dealings in the preceding year, either on their own account or as the significant shareholder, director or senior officer of a company that has or has had such dealings. Business dealings will include the provision of goods or services, including financial services, as well as advisory or consultancy relationships.

f) Significant shareholders, executive directors or senior officers of an entity that receives significant donations from Enagás, S.A. or its Group, or has done so in the past 3 years. This provision will not apply to those who are merely trustees of a Foundation receiving donations.

g) Spouses, or partners maintaining an analogous affective relationship, or close relatives of one of the Company's executive directors or senior officers.

h) Any person not proposed for appointment or renewal by the Appointments and Remuneration Committee.

i) Those standing in some of the situations listed in a), e), f) or g) above in relation to a significant shareholder or a shareholder with board representation. In the case of the family relations set out in letter g), the limitation shall apply not only in connection with the shareholder but also with his or her proprietary directors in the investee company. Proprietary directors disqualified as such and obliged to resign due to the disposal of shares by the shareholder they represent may only be re-elected as independents once the said shareholder has sold all remaining shares in the Company.

A director with shares in the Company may qualify as independent, provided he or she meets all the conditions stated in this article and the holding in question is not significant.

ARTICLE 10.- DURATION OF POST AND CO-OPTION.

Directors may hold their post for a period of four years, and may be re-elected. Directors appointed by co-option will perform their functions until the date of the next General Shareholders' Meeting.

ARTICLE 11.- RE-APPOINTMENT OF DIRECTORS.

The Appointments and Remuneration Committee, responsible for evaluating the quality of work and dedication to the post of the Directors proposed during the previous term of office, shall provide information required to assess proposal for re-appointment of Directors presented by the Board of Directors to the General Shareholders' Meeting.
As a general rule, appropriate rotation of independent Directors should be endeavoured. For this reason, when one is proposed for re-election, the circumstances making his/her continuity in the post advisable must be justified. Independent directors should not stay on as such for a continuous period of more than 12 years.

ARTICLE 12.- REMOVAL OF DIRECTORS.

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

2.- Directors must place their offices at the Board of Directors' disposal, and tender, if the Board deems this appropriate, their resignation in the following cases:

a) When they are involved in any of the legally stipulated circumstances of incompatibility or prohibition.

b) When they are in serious breach of their obligations as Directors.

c) When they may put the interests of the Company at risk or harm its name and reputation. If a Director is indicted or an order is issued to initiate a trial against him/her for a crime specified under article 124 of the Spanish Corporation Law, the Board shall examine the matter as promptly as possible and, in view of the particular circumstances, decide where or not the Director should be called on to resign.

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

e) When independent directors no longer fulfil the criteria required under article 9.

f) When the shareholders represented by proprietary directors dispose of their ownership interests. If such shareholders reduce their stakes, thereby losing some of their entitlement to proprietary directors, the latter's number should be reduced accordingly.

Should the Board of Directors not deem it advisable to have a Director tender his/her resignation in the cases specified under letters d), e) and f), the latter must be included in the category that, in accordance with the present Regulations, is most appropriate based on his/her new circumstances.

3.- The Board of Directors should not propose the removal of independent directors before the expiry of their tenure as mandated by the bylaws, except where just cause is found by the board, based on a report from the Appointments and Remuneration Committee.

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

Bylaw provisions affecting the amendment of the bylaws:

ARTICLE 26. – SPECIAL QUORUM.

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

At second call, attendance of at least twenty-five percent of the paid up share capital with voting rights shall be sufficient.

g) The powers of board members, and in particular the power to issue or buy back shares.

The only member of the Board of Directors who has the power to represent the Company is Chairman Antonio Llardén Carratalá. The Board of Directors granted him the powers that appear in the public deed executed on 9 February 2007 before Notary of Madrid Pedro de la Herrán Matorras under number 324 of his protocol and as recorded in the Mercantile Registry of Madrid, Volume 20,090; Book 0; Folio 172, Section 8; Page M-6193; Record 688. Although said powers encompass broad powers of representation, they do not include the ability to issue or buy back shares of the Company.

Regardless of the foregoing, the resolution adopted by the General Shareholders' Meeting held on 11 May 2007 with the following terms is now in force:

"The grant the Board of Directors the broadest powers required by law to increase the company's share capital, at one or several times, within a maximum period of five years from the date, under the terms of article 153.b) of the Spanish Corporation Law, up to a maximum of 179 million euros, by issuing new shares, with or without voting rights, with or without a share premium, in exchange for cash, and to establish the terms and conditions of the capital increase and the features of the shares, with the possibility of offering freely new shares unsubscribed within the pre-emptive subscription period(s) and determine, if the shares are not fully subscribed, that capital will be increased only by the amount of the subscriptions made and, accordingly, to redraft the article of the Company Bylaws regarding share capital. The Board was also empowered to disapply, partially or fully, pre-emptive subscription rights under the terms of Article 159 of the Spanish Corporation Law.

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

No agreements of this kind exist.

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

The Company has an agreement with the Chief Executive and 10 of its managers that include express severance pay clauses.

The clauses in each case are applicable in cases of unfair disciplinary dismissal, dismissal for the reasons outlined under art. 52 of the Workers' Statute or as decided by the Manager citing one of the reasons outlined under art. 50 of the Workers' Statute provided the resolution is declared justified by means of conciliation between the parties, legal judgment, arbitration award, or resolution by a competent administrative body. They are not applicable if the resolution is due to a unilateral decision made by the Manager without any cause given.

All such contracts have been approved by the Board of Directors.

ENAGÁS GROUP

On 25 February 2007, the Board of Directors of Enagás, S.A. approved the management report for the year ended 31 December 2007, consisting of the accompanying documents, in accordance with Article 171 of the Spanish Corporation Law and Article 37 of the Code of Commerce.

However, pursuant to article 171.2 of the Spanish Companies Act, it is hereby noted that the financial statements were not signed by Caja de Ahorros del Mediterráneo, represented by Vicente Salar Belló, as he did not attended the meeting and his signature could not be obtained.

The undersigned directors state that, to the best of their knowledge, the annual financial statements, prepared in accordance with the accounting principles applied, provide a true and fair value of the equity, financial position and results of the Company and of the companies included in consoliation, taken as a whole, and that the management reports includes a fair analysis of the evolution and results of the businesses and the position of the Company and the companies included in consolidation, taken as a whole, together with the description of the main risks and uncertainties facing them.

Chairman

Antonio LLardén Carratalá

Deputy Chairman

José Luis Olivas Martínez
Proprietary director representing BANCAJA

Directors

Jesús David Álvarez Mezquíriz

Antonio Téllez de Peralta

Carlos Egea Krauel

Teresa García-Milà Lloveras

Salvador Gabarró Serra

Dionisio Martínez Martínez

Luis Javier Navarro Vigil

Ramón Perez Simarro

José Riva Francos

Miguel Ángel Lasheras Merino

Martí Parellada Sabata

Caja de Ahorros del Mediterráneo - CAM
(Represented by Vicente Sala Belló)

Peña Rueda, S.L. (sole shareholder company)
(Represented by Manuel Menéndez Menéndez)

Bilbao Bizkaia Kutxa - BBK
(Represented by Xavier de Irala)

Secretary to the Board

Rafael Piqueras Bautista