

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

MANAGEMENT REPORT OF THE ENAGÁS GROUP

Performance of the Group in 2006

Net profit for the year was 216,384 thousand euros, up 13.3% on the prior-year figure.

Net sales totalled 744,394 thousand euros.

The Group made investments for a total value of 479,312 thousand euros. The Board of Enagás, S.A. approved investments totalling 1,200 million euros, on the following projects:

- Seventh and eighth tanks at the Barcelona Plant.
- Lemona – Haro gas pipeline.
- Gas pipeline connecting Lorca with the Almería – Chinchilla gas pipeline.
- Tivissa – Patena gas pipeline.
- Almería-Chinchilla gas pipeline.
- Denia-Ibiza-Mallorca underwater gas pipeline.

The Enagás Group had shareholders' equity of 1,235,203 thousand euros.

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

The Company engaged in no treasury shares transactions in the course of the year.

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

Throughout the year the Group continued to extend and enhance its re-gasification, transport and storage installations to bring them in line with the requirements pointed up by future demand forecasts. To this end the following major initiatives were undertaken in 2006:

- A sixth tank with LNG storage capacity of 150,000m³ was brought into service at the Group's Barcelona Plant, and a fourth tank with LNG storage capacity of 150,000m³ was opened at the Huelva Plant. Also, the emission capacity of the Huelva Plant was increased to 1,200,000 m³(n)/h.
- Total combined nominal re-gasification capacity at the three Plants was increased by 600,000 m³(n)/h.

- At the end of 2006 the Enagás, S.A. Group was operating 7,609Km of pipeline designed to operate at maximum bar pressures of 72 and 80, compared with 7,360Km operational in December 2005, thus helping secure continuity of supply and the development of areas that previously had no access to natural gas supplies.
- The principal transport assets that came on stream in 2006 were as follows: the new tanks at the Barcelona and Huelva plants mentioned above, the Falces-Larraga branch of the Falces-Irurzun gas pipeline, Phase I of the Saica branch of the Castellón-Onda gas pipeline, the Málaga este-Málaga branch gas pipeline and Phase I of the south-west Madrid semi-ring gas pipeline. Also the installed capacity of the Bañeras compression station was increased. Some 46 new regulating and measuring stations were brought into service in the course of the year, taking the total number in operation at the year-end to 356.

Overall, at the end of 2006, the gas infrastructure of the Enagás, S.A., Group, consisting of the basic natural gas network, was as follows:

The Barcelona, Huelva and Cartagena regasification plants had a total combined LNG storage capacity of 1,287,000m³, 300,000m³ more than the end-2005 level of 987,000m³, and combined emission capacity of 4,050,000 m³(n)/h, 600,000 m³(n)/h higher than the 3,450,000 m³(n)/h recorded at the end of 2005.

Subterranean storage facilities in Serrablo (Huesca) and Gaviota (Vizcaya).

A gas pipeline network with a total length of 7,609 Km, consisting of the following main lines:

Central line: Huelva-Córdoba-Madrid-Burgos-Cantabria-Basque Country.

(with Huelva-Sevilla-Córdoba-Madrid duplicated)

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

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

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

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

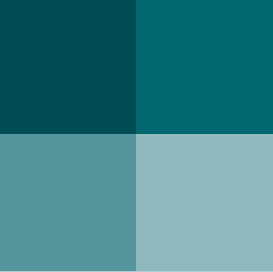
The following system entry points:

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

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

Subsequent events

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



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

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

Research and development initiatives

Technological innovation initiatives realised by the Company in 2006 were focussed on assessing, developing and testing new gas technologies with the aim of increasing and improving the competitiveness of natural gas in various applications, and in particular on projects of strategic value for the Group.

The most significant activities carried out in 2006 by area were:

- a) **Production (LNG).** Work began on the GERG - "MOLAS" project, headed by Enagás, S.A. that aims to develop physical and statistical models to discover how LNG ages and the changes to its properties during transport by tanker. In addition, a reliability model has been developed for plant equipment and installations.
- b) **Transport** Work has begun on a project for the design, construction and start-up of an electricity generation plant at the Almendralejo compression station based on an Organic Rankine Cycle (ORC). Technical and financial feasibility studies have also been carried out into the generation of electricity during the LNG regasification process and the regulation of pressure in the Regulation and Measurement Stations.
- c) **Operation.** The "Electra" program that will provide information about demand for natural gas for the generation of electricity in conventional thermal and combined cycle power plants is being developed, as is the "Proteo" program that will provide information about long term natural gas demand, (10 years).
- d) **Safety** Various projects and studies related to the analysis of gas pipeline risks have been continued.
- e) **Measurement.** A high pressure gas meter calibration bank has been built and has begun operating, and a project has been launched to assess the state of the art in systems for the supervision and monitoring of energy measurement stations.
- f) **Projects of General Interest** Work is ongoing on the measurement and calculation of the dewpoint, and the company has taken part in the "Biogas in Natural Gas Operations" project that has provided information about installations for the injection of biogas into natural gas networks currently in operation in Europe and European legislation in this respect.



Design: ROJO taller de investigación, diseño y comunicación

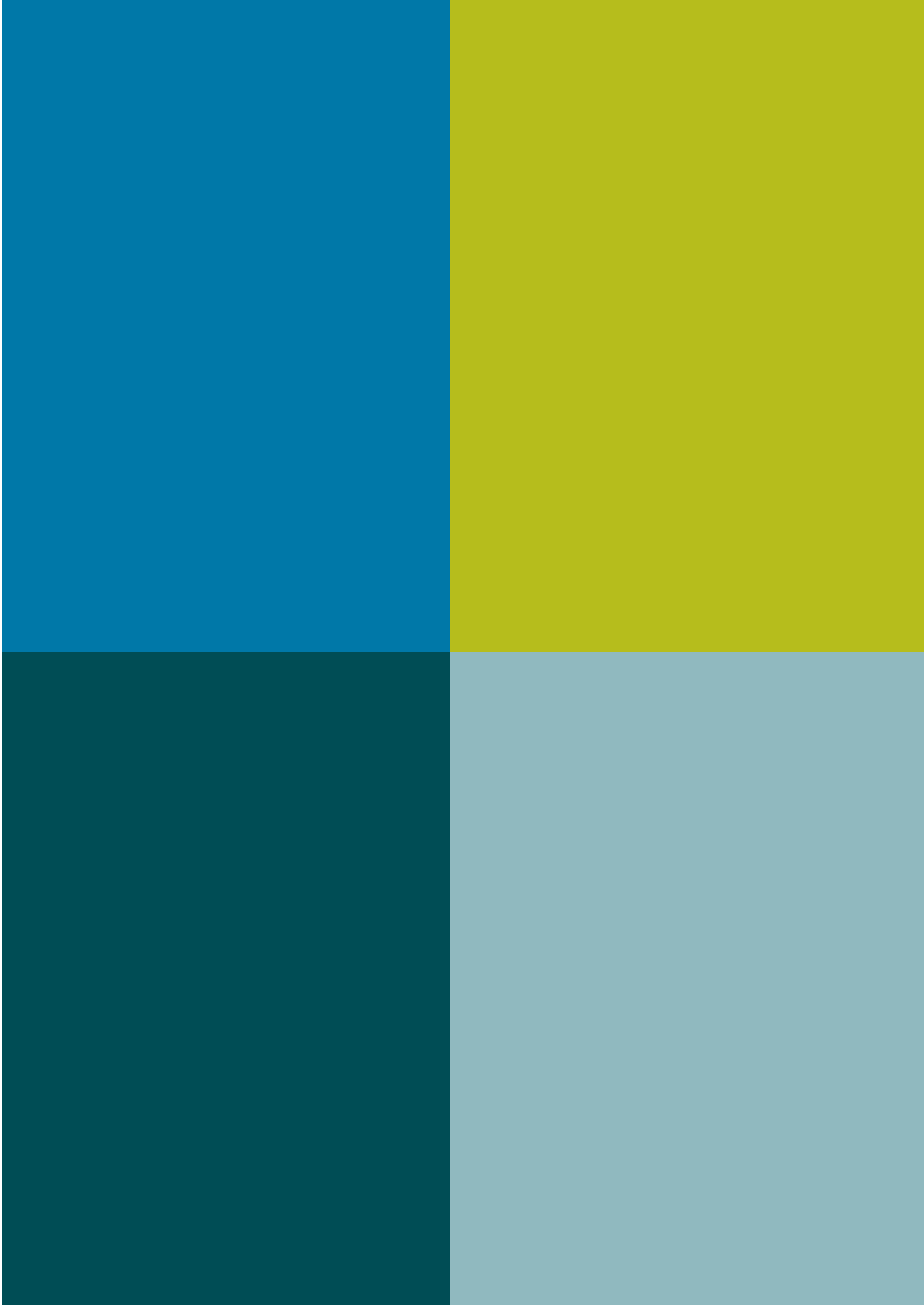
Pre press: Rapygraf

Printing: Gráficas Marte

Photos: Archivo Enagás

6x6 Producciones Fotográficas

Banco de Imagen





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