

THIRD QUARTER OF 2004
PRELIMINARY RESULTS
ENAG.MC / ENG SM<EQ>

3Q 2003	3Q 2004	2004 RESULTS (Million Euros)	Jan-Sep 2003	Jan-Sep 2004
Unaudited figures				
37.0	39.9	Net Income	111.1	120.2
64.0	68.6	Operating Profit	194.4	207.4
97.0	104.5	Operating Cash Flow	293.5	313.8
Euro per share				
0.15	0.17	Net Income	0.47	0.50
0.41	0.44	Operating Cash Flow	1.23	1.31
238.7	238.7	Number of shares at the end of the period (million)	238.7	238.7

HIGHLIGHTS OF THE THIRD QUARTER OF 2004

- ✓ In the third quarter of 2004, the Company earned a **Net Income** of 39.9 million Euros, **7.8% higher** than that obtained in the same period of the year 2003.
- ✓ The accumulated **assets put into operation** as of September 2004 totalled **236.4 million Euros**, a new record figure which almost triples that achieved in the nine months of the previous year.
- ✓ **Investments** during the quarter reached **116.0 million Euros**. **The investments made since the beginning of the year total 319.3 million Euros, 14.6% more** than in the same period of the 2003 financial year, something which is completely in line with the stated objectives.
- ✓ In the third quarter, the **investments approved by the Board of Directors** of Enagas totalled **313.7 million Euros**, a figure which is basically accounted for by the **Balearic Islands offshore pipeline project**, for which Enagas obtained the contract in July 2004.
- ✓ In the third quarter, the **total demand for gas transported** in the System was **71,714 GWh, 11.7% higher than** the figure for the third quarter of the previous financial year. Demand destined for the **liberalised market in the third quarter accounted for 85.8%** of the total.
- ✓ **Operating expenses** have remained at **similar levels** to those of the first nine months of 2003, as part of the objectives of the Company of reinforcing its operating efficiency.
- ✓ The Company's net financial debt as of 30 September was **1,318.0 million Euros**, a **ratio of 40.8% over total assets**, meaning that the Company's indebtedness in the second quarter was maintained, even with the mentioned significant increase in investments.
- ✓ The **average cost of the debt** as of 30 September was **2.71%**, compared to 2.93% reached at the end of the third quarter of 2003. The accumulated financial Result in the first nine months of the year 2004 was practically constant compared to the same period of 2003.

In accordance with article 37 of the Law of Financial System Reform Measures Law, details of the main contractual and financial relationships between Enagas and the natural persons physical or legal entities linked to it are given in chapter 4 of this report.



Investor Relations Direction

1. RESULTS

1.1 Quarterly results

Enagas obtained a **Net Income** in the third quarter of 2004 of **39.9 million Euros, 7.8% higher** than the 37.0 million Euros obtained during the same period last year.

The Operating Result (EBIT) rose from 64.0 million Euros in the third quarter of 2003 to **68.6 million Euros** in the same period of 2004, registering a **growth of 7.2%**.

The Operating Cash Flow (EBITDA) for the quarter was **104.5 million Euros, 7.7%** higher than the 97.0 million Euros obtained in the third quarter of 2003.

The **Net Income per share** in the third quarter of 2004 was **0.17 Euros**. **The Operating Cash Flow per share** during the same period was **0.44 Euros**.

1.2 Accumulated Results

The accumulated Net Income as of 30 September 2004 was **120.2 million Euros, 8.2% higher** than the 111.1 million Euros obtained in the same date in 2003.

In the first nine months of the year, **extraordinary** and non-recurrent **income** of **0.7 million Euros** was included in the accounts, which arose mainly from the reversion of provisions made in 2003 for the Supreme Court's rejection of an annulment appeal made by a transporter against the Company that year.

The Operating Result (EBIT) came to **207.4 million Euros, 6.7% higher** than the 194.4 million Euros accumulated as of September 2004.

A sum of 1 million Euros as part of the early retirement programme has been included in the accounts in the Personnel Expenses section.

The Operating Cash Flow (EBITDA) rose from 293.5 million Euros in the first nine months of 2003 to **313.8 million Euros** in the same period of 2004, a **growth of 6.9%**.

Net Accumulated Profit per share as of September 2004 came to **0.50 Euros**. **The Operating Cash Flow per share** in the same period was **1.31 Euros**.

1.3 1.3 Operating Highlights

3Q 2003	3Q 2004	Demanda de gas transportada (GWh)	Jan-Sep 2003	Jan-Sep 2004
14,107	10,185	Regulated Market	59,494	41,657
50,105	61,529	Liberalised Market	140,338	189,078
64,212	71,714	Total Gas Demand Transported	199,832	230,735

N.B.: 1 bcm = approx. 11,630 GWh



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As of September 2004, the accumulated demand for transported gas in the System came to 230,735 GWh, 15.5% higher than the figure for the nine months of the previous financial year. Of this figure, **Enagas transported 90.7%** (209,233 GWh), the rest being transported by other companies. The demand for supply to the **liberalised market** currently accounts for **81.9%** of total transported demand, compared with 70.2% in the same period of 2003.

In the first nine months, **17.9% of the demand transported** was for generating electricity from natural gas for **Combined Cycles**. Today, 13 Combined Cycles are operational, and five more are in the trial phase.

The quarterly demand in the System came to 71,714 GWh, 11.7% higher than in the third quarter of 2003.

2. INVESTMENTS

2.1 Assets put into Operation

Over the third quarter, **assets valued at 108.3 million Euros were put into operation**, a figure which is over **four times** that recorded in the same period of the previous year.

Since the beginning of the year, **assets amounting to 236.4 million Euros have been put into operation**, which confirms the progress made towards the stated strategic objectives and ensures growth by increasing the solid remunerated assets base of the Company's. This volume of assets is a new record in the company's history, and is **171.7% higher** than the figure achieved in the first nine months of 2003.

The most important operating assets were:

- ✓ Doubling of the Huelva-Sevilla-Córdoba gas pipeline.
- ✓ Córdoba- Santa Cruz de Mudela gas pipeline (Stretch I).
- ✓ Málaga-Estepona gas pipeline. Stretch I - "Alhaurín Grande-Mijas"
- ✓ Alcázar de San Juan-Quintanar de la Orden gas pipeline.
- ✓ Alcázar de San Juan-Manzanares- Sta. Cruz de Mudela gas pipeline.
- ✓ Division of the Algete-Manoteras gas pipeline.
- ✓ Expansion of the Paterna Compression Station.

An example of the rapid progress in the Enagas investment process is that **on the publication date of this report**, the final trials necessary prior to bringing it into operation of the third tank in the Huelva plant, with a capacity of 150,000 m³ of LNG and the increase in the plant's vaporization capacity to 900,000 m³/h had already been carried out.



2.2 Investments

Over the third quarter, investments worth 116.0 million Euros were made, giving an annual accumulated total of 319.3 million Euros, 14.6% higher than in the same period of the 2003 financial year.

The Board of Directors of Enagas also approved investment projects in the third quarter totalling 313.7 million Euros, an accumulated total in the year of 334.8 million Euros.

Among the investments approved during the quarter was the **Balearic Islands offshore gas pipeline**. Enagas has carried out gas pipeline studies in the overland and underwater stretches in order to find the best and most efficient environmental alternative for the construction of the infrastructures which will supply the Balearic Islands with natural gas.

3. FINANCIAL STRUCTURE

The **net debt ratio** (net debt over total assets) as of 30 September 2004 was **40.8%** compared to 42.6% on 30 June 2004.

The variation in the net debt ratio is due to the seasonal effect of transitory liquidity surpluses over the quarter, which led to temporary financial investments of 67.5 million Euros

The Company's **net financial debt** at the end of the third quarter was **1,318.0 million Euros**, compared to 1,322.2 million Euros at the end of the previous quarter, and 1,177.0 million Euros on 30 September 2003.

The **average cost of the Company's debt** as of 30 September was **2.71%**, an improvement on the figure recorded in September 2003, which was 2.93%. In the 2004 financial year, interest rate contingencies were covered through various insurance operations involving a total fixed financing cost of 2.83% applied to 1,000 million Euros.

In the third quarter of the year, a total sum of 98 million Euros was received by the liquidation accounts, meaning that the balance pending payment as of 30 September is 150.1 million Euros, an amount mostly arising from the payment for 2004.

The **accumulated financial Result** for September, including the activation of financial expenses (3.7 million Euros) showed a negative figure of 23.5 million Euros.

Net Cash Flow (FFO) generated in the third quarter of the year was 66.8 million Euros.

4. MAIN TRANSACTIONS WITH MAJOR SHAREHOLDERS AND OTHER RELATED PARTIES

In accordance with article 37 of the Law 44/2002 of Financial System Reform Measures Law, and as part of Enagas' commitment to transparency, the main contractual and financial relationships in the **third quarter of 2004** between Enagas and the natural persons or legal entities linked to it are listed below.

The figures refer to accounting details, although they include adjustments for previous periods, and where necessary, estimations when the final figures are not available. The TPA service operations are

expressed in physical rather than financial volumes (GWh) because they are regulated operations, subject to the liquidation system in which invoicing does not really reflect the amount and importance of the services provided.

4.1 Operations with the Gas Natural Group

- ✓ Purchase of gas for supply to the market at tariffed prices: the companies of the Natural Gas Group supplied Enagas with 10,362 GWh, for the sum of 119 million Euros, which the latter needs to supply its consumers at tariffed prices.
- ✓ Sales of gas by Enagas to Gas Natural Group distributors: during the third quarter of the year, 13,076 GWh were transferred, for a sum of 148 million Euros.
- ✓ Services related to access by third parties to Enagas infrastructures (TPA): During the third quarter 2004, regasification of 13,943 GWh (36.8% of the total TPA regasification services) took place for the Gas Natural Group; 32,012 GWh (56.2%) was transported; and an average amount of 3,200 GWh (57.3%) was stored.
- ✓ Other relationships:
 - Gas Natural Group services to Enagas: rental of minimum safety stocks and strategic reserves, rental of fibre optic cables and supply of electric energy. For these services, the Gas Natural Group invoiced Enagas the sum of 6.5 million Euros.
 - Services by Enagas to the Gas Natural Group: maintenance of fibre optic cables and maintenance of gas pipelines and networks. For these services, Enagas invoiced the Gas Natural Group the sum of 1.5 million Euros.

4.2 Relations with BP España S.A.

- ✓ BP España and Enagas have signed contracts for TPA Services, by virtue of which, during the third quarter of 2004, regasification of 5,095 GWh took place (13.5% of the total TPA regasification services); 5,074 GWh (8.9 %) was transported; and an average amount of 752 GWh (13.5%) was stored.

4.3 Relations with Repsol YPF and its subsidiaries

- ✓ Services provided by the Repsol YPF Group to Enagas: rental of goods and services (Gaviota underground storage), and purchasing administration services. The Repsol YPF Group invoiced Enagas the sum of 7.4 million Euros for these services.

4.4 Relations with Caixa d'Estalvis i Pensions de Barcelona (la Caixa)

- ✓ La Caixa has a stake of 200 million Euros in the syndicated loan signed on 10 April 2003.
- ✓ There is a credit line for the sum of 100 million Euros. As of 30 September 2004, the credit line had yet to be drawn.
- ✓ The commercial and financial guarantees executed by La Caixa total 30.6 million Euros.
- ✓ The renting contracts signed with companies in the La Caixa Group amount to 4.2 million Euros.



Investor Relations Direction

- ✓ There are four FRA contracts for a total sum of 300 Million Euros for the period 07-01-2004/10-01-2005
- ✓ An insurance policy with a single premium of 2.9 million Euros has been signed with companies in the La Caixa Group.

4.5 Relations with Caja de Ahorros del Mediterráneo (CAM)

- ✓ There is a credit line for the sum of 6 million Euros, which at September 30th was not been disposed yet.
- ✓ An interest coverage contract (COLLAR) for the sum of 15 million Euros for period January-2005/April 2008.

4.6 Relations with BANCAJA

- ✓ There is an interest coverage contract (COLLAR) for the sum of 15 million Euros for period January-2005/April 2008.

4.7 Relations with Caja Asturias

- ✓ Caja Asturias participate with 20 million Euros in the syndicated loan signed on 10 April 2003

Madrid, 28 October 2004

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INCOME STATEMENT

(Million Euros)
(Unaudited Figures)

3Q 2003	3Q 2004		Jan-Sep 2003	Jan-Sep 2004
180.6	120.5	Sales	797.8	480.0
133.9	144.4	Provision of Services	395.5	420.3
10.6	6.1	Other Operating Revenues	32.0	33.8
325.1	271.0	Total Revenues	1,225.3	934.1
-181.2	-121.3	Supplies	-795.7	-479.3
-13.9	-14.1	Personnel Expenses	-40.6	-43.5
-33.0	-31.1	Other Operating Expenses	-95.5	-97.5
97.0	104.5	Operating Cash Flow (EBITDA)	293.5	313.8
-33.0	-35.9	Provision for Depreciation of Fixed Assets	-99.1	-106.4
64.0	68.6	Operating Profit (EBIT)	194.4	207.4
-7.1	-7.4	Financial Results	-23.9	-23.5
56.9	61.2	Profit from ordinary activities	170.5	183.9
0.0	0.0	Extraordinary Items	0.0	0.7
56.9	61.2	Results Before Taxes	170.5	184.6
-19.9	-21.3	Corporate Income Tax	-59.4	-64.4
37.0	39.9	Net Income	111.1	120.2

CONSOLIDATED STATEMENT OF CASH FLOWS

(Million Euros)
(Unaudited Figures)

3Q 2003	3Q 2004	ALLOCATIONS	Jan-Sep 2003	Jan-Sep 2004
118.1	116.0	Acquisition of Fixed Assets	278.6	319.3
0.0	0.0	Dividends	33.5	42.4
0.0	0.0	Interim Dividends	0.0	0.0
-61.4	-118.9	Long-term Debts	-1,019.5	-112.5
0.3	0.2	Provisions Contingencies and Expenses	0.3	0.3
9.5	0.0	Surplus Sources Over Allocations (increase in working capital)	906.5	0.0
66.5	-2.7	Total Allocations	199.4	249.5
SOURCES OF FUNDS				
63.4	66.8	Sources from Operations	189.3	204.0
0.8	0.0	Capital Subventions	3.7	-0.3
0.0	0.0	Other Reserves	0.1	0.1
2.3	2.5	Disposal of Fixed Assets	6.3	4.8
0.0	-72.0	Excess Allocations Over Sources (decrease in working capital)	0.0	40.9
66.5	-2.7	Total Sources	199.4	249.5

BALANCE SHEET

(Million Euros)
(Unaudited Figures)

	Jan-Sep	Jan-Sep
	2003	2004
Intangible Fixed Assets.....	9.8	11.0
Tangible Fixed Assets.....	2,494.3	2,815.0
Permanent Financial Assets.....	32.7	32.0
Fixed Assets	2,536.8	2,858.0
Deferred Expenses	20.4	22.9
Stocks.....	2.4	2.4
Accounts Receivable.....	273.1	267.0
Short-term Financial Investments.....	97.6	72.0
Cash.....	3.1	1.1
Accrual Accounts.....	8.8	4.5
Liquid Assets	385.0	347.0
TOTAL ASSETS	2,942.2	3,227.9
Equity.....	358.1	358.1
Reserves.....	460.8	532.0
Consolidated Profits and Losses.....	111.1	120.2
Shareholders' Equity.	930.0	1,010.3
Deferred Income	458.7	430.3
Provisions Contingencies & Expenses	2.2	5.5
Long-term Debts with Financial Institutions.....	1,214.8	1,331.1
Long-term Debts w/ Group Companies & Assoc.	8.4	8.5
Other Accounts Payable.....	32.2	28.4
Long-term Liabilities	1,255.4	1,368.0
Current financial debt.....	14.9	15.5
Short-term Debts w/ Group Companies.....	49.7	111.8
Trade Accounts Payable.....	163.5	215.1
Other non-trade current liabilities.....	67.8	71.4
Short-term Liabilities	295.9	413.8
TOTAL LIABILITIES	2,942.2	3,227.9

MAIN OPERATING HIGHLIGHTS

Relative to gas demand transported (total system)

GAS DEMAND TRANSPORTED	Jan-Sep 2003	Jan-Sep 2004
(GWh)		
Regulated Market	59,494	41,657
Liberalised Market	140,338	189,078
Total Transported Demand	199,832	230,735

Relative to Assets

REGASIFICATION ASSETS	Units	m3 or m3/h
LNG Tanks (number and capacity)	8	560.000 m3
Nominal Regasification Capacity		2.250.000 m3/h
Cistern Loading Bays	9	
Transportation Assets	Units	Km
Km of pipelines in operation		7,100
Compression Stations	9	
Regulating and Measuring Stations (RMS) and Measuring Stations (MS)	296	
Underground Storage Assets	Units	Gw/h
No. Of Storage Facilities	2	
Capacity		24,671