



Enagás

3Q and 9M 2006 results

25 October 2006



PRELIMINARY RESULTS

3Q AND 9M 2006

3Q 2005	3Q 2006	% Chg	HIGHLIGHTS (unaudited, € Mn)	9M 2005	9M 2006	% Chg
48.4	53.6	10.7%	Net profit	149.1	164.9	10.6%
85.6	93.6	9.4%	EBIT	261.8	285.9	9.2%
122.9	138.9	13.0%	EBITDA	367.7	411.7	12.0%
84,972	92,484	8.8%	Demand for gas transported	275,243	296,485	7.7%

9M 2005	HIGHLIGHTS (unaudited, € Mn)	9M 2006
1,489.9	Net debt	1,608.2
1,098.4	Equity	1,227.3
48.6%	Net debt/Total assets	46.9%
57.6%	Net debt/Net debt + equity	56.7%
3.39%	Cost of debt	3.57%
241.2	Investment	267.0
290.4	Assets put into operation	208.8

MAIN HIGHLIGHTS

- ✓ Enagás reported net profit of **€164.9Mn** for the nine months ended 30 September 2006, a **10.6%** increase on 9M05. **Last year's figures** included two exceptional items that produced **€7Mn of non-recurrent capital gains**. **Stripping these out, the increase in 9M06 net profit would have been 14.1%**.
- ✓ **EBITDA** through September totalled **€411.7Mn, 12% higher** than the €367.7Mn generated in 9M05.
- ✓ **Investment amounted to €259.2Mn, while €208.8Mn worth of assets were brought on stream** in the period. During the period, **Enagás' board** approved €1.05bn of new investment, hence, the pace of investment will surely pick up over the next few months.
- ✓ **Net financial debt at 30 September 2006 stood at €1.61Bn, equivalent to 46.9% of total assets, while the average cost of debt was 3.57%.**
- ✓ **Demand for gas transported** in the system in 9M06 amounted to **296,485 GWh, up 7.7% from 9M05**. Of the total, 35.5% was for natural gas-fired electricity generation, compared to 30.1% last year.
- ✓ On 6 July, Enagás paid a final gross dividend of €0.239944 per share out of 2005 net profit. This came after the interim dividend paid in January 2006, also charged against 2005 net profit. **This left a total gross dividend for 2005 of €0.40 per share, an increase of 21% on the 2004 dividend.**

1. RESULTS

1.1 3Q06

Net profit for the third quarter 2006 was **€53.6Mn**, a **10.7% increase** on the €48.4Mn of 3Q05.

EBIT rose **9.4% yoy**, from €85.6Mn to **€93.6Mn**.

EBITDA rose 13% yoy, from €122.9Mn to **€138.9Mn**.

EPS in 3Q06 came to €0.22. EBITDA per share over the same period was €0.58.

1.2 9M06

Enagás reported 9M06 net profit of **€164.9Mn**, a **10.6%** increase on the year-ago period.

Note the following exceptional items that impacted comparability: 1) a €3.4Mn capital gain on the sale of a stretch of cable to Gas Natural SDG, recognised as "Other operating income"; 2) the €3.6Mn decrease in depreciation and amortisation arising from the recognition of a grant awarded in 2002, which was collected in 2Q05.

Stripping out these items, net profit for the first nine months of 2006 would have grown by 14.1% yoy.

EBIT advanced **9.2% yoy**, from €261.8Mn in 9M05 to **€285.9Mn** in 9M06.

Operating expenses rose by 10.3%. In 1Q06, Enagás booked €6Mn under "Other operating expenses", reflecting the costs of using the LNG ships under the Winter Plan approved by the Spanish Directorate-General for Energy Policy and Mines on 28 November 2005.

Excluding this item, booked for the same amount as revenues from regulated activities, operating expenses would have risen by 6.1% compared to 9M05.

EBITDA in the nine-month period amounted to **€411.7Mn**, **12%** higher than the €367.7Mn earned in the nine months to September 2005.

EPS was €0.69. **EBITDA per share** was €1.72.

1.3 Operating highlights

Total demand for gas transported in the system in the first nine months of 2006 **rose 7.7% yoy** to **296,485 GWh**. Of this, **77.1%** (228,550 GWh) used Enagás entry points, with the remainder being handled by other transport operators. Demand in the **liberalised market** made up **86.8% of all gas transported** in the period.

Demand for natural gas transported for domestic, commercial and industrial use in 9M06 was 2.3% lower than the previous year. This could be due to the impact of higher prices in some industrial customers and to the milder winter, with shorter cold fronts than the year before.

The volume of natural gas transported for power generation increased by around 27% yoy and represented **35.5% of total demand**, compared to 30.1% in 9M05. At 30 September, there were 34 units of 400MW in operation (with four more in the trial phase), up from 29 the year before.

Demand in the system in 3Q06 was 92,484 GWh, an increase of 8.8% on 3Q05. Peak demand in the summer was reached on 7 September, with consumption of 1,231 GWh.

3Q 2005	3Q 2006	GAS DEMAND TRANSPORTED (Markets)	9M 2005	9M 2006
		(GWh)		
8,668	5,927	Tariff market	41,690	39,449
76,304	86,557	Liberalised market	233,553	257,036
84,972	92,484	Total demand transported	275,243	296,485

Note: 1 bcm = approximately 11,630 GWh

2. INVESTMENT

2.1 Assets put into operation

Since the beginning of the year, projects worth €208.8Mn have come on stream. The main ones are as follows:

First quarter

- ✓ Increase in regasification capacity of the Barcelona plant from 1,500,000 m³/h to 1,650,000 m³/h.

Second quarter

- ✓ Increase in the regasification capacity of the Cartagena plant from 900,000 m³/h to 1,200,000 m³/h.
- ✓ Increase in the regasification capacity of the Huelva plant from 1,050,000 m³/h to 1,200,000 m³/h.
- ✓ Castellón-Onda gas pipeline.
- ✓ Malaga-Malaga east branch.
- ✓ Semicircle pipeline (Phase I) in southwest Madrid.

Third quarter

- ✓ Fourth LNG tank in Huelva with capacity to store 150,000 m³.

2.2 Investment

Investment in 3Q06 was €88.9Mn, bringing the total for the 9M06 to €259.2Mn.

In the third quarter, **Enagás's board** approved **€630.2Mn** of new investment projects, mostly to double the Tivisa-Paterna pipeline and the new Almería-Chinchilla pipeline. So far this year, the board has approved projects totalling €1.05Bn, setting a new record for the Company and ensuring a pick-up in the pace of investment over the coming months.

3. FINANCIAL STRUCTURE

Net financial debt at 30 September 2006 stood at **€1.61Bn**, compared to €1.51Bn at end-June 2006 and €1.49Bn at end-September 2005.

The Company also has a cash-flow hedge derivative instrument, valued at 30 September at €1.8Mn. This is booked as a financial liability carried at fair value and is not counted in net financial debt.

Net debt/total assets at 30 September 2006 was 46.9% compared to 45.3% at the end of 2Q06 and 48.6% at 30 September 2005.

Net cash flow in 9M06 totalled €299.3Mn and was largely used to finance investments and pay dividends.

The Company's average cost of debt at 30 September was 3.57%, compared to 3.52% at end-June 2006 and 3.39% at end-September 2005. Enagás has an **interest rate hedge** that caps €1Bn at a fixed rate of 4.32% **until April 2008**.

The 9M06 financial result, including (€7.5Mn) capitalised financial expenses, showed a **net financial loss** of €32.8Mn. This is little changed from 9M05 which, adjusted for the capitalisation of €3.8Mn of financial expenses, was €32.7Mn.

4. TRANSACTIONS BY ENAGÁS S.A. WITH RELATED PARTIES

4.1 Introduction

Every quarter since 2003, Enagás has disclosed information on any dealings it has had with related parties. Since Spanish Ministerial Order EHA/2050/2004, of 15 September, came into effect the format for these disclosures has changed to accommodate the new rules.

Key points to note regarding related-party disclosures are:

a) Any related-party transactions of material size and exceed volumes handled in the normal business of Enagás are approved by the Company board, following a report by the Appointments and Remuneration Committee.

b) Under Ministerial Order EHA/3050/2004, there is no need to disclose transactions that form part of the Company's ordinary course of business, are carried out on an arm's length basis or which are immaterial in size. Therefore, given the scale of Enagás's financial statements, any transactions whose cumulative volume is less than €3Mn are not disclosed, although the Company may still on occasion decide to disclose transactions that fall below this threshold.

c) As this information is released quarterly, the published figures may sometimes change as a result of subsequent accounting adjustments.

d) Quarterly figures are unavailable for some transactions, notably those whose measurement depends on the closing of the gas balance sheet. Accordingly, sometimes figures are provisional, while elsewhere the latest available data for other months of the year are included.

e) Unless otherwise stated transactions refer to contracts signed before the period referred to. Where figures refer to new relationships deriving from contracts agreed or commitments undertaken during the quarter, this is explicitly stated.

4.2 Transactions by Enagás S.A. with other group companies, significant shareholders or companies exercising significant influence over Enagás S.A. (Article 4.1, paragraph a, of Ministerial Order EHA 3050/2004).

4.2.1 Enagás S.A. subsidiaries

✓ Transactions with "Gasoducto Al Andalus"

Enagás S.A. has granted Gasoducto Al Andalus a €40.6Mn loan.

Gasoducto Al Andalus S.A. paid Enagás S.A. €4.9Mn of dividends in respect of FY2005.

Also, Enagás S.A. incurred a cost of €12.3Mn for transport rights and received €3.2Mn of revenues for pipeline maintenance and franchise royalties, all of which are covered by long-term contracts between the two companies.

✓ Transactions with "Gasoducto Extremadura"

Enagás S.A. has granted Gasoducto Extremadura a €6.6Mn loan.

Gasoducto Extremadura S.A. paid Enagás S.A. €3.1Mn of dividends in respect of FY2005.

Also, Enagás S.A. incurred a cost of €6.3Mn for transport rights and received revenues of €3.4Mn for pipeline maintenance and franchise royalties, all of which are covered by long-term contracts between the two companies.

✓ Transactions with "Gasoducto Campo Maior–Leiria–Braga"

Enagás S.A. has granted Gasoducto Campo Maior–Leiria–Braga a €6Mn loan.

✓ Transactions with "Gasoducto Braga–Tuy"

Enagás S.A. has guaranteed a €8.9Mn loan by a Portuguese bank to Gasoducto Braga–Tuy S.A.

4.2.2 Companies with significant influence over Enagás and companies over which it exerts significant influence

✓ Transactions with Gas Natural SDG and subsidiaries

1) Pursuant to approval at the Shareholders' Meeting, on 6 July 2006, Enagás S.A. paid Gas Natural SDG, S.A. a final dividend of €3.55Mn. Adding this to the €4.88Mn interim dividend paid in January 2006, the total dividend was €8.44Mn.

2) Enagás S.A. has a total of 23 third-party access (TPA) agreements in force with Gas Natural Comercializadora S.A., of which 14 are short-term and nine are long-term. In 3Q06, 57 TPA agreements were signed, of which only 12 remained in force at 30 September 2006.

TPA agreements are standard forms approved by the Ministry for Industry, Trade and Tourism. The tolls billed by Enagás are also standardised by the Ministry.

Between 1 January and 31 August 2006 the following services were provided: regasification of 52,018 GWh, 43.19% of the total provided for under the TPA agreements (revenues for these services, including cistern loading, totalled €33.41Mn); transport of 102,689 GWh, 58.6% of the TPA total (revenues for these services, including the transport component of the tolls, were €50.44Mn); storage of an average 16,481 GWh, 51.38% of the TPA total (revenues for these services were €14.29Mn).

3) Enagás S.A. has a number of gas trading agreements with companies in the Gas Natural group to provide supplies to the tariff market. In the first nine months of 2006, Enagás S.A. acquired 38,919 GWh of natural gas for €786.7Mn. The acquisition price corresponds to the cost of raw materials used to fix the price of sales to distributors.

Since July, in accordance with the second transitional provision of Ministerial Order ITC/4099/2005, the Company has bought from Gas Natural group companies 1,920 GWh of natural gas for €38.8Mn to comply with Enagás's share of the legal obligation to keep minimum levels in the system's pipelines and tanks, and 274 GWh of natural gas for €4.4Mn for the share corresponding to other transporters.

In the same period, Enagás S.A. transported 35,386 GWh of natural gas to distributors in the Gas Natural group, for €654.1Mn.

The terms, conditions and pricing of these transactions are regulated by the Spanish government.

4) Desarrollo del Cable S.A. leases Enagás part of the fibre optic cable required for its telecommunications services at market rates under a contract signed in 1999 and amended in 2005. The cost of this service in 9M06 was €13.3Mn.

5) Rental of inventory and storage space for LNG in tankers from Gas Natural group companies cost Enagás S.A. €8.5Mn.

6) Enagás supplied various Gas Natural group companies with maintenance and infrastructure connection services, for which it received €3.7Mn.

✓ **Transactions with BP España, S.A.**

On 6 July 2006, Enagás S.A. paid BP España, S.A. a final dividend of €2.86Mn as per approval at its Shareholders' Meeting. Adding this to the €1.90Mn interim dividend paid in January 2006, the total dividend was €4.77Mn.

Enagás S.A. has a total of 23 network third-party access (TPA) agreements in force with BP Gas España S.A. all of which are short-term. In 3Q06, 13 TPA contracts were signed, of which only five remain in force.

TPA contracts are standard forms approved by the Ministry for Industry, Trade and Tourism. The tolls billed by Enagás are also standardised by the Ministry.

Between 1 January and 31 August 2006 the following services were provided: regasification of 608 GWh, 0.50% of the total provided for under the TPA contracts (revenues for these services, including cistern loading, amounted to €0.51Mn; transport of 477 GWh, 0.27% of the TPA total (revenues for these services, including the transport component of the tolls, were €0.66Mn); storage of an average 2,182 GWh, 6.80% of the TPA total (revenues for these services were €2.04Mn).

✓ **Transactions with Caja de Ahorros del Mediterráneo (CAM)**

1) Enagás S.A. paid CAM, on 6 July 2006, a final dividend of €2.87Mn, as approved at its Shareholders' Meeting. Adding this to the €1.92Mn interim dividend paid in January 2006, the total dividend was €4.80Mn.

2) Enagás S.A. has established a €6Mn credit line with CAM and also has a bank guarantee line of €12Mn.

3) Enagás S.A. has an interest rate collar contract with CAM worth €15Mn for the period between January 2005 and April 2008.

The terms governing interest, commissions, expenses and guarantees in all financial agreements with CAM are at market rates.

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

1) On 6 July 2006, Enagás S.A. paid Bancaja a final dividend, as approved at its Shareholders' Meeting, of €2.86Mn. Adding this to the €1.90Mn interim dividend paid in January 2006, the total dividend was €4.77Mn.

2) Enagás S.A. has an open credit line with Bancaja for €6Mn and a bank guarantee line of €6.0Mn.

3) Enagás S.A. has an interest rate collar contract with Bancaja for €15Mn for the period between January 2005 and April 2008.

The terms governing interest, commissions, expenses and guarantees in all financial agreements with Bancaja are at market rates.

✓ **Transactions with Caja de Ahorros de Asturias (Cajastur)**

1) On 6 July 2006, Enagás S.A. paid Cajastur a final dividend as approved at its Shareholders' Meeting, of €2.86Mn. Adding this to the €1.90Mn interim dividend paid in January 2006, the total dividend was €4.77Mn.

2) Enagás S.A. has a loan agreement and bank guarantee line with Cajastur, both for €6Mn.

3) Cajastur also contributed €30Mn to the club deal loan arranged on 24 November 2004 and disbursed on 10 January 2005.

The terms governing interest, commissions, expenses and guarantees in all financial agreements with Cajastur are at market rates.

- ✓ Transactions with Sagane Inversiones S.L.

On 6 July 2006, Enagás S.A. paid Sagane a final dividend, as approved at its Shareholders' Meeting, of €2.87Mn. Adding this to the €1.91Mn interim dividend paid in January 2006, the total dividend was €4.79Mn.

4.2.3 Transactions with directors, executives and their close family members (Article 4.1, paragraph b, of Ministerial Order EHA/3050/2004).

Attendance fees paid to the members of the board of directors through 30 September 2006 totalled €745,500. Remuneration paid to the senior management of the Company was €6,211,000 (including the long-term remuneration accrued since 2003 and paid this year).

4.2.4 Transactions with other related parties (Article 4.1, paragraph d, of Ministerial Order 3050/2004)

- ✓ Transactions with Caixa d'Estalvis i Pensions de Barcelona (La Caixa) and subsidiaries

1) La Caixa contributed €109Mn to the club deal loan arranged on 24 November 2004 and disbursed on 10 January 2005.

2) Enagás also has a €100Mn credit line with La Caixa.

3) Guarantees granted by La Caixa to Enagás at 30 September 2006 came to €26.2Mn.

4) Enagás has renting agreements with La Caixa group subsidiaries for €6.2Mn.

The terms governing interest, commissions, expenses and guarantees in all financial agreements with the La Caixa are at market rates.

- ✓ Transactions with Repsol YPF and subsidiaries

Enagás S.A. has leased the Gaviota underground storage facility from Repsol Investigaciones Petrolíferas S.A, for which it paid €18.5Mn in the nine months to 30 September 2006.

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5. ANNEXES

5.1 Consolidated Income Statement prepared under IFRS

3Q 2005	3Q 2006	€ Mn (unaudited figures)	Jan-Sep 2005	Jan-Sep 2006
-0.7	3.1	Gross profit (*)	3.9	4.8
164.3	179.1	Revenues from regulated activities	480.5	540.5
8.2	8.6	Other operating income	27.6	25.5
171.9	190.8	Total revenues	512.0	570.9
-12.8	-12.8	Personnel expenses	-40.3	-40.1
-36.1	-39.0	Other operating expenses	-104.1	-119.0
122.9	138.9	EBITDA	367.7	411.7
-37.3	-45.3	Depreciation of property, plant and equipment	-105.9	-125.8
85.6	93.6	EBIT	261.8	285.9
-11.2	-11.3	Net financial result	-32.7	-32.8
74.4	82.3	Profit before tax	229.1	253.2
-26.0	-28.7	Income tax	-80.0	-88.3
48.4	53.6	Net profit	149.1	164.9

(*) Gas sales- Cost of sales (supplies)

5.2 Consolidated Cash Flow Statements

€ Mn (unaudited figures)	9M05	9M06
CONSOLIDATED PROFIT BEFORE TAX	229.1	253.2
Adjustments to reconcile net profit to cash	100.5	128.1
Depreciation of property, plant and equipment	105.9	125.8
Change in provisions	2.1	-3.3
Gains/losses on the disposal of property, plant and equipment	-3.4	0.0
Change in deferred income	-4.6	6.6
Change in accruals and prepayments	-0.1	-1.0
Other adjustments	0.6	0.1
Change in working capital requirement	-44.6	-41.4
Change in inventories	-11.8	-44.0
Change in receivables	193.7	46.7
Change in trade receivables and payables	-226.6	-44.0
Change in other payables	0.1	0.0
Change in taxes payable	-34.4	-40.5
NET CASH FLOWS FROM OPERATING ACTIVITIES	250.5	299.3
Capital investments	-260.0	-259.2
Capital grants received	18.8	0.0
Cash flow from sale of capital assets	4.9	0.0
Change in financial assets	-4.0	-6.5
NET CASH FLOWS USED IN INVESTING ACTIVITIES	-240.3	-265.6
Net change in bank loans (excluding overdrafts)	72.5	134.2
Dividends paid	-79.1	-95.5
Change in other debt	-0.5	0.9
NET CASH FLOWS FROM (USED IN) FINANCING ACTIVITIES	-7.1	39.6
NET CASH FLOW	3.1	73.4
Cash and cash equivalents at beginning of period	2.0	1.4
CASH AND CASH EQUIVALENTS AT END OF PERIOD	5.1	74.7

5.3 Consolidated Balance Sheet prepared under IFRS

€ Mn (unaudited figures)	At 30 Sept 2005	At 30 Sept 2006
Intangible assets	29.6	37.7
Property	0.7	0.7
Other plant, property and equipment	2,677.9	2,862.4
Non-current financial assets	30.9	29.0
Deferred tax assets	21.4	11.7
Non-current assets	2,760.5	2,941.5
Inventories	14.2	46.4
Receivables	258.4	334.3
Other current financial assets	4.6	4.5
Current tax assets	18.6	22.3
Other current assets	3.1	3.1
Cash and cash equivalents	5.1	74.7
Current assets	303.9	485.3
ASSETS	3,064.4	3,426.8
<i>Share capital</i>	<i>358.1</i>	<i>358.1</i>
Revaluation reserve	342.5	342.5
Reserve for cash flow hedges	-18.9	-1.2
IFRS conversion reserve	-0.7	-0.7
CNE reserve	-1.0	-1.2
<i>Other reserves</i>	<i>322.0</i>	<i>339.5</i>
Legal reserve	71.6	71.6
Voluntary reserve	189.8	285.7
Reserves at companies cons. using the proport. method	7.9	7.6
Consolidated profit/loss	149.1	164.8
<i>Retained earnings</i>	<i>418.4</i>	<i>529.7</i>
Equity	1,098.4	1,227.3
Bank loans	1,445.7	1,633.1
Other financial liabilities	39.3	22.4
Deferred tax liabilities	2.3	2.4
Provisions	15.3	14.9
Other non-current liabilities	45.7	56.0
Non-current liabilities	1,548.5	1,728.9
Bank loans	16.3	21.6
Other financial liabilities	22.6	7.7
Trade and other payables	295.6	342.7
Provisions	0.0	2.8
Current tax liabilities	80.9	93.4
Other current liabilities	2.1	2.5
Current liabilities	417.5	470.6
LIABILITIES AND EQUITY	3,064.4	3,426.8

5.4 Volume data and assets

Transported gas demand in the system (GWh)	9M 2005	9M 2006
Tariff market	41,690	39,449
Liberalised market	233,553	257,036
Total gas demand transported	275,243	296,485

ENAGAS ASSETS IN THE GAS SYSTEM

REGASIFICATION ASSETS	Unit	m3 or m3/h
LNG tanks (number and capacity)	12	1,137,000
Nominal regasification capacity		4,050,000
Cistern loading bays	9	
TRANSPORT ASSETS	Units	Km
Pipelines in operation (km)		7,587
Compression stations	11	
Regulating and measuring stations (RMS) and measuring stations (MS)	349	
UNDERGROUND STORAGE ASSETS	Units	Mm3/day
Number of storage facilities	2	
Injection capacity		8.5
Extraction capacity		12.6